NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Behavioural Fund

Quarter Two, 2022

Marketing Communication

Past performance is not indicative of future performance and does not predict future returns.

Performance (USD net return)	3 months	6 months	1year (annualised)	3 years (annualised)
Nedgroup Investments Global Behavioural Fund	-17,66	-27,02	-25,02	3,09
MSCI All Country World Index	-15,66	-20,18	-15,76	6,21

Source: Morningstar

Portfolio Manager Commentary

The quarter began with a poor **April** for global stock markets as supply side shocks from China and the Russia-Ukraine war combined with tightening US monetary policy. Yields continued their upward march throughout the yield curve. The sharp rebound in growth stocks in March more than unwound as rising bond yields pressurized valuations again. The seemingly impervious momentum of the FAANGS was punctured by the first signs of disappointing results as COVID tailwinds diminished, and the general economic recovery matured surprisingly fast. Despite unhelpful underweights in Energy and Real Estate, the portfolio fell less than the MSCI All Country World Index. The uncomfortable decision, earlier in the year, to shift away from exciting, structural growth stocks and into less predictable, commodity related areas of the market, did us some good.

We still believe we are in an unusual time when bond yields and inflation have a strong upward bias. Our view is not based on some novel ability to make better macro forecasts. Instead, we base it on our understanding of the psychology or error. An unusual pattern of forecasting error of others has emerged, strongly suggesting a biased consensus view on inflation is at play. We don't know where inflation and bond yields will end up, but we are pretty sure most other people's current forecasts are still too low. This creates a tricky environment for our bottom-up approach. We have been trying hard, for almost 18 months, to mitigate the impact on the portfolio. We have had to develop a more sensitive approach to portfolio relative risk.

May saw a lot of top-down influence on stock prices. Markets were more or less flat by the end of the month but faced a volatile rotation mid-month. The Russia-Ukraine war, COVID restrictions in China and tightening US monetary policy meant there was not much positive change to the markets, and bond yields continued their upwards march. Amidst the volatility, value stocks tended to outperform, and large expensive growth names (such as those in the US tech sector) underperformed. Energy was the best performing sector in the benchmark.

The portfolio marginally underperformed the benchmark in May, driven by our underweight to Energy (we only invested in the Energy sector in the latter part of May). Equal weighting in the portfolio this month was a benefit to the portfolio, although not enough to cancel out the Energy underweight. Having grappled with how macro-risks have impacted relative performance since the start of 2020, we have finally managed to get the portfolio into a shape to cope with the continued macro unpredictability. Being able to build our exposure in Financials and Energy has significantly helped.

Whilst there was an expectation in the markets that May might bring more positive returns, it was, really, more of the same. We have seen a clear pattern of biased errors from macro forecasters, and we think we are in the kinds of conditions that make it easy for bias to exist at this top-down level. Hence, we believe current consensus forecasts for inflation and interest rates remain too low.

Anxiety over an imminent recession has recently emerged. We suspect this is overdone, and policy makers will favour protecting economic growth over curtailing inflation. Most importantly, however, we are convinced unpredictability remains unusually high, so it is important to control the relative macro risks the portfolio takes and to keep these to a minimum.

Investor sentiment in **June** quickly shifted from anxiety over inflation to fears of an imminent recession. Stocks fell almost everywhere, and recent strongly performing areas such as commodities and energy were hit especially hard. Companies are beginning to miss forecasts, as inventories start to swell, and demand wavers. It is becoming increasingly apparent the post COVID recovery contained an unsustainable boom of demand in many areas. The aftershocks of the COVID shock (and the policy response) continue to reverberate unpredictably. Analysts have just begun to cut forecasts across groups of stocks as they adjust their top-down forecasts for the possibility of a recession.

Management behavior is highly variable. In energy, commodities and banking it remains (as it has been since 2019) extremely conservative. In many areas where COVID was a boon, such as eCommerce, management behavior is looking increasingly delusional, as the path to more normal demand looks anything but smooth. For areas yet to enjoy the benefits of a full recovery, supply side constraints still loom large and remain far greater challenges than management initially expected. On balance, however, there is a cautious skew to management behavior, given the prolonged period of unpredictability since 2019.

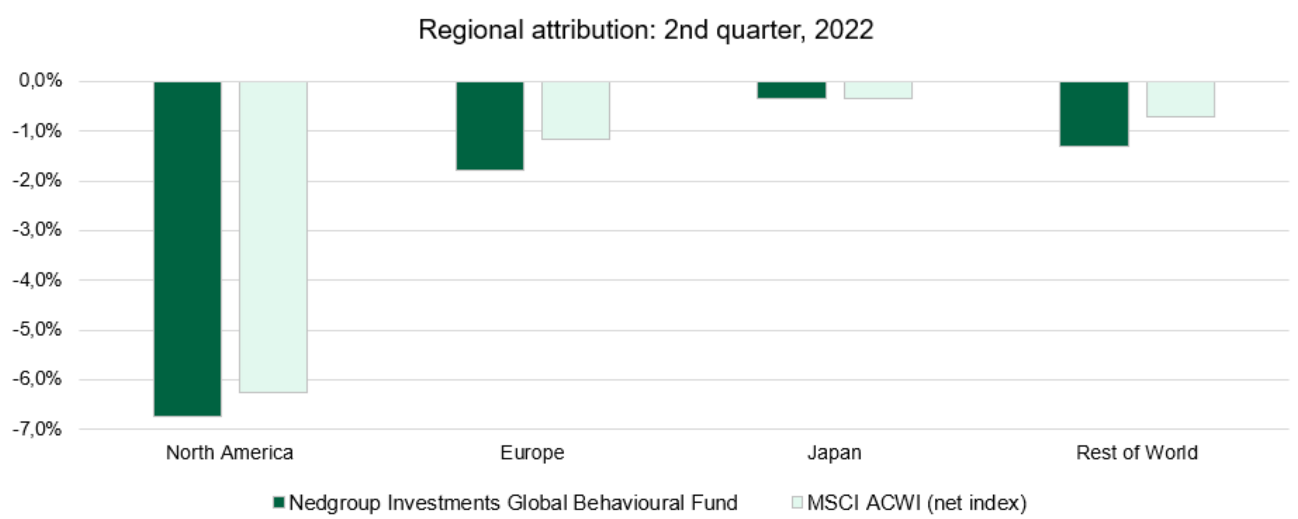
We continue to grapple with minimizing the portfolio's relative exposure to macro unpredictability. We are attempting to keep many of the factors and sector exposures that can bulge up from stock selection to a minimum while the high macro unpredictability persists. This remains tricky with our equally weighted stock positions.

While management plans and analyst forecasts remain a hostage to the unusual unpredictability of the global economy, some interesting patterns are emerging. Inflation looks persistent and the peculiar era of ultra-low interest rates post 2009 looks like it is over. This is presenting a challenge for businesses optimized to a low inflation, low interest rate environment. Primary industries, used to wild swings in pricing, look better equipped to cope. Intermediate industries, reliant on complex supply chains, look to be having more difficulty. Some of the structural growth themes, evident prior to COVID, exaggerated by the pandemic, but now struggling to cope with more normal demand, are starting to look interesting. Investor sentiment has swung wildly, and in many areas management behavior looks in denial. But pockets are emerging, where management is far more serious about re-adjusting growth plans to sensible levels.

Despite the macro noise we are optimistic. The structural shape of the global economy is shifting, and we are convinced it will emerge from the (likely) recession with a new set of structural drivers. As the fog of macro recession clears these structural drivers that allow for good management behavior to exert influence will emerge and present some exciting opportunities in both previously unloved industries and "new economy" growth.

Fund performance contributors & detractors for the past quarter

From a regional perspective, Japan contributed marginally whilst North America, Europe and our Rest of World bucket detracted.

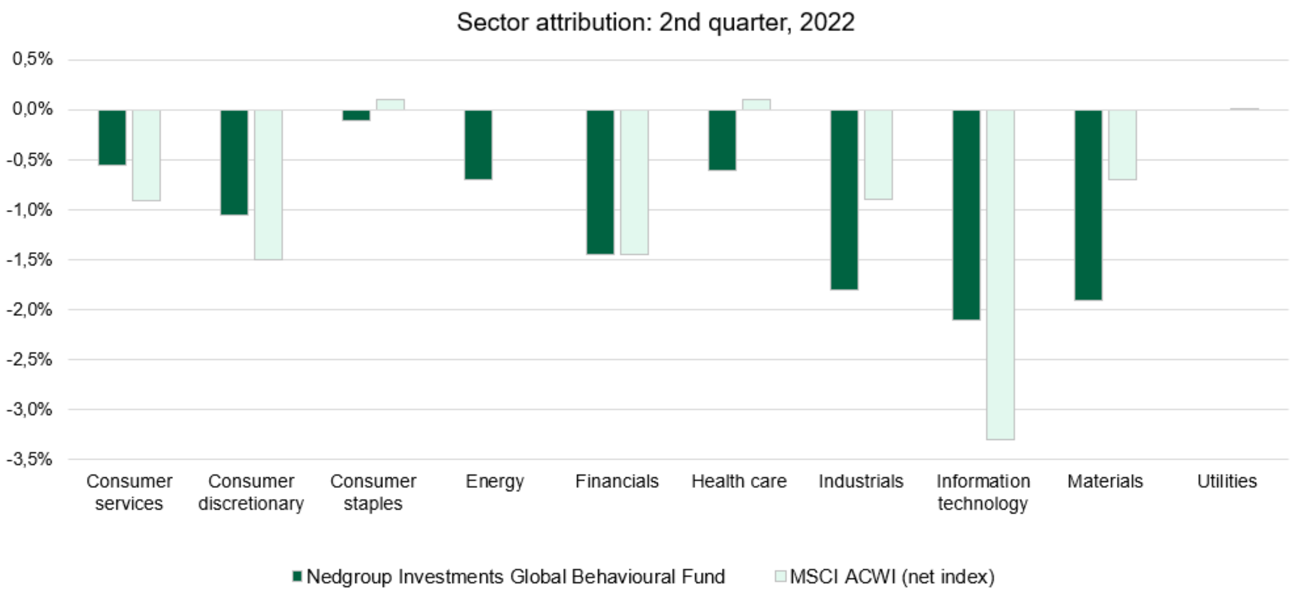


Source: Ardevora Asset Management

Unlike our regional exposure, we do take significant positions between industries, our sector exposure can vary due to the degree of opportunity we find at a particular time. Following a review of our Responsible Investing approach we have moved to an own-and-engage approach regarding the **Energy** sector. Our investment process suggests a significant number of companies displaying unusually conservative CEO behaviour, while investor and analyst skepticism remains high.

We can find an unusually large number of conservatively run **Industrial** businesses, with apparent analyst or investor error, as macro shock scars perceptions. We view many of them as much lower risk than they are given credit for. The shock of COVID-19 in 2020 forced many industrials' CEOs into very cautious capex spending and recovery plans. This setup has led to an environment where most have been able to beat expectations, as demand recovered rapidly last year and early this year. There are now signs of creeping inflation and supply chain bottlenecks, so the environment is becoming harder for some.

Information Technology is an inappropriate sector classification in our view as its scope is so broad, and the companies so eclectic. Within the plethora of tech sub-industries however, we have been able to find many opportunities which we view as low risk (hard to break, sticky customers etc.), but tarnished with the "risky" traditional label for the technology sector.



Source: Ardevora Asset Management

The biggest sector winners were Information Technology and Consumer Discretionary. Information Technology alpha was driven by a combination of good stock selection and asset allocation, while Consumer Discretionary alpha was driven purely by stock selection. The biggest relative losers for the Fund over the quarter were Energy and Health Care. Within energy, the fund's asset allocation was a drag on performance, while both stock selection and asset allocation regarding healthcare dragged on performance.

The portfolio's structural underweight in mega-caps acted as a tailwind this quarter, with benchmark mega-caps underperforming other market cap brackets. Stock selection across all market cap brackets was negative, with growth stocks outperformed value stocks in Q2.

Key contributors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Apple Inc.	0.51	4.01	-15.02	56	Growth
Amazon.com, Inc.	0.50	1.75	-29.31	48	Growth
Alphabet Inc.	0.52	2.30	-15.05	28	Value
Tesla, Inc.	0.49	1.06	-32.29	27	Growth
Microsoft Corporation	0.53	3.29	-9.53	24	Growth
BAE Systems plc	0.61	0.06	18.10	8	Value
McKesson Corporation	0.54	0.09	15.66	7	Value
Service Corp. International	0.54	0.00	14.03	7	Value
AutoZone, Inc.	0.59	0.08	14.00	6	Value
Amdocs Limited	0.53	0.00	10.31	6	Value

Key detractors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Signature Bank	0.51	0.02	-33.64	-30	Value
Alcoa Corporation	0.49	0.02	-45.04	-27	Value
Capitec Bank Holdings Ltd	1.24	0.02	-16.96	-21	Value
First Quantum Minerals Ltd.	0.49	0.02	-40.94	-21	Value
New York Times Company	0.52	0.00	-34.12	-18	Value
Kohl's Corporation	0.00	0.00	-32.63	-17	Value
SK hynix Inc.	0.89	0.07	-21.47	-17	Value
Freeport-McMoRan, Inc.	0.49	0.08	-35.95	-16	Value
United Rentals, Inc.	0.00	0.03	-23.39	-15	Value
Alteryx, Inc.	0.51	0.00	-26.62	-14	Value

Source: Ardevora Asset Management, Factset

Responsible Investment

During the second quarter of 2022, we continued our engagement efforts by:

- building upon our Q1 2022 engagements
- supporting recurring collective engagements; and
- using proxy season to engage with investee companies

Through these activities we carried out 89 engagements as part of direct and collective campaigns, with 78 companies in our portfolio. The table below provides a summary of these engagements:

Engagement activity by themes	
Environment – climate change	34
Proxy voting – notification of voting intent	46
Strategy, Financial and Reporting – risk management	9
Engagement by outcome	
The entity acknowledges the concern as a serious matter worthy of response	23
The entity developed a credible strategy to achieve the engagement objective or targets were set to address the concern	2
The entity implemented a strategy or measure to address the concern	3

Source: Ardevora Asset Management

Ongoing engagement campaigns

Russia-Ukraine War

Because of Russia's invasion of Ukraine, in March 2022 we began contacting select investee companies to request disclosure of their exposure to both countries. Throughout Q2, we continued to contact companies who were defying demands for exit or reduction of activities in Russia to understand their revenue exposure.

GHG Emissions Disclosures

During Q2, we continued engagement with those companies that did not report any of their greenhouse gas emissions disclosures, such as Service Corporation International (SCI). We set up a call with the company to discuss any updates on their progress towards starting to report their emissions. In April we spoke with SCI, and they explained their current emissions quantification work as well as their expected disclosure timeline. We are going to monitor and follow up with the company next year, once their new Sustainability report is published.

Ongoing support

2022 CDP Non-Disclosure Campaign

Following our engagement objective of improving companies' GHG emissions disclosures, we joined CDP's Non-Disclosure campaign, a collective engagement organised by the CDP, a non-profit organisation. This is our second year taking part in the engagement which aims to drive further corporate transparency around climate change. We are leading engagement strategies with five companies as well as supporting the broader engagement effort with 26 other companies.

Proxy Voting – notification of voting intent

Board diversity

In Q2, we continued our board diversity campaign. During our proxy voting process, we monitor the gender diversity and composition of a board. If the percentage of gender diverse directors falls below 30%, we engage with the company to understand the reasons behind this and whether the company has suitable targets or initiatives in place to improve board diversity. If we find that existing plans are not credible, we then vote against the Chair of the Nominations Committee to signal our discontent.

Shareholder resolutions

Throughout the quarter, we notified portfolio investees of our intent to support shareholder resolutions where management recommended voting against the proposal. Within the email notification we offered the company an opportunity to discuss in greater detail their concerns about the resolution.

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Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.
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NEDGROUP INVESTMENTS CONTACT DETAILS

Tel: toll free from South Africa only 0800 999 160
Email: helpdesk@nedgroupinvestments.com
For further information on the fund please visit: www.nedgroupinvestments.com

OUR OFFICES ARE LOCATED AT
First Floor, St Mary's Court
20 Hill Street, Douglas
Isle of Man
IM1 1EU

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