



see money differently

A photograph of an open book with white pages, tied with a white string bookmark. The book is open to a blank page, and the pages are slightly curved, suggesting it is being turned or held open.

Nedgroup Investments Global Property Fund

Quarter Two, 2022

Marketing Communication

Nedgroup Investments Global Property Fund

Commentary produced in conjunction with sub-investment manager, Resolution Capital

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

Indicator	3 months	1 year	3 years p.a.	5 years p.a.	Since Inception# p.a.
Portfolio*	-17.6	-10.7	0.8	3.2	2.9
Performance indicator+	-17.4	-13.4	-1.1	1.9	1.3
Difference	-0.2	2.7	1.9	1.2	1.6

* Net USD return for the Nedgroup Investments Global Property Fund, A class. Source: Morningstar

14 July 2016

+ FTSE EPRA/NAREIT Developed Index (in USD Net Ret)

Summary points

- Most significant REIT price declines were in western markets, where inflationary pressures are most acute, REITs with greater financial leverage, and real estate sectors more sensitive to economic contraction.
- One trend is clear in office globally, there is more demand for modern buildings which are best placed to provide the technology, amenities and creature comforts necessary to attract and retain workers.
- Residential and healthcare stocks generally performed strongly, the market favouring sectors less susceptible to more challenging economic growth conditions.
- Increased REIT M&A activity was a feature earlier in the quarter across several property sectors, prior to the worst of the market sell off.
- Logistics has enjoyed exceptional returns over the past 7 years, but suffered heavily during the quarter with news that Amazon had excess warehouse space and profit warnings from retailers reporting that they were over-stocked with too much of the wrong inventory.
- REITs from an overall perspective are more secure financially than on the eve of the Global Financial Crisis, as they have maintained moderate levels of debt, with well-laddered maturity profiles.
- On average, REITs have secured long-term fixed rate debt for 7 years and higher finance costs are not expected to be a material issue until 2025.
- However, this is uncharted territory for REITs, as persistently rising interest rates and inflation pre-dates an industry which truly only matured in the 1990s.
- Greatest concern is the potential for tenant duress as businesses deal with the dramatically altered economic and monetary policy conditions.
- The super-cycle of cap rate compression over the past 20 years, temporarily interrupted by the GFC and subsequently turbo charged by Central Bank subsidies, is now at an end.
- Reporting season for the March quarter was almost universally positive, with many REITs upgrading 2022 earnings guidance provided at the start of the year, but with more headwinds later in the year.
- Eight portfolio companies are targeting net zero Scope 1 and 2 emissions by 2030. Two of these have already reached net zero carbon emissions.

Market and portfolio commentary

Some market commentators have been arguing for a lower return environment. The withdrawal, if not reversal of stimulus, is reducing liquidity and increasing volatility, while exacting a renewed investment discipline. For the first time in years, capital markets are facing persistent and forceful headwinds. With financiers imposing a higher cost of capital, if not greater capital discipline, operating fundamentals and balance sheets have moved to the fore, where they rightfully belong.

Getting the Inflation Genie back in the Bottle with a Stimulus Hangover

Continuing a pattern of elevated market volatility extending back to 2019, the June 2022 quarter saw investors respond to a range of increasing economic and monetary policy headwinds with a significant sell off across multiple asset classes.

Acute supply chain bottlenecks are capping economic growth, whilst rising energy and labour costs are squeezing corporate profit margins. Inflation reached 40-year highs in many major economies driven by elevated fuel costs, higher food prices and soaring residential rents. Changed consumer spending patterns, essentially a resurgence of services related consumption, creates another set of challenges.

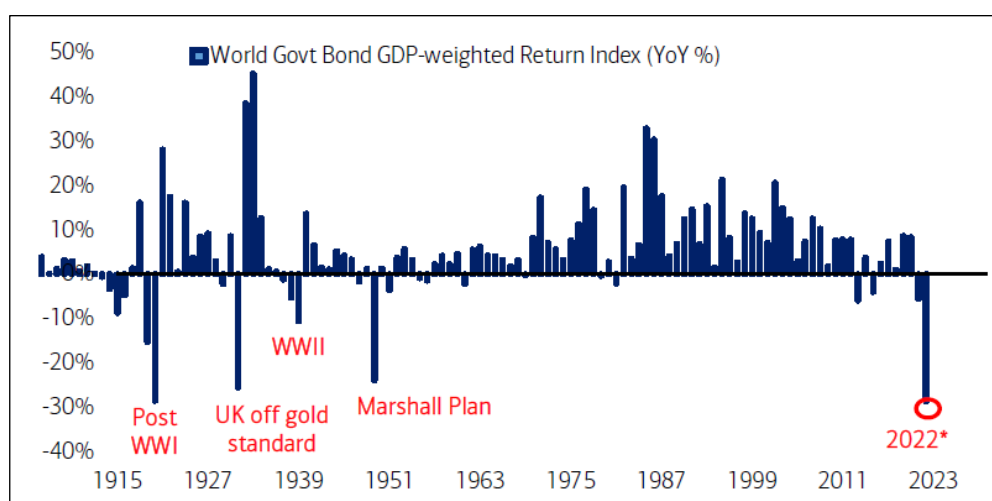
After a post GFC decade of stimulation and then more Covid related stimulation, central banks appear to have been caught by surprise, moving from Quantitative Easing (QE) to Quantitative Tightening, and by increasing interest rates sooner, and by more, than many had previously foreshadowed. Unlike efforts to prop up the economy and consumer spending following the GFC and during Covid related lock-downs, many central banks acknowledge that they risk inducing a recession in order to bring inflation down to targeted levels. Despite low unemployment in many markets, it should be no surprise that households are preparing for the pinch, consumer confidence plunging to historic lows in many markets.

Distortion remains the word which best describes the current state of play. Clearly economic growth is decelerating albeit after a post lock-down surge. It is difficult to gauge the underlying growth and the extent of the slow-down, with possible outcomes including a recession, stagflation or “slow-flation” all being contemplated.

Furthermore, the almost forgotten notion of scarcity of capital has resurfaced as undercapitalised and unprofitable businesses thriving in a QE environment have the blow torch applied. The NASDAQ and crypto currencies are prime examples as they suffered the greatest falls over the quarter.

Even bond markets were not spared, experiencing one of the worst six month returns in living memory.

Government bonds on course for the worst year since 1865



Source: BofA Global Investment Strategy, Global Financial Data
*2022 YTD annualized

It should be no surprise then that listed REITs were caught in the maelstrom, with the most significant price declines in western markets where inflationary pressures appear to be most acute, as well as for REITs with greater financial leverage, and real estate sectors more sensitive to a potential economic contraction. Our portfolio wasn't spared, disappointingly we broadly matched the index performance for the quarter.

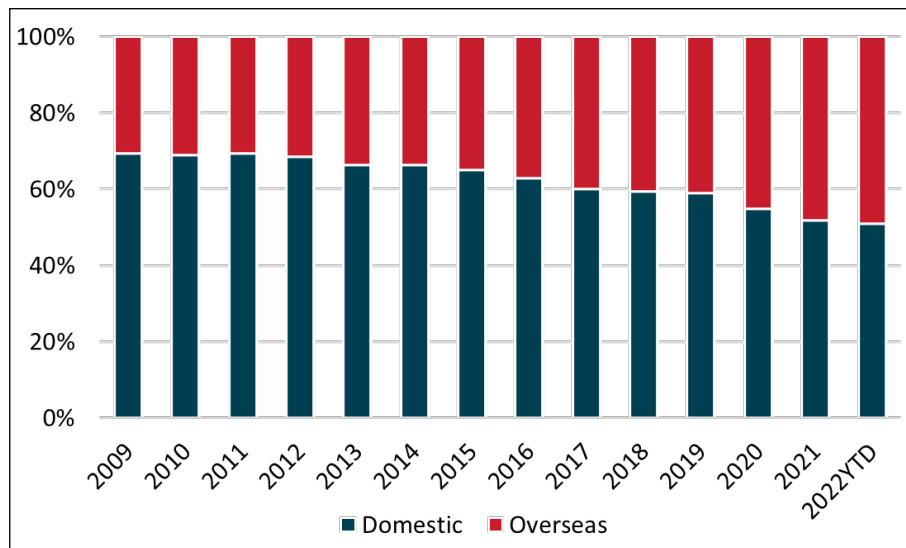
Swedish and German listed real estate markets were hit hardest, generating total returns in local currency terms of -40% and -28% respectively. Recall these markets were exceptionally strong performers in preceding years, basking in negative interest rate settings with management taking a seemingly laidback attitude to high, and often increasing, debt loads. They now face a reality check with local market interest rates at seven-year highs.



Listed Japanese real estate was one of the few markets to buck the trend, generating an overall positive return of circa 1%, no doubt encouraged by the promise of domestic inflation after multi-decades of deflationary pressure.

Singapore REITs (S-REITs) performed relatively strongly in the sell-off as the market suffered “only” a 4% decline for the quarter in local currency terms. Singapore's local property market appears to remain well bid in anticipation that the city-state replaces Hong Kong as a financial and technology hub in Asia. S-REITs continue to invest in international real estate markets, signalling questionable corporate governance and/or stronger opportunities exist outside of Singapore. Indeed over 90% of S-REITs have international real estate investments constituting 50% of their underlying asset base, see chart below. We prefer to invest directly in local sharpshooters rather than remote asset accumulators.

S-REITs by name, International by Nature



Source: UBS

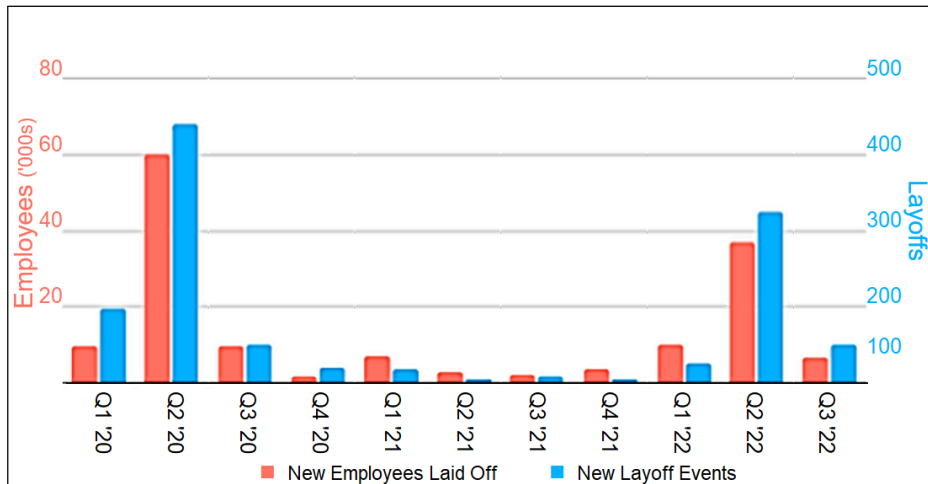
Hong Kong real estate stocks also experienced only modest declines for the quarter which we attribute to the particular circumstances, namely that they had already been weighed down by a raft of negatives in recent years including extreme Covid lock-down restrictions, Chinese real estate corporate collapses and dealing with increased controls from Mainland China.

Other regions are now experiencing the onset of more challenging conditions. REITs with significant exposure to Northern California were notable underperformers for the quarter. We attribute this to the capital scrutiny now facing the technology industry, the region's key tenant base, with an increase in layoffs and a moderation in tech job openings (notably Uber and Facebook).

Additionally, the reluctance of many tech sector employees to return to the office, as well as San Francisco grappling with broader quality of life questions surrounding public safety and the high cost of living, reduce the trajectory of this market for an unknown period of time.



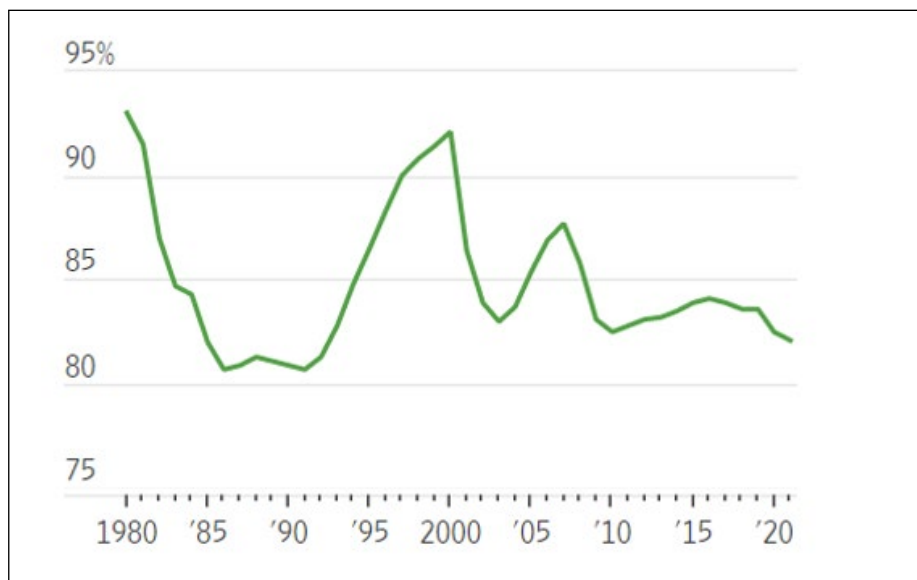
Increased job layoffs at tech start ups



Source: <https://layoffs.fyi>

From a sector perspective, office REITs generally produced below average returns for the quarter as leasing and occupational fundamentals continue to be questioned in a post-Covid hybrid workplace and work-from-anywhere (WFA) distributed workforce. The U.S. seems to be most affected by this malady where workers have a multitude of alternative domestic cities to which they could feasibly migrate, often with a better climate and lower cost of living, whilst operating under the same federal tax code and language convention. In fact, relocating to the Sunbelt from the northern parts of the country often results in significant state tax advantages and lower housing costs. Higher gas prices serve as another deterrent for car-dependant employees from returning to the office. The following chart highlights the poor state of U.S. office markets, with historically low occupancy levels which we attribute more to anaemic tenant demand rather than excessive supply.

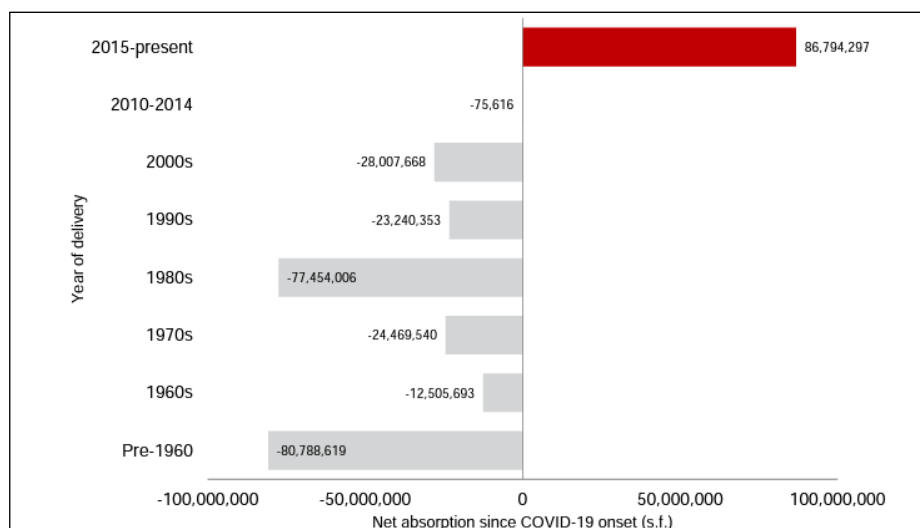
U.S. Office Occupancy



Source: Moody's Analytics

Globally, one trend is clear in office – leasing is weighted toward more modern buildings which are best placed to provide the technology, amenities and creature comforts necessary to attract and retain workers in a tight labour market.

Leasing activity favouring newer buildings



Source: JLL Research, as at July 2022

U.S. manufactured home communities (trailer parks) as well as single family rental (free standing homes) in the Sunbelt region continue to benefit from migratory population patterns, superior affordability and housing shortages.

Meanwhile, healthcare stocks generally performed strongly, the market favouring sectors less susceptible to more challenging economic growth conditions. We continued to increase our exposure to this sector over the quarter as their growth profile continues to improve.

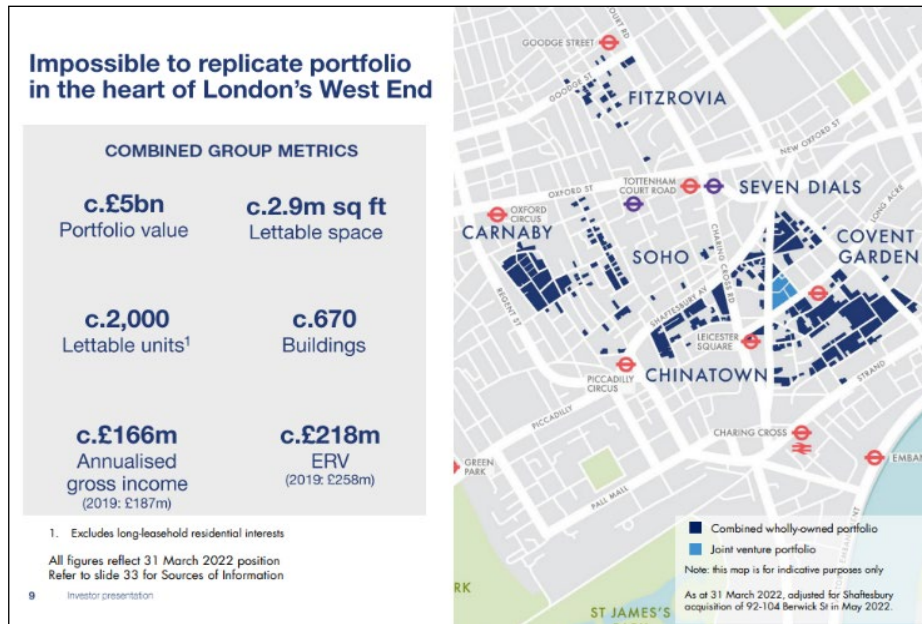
Consistent with this dynamic, investors favoured more passive, longer leased retail property typical of “triple-net” vehicles to which we have limited exposure. More traditional retail property, to which we have substantial exposure, did not perform as well.

Increased REIT M&A activity was a feature in the quarter across several property sectors, particularly earlier in the quarter prior to the worst of the market sell off. Portfolio performance benefited from a takeover for U.S. data centre platform SWITCH (SWCH), which was in the process of adopting REIT status. at 29x EBITDA multiple. Continuing a trend in recent years of industry consolidation of smaller data centre owners.

Elsewhere, another portfolio holding, Shaftesbury plc (SHB) was subject to a merger proposal from London west end rival Capital & Counties plc. (CAPC). Whilst we agree with the longer term rationale for the merger which will increase operational scale in the central London market, we believe the terms of the deal underappreciate SHB's value. The market seemed to share this view, SHB's share price falling when the terms of the speculated merger were publicly released. Walking the bustling streets of Carnaby, China Town and Covent Garden in recent months served only to reinforce their enduring locational value which enables them to benefit from extraordinary footfall levels from locals and visitors alike. Hence, we hope that the parties can re-cut the deal to resolve this inequity.

Meanwhile, logistics platform owner Prologis (PLD) was involved in a scrip bid for smaller listed rival Duke Realty (DRE). In this case the market could not see material upside for Prologis shareholders, with PLD underperforming for the quarter.

West End – Shaftesbury & CapCo Merged Portfolio

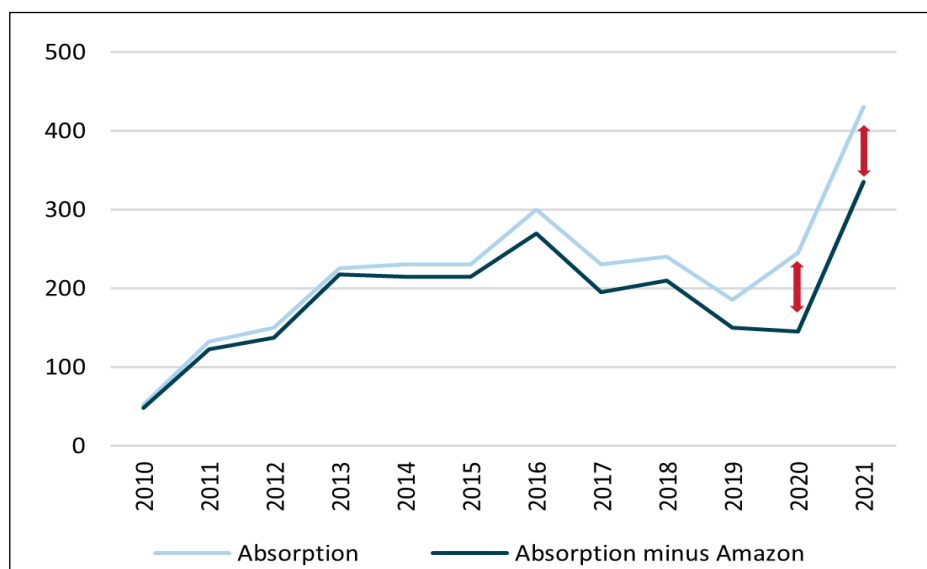


Source: Capco Shaftesbury merger presentation

Logistics has enjoyed exceptional returns over the past 7 years. During the June quarter the market was startled with news that Amazon, the sector's highest profile driver of space demand, had excess warehouse space and would be looking to reduce some of its lease commitments. This comes after an aggressive two-year expansion phase during which Amazon almost doubled its U.S. warehouse footprint. Keen observers of Amazon would have noted back in October 2021 that the company had already signalled it was no longer capacity constrained. Effectively this was not new news. However, coupled with profit warnings from several retailers reporting that they were over-stocked with too much of the wrong inventory, reflecting distortions in the supply chain and the shift from goods to services consumption, the outlook for logistics demand began to look more fragile.

High asset values and robust levels of new supply in many big-box logistics markets were already important prompts that led us to reduce exposure to the industrial sector in the past year. However, vacancy rates remain historically low and tenant demand, whilst moderating, remains robust in an historical context, as many tenant segments are still grappling with the needs of changed distribution channels and supply chain resilience.

Warehouse absorption with and without Amazon



Source: CBRE, UBS



The Interest Rate Dynamic

At the outset, we stress that from an overall perspective, REITs are in a far more secure financial position than on the eve of the Global Financial Crisis (GFC). For most of our stocks, management has maintained moderate levels of debt, with well-laddered debt maturity profiles. With the exception of a small number of primarily Continental European real estate stocks, we do not believe the REITs in our portfolio are in danger of bumping up against debt covenants relating to Loan to Value or Interest Cover Ratios.

However, the interplay of a distorted economy, the associated risks to tenant credit, elevated inflation, and reversion to a “normalised” level of interest rates makes investing in this dynamic a challenging balancing act to say the least.

In the current environment, our greatest concern is the potential for elevated levels of tenant duress as businesses deal with the dramatically altered economic and monetary policy conditions. To some degree this is uncharted territory for REITs – persistently rising interest rates and inflation pre-dates an industry which truly only matured in the 1990s.

We recognise that many forms of REIT-owned real estate are supported by multi-year lease contracts and high operating margins. As a result, many REITs should possess a cash-flow earnings bridge over these uncertain economic and challenged corporate profit conditions. However, we also need to address the impact on REIT earnings from the sector’s financial leverage which is at the coal face of higher interest rates.

If we accept interest rates won’t return to the historically and artificially low levels of 2016-2021, REITs will face earnings pressures in coming years. Of course, the overall impact depends upon the level of gearing, where interest rates peak and ultimately settle, the need for more capital, and the extent to which the debt has fixed interest rates or hedges that insulate the issuer from shorter term rate moves. Much depends on the rent growth profile of REIT portfolios over time, which would serve as the best panacea to rising cost pressures.

Importantly, thanks to deep, competitive debt markets, the corporate bond market in particular, U.S. and European REITs have been able to borrow at fixed rates for the medium to long term. Typically, they have secured long-term fixed rate debt for 7 years on average. Accordingly, based on current circumstances, we do not expect higher finance costs to be a material issue in these markets until 2025 in general.

Moreover, it is crucial that debt capital markets remain open and available for the smooth functioning of real estate markets. Apart from the CMBS market, which has seen less issuance recently, there is no sign yet of capital constraints in the debt capital markets. While it may be more expensive to borrow, finance remains available to good quality borrowers such as publicly listed property companies.

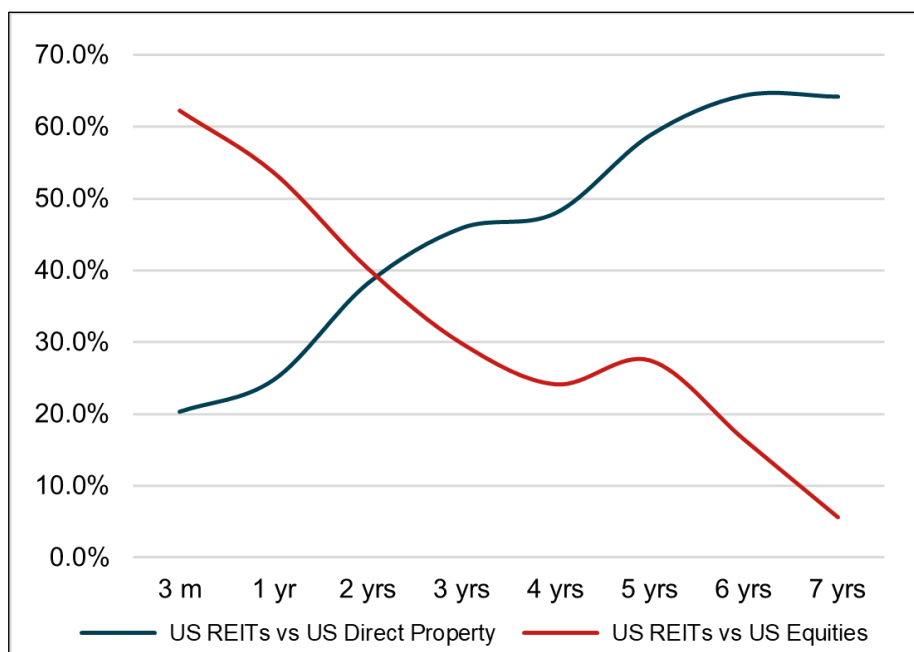
Thankfully, given the long-term tenure of most of their debt books, most listed property companies have some time to adjust their capital structures to mitigate the impacts of a higher interest rate environment, without having to necessarily call upon more equity. Possible measures include potentially selling assets to reduce leverage, and/or modify the shape of the debt structure. Mergers aimed at cutting overheads will also likely be a feature. This will be an interesting test of the quality of the real estate and challenge for CFOs to earn their keep.

REITs vs Private – and the end of the cap rate compression super cycle?

Despite the sell-off in a broad range of asset classes during the quarter, REIT price volatility will once again heighten the debate about the merits of listed real estate as a surrogate for direct real estate investment. We think this question is only meaningful with a short-term perspective as over medium to long term investment horizons, REIT returns at least keep pace with underlying real estate.



Multiperiod rolling correlation of U.S. REITs versus Direct Real Estate & Equities



Source: Bloomberg

In the near term, draw-downs are an occupational hazard of publicly traded markets, typically the price one pays for daily liquidity and transparency. That said, in recent years, the sell-offs have represented a 'buy-the-dip' opportunity as REIT prices reverted relatively quickly to prior levels.

This most recent sell off suggests REITs now are trading at meaningful discounts to direct property, by as much as 20%. We can state confidently that REITs are relatively inexpensive and, as has occurred time and time again, ultimately this gap will close. However, how today's gap closes is a moot point: the dynamics behind the current sell off seems more chilling than those of the past, underscored by central banks' withdrawal of investment subsidies (QE) and determination to slow if not contract the economy.

Interestingly, REIT management has been silent or dismissive of the idea of implementing share-buy backs to take advantage of the discounts. They wisely seem intent on shepherding their capital resources given the current uncertain environment.

We note direct property transaction activity slowed appreciably as the quarter rolled on. It is believed that leveraged buyers have largely withdrawn from bidding processes. Even if lending willingness remains intact, higher finance costs will take the steam out of pricing.

The dynamics suggest real estate values are likely to come under pressure, particularly lower quality real estate characterised by weaker income profiles and greater capital expense needs to stay competitive in a more challenging leasing environment. Additionally, with interest rates no longer providing a "free carry", land values will be closely watched.

Hence, we believe the super-cycle of cap rate compression evident for much of the past 20 years, temporarily interrupted by the GFC and subsequently turbo charged by Central Bank subsidies, is now at an end. In simple terms: "Don't fight the Fed".

It will be important to watch the behaviour of private equity players which have been touting the seemingly mountains of dry-powder they supposedly have at their beck and call. It seems a "no brainer" for them to take advantage of discounted REIT pricing through increased take-over activity. So, in our view, it is reasonable to expect a floor under discounted REIT prices - at least until PE intentions becomes clear.



NAREIT and Our travels – Flying high (but often late)

After a 3 year in-person absence, in early June we resumed our annual pilgrimage to the National Association of REITs (NAREIT) conference traditionally held each year in New York.

NAREIT came hot on the heels of reporting season for the March quarter which was almost universally positive, with many REITs upgrading 2022 earnings guidance provided at the start of the year. In general, REITs reported solid leasing with limited evidence of errant behaviour in terms of excessive levels of new supply, speculative or pre-committed, and evidence of dramatically increasing construction costs. Hanging over this buoyant operating environment message was the real time evolution of the Ukraine invasion, soaring energy costs, labour and supply bottlenecks, and the impact of rising interest rates.

In our various NAREIT meetings we observed no meaningful widespread commentary suggesting any erosion in tenant demand. Indeed, the discussion focused on how the economy was making a concerted effort to return to normal after the impacts of Covid, including the lapse of government interference in lease contracts and temporary stalling impacts of the Omicron variant. However, most management teams recognised that the issues in Europe and China and rising interest rates were likely to begin to impact in coming quarters.

A clear theme to emerge from the meetings was the focus on cost management including greater use of technology in property management and leasing. Given their scale, REITs are at a significant advantage to smaller real estate owner/managers. Our tour of U.S. residential rental properties highlighted the quality of the accommodation and the level of technology employed as amenity for the tenants. For example, smart home platforms for ready to go Wi-Fi, keyless doors enabling flexible access and avoiding the need for replacement keys, as well as to remotely control lighting and heating).

Building construction cost inflation was also a common theme with 15%-20% per annum escalations the norm. This is having some impact on development yields, albeit many reported higher rents to help offset the higher costs. We expect the discipline exacted by higher costs will outlast the euphoria of higher rents once the economy well and truly slows. Accordingly, we expect the competitive supply picture to remain relatively benign for the next couple of years.

Retail shopper foot traffic is approaching pre-pandemic levels. Retail leasing is proving to be robust with strong categories such as quick service restaurants, medical, health and beauty, and pet care prominent which says much about latent demand for services. As an aside, the box office success of Top Gun highlights the desire to share experiences, emerge from the cave and step away from the on-line world.

Separately there was also a greater level of engagement by U.S. management in relation to sustainability that was not as clearly evident prior to Covid.

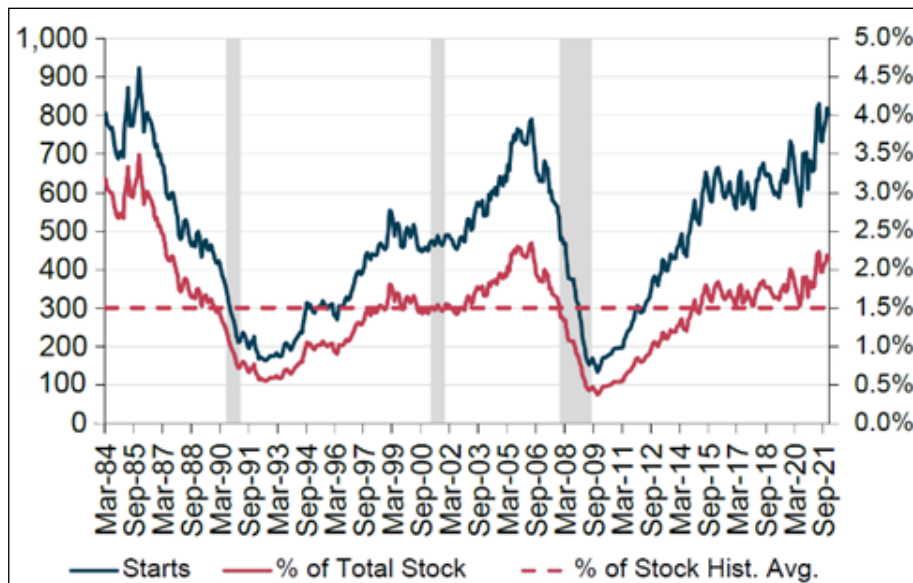
Shelter Skelter – The Challenge for Residential Real Estate

Last year we highlighted that, based on evidence from residential REITs, encompassing apartments and single family detached homes, we expected significant upward pressure to the U.S. consumer price index as housing costs represent circa 40% of the basket. Indeed, this proved to be the case, although it seems the index may well be underestimating these costs if the public REITs are representative of rental conditions.

Based on continued low vacancy rates and higher rent notices posted to tenants, upward pressure on U.S. residential rents is unlikely to significantly abate until at least late 2022. We expect rents will continue to increase at close to 10%, underpinned by reduced home ownership affordability, moderate levels of new construction, and supported by job security and wages growth. Absent a dramatic and sudden economic contraction, we expect some relief will only emerge later in the year thanks to an increase in new development completions, particularly of multi-family apartments. Looking into 2023, we expect there to be a significant deceleration, albeit most likely matching historic long term average rent growth of ~3-4%.



U.S. Multi-family construction starts increasing

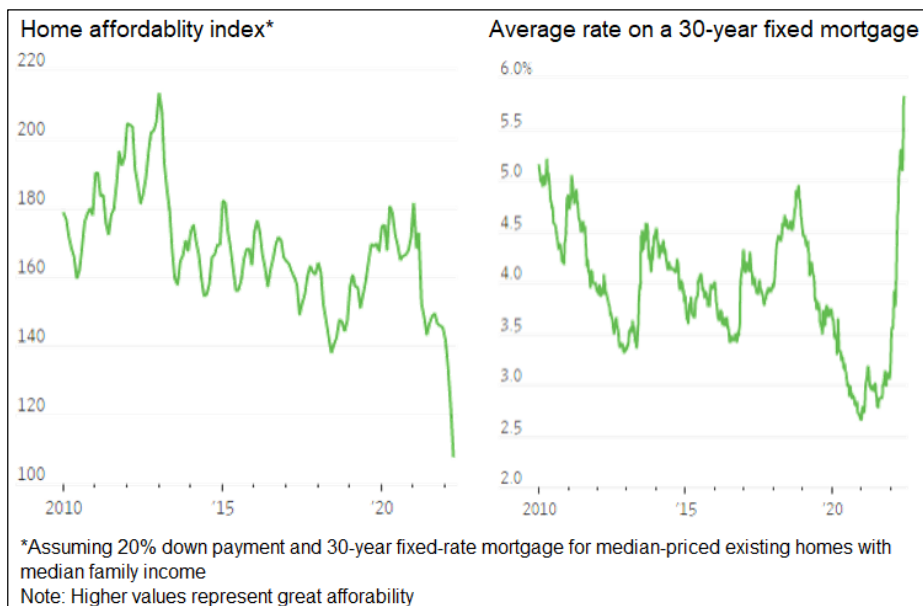


Source: CBRE and Citi Research

However, whilst U.S. apartment rent growth should meaningfully moderate, the picture is not as clear-cut for single family homes where the supply picture remains constrained and reduced affordability to buy suggests renting remains an economically more attractive proposition compared with home ownership. Hence, we expect single family detached residential rental growth to continue to outpace other segments of the real estate market.

In light of a chronic supply demand imbalance, our investment in residential property should be underpinned by relatively robust cashflows thanks to limited supply and rising construction costs.

Rising mortgage costs and lower housing affordability



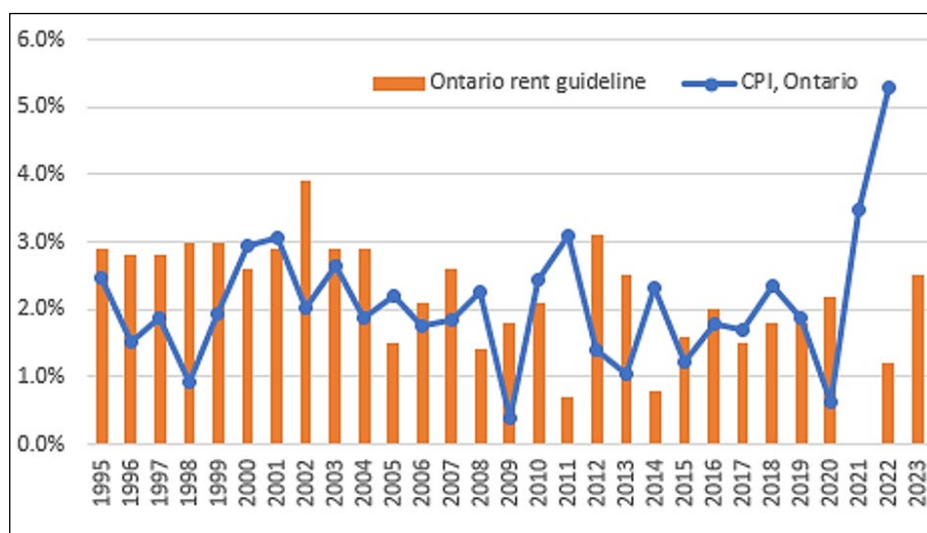
Source: Freddie Mac

Source: National Assoc. of Realtors

With real rental growth in many major economies, the spectre of rent controls or other 'stroke-of-the pen' risks are a perpetual and constant risk for the residential sector. This is especially true today as politicians look to respond to rising cost of living pressures in order to win votes. Whilst targeted rent regulations are a feature in some U.S. markets such as parts of California, New York and Washington DC, major parts of Europe and Canada already operate with widespread government control over the rental market.

For instance, in France the government announced their intent to cap the indexation on residential rents to 3.5% until mid-way through 2023, starting this July. Elsewhere the Canadian province of Ontario announced the rent guideline increase for 2023 which was set at 2.5%. This is the maximum allowable rent increase a landlord can pass through to a tenant without requiring approval from the Landlord and Tenant Board. That's despite the guideline ostensibly being based on Ontario CPI, a direct reading of which should have yielded an allowable increase of 5.3%. The news will be a fresh blow for the Canadian residential REITs who have been struggling with rising energy and maintenance expenses, resulting in operating costs running well in excess of 7%.

Ontario CPI versus Rent Guideline increases



Source: RCL, FactSet, Ministry of Municipal Affairs and Housing - Ontario

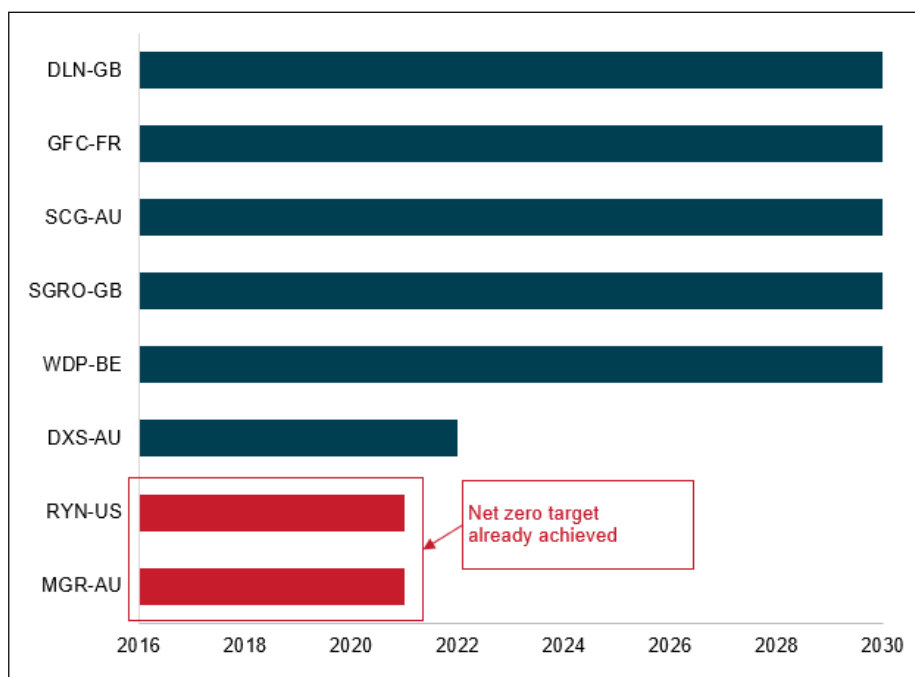
In the U.S., which has seen some of the strongest rent growth globally over the last year, the risks appear to be limited to a gradual heating of the political rhetoric. So far, institutional single-family landlords have borne the brunt of the (unhelpful) discourse. There is, however, little currently on the legislative agenda that could meaningfully impair the U.S. residential REITs' ability to pass through inflationary pressure. But as always, the risk is there.

ESG – Net zero carbon emissions targets and modern slavery risks

There has been a significant increase in the number of companies that have announced either net zero carbon emissions or carbon neutrality targets in the past year, with the proportion of portfolio companies with these goals increasing from 57% by number, in 2021, to 72% in 2022. While the Paris Agreement focuses on a deadline of 2050 for net zero targets, many REITs are not waiting that long. In the global portfolio, there are eight companies that are targeting net zero Scope 1 and 2 emissions by 2030. Two of these have already reached net zero carbon emissions, namely Mirvac (MGR) and Rayonier (RYN).

Additionally, to reach this net zero target a large proportion of companies are using either onsite solar generation or the purchase of renewable electricity. Examples of this focus can be found especially among industrial and retail REITs. Rexford Industrial (REXR) and Prologis (PLD), are two industrial REITs who have both outlined ambitious and short-term renewable generation installations. REXR is targeting an increase of installed capacity from 4.2MW to 9MW by the end of 2022, and PLD is targeting an installation of 1GW of solar capacity by 2025, up from 325MW they currently have installed.

Portfolio Companies with Net Zero Target deadlines before 2030



Source: Company Reports, ResCap

However, companies are having increasing difficulties achieving these renewable energy generation targets while also avoiding forced labour issues in the supply chain. According to a study by the Helena Kennedy Centre at the Sheffield Hallam University in 2021, almost all solar panels rely on polysilicon, of which approximately 45% of global supply is manufactured in Xinjiang. This is causing supply issues due to the U.S. Customs and Border Protection Agency imposing an import ban on products made, in whole or part, in the Xinjiang region, and increasing scrutiny of modern slavery risks in supply chains in Europe, the United Kingdom and Australia. As a result, companies are likely to face increased costs to source solar panels that can meet requirements for forced labour and modern slavery free products.

Conclusion – Stay the course but keep the sails trimmed

The June quarter capitulation raises the challenge of distinguishing between a short-term correction, which has typically been the case over the past 10 years, and the start of a more austere period for investment returns, especially in real terms.

Bottom line, the cost of capital is being reset higher after years of government and central bank largesse. Uncertainty surrounding the time and effort needed to resolve the current challenges, geo-political and inflation, suggests we are likely to face volatile short term trading conditions and a more moderate real return outcome for investment markets in the medium term.

Thankfully we see only limited idiosyncratic risk evident in the REIT market and the underlying real estate sectors:

- Real estate supply is elevated but far from excessive
- Debt capital markets remain open
- Balance sheets are “balanced”.

Dealing with higher finance costs will challenge but in many cases it is manageable. Importantly, where landlords have pricing power, because tenant demand exceeds competitive supply, rental cash flows can keep pace and even exceed moderate inflation. We think these REITs, particularly those where management was prudent enough to keep leverage low, fix interest rates and extend maturities, will be well placed to absorb the impact that higher interest rates could have on overall cash flows.

REITs are now “cheap” compared to the underlying real estate, by our reckoning by as much as 20%. But perhaps this is more a case that private real estate is over-valued. The cap rate compression story is over after a 20+ year super-cycle. REITs now appear to be a prime fishing ground for private equity – outstanding real estate portfolios with industry leading property management platforms including technology and sustainability.

As we absorb the implications of the changing dynamics, we have sought to increase the resilience of the portfolio, increasing exposure to less economically sensitive sectors such as healthcare real estate and holding higher levels of cash. We see this as prudent in a world with elevated near-term volatility across all asset classes, reduced direct market transactions and central bank determination to slow a distorted economy.

In conclusion and consistent with our investment philosophy, we continue to believe in the quality of the underlying portfolio, the strength of balance sheets and the acumen of REIT management teams.

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The views expressed herein are those of the Investment Manager / Sub-Investment Manager at the time and are subject to change. The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside of the control of the Investment Manager. Costs may increase or decrease as a result of currency and exchange rate fluctuations. If the currency of a Sub-Fund is different to the currency of the country in which the investor is resident, the return may increase or decrease as a result of currency fluctuations. Income may fluctuate in accordance with market conditions and taxation arrangements. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance and does not predict future returns. The performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

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

The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

Distribution : The prospectus, the supplements, the KIIDs, constitution, country specific appendix as well as the annual and semi-annual reports may be obtained free of charge from the country representative and the Investment Manager.

Switzerland: the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying agent is Banque Heritage SA, Route de Chêne 61, CH-1211 Geneva 6. Nedgroup Investments (IOM) Limited is affiliated to the Swiss ombudsman: Verein Ombudsstelle Finanzdienstleister (OFD), Bleicherweg 10, CH-8002 Zurich.

U.K.: Nedgroup Investment Advisors (UK) Limited (reg no 2627187), authorised and regulated by the Financial Conduct Authority, is the facilities agent. The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

Isle of Man: The Fund has been recognised under para 1 sch 4 of the Collective Investments Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

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