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Nedgroup Investments Global Behavioural Fund

Quarter Four, 2022

Marketing Communication

Nedgroup Investments Global Behavioural Fund

Commentary produced in conjunction with sub-investment manager, Ardevora Asset Management

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

Performance (USD net return)	3 months	6 months	1year	3 years (annualised)
Nedgroup Investments Global Behavioural Fund ¹	8.18	2.21	-25.41	1.07
Performance Indicator*	9.76	2.28	-18.36	4.00

Source: Morningstar, ¹A-Class, *MSCI All Country World Index

Summary

The portfolio underperformed the MSCI All Country World Index in the fourth quarter. Relative sector winners were Information Technology and Materials, while biggest relative sector detractors were Financials and Industrials. The Fund is structurally underweight mega-caps, which benefitted performance over the quarter. From a geographic perspective, the Rest of World bucket contributed from a relative perspective while North America, Japan and Europe detracted. The top 20 contributors were a mix of value and growth names, while the detractors were predominantly value names.

December overview


There was mounting pressure on profit forecasts across almost every sector and region in December. Demand conditions continue to worsen and cost pressures appear relentless. CEOs are increasingly cautious, blaming macro. Pressure was especially intense in technology. Tech CEOs were the most optimistic on growth at the start of the year, and the first to blame macro for missing estimates in 2022. Big tech seemed impervious until the last few months. Their crumble continued in December. Areas such as Utilities, Health Care and Consumer Staples remained resilient to both demand and cost pressures.

A recession is widely expected, but investors' anxiety over its duration and timing continues to oscillate with every central bank statement. The year has been dominated by the narrative around inflation: persistent or transitory? In November investors hoped for an easing of inflationary pressures. In December gloom returned, as central banks continued to signal concern. Such concerns continue to swamp the influence of individual CEO behaviour – what a company does remains more important than how it does it.

Outlook: Profit forecasts generally look too high, despite the widespread expectation of a global recession and persistent cost pressures. Investors want to believe the worst is over but, for the time being, the steady flow of worse than expected news is keeping a lid on their enthusiasm. All the signs are that significant changes in labour market participation are driving a very different inflation environment than pre-COVID. Macro uncertainty remains persistently high.

November overview

In November news on inflation, interest rates and COVID dominated bottom-up stock news again. October's rally continued, but the underlying drivers were different. Despite optimism on improving growth in China (from the possibility of easing COVID restrictions), the Energy sector went from best performing sector in October to worst in November. Other sectors that led the October rally lagged in November, adding to the sense of confused investor sentiment. China and related Emerging Markets flipped from terrible in October to great in November, accounting for our modest underperformance in the month.



No new bad news seems to have released most of the deep investor anxiety of September, but the prospect of good news remains dim and distant. Profit warnings continue but are by no means everywhere. Savings remain high, wages are accelerating, unemployment is low, so the consumer, especially in the US, remains resilient. This is an odd combination when an imminent recession is believed to be inevitable.

Too high inflation and too low economic growth continued to uncomfortably coexist, creating policy dilemmas for governments. It's not a time to be taking big bets, but some interesting relative error patterns are emerging. We are increasingly convinced COVID will exert a lasting impact on the relative fortunes of businesses and stock prices. Some of the experiences of COVID have created boom-bust like distortions, past winners are today's losers. Others have driven permanent behavioural changes transmitted into the strange juxtaposition of macro variables – tight labour markets, healthy consumers, imminent recession. Surprising resilience is generally rewarded, but the hope of an end to bad news still ignites investor excitement. Until inflation is back in the bottle, we believe it will be best to focus on avoiding disappointment rather than chasing new exciting sources of surprise.

October overview

Investors are transfixed by persistent inflation and the prospect of recession. They panicked in September, but stock markets rallied in October, despite rising interest rates and more signs of economic slowdown. With long experience of the “Fed Put” – when recession looks imminent the Fed comes to the rescue - it can be tempting to believe the worst is over when everyone can see a recession coming.

The oil price recovered a little in October after falling sharply on mounting recession fears in Q3. Demand for oil is vulnerable as the global economy slows, but the supply side remains unusually tight. Management behaviour in the Energy sector looks uncharacteristically conservative. Climate change denial has gone. The long period of growth chasing capital allocation and the poor returns that followed have chastened CEOs. The Energy sector lead the market bounce in October but did not lead the declines in September.

Bad economic news takes time to hit company results. Disappointing company results are becoming more common, but they are far from everywhere, and the reasons for plan misses are more nuanced than a weak global economy. The demand environment is still distorted by COVID. It remains hard to discern where normal demand will settle. We see room for bias as forecasters struggle to sift through which shifts in supply-demand are transient, which are structural, and which are macro-driven.

The fund performed well in October, despite favouring more predictable, conservative businesses (which can lag a risk-on bounce). Having Energy helped, as did our mistrust of China (we exited the Chinese market last year, unsettled by a persistent looking increase in regulatory interference).

We can see an emerging error pattern often associated with impending recession. There is a lot of anxiety, and the bad times won't last forever. But the Fed's current problems are unusual, as it wrestles with inflationary pressures it hasn't seen for decades. Like 2020, some interesting relative error patterns are emerging. But what is safe, and what isn't, has a very different look to 2020.

Key Performance Contributors

Nedgroup Investments Global Behavioural Fund: Q4 2022

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Key contributors	PF end weight (%)*	MSCI ACWI end weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Tesla	0.00	0.58	-45.50	37	Growth
Apple	1.41	3.71	-12.38	28	Growth
Amazon.com	0.00	1.37	-27.15	18	Growth
Capitec Bank	1.03	0.02	17.98	17	Value
Rio Tinto	0.70	0.05	22.26	12	Value
Omnicom Group	0.79	0.03	20.57	11	Value
Microsoft	0.00	3.02	-0.31	10	Growth
Agilent Technologies	0.77	0.08	14.32	10	Growth
Publicis Groupe	0.38	0.03	22.84	9	Value
Bank of Ireland	0.23	0.02	37.42	9	Value

*Period end weights are shown **Excess return is the out / underperformance of the portfolio (NAV basis) relative to the performance indicator for the identified period
Source: Ardevora, Factset

Key Performance Detractors

Nedgroup Investments Global Behavioural Fund: Q4 2022

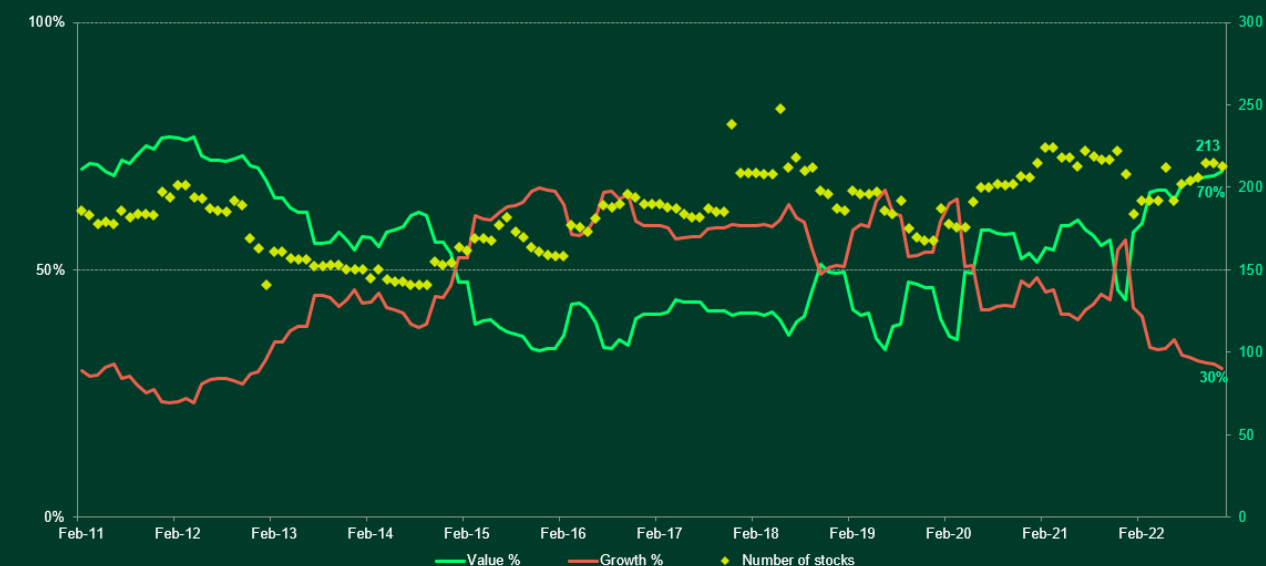
Past performance is not indicative of future performance and does not predict future returns

Key detractors	PF end weight (%)*	MSCI ACWI end weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Atlassian	0.00	0.00	-35.74	-14	Value
First Financial Bankshares	0.47	0.00	-23.44	-13	Value
Sea Ltd.	0.56	0.03	-14.88	-13	Value
Maravai Lifesciences	0.00	0.00	-39.48	-11	Value
Airbnb	0.47	0.06	-24.68	-10	Value
Western Alliance	0.00	0.00	-17.79	-8	Value
Twilio	0.00	0.02	-34.01	-8	Value
Kikkoman	0.44	0.01	-13.89	-7	Growth
Chipotle Mexican Grill	0.45	0.07	-15.33	-7	Growth
Pinnacle Financial Partners	0.34	0.00	-16.10	-7	Value

*Period end weights are shown **Excess return is the out / underperformance of the portfolio (NAV basis) relative to the performance indicator for the identified period
Source: Ardevora, Factset

Portfolio Positioning

Growth vs. Value



Responsible Investing

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

- supporting recurring collective engagements;
- using proxy voting to engage with investee companies;
- supporting ad hoc collective engagements.

Through these activities we carried out 20 new engagements, as part of direct and collective campaigns, with 17 companies in our portfolio. The table below provides a summary of these engagements:

Engagement activity by theme	
Environment – climate change	3
Proxy voting – notification of voting intent	12
Governance – Board effectiveness – Diversity	3
Governance – Board effectiveness – Other	2
Total number of engagements	20

Engagement responses to date	
The entity acknowledges the concern as a serious matter worthy of a response	3
No response/progress	1
Total responses	4

The number of engagements is lower when compared to the previous quarters as the majority of AGMs occurred in Q2 and collective engagements are ending for the 2022 calendar year.

Proxy voting summary

As the proxy voting calendar year concludes, there was a continued focus on ESG issues, specifically including climate change action plans, disclosure, and board diversity.

Shareholder proposals on environmental issues are increasingly winning majority support, compared to previous years¹. Throughout the US, Europe and Australia, shareholders have been sending a clear message using their voting rights, that they expect companies to establish strong decarbonisation strategies and plans of action.

A clear example is the resolution filed at Caterpillar's (CAT) AGM by As you Sow, Amalgamated Bank, Canada Post and SHARE. The proposal asked management to release a report disclosing interim and long-term greenhouse gas (GHG) targets aligned with the goal of the Paris Agreement (limiting the global temperature increase to 1.5 degrees), as well as disclosing the progress they make in achieving the goals. By disclosing GHG targets and ESG data the company and its investors have more accurate information for financial planning and ESG risk assessment.

¹ Harvard Law School Forum on Corporate Governance. ESG During the 2022 AGM Season. May 2022. Available here: <https://corpgov.law.harvard.edu/2022/05/05/esg-during-the-2022-agm-season/>

The resolution, which we also supported, received 96% support². Further progress regarding the resolution with CAT has included meetings with the CAT board of directors to better understand shareholder positions and expectations.

The 2022 proxy season saw an increase in shareholder proposals and investor activity surrounding ESG. We expect this trend to continue into the 2023 proxy season.

CDP non-disclosure campaign

As mentioned in previous newsletters, we joined the CDP's Non-Disclosure campaign for a second consecutive year. The campaign aims to drive further corporate transparency around climate change. We led engagement strategies with five companies and supported the broader engagement effort with 26 other companies. This year's campaign has now concluded. We received replies from 19 of the 31 companies engaged.

Summary of outcomes received:

Engagement outcome	
Submitted to CDP	13
Intends to respond to CDP	1
Considering responding to CDP	2
Declined to participate	3
Total responses	19

² As You Sow. 96% of Caterpillar Shareholders Vote in Support of Climate Action – A Critical Development in Decarbonizing U.S. Industrial Sector. June 2022. Available here: <https://www.asyousow.org/press-releases/2022/6/8/caterpillar-shareholders-vote-climate-action-decarbonizing-industrials-sector#:~:text=BERKELEY%2C%20CA%E2%80%94JUNE%20%2C,%2C%20Canada%20Post%2C%20and%20SHA RE>

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