NEDGROUP INVESTMENTS

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Nedgroup Investments Global Equity Fund

Quarter Four, 2022

Marketing Communication

Nedgroup Investments Global Equity Fund

1. Market Overview and Outlook

Portfolio Manager Commentary

Over 70 years ago, John Burr Williams set out in his book, *The Theory of Investment Value*, the equation for value: the value of any stock or bond is determined by the cash inflows and outflows expected to occur during the remaining life of the asset, discounted at an appropriate interest rate. The formula is universal and is therefore the same for stocks as for bonds although with bonds, the coupon and maturity are known in advance. For equities however, the analyst has to estimate the future "coupons". Post calculating the discounted cash flow of an investment, an investor should purchase the cheapest option, regardless of earnings or cashflow growth, cyclicality, PE or any other metric.

In the past 3 years, the outlook for both "coupons" and the "appropriate discount rate" for equities have varied wildly. At the start of 2020 when Covid emerged, the expectations for earnings and cash-flows declined precipitously (and so did the equity market). Policy makers stepped in with abundant liquidity and near zero interest rates to ensure that the discount rate fell sharply which led to share prices recovering rapidly in the summer of 2020. This avalanche of liquidity and massive balance sheet transfers from government to households led to rapid earnings growth such that equity markets in 2021 benefited from continued exceptionally low discount rates as well as rapidly growing earnings. Bull market sentiment returned. However, with inflation becoming rampant in 2022 (largely as a consequence of the actions of policy makers) the discount rate increased (with the associated negative impact on value) and at the same time concerns over the potential for earnings growth increased as rate rises began to impact the mountain of debt accumulated over the 10 years of policy makers holding interest rates at or near zero.

With interest rates having risen rapidly from their ultra-low starting point, most investors' "appropriate interest rate" used to value stocks (and bonds) has risen markedly. This has naturally had the effect of relatively benefiting lowly valued companies (where the earnings and cash flows are higher today but do not grow significantly) and relatively hurting more highly valued companies where the bulk of value is further in the future. Typically, growth companies and quality companies fall in this latter category. Does this mean that "value" companies will continue to outperform the "quality" companies that Veritas tends to favour?

Certainly, if interest rates continue to rise rapidly, it is possible that in the short term, value continues to outperform quality. However, the best businesses to own are those that over long periods can grow earnings and cash flows by deploying large amounts of incremental capital at very high rates of return provided that the investor purchases these when they are attractively valued (using Burr Williams' equation for value).

While it may be possible for some investors to jump in and out of investments depending on their view of the appropriate valuation multiple on any single day, we prefer to consider investing as purchasing fractional ownership of a business at an attractive valuation and then aligning ourselves with the company, benefiting over the long term from the compounding in their earnings and cash flows as they in turn benefit from their strong competitive advantages. If such a company becomes over-valued or their competitive position is eroding, we will sell but it is hard to benefit from the long-term compounding of earnings in a high-quality business if one is not a long-term investor. Such a strategy may mean from time to time, the share prices of some of our holdings fall substantially but provided we have confidence in the businesses competitive advantage(s) and its management team we will continue to hold and over time believe our patience will be rewarded. Given the underwhelming performance of our portfolio during 2022, we now consider many of our holdings to be priced well below their intrinsic value, and as their earnings and cash flows continue to compound over the next few years, we anticipate we will see outsized gains in these positions:

Alphabet, the parent company of Google, has the dominant search engine globally as well as adjacent businesses in YouTube, Cloud infrastructure (Google Cloud Platform) and Other Bets (including emerging products such as Waymo in autonomous driving). We initiated our investment in Alphabet in June 2010 at a share price (adjusted for subsequent stock splits) of $11.20 and have held a position continually since that date (year-end price $88) giving a compound return of c.18% annually despite the recent decline in share price. This return level is moderately slower than the growth of the company's revenues and profits since we initiated our position as the valuation has declined. While Alphabet undoubtedly suffers from a degree of economic cyclicality, long-term investors need to consider the earnings power of the business far into the future which is not significantly affected by one or two years of slower growth due to an economic slowdown.

Alphabet remains a compelling investment despite these near-term fluctuations in advertising demand. The company's position in Search remains undiminished, streaming TV continues to take structural share from linear formats, and its Google Cloud business is a key beneficiary of the continuing move of enterprise IT ecosystems to cloud based architectures. Pervading these businesses is a strong position in artificial intelligence which should be a secular tailwind to the business over the next decade. Today, the business is trading at 15.5x 2023 PE, excluding the cash on its balance sheet. When modelling the company, we contemplate a recessionary scenario and recovery and only a modest improvement in margins over the long term. We currently assess Alphabet should generate a c.20% IRR over a 5-year horizon.

Microsoft is the largest enterprise software company globally. The business has been built off its ubiquitous Windows Operating System and Office franchise (including products such as Word, Excel, and Teams). It also has assets in the consumer space (Gaming and the search engine Bing) as well as products such as LinkedIn. Over the past decade the company has created a strong cloud product in Azure which provides infrastructure hardware and software for customers, which leverages Microsoft's traditional on-premises footprint allowing users to maintain a 'hybrid' environment. Today, Commercial Office and Azure make up 45% of the business and are the twin drivers of growth. Overall, the company has delivered compound growth of 15% in revenues, and 23.8% in operating profits over the last decade. We purchased our initial position in Microsoft in August 2009 at a split adjusted price of $23.5 (year-end price $240).

Microsoft is a relatively resilient business due to the subscription nature of large parts of its business. However, information technology spend is somewhat cyclical despite the strong secular trends in digitisation that will continue to provide a tailwind to growth over the medium to long term. The company trades on 21x 2023 calendar year P/E (ex-cash) which we assess is warranted given high retention addition Azure has structural tailwinds in a market opportunity that is over $600bn in size which together with the growth in Productivity Tools (Office) should ensure that the company can achieve double digit growth through the cycle. We assess that Microsoft can achieve a 15% IRR, providing a highly attractive risk/reward for what is one of the highest quality companies globally.

UnitedHealth Group's investment case has evolved markedly since Veritas as a house initiated the position in 2007 at $49.91 (year-end price $530). At the time of our investment, the company was the largest private health insurer in the US, benefitting from scale in procurement of services which engendered pricing power and also scale in patient data which enhanced underwriting competence. Since then, the incubation of numerous businesses within its Optum division, coupled with some notable acquisitions, has yielded four discrete businesses and together the most complete and powerful healthcare vertical in the US. Our investment has yielded a 16% annualised rate of return in excess of the 10% revenue and operating earnings growth over the same period, as UnitedHealth Group shares have been re-rated by investors given the improvement in competitive position.

Whilst aware that UnitedHealth Group's diversified revenue streams, strongly synergistic businesses and overall competitive strength in the US healthcare system have been widely acknowledged, the investment remains compelling due to the defensiveness of revenues and the low inherent risk in the execution of its growth strategy. In a continuation of the last few years, strong double-digit top-line growth can durably be delivered from the transition to fully capitated risk models (only c.15% penetrated) increasing revenue/customer in Optum Care, by far the largest physician group in the US, as well as a continued measured expansion at UnitedHealthcare with new customers from government and commercial health plans.

Latent margin potential is becoming evident as the transition continues, a transition driven by aligning incentives to lower the cost of healthcare provision. We are confident UnitedHealth Group can achieve a 12% IRR at relatively low risk and is likely to become only more dominant in US healthcare services.

Charter is one of the largest cable infrastructure businesses in the US. We initiated our position in Time Warner Cable in March 2015 before it was acquired by Charter in May 2016 and have held the stock ever since generating an annualised return of 13% (adjusted for reinvesting the cash received in the transaction) despite the recent more than halving in the share price. Our thesis was (and remains) simple: the cable network, that was created primarily during the three decades leading up to the turn of the millennium, was well placed to carry data (internet broadband) with relatively minor cost of investment to do so. This (serendipitously) placed the cable companies at a huge competitive cost advantage versus any new entrants that wanted to enter the field of high-speed data provision. Over the past 10 years this thesis has become evident as the cable companies have become the dominant internet providers in the US. Given the sunk cost of their network and the relatively minor cost to increase speeds, we continue to believe that the cable companies will remain competitively advantaged for many years to come. Charter recently announced that for an additional c.$100 per home passed they will be able to deliver 5,000 Mbps download and 1,000Mbps upload speeds for most of their customer base. These speeds are well above any application requirements today or for the foreseeable future.

Charter's share price tends to be far more volatile than changes in the company's intrinsic value as investors lurch from greed (when they are taking more than 100% of quarterly net adds in their footprint) to fear (when competitors are taking share in their footprint). The current fear is that Fixed Wireless Broadband (FWB) from the telecommunication providers will meaningfully increase the competitive intensity of the industry. This fear is overstated as FWB suffers from both demand and supply limitations which ensures that the technology will only take a small proportion of overall users and over time, these users will likely migrate to cable or fibre as consumers' speed requirements exceed those that FWA can achieve. With very modest assumptions, we think Charter should deliver a 20% IRR over the next 5 years.

On a longer-term perspective, 2022 had proved to be a difficult year for 3 primary reasons:

1) The outperformance of value companies and in particular energy companies that the portfolio does not have any exposure to.
2) The underperformance of some of our healthcare companies which are typically highly defensive during market declines but detracted from performance during the market decline in 2022.
3) The performance of four individual holdings: Charter, Catalent, Amazon and Meta Platforms Inc (Facebook).

Taking each in turn:

1) We will not change our investment philosophy and style to invest in low quality companies with sub-par return on invested capital and consequently will not be investing in many of the "value" companies and sectors that outperformed in 2022. We believe this to be a temporary phenomenon and as more capital floods into the areas that outperformed, increased competition will soon drive returns and share prices lower (due to a lack of competitive advantages to protect these lower quality companies from competition).
2) With regards to our healthcare companies, we believe that many have been affected by Covid. Sonic, Catalent, Thermo Fisher Scientific, Becton Dickinson, Illumina and CVS all benefitted from Covid to a greater or lesser degree during 2020 and 2021. In 2022 the revenues from Covid have declined and will continue to do so in 2023. We had already anticipated much slower Covid revenues for these companies and in any event only valued Covid related earnings at 1x earnings (i.e. we assumed they were supernormal profit that would not persist). However, it seems other investors are punishing these companies for reporting slower overall revenue growth in 2022 and 2023 as Covid revenues decline. While we do not agree with this, we consider it to be a temporary issue and as overall growth becomes more evident, the share prices should react positively.
3) Finally, with regards to the individual poor performers during 2022, we remain positive on the outlook for all four, and in most cases, have used the share price weakness to increase our holdings. The cash

for these purchases has largely come from reducing our best performers in the year such as BAE, as their valuations approach our intrinsic value.

2. Fund performance contributors & detractors for past quarter

Holding	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Attribution Total Effect
Top 5 relative stock contributors							
Safran	4.4	35.5	1.3	0.1	35.5	0.0	0.9
Vinci	4.4	23.5	0.9	0.1	23.2	0.0	0.5
Mastercard	5.1	22.2	1.0	0.6	22.4	0.1	0.5
The Cooper Companies	3.0	25.3	0.7	0.0	25.3	0.0	0.5
Aena SME	3.2	19.3	0.6	0.0	19.5	0.0	0.3
Bottom 5 relative stock contributors							
Catalent	3.0	-38.0	-1.5	0.0	-37.8	-0.0	-1.8
Amazon.com	4.0	-25.7	-1.1	1.8	-25.7	-0.5	-0.9
Alphabet	5.8	-7.8	-0.4	2.2	-7.8	-0.2	-0.6
Meta Platforms Inc	2.0	-11.2	-0.3	0.5	-11.3	-0.1	-0.4
CVS Health	3.1	-1.7	0.0	0.3	-1.9	-0.0	-0.3

Source: Veritas Asset Management

Region	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	MSCI World Index Average Weight	MSCI World Index Total Return	MSCI World Index Absolute Contribution	Relative Attribution Analysis Allocation Effect	Relative Attribution Analysis Selection Effect	Relative Attribution Analysis Total Effect
Asia/Pacific Ex Japan	2.4	3.4	0.1	3.4	15.7	0.5	-0.0	-0.3	-0.3
North America	65.7	2.4	1.8	72.6	7.0	5.4	0.2	-3.1	-2.9
Africa/Middle East	–	–	–	0.2	0.4	0.0	0.0	–	0.0
Europe ex UK	14.1	26.8	3.1	13.5	20.1	2.5	0.1	0.6	0.7
Japan	–	–	–	6.1	13.2	0.7	-0.2	–	-0.2
United Kingdom	7.8	16.1	1.1	4.2	17.0	0.7	0.2	-0.1	0.1
Cash and equivalents	10.0	n/a	0.1	–	–	–	-1.0	–	-1.0
Total	**100.0**	**6.2**	**6.2**	**100.0**	**9.8**	**9.8**	**-0.7**	**-2.9**	**-3.6**

Source: Veritas Asset Management

Sector	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Relative Attribution Analysis Allocation Effect	Relative Attribution Analysis Selection Effect	Relative Attribution Analysis Total Effect
Consumer Discretionary	4.0	-25.7	-1.1	10.5	-2.4	-0.2	0.8	-1.1	-0.3
Consumer Staples	4.2	14.0	0.5	7.7	11.7	0.9	-0.1	0.1	0.0
Energy	–	–	–	5.7	19.5	1.1	-0.5	–	-0.5
Financials	4.4	14.3	0.6	13.9	15.9	2.2	-0.6	-0.1	-0.6
Health Care	27.3	1.6	0.4	14.2	13.1	1.8	0.4	-3.2	-2.8
Industrials	23.2	21.4	4.3	10.4	17.9	1.8	0.9	0.7	1.6
Information Technology	14.6	11.0	1.5	20.8	5.1	1.1	0.2	0.9	1.1
Materials	–	–	–	4.3	17.3	0.7	-0.3	–	-0.3
Communication Services	12.3	-2.6	-0.1	6.6	0.4	0.1	-0.5	-0.4	-0.8
Utilities	–	–	–	3.1	11.0	0.3	-0.0	–	-0.0
Real Estate	–	–	–	2.6	5.6	0.1	0.1	–	0.1
Cash and equivalents	10.0	n/a	0.1	–	–	–	-1.0	–	-1.0
Total	**100.0**	**6.2**	**6.2**	**100.0**	**9.8**	**9.8**	**-0.4**	**-3.1**	**-3.6**

Source: Veritas Asset Management

Portfolio Attribution Commentary

The macroeconomic and geopolitical environment remains uncertain, with inflationary pressures remain elevated and central banks continuing to take steps to bring inflation in line. Tensions remain high with the war in Ukraine and the supply of natural gas to Europe remained a concern. Despite all of this, unemployment rates remain low, wages are rising, consumer savings levels remain elevated, and credit is readily accessible. In this setting, overall consumer spending has remained resilient, albeit there has been a shift to spending on experiences/travel as opposed to products. This trend ran through a number of the top contributors over the quarter and was highlighted as a bright spot by the detractors which were more impacted by the economic backdrop. The detractors were dominated by companies reporting a slowdown in growth for online advertising and migration to the Cloud growing less aggressively when compared to the last couple of years, in an unsurprising difficult comparison period to the strong covid years.

Turning first to the top 5 contributors.

Mastercard

Mastercard has benefited as consumer spending has remained resilient, though the company is seeing some shifts in what consumers are buying. The trend toward spending on experiences continues, with notable strength in airline, lodging, and restaurant spend with a shift away from categories like home furnishings and appliances. Cross-border transactions continue to recover as border restrictions are progressively relaxed. Cross-border travel in the quarter reached 124% of 2019 levels. Cross-border card-not-present (excluding travel) continued to hold up well. Mastercard demonstrated during the pandemic, they have the flexibility to respond quickly. The company had been diversifying the revenue stream, and also differentiating its payments business. They are aiming to increase payment volumes by providing better services, e.g. safety security solutions are well sought-after in the B2B space, where there are fraud issues. The company has three key strategic priorities as discussed below.

First, they are expanding in payments by enabling digital transformation of customers. There are now over 3 billion Mastercards in circulation supported, in part, by programs, such the digital-first initiative. A digital-first solution starts with the ability for a consumer to acquire and then use a new card digitally in near real time. To date, Mastercard has launched over 200 digital-first customers around the globe. These include Santander in Mexico, Chase in the U.K., Hague in Spain, and Nubank in Brazil. In partnership with Chase, the company launched a new co-brand program with DoorDash which further expands presence in the digital food delivery space. Mastercard is essentially enabling growth in payments by giving people and businesses more places to use the MasterCard. They have added more acceptance locations in the last five years than the previous 50 and are now accepted at more than 90 million merchant locations. Contactless payments is growing. More than half of the in-person switch purchase transactions are now tapped. This trend will be bolstered by the adoption of new technologies, such as Tap on Phone. The company is also innovating in order to capture a prioritized set of new payment flows. This includes going after flows in the disbursements and remittances space and also expanding into gaming payouts, launching the Gaming Fast pay-out program.

The second priority is growing in the services area to deliver the diversified revenue stream beyond payments. They accomplish this by adding new service capabilities, as well as extending existing service offerings into new and existing customers. Mastercard has innovated in brand loyalty, marketing, analytics, and consulting to help customers grow their businesses, engage their consumers, and make smarter decisions with better outcomes. An example is the recent acquisition of Dynamic Yield's unique personalisation platform. Dynamic Yield helps more than 400 brands deliver personalised consumer experiences through individualised product recommendations, offers, and content based on a range of factors, including past purchases, page views and customer affinity profile information. Since completing the acquisition in 2022, Mastercard has added dozens of new retail and commerce customers. Now beyond adding new services, there is an opportunity to grow by extending existing offerings into existing customers. In the third quarter, Mastercard signed an agreement with Sky Italia, to support small businesses.

The third key priority area is embracing new networks. The focus is on two areas: open banking and digital identity. There is demand for responsible data practices, consumer protections, and deep compliance, all on top of robust technical capabilities. In the U.S., Quicken, a leading provider of financial management solutions, has selected Mastercard as a provider of consumer permission data for its popular simplified budgeting platform. Additionally, Mastercard has partnered with Ebonex who will become their first partner in Australia to issue crypto-funded cards. Crypto Secure is an innovative solution designed to bring additional security and trust to this digital ecosystem by helping card issuers address regulatory risks. Mastercard recognises the interest people continue to have buying and holding crypto through trusted businesses like their banks, so have announced Crypto Source, which is designed to give financial institution partners access to a comprehensive suite of buy, hold, and sell services for select crypto assets.

In short, Mastercard has some exposure to a potential economic slowdown, given that many of its fees are based on payment transaction volume. However, with cross-border purchases recovering from the early years of the pandemic and efforts to modernise with virtual card products, Mastercard's long-term prospects remain attractive.

Cooper Companies

Despite COVID-related challenges, especially with respect to staffing shortages in optometry offices negatively impacting patient flow, CooperVision (the contact lens business) reported its seventh consecutive quarter of double-digit organic revenue growth and CooperSurgical (fertility treatment) posting an eighth consecutive quarter of double-digit organic revenue growth. Consolidated quarterly revenues reached an all-time high, and Coopers closed the fiscal year with record revenues of $3.31 billion. CooperVision's growth was led by its daily silicone hydrogel portfolio and myopia management products, while CooperSurgical's growth was broad-based with strength in PARAGARD (an intrauterine device) fertility and the broader medical device portfolio. Earnings Per Share was lower than forecast primarily due to commercial spending tied to product launches and elevated distribution costs and a negative FX impact. In Cooper Vision, revenue growth was strong and diversified in all geographic regions and across all product categories, spheres (most common), torics (for astigmatism) and multifocals (multi prescription lenses). This growth was driven by new product launches, expanded product ranges, flexibility through customised offerings and growth in key accounts (Cooper is the only major contact lens provider that white labels for major Optician chains). Daily silicones continue to be the main driver of growth for the contact lens industry, and Cooper offer the broadest portfolio in the market with their main brands MyDay and Clariti available on a broad range of spheres, torics and multifocals. Historically, people wore multi day lenses, which are still an option under the Biofinity brand at Cooper, but this is rapidly changing. MyDay is a premium range which is more efficient at transmitting oxygen (making it softer/ more comfortable) and UV protected. The MyDay multifocal is the most recent addition, and the launch is going well, with very positive feedback from practitioners. MyDay toric parameter expansion launch has been overwhelmingly positive in the U.S. and Canada now matching Cooper’s standard Biofinity toric range meaning the company has the widest daily toric range in the market and toric lenses are available for daily use wearers for the first time. Rolling out these expanded parameters in additional markets is an aim for 2023. An example of a new launch is the MyDay Energys contact lenses. This lens uses the same innovative technology as Biofinity Energys to alleviate digital eye strain. Coopers has started seeding the U.S. market and a full national rollout is scheduled for early spring. Within myopia management, Coopers posted revenues up 29%, including MiSight (contact lens for myopia in children) up 88%. For the full fiscal year, the company reported myopia management revenues of $93 million, which was impressive given the negative impact of currency and ongoing COVID restrictions in China, where Cooper has regulatory approval to sell the lens. MiSight is now available in 41 countries and Coopers are seeing increased fitting activity from both independent optometrists and key accounts and cross selling from other lenses. As a reminder, MiSight contact lenses are the first and only FDA-approved soft contact lens proven to slow the progression of myopia in children aged eight to 12 at the initiation of treatment. Also within wider myopia management, Coopers is making progress with joint venture with EssilorLuxottica, SightGlass, which are myopia control glasses. This includes selling in China and pilot programs in Canada, the Netherlands, the U.K., and Israel. The JV submitted an FDA application to be the first spectacle lens product to receive FDA approval for myopia control. Coopers benefits from a macro growth trend and more people needing vision correction with an estimated 50% of the global population expected to have myopia or near-sightedness by 2050, up from roughly 34% of the population today. Other industry drivers include the market's continuing shift to silicone hydrogel dailies, the increasing focus on higher-value products, such as torics and multifocals, and higher pricing, which is running ahead of historical trends.

Moving to CooperSurgical, the fertility business, success has been seen throughout the product portfolio and around the world. There are several industry growth drivers, but one of the key factors being women delaying childbirth. The average age of a women's first birth in the U.S. and several other developed countries now stands at a record high of 30-years-old and age is one of the key factors in needing fertility assistance. Additionally, factors such as improving access to treatments, increasing patient awareness, improved product offerings, such as cryopreservation, increasing fertility benefits coverage, and technology improvements for both male and female in fertility are driving the industry forward. In total, it's estimated that roughly 15% of reproductive aged couples have fertility challenges and that over 750,000 babies are born annually through fertility assisted measures, and these numbers are growing. Coopers compete in a portion of the market that's roughly $2 billion in annual sales and forecast to grow between 5% and 10% for many years to come. Cooper announced it has signed a binding letter of intent to acquire Cook Medical’s Reproductive Health business, a manufacturer of minimally invasive medical devices focused on fertility. They are improving their international fertility footprint, especially within the Asia-Pacific region. Coopers are assuming a modest recession, ongoing inflation and rising interest rates. They expect consolidated revenues up 6% to 8% organically but some elevated OpEx taking EPS lower as they build out capacity for future growth and upgrading IT systems.

Vinci

Vinci is performing well across all its business lines. Revenue for the first nine months was up 26% with international revenue up almost 50%, now accounting for more than half of the total. Vinci operates concessions businesses in toll roads (Vinci Autoroutes), airports (Vinci Airports) , other concessions (Vinci Highways, Vinci Railways and Vinci Stadium) which all benefited from post COVID opening. VINCI Energies (creates bespoke multi-technical solutions and services for energy, transport and communication infrastructure, as well as buildings, factories and IT systems) , Cobra IS (a recent acquisition which delivers large energy EPC (Engineering, Procurement and Construction) projects especially on the Iberian Peninsula and Latin America) and VINCI Construction (builds civil engineering structures worldwide eg hospitals, roads etc) all reported firm business and order intake momentum with over €40 billion in the first nine months of the year. Overall, the order book at 30 September 2022 remained at a historically high level of over €57 billion. This represents a year-on-year increase of 26% and 15 months of average business activity. As a result, the Group has good visibility, allowing it to continue being selective in terms of new projects and ensuring good return on investment. International business made up 68% of the order book at the end of the period. VINCI Autoroutes’ traffic levels remained buoyant in the third quarter of 2022 despite higher fuel prices. In the first nine months of 2022, traffic levels rose and compared with 2021, they were up over 9%. Growth in VINCI Airports passenger numbers continued to accelerate in the third quarter at almost all of the network’s airports. Momentum was particularly strong in Europe, South America, and the Caribbean. Passenger numbers returned to levels equal to or higher than those achieved in 2019 at several airports, particularly in Portugal, Serbia, and the Americas. In Asia, meanwhile, passenger growth remained weaker because of the travel restrictions that remained in place at the end of September in several countries in the region. Excluding Asian airports (Japan and Cambodia), they were 81% of their 2019 level (89% in the third quarter). Vinci acquired a 29.99% stake in OMA (Grupo Aeroportuario del Centro Norte) in Mexico, which holds concessions for 13 airports in Northern and Central Mexico that together handled 23 million passengers in 2019, including the airport of Monterrey, the key manufacturing hub. Other concessions (VINCI Highways, VINCI Railways and VINCI Stadium were up 64% relative to 2021, up over 50% relative to 2019. Examples of concessions include, Lima Expresa and Gefyra (Rion–Antirion bridge in Greece) , Strait Crossing Development Inc. (which holds the concession for the Confederation Bridge in Canada) and TollPlus (which specialises in motorway toll management systems and other software solutions for the mobility industry). VINCI Energies’ revenue accelerated in the third quarter of 2022 both in France and abroad. Order intake remained robust, driven by buoyant markets in energy and digital transitions, but also by VINCI Energies’ diversity in terms of geographical exposure and expertise. Acquisitions also had a positive impact: 22 acquisitions were completed in the first nine months of 2022, all in Europe except one in Canada.

Revenue at Cobra IS, which operates almost exclusively outside France, 46% coming from Spain and 35% from Latin America, was buoyed by good momentum in EPC projects such as power transmission lines in Brazil.

Order intake in the first nine months of 2022 amounted to €6.5 billion. The order book amounted to €11.2 billion at end-September 2022, representing more than 24 months of average business activity. VINCI Construction has seen growth accelerate driven particularly by VINCI Construction's international exposure. Revenue was driven by the ramp-up of large contracts obtained in recent years, including two works packages on the HS2 high-speed rail line in the United Kingdom, motorway and rail projects in North America, Australia and New Zealand, and preparatory work on the Fehmarnbelt Fixed Link between Germany and Denmark.
Based on its solid performance in the first nine months of 2022, VINCI confirms that it expects full-year net income to be higher than the 2019 figure.

Despite geopolitical, economic, and pandemic-related uncertainty, VINCI remains well placed to maintain consistent growth over the long term. The Group is well equipped to achieve this due to the diversity of its business activities and geographical locations. In addition, as a provider of services to the energy, construction, and mobility industries, it is positioned to take full advantage of new opportunities arising from the need to ensure that growth is sustainable and environmentally friendly. We also saw the closing of the Clean H2 Infra Fund, the world's first low-carbon hydrogen fund, in which VINCI is an anchor investor. This investment forms part of the Group's efforts to gain a presence across the whole hydrogen value chain by developing solutions that help decarbonise mobility on its transport assets and initiatives such as the creation of Hyfinity, a business unit dedicated to low-carbon hydrogen EPC projects.

Aena

Aena achieved a net profit of €500 million between January and September 2022, an improvement of 500% in the result compared to the same period of 2021. Operating cash flow increased to €1.56 billion, compared to €20 million in the same period of 2021. The number of passengers in the first nine months of the year increased by 141% in Spain, reaching 184 million, which is equivalent to a recovery of 86% of the traffic in the same period of 2019, before the pandemic. The increase is widespread across all airports and in all types of traffic; domestic traffic rose by 73% while international traffic increased by 200%. Across the group (including Luton Airport and South American airports), travel recovered to 86% of the traffic in 2019.

The increase in traffic has resulted in an increase in aeronautical revenue, which grew by 111%, while commercial revenue fell by 5%, although it would have returned to pre-pandemic levels without DF7 adjustments. The Minimum Annual Guaranteed Rents (MAG) for the rents charged by Aena remain affected by the application of the Seventh Final Provision (DF7) of Act 13/2021, which modified the lease agreements or the assignment of business premises for food and beverage and retail activities at the airports that were in force on 14 March 2020 or previously tendered. An adjustment is made above MAG until traffic returns to pre-pandemic levels. Only the speciality shops are below pre-pandemic levels as a number of these did not survive the pandemic. Operating expenses (Supplies, Staff Costs and Other Operating Expenses) from January to September 2022 amounted to €1.57 billion, which is an increase of 42% compared to the same period of 2021. This increase mainly reflects the rise in the price of electricity at network airports. Aena is expanding its presence in Brazil, where it believes it can replicate the success it's had in Spain. It added another airport concession during August and will handle 20% of the air traffic in Brazil (about 40m passengers, across 17 airports). Aena has a Sustainability strategy with a real commitment to the development of renewable energy sources, which will increase energy efficiency by optimising resources. A fundamental part of this strategy is the Climate Action Plan, which includes the Photovoltaic Plan with which Aena will achieve 100% of the energy supply for its airport network from its own photovoltaic plants.

Safran

Safran makes aeroengines for narrow body planes. It reported Q3 sales which benefitted from a strong air traffic summer season, pre-buying of CFM56 engine spare parts as well as increased LEAP engines deliveries. LEAP is the next generation, more fuel-efficient engine. Safran makes the majority of its revenue from servicing and parts and thus needs planes to fly. The global narrowbody improved throughout 2022 in all geographies except China. In the first nine months of 2022, narrowbody Available Seat Kilometres (ASK) were at 81% (on average) of 2019, with Q3 2022 at 86% of Q3 2019. ASK is a measure of an airline's carrying capacity to generate revenue, taken from multiplying the available seats on any given aircraft by the number of kilometres flown on a given flight. As China opens up, ASK should improve further. China is 18% of second generation CFM56 fleet in service and at 36% ASK of 2019 levels (APAC ex China at 77%). Revenue in the company's third quarter rose 30% including positive currency benefit (positive translation impact of USD revenues). Safran has three main divisions. Propulsion, saw a 26% revenue increase, largely due to the strong civil aftermarket which rose 36% and sale of higher level of spare parts for CFM56 ahead of the annual catalogue list price increases. LEAP deliveries increased sequentially by 54% from 226 units in Q2 2022 to 347 in Q3 2022 albeit still below airframers demand. A positive development for the longer term, was COMAC (the China state owned aircraft manufacturer) obtaining the Type Certificate (essentially qualifies it as air worthy) from the Civil Aviation Administration of China (CAAC) for its C919 aircraft. The first operational airframe intended for commercial service was delivered to launch customer China Eastern Airlines on 9 December 2022 in Shanghai. Safran will provide the LEAP engine for C919 aircraft. The second division is Equipment and Defense, which rose over 7% in the quarter driven by solid aftermarket services, especially in landing gear MRO (maintenance, repair, overhaul) contracts. Philippine Airlines has selected Safran through 2024 for 8 A330 and through 2025 for 20 A320 and A320 contracts and Cebu Pacific Air selected Safran for 14 A320 for the next 3 years. Safran has entered into exclusive negotiations with Thales to acquire its electrical systems activities expanding further expertise in the area of power generation and electric motors in the commercial and military aerospace sector.

The third division is Aircraft Interiors, where revenue rose over 22% driven by a strong OE (Original Equipment) Cabin activity (toilets and galleys for A320) as well as services. Over the quarter, an Asian airline (its common in this division not to identify the airline) selected economy class seats for 52 737MAX and a European airline selected economy class seats for 100 737MAX. A Middle East airline signed a retrofit contract for business class seats for 67 A380. It's interesting that airlines are requesting lower business class seats volumes.

Safran raised its revenue and free cash flow full-year outlook to reflect solid growth in services and new currency assumptions (its locking in favourable FX rates for hedging purposes).

Moving to the top 5 detractors:

Amazon

The continuing impacts of broad-scale inflation, heightened fuel prices and rising energy costs impacted Amazon's sales growth as consumers assessed their purchasing power and organisations of all sizes evaluate their technology and advertising spend. Amazon signalled that its business was rebounding, but also cautioned that growth would be weak, possibly falling to its lowest level since 2001. For its third quarter, worldwide net sales were $127 billion, representing an increase of 19% year over year excluding FX. The dollar continued to strengthen during the quarter, meaning the foreign exchange impact was higher than forecast.

A positive was the worldwide stores business saw accelerated sales growth in the quarter albeit not as high as expected. The company offers the widest selection ever with increasing improvement in delivery speeds. The focus has been on the fact the company overbuilt in anticipation of an extended pandemic-fuelled boom in e-commerce. Amazon has curtailed plans to open more warehouses and worked to improve the efficiency of its fulfilment operations, and it's imposed a hiring freeze for corporate and technology roles for its retail division. Third party sellers now represent 58% of total paid units sold, the highest percentage ever. Most are small and medium sized businesses and Amazon is focussing on their offering. The company hosted Amazon Accelerate, a US conference for selling partners, where they introduced new tools including analytics to help sellers understand and act on conversion-driving content and shipping software that offers discounted shipping rates. The company celebrated its eighth Prime Day in July, which contributed approximately 400 basis points to Q3 year on year sales growth rate. It was the biggest Prime Day net sales event in the company's history with 300 million items sold worldwide. Driving Prime membership is media content. The Lord of the Rings: The Rings of Power attracted more than 25 million global viewers on its first day and NFL Thursday Night Football also premiered in September, averaging more than 15 million viewers during its first broadcast, and driving the three biggest hours of U.S. Prime sign-ups in the history of Amazon. Amazon saw good growth in their advertising offerings where sales grew 30% year over year, excluding the impact of foreign exchange.

In AWS, its cloud business, net sales rose 28% year over year, excluding the impact of foreign exchange, and now represents an annualised sales run rate of $82 billion. This again was lower than anticipated and the company did report that given the ongoing macroeconomic uncertainties, they have seen an uptick in AWS customers focused on controlling costs. One of the real valuable points about cloud computing is that it's turning fixed cost into variable for many customers e.g. they have the option move storage to lower-priced tier options and shift workloads to Graviton chips (designed by Amazon) that have higher cost performance ratios. One of the key opex costs with data centres is electricity both to power and cool the systems, so chips with higher cost performance ratios offer true value add. Within AWS the current backlog balance for Q3 is $104 billion, up almost 60% on last year.

The negative impact has really come from forward guidance. Historically we have seen Amazon downgrade earnings expectations, but this is the first time in many years that they've downgraded revenue expectations. The fourth quarter outlook is specifically prevalent given that it includes big spending days in the US, such as Black Friday, Cyber Monday, and Christmas. Amazon cited slowing consumer trends particularly in the US and Europe and a lack of holiday season visibility. US consumer spending has remained relatively resilient during 2022 as households continued to draw on excess savings accumulated during the pandemic. Post COVID pent up demand has been driving a spending cycle focused on travel, leisure, occasion-based spending (for example weddings), beauty, entertainment and more. Recent data points however suggest a softening in some of these trends with consumer wallets facing more constraints. This led to a vague Q4 guidance, which estimates that sales might slow to as low as 2 percent in the current quarter and operating income at between $0 and $4 billion compared to $3.5 billion in Q4 2021. There is plenty of room to surprise on the upside.

Meta Platforms Inc.
Meta reported third-quarter results that fell far short of earnings estimates and offered a revenue outlook that missed the mark. The healthcare and travel verticals were the largest positive contributors to growth in Q3. However, this was offset by continued softness in other verticals, including online commerce, gaming, financial services, and CPG (consumer packaged goods). On an advertiser size basis, revenue growth from large advertisers remains challenged while the company has seen more resilience amongst smaller advertisers. Foreign currency was a significant headwind to advertising revenue growth in all international regions.

The challenges facing Meta are well known. A volatile macroeconomy, increasing the competition from the likes of TikTok and, ads signal loss, and growing costs from their long-term investments, especially the metaverse. More recently there has been speculation about engagement on Meta apps but numbers are still strong. On Facebook specifically, the number of people using the service each day is the highest it's ever been at nearly 2 billion. Instagram has more than 2 billion monthly actives and WhatsApp has more than 2 billion daily actives, with North America now the fastest growing region. Across the family of apps some may be saturated in some countries or some demographics, but overall apps continue to grow from a large base. Overall, the company now reaches more than 3.7 billion people monthly across the family of apps (up from 3.6bn).

In 2023, Meta is going to focus investments on a small number of high priority growth areas. So that means some teams will grow meaningfully, but most other teams will stay flat or shrink over the next year. In aggregate, the company expects to end 2023 at either roughly the same size, or even a slightly smaller organisation than it is today. The primary areas of focus are the AI discovery engine that's powering Reels and other recommendation experiences, ads and business messaging platforms, and, maybe most controversial, Meta's future vision for the metaverse.

The current surge in capex is largely due to building out the AI infrastructure and capex should come down as a percent of revenue over the long term. Reality Labs (metaverse) expenses will increase meaningfully in 2023, with the biggest drivers of that being the launch of the next generation of the Quest headset and hiring that's been done in 2022 but for which first full year of salaries will be paid in 2023. More broadly, beyond 2023, Reality Labs investments will be pegged to ensure meeting the goal of growing overall company operating income. Capital allocation philosophy over the long term is to allocate a portion of the profits generated from the Family of Apps business towards these three focused areas while enabling greater return of capital to shareholders.

AI discovery engine is playing an increasingly important role across products in enabling recommendations not solely driven by an individual's social map (people they follow). This includes Reels, where there are now more than 140 billion Reels plays across Facebook and Instagram each day. That's a 50% increase from six months ago. The discovery engine work will enable recommendations of all types of content beyond Reels, including photos, text, links, communities, and short and long-form videos. Second Meta will mix this content alongside posts from family and friends, which can't be generated by AI alone. Third, as more social interactions move to messaging, Meta is developing a flywheel between discovery and messaging that is going to make these apps stronger. On Instagram alone, people already reshare Reels 1 billion times a day through DMs. Of course, the big question is how this is monetised. As Reels grows, Meta is displacing revenue from higher-monetizing surfaces. They are essentially choosing to take a $500 + million quarterly revenue headwinds with this shift. Meta expects to get to a more neutral place over the next 12-18 months. The combined run rate across Instagram and Facebook for Reels is now $3 billion p.a. Messaging is another major monetisation opportunity. Billions of people and millions of businesses use WhatsApp and Messenger every day. Meta started with Click-to-Messaging ads, which let businesses run ads on Facebook and Instagram that start a thread on Messenger, WhatsApp or Instagram Direct so they can communicate with customers directly. This is one of the company's fastest growing ads products, with a $9 billion annual run rate. This revenue is mostly on Click-to-Messenger today but Click-to-WhatsApp just passed a $1.5 billion run rate, growing more than 80% year-over-year. Paid messaging is another opportunity, and it continues to grow quickly but from a smaller base. Meta is putting the foundation in place now to scale this with key partnerships like Salesforce, which lets all businesses on their platform use WhatsApp as the main messaging service to answer customer questions, send updates, and sell directly in chat. They also launched JioMart on WhatsApp in India, it's first end-to-end shopping experience that shows the potential for chat-based commerce through messaging.

Turning to the metaverse, Meta announced Quest Pro, a new high-end VR headset that delivers high-resolution mixed reality so you can blend virtual objects into the physical environment around you. Work in the metaverse is a big theme for Quest Pro. There are 200 million people who get new PCs every year, mostly for work. The goal for the Quest Pro line over the next several years is to enable more of these people to get their work done in virtual and mixed reality. To enable this, Meta have announced partnerships with Microsoft bringing their suite of productivity and enterprise management services to Quest, Adobe and Autodesk bringing their creative tools, Zoom bringing their communication platform, Accenture building solutions for enterprises. Reality Labs operating loss was $3.7 billion (it spent $4bn and revenue was only $300m). The company expects fourth-quarter revenue to be in the range of $30 billion to $32.5 billion. The midpoint of $31.25 billion compares with analyst estimates of $32.3 billion, hence the stock weakness.

Alphabet

Alphabet's growth and profit margins took a big hit. Specifically, Alphabet's revenue grew just 6% year-over-year in the last quarter (compared to 13% the previous quarter) and operating margins were 25% (compared to 28% three months prior). Advertising revenue was $54.5bn in the third quarter, compared with $53.1bn the previous year, but came in below analysts' expectations. Despite being seen as one of the most insulated companies in the advertising space relative to peers, Google's poor quarter is the latest sign that worsening fundamentals and a tough macroeconomic environment are prompting advertisers to cut back on spending. Online ad market was slowing as advertisers slashed budgets. Alphabet said that they had seen less ad spending for insurance, loans, mortgages and crypto, as well as fewer gaming ads. That coincided with a decline in gaming since the height of the pandemic. There was some concern that Google has a new competitor on its hands with the explosion in popularity of OpenAI's ChatGPT. And the advertising industry, through which Google monetizes its core internet search business, has slowed significantly due to global macroeconomic problems. Alphabet is sharpening its focus on a clear set of product and business priorities and made several shifts away from lower priority efforts to fuel higher growth priorities. These include significant improvement to Search powered by AI, new ways to monetise YouTube Shorts (which competes with TikTok), and a strong series of hardware launches. They see AI as another transformational technology in the same way the shift to mobile computing was transformational. The aim is for AI advances to deliver a more natural and intuitive search experience. These advancements will soon help to surface things you might find helpful before you even finish typing. People now use Google Lens to answer more than 8 billion questions every month using just a photo or an image. Currently the company is working on visual search capabilities to help people find what they are looking for at businesses nearby. Google Lens also has a translation feature. It can now blend translated text seamlessly into the background of images, like menus or street signs in just 100 milliseconds. DeepMind also debuted its most helpful and safest language model yet. Sparrow can talk to users, answer questions, and provide evidence-based answers using Google Search. A second focus is improving the monetization of You Tube Shorts. This is a big deal for creators as Alphabet look to introduce revenue sharing on Shorts. This update makes YouTube the only platform where creators can monetise their content across short, long, and live formats at scale. Shorts continues to show great user momentum. Alphabet are seeing mobile-first creators investing more in the platform, creating content that helps the broader community grow. Nielsen reported that YouTube was the leader in streaming TV viewership in the U.S. in September for the first time. Thirdly hardware, Alphabet introduced the Pixel 7, the Pixel 7 Pro and the very first Pixel Watch. Pixel Tablet is coming in 2023. Pixel combines technologies, AI, Android and Google Tensor G2 processor to bring state-of-the-art AI directly to the device. The Pixel 7 and Pixel 7 Pro offer industry-leading photography features that can unblur or sharpen photos and shoot cinema-quality videos. Android 13 offers new personalisation features, improved privacy controls. A fast-growing business for Alphabet has been Google Cloud. There was continued momentum with Q3 revenue of $6.9 billion. The long-term trends that are driving cloud adoption continue to play an even stronger role during uncertain macroeconomic times. Cloud helps customers solve today's business challenges, improve productivity, reduce costs, and unlock new growth engines. Alphabet held a live event, Cloud Next, at which it unveiled more than 100 new products and announced new and expanding relationships with Toyota, Prudential plc, Coinbase and AppLovin. The shift to hybrid work continues with organisations evolving to support an increasingly distributed workforce. Google Workspace is now used by more than 8 million businesses and organisations worldwide. That includes Korean Air, as well as the U.S. Army, which is transitioning 250,000 personnel to a secure communication and collaboration platform. Empowering a distributed workforce brings an increased need for cybersecurity to keep workers' data and critical business systems safe and secure. In September, Alphabet closed its acquisition of Mandiant, which will add industry-leading threat intelligence and incident response capabilities to help customers stay protected at every stage of the security life cycle. Within the Other Bets business, Waymo announced that Los Angeles will be its third ride-hailing city, joining Phoenix and San Francisco.

CVS Health

CVS Health has been a net contributor over 2022 and there were no real concerns over Q3. CVS encompasses a large swath of health care services, including its prescription and over-the-counter medicine sales, its MinuteClinic patient care services and its pharmacy benefits manager, CVS Caremark. The company also owns Aetna, a managed health insurance company. Shares were a little weaker over the quarter in CVS, but the company delivered another outstanding quarter and raised earnings per share guidance for the third consecutive time. CVS did report a quarterly loss of more than $3 billion to cover its share of a global opioid settlement, but its third-quarter earnings significantly beat Wall Street estimates.

In October, CVS began a mediation to resolve substantially all opioid lawsuits and claims against CVS Health by state, political subdivisions, and tribes. They reached an agreement in principle to pay approximately $5 billion over 10 years beginning in 2023, an outcome that is in the best interest of all parties and one that will help put a decade-old issue behind the company. CVS' Health Care Benefits segment grew nearly 10% compared to the same period a year ago. Medical membership reached 24.3 million, an increase of 590,000 members compared with a year ago, reflecting increases in Medicare and Commercial membership. Pharmacy services revenue also rose by 10% compared to a year ago driven by increased pharmacy claims volume, growth in specialty pharmacy and brand inflation. The company's retail and long-term care segment saw revenue increase nearly 7%, primarily driven by increased prescription and front store volume including the sale of COVID-19 over-the-counter test kits, as well as pharmacy drug mix and brand inflation. But profits in that segment dropped with lower demand for COVID-19 diagnostic testing and vaccinations. CVS has been shifting its focus to value-based healthcare. It bought at-home health care company, Signify Health for $8 billion in September and that deal should complete by mid-2023. Signify is a value-based, tech-enabled care provider that leverages at-home health risk assessments. It has more than 10,000 clinicians under its nationwide umbrella. Very little of a person’s total medical care over the course of their lifetime happens in the doctor’s office. CVS is continually evaluating its portfolio of assets for nonstrategic areas that do not fit long-term priorities. In October, they reached an agreement to sell Bswift (a provider of software and services that streamline benefits and human resources administration) and are actively exploring strategic alternatives for Omnicare. Proceeds will be used for further acquisitions in health care services.

Catalent

Catalent is a contract drug development manufacturing organisation with a balanced portfolio of offerings that closely matches the overall pharmaceutical and consumer health industry's R&D pipeline, which includes a growing number of innovative small molecules that are complex to formulate or require specialised handling. Working at 50 global sites, it supplies more than 70 billion doses of products to more than 1,000 customers each year.

The company strategically reinvested the COVID- related returns it received from producing vaccines over the last two years, in order to position for future growth. The company now has the right assets in place to drive future earnings growth. Catalent is expected to soon close its $475 million purchase of Metrics Contract Services, a specialty contract development and manufacturing organization. The deal, announced in August, is expected to help Catalent meet customers' demands while growing the company's ability to handle highly potent compounds. There is an increasing number of potent compounds in the oral solids market, particularly in the oral oncology pipeline. Shares fell last quarter after its fiscal 2023 first-quarter earnings report. Revenue was more or less flat at just over $1bn compared to a year earlier, but earnings took a big hit, falling to zero in earnings per share (EPS) compared to $0.49 in Q1 a year earlier.

The company operates in two segments, Biologics and Pharma and Consumer Health. The company said that macroeconomic conditions explained the earnings drop. The conditions affecting the consumer health business include inflation, impacting consumer confidence and discretionary spending, which has impacted lower end market demand for nutritional supplements. The company has also suffered shortages of key components at their European suppliers. Within Biologics, the company reported signs of cash-sensitive decisions by some of its customers, in relation to inventory levels for finished goods or prioritisation of their candidates as they progress through the pipeline. It said it now expected revenue to be between $4.6 billion and $4.9 billion instead of between $5 billion and $5.2 billion. It also lowered earnings and net income with the latter indicated at $608m at the midpoint as opposed to the earlier forecast of $695m and said it would reign in spending on acquisitions as it is ahead of where it needs to be in terms of capacity. Whilst it's understandable in volatile markets, that investors focus on the short-term impact, the non-Covid businesses are growing close to 25% p.a.

A positive development over the quarter, was the FDA clearance of both Form 483 observations related to the company's Belgium and Bloomington facilities, removing a key overhang on shares. An FDA 483 observation, or "inspectional observation," is a notice sent by the FDA to highlight any potential regulatory violations found during a routine inspection. This can relate to the company's facility, equipment, processes, controls, products, employee practices, or records.

It is not uncommon for the FDA to issue such observations. In 2022 alone, Catalent facilities were subject to 715 inspections, including more than 50 from the FDA and other global drug regulators, as well as hundreds of customer audits. That said, it has been an overhang on the company as Catalent looks to focus on drug approvals within gene therapy. On that note, at the end of the year, the FDA has granted priority review for SRP-9001 gene therapy co-developed by Sarepta Therapeutics to manufacture what looks to become the first gene therapy to treat Duchenne muscular dystrophy (DMD). Patients with DMD have a mutation in the DMD gene and are unable to produce the protein on their own, leading to a progressive loss of muscle strength.

3. Current Positioning

Top 10 Portfolio Holdings

Holding	Sector	Country	Portfolio %
Alphabet	Communication Services	United States	5.8
Microsoft	Information Technology	United States	5.6
Mastercard	Information Technology	United States	5.6
Canadian Pacific Railway	Industrials	Canada	5.5
Safran	Industrials	France	4.8
Vinci	Industrials	France	4.6
Unilever PLC	Consumer Staples	United Kingdom	4.4
Charter Communications	Communication Services	United States	4.3
Fiserv	Information Technology	United States	4.1
Amazon.com	Consumer Discretionary	United States	3.6
Total			48.3

Source: Veritas Asset Management

Portfolio Breakdown

Region	Portfolio %
North America	65.4
Europe ex UK	16.3
United Kingdom	7.7
Asia Pacific ex Japan	2.4
Cash and equivalents	8.3
Total	100.0

Sector	Portfolio %
Health Care	27.0
Industrials	25.0
Information Technology	15.3
Communication Services	11.8
Financials	4.5
Consumer Staples	4.4
Consumer Discretionary	3.6
Cash and equivalents	8.3
Total	100.0

Currency	Portfolio %
USD	73.7
EUR	20.7
GBP	3.3
AUD	2.4
CAD	0.0
Total	100.0

Source: Veritas Asset Management

4. Responsible Investment

SBT Engagement Initiative 2022

Veritas has joined the Net Zero Asset Managers ("NZAM") Initiative and committed 100% of AUM to achieve Net Zero by 2050[1].

Veritas joined the Net Zero Asset Managers ("NZAM") initiative in Oct 2021 and has committed 100% of AUM to achieve Net Zero by 2050. We are also a signatory of the Science Based Target initiative ("SBTi"), as we believe any targets set by companies should be independently verified. We have made several commitments to support the climate transition. One of these is setting an interim target within 1 year of joining NZAM, that is consistent with the SBTi methodology. The target ensures that any engagement with companies is meaningful and measurable. The initial NZAM target is an interim target for 2030 that was submitted in Oct 2022. We engaged the Carbon Trust to help calculate the implied temperature of all portfolios, which enabled us to calculate our pathway to Net Zero. Carbon Trust is a respected adviser to organisations and governments on climate transition pathways, and they use an SBTI approved methodology. In the model used to calculate the Net Zero pathway, Carbon Trust only recognises SBTi verified targets. Any companies that have proposed targets or are committed to SBTi but are awaiting verification, or have not set targets, are assigned a default implied temperature rate (ITR) of 3.2°C. For example, Aena SME is "committed" to SBTi, but the Carbon Trust still assigns the business an ITR of 3.2°C. Unilever has a 1.5°C target that is verified by the SBTi, meaning in the model the business it is assigned an ITR of 1.5°C. A weighted average temperature is calculated across all portfolios.

Our aim is lower the overall temperature of all Funds that we manage by encouraging companies to have their decarbonisation targets verified by the SBTi. With this in mind, during 2022, Veritas reviewed all investee companies to identify shortfalls in their Net Zero transition strategies. The review was aligned with the four pillars of the Task Force on Climate-related Financial Disclosures ("TCFD"). Ideally, all transition strategies should incorporate science-based targets aligned with a 1.5°C warming scenario that encompass the entire value chain and have received verification by an independent body like the SBTi. We identified 19 companies across our Global Funds with transition strategies inconsistent with the ideal scenario outlined above. Each company was categorised under one of the three buckets listed below.

- Companies that do not have SBTs
- Companies with SBTs that have not received independent verification
- Companies that have SBTs misaligned with 1.5°C temperature pathway

Letters that outlined our concerns were sent to 19 companies, from which we received responses from 13. Some companies addressed the issues raised and offered an acceptable solution over a specific timeframe, enabling ongoing dialogue and monitoring. In other instances, we only received confirmation that the letter had been received. Together with those companies that have not responded, these companies will be subject to an escalation in engagement. In a few cases, there is a valid reason for the company not to commit to science-based targets at this point in time. However, in the majority of cases, we will use both voting and engagement to encourage management to make commitments and thus lower the overall ITR of the business.

[1]Excludes cash and investments in money market funds. For further information on sustainability related aspects please visit https://www.vamllp.com/sustainability/

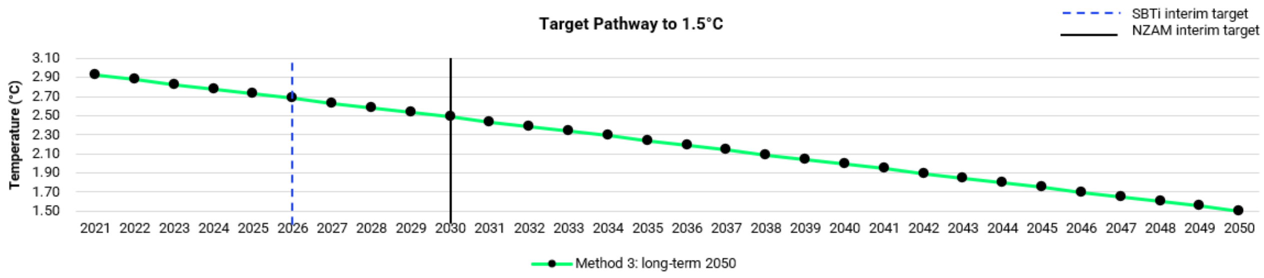
Positive responses

Safran S.A.
Company has committed to 1.5°C and began SBTi verification.

Alphabet Inc.
Company has submitted targets to SBTi for verification.

Canadian Pacific Railway
Recognise the standard has changed from Well-below 2°C to 1.5°C; work is underway to determine increase the ambition of targets.

Net Zero Pathway - Scope 1,2&3 target trajectory 1.5DS



Target setting	Long-term target 2050
Baseline Year (t1)	2021
Longer-term target	**2050**
Interim Target (NZAMI)	**2030**
Interim Target (SBTi)	**2026**
Current Temp Scoring S1&2	2.93
Target Temp Scoring S1&2	**1.50**
Δ Temp reduction t1 + n	0.05

Interim Target	Year	Long-term target 2050
The Net Zero Asset Managers	2030	NZAMI interim target is 2030 so time frame is 9 years so [2.93°C - (9 x 0.05)] = **2.48°C temperature score by 2030**
Science-based target	2026	SBTi interim target is 2026 so time frame is 5 years so [2.93°C - (5 x 0.05)] = **2.68°C temperature score by 2026**

Base year temperature includes 100% of financed emissions for VAM LLP as at 31.12.21

Source: Carbon Trust. Data as at 31 December 2022. For further information on sustainability related aspects please visit https://www.vamllp.com/sustainability/

For more information on proxy voting and the portfolio's carbon analysis please feel welcome to contact us.

Disclaimer

This is a marketing communication Please refer to the prospectus, the key investor information documents (the **KIIDs/ PIIPS KIDs**) and the financial statements of Nedgroup Investments Funds plc (the **Fund**) before making any final investment decisions.

These documents are available from Nedgroup Investments (IOM) Ltd (the **Investment Manager**) or via the website: www.nedgroupinvestments.com.

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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.

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FEES

A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

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