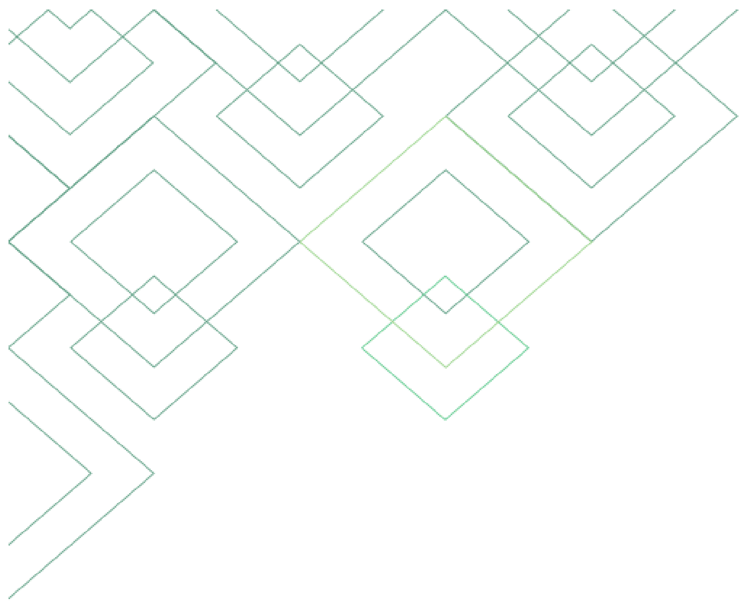

see money differently

Nedgroup Investments Global Behavioural Fund

Quarter One, 2023

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]	6.46	15.17	-10.40	11.41
Performance Indicator*	7.31	17.78	-7.44	15.37

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

Performance overview

The Fund holds a large number of stocks with small position sizes, this means that individual stock contribution, even from our "top picks", can be quite modest. However, we maintain a strong strike rate (we estimate around 60/40) which means we end up with lots of modestly performing good ideas spread across the portfolio.

From a performance perspective, the Fund's Rest-of-World bucket, Japan, and Europe contributed positively during the first quarter, whilst North America detracted. The biggest sector winners were Communication Services and Health Care on the back of decent stock selection. The biggest detractors were Information Technology and Industrials, the drag on performance being a combination of stock selection and asset allocation. The portfolio's structural underweight to mega-caps acted as a headwind this quarter, with benchmark mega-caps outperforming other market cap brackets. Growth stocks outperformed Value stocks over the three months.

Key performance contributors

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Key contributors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**
Sea Ltd	0,66	0,05	61,68	31
Meta Platforms	0,90	0,79	72,30	31
Kia	0,95	0,03	29,61	27
Airbnb	0,86	0,08	40,48	16
ANSYS	0,66	0,05	34,02	16
STMicroelectronics	0,51	0,06	47,11	14
MercadoLibre	0,66	0,10	49,91	14
Workday	0,93	0,07	19,60	12
Netflix	1,00	0,26	13,98	12
Taiwan Semiconductor	1,23	0,72	16,86	11

Key performance detractors

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Key detractors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**
NVIDIA	0,61	1,14	1,30	-53
Apple	1,77	4,37	23,51	-51
Zions Bancorporation	0,53	0,00	-42,25	-20
Capitec Bank	1,02	0,01	-15,18	-14
PNC Financial	0,83	0,09	-21,89	-13
Norfolk Southern Corporation	0,00	0,08	-19,82	-13
Cullen/Frost Bankers	0,56	0,00	-23,62	-12
Box	0,00	0,00	-20,67	-10
East West Bancorp	0,52	0,00	-18,41	-9
Abbott Laboratories	0,00	0,29	-12,47	-9

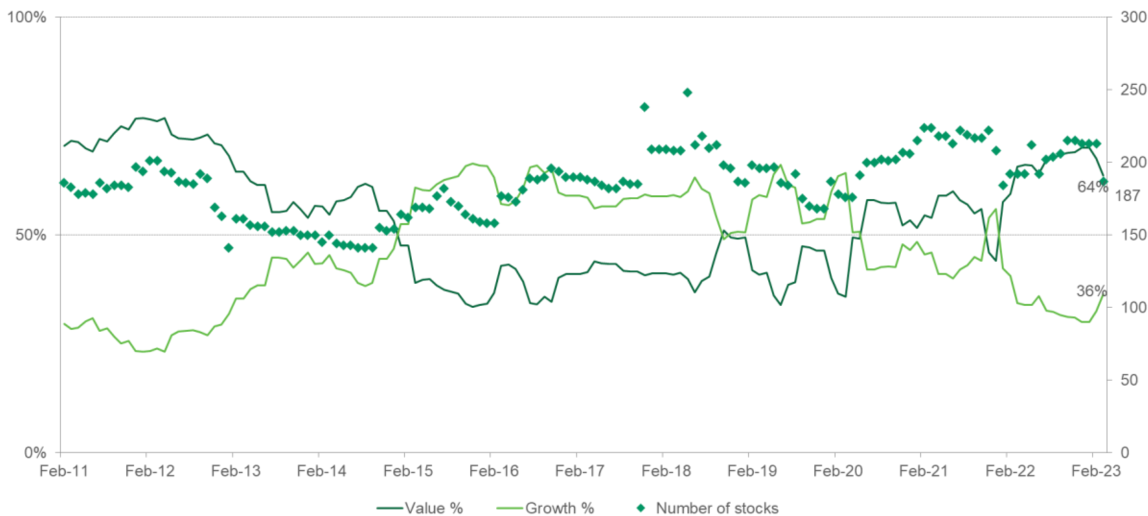
*Period end weights are shown

**Excess return is the out / underperformance of the portfolio (NAV basis) relative to the benchmark for the identified period

Source: Ardevora, Factset.

Portfolio positioning

Growth vs. Value



Source: Ardevora, Factset.

January overview

Investor sentiment became very gloomy at the end of the third quarter of 2022. After earlier interest rate rises, anxiety had shifted to the threat of an impending recession. Analysts usually struggle with the onset of recession. Forecast cuts become more common, as CEOs begin to react to softening demand and blame their plan misses on “macro” factors. Surprises become increasingly rare.

However, once the prospect of recession becomes accepted, investor sentiment tends to decouple from the path of surprise and disappointment. Despite building disappointments during Q4, stocks have generally rallied. In January the rally became particularly vigorous. Investors appear increasingly willing to look across the valley of recession, for the prospect of recovery.

End-of-year strategy pieces suggest a mild recession is consensus. Inflation is expected to peak and decline to 3-4% by the end of the year in the US, to 5-6% in Europe. Interest rates are expected to peak in the first quarter of 2023 and decline, as evidence of a recession builds. Bonds are expected to be the best investment for 2023. Not much is expected from stocks.

CEO behaviour, except for the tech sector, remains conservative. CEOs generally strike conservative plans when they clearly see the prospect of a recession. Most businesses continue to struggle with cost inflation, shifting CEO’s attention to efficiency rather than growth.

Four months into the recovery rally, investors will probably need some more cause to be hopeful on the arrival of a recovery. Either the tide of disappointment needs to turn soon, or Central Banks and Governments need to be concerned more about economic growth (such as avoiding a recession) than inflation. This feels precarious to us.

The merry-go-round of macro continues. Recession risk is immediate, inflation is still well above targets. Policy responses to the tension between the two are likely to dominate investor sentiment. Beneath this, however, are some interesting structural trends. We believe COVID’s effects will be long-lasting. Attitudes have changed, priorities have shifted, both in consumption and work. The more we reflect on 2020, the more it looks like a strange boom, rather than a recession. However, while the inflation-recession battle continues, CEO reactions to these structural changes will tend to be less impactful and analyst errors less predictable

February overview

It is getting harder for CEOs to hit their plans, but this comes after an exceptionally easy couple of post-COVID recovery years. Despite all the talk of recession, the number of stocks missing forecasts is still close to long-term averages and does not look like a global economy teetering into a recession. Most of the stocks currently disappointing are either those buffeted by the frequent unpredictable short-term swings in commodity prices, or those coping with an uneven path to "normal" following the exceptional growth conditions from consumer spending shifts forced by COVID.

All the talk of recession does seem to be keeping CEO behaviour in check in most areas. Analysts' forecasts generally appear to be conservative, especially in areas sensitive to the economy. Since October, investors seem to have moved on from recession anxiety, discounted further rises in interest rates, and dreamt of the next recovery. February, like December, looks like a bump in this road.

From a geographical point of view, the Fund's rest-of-World bucket and Europe contributed excess returns in February, whilst Japan detracted. North America was relatively flat. Sector excess contribution to return came from Communication Services and Consumer Discretionary, with the Information Technology and Energy sectors detracting from relative performance.

It feels like we are due a recession, but when? That is far harder to predict. The global economy remains robust in the face of rising interest rates, while inflation stays stubbornly high. But CEOs, in areas where COVID was more of a bust than a boom, remain conservative. Analysts are sceptical, investors less anxious. So, there are stocks out there that can surprise.

March overview

Since October, investors have grown more hopeful in the prospect of a recovery, though the path of anxiety unwind has been bumpy. March was another uncertain month. A market rally at the start of the month quickly stuttered following the collapse of SVB and Signature Bank, the second and third largest bank failures in history. The market fell and fears of spreading economic instability triggered a 'flight to safety'.

Investor anxiety rapidly receded in the second half of the month. Forceful actions by regulators helped to rebuild some confidence. Also, paradoxically, the notion of a weaker financial system and tighter credit conditions seemed to reignite dreams of the next recovery, given hopes this would bring forward a switch in Fed policy. This triggered a risk on rally, and a full recovery of the first half losses.

Despite our structural underweight to some of the mega caps, and preference for more predictable business models that tend to lag in a risk on rally, our performance was broadly in line with the market during the month, with relative performance boosted by good stock selection in Communication Services, and our underweight to Financials.

Many market commentators and analysts are still worried the bank failures in March are early symptoms of building systemic risk in the global financial system. Some draw parallels to the Global Financial Crisis, showing the capacity for past trauma to act as a powerful anchor point for investors. We think the current trauma is very different, and do not see similarities with 2007-2009. Considering the current situation with Banks, we think deposit runs are effectively a zero-sum game. Money flows out of one bank into others, and net-net, liquidity doesn't leave the system.

Despite all the noise over the past month the pattern of analyst forecast errors does not signal the global economy is teetering towards a recession. The number of stocks missing forecasts is still well within normal ranges and has been relatively stable over the past nine months.

While bottom-up evidence of a global recession remains limited, macro uncertainty remains stubbornly high. Market expectations regarding the probability and timing of a possible recession and subsequent recovery continues to oscillate. However, investor anxiety continues to lift, and stocks that surprise are being rewarded, creating plenty of opportunity.

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