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# Nedgroup Investments Contrarian Value Equity Fund

Quarter Two, 2023

## Marketing Communication

## Nedgroup Investments Contrarian Value Equity Fund

*The following commentary was produced by the sub-investment manager, First Pacific Advisors, LP ("FPA").*

| USD performance to 30 June 2023 | Nedgroup Investments Contrarian Value Equity[1] | MSCI ACWI |
|---|---|---|
| 3 months | 8.6% | 6.2% |
| 1-year | 21.0% | 16.5% |
| 3-years (p.a.) | 13.2% | 11.0% |
| Since inception (p.a.) | 7.6% | 7.9% |

*Past performance is not indicative of future performance and does not predict future returns.*
Source: Morningstar

## Overview

The Nedgroup Investments Contrarian Value Equity Fund ("the Fund") gained 8.6% for the quarter and 21.0% for the trailing twelve months. The Fund captured 127.7% of the MSCI ACWI's gain in the trailing twelve months.

Below you can see the Fund's performance along with various relevant indexes.

***Exhibit A:* Net Performance versus Illustrative Indices[2]**

| | Q2 2023 | Trailing 12 months |
|---|---|---|
| Nedgroup Contrarian Value Equity Fund | 8.6% | 21.0% |
| MSCI ACWI | 6.2% | 16.5% |
| MSCI World | 6.8% | 18.5% |
| S&P 500 | 8.7% | 19.6% |

*Past performance is not indicative of future performance and does not predict future returns.*
Source: Morningstar

[1] Source: Morningstar (monthly data series). For illustrative purposes only. Reflects the net USD return for the Nedgroup Investments Contrarian Value Equity Fund, D class.

[2] Comparison to the indices is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

**Past performance is no guarantee, nor is it indicative, of future results.**

## Portfolio discussion

There wasn't a unifying theme that drove performance in the last year. In the previous twelve months, NCVE's top five performers contributed 9.8% to its return, while its bottom five detracted 2.5%.

***Exhibit B:* Trailing Twelve-Month Contributors and Detractors as of 30 June 2023** [3]

| Winners | Performance contribution | Average weight | Losers | Performance contribution | Average weight |
|---|---|---|---|---|---|
| Holcim | 2.9% | 5.1% | International Flavors and Fragrances | -0.9% | 3.0% |
| Meta Platforms | 2.1% | 2.9% | Charter Communications | -0.8% | 2.7% |
| Broadcom | 1.9% | 3.1% | Alibaba & Altaba | -0.3% | 0.6% |
| Analog Devices | 1.6% | 4.8% | Open Text | -0.3% | 0.3% |
| Netflix | 1.3% | 1.2% | Naspers & Prosus | -0.2% | 2.0% |

Source: FPA

Of the contributors and detractors listed, we haven't recently addressed Open Text and Broadcom. We have discussed most of the other positions in the last year.

**Open Text** was a relatively short-lived holding in comparison to our typical time frame. We were attracted to this Canadian-based provider of enterprise software due to its stable revenue stream. More than 80% of Open Text's revenue was recurring, which helped deliver attractive mid-30s EBITDA margins. We considered the business to have a sticky customer base that included 97 of the 100 largest companies in the world. Purchased at a low double-digit multiple to after-tax free cash flow, we expected to own the company for years, with capital deployment going towards dividends, buybacks, and small bolt-on acquisitions, as it had in the past. Unfortunately, to our surprise, while we owned the stock, Open Text announced a relatively large acquisition in the form of UK-based Micro Focus.[4] Familiar with the target, we were unenthused about both the asset and increased debt on the balance sheet from funding the purchase, so we chose to exit stage left rather than try to re-write our investment thesis.

In contrast to our short-lived ownership of Open Text, **Broadcom** has been a holding for just short of five years. At the time of our original purchase, the company was primarily focused on driving organic growth in its existing semiconductor franchises and acquiring new ones when the opportunity presented itself. As potential acquisition candidates in the industry became scarce, management, led by highly regarded Hock Tan, pivoted to set their sights on the software industry, culminating in several acquisitions. Unlike Open Text, in this instance, after multiple discussions with senior management, we found ourselves comfortable with the company's new strategy after re-examining the investment implications. We are glad we did, as it would be an understatement to say that Broadcom has gone from strength to strength over the past five years, improving operating margins, aggressively repurchasing shares, and increasing the dividend, all the while continuing to execute its M&A strategy flawlessly.

[3] Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the trailing twelve months through 30 June 2023. Contribution is presented net of investment management fees, transactions costs, and Fund operating expenses using the fees and expenses of the Fund's D class, which are 0.75%. The information provided does not reflect all positions purchased, sold or recommended by FPA during the period. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

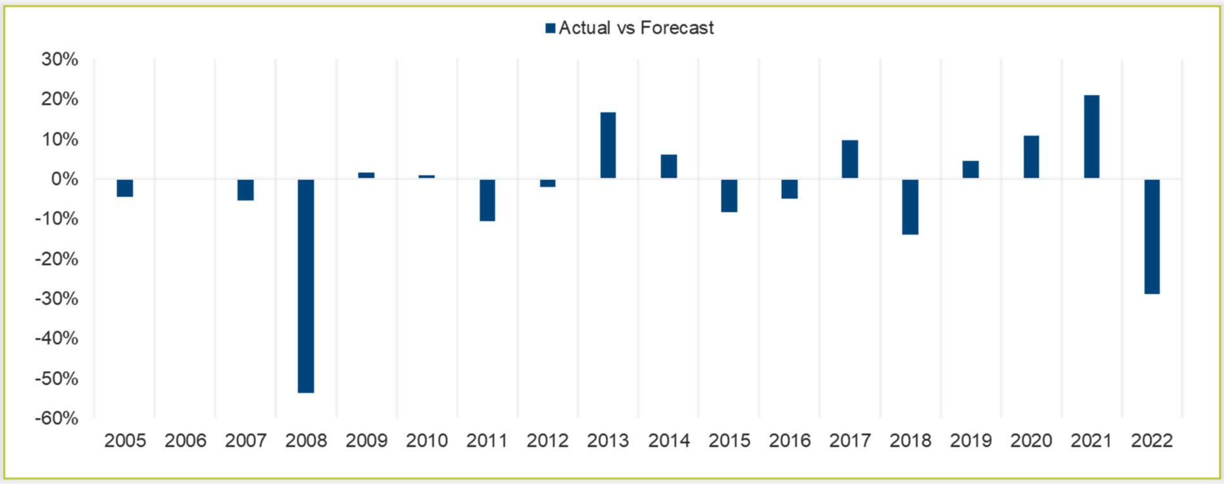
[4] Source: www.investors.opentext.com/press-releases; OpenText to Acquire Micro Focus International plc; August 25, 2022.

"Risk on" in 2023 has replaced the fear that drove markets lower in 2022. How much of this rebound will ultimately be supported by corporate earnings has yet to be seen. While there is always something to fear, we prefer to focus on the prospects of the businesses we own. Focusing on the destination makes the big potholes in the road feel more like small speed bumps and prevents us from executing panicked driving manoeuvres.

Looking back at the past 18 months, there was certainly no shortage of opportunities to take down risk exposure as macro concerns, from interest rates to war, seemed to grow by the day. However, we attempted to lean into the market and add to either new or existing names where our estimates of the risk/reward improved with each leg down. While we will never get it perfectly right, using the MSCI ACWI as a proxy the Fund's recovery to the end of the June 2023 sees us ahead of the MSCI ACWI at -4.1% vs -7.4% for the Fund and MSCI ACWI respectively[5].

Looking forward, we do not offer a market forecast or make predictions about interest rates, the economy, or other significant macro issues because we don't know anyone who can do so consistently (ourselves included). We submit the following to show the futility of forecasting. In the last eighteen years, the consensus view only expected the market to increase, yet it declined 22% of the time. Further, the Wall Street consensus estimate of how the S&P 500 will perform (ex-dividends) in the next twelve months, from 2005 to 2022, usually missed the mark, often by quite a lot: 53.6% and 28.9% too high in 2008 and 2022; and 16.9% and 21.0% too low in 2013 and 2021. On average, the "experts" missed by 11.4%, quite a lot, particularly when compared to the S&P's 6.6% annualized return (before dividends) over the same period. We, therefore, direct our efforts from the bottom up rather than the top down.

***Exhibit C:*** **S&P 500 Actual vs Wall Street Analysts' Forecasted Returns Ex-Dividends** [6]




Source: Bloomberg

## Portfolio Activity[7]

The Fund increased one investment during the quarter. The Fund's increased position was Heineken Holding – one of the largest beer companies in the world.[8] The Fund did not have any purchases, decreases, or exits of positions during the quarter.

[5] The recovery performance noted is for the period January 5, 2022 through June 30, 2023.

[6] Source: Bloomberg; Chart shows actual S&P 500 price returns excluding dividends minus Wall Street analyst estimates. Chart period is 2005-2022. Chart period is 2005-2022.

[7] The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. It should not be assumed that an investment in the securities listed was or will be profitable. Increases and decreases represent securities whose position size changed by at least 33% over the period and represent greater than 0.75% of the portfolio. Any exited position mentioned was fully removed, regardless of its representative portfolio size. Portfolio composition will change due to ongoing management of the Fund.

[8] As of 30 June 2023, the securities mentioned, and their corresponding position sizes were as follows: Heineken Holding NV (2.0%).

## Portfolio Profile

There were 44 equity positions in the Fund with the top five holdings comprising 27.2% and the top 10 comprising 44.6% of the portfolio (based on total assets) as of 30 June 2023. The top three sector exposures in the Fund, based on the Global Industry Classification Standard (GICS) sector classification, are Communication Services, Financials, and Information Technology, which comprise 53.2% of the total assets of the Fund. As a percentage of equity, the Fund has 41.6% non-US exposure and 58.4% exposure in the US.[9]

## Closing

For those who prefer less up and down, especially when price moves precipitate an often-inappropriate action – buy or sell, we believe Nedgroup Investment Contrarian Value Equity Fund mandate is relevant to investors. Though we don't know what the next five or ten years hold, we strive to continue to offer a similar investor experience. This last five years has given us surprises and market excess such as the recent pandemic. We will be surprised, but probably not astonished, in the future. We promise to remain thoughtful and calm as we continue to steward your capital, traits that allow us to lean in when there's the opportunity and tilt away when there is none.

Respectfully submitted,

FPA Contrarian Value Portfolio Management Team

[9] '*As a Percentage of Equity'* excludes cash & cash equivalents. Portfolio composition will change due to ongoing management of the Fund. **Past performance is no guarantee, nor is it indicative, of future results.**

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