NEDGROUP
INVESTMENTS

see money differently

Nedgroup Investments Global Behavioural Fund

Quarter Two, 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]	2.85	9.49	11.91	4.98
Performance Indicator*	6.18	13.93	16.53	11.00

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 regional performance perspective, Japan added alpha whilst North America and, to a lesser extent, the Rest-of-World bucket and Europe detracted. The biggest sector winners were Communication Services and Consumer Staples, with alpha largely driven by strong stock selection. The biggest detractors were Information Technology and Financials, 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

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

Key contributors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Live Nation Entertainment	0.85	0.02	26.60	18	Value
DISCO	0.30	0.02	30.83	18	Value
Netflix	0.58	0.31	23.28	15	Value
KLA	0.58	0.11	18.69	11	Growth
Lam Research	0.59	0.14	18.54	10	Value
Chipotle Mexican Grill	0.30	0.09	21.51	10	Growth
AmerisourceBergen	0.57	0.05	17.01	9	Value
Applied Materials	0.56	0.19	14.77	7	Value
Marsh & McLennan	0.85	0.15	10.01	7	Growth
monday.com	0.37	0.01	16.81	7	Value

Key performance detractors

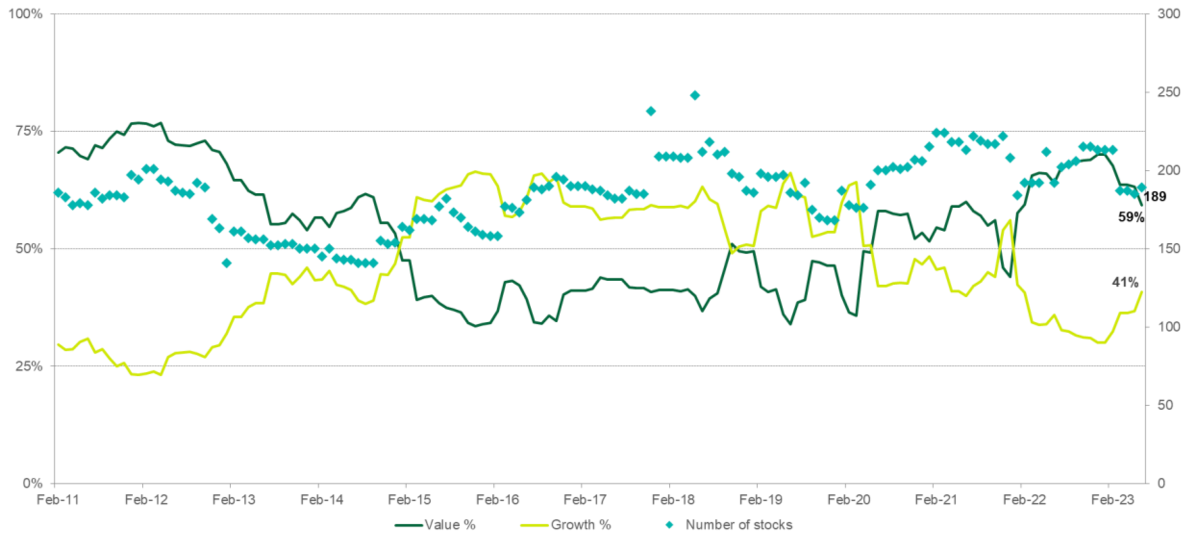
Past performance is not indicative of future performance and does not predict future returns

Key detractors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Microsoft	1.71	3.79	2.81	-49	Growth
Apple	1.72	4.84	14.52	-39	Growth
Sea Ltd	0.69	0.03	-34.97	-25	Value
NVIDIA	1.45	1.65	47.51	-21	Value
Zions Bancorporation	0.00	0.00	-34.36	-20	Value
Capitec Bank	0.00	0.01	-18.09	-19	Value
Bio-Rad Laboratories	0.57	0.01	-23.16	-14	Growth
Regeneron Pharmaceuticals	0.81	0.12	-14.95	-12	Value
Enphase Energy	0.52	0.04	-22.55	-12	Growth
BJ's Wholesale Club	0.56	0.00	-19.48	-12	Value

*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.

April overview

Tension continues to build between hopes for the next recovery versus anxiety over the depths of the imminently feared recession. Hopes of recovery have won so far this year, but the market has been narrowly led by the Mega Caps who seem both defensive (given their experience of 2020) and leveraged to a recovery.

Meta and Nvidia have done particularly well this year. Investor anxiety was high by the end of 2022, from crumbling growth forecasts post the COVID boom. Meta underwent a deep reset of their business model in the second half of 2022. We concluded it possessed all the attributes we look for in a potentially effective, deep restructuring plan from an unloved stock. This year, disappointment has turned to surprise. Nvidia contends with inherently harder to predict end markets. Like Meta, it had missed plans in 2022, but it did not undergo a deep restructuring. Instead, after a quick series of resets to its medium-term growth plans it started to benefit from a swing in demand from a new source of processor demand in the Q1-2023. Growing excitement over Generative AI following the success of ChatGPT has stemmed the post COVID deceleration and is now a new source of surprise.

Alphabet has also performed well this year, despite investor and analyst anxiety about growing competition (from AI), the negative impact of Apple's changes in privacy rules on digital ad efficacy, the slowdown in digital ad spending post COVID, and Alphabet's position as a perceived laggard in cloud. Like Meta and Nvidia, Alphabet has been forced to adapt to the post COVID slowdown during 2022, resetting growth plans to far more conservative levels. The other sources of anxiety look overblown to us, while there are increasing signs digital ad spend demand has troughed.

Apple is still navigating the lumpy path to 'normal' following the distorting effects of the pandemic on demand. We expect them to return to surprise over the next 12 months as they continue to benefit from unusual customer loyalty, a slow-moving business model shift to services, and the bundling of interlocking services.

Microsoft recently reported a strong set of Q1 results. Azure beat expectations, ending a long period of disappointment. Their outlook was notably more positive than their cloud peers, suggesting they may be uniquely well positioned. Microsoft's customers tend to be conservative, large enterprises that are less exposed to the vagaries of the IT-industry's volatile supply-demand feedback loops. They are also uniquely placed to benefit from the post-pandemic vendor consolidation due to their extreme bundling capabilities, which includes newer AI-powered services. This recent performance divergence from peers prompted us to place Microsoft on the watchlist for our next new ideas cycle.

We remain cautious on Amazon. Pressures on AWS are persisting, and management behaviour still feels risky to us. They continue to blame macro for their difficulties, rather than acknowledging the fundamental shift in customer behaviour that has occurred since the pandemic boom in demand and resetting their growth plan accordingly.

While macro continues to swing investor sentiment, we continue to find more surprising stocks than the market. Many companies currently surprising analysts are benefitting from unusually conservative CEO behaviour, having been buffeted by the COVID pandemic and now facing the threat of a recession. Additionally, companies in the more volatile commodity industries are benefitting from much more restrained industry capital allocation, having been burnt by a long history of growth chasing behaviour and the poor returns that followed. Though scarcer, we can also find companies still struggling with the post COVID slowdown, but where deep enough management behaviour change looks to have unlocked a return to surprise in the next 12 months. What we cannot control is mis-forecasting of the economic cycle. A recession is widely expected by macro forecasters, but it is unclear how much is incorporated into bottom-up forecasts. Hence, we have structured the portfolio to limit implied macro bets in either direction, within the constraints of our broadly equally weighted approach to holding sizes.

May overview

Most CEOs remain restrained, with the fear of an imminent recession curtailing ambition, encouraging conservative growth plans and a focus on cost. While the dislocation of supply chains from COVID appears to have largely settled down, normal demand patterns, post COVID, remain hard to predict. Some areas of the economy remain supply constrained, others have high inventories; there is lingering caution in running inventories down, given the issues revealed in supply chains during the COVID shock. Some of the fiscal stimulus from COVID policies is running off, but savings remain high.

Disappointments are creeping up in Staples, Utilities and Financials, but are falling in Communication Services, Consumer Discretionary and Industrials - an odd mix - suggesting a confusing demand picture. Consumer spending patterns remain erratic, wage inflation is persistently troublesome and some of the COVID boom areas are still struggling to find a normal level of demand. Much of the drivers for forecast errors (both up and down) appear to revolve around the timing (or not) of a widely expected recession, and how this will affect different areas of the economy.

Investors continue to largely be surprised by the lack of a recession, despite the continued rises in interest rates. It appears consumers are less interest rate sensitive than expected, and COVID may have permanently impacted labour-force participation rates, keeping unemployment low, boosting wages, and keeping the consumer healthy.

June overview

Every quarter we go through two decision cycles. One is a review of existing holdings in the portfolio to check if the reasons we own a stock are still supported by new evidence, and the second is to generate new ideas. We have just completed a new idea cycle, and this note will highlight some of the themes that have emerged from this review.

Our core belief is that positive analyst surprise drives share prices up. We are still finding more attractive 'Analyst Bias' opportunities (companies that are currently surprising, where we think surprise will persist for the next 12 months) than 'Investor Bias' opportunities (stocks that are currently disappointing making investors anxious, but where we have identified management behaviour change we believe will cause disappointment to flip to surprise over the next 6-12 months).

Attractive Investor Bias opportunities are still relatively rare in the current environment. We are cycling off from a period of unusually high surprise driven by the very strong macro recovery in 2021 and many stocks have only started disappointing relatively recently. Given we believe it requires quite a lot of trauma to trigger a change in management behaviour, we would expect to pick up more Investor Bias names following a more prolonged period of pressure. However, there are some areas where, due to the unusual impact of the pandemic on demand, pressure has persisted for long enough to trigger interesting management behaviour change. We found a few new ideas in the health care and technology sectors that fit this pattern, including West Pharmaceuticals and IPG Photonics.

Many CEOs in the technology sector are struggling to meet their plans as they contend with more cautious customer behaviour following the pandemic-driven boom in IT demand and the consequences of capital crowding. However, there is building evidence that companies providing highly integrated, bundled software solutions to resilient enterprise customers are recovering faster than 'best-in-class' point solutions as customers look to consolidate their IT spend. A number of these bundled solution providers have returned to high growth and surprise following effective growth plan resets. This group includes Microsoft and Hubspot which we bought as Analyst Bias 'high growth' stocks during this review.

We also found a handful of Analyst Bias 'high growth' companies in the industrials sector. Copart, an online marketplace salvaged car auctions, is increasingly taking share from non-online competition and benefitting as cars become more complex and expensive to repair. Ashtead, an equipment rental business, is enabling a shift in customer preferences from buying to renting due to better economics and is leading industry consolidation. The unusual growth drivers behind these businesses make them less cyclical than analysts expect.

We also picked up some more Analyst Bias 'predictable growth' companies in the industrials sector. Ametek and Transdigm both have unusually strong footholds in niche, IP intensive, mission critical markets, enabling unusually predictable growth in end markets broadly considered by analysts and investors to be unpredictable. We also bought Rollins, a reassuringly boring pest control business, unloved by analysts who dislike the stale narrative and angst about the sustainability of roll-up-driven growth.

We will shortly enter a new review cycle where we will test the integrity of all the existing investment cases in the portfolio. An important part of this process is checking the logical consistency of current holdings with the themes that have emerged from the latest new ideas review. Any apparent inconsistencies will be rationalised or sold.

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.

This document is of a general nature and intended for information purposes only, it is not intended for distribution to any person or entity who is a citizen or resident of any country or other jurisdiction where such distribution, publication or use would be contrary to law or regulation. Whilst the Investment Manager has taken all reasonable steps to ensure that this document is accurate and current at the time of publication, we shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document.

The Fund is authorised and regulated in Ireland by the Central Bank of Ireland. The Fund is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 as amended and as may be amended, supplemented, or consolidated from time-to-time and any rules, guidance or notices made by the Central Bank which are applicable to the Fund. The Fund is domiciled in Ireland. Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority. The Depositary of the Fund is Citi Depositary Services Ireland DAC, 1 North Wall Quay, Dublin 1, Ireland. The Administrator of the Fund is Citibank Europe plc, 1 North Wall Quay, Dublin 1, Ireland.

The sub-funds of the Fund (the **Sub-Funds**) are generally medium to long-term investments and the Investment Manager does not guarantee the performance of an investor's investment and even if forecasts about the expected future performance are included the investor will carry the investment and market risk, which includes the possibility of losing capital.

The views expressed herein are those of the Investment Manager / Sub-Investment Manager at the time and are subject to change. The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside of the control of the Investment Manager. Costs may increase or decrease as a result of currency and exchange rate fluctuations. If the currency of a Sub-Fund is different to the currency of the country in which the investor is resident, the return may increase or decrease as a result of currency fluctuations. Income may fluctuate in accordance with market conditions and taxation arrangements. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance and does not predict future returns. The performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.
Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.
The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

Distribution : The prospectus, the supplements, the KIIDs, constitution, country specific appendix as well as the annual and semi-annual reports may be obtained free of charge from the country representative and the Investment Manager. The Investment Manager may decide to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Art 93a of Directive 2009/65/EC and Art 32a of Directive 2011/61/EU.

U.K: Nedgroup Investment Advisors (UK) Limited (reg no 2627187), authorised and regulated by the Financial Conduct Authority, is the facilities agent. The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.
Isle of Man: The Fund has been recognised under para 1 sch 4 of the Collective Investments Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: toll free from South Africa only 0800 999 160
Email: helpdesk@nedgroupinvestments.com
For further information on the fund please visit: www.nedgroupinvestments.com

OUR OFFICES ARE LOCATED AT
First Floor, St Mary's Court
20 Hill Street, Douglas
Isle of Man
IM1 1EU

Issue Date:
July 2023