NEDGROUP INVESTMENTS GLOBAL EQUITY FUND

Quarter Three, 2019

For the period ended 30 September 2019

Investing in uncertainty

Radical monetary policy is the new normal: what was once seen as monetary policy to be used solely in emergencies is today's monetary standard. The problem for policy makers now is 'what next?'. Demand has already been pulled forward by the "emergency" interest rates that have been in place for the last decade. Anyone with a pulse (and undoubtedly some without) has been able to borrow to buy whatever they may have desired, be that property, a new pick-up truck or a commitment to the latest private equity fund. Leverage is ubiquitous thanks to historically low rates but once this trick has been performed, the magicians at the central banks cannot easily repeat it. Satiated borrowers are quite possibly one of the major factors behind the lacklustre economic growth that has accompanied the recovery from the Great Financial Crisis. How many new pick-up trucks, even with interest free credit, does one person need? Demand cannot continually be pulled forward.

Another trick that can only be played once is the discount rate induced appreciation of assets. Lower central bank policy rates to zero and over time all other asset classes will come to reflect that lower risk-free rate. With over one third of the world's senior securities trading at negative yields it would seem unlikely that the risk-free rate can be lowered much further.

At some point there must be a lower bound. If the lower bound is close, then further asset appreciation by way of valuation multiple expansion is most likely behind us. If yields were ever to move upwards, valuation multiples may start becoming a headwind rather than the tailwind that most investors have become accustomed to (and enjoyed the benefits of).

High quality companies have demonstrably been one of the bigger beneficiaries of a declining risk-free rate. In general, high quality companies have strong competitive positions that investors anticipate will allow them to grow for sustained periods. While all equities are long duration assets (they are perpetual securities), high quality companies and growth stocks have a particularly long duration as a greater proportion of their anticipated cash-flows lie in the distant future. A lower discount rate values these distant cash-flows more generously and consequently such companies appreciate more rapidly in a declining interest rate environment. For a conservative investor in quality companies, this creates a problem as it becomes more difficult to identify quality investments that are available to buy at valuations commensurate with generating attractive returns over a long-term investment horizon. As a direct result, the cash holding of conservative investors often rises as the risk-free rate becomes abnormally low.

Implications for the portfolio

One way to mitigate rising cash in such a scenario is to actively seek investments in more contentious areas where a long-term investment horizon can provide a competitive advantage. This advantage arises when it can be established that there is a high probability that the issues facing the company or industry are temporary in nature and will be resolved during the investment horizon. The longer the investment horizon, the more such opportunities will be available. If such a set of circumstances can be found in otherwise high quality companies then very attractive returns can be delivered even in a richly valued market. Our analysis implies that such an opportunity is currently available in US Health insurance.

US Health Insurers are, in general, good quality businesses. Despite the rhetoric of some politicians who have a specific agenda, the better health insurers utilise data, clinical expertise and artificial intelligence to develop protocols and procedures that lower the cost of care at the same time as improving the health and outcomes for patients. By doing this successfully, the better insurers build market share and economies of scale which allow them to earn good post tax Return on Invested Capital, be highly cash generative and operate with prudent balance sheets.

It is also demonstrable that the health insurers do this more economically and better than the US Government: within Medicare (Government subsidised healthcare for the over 60's) patients may choose between entirely

Government provided healthcare or healthcare provided by insurers but subsidised by Government to the same degree (known as Medicare Advantage). Privately managed Medicare Advantage has doubled membership since 2010 to now stand at one third of the total 64 million individuals on Medicare. This has been at the expense of traditional Government managed Medicare as patients recognise that they receive more benefits, better treatment and lower out of pocket costs in Medicare Advantage despite the private insurers receiving rates that are based on Government run Medicare and making a profit at these rates. Such is the power of capitalism and open market competition as opposed to the wasteful bureaucracy of Government.

Despite delivering good growth at high returns and with excellent free cash flow generation many health insurers are trading at PE multiples below 10x and free cash flow yields approaching, or in some cases exceeding, 10%. This can be compared with the wider US market which trades at a PE multiple of c.19x and a free cash flow yield around 4%.

The primary reason that these companies trade at such a low valuation is political: the Democratic Party in the US is currently choosing its candidate to stand in the November 2020 Presidential elections and at least two of the front runners for the candidacy (Bernie Sanders and Elizabeth Warren) advocate a policy of US healthcare being entirely provided by the Government under a policy called Medicare For All (M4A). Were M4A to be enacted it would be a huge upheaval in the provision of healthcare in the US, a sector that accounts for around 18% of US GDP. Currently around 45% of US healthcare is provided by the Government with the remainder provided either by health insurers or paid directly by the patient. Under M4A as proposed by Bernie Sanders, the US would move to a single payer system (that payer being the US Government) with very generous benefits for everyone (including long term care, dental and ophthalmology) and no out of pocket costs. Private health insurance would largely be prohibited hence the reason why the US Health Insurance companies currently trade at such low valuations.

While the threat of having the primary business of an investment become prohibited must be taken seriously, we believe that there is an extremely small probability that such a policy is ever introduced into the US and an even smaller probability that it is introduced within the next 10 years. Our analysis of the issue indicates two lines of reasoning why M4A is unlikely to become US law in the foreseeable future.

The first line of reasoning is based upon practicalities: the cost of M4A as proposed by left leaning Democrats is likely to be around $40 trillion over the first 10 years. Much of this would be new costs for the Federal Government and so would need to be funded by tariffs or taxes on businesses and individuals. To put the amount in perspective, total Federal tax revenue for 2018 was $3.3 trillion. The increase in taxes and tariffs would therefore need to be material and is unlikely to be popular. In addition to the cost, there would be huge disruption to the healthcare system which is an extremely complex ecosystem – one of the major issues to address would be that under the present system many healthcare providers are subsidised by the private insurers and under Medicare reimbursement rates, they would be loss making. As an example, almost all dialysis clinics would be loss making under Medicare rates (private insurers pay c.3x the basic Medicare rate per dialysis treatment) and so would likely have to close leaving patients requiring kidney dialysis three times a week in a perilous position. The last practicality to take into account is that of electoral support: when polled about universal government healthcare, funded by higher taxes and prohibiting private health insurance the outcome is negative.

A Kaiser Family Foundation poll in January 2019 highlights that while 56% of their surveyed population are in favour of a national health plan (like M4A), only 37% support the idea if private insurance should be eliminated or taxes for Americans increased as a result. It is clear from this that US taxpayers like low taxes and the right to choose their healthcare provider. This means both that a left wing candidate would be less likely to win the presidency and also that more moderate Democrat senators would be less likely to support the policy.

The second line of reasoning is perhaps more important and is based upon politics: in order to be able to pass the legislation required for M4A, a left wing democratic nominee would need to win the presidency, retain control of Congress and win a 60 seat super majority in the Senate. The last of these is the most unlikely. In general, for legislation to pass in the US it not only needs a majority of senators to vote for it, but also has to have sufficient support such that it cannot be blocked by a filibuster. A filibuster requires 40 (out of the 100) senators to support it meaning major legislation can be blocked by a significant minority. This broadly means that all major legislation needs to be bi-partisan and ensures that the Senate acts as a check and balance on the much more partisan House of Representatives (Congress).

The only times in the past 40 years that one party has managed to secure a 60 seat super majority was briefly in the 111th Senate (in 2009 until Senator Kennedy died, shortly after which the Democrats no longer held a super majority). Given Senate elections (covering one third of Senators) are held every two years, this means that in the past 20 elections a super-majority has occurred only once or around 5% of the time (and even then, the super-majority was not held for the full two year period of the 111th Senate). Given the number of "safe" Republican seats up for election in 2020 together with the fact that the Republicans currently control the Senate with a 53/47 majority, a swing to a 40/60 Democratic controlled Senate seems all but impossible. Our estimate of the probability of M4A becoming law in the foreseeable future assumes that Elizabeth Warren does become the Democrat's candidate. If we then assume a 50% chance of her beating President Trump to the Presidency, and a 70% chance that the Democrats retain control of Congress, together with a 5% chance that the Democrat's win a super-majority in the Senate gives an overall probability of 1.75% that M4A could theoretically become law (before taking account of its lack of popularity, the cost and consequently the probability that some more moderate Democrat's would not support such a bill).

So, in summary, we see less than a 2% probability that M4A will become law. Much more likely should a Democrat win all three of the White House, Congress and the Senate is a combination of an expansion of existing Government programmes together with implementing some schemes to reduce the out of pocket expenses suffered by patients. These would be relatively simple to legislate, would cost a lot less and be much less disruptive to the healthcare system, would address the issue of the uninsured population (largely a mix of the poor and illegal immigrants) while at the same time being popular with the electorate (especially reducing out of pocket costs). Such an outcome would be positive for insurers insofar as it expands the population of those insured although reducing out of pocket expenses would probably be slightly negative for the sector (although if all companies are subject to the same rules it is unlikely the effect would be material).

The health insurance companies that we hold in the portfolio are those that we believe are exceptionally well positioned in the long term. It seems likely that as the US healthcare industry moves more towards 'value-based care' the companies that have most control over the whole healthcare supply chain will have the greatest opportunity to benefit through reducing costs at the same time as delivering better health outcomes.

Vertical Integration will allow these companies to achieve this and at the same time provide more actionable data and so is likely to become more important under value-based care, which is why we particularly like CVS Health, Cigna and UnitedHealth. In our opinion these companies are demonstrably attractively valued as other investors fret about the sub 2% possibility of M4A becoming law while ignoring the 98% probability that healthcare will remain largely as it is today. The issue of M4A is likely to hang over the health insurers for some time. The issue may be dropped early if Joe Biden wins the nomination or if Elizabeth Warren softens her stance against private insurers (to her previously held position) to appeal to moderates in the run up to an election or it could rumble on possibly as late as the first half of 2021 when a newly elected President might get to test the power of the Filibuster to prevent extreme policies becoming law. Until there is resolution, the health insurers' share prices are unlikely to materially recover and will probably remain volatile. This is to be expected: if taking on such a risk (even if small) were easy and quickly resolved then the opportunity would not arise in the first place. Given the political risk, the overall weighting of US health insurers in the portfolio is actively managed to balance the risk and reward within the context of the whole portfolio.

Attribution Commentary

As investors are aware, we maintain a 30% limit to sector exposure and ensure that if a sector weighting approaches this level, the stocks are highly diversified to prevent systemic risk affecting all of the holdings. Currently, the healthcare weighting is high but there are no pharmaceutical holdings within the portfolio as drug prices are under pressure especially in the United States (US). There are three healthcare stocks within the portfolio (UnitedHealth, CVS Health and Cigna) which do share a common risk, which whilst balanced by other holdings within the sector are worth discussing. The so-called Managed Care Organisations (MCOs) or health insurance stocks by another name, are currently one of the best indicators of political sentiment within the US. Over the quarter, the odds on Senator Elizabeth Warren winning the Democratic presidential nomination have risen sharply and currently exceeds Joe Biden. The relevance is Warren favours the introduction of 'Medicare for All' which essentially would remove private insurance companies from the industry and Biden believes in building on Obamacare in which insurance companies would play a continued role. Whilst there is a long way to go until the 2020 presidential elections, sentiment will have been further hit by Trump's political prospects in wake of the House of Representatives' impeachment inquiry. Whilst very quiet on specifics, any Trump reform will not involve the removal of private insurance cover.

There has been a strong short-term correlation between the odds of Medicare for All champions, Bernie Sanders and Elizabeth Warren, winning the Democratic nomination and the relative performance of managed care stocks. Whilst it is likely this cloud will remain over the sector for the next year, adoption of Medicare for All is likely to be a long shot because it would need the Democrats to win the House, Senate and the Presidency next year. Even then, moderate Democrats may be loathed to eliminate private insurance coverage for 175 million Americans. Hospitals only show a profit from patients with private insurance. They lost $50bn treating Medicare patients in 2016. Massively reducing the reimbursement rate would lead to the 16m workers in health care fields having to take pay cuts, a reduction in the amount and quality of care (some drugs would simply not be available), increase in waiting times etc. The Medicare for All push is not the first threat of a fundamental health care restructure. A decade ago, when UnitedHealth was introduced to the portfolio, Obamacare was going to be the undoing of health care stocks, especially insurers. But despite a large majority, Democrats failed to pass a public insurance option to compete against private plans. The law's biggest impact came from its Medicaid (low-income) expansion but this has been positive for insurers as states have awarded contracts to manage their Medicaid populations. In Colorado, voters in 2016 overwhelmingly rejected a single-payer health care reform that closely resembled Medicare for All. The same happened a few years earlier in Vermont, the home state of Bernie Sanders. It would have meant taxes doubling to pay for it. Clearly, we continue to monitor the situation and there may be a shift in the percentage held in each of the three companies within the portfolio.

Whilst **UnitedHealth** and **Cigna** were detractors over the quarter, **CVS Health** rose significantly. The company beat second quarter expectations with its three businesses all posting better than expected results. The company also raised full year guidance. Prices of brand name medicines rose in the quarter, boosting CVS's drugstore and pharmacy benefit manager's results. CVS pharmacy filled 19% more prescriptions this quarter than in the same period last year, which the company attributed to clinical programs intended to keep people on their prescribed medicines (up to 50% of patients stop taking medications leading to further complications and more cost). Sales in the front of CVS's drugstores also rose, mostly thanks to an increase of people buying health products like cough medicine. The company's newly acquired Aetna health insurance business also beat Wall Street's revenue expectations, reaching $17.4 bn in the quarter. CVS is trying to prove it can integrate Aetna and transform itself into an innovative health-care company. CVS reported second-quarter net income of $1.93 bn, or $1.49 per share, up from a loss of $2.56 bn, or $2.52 per share a year earlier. CVS still faces a number of threats, including political pressure to lower drug prices.

The Trump administration proposed eliminating rebates from government programs, a move that would affect CVS's business. They reversed the decision as there is recognition that the formularies produced by Pharmaceutical Benefit Managers (PBMs) drive down prices and lower premiums. CVS is touting its new health-focused stores, called HealthHUBs, as an example of how the two can work together. CVS introduced the first three stores in Houston earlier this year and announced earlier this summer it would open 1500 Health HUBs by the end of 2021. It is also expanding its CarePass program nationwide. As a response to threats from Amazon, CVS has launched a loyalty program that costs $5 per month and in return, shoppers get 1-2 day free shipping, access to a pharmacist 24/7, 20% discount on CVS branded goods and $10 credit each month. In short, these businesses form part of the solution to lower overall health costs. Given the political backdrop in the short term, the Internal Rate of Return (IRR) on CVS Health given Medicare for All is almost 30%.

The Communication Services sector has been additive this year with significant contributions from the US Cable Companies; **Charter** and **Comcast**, and **Facebook**. **Alphabet** had lagged a little largely as a result of a weak quarters' earnings discussed in the last quarterly report. As expected, this proved to be short-lived and the opportunity to add to the position well timed. The company beat analysts' expectations on revenue and earnings per share (EPS) and had even lower traffic acquisition costs (TAC) than expected. TAC represents the payments Google makes to companies like Apple for its search engine to be the default browser on their devices. TAC as a percentage of advertising revenue dropped to 22%. Advertising revenue (largely mobile ads and YouTube ads) was $32.6bn for the quarter compared to $28bn for the same quarter last year. There had been fears that advertising revenue was falling after a drop in the previous quarter when the company claimed it was improving the functionality of YouTube. The results brought Alphabet closer to the 20% revenue growth it had generated for several years before posting 17% growth in their first quarter for this year. The company saw a 28% increase in paid clicks on its properties in Q2 compared to the same period last year. The fastest growing part of the business is the Cloud offerings. Cloud is much smaller than those at Amazon

(AWS) or Microsoft (Azure) but is growing at a run rate that would generate $8bn per annum (in February 2018 the company disclosed that the cloud business was bringing in $1bn per quarter so it's on track to double in one year). Alphabet is significantly increasing its staff in this area and making acquisitions like analytics company Looker. Revenues from the 'other bets' which include self-driving car company Waymo only marginally improved to $162mn as expected but may offer longer term potential. An increased buyback and greater clarity on cloud revenues is positive news for shareholders.

The US cable companies made further gains in the broadband space. In the second quarter, Comcast's high-speed internet revenue rose 9.4% year on year driven by a net addition of 209,000 high-speed internet customers, which included 182,000 high-speed residential internet additions and 28,000 high-speed business internet additions. The company's high-speed internet customer count rose 4.9% year on year to 27.81 million on June 30. In 2019, Comcast expects to gain more than 1 million high-speed internet customers. In April 2020, Comcast's NBCUniversal plans to launch a new direct-to-consumer video streaming service named Peacock. It will launch the service with more than 15,000 hours of content. From 2021, it will remove 'The Office' from Netflix. The Office is the number one show on Netflix and responsible for 5% of all Netflix's volume.

Consumer Staples is a sector that had been absent from the strategy for close to six years up until 2018. An assessment had to be made as to whether the barriers to entry had lowered with the apparent ease with which to launch products like Halo Top ice cream or Fever tree tonic using social media platforms like Instagram. We concluded, that whilst a new brand could be launched with a fraction of the multi-million TV advertising budgets that were once required, there are barriers to scaling. Few of the social media brands make it beyond 2% market share and need distribution.

The desirable consumer companies have also focussed on areas with brand loyalty and market dominance. One such company, **Nestlé**, has risen sharply since initial purchase and last quarter benefited from strong second quarter results. Sales were largely driven by the pet food business and coffee with their largest market, the US, performing particularly well. The momentum in coffee comes after Nestlé's $7.5bn deal with Starbucks for exclusive rights to sell its packaged coffee outside of the Starbucks branded stores. The company began selling Starbucks branded beans at grocery stores and online in February. It has since launched Starbucks products in 14 markets and will increase this over the remainder of the year. Nespresso and Nescafé also saw sales increase. In pet care, the Purina brand is the largest contributor to performance. For those clients interested in a novel gift, Nestlé is launching a service for made-to-order luxury KitKats. A choice of 1500 possible flavour combinations including "whisky and ginger'", "Earl Grey and marmalade", the bar will set you back £14 and can be ordered online. Rest assured, we have not included this in our modelling!

Philip Morris slipped modestly over the quarter. It fell quite sharply on news of a re-merger between the company and Altria which had previously been part of the same company 10 years ago. At first sight it is easy to see why the companies would consider a merger. When they separated, Philip Morris took control of international markets and Altria retained command of the US, meaning the combined company would be a global powerhouse. They are also partners in IQOS (Philip Morris' alternative 'heat not burn' product). Within the US market Altria has the sole rights to sell the product, paying a royalty to Philip Morris. Finally, Altria has a stake in other alternative products like vaping and cannabis which would give a more complete set of alternative products. Veritas had issues with the transaction and wrote to the company. The proposed merger of equals disadvantaged Philip Morris shareholders, Altria's stake in JUUL is likely to come under further regulatory scrutiny as flavoured vaping meets with increased criticism in regard to encouraging new underage usage (as opposed to focussing on transferring existing smokers). Philip Morris stock recovered in September as merger talks were called off.

Capita has been undergoing a turnaround programme following the arrival of Jon Lewis as CEO. The company, which provides support services to local authorities, schools, health organisations and operates the congestion charge in London appointed Jon Lewis at the beginning of 2017. He announced a profit warning, dividend suspension, a £700mn rights issue, cost cutting, a disposals programme and details of poorly performing contracts. Some would argue the typical new CEO "kitchen sinking". After 18 months, the company has indicated it is on track to hit its 2020 targets of double-digit operating profit margins and at least £200mn of sustainable free cash flows. The company has won several new contracts including a Ministry of Defence fire and rescue service contract, a UK Department for Work and Pensions contract and the software division won a gaming payments protection and e-wallet contract. Problem contracts with the British Army and NHS have improved and lost revenue is being replaced by higher margin contracts.

BAE Systems was bought at the end of 2018. The company's shares had been weighed down by concerns over political tension between Saudi Arabia and the UK following the Khashoggi affair and that a Jeremy Corbyn led labour government is unlikely to boost the defence industry and is anti the UK's nuclear deterrent capability. We felt these concerns were overplayed. Leaving aside the chances of a Corbyn government, the Saudi's depend on BAE Systems technology to operate their planes. Given the attacks on the Saudi oilfields it is increasingly unlikely the Kingdom will not renew contracts (Saudi is approx. 14% of revenue). The company also has a far greater exposure to the US and European markets, has a large order backlog and continues to win orders. BAE Systems was recently awarded a £2.2bn US defence contract to support the US military and a new combat vehicle joint venture with German partner Rheinmetall. The company reported strong performance with Earnings Per Share (EPS) up 11% on the same period last year and the dividend was increased by 4.4%. The company also noted on Brexit 'that there is relatively limited UK-EU trading and movement of EU nationals into and out of BAE Systems and near-term impacts across the business are likely to be limited.'

Safran was also a positive contributor as the company guided higher for its full-year forecast as well as producing first-half results that exceeded expectations. Safran now expects revenue growth of 9% from a year earlier having originally guided 3%. All three division; Propulsion, Aircraft Equipment and Defence were positive, and the integration of Zodiac Aerospace is on schedule to deliver expected results. Safran has developed the most energy efficient engines in its class (called LEAP) and is benefiting from increased demand for the ever popular Airbus A320 single aisle plane which it powers. It reported that it was on track to deliver on its objective of 1100 LEAP engines by the end of the year. Safran is also benefiting from its after care services sector which grew 12.5% from a year earlier. Aero-engine developers very much rely on the multi-year high margin revenue derived from servicing and suppling parts for their engines for the 25+ years the plane is in service. Engines being delivered today will drive cash flow in the future and Safran has a ten year back order book.

Whilst **Rolls-Royce** shares many of the characteristics from which Safran is currently benefitting (back-log of orders, more energy efficient) albeit its engines generally power larger planes like the A350, the company has had issues with its Trent 1000 engine programme not helped after a Trent 1000 powered Norwegian Air plane scattered engine parts over a suburb of Rome in August. The Trent 1000 powers the Boeing 787 Dreamliner. The company has said the full impact for 2019 is likely to be £450mn- £500mn. Despite this, Rolls-Royce reiterated its full-year free cash flow targets of £700mn for 2019 and £1bn for 2020. The reason for stock weakness is Moody's downgraded Rolls-Royce long-term senior unsecured debt rating from A3 to Baa1. While the agency upgraded its outlook on Rolls-Royce from 'negative' to 'stable', citing improving performance, anticipated growth in aftermarket earnings and the long-term stability of the group's engine programmes, Moody's does not consider its forecast £600mn to £800mn of Rolls-Royce 2019 working capital gains, most which would be achieved through inventory reductions and defence contract advance payments, to be sustainable.

The second largest Class 1 railroad in Canada, **Canadian Pacific Railway** was a detractor over the quarter despite releasing strong Q2 results. Canadian Pacific has completed the implementation of Precision Scheduled Railroading, a more efficient point to point network (a little like a passenger train with a specific timetable) having moved away from a 'hub and spoke' model (cars enter a hub or terminal and then reshuffled to different trains, often requiring numerous redirects before finding its ultimate destination). Canadian Pacific transports everything from bulk goods (e.g. grain) to cars and finished goods. Given that many of their customers own the containers that are transported and the efficiency of the network has led to up to 25% quicker journey times, both fixed capital (amount of containers that need to be owned) and working capital (less product in transit) are freed up and Canadian Pacific can increase prices by 3-4% per annum. Despite increasing revenues by 13% and maintaining 3% price increases, some investors worry about the implication of the trade war on grain volumes. In addition, the US has suffered floods and poor growing seasons for grain. However, this may mean the US brings in more grain by rail from Canada. Canadian Pacific benefits from multi-year contracts with the likes of Suncor Energy and Dollarama and for some goods minimum volumes agreed which insulate to some extent from volatile demand.

Within Financials, S&P Global, bought in Dec 2018 continued a strong year and **Intercontinental Exchange (ICE)** was also additive. ICE produced strong revenue growth largely on the back of its data business and its trading and clearing business. The main driver was fixed income and credit where revenue soared 70%, due mainly to recent acquisitions. In energy, ICE focuses on Brent, the global benchmark for crude oil, which accounts for two-thirds of all oil pricing. The attack on Saudi oil infrastructure had a direct impact on traded volumes. When there is an unexpected change in oil prices, airlines and exploration/ production companies use future contracts to lock in energy prices. ICE generated $1.2bn of free cash flow through the first half of the year, up 13% on last year. The company used the bulk of the money to pay out $312mn in dividends and buy back $780mn worth of its own stock. The company’s regular repurchase activities continue to chip away at its outstanding share count, resulting in earnings per share increasing at a faster rate than net income during the quarter.

Relative attribution by region: 3 months to 30 September 2019

Region	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
Asia/Pacific Ex Japan	3.1	1.0	0.0	4.2	-5.2	-0.2	0.1	0.2	0.3
Africa/Middle East	–	–	–	0.2	-3.7	-0.0	0.0	–	0.0
Europe ex UK	18.9	-2.1	-0.4	15.4	-1.5	-0.2	-0.1	-0.1	-0.2
Japan	–	–	–	8.1	3.1	0.2	-0.2	–	-0.2
North America	53.7	1.8	1.1	66.6	1.4	0.9	-0.1	0.3	0.2
United Kingdom	11.3	6.1	0.6	5.5	-2.5	-0.1	-0.1	0.9	0.8
Cash and equivalents	12.9	n/a	0.1	–	–	–	0.0	–	0.0
Total	100.0	1.5	1.5	100.0	0.5	0.5	-0.4	1.3	0.9

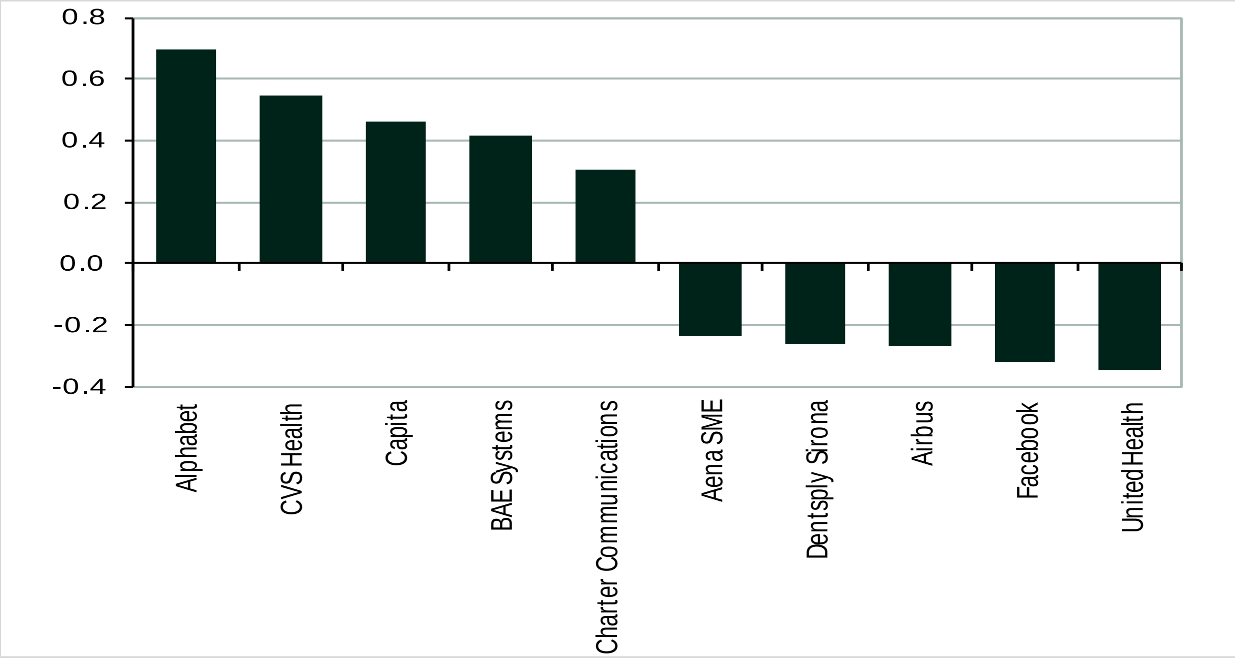
Relative attribution by sector: 3 months to 30 September 2019

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	–	–	–	10.6	0.3	0.0	0.0	–	0.0
Consumer Staples	12.8	0.2	0.0	8.7	4.0	0.4	0.1	-0.5	-0.4
Energy	–	–	–	5.3	-5.8	-0.3	0.4	–	0.4
Financials	7.9	2.3	0.3	15.6	0.3	0.0	0.0	0.2	0.2
Health Care	24.7	-0.4	-0.1	12.6	-1.2	-0.2	-0.2	0.3	0.1
Industrials	19.7	1.1	0.2	11.1	-0.7	-0.1	-0.1	0.3	0.2
Information Technology	3.1	4.0	0.1	16.5	2.3	0.4	-0.2	0.1	-0.2
Materials	–	–	–	4.4	-3.3	-0.2	0.2	–	0.2
Communication Services	18.9	4.4	0.8	8.5	1.3	0.1	0.1	0.6	0.6
Utilities	–	–	–	3.5	6.4	0.2	-0.2	–	-0.2
Real Estate	–	–	–	3.3	4.2	0.1	-0.1	–	-0.1
Cash and equivalents	12.9	n/a	0.1	–	–	–	0.0	–	0.0
Total	100.0	1.5	1.5	100.0	0.5	0.5	-0.0	0.9	0.9

Relative attribution by security: 3 months to 30 September 2019

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							
CVS Health	3.0	16.5	0.5	0.2	16.5	0.0	0.5
Alphabet	6.1	12.8	0.7	1.8	12.8	0.2	0.5
Capita	1.6	33.0	0.5	–	–	–	0.5
BAE Systems	4.0	11.4	0.4	0.1	11.4	0.0	0.4
Charter Communications	6.7	4.3	0.3	0.2	4.3	0.0	0.2
Bottom 5 relative stock contributors							
UnitedHealth	3.1	-10.6	-0.3	0.6	-10.6	-0.1	-0.3
Dentsply Sirona	2.9	-8.5	-0.3	0.0	-8.5	-0.0	-0.3
Aena SME	3.0	-7.7	-0.2	0.0	-7.7	-0.0	-0.3
Airbus	3.2	-8.3	-0.3	0.2	-8.5	-0.0	-0.3
Facebook	4.1	-7.7	-0.3	1.1	-7.7	-0.1	-0.3

Key stocks driving portfolio results



Commentary on two significant stocks in your portfolio:

Alphabet

+12.8% in USD

(Communication Services, United States)

Alphabet was a top contributor given a stronger than expected set of Q2 results. The previous set of results had manifested concerns around a deceleration in growth that these results in the near term have dispelled. The company also announced an expansion of its share repurchase program which was also beneficial.

UnitedHealth

- 10.6% in USD

(Health Care, United States)

UnitedHealth Group was weak in Q3 primarily as investors contemplated the potential impact of ‘Medicare For All’ proposals from Democratic nominee contenders Elizabeth Warren and Bernie Sanders. Joe Biden, with his more moderate proposals to expand Obamacare, remains ahead in the polls and a Kaiser Family Foundation survey indicated recently Biden’s approach is more popular with Democrat voters.

NEDGROUP INVESTMENTS

Portfolio breakdown: As at 30 September 2019

Region	Portfolio %
North America	52.2
United Kingdom	16.8
Europe ex UK	14.0
Asia Pacific ex Japan	3.0
Cash and equivalents	14.1
Total	100.0

Sector	Portfolio %
Health Care	21.7
Industrials	20.0
Communication Services	19.8
Consumer Staples	13.2
Financials	8.0
Information Technology	3.1
Cash and equivalents	14.1
Total	100.0

Currency	Portfolio %
USD	66.2
EUR	13.4
GBP	12.3
AUD	3.0
SEK	2.9
CHF	2.3
CAD	0.0
Total	100.0

Top 10 portfolio holdings: As at 30 September 2019

Holding	Sector	Country	Portfolio %
Charter Communications	Communication Services	United States	7.1
Alphabet	Communication Services	United States	6.5
BAE Systems	Industrials	United Kingdom	4.8
Unilever	Consumer Staples	United Kingdom	4.6
Thermo Fisher Scientific	Health Care	United States	4.5
Facebook	Communication Services	United States	4.0
Reckitt Benckiser	Consumer Staples	United Kingdom	3.6
Baxter International	Health Care	United States	3.2
Microsoft	Information Technology	United States	3.1
Aena SME	Industrials	Spain	3.1
Total			44.4

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UK investors should read the Appendix for UK Investors in conjunction with the Fund's Prospectus which are available from the Investment Manager. www.nedgroupinvestments.com

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