NEDGROUP INVESTMENTS MULTIFUNDS PLC

QUARTERLY REVIEW

QUARTER 3 2019

This report is prepared by Nedgroup Investments (IOM) Limited the Investment Manager of Nedgroup Investments MultiFunds Plc.

The purpose of the report is to provide unitholders in the Nedgroup Investments MultiFunds and their advisers, with a review of the funds' performance since inception. The report is structured as follows:

PART ONE: MARKET REVIEW

This section provides a market review, which looks at the performance of global asset classes over the last quarter, and puts this into perspective relative to longer-term performance. The aim of this review is to provide a context in which the performance of Nedgroup Investments MultiFunds can be assessed.

PART TWO: NEDGROUP INVESTMENTS MULTIFUNDS' PERFORMANCE

This section provides an overview of the performance of the Nedgroup Investments MultiFunds since its launch on 19 August 2011 under the UCITS IV structure. The Income MultiFund was launched on 26 January 2012.

PART THREE: MARKET OUTLOOK

In this section we highlight our current views on the market over the medium term and how these views are implemented within the MultiFunds.

PART FOUR: UNDERLYING PORTFOLIO MANAGER PERFORMANCE

This section shows the performance of the underlying managers.

PART FIVE: FUND FOCUS

In this section we highlight a fund held in the MultiFunds.

PART ONE: MARKET REVIEW

Performance over period to 30 September 2019

Asset class	Indicator	3 months	1 year	3 years	5 years	10 years
Equities	MSCI All Country World Index	0.0%	1.4%	9.7%	6.7%	5.5%
Property	FTSE EPRA/NA REIT Dev Property Index	4.9%	14.1%	6.6%	7.8%	6.2%
Bonds	JPM Global Bond Index	3.1%	12.0%	3.6%	4.3%	2.7%
Cash	US 3-month deposits	0.5%	2.4%	1.8%	1.2%	0.5%
Inflation	US CPI	0.4%	1.7%	2.1%	1.5%	1.2%

All figures are in USD
Source Bloomberg, Nedgroup Investments
Returns for periods longer than 12 months are annualised.

Economic and market commentary

After a strong first half to 2019, markets took on a more nervous tone during the third quarter. August in particularly was a difficult month, with riskier assets sharply underperforming safe havens. However, better performance in the months either side of August meant that most asset classes still managed to finish the period in positive territory despite the intervening wobbles.

Economic data releases continued to point to slowing growth and a rising recessionary risks in a number of economies. Manufacturing and trade data were the main areas of weakness, with many economists pointing to the on-going US-China trade war as a key causal factor.

Expectations for interest rates declined over the quarter, and in an attempt to arrest economic slowdown, most central banks (including the Federal Reserve, European Central Bank and People's Bank of China) eased monetary policies, with more to follow over the coming months.

Trade relations between the US and China were never far from the headlines. Early in the period relations seemed to be in free-fall, with threat and counter-threat. However, in September the tone turned more conciliatory, as both sides suggested progress was being made ahead of the formal resumption of talks in early October. Consistent with this improvement, Trump chose to delay the next set of tariff increases from October 1st to October 15th.

In other news, Nancy Pelosi and the Democrats successfully pressed for the commencement of impeachment proceedings against Trump over his ill-judged 'phone call to the Ukrainian President. Elsewhere, the UK House of Commons voted in favour of a law that supposedly takes a "no deal" Brexit off the table should negotiators fail to strike a deliverable deal ahead of the October 31st cut-off.

Over the third quarter global equities were flat when judged using the MSCI AC World Index in US dollars. However, this masked increased volatility and dispersion across markets and regions, which was driven largely by shifts in currency exchange rates. A stronger dollar and yen helped the US (+1.4%) and Japanese (+3.1%) markets top the performance tables, whilst the opposite was true for Asia ex Japan (-4.5%) and Emerging Markets (-4.2%). Sector performance was also very mixed, with the low interest rate beneficiaries and stable earners tending to outperform more cyclical areas. More specifically, Utilities (+5.7%), Consumer Staples (+3.7%) and Real Estate (+3.0%) were the best performers, whilst Energy (-5.2% and Materials (-4.6%) were quite weak.

In terms of style, Growth (+0.3%) marginally outpaced Value (-0.2%), whilst Larger Companies (+0.0%) held up better than Smaller Companies (-1.1%).

A further downward adjustment in interest rate expectations underpinned strong performance across fixed income markets. High quality sovereign bonds led the way, with the JP Morgan Global Government Bond Index delivering +3.1%. A modest widening of credit spreads meant most other types of bonds slightly trailed, with the Merrill Lynch Global Investment Grade Corporate Bond Index gaining +2.7%, whilst the Merrill Lynch Global High Yield and JP Morgan Emerging Market Bond Indices both rose +1.3% (all hedged to US dollars).

Compared to other asset classes, commodities disappointed, led lower by Crude Oil (-6.6%) and Agriculture (-6.1%). However, Industrial Metals (+2.4%) bucked the trend, as did safe haven Gold (+3.8%).

The foreign exchange markets were very active over the quarter. Amongst the major currencies, the US dollar and yen were particularly strong, whilst emerging market currencies were generally quite weak, reflecting shifting expectations for relative growth and interest rates. Against the dollar, the yen slipped -0.2%, the euro -4.2%, the pound -3.3% and the Chinese yuan -4.1%. More dramatic moves included the Argentinian peso (-35.3%), the South African rand (-7.5%) and the Brazilian real (-8.6%).

Notes: All data is quoted in US dollar terms unless otherwise stated.

PART TWO: MULTIFUNDS' PERFORMANCE

All performance figures are as at 30 September 2019

Growth MultiFund

PERIOD	FUND USD %	BENCHMARK US LIBID 3 month +4%	FUND GBP %	BENCHMARK GBP LIBID 3 month +4%
3 months	-0.1%	1.5%	1.4%	1.2%
1 year	2.6%	6.5%	4.9%	4.8%
3 years (annualised)	7.4%	5.8%	7.7%	4.5%
Since inception* (annualised)	6.1%	4.8%	7.2%	4.5%

Balanced MultiFund

PERIOD	FUND USD %	BENCHMARK US LIBID 3 month +2%	FUND GBP %	BENCHMARK GBP LIBID 3 month +2%
3 months	0.4%	1.0%	1.2%	0.7%
1 year	4.4%	4.4%	5.2%	2.7%
3 years (annualised)	5.4%	3.8%	5.0%	2.5%
Since inception* (annualised)	3.3%	2.8%	4.8%	2.5%

Income MultiFund Accumulating

PERIOD	FUND USD %	BENCHMARK US LIBID 3 month	FUND GBP %	BENCHMARK GBP LIBID 3 month
3 months	1.2%	0.5%	0.8%	0.2%
1 year	6.9%	2.4%	5.3%	0.7%
3 years (annualised)	4.2%	1.8%	3.0%	0.5%
Since inception* (annualised)	3.7%	0.8%	3.6%	0.4%

C Class performance with returns prior their inception dates backfilled using class A returns adjusted for fees.

*Inception dates: NIM Growth USD C: 30/12/2014, NIM Growth GBP C: 06/03/2013,
NIM Balanced USD C: 08/11/2013, NIM Balanced GBP C: 06/03/2013
NIM Income USD C Acc: 01/09/2015, NIM Income GBP C Acc: 08/04/2013

Inception date for NIM Growth and Balanced USD A is 19 August 2011 (Valuation date 18 August 2011) / for NIM Income USD A Acc is 12 April 2012
Inception date for NIM Growth and Balanced GBP A is 19 August 2011 (Valuation date 18 August 2011) / for NIM Income GBP A Acc is 26 January 2012

PORTFOLIO REVIEW AND CHANGES

Growth

The portfolio ended marginally down on the quarter, declining -0.1% (US$ C Class).

Looking beneath the surface, the aggregate of the underlying global equity exposures performed in line with market averages. Whilst the developed market equity part of the portfolio was helped by its bias towards more defensive sectors, the regional tilt to emerging market stocks was a headwind over the quarter.

In other areas, global REITs (Nedgroup Global Property +4.5%) contributed positively as real estate enjoyed strong support from declining interest rates. The more traditional UK commercial property holding, BMO Commercial Property (+6.0%), recovered some ground lost earlier in the year when Brexit uncertainty had unsettled the share price. The other more defensive care home exposures (held through Impact Healthcare and Target Healthcare) also continued to turned in solid gains over the quarter.

Elsewhere, the portfolio's investment in infrastructure made a positive contribution, supported in part by the shift in interest rate expectations over the period (Greencoat UK Wind +3.4%, Greencoat Renewables +3.3%, John Laing Environmental Assets +0.5%). Finally, the portfolio's allocation to asset-backed lending was more mixed, with SQN Asset Finance Income Fund C-Shares (-2.1%) and GCP Asset Backed Income (+3.2%) broadly offsetting each other.

Over the quarter we did not make any material strategy changes to the portfolio.

Balanced

The portfolio rose slightly during the period, rising +0.4% (US$ C Class).

Looking beneath the surface, the aggregate of the underlying global equity exposures performed in line with market averages. Whilst the developed market equity part of the portfolio was helped by its bias towards more defensive sectors, the regional tilt to emerging market stocks was a headwind over the quarter.

Within fixed income, the portfolio's bias towards shorter maturity bonds detracted from returns as government bond yields fell sharply over the quarter. Increased risk aversion meant the portfolio's exposure to US government bonds, via Vanguard US Government Bond Index (+2.4%), and conventional investment grade credit, via PIMCO Global Investment Grade (+2.4%), performed strongly. However, despite the risk-off tone, the two sub-investment grade funds (AXA and Muzinich) still managed to achieve positive returns. Finally, Franklin Templeton Global Total Return (-4.6%) was disappointing, hindered by its exposure to emerging market local currency bonds which were weak over the period.

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Finally, the portfolio's allocation to asset-backed lending was more mixed, with SQN Asset Finance Income Fund C-Shares (-2.1%) and GCP Asset Backed Income (+3.2%) broadly offsetting each other.

In terms of changes to the portfolio during the quarter, we reduced credit risk within the fixed income section of the portfolio. This move took advantage of a tightening of credit spreads and high corporate bond prices, as well as recognising that credit is arguably in the latter stages of its cycle. We have taken a gradual but consistent approach to reducing credit risk as we are also cognisant that the ultra-accommodative monetary policy may well extend the credit cycle longer than in the past. Credit risk was cutback through a reduction in AXA US Short Duration High Yield, Muzinich Short Duration High Yield and PIMCO Global Investment Grade Fund. The proceeds were reinvested in the iShares US Treasury Bond 1-3 year ETF.

Income

The portfolio had a solid quarter, rising +1.2% (US$ C Class).

Within fixed income, the portfolio's bias towards shorter maturity bonds detracted from returns as government bond yields fell sharply over the quarter. Increased risk aversion meant the portfolio's exposure to US government bonds, via Vanguard US Government Bond Index (+2.4%), and conventional investment grade credit, via and Wellington Global Credit Plus (+2.4%) and PIMCO Global Investment Grade (+2.4%), performed strongly. However, despite the risk-off tone, the two sub-investment grade funds (AXA and Muzinich) still managed to achieve positive returns. Finally, Franklin Templeton Global Total Return (-4.6%) was disappointing, hindered by its exposure to emerging market local currency bonds which were weak over the period.

In other areas, the small exposure to high yielding UK equities was a positive, as were the holdings in UK commercial property. The more traditional UK commercial property holding, BMO Commercial Property (+6.0%), recovered some lost ground from earlier in the year despite continued Brexit uncertainty, which had previously unsettled the share price. The other more defensive care home exposures (held through Impact Healthcare and Target Healthcare) continued to generate solid returns.

Elsewhere, the portfolio's investment in infrastructure made a positive contribution, supported in part by the shift in interest rate expectations over the period (Greencoat UK Wind +3.4%, Greencoat Renewables +3.3%, John Laing Environmental Assets +0.5%). Finally, the portfolio's allocation to asset-backed lending was more mixed, with SQN Asset Finance Income Fund C-Shares (-2.1%) and GCP Asset Backed Income (+3.2%) broadly offsetting each other.

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PART THREE: MARKET OUTLOOK

It is abundantly clear that global growth is slowing, and some important economies are skirting with recession. The most significant area of weakness has been manufacturing, which reflects a slowdown in global trade that we would at least partly attribute to the US-China trade war. China and Germany have been particularly weak, with tariffs hurting Chinese exports and the general malaise in autos undermining German manufacturing. Elsewhere, Brexit continues to cast a long shadow over the UK economy, whilst the clock ticks towards the October 31st deadline.

With the outlook for growth deteriorating, expectations for inflation and interest rates have also come down. In response, central banks are now easing their policies, having previously had a bias towards tightening. Lower interest rates (with the prospect of more cuts to come) have put a floor on risk asset pricing and forced investors to hunt for yield and take on risks that ordinarily that might prefer to avoid. With little prospect of central banks shifting their stance, we see no reason why investor behaviour might change anytime soon.

We expect global corporate earnings growth to be near negligible in 2019. In the short term, that means equity markets will be dependent on multiple expansion rather than growth to fuel any advance. In our view there is some scope for further progress in the coming quarters, although we think any upside has to be limited.

Looking around the world, we think the best value lies in the non-US stock markets, and in particularly, the emerging markets. Whilst they are riskier than developed markets, emerging markets offer better longer term growth prospects, lower valuations and latent potential currency appreciation. Further cuts in US interest rates (which we expect) ought to provide additional support to emerging market assets as they tend to do better when the Federal Reserve is cutting interest rates.

Within fixed income, bond yields have fallen to an extraordinarily low base again (many bonds now offer negative yields). From these levels, it is hard to envisage yields moving much lower, although it is also easy to see why yields could stay very low for a long time, especially if economies remain sluggish and inflation subdued.

Within fixed income, our favourite area of focus is the US bond market which we think is much more realistically priced than Eurozone, Japanese or UK bonds. The US offers much higher yields than the other regions, which continue to be distorted by negative / near zero central bank interest rate policies. Even though we believe there is little prospect of interest rates rising much in the near term, we prefer to pursue a short duration strategy focused on higher yielding corporate bonds as this approach offers the benefit of better income yield whilst simultaneously protecting against the downside of any interest rate surprise.

We remain of the view that the most likely outcome for Brexit is an extension of the October 31st deadline. Of course, should this come to pass, nothing will have been resolved and uncertainty will continue. Any number of final outcomes remain plausible, ranging from “remaining” right though to a “no deal” Brexit. Whatever happens, one has to be concerned that Brexit is breaking the old order of UK politics and perhaps taking with it all the benefits a stable political framework has afforded the UK for many years.

There are a number of known risks that could potential destabilise financial markets over the coming months. A bad outcome to the US-China trade negotiations is one, whilst a no-deal Brexit would be another. Shifting political sands are also worrisome, with Labour waiting in the wings in the UK, and the Democrats hopeful of deposing Trump and the Republicans next year. Finally, slowing economic growth has to be considered, even though it brings with it its very own anaesthetic of lower interest rates and easier central bank policy. At the highest level, the general thrust of our portfolio strategy continues to be more cautious than would normally be the case, with our direction of travel being to take less risk rather than more.

PART FOUR: UNDERLYING PORTFOLIO MANAGER PERFORMANCE

The Nedgroup Investments MultiFunds' investment philosophy is one that seeks to invest in specialist underlying portfolio managers who are most appropriate for the achievement of each risk profiled MultiFunds' investment objective. A combination of externally appointed fund managers is used. The table below shows the performance of the underlying managers used within the Growth, Balanced and Income MultiFunds.

Performance as at 30 September 2019										
	Category	Currency	1 month	3 months	6 months	YTD	1 year	2 years*	3 years*	5 years*
Equity - USD										
Dodge & Cox Global Stock Fund	*Global Equity*	*US Dollar*	3.59	-0.42	1.86	11.53	-2.77	0.23	7.98	4.45
Fundsmith Equity Fund	*Global Equity*	*US Dollar*	-2.05	-1.66	2.71	21.12	7.21	12.66	14.82	14.60
iShares MSCI World	*Global Equity*	*US Dollar*	2.14	0.54	4.62	17.69	1.91	6.51	10.29	7.30
Morgan Stanley Global Brands	*Global Equity*	*US Dollar*	-0.97	0.64	5.68	21.10	9.95	13.39	13.85	11.15
Nedgroup Global Equity Fund	*Global Equity*	*US Dollar*	0.39	1.25	5.41	18.70	4.42	6.73	11.20	8.05
Vanguard Global Stock Index	*Global Equity*	*US Dollar*	2.12	0.49	4.45	17.49	1.68	6.26	10.04	7.01
Allianz Global Small Cap Equity	*Global Small Cap Equity*	*US Dollar*	-0.68	-3.35	-0.91	12.53	-11.09	-0.21	5.83	4.32
TT Emerging Markets Equity Fund	*Global Emerging Markets Equity*	*US Dollar*	1.49	-4.86	-4.38	9.16	1.74	-1.37	7.39	5.52
Vanguard Emerging Markets Stock	*Global Emerging Markets Equity*	*US Dollar*	1.86	-4.29	-3.11	5.75	-1.81	-1.59	5.75	2.14
MSCI ACWI NR USD		*US Dollar*	2.10	-0.03	3.58	16.20	1.38	5.49	9.71	6.65
Fixed Income - USD										
AXA US Short Duration High Yield	*Short Duration High Yield*	*US Dollar*	0.34	1.16	2.47	6.56	5.10	3.68	3.58	3.24
Muzinich Short Duration High Yield	*Short Duration High Yield*	*US Dollar*	0.18	0.62	1.79	5.70	3.87	3.29	3.42	3.02
PIMCO Global IG Credit	*Global Corporate Debt*	*US Dollar*	-0.29	2.41	6.16	11.31	11.43	5.50	4.96	5.19
Wellington Global Credit Plus	*Global Corporate Debt*	*US Dollar*	-0.96	2.41	6.80	11.32	11.96	6.01	4.69	5.09
Franklin Templeton Global Total Return	*Global Bond*	*US Dollar*	0.67	-4.63	-3.11	-1.55	1.24	-1.60	3.73	0.30
Vanguard US Government Bond Index Fund	*Government Bond Index*	*US Dollar*	-0.88	2.40	5.24	7.41	10.14	4.03	2.01	2.66
iShares $ Treasury Bond 1-3YR UCITS ETF	*Government Bond Index*	*US Dollar*	-0.13	0.58	2.03	3.00	4.34	2.08	-	-
Bloomberg Barclays Global Aggregate USD H		*US Dollar*	-0.46	2.59	5.59	8.75	10.65	5.62	3.65	4.12
Property - USD										
Nedgroup Global Property Fund	*Global Property*	*US Dollar*	1.26	4.52	4.93	21.28	13.24	8.46	-	-
iShares Developed Marcket Property Yield	*Passive Tracker*	*US Dollar*	2.31	4.52	4.51	19.89	13.00	8.13	5.48	7.38
FTSE EPRA NAREIT Developed TR USD		*US Dollar*	2.46	4.87	5.08	20.69	14.11	9.26	6.62	7.78
Property - GBP										
BMO Commercial Property Trust	*UK Property*	*Pound Sterling*	9.04	5.67	0.06	-2.81	-12.26	-7.46	2.71	3.03
Impact Healthcare REIT	*Healthcare Property*	*Pound Sterling*	-0.89	2.34	7.73	11.94	12.49	9.71	-	-
Target Healthcare REIT	*Healthcare Property*	*Pound Sterling*	-2.39	0.57	2.55	10.75	6.02	5.07	7.22	8.13
Other / Specialist - GBP										
Greencoat UK Wind	*UK Renewable Energy*	*Pound Sterling*	2.72	3.13	6.70	18.34	17.86	15.03	13.87	11.79
John Laing Environmental Assets Group	*UK Renewable Energy*	*Pound Sterling*	0.00	0.16	9.85	17.33	19.42	10.44	10.98	9.08
The Renewable Infrastructure Group	*UK Renewable Energy*	*Pound Sterling*	-2.92	-0.25	10.00	16.40	18.93	14.27	12.49	9.83
3i Infrastructure	*Infrastructure*	*Pound Sterling*	-1.17	-0.67	8.94	16.06	25.06	24.43	17.28	19.95
SQN Asset Finance Income Fund - C	*Asset Financing*	*Pound Sterling*	2.48	-2.41	-2.09	1.48	0.18	12.92	-	-
GCP Asset Backed Income Fund	*Asset Financing*	*Pound Sterling*	0.46	2.87	3.84	8.39	6.90	8.49	6.16	-
LIBID GBP 3 Month + 2%		*Pound Sterling*	0.23	0.67	1.34	2.02	2.73	2.62	2.48	2.47
Other / Specialist - EUR										
Greencoat Renewables	*UK Renewable Energy*	*Euro*	-2.14	2.74	10.51	13.38	15.56	8.97	-	-
Cash - USD										
BlackRock USD Liquidity Premier Class	*Cash*	*US Dollar*	0.17	0.59	1.21	1.88	2.49	2.14	1.78	1.18
LIBID USD 3 Month		*US Dollar*	0.17	0.52	1.10	1.72	2.38	2.16	1.77	1.20
Cash - GBP										
Insight GBP Liquidity Fund	*Cash*	*Pound Sterling*	0.04	0.13	0.25	0.39	0.47	0.38	0.31	0.31
LIBID GBP 3 Month		*Pound Sterling*	0.05	0.16	0.33	0.51	0.70	0.61	0.48	0.46

*** Annualised**

PART FIVE: FUND FOCUS

In this section of the report we cover the underlying funds in slightly more detail in order to assist investors in gaining a better understanding of the underlying funds and the reasons we hold them. In this report we look at AXA US Short Duration High Yield.

AXA US Short Duration High Yield

The AXA US Short Duration High Yield Fund aims to generate high investment income by investing in short dated non-investment grade debt of US companies. The fund is not managed against a benchmark, since AXA regard their approach to be more of an absolute return strategy. The fund only invests in securities with expected maturities of three years or less. The managers believe this part of the market to be relatively inefficient in terms of supply/demand and credit seasoning. As such, it provides a unique combination of good potential return with reduced risk / volatility.

The investment process is predominately driven by the assessment of bottom up fundamentals, but the team do integrate top-down views within their valuation judgment and risk management. The top down part of the process begins with a study of the economic conditions that high yield issuers face, and the broad risks and return opportunities embedded in the current market. This review occurs quarterly on a formal basis, but is under continual re-assessment at both monthly strategy, and daily morning meetings.

The bottom-up part of the process consists of three major components: assessing risk, valuing risk, and managing risk. Step 1 - assessing risk - or fundamental bottom up analysis, begins with a quantitative screen that narrows the investable universe of corporate issuers down to those companies that they believe have the greatest probability of paying their coupons and principal on a timely basis. They then conduct in-depth financial analysis on this filtered list to assess the credit profile of each issuer. Step 2 - valuing risk - identifies relative and absolute value opportunities by assessing the fundamental characteristics and risk/return profile of each issuer with those of the market. Step 3 – managing risk - aims to balance bottom-up (idiosyncratic) and top-down (systemic and market related) risks against return opportunities. Portfolios are constructed based upon macro views that target sector and industry positioning as well as broad-based risk exposure associated with credit ratings and other non-ratings-based risk characteristics, such as liquidity and market risk.

AXA utilise a team-based approach, bringing together traders, analysts, and portfolio managers to provide consensus decision making and shared accountability for performance. Day-to-day risk management is the responsibility of the portfolio managers who specifically monitor portfolio constraints, risk indicators, counterparty and liquidity risk with the help of various tools. The independent Global Risk Management department oversees both market and operational risks.

AXA are one of the pioneers and leaders in the short duration US high yield investment space, managing the most assets and for longer than any other player. Their dominant position is seen as a competitive advantage giving them priority access to certain investment opportunities. They have a well-resourced team, a disciplined and repeatable investment approach proven over the market cycle, and historically strong risk-adjusted returns. This fund should be considered for investors looking for high investment income relative to cash or government bonds, but with much less volatility than would normally be associated with a conventional high yield bond fund.

This strategy takes very limited currency risk; the majority of the underlying exposure that is not denominated in the base currency is hedged back to the base currency. Investors who like this strategy but prefer to invest in another base currency (such as GBP), hedged share classes are available.

WHY WE LIKE THE FUND:

- Dominant position in this investment space
- Disciplined and repeatable investment approach
- Well-resourced and experienced investment team
- Generates high investment income with relatively low volatility
- Consistently strong risk-adjusted returns