NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND

Quarter Four, 2019

For the period ended 31 December 2019

NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND

PERFORMANCE

The Fund produced a positive net return (A-class) of +2.9% in the final quarter of 2019 versus one-month USD Libor of 0.48%. Since the aim of the strategy is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

MARKET OVERVIEW

Equities enjoyed a strong quarter which helped cap an excellent 12 months. The potential amelioration in the trade war between the US and China helped stimulate market enthusiasm whilst continued quantitative easing in Europe and Japan and the end of the shrinkage in the balance sheet of the US Federal Reserve all contributed. At the end of the year the result of the British election and the certainty that Brexit will now be resolved also aided interest in the markets.

The latest OECD Economic Outlook (November) does little to inspire confidence in global prospects as it still regards downside risks as most pronounced although it was published before the signs of a thawing in the US/China trade war and the result of the British election.

The OECD comments that the global outlook is fragile, with increasing signs that the cyclical downturn is becoming entrenched. GDP growth remains weak, with a slowdown in almost all economies this year, and global trade is stagnating. A continued deepening of trade policy tensions since May is taking an increasing toll on confidence and investment, further raising policy uncertainty. Supportive labour market conditions continue to hold up household incomes and consumer spending, at least in the near term, although survey measures point to weakness ahead."

The contrast between performance in the equity markets and the global economy is marked. There is no rule which says they must operate in tandem but, ultimately, the direction of corporate profits will dictate movements in equities and that is the area giving cause for concern. In the US, home to the best performing major equity market of the last decade, whole-economy pre-tax corporate profits are no higher than 5 years ago. The S&P 500 index and the Dow Jones have benefitted from record share buy-backs and the Trump corporate tax cuts but do not accurately reflect profitability and activity in broader corporate America.

Global debt relative to GDP is at an all-time high and it is this increase in leverage that has been the backbone of the global expansion since the financial crisis of 2007-9. The growth in debt is, however, finite and many countries must now be close to limits. There is ample evidence that the impact of leverage weakens as more is added – in other words, after a "tipping" point every extra dollar of debt adds an ever- shrinking amount of growth. This applies to companies as much as it applies to an entire economy.

Our judgement is that everything possible has been done to keep the world economy in recovery mode since the financial crisis, but the task is now getting more difficult. What is needed is strong capital investment and, thence, productivity growth, but the ultra-low interest rates appear to discourage long-term capital investment plans whilst encouraging short-termism. This may sound counter-intuitive, but the evidence is abundant. Partly it may be caused by low confidence levels which are, in turn, caused by the record low interest rates. "Things must be bad if interest rates are at this level" – is the way thinking typically goes.

The risk to equity markets is not just slow (or no) corporate profit growth but a decline in market multiples which, currently, are above long-term averages.

CONTRIBUTORS & DETRACTORS

Both equities and bonds produced positive returns in the final quarter of the year, supported by US dollar weakness. Based on Purchasing Power Parity (PPP) analysis we consider the dollar to be overvalued and expect it to fall over the medium-long term, which will be to the advantage of the portfolio. Whilst it's difficult to judge currency movements over the short term, we maintain our maximum level of unhedged foreign currency exposure at 45% of the total portfolio.

As a result, the biggest contributor over the period was the overseas bond portfolio with the UK Treasuries (15% of portfolio) in particular contributing. Sterling rallied following a large majority for the Conservative Party in the UK election in December rising nearly 7% against the US dollar. The portfolio's US Treasuries were also in positive territory (+0.5%) over the period outperforming the wider market (JPM US - All Maturities TL) which fell -0.9% as yields rose. Pyrford continues to adopt a very defensive stance by only owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields – as witnessed over the quarter.

Equities rallied in the fourth quarter capping off a remarkable year for the asset class. The equity portfolio as a whole returned +6.8% in the fourth quarter. Half of the portfolio's equities are invested in the US which underperformed the domestic market over the period (+5.6% v +9.1%, MSCI USA Index). Key detractors over the period included McDonalds (-7.5%), CH Robinson (-7.3%) and General Dynamics (-3.1%). CH Robinson performed poorly as it gave a disappointing truck transportation outlook for the rest of 2019 and the beginning of 2020. General Dynamics lagged the market as it too, gave a less positive outlook for the business jet market, investors had been hoping for a stronger business jet market in 2020. Finally, McDonald's lagged the market as it removed its CEO. While this caused short term weakness in the share price, a replacement was quickly found.

Some of the better performing companies in the portfolio during the quarter included Atria (+23.3%) and Rockwell Automation (+23.4%). Altria benefitted from an improving outlook for their US tobacco business and the successful launch of their next generation heat not burn offering. Rockwell Automation performed well during the period as investors became more optimistic that a US recession was less like in 2019.

Outside of the US, the overseas equities portfolio delivered 7.6%, broadly in line with the market (7.9%, MSCI World Ex US). Notable contributors over the period included Taiwan Semiconductor (+25.8%), Atlas Copco (+30.6%) and Fuchs Petrolub (+32.1%). Unilever (-3.7%) was the only notable detractor in the fourth quarter.

PORTFOLIO CHANGES / OUTLOOK

There were no asset allocation changes in the quarter. The current model allocation remains 25% equities, 72% bonds and 3% cash. This reflects our continued view that there is little fundamental value in either equities or longer duration quality sovereign bonds and that capital market valuations do not discount the significant structural economic problems and material risks that exist.

The equity portfolio remains positioned in traditionally defensive sectors which offer predictable revenue streams and attractive valuations. The focus of the portfolio is on balance sheet strength, profitability, earnings visibility and value. In Asia, we have a preference for the Southeast Asian markets over Japan as the economies in Southeast Asia offer sustainable economic growth supported by increased labour output or productivity growth and trade at more reasonable valuations.

Within the equity portfolio there were no new stocks purchased or sold outright over the quarter.

Our positioning in bonds remains the same. Pyrford continues to adopt a very defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter the modified duration of the fixed income portfolio stood at just 1.3 years. Whilst these very short duration bonds are unlikely to yield high returns they will provide significant capital protection for the portfolio and importantly they are highly liquid. The portfolio management team will have sufficient liquidity to efficiently sell these positions and switch into equities (or higher duration bonds) if value emerges. In the quarter there were no further changes to the overseas bond portfolio. 42% of the portfolio is invested in overseas bonds, with 15% in the UK, 16% in Canada and 11% in Australia. The remaining bond portfolio is invested in US Treasuries.

Finally, there was no change to the unhedged non-USD exposure in the portfolio over the quarter. 45% (the maximum level) of the portfolio remains exposed to unhedged foreign currencies, representing the view that the US dollar is an expensive currency.

CONCLUSIONS

At Pyrford we believe that a long-only, fundamental, quality and value-based approach utilising a long-term outlook with the ability to move allocations flexibly and appropriately between the key asset classes – global equities, cash and sovereign debt - will provide a rewarding and stable real return stream for our clients.

It is worth noting that Pyrford do not just think equities and bonds are overvalued. In our view the unprecedented and unorthodox central bank actions of recent years have resulted in extraordinary rises in just about all asset prices – equities, fixed income, property and "alternatives" – you name it.

RESPONSIBLE INVESTMENTS COMMENTS

As long-term shareholders of companies, we have the ability, and in our view the responsibility, to try and influence the business practices of companies.

In the quarter Pyrford voted 172 ballots in 10 company meetings. We voted against management in 15% of meetings. All voting records and rationale are available to view on our website (www.pyrford.co.uk), contained within our responsible investment section.

Finally, in the quarter, Pyrford's 15-member Investment team engaged with 152 companies worldwide and ESG issues are a standing agenda item in every meeting we conduct. For a detailed overview of ESG activity, please visit our website for our latest annual ESG report.

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Nedgroup Investments Funds PLC (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 (S.I. No. 352 of 2011) as amended from time-to-time.

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The Information Agent in Germany is ACOLIN Europe GmbH, with registered office at Reichenaustraße 11a-c, 78467 Konstanz. The basic documents of the Fund, including the prospectus (in English) and the KIID (in German), may be obtained free of charge at the registered office of the German Information Agent.

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