NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Two, 2020

Nedgroup Investments Global Emerging Markets Equity Fund

Portfolio strategy

Emerging equity markets staged a dramatic recovery in the second quarter driven higher by the unprecedented policy actions of global monetary authorities. The MSCI Emerging Markets Index rose 16.85% in local currency terms and 18.18% in US dollars as the greenback surrendered some of its Q1 gains. Argentina was the best performing market gaining 43.7% despite being in the process of negotiating a debt restructuring after defaulting in May, while the worst performer was Qatar up 7.2%. Healthcare was the best performing sector gaining 37.47% with real estate the worst up 6.1%.

The effects of the pandemic seem to have accelerated the existing trends in stock markets, with many sectors that were under pressure suffering even more and those where there were positive developments growing stronger such as IT. Companies are having to reimagine their digital strategies. We are underweight energy where the Brent oil price staged an 81% recovery during Q2 as OPEC agreed then extended record oil production cuts, bringing to an end the price war between Saudi Arabia and Russia. However, the sector still lagged the broader market as investors remained cautious about the long-term prospects for oil companies. Cuts to dividends, capex plans and asset values were announced. Weak demand due to both the recession and lifestyle changes including the shift to WFH has boosted inventories and the industry has been forced to find inventive ways of adding storage capacity. Financial closure costs are keeping non-economic wells operating, staving off bankruptcy in some cases. The shale industry may be fighting for survival but capacity is unlikely to shrink as costs fall and new players step up production. We favour Reliance in India which is a beneficiary of lower oil prices through its refinery and Lukoil in Russia where we like the focus on capital discipline and cash before volume.

We have added to materials where supply disruptions in Brazil have kept iron ore prices elevated and most metals such as copper have rebounded from Q1 lows. In building materials and chemicals, stocks exposed to renovation and DIY will benefit from the post Covid-19 trends of updating WFH environments and public works paid for by fiscal expansion. We like LG Chem which is the largest chemical company in Korea and should gain from an improving global macro backdrop and EV demand for its batteries. In industrials airlines will suffer from a structural decline in business travel and a slow recovery in tourism. With traffic and cash levels low airline companies are reluctant to take delivery of new planes, passing the pain onto commercial aircraft makers and their suppliers. We like Airports of Thailand, which appears cheap to us after management provided a cautious outlook, and low-cost operator Spring Airlines which is benefiting from improving passenger growth and lower fuel costs and is winning market share from full-service carriers. We like capital goods: some companies have seen meaningful earnings downgrades due to the aggregate demand challenges in aerospace, airlines, oil & gas, petrochemicals and construction but pressures are easing and we expect government support and fiscal expansion to pull the sector through the trough. Names include Ayala in the Philippines which is a large conglomerate that is seeing activity pick up across the group.

In consumer areas the shift to internet retail has been hastened and companies with the best online offerings have grown market share. There are structural shifts in how consumers buy across different channels and long-term shifts in business models. New categories of spend are moving online in a meaningful way such as groceries, personal care, large consumer electronics and furniture. The leisure industry has yet to return to even a semblance of normality and surveys suggest that consumers are planning to visit bars and restaurants less than before the lockdowns. We continue to like online winners such as Alibaba and sportswear maker Li Ning. In autos we favour Eicher Motors in India where enquiries for Enfield bikes have picked up and new models should take market share. In leisure we continue to own Lemon Tree Hotels in India which is cutting costs aggressively to address unprecedented cashflow challenges and Minor International in Thailand where we expect occupancy rates and RevPAR to improve rapidly in 2021. We have zero exposure in healthcare and remain underweight financials where the surge in money supply is raising the spectre of a future rise in inflation. Moderate price rises and higher bond yields would be positive for banks but the stagflation of the 1970s was a difficult time for the industry with price to book values halving. Nearer term there remains the threat of a rise in bad debts and non-performing loans to the consumer and stretched sectors like oil & gas and leisure. We are underweight banks but like the growth story in Asian insurance which we play through Ping An and AIA.

In IT, surveys suggest spending will still grow in 2020 despite the pandemic with digital transformation accelerating. In semis DRAM prices should improve as inventories normalise and demand should grow seasonally and as memory elasticity/higher content per unit rises. We like companies exposed to the migration to the cloud and chip makers such as TSMC and Samsung. In communications Tencent features as a significant overweight but we are underweight the sector as well as utilities. Real estate is an overweight where we like logistics related names connected to online retailing such as ESR Cayman.

The unprecedented fiscal and monetary stimulus should drive a strong recovery in H2 2020 / 2021. Emerging market equities are likely to discount a return to growth as new Covid-19 infections peak. Our emerging markets checklist is becoming more bullish than for many years with the USD a key indicator here. Regionally the portfolio was overweight China and Taiwan at the start of Q2 but both were reduced in favour of South Korea and Brazil. We are underweight India, South Africa, Mexico and GCC markets. Our focus remains on high quality, high ROIC companies, of which there are many in mainland China. The relisting theme will help Hong Kong too. Our style is unchanged and we are looking for opportunities in quality and quality growth areas while preparing to play the recovery through economically sensitive stocks and countries.

Attribution commentary

Emerging markets joined the rebound in global asset prices in Q2 as monetary and fiscal authorities sought to offset some of the worst economic damage from the shutdown of economies worldwide with unprecedented stimulus measures. The MSCI Emerging Markets Index posted a gain of 18.18% in US dollars erasing much of the 23.57% decline in Q1. The index was up 16.85% in local currency with a modest rebound of EM currencies versus the dollar delivering the rest of the gain. The fund posted an increase of 19.73% in dollars following outperformance in Q1. The biggest contributor to relative performance in Q2 was security selection with an offset from negative country and sector selection.

3 Months to June 30, 2020	Allocation (%)	Stock Selection (%)	Net Impact (%)
Total	-0.85	2.95	2.11
Emerging Market Asia	-0.64	2.78	2.14
China	-0.26	1.68	1.42
Korea, Republic of	0.03	0.06	0.09
Taiwan	0.06	0.99	1.04
India	-0.08	-0.30	-0.38
Malaysia	0.03	-0.15	-0.12
Thailand	-0.17	0.17	-0.00
Emerging Markets Europe, Middle East and Africa	0.11	0.88	0.99
South Africa	-0.21	-0.01	-0.22
Russian Federation	0.01	0.30	0.31
GCC (Saudi Arabia, Qatar, UAE)	0.24	0.00	0.24
Emerging Market Latin America	0.00	-0.70	-0.70
Brazil	0.02	-0.51	-0.49
Mexico	0.03	-0.11	-0.08
Frontier Markets	0.04	0.00	0.04
Cash	-0.36	0.00	-0.36

All sectors in the index posted positive returns for the quarter with the relatively small health care sector the strongest performer, gaining 37.5%, and real estate the weakest, up 6.1%. Underweights in materials

(+24.4%) and energy (+23.5%) as well as health care were the main detractors from sector selection and were only partly offset by our overweights in consumer discretionary (+22.3%) and IT (+20.4%) and underweight in financials (+7.5%). As mentioned above strong security selection was the principal driver of outperformance. At the sector level stocks in the portfolio delivered the strongest relative returns in communication services, IT, industrials and financials.

As markets globally recovered much of the Q1 losses those that had fallen most over that period were amongst the leaders in Q2. The strongest performer was Argentina, up 43.7% in US dollars, even as a ninth default is being negotiated with international creditors. Again, as with sectors, all markets posted positive dollar returns in Q2, with a modest 7.2% dollar gain in Qatar at the bottom of the performance table. The fund's underweight in South Africa was the biggest detractor to country selection as the market staged a 27.4% rally. The South African economy remains fragile in our opinion with few policy options available to the administration after years of mismanagement under former President Zuma.

We reduced the underweight in Brazil following a 50.2% decline in Q1 and the modest 21.9% rebound was not unexpected even as one of the worst pandemic outcomes continues to develop. We lowered our overweight in China, which had been the best performing market last quarter, thereby reducing a negative market selection impact as Chinese stocks lagged the index with a 15.4% gain. We continue to find attractive businesses and the authorities have room for further policy stimulus measures should the need arise. Security selection in China was positive even as our weighting was reduced. The underweights in the Middle Eastern markets of Saudi Arabia (+13.8%) and Qatar (+7.2%) worked in our favour again this quarter even as oil prices rebounded 21%. Oil prices remain well below the levels required for fiscal comfort in Saudi Arabia in particular. The ongoing uncertainty regarding demand as mobility levels struggle to recover is likely to remain a headwind near term.

At the country level, security selection was negative in Latin America in both Brazil and Mexico. This partly reflected being underweight materials in both markets and underweight energy in Brazil. Holdings in consumer staples, which had worked in Q1, were a further drag. Femsa (+2.5%) in Mexico had an adverse tax settlement in June which has led to a significant earnings downgrade. We are reviewing the holding as the taxation of dividend income on its 8.9% Heineken stake undermines the investment case of reinvesting secure income streams in its high growth retail division. In Brazil, another consumer staple Atacadoa Distribuicao (-9.5%) was a significant cause of relative slippage. Results here were in line with expectations but the market rally was focused on more cyclical exposure in energy, materials and online retail plays. Security selection in India was also disappointing. In consumer discretionary the underweight in autos was a drag as share prices recovered sharply from Q1 weakness whilst Lemon Tree Hotels (+3.5%) lagged the sector and market.

In Asia, security selection was strong in China, Taiwan and the Philippines. Performance in IT and media and entertainment names within communication services were large positive contributors. In IT, Mediatek (+81.2%) continued to deliver strong gains, as expectations of increased demand from China based customers including Huawei were supported by Q1 results and guidance. Accton Technology (+43.3%) also delivered strong relative returns as the demand for switching and network equipment continues to be boosted by the shift towards e-commerce, streaming services and cloud growth in the pandemic. In China, 21Vianet Group (+72%) in data centre provision and Kingdee Intl (+75%), which provides software to run cloud based services to Chinese businesses, were big relative contributors in Q2. In Korea, media company Naver (+58.9%) boosted relative performance as demand for its online search and gaming services attracted investors. In China, Tencent (+31.5%) contributed to the communication services returns. The underweight in traditional telecoms (+7.24%) was helpful as the industry lagged with heavyweight China Mobile (-6.4%) faring poorly. Longi Green Energy Technology (+30%) in China is a new position for the quarter which got off to a strong start. Longi is one of the leading solar energy product manufacturers and was added in part to increase cyclical exposure on the portfolio. CD Projekt (+43%) in Poland continued to deliver strong relative performance as demand for its existing gaming franchise and expectations for the next big release (Cyberpunk 2077) drove sentiment. We have started to reduce the position after a strong few years in the stock as so much optimism is now in the valuation. In industrials, Ayala Corp (+70%) worked in the Philippines after a poor Q1. In China another A-share we have recently added to, Contemporary Amperex Technology (CATL), gained

45% as investors warmed to the theme of structural growth in EV batteries. LG Chemical (+62%) in Korea is in the materials sector but like CATL is focused on EV batteries with strong volume growth and a rapidly increasing ROIC. In Taiwan, industrial Hiwin Technology (+50%), a supplier of essential components in factory automation and logistics fulfilment, boosted relative returns. As the above comments illustrate, the divergence of returns across markets, sectors and securities was very wide in Q2 as investors sought relative long-term winners during a period of rotation. Given this disparity, particularly at the individual security level, it is not surprising that security selection was a key driver of relative returns in Q2.

Portfolio activity

Top 10 Purchases

Country	Security	Sector	%
China	Kingdee International Sftwr	Information Technology	1.73%
Hong Kong	Hong Kong Exchanges and Clearing Ltd	Financials	1.61%
Taiwan	Giant Manufacturing	Consumer Discretionary	1.51%
China	21Vianet Group Inc - Adr	Information Technology	1.45%
China	Contemporary Amperex Technolog	Industrials	1.40%
China	Longi Green Energy Technol-A	Information Technology	1.14%
Taiwan	Nanya Technology Corp	Information Technology	1.13%
Hong Kong	Wynn Macau Ltd	Consumer Discretionary	1.08%
China	Sany Heavy Industry Co Ltd-A	Industrials	1.07%
Taiwan	Hon Hai Precision Industry	Information Technology	1.07%

Transactions over the period raised exposure to Asia from cash held at the end of Q1. We have reduced Taiwan, China H shares and Mexico in favour of India, China A shares and Brazil. In China we have introduced Kingdee International Software, which is a leading enterprise management software company and a play on the long-term structural growth of the cloud in China. This trend has been accelerated by Covid-19, which has focused businesses more on cloud migration. Cosmic module expansion and ecosystem construction are key drivers of growth and Kingdee together with local rival Yonyou are taking market share from global giants SAP and Oracle. We have also purchased 21Vianet Group, which provides data centre services and is benefiting from the large cloud operators looking to diversify infrastructure providers. Visibility of revenues has improved with new contracts underpinning growth of 20-30% per annum, representing a sharp acceleration over recent years. Other large cloud vendors may seek contracts as the group is well positioned - it is a top three vendor in China with technical expertise and financial backing and has a long operating history and a large retail customer base. We have also added LONGi Green Energy Technology, a manufacturer of solar energy products. The impact on solar demand of COVID-19 recessions has been less than some expected and worries about the blow to the competitiveness of new energy sources from the fall in oil prices may also have been exaggerated. The company announced 2019 revenues up 49.6% and net profit rose 106% with gross margins expanding to 28.9%. There are some concerns about oversupply and a price war in the mono-Si wafer business, but this is a high ROIC company on a 20x PE in a long term growth industry.

In other sectors in China, we have been adding to cyclicals with the purchase of Sany Heavy Industry, which manufactures construction and engineering machinery. Demand for excavator equipment is strong with Sany beating industry volumes likely to be up 10-15%. Demand is underpinned by government fixed asset investment (FAI) focused on infrastructure. Also in industrials we have bought Contemporary Amperex Technology, a manufacturer of battery products. The company is the largest EV battery producer globally in volume terms. It is expanding capacity and has a cost advantage, also benefiting from a global partnership with Honda. There is the potential for another partnership with Tesla while the group is developing million mile and cobalt free batteries. The only pure play available in EV batteries, the stock is benefiting from the structural shift to electronic vehicles across the world.

Top 10 Sales

Country	Security	Sector	%
China	Tencent Holdings Ltd	Communication Services	2.57%
Taiwan	Accton Technology Corp	Information Technology	2.16%
Taiwan	Quanta Computer Inc	Information Technology	1.90%
Taiwan	Taiwan Semiconductor Manufac	Information Technology	1.78%
Taiwan	President Chain Store Corp	Consumer Staples	1.73%
China	Venustech Group Inc-A	Information Technology	1.50%
Poland	CD Projekt SA	Communication Services	1.41%
China	Shenzhou International Group	Consumer Discretionary	1.20%
Russian Federation	Magnit Pjsc	Consumer Staples	1.10%
Indonesia	Bank Rakyat Indonesia (Persero) Tbk	Financials	1.05%

On the sell side in China we have used Tencent as a source of cash, reducing the active weight although the stock remains the largest holding in the portfolio at 6.7%. We have taken profits in IT security specialist Venustech where we think the earnings upside is priced in. We have also used textile maker Shenzhou International and white goods maker Hangzhou Robam Appliances as sources of cash to fund purchases of more cyclical names. We have added two stocks listed in Hong Kong which have been long term favourites of the team. Hong Kong Exchanges is taking market share as many companies have raised billions of dollars in local secondary listings. The 'Nasdaq of Asia' is one of the few beneficiaries of the tensions between the US and China as companies move to cover themselves. Recent results have shown strong revenue growth notably in derivatives. We have also re-introduced Wynn Macau, which has lagged the recovery in other casino names but should eventually benefit from the growth in Chinese money supply and a re-opening of the Macau gaming industry.

In Taiwan we have switched out of notebook maker Quanta Computer into rival electronic products manufacturer Hon Hai Precision Industry. The risk/reward was getting less attractive at Quanta versus Hon Hai, which is exposed to the iPhone where sales have been pushed back to the second half. We expect better iPhone sell through, an uplift in the dividend and a strong recovery in profits from mobile. We have also purchased Giant Manufacturing which manufactures cycles and has just announced another record month for sales in June. An obvious beneficiary of the avoidance of public transport, Giant should gain from a recovery in consumer spending particularly in China, a weaker Taiwan dollar and capacity ramp-ups in its Hungarian production facility. Another addition was DRAM maker Nanya Technology. The company has reported a strong Q2 ahead of consensus with strong bit shipment and we expect solid earnings and decent profit margins to drive the stock higher. On the sale side we have exited President Chain Store where there appears to be less upside to growth and the share price, and network system products maker Accton, which appears expensive given that cloud server growth is likely to slow after a strong first half.

Outside of Asia we have reduced food retailer Magnit in Russia to buy Norilsk Nickel in materials where we like the mix of metals and expect the company to be an inflation hedge and beneficiary of the shift to EVs. We took profits in computer game maker CD Projekt in Poland after a strong run. We also added to OPAP in Greece which is one of our favoured markets: the share price was weak after sports betting halls were closed. Financially strong Wizz Air was also added as a play on low cost Eastern European air travel recovering.

Asset Allocation

Region	Portfolio (%)	Performance Indicator* (%)	Deviation (%)
Emerging Markets Asia	75,02	79,20	-4,19
China	35,94	40,95	-5,01
Korea, Republic of	11,48	11,61	-0,13
Taiwan	11,93	12,28	-0,35
India	7,31	8,01	-0,71
Emerging Markets Europe, Middle East & Africa	8,65	12,78	-4,13
South Africa	1,40	3,76	-2,36
Russian Federation	3,84	3,24	0,60
Emerging Markets Latin America	7,00	8,02	-1,02
Brazil	4,69	5,14	-0,46
Mexico	0,69	1,73	-1,04
Frontier Markets	0,76	0,00	0,76
Developed Markets	5,28	0,00	5,28
Cash	2,32	0,00	2,32

Sector	Portfolio (%)	Performance Indicator* (%)	Deviation (%)
Energy	1,98	5,96	-3,98
Materials	3,86	6,86	-3,00
Industrials	6,69	4,69	2,00
Consumer Discretionary	21,00	17,38	3,62
Consumer Staples	7,88	6,48	1,40
Health Care	0,00	4,30	-4,30
Financials	19,10	19,07	0,03
IT	21,49	16,93	4,57
Communication Services	11,94	13,50	-1,56
Utilities	0,45	2,27	-1,82
Real Estate	3,29	2,58	0,71
Cash	2,32	0,00	2,32

**MSCI Emerging Markets Index*

Disclaimer

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.

This document 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.

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 Fund has been recognised under paragraph 1 of Schedule 4 to the Collective Investment Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

This is an advertising document. The state of the origin of the fund is Ireland. In Switzerland, the representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the paying agent is Banque Heritage SA, route de Chêne 61, 1211 Geneva 6, Switzerland. The prospectus, the key information documents or the key investor information documents, the constitution as well as the annual and semi-annual reports may be obtained free of charge from the representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units.

Nedgroup Investment Advisors (UK) Limited (reg no 2627187) is authorised and regulated by the Financial Conduct Authority.

The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

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

The Prospectus of the Fund, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com

This document is of a general nature and intended for information purposes only. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document.

Changes in exchange rates may have an adverse effect on the value price or income of the product

Funds are generally medium to long-term investments. The value of your investment may go down as well as up. International investments may be subject to currency fluctuations due to exchange rate movements. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital and not getting back the value of the original investment.

FEES

A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

NEDGROUP INVESTMENTS CONTACT DETAILS

Tel: toll free from South Africa only 0800 999 160
Email: info@nedgroupinvestments.co.za
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

DATE OF ISSUE
July 2020