NEDGROUP INVESTMENTS

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Nedgroup Investments Global Equity Fund

Quarter Two, 2020

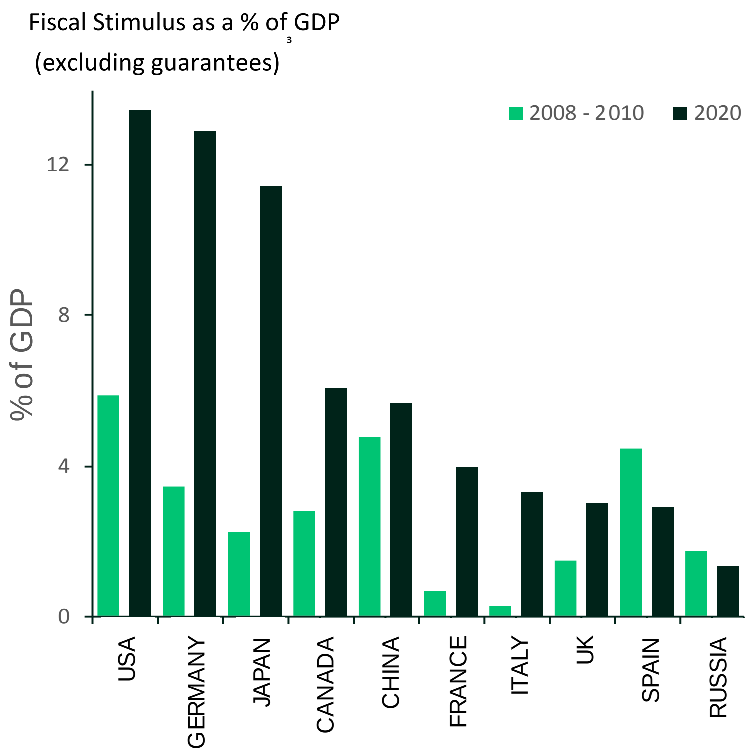
Market Overview and Outlook

Portfolio Manager Commentary

At the start of 2020 few people had heard of severe acute respiratory syndrome coronavirus 2, now known worldwide as COVID-19. As the severity of the virus and the ease of transmission became apparent during January and February, governments around the world began implementing policies that they hoped would limit the transmission of the disease to protect both their populations and their over-run health services. These policies were typically centred around lockdown measures that enforced all but essential workers to shelter at home. From a healthcare standpoint, stringent lockdowns were considered the best policy response but inevitably the economic impact of largely closing economies would lead to a significant economic contraction and hardship on many individuals and families. To mitigate this, policy makers around the globe have unleashed the most substantial fiscal and monetary response ever seen. To illustrate the scale of this, chart 1 shows the fiscal response as a percentage of GDP for selected countries.

This fiscal stimulus has been supported by further extraordinary monetary policy (rates to be held at or near zero) with the promise that monetary support will remain in place for many years to come.

From an investment standpoint the actions taken year to date have resulted in the shortest bear market cycle ever: the realisation that there was a global pandemic requiring lockdowns and the impact of these on economic activity and therefore earnings, led to a rapid decline in share prices during March. However, the policy responses have subsequently led to a just as rapid reversal as investors now anticipate the post COVID-19 recovery. Somewhat incredibly this means that within the past 6 months, investors have discounted a severe recession and the economic recovery before either have actually occurred.



With investors now discounting recovery, the sectors that are performing well are those that are leveraged to economic growth: technology, consumer discretionary and materials were the three best performing sectors during Q2. Technology[1] is up c.14% (in USD) in 2020 compared to the market[2] which is down c.6% (in USD). Such performance has led to an increase in valuation multiples from the heady multiples which already existed at the end of 2019.

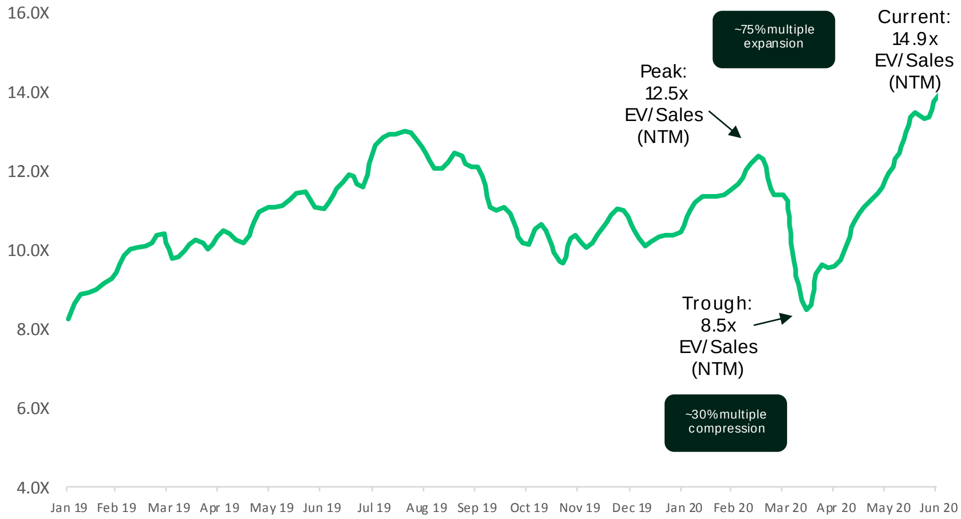
The following chart from Goldman Sachs depicts the average valuation of US software companies (using EV/Sales) – which is now well above the valuation levels seen in the previous 18 months and that is before the impact of the forthcoming recession.

[1] MSCI World Information Technology with net dividends reinvested in USD. Source: MSCI

[2] MSCI World Index with net dividends reinvested in USD. Source: MSCI

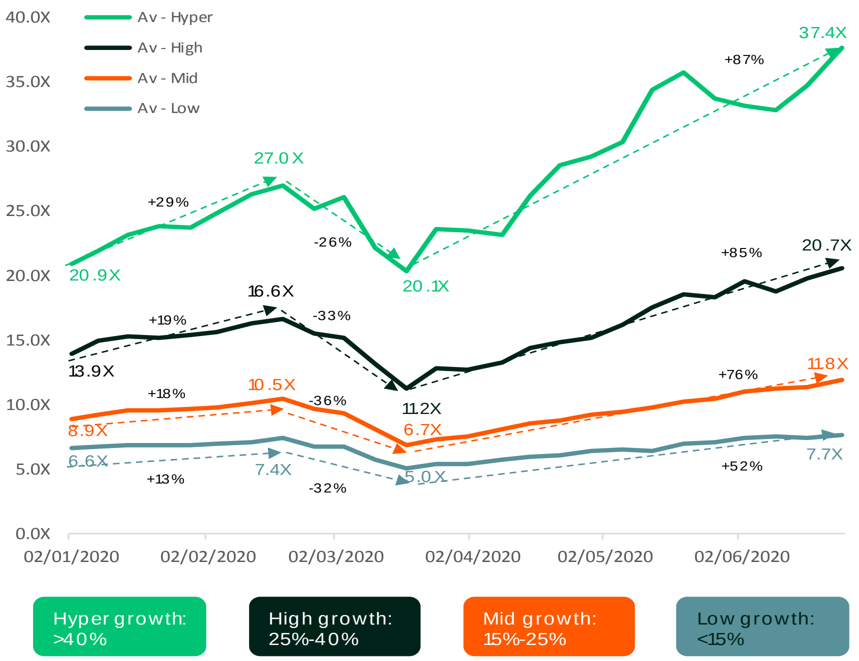
[3] Source: Various news and Government agencies, Brookings, the IMF and BCA calculations – collated by BCA Research, 2020. Note: Loan guarantees are excluded if there is a specific amount in the news

Average NTM EV/Sales, by growth group (based on consensus)



The next chart stratifies the US software companies into different growth baskets and shows the valuation change of each basket year to date.

Average NTM EV/Sales, by growth group



Hyper-growth: ZM, CRWD, DDOG, SHOP; High-growth: WORK, NET, OKTA, DOCU, AYX, TWLO, PLAN, COUP, ESTC, ZEN, NOW, TEAM, MDB, AVLR; Mid-growth: RNG, CSOD, VEEV, HUBS, DT, ADSK, CRM, WDAY, BL, FB, SPLK, GOOGL, NEWR; Low-growth: ADBE, PING, WK, TLND, APPN, MSFT, CDAY, VMW, ZUO, SWI, GWRE, INTU, AKAM, CRNC, CTXS, ORCL, BNFT Note: For valuation cohort selection, average 2020 and 2021 sales growth based on Goldman Sachs estimates.

The faster the growth the greater the valuation expansion. Of the 14 companies included in the high growth basket, only two made a positive operating profit in their last reported earnings (Alteryx at 9% EBIT margin and ServiceNow at 1% EBIT margin). The average EBIT margin delivered across all 14 companies was -26%. It seems rapid growth is all that is required for a high (and rising) valuation and is somewhat reminiscent of the Nasdaq bubble of 2000 when valuation metrics moved from earnings to EBITDA to revenue and then to non-financial metrics such as "eyeballs" as each measure in turn became indefensible. The fastest growing and most economically sensitive companies are benefiting the most, largely as a result of fiscal and monetary policy: with the promise of rates being held at or near zero for a long period, the value of long duration assets increases which disproportionately benefits high growth companies. The fact that they make losses helps perpetuate a valuation based on sales.

Implications for the portfolio

Unfortunately, in the short term, the qualities of the type of company that we invest in are being largely overlooked. High quality, cash generative companies with strong and durable competitive advantages are not typically the types of companies leveraged to the recovery of stock markets. Holdings such as UnitedHealthcare, ThermoFisher, Charter, Becton Dickinson, Cigna, Nestlé, Unilever, CVS Health and Reckitt Benckiser are all performing well operationally and have strong competitive advantages but are not currently the type of investment sought by shorter-term investors. Another holding of this type is Baxter: as with the other examples, the company proved highly defensive during the declines in Q1 but has seen little improvement in its share price since despite being well placed to both weather the forthcoming recession and benefit from changes to the way healthcare is delivered as a consequence of COVID-19.

Baxter manufactures a diversified portfolio of medically necessary products for acute care within a hospital setting and for home dialysis care. There has been increased global demand for several product lines as COVID-19 has taken hold, particularly in CRRT (continuous renal replacement therapy) equipment orders, infusion systems and intravenous solutions.

It is, however, the enduring growth particularly in Baxter's peritoneal dialysis business (>30% of company sales) that has attracted us as investors over the last five years. Baxter commands 70% of global market share in this cost-effective, home dialysis market with strong structural growth drivers. It is well established that the increasing prevalence of diabetes and obesity is driving end-stage renal disease and the consequent requirement for life-sustaining dialysis treatment. Patient growth has ticked up in recent years and has reached in excess of 5% globally. Peritoneal dialysis (PD) penetration varies by country and reimbursement system but can be as high as 40% where patient choice and reimbursement do not hinder its adoption.

In the US, where 37 million people suffer with chronic kidney disease, dialysis provision has been dominated by in-centre haemodialysis, with PD only treating 11-12% of dialysis patients in recent years. Transplantation rates are low with well over 100,000 patients currently on the transplantation list. In response, in July 2019, the White House announced the Advancing American Kidney Health Initiative (AAKHI) with the aim of increasing the number of patients receiving a transplant or receiving home haemodialysis to 80% by 2025. The Centre for Medicaid & Medicare Services (CMS) subsequently announced several demonstration projects (both voluntary and mandatory) utilising a variety of reimbursement models to be conducted over a seven-year period towards this lofty aim. Companies necessary for successful implementation, such as Baxter, were consulted and necessary investments committed. For Baxter, capital investments of $500 million were announced to significantly increase production capacity; the company estimating that peritoneal dialysis patients could double just in the period of CMS demonstration.

An additional force at work in the US market is the increasing adoption of value-based care payments by private insurers. Contracting with dialysis providers for an entire episode of care incentivises lower cost treatment options such as PD utilisation with remote patient monitoring. Insurers will be particularly motivated to evolve payment models due to a change in 2021 that will, for the first time, allow patients with ESRD (end stage renal disease) to choose private Medicare Advantage plans, significantly increasing the number of

ESRD patients with private insurance. There is both risk and opportunity in this for private insurers. Necessarily, insurers are increasingly investing in predictive, machine learning algorithms to identify developing kidney disease patients before they crash into the most expensive site and modality of care.

The CMS demonstration projects will begin from April 2021; understandably delayed by COVID-19, however, this move was part of an emerging trend worldwide as payers, clinicians and patients increasingly embrace home PD as a frontline ESRD treatment option based on key economic, therapeutic and lifestyle benefits, increasingly enabled by patient monitoring technology. As the coronavirus pandemic appears to be increasing the number of patients requiring dialysis in the short-term, a likely legacy of COVID-19 globally will be even greater regulatory emphasis on healthcare in the home where possible, especially for such vulnerable patient groups, and a greater acceptance and reimbursement for telemedicine to support this.

It would be remiss not to mention the recent and pending new product introductions that will support Baxter's long-term growth outside of PD. Notable are Theranova, a novel dialyser for haemodialysis, a full and novel range of acute care infusion pumps both in European and US territories and additional launches broadening Baxter's injectable pharmaceuticals business. Having spun out Baxalta in 2016, the current management team have executed on their desired aim to accelerate innovation at Baxter.

CEO Joe Almeida's previous record of value creation at Covidien is strong and at Baxter, only small tuck-in acquisitions have been made to strengthen existing businesses while revenue growth has accelerated and operating margins strengthened. Net debt/market value is currently <5% and Baxter will be in a net cash position in two years, despite the AAKHI investment plans should they not make further acquisitions in that time. Management have been clear, acquisitions must have strong return metrics and accretive to top line growth and absent the market falls in March/April 2020 they don't find desired asset valuations attractive. Baxter International stock, however, offers us an IRR of >10% at the current price, with sustainable EPS growth of 15% from 2021-2025 forecast, driven by defensive businesses benefitting from new product flow and strong, structural growth in peritoneal dialysis.

While much of the portfolio consists of stable demand companies such as Baxter, one area that has suffered (and not yet recovered) from the impact of COVID-19 are those companies exposed to aerospace & defence: Airbus, Safran, Raytheon Technologies, BAE Systems and Aena with the two most affected companies being Airbus and Safran where the majority of revenue is derived from commercial aerospace. The common theme across all our holdings are that we judge these companies to have very high entry barriers into their respective industries conferring durable competitive advantages. Stringent regulatory and certification requirements, decades of cumulative know-how and intellectual property, aftermarket capabilities and embedded tangible and intangible capital across a complex supply chain has supported decades of above-average returns on capital through multiple setbacks and cycles (e.g., 9/11 attacks, SARS, the Global Financial Crisis and Eurozone crisis).

Global commercial aviation has literally ground to a halt and until and unless there is confidence in the pandemic being under control, air traffic will remain at a virtual standstill. While the global case count is still not under control, unprecedented resources are being singularly focused on effective treatment and vaccines and the nature and consequences of economic lockdowns are now better understood (including infection rates by age cohorts as well as modalities of transmission and effectiveness of wearing masks).

While all countries have not been equally prepared or adept at handling lockdowns (and subsequent easing), the broader direction of travel over five years is encouraging. We do not believe that underlying demand for air travel has meaningfully changed (reflected in early signs that airlines who are re-opening routes at low load factors are seeing reasonable demand even today when there are no known vaccines). The overwhelming majority of air travel is for leisure and going on holiday has no known substitute, even in the age of video conferencing. As well, air travel per se hasn't proven to be problematic (e.g., infection rates of cabin crew remain lower than for the population at large, there haven't been any known transmissions of the virus on board aircraft thanks to air quality and filtration/ventilation approaching that inside operating rooms).

Governments generally have offered support in many countries – both to incomes to mitigate loss of purchasing power and to the industry, in allowing part-time-working and furlough schemes. Liquidity and short-term bridge financing have all been made available in most instances which has helped mitigate the acute economic shock of the pandemic. We cannot of course predict when exactly air traffic improves but our approach has been to conservatively expect a prolonged recovery (2025 is when we expect air traffic to reach 2019 levels) and stress-test the downside for each company in terms of balance sheet strength and resilience in being able to manage through this downturn and emerge stronger for when the economy stabilises. We believe all of our holdings are pricing in distressed valuations which we judge as too pessimistic on a 5-year view – we also judge all management teams as being proactive in handling the crisis and adjusting to what will be a newer normal across employees, supply chains and customers. Furthermore, we consider our analysis conservative in that it only assumes we return to 2019 levels of traffic by 2025. Should an effective vaccine be developed in the next few years then it is highly likely that traffic returns to 2019 levels much earlier and continues to grow from that level.

Airbus

Over the decades, making commercial aircraft has been a fiercely fought endeavour: however, only a handful of companies have ever been credible contenders at scale, a testament to the cost of competing in the business and the oligopolistic structure it brings about. That the only real challenger to the Airbus-Boeing duopoly is a state-owned enterprise implicitly backed by the financial wherewithal and strategic intent of the Chinese government (COMAC) ought to illustrate the very high entry barriers incumbents have erected around themselves over the decades. After a very prolonged period of under-earning their potential (given the duopolistic nature of the industry), Airbus was clearly on track to structurally improving its economics when the crisis hit. With a new management team settled in, key programs ramping up smoothly, a net cash balance sheet pre-COVID-19 and several loose ends tied up by end-2019 (pensions and penalties/settlements), Airbus entered this crisis in a much stronger position compared to its direct competitor Boeing.

Airbus's commercial aircraft backlog is overwhelmingly in the short-haul narrow-body segment (with the A320neo) with a backlog stretching out at least 5 years (even accounting for potential cancellations). They have the better track record in bringing recent new aircraft into service compared to Boeing which has clearly struggled with the 737Max groundings (partly due to the inherent design of the aircraft and partly due to self-inflicted troubles in dealing with the FAA in the design and certification of the software and interface; the now infamous MCAS). They also seem to have the better aircraft, judging by the market share trends from customers, as well as the ability to extend the family into longer range versions (which is both an operational advantage as well as a strategic one).

We judge narrow-body demand to return much more quickly given short-haul usage of the aircraft. While Airbus's previous profitability improvement was also predicated on their wide-body aircraft (notably A350, but also A330neo) reaching maturity, we think this segment will take longer to recover given travel restrictions are likely to linger on for longer for trans-continental travel. This will have an adverse impact on Airbus's margins and is a risk we are monitoring as lower production rates to match market demand will mean fixed cost absorption is likely to be challenged. A silver lining of the crisis is that we expect to see very disciplined behaviour from both the supply chain as well as their competitor Boeing. For instance, new programs like the previously floated Boeing 'middle of market' plane are unlikely to be launched for years (if ever), and their relatively inferior balance sheet would preclude anything in the capital budget that is marginal.

However, challenges abound. This is the most severe crisis that Airbus has had to navigate in its history and the impact on operations, the supply chain and on management attention can hardly be overstated. Deliveries to airlines are few and far between (and requests for deferrals are inevitable). On the other end, Airbus are continuing to make payments to the supply chain ecosystem where they can to protect key parts of their IP like engines. This sandwiched position means that Airbus will have to take on more leverage over the next 12-18 months as it burns cash until deliveries to airlines normalize to a more sustainable level. The company's ability to access credit and liquidity remains fine, thanks in part to customer advances and progress payments which has been a source of liquidity.

Airbus earned just over €6 per share in 2019 on production rates and operations we judge to be below their long-run normalised earning power. We are conservatively expecting a slow and gradual recovery of production through to 2025 in their key commercial aircraft programs (A320neo in particular) as well as additional claims ahead of equity in their pensions, cash contingencies and increased leverage for a couple of years due to the cash burn they have to go through temporarily. If these are broadly right, Airbus should earn in the region of €7-8 per share in cash earnings in 2025 which would put the shares on a low teens % cash earnings yield (excl. excess cash) which we judge as too cheap for a business of this quality. In other words, inverting this, the market's implied expectations are for a recovery well into the latter half of the 2020s which we think is too pessimistic relative to underlying demand for air travel. Our current expected IRR is in the mid-teens and we continue to hold the shares.

Safran

Safran's key asset is their JV with GE in the CFMI franchise, which designs and manufacturers jet engines. CFMI is the single most successful and dominant jet engine franchise in civil aviation history and even today enjoys a c75% market share in narrow-body engines – their next-generation LEAP engine is the exclusive engine on Boeing's 737Max program and despite competing as one of two engine options on the A320neo, enjoys nearly 60% share in the aircraft. Making jet engines for commercial aircraft (like Safran does or like Pratt & Whitney, now part of Raytheon does) has all the hallmarks of an enduring franchise with very high barriers to entry:

- Capital barriers: it costs somewhere in the region of $10B to design and develop engines, potentially a lot more if engines develop failures (or need overhauls) after they enter service

- Time: it takes a long time to develop engines, typically 5-10 years for the underlying physical improvements in composites, materials and propulsion technology to be material to justify bringing a new engine to market. Due to the entrenched business model with airframe manufacturers (primarily Airbus/Boeing who are highly sophisticated buyers as well as highly risk averse), a new entrant cannot sell new engines at a profit and has to absorb losses on new equipment for up to 10 years before being able to earn the high profits from the sale of spare parts for 20-30 years (and after-market revenues are usually 4-5x more than the OE sale). This assumes that the engine is successful – even among established engine makers, there is meaningful failure rate.

- Regulatory barriers: commercial aviation is a tightly regulated industry due to extreme sensitivity to flight safety (witness the issues with 737Max), which means certification of parts is a lengthy and stringent process and not easily accomplished.

- Technical knowhow and intellectual property: incumbent engine manufacturers are duopolistic/oligopolistic in their industry structure and have amassed decades of experience of real-life engine performance in a wide range of flying conditions with all types of airline customers—for example, the degree of engine stress for engines flying in colder climes is a lot lower than those operating in hotter, dustier and more corrosive environments.

- Aftermarket service network for airline customers: the presence of a global service network is a business imperative. Due to the vast amount of actual engine data that engine makers like Safran/CFMI have from their global flying fleet, they are able to offer valuable insights to customers on how best to optimize performance as well as help predict maintenance snags ahead of time.

- Switching costs and customer captivity: As key suppliers of a mission-critical component, there is a very high degree of integration between engine makers and airframe customers (e.g., Airbus) which is near impossible to dislodge. Equally, airline customers are 'captive' in the sense that airlines use and maintain the engines over long periods of time and need spare parts and servicing of their fleet on a regular basis.

Safran entered the crisis in a strong position both operationally (in terms of engine maturity of the next-generation LEAP engine; improving operations and margins at their equipment businesses and the planned management transition) as well as financially (only modest net debt) despite the grounding of the 737Max (to which Safran are sole source supplier of the engine). While they are hardly immune to what is going on in the global travel industry, they have nevertheless communicated an expectation to be free cash flow positive for 2020 (which would be a remarkable achievement given the acute stress in the industry) – this is largely due to their strong positioning as a key supplier and IP owner in the aerospace equipment industry as well as their relative strength when they entered the crisis.

Safran is also relatively well positioned due to the nature of the engine business model. Their current installed fleet of narrow-body engines is young (only 6% of engines are over 20 years old) which allows them to be well positioned when airlines retire older aircraft permanently. As well, Safran do not take any risk on number of passengers boarded – the economic unit that matters to them is 'engine flight hour' (whether it happens on a flight that is 65% full or 85% makes little difference). This is especially important because over 70% (more if lessors are included) of their newer engines are sold on long-term 'power by the hour' agreements which will start generating revenues as soon as the engines start flying (unlike the older revenue model where revenue is earned only when engines are brought in for shop visits). Even for the older engines, airlines can (and will) defer maintenance when they are cash constrained (as they are today) – however, the overhauls cannot be deferred indefinitely as they are mandated by regulatory authorities for safety and performance restoration. An airline that chooses to perform work in smaller chunks might even find that it ends up costing them more over the long run. Our review of lessor behaviour and disclosure continues to reinforce the importance of engines in residual values which will act as a buffer against the use of 3rd party PMA parts (especially important when lessors are likely to find aircraft carrying values shrink). We continue to monitor the risk of used serviceable parts (USM) making a resurgence due to accelerated retirements of older engines which we are accounting for in our expectations.

While other segments like aircraft interiors might take longer to recover (and very long-term risks around new propulsion technology exists), the combination of a highly certain earnings stream (over 5+ years) and a relatively rapid correlation to air travel recovery gives us confidence that the business remains predictable and valuable. We view the recent update from the FAA that the 737Max has begun flight tests as an encouraging development for Safran. Given the health of the balance sheet going in and cost actions and cash flow break-even expectations this year, liquidity and leverage are wholly manageable.

Assuming 2025 activity below the undisturbed trend-line (from 2019), we expect Safran to earn €8 per share which would put the company on a low double-digit cash earnings yield (ex-cash), a valuation we think is far too cheap for a dominant industry-leading franchise with demonstrable barriers to entry and embedded duration. In fact, our work on in situ engine fleet point to nearly €80 per share for just the engines which haven't yet had a shop visit (i.e., engines which have a full cash productive life ahead) affording a substantial margin of safety relative to current market price (c.€90). If air travel recovers quicker than our current expectations, Safran will be very well placed to capitalize on this (given the unique dynamics of their installed fleet vs. backlog as described above). Our current expected IRR is in the low-teens and we have opportunistically added to Safran during the last couple of months.

Aerospace and defence industry longer term outlook

The threat and risk posed by COVID-19 has been one of severe liquidity for the industry, not solvency. This is an important contextual nuance and should be delineated from the risk factor for an airline where the threat is both liquidity and in some cases solvency (high fixed costs, decremental margins and poorer balance sheets even in the event of a 'normal' downturn).

A key assumption that we are underwriting across all our commercial aerospace holdings is that despite the short term and global health issues posed by COVID-19, air travel is an essential service for which there is no substitute and that 5 - 10 years from now, commercial aviation will continue to grow secularly ('longevity'). While we expect several changes at the margin (like lessor behaviour, supply chain support and financing, production rate and cost adaptations, aftermarket servicing requirements and capacity etc.) which will need management attention (and in turn, ours), we do not expect wholesale changes to the nature of the industry and its entry barriers.

While we do not claim any special insight into the shape of the recovery and are constantly revising probabilities and expectations as new information presents itself, the implied expectations in the share prices of the companies we hold seem to suggest to us an imputed recovery in air travel to 2019 levels only into the later part of this decade. We consider this to be too pessimistic and punitive relative to the quality, entry barriers, resilience and duration of the businesses we hold. As genuinely long-term investors, we are willing to buy and hold through the current short-term uncertainty.

Having proven relatively resilient during the COVID-19 declines in Q1, the performance of the portfolio has been somewhat lacklustre in the recovery. With minimal exposure to the three best performing sectors of technology, consumer discretionary and materials but conversely, significant exposure to the resilient but weak performing sectors of healthcare and consumer staples together with our aerospace exposure (which has not seen any significant share price recovery), Q2 performance lagged the index. This is disappointing as the outperformance and resilience displayed in Q1 has been lost in the recovery.

Fund performance contributors & detractors for the past quarter

Top 5 contributors and bottom 5 detractors

	Portfolio			Index			Attribution
Holding	Average Weight	Total Return	Absolute Contribution	Average Weight	Total Return	Absolute Contribution	Total Effect
Top 5 relative stock contributors							
Facebook	4.7	38.1	17	13	36.1	0.4	0.6
Sonic Healthcare	2.8	40.5	0.9	0.0	40.7	0.0	0.4
Thermo Fisher Scientific	3.5	27.8	0.9	0.3	27.8	0.1	0.2
Alphabet	6.9	22.2	15	2.1	22.0	0.5	0.2
Mastercard	3.9	22.9	0.9	0.6	22.5	0.2	0.2
Bottom 5 relative stock contributors							
BAE Systems	4.8	-7.7	-0.4	0.1	-7.7	-0.0	-14
Philip Morris	2.6	-2.3	0.0	0.3	-2.9	-0.0	-0.5
Baxter International	4.1	6.2	0.3	0.1	6.3	0.0	-0.5
Unilever	4.2	8.8	0.3	0.2	8.8	0.0	-0.5
Cigna	3.8	5.9	0.2	0.2	5.9	0.0	-0.5

Portfolio Attribution Commentary

Q2 was a disappointing one from a relative standpoint with the majority of underperformance coming in June. On a more positive note, there is no major reason for it, in the sense there was no material negative news on any portfolio company (perhaps with the exception of Facebook but its share price was up significantly for the quarter so not in itself a cause of the performance). The main issue was positioning. The portfolio is overall defensively positioned with the highest weighting being healthcare. The first part of June saw value perform well (traditional value in industrials / financials etc) where we hold little and the majority of names do not meet our quality characteristics. Later in the month, growth and in particular technology, performed well. We have a very low weight in technology and that is mainly Mastercard which performed well. The low-tech weighting is simply due to valuation – we sold Microsoft due to valuation earlier this year and have not found any new tech positions that we consider offer attractive IRRs at current entry prices. Healthcare being considered defensive and not high growth was one of the worst performing sectors, especially in June. There has been extreme volatility so far in 2020 with sharp falls in Q1 and an equally sharp rebound in Q2. Investor sentiment is equally volatile as demonstrated below between the performance of Coopers and Sonic over the last three months. Few companies will not be either directly or indirectly affected by COVID-19 and over the shorter-term investors will continue to flip flop on any positive or negative statements as to how 2020 may pan out/upgrades and downgrades/secondary localised or broader lockdowns etc. We continue to look out five years and focus on companies with greater visibility over that time horizon and are fairly valued.

Turning to specifics and the relative negative contributors. **BAE Systems** is benefitting from increased defence spend, not only by the US but Qatar, Canada and Australia have all placed orders recently. A significant portion of existing defence contracts are deemed critical and will go ahead as normal. That gives a great deal of visibility over order book and revenues. Despite that, part of the business has been affected in the short term by COVID-19. The company announced that first-half profit would fall by 15% due to disruption at sites in air and maritime and US commercial avionics. Productivity has improved at its defence business, which makes up 90% of revenue and over 90% of employees are now working again and should the pandemic stabilise, trading in the second half will be much stronger. The Cyber and Intelligence business should be an important driver for future growth and includes systems used in electronic warfare, surveillance and communications intelligence. The company has acquired Collins Aerospace Military GPS business and the old Raytheon Airbourne Tactical Radios division which will be additive to the business. The company has held its dividend (more for political reasons) and guidance for 2020 but the company is well positioned over the longer term.

Likewise **Cooper Companies**, underperformed on short term COVID-19 concerns. Cooper operate two business units, CooperVision (contact lenses) and CooperSurgical (fertility treatment). The company benefits from enduring long-term growth drivers. The USD 9 billion contact lens market is growing with the rise in myopia (50% of global will be myopic by 2050), opticians are fitting new patients with daily silicone hydrogel lenses which Cooper have the widest range of, and there is a trade-up from legacy hydrogel dailies to silicone hydrogel dailies, geographic expansion and growth in torics and multifocals. Over the last few months, however, this business has been affected by the closure of opticians affecting about 15% of revenue from new fits, the rundown in inventory as retailers/distributors focus on liquidity and a reduction in consumer consumption (i.e. those usually wearing contact lenses, wearing glasses whilst at home). These are likely to bounce back with re-openings and resumption of wearing habits. CooperSurgical reported a 27% drop in revenue as elective surgery restrictions were enacted and fertility clinics closed. There was a drop of 70% in April at the most severe part of lockdowns. Again, longer term, the growth drivers for treatment are strong and unchanged. Pent up demand rather than lost demand.

Unilever, likewise has seen some short term impact from COVID-19 with consumers, according to the company, working from home having on average 11 fewer occasions every week to use Unilever's hair-washing, skincare or deodorant products (Ponds, Dove, Sure) before they head out to work or school (yes, personal grooming has gone out the window!), ice-cream sales (Magnum and Ben and Jerry's) suffer as people have stayed away from outdoor hotspots and their food service business, which serves restaurants, suffer. These have been netted off against the sale of more hygiene products for hands and household surfaces (Cif, Domestos) to result in flat overall sales. Unilever, however, has become increasingly agile and adjusting to change in consumer trends and COVID-19 has only amplified this effort. The company is increasingly focusing on demand patterns and adapting to value for money products increasingly bought online in a low growth environment. The company has been quick to repurpose factories in 30 locations to produce hand sanitizer and rolled out Lifebuoy soap in 43 new markets. The company has also announced it will change its legal status from a dual-headed legal structure to a single UK entity to increase its strategic flexibility for portfolio evolution. After the legal structure is simplified, there will be one market capitalization, one class of shares and one global pool of liquidity making it easier to make disposals/acquisitions. The company has already earmarked the tea business (Lipton, PG Tips) as a potential disposal which could raise in excess of USD 6 billion.

Baxter International, which has a portfolio of critical care, nutrition, renal, hospital and surgical products, beat Q1 estimates having seen unprecedented demand for its products due to COVID-19. This includes its kidney dialysis, IV solutions, injectables and parenteral nutrition therapies. It has also received US FDA emergency use authorisation for its Oxiris filter set. This is the only such filter approved in the US for blood purification treatment for those in ICU suffering from COVID-19. The shares may have lagged as costs also rose, some due to navigating the logistics in the current environment but most of this was research and development expenses which is what has helped the company stay competitive over the longer term. The company has withdrawn guidance for 2020 given the uncertainty surrounding COVID-19 but given its products are life critical, including in the area of dialysis for diabetes and the steady roll out of innovative products, it is well positioned for sustainable growth.

Also, within the healthcare sector and also detracting over the period, **Cigna** exceeded expectations with first quarter results and despite the economic backdrop reaffirmed its 2020 EPS outlook. Performance was driven by its two largest segments, integrated medical (which includes its commercial insurance and government plans) and health services, (which includes the pharmacy benefits business Express Scripts it acquired last year). The insurance business delivered a better than expected medical loss ratio of 78.3% and benefitted from customer growth and premium increases. The pharmacy benefits business, which helps lower the price of drugs by negotiating with drug companies, saw revenue increase by 21% because of greater prescription volumes. This part of the business is well protected in the sense that it serves a range of customers from health plans to corporate clients to government contracts and not everyone can choose to skip or postpone a medication like they would a medical procedure. No real explanation for underperforming the market other than it’s not an exciting growth stock.

The stocks that were additive to performance over the period included Facebook, Sonic Healthcare, MasterCard, Alphabet and Aena. **Sonic Healthcare** provides laboratory, pathology and radiology services in eight countries. Sonic is the world’s third largest provider of clinical laboratory services and the largest private pathology operator in Australia. After pulling its full year guidance in March as volumes fell significantly as the pandemic hit, the company recently announced that the outlook, ‘was a bit clearer’ and that it now expects full year 2020 earnings in line with 2019. Whilst Sonic is heavily involved in COVID-19 testing, it was not enough to offset declines in normal testing volumes when the pandemic hit and countries went into lockdown. March and April were substantially below forecast, with May and June better than expected. Like many companies, Sonic had staff on furlough receiving assistance from government support schemes and now restarting work progressively with increase in patient volumes. A successful COVID-19 reopening strategy globally is likely to necessitate a sharp ramp-up in testing. As the Director-General of the WHO put it, success depends on ‘testing, testing, testing’. Currently the most reliable test is the PCR test (Polymerase Chain Reaction) which amplifies tiny bits of genetic material to enable detection. Other tests are quicker but less reliable. Goldman Sachs estimate there will be a need for 23 million monthly tests in the US alone and a further 20 million antibody tests. The value of these tests is approx. USD 500 million per month. Sonic has other parts to the business, that like Coopers has been impaired in the short term but investors have focused on the short-term uplift from COVID-19 testing.

Arguably, the most negative news over the quarter, was in relation to **Facebook** which rose strongly and was additive to performance. the company announced revenue up 18% on a year ago, beating expectations. The company recorded 2.99 billion monthly users across its family of apps, up from 2.89 billion the previous quarter. Whilst user engagement is up, the company warned that the pandemic is adversely affecting its advertising business. Clearly not as much as investors feared. During June, the stock was initially hit by the #StopHateforProfit movement that aims to make Facebook more accountable for hate speech, misinformation and voter suppression on its various platforms. It has asked advertisers to stand in solidarity with the movement by pausing advertising spend on Facebook for the month of July. Some of the aims of the movement are warranted, others more spurious in nature. Mark Zuckerberg does not help himself when proclaiming ‘they will be back’. He is probably right. With 8 million advertisers, according to Pathmatics, the 100 highest spending brands on Facebook account for USD 4.2 billion or about 6% of the platform’s revenue. It’s the many thousands of small and medium sized businesses, that cannot afford TV advertising and achieve high ROI on targeted adverts, on which Facebook depends. Additionally, on 23 June, the European Commission found that Facebook took down illegal hate speech 95.7% of the time within 24 hours compared to Twitter's 76.6%. That said, Facebook is taking the threat seriously and has made some changes including labelling newsworthy content and creation of a voting information centre and trying to prevent voter suppression through misinformation. The company is likely to move more towards the demands of greater accountability and transparency and advertisers will come back as they have done in the past (e.g. 2017 after YouTube boycott).

Top 10 Portfolio Holdings

Holding	Sector	Portfolio (%)	Index (%)
Charter Communications	Communication Services	7.8	0.2
Alphabet	Communication Services	6.7	2.1
BAE Systems	Industrials	4.5	0.0
Unilever	Consumer Staples	4.3	0.3
Mastercard	Information Technology	4.1	0.6
UnitedHealth	Health Care	4.1	0.7
Baxter International	Health Care	4.0	0.1
Facebook	Communication Services	3.9	1.3
Canadian Pacific Railway	Industrials	3.8	0.1
Thermo Fisher Scientific	Health Care	3.8	0.3

Please note that "Index" in the above table refers to the Performance Indicator for the Fund, ie. MSCI World Index NR USD.

Responsible Investment

Sustainability case study - The Cooper Companies

The Cooper Companies is one of the world's leading manufacturers of soft contact lenses with 23% global market share.

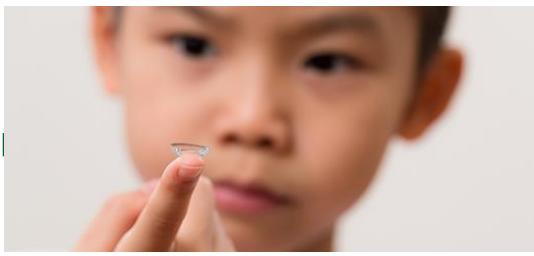
The company produces a full array of monthly, two-week and daily disposable contact lenses.

- Contact lenses are medical devices with reasonably high fixed costs and low tolerance to error which provides a high barrier to new entrants. Cooper further benefit by having the greatest breadth of lenses and the ability to 'white label' a customised offering to large clients (e.g. Specsavers). This can include packaging the lenses as if produced by the client and dealing with logistics like mailing disposable lenses. In return they sign long term contracts with many of its clients giving a predictable subscription-based element to cash flow. None of its competitors have the breadth of offering to compete in the white label market.

- Cooper is well positioned given the greater take up of contact lenses, especially with increased wealth in emerging markets, the fact that the industry only changes provider every 7 years on average and the trade up being seen by long term contact lens wearers to daily silicon hydrogels.

- In addition, Cooper has a strong heritage of solving the toughest vision challenges and has again demonstrated this with its work to help reduce the impact of Myopia.

- Myopia, also known as near-sightedness and short-sightedness, is reaching epidemic proportions. The condition is projected to affect the vision of approximately 5 billion people by 2050, doubling today's numbers. In some parts of the world, in particular Asia, up to 80% of



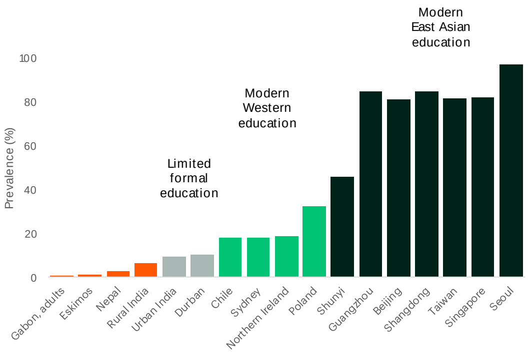
The management team has been forward looking to assess the opportunity available to it as a business and at the same time contributing to an unmet medical need.

The Cooper Companies is one of the world's leading manufacturers of soft contact lenses with 23% global market share.

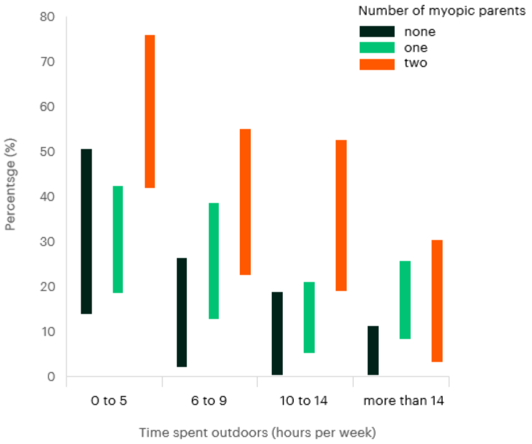
The company produces a full array of monthly, two-week and daily disposable contact lenses**.**

- Studies have shown that Myopia is much more prevalent among students than in unskilled workers[1]. Students are engaged in more near work in the form of reading and studying.
- The impact is most dramatic in Asia where the number of hours studying is highest. What has compounded the problem is the proliferation of smartphones and tablets which will be used for gaming and social activity, again at close quarters.
- Whilst there are other factors such as diet and genetics, the main reason for this increase in myopia is the length of time spent outdoors between the ages of 8 and 14. We are born long sighted and the eye ball grows (in width) until it focusses light onto the back of the retina. If the child does not spend enough time outside focusing long distance, the eyeball continues to grow leading to short-sightedness.
- Studies also show that Genetics does play a role but the probability of becoming myopic falls as the number of hours spent outside increases[2].
- The social impact of an increase in myopia is that it is directly linked to many of the age-related eye diseases including retinal detachments, Glaucoma and cataracts. These conditions are particularly high in areas with severe cases of myopia like China.

[1] Relationship between the prevalence of Myopia and state of the education system



[2] Examples of mixed genetic and environmental input



NEDGROUP INVESTMENTS

The company supports the United nations 2030 Agenda for Sustainable Development and the Sustainable Goals. It focusses on the three SDG's most relevant to the business and its activities.

Cooper believes conducting business in a socially and environmentally responsible manner is important to its long-term success and the future of the planet.

Good Health and Well-being (SDG 3)

As clearly demonstrated, the company's innovative medical products help meet evolving needs in the healthcare market.

3 GOOD HEALTH AND WELL-BEING

Responsible consumption and production (SDG 12)

The company operates in an environmentally responsible manner. Two of its factories (in US and UK) now run off 100% renewable energy, its Puerto Rico facility has been recognised by LEED (Leadership in Energy and Environmental Design), 99% of plastic components generated in the manufacturing process are recycled and they reuse cardboard up to 10 times before it's recycled.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Partnerships for the goals (SDG 17)

Across the healthcare spectrum, the company partners with clinicians, practitioners, and researchers to understand and identify novel solutions that will help change lives. The company awards many educational grants and awards sponsorships.

17 PARTNERSHIPS FOR THE GOALS

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