



see money differently

A photograph of an open book with white pages, tied with a white ribbon bookmark. The book is positioned on the left side of the page, with the pages fanning out towards the right.

Nedgroup Investments Global Flexible Fund

Quarter Four, 2020

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The following commentary was produced by the sub-investment manager, First Pacific Advisors, LP ("FPA"). Please refer to the end of the commentary for Important Disclaimers.

USD performance to 31 December 2020	Nedgroup Investments Global Flexible ¹	S&P 500	MSCI World
3 months	17.2%	12.1%	14.0%
12 months	10.0%	18.4%	15.9%

Overview

The Nedgroup Investments Global Flexible Fund ("the Fund") gained 17.2% for the quarter and 10% for the 2020 calendar year.

Including some minor risk assets and cash held, the Fund generated 132% of the average of the S&P 500 and MSCI World return in the fourth quarter. The Fund outperformed its own risk exposure of 72.7%, on average, during the quarter.²

The Fund's strategy may have appeared out of step in the first quarter, and as the FPA portfolio management team ("portfolio management team" or "portfolio managers" or "team") argued at the time in the Fund's Q1 2020 commentary: "Businesses owned by the Fund may have seen their stock value move 25% day-to-day, or even intra-day, but in the team's assessment their business value did not similarly change."

Stock prices generally appreciated over the last three months; and in many cases increased by quite a lot. While the Fund showed an outsized improvement in the fourth quarter, which was generally a function of the many positions the team pointed out as being inexpensive in the Fund's Q3 2020 commentary. And still, in the portfolio management team's assessment, not a lot has changed in the underlying fundamentals of the companies held in the portfolio.

Portfolio discussion

It's been a year of extreme, nerve-wracking volatility. The FPA portfolio management team's longer-term mind-set is their anchor in choppy seas, guiding them to seek out what is currently out of favour while avoiding the inflated valuations of what is in vogue. However, these portfolio decisions can cause the team to appear out of touch with the crowd – hopefully a temporary phenomenon, and incumbent on the team to prove to you over time.

In the Fund's Q2 2020 commentary earlier last year, the FPA portfolio managers shared what they believed would be temporary impacts on certain businesses: that people would get on planes and stay in hotels again, and what that might mean for the travel and aerospace industries, for example. We owned and subsequently purchased many stocks that experienced dramatic price declines in the first quarter. The shares of these companies were priced at such low valuations, suggesting that their businesses would never recover.

As a result, the Fund saw more changes in its portfolio last year than it has had in many years. We took the opportunity to increase equity exposure earlier in 2020 as investors were running for the exits. We reset the portfolio by reducing or eliminating certain holdings that in our view offered less attractive long-term potential, while increasing existing and new positions in those businesses that we believed were temporarily harmed by the global pandemic but whose stock prices were disproportionately decimated.

¹ Source: Morningstar (monthly data series). Reflects the net USD return for the Nedgroup Investments Global Flexible Fund, C class.

² Risk assets are any assets that are not risk free and generally refers to any financial security or instrument, such as equities, commodities, high-yield bonds, and other financial products that are likely to fluctuate in price. Risk exposure refers to the Fund's exposure to risk assets as a percent of total assets. The Fund's net risk exposure as of December 31, 2020 was 74.6%.

The contributors to and detractors from the Fund's trailing 12-month returns are listed below and reflect the realities of 2020: technology and other growth stocks performed well, while more cyclical "value" stocks did not.

Exhibit A: Contributors and detractors³

Trailing Twelve Months to 31 December 2020

Winners	Performance contribution	Avg. weight	Losers	Performance contribution	Avg. weight
Alphabet	1.90%	5.16%	Howmet Aerospace	-1.25%	1.88%
Broadcom	1.55%	2.72%	Raytheon & Otis	-0.95%	0.54%
Naspers & Prosus	1.29%	2.86%	Ally Financial Inc	-0.93%	0.15%
Baidu	1.18%	1.59%	McDermott Int'l	-0.82%	1.02%
Facebook	1.11%	2.39%	NatWest Group Plc	-0.73%	0.26%

Technology: It's no great surprise that the top five contributors to performance over the last year were the technology investments that floated upwards on the rising tide. Despite taking some profits, the Fund retained many of these positions. These companies share the common characteristic that they operate successful business models and trade at valuations that, although not as inexpensive as they once were, the FPA portfolio management team believes will still provide a reasonable return in the years to come.

Financials: The financials in the portfolio under-performed as investors sold shares in a panic, fearing that the economic downturn would cause such damage to loan and investment portfolios and that there would be, in general, less demand for their products and services. The market was correct that their businesses would be harmed, but not to the degree that was ultimately priced into their stocks. There has been some recent recognition of this as financials were strong performers in Q4 2020 and in the early days of 2021. Given strong balance sheets, a post-COVID economy within sight, stimulus packages, and the Fed's security purchase support, combined with inexpensive valuations, we suspect that there is still gas left in their collective tank.

Aerospace: The Fund owns two aerospace suppliers, Howmet and Meggitt, which saw their stock prices decline by around two-thirds from their Q1 2020 highs.⁴ Howmet's price increased about three times from its low and ended the year at its all-time high. Meggitt's stock price doubled from its bottom but is still significantly below its peak. The value of their necessary and large market share businesses did not fluctuate as much as their stock prices.

When things look bleakest, the prospects for returns are typically brightest. As much as that might have been the case earlier this year, in the team's assessment the opposite is true today. Now that the stock market has run to new highs, the team would suggest that investors have borrowed from future returns.⁵ In general, the more you pay for an asset, the lower you can expect for its future return. The Fund therefore retains approximately 25% in cash and conservative fixed income as available to be redirected for future opportunities.

³ Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the trailing twelve months ("TTM") through December 31, 2020. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the TTM. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed. **Past performance is no guarantee, nor is it indicative, of future results.**

⁴ As of December 31, 2020. The TTM average portfolio weight of and contribution by Meggitt were 0.8% and -0.41%, respectively. The TTM average portfolio weight of and contribution by Howmet were 1.9% and -1.25%, respectively.

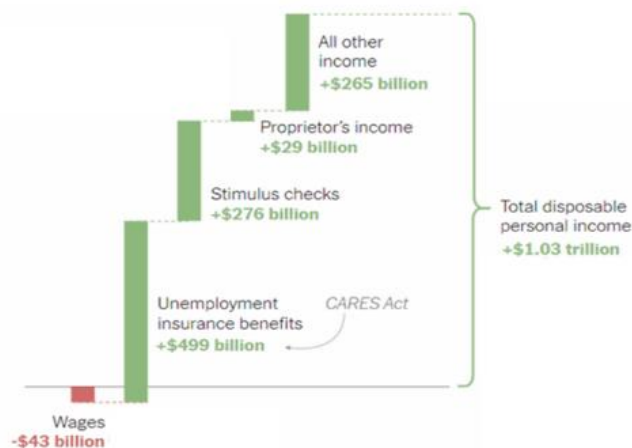
⁵ Unless otherwise noted, any references to "market" in this Commentary refers to the S&P 500 Index.

Markets and Economy

It's always good to take stock at the end of a calendar year, and no better time than now with 2020 delivering more than the usual share of surprises.

At the end of 2019, no one predicted that the unemployment rate would hit its highest level since the Great Depression and most Americans would struggle financially; US national debt would cross \$27 trillion, an increase of almost \$5 trillion; GDP would shrink 3.5%; average wages would *decline* but household incomes would *increase*, thanks to government stimulus checks (Exhibit B); yet the stock market would hit new highs, delivering a double-digit rate of return.

Exhibit B: Personal Income Increased in 2020 Despite a Decline in Wages in the U.S.⁶



The economy and, by extension, the securities markets have been supported by the friendliest financial conditions in US history including: a negative real rate of interest, liberal fiscal policy, business subsidies, stimulus checks for most individuals, and a ballooning Fed balance sheet used to buy treasuries, agencies, and now corporate bonds.

People were fearful of what *might* be. As is usually the case, however, more things could happen than will happen. We certainly did not predict that 2020 would unfold as it did, but the three meta-points the FPA portfolio management team communicated in their Q1 2020 commentary, when fear was near its peak, reflect their steady bearing.

They said then that;

- 1) "...the world isn't coming to an end. The impact on the Fund is largely a mark-to-market exercise in the midst of the most unsettling series of events that many of us have ever experienced."
- 2) "They put over 10 percent of the Fund's cash to work during the quarter. The FPA portfolio management team added nearly a dozen new holdings and are genuinely happy with what they own..."
- 3) "They believe the Fund's portfolio of securities at the end of this tumultuous quarter is attractive and interesting..."

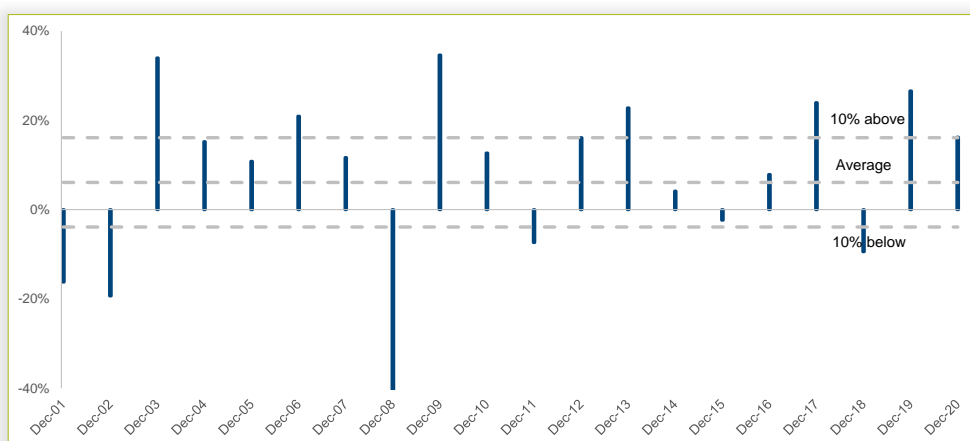
Investors typically anchor to the average annual market return, while disregarding that the actual annual returns vacillate tremendously around that average.

⁶ Source: Bureau of Economic Analysis. Data is from March 2020 through November 2020 and compared to the same time period in 2019.

Ironically, people will one day look back at 2020 and see a year that delivered a market return of approximately 2x the long-term average. There will be less attention paid to the market having declined approximately 34%, only to then rebound approximately 67%.⁷ That's comforting in a way as it suggests that this unusual year was not really so abnormal.

Investors focus on average annual stock market returns without often appreciating that the stock market never returns the average. Long-term equity returns are achieved with significant variability around the mean. The MSCI ACWI Net Return Index has returned an average of 6.12% over the past 20 years, but in only three instances where the returns even within 2% of the average. In 65% of the cases, the returns were more than 10 percentage points higher or lower than the average, with a 77% spread between the best and worst years (34.6% in 2009; -42.2% in 2008). Therefore, notwithstanding the tremendous volatility during the year, as it relates to the global stock market returns for the full calendar year 2020, it was truly an exceptionally unexceptional year (Exhibit C).

Exhibit C: MSCI ACWI Returns 2001 to 2020⁸

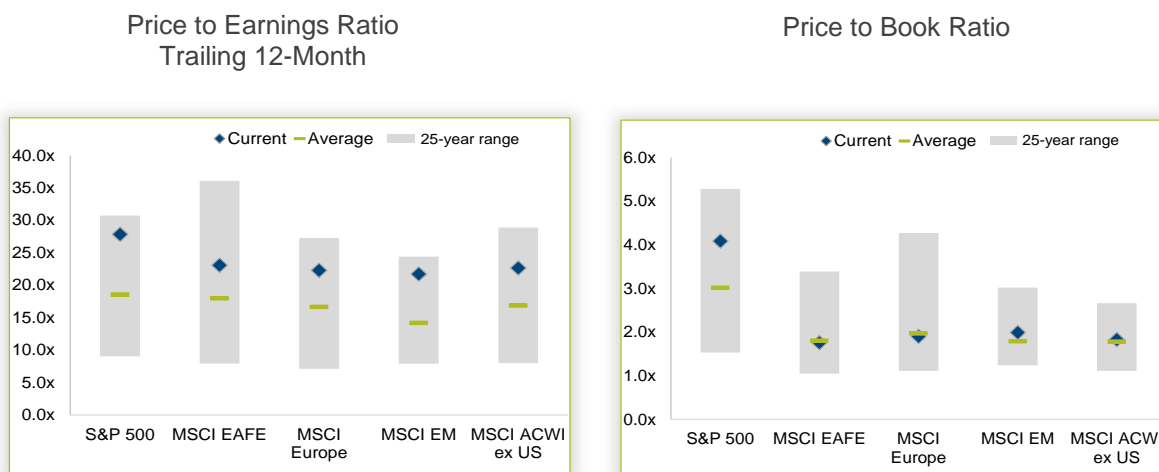


The pendulum swung hard to the downside in March and now has swung even harder to the upside since those market lows. The FPA portfolio management team also wrote in their Q1 2020 commentary that “As emotion is wrung from the stock market, it tends to look forward to what the economy looks like on the other side of a virulent downturn.” That happened sooner than the team expected. Far be it from them to say this rebound was overdone, but there’s little question that the markets are pricing in a COVID-free world (Exhibit D).

⁷ Source: Bloomberg. As of December 31, 2020. The ‘market’ statistics noted refer to the S&P 500 Index.

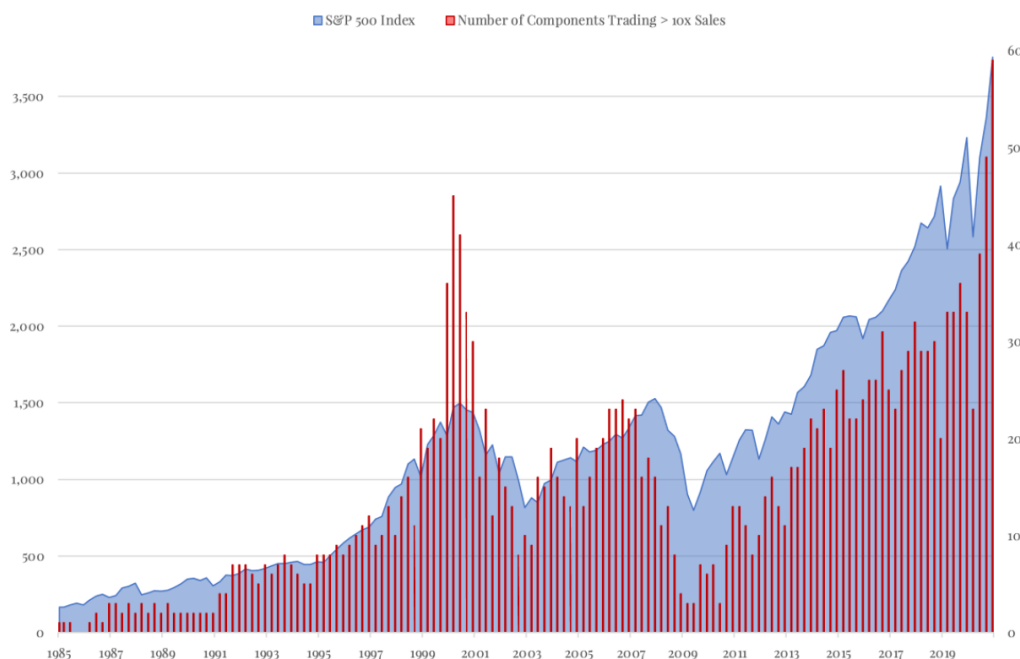
⁸ Source: Bloomberg. As of December 31, 2020.

Exhibit D: Global Valuations⁹



In comparison to trailing indicators, large-cap US stocks (S&P 500) trade at 22.3x forward earnings at year-end, 45% higher than the 20-year average.¹⁰ Larger market cap companies based outside the U.S. (ACWI ex-U.S.) trade less expensively at 16.7x, although still 25% higher than its 20-year average. These higher valuations can, in part, be supported by lower interest rates and the higher growth rates of many businesses. However, ~12% of the S&P 500 now trades at more than 10x sales – its largest percentage and more than during the dotcom bubble (Exhibit E). Only time will tell if it is truly different this time, but it has always been dangerous to utter those words during previous periods of market exuberance.

Exhibit E: Valuation Extreme¹¹



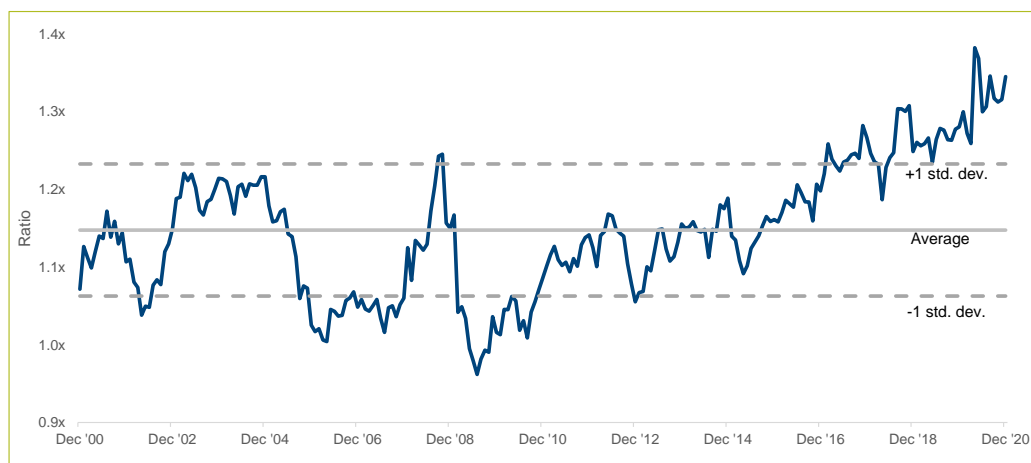
⁹ Source: Factset. As of December 31, 2020. Data is represented by the respective indices in the charts.

¹⁰ Source: J.P. Morgan Asset Management, Guide to the Markets. Slide 55. As of December 31, 2020.

¹¹ Source: *What were you thinking? Part Tres*. Jesse Felder, The Felder Report. Data as of December 31, 2020. The 'number of components' refers to individual stocks.

International stocks continue to trade more inexpensively (relatively) when compared to U.S. stocks even with many operating globally (Exhibit F). A lower valuation on its own, though, does not warrant a place for a stock in our portfolio. Those slots are reserved for growing businesses. The team has been fortunate to find many such companies in the last couple of years, which explains the Fund's 36.7% exposure (as a percent of equity investments) to foreign-domiciled companies; including global companies like Lafargeholcim, Groupe Bruxelles Lambert, Glencore, and Richemont.¹²

Exhibit F: Relative Forward P/E Ratio of S&P 500 vs. MSCI ACWI ex-U.S.¹³



Generally high valuations create a friendly market for raising capital. This past year was no different. Initial public offering volume hit a record \$175 billion; while SPACS, the special purpose acquisition companies that have a “blank cheque” to invest, have raised more than \$60 billion.¹⁴

According to Bloomberg, “a record \$120 trillion of stock changed hands on U.S. stock exchanges last year, up 50% year-over year. The average Russell 3000 stock saw average daily share volume surge 46% to 1.9 million shares.”¹⁵ The stocks that performed best were those with better projected prospects than current earnings and companies that were either less impacted by or benefited from the pandemic. Needless to say, the Fund did not own many of these companies. The momentum-driven buying of many individuals, including those utilizing commission-less platforms like Robinhood, have helped drive stock prices higher. Many of these “investors” operate with the core tenet that past performance is indicative of future performance and have piled into stocks with the aid of record amounts of borrowed money and the use of derivatives (Exhibits G & H).

¹² Portfolio composition will change due to ongoing management of the Fund.

¹³ Source: Factset. As of December 31, 2020.

¹⁴ Source: A Speculative Frenzy is Sweeping Wall Street and World Markets. Bloomberg News. As of December 19, 2020.

¹⁵ Source: *Day Traders Put Stamp on Market with Unprecedented Stock Frenzy*. Bloomberg Quint. As of January 1, 2021.

Exhibit G: Margin Debt¹⁶

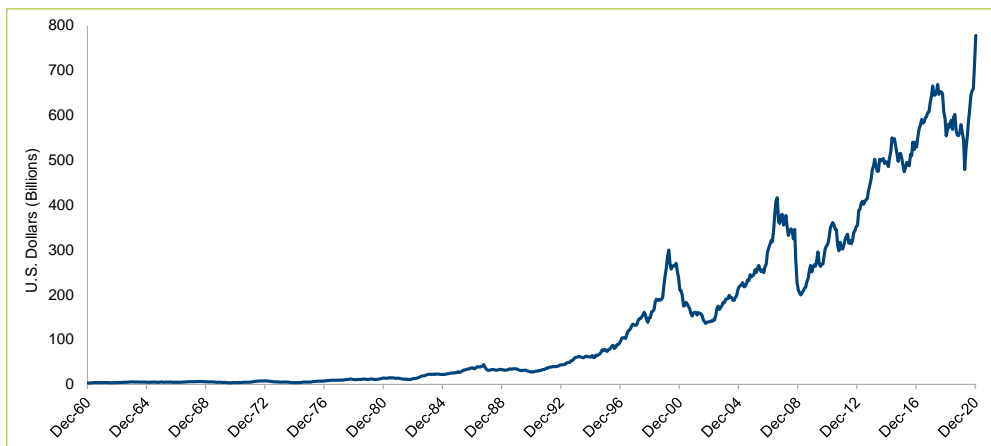
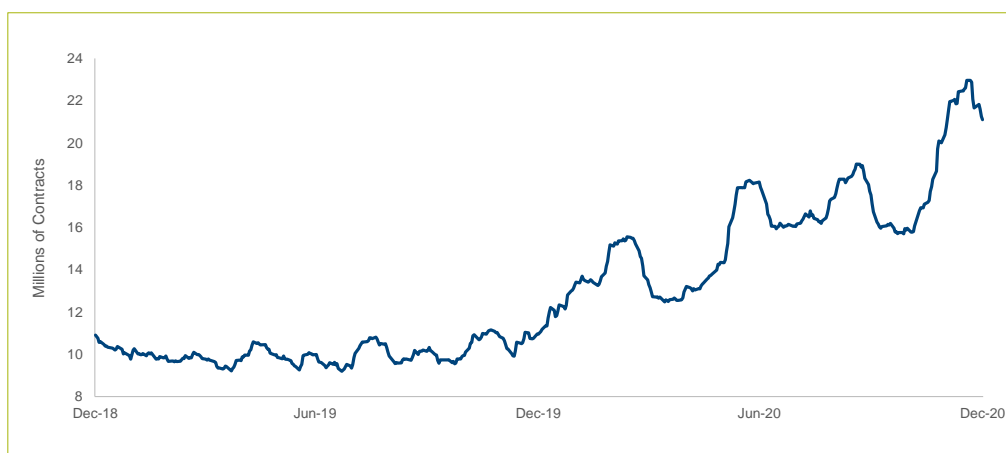


Exhibit H: Call Options Traded 20-Day Moving Average¹⁷



It's interesting to see how people find solace in different industries in which they have little grasp of the economics, let alone what might be the right price to pay. Momentum, more than understanding, drove the Nifty 50 in the 70s; Oil stocks in the 80s; Tech stocks in the 90s; Diversified industrial stocks and certain financials - like General Electric and Bank of America in the 00s; and now back to technology and healthcare stocks today.¹⁸

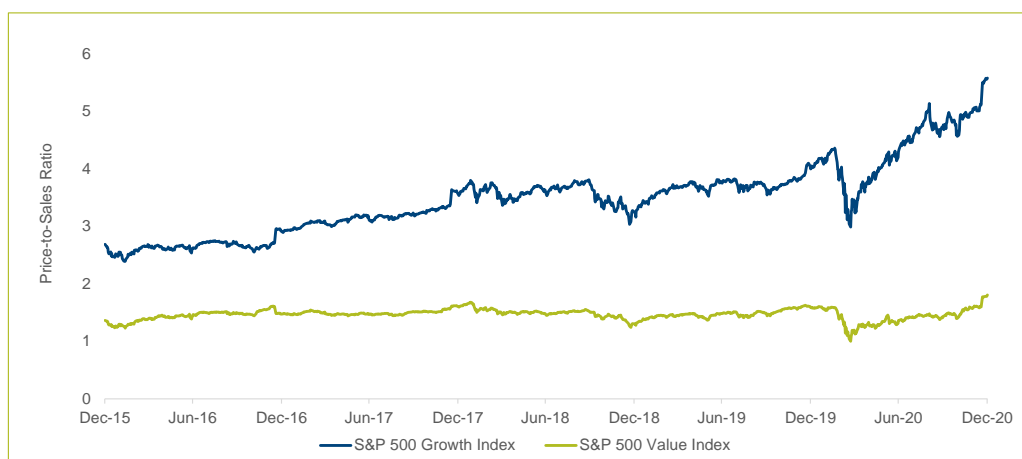
This has led to a clear bifurcation in the market with a widening gulf between the haves and have-nots – as pronounced as the team has ever seen it (Exhibit I). The valuations of many “haves” are too rich for the team’s blood and are less likely to deliver reasonable returns over time, despite many high quality businesses in the mix. The lower valuations of the “have-nots” can often be appropriately justified by the secular challenges these businesses face. As price conscious investors, the team focuses on the cohort in between. Much of the oxygen in the room has gotten sucked up by those stocks that have been “working”, leaving the share prices of many good businesses gasping for air.

¹⁶ Source: Yardeni Research, Inc. As of December 31, 2020. Debit balances in margin accounts at broker/dealers. Beginning in 1997, data reflects debit Balances in customers' securities margin accounts.

¹⁷ Source: Bloomberg. U.S. Total Option Call Volumes. As of December 31, 2020.

¹⁸ Nifty 50 was an informal designation for fifty popular large-cap stocks on the New York Stock Exchange in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks, or "Blue-chip" stocks.

Exhibit I: Price/Sales: S&P 500 Growth Index vs S&P 500 Value Index¹⁹



Grounded in the philosophy of not paying more for an asset than the team believes it is worth, the team's true north remains bottom-up security selection. They evaluate the risk/reward of each of our investments over a three to five-year period, and innately believe that anything less is speculation. As risky as investing in stocks appeared at the March lows, particularly with regard to the financial, travel, and aerospace sectors, the team would argue that higher stock prices today, all else equal, translates to greater risk.

They therefore expend the bulk of their energy and capital on those businesses that they believe offer secular growth, good returns on capital, have operators who are either owners or function with an owner mentality and, finally, trade at prices that should allow for an acceptable rate of return over time.

Investors today are paying more for certainty – or for the illusion of certainty. However, there are numerous companies (many with unproven business models) whose valuations can only be justified by high earnings growth well into the future. Further, achieving those growth rates does not assure good stock price performance. Take Microsoft for example. It posted 19.5% earnings growth through the first decade of the millennium, but its stock price declined 48% in that time.²⁰ Price may not matter over the short-term, but it certainly does over the long-term. The Fund's portfolio will hopefully continue to prove that point.

High Yield and Distressed Debt

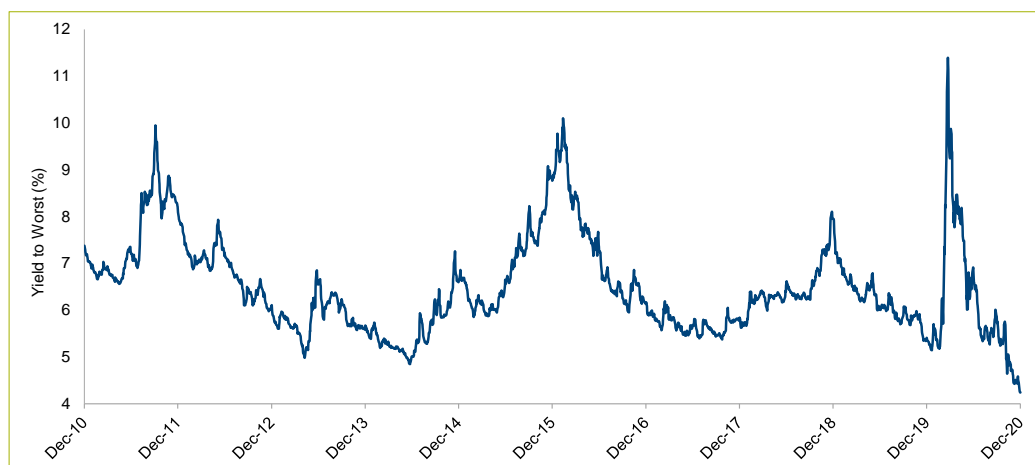
The team's inability to find attractive high yield and distressed debt opportunities has been disappointing. Higher yielding corporate debt had always been an integral part of the strategy, yet the team has been side-lined for much of the last decade. They watched the yields of lower tier corporate credits decline over the last decade, and then decline some more.

In a quest for return, investors have bid up the price of high yield bonds so that this yield is now at an all-time low of 4.2%, and that's a gross yield *before* some measure of defaults (Exhibit J).

¹⁹ Source: Bloomberg. As of December 31, 2020.

²⁰ Source: Bloomberg, for the period 12/31/1999 to 12/31/2009. Microsoft's stock price on the respective dates was \$58.38 and \$30.48.

Exhibit J: BofA US High Yield Index Yield to Worst²¹



Adding to the risk factors, corporate debt generally have the worst lender protection in its history; i.e., fewer and weaker covenants and more covenant relief than we've ever seen (Exhibits K & L).

Exhibit K: Covenant-lite Share of Outstanding US Leverage Loans²²

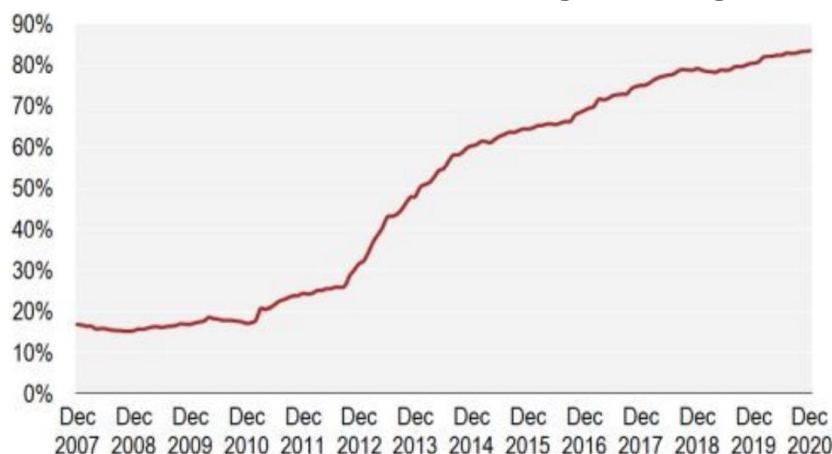
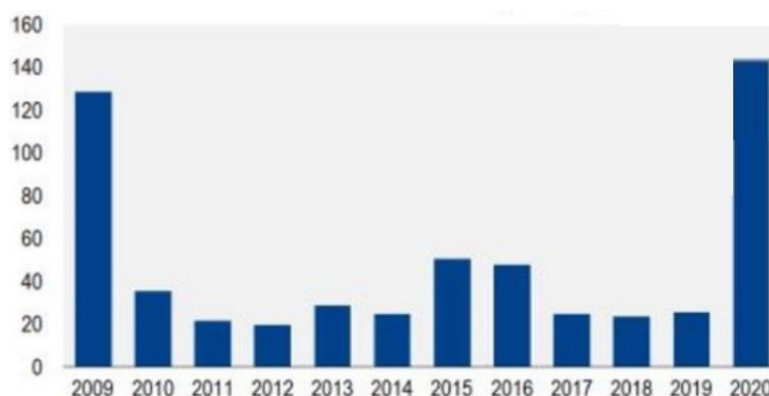


Exhibit L: Covenant Relief Count²³



²¹ Source: Bloomberg. As of December 31, 2020. High yield bonds market data represented by ICE BofA US High Yield Index. Yield to worst is a measure of the lowest possible yield that a bond can receive operating within the terms of its contract without defaulting.

²² Source: LCD, S&P Global Market Intelligence. As of December 31, 2020.

²³ Source: *Markets betting on the Fed's dovish policy shift on inflation, Credit*. The Daily Shot, as of August 27, 2020. Data for 2020 is through July 31.

Should the FPA portfolio management team once again see opportunities in high yield (higher yields with the necessary lender protection), then you will likely see more Fund exposure to the asset class. There is, unfortunately, no guarantee that this will materialize, particularly in a world where lenders are now paying borrowers. Almost \$18 trillion of global debt now has a negative yield (Exhibit M).

Exhibit M: Negative Yielding Global Debt²⁴



Closing

What was a bad year in March, turned into an average year by December; emphasizing how noisy short-term performance can be for long duration assets. From a valuation perspective, the FPA portfolio management team believes the Fund is well-positioned for future performance, although more relatively than absolutely. And the team has available liquidity that will allow them to capitalize on future opportunities.

Although the team does not like losing money, they can't forget about making money. This balance between capital preservation and appreciation must always consider the macro environment: the sovereign desire to inflate, the continued low interest rates, and the negative real return on cash. Given that setup, if they can continue to be successful with their equity security selection, then they should run the Fund more invested even if that may involve greater volatility.²⁵

They will continue to pay closer attention to how things might unfold over time, rather than to emphasize any moment in time.

²⁴ Source: Bloomberg. Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value. As of December 31, 2020.

²⁵ **For illustrative purposes only.** The equity performance information shown herein is for illustrative purposes only and may not reflect the impact of material economic or market factors. No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those shown. Equity performance does not represent the return an investor in the Fund can or should expect to receive. Fund shareholders may only invest or redeem their shares at net asset value.

Past performance is no guarantee, nor is it indicative, of future results.

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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 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.

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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

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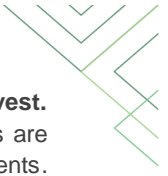
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You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest.

Investments, including investments in the Fund, carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depositary Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Interest rate risk is the risk that when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principal due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all of its value. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Mortgage-backed securities and asset-backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets. Derivatives may increase volatility.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, or the investment manager or sub-investment manager to purchase or sell such securities or invest in such sectors, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security or sector examples discussed.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The performance data herein represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost.

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The **S&P 500 Index** includes a representative sample of 500 hundred companies in leading industries of the U.S. economy. The Index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets.

