NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Two, 2022

Marketing Communication

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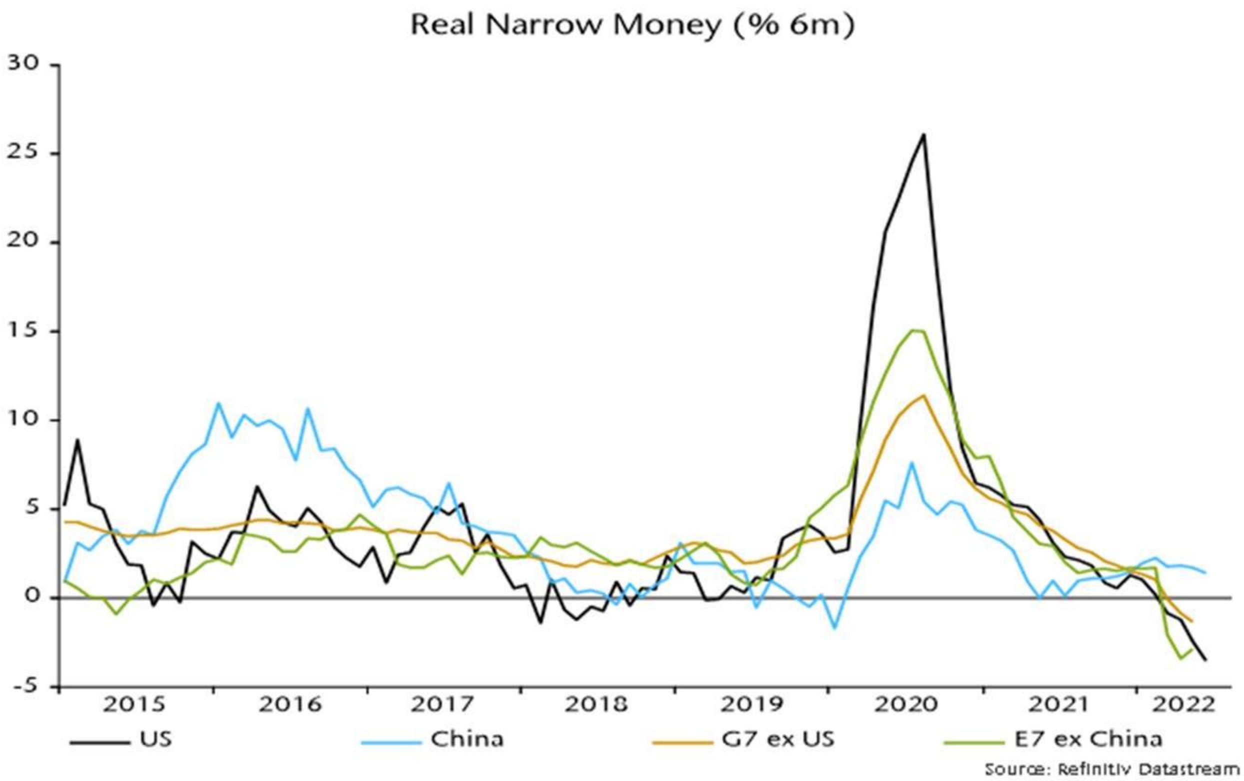
Economic and Monetary Backdrop

Global six-month real narrow momentum – the "best" monetary leading indicator of the economy – crossed below zero in March, signalling a likely global recession. It weakened further during Q2, suggesting that the recession will be severe and extend into Q1 2023, at least.

Global real money weakness is focused on the US / Europe and high-inflation EM economies. By contrast, real money momentum has recovered in China and could pick up further as recent policy easing measures gain traction:



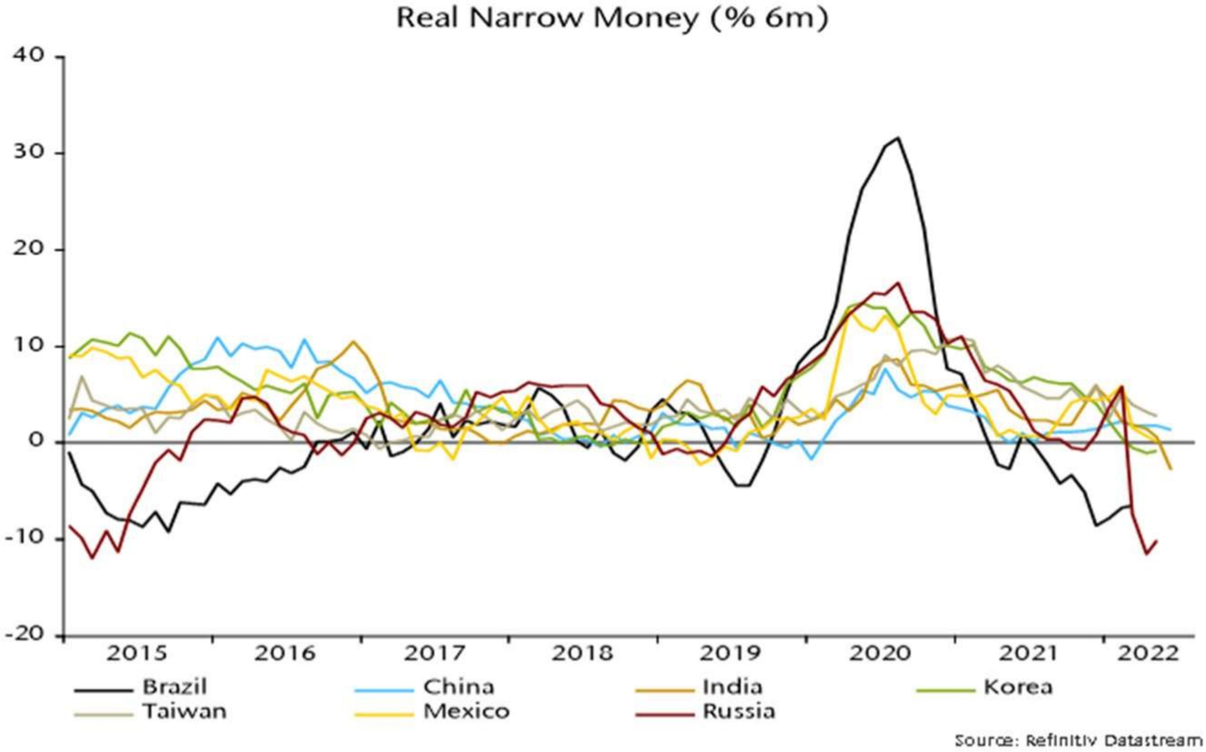
EM equities typically underperform during global recessions but China's potential growth recovery and its importance in terms of index weighting and trade links with other EM economies raise the possibility that "this time is different".

Global economic weakness is expected to be driven partly by a downswing in the stockbuilding cycle, following excessive inventory accumulation spurred by temporary demand strength and perceived supply shortages. Stockbuilding cycle downswings have historically been associated with a fall in commodity prices, suggesting favouring commodity consumers over producers in country allocation.

More generally, the recessionary outlook argues for limiting allocation to "cyclical" markets with high sensitivity to global industrial momentum. EMEA and Latin American markets with exposure to European / US economic weakness could underperform.

EM cyclical sectors typically lag in recessions but the price-to-book discount to defensive sectors is already extreme by historical standards and relative to developed markets. Selective addition to cyclical exposure may be warranted, for example where revenue / profits are geared to a Chinese economic recovery.

Real money weakness may be bottoming out in EM countries that were early to tighten policies. An inflation squeeze on real money may last longer in laggards, such as India:



Portfolio strategy

Growing consensus that central banks are serious about reducing inflation, even at the expense of tipping economies into recession, caps off one of the poorest performances on record for world stock markets in the first half of a year. Emerging market equities outperformed developed markets over the quarter. In an environment of tightening global liquidity and weakening global growth, EM equities typically face the most severe hangover. In contrast to previous cycles, however, many emerging markets entered this downturn with lower leverage (most EM central banks did not carry out pandemic QE), low inflation, proactive central banks willing to use interest rates aggressively to curb inflation, and valuations at extreme lows versus DM.

China typifies the positive EM divergence in terms of real money growth and fiscal/monetary discipline. Having run tight policy throughout the pandemic, inflation today is low, while equities endured a torrid selloff over the past 12 months on fears over regulatory overreach, geopolitical risk, and Beijing's pursuit of Covid-zero. This was followed by a flood of initiatives fronted by Xi Jinping and CCP Standing Committee members supporting the economy and reassuring investors that crackdowns on key sectors would ease and economic growth would be prioritised. In June, Xi reiterated the commitment to achieving 5% GDP growth in 2022, implying 7% growth in H2. To achieve this Beijing will need to escalate efforts to revive the economy, and the data towards the end of Q2 confirmed improvement in money growth and PMIs recovering.

These events underpinned a steady shift up to a neutral weight through Q2, favouring quality companies as another Covid outbreak could crush sentiment. This conservative approach meant that China was a detractor at a country level as Chinese stocks bounced, while stock selection was a small negative. The 20th National Congress of the CCP in the fall approaches, where it is expected that President Xi will secure a norm-breaking third term. The CCP wants to ensure a brighter backdrop than in H1 for Congress. The promise of a domestically produced mRNA vaccine slated for approval in Q3 would be a major boost, likely allowing the government to abandon reliance on crushing lockdowns at the first sign of an outbreak.

Chinese stocks rallied off March lows across sectors including consumer staples and consumer discretionary. Solar technology leader Longi Green Energy's stock was up 23% over the period. Rising oil prices strengthen the renewables push, and there are signs the Biden administration may remove tariffs on Chinese solar products. The boost to prospects for domestic travel following an end to lockdowns saw Spring Airlines' stock rise by 26%. China Merchants Bank fell -15% on the back of news that now ex-Chairman Tian Huiyu was being investigated on personal corruption allegations. While the business case for the company remains intact, we are uncomfortable with the level of political risk and have reduced the position.

Negative sentiment for Chinese equities represents an opportunity to gain exposure to future structural winners at compelling prices. We added Chinese electric vehicle manufacturers NIO (-2%) and XPENG (+12%), leaders in the luxury and affordable niches respectively. The Shanghai lockdown hit the companies' stocks as most of NIO's electrification manufacturing is based in the city, and also the home of component suppliers to XPENG. The drawdown was an opportunity to gain exposure to quality companies in an industry trading at 1.7x EV/ sales for 2023 and growing at a 60-70% CAGR. Recent results demonstrate the strength of demand for Chinese EV brands and swift recovery of production. In June, both hit the upper end of delivery guidance with NIO's delivery at a record high 12,961 units (+85% MoM, +60% YoY), while XPENG's deliveries were the highest YTD at 15,295 units (+51% MoM, 133% YoY). The EV industry has massive growth potential through share gains from internal combustion engines (ICEs) and rising car budgets of China's middle class. Rising fuel prices, policy incentives, higher battery density and range, improving charging infrastructure and unit pricing approaching parity with ICEs are all tailwinds for EV adoption. NIO and XPENG possess powerful brands within their niches, preferred by Chinese consumers over Tesla and premium German OEMs. By launching new models and delivering more units, as well as selling ancillary services such as battery swapping, operating profits can soar as NIO and XPENG scale up.

Stock picking in India was positive, led by Varun Beverages (+21%), one of the leading Pepsi bottlers in the world which is gaining share, expanding capacity, and growing profits. Earlier in the year we flagged the short-term risk to Indian equities on deteriorating liquidity conditions. Our response was to reduce our overweight through paring back cyclical exposure. Aluminium and copper manufacturing company Hindalco was sold given weakening demand, while construction conglomerate Larsen & Toubro and Oil and Natural Gas Corporation were trimmed. Property developer Indiabulls was one of the largest single stock detractors (-42%). Stalled merger talks with competitor Embassy Group and a deteriorating liquidity environment cloud short-term prospects; however, the long term story remains attractive. Multiple structural tailwinds drive growth in India's housing sector including rapid urbanisation and mortgage penetration of only 11% which leaves headroom for growth (versus 18% in China). Housing affordability is high for a young and rising Indian middle class. This should all spur demand for housing in India over the long run.

Our liquidity analysis points to global GDP contraction through H2 and peaking G7 inflation as commodity price pressures and pandemic distortions ease. While a detractor in the first quarter, opting not to chase the commodities rally was a contributor with the fund underweight countries with high exposure to commodities and energy such as Brazil (-24%), South Africa (-23%) and GCC (Saudi Arabia -12%, Qatar -11 and UAE -19%).

Stock picking within the materials sector added value, particularly in the lithium names Jiangxi Ganfeng Lithium (+12%) and SQM (-0.5%) which outperformed the sector (-20%). Industrial stocks were a drag, led by Hungarian airline Wizz Air whose stock fell by -44% despite soaring travel demand. Investor sentiment remains negative on strong oil prices and airlines struggling to keep pace with demand, hitting revenue recovery and driving up costs thus dampening the hopes of a summer earnings boom.

Trading activity elsewhere was aimed at increasing defensive exposure, along with trimming winners and more cyclical names as a source of cash to increase China exposure. Bank Negara Indonesia was sold following a short but strong period of performance as a beneficiary of rising rates and oil prices. President Chain Store is a high quality and defensive addition, the owner of the franchise rights to 7-11 in Taiwan. Also in Taiwan, we switched out of Cathay Financial on concerns over exposure to capital markets and payouts from Covid-related policies, and into CTBC Financial Holdings which is enjoying 10% loan growth, higher margins on rising rates and a recovery in credit card fees while paying a 5% yield.

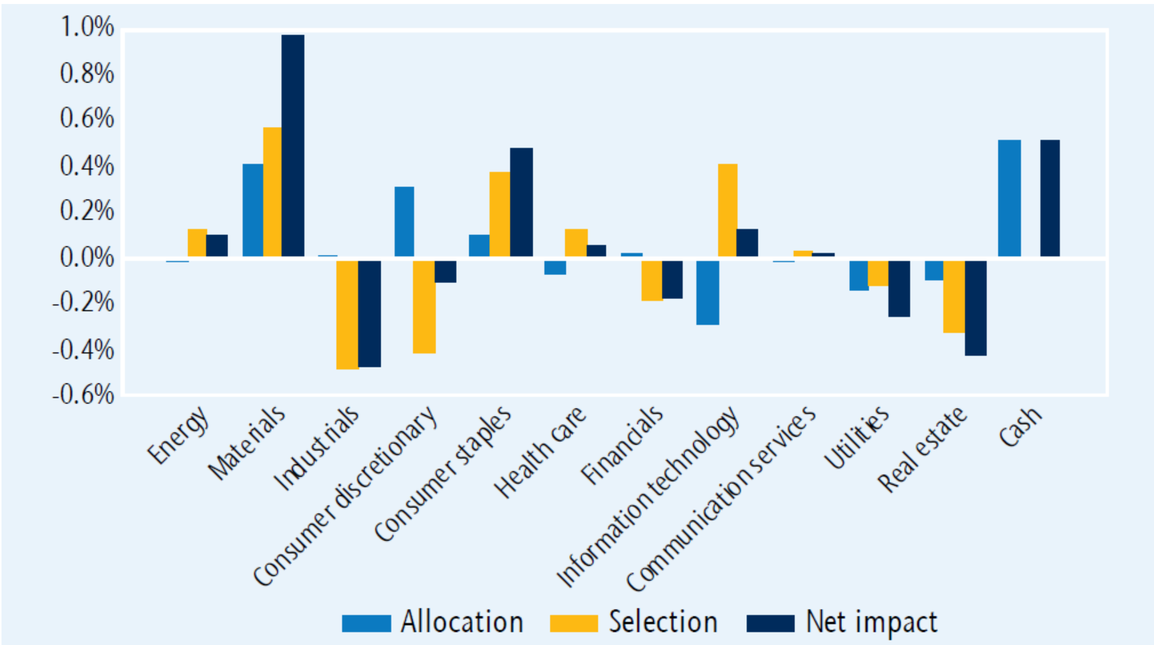
Looking forward, hawkish policy actions by central banks may be seen as an unnecessary misstep. Our two measures of global excess money were negative in H1 consistent with the market weakness year to date. Normally quality stocks perform well when there is a double negative reading, but the factor has an inverse correlation with bond yields. We expect the normal relationship of yields with falling global PMIs to be re-established during the second half with lower yields driving better performance from quality stocks. Emerging markets have shown some relative resilience and the YTD fall in prices offers investors the opportunity to gain exposure to high quality companies at compelling valuations, particularly in China which appears to be in the early stages of a rebound.

Best and Worst Countries by Net Impact

Country	Allocation	Stock Selection	Net Impact
South Africa	0.5%	0.0%	0.5%
Brazil	0.4%	0.1%	0.4%
Thailand	0.0%	0.3%	0.3%
Hong Kong	0.2%	0.0%	0.2%
India	-0.1%	0.2%	0.2%
Vietnam	-0.1%	0.0%	-0.1%
United Kingdom	-0.1%	0.0%	-0.1%
Switzerland	-0.2%	0.0%	-0.2%
Taiwan	0.2%	-0.5%	-0.4%
China	-0.7%	-0.3%	-1.0%

Source: NS Partners Ltd

Attribution by Sector



Source: NS Partners Ltd

Contribution Analysis

Top Contributors	Average Weight	Contribution
Longi Green Energy Technol-A	1.6%	0.7%
Varun Beverages Ltd	2.5%	0.5%
Shanghai Baosight Software Co	1.6%	0.4%
Jiangxi Ganfeng Lithium Co-A	0.8%	0.4%
AIA Group Ltd	1.8%	0.3%

Source: NS Partners Ltd

Top Detractors	Average Weight	Contribution
Contemporary Amperex Technolog	0.5%	-0.3%
Indiabulls Real Estate Ltd	0.5%	-0.3%
Wizz Air Holdings Plc - Wi	0.7%	-0.2%
Cathay Financial Holding Co	1.1%	-0.2%
China Merchants Bank-H	1.0%	-0.2%

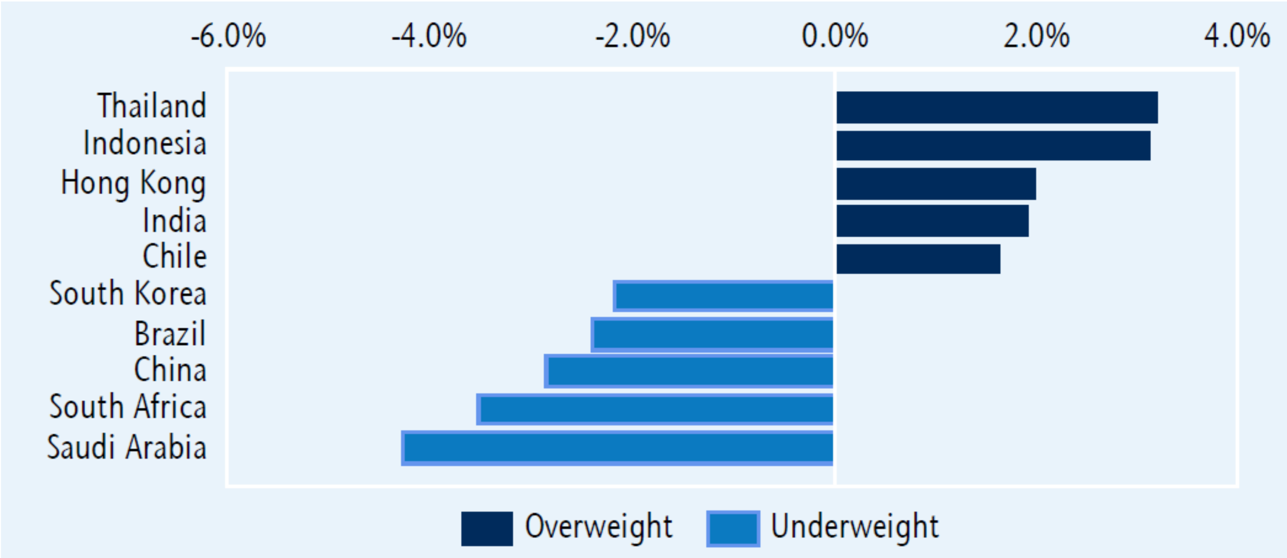
Source: NS Partners Ltd

Activity During the Quarter

New	Exited	Add	Reduced
CTBC Financial Holding Co Ltd	Cathay Financial Holding Co	Jd.Com Inc	China Merchants Bank-H
Nio Inc	Contemporary Amperex Technolog	Alibaba Group Holding Ltd	Ptt Explor & Prod Public Co
Walmart De Mexico SAB de CV	NAVER Corp	Lg Chem Ltd	Sungrow Power Supply Co Lt-A
Xpeng Inc	ESR Group Ltd	Jiangxi Ganfeng Lithium Co-A	Bank Negara Indonesia Perser
Postal Savings Bank Of China C	Unimicron Technology Corp	Telkom Indonesia Persero Tbk PT	Monde Nissin Corp
LG H&H	Budweiser Brewing Co Apac Ltd	Netease Inc	Larsen & Toubro Ltd
Indiabulls Real Estate Ltd	Aspeed Technology Inc	Accton Technology Corp	Oil & Natural Gas Corp Ltd
President Chain Store Corp	Hindalco Industries Ltd	Shanghai Baosight Software-A	Bank Rakyat Indonesia (Persero) Tbk
-	Ayala Corporation	Longi Green Energy Technol-A	Atacadao Distribuicao Comerc

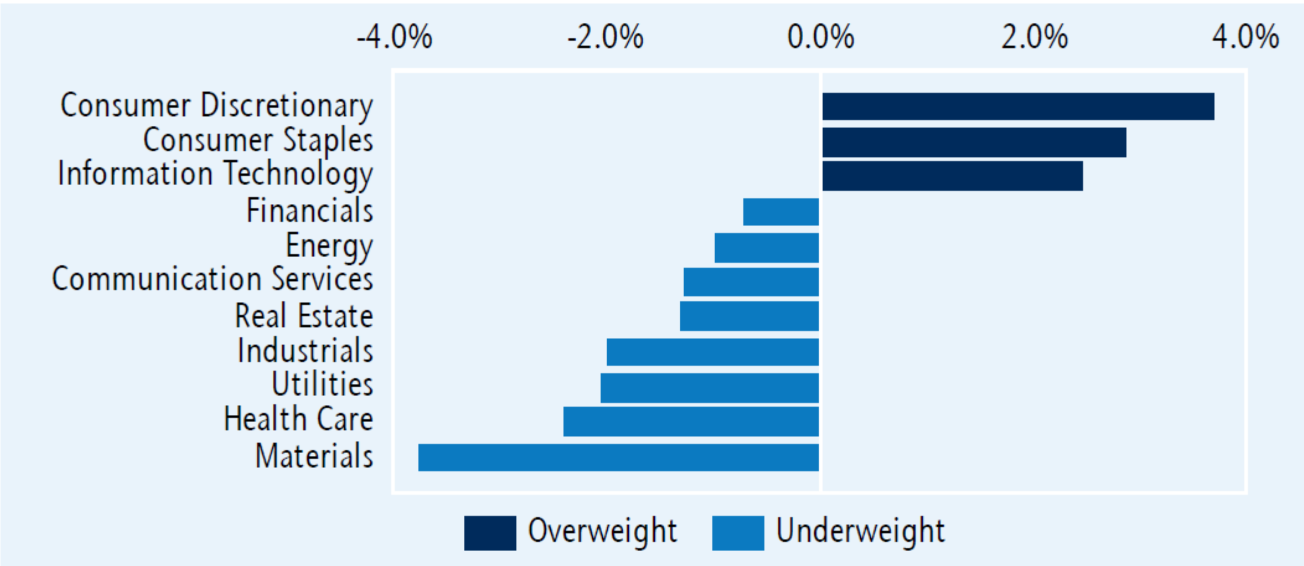
Source: NS Partners Ltd

Top Country Over/Under Weights vs MSCI EM Index



Source: NS Partners Ltd

Sector Allocation Over/Under Weights vs MSCI EM Index



Source: NS Partners Ltd

Top 10 Holdings

Company Name	Country	Sector	Weightings
Taiwan Semiconductor Manufac	Taiwan	Information Technology	7.5%
Alibaba Group Holdings Ltd	China	Consumer Discretionary	6.3%
Tencent Holdings Ltd	China	Communication Services	5.2%
Samsung Electronics Co Ltd	South Korea	Information Technology	4.0%
Varun Beverages Ltd	India	Consumer Staples	2.9%
Housing Development Finance	India	Financials	2.6%
Infosys Ltd	India	Information Technology	2.4%
CTBC Financial Holding Co Ltd	Taiwan	Financials	2.1%
Longi Green Energy Technol-A	China	Information Technology	2.1%
Shanghai Baosight Software-A	China	Information Technology	2.1%

Source: NS Partners Ltd

Top 5 Overweights

Company Name	Country	Sector	Active Weight
Varun Beverages Ltd	India	Consumer Staples	2.9%
Alibaba Group Holdings Ltd	China	Consumer Discretionary	2.9%
Shanghai Baosight Software-A	China	Information Technology	2.0%
AIA Group Ltd	Hong Kong	Financials	2.0%
Longi Green Energy Technol-A	China	Information Technology	2.0%

Source: NS Partners Ltd

Top 5 Underweights

Company Name	Country	Sector	Active Weight
Meituan	China	Consumer Discretionary	-1.6%
Reliance Industries Ltd	India	Energy	-1.6%
China Construction Bank	China	Financials	-1.0%
Vale Sa	Brazil	Materials	-0.9%
Hon Hai Precision Industry	Taiwan	Information Technology	-0.7%

Source: NS Partners Ltd

Disclaimer

This is a marketing communication. Please refer to the prospectus, the key investor information documents (the **KIIDs**) and the financial statements of Nedgroup Investments Funds plc (the **Fund**) before making any final investment decisions.
These documents are available from Nedgroup Investments (IOM) Ltd (the **Investment Manager**) or via the website: www.nedgroupinvestments.com.

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The sub-funds of the Fund (the **Sub-Funds**) are generally medium to long-term investments and the Investment Manager does not guarantee the performance of an investor's investment and even if forecasts about the expected future performance are included the investor will carry the investment and market risk, which includes the possibility of losing capital.

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Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.
The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

Distribution : The prospectus, the supplements, the KIIDs, constitution, country specific appendix as well as the annual and semi-annual reports may be obtained free of charge from the country representative and the Investment Manager.

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