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Nedgroup Investments Global Behavioural Fund

Quarter Three, 2022

Marketing Communication

Nedgroup Investments Global Behavioural Fund

Commentary produced in conjunction with sub-investment manager, Ardevora Asset Management

Past performance is not indicative of future performance and does not predict future returns.

Performance (USD net return)	3 months	6 months	1year (annualised)	3 years (annualised)
Nedgroup Investments Global Behavioural Fund[1]	-5.52	-22.20	-27.30	1.37
Performance Indicator*	-6.82	-21.41	-20.66	3.75

Source: Morningstar, [1]A-Class, *MSCI All Country World Index

July overview

June was one of the single worst months of the decade. Investor anxiety was extreme by the end of the month. While many of the sources for anxiety may be correct, the intensity of anxiety felt unsustainable. Many of the stocks which performed the worst in June were the best performing in July, regardless of their stock specific news.

We have been flattening the portfolio's macro-factor differences from the benchmark to reflect the highly unpredictable environment. This has helped us stay with the short-term rally in July. Our stock selection was generally good, helping offset a drag from our natural underweight to attractive mega-caps.

Our Rest of World bucket and Japan contributed excess returns this month whilst North America and to a lesser extent Europe marginally detracted. Sector excess contribution to return this month came largely from Communication Services and Health Care. Relative sector detractors this month were led by Information Technology and Consumer Discretionary.

Our bottom-up analysis of error and bias tells us the risks from a recession are building fast. The debate is rapidly moving on from "will we have a recession?" to "how long and how deep will a recession be?". It feels safest to position the portfolios conservatively relative to our benchmarks, while continuing to hunt for evidence of bottom-up bias where, and when, it cuts through the top-down macro noise. There appears to be plenty of potential sources of bias around, and we are finding no shortage of opportunity.

August overview

August was another month dominated by investors' top-down views on the path of inflation and the likelihood of a recession. June began with a burst of optimism but flipped on the combination of weaker employment data and persistently hawkish messaging from the Fed on inflation. Stocks were highly volatile intra-month.

We have been expecting macro views to dominate investor behaviour for the time being, and to swing wildly, so we flattened the portfolio's macro-factor differences from the benchmark in July. This approach helped reduce portfolio volatility in August, despite the strong reversal. Stock selection was also good, and we got a slight lift from our natural underweight to Mega Caps.

During 2021 almost any business, no matter how well or badly run, could surprise. 2022 is developing differently. Inflation remains stubbornly high, presenting a policy problem for Central Banks. Within two years of the deepest post-war recession, in 2020, we may be on the brink of another recession in 2022. This is unusual. Since 1985, recessions have been separated by long periods of reasonably predictable prosperity.

We don't enjoy periods when macro unpredictability dominates. A recession followed by a boom, immediately followed by another recession can take away the importance of individual CEO behaviour on stock prices. However, recessions ultimately present us opportunities in two ways. Firstly, they tend to frighten CEOs, forcing them to curtail previously deluded or unrealistic growth plans. Secondly, they tend to frighten investors and analysts, driving scepticism and doubt about businesses previously considered safe or "good".

Currently we have an odd mix of new ideas. On the one hand our process guides us to conservative business models, with easy-to execute plans, regardless of the macro. When recession risk is building it is usually right to lean into stocks with the often-undervalued property of predictability. On the other hand, we see some potentially interesting pockets of opportunity where doubt and anxiety amongst investors and analysts is most extreme. Some have emerged among the early winners from COVID, who are now struggling to find a normal level of demand.

We think there are enough pockets of extreme investor anxiety, and signs of CEO contrition, to buy small positions in a few of the now less-loved growth stocks, but we are treading carefully. While CEOs of software and eCommerce businesses are becoming more realistic, optimism is generally still high. Investors may have swung from wild optimism towards doubt and fear, but analysts still tend to anchor on the period of unusually high growth (and valuations) of 2019-2021. We remember how long it took for the excesses of the TMT bubble to work through.

September overview

In September we continued to see a lot of top-down influence on stock prices. Markets were down on the month, as stubbornly higher-than-expected inflation and rate hikes by the Fed continued to erode lingering hope amongst investors that the US might avoid a recession. When wild, difficult-to-predict top-down factors dominate investor sentiment, we aim to flatten our exposure to factors that could swamp good stock-picking. This worked well for us last month and good stock selection drove our performance.

North America, Europe and our Rest of World bucket contributed excess returns this month whilst Japan marginally detracted. Sector excess contribution to return came largely from Financials and Communication Services, with relative sector detractors being Materials and Health Care. The proportion in growth and value shifts depending on the environment and opportunity set, as per below chart we have maintained our tilt towards value overgrowth.

Inflation remains stubbornly high, presenting a policy problem for Central Banks. We don't enjoy periods when macro unpredictability dominates as it can crowd out the impact of unusual management behaviour on stock prices. However, by flattening our factor exposures we can reduce the impact of unpredictability on performance and stay focused on identifying unusual businesses.

Our process tends to identify companies where management have an unusual degree of control over their business models and can predictably meet or beat their plans, regardless of the external environment. These attributes become even more valuable in environments where the things outside management's control are unusually unpredictable and potentially damaging. It is usually right to lean into these types of companies when recession risk is building.

Key performance contributors

Nedgroup Investments Global Behavioural Fund: Q3 2022

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Key contributors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
DBS Group	1.22	0.07	19.95	20	Value
Airbnb	0.57	0.07	28.24	12	Value
Cheniere Energy	0.45	0.06	35.71	12	Value
Netflix	0.52	0.17	37.46	11	Value
Cullen/Frost Bankers	0.54	0.00	24.07	11	Value
Nasdaq	0.74	0.04	21.69	11	Growth
Keysight Technologies	0.55	0.05	24.05	11	Growth
Pinnacle Financial Partners	0.54	0.00	22.20	10	Value
Darden Restaurants	0.56	0.03	22.36	10	Value
Automatic Data Processing	0.73	0.17	17.65	9	Value

Source: Ardevora Asset Management, Factset

Key performance detractors

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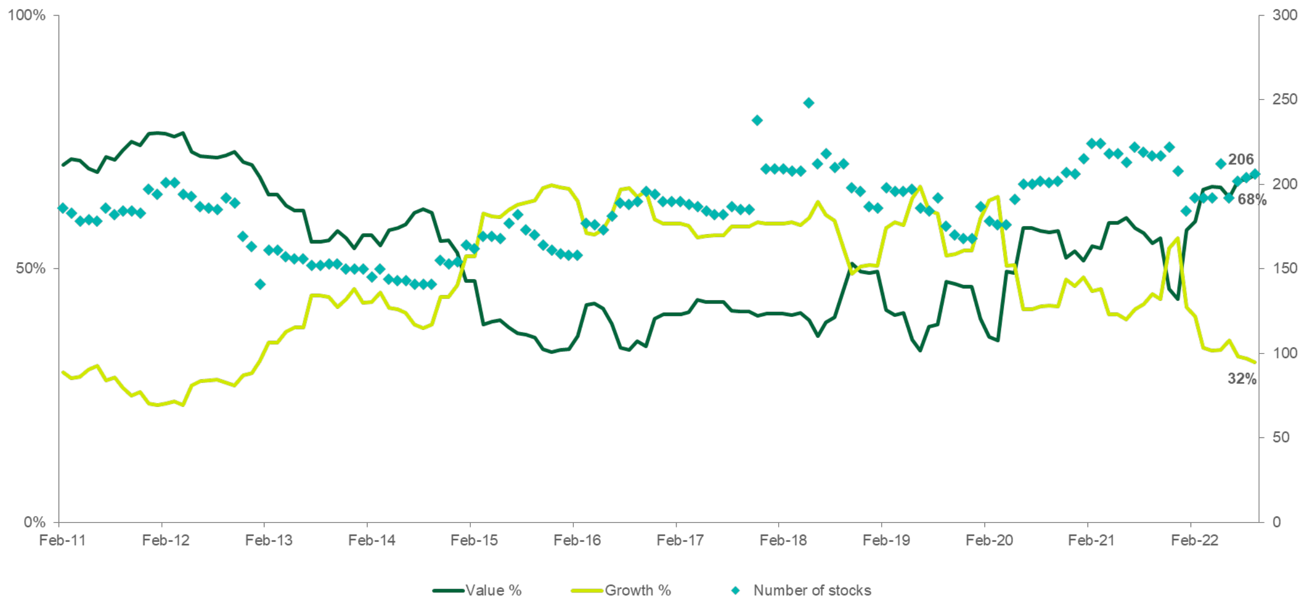
Key detractors	PF weight (%)*	MSCI ACWI weight (%)*	Base return (%)	Excess return contribution (bps)**	Designation
Apple	0.56	4.44	10.08	-34	Growth
Capitec Bank	1.14	0.02	-22.32	-23	Value
Amazon.com	0.58	2.01	15.75	-19	Growth
Tesla	0.56	1.28	28.58	-15	Growth
C3.ai	0.23	0.00	-43.44	-8	Value
Tokyo Electron	0.55	0.08	-16.22	-7	Value
Alcoa Corporation	0.30	0.02	-20.25	-6	Value
Tesco	0.38	0.04	-19.14	-6	Value
UiPath	0.17	0.00	-17.57	-6	Value
Block	0.10	0.06	-21.53	-5	Value

Source: Ardevora Asset Management, Factset

Portfolio positioning

Growth vs. Value



Source: Ardevora Asset Management

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