NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Emerging Markets Equity Fund

Quarter Three, 2022

Marketing Communication

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Economic and Monetary Backdrop

Global six-month real narrow money momentum – the “best” monetary leading indicator of the economy – crossed below zero in March and fell further into June. Allowing for an average nine-month lead, the suggestion is that a global recession is starting and will continue through end-Q1, at least.

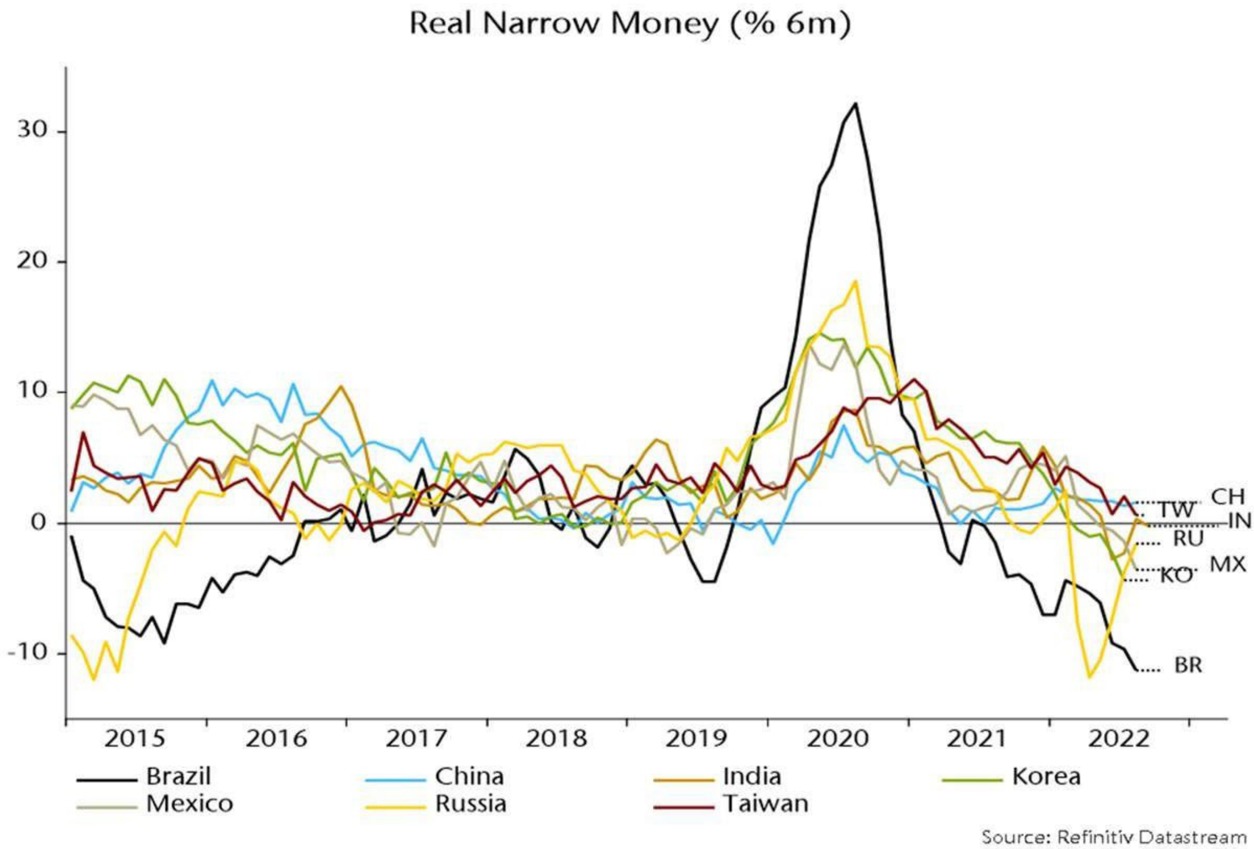
Real money momentum may have bottomed in June, with a boost arriving from a slowdown in consumer price inflation. Any rebound, however, is likely to be modest until US / European monetary policy-makers stop tightening. The “best case” scenario appears to be a stabilisation of the global economy in Q2 2023 followed by a weak recovery in H2.

The recession is expected to be focused on Europe, the US and high-inflation emerging economies. China will be affected via export weakness but real money momentum remains positive and a composite leading indicator calculated here is showing signs of improvement:

With Chinese economic activity suppressed by the zero-Covid policy, “excess” money has accumulated and is supporting government and onshore corporate bonds. Equities could be the next port of call if Covid policy is eased after the Communist Party Congress. The property sector has traditionally been a destination for surplus money but recent woes have shattered confidence, although home sales appear to be stabilising in response to falling mortgage rates and government support measures.

The stockbuilding cycle is expected to be a key driver of global economic weakness as firms are forced to clear out inventories accumulated under false assumptions about demand strength and supply inelasticity. Stockbuilding downswings are usually associated with commodity price weakness, suggesting that falls in recent months will extend well into 2023.

The recessionary backdrop suggests underweighting resource and other cyclical sectors within EM. Real money trends are weak across countries (ex. China) but Taiwan and India are holding up relatively:



Portfolio strategy

Risks of a global recession loom as central banks persist with restrictive policy to curb inflation. Our analysis points to risk of overkill as the precipitous decline in money supply, rising inventories, falling commodities prices, and a weakening consumer suggest that inflation is peaking. Our view is that many major central banks are likely to ignore this and persist with tightening until structural stresses force their hand. EM equities fell against this backdrop, with the MSCI EM NR USD Index down by 11.6%. Markets are looking for signs of a pause in tightening by major central banks as economies weaken and inflation recedes. We do not expect any meaningful policy change until the first half of next year.

The war in Ukraine escalated over the period, where Ukraine carried out successful counter-offensives in its east. This affects calculations of geopolitical risk, supporting our view that while China seeks to push back against a US-led world order (Russia wants to demolish it), it nevertheless seeks to preserve trading relationships in a time of anaemic domestic consumer demand. In the wake of Ukrainian forces retaking Kharkiv and nuclear sabre rattling from Putin, officials from China's Foreign Ministry pressed for a ceasefire, while Foreign Minister Wang Yi called for "a political settlement as soon as possible". While Beijing has offered rhetorical support for Russia, it has abided by Western sanctions and declined to supply Russia weapons. September's Shanghai Cooperation Organisation Summit in Uzbekistan, where Putin publicly acknowledged China's "questions and concerns" before a frosty Xi, suggests there are indeed limits to this partnership. Isolated on the global stage, and with domestic pressure rising on the back of a botched partial military mobilisation, there is a risk Putin will use a nuclear weapon in an attempt to bring the conflict to a conclusion. While the US and Western allies have promised "catastrophic consequences" should he do so, added pressure from China and India would help to avoid such a dire scenario.

Stock selection in China was the dominant factor behind underperformance, led by cyclical names. Sany Heavy (-31%) fell on a domestic construction industry downturn on Covid resurgence, along with property sector weakness. Sany is a high quality infrastructure play, and while the government appears reluctant to deliver meaningful stimulus to boost the sector, it continues to gain market share amid a challenging backdrop. Overseas, it has been enjoying significant growth this year due to pent-up demand from the covid reopening and there is still significant upside to its market share over the next few years. Alibaba's stock (-30%) fell on weak consumer demand for online goods, price sensitivity to ADR de-listing risk, and selling pressure from foreign allocators reducing China exposure. Investor positioning in Alibaba is already light, and we believe negative sentiment may be excessive. Soft earnings comparables should help, as will the launch of southbound connect (increasing flows from qualified China mainland investors), and MSCI increasing the stock's foreign inclusion factor which should increase its index weight.

Is China's underperformance still warranted? News flow is certainly poor. The pursuit of Covid-zero and property market slump stifle prospects for a rapid bounce back, and Beijing is reluctant to turn on the fiscal taps. Fears of a property crash metastasising into a wider credit crunch grew over the quarter as reports of mortgage boycotts emerged. Some homebuyers were refusing to continue making mortgage payments on new builds where developers were accused of dragging on completion (c.90% of property sales in China are off-plan, pre-sale where the property is delivered in the future after a deposit is paid and contract signed). Authorities quickly enacted mortgage payment moratoriums, promised to support project completions, and established a fund to support distressed developers. The CCP will not resort to the kind of reform shock therapy needed to draw a line under the property slump in the near term. It seeks to incrementally grow its way out of this hole, while reorienting the economy away from overreliance on property and infrastructure investment as a source of economic growth.

Targeted measures with a backdrop of easing liquidity are likely to prevent a full-blown crisis in property. Consumers are steadily regaining confidence after Shanghai and Chengdu lockdowns, as reflected in new order, inventory, and auto sales indicators improving. We do not expect China to enter a boom as long as Xi persists with covid-zero, a signature policy. However, conditions on the ground are positive relative to expectations and sentiment. While the data are not strong enough to support an overweight to cyclicals in China, we are happy to be overweight the market and favour quality.

Stock picking in India was the leading positive contributor to performance, led by Pepsi Co. bottler Varun Beverages (+29%), New Delhi private hospital chain Max Healthcare (+8%), and property developer Indiabulls Real Estate (24%). While money numbers in India are fairly weak, the market has been resilient and supported by domestic flows from an emerging local mutual fund industry. The growth of India's capital markets is a sign of improving institutional quality that will help India climb the development ladder. Local allocators will place greater pressure on companies to improve governance and safeguard the interests of minority shareholders. Reform like this can lead to a market re-rating over time as risk premiums fall. While the long term structural story in India is attractive, rich valuations and economic sensitivity to higher oil prices pose risks to short term performance. The portfolio is overweight India, but favouring higher quality names over cyclicals.

Stocks in Brazil (+9%) bounced despite weak money trends. Contribution from security selection in Brazil was positive but offset by a market underweight. Political risk continues to run high in Brazil which is in the midst of contentious presidential and parliamentary elections. An inconclusive first round of presidential polls means incumbent Bolsonaro and former president Lula will contest a second round run- off, while it is likely that no clear majority will emerge in Brazil's Congress. Markets were cheered by the news as a divided Congress should force whoever wins the presidency to make policy concessions. State oil giant Petrobas (+25%) rallied, having been a political punching bag of both Bolsonaro and Lula throughout the election. Efforts by Petrobras to deleverage and shift its production mix to low cost Pre-Salt output have been behind the fall in lifting costs to $3/BOE versus $16/BOE in the older onshore assets it is selling, driving impressive free cash flow generation at higher oil prices. The company also boasts a generous dividend policy, set to pay 60% of free cash flow out as a dividend now that optimal debt levels have been achieved through portfolio rationalisation.

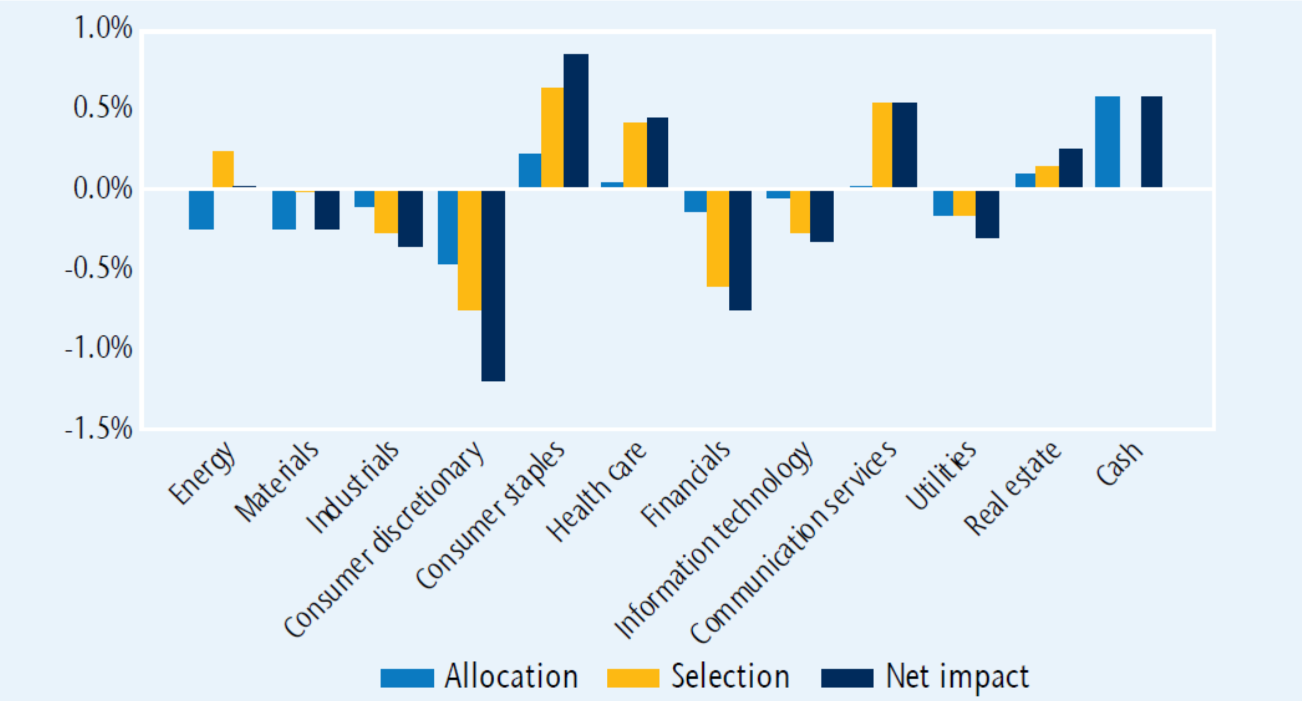
Our indicators suggest that global economic momentum won't bottom until end- Q1 2023. Broad money trends are signaling reversal of the inflation rise. Portfolio strategy broadly is to maintain our quality/defensive exposure, while looking to add to growth over the coming months. Global real money growth will need to recover convincingly, which will probably require policy U-turns by central banks, before a return to more cyclical parts of the market. This would likely help ease dollar strength which has been pressuring emerging markets. We are encouraged by EM money growth holding up well relative to developed markets, driven in part by positive liquidity trends in China. While wary of the various challenges facing China in the lead up to October's CCP Congress, the potential for a phased reopening after the event could be the catalyst for one of the only major bull markets globally.

Best and Worst Countries by Net Impact

Country	Allocation	Stock Selection	Net Impact
India	0.4%	0.8%	1.2%
Indonesia	0.4%	0.1%	0.5%
South Korea	0.1%	0.1%	0.2%
Chile	0.2%	-0.1%	0.1%
Philippines	0.0%	0.1%	0.1%
Thailand	0.1%	-0.3%	-0.2%
Brazil	-0.4%	0.2%	-0.2%
Hong Kong	-0.2%	0.0%	-0.2%
Saudi Arabia	-0.5%	0.0%	-0.5%
China	0.0%	-1.6%	-1.6%

Source: NS Partners Ltd

Attribution by Sector



Source: NS Partners Ltd

Contribution Analysis

Top Contributors	Average Weight	Contribution
Varun Beverages Ltd	3.6%	0.9%
Lemon Tree Hotels LTD	0.9%	0.4%
Max Healthcare Institute Ltd	1.9%	0.4%
Telkom Indonesia Persero Tbk PT	1.6%	0.4%
Bharti Airtel Ltd	1.3%	0.3%

Source: NS Partners Ltd

Top Detractors	Average Weight	Contribution
Xpeng Inc	0.6%	-0.4%
Alibaba Group Holding Ltd	6.6%	-0.4%
AIA Group Ltd	1.8%	-0.3%
Longi Green Energy Technol-A	1.6%	-0.3%
CTBC Financial Holding Co Ltd	2.0%	-0.3%

Source: NS Partners Ltd

Activity During the Quarter

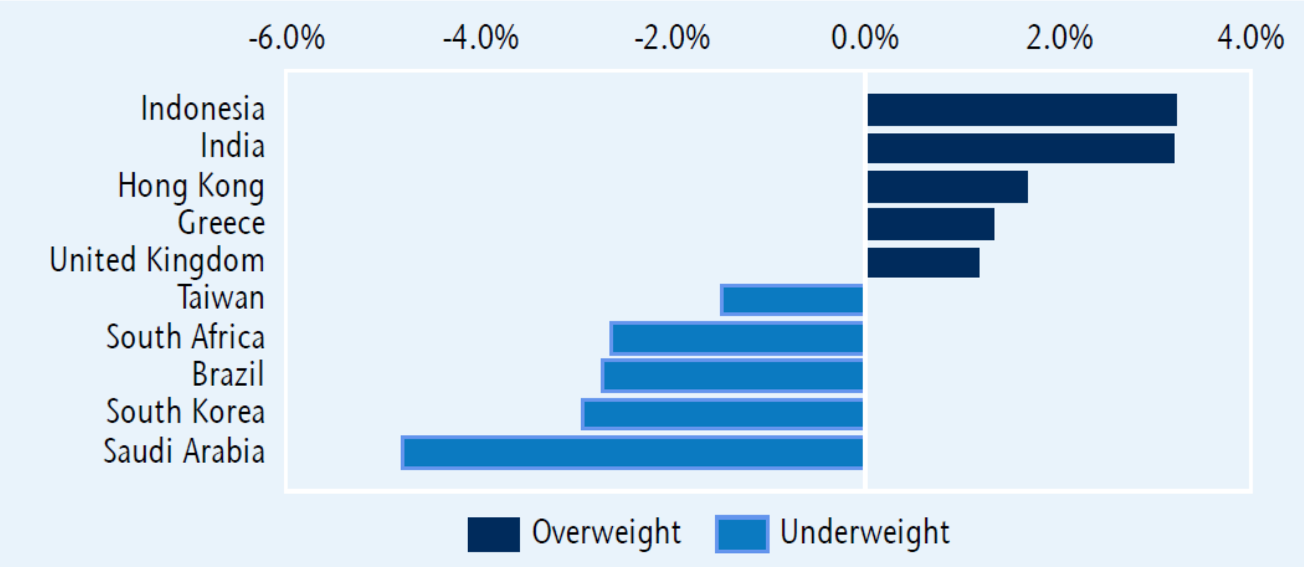
New	Exited
Nari Technology Co Ltd-A	Infosys Ltd
Container Corp Of India Ltd	Kb Financial Group Inc
Contemporary Amperex Technolog	Wuliangye Yibin Co Ltd-A
Lg Energy Solution	Jiangxi Ganfeng Lithium Co-A
Kweichow Moutai Co Ltd-A	Bank Negara Indonesia Perser
Shenzhen Mindray Bio-Medical E	Banpu Public Co Ltd
Firstrand Ltd	Sungrow Power Supply Co Lt-A
Ememory Technology Inc	Carabao Group Pcl
-	China Merchants Bank-H

Source: NS Partners Ltd

Add	Reduced
Alibaba Group Holding Ltd	Ptt Explor & Prod Public Co
President Chain Store Corp	Accton Technology Corp
Lemon Tree Hotels LTD	Sk Hynix Inc
Tencent Holdings Ltd	Banco Santander Chile
Max Healthcare Institute Ltd	Kasikorn Bank PCL
Jd.Com Inc	Soc Quimica Y Minera Chile-B
Bharti Airtel Ltd	Nio Inc
Shanghai Baosight Software-A	Lg Chem Ltd
Telkom Indonesia Persero Tbk PT	Mediatek Inc

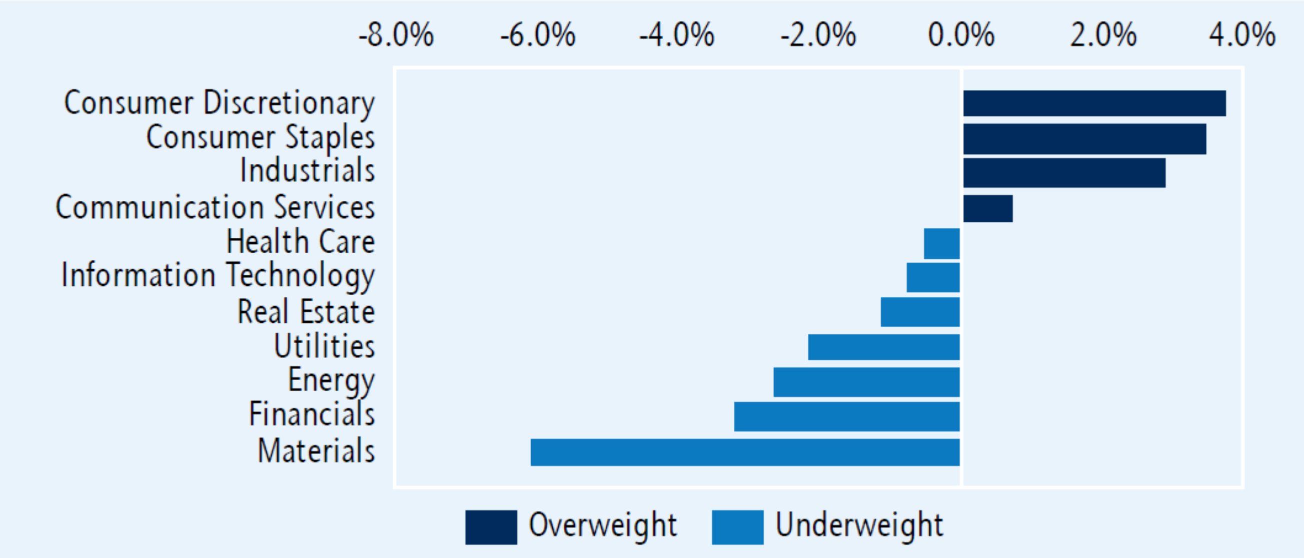
Source: NS Partners Ltd

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 5 Overweights

Company Name	Country	Sector	Active Weight
Varun Beverages Ltd	India	Consumer Staples	4.1%
Alibaba Group Holdings Ltd	China	Consumer Discretionary	3.4%
Max Healthcare Institute Ltd	India	Health Care	2.3%
Shanghai Baosight Software-A	China	Information Technology	2.3%
Housing Development Finance	India	Financials	2.0%

Source: NS Partners Ltd

Top 5 Underweights

Company Name	Country	Sector	Active Weight
Meituan	China	Consumer Discretionary	-1.7%
Reliance Industries Ltd	India	Energy	-1.6%
Infosys Ltd	India	Information Technology	-1.0%
China Construction Bank	China	Financials	-1.0%
Vale Sa	Brazil	Materials	-1.0%

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.

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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.

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