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Nedgroup Investments Global Flexible Fund

Quarter Four, 2022

Marketing Communication

Nedgroup Investments Global Flexible Fund

The following commentary was produced by the sub-investment manager, First Pacific Advisors, LP ("FPA").

USD performance to 31 December 2022	Nedgroup Investments Global Flexible[1]	MSCI World	S&P 500
3 months	7.8%	9.8%	7.6%
1 year	-11.6%	-18.1%	-18.1%
5 years	4.2%	6.1%	9.4%

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

Overview

The Nedgroup Investments Global Flexible Fund ("NGFF" or "the Fund") gained 7.8% for the quarter but declined 11.6% for the trailing twelve months. The Fund captured 64.1% of the average of the MSCI World and S&P 500's decline in the trailing twelve months, outperforming its own 70.3% average net risk exposure.[2]

Below you can see the Fund's performance along with various relevant indexes.

Exhibit A: **Net Performance versus Illustrative Indices[3]**

	Q4 2022	Trailing 12 months
Nedgroup Global Flexible Fund	7.8%	-11.6%
MSCI World NR USD	9.8%	-18.1%
MSCI ACWI NR USD	9.8%	-18.4%
S&P 500	7.6%	-18.1%
60% MSCI ACWI NR USD/ 40% Bloomberg US Agg	6.6%	-16.0%
60% S&P 500 / 40% Bloomberg US Agg	5.4%	-15.8%

The meaningful and prolonged market decline in 2022 means the market cycle that began in October 2007 has *finally* ended. This was the longest bull market in recent memory, surpassing even 1987-2000.[4]

[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 31 December 2022 was 68.7%.

[3] Comparison to the indices is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

[4] As of December 31, 2022. Source: Yardeni Research. https://www.yardeni.com/pub/sp500corrbeartables.pdf Note: We do not include 2020 as a "bear" market because the decline lasted less than 2 months. https://fpa.com/docs/default-source/default-document-library/2015-04-29-market-cycle-performance-final.pdf?sfvrsn=2. The market cycle ended on January 3, 2022 for the S&P 500, where we define a market cycle as, peak to peak, a period that contains a decline of at least 20% from the previous market peak over at least a two-month period and a rebound to establish a new peak above the prior market peak.

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

Exhibit B: **Most Recent S&P 500 Index Market Cycle Performance**[5]

	10/10/2007-1/3/2022
S&P 500	10.43%
MSCI ACWI	6.33%
50% S&P 500 / 50% MSCI ACWI	8.38%
MSCI ACWI Value	3.89%
MSCI ACWI Growth	8.68%
60% MSCI ACWI / 40% BBg US Agg	5.74%
60% S&P 500 / 40% BBg US Agg	8.14%
CPI	2.10%

Portfolio discussion

Exhibit C: **Trailing Twelve-Month Contributors and Detractors as of 31 December 2022** [6]

Winners	Performance contribution	Ave. weight	Losers	Performance contribution	Ave. weight
Glencore	0.7%	2.1%	Alphabet	-2.5%	5.3%
American International Group	0.4%	2.8%	Meta Platforms	-2.0%	1.8%
Delivery Hero (convertible)	0.4%	0.5%	Charter Communications	-1.2%	2.0%
LPL Financial	0.4%	1.1%	Comcast	-1.1%	3.1%
Howmet Aerospace	0.3%	1.3%	Amazon	-0.9%	1.6%

In the last twelve months, the Fund's top five performers contributed 2.1%, net, to its return, while its bottom five detracted 7.7%, net.

American International Group (AIG) is one company that we haven't discussed in a while, although it's been in the portfolio since 2013. This year, AIG successfully IPO'd a portion of its life business, an important step on the way to becoming a pure property & casualty company. The company's general insurance operations demonstrated another year of improved underwriting and profitability.[7]

Amazon declined in price during the year as it became apparent that, having doubled the footprint of the company's retail infrastructure coming out of Covid, the company had expanded too aggressively.[8]

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[5] Source: Morningstar, FPA. Market Cycle Performance reflects the most recent S&P 500 Index market cycle (peak to peak) where market cycle is defined in footnote 4 above. Comparison to any index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

[6] Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the trailing twelve months through 31 December 2022. Contribution is presented net of investment management fees, transactions costs, and Fund operating expenses using the fees and expenses of the Fund's Class C shares, which are 1.11%. The information provided does not reflect all positions purchased, sold or recommended by FPA during the period. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

[7] https://www.reuters.com/markets/us/aig-unit-corebridge-raises-17-bln-years-largest-ipo-2022-09-14/

[8] https://www.businessinsider.com/amazon-warehouse-expansion-slowed-still-towers-over-competitors-2022-12

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The investment community is similarly concerned that the company's cloud business, AWS, is likely to be negatively impacted by general economic malaise, which would result in a growth rate lower than that of the recent past. Taking a long-term view, we envision both AWS and retail growing over the coming years, complemented by a high margin advertising business. Looking forward, we expect the company to benefit from positive operating leverage under the keen eye of CEO Andy Jassy, who has proven himself as a results-oriented leader in his former position as head of AWS. Though the valuation looks rather rich to us at the moment on near-term results, if we are correct in our thesis, the valuation at present prices will look to have been a bargain in hindsight.

***Exhibit D:* Portfolio Composition** [9]

	Q4 2022	Q3 2022	1 year ago: Q4 2021
Equity	66.4%	66.2%	73.2%
Bonds	2.3%	2.1%	0.2%
Cash and cash equivalents	31.3%	31.6%	26.5%
Exposure, Net	68.7%	68.4%	73.5%

Markets & Economy

In an effort to tame 2022's high inflation (6.5% in the US and 8.9% globally), Central Banks forcefully reacted by increasing interest rates, with the US Fed Funds rate increasing during the year from 0.25% to 4.33%.[10] 1-year US Treasury Bills followed suit, increasing from 0.38% to 4.49%. An increase of more than 4 percentage points was the largest increase since 1980.[11] While interest rates were bound to eventually increase, we just as well could have argued that might have occurred years earlier. Interest rates are the price of money – effectively the price paid for its use for a prescribed period of time. The higher the rate/price, the lower the asset value – all else being equal. This largely explains 2022's declines in both stocks and bonds. While stocks had their worst year since 2008, bonds failed to offer the protection to which investors have become accustomed to for these past four decades with the Bloomberg US Aggregate Bond Index declining -13.0% last year.[12] This has led to the return of some market rationality. Even negative yielding bonds disappeared for the first time since 2010.[13]

While interest rates will always be a driver of returns, along with the inextricably linked economic growth and pace of inflation, we have greater clarity of how the companies in which we invest on behalf of the Fund might perform over time than we do of macroeconomic considerations. We believe very few have exhibited consistent and long-term success in trading the market predicated on such global variables.

[9] Risk Assets include all investments excluding cash and cash equivalents. Net Risk Exposure is the percentage of portfolio exposed to Risk Assets. The "Equity" exposure and the Fund's "Exposure, Net" include a 2.4% allocation to a SPAC basket consisting of 44 SPAC investments as of 31 December 2022. Portfolio composition will change due to ongoing management of the Fund. Please see Important Disclosures for a description of the potential risks of investing in SPACs.

[10] Source: Bureau of Labor Statistics. As of December 31, 2022.

[11] Source: FRED. As of December 31, 2022.

[12] Source: Bloomberg. As of December 31, 2022.

[13] Source: Financial Times, Bloomberg. As of December 31, 2022. There were no negative yielding bonds (> 1 year maturity) per Bloomberg at year-end 2022. https://www.ft.com/content/35779b15-ca04-441a-bc3f-507b030ed45f

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US stock valuations are trading about in line with their 25-year average as can be seen in the table below.

***Exhibit E:* S&P 500 Valuations**[14]

	Year-end 2022	25-year Ave
Forward P/E	16.7x	16.8x
Shiller's P/E (CAPE)	28.0x	27.9x
Dividend Yield	1.8%	2.0%
Price to book	3.8x	3.1x
Price to cash flow	12.4x	11.2x*

Stock valuations outside the US continue to trade less expensively as noted in the table below.

***Exhibit F:* Global Forward P/E Ratios**[15]

	Year-end 2021	Year-end 2022	25-year Ave
US	21.2x	16.7x	16.8x
Japan	14.7x	12.2x	19.7x
Europe	14.6x	11.9x	14.9x
Emerging Markets	11.8x	11.7x	11.8x
China	11.7x	10.8x	12.5x

While we cannot predict the future, we would not be surprised if additional economic weakness and (finally) a credit event might occur prior to a sustained market rebound. Higher borrowing costs due to a higher cost of capital (elevated interest rates and a larger risk premium) combined with a potentially weaker economy has historically translated into more borrowers defaulting on their debt obligations.

Credit spreads (the "risk premium" mentioned above) are still tighter than historical levels. High-yield spreads ended 2021 at 2.8%, peaked at 5.8% in early July, but ended 2022 tighter at 5.1%. Past credit cycles have seen much wider spreads, e.g., 10% in 2002, 16% in 2008, 8% in 2011, 9% in 2020. Should defaults increase from the current 1.6% to anywhere close to its long-run average of 3.6%, then we would expect that credit spreads would widen, resulting in higher yields.[16]

[14] As of December 31, 2022. Source: Factset, Federal Reserve Bank, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management Guide to the Markets. Forward Price to Earnings is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation. * Note: Price to cash flow is a 20-year average due to cash flow data availability.

[15] As of December 31, 2022. Source: Factset, MSCI, Standard & Poor's, J.P. Morgan Asset Management Guide to the Markets. Forward Price to Earnings is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the Important Disclosures for definitions of key terms and representative indices used for each geographic market shown in the table.

[16] Source: FRED and J.P. Morgan Asset Management Guide to the Markets. *Long-run average* is based on monthly historical data beginning in January 1990.

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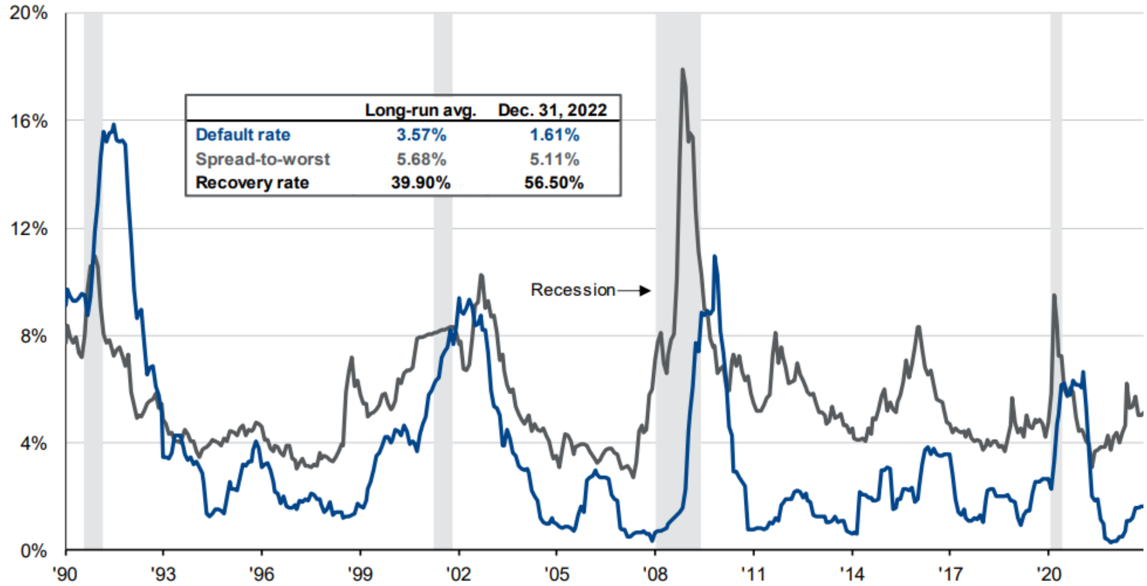
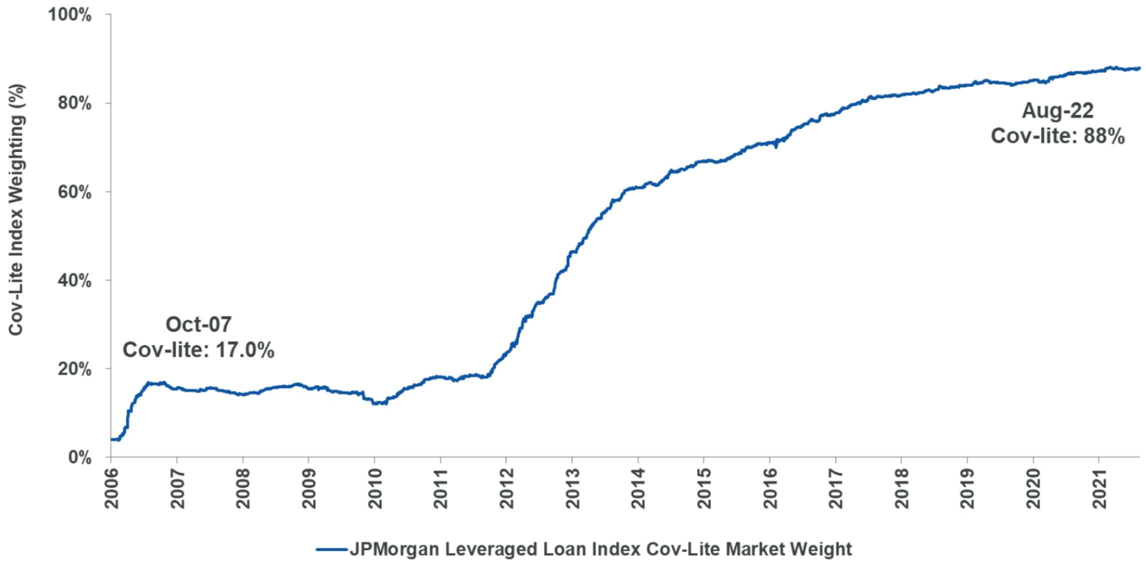
***Exhibit G*: High Yield Bonds Credit Spread & Default Rate**[17]



	Long-run avg.	Dec. 31, 2022
Default rate	3.57%	1.61%
Spread-to-worst	5.68%	5.11%
Recovery rate	39.90%	56.50%

In the past, a credit event would have allowed us the opportunity to take advantage of higher yielding bonds and distressed debt. While we hope to increase the Fund's historically low credit exposure, we will do so cautiously given that borrowers have taken advantage of the terms from lenders that allow a greater flexibility to avoid bankruptcy than we have seen heretofore. Historically weak debt covenants have been the result.

***Exhibit H*: Weak Covenants**[18]



Covenant-light agreements have already led to companies stripping collateral out of the company that would normally have been collateral to protect the lender (i.e., a "carve-out"). For example, J. Crew carved out the valuable Madewell brand to the benefit of the company's private equity investors. It has also fomented *lender-on-lender violence*, which allows a borrower to give preference to one subset of creditors at the expense of

[17] As of December 31, 2022. Source: J.P. Morgan Asset Management Guide to the Markets. *Long-run average* is based on monthly historical data beginning in January 1990. *Default rates* are defined as the par value percentage of the total market trading at or below 50% of par value and includes any chapter 11 filings, pre-packaged filing or missed interest payments. The default rate is the last twelve-month figure and tracks the percent of defaults over that period. *Spread-to-worst* is the difference between the yield-to-worst of a bond and the yield-to-worst of a US Treasury security with a similar duration. *Recovery Rate* is the extent to which principal and accrued interest on defaulted debt can be recovered, expressed as a percentage of face value. *High-yield* is represented by the J.P. Morgan Domestic High-yield Index.

[18] Chart as of August 31, 2022. Source: The 2023-2024 Credit Cycle Public & Private Credit Markets Outlook & Opportunities Q4 White Paper page 6. Marathon Asset Management.

Past results are no guarantee, nor are they indicative, of future results.

another. Serta Simmons, for example, advantaged one cohort of lenders in the same class by having them lend the company additional money that was senior to the existing debt and allowing these lenders to exchange their prior debt into this new senior paper. In both the J. Crew and Serta Simmons cases, there were some very unhappy lenders.[19]

Conclusion

We think lower valuations and higher bond yields help position us to take advantage of any continued market weakness. We hope to "lean in" to price declines with the goal of driving equity-like rates of return while avoiding permanent impairment of capital.

Respectfully submitted,

FPA Contrarian Value Portfolio Management Team

[19] Sources: Serta, June 11, 2020: https://nypost.com/2020/06/11/leon-black-suing-mattress-giant-serta-simmons-over-unlawful-scheme/; J. Crew, May 4, 2020; https://www.prnewswire.com/news-releases/jcrew-group-inc-announces-comprehensive-agreement-to-deleverage-balance-sheet-and-position-jcrew-and-madewell-for-long-term-profitable-growth-301051688.html

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