NEDGROUP INVESTMENTS

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Nedgroup Investments Global Equity Fund

Quarter One, 2023

Marketing Communication

Nedgroup Investments Global Equity Fund

1. Market Overview and Outlook

Portfolio Manager Commentary

Back to Normal?
While the list of factors that are highly abnormal today is still lengthy, it seems possible (probable) that at the margin, much is returning towards normal after the three highly Covid affected years and a prior decade of monetary manipulation:

Economic growth is cyclical and while it is the natural instinct of policy makers and politicians to try and curb the cycle that is probably a mistake. Recessions, while painful at the time, are most likely needed to wash excess out of the system. In the same way as the human body pays for a night of excessive consumption, so the economy needs to purge the toxins of zero interest rates and excessive money printing out of the system. Hopefully policy makers and politicians now understand this dynamic and realise that they cannot print economic wealth. Ahead of us is likely an economic downturn but for strong businesses with adequate capital this will not be an insurmountable challenge. In fact, it is likely that the good businesses emerge much stronger as uneconomic competition, kept alive by ultra-low interest rates and a wall of capital disappear during the downturn leaving the better, well capitalised companies to prosper.

Inflation remains far too high but is showing signs of decline. It was clear that monetary policy makers had been asleep at the wheel during 2021 when inflation returned well ahead of the Russian invasion of Ukraine. This was exacerbated both by policy makers keeping rates at zero for far too long and the eruption of war in Ukraine. While the war has certainly exacerbated supply chain issues and consequently increased the rate of underlying inflation, the central issue was not the war, but the low rates and limitless capital that was thrown around with abandon by policy makers during Covid. Consumers and businesses were literally showered with cash. No surprise then that when the opportunity to spend some of that cash finally arrived, we ended up with “too much money chasing too few goods” or the monetarists definition of the cause of inflation. Inflation will most likely continue to decline given base effects and companies adapting to supply chain difficulties albeit that inflation may remain elevated relative to the level seen in the prior decade.

Interest Rates: Partly as a consequence of the inflation that we are suffering, interest rates have finally returned to more normal territory. The US Fed Funds rate had been held at c.zero for 7 years between December 2008 and November 2015 before being increased in baby steps to almost 2.50% in early 2019 but by April 2020 they were back at c.zero again. As interest rates are the cost of money, it is fair to say that by setting the reference rate at such a low level, for such a long period of time, the Federal Reserve (and the other major central banks) encouraged speculative behaviour. With interest rates now back at c.5% (in the US) the cost of money is more reasonable and speculative behaviour has been reined in. This is to be applauded and we can only hope that policy makers have seen the light of day and do not return to zero interest rates at the first signs of an economic hiccup.

Covid effects: the economic effects of Covid were extreme. In addition to the huge monetary and fiscal stimulus many industries were temporarily but significantly positively or negatively impacted. In the long term these impacts will likely prove to be minor but in the short term they were highly significant. Travel, entertainment, hospitality, retail, healthcare etc all had either a large tailwind or a formidable headwind for a year or two, followed by the wind turning 180 degrees as the Covid impact unwound. We are now back in a more normal environment for all these sectors with consumers free to shop and travel and healthcare (largely) returning to more normal conditions.

While impossible to predict, on balance it seems more likely that we are heading into a period of that is more “normal” than that we have experienced over the past three Covid affected years. Interest rates now balance the demands of the saver with that of the borrower, inflation is declining and Covid impacts are dissipating. Normal economic cycles are to be expected and perhaps even welcomed. The unknown is the actions of policy makers and politicians: will they revert to quantitative easing (money printing) and zero interest rates which provide a short term high to alleviate immediate economic condition but at the cost of significant long term harm?

Implications for the portfolio

The last three years have been difficult for the portfolio. In retrospect we held too much in travel related companies (Safran, Aena, Airbus, Mastercard, Vinci) during the Covid downturn and too much in Healthcare that in 2022 suffered a significant Covid "hangover" as the additional earnings they gained during Covid evaporated (though this was not a surprise to us, but seemed to alarm other market participants). While in retrospect it was obvious that travel would be hit hard by Covid disruption, we are investors not short term speculators and we continued to believe that our aerospace related names would deliver excellent long term earnings and cash flows. This is now being delivered and we remain highly confident in the long term outlook for these businesses. We now think that the effects of Covid have largely washed through (albeit not completely). Travel remains below 2019 levels (largely due to China) but is recovering quickly and some healthcare names still have a small amount of Covid related revenue but in general it is now immaterial.

With interest rates back at more sensible levels we believe that our long term value disciplined quality investing style should be well placed to return to the performance we sustained before Covid hit with share prices over time reflecting the earnings and cash flows of the businesses we invest in. We continue to invest in high quality companies with sustainable competitive advantages that compound their earnings over time, only investing when we assess the company to be attractively valued. This strategy will always be successful provided that the company has genuine sustainable competitive advantages and an attractive valuation. One company we have very recently re-invested back in that exhibits all these criteria is Diageo:

Durability and permanence are critical aspects of business quality, and on this measure alone Diageo is a remarkable company. Its Johnnie Walker brand, the largest global scotch franchise, was established in 1820 and has been sold in its signature square bottle since 1860. Guinness, which recently became the UK's number one beer in bars and restaurants, can trace its history back to the signing of a 9000 year lease for a disused property at St James' Gate Dublin where it has been brewed ever since. Not content there, Diageo also owns a 34% stake in Moet Hennessy, whose champagne and brandy franchises date back to 1743 and 1765 respectively. It is highly likely that these brands will still be going strong 100 years from now, a statement we struggle to make about almost any other company's products. Unilever, whose billion-dollar Lifebuoy brand launched in 1894 is youthful by comparison. Both businesses share a number of attractive attributes that lend themselves to permanence: branding built up over many years that translates into attractive margins and high returns on capital, hard to replicate global reach and distribution, everyday repeat purchases characterised by non-cyclical demand, and an ability to pass through inflation to the consumer. However, where Unilever's main attraction is its emerging market footprint (59% of revenue) and the long runway for growth there, Diageo's main attraction is its developed market business which generates approximately 70% of operating profit.

Luxury brands like Hermes, Louis Vuitton and Ferrari have been major beneficiaries of rising disposable incomes globally and the hedonic pleasure derived from consuming premium products. However, a high-ticket price means these products are inaccessible to most consumers, and demand is more economically sensitive. Spirits, by comparison, offer the opportunity to fulfil this desire but in a way that is affordable for many consumers on a regular basis. Indeed, a particularly large differential between on and off trade pricing means spirits consumed at home (80% of US consumption) represent exceptional value for money vs other tipples, a dynamic which is encouraging consumers to trade up. This trend towards premiumisation is fairly unique within the fast-moving consumer goods sector and means that there is no threat from private label.

Per capita alcohol consumption in the US is flat, but spirits consumption is in a well-established secular uptrend, taking share of throat from beer. As such sprits volumes grow 1-2% per annum but revenues grow 4-6% driven not only by an increasing willingness to "drink less but better" but also by a secular shift towards categories like tequila and whiskey that command higher prices both due to their aged nature and greater branding potential (vodka, by comparison is relatively homogeneous). These current trends look well underpinned as younger consumers are establishing a taste preference for complex spirits that will likely stay with them for life.

The jewel in Diageo's crown is its Scotch and Single Malt portfolio that represents 25% of sales and has particularly high barriers to entry given the level of capital investment required to age whiskey. Diageo is dominant in this market with 40% value share vs 21% for its nearest rival Pernod, largely due to the scale of Johnnie Walker. Ironically, this is a particularly strong business outside of North America, a market which contributes 50% of Diageo's operating profit. Until recently, this imbalance was problematic as it left North America overly reliant on large but relatively weak brands like Captain Morgan and Smirnoff that looked poorly positioned. However, the nimble and hugely value creating acquisitions of high-end tequila brands Casamigos (acquired in 2017) and Don Julio (acquired in 2015) as well as the exceptional brand building of Bulleitt bourbon, mean business quality and growth prospects are much improved.

Retiring CEO Ivan Menezes has been an excellent steward of the company, and we believe he hands over a business in excellent shape to a very capable successor in Debra Crew. It is pleasing that both the CEO and CFO of Diageo are women, and indeed the company is a leader in Diversity and Inclusion more broadly. The company has robust decarbonisation targets with 100% reduction of Scope 1+2 emissions and 50% reduction of Scope 3 emissions by 2030. Science Based Target Initiative (SBTi) has approved its short-term target and the business has committed to external verification of its Net Zero Target. Regarding problematic alcohol consumption we note that the premiumisation strategy is aligned with encouraging consumers to "drink less but better." The company is focused on tackling underage drinking, drink driving, and binge drinking via partnerships with the likes of DRINKiQ, SMASHED and UNITAR. Complaints concerning Diageo's advertising are at a record low.

Following a period of exceptional growth during Covid, business has slowed. The share price peaked in October 2021 as the market has become increasingly concerned that the good times are now over. We expect any slow down to be temporary in nature and view the long term prospects for growth as excellent and improved vs history. A current P/E ratio of 22.5x discounts a fair amount of pessimism for a business of this quality, and we expect a low teens IRR despite anticipating sluggish growth in our own forecast. If the market starts to fully discount the premiumisation opportunity available to Diageo, the IRR could be meaningfully higher. Cheers to that.

2. Fund performance contributors & detractors for past quarter

Top 5 contributors and detractors

Holding	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Attribution Total Effect
Top 5 relative stock contributors							
Meta Platforms Inc	2.4	77.8	1.3	0.7	76.1	0.4	0.9
Catalent	2.8	47.5	1.0	0.0	46.0	0.0	0.8
Aena SME	3.9	29.2	1.0	0.0	29.2	0.0	0.7
Safran	5.0	18.9	0.9	0.1	18.9	0.0	0.5
Alphabet	6.8	16.9	1.0	2.1	17.6	0.4	0.4
Bottom 5 relative stock contributors							
CVS Health	2.5	-19.9	-0.6	0.2	-19.9	-0.0	-0.8
UnitedHealth	3.2	-10.7	-0.4	0.9	-10.6	-0.1	-0.5
Becton Dickinson	3.0	-2.4	-0.1	0.1	-2.4	-0.0	-0.3
Canadian Pacific Railway	5.4	3.3	0.2	–	–	–	-0.2
Charter Communications	5.2	5.3	0.2	0.1	5.5	0.0	-0.2

Source: Veritas Asset Management, FactSet, Data in USD
"Index" refers to the MSCI World Index

Relative attribution by sector

Sector	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Relative Attribution Analysis Allocation Effect	Selection Effect	Total Effect
Consumer Discretionary	3.9	23.0	0.9	10.6	16.5	1.6	-0.6	0.2	-0.3
Consumer Staples	4.2	4.5	0.2	7.6	3.5	0.3	0.1	0.0	0.2
Energy	–	–	–	5.3	-3.4	-0.2	0.6	–	0.6
Financials	5.2	5.8	0.3	14.2	-1.6	-0.2	0.8	0.4	1.2
Health Care	25.6	6.4	1.7	13.6	-1.6	-0.2	-1.1	2.1	1.0
Industrials	26.4	15.3	3.9	10.7	7.1	0.7	-0.1	2.1	2.0
Information Technology	14.5	14.1	2.0	21.2	21.1	4.2	-0.9	-0.9	-1.9
Materials	–	–	–	4.5	6.1	0.3	0.1	–	0.1
Communication Services	14.4	20.7	2.5	6.7	18.1	1.2	0.7	0.3	0.9
Utilities	–	–	–	3.0	0.5	0.0	0.2	–	0.2
Real Estate	–	–	–	2.6	0.7	0.0	0.2	–	0.2
Cash and equivalents	5.8	n/a	0.1	–	–	–	-0.6	–	-0.6
Total	**100.0**	**11.4**	**11.4**	**100.0**	**7.7**	**7.7**	**-0.5**	**4.2**	**3.7**

Source: Veritas Asset Management, FactSet, Data in USD
"Index" refers to the MSCI World Index

Relative attribution by region

Region	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Relative Attribution Analysis Allocation Effect	Selection Effect	Total Effect
Asia/Pacific Ex Japan	2.4	16.3	0.4	3.6	2.2	0.1	0.1	0.3	0.4
North America	66.5	10.9	7.1	71.1	7.4	5.3	-0.0	2.3	2.3
Africa/Middle East	–	–	–	0.2	0.8	0.0	0.0	–	0.0
Europe ex UK	17.8	18.8	3.1	14.5	11.9	1.7	0.1	1.2	1.2
Japan	–	–	–	6.2	6.2	0.4	0.1	–	0.1
United Kingdom	7.5	10.3	0.8	4.3	6.1	0.3	-0.1	0.3	0.3
Cash and equivalents	5.8	n/a	0.1	–	–	–	-0.6	–	-0.6
Total	**100.0**	**11.4**	**11.4**	**100.0**	**7.7**	**7.7**	**-0.4**	**4.1**	**3.7**

Source: Veritas Asset Management, FactSet, Data in USD
"Index" refers to the MSCI World Index

Portfolio Attribution Commentary

The portfolio outperformed the MSCI over the three-month period largely due to the returns in travel related aerospace stocks, and the revisiting of the prospects of some of the platform tech companies like Meta Platforms Inc and Alphabet.

Meta Platforms Inc. shares rose strongly in Q1 as management introduced the theme for 2023, as the "year of efficiency". The company cut its cost outlook for 2023 by $5bn and announced a $40bn share buyback program. This coupled with a smaller drop in revenues than analysts had expected and signs that Meta's investments in AI-surfaced content were starting to pay off, saw a sharp reversal in negative investor sentiment. Meta is focussing on AI, including its discovery engine, ads, business messaging, and increasingly generative AI, and the future platforms for the metaverse. It is now doing that with an eye on costs. Meta is flattening its organisation structure and removing some layers of middle management to make decisions faster, as well as deploying AI tools to help its engineers be more productive. They are more proactively cutting projects that aren't performing or may no longer be as crucial. There is positive momentum in the company's areas of focus. First, the AI discovery engine means Facebook and Instagram are shifting from being organized solely around people and accounts you follow to increasingly showing more relevant content recommended by AI systems. This covers every content format, which is something that makes Meta services unique, but the company is especially focused on short-form video since Reels is growing quickly. Reels plays across Facebook and Instagram have more than doubled over the last year and people resharing Reels has grown even faster. The company now needs to improve monetisation efficiency, or the revenue that's generated per minute of Reels watched. Currently, the monetisation efficiency of Reels is much less than feed, so the more that Reels grows, even though it adds engagement to the system overall, it takes some time away from feed and Meta actually lose money. But people want to see more Reels, and the key to unlocking that is improving monetisation efficiency so that Meta can show more Reels without losing increasing amounts of money. Monetisation efficiency on Facebook has doubled in the past six months and in terms of the overall revenue headwind, Meta are on track to be roughly neutral by the end of this year, and after that they should be able to profitably grow Reels while keeping up with the demand. Whilst, the company has made no mention of it, the growing list of countries that have issued orders banning the use of TikTok on government devices and the growing desire to ban it entirely in the US, does Meta no harm. Over 150m people in the US use TikTok, that's almost half the country.

Secondly, in the broader ads business, Meta is continuing to invest in AI. In the last quarter, advertisers saw over 20% more conversions than in the year before. This combined with a declining cost per acquisition, resulted in higher returns on ad spend. The third area of focus has been the monetisation opportunity with business messaging. Meta is aiming for messaging online to be the third pillar of the business after Facebook and Instagram. One way of doing this is click-to-message ads, which is now at a $10 billion run rate. Paid messaging is at an earlier stage but related to this. Meta continues to onboard more businesses to the WhatsApp Business Platform, where they can answer customer questions, send updates, and sell directly in chat. For example, AirFrance started using WhatsApp to share boarding passes and other flight information in 22 countries and in 4 languages. The metaverse is still an area of focus, albeit with more cost control. Meta shipped Quest Pro at the end of last year and is aiming at setting the standard for the industry with their Meta Reality system and delivering better social experiences than what's possible today on phones. As well as gaming the company has reported developers building out new experiences like Nanome for 3D modeling molecules and drug development and Arkio for architects and designers to create interiors. They launched avatars on WhatsApp last quarter and more than 100 million people have already created avatars in the app. Of those, about one in five are using their avatar as their WhatsApp profile photo. The company highlighted this as an interesting example of how the Family of Apps and metaverse visions come together. Even though most of the Reality Labs investment is going towards future computing platforms - glasses, headsets, and the software to run them, as the technology develops, most people are going to experience the metaverse for the first time on phones and start building up their digital identities across Meta's apps. On climate, Meta have ambitious 2030 Net Zero targets which have been verified by an independent third party (Apex) but not currently validated by SBTi.

Catalent had been weak last year, as investors focused on the loss of significant COVID -related revenues that the company sensibly guided for 2023. The earnings release during the first quarter did indeed show a substantial decrease in COVID revenues but these were partly offset by a significant increase in non-COVID revenues. The company expects consolidated non-COVID revenue growth for the remainder of the fiscal year to be in excess of 20%, as it addresses the large backlog of non-COVID work, particularly in the gene therapy and drug product offerings. As a consequence, Catalent has brought online new capacity to support areas of the market with anticipated high demand, particularly of prefilled syringes, viral vector manufacturing and Zydis (freeze dried medicinal tablet that disintegrates in the mouth to release the drug). The company also plans to meet the increasing demand for high potent (evokes response at low concentrations) drug manufacturing through its acquisition of Metrics. The company has already received FDA approval of two new high-potent drugs that Metrics is manufacturing. Since the beginning of 2022, Catalent has been a manufacturing partner for a total of seven new FDA approvals across its network. Over the past 10 years, Catalent has assisted in 50% of the therapies approved by the FDA. It's this expertise which makes Catalent attractive as a partner, as quality and regulatory track record are paramount. Over the quarter the company announced it will be extending and expanding its manufacturing partnership with Moderna, which will see Catalent support the manufacture of multiple Moderna products in multiple formats across our North American and European biologics drug product network. Whilst Catalent will continue to provide the fill and finish services and production capacity for Moderna's COVID-19 programs, it will be helping Moderna advance its robust mRNA pipeline. Additionally, Catalent has expanded its existing manufacturing partnership with Sarepta. Catalent will be the Sarepta's primary commercial manufacturing partner for its leading gene therapy candidate for the treatment of Duchenne muscular dystrophy, which has May 29 PDUFA date (the date by which the Food and Drug Administration must respond to a New Drug Application or a Biologics License Application). Under the agreement Catalent would support multiple gene therapy candidates in the Sarepta pipeline. To meet increasing demand for maturing gene therapy pipelines from Sarepta and other customers, Catalent are ramping up additional suites at their manufacturing plants. A combination of breakthroughs in gene therapy, patent cliffs at most pharmaceutical companies and a positive funding environment, means continued growth in Catalent's total addressable market. The company's strategic investments have materially expanded its total addressable market and provide it with greater future growth opportunities. In the last 5 years, Catalent has invested over $7 billion to enable accelerated growth in segments of the CDMO (contract development and manufacturing) market, and those investments expand the opportunities. Through diversification, including investment in technology, capacity and new capabilities, Catalent now addresses a $70 billion market as an active and scaled player in many of the largest and fastest-growing segments. The company believes that by 2026, the addressable market will grow by another 40% to $100 billion across the markets in which it operates. It is this potential that reports over the quarter claimed the life sciences company, Danaher were looking to acquire the company. On ESG, the company has recently completed a third-party human rights assessment as part of their responsible supply chain initiative and on the environment, Catalent has already signed a letter of commitment with the Science-Based Target initiative (SBTi) and we would expect targets to be verified later this year. Currently, 97% of its electricity usage across its global network is being procured from renewable energy sources such as wind, solar, hydroelectric, and biomass.

After a difficult period during the pandemic when most travel was halted or limited, and as any who has bought an airline ticket recently will know only too well, there has been a significant recovery in air traffic and in particular, tourism. The recovery has gained momentum as more geographies reopen. Aena is the largest airport operator in the world with regards to the number of airports managed and passenger volume. The company currently manages 46 airports and two heliports in Spain and has direct interests in 23 international airports, including London Luton and six airports in north-eastern Brazil. The company won the rights to operate the largest block of airports auctioned by Brazil's government, adding to its portfolio in Brazil. The block of 11 airports includes the Congonhas domestic airport located in the city of Sao Paulo, one of the busiest airports in the country and amounting to 85% of the traffic within the block. By the end of 2023, Aena will manage 20% of Brazilian air traffic.

Aena closed 2022 with net profit of over €900 million, compared to a loss of €475 million in 2021. This comes on a recovery of 89% in passenger traffic compared to 2019 overall, with Brazil back to 100%. Compared with 2021, growth is more than 100%, with a 58% increase in domestic traffic and a 138% increase in international traffic. Based on the capacity that airlines are scheduling, Aena has revised upwards its passenger traffic estimate for the year 2023 to approximately 2019 levels. The company announced the distribution of a gross dividend of €4.75 per share, the first dividend since the pandemic. With the pick-up in traffic, 2022 saw commercial sales at airports (including speciality shops and food/beverage) exceed 2019 with a strong increase in spending per passenger. Aena awarded more than 240 tenders at its airports over 2022, with strong Minimum Agreed Guaranteed rents (MAGs). Over the 240 tenders the MAGs are higher on average than in 2019, 22% higher in 2024 and 46% higher in 2025. The 2023 MAGs for food and beverages in Madrid-Barajas airport, are on average 32% higher than in 2019.

Additionally, Aena has launched the world's largest duty-free shop tender by turnover. The expected turnover is €18 billion and includes 86 duty-free points of sale, plus a large number of additional premises dedicated to other categories, which, among all of them, will occupy an area of 66,000 square metres. This new tender will involve renewing the management of these commercial spaces at 27 airports in the Aena network, since the current contracts are in force until 31 October 2023.

The contest strategy also aims to maximise the value of this business line by reaching more customers and boosting global sales. It will do this by attracting the largest number of international operators to bid for the different lots, diversify the business (expanding product categories and services), adapt to changing trends that are occurring in both passenger type and the model, and incorporate and support the development and implementation of new technologies and digitisation. In addition, the impact of Brexit has been taken into account, as it represents a major change in the business of Aena's duty-free shops, since the duty-free regime predominates in almost all lots. It should be noted that British passengers represent Aena's main market. It is the first time that travel retail giants from Asia and America have shown their interest in entering Spanish airports, highlighting the significant opportunity in the tender. Aena is one of the companies with SBTi validated climate targets and the highest CDP rating. Its intentions are to bring forward its 2050 net zero target, to 2040.

Safran, which provides aero-engines to Boeing and Airbus, is also continuing to benefit from air traffic to returning to pre-pandemic levels. In Q4 2022 narrowbody available seat kilometres (ASK) was at 86% of 2019 levels and with China reopening, this has risen to 98% ASK in January. North America, ME and South America are all above 2019 levels. Incredibly, China is at 93% whereas APAC ex China is 84%. Revenue for 2022 rose by 25% and free cash flow rose +59%, supported by advance payments. The company delivered 1,196 CFM engines of which 1,136 were the new more energy efficient LEAP engines (up 291 units on 2021). Their win rate on the A320neo (the most successful selling narrowbody plane) rose 70% in 2022 with orders from many airlines from Qatar, Delta to Easy Jet. The backlog of orders is now almost 10,000 LEAP engines. Safran has started 2023 with a record order from Air India, exclusively powered by CFM LEAP engines with service contract (800 in total). There is still low retirement of planes (114 in 2022 v 84 in 2021) so there is still significant headroom in the replacement cycle. Safran makes most of its money in the civil aftermarket (service and parts) which rose 29% in 2022. As well as the propulsion business, Safran has an equipment's and defence business which has also won contracts including an American Airlines contract to upgrade its 737NG fleet from steel to carbon brakes (300+ aircraft). Safran reported that over 2022 it had sold 400m Euro of non-core assets (including cargo and catering business) and made 600m Euro of growth supporting acquisitions (including adding to its earth to space communications equipment and its navigational and positioning platforms). The one part of the business which loses money is the Interiors business, where the company confirmed supply chain issues with seats and cost overruns in engineering and production. On ESG, the SBTi has validated Safran's GHG emissions reduction targets. SBTi has determined that Safran's scope 1 and 2 target ambition is in line with a 1.5°C trajectory. Safran's greenhouse gas (GHG) emissions reduction targets are to reduce absolute scope 1 and 2 GHG emissions by 50.4% by 2030 vs. 2018 and reduce scope 3 GHG emissions from the use of sold products by 42.5% per ASK by 2035 vs. 2018.

Alphabet breaks its business into two segments: Other Bets and Google. Other Bets is a collection of unprofitable moon-shot ventures like autonomous driving company Waymo and AI research company DeepMind. Google is a collection of content platforms and cloud products including YouTube, Google Search, Google Play, and Google Cloud and it primarily generates revenue through advertising and cloud services. Google positioned itself as the gateway to the internet. Chrome holds 65% market share among web browsers, Google Search holds 92% market share among search engines, and YouTube recently surpassed Netflix as the most popular streaming service as measured by viewing time. Those content platforms, along with the consumer data they generate, have made Google the cornerstone of the digital advertising industry. In fact, the company currently collects about 28% of all digital ad dollars worldwide, and while competitors like Amazon are gaining ground, Google's expertise in AI and search algorithms have kept it ahead of the competition. Despite this, coming into 2023, Alphabet had been impacted by a number of concerns. These included, a weaker economy leading to advertisers spending less, the rise of AI and in particular ChatGPT might mean internet users no longer proactively need to search for content, upending Google's business completely, and the growth of search functionality on rival digital platforms, such as TikTok . During the last quarter, there was a sense that investors have been focusing too much on the threats faced by Google rather than the opportunities. Whilst in the short term, there is likely to be continued economic challenges, digital advertising is an enduring trend. According to Precedence Research, Global digital ad spend is expected to increase by 9% annually to $1.3 trillion by 2030. Since ChatGPT was launched in November, it has created a huge amount of hype. In its first two months, it reached more than 100m users, making it the fastest growing consumer internet application in history. ChatGPT and chatbots like it do not work like conventional online search. Today, Google and Bing work by sending out web crawlers, a type of bot (autonomous programme), to roam the internet and collect information, before organising the results and returning the most relevant links to the user in response to a search request. By contrast, AI chatbots are built on large language models: algorithms trained on vast chunks of the internet. The bot predicts the likeliest next word in a response to some query based on its reading of billions of sentences that use the preceding words. Instead of serving up a list of links, chatbots can return fluent answers. This ability means that search will change in two big ways. First, results will be able to answer complex questions with multiple variables. Imagine a tourist who is looking for a hotel in South of France that serves sushi, has a gym, allows dogs and is close to the beach. To find her ideal place on Google might mean skim-reading dozens of websites. The chatbot's ability to predict the next word in Play, and Google Cloud and it primarily generates revenue through advertising and cloud services. Google positioned itself as the gateway to the internet. Chrome holds 65% market share among web browsers, Google Search holds 92% market share among search engines, and YouTube recently surpassed Netflix as the most popular streaming service as measured by viewing time.

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BAE Systems (BAE) confirmed a strong year of performance in 2022, both financially and operationally. The company reported all key financial metrics of sales, margin, underlying earnings per share, and free cash flow increasing despite the headwinds presented by the COVID-19 pandemic, continued supply chain disruptions, rising inflation and ongoing labour shortages. Together with 2020 and 2021, BAE over-performed its stated three-year free cash flow target by more than £1bn. The strong results were enhanced by the share repurchase programmes. In 2022, the company repurchased £793m worth of shares, or about 3% of the outstanding shares, completing the remainder of the Board's 2021 £500m authorisation and the initial tranche of the Board's three-year £1.5bn authorisation, approved in mid-2022.

In 2022, global events resulted in a renewed recognition of the importance of the defence industry. As one of the world's largest defence contractors, BAE's technologies, capabilities and global footprint ensure they play a leading role in helping customers meet an elevated threat environment. BAE designs, develops, and manufactures a products across the domains of air, land, sea, cyber and space. The product portfolio is enhanced with enabling technologies including artificial intelligence, autonomy, cryptography, and cyber defence. In addition to the defence portfolio, the company continues to see a recovery in the commercial aviation product lines, as passenger flying hours continue to increase and demand for low and zero emission hybrid and fully electric drive and propulsion systems.

A differentiating strength of BAE is the geographic diversity and exposure to many of the world's largest national defence budgets. Most of the countries in which the company operates have either announced increases or are making plans to increase spending to address the elevated threat environment. Whilst global economic and fiscal pressures weigh on governments, the commitment to defence in BAE's major markets remains robust. This contributed to a record annual order intake of £37bn, driving the defence order backlog up to £59bn.
In the US, by far the world's largest defence market, BAE is well aligned to the Department of Defense (DoD)'s emphasis on advanced technologies, which is the fastest growing part of the US budget. In areas like electronic warfare, multi-domain operations, Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems and advanced Defense Advanced Research Projects Agency (DARPA) projects, BAE Systems technologies are world-class and map directly into priorities in the US National Defense Strategy.

In the UK, the 2021 Defence Command Paper renewed commitments to BAE's major programmes in complex warship, submarine and combat aircraft design and build, allowing for long-term investment in these key sovereign capabilities, as well as strong support for the cyber domain. In Europe, where the threat level is acute, the need for new equipment is most urgent and many defence budgets are rising. The governments of the UK, Japan and Italy, announced their shared ambition to develop a next generation fighter aircraft under a new Global Combat Air Programme (GCAP). The launch of GCAP firmly positions the UK, alongside Japan and Italy, as leaders in the design, development and production of next generation combat air capability.

BAE started 2023 with a strong balance sheet, featuring a cash position of £3.1bn, a net debt (excluding lease liabilities) of £2.0bn, and a net pension position that has swung from a significant accounting deficit to an accounting surplus, thanks to the group's funding commitments over the years and the higher interest rate environment.

BAE progressed its climate resilience programmes and each of its sectors developed decarbonisation roadmaps to outline short-, medium- and long-term activities to support the group's net zero ambition by 2030 (Scope 1 and 2).

Vinci is a global player in concessions (airports, toll-roads, highways), energy and construction businesses. It is well positioned for the megatrends among global economies and societies of faster energy transition through the production of renewable energy, decarbonisation of transport infrastructure and buildings, and digital revolution, all of which will require massive investments.

The company confirmed strong revenue and earnings growth along with record free cash flow. The recovery in Vinci Airports' passenger numbers accelerated throughout 2022 and in Portugal, Serbia and several countries in Latin America, they are now higher than they were in 2019. Combined with cost-cutting measures adopted during the Covid-19 crisis, Vinci Airports reported substantial increases in both profit and cash flow. In addition, the purchase of a near-30% stake in the Mexican airports operator OMA, which handled 23 million passengers in 2022, was completed at the end of the year. Despite higher fuel prices, Vinci Autoroutes' traffic levels were higher than pre-pandemic levels for both light and heavy vehicles. Vinci Autoroutes also deployed new initiatives to help decarbonise road mobility. The company signed five low-carbon motorway conventions with different regions and communities in France. Additionally, almost half of their fleet of light intervention vehicles was converted to electric in 2022, with plans to have 85% of the fleet electric and the remaining 15% running on rechargeable hybrid or biofuel by 2030. To help accelerate the shift to eco-mobility and reduce greenhouse gas emissions from road travel, Vinci Autoroutes initiated the rollout of e-vehicle charging infrastructure on motorways. Vinci Highways continued to build its international footprint. For example, it is currently finalising the purchase of a majority stake in a Brazilian motorway, and it took control in the United States of a company specialising in electronic toll management. Vinci Energies continued to grow its business and increase its profitability, while further extending its network with around 30 new acquisitions including the IT services business of Kontron AG, which covers 10 countries in Central and Eastern Europe. Another highlight of 2022, in the Energy business, was the successful integration of Cobra IS. It won a number of major contracts linked to energy transition. Vinci has increased exposure to renewable energy production, when its Belmonte solar farm in Brazil, with a capacity of 0.6 GW, and new projects adding a further 1.4 GW of capacity are scheduled to enter the construction phase in the coming months, in Spain and Latin America. Vinci Construction saw very strong business levels and improved its margin, despite higher costs and supply chain difficulties. Overall, the order book amounted to €57.3 billion at 31 December 2022. This represents a 9% increase relative to 31 December 2021 and represents 13 months of average business activity. As a result, Vinci has good visibility, allowing it to continue being selective in terms of new projects and ensuring high returns on invested capital. Vinci has had its carbon targets validated by the SBTi. Its looking to reduce its scopes 1 and 2 greenhouse gas emissions by 40% by 2030 compared with 2018 levels and its scope 3 GHG emissions by 20% by 2030 compared with 2019 levels.

Turning to the main detractors over the quarter, UnitedHealth and CVS Health had performed well last year, as investors looked for defensive stocks that could not only weather a recession but also offer growth. Year to date the stocks have lagged the market but both are performing well operationally and well positioned for the enduring transition to accountable care. According to projections from the U.S. Census Bureau, by 2060, there will be 94.7 million Americans who are 65 years of age or older, accounting for 23% of the population (versus 17% in 2020). The US already spends more per capita on health than any other nation, rather than benefitting from economies of scale.

CVS Health (CVS), operates a pharmacy chain, a pharmacy benefit manager (PBM) and health insurer with its Aetna unit. Operationally, the company continues to perform well topping on revenue and earnings. For 2023, it also guided for high single digit growth in EPS. However, plans to acquire Oak Street Health for over $10 billion left a bad taste with some investors. Oak Street has grown rapidly but still loses money. It is expected to lose over $200 million in 2023 and not reach profitability until 2025 at the earliest. As such, some worry this could pressure CVS's financial targets, along with capital priorities like share buybacks, especially given its recent acquisition splurge, including the $8bn purchase of Signify Health. However, the purchase of both Signify and Oak Street should enable CVS to continue to grow significantly into the future. Companies that can help lower the cost of drugs but also provide value -added benefits (i.e. are rewarded based on results rather than number of services provided) will be well positioned. CVS Health has made no secret in its desire to become a more vertically integrated healthcare company by adding primary care assets to its broader care delivery strategy. The acquisition of Oak Street Health will broaden CVS Health's value-based care platform into primary care and accelerate long-term growth. Primary care drives patient engagement and positive clinical outcomes. Although it is a very small proportion of total health spend, just about 10% nationally, it wields significant influence over healthcare utilisation. Individuals who seek routine primary care services report fewer serious medical diagnoses, lower mortality rates, and a 33% lower annual healthcare expense. Oak Street Health operates a network of primary care centres that specialise and care for older adults. They focus on areas with large concentrations of Medicare-eligible patients with incomes below 300% of the federal poverty line, areas where they can make the biggest impact. ensuring patients receive the right care upfront, improving their experiences and keeping them healthy and out of the hospital. This proven and naturally scalable model benefits patients, providers, and payers, while improving health outcomes, lowering medical costs and delivering a better patient experience. This focus has generated meaningful results for patients, including reducing hospital admissions by over 50%. CVS Health's own retail pharmacies (including 1100 MinuteClinics) are also often in reach of patients who may otherwise struggle to access healthcare services. Combining Oak Street Health's platform with CVS Health's unmatched reach will create the premier value-based primary care solution. Oak Street includes about 600 physicians across 169 medical centres located in 21 states. It's expected to grow to over 300 centres by 2026. Oak Street's care model is backed by Canopy, its proprietary technology platform, which is designed to determine the best type and level of care for each individual patient. These offerings will be enhanced by CVS's home health and virtual care abilities. Integrating Oak Street with Signify (home based care) would allow the combined company to deliver integrated care for Medicare members at home, in clinics and via telehealth.

United Health operates in every US state and 33 countries, and has two segments: Optum health services and UnitedHealthcare insurance. Both groups are performing well, will Optum's revenue up 17% in 2022 and 13% for UnitedHealthcare. For the quarter, revenue rose for the 10th consecutive quarter. UnitedHealth Group's full-year EPS rose over 18%, the 14th consecutive year of EPS growth. This year, the company expects revenue to grow a further 10%+. Under Medicare Advantage, private-sector insurers receive fixed payments from Medicare. The insurers, in turn, become responsible for the healthcare expenses of the enrolled parties. The Centres for Medicare and Medicaid Services (CMS) had proposed new Medicare Advantage rates for 2024, including a core rate increase of 2.09%. Rates have averaged 3.3% over the past five years, so insurance companies had weakened on the news. As it happens, in early April the final decision was to increase rates by 3.3% and shares have risen.

Away from this short term noise, United Health, like CVS, aims at providing care in the setting that makes most sense for the patient. The company announced plans last year to acquire in-home healthcare company LHC Group for $5.4 billion which will reinforce its plan to integrate more behavioural and home health services into its care delivery strategy as the company continues to expand its value-based care offerings. The company expects 4 million more people to participate in fully accountable, value-based care models provided by Optum Health in 2023, which is almost 1.8 million more than the previous year. For value-based patients, its in-home services have reduced hospital visits by 15% versus fee-for-service, delivering comparable health outcomes and achieving an NPS (Net Promoter Score) of approximately 80% (essentially a mark on how good the services are that you provide to your patients). They continue to expand the range of clinical services they provide via their HouseCalls initiative. Seniors place high value on being able to get care in their home. Partnerships also appear to be a large part of UnitedHealth's value-based care strategy. In 2022 UnitedHealth and Walmart announced they would be rolling out a value-based care model at 15 Walmart locations in 2023. The partnership will revolve around care for seniors and behavioural health is expected to be a major component. OptumInsight is uniquely positioned to offer integrated, end-to-end technology analytics and services across the entire healthcare value chain. Along these lines, the company recently reached two new comprehensive health system partnerships, with Northern Light Health in Maine and with Owensboro Health in Kentucky. The services will include a full breadth of advanced solutions, including information technology, revenue cycle management, analytics, and supply chain tools. By the end of 2023, UNH expect to have more than 750 community pharmacies, nearly 200 more than at the beginning of 2020. This has helped with medication adherence rates, which are about 90% compared to the 50% U.S. average. The pharmacists are able to take the time to get to know their patients' treatment plans and support their medication management.

Becton Dickinson (BD) is a medical technology company that develops, manufactures, and sells a range of medical supplies, devices, laboratory equipment, and diagnostic products. BD delivered a solid set of results with better-than-expected base business revenues (excluding COVID-19 diagnostics). Had COVID-only diagnostic testing been excluded, revenue would have increased 5.2% on a currency-neutral basis, compared to the same quarter last year. The company increased full year revenue and earnings guidance. The company has been able to take appropriate price actions and accelerate cost mitigation programs. The breadth and diversification of the total Becton portfolio provided insulation against COVID-driven procedure fluctuations, as demonstrated by the revenue performance across the three segments, with Medical, Life and Interventional. The medical segment (the largest) benefitted from strong growth in medication delivery systems where BD was able to increase price to manage inflationary cost pressures and pharmaceutical systems where BD's capacity expansion is enabling them to meet strong demand for prefillable syringes as customers continue to switch their biologic, vaccines and other injectable drugs to this format. Revenue in the life sciences business declined 12.2% to $1.3 billion, weighed down by the decline in COVID-19 testing. The interventional segment results reflect the recovery in deferrable procedures and double-digit growth in the peripheral vascular disease business (reduced blood circulation to a body part other than heart or brain normally associated with diabetes, obesity etc).The strong cash flow continues to enable investments in R&D and tuck-in M&A, which is fuelling the BD2025 strategy. The separation of the diabetes care business from the rest of BD was completed last year and consistent with BD's growth strategy and helps to sharpen its focus on its core innovation priorities. On ESG, the company was included in 2023 Bloomberg Gender-Equality Index for fourth consecutive year demonstrating the company's ongoing commitment to advance workplace equality and progress in female leadership. BD's climate change targets are aimed at reducing its contribution to global greenhouse gas (GHG) emissions from direct operations. BD is committing to reduce Scope 1 and 2 GHG emissions 46% by 2030 (from its 2019 baseline) and to be carbon neutral across its direct operations by 2040. This science-based target is aligned with the 1.5°C global emissions reduction pathway. In addition, BD continues to work with supply chain partners to quantify and reduce Scope 3 GHG emissions.

3. Current Positioning

Top 10 Portfolio Holdings

Holding	Sector	Country	Portfolio %
Microsoft	Information Technology	United States	6.2
Alphabet	Communication Services	United States	6.0
Canadian Pacific Railway	Industrials	Canada	5.2
Charter Communications	Communication Services	United States	5.0
Safran	Industrials	France	5.0
Vinci	Industrials	France	4.9
Fiserv	Information Technology	United States	4.9
Airbus	Industrials	France	4.7
Unilever PLC	Consumer Staples	United Kingdom	4.2
Aena SME	Industrials	Spain	4.1
Total			50.2

Source: Veritas Asset Management

Portfolio Breakdown

Region	Portfolio %
North America	66.3
Europe ex UK	18.6
United Kingdom	8.2
Asia Pacific ex Japan	2.5
Cash and equivalents	4.4
Total	100.0

Sector	Portfolio %
Industrials	27.4
Health Care	25.5
Information Technology	14.8
Communication Services	13.1
Financials	6.1
Consumer Staples	4.7
Consumer Discretionary	4.1
Cash and equivalents	4.4
Total	100.0

Currency	Portfolio %
USD	70.6
EUR	22.8
GBP	4.0
AUD	2.5
CAD	0.0
Total	100.0

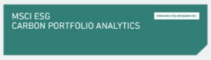
Source: Veritas Asset Management

4. Responsible Investment
ESG: Environmental, Social and Governance

International Norms and Standards

Proxy Voting Report

Carbon Portfolio Analytics Report



International Norms and Standards - United Nations Global Compact Screen (“UNGC”)

The United Nations Global Compact Screen (“UNGC”) identifies companies involved in controversies where the company’s alleged actions constitute a violation of one or more of the ten principles that cover environmental, anti-corruption, human rights and labour standards. The framework encourages signatories to share best practices in order to become better, more sustainable organisations.

On a monthly basis, utilising MSCI ESG Research data and an alert system, Veritas reviews all investee companies to determine if a company fails any of the global compact principles. If there are notable changes during the month, our system will distribute an email alert to the Investment Team, Compliance Team, and ESG Team. Veritas will identify which principle has been violated, assess the materiality of the violation, and engage with the business if required.

Fail	The company is implicated in one or more controversy cases where there are credible allegations that the company or its management inflicted serious large-scale harm in
Watch List	The company is implicated in one or more controversy cases that are serious and warrant ongoing monitoring. However, based on information available to date, it does not constitute a significant breach of global norms according to the methodology.
Pass	According to the methodology, the company has not been implicated in any controversy case constituting a significant breach of global norms within the last three years.

As illustrated in the diagram to the right, during the three months to 31 March 23, 0% of companies held in the Fund "Failed" the UN Global Compact screen. Four companies in the Fund (17.2%) were listed on the Global Compact "Watchlist". For example, Unilever Plc has been added to the watchlist for a potential breach of Principle 7: Businesses should support a precautionary approach to environmental challenges, specifically concerning plastic pollution. Veritas will continue to monitor the company's progress in this area. Should this flag escalate to a "Fail", we will have cause to engage.

Please contact us for more information on proxy voting and carbon analysis.

Disclaimer

This is a marketing communication. Please refer to the prospectus, the key investor information documents (the **KIIDs/PRIIPS KIDs**) 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 Fund is authorised and regulated in Ireland by the Central Bank of Ireland. The Fund is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 as amended and as may be amended, supplemented, or consolidated from time-to-time and any rules, guidance or notices made by the Central Bank which are applicable to the Fund. The Fund is domiciled in Ireland. Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority. The Depositary of the Fund is Citi Depositary Services Ireland DAC, 1 North Wall Quay, Dublin 1, Ireland. The Administrator of the Fund is Citibank Europe plc, 1 North Wall Quay, Dublin 1, Ireland.

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.

The views expressed herein are those of the Investment Manager / Sub-Investment Manager at the time and are subject to change. The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside of the control of the Investment Manager. Costs may increase or decrease as a result of currency and exchange rate fluctuations. If the currency of a Sub-Fund is different to the currency of the country in which the investor is resident, the return may increase or decrease as a result of currency fluctuations. Income may fluctuate in accordance with market conditions and taxation arrangements. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance and does not predict future returns. The performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.
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/PRIIPS KIDS, 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. The Investment Manager may decide to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Art 93a of Directive 2009/65/EC and Art 32a of Directive 2011/61/EU.

U.K: Nedgroup Investment Advisors (UK) Limited (reg no 2627187), authorised and regulated by the Financial Conduct Authority, is the facilities agent. The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.
Isle of Man: The Fund has been recognised under para 1 sch 4 of the Collective Investments Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

FEES
A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

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