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NEDGROUP INVESTMENTS Global Cautious Fund

Q2 2024

Marketing Communication

Nedgroup Investments Global Cautious Fund

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

Performance to 30 June 2024 (USD)	Fund[1]	Target Return[2]	Peer Group[3]
3 months	0.1%	1.4%	0.6%
12 months	4.9%	5.5%	6.8%
5 Years	1.7%	2.2%	1.9%
10 Years	2.1%	1.6%	1.8%

Market Overview

The first half of the year has flown by and yet it seems like not a lot has changed. We've had a US 10-year yield hovering above 4% for the last couple years. The expected 6 rate cuts at the start of the year have obviously not materialised. Inflation remains above target in all major economies except the UK and Italy. Meanwhile, equity markets in the US are nearing record valuations (CAPE ratio at 34x) as well as record high concentration among the highest market cap stocks. Notably in Japan, inflation continues to creep higher along with long-term bond yields. Our higher for longer interest rate regime remains with financial stability risks looming in the background. The latest scare this month comes from Norinchukin Bank who expect to report a $9.5 billion loss for the current fiscal year, three times the level forecasted last month. The losses stem from its large foreign bond portfolio which it now plans to trim by around 15% or $63 billion.

The ECB joined Sweden, Switzerland and Canada with a well telegraphed rate cut over the quarter. Markets reacted calmly with the euro a touch weaker versus the US Dollar though the ECB President Christine Lagarde disappointed the market by confirming that interest rates could be kept on hold for more than one monetary policy meeting in a row. Elsewhere, the Bank of England in their latest financial stability report warned of the risks from commercial real estate and the layers of leverage in private equity business models which have relied on low interest rates for much of the last decade.

Fund Performance

The aim of the strategy is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

The portfolio produced a positive return over the quarter, driven by the portfolio's US and non-US bond allocation. The non-US bond and US bond allocation contributed over the period and outperformed the relevant indices. The US equities and overseas equities contributed to returns with US equities underperforming the broader indices which were led by growth stocks but overseas equities outperforming the index. Hedging of the Australian Dollar was a detractor given its strengthening over the quarter. The following table highlights the top 5 equity contributors and bottom 5 equity detractors over the quarter:

Top Performers	Country	Performance contribution	Bottom Performers	Country	Performance contribution
ALPHABET	US	0.13%	INTEL	US	-0.11%
TEXAS INSTRUMENTS	US	0.09%	LOWE'S COS	US	-0.10%
AMPHENOL CORP	US	0.07%	BANK RAKYAT INDONESIA	INDONESIA	-0.08%
TSMC	TAIWAN	0.06%	STEEL DYNAMICS	US	-0.06%
VTECH	HONG KONG	0.06%	PRICE (T. ROWE) GROUP	US	-0.04%

[1] Net return for the Nedgroup Investments Global Cautious Fund, A class.
[2] SOFR USD 1-month from 1 Feb 2022 (previously US Libor 1 month)
[3] Morningstar EAA Fund USD Cautious Allocation
Source: Morningstar (monthly data series).

North American equity markets rose over the quarter. In the US, the stock market started the period on a weaker note but recovered as the quarter progressed. Investors continued to speculate on the Federal Reserve's next moves. As inflation data softened and employment reports showed the first signs of a cooling jobs market, the futures market started to price in interest rate cuts towards the end of 2024 buoying market sentiment. The Canadian market fell over the period as energy companies struggled due to a volatile oil price. Over the period the portfolio was behind the benchmark.

In the US, sectors such as information technology and communication services (driven by artificial intelligence expectations) led the market. More economically sensitive sectors such as materials and industrials lagged the market. The portfolio benefitted from having an underweight position in the energy and REITs (property) sectors. In terms of country performance, the US market (SP500) outperformed the Canadian market (TSX) (in local currency terms).

Some of the better performing companies in the portfolio included Alphabet (Google), Texas Instruments and Amphenol. These companies are all in the information technology sector and are all seen as beneficiaries of the surge in artificial intelligence related spending and usage. Alphabet has invested heavily in running large language models (LLM) to improve search results and improve advertising relevance. Texas Instruments and Amphenol are hardware enablers to AI data centers as well as to the wider electronics industry and so will benefit from increasing technology spending.

Companies that were behind the index over the quarter included Intel. Intel struggled after reporting quarterly results that were ahead of market expectations but gave an outlook that disappointed investors. The current CEO (Pat Gelsinger) is re-engineering the company to become a major semiconductor supplier in the artificial intelligence era. This will involve significant investment in both capital and technology. Intel continues to execute on its long-term roadmap. Lowe's (home improvement retailer) was under pressure as higher mortgage rates (reducing housing activity) weighed on the stock. Steel Dynamics was weaker as concerns about North American industrial activity weighed on the company.

Both the non-US Dollar bonds and the Dollar bonds provided positive returns over the period. US equities and non-US equites also provided positive returns but US equities lagged the broader market index. The currency hedging program detracted, caused mainly by the appreciation of the Australian Dollar.

The Australian Dollar remains the only currency exposure hedged in the portfolio. The Australian Dollar strengthened against the US dollar. Pyrford view the US dollar as significantly overvalued based on in-house Purchasing Power Analysis and therefore maintain a significant exposure (45%) to non-US dollar assets. If the currency does fall as expected, the portfolio will benefit.

Portfolio Positioning

There were no changes to positioning over the quarter. The model allocation is 78% bonds, 20% equities and 2% cash.

Within the fixed income allocation, Pyrford adopts a defensive stance by owning short duration securities to minimise the impact on the portfolio from interest rate rises. At the end of the period the modified duration of the fixed income portfolio stood at around 2.8 years. Whilst these shorter duration bonds are unlikely to yield high returns, they will provide significant capital protection for the portfolio and importantly they are highly liquid. The bond portfolio remains of a very high credit quality and highly liquid. 46% of the portfolio is invested in overseas bonds, with 17% in Canada, 16% in the UK and 12% in Australia. 32% of the portfolio is invested in US government debt.

Within the equity portfolio the companies we hold are defensive names, which we would expect to perform well during volatile periods. The focus of the portfolio is on balance sheet strength, profitability, earnings visibility and value. Within Europe there are no holdings in the peripheral Eurozone countries where sovereign debt concerns remain. The European portfolio is concentrated in Switzerland and the relatively healthy economies of core

Europe and the UK. In Asia, we prefer the Southeast Asian markets over Japan. The potential growth rate in Japan remains low given the poor demographics and low productivity growth. Economies in Southeast Asia offer sustainable economic growth supported by increased labour output or productivity growth and trade at more reasonable valuations.

Finally, there was no change to the unhedged non-USD exposure in the portfolio. 45% (the maximum level) of the portfolio remains exposed to unhedged foreign currencies, representing the view that the US dollar is a very expensive currency and we expect it to fall based on our purchasing power analysis.

Outlook

Pyrford retains a cautious outlook for international economic growth and expects the necessary adjustments to corporate and personal balance sheets in the developed West to take a prolonged period to achieve. This is a deflationary process and represents a significant headwind to economic growth.

Following the rally in North American equity markets over the last few years, valuations are in aggregate less attractive than they were. Even after recent declines, North American equity markets remain overvalued in absolute terms given the earnings and dividends per share growth that can be reasonably expected. Equity investors will be best rewarded by concentrating on high quality companies selling at low valuations relative to a defensive and visible stream of earnings. Financial leverage should be avoided, and investors should focus on companies which are very well capitalised and whose business models have proved resilient during previous periods of poor economic growth.

Responsible Investments

As long-term shareholders of companies, we have the ability, and in our view the responsibility, to try and influence the business practices of companies.

Pyrford voted 1,166 proposals in 75 company meetings in the quarter. We voted against management on 72 proposals. We also engaged with 132 companies worldwide and ESG issues are a standing agenda item in every meeting we conduct.

For a detailed overview of ESG activity, please visit our website for all voting records and our latest annual ESG report.

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These documents are available from Nedgroup Investments (IOM) Ltd (the **Investment Manager**) or via the website: www.nedgroupinvestments.com.

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Germany: The Fund's Facilities agent in Germany is Acolin Europe AG, with the registered office at Line-Eid-Strasse 6, 78467 Konstanz. The Prospectus (in English) and the PRIIPS KID (in German), may be obtained free of charge at the registered office of the Facilities agent, or electronically by Email via facilityagent@acolin.com, or by using the contact form at https://acolin.com/services/facilities-agency-services.

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