NEDGROUP INVESTMENTS

see money differently

NEDGROUP INVESTMENTS Global Cautious Fund

Q3 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 September 2024 (USD)	Fund[1]	Target Return[2]	Peer Group[3]
3 Months	5.19%	1.37%	4.07%
12 Months	11.96%	5.57%	12.7%
5 Years	2.9%	2.36%	2.52%
10 Years	2.47%	1.75%	2.34%

Market Overview

This quarter saw strong returns across equity markets, yet it wasn't a straight upward line as markets experienced increased volatility. A combination of weaker US economic data, an interest rate hike from the Bank of Japan, and a lack of summer liquidity meant stocks were hit hard in early August. However, the long-anticipated start of the Federal Reserve's rate cutting cycle in September, along with new stimulus in China, and a less hawkish tone from Japanese policymakers, eased investor concerns and supported a strong rally in stocks towards the end of the quarter. In the US, the broader rally in the S&P 500 was welcomed, easing concerns that performance had been concentrated around a handful of giant technology names for much of 2024.

Yield curves have steepened with the 30-year US bond yield a touch higher than its level at the start of the year. Most notably, gold has taken off, up 30% year to date with central banks looking to diversify away from the US. The Fed has rightly shifted its attention to the labour market which remains intact for now.

While earnings expectations and valuations are elevated in the US, the onus is on the real economy to accelerate and grow into its current multiple. Any signs of a crack in growth will be met with sharp downward reactions regardless of the Fed response. There will likely be more volatility ahead, with November's US election one of several potential catalysts.

With inflation cooling, other western central banks also cut rates. The European Central Bank delivered its second rate cut in September, while the Bank of England cut rates at its August meeting. The shift in investors' expectations for interest rates helped government bonds to perform strongly. In the UK, a tighter labour market means the Bank of England needs to tread carefully with regards to the speed of future easing.

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 overseas equity and bond allocations. The US and overseas equities contributed to returns with both outperforming their broader indices. The non-US bond and US bond allocation also contributed over the period albeit, underperforming their relevant indices. Hedging of the Australian Dollar was a detractor given its appreciation to US Dollar over the quarter.

[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).

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
LOWE'S COS	US	0.15%	INTEL	US	-0.10%
LOCKHEED MARTIN	US	0.15%	ALPHABET	US	-0.06%
AIA GROUP	HONG KONG	0.13%	PRICE (T. ROWE) GROUP	US	-0.04%
MALYAN BANKING	MALAYSIA	0.12%	ADVANTECH	TAIWAN	-0.02%
BRAMBLES	AUSTRALIA	0.12%	ASM PACIFIC	HONG KONG	-0.04%

North American equity markets rose over the quarter. In the US, the stock market had a strong quarter as it became increasingly clear that the Federal Reserve would cut interest rates due to declining inflation and a deteriorating employment picture. These interest rate expectations were met in September when the Federal Reserve cut interest rates – the first time in over 4 years that interest rates had declined. The interest rate cut had a positive impact on investor sentiment and buoyed the stock market. The Canadian market rose over the period as the Bank of Canada also cut interest rates.

In the US, economically sensitive sectors such as industrials and materials led the market while sectors such as technology and communications services lagged the overall market. The portfolio benefitted from having an overweight position in the consumer staples and industrials sectors. In terms of country performance, the US market (SP500) lagged the Canadian market (TSX) (in local currency terms).

Some of the better performing companies in the portfolio included Lockheed Martin, Lowe's and AIA Group. Lockheed (industrials - aerospace and defence) performed well as rising global geopolitical tensions increased investor expectations that defence spending would rise as countries would look to bolster their defence infrastructure. Lockheed remains the manufacturer of the most advanced fighter jet, the F35. Lowe's (consumer discretionary - home improvement retailing) benefitted from the Federal Reserve's interest rate reduction. As interest rates decline, this should cause an increase in housing activity due to a reduction in mortgage rates, which is generally good for the company. AIA Group, an insurance and financial services company, had strong results in Q3. They also disclosed guidance for operating profit per share of between 9-11% compound annual growth rate to 2026 for the first time indicating strong traction and outlook across their markets, especially in China where there is a lot of scepticism. They also disclosed greater guidance on cash returns i.e. dividends and buybacks which was greatly received by the market.

Companies that were behind the index over the quarter included Intel, Alphabet and T Rowe Price. Intel (technology - semiconductors) 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. Alphabet (communication services – internet) remained under pressure due to an antitrust probe which suggested that the company should be split up. At present, it is too early to know if this split will be the final remedy and the situation remains under review. T Rowe Price (financials – asset management) lagged the market as the company continued to see fund outflows. The company continues to offer a very solid and growing dividend yield and rising equity markets should benefit the company over the medium term.

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 2.6 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. The European portfolio holds several names that are global leaders in niche industries. We have a high concentration in Switzerland and have also completely avoided a number of industries which are structurally challenged. 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.

Over the quarter the investment team took the decision to sell Brenntag and purchase DHL Group in the European equity portfolio. DHL Group is a global mail and logistics service provider which has a strong balance sheet, a high and sustainable return on equity, and an attractive dividend yield. We believe that the completed restructuring of the Freight Forwarding and Supply Chain divisions will improve earnings. Strong growth in Parcels (through increasing e-commerce) and in Express (DHL has the highest market share in Asia and benefits from increasing trade in this region) will allow the stock to outperform over the long term. The swap of the companies in the portfolio was based on a value indicator decision as DHL Group de-rated post pandemic, has a 4.5% yield and a safe dividend.

Nike was also purchased over the quarter for the US equity portfolio. To fund this purchase, we reduced Intel’s position. Nike is a global leader in the athletic footwear and apparel market. It has a long heritage of sporting success with solid financial and profitability metrics. After a recent decline in the share price due to shorter term operating issues, we took the opportunity to add this investment to the portfolio.

Finally, there was no change to the unhedged non-USD exposure in the portfolio, and Australian Dollar remains the only hedged currency. 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 77 proposals in 6 company meetings in the quarter. We voted against management on 6 proposals. We also attended 120 company meetings 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.

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.

This document is of a general nature and intended for information purposes only, it is not intended for distribution to any person or entity who is a citizen or resident of any country or other jurisdiction where such distribution, publication or use would be contrary to law or regulation. Whilst the Investment Manager has taken all reasonable steps to ensure that this document is accurate and current at the time of publication, we shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document.

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.

Switzerland: The Representative is Acolin Fund Services AG, Maintower, Thurgauerstrasse 36/38, 8050 Zurich, Switzerland, whilst the Paying agent is Banque Heritage SA, Route de Chêne 61, CH-1211 Geneva 6. Nedgroup Investments (IOM) Limited is affiliated to the Swiss ombudsman: Verein Ombudsstelle Finanzdienstleister (OFD), Bleicherweg 10, CH-8002 Zurich.

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.

U.K: Nedgroup Investment (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.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: toll free from South Africa only 0800 999 160
Email: helpdesk@nedgroupinvestments.com
For further information on the fund please visit: www.nedgroupinvestments.com

OUR OFFICES ARE LOCATED AT
First Floor, St Mary's Court
20 Hill Street, Douglas
Isle of Man
IM1 1EU

Issue Date
October 2024