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# **NEDGROUP INVESTMENTS** **Global Cautious Fund**

Q2 2025

**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 2025 (USD)	Fund <sup>1</sup>	Target Return <sup>2</sup>	Peer Group <sup>3</sup>
3 Months	4.2%	1.1%	3.4%
12 Months	9.6%	4.9%	7.1%
5 Years	3.7%	2.9%	3.0%
10 Years	2.5%	2.1%	2.6%

### Market Overview

It's been another action-packed quarter. We've had heightened geopolitical tensions, first with India and Pakistan entering a four-day military conflict, followed by unprecedented direct conflict between Israel and Iran. Trade policy uncertainty remains elevated with the average effective tariff rate on US imports at 15.8%, as investors continue to grapple with tariff policy uncertainty. Despite this global unrest, US dollar weakness continues with the dollar index now down over 10% for the year. Market sentiment remains fragile but have been somewhat muted in the absence of a meaningful weakening in the hard data, as most major asset classes delivered positive returns over the quarter. Global equity markets climbed to record highs.

Markets remain in wait-and-see mode regarding the potential impact of tariffs on CPI. Chair Powell in his testimony to Congress said he expects them to show up this summer in the June and July numbers. The higher the inflation, the more likely corporate profits continue coming in strong as companies don't take a margin hit and instead pass higher prices on to consumers.

Investor attention may increasingly turn to Hong Kong, Singapore, and broader Asia. Whilst the Fed may be constrained in easing policy, the weaker dollar has opened the door for monetary easing across Asian central banks who many of which actively manage their currencies as part of inflation targeting. We expect Asian currencies to remain well supported whilst domestic easing continues. This lays the groundwork for the likes of Hong Kong and Singapore to expand as financial centres, financing the next phase of economic growth across Asia.

### 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 bond and equity allocations.

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
AMPHENOL CORP	US	0.22%	LOWE'S COS	US	-0.03%
TEXAS INSTRUMENTS	US	0.16%	AUTOZONE	US	-0.01%
AMERICAN EXPRESS	US	0.13%	SANOFI	France	-0.01%
AIA GROUP	Hong Kong	0.10%	ALTRIA GROUP	US	-0.01%
ALPHABET A	US	0.09%	BP	UK	-0.01%

<sup>1</sup> Net return for the Nedgroup Investments Global Cautious Fund, A class.

<sup>2</sup> SOFR USD 1-month from 1 Feb 2022 (previously US Libor 1 month)

<sup>3</sup> Morningstar EAA Fund USD Cautious Allocation

Source: Morningstar (monthly data series).



North American equity markets were up over the quarter. In the US, the stock market had one of its most volatile periods in recent history. At the beginning of the quarter, the market fell by nearly 20% as tariffs were introduced by the US administration and investors became extremely concerned about the effect on global growth. This caused declines in stock and bond prices which eventually led to the US administration suspending tariffs and this initiated a reaction rally in the US stock market. Having been down nearly 20% intra quarter the US market finished the quarter in positive territory. The Canadian market rose as the gold price remained firm over the period. In addition, Canada benefitted from inflows as investors diversified their holdings away from US assets.

In the US, cyclical sectors such technology and industrials led the market while defensive sectors such as healthcare and consumer staples lagged the overall market as investors increased their risk exposure. 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 Amphenol, Texas Instruments, American Express and AIA Group. Amphenol rose as investors began to reinvest in the technology sector and the company posted strong results and gave an optimistic outlook regarding the impact of tariffs on the businesses. Texas Instruments performed well after the outlook for the analog industry started to improve as its industrial end markets began to show stabilisation. American Express also performed well during the quarter as the US employment picture remained robust. This alleviated concerns about an increase in delinquency rates. AIA, the insurance company announced ex CEO Mark Tucker as the new Chairman. This was well received by the market given his strong track record as CEO. AIA is a beneficiary of the weaker dollar against Asian currencies as the US Dollar is its reporting currency. The company also reported solid Value of New Business growth in Q1 which was greater than market expectations.

Companies that were behind the index over the quarter included Lowe's, AutoZone, Sanofi and Altria. Lowe's remained weak as mortgage rates remained stubbornly high crimping housing demand and turnover, a key driver for the company. It is expected that mortgage rates will eventually fall, and this should benefit the company. AutoZone lagged over the quarter as investors relocated to more cyclically orientated sectors. The long-term investment thesis for AutoZone remains intact as cars in the US get more expensive, it is more likely that consumers will keep their older vehicles, increasing demand for car parts which AutoZone supplies. Sanofi, the global health care company has been under pressure since the start of the Trump presidency. There has been a lot of talk of aggressive price reductions for US patients, and Sanofi's leading vaccine franchise is also at-risk following changes at the top of the health administration. Altria had performed extremely well in Q1 and is also seen as a defensive company and so lags the market during periods when investors tend to focus on more cyclical parts of the market.

Elsewhere in the portfolio, benefitting from our short duration positioning, both US and overseas bonds produced a positive return this quarter outperforming their broader indices. The US Treasury yield curve steepened over the quarter after The Reconciliation Bill increased concerns over US debt. In the UK, long-dated yields remained high also reflecting growing concerns over debt levels, budget deficits, and decreasing investor confidence in the government's fiscal plans.

The currency hedging program, which aims to protect the portfolio by hedging out exposure to overvalued currencies relative to US Dollar, detracted over the quarter as the US Dollar depreciated against the Australian dollar. The US Dollar remains under selling pressure amid mounting US debt concerns, and US government policies.

### **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 2.9 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. 40% of the portfolio is invested in overseas bonds, with 22% in the UK and 18% in Australia. 38% 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 several 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.

Finally, there was no change to the unhedged non-USD exposure in the portfolio, and Australian Dollar remains the only hedged currency. 33% of the portfolio remains exposed to unhedged foreign currencies.

### **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.

Following the rally in North American equity markets over the last few years, valuations are in aggregate less attractive than they were. 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 1,189 proposals in 76 company meetings in the quarter. We voted against management on 40 proposals. We also attended 114 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.

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