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NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND

Quarter Two, 2019

For the period ended 30 June 2019

NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND (“The fund”)

Commentary produced in conjunction with sub-investment manager, Chartwell Investment Partners and the newly appointed sub-investment manager, Pyrford International (“Pyrford”) who assumed management of the fund on the 1st of July 2019.

Performance (USD)

The total US dollar return to shareholders of the Nedgroup Investments Global Cautious Fund (A Class) for 2019’s second quarter was -0.16% as several equity positions weighed on performance of the fund. The Fund underperformed both income asset class returns mainly because of its more defensive positioning with shorter duration and higher cash allocation: the FTSE Broad Investment Grade Bond Index (BIG) gain of 3.10% and the ICE BofAML High Yield Master II Index return of 2.53%.

Overview

Global equity and credit markets continued churning higher in the second quarter, albeit at a lesser pace than the first three months of the year, and with a slight dip in May. The US and China trade deal, which many assumed to be complete by the first half of the year, did not materialise. Tariffs exercised on Chinese goods are starting to affect a handful of US companies as they either must cut margin or attempt to pass on higher supplier prices to the consumer. The latter of these two options could take some pressure off, as unemployment on the US remains at a very low level. Credit spreads, specifically high yield, were relatively unchanged during the quarter. The real move came in US Treasury yields, which continued their slide below 2017 levels, and nearing 2016 lows. The US Treasury yield curve at quarter end was inverted out to almost 15 years. This, and other indicators has given the Fed possible cause to cut rates in the near future.

Performance

The fund’s equity portfolio posted a return of -1.56% for the quarter. Two stocks declined more than 20% - Gold Resource Corp and Pitney Bowes. Gold Resource Corp continued its price decline after first quarter results, despite maintaining guidance for the year and the recent uptick in gold prices. We continue to believe this fiscally responsible gold miner should reap high benefits from its new mine in Nevada, which is starting to enter sizeable production. Pitney Bowes missed estimates on their first quarter earnings, and had their main competitor, Stamps.com put up very poor numbers in Q1 after losing their contract with the US postal service.

Additional detractors to performance were Xperi Corp and Mattel.

Meaningful contributors during the quarter were mainly Corecivic and Viacom. Corecivic rose significantly, as government agencies continue to need space and services, until late June, when media and government scrutiny hit the for-profit prison sector. Viacom’s merger deal with CBS is still on the books and both sides expect it to be reached in the near term, while their bottom line earnings continued to improve year-on-year.

During the second quarter, 30-year Treasury bond yields collapsed to levels not seen since 2016. The fund’s lower duration led to underperformance versus the indices on this end. We did not make many material changes to the portfolio in terms of duration/convexity, etc. during this time. Our positioning remained focused on shorter-term corporate bonds of high-quality businesses, where the yield is now very similar to bonds much farther out on the yield curve.

Our largest contributors were our longer-term securities – Apple (3.85% due 2043), and Bristol Myers Squibb (3.25% due 2042), both up anywhere from 6-8%. Our main detractor on the fixed income side was notably our preferred share position in Chesapeake Energy, which was down 20%. The company continues to struggle with low natural gas prices and an unfavourable environment. While they have pushed their debt out several years to give them some breathing room, continued pressure on the name has punished the stock and our preferred position.

Asset Allocation

Prior to manager transition

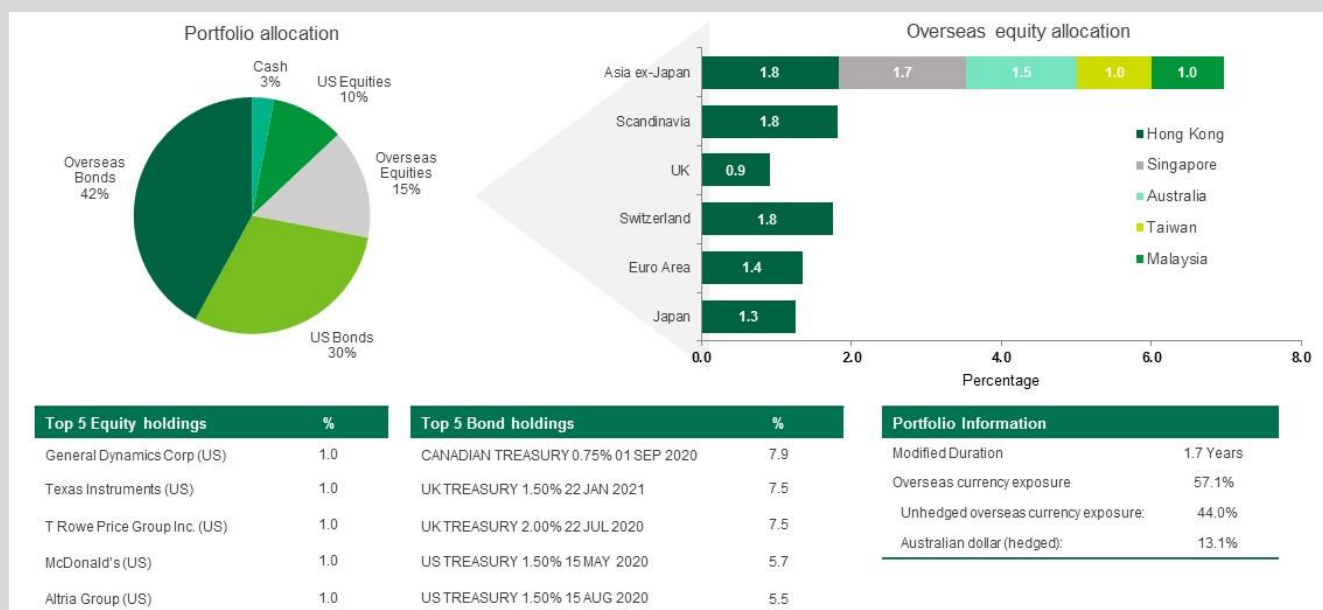
At the end of June, prior to the transition to new management, the fund held approximately 11% of its assets in common stocks, 10% in convertible and preferred securities, 70% in non-convertible corporate and short dated government securities, and 9% in cash.

Portfolio duration remained relatively short at 2.9 years. Duration was shorter than it had been in some time, as interest rate risk had increased with lower yields. We continued to see shorter-term corporate bond yields fall lower to points not seen in years, which made it harder to continue to achieve the yield we had been used to over the last several quarters. High yield was still under 30% of the overall corporate debt piece, as spreads briefly rose in May before settling back down in June.

Broadly speaking, valuations in the equity investable universe remained stretched. As a result, the fund’s equity weighting was down sequentially and year over year to 11%.

Pyrford International transition

Pyrford was appointed as the new sub-investment manager on the 1st of July 2019 and the Global Cautious portfolio was successfully transitioned (post quarter end) to reflect Pyrford's target investment positioning. The investment holdings and positioning of the portfolio are presented in the diagram below (see Appendix 1 for complete portfolio):



In general, Pyrford views current markets (both equity and bond) as expensive and low single-digit returns are probably the best that can be expected on a medium-term outlook for investors. Capital preservation is a key tenant around which Pyrford's philosophy is based and at current levels of valuations, the fund is conservatively positioned with 72% of the portfolio invested in short duration highly liquid government debt and 25% in defensive global equities. Pyrford have also increased the portfolio's non-U.S. dollar currency exposure close to its highest permissible level of 45% to benefit from expected U.S. dollar weakness against major developed market currencies.

Conclusion

As equity markets continue to make all-time highs and bond yields across the international spectrum continue to decline, risk to the downside may continue to increase. However, in the US, current economic indicators are not showing noticeable declines, despite broad speculation that a series of Fed interest rate cuts are on the cards. The fund is conservatively positioned in this environment.

Appendix 1 - Nedgroup Investments Global Cautious Portfolio

EUROPEAN BONDS		ASIA PACIFIC BONDS		NORTH AMERICAN BONDS		TOTAL PORTFOLIO	
UK	14.98%	AUSTRALIA	11.38%	CANADA	15.70%	TOTAL BONDS	72.00%
UK TREASURY 2.00% 22 JUL 2020	7.49%	AUSTRALIAN TREASURY 5.75% 15 MAY 2021	3.48%	CANADIAN TREASURY 2.75% 01 JUN 2022	3.92%	TOTAL EQUITIES	25.00%
UK TREASURY 1.50% 22 JAN 2021	7.49%	AUSTRALIAN TREASURY 5.75% 15 JUL 2022	7.89%	CANADIAN TREASURY 0.75% 01 MAR 2021	3.92%	TOTAL CASH	3.00%
				CANADIAN TREASURY 0.75% 01 SEP 2020	7.85%	GRAND TOTAL	100.00%
				US	29.95%	MODIFIED DURATION OF BONDS	1.73 yrs
				US TREASURY 1.50% 15 MAY 2020	5.72%	CURRENT YIELD OF BONDS	2.13%
				US TREASURY 1.50% 15 AUG 2020	5.54%	YIELD-TO-MATURITY OF BONDS	1.44%
				US TREASURY 2.00% 31 DEC 2021	4.31%		
				US TREASURY 2.00% 30 SEP 2020	4.31%		
				US TREASURY 1.75% 15 MAY 2022	5.03%		
				US TREASURY 2.125% 30 SEP 2021	5.03%		

EUROPEAN EQUITIES		ASIA-PACIFIC EQUITIES		NORTH AMERICAN EQUITIES	
EURO AREA	1.35%	AUSTRALIA	1.70%	USA	10.00%
AIR LIQUIDE SA	0.20%	BRAMBLES LTD	0.57%	ALTRIA GROUP INC	1.00%
BRENNTAG AG	0.20%	COMPUTERSHARE LTD	0.28%	AMERICAN EXPRESS CO	0.80%
FUCHS PETROLUB SE -PREF	0.20%	WOODSIDE PETROLEUM LTD	0.57%	AUTOMATIC DATA PROCESSING	0.50%
SANOFI	0.20%	WOOLWORTHS GROUP LTD	0.28%	C. H. ROBINSON WORLDWIDE INC	1.00%
SAP SE	0.18%	HONG KONG	1.48%	GENERAL DYNAMICS CORP	1.00%
TOTAL SA	0.16%	AIA GROUP LTD	0.40%	LOWE'S COS INC	0.50%
UNILEVER NV-CVA	0.20%	CHINA MOBILE LTD	0.68%	MCDONALD'S CORP	1.00%
SWEDEN	1.18%	VTECH HOLDINGS LTD	0.40%	PHILIP MORRIS INTERNATIONAL	1.00%
ASSA ABLOY AB-B	0.35%	JAPAN	1.25%	ROCKWELL AUTOMATION INC	0.70%
ATLAS COPCO AB-A SHS	0.35%	ABC-MART INC	0.25%	S&P GLOBAL INC	0.50%
ESSITY AKTIEBOLAG-B	0.47%	JAPAN TOBACCO INC	0.31%	T ROWE PRICE GROUP INC	1.00%
NORWAY	0.83%	KDDI CORP	0.28%	TEXAS INSTRUMENTS INC	1.00%
TELENOR ASA	0.63%	MITSUBISHI ELECTRIC CORP	0.25%	CANADA	0.99%
SWITZERLAND	1.75%	SUMITOMO RUBBER INDUSTRIES	0.16%	CANADIAN NATL RAILWAY CO	0.30%
NESTLE SA-REG	0.53%	MALAYSIA	0.95%	IMPERIAL OIL LTD	0.20%
NOVARTIS AG-REG	0.44%	AXIATA GROUP BERHAD	0.38%	METRO INC	0.35%
ROCHE HOLDING AG-GENUSSCHEIN	0.49%	MALAYAN BANKING BHD	0.57%	SAPUTO INC	0.15%
SGS SA-REG	0.12%	SINGAPORE	1.83%		
ZURICH INSURANCE GROUP AG	0.18%	COMFORTDELGRO CORP LTD	0.51%		
UK	0.91%	SINGAPORE TECH ENGINEERING	0.27%		
BP PLC	0.11%	SINGAPORE TELECOMMUNICATIONS	0.51%		
BRITISH AMERICAN TOBACCO PLC	0.19%	UNITED OVERSEAS BANK LTD	0.53%		
GLAXOSMITHKLINE PLC	0.20%	TAIWAN	1.00%		
LEGAL & GENERAL GROUP PLC	0.14%	ADVANTECH CO LTD	0.30%		
RECKITT BENCKISER GROUP PLC	0.14%	CHUNGHWA TELECOM CO LTD	0.35%		
VODAFONE GROUP PLC	0.14%	TAIWAN SEMICONDUCTOR MANUFAC	0.35%		

DISCLAIMER

Nedgroup Investments Funds PLC (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 (S.I. No. 352 of 2011) as amended from time-to-time.

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 Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

The value of shares can fall as well as rise. Investors may not get back the value of their original investment.

UK investors should read the Appendix for UK investors in conjunction with the Fund's Prospectus which are available from the Manager www.nedgroupinvestments.com

The Fund has been recognised under paragraph 1 of Schedule 4 to the Collective Investment Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

The Information Agent in Germany is ACOLIN Europe AG, with registered office at Reichenaustraße 11a-c, 78467 Konstanz. The basic documents of the Fund, including the prospectus (in English) and the KIID (in German), may be obtained free of charge at the registered office of the German Information Agent.

The State of the origin of the Fund is Ireland. In Switzerland, the Representative is ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zürich, whilst the Paying agent is Banque Heritage SA, route de Chêne 61, 1211 Geneva 6, Switzerland. The Basic documents of the Fund such as the prospectus, the key investor information document (KIID), the articles of association as well as the semi-annual and annual reports may be obtained free of charge at the office of the Swiss Representative. The current document is intended for information purposes only and shall not be used as an offer to buy and/or sell shares. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming shares. Past performance may not be reliable guide to future performance. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the representative.

The Prospectus of the Fund, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com

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