



**NEDGROUP**  
INVESTMENTS

see money differently

# NEDGROUP INVESTMENTS

## Contrarian Value Equity FUND

Quarter 3, 2019

For the period ended 30 September 2019

## NEDGROUP INVESTMENTS Contrarian Value Equity FUND

The following commentary was produced in conjunction with the sub-investment manager, First Pacific Advisors, LP ("FPA"). The portfolio management team at FPA provided the following commentary. Please refer to the end of the commentary for important Disclaimers.

| USD performance to 30 September 2019 | Nedgroup Investments Contrarian Value Equity <sup>1</sup> | MSCI ACWI | S&P 500 |
|--------------------------------------|-----------------------------------------------------------|-----------|---------|
| 3 months                             | 0.2%                                                      | 0.0%      | 1.7%    |
| 12 months                            | 2.1%                                                      | 1.4%      | 4.3%    |

The Nedgroup Investments Contrarian Value Equity Fund ("the Fund") returned 0.2% in the third quarter and 20.0% year-to-date 2019. This compares to 0.0% and 16.2% for the global MSCI ACWI index and 1.7% and 20.6% for the S&P 500 in the same third quarter and year-to-date periods.

While the commentary exhibits contributors and detractors to the Fund's performance for the most recent quarter and on a trailing twelve-month basis, quarterly price movements are generally not much more than "noise," frequently reversing in the coming months or quarters. It is therefore more informative to focus on what has happened in the most recent year, as shown below.

### Winners and Losers<sup>2</sup>

Q3 2019

| Winners     | Performance contribution (%) | End weight (%) | Losers           | Performance contribution (%) | End weight (%) |
|-------------|------------------------------|----------------|------------------|------------------------------|----------------|
| Alphabet    | 0.73%                        | 7.6%           | Baidu            | -0.30%                       | 2.3%           |
| AIG         | 0.31%                        | 5.2%           | Facebook         | -0.29%                       | 3.7%           |
| Comcast     | 0.29%                        | 4.1%           | HeidelbergCement | -0.29%                       | 2.7%           |
| NAVER       | 0.20%                        | 0.9%           | Naspers/Prosus   | -0.21%                       | 2.4%           |
| Wells Fargo | 0.20%                        | 3.1%           | Glencore         | -0.21%                       | 1.8%           |

Trailing Twelve Months

| Winners        | Performance contribution (%) | End weight (%) | Losers   | Performance contribution (%) | End weight (%) |
|----------------|------------------------------|----------------|----------|------------------------------|----------------|
| Comcast        | 1.01%                        | 4.1%           | Baidu    | -2.65%                       | 2.3%           |
| Analog Devices | 0.93%                        | 4.4%           | Mylan    | -1.47%                       | 1.6%           |
| Charter        | 0.82%                        | 3.6%           | WPP Plc  | -0.67%                       | 0.0%           |
| Arconic        | 0.81%                        | 5.5%           | Mohawk   | -0.61%                       | 1.1%           |
| Broadcom       | 0.79%                        | 4.2%           | Glencore | -0.51%                       | 1.8%           |

<sup>1</sup> Gross USD return for the Nedgroup Investments Contrarian Value Equity Fund, D class. Source: Morningstar (monthly data series).

<sup>2</sup> Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the quarter and trailing twelve months ("TTM"). Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

Past performance is no guarantee, nor is it indicative, of future results.

Developments in the Fund's holdings can explain, in part, their stock price movement over the trailing twelve-month period.

- Comcast has continued to grow organically, in the aggregate, and begun to develop an over-the-top offering to deliver content streaming over the Internet as it repositions its legacy cable channel assets.
- Analog Devices ("ADI") has benefited as one of the largest and most well positioned players in the analog chip space. With limited engineering talent within the industry, ADI's moat widens even more against potential new competing entrants.
- Arconic has benefited from improved operating performance under new management.
- Baidu has lost market share in the Chinese online advertising market, with particular weakness seen in key verticals including healthcare and online gaming. Lower than expected revenue, combined with increased investments in ventures that are expected to produce profits only over the long term, has resulted in a demonstrable decline in profitability and led to a severe sell-off of the shares, resulting in what the FPA portfolio management team believes to be a very inexpensive valuation applied to its core search business.
- Mylan continues to face multiple headwinds including a challenging regulatory environment, pricing pressure on generic drugs in the U.S., and slower than expected regulatory approval of new products. The FPA portfolio management team used the recent merger announcement between Mylan and the Upjohn division of Pfizer as an opportunity to trim into strength.

Continued market strength in the first three quarters of the year has delivered good and bad news. As noted above, the Fund's equity positions have increased in value slightly in excess of the market. Market strength, however, has made most stocks more expensive -- and it wasn't like they were being given away to begin with. With many companies priced as if bad news is a thing of the past only, the FPA portfolio management team has found very few opportunities to buy.

### **Portfolio Activity:<sup>3</sup>**

While the Fund did not have any notable increases, decreases or exits in the portfolio during the quarter, there was one new position. The newest name to the Fund is Prosus. In September, Naspers listed its "internet" assets including Tencent in Amsterdam at a value of over \$100bn. The new entity, Prosus, has roughly 1.6bn shares which traded around 70 euros each at the time. Naspers retains 73% of the new company which encompasses everything from the 31% stake in Tencent to US-, India- and Brazil-based food delivery and advertising firms. On its trading debut, the newly listed Prosus closed in slightly on the valuation discount to Tencent. However, even with that, the firm was still trading below the sum of the parts value. Given where Tencent is now held, Prosus is largely just a proxy of Tencent itself.

### **Portfolio Profile:**

There are currently 33 equity positions in the Fund, with the top 5 holdings comprising 27.1% and the top 10 comprising 46.7%. The top three sectors, based on GICS sector classification, are Financials, Communication Services, and Information Technology, which comprise over 60% of the Fund. The Fund has been able to find opportunity outside of the U.S. and currently has 29.1% non-U.S. exposure and 65.3% exposure in the U.S.

---

<sup>3</sup> The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. It should not be assumed that an investment in the securities listed was or will be profitable. Increases and decreases represent securities whose position size changed by at least 25% over the period and represent greater than 0.50% of the portfolio. Any exited position mentioned was fully removed, regardless of its representative portfolio size.

## Portfolio Highlight:

### Comcast Corporation (“Comcast”)<sup>4</sup>

Comcast Corporation operates as a media and technology company worldwide. It operates through segments including cable, broadcast television, theme parks, etc. The FPA portfolio management team believes that a cable pipe is the best way to provide high-speed internet to consumers. US cable providers have excellent networks with an increasing customer demand, thus the FPA portfolio management team believes price points can be increase as price sensitivity is less of a concern due to few substitutes for consumers. Broadband and cable are roughly over 70% of Comcast’s business, with NBC Universal making up the remainder (including theme parks). The FPA portfolio management team believes Comcast is a robust company with an attractive current valuation. However, with consolidation among cable providers, political scrutiny – i.e. risks of government intervention and/or regulation – may prove to be a headwind.

## Conclusion

Threats to global equity markets abound. There are trade wars and negative interest rates that pervert asset pricing models, not to mention a rising tide of global populism, looming Brexit, and unprecedented global leverage. In the United States, during the quarter, there was an inverted yield curve, high valuations for risk assets, a president prone to tweets that spook the markets and, just around the corner, an election likely to produce a number of surprises.

Yet the equity markets, shrugging off such anxieties, continue to sustain and propel the longest U.S. economic expansion and bull market in recent history. Investors have generally bid up risk assets to the point that most offer less of a margin of safety than the FPA portfolio management team likes. With so much to ponder, the team can offer little comfort as they don’t know what will happen.

So FPA’s portfolio management team will share their broader market views in their year-end letter. In the interim, they will continue to scout for opportunities that offer a better, more comfortable balance of risk and reward.

---

<sup>4</sup> The investment example discussed is being shown only as an illustration of the FPA portfolio management team’s (“PM Team”) investment process, is not a recommendation for any particular type of security, transaction or sector, and was not chosen based on performance. It should not be assumed that any transactions in such security was or will be profitable. This investment example is not representative of the overall performance of the Fund. This investment example is being shown only as an example of what the PM Team is seeking to achieve in managing the strategy, but is not necessarily indicative of what has actually been achieved with all of the investments or will be achieved going forward. References to specific securities, transactions or sectors should not be construed as recommendations by the Fund, the PM Team, or its Adviser or sub-investment manager. Any information provided is not a sufficient basis upon which to make an investment decision. The information provided does not constitute, and should not be construed as, an offer or solicitation with respect to any securities, products or services discussed. Please refer to the end of this Commentary for important disclaimers.

**Past performance is no guarantee, nor is it indicative, of future results.**

## 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.

Funds are generally medium to long-term investments. The value of your investment may go down as well as up. International investments may be subject to currency fluctuations due to exchange rate movements. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital and not getting back the value of the original investment.

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.

Nedgroup Investment Advisors (UK) Limited (reg no 2627187) is authorised and regulated by the Financial Conduct Authority.

UK investors should read the Appendix for UK Investors in conjunction with the Fund's Prospectus which are available from the Investment Manager. [www.nedgroupinvestments.com](http://www.nedgroupinvestments.com).

This document 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.

The Fund has been recognised under paragraph 1 of schedule 4 of 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 State of the origin of the Fund is Ireland. In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zürich, whilst the Paying agent is Banque Heritage SA, route de Chêne 61, 1211 Geneva 6, Switzerland. The prospectus, the Key Investor Information Documents, the fund regulation or the articles of association as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the representative. Past performance is no indication of current or future performance. The performance data does not take account of the commissions and costs incurred on the issue and redemption of units

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](http://www.nedgroupinvestments.com).

Changes in exchange rates may have an adverse effect on the value price or income of the product

This document is of a general nature and intended for information purposes only. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document.

## FPA DISCLAIMERS

This Commentary is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale with respect to any securities, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety. This presentation does not constitute an investment management agreement or offering circular.

**You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest.** Investments, including investments in the Fund, carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depositary Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

The statements contained herein reflect the opinions and views of the FPA portfolio management team as of the date written, is subject to change, and may be forward-looking and/or based on current expectations, projections, and/or information currently available. Such information may not be accurate over the long-term. These views may differ from other portfolio managers and analysts of the sub-investment manager as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, or the Adviser or sub-investment manager to purchase or sell such securities, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed.

**Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The performance data herein represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost.**

#### **Index Definitions**

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund may be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the investment strategy. Indices are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. The Fund does not include outperformance of any index in its investment objectives. An investor cannot invest directly in an index.

The **Standard & Poor's 500 Stock Index** (S&P 500) is a capitalization-weighted index which covers industrial, utility, transportation and financial service companies, and represents approximately 75% of the New York Stock Exchange (NYSE) capitalization and 30% of NYSE issues. The S&P 500 is considered a measure of large capitalization stock performance.

The **MSCI World Index** is designed to represent the performance of large- and mid-cap stocks across 23 developed markets. With more than 1,600 constituents, it covered approximately 85% of the free float-adjusted market capitalization in each country as of December 2018.

#### **Other Definitions**

**Free Cash Flow** represents the cash a company generates after cash outflows to support operations and to maintain or expand its capital assets (e.g., property, plant and equipment "PP&E").

**Long Equity Performance** represents the performance of stocks that the Fund owned over the given time periods and excludes short-sales, limited partnerships, derivatives/futures, corporate bonds, mortgage backed securities, and cash and cash equivalents.

**Margin of safety** - Buying with a "margin of safety" is when a security is purchased at a discount to the portfolio manager's estimate of its intrinsic value. Buying a security with a margin of safety is designed to protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

**Net Risk Exposure** is a measure of the extent to which a fund's trading book is exposed to market fluctuations. In regards to the Fund, it is the percent of the portfolio exposed to Risk Assets.

**Risk Assets** is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies, but does not include cash and cash equivalents.