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NEDGROUP INVESTMENTS Global Cautious Fund

Q1 2024

Marketing Communication

Nedgroup Investments Global Cautious Fund

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

Performance to 31 March 2024 (USD)	Fund[1]	Target Return[2]	Peer Group[3]
3 months	0.02%	1.36%	1.79%
12 months	5.55%	5.42%	6.98%
5 Years	2.13%	2.05%	2.24%

Market Overview

The opening quarter of 2024 saw several equity markets climb to record highs with bond markets selling off as investors recalibrated expectations for rate cuts with fewer cuts priced further down the line. The US 10 Year Treasury Yield climbed from 3.88% to 4.20% over the course of the quarter.

The US, Japan, Europe and India all hit record highs over the quarter as investors optimism on future rate cuts remains in place despite pushing back the magnitude and timing of central bank rate cuts. The S&P 500 was first to reach the milestone led by the strength of the tech sector although momentum has been weaker of late as mixed economic data caused the market to reassess when the Fed will start cutting rates.
Europe's Stoxx 600 has taken just over two years to climb back to all-time highs, a mere blink of an eye compared to the Nikkei 225 in Japan which last hit its peak back in December 1989. Whilst both markets now sit at record highs, Japanese equities have been attracting flows whilst European equities have seen outflows since the turn of the year. Of course, valuations need to be considered. Japan is trading at a P/E multiple 16.3x, broadly in line with its 10-year average. Europe is trading on a P/E multiple of 14.8x, close to 20% discount to its 10-year average. Not all record highs are equally loved.

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 return was flat over the quarter. The US Equities and overseas equities contributed to returns but both allocations underperformed the broader indices which were led by growth stocks. The non-US bond and US bond allocation detracted over the period, however outperformed the relevant indices. Hedging of the Australian Dollar was a contributor given its weakening 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
AMERICAN EXPRESS	US	0.14%	AIA GROUP	HONG KONG	-0.09%
PRICE (T. ROWE) GROUP	US	0.11%	INTEL	US	-0.05%
LOWE'S COS	US	0.10%	TELKOM INDONESIA	INDONESIA	-0.02%
STEEL DYNAMICS	US	0.09%	WOOLWORTHS GROUP	AUSTRALIA	-0.02%
AUTOZONE	US	0.09%	ROCHE	SWITZERLAND	-0.02%

North American equity markets rose over the quarter. In the US, the stock market started the year with high expectations for many interest rate cuts as inflation continued to moderate. As the quarter progressed inflation readings came in slightly stronger than expected. In addition, other economic data indicated that economic activity remained above trend. As a result, investors reduced their expectations for the number of interest rate

[1] Net return for the Nedgroup Investments Global Cautious Fund, C 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).

cuts for the year. The stock market took these changes in expectations in its stride as stronger economic activity would be supportive for corporate earnings. The Canadian market also rose over the period as energy companies benefitted from a firm oil price, which was supported by rising global geopolitical tensions.

In the US, sectors such as information technology (driven by artificial intelligence expectations) and energy (driven by a firm oil price) led the market. More defensive sectors such as utilities and consumer staples lagged the market. The portfolio benefitted from having an underweight position in the utilities sector. 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 American Express (credit card company), AutoZone (auto parts retailer), T Rowe Price (asset manager), and Lowes (home improvement retailer). American Express rose over the quarter as strong employment readings in the US were supportive for consumer spending and low credit card delinquencies which would be good for American Express' earnings. AutoZone reported quarterly operating results that were ahead of market expectations and gave an encouraging outlook for the remainder of its fiscal year. T Rowe Price, being an asset manager was buoyed a strong US stock market which would support their assets under management and in turn grow their revenues and earnings. Although mortgage rates in the US remain high, they are expected to come down. As mortgage rates are reduced this will increase housing turnover which will be supportive for Lowes' earnings.

Companies that were behind the index over the quarter included AIA Group and Intel. AIA has performed poorly since its results despite operational metrics improving throughout 2023. The company sees greater return potential from investing in the existing business rather than committing to extending the buyback that is due to complete later in the year which seems to have disappointed the market. Investment performance too has been weak for the past 2 years which raises concerns that their actuarial investment assumptions may be too aggressive. Given that approximately 60% of the business is exposed to China and Hong Kong and the current macro challenges experienced in China, investors have been shifting their allocation to more export related businesses. We remain confident about the long-term prospects for AIA given the under penetration of life insurance across the region and its strong competitive advantage with the most productive agency force across the region. 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 and we are confident they can close the gap against competitors.

Equities were the key contributor to performance this quarter as some global markets reached record highs. US equities and non-US equites provided positive returns, as did the currency hedging program. Both the non-US Dollar Bonds and the Dollar bonds detracted over the period. The detraction from overseas bonds was caused mainly by the depreciation of the British Pound, Australian Dollar and Canadian Dollar relative to the US Dollar.

The Australian Dollar remains the only currency exposure hedged in the portfolio. The Australian Dollar weakened 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.

Global bond yields moved higher at the end of Q3 2023 rendering them better value as markets feared that the fundamentals were pointing to a period of higher for longer inflation. As a result of this, at the beginning of Q4 2023 the modified duration of the fixed income portfolio was increased from 3 years to 5 years. However, the mood in the market changed dramatically during the quarter, as central bank comments suggested that they would be able to ease rates sooner than previously expected. The subsequent reversal of bond yields meant that capital gains were made on the bonds bought at the start of the quarter. At the start of Q1 2024 the trigger points in yields set for the UK, US and Australia had been met so we took the opportunity to reduce the target duration of the portfolios back to approximately 3 years. 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. 33% 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. 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 232 proposals in 11 company meetings in the quarter. We voted against management on 18 proposals. We also engaged with 71 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.

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

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