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NEDGROUP INVESTMENTS Global Cautious Fund

Q1 2025

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 2025 (USD)	Fund[1]	Target Return[2]	Peer Group[3]
3 months	3.95%	1.09%	0.86%
12 months	5.84%	5.15%	4.21%
5 Years	4.18%	2.66%	3.61%
10 Years	2.42%	1.98%	2.13%

Market Overview

'The golden age of America begins right now' declared President Trump in his inaugural address at the start of the year – right on cue for a rare stretch of US stock market underperformance, possibly signalling the peak of American exceptionalism. The pro-growth euphoria which swept markets in the aftermath of the election has subsided, with investors now grappling with a policy driven growth scare. At the end of March, the only tariffs that have been implemented are the additional 10% on China, and 25% tariffs on steel and aluminium imports. The rest, including 25% on Mexico, Canada and the EU, 25% on all autos and auto parts and 'reciprocal' tariffs were announced on April 2nd – known by Trump as 'Liberation Day.' Investors fret that Trump's levies on trading partners will slow economic growth while also increasing prices.

European nations have been under pressure to shore up their defences in the face of a hostile Russia and shifts in US policy under President Donald Trump, which European leaders fear could leave the continent exposed. Germany's parliament approved plans to allow unlimited defence spending as well as create a new €500bn fund to modernise the country's infrastructure. This provided investors with hope of economic growth and a new era of European collective defence.

The start of 2025 has been volatile. Investors will watch markets with bated breath as US tariffs unfold and the impact on the wider economy is digested. There are question marks around the scope of these tariffs, and what retaliation, if any, will occur. The good news for investors is that a diversified approach is working well so far this year, as the market rotates away from the concentrated momentum trades that made it more challenging for diversified portfolios to outperform in 2024. We expect to see more market volatility in the year ahead as global trade tensions remain in focus and as the back and forth on trade tariffs unravels.

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 allocations and overseas equity.

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
PHILIP MORRIS INTL	US	0.15%	PRICE (T. ROWE) GROUP	US	-0.16%
ALTRIA GROUP	US	0.13%	ALPHABET A	US	-0.13%
SINGAPORE TECH ENGR	Singapore	0.13%	AMERICAN EXPRESS	US	-0.07%

[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).

TELENOR	Norway	0.11%	ASM PACIFIC TECHNOLOGY	Hong Kong	-0.06%
AUTOZONE	US	0.09%	AXIATA GROUP	Malaysia	-0.05%

North American equities were mixed over the quarter. In the US, the stock market was weak as many larger technology companies fell after the announcement that a much cheaper Artificial Intelligence (AI) model had been released that was almost as efficient as many more expensive versions. This caused investors to reappraise the valuation of many of these expensive technology companies as their valuations are predicated on charging much higher rates for their AI models. The Canadian market rose as commodity prices, especially the gold price, were firm over the quarter. Over the period the portfolio was ahead of the benchmark.

In the US, defensive sensitive sectors such as healthcare and consumer staples led the market while cyclical sectors such as consumer discretionary and technology lagged the overall market. Investors looked for stability during the quarter as uncertainty about Federal Reserve policy and Tariffs weighed on sentiment. The portfolio benefitted from having an overweight position in the consumer staples sector and selective positioning in the consumer discretionary sector where the holdings were very defensive and rose over the quarter. 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 Philip Morris, Altria, Singapore Tech and Telenor. Philip Morris and Altria (consumer staples) both performed well as tobacco demand is resilient during periods of economic uncertainty and both companies reported good results during the quarter. In addition, both companies currently pay attractive dividends which adds to their investment appeal.

Singapore Tech Engineering's outperformance was driven by strong 2024 fiscal year results, the company's Investor Day, and the narrative shift in global defence spending. The company reported better than expected margins and lifted the fourth quarter dividend per share. At the Investor Day, the company set out its targets to fiscal year 2029 and the outlook for all the main divisions was solid. This was set against a backdrop of surging defence spending, as the US pivots away from providing support to other nations.

Most of the outperformance from Telenor is due to investors rotating to defensive sectors. Telenor reported decent results for 2024 with some confidence from management that the company can deliver enough free cash flow in 2025 to cover the dividend. The dividend yield is currently still over 6%. Regulation in Norway is benign and so the stock is considered a relative 'safe haven' in the current market environment.

Companies that did not perform well over the quarter included American Express, T Rowe Price, Alphabet and ASM Pacific. American Express fell during the quarter as it reported a weaker set of results. In addition, as the employment picture in the US weakens, American Express could face greater concerns about an increase in delinquency rates.

T Rowe Price was weak as investors remain concerned about the company fund flows which still need to stabilise. The company is also a proxy for the US equity market so when the US market is weak (as it was in the first quarter) then the stock price will reflect this.

Alphabet was hit by news about much cheaper competition in the AI space which had driven the share price in for most of 2024. It is still too early to know the impact of these cheaper AI models as the landscape is changing rapidly. Alphabet has large investments in the AI industry and remains well positioned to benefit from the proliferation of this nascent industry in our opinion.

ASM Pacific reported weak results over the quarter. The company has continuing challenges in traditional assembly and packaging machine tools; however, they expect a second half of the year pick up. Additionally, they are still suffering COVID hangover from big build out of capacity (inventory digestion) to meet chip shortages. The company remains excited about the opportunity in advanced packaging, which is growing strongly, and they remain well ahead of peers in TCBs having developed them over the last 13 years.

Elsewhere in the portfolio, both US and overseas bonds produced a positive return this quarter outperforming their broader indices due to our short duration positioning.

Portfolio Positioning

There were no changes to positioning over the quarter. The model allocation is 78% bonds, 20% equities and 2% cash.

In mid-January, target duration in the fixed income component of the portfolio was raised from three to six years. This move reflected the increase in yield in the US, driven by concerns about the inflationary consequences of US policy goals, including the potential widespread imposition of tariffs, reduction in taxes and deregulation agenda. Target duration was subsequently decreased from six to three years later in the quarter, after a rally in the US Bond market decreased yields caused by rising bets on interest rate cuts from the Federal Reserve in response to new economic data and policy concerns. 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 3.1 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.

Within the fixed income portfolio it was decided that the discount yield of Canadian government bonds to other fixed income yields was excessive. Accordingly, the portfolio's position in Canadian bonds was sold with the proceeds invested evenly in the remaining UK, US and Australian bond positions. 40% of the portfolio is invested in overseas bonds, 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 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.

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 257 proposals in 13 company meetings in the quarter. We voted against management on 17 proposals. We also attended 74 company meetings worldwide, and ESG issues are a standing agenda item in every meeting we conduct.

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