NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS GLOBAL FLEXIBLE FUND

Quarter One, 2018

For the period ended 31 March 2018

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Plus ça change,plus c'est la même chose. The more things change, the more they stay the same. Such continued the tale of this bull market as 2018 began. With a January increase of 5.73%, the S&P 500 rose for its 15th consecutive month, breaking its record set in December. February and March reversed the historic trend, declining -6.08% causing the S&P 500 to end the quarter down -0.76%. The Nedgroup Investments Global Flexible Fund ("the Fund") returned -0.67% in the first quarter of 2018 (net of fees) which compares favourably with the MSCI World which declined by -1.28% over the period.

Returns for the 12 month period to end March 2018 are shown in the table below.

USD performance to 31 March 2018	Nedgroup Investments Global Flexible[1]	S&P 500	MSCI World
3 months	-0.7%	-0.8%	-1.3%
12 months	5.8%	14.0%	13.6%

Growth continues to outperform Value in the global equity markets. The S&P 500 and MSCI ACWI Growth indexes increased 1.93% and 0.67% respectively for Q1. Their value counterparts underperformed (again), with the S&P and MSCI Value indexes each declining -3.57% and -2.62%. Cumulative underperformance since 2007 of S&P 500 Value vs Growth is approaching the historic underperformance from 1995-2000.

PORTFOLIO COMMENTARY

The Fund's top five performing positions added 1.12% to our return while the bottom five detracted 1.24%.[2]

Winners	Average Weight	Performance Contribution	Losers	Average Weight	Performance Contribution
Puerto Rico Municipal Bonds	0.97%	0.36%	Arconic	2.20%	-0.34%
Cisco	2.11%	0.32%	Leucadia National	2.12%	-0.30%
Microsoft	2.82%	0.19%	AIG	2.70%	-0.23%
TE Connectivity	2.31%	0.13%	Citigroup	2.23%	-0.19%
CIT Group	2.35%	0.12%	WPP PLC	1.45%	-0.18%
Total		**1.12%**	**Total**		**-1.24%**

Leucadia National announced value-creating and shareholder-friendly asset sales and share repurchase plans earlier this month, allowing its stock to recapture about half its year-to-date decline. More importantly, it serves as another indication of company management's commitment to building long-term value and acting opportunistically.

We discussed our investment in various Puerto Rican bond issues in our year-end letter. Subsequently, there have been a series of announcements that reflects a better than expected near-term cash flow on top of there being more cash in the municipal till than had been previously understood. The bonds have responded in kind and have appreciated year-to-date through the end of the quarter.

Post-quarter end there has been a sequence of events with respect to WPP, with CEO Martin Sorrell eventually resigning amid allegations of personal misconduct. It appears that these allegations combined with lacklustre company performance was sufficient to force his exit from the business. In isolation, such events may not affect our thesis or instigate activity, but we continue to monitor the situation to assess future prospects.

[1] Net USD return for the Nedgroup Investments Global Flexible Fund, A class. Source: Morningstar (monthly data series).
[2] Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the quarter. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented.

PORTFOLIO ADDITIONS

FACEBOOK

There are currently 2bn users, which we believe could be on its way to 4bn and Facebook has an approximate market cap of $500bn, which is $250 per user. We'd like to see Facebook continue to monetise users and further build out Instagram. Net of cash, the stock is trading on a price that is below 20x forward earnings. If top-line growth can be maintained at 30-40%, the stock looks attractively priced. In terms of competitors, Facebook owns Instagram, which has more users on the messaging function than that of Snapchat. The largest risk we foresee is some sort of potential regulatory scrutiny and, given the recent data breach, there are two main questions in focus: *what will happen from a regulatory perspective?* And; *how will people use data analytics going forward*? The biggest threat to our thesis in Facebook's business is a declining user base.

KINDER MORGAN

Kinder owns important infrastructure around the US, with the bulk of their business being in gas pipelines that connect production regions to trading regions. They also have terminals to store liquids and oil pipelines. Kinder's robust infrastructure provides these resources to demand centers such as California and the Northeast US. The company used to be a Master Limited Partnership (MLP) and now it is a Corporation. We prefer the Corporation structure as it eliminates conflict between the General Partners and Limited Partners within the MLP structure. This gives Kinder better control of their retained earnings and the ability to self-fund, which means they don't need to depend on capital markets for refinancing. We are also supportive of the ownership structure as we like to invest with owner-operator companies; particularly appealing in a business that has a lot of capital decisions to make.

DITECH HOLDING

This is the new name of the former Walter Investment Management Corporation post its financial restructuring, emerging from chapter 11 under the name Ditech Holding Corporation. As a result of the restructuring, we received securities all across the capital structure. These positions should do well with higher interest rates. We sold the bank debt we owned on Walter bonds before their bankruptcy.

PUERTO RICO PUBLIC BUILDINGS MUNICIPAL BONDS (PBA)

We swapped what we could on the Puerto Rico General Obligation bonds for the PBA bonds as they have more interesting claim provisions and are backed by physical government buildings (schools, jails, etc). These have been trading up due to recognition of the fact that the assets can't easily be seized.

BAIDU

Increased position by 30% to a quarter-end portfolio exposure of 2.0%, driven by improved valuation expectations. Chinese internet stocks have been on fire due to the large concentration of consumers, strong financial results and positive investor sentiment.

AIG

Increased position by 28% to a quarter-end portfolio exposure of 3.0%. The stock remains cheap, lots of potential in the insurance business. We like the management team and we're hopeful the business can improve operating results from reserves.

PORTFOLIO REDUCTIONS AND REMOVALS

GENERAL ELECTRIC (GE)

We expected that GE's pivot away from financial services and towards industrial businesses would result in a stronger and more valuable enterprise. The company did materially shrink its exposure to the finance business but what emerged was a company with too much dependence on its legacy power generation business (and questionable accounting). We reduced our position at a nice gain but were slow to recognize the magnitude of these issues, which GE amplified by its generally poor corporate governance and an entitled corporate culture.

In our low performance case for GE, we did not expect the massive losses from an insurance business that the company exited in the mid-2000s, nor did we account for what is tantamount to accounting fraud: the mismarked book of power projects.

LENTA

Lenta is a Russian hard-discount grocery store. They were successful in St Petersburg and attempted to replicate this success all over Russia, particularly in places where large competition from Magnit wasn't established. The two brands both showed little willingness to curtail spending and Lenta's profits from St Petersburg were reinvested into worse opportunities. The upside is no longer as attractive to justify our investment.

OCCIDENTAL PETROLEUM

Decreased position by 82% to a negligible quarter-end portfolio exposure of 0.04%. The price appreciation did not line up to our expectations over the years that we held this position.

CISCO

Decreased position by 43% to a quarter-end portfolio exposure of 1.5%. Following strong quarterly earnings, we realized some profits and decreased our overall exposure in line with the current valuation.