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NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND

Quarter Four, 2018

For the period ended 31 December 2018

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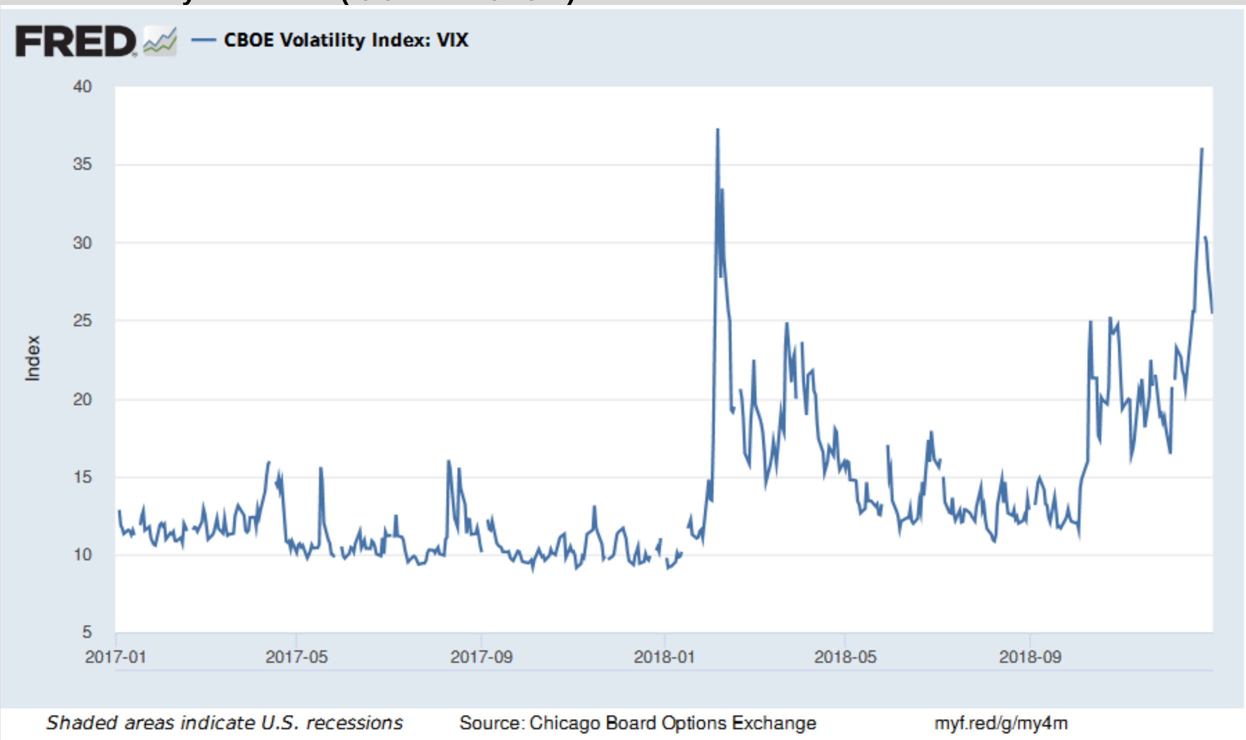
Commentary produced in conjunction with sub-investment manager, Chartwell Investment Partners

Year in Review

Following a historically calm 2017, 2018 began and ended with volatility. In the middle, equity indices reached all-time highs and Treasury yields touched multi-year highs. Confidence was riding high on the backs of what could only be seen as positive outcomes from tax cuts and tariffs championed by the current Administration.

Investor sentiment can be finicky, outright stubborn at times, ignoring fundamentals and trading on feelings. But when the tide turns, it tends to turn quickly and what was previously accepted as normal – equity valuations among the highest in market history, debt levels above any time in history, lack of covenants and protections for investors – creates doubt and leads to uncertainty. We began to see that take place in November and December when cash and liquidity proved their worth yet again.

CBOE Volatility Index: VIX (1/1/17 to 12/31/18)



We had written in our year end communication last year that "anyone can hold the helm when the sea is calm." 2017 was a challenging year for us as managers, and although we participated to the upside, the fund's conservative positioning prevented us from keeping up with all markets moving higher in tandem. Flip the calendar to 2018 and that same positioning helped to protect investors to the downside.

Performance

The fund was positioned conservatively throughout 2018, consistent with the prior few years. This led to outperformance compared to the fund's reference indices except for Broad Investment Grade. Compared to the Lipper Income Index, our only reference benchmark with an equity component, the fund outperformed by 312 basis points. On an absolute basis; however, it is disappointing to post a negative return and lose a modest amount of money. But even with an underweight to equities, the fund has exposure to stocks and many holdings meaningfully declined.

On the positive side, purchases from late 2017 and early 2018 into out-of-favour retail apparel companies paid off. Macy's (0.0 % equity in portfolio) and DSW Inc. (0.0) were among the top performers in the fund, both up over 40 % for the year. Ericsson (0.3) and Nokia (1.0), two major European communications equipment companies, rose over 30 % on reduced competition from China and the launch of 5G. Long term holdings FLIR Systems (0.0) and FirstEnergy (0.1) also meaningfully contributed to return.

Small capitalisation stocks were hit particularly hard in 2018 with the Russell 2000 Index declining over 11%. It is not a surprise then that our small cap holdings are among the worst performing positions in the fund for the year. LSI Industries (0.2), PC-TEL (0.2), and Superior Industries (0.4) all declined over 40%. Each company is a turnaround situation and suffered from execution issues and underwhelming earnings reports. We have trimmed back each position and continue to evaluate management's strategic response to fix their respective business. Additionally, some newer names declined shortly after purchase and we have taken the opportunity to add to Newell Brands (0.8), Cleveland-Cliffs (0.7), and Jefferies Financial Group (0.8).

With much of the fixed income portfolio invested in short-term investment-grade corporate bonds it creates a solid total return floor (currently above 3%) but limits price upside. A few fixed income securities did post outsized positive returns for the year: Pitney Bowes 6.7% preferred (2.0), Huron Consulting Group 1.25% due 2019 (1.7), and Gibraltar Industries 6.25% 2021 (0.0).

The fund does not hold many longer maturity securities, but a few positions declined in value as interest rates rose. Apple 3.85% due 2043 (1.5), Tiffany 4.9% due 2044 (1.1), and General Mills 4.15% due 2043 (0.4) all fell over 5% for the year. Additionally, Atlas Air Worldwide 2.25% due 2022 (0.8) convertible bonds declined over 10%.

Overall though, BERIX's fixed income portfolio finished in positive territory while most bond benchmarks lost value in 2018. Corporate bonds, as measured by the Barclay's US Corporate Bond Index, fell by 2.5%. BERIX's overweighting to short term bonds provided a cushion for the fund in a volatile, down market, while also providing positive absolute returns.

Asset Allocation

At year-end, the fund held roughly 16% of its assets in common stocks, 15% in convertible and preferred securities, 67% in non-convertible corporate and preferred securities, and 2% in cash.

Duration continues to be short at 3.4 years but is longer than the beginning of 2018. In more volatile times we tend to be more active as reasonable investment opportunities become available. In the fixed income portfolio higher Treasury yields and wider high yield credit spreads led to increased trading activity in the fund. As is illustrated below the yield on the 10-year US Treasury bond increased through 3% in October and we took that opportunity to establish positions in several investment grade bonds of similar maturity. These companies are in the process of meaningfully reducing their outstanding debt, generate significant free cash flow throughout the business cycle, and have relatively stable business models. Examples of newer positions established include Newell Brands 4.20% due 2026 (1.6), Molson Coors Brewing 3.00% due 2026 (1.1), and Viacom 3.45% due 2026 (0.5).

10-Year Treasury Constant Maturity Yield (12/31/15 to 12/31/18)

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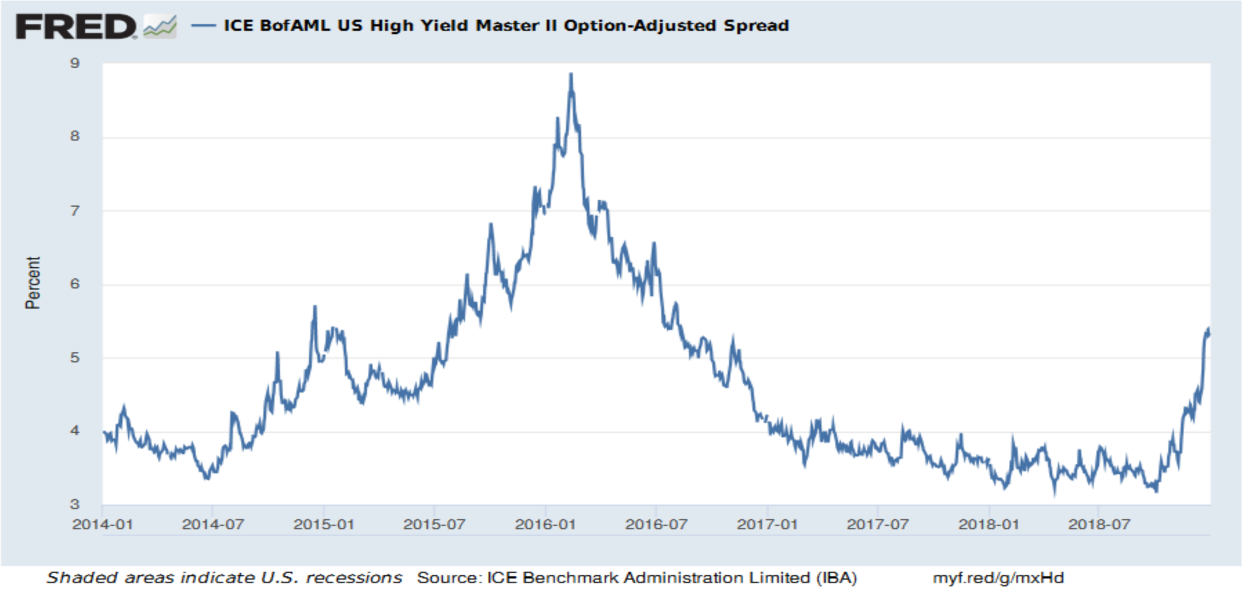
The fund has been underweight high yield bonds for some time and that continues today. However, similar to activity in investment grade, as high yield credit spreads widened to over 500 basis points in December (chart below), we added to several shorter dated positions at yields in excess of 4%. High yield now represents 33 % of the total fixed income portfolio. We added to existing holdings include Huntsman International 4.875 % due 2020 (1.5), Ball Corporation 4.375% due 2020 (1.1), and Ericsson 4.125% due 2022 (1.0). We also meaningfully added to the convertible bond positions of Electronics for Imaging 0.75% due 2019 (1.6), and Atlas Air Worldwide 2.25 % due 2022.

ICE BofAML US High Yield Master II Option Adjusted Spread (12/31/13 to 12/31/18)



We initiated positions in 14 new equity securities during the year – AT&T (1.0), Cleveland-Cliffs, CoreCivic (1.2), DSW Inc. (sold by Q4 2018), General Electric (sold by Q4 2018), Jefferies Financial Group, Kellogg (0.0), Molson Coors Brewing (1.1), Newell Brands, Sanofi ADR (0.4), SKF AB (0.5), Tate & Lyle PLC (1.1), Tenaris SA (0.3), Viacom (1.0) – but complete sales of 18 positions and equity market weakness left the portfolio's common stock weighting slightly lower when compared to the end of 2017. We did opportunistically add to many holdings late in the quarter. In our screening process, valuation levels in equities remain higher than we would like, although more candidates are appearing on our valuation screens of late. As always, if any area of our equity investable universe does offer opportunity going forward – recent examples include ADRs in 2016 and a couple of apparel retailers in 2017 – we will thoroughly review each security and evaluate the risk/reward potential at that time.

To sum, trading activity picked up in the fund late in the year as volatility returned. However, it is important to point out that the liquidity of the fund continues to be very high with a significant position in short term investment grade bonds. Approximately 37% of the total fund matures by the end of 2019. If disorder continues to create reasonable opportunities for investment, this liquidity will provide the means to take advantage of any dislocation in our investable universe. In the meantime, these securities yield 3.25% or more and have helped create a solid yield floor for the fund while preserving principal.

As a result of higher yields provided by short term bonds and the fund's active purchases during the fourth quarter, BERIX's 30-day SEC yield finished 2018 at 3.8%. This is the highest yield garnered by the fund since August of 2011.

A Final Thought

The greatest honour for us as portfolio managers is earning the trust of an investor. Many shareholders have been invested alongside us for a decade or longer. It is humbling to have this responsibility and this trust. We have worked for many years on our communication with investors, attempting to write what we would want to hear from the management team of a fund we owned. Our goal is to set proper expectations; to communicate as clearly and frequently as allowed. Our hope is you are satisfied with these efforts.

We live and breathe our investment philosophy and process and are confident in the strategy that has worked very well over the long term. We believe strongly in being patient in the short-term if we do not see much value relative to risk in any segment of our investable universe. We believe patience (along with flexibility) to be one of our competitive advantages. We avoided many areas of excess exuberance over the years by attempting to act rationally in heated markets and will hold cash and short-term bonds until risk and reward line up more attractively. Executing this time-tested investment process proved beneficial in 2018.

BIF ended the year with more than $1.4 billion in assets under management, lower than one year ago. Fund flows were negative throughout the year.

In closing, we appreciate the responsibility of managing your money and hope to continually reward your trust in the years ahead.

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The Information Agent in Germany is ACOLIN Europe GmbH, 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.

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