NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND

Quarter One, 2019

For the period ended 31 March 2019

NEDGROUP INVESTMENTS GLOBAL CAUTIOUS FUND

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

Performance (USD)

31 March 2019[1]	YTD	1-year	3-year	5-year	7-year	Since Inception
Nedgroup Investments Global Cautious A	3.6%	1.8%	2.9%	2.9%	3.2%	3.1%
EAA Fund USD Cautious Allocation	4.3%	4.4%	4.2%	2.3%	2.8%	4.2%
ICE LIBOR 1 Month USD	0.6%	2.2%	1.3%	0.9%	0.7%	0.6%

The total US dollar return to shareholders of the Nedgroup Investments Global Cautious Fund for 2019's first quarter was 3.6%. NGC landed between fixed income asset class returns: the FTSE Broad Investment Grade Bond Index (BIG) gain of 2.95% and the ICE BofAML High Yield Master II Index return of 7.38%.

Overview

As with most bouts of significant movement of financial asset prices in the recent history of the current market cycle, November and December's fall in global asset values are but a distant memory. US equity and credit markets continue to be fuelled by the most recent rumour surrounding China trade or the exoneration of the President's involvement in Russian election meddling. If there is any upside to be found, this market is sure to uncover and trade off it. Contrarily, for us as investors, our investment process is perpetual.

Short-term news items do not impact our decision making. It will point us towards undervalued assets and not headline-induced market movements. At times, the process will lead us to shift towards equities and convertible bonds, other times it will be preferred stocks and corporate debt. Today, it is short-term corporate bonds. We do not "choose" where to go; our assessment of the factors driving businesses is the compass leading the way. In this current market with elevated equity valuations, tighter credit spreads, and stalled out short-term rates we preach two things: patience and opportunism.

Performance

The fund's equity portfolio posted a return of over 10% for the quarter. Five stocks appreciated over 20% with two – Tenaris SA and Cleveland-Cliffs– returning over 30%. Tenaris is a Luxembourg-based steel pipe company, serving primarily the energy industry. The company manufactures globally and sells into many major capital expenditure projects. Though its results can be swung around with energy prices, the company maintains a net cash position on the balance sheet and is a market leader in all operable segments. Cleveland-Cliffs, we believe, has finally turned the corner. Once a bankruptcy candidate loaded with debt and a huge uneconomic project in Canada, their management team has done a tremendous job divesting assets, reducing debt, and building a strong competitor in the US iron ore market. Additional 20% equity performers in the quarter were Mattel, Xperi, Carlsberg A/S.

The meaningful equity detractors in the quarter include LSI Industries and Newell Brands. The common link between these two companies is management turnover. LSI is a small-cap lighting and signage company, serving such customers as quick service restaurants and banks. The company is going through a disruptive transition period where they shift their focus back to traditional customers where LSI has competitive advantages. Newell's long-term CEO, Mike Polk, announced his intention to retire during the quarter. Polk had done a great job in the early years of his tenure with Newell, reducing costs, expanding margins and growing sales. However, this completely changed when the Newell bought another public company, Jarden, in 2016. Since the acquisition, the combined entity has become more leveraged and less profitable. The more recent shift has been toward divesting non-core brands and using the proceeds to reduce debt. We exited our equity position in Newell during the quarter. Additional laggards on performance include Pitney Bowes, ABB Ltd., and Nokia.

In the fourth quarter of 2018, as the yield on the 30-year Treasury bond rose to the mid 3% range, we took advantage of the price declines *(when yields rise, bond prices fall)* in several securities and added to duration *(bond price is more sensitive to rate changes)* by buying bonds with relatively longer maturity dates. Many of these longer-dated securities meaningfully added to performance during the quarter as rates declined and bond prices appreciated. Both Campbell 4.8% due 2048 and General Mills 4.15% due 2043 appreciated by over 10%. Apple 3.45% due 2045 and Hasbro 5.1% due 2044 also gained in the high single digits. Detractors include Nuance 2.75% due 2031 convertible bonds, Bristol Myers 3.25% due 2042, and Newell Brands 4.2% due 2026. The fund's short-term investment grade holdings also underperformed the broad fixed income indices.

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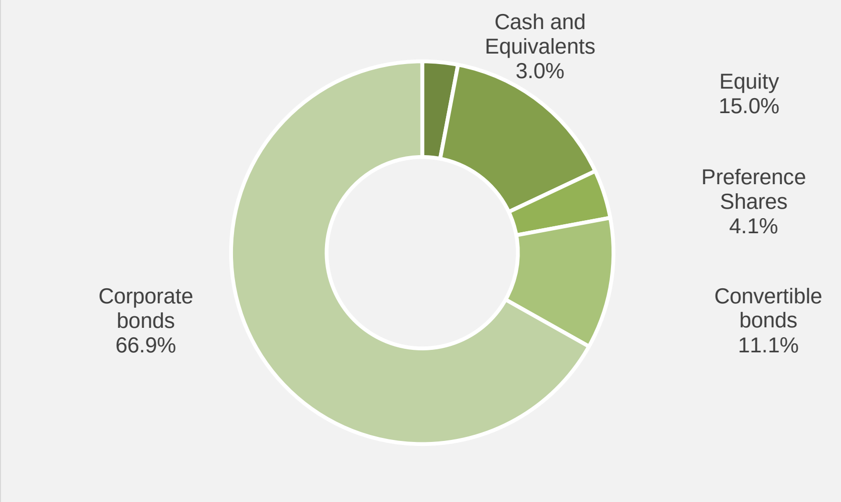
[1] Source: Net return for the Nedgroup Investments Global Cautious Fund, A class. Source: Morningstar (monthly data series).

Asset Allocation[2]



Roughly 40% of fund assets mature by the end of March 2020.

Portfolio duration remains relatively short at 3.28 years. Duration is longer than at this time last year as we did establish some intermediate and longer-term investment grade positions towards the end of 2018 when rates moved up and spreads widened, and the price of good quality corporate debt fell to attractive prices. Examples include Molson Coors 3% due 2026 and J.M. Smucker 4.25% due 2035. These companies are all in the process of meaningfully reducing their outstanding debt, generate significant free cash flow throughout the business cycle, and have relatively stable business models. We would expect duration to remain at the short end of our historical range until long rates meaningfully move higher. This reduces the risk of the portfolio to movements in interest rates. In the fixed income portfolio, the strategy of reinvesting cash from maturities in short dated, investment grade corporate bonds offer attractive returns, with minimal risk. With the Fed pausing, however, reinvestment premiums are minimal. Still, 2.75 to 3% yields for strong corporate credits inside of 12-month in maturity remain our primary focus from a risk/reward perspective.

At the time of this writing, high yield credit spreads have retreated inside of 400 basis points after widening to over 500 basis points in December. High yield as a percentage of the fund's fixed income portfolio had hit a recent high of 33% at the end of the year. However, many corporate bond issuers have taken advantage of this tightening by refinancing and extending outstanding debt. In our case, two significant positions in the portfolio, Huntsman and Freeport-McMoRan, were called away from us during the quarter. At general lack of quality risk/reward candidates in the high yield market coupled with the called holdings reduced high yield to approximately 26% of the fixed income portfolio at quarter end.

Broadly speaking, valuations in our equity investable universe remain stretched. As a result, the fund's equity weighting is down sequentially and year over year to 15%. We initiated positions in two new equity securities during the quarter – ABB Ltd. and Pitney Bowes. ABB is a Swiss-based industrial automation company. They are in the process of divesting their low margin power grids business while expanding their higher margin automation and robotics divisions. The stock pays a dividend over 4% of its current price with the prospects for significant margin expansion and net income growth in the coming years. The fund has held Pitney Bowes preferred stock for many years and this is our second go-round with the common shares. Though the company's legacy postage meters business is in chronic decline, newer businesses in commerce and software have grown nicely and become meaningful to company operations. Market expectations for the company appear to be very low, as is reflected in its single digit P/E suggesting the market doesn't expect much growth in company earnings. It is our opinion that it should not take much to move the stock higher if management can gain momentum in their strategy. We completely sold our positions in Ericsson, FirstEnergy, Mosaic, and Newell Brands during the quarter.

Conclusion

There is a quote from American billionaire and hedge fund manager Paul Tudor Jones in the book *What I Learned Losing a Million Dollars*, "I'm always thinking about losing money as opposed to making money. Don't focus on making money; focus on protecting what you have." This line of thinking is not too far off from how we approach managing money. We like to say that we're as proud of the losses we've avoided as we are of the gains we've made.

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2 Source: Nedgroup Investments

Important Update on the Investment Management Team

Chartwell Investment Partners informed us on 28th February 2019 that portfolio managers, George Cipolloni and Mark Saylor will be leaving the firm. These two individuals have been a core component of the management of the Nedgroup Investments Global Cautious Fund since we partnered with The Killen Group in March 2015.

Over the period the fund has delivered on its expectations and was awarded best fund in its category on a risk-adjusted basis at the Raging Bull awards in January this year.

The Killen Group was acquired by Chartwell Investment Partners LLC (a subsidiary of TriState Capital Holdings Bank) in early 2016, but the investment process, philosophy and portfolio managers remained consistent. George Cipolloni has been a co-manager on the strategy since 2006 and Mark Saylor was added as a co-portfolio manager in early 2014, having worked with the investment team since 2007.

We have agreed with Chartwell that, in the interim, George and Mark will continue to manage the Nedgroup Investments Global Cautious Fund according to the same mandate, investment philosophy and process, whilst we appraise the proposed succession plan. Chartwell Investment Partners have a broad team of investment professionals with a wide range of expertise and strong track records in Fixed Income and Equity strategies.

In line with the Best of Breed™ philosophy, we have dedicated analysts to evaluate whether we retain our conviction that Chartwell offer the best option to achieve the objectives of the fund and its investors.

We will be monitoring developments closely and regularly engaging with all relevant parties at Chartwell to ensure the fund is continually managed in the best interests of the end investor.

Please do not hesitate to contact our Investments Team should you have any queries or concerns around this development. As soon as we have completed the research and decided what we believe is the best option for investors, we will communicate promptly.

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