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NEDGROUP INVESTMENTS GLOBAL FLEXIBLE FUND

Quarter 3, 2018

For the period ended 30 September 2018

NEDGROUP INVESTMENTS GLOBAL FLEXIBLE FUND

Commentary produced in conjunction with sub-investment manager, First Pacific Advisors

USD performance to 30 September 2018	Nedgroup Investments Global Flexible[1]	S&P 500	MSCI World
3 months	3.0%	7.7%	5.0%
Year-to-date	2.3%	10.6%	5.4%

The stock market had a strong third quarter. The S&P 500 increased 7.6% while the MSCI World increased a lesser but still admirable 5.0%. The S&P 500 and MSCI ACWI Growth indexes continue to lead the way, increasing 9.3% and 4.6% respectively for the third quarter. Their value counterparts underperformed (again), with the S&P 500 and MSCI ACWI Value indexes each increasing just 5.9% and 4.0%, respectively.

The value-oriented Nedgroup Investments Global Flexible Fund ("Fund") returned 3.0% in the quarter (net of fees).

Growth Continues to Dominate Value in 2018

Q3 2018		YTD 2018	
S&P 500 Growth	9.3%	S&P 500 Growth	17.2%
S&P 500	7.7%	S&P 500	10.6%
S&P 500 Value	5.9%	MSCI ACWI Growth	7.7%
MSCI ACWI Growth	4.6%	MSCI ACWI	3.8%
MSCI ACWI	4.3%	S&P 500 Value	3.5%
MSCI ACWI Value	4.0%	MSCI ACWI Value	-0.1%

Portfolio Commentary

The performance contribution from the top five holdings versus the bottom five was a net benefit in the third quarter and the year to date.

Q3 Winners and Losers[2]

Winners	Ave.weight (%)	Performance contribution	Losers	Ave.weight (%)	Performance Contribution
Arconic	2.36	0.59	JD.com	0.81	-0.32
Oracle	3.02	0.48	Facebook	1.49	-0.25
United Technology	2.46	0.30	Baidu	2.26	-0.13
Aon	2.45	0.29	WPP PLC	1.49	-0.10
Microsoft	1.55	0.24	Heidelbergcement	1.10	-0.08
		1.90			**-0.88**

[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. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter or year-to-date.

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YTD Winners and Losers[3]

Winners	Ave.weight (%)	Performance contribution	Losers	Ave.weight (%)	Performance Contribution
Puerto Rico Bonds	1.18%	0.70	Jefferies	1.03%	-0.36
Microsoft	2.29%	0.66	JD.com	0.28%	-0.32
Alphabet	3.08%	0.43	Arconic	2.17%	-0.30
Cisco Systems	1.29%	0.42	AIG Group	2.98%	-0.27
Aon	2.49%	0.36	WPP	1.49%	-0.25
		2.57			**-1.50**

We report performance by top and bottom securities in the portfolio over short time frames as a matter of convention and client preference. This data frequently reveals nothing more than a chart of recent weather would, as shares of public companies move around a lot more than the value of their underlying businesses.

We have little idea where sentiment might cause any security to trade in the near term. Business value and stock price should converge over time. We therefore prefer the more sapient pursuit of understanding and valuing businesses, and that is what we hope our commentaries will convey.

The table above holds some good examples of why one should not focus too much on near-term price action. In 2018 year-to-date for example, Arconic's stock price performance landed it among the bottom five securities in the portfolio (after being a detractor in the first and second quarters). Yet, here we are in the third quarter, and Arconic is the top contributor to the fund's performance.

Market volatility provides opportunity to enter positions at attractive prices. The Nedgroup Global Flexible Fund is actively managed, having added 13 new positions year to date. These securities were all purchased at levels we believe to be materially below their peak prices and provide attractive upside opportunities according to our analysis.

A few examples of new positions this year include:

<u>Mohawk Industries</u>

Mohawk makes and distributes floor coverings (tiles, carpets, etc). They have a well-established global distribution platform and an owner/operator structure. Mohawk maintains close relationships with the purchasers, supply stores. We bought it at a reasonable price of 13x forward earnings. We believe this to be a high quality, albeit cyclical business, and we like to see the owner/operator structure in investments we make.

<u>Lafarge</u>

Lafarge is a cement aggregator and ready mix business with a geographically diverse presence in the Americas, Europe, Middle East / Africa, and Asia/India. They are largely wholly-owned and more attractive now due to new management. We are hopeful they will continue to streamline operations, one example being to appoint a head of each business unit rather than all units reporting to the head of Cement like in the current structure. They have already announced changes will be coming. Supply and demand from developed markets is strong and the owners are focused on returning capital in the form of buybacks and dividends. The opportunity/challenges going forward will depend on how successfully they can monetize and consolidate the business units.

[3] Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the year to date. Contribution is presented gross of investment management fees, transactions costs and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter or year-to-date.

Heidelbergcement

Similar thesis to Lafarge. We are pleased with their collection of assets and global profit streams. They have a large exposure to aggregates and the structures that break larger rocks into smaller ones. We believe most of the world is slightly below long-term trend - cement usage and building material companies are generally decent businesses due to their monopolistic nature although are obviously cyclical in nature.

Comcast

Our interest lies on the high-speed cable side. US cable providers have the best networks with an increasing customer demand, therefore we think they will be able to charge more to customers. Broadband and cable is over 70% of Comcast's business, with NBC Universal making up the remainder (including theme parks). We believe Comcast is a robust company with an attractive current valuation.

Our cash position has decreased relative to the end of last year because we believe we are finding compelling, idiosyncratic opportunities. That has less to do with a backdrop of rising interest rates and more to do with market volatility and the risk/reward we believe is inherent in the underlying securities. We were able to use existing cash and cash from profits on long-standing names in the portfolio to finance purchases. On a non-weighted basis, these new securities were purchased after dropping a rough average of 25%+ from their 5yr peak prices (range ~ 10% - 60% decline). We don't have a macro outlook, but for the new securities, we believe a base case 10% annualized return is not unreasonable. With the addition of these securities, we feel the overall portfolio has been upgraded versus a year ago

We will be sure to address any significant permanent impairment of capital, and you can expect the more significant the impairment, the more robust the discussion, as has been the case in the past. Over the last quarter century, however, our errors have really been more of omission than commission. For example, we failed by not owning Amazon but did avoid the melt-down in retailers whose businesses were harmed by the disruptive distribution model perfected by Amazon, as we have discussed previously.

We write longer letters discussing markets and the economy at mid-year and year-end. Our global views, which we wrote extensively about in the Q2 commentary, have not changed since last quarter.

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