# NEDGROUP INVESTMENTS MULTIFUNDS PLC

# QUARTERLY REVIEW

## QUARTER 1 2019

This report is prepared by Nedgroup Investments (IOM) Limited the Investment Manager of Nedgroup Investments MultiFunds Plc.

The purpose of the report is to provide shareholders in the Nedgroup Investments MultiFunds and their advisers, with a review of the funds' performance since inception. The report is structured as follows:

## PART ONE: MARKET REVIEW

This section provides a market review, which looks at the performance of global asset classes over the last quarter, and puts this into perspective relative to longer-term performance. The aim of this review is to provide a context in which the performance of Nedgroup Investments MultiFunds can be assessed.

## PART TWO: NEDGROUP INVESTMENTS MULTIFUNDS' PERFORMANCE

This section provides an overview of the performance of the Nedgroup Investments MultiFunds since its launch on 19 August 2011 under the UCITS IV structure. The Income MultiFund was launched on 26 January 2012.

## PART THREE: MARKET OUTLOOK

In this section we highlight our current views on the market over the medium term and how these views are implemented within the MultiFunds.

## PART FOUR: UNDERLYING PORTFOLIO MANAGER PERFORMANCE

This section shows the performance of the underlying managers.

## PART FIVE: FUND FOCUS

In this section we highlight a fund held in the MultiFunds.

## PART SIX: INVESTMENT SOLUTIONS REVIEW

This section provides a detailed review of each MultiFund, looking at the fund's objective, its benchmark, the asset allocation, and the manager's allocations.

# PART ONE: MARKET REVIEW

## Performance over period to 29 March 2019

| Asset class | Indicator | 3 months | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|---|---|
| Equities | MSCI All Country World Index | 12.3% | 3.1% | 11.2% | 7.0% | 8.2% |
| Property | FTSE EPRA/NA REIT Dev Property Index | 14.9% | 14.3% | 6.7% | 7.4% | 9.7% |
| Bonds | JPM Global Bond Index | 2.7% | 4.8% | 2.4% | 3.7% | 2.4% |
| Cash | US 3-month deposits | 0.6% | 2.4% | 1.5% | 1.0% | 0.4% |
| Inflation | US CPI | 0.6% | 1.9% | 2.2% | 1.5% | 1.2% |

*All figures are in USD*
*Source Bloomberg, Nedgroup Investments*
*Returns for periods longer than 12 months are annualised.*

## Economic and market commentary

After the doom and gloom of the fourth quarter of 2018, financial risk assets sprang back to life in the first three months of 2019. There were various catalysts for this sudden change to investor fortunes. However, we believe the most influential factor was the shift in central bank policy guidance, as they reacted to disappointing data releases and a deteriorating economic outlook. Indeed, both the Federal Reserve and the European Central Bank have stated that they no longer expect to raise interest rates in 2019. In reaction, bond yields shifted lower across the curve, and all asset classes advanced as their relative attractiveness improved and investors re-engaged in the hunt for yield.

Although the economic news flow deteriorated over the quarter, we would argue that the political news flow improved. Firstly, the US government shutdown came to an end, and having suffered an obvious defeat over his border wall funding demand, Trump seems to have moderated his behaviour over recent months. A second factor that helped sentiment was the apparent improvement in relationships between the US and China, with the trade talks appearing to be constructive, and both sides suggesting real progress is being made. Finally, even though the UK Parliament remained deadlocked over Brexit, it would appear that the probability of an economically damaging hard Brexit has significantly diminished, and we are now much more likely to see a long extension to Article 50 or a very soft Brexit.

It was a terrific quarter for global equities as they advanced by +12.2% when judged using the MSCI AC World Index in US dollars. All markets rose, but the US (+13.7%) was the strongest major as it recovered from the low reached in late December. At the sector level, cyclical and interest rate stocks clearly outpaced stable earners, with Real Estate (+16.2%), Information Technology (+18.9%), Energy (+14.3%) and Industrials (+13.9%) all ahead, whilst Financials (+8.3%) and Healthcare (+8.2%) underperformed. Viewed from a style perspective, Growth (+14.6%) outperformed Value (+10.1%), whilst Smaller Companies (+13.2%) marginally outpaced Larger Companies (+12.2%).

The sharp adjustment in interest rate expectations underpinned strong performance across the fixed income markets. As yields declined everywhere, the hunt for yield was revived, which forced credit spreads to tighten and corporate bonds to outperform sovereign bonds. Overall, the JP Morgan Global Government Bond Index rose +2.7%, whilst the Merrill Lynch Global Investment Grade Corporate Bond Index gained +4.6%, the Merrill Lynch Global High Yield Index turned in +6.9% and the JP Morgan Emerging Market Bond Index delivered +6.6% (all hedged to US dollars).

The Bloomberg Commodities Index rose +6.3% as fears of an escalation in the US-China trade war faded. A more stable outlook for China helped Industrial Metals (+12.8%), whilst falling inventories and production cuts also saw a sharp rise in the price of Crude Oil (+30.2%). Other sectors were generally quieter, with Agriculture down -3.2% and Gold up +0.9%.

In the currency markets, the majors were relatively quiet against each other. Sterling strength (+4.3% versus euro and +2.3% against the US dollar) was a feature, as the likelihood of a hard Brexit diminished. At the other end of the spectrum, some emerging market currencies stood out for their weakness, such as the troubled Turkish lira (-6.4% versus the dollar) and Argentinian peso (-15.1%).

Notes: All data is quoted in US dollar terms unless otherwise stated.

# PART TWO: MULTIFUNDS' PERFORMANCE

All performance figures are as at 29 March 2019

## Growth MultiFund

| PERIOD | FUND USD % | BENCHMARK US LIBID 3 month +4% | FUND GBP % | BENCHMARK GBP LIBID 3 month +4% |
|---|---|---|---|---|
| 3 months | 10.3% | 1.6% | 8.6% | 1.2% |
| 1 year | 3.7% | 6.5% | 7.2% | 4.7% |
| 3 years (annualised) | 7.7% | 5.6% | 9.0% | 4.4% |
| Since inception* (annualised) | 6.1% | 4.7% | 6.9% | 4.5% |

## Balanced MultiFund

| PERIOD | FUND USD % | BENCHMARK US LIBID 3 month +2% | FUND GBP % | BENCHMARK GBP LIBID 3 month +2% |
|---|---|---|---|---|
| 3 months | 7.0% | 1.1% | 5.8% | 0.7% |
| 1 year | 4.1% | 4.4% | 5.6% | 2.7% |
| 3 years (annualised) | 5.4% | 3.5% | 5.7% | 2.4% |
| Since inception* (annualised) | 3.1% | 2.7% | 4.5% | 2.5% |

## Income MultiFund Accumulating

| PERIOD | FUND USD % | BENCHMARK US LIBID 3 month | FUND GBP % | BENCHMARK GBP LIBID 3 month |
|---|---|---|---|---|
| 3 months | 3.7% | 0.6% | 3.3% | 0.2% |
| 1 year | 4.8% | 2.4% | 3.3% | 0.7% |
| 3 years (annualised) | 4.3% | 1.5% | 3.3% | 0.4% |
| Since inception* (annualised) | 3.4% | 0.7% | 3.4% | 0.3% |

C Class performance with returns prior their inception dates backfilled using class A returns adjusted for fees.

*Inception dates: NIM Growth USD C: 30/12/2014, NIM Growth GBP C: 06/03/2013,
NIM Balanced USD C: 08/11/2013, NIM Balanced GBP C: 06/03/2013
NIM Income USD C Acc: 01/09/2015, NIM Income GBP C Acc: 08/04/2013

Inception date for NIM Growth and Balanced USD A is 19 August 2011 (Valuation date 18 August 2011) / for NIM Income USD A Acc is 12 April 2012
Inception date for NIM Growth and Balanced GBP A is 19 August 2011 (Valuation date 18 August 2011) / for NIM Income GBP A Acc is 26 January 2012

# PORTFOLIO REVIEW AND CHANGES

## Growth

The portfolio had a really strong quarter, rising +10.3% (US$ C Class), supported by a more accommodative central bank outlook and declining concerns about a global trade war.

Looking beneath the surface, the aggregate of the underlying global equity exposures outperformed market averages. The portfolio was mainly helped by good stock selection from the active equity managers as the bias toward more defensive sectors and regional tilt to emerging market stocks underperformed over the quarter. In other areas, global REITS were positively impacted by the fall in government bond yields and rose more than global equities - Nedgroup Global Property (+15.6%) was the best performing fund in the portfolio over the period. Whilst our more traditional UK commercial property holding was held back by concerns around Brexit, the exposure to UK care homes, which by its very nature is less cyclical, performed much better, with Target Healthcare (+8.4%) and Impact Healthcare (+4.3%) managing to post positive returns. Elsewhere, the portfolio's investment in infrastructure was extremely helpful, lifted by a mix of good results and investors searching for yield (Greencoat UK Wind +11.3%, John Laing Environmental Assets +7.2%, 3i Infrastructure +7.0%). Finally, the portfolio's allocation to asset-backed lending was also positive, with SQN Asset Finance Income Fund C-Shares (+4.8%) and GCP Asset Backed Income (+4.3%) generating solid returns over the period.

We made several changes to the portfolio. Firstly, we participated in capital raises by Greencoat UK Wind and Greencoat Renewables to help finance the purchase of additional wind farms. The issues were oversubscribed, showcasing the strength and appetite for these types of investment. Secondly, we established a new position in The Renewables Infrastructure Group (TRIG) via a capital raise. TRIG invests in renewables, with a particular focus on onshore wind and solar. Like our other investments in this area, we believe that TRIG will provide investors with a high level of reliable income, inflation protection, and low risk of any material loss of capital. Thirdly, we sold TOBAM Anti-Benchmark World Equity and invested the proceeds in a new holding called Fundsmith Equity. This fund should provide the portfolio with some downside protection as it looks to hold high quality business with competitive advantages that are difficult to replicate. Finally, we took the decision to sell the Vanguard Emerging Markets Stock Index Fund and concentrate our emerging market equity exposure within the active equity fund TT Emerging Market Equity.

In terms of other changes, in January, we marginally increased sterling exposure as in our view the risk of a Hard Brexit had declined. There are still a number of possible outcomes, but one we regard as very unlikely is a cliff-edge Hard Brexit, even if the uncertainty seems likely to continue for a while yet.

## Balanced

The portfolio had a really strong quarter, rising +7.0% (US$ C Class), supported by a more accommodative central bank outlook and declining concerns about a global trade war.

Looking beneath the surface, the aggregate of the underlying global equity exposures outperformed market averages. The portfolio was helped by good underlying stock selection from the active equity managers as the bias toward more defensive sectors and regional tilt to emerging market stocks underperformed over the quarter. Within fixed income, the portfolio's bias towards corporate credit proved a tailwind in the risk-on environment, as corporate credit, both investment grade (PIMCO Global Investment Grade Credit +4.9%) and sub-investment grade (AXA US Short Duration High Yield +4.1%), outperformed government bonds (Vanguard US Government Bond Index +2.1%). Franklin Templeton Global Total Return (+1.6%) lagged as its exposure to emerging market bonds and currencies underperformed over the period. In other areas, global REITS were positively impacted by the fall in government bond yields and rose more than global equities - Nedgroup Global Property (+15.6%) was the best performing fund in the portfolio over the period. Whilst our more traditional UK commercial property holding was held back by concerns around Brexit, the exposure to UK care homes, which by its very nature is less cyclical, performed much better, with Target Healthcare (+8.4%) and Impact Healthcare (+4.3%) managing to post positive returns. Elsewhere, the portfolio’s investment in infrastructure was extremely helpful, lifted by a mix of good results and investors searching for yield (Greencoat UK Wind +11.3%, John Laing Environmental Assets +7.2%, 3i Infrastructure +7.0%). Finally, the portfolio’s allocation to asset-backed lending was also positive, with SQN Asset Finance Income Fund C-Shares (+4.8%) and GCP Asset Backed Income (+4.3%) generating solid returns over the period.

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In terms of other changes, in January, we marginally increased sterling exposure as in our view the risk of a Hard Brexit had declined. There are still a number of possible outcomes, but one we regard as very unlikely is a cliff-edge Hard Brexit, even if the uncertainty seems likely to continue for a while yet.

## Income

The portfolio had a really strong quarter, rising +3.7% (US$ C Class), supported by a more accommodative central bank outlook and declining concerns about a global trade war.

Looking beneath the surface, within fixed income, the portfolio’s bias towards corporate credit proved a tailwind in the risk-on environment, as corporate credit, both investment grade (PIMCO Global Investment Grade Credit +4.9%) and sub-investment grade (AXA US Short Duration High Yield +4.1%), outperformed government bonds (Vanguard US Government Bond Index +2.1%). Franklin Templeton Global Total Return (+1.6%) lagged as its exposure to emerging market bonds and currencies underperformed over the period. In other areas, whilst the small exposure to high yielding UK equities was a positive, the holdings in UK commercial property were more mixed. Our more traditional UK commercial property holding was held back by concerns around Brexit, whereas the exposure to UK care homes, which by its very nature is less cyclical, performed much better, with Target Healthcare (+8.4%) and Impact Healthcare (+4.3%) managing to post positive returns. Elsewhere, the portfolio’s investment in infrastructure was extremely helpful, lifted by a mix of good results and investors searching for yield (Greencoat UK Wind +11.3%, John Laing Environmental Assets +7.2%, 3i Infrastructure +7.0%). Finally, the portfolio’s allocation to asset-backed lending was also positive, with SQN Asset Finance Income Fund C-Shares (+4.8%) and GCP Asset Backed Income (+4.3%) generating solid returns over the period.

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## PART THREE: MARKET OUTLOOK

Disappointing economic data over the first quarter led us to reduce our forecasts for both growth and inflation in 2019. However, having rebased expectations, we are looking for a degree of stabilisation and improvement over the rest of the year. Some commentators have pointed to the US treasury yield curve inversion as evidence that a US recession is in the offing. We see that as highly unlikely, and are sticking to our view that whilst growth will be lower in 2019, it will not fall too dramatically. Elsewhere, much has been made of the imminent demise of the Chinese economy. We think this is overdone, and whilst it has certainly slowed, recent survey data has begun to improve, whilst the Chinese government clearly signalled its willingness to ease further if necessary at its recent National People's Congress.

With slower growth everywhere this year, we are forecasting that inflationary pressures will also be muted, and that major central bank rate policies will be on hold throughout 2019.

After a particularly strong 2018, global corporate earnings growth is likely to stay positive, but will progress at a much more moderate 4 to 5 percent pace. Therefore, earnings could still provide some support for equities.

With US growth slowing as the impetus from tax cuts fade in 2019, the advantage that US financial assets have enjoyed also seems likely to diminish. The divergence of economic and corporate performance between the US and the rest of the world has been very strong over recent years, and we now believe the better value equity opportunities lie outside of America, in places such as Europe, the UK and Emerging Markets. For this reason, we have maintained a bias towards those regions.

Falling bond yields have re-established an extraordinarily low base again, and it is hard to envisage yields moving in any other direction but up from here. However, any meaningful move may come through more slowly than previously assumed, as central banks are likely to maintain low interest rates through 2019. Although our short duration strategy detracted value in the first quarter, we continue to believe it remains the best policy for the rest of 2019.

Looking around the world, we continue to believe the US is one of the more attractive developed bond markets, primarily because the Federal Reserve has already moved a long way towards normalising interest rates. Others, such as the ECB, the BOE and the BOJ, have most of that journey still ahead of them. Based on this view, the fixed income element of portfolios has retained a heavy skew towards the US, and away from areas that remain distorted by central bank policies.

With the UK Parliament deadlocked over Brexit, the chances of an economically damaging hard Brexit have significantly diminished. Either a long extension to Article 50 or a very soft Brexit now look the most viable outcomes. If one of these softer options unfolds, we envisage a modest rise in the pound, although any advance would probably be limited by the increasing likelihood of a UK general election which would bring with it the possibility that Labour could emerge victorious.

In the last quarterly we summarised by saying that "more modest valuations are an improved starting point that offers the potential for better returns in 2019." Given the sharp rise we have seen since, we now suspect we may have seen the best of 2019, and that returns from here will be more modest. Even so, we expect central bank policy to remain supportive, and volatility to remain in check over the coming quarters.

# PART FOUR: UNDERLYING PORTFOLIO MANAGER PERFORMANCE

The Nedgroup Investments MultiFunds' investment philosophy is one that seeks to invest in specialist underlying portfolio managers who are most appropriate for the achievement of each risk profiled MultiFunds' investment objective. A combination of externally appointed fund managers is used. The table below shows the performance of the underlying managers used within the Growth, Balanced and Income MultiFunds.

| Performance as at 29 March 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Category | Currency | 1 month | 3 months | 6 months | YTD | 1 year | 2 years* | 3 years* | 5 years* |
| **Equity - USD** | | | | | | | | | | |
| **Dodge & Cox Global Stock Fund** | *Global Equity* | *US Dollar* | -0.62 | 9.49 | -4.55 | 9.49 | -2.01 | 3.67 | 11.07 | 4.92 |
| **Fundsmith Equity Fund** | *Global Equity* | *US Dollar* | 3.97 | 17.92 | 4.38 | 17.92 | 14.76 | 17.86 | 15.98 | 15.12 |
| **iShares MSCI World** | *Global Equity* | *US Dollar* | 1.32 | 12.50 | -2.59 | 12.50 | 4.15 | 8.78 | 10.77 | 6.91 |
| **Morgan Stanley Global Brands** | *Global Equity* | *US Dollar* | 4.40 | 14.59 | 4.04 | 14.59 | 14.65 | 13.61 | 12.90 | 10.42 |
| **Nedgroup Global Equity Fund** | *Global Equity* | *US Dollar* | 2.40 | 12.60 | -0.94 | 12.60 | 9.58 | 10.29 | 10.34 | 7.41 |
| **Vanguard Global Stock Index** | *Global Equity* | *US Dollar* | 1.37 | 12.48 | -2.65 | 12.48 | 3.90 | 8.56 | 10.53 | 6.62 |
| **Allianz Global Small Cap Equity** | *Global Small Cap Equity* | *US Dollar* | -0.85 | 13.56 | -10.28 | 13.56 | -5.77 | 6.61 | 7.83 | 3.93 |
| **TT Emerging Markets Equity Fund** | *Global Emerging Markets Equity* | *US Dollar* | 2.47 | 14.16 | 6.40 | 14.16 | -8.18 | 9.23 | 15.07 | 7.39 |
| **Vanguard Emerging Markets Stock** | *Global Emerging Markets Equity* | *US Dollar* | 0.04 | 9.14 | 1.34 | 9.14 | -8.20 | 6.98 | 10.19 | 3.34 |
| **MSCI ACWI NR USD** | | *US Dollar* | 1.26 | 12.18 | -2.13 | 12.18 | 2.60 | 8.55 | 10.67 | 6.45 |
| **Fixed Income - USD** | | | | | | | | | | |
| **AXA US Short Duration High Yield** | *Short Duration High Yield* | *US Dollar* | 0.61 | 3.99 | 2.56 | 3.99 | 4.88 | 3.50 | 4.01 | 2.63 |
| **Muzinich Short Duration High Yield** | *Short Duration High Yield* | *US Dollar* | 0.36 | 3.84 | 2.04 | 3.84 | 4.51 | 3.40 | 4.05 | 2.65 |
| **PIMCO Global IG Credit** | *Global Corporate Debt* | *US Dollar* | 1.92 | 4.86 | 4.97 | 4.86 | 4.74 | 4.25 | 4.89 | 4.64 |
| **Wellington Global Credit Plus** | *Global Corporate Debt* | *US Dollar* | 2.06 | 4.24 | 4.84 | 4.24 | 5.02 | 4.21 | 4.06 | 4.34 |
| **Franklin Templeton Global Total Return** | *Global Bond* | *US Dollar* | -1.99 | 1.62 | 4.49 | 1.62 | 0.10 | 0.43 | 4.56 | 1.38 |
| **Vanguard US Government Bond Index Fund** | *Government Bond Index* | *US Dollar* | 1.96 | 2.06 | 4.65 | 2.06 | 4.13 | 2.12 | 0.86 | 1.93 |
| **Bloomberg Barclays Global Aggregate USD H** | | *US Dollar* | 1.79 | 2.99 | 4.79 | 2.99 | 4.93 | 3.69 | 2.82 | 3.64 |
| **Property - USD** | | | | | | | | | | |
| **Nedgroup Global Property Fund** | *Global Property* | *US Dollar* | 3.19 | 15.58 | 7.92 | 15.58 | 11.86 | 9.43 | - | - |
| **iShares Developed Marcket Property Yield** | *Passive Tracker* | *US Dollar* | 3.49 | 14.72 | 8.12 | 14.72 | 13.70 | 8.01 | 5.87 | 7.16 |
| **FTSE EPRA NAREIT Developed TR USD** | | *US Dollar* | 3.66 | 14.86 | 8.59 | 14.86 | 14.33 | 9.17 | 6.67 | 7.37 |
| **Property - GBP** | | | | | | | | | | |
| **F&C Commercial Property Trust** | *UK Property* | *Pound Sterling* | -2.05 | -2.86 | -12.32 | -2.86 | -11.65 | -5.13 | 1.48 | 4.41 |
| **Impact Healthcare REIT** | *Healthcare Property* | *Pound Sterling* | 0.95 | 3.91 | 4.42 | 3.91 | 11.77 | 6.72 | - | - |
| **Target Healthcare REIT** | *Healthcare Property* | *Pound Sterling* | 0.00 | 8.00 | 3.38 | 8.00 | 18.30 | 6.43 | 7.25 | 8.47 |
| **Other / Specialist - GBP** | | | | | | | | | | |
| **Greencoat UK Wind** | *UK Renewable Energy* | *Pound Sterling* | 2.53 | 10.91 | 10.46 | 10.91 | 19.70 | 13.92 | 15.29 | 11.65 |
| **John Laing Environmental Assets Group** | *UK Renewable Energy* | *Pound Sterling* | 0.58 | 6.81 | 8.72 | 6.81 | 16.26 | 6.87 | 10.00 | 7.79 |
| **The Renewable Infrastructure Group** | *UK Renewable Energy* | *Pound Sterling* | 0.29 | 5.81 | 8.11 | 5.81 | 17.91 | 11.21 | 11.43 | 9.37 |
| **3i Infrastructure** | *Infrastructure* | *Pound Sterling* | 1.98 | 6.54 | 14.80 | 6.54 | 33.36 | 22.08 | 20.04 | 19.46 |
| **SQN Asset Finance Income Fund - C** | *Asset Financing* | *Pound Sterling* | 0.51 | 3.87 | 0.51 | 3.87 | 3.93 | -6.25 | - | - |
| **GCP Asset Backed Income Fund** | *Asset Financing* | *Pound Sterling* | 0.47 | 4.37 | 2.95 | 4.37 | 13.31 | 7.56 | 8.45 | - |
| **LIBID GBP 3 Month + 2%** | | *Pound Sterling* | 0.23 | 0.68 | 1.37 | 0.68 | 2.69 | 2.50 | 2.44 | 2.44 |
| **Other / Specialist - EUR** | | | | | | | | | | |
| **Greencoat Renewables** | *UK Renewable Energy* | *Euro* | -1.79 | 2.59 | 4.64 | 2.59 | 8.18 | - | - | - |
| **Cash - USD** | | | | | | | | | | |
| **BlackRock USD Liquidity Premier Class** | *Cash* | *US Dollar* | 0.22 | 0.67 | 1.27 | 0.67 | 2.33 | 1.84 | 1.47 | 0.95 |
| **LIBID USD 3 Month** | | *US Dollar* | 0.19 | 0.61 | 1.27 | 0.61 | 2.39 | 1.89 | 1.51 | 0.98 |
| **Cash - GBP** | | | | | | | | | | |
| **Insight GBP Liquidity Fund** | *Cash* | *Pound Sterling* | 0.04 | 0.13 | 0.21 | 0.13 | 0.38 | 0.28 | 0.28 | 0.29 |
| **LIBID GBP 3 Month** | | *Pound Sterling* | 0.06 | 0.19 | 0.37 | 0.19 | 0.68 | 0.49 | 0.43 | 0.43 |

*** Annualised**

# PART FIVE: FUND FOCUS

In this section of the report we cover the underlying funds in slightly more detail in order to assist investors in gaining a better understanding of the underlying funds and the reasons we hold them. In this report we look at the Fundsmith Equity Fund.

## Fundsmith Equity Fund

The Fundsmith Equity Fund aims to deliver superior investment performance by investing in a concentrated portfolio of high-quality companies over the long term. It does this by adopting a "buy and hold" approach, focusing on businesses that can sustain high returns on operating capital employed, with characteristics that are difficult for competitors to replicate. Such companies should not require significant leverage to generate returns and need to be resilient to change, particularly technological innovation, in order to provide a high degree of certainty of growth from reinvestment of their cash flows at higher rates of return.

Typically 20-30 stocks are held in the portfolio at any one point in time, with position sizes usually between 1-6%. Due to the nature of the construction process, the Fund tends to have a bias towards sectors that benefit from small, relatively-predictable transitions that are non-cyclical, and where consumers have little-to-no negotiating power. This includes Consumer Staples, Industrials, and Healthcare. Sectors that require leverage or a subject to obsolescence and fashion are usually avoided. This includes Financials, Real Estate, Pharma, Oil/Mining, Fashion, Materials and Utilities.

Performance has been industry-leading over most time frames, but can go through periods of underperformance due to its inherent sector concentration and quality bias. The focus of Fundsmith is on the very long term – this should be taken into account when considering the strategy.

Fundsmith was established in 2010 by Terry Smith, one of the most prominent investors over recent decades. The business is owned and controlled by its partners, who have worked closely together for many years, and is headquartered in London. The Fund is structured to survive Terry Smith's demise and continue with the same investment philosophy. All partners of the firm have a significant co-investment in the Fund. The partnership has 27 staff in total. 7 partners (3 team members were made partners in 2018) and 23 employees. The partners are assisted by a number of experienced analysts, compliance and back office staff within an institutional quality investment boutique set-up.

Overall, the Fundsmith Equity Fund is a strong product in the global equity space. It is managed by an experienced team with a contrarian and long-term focus, and is a solid offering for those wishing to add quality to the equity portion of their portfolios.

## WHY WE LIKE THE FUND:

- Excellent track record, with higher returns and lower volatility relative to the MSCI World Index
- Managed by a well-resourced and highly experienced team led by Terry Smith
- Clearly defined investment process, backed by a mix of sound investment theory and common sense
- Management style tends to make the fund less volatile than many competitor funds
- Holding 20 to 30 stocks makes it a very high conviction fund

# PART SIX: INVESTMENT SOLUTIONS REVIEW

Following are the factsheets of each of the Nedgroup Investments MultiFunds:

- Nedgroup Investments Growth MultiFund
- Nedgroup Investments Balanced MultiFund
- Nedgroup Investments Income Acc MultiFund
- Nedgroup Investments Income Dist MultiFund