Marketing Communication

Nedgroup Investments Global Behavioural Fund
The new defensives

February 2022

NEDGROUP INVESTMENTS

Month in review

The last shock (COVID-19) feels like it is over. The new shock (Russia's invasion of Ukraine) has just begun.

The unexpected actions of Russia have spiked already powerful inflationary pressures. All major commodity markets are in turmoil, as the West opts for economic rather than military war. An already stretched, fragile, global economy, is poorly equipped with shock absorbers. It lacks stockpiles, 'fat' supply chains full of slack, or the insurance of local, flexible, sources of supply.

What constitutes a 'defensive' stock, like during COVID-19, is breaking with expected norms. During COVID-19, large tech proved surprisingly defensive. For this shock it looks like commodity related stocks are the new defensives. The Long-only portfolio outperformed the benchmark this month. Our January increases to value-recovery stocks in the 'old' economy helped drive alpha; in areas such as heavy industry and banks. There is a lot of scepticism about the path for further recovery for both, and there are some well-managed, decent companies, with chastened, conservative CEOs.

Considering the above, sector excess contribution to return in February came largely from Financials and Materials. Relative sector detractors this month were Industrials and our structural underweight position in Energy. North America, our Rest of World bucket and Europe contributed excess returns whilst Japan marginally detracted.

Top contributors	Designation	Excess return
Apple	Growth	0.20%
Meta Platforms	Value	0.19%
Maravai Lifescience	Value	0.17%
Alcoa	Value	0.16%
Mosaic	Value	0.14%

Top detractors	Designation	Excess return
Zebra Technologies	Growth	-0.09%
PayPal	Growth	-0.09%
KIA Motors	Value	-0.07%
NetApp	Value	-0.06%
Dell Technologies	Value	-0.05%

Outlook and positioning

When we sensed something was afoot with COVID-19 in early 2020 we reduced exposure to the areas we felt were most vulnerable to new sources of disappointment (those exposed to complex supply chains). We didn't know how the COVID-19 shock would play out, but we felt it was right to position the portfolio for some trauma. We bolstered our exposure to steady growth stocks with some signs of scepticism. This served us well during 2020.

We sensed something was afoot with new inflationary risks at the start of this year. We have been reducing exposure to areas we feel are at risk from this new, different source of risk. We have been buying insurance in areas which, in our experience, cope well with an accelerating inflationary environment. Russia's moves have sped up our reaction.

We think highly valued growth stocks are vulnerable, especially those that enjoyed a boost from COVID-19. We think stocks tied to commodities look the safest, despite their inherent unpredictability.

Troubling times.

Ardevora Asset Management

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