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NEDGROUP INVESTMENTS SA EQUITY FUND

Quarter One, 2022

Nedgroup Investments SA Equity Fund

Performance to 31 March 2022	Nedgroup Investments SA Equity[1]	FTSE/JSE Capped SWIX
3 months	6.0%	6.7%
12 months	15.9%	20.4%

The FTSE/JSE Capped SWIX Index ("Capped SWIX") had a strong start to the year up 6.7% with the strong performances from banks and commodities, being offset by pressure on global stocks Naspers/Prosus and Richemont, along with Mondi that has exposure to Russia.

The Nedgroup Investments SA Equity Fund outperformed the Capped SWIX for the quarter. Our positions in banks ABSA and Standard Bank and insurer Sanlam contributed to the outperformance, whilst our overweight position in NPN/PRX and not owning MTN, Sibanye Gold and Capitec detracted from performance.

Since inception, the fund has achieved an annualised performance of 8.6% compared to the FTSE-JSE Capped SWIX of 7.7%.

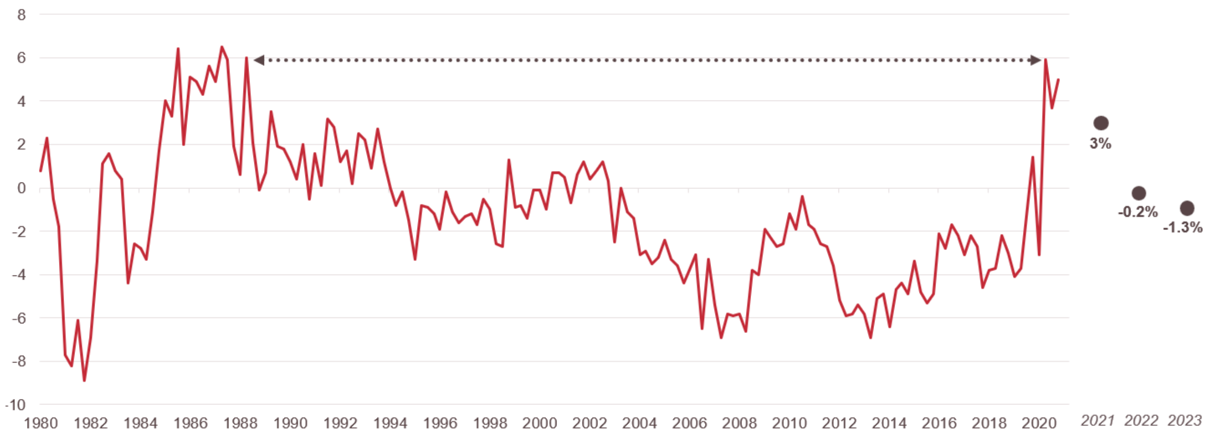
Market Update

A fragile and uneasy calm settled over markets towards the end of March, bringing an end to an eventful first quarter of 2022. Following a lengthy build-up of failed diplomatic interventions, the actual invasion of Ukraine by Russia in late February ended a lengthy era of European peace. The Russian military action and the strong economic sanctions that followed sparked massive volatility in the prices of commodities, equities, and bonds.

A few examples: in energy markets, Brent crude traded to a peak of over $130/bl (now $108) and coal to over $450/t (now $260). In metals, palladium peaked at $3400/oz (now $2260), while nickel was quoted at over $48000/t (now $32000). The widespread nature of the NATO and AUKUS-aligned sanctions against Russia forced a rapid and continued recalibration of demand for commodities, and reduced forecasts for economic growth.

Throughout this period of high volatility and geopolitical uncertainty, South African financial markets remained surprisingly resilient, with many market commentators classifying SA as a "safe haven" for emerging market global investors. This was primarily driven by the fact that we have a commodity lead export economy and benefited from the high platinum group metal and diversified commodity prices, along with rather immaterial economic ties to Russia.

Graph 1: SA Current account to GDP



Source: Bloomberg

[1] Net return for the Nedgroup Investments SA Equity Fund, A2 class. Source: Morningstar (monthly data series).

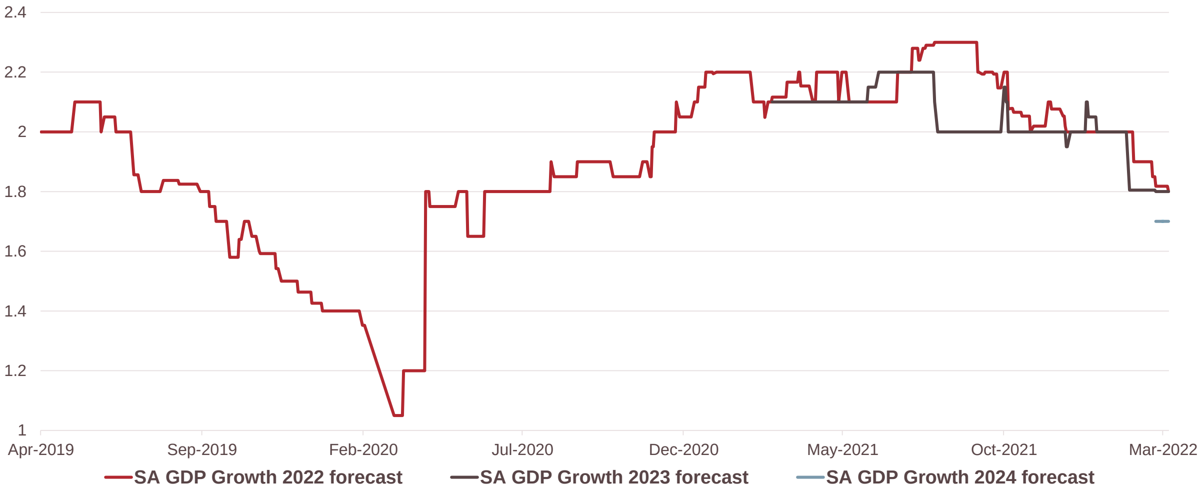
On top of this SA's political landscape is suddenly looking relatively stable within the emerging markets arena, and this led to increased foreign interest in our local equity markets.

These factors combined to drive the ZAR stronger, with the currency strengthening 9% vs the US dollar over the quarter. This along with a strong performance from SA banks and commodity stocks resulted in the Capped SWIX up 6.7% in the quarter compared to the broad based MSCI World Index that lost 12.8% in ZAR.

With the pandemic now in the rear-view mirror, we have seen a strong recovery in most domestic companies' earnings, with SA banks performing especially well in what turned out to be a very benign credit cycle through this Covid period. This must be weighed up against the latest job numbers which showed that there are only 14.5m people employed in SA now vs the pre-covid amount of 16.4m, albeit with the tourism sector is yet to fully recover to pre-covid levels. This highlights the ongoing impact of the Covid pandemic on the local economy and the structural challenges that SA faces with the unemployment rate at an all-time high of 35.3%.

While unemployment benefits through multiple grants have buffered some of these effects, when overlaying the higher inflationary environment, increasing interest rates, and continued meagre economic growth, we believe the consumer is in for a tough time going forward.

Graph 2: SA GDP Growth forecasts

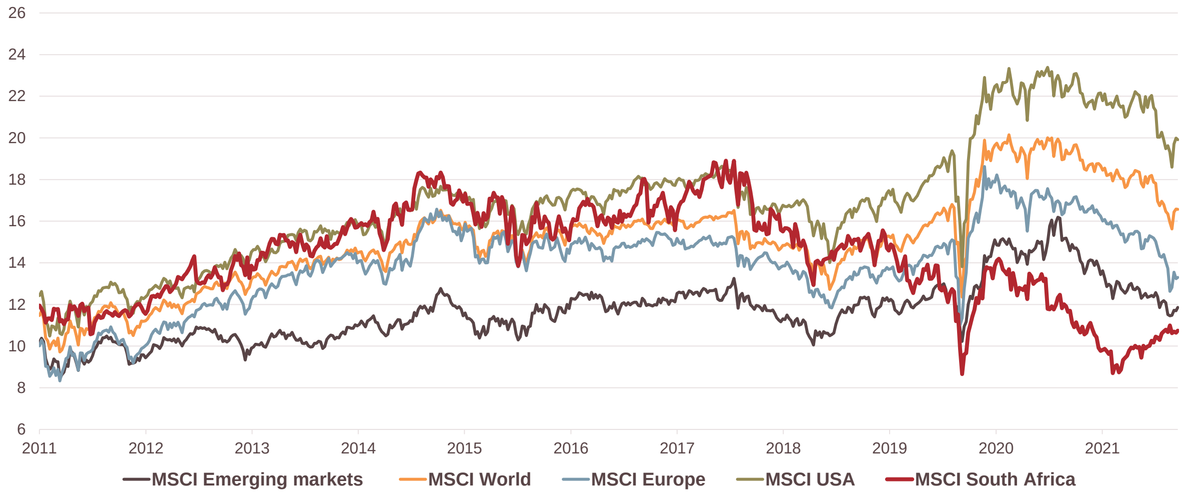


Source: Bloomberg

On the positive side we have continued to see slow but steady structural changes in the country, with investment in the energy sector starting to emerge, ongoing restructuring of SOE's, a steady pace of corruption charges being brought to book and events such as the finalisation of the spectrum auction making for a more certain regulatory environment. We maintain that it is only through these continued structural changes that overall investor confidence will pick up and drive higher growth rates in the medium term.

Taking this all into account we continue to believe that local markets are still attractively valued and present a relative opportunity on a risk adjusted basis to most international markets. Within the local market we have seen a rerating of domestic SA focussed stocks from derepressed levels and believe many of these businesses are now trading closer to their intrinsic values. Taking advantage of a stronger exchange rate, combined with the re-rating of some of the domestic shares we have slowly rotated the portfolio into stocks with more offshore exposure, where we are finding high quality globally diversified businesses with appealing valuations versus other equity markets.

Graph 3: Market Valuations

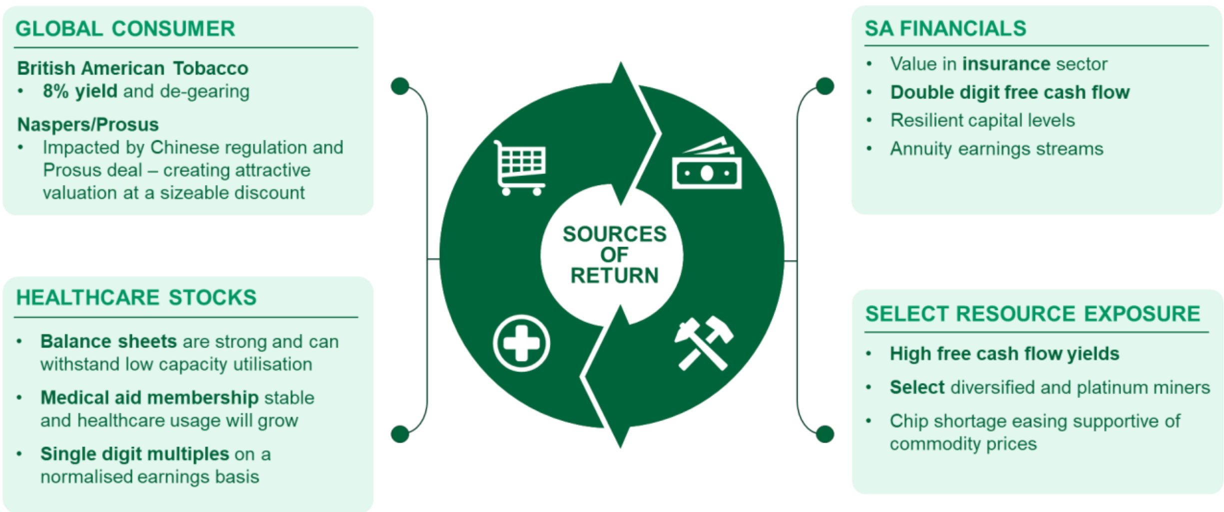


Source: Bloomberg

Fund positioning

The largest position in the fund remains Naspers and Prosus. Recently these stocks have come under pressure due to geopolitical tensions between the West and China with regards to differing views on how to handle Russia's invasion of Ukraine. While we acknowledge the risk of punitive actions by the West against China if they were to support Russia in any form, we believe on a fundamental bottom-up basis Tencent is as attractively valued as we have seen it in a decade. You can get exposure to this counter through Naspers at over a 65% discount, and thus on a risk vs reward basis we continue to believe that a patient investor will be handsomely rewarded by this exposure. We took advantage of the extreme volatility in these counters to add to our overall exposure.

The fund maintained reasonable exposure to resource counters including diversified miners and platinum group stocks. The recent strength in commodity prices allowed us to trim some Anglo Platinum and rotate diversified resource exposure from BHP to Glencore on the back of the view that coal prices will remain stronger for longer due to the current global energy crunch.
While we have trimmed our exposure to SA banks post a strong rally through selling some Firstrand, we continue to hold decent exposure to SA financials through ABSA and Standard Bank, as well as insurers Sanlam and Momentum.



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The fund continues to hold a large position is British American Tobacco (BAT) even after we trimmed the position on the back of strong performance. The company continues to be attractively valued on an 9x forward price earnings ratio and 6.5% dividend yield in GBP. We think the announced company stock buyback will create decent value for shareholders while supporting the stock over the next year.

We continue to believe the fund well positioned to deliver attractive returns for our investors over time, while pragmatically weighing up the inherent risks in the current volatile global environment.

Conclusion

We believe the fund is well diversified and offers attractive upside, while pragmatically weighing up the inherent risks, in order to achieve the best risk-adjusted returns for our clients going forward.

Disclaimer

WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited is an authorised Collective Investment Scheme and the representative of Nedgroup Investments Funds PLC in terms of the Collective Investment Schemes Control Act. It is a member of the Association of Savings & Investment South Africa (ASISA)..

OUR TRUSTEE
The Standard Bank of South Africa Limited is the registered trustee.
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HOW ARE OUR FUNDS PRICED
Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

FEES
A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

DISCLAIMER

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Our funds are traded at ruling prices and can engage in borrowing and scrip lending.

Some funds may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks, which could include foreign exchange risks, market conditions and macro-economic and political conditions.

A fund of funds may only invest in other funds, and a feeder fund may only invest in another single fund, both will have funds that levy their own charges, which could result in a higher fee structure.

The Nedgroup Investments Money Market Fund offering aims to maintain a constant price of 100 cents per unit. A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument held. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of a capital loss. Excessive withdrawals from the fund may place the fund under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet. Nedgroup Investments has the right to close its funds to new investors in order to manage it more efficiently.

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