NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS SA EQUITY FUND

Quarter Four, 2022

Nedgroup Investments SA Equity Fund

Performance to 30 December 2022	Nedgroup Investments SA Equity[1]	FTSE/JSE Capped SWIX
3 months	11.9%	12.2%
12 months	10.7%	4.4%

The final quarter of 2022 brought welcome relief for global investors at the end of a torrid year. Most equity and bond markets bounced strongly, while energy prices and prices of industrial commodities subsided somewhat, and the US dollar retreated off recent highs.

Despite this seemingly improved backdrop, investors remained tense and markets volatile as most of the significant factors that have led to a weakening macro-economy picture rumbled on: 1) simmering geopolitical tensions arising from the military conflict between Ukraine and Russia; 2) elevated and persistent consumer and producer price inflation; 3) hawkish monetary policy via higher short term interest rates and predictions for higher future policy interest rates; and 4) ongoing uncertainty regarding China's zero Covid policy and the potential for Chinese economic recovery post re-opening.

As mentioned, the fifth key macro input, energy prices (the primary catalyst for the cost-push inflation that we have experienced in 2022), provided the global economy with some near-term respite as oil and gas prices rolled over from peak levels. Asset prices enjoyed a strong rally off their end September lows as a result of the view that inflation (headline inflation at least) may be peaking and heading lower. A favourable October CPI reading in the US (published early in December) added credence to this. However, this data point provided only limited short-term fuel for markets.

Concerns persist that services and core inflation will be more sticky into 2023. The tone struck by the US Federal Reserve following their meeting in the middle of December remained hawkish; likewise the ECB. In addition, the Bank of Japan signalled a shift in policy that would allow Japanese yields to rise higher in sympathy with global moves, something that could support the Yen and attract capital back to that market.

When taken together, investor uncertainty regarding the path of interest rate policy right across the globe is very high, and the outlook for economic growth remained opaque into the year end. As a result, the quarter ended with markets again heading lower and consolidating somewhat after their rally.

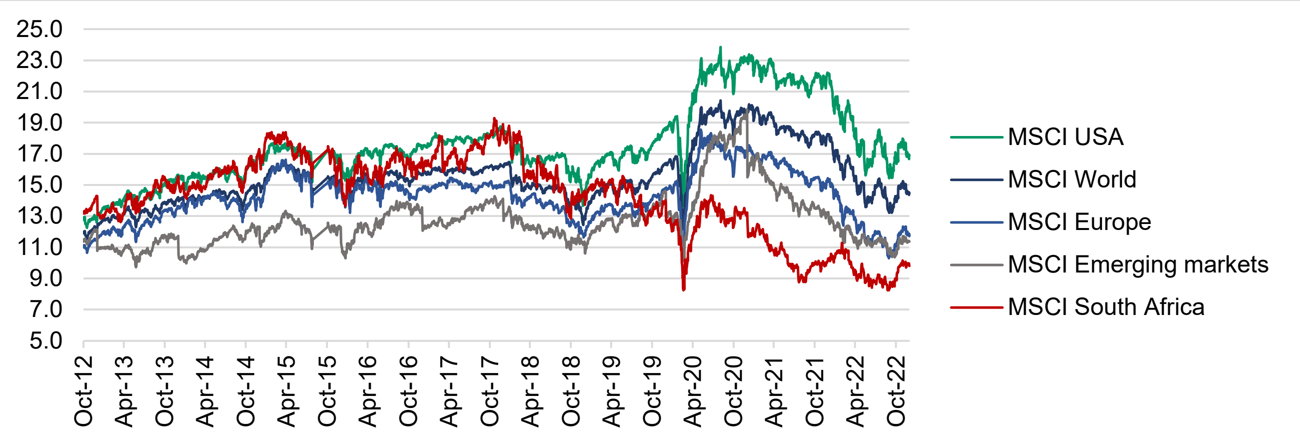
The SA domestic backdrop remained mired in local political uncertainty dominated initially by President Ramaphosa's implied involvement in the Phala Phala scandal and his rumoured resignation. This was followed by a fraught run-up to the ANC's December elective conference. Daily loadshedding by Eskom escalated to regular bouts of Stage 6, dampening sentiment for local domestic risk assets. Despite these negative local factors, the ZAR managed to remain fairly stable against the US dollar, ending the year at R17.03/$ as Ramaphosa's re-election as ANC president brought late-quarter relief.

These global macro and local political uncertainties made for a volatile local equity market, with the Capped Swix benchmark down over -10% towards the end of September, ending up 4.4% for the full year. In contrast the SA equity fund weathered the storm well, showing the benefits of diversification and good bottom-up stock

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

picking ending the year up 12%, nicely ahead of the index. The strong rally in the last quarter (Capped Swix Index up 12.2%) was broad based with notable outperformance of Prosus/Naspers, both up over 24%. These stocks benefited from improved sentiment around Chinese regulations, anticipation of post-Covid Chinese reopening, combined with the ongoing buyback actions initiated by management.

Figure 1: Global MSCI P/E Indices versus MSCI South Africa P/E



Source: Laurium Capital, Bloomberg
Data as at 31 December 2022

Fund positioning

The fund continues to hold a large position in Prosus post the most recent rally. We maintain our view that the company's core asset Tencent remains very attractively valued, with an improving regulatory and Covid backdrop in China which should help accelerate the company's earnings growth into 2023. Through Prosus we are getting exposure to this high-quality company, along with other emerging market internet assets at a 37% discount, at a time when Prosus management has instituted ongoing share buybacks and is razor focused on unlocking value across the company's portfolio of assets in the next 18-24 months.

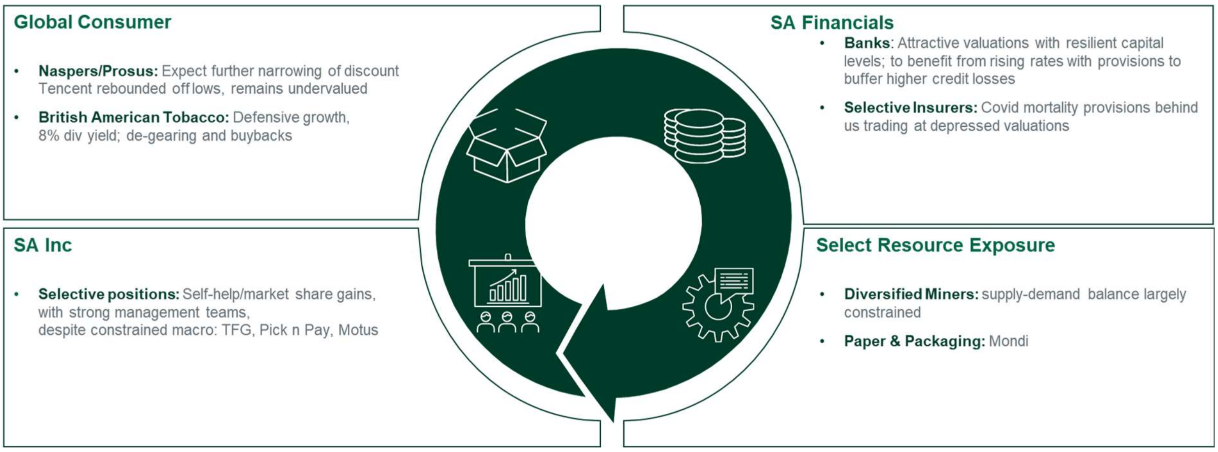
Exposure to the domestic SA economy is primarily gained through the banking sector, with our preferred pick being ABSA. The banks have emerged from Covid with strong balance sheets, having been conservative in growing their lending books and raising material provisions against possible distressed loans during this period. Overlay an attractive valuation with ABSA trading at a 6x forward PE and 8% dividend yield, and we believe these stocks will continue to generate handsome returns into 2023.

SA mining shares had a strong final quarter of the year with both the diversified and platinum counters up mid to high teens. While the drawn-out tussle for control of RBPlats, between Implats and Northam, has created a lot of noise in the platinum sector, we continue to focus on the horizon and believe that PGM prices should remain well supported by a favourable demand/supply environment in the medium term. The fund has thus maintained material exposure to platinum stocks while taking advantage of opportunities to trade between Northam and Impala as the RBP deal has progressed. Our preferred picks in the diversified sector are Glencore and Anglo American, driven by our bullish view on the energy sector and Anglos growing production profile.

British American Tobacco remains a core holding in the fund, offering a defensive earnings base supported by the company's continued pricing power in a highly inflationary and uncertain environment. This is underpinned by a strong dividend yield and continued share buybacks.

Our funds continue to have limited exposure to the retail sector due to the growing evidence of pressure on the low-end consumer, with the fund only owning TFG in the discretionary retail space due to self-help initiatives underway which can still drive earnings growth despite a tough consumer environment.

Figure 2: Portfolio Sector Positioning at Q4 2022



Conclusion

Considerable uncertainty remains around the global and local environment going into 2023. There is much to remain concerned about, and the final quarter's rally in markets has removed some of the valuation "margin of safety" that existed just a few months ago. In times of volatile stock markets, we remind ourselves that we are long term owners of businesses, and in this vein are still finding wonderful opportunities in the SA listed space. We believe the fund is well positioned and adequately diversified to weather these uncertain times, and with material upside on a bottom-up basis, should reward our investors with good risk adjusted returns into the future.

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
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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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