



NEDGROUP
INVESTMENTS

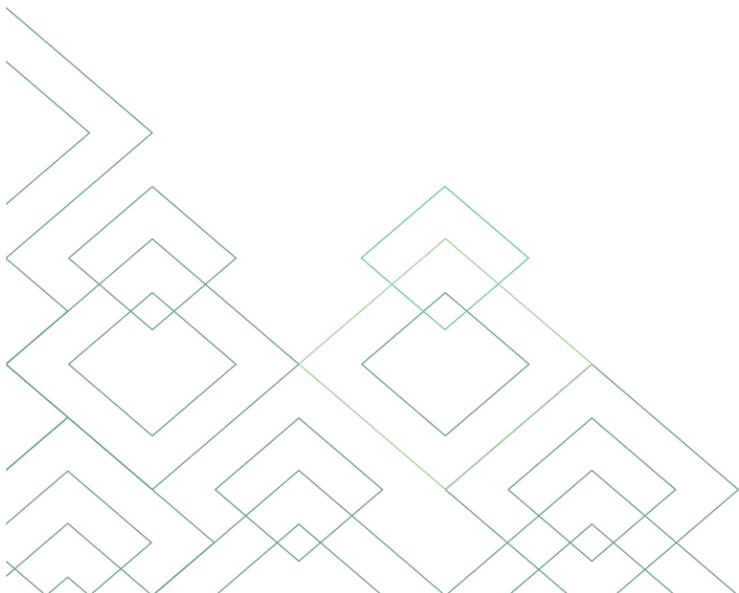
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NEDGROUP INVESTMENTS **OPPORTUNITY FUND**

Quarter Two, 2021



Nedgroup Investments Opportunity Fund

Performance to 30 June 2021	Fund Performance ¹	ASISA category average ²	FTSE/JSE ALSI
3 months	2.6%	2.1%	0.0%
12 months	23.2%	13.9%	25.1%

Market Commentary

In South Africa, the near-term outlook is improving - macro data releases have generally been better than expectations (for example trade surplus data, retail sales, vehicle sales). Sentiment has also been buoyed by the ANC's drive to address corruption and introduce much needed reforms (energy, partial privatisation of SAA). Unfortunately, the frustratingly slow vaccine roll-out and 3rd Covid wave remain key threats to the economic recovery in the short term.

Against this backdrop, the JSE All Share Index (ALSI) was flat in Q2 2021. The Financials sector (+7.5%) was the strongest performer driven by a recovery in property shares (the SAPY posted a total return of +12.1%). In comparison, Industrials posted a small gain of 0.8% and Resources lost -5%. Year to date, the ALSI has risen +13.2% led by the Industrials sector (+13.8%). Resources have returned +12.8% with Financials (+11.7%) lagging.

Portfolio Commentary

The Fund's top five performing positions for the quarter added +5.8% to our return while the bottom five detracted 1.7%.

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Royal Bafokeng	4.2%	3.7%	Standard Bank ILB	2.8%	-0.1%
Dipula	2.3%	1.0%	Ninety One	0.8%	-0.1%
PSG Pref	2.4%	0.5%	Sappi	1.4%	-0.1%
Eurostoxx note	3.7%	0.3%	USD cash	2.0%	-0.3%
Goldfields	0.9%	0.3%	Naspers	7.9%	-1.1%
Total		5.8%			-1.7%

- Our long-held position held in the Royal Bafokeng convertible continued to add value. We have converted the bulk of our convertible debentures into equity. We remain positive on the outlook for Royal Bafokeng Platinum, but have started reducing the size of our position from a portfolio construction and risk management point of view.
- Dipula Property was a major contributor this quarter as they reported decent results for a property company and also declared a sizeable dividend. Dipula remains attractively priced relative to NAV and continues to offer a very attractive dividend yield.
- PSG announced that they are buying back all outstanding preference shares. The buy-out was at a handsome premium (R81 versus R66 share price) and we benefited from this long-held position.

¹ Net return for the Nedgroup Investments Opportunity Fund, A class. Source: Morningstar (monthly data series).

² ASISA Multi-asset medium equity - category average.

- Our Eurostoxx notes position continued to add value as the Eurostoxx index continued to recover. The yield to maturity on our basket of notes remains extremely attractive and we retain a decent exposure to this attractive asymmetric-return asset.
- Naspers was our major detractor as the much hyped “value unlock” transaction was poorly received by the market. Interventions by Chinese regulators further spooked the market. Given the huge discount Naspers is trading at relative to its NAV, we believe these concerns are adequately priced into the share.
- The Rand strength impacted our foreign exposure and detracted from performance. We retain full foreign exposure both through physical assets as well as derivative overlays as we view the rand’s strength with caution given the current political turmoil and fiscal challenges of the country.

Current positioning and outlook

Global equity markets are elevated. A significant part of our offshore exposure is through hybrids in the form of structured notes. This provides the portfolio with some capital protection and enhances the asymmetric return characteristics.

We continue to be cautious on global bonds, global cash and global credit. At the same time, we see the rand as being strong given poor domestic fundamentals and for this reason we retain maximum offshore exposure through currency overlays.

Despite our concerns over the domestic fundamentals, we are happy to note the undeniable constructive progress made in the last quarter regarding political accountability for corruption, economic policy progress (eg the increase in self-generation capacity maximum to 100MW), the State’s attitude towards State Owned Enterprises (apparent introduction of private shareholder to SAA and relinquishment of economic control), the slow but steady rollout of the Covid-19 vaccination program and the increase in select fixed investment spending activity (SANRAL).

We are closely monitoring signs that the spark of economic activity from higher commodity and agricultural prices may ignite a broader economic recovery in SA leading to improvements in business and consumer confidence, and if that will feed into investment spending and employment creation. The base is very low for many of these metrics and while naturally sceptical we feel the domestic economy has a better chance in 2022 and 2023 to grow faster than at any time in the last so-called “lost decade”. The recent incarceration of Jacob Zuma is also a very positive step. The resultant protests escalating into wide scale looting and anarchy is a reminder of the frustration and anger that lies within the unemployed in South Africa. Their government and ruling party have failed them over the last decade as the country’s resources were hijacked for a select few increasing the plight of the destitute. Despite the valiant efforts of President Ramaphosa, it will take years to undo the destruction heaved by Zuma and his administration.

It is however always darkest before the dawn. We are progressively seeing positive steps in the right direction and momentum will increase as we see corruption and misallocation of resources being addressed. We continue to see value in the local stocks as South Africa remains very under-valued relative to emerging market and developed market stocks. The Fund offers material exposure to a recovering SA economy through its local Industrial and Financial allocation, with key picks in the former being Bidvest, AVI, Imperial (now the subject of a buyout offer) as well as Firstrand, Standard Bank and Sanlam in the Financial space.

We retain a conservative exposure to the mining space with our biggest exposure remaining to our reduced Royal Bafokeng Platinum (equity) position. We continue to believe that they have a growing production profile,



healthy balance sheet, and the potential of being a takeover target. We also expect decent returns from here to come in the form of dividend distributions.

Naspers remains the single largest position in the fund. We oppose the recent Prosus cross-holding transaction that introduces increased complexity to the corporate structure, does not solve the JSE Index weighting problem management purport to be trying to address, and judging by the markets reaction, will exacerbate rather than alleviate the NAV value trap problem. The increase in governance failures at this organisation is raising our concerns and the Board's continuing failure after many years to present a remuneration model that is acceptable to shareholders is another. The attractive valuation of the primary asset (Tencent) combined with the record high NAV discount do however keep us invested.

On the fixed income front we have increased our duration as we see value in the long end of the curve as the yield curve has steepened.

Our hybrid exposure remains at a high level as the asymmetric return profile became even more attractive after such a strong market run. Our main exposures are to the structured notes (mostly Euorstox notes), convertible bonds (Sappi and Brait), as well as attractively priced preference shares (PSG Pref, which is subject to a buy-out offer).

Conclusions

While global markets continue to look expensive, South Africa continues to offer selective value. We have maximum FX exposure in the Fund which should protect us against the fallout from the current political turmoil or the nearing fiscal cliff. We are comfortable that our portfolio offers a good mix of growth and yielding assets providing the portfolio with an attractive risk/return pay-off profile.

Responsible Investment Comments

We endeavour to invest in businesses that exhibit robust corporate governance, quality management, sustainable business models and the potential for solid growth in earnings and dividends over an extended period. To this end, ESG matters are integrated into our investment analysis to strengthen the decision-making process, better manage risk and ensure that investments generate long-term value in an ethical manner. Our investment approach is one of full integration of ESG issues into investment decisions. We use several methods for bringing ESG considerations into our decision making that includes engagement with management on issues that are relevant and material.

Notable engagements during the second quarter of 2021 include:

- Standard Bank: Co-filed a non-binding resolution calling for clear climate related targets and disclosure. We also engaged with executive management on the topic.
- Nedbank: Engaged with the Chairman during their annual ESG roadshow.
- Firstrand: Engagement with sustainability team regarding their Climate Policy.
- MTN: MTN governance call with the Chairman where ESG matters addressed.
- Naspers/Prosus: Sent a collaborative investor engagement letter to PRX/NPN Boards regarding concerns associated with the Prosus voluntary share exchange offer for Naspers shares.





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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