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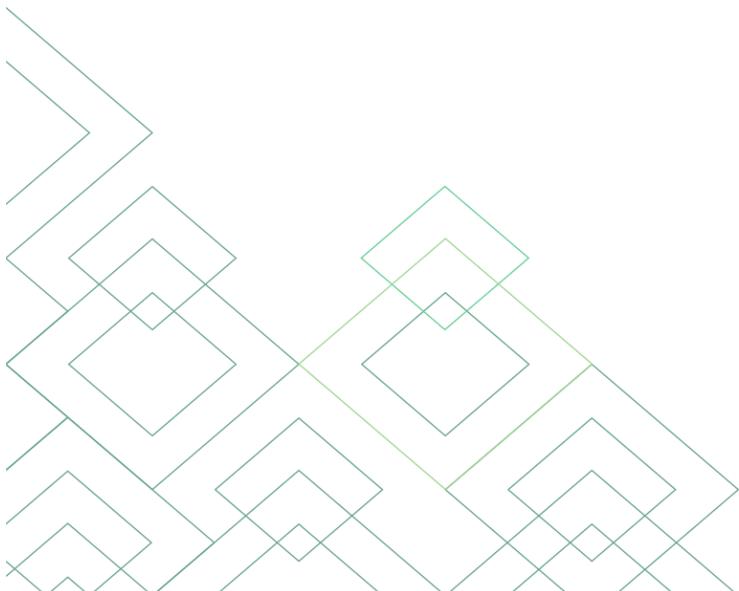
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NEDGROUP INVESTMENTS **RAINMAKER FUND**

Quarter One, 2022





Nedgroup Investments Rainmaker Fund

Performance to 31 March 2021	Nedgroup Investments Rainmaker Fund ¹	ASISA category average	FTSE/JSE ALSI
3 months	-2.0%	+4.2%	+3.8%
12 months	+8.8%	+17.6%	+18.6%

Market overview

After 2021's very strong absolute performance in SA and Global markets, we expected a more muted 2022. However, with the waning of the Covid pandemic, the easing of some supply logistics bottlenecks and the general expectation of only moderate inflation, the outlook for 2022 was positive and one of recovery. Little did we know what was in store. The Russia-Ukraine conflict has disrupted this outlook considerably and we now face a weaker outlook for global growth - the World Trade Organisation recently cut its global trade growth forecast from +4.7% to +2.5% and higher inflation driven by multiple factors – not just the oil price.

The quarter was characterised by high volatility, with the JSE All Share Index swinging between -4% and +5%, finally ending the quarter up +3.8%. Given the strengthening Rand (+8% versus the USD), South African equities ended the quarter up +13.4% in USD terms, putting our market among the top global performers year-to-date. In comparison, global equity markets had one of the most tumultuous starts to a year with the MSCI All World Index falling as much as -13% (in USD), before recovering slightly to end the quarter down -5%. The Nasdaq declined -9%, Euro Stoxx 50 -11%, the German DAX -11.3% and the Shanghai Shenzhen market -13.5%.

The first quarter saw yet another strong performance from Resources (+19%), followed by Financials (+16.7%) with Industrials lagging (-13.1%) dragged down by heavyweights Naspers and Prosus. Within resources, Oil, Gas & Coal companies (Exxaro +45%) as well as Chemicals (Sasol +37%) performed especially well due to higher energy prices. The precious metals group of companies (gold and platinum) lagged, but still appreciated between +4% and +9%. The financial sector was driven by the large banks appreciating 30%+ after reporting good results - largely driven by the Covid related impairment unwind as the still lacklustre SA economy failed to generate loan growth from corporate or retail SA. MTN and Vodacom continued their solid performance as they accelerated their "Fintech" (Financial Technology) offerings to exploit the opportunities that the ubiquitous mobile phone in every consumer's pocket presents. Within consumer companies, Shoprite (+13%) outperformed, but the food producers like Tiger Brands (-8%) struggled given the expectation of higher input cost inflation and their inability to pass this on to the consumer which will damage margins. Naspers/Prosus declined materially, -32% and -39% respectively. Given their size in the SA market, it is remarkable that the overall index ended the quarter up.

As the world slowly and hesitantly exited the severe lockdowns and secondary impacts of Covid, the debate around the transitory nature of inflation quickly turned into the realization that inflation is likely to be persistently higher. After many years of expansionary sovereign balance sheets and effectively free money (not just from zero interest rates, but also from overly generous capital allocators and investors), conditions were tightened rapidly which drove sharp falls in certain segments of the market. The first casualties were "unprofitable tech", i.e. the range of companies spending widely and indiscriminately in order to gain scale and market share with the hope/promise of profits once they dominate a particular market segment. This varied from shared work desks (WeWork) to food delivery, online education, and online financial models. In addition, further fears of constraining regulations in China and potential delisting of Chinese ADR's in the US market, because of the US dispute over accounting transparency, saw a further sell down in Chinese equities.

Market jitters were exacerbated by the outbreak of war in the Ukraine, which has triggered Europe's largest refugee crisis since World War II. The response from Ukraine's allies has been swift and unified, resulting in the rapid sanctioning of Russia. As Russia is one of the largest oil and gas producing nations in the world, the

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





immediate market reaction was higher commodity prices (especially energy related) which understandably pushed energy company share prices higher too. It is difficult to predict how this situation will evolve, but we hope that a diplomatic solution is found in order to end the mounting atrocities apparently carried out by Russian forces.

In recent years, the South African prognosis has been poor; stagnant economic growth, high unemployment and inequality, the exodus of skills, as well as the hollowing out of our industrial base and key State-Owned Enterprises has led to permanently low growth expectations and a concerning increase in government debt. The Covid pandemic made this worse. However, most of this has changed rather dramatically, driven by global commodity price strength rather than constructive economic policy changes. Pandemic induced shocks to global supply chains, a slowdown in the Chinese economy, and the Russian invasion of Ukraine all conspired to significantly lift commodity prices, from fossil fuels to precious metals. Furthermore, these geopolitical events have severely damaged the benign benefits of globalisation and the logistical integration of supply chains that have been achieved over the last two-to-three decades.

Amidst these uncertainties, South Africa has emerged as a relative safe haven and beneficiary of the changes because we have abundant natural resources, our financial services industry is well regulated, managed and capitalised, we have some well-run listed industrial and services companies (from Shoperite to Bidvest) and the commodity price windfall has substantially improved our balance-of-payments and government debt profile. Compared to the woes of other emerging markets, South Africa has suddenly become a lot more attractive on a relative basis.

We have long been critical of government's apparent inability to effect the necessary structural reforms needed to accelerate GDP growth. However, in the last six months, there have been a number of very positive developments. Regulation has been changed to raise the limit for self-generation of power to 100MW and Eskom has started the process of functional separation into generation, transmission and distribution, with the likely part privatisation of at least one of these. Both measures can only improve the electricity availability problem in SA. In addition, Transnet will admit private operators to use their network, the government wage agreement was settled at +1.6% (well below inflation), the telecommunication spectrum auction was successfully completed and netted R14bn for the fiscus (much higher than initial estimates) and at the same time the minister of telecommunication is adamant that the analogue TV signal will be switched off shortly (albeit still years behind schedule).

And just before the end of the quarter, in response to the improvement in the country's debt trajectory, Moody's upgraded SA's outlook from negative to stable. None of these actions alone will dramatically increase our GDP growth, but collectively they are very positive and indeed a silver lining to our domestic outlook. Lastly, the glacial like progress of accountability for state capture, fraud and corruption continues to crawl along – but at least in the right direction.

Portfolio Commentary

After last year's solid absolute returns, the fund treaded water in Q1, declining by -2.0%. By comparison the JSE All Share Index (ALSI) appreciated by +3.8%.

The themes discussed above (higher inflation, monetary tightening, Russia-Ukraine conflict, constraining regulations in China) had a negative impact on global equities. As such the offshore holdings, faced with the added headwind of an appreciating currency, contributed to the Fund's underperformance versus the ALSI. Over the long term, we maintain that it is appropriate to diversify the shrinking SA equity investment universe with international companies.

In addition, our unavoidable underweight position across resources explains part of the relative underperformance to the All Share Index. The war in the Ukraine created a risk-off environment and a surge in energy and metal prices which has buoyed resource company share prices. While we have large positions in many resource companies (Anglos, Glencore, South 32, BHP, platinum and gold producers, and oil stocks Sasol





and Shell – cumulatively 22.5% of the fund) the combined sector weight in the Fund is below that of the benchmark.

The Fund’s performance was positively impacted by positions in FirstRand (+30% for the quarter) and Sanlam (+22%), together with Anglo American (+22%), Bidvest (+20%) and MTN (+13%). The common threads amongst these are strong operational performance (demonstrated in recent financial results) and attractive relative valuation amongst other emerging market peers.

Prosus (-39%) and Naspers (-32%) were the clear frustrating laggards - again. After many years of positive contributions to the SA market, the unnecessarily complex corporate structuring, and exceedingly large investments in lossmaking ventures across the world have caught up with Naspers, not only to increase the discount to the underlying asset value (now over 60%), but also diminishing the market prices of underlying investments.

Notwithstanding an excellent set of results (beating expectations), Mondi’s share price collapsed (-26%) on account of their operations in Russia (c.20% of EBIT). We believe that the share price response is overdone and have used the short-term weakness to add to the Fund’s position in this quality business, and where we believe the benefit it is receiving from higher selling prices is under-appreciated.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
FirstRand	6.9%	1.9%	Prosus	4.1%	-1.9%
Anglo American	7.1%	1.3%	Naspers	4.8%	-1.8%
Bidvest	3.4%	0.6%	Mondi	2.4%	-0.6%
MTN	4.5%	0.6%	Trex	0.7%	-0.6%
Sanlam	2.6%	0.5%	Samsung	2.6%	-0.6%
Total		4.9%	Total		-6.9%

Current positioning and outlook

Domestic SA Equity

The Russia-Ukraine conflict disrupted our expectations set out in our commentary at the end of last year. Therefore, we have rotated some positions where we believed short-term price changes presented opportunities. For example, we added more Glencore, South32, NinetyOne and Bidcorp, whilst reducing Goldfields (to add to Anglo Gold), Telkom and Vodacom.

The Fund maintains a substantial position in Financials (banks, insurers, asset managers) and Resources (preference for the diversified miners such as Anglo American and Glencore). We have very select consumer exposure via Shoprite, AVI and Mr Price – all best of breed amongst their peers. British American Tobacco, whose share price has started to recover after four years of lagging the market, remains a meaningful holding.

In telecommunications, our preference is for MTN which has seen a dramatic turnaround in recent years. Not only has the new management team streamlined the business with more coherent business practices across the 21 countries they operated in, but they have also significantly enhanced their fintech offering across the group. In most of the emerging/frontier markets where MTN operates, the mobile handset is the first (and only) introduction to financial services to most consumers and hence holds much promise. In addition, they have materially reduced debt with their asset realisation programme.

The biggest disappointment during the quarter was the continued underperformance from Naspers/Prosus. Naspers has been on a path of reinvention for decades as they migrated away from SA print media to a more diversified technology group. They invested widely from mobile telephony to European pay TV to Asian Internet start-ups with mixed, but generally positive, success. Their initial modest investment in Tencent (\$32m for almost





half of Tencent in 2001) turned out to be the proverbial jackpot. Even after a material decline in Tencent's market price over the past year, their current stake is still worth about R2trillion. And therein lies the dilemma; in their efforts to manage potential capital gains tax and to avoid being land-locked in South Africa, management have embarked on a costly and complex structuring exercise in recent years - first listing Prosus in the Netherlands and then completing a cross-holding transaction where Prosus owns a significant portion of its main shareholder and parent company.

In addition, to diversify away from this single asset, management have invested significant amounts into a variety of internet companies around the world, almost all loss-making whilst chasing the elusive "J curve" where, once scale and significant market share is achieved, losses turn into profits. With low to negative interest rates and generous investors, management effectively had free money. Including their committed \$4.7bn for Billdesk in India (transaction still going through regulatory approval), they would have invested close to \$30bn in recent years. On account of these actions (management believe otherwise), Naspers/Prosus trades at a deep discount to their investment value in Tencent alone (about 50% discount at Naspers and 37% for Prosus). Put differently, the market puts a negative value on all investment efforts by management outside of Tencent.

We see clear value in Tencent and the potential for long term growth in the large Chinese market, accompanied by strong growth in gaming outside of China. However, it remains deeply frustrating that management continues down a path of more complexity and investing even more into loss-making ventures, rather than working towards a more simple, clear strategy that would unlock significant value for shareholders. We materially reduced our position over the past year (at much higher levels than where the share is trading at present), but the combined holdings of Naspers/Prosus still represents a large position in the fund.

Global Equity

On the international side, Q1 was all about Energy stocks. This subsector appreciated by +24%, compared to the declines of -11% in Consumer Discretionary and -10.5% in Communication Services. Consequently, the Fund's large portions in offshore Consumer Discretionary (the likes of Amazon, Tractor Supply, adidas and Moncler) came under pressure in the quarter. The Fund only holds Shell in the offshore Energy sector – we have been wary of the fickleness of exploration companies and the market's ESG response to energy companies, and hence did not invest much in this subsector.

The Fund's top offshore contributors in the first quarter were Shell (up +30%), Activision Blizzard (take-over announcement by Microsoft) and L'Oreal. Even the positive share price move in stalwart Visa could not offset the stronger Rand. The worst performer, which singlehandedly caused most of the Fund's underperformance, was Trex, the US composite decking manufacturer, which declined -50%. Whilst inflation and energy price increases will negatively impact their input costs (energy to produce and recycle plastic as raw material), the price decline was more a result of concerns about the outlook for the US housing market. Trex is the top producer of composite decking, gaining market share against hard wood with the medium-term growth outlook intact, and hence we remain owners of the share.

During the quarter we added positions in Garmin, Align and L'Oreal, whilst trimming holdings in Intel, Microsoft and Google. Garmin is a well-known "active lifestyle" brand with their wearable devices particularly popular. Previously Garmin was mostly worn by hardcore outdoors adventurers, but it has become much more mainstream in recent years. In addition, once consumers start wearing these smartwatches, they tend to continue to do so and upgrade every couple of years (much like a smartphone) as it becomes part of a lifestyle and integrated into insurance/healthcare offerings.

Align manufactures (3D print) clear aligners – these are alternatives to the ubiquitous braces worn by teenagers across the world to straighten their teeth. Align sells their own scan/design hardware to dentists (who don't need to be qualified orthodontists) and then pre-print and ship the clear aligners (worn most of the day) to clients. Whereas the cost is roughly the same as traditional braces, it requires much less dentist chair time (hence higher margin to the dentist with more throughput) and is perceived as less visible/awkward to the patient. As such there is strong growth in the older patient cohort that would previously not have considered braces. We believe





that there is much growth potential, as well as margin opportunity as the business cuts back on marketing as acceptance of this alternative becomes more mainstream.

L’Oreal has been on our investment radar for several years given their high-quality franchise, consistent financial performance and solid execution, however it has always appeared somewhat expensive thus we hadn’t established a position in the company. The market turmoil during the first quarter caused a material decline in L’Oreal’s share price and we used the opportunity to invest. Whereas their products are ubiquitous across the world, they are growing well above market trends, especially in China where skincare products are less penetrated. In addition, they are managing the tricky world of inclusivity, innovation and ESG especially well, making their products even more attractive to the underlying consumer.

We anticipate that global market sentiment will remain cautious with investors demanding a higher equity risk premium. The uncertainties surrounding the Russian invasion continue – the war is inflationary at a point when price pressures in developed markets are at multi-year highs and the conflict will have varying impacts across geographies and different industries.

Responsible Investment

We are acutely aware that ESG issues have a direct impact on the companies that we may invest in, and as such can affect the performance of our investment portfolios. We seek to be a responsible investor and continue to deepen our focus on stewardship and ESG integration in our investment process. Given this, Abax recently became a signatory to the UN-supported PRI, a network of investors working to promote sustainable investment. Notable engagements during the first quarter of 2022 include:

- Glencore: Engagement with management regarding carbon emission targets (scope 1 and 2), workplace safety and the resolution of ant-graft fines.
- Anglo American Platinum: Engagement with management, focusing on workplace safety, social as well as environmental issues.
- Shell: Engagement with management to discuss Shell’s seismic exploration activity off the coastline of South Africa.
- Anglo American: Engagement with management, focusing on the Russia / Ukraine conflict and the knock-on impact to their ESG targets.
- Woolworths: Participated in Woolworths stakeholder perception survey.
- Standard Bank: Engagement with management to discuss their Climate Policy ahead of its release.

Conclusion

After all that happened during the first quarter (and with the Russian invasion of Ukraine still not resolved as we write this commentary), global investors are more risk averse and circumspect of how they allocate funds. Risks associated with the FED’s rate policy, geopolitics, inflation and global growth remain top of mind and are likely to create significant volatility in asset prices.

In a fortuitous turn of events, South Africa looks relatively safe and offers better value in several sectors compared to elsewhere in the world. The government is also moving ahead (albeit at a glacial pace) with some much-needed structural reforms. While this presents a positive backdrop for SA investors, we remain wary of being too complacent about South Africa’s economic growth prospects in the longer run and maintain the belief that we should diversify the ever-narrowing set of SA equities with direct global investments. The Fund holds just less than 30% direct offshore equities, and we continue to evaluate their prospects relative to SA-listed companies.

We remain committed to seeking out investment opportunities during these uncertain times, based on detailed, fundamental analysis and remain confident that over the medium term the earnings growth of our shares should translate to attractive returns for investors.





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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