



**NEDGROUP**  
INVESTMENTS

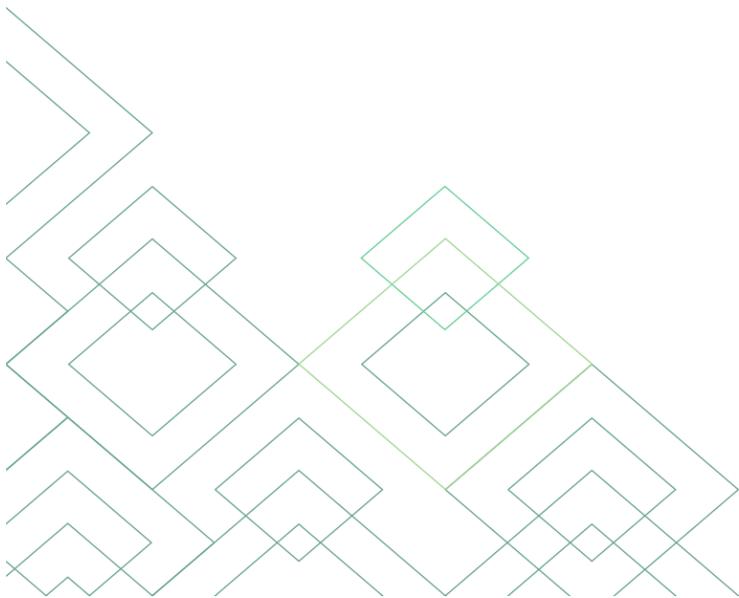
UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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# **NEDGROUP INVESTMENTS** **STABLE FUND**

Quarter One, 2022





## Market Commentary

### International

The fast pace of global economic growth slowed as the base effect of post-lockdown economic re-openings started to fade. The Fed raised rates by 0.25% and indicated that the termination of its bond buying program and additional rate increases would happen quicker than previously guided.

Russia's invasion of Ukraine, the size of which has not been seen in mainland Europe since WWII, unsettled markets and sparked a sharp rise in energy and soft commodity prices.

Equities retreated on the Fed's more hawkish tone, compounded latterly by the outbreak of war in eastern Europe and strict COVID-19 lockdowns in China on surging infections. Emerging markets underperformed, dragged down by China on COVID-19 lockdowns, ongoing regulatory headwinds and Russia being removed from global indices at a zero value. Commodity exporters Brazil, Mexico, Chile and South Africa all rose on the Russia/Ukraine war related spike in most commodity prices.

Developed market bond yields rose as markets began to digest the likelihood of more persistent inflation pressures than previously thought given higher US wages and rampant energy and food prices.

The US dollar rose against all the majors in anticipation of higher US interest rates as the Fed turned decidedly hawkish. Precious metals gold and silver prices rallied on the eruption of geopolitical risk and the prospect of stubbornly higher inflation. These yield-free assets continue to prove their worth as important diversifiers and alternative stores of value during periods of elevated market stress.

### South Africa

The economy continued to recover from the 2020 recession, with corporates reaping the benefits of significant cost control and austerity measures implemented to survive the downturn.

The rise in commodity prices continued to flatter the country's terms of trade with another current account surplus likely in 2022. National fiscus projections improved with windfall tax receipts and mining royalties on the stronger than expected economic recovery and the export commodity price boom.

Inflation accelerated as the economy recovered, but has been muted by the stronger rand given the country's high propensity to import inflation.

As expected, SARB raised interest rates another 25 basis points although two of the five MPC members favoured a 50 basis point hike.

South Africa was the standout emerging markets equity performer in US dollars as resources benefited from the commodity price rally and domestic financial and industrial shares delivered earnings beats on undemanding valuations.

The rand strengthened against major currencies as the country's bonds offer global investors attractive real yields and a relative emerging market safe haven given the geopolitical disruption in eastern Europe and financial market headwinds in China.



## Portfolio Commentary

- SA equities were the largest contributor to investment returns, with strong returns from resources companies BHP and Anglo American and financials FirstRand and Standard Bank — the allocation to Richemont, Aspen and Anheuser-Busch Inbev detracted on rand strength and rising input costs for the latter while Naspers also fell on weakness in principal asset, Chinese tech giant Tencent
- The large allocation to SA bonds also contributed positively as the SA yield curve flattened with long rates ticking down and short rates moving up as SARB raised interest rates — investments in the preferred, medium-duration R186 bond gained, but underperformed longer dated securities
- Foreign assets detracted most from fund returns on lower global equity markets and rand strength — but the Foord international funds outperformed on strong contributions from materials company Freeport-McMoran, agrochemicals companies FMC and Bayer and precious metals streamer Wheaton, while risk management hedges on the S&P 500 protected investor capital in the falling market
- The physical gold position detracted on the lower rand gold price with rand strength more than offsetting the higher dollar price for bullion — the NewGold ETF serves a crucial portfolio diversification purpose as both a hedge against inflation and as an alternative store of value to fiat currency
- The low listed property position added value as the sector weakened in aggregate on mounting domestic consumer risks on the back of rising inflation and interest rates — core holding in London property company Capital & Counties detracted on the stronger rand

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
FirstRand	0.5	29.9	1.7
Standard Bank Group	0.4	30.9	1.3
BHP Group	0.3	20.0	1.1
R186 government bond	0.2	0.9	26.0
Bidvest	0.2	20.3	0.8

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
Capital & Counties Properties	-0.1	-7.5	1.8
Aspen	-0.2	-11.4	1.4
Richemont	-0.3	-21.6	1.4
Naspers "N"	-0.6	-30.5	1.7
Foreign Assets	-1.9	-5.9	31.8

## Investment Outlook



### World:

- Although uncertain how long Russia/Ukraine hostilities might last, the timing of higher fuel and food prices adds momentum to already rising inflation
- The risks of a sharper economic slowdown are rising given the likely accelerated pace of interest rate increases required to reign in spiking inflation
- Persistent US and global inflation and the US Federal Reserve forecasting up to eight interest rate increases for 2022 are headwinds for economic growth and financial markets
- Equity valuations in aggregate do not yet reflect rising risks of economic slowdown, faster than expected interest rate increases and a potential slowdown in corporate earnings momentum
- Possible economic slowdown from inflation-induced demand destruction, spreading COVID-19 Chinese lockdowns as well as any cessation in Russia/Ukraine hostilities could take some heat out of the inflation surge
- The greenback's global reserve currency safe-haven status should provide further support given the rising uncertainties

### South Africa:

- Economic growth should fall back to more lacklustre levels reflecting the structural growth impediments as base effects fade and consumers face rising inflation and interest rate headwinds
- The commodities driven boon to export revenues should be offset to some extent by rising import volumes and sharply higher import price inflation, particularly energy
- Sovereign debt stabilisation in the next two years is looking more plausible if National Treasury can maintain its commitment to spending discipline
- Energy supply remains a significant constraint to economic growth as electricity generation is expected to remain in structural deficit for the next 12 to 18 months—additional renewables IPP commitments and regulatory amendments raising the license requirement for self-generation to 100MW are positive, but implementation has been tardy
- The SARB's more hawkish tone suggests that it is willing to move more aggressively should inflation surprise to the upside or if global central banks raise rates faster than expected, which reduces the risk of inflation moving outside the target band for a sustainable period
- Despite some economic base effects starting to fade, equity valuations are still reasonable in certain sectors which should be able to deliver reasonable earnings growth in the years ahead
- Despite recent Rand strength, the prospects of structurally anaemic economic growth, sliding global competitiveness and extreme levels of unemployment keep the currency vulnerable over longer time horizons





## Conclusion

February's budget increased the regulatory limit to foreign assets for retirement funds to 45% of the fund — the additional flexibility allows for an increased probability of meeting investment objectives more consistently over time.

The managers think a neutral allocation to direct foreign assets for SA retirement savers is closer to 35% than 45% — although total foreign currency exposure is much higher given non-rand earnings of domestic businesses.

Relatively attractive SA equity valuations and supportive short-term currency fundamentals warrant no major change in foreign assets levels — although a direct holding in Hong Kong listed property company Wharf Real Estate was initiated.

Equities with pricing power are best placed to protect investor capital from rising and persistent inflation, but caution is warranted — certain sectors and regions are at risk given monetary policy normalisation and increasing bond yields, and accordingly a much higher look-through equity position is unlikely in the near term.

Marginally lower SA equity weight to partially fund the offshore investment in Wharf — SA equity is attractively valued, supported by good earnings momentum and high dividend yields.

SA bond position retained despite higher near-term inflation and rising interest rates given attractive real yields and significantly improved fiscal position — record revenue collection from materially higher corporate taxes and mining royalties reduces the need for increased debt funding and lowers the risk of sovereign rating downgrades.

Low listed property position unchanged given the risks facing the sector — some rotations between niche counters have been made.





## Responsible Investment Summary

### Voting resolutions for Q1 2022

#### Portfolio

	Total count	For	Against	Abstain
Auditor/Risk/Social/Ethics related	15	100.0%	0.0%	0.0%
Buy Back Shares	4	75.0%	25.0%	0.0%
Director Remuneration	16	100.0%	0.0%	0.0%
Issue Shares	4	25.0%	75.0%	0.0%
Loan / Financial Assistance	4	0.0%	100.0%	0.0%
Other	9	66.7%	33.3%	0.0%
Re/Elect Director	18	100.0%	0.0%	0.0%
Remuneration Policy	6	50.0%	50.0%	0.0%
Signature of Documents	1	100.0%	0.0%	0.0%

#### Foord Global Equity Fund

	Total count	For	Against	Abstain
Adopt financials	1	100%	0%	0%
Auditor/risk/social/ethics related	5	100%	0%	0%
Issue shares	3	100%	0%	0%
Re/elect director or members of supervisory board	21	100%	0%	0%
Remuneration policy including directors' remuneration	3	0%	100%	0%

#### Foord International Fund

	Total count	For	Against	Abstain
Adopt financials	1	100%	0%	0%
Auditor/risk/social/ethics related	3	100%	0%	0%
Re/elect director or members of supervisory board	7	100%	0%	0%
Remuneration policy including directors' remuneration	1	0%	100%	0%

#### General comments:

- There are no abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention it would typically be intentional or for strategic reasons
- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion we have voted in favour of such resolutions, we could gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated
- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings





## Notable company engagements (Q1 2022)

Company	Topic	Company Attendees	Event Notes
<b>Fortress</b>	Proposed amendment of Memorandum of Incorporation	Board Chairman, CEO and CFO	Raised concerns about the company's intention to classify income as a capital distribution and conveyed our intention to vote against the proposed MOI change. Additionally, we flagged management's varying shareholding between A and B units, which we believe creates a conflict of interest.
<b>Oceana</b>		Board Chairman and other directors including Audit Committee Chair	Multiple board engagements to ascertain reasons and extent of violations leading to delayed results publication. Actively pushed the board for increased disclosure of facts.
<b>Astral Foods</b>		Financial Director	Raised concern about voting on financial assistance to subsidiaries, a standard item often overlooked in many AGMs. Where the wording is vague, companies can potentially provide disproportionate financial assistance to non-controlled subsidiaries. Established with FD that the two non-controlled entities were in the process of being sold but requested a tightening up the wording on this item for future years.





## Disclaimer

### WHO WE ARE

Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. 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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### PRICING

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

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

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