NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Two, 2022

Nedgroup Investments Opportunity Fund

Performance to 30 June 2022	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	1.9%	-4.6%	-11.7%
12 months	17.4%	2.8%	4.7%

Market overview

The Russian invasion of Ukraine is still ongoing with repercussions for the oil market, inflation and global growth. Inflation fears have pushed central banks to hike rates, increasing fears of a global recession. The result of this was a sell-off in most local and global asset classes over the quarter. Local equities were not spared with the FTSE/JSE ALSI selling off by 8% in June alone, bringing the quarterly return to -11.7%. Bonds provided no safe haven either with the ALBI selling of by 3.7% over the quarter. Listed property fared even worse selling off by 10.3%. The rand depreciated by 11.4% over the quarter as a flight to safety emerged. The dollar is strengthening against all currencies and is making new highs against its trading basket.

Global equities were heavily impacted because of risk-off sentiment with June being particularly hard-hit. The German Dax was down 11.2% for June with the S&P 500 and the Nasdaq also down 8.4% and 9% respectively. The MSCI World Index was down 8.8% in June and is now down 15.6% over the last year. Emerging markets had an even worse showing and the index is now down 27.2% over the last year.

Portfolio Commentary

The Nedgroup Investments Opportunity Fund produced a net return of 1.9% over the last quarter, which was pleasing in relative terms (peer group -4.6%). Performance of 17.4% over the last year compares very favourably to peers (+2.8%) as well as the market (+4.7%). Our investment approach of sensible asset allocation and stock selection combined with searching beyond the traditional to try and add value via a broader range of assets and strategies bore fruit over the volatile period experienced; helping us to achieve our asymmetric return objective. This approach enables us to construct portfolios from a more diversified set of risk premia (sourced from areas of the market where fewer people are looking) in the attempt to improve risk-adjusted returns for investors.

These strategies include the ability to analyse business across the capital structure and invest in hybrid securities where the most favourable risk-reward payoff exists (our convertible bond exposure, for example, has made a material contribution to the Fund over the years); the inclusion of quality smaller and mid-sized business in the portfolio that can add value over a full market cycle; the bespoke structuring of investment notes to produce pay-off profiles that align with the objectives of the fund; and the inclusion of cost-effective hedging strategies (at an individual security or asset class level) to help manage risk.

Top 5 winners and losers for Q2 2022:

Top contributors	Ave. Weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Naspers	4.4%	1.0%	MTN	1.2%	-2.4%
US Dollar	0.6%	1.0%	R2035	6.5%	-0.7%
Thungela Resources	1.7%	1.0%	R2037	5.0%	-0.5%
British American Tobacco	1.4%	0.6%	R2040	4.7%	-0.3%
Autohome	1.4%	0.3%	R2044	3.7%	-0.2%
Total		**3.9%**			**-4.1%**

[1] Net return for the Nedgroup Investments Opportunity Fund, A class. Source: Morningstar (monthly data series).
[2] ASISA Multi-asset medium equity category.

Top 5 winners and losers last 12m:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
British American Tobacco	8.0%	2.6%	Naspers	5.0%	-1.8%
Thungela Resources	3.6%	2.5%	Balwin Properties	1.1%	-0.5%
Royal Bafokeng Platinum	0.5%	2.1%	MTN	0.3%	-0.5%
US dollar	0.9%	1.2%	Abax Global Equity	4.3%	-0.2%
Merafe Resources	1.7%	1.2%	MATLLI 1.625%	0.3%	-0.2%
Total		**9.6%**			**-3.2%**

Naspers/Prosus reacted extremely positively to the announcement of a share buy-back program in Naspers and Prosus, funded through Tencent sales. This is the most value accretive action we have seen from management in recent history. Despite the strong run the discount remains attractive and we remain positive that it will close further. We have however utilized the strength to reduce our position.

The recent rand weakness aided our performance as our exposure to foreign assets hedged the Fund against the local currency weakening over both the quarter and last 12 months.

Our investment in Thungela Resources continued to be one of the top contributors. They recently reported very strong results combined with a very attractive dividend. In the current high coal price environment, they are generating exceptional cashflows which are being shared with shareholders through dividends. They have an ungeared balance sheet with a cash buffer of R5bn. Excess cash gets distributed to shareholders.

British American Tobacco continued its run as the share buy-back program implemented by the company continued to add value through a reduced share count. Sentiment also continued to improve as BAT is seen as a defensive share which should weather a recessionary storm. We have reduced our position into this strength but remain optimistic about its prospects. This is on the back of the benefits of de-gearing, growth in reduced risk products, share buybacks, a supportive dividend yield and a supportive valuation.

The largest detractor from returns over the quarter was MTN, where the share price was dragged down on risk-off sentiment. We see value at current levels and have retained our exposure. Our bond exposure has detracted more recently but we are very comfortable that the current running yield of 11.5% provides a very attractive real return on this portion of the portfolio.

Current positioning and outlook

The Russian war, Covid supply chain concerns, rising inflation, global monetary tightening and increased recessionary fears continue to play on the minds of market participants. In addition, inflation is starting to bite and we expect to see significant downgrades in earnings expectations. We therefore expect asset volatility to remain high with markets having a bias towards the downside as the reduced earnings expectations are digested. The sell-off has been indiscriminate and we have used this opportunity to add new positions in high quality global franchises with cash on their balance sheets that should perform reasonably even in a recession. These would include names like Meta, Google, Samsung and Autohome.

After the recent sell-off our local bonds look even more attractive. Inflation concerns remain but the aggressive tightening of rates globally could pour water on this fire over the next 12 months. With inflation under control our bonds should screen extremely attractive in a global context with real returns in excess of 5%. We have therefore retained a high weighting towards local bonds.

After the recent sell-off in our local equity market we are seeing selective value emerging. The South African equity market continues to trade at a discount to its own history as well as other global markets. We have selectively added to local equity.

The recent relaxation in exchange controls has increased our ability to own offshore assets. This allows us to substitute local business with global businesses of higher quality. If valuations are similar this enables us to improve the quality of the portfolio while at the same time improving the diversification of the Fund. We have added attractively valued global technology stocks in the last quarter that we believe to be over-sold.

Conclusions

We have slightly increased our exposure to risk assets but retain a defensive stance. Our exposure to SA bonds is expected to deliver healthy real returns. We retain a high exposure to hybrid instruments including convertible debentures as well as structured notes. Our portfolio is well balanced with foreign currency exposure to protect against a continued commodity sell-off which should impact our currency.

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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