



NEDGROUP
INVESTMENTS

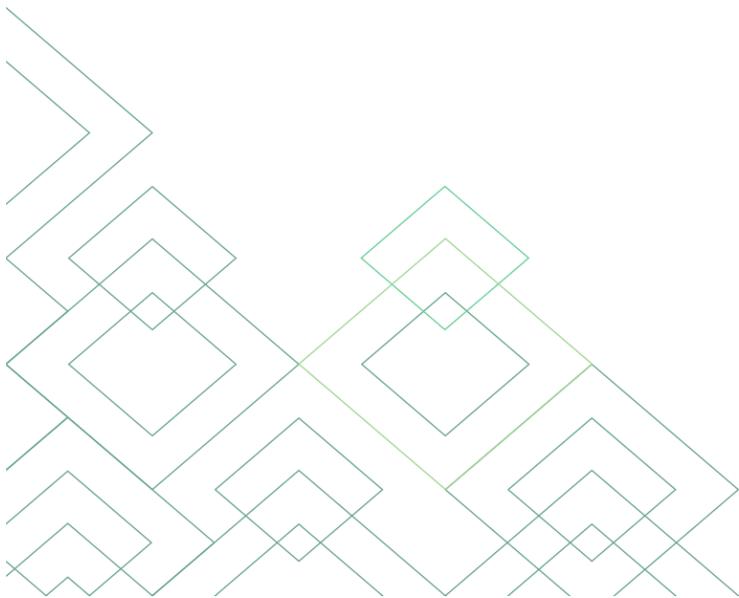
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NEDGROUP INVESTMENTS MANAGED FUND

Quarter One, 2023





Nedgroup Investments Managed Fund

Performance to 31 March 2023	Nedgroup Investments Managed Fund A	ASISA category average
3 months	1.98%	4.45%
12 months	8.12%	5.21%

Market Overview

Global Banking sector under strain

Market volatility continued to run high into March, this time precipitated by a mini yet significant crisis in the banking sector. The failure of two mid-tier US banks (Silicon Valley Bank and Signature Bank), closely followed by Swiss authorities organising the UBS takeover of struggling Credit Suisse brought investor panic and concerns around financial market stability. An immediate market sell-off was subsequently tempered as Central Banks including the US Fed indicated some willingness to provide support to any banks experiencing a deposit run and/or expressed their confidence in the current resilience of major financial systems.

The magnitude and speed of rate hikes have placed a strain on those banks with concentrated deposit books and weaker or smaller balance sheets. In our view, the likelihood of further issues for the sector differs across regions and is dependent on the regional regulatory environment and accounting practice. Banks themselves will also take appropriate precautionary measures to avoid collapse.

US: slowly, slowing down

US banks are more at risk in the current environment with data indicating an outflow from fixed deposits and into money market funds as savers seek higher interest rates and better security. Smaller banks are at even higher risk and worryingly represent a sizable 70% of US commercial real estate funding. As with interest rate hikes, the impact of banks' consequently tightening credit standards to protect capital and strengthen balance sheets will lead to a more restrictive growth environment. Significant US industries such as real estate and private equity which are heavily reliant on cheap credit will continue to come under pressure. Falling job openings in the US are an additional sign of an economic slowdown ahead, even though the PMI remains in expansionary territory.

From a company earnings perspective, although estimates in the US have come down, they are still high relative to history. The significant tightening of credit conditions and a higher earnings base indicates a significant risk of meaningful earnings downgrades in the US. The chart below highlights this risk showing falling Earnings Per Share (EPS) following a tightening of banking funding to the Commercial and Industrial (C&I) sector.





Credit conditions are tightening and suggest earnings declines ahead



Source: Haver Analytics, Morgan Stanley Whitephone

Europe: supported by regulatory strength and lower gas prices

We expect market pressures on the banking sector in Europe to be less damaging than in the US given a more robust regulatory environment and strong liquidity ratios across European banking institutions. Average liquidity coverage ratios are at 150% vs. the 100% minimum requirement. Swiss regulation is different, and Credit Suisse had known weaknesses in their business model.

Growth in Europe is proving to be resilient despite another 50bps rate hike by the European Central Bank (ECB) in March. Economic data in Europe is still positive and benefitting from lower gas prices and the ECB now expects higher growth and lower inflation this year in their economic projections. It is evident higher rates are yet to impact the economy.

China: propping up global growth?

The surprise opening of the Chinese economy in the fourth quarter of last year continues to support economic growth, however, there is little evidence of increased fixed capital formation which suggests the current growth is more consumer-led. Regulatory easing is also important for sustainable growth and the newly announced Alibaba restructure provides a good indicator of less regulatory pressure in the tech sector. Also positive for China is the continued recovery of consumption and travel, the latter providing support for tourism in other regions including SA.

South Africa: needing power and confidence

The SA economy continues to face significant headwinds. A larger than expected 50bps rate hike implemented in March provided additional pressure on an economy already expected to generate flattish growth for 2023. The current outperformance of oil prices relative to metal prices will place pressure on SA's trade account while SARS potentially missing its Budget target does not bode well for the SA Budget deficit.

The ongoing electricity crisis is not without challenges and while there has been some progress to resolve the issues, much needed implementation of policy to allow for increased privatization of energy supply and generation still appears slow-moving. The Government withdrew the State of Disaster however, there is concern that National Treasury will re-implement an already reversed decision to exempt Eskom from disclosing "Irregular expenditure and fruitless and wasteful expenditure" that occurred during the financial year.





Loadshedding pressures will likely persist for the rest of the year along with low consumer and business confidence. The FNB / BER Consumer Confidence Index for the first quarter of 2023, unfortunately, dropped to its lowest quarterly level since 1993, indicating severe concerns from consumers around SA's economic prospects. Self-provision of renewable energy sources by both consumers and businesses will hopefully improve the outlook for 2024.

Outlook: aggressive cross currents

The risk of a US recession is increasing. We think the impact on US earnings will likely overwhelm slightly lower bond rates and rates should not fall meaningfully at the long end of the curve. The S&P500 was up 7,5% over the first quarter of 2023 supported by strong returns from growth stocks. We believe valuations are too high and therefore expect underperformance of the index from here.

The negative impact of a US credit contraction and sustained higher rates will likely place pressure on the European economy. European stock markets may well underperform as a result, despite current reasonable valuation levels.

The risks to asset prices in the current environment are both complex and significant. The impact of sustained high inflation and high interest rates in major economies is beginning to show. The reopening of China should provide some support to commodities suffering lower demand levels in developed economies while certain cyclical sectors like luxury should be partially protected from a global recession given their exposure to recovering Chinese consumption. Chinese companies exposed directly to the consumer, like Tencent, should also fare better than developed market assets.

Given an overall constrained growth environment, we would expect defensive sectors to perform better on a relative basis. Despite continued market uncertainty, we remain focused on identifying appropriate investment opportunities across all funds while staying committed to our investment philosophy and process.

Portfolio Positioning

We maintained exposure to domestic equity and fixed income over global asset classes and cash given many SA shares still offer meaningful value, while the 10-year bond still offers a compelling real yield.

We took profit in Richemont in March given the weaker outlook for US markets.

We added to positions in Naspers and Alibaba. These counters are well positioned to perform following an easing of tech regulation in China and a recent restructure of Alibaba.

We also added more Gold Fields to the portfolio given compelling valuation metrics and supportive environment for gold miners.

Performance Commentary

Market volatility saw equity markets fall in February and March however a stellar January meant the JSE All Share rose by 5.2% for the quarter, ahead of SA Bonds (ALBI) at 3.4% and SA Cash (STEFI) at 1.8%.

Richemont and Naspers / Prosus continued to find support from China's reopening over the quarter while Resources detracted from equity returns due to weakness in March. Gold stocks, however, lifted returns in March given market concerns amidst a banking crisis.

The fund gained from exposure to Richemont as Luxury goods benefitted over the quarter from the Chinese rebound. Our position in Goldfields also contributed to performance as gold stocks rose. Our holding in Sasol detracted from performance given the oil price volatility while an exposure to Impala Platinum and Glencore also detracted as Resources fell with weaker metal prices.





Exposure to domestic medium-term duration bonds continued to contribute to returns over the quarter.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers Limited	5.41%	0.69%	Impala Platinum Holdings Limited	3.46%	-0.69%
Compagnie Financière Richemont SA	3.31%	0.66%	Sasol Limited	4.42%	-0.52%
Anglogold Ashanti Limited	0.73%	0.53%	Glencore plc	2.97%	-0.44%
R2035 Govt Bond: R2035 8.875% 280235	14.39%	0.50%	Absa Group Limited	6.95%	-0.43%
Gold Fields Limited	1.26%	0.49%	British American Tobacco plc	5.02%	-0.35%

Responsible Investing:

Mining and Resources

We are engaging with the mining companies, especially those in the platinum and gold sectors, on the risks of tailings dams, with specific reference to safety issues, additional capex spend that might be needed and environmental impact studies.

In 2020, we engaged with Anglo American Platinum and discussed their specific plans and progress in reducing their carbon footprint. They will switch out of their diesel trucks (one of the biggest emitters of CO2 on the mines) for hydrogen trucks. These trucks will be rolled out to the rest of their mines. We also engaged with Exxaro on their Scope 1, 2 and 3 emissions and their strategy around reducing these emissions with their Cennergi (Wind power) JV.

Sasol

We met with various Sasol executives in 2019 to discuss their carbon footprint and how they could reduce their carbon footprint given their specific chemical processes. The meeting also covered how they could improve on their carbon disclosure vs. global peers. Sasol undertook to provide a more comprehensive report on their impact on climate change by 2020. They also undertook to improve their carbon footprint disclosure. Truffle has also attended multiple decarbonisation conferences globally which we use to benchmark Sasol and provide feedback to the company in this regard.

Following that meeting in 2019, we went through their 2020 Climate Change report and attended a group ESG meeting in June 2021 to discuss the level of ambition in that report. Sasol stated that they were aware that their commitment of reducing GHG emissions by 10% to 2030 might fall short of expectations. They were in the process of revising these targets and would give further detail at the Capital Markets Day later in the year.

We noted the increased ambition in Sasol's Capital Markets' Day – from 10% emissions reduction by 2030 to 30% reduction. Truffle engaged with them in October 2021 on a number of climate-related topics. Sasol were planning to table their own climate change resolution and explained the main driver behind the increase in ambition. We had some concerns around how their more ambitious climate targets would come through in





remuneration, and whether the right people were being incentivised in the right way. To get more clarity on that, we have set up a follow-up call with them on remuneration only.

Given the ESG concerns facing fossil fuel producers, we have set internal limits as to our maximum active position we would take in Sasol in the portfolios. These limits are set at a much lower levels than we would have been the case historically.

Naspers

Over many years we have engaged with management and industry specialists on many of the issues around the control structure of Naspers and its low voting N shares. This means that shareholders have little sway over effecting the necessary changes within the business. We also raised concern around the re-election of BJ van der Ross, MF Phaswana and RCC Jafta as their years of service have now rendered them non-independent.

We have consistently voted against endorsing the Naspers remuneration policy, as well as amendments to any of the share incentive schemes. Many of these concerns raised are not new and have been part of the broader Naspers governance debate for quite some time. Other issues raised were around the MultiChoice matter and ANN7 probe. We engaged extensively with management around the MultiChoice corruption charges.

In June 2021, Truffle teamed up with 35 other managers to question the complex shareholding structure and lack of management alignment in new Naspers, Prosus deal. We found several aspects of the proposed transaction problematic. We were of the view that it introduces elements which serve to increase complexity in the overall company structures, thereby reducing the likelihood of further value unlock, whether immediate or longer-term. The collaborative engagement was a way to escalate our commonly held concerns directly with the non-executive directors of NPN and PRX.

In addition to those core matters, we also had concerns over the more commercially based aspects of the proposed transaction, including the exchange ratio in respect of the NPN share offer and the future potential tax liabilities. The engagement was unsuccessful since the transaction went through, but we managed our risk through the portfolio construction process.





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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