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NEDGROUP INVESTMENTS
Private Wealth Equity Fund
Quarter One, 2023





Nedgroup Investments Private Wealth Equity Fund

Performance to 31 March 2023	Fund ¹	Benchmark ²
3 months	5.2%	2.7%
12 months	4.5%	0.7%

Market Overview

Market volatility spiked in March as investors weighed up the state of financial stability after a period of rapidly rising interest rates and high inflation. The collapse of US based Silicon Valley Bank (SVB) sparked an exit from depositors and investors, which quickly impacted risk appetite for the broader banking complex and saw bank share prices hit hard. While SVB was a regional bank, largely exposed to the technology sector and with specific nuances, the impact of higher interest rates on their bond holdings and poor sentiment quickly turned a spotlight on other entities with possible vulnerabilities. US policymakers promptly stepped in to secure deposits and restore confidence, which was tested as the fallout from SVB extended to several other US banks. Concerns spread from the US to other parts of the globe, but more prominently in Europe. The most noteworthy casualty was one of the major Swiss banks, Credit Suisse, that was extended liquidity by the Swiss National Bank, but was ultimately taken over by UBS. A level of stability has returned to markets but contagion remains a prominent concern when it comes to financial stability.

After some upside surprises in the previous month, headline inflation across several regions continued to moderate as the impact from high energy prices subsided. High levels of core inflation, however, suggests broadening pricing pressure in areas such as services remains a concern. Major central banks faced a more delicate balancing act as they seek to continue the fight against inflation, without compromising financial stability. The European Central Bank, Bank of England and US Federal Reserve increased interest rates by 50bps, 25bps and 25bps respectively.

The reopening of China led markets to a strong start in January, while constructive economic data in the first quarter drove positive returns across developed market equities, despite the volatility from the banking crises in March. The decline in bond yields in March drove a rally in interest rate sensitive growth stocks, with the technology heavy Nasdaq 100 gaining 9,5% over the month, bringing the year-to-date gains year to 20.8%.

The much-anticipated cabinet reshuffle confirmed Dr Ramokgopa as the new Minister of Electricity but delivered few other surprises. Public sector wage negotiations concluded with a two-year deal, with an effective increase of 7,5% this year. Fourth quarter GDP printed at -1,3%, a much lower figure than anticipated. This brings economic growth for 2022 to 2,0% but also reaffirms the poor momentum going into 2023. Credit ratings agency, S&P, downgraded the outlook for the sovereign's credit rating to stable from positive, raising concerns about the impact of the energy crisis and the state of network industries on economic growth.

Following the higher-than-expected February 2023 inflation print the Monetary Policy Committee of the South African Reserve Bank (SARB) lifted the bank's key lending rate by 50 basis points to 7,75%. Risks to the inflation outlook are still assessed to be to the upside and will continue to be a key driver for the progression of the interest rate hiking cycle. The SARB downgraded forecasts for economic growth further for 2023, given elevated levels of loadshedding with marginally higher figures over the medium term.

Domestic equity markets declined over the month as the local energy crisis weighed on domestically orientated mid and small cap counters. Global market volatility spilled over into local stock performance, with banks trading down 6,8% over the month while gold miners rallied. The FTSE/JSE All Share lost 1,3% in March, but still managed to deliver positive returns of 5,2% over the quarter, supported by strong performance from the Industrial sector and index bellwethers Naspers and Prosus. The pair gained 16,6% and 17,9% respectively

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

² Benchmark is the Capped SWIX40



over the quarter, largely driven by gains in the January rally as China lifted Covid lockdown restrictions. The USD/ZAR ended the quarter 6% stronger.

Portfolio Commentary and Activity

During the quarter the fund exited its position in Spar. In 4Q22 we detailed the various operational challenges faced by the group and the surfacing of several allegations pointing to corporate governance lapses. While an independent investigation has cleared the group of any wrongdoing, the allegations culminated in the abrupt exit of Spar's CEO Brett Botton and former chairman Graham O'Connor. Criminal cases have also since been filed by at least three Spar retailers against the group and certain executives. Following these developments and as part of our continuous assessment of the merits of an investment we came to the view that the risks attached to the Spar investment case were no longer justified by the attractive valuation and the potential for some positive developments. Our assessment was that the market offered other equally attractively valued opportunities, where the investment case is less complex.

One such opportunity identified is Mr Price, in which a new position was initiated during the quarter. Following a poor post festive period trading update, which reflected the negative impact of loadshedding and a new system implementation, the share price de-rated significantly. We view Mr Price as a high-quality retailer, that is well positioned in the value apparel segment and efficiently operated by an aligned management team. We view the business as undervalued at current levels and have continued to add to the initial position during the quarter.

The fund also exited its positions in Citigroup and Outsurance during the period. The exit from Citigroup in favour of the attractively valued SA banks – where we believe there is less complexity and better earnings visibility – proved fortuitous in the wake of the spill over from the SBV collapse. In the case of Outsurance, while we continue to view the business as a high-quality compounder and given its outperformance over the past year, we took the opportunity to reallocate capital to opportunities offering higher potential returns. Richemont, Bidvest and Prosus are amongst the best performing shares year-to-date; this informed the decision to trim those positions and lock in some of the outperformance.

For the quarter under review, the fund outperformed its benchmark by 2.5%. Overweight positions in Bidcorp (+22.1%), Bidvest (+20.2%) and Prosus (17.9%) contributed to this performance. Underweight positions in the platinum counters (Amplats -30.7%, Implats -21.2%, Sibanye -15.4%) – where our only exposure is via Northam (-22.7%) at ~1.6% of the fund – also added positively to performance.

Many of the companies represented in the fund's top 10 positions released financial results during the quarter, some of which are detailed below.

Bidvest – Defying the fragile SA macro

Bidvest reported a strong set of results for 1H23 with earnings growth ahead of expectations. Services SA, Freight and Commercial Products delivered double digit profit growth and margin gains, while growth in Services International was constrained by the post-pandemic normalisation in hygiene and facilities management. The performance of Services SA was driven by the ongoing recovery in office occupancies and hospitality, with domestic and international travel reaching 85% and 90% of pre-pandemic levels respectively.

The Freight business benefitted from strong agricultural volumes and bulk terminals. The Commercial Products segment was able to capitalise on the exponential increase in demand for renewable energy-related products – management notes that SA's private renewable sector grew 2.5x y/y, with Bidvest's sales up 5x.

Bidvest's strategy continues to focus on leveraging the group's scale, capabilities and balance sheet to achieve growth across its diverse businesses. The group's leading market position in various sectors and management's strong track record of prudent capital allocation positions it well in the current environment.

We expect Bidvest to continue to deliver healthy organic growth while simultaneously making bolt-on acquisitions to strengthen its position and pursuing international opportunities in areas where the group has proven success.

Bidvest remains a top 10 position representing c.5% of the fund. The strength of the group's decentralised and diversified business model, management's clear strategy and strong execution together with an undemanding valuation underpin our decision to maintain an overweight position.

Banks – Well capitalised and well provisioned

The SA banks, where we have material exposure at ~17% of the fund, released results during the quarter. The results reflected broadly positive trends including double digit HEPS growth, lower cost-to-income ratios and improving ROEs.

First Rand kicked off reporting season for the banks; 1H23 results showed solid performances from its customer-facing franchises, a normalisation in the credit loss ratio from low levels and an ROE at the upper end of the target range. The group's ROEs remain best in class. The group's core equity tier 1 ratio is above the targeted range, supporting the increase in the dividend payout ratio.

Impairment charges related to Ghana sovereign debt exposure took the shine off an otherwise solid performance reported in Absa's FY22 results. While the reported credit loss ratio is at the top end of the through the cycle range, the group's provision coverage remains above peers and ahead of pre-pandemic levels. Revenue growth in the mid-teens and single digit cost growth resulted in the cost-to-income ratio declining from 55.2% to 51.5%. Management is guiding to a medium-term cost-to-income ratio in the low 50s. The group ROE improved to 16.6%, towards the targeted >17%.

Double digit revenue growth and a well-managed expense base underpinned the strong earnings growth reported by Nedbank in its FY22 results. The cost-to-income ratio was lower at 56.5% with management targeting an ambitious 52% ratio by FY25. The CLR was slightly higher. The group's R11.8bn of surplus capital enabled the declaration of record-high dividends and a R5bn capital optimisation initiative, which will be executed through both a share repurchase (over the next 12months) and an odd-lot offer. The capital optimisation strategy provides impetus to the targeted group ROE of 17% by FY25, from the current 14%.

Standard Bank's FY22 results showed strong earnings growth and improvements in ROE in its SA franchise as well as its African Regions. The Africa regions contributed 36% to group headline earnings during the period. The cost-to-income ratio showed an improvement and is ahead of plan to deliver on the 2025 target. The CLR was broadly flat with provision coverage above the pre-pandemic average.

The SA banks share prices have had a lacklustre performance year to date, particularly relative to the broader market. This reflects, in our view, the deterioration in the prospects of the SA economy – for which, in our view, the banks are adequately provisioned – and cautious investor sentiment towards "SA Inc". We continue to view the sector as an attractive opportunity in the current environment given the banks' solid earnings outlook, strong balance sheets and high (in some cases double digit) dividend yields.

MTN – Demonstrating resilience

MTN Group's FY22 results were characterised by mid-teen service revenue growth, a stable EBITDA margin, ROE expansion and lower Holdco leverage. The group remained resilient, despite the negative impact from loadshedding in SA and the challenging global and regional macro conditions. MTN grew its service revenue in line with the average blended inflation rate across its markets, with strong growth in data and slower growth from fintech. The latter was negatively impacted by (i) new fintech taxes and levies which were introduced in key markets such as Ghana, Benin and Cameroon, (ii) the introduction of price reductions in person-to-person (P2P) transfers and withdrawals, in Côte d'Ivoire, to maintain MTN's competitive position.



However, these impacts are short term in nature and, more importantly, MTN continues to benefit from structurally higher demand for data and fintech. Overall the results demonstrated good execution of MTN's clear strategy, and continued focus, on the issues that matter to shareholders.

We've moderated our medium-term earnings and dividend expectations to reflect the impact of ongoing loadshedding on SA margins, a further devaluation in the Nigerian naira and management's conservative dividend guidance, to which we believe there is upside risk. MTN SA has commenced the rollout of its "Comprehensive Network Resilience Plan", with a targeted completion date of end of May 2023.

Additionally, given the increased frequency and intensity of loadshedding, together with the potential threat of stage 8, MTN SA is also working on an "Optimisation Process" which is expected to be concluded by December 2023. We expect MTN Group's financial position to remain solid, and for the group to continue with its deleveraging strategy and successful cash upstreaming from its various OpCos.

Despite lowering our forecasts, and against the material de-rating in the share since the release of the group's results, we continue to view MTN as undervalued. The fund holds a ~3.5% position in MTN.

Detailed fund attribution: Q1 2023

Top 5 contributors and detractors for Q1 2023: Overweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Bidvest	3.4%	0.6%	Cigna	2.6%	-0.7%
Alphabet	3.0%	0.6%	Altron	2.9%	-0.3%
Comcast	3.6%	0.4%	Northam	0.4%	-0.1%
Alibaba	2.3%	0.4%	Glencore	0.9%	-0.1%
Brookfield	3.3%	0.4%	Quilter	2.0%	-0.1%

Top 5 contributors and detractors for Q1 2023: Underweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Impala	-3.2%	0.9%	Goldfields	-2.5%	-0.9%
Angloplats	-1.4%	0.6%	Naspers	-6.3%	-0.8%
Sibanye	-2.2%	0.5%	Anglogold	-2.2%	-0.7%
Capitec	-3.1%	0.4%	Richemont	-1.6%	-0.3%
Exarro	-1.0%	0.2%	AB Inbev	-1.5%	-0.2%

Current positioning and outlook

Markets had a strong start to the year buoyed by the lifting of pandemic restrictions in China, some encouraging economic data and improved risk sentiment. Developments throughout the quarter however confirmed that there is reason for caution on the global outlook. Elevated inflation levels, rising interest rates and the potential for escalations in geo-political tensions remain top of mind. SA faces the added challenge of an energy crisis and a deteriorating growth outlook.





Within this context the fund remains well diversified across businesses and industries, with meaningful exposure to offshore earnings streams. We are cognisant of the many scenarios that could play out in the current environment and the fund is positioned for various outcomes. The Fund ended the quarter with ~23% direct exposure to international markets. The top 10 positions in the fund account for ~45% of the capital, with a total of 31 holdings.

We continue to look for and take opportunities to strengthen the expected return profile of the fund while maintaining our overall risk management approach, guided by our disciplined investment process and philosophy of “Long term, well considered”. We expect the actions taken during the quarter to contribute positively to the fund’s performance and we continue to strive to improve performance over all meaningful periods.

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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