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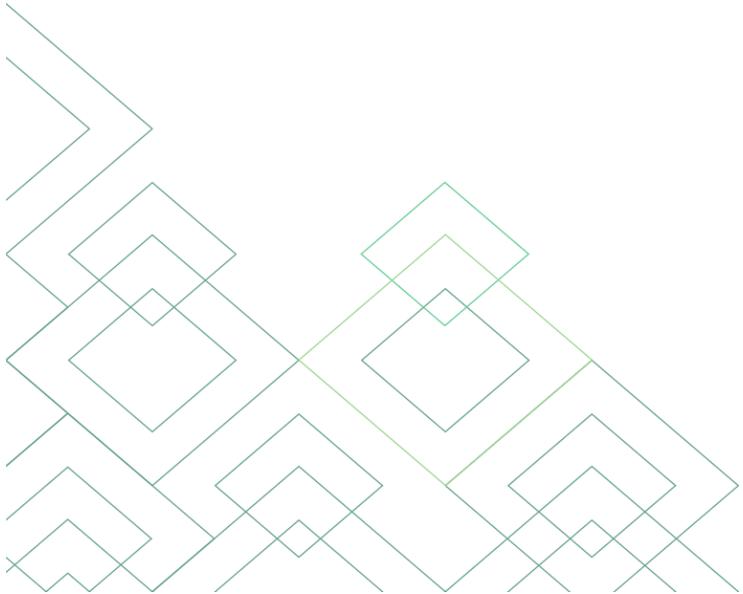
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NEDGROUP INVESTMENTS **RAINMAKER FUND**

Quarter One, 2023





Nedgroup Investments Rainmaker Fund

In the December 2022 commentary we bemoaned the tough year for equities, hammered by worse than expected inflation, China's harsh zero-Covid policy, extreme weather events and the Russian invasion of Ukraine, all of which conspired to create great angst, volatility and poor returns. Locally, "Stage 6" load shedding entered the lexicon and our politics continued to be messy, yet SA outperformed global markets by not falling nearly as much (we had small gains...).

Given this bleak backdrop, Q1 turned out much better than expected, although – as always – not necessarily in the order one expected it to be:

- Central banks continued to raise interest rates, the optimists seeing every hike as one step closer to the inevitable pause and then decline in rates – this might be too simplistic.
- The Ukraine war arguably got worse with no clear practical solution.
- We experienced a banking crisis significant enough for Credit Suisse to find itself one day away from bankruptcy before being taken over. Fortunately, regulators and central banks stepped in very quickly to pacify markets and offer guarantees.
- The one big positive surprise was China's sudden abolition of its zero-Covid policy. Against the odds, the mass infections that followed did not translate into equivalent mortality rates and very rapidly subsided – whether this was good fortune or scientific planning remains a question.
- In SA, loadshedding got much worse, causing material economic disruption and leading to significant business investment in alternative energy supply. It remains to be seen whether the newly appointed Energy Minister will solve this problem.
- As generally expected, SA was grey listed by the Financial Action Task Force (FATF) on concerns about our anti-money laundering and counter-terrorism financing measures and this could have negative consequences for the country's ability to attract foreign investment and conduct international financial transactions. To address these concerns, South Africa will need to take decisive action to strengthen its regulatory and enforcement frameworks and demonstrate a commitment to combating financial crime.
- The USD did not weaken as expected, but rather strengthened – this partly explains the better Rand index return in SA (on translation of Rand Hedge stocks)
- Chat GPT dominated all discussions – we can vouch that this report was very much written by a human.

Global markets reacted swiftly to this great re-opening and the MSCI All Country World Index appreciated 7.3% in USD in Q1, bookended by the Nasdaq's 16.7% appreciation and the Hang Seng's modest 2.5%. The JSE All Share ended up 5.2% in ZAR (a mere 1% in USD as the Rand depreciated), reversing some of last year's outperformance.

In March 2023, the IMF slashed South Africa's growth outlook, expecting South Africa's gross domestic product to increase by only +0.1% in 2023, significantly lower than its January forecast of +1.2%, citing the country's deteriorating electricity situation. It is also no surprise, that South Africa's Q1 consumer confidence index slumped to -23 points, the lowest reading on record since 1994. This too is indicative of extreme concerns among consumers about loadshedding, economic prospects and household finances.



Portfolio Commentary

Q1 2023 started off well ahead of expectations, especially after markets were being browbeaten to such an extent in 2022. As always, the return line was not linear. January saw a significant relief rally after the surprising sudden stop to the harsh zero-Covid policy in China, especially as the sudden mass infection did not result in the feared mass mortality rates. Even sceptics had to concede that the final mortality figures from China were much more benign than expected. However, into February the harsh realities of the continued war in Ukraine, escalation in the economic war rhetoric between the US and China, combined with a global tightening of interest rates amidst much elevated inflation figures caused the market to almost give up all of January's performance. Again, to much surprise, global markets shrugged off the banking crisis as the Federal Reserve and regulators very quickly stepped in to support depositors. By end March, the market was back up to January levels.

In SA, despite a weak March (ALSI -1.3%), the ALSI ended the quarter delivering a healthy +5.2% return. Rainmaker matched this performance, a credible feat given the skewed make-up of the JSE All Share Index (Richemont is 18% of this benchmark). The FTSE JSE Shareholder Weighted Index, considered to be the more credible and realistic benchmark (as it measures the SA shareholder register of listed companies) only achieved 2.4% for the quarter and 0.2% over 12m, much less than Rainmaker.

Top contributors to Rainmaker's performance were Naspers (+16.6%), Bidvest (+18.2%), L'Oreal (+24%), Richemont (+27%), Tencent (+22%), Moncler (+29%). The direct offshore holdings in Microsoft, Alphabet, Samsung, Amazon, Visa and others also helped, not just because the Rand depreciated 4.5% against the USD, but also because their prices picked up after the poor showing in 2022. A broad theme across all these holdings is an optimistic view on a normalisation of economic life in China after 3 years of severe zero-Covid measures; not only will this benefit the Chinese population, but it will also smooth supply chains and the flow of goods and materials globally.

However, markets remain skittish as much uncertainty remains over the duration and extent of central bank tightening, rate hikers and the possibly of a recession in developed markets. The almost banking crisis in March very rapidly boosted gold stocks with Goldfields rising as much as 44% in March alone (and continuing at the time of writing this report). The fund holds Goldfields and Anglo Gold, both then making a very positive contribution to returns.

The largest detractors from performance came from the platinum holdings, Amplats and Impala Platinum. The PGM basket price has almost halved from its 12-month highs, given concerns around the demand outlook for the auto sector. Combined with the material inflationary pressure on costs, margins and profits are declining rapidly – a classic example of negative operating leverage. Finally, to add insult to injury, increases in capital investments are weighing on cashflows, further constraining cashflows and hence dividend payouts. The general miner holdings, Anglo American (-12%) and Glencore (-11%) declined for similar reasons. Frustratingly, the defensive British American Tobacco (-7.2%) also detracted despite the steady earnings outlook, strong cashflows and already low valuation multiple (7X PE and 8.8% dividend yield).



| Q4 Top contributors | Average weight | Performance contribution | Q4 Top detractors | Average weight | Performance contribution |
|---------------------|----------------|--------------------------|-------------------|----------------|--------------------------|
| Naspers | 7.3% | 1.15% | Amplats | 1.7% | -0.60% |
| Bidvest | 4.3% | 0.89% | Impala | 2.3% | -0.54% |
| L'Oreal | 2.6% | 0.71% | Anglo American | 6.2% | -0.53% |
| Richemont | 2.6% | 0.61% | Glencore | 2.9% | -0.33% |
| Tencent | 2.3% | 0.55% | BAT | 4.8% | -0.27% |
| Total | | 3.91% | Total | | -2.27% |

Current positioning and outlook

Domestic SA Equity

South Africa has been a tough place to run a company for the past several years. We have been beset by many challenges. These include unprecedented levels of loadshedding, civil unrest in 2021, severe flooding in KwaZulu-Natal in April 2022, political upheaval, corruption and state capture as well as decaying service delivery in many cities. So, it is not surprising that South Africans are wary of investing locally.

However, there are signs of progress (deregulation of the energy complex) and we have good locally focused companies where entrepreneurial management skilfully steer them through the turmoil. This has been demonstrated once again, with several key holdings reporting robust financial results during the quarter.

Bidvest is an example of a locally listed business that is outgrowing the domestic macro, with certain of its divisions beneficiaries of the domestic challenges. It is a diversified, cash generative business with high returns on capital and they continue to make synergistic bolt-on acquisitions which continue to bear fruit. The company reported a resilient interim result (Diluted Headline Earnings per share increased +15%) and despite several macro headwinds management remains confident of maintaining the current momentum. This will be supported by the annualization of acquisitions, normalisation of Covid hit divisions, as well as further acquisition opportunities. In addition, there are significant changes happening in the South African port and freight space with Bidvest well positioned to capitalise on this.

The fund also has notable exposure to the South African banks whose underlying performances have been better than expected. The collapse of banks in the international markets has raised concerns among the investor community of a potential global banking crisis. However, in contrast, South African banks are considered a safe haven in banking terms given that they are well funded, liquid and well capitalised. Given solid balance sheets and relative earnings momentum we see value in our banks, with FirstRand (FSR) and Standard Bank (SBK) our largest bank holdings. Both businesses reported resilient results during the quarter, with the investment case for both supported by attractive dividend yields (c8% for SBK and c7% for FSR) and compelling valuation (7x fwd PE for SBK and 9x for FSR).

Within the cyclical space, we maintain our cautious stance on South Africa's apparel retail sector. The sector remains impacted by weak top-line growth and margin pressure given higher markdowns and negative operating leverage. Consumer confidence is low and financial health is deteriorating and will be further





impacted by the SARBs +50bps repo rate increase announced at their March meeting. In our opinion, the sector valuation is optically attractive given significant downside risk to earnings.

All-in-all, despite the numerous challenges, South African corporates have shown resilience in the toughest of times, they are sitting on very healthy balance sheets and from a valuation point of view continue to trade cheap relative to history, providing a massive valuation cushion. In addition, many JSE listed companies generate revenue outside SA, thus somewhat protected against the above-mentioned threatening factors (load shedding, FATF grey listing). Approximately 55% of the shareholder weighted index is exposed to non-South African revenue - this is largely through large cap stocks such as Naspers, British American Tobacco, Richemont, Anglo American, BHP Billiton, Standard Bank, MTN, Glencore – all of which are holdings in the fund.

Global Equity

After a strong relief rally in January, into February the harsh realities of the continued war in Ukraine, escalation in the economic war rhetoric between the US and China, combined with a global tightening of interest rates amidst much elevated inflation figures caused the market to almost give up all January's performance. Again, to much surprise, global markets shrugged off the banking crisis (was there a crisis?) as the Federal Reserve and regulators very quickly stepped in to support depositors. By end March, the market was back up to January levels with a very respectable 7.3% return for the MSCI ACWI. This number hides the dispersion between global indices; the S&P500 gained 7%, Nasdaq 16.7%, EuroStoxx 15.4%, weighed down by the Nikkei at "only" 6% and the Hang Seng at 2.5%.

With such a strong start to the year and the dark clouds of Ukraine, central bank rate tightening and elevated economic cold war rhetoric between the US and China, it is normal to be cautious about the rest of the year. The mini banking crisis at the end of March is a stark reminder of how precious some business models are – who would have thought that one of the largest Swiss banks was a day away from bankruptcy? We therefore continue to focus on owning quality businesses with strong balance sheets and some moat around their business models. We are not necessarily expecting a severe recession globally, but some contraction seems appropriate given all the economic indicators available.

Over the medium term, the fund has diversified offshore holdings away from the US (62% of the MSCI All Country World Index is US based, it remains the largest pool of listed assets) into more European and Asian (Chinese) stocks. Additions to the fund were also further diversified into new subsectors with the likes of Shell, Siemens and Heineken. ESG sensitive clients might question the addition of Shell; our view remains that the world has decarbonized the supply of carbon-based energy faster than it has decarbonized the demand. ESG pressure has materially curtailed exploration and new resource development in an oil and gas industry where current assets have relatively high decline rates (especially US shale gas). New exploration and development take multi-years and multi-billion USD investments. Add the sanctions and price caps on Russian oil and the supply picture becomes bleak. On the demand side, much is made of electric vehicles, but in general, the basic demand for fossil fuels in baseload applications will exist for longer than what regulators may wish for. Whereas great strides have been made in green energy (wind and solar), these have proven to be fickle when depended on as baseload providers. Fusion could well save the planet and great advances have been made in the technology, but it is some decades away from being a ubiquitous clean power source. In the meantime, there is Shell. Of all the majors they have the longest resource life and best quality assets, whilst they are simultaneously running the firm in a responsible way and investing significantly in green energy too. At a 6X forward PE and with a superior asset base, it is a good diversifier in the fund. We hold Shell in preference to





the SA based Sasol, which has some significant hurdles to overcome with their local carbon emissions (Secunda's annual carbon emissions are more than that of the whole of Portugal).

We have written about Siemens and their role in the energy transition before; another good diversifier in the fund and we are very pleased with the share price appreciation since inclusion. The addition (and subsequent further investment) in L'Oreal has also worked well (one of the top contributors to the fund's performance in Q1). Whereas L'Oreal is not a value or cheap stock, it is very well managed with a very well diversified range of products and geographies. Their skincare range specifically has much consumer traction, but they also do not neglect the mass "lipstick" market where they continue to gain market share.

South African stocks are very attractively valued at current levels, but one can only diversify portfolio risk so much with a universe of 130 stocks and some subsectors just not present. Being able to invest in Siemens, Alibaba, Microsoft, Heineken, Amazon, Thermo Fisher, Autozone, Tractor Supply, Li Ning, Puma and Kering significantly diversifies geographic, consumer and economic cycle exposure. These (and the other holdings) are all quality companies with resilient business models and strong balance sheets. Combining them with the well managed and attractively valued SA stocks mentioned earlier in this report then makes for a quality portfolio which should deliver solid returns in these uncertain times.

Responsible Investment

Responsible investment is crucial for creating sustainable, long-term value for investors and society as a whole. By considering environmental, social, and governance (ESG) factors in our investment decisions, we can help drive positive change and promote responsible business practices. Responsible investment also helps to mitigate risks, as companies that fail to manage ESG risks are more likely to experience financial and reputational damage. As such, responsible investment is an essential part of our effort to achieve financial objectives while also contributing to a better future for all.

Abax actively and consistently engages with companies and other stakeholders to address ESG issues. Notable engagements during the first quarter of 2023 include:

- Absa: Engagement with the company regarding alleged exposure to illicit tobacco and gold-based money-laundering activities in Southern Africa.
- Absa: Engagement with management about financing renewable power in South Africa.
- Mr Price: Participated in an ESG engagement with management covering the company's alignment with UN SDGs as well as their ongoing effort to improve supply chain transparency and sustainability.
- Spar: Engagement with Chairman and Interim CEO regarding recent governance concerns, CEO resignation, ongoing litigation and business risks (Poland, elevated debt, South African underperformance).
- Multichoice: Engagement with the Chairman and Lead Independent director ahead of their AGM. The main topics addressed included remuneration and other ESG matters.
- Shoprite: Participated in an independent stakeholder engagement survey.
- Standard Bank: Participated in an independent stakeholder engagement survey.





Conclusion

There are plenty of reasons for caution at this standpoint. Many of the risks that led to last year's extraordinary confluence of negative events remain unresolved. And now one can add a banking crisis (albeit being well managed so far).

Overall, the South African economy remains in a challenging position, with significant structural and institutional hurdles to sustained growth and development. While there are some signs of progress, much more needs to be done to address the root causes of the country's economic challenges and put it on a path toward a more prosperous future.

While it is likely that inflation has peaked in developed markets, the growth outlook in key economies remains concerning and geopolitical risks are still elevated. The banking turmoil complicates central banks' responses, but we expect a wider crisis to be avoided and policy rates to stay elevated. The effects of elevated rates and tighter credit conditions should slow growth in the second half of 2023, with the US likely tipping into recession. China's abrupt abandonment of its zero-COVID strategy has so far provided a big lift to the domestic economy, but has not really flowed past their borders. There are early signs of the Chinese consumer starting to travel and trade picking up pace which will then act as catalysts for global growth, hopefully enough to overcome the negative impact of the economic cold war that is escalating between the US and China.

Despite the elevated domestic and international risks, we believe there are still many attractively valued shares. The composition of your portfolio is balanced and should prove resilient given the various scenarios that could emerge over the medium term; containing exposure to defensive industries (British American Tobacco, Shoprite, Heineken, Thermo Fisher), globally diversified businesses (Richemont, Bidcorp, Microsoft, L'Oreal), miners (which will benefit from China's reopening) and high-quality domestic shares should the domestic backdrop prove better than what market participants fear.





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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