



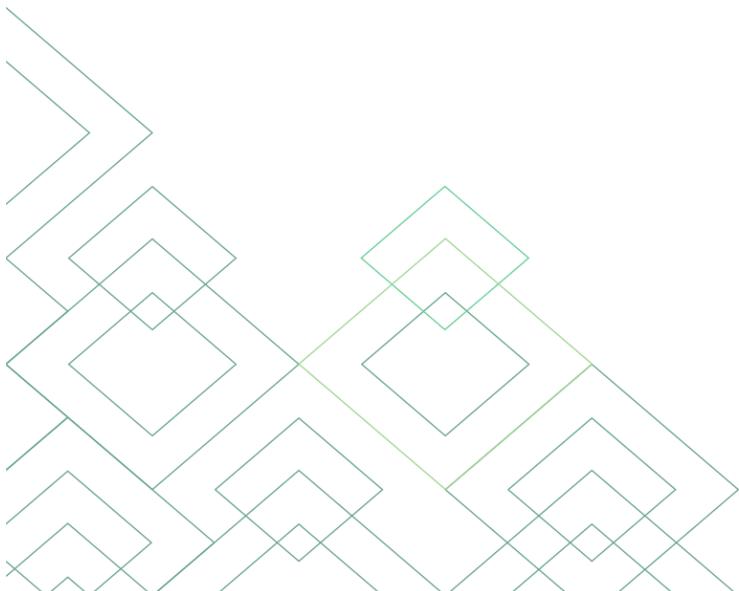
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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Two, 2023



Nedgroup Investments Opportunity Fund



Performance to 30 Jun 2023	Fund Performance ¹	ASISA category average ²	FTSE/JSE ALSI
3 months	0.7%	2.5%	0.7%
1 year	11.5%	13.4%	19.6%
3 years	17.2%	9.9%	16.1%
5 years	10.5%	7.2%	9.6%
10 years	9.7%	7.4%	10.3%

Market overview

Increased rate hike expectations and political news created a difficult environment for local fixed income markets over the second quarter of 2023. May 2023 proved to be the third worst month for local bonds over the last 20 years (-4.8%), with only the height of the covid crisis and 'Nenegate' seeing worse returns. For the quarter, the ALBI returned -1.5%, and inflation linkers delivered slightly better at -0.7%. These pressures also translated to the ZAR, which deteriorated by 5.9% over the quarter relative to the USD. The equity market fared slightly better, with the FTSE/JSE All Share Index and Local Property index both returning +0.7% for the quarter.

Concerns around the South African economy were prominent in Q2 2023, and sentiment in the market was low. Persistent loadshedding shifted the market's focus to growth constraints and the reality of weak commodity prices, from both a fiscal and current account point of view, was realised. The MTBPS will almost certainly show significantly larger deficits than forecast in the budget, as lower mining tax revenues and increased expenditures (most notably wages) will need to be incorporated. News that South Africa was being accused of supplying arms to Russia further exacerbated this negativity, and the market started speculating about sanctions and the future of the African Growth and Opportunity Act (AGOA). As a result, the ZAR plummeted to a new low of 19.80 to the US dollar and the SA 10Y government bond reached over 12% intra-quarter (for reference, it was 10.6% as of the end of March 2023).

The SARB reacted by hiking rates another 50bps to 8.25% in May. The Governor argued that monetary policy was firmly in restrictive territory post that hike, but still kept the door for further hikes open as they remain concerned around broader inflation risks stemming from the currency. These comments initially saw a sell-off in the ZAR, but better market conditions in June (largely due to better-than-expected load shedding) did see some recovery. South Africa's annual headline inflation rate has continued its downward trend, coming in at a year-on-year rate of 6.3% in May, and forecast to move back into the SARB's target range in June. The market is pricing in one more 25bps rate hike to the end of the year.

Global developed market equities performed well, with stronger than expected economic data out of the US in particular proving continued economic resilience. The S&P 500 and the MSCI World Index returned +8.7% and +7.0% for the quarter respectively. Emerging markets struggled in comparison, with the MSCI EM Index up only +1.0%.

For the first time since March 2022, the Fed decided to keep interest rates unchanged at their June meeting. As much as this was expected by the market, their continued hawkish tone, showing two more 25bp hikes to the end of the year, surprised markets. Despite a slowing in headline inflation, core inflation, however, remains elevated with shelter continuing to be a problematic area of the basket. This hawkish rhetoric acted as a

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

² ASISA Multi-asset medium equity category.





headwind to the performance of developed market bonds, as markets started to price that interest rates are likely to stay elevated for longer than previously expected.

With stronger than expected economic data and sticky core inflation, the likelihood of any kind of recession coming out the US is being interpreted as less likely, and the actions of the Fed remain skewed to the hawkish side. However, headline inflation has moved down from a peak of 9.1% to 4.9%, and using current rental and housing data, core CPI is running under 2%. We remain aware that the lagging nature of monetary policy and the extreme nature of rate hikes (with additional hikes now on the cards) could be elevating the levels of downside risk in the market.

Portfolio Commentary

The Nedgroup Opportunity Fund produced a net return of 0.7% over the last quarter and 11.5% over the last year, which was below the average peer group return of 2.5% and 13.4% for the quarter and 12 months respectively. Over longer investment periods however, the Fund ranks amongst the top quartile of peers and has almost matched the market returns at lower risk.

Top 5 winners and losers for Q2 2023:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Alphabet	1.9%	0.6%	Transaction Capital	0.7%	-0.5%
Abax Global Equity	3.5%	0.4%	Structured Notes	2.5%	-0.5%
Firstrand	2.5%	0.3%	Thungela	0.3%	-0.2%
Hello Group	1.2%	0.2%	African Rainbow Capital	1.6%	-0.2%
British American Tobacco	2.9%	0.2%	R2040 SAGB	8.5%	-0.2%
Total		1.7%			-1.6%

The technology recovery continued in the second quarter with two of our top five positions benefiting. Alphabet in particular performed strongly, and we used the strength to take some profit. It remains one of our top 10 positions. Hello Group (Chinese version of Tinder), was a strong performer as Chinese re-opening plays recovered from extremely oversold levels. Firstrand continues to deliver commendable results as evidenced by their recent trading update (June 2023) with no change to the group's expectations for double-digit earnings growth and their ROE to be at the top-end of their 18-22% range. Our Abax Global Equity Fund also benefited from a supportive US equity market backdrop.

Transaction Capital continued to under-perform as the market worries about solvency risk associated with their taxi business. WeBuyCars remains an attractive business within Transaction Capital. The market is currently placing a zero value on the taxi business and we believe the risks are adequately discounted. Two of our structured notes detracted from performance as some of our accrued upside reverted back to our capital protection level. With little accrued value currently priced in, the basket of notes provides attractive upside leverage to the market.

After being a strong contributor to performance for a long time, Thungela detracted 0.5% from performance for the quarter on the back of weaker coal prices.





Current positioning and outlook

While the market is seeming to believe that a recession in the US is looking less and less likely this year, the lagging nature of monetary policy and the extreme nature of hikes, with additional hikes now on the cards, could however mean that downside risks are becoming more dominant. Further fallouts from tightened global monetary conditions are expected. The headwinds facing global risk assets are unlikely to abate soon. Years of excess and easy money are not usually dealt with in one year. In markets such as the US, earnings projections still seem way too optimistic given that inflationary pressures must still impact sky-high corporate profit margins.

We continue to be defensively positioned against this uncertain backdrop. We have lowered our exposure to equities whilst increasing our exposure to US Bonds which are starting to offer decent yields. Investors are getting paid a decent yield to 'wait on the sidelines' as global short rates have increased. Despite the recent pressure, we continue to maintain a high exposure to local bonds which offer an attractive real yield. Our basket of structured notes are out of the money but provide us with capital protection and the potential to participate in any upside from here on.





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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DATE OF ISSUE
16 October 2019

