

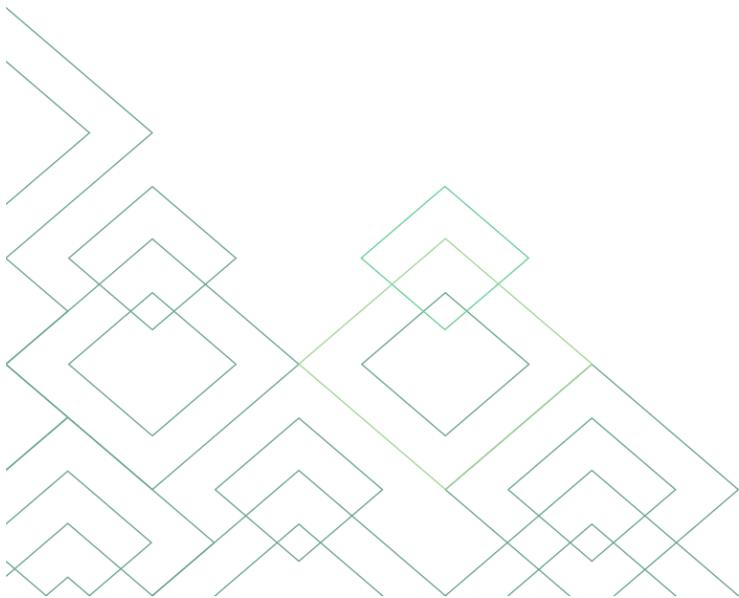


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NEDGROUP INVESTMENTS
Private Wealth Equity Fund
Quarter Two, 2023





Nedgroup Investments Private Wealth Equity Fund

Performance to 30 June 2023	Fund ¹	Benchmark ²
3 months	5.3%	1.5%
12 months	15.3%	14.3%

Market Overview

In global markets, economic data moderated over the second quarter even as labour markets remained resilient. While the broader trends such as weaker manufacturing activity relative to services have held, the prognosis for regional growth is more nuanced. Economic data from the US, while slowing, has remained constructive, with the US consumer in particular proving resilient. First quarter US GDP growth was revised higher to 2,0% annualised. European data is showing more strain, with Eurozone GDP revised lower, to -0,1% over the first quarter, confirming a technical recession for the region. The UK in turn managed a mere 0,1% over the same period. Chinese economic data still point to a weak economic recovery, although policy makers have slowly started to respond with some easing.

Developed market equities outperformed Emerging markets, with notable returns from the US, Japan and Europe. The S&P 500 gained 8,7% over the quarter, while the Nasdaq 100 benefitted from the rally in technology stocks, gaining 15,4% over the quarter and 39,4% year to date.

Locally, first quarter GDP printed at 0,4%, largely in line with expectations, helping the country avoid a technical recession. The current account deficit narrowed to 1,0% of GDP, better than expected as the trade surplus improved over the quarter. Local economic survey data for the second quarter continues to suggest a deteriorating economic backdrop and weaker demand, despite the official data remaining more resilient than expected. Sentiment recorded in the period amongst the business community as well as consumers remains depressed.

Headline inflation for the year to May 2023 declined to a 13-month low of 6,3% from 6,8% the previous month, with core inflation at 5,2%. While lower energy prices and base effects played a role, a moderation in food prices was encouraging. In line with expectations, producer inflation also continued to trend lower.

The FTSE/JSE All Share was relatively flat for the quarter (+0,7%), with gains in the Consumer Discretionary (+8%) and Financials (+6%) sectors, being offset by weak performances from Basic Materials (-6%) and Energy (-7%). The USD/ZAR ended the quarter 5.9% weaker.

Portfolio Commentary and Activity

The fund had an uneventful quarter, something that is not abnormal and has happened numerous times in the past, which is consistent with our long-term orientated investment philosophy. This brings to mind the quote from American Economist Paul Samuelson, who said: *“Investing should be more like watching paint dry, or grass grow”*. In future, there will be more “dry” quarters, while others may be more active when we are either planting seeds for future outperformance, trimming around the edges, or cutting weeds for risk management purposes.

The fund added marginally to Advtech during the period. Advtech has been a longstanding position for the fund, and our latest assessment is that the prospects of the business remain attractive, while the valuation does not fully reflect the quality of the business. We detail further thoughts on Advtech’s latest results in the next section.

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

² Benchmark is the Capped SWIX40





Lastly, the fund took some profits on Bidvest post its strong performance but retains meaningful exposure to the group given its diversified earnings base, strong balance sheet and international expansion. The proceeds were retained as “dry powder” to use as and when new opportunities are available. For further thoughts on Bidvest, please refer to our first quarter commentary.

For the quarter under review, the fund outperformed its benchmark by a pleasing 3.8%. Overweight positions in Sanlam (+10%), Nedbank (+9%) and Remgro (+10%) contributed positively to this relative performance. Not owning Implats (-24%), Multichoice (-23%) and Sibanye (-21%) also added positively to relative performance. For more detailed attribution, please see page 5 below.

We turn now to discuss a select few portfolio holdings and/or related events of the quarter (results, corporate action etc).

Advtech – *Strong growth from the rest of Africa operations*

Advtech recently reported its FY22 results which showed strong operational performance and was characterised by growth in South Africa and the rest of Africa as well as a strong financial position. The group continues to benefit from its strong market position and a well- established portfolio of brands. Enrolments across the group’s business segments were encouraging. The diluted normalised HEPS grew 20%. The total dividend declared of R0.60/share, grew in line with earnings and benefited from positive cash flow generation and a healthy financial position.

The increase in group revenue of 18% y/y was underpinned by positive enrolments and price increases. Group enrolments were up 5% y/y, driven by good growth in the Schools and Tertiary business units. Enrolments across the Rest of Africa Schools business were encouraging. Operating profit for the group advanced 20% y/y. The operating profit margin improved by 41bps to 19.1%, driven by positive operating leverage and efficiency gains. Strong growth in margins was realised in the Rest of Africa Schools business. Despite the tough macro environment, Advtech noted market share gains in the SA Schools segment and remains focused on driving efficiency and improving debtors’ collections.

The Schools and Tertiary businesses remain the largest contributors to group profitability and increased operating profit by 23% and 12% in FY22, respectively. While the Resourcing business is a smaller contributor, its performance was strong, and it grew profits by 129%. Both the Resourcing and Schools performances were underpinned by strong growth in the Rest of Africa. Amongst the drivers of growth were good enrolments and improved operating leverage. At a group level, enrolments advanced 5% to 88 631 learners, with a higher increase of 10% reported in the Rest of Africa Schools (7 943 learners). While the contribution from Africa remains small, its profitability grew by 102% during the period. Schools’ existing building capacity utilisation rate has improved to 84% (FY21: 83%).

The cash generative ability of the business was evident during the period, with free cash flow increasing by 15% which was supported by an improvement in working capital and a strong operational performance. Advtech’s financial position remains in a healthy state, with net debt to EBITDA at 1.4x, still well below covenant levels of 3.5x. Capital expenditure for this period was directed at expanding capacity and the enhancements of technological capabilities.

After these results, we have revised our expectations upwards, particularly for the Rest of Africa businesses, where management is executing on the runway opportunity. The fund retains a ~2% position in Advtech.

Altron – *Complex results*

Altron reported another complex set of numbers for its FY23, with multiple moving parts and accounting adjustments. To management’s credit, the disclosure is relatively good, which allows scrutiny of the core business performance.





The two large, non-cash accounting adjustments which mask the good overall performance during the period, relate to provisions for debtors and inventory. The provision for outstanding debtors relates to work performed for the City of Tshwane to the tune of R134m (24% of EBIT), which is now subject to an arbitration process. This is disappointing and highlights the risk of performing work in the public sector, given the state of various municipalities in SA. The provision for obsolete inventory (R31m) relates to the Gauteng Broadband Network contract which was not renewed.

Revenue growth of 19% y/y was exceptional, with a ~3% contribution from the Lawtrust acquisition (2021) being included for the full twelve months. Pleasingly, the revenue performance was broad based, with all nine sub-divisions showing growth. The standout performers were Altron Nexus (+29%), Altron Fintech (+22%) and Altron Arrow (+34%). Nexus benefitted from wins in the private sector, while Fintech benefitted from above average terminal sales, higher transaction values, and more merchants on the platform.

The strong revenue performance, translated in a dilutive manner to operating profit, given margin pressure at two key divisions, Netstar and Altron Systems Integration. Netstar reported a 27% y/y decline in operating profit, despite growing revenue by 11% and subscribers by ~200k. The decline in profitability was linked to an increase in component costs (devices), as well as higher pre-fits (to OEM dealer vehicles) which were not converted to Netstar contracts. The newly appointed MD of Netstar, Grant Fraser (ex-Mix Telematics COO), highlighted his plans to refocus the business and reinstate higher levels of profitability going forward, largely by leveraging the big data that the business possesses.

Altron made the decision to exit its rest of Africa divisions in 2021 and the process has been ongoing since. During the year, Altron Mozambique and Altron Botswana were disposed of. Post year end, Altron Namibia and Altron Kenya were sold, which should see the culmination of the closure of this entire business unit. For the twelve months, this unit contributed a loss of R52m to group operating profit.

The remaining held for sale asset at year end relates to the Altron Document Solutions business (Xerox partnership). We were disappointed that this sale was not completed given the extension of the conditions precedent date. Management noted that they will continue to try and find a suitable buyer for the business. The ATM hardware business is also in the process of being disposed of with the conditions precedent finalisation date being 31 May 2023. These disposals are all ultimately linked to the group's strategy of focusing on capital light businesses and improving the overall group's return metrics.

The balance sheet position of the group remains strong with net debt to EBITDA well below covenant levels. In addition, any sale proceeds to be received in the coming year should also add further to this strong position. Lawtrust was the latest material acquisition but given the group's ambitious target of "tripling 2021 operating income by 2026", we would expect some further bolt on acquisitions over the medium term.

Post adjusting our forecasts for the various moving parts, our valuation still suggests that the market is mispricing Altron materially. We continue to watch our KPIs closely, and the fund retains its ~2.6% position in Altron.

Standard Bank – *On track with plans*

Standard Bank's FY22 results showed a 37% increase in headline earnings as the group recorded continued client franchise growth across all its businesses and geographies. Group RoE improved to 16.4% (FY21: 13.5%) and moved closer to the 2025 target range of 17% to 20%. Net asset value per share grew by 6%. Standard Bank remains well capitalised, with a CET1 ratio of 13.5%. The final dividend of R6.91/share brought the total dividend for the year to R12.06 with a pay-out ratio of 58%.

The financial metrics of the group's banking activities were solid, with positive margin expansion of 579bps, enabling a lower cost to income ratio of 54.9% (FY21: 57.8%). Pre-provision profit grew by 26%, whilst the credit loss ratio increased only marginally to 75bps (FY21: 73bps) - near the bottom of the group's through-the-cycle range. Revenues were also boosted by cyclically higher interest rates.





The group's Africa regions contributed 36% towards FY22 group headline earnings. Headline earnings in this segment grew 32% in constant currency, with an ROE of 21.0% (FY21: 18.2%). The franchise grew revenue 30% in a very cost-efficient manner, evidenced by margin expansion of 882 bps.

The group's capital position remained healthy, with its Common Equity Tier 1 (CET1) capital adequacy ratio at 13.5% (FY21: 13.8%). The CET1 ratio is 2.5% above the board's target of >11%.

Standard Bank is currently tracking ahead of plan in terms of delivering on its 2025 commitments. Over the medium-term, we expect solid top line growth and costs to remain well contained. This combination enables low double-digit growth in pre-provision profits. Based on our assessment, Standard Bank is likely to reach the lower bound of its RoE target of 17%-20%. We also expect Liberty's turnaround to be accretive over the medium term, whilst the Africa regions is expected to remain robust.

The fund has material exposure to the SA banks (see first quarter commentary for further detail) and Standard Bank is one of the larger bank holdings at ~4.7%.

Detailed fund attribution: Q2 2023

Top 5 contributors and detractors for Q2 2023: Overweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Alphabet	3.9%	0.9%	Alibaba	2.2%	-0.4%
Cigna	2.5%	0.5%	Altron	2.8%	-0.3%
Comcast	2.8%	0.4%	Northam	0.4%	-0.1%
Brookfield	3.8%	0.3%	ABSA	1.1%	-0.1%
Nedbank	2.5%	0.3%	Prosus	2.2%	-0.0%

Top 5 contributors and detractors for Q2 2023: Underweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Impala	-2.8%	0.9%	Firststrand	-3.3%	-0.5%
Sibanye	-2.1%	0.6%	Goldfields	-5.2%	-0.3%
Anglogold	-3.9%	0.5%	Richemont	-1.4%	-0.7%
ABInbev	-1.7%	0.2%	MTN	-1.3%	-0.2%
Capitec	-2.8%	0.2%	Naspers	-5.9%	-0.2%

Current positioning and outlook

Global markets continue to be dominated by interest rate expectations and inflation data. Locally, loadshedding remains top of mind for businesses and consumers. The recent step forward with the NHI bill has also led to a resurfacing of many other SA challenges which need to be dealt with in future. Our assessment is that most market participants agree that SA assets are pricing in many of the known risks. However, new risks could emerge post the 2024 elections (known unknowns), or conditions could continue to deteriorate (unknown unknowns).





Within this context the fund retains its meaningful exposure to offshore earnings streams and continues to be well diversified across businesses and industries. The fund ended the quarter with ~23% direct exposure to international markets. The fund's SA inc. exposure is concentrated in businesses we think will continue to prove resilient, despite the constrained economic environment. The top 10 positions in the fund account for ~44% of the capital, with a total of 31 holdings.

Our rigorous investment process continues to guide us to opportunities to strengthen the expected return profile of the fund while maintaining our overall risk management approach. In the current environment where sentiment is low and valuations are broadly attractive, we also remain cognisant of avoiding opportunities that can turn out to be value traps. The recent performance of the fund is encouraging, but our focus remains on the long-term compounding of the fund's capital.

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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