

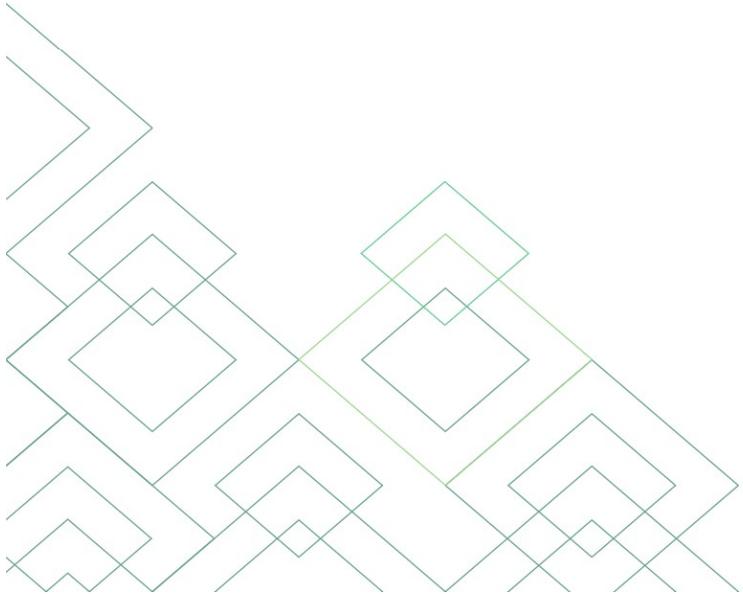
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NEDGROUP INVESTMENTS SA EQUITY FUND

Quarter Two, 2023





Performance to 31 March 2023	Nedgroup Investments SA Equity ¹	FTSE/JSE SA Capped SWIX
3 months	-0.77%	1.2%
12 months	11.1%	13.5%

Market Commentary

While still in the depths of winter with elevated load shedding risks, we have at least moved through the longest night and turned the corner starting the slow journey towards the warmth and light of the African summer. Worries around load shedding, political uncertainty around South Africa's perceived alignment with Russia, and increasing pressure on the consumer due to high inflation and increasing interest rates, has left sentiment towards the local market at rock bottom levels.

On the flip side, Eskom has done a remarkable job keeping load shedding to a minimum during this period of peak winter demand, through a combination less planned/unplanned maintenance, better renewable wind electricity production aided by the storms in the Cape and compounded by lower peak demand than has been observed in previous years. The materially better load shedding vs the dire expectations of stage 8 so far this winter, along with a general risk on environment globally, has helped buoy the ZAR from over USD/R19.70 to the USD/R18.76 at the end of June, and support the domestic focussed SA market which has rallied 10% from its bottom seen at the end of May.

Against this very sombre background we are starting to see the early benefits of some structural changes driven by operation Vulindlela, a joint initiative between the presidency and treasury. A prime example of this would be the lifting of the 1MW and 100MW caps on private embedded electricity generation, and the over 4GW of private generation that has been registered with Nersa over the last 12 months. Similar structural issues are being tackled within the logistics network, digital communication network, visa regime, water system, passenger rail network, SOE procurement systems and lower end housing title deed backlog.

We believe that this negative sentiment has largely been priced into the local market with domestic facing stocks trading at valuations last seen during Covid as can be seen in the chart below. We have been taking advantage of the weakness in the local market to selectively accumulate positions in SA companies with strong management teams, robust balance sheets and where we forecast that the market has been overly punitive in pricing in risks such as load shedding at stage 6 into perpetuity.

Portfolio changes, current positioning and outlook

While the fund has increased its exposure to domestic focussed counters such as ABSA and The Foschini Group it continues to hold large positions in offshore counters such as Naspers/Prosus and British American Tobacco. Naspers/Prosus announced the collapse of the cross-holding structure which helped close the discount to the intrinsic net asset value (NAV). Despite both these stocks performing well year to date we maintain our view that the company's core asset Tencent remains very attractively valued, that the discount to NAV is still too wide and with further value unlock to happen in the core portfolio it will further narrow over time. British American Tobacco has had a tough start to the year down -6.9%, but continues to look attractive trading below a 6.7x forward PE and 8.8% dividend yield. The company will also have the opportunity to reinstate the share buyback program as the debt levels decrease towards the end of the year.

Exposure to the domestic SA economy continues to be primarily taken through the banking sector, with our preferred picks being FirstRand and ABSA. While the banks have started to observe pressure in their retail lending books, their corporate books are performing well and thus we believe their balance sheets are still well protected by adequate provisions at a group level. On the positive side their earnings continue to benefit from higher interest rates and they are trading at very attractive multiples, with sustainable high single digit dividend yields.

In uncertain times, we continue to act like long term owners of businesses and focus on the underlying operating metrics of companies we own, over and above the noise of negative market sentiment. In this vein we are finding attractive opportunities in the SA listed market and believe the fund is well positioned with material upside and should reward our investors with good risk adjusted returns into the future.

¹ Net return for the Nedgroup Investments SA Equity Fund, A2 class. Source: Morningstar (monthly data series).





Figure 1: Portfolio Sector Positioning at Q2 2023

Global Consumer

- **Naspers/Prosus:** Tencent remains undervalued. Expect further narrowing of discount
- **British American Tobacco:** Defensive growth, 8%+ div yield, de-gearing, growth in Next Gen Products



SA Inc

- **Selective positions:** Self-help/market share gains, with strong management teams, despite constrained macro. TFG



SA Financials

- **Banks:** Attractive valuations with resilient capital levels; to benefit from rising rates with provisions to buffer higher credit losses
- **Selective Insurers:** Covid mortality provisions behind us trading at depressed valuations



Select Resource Exposure

- **Diversified Miners:** Supply-demand balance largely constrained
- **Oil:** Sasol
- **Paper & Packaging:** Mondi





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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