



NEDGROUP
INVESTMENTS

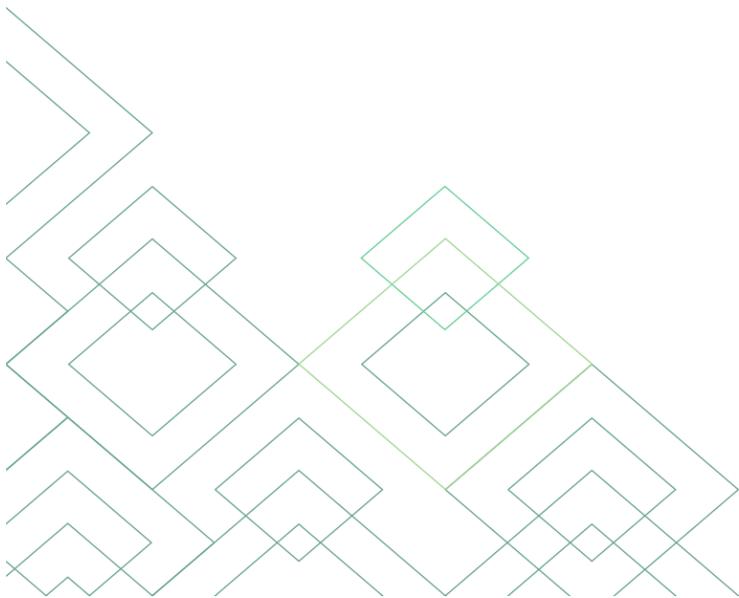
UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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NEDGROUP INVESTMENTS **STABLE FUND**

Quarter Three, 2023





Market Commentary

International

Global equities were lower as major central banks adopted a hawkish stance, indicating that interest rates would remain elevated for an extended period. This shift in policy had a cascading effect, with global emerging markets following suit. European stocks were particularly affected as they faced the added challenge of translating their performance to a stronger US dollar.

Developed market bond yields continued to surge, with the US 10-year yield reaching its highest level since 2007. This was accompanied by a sell-off in bond markets, driven by investors' expectations of impending rate hikes and a lessening risk of an imminent recession.

The US dollar maintained its strength, marking its advancement in eight out of the past 11 quarters. This surge in the greenback's value had a pronounced impact on other currencies, with the euro and pound significantly depreciating due to sluggish growth, and the yen continuing its decline.

Industrial commodity prices were again lower, primarily due to concerns about slower economic growth in China. Precious metals like gold and silver also suffered as the prospect of higher interest rates for longer make them less attractive investments. In contrast, crude oil prices surged towards \$100 a barrel as OPEC+ extended production cuts into the following year.

The US economy continue to exhibit remarkable resilience in the face of aggressive interest rate hikes over the past 18 months. However, the Eurozone has encountered challenges, with the German economy contracting slightly. In China, GDP growth rebounded from a low base, but the World Bank anticipated a slowdown to 4.4% growth in 2024, primarily due to an ongoing property crisis.

Despite hawkish rhetoric from leading central banks, there were no immediate changes to interest rates. On the political front, the US experienced another downgrade in its triple-A credit rating and narrowly averted a temporary government shutdown, highlighting the continuing challenges in the nation's financial and political landscape.

South Africa

The FTSE/JSE Capped All Share Index, mirroring global market trends, tracked lower during the quarter. This decline was primarily driven by the underperformance of industrial giants such as Richemont and Naspers/Prosus, in addition to a dip in resource shares due to generally lower commodity prices.

The All Bond Index remained relatively stable throughout the quarter. The yield curve displayed a steepening trend, with shorter-maturity bonds gaining in value on the expectation of future interest rate cuts, with these gains offset by bonds further out on the curve experiencing losses as longer-maturity yields rose.

The South African rand was volatile but ended the quarter with only marginal changes against a generally stronger US dollar. The currency remains susceptible to external factors, given South Africa's lacklustre economic growth and weakening terms of trade.

The second-quarter GDP growth figures showed an unexpected upside surprise, although growth remained understandably subdued. South Africa's debt and deficit metrics are projected to deteriorate further, with the South African Reserve Bank forecasting annual growth of just 1.1% by 2025, emphasizing the ongoing challenges in the nation's economic landscape.

Despite calls for a rate hike from some quarters of the South African Reserve Bank (SARB), the bank ultimately chose to keep interest rates unchanged. The SARB's governor advocated for more fiscal restraint, a view that was reinforced as the South African Revenue Service warned of lower revenue receipts. This decision underscored the complex economic and fiscal dynamics facing South Africa.



Portfolio Commentary

- Cash emerged as a top contributor to absolute returns given returns for most other asset classes were in negative territory — aggressive rate hikes over the past 18 months have driven cash rates higher, enhancing returns on cash
- Global equities detracted from returns with markets experiencing significant sell-offs — global equities were lower as hawkish major central banks signaled that interest rates would be higher for longer
- South African equity investments detracted as local bourse tracked global bourses lower — led by industrial giants Richemont and Naspers/Prosus and resources shares which drifted down with generally lower commodity prices
- SA bonds contributed given Foord's conservative positioning on the front end of the yield curve — bonds with shorter maturities gained on expectations of interest rate cuts while investors demanded higher risk adjusted yields on long-dated bonds
- Although the allocation to listed property remains low, investments in the sector contributed positively to fund returns — with recoveries in both Equites and Stor-Age adding value
- The physical gold investment detracted given the dollar price for bullion drifted lower — the NewGold ETF serves a crucial portfolio diversification purpose as both a hedge against inflation and as an alternative store of value to fiat currency

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
Sasol Conv. Bond	0.3	6.1	4.3
I2029 ILB	0.1	2.6	5.1
Spar Group	0.1	10.7	0.5
Equites Property	0.1	9.1	0.6
Sasol Corp Bond	0.1	2.0	2.1

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
Foord International Fund Lux B	-1.0	-5.0	20.6
Foord Global Equity Fund Lux B	-0.7	-4.1	18.1
Naspers	-0.2	-11.0	1.7
Newgold ETF	-0.1	-3.0	4.6
Wharf Real Estate	-0.1	-20.7	0.5



Investment Outlook

World:

Our view that rates would quickly rise and remain higher for longer has worked well to protect investors against negative returns in interest-rate sensitive asset classes. The global economy has now exited a period of massive fiscal and monetary policy stimulus. The surge in global inflation has shown that unconventional monetary policies bear costs. We are unlikely to see negative rates again. Surging government debt levels also limit fiscal capacity to counter slowing growth.

This means that risks to global growth for developed economies are skewed to the downside. We are safeguarding portfolios against drawdowns. However, high prevailing real yields mean the opportunity set is also greater. To take advantage, we have been cautiously but steadily increasing our allocation to shorter dated bonds in the Foord International Fund.

The era of easy money was the rising tide that lifted all boats. Markets rewarded excessive risk taking, not diligent fundamental analysis. Euphoria and subsequent investment returns are almost always inversely correlated. Accordingly, we have been careful to limit our exposure to shares and sectors that have been driven to extreme valuations by any popular theme — latterly the tech rally. Rather, we prefer well-priced investments in high-quality, sustainable businesses.

Looking ahead, higher borrowing costs will continue to test economic and fiscal resilience. Government policy changes are also likely to add to macro volatility. And the more central banks feel compelled to raise rates, the more uncertainty there will be for the lagged, real-economy impact.

All these factors add risk. However, market volatility also provides diligent investors with attractive entry points for long-term investment. We continue to invest in a diverse array of opportunities across the globe — in businesses with solid growth prospects and at valuations which still imply significant upside potential.

South Africa:

The country's economic growth is currently insufficient to effectively tackle its socio-economic challenges. This is evident as business and consumer confidence, along with other reliable leading indicators, all point towards weak economic conditions that lie ahead.

There is a growing likelihood that interest rates might peak at their current levels. This is due to the persistently weak economic conditions and the stress faced by consumers.

The South African Reserve Bank's (SARB) forecasts of a return to the 4.5% mid-range level by late 2023 may be overly optimistic. Instead, a more probable scenario is a medium level of inflation between 5-6% within that time frame.

The energy crisis is likely to persist in the near term. Nonetheless, there is hope that these victories might accelerate the unblocking of much-needed private sector investment in renewables and industry self-generation initiatives. However, the constraint of grid capacity remains a significant challenge.

The current account deficit is expected to persist, mainly due to the fading benefits of the export commodity price boom. Although the rand may seem marginally undervalued at its current levels, it remains susceptible to vulnerability in the longer term. This vulnerability is driven by structural economic weaknesses, a lack of global competitiveness, and unsustainable public finances.





Conclusion

The weighting in foreign assets was increased to 45% of total — measured together with non-rand earnings of JSE-listed companies, total foreign economic exposure is significantly higher on a look-through basis

Foreign equity investments prioritize companies with strong pricing power, offering better capital protection against rising inflation — portfolio hedges are maintained to mitigate potential earnings risks arising from higher interest rates or recession

The allocation to foreign government bonds remains low and comprises short-duration US Treasuries with a preference for inflation linked instruments — while listed property is stock-specific with an otherwise low weight given unattractive valuations

Exposure to SA equities was reduced through the trimming of SA Inc counters where prices rallied — despite attractive valuations, ratings for domestically oriented stocks are likely to remain under pressure given low prospects for economic growth coupled with higher cost of capital

A steepening of the SA yield curve afforded the opportunity to shift exposure further along the curve where higher yields now offer value — the allocation to SA nominal bonds was maintained given attractive yields on SA government bonds, but we continue to avoid SA credit assets where risk is mispriced

Listed property is limited to a low weighting given poor fundamentals for the asset class, despite optically attractive yields — sector risks include excess capacity, weak rental trend, consumer headwinds, rapidly escalating municipal costs and rising interest rates

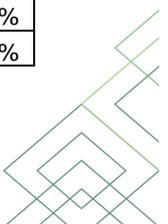
Physical gold ETF position is maintained on supportive fundamentals given the likelihood of nominal interest rates nearing a peak, a weaker US dollar and rising stagflation risks — the position provides attractive portfolio diversifying properties during periods of market stress

Responsible Investment Summary

Voting resolutions for Q3 2023

Portfolio	Total count	For	Against	Abstain
Adopt Financials	4	3	0	1
Auditor/Risk/Social/Ethics related	16	13	3	0
Buy Back Shares	4	3	1	0
Director Remuneration	36	35	1	0
Disapply Pre-emptive rights	0	0	0	0
Dividend related	2	2	0	0
Issue Shares	7	2	4	1
Loan / Financial Assistance	4	1	3	0
Other	23	20	0	3
Political Expenditure/Donation	0	0	0	0
Re/Elect Director	34	33	1	0
Remuneration Policy	10	8	2	0
Shares under Director Control	2	0	2	0
Signature of Documents	0	0	0	0
	142	120	17	5

Foord Global Equity Fund	Total count	For	Against	Abstain
Adopt financials	6	100%	0%	0%
Auditor/risk/social/ethics related	5	100%	0%	0%





Buy back shares	3	100%	0%	0%
Dividend related	2	100%	0%	0%
Issue shares	1	0%	100%	0%
Political expenditure/donation	1	100%	0%	0%
Re/elect director or members of supervisory board	25	100%	0%	0%
Remuneration policy including directors' remuneration	9	0%	100%	0%
Signature of documents/ratification	6	67%	33%	0%

Foord International Fund

	Total count	For	Against	Abstain
Adopt financials	2	100%	0%	0%
Auditor/risk/social/ethics related	6	100%	0%	0%
Buy back shares	1	100%	0%	0%
Dividend related	2	100%	0%	0%
Issue shares	2	0%	100%	0%
Political expenditure/donation	1	100%	0%	0%
Re/elect director or members of supervisory board	39	100%	0%	0%
Remuneration policy including directors' remuneration	4	25%	75%	0%
Signature of documents/ratification	7	43%	57%	0%

General comments:

- There are few abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention, it would typically be intentional or for strategic reasons
- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion we have voted in favour of such resolutions, we could gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated
- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings





Notable company engagements (Q3 2023)

Company	Topic	Company Attendees	Event Notes
Fortress	Governance	Chairman and Remuneration Chairman	We discussed a range of topics, including remuneration matters, such as metrics and performance criteria, company loans to management, and potential future changes to board composition, as well as the addition of new members to the board.
Life Healthcare	Governance	Remuneration Officer and Chief People Officer	The board previously consulted with us before implementing the new remuneration policy to gather our input and identify areas for improvement. The company is transitioning from a Short-Term Incentive (STI) and Long-Term Incentive (LTI) plan to a unified Single Investment Policy. We provided the board with guidance on the advantages and challenges associated with this single policy and recommended the key metrics to be utilized. The new policy represents an enhancement over the previous one, incorporating risk metrics. The board expressed their support for our suggestions regarding refinements.
Netcare	Governance	Board Chairman	We conveyed our reservations regarding the appointment of an internal CEO and expressed our preference for an external candidate.
Prosus	Governance	Prosus Investor Relations	This discussion served as an extension of our ongoing engagement concerning management and capital allocation concerns. During this call, the primary focus was on the CEO transition and the simplification of the business model. Management recognized the shortcomings of the previous CEO and elaborated on the shift in strategy, moving away from an operational role to a more investment-oriented approach.
Sasol	Environmental	CEO, CFO and divisional heads	Participated in a two-day site visit at the Secunda Plant, with the primary focus on the Group's 2023 Greenhouse Gas (GHG) emission reduction roadmap. Management conducted various presentations, outlining the essential measures required to achieve compliance with minimum emission standards and internal targets. These measures encompass load-based reduction strategies and a shift towards lower carbon-intensive feedstocks. The planned initiatives at the Secunda Plant are expected to significantly reduce emissions compared to current levels, with a target of a 30% reduction in GHG emissions by 2030. Due to the potential impact on operations and the intricate nature of the proposed plans, we maintain a cautious outlook on the Group's future.





Disclaimer

WHO WE ARE

Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

OUR TRUSTEE

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PERFORMANCE

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

PRICING

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

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

DISCLAIMER

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

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