

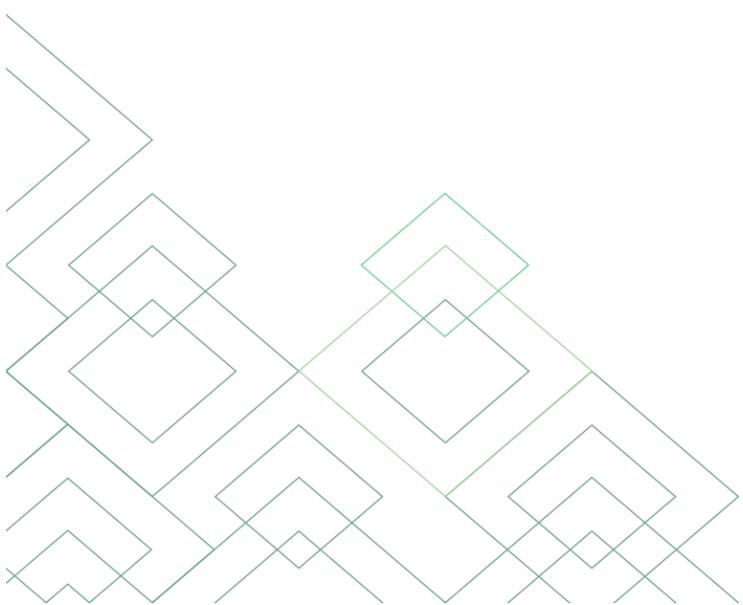
UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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# NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Four, 2024





## Nedgroup Investments Opportunity Fund

Performance to 31 Dec 2024	Fund Performance <sup>1</sup>	ASISA category average <sup>2</sup>	Inflation + 5%
3 months	3.5%	1.6%	1.2%
1 year	20.7%	12.8%	8.1%
3 years	12.4%	8.0%	10.5%
5 years	12.8%	9.3%	10.1%
10 years	9.5%	7.1%	10.2%

### Market overview

Described as the largest election year in history, more than seventy countries went to the polls during 2024, affecting roughly half of the world's population. However, the re-election of Donald Trump as the US president will, by some margin, have the most significant impact on global trade, geopolitics, and financial markets. His stated policies of lowering taxes, increasing trade tariffs, deregulation, less fiscal discipline, and stricter immigration control are, although near term supportive of US equities, on the margin inflationary and may undo much of the heavy lifting done by central banks globally during the last few years. In response US yields retraced aggressively by more than 80bps on the 10-year bond, erasing virtually all the Q3 gains, to end 2024 close to April's high of around 4.6%.

The Federal Reserve elected to focus on slightly softer employment numbers and benign inflation prints, continuing its cutting cycle with 25bps in November and December, following the initial 50bps cut in September. They have signaled a slower pace going into 2025 with only two 25bps cuts expected, indicating the benchmark yield should end the year between a range of 3.75% and 4% which is 50bps higher than the September expectation.

The Trump victory contributed further uncertainty for the Chinese markets as large trade tariffs loom for an economy that has struggled to shift from export manufacturing to local consumerism. In addition to the stimulus measures in Q3, China announced a 10 trillion yuan (USD1.4tr) package during November, aiming to repair municipal balance sheets and support the property sector over the next few years. Although the stimulus is significant, the market expects more, especially post the US election outcome.

The SARB continued its hawkish stance, cutting interest rates by 25bps to 7.75% in November. This was despite inflation declining to 2.8% and lifting slightly to end the year at 2.9% mainly due to base effects. Inflation is expected to remain below 4% for 1H25 however the potential impact of the strong dollar, higher global rates and local price risks around electricity, water and wages prompted the SARB to take a cautious stance.

The rand weakened by 8.9% during Q4 to end the year at R18.90 / USD, 2.8% weaker for 2024. Despite the challenging backdrop, local bonds held up extremely well with the All-Bond Index gaining 0.4% for the quarter and an excellent 17.2% for 2024. Local Inflation Linked Bonds outperformed nominals slightly for the quarter by 0.4% but lagged for the year, returning 7.8% while cash (STeFI composite) returned 8.5%. The FTSE World Government Bond Index declined 2.8% during 2024 following a 5.4% decline in Q4 in US dollar terms.

The S&P had another stellar year, returning 25% which supported a return of 18% for the MSCI All World Index. UK and European equity markets lagged with 7.5% and 2.4% returns, respectively in USD. A significant 30% sell-off in Brazil, for the year, and an 8% retracement in China in Q4 resulted in a moderate gain of 8.1% in USD for emerging market equities overall with China gaining 19.7% for the year.

<sup>1</sup> Net return for the Nedgroup Investments Opportunity Fund, A1 class. Source: Morningstar (monthly data series).

<sup>2</sup> ASISA multi-asset medium equity category.





South African equities (Swix All Share) gained 13.5% for 2024 despite a 2.1% decline in Q4. Financials and Industrials gained 23.1% and 18.5% respectively while Resources declined 8.6% for the year. The Property sector returned a stellar 28% for 2024.

### Portfolio Commentary

The Nedgroup Opportunity Fund delivered a return of 3.5% (net of fees) for the quarter against the peer group return of 1.6%.

The robust performance for the quarter placed the Nedgroup Opportunity Fund ahead of peers by 7.9% over the past year and ranks amongst the top percentile of the peer group over all periods since inception. The Fund continues to achieve its real return objective of CPI + 5%.

### Top 5 winners and losers for Q4 2024:

Top contributors	Average weight	Performance	Top detractors	Average weight	Performance
TBC Bank Group	2.8%	0.6%	Sasol	2.1%	-0.8%
QIFU Technology	1.5%	0.5%	Alibaba Group	1.7%	-0.3%
Brait	1.5%	0.5%	Autohome	2.2%	-0.2%
BAT Structured Note	3.0%	0.4%	BHP Structured Note	0.4%	-0.1%
ABSA Group	4.7%	0.4%	S&P 500	0.1%	-0.1%

TBC Bank Group was a strong contributor, benefiting from improved political stability in Georgia, where the business is headquartered. The business benefits from a low-cost structure and continued digitalisation of the financial services industry with further growth expected. We continue to have high conviction based on strong earnings growth, share buybacks, and an attractive valuation.

QIFU Technologies experienced a notable increase in share price throughout 2024 off the back of strong financial performance, technological advances in AI and a share repurchase program. These factors collectively enhanced investor confidence and support our holding.

Alibaba lost some of its previous gains off the back of weaker results with free cashflow ending at half of 2023 levels. The share price had a positive contribution for the year of 0.3% and continues to be well diversified and managed with a net cash balance of 1/3 of market cap. We continue to see opportunity in the Chinese market with some companies having net cash on their balance sheet and Enterprise Valuations of between 2x – 4x.

BAT continues to maintain a strong financial position, offering attractive dividend yields. As of December 2024, the annual dividend yield was approximately 7.9%. The share price appreciation was driven mainly from continued share buybacks and revenue growth from less stringent emerging markets.

BHP continues to produce solid results. The share looks cheap relative to their own history and should benefit when the price of iron ore price recovers or stabilises.

SA Inc shares, including ABSA and Brait, continued to benefit from the demand for companies exposed to the local economy.

Brait was under severe pressure as a deeply discounted rights offer was announced, resulting in the company trading at a large discount to the post rights NAV. We followed our rights and have benefited from the recovery of the share price over the latter part of the year.





Our patience with ABSA was rewarded in the final quarter, with the share delivering strong returns in Q4 (+8%) and for the calendar year (+24%). After a particularly tough 18 months (financial one-offs combined with management instability), the company is in a better position thanks to a re-focus under the new interim CEO and a more favourable economic cycle (driving lower impairments).

Sasol continued to underperform over 12 months, as the deteriorating chemical prices, a weaker oil price and a stronger rand put pressure on the Sasol share price. However, the market fundamentals are at a cyclical trough, and coupled with mining productivity improvements, overall group earnings and cash flow should start to ease the pressure. This is however not a core holding of the Fund and we will look to reduce our position into strength.

**Top 5 winners and losers for 2024:**

Top contributors	Average weight	Performance	Top detractors	Average weight	Performance
R2040	18.2	3.6	Sasol	2.7	-2.5
BAT Structured Note	2.6	1.7	MTN	1.2	-0.3
QIFU Technology	1.3	1.5	S&P 500	0.1	-0.2
ABSA Group	4.8	1.4	Swatch Structured Note	0.4	-0.2
Brait	0.7	1.4	BHP Structured Note	0.4	-0.1

Local bonds were volatile during the year however they continued to rally towards the second half of the year, post the local elections and greater political certainty, resulting in a decline in South Africa’s country risk premium.

MTN continues to be plagued by Nigerian uncertainty regarding potential tariff increases by the Nigerian regulator. This places a strain on their ability to extract cash from Nigeria. MTN has an attractive fintech business offering high earnings growth that will become more material to the group in time. MTN trades at a 10x forward P/E on a low earning base.

**Current positioning and outlook**

Following exceptional performance across most asset classes, we continue to moderately reduce risk, most notably in local bonds and equities but also some property, into strength.

On a stand-alone basis and relative to global alternatives, we believe South African equities continue to present a compelling investment provided we can capitalise on the new-found optimism, energy and intent post the general election and formation of the Government of National Unity. There is clear progress on various fronts including stable electricity supply, ongoing structural reforms, lower inflation and interest rates, progress on the removal from the FATF grey list and hopefully increased accountability and improved performance in the public sector.

With South African bonds outperforming international interest rates during Q4 and inflation fairly well in check, the South African country risk premium compressed to a level that can be viewed as slightly expensive. We therefore have diversified into inflation linked bonds where real yields of well over 4.5% are on offer. Significant rand weakness during Q4 provided the opportunity for attractive hedging against future rand strength.

We still believe US equities are expensive, and concentration risks abound, but we see value in select European and EM equities. The Chinese rally disappointingly petered out in Q4, however we retain our modest exposure until there is further clarity on tariffs and stimulus.





Our offshore bond exposure increased post the sell-off in US inflation-linked and nominal bonds, which are offering excellent value. Currently the US 10-year government bond yield exceeds the S&P earnings yield, and we expect this extreme relative valuation differential to reverse somewhat.

The Fund is well diversified with a healthy balance between growth assets and capital protection. We will continue to monitor market conditions and adjust our investment strategy as necessary, ensuring we continue to achieve our dual objective of capital protection and upside participation.





## 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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