NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter Four, 2019

For the period ended 31 December 2019

NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Performance to 31 December 2019	Nedgroup Investments Entrepreneur Fund[1]	ASISA category average	Small Cap Index	Mid Cap Index
3 months	2.1%	6.3%	0.7%	12.9%
12 months	-5.4%	2.9%	-4.1%	15.6%

Market Commentary

South African equities rebounded in December, with the JSE All Share Index (ALSI) delivering a total return of +3.3%. The Resources sector gained +7.0%, followed by Industrials (+2.3%) and Financials (+0.7%). The Mid and Small Cap Indices rose in tandem, with the resource-heavier Mid Cap Index once again outperforming the Small Caps.

Despite heightened geopolitical tensions and concerns about slowing growth, global equity markets lifted higher over the year, boosted by the return of monetary easing from major central banks as well as progress on trade (US/China) and Brexit. In 2019, the All Share Index delivered a total return of +12.0%. The Resources sector was once again the top performer with a total return of +28.5% (2018: +15.5%). Industrials gained +8.9% (2018: -17.5%) while Financials only managed a modest gain of +0.6% (2018: -8.8%). Platinum (+203%) and Gold Mining (+108%) shares performed particularly well and were the top performing equity sectors in 2019. The Platinum sector has been driven by a dramatic rise in palladium and rhodium prices and thus a sharp improvement in sector profitability. Gold had a good year as a result of higher prices buoyed by global political uncertainty.

Despite the domestic problems of collapsing state-owned enterprises and low GDP growth, the rand has remained remarkably resilient. It was the sixth best performing emerging market currency in 2019, appreciating by +2.5% against the US dollar. The rand ended 2019 at R14 to the US$ and still 10% firmer than where it ended 2015 (now 4 years distant) at the time of the Nenegate political fiasco.

Portfolio Commentary

The fund's top five performing positions added 5.2% to returns for the year ended December 2019, while the bottom five detracted -7.5%.

Winners	Ave. weight	Performance contribution	Losers	Ave. weight	Performance Contribution
A Impala Conv Debs	1.9%	2.2%	A KAP Industrial	4.5%	-2.7%
B Naspers	6.0%	1.2%	B Truworths	3.1%	-1.7%
C Raubex	3.0%	1.1%	C Sappi	1.6%	-1.1%
D Reinet / BAT	4.7%	0.7%	D Netcare	1.5%	-1.0%
E Transaction Capital	1.2%	0.5%	E Merafe	2.3%	-1.0%
		5.2%			-7.5%

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

We acknowledge that 2019 was a disappointing year for investors and will not be happily reflected on. The primary causes for the fund's disappointing year have been discussed in some detail in both the Q2 and Q3 commentaries, but at the risk of becoming repetitive can be classified into two primary categories:

1. Poor operational performances from reasonably priced businesses previously considered well managed and with diversified, and in most cases defensive, cash generative business models. The two primary examples in this category and which also appear in the table above are KAP Industrial and Truworths.
2. Limited exposure to the high flying Gold and Platinum miners which were up by 108% and 203% respectively. Although our Impala Convertible Debentures returned 226% for the year, our expectedly conservative weighting was around 2%, while one of our benchmarks, the JSE Mid Cap Index has a significantly higher exposure to the sector as well as some of our competitors it would appear.

At the end of 2018 we wrote extensively about the fund's exposure to British American Tobacco, directly as well as indirectly via Reinet, and the pain the fund had taken in Q4 2018 due to a significant de-rating those stocks underwent, owing to a variety of factors discussed at length in the Q4 2018 commentary. Our view at the time was that the market had been overly punitive, and we were consequently retaining our position and even increased our Reinet weighting when it briefly dropped out of the Top-40 Index. We are naturally pleased to report that this diligence and persistence has paid off in 2019 with these stocks recovering some of the under-performance and both making it into the Top 5 positive contributors in 2019. We expect further positive contribution from both in 2020.

As fund managers we feel the pressure to deliver performance intensely and even more so during a period of disappointing performance which we find ourselves reporting here. A review of the fund does however show an appropriately weighted collection of very attractively valued assets that are poised to do well in the event economic growth in South Africa starts to recover off its current very low base.

Current positioning and outlook

As we approach 2020, we find ourselves having to guard against the risk of over pessimism brought on by the endless procession, month after month of weak economic data points, very low business and consumer confidence, slow political progress, and the gridlock of contradictory economic policy within the ANC. As well as limited prosecutorial action against corrupt state employees, and of course ongoing load shedding. To many it appears there is no end in sight to most, if not all, of these woes.

We are also careful not be naively optimistic, although there is currently little risk of this becoming contagious.

So, as always, we will continue to examine the companies in our investable universe unemotionally within the scope of their current and historic valuation ranges and within the context of their growth prospects. While we've been let down by two or three notable disappointments (as discussed above) in the last year, we are confident the current portfolio is appropriately balanced, with position sizes governed by our level of conviction and risk.

Conclusions

On a historic PE of 11.0X and a dividend yield of nearly 5%, we think the fund offers reasonable value. The consensus amongst South Africa's economist community suggests GDP growth in the year ahead of around 1.0%. While this is hardly anything to get excited about and will do little to create large scale employment opportunities, it does at least represent an improvement of the last two or three years. And perhaps marks the start of an accelerating trend. Should that prove to be the case, this fund with its overwhelming exposure to domestic South African economic activity will do very well.

Responsible Investment Comments

We were kept busy in this important aspect of the work we do over the last quarter. Some of the companies and areas of concern worked on, which may have also included direct engagement with appropriate management at the firms, included the following:

Naspers / Prosus: Attended the Capital Markets Day in Amsterdam and have been engaging extensively with the company and industry in researching the On-line Food Delivery businesses into which the firm has already, and intends, committing substantial additional capital. From an ESG perspective we are concerned that there seems to be little understanding or concern for the safety, welfare and risk their delivery operators (whether directly or indirectly employed) face in the field.

Reinet: Continue to engage with management regarding the firm’s structure and deep discount to NAV as well as their poor governance score, limited shareholder engagement, and unsatisfactory fee arrangement.

Italtile: Met with lead independent non-executive director to examine issues of potential conflict between the controlling family shareholder and minorities. Pleasingly nothing of concern to note here.

Sappi and Oceana Fishing: Independent research commissioned to examine operating practices at both companies regarding environmental conduct. Sappi in the field of damage causing animals (Baboons) to forests and Oceana the impact of reduced access to food stocks for seabirds – notably the African Penguin. This work is ongoing and has yet to be addressed with company management which we anticipate in Q1 2020.

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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