NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter One, 2020

Nedgroup Investments Entrepreneur Fund

Performance to 31 March 2020	Nedgroup Investments Entrepreneur Fund[1]	ASISA category average	Small Cap Index	Mid Cap Index
3 months	-23.9	-30.4	-35.6	-35.6
12 months	-27.7	-27.5	-33.0	-27.5

Market commentary

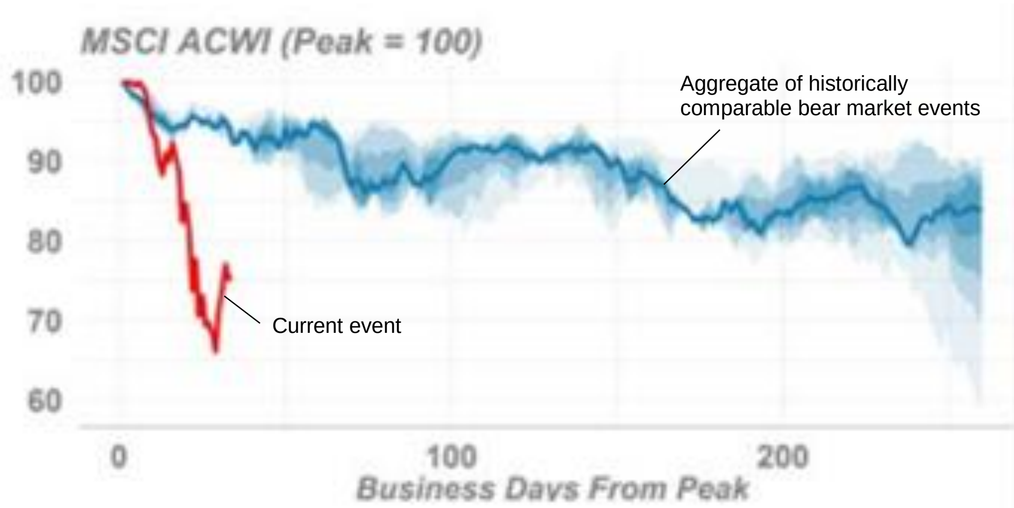
Q1 2020 will forever be etched into the memories of investors and will be recorded in history, and the price charts of every publicly exchanged security, as “The Covid-19 crash”.

We experienced some extreme moves in equity markets in a very short period, and volatility spiked even higher than previous record periods. The JSE Swix fell -14.2% for March 2020 and -23.3% for the quarter. The Capped Swix did not fare any better, declining -16.7% for March and -26.6% for the quarter. At a sector level, SA Financials were worst hit (-29.4%), dragged down by the Property and Banking counters.

Almost all emerging market currencies depreciated against the US dollar in March, the weakest being the Mexican peso (-15.6%) and the Russian ruble (-14.0%). The South African rand (-11.9%) was the sixth weakest.

The extent of the economic impact and disruption caused by human and goods movement restrictions, and quarantines imposed on parts of the world to limit the spread of the corona virus, remain hard to predict. So too are the effects and extent of any mitigating measures to stimulate activity and recovery in its aftermath. We are conscious of the fact that it will take some time for the full impact of this global shock to the human healthcare and economic system to be felt and analysed, but we note that we have seen some extreme moves in equity markets in a very short period. In USD terms, the first three months of 2020 is the worst performance by SA Equities in the last forty-five years.

If we look back in history, we find that the speed and extent of the crash experienced in most of the world’s equity markets (including the JSE) in Q1 2020, has been the fastest. In the chart below, we illustrate the current crisis against similar events in history. Although there has been a reasonable recovery off the lowest levels, what remains to be seen is whether the trough has been recorded. And if not, then how long will it take to get there, and then how quick the recovery will be.



[2]

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

Portfolio Commentary

The Nedgroup Investments Entrepreneur Fund's top five performing positions added 1.69% to returns over the second quarter, while the bottom five detracted a combined -8.79%.

The defensive structure of the portfolio has resulted in a substantial outperformance by the fund over the last quarter against its peer group, as well as all equity index benchmarks. The scale of the market decline does however bring us no satisfaction from this relative outperformance.

In addition, we have executed substantially higher trading activity in the last quarter and are actively looking to exploit situations to rotate from some defensive positions, that have protected capital value, into quality businesses that have sold off and represent excellent long-term value. Assuming these businesses have a balance sheet strong enough to weather the current storm of economic downturn.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers Ltd	6.3%	0.7%	KAP Industrial	3.4%	-2.8%
Prosus NV	2.9%	0.5%	Royal Bafokeng	2.2%	-1.7%
Assore Ltd	1.5%	0.3%	WBHO	3.5%	-1.6%
Northam Platinum	0.2%	0.2%	Reunert	3.6%	-1.5%
British American Tobacco	3.1%	0.1%	Hudaco	3.4%	-1.2%
		+1.7%			**-8.8%**

Current positioning and outlook

While we don't know the answer to many questions regarding the short- and long-term impact of COVID-19 on human health, future consumer behaviour and the success or failure of economic stimulus measures, we prefer to focus on what we do know. This includes the following:

1. The crisis will pass but has, and will, continue to be prolonged by state and health authorities' desire to "flatten the curve".
2. While admirably humanitarian and done with the aim of minimising loss of human life, the economic price that will have to be paid is immeasurable and will have permanent fatal consequences for many enterprises and their employees' source of income.
3. Substantial stimulatory monetary and fiscal interventions are being brought to bear to limit the negative economic impact and accelerate the post crisis recovery. The effectiveness of these is uncertain, and the extent varies. In the U.S. the CARES Bill has already applied twice the degree of stimulus injected into the US economy at the time of the Global Financial Crisis in 2008/2009. In contrast, the South African state, crippled by an already weak economy, overly indebted balance sheet (compounded by the rising cost of servicing it through the rating agency downgrades to unanimous junk status), now falling tax revenues and a highly inflexible cost base, finds itself in a dire position with very little ability to respond.
4. This crisis is likely to bring about the failure of organizations carrying too much debt, and which are especially exposed to the impact of the virus. Their failure will however create opportunities for those that survive, this is the beauty of a free market system. Markets will also recover and for those with the patience there are opportunities to buy high quality businesses at valuations not seen in the last decade.
5. We are also likely to see new commercial opportunities emerge after the crisis, as we think human commercial and consumer behaviour is likely to experience some permanent changes when we all emerge from the lockdown environments that have been imposed.

During Q1 2020, our activity in the portfolio has been high and focused on minimizing the negative impact of the crash. We acted quickly and early to reduce our already limited resources exposure by selling Impala Platinum convertible debt, alongside our stock holding in Sappi. We also sold out of Barloworld, by and large a mining equipment supplier where we are very concerned about recent capital allocation decisions on Wagner and Tongaat Starch.

We also moved quickly to reduce exposure to businesses exposed to discretionary domestic consumer activity, which will be especially impacted by the lockdown and from which we expect, at best, a gradual recovery in the post lockdown period. We had limited exposure to the retail sector prior to the COVID-19 event, despite cheap valuations, because of the very poor growth prospects. Position sales here include Truworths and Italtile - although this is an exceptionally high-quality business that we look forward to buying back in time.

We were not surprised to receive an offer of buyout for our Assore and Peregrine positions, and used the irrational weakness caused by a desperation for liquidity to add to both of those positions. At these prices we would not be surprised to be approached for a buyout on other quality positions we hold.

We have drawn comfort from our well-positioned international exposure, via defensive positions in Naspers (Tencent is benefitting from COVID-19) and British American Tobacco / Reinet. As foreign businesses, these have benefitted additionally from the weak rand. Although there are limited opportunities in the small and mid-cap space to buy quality rand hedge stocks, our position in Oceana with its US fishmeal business is sound.

The fund continues to hold substantial positions in defensive local mid-cap businesses that are very attractively priced by historic standards and can continue defending their level of profits and dividends despite the headwinds faced. Such counters include AVI, Alexander Forbes, Adcock Ingram, the JSE and our large position in short-term insurers Santam and RMI (OUTsurance). Collectively, these names represented a quarter of the fund at the end of March.

Conclusion

We expect market conditions to remain volatile, but also expect to be through the worst of the lockdowns by the end of the next quarter. Our focus at the moment is on looking to buy or add to high quality businesses that are trading at very low valuations, but most importantly have the balance sheets to be able to weather the storm.

Undoubtedly there will be many tragic casualties of this human health and economic shock, and we expect that many aspects of human interaction, mobility and commercial activity are likely to be permanently altered. For the nimble, appropriately capitalised and astutely managed businesses, survival will create fresh opportunities at the expense of those who are not. This is the free market system which must be allowed to work freely while at the same time contributing to the humanitarian crisis our world is facing.

Our thoughts are with all our investors and their families at this worrying and highly disruptive time, and we hope that you are keeping all your loved ones as safe as possible, especially those more vulnerable to attack from this disease.

Now is the time to think carefully for the storm will pass and volatile times, such as we are currently experiencing, create opportunities for the long-term and patient investor.

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)..

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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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