



**NEDBANK**  
**PRIVATE WEALTH**  
SINCE 1834

# PRIVATE WEALTH SMALL AND MID CAP FUND

Q2 2020

see money differently

## MARKET REVIEW

South Africa continues to progress the reopening of the economy, even as coronavirus statistics increase and hospitals rapidly fill up. The full impact of the lockdown will only be seen in activity numbers for the second quarter, but the first quarter GDP contraction of -2.0% already includes signs of decreased mobility, activity and a change in spending. The third consecutive quarterly contraction, however, confirms a weak economic backdrop prior to the health crisis, weighed down by the heavy burden of load shedding.

The Supplementary Budget detailed a revenue shortfall in excess of R300bn, R3bn in support for the Land Bank and ballooning debt service costs, which would result in an expected budget deficit of -14.6%. Large scale reprioritisation of expenditure and the introduction of zero-based budgeting signalled belt tightening, but it was fiscal consolidation that took centre stage. Finance Minister Mboweni spent some time unpacking the fiscal reckoning that was looming in the absence of an active approach to the country's debt problem. Never short of a plan, a poor track record of execution on reforms and difficult fiscal choices left credit ratings agencies Fitch and Moody's sceptical of South Africa's consolidation plans.

The rebound in equity markets continued in June with the FTSE/JSE All Share gaining +7.7%. Small cap stocks led the way, returning +11.3% during the month, compared to the +7.8% and +6.1% delivered by large and mid-caps respectively. Sharing the dramatic but uneven turnaround of global markets, the FTSE All Share gained +23.2% over the quarter with the most noteworthy moves from Sasol (+258.0%), which rerated alongside the gold (+68.0%) and platinum miners (+62.0%). Business stress (and/or pre-emptive moves while investors still have capital) has led to a growing number of companies opting to raise capital in the equity market through rights issues, including Foschini, Curro, City Lodge and Sun International.

## FUND PERFORMANCE

The fund underperformed relative to its benchmark during the quarter, posting a return of 10.1% versus the benchmark's 15.9%. The fund's peer group posted an average return of 13.8% for the period.

The fund's underweight position in resources was a key detractor to performance over the quarter – Harmony (-1.08%), DRD Gold (-1.01%) and Northam (-0.81%) – and continues to weigh on the Fund's longer-term performance. Not holding Aspen (-1.25%) also detracted from fund performance. The Aspen share price rallied by +55.2% over the quarter as investor concerns around the Group's ability to de-lever eased. The fund's holdings in African Rainbow Capital (-1.46%), Adcorp (-0.90%) and AdaptIT (-0.55%) detracted from performance over the quarter.

Positive contributors to fund performance over the quarter include holdings in Transaction Capital (+0.58%), RMI (+0.57%) and Famous Brands (+0.36%).

## CHANGES TO THE FUND

Given the precarious outlook for the SA economy and what, in our view, will be a protracted economic recovery, the fund continued to focus on enhancing the quality of the portfolio and on reducing risk. Actions taken include exiting the fund's small positions in Brait and Mpact. Brait is highly leveraged both at the holding company level and at the underlying assets, while Mpact's earnings recovery is highly dependent on an economic recovery. Particular focus was given to the fund's apparel retail exposure given the significant impact the covid-19 pandemic will have on short-term earnings and uncertainty with regards to the pace and shape of a recovery in trading conditions thereafter. The fund exited its positions in Truworths and Pepkor, reduced its holding in Foschini and established a position in Mr Price. Mr Price is our preferred exposure among the apparel retailers given its robust balance sheet position.

Foschini, Mr Price and Pepkor all released financial results during the period. Highlights include the significant impact of covid-19 related restrictions on revenues in March and the months thereafter, increased provisions for bad debts and no dividend declarations. The three retailers were also amongst several companies to announce capital raises

during the quarter, prompted by the uncertainty posed by the covid-19 pandemic on financial positions. While in the case of Foschini and Pepkor the proceeds will be used largely to pay down debt, Mr Price has no debt and is in a net cash position. Any additional capital raised by Mr Price will position the Group to take advantage of “value accretive assets at attractive valuations” that may become available given the current economic environment.

The theme of capital raises and increased provisions continued into the financial services sector with taxi lender and debt collector Transaction Capital, which is now one of the funds top 10 holdings. The Group recently raised R660mn via an accelerated bookbuild which will be used to pursue growth opportunities through the acquisition of non-performing loan portfolios in SA and to invest into the higher-yielding niche European specialised credit market. Transaction Capital also released interim results during the quarter, reporting a 17.0% decline in HEPS as a result of R191m worth of additional provisions and the impairment of at-risk assets in anticipation of more challenging conditions over the short term. Excluding this non-cash adjustment core HEPS would have increased by 18.0%. While near-term profits are likely to remain under pressure, the essential nature of most of Transaction Capital's operations should support a strong medium-term earnings recovery.

During the quarter the fund added to its position in JSE, a good quality and highly cash generative business that is well positioned to benefit from increased volatility in the equity market and higher trading volumes. The fund subsequently trimmed its position as the JSE share price re-rated and the counter approached our assessment of fair value. The fund established a small position in Tigerbrands during the quarter. Despite the various challenges faced by the food producer our view is that these are adequately discounted in the current share price. The Group retains a strong financial position with c. R1bn net cash with limited downside to margins from current levels, in our view.

## LOOKING FORWARD

It has been an exceptional year for markets so far and in many respects the impact of covid on the real economy is only just beginning to take hold. Conditions are likely to remain challenging and markets volatile. We continue to embrace the opportunities created by the market and use them to enhance both the quality and expected return of the fund with the view of rewarding unitholders over the long term.



# NEDGROUP INVESTMENTS PRIVATE WEALTH SMALL & MID CAP EQUITY FUND



JUNE 2020

## RISK RATING



## RISK REWARD PROFILE

Equity investments are volatile by nature and subject to potential capital loss. Due to its specialist nature, the portfolio will typically display higher volatility than a general equity portfolio. The portfolio is suitable for investors who require specific exposure to small- and mid-cap sector shares as part of their overall investment strategy, with maximum capital appreciation as their primary goal over the long term.

## GENERAL INFORMATION

### BENCHMARK / TARGET RETURN

25% FTSE/JSE Small-Cap Index 75% FTSE/JSE Mid-Cap Index

### INVESTMENT MANAGER ASSET CLASS

Nedgroup Investment Advisors (Pty) Ltd is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No. 1652).

### ASISA CATEGORY

South African Equity Mid & Small Cap

### REGULATION 28 COMPLIANT

No

### INCEPTION DATE

01 May 2004

### FUND SIZE

R 127 Million

### NET ASSET VALUE<sup>1</sup>

4107.70 cpu

### MINIMUM INVESTMENT

Lump sum: R50,000

### INCOME DISTRIBUTION

Frequency: Annually

December 2019: 116.92 cpu

Previous 12 months: 116.92 cpu

### FEES

Annual management fee (excluding VAT): 1.00%

Total expense ratio 1.23%

Transaction costs 0.22%

**Total investment charges<sup>3</sup> 1.45%**

## INVESTMENT APPROACH

Stock selection is based on fundamental valuation with the aim of identifying quality companies that will exceed required hurdle rates of return over the medium term. Shorter term opportunities are exploited as and when they arise. Sector and market views are informed through the Nedbank Private Wealth National Strategic Investment Committee's monthly meeting process.

## PORTFOLIO PROFILE

The portfolio is suitable for investors seeking exposure to small and medium sized companies in the domestic equity market with maximum capital appreciation as their primary goal over the long term. Investors should have a tolerance for short-term market volatility in order to achieve long-term objectives. The mandate excludes investment in Real Estate shares.

## PERFORMANCE<sup>2</sup>

Period	Portfolio	Benchmark
1 year pa	-29.6%	-18.7%
3 Years pa	-14.9%	-5.4%
5 Years pa	-8.8%	-1.8%
7 Years pa	-2.5%	3.2%
10 Years pa	4.1%	7.7%
Lowest 1 year return	-35.7%	
Highest 1 year return	30.9%	

The annualized total return is the average earned by an investment each year over a given period of time.

## PORTFOLIO STRUCTURE



## TOP 10 HOLDINGS

Share	Percentage
RMI Holdings Ltd	4.8
Reinet Investments SCA	4.4
Hudaco Industries Ltd	4.2
Quilter Plc	4.0
Libstar Holdings Ltd	3.9
Transaction Capital Ltd	3.8
African Rainbow Capital Investments Ltd	3.5
Adcock Ingram Holdings Ltd	3.4
Advtech Ltd	3.4
Netcare Ltd	3.3
<b>Total</b>	<b>38.7</b>



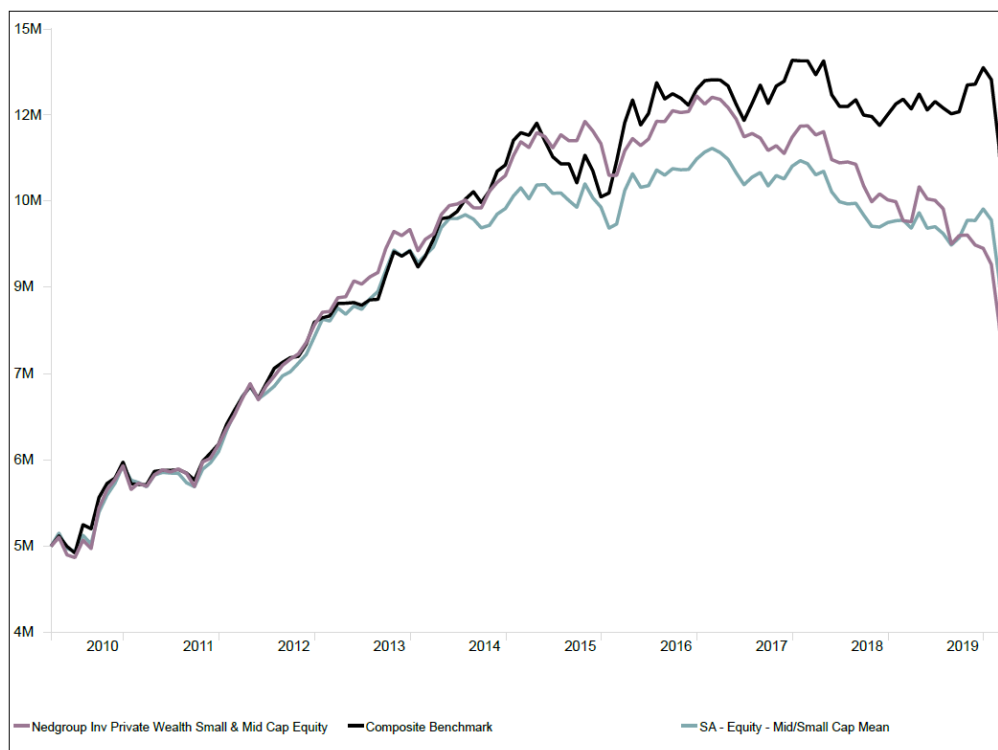
## NEDGROUP INVESTMENTS PRIVATE WEALTH SMALL & MID CAP EQUITY FUND



JUNE 2020

### SINCE INCEPTION CUMULATIVE PORTFOLIO PERFORMANCE

The graph shows growth of R5 000 000 invested in the portfolio plotted against the fund's composite benchmark as well as the average of the ASISA South African Equity Mid/Small Cap category.



#### Mandatory disclosures:

1. 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. Daily prices are available on request from your relationship manager.
2. Performance is calculated for the portfolio and individual investment performance may differ as a result of initial fees, the actual investment, the actual investment date, the date of reinvestment and dividend withholding tax. Data source: © 2015 Morningstar.
3. Total Expense Ratio (TER), expressed as a percentage of the Fund, relates to expenses incurred in the administration of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. Transaction Costs (TC), expressed as a percentage of the Fund, relates to the costs incurred in buying and selling the underlying assets of the Fund. TC are a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. The Total Investment Charges expressed as a percentage of the Fund, relates to all investments costs of the Fund. Both the TER and TC of the Fund is calculated on an annualised basis, beginning April 2017 and ending March 2020.

Whilst Nedbank Private Wealth offers you a choice of investment services, the underlying funds forming part of Nedbank Private Wealth strategy solution, are managed by Nedgroup Investments. More specifically, 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 Investment Private Wealth unit trust portfolios. It is a member of the Association of Savings & Investment South Africa (ASISA). Contact: Nedgroup Investments, P O Box 1510, Cape Town 8000, info@nedgroupinvestments.co.za, Tel 0860 123 263 (RSA only). The Standard Bank of South Africa Limited is the registered trustee. Contact: Standard Bank, P O Box 54, Cape Town 8000, Trustee-compliance@standardbank.co.za, 021 401 2002.

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. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A fund of funds may only invest in other unit trust funds, that levy their own charges, which could result in a higher fee structure. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact your relationship manager.

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