



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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A photograph of an open book with white pages, tied with a white ribbon bookmark. The text is overlaid on the right side of the image.

NEDGROUP INVESTMENTS RAINMAKER FUND

Quarter Two, 2020

Nedgroup Investments Rainmaker Fund

Performance to 30 June 2020	Nedgroup Investments Rainmaker Fund ¹	ASISA category average	FTSE/JSE ALSI
3 months	+21.4%	+19.5%	23.2%
12 months	-12.2%	-7.5%	-3.3%

Market commentary

Coronavirus continues to take a heavy toll on human lives as well as the global economy. The IMF recently revised its expectations lower for global growth, projecting a deeper recession and a slower recovery for the virus-ravaged world economy. It now expects global gross domestic product to shrink -4.9% this year.

In the US, Q1 2020 GDP contracted by 5% q/q. This was the sharpest quarterly decline since an -8.4% fall in the fourth quarter of 2008 in the depths of the Global Financial Crisis. The first quarter decline reflected just two weeks of the shutdowns thus economists are forecasting a much bigger drop for the second quarter. China, the second largest economy in the world, reported a -6.8% contraction in GDP for the first quarter. Additionally, the UK (-2.2% q/q) and EU (-3.3% q/q) both reported contractions in their economies in the first quarter of 2020.

Emerging economies, such as South Africa, have been among the hardest hit by COVID-19. They do not have the healthcare systems to adequately deal with the rising rate of infection nor the fiscal and monetary firepower that Western economies have to support their economies.

South Africa has now faced more than 100 days of lockdown restrictions in response to the pandemic. The country recently breached 200,000 coronavirus cases. It took 102 days for South Africa to record 100 000 coronavirus cases, but only a further 14 days for the number of infections to double. While the rate of infection continues to climb, restrictions have started to ease, and the economy is beginning to re-open.


The economic damage caused by the lockdown has been severe, the full extent of which will only be appreciated in the months ahead. Business and consumer confidence are at all-time lows, unemployment is rising (30% in Q1 2020) and the South African Reserve Bank now estimates that GDP will contract by -7% in 2020. In response, the government has announced various measures, such as the R500bn COVID-19 response package. In addition, the SARB has cut the repo rate to 3.75%, an historic low. While these are welcome interventions, they are unlikely to have much of an effect to ameliorate the economic damage inflicted by the Lockdowns.

Notwithstanding the challenging backdrop, global equity markets including the JSE have rallied sharply on record levels of government and central bank monetary interventions. The JSE All Share Index posted a total return of +23.2% in the second quarter of 2020. The resources sector performed best in Q2 (returning +41.2%), followed by industrials (+16.6%) and financials (+12.4%).

Portfolio Commentary

The fund's top five performing positions for the quarter added +10.9% to our return while the bottom five detracted -0.3%. Naspers / Prosus remains the largest position in the fund and was the top contributor to performance during the quarter. The investment merits for this counter, in our view, remain exclusively driven by the prospects for the primary asset which dominates the portfolio – Tencent.

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



Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers	16.0%	+3.70%	Netcare	1.0%	-0.09%
Sasol	1.8%	+2.22%	Bidvest	2.5%	-0.07%
Anglo American	5.5%	+1.71%	Spar	1.4%	-0.06%
AngloGold	3.4%	+1.68%	FirstRand	4.2%	-0.06%
Prosus	5.8%	+1.61%	Life Healthcare	0.5%	-0.04%
Total		10.9%			-0.3%

Over the course of the last 12 months our already positive view on the Tencent stock has been strengthened by multiple factors including – the acceleration in gaming title releases, the company’s fortuitous business model allowing user engagement on games, communication, and the firm’s ability to respond to, and develop, new commercial (work from home) applications and industrial (cloud services) opportunities that presented themselves during the crisis. On top of this, social media and e-commerce has accelerated further during COVID-19 related lockdowns in China.

These have combined to accelerate the growth in the firm’s profits despite the increasingly conservative accounting of deferring recognition of revenue. It is also underpinned by the firm’s strong cashflow and increasingly material portfolio of technology investments around the world, and which consequently overstate the overall valuation of the firm. Despite the strong run in the shares over the last year we remain with a very large position, albeit at the extreme ends of our risk tolerance. We consider the performance of the remainder of the Naspers / Prosus portfolio to have been mixed and are disappointed by managements continued inability to address the discount trapped in the firm’s corporate structure.

In addition to Naspers, the sharp rebound in Sasol’s share price (+258% in Q2) and our large position in Anglo American enhanced performance.

The JSE Financials sector is the clear laggard, with our banking exposure continuing to detract, FirstRand being the most notable in Q2. Although we are forecasting that banks will experience a material drop in earnings due to lower revenue and sharply higher bad debts, we believe that bank share prices discount disproportionate pessimism and thus offer an opportunity for patient investors. We prefer FirstRand and Standard Bank, both of which are top 10 holdings.

Current positioning and outlook

Equity markets have been grappling with competing forces - an extremely challenging fundamental backdrop being offset by a significant liquidity injection by central banks. Markets appear to be pricing in a V-shaped recovery, but we remain cautious on how quickly demand and economies can recover, especially the South African economy.

Investors face difficult questions. Will normal consumer behaviour return without a vaccine? When will a vaccine be produced and how long will it take to reach availability? Could the virus have a second wave? Clearly, portfolio diversification remains important.

We believe that the portfolio remains appropriately balanced between attractively priced international businesses (Naspers, British American Tobacco, Anglo American, BHP Group) combined with a healthy exposure to attractively valued domestic oriented businesses. The domestic portion of the portfolio contains some larger positions – notably in the banks (FirstRand and Standard Bank) but we retain a significant under-weight exposure to Property and Discretionary Consumer stocks. We hold a long and diversified tail of attractive mid-cap options. We have increased our AngloGold position, as unprecedented monetary and fiscal stimulus,

reduced interest rates, heightened political tensions and aggressive quantitative easing underpins the investment thesis.



Conclusion

The COVID-19 crisis will have many implications for society, economies, and financial markets over the next few years. The unprecedented nature of this event, together with the monetary and fiscal policy response suggests that economic and market volatility will remain high. Brexit, trade wars and the US Presidential election in November will heighten the uncertainty in the second half of the year.

The portfolio currently trades on a forward rolling Price/Earnings (P/E) ratio of 11.7x and a dividend yield of 4.1% which we believe offers reasonable value.

Responsible Investment Comments

The current crisis has heightened awareness of ESG. Combining profit and purpose has never been more important. As a reminder, ESG factors are integrated into our investment analysis to strengthen the decision-making process, better manage risk, and ensure that investments generate long-term value in an ethical manner. Our approach and commitment to ESG also enhances our value proposition to our clients.

Notable engagements during the second quarter of 2020 include:

- Nedbank: Discussion regarding COVID-19 and the related risks, environmental resolutions, remuneration policy and general governance matters (board appointments, diversity).
- Absa: Discussion regarding COVID-19 and the related risks, environmental resolutions, remuneration policy and general governance matters (new CEO appointment).
- MTN: Discussion principally about CEO succession and the risks within key markets (such as Nigeria).
- Spar: Discussion regarding COVID-19 and the related risks (including customer and staff safety, food availability).
- Old Mutual: Discussion regarding various governance matters, with a focus on remuneration.
- Sasol: Discussion regarding linking remuneration to ESG metrics / targets.
- Sibanye Stillwater: Discussion regarding COVID-19 and the safe restarting of mining operations.
- Kumba Iron Ore: Discussion regarding COVID-19 and the safe restarting of mining operations.
- Northam: Discussion regarding COVID-19 and the safe restarting of mining operations.
- Impala Platinum: Discussion regarding COVID-19 and the safe restarting of mining operations.



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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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