NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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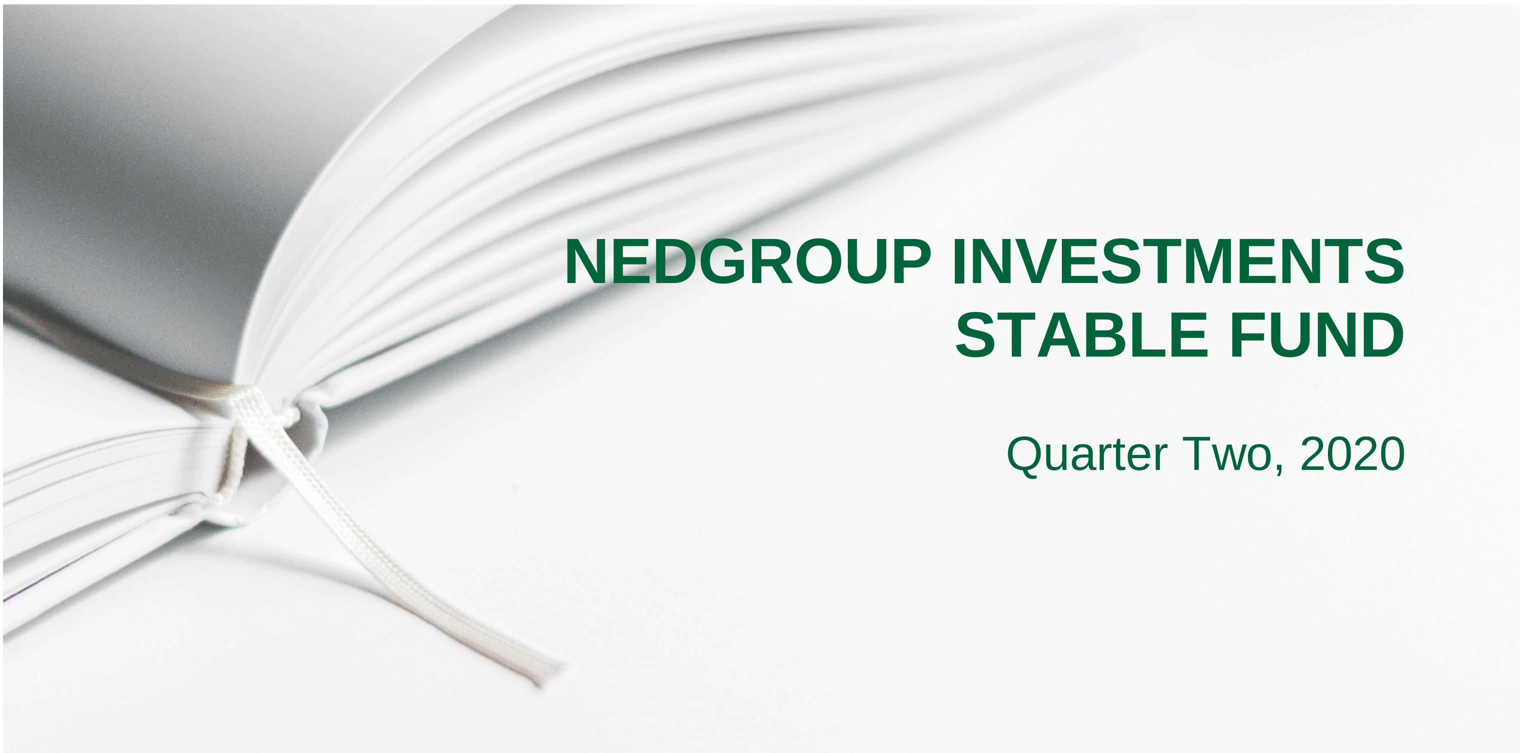

NEDGROUP INVESTMENTS STABLE FUND

Quarter Two, 2020

Market Commentary

WORLD

- The global economy plunged into the deepest recession since the 1929 Great Depression as a result of national lockdowns to contain the COVID-19 pandemic — third quarter growth prospects have improved on re-opening measures, but remain vulnerable to second-wave infections
- Authorities across nations unleashed unprecedented monetary and fiscal stimulus through loan guarantees, short-term liquidity provisions and income support — the resultant debt bloat should impair potential global output for many years
- Unemployment rates spiked as employers furloughed staff and household savings rates soared as they curtailed discretionary spending amid plummeting consumer confidence — a stark warning that economic recovery will be slow and volatile if a vaccine is not quickly produced
- Equity markets rallied strongly, led higher by technology, consumer discretionary and materials even as forward consensus earnings expectations are discounted for 2020 through to 2022 — forward valuations imply elevated risk of share price declines and low future returns if demand remains subdued and liquidity conditions worsen
- Most developed market government bond yields fell marginally despite new stimulus, while high-yield corporate and sovereign bonds largely recovered from the March sell-off — emergency liquidity measures have thus far averted mass insolvencies, but hasty withdrawal of bank liquidity is a risk to corporate solvency
- Industrial metals bounced, gold rallied and WTI oil doubled on the improved outlook and US dollar weakness — the ballooning US Federal Reserve balance sheet and surge in money supply is negative for the US dollar but positive for gold

SOUTH AFRICA

- The beleaguered SA economy contracted for the third successive quarter in Q1 (before the brunt of COVID-19 lockdowns), with fixed investment and inventory drawdowns the biggest detractors — consensus expectations are for a minimum 25% contraction (annualised) in Q2 and 7% for 2020
- A massive fiscal relief package exceeding R500 billion should buffer the economy from further employment losses and business closures — but government's debt binge will require a greater reduction in government expenditure over the next three years at least
- Government expects debt-to-GDP to exceed 80% by next March and reach 87% by 2024 where after it will decline — admitting it needs a US$4.2 billion low-interest, rapid financing instrument from the IMF
- The JSE rallied in tandem with global markets, led by a 41% surge in resource stocks — financial counters were laggards, weighed down by the banking sector on prospects for lower interest margins and higher impairments
- SA government bond yields fell on improving global risk appetite and short rates falling more than expected, although the yield curve remains extremely steep — longer dated yields reflect market anxiety for higher inflation and risk of default if government's debt sustainability proposals fail
- Low inflation prompted SARB's Monetary Policy Committee to reduce interest rates to 3.75% in May — the benign inflation outlook should give SARB comfort to keep rates at these historically low levels or reduce them more if inflation expectations moderate further
- The rand retraced some of its Q1 losses but is vulnerable to a setback in global risk appetite —improved terms of trade contributed to SA's first quarterly current account surplus since 2002

Q2 2020 PERFORMANCE COMMENTS

- The balanced asset allocation continued to deliver credible performance for investors — the full weight in foreign assets contributed most as underlying global equity stock selection continued to power returns ahead of the rising market index, more than offsetting the stronger rand
- JSE-listed equities also made a positive contribution — bolstered by strong returns from core holdings Aspen and BHP Group
- The allocation to short duration South African government bonds also contributed positively — yields fell on improved emerging market risk appetite and sharply lower short-term interest rates
- The low allocation to property detracted on an absolute and relative basis — the sector recovered from its severe Q1 correction but remains -37% for the year
- The diversifying physical gold position also contributed positively — the dollar price of the metal rose significantly more than the rand strengthened
- The largest detractor was the holding in London-listed property company Capital & Counties which fell on continued pandemic disruption to retail economic activity in its core Covent Garden estate — while another JSE-listed UK property stock Intu Properties (not held within our portfolios) fell into administration

Top contributors (weighted contribution):

Description	Contribution (Gross) %	Holding Return (Gross) %	Average Weight %
Foreign Assets	5.1%	13.9%	36.8%
R186 - RSA 10.5% (R186)	3.3%	13.1%	25.0%
Aspen	0.5%	55.6%	1.1%
BHP Group	0.5%	31.6%	1.6%
NewGold ETF	0.5%	9.3%	4.7%

Top detractor (weighted contribution):

Description	Contribution (Gross) %	Holding Return (Gross) %	Average Weight %
Capital & Counties Properties	-0.3%	-13.5%	2.3%

INVESTMENT OUTLOOK

World: Economic recovery is likely to be slow and volatile. Unprecedented levels of monetary and fiscal support will result in higher debt levels, impairing potential global output in the years ahead. Market volatility is likely to remain elevated with the risk of corporate insolvencies increasing. Geopolitical risks also continue to rise. The weaker dollar should support a higher gold price.

South Africa: A severe contraction in GDP is likely in 2020 which together with government's massive fiscal package will likely balloon the debt burden from an already over-indebted position. The inflation outlook remains extremely benign in the short term given the very weak consumer demand across the economy. This makes further interest rate cuts a reasonable probability. The bond yield curve has shifted lower and steepened as short-term rates are cut and long bond yields remain elevated on rising sovereign debt crisis fears in the longer term.

CONCLUSION

The portfolio is defensively positioned with the emphasis on capital preservation. There is a lower-than-normal weight to quality SA and global businesses that we expect will survive and thrive in an uncertain future and a meaningful weight to high-yielding, short-duration SA sovereign debt.

The managers continue to exploit market mispricing to acquire or increase investment in good quality businesses in SA and abroad. These are companies with strong balance sheets and sustainable, longer term earnings' growth prospects on compelling valuations. Despite the recent surge in share prices, the deteriorating global environment, weak SA economy and policy uncertainty are risks to SA corporate earnings. The JSE equity investments thus favour global businesses with more certain non-rand earnings and future growth prospects not reliant on continuous fiscal stimulus.

Foreign assets are at the prudential maximum with a preference for global equities over bonds and cash. The equity investments are tilted away from the more expensive US market towards higher growth and better-valued emerging market businesses likely to benefit from long-term structural changes.

Notwithstanding the recent share price recovery, SA retail and commercial property counters face structural challenges. The strategy is focused on niche logistic and self-storage property counters and UK-listed value play Capital & Counties.

The NewGold ETF is an attractive, uncorrelated investment which should respond favourably in times of increased geopolitical risk. Gold also acts as a safe-haven asset at times of economic and market stress.

Medium-term SA government bond investments and cash are a meaningful component of the portfolio, offering abnormally high real yields. The portfolio exhibits reasonably high levels of optionality and liquidity, which allows the managers to take advantage of attractively priced long-term opportunities.

RESPONSIBLE INVESTMENT SUMMARY

Proxy Voting Summary - South Africa portfolio Q2 2020

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	3	100%	0%	0%
Auditor/Risk/Social/Ethics related	7	86%	14%	0%
Buy Back Shares	4	100%	0%	0%
Director Remuneration	36	94%	6%	0%
Issue Shares	2	100%	0%	0%
Loan / Financial Assistance	3	67%	33%	0%
Other	1	0%	100%	0%
Re/Elect Director	10	70%	30%	0%
Remuneration Policy	1	0%	100%	0%
Shares under Director Control	18	100%	0%	0%
Signature of Documents	4	50%	50%	0%

Proxy Voting Summary – Foord International Fund Q2 2020

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	6	100%	0%	0%
Auditor/Risk/Social/Ethics related	40	90%	5%	5%
Buy Back Shares	10	70%	30%	0%
Director Remuneration	9	100%	0%	0%
Issue Shares	26	19%	77%	4%
Loan / Financial Assistance	42	52%	31%	17%
Other	229	99%	0%	1%
Re/Elect Director	37	32%	68%	0%
Remuneration Policy	1	100%	0%	0%
Shares under Director Control	2	100%	0%	0%
Signature of Documents	6	100%	0%	0%

Proxy Voting Summary – Foord Global Equity Fund Q2 2020

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	8	100%	0%	0%
Auditor/Risk/Social/Ethics related	59	92%	8%	0%
Buy Back Shares	16	69%	31%	0%
Director Remuneration	12	100%	0%	0%
Issue Shares	40	18%	80%	3%
Loan / Financial Assistance	43	53%	33%	14%
Other	2	0%	100%	0%
Re/Elect Director	332	99%	1%	1%
Remuneration Policy	56	23%	71%	5%
Shares under Director Control	1	100%	0%	0%
Signature of Documents	2	100%	0%	0%

General Comments:

- There are very few abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention it would typically be intentional or for strategic reasons.

- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion, we have voted in favour of such resolutions, we were able to gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated.

- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings.

Notable Engagements

(Note: reporting at investment house level, specific fund might not be invested in all these companies)

Standard Bank

Engaged the board regarding proxy voting around remuneration structures, disclosures and reporting and approach to climate change related resolutions. The board supports the goals of the Paris Agreement and developing climate policy which will be in line with the guidelines of the TCFDs. The company has spent a lot of time getting buy in from the management and board structures. They are more focused on renewables than non-renewables, but Africa is reliant on non-renewables and so cannot simply immediately eliminate it. We are comfortable with the strategic approach with regards to climate change related policies.

Capital and Counties

Engaged with the Chairman (Henry Staunton) on governance and remuneration.

Hudaco

Engaged with the Chairman (Stephen Connelly) on ESG and overall corporate governance.

Metair

Engaged with the Metair Remuneration committee on remuneration policy and outcomes going forward.

Engaged with the Chairman (Brand Pretorius) separately on executive and non-executive management structures and succession planning.

Spur

Engaged with the Chairman (Mike Bosman) on remuneration policy and capital allocation of the group.

Sasol

Engaged the board regarding remuneration structures.

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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