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NEDGROUP INVESTMENTS GROWTH FUND

Quarter Three, 2020

Introduction to Laurium Capital

Further to our notice of March this year, we were pleased to inform investors that Laurium Capital ("Laurium") were appointed as the new fund manager of the Nedgroup Investments Growth Fund (the "Fund") on 1 July 2020. This followed the unfortunate announcement in March that Electus Fund Managers ("Electus"), our appointed Best of Breed™ partner of the Fund, made the decision to close their business on 30 June 2020. This action was taken by management due to the unforeseen decline in assets under management and subsequent financial pressure on the business that was anticipated as a result.

The Nedgroup Investments team conducted an extensive review for the optimal partner to achieve the Fund's mandate. Laurium is an established and experienced boutique investment firm that was founded in 2008 and has grown to its current assets under management of over R25bn. The firm is completely independent, owned and managed by current employees, leading to a high level of alignment of interests with their end investors.

The management of South African equity portfolios is a core competence of the business, having managed funds investing in the asset class since inception of the business. The core of their investment expertise is identifying attractive companies in the listed South African equity market, through deep fundamental research and assessment of intrinsic value. This familiar approach is differentiated by incorporating their view of economic cycles or market trends.

Market commentary

Performance to 30 September 2020	Nedgroup Investments Growth Fund[1]	ASISA category average	FTSE/JSE Capped SWIX
3 months	-7.0%	1.1%	1.0%
12 months	-31.0%	-2.9%	-5.0%

Following the volatility of the first two quarters of 2020 which were severely impacted by Covid-19 and the global response to it, the third quarter was somewhat calmer. Global equity markets rallied through most of July and August and pulled back towards the end of September.

Similar price action was seen in local markets and while we have seen a recovery in the local markets from the depth of the Covid-19 crisis, with the FTSE/JSE All Share Index ("All Share") rebounding 23.2% in Q2, the recovery lost momentum in Q3 with the All Share ending up +0.7% for the quarter and is now -2.5% down year to date.

The market's upward trend faltered as the threat of a second wave of Covid-19 became a reality in many parts of Europe and the States. This along with the delayed response from the US around a further fiscal stimulus plan, and the increasing trade tension between the US and China resulted in heightened uncertainty.

On the domestic front we continue to see a slowdown in the Covid-19 infection rate, which has resulted in the relaxation of the lockdown measures to our great relief. We need to get people back to work and the economy growing again, albeit at the pedestrian 3% forecast GDP growth for 2021.

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

Portfolio Commentary

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
CLIENTELE LIFE ASSURANCE	8.5%	1.8%	TEXTON PROPERTY	3.1%	-1.5%
IMPALA PLATINUM	2.0%	0.4%	NOVUS HOLDINGS	2.0%	-1.1%
BHP GROUP PLC	4.4%	0.2%	LIBSTAR	5.4%	-1.0%
FIRSTRAND LTD	2.7%	0.2%	NASPERS	11.4%	-0.8%
ABSA GROUP LTD	1.7%	0.2%	ETHOS CAPITAL PARTNERS	5.4%	-0.6%

After taking the time to understand the portfolio structure and the investment thesis for all underlying stock positions, we took over management of the fund at the beginning of July. We have made considerable progress in transitioning the portfolio to what we view as the optimal portfolio, but due to challenging market liquidity following Covid-19 facing, a large part of the portfolio inherited we are still in progress and continue to do so only when we think we can get the correct value for incumbent investors.

The Nedgroup Investments Growth Fund underperformed the index over the quarter, ending down -7.0% on the quarter, compared to the FTSE/JSE Capped SWIX performance of +1.0%.

Clientele, Impala and BHP were the main positive contributors to the fund, while Texton, Novus and Libstar were the main detractors. While there was pressure on many SA focussed small-cap stocks in the fund during the quarter, we believe there is a large amount of value in many of these positions and are confident that we will be able to realise this value over time.

We continue to focus on doing what is best for fund investors with a firm view on balancing the upside up against the inherent risks in the various positions and we believe this approach should produce good risk-adjusted returns for our clients going forward.

Current positioning and outlook

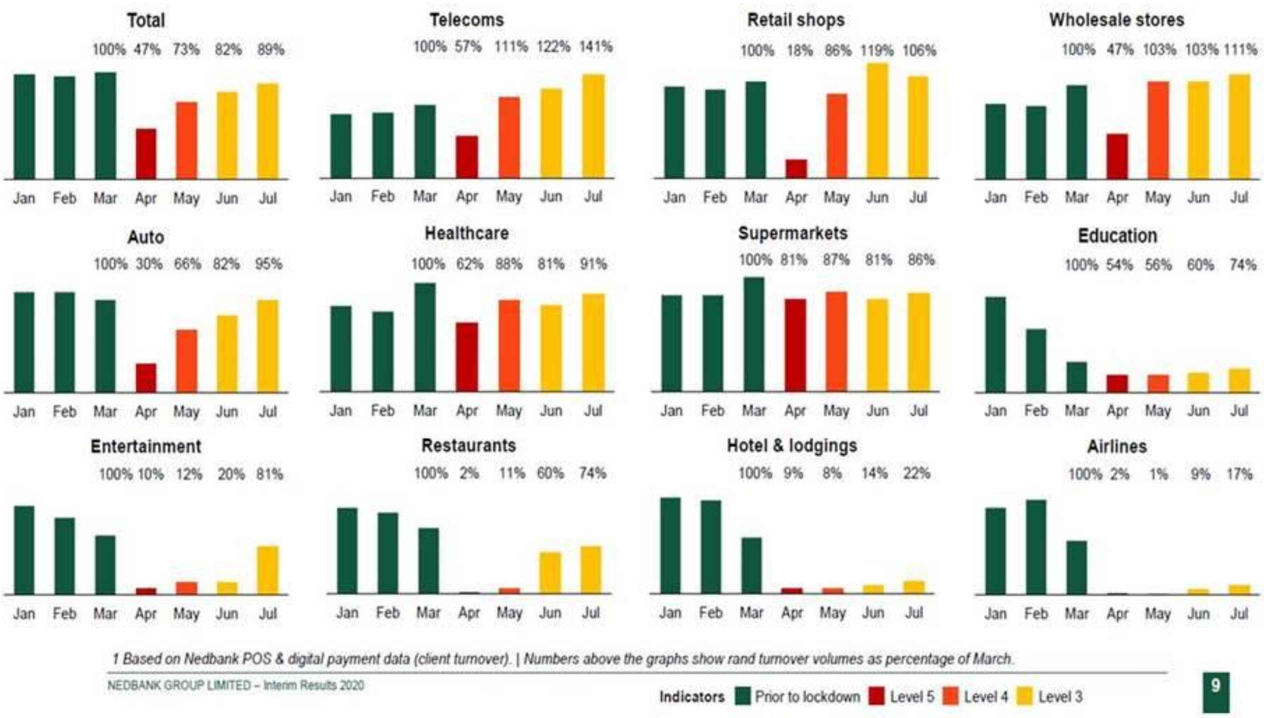
In Q3 we saw the first large batch of SA companies reporting since the onset of the Covid-19 crisis. By and large results were somewhat better than what most analysts and management teams expected – albeit we admit still early days. Similarly, a large broker conference held virtually that we attended towards the end of September reiterated this theme.

However, much uncertainty remains over the trajectory of the economy and employment. Despite the release of the Economic Recovery Action Plan by Nedlac, business confidence and traction around structural reform implementation remains low. We believe the market has more than priced in the lower growth expectations going forward and we continue to find what we think are very attractive opportunities in the local market.

We have consistently been underweight companies that are SA earners in our Laurium equity fund and have now begun to cautiously add more exposure to this sector of the market where we see very attractive risk vs reward dynamics. Below is an extract from the latest Nedbank results presentation showing client turnover going through their point of sale devices across various market segments.

It is clear from below that we have seen a recovery in most sectors of the economy post level 5 lockdown, except as would be expected in the hotel and airline sectors. We would expect these sectors to recover as well post the latest announcement that international travel will be allowed from 1 October.

Figure1: Excerpt from Nedbank Results presentation



Source: Nedbank

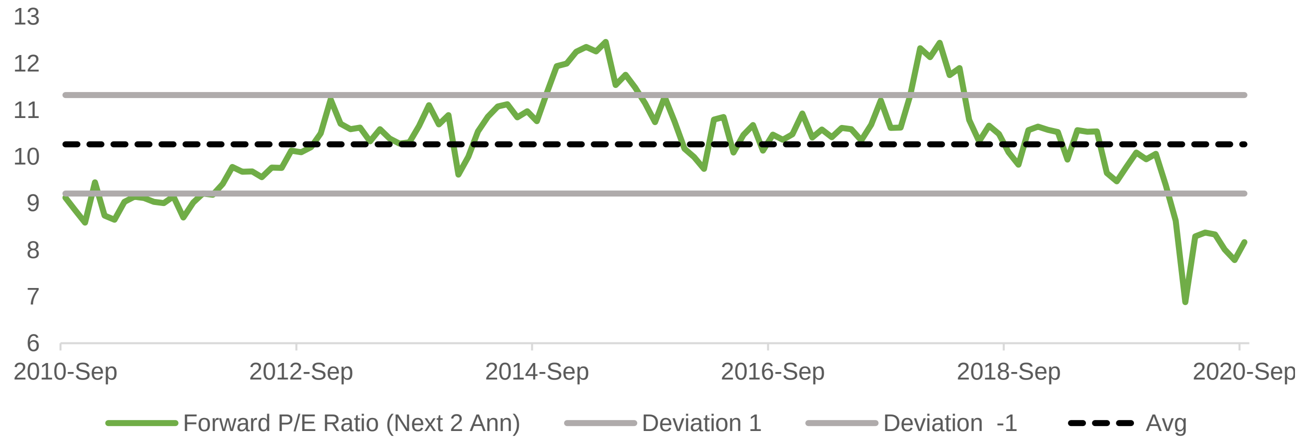
This, along with other data points such as FirstRand Bank, indicate that payrolls having declined by 20% in March to April, having seen a steady recovery and are now only 5% below pre-lockdown level. Liberty Two degrees have stated that foot count is now at 80% of pre-Covid-19 levels across its malls, providing increasing comfort that a steady recovery in the SA economy is ensue.

When we match this up with the attractive valuations currently seen for domestic SA stock, we believe there are opportunities that should produce strong returns for our clients going forward. We continue to build a position in SA banks for the fund, where we feel that too much pessimism is priced in and have added to the portfolio holding of SA hospital groups, which should recover as elective surgeries return. This has been evidenced in other jurisdictions globally.

The chart below graphs the forward Price Earnings multiples (a valuation metric) two-years forward of Laurium's South Africa Inc index. The earnings outlook is based on a two-year forecast given earnings are likely to be distorted by the Covid-19 crisis over the next year. As such, the two-year number is more reflective of the sustainable earnings base of the domestic South African market.

On a two-year forward multiple of 8.2x, we believe that there is value to be found in selected SA names as the recovery progresses, with the low multiple providing somewhat of a margin of safety around the pace of the recovery.

Figure 2: Laurium Capital Domestic South Africa forward P/E multiple 2 years out



Source: Laurium Capital

Conclusion

This year will certainly go down in the history books as one of the toughest environments in which to manage money, and although Q3 felt more normal than Q1 and Q2, there is still significant uncertainty going into the next quarter and year ahead.

We like to think of this uncertainty as the “known unknowns”, and of course the “unknown unknowns” that we could see playing out in the months ahead. Some of the key “known unknowns” that are likely to drive markets in our view will be the US election, the availability of a Covid-19 vaccine and how it is rolled out once available and approved, and the risks of second and third waves of Covid-19 infections as we move into the northern hemisphere winter.

We will be closely watching the pace of the economic recovery both locally and internationally in the face of the unknowns above and weigh these risks against our fundamental view of the valuation of the market and individual stocks and position the fund accordingly.

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.

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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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