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UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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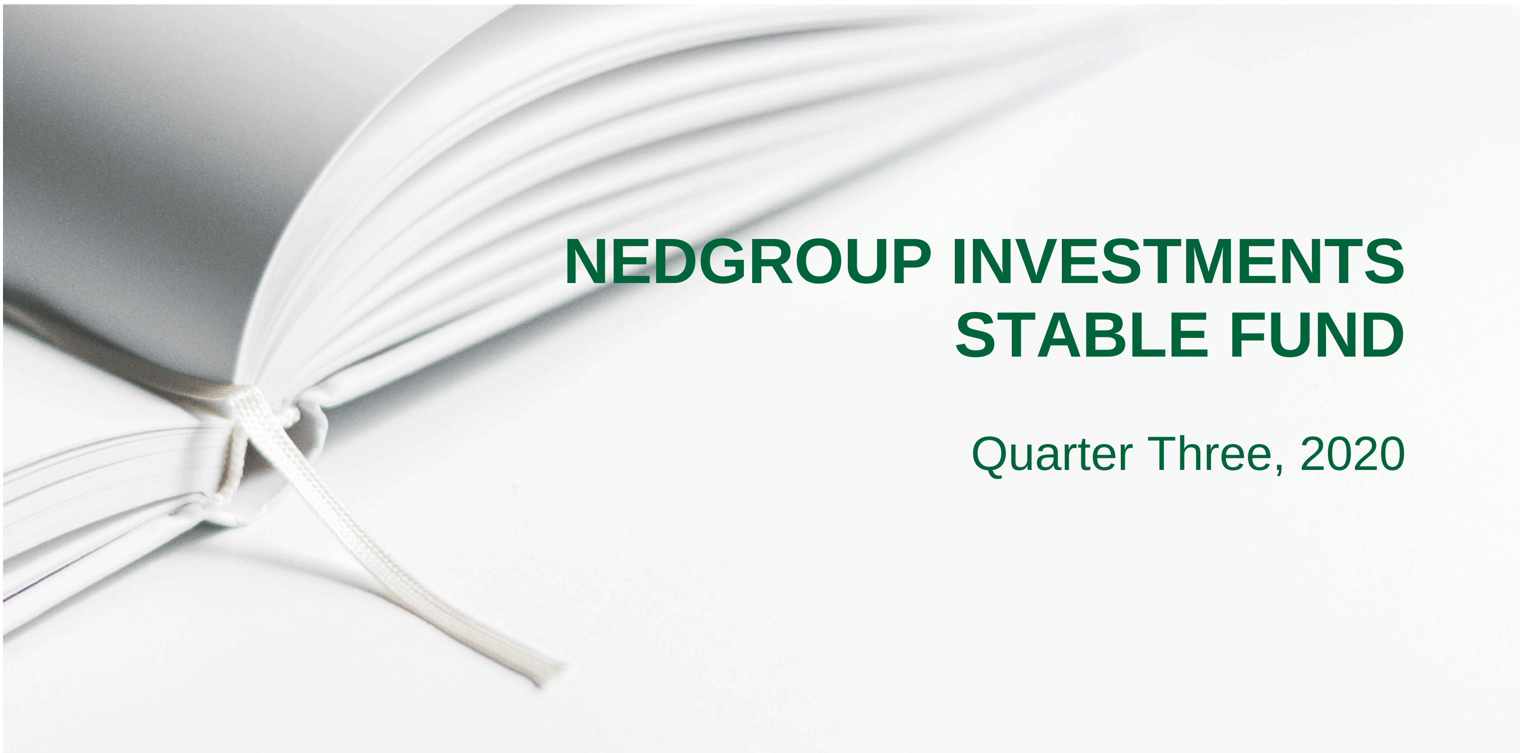

NEDGROUP INVESTMENTS STABLE FUND

Quarter Three, 2020

Market Commentary

WORLD

- Economic activity rebounded off historic second-quarter pullbacks as lockdowns eased and economies started to reopen—but recession risks persist given base effects, high unemployment, second wave fears and expiring income replacement stimulus measures
- Developed market bond yields fluctuated around irrational lows on unrelenting central bank stimulus—markets briefly reflected rising inflation risks after the US Federal Reserve fundamentally changed its rate setting policy to average inflation targeting
- Precious metals gold and silver rose further on US dollar weakness and continued monetary and fiscal largesse—precious metals and even cryptocurrencies should stay well bid amid expected dollar softness and growing fiat currency risks
- The vagaries of global market sentiment seesawed emerging market bourses as high yields, demographics and natural resource endowments simultaneously signaled reward and danger—but bigger risks lurk in the developed world corporate debt and alternatives markets as zero interest rates inexorably drive capital to unsustainable companies
- Geopolitical risks mounted when President Trump closed the Chinese consulate in Houston on accusations of espionage, threatened further embargoes on Chinese tech firms Huawei and TikTok and extended export restrictions to China's biggest semiconductor manufacturer, SMIC—China continues to play the long game afforded by its political system, as domestic economic activity took travel and hospitality activity back to pre-pandemic levels
- Gains in a small number of very large US technology companies pushed US equity markets to their most expensive levels since the technology bubble in 2000—the quarter was characterised by a wave of new listings and general corporate activity typically evident of investor exuberance
- Rising sovereign debt levels, pervasive experimental monetary (and now) fiscal policy continued to support financial markets—but the imminent US elections, increasing geopolitical tensions and indications of rising Covid-19 second-wave infection rates could each materially weigh on markets

SOUTH AFRICA

- The SA economy contracted a record 16% in the second quarter due to Covid-19 lockdowns—an economic recovery is already evident, but the pace of growth is insufficient for a fragile economy hamstrung by uncoordinated and inconsistent government policy responses
- Finance Minister Mboweni's supplementary budget stressed the rising risk of a full-blown debt spiral if government does not cut expenditure—given the growth vacuum and growing budgetary share of debt funding costs
- A fiscal deficit of 15% of GDP is not unreasonable for the 2020/21 fiscal year—forecast to narrow to 10% in 2022 if government stimulus ceases and the wage bill reduction is successfully implemented as currently proposed
- Unemployment rose by 2.8 million people in the second quarter as lockdown regulations led to widespread job losses—employment recovery will be slow given the dearth of fixed investment opportunities despite government commitment to fast track infrastructure projects
- The SA government bond yield curve steepened after SARB's repo rate cuts, with the longer end still availing high real yields under current inflation forecasts—but longer-term risks to the inflation outlook include reserve bank independence, money printing to fund deficits and ever increasing bond issuances
- The rand was volatile given internal and exogenous shocks but ended slightly stronger against a weaker dollar, but is at risk from continued capital outflows despite an improved current account surplus—emerging market currencies should nevertheless enjoy tailwinds from material increases in hard currency money supply and China's strong recovery
- The managers are cautious despite optically attractive South African equity and listed property valuations—yields may not be as high as they seem given non-payment (delays) of dividends and distributions on depressed revenues in addition to pay-out ratio cuts needed to strengthen balance sheets

Portfolio Commentary

- SA fixed interest was the largest performance contributor — the core holding in the medium-term R186 meaningfully outperformed the All Bond Index
- The global equity component made the second largest contribution as global equity markets powered ahead albeit with some retracement in September — but foreign assets in totality detracted at the margin as the rand recovered some of its steep losses over the past six months
- SA equities contributed positively driven mostly by a continued rally in the resources sector — core holdings BHP Group, FirstRand, Anheuser-Busch InBev and food retailer Spar Group all outperformed, partially offset by declining Aspen and a general underweight in mining companies
- Property detracted on an absolute basis but the underweight allocation to the sector protected investor capital — core holding in London value play Capital and Counties detracted whilst niche property stock Stor-Age held up relatively well
- The diversifying physical gold position contributed positively — the dollar price of the metal rose more than the rand strengthened

Weighted Contribution:

Top Contributors	Performance Contribution %	Holding Return %	Average Weight %
R186 - RSA 10.5% (R186)	0.3%	1.4%	23.6%
Spar Group	0.2%	17.3%	1.1%
FirstRand	0.1%	9.0%	1.2%
British American Tobacco	0.0%	5.4%	0.9%
Fortress A	0.0%	5.7%	0.7%

Top Detractors	Performance Contribution %	Holding Return %	Average Weight %
Anheuser-Busch InBev	-0.1%	-7.8%	1.3%
Aspen	-0.2%	-11.8%	1.3%
Capital & Counties Properties	-0.2%	-12.8%	1.6%
Commodities (Gold ETF)	-0.3%	-4.9%	5.8%
Foreign Assets	-1.9%	-5.7%	33.5%

Investment Outlook

World: Economic recovery to be slow and volatile. Unprecedented monetary and fiscal support continues - inflation risks are mounting. Geopolitical risks continue to rise. US election could spark volatility. Weaker dollar supports higher gold price.

South Africa: Slow pace of economic recovery. Unsustainable fiscal deficits to continue leading to a rising risk of a full-blown debt spiral. Employment levels likely to recover very slowly. Inflation outlook remains benign.

Conclusion

The portfolio is defensively positioned with the emphasis on capital preservation given generally high equity valuations and the rising risks of resurging Covid-19 infection rates and the implications on the investment environment of the November US presidential election outcome.

Volatility affords opportunities to exploit market mispricing for better entry points into good quality businesses in SA and abroad. Companies with strong balance sheets and sustainable, long-term earnings' growth prospects on compelling valuations.

General preference for JSE-listed global businesses given the higher risks in the SA economy and larger global economic opportunity set. These are well capitalised companies that should deliver hard-currency, real earnings growth through the cycle, supported by expected rand weakness. The fund retains the contrarian position of low resources weight on concern that market ratings and earnings are unsustainable. BHP Group is the highest quality diversified miner and is the fund's largest single equity investment.

The managers will not speculate investor capital in the precious metals mining sector given prevailing risks and prefer physical gold via Newgold ETF which is an uncorrelated asset and hedge against market dislocations and risks of rampant inflation.

Foreign assets are at the prudential maximum with a preference for global equities over bonds and cash with some hedges against market retracement. The fund's investments favour higher growth and better-valued emerging market businesses likely to benefit from long-term structural changes over more expensive US bourses.

SA retail and commercial property counters still face significant structural challenges despite further price retracement. The strategy is focused on niche logistic and self-storage property counters and UK-listed value play Capital & Counties.

Medium-term SA government bond investments are a meaningful part of the portfolio—the bonds are offering very high real yields given anemic inflation.

The portfolio exhibits reasonably high levels of optionality and liquidity, allowing the managers to take advantage of attractively priced long-term opportunities. The fund is exceptionally well positioned for the unfolding environment.

Responsible Investment Summary

Proxy Voting Summary – Stable Fund Q3 2020

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	4	100%	0%	0%
Auditor/Risk/Social/Ethics related	29	90%	10%	0%
Buy Back Shares	3	100%	0%	0%
Director Remuneration	23	91%	9%	0%
Issue Shares	5	40%	60%	0%
Loan / Financial Assistance	7	71%	29%	0%
Other	8	88%	12%	0%
Re/Elect Director	48	100%	0%	0%
Remuneration Policy	14	21%	79%	0%
Shares under Director Control	2	0%	100%	0%
Signature of Documents	2	100%	0%	0%

Proxy Voting Summary – Foord International Fund Q3 2020

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	2	100%	0%	0%
Auditor/Risk/Social/Ethics related	6	100%	0%	0%
Buy Back Shares	2	100%	0%	0%
Director Remuneration	3	100%	0%	0%
Issue Shares	3	0%	100%	0%
Loan / Financial Assistance	1	0%	100%	0%
Other	7	100%	0%	0%
Re/Elect Director	1	0%	100%	0%
Remuneration Policy	28	100%	0%	0%
Shares under Director Control	0			
Signature of Documents	0			

Proxy Voting Summary – Foord Global Equity Fund Q3 2020

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	2	100%	0%	0%
Auditor/Risk/Social/Ethics related	5	100%	0%	0%
Buy Back Shares	1	100%	0%	0%
Director Remuneration	4	100%	0%	0%
Issue Shares	5	0%	100%	0%
Loan / Financial Assistance	1	0%	100%	0%
Other	5	100%	0%	0%
Re/Elect Director	5	100%	0%	0%
Remuneration Policy	17	100%	0%	0%
Shares under Director Control	6	83%	17%	0%
Signature of Documents	1	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 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 Foord investment house level, specific fund might not be invested in all these companies)

Capital and Counties

Discussion with remuneration committee regarding 2020 Financial Year executive remuneration

Spur

Engaged with Spur chairman, head of remuneration committee on remuneration policy, strategy, board appointments and succession as well as capital allocation generally.

Metair

Engaged with head of remuneration committee and chairman on executive management succession, 360-degree review for the Finance Director as well as Chairman succession plans. Separately engaged a board member on capital allocation/structure.

Invicta

Engagement with board members on capital structure/capital allocation and executive management remuneration.

Aspen

Engagement on auditor appointment and new audit rotation engagement process.

Mediclinic

Discussion with management on AGM voting and remuneration policy

Life Healthcare

Met with Chairman and lead independent director on remuneration policy

Richemont

Discussion with management about AGM voting

Bidcorp

Discussion on appropriateness and of the return and growth targets in the remuneration policy

Bidvest

Discussion on appropriateness and of the return and growth targets in the remuneration policy

The Foschini Group

Engagement ahead of finalization of new Long-term Incentive plans

Italtile

Engagement regarding internal succession plans

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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