NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MANAGED FUND

Quarter Four, 2020

Nedgroup Investments Managed Fund

Performance to 31 December 2020	Nedgroup Investments Managed Fund A	ASISA category average
3 months	11.51%	5.88%
12 months	8.06%	5.19%

Overview

The Global ISM manufacturing Purchasing Managers Index (PMI) continued its rise, reaching 60.7 from the 57.5 we saw in November. The increase has been reasonably broad-based across most regions, while both the expected inflation and interest rate increases remain relatively benign. The US election result, an imminent vaccine roll-out, and the increased likelihood of a meaningful US fiscal stimulus package were all well received by equity markets with the World MSCI increasing by 14.1% and EM increasing by 19.8% (both in US dollars).

The Democrat senate win will result in higher levels of fiscal stimulus which will likely push markets higher. During the quarter, the trade-weighted dollar weakened by 4.2%. Most commodity prices continued to rally in line with expectations of further infrastructure investment and improved economic conditions. The second wave of infections is worrying and may hold back the growth recovery, but markets appear to be treating this as a temporary hiccup.

Domestic news was broadly positive over the first part of the quarter. Retail sales from company results and trading updates were better than expected and companies managed to contain their cost bases. SA has also continued to gather momentum on fighting corruption. The rand has strengthened in line with more global funds flowing into emerging markets as the global economy recovers.

However, COVID-19 infections are rising rapidly and many of our hospitals are full as we enter the second wave along with many other countries. This may put the brakes on what was expected to be a recovery even if only a muted one, especially given that we will likely receive vaccinations well after the developed world has received theirs.

Where to from here?
Most markets are trading above their historic multiples, but interest rates are also at low levels. More importantly, real long-term rates are negative in the developed world. Long- and short-term rates are also close to their lows, which has historically resulted in poor long-term prospective returns from both bonds and equity. However, in the short-term, markets will likely be buoyed by continued positive economic news flow, a potentially successful vaccine, and fiscal stimulus.

The concern is that a meaningful increase in inflation is likely given the significant quantum of fiscal stimulus (US government debt to GDP levels now exceed the levels of World War 2) coupled with an economic recovery fuelled by a successful vaccination program. This will eventually give rise to higher interest rates; however, we are uncertain of the timing and extent of these moves. We believe that some precaution in terms of portfolio construction is warranted, especially given our concerns regarding the expectation of paltry long-term returns.

Although valuations globally, and on average, are expensive if we assume some reversion of interest rates, pockets of value remain. Whilst most equities would underperform in a sell-off, equities trading on reasonable valuations should ultimately provide decent returns to the long-term investor.

Where do we see value?
Commodities should perform well in an environment of rising inflation and weaker currencies. With limited supply coming on stream, miners should be able to return the profits generated from these high commodities prices back to shareholders rather than reinvesting them back into risky greenfield projects. This will be positive for share price performance. Nevertheless, we need to be vigilant where certain commodities have run well ahead of long-term fundamentals. Commodities should also benefit from fiscal stimulus directed at infrastructure.

Certain commodities like copper and platinum should similarly profit from renewable energy generation and the associated need for infrastructure.

The value versus growth debate has been hotly contested this year as the value style continued its long-running slump to trade at a record discount to growth. Continued economic growth and an increase in long term interest rates may well be the catalyst that finally reverses this trend. Higher long-term rates have a more negative valuation impact on growth stocks which have more of their value in future cash flow generation. A more prosperous economic environment means investors do not have to pay up for earnings and dividend growth by buying expensive growth shares. This will be a headwind for high valued tech and related shares.

Emerging markets (EM) are trading at a significant discount to the US market - we have already seen them starting to outperform the US over the last quarter as would be expected in a global economic upturn. This may help drag up the SA market, but as mentioned earlier, our vaccine program will start relatively later than most countries, which may weigh on domestically exposed shares.

Many SA exposed shares were hammered into the COVID-19 outbreak. Although most have since recovered a significant portion of their losses there are still opportunities offering value. There are some property companies with decent assets that should be able to manage their way out of high debt levels. Suspension of dividends, or sales of some of their properties in the range of their balance sheet valuations, will help allay investor concerns regarding over-levered balance sheets. Some of the insurers and healthcare companies have not recovered and are also offering reasonable upside.

Portfolio positioning

The Fund increased its exposure to the miners, Liberty Holdings, Nepi Rockcastle, and Anheuser-Busch Inbev. We further reduced our exposure to domestic banks, MultiChoice, and Richemont, which recovered over the quarter. We sold down some of our British American Tobacco position to fund some of the purchases over the quarter. The Fund also purchased a Naspers note which profits from a closing of the Naspers/Prosus discount.

Performance commentary

Domestically exposed sectors, including banks and property, outperformed over the quarter. As did platinum group metal and diversified miners, proving positive for our performance. Gold and tobacco underperformed which were the real detractors over the period.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
FirstRand	4.9%	1.5%	AngloGold Ashanti	3.3%	-1.8%
Impala Platinum Holdings	4.9%	1.5%	Harmony Gold	0.3%	-0.2%
Sibanye Stillwater	4.8%	0.9%	Reinet Investments	0.5%	-0.2%
African Rainbow Minerals	3.5%	0.8%	Prosus NV	1.5%	-0.2%
Northam Platinum	2.7%	0.7%	British American Tobacco	2.3%	-0.2%
Capitec Bank	0.8%	0.7%	Sasol Ltd	1.4%	-0.2%
Total	**21.6%**	**6.1%**	**Total**	**9.3%**	**-2.8%**

Responsible investing

Sasol Ltd

We engaged with the Chairman of the Remuneration Committee of the Sasol Board in September 2020 regarding the remuneration policy and incentive targets for FY21. We received a letter from the Chairman thereafter providing more detail about the FY21 short-term incentive targets, long-term incentive targets, the peer group used to determine the remuneration, the remuneration policy design principles, and the explanations on the severance packages.

Sibanye Stillwater Ltd

We engaged with Sibanye Investor Relations team on the purchase of a small corporate finance business and the conflict of interest regarding the owner of the business. The conflict of interest was not related to the purchase of the corporate finance business as Sibanye had previously worked with the company before.

Impala Platinum

We wrote a letter to Impala in September 2019 to express our concern around the remuneration policy, specifically the weighting of variable pay that is linked to short-term criteria versus the portion that is linked to long-term criteria, and Truffle have voted against the remuneration policy.

Nedbank

Truffle attended the Nedbank Annual Governance (ESG) roadshow in May 2020, which focused on ESG during Covid-19, governance matters, social and environmental matters, and resolutions for the AGM. These roadshows assist us in understanding the company's policies and implementation of ESG, as well as with proxy voting recommendations.

Social

We have engaged with the various platinum companies regarding relationships with the unions and surrounding communities as this is crucial to ensure minimum operational disruptions and damage to property.

Remuneration

Truffle has adopted a strict voting policy on remuneration and looks at each company's remuneration policy before voting. For the 2020 year we have voted 'No' on the remuneration policy on 40% of our proxy votes.

Environmental

Truffle formed part of a group of asset managers who advocated to Shoprite, Massmart, PnP and Spar to accelerate the reduction, or even total elimination, of 'single-use' plastic shopping bags in stores.

We are engaging with the mining companies, especially those in the platinum and gold sectors, about the risks surrounding tailings dams, with specific reference to safety issues, additional capex spend that might be needed, and environmental impact studies.

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.

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