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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Four, 2020

Nedgroup Investments Opportunity Fund

Performance to 31 December 2020	Nedgroup Investments Opportunity Fund[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	4.9%	4.5%	9.8%
12 months	-2.7%	5.4%	7.0%

Market commentary

It seems unlikely that many people will look back on happy memories of 2020. There is surely not a person who has not had their private or professional lives affected by the Covid-19 pandemic – for many sadly the effect has even been their loss of livelihood and for others the loss of life itself. There was much to reflect on over our traditional end of year holiday season, and with the re-imposition of a heightened level of Lockdown in mid-December we entered 2021 with a nervous sense of foreboding of what the year may hold in store.

In a volatile year in which the JSE All Share Index first crashed -30% at the height of the pandemic's global spread in late March, it subsequently staged a surprisingly steady 48% recovery from the lows and ended the year up by 7.0% and closing in again on its all-time high of around 60 000 first reached in late 2017.

Most unusually and for the fourth consecutive year it was again the Basic Materials Index (largely Mining) that lead the sectoral pack with a return of 21.2%. In complete contrast Industrials returned -20.7% and Financials were very weak (-19.7%) lead by the Property sub-sector declining by 41% (despite a strong bounce in Q4 of +19.0%). The Healthcare sector disappointingly recorded a third consecutive year of negative returns, and our local consumer stocks almost all returned negative numbers for the year. Large-cap stalwart Naspers' +32.1% return did much of the hard work combined with the Basic Materials sector to drive a positive return of the All Share Index for the year.

Despite the worryingly weak state of South Africa's balance sheet and the unlikely prospect of a material change in that in the medium term, combined with a short-term collapse in tax revenue collections caused by the slowdown in economic activity, the rand has proven to be remarkably resilient. Having started 2020 at R14.00 to the US$ it weakened by 35% to the weakest point in March touching R19-00 before steadily strengthening and ending the year at R14.69 – a mere 4.25% weaker from where it started the year. This may come as something of a surprise to unitholders and we attribute the currency strength to the tremendous tailwind South Africa is currently experiencing as most of our export commodities (Platinum Group Metals, Iron Ore, Gold, Manganese and Maize) are all trading at very high levels while our principal import – Oil – is trading at a very low level. This is having a very favourable impact on our trade balance, while at the same time we are not seeing a deterioration in our capital account flows – despite the ongoing rating downgrades (now deep into Junk territory) the ratings agencies are awarding SA. With the yield on SA government bonds now trading higher than the prime rate, it is more expensive for the SA government to borrow money from the banks than it is for the average individual mortgage bond holder. This means there is a higher demand for rands than there is in supply and is driving the rand strength. The longevity of these conditions is uncertain and means the outlook for the currency is as unclear as ever.

We are guided by the longer-term prospects of the nation's balance sheet and the State's inability to service and repay the debt already in issue, and consequently why we consider a weaker currency as the inevitable release mechanism in time as the fiscal cliff we're approaching keeps getting closer.

[1] Net return for the Nedgroup Investments Opportunity Fund, A class. Source: Morningstar (monthly data series).
[2] ASISA South Africa Multi-asset Medium Equity category

Portfolio commentary

The Nedgroup Investments Opportunity Fund recovery continued in the fourth quarter with the Fund delivering 4.9% for the quarter. This was mainly driven by the long-awaited recovery in our basket of Eurostoxx notes, which collectively contributed 2% to Fund performance in the quarter, as well as our exposure to the Banks which contributed 2.2% to Fund performance for the quarter. Increasing our exposure to listed property in the third quarter resulted in a positive contribution to returns in the fourth quarter.

Q4 2020

Top contributors	Ave. weight %	Performance contribution	Top detractors	Ave. weight %	Performance contribution
EuroStoxx 50	3.96	0.9%	USD	1.98	- 1.9%
African Rainbow	1.43	0.8%	Royal Bafokeng convert.	6.13	- 0.8%
Balwin Properties	1.50	0.6%	Std.Bank 3.7% 200623	3.46	- 0.5%
Dipula	1.21	0.6%	US Treasury 0.125% 150123	2.48	- 0.3%
ABSA	1.65	0.6%	Anglogold Ashanti	1.40	- 0.3%
Total		**3.5%**			**-3.8%**

With a tough start to the year the Opportunity Fund's return of -2.7% for the year was disappointing. The major detractors from performance were our holdings in Sasol (-3.6%), ABSA (-1.3%) and EPE Capital (-0.9%). All three of these companies staged a recovery to year-end, but not enough to offset the earlier under-performance. Our holdings in the Abax Global Equity Fund (+2.7%), Naspers (+2.0%), the RBP convertible (+1.1%) and PSG (+1.0%) softened the blow.

Calendar year 2020

Top contributors	Ave. weight %	Performance contribution	Top detractors	Ave. weight %	Performance contribution
ABAX Global Equity	7.13	2.7%	Sasol	2.07	- 3.6%
Naspers	6.98	2.0%	USD	1.94	- 1.4%
S&P 500	0.06	1.3%	ABSA	1.96	- 1.3%
Royal Bafokeng convert	4.89	1.1%	EPE Capital	1.14	- 0.9%
PSG Group	1.83	1.0%	ABSA EuroStoxx 50 011020	1.91	- 0.8%
Total		**8.1%**			**-8.0%**

Despite Naspers' stellar performance for the year it remains one of our largest positions at 4.1% of the Fund. The reason for our continued positive disposal towards the company is multi-fold, but the main points are:

- Exposure to one of the biggest technology markets in the world
- A deep discount to the value of its underlying investments
- Highly cash generative
- Recent value unlocking management actions including share buybacks of both Prosus as well as Naspers.

The Royal Bafokeng Convertible Bond remains one of the largest positions in the fund at 5.5%. We continue to remain positive on the investment outlook due to:

- Decent exposure to the highly sought-after Rhodium commodity.
- RBP has lagged the other major platinum producers and remains an attractive take-out target.
- The commissioning of Styldrift will result in significant cashflow generation for RBP in the next two years, as they experience strong production growth.

Our investment thesis on PSG as posited in our Q2 2020 commentary played out well, with PSG being one of the top 5 contributors for the year. Our subsequent receipt of Capitec shares on the unbundling further aided performance. Despite the strong rally PSG remains undervalued relative to its portfolio of assets and we have retained a decent exposure to the company.

Current positioning and outlook

Despite the reported success of an effective vaccine, this is not widely available, has not been proven to be universally effective and in any event, we are already learning of mutated versions of Covid-19. So, while not meaning to sound overly pessimistic, we are reluctant to conclude the worst of the Covid-19 related economic impact is behind us.

The World Bank expects the South African economy to recover by 3.3% in 2021 and return to a "near potential pace" of 1.7% in 2022 after contracting by an estimated 7.8% during Covid-19-afflicted 2020. However, it warns in its flagship Global Economic Prospects report, published on 5 January 2021, that the pandemic has precipitated a dramatic fall in per capita income, which has pushed tens of million more people in South Africa and the rest of Sub-Saharan Africa into extreme poverty.

The resultant decline in per capita income is expected to set average living standards back by a decade or more in a quarter of Sub-Saharan African economies, with even more severe setbacks in Nigeria and South Africa – home to one-quarter of the region's population.

The bank also notes that South Africa's pre-existing structural constraints, such as persistent power-supply disruptions, are expected to become binding again as economic activity firms.

In addition, debt sustainability concerns may require fiscal consolidation, which, if prematurely implemented, could further soften the country's recovery.

Weaker growth momentum into 2021 partly reflects the lingering impact of the pandemic, as some mitigation measures are envisioned to remain in place.

Despite this negative macro context, we note with interest that valuation levels on many of the stocks we hold are at multi-year lows. Most SA sectors are also trading at record discount valuation levels versus both Emerging Market and Developed Market peers. Many are well managed and are responding in many ways to cut costs, preserve profitability and find new ways to drive growth in profits.

Interest rates domestically and internationally are at record lows and not expected to rise soon, so the cost of servicing debt is actually decreasing and this will further boost profits for companies with geared balance sheets.

Putting all the above together we believe now is not the time to significantly reduce equity exposure, and the risk-return balance favours this asset class. We have therefore retained decent exposure to equities within the fund with hedges over some of our larger positions.

Conclusion

While global markets look expensive, South Africa continues to offer selective value. We have maximum foreign currency exposure in the fund (through a combination of physical holdings and currency futures/options) which should protect us against the eventual fallout from our fiscal cliff problem. We are comfortable that out portfolio offers a good mix of growth and yielding assets providing the portfolio with an attractive risk/return pay-off profile.

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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