NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS BALANCED FUND

Quarter One, 2021

Nedgroup Investments Balanced Fund

Performance to 31 March 2021[1]	Nedgroup Investments Balanced Fund A	ASISA category average
3 months	10.09%	7.41%
12 months	34.48%	30.65%

Overview

The IMF has continued to revise its global economic growth projections upwards. The global economy is now forecast to grow at 6% this year, versus a contraction of 3.3% last year. However, they warned about widening inequality and divergence between developed and developing nations. Unsurprisingly, given the sheer size of the fiscal stimulus packages, they expect the US to surpass the level of output it would have reached in 2021 in the absence of a pandemic. Many other developed markets will only reach pre-pandemic levels of output in 2022 with some emerging markets taking until 2023.

The MSCI World Index increased by 3.4% in March as the global economy continued to recover. Countries such as the US and UK, which are ahead in their vaccine roll outs, have been outperforming those that are lagging. Those European stock markets which have lagged should see a recovery going forward as their roll-out eventually gathers momentum. European economies will also benefit from their greater sensitivity to global growth. European markets have a higher exposure to economically sensitive value sectors compared to the US, the latter having a higher weighting in expensive tech-related sectors.

The ALSI posted a significant return of 13.1% led by Resources (+18.7%), with Industrials up +13% and Financials lagging with a +3.8% return. The Property sector posted a return of 6.4%. The All-Bond Index was down -1.7% with the impact of higher global yields outweighing the positive impact of a better-than-expected budget, which helped the rand strengthen against the dollar by +2.6%.

The US 10-year treasury yield has risen from 0.91% to 1.74%. A continued rise in this yield remains a risk to equity markets going forward, especially for growth shares. The two constituents of the treasury yield have both risen over the quarter: the real yield has risen from -1.09% to -0.63% and the inflation breakeven rate[1] has risen from 1.99% to 2.37%.

The bond market is pricing in inflation breakeven rates of close to 2.6% over the next five years, which then drops to 2.2% over the subsequent five years. This is close to the Fed's target rate. However, the risks of inflation surprising above these levels is a concern. Short term pressures are already evident from pent-up demand and supply disruptions resulting in the Manufacturing PMI pricing index rising over 3%. This index tends to lead CPI by around 18 months.

The pricing impact of certain "opening-up" sectors (such as travel), which are currently depressed, are yet to be seen. According to the OECD, the Biden stimulus packages, including the $1.9trn pandemic relief program and the $2.4trn infrastructure program, will boost GDP by 3.8% and close the output gap by 2022. This should add structural pressure to inflation as opposed to the expected cyclical impacts from the economy reopening.

The stimulus packages should maintain the continuation of employment growth which impacts inflation via wages and higher shelter costs. Employment levels are highly correlated with shelter inflation (which is based on rental). As shelter costs are the largest component of the CPI basket at 34%, this could also place upward pressure on inflation. Biden's *America Rescue Plan Act* will raise the incomes of the poor much more than the rich. As lower earners spend more of each dollar than higher earners, demand should increase meaningfully, adding to inflationary pressures.

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

If the coming growth in the US economy does not result in inflation exceeding bond market expectations, the question should be why investors are prepared to receive such a poor return of negative 0.63% from inflation linked bonds (10-year bonds)? Inflation linked bond yields should ultimately deliver a positive real yield as they have done historically. A normalisation of economic growth should ultimately drive-up bond yields either via higher expected inflation or real yields.

Commodities continued their buoyant performance over the quarter and are perhaps starting to factor in too much good news, especially when we consider miners' profit margins and increases in supply in iron ore and copper. Furthermore, the credit impulse in China is likely to roll over from current levels, which suggests that demand from the world's largest metal consumer will slow. This is evidenced in The Peoples Bank of China's March meeting request that local banks curtail loan growth in 2021. However, prices may remain elevated as the global economy opens up, especially if speculative activity remains high. We have been gradually reducing our exposure to diversified miners.

We continue to bang the drum on structural concerns facing the domestic economy, namely political and economic issues. However, there are some short-term positives. February saw a better- than-expected budget, and budget forecast assumptions appear overly conservative which should result in a lower funding requirement. This should help the domestic bond market and offset some of the pressure from rising global rates.

The ANC's NEC resolved to suspend members who have been charged with corruption should they not voluntarily step aside in thirty days. This could potentially result in the removal of the Secretary General, Ace Magashule.

The roll-out of vaccines appears to be gaining traction and we remain hopeful. Trading updates from domestically exposed companies suggest that the SA economy is improving, and that things were not quite as bad as initially feared. Despite a recovery in SA valuations from the second half of last year, there remains a reasonable number of opportunities in domestic financial and industrial shares where valuations are below historic levels and prospects are not expected to be significantly out of line with their historical performance.

Portfolio Positioning

We increased our exposure to British America Tobacco, Remgro, Alibaba, and Heidelberg Cement. The Fund reduced its exposure to the resource sector, Naspers and the iShares EM Value ETF.

Performance Commentary

Buoyant commodity prices over the quarter resulted in a net contribution from mining and resource shares. Naspers, iShares EM Value ETF and Heidelberg Cement added to performance. Conversely, Alibaba and offshore financials detracted from performance.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Impala Platinum Ltd	5.1%	2.0%	Alibaba Group	2.0%	-0.4%
Naspers Ltd	2.1%	1.1%	AngloGold Ashanti	1.5%	-0.2%
Sasol Ltd	1.7%	0.9%	Royal Dutch Shell	0.3%	-0.1%
iShares MSCI EM Value	4.8%	0.7%	BP Plc	0.3%	-0.1%
Sibanye Stillwater Ltd	3.6%	0.7%	Credit Suisse	0.1%	-0.1%
		5.4%			**-0.9%**

Responsible Investing

Below we list select company engagements over the quarter:

Sasol
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 on the FY21 STI targets, LTI targets, the peer group used to determine the remuneration, the remuneration policy design principles, and the explanations regarding the severance packages.

Impala Platinum
We wrote a letter to Impala in September 2019 to express our concern regarding 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. Truffle have voted against the remuneration policy.

Nedbank Ltd
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 the proxy voting recommendations.

Remuneration
Truffle has adopted stricter voting 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.

Engagements relating to social issues:

Platinum producers
We have engaged with the various platinum companies regarding relationships with the unions and surrounding communities as this is crucial to the wellbeing of employees and reduces the probability of disruptions and damage to property.

Anglo American, BHP and ARI
We have had discussions regarding the impact of COVID-19 and its effect on the company and employees. They implemented social distancing protocols and provided screening at multiple entry points, transport to mines and onsite clinics. They are providing financial support for those families that have lost a member due to COVID-19.

Exarro Resources
In April 2020, we discussed the impacts of the COVID-19 response as above (with BHP/ARI), as well as their Scope 1, 2 and 3 emissions and their strategy around reducing these emissions with their Cennergi (Wind power) joint venture.

Kumba Iron Ore
In March 2020, we discussed and asked for clarity on the COVID-19 response as well as social engagement around their Dingleton relocation project.

Engagements relating to environmental issues:

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, on the risks of tailings dams, with specific reference to safety issues, the additional capex spend that may 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.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT
Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000