



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

A photograph of an open book with white pages, tied with a white string bookmark. The book is open to a blank page, and the pages are slightly curved, suggesting it is being turned or held open.

NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter One, 2021

Nedgroup Investments Entrepreneur Fund

Performance to 31 March 2021	Nedgroup Investments Entrepreneur Fund ¹	ASISA category average	Small Cap Index	Mid Cap Index
3 months	17.78%	15.70%	21.2%	9.4%
12 months	44.50%	56.30%	79.2%	45.4%

Market commentary

The SA equity market was one of the best performing equity markets globally in Q1 2021. The JSE All Share Index rose a notable +13.1% which is the best first quarter performance in fifteen years. After a prolonged period of elevated risks (global trade war, Covid-19, US election uncertainty), equity markets have been supported by a better backdrop, mainly through the vaccine rollout and monetary and fiscal stimulus.

For the quarter, the Resource sector (+18.7%) was again the strongest, followed by Industrials (+13.0%). The Resources sector remains supported by a global economic recovery (specifically in China), fiscal stimulus, and supply discipline. Despite attractive valuations, the Financials sector continues to lag (+3.8% for the quarter).

The JSE Small Cap Index continued its strong recovery off the trough lows now recorded a year ago and which flatter the 12-month performance numbers for all above shown performance indicators. The JSE Mid Cap Index in comparison has lagged quite substantially, held back by its relatively higher exposure to Property and Financial stocks.

Notwithstanding the recent strength in share prices, many domestic shares remain undervalued. We still see an opportunity for a further re-rating as the South African equity market continues to trade at a discount to its own history, as well as that of other emerging markets. In addition, we are encouraged that many companies held in the fund have adapted well to the challenging environment and are positioned for healthy growth in earnings and dividends over the next few years.

Portfolio Commentary

The fund has performed satisfactorily relative to benchmarks and peers and had limited exposure to under-performing stocks.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Royal Bafokeng Platinum	8.9%	5.7%	Santam	5.3%	-0.2%
Naspers	9.7%	1.6%	DRD Gold	0.6%	-0.2%
KAP Industrial	4.6%	1.3%	RMI	3.2%	-0.2%
Reunert	3.1%	1.3%	Adcock Ingram	2.7%	-0.1%
Merafe	1.6%	1.0%	Balwin Properties	0.9%	0%
Northam	3.5%	0.9%	EPE Capital	0.02%	0%
		11.8%			-0.7%

The ongoing uncertainty regarding the full extent of Business Interruption (BI) claims that will be required to be settled by **Santam** continued to weigh on the stock's performance. In their most recent financials, despite making substantial provisions for what they currently expect these claims will cost, the record profits made on their motor

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

insurance book more than offset these which was most encouraging. The Appeal Court hearing regarding the period for which BI claims are valid should be concluded by the end of Q3 2021 and if these are resolved reasonably, we expect the certainty will bring a relief rally from the current depressed levels.

Perplexingly, **RMI** has been equally negatively affected. This is despite having already resolved and paid out all their BI claims, and Outsurance reporting a record level of profits. We are hopeful that the next twelve months will see some progress regarding the unlock of some value trapped in the corporate structure – most likely starting at Remgro.

The overweight exposure of the fund to **Royal Bafokeng Platinum** and **Northam** were the main contributors to performance in the quarter. The PGM basket price increased by nearly 30% in USD during the first quarter, with most of the heavy lifting done by Rhodium (+55%). Rhodium is a by-product of South African platinum producers and a very efficient metal to use in vehicle catalytic converters to remove harmful Nitrogen Oxide (NOx) from vehicle emissions.

Due to increased environmental and emission regulations across the world, loadings of Rhodium and Palladium in gasoline vehicle catalytic converters have increased, causing a shortage of these metals, exacerbated by lockdown rules in South Africa, one of the worlds primary producers of Platinum Group Metals. An underground flood at Norilsk Nickel, a Russian producer of Nickel with by-products such as Palladium and Rhodium, caused a further significant shortage.

All the PGM producers reported significant increases in earnings and cashflows over the last quarter at year-end reporting periods, leaving the companies trading on very low and undemanding valuations. We do not expect a further increase in the PGM basket price, but rather a re-rating of the platinum shares as the basket price holds at these very high levels, primarily due to supply shortages. Our preference in this space is for PGM miners with an increasing production profile such as Northam Platinum and Royal Bafokeng Platinum.

The exposure to smaller South African focused shares such as KAP Industrials, Reunert, Hudaco and Raubex also supported returns for the first time since the start of Covid.

Current positioning and outlook

The question we ask ourselves currently is that given the huge recovery we have seen in the equity market from the Covid-19 trough lows of March 2020, what more can we reasonably expect. We think the answer to this is driven by the longevity of the economic recovery SA will experience.

Our base case in this outlook is unexciting. While we laud and welcome the gradual political and economic progress being made in South Africa as evidenced by steadily growing data points such as tackling corruption, better than expected tax receipts, supportive commodity prices, low interest rates, some public sector infrastructure spending, the award of more private sector power generation, the reality is that this rosy outcome constitutes an optimistic result. It is encouraging that for the first time in ten years, the economy has a chance to grow organically, however the socialist agenda of the state can easily, and is likely, to upset this.

So the fund remains appropriately balanced and diversified along the following broad areas:

- Attractively valued Platinum Producers – 15% of the fund
- Defensive value (with a Rand hedge bias) - 15% of the fund – examples here include British American Tobacco, Santam and RMI
- Niche Financials - 14% of the fund – examples here include PSG Konsult and Coronation
- Domestic Consumer - 19% of the fund – examples include AVI and Italtile
- Domestic Industrial – 19% of the fund – examples here include Reunert, KAP Industrial and Hudaco

ESG

We seek to be a responsible investor and continue to deepen our focus on stewardship and ESG integration in our investment process. Notable engagements during the first quarter of 2021 in the Entrepreneur portfolio include:

- **Mediclinic:** Engaged with management regarding new remuneration structure and targets. In addition, we participated in the Mediclinic International 2021 Perception Study.
- **Oceana:** Engaged with the CEO and Interim CFO on their proposed empowerment transaction.
- **Prosus:** Engaged with the Prosus and Naspers remuneration committee regarding general governance, alignment with shareholders, quantum of pay and executive KPI's.

Conclusion

Although we worry that the SA economy is most likely trapped in a low growth scenario, the boost it is currently receiving from high export commodity prices is most welcome and, more importantly, is expected to remain supportive. This may prove to be the spark that ignites broader activity, and the very low interest rate environment is also supportive of expansion. Should this scenario continue to evolve, the Entrepreneur fund with its bias towards domestic stocks is likely to continue to prosper. We are more confident of that scenario evolving today than we have been at any time in the last seven years.

As at the end of March 2021, the fund traded on a forward PE of 11.0X, Dividend Yield of 3.1% and Price to Book of 1.67X.

Anthony Sedgwick
Abax Investments
April 2021

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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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