NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS GROWTH FUND

Quarter One, 2021

Nedgroup Investments Growth Fund

As the old proverb goes “The darkest hour is just before the dawn”, and the new year certainly brought with it what felt like a new dawn for South African markets.

Performance to 31 March 2021	Nedgroup Investments Growth[1]	ASISA category average	FTSE/JSE SWIX
3 months			
12 months			

Market Commentary

The FTSE-JSE All Share Index (ALSI) had an extremely strong start to the year up +11.2% in USD, and helped along by a steady ZAR, outperformed the MSCI world (+4.5%) and MSCI EM (+1.9%) nicely.

The adage from Warren Buffet to “be greedy when others are fearful” could not have been illustrated better over the past year with the ALSI now up +75% since its low point in March last year. In fact, the ALSI is now +16.5% above where it ended 2019, and has thus not only recovered from any Covid-19 impact, but provided investors with a decent return off pre pandemic levels.

Many might look at the above returns and struggle to reconcile them with what is happening in the real economy, where we continue to face lockdowns, increasing job losses and still much uncertainty. The rapid recovery in financial markets and subsequent divergence from the high street can materially be attributed to what has been called the most generous action of all time from central banks and governments.

In the US alone the Federal Reserve expanded its balance sheet by over USD2.7 trillion through bond buying, and the Treasury funded USD4.5 trillion in grants and loans. These actions were echoed throughout the developed world, and all this money needed to find a home. A large part did so in the capital markets, driving asset prices higher, often beyond what seemed justified by fundamentals.

As we wrote in our previous quarterly commentary, we entered 2021 with the tailwinds of global fiscal and monetary support, the global rollout of the vaccine and a recovery of the global economy off the low base set by the near economic standstill induced by the initial Covid-19 extreme lockdowns. We have seen these bullish dynamics play out in the first quarter with strong data out of China supporting commodity prices, and the general reopening of economies as the vaccine gets rolled out supporting stocks that benefit from an economic recovery.

The big questions that we now must answer are around the sustainability of the economic recovery.:
- What will be the effect of a third wave of Covid-19 (or even a fourth, if vaccine rollouts continue to be so slow)?
- What are the implications for inflation and for interest rates given the massive fiscal and monetary stimulus?
- Lastly, and perhaps most importantly, what outcomes have been priced into the valuation of various assets globally?

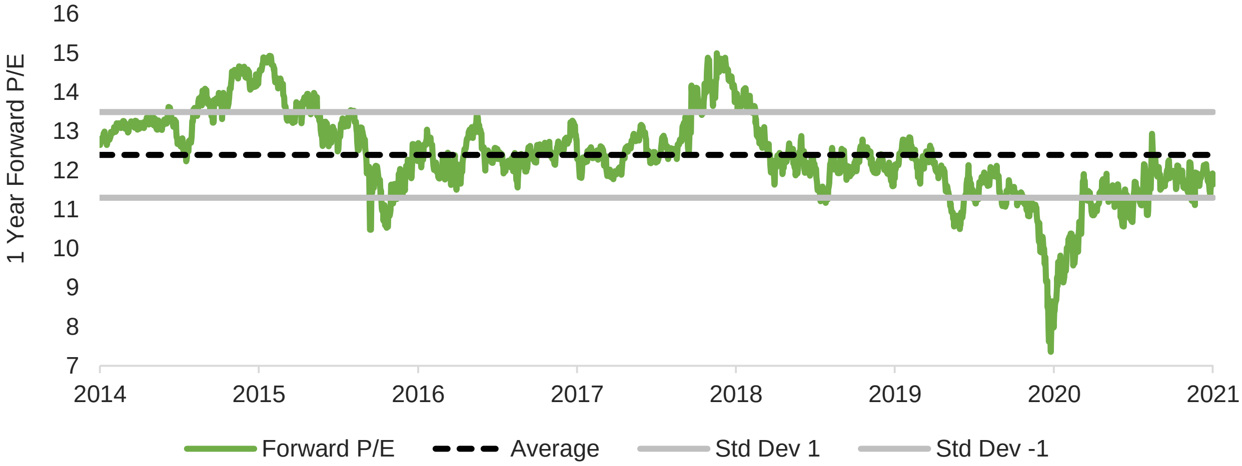
On this latter point, we believe that there are specific sectors and markets globally that are starting to look expensive, and where the risk reward is no longer attractive.

We are still finding pockets of the market that look very attractive and believe could still provide handsome returns to investors over time. Many South African focused companies for instance still look attractively valued when examining a simple index of the 1 year forward PE of companies that are most exposed to South Africa (SA Inc.).

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

When examining the chart below it shows that SA Inc. is trading 1 standard deviation cheaper than its' 5-year history.

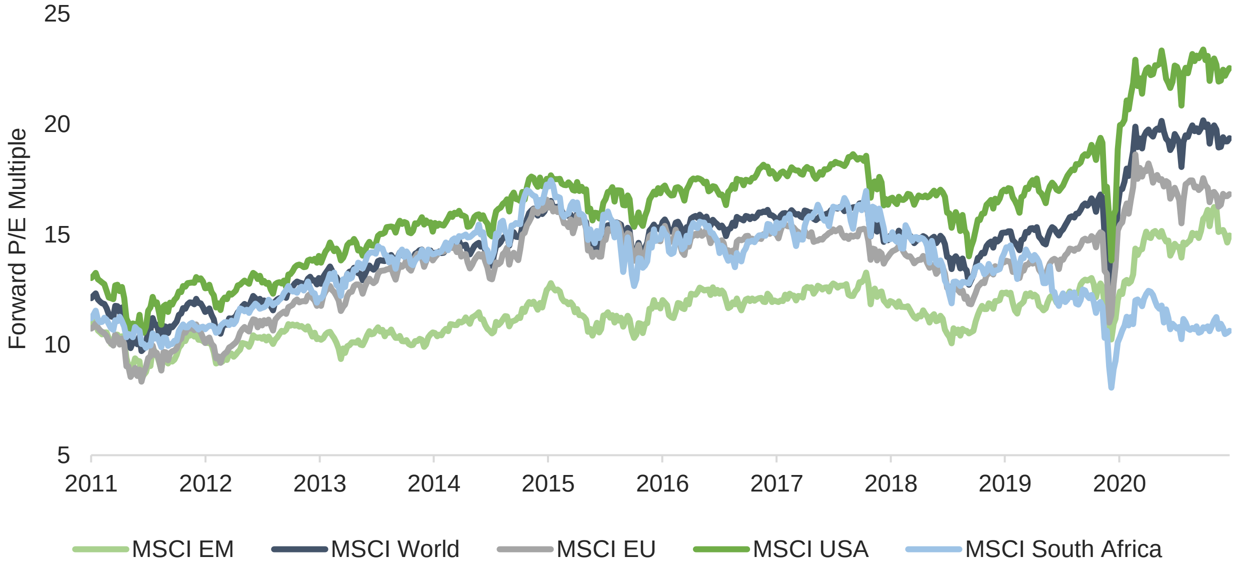
Figure 1: Laurium Capital Domestic South Africa Index blended 1-year forward P/E multiple



Source: Laurium Capital, Bloomberg (31 March 2021)

We note that the MSCI SA index is also trading at a large discount compared to other global markets forward PEs', including other emerging markets which are trading at a 15x forward PE.

Figure 2: Comparative Blended 1-year Forward PE multiples of MSCI South Africa and major global MSCI Indices



Source: Laurium Capital, Bloomberg (31 March 2021)

We thus continue to hold reasonable exposure to South African focused companies (SA Inc), specifically within the healthcare, insurance, industrial and telecommunication sectors. We also retain significant exposure to the large global consumer stocks including British American Tobacco and Naspers.

Portfolio Commentary

The fund ended the quarter up 14.9%, performing well against the benchmark FTSE-JSE Capped SWIX which was up 12.6%. Our positions in Naspers/Prosus, MTN, PGM miners, and Anglo American all contributed positively to performance, whilst positions in AngloGold and Liberty Life detracted from performance. Since inception, the fund has outperformed the benchmark after fees, achieving an annualised performance of 7.3% compared to the FTSE-JSE Capped SWIX of 6.0%.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers	11.46	1.89	Ethos Capital Partners	3.96	-0.28
MTN Group	3.65	1.44	Anglogold Ashanti	2.62	-0.13
Anglo American Platinum	3.27	1.39	Libstar	2.51	-0.10
Anglo American	6.02	1.19	Liberty Holdings	1.17	-0.08
Impala Platinum	3.48	1.11	Standard Bank Group	2.75	-0.03

Current positioning and outlook

The largest individual equity position in the Nedgroup Investments SA Equity Fund ('the fund") remains Naspers, although we did reduce our position in Prosus on a strong run up in the stock during the quarter. Naspers and Prosus have subsequently come under pressure due to regulatory worries in China around Tencent, which is the largest underlying investment in their portfolio. We have done extensive work around these regulatory changes and feel confident that they will not materially affect Tencents' ability to grow earnings into the future, and thus at a 50% discount to the intrinsic net asset value, we still think Naspers looks very attractive.

We continue to hold a large position in British American Tobacco (BAT) which remains very attractively valued on an 8x forward PE and 8% dividend yield in GBP sterling despite its recent strong performance.

The fund has retained meaningful exposure to resource counters including diversified miners such as Anglo American and BHP Billiton as well as platinum counters including Anglo Platinum, Impala Platinum and Northam. The strong economic recovery in China continues to support demand for bulk commodities. In platinum group metals (PGMs), a lack of new mine supply has been exacerbated by mining problems at Norilsk Nickel, which should keep the market tight and support PGM prices at this elevated level for longer.

Conclusion

We believe that the equity portfolio is well diversified and offers attractive upside across a range of economic segments, while pragmatically weighing up the inherent risks in order to achieve the best risk-adjusted returns for our clients going forward.

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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