



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 OPPORTUNITY FUND

Quarter One, 2021

Nedgroup Investments Opportunity Fund

Performance to 31 March 2021	Fund Performance ¹	ASISA category average ²	FTSE/JSE ALSI
3 months	11.5%	5.5%	13.1%
12 months	36.7%	24.2%	54.0%

Market Commentary

The All Share returned a decent 1.6% for the month of March, adding to the strong performance of January and February. The cumulative return of 13.1% for Q1 2021 is now the strongest first quarter return experienced by the market since 2006.

All the major indices delivered positive returns for the 3 months to end March 2021, with the strongest total return performance from Resources (+19%), followed by Industrials (+13%) with Financials (+3%) in last position. Noteworthy over the period was also the strong performance of the Small Cap Index (+21.7%).

SA Bonds had a tough time, returning -1.9% for the first quarter. The stability of the South African Rand over the quarter (one of the best performing EM currencies) pushed the dollar returns of the South African Indices to second place in the emerging markets return contest.

Earnings expectations for the All Share Index were again upgraded, the 8th month in a row. This helped to keep the forward Price Earnings ratio low, unlike in the case of other emerging markets where earnings expectations lagged the performance of the indices leading to higher ratings.

Portfolio Commentary

The fund's top five performing positions for the quarter added 6.6% to our return while the bottom five detracted 0.65%.

Top contributors	Avg. weight	Performance contribution	Top detractors	Avg. weight	Performance contribution
Royal Bafokeng Converts	6.65%	4.07%	African Rainbow	1.62%	-0.25%
Naspers	4.64%	0.69%	Dipula	1.33%	-0.20%
Sasol	1.21%	0.68%	R2032	4.80%	-0.08%
Eurostoxx 50	4.95%	0.64%	EPE Capital	1.10%	-0.07%
British American Tobacco	5.13%	0.56%	Warrior Met Coal	0.27%	-0.05%
Total		6.64%			-0.65%

- During the last quarter a number of our hybrid positions added alpha to our portfolio, with the Royal Bafokeng convertible adding the most value as the underlying share continued to perform well.
- Royal Bafokeng Platinum reported strong results and also declared a maiden dividend after strong cash generation.
- We remain positive on the outlook for Royal Bafokeng but have started reducing the size of our position from a portfolio construction and risk management point of view.

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

² ASISA Multi-asset medium equity category.

- The Eurostoxx investment note is another hybrid that added value as the European equity markets continue to recover.
- We have positions in ten structured notes in the Fund (9% in total), of which 8 are in the money.
- The yield to maturity is an attractive 22% on the basket and we remain positive on the outlook for the basket of notes.
- Naspers continued with their share buybacks during the quarter which aided performance and is consistent with their long-term strategy to unlock value.
- Sasol was a welcome addition to the top 5 performing shares after being one of the top 5 detractors exactly a year ago.
- We increased our holding in British American Tobacco at attractive levels and continue to see it as one of our core holdings with a supporting dividend yield of 8% in pounds.

Current positioning and outlook

- Global equity markets look elevated.
- A significant part of our offshore exposure is through hybrids in the form of structured notes.
- This provides the portfolio with some capital protection and enhances the asymmetric return characteristics (upside potential vs. downside risks).
- We continue to be cautious on global bonds, global cash and global credit.
- At the same time we see the rand as being strong given poor domestic fundamentals and for this reason we retain maximum offshore exposure through currency overlays.
- On the domestic front we retain low bond exposure with a short duration as the pending fiscal cliff remains a concern.
- Within equities, our top positions Naspers and British American Tobacco offer rand hedge protection as well as attractive return potential.
- Our hybrid exposure is at quite a high level as the asymmetric return profile become even more attractive after such a strong market run.
- Our main exposures are to the structured notes (mostly Euorstoxx notes), convertible bonds (RBP, Sappi and Brait), as well as attractively priced preference shares (PSG Pref).


Conclusions

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

Responsible Investment Comments

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 include:

- *Sanlam*: Sent a letter to the Chairman of the Board recording our objection to Sanlam's investment in ARC Financial Services Sub Co. In addition, engaged with the Chairman and CEO regarding related party transactions and worrying deterioration in governance standards.
- *Mediclinic*: Engaged with management regarding new remuneration structure and targets. In addition, participated in the Mediclinic International 2021 Perception Study.

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- *Investec*: Engagement with the Chairman and Chair of the Remuneration Committee regarding board succession, remuneration and other governance matters.
 - *Spar*: Engaged with the Financial Director regarding the re-election of certain members to the Audit Committee.
 - *Oceana*: Engaged with the CEO and Interim CFO on their proposed empowerment transaction.
 - *Pepkor*: Engaged with the company regarding the small related party transaction.
 - *Prosus*: Engaged with the Prosus and Naspers remuneration committee regarding general governance, alignment with shareholders, quantum of pay and KPI's.

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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For further information on the fund please visit: www.nedgroupinvestments.co.za

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