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NEDGROUP INVESTMENTS
Private Wealth Equity Fund

Quarter One, 2021

Nedgroup Investments Private Wealth Equity Fund

Performance to 31 March 2021 ('R)	Fund[1]	Benchmark[2]
3 months	10.46%	13.23%
12 months	48.44%	51.35%

Market Overview

Measured in US dollars, the JSE All Share index was one of the strongest first quarter performers globally. The S&P 500 also ended the quarter at a high watermark.

During Q1 2021, the JSE All Share posted a positive total return of +13.1% while the ALBI lost 1.7%. Resources posted a total return of 18.7% and SA Industrials +13%. SA Financials lagged, with a total return of +3.8%.

Large caps on the JSE returned +14% and Mid-caps +9%. The leading names in this context were RBPlats (+77%), Montauk Renewables (+60%), Sasol (+58%) and Amplats (+52%), while the laggards were DRDGold (-22%), Discovery (-14%), Harmony (-13%) and AB InBev (-10%). Small caps stocks turned in a solid return of +21%, which included City Lodge up +53% and Tsogo Sun Hotels higher by +45%.

The SWIX40 returned 13.2% for the period. The USD/ZAR at quarter-end was largely unchanged but it did fluctuate in a range of between R14.50 to R15.50. The rand is, however, sharply stronger when compared to Q1 2020. The SARB kept the repo rate steady at 3.5%.

The primary drivers of the first quarter performance was the miners and a recovery in the oil price. Miners continued to benefit from higher metal prices on inflation concerns and an improving demand backdrop. As always, the perennial underpin for the JSE in the form of Naspers, didn't disappoint by returning close to 20% in the first quarter.

In the US, a combination of unprecedented monetary policy, early success with its vaccine rollout programme and the reopening of the economy coupled with the Biden administration's $2 trillion infrastructure spending plans were supportive for parts of the market. A rising yield on the US 10-year was less supportive, however, for emerging technology stocks during this period. The implosion of Archegos Capital Management towards the end of the quarter served as a stark reminder of the perils of equity risk juiced with excessive gearing. Picking stocks is only one part of the game, position sizing and risk management cannot be overlooked as this family office has come to realise.

At home, efforts to address corruption and pursue accountability within the ANC appear to be coming to a head, with the *Step-Aside within 30 days* pronouncement recently tabled. The challenges of an energy constrained economy were also reaffirmed, with Eskom management conceding that load-shedding will be a fact of life in South Africa for another five years.

[1] Net return for the Nedgroup Investments Private Wealth Equity Fund, A class. Source: Morningstar (monthly data series).
[2] Benchmark is the SWIX40.

Portfolio Commentary

Domestic

Northam

The PGM market has been a bright star in the South African investment landscape over the past two years, as tighter vehicle emissions legislation led to strong demand. Within these metals, palladium and rhodium have risen to multiyear highs and have taken the previously-embattled PGM miners into strong profit territory. We assume that spot prices will not persist at current levels but will gradually soften as recent supply outages have abated and substitution into platinum takes hold.

Within the sector, we prefer Northam Platinum with its class-leading volume growth trajectory. From current levels, we expect Northam to grow volumes by roughly 50% over the medium term. Much of this will come from its low-cost, mechanised Booysendal mine. Volume growth should help to offset PGM price weakness over the medium term. In this regard, management's approach is to provide conservative guidance to investors – an attribute we find encouraging.

Another key pillar of the Northam investment case is the wind-up of the Zambezi preference share scheme. The scheme was initiated in 2015 with the aim of funding growth projects and satisfying the Mining Charter BEE ownership requirements. Since late 2019, Northam has been buying Zambezi prefs in large volumes to a point where it currently owns 88%. By owning Zambezi prefs, Northam's future liability to Zambezi is reduced.

In essence, this acts as a deferred share buyback. Northam has recently proposed to wind-up the Zambezi scheme in the coming months, which will extinguish the Zambezi pref liability, simplify its accounting and reduce its share count from 510m to 380m. We view the newly-announced extended BEE transaction as only mildly dilutive over the medium term and will serve to entrench their stakeholder upliftment credentials in their communities.

Going forward, we expect Northam to continue delivering on its growth aspirations. Much of the heavy lifting in terms of capital spend and infrastructure development is complete, which will bear fruit in the coming years. While we assume a relatively conservative PGM price deck over the medium term, Northam's volume growth and improved cost positioning should continue to generate strong cash profits. We also expect dividends to be declared from FY22 onwards, which should be attractive to income-sensitive investors.

International

The Fund's direct international exposure is predominantly to US-listed companies. We have provided a brief comment on changes and highlights during the period.

During the quarter, the Fund added to positions in **Facebook, Stryker** and **Unilever**. A position in **Bed Bath & Beyond** was exited.

Facebook*: Value coming through*

Facebook had a great 2020, experiencing the less common 'swoosh' shaped (Nike logo shape) recovery. With the onset of Covid, the broad expectation was that advertising spending will contract, as it did in previous downturns. With online advertising penetration nearly tripling since the GFC and accounting for more than half of all advertising spend in the U.S., the expectation was that online advertising will experience its fair share of the decline in dollars spent. However, lockdowns around the world forced small businesses to find new clients online, which Facebook's platforms were best positioned for. This helped Facebook's growth recover to above pre-Covid levels and led to its share price peak being more than double its trough in March 2020.

While its financial recovery was heading one way, the same could not be said for its share price, which traded well off its 2020 highs during most of the first quarter 2021. Multiple possible headwinds caused investors to become more pessimistic during the first quarter, most notably the possible impact of changes to IDFA (Identifier for Advertisers), planned by Apple. IDFA tracks mobile users and is used by advertisers like Facebook to do personalised targeted advertising. Apple's new iOS 14 update will require applications to request permission to use IDFAs, which is expected to result in large scale opt-out. This will reduce Facebook's ability to track users outside its own platforms and thus, reduce the effectiveness of targeted advertising, though the impact on revenue is still relatively unknown. Other issues which increased pessimism during the quarter included Facebook's standoff with the Australian government on news content funding, backlash from its planned WhatsApp privacy policy change, as well as the Biden administration's appointment of a fierce tech critic to the FTC.

However, as the first quarter neared the end, investors were given cause to be less pessimistic. Increased optimism on global and U.S. economic growth, buoyed by stimulus talks, have raised expectations for advertising spend. Facebook also disclosed that Shops, which allows for in-app checkout within Facebook and Instagram, have reached 250mn monthly users and 1mn active shops since its launch in early 2020. Lastly, Mark Zuckerberg (Facebook founder and CEO), allayed investor fears around IFDA by stating that the Company will be able to manage through the iOS 14 update and that the changes might prompt more businesses to sell directly on its platform via Shops.

***Bed Bath & Beyond**: Caught up in the GameStop frenzy*

The GameStop chapter of US market history is well documented in the media. The fund was a beneficiary of this period of extreme volatility as we sold our BBBY position at $48, booking a return of more than 100%. Although our recovery thesis for BBBY continues to play out as evidenced by the solid progress made by BBBY management under Mark Tritton, much of this value creation opportunity was captured at $48 per share. At the time of writing, BBBY is trading in a range between $25 and $30 per share.

Alibaba**: Regulatory challenges, **an update

In the fourth quarter of 2020, we wrote about two developments which negatively affected the fund's holding in Alibaba. On this occasion, we add to this with an update.

Alibaba update:

Since our previous commentary on increased regulatory scrutiny, Alibaba has established a task force to assist regulators in their investigation into anti-monopolistic practices at the Company. Subsequent to the suspension of the Ant IPO, financial regulators have rolled out and proposed numerous rules to increase supervision and reign in risk-taking practices within the Chinese fintech industry. One such proposal is the creation of separate holding company which could be regulated like a bank. Another rumoured regulatory proposal is the requirement for Alibaba to divest its media assets. This will have a limited impact on Alibaba, as its media businesses are relatively non-core and loss making, which can represent upside to shareholders if sold or spun-out in an accretive manner. The impact of increased regulatory scrutiny on Alibaba's business remains relatively difficult to estimate. However, it has become clear that the scrutiny is not targeted at Alibaba as a company, but rather a disconcerting effort by the Chinese government to reduce systematic risk posed by the financial industry and realign the tech industry to party principles.

As at the time of writing, the Chinese regulator imposed a fine of $2.8bn on Alibaba for anti-competitive activity and the matter has been closed. This is a good outcome, in our view, as no forced restructuring of the group formed part of the sanction and the four-month duration of the investigation was not overly protracted as it might have been. Alibaba's share price responded positively to the finality of this issue.

***Unilever**: Oversold by the market*

About Unilever: Unilever PLC is a fast-moving consumer goods company. Reported segments include Personal Care, which includes sales of skin care and hair care products, deodorants and oral care products; Foods & Refreshments, which includes soups, bouillons, sauces, snacks, mayonnaise, salad dressings, margarines, ice-cream and teas; and Home Care, which includes home care products, such as powders, liquids and capsules, soap bars and a range of cleaning products.

Unilever's geographical segments include **Asia, the Americas and Europe**. Its brands include Axe, Dirt is Good (Omo), Dove, Hellmann's, Knorr, Lipton, Lux, Magnum, Rexona, Sunsilk and Surf. The Company operates in more than 100 countries, selling its products in more than 190 countries. Unilever recently unified its almost century-old Anglo-Dutch structure into a single, UK-domiciled company.

FY20 results overview: Unilever closed the year with a somewhat weaker performance than expected owing to input cost pressure, some of which was attributable to Covid-19 (like PPE expenditure), but unfavourable product mix also played its part. While medium-term organic revenue growth aspirations of 3-5% per annum were shared by management, limited visibility on 2021 given prevailing Covid-19 conditions resulted in no margin guidance being provided. The market would reasonably expect some meaningful margin relief to be in the offing as the pandemic pressures dissipate in response to the rollout of vaccines. Appointed as CEO of Unilever in January 2019, Alan Jope has his work cut out to drive the top-line through portfolio migration to higher growth categories and to rebuild margins.

Recall, Alan joined Unilever in the UK in 1985. Before being appointed as CEO, he served as President of Unilever's Beauty & Personal Care Division from 2014. He also worked in leadership roles in North America for 14 years and Asia for 13 years where he led the group's business in China. Unilever is a big ship, but Jope appears to have earned his stripes in the engine room.

Charting a new way forward: Unilever announced a multi-year framework targeting organic sales growth of 3-5% per annum, with profit growth ahead of sales growth on a comparable basis. In addition, management expect to achieve EUR2bn in savings per year driven by EUR1bn of restructuring efforts for FY21 and FY22.

FY21 outlook: 2021 could remain challenging for Unilever as consumers globally have become cost conscious in response to the unexpected disruption caused by Covid-19. Unilever and its peers will need to be as price point competitive as possible in pursuit of retaining and gaining market share. Furthermore, portfolio optimisation initiatives are likely to result in short-term costs being booked in an attempt to position the Group for longer term success. The Unilever investment case is bolstered by the simplification of its capital structure and the increased likelihood of M&A to follow as well as a recovery of emerging markets post-pandemic. Based on its current valuation, Unilever retains a position in in the fund.

Top 5 contributors and detractors for Q1 2021: Overweight positions

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Bed Bath & Beyond	0.4%	1.4%	**Alibaba**	4.0%	-0.8%
Bytes Technology	3.1%	0.3%	**Altron**	2.7%	-0.7%
Northam	0.8%	0.3%	**Adapt IT**	3.1%	-0.6%
ADvTECH	1.1%	0.3%	**RMI**	2.9%	-0.5%
PSG Group	4.9%	0.2%	**AB InBev**	1.7%	-0.5%

Top 5 contributors and detractors for Q1 2021: Underweight positions

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Capitec	-2.4%	0.4%	**Impala Platinum**	-3.7%	-0.9%
Discovery	-1.2%	0.4%	**Amplats**	-2.1%	-0.7%
Anglogold Ashanti	-1.8%	0.4%	**Naspers**	-19.2%	-0.7%
Multichoice	-1.2%	0.2%	**MTN**	-1.1%	-0.3%
Clicks	-1.2%	0.2%	**Sasol**	-0.7%	-0.3%

Current positioning and outlook

The challenges faced by South Africa across multiple fronts are well documented. Nevertheless, our team of ten research analysts is focused less on the macroeconomic picture and more on identifying individual companies that can sustain long-term earnings and cash flow growth through economic cycles.

The recent performance of the JSE has confounded the sceptics and it serves to reinforce the importance of staying the course. The deeply discounted nature of certain of the fund's JSE-listed SA Inc. holdings is increasingly apparent as evidenced by the bidding war for Adapt IT, a long time holding of the fund. While our position in Adapt IT has weighed on performance, we take comfort from the fact that the price discovery mechanism of the market can be spurred into action when glaring value is left unrecognised for too long.

With a reduced number of holdings and improved capital tension across the fund, we look forward to the balance of 2021. We thank you for your ongoing support.

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

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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.

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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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