NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS RAINMAKER FUND

Quarter One, 2021

Nedgroup Investments Rainmaker Fund

Performance to 31 March 2021	Nedgroup Investments Rainmaker Fund[1]	ASISA category average	FTSE/JSE ALSI	FTSE JSE / MSCI ACWI[2]
3 months	11.3%	12.2%	13.1%	10.7%
12 months	39.9%	48.5%	54.0%	46.1%

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).

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 had a reasonable quarter appreciating by +11.3%, however this lagged the performance of the JSE All Share Index (+13.1%). The table below details the primary contributors and detractors from performance. The strong contributions from Naspers and our platinum holdings (Implats, Amplats and Royal Bafokeng) was partially undone by the weak performance of several offshore holdings.

The fund's top five performing positions for the quarter added +7.8% to our return, while the bottom five detracted -0.5%.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers	15.06	2.38	Adidas	0.72	-0.11
Anglo American	7.57	1.55	Puma	0.72	-0.10
Impala Platinum	4.02	1.45	AngloGold	1.31	-0.09
Amplats	2.20	0.98	Alibaba	2.02	-0.09
Royal Bafokeng Plat	1.27	0.76	Amazon	1.60	-0.07
MTN	1.81	0.69	Standard Bank	2.69	-0.06
Total		**7.81**	**Total**		**-0.52**

[1] Net return for the Nedgroup Investments Rainmaker Fund, A class. Source: Morningstar (monthly data series).
[2] 70% FTSE/JSE All Share TR ZAR and 30% MSCI All Country NR ZAR

Local Component

The best performing sub sector was Resources, with Platinum miners the biggest contributor to the returns. The overweight exposure of the fund to Royal Bafokeng Platinum, Impala Platinum and Anglo American Platinum were the main contributors behind this. The exposure to smaller South African focused shares such as Raubex and KAP Industrials aided returns for the first time since the start of Covid.

Diversified miners (Anglo American and BHP) and the Naspers/Prosus combination also aided performance.

PGM Miners

The PGM basket price increased by nearly 30% in US Dollars 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 vehicles have increased, causing a shortage of these metals, exacerbated by lockdown rules in South Africa, one of the world's largest producers of Platinum Group Metals. An underground flood at Norilsk Nickel, a 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 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 high levels.

Our preference in this space is for PGM miners with an increasing production profile such as Northam Platinum and Royal Bafokeng Platinum.

Banks shares detracted from performance

Bank results were in line with our, and the market's, expectations with almost all banks indicating that they expect the economy and their earnings to take at least 2-to-3 years to recover to pre-Covid levels. We believe the banks are in a financially strong position, stronger than during the Global Financial Crisis and should recover as soon as the economy picks up. In the meantime, all banks have resumed dividend payments while a reduction in Credit Loss Ratios will drive good earnings growth over the next two years. After that, the economic recovery must take over to drive further performance. None of the Big 4 banks are pricing in a significant economic recovery at present, leaving potential upside to current share prices.

International Equity Comment

Since adding offshore equities to the Rainmaker fund at the end of September 2020, they added value in absolute terms, but, unfortunately, detracted on a relative basis (when measured against the JSE All Share Index in Rand). The Rand was stable against the US Dollar in Q1, but it appreciated by 13% since September 2020. At the same time, the JSE All Share Index recovered strongly from last year's Covid turmoil, rising just over 22% over six months and 13.1% in Q1. As a result, unless an offshore asset appreciated by 38% in US Dollar over this 6-month period, it would have lagged the All Share Index. We do not believe such extreme relative movements can continue and we remain firm that the offshore diversification benefits remain (from currency, country and business driver exposure). We took a measured approach to convert the SA holdings into offshore holdings and are currently at about 22% offshore, still some way short of the maximum allowed 30% and hence retaining a fair amount of flexibility.

During the past 6 months Samsung (Rainmaker's largest direct offshore holding) appreciated by 44%, Google and Moncler by 40%, Trex 28% and Tractor Supply 24%. The investment cases for these assets are therefore sound and playing out; it is the relative price return and currency that blunted their impact on the portfolio in the short term. Only four of the offshore assets showed an absolute price decline; Alibaba (China's version of

Amazon which came under pressure with new fintech regulations), Anhui Conch Cement (largest cement producer in China), adidas and Amazon (marginally so after strong earlier performance); all other holdings appreciated in value.

After experiencing the Covid and geopolitical turmoil of 2020, one would have hoped for a less eventful 2021 as vaccination levels increase, business activity normalizes, and the US political landscape becomes less polarized. So far this was not to be; global markets started very strongly, but then faded quickly as it become clear that subsequent waves of Covid infections still required deeply disruptive lockdowns, global supply chains started showing the results of last year's shocks (e.g. the global semiconductor shortage) and the US political landscape remained fractious.

Geopolitical tensions remained elevated and nationalism continued to rise globally. The most direct impact on the fund's holdings was illustrated by the fall in value at adidas; China social media called them out for criticizing the Xinjiang issue and pledging not to use their cotton – as much as this bought ESG credibility in the West, it caused a consumer backlash in China, adidas' fastest growing region with over 20% of their sales. Inside China, regulatory oversight of the tech giants and their fintech divisions (and specifically microlending within these) caused much angst and the decline in valuation of Alibaba and Tencent (which impacted Naspers and Prosus locally). We believe Socialism (driven by global wealth inequality), Nationalism and geopolitical tensions are likely to be around for some time and we must be aware of these when evaluating investment opportunities.

The above might suggest a bearish view of the world and investment markets; but that is not the case at all. We remain positive about the prospects for the offshore holdings. Global GDP levels are expected to recover strongly this year (and further) as governments continue to stimulate their economies with low interest rates and direct spending (such as the $3trillion US infrastructure package). At the same time, there is significant pent-up demand for a range of economic sectors, from consumer products & services, travel, shipping containers, etc. In addition, the cash to satisfy these demands is elevated; whereas many people have lost much during Covid, on balance, savings rates and balances across the world rose significantly as global stock markets are all above pre-Covid levels and there were less opportunities to spend. Bloomberg states that the US Consumer alone amassed an extra $1.5tr in savings during Covid with the rest of the world matching that.

The Fund's offshore holdings are well placed to benefit from this expected consumer spending (adidas, Puma, Moncler, Alibaba, Visa, Amazon, Tractor Supply, Autozone, Trex, Samsung, Google, Activision Blizzard), the continuation of investment in more flexible working (Work from Home to Cloud, PC, Storage, etc. – Microsoft, Amazon, Google, Alibaba, Amazon, Samsung), the microprocessor shortage (Samsung), US Infrastructure (Martin Marietta – the largest aggregate supplier in the US) and even the long tail of the pandemic impact (Thermo Fisher Scientific).

Current positioning and outlook

During the quarter we have added to Platinum shares, reduced our Gold position and consolidated our Financial holdings in what we perceive to be the higher quality counters (FirstRand, Ninety One, Santam and RMI). We have added to our retail position in the lower end of the market (Pep and Mr Price) while maintaining a strong quality bias.

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 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.

- **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 executive KPI's.

Conclusion

The local equity component of the fund had a strong performance over Q1 2021. Even so, South Africa remains attractively valued on an absolute and relative basis to other emerging markets and we can expect continued re-rating potential. The commodity and platinum group metals cycle still has some tailwinds from global demand, our banks are high quality and screen attractively, and there are a number of local companies that will benefit from a normalising economy.

On the international side, we believe the Rand / US Dollar exchange rate is on the expensive side of fair value and would not expect a much stronger Rand over the medium to longer term. SA GDP growth is forecast to lag that of other international regions and countries, so we continue to believe that it is prudent to augment the SA portfolio with some direct international holdings. The vaccination-driven opening up of economies, pent-up demand, significant consumer savings pools, and continued government stimuli in the form of low interest rates and/or targeted investment packages all bode well for economic growth and asset appreciation.

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