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UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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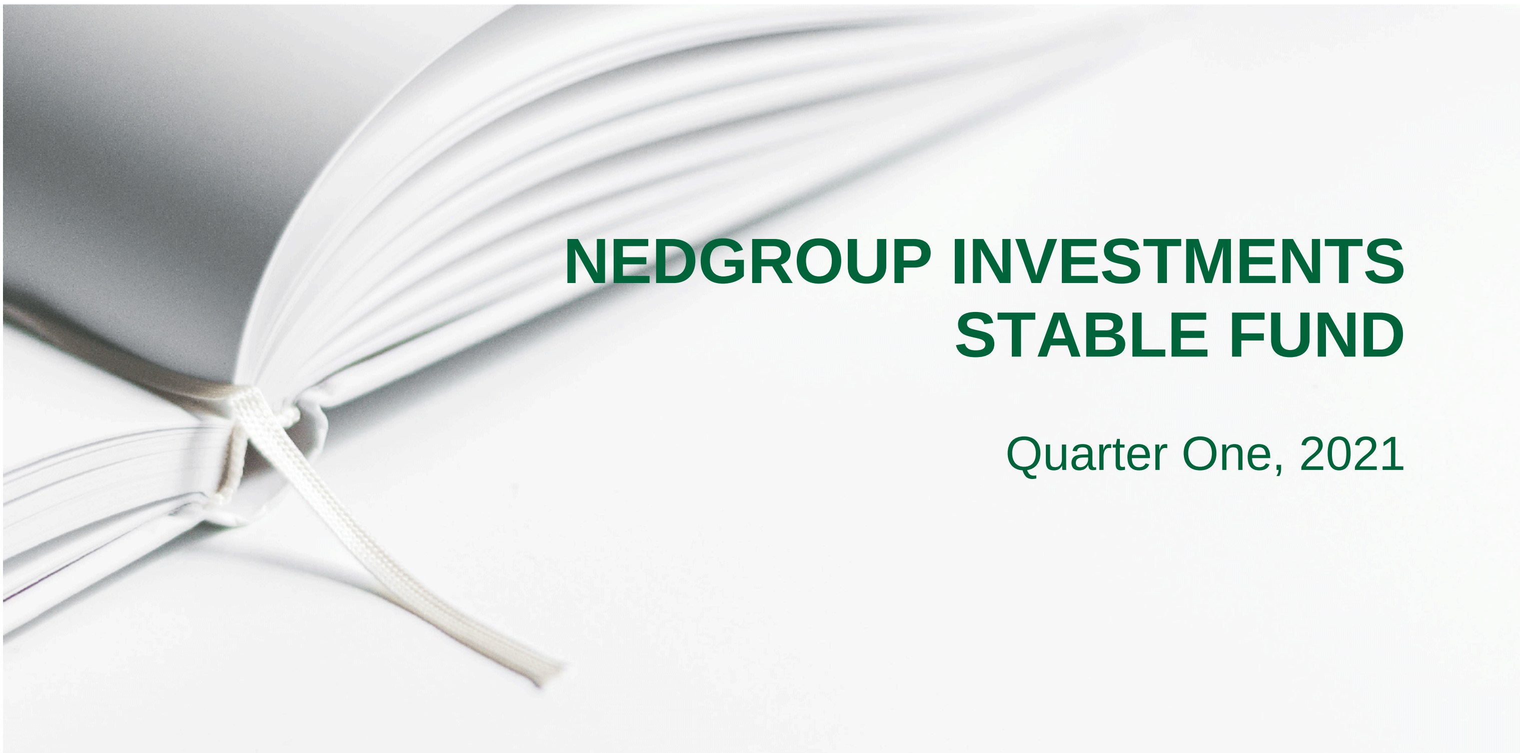

NEDGROUP INVESTMENTS STABLE FUND

Quarter One, 2021

Market Commentary

International

The 2020 economic recession was milder than first expected given China's rapid recovery and the significant central bank monetary and government fiscal support in the developed western countries. After contracting 3.6% in 2020, the IMF has raised its forecasts for global economic growth to 6.6% for 2021, moderating to 4.4% next year. New US President Biden hammered through a massive $1.9 trillion pandemic relief bill and announced an additional $2.0 trillion infrastructure plan. Higher budget deficits and rising sovereign debt to GDP ratios should result in structurally lower economic growth as investment spending is curtailed by rising debt repayment obligations.

Developed market equities achieved all-time highs on expectations that vaccine rollouts and the massive fiscal and monetary stimulus would accelerate global growth. Aggregate equity market valuations are looking stretched with markets precariously poised should there be any negative earnings surprises.

Longer dated developed market bond yields were sharply higher. Driven by rising inflation expectations given the likely rapid economic recovery as the vaccine rollout allows economies to properly open and on the massive increases in money supply. The multi-decade epoch of falling inflation and interest rates and rising sovereign debt levels might be approaching an inflection point with meaningful consequences for normative asset class returns in the coming years.

The US dollar outpaced the majors on rising Treasury yields and expectations for faster growth while rising European coronavirus case counts weighed on the euro. Longer term risks to the dollar include deteriorating public finances, inflation and the inevitable continued re-emergence of China as a global economic superpower.

Industrial commodities oil, copper, platinum and iron ore rallied on prospects of rising economic demand, while traditional fiat currency hedges gold and silver fell on the opportunity cost of rising yields and as central banks downplayed inflation risks. The industrial commodities run up is likely behind us given the significant demand growth that is already priced in. However, rising long term inflation risks, ballooning budget deficits and rising risks of central bank policy error should provide some support to precious metals as the cycle unfolds.

South Africa

Fourth quarter GDP growth rebounded, but the SA economy contracted by a staggering 7.0% in real terms last year. The decline was reflective of the harsh lockdowns and government's inconsistent state of disaster policies. Despite a sharper recovery than expected and commodity rally driven trade surpluses, the economy still faces several structural headwinds. Hampered by policy inertia in a local government election year and a vaccine programme that has yet to commence outside of a large-scale J&J study.

The annual budget speech was more positive than previously expected with several improvements from the numbers outlined in October's Medium-Term Budget Policy Statement. But the government's ability to meet its fiscal consolidation targets relies heavily on the outcome of the politically difficult public sector wage negotiations.

The JSE outperformed emerging market peers, led higher by resources stocks on a sustained commodities rally and by industrial counters on hopes for robust 2021 growth. Resources companies are likely close to peak earnings and while there are some opportunities in select SA Inc. businesses, the JSE-listed international companies still offer the most attractive risk/reward opportunities.

In its latest unanimous decision, SARB's MPC kept the repo rate unchanged at 3.5% despite expectations for inflation to rise soon due to base effects, higher food inflation and oil prices and general insurance premium increases. These should be offset by lower medical inflation and a general lack of pricing power given weak demand in the economy.

Longer dated SA bond yields tracked global yields higher, especially in the “belly” of the curve. The current yield curve seems to be exceptionally steep given benign inflation expectations, but correctly reflects the risk of a potential fiscal cliff if expenditure cuts do not materialise.

The rand was stable against the US dollar, bucking general emerging market currency weakness on surprisingly robust recovery and improved terms of trade on the back of the commodity price rally. The currency will likely stay well bid for as long as the commodity price rally continues, but the fundamental lack of competitiveness and public sector finance stresses make longer-term weakness very likely.

Portfolio Commentary

- SA equities were the second largest contributor to performance led by resources and industrials with financials lagging—core holdings, BHP Group, Aspen and Richemont gained, partially offset by declining Anheuser-Busch InBev
- SA fixed interest securities detracted as long bond rates tracked global yields higher, especially in the belly of the curve—the core holding in the medium-term R186 retraced in line with the All Bond Index but remains well ahead over the last three years
- The global equity component continued to outperform, 6.4% ahead of the benchmark MSCI All Country World Index for the last twelve months—foreign assets in total contributed most to performance despite the rand gaining on dollar weakness
- The allocation to listed property contributed positively to performance this quarter—core holding in London value play Capital & Counties also outperformed the property index
- The diversifying physical gold position detracted from performance over the quarter—on a lower dollar gold price and stronger rand

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
Foord Global Equity Fund	0.8%	5.2%	16.6%
Foord Int. Fund	0.4%	2.5%	14.6%
Capital & Counties Properties	0.3%	21.8%	1.7%
BHP Group	0.2%	14.0%	1.8%
Aspen	0.2%	15.7%	1.3%

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
RSA 8.25% (R2032)	0.0%	-1.5%	2.0%
RSA 8.0% (R2030)	-0.1%	-2.2%	4.3%
Anheuser-Busch InBev	-0.2%	-10.3%	1.5%
RSA 10.5% (R186)	-0.4%	-1.7%	23.9%
Newgold ETF	-0.5%	-9.9%	4.6%

Investment Outlook

World:

- Economic recovery to continue on unprecedented monetary and fiscal support and expected economic re-openings following the COVID-19 rollouts
- Inflation risks are mounting driven by accelerating economic growth and extreme levels of fiscal and monetary stimulus
- Geopolitical risks rise as countries seek to de-globalise and adopt more nationalist policy positions
- Equity market valuations are elevated, especially the large cap tech heavy S&P 500
- The massive fiscal stimulus in the US should result in rising budget deficits and likely higher US corporate taxes in time
- Commodity prices to remain well bid in the short-term by market expectations of rising economic demand, but the sector is approaching cyclical peak earnings

South Africa:

- The pace of economic recovery has been faster than expected as the economy re-opens post the COVD-19 second wave, but remains vulnerable given the slow pace of vaccination rollout
- Stretched public finances mean that unsustainable fiscal deficits are likely to continue, with a politically difficult wages confrontation between government and public sector workers now looking likely
- The February budget showed improved projections on several fronts compared to the MTBPS but the long-term risk of a full-blown debt spiral persists
- Recovery in employment is likely to remain slow, especially with the hospitality and tourism industries remaining under severe pressure given the lack of tourists
- Inflation outlook benign given the stronger Rand and relatively weak aggregate demand across the economy and excess capacity
- Recent Rand gains are likely overdone with structural weakness still expected over the medium to long term

Conclusion

Global and SA equity weights have been allowed to drift higher, given low risk of near-term earnings revisions or tighter credit conditions, coupled with more government stimulus and central bank commitment to ultra-loose interest rates despite rising inflation risks.

Stock selection is critical, with the managers favouring quality global companies at attractive valuations that are well positioned to survive further stress. The managers remain cautious given the prevailing risks despite improving economic activity.

The managers are accumulating niche “SA Inc.” names at attractive valuations, but still favour JSE-listed global businesses given the higher risks in the SA economy and more attractive global opportunity set. These are well capitalised companies that should deliver hard-currency, real earnings growth through the cycle, supported by expected longer term rand weakness.

The resources position is primarily via the highest quality diversified miner, BHP Group, but the managers diversified commodity and counter-specific risk by adding Anglo American in the quarter. This has increased exposure to metals like copper which should remain elevated given the scarcity of supply against increased demand from electric car production.

The managers capitalised on market levels to reduce the foreign asset position to below the prudential maximum, preferring equities to bonds and cash. Foreign equities are tilted to better-valued emerging market businesses with structural tailwinds. There are hedges in place against a material drawdown of the expensive US S&P500 index.

Medium-term SA government bond investments are a meaningful part of the portfolio, but we trimmed holdings at the margin. Despite lower nominal yields, bonds still offer attractively high real-return prospects given the benign inflation outlook.

Despite some recovery in SA retail and commercial property counters, the sector faces significant structural challenges and we remain focused on niche logistic and self-storage property counters and UK-listed value play Capital & Counties.

The diversifying physical gold position is maintained via the NewGold ETF, which is an uncorrelated asset and hedge against market dislocations and the risk of possible rampant inflation in the future.

Reasonably high levels of optionality and liquidity are maintained, allowing the managers to take advantage of attractively priced long-term opportunities.

Responsible Investment Summary

Voting resolutions for Q1 2021

South African portfolio	Total Count	For	Against	Abstain
Adopt Financials	1	100%	0%	0%
Auditor/Risk/Social/Ethics related	18	100%	0%	0%
Buy Back Shares	6	33%	50%	17%
Director Remuneration	5	100%	0%	0%
Issue Shares	4	0%	100%	0%
Loan / Financial Assistance	2	0%	100%	0%
Re/Elect Director	14	100%	0%	0%
Remuneration Policy	8	50%	50%	0%
Signature of Documents	3	100%	0%	0%

Foord Global Equity Fund (Luxembourg)	Total count	For	Against	Abstain
Auditor/Risk/Social/Ethics related	3	100%	0%	0%
Others	11	100%	0%	0%
Re/Elect Director or members of supervisory board	20	100%	0%	0%
Remuneration Policy including directors' remuneration	3	0%	100%	0%

Foord International Fund	Total count	For	Against	Abstain
Auditor/Risk/Social/Ethics related	1	100%	0%	0%
Others	6	100%	0%	0%
Re/Elect Director or members of supervisory board	6	100%	0%	0%
Remuneration Policy including directors' remuneration	1	0%	100%	0%

General comments:

- There are few abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention it would typically be intentional or for strategic reasons

- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion, we have voted in favour of such resolutions, we were able to gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated

- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings

Notable company engagements

Company	Topic	Company Attendees	Event Notes
Sasol	Remuneration policy	Remuneration Committee	Both Sasol's remuneration policy and implementation report received material votes against (Foord voted against all 3 Remuneration related items) and this discussion was initiated by Sasol to hear investor grievances. We expressed our concerns on 1. Excessive NED fees 2. Implementation report because of excessive severance payments to previous joint CEOs 3. Lack of clarity on proposed Rem policy. Remco took note of concerns and will attempt to incorporate them into new policies.
Oceana	Remuneration policy and BEE scheme	CEO and CFO	Engagement on structure of remuneration policy and an in-depth discussion on the new BEE scheme.
Nedbank	Auditor/Risk/Social/Ethics related	Non-Executive director	Foord concern was the amaBhungane allegations of Nedbank dealing with Regiments resulting in inflated pricing for SOEs and non-disclosure of referral fees. Board response: • Board employed external law firm to investigate allegations and found no substance to claims • Non-executive directors scrutinised issues and believe governance and compliance processes are in line with other financial services companies • Process improvements made to increase oversight on specific types of deals Foord conclusion: • No indication of systemic governance failures at Nedbank and not unique to Nedbank (all banks have had similar control and process failings over time) but there is possible reputational damage • Continue to monitor for signs of further governance issues and consider position size when investing.
Pepkor	Remuneration policy and votes on Social and Ethics committee	CEO and CFO	• Discussion on remuneration policy metrics • Corporate governance and inter related party relationships
Spar Group	Auditor/Risk/Social/Ethics related	CFO	Foord concern was around media reports containing allegations that: 1. CEO was an owner of an IT business providing services to Spar and this was not disclosed as related party transactions; and 2. Aggrieved former franchisees are seeking to have Spar directors declared delinquent Management response: 1. Spar have legal documentation proving that the CEO is not a shareholder of said IT company 2. There has been no development in delinquent director issue. There are no facts presented to date to Spar legal team and no court proceedings underway Foord conclusion:

			• Aggrieved party seems to be using media to further their agenda and there appears to be no substance or provided evidence to support their claims • Will monitor for further developments but allegations seem baseless at this time.
Quilter	Governance Roadshow	Chairman and members of the Remuneration Committee	Foord concern: Capital allocation and returns (from proceeds of QLA sale and potentially from QInt sale) and remuneration policy (adjustments which flatter earnings metrics used in incentives) Board response: • Regulator is cautious and board are assessing risks around things like share buybacks and special dividends. • Will seek shareholder feedback on capital returns (incl. any large acquisitions). Refining remuneration metrics to move to IFRS basis and looking to add relevant metrics such as flows. Foord conclusion: • No material concerns - board is cautious as it's a newly listed company and has good, proactive engagement with shareholders.

Disclaimer

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WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

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Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

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