



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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A photograph of an open book with white pages, tied with a white string bookmark. The text is overlaid on the right side of the image.

NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter Two, 2021

Nedgroup Investments Entrepreneur Fund

Performance to 30 June 2021	Nedgroup Investments Entrepreneur Fund ¹	ASISA category average	Small Cap Index	Mid Cap Index
3 months	0.2%	5.1%	8.0%	5.9%
12 months	27.3%	44.1%	65.2%	33.4%

Market commentary

In South Africa, the near-term outlook is improving. Macro data releases have generally been better than expectations, such as the local trade surplus, retail sales, and vehicle sales. Sentiment has also been buoyed by the ANC's drive to address corruption and introduce much needed reforms, including energy production limits and the partial privatisation of SAA. Unfortunately, the frustratingly slow vaccine roll-out and 3rd Covid wave remain key threats to the economic recovery in the short term.

Against this backdrop, the JSE All Share Index (ALSI) was flat through the second quarter. The Financials sector (+7.5%) was the strongest performer driven by a recovery in property shares, where the SAPY posted a total return of +12.1%. In comparison, Industrials posted a small gain of 0.8% and Resources lost -5%.

Year-to-date, the ALSI has risen +13.2% led by the Industrials sector (+13.8%). Resources have returned +12.8% with Financials lagging at +11.7%. The JSE Small Cap Index continued its strong recovery off the trough lows now recorded more than a year ago, and which flatter the 12-month performance numbers for the above periods. The JSE Mid Cap Index in comparison has continued to lag, held back by its relatively higher exposure to Financial stocks and Gold miners in the short-term.

Portfolio Commentary

The fund has disappointingly lagged its peers and benchmarks over the last year. Analysis shows this to be largely due to the funds relatively lower exposure to small domestic businesses that have experienced the strongest price recovery from their troughs recorded immediately following the Covid-19 induced market crash at the end of Q1 2020. While we have strongly tilted the fund in this direction to try and capture this effect - and have had excellent performance out of many of our stock picks in this category such as Reunert, KAP, CMH, Kaap Agri and Hudaco - our natural conservative management style has retained a healthy exposure to larger businesses with more stable and defensive profit streams and which have not performed as strongly in the short term. Examples here include AVI, RMI and Adcock Ingram.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Afrimat	4.6%	1.3%	Naspers	8.0%	-1.3%
CMH	2.9%	1.2%	Northam	4.6%	-0.8%
Hudaco	3.5%	1.0%	Royal Bafokeng	8.6%	-0.7%
PSG Konsult	3.1%	0.6%	Prosus	3.5%	-0.6%
Raubex	2.7%	0.4%	Ninety One	2.6%	-0.3%
Santam	5.0%	0.3%	Merafe Resources	1.5%	-0.2%

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

Our core and unique positions in Naspers / Prosus and British American Tobacco / Reinet have also lagged the high-flying recovery plays over the last year. Santam's gradual recovery is pleasing to note and we hope for some certainty regarding the Covid-19 related Business Interruption claims shortly.

Current positioning and outlook

Although we did cover this subject a little in the previous quarterly commentary, we are happy to note the undeniable incremental constructive progress made in the last quarter regarding political accountability for corruption, economic policy progress (such as the increase in self-generation capacity maximum to 100MW), the State's attitude towards State Owned Enterprises (apparent introduction of private shareholder to SAA and relinquishment of economic control), the slow but steady rollout of the Covid-19 vaccination program, and the increase in select fixed investment spending activity (SANRAL).

For the first time in more than 7 years we are closely tracking for signs that the spark of economic activity and improved prosperity that higher commodity prices (notably iron ore and platinum group metals) and agricultural prices may ignite a broader economic recovery in SA leading to improvements in business and consumer confidence, and that will feed into investment spending and employment creation. The base is very low for many of these metrics, and while naturally sceptical, we feel the domestic economy has a better chance in 2022 and 2023 to grow faster than at any time in the last so-called "lost decade".

The fund offers material exposure to a recovering SA economy through its local financial and industrial exposure, with key picks clearly reflected in the Top 10 positions. Although options in the Resource space are limited, we retain large positions in Northam and Royal Bafokeng Platinum, which are both very attractively valued despite the risk of a decline in very elevated PGM prices. This is because these stocks have little-to-no debt and the management teams restrained by shareholders have limited ambition to re-invest the current very large quantities of excess cash being generated in M&A activity or production expansion. We expect the bulk of our return from here to come in the form of dividend distributions.

Although we reduced the size of the Naspers / Prosus combination position in Q1, it remains the single largest position in the fund. We oppose the recent Prosus cross-holding transaction that introduces increased complexity to the corporate structure, does not solve the JSE Index weighting problem management purport to be trying to address, and judging by the market's reaction, will exacerbate rather than alleviate the NAV value trap problem. The increase in governance failures at this organisation is raising our concerns and the Board's continuing failure after many years to present a remuneration model that is acceptable to shareholders, is another. The attractive valuation of the primary asset (Tencent), combined with the record high NAV discount, do however keep us invested. While we have previously felt that our patience would ultimately be rewarded with a value unlock event, the recent corporate moves in the opposite direction are causing us to question this view. This is indeed a troubling and most frustrating company to be a minority shareholder in.

Responsible Investing

We endeavour to invest in businesses that exhibit robust corporate governance, quality management, sustainable business models, and the potential for solid growth in earnings and dividends over an extended period. To this end, ESG matters are integrated into our investment analysis to strengthen the decision-making process, better manage risk, and ensure that investments generate long-term value in an ethical manner. Our investment approach is one of full integration of ESG issues into investment decisions. We use several methods for bringing ESG considerations into our decision-making, that includes engagement with management on issues that are relevant and material.



Notable engagements during the second quarter of 2021 include:

- Naspers / Prosus: Sent a collaborative investor engagement letter to the respective Boards regarding concerns with the Prosus voluntary share exchange offer for Naspers shares.
- Royal Bafokeng Platinum – meeting with the Chairman and Lead Independent Non-executive director regarding general governance matters.

Conclusion

Although we worry that the SA economy may remain trapped in a low growth scenario, and the horrific images on our TV screens of violent and criminally motivated looting of stores in KwaZulu Natal, the boost it is currently receiving from high export commodity prices is undeniable. It has the chance to spark broader economic activity, and a low interest rate environment coupled with years of delayed investment spending, is also supportive of expansion. Should this scenario continue to evolve, the Entrepreneur Fund, with its bias towards domestic stocks, is likely to continue to prosper.

However, we are equally diversified and currently benefitting from the short-term and overdue weakness in the Rand, through the attractively valued Rand Hedge stocks in the fund, which collectively make up 35% of it.

As at the end of June 2021, the fund traded on a forward PE of 12.0X, Dividend Yield of 3.1% and Price to Book of 1.6X.

Anthony Sedgwick
Abax Investments
July 2021



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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