NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS STABLE FUND

Quarter Two, 2021

Market Commentary

International

First-half 2021 economic growth was robust as COVID-19 vaccinations surpassed three billion with many developed countries more than 50% vaccinated but emerging markets are lagging badly.

The US economy recorded the fastest pace of six-monthly growth in 70 years as the rapid vaccine roll-out released pent-up demand amid unprecedented levels of fiscal and monetary support. In the EU and UK, economic growth momentum continued to build as vaccine rollouts accelerated and monetary and fiscal conditions remained highly supportive.

Chinese domestic economic activity has returned to (and exceeded in some instances) pre-pandemic levels as infection rates plummeted amid a vaccine roll-out reaching 20 million people per day at times.

Equities took fright and bond yields sold off when US inflation spiked higher than markets expected on the surge in demand in certain sectors and record low inventory levels on the supply side. The US Federal Reserve subsequently soothed markets by attributing the nascent inflation to transitory factors.

The US dollar was weaker against the other major currencies on improved global data but rallied after the Fed showed it would not tolerate structurally higher inflation by bringing forward its expected interest rate hiking cycle from 2024 to 2023.

Oil and natural gas were sharply higher after OPEC+ signalled robust demand amid managed supply while precious and industrials metals also rallied but retraced latterly on US dollar strength and the market's receding inflation panic.

South Africa

Economic recovery has been stronger than expected this year but is asymmetrical, with the agriculture and commodities industries doing well but hotels, leisure and hospitality in deep recession.

Consumer price inflation printed higher than expectations in April and May, driven by food, non-alcoholic beverages and transport costs. The SARB left interest rates unchanged at below neutral levels to support economic recovery.

The JSE was flat with the retracement of commodity prices dragging the resources index lower while the listed property sector continued to recover from 2020's lows.

The All Bond Index rallied with longer dated maturities outperforming as the yield curve flattened with SA bond yields tracking global rates lower.

Commodity prices retraced in the second quarter but remain sharply up this year on one of the strongest cyclical rallies in history.

The rand rallied through R14/$ on South Africa's favourable terms of trade as high commodity export prices and depressed import demand led a record trade surplus and third successive current account surplus, but later retraced as commodity prices waned and SA's COVID-19 caseload surged.

Portfolio Commentary

- SA fixed interest contributed most to performance as the yield curve flattened — holdings in the R2030, R2032 and R2035 were the best performers as longer dated maturities outperformed, while the core allocation to medium duration R186 was also up
- SA equities also contributed positively, led by overseas companies, healthcare and financials while media and commodity cyclicals detracted — Richemont, Aspen, Anheuser-Busch InBev and FirstRand contributed most to performance while Naspers/Prosus and BHP Group were the biggest detractors
- The full weight to foreign assets also added value—the large allocation to strongly performing global equities more than offset the translation loss from the stronger rand
- The allocation to the best performing asset class, listed property contributed positively at the margin — core holding in London listed Capital & Counties underperformed on the stronger rand but was more than offset by holdings in Stor-Age and NEPI-Rockcastle
- The diversifying physical gold position was neutral over the quarter — the stronger dollar gold price offsetting the stronger rand

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
R186 - RSA 10.5% (2026)	0.5%	1.9%	25.1%
R2035 - RSA 8.875% (R2035)	0.4%	9.2%	4.0%
R2030 - RSA 8.0% (R2030)	0.3%	5.8%	4.4%
Foreign Assets	0.3%	0.7%	30.7%
CFR - Richemont	0.2%	22.0%	1.1%

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
BHP Group	0.0%	-0.9%	1.8%
Anglo American	0.0%	-0.4%	0.6%
Spar Group	0.0%	-3.3%	1.2%
Naspers "N"	-0.1%	-14.6%	0.7%
Capital & Counties Properties	-0.2%	-8.5%	1.8%

Investment Outlook

World:

- Global economic recovery is likely to continue amid unprecedented monetary and fiscal support and the rapid vaccine roll-out in most developed countries with equity valuations supported by earnings growth. But emerging markets vaccinations are lagging severely, which together with the global spread of the delta variant and tapering of direct consumer fiscal support in developed economies, means some moderation in economic growth is likely.
- In the US, growth should also moderate as base effects roll out, but will likely stay above trend given the $1 trillion infrastructure program and likely high levels of capital expenditure as the economy's supply side plays catch-up.
- The rapid spread of the delta variant in parts of the EU might trigger further temporary lockdowns and consumer hesitancy given the lower percentage of vaccinated populations relative to the US and UK.
- In China, real GDP growth of approximately 8% is possible for 2021, but it remains central to global supply chains and vulnerable to closed borders and the global nationalist drive to repatriate supply.
- Inflation is expected to accelerate given continued demand recovery and border closures constraining global supply chains. These factors might well be less transitory than the Fed has indicated.
- Ultra-low developed market bond yields remain vulnerable given the probability of higher inflation in the medium to long term.
- Broad-based commodities strength is unlikely to sustain this pace (H1 was the fifth-best six-month period in 100 years), but OPEC+ failure to agree revised quotas could see oil staying higher for longer, further compounding inflation risks

South Africa:

- Economic recovery is expected to be fleeting and uneven. The Level 4 lockdown restrictions will detract marginally from GDP and the economy is not expected to reach pre-pandemic levels before 2023, although private sector investment spending from the surprise 100MW self-generation electricity allowance should provide some tailwinds. Uncertainty around the duration of the Level 4 lockdown restrictions and the unsteady vaccine rollout strategy might weigh on sentiment, making a rapid re-rating of the market unlikely.
- The yield curve remains too steep and long bond yields too high given further constrained issuance on the back of commodity price-driven tax collection upgrades and the likely benign inflation trajectory.
- In aggregate, elevated commodity prices are unlikely to be sustainable as the initial benefits of developed world vaccine rollouts and direct consumer fiscal support starts to fade and global growth moderates.
- The fiscal deficit should moderate and the Debt/GDP outlook improve on growth and revenue surprises. While positive for South Africa's constrained public finances, the unsustainable commodities rally is unlikely to fix the structural economic challenges.
- The inflation surge is likely to be short-lived given the economy's inability to absorb higher prices and should moderate by year end. There is a low probability of the SARB having to quickly raise interest rates in the near to medium term.
- Rand gains are likely overdone on the back of the unsustainable commodities rally. While further strength is possible in the near term, lack of competitiveness and structural economic weakness keep the currency vulnerable longer term.

Conclusion

Market conditions continue to be favourable for equities given much improved global economic activity, with positive effects on margins and earnings. Despite further gains in global equity indices we retain the equity weight due to the positive momentum in earnings upgrades, which are rising at a faster pace than prices.

The managers retained the full allocation to foreign assets given expectant currency tailwinds, while preferring equities to bonds and cash given inflation beating prospects of the asset class. Stock and sector selection is critical given the rapid rise in global inflation and still loose monetary policies.

The managers prefer better-valued emerging market businesses with structural tailwinds, but unique opportunities in US listed businesses have resulted in an increase in North American assets versus a year ago. Global indices with tech / growth-heavy constituents (main beneficiaries of the post GFC monetary policy regime) are at risk of meaningful setbacks should interest rates rise sooner or more than expected. We are protecting investors from this outcome through active asset allocation in the Foord global funds by tactically selling S&P futures.

The managers marginally increased the duration of the sizable SA bond position into longer maturity bonds where yields are superior given the steepness of the curve, with improved margins of safety in the medium term due to meaningful tax collection upgrades and issuance reduction.

The listed property allocation is focused on niche investments with low gearing levels. The risk to balance sheets in the sector remain an ongoing concern given rental pressures, valuation downgrades and yield curve moves.

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.

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 Q2 2021

South African portfolio	Total Count	For	Against	Abstain
Adopt Financials	6	100%	0%	0%
Auditor/Risk/Social/Ethics related	13	77%	23%	0%
Buy Back Shares	7	100%	0%	0%
Director Remuneration	6	100%	0%	0%
Dis-apply Pre-emptive Rights	4	0%	100%	0%
Dividend Related	1	100%	0%	0%
Issue Shares	6	0%	100%	0%
Loan / Financial Assistance	3	67%	33%	0%
Other	9	100%	0%	0%
Political Expenditure/Donation	1	0%	100%	0%
Re/Elect Director	53	100%	0%	0%
Remuneration Policy	8	38%	63%	0%
Shares under Director Control	3	33%	67%	0%
Signature of Documents	3	100%	0%	0%

Foord Global Equity Fund (Luxembourg)	Total count	For	Against	Abstain
Adopt Financials	27	100%	0%	0%
Auditor/Risk/Social/Ethics related	51	76%	24%	0%
Buy Back Shares	22	77%	23%	0%
Dividend Related	12	100%	0%	0%
Issue Shares	16	6%	94%	0%
Others	63	62%	37%	1%
Re/Elect Director or members of supervisory board	399	99%	1%	0%
Remuneration Policy including directors' remuneration	86	33%	67%	0%
Signature of Documents/Ratification	4	25%	75%	0%

Foord International Fund	Total count	For	Against	Abstain
Adopt Financials	23	100%	0%	0%
Auditor/Risk/Social/Ethics related	27	74%	26%	0%
Buy Back Shares	12	67%	33%	0%
Dividend Related	5	100%	0%	0%
Issue Shares	19	21%	79%	0%
Others	40	85%	10%	5%
Re/Elect Director or members of supervisory board	210	99%	1%	0%
Remuneration Policy including directors' remuneration	44	45%	55%	0%
Signature of Documents/Ratification	1	100%	0%	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
Foschini	Environment and Social	Anthony Thunstrom (CEO), Bongiwe Ntuli (CFO)	Working towards zero waste business. Currently: 1. 82% of business waste recycled 2. 90% of textile waste recycled 3. Support local manufacturing and job creation Positive interaction
Sasol	Proactive climate change engagement	CEO + Board member	Ahead of submitting a non-binding advisory vote on climate change management for their next AGM in Nov, Sasol sought shareholder input on the issue.
Oceana	Environment and Governance	Imraan Soomra (CEO) and Hajra Karrim (CFO)	Commitment to carbon neutrality demonstrated by published KPI and management targets. Target dates: 1. 50% reduction by 2030 2. Net zero emissions by 2050 Credible targets, Foord will monitor adherence closely. Governance: 1. Approved board succession. 2. Appointment of 2 independent directors Positive governance developments
Momentum Metropolitan Holdings	Cyber Security and Incentives	CFO and Investor Relations	1) Cyber Security - Since the incident in 2020, there has been a significant amount of work in addressing this risk, consulted with external advisors to ensure cyber security is aligned to best practices and are now in a better place compared to last year. 2) The peer group for LTIP was not disclosed and after engaging with management, it was disclosed to be the Insurance sector.
Omnia	Governance	Seelan Gobalsamy (CEO)	Seelan has taken a non-executive directorship on Momentum Metropolitan's board. Discussed his rationale for this and voiced our unhappiness with the potential conflict with his Omnia CEO role.

Curro	Remuneration Policy	Andries Greyling (CEO) and Kobus Loubscher (CFO)	Meeting at Foord's offices to discuss proposed changes to the remuneration policy. Foord does not support the proposals and voted against the resolution.
Standard Bank Group	Auditor/Risk/Social/Ethics related, Loan/ Financial Assistance, Remuneration Policy	Chairman, Remuneration Committee, Non-Executive director	1) Foord concerns: a) Chairman & board members have tenures >18 years b) Auditor's tenure >50 years c) Remuneration policy & report showing excessive discretion around 2020 awards, lack of disclosure for measures & changes in measures for future awards, capitalisation/write-off of IT costs inflating metrics for remuneration d) Wording & lack of disclosure on S45 resolution. 2) Board response: a) Doing staggered transition of board b) Mandatory auditor rotation to happen in 2024 & 2026 c) Board exercising discretion due to COVID-19 related uncertainty, will consider improving disclosure. Remco considered IT write-offs in making awards & there have been consequences for individuals d) Will relook at wording & disclosure but Africa complicates disclosure 3) Foord conclusion: Consider voting against resolutions on auditors, directors, rem policy/ implementation report & S45 resolution & monitor for improvements/changes in subsequent years
Santam	Auditor/Risk/Social/Ethics related, Remuneration Policy, Loan / Financial Assistance	CFO, Company Secretary	1) Foord concern: a) Auditors >10 years b) Too much discretion in remuneration policy (not using financial metrics to vest 2020 LTIs due to impact of COVID-19) c) Lack of disclosure of financial & strategic metrics in remuneration policy/implementation report d) S45 resolution wording too wide and lacks disclosure 2) Management response: a) IFRS17 implementation delaying change of auditors. Want to change in 2024. b) First time remuneration committee used discretion, for single year of awards for 2020 allocation, & used to aid retention c) Have undertaken to improve disclosure where practicable d) Will look to tighten wording next year. 4) Foord action: Recommend voting against the relevant resolutions at AGM.
Naspers	NPN/PRX share exchange, IRR and NAV calculation methodologies	Basil Sgourdos (CFO), Charl Wolmarans (Investor Relations)	***[Communication on these topics was ongoing through several engagements in May and June]*** Foord concerns: 1. We needed to understand the rationale behind the exchange ratio as well as the pro-forma numbers post share buy-backs and share exchange; 2. We needed further detail on the NAV valuation put forward by management and the IRR calculation as it did not tie up with our numbers.

			Management responses: Management is essentially relying on the reduced discount to add value to those Naspers shareholders that exchange their shares. Whereas those Prosus and Naspers shareholders that do not exchange will get a NAV uplift based on the exchange ratio. Management admitted that the IRR that was reported *excludes failed and disposed of investments*. On their reported NAV the inclusive IRR is closer to 14% than the 21% reported in the presentation. Key NAV differential between management and Foord is the lack of withholdings tax benefit in management's number and a much higher valuation for the Classifieds business. Proposed actions: Letter to the Board/Remuneration committee
Nedbank	Auditor/Risk/Social/Ethics related, Remuneration Policy	Chairman, Non-Exec, Remuneration Committee	1) Foord concern: a) Amabhungane article on relationship with Regiments Capital & ongoing concern about governance failings & reputational risk b) Remuneration targets for FY21 rewards too stretched resulting in inappropriate structure & retention issues 2) Board response: a) External (law firm & auditors) & internal forensic investigations conducted & nothing found. Two board committees continuing to monitor issue. Process changes for onboarding clients & deal origination to mitigate potential future governance issues. b) Have allowed for some time-based vesting & board discretion on ROE & DHEPS targets for macro level shocks to ensure minimum level of vesting & thus better retention. Undertake to remove time based vesting in future tranches & discretion will be formulaic for this tranche & reduced for future tranches when environment normalises. 3) Foord conclusion: a) Monitor for further developments & potential reputational risk b) Monitor vesting levels & discretion "
Italtile	Succession of CEO	Lance Foxcroft (CEO designate, Jan Potgieter, departing CEO)	Discussion regarding the appointment of Lance Foxcroft and retirement of Jan. Discussed the succession planning process internally. Also, discussed Lance's ability to manage the retail side of the business with his manufacturing experience. Also, discussed retention of key talent (FD Brandon Wood). Solid succession planning process in place across the business.

Foord ESG integration process enhancements

Foord has had a comprehensive ESG policy document in place for some time. But, as with all things, they don't like to stand still, and the investment team has been hard at work continuously enhancing the integration of ESG factors into the investment decision making and portfolio reporting. Subsequent to the previous reporting period, the firm has now integrated ESG scores at security level going back seven years, into the firm's portfolio management database. This allows for automated reporting on ESG scores at product and security level across various mandates. The scores are based on third party scores received from Peresec with Foord's overlay as appropriate.

In addition, the firm has subscribed to another international third party ESG data provider to further enrich the breadth and quality of data feeding into the investment process. This is particularly useful for global multi-asset class accounts (such as Nedgroup Stable) in that it allows for consistent methodology of ESG scoring at security level for both the fund's domestic holdings and the holdings in the international component of the portfolio. This particular data provider also has a strong carbon footprint reporting capability, which Foord is eagerly exploring.

These deep ESG specific portfolio reports are not yet available as the firm is currently working through the various methodologies and reporting iterations. But we are excited to be able to provide investors with much richer ESG related reporting soon.

In addition, Foord has added a risk management matrix to their ESG policy documentation. It talks to how the firm contemplates ESG risks and then calibrates them in terms of importance and priority for further action.

The following is an extract of the added section in the firm's ESG policy document:

Foord does not manage ESG risks by applying aggregate limits on specific economic sectors or setting caps, for example on carbon emissions, for its investment portfolios. It does, however, commit to incrementally improve the individual and aggregate ESG risk scores for portfolio investments.

As ESG risks have a potential impact on the sustainable finance within the investment horizon of its investment funds, Foord scores ESG risks for individual investments using the probability/outcome ESG Risk Scoring Matrix that follows.

ESG Risk Scoring Matrix

	Consequence of ESG risks For example, financial or reputational loss, client complaints, adverse media coverage, adverse effect on revenue, adverse effect on integrity of market, ESG fines, penalties or litigation.		
Probability of risk manifesting	**Low**	**Medium**	**High**
High (Will probably occur)	Medium risk	High risk	Extreme risk
Medium (May occur)	Low risk	Medium risk	High risk
Low (Occurs very infrequently)	Negligible risk	Low risk	Medium risk

After scoring ESG risks for each investment, Foord commits to:

ESG RISK CATEGORY		**FOORD'S COMMITMENT**
Negligible risk	Low risk	Monitor investee entity's ESG risks and engage as needed.
Medium risk	High risk	Influence investee entities through management engagement and shareholder votes to support suitable ESG initiatives and shape positive ESG outcomes.
Extreme risk		Avoid investing in such securities and divest if apposite.

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.

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.

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