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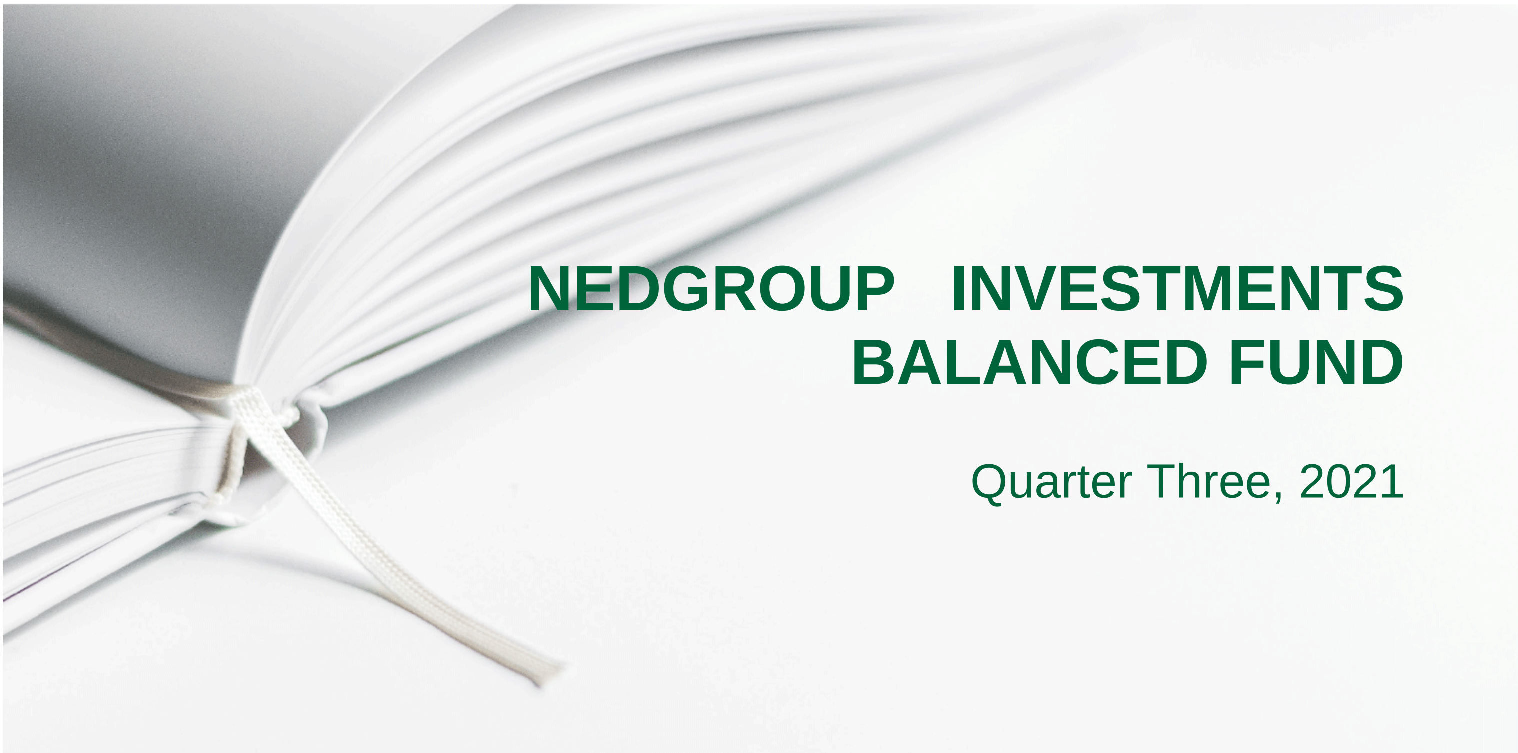

NEDGROUP INVESTMENTS BALANCED FUND

Quarter Three, 2021

Nedgroup Investments Balanced Fund

Performance to 30 September 2021	Nedgroup Investments Balanced Fund[1]	ASISA category average
3 months	3.39%	2.51%
12 months	23.16%	18.72%

Market Overview

Global growth remains buoyant

The roll-out of vaccines and the opening up of economies, coupled with continued fiscal stimulus should maintain economic growth going into 2022. The Bloomberg survey of economists reflects an expected increase of 4% for the G7 economies, well above the growth of the last 10 years of between 2.5% and 3.3%. Monetary policy will also likely remain stimulatory but less so than the last two years as the tapering of bond purchases commences.

Globally, earnings expectations appear to have plateaued indicating that much of the expected recovery is being priced into markets. Expectations appear to have been overly optimistic as indicated by the Citi Economic Surprise Index which turned negative in August. Much of this is likely due to pandemic-induced supply constraints across many industries which should eventually be sorted out. Key events over the last quarter included significant regulatory changes and economic shocks in China, skyrocketing energy prices, and what appears to be a resumption of the bond bear market. We will discuss each of these factors below.

China in the midst of an economic policy shift

The onslaught of recent macroeconomic and regulatory policy changes in China would indicate that economic growth is no longer the only priority. Other objectives, such as decarbonisation, financial stability, stable housing prices, affordable education, the anti-monopoly drive, and a greater focus on controlling privacy and content, are now very much front of stage. These initiatives can probably all be loosely framed in China's medium-term goal to grow the middle-income class and achieve greater Common Prosperity for all.

Against this structural backdrop, China is also experiencing a housing slowdown and an energy crisis. Economic growth has been tightly bound to booming property prices in China, with prices soaring over the last decade. This has been accompanied by the growing indebtedness of property development companies. Regulators have recently tightened access to credit, which has seen several properties developers falter. The largest of these is Evergrande, who has started to miss bond payments.

Whilst the market is comfortable that this won't evolve into the "Lehman's" moment of China, households in China are highly exposed to property values, with housing representing greater than 50% of their total asset values. The knock-on effects on consumer sentiment and spending need to be closely monitored going forward. Whilst we continue to see China as a long-term growth story, risks of earnings downgrades in certain sectors remain an unquantifiable concern for which investors may well demand a higher risk premium.

Energy prices skyrocket

Natural gas prices surged to record highs in the wake of China and Europe's scramble to cover power shortages. Dutch TTF hub, a European gas price benchmark, is up almost 400% and US gas prices have doubled since the beginning of the year. The market tightness stems from a combination of demand and supply side factors which are related to weather and the move away from high carbon emission energy sources. Some of these factors are once-off; others may be more structural in nature.

[1] A-class net returns

Gas storage levels in Europe reached historical lows at the start of the heating season on the back of a long, cold spring which extended the heating season earlier in the year. Unexpected low output from renewables including lower wind power in Europe and the UK as well as droughts in China and Brazil resulted in lower hydroelectric power generation. LNG Supply was hampered in several countries including Nigeria, Norway, and Qatar due to maintenance and outages.

The energy transition policy in China led to depleted inventories as they embarked on switching from coal to gas. The increase in gas prices has also led to an increase in coal prices which were further supported by coal supply chain constraints. Reduced capital expenditure in coal may well result in elevated prices over the medium term as renewables still need to be scaled up significantly.

Natural gas prices in Europe should reduce as Gazprom's Nord Stream 2 pipeline comes online in the next few months. Higher US rig counts should help reduce US gas prices. Oil prices have also crept up, benefiting from the opening up of economies and at the margin, from substitution away from gas. A cold northern hemisphere winter will keep energy prices elevated into 2022. Many energy-related shares including the global oil majors and miners exposed to coal do not appear to be pricing in these higher energy prices and consequently, this presents an investment opportunity.

Inflationary pressures drive bond yields higher

Although the opening up of economies is partly responsible for higher rates, persistent inflationary concerns are probably the key driver of higher bond yields. Soaring energy costs and supply chain disruptions have unnerved markets. Although these may ultimately prove to be transitory, they may keep inflation levels elevated for another year; this is the so-called "transitory for longer" inflation envisaged by the Fed.

Wage inflation is far stickier than commodity price inflation and continues to creep up in various regions. Persistent US labour shortages continued into September, resulting in average hourly earnings rising by 4.6%. Long-term US inflation expectations as measured by bonds from years 5 to 10 remain anchored in the 2-2.4% range. Over the long term, we would expect inflation expectations to move higher due to the significant stimulus injected into the economy to date.

Compelling investment opportunities in the midst of potential market headwinds

Although the outlook for the global economy is positive, the performance of equity markets is less clear given that they are already pricing this positive outlook going forward. Future earnings expectations have plateaued and are at risk of being downgraded due to continued cost pressures associated with supply-chain constraints and higher wages. Rising interest rates discussed previously, are also a headwind. Although global markets in aggregate are expensive compared to their historic multiples, this is mostly due to the 'growth' component of the market which has benefited from record low long-term interest rates.

The MSCI World Value Index forward PE of 13.9 is close to its 20-year median of 13.1 and many shares in this index should be far less impacted by rising rates. Some of the resource companies are offering compelling valuations on what we would consider to be sustainable commodity prices. Several domestic financials and industrials are trading on single-digit PE multiples and should be able to grow earnings even with a fairly muted economic outlook.

Offshore, financials and energy-related sectors are cheap-to-fair relative to their historic valuations and should benefit from higher rates and energy prices. Notwithstanding the economic concerns being faced by markets, if investments are purchased at reasonable valuations, their medium-term returns should be reasonable. We think there are still sufficient investment opportunities to be had.

Portfolio Positioning

We reduced our exposure to Vivendi and Universal Music Group post the unbundling and closure of the group discount. We felt more value would be realised in Prosus than Naspers and hence switched our Naspers holding into Prosus. We reduced our exposure to PGM miners on concerns regarding pricing pressure on PGMs due to motor semi-conductor shortages. We reduced our exposure to financials and retailers which had performed well over the quarter. We reduced our exposure to Anglo American which had performed well and was at risk of coming under pressure due to risks associated with elevated iron ore prices.

We increased our position in Anheuser-Busch Inbev and Mediclinic which have underperformed and were offering reasonable value. We purchased MTN after we adjusted our valuations upward. We purchased British American Tobacco given its compelling valuation.

Performance Commentary

Vivendi's unbundling of the Universal Music Group in September resulted in the discount on the entity being closed. Our position in Sasol benefited from the rising oil price. Financials contributed to performance. The Standard Bank takeover of Liberty Holdings at a substantial premium to its prevailing market price was positive for the fund. Glencore benefited from a rising coal price.

The underperformance of the PGM basket price due to motor semi-conductor shortages, negatively impacted PGM miners which resulted in them detracting from returns. Regulatory pressure in China resulted in Prosus, Naspers and Alibaba underperforming. HeidelbergCement came under pressure due to rising energy costs.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Impala Platinum Ltd	3.9%	2.0%	Anglogold Ashanti	1.4%	-1.8%
Sibanye Stillwater Ltd	3.3%	1.6%	Alibaba Group	1.3%	-1.0%
Sasol Ltd	1.8%	1.5%	Prosus NV	1.9%	-0.6%
Absa Group Ltd	3.0%	1.4%	FirstRand $ bond	2.3%	-0.5%
Glencore plc	2.0%	1.2%	Ping An Insurance	1.6%	-0.4%

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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