NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Three, 2021

Nedgroup Investments Opportunity Fund

Performance to 30 September 2021	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	3.0%	2.1%	-0.8%
1 year	23.5%	14.9%	23.2%
3 years (p.a.)	8.8%	6.9%	8.6%

Market Commentary

The third quarter of 2021 saw some of the exuberance experienced by markets since the lows of the COVID crisis in March 2020 dissipate. There are a number of events currently unfolding globally which individually may be manageable, but combined, have the effect of tightening monetary conditions and reducing risk appetites from high levels - a recipe that is not usually helpful for equity market returns, especially when valuations are elevated. These events include: global supply chain disruptions and the spike in energy prices (both inflationary); rate hikes from a number of emerging markets, taper-talk from the FED and the ECB; the raft of business-unfriendly Chinese regulations; and the potential repercussions that the China Evergrande default may have on the Chinese economy.

Despite all of this, the S&P still managed to end the quarter slightly positive (up 0.6%), while the JSE All Share Index was 0.8% lower over the quarter. The ALBI index was 0.4% higher for the quarter, and the rand depreciated by 5.5%, ending the quarter at 15.07 to the US dollar.

The Nedgroup Investments Opportunity Fund returned 3.0% for the quarter. This was slightly ahead of the peer-group return of 2.1%. Over 1-year the Fund has produced a return of 23.5%, versus the peer-group of 14.9%. Over 3-years the Fund has produced a return of 8.8% pa, versus the peer-group of 6.9% pa. Over all measurement periods, the Fund ranks well relative to the peer-group.

Portfolio Commentary

The Fund's top five performing positions for the quarter added 1.8% to our return while the bottom five detracted 2.4%.

Top contributors	Avg. weight	Performance contribution	Top detractors	Avg. weight	Performance contribution
USD	2.3%	0.4%	Royal Bafokeng	5.1%	-1.2%
Merafe	0.9%	0.4%	Naspers	6.0%	-0.8%
Standard Bank	1.9%	0.4%	Balwin	1.4%	-0.2%
Remgro	1.6%	0.3%	AngloGold	0.7%	-0.1%
Brait	0.8%	0.3%	African Rainbow	1.6%	-0.1%
Total		**1.8%**			**-2.4%**

- With recent weakening of the Rand/Dollar exchange rate over the last quarter from R14.28 to R15.07, the Fund benefitted due to its offshore cash holdings.
- Merafe was the second biggest contributor as they reported good results on stronger ferrochrome prices with significant free cashflow generation. They have R800m cash on the balance sheet which positions

[1] Net return for the Nedgroup Investments Opportunity Fund, A class. Source: Morningstar (monthly data series).
[2] ASISA Multi-asset medium equity category.

them well for share buybacks or special dividends. The stock is trading at below a 5 PE with a dividend yield in excess of 5%.

- Standard Bank was our third biggest contributor after recovering from oversold levels. Despite the recovery we continue to see value in the banking sector in general.
- Our long-held view that some value will be unlocked in Remgro came to fruition this quarter as RMI announced that they will be unbundling some of their assets. We continue to see potential for further value unlock in Remgro and retain our position.

Royal Bafokeng performed extremely well after a strong run in the platinum price over the last year. Last quarter we mentioned that we reduced our position from a portfolio construction and risk perspective. This proved to be prescient as the PGM prices came under severe pressure impacting RBP's share price. We remain positive on their outlook and have retained our current position post the reduction.

Naspers was our second biggest detractor as the Chinese Technology regulator clamped down on tech businesses. This severely impacted the share-prices of Chinese tech companies (Tencent included). Our hedge held over Naspers limited the damage to an acceptable level. Naspers is again trading at a deep discount to its NAV. Some of this change is however structural as the perceived earnings risk due to Chinese regulatory interference has increased.

Current positioning and outlook

In September, the Fed signaled to the market that tapering is likely to start, potentially even as soon as the November meeting. With the US economy having experienced a massive recovery from the lows of the COVID crisis, and higher and more persistent inflation being recognized (and now an energy crisis to exasperate this), the time to start considering monetary policy normalization has come. This means that the $120bn a month run rate of asset purchases every month by the fed will likely start to decline. The extent of QE in the US has been phenomenal, with an estimated $1.7 trillion in direct payments to households being made since the onset of the COVID crisis.

The ECB similarly announced they would start slowing the pace of their asset buying under the pandemic emergency program. Many emerging markets, as a result of increasing inflationary pressures, have also started tightening monetary policy, with the central banks of Brazil, Russia and Mexico all having started interest rate hiking cycles. The SARB has yet to hike rates locally, but the hawkish tone of the MPC in their September meeting has the market believing that rates will also start increasing from November. Unlike many other emerging markets, South Africa has not experienced inflationary pressures, however the effect of a highly elevated oil price, a weakening ZAR and generally higher global inflation could mean inflation comes out higher than what was previously assessed by the SARB.

Given the above, we believe that a slightly more cautious stance is currently warranted, and have used the opportunity to switch some of our equity and property risk assets that have performed strongly into lower risk SA bonds (which have been lacklustre) which currently offer the potential for attractive real returns (with lower volatility and much higher levels of income than equity assets). The largest change to the portfolio over the quarter was therefore the further reduction in risk assets (SA Equity) - all of which have performed very strongly over the past year - in favour of SA Government Bonds which have been rather lacklustre.

Yields on nominal bonds are at very attractive levels and are pricing in a SA risk premium that we believe compensates for fiscal risk. We added R2032's, R2035's, R2037's, R2040's and R2044's over the quarter, as we believe that coming interest rate hikes may be a catalyst for yield curve flattening. The current bonds in the portfolio have a yield-to maturity above 10.5%. With inflation expected to remain below 5% for the foreseeable future, this represents a potential real return in excess of 5.5% - the type of real return one would typically associate with investing in equities.

On a relative basis, these nominal yields are more than 8.5% higher than US bonds with a similar duration. Investors are therefore earning an additional 8.5% per annum for taking on SA's relatively higher inflation rate and poorer credit quality. This seems a risk you are being well rewarded for.

We are still finding attractive opportunities in the equity market, particularly in areas like South Africa, the UK and Europe. We also retain a healthy exposure to hybrid securities that should provide us with either a reasonable level of income and/or capital protection but with the potential for additional equity upside in certain scenarios. These positions would include our Autocalls (bought both on indices and single securities), high yield credit, convertible bonds and property (preferred) A-units. We have SA Index hedges over 7% of the Fund as well as a hedge on Naspers. This should help to provide some asymmetry to that portion of the portfolio.

Conclusions

As mentioned, we believe that a slightly more cautious stance is currently warranted. We have used the opportunity to switch some of our equity risk assets that have performed strongly into lower risk SA bonds which currently offer the potential for attractive real returns (with lower volatility and much higher levels of income than equity assets). We believe the local market offers attractive real returns relative to global markets.

Responsible Investment Comments

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:

- Alexander Forbes: We engaged with the Chairman of the board as well as the Chairperson of the remuneration Committee on executive remuneration.

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.

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