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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 SA EQUITY FUND**

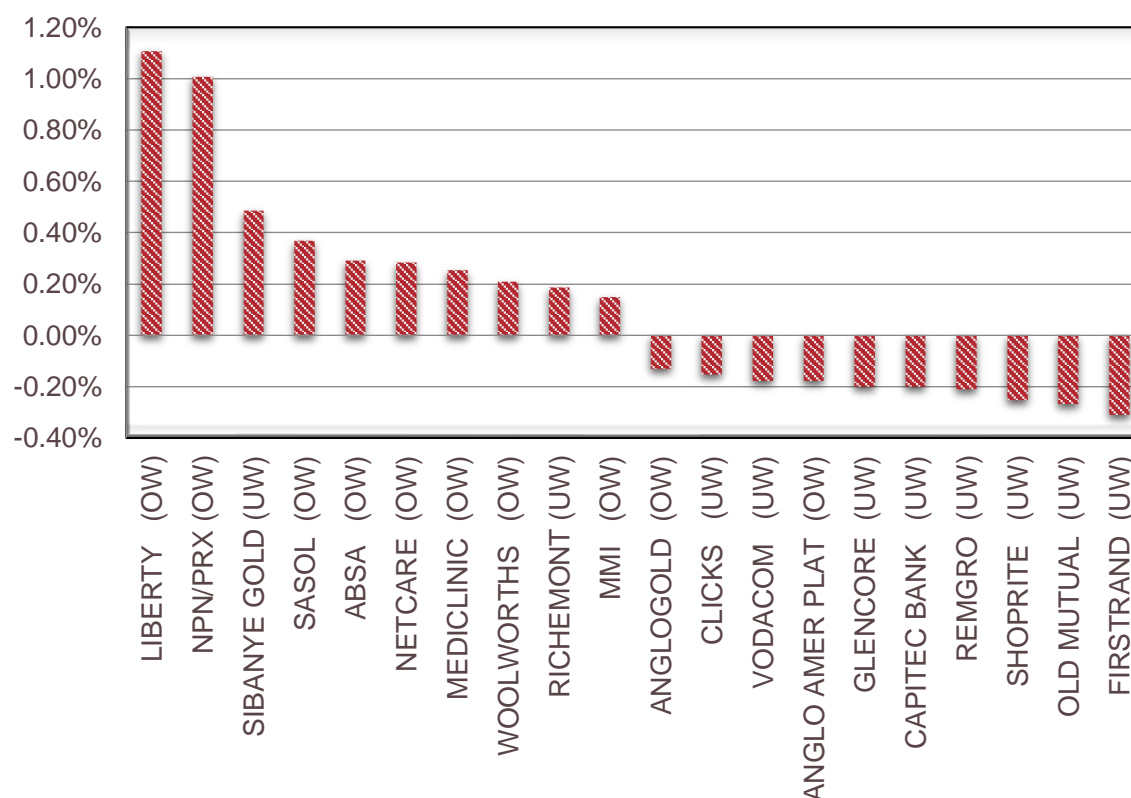
Quarter Two, 2021

## Nedgroup Investments SA Equity Fund

Performance to 30 June 2021	Nedgroup Investments SA Equity <sup>1</sup>	FTSE/JSE SWIX
3 months	4.3%	31.2%
12 months	31.2%	30.4%

The Nedgroup Investments SA Equity Fund (the fund) has returned 19.2% YTD outperforming the fund benchmark of Capped Swix by 2.3% this year. The third quarter was a strong quarter with the fund +4.3% over the period, driven by our positions in Insurance, healthcare, MTN and Sasol, while our positions in Naspers/Prosus and platinum group metals detracted from the fund.

**Chart 3: Nedgroup SA Equity Fund: Top 10 Contributors and Detractors Q3 2021 (Relative to Capped SWIX)**



## Market commentary

Despite the many negative news headlines and dramatic television footage streamed around the world of the unrest in South Africa, the local market has continued to power along with our proprietary index of SA Inc. exposed stocks up +10.7% in this latest quarter compared to -0.8% for the All Share Index and +3.2% for the Capped SWIX. Who would of forecast that in this environment the place to be invested this quarter would be in local telcos (+22.7%), food retailers (+12.6%) and banks (+12.0%). This demonstrates once again what drives stock prices over time, is not news flow but cash flow, and short periods of negative sentiment can provide the patient investor with wonderful investment opportunities. After all, the most precious resource we have is time, and if used wisely this can provide us with the independence to decide how we would like to spend it. We continue to work tirelessly to look through the noise for evidence of impairment of the underlying companies cash generating ability, which allows us to determine the intrinsic value of a company and ensure that we pay a materially lower price.

We believe that Chinese regulatory news has provided us with one of those buying opportunities. Through multiple engagements with management teams, independent experts and investment analysts we think the

<sup>1</sup> Net return for the Nedgroup Investments SA Equity Fund, A2 class. Source: Morningstar (monthly data series).

current and expected regulation will have a reasonably immaterial impact on the cash generating ability of Tencent. Combined with the cheapest valuation we have seen for the company in a decade, makes this a good opportunity to buy arguably one of the best businesses globally, and we have taken advantage of that by adding to our position.

The local market has performed very well this year (SA Inc index +29%) and we were well positioned to take advantage of the move as we identified multiple very attractive local SA Inc. opportunities earlier on in the year. Post the very strong performance we are seeing less of a margin of safety in many local SA Inc. stocks, and while still identifying attractive opportunities, we are finding that we have to be far more selective. As can be seen below, from a simple index of the 1 year forward P/E of companies that are most exposed to South Africa (SA Inc.), there has been a rerating in SA Inc. over the quarter. It is now trading closer to its 10-year average, and importantly on more normalised earnings post the Covid- 19 recovery.

Figure 1:  
1 Year Forward P/E of SA Inc - 10 Year History to 30 September 2021



Source: Bloomberg, data as at 30 September 2021

To become more constructive on South Africa we maintain the need to see more progress with regards to structural issues that we face in the country. This would help drive business and consumer confidence, resulting in job creation, accelerated fixed capital formation and a higher sustainable GDP growth rate.

## Fund positioning

We continue to think the Nedgroup Investments SA Equity Fund is well diversified, with decent upside potential going forward. We have been increasing our exposure to selected healthcare stocks which should benefit from Covid-19 tapering off, and which currently trade at very attractive multiples. We have also continued switching our bank exposure into the insurance sector, which we believe provides more upside from these depressed levels. We are starting to see some very interesting opportunities in select foreign exposed stocks. This could result in the fund's SA Inc. exposure decreasing marginally from the current 35% weighting over time.

We took advantage of the weakness in platinum group metals (PGM) to increase exposure to the sector. The PGM prices have continued to come under pressure due to semiconductor shortages leading to car manufacturers slowing production, and thus demand for the metals weakening. When looking into 2022 we believe that the semi-conductor supply chain should be able to catch up with pent up demand, and together with a large restocking cycle for auto manufacturers, will result in a strong platinum group metal demand recovery. The fund continues to hold a reasonable position in diversified miners, our preferred counter being Anglo American over BHP Billiton due to lower iron ore exposure. Iron ore remains a bulk global commodity which we continue to hold a cautious view on due to steel production restrictions along with a slowing property market in China.



## 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.  
Contact details: Standard Bank, Po Box 54, Cape Town 8000,  
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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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