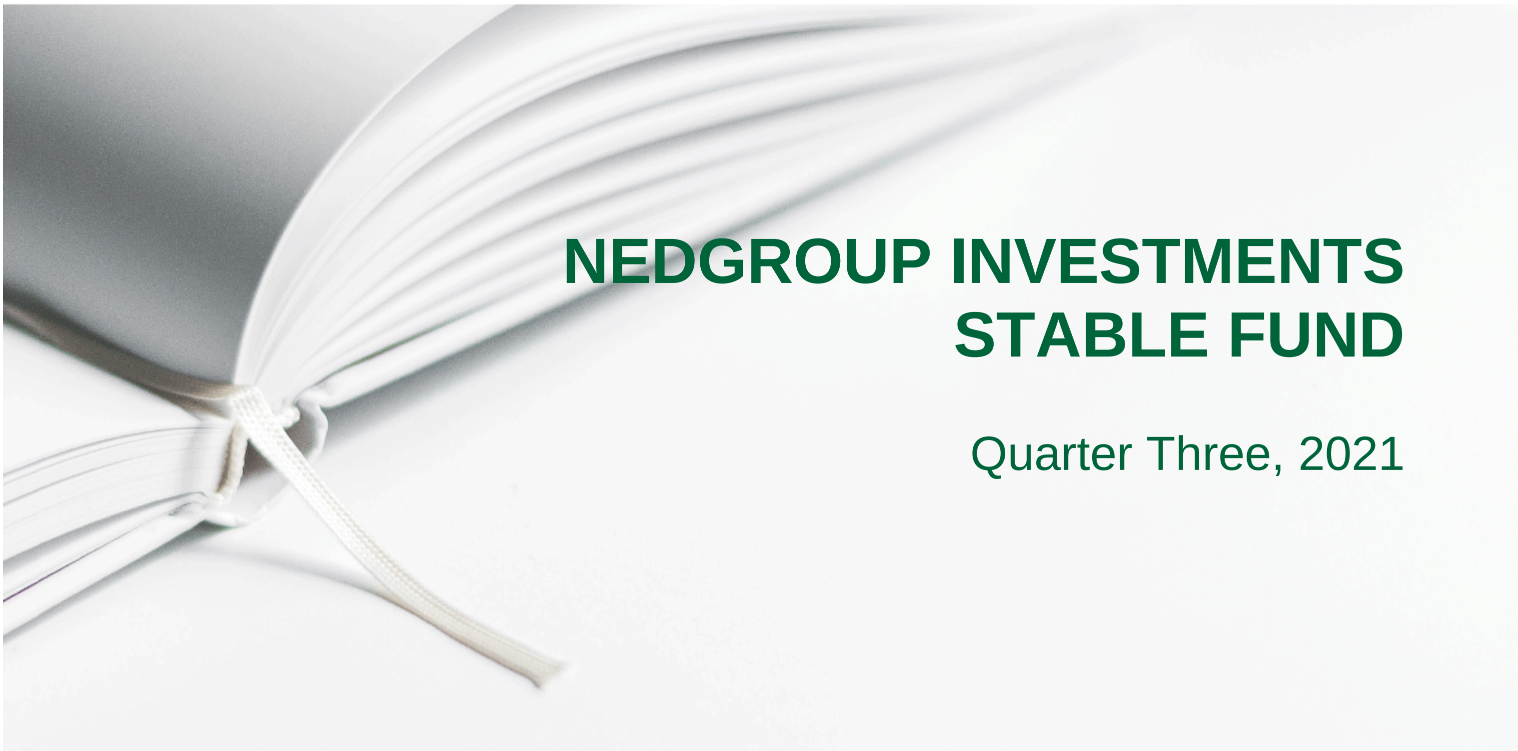
UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently



NEDGROUP INVESTMENTS STABLE FUND

Quarter Three, 2021

Market Commentary

International

Global economic activity continued to benefit from stimulus programs, but the pace of growth is slowing. Market worries for recent (sticky) inflation prints are growing, testing the "transitory" inflation hypothesis of the central banks.

Developed market equities were flat for the quarter but retraced in September after seven months of successive gains. Slowing growth, supply bottlenecks and fears that central banks would become more hawkish weighed on sentiment.

Chinese bourses fell by nearly a fifth as the country sustained its first pandemic-related GDP contraction amid regulatory interventions that spooked investors. The tech giants, for-profit tutoring industry, ride hailing firms, celebrity and fan culture and cryptocurrencies all came under the spotlight in the name of China's social cohesion and common prosperity goals.

Developed market bond yields rose on inflation worries and expectations for rising interest rates, compounded by the US political brinkmanship on the debt ceiling and risk of US government default.

Industrial and precious metals prices came under pressure on US dollar strength and the opportunity costs of higher rates, while oil prices rose above $80/bbl on Chinese power constraints. Iron ore slumped 45% on slowing Chinese economic growth and the possibly imminent default of China's largest property developer, Evergrande.

US dollar strength against the euro and resilience against other crosses should persist in the short-term given economic expectations and interest rate differentials.

South Africa

GDP growth exceeded expectations due to increased production in the agricultural, mining and trade sectors but manufacturing and construction contracted.

The FTSE/JSE Capped All Share Index eked out a small gain, registering its sixth successive quarter of gains with small and mid-caps rising strongly. Banks, listed property and pharmaceutical stocks buoyed the index even as index heavyweights Naspers and Prosus fell on Hong Kong-listed Tencent's sharp pullback.

The resources sector sustained a second successive quarter of losses as key industrial metals including copper and iron ore fell sharply, ditto precious metals platinum and palladium. But Sasol rallied strongly after Brent crude prices surged above $80 per barrel on Chinese and European power crises.

Tax revenues significantly outpaced earlier Treasury projections on elevated commodity prices and economic activity rebounded from the COVID-19 lockdown slump.

The ALBI ended flat, with bond yields latterly tracking global yields higher, despite the significant margin of safety already priced into SA government bonds.

Terms of trade tailwinds continued after a strong result in the second quarter. SA's current account printed a fourth consecutive surplus (with the latest being the largest to date) following a record trade surplus (despite a meaningful acceleration in dividend payments to foreign entities).

The rand gave back 80 cents against the dollar late in the quarter. US dollar strength, emerging market jitters and commodity price weakness all contributed to its depreciation.

Portfolio Commentary

- SA equities contributed almost all the return, with longstanding investment in Aspen surging and meaningful contributions from financial mainstay FirstRand and Standard Bank—JSE-listed global stocks Richemont and Anheuser-Busch Inbev detracted as they tracked global bourses lower as did Naspers on adverse sentiment for Chinese tech stocks
- SA bonds were positive at the margin as SA yields tracked global yields higher—investments in the preferred, medium-duration R186 gained the most
- The full weight to foreign assets detracted somewhat despite the weaker rand—performance of the Foord International Fund and Foord Global Equity Fund were both affected by minority interest in Chinese equities which retraced on perceived adverse regulatory interventions and worries over Evergrande contagion
- The low weight in listed property performed well but wasn't a meaningful contributor to returns—fund staple Capital & Counties gained meaningfully in the quarter
- The diversifying physical gold position was marginally positive— on gold's resilience amongst the resources complex and the weaker rand

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
Aspen	0.8%	69.5%	1.3%
FirstRand	0.3%	20.5%	1.6%
RSA 10.5% (R186)	0.3%	1.1%	25.7%
Newgold ETF	0.2%	4.8%	4.3%
Standard Bank Group	0.2%	15.1%	1.3%

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
BHP Group	-0.0%	-2.8%	1.8%
Richemont	-0.1%	-9.2%	1.2%
Naspers "N"	-0.2%	-13.2%	1.3%
Anheuser-Busch InBev	-0.3%	-16.6%	1.4%
Foreign Assets	-0.6%	-2.0%	30.7%

Investment Outlook

World:

- The pace of global economic recovery should slow as supply-chain bottlenecks and sporadic Delta variant flare ups dampen near-term prospects despite greater social and travel freedoms
- Wage growth and rising input costs due to supply constraints will likely aggravate inflation expectations for longer than first anticipated and across a wider range of goods
- Absent a major setback in growth, the long-anticipated increase in the US federal funds rate is likely to follow only in late 2022

- The imminent tapering of the Fed's stimulus program and prospects of a 2022 US rate increase should continue to put pressure on developed market bond yields across the curve
- Higher inflation and the sheer size of the US debt burden, with trillions of dollars of spending bills still awaiting congressional approval, should lead to longer term dollar weakness
- Broad-based commodities strength is unlikely to sustain the H1 pace, but OPEC+ failure to agree revised quotas could see oil staying higher for longer, further compounding inflation risks

South Africa:

- Despite Stats SA's inclusion of new areas of economic value resulting in a once off rise in nominal GDP by more than 10% and a concomitant improvement in South Africa's debt metrics, the country' structural economic challenges remain
- The budget deficit should narrow significantly this fiscal year on much improved tax revenues, but forecasts remain uncertain given poor economic prospects, rising unemployment and recent weakness in several key exports
- Weaker commodity prices and higher inflation are near-term headwinds for bonds, although long-term valuations remain extremely attractive given the relatively weak domestic growth and demand outlook
- With investors now more actively positioning for a moderation of the prevailing accommodative US monetary policy and the subsequent rise in interest rates, the Rand remains vulnerable as the short-term platinum group metals price terms of trade bonus starts to dissipate

Conclusion

Equities are still the preferred asset class despite imminent US Fed bond purchase tapering, the opportunity cost of higher yields and loss of earnings momentum due to supply bottlenecks and inflationary pressures. Companies with pricing power are better placed than fixed rate interest instruments to protect against rising inflation risks.

Foreign assets are kept at the prudential maximum, with global equities best placed to grow capital in real terms despite growing risks of a market derating. The managers have tactical short futures and options hedges on the expensive US S&P500 index to manage the near-term risks while we retain a high-conviction weight to businesses that should deliver meaningful long-term real growth.

The allocation to SA equity is higher on the material rerating of several core investments. Despite the price gains, in our view there is still upside to the valuations and we are happy to hold these company specific positions.

The managers reduced the SA bond position at the margin. Real yields on SA government bonds are still attractive given the benign inflationary outlook, but rising global bond yields and loss of SA's domestic terms of trade advantage are growing risks to the constructive view we hold on government bonds.

The low allocation to listed property is unchanged. The sector's recovery from its COVID-19 lows is probably now complete, but in our view the fundamentals for rentals and capital values in office and retail properties remain mostly unattractive.

The money market allocation is close to all-time lows. Negative real yields on domestic cash are likely to persist for the foreseeable future, despite inflationary pressures building short term.

Responsible Investment Summary

Voting resolutions for Q3 2021

Portfolio	Total count	For	Against	Abstain
Adopt Financials	10	100%	0%	0%
Auditor/Risk/Social/Ethics related	50	90%	10%	0%
Buy Back Shares	13	92%	8%	0%
Director Remuneration	49	96%	4%	0%
Disapply Pre-emptive Rights	2	0%	100%	0%
Dividend Related	1	100%	0%	0%
Issue Shares	7	14%	86%	0%
Loan / Financial Assistance	14	36%	64%	0%
Other	12	75%	25%	0%
Political Expenditure/Donation	1	0%	100%	0%
Re/Elect Director	73	96%	4%	0%
Remuneration Policy	18	44%	56%	0%
Share Option Scheme	1	100%	0%	0%
Shares under Director Control	5	0%	100%	0%
Signature of Documents	2	100%	0%	0%

Foord Global Equity Fund	Total count	For	Against	Abstain
Adopt financials	4	100%	0%	0%
Auditor/risk/social/ethics related	6	100%	0%	0%
Buy back shares	2	100%	0%	0%
Dividend related	3	100%	0%	0%
Issue shares	5	20%	80%	0%
Others	11	100%	0%	0%
Political expenditure/donation	1	100%	0%	0%
Re/elect director or members of supervisory board	26	100%	0%	0%
Remuneration policy including directors’ remuneration	6	0%	100%	0%

Foord International Fund	Total count	For	Against	Abstain
Adopt financials	2	100%	0%	0%
Auditor/risk/social/ethics related	5	100%	0%	0%
Buy back shares	3	100%	0%	0%
Dividend related	4	50%	50%	0%
Issue shares	5	20%	80%	0%
Others	6	83%	17%	0%
Political expenditure/donation	1	100%	0%	0%
Re/elect director or members of supervisory board	26	100%	0%	0%
Remuneration policy including directors’ remuneration	2	0%	100%	0%

General comments:

- There are no 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
Tsogo Sun Hotels	Audit & Risk Committee composition	CEO	Concern raised whether two of the Audit & Risk Committee members had the requisite skills, experience and independence to be on the committee.
Spur Corp	Director remuneration	Remuneration Committee Chairman	Proposed remuneration scheme allows for potential dilution of shareholders and is ambiguous on certain performance conditions. The Board response was that it looks to buy shares in the market but leaves scope to issue shares to a certain limit if necessary. Foord subsequently sent an email to the chairperson of the remuneration committee detailing Foord's concerns. No response was received. Recommended action is to vote against the remuneration policy based on potential dilution of shareholders and ambiguity around some of the performance metrics, unless the scheme is amended to address these concerns.
Santam	Auditor/Risk/Social/Ethics related	CFO	Media reports that Insurance Claims Africa (ICA) is accusing the company of not paying claims & that ICA will look to sue Santam on behalf of policyholders for additional damages resulting in reputational & financial damage for Santam. Management response: 1. ICA claims factually incorrect; Santam has been following policy wording and court verdicts and paying claims and making interim payments except where court verdicts outstanding; 2. ICA incentivised on size of claim so trying to increase claim size but cannot pay out more because principle is no policyholder "better off". Unconcerned about US style litigation threat as have not delayed payments & ICA must prove that policyholder submitted docs but SNT delayed. Foord is investigating the threat of US style litigation and is monitoring local situation (media reports & court verdicts) but see risk of material losses from litigation as unlikely. Santam primarily dealt with reputational damage last year and lost no business due to scale and scope of operations.
EOH	Auditor/Risk/Social/Ethics related	CEO	Media reports that SITA will recommend EOH be blacklisted by public sector (~20% of revenue) due to legacy fraud, overcharging & non-delivery on contracts.

			Management response: 1. Have conducted extensive investigations using independent law firm; have been transparent in process & findings 2. Have taken legal action against responsible ex-directors & employees 3. If recommended to be blacklisted, can appeal to National Treasury and go to court. Confident will not be blacklisted. Management have acted appropriately and have a strong case. Company also has unmatched scope and scale for government to blacklist easily; existing contracts still to run; thus mitigates risk.
Vodacom	Remuneration & Board Independence	Chairman and Investor Relations	Discussed the independence of one of the board members, tenure will exceed 10 years. Remuneration policy should include return metrics such as Return on Invested Capital (ROIC) and Return on Equity (ROE).
Spar Group	Food Safety	CFO and Investor Relations	Food concern over food safety given growing private label exposure. Management response: • SPAR has a Food Safety Supplier Policy which lays out the requirements for suppliers in this regard • All SPAR House Brand & National Suppliers have the SPAR minimum standard (GFSI Intermediate level) whilst many have progressed towards GFSI recognised food safety certification eg: FSSC 22000 and BRC • All suppliers have SPAR Supplier Agreements in place • They have rapid testing methods for micro detection into Africa countries (Botswana, Namibia, Swaziland and Mozambique) with the store Food Safety Audits. This has been welcomed by the retailers. • SPAR South Africa retail audits and 8 SPAR Distribution Centres audits remain in place and are achieving very pleasing results
Shoprite	Cyber Security	CFO and Investor Relations	Cyber threat is a growing risk especially given the amount of data that Shoprite now has. Shoprite response was that it is outsourced and not done internally given their expertise. There is also external validation and assurance. Foord response is that while they have measures it still poses a risk that needs to be closely monitored.

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,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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
Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT
Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000

DATE OF ISSUE
October 2021