



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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A photograph of an open book with white pages, tied with a white string bookmark. The book is open to a blank page, and the pages are slightly curved, suggesting it is being turned or held open.

NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter Four, 2021

Nedgroup Investments Entrepreneur Fund

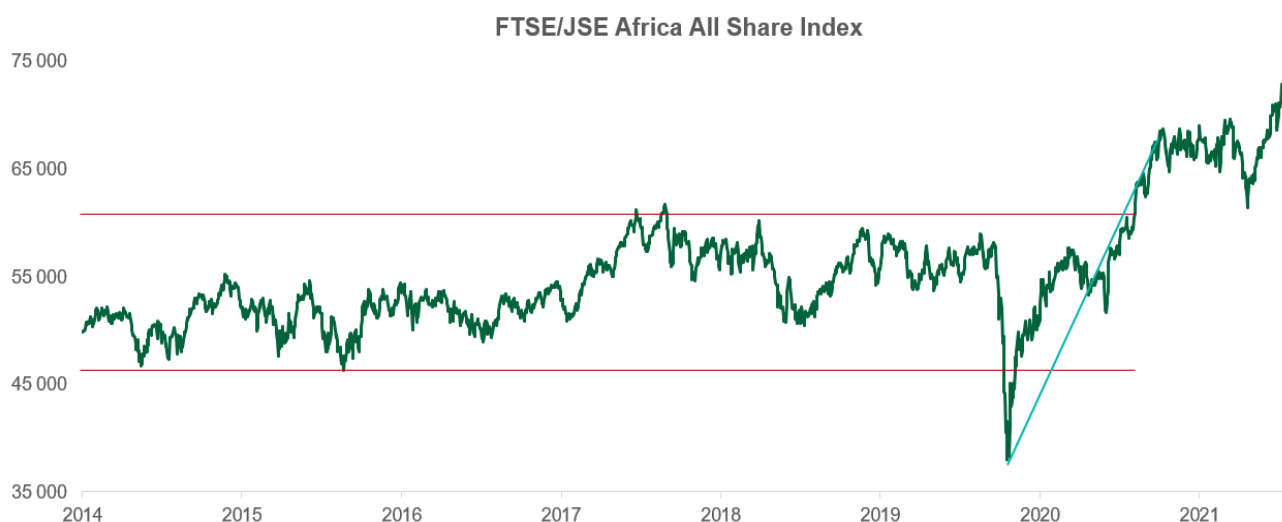
Performance to 30 September 2021	Nedgroup Investments Entrepreneur Fund ¹	ASISA category average	Small Cap Index	Mid Cap Index
3 months	13.3%	8.1%	8.8%	3.8%
12 months	34.9%	39.0%	59.1%	28.9%

Market Overview

The JSE All Share Index moved mostly sideways for Q2 and Q3 of 2021 which was a period of consolidation following the strong recovery from the Covid-19 induced shock crash in Q1 of 2020. Q4 2021 produced a very strong run in not only the SA equity market, but most other global equity markets too.

The strong run in Q4 occurred despite the discovery and rapid global spread of the Omicron variant of Covid-19 and in some countries knee jerk reactions by politicians raising lockdown levels to restrict many activities. We attribute this quick recovery to the market's increasing understanding of the diminishing threat that Covid-19 poses to human health and economic activity and expectations of continued economic growth and recovery in commercial activity – particularly where it has been more suppressed by lockdown interventions. Good examples include the availability of microchips in the motor vehicle supply chain, shipping containers and sports shoe production in Vietnam.

The JSE All Share returned 29.2% for the year, the best year in a very long time and this has done much to rekindle investor confidence in the SA equity market after this had waned following a prolonged period of low / no returns (2014 to 2020) – all the above neatly reflected in the chart below – note scale on right hand axis.



Although absolute performance across all sectors was positive and strong; for the 6th year in a row, it was the Resource Sector that recorded the highest sectoral return (+32.3%) driven notably by Sasol and select platinum producers and the mining houses. In comparison Financials performed less well (+29.8%) despite the boost for many companies in the sector of recovering Covid-19 caused credit losses. Industrials brought up the rear returning 26.5%, with performance suppressed by Index heavyweights Naspers / Prosus which both actually

¹ Net return for the Nedgroup Investments Entrepreneur Fund, A class. Source: Morningstar (monthly data series).

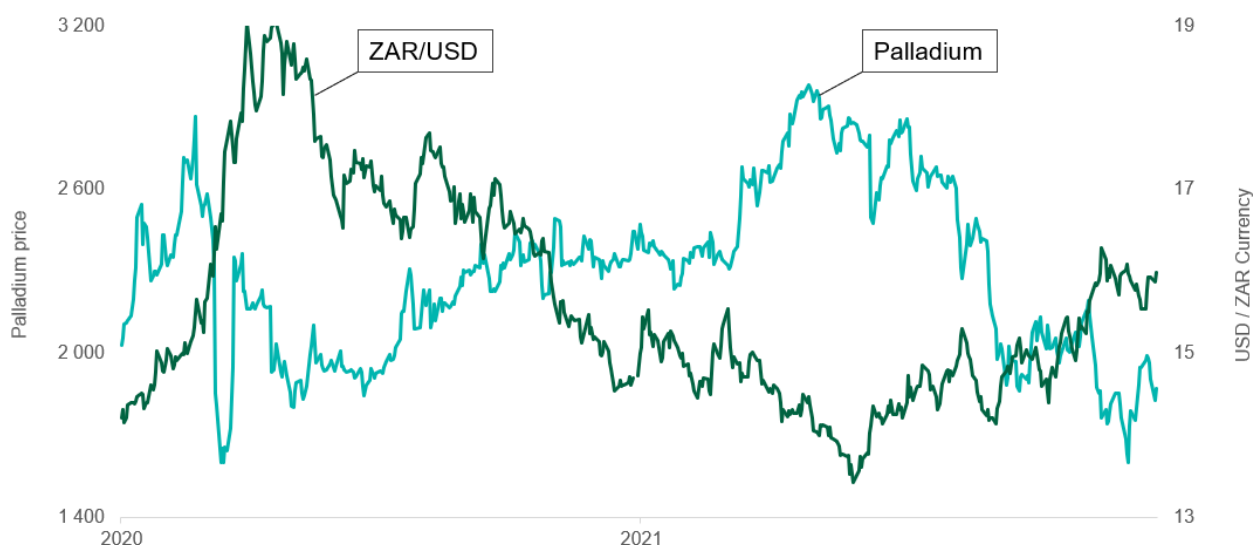
declined nearly 20%. Most Global Markets also produced strong returns, with the MSCI World Index up 18.5% and S&P 500 +28.7%.

As is clear to see from the table at the top of this document, the JSE Mid and especially Small Cap sectors continued their very strong recovery, but the fund, hampered by its core large cap exposure to British American Tobacco / Reinet and Naspers / Prosus, which all under-performed in 2021, did well to keep up as well as it did. We enter 2022 with these instruments as laggards, but from which we expect substantial out-performance in time due to their current extremely attractive valuations.

We have written several times in the last year about our wariness of rising inflation around the world driven by consumer demand pull and limited ability for supply to respond quickly enough in both consumer goods, some energy products and certain labour markets. It seems the FOMC's move in November to start to reduce the degree of monetary stimulus being applied has been shrugged off by markets which had anticipated this, and which is in effect only a small move. The SARB's decision to marginally raise interest rates (noted off a very low base) has also signaled a change in direction but it seems the SA market is equally unconcerned by this move. We share this view for now.

Following the recovery in the oil price and the pullback in iron ore and platinum group metals from their very extended levels in early and mid-2021, the extraordinarily favourable trade balance that South Africa had managed to achieve in 1H 2021 diminished and with it that relative period of Rand strength ended – see inverse correlation between ZAR:US\$ and Palladium price in the chart below. For the year the Rand weakened by 8.5% versus the US Dollar, with the move coming in the second half of 2021.

ZAR/USD and the price of Palladium



Portfolio Commentary

The undoubted highlight of Q4 2021, and main driver of the fund's out-performance, was the long-anticipated bid for Royal Bafokeng Platinum which has turned in to a competitive process between Northam and Impala Platinum. We elected to sell all our RBP shares for a combination of cash and Impala Shares, some of which we have subsequently sold as the Impala shares ran after our trade. As a consequence, the fund has materially reduced its exposure to platinum miners during the quarter and the cash position at around 9% is the highest it has been for some time as we weigh options for its deployment. We have been happy to reduce the overall platinum stock exposure as in the short-term the shares have materially out-performed their underlying platinum

group metals commodity baskets – the source of their revenue. While we anticipate a recovery in demand for PGM's in 1H 2022 as the semi-conductor shortage in the motor vehicle industry eases, this looks fully discounted in the short term.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Royal Bafokeng PI	5.5%	5.6%	Oceana Fishing	2.2%	-0.4%
Afrimat	3.8%	0.9%	KAP Industrial	4.1%	-0.4%
Telkom	3.7%	0.8%	AVI	3.2%	-0.4%
RMI Holdings	3.5%	0.7%	City Lodge	0.3%	-0.1%
PSG Konsult	3.2%	0.7%	CMH	3.5%	-0.1%
		4.72%			-0.86%

In contrast and as we have previously discussed our core and unique positions in Naspers / Prosus and British American Tobacco / Reinet have lagged the high-flying recovery plays in the Mid and Small Cap sectors over the last year,

We find ourselves in the most unenviable position of wanting to retain exposure to one of the most exciting technology businesses in the world (Tencent), currently valued at its cheapest since listing in 2005, combined with a small portfolio of other technology businesses of varying attraction, all wrapped up in a corporate structure that results in our effective interest in Tencent reflected at half its market value! It remains a substantial position in the fund (6.4% combined weight between Naspers and Prosus) but we have no confidence that the management team has any desire or promising plans to eliminate the widening discount. In contrast every action they have taken in the last 3 years – despite many shareholders urging and voting against their proposals – has exacerbated the problem rather than addressing it. We choose to remain invested reconciled by the extremely attractive exposure to Tencent and the prayer that at some point in the future sanity will prevail in the boardroom – something that could also happen any day.

British American Tobacco which returned 15.5% for the year, largely through the payment of dividends continues to languish as the market worries about the level of debt as well as growth prospects for both the traditional cigarette business as well as the Reduced Risk Portfolio of products (Tobacco Heating, Vapour and Modern Oral). These combined with regulatory risk in their primary market (USA) have combined to restrict the firm's valuation to multi year lows. We have already seen the amelioration of some of these factors and expect substantially more to be announced in 2022 (commencing with the 2021 final results on 11 Feb) and which we anticipate will start to drive a long-awaited re-rating of the firm's equity.

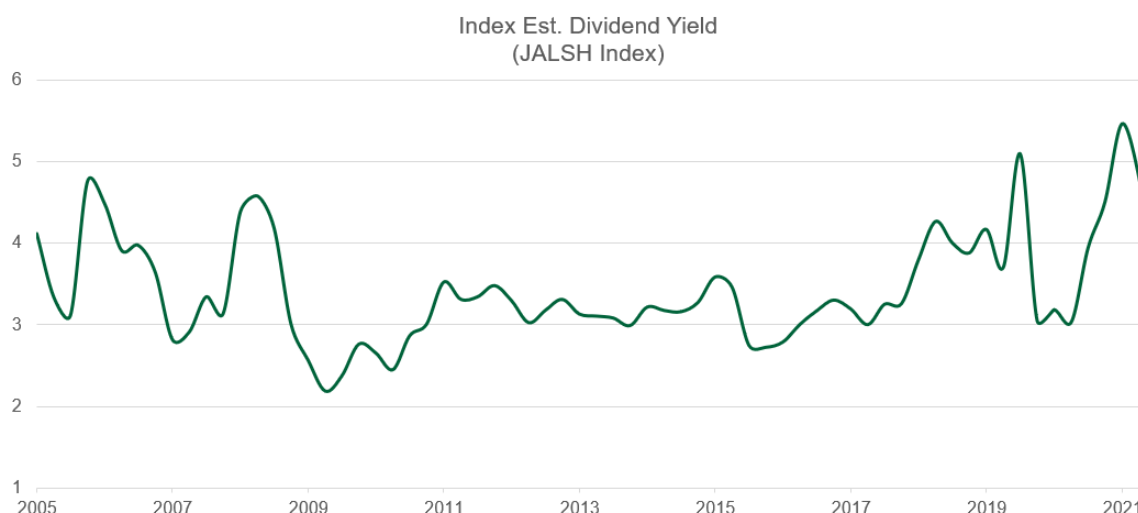
2021 was also a year in which we saw several high-quality businesses acquired off the exchange as their acquirors saw substantially greater value in the businesses than our market was prepared to attribute to them. The most notable in the fund were Royal Bafokeng Platinum, but others included Afrox and Imperial and there were many more smaller businesses. In addition, happily RMI have responded to shareholder pressure that they unlock the discount trapped in their holding company structure and AVI in the end terminated their discussions with Mondelez who were very eager to acquire their outstanding snacks business.

Current Positioning and Outlook

Despite a very strong showing from many of our key picks in 2021 and which include Hudaco (+73%), Raubex (+89%), CMH (+84%), KAP Industrial (+43%), Afrimat (+37%) Advtech (+90%) and Reunert (+56%) we consider all of these high-quality businesses to still offer attractive value relative to their growth prospects and all remain material positions in the fund.

We retain our core positions in Naspers / Prosus and British American Tobacco / Reinet and are confident of these positions making a very positive contribution to performance in 2022 for reasons discussed above.

We observe again that despite the SA market's move of 2021, rising interest rates and inflation that dividend yields at around 4.5% remain attractive and that SA equity as an asset class continues to look appealing as illustrated in the chart below:



While we have a realistic expectation for low single digit GDP growth in SA mired by structurally restraining economic policies and at best lukewarm consumer and business confidence, valuation remains at low levels and we will endeavor to keep the fund as fully as possible.

Responsible Investing

We are acutely aware that ESG issues have a direct impact on the companies that we may invest in and as such, can affect the performance of our investment portfolios. Our integrated approach focuses on the issues that are or will likely become material for businesses. We use several methods for bringing ESG considerations into our decision-making including engagement with management on issues that are relevant. Notable engagements during the fourth quarter of 2021 include:

- Oceana Fishing – Board engagement regarding delay of release of financial statements and possible audit irregularities.
- Prosus/Naspers: Engaged with the Lead Independent Non-Executive Director regarding various matters – notably management failure to address the NAV discount and minority suppression through the use of the A and N share voting structure.
- Netcare – Engagement regarding proposed changes to the share incentive scheme.
- Alexander Forbes – Engagement with the Group Chairman and the Lead Independent Non-Executive Director on various matters.



Our efforts and work in the ESG field have been focused on an ethical and sincere process that is time and cost effective and allows us to report to our clients on our work in an accurate way. In that regard we have had reservations about signing up to the various local and global ESG accreditation organizations which look to be largely an expensive box ticking exercise, and which could be abused and manipulated by less sincere organizations simply looking for an expeditious solution. Under increasing client pressure, we have however recently become signatories to the UN PRI and are now members of that organization.

Conclusion

Despite the funds strong run in 2021 it remains 6% below its previous peak recorded in 2018 (see chart below). We are confident that with its unique positioning and characteristics that is well poised to produce an excellent 2022 and we thank our long-standing investors for their ongoing support and confidence in our investment process.

Nedgroup Investments Entrepreneur Fund: Net Asset Value



Source: Bloomberg

As at the end of December 2021, the fund traded on a forward PE of 10.5X, Dividend Yield of 3.9% and Price to Book of 1.7X.

Anthony Sedgwick
Abax Investments, January 2022



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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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.

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