NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS RAINMAKER FUND

Quarter Four, 2021

Nedgroup Investments Rainmaker Fund

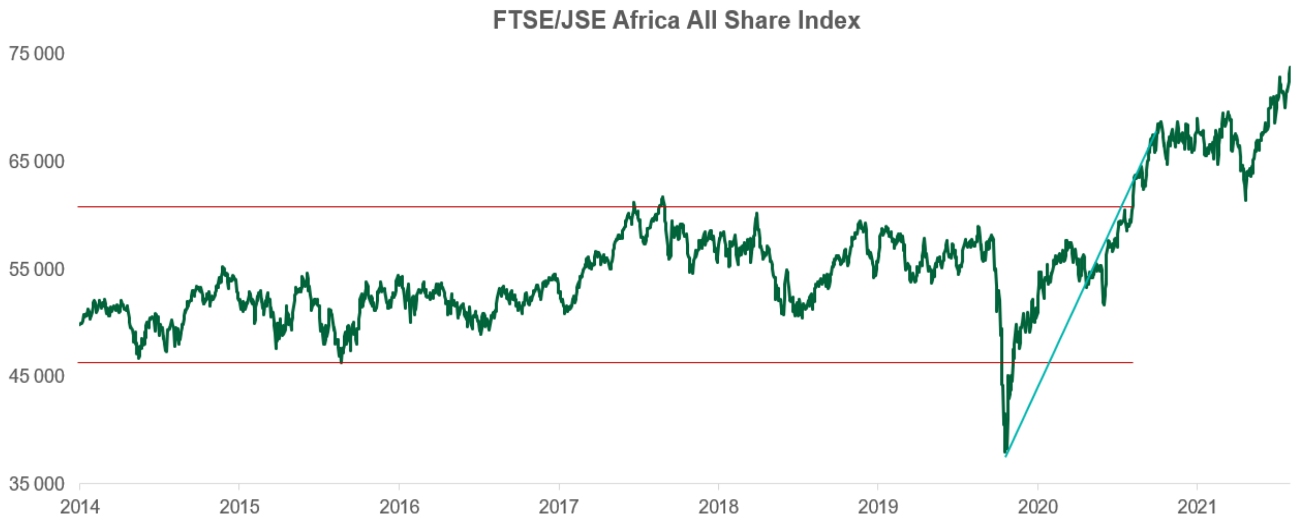
Performance to 31 December 2021	Nedgroup Investments Rainmaker Fund[1]	ASISA category average	FTSE/JSE ALSI
3 months	+11.3%	+9.5%	+15.1%
12 months	+23.6%	+26.7%	+29.2%

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.



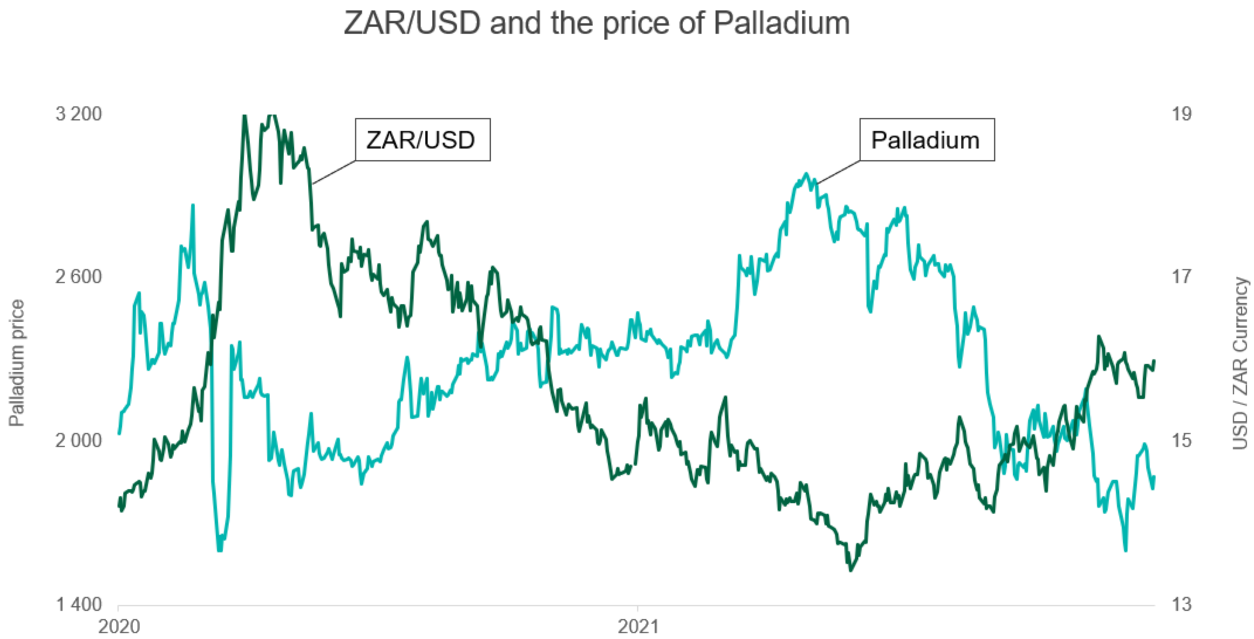
Although absolute performance across all sectors was positive and strong; for the 6th year in a row it was the Resource Sector that recorded the highest sectoral return (+32.3%) driven notably by Sasol and select platinum producers and the mining houses. In comparison Financials performed less well (+29.8%) 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 declined nearly 20%.

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

Most Global Markets also produced strong returns, with the MSCI World Index up 18.5% and S&P 500 +28.7% (both in US$ terms).

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 chains 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.

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. Since the amendment to Rainmaker's strategy in September 2020 to allow up to 30% of the fund to be invested in global equity, we have steadily increased the offshore proportion of the fund during the period of Rand strength and by June 2021 had reached the 30% maximum limit. The fund has subsequently benefitted from a weakening Rand.



Portfolio Commentary

In absolute terms, the fund performed well for the quarter appreciating by 11.3% well ahead of the 8.7% recorded by the FTSE/JSE Capped Shareholder Weighted Index. The MSCI All World Index appreciated 12.5% in Rand – a simple 70% onshore, 30% offshore benchmark would therefore have delivered 9.8% in Q4. For the year the fund appreciated by 23.6%.

The fund's top five performing positions for the quarter added +4.72% to our return while the bottom five detracted -0.86% - see table below.

For the year the fund's 5 biggest absolute winners were MTN (+184%), Royal Bafokeng Platinum (+139% and sold to Impala Platinum in a long-anticipated transaction for a cash and shares consideration in Q4), Sasol (+93% driven by the recovery in the oil price and no own goals), Autozone (+92%) and Raubex (+89%).

The 5 worst absolute performers for the year were Alibaba (-44%), Activision Blizzard (-21%), Naspers (-18%) and Prosus (-17%), and adidas (-13%). Other than adidas, the common thread amongst these absolute underperformers is the exposure to the "common prosperity" drive in China. Moving 400m additional Chinese higher up the middle-class prosperity ladder will no doubt be positive for consumer and technology stocks, but the trajectory is unlikely to be linear.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Anglo American	6.0%	1.28%	Firstrand	6.1%	-0.22%
Royal Bafokeng P	1.0%	0.95%	AVI	1.6%	-0.21%
Impala Platinum	2.9%	0.86%	Sanlam	2.1%	-0.16%
Richemont	1.9%	0.83%	Standard Bank	1.4%	-0.14%
MTN	4.1%	0.80%	Alibaba	1.1%	-0.13%
		4.72%			**-0.86%**

Current Positioning and Outlook

Domestic SA Equity

We wrote quite extensively during 2021 about our analysis and changing positioning of the portfolio in response to the rapid and substantial regulatory changes that were implemented in China – all under the broad description of achieving "Common Prosperity" and will not repeat those again here. This hurt some companies and industries harder than others and had quite severe negative consequences for Naspers and Prosus, which are essentially the same company, linked by a complex cross holding structure implemented by the management team during 2021 despite our and many other shareholders vehement protestations.

These negative factors contributed to the substantial under-performance of both Prosus (-18.3%) and Naspers (-17.9%) in 2021. 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 (10.3% 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.

We have reduced our overall Resource exposure during the last quarter primarily through the sale of our Royal Bafokeng Platinum stock to Impala Platinum in exchange for cash and Impala shares, some of which we have subsequently sold. We have retained our large exposure to the high-quality diversified Mining House Anglo

American but reduced BHP on the falling iron ore price and that firm's relative dependence on that commodity. Our significant (for Abax) gold exposure is retained through Gold Fields despite short term strong performance.

In the industrial space we continue to hold a significant position in British American Tobacco where we have confident expectations for the firm's performance in 2022 with multiple potential catalysing events. Other holdings of large active positions include Mondi, Bidvest, AVI and FirstRand.

Global Equity

The offshore component held its own against the MSCI All World Index in Q4 despite the large dispersion in individual stock performances (from Trex at +33% to Alibaba at -17%). In general, the strong growth companies (like Microsoft and Alphabet) performed well, but it was the more US consumer exposed stocks that benefited from the continued consumption expenditure growth and the potential to gain from rising inflation (such as Trex, Autozone and Tractor Supply). At the other end, the Chinese exposed stocks declined – Alibaba being the biggest loser with their large platform business being most exposed to changing regulations. Activision, the global gaming company continued its slide as they were impacted by internal governance issues (being addressed) and external concerns about their exposure to the changing online gaming regulations in China (a large contributor to profits).

The offshore exposure in Rainmaker is a well-diversified group of companies, ranging from fast growing, well-known technology companies such as Microsoft and Alphabet to more value oriented smaller businesses like Martin Marietta (US aggregate and cement producer – slow, but steady growth with very solid cash generation and large moats around the business model), to global best of breed financial stocks like JP Morgan, HDFC Bank (India) and VISA. Chinese exposure was reduced earlier in the year when the "common prosperity" mantra started to gain traction, but we retain positions in Alibaba, JD.com and Li Ning (athletic wear). We do not have a direct investment in Tencent as the fund already owns Naspers/Prosus (as mentioned earlier).

The top-down view of global investments is very much dominated by discussions around the unwind of quantitative easing and the timing and pace of rising interest rates, which leads to debates around rotating from growth to value stocks. We remain fundamental, research driven stock pickers and hence still see much investment merit in a diversified range of companies, irrespective of their value/growth monikers. However, we are mindful of valuations and have hence reduced some of the more expensive growth stocks. We remain wary of geopolitical risks (such as between Europe/Russia and the US/China) and its impact on supply chains, consumer sentiment and currencies. Whereas the omicron variant of Covid-19 seems to have lesser health impact, its economic impact remains significant as infected individuals stay away from work and travel and countries like China, with their zero-Covid policy, lock down large cities to curb further infections.

All the above lead to us to retain a risk averse investment stance with global stock selection where we prefer better known, solid companies with healthy business models, balance sheets, cashflows and palatable valuations. The largest holdings are Samsung, Alphabet, Visa, Microsoft, Thermo Fisher, Amazon, Tractor Supply and Autozone.

Responsible Investing

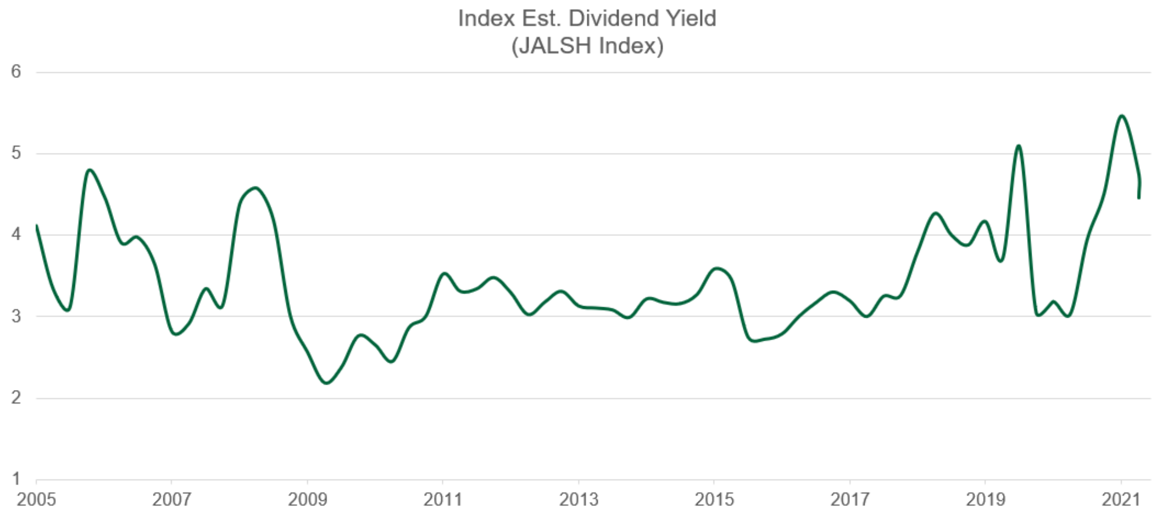
We are acutely aware that ESG issues have a direct impact on the companies that we may invest in and as such, can affect the performance of our investment portfolios. Our integrated approach focuses on the issues that are or will likely become material for businesses. We use several methods for bringing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

- Woolworths – Participation in their Good Business Journey engagement.
- Shopite – Engagement with Group Chairman and Lead Independent Non-Executive Director on Remuneration prior to Annual General Meeting.
- Firstrand – Engagement with Group Chairman on various matters prior to Annual General Meeting.
- 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.

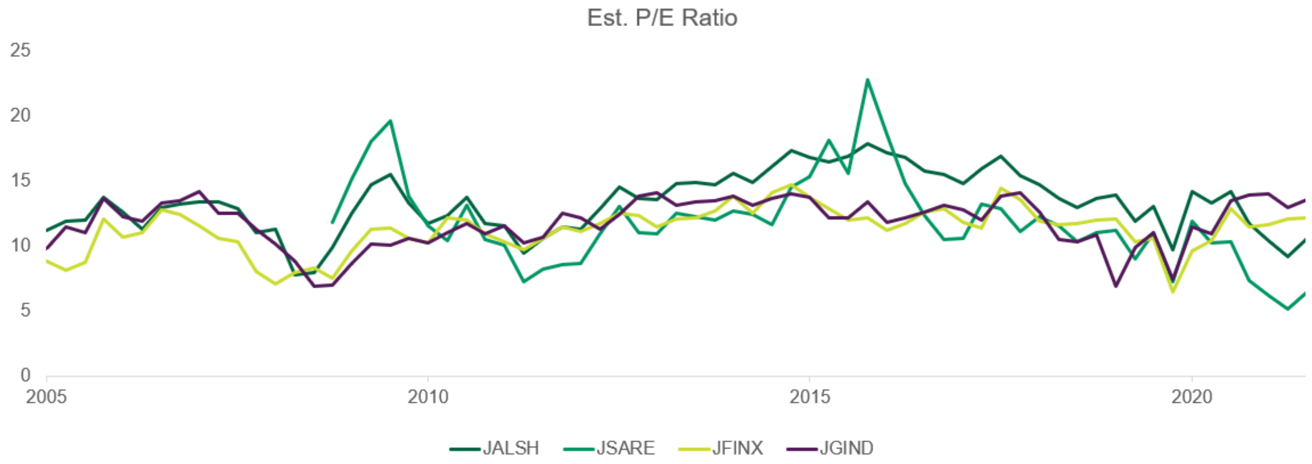
Our efforts and work in the ESG field have been focused on an ethical and sincere process that is time and cost effective and allows us to report to our clients on our work in an accurate way. In that regard we have had reservations about signing up to the various local and global ESG accreditation organizations 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

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 – All Share on 11.3X PE – see pink line in chart below. This is most notable in the Resource space (see green line in chart below of sectoral Price:Earnings ratios) which admittedly will face the profit headwind of lower commodity prices in 2022 for many companies in that space.



We enter 2022 drawing comfort that the fund continues to invest in a diversified range of high-quality businesses and that we have clearly demonstrated relative preferences in our stock selection. The offshore component adds significant diversification, not only in terms of currency, but also in business model and country exposure. The portfolio currently trades on a forward rolling Price/Earnings (P/E) ratio of 14x and a dividend yield of 3.5%, which we believe offers attractive value.

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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