NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS SA EQUITY FUND

Quarter Four, 2021

Nedgroup Investments SA Equity Fund

Performance to 31 December 2021	Nedgroup Investments SA Equity[1]	ASISA category average (JSE Only)	FTSE/JSE Capped SWIX
3 months	7.6%	9.3%	8.7%
12 months	27.6%	27.6%	27.1%

Market commentary

As the pandemic closes in on the end of its second year, its lingering effects continue to be felt across the globe. Some of these effects include the impact of new variants, supply chain bottlenecks and inflationary pressures.

The unprecedented fiscal and monetary stimulus supported a strong rebound in 2021. Although growth rates are expected to be lower in 2022, they are generally expected to remain above trend.

As inflationary pressures have been building, the debate whether inflation is transitory or more persistent rages on. Regardless of this debate, monetary policy has begun to tighten, and is expected to continue to tighten during 2022. Strong fiscal support is expected to remain in place, which should continue to support global economies.

The South African economic rebound in 2021 was better than expected, buoyed by strong commodity demand and a robust agricultural sector, with the current account recording its strongest surplus in decades. The two charts below demonstrate this strong rebound from a historical standpoint:

Figure 1: South Africa Current Account to GDP

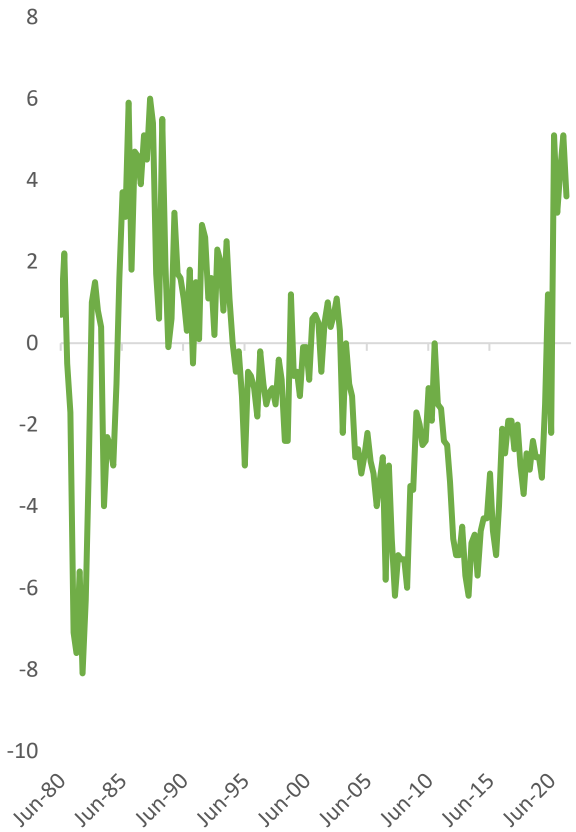
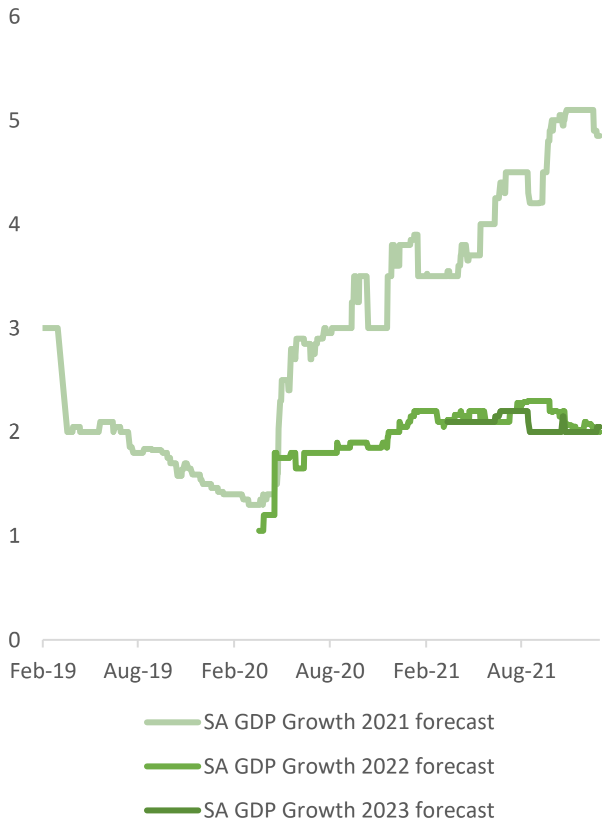


Figure 2: South Africa GDP Forecasts



Source: *Laurium Capital, Bloomberg, 31 Dec 2021*

[1] Net return for the Nedgroup Investments SA Equity Fund, A2 class. Source: Morningstar (monthly data series).

Developed markets, awash with liquidity, continued to power ahead during 2021. The MSCI World Index was up 22.3% *(33% in ZAR)* driven largely by the US, with the S&P 500 up 28.7% (39.4% in ZAR). The MSCI Emerging Markets Index declined 2.5% for the year.

In our local market, the FTSE-JSE Capped SWIX Index gained 27% for the year, despite Naspers declining 18%. The performance was driven by standout individual stock performance MTN (+184%), Richemont (+88%), Anglo American plc (+46%), and Sasol (+93%). SA Inc *(those exposed to the domestic economy and currency,)* as represented by the Laurium Capital Domestic South Africa Index, staged a robust recovery gaining 27% on the year.

Portfolio Commentary

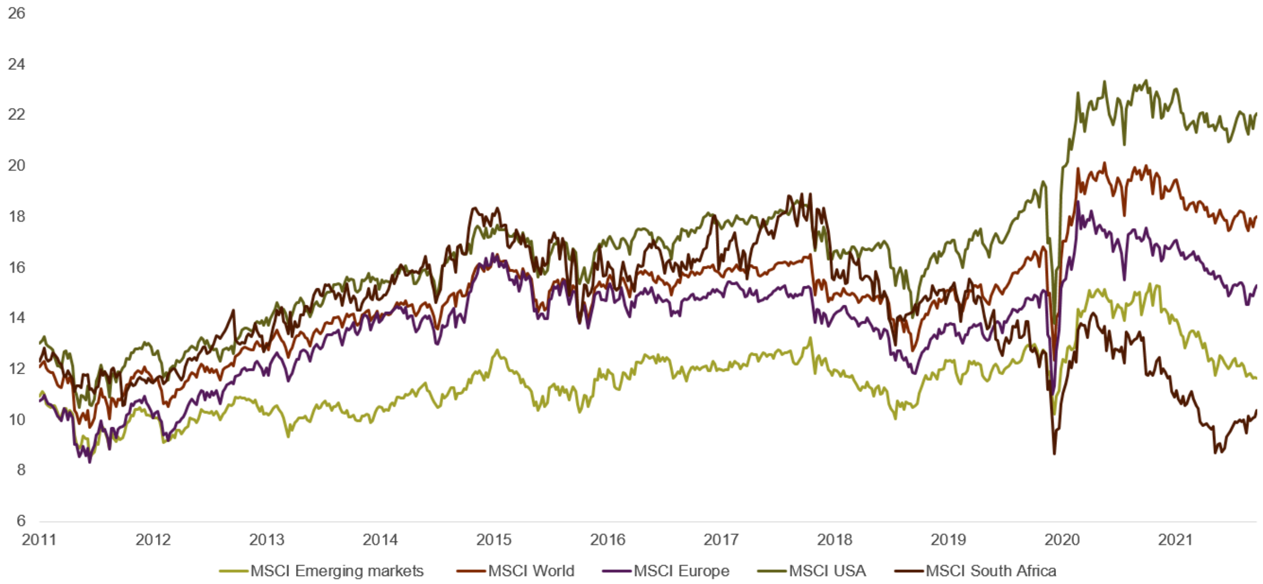
The Nedgroup Investments SA Equity Fund outperformed the FTSE-JSE Capped SWIX during the year. Our positions in insurers (Liberty and MMI), Hammerson, ABSA, MTN and resources companies such as Anglo American Platinum and BHP Group PLC contributed to the outperformance, whilst not owning shares such as Richemont, Capitec, Shoprite and Glencore detracted from performance. Despite having a large Naspers/Prosus position and Naspers declining by 18%, we took advantage of opportunistic trading at the time of the of the Prosus transaction and the relative moves in the discounts between Naspers and Prosus, which added significant alpha during the period. Since inception, the fund has achieved an annualised performance of 27.6% compared to the FTSE-JSE Capped SWIX of 27.1%.

Top contributors (Q4 2021)	Average weight	Performance contribution	Top detractors (Q4 2021)	Average weight	Performance contribution
Anglo American	6.0%	1.3%	**Woolworths**	2.8%	-0.4%
Anglo American Platinum	3.4%	1.2%	**Sasol**	3.9%	-0.4%
Implats/RBP	3.3%	1.1%	**Sanlam**	4.1%	-0.3%
Anglogold Ashanti	3.1%	1.0%	**MMI**	2.3%	-0.2%
BHP	4.1%	1.0%	**Foschini**	2.5%	-0.2%
British American Tobacco	5.9%	0.8%	**Pick n Pay**	2.0%	-0.2%

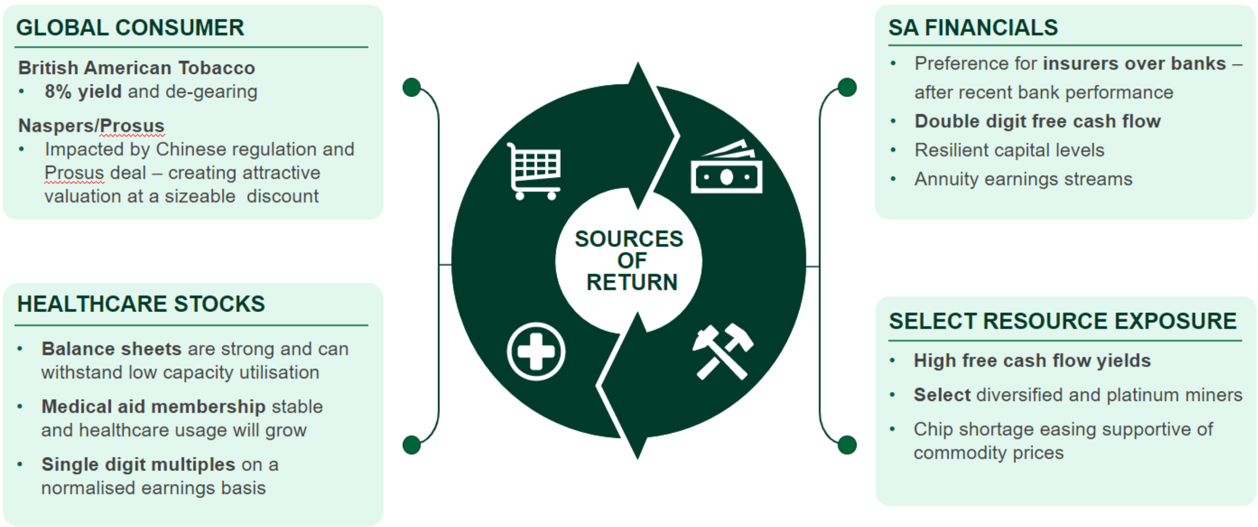
Current positioning and outlook

As we roll into 2022, some of the tailwinds which the SA economy experienced during 2021 may begin to fade, with growth expected to revert to around 2% in 2022. The structural challenges of elevated levels of unemployment, corruption and defunct SOE's (particularly Eskom and Transnet) continue to constrain economic growth. The unrest and looting experienced during July are symptomatic of the underlying structural issues and impacted business confidence negatively just as it was recovering from Covid induced lows.

Figure 3: Attractiveness of SA equity markets compared to the rest of the world



Despite this, we continue to view SA equities as being attractive on a relative basis (see figure 3 above). In the context of many developed markets trading at all-time highs and at elevated valuations, SA equities offer a more attractive risk-reward profile, particularly relative to the US, as well as relative to other asset classes. We feel that many of the above-mentioned risks have been priced into SA equities. Our fund has reasonable but very selective exposure to domestic SA stocks such as insurers, banks, healthcare companies and retailers. The diagram below depicts these areas of focus:



The largest position in the fund remains Naspers and Prosus. The offer by Prosus to acquire 45% of Naspers was disappointing in our view, has resulted in a further widening of the discount as complexity has increased. Notwithstanding the above, we still think the stock is very attractive providing exposure to Tencent and other high growth emerging market internet assets at a discount of over 60%

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Regulatory clampdowns on the tech sector by the Chinese government has resulted in pressure on Chinese tech stocks, particularly Tencent, which we feel offers attractive value for longer-term investors. Through multiple engagements with management teams, independent experts and investment analysts we think the current and expected regulation will have a relatively immaterial impact on the cash generating ability of Tencent, which trades at the cheapest valuation we have seen for the company in a decade.

The fund has exposure to hospital stocks, such as Netcare and Mediclinic, which we feel are significantly undervalued. As the world normalises from the Covid-19 pandemic, elective surgeries and hospital occupancies are expected to recover, with these stocks offering substantial upside.

We continue to hold a large position is British American Tobacco (BAT) which is very attractively valued on an 8x forward PE and 8% dividend yield in sterling. On our assessment, ESG concerns are more than compensated for in the valuation. The company generates strong cash flows and as it degears, we feel that the company could be in a position to implement share buybacks within the next 12-18 months.

The fund still has reasonable exposure to resource counters including diversified miners such as Anglo American and BHP as well as platinum counters including Anglo Platinum, Impala Platinum and Northam. Strong fiscal support and the push for environmental improvements should continue to underpin demand for commodities, particularly copper and PGMs.

Conclusion

We believe the fund is well diversified and offers attractive upside, while pragmatically weighing up the inherent risks, in order to achieve the best risk-adjusted returns for our clients going forward.

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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