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NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter One, 2022

Nedgroup Investments Entrepreneur Fund

Performance to 31 March 2022	Nedgroup Investments Entrepreneur Fund[1]	ASISA category average	Small Cap Index	Mid Cap Index
3 months	2.3%	4.9%	4.0%	6.9%
12 months	17.2%	25.9%	36.5%	26.0%

Market commentary

After 2021's very strong absolute performance in SA and Global markets, we expected a more muted 2022. However, with the waning of the Covid pandemic, the easing of some supply logistics bottlenecks and the general expectation of only moderate inflation, the outlook for 2022 was positive and one of recovery. Little did we know what was in store. The Russia-Ukraine conflict has disrupted this outlook considerably and we now face a weaker outlook for global growth - the World Trade Organisation recently cut its global trade growth forecast from +4.7% to +2.5% and higher inflation driven by multiple factors – not just the oil price.

The quarter was characterised by high volatility, with the JSE All Share Index swinging between -4% and +5%, finally ending the quarter up +3.8%. Given the strengthening Rand (+8% versus the USD), South African equities ended the quarter up +13.4% in USD terms, putting our market among the top global performers year-to-date. In comparison, global equity markets had one of the most tumultuous starts to a year with the MSCI All World Index falling as much as -13% (in USD), before recovering slightly to end the quarter down -5%. The Nasdaq declined -9%, Euro Stoxx 50 -11%, the German DAX -11.3% and the Shanghai Shenzen market -13.5%.

The mid and small cap indices continued their strong run appreciating by 4.0% and 6.9% respectively for the quarter.

The first quarter saw yet another strong performance from Resources (+19%), followed by Financials (+16.7%) with Industrials lagging (-13.1%), dragged down by heavyweights Naspers and Prosus. Within resources, Oil, Gas & Coal companies (Exxaro +45%) as well as Chemicals (Sasol +37%) performed especially well due to higher energy prices. The precious metals group of companies (gold and platinum) lagged, but still appreciated between +4% and +9%. The financial sector was driven by the large banks appreciating 30%+ after reporting good results - largely driven by the Covid related impairment unwind as the still lacklustre SA economy failed to generate loan growth from corporate or retail SA**.**

As the world slowly and hesitantly exited the severe lockdowns and secondary impacts of Covid, the debate around the transitory nature of inflation quickly turned into the realization that inflation is likely to be persistently higher. After many years of expansionary sovereign balance sheets and effectively free money (not just from zero interest rates, but also from overly generous capital allocators and investors), conditions were tightened rapidly which drove sharp falls in certain segments of the market. The first casualties were "unprofitable tech" - the range of companies spending widely and indiscriminately to gain scale and market share with the hope/promise of profits once they dominate a particular market segment. This varied from shared work desks (WeWork) to food delivery, online education, and online financial models. In addition, further fears of constraining regulations in China and potential delisting of Chinese ADRs in the US market, because of the US dispute over accounting transparency, saw a further sell down in Chinese equities.

Market jitters were exacerbated by the outbreak of war in the Ukraine, which has triggered Europe's largest refugee crisis since World War II. The response from Ukraine's allies has been swift and unified, resulting in rapid sanctioning of Russia. As Russia is one of the largest oil and gas producing nations in the world, the immediate market reaction was higher commodity prices (especially energy related) which understandably pushed energy company share prices higher too. It is difficult to predict how this situation will evolve, but we

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

hope that a diplomatic solution is found in order to end the mounting atrocities apparently carried out by Russian forces.

In recent years, the South African prognosis has been poor; stagnant economic growth, high unemployment and inequality, the exodus of skills as well as the hollowing out of our industrial base and key State-Owned Enterprises has led to permanent low growth expectations and a concerning increase in government debt. The Covid pandemic made this worse. However, most of this has changed rather dramatically, driven by global commodity price strength rather than constructive economic policy changes. Pandemic induced shocks to global supply chains, a slowdown in the Chinese economy and the Russian invasion of Ukraine all conspired to significantly lift commodity prices, from fossil fuels to precious metals. Furthermore, these geopolitical events have severely damaged the benign benefits of globalisation and logistical integration of supply chains that have been achieved over the last two-to-three decades.

Amidst these uncertainties, South Africa has emerged as a relative safe haven and beneficiary of the changes because we have abundant natural resources, our financial services industry is well regulated, managed and capitalised, we have some well-run listed industrial and services companies (from Shoprite to Bidvest) and the commodity price windfall has substantially improved our balance of payments and government debt profile. Compared to the woes of other emerging markets, South Africa has suddenly become a lot more attractive on a relative basis and is creating opportunities for the domestic mid and small space to flourish.

We have long been critical of government's apparent inability to effect the necessary structural reforms needed to accelerate GDP growth. However, in the last six months there have been several positive developments. Regulation has been changed to raise the limit for self-generation of power to 100MW and Eskom has started the process of functional separation into generation, transmission and distribution, with the likely part privatisation of at least one of these. Both of these measures can only improve the electricity availability problem in SA. In addition, Transnet will admit private operators to use their network, the government wage agreement was settled at +1.6% (well below inflation), the telecommunication spectrum auction was successfully completed and netted R14bn for the fiscus (much higher than initial estimates) and at the same time the minister of telecommunications is adamant that the analogue TV signal will be switched off shortly (albeit still years behind schedule).

Just before we closed out the quarter, in response to the improvement in the country's debt trajectory, Moody's upgraded SA's outlook from negative to stable. None of these actions alone will dramatically increase our GDP growth, but collectively they are very positive and indeed a silver lining to our domestic outlook. Lastly, the glacial like progress of accountability for state capture, fraud and corruption continues to crawl along – but at least in the right direction.

Portfolio Commentary

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Merafe	2.0%	0.9%	Prosus	3.0%	-1.4%
Afrimat	4.5%	0.9%	Naspers	2.5%	-0.9%
Thungela	0.9%	0.7%	Telkom	3.5%	-0.7%
Santam	5.3%	0.7%	Ninety One	3.0%	-0.5%
Hudaco	4.2%	0.7%	Reunert	3.3%	-0.4%
Total		**3.9%**	**Total**		**-3.9%**

The material underperformance of Naspers and Prosus over the last two years is practically the sole explanation for the Fund's dramatic underperformance relative to its benchmarks, as well as the peer group of funds.

Long term investors in the Fund will be aware of the frustration we have voiced many times over the last few years regarding management's multiple failures across the fields of governance, investment strategy and most importantly, addressing the value trapped in the corporate structure.

Although we permanently reduced the large position in early 2021, we have felt that it had merit in the portfolio as a unique differentiating position (albeit illiquid as any sales are permanent due the Fund's mandate restrictions), upside potential in the primary underlying asset (Tencent) and the attraction that it was trading at half the value of that asset, and with zero value attributed to the other assets – cumulatively an estimated ±10% of NAV. Sadly our patience has not been rewarded to date and despite our strongest objections management have continued to dogmatically pursue counter-productive actions that have exacerbated the structural problems. This has been compounded in the last quarter by the dramatic collapse in the valuations of some of their smaller portfolio positions (Delivery Hero) and the write-off of their Russian assets (VK and Avito). After the events of the last 2 years, in most companies without a dual share class structure to protect them, management would be out on the street.

Pleasingly, the rest of almost all of the fund's key picks have performed most satisfactorily over the period – as can be seen from the table below which shows the 12-month return (%) and portfolio weight (%) of these positions:

Name	Average weight %	Total return %
Royal Bafokeng Platinum	5.49	38.9
Santam	5.04	27.5
Afrimat	4.41	56.1
KAP Industrial Holdings	4.38	22.2
Hudaco Industries	3.94	61.3
Combined Motor Holdings	3.44	82.5
Rand Merchant Investment	3.31	72.7
Raubex Group	3.27	42.0
PSG Konsult	3.20	45.6
Advtech	3.17	39.3

Current positioning and outlook

After the positive swing of factors in South Africa's relative favour already discussed above (commodity price strength, tax receipts, balance sheet repair and benefit as an emerging market following Russia's global ostracization), we believe the mid and small cap sector, which remains very attractively valued, offers a promising investment prospect.

The Fund, with its composition of high quality attractively priced mid and small cap stocks combined with the key large cap positions in Naspers/Prosus and British American Tobacco, offers uniquely attractive characteristics. BAT has finally started to re-rate from the extreme levels it has plumbed for the last three years following the publication of very satisfactory 2021 results, an increase in the GBP dividend, the reduction of its debt ratios to within the firm's long term guided comfort range, and the re-commencement of a share buyback program. We expect this to continue.

Responsible Investing

We are acutely aware that ESG issues have a direct impact on the companies 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.

There were no notable engagements during the first quarter of 2022 applicable to positions held in the fund.

Conclusion

We are more confident than ever about the Fund's growth prospects and look forward to a rewarding year ahead for our investors.

As at the end of March 2022, the Fund traded on a forward PE of 9.5X, Dividend Yield of 4.0% and Price to Book of 1.6X.

Anthony Sedgwick
Abax Investments, April 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
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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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