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NEDGROUP INVESTMENTS
Private Wealth Equity Fund
Quarter One, 2022

Nedgroup Investments Private Wealth Equity Fund

Performance to 31 March 2022	Fund[1]	Benchmark[2]
3 months	-2.3%	8.6%
12 months	9.0%	13.3%

Market Overview

The first quarter of 2022 was a volatile period for markets. Concerns that hawkish central banks could dampen prospective growth in their efforts to curtail inflationary pressures were widespread but were rapidly replaced when Russia invaded Ukraine. While risk assets suffered under the uncertainty of geopolitics, commodities rose to reflect the potential supply disruption and future scarcity.

While the situation in Russia and the Ukraine remains fluid, the immediate pressure points for the global economy were quickly revealed. Russia represents a small part of global equity markets and on average makes a modest contribution to global economic growth, although many global companies have operational exposure to Russia and Ukraine where the impact of current events could be felt. The broader and more significant impact, however, is via supply chains, global trade, commodities, and the impact of sanctions. The clearest transmission is currently via the energy market and related prices. Russia is a major commodity producer and contributes more than 10% of global crude oil and more than 15% to global natural gas production. Other significant commodities affected by this conflict include wheat and palladium, which could impact the auto industry and food prices. A significant component of Europe's energy imports come from Russia, and their well-documented reliance on Russia's supply of natural gas poses a region-specific inflation and growth risk.

In March, the US Federal Reserve started its interest rate hiking cycle with a 25bps increase, but there have been increasing calls for a 50bps move from several Fed governors which set the tone for market movements. The Bank of England increased interest rates by 25bps, with interest rates now back at pre-pandemic levels.

On the domestic front, the 2022 Budget struck a balance between social support and tax relief, while still addressing a sizeable debt burden. The fiscal metrics came in broadly in line with market expectations, with an improved starting point and trajectory due to an estimated overrun of revenues of R182bn. Overall, the budget was well received.

For the quarter, the Capped SWIX 40 delivered +8.6%, while the ALSI returned +3.8%. Headline indices continue to diverge given the varying nature of the underlying composition. At the end of quarter one, FirstRand was the largest constituent of the Capped SWIX 40 at 6.5%, while in combination, Naspers and Prosus comprised 9.1% of the index.

Oil, Gas and Coal (+46%) and Banks (+25%) were the two strong performers for the quarter, while Technology (-35%) and Personal Goods (-22%) underperformed. Large caps on the JSE returned +3%, while Small and Mid-caps outperformed their larger peers, returning +4% and +7% respectively.

The standout performers during the quarter were Kumba (+49%), Exxaro (+45%) and Sasol (+37%), while the laggards included Prosus (-39%), Naspers (-32%) and Mondi (-26%).

The USD/ZAR had a volatile quarter but continued to benefit from strength in commodity prices. In addition, post the war in Ukraine, and some rotation out of Chinese exposure by Emerging Market investors, we believe South Africa screens well on fundamentals and valuation, which has likely also benefitted the currency. The USD/ZAR ended the quarter ~9% stronger. The SARB increased the repo rate by 25bps in both January and March.

[1] Net return for the Nedgroup Investments Private Wealth Equity Fund, A class. Source: Morningstar (monthly data series).
[2] Benchmark is the Capped SWIX40

Portfolio Commentary and Activity

"Financial markets generally are unpredictable. So that one has to have different scenarios... The idea that you can actually predict what's going to happen contradicts my way of looking at the market."

- George Soros, American Investor and Philanthropist.

During the quarter, the Fund marginally reduced its holdings in Sasol and MTN after strong share price performances on the back of materially higher oil prices, and the associated de-leveraging of balance sheets. The Fund also used positive sentiment in RMI, following the finalisation of the group's restructure, to trim its position as the valuation became less attractive.

The Fund took the opportunity on weakness to add Quilter as a new holding, while also marginally adding to its position in Medi-clinic. Quilter is one of the leading wealth managers in the UK market, which has now been simplified by selling off its legacy Life Assurance business and more recently, its international business. Proceeds from the sale of these assets are being returned to shareholders, with management focused on optimising the core business. Given the market sell off during the quarter, the Fund managed to purchase Quilter at what we believe to be an attractive valuation.

The Fund also recently introduced international exposure via feeder funds. We believe the feeder funds offer diversified offshore exposure, which is managed on a stand-alone basis, by managers with good track records of long-term returns, and who, like ourselves, have a focus on valuation-based research. For further detail, please see the links to the latest fact sheets of the feeder funds included below*.

From a Russia/Ukraine perspective, we have assessed the overall direct exposure in the fund, where possible, and concluded that the exposure is manageable on a see-through basis. This direct exposure affects positions such as: Prosus/Naspers, BAT, AB InBev, Standard Bank and Aspen. However, what we continue to monitor on an ongoing basis is the second and third round effects of the war which may only become evident as time passes.

For the quarter under review, the fund underperformed its benchmark. The benchmark returns were driven by strong performances from Resources and Financials, while Industrials underperformed. The Fund has meaningful exposure to Financials (~18%) via Banks and Insurers but is underweight the benchmark. Resources continued their positive trajectory, as commodity prices moved higher on supply fears from the Russia/Ukraine conflict. The Fund has exposure to resources predominantly via Anglo American and Northam Platinum but is underweight the benchmark. In addition, returns from the direct offshore holdings were negative as interest rates moved higher, and further exacerbated by the ~9% strengthening of the USD/ZAR over the period. For further detail on the relative performance, refer to the attribution table on page 7.

We turn now to discuss portfolio holdings and related events of the quarter.

***Tencent** – Navigating the regulatory environment*

Tencent reported its Q4/FY21 results during the quarter. We continue to believe that the group is well positioned to navigate the regulatory environment by adapting its business model where necessary. Ultimately the group is focused on making sure that the various earnings streams it has built are sustainable over time.

Revenue grew by 16% overall, benefiting from diversified revenue streams at various stages of growth and J-curves. Segmentally, Value Added Services grew 10%, Online Advertising was 8% higher and Fintech & Business services improved 34% y/y. Tencent's non-IFRS operating margin (adjusted primarily for investment gains) declined from 31% to 28.5%.

The group reported negative operating leverage due to; (i) investments in strategic growth areas, namely SaaS, video accounts and international games; (ii) increased costs in response to aggressive marketing activities and intense talent competition in the industry during FY20 and FY21; and (iii) higher revenue contribution from Business Services, which currently has lower gross margins. Tencent aims to create sustainable value over the long term and has implemented initiatives to control marketing and staff costs as well as to rationalise its non-core businesses. In our view, this will aid the stabilisation of margins over the medium term.

The Group continues to benefit from strong gains in its investment portfolio. The fair value gains propelled the FY21 diluted EPS 40% higher to RMB23/share. At RMB1.3tn, on our estimates, the combined carrying value of Tencent's various listed and unlisted holdings equated to ~36% of Tencent's market cap at the end of December 2021. We continue to believe that the investment portfolio is a key source of value creation over time for shareholders.

Towards the end of the financial year, Tencent announced the unbundling of its stake in JD.com. This special dividend was allocated on the basis of 1 JD.com share for every 21 Tencent shares held. Based on the values as of 31 December 2021, the aggregate market value of the JD.com stake was ~ HKD125.3bn, equating to a dividend yield of 2.9%.

In the results release, management stated its view that the Chinese internet industry is structurally shifting to a healthier mode, characterized by a refocus on user value, technology innovation and social responsibility. For its part, Tencent is proactively adapting by optimizing costs, increasing efficiency and sharpening its focus on key strategic areas, while repositioning its business units for sustainable long-term growth. Management remains confident and views new regulation as a means by which misbehaviour by industry participants, in multiple sectors, are corrected - promoting fair competition, user protection and data security.

In line with the regulatory developments, Tencent has actively restricted time spent by minors (under 18's) in the gaming business. In 4Q21 minors contributed 1,5% of total grossing receipts of Tencent Domestic games (-73% y/y), and 0,9% of total time spent on Domestic games (-88% y/y).

In our view, Tencent's investment thesis remains intact. It remains well positioned to deliver growth over the medium-term from a variety of earnings streams. The impact of regulation as well as the pace of these changes remain unknown and difficult to predict. Our base case, however, is that these changes should ultimately be surmountable, and that Tencent will continue to provide an opportunity to invest in a high quality and profitable technology company that is well placed to take advantage of favourable long-term Chinese demographics.

The fund remains invested in both Prosus and Naspers, which trade at record wide discounts to the underlying sum-of-the-parts. Together, these two positions account for ~7% of the fund.

RMI *– Value unlock for shareholders*

In September 2021, RMI announced a detailed restructure which proposed to unbundle the shareholding in its listed investments; Discovery and Momentum Metropolitan. The idea was for RMI to be a focused Property & Casualty investor in Outsurance and Hastings, with the Alphacode portfolio and RMI Investment Managers as smaller investments in the portfolio. However, given the proposed unbundling, the level of debt would be higher than what was sustainable given the smaller proposed asset base, with less liquidity in the portfolio, and therefore a concurrent capital raise was to be executed to reduce the gearing level.

Clearly, the intention was to unlock value for shareholders given the relatively wide and persistent discount that the market placed on the group over the last few years. However, the transaction was a double-edged sword as the capital raise meant shareholders needed to add capital to their investment to obtain the value unlock.

Subsequently, in December 2021, RMI announced a change to the restructure which saw the group dispose of its stake in Hastings to Sampo, its co-shareholder. The transaction price realised a reasonably good return on investment for the group, and meant that the group debt could be repaid, which eliminated the need for a capital raise post the unbundling of the listed investments. A win-win outcome.

Along with its interim results in March 2022, RMI announced a further change to the restructure, which will see the group no longer pursuing the active investment strategy, resulting in Outsurance effectively being reverse listed into the current structure. Available options are being considered regarding the AlphaCode and RMI Investment Managers investments.

The Fund has owned RMI for many years in varying position size, and we applaud management for taking bold steps to unlock value for shareholders. The transaction is expected to be finalised in April 2022. Going forward, we believe Outsurance is a good quality business that has runway both in South Africa as well as in Australia, with management focused on executing over the medium-term. In addition, the group announced that a license is imminent in a new territory, which adds further optionality to the investment case.

During the quarter, given the rerating in RMI, the Fund trimmed its holding but continues to hold a position given our positive view on Outsurance.

Standard Bank *– Focused on Ambition 2025*

During the quarter, most of the SA banks reported results. After a year of Covid-19 provisions in 2020, the last financial year saw a recovery off a low base, with credit loss ratio's trending to more normalised levels.

In line with peers, Standard Bank reported a strong earnings recovery, with its diluted HEPS increasing 57%, mainly due to lower credit losses. The RoE of 13.5% (FY20: 8.9%) came in below pre-pandemic levels of 16.8%.

Net interest income grew 2%, with the R1.9bn negative endowment effect being comfortably set off by asset growth and a positive change in mix in the portfolio as the retail book grew faster than the corporate book. Strong growth in customer numbers enabled good growth in gross customer loans (+14% from pre-pandemic levels) and customer deposits (+25% from pre-pandemic levels). Overall, the group's net interest margin increased by 3bps.

Non-interest revenue grew 8%. Fee income (+4%) recovered to pre-pandemic levels due to improved client activity levels and transactional volumes. Within SA, active client numbers increased 9%, while digitally active clients grew 22%. Africa grew its active clients by 6%, with digitally active clients up 17%. More importantly, digital transaction volumes grew 21% and 41% in SA and Africa respectively. Pleasingly, trading revenue (+7%) continues to show growth and is now 23% above pre-pandemic levels.

Although Liberty showed progress operationally, it was negatively impacted by excess claims and a pandemic provision top-up. The resultant headline loss was R419m (FY20: R651m loss), bringing the RoE to negative 3.8%. During FY21, the Liberty minority buyout was approved at a transaction price of R12.4bn, with a cash consideration of R1.7bn. Liberty was delisted on 1 March 2022. Successful integration of this business as well as closer collaboration with the broader group will be key drivers to extracting the necessary returns out of the asset over the medium-term.

The group's capital position remains healthy. Net asset value per share grew by 13% during FY21, with the group ending the year with a Common Equity Tier 1 (CET1) capital adequacy ratio of 13.8% (FY20: 13.2%). The CET1 ratio remained above the board's target of >11%. A final dividend of 511cps was declared, bringing the full year dividend to 871cps, resulting in a dividend payout ratio of 55% for the full year.

The fund continues to hold a ~4% position in Standard Bank, alongside other banks exposure. The Africa exposure now accounts for ~36% of Standard Bank group earnings and continues to earn ROE's higher than those achieved in SA. A potential exit of the stake in ICBCS continues to be considered and could further simplify the business. Given the rising interest rate cycle in SA, in combination with the shift to digital solutions, we believe the banks are well positioned to earn mid-to-high teens ROEs going forward.

MTN *– Delivering and de-leveraging*

MTN has been one of the best performing businesses on the JSE over the last 12 to 18 months. A combination of executing on its stated strategy, simplifying the business, good operational performances, de-leveraging, and an improved macroeconomic backdrop in Nigeria on the back of higher oil prices, have all been positive drivers. The group reported full year results in March which showed a continuation in the operational momentum.

Revenue growth was positive across the key regions; SA +7%, Nigeria +23% and Ghana + 28%. In constant currency, the group's reported EBITDA margin improved to 44.5%. Strong operating leverage showed solid implementation of MTN's expense efficiency programme. In FY21, MTN realised R3.7bn of efficiencies, with the largest savings recorded by MTN SA and MTN Nigeria. The group has set a target of more than R5bn in expense efficiencies over the next three years.

MTN repatriated R18.4bn of cash from its OpCos, incl. R7.8bn from Nigeria. This resulted in Holdco leverage improving to 1.0x (FY20: 2.2x), with Holdco net debt down to R30.1bn (FY20: R43.3bn). High debt levels were one of the key concerns which investors had with MTN in the past, which we believe has now been largely put to bed.

In addition, MTN has accelerated its asset realisation programme and portfolio transformation. The group received R4.1bn of proceeds during FY21, with a further R8.8bn being anticipated. This equates to R15.4bn in asset realisations since March 2020. The SA tower sales are awaiting approvals with anticipated net proceeds of ~R5.2bn. In terms of localisations, the group sold down a further 3.2% stake in Nigeria through a public offer, with net proceeds of R3.6bn. MTN Rwanda and Uganda were also listed during the period. The group has exited Syria and Yemen and continues to evaluate exit options for Afghanistan. IHS Towers listed on the NYSE in October 2021 and currently has a market cap of ~$3.7bn.

One of the other key drivers of value for MTN will be the success of its fintech platform. Strategic partnerships have been secured with Mastercard, VISA, Sanlam and others, to assist with the scaling of the platform. The overall ecosystem continues to expand, with the group targeting 100mn monthly active users by 2025, from the current base of 57mn. Management believes the value of transactions on the overall platform can increase to $750bn by 2025 from $239bn currently.

Overall, we believe management are focused on executing the stated strategy with further value to be unlocked. The fund currently holds a ~3.3% position in MTN.

PSG Group *– End of an era*

In the previous factsheet commentary, we ended off the PSG excerpt by saying:

"The Group currently trades at a ~30% discount to its SOTP. The Group's no-fee structure, good quality mix of assets and skilful management team are some of the reasons, in our view, that the wide discount should not persist in the long term. We continue to back management to allocate capital in a value enhancing manner over time."

In March 2022, PSG released a cautionary announcement which detailed that the board is considering a restructure of the group which will lead to the eventual delisting of PSG, in order to unlock value for shareholders.

The restructure will see PSG unbundle its stakes in Curro, PSG Konsult, Kaap Agri, CA&S and a portion of its holding in Stadio. Thereafter, the group will repurchase the remaining assets for ~R23/share. At the time of the announcement, the total consideration amounted to ~R114/share, which equated to a 38% premium to the share price.

While the transaction is a sensible one and has already unlocked value for shareholders, it does signal the end of an era for PSG, in which it created one of the best investment track records globally (total return of 38% p.a since inception). Unfortunately, there will be no election for current shareholders to continue on the journey in a private capacity, with the remaining assets being owned by the founding family and management.

This transaction, should it be approved and finalised (the group is currently under cautionary), unfortunately adds another name to the list of delisting's from the JSE over the last few years. Other holding companies which continue to trade at wide discounts to their underlying net asset values include Reinet, Remgro and Naspers/Prosus.

Given the nature of these transactions, a small discount still exists on the transaction value, which we believe will close as the time to finalisation passes. The fund currently holds a ~4% position in PSG which will be reconsidered as the transaction comes to a close.

Detailed fund attribution: Q1 2022

Top 5 contributors and detractors for Q1 2022: <u>Overweight</u> positions

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Northam	1.7%	0.5%	**Prosus**	2.7%	-1.6%
Nedbank	1.6%	0.3%	**Meta**	2.2%	-1.4%
Bidvest	3.0%	0.3%	**Brookfield Asset Mgt.**	3.5%	-0.9%
Sanlam	1.5%	0.2%	**Comcast**	2.9%	-0.7%
RMI	1.6%	0.1%	**Citi**	2.4%	-0.7%

Top 5 contributors and detractors for Q1 2022: <u>Underweight</u> positions

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers	-3.1%	1.5%	**Sibanye Stillwater**	-3.2%	-0.5%
Richemont	-3.0%	1.0%	**Goldfields**	-2.3%	-0.5%
Mondi	-1.1%	0.4%	**BHP group**	-2.9%	-0.4%
Impala	-4.2%	0.2%	**FirstRand**	-2.4%	-0.4%
Clicks	-1.6%	0.2%	**ABSA**	-2.6%	-0.3%

Current positioning and outlook

The Fund ended the quarter with approximately 27% of its available 45% direct exposure to international markets (the allowable limit was changed from 30% to 45% in the Budget in February 2022). The top 10 positions in the fund account for ~45% of the capital, with a total of 34 holdings, including an allocation to two feeder funds (Nedgroup Investments Global Equity Feeder Fund and Nedgroup Investments Global Emerging Market Feeder Fund).

The events over the last quarter have shown that circumstances can change overnight. When constructing portfolios, we believe consideration needs to be given to both known unknowns as well as unknown unknowns. These unknown unknowns are hard to predict and to value, however, we believe applying our timeless basic investment principles, such as diversification and risk management, will ultimately result in robust portfolios that can withstand a variety of external shocks as we have seen over the quarter.

While 2021 was a year of ongoing recovery, 2022 has started off with risk management and downside protection being top of mind for investors. We continue to find pockets of value on the JSE, despite the overall universe shrinking, across both the global businesses as well as the more domestic-facing companies. We continue to apply the same investment philosophy of "long-term, well considered" when allocating the capital in the Fund.

We look forward to the balance of 2022 and thank you for your ongoing support.

*Nedgroup Investments Global Equity Feeder Fund: here
*Nedgroup Investments Global Emerging Markets Feeder Fund: here

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)..

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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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