



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 page that is mostly blank, with the text overlaid on the right side.

# **NEDGROUP INVESTMENTS SA EQUITY FUND**

Quarter Two, 2022

## Nedgroup Investments SA Equity Fund

Performance to 30 June 2022	Nedgroup Investments SA Equity <sup>1</sup>	FTSE/JSE Capped SWIX
3 months	-5.1%	10.6%
12 months	12.9%	6.9%

### Market Update

The quarter (and half year) to June was brutal for equity markets. Following the already tumultuous early March selloff when the negative effects of the Russian invasion of Ukraine and the strict Chinese Covid lockdowns first hit markets, the ongoing inflationary pressures that have continued to ripple through the global economy, made the US Federal Reserve even more hawkish. Major central banks followed by rapidly raising rates in order to bring inflation under control.

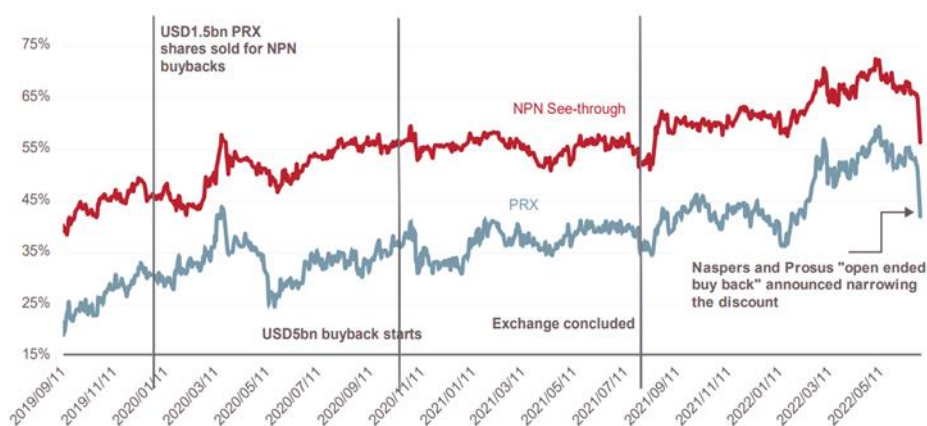
This rapid rise in the risk-free “price of money” put strong downward pressure on the valuations of longer term cashflows and asset prices. The MSCI ACWI Index fell by 15.7% for the quarter and 20% for the half year to end June, and S&P 500 Index declined by 16.5 % during the quarter (in USD).

The SA market was not immune to the global sell-off, with the FTSE-JSE Capped SWIX declining by 10.6% for the quarter, in what was a relatively broad-based sell-off. The pull-back offers exceptional value in many SA listed companies, both amongst domestic-focussed SA companies, as well as global businesses listed in SA. Year to date the South African market has fared relatively well, down 4.6% in ZAR terms against global equity markets which are down in the region of 18% in ZAR.

### Fund positioning

The fund has had a large exposure to Prosus and Naspers, a position which we have held for some time. The allocation to both stocks was increased during the recent period of underperformance, based on the view that Tencent is very undervalued and the discounts at Naspers and Prosus were irrationally wide.

**Figure 1: Naspers and Prosus discount to NAV excluding the crossholding**



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Source: Avior, Bloomberg  
Data as at 30 June 2022

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We were pleased with the announcement of an open-ended buyback scheme at Naspers and Prosus, funded by selling Tencent shares (Prosus owns 29% of Tencent). It appears that management has taken a more proactive approach to reducing the discount, with management incentives increasingly aligned with shareholders to reduce the discount. Although the recent buyback announcement has significantly reduced the discount, Prosus and Naspers continue to offer significant upside as we expect the discount to narrow further, underpinned by the open-ended buyback, as well as the optionality of value unlocking opportunities of the rump assets (classifieds, food delivery, etc). Importantly, Tencent, which is the main underlying asset within Naspers and Prosus, offers attractive value for investors as we expect that the worst of the Chinese regulatory clampdowns

<sup>1</sup> Net return for the Nedgroup Investments SA Equity Fund, A2 class. Source: Morningstar (monthly data series).

are behind us and priced into the stock. As Tencent approaches the second half of the year and laps the regulatory impact we expect accelerating earnings growth rates.

The fund held an overweight exposure to healthcare stocks, based on the view that these companies were very undervalued, and would recover strongly as occupancies normalise and as covid-19 became more endemic in nature. The largest position in the sector is Mediclinic, offering geographic diversification, strong management and an improving balance sheet. The offer from Remgro (who owns 45% of Mediclinic) and MSC to buyout Mediclinic supports our view that the business was substantially undervalued.

## Outlook

The SA equity market offers attractive opportunities especially relative to global and emerging markets on a risk-reward basis. Domestic South African focussed companies trade at attractive valuation multiples compared to global peers. We also see value in Rand Hedge shares in both the resource and non-resource industrial sectors. We added to Bidcorp and Richemont during the quarter.



## Positioning

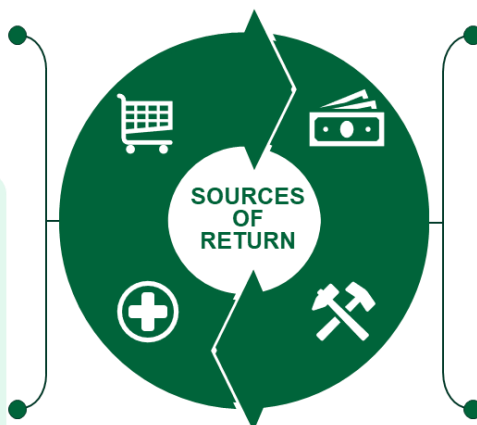
The fund has maintained reasonable exposure to resource counters including diversified miners such as Anglo American, Glencore and BHP, as well as platinum counters including Anglo Platinum, Impala Platinum and Northam. We continue to hold a significant position in Sasol, maintaining our view that energy markets are expected to remain undersupplied due to underinvestment and dislocations from Russian sanctions.

### GLOBAL CONSUMER

- **British American Tobacco**  
Defensive earnings growth, 7% dividend yield; de-gearing and buybacks
- **Naspers**  
Discount has narrowed post buyback announcement but expect further narrowing. Tencent remains undervalued

### HEALTHCARE STOCKS

- Expecting strong earnings recovery as occupancies rebound
- **Medical aid membership** has remained stable and healthcare usage will grow
- **Attractive multiples** on a normalised earnings basis



### SA FINANCIALS

- **Banks:** Attractive valuations with resilient capital levels
- **Selective Insurers:** Covid mortality provisions behind us

### SELECT RESOURCE EXPOSURE

- **Energy** complex looking well supported
- **Supply-demand** balance remains constrained
- **Platinum** group metals: expect positive medium-term dynamics



## **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.



## 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.

### NEDGROUP INVESTMENTS CONTACT DETAILS

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For further information on the fund please visit: [www.nedgroupinvestments.co.za](http://www.nedgroupinvestments.co.za)

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