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NEDGROUP INVESTMENTS STABLE FUND

Quarter Two, 2022

Market Commentary

International

Global central banks raised rates in the most widespread monetary policy tightening in more than two decades. Rising inflation and recession fears caused global equities to retreat further, tipping US and European bourses into bear market territory with declines exceeding 20% this year. 2022 has been the worst first-half market performance for developed market equities since 1970.

Emerging market equities also fell due to rising global recession concerns, domestic policy uncertainty and weaker commodity prices, but still outperformed developed market peers, despite US dollar strength being a headwind. China was the only emerging market to generate a positive return as lockdown measures in some cities were eased. China's macroeconomic indicators started to pick up and additional economic support measures were announced.

Government bonds provided little refuge for investors seeking protection from falling equity markets — rising yields caused developed market government bonds to fall in tandem with equities, despite a brief rally towards the quarter end as yields fell on recession fears. Off the heels of 40-year high inflation, the US Federal Reserve raised rates twice, with June's hike of 0.75% the most aggressive since 1994.

Commodities were mixed as sharp price falls in industrial metals on the back of rising recession fears were offset by rising energy prices due to rising demand and supply constraints. Precious metals were lower on the increased opportunity costs afforded by rising fixed interest yields.

The US dollar was materially stronger against the other majors on widening interest rate differentials and the dollar's safe-haven appeal.

South Africa

After a relatively strong first quarter of economic growth, the likelihood of a contraction in the second quarter of 2022 increased markedly due to flood damage in Kwazulu-Natal, escalating energy crisis and weakening global demand.

South African equities tracked other emerging markets sharply lower as global recession fears escalated, despite a late surge by media giants Naspers/Prosus. The fall was compounded by the JSE's higher weighting to economically sensitive resources companies. The All Bond Index was lower as SA bond yields followed global yields higher, with bonds in the longer dated maturities falling most. The SA listed property sector also retraced sharply on higher yields and consumer headwinds.

Business and consumer confidence fell, with the latter plunging to the lowest level in 15 years (excluding the 2020 COVID-19 related print). While high fuel prices are undoubtedly a drag on confidence, the negative impact of severe load-shedding and continued corruption revelations are also taking effect.

Annual consumer price inflation rose to 6.5% in May, breaking through the 6% upper limit of the South African Reserve Bank's (SARB) monetary policy target range for the first time in five years. As widely expected, the SA Reserve Bank raised interest rates another 50 basis points in May to 4.75% in the largest increase since 2016.

The rand weakened in tandem with other emerging market currencies, as increased risk aversion saw a flight to US dollar safety.

Portfolio Commentary

- Foreign assets were the largest contributor to investment returns driven by a short S&P 500 futures position in the declining market, security selection in the consumer discretionary and information technology sectors and the weaker rand — the Foord International Fund has protected investor capital and outperformed 95% of its Morningstar USD Flexible Allocation peers this year while the Foord Global Equity Fund has outperformed the index and 90% of peer group funds
- The allocation to South African equity was the largest detractor as the local bourse tracked other emerging markets lower compounded by the JSE's higher weighting to economically sensitive resources companies — security selection added value driven by the underweight resources position and a surging Naspers/Prosus more than offsetting weakness in the financials and healthcare holdings
- The physical gold investment contributed positively on the higher rand gold price with rand weakness more than offsetting the lower dollar price for bullion — the NewGold ETF serves a crucial portfolio diversification purpose as both a hedge against inflation and as an alternative store of value to fiat currency
- SA bonds detracted as yields followed global bond yields higher, with bonds in the longer dated maturities declining most — selection was positive with investments in the preferred, medium-duration R186 bond outperforming longer dated securities
- SA listed property detracted as the sector retraced sharply but the low allocation added value on a relative basis — rising interest rates and consumer headwinds have put pressure on property yields

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
Foreign assets	0.9	5.4	17.6
Naspers	0.7	43.6	1.7
NewGold ETF	0.2	4.6	4.4
British American Tobacco	0.1	13.7	0.8
Prosus	0.1	13.0	0.2

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
SA Listed Property	-0.5	-13.2	3.8
Aspen	-0.4	-30.0	1.3
FirstRand	-0.3	-19.3	1.7
Spar	-0.3	-17.5	1.8
R2035 Bond	-0.2	-4.3	4.5

Investment Outlook

World:

- Global economic growth is expected to slow with the risk of an outright recession increasing. Global central banks are walking the tightrope of raising interest rates enough to reign in high inflation expectations, but without tipping economic activity into a slowdown
- Higher inflation is affecting consumer confidence in Europe, with the European Central Bank poised to raise interest rates in July. In addition, the ongoing Russia-Ukraine war has potentially dire economic consequences for Europe amid potential gas shortages and planned rationing.
- Interest rates are expected to continue rising as central banks continue to turn more hawkish, although several policy U-turns in recent years have dented monetary policy credibility to some extent, increasing policy error risks
- Liquidity is expected to further diminish as the Fed begins to reduce the $9 trillion in assets on its balance sheet, allowing up to $95 billion to roll off each month from September
- Slowing economic growth and potential recession means that earnings growth is likely to moderate, which has not yet been priced into market valuations

South Africa:

- Economic management continues to be poor with the current regime's reform agenda proving to be glacial. Meaningful political change following the 2024 national elections is starting to look more likely
- South Africa's fiscal metrics should remain stable in the near term, driven by improved revenue collection and supportive terms of trade due to elevated commodity prices, expected to provide some near-term support to the Rand
- But structurally anemic growth, sliding global competitiveness and extreme levels of unemployment continue to stack the odds against the currency strengthening meaningfully over the long term.
- Energy supply remains a key concern, with loadshedding, illegal strike action and the sabotage of electricity power stations and infrastructure likely to be a significant dampener on business and consumer confidence and general economic activity
- Inflationary pressure continues to build on sharply higher food and fuel prices and a weakening currency more recently – the more hawkish SARB has indicated its willingness to move aggressively should inflation continue to surprise to the upside

Conclusion

The allocation to direct foreign assets was increased slightly towards 35%, which the managers believe is a neutral allocation at this point. Importantly, when measured together with non-rand earnings of domestic businesses, total foreign currency exposure is much higher. Relatively attractive SA equity valuations and supportive short-term currency fundamentals do not warrant a major increase in foreign assets levels closer to the 45% regulatory maximum at this point. But a higher allocation is likely in time as South Africa's terms of trade position weakens, and foreign asset valuations become more compelling.

Equities with pricing power are best placed to protect investor capital from persistent inflation, but caution is warranted. Certain sectors and regions are at higher risk in an environment of rising rates and bond yields making it likely that the look-through equity position will remain below the maximum in the near term.

The marginally lower SA equity weighting has been used to partially fund the increase in direct foreign assets. Select SA companies remain attractively valued, supported by good earnings momentum and high dividend yields.

The SA bond position was slightly reduced but remains attractive given high real yields and significantly improved fiscal position. Record revenue collection from materially higher corporate taxes and mining royalties reduces the need for increased debt funding and lowers the risk of sovereign rating downgrades.

The low allocation to listed property is unchanged given poor fundamentals for the asset class. Sector risks include excess capacity, weak rental trend, consumer headwinds and continuing uncertainty regarding demand for office and retail space.

Cash holdings were slightly reduced following the increase in foreign assets. The managers also have a preference for shorter dated government bonds with yields well above inflation, high liquidity and low risk of capital loss due to the short maturity profile.

Responsible Investment Summary

Voting resolutions for Q2 2022

Portfolio	Total count	For	Against	Abstain
Adopt Financials	5	100%	0%	0%
Auditor/Risk/Social/Ethics related	32	97%	3%	0%
Buy Back Shares	11	100%	0%	0%
Director Remuneration	24	100%	0%	0%
Disapply Pre-emptive Rights	4	0%	100%	0%
Dividend Related	3	100%	0%	0%
Issue Shares	6	0%	100%	0%
Loan / Financial Assistance	4	50%	50%	0%
Other	23	100%	0%	0%
Political Expenditure/Donation	1	0%	100%	0%
Re/Elect Director	67	100%	0%	0%
Remuneration Policy	12	67%	33%	0%
Share Option Scheme	1	0%	100%	0%
Shares under Director Control	3	33%	67%	0%
Signature of Documents	1	100%	0%	0%

Foord Global Equity Fund	Total count	For	Against	Abstain
Adopt financials	23	100%	0%	0%
Auditor/risk/social/ethics related	79	62%	38%	0%
Buy back shares	22	82%	18%	0%
Dividend related	18	100%	0%	0%
Issue shares	28	7%	93%	0%
Others	36	64%	36%	0%
Political expenditure/donation	4	0%	100%	0%
Re/elect director or members of supervisory board	441	98%	2%	0%
Remuneration policy including directors' remuneration	93	43%	57%	0%
Signature of documents/ratification	20	80%	20%	0%

Foord International Fund	Total count	For	Against	Abstain
Adopt financials	23	100%	0%	0%
Auditor/risk/social/ethics related	44	77%	23%	0%
Buy back shares	19	68%	32%	0%
Dividend related	15	100%	0%	0%
Issue shares	17	0%	100%	0%
Others	20	75%	25%	0%
Political expenditure/donation	3	0%	100%	0%
Re/elect director or members of supervisory board	287	98%	2%	0%
Remuneration policy including directors' remuneration	51	35%	65%	0%
Signature of documents/ratification	14	79%	21%	0%

General comments:

- There are no abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention, it would typically be intentional or for strategic reasons
- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial

assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion we have voted in favour of such resolutions, we could gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated

- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings

Notable company engagements (Q2 2022)

Company	Topic	Company Attendees	Event Notes
BHP Group	Distribution of Woodside proceeds	Investor Relations	We had previously communicated our unease regarding the process by which Woodside shares would be sold by BHP on behalf of South African shareholders. Meeting was to gain clarification on the timing thereof and an update on whether they have been able to sell into recent strength in the Woodside share price
Massmart	Company restructuring progress	CEO, CFO	Closely monitoring that company restructuring is progressing as planned and that changes are in shareholders' best interests.
Nedbank	Auditor/Risk/Social/Ethics Director Remuneration; Remuneration Policy; Cyber security	Chairman; Non-executive lead independent director	Foord is concerned with the financial targets for Long-Term Incentives (LTI's) and that they are time vesting rather than performance vesting for LTIs. Management response was that use of Return-on-Equity and Headline Earnings Per Share growth strikes the balance between attainable and stretch targets. They also removed time vesting post the COVID-19 year Foord also questioned management on cyber security risks and noted robust testing and procedures for managing cyber risk. Foord was satisfied with management responses and disclosure on these key issues.
Santam	AGM voting issues	CFO, Investor Relations	Foord is concerned about auditor rotation given >10 years tenure; benchmarking of non-executive director fees; settlement of equity linked Long-Term Incentives (LTIs); disclosure of non-financial performance metrics; Remuneration committee (Remco) discretion on performance conditions for LTIs; and Section 45 Companies Act – Financial Assistance disclosures Management response: • committed to auditor rotation in 2024 (submitted for regulatory approval). • benchmarking done by Santam & two independent studies. • written confirmation shares bought in market to settle LTIs. • agreed to improve disclosure for qualitative performance metrics and Section 45 financial assistance and where Remco discretion can be applied Foord's concerns were addressed, and management agreed to improve disclosure.

Quilter		Investor Relations	Foord concerned about lack of formal definition of financial metrics for Short-Term Incentives and Long-Term Incentives in remuneration policy. In addition to the lack of formal policy to acquire shares in the market for equity settled remuneration schemes. Management responded that although there is no formal definition, there is no intention to change from the historic measures previously disclosed; there is also no formal policy to buy in market but do so as shareholders previously voted against issue of shares. Foord conclusion is to vote against the remuneration policy due to the lack of a formal policy leaving too much scope for management discretion (in addition to the use of share options). Foord will also monitor for the potential issuance of shares to settle share-based remuneration schemes in future.

Disclaimer

WHO WE ARE

Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

OUR TRUSTEE

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Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

PRICING

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

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

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Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

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Issued: July 2022