NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Three, 2022

Nedgroup Investments Opportunity Fund

Performance to 30 September 2022	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	1.5%	0.5%	-1.9%
12 months	15.7%	1.5%	3.5%

Market overview

The third quarter of the year was characterised by persistent inflation and central banks showing resolve to break the sticky high inflation and inflation expectations. The Fed, ECB as well as the SARB hiked rates by 75bps at their September meeting. This spooked the market as recessionary fears played havoc with investor sentiment, resulting in a sell-off in most asset classes.

A weakening rand (-5.6% in September) couldn't cushion all of the impact on the local market with the FTSE/JSE ALSI being down 4.1% in September and -1.9% for the quarter. Bonds, with already high nominal yields ended a volatile quarter slightly up, after being down 2.1% in September. Listed property came under further pressure, selling off by 3.5% in the quarter. Year to date listed property is now down 15.8%. The dollar continued to strengthen against all currencies and made new highs against its trading basket.

Global equities continued to be heavily impacted by recessionary fears with both the S&P500 and the Nasdaq dropping dramatically. The S&P500 returned -9.3% for Sep (-24.8% year to date) with the Nasdaq delivering - 10.6% (-32.8% year to date). Europe, UK and Asia all sold off as well leaving the MSCI World Index down 9.3% for Sep (-19.6% year on year). Emerging markets weren't spared being down 11.9% for Sep (-30.1% year on year).

Portfolio Commentary

The Nedgroup Opportunity Fund returned +1.5% for the quarter against a peer-group return of 0.5%. We are very pleased with the performance over the last year with the Fund up 15.7% in a market where the All share returned 3.5%. Over the same period, the peer-group achieved a return of 1.5%. Over 3-years the Fund has produced a compound annual growth rate of 11.4% p.a., out-performing both the market (+9.2% p.a.) as well as the peer-group (5.4% p.a.).

Our investment approach of sensible asset allocation and stock selection combined with searching beyond the traditional to try and add value via a broader range of assets and strategies bore fruit over the volatile period experienced, helping us to achieve our asymmetric return objective. This approach enables us to construct portfolios from a more diversified set of risk premia (sourced from areas of the market where fewer people are looking) in the attempt to improve risk-adjusted returns for our investors. These strategies include the ability to analyse business across the capital structure and invest in hybrid securities where the most favorable risk-reward payoff exists (our convertible bond exposure, for example, has made a material contribution to the Fund over the years); the inclusion of quality smaller and mid-sized business in the portfolio that can add value over a full market cycle; the bespoke structuring of investment notes to produce pay-off profiles that align with the objectives of the Fund; and the inclusion of cost-effective hedging strategies (at an individual security or asset class level) to help manage risk.

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

[2] ASISA Multi-asset medium equity category.

Top 5 winners and losers for Q3 2022:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Thungela Resources	1.7%	0.9%	**Sasol**	1.5%	-0.4%
ABSA	2.1%	0.5%	**Merafe Resources**	1.0%	-0.2%
USD	2.0%	0.3%	**Autohome**	1.2%	-0.2%
Standard Bank Bond	2.7%	0.3%	**African Rainbow**	1.3%	-0.2%
Dipula Property	2.1%	0.2%	**Brait convertible**	1.5%	-0.2%
Total		***2.2%***			***-1.2%***

Top 5 winners and losers last 12m:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Royal Bafokeng Platinum	0.8%	3.6%	**Naspers**	4.7%	-0.8%
Thungela Resources	1.4%	3.4%	**MTN**	4.0%	-0.6%
British American Tobacco	6.1%	2.7%	**Sasol**	0.2%	-0.4%
USD	0.7%	1.0%	**Balwin Properties**	0.1%	-0.4%
African Rainbow Capital	1.6%	0.8%	**Abax Glo. Equity**	0.1%	-0.3%
Total		***11.5%***			***-2.5%***

Our investment in Thungela Resources continued to be one of the top contributors. They recently reported very strong results combined with a very attractive dividend of R60 per share. In the current high coal price environment, they are generating exceptional cashflows which are shared with shareholders through dividends. They have an ungeared balance sheet with a cash buffer of R5bn. Excess cash gets distributed to shareholders.

We participated in the placement by Barclays of their last remaining shares in ABSA. This removed the sword that was hanging over ABSA's neck. In addition, ABSA reported better than expected results. They continue to trade at a very attractive P/E and dividend yield.

We were beneficiaries of the continued weakness of the rand against the dollar. In fact, the dollar has been strengthening against all currencies. We have used the opportunity to lighten our foreign currency exposure and have hedged some of this exposure back into rands.

Encouragingly, there were no major negative detractors over the quarter with Sasol being the highest at -0.4% on the back of a weaker oil price. Sasol continues to trade at attractive levels against the spot oil price. We also expect the oil market to remain tight due to under-investment in supply while we have seen positive surprises on the demand recovery.

Naspers continues to be a drag on performance over 12 months. The severe under-performance of Naspers and Prosus was countered by the hedges we held as protection but could not fully offset the more than 50% decline in the share price. The recent buy-backs implemented by both Naspers as well as Prosus have offset some of this weakness.

Current positioning and outlook

The Russian war, Chinese Covid lockdowns, supply chain concerns, rising inflation, global monetary tightening and increased recessionary fears continue to play on the markets mind. Recent surveys point to highly bearish positioning by investors. Short, sharp rallies off an over-sold position should be expected with volatile reversals as economic data disappoints. Cost pressures combined with weakening demand is starting to impact margins. Expect to see significant earnings downgrades. This combined with a still highly rated US equity market could put renewed downward pressure on markets. We therefore expect asset volatility to remain high with markets having a bias toward the downside as the reduced earnings expectations are digested. We have used the recent bout of rand weakness to hedge back some of our currency exposure into rand.

We continue to have a high weighting towards local bonds due to the attractive real returns. Rising global bond yields have reduced the relative attractiveness but remains our preferred sovereign bond. Aggressive central bank actions could bring inflation under control over the medium term. Essentially, we are locking in a very attractive real return (+6-7%) at current levels.

We continue to use the volatile environment to selectively add to quality counters impacted by the sell-off. A recent example would be Capitec which came under pressure after reporting slightly softer than expected results. This offered us an opportunity to establish a small position in a high-quality franchise.

We have continued to add exposure to global cash flush franchises, some of which are down more than 50%. Additions include Google, Meta, Autohome, Expedia and Tencent Media. Buying these companies at attractive valuations enables us to improve the quality of the portfolio while at the same time improving the diversification of the Fund.

Conclusions

We have used recent weakness in equity markets to selectively increase equities. Heightened global risks however continues to justify a defensive stance. Our exposure to SA bonds is expected to deliver healthy real returns. We retain a high exposure to hybrid instruments including convertible debentures as well as structured notes. Our defensive portfolio is well balanced with foreign currency exposure to protect against a risk-off scenario. We have hedged some of our foreign currency exposure into rand into the recent currency weakness.

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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