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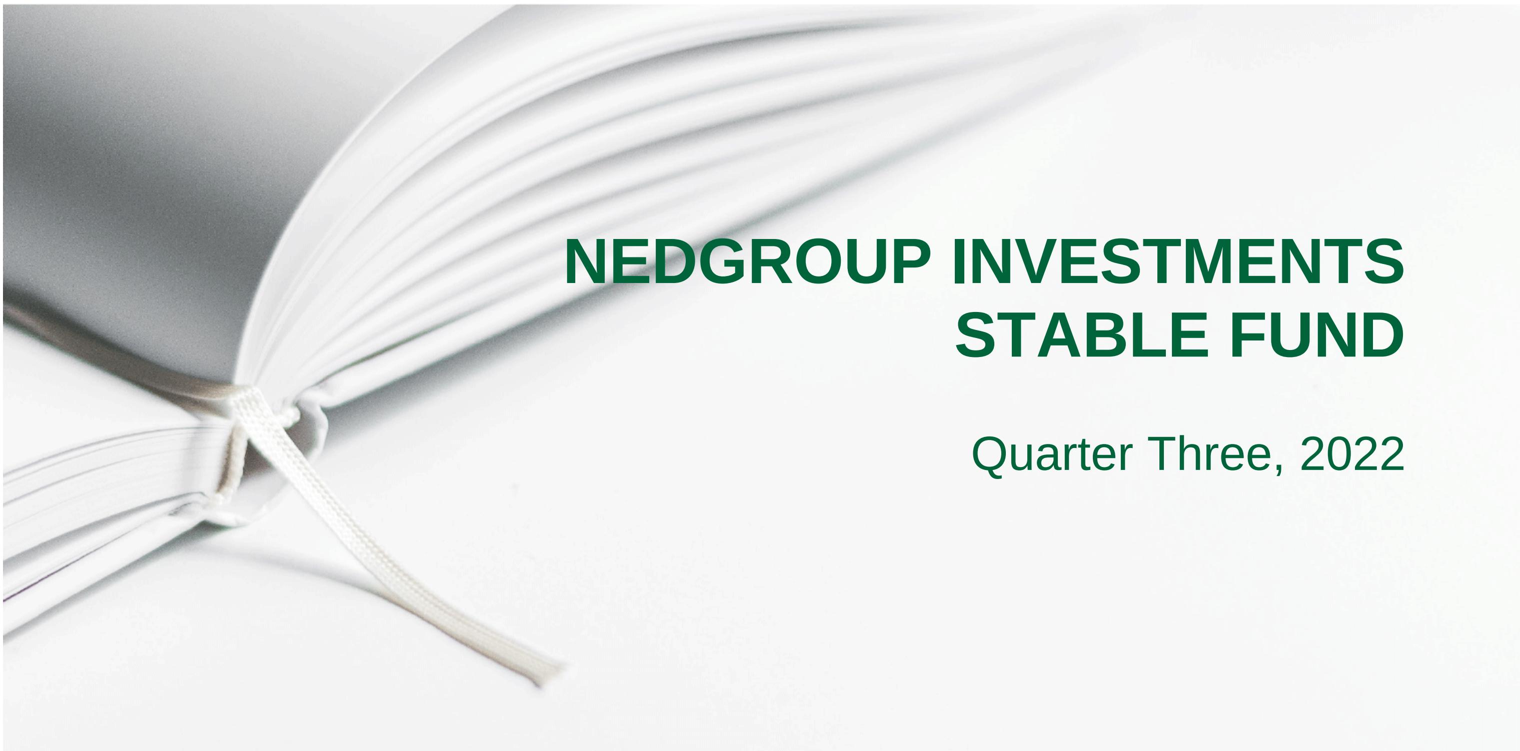

NEDGROUP INVESTMENTS STABLE FUND

Quarter Three, 2022

Market Commentary

International

Global expectations deteriorated on rising interest rates, increasingly hawkish central banks and elevated geopolitical tensions. The US Federal Reserve hiked rates by a third consecutive 75 basis point increase for a cumulative 3% since March, marking the fastest pace of tightening since the summer of 1980.

Inflation prints receded from their peaks as the base effects of the Russia/Ukraine war energy and food price shocks abate and global supply chain constraints continue to normalise. Developed market bond yields rose further as financial conditions tightened on higher inflation, rising short-term interest rates, central bank quantitative tightening and US dollar strength.

The Bank of England dramatically intervened to safeguard UK pension fund liability-driven investment strategies as the UK gilts market all but seized up on the toxic combination of very high inflation, sharply rising rates and Kwarteng's fiscally irresponsible mini-budget.

China's COVID-zero policy, elevated youth unemployment and property market troubles kept Chinese economic growth under pressure, despite early signs of a regulatory blitz relaxation, increased infrastructure spending and the re-opening of Macau's resorts.

Industrial commodity prices weakened sharply from their June all-time highs on falling economic growth expectations and fading base effects. The US dollar continued to surge, supported by the relative strength of the US economy and rising interest rate differentials against the other majors.

South Africa

Quarter-on-quarter GDP growth turned negative as the base effects of the post-pandemic recovery faded and Eskom unleashed the worst bout of loadshedding ever. The Eskom crisis dominated the national mood with its ageing power generation fleet, lack of skills, constrained balance sheet and enduring political interference.

SARB hawkishly tracked the US federal funds rate by raising rates 75 basis points in July and September to bring the repo rate almost 3% higher than the extraordinarily low level of 3.5% during the pandemic. At 7.6% year-on-year, headline inflation remains well above the upper end of the 3–6% monetary policy target range with SARB forecasting a fall back to 5.3% in 2023 and 4.6% in 2024.

The trade balance was positive but deteriorated on falling export commodity prices and higher costs of imports (mostly capital equipment and electronics). The national budget balance has recovered from the -10% 2020 COVID-19 lockdown driven extremes but the fiscus remains under pressure with the deficit still noticeably negative at -4.6%.

The rand weakened sharply on the global risk off sentiment, the surging US dollar and foreign net selling of South African financial assets.

Portfolio Commentary

- Foreign assets were the largest contributor to investment returns, driven by the sharply weaker rand and aided by the short S&P 500 futures hedge in the declining market — the Foord International Fund's dynamic asset allocation strategy has meaningfully protected investor capital this year while the Foord Global Equity Fund has outperformed the index and 85% of global peer group funds
- Although the low allocation to the underperforming listed property sector was prescient, the sector was the largest detractor over the quarter — Capital and Counties fell on negative UK sentiment and the weaker pound while the holding in Fortress A underperformed on a failed corporate restructuring
- The South African equity investments detracted in absolute terms but outperformed the local bourse which tracked global equity markets lower — the holding in BHP Billiton and the material investments in more defensive consumer services companies like Spar and AVI more than offset detractors Sasol, Naspers/Prosus and Anheuser-Busch InBev
- 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 contributed positively at the margin despite yields following global bonds higher — selection was positive with investments in the preferred medium-term "belly of the curve" outperforming the aggregate All Bond Index

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
Foord International Fund	0.7	3.8	18.1
R2032 Bond	0.2	3.6	6.5
Sasol 5.875% US$ bond	0.1	7.1	1.7
R186 Bond	0.1	0.4	18.1
R2030 Bond	0.1	1.5	5.7

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
Listed property	-0.5	-14.0	3.5
Anheuser-Busch InBev	-0.1	-5.4	1.3
Foord Global Equity Fund	-0.1	-0.4	14.7
Prosus	-0.1	-9.3	0.6
Naspers	-0.1	-3.4	1.7

Investment Outlook

World:

- A 2023 economic recession is becoming increasingly likely with analysts now expecting real GDP growth in the US of just 0.2% this year (down from 1.7% previously) while Europe confronts an energy crisis and China endures the consequences of its COVID-zero policy and a troubled property sector
- In our view, market expectations for US inflation to fall back to the 2% level by 2023/24 are optimistic given the breadth of price pressures and the strength of the US labour market
- The substantial $1.4 trillion EU and UK fiscal stimulus to ease the energy price shock will be more than offset by the withdrawal of global liquidity as the massive crisis-era fiscal and monetary stimulus policy settings unwind
- Instances of financial market dysfunction are likely to become more frequent as monetary conditions tighten and credit spreads rise following years of financial largesse
- In China, no meaningful policy changes are expected before October's 20th National Congress of the Chinese Communist Party when China's next five-year plan is announced
- Energy prices are likely to remain relatively well bid in the medium term given substantial supply-side under-investment and elevated geopolitical tensions, while the gold price will remain under pressure from rising real yields and dollar strength
- US dollar strength should continue in the current environment given its positive carry and safe-haven appeal during periods of heightened financial market volatility and economic stress

South Africa:

- Business and consumer confidence and other reliable leading indicators have all moved lower, pointing to weak economic conditions ahead
- The market is pricing in an additional 2% interest rate increases in the next 12 months, which is a significant headwind to improving economic growth
- SARB inflation forecasts for 2023/24 are probably still too optimistic, with a higher level between 5-6% more likely in that time frame
- Unblocking regulatory and political hurdles could unleash private sector investment spending exceeding R1 trillion over the next decade, which could have a meaningful catalytic effect on the country's economy
- The current account balance again fell into deficit which should persist as the benefits of the export commodity price boom fades
- The R4 trillion of government debt (up from R1 trillion only ten years ago) amounts to 70% of GDP, which combined with low economic growth is a headwind for the country's sovereign credit rating
- While the rand is marginally cheap at these levels, it remains vulnerable longer term given structural economic weakness, lack of global competitiveness and constrained public finances

Conclusion

The allocation to foreign assets is maintained near the 35% level, which we believe is appropriate for South African retirement fund investors at this point in the cycle given the level of the rand and reasonable SA equity and bond valuations. When measured together with non-rand earnings of JSE-listed companies, total foreign economic exposure is significantly higher.

Within the foreign allocation, equities with pricing power are best placed to protect investor capital from persistent inflation, but portfolio hedges and cautious stock selection are utilised given the rising risks to economic growth. Rapidly rising dollar interest rates are producing interesting fixed income opportunities with the managers making an initial investment in attractively priced short-duration US government inflation linked bonds.

The SA equity weight was reduced partially to fund net withdrawals and partially to raise cash levels given the escalating global and local economic risks. Select quality SA companies in the non-resources sectors remain attractively valued, supported by good quality, relatively defensive earnings prospects and supportive dividend yields.

Despite attractive yields in the belly of the curve, the weighting to SA nominal bonds was reduced to more moderate levels given the country's elevated fiscal and political risks but remains a meaningful allocation. SA credit assets and inflation linkers are avoided given expensive valuations, but the managers have invested in some high-quality US dollar denominated South African credit instruments which are trading on attractive hard currency yields.

Listed property is constrained to a low portfolio weighting given poor fundamentals for the asset class, despite optically attractive yields. Sector risks include excess capacity, weak rental trend, consumer headwinds, rapidly escalating municipal costs and a rising interest rate environment.

The physical gold ETF position is maintained despite the increased holding opportunity costs from rising US dollar real interest rates. Physical gold still provides attractive portfolio diversifying properties during periods of market stress.

Responsible Investment Summary

Voting resolutions for Q3 2022

Portfolio	Total count	For	Against	Abstain
Adopt Financials	7	100%	0%	0%
Auditor/Risk/Social/Ethics related	36	97%	3%	0%
Buy Back Shares	15	93%	7%	0%
Director Remuneration	48	100%	0%	0%
Disapply Pre-emptive Rights	2	0%	100%	0%
Dividend Related	1	100%	0%	0%
Issue Shares	8	38%	63%	0%
Loan / Financial Assistance	11	45%	55%	0%
Other	21	86%	14%	0%
Re/Elect Director	57	96%	4%	0%
Remuneration Policy	15	40%	60%	0%
Shares under Director Control	4	0%	100%	0%
Signature of Documents	2	100%	0%	0%

Foord Global Equity Fund	Total count	For	Against	Abstain
Adopt financials	4	100%	0%	0%
Auditor/risk/social/ethics related	5	100%	0%	0%
Buy back shares	1	100%	0%	0%
Dividend related	3	100%	0%	0%
Issue shares	1	100%	0%	0%
Others	1	100%	0%	0%
Political expenditure/donation	1	100%	0%	0%
Re/elect director or members of supervisory board	26	100%	0%	0%
Remuneration policy including directors' remuneration	4	100%	0%	0%
Signature of documents/ratification	5	100%	0%	0%

Foord International Fund	Total count	For	Against	Abstain
Adopt financials	2	100%	0%	0%
Auditor/risk/social/ethics related	5	100%	0%	0%
Buy back shares	2	100%	0%	0%
Dividend related	2	100%	0%	0%
Issue shares	2	50%	50%	0%
Others	1	100%	0%	0%
Political expenditure/donation	32	100%	0%	0%
Re/elect director or members of supervisory board	4	100%	0%	0%
Remuneration policy including directors' remuneration	6	83%	17%	0%
Signature of documents/ratification	2	100%	0%	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 (Q3 2022)

Company	Topic	Company Attendees	Event Notes
Omnia	Remuneration	CEO, Head of Board Remuneration Committee	Proactively contacted the Remco to discuss issues with remuneration policy: We feel that the short-term incentives program can be improved with too high a weighting on EBITDA and would have also appreciated some guidance on what the targets are. We also questioned some of the Long-term incentive program targets. For example, total shareholder return has too high a weighting at 40% given that market events outside of management control could drive share price performance. We also felt that the ROE target of 11% was too low and the "stretch target" hurdle only 1% above this. We would prefer a combination of Headline Earnings Per Share (HEPS) growth and a return metric that captures all capital deployed (eg ROFE or ROIC).

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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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