NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter Four, 2022

Nedgroup Investments Entrepreneur Fund

Performance to 31 December 2022	Nedgroup Investments Entrepreneur Fund[1]	ASISA category average	Small Cap Index	Mid Cap Index
3 months	5.5%	4.5%	4.4%	8.0%
12 months	2.1%	0.5%	7.6%	1.6%

Market commentary

2022 was not kind to equity investors; while we expected (some) inflation, higher interest rates and slower economic growth rates after the stronger than expected 2021, in reality it all turned out much worse. The Russian invasion of Ukraine, prolonged zero-Covid policy in China and extreme weather events across the globe further fuelled inflation and continued to constrain global supply chains. 2022 turned out to be far more brutal and unpredictable;

- Global inflation rose much faster (highest in 40 years), leading to much stronger monetary tightening and in most countries positive real rates. Suddenly equities were not the only investment alternative anymore and highly rated growth stocks, specifically, were severely punished.
- The uncertainty over where inflation and rates would end and whether central bank actions would help or hurt led to apparent over-analysis of every inflation linked data release, which in turn caused wild swings in sentiment and asset valuations.
- In addition, the Russian invasion of Ukraine caused much angst over food-, fertiliser- and energy supply. It also hastened the de-globalisation of supply chains and materially heightened geopolitical stress.
- While Covid did subside outside of China, the longer-term impact on global supply chains remained, exacerbating the inflationary impact. China's Zero-Covid policy caused much upheaval and was finally abandoned at year end, causing a material spike in infections, the outcome of which remains uncertain.
- South Africa, despite our own political and energy turmoil, almost appeared as a haven against this backdrop (certainly amongst Emerging Markets) and materially outperformed global indices.

Global markets declined materially in 2022, notably the US (S&P 500 -19.4%) recording its worst performance since the global financial crisis in 2008. The SA equity market was resilient with the JSE All Share Index appreciating by +3.6% for 2022 after a sharp rebound in performance during the final quarter of the year (ALSI +15.2%). Even when measured in US$, South African equities (MSCI SA -7.5% in US$) outperformed MSCI Developed World (-19.5%) and Emerging Markets (-22.4%) in 2022.

Portfolio Commentary

While the fund's absolute returns for 2022 are unlikely to have provided cause for investors to be popping bottles of champagne over New Year, in the context of the highly disrupted and volatile economic, political and market conditions experienced we are satisfied with what was achieved by the fund.

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

Many of our steady long term compounders produced excellent results and we were fortunate to manage to avoid any significant under-performers. Our exposure to 3 businesses (Mediclinic, OUTsurance and Royal Bafokeng Platinum) that were subject to corporate actions unlocked significant value and made positive contributions to the fund's returns. In the context of the exceptional value offered by many of our key holdings (accompanied by their low levels of debt) we continue to expect to benefit from events of this nature.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Oceana Fishing	3.4%	0.8%	Raubex	3.4%	-0.9%
KAP Industrial	5.5%	0.7%	Telkom	0.2%	-0.3%
Naspers	3.0%	0.7%	Thungela	3.1%	-0.3%
Reunert	3.8%	0.7%	Transaction Capital	2.2%	-0.2%
Prosus	2.9%	0.6%	Italtile	4.3%	-0.2%
Total		3.5%	Total		-1.9%

Oceana Fishing which was plagued by some unfortunate board room difficulties in early 2022 produced an excellent set of results – notably from their American business which finally had a good fishing season with limited disruptive hurricane activity. This prepares them well for the new year as they are well stocked and we expect substantial further upside in the stock in the short-term.

Our biggest winner for the year (Thungela) had a relatively weak end to the year as the export thermal coal price fell from very high levels and volumes were negatively impacted by Transnet difficulties.

Current positioning and outlook

Within South Africa we are more concerned about the devastating and consequential damage that the extended period of extensive load shedding is having on business. We do not underestimate the profoundness of this impact. It is impossible to grow an economy without more power, while business and consumer confidence will not show any sign of recovering until this problem is addressed. Sadly, it appears the state is incapable of doing so and the many promises that have been made over the years have all failed to materialise. This time will be no different. Having said that, South African entrepreneurs and business managers are extremely agile, competent and will adjust to the even more challenging operating conditions. Self-provision is the only way to survive.

Our stock selection in the portfolio is driven using the above perspective as a foundation. Despite this foundation of operating reality, the firms we are invested in all have clear business strategies to grow. More importantly they continue to offer excellent value, with valuations at or near record low levels versus their history. The table below reflects that the top 11 stocks in the fund account for a little more than half its value and have an average PE of 8.7X and an average dividend yield of 5.5%! These averages look even more attractive if the largest position on the fund Naspers / Prosus is excluded.

No.	Name	Wgt	Div Yld (%)	P/E (X)
1	NASPERS & PROSUS	7.92	0.20	7.62
2	KAP INDUSTRIAL	5.37	6.47	5.97
3	HUDACO	5.27	5.70	7.91
4	AFRIMAT	4.69	3.25	9.10
5	KAAP AGRI	4.53	3.77	7.48
6	COMBINED MOTOR HOLDINGS	4.34	14.54	4.48
7	ADVTECH	4.12	2.85	15.20
8	ITALTILE	4.05	4.59	8.73
9	OCEANA	3.90	5.21	10.97
10	BRITISH AMERICAN TOBACCO	3.84	7.53	8.10
11	REUNERT LTD	3.84	5.33	10.19
		51.86	5.40	8.70

Responsible Investing

The U.N. Climate Change Conference (COP27) occurred during the quarter, with many of the parties looking for concrete pledges to combat the damaging effects of climate change. Despite many summits and conferences, limited progress has been seen since the 2015 Paris Agreement to curb warming at 1.5 degrees Celsius above pre-industrial levels. After a dip in 2020 owing to the Covid pandemic, global carbon emissions have rebounded with global carbon dioxide emissions from fossil fuels projected to increase by 1% in 2022, hitting a new record of 37.5bn tonnes. COP27 President Sameh Shoukry emphasised, “Moving from negotiations and pledges to an era of implementation is a priority”.

Abax actively and consistently engages with companies and other stakeholders to address ESG issues, including the importance of climate change. Our approach to the integration of sustainability and ESG is pragmatic and is constantly evolving. We aim to invest in companies that are well positioned to provide sustainable returns into the future and that consider their impact on all stakeholders.

Notable engagements during the fourth quarter of 2022 include;

- PRI: Participated in a PRI workshop to discuss, amongst others, the role for investors to play in advancing the global responsible investment agenda.

Conclusion

The uncertainty and global angst of 2022 remain, although there are a number of green shoots in this bleak environment. Some of the drivers of the current elevated inflation have already turned down, interest rates should peak, energy prices seem to have stabilised, China is re-opening faster than expected and there seems to be far better balance sheet and cashflow discipline at corporates – a positive backdrop. South Africa, as a commodity producing emerging market, should do relatively well, especially if the USD gradually weakens as expected. The war in Ukraine remains a dark cloud on the investment horizon especially as a positive outcome seems unlikely.

Despite all the obvious negatives we were very positive about the fund’s prospects at the end of Q3 2022 and which then delivered a very strong Q4. We continue to hold the same opinion that valuation for the portfolio remains extremely favourable and look forward to 2023 with some confidence.

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.

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DATE OF ISSUE
January 2022