NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Four, 2022

Nedgroup Investments Opportunity Fund

Performance to 31 Dec 2022	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	6.1%	6.0%	15.2%
12 months	10.2%	0.3%	3.6%

Market overview

It was a difficult year for financial markets. Risk assets, long the beneficiary of low inflation, monetary stimulus, globalisation and geopolitical stability had to digest a sharp reversal in all of these factors almost simultaneously. Global central banks raised rates aggressively in response to inflationary pressures that manifested on the back of easy money, a tight labour market, covid-induced supply chain disruptions and the spike in energy prices precipitated by the war in Ukraine. Bonds with negative yields are now a thing of the past, having peaked at $18.4tn in late 2020.

With valuations in many geographies and asset classes stretched going into 2022, all of this proved a toxic cocktail, especially for the most speculative parts of the market that had been bid up the most during the covid stimulus period. For the first time in most investors' memory, bonds and stocks in the developed world correlated as rates spiked and valuations fell. In the US, for example, both stocks and long bonds fell nearly 20%, rendering the traditional 60/40 balanced portfolio down by a similar amount (one of the three worst yearly outcomes in the past 100 years!).

Back in SA, things were not quite as bad, probably because we never attained the lofty heights of some other markets. The FTSE/JSE ALSI ended the year 4.4% higher and the All Bond Index was up 4.2%. The ZAR weakened by 6.2% and finished the year at 17.04 to the US dollar.

Portfolio Commentary

The Nedgroup Investments Opportunity Fund produced a net return of 6.1% over the last quarter, which was in line with peers. Performance of 10.2% over the last year compares very favorably to peers (+0.3%) as well as the market (+4.4%). The Fund ranks among the top quartile of peers over longer investment terms, and have almost matched the market returns at lower risk.

Top 5 winners and losers for Q4 2022:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Hello Group	1.1%	0.7%	**Alphabet**	2.2%	-0.3%
R2044	9.0%	0.6%	**Meta**	4.0%	-0.3%
ABSA	0.9%	0.5%	**Thungela Resources**	0.2%	-0.3%
USD	1.3%	0.4%	**Raubex**	0.2%	-0.2%
R2037	6.0%	0.3%	**Amazon**	0.5%	-0.1%
Total		***2.5%***			***-1.2%***

Hello Group (Chinese online dating service – equivalent to Tinder), was a strong performer over the last quarter as Chinese re-opening plays recovered from extremely oversold levels.

[1] Net return for the Nedgroup Investments Opportunity Fund, A class. Source: Morningstar (monthly data series).
[2] ASISA Multi-asset medium equity category.

Our exposure to SA government bonds also contributed nicely with both the R2044 and the R2037 being in our top 5 contributors. The sell-off in global tech continued in the last quarter resulting in Alphabet, Meta and Amazon detracting from performance. We remain positive on the medium-term growth outlook of these global franchises whilst being able to purchase the shares at >50% discounts to their recent trading levels.

Top 5 winners and losers last 12m:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Thungela Resources	1.8%	3.1%	**Naspers**	3.8%	-0.8%
British American Tobacco	4.1%	1.7%	**Abax Global Equity**	3.6%	-0.8%
Merafe Resources	0.9%	1.3%	**Sasol**	0.8%	-0.5%
Firstrand	1.3%	0.9%	**MTN**	1.2%	-0.5%
Standard Bank	0.6%	0.8%	**Meta**	0.8%	-0.4%
Total		***7.8%***			***-3.0%***

Our investment in Thungela Resources was one of the top contributors over the last 12 months while detracting slightly over the last 3 months. The share remains extremely cheap, but as expected, is highly geared to the coal price. At current coal spot prices they continue to generate attractive cashflows and we would expect good dividends at the next reporting period.

After a disappointing year in 2021, British American Tobacco had a strong 2022. After a strong run, we reduced the size of our position towards the end of the year. We remain optimistic about their prospects as the benefit of de-gearing, growth in reduced risk products, share buybacks and a supportive dividend yield and valuation continues to support their outlook.

Banks recovered strongly from over-sold levels with the Fund benefiting from its holdings in Firstrand and Standard Bank. Earnings surprised positively as a more benign credit experience enabled them to release some provisions. Rebounds in credit volumes from Covid lows also contributed positively to the performance of banks.

Naspers was the major detractor on performance being impacted by a sell down in global tech, as well as Chinese regulatory intervention impacting sentiment and the earnings outlook for Tencent. The severe under-performance of Naspers and Prosus was countered by the hedges we held as protection. Towards the end of the year Naspers and Prosus showed some recovery which continued into the new year. We have used the strength to lighten our position.

Current positioning and outlook

We have used strength in equity markets to reduce our risk assets further. Heightened global risks justifies a more defensive stance. Our exposure to SA bonds is expected to deliver healthy real returns. Continued loadshedding in South Africa is becoming a major headwind. We have continued to shift our focus to offshore companies at attractive valuations. 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.

The headwinds facing global risk assets are unlikely to abate soon. Years of excess and easy money are not usually dealt with in one year. In markets such as the US, earnings projections still seem way too optimistic given that inflationary pressures must still impact sky-high corporate profit margins. Furthermore, with global rates 2% higher than just a year ago – there really is an alternative to equities.

Despite this, we currently see a lot of exciting long-term investment opportunities. In many instances, the 'baby seems to have been thrown out with the bathwater'. We now have the opportunity to purchase - at modest valuations - high quality businesses with discernable moats, that are well managed by sensible capital allocators, are highly cash generative and have fortress-like balance sheets. Most of these opportunities are popping up outside of South Africa, as the share price declines have been far more precipitous offshore than at home. It seems to us that the recent change in Regulation 28 has come at a good time!

We will look to harness these long-term opportunities but at the same time try and manage risk carefully. Given our inability to discern how the big events currently shaping the investment landscape will all work out, we are aiming to create a robust portfolio by being well diversified across asset classes, geographies and individual securities; by favoring under-valued stocks (preferably well off their highs) with strong balance sheets that can cope with higher interest rates (and have the firepower to repurchase shares if they deem appropriate); by hedging some of our equity beta with derivative overlays; and by trying to seek out the part of the capital structure with a risk/reward best suited to the objective of the Fund.

It seems likely that the path forward may remain bumpy for a while yet, but we are excited by the available opportunities.

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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