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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Three, 2023

Nedgroup Investments Opportunity Fund

Performance to 30 Sep 2023	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	0.0%	-1.4%	-3.5%
1 year	9.8%	11.5%	17.7%
3 years	16.2%	9.0%	14.5%
5 years	10.4%	6.6%	9.3%
10 years	8.9%	6.6%	8.6%

Market overview

The continued hawkishness of developed market central banks remains front and centre in the market narrative. While participants keep hoping for signs of pivots in this rhetoric, policy makers continue to disappoint in this regard.

The third quarter of 2023 saw markets under pressure as higher yields and slower economic performance continue to take effect. The S&P 500 lost 3.3%, largely in line with other developed markets, with the MSCI World Index returning -3.4%. Emerging markets in general fared slightly better, with the MSCI EM Index returning -2.9%. South Africa, however, fared worse than the average EM, with the FTSE/JSE All Share Index returning -3.5% for the quarter. Rates saw a significant uptick, with the US 10Y yield moving out 73bps, ending the quarter at 4.57%. As base rates rose, local bonds experienced a similar widening in yields. The high yield level on local bonds does, however, substantially mitigate the return impact from this move, with the ALBI and ILB indices returning -0.3% and +0.8% respectively. Local property lost 1.0% over the quarter.

The September FOMC meeting was particularly newsworthy and initiated the latest re-calibration of rates by the market. Although they kept the federal funds target range of 5.25%-5.5% unchanged, it was their projection of future rates that caught the market off guard. They continue to imply one more 25bp hike later this year, but the median projections for next year and end 2025 shifted higher, implying a slower pace of cuts than previously communicated. The Fed's reasoning behind this shift pointed to stronger economic activity, with policy makers projecting a much shorter and shallower period of below potential GDP growth. With rates expected to stay higher for longer, the dollar again saw strong appreciation over the quarter (DXY +3.9%).

The "higher for longer" narrative has been consistently communicated by other major developed market central banks as well, most notably the ECB and BOE. The ECB hiked rates by another 25bps in September, despite fears of an economic slowdown. The BOE paused its hiking cycle in September but warned against expectations of cuts anytime soon.

There is a divergence starting to grow in policy rates between developed markets and emerging markets. While developed markets remain hawkish, some emerging market central banks – such as Brazil, Chile and Poland - have started to cut. The recent jump in oil prices may, however, cause some uncertainty around how quickly the easing cycles progress.

On the local front, fixed income markets have had to deal with bad news on both the monetary policy and fiscal front. On the fiscal side, the market is coming to terms with what is now expected to be a very poor MTBPS on 1 November. Data suggests that the fiscal deficit for the 2023/24 fiscal year will be more than 1% wider than Treasury's -3.9% forecast, on the back of weaker commodity prices, growth impacted by electricity cuts and

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

growing expenditure. Murmurs of spending cuts or VAT hikes have gone quiet, a highly unpalatable action in an election year. It seems likely that bond issuance will have to increase and debt stabilisation, in the absence of any change, is not possible.

On the monetary policy side, in contrast to many of our peers, the September MPC was more hawkish than expected. The committee kept rates on hold, but with two of the five members still voting for a hike. The committee remains acutely aware of hawkish global central banks, upside inflation risks (particularly from oil) and a deteriorating fiscus that might require a higher neutral real rate, communicating they are ready to act with additional hikes if necessary.

Portfolio Commentary

The Nedgroup Opportunity Fund produced a net return of 0% over the last quarter, in a tough market. This compared well to the peer group (-1.4%). Performance of 9.8% over the last year lags peers (+11.5%) as well as the market (+17.7%). The Fund ranks amongst the top quartile of peers over longer investment terms, and has almost matched equity market returns at lower risk.

Top 5 winners and losers for Q3 2023:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Sasol	2.1%	0.6%	Hello Group	1.3%	-0.4%
ABSA	1.2%	0.3%	MTN	1.2%	-0.3%
Capitec	0.7%	0.2%	R2040 SAGB	13.5%	-0.2%
Merafe	0.9%	0.2%	Abax Global Equity	3.5%	-0.2%
Dipula	1.7%	0.2%	JD.Com	1.0%	-0.1%
Total		***1.5%***			***-1.2%***

The third quarter was characterized by a strong oil price as Russia curbed exports of oil to the West. The oil price increased from $75 end of June to over $90 as at end of September. This in turn benefited Sasol which recovered well despite weak results published. The banking sector also recovered from weak levels as at the end of June as better than feared results were released for the period ending June. Our holdings in both Capitec and ABSA benefited and contributed to our returns. Despite a strong run in the Merafe shareprice over the last quarter the share continues to trade at a 2 PE with some half their market cap in cash on their balance sheet. We continue to hold our position. Dipula again showed its resilience publishing decent results in a tough operating environment.

After a strong second quarter for Chinese technology stocks, the third quarter proved challenging as there were renewed Chinese growth concerns. Helllo Group and JD.com detracted from our performance on the back of this. We continue to see very good value in this space. Hello has a market cap of $1.3bn with $1.1bn in cash on their balance sheet. The share is trading at a 5 PE with >10% earnings growth expected.

We have concentrated our fixed interest exposure in the long end in the R2040s as this is where we perceive the best relative value to be. Despite quite a bit of pressure on price, the high running yield earned continues to buffer total returns. With the last inflation print at below 5% this bond is yielding a real return of 8%. The South African fiscal situation continues to worry the markets, but we see the fear adequately discounted.

Current positioning and outlook

Once again we saw markets selling-off on the back of central bank communication that was more hawkish than expected. The “higher for longer” rhetoric was made clear by the major developed market central banks (Fed, ECB and BOE) and the market again had to re-calibrate the fair level of rates. In the case of the US, a soft landing is now being assumed likely, as economic growth continues to look resilient despite decades-high interest rates. Interestingly, this quarter we saw some emerging market central banks – such as Brazil, Poland and Chile - start their cutting cycles. The recent jump in oil prices may, however, cause some uncertainty around how quickly the easing cycles progress. South Africa does not appear to be close to its cutting cycle. The September MPC messaging was also more hawkish than the market expected, and it appears that the committee is acutely aware of hawkish global central banks, upside inflation risks (particularly from oil) and a deteriorating fiscus that might require a higher neutral real rate. Not only is monetary policy putting pressure on local bonds, so is the deteriorating fiscal situation, particularly on long-end bonds. Monetary and fiscal pressure has moved local bonds into cheap territory from a valuation perspective, and we will continue to be tactical, leaning into weakness when opportunities arise.

We maintain a defensive positioning but have redeployed our formerly high cash allocation into low-risk term assets with diversification attributes. We have substantially increased our allocation to local short and medium-term inflation-linked bonds on attractive outright valuations and inflation protection. We have further increased out allocation to US Treasuries and foreign equities. On the local bond side, the portfolio has increased its turnover by successfully taking advantage of relative value opportunities, shifting our holdings between different similar-characteristic bonds as they fluctuate between cheap and expensive.

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
16 October 2019