



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

A photograph of an open book with white pages, tied with a white string around the spine. The text is overlaid on the right side of the image.

NEDGROUP INVESTMENTS SA EQUITY FUND

Quarter Three, 2023

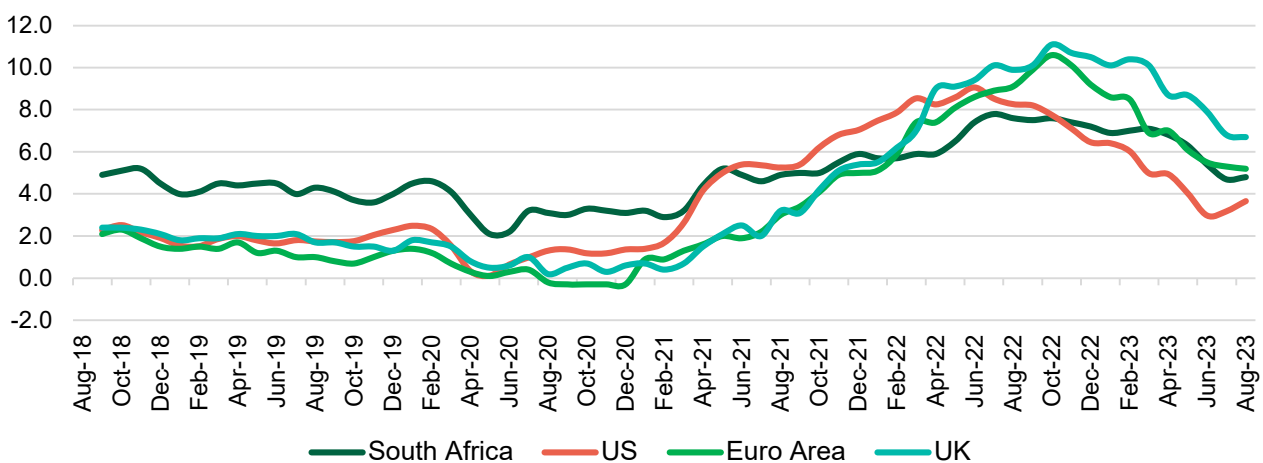


| Performance to 30 September 2023 | Nedgroup Investments SA Equity ¹ | FTSE/JSE SA Capped SWIX |
|-------------------------------------|--|-------------------------|
| 3 months | -2.19% | -3.80% |
| 12 months | 10.55% | 11.88% |

Market Commentary

Following a strong start to the quarter and the year, most major markets have retraced some of those earlier gains. However, global developed market performance remains strong year to date, mostly returning double digits in USD. Inflationary pressures are abating, with relative resilience from larger developed economies, particularly the US. It appears that we have reached the peak (or are close to the top) of the current interest rate cycle. However, inflationary risks remain, and as a result, we may have higher rates for longer, described as “the Table Mountain” scenario for the current rate cycle.

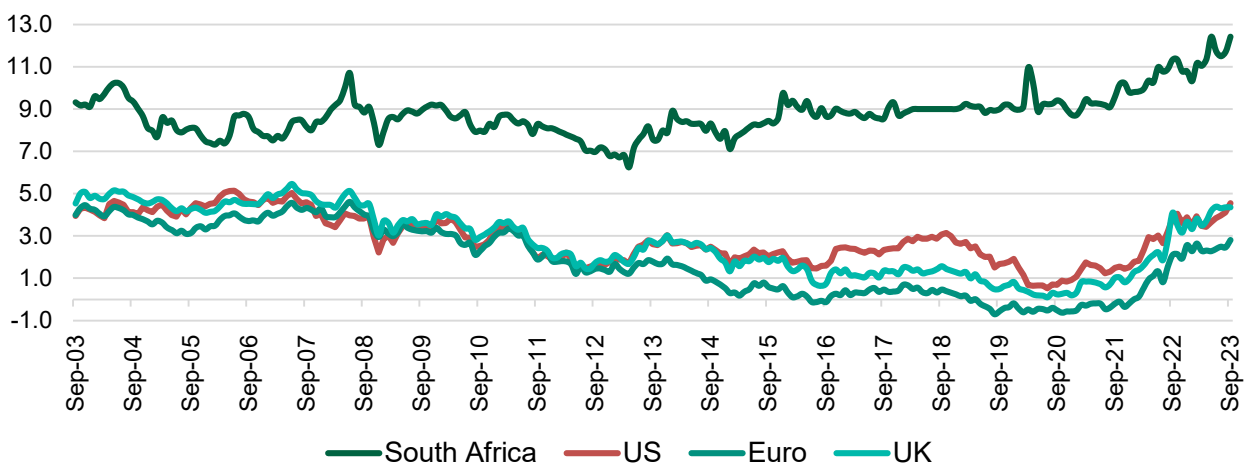
Figure 1: Inflation Year-on-Year



Source: Bloomberg

Global bond yields have risen, with the US 10-year government bonds offering the highest yields since the GFC. South African government 10-year bond yields have risen above 12%, exacerbated by fiscal concerns on top of rising global yields, as fiscal revenues undershoot due to macroeconomic pressures. Higher risk-free rates, and the resultant higher cost of capital have weighed on equity valuations.

Figure 2: 10 Year Government Bond Yields



Source: Bloomberg

¹ Net return for the Nedgroup Investments SA Equity Fund, A2 class. Source: Morningstar (monthly data series).





The Chinese economic recovery has been underwhelming. Chinese consumer spending has been lacklustre, despite high savings rates, due to low levels of confidence, as the property market remains depressed. Although there haven't been large scale stimulus measures yet, there have been smaller accommodative measures taken to reignite growth. More recent retail sales and industrial production have begun displaying positive signs, although it is early days.

Despite the tough economic backdrop and ongoing economic impact of higher inflation and higher interest rates, we expect mild tailwinds for the South African economy as we begin to lap the base of the devastating impact of Stages 4-to-6 loadshedding experienced during the past 12 months. Our base case view is that loadshedding is expected to ease by an average of around 1-to-2 stages over the next 12 months as some Eskom units return to service and the benefits of the surge in solar installations begin to come online.

Portfolio changes, current positioning and outlook

The SA equity fund has marginally lagged the FTSE JSE Capped Swix year-to-date, during these challenging and volatile market conditions. Our longer-term track record remains comfortably above the benchmark. The fund continues to hold a large position in Prosus. We maintain our view that the company's core asset, Tencent, remains very attractively valued, with an improving regulatory backdrop in China, which should help to accelerate the company's earnings growth trajectory. Through Prosus we are getting exposure to this high-quality company, along with other emerging market internet assets at a 41% discount on our numbers, augmented by the ongoing share buyback programme.

The fund's rand hedge exposure is further complimented by positions in British American Tobacco, Anheuser Busch InBev, and Mondi, along with resources companies.

The fund's exposure to the domestic SA economy is primarily through the banking sector, with our preferred picks being ABSA, Nedbank and FirstRand. Results from the banks have highlighted the tough economic pressures faced by South African consumers, with banks reporting elevated consumer credit losses. Through the benefits of diversification, consumer credit losses were offset by strong corporate banking and African operations' profits.

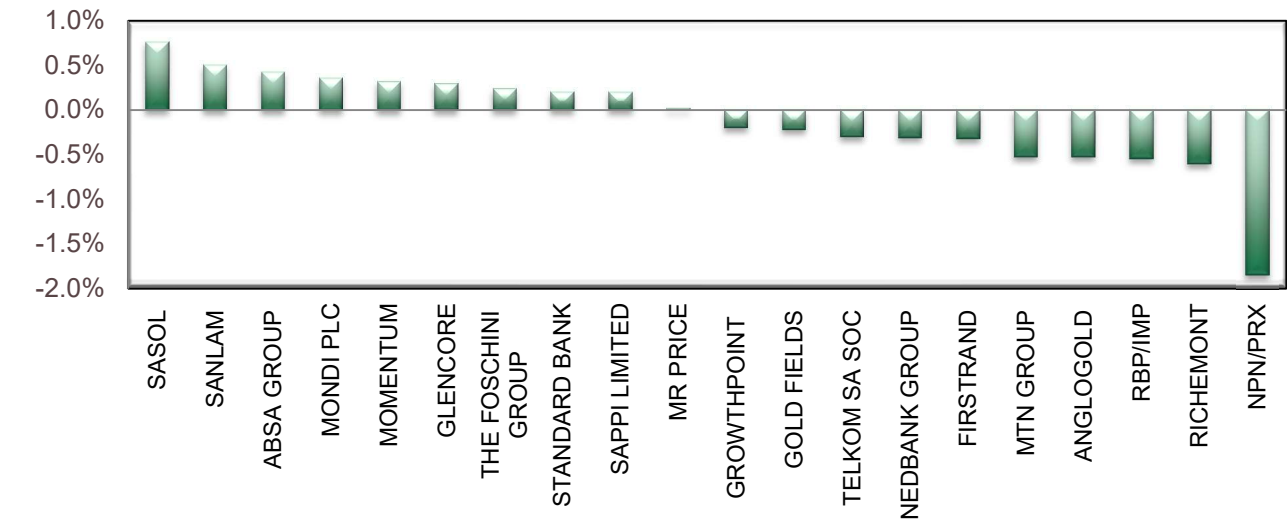
As the sombre South African macro backdrop has been priced into domestic shares, we have selectively been accumulating positions in SA companies which are well-run and where we feel the valuations are attractive on a risk-reward basis, and where we feel too much pessimism appears to be priced in, such as The Foschini Group.

In times of volatile stock markets, we remind ourselves that we are long term owners of businesses, and in this vein are still finding wonderful opportunities in the SA listed space. We believe the fund is well positioned and adequately diversified to weather these uncertain times, and with material upside on a bottom-up basis, should reward our investors with good risk adjusted returns into the future.





Figure 3: Top 10 and Bottom 10 contributors for Q3 2023



Source: Laurium Capital



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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Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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For further information on the fund please visit: www.nedgroupinvestments.co.za

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