NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Four, 2023

Nedgroup Investments Opportunity Fund

Performance to 31 Dec 2023	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	2.7%	5.8%	6.9%
12 months	6.4%	11.3%	9.3%
3 years	15.6%	9.4%	13.5%
5 years	12.0%	8.6%	11.9%
10 years	9.0%	6.8%	8.8%

Market overview

The last quarter of the year marked a sharp reversal in expectations regarding the path of inflation and interest rates. At the end of Q3 market participants expected overnight rates in the US to move higher in the short term, and to average 4.4% p.a. for the following 5-year period. By year-end, with inflation falling and the eagerly awaited FED 'pivot' finally materialising, these expectations had shifted materially lower. Rates were now forecasted to fall in the short term and to only average 3.5% p.a. over the following 5 years – a massive decrease of nearly a full a percentage point per annum.

This sharp reversal in rates expectations fuelled a strong rally in equity and bond markets in the final quarter of the year. Whether or not inflation is now truly under control remains to be seen and we are left wondering if the sharp fall in rates may in fact be a signal that economic growth may be set to slow.

For the 2023 year, the MSCI All Country World TR Index moved 22.1% higher, strongly outperforming the MSCI Emerging Market TR Index which returned +9.9% in USD. Within Emerging Markets, the standout negative performance came from China (MSCI China TR Index -11.1% in USD) as investors continued to flee the market in the face of an economy that is struggling to recover post Covid; and the fear that further regulatory interventions by the government will impede company profitability.

Local Equity markets were again a relative disappointment with continued loadshedding and low growth thus far limiting the ability of the market to re-rate from depressed valuation levels. The Capped SWIX TR Index delivered a lacklustre +7.2% in ZAR (flat in USD) for the year.

Global Bonds recovered sharply toward year-end and returned 4.9% in USD for the year. Local bonds produced a credible 9.7% in ZAR (+2.3% in USD) for the year, despite much intra-year volatility and a sharp steepening of the curve as investors started to question the ability of the government to service and repay its longer-dated debt.

Portfolio Commentary

The Nedgroup Opportunity Fund produced a net return of 2.7% over the last quarter of 2023. Performance lagged as our more conservative positioning dragged down relative performance. Over the last 12 months, Opportunity under-performed the benchmark by 4.9%, driven in part by the last quarters' under-performance. The Fund continues to rank amongst the top quartile of peers over longer investment terms and has almost matched the market returns at lower risk.

[1] Net return for the Nedgroup Investments Opportunity Fund, A1 class. Source: Morningstar (monthly data series).
[2] ASISA Multi-asset medium equity category.

Top 5 winners and losers for Q4 2023:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
R2040	13.3%	1.0%	**Sasol**	1.7%	-0.6%
R2037	6.3%	0.7%	**Autohome**	2.9%	-0.3%
R2044	4.1%	0.4%	**ABSA**	3.1%	-0.2%
Firstrand	2.3%	0.4%	**African Rainbow**	0.9%	-0.2%
Abax Global Equity	3.5%	0.3%	**Sasol convertible**	1.8%	-0.2%
Total		**2.8%**			**-1.5%**

The three top contributors to returns over the last quarter were South African Government Bonds as we saw a contraction in bond yields driven by a rally in global bonds. The Firstrand contribution was slightly offset by our exposure to Absa. Abax Global Equity also aided performance on the back of strong global markets in the last quarter.

Sasol was a major disappointment in the last quarter as the global crude oil price declined by 12% over the quarter. The chemical market fundamentals also deteriorated adding further pressure to the Sasol shareprice. At the current P/E ratio of 3.5x, a lot of negative news seems adequately discounted and we retain our position in Sasol.

Top 5 winners and losers for 2023:

Top contributors	Avg. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Alphabet	1.0%	1.1%	**British American Tobacco Autocall**	1.6%	-1.1%
R2040	11.0%	0.9%	**Thungela**	0.8%	-1.1%
Abax Global Equity	3.5%	0.8%	**Transaction Capital**	3.1%	-0.6%
Firstrand	2.2%	0.7%	**Sasol**	0.9%	-0.6%
R2037	5.0%	0.7%	**Impala Autocall**	1.8%	-0.5%
Total		**4.2%**			**-3.9%**

Our exposure to leading global franchise businesses through Abax Global Equity and directly through the likes of Alphabet was a significant positive contributor towards our returns in 2023. A rally in bond yields in the final quarter of the year helped our long duration bond holdings.

The biggest detractor to our 1-year performance was our holding in a British American Tobacco Autocall. This was on the back of a trading update that disappointed the market. This is in spite of their science driven approach to developing reduced harm and alternative smoking products, and their strong cash generation. The market seems to take a very pessimistic view of BAT as a harmful tobacco company with no future and a value trap. We however still think that there will be a future for their reduced/no harm products post the eventual demise of combustible tobacco and on a 6X PE and almost 10% dividend yield, expect our now very long-term confidence to eventually be rewarded.

Thungela Resources also detracted from performance as the coal price collapsed from over $350 to $130. We reduced our position at higher levels, but retained a smaller position which was impacted by the subsequent sell-off. We have completely sold out of Thungela as the pressure on coal remains.

Transaction Capital also detracted from performance. Our original thesis was clearly mistaken and we failed to act decisively on the deteriorating macro conditions that upended their SA Taxi business. In the course of Q4 we sold our small remining position when the stock jumped substantially from lows. Although there is still much value should the businesses navigate current difficult conditions, the range of outcomes remains wide and we have found better risk/reward payoffs elsewhere post the bounce in share price.

As mentioned, Sasol was a major disappointment in the last quarter as the global crude oil price declined by 12% over the quarter. There is a dearth of buyers as local investors are full of Sasol, whilst foreigner investors prefer foreign oil names. The risk is that Sasol remains a value trap, so we are not adding to our position at this stage.

The collapse in the PGM basket, a fatal disaster at one of their mines and a sit in strike significantly impacted Impala, with the share collapsing by 55% over the year. At current levels our autocall exposure provide us with attractive optionality to any recovery in the PGM basket.

Current positioning and outlook

We still believe local bonds are attractively valued (at time of writing the SA 10-yr bond yield was close to 11.5%) with inflation expectations anchored around 5.5% and global rates having peaked. This implies a prospective real return pretty much in line with the long-run equity risk premium, with arguably less risk.

As mentioned before, global fixed income has become an investable asset class for the first time in many years. Although less exciting than 3-months ago (post the strong Q4 rally), US Treasuries yielding close to 4% (versus 1.5% at the beginning of 2022) still offer some value and strong diversification benefits.

We have been selectively adding to our local equity exposure during weakness experienced by certain stocks (Absa, Anglo American, BTI, Prosus & Naspers) while at the same time trimming some stocks that had performed well (most notably Firstrand and Capitec). The South African equity market continues to be attractively priced, both on a relative and absolute basis. Unfortunately, we've seen little buying interest from foreign or domestic investors. We retain our preference for quality counters that can tough it out despite the headwinds.

We view US equities to be on the expensive side, especially on a relative basis, while we see interesting opportunities within the Chinese equity market at extremely compelling valuations. We have incrementally been increasing our weighting to these ideas over the course of the year. As we are cognisant of the manifold risks of investing in China, we will try and manage this at a portfolio level by both limiting our total maximum exposure to this market and by also diversifying across a number of holdings with varied business models operating in different industries.

Conclusions

We maintain a defensive positioning, but have selectively increased our equity exposure as we see value in the local market. Given the high allocation to bonds and a current preference for yielding local equities, the Fund is offering an attractive running yield of 7.4%. Given inflation expectations of 5.5%, this offers an attractive real return which we would look to enhance through security selection and tactical asset allocation.

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)..

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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

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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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