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NEDGROUP INVESTMENTS
Private Wealth Equity Fund
Quarter Four, 2023

Nedgroup Investments Private Wealth Equity Fund

Performance to 31 December 2023	Fund[1]	Benchmark[2]
3 months	4.8%	8.1%
12 months	16.3%	7.2%

Market Overview

Global equity and bond markets staged a meaningful rally in the final two months of the year, making way for positive fourth quarter and improved 12 month returns. While numerous fault lines remain and inflation targets are still elusive in the near term, policy makers did not provide enough push back at December meetings to change the market's interpretation of peak interest rates with a pivot to follow. Dovish statements from US policy makers in particular set the scene for a further easing of bond yields, even if mixed US labour market data saw markets push out the timing of the first interest rate cut.

The oil price stayed in focus as tensions in the Middle East escalated towards the end of the year. Despite volatile trading sessions over the quarter, however, a lack of meaningful contagion in the Middle East on oil producers, weaker economic data and increased non-OPEC+ supply drove the oil price lower by 7,0% in December and down 19,2% over the quarter. Energy prices in other areas also moderated, with European gas prices trending 18,8% lower over the quarter. Attacks by Houthi rebels on commercial vessels in the Red Sea disrupted the key maritime trade route, leading to several international companies, including Maersk and BP to suspend and reroute shipments at great cost. A broadening of conflict in the region will be closely watched, not least so for implications for the inflation outlook.

Locally, third quarter GDP disappointed, printing at -0,2% over the period. Electricity and logistic challenges weighed on the production side, with added disappointments from the agriculture sector. The current account narrowed over the third quarter, supported by an improved trade surplus driven by markedly lower imports. Fiscal data released in December showed some resilience in revenues, but expenditure still far outpace planned expenditure. This sets the scene for a difficult Budget 2024, even if largely anticipated at this juncture.

Noteworthy developments in the energy landscape include cabinet's approval of the draft Integrated Resource Plan (IRP) 2023, which outlines the intended mix of energy generation for the upcoming years. After some delay, the seventh Bid Window for an additional 5000MW of renewable energy was announced in December. Eskom will see new leadership, with Daniel Marokane taking the reins as the new CEO in upcoming months. Despite ongoing contestation, the National Health Insurance (NHI) Bill passed through the National Council of Provinces, ascending to the desk of President Ramaphosa.

Headline inflation for the year to November 2023 moderated to 5,5% from 5,9% the previous month, below market expectations. Core inflation printed at a marginally higher 4,5%.

Domestic assets rallied alongside global equity and bond markets. With a weaker US dollar offering respite, the Rand appreciated by 3,3% against the greenback over the quarter, bringing the depreciation year to date to 7,6%. Local equity markets continued its recovery in December, with strong returns from domestically focussed mid and small cap counters. It was not all smooth sailing, however, as Chinese regulators published a draft regulatory framework for the online gaming industry, seeking to curb excessive spending. Markets had a kneejerk reaction, which saw Naspers (-9,7%) and Prosus (-10,6%) mirror monthly losses from Chinese technology company Tencent (-10,2%), although the intraday moves were more extreme.

Local equity markets ended the quarter in the green, with the FTSE/JSE All Share returning 6,9% with gains across industrials (5,9%) and financials (12,3%). While large capitalisation stocks benefitted from the broader rally, mid (10,0%) and small cap stocks (8,6%) had even more to gain from improved market sentiment.

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[1] Net return for the Nedgroup Investments Private Wealth Equity Fund, A class. Source: Morningstar (monthly data series).
[2] Benchmark is the Capped SWIX40

Portfolio Commentary and Activity

The fund had a relatively inactive fourth quarter with only a handful of portfolio changes. Three positions were trimmed given their strong YTD performance: Bidvest, Sanlam and Standard Bank. These three businesses all share some common traits; strong local franchises with some offshore diversification, strong balance sheets and management teams that are embracing uncertainty and allocating capital where the risk-reward is shareholder friendly. The fund continues to own all three businesses, albeit in smaller size given lower prospective returns at current levels.

The most significant change to the fund in the quarter, was the exit of the Alibaba holding (~1.5%). Our track record will always include a few businesses that we either over or under-estimate. With hindsight, we overestimated Alibaba's position in the Chinese market, especially given the rise of newer, more agile competitors (eg: PDD holdings). Our investment case slowly deteriorated but we held on to the position in order to give the refreshed strategy (splitting the business into six units) a chance to unlock value, especially as the valuation was at a near record low. However, the subsequent multiple management changes and the deterioration in the competitive position of the business resulted in a decision to exit the position. Alibaba was the largest detractor to the fund's performance in 2023.

For the quarter under review, the fund underperformed its benchmark by 3.3%. A large portion of this quarter's underperformance (~2%) is attributable to not owning any of the gold counters which outperformed over the quarter on rising geopolitical risk.

Over a one-year period the fund's performance is significantly ahead of both its benchmark and the peer group average by, 9.1% and 8.8% respectively. The top 5 positive contributor's to the fund's performance over the last year include: Alphabet, Brookfield Asset Management, Comcast, Advtech and Quilter. The fund's underweight across the PGM sector also contributed positively to relative performance over the past year.

We turn now to discuss a select few portfolio holdings and/or related events of the quarter (results, corporate action etc).

Mr Price – *Headwinds moderating*

Mr Price's interim results benefitted from the inclusion of branded footwear and apparel retailer Studio88, which was acquired in October 2022. Excluding Studio88, the results reflect a core business still under pressure, although green shoots were evident in 2Q24. Muted sales growth in the core business, gross margin pressure and elevated operating costs drove the earnings decline. The focus on inventory management aided cash generation and the group remains debt free. Capital expenditure was primarily allocated towards new stores (+5.6% space excl. Studio88) and back-up power solutions during the period.

While consumer cost of living pressure is likely to persist over the short-term, a few of the challenges faced by Mr Price over the past year should be less of a headwind going forward. All the group's stores now have back-up power during periods of loadshedding and excess stock levels across the sector appear to have been largely cleared. Over our forecast period, we expect Mr Price to deliver double digit earnings growth, underpinned by the rapid rollout of new stores, gross margin improvement and cost discipline.

In the context of increased levels of competition in the value segment, in both apparel and homeware, we have been conservative in our margin forecasts compared to recent history. We view the group's diversifying expansion into new categories and consumer segments as an appropriate strategy against this backdrop. The investment case for Mr Price remains intact.

Mr Price remains the fund's only clothing retail exposure and constituted 2.9% of the fund at quarter end.

Discovery – *More shared value*

Discovery's full year results showcased good performances from most of the moving parts in the group, despite the constrained and complex environment across its operating regions.

The SA health business continues to show its resilience, reporting operating profit growth of 7% y/y. Non-scheme products (Flexicare, Gap Cover and Healthy Company) have been a focus area for a while now, and contributed 15% to total revenue for the division this year. Management was explicit in the results presentation to unpack its views on NHI and the way forward. The group believes that NHI is not workable without private sector collaboration, and that a change to Section 33 of the NHI bill is needed to enable the collaboration. Total Vitality SA members increased to 2.6mn at the end of June 2023.

In China, Ping An navigated a complex period, given the lacklustre reopening of the economy. However, profits increased 31% y/y, driven by a 12% operating income increase which was complemented by a recovery in investment income. New business disappointed and was 9% lower than the prior period. Management remains optimistic on the medium to long-term opportunity given the rising middle class, ageing population and expected penetration of private healthcare expenditure.

The performance from Discovery bank continues to exceed management's initial expectations. The bank is gaining scale rapidly with a customer base of ~700k clients, deposits of R14bn, and advances of R5bn. Management believes operational break even, before new business acquisition costs, is achievable by the end of this calendar year. Based on management's assessment of the peer group, the bank has the second highest NIR per customer, as well as credit losses well below the closest peer. Home loans and access facilities are the two next targeted product launches on the platform and should be in the market by the first quarter of 2024.

Overall, Discovery continues to enhance and further monetise its unique IP, which places the business well ahead of peers. Based on the group's latest results, we believe that our investment case for Discovery is firmly intact. Discovery constituted 2% of the fund at quarter end.

Prosus – *1H24 results*

For the six months to September, core headline earnings more than doubled (+118%). The group was simplified, with the removal of the cross-holding agreement between Prosus and Naspers completed in September 2023. The group's open-ended share buyback is continuing which should aid the growth in NAV per share and is supportive of returns over the long term.

Consolidated revenue grew 13% y/y with the underlying trends as follows: (i) Food delivery +17%; (ii) Core Classifieds +32%; (iii) Fintech +32% and (iv) Edtech +11%. This compares to the peer performance of 19%, 6%, 12% and 1% respectively. Prosus made good progress on improving the profitability of its operations. The ecommerce portfolio is now close to breakeven and growing at scale. Ecommerce consolidated trading losses from continuing operations dropped from US$220m to US$36m in 1H24 due to cost reductions and improved efficiencies. Prosus brought forward its ecommerce profitability target by six months to the second half of the 2024 financial year. This is six months ahead of schedule.

Prosus's balance sheet remains strong with ample liquidity. As at September 2023, its net debt was a mere USD18m, with gross cash of USD15.1bn. There was also an undrawn USD2.5bn revolving credit facility, which together with the Meituan stake (USD3.0bn) provides significant fire power (USD21.8bn). The focus remains on managing the balance sheet within its investment-grade rating, currently BBB (S&P) and Baa3 (Moody's).

The fund remains invested in both Prosus and Naspers with a combined allocation of ~10% at quarter end.

Detailed fund attribution: Q4 2023

Top 5 contributors and detractors for Q4 2023: Overweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Altron	3.0%	0.6%	**Alibaba**	1.4%	-0.6%
Brookfield Asset Mgt.	4.0%	0.5%	**Alphabet**	3.9%	-0.4%
Quilter	2.3%	0.3%	**Comcast**	2.6%	-0.4%
Transaction Capital	0.6%	0.3%	**Bidvest**	1.9%	-0.3%
Northam Platinum	1.5%	0.3%	**Cigna**	2.7%	-0.3%

Top 5 contributors and detractors for Q4 2023: Underweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Sibanye	-1.5%	0.4%	**Goldfields**	-5.1%	-1.2%
Impala	-1.4%	0.3%	**Harmony Gold**	-1.2%	-0.6%
Naspers	-3.4%	0.2%	**FirstRand**	-5.3%	-0.5%
Sasol	-0.4%	0.2%	**AngloGold**	-2.9%	-0.3%
Glencore	-1.8%	0.1%	**Anglo Platinum**	-0.9%	-0.3%

Current positioning and outlook

The 2023 calendar ended with a relatively busy timeline of various market moving events. These included geopolitical tensions, continuation of the war in Ukraine, further escalations in the Middle East, a banking crisis in the US, severe weather events and many more. Reflecting at this point in the market cycle, we remind ourselves that we have been here before and that markets will always have a wall of worry to climb. Ultimately, a focus on fundamentals, valuation and risk management, combined with well executed portfolio management will be the key drivers of investment performance.

The current and developing situation in China shows how important country risk and regulation is to capital flows over time. We continue to have some allocation to the Chinese economy, both directly (mainly via Tencent and Richemont), as well as indirectly (via resource company exposure). However, we are monitoring our key performance indicators closely and will take investment action where necessary.

The fund's diversified holdings across businesses and industries, and meaningful exposure to offshore earnings streams – direct and indirect - has proved beneficial through the volatility of the past quarter. The fund ended the quarter with ~24% direct exposure to international markets. The fund's SA inc. exposure is concentrated in businesses we think will continue to prove resilient, despite the constrained economic environment. The top 10 positions in the fund account for ~43% of the capital, with a total of 31 holdings.

The fund's theme for the year was one of inactivity, where judging by the brokerage generated during the year, this was the most inactive year in the last five years. The strong performance over the twelve months, where the fund ended 5th in the ASISA general equity category (175 peers), shows that performance is not necessarily correlated to activity levels. Our long-term approach to allocating capital, combined with our risk management overlay, has performed well in a volatile year.

We thank all unit holders for their continued support in 2023 and look forward to a prosperous 2024.

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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