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NEDGROUP INVESTMENTS SA EQUITY FUND

Quarter Four, 2023

Nedgroup Investments SA Equity Fund

Performance to 31 December 2023	Nedgroup Investments SA Equity[1]	FTSE/JSE Capped SWIX
3 months	2.7%	8.2%
12 months	1.5%	7.9%

Market Commentary

December provided a final flourish to a strong 2023 for global equities. All year investors in both bonds and risk assets have been wrestling with the sharply tighter monetary policy as central bankers moved to counteract rising inflation. Investors started to take the view that US interest rates had peaked in November, and when the US Federal Reserve Chairman Powell confirmed that further rates hikes were not expected the market gained further confidence. This signalled a shift in the 'higher for longer' rates narrative and provided support to global and local SA equity markets.

Global equity indices continued their strong run on the back of this news, which supported the local South African market which pushed higher in December with FTSE JSE Capped SWIX (Capped SWIX) returning 2.9% in the month, ending up 8.2% for Q4 23 and 7.9% for the year.

The Capped SWIX performance in Q4 23 was driven by the gold counters, with the likes of Gold Fields (+35%) and Harmony (+74%) up strongly on the back of a strong gold price, and the banking sector having a strong run with Capitec (+18%), FirstRand (+15%) and Standard Bank (+13%) posting strong gains. The index would have ended the year on a much stronger note was it not for the negative impact of index heavyweights Naspers (-9.7%) and Prosus (-10.6%) which both came under pressure in the last month of the year. These were impacted by the publication of proposed draft gaming regulations by the Chinese regulator which impacted Tencent, the key asset in their portfolio.

The Nedgroup Investments SA Equity Fund had a tough year returning 2.7% over the final quarter, ending the year up 1.5% compared to Capped SWIX Index return of 7.9%.

The Fund took large positions in the insurance sector through Sanlam and Momentum at the beginning of the year that performed very well, as well as its positions in Mondi and The Foschini Group (TFG) that contributed positively in 2023. On the negative side the Fund had exposure to Pick n Pay that performed poorly as load shedding put pressure on the company's already narrow margins, as well as an increasingly competitive environment in the non-discretionary retail space. The Fund has subsequently reduced its position in Pick n Pay as we believe the company faces large structural issues that may take years to address, and the current valuation does not fully price in these risks.

The Fund also had decent exposure to the platinum sector that cost it as the PGM basket price came under pressure during the year. We maintain that the supply demand balance puts the PGM metals in a deficit, and that this should support PGM prices over the medium term. We thus continue to hold a constructive view on counters such as Anglo American Platinum and Impala Platinum. The Fund also took the majority of its exposure to gold through AngloGold that underperformed Gold Fields, which cost the Fund on a relative basis. We continue to hold our exposure to gold through AngloGold as we believe its cost cutting efforts should bear fruits on a cost per ounce basis, as well as it having a growing production profile on a relative basis compared to Gold Fields in the medium term.

Current positioning and outlook

The Nedgroup Investments SA Equity Fund continues to hold a large position in Prosus as we believe that the draft Chinese regulations which negatively impacted Tencent in the last few days of December, while impacting

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

sentiment, will be less material to Tencents' earnings in the long run. The draft regulations appear to target higher average revenue per user (ARPU) games; while the games that drive Tencent's revenue and profitability are lower ARPU games. We believe that the initial market reaction to the draft regulations is overdone and believe that there is significant value in Tencent and in its holding companies, Naspers and Prosus which both trade at significant discounts to Tencent. Post the draft proposed regulations being published we have already seen the Chinese regulator announcing that it will closely study public commentary to the proposed regulation and incorporate these in the final regulation. This leads us to believe there is a high probability that the regulation will be more subdued than the initial draft when finally published in H1 2024.

Geopolitical risks remain elevated going into 2024 with no near-term resolutions in sight for either the Russia/Ukraine or Israel/Hamas conflicts. On the back of this it is surprising to see oil prices remain relatively benign, albeit having bounced off the December lows following Iran-backed Houthi attacks in the Red Sea. Energy markets are a source of high potential risk given volatile geopolitics, and the Fund has retained a healthy weighting in Sasol as an appropriate hedge against this "known unknown" along with a very attractive valuation compared to global oil peers.

On the domestic macro front, SA inflation eased back to 5.5% y/y in November from the spike to 5.9% y/y in October, marginally higher than the consensus forecast of 5.4%. Core inflation remained contained at 4.5% y/y (from 4.4% in October). Food inflation, which remains flagged by the MPC as a key upside inflation risk, accelerated for the second month in a row to 9.0% y/y from 8.8% the previous month. Given the large weighting of food in SA's CPI basket together with its influence on inflation expectations, food prices remain a key factor to monitor for the interest rate outlook amid potential El Niño related price risks in 2024.

Against this background the SARB MPC kept interest rates unchanged over the quarter. The statement at their last meeting of the year was cautious, highlighting considerable upside risks to the inflation outlook with the MPC standing ready to act should any of the risks materialise, but the unanimous vote to keep rates unchanged was an important deviation from previous 3/2 voting splits.

We thus continue to expect the inflation environment to improve locally, supporting an easing interest rate environment, which will provide much needed support to the domestic consumer. That being said, the SA domestic backdrop still remains mired in political uncertainty with the national election taking place in 2024, and the risk of loadshedding that is still ever present.

Exposure to the domestic SA economy is primarily gained through the banking sector, with our preferred pick being ABSA. The banks continue to grow their earnings in a tough environment and have had a relatively benign experience with regards to bad debts on their loan books, with conservative provisioning. If we overlay extremely low valuations and attractive dividend yields, we think they will produce healthy returns for our investors going forward.

British American Tobacco remains a core holding in the Fund, offering a defensive earnings base supported by the company's continued pricing power in a highly inflationary and uncertain environment. This is underpinned by a strong dividend yield and a high probability of future share buybacks.

The Fund continues to have limited exposure to the retail sector, with the Fund only owning TFG and Mr Price in the discretionary retail space due to self-help initiatives underway at these companies, which can still drive earnings growth despite a tough consumer environment.

Conclusion

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.

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
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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.

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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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