NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter One, 2024

Nedgroup Investments Opportunity Fund

Performance to 31 Mar 2024	Fund Performance[1]	ASISA category average[2]	FTSE/JSE ALSI
3 months	-0.5%	1.6%	-2.2%
1 year	2.9%	8.7%	1.5%
3 years	11.3%	8.0%	8.1%
5 years	10.1%	7.8%	9.7%
10 years	8.6%	6.8%	8.1%

Global market overview

The first quarter of 2024 witnessed a significant dispersion in performance across global asset classes.

Developed market equities enjoyed a spectacular rally, with the MSCI World Index surging 9.0%. The US market continued to thrive on strong economic data, with the S&P 500 delivering 10.6%, pushing its one-year return to nearly 30%. While some developed economies (e.g., UK, Ireland, Germany) show signs of slowing growth, anticipated monetary easing provided general support to equity markets. Notably, Japan emerged as the quarter's top performer, with the Topix Index delivering a stellar 18.1% return, even as the Bank of Japan embarked on monetary policy normalization.

Emerging market equities, however, lagged considerably, with the MSCI EM Index returning a mere 2.4%. This underperformance was largely attributable to lingering concerns about China's growth prospects.

Bond markets on the other hand, faced headwinds throughout the quarter. In the US, persistent inflationary pressures and robust economic data caused the market to recalibrate its expectations for Federal Reserve interest rate cuts. By quarter's end, only three cuts were priced in for the year, closely aligned with the Fed's Dot plot projections, compared to the six to seven anticipated earlier. The 10-year US Treasury yield widened by 32 basis points, settling at 4.2%. Concerns over inflation also weighed on EU and UK government bond indices, leading to negative returns of -0.6% and -1.8%, respectively.

While US inflation has eased to 3.2% (core inflation at 3.7%), it remains well above the Fed's 2% target. Concerns about sustained high inflation persist. The initial, easy disinflation from goods, which significantly contributed to the initial inflation drop, has likely run its course. The onus now falls on the services sector to contribute meaningfully to achieving the 2% target. Unfortunately, housing service inflation has proven stickier than anticipated, and disinflation in other service areas remains elusive. Additionally, fiscal stimulus shows no signs of abating, with mandatory spending on entitlement programs consuming an ever-larger share of the budget and politically difficult to cut. Consequently, rising interest payments are likely to keep deficits high for the foreseeable future.

South African Market: A Cautious Start

The local South African market started the year on a weak note, weighed down by election anxieties, a deteriorating fiscal position, and a hawkish South African Reserve Bank (SARB). The FTSE/JSE All Share Index delivered a disappointing -2.2% return, while bonds (ALBI TR Index) and inflation-linked bonds fared marginally better with returns of -1.8% and -0.4%, respectively. The Rand also weakened by 2.8% against the US dollar.

[1] Net return for the Nedgroup Investments Opportunity Fund, A1 class. Source: Morningstar (monthly data series). Performance for periods greater than 12months have been annualised.
[2] ASISA Multi-asset medium equity category.

The most significant local event was the national budget, delivered by Finance Minister Godongwana in February. While positive aspects included mostly unchanged deficit projections and a declining debt profile, the market remained cautious. Several concerns persist, including the optimistic outlook for the FY23/24 deficit, the uncertain impact of GFECRA usage on future issuance, the potential for increased support for struggling SOEs, and the funding of national health insurance.

Against the backdrop of potentially extended global interest rates, heightened inflation risks, and upward pressure on the real neutral rate due to a deteriorating fiscal situation, the SARB has maintained a hawkish stance in recent MPC meetings. The committee appears less confident in inflation reaching its 4.5% target this year due to a higher base for core inflation caused by the medical insurance cost surprise in February. Additionally, high food inflation risks (exacerbated by a hotter and drier February and March) and elevated inflation expectations further suggest a delayed and shallow rate cutting cycle, likely starting in Q3 at the earliest. A potential game-changer could be the SARB's decision to revise the inflation target downwards from 4.5% to 3%. Governor Kganyago has long advocated for this move, and discussions with National Treasury are reportedly underway.

Portfolio Commentary

The Nedgroup Opportunity Fund delivered a net return of -0.5% for the first quarter of 2024[3]. While this return fell short of the benchmark, it's important to consider our *conservative investment positioning*. This approach, designed to manage risk, impacted relative performance in the current market environment.

The Nedgroup Opportunity Fund lagged the benchmark by 5.8% over the past year. *The fund continues to demonstrate strong performance over longer time horizons.* In fact, the Opportunity Fund remains positioned within the top quartile of its peer group for longer investment periods. This achievement highlights the Fund's ability to deliver competitive returns with a focus on mitigating risk.

We will continue to monitor market conditions and adjust our investment strategy as necessary to achieve our long-term objectives for the Fund.

Top 5 winners and losers for Q4 2023:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Abax Global Equity	3.9%	0.4%	**R2040 bond**	19.3%	-0.7%
ABSA Inflation-linker	4.2%	0.4%	**Sasol**	2.4%	-0.6%
British American Tobacco	5.0%	0.3%	**ABSA**	3.6%	-0.5%
TBC Group	1.7%	0.3%	**MTN**	1.0%	-0.3%
Qifu Technology	1.0%	0.2%	**Firstrand**	1.5%	-0.2%
Total		*1.6%*	**Total**		*-2.3%*

Continued strong performance in Global Equities in the first quarter (MSCI World +9%) resulted in our Abax Global Equity Holding being our top contributor over the last quarter.

Our holding in British American Tobacco contributed to performance as the company announced the expected resumption of share buybacks of £1.6bn at the end of the quarter. The rump of BAT is trading at a Price Earnings ratio of less than 5x and a dividend yield of 10%.

TBC Group and QFin are both low-cost financial technology companies that benefit from a low cost structure and continued digitalization of the financial services industry with further strong growth expected.

[3] Net return for the Nedgroup Investments Opportunity Fund, A1 class. Source: Morningstar (monthly data series)

The top detractor over the last quarter was our exposure to the RR2040 SA Government Bonds as yields sold off further. We continue to be attracted to the high real return on offer by the SA long bonds.

Sasol continued to under-perform as the deteriorating chemical prices put pressure on the Sasol share-price. At the current P/E Ratio of below 4x, a lot of negative news seems adequately discounted and we retain our position in Sasol.

ABSA came under pressure after releasing results that slightly disappointed the market. At current levels ABSA is trading at a PE Ratio below 6x, and a dividend yield in excess of 10%. Three dividend declarations are expected over the next twelve and a half months which will result in a return of capital in excess of 15%. At current levels ABSA offers attractive long-term value and we have recently added to our position.

Concerns about the Nigerian currency and MTN's ability to extract cash from Nigeria put pressure on the MTN share-price. Attributing a very conservative valuation to MTN Nigeria implies a low valuation for the cash generative south African business.

Top 5 winners and losers for last 12m:

Top contributors	Ave. Weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
Abax Global Equity	3.6%	0.9%	**Sasol**	2.1%	-1.1%
Alphabet	0.5%	0.7%	**African Rainbow**	0.9%	-0.5%
Firstrand	2.2%	0.5%	**Transaction Capital**	0.4%	-0.4%
R2037 bond	3.8%	0.4%	**Impala Autocall**	0.3%	-0.4%
Merafe Resources	0.9%	0.4%	**Brait**	0.4%	-0.4%
Total		*2.9%*			*-2.8%*

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 over the last 12 months.

Our long duration in bonds contributed slightly to performance, although we have a very high weighting towards the sector overall.

Buying Firstrand at attractive levels over the last 12m resulted in a positive contribution to returns despite muted overall returns from banks.

As mentioned, Sasol continues to disappoint as pressure on chemical prices reduced earnings expectations. There is a dearth of buyers as local investors are full of Sasol, while foreigner investors prefer foreign oil names.

African Rainbow Capital detracted from performance as the discount to NAV continued to widen. Management has indicated an intention to unlock value and this is dearly needed to ensure a narrowing of the discount. Asset realisations could help, but there doesn't appear to be any imminent catalyst. The deep discount to NAV keeps us in this counter.

Transaction Capital was a major detractor from performance as the collapse of SA Taxi impacted the whole group. The deterioration of the second-hand car market also impacted WeBuycars coming off super margins being earned in the prior year. A portfolio restructuring seems to be steadying the ship, but most of the value seems to be reflected in the current share-price and we have sold out of our position.

The collapse in the PGM basket, a fatal disaster at one of their mines and a sit in strike at Impala significantly impacted Impala, with the share collapsing over the last 12months. 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. The 10 year government bond yield now exceeds 12%. With inflation expectations anchored around 5.5% and global rates having peaked, this offers an attractive real return of 6.5%, which is in excess of our targeted return of inflation + 5% for the portfolio. The upcoming national election remains a potential catalyst for a re-rating which could further add to returns.

Global fixed income also continues to look reasonably attractive with US Treasuries yielding in excess of 4% (versus 1.5% at the beginning of 2022) while also providing strong diversification benefits.

The South African equity market continues to be attractively priced, both on a relative and absolute basis. We have recently increased our exposure to the banking sector which is well-capitalised and providing an attractive dividend yield at an undemanding valuation.

We continue to 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 restrain the extent of our positioning as we remain cognisant of the manifold risks of investing in China.

We maintain a defensive positioning of the portfolio overall. Our portfolio valuation metrics have improved with a lowering of the average PE within the portfolio, while our running yield has improved (8.2% currently). This provides an attractive floor to our return. We have exposure to attractively priced growth assets that could further enhance this return. Valuations currently on offer allows investors to structure long-term inflation beating portfolios. We continue to aim to achieve our mandate objectives of inflation +5% and no negative returns over rolling 24-month periods. We have been able to achieve this level of capital protection 98% of the time. We are also pleased to say that since inception we have been able to keep up with the demanding inflation +5% return objective.

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.

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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