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NEDGROUP INVESTMENTS
Private Wealth Equity Fund
Quarter One, 2024

Nedgroup Investments Private Wealth Equity Fund

Performance to 31 March 2024	Fund[1]	Benchmark[2]
3 months	1.1%	-2.6%
12 months	11.7%	1.6%

Market Overview

Financial markets showed positive growth in March, with most major global risk assets posting above-average returns. The growing 'risk on' sentiment supported by expectations of a soft-landing has led to a rally across global equity markets, providing favourable opportunities for investment. Developed markets posted a positive US dollar total return for the fifth consecutive month in March with the MSCI World index returning +3.3%.

Emerging Market USD sovereign bonds benefitted from this improvement in risk sentiment and outperformed peers in March. Similarly, EM ex-China equities also rallied, though they nevertheless continued to underperform their DM counterparts.

A range of commodities rallied during the month – from metals to agricultural commodities to oil – leading the Bloomberg Commodity Index to post its first month-on-month gain since July 2023. Gold was by far the best performing asset, posting a 9% jump in March. Central bank diversification has supported the rally in gold.

Another commodity on the move is Cocoa, which has continued to increase and is up over two and half times over the last year. This can be attributed to several factors that are negatively affecting crop yields including, poor weather and disease in West Africa, ageing trees, and years of under-investment. In addition, an EU ban on the sale of cocoa beans in areas of deforestation adds to supply constraints. This has made for a more expensive Easter this year.

The South African equity market rebounded in March, with the All-Share index posting a total return of +3.2%. SA Listed Property and the All Bond index posted losses of -1.0% and -2.0% respectively over the month. Within the equity headline indices, Large Cap and Mid Cap stocks returned +4.1% and +2.3% respectively in March, while Small Caps posted a loss of 0.7%.

In terms of sector performance, SA Resources returned +12.8%, its best monthly performance since November 2022. SA Industrials gained 2.6% and SA Financials lost 3.0% over the month. Within SA Resources, top equity sector performance came from Precious Metals (+19.7%) with solid total returns coming from Harmony (+40.4%), Gold Fields (+22.4%), Implats (+20.9%) and Anglogold (+18.1%) driven by the rally in gold.

Inflation in South Africa spiked to 5.6% y/y in February, from 5.3% y/y in January and 5.1% y/y in December. The overshoot relative to the forecast for 5.5% y/y was mainly due to an even higher than expected jump in medical aid tariffs. Core inflation was also marginally higher than expected, at 5% y/y. Expectations are for a moderation of food price increases. This, together with anticipated rate cuts (moderate) will be supportive of improved consumer demand in the latter half of the year.

The South African Reserve Bank (SARB) is scheduled to have its next meeting on May 30th, the day after the South African elections. The expectation is that rates will be maintained at 8.25% until September when the combination of lower SA inflation prints plus rate cuts from the UK, Europe, and the US should justify a rate cut from the SARB.

[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

Positions that were trimmed during the period include Advtech, Altron, Bidcorp and Nedbank. The strong recent performance of these shares and moderating expected returns informed the reduction in their positions. The fund added to its position in MTN following the significant decline its share price. The small position in Transaction Capital was exited as the value unlock initiatives, namely the unbundling of WeBuyCars, drove a re-rating in that share price towards our assessment of fair value.

For the quarter under review, the fund outperformed its benchmark by 3.7%. The major contributors to this performance were the fund's holdings in Alphabet, Brookfield Asset Management and Cigna. Advtech and Altron also contributed positively to performance along with the fund's underweight position in Firstrand.

Mid-cap private education provider Advtech, which has been a strong contributor to the fund's performance over the past year, released its full year results during the quarter. Advtech delivered another strong set of results showing good enrolment growth, margin expansion – the result of the ongoing focus on efficiency improvements – and a sound balance sheet. With the group now generating cash in excess of its investment requirements, the board has decided to increase the dividend payout. The full year dividend was 45% higher as a result. Advtech, with its established portfolio of brands across schools and tertiary, remains well positioned to service the structural demand for quality education.

Persistent macroeconomic headwinds in Nigeria, which contributed c.35% of group earnings in FY23, have been the major driver of the steep de-rating in the MTN share price year to date. The group's results released in March showed margin compression in its key markets of Nigeria and South Africa and a decline in group earnings. The dividend was flat and the group maintained a healthy balance sheet position, helped by the upstreaming of cash from its various opcos. While the challenges in Nigeria are likely to endure in the short-term, our view is that the solid long-term fundamentals of MTN are not reflected in the current share price.

The fund remains meaningfully exposed to the banks at ~17% of the fund. Firstrand, Nedbank and Standard Bank released results that were broadly positive with double digit revenue growth and improving cost to-income ratios offsetting higher credit losses. Absa's results were below expectations however, showing a muted non-interest revenue performance and a deterioration in credit impairments and the group ROE. The group has guided that credit costs are likely to remain elevated over the short-term. The banks remain well capitalised and should continue to benefit from the positive endowment effect in the short-term, with the potential for declining credit costs as interest rate cuts materialise.

Detailed fund attribution: Q1 2024

Top 5 contributors and detractors for Q1 2024: Overweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Cigna	3.0%	0.8%	**Remgro**	1.4%	-0.6%
Alphabet	4.1%	0.6%	**Northam**	3.9%	-0.4%
Brookfield Asset Mgt.	4.8%	0.5%	**Absa**	2.6%	-0.4%
Advtech	2.5%	0.5%	**Discovery**	1.9%	-0.3%
Altron	3.2%	0.4%	**Sanlam**	2.7%	-0.3%

Top 5 contributors and detractors for Q1 2024: Underweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Firstrand	-4.9%	0.6%	**Goldfields**	-5.1%	-0.8%
MTN	-1.0%	0.3%	**AngloGold**	-2.5%	-0.6%
BHP	-2.5%	0.2%	**Harmony Gold**	-1.5%	-0.5%
Anglo	-1.0%	0.2%	**Naspers**	-3.1%	-0.4%
Woolworths	-1.3%	0.2%	**Nepi**	-1.5%	-0.2%

Current positioning and outlook

Global markets delivered good returns during the first quarter of the year however, some fragility has begun to emerge post quarter end. Further escalations in geo-political tensions, an uncertain interest rate path and a record number of elections across the world provide scope for further volatility.

Locally, focus has turned to the upcoming national elections, with markets seemingly recalibrating for the possible outcomes. This election has the potential to steer South Africa into the unprecedented environment of coalitions at national government level, introducing a high degree of uncertainty with regards to policy continuity.

In the context of this uncertainty the fund remains well diversified across different businesses and industries with meaningful exposure to offshore earnings streams. The SA focused companies held in the fund are overwhelmingly those that we believe will prove resilient in most scenarios. The fund is positioned for various outcomes with the ability to deploy capital into opportunities that the market may present.

While we are cognisant of the many factors that are likely to keep markets uneasy over the course of this year, our approach remains 'long-term, well considered' with the aim of protecting and growing the capital of our unit holders.

Disclaimer

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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