



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

A photograph of an open book with white pages, tied with a white string around the spine. The book is open to a blank page, and the string is tied in a knot.

# NEDGROUP INVESTMENTS STABLE FUND

Quarter Four, 2023

## Market Commentary

### International

- Developed market equities surged and the S&P500 neared all-time highs after the US Federal Reserve signalled it would cut rates in 2024 more than the market was expecting — but Chinese stocks fell again on sentiment and restrictive gaming proposals
- Developed market bond yields fell sharply and bond markets surged ~8% to recoup their 2023 losses — after inflation prints surprised to the downside and interest rate expectations adjusted sharply lower
- The US dollar strength abated with the unit weaker against the other majors — on expectations of more aggressive US interest rate cuts in 2024
- Interest rate sensitive precious metals including gold and platinum rallied and industrial commodities including copper advanced on prospects of a soft economic landing — while crude oil plunged ~20% after US production rose and Angola left the OPEC cartel, despite heightened Middle Eastern tensions
- Cooling headline inflation has improved living standards in developed markets where economic growth has defied restrictive monetary policy — robust US GDP growth continues to outpace European growth and should backstop global demand
- The Fed turned Dovish in December, holding rates steady and signalling that the inflation outlook has improved more quickly than previously anticipated — while also suggesting that it would cut the US federal funds rate up to three times in 2024

### South Africa

- The FTSE/JSE All Share Index tracked global bourses higher, achieving almost all its annual gain in the fourth quarter — led higher by financials, while resources lagged and industrials were led lower by a sharp fall in index heavyweights Naspers/Prosus
- The All Bond Index also rallied, recouping two quarters of losses from the bond market — yields fell across the curve, with those on longer dated bonds falling most
- The rand was volatile but gained against the US dollar — on expectations of improved interest rate differentials despite its weak fundamentals and deteriorating trade balance
- The South African consumer remains constrained as third quarter economic activity contracted again after two quarters of tepid expansion — SARB now expects somewhat improved economic growth on gradually improving electricity supply
- SARB's Monetary Policy Committee again left the repo rate unchanged in its first unanimous decision in a while — its slightly dovish tilt could suggest that (as elsewhere in the world) South Africa is now at peak rates in the current cycle

## Portfolio Commentary

- South African equity investments contributed as the local bourse tracked global bourses higher, achieving almost all its annual gain in the fourth quarter — led higher by financials, while resources lagged and industrials were led lower by a sharp fall in index heavyweights Naspers/Prosus
- SA bonds contributed given the rally in the local bond market which recouped two prior quarters of losses — yields fell across the curve, with those on longer dated bonds falling most
- The physical gold investment contributed given a rally in the dollar price for bullion — interest rate sensitive precious metals including gold and platinum rallied and industrial commodities including copper advanced on prospects of a soft economic landing
- Global equities contributed to returns as developed market equities surged and the S&P500 neared all-time highs after the US Federal Reserve signaled it would cut rates in 2024 — but Chinese stocks fell again on sentiment and restrictive gaming proposals
- Cash was also a contributor to absolute returns — yields remain attractive given tight monetary policy to constrain inflation
- Although the allocation to listed property remains low, investments in the sector contributed positively to fund returns — with holdings in Shaftesbury Capital, NEPI Rockcastle and Equites adding value

Top contributors	Performance Contribution %	Holding Return %	Average Weight %
RSA Bond 8.25% (R2032)	0.7	9.5	7.0
Foord Global Equity Fund Lux B	0.5	3.1	17.8
RSA Bond 8.875% (R2035)	0.5	9.8	5.3
Newgold ETF	0.4	9.0	4.9
FirstRand	0.3	18.9	1.5

Top detractors	Performance Contribution %	Holding Return %	Average Weight %
Sasol 4.5% Conv.Bond (8/11/27)	-0.5	-10.2	4.6
Prosus	-0.1	-5.0	1.3
Wharf Real Estate	-0.1	-15.5	0.4
Anglo American	-0.1	-10.3	0.5
Life Healthcare	-0.1	-8.5	0.4



## Investment Strategy

- The weighting in foreign assets was maintained at close to the 45% maximum — measured together with non-rand earnings of JSE-listed companies, total foreign economic exposure is significantly higher on a look-through basis
- Exposure to foreign equities rose given the market rally and because the managers of the underlying Foord International Fund tactically lapsed the short S&P500 hedge ahead of the December US equity market surge — with the fund's effective foreign cash position lower as a result
- Foreign equity investments prioritise companies with strong pricing power, offering better capital protection against rising inflation — allocation to US equities remains low, given potential earnings risks arising from an economic slowdown
- The allocation to foreign government bonds remains low — comprising of short-duration US Treasuries with a preference for inflation-linked instruments
- Exposure to SA equities was maintained at 11% — despite attractive valuations, ratings for SA Inc. stocks are likely to remain under pressure, given low prospects for economic growth coupled with higher cost of capital
- Allocation to SA nominal government bonds remains, although valuations look quite full it provides high real yields and important portfolio diversification against the large offshore holding — we continue to avoid SA credit assets where risk is mispriced
- Listed property is limited to a low weighting, given poor fundamentals for the asset class, despite optically attractive yields — sector risks include excess capacity, weak rental trend, consumer headwinds, rapidly escalating municipal costs and rising interest rates, however our negativity has reduced as we are probably at the top of the interest rate cycle
- Physical gold ETF position is maintained on supportive fundamentals, given the likelihood of nominal interest rates nearing a peak, a weaker US dollar and rising stagflation risks — the position provides attractive portfolio diversifying properties during periods of market stress



## Responsible Investment Summary

### Voting resolutions for Q4 2023

#### Portfolio

Adopt Financials
Auditor/Risk/Social/Ethics related
Buy Back Shares
Director Remuneration
Dividend related
Issue Shares
Loan / Financial Assistance
Other
Re/Elect Director
Remuneration Policy
Share Option Scheme
Shares under Director Control
Signature of Documents

Total count	For	Against	Abstain
2	1	1	0
40	40	0	0
8	7	1	0
41	41	0	0
1	1	0	0
9	0	9	0
8	0	8	0
6	6	0	0
29	29	0	0
16	9	7	0
1	0	1	0
3	0	3	0
2	2	0	0
166	136	30	0

#### Foord Global Equity Fund

Auditor/risk/social/ethics related
Re/elect director or members of supervisory board
Remuneration policy including directors' remuneration
Signature of documents/ratification

Total count	For	Against	Abstain
10	10%	90%	0%
13	100%	0%	0%
2	50%	50%	0%
7	100%	0%	0%

#### Foord International Fund

Auditor/risk/social/ethics related
Political expenditure/donation
Re/elect director or members of supervisory board
Remuneration policy including directors' remuneration
Signature of documents/ratification

Total count	For	Against	Abstain
10	10%	90%	0%
1	100%	0%	0%
13	100%	0%	0%
4	25%	75%	0%
6	100%	0%	0%

#### General comments:

- There are few abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention, it would typically be intentional or for strategic reasons
- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion we have voted in favour of such resolutions, we could gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated
- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings

## Notable company engagements (Q4 2023)

Company	Topic	Company Attendees	Event Notes
Netcare	Governance	Regional Manager, Hospital Manager and CareOn IT Instructor	We assessed the governance of Netcare's new digital system to reduce the risk of malpractice lawsuits which has an electronic digital audit trail and reduces the risk of errors from manual inputs. We tested the system and have greater conviction that this will improve the governance in hospitals and likely reduce medical claims and provide more accountability on the root cause of these claims.
Life Healthcare	Governance	Group CEO, CFO, CEO of SA	Given the social and governance risk of cyber-attacks to safeguard operations, customer data protection and reputation (which occurred in Life a few years ago), we questioned management on the new IT system and backbone infrastructure to reduce these risks. While costly, we are encouraged on the additional investment to safeguard the operations are in a better place to reduce this risk.
Orion Minerals	Governance	Errol Smart, CEO and Franco Lorenzani	Foord has identified certain items that it would vote against due to the potential for dilution. Additionally, the company has formulated contingency plans in the event that the exercising of options or a capital raise does not succeed.
Bidvest	Governance	Norman Thomson, Ilze Roux	Discussed overall remuneration policy and recent changes. Mentioned Foord would vote against any items that lead to a dilution of our interests.



## Disclaimer

### WHO WE ARE

Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. 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.  
Contact details: Standard Bank, Po Box 54, Cape Town 8000,  
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

### PERFORMANCE

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

### PRICING

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

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

### DISCLAIMER

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

### NEDGROUP INVESTMENTS CONTACT DETAILS

Tel: 0860 123 263 (RSA only)  
Tel: +27 21 416 6011 (Outside RSA)  
Email: [info@nedgroupinvestments.co.za](mailto:info@nedgroupinvestments.co.za)  
For further information on the fund please visit: [www.nedgroupinvestments.co.za](http://www.nedgroupinvestments.co.za)

### OUR OFFICES ARE LOCATED AT

Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001

### WRITE TO US

PO Box 1510, Cape Town, 8000

