NEDGROUP INVESTMENTS

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# NEDGROUP INVESTMENTS ENTREPRENEUR FUND

Quarter Two, 2024

## Nedgroup Investments Entrepreneur Fund

| Performance to 30 June 2024 | Nedgroup Investments Entrepreneur Fund[1] | ASISA category average | Small Cap Index | Mid Cap Index |
|---|---|---|---|---|
| 3 months | 9.5% | 10.2% | 10.7% | 9.5% |
| 12 months | 18.0% | 18.0% | 20.2% | 17.3% |

Positive momentum continues in global markets, with major indices like the S&P 500 at all-time highs, despite concerns that the Fed might hold rates higher for longer. During the first half of 2024, MSCI World Markets returned +12.0% in US dollars while MSCI EM gained +7.7%.

Gold has also continued its steady climb - up approximately 13% for the year to date — driven by strong demand from central banks, rising geopolitical tensions and what looks like Chinese retail investor activity.

2024 continues to be the year of elections, with the South African election a key focal point for us over the last quarter and source of market volatility given the various outcomes that could have emerged. South Africa's ruling African National Congress party (ANC) lost its majority for the first time in 30 years, marking the biggest political shift in the country since the end of apartheid. The ANC suffered a heavy blow at the polls with support dropping to c40%, from the 57.5% it received in the last election in 2019. The blow to the ANC comes after years of corruption scandals and economic mismanagement. We are encouraged that this dramatic loss of political control by an African liberation party was effected through an open and fair democratic process without violence or voter intimidation and accepted gracefully. The previous official opposition party, the Democratic Alliance (DA), received c22% of the vote and former President Jacob Zuma's newly formed uMkhonto weSizwe Party (MK) won nearly 15% of the vote with this outcome driven largely by their regional success in Kwazulu Natal. Following the election outcome the ANC has negotiated a coalition government of several parties – preferring to partner with mostly moderate organisations seen as pragmatic and more business friendly. Encouragingly the 'nightmare' outcome of an ANC / EFF coalition was avoided and the eventual confirmation of a Government of National Unity (GNU), that excluded MK and EFF political parties, was well received by the market.

While we are not naïve about the inevitable challenges of actually operating a coalition government (new territory in South Africa) and the likelihood of political differences of perspective causing points of argument, a positive outcome has emerged with the GNU raising the prospect for more market friendly reform, stronger economic growth, faster fiscal consolidation and employment creation.

It is not an exaggeration to say that the prospects for the companies in the Entrepreneur Fund have improved SUBSTANTIALLY as a result of this outcome.

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

## Portfolio Commentary

In the second quarter of 2024, the JSE All Share Index (ALSI) recovered strongly (+8.2%), offsetting the weak Q1 performance (-2.2%). The market-friendly outcome of the Government of National Unity spurred a market rally in June which underpinned the quarterly outcome. The strength was driven by SA Financials (+15.9% for Q2), with SA Industrials (+5.2%) and SA Resources (+3.6%) lagging.

In comparison, the Entrepreneur Fund returned +9.5% for the quarter as South African domestic shares were buoyed by the positive election outcome. This is a very impressive absolute number and compares reasonable with the +9.5% and +10.7% recorded by the JSE Mid and Small Cap Indices. Over 1 year the fund is up a very pleasing +18.0%!

Top contributors to the fund's performance in Q2 were several of our niche mid-caps who all produced very satisfactory financial results in the period. Despite their strong run in the quarter, we have allowed the position sizes to grow and even used the opportunity of a foreign large shareholder (they have been an overhang on the stock) selling their final position in Zeda to add to the position. Valuations of all of our top Q2 performers remain extremely attractive and their already good prospects have all been substantially improved by the election outcome.

There were no poor performers in the quarter, and we have accumulated a fresh position in Impala Platinum. We have rebuilt a position in a direct PGM producer for the first time in a few years as ICE vehicle sales continue to confound the EV doomsday prophets and PGM prices look to have finally found a base and are starting to rise. SA PGM exports continue to rise and this company is highly geared to a recovery in the PGM prices.

| Q2 Top contributors | Average weight | Performance contribution | Q2 Top detractors | Average weight | Performance contribution |
|---|---|---|---|---|---|
| KAL Group | 7.5% | 1.4% | British Am Tobacco | 3.7% | -0.0% |
| Raubex | 4.0% | 1.2% | Pepkor | 2.3% | 0.0% |
| CMH | 4.6% | 0.7% | Impala Platinum | 0.3% | 0.0% |
| Premier Group | 3.8% | 0.6% | Thungela | 2.4% | 0.0% |
| Zeda | 5.0% | 0.6% | Motus | 0.5% | +0.0% |
| Total | | **+4.5%** | Total | | **0.0%** |

## Current positioning and outlook

The operating environment remained challenging during the first half of 2024.

Inflation, prolonged high interest rates, muted GDP growth and high unemployment continue to place local consumers under pressure. However, as we have communicated in recent reports, we have argued that due simply to base effects the outlook for domestic activity was improving, driven by the non-recurrence of negative factors such as the reduction in the intensity of load-shedding as privately installed solar and alternative energy sources relieved the pressure on Eskom. In reality, Eskom is performing better than we had expected. Lower inflation and interest rate cuts anticipated later this year are additional factors likely to boost consumption in SA and from September we will start to see the once off boost to be expected from the 2-pot retirement scheme relaxation which will allow households partial access to their retirement savings.

While we expect bumps in the road of a coalition government the GNU certainly raises the prospect for this to occur and we are in a better position to possibly succeed than at any time since 2008!

We expect slow but steady progress across a wide variety of activity as a result of the changes that have already been effected. This can drive a multi-year delayed recovery from very low levels of business and consumer confidence. Given how downbeat South African investors have become about our domestic prospects as a result of years of disappointment many will be slow to appreciate this. But as it gradually evolves and the multiple headwinds small and mid-cap businesses have faced for the last 14 years continue to improve they will return. There is a very reasonable case to be made that we are at the beginning of a multi-year upcycle for SA equity.

## Responsible Investment

Since the Paris Agreement in 2015, governments and societies have sought to accelerate the transition from fossil fuel-based to renewable-based energy systems to reduce carbon emissions. However, higher interest rates, elevated debt levels, inflation and complex geopolitics have limited the capacity of governments to fund the transition. Unfortunately, the world remains well off track to meet the Paris Agreement Goal of keeping global warming below 2°C above pre-industrial levels. In its assessment of progress towards 2030 targets, the Climate Action Tracker finds only 1 indicator of 42 is on track at the pace required. Assuming current policies and action, the world is on track for around 2.7°C of global warming by 2100.

In the face of the above data, it is of some concern to us that we have observed a growing anti-ESG rhetoric, particularly in the US, and which will likely be worsened by the possibility of a Republican presidency later this year. Even in South Africa, Eskom has recently been granted relief on emissions limits at some of its older coal-fired power stations.

After a flurry of interest and strong growth in 2020, dedicated ESG funds have experienced substantial outflows in the last 18 months. Partly, disappointingly, as a result of funds that were opportunistically launched into the fad and subsequently found by regulators and clients to have been fraudulently marketed and not managed in line with the fund's ESG mandate. But also due to poor performance. This illustrates the cold reality of the investment world – you must be able to produce returns acceptable to clients while at the same time consistently applying your ESG principles!

Abax is committed to investing in businesses that are proactively managing their interactions with society and the environment as well as taking steps to decarbonize their operations. This is turn will help protect our client portfolios from the systemic risks posed by climate change.

At Abax, we actively engage with companies and other stakeholders to address ESG issues. Notable ESG engagements during the second quarter of 2024 include:

- British American Tobacco: Engaged with company management with a specific focus on various regulatory issues.
- Raubex: Engaged with Board regarding adjustments to their remuneration incentive structure.
- JSE: Engaged with the JSE as a member of the JSE Buy Side Council. Issues addressed included policy & regulation, market trends and key JSE initiatives.
- JSE: Engaged with management regarding the need from relevant authorities across jurisdictions to adopt the ISSB standards – IFRS S1 and IFRS S2 (ESG disclosure) – on an economy-wide basis by 2025.

## Conclusion

Investors have been (understandably) incredibly negative on the prospects for genuine reform and economic growth in South Africa for over a decade. The economy has gone backward, evidenced by electricity shortages, the collapse of transport networks, rising unemployment, corruption and a fall in living standards, exacerbated by the Covid-19 pandemic. According to the World Bank, GDP per capita has fallen from a peak in 2011, leaving the average South African 23% poorer. Furthermore, public sector debt as a share of GDP has increased dramatically, with debt servicing costs consuming an ever-rising share of tax revenue – now >20%! Encouragingly, with the recent political landscape shift, there is for the first time since 2008 a realistic chance of economic reforms to drive growth and we see substantial further room for SA domestic equities to rally. Even after the initial re-rating, we believe our banks, retailers and specifically many of the neglected and forgotten midcap and small cap industrial companies remain very attractively valued in absolute and relative terms. In addition, there are multiple unrelated catalysts anticipated in the second half of 2024 which are growth positive including moderating inflation, lower interest rates, reduced loadshedding, improving Transnet performance and the boost to consumer spending as the 2-pot retirement saving system becomes accessible. Given the above-mentioned factors, together with the fact that our equity market is trading at a significant discount to emerging market peers, we are more optimistic about the prospects for the country's equities during the balance of the year and for the future than at any time since the GFC back in 2008. And the NI Entrepreneur fund is in our admittedly biased opinion THE best way to get exposure to this part of the SA market!

Thank you for your ongoing trust in us - we remain committed to the delivery of superior long-term investment returns while fulfilling our role as an active and responsible investor.

# 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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