NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MANAGED FUND

Quarter Two, 2024

Nedgroup Investments Managed Fund

Performance to 30 June 2024	Fund[1]	ASISA Category[2]
3 months	7.75%	3.80%
12 months	9.60%	10.29%

Market Overview

Signs of slowing in US

The US economy was buoyant through the second quarter; however negative economic surprises are revealing cracks. Historic payroll numbers are being revised down and the unemployment rate has risen to 4.1%. Consumers appear to have spent excess savings, built up over the pandemic period and the savings rate at 3.6% is now below pre-Covid levels. Higher rates on floating debt and tighter lending standards are creating a more challenging environment for borrowers, evident in rising credit card and auto loan delinquencies. Fixed long term mortgages remain shielded from the impact of tight monetary policy but higher rates on new mortgages remain a headwind for new property owners. Similarly, many corporates that are rolling debt will experience much higher rates.

Subdued private capex intentions, a high base of government spending (related to the Inflation Reduction Act) and lower emigration will also likely weigh on GDP growth next year. Although Inflation has been sticky, on balance it appears to be declining which should give the Fed room to start its cutting cycle. Hence, bond rates are more likely to drift lower from here. Earnings revisions continue to drift up, although this is due to large capitalisation shares. These two factors could support what is a relatively expensive market in the short term.

The higher likelihood of a Trump presidency increases global geopolitical and economic risk. The worrying long-term trajectory of US debt may well result in Republicans restricting his ability to engage in meaningful stimulus measures that were done during his prior term.

China remains in the doldrums

Chinese equity markets rebounded in the second quarter, boosted by investor sentiment and government initiatives to support the real estate sector. However, a People's Bank of China survey in Q1 2024 showed that the percentage of people expecting home prices to fall further reached a record high (22%). Property rental yields remain low relative to the rest of the world. Although household completions are at reasonable levels, new starts continue to fall which will weigh on future GDP growth.

China consumer confidence remains low albeit stable. Chinese economic growth is supported by exports and manufacturing capex. Exports remain at risk from escalating trade tensions. As economic growth is still in an acceptable range, it seems unlikely that any significant stimulus would be forthcoming at the upcoming third Plenum.

China's manufacturing activity remains resilient and Emerging market manufacturing PMIs are in expansionary territory. This should provide support for commodities.

[1] Nedgroup Investments Managed Fund, A-Class, net of fees.
[2] ASISA South Africa Multi Asset High Equity

Momentum stalling in Europe

The ECB met market expectations with a June rate cut, however, core inflation appears to be coming down slower than expected, held up by services inflation. Consumption is low relative to pre-Covid levels and capital expenditure remains depressed. Although this could present an opportunity, the PMI is now only marginally in expansionary territory and looking weaker than in the first quarter. Given Trump's isolationist stance, the equity risk premium in Europe could increase.

South Africa's new political dawn

The recent elections were a watershed moment for South Africa and its democracy. The collapse in ANC support left the ruling party in unchartered territory with the task of not only finding a new leadership solution but also including far larger opposition parties than initially thought.

Following two weeks of uncertainty and volatility as markets grappled with potential leadership outcomes, the formation of a Government of National Unity (GNU) was formally announced. The GNU, comprising the ANC, DA, IFP, GOOD, PA, PAC, and recently the FF parties, will hold 70% of the National Assembly seats under the presidency of Cyril Ramaphosa. Markets have welcomed the outcome given the centrist anchor, policy stability, and the potential for greater commitment to economic reform and growth. The ALSI gained over 5% in two days of trading following the public announcement while the Rand strengthened to just below R18 to the USD.

Outlook

Globally, inflationary pressures remain evident, but inflation does appear to be slowly gliding down. European policymakers have signaled divergence from the US with rate cuts at the start of June, but any significant shift in rates is unlikely to materialise until further signs of inflation being well under control are evident. Growth data for the US remains buoyant with reported GDP growth of 1.6% in Q1 2024 (annualized), however numerous factors are signaling a slowdown for the US economy.

Geopolitical risks across a number of regions remain elevated and continue to drive global economic uncertainty. While the election fears have settled in South Africa, the new leadership structure and GNU dynamics still need to be bedded down following the recent formation of a new Cabinet. The GNU parties are committed to a workable approach and frankly need each other. While challenges will occur it remains important to distinguish between market noise driving volatility vs fundamental changes that could impact the longer-term outlook. From a macroeconomic perspective, continued improvement to energy security, reform of rail logistics, water and infrastructure remain critical to longer-term economic growth in SA.

Performance Commentary

South African equities had a strong quarter (ALSI: 8.2%) as sentiment shifted in the lead-up to and after national elections. A surprisingly positive election outcome led to Rand strength and a re-rating of SA Inc stocks. Although performance has been strong, the index has experienced significant volatility given the election related uncertainty and news flow. SA bonds and Property responded well to election outcomes and in June the SA bond market (ALBI) delivered a best monthly performance since May 2020 of 5.2% bringing quarterly performance to 7.5% for bond investors. South Africa's currency was also supported by positive election sentiment gaining 3.7% in the quarter (3.1% in June) to become the best performing Emerging Market currency for the month of June and recovering losses from the first quarter of 2024.

From an equity perspective, the fund benefitted over the quarter from a meaningful position in Anglo American and other diversified miners. We sold down exposures in these counters given profit opportunities but remain constructive on copper on a medium-term view. Copper is benefiting from an improved outlook for global manufacturing and lower supply guidance from major miners is also resulting in a continuation of expected deficits.

Exposure to SA banking stocks, specifically Standard Bank, Nedbank and ABSA was a major contributor for the quarter. The local banking sector performed well, particularly in June when stocks re-rated following a relatively positive election outcome.

The SA bond market also benefitted from election sentiment and a strong rally in June resulted in fixed income exposures adding to fund performance.

Portfolio Movements

We had been steadily increasing our exposure to SA Inc stocks in the run-up to the elections, slowly removing our underweight, so that we entered the election period with a well-balanced portfolio. We increased exposure to banking shares, specifically Standard Bank and Nedbank and added to the SA retailers. We focused on companies trading on generous valuations, with good dividend yields and strong liquidity.

Against an uncertain backdrop our focus remains on managing a well-diversified portfolio and we have maintained positions in Bidcorp and some other Rand hedge stocks with attractive valuations. While many SA Inc stocks have re-rated and are closer to fair value, we maintain an overweight position in the larger SA banking shares given strong free cash flow and compelling dividend yields.

From a fixed income perspective, the fund has benefitted from exposure to duration. In our view, the bulk movement in yields due to a reduction in credit spreads is largely done and further upside would be driven by a decline in US real rates.

Improvements at both Eskom and Transnet are supportive of a better economic growth outlook in South Africa.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
R2035 8.875% 280235	13.65%	1.26%	Bid Corp Limited	2.83%	-0.31%
Anglo American plc	2.91%	1.03%	Anheuser-Busch Inbev SA/N.V.	3.99%	-0.29%
Standard Bank Group Limited	2.16%	0.52%	Sasol Limited	1.73%	-0.24%
Absa Group Limited	3.75%	0.51%	British American Tobacco plc	2.68%	-0.08%
Naspers Limited	6.22%	0.49%	Sirius Real Estate Limited	1.45%	-0.08%

Asset Allocation	Domestic	Foreign	Total
Equity	70.86%	-	70.86%
Fixed Income	24.01%	-	24.01%
Property	2.49%	-	2.49%
Cash	2.64%	-	2.64%
Derivatives	-	-	0.00%
Total	100%	0.00%	100%

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
The Standard Bank of South Africa Limited is the registered 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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