NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Two, 2024

Nedgroup Investments Opportunity Fund

Performance to 30 Jun 2024	Fund Performance[1]	ASISA category average[2]	Inflation + 5%
3 months	5.1%	3.6%	2.5%
1 year	7.4%	9.8%	10.5%
3 years	12.2%	8.6%	11.3%
5 years	10.7%	8.3%	10.3%
10 years	8.6%	6.7%	10.3%

Market overview

Elections dominated the news in Q2. Polls in the UK, France, India and Mexico all added to market volatility in those regions. And with Trump now the front-runner in the US after Biden's disastrous presidential debate, there may well be more to come.

In contrast, South African elections delivered a pleasant surprise for South African investors. With the ANC losing the majority vote for first time in 30 years, fears around an ANC, MK and EFF coalition kept investors wary. Encouragingly, this outcome was avoided and the formation of a Government of National Unity (GNU), that excluded these far left-leaning parties was well received by the market. Cabinet was formed on the 30 June, the composition of which was largely welcomed by market participants. In a key position, finance minister Godongwana was re-elected, signalling continuity in fiscal policy prudence.

Despite the macro uncertainty, the S&P 500 once again powered ahead, delivering 4.3% in Q2, despite being narrowly led by a handful of mega-cap tech and AI-related stocks. In general, however, developed market equities (MSCI World Index: 2.8%) under-performed emerging markets (MSCI EM Index: 5.0%) as softer US economic data and a rebound in China supported EM equities. Fixed income markets did little, as a hawkish FED and persistent inflation concerns tempered rate cut expectations. US Treasuries were flat.

Local assets were off to the races as it became apparent that the 'worst-case' election outcomes had been avoided. The All Share Index returned an incredible 8.2% for the quarter. Bonds delivered 7.5%, and listed property 5.5%. The ZAR appreciated 3.6% relative to the USD. These returns provide some welcome relief to disenchanted South African investors who have had little to cheer about for quite some time.

Portfolio Commentary

The Nedgroup Opportunity Fund (the Fund) delivered a return of 5.1% for the quarter against the peer group return of 3.6%. Over 1 year however, the Fund lagged peers by 2.4%. The Fund continues to demonstrate strong performance over longer time horizons, matching CPI + 5% since inception, and ranking amongst the top decile of the peer group.

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

[1] Net return for the Nedgroup Investments Opportunity Fund, A1 class. Source: Morningstar (monthly data series).
[2] ASISA Multi-asset medium equity category.

Top 5 winners and losers for Q2 2024:

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
R2040	20.4%	1.7%	**TBC Group**	2.3%	-0.5%
ABSA	5.0%	0.7%	**Abax Global Equity**	4.1%	-0.3%
R2037	4.7%	0.5%	**Sasol**	3.3%	-0.2%
Raubex	1.2%	0.3%	**MTN**	1.6%	-0.1%
African Rainbow Capital	0.9%	0.3%	**Li Ning Group**	0.4%	-0.1%
Total		*3.5%*	**Total**		*-1.2%*

Local bonds were volatile but rallied hard toward quarter-end post the favourable election result benefitting our holdings in the R2037 and R2040.

SA Inc shares including ABSA, Raubex and African Rainbow Capital also benefited from a flurry of demand for companies exposed to the South African economy. ABSA's performance could have been even better, if it was not for a subdued trading update relative to some of the other banks.

TBC Group, a low-cost financial technology company operating in Georgia, benefits from a low cost structure and continued digitalisation of the financial services industry with further strong growth expected. It's proximity and political friendship with Russia continues to put a lid on the valuation. Strong earnings growth, share buybacks, as well as an attractive valuation keeps us positive on this holding.

Abax Global Equity detracted slightly as the rand strengthened over the quarter.

Sasol continued to underperform as the deteriorating chemical prices put pressure on the Sasol share price. At the current P/E Ratio of <4x, negative news seems adequately discounted, and we retain our tactical position in Sasol.

Top 5 winners and losers for last 12m:

Top contributors	Ave. Weight	Performance contribution	Top detractors	Ave. weight	Performance contribution
R2040	16.6%	1.8%	**Sasol**	2.4%	-1.3%
R2037	3.7%	1.1%	**MTN**	1.2%	-0.7%
Dipula Property	1.9%	0.6%	**Hello Group**	1.3%	-0.6%
Raubex	0.9%	0.6%	**Brait**	0.3%	-0.4%
Merafe	0.9%	0.5%	**JD.COM**	1.8%	-0.2%
Total		*4.6%*			*-3.2%*

Our long duration in bonds were the major contributors to performance over the last 12 months, as the market embraced a positive South African election.

Property shares rallied over the last quarter, on the back of the bond rally and optimism about improving property fundamentals. Dipula continues to trade at an attractive discount to its Net Asset Value.

Raubex also benefited from interest in SA Inc shares, and currently has a record order book, boding well for earnings growth in the coming years. Delayed spend and neglected maintenance on the South African roads "paves the way" for medium term earnings growth.

As mentioned, Sasol continues to disappoint as pressure on chemical prices reduced earnings expectations. Sasol faces various challenges, from low chemical prices, a declining gas reserve, high debt levels and carbon taxes to name a few. Despite this, the share is discounting the negative news and is trading at an attractive valuation. This is however not a core holding of the Fund and we will look to reduce our position into strength.

MTN continues to be plagued by Nigerian uncertainty regarding potential tariff increases by the Nigerian regulator. This places a strain on their ability to extract cash from Nigeria. MTN has an attractive fintech business offering high earnings growth that will become more material to the group in time. MTN trades at a 10x FPE on a low earning base.

Both Hello Group and JD.Com detracted from performance as negative sentiment towards Chinese equities remains. Both companies have net cash on their balance sheet with Enterprise Valuations of between 2x – 4x. This effectively means that the companies “earn” their market cap in 2-4 years!

Brait was under severe pressure as a deeply discounted rights offer was announced. The company is trading at a large discount to the post-rights NAV and we intend to follow our rights.

Current positioning and outlook

Local bonds were volatile but rallied hard toward quarter-end post the favourable election result. We were quite active given the large moves, but ended the quarter with a similar allocation to bonds compared to where we started. We are of the opinion that the risk premium required to invest in SA is lower now than it was prior to the election, so despite the strong rally in bonds, they still appear reasonable.

US Treasuries at 4.5% represent the highest yields in nearly 20 years and provide useful diversification benefits in times of economic slowdown or market drawdowns. We have maintained our modest allocation.

The South African equity market continues to be attractively priced, both on a relative and absolute basis. We prefer quality counters and global businesses that can grow over time, rather than those that are simply dirt cheap but are not value creating companies. A number of our domestic focused businesses have rallied hard and although they are no longer mouth-wateringly cheap, they are still attractive propositions.

We view US equities to be on the expensive side, especially on a relative basis. Interestingly, the narrowness in the US market has increased further, and the bulk of the performance has been contributed by a small handful of popular tech stocks. Our preference remains for Chinese equities, offering an attractive risk/return pay-off profile and compelling opportunity set but are cognisant of the risks and will therefore limit our maximum overall position.

Conclusions

We maintain a defensive positioning. We have taken some profits into the recent strength but retain a healthy exposure to a further South African recovery. Our portfolio valuation metrics remain attractive, with a running yield of 8%. 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 allow investors to structure long term inflation beating portfolios. Current conditions are conducive to structure capital protected notes, and these currently constitute 11% of the Fund.

The Fund is diversified with a healthy balance between growth assets and capital protection to enable us to aim for our dual objective of capital protection and upside participation over the appropriate time-frames.

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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