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NEDGROUP INVESTMENTS
Private Wealth Equity Fund
Quarter Two, 2024

Nedgroup Investments Private Wealth Equity Fund

Performance to 30 June 2024	Fund[1]	Benchmark[2]
3 months	9.1%	8.0%
12 months	15.8%	8.1%

Market Overview

Local indices rallied as the ANC led Government of National Unity (GNU) agreement with the DA and smaller parties took shape in Parliament with expectations that this would filter through to the cabinet. The Top 40 (+3.7%), All Share (+4.1%) and Capped Swix (+4.2%) all saw positive gains for the month. Bonds outperformed however, with the ALBI (+5.2%) rallying on news of the Government of National Unity. The ZAR strengthened over the month while R214 yields declined by 26bps to 11.9%. Key sector leaders were: General Retail (+17.1%) and Banks (+16.2%) with key performing names including Foschini (+34.2%) and Capitec (+23.4%). Underperforming sectors include Industrial Materials (-9.3%), Oil, Gas and Coal (-5.6%) and Industrial Metals and Mining (-4.8%). MSCI South Africa rallied 9.2%, outperforming MSCI World (+1.9%) and MSCI EM (+3.6%) in USD terms.

The risk-on soft-landing narrative dominated US markets in June. US equities continued their tech-led gains while lower yields sent Treasuries higher. The S&P 500 rallied by 3.6% with the MSCI EM outperforming MSCI World markets in June, delivering a 4.0% return versus 2.1% for MSCI World. The price of Brent Crude Oil was 5.9% higher while Cocoa (-17.1%) was one of the worst performing commodities in the month. The rand appreciated by 3.1% against the US dollar, becoming the best performing global currency for the month of June. After depreciating against the dollar by 3.4% in Q1 2024, the rand appreciated by 3.7% during Q2 2024, to end relatively flattish against the dollar for the first half of 2024.

The Reserve Bank's Monetary Policy Committee (MPC) left the repo rate unchanged at 8.25% and remains cautious. Market expectations remain for two interest rate cuts of 25bps each towards the end of this year.

On the energy front, Eskom has reached three straight months with no power cuts, with performance in the grid boosted by the addition of 800MW of capacity from Kusile's unit 5 coming back online.

The known unknown at the end of last month was what South Africa's political structure and affiliations would be. A government of national unity (GNU) has been formed and after multiple starts and stops (causing short-term currency volatility), an expanded cabinet has been announced. We now look for evidence of growth friendly reforms and implementation. The USDZAR began the month at 18.8 dipping below 18.0 on the announcement that a GNU would be formed and then spiked to just below 19.0 on news that negotiations between the ANC and the DA were faltering, ending the month at 18.0 following the cabinet announcement. For interest, and a slightly longer-term perspective, the rand is 0.2% stronger relative to the dollar year-to-date.

Portfolio Commentary and Activity

For the quarter under review, the fund outperformed its benchmark by 1.1%. The major contributors to this performance were the fund's holdings in Alphabet, Altron and Mr Price. In addition, underweight positions in Goldfields, Northam and Anglo Platinum also added to relative performance. Please refer to the table below for detailed attribution.

After a few quiet quarters, the second quarter of 2024 proved rather eventful, and saw the fund being active across a few different positions. Early in the quarter, our position in Northam was exited on the back of an updated thesis which, on a go-forward basis, proves less compelling than when we initially invested in the business.

[1] Net return for the Nedgroup Investments Private Wealth Equity Fund, A class. Source: Morningstar (monthly data series).
[2] Benchmark is the Capped SWIX40

While we still believe the group has good assets, the expected return on our updated forecasts does not warrant a position, as weaker industry fundamentals persist with no sign of permanent supply cuts (the only solution in our view).

The big news during the quarter was the failed takeover bid by BHP of rival miner Anglo American. After a few back and forth moves between the management teams and the board of directors, the revised offer of ~GBP31/share (>40% premium) failed to be passed on to shareholders. The Anglo board noted complexity, valuation, and risk of the structure of the deal (equity exchange with subsequent unbundling of the SA assets) as key push back areas. While we note the complexity of the Anglo structure (SA and offshore assets alongside a dual listing) to eventually unlock value for shareholders, we were disappointed in the outcome. The share price at the time of writing is 21% below the offer price, with management's plan to restore value likely to play out over 18-24 months. We trimmed some of our position during the PUSU phase of the proposed deal with a view of increasing deal risk, but Anglo remains the fund's preferred mining exposure.

The long-awaited SA election took place at the end of May, with early tensions already evident between the various GNU parties as the market awaited the important cabinet announcement. On the last day of the month, a Sunday, a reasonably balanced cabinet was announced, with some compromises made by the ANC. We believe it will take 12-18 months for the dust to settle with the new structures, for any meaningful execution or changes to take place. Notwithstanding this time frame, our house-view is incrementally more positive on the high road scenario for SA Inc post the election outcome, and as such, we have repositioned portfolios on the margin to reflect this view.

Discovery was a topical holding during the period, as it was disproportionately impacted by negative sentiment on SA Inc, the signing of the NHI bill into law pre-election, as well as record selling by foreigners on the JSE. The fund took the opportunity to add to its position on what we believed was an extremely discounted valuation, even in a worst case NHI scenario. To give a sense of the volatility during the quarter, Discovery fell ~20% from March (we considered it cheap then already) to a low of ~R109/share, and as of writing, it is back at R140/share. A gain of ~29% from the April low. At current levels, we continue to believe that the market is under-appreciating the growth and optionality the group offers.

Detailed fund attribution: Q2 2024

Top 5 contributors and detractors for Q2 2024: Overweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Altron	3.1%	0.5%	**Brookfield**	4.5%	-0.8%
Mr Price	2.2%	0.2%	**Cigna**	3.0%	-0.7%
Alphabet	4.6%	0.2%	**Comcast**	2.2%	-0.5%
Discovery	1.4%	0.2%	**Advtech**	2.0%	-0.1%
Bidvest	1.8%	0.2%	**Sasol**	0.2%	-0.1%

Top 5 contributors and detractors for Q2 2024: Underweight positions

Top contributors	Average relative weight	Performance contribution	Top detractors	Average relative weight	Performance contribution
Goldfields	-5.6%	1.0%	**FirstRand**	-3.2%	-0.5%
Northam	-0.6%	0.5%	**Capitec**	-1.0%	-0.2%
AB inBev	-1.9%	0.3%	**Shoprite**	-2.6%	-0.2%
BHP	-2.2%	0.3%	**Clicks**	-1.5%	-0.1%
Anglo Platinum	-0.8%	0.3%	**Implats**	-1.6%	-0.1%

Current positioning and outlook

Global markets continue to be sensitive to potential and forward-looking interest rate decisions. In the US, the AI theme remains dominant, with many technology companies reaching new all-time highs during the quarter. Nvidia crossed the magic $3 trillion market cap level, as demand for its data centre products along with new launches, saw the market willing to pay ever higher multiples of sales for the business.

Locally, while we are not of the view that SA is firmly on the path to a high road scenario – characterised by the accelerated implementation of reforms and sustainably higher economic growth – we do believe that the probability of this outcome materialising over the medium term has increased. The significant political realignment post elections together with incremental improvements at Eskom (~100 days with no loadshedding) and Transnet and an impending interest rate cutting cycle provide us with reasons to be more constructive on SA and domestically focused businesses. We note that many SA Inc shares continue to trade on well below long-term average valuations and in some cases, significantly below valuations reached during the "Ramaphoria" era.

At quarter end, the fund has ~21% of its capital directly offshore and the top 10 holdings account for 44% of the capital. Despite the volatile conditions over the last few years, the fund has performed relatively well, ranking 7/167 and 55/154 in the ASISA general equity category over one- and three-year periods respectively. While we are cognisant of the many factors that are likely to keep markets uneasy over the second half of this year, our approach remains 'long-term, well considered' with the aim of protecting and growing the capital of our unit holders. We thank our unitholders for their continued support.

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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