NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS FINANCIALS FUND

Quarter Three, 2024

Nedgroup Investments Financials Fund

Performance to 30 September 2024	Nedgroup Investments Financials Fund[1]	Benchmark: FTSE/JSE SA Financials Index
3 Months	11.1%	14.3%
12 Months	35.4%	39.8%

Market Commentary

Global markets

Global equity markets continued their strong performance. In Q2, the S&P 500 and MSCI World indices gained 7.4% and 6.8%, respectively, and in Q3 they delivered 5.9% and 6.4% in US dollar terms. A 0.5% rate cut delivered by a dovish US Fed, continued resilience of high frequency economic data releases and a stimulus package delivered by the politburo in China all contributed to the strong performance. Yields on US government bonds with 10 years to maturity ended the quarter at 3.7% (from 4.5% at the end of Q2), resulting in capital gains for fixed income investors.

At a global equity sector level, utilities (+17.6%), real estate (+16.9%), and financials (+10.7%) were the strongest performers for the quarter. Energy (-2.4%), IT (+1.5%), and communication services (+2.8%) were the weakest performers. Geopolitical tensions remain a concern but have had very little negative consequences for markets.

South African markets

The lack of loadshedding, a stronger rand and the potential for lower interest rates have contributed to improved optimism following the elections. In the last week of September, the announcement of the Chinese stimulus package contributed meaningfully to the value of South African assets.

South African assets delivered significant returns to investors in the quarter. The FTSE/JSE Capped SWIX gained 9.6%, the FTSE/JSE Property Index climbed 18.7% and the FTSE/JSE All Bond Index gained 10.6%. Domestic money markets gained 2.1% over the quarter.

Fund performance

The Nedgroup Investments Financials Fund (the Fund) closed strong over the quarter (11.3%), outperforming the FTSE/JSE All Share Index total return (9.6%). The 20% offshore allocation and the large investment in Investec detracted from the strong local share portfolio returns, hence the Fund underperformed its benchmark which delivered 14.3%.

Based on the increasingly attractive valuations of SA financials (refer our March 2024 quarterly commentary) we switched about 6% from the offshore investment into South African banks and JSE (the listed share). We did this to increase the Fund's SA investment to a level that we felt reflective of the future growth potential given the low valuations (and hence potential upside) of locally listed shares. With hindsight, we should have switched a bigger portion, but we thought that irresponsible at the time. The risks of failure to implement growth policies remains real, as does the risk that the GNU won't play out as hoped. Besides, the global financial sector continues to deliver good shareholder value growth (around 10% to 14%, and higher), and we believe it will continue generating similar returns in a lower interest rate environment. Hence, we feel a direct exposure to offshore markets of 18% (via the Denker Global Financial Fund) and indirect exposure of around 12% (via Investec, Sanlam, OUTsurance and Standard Bank) reflects the current risks and upsides well.

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

Top/bottom contributors

Top contributors	Ave. weight	Performance attribution	Top detractors	Ave. weight	Performance attribution
Momentum Group	5.6%	0.54%	Standard Bank	8.05%	-0.25%
Reinet Investments	0.0%	0.25%	Sanlam	13.24%	-0.38%
Old Mutual Limited	0.0%	0.10%	Discovery	0.0%	-0.46%
PSG Konsult Limited	0.0%	0.08%	Investec (Plc & Ltd)	9.62%	-0.68%
Sirius Real Estate Ltd	0.0%	0.05%	Denker Global Financial Fund	18.72%	-1.93%

Source: StatPro

Top 5 contributors

- **Momentum Group:** We increased our holding in MMI considerably in 2023, based on a number of meetings with the management team which corroborated our research. The decision has been vindicated, with the group reporting very good financial results and investors being rewarded with a re-rating of the share.
- **Reinet Investments:** The Fund has no exposure to either Reinet or Remgro, often used by other investors to gain offshore exposure. This is due to the Fund's 18% investment in the Denker Global Financial Fund.
- **Old Mutual Limited**: Despite its seemingly attractive valuation, the Fund does not hold Old Mutual, as we are not convinced about the management team's ability to consistently invest and allocate capital optimally.
- **PSG Konsult and Sirius Real Estate Ltd:** The Fund does not hold PSG Konsult or Sirius.

Top 5 detractors

- **Standard Bank**: A detractor due to having a below index investment in Standard Bank - because of the decision to have a 10% investment in Investec and 18% directly offshore.
- **Sanlam:** Sanlam represents the Fund's third largest investment and did reasonably well (9.7%) but this was below the FTSE/JSE FINI performance due to Sanlam's large investment in India (via Shriram Finance) which pulled back during the quarter. We retain the strong overweight in Sanlam due to its inherent high growth potential in India and Africa.
- **Discovery Holdings**: As per our comments in past quarterlies, we rate the management team's ability to build businesses highly but feel that it tackled too many projects at the same time - which increases financial risk. Hence, the Fund does not have an investment in Discovery Holdings.
- **Investec:** Investec management continue to grow the franchise both in SA and UK and we continue to hold a large investment in the group. During the quarter, however, the market sold Investec down due to ~50% of its earnings and assets being UK-based. The new UK Labour government seems to have a market friendly growth-oriented policy which should be good for Investec's UK operations.
- **Denker Global Financial Fund:** The global fund generated a satisfactory result over the quarter, measured in US dollars (the A class gaining 10.2% year-to-date) but this didn't match the strong re-rating of the SA bank shares. In addition, the rand strengthened by 3.9%, further detracting from the performance relative to the FINI. However, the Fund is well poised to benefit from lower interest rates in the US and elsewhere towards the end of the year. We remain of the opinion that, on a risk adjusted basis, this investment remains very attractive and a good hedge against the risk of the GNU not working out.

Current positioning and outlook

As mentioned, we used the attractive valuations before the election to increase exposure to SA banks. This quarter did see a strong re-rating, but we feel the sector has not yet re-rated to the levels it should trade at should South Africa return to being a 3%+ growth country. Hence, we remain positive about the future returns of the Fund.

In addition, the Fund continues to own an 18% direct investment offshore in the global financial sector, which should benefit from a re-rating and stronger growth as US (followed by global) interest rates start coming down. If interest rates do not come down, the sector will possibly not benefit from a strong re-rating, but it should continue to grow shareholder value at 10%-15% per annum (measured in US dollars).

Responsible Investment Comments

An extract from BlackRock's annual report is very interesting. It highlights that support for shareholder proposals on environmental and social issues has fallen to a fraction of its 2021 peak, even as its support for governance-related questions rose. In the 12 months to the end of June, BlackRock supported just 20 of the 493 environmental and social proposals put forward by shareholders at annual meetings, or about 4% of the total, according to its annual investment stewardship report. That compares with a high of 47% in 2021. At this stage we do not have the time to interrogate these statistics, but it might highlight that resistance to the plethora of proposals is increasing.

On the other hand, ING (one of the holdings in the Denker Global Financial Fund) has disclosed that it will no longer fund so-called pure-play fossil-fuel companies that continue to develop new oil and gas fields, which builds on an earlier commitment to cease all financing of upstream oil and gas activities by 2040. ING has also quantified its outstanding exposure to upstream oil and gas activities at €1.2bn (a near-40% reduction y/y). The Financial Times cites ING saying that it will end ties with large clients who it thinks (case-by-case basis) aren't making enough progress (by a 2026 cut-off) on lowering their own climate impact. Again, this would point to European banks being willing to take bolder moves sooner on green policies than their US peers.

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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