NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Three, 2024

Nedgroup Investments Opportunity Fund

Performance to 30 Sept 2024	Fund Performance[1]	ASISA category average[2]	Inflation + 5%
3 months	11.5%	5.5%	1.9%
12 months	19.7%	17.4%	9.6%
3 years	15.2%	9.7%	10.9%
5 years	12.9%	9.3%	10.2%
10 years	9.7%	7.2%	10.2%

Market overview

China's economic measures, announced in late September, played a crucial role in revitalising markets. The People's Bank of China (PBoC) launched its most substantial stimulus since the COVID-19 pandemic, aimed at bolstering the struggling property sector and enhancing economic growth. Following this, Chinese leaders pledged fiscal support during the Politburo meeting, indicating a heightened urgency to address the country's self-inflicted growth challenges. These decisive actions are expected to improve both economic performance and market sentiment.

In the U.S., the Federal Reserve initiated a more accommodative stance by cutting interest rates by 50 basis points, marking the beginning of a series of anticipated cuts from central banks globally, including the European Central Bank (ECB) and other developed and emerging market banks. The South African Reserve Bank (SARB) also joined in, reducing its repo rate by 25 basis points, in response to an improved domestic inflation outlook.

While the shift towards supportive monetary policies is encouraging, uncertainties loom due to escalating conflicts in the Middle East, which could impact shipping and oil prices. Unlike past conflicts, recent diplomatic efforts have not yielded compromises, adding to the volatility. Additionally, the outcome of the upcoming U.S. elections in November holds significant implications for both domestic and foreign policies, particularly regarding China.

Sentiment in South Africa has turned positive since the formation of a government of national unity, contributing to a more favourable equity market environment. The JSE ALSI rose over 15% since the elections, bolstered by improved business confidence, which reached a two-year high, and a strengthening rand, which has been one of the top performers against the U.S. dollar this year. The upcoming Medium-Term Budget Policy Statement is expected to further enhance sentiment by detailing policies on infrastructure and addressing state enterprise debt issues, particularly concerning Transnet and Eskom.

Global stocks experienced significant gains, with the MSCI World index returning 6.5% in U.S. dollars and MSCI Emerging Markets outperforming at 8.9%, largely driven by a strong recovery in Chinese equities.

The Hang Seng index was a standout, surging 21.7% following the aggressive stimulus from Beijing. U.S. stocks maintained their upward trend, with the S&P 500 rising 5.9% for the quarter. Locally, equities also performed well, with the FTSE/JSE ALSI returning 9.6%, and the property sector shining with an 18.7% quarterly return, bringing its annual performance to an impressive 51.3%.

Bonds rallied alongside equities, with the U.S. 10-year yield dropping by 62 basis points and local bonds (ALBI) climbing 10.6%. The rand appreciated 5.1% against the dollar, reflecting the benefits of global stimulus and improved domestic sentiment.

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[1] Net return for the Nedgroup Investments Opportunity Fund, A1 class. Source: Morningstar (monthly data series).

[2] ASISA Multi-asset medium equity category.

Portfolio Commentary

The Nedgroup Opportunity Fund (the Fund) delivered a return of 11.5% (net of fees, A1 class) for the quarter against the peer group return of 5.5%. The strong performance for the quarter placed the Fund ahead of peers by 2.3% over the past year and ranks among the top decile of the peer group over the long term. The Fund continues to achieve its real return objective of CPI + 5% since inception.

We will continue to monitor market conditions and adjust our investment strategy as necessary, ensuring we continue to achieve the real return objective over the long-term.

Top 5 winners and losers for Q3 2024:

Top contributors	Ave. weight	Performance	Top detractors	Ave. weight	Performance
R2040	18.3%	2.4%	Sasol	2.5%	-0.4%
Brait	0.7%	1.0%	Sasol Structured Note	0.6%	-0.2%
Absa	4.5%	0.6%	Abax Global Equity Fund	3.7%	-0.1%
Qifu	1.4%	0.6%	US T-Bill	2.3%	-0.1%
Alibaba	1.3%	0.6%	US Dollars	1.0%	-0.1%
Total		*5.2%*	**Total**		*-0.9%*

Local bonds were volatile but continued to rally during the quarter as South Africa's country risk premium declined benefiting our holding in the R2040.

'SA Inc' shares, including ABSA and Brait, also benefited from a flurry of demand for companies exposed to the local economy. While only short term, we are encouraged by the outperformance of ABSA relative to the Banks index and, with the SARB likely to continue cutting rates, it should have a relatively higher positive impact on the share price due to their improved Credit Loss Ratio (CLR) and hedging strategy.

Qifu and Alibaba gained from the positive change in sentiment towards Chinese equities and we continue to see opportunity in this market with some companies having net cash on their balance sheet and Enterprise Valuations of between 2x – 4x.

Sasol continued to detract from performance on the back of a poor production update exacerbated by a weaker oil price and a stronger rand.

Abax Global Equity and US cash type instruments detracted slightly as the rand strengthened over the quarter.

Top 5 winners and losers for last 12m:

Top contributors	Ave. weight	Performance	Top detractors	Ave. weight	Performance
R2040	17.8%	4.7%	Sasol	2.3%	-1.8%
R2037	3.5%	1.6%	Sasol Structured Note	0.4%	-0.3%
US Dollars	0.6%	1.0%	Sasol Bond	1.7%	-0.2%
Raubex	1.1%	1.0%	TBC Bank	2.1%	-0.1%
Qifu	1.1%	0.9%	Swatch Structured Note	0.3%	-0.1%
Total		*9.2%*			*-2.6%*

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 and more political certainty.

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 continue to "pave the way" for medium term earnings growth.

Sasol continued to under-perform over 12 months, as the deteriorating chemical prices, a weaker oil price and a stronger rand put pressure on the Sasol share price. However, the market fundamentals are at a cyclical trough, and coupled with mining productivity improvements, overall group earnings and cash flow should start to ease the pressure. This is however not a core holding of the Fund and we will look to reduce our position into strength.

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 to, 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.

Current positioning and outlook

We were active given the large moves in local bonds but ended the quarter with a lower duration. We are of the opinion that the risk premium required to invest in SA is lower than at the start of the year, and despite the strong rally in bonds, they still appear reasonable.

US Treasuries are providing their highest yields in nearly 20 years and present useful diversification benefits in times of economic slowdown or market drawdowns. We have maintained our modest allocation.

Pockets of the South African equity market are 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. 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, however we are cognisant of the risks and limit our maximum overall position.

Conclusion

We've maintained our defensive positioning. We have taken some profits into the recent strength but retain a healthy exposure to a continued 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 this basket currently constitutes 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.

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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