NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MANAGED FUND

Quarter Four, 2024

Nedgroup Investments Managed Fund

Performance to 31 December 2024	Fund[1]	ASISA Category[2]
3 months	-1.15%	0.31%
12 months	14.35%	16.52%

Market Overview

The return of Trump

Donald Trump's victory for a second presidential term and the Republican's gain of Congress drove a US equity market rally over the quarter. The market was cheered by Trump's campaign promises to cut taxes and reduce regulations which would be pro-growth and support the US earnings outlook. However, Trump's proposed tax cuts, additional trade tariffs, and immigration clampdowns would also be inflationary. This, coupled with a strong labour market and buoyant economy, has given the US Fed reason to slow the pace of interest rate cuts in 2025.

The US bond market responded to the increased inflationary outlook, with US 10-year real rates moving up to 2.23% by the end of the quarter. The market is now only pricing 50bps of cuts over the next year, down from previous expectations of 175 bps. Overall, the US economy remains strong with the latest Atlanta Fed's GDPNow model estimating GDP growth to be 2.6% for Q4, whilst unemployment remains low at 4.2%.

Higher growth expectations have offset the impact of higher bond yields and inflationary concerns, resulting in the S&P500 delivering a return of 2.4% over the last quarter. The breadth of the rally remains narrow, with the equally weighted S&P500 index declining by 1.9%. The Magnificent 7 continue to be the key driver of the US stock market return and represent over a third of the Index weight.

While Trump's policy direction is broadly clear, the timing and extent of these changes remain unknown. Proposed tariffs may appear draconian but could also be used as trade negotiating tools with the likes of China and Europe. Trump's top tariff target remains China; however, US tariff increases create risk for the EU region. Europe, as a manufacturing and export hub, will need to rely on European consumers to mitigate some of this headwind to its GDP growth. With inflation falling, rate cutting in Europe has begun, and further reductions of over 100bps in 2025 are expected.

Risks pushed out

On a forward PE of 22, the S&P500 remains expensive relative to history and relative to bond valuations. We estimate that the expected excess return of the S&P500 over the bond yield is less than 1%. However, rising consumer confidence levels and continued buoyant economic growth could continue to support the current expensive valuations. While inflation tail risks remain a concern given

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

Trump's policies, the continued productivity growth of circa 2% achieved over the last few years, coupled with a moderation of tariff implementation could keep inflation in check.

Despite being expensive on a purchasing power of parity basis, the dollar is likely to remain strong due to higher interest rates and resilient growth, especially relative to the struggling economies of Europe and China. A strong dollar would keep rising US debt concerns at bay and enable the Treasury to maintain an elevated budget deficit, which would benefit growth. Ultimately, this will be a headwind as deficit spending as a percentage of GDP is more than double the 50-year median of 2.9%. The Congressional Budget Office is forecasting debt to GDP to rise by a further 22% over the next decade from a current level of 100%, which is already above the World War II peak.

Uncertainty is set to continue in 2025 as the global impact of Trump 2.0 and the far-reaching impact of policy changes begin to unfold. The impact of the US becoming more internally focused and less concerned with the state of the world is a significant change not seen since World War II, which was followed by a global order of cooperation and globalisation, including the formation of global organisations like NATO, IMF and WTO. High levels of global economic growth and security driven by globalisation are now under threat. The implications are difficult to determine and quantify but will likely be negative for global growth prospects.

China preparing for change

China remains sluggish, and the Chinese consumer weak. The economy continues to export deflation, with the latest PPI print at - 2.5%.

The impact of significantly higher tariffs on Chinese exports to the US and China-US trade policy changes will be negative for the Chinese economy, but the extent remains uncertain. Unlike Trump's previous presidential term, China has had more time to position for the outcomes of potential change, and efforts include increased trade with the rest of the world. China's share of exports to the US has declined from a peak of 22% six years ago to the current 13.5%. China's announcement to ban exports to the US of several critical metals used in high-tech and military applications was also a retaliatory shot across the bow.

Local measures may mitigate pressure from the US. The Politburo has recently stated that they have shifted their monetary policy stance for the first time since 2011 and will adopt a "moderately loose" monetary policy in 2025. More importantly, they have signalled further fiscal support is in the pipeline, the degree of which will likely be influenced by the extent of tariffs from the US.

China's key economic problem remains a lack of consumer confidence and spending. Concerns around financial well-being have resulted in birth rates nearly halving from pre-Covid levels which has significant negative consequences for long term growth. Income growth has also slowed disproportionately for lower-income groups. Stimulus will need to take the form of welfare measures to instil some level of consumer confidence and encourage spending from a large savings pool. Unfortunately, the Communist Party's draconian approach to governing increases the risk of maintaining the depressed status quo of the consumer.

Real estate investment has been steadily reducing as a percentage of Chinese GDP. Hence, the current base of demand for commodities like iron ore and copper should be reaching more sustainable levels. This provides some underpin for miners listed on the JSE.

While the outlook for the Chinese economy remains lacklustre and the quantum and nature of stimulus over 2025 remains uncertain, there is still reasonable economic growth and a number of well-run companies with healthy balance sheets that are trading on cheap valuations.

South Africa ended the year stronger

Recovery in pockets of the SA economy continues. Whilst Q3 GDP was disappointing because of agricultural contraction, household consumption expenditure and gross fixed capital formation expanded. SA's economy should feel the boost of lower inflation as inflationary pressure remains benign at this stage. SA retailers (primarily Pepkor and Mr Price) printed positive double-digit revenue growth for October and November. This is likely driven by consumers spending their available savings from the introduction of the Two-Pot retirement system. Trading updates from SA Banks signalled that credit loss ratios are improving.

Encouragingly, S&P revised South Africa's credit rating outlook to Positive, reflecting their view that improved political stability and steps to reform will boost private investment and GDP growth. Transnet has recently announced eagerly awaited market-friendly rail tariffs, which will allow the private sector to dramatically improve rail volumes and deliver consequent GDP growth.

As mentioned in prior commentaries, a few government reforms are already benefiting growth, including easier access to visas for skilled workers and tourists. This, coupled with lower oil prices and reduced imported diesel volumes from Eskom, should benefit South Africa's current account. Looking ahead, continued progress at Eskom and Transnet and delivery of key services like water are critical. Treasury bypassing some of the problematic municipalities and paying an equitable share directly to some Water Boards will hopefully go some way to rectifying the current unsustainable situation.

We remain optimistic that a SA GDP recovery in 2025 will continue to be supported by an improved political landscape, cyclical factors, and ongoing growth-supportive reforms. Whilst Retailer's valuations are now above their 10-year medians, most Financials are still trading at discounts to their long-run valuations. Should GDP growth remain on a sustained trajectory, both sectors could benefit.

Performance Commentary

South African equities lost ground in the fourth quarter of 2024 (Capped SWIX: -2.1%). This was largely due to concerns over the global impact of president elect Donald Trump's proposed policies, a surging US Dollar and subsequent fall in commodity prices. SA Equity performance for the year was however strong at 13.4% and up from 2023. SA Property was once again the best performing asset class for 2024 delivering a stellar 29%, however, Q4 performance similar to equities was weaker (SAPY: -0.8%).

While SA Financials also weakened in Q4, the sector benefitted from post-election GNU sentiment delivering a total return of 23.1% for the year. Similarly, SA Industrials performed well for 2024 at 18.5% as SA Inc stocks continued to re-rate. SA Resources struggled in Q4, declining 9.0%, leading to a loss of -8.6% for the year.

SA bonds (ALBI) gained just 0.4% over the quarter with SA cash becoming the best performing local asset class for Q4 (STEFI: 2.1%). After a period of strength in Q2 and Q3, the Rand weakened by 3.1% over the quarter ending the year at R18.9 to US$1. This was largely a result of US Dollar strength.

From a local equity perspective, the fund benefitted from exposure to SA apparel retailers, specifically Pepkor. We have held the local retailer given compelling valuation metrics and further earnings recovery. Overall, an overweight exposure to SA Retail benefitted the fund in Q4 as the sector continued to re-rate following the national elections and has subsequently benefitted from the recent implementation of the Two-pot retirement system.

Mining stocks continued to underperform over the quarter given lower metal prices and weakened commodity sentiment given potential implications of Trump policy. A position in diversified miner Glencore and Anglogold therefore detracted from quarterly performance. We had held Glencore in the fund given a constructive medium-term view on copper. Commodities outlook remains uncertain.

The largest detractor over the quarter was Anheuser. Meaningful emerging market exposure and hard currency debt, which was impacted by significant US dollar strength, weighed on share performance. Despite the above, Anheuser's valuation metrics remain compelling, and the business is underearning vs. its long-term potential.

Portfolio Movements

We maintain exposure to the larger SA banks within the SA equity allocation given strong free cash flow and compelling dividend yields as well as a supportive macro-economic environment with the softening interest rate cycle. Over the quarter, we took profits in China exposed counters (Naspers, Prosus and Glencore) following a September rally as Chinese stimulus measures were announced. Compelling valuation metrics following significant valuation downgrades meant we added exposure to Richement over the quarter.

From a fixed income perspective, while the fund benefited to some extent from its exposure to duration, a significant portion of our fixed income assets remained invested in the floating rate notes which underperformed fixed rate longer dated bonds. The reduction in yields was driven by a contraction in the sovereign credit spread and a fall in US bond yields. We think these have limited room to fall from current levels.

South Africa's economic growth outlook continues to improve given continued evidence of reform to infrastructure, specifically Eskom and Transnet. The outcome of the SA elections also provided political stability. The impact on global growth from a US policy change following Trump's victory remains uncertain. While many SA Inc stocks have re-rated and are closer to fair value, we maintain an overweight position in domestically focused companies with strong free cash flow and compelling dividend yields.

Responsible Investing

Regulatory environment

- Trump's victory as US president means it is likely that the US will exit the Paris Agreement and not take part in the COP process.
- COP29 took place in November 2024 in Baku, Azerbaijan. A key and disappointing outcome for developing nations was the updated agreement and quantity of financing from developed nations. The amount committed of USD 300bn per annum is below the proposed USD 1.3 trillion. A number of items also appear to have been kicked down the road to the next COP.

- EU deforestation regulation has been delayed by one year. This raises questions as to whether there are other. EU regulations that might be diluted.
- China Securities Regulatory Commission (CRSC) has released guidance on market value management for listed companies as part of comprehensive reform and opening up of the capital market. Practical measures are being introduced to facilitate market access - leading to an increase in shareholder value and increased share buybacks.

We continue to engage companies we own on relevant ESG topics - both sector and company specific. Examples include:

- Mozambique unrest: We engaged Grindrod management on the Mozambique border protests. While there is military presence, the safety of workers could not be guaranteed, which led to port closure and not accepting trucks across the border.
- Succession planning: We engaged with companies on their succession planning for the Board of Directors, where we held concerns around director independence on certain committees and overall independence of directors.
- Commission arrangements in auto loans: We engaged with FirstRand and Investec plc regarding their exposure and the potential risks around the provisions made by these companies as related to auto-loan commissions issue. We reduced our position in FirstRand given the risks associated with this issue and impact on valuation.
- Biodiversity: We engaged with Goldfields on relocation of the endangered chinchillas that inhabit the area close to a mine site, Salares Norte. Relocation efforts were halted for Q3 due to environmental reasons, however, are now back on track.
- Just transition: We engaged with Sasol and Thungela Resources on their Just Transition plans. Both companies appear to be on track with putting a plan together but will disclose more information in 2025.
- Financed emissions: We engaged with SA Banks and Insurers on their financed emission reduction plans. The majority of these institutions are still finalising these plans.
- Employee health and safety: We engaged with a number of the Resource and Industrials companies with high incident rates to understand how they are tackling plans to reduce fatalities.
- AI regulation: We engaged with Discovery to discuss disclosure around AI governance. Discovery makes extensive use of AI in their insurance processes.
- Governance: We engaged with Exxaro on the suspension of their CEO given we had some concerns that the reasons for her suspension were more material than the company was disclosing. They were not able to provide detail on the matter. We have reduced our exposure to the share.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Pepkor Holdings Ltd	3.21%	0.66%	Anheuser-Busch Inbev SA/N.V.	4.06%	-0.83%
British American Tobacco plc	2.40%	0.27%	Standard Bank Group Ltd	4.63%	-0.42%
Rand Merchant Investment Holdings	1.03%	0.18%	Glencore plc	1.84%	-0.34%
Tiger Brands Ltd	0.72%	0.17%	Aspen Pharmacare Holdings Ltd	1.76%	-0.30%
Mr Price Group Ltd	1.03%	0.13%	Anglogold Ashanti Ltd	2.31%	-0.28%

Asset Allocation	Domestic	Foreign	Total
Equity	69.44%	-	69.44%
Fixed Income	24.11%	-	24.11%
Property	2.83%	-	2.83%
Cash	3.62%	-	3.62%
Derivatives	-	-	0.00%
Total	100%	0.00%	100%

Source: Truffle, as at 31 December 24

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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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