NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS OPPORTUNITY FUND

Quarter Two, 2020

Nedgroup Investments Opportunity Fund

Performance to 30 June 2020	Nedgroup Investments Opportunity Fund[1]	ASISA category average	FTSE/JSE ALSI
3 months	13.9%	11.3%	23.2%
12 months	-4.8%	2.2%	-3.3%

Market commentary

The Coronavirus continues to take a heavy toll on human lives as well as the global economy. The International Monetary Fund (IMF) recently revised its expectations lower for global growth, projecting a deeper recession and a slower recovery for the virus-ravaged world economy. It now expects global gross domestic product to fall 5% this year.

The second quarter of 2020 saw global markets experience an exceptional rebound from the lows brought on by the COVID-19 pandemic. Equities soared, with the JSE All Share index returning 23% (the resources sector performed best in Q2, returning 41%, followed by industrials +17% and financials +12%). The MSCI World Index moved 18% higher. The bullish trajectory of global markets feels somewhat disconnected from the harsh economic realities so many corporates and sovereigns are still experiencing because of this crisis. Some signs of economic activity and recovery are present, but this rally should mainly be attributed to the unprecedented actions of global central banks in terms of monetary policy support.

It is likely that the global investment environment will continue to be characterised by negative real interest rates, fiscal expansion, and massively growing money supply. In fact, the supply of money in the developed world (and China) is surging at an unprecedented rate and does not look likely to abate any time soon. These central bank interventions have allowed markets and businesses to function under times of stress, but the long-term implications are still largely unknown. It is likely though that we are on course to de-base the value of the money. When the supply of money grows to such a degree over an extended period, the value of money will be eroded. This does not necessarily translate to the type of inflation we are accustomed to – the prices of goods and services going up – but could rather lead to continued asset price inflation (i.e. money buys less income generating assets / savings). In this type of environment, real assets (equities/property/commodities/inflation-linked bonds) - which for the most part are trading at reasonable valuations - will prove far better stores of value than nominal assets (bonds and cash) despite the fact they will be more volatile over the shorter term.

Portfolio Commentary

The fund's top five performing positions for the quarter added +8.6% to our return while the bottom five detracted -1.0%.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Sasol	2.2%	+3.5%	NMC	0.1%	-0.3%
Naspers	8.7%	+1.7%	Comair	0.2%	-0.2%
Abax Global Equity	8.1%	+1.5%	Dipula	0.2%	-0.2%
ABSA	2.0%	+1.0%	Investec	0.4%	-0.2%
Atlantic Leaf Property	1.9%	+0.9%	African Rainbow Minerals	0.9%	-0.1%

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

The sharp rebound in Sasol's share price (+260% in Q2) made the share the largest contributor to performance over the quarter (CTR +3.5%). Sasol's share price performance was a major source of disappointment for us in the first quarter of the year, but we managed to use the opportunity of the material sell-off to increase our weighting at attractive levels (c. R40 per share) and have used the subsequent share price strength to take profits (c.R150 per share) and reduce our exposure to the share.

Naspers remains the largest position in the fund and was a top contributor to performance during the quarter. The investment merits for this counter in our view remain exclusively driven by the prospects for the primary asset which dominates the portfolio – Tencent. Over the course of the last 12 months our already positive view on the stock has been strengthened by multiple factors including:

- the acceleration in gaming title releases and relaxation of restrictions by the Chinese regulator,
- the company's fortuitous business model allowing user engagement on games, communication, social media and e-commerce to accelerate during COVID-19 related lockdowns in China,
- and lastly the firm's ability to respond to and develop new commercial (work from home) applications and industrial (cloud services) opportunities that presented themselves during the crisis.

These have combined to accelerate the growth in the firm's profits despite the increasingly conservative accounting of deferring recognition of revenue. It is also underpinned by the firm's strong cashflow and increasingly material portfolio of technology investments around the world and which consequently overstate the overall valuation of the firm. Despite the strong run in the shares over the last year we remain with a very large position. The bulk of this position is however hedged and should there be a correction in the share-price, this hedge will provide some degree of protection.

During the quarter we received a buy-out offer from Apollo Private Equity for Atlantic Leaf Properties (our largest property holding of the fund) at a 40% premium to the prevailing (and our purchase) price. The expected effective date of 17 August 2020 and the likelihood of the deal going through is high given most shareholders and the management team are supportive of the bid. This highlights to us that there is great value to be found amid the property sector fall-out and that patient capital is starting to recognise it. We continued to add selectively to listed property over the quarter, favouring those counters with clear strategies, better balance sheets and sensible management. For the most part we continue to avoid the large retail and office REITS.

Our overall exposure to the Abax Global Equity Fund enhanced performance. However, NMC, a holding in our global equity fund, was the biggest detractor as fraud was uncovered and the listing suspended.

Current positioning and outlook

We started the year with a relatively high exposure to risk assets as we perceived there to be significant value in the market with many companies trading below their respective five-year lows. The subsequent COVID-19 pandemic resulted in a relentless sell-off in risk assets followed by a strong rebound from the lows. Markets are nearing their respective all-time highs despite the biggest economic crisis since the second world war. Over the medium term we continue to see value in risk assets and retain a high weighting to these assets. We have however increased the defensive nature of the fund as we became concerned about the extent of the rally and specifically the strong rally we have experienced in the US market.

Several of our hybrid instruments are also now trading at extremely attractive risk adjusted return levels.

Responsible Investment Comments

The current crisis has heightened awareness of ESG factors. Combining profit and purpose has never been more important. As a reminder, ESG factors are integrated into our investment analysis to strengthen the decision-making process, better manage risk and ensure that investments generate long-term value in an ethical manner. Our approach and commitment to ESG also enhances our value proposition to our clients.

Notable engagements during the second quarter of 2020 include:

- Nedbank: Discussion regarding COVID-19 and the related risks, environmental resolutions, remuneration policy and general governance matters (board appointments, diversity).
- Absa: Discussion regarding COVID-19 and the related risks, environmental resolutions, remuneration policy and general governance matters (new CEO appointment).
- MTN: Discussion principally about CEO succession and the risks within key markets (such as Nigeria).
- Spar: Discussion regarding COVID-19 and the related risks (including customer and staff safety, food availability).
- Old Mutual: Discussion regarding various governance matters, with a focus on remuneration.
- Sasol: Discussion regarding linking remuneration to ESG metrics / targets.
- Sibanye: Discussion regarding COVID-19 and the safe restarting of mining operations.
- Kumba: Discussion regarding COVID-19 and the safe restarting of mining operations.
- Northam: Discussion regarding COVID-19 and the safe restarting of mining operations.
- Impala: Discussion regarding COVID-19 and the safe restarting of mining operations.

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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