



NEDGROUP
INVESTMENTS

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NEDGROUP INVESTMENTS STABLE FUND

Quarter Four, 2019

For the period ended 31 December 2019

NEDGROUP INVESTMENTS STABLE FUND

MARKET OVERVIEW

WORLD

- Global growth expectations improved as the US economy started to benefit from the Federal Reserve's monetary stimulation – despite the economic expansion's late stage, growth should persist in the near term given highly supportive monetary conditions and benign inflation risks
- In the UK, the Tory electoral landslide shattered fears of hard-left Labour economic policies and improved prospects of a decisive Brexit – notwithstanding the positive market sentiment inflection point, the EU/UK economic cluster faces significant structural economic headwinds, making sustained economic growth unlikely in the near to medium term
- Global equities rose sharply on broad-based developed market strength led by rampant US bourses – buoyed by the tech behemoths, recovering cyclical sectors and rising likelihood of a US–China “phase one” trade deal resolution
- Lower interest rates, quantitative easing and subsiding fears of a rapid slowdown rather than earnings growth (constrained to less than 5% in 2019) accounted for 2019's substantial market returns as price-earnings multiples expanded markedly – increasing market risk should underlying fundamentals falter
- Growth sensitive emerging markets also posted good gains on improved growth prospects, positive trade developments, higher industrial commodity prices and US dollar weakness – but the outlook is obscured by probable further US/China economic conflict and rising geopolitical risks
- Developed market government bond yields drifted higher as growth expectations improved – the US yield curve continued to normalise after its mid-year, panic-inducing inversion
- Interest rates are nevertheless anchored at very low levels given the absence of meaningful global inflation pressures – central bank indications are that low rates will endure through 2020
- Gold and silver were sharply higher on escalating geopolitical risks and their increasing attractiveness as portfolio diversifiers – precious metals prices should stay well bid as the effects of a decade's worth of experimental monetary policies inevitably begin to manifest

SOUTH AFRICA

- South Africa registered its second quarterly GDP contraction (Q3: -0.6%) for 2019 – prospects are bleak with business confidence near thirty-year lows and consumer confidence the lowest since Ramaphosa's December 2017 ANC presidential victory
- Unexpected and unprecedentedly severe (stage 6) power disruptions constrained fourth quarter economic activity – State Owned Entities continue to flounder, with no workable resolution to Eskom's structural financial and operational problems and SAA placed in business rescue
- Public finances deteriorated with the Medium-Term Budget Policy Statement estimating a previously unaccounted for three-year revenue collection shortfall of R252 billion – the deep expenditure cuts and meaningful reform needed to underpin higher economic growth are unlikely in the near term given the ANC's ongoing factional politics
- The rand strengthened against the US dollar on improved emerging market sentiment and attractive South Africa real yields – the currency remains vulnerable given the deteriorating public finances and looming Moody's credit rating decision
- SARB kept interest rates unchanged despite continued recessionary conditions and inflation again surprising to the downside – expectations are that the MPC will now cut rates in the first quarter of 2020
- The JSE was driven higher by a narrow set of precious metal miners on higher commodity prices and dollar weakness, while financials and industrials were broadly flat – commodity prices should drift lower and SA Inc. counters should remain pressured given very weak trading conditions
- South African bonds achieved good returns after yields moved lower on improved emerging market sentiment and benign inflation – the yield curve should flatten this year as rates on longer dated bonds respond to structural recessionary conditions and sovereign credit rating uncertainties pass

Q4 2019 PERFORMANCE COMMENTS

- Asset allocation added value with significant allocations to global equities and domestic bonds contributing meaningfully while the physical gold ETF detracted at the margin
- Global equity stock selection was positive with core holdings JD.Com (+24.8% in US dollars), VipShop (+60.1%) and CVS (+18.1%) meaningfully higher
- Within South African equities, the low allocation to resources detracted but stock selection added value with strong performance from core investments Aspen (+38.8%), Sasol (+20.1%) and RMB Holdings (+7.5%)
- Bond selection was positive with the principal bond holding, the medium-term R186 (+2.9%), outperforming the All Bond Index (+1.7%)
- The low allocation to domestic property added value and the core allocation in UK property company Capital & Counties (+10.0%) also contributed positively

Top 5 contributors (weighted contribution):

Description	Contribution (Gross) %	Holding Return (Gross) %	Average Weight %
Foord Global Equity Fund	0.75%	5.65%	13.54%
R186 - RSA 10.5% government bond	0.72%	2.82%	26.20%
Aspen	0.31%	38.80%	0.96%
Capital & Counties Properties	0.29%	10.02%	3.00%
Sasol	0.26%	20.22%	1.33%

Top 5 detractors (weighted contribution):

Description	Contribution (Gross) %	Holding Return (Gross) %	Average Weight %
CFR Richemont	-0.02%	-1.93%	1.28%
Fortress A property	-0.03%	-6.45%	0.47%
Standard Bank Group	-0.05%	-3.40%	1.50%
Anheuser-Busch InBev	-0.06%	-7.40%	0.84%
NewGold ETF	-0.24%	-5.37%	4.42%

INVESTMENT OUTLOOK

World: The global economic expansion is now late stage, but dovish central banks remain supportive of risk assets. Geopolitical risks are rising, and gold should move higher on safe-haven demand. Industrial commodity prices are expected to drift lower in time.

South Africa: Political uncertainties within the ruling party remain in place. Strained public finances are keeping the rand vulnerable. Recessionary conditions are likely to continue near term with the inflation outlook looking favourable given low aggregate demand across the economy. Bond yields should move lower on falling short term interest rates with the yield flattening in time.

CONCLUSION

The portfolio is defensively positioned, focused on capital preservation rather than growth with a balanced weight to equities. We favour companies with strong balance sheets and reasonably certain earnings growth prospects. South African investments are at risk given the weak economy, struggling consumer and policy uncertainty. The JSE equity allocation thus favours global businesses, balanced by holdings in select SA Inc. financial, consumer services and industrial counters.

Foreign assets are at the prudential maximum with a preference for global equities over bonds and cash. Global equity investment is tilted away from the more expensive US markets towards higher growth and better valued emerging market businesses, likely to benefit from long term structural changes.

We continue to avoid South African retail and commercial property counters given the structural challenges facing the sector. The small listed property position is focused on niche logistic and storage companies and UK-listed value play Capital & Counties.

The physical gold NewGold ETF is an attractive, uncorrelated investment which typically acts as an insurance policy in times of increased geopolitical risk and uncertainty. Gold also acts as a safe-haven asset at times of economic and equity market inflection points, which as time passes is drawing nearer.

Medium-term South African government bond investments and cash, offering abnormally high real yields, are a meaningful component of the portfolio.

The portfolio remains defensively positioned with relatively high levels of optionality and liquidity, allowing the managers to take advantage of attractively priced long-term opportunities as and when they arise.

The fund remains extremely well positioned for the unfolding environment.

RESPONSIBLE INVESTMENT SUMMARY

Proxy Voting Summary Q4 2019

Resolution Type Name	Total Count	For %	Against %	Abstain %
Adopt Financials	2	100.00%	0.00%	0.00%
Auditor/Risk/Social/Ethics related	26	100.00%	0.00%	0.00%
Buy Back Shares	7	71.43%	28.57%	0.00%
Director Remuneration	27	100.00%	0.00%	0.00%
Issue Shares	9	11.11%	88.89%	0.00%
Loan / Financial Assistance	9	66.67%	33.33%	0.00%
Other	4	50.00%	50.00%	0.00%
Re/Elect Director	37	100.00%	0.00%	0.00%
Remuneration Policy	12	25.00%	75.00%	0.00%
Shares under Director Control	2	50.00%	50.00%	0.00%
Signature of Documents	3	100.00%	0.00%	0.00%

General Comments:

- There are no abstentions. We apply our minds to every single resolution put to shareholders. When there is an abstention it would typically be intentional or strategic reasons.
- We typically vote against any resolution that could dilute the interests of existing shareholders. Examples include placing shares under the blanket control of directors, providing loans and financial assistance to associate companies or subsidiaries and blanket authority to issue shares. On the rare occasion we have voted in favour of such resolutions, we were able to gain the required conviction in the specifics of the strategic rationale for such activities and could gain comfort that such activities are indeed to be used to the reasons stated.
- The firm also has a strong philosophy regarding management remuneration models. We believe in rewarding good managers with appropriate cash remuneration on achievement of relevant performance metrics that enhance long-term shareholder value. We are generally not in favour of share option schemes given the inherent asymmetry between risk and reward typical of such schemes. In addition, we do not believe that existing shareholders should be diluted by the issuing of new shares to management as is the case with most option schemes. We are in favour of the alignment created between management and shareholders when management has acquired its stake in the company through open market share trading and paid for out of management's own cash earnings.

Notable Engagements

(Note: reporting at investment house level, specific fund might not be invested in all these companies)

Sasol

We held a face to face ESG specific meeting with the new CEO. Main ESG risks center around pollution as Sasol's Secunda plant is a major source of carbon emissions. Sasol acknowledges the scientific evidence for climate change and has, for many years, been trying to mitigate its impact on the environment. It produces a comprehensive sustainability report and incorporates its progress on set criteria when reporting to shareholders to ensure long term value is not compromised. The introduction of a carbon tax in South Africa could result in a 5% knock to earnings so, as shareholders, it is essential that we engage with management to ensure the impact to their bottom line is limited. Although exposure to Eskom has been reduced with self-provision, major Eskom blackouts would impact production facilities.

In addition, the board has also not necessarily been strengthened by recent appointments and we are flagging the effectiveness of the proposed new chairman. Longer serving, more experienced board members will have to take leadership in guiding the executive team.

Against this, Sasol remains an uncorrelated source of return in our investor's portfolios and a good hedge against the rand fuel price and therefore inflation. In addition, given the relatively narrow investment opportunity set in South Africa, the investment case for including it in our investors' portfolios remains. Our approach is to manage the various risks cited through position size and ongoing constructive engagement with the company, rather than outright exclusion.

FirstRand (Stable Fund is invested indirectly via RMB Holdings)

Voted "For" on two special resolutions relating to climate change risk:

- We are in favour of increased disclosure that is deemed to provide greater insight into business, social and environmental risks pertaining to the group.
- Management has shown a clear understanding and active approach towards mitigation of ESG risks.

Aspen

Engaged with Ben Kruger (board member) on general corporate governance issues, the structure and conduct of board meetings, interactions and conduct of the executive.

Stor-age

Interaction with Graham Blackshaw (new Chairman) on executive related party transactions.

Spur

Interaction with Mike Bosman (Chairman) on remuneration, related party transactions, board conduct and interactions.

Invicta

Engaged with Christo Wiese (Chairman) regarding general corporate governance and executive management.

Metair

Interaction with Sam Sithole (board member) on strategy, corporate governance, executive remuneration and board meeting conduct.

Italtile

Engaged Susan Du Toit (lead independent non-executive director) over the remuneration policy and share incentive scheme.

DISCLAIMER

WHO WE ARE

Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

OUR TRUSTEE

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PERFORMANCE

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

PRICING

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

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

DISCLAIMER

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

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