NEDBANK
PRIVATE WEALTH
SINCE 1834

PRIVATE WEALTH EQUITY FUND

Q4 2021

see money differently

Nedgroup Investments Private Wealth Equity Fund

Performance to 31 December 2021	Fund[1]	Benchmark[2]
3 months	4.3%	8.6%
12 months	22.5%	18.1%

Market Overview

The fourth quarter of 2021 marked the end of a year of recovery, on the back of an unprecedented 2020. For the quarter, the Capped SWIX 40 delivered +8.7%, while the ALSI returned +15.1%. Differences in headline performance now require much closer inspection given the varying weightings of certain shares. The ALSI performance was driven largely by stellar performances from its two largest constituents; Richemont and BHP, which delivered +55% and +25% respectively during the last quarter. These two constituents now account for ~25% of the ALSI.

Consumer Discretionary (+41%) and Basic Materials (+22%) were the two strongest performers for the quarter, while Healthcare (-8%) and Financials (+3%) underperformed. Large caps on the JSE returned +18.5%, while Small and Mid-caps underperformed its larger peers, returning +8.8% and +3.8% respectively. The difference in performance between Naspers and Prosus was relatively large, with Naspers returning -0.6% for quarter, while Prosus delivered +9.3%. Some of this difference is likely explained by various index changes post the share exchange which took place in the previous quarter.

The standout performers during the quarter were RB plats (+110%), Richemont (+55%) and Harmony (+43%), while the laggards included Aspen (-17%), Woolworths (-12%) and Spar (-12%).

The USD/ZAR gave back some of its gains from earlier in the year and lost 5.5% during the quarter to close at R15.99. As broadly expected, in November, consumer and producer inflation accelerated to 5.5% and 9.6% respectively. The SARB increased the repo rate 25bps in November, to 3.75%.

On 26th November 2021, the World Health Organisation (WHO) designated the variant B.1.1.529, a variant of concern, named Omicron, on the advice of WHO's Technical Advisory Group on Virus Evolution. A year ago, vaccine drives against COVID-19 were just beginning. Now, more than 4.6 billion people have had one or more doses; about 58% of the world population. In the world's most-vaccinated nations, such as the United Arab Emirates, Chile and Cuba, more than 200 doses have been administered per 100 people; but at the opposite end of the scale, in places such as Tanzania, Afghanistan and Papua New Guinea, fewer than 20 people per 100 have received at least one dose. Many are making efforts to close the gap of vaccine inequalities across the globe, all with the objective to see further, if not final curtailment of the virus in 2022.

One of the most anticipated announcements from Global Central Banks in 2021, was that of Jerome Powell, regarding when the Fed was likely to end the tapering of asset purchases. In November, the Fed said it started to reduce the monthly pace of its net asset purchases by $10 billion of treasury securities and $5 billion for agency mortgage-backed securities. However, in December, the Fed removed the word "transitory" from describing inflation, and indicated it will end tapering, earlier and faster than previously planned. This was based off its view on inflation developments as well as further improvements in the labour market. The most recent Fed dot-plot indicates 12 out of 18 FOMC members expect at least three rate raises in 2022.

[1] Net return for the Nedgroup Investments Private Wealth Equity Fund, A class. Source: Morningstar (monthly data series).
[2] Benchmark is the Capped SWIX40 (effective 1 October, the fund migrated from the SWIX 40 to the Capped SWIX 40).

Portfolio Commentary and Activity

"The big money is not in the buying and selling, but in the waiting."

- Charlie Munger, Vice Chairman of Berkshire Hathaway.

During the quarter, the Fund was relatively inactive which follows on from the preceding inactive quarter. The number of announced delistings, and potential delistings, continue to increase. In November, Heineken released the details of its offer to Distell shareholders to acquire the entire issued share capital in Distell by way of a scheme of arrangement. The offer of R180 per share values Distell at a market capitalisation of R40.1 billion.

In December, Long4Life advised its shareholders that the company has received a formal proposal from Old Mutual Private Equity, on behalf of the OMPE Fund V Partnership, in relation to its proposed acquisition of the entire share capital of Long4Life. This is a classic example of the public private arbitrage occurring in reverse, where asset owners in the private market are seeing more opportunities for favourable returns by delisting businesses which are being punitively valued in public markets.

We also saw Northam Holdings take another step forward in its battle with Impala Platinum to acquire a further stake in Royal Bafokeng Platinum. In our view, the end result is likely to be the delisting of Royal Bafokeng Platinum from the JSE.

From a performance perspective, the Fund's one-year performance deteriorated in the last quarter which was disappointing given the progress made up to the end of the third quarter. The deterioration was largely attributable to the holding in Alibaba which sold off aggressively as the market feared a potential delisting of the US ADR structure (the fund owns the Hong Kong listed shares), as well as softer than expected second quarter results which were released in November. The fund continues to hold a ~2% allocation in Alibaba.

During the last quarter of 2021, the Fund exited its holding in Shoprite on valuation grounds, in favour of adding to its existing holding across the SA banks. In addition, the Fund marginally reduced its weighting in African Rainbow Capital Investments as the discount to net asset value continues to reduce as management executes on its stated strategy.

***Shoprite** – Quality but not at a reasonable price*

In its most recent set of results, Shoprite reported market share gains across its supermarket brands, an increase in margins and an improved financial position. Other highlights include a 2.4% reduction in inventory levels (an ongoing focus area), R5.9bn in free cash flow (122% conversion rate) and a R1.5bn net cash position from a R2bn net debt position in the prior period. The full year dividend of 544cps was 42.0% higher reflecting the lower dividend cover of 1.75x. The Group undertook share buy-backs during the period, to the tune of R500mn.

If we rewind the clock back two years to 2019, the market was extremely pessimistic on Shoprite due to several factors at the time, from stock shortages to the somewhat mismatched debt structure. Even as recent as last year, the market took an overly negative view on certain geographic regions in the portfolio, which were still loss making, and seemingly straight-lined this outcome into the valuation of the business. In 2021, Shoprite emerged a much stronger business, with parts of the portfolio rationalised, a much stronger balance sheet, as well as a core SA business that is seemingly firing on all cylinders. As a result, the market has taken a 180 degree turn on the valuation of the business.

We continue to view Shoprite as a quality franchise, with a dominant position in SA, led by willing and able management who have shown much better capital allocation and operational expertise more recently. However, in line with our investment philosophy and process, we continue to be mindful of owning businesses at fair prices where the prospective returns justify the position size.

Based on our valuation framework, we believe the forward-looking potential returns from current levels are not attractive, and as such, we have exited the position entirely.

On the other hand, we used the capital from the sale of Shoprite, to add to our SA banking exposure, amid the market panic due to the initial fears of the Omicron Covid-19 variant. We continue to believe that the banks are well capitalised entities and look forward to further recoveries across the earnings bases over time.

We turn now to discuss portfolio holdings and related events over the quarter.

***Prosus** – Persistent discount*

Prosus is currently the Fund's single largest holding at ~8%. During November, Prosus released its 1H22 results.

Revenue growth of 31% y/y (on an economic interest basis) comprised of 24% y/y growth from Tencent and 60% y/y growth from the Ecommerce portfolio. Ecommerce growth continued to accelerate, underpinned by an impressive recovery from Classifieds (which came under pressure during the pandemic), and strong growth from Food Delivery and Edtech (which benefited from acquisitions and investments into growth initiatives).

The strong Ecommerce top line growth supported an increase in the Group's internal valuation of the investment portfolio to $49bn, from $39bn at FY21. Management aims to grow the value of the Ecommerce portfolio to $100bn by FY25. If management is able to deliver on this, it should help to reduce the Group's reliance on Tencent as the primary valuation driver and result in a more balanced portfolio of assets with considerable scale in their respective categories.

Trading losses from the Ecommerce portfolio widened to -$450m, from -$254m in 1H21 (FY21: -$539m). Some of the more mature parts of the Classifieds, Food Delivery and Payments segments showed improved results. But this was more than offset by increased investment spend. The Group is in the process of repositioning several assets to expand the respective addressable markets and entrench Prosus as an operator of scale. Examples of growth initiatives include pre-owned vehicles and pay-and-ship in Classifieds, groceries in Food Delivery, credit in Payments and establishing a foothold in the nascent Edtech industry. Management is of the view that the investment drive will help Prosus to establish stronger market positions with greater barriers to entry that will ultimately deliver improved returns to shareholders. The path to profitability for a number of these investments remains uncertain, however. We also note that many of the investments are into more capital-intensive activities compared to the Group's historic skew towards asset-light internet platforms.

Prosus offers investors access to a portfolio of fast-growing internet assets, underpinned by a 29% stake in Tencent. In our view, Tencent remains an attractive long-term investment opportunity, despite recent regulatory pressures. Tencent's social media platforms benefit from strong network effects as users spend significant portions of their daily lives interacting with the Group's various offerings. Tencent also operates a broad gaming portfolio that has delivered strong results in China and continues to gain market share abroad. Tencent contributes ~78% of the value of Prosus' investment portfolio (excluding the cross holding in Naspers) on our estimates. The balance of the portfolio consists of various assets that are still in the early stages of monetisation, but that exhibit strong growth prospects. We think better returns from these investments could unlock significant value for Prosus shareholders over time.

This combination of potential growth, with a discounted valuation is highly attractive in our view and is why the fund remains exposed in a relatively large position size.

***Northam** – Chip shortage*

The fund currently has a ~3% holding in Northam Holdings, which we view as a high-quality PGM miner. At the end of September, Northam reported its FY21 results which were amplified by high PGM pricing and the continued delivery of their growth initiatives.

Revenue increased by 83% y/y to R32.7bn, comprising a 65% increase in the realised PGM basket price and a 17% increase in PGM sales volumes. Cash costs increased by 31% y/y to R15.8bn, with contributions from incremental growth in operations, higher mineral royalty charges and general mining inflation. As such, EBITDA increased from R6.0bn to R16.7bn.

Cash flow from operations was R11.5bn, up from R5.8bn in the previous year. Metal inventories remain elevated and are expected to normalise over the coming 18 months. Much of this material is rhodium, which bodes well for future cash flows.

Free cash flow increased from R3.4bn to R8.4bn. R7.9bn was used for Zambezi preference share buybacks, along with another R0.5bn for various costs associated with the Zambezi transaction. At the end of the reporting period, net debt stood at R3.7bn. Since the Zambezi transaction was only completed during September 2021, we estimate that approximately another R9bn would have been paid from the balance sheet since the reporting date. As such, we estimate, on a pro-forma basis, net debt to be R13bn, with a pro-forma net debt to EBITDA ratio of 0.8x. This compares favourably with management's internal target of 1.0x

Since 2015, management's strategy has been to grow production volumes towards its aspirational target of 1 000 koz of 4E PGM material. The foundations of the strategy were laid by the Zambezi transaction, which raised R4bn to fund the initial growth projects at Zondereinde and Booysendal, at a time when PGM prices were at multi-year lows. The cash flows from the growing mines and supportive PGM prices funded the next phase of growth, which included the Eland mine. To date, Northam has achieved guidance targets consistently and we take confidence from management's preference to provide guidance on the conservative end of the spectrum.

PGM prices have fallen sharply with the darkening outlook on semiconductor chip availability in recent months. Visibility on the supply chain is limited so the recent negative announcements from automakers came as a surprise to many. We believe that much of the problem stems from specific events with limited lifespans – severe Covid-19 lockdowns in Southeast Asian regions, damage to key facilities in Texas and Japan, and stimulus-driven durable goods demand from Western countries.

We expect these issues to ease over the coming months, which should improve chip availability for automakers. The exact timing of the recovery remains uncertain, however, so we expect volatility over the short term. Given the limited visibility, the key risk is that the shortage continues and deepens over the coming months, leading to weaker PGM prices and providing a lower base from which any PGM price recovery could take hold.

Based on our valuation framework, we believe the margin of safety at current levels is reasonable under a range of outcomes. The combination of a strong investment case, and a margin of safety bodes well for future returns.

***Altron** – 1H22 results*

Altron has been a long-standing position in the fund. For the six months under review, Altron group revenue from continuing operations increased by 2% to R3.5bn while operating income (against a restated prior period) increased 71% to R173m. De-gearing efforts undertaken in the prior period saw Altron's net finance charge decline 40% for the six months. Statutory HEPS for the interim period increased to 11cps, from a restated loss in the comparable period.

After normalising for expenses relating to the unbundling of Bytes and the repositioning of Altron 2.0, Altron reported headline earnings of R101m for the period, or ~27cps. Altron declared an interim dividend per share of 7cps. After the LAWtrust acquisition, Altron's balance sheet at 0.4x net debt/EBITDA will still provide for M&A headroom against the targeted 1x net debt/EBITDA.

Altron continues to make progress towards disposing of non-core assets, including its Rest of Africa business. Proceeds from these sales as well as collecting on City of Tshwane cash will result in further balance sheet capacity for future M&A. Management intimated that annual bolt-ons in the order of R250m per transaction are deemed appropriate in their view. The focus of this M&A will be to bolster the group's Digital Transformation and Own IP verticals.

Based on our valuation framework, we believe Altron remains undervalued by the market. At a ~R3.5bn market cap, without any sell-side research, and relatively low trading volumes, it is easy to see why a business of this calibre has been overlooked by many market participants. We continue to believe that there are remaining available levers to unlock further shareholder value over time. The Fund holds a ~3% position in Altron.

***PSG Group** - FY21 results*

PSG has been one of the largest contributors to the Fund's relative performance over both one- and three-year periods and remains a ~4% position in the Fund.

During October, PSG released their FY21 results. The Group reported a 17% increase in its sum-of-the-parts value (SOTP) to R110 per share (FY21: R94), driven by a strong performance from its underlying investments. During the period the Group disposed of its remaining interest in Capitec (1.4%) for R2.5bn and redeemed all its listed preference shares for R1.5bn. This leaves PSG Group debt free and with R2.6bn in cash (~13% of its market cap).

The Group has ceased further share buybacks, having repurchased R459m worth of shares during FY21 at an average price of R54.73 per share. Management does not view the repurchase of shares at the current discount to be materially value-enhancing and favours the financial flexibility provided by the cash on hand. Management notes that it continues to assess potential opportunities and that a special dividend or further share buybacks will be considered over the medium term should no new investments meeting the Group's investment criteria be identified. No interim dividend was declared.

PSG has one of the best investment track records of the listed investment holding companies on the JSE, with an aligned management team who are long-term orientated. While the Group's underlying investment companies will continue to be impacted by the challenging macroeconomic environment in the short-to-medium term, PSG's active management team and strong balance sheet positions them well for long-term growth.

The Group currently trades at a ~30% discount to its SOTP. The Group's no-fee structure, good quality mix of assets and skilful management team are some of the reasons, in our view, that the wide discount should not persist in the long term. We continue to back management to allocate capital in a value enhancing manner over time.

Current positioning and outlook

The Fund ended the quarter with approximately 25% of its available 30% direct exposure to international markets. The top 10 positions in the fund account for ~42% of the capital, with a total of 33 holdings.

The world remains a complex system, with several factors affecting financial markets, sometimes all at once. For 2022, the big question remains on inflation; both globally as well as locally. The truth is, nobody really knows how this complex topic will play out, but we continue to watch key performance indicators and actions of the various central banks to control the global and regional situations.

While the JSE continues to shrink, we believe there are still several attractive opportunities in both the domestic universe, as well as in the offshore universe of businesses that just happen to be listed on the JSE.

The Fund remains positioned for various outcomes, with diversification across countries, currencies, and different business models. In a world of uncertainty, we believe this approach will allow us to continue to compound capital over time.

We look forward to a better 2022 and thank you for your ongoing support.

NEDGROUP INVESTMENTS PRIVATE WEALTH EQUITY FUND

NEDBANK PRIVATE WEALTH SINCE 1834

DECEMBER 2021

RISK RATING

1	2	3	4	5

LOW ——— MEDIUM ——— HIGH

RISK REWARD PROFILE

Equity investments are volatile by nature and are subject to potential capital loss. The portfolio is suitable for investors seeking exposure to equity markets with maximum capital appreciation as their primary goal over the long term. Investors should have a tolerance for short-term market volatility in order to achieve long-term objectives.

GENERAL INFORMATION

BENCHMARK / TARGET RETURN

JSE Capped SWIX 40

INVESTMENT MANAGER ASSET CLASS

Nedgroup Investment Advisors (Pty) Ltd is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No. 1652).

ASISA CATEGORY

South African Equity General

REGULATION 28 COMPLIANT

No

INCEPTION DATE

01 May 2004

FUND SIZE

R 1,033 Million

NET ASSET VALUE [1]

6,850.0 cpu

MINIMUM INVESTMENT

Lump sum: R50,000

INCOME DISTRIBUTION

Frequency: Annually

December 2021: 255.20 cpu

Previous 12 months: 255.20 cpu

FEES

Annual management fee (excluding VAT):	1.00%
Total expense ratio	1.19%
Transaction costs	0.35%
Total investment charges [3]	**1.54%**

INVESTMENT APPROACH

The appointed investment manager, in conjunction with the Nedbank Private Wealth Investment Research and Fund Management team, meets on a regular basis to review the fund. The investment manager adopts a bottom-up approach to position the fund. From a bottom-up perspective, stock picking decisions are based on exploiting market inefficiencies through diligent fundamental analysis.

PORTFOLIO PROFILE

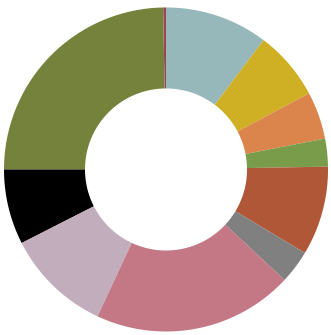
The portfolio seeks to provide investors with capital growth by investing in equities predominantly traded on the JSE as well as internationally on a select basis. Investors should be prepared for and be comfortable with market volatility in order to achieve long-term objectives.

PERFORMANCE [2]

Period	Portfolio	Benchmark
1 year pa	22.5%	18.1%
3 Years pa	8.1%	10.7%
5 Years pa	2.8%	8.2%
7 Years pa	4.0%	6.6%
10 Years pa	10.3%	10.9%
Lowest 1 year return	-24.8%	
Highest 1 year return	46.7%	

The annualized total return is the average earned by an investment each year over a given period of time.

PORTFOLIO STRUCTURE



Basic materials	10.4%
Industrials	6.7%
Consumer goods	4.9%
Health care	2.9%
Consumer services	8.7%
Telecommunications	3.3%
Financials	20.0%
Technology	10.7%
Cash and money market	7.5%
Foreign equity	24.8%
Foreign cash	0.1%

TOP 10 HOLDINGS

Share	Percentage
Prosus	8.5
Anglo American Plc	4.8
PSG Group Ltd	3.9
The Bidvest Group Ltd	3.9
Brookfield Asset Management	3.7
Standard Bank Group Ltd	3.5
FirstRand Ltd	3.4
Sanlam Ltd	3.4
MTN Group Ltd	3.3
BID Corporation Ltd	3.2
Total	**41.9**

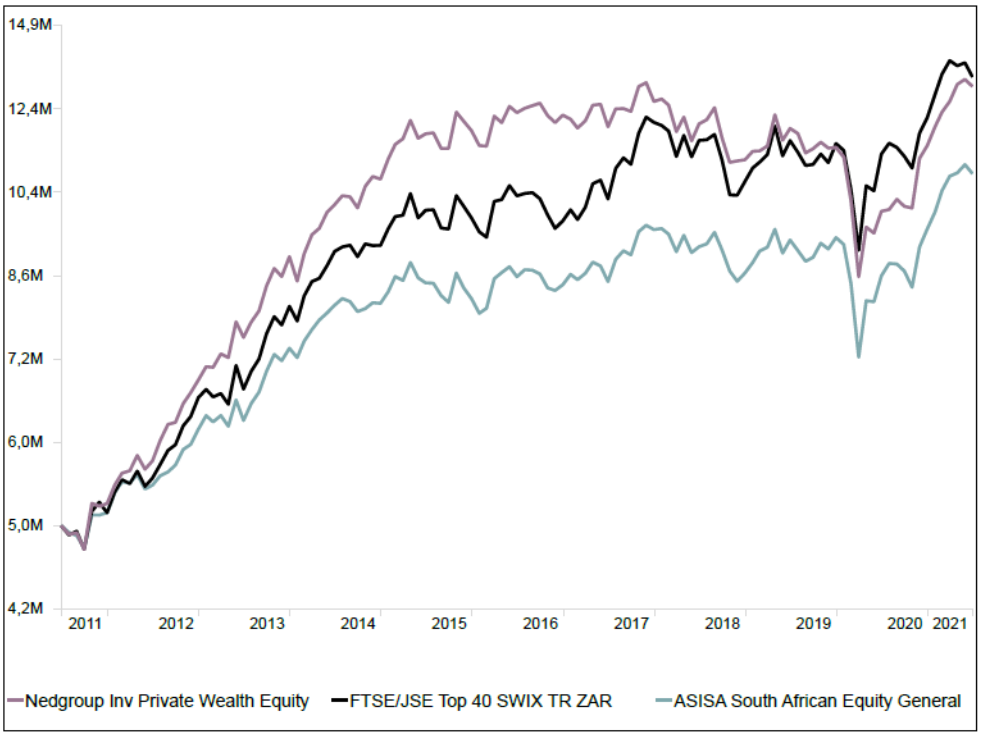
NEDGROUP INVESTMENTS PRIVATE WEALTH EQUITY FUND

NEDBANK PRIVATE WEALTH SINCE 1834

DECEMBER 2021

SINCE INCEPTION CUMULATIVE PORTFOLIO PERFORMANCE

The graph shows growth of R5 000 000 invested in the portfolio plotted against the Fund's benchmark, the FTSE/JSE SWIX40, as well as the average of the ASISA South African Equity General category.



Source: Morningstar Direct

Mandatory disclosures:

1. 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. Daily prices are available on request from your relationship manager.

2. Performance is calculated for the portfolio and individual investment performance may differ as a result of initial fees, the actual investment, the actual investment date, the date of reinvestment and dividend withholding tax. Data source: © 2015 Morningstar.

3. Total Expense Ratio (TER), expressed as a percentage of the Fund, relates to expenses incurred in the administration of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. Transaction Costs (TC), expressed as a percentage of the Fund, relates to the costs incurred in buying and selling the underlying assets of the Fund. TC are a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. The Total Investment Charges expressed as a percentage of the Fund, relates to all investments costs of the Fund. Both the TER and TC of the Fund is calculated on an annualised basis, beginning October 2018 and ending September 2021.

Whilst Nedbank Private Wealth offers you a choice of investment services, the underlying funds forming part of Nedbank Private Wealth strategy solution, are managed by Nedgroup Investments. More specifically, 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 Investment Private Wealth unit trust portfolios. It is a member of the Association of Savings & Investment South Africa (ASISA). Contact: Nedgroup Investments, P O Box 1510, Cape Town 8000, info@nedgroupinvestments.co.za, Tel 0860 123 263 (RSA only). The Standard Bank of South Africa Limited is the registered trustee. Contact: Standard Bank, P O Box 54, Cape Town 8000, Trustee-compliance@standardbank.co.za, 021 401 2002.

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 nvestments 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. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A fund of funds may only invest in other unit trust funds, that levy their own charges, which could result in a higher fee structure. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact your relationship manager.

Contact

Nedbank Private Wealth
Contact suite 0860 111 263
email: contact@nedbankprivatewealth.co.za
Visit www.nedbankprivatewealth.co.za for further details