see money differently

NEDGROUP INVESTMENTS GROWTH FUND

Quarter One, 2018

For the period ended 31 March 2018

ELECTUS FUND MANAGEMENT OVERVIEW

As discussed previously, Electus incorporates our macro frameworks of targeted top-down global and South African research, with our broad and in-depth bottom-up industry and company specific research. This enables us to have our own normalised forecasts and valuations, allowing us to build a risk managed fund on a bottom-up basis, normally consisting of approximately 30 JSE-listed shares.

The Nedgroup Investments Growth Fund is managed as a style agnostic and diversified fund, with the goal of growing clients invested capital over the longer-term. In order to deliver strong capital growth, we have a positive bias towards investing in best-in-class companies that are directed by proven management teams and are trading at attractive valuations. The fund is market cap indifferent in its share selection, normally having meaningful exposure to high quality, mid-sized, but market leading, South African financial and industrial businesses.

FINANCIAL MARKET OVERVIEW

Global Financial Markets:

Following the global financial crisis in late-2008, the quantitative easing in developed market economies led to extremely low interest rates in these economies. This low cost of borrowing meant that many corporates could easily increase their levels of debt, doing share buybacks and M&A with the proceeds, without spending capex, or hiring new staff, and without really growing the economy.

The problem for both equity and bond markets, is that this nine-year period described above is in the process of slowly ending and "normalising". The above environment created a great deal of "investor complacency", with borrowers becoming too aggressive in their investment strategies, highlighted by an ever-increasing misallocation of investors' capital. This seemed to peak at the end of 2017 and was very visible by; 1) the record low levels of the VIX, which is a measure of implied volatility of the S&P 500, 2) in European corporate junk bonds, which are expensive and trading at the same levels as the US Treasury 10-year bond, and 3) in the Bitcoin bubble, the major digital cryptocurrency which uses the blockchain technology.

Since early 2009, while top line sales did not increase materially, the operating margins improved to historically high levels and together with the share buybacks, the earnings per share (EPS) improved. In turn, this led to very strong equity market performance in the USA, where the key equity market, the S&P 500, has risen by 300% off its lows of March 2009. The S&P 500 index now trades on a 12-month forward Price to Earnings (P/E) multiple of 16.5x, which may not seem overly expensive, but it does incorporate the fact that the S&P 500's consensus EPS growth rate for 2018 is forecast to be a very high 20%, leaving no room for disappointing corporate profit growth.

While the emerging market economies did not benefit from the extremely low interest rates described above, their equity markets have benefitted from strong inflows, especially from passive exchange traded funds (ETF's). At the same time, emerging market bond markets have benefitted from an influx of investors hunting around the world for higher yields, due to the extremely low yields in the developed world bond markets.

The full evidence of this misallocation of capital is starting to be seen, but will only be truly visible over the next few years when gradually rising inflation will cause interest rates to rise and normalise. We believe that based on the above, global equity markets are fully valued, making it very important how we manage the risk in our South African equity funds.

South African Financial Markets:

As mentioned in Q4 2018, we believe that most consumer related, domestically-biased, shares in South Africa are currently overpriced on the JSE and this is mainly due to their lack of ability to grow their South African based profits at rates that justify their current valuations. Now we are in the process of moving through positive leadership change in the South African government and state-owned enterprises (SOEs), we will return the focus onto the ability to improve the structure and strength of the South African economy. The country has had a weak economy since about 2008, coinciding with the Global Financial Crisis, the end of the commodity cycle and the Eskom power blackouts.

Without another strong commodity cycle, for the South African economy to grow consistently above 2.5%, it needs structural change in order to become globally competitive. Governance, leadership and productivity improvements are needed in the over-staffed public sector and SOE's, while education, skills and labour flexibility must also be meaningfully improved. At the current strong levels of the rand, with our high base of unskilled and semi-skilled labour and very rigid labour laws, we are not very competitive on a global basis. These are the key challenges facing Cyril Ramaphosa as he transitions into the SA Presidency and, with a high level of unemployment and a key election in 2019, they are not easily solved. We believe that foreign investors, and the high level of the domestically-biased consumer shares on the JSE, are currently overestimating the likelihood and timing of these potential benefits.

As we are all aware, the short term is always driven by momentum, themes and the re-rating or de-rating of the equity market and this is prevalent in the current environment. However, when investing in the Growth Fund for the medium and longer-term, the importance of company profits, their "normalisation", and company valuations are most important in terms of expected return, while the structure and strength of the South African economy is also an important influence on company profits.

RESPONSIBLE INVESTING AND CORPORATE GOVERNANCE

Following the Steinhoff collapse in December 2017, there was only one event in Q1 2018 where we had concerns related to aspects of Responsible Investing and Corporate Governance and this was in the Resilient group of property companies. The Nedgroup Investments Growth Fund has never owned Resilient or any of its related companies, being Fortress, NEPI Rockcastle and Greenbay, and while the shares now seem to be slightly undervalued, we will not invest in them until we see less aggressive investment strategies and the outcome of investigations into potential problems relating to share trading.

FUND PERFORMANCE

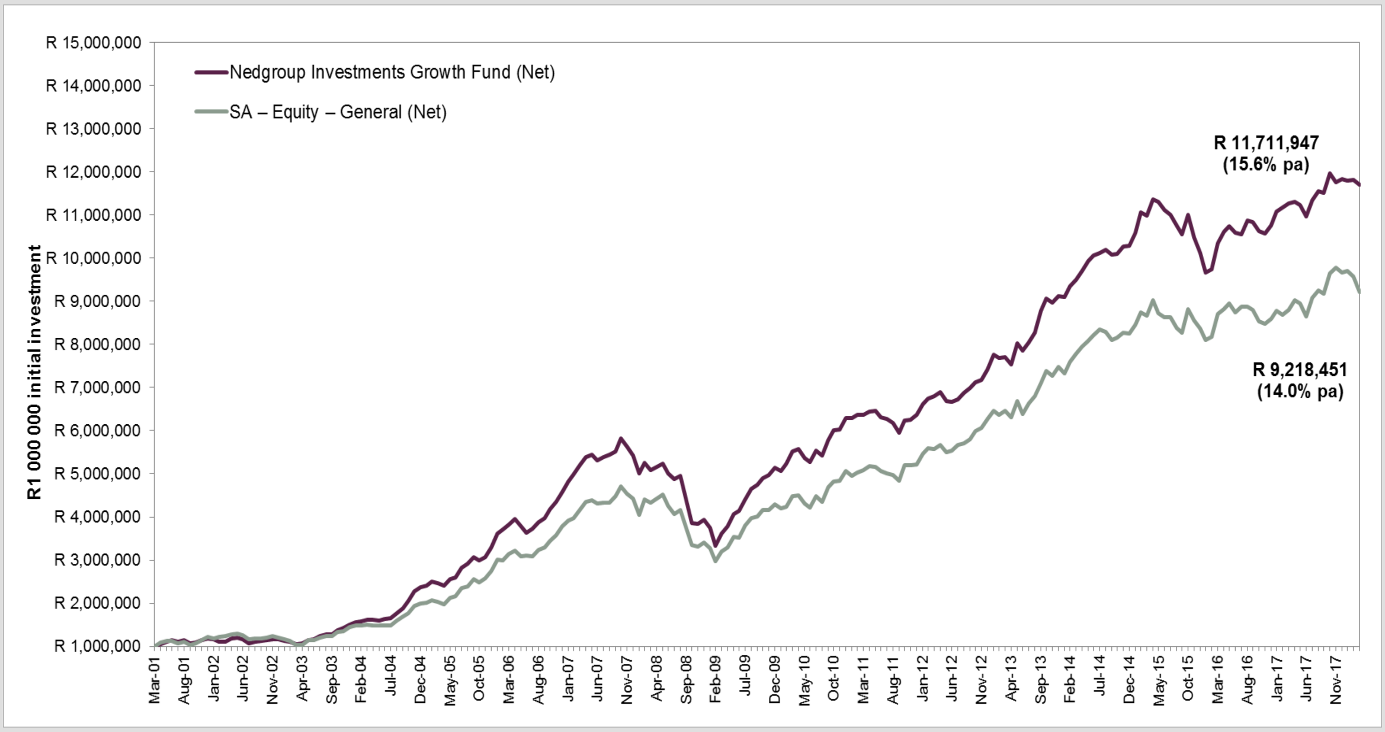
The Nedgroup Investments Growth Fund has performed very well on a relative basis in Q1 2018, which has also meaningfully improved the performance for the past 12 months.

With the Electus team being solely focused on managing South African equities, we have an excellent understanding of 110 South African listed companies, many of which are quality mid-sized, but market leading, South African financial and industrial businesses. These companies are generally not followed by the foreign based investors, but they have also been neglected for a couple of years by most locally based investors. The recent good relative performance of the fund has been helped by these quality companies such as Clientele, Combined Motor Holdings, Italtile and Hudaco, all of which have been held in the fund for at least 10 years.

With a renewed belief in the South African government leadership and domestic economy, having the ability to selectively invest across quality mid-sized domestically focused businesses will be a key differentiator for Electus and the Nedgroup Investments Growth Fund in the coming years.

It should be noted that Electus staff have always analysed companies and managed the fund on a very consistent basis and this is how we have obtained excess returns in the fund of >1.5% per annum for our unbroken 17-year track record vs the major JSE indices and our SA Equity peer group. Importantly, this excess return in the fund has come with our proven "risk management", which is highlighted by having an excellent Sharpe ratio (return per unit of risk) of 0.73 and much lower levels of volatility than the JSE ALSI and SA Equity General peer group.

Long-Term Performance History vs Peers
Nedgroup Investments Growth Fund (Unit Trust) to 31.03.2018
Excess Return pa vs General Equity Unit Trust Peer Group of 1.6% (Net vs Net)



FUND POSITIONING

Based on a bottom-up aggregation of valuations for South Africa's 110 largest companies that we analyse, following the equity market weakness since late-January 2018, the main JSE indices are now trading 6% below their appropriate price levels. We have been using this normalised methodology for determining the fair level of the South African equity market since the beginning of 2009 and it has proven to be very accurate. In contrast, the well diversified Nedgroup Investments Growth Fund is undervalued with current upside of 30%, which would suggest above average absolute and relative prospective returns. As we wish to maintain a high level of Active Share and Tracking Error risk in the fund, we currently only hold 25 companies, with all shares having a targeted weight of greater than 2.0%. This clear focus and positioning, with suitable diversification and strong risk management, enables us to target excess returns for clients from specific share selection and not from sector selection.

In terms of the fund positioning, with global financial market risk and a more volatile currency and equity market, we believe that good share selection is critical for success in 2018. Therefore, we remain focused on investing in best-in-class businesses, with zero tolerance for poor businesses.

The Nedgroup Investments Growth Fund is currently 96% invested in South African listed equities, while we always target being more than 98% invested. In the Financial sector, we are finding little value in domestic banks and better value in Investec and selected Life Assurance companies. In the Industrial sector, we believe that most of the domestically-biased consumer shares are overpriced, with only a few mid-sized companies such as Italtile and Combined Motor Holdings, as well as the larger Tiger Brands, offering value. Following the recent rand strength and a fall in their share prices, there is some value returning to selected large Industrial rand-hedge consumer businesses, such as Naspers and British American Tobacco. In the resource related sector, we prefer the diversified mining shares, such as Anglo American, BHP Billiton and Glencore, as well as the world class forestry and paper business of Mondi and the chemicals company Sasol.

NEDGROUP
INVESTMENTS

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
The Standard Bank of South Africa Limited is the registered trustee.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Fax: 0861 119 733 (RSA only)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT
Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001

WRITE TO US
PO Box 1510, Cape Town, 8000