PRIVATE WEALTH EQUITY FUND

Q2 2019

see money differently

MARKET REVIEW

The JSE (SWIX40) posted a second quarter return of +3.09%. During the quarter, the top performing sectors were Fixed Line Telcos (+29.7%), Gold Mining (+29.6%) and Mobile Telcos (+17.6%). On the downside, the decliners were led by Household Goods (-30.8%), Chemicals (-21.3%) and Tobacco (-15.7%).

FUND PEFORMANCE

The Fund returned 3.91% for the quarter, outperforming its SWIX40 benchmark by 0.82% over this period. The Fund ranked **10th out of 160** peers in the SA General Equity category. While our focus is on the long term, these results are nevertheless pleasing.

Stocks held which contributed to Q2 performance included **Altron** (+1.2%), **EOH** (+0.61%) and **Adcorp** (0.39%) as well as underweight positions in Sasol (+0.40%) and British American Tobacco (-0.28%). Stocks held which detracted from Q2 performance included Glencore (-0.44%) and Reinet (-0.36%) as well as underweight positions in Absa (-0.32%) and not holding AngloGold Ashanti (-0.28%).

The Fund has held **Altron** since shortly after the introduction of Value Capital Partners as shareholder of reference and primary change agent behind the successful restructuring of the Group. The investment in Altron highlights the Fund’s ability to be opportunistic and to participate in special situations on the JSE as they arise. At this juncture, however, we are mindful that the market has substantially closed out the glaring valuation gap compared to the deep value that was evident in 2017.

PORTFOLIO CHANGES

INTERNATIONAL EQUITIES

As long-standing unitholders in the Fund will be aware, the composition of the Fund includes ~5% in international equities listed predominantly in the U.S.

During the period the Fund exited its position in consumer goods group, **Unilever**. Unilever’s diverse portfolio of ~400 brands are used by consumers across income brackets and economic cycles in 190 countries. These defensive characteristics and Unilever’s relatively high dividend pay-out ratio has resulted in the market bidding up the stock. Unilever’s appeal is further underpinned by prevailing global economic uncertainty and the current low interest rate environment. That said, Unilever is currently trading at record levels and at more than 20x forward earnings; this fails to provide sufficient margin of safety given the fast-changing nature of today’s consumer goods industry, in our view.

The Fund invested in two new international equity positions, namely diversified health insurance and services company, **Cigna**, and **United Technologies Corporation** (**UTX**).

About Cigna: Cigna recently closed the acquisition of Express Scripts, a Pharmacy Benefit Manager (PBM). Cigna’s Integrated Medical segment provides large corporates who self-insure access to its participating network and administrative services. The segment also sells health insurance to Commercial (smaller corporates) and Government

(Medicare Advantage) clients. The Health Services segment provides PBM and mail pharmacy services. PBMs pool drug prescriptions to negotiate prices with manufacturers and pharmacies in an effort to reduce medication costs. Cigna also provides, to a lesser extent, insurance services internationally, as well as short- and long-term insurance.

Investment thesis: Both Cigna and Express Scripts have industry leading cash generation. The two companies will generate more cash combined, improve its service offering, add to its scale, and diversify the Company. However, headline U.S. risks from the Democrats gaining more power to change health policies has seen the market turn negative on the Commercial Insurance industry. It's difficult to argue against the fact that medical costs in the U.S. are anything but exorbitant.

However, we believe that health insurers and PBMs add a lot more value in decreasing medical expenses, relative to the economic profits these companies earn. As an example, Express Scripts lowered drug costs by $45 billion for its clients, resulting in only a 0.4% price inflation for its commercial clients. The risks already alluded to still saw Cigna de-rate to levels well below what the two traded at separately before the acquisition announcement, discounting the upside post-acquisition. This creates an attractive entry point for patient investors to benefit from Cigna's long-term defensive growth, in our view.

About UTX: United Technologies Corporation is an industrial holding company which owns a number of high-quality businesses. The Company consists of four distinct businesses: (i) Otis – the world's largest elevator and escalator company with over two million units serviced globally. (ii) Carrier – a global provider of commercial and residential heating, ventilation and air-conditioning services as well as fire and security products and services. (iii) Pratt & Whitney – a leading supplier of aircraft engines and aftermarket services for commercial, military and business aircrafts. (iv) Collins Aerospace – a leading supplier of a range of interior products, advanced technological equipment and avionics located on aircraft for the aerospace and defence industry. Each business is a leader in their respective industries, benefitting from noteworthy barriers to entry and would all feature on the S&P 500 on a standalone basis.

Investment thesis: The announced separation of the business into three independent companies is expected to unlock shareholder value as the Company is currently trading at a conglomerate discount to its sum-of-the-parts value. Upon separation (or as soon as company specific information is released) the market will likely reflect the quality and growth prospects of each underlying business. This is expected to act as a catalyst for share price appreciation. The separation is expected to occur before the second half of 2020.

UTX's portfolio of businesses stand to benefit from long-term trends such as: (i) population growth; (ii) urbanisation; and (iii) a growing middle class. This will result in new aircraft being built and new buildings being used that require elevators, air conditioners and fire and security services. Multi-year backlogs of $115.5 billion and long-term service contracts on its large installed base of products provide recurring cash flows, high visibility and moderate cyclicality.

DOMESTIC EQUITIES

Domestic equities – Position sizes reduced

During the period we reduced position sizes in **Bidvest** and **Bidcorp**. Bidcorp, for example, is unquestionably one of the better businesses listed on the JSE. However, a 5% position in this name was no longer appropriate given a multiple in excess of 20x forward earnings.

Also on the selling list during the quarter were **Standard Bank** and **Mr Price**, both of which the Fund exited completely. Although the rationale for this investment action on Standard Bank was prompted by valuation, we note that the domestic banking industry is becoming increasingly competitive as evidenced by the number of recently launched entrants. We understand that a further 16 new banking licenses are currently being evaluated.

In prior fact sheets, we have set out our approach to managing concentration risk in the Fund, notably by capping the overall exposure of the Fund to **Naspers**; this continues to be the case. At quarter end, the Fund's position in Naspers was reduced below 12%, compared to the +30% Naspers weight in the SWIX40.

Domestic equities – New to the Fund and company specific commentary

Netcare: The Fund added Netcare for the first time having never owned this name since the inception of the fund 15 years ago.

About Netcare: Netcare offers private hospital and trauma services through 56 owned hospitals (10 520 beds) across South Africa. These services include emergency medical services, cancer care, dialysis stations and mental health via Akeso Clinics. The Primary Care Division operates medical and dental provider services through Medicross, as well as a managed care organisation that focuses on uninsured lives through Prime Cure.

1H19 results overview: Group revenue increased 5.6% y/y, assisted by the acquisition of Akeso Clinics at the end of March 2018. Normalised EBITDA increased 1.3% y/y and the margin declined 90bps to 20.0%. Comparable adjusted HEPS from continuing operations increased 2.4% to 84.3c. This excludes all non-cash and non-recurring items as well as interest income on the contractual economic interest in BMI Healthcare's debt. The interim dividend was increased 6.8% to 47.0cps and R452m in share buybacks were concluded in the period, cancelling 1.3% of shares in issue.

Hospital and Emergency Services: The inclusion of Akeso Clinics boosted revenue growth to 5.1% y/y. Acute hospital patient days declined 1.0% while revenue per acute patient day increased 4.2% y/y. Acute hospital admissions were negatively affected by ongoing funder case management and the introduction of new hospital networks. Growth in demand for mental health services remains strong; Akeso Clinics saw a 20% increase in patient days over the period. Normalised EBITDA increased 2.0%, and the margin contracted 70bps to 20.8%.

Primary Care: Revenue growth of 18.8% for the period was driven by expanding the occupational health offering as well as the rollout of the national day clinic network. Occupational health is a lower margin business and the day clinics are yet to mature. As a result, EBITDA only increased 2.0% and the margin declined by 220bps to 13.3%.

Outlook: The inclusion of Akeso Clinics for a full year will assist FY19 revenue growth and the current negative underlying acute patient day growth is expected to deteriorate further. Guidance from Netcare suggests that margins for Hospitals and Emergency Services are expected to decline between 50 and 80 bps for the full year. No additional acute beds will be added in FY19, and Netcare will continue to convert beds to higher demand areas. In FY20 128 hospital beds (cancer care, cardiac care) will be added and the new 427-bed Netcare Alberton is expected to be complete in FY21.

Technical weakness – a buying opportunity: Netcare was excluded from the Top40 during the period. In tandem with the accentuated selling pressure of this event and based on our assessment of value, the Fund now holds an opening position in Netcare and will look to build this up further, market conditions permitting.

CLOSING

The Fund remains committed to our over-arching investment philosophy: "*Long-term investing, well-considered*" and we would like to thank our unitholders for sharing the same long-term disposition.

Nedgroup Investments Private Wealth Equity Fund

NEDBANK PRIVATE WEALTH SINCE 1834

June 2019

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 SWIX Top 40 Index

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 1,676 Million

NET ASSET VALUE [1]

5983.31 cpu

MINIMUM INVESTMENT

Lump sum: R50,000

INCOME DISTRIBUTION

Frequency: Annually

December 2018: 98.36 cpu

Previous 12 months: 98.36 cpu

FEES

Annual management fee (excluding VAT): 1.00%

Total expense ratio	1.17%
Transaction costs	0.26%
Total investment charges [3]	**1.43%**

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

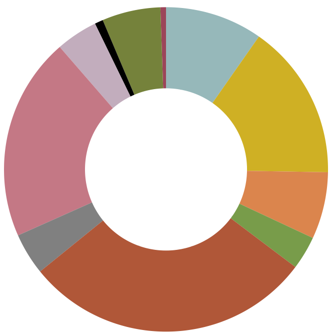
The portfolio seeks to provide investors with capital growth by investing in equities predominantly traded on the JSE as well as internationally on a select basis. Investors should be prepared for and be comfortable with market volatility in order to achieve long-term objectives.

PERFORMANCE [2]

Period	Portfolio	Benchmark
1 year pa	-1.0%	-0.0%
3 Years pa	-1.1%	4.1%
5 Years pa	3.4%	5.0%
7 Years pa	10.9%	11.1%
10 Years pa	13.2%	13.2%
Lowest 1 year return	-15.7%	
Highest 1 year return	38.0%	

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

PORTFOLIO STRUCTURE



Basic materials	10.0%
Industrials	15.6%
Consumer goods	6.8%
Health care	3.5%
Consumer services	29.2%
Telecommunications	4.2%
Financials	20.8%
Technology	4.2%
Foreign equity	5.8%
Foreign cash	0.7%

TOP 10 HOLDINGS

Share	Percentage
Naspers Ltd	11.9
Remgro Ltd	5.2
Allied Electronics Corp Ltd	4.9
MTN Group Ltd	4.2
Anheuser-Busch InBev SA	4.1
RMI Holdings Ltd	3.9
Pepkor Holdings Ltd	3.3
BHP Group Plc	3.1
Reinet Investments SCA	3.1
Sasol Ltd	3.1
Total	**46.8**

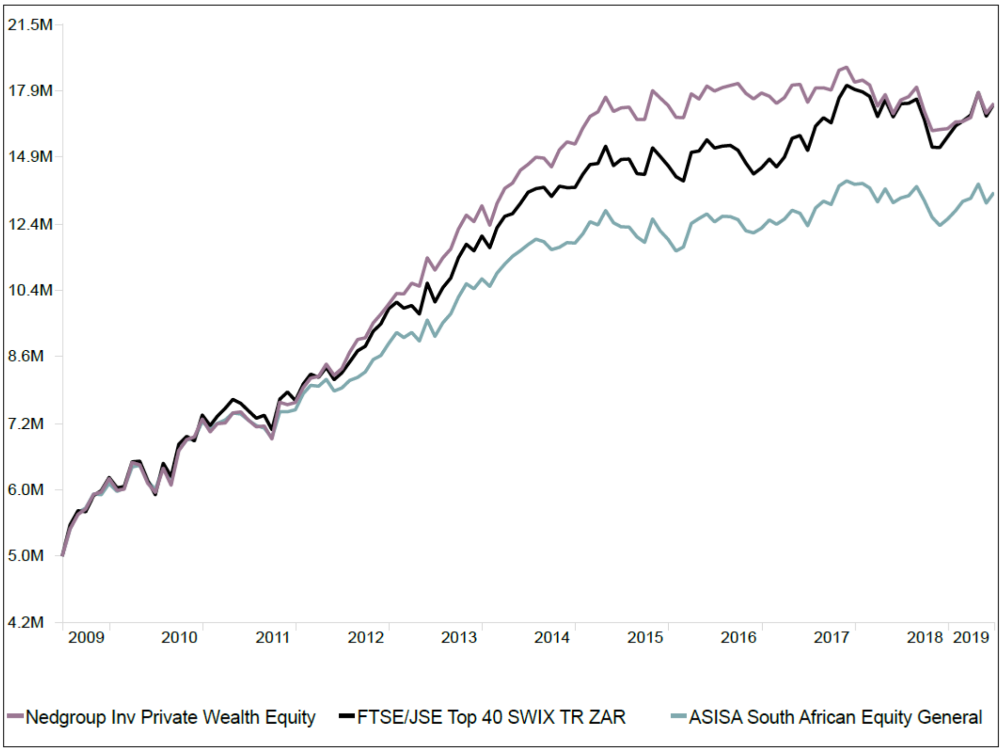
Nedgroup Investments Private Wealth Equity Fund

NEDBANK PRIVATE WEALTH SINCE 1834

June 2019

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 April 2016 and ending March 2019.

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