



NEDBANK
PRIVATE WEALTH
SINCE 1834

PRIVATE WEALTH SMALL AND MID CAP FUND

Q2 2019

see money differently

MARKET REVIEW

SA equities recovered some of the previous month's losses alongside international trends, with the FTSE/JSE All Share up +4.8% in June. Resource counters had another strong month, with the Resource 10 Index surging +10.3% with support from platinum and gold miners. Gold mining companies benefitted from a resurgence in the gold price, as the allure of the metal increases in the face of declining interest rates and heightened geopolitical risk. SA mid-cap stocks benefitted from the momentum, delivering +2.5% in June, while small caps (-0.2%) remained out of favour. For the quarter, the FTSE/JSE All Share posted a return of +3.9% with Gold Mining the best performing sector after Fixed Line Telecoms.

FUND PERFORMANCE

The fund delivered a pleasing performance over the quarter returning 4.6% against the benchmark's 1.6% return. Also pleasing is the fund's peer group ranking; the fund is ranked 1 out of 11 peers over the quarter.

Altron (+1.12%) and Adcorp (+0.91%), both top ten holdings in the fund, were the largest contributors to the fund's outperformance during the quarter. The fund's holding in African Rainbow Capital (-0.70%) was a detractor to fund performance. The gold and platinum sectors continued their strong rally in the second quarter and not owning Goldfields (-1.50%) and Impala (-0.47%) continued to detract from the fund's performance.

Altron released a strong set of FY19 results during the quarter; normalised revenue from continuing operations increased 30% and normalised HEPS grew 36%. Other notable features in the results included the successful disposal of non-core assets (Altron UEC and Powertech Transformers), a continued robust performance from Bytes UK and a debt refinancing programme which is expected to save the Group ~R25m annually. Altron is two years into its five-year plan to double EBITDA, and based on its FY19 performance, management contend that the Group is one year ahead of schedule. With the multi-year restructuring chapter closed, the ICT group is now pursuing growth in four primary areas, namely cloud, cyber-security, data analytics and internet-of-things. These results confirmed the improving quality of the Altron investment case and with the view that the share still offered value in the low twenties, the fund took the opportunity to add to its position.

Staffing solutions group Adcorp also released full year results during the quarter. With the backing of strategic investor Value Capital Partners, the Group continues to deliver on its stated turnaround strategy. This set of results revealed that Phase 1 of the cost reduction strategy had achieved its objective of R200m in cost savings. This allowed Adcorp to grow normalised EBITDA by 33.6%, in spite of revenue declining 1.7% y/y. Improved cash management allowed a 27% reduction in interest bearing debt and a decline in the debt to EBITDA ratio to 1.1x versus 6.3x in FY18, well within the 1.5x target for the Group. This improvement in the balance sheet allowed for the declaration of the first dividend since FY16 at a cover ratio of 2.4x. Phase 2 of the cost reduction programme targets a further R100m in efficiencies and is expected to be achieved via organisational restructuring, standardisation and the re-engineering of processes through the use of appropriate technology. We remain constructive on this self-help story and are of the view that the share remains significantly undervalued.

CHANGES TO THE FUND

Large share price movements during the period presented an opportunity for the Fund to initiate positions in counters where valuations have become more attractive, and to exit those where the valuation and investment case no longer justifies a position. The fund initiated positions in Kaap Agri and Netcare and sold out of MMI Holdings.

Kaap Agri is a retailer of agricultural products, packaging materials, fuel, building materials and other general merchandise under the Agrimark, Pakmark and The Fuel Company (TFC) brands. The group operates 207 service points across 110 locations in Southern Africa, mostly in the Western Cape. While Kaap Agri reported muted interim results recently, the group is well positioned to benefit from the ongoing recovery of agricultural producers and consumers in drought-affected areas as weather patterns normalise. Kaap Agri's fuel service stations should also continue to deliver strong organic sales growth (supported by its QSR and convenience offerings), and TFC's BEE credentials (TFC is 47.5% black owned) leaves it well placed to acquire additional fuel licenses as they become available.

Netcare came under significant selling pressure during the quarter following its exclusion from the Top40 index. This technical weakness in the share price and market concerns around muted growth prospects saw the share trading at its lowest level in several years. We've accounted for continued margin pressure in the core hospital operations over the medium term given increasing pressure from funders. Even on that basis we see value in Netcare on a three-to-five year view.

Following the re-rating in MMI Holdings during the quarter the fund took the opportunity to exit what is in our view a strategically challenged business in an increasingly competitive market.

LOOKING FORWARD

We have taken advantage of the opportunities presented by the market over the last quarter to continue to enhance the quality and return profile of the fund, guided by our philosophy of "*Long-term investing, well considered*". The fund remains invested in attractive opportunities across a diverse range of businesses which we believe will reward the patient investor over the coming years.



Nedgroup Investments Private Wealth Small & Mid Cap Equity Fund



June 2019

RISK RATING



RISK REWARD PROFILE

Equity investments are volatile by nature and subject to potential capital loss. Due to its specialist nature, the portfolio will typically display higher volatility than a general equity portfolio. The portfolio is suitable for investors who require specific exposure to small- and mid-cap sector shares as part of their overall investment strategy, with maximum capital appreciation as their primary goal over the long term.

GENERAL INFORMATION

BENCHMARK / TARGET RETURN

25% FTSE/JSE Small-Cap Index 75% FTSE/JSE Mid-Cap 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 Mid & Small Cap

REGULATION 28 COMPLIANT

No

INCEPTION DATE

01 May 2004

FUND SIZE

R 235 Million

NET ASSET VALUE ¹

5964.12 cpu

MINIMUM INVESTMENT

Lump sum: R50,000

INCOME DISTRIBUTION

Frequency: Annually

December 2018: 135.89 cpu

Previous 12 months: 135.89 cpu

FEES

Annual management fee (excluding VAT): 1.00%

Total expense ratio 1.22%

Transaction costs 0.22%

Total investment charges ³ 1.44%

INVESTMENT APPROACH

Stock selection is based on fundamental valuation with the aim of identifying quality companies that will exceed required hurdle rates of return over the medium term. Shorter term opportunities are exploited as and when they arise. Sector and market views are informed through the Nedbank Private Wealth National Strategic Investment Committee's monthly meeting process.

PORTFOLIO PROFILE

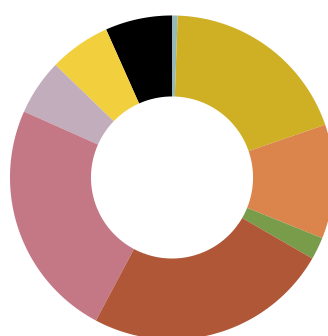
The portfolio is suitable for investors seeking exposure to small and medium sized companies in the domestic equity market with maximum capital appreciation as their primary goal over the long term. Investors should have a tolerance for short-term market volatility in order to achieve long-term objectives. The mandate excludes investment in Real Estate shares.

PERFORMANCE ²

Period	Portfolio	Benchmark
1 year pa	-7.6%	1.0%
3 Years pa	-4.2%	0.8%
5 Years pa	0.2%	4.8%
7 Years pa	5.8%	8.9%
10 Years pa	10.5%	13.1%
Lowest 1 year return	-18.2%	
Highest 1 year return	30.9%	

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

PORTFOLIO STRUCTURE



Basic materials	0.5%
Industrials	19.3%
Consumer goods	11.4%
Health care	2.2%
Consumer services	24.3%
Financials	23.9%
Technology	5.6%
Preference shares	6.1%
Cash and money market	6.7%

TOP 10 HOLDINGS

Share	Percentage
Adcorp Holdings Ltd	5.4
Allied Electronics Corp Ltd	5.0
Adapt IT Holdings Ltd	4.6
Advtech Ltd	4.3
African Rainbow Capital Investments Ltd	4.2
Curro Holdings Ltd	4.1
EPE Capital Partners Ltd	3.6
Hudaco Industries Ltd	3.6
The Foschini Group Ltd	3.3
Famous Brands Ltd	3.0
Total	41.2



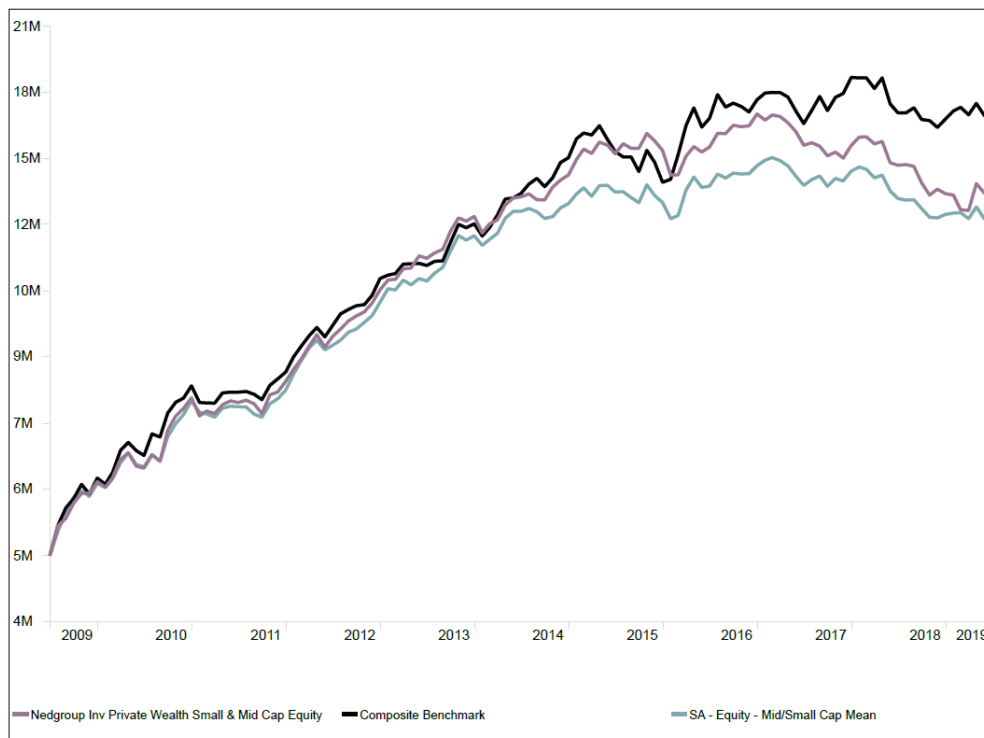
Nedgroup Investments Private Wealth Small & Mid Cap Equity Fund



June 2019

SINCE INCEPTION CUMULATIVE PORTFOLIO PERFORMANCE

The graph shows growth of R5 000 000 invested in the portfolio plotted against the fund's composite benchmark as well as the average of the ASISA South African Equity Mid/Small Cap category.



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 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. 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