OUR LOCAL EQUITY MANAGERS' VIEWS ON NASPERS/PROSUS

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MENTENOVA

INTRODUCTION

A sweeping regulatory clampdown by China on the country's tech giants has generated some angst amongst global investors in recent weeks, sending shock waves across global financial markets. With anti-trust and cybersecurity fast becoming a priority for Chinese authorities, they have rapidly and aggressively tightened their grip on regulation across several sectors, including tech, e-commerce, and online education. This has brought into question whether China is still an attractive investment destination as well as the ability for Chinese firms to maintain listings in offshore jurisdictions.

For local investors, these regulatory issues have been felt through their exposure to JSE-listed counters, Naspers and Prosus (NPN/PRX), which derive around 28% of their value from the Chinese tech behemoth, Tencent. These regulatory threats saw NPN/PRX hit 52-week lows at the end of July. Adding insult to injury has been the recent share swap intended to reduce the widening holding company discount, which has placed further pressure on NPN/PRX share prices.

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While most passive investors have exposure to NPN/PRX by virtue of holding the constituents of a market capitalization-weighted index, active managers have more discretion in this regard. Against this backdrop, we have engaged with our best-view equity managers to understand their views on Tencent and the risks associated with holding NPN and PRX. We have collected and collated these views on behalf of our clients and have summarized these findings in the table below:

Best-view investment manager	View on PRX/NPN	Combined positioning in NPN/PRX relative to benchmark at end July
Fairtree	Fairtree has been buying into the recent share price weakness as it sees valuations at attractive levels and the balance of risks for Tencent to the upside.	Overweight
Coronation	Coronation sees PRX and NPN at attractive valuations. Furthermore, the manager is of the view that Tencent is 'a formidable company with a very engaged user base, growing businesses across multiple verticals and generates good cash flow.' They expect that management will continue to unlock value.	Overweight

Matrix	Matrix's base case remains that the regulatory scrutiny should be manageable for Tencent given the extent to which gaming has already adapted, as well as management's generally proactive stance in these matters. Furthermore, it sees valuations as compelling under most scenarios.	Overweight
Ninety One	Ninety One is opting for a neutral-to-benchmark allocation in NPN/PRX until such time that regulatory clarity emerges.	Neutral
Prudential	While Prudential has highlighted the difficulty in quantifying the regulatory risks associated with exposure to Tencent, it remains constructive on what it views as a cash generative and growing business.	Overweight
Foord	Foord does not see the recent regulatory clampdown having a major negative impact on Tencent and sees regulatory shake-ups as the normal course of business in China. It believes Tencent is already pricing in the regulatory headwinds and the manager remains constructive on NPN/PRX.	Overweight
Truffle	Truffle has moved to underweight in the NPN/PRX stable as regulatory risks have been building. It sees the medium-term earnings risk to Tencent as high, with an insufficient margin of safety to justify buying the shares as yet.	Underweight
Visio	Visio is of the opinion that Tencent is likely to be a long-term winner given its suite of assets and access to high-quality content, thereby maintaining its overweight exposure to the NPN/PRX stable.	Overweight

By and large, our best-view investment managers remain constructive on NPN/PRX, meaning these two counters will remain sizeable holdings within our best-view equity building block. While some managers appear more concerned about the regulatory risks associated with Tencent than others, we are comfortable that all our managers have a sound and robust investment rationale for their positioning that is in line with their respective investment processes and philosophies. We will continue to actively engage with all our managers to understand their positioning and any changes thereto on behalf of our clients.

In-depth explanations from our best-view investment managers will be made available on request.

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