NEDGROUP INVESTMENTS

NEDGROUP INVESTMENTS INVESTOR PERSONALITY AND BEHAVIOURAL REPORT 2021

Using behavioural insights to empower better financial decision making

see money differently

In partnership with

Oxford Risk

FOREWORD

DEAR INVESTORS

Our purpose at Nedgroup Investments is to help investors achieve their goals by being their trusted partners. A key component to this is ensuring that the Best of Breed managers deliver on their long-term performance promise. But that is not enough. We also need to ensure that you (our investors) actually benefit from that good long-term performance.

There has been much research and in my two decades in the industry I have experienced it many, many times that investor behaviour is often just as (or even more) important than the fund manager performance. This involves making sure our clients firstly invest, secondly that they invest in the right product for their specific goals and thirdly that they stay invested through the many inevitable ups and downs of the market. We see it as our responsibility to do everything we can to help optimise that behaviour. We do this by trying to offer appropriate products with clear objectives and timeframes and to communicate and market clearly and responsibly. This is most important in periods of market declines or when one of our managers experiences a period of inevitable short-term under-performance. While we all wish these never happened, in the real world they do and acknowledging and preparing for that is critical to success.

2020 has been yet another case study of the impact of investor behaviour on long-term outcomes. At an industry level many investors (understandably) panicked in March with COVID and the market correction, only to miss out on the significant market recovery. A year on, many markets are up more than 50% from their 2020 lows. As Joe Wiggins, states "It is difficult to think of a more challenging year to navigate for investors. The potential to make classic behavioural mistakes driven by emotion, short-termism and skewed risk perceptions never greater. 2020 was a behavioural stress test for investors."

Over the last few years we have invested in the area of behavioural science to see how we could better help investors and advisors. This has involved workshops for advisers, webinars with behavioural experts, building various tools and improving the quality and clarity of our communication and collateral. Last year we decided it was important to invest more to make greater traction. We were delighted create a new role and to appoint Amy Jansen, a behavioural science expert with significant experience, as Head of Behavioural Solutions. One of her first projects was partnering with Oxford Risk, leading behavioural practitioners based in the UK to conduct the most comprehensive survey of its kind ever done in South Africa.

We were delighted with the uptake (over 3000 respondents) which enabled us to make meaningful and statistically sound conclusions. I hope you find the attached Whitepaper interesting and its insights valuable.

> **"It is a key part of our journey to help improve investor outcomes. We intend to use the findings from this report to assist our clients and advisers, but also to improve how we communicate. Because in the end if the end investor wins, we all win."**

Nic Andrew

Nic Andrew
Head: Nedgroup Investments

INTRODUCTION

WELCOME TO OUR INVESTOR PERSONALITY REPORT

Thanks to the great interest shown by the South African investment community in this topic, we were able to gather data on over 3,000 South Africans' behavioural investment preferences, and appetite for responsible and impact investing.

To bring you this report, we partnered with Oxford Risk. We chose Oxford Risk for this exercise due to their specialisation and experience in researching the key drivers of investment behaviour across the world. The methodology they use is built on the same foundations as more general personality models like the "Big 5" or "OCEAN" models which you may have heard of.

Often, when you take these surveys, they may seem extremely simple - for example our survey included only 34 questions yielding 12 personality traits. These 34 questions were actually selected from hundreds of potential questions based on the answers that proved the most stable across time and different individuals and the most insightful in predicting investment behaviour.

> **"The investment industry has long used sophisticated techniques for building investment portfolios. Now, with this study, we have the opportunity to use the same level of sophistication to help investors make better decisions as they travel their investment journeys."**

By looking beyond demographics and delving into the psychological variables for each individual investor, we can begin the work of crafting investment journeys that have the best possible chance of ensuring investors arrive at their investment goal. And, after a year that revealed more macro and micro shocks than many people have seen in a lifetime, communicating with investors in a clear and transparent manner that they are receptive to is more important than ever.

In completing this report, what struck me most forcibly is the close relationship between individuals' composure and their desire for guidance. When we think about advice in the financial industry, we often focus on knowledge transfer and improving decisions, but what this relationship suggests is that many individuals are primarily looking for ongoing support. About half of our sample had both low composure and high desire for guidance, indicating that the help they want from the industry is more of a partnership – a reliable, consistent source of information and guidance as they navigate the ups and downs on the way to their goals.

Of course, the other half of our sample looks quite different and would prefer a much more hands-off relationship, pointing to the fact that there is no one-size-fits-all approach. We therefore present the results of this study cognisant of the fact that we cannot afford to over-simplify as we seek to help investors achieve their goals.

Interestingly, when we investigate the demographics, we see that while there are some tilts, overall, the six investing personalities we identify occur in all ages, and both genders.

Personality profiling is just one tool in the behavioural science toolbox. We are excited to begin the work of understanding and applying these tools with the same degree of sophistication as we apply fundamental and technical analysis and we offer this report to the industry and the South African public to help kick start this journey for the industry as a whole.

Amy Jansen
Head: Behavioural Solutions

EXECUTIVE SUMMARY

OUR PERSONALITIES AFFECT EVERY DECISION WE WILL EVER MAKE

Our study, in partnership with Oxford Risk assessed 12 personality traits across a variety of clients and identified six main personality archetypes preferences, and appetite for responsible and impact investing.

THE SURVEY

WE HAD OVER 3,000 RESPONSES TO OUR ONLINE RESEARCH SURVEY

This allowed us to do in-depth analysis on several sub-groups.

SURVEY CONTROL

34 questions

12 personality traits

Personality trait scales are pre-calibrated in earlier Oxford Risk work

SURVEY RESPONDENTS

68% Individual investors

25% Advisers

INVESTOR PRODUCT ACCESS

1,167 investors use advisers to access our products

817 investors access our products directly

THE RESULTS AT A GLANCE

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WHAT DID WE LEARN?

SA VERSUS THE WORLD

South African investors show a stronger link between composure and desire for guidance than European and Asian investors, suggesting that advice is often sought out for emotional, rather than cognitive reasons.

GOING BEYOND THE DEMOGRAPHICS

None of the archetypes in this study are confined to a single gender or age group. While their distribution varies, they are sufficiently represented in each demographic split to demonstrate the pitfalls of using demographics to classify investors' needs.

SOUTH AFRICAN PERSONALITY TYPES

Our South African samples fall into six archetypes, split into three groups showing low levels of composure, and three groups showing high levels of composure.

ADVISERS MORE COMFORTABLE THAN DIRECT INVESTORS

As might be expected, advisers typically have higher composure and confidence about investing and are less likely to make impulsive decisions.

STRESSED BUT STILL INVESTING

Almost a quarter of the sample fell into a "vulnerable" group with low levels of financial comfort, confidence and composure, suggesting that there is a large cohort of South African investors choosing to invest even while they are stressed about their daily finances.

RESPONSIBLE INVESTING IS AN IMPORTANT CONSIDERATION

Almost a quarter of investors have a high interest in their investments having a social and environmental impact and are willing to experience lower investment performance to achieve it.

WHAT DO THESE RESULTS TELL US?

PERSONALISATION AND PARTNERSHIP

We need to move beyond seeing investors simply through the lenses of age, income and gender. The full range of investor personalities exist in all groups, and this challenges the industry to be able to personalise how we support investors with greater nuance based on how they relate to investments, rather than simple demographic labels.

REMOVE THE BARRIER OF PERSONAL BIASES

For those who work directly with individual investors, like advisers, it is important to be aware that people who seek advice are often very different to those who give it. This is particularly relevant when it comes to the way that different investors will receive and interpret market noise, information and communication. Considering the range of archetypes can help advisers combat inconsistencies based on projecting their own personalities onto their clients.

FULL SPECTRUM CLIENT SUPPORT

Different investors need different things. Accommodating their needs means considering how to modify communications, decision making processes and investment strategies to best support the journey to the investors' goal. Market news that may be most welcome to one investor may send another into a panic. In the same way, detailed guidance may support one investor but might alienate and annoy another. This means that the way in which information is presented and communicated throughout the client investment journey should be curated to achieve the optimal level of engagement across different types of investor personalities.

THE PERSONALITY TRAITS

12 pre-selected personality traits were measured across all respondents.

COMPOSURE
The investor's tendency to react emotionally to the present state of their investment journey, (and also external stimuli such as the news); a measure of an investor's comfort or anxiety with the ups and downs along the journey.

CONFIDENCE
How capable and comfortable an investor feels about their ability to make good financial decisions.

DESIRE FOR GUIDANCE
The extent to which an investor wants to be included in financial decision-making and the management of their portfolio.

COMPARISON TENDENCY
An investor's propensity for judging their performance relative to external benchmarks or others' performance, as opposed to whether their portfolio has gone up or down.

WITHDRAWAL PREFERENCE
Willingness to withdraw capital (total returns) to meet spending needs vs. relying solely on investment income.

FAMILIARITY PREFERENCE
An investor's preference for solutions and investments that feel familiar and known to them, or their need for a strong narrative in order to be comfortable with investing.

IMPULSIVITY
An investor's propensity to act quickly and on emotional instinct when making decisions about investments and – often more importantly – spending.

FINANCIAL COMFORT
An investor's confidence in and satisfaction with their long-term financial situation.

INTERNAL LOCUS OF CONTROL
An investor's belief about their – or their delegate's – ability to control investment outcomes because of hard work and ability, as opposed to luck.

IMPACT DESIRE
The degree to which an investor wants to have a positive social impact with their investments.

NEED FOR EVIDENCE
An investor's need to see evidence of the social impact of an investment before engaging.

IMPACT TRADE-OFF
Willingness to make a trade-off for social good, whether a sacrifice of financial returns, a longer-term investment, or extra risk taken on.

THE SOUTH AFRICAN SAMPLE

The South African study revealed some very interesting departures from the baseline studies conducted in other countries.

South African investors in this sample show a stronger link between low composure and high desire for guidance

This means that more nervous respondents tended in our study to have a higher desire for professional help with their investments when compared to the more nervous investors of other studies.

A stronger link between impact desire and impact trade-off

The desire for investments to do social good, and a willingness to make sacrifices in order to achieve this good, were more closely correlated in our study compared with other surveyed populations.

Higher scores on Comparison Tendency

The tendency for investors to compare investment returns with how the market, and others, have done, rather than just focusing on their own returns is significantly higher in this sample than in the UK baseline.

Higher scores on Internal Locus of Control

The belief in skill and hard work, rather than luck as determinants of investment success is significantly higher in this sample than in the UK baseline.

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THE SOUTH AFRICAN STUDY

The study also revealed large trait-based differences within the sample. As might be expected, there are a few big differences between advisers and clients:

Advisers are more confident than clients

Advisers have more composure than clients

Advisers are more likely to judge performance against goals and desired returns, than against external benchmarks and other firms.

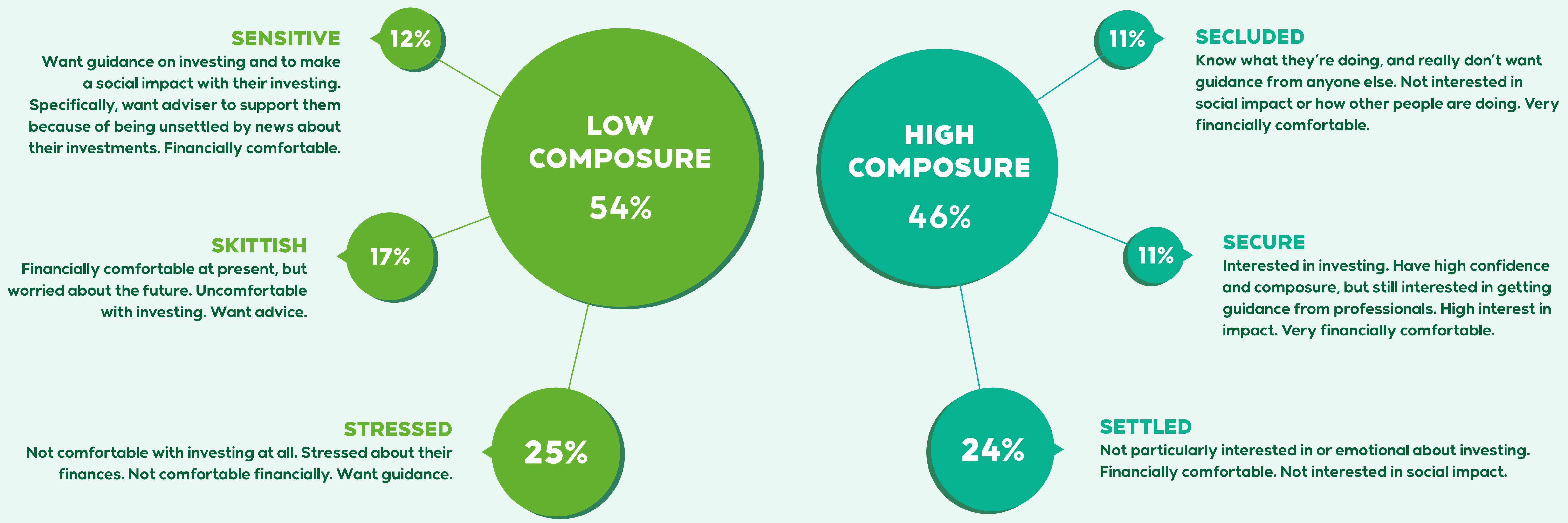
It is important to note that advisers answered these questions in their personal, rather than professional, capacity.

THE SOUTH AFRICAN ARCHETYPES

In our South African client sample, we find six distinct archetypes which we call the 6 S's.

In this section we focus on clients in determining these archetypes to get a full sense of the potential range. This is because, as we have seen above, advisers tend to have a narrower range of scores on many traits. However, we will revisit advisers in relation to these archetypes later in the report.In our South African client sample, we find six distinct archetypes, which we call the 6 S's. These are split into two broad groups. As mentioned earlier, in this sample, there is a close relationship in most archetypes between composure and desire for guidance. The two broad groups fall along these lines, with three groups showing high composure and three groups showing low composure. The below illustration shows the breakdown of these personality archetypes and how they fit into the broader client sample.

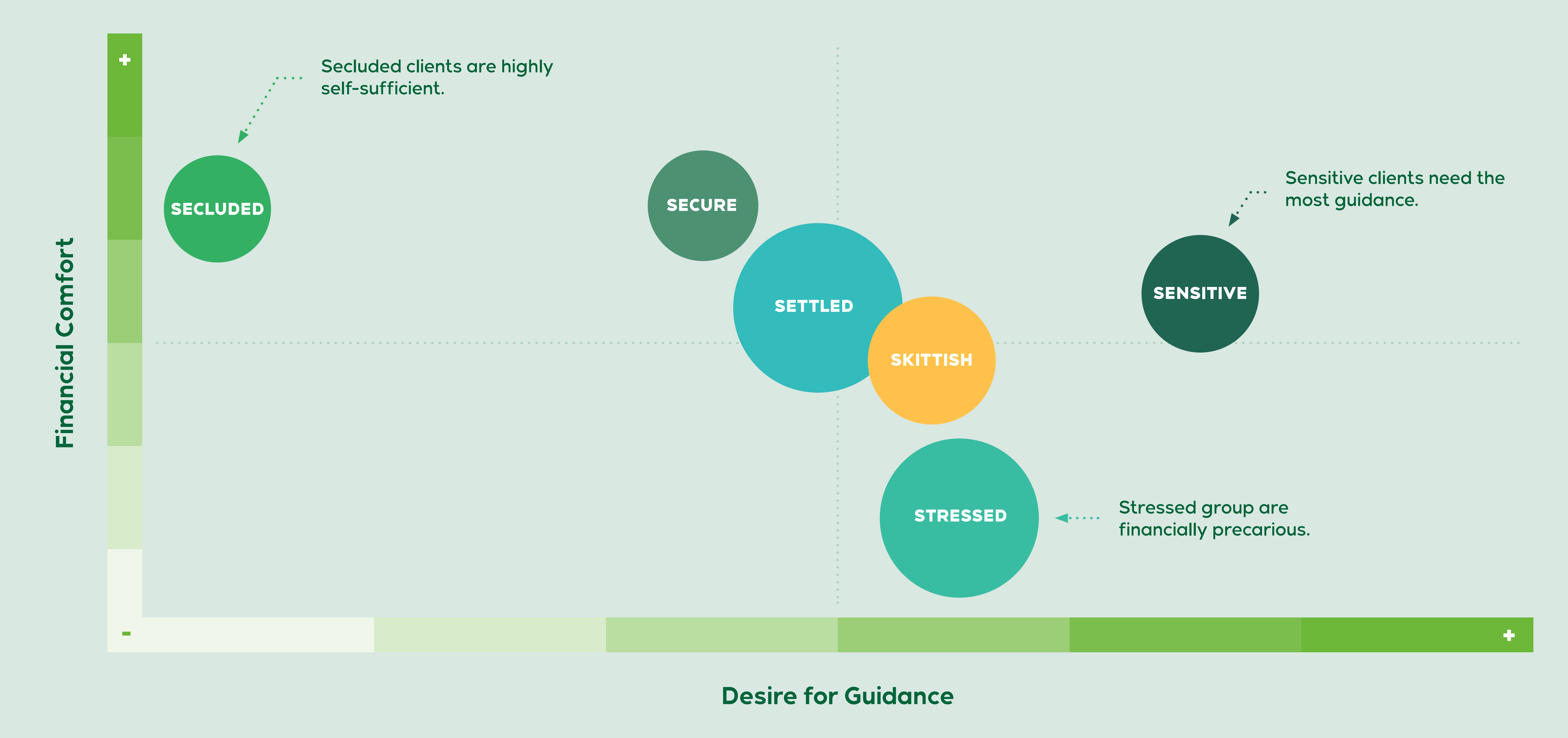
Figure 1 The Nedgroup Investments 6 S's of Investor Personality Archetypes



THE SOUTH AFRICAN ARCHETYPES

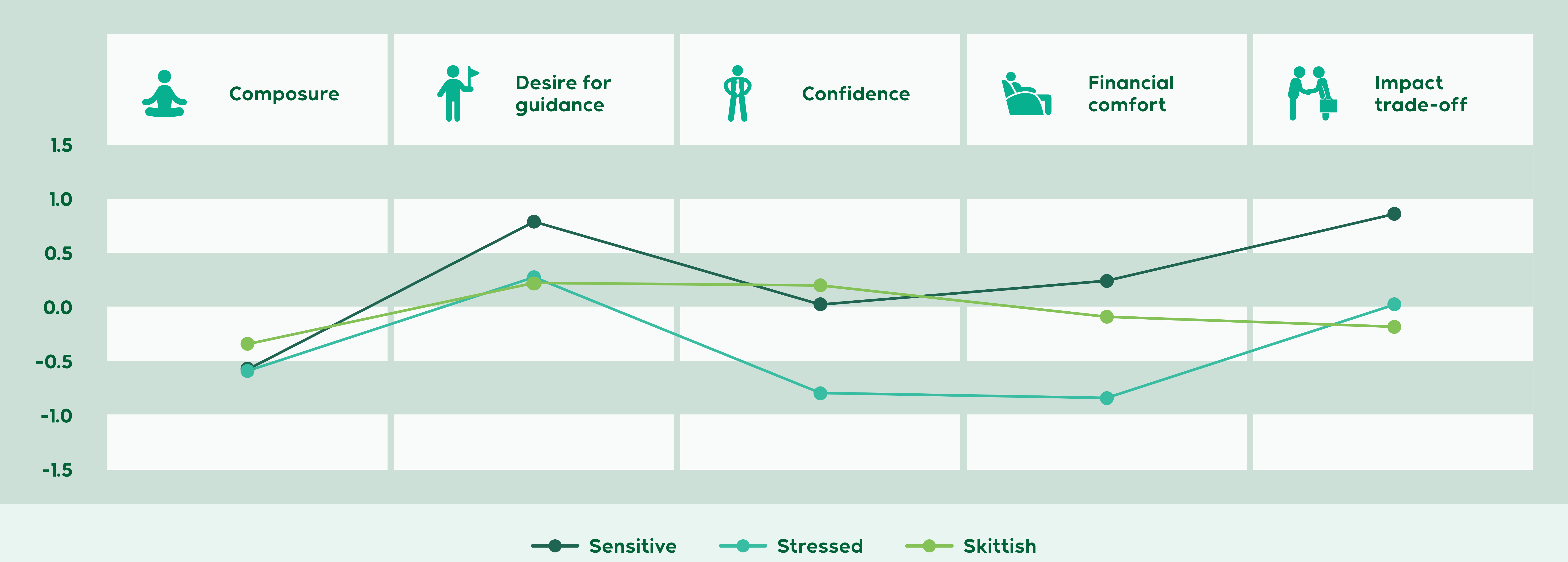
In addition to composure and desire for guidance, the other main drivers in the differences between the groups influence how each group will interact with their environment.

Figure 2 Key differences between archetypes



THE THREE LOW COMPOSURE GROUPS

These are groups that are easily affected by news about their investments. They also tend to want more guidance from professionals.



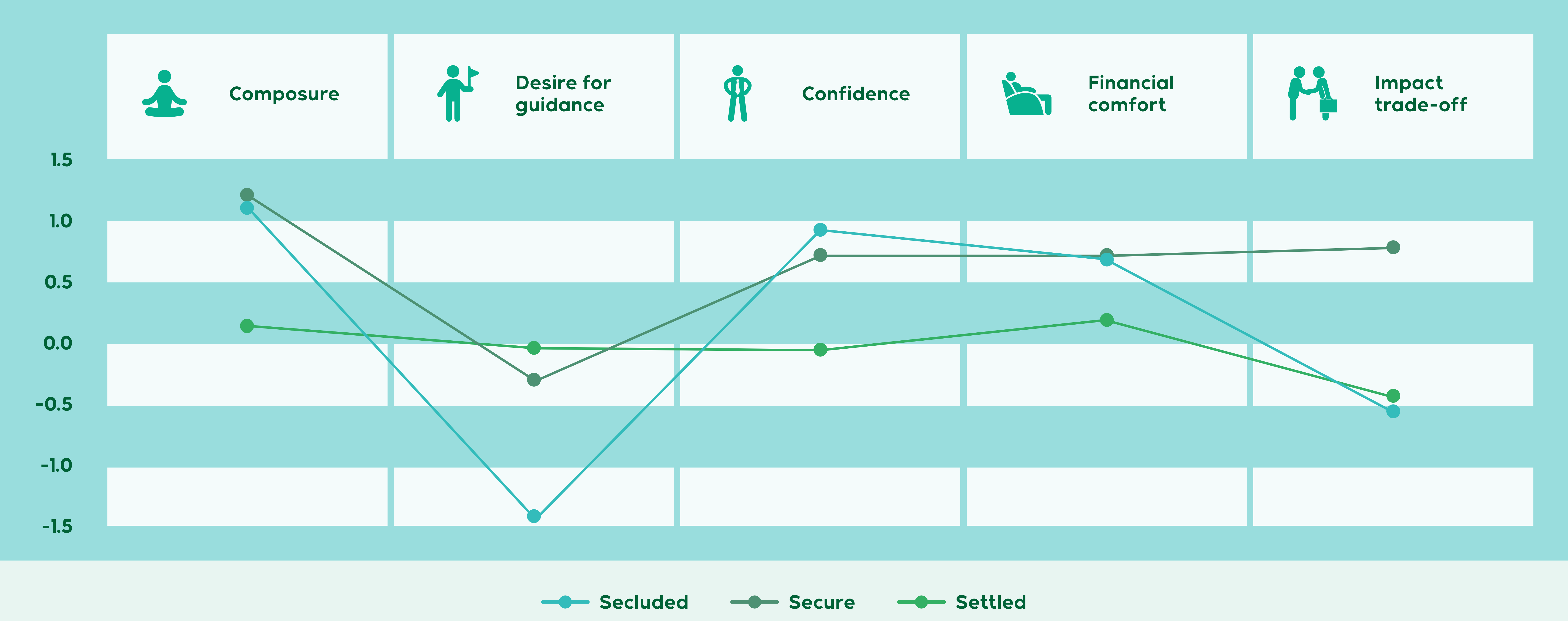
This graph above shows the strong relationship between low composure and high desire for guidance. The 'Stressed' group exhibit a combination of traits indicative of being uncomfortable with investing – low composure, low confidence, and low financial comfort. This suggests a group that would welcome things being slowed down, spelled out, and simplified.

The 'Sensitive' have the highest impact trade-off and impact desire, as well as the highest desire for guidance and locus of control – indicating that they are interested in doing social good with their investments and would appreciate active professional help to do so.

The 'Skittish' group also show low composure and high desire for guidance but don't stand out on the other three main dimensions. What isn't shown is that this 'Skittish' group had the strongest response to questions indicating that although they are financially comfortable now, they fear a future event where they may need to draw down on their investments for income.

THE THREE HIGH COMPOSURE GROUPS

These are groups which are typically less unsettled by news that could affect their investments. They also have a more muted desire for guidance.



The 'Secluded' group on the second graph are something of a direct opposite of the 'Sensitive' group. While the 'Sensitive' group have particularly low composure, and the highest desire for guidance, the 'Secluded' group have particularly high composure and the lowest desire for guidance. Essentially, this group is more than happy to look after themselves.

The 'Secure' group is similar to the 'Secluded' group in many respects. However, while they both have lower than average desire for guidance, this is a far more muted preference in the 'Secure' group who would be more open to guidance. Interestingly, these groups display opposite attitudes to impact trade-off and impact desire. Where the 'Secluded' group have a lower than average interest in impact, the 'Secure' group has a high interest in impact.

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SUB-POPULATIONS

Direct clients are less likely to want advice and will be more similar to the 'Secluded' archetype.

Figure 3 **Split of archetypes across direct and advised clients**

	SENSITIVE	STRESSED	SKITTISH	SETTLED	SECURE	SECLUDED
Advised	15%	27%	19%	23%	9%	8%
Direct	9%	22%	15%	25%	14%	16%
All clients	12%	25%	17%	24%	11%	11%

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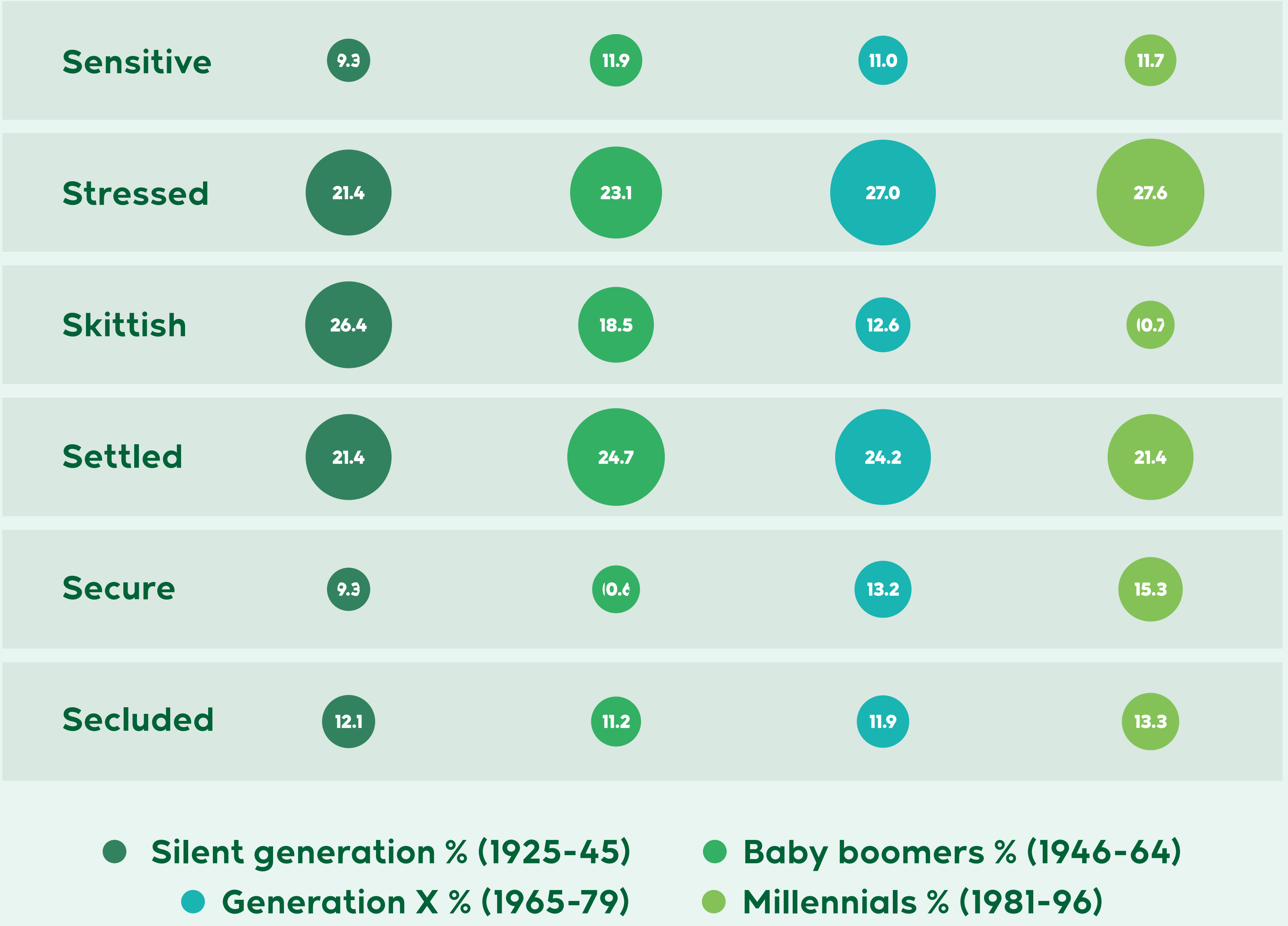
SEX AND AGE ACROSS ARCHETYPES

Figure 4 **Split of sexes across each archetype**

Figure 5 **Split of generations across each archetype**



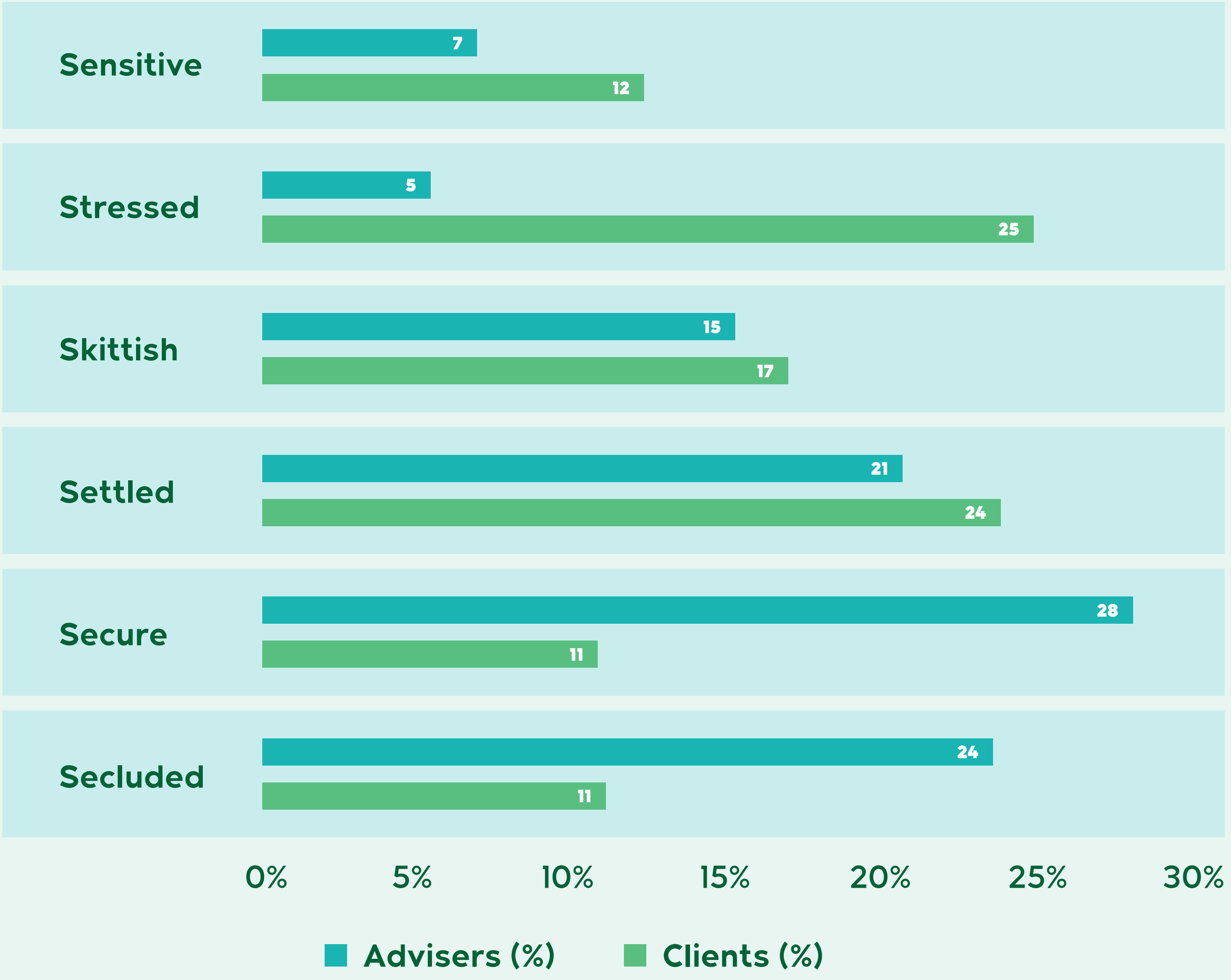
Women tended to fall into the 'Stressed' group and were under-represented in the two groups with high composure, confidence, and financial comfort ('Secure' and 'Secluded').

When it comes to age, the standout observation is the proportions of investors in the older and younger age categories that fell into the 'Skittish' group. Over a quarter of investors who are 75 years and older were in the 'Skittish' group, while only 10% of the investors who are below the age of 40 years old were in this group. This makes sense. The 'Skittish' group are characterised by concern over unforeseen needs to draw on their investments. Older people tend to have more potential needs for emergency funds (e.g. because of ailing health), less ability to replenish funds with income, and more investments to draw on in the first place.

HOW DO ADVISERS MAP TO ARCHETYPES?

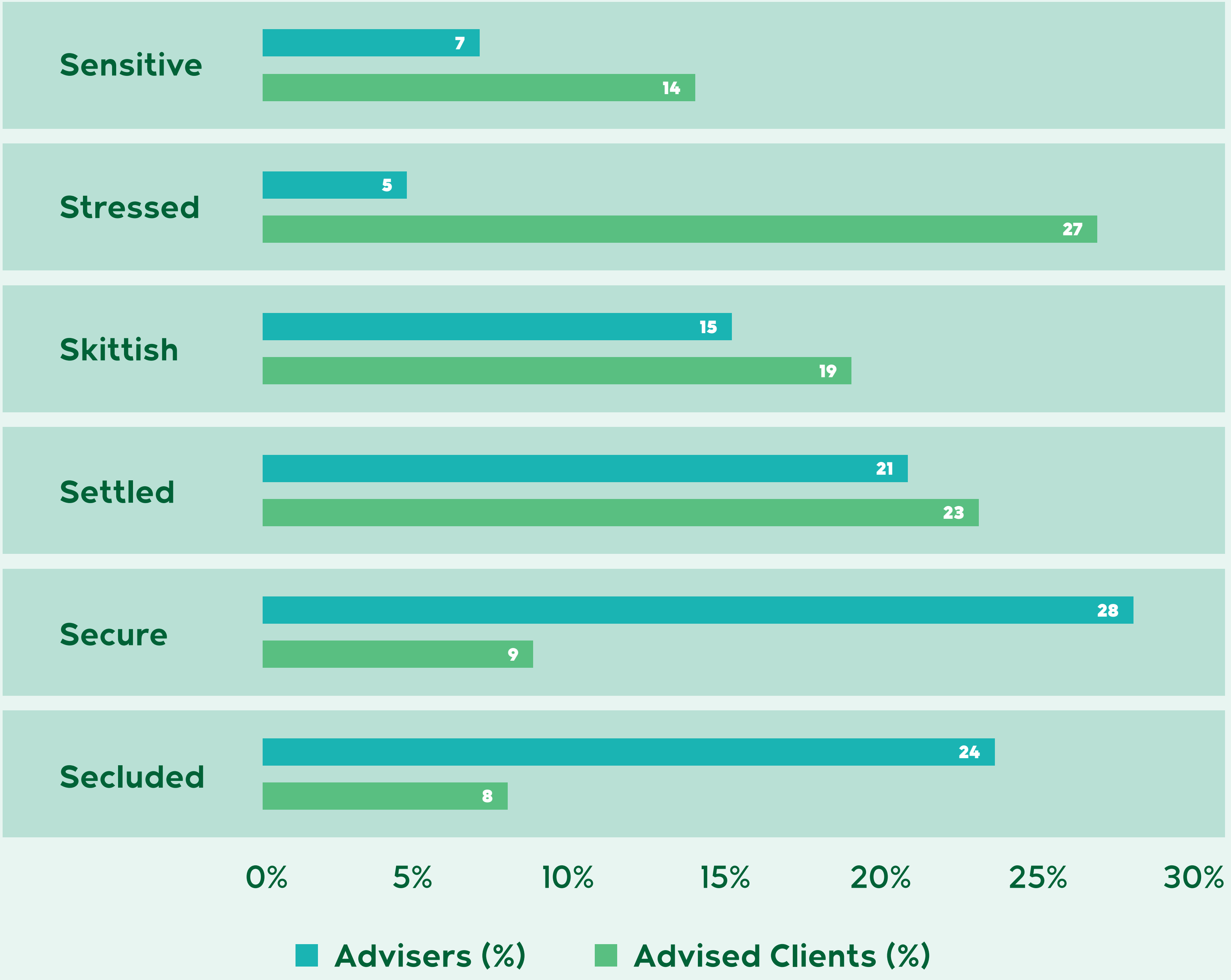
Mapping the advisers to existing archetypes allows us to identify key differences between them and their clients and gain valuable insights into the drivers of behaviour.

Figure 6 **Advisers and all Clients**



As might be expected, most of the advisers belong to the 'Settled', 'Secure' and 'Secluded' archetypes. Although overall we identified desire for guidance as one of the two leading factors for determining the archetypes, advisers do not show a large difference from clients on this scale.

Figure 7 **Advisers and Advised Clients**



However, the way they map to the existing groups can be supported by their higher confidence, composure, and comparison tendency. This is in line with what we'd expect: advisers that are less nervy, unsure, and impulsive.

INSIGHTS INTO ACTION

A more refined understanding of investor attitudes allows more suitable matching of investors to investment solutions, and more resonant narratives to support the investment journey.

There are three main areas in which these kinds of personality-driven behavioural insights can affect the investor's relationship with their investments:

DECISIONS

Changes to how investment decisions are made.

Broadly speaking, this is determined by the balance between: a) adviser and client involvement in decisions and b) making decisions based on pre-set rules versus in-the-moment emotions. For example, someone with high 'desire for guidance' and 'impulsivity' (like the 'Stressed' group) will benefit from following a rules-based framework while working with a professional, whereas the same approach could agitate someone in the 'Secluded' group.

COMMUNICATIONS

Changes in what and how investment information is sent and received.

This could be general investing information, or specific adviser-client communication, and covers the level of detail, the frequency, and specific types of content. For example, low Composure investors (like the 'Sensitive', 'Stressed', and 'Skittish' groups) will be better served by messages that focus on the long-term and prioritise principles over market 'news'.

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Changes to which investments are selected and how they are held.

This is normally what one would want to change least due to personality. More often, portfolio changes are an unnecessarily costly way of purchasing the emotional comfort the investor is seeking, when rather working on changing the way they see those investments would be more effective. For example, instead of actively de-risking a portfolio to reassure an anxious client, encouraging the client to focus on the long term and not look at their investments so often would be more effective.

Once we have an idea of what archetypes are common in a population, or even some idea of our own archetype, we can start looking at how the investment journey could be modified to better support each archetype.

For an investment portfolio to be suitable for a given investor, it first needs to acknowledge the emotional comfort that the investor will seek, then plan for it and provide it in an effective and efficient way.

However, sometimes changes are justified. For example, those high in the two impact scales (like the 'Sensitive' and 'Secure' groups) are likely to want to tailor their portfolios to meet social goals.

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PERSONALITY PROFILING

Personality profiling seeks to determine how uncomfortable an investor is likely to be with different elements of the investment process. The intention in doing this kind of profiling is not to avoid all the potential discomfort that an investor may experience on their natural investment journey, but to quantify it and make clear, appropriate and personalised trade-offs in partnership with them so that they are making informed and rational decisions. The exact prescriptions will, of course, differ for each investor, depending on their individual behavioural profile, and the circumstances in which they are being expressed. This is an iterative process and it's important to remember that these behaviours are tendencies, not cast-iron conduits between causes and effects.

A sample of potential prescriptions and how they would manifest in practice is provided in the table below. These have been chosen purely to give a flavour of potential targeted recommendations for the full spectrum of archetypes. They are far from exhaustive.

	SENSITIVE	STRESSED	SKITTISH	INDIFFERENT	SECURE	SECLUDED
E.G.	Communications	Communications	Investments	Investments	Decisions	Decisions
WHAT TO DO	Regularly remind yourself of key investment principles to soften the impact of downturns and the subsequent noise that will occur.	Set regular check-ins with your adviser and/or cool-headed friends and decision tree to work through before making any changes to your investments. Focus on placing any short-term turmoil in the frame of your long-term plans.	Prioritise investments that will meet chosen benchmark returns on an ongoing basis (e.g. specific index-tracking funds) and avoid very volatile investments.	Use investments that focus on total returns, not income generation.	Wherever possible, automate your future decisions: use scheduled plans, debit orders and rules-based decision-making processes to avoid missing or neglecting important portfolio upkeep.	Ensure periodic engagement with investment decisions to avoid neglecting essential portfolio maintenance.
WHY IT WORKS	Out-of-the-blue announcements of market falls can exacerbate discomfort, not correct it. Prevent panic by preparing for it and having a system in place to fall back on.	You're likely to be reassured by regular investment communications that focus on the big picture, and your long-term goals and objectives. Having scheduled conversations about your investments forces you to stay present and helps you to avoid reacting emotionally when big news happens.	You may feel more anxious than most if your portfolio lags the market or your benchmark and this could prompt you to make emotionally-driven decisions at the wrong time. Agreeing upfront to aim your portfolio at the market return can reduce this.	Targeting total returns (not income) is a more efficient way of investing and should be prioritised all for those (like you) who aren't uncomfortable selling investments when needed.	The more automatic your decision-making processes, the less you need to do to keep your investing on track.	High Composure is helpful until it turns into complacency and disengagement. You might be at risk of missing important information or communication about your investments. Agree to a set time to think about investment strategy and make any necessary decisions.

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