NEDGROUP INVESTMENTS

See money differently

# Quarterly Report:
# **Nedgroup Investments XS Guarded Fund of Funds**

as at 31 March 2020

# Quarterly report:
# Nedgroup Investments

## Domestic asset class returns (ZAR)

### SA Equity

-21.4% Q1 2020

| | |
|---|---|
| -18.4% | 1 year |
| -2.1% | 3 years |
| 12.3% | LT average |

Small caps were highly exposed to global turmoil and bank share prices reached multi-year lows

### SA Property

-48.2% Q1 2020

| | |
|---|---|
| -47.9% | 1 year |
| -23.0% | 3 years |
| 11.8% | LT average |

Landlords face unprecedented pressures as tenants seek rental holidays

### SA Bond

-8.7% Q1 2020

| | |
|---|---|
| -3.0% | 1 year |
| 5.3% | 3 years |
| 6.9% | LT average |

Suffered a -9.7% decline in March on the back of global uncertainty

### SA Cash

1.6% Q1 2020

| | |
|---|---|
| 6.6% | 1 year |
| 6.7% | 3 years |
| 5.9% | LT average |

SA Reserve Bank cut interest rates 25bps in Jan and 100bps in Mar

## Global asset class returns (USD)

### Global Equity

-21.3% Q1 2020

| | |
|---|---|
| -10.8% | 1 year |
| 2.0% | 3 years |
| 8.5% | LT average |

Decline in equity markets was broad based. Japan, Asia ex-Japan and US were most robust

### Global Property

-28.3% Q1 2020

| | |
|---|---|
| -23.2% | 1 year |
| -2.9% | 3 years |
| 6.6% | LT average |

Temporary constraints placed on economies caused worries about sustainability of value

### Global Bond

-0.3% Q1 2020

| | |
|---|---|
| 4.2% | 1 year |
| 3.6% | 3 years |
| 4.6% | LT average |

Risk appetite returned to the market and EMs were the best performers

### US Cash

0.4% Q1 2020

| | |
|---|---|
| 2.1% | 1 year |
| 1.9% | 3 years |
| 4.3% | LT average |

Many Central Banks cut rates taking most of the world's rates to near zero

## Exchange rates (Rand spot rate and quarterly change)

**US Dollar R17.86**

22%

Emerging Market currencies fell on worries about how their economies will cope with economic challenges, with the Rand further impacted by the Moody's downgrade of South Africa's credit rating to junk status.

**British Pound R22.15**

16%

In line with the UK equity market, the pound sterling performed poorly this quarter when compared to other developed market currencies. The pound lost 3% to the US dollar in February and almost 7% in March.

**Euro R19.60**

18%

The Euro and Europe ex-UK equity market performed in line with the pound and the UK equity market, and also ended the quarter as one of the weakest developed market regions.

Source: Morningstar; as at 31 March 2020
https://nedgroupinvestmentsmultimanager.com/

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## Domestic performance drivers

### Highlights

- The State of the Nation sought to highlight the areas where implementation (rather than pledges) was underway, including in critical areas such as energy reforms and youth unemployment.
- Finance Minister Tito Mboweni presented a reasonable Budget on the 26th of February that even delivered some positive surprises.
- President Ramaphosa acted with comprehensive and decisive measures, calling for a unified response to protect the country, its people and healthcare system. On 26 March, the country entered a 21-day lockdown with only essential services allowed.

### Low points

- We started the year with electricity shortages continuing to plague the country. Eskom CEO Andre de Ruyter, informed South Africa that the power system will remain vulnerable to load shedding for at least 18 months to allow much needed maintenance work.
- Moody's cut South Africa's sovereign credit rating to Ba1 From Baa and the outlook remains negative. South Africa now has a sub-investment grade rating from all three major rating agencies and will fall out of the FTSE World Government Bond index.

## Global performance drivers

### Highlights

- Phase One of the US – China Trade Deal was signed in January, which provides something of a truce, and may pave the way towards further de-escalation as the negotiators move on to the next stage.
- The UK finally legally departed from the EU on the 31st of January. Although little else changed, the UK and EU have now entered an eleven month transition
- With the benefit of experience gained in the 2008/9 financial crisis, policy makers reacted quickly to the growing Coronavirus-crisis, announcing massive monetary and fiscal stimulus packages.

### Low points

- In early March, the World Health Organisation declared the COVID-19 outbreak a global pandemic. By the end of March, much of the world was in lockdown.
- A second factor that added to market pressures was the collapse in the oil price which resulted from the breakdown of the OPEC+ talks. The oil price now trades in the low-to-mid US$20s per barrel. If this level of pricing is sustained, much of the North American oil industry will suffer significant losses, and probably be driven to bankruptcy.

# Quarterly report:
# Nedgroup Investments XS Guarded Fund of Funds

## Fund overview

| Max equity | Time frame | Benchmark | Peer group | Regulation 28 |
|---|---|---|---|---|
| 40% | Min 3 years | Inflation +3% | SA Multi-Asset Low Equity | Compliant |

**Risk profile**

1 | **2** | 3 | 4 | 5

## Fund costs (C – clean class)

| Management fee* (Excl. Vat) | Total expense ratio |
|---|---|
| 0.85% | 1.06% |

| Transaction charges | Total investment charges |
|---|---|
| 0.05% | 1.12% |

## Benefits of the XS Select range

- Competitive pricing
- Diversified across Asset classes
- Investment experts
- Passive and active underlying investments
- Tax Efficient
- Ongoing Due diligence

as at 31 March 2020

* Includes BOTH multi-manager and underlying fund fees. Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 1st of January 2017 and ending 31st of December 2019.

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# Quarterly report:
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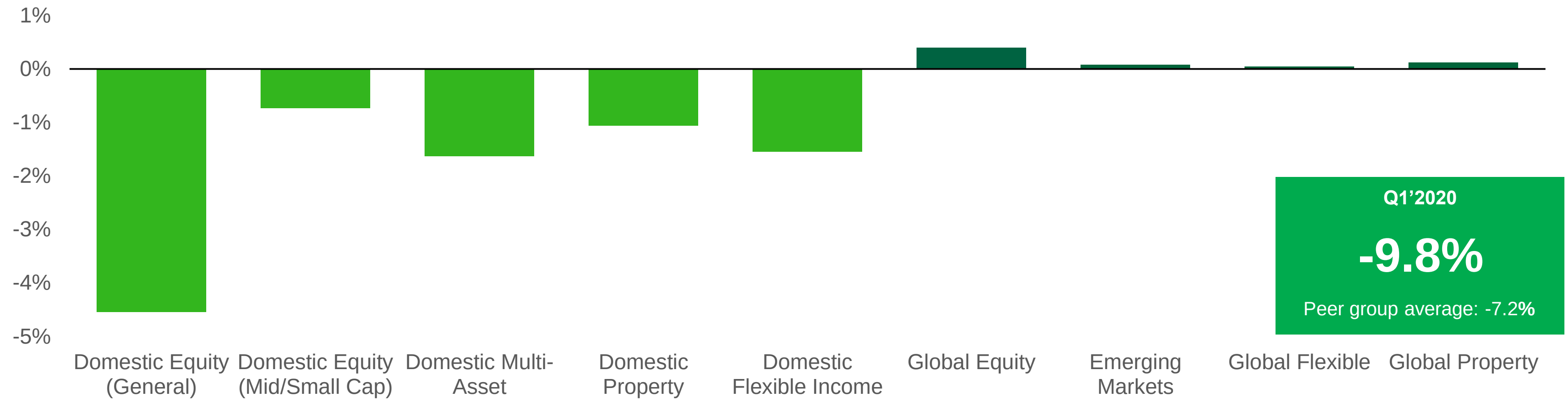
## XS Fund of Funds performance contribution – Q1 2020




### Positive contributors this quarter

- Conservative positioning of the Nedgroup Investments Core Income fund in terms of both credit and liquidity (99% across Big 5 banks), as well as the elevated cash of most of the underlying managers offered a buffer.
- The rand was the largest contributor to performance as it weakened by 22% to the US dollar in Q1'20. The fund's overweight allocation to direct offshore exposure, as well as the underlying equity managers' bias to rand hedges benefited from this.
- Defensive rand hedges Naspers (+12% in Q1'20), Prosus (+17%) and British American Tobacco (+2%) are commonly held by our domestic equity managers and offered some protection against the widespread weakness caused by the outbreak of the Coronavirus.

### Detractors this quarter

- SA Financials was the worst performing sector of the domestic equity market. Some of the widely held positions are Standard Bank (-39% in Q1'20), Santam (-5%), FirstRand (-36%) and RMB Holdings (-39%).
- Concerns about the health of Sasol's (-88%) balance sheet spiked when the oil price imploded on the back of a disjointed OPEC and the subsequent Russia-Saudi Arabia price war.
- The change in yield on the SA 10-year government bond has been unprecedented, increasing from 8.23% at the start of the quarter to 10.96% at market close on 31st March. This movement has impacted credit instruments across the market, with the All Share Bond Index falling by 8.7%, and adversely impacting the fund's bond and multi-asset income allocations.

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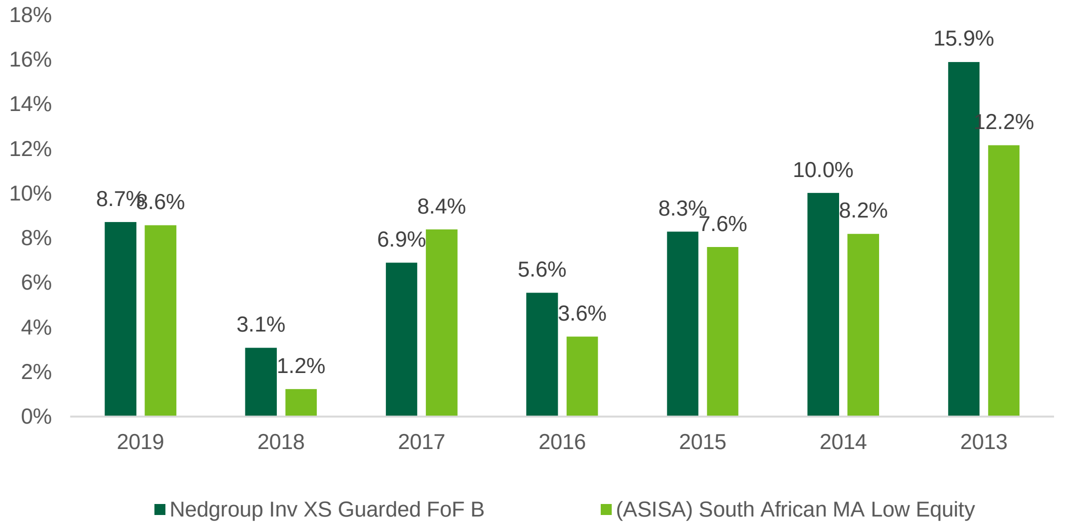
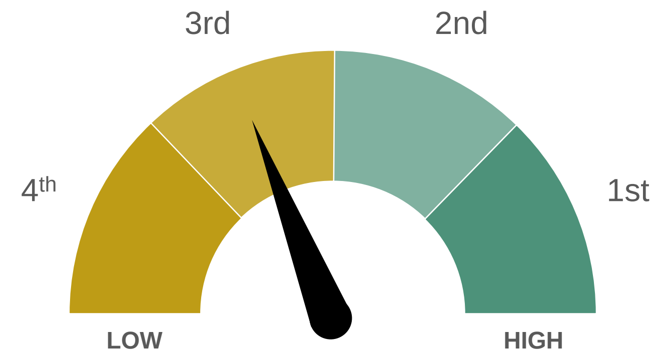
## Fund performance (clean class)

| Q1'20 return | Ytd return | 1yr annualised return | 3yr annualised return | 5yr annualised return |
|---|---|---|---|---|
| **-9.8%** | **-9.8%** | **-6.5%** | **2.1%** | **3.7%** |
| Peer group average: -7.2% | Peer group average: -7.2 % | Peer group average: -3.1% | Peer group average: 2.7% | Peer group average: 3.6% |

## Calendar year performance




## Peer group quartile ranking: 3yr



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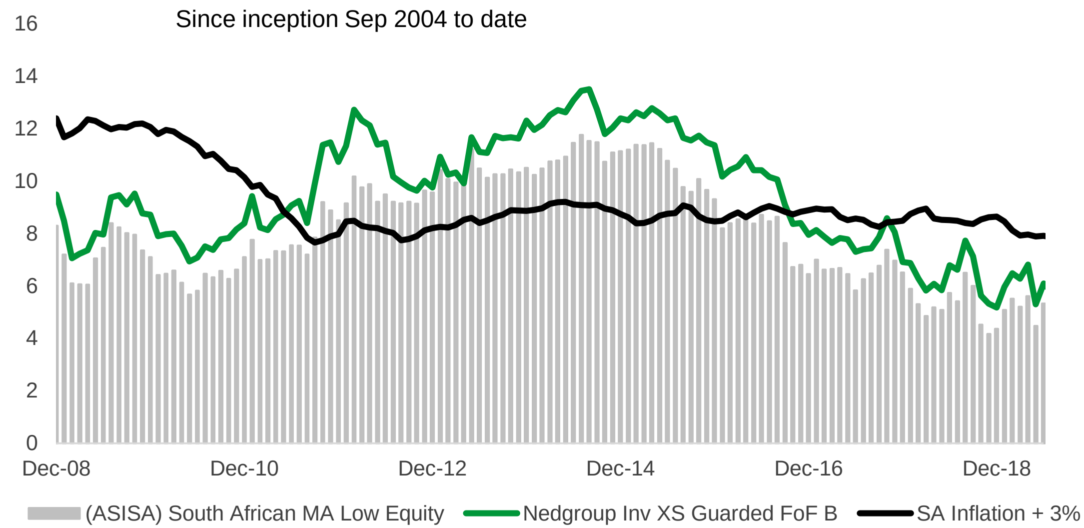
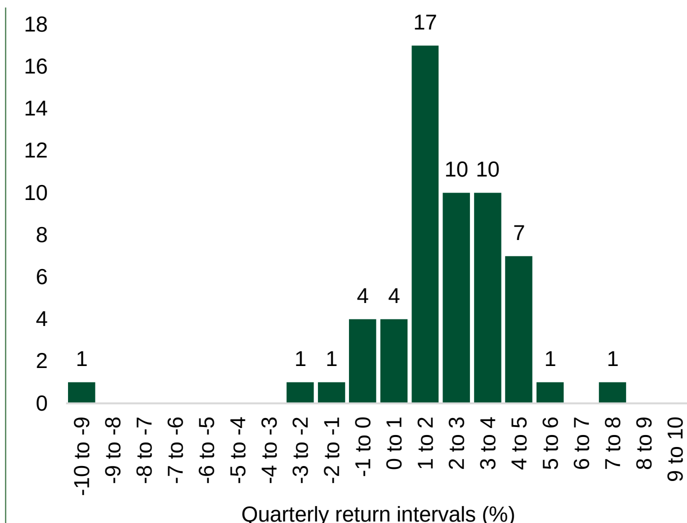
## Risk measures since inception

| Rolling 3yr return | Volatility | Max drawdown | Sharpe ratio | % Positive months |
|---|---|---|---|---|
| **99%** | **4.8%** | **-10.6%** | **0.3** | **81%** |
| Hit rate: outperforming peer group average | SA equity market: 14.9% | SA equity market: -40.4% | SA equity market: 0.2 | SA equity market: 65% |

## Rolling 3-year annualised return




## Quarterly return distribution



Quarterly report:
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## Performance across classes

| | A Class (all in) | B Class (lisp) | C Class (clean) | Peer group | SA inflation |
|---|---|---|---|---|---|
| **Quarter** | -10.1% | -9.8% | -9.8% | -7.2% | 1.5% |
| **1 year** | -7.9% | -6.5% | -6.8% | -3.1% | 4.6% |
| **3 year** | 0.6% | 2.1% | 1.7% | 2.7% | 4.2% |
| **5 year** | 2.2% | 3.7% | 3.4% | 3.6% | 5.2% |

## Costs across classes

| | Management fee (excl. Vat) | financial planner | total expense ratio | transaction charges | total investment charges |
|---|---|---|---|---|---|
| **A Class (all-in)** | 2.15% | 1.00% | 2.55% | 0.05% | 2.61% |
| **B Class (LISP)** | 0.85% | N/A | 1.06% | 0.05% | 1.12% |
| **C Class (clean)** | 1.15% | NA | 1.41% | 0.05% | 1.46% |

as at 31 March 2020

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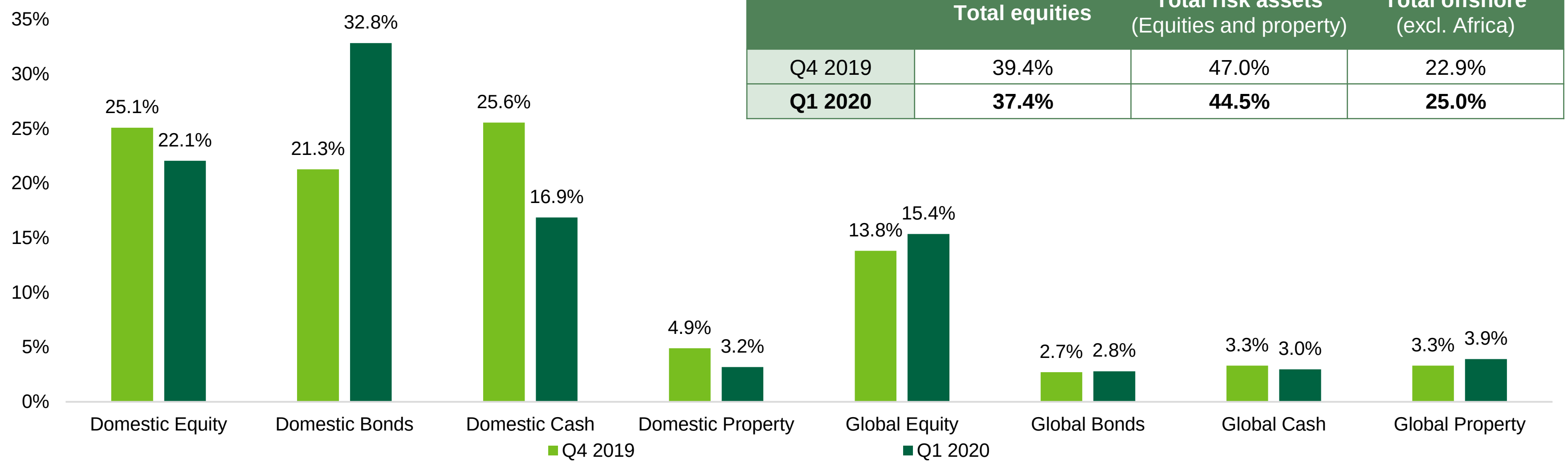
## Asset allocation changes




| | Total equities | Total risk assets (Equities and property) | Total offshore (excl. Africa) |
|---|---|---|---|
| Q4 2019 | 39.4% | 47.0% | 22.9% |
| **Q1 2020** | **37.4%** | **44.5%** | **25.0%** |

## Summary of recent changes

- The **foreign equity** exposure was reduced to the tactical (overweight) position when it breached materially in order to lock in currency gains and reduce exposure to the risk of rand strength. The **domestic bond** exposure was increased to neutral, as the Moody's downgrade along with COVID-19 weakness created great buying opportunity. The **domestic equity** exposure was marginally increased at the end of the quarter and we are looking to increase exposure in a phased in approach to neutral. **Domestic cash** was used as a balancing item.
- A healthy allocation to defensive assets remain. Te funds are well diversified across all asset classes, with a moderate risk positioning.

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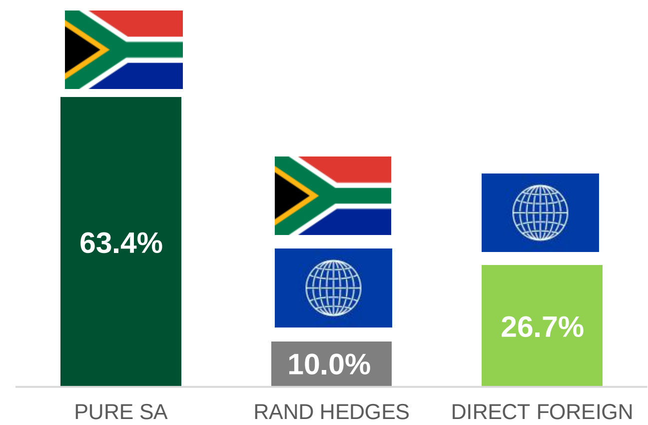
## Asset allocation

| Domestic Equity | Domestic Property | Domestic Fixed Interest |
|---|---|---|
| 22.1% | 3.2% | 49.7% |

| Foreign Equity | Foreign Property | Foreign Fixed Interest |
|---|---|---|
| 15.4% | 3.9% | 5.8% |

## Regional exposure




## Top ten holdings (as a % of fund)

| | |
|---|---|
| NASPERS | 2.1% |
| British American Tobacco | 1.4% |
| BHP | 1.1% |
| prosus | 0.8% |
| Standard Bank | 0.8% |
| santam | 0.8% |
| Anglo American | 0.8% |
| FirstRand | 0.6% |
| Richemont | 0.6% |
| RMH | 0.5% |

as at 31 March 2020
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# Quarterly report:
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## Domestic asset class positioning

### Domestic Equity

Neutral | 22.1%

- Pockets of opportunity have opened up in the market, but are not without risks.
- Broadly balanced: rand-hedge exposure exists, with a meaningful tilt towards domestic-facing companies.

### Domestic Property

Under weight | 3.2%

- Despite very attractive yields, the local economic backdrop is not supportive.
- Within the active component, we remain invested in small/mid-sized domestically focused firms; with SAPY index heavyweights present via the enhanced tracker holding.

### Domestic Bond

Over weight | 32.8%

- Real yields are offering good value and we look to increase our exposure.
- Playing the interest rate cycle through our duration positioning given increased volatility.

### Domestic Cash

Over weight | 16.9%

- The exposure to defensive assets remains prudent given the high level of uncertainty globally
- Provides consistent return profile.
- The healthy cash balance also provides optionality (dry powder) should opportunities arise.

## Global asset class positioning

### Global Equity

Over weight | 15.4%

- Pockets of opportunity have opened up in the market, but are not without risks.
- International opportunities offering diversification, access to higher growth (e.g. EM) and risk adjusted returns, not just protection against rand weakness.

### Global Property

Over weight | 3.9%

- Overweight commercial property companies focused on offices and data centres, but underweight those specialising in residential and retail.
- Also positioned for concerns around the impact of technology disruption.

### Global Bond

Under weight | 2.8%

- Underweight global bonds in general. Global government bond yields declined on concerns that global growth is now decelerating.
- • Minor exposure to EM bonds.

### Global Cash

Neutral | 3.0%

- Cash positions remain as the underlying managers look for compelling, idiosyncratic opportunities.

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## Domestic: fund manager exposures

**Equity General: 15.5%**
ABAX investments
FOORD
Mazi
LAURIUM CAPITAL

**Small/Mid Cap Equity: 2.8%**
ABAX investments

**Property: 1.8%**
BRIDGE FUND MANAGERS
PRUDENTIAL INVESTMENT MANAGERS

**Passive Multi-Asset: 20.2%**
Taquanta

**Flexible Income: 19.9%**
ABAX investments
Taquanta

## Global: fund manager exposures

**Equity: 8.9%**
Veritas Asset Management
ARDEVORA

**Emerging Markets Equity: 2.2%**
NS PARTNERS

**Flexible Multi-Asset: 2.6%**
FPA investors first

**Property: 3.8%**
RESOLUTION CAPITAL

As at 31 March 2020
The residual balance (out of 100%) is held as domestic cash to provide liquidity
https://nedgroupinvestmentsmultimanager.com/

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