



See money differently

Quarterly Report: **Nedgroup Investments** **XS Select Diversified 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.

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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.

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Fund overview

Max equity

75%

Time frame

Min **5** years

Benchmark

Inflation **+5%**

Peer group

SA Multi-Asset
High Equity

Regulation 28

Compliant

Risk profile

1

2

3

4

5



Underlying fund structure

20% Active

ALLAN GRAY

20% Active

CORONATION
FUND MANAGERS

20% Active

PRUDENTIAL
INVESTMENT MANAGERS

20% Active

Truffle
Asset Management

20% Passive

Taquanta



Fund costs (C – clean class)

Management fee* (Excl. Vat)

1.01%

Total expense ratio

1.32%

Transaction charges

0.10%

Total investment charges

1.42%



Benefits of the XS Select range

Simple, low-cost
Solution



Diversified across
Asset classes



Passive and active
underlying investments



Quarterly
Rebalanced



Tax
Efficient



Ongoing
Due diligence



as at 31 March 2020
<https://nedgroupinvestmentsmultimanager.com/>

**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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Asset allocation

Domestic Equity



43.8%

Domestic Property



3.1%

Domestic Fixed Interest



22.3%

Foreign Equity



22.1%

Foreign Property



0.6%

Foreign Fixed Interest



8.0%



Regional exposure



44.1%

PURE SA



25.4%

RAND HEDGES



30.5%

DIRECT FOREIGN



Top ten holdings



NASPERS

6.0%



BRITISH AMERICAN
TOBACCO

4.9%



ANGLO
AMERICAN

2.3%



Standard Bank

2.0%

RSA R2040 Bond

1.8%

RSA R2035 Bond

1.7%



SASOL

1.7%



prosus

1.6%

Remgro
Limited

1.3%



1.3%

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Fund performance (clean class)

Q1'20 return

-15.4%

Peer group average: -13.5%

Ytd return

-15.4%

Peer group average: -13.5%

1yr annualised return

-12.2%

Peer group average: -10.4%

3yr annualised return

-0.9%

Peer group average: -0.7%

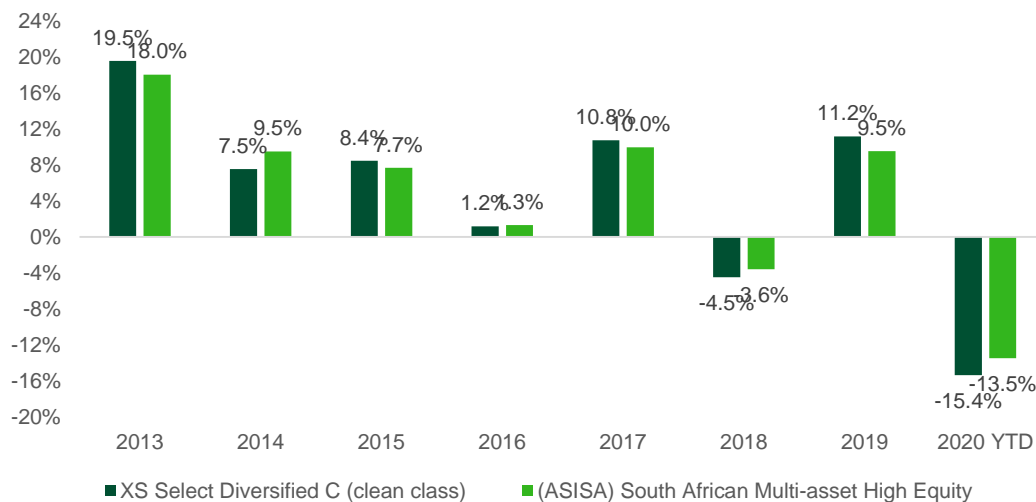
5yr annualised return

0.8%

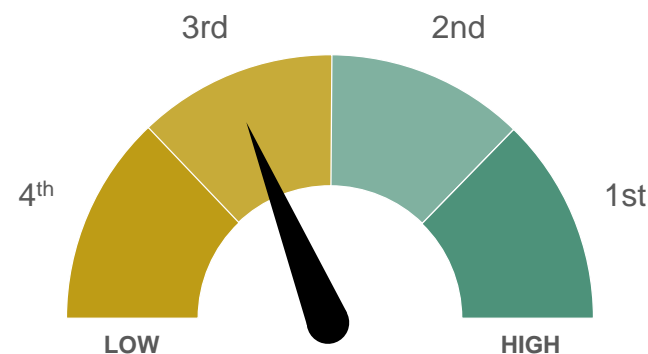
Peer group average: 0.9%



Calendar year performance



Peer group quartile ranking: 5yr



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Risk measures since inception

Rolling 5yr return

85%

Hit rate: outperforming
peer group average

Volatility

8.8%

SA equity market: 14.9%

Max drawdown

-17.2%

SA equity market: -40.4%

Sharpe ratio

0.1

SA equity market: 0.1

% Positive months

66%

SA equity market: 60%

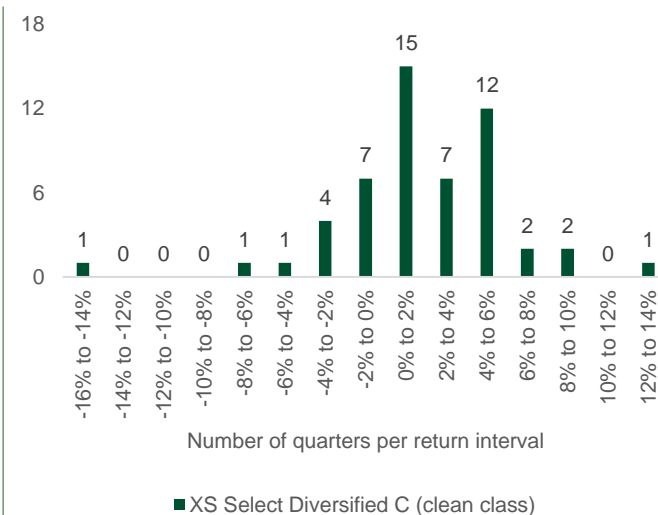


Rolling 5-year annualised return

Since inception Nov 2006 to date



Quarterly return distribution



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Underlying fund performance

Key	2016	2017	2018	2019	2020 YTD
Allan Gray Balanced	6.3%	13.2%	1.5%	16.6%	-8.6%
Coronation Balanced Plus	4.7%	12.6%	-2.6%	13.3%	-14.9%
Nedgroup Investments Balanced	2.4%	12.2%	-3.1%	9.6%	-15.1%
Nedgroup Investments Core Diversified	1.0%	11.0%	-3.8%	9.0%	-15.3%
Prudential Balanced	-2.4%	5.3%	-5.9%	6.7%	-18.3%



Positive contributors this quarter

- The rand was the largest contributor to performance as it weakened by 22% to the US dollar in Q1'20. The fund's allocation to direct offshore exposure, as well as the underlying managers' bias to rand hedged stocks 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.
- The Nedgroup Investments Balanced fund's conservative asset allocation within its offshore building block, protected investors to some extent from the fall in the global equity market.



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) and FirstRand (-36%)
- 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. As a result, the All Share Bond Index falling by 8.7%.
- Diversified miners BHP (-15%) and Anglo American (-22%) performed in line with the resource sector, which was dragged down by the severe slowdown in global economic activity and downward revision of global growth estimates.

As at 31 March 2020

Allan Gray was introduced on the 1st of October 2018; Nedgroup Investments Balanced was introduced on the 1st of October 2019.

<https://nedgroupinvestmentsmultimanager.com/>

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Performance across classes

	A Class (all in)	B2 Class (lisp)	C Class (clean)	C1 Class (product)	Peer group	SA inflation
Quarter	-15.6%	-15.4%	-15.4%	-15.4%	-13.5%	1.5%
1 year	-13.3%	-12.1%	-12.2%	-12.4%	-10.4%	4.6%
3 year	-2.1%	-0.8%	-0.9%	N/A	-0.7%	4.2%
5 year	-0.3%	1.0%	0.8%	N/A	0.9%	5.2%



Costs across classes

	Management fee* (excl. Vat)	Financial planner	Total expense ratio	Transaction charges	Total investment charges
A class (all-in)	2.05%	1.00%	2.47%	0.10%	2.57%
B2 class (lisp)	0.90%	N/a	1.15%	0.10%	1.25%
C class (clean)	1.05%	N/a	1.32%	0.10%	1.42%
C1 class (product)	1.20%	N/a	1.46%	0.10%	1.56%

As at 31 March 2020

* Includes BOTH multi-manager and underlying fund fees.

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