



See money differently

Quarterly Report: **Nedgroup Investments** **XS Select Income 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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Nedgroup Investments XS Select Income Fund of Funds



Fund overview

Max equity

10%

Time frame

Min **6** months

Benchmark

110% STeFI Call

Peer group

SA Multi-Asset
Income

Regulation 28

Compliant

Risk profile

1

2

3

4

5



Underlying fund structure

A:BAX
investments

34%

CORONATION
FUND MANAGERS

33%

**Ninety
One**

33%



Fund costs (C – clean class)

Management fee* (Excl. Vat)

0.74%

Total expense ratio

1.14%

Transaction charges

0.01%

Total investment charges

1.16%



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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Fund performance (clean class)

Q1'20 return

-2.4%

Benchmark: 1.7%

Ytd return

-2.4%

Benchmark: 1.7%

6 month return

-1.0%

Benchmark: 3.5%

9 month return

1.0%

Benchmark: 5.3%

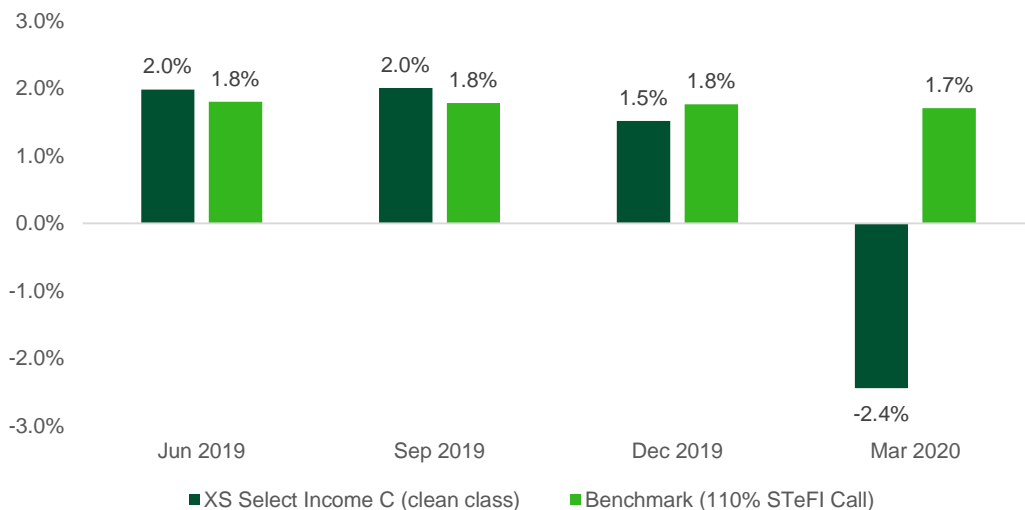
1yr annualised return

3.0%

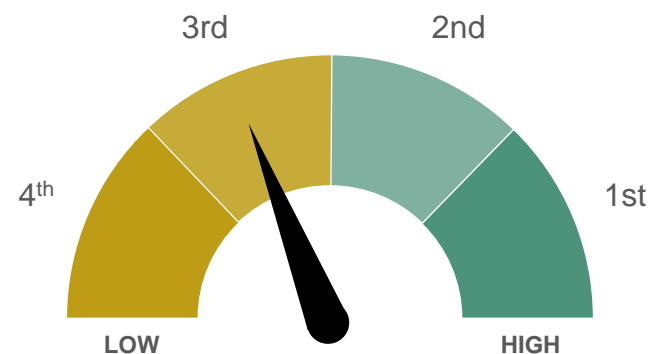
Benchmark: 7.2%



Quarterly performance



Peer group quartile ranking: 1yr



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Risk measures since inception*

Rolling 1 year

99%

Hit rate: outperforming benchmark

Volatility

1.9%

SA bond market: 8.2%%

Max drawdown

-3.7%

SA bond market: -9.8%

Sharpe ratio

0.8

SA bond market: 0.0

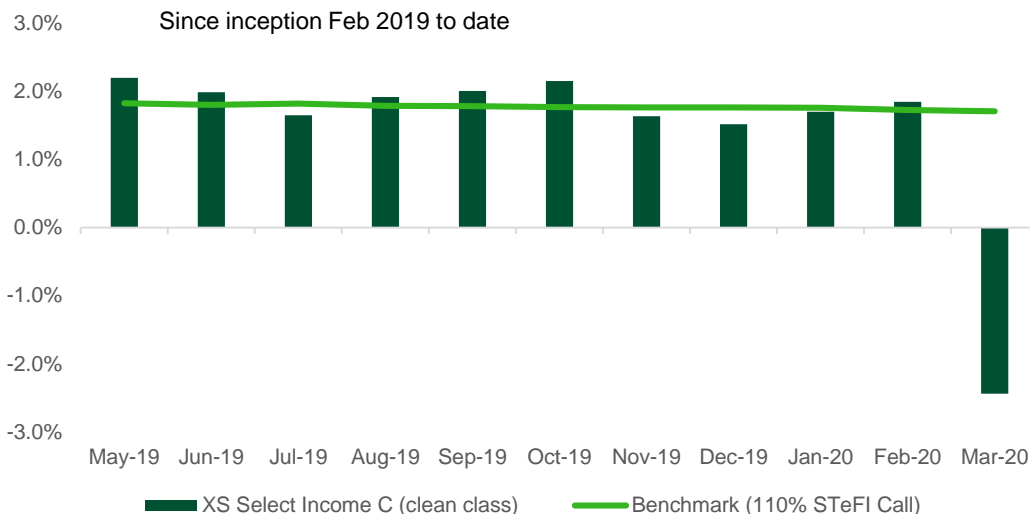
% Positive months

97%

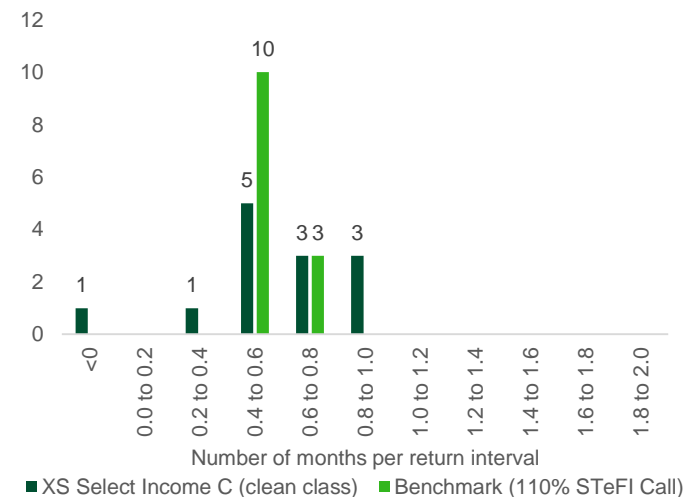
SA bond market: 62%



Rolling 3-month return



Monthly return distribution



as at 31 March 2020

<https://nedgroupinvestmentsmultimanager.com/>

The track record of the XS Select Income FoF displayed here includes the backtested return from 31 October 2012 to 1 February 2019, when the Nedgroup Investments XS Select Income FoF was launched. The B2-class fee of 0.20% (excl. VAT) was applied to the net returns of the underlying funds, rebalanced quarterly as per the XS Select FoF process

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Nedgroup Investments XS Select Income Fund of Funds



Underlying fund performance

Key	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Coronation Strategic Income	2.6%	2.4%	2.3%	1.8%	0.2%
Nedgroup Investments Flexible Income	2.6%	2.2%	2.2%	1.5%	-2.0%
Ninety One Diversified Income	1.8%	2.1%	2.1%	1.4%	-3.4%



Positive contributors this quarter

- The rand was one of the largest contributor to performance as it weakened by 22% to the US dollar in Q1'20.
- The level of floating rate notes in the portfolio, where the interest rate resets every 3-months, reduced the fund's exposure to the recent movement in bond yields.
- Concerns over the outlook for the domestic property sector meant the position size was kept relatively underweight in the fund and was focused on higher quality companies with strong balance sheets. From an asset allocation perspective, this underweight has been beneficial year to date.



Detractors this quarter

- 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%.
- SA Financials was the worst performing sector of the domestic equity market. The fund's preference share exposure is predominantly through the Big 4 banks: Absa Preference Share (-32.7% in Q1'20), FirstRand Preference Share (-28.8%), Nedbank Preference Share (-27.3%), Standard Bank Preference Share (-33.2%).
- Other fixed income building blocks such as inflation linked bonds and convertible debt have also weakened materially.

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Performance across classes

	B2 Class (lisp)	C Class (clean)	C1 Class (product)	Benchmark
Quarter	-2.4%	-2.4%	-2.5%	1.7%
6 month	-0.9%	-1.0%	-1.0%	3.5%
9 month	1.2%	1.0%	0.9%	5.3%
1 year	3.2%	3.0%	2.8%	7.2%



Costs across classes

	Management fee* (excl. Vat)	Financial planner	Total expense ratio	Transaction charges	Total investment charges
B2 class (lisp)	0.59%	N/a	0.81%	0.01%	0.82%
C class (clean)	0.74%	N/a	0.98%	0.01%	0.99%
C1 class (product)	0.89%	N/a	1.15%	0.01%	1.16%

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 1 October 2016 and ending 31 December 2019.

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