



See money differently

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

as at 30 September 2020

Quarterly report: Nedgroup Investments



Domestic asset class returns (ZAR)



SA Equity



Naspers followed the global downward trend in September, reversing the quarter's gains for the JSE

2.0% 1 year

2.4% 3 years

12.3% LT average

SA Property



Companies are reporting an improvement in footfall with lockdown easing, but continue to struggle

-46.0% 1 year

--23.8% 3 years

11.8% LT average

SA Bond



Local bonds delivered modest returns as the market continues to wait for fiscal clarity

3.6% 1 year

7.3% 3 years

6.9% LT average

SA Cash



The repo rate has remained unchanged at 3.5% with the last cut being 25bps in July

5.3% 1 year

6.2% 3 years

5.9% LT average



Global asset class returns (USD)



Global Equity



Markets were led by Asia ex-Japan and EM, as well as Consumer Discretionary

11.0% 1 year

7.7% 3 years

8.5% LT average

Global Property



Property holdings continue to recover from earlier declines, but REITs are still lagging equities

-17.5% 1 year

-0.5% 3 years

6.6% LT average

Global Bond



Sovereign bond yields drifted lower and high yield bonds benefitted from central bank liquidity

6.2% 1 year

4.1% 3 years

4.6% LT average

US Cash



The major developed market central banks left rates unchanged

1.1% 1 year

1.9% 3 years

4.3% LT average



Exchange rates (Rand spot rate and quarterly change)



US Dollar **R16.68**



With the U.S. Federal Reserve leaving the door open to the possibility of inflation above its previous 2% target, the dollar was relatively weak over the quarter. The rand was boosted by news around the launch of the government infrastructure programme and clamping down on corruption in the ruling national party



British Pound **R21.56**



The British pound was one of the best performing currencies in July as the UK economy benefitted from the easing of lockdown restrictions and the reopening of many businesses. It did, however, end the quarter as one of the weakest in September due to stalling Brexit negotiations.



Euro **R19.56**



The rand ended the quarter close to flat to the euro. The second wave of the Coronavirus has been most notable in the Eurozone, putting the ECB under pressure to take further action against the pandemic. The Eurozone did, however, report improved PMI figures.

Quarterly report: Nedgroup Investments



Domestic performance drivers



Highlights

- The IMF extended South Africa a lifeline, approving the request for COVID funding of \$4,3bn under the Rapid Financing Instrument (RFI).
- The SA Reserve Bank (SARB) cut interest rates by 25bps in July, taking the repo rate to 3.50%. It has since been left unchanged, but the growth and inflation outlook was lowered at the September meeting.
- South Africa eased to lockdown level 2 in August, reinstating tobacco and alcohol sales and providing the tourism industry with a welcome reprieve by permitting inter provincial travel. Lockdown was further eased to level 1 in September with restrictions on gatherings, travel, alcohol sales and daily curfew eased.



Low points

- SAA requires a further R10,4bn to support rescue efforts. While government has committed to the monies, finding this in a fiscally neutral manner has proven difficult and has resulted in the entity being placed under “care and maintenance” by business rescue practitioners.
- Unemployment data showed 2,2m people lost their jobs, while second quarter GDP declined by -16,4% over the quarter (-51,0% q-o-q, annualised).
- The SARB's Quarterly Bulletin showed that personal disposable income (PDI) slumped by a seasonally adjusted and annualised 49.7% q-o-q in the second quarter, as a result of lower incomes during lockdown.



Global performance drivers



Highlights

- Risk assets rallied strongly in July and August, taking encouragement from reports of new and better treatments, progress on vaccines and an apparent reduction in death rates.
- Federal Reserve Chairman Jerome Powell indicated that the US central bank will take a more relaxed view on inflation moving forward. The statement implied that interest rates would remain lower for longer as the bank moved to an averaged inflation target to “reflate” the US economy.
- Europe took a major step forward as leaders agreed to the creation of a recovery fund worth EUR750bn, financed through a combination of EU debt issuance and new taxes.



Low points

- Relations between the US and China remained strained throughout the quarter. The clearest example came when the Trump administration ordered the closure of the Chinese consulate in Houston over claims China was stealing US intellectual property.
- Boris Johnson put forward the controversial Internal Market Bill, which appeared to override key aspects of the Withdrawal Agreement signed last year, aggravating relations between the UK and EU.
- A second wave of Coronavirus infections (most notably in Europe) forced governments to re-introduce travel quarantines and local restrictions.

Quarterly report:

Nedgroup Investments XS Guarded Fund of Funds



Fund overview

Max equity

40%

Time frame

Min **3** years

Benchmark

Inflation
+3%

Peer group

**SA Multi-
Asset Low
Equity**

Regulation 28

Compliant

Risk profile

1

2

3

4

5



Fund costs (C – clean class)

Management fee* (Excl. Vat)

1.15%

Total expense ratio

1.40%

Transaction charges

0.06%

Total investment charges

1.46%



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 30 September 2020

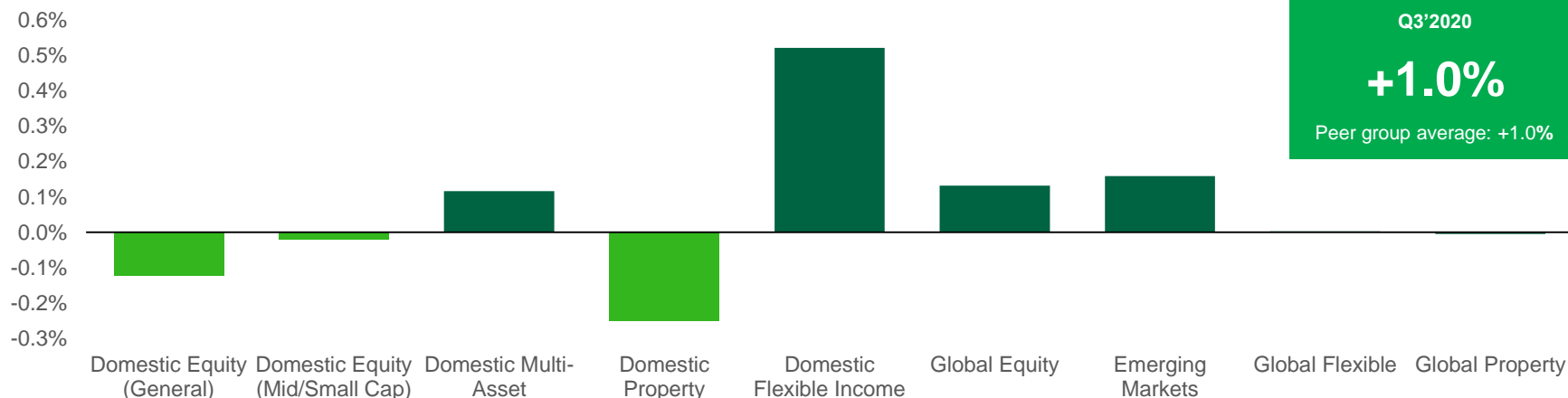
* Includes BOTH multi-manager and underlying fund fees. Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 1st of July 2017 and ending 30th of June 2020.

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Nedgroup Investments XS Guarded Fund of Funds



XS Fund of Funds performance contribution – Q3 2020



Positive contributors this quarter

- The fund's overweight exposure to domestic fixed income was the largest contributor to performance, with the Nedgroup Investments Flexible Income fund the top performer in this space. Abax maintained a duration of close to 1 throughout the quarter and took part in the relatively strong performance of the bond market.
- The Nedgroup Investments Global Emerging Market fund was one of the top performing fund in the offshore bucket. Its meaningful exposure to Alibaba (+36% in USD in Q3) and Taiwan Semiconductor (+42%) were the top performing positions.
- The fund's allocation to a passive multi-asset building block (Nedgroup Investments Core Guarded) benefitted from its relatively high exposure to domestic cash and bonds.



Detractors this quarter

- The recent dollar weakness, and as a result Rand strength (+4% in Q3), detracted from performance as the majority of the fund's direct offshore exposure is priced in US dollar.
- Both Nedgroup Investments Property and Prudential Enhanced Property Tracker funds outperformed their peers and benchmark, but the domestic property market continues to trade under duress in our current weak economic climate.
- Naspers underperformed over the quarter as its discount to its underlying holdings widened to over 50%.
- Defensive rand hedge, British American Tobacco underperformed due to concerns of a Biden win in the US potentially placing more regulatory pressure on the tobacco industry.

Quarterly report: Nedgroup Investments XS Guarded Fund of Funds



Fund performance (clean class)

Q3'20 return

+1.0%

Peer group average: +1.0%

Ytd return

+0.1%

Peer group average: +1.5%

1yr annualised return

+1.8%

Peer group average: +3.0%

3yr annualised return

+3.6%

Peer group average: +4.3%

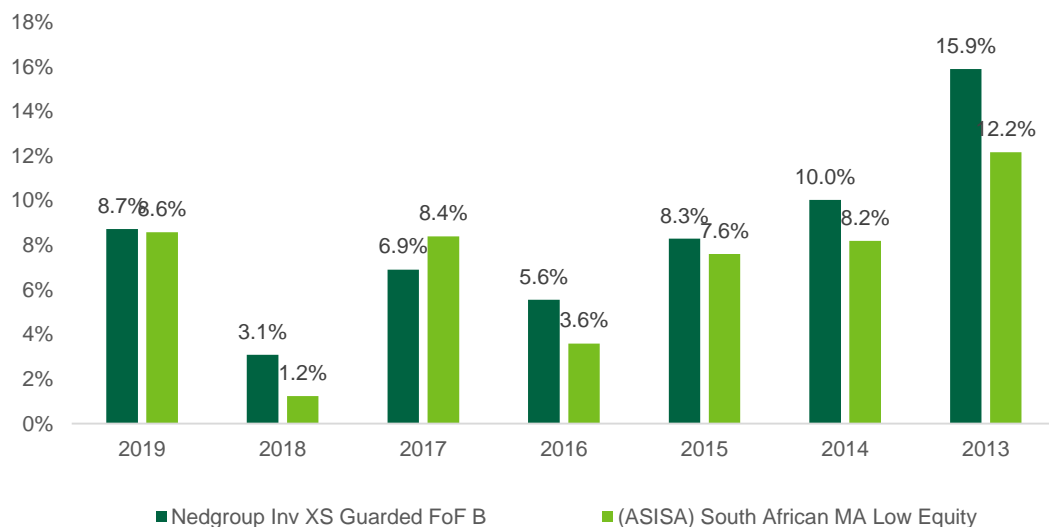
5yr annualised return

+5.1%

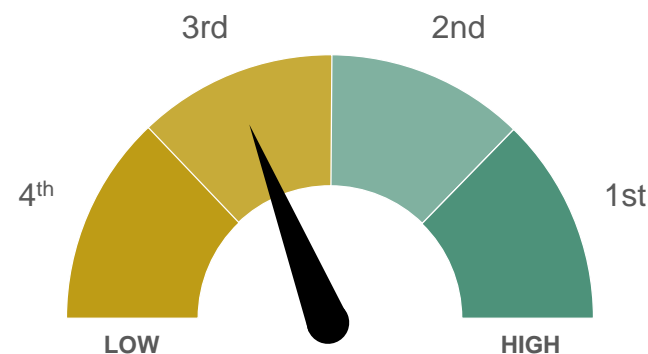
Peer group average: +5.2%



Calendar year performance



Peer group quartile ranking: 3yr



as at 30 September 2020

Quarterly report: Nedgroup Investments XS Guarded Fund of Funds



Risk measures since inception

Rolling 3yr return

94%

Hit rate: outperforming
peer group average

Volatility

5.0%

SA equity market: 15.2%

Max drawdown

-10.6%

SA equity market: -40.4%

Sharpe ratio

0.4

SA equity market: 0.3

% Positive months

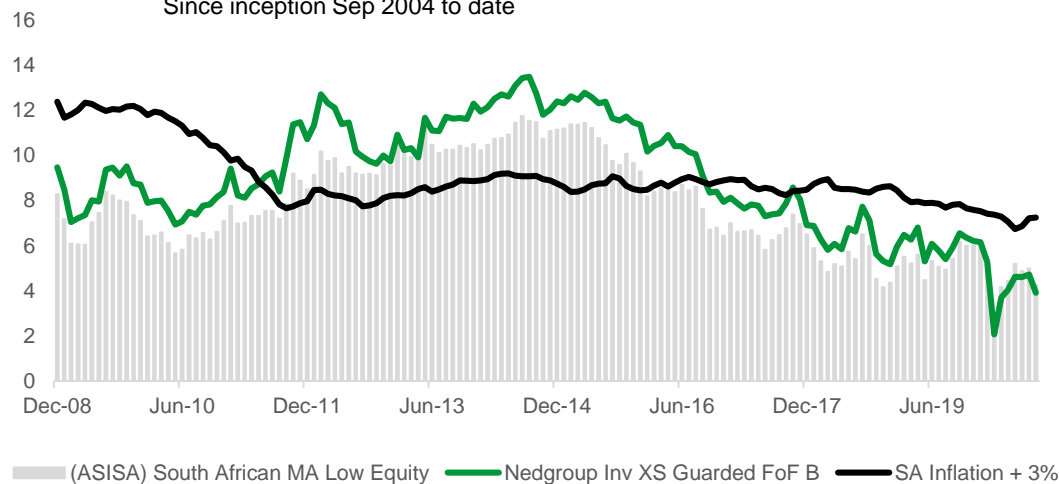
84%

SA equity market: 67%

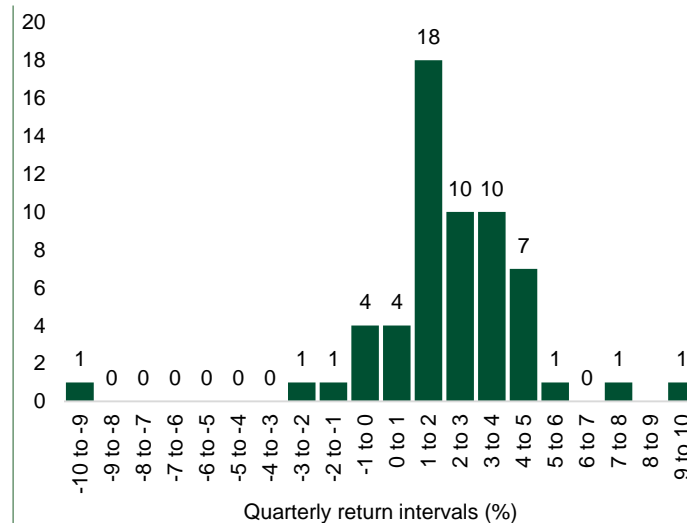


Rolling 3-year annualised return

Since inception Sep 2004 to date



Quarterly return distribution



Quarterly report:

Nedgroup Investments XS Guarded Fund of Funds



Performance across classes

	A Class (all in)	B Class (lisp)	C Class (clean)	Peer group	SA inflation
Quarter	0.7%	1.1%	1.0%	1.0%	2.0%
1 year	0.6%	2.1%	1.8%	3.0%	3.1%
3 year	2.4%	3.9%	3.6%	4.3%	4.1%
5 year	3.9%	5.5%	5.1%	5.2%	4.6%



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%	0.06%	2.61%
B Class (LISP)	0.85%	N/A	1.06%	0.06%	1.12%
C Class (clean)	1.15%	NA	1.40%	0.06%	1.46%

as at 30 September 2020

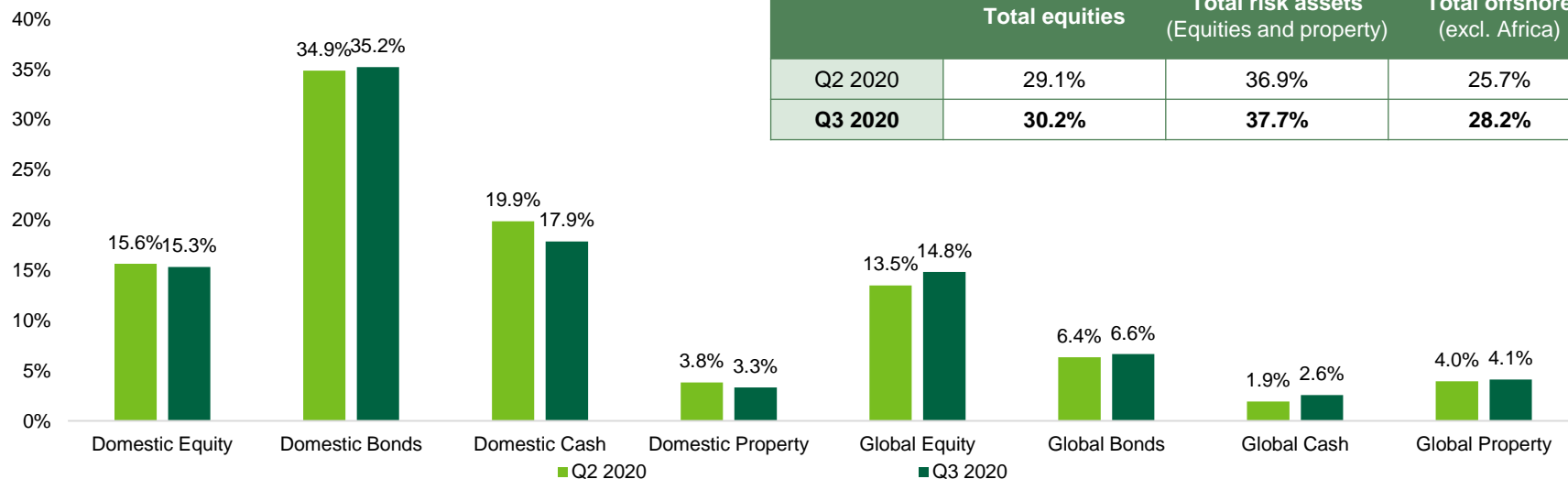
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Asset allocation changes



	Total equities	Total risk assets (Equities and property)	Total offshore (excl. Africa)
Q2 2020	29.1%	36.9%	25.7%
Q3 2020	30.2%	37.7%	28.2%



Summary of recent changes

- The fund is well diversified across asset classes with a healthy allocation to defensive assets. The following asset allocation decisions were made during the quarter:
 - Switched domestic to **foreign cash** when the USDZAR fell below R 16 25
 - Further increased our tactical overweight to **domestic bonds** (no trades were required)
 - Further reduced our tactical underweight to **domestic property** (no were trades required)

Quarterly report:

Nedgroup Investments XS Guarded Fund of Funds



Asset allocation

Domestic Equity



15.3%

Domestic Property



3.3%

Domestic Fixed Interest



53.1%

Foreign Equity



14.9%

Foreign Property



4.1%

Foreign Fixed Interest



9.2%



Regional exposure



67.4%

PURE SA



6.8%

RAND HEDGES



25.7%

DIRECT FOREIGN



Top ten holdings (as a % of fund)



NASPERS

1.5%



BRITISH AMERICAN
TOBACCO

0.8%



FIRSTRAND

0.7%

BHP

0.7%



ANGLO
AMERICAN

0.6%



prosus

0.6%



Standard Bank

0.5%



ANGLOGOLD
ASHANTI

0.4%

RICHEMONT

0.3%



IMPALA
PLATINUM

0.3%

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Domestic asset class positioning



Domestic Equity

Under weight

15.3%

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

Domestic Property

Under weight

3.3%

- 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

35.2%

- Real yields offering good value and we look to maintain our exposure.
- Playing the interest rate cycle through our duration positioning given increased volatility.
- Includes short duration exposure held in the multi-asset income fund.

Domestic Cash

Over weight

17.9%

- 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

Neutral

14.8%

- 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

Neutral

4.1%

- 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

6.6%

- Underweight global bonds in general. Valuations brought under further pressure by the recent cut in interest rates by most central banks.
- Our exposure is largely short-dated Treasury bills.

Global Cash

Neutral

2.6%

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

Quarterly report:

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Domestic: fund manager exposures

Equity General: 9.5%

ABAX
investments

FOORD

Mazi

LAURIUM
CAPITAL

Small/Mid Cap Equity: 1.7%

ABAX
investments

Passive Multi-Asset: 21.1%

Taquanta

Property: 1.8%

BRIDGE
FUND MANAGERS

PRUDENTIAL
INVESTMENT MANAGERS

Flexible Income: 45.2%

ABAX
investments

Taquanta



Global: fund manager exposures

Equity: 6.1%

Veritas
— Asset
Management

ARDEVORA

Emerging Markets Equity: 2.7%

NSOPARTNERS

Multi-Asset: 7.6%

FPA
investors first

Pyrford
International

Property: 3.9%

RESOLUTION
CAPITAL

As at 30 September 2020
The residual balance (out of 100%) is held as domestic cash to provide liquidity

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