



See money differently

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

as at 30 September 2020

Quarterly report: Nedgroup Investments



Domestic asset class returns (ZAR)



SA Equity



2.0% 1 year
2.4% 3 years
12.3% LT average

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

SA Property



-46.0% 1 year
-23.8% 3 years
11.8% LT average

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

SA Bond



3.6% 1 year
7.3% 3 years
6.9% LT average

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

SA Cash



5.3% 1 year
6.2% 3 years
5.9% LT average

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



Global asset class returns (USD)



Global Equity



11.0% 1 year
7.7% 3 years
8.5% LT average

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

Global Property



-17.5% 1 year
-0.5% 3 years
6.6% LT average

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

Global Bond



6.2% 1 year
4.1% 3 years
4.6% LT average

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

US Cash



1.1% 1 year
1.9% 3 years
4.3% LT average

The major developed market central banks left rates unchanged



Exchange rates (Rand spot rate and quarterly change)



US Dollar R16.68



With the US 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 Select 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



Underlying fund structure

20% Active

ALLAN GRAY

20% Active

CORONATION
FUND MANAGERS

20% Active

FOORD

20% Active

PRUDENTIAL
INVESTMENT MANAGERS

20% Passive

Taquanta



Fund costs (C – clean class)

Management fee* (Excl. Vat)

1.03%

Total expense ratio

1.19%

Transaction charges

0.04%

Total investment charges

1.23%



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 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

Quarterly report:

Nedgroup Investments XS Select Guarded Fund of Funds



Asset allocation

Domestic Equity



22.5%

Domestic Property



3.3%

Domestic Fixed Interest



46.7%

Foreign Equity



18.4%

Foreign Property



0.5%

Foreign Fixed Interest



8.8%



Regional exposure



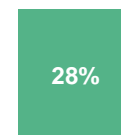
60%

PURE SA



13%

RAND HEDGES



28%

DIRECT FOREIGN



Top ten holdings

RSA R186 Bond

6.5%



2.7%

RSA R2035 Bond

2.5%

RSA R2044 Bond

2.0%



2.0%

RSA I2025 Bond

1.9%

NEWGOLD

1.5%

RSA R2037 Bond

1.4%

RSA R2030 Bond

1.4%

RSA R202 Bond

1.3%

as at 30 September 2020

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Fund performance (clean class)

Q3'20 return

+0.9%

Peer group average: +1.0%

Ytd return

+1.3%

Peer group average: +1.5%

1yr annualised return

+2.7%

Peer group average: +3.0%

3yr annualised return

+3.8%

Peer group average: +4.3%

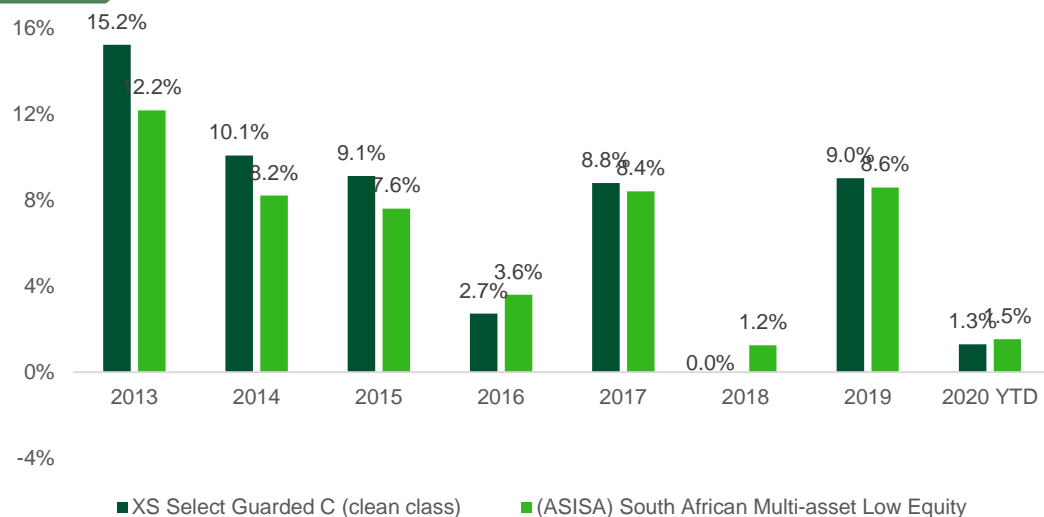
5yr annualised return

+5.1%

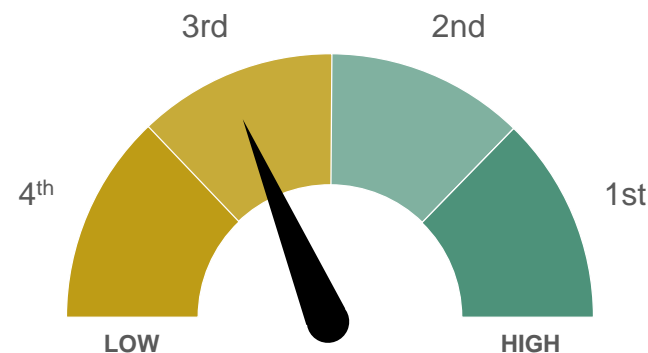
Peer group average: +5.2%



Calendar year performance



Peer group quartile ranking: 3yr



as at 30 September 2020

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Risk measures since inception

Rolling 3yr return

83%

Hit rate: outperforming
peer group average

Volatility

5.8%

SA equity market: 15.2%

Max drawdown

-11.4%

SA equity market: -40.4%

Sharpe ratio

0.3

SA equity market: 0.2

% Positive months

73%

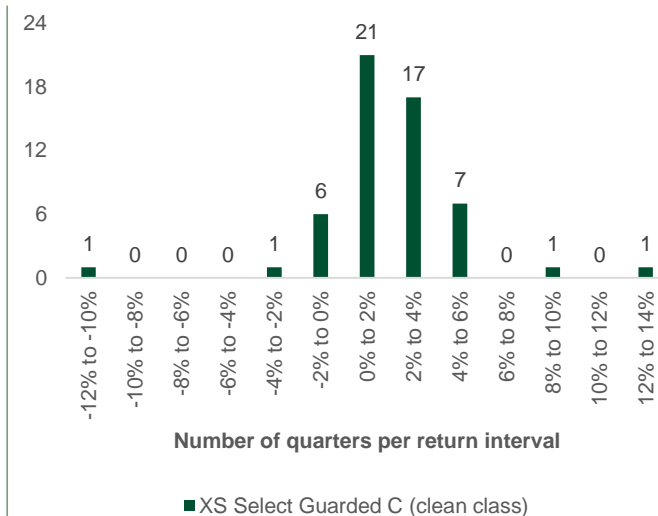
SA equity market: 60%



Rolling 3-year annualised return



Quarterly return distribution



Quarterly report:

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Underlying fund performance

Key	2016	2017	2018	2019	YTD
Allan Gray Stable	6.4%	11.1%	2.9%	11.1%	9.2%
Coronation Balanced Defensive	4.6%	9.8%	2.6%	9.5%	2.7%
Nedgroup Investments Core Guarded	4.4%	9.6%	2.0%	8.7%	1.6%
Nedgroup Investments Stable	3.9%	7.8%	1.7%	7.1%	-0.5%
Prudential Inflation Plus	0.4%	7.1%	-4.3%	6.5%	-5.4%



Positive contributors this quarter

- The Coronation Balanced Defensive fund was the top performer this quarter, more than 1% ahead of the next in line Nedgroup Investments Stable fund. Domestic fixed income was the largest contributor to performance for both these funds.
- The large global equity weighting in the Coronation fund also added to performance, as well as its stock selection within the domestic resources sector. Platinum stocks, more specifically Northam and Impala, were up strongly on the back of a rising PGM basket price and reporting good annual results.
- The meaningful exposure to gold in both the Coronation Balanced Defensive and Nedgroup Investments Stable funds continue to contribute to performance. This safe haven asset is still in high demand as the impact of COVID-19, record level government debt and geopolitical concerns remain uncertain.



Detractors this quarter

- The Allan Gray Stable fund was the worst performer this quarter. The domestic equity exposure continues to be biased to 'SA Inc.' with the fund's exposure to banks and property companies being the main detractor from performance. In addition, stock selection by the offshore partner Orbis detracted from performance.
- 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.
- Naspers underperformed over the quarter as its discount to its underlying holdings widened to over 50%. Defensive rand hedge British American Tobacco, also had a poor quarter.

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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	0.6%	1.0%	0.9%	0.9%	1.0%	2.0%
1 year	1.6%	2.9%	2.7%	2.6%	3.0%	3.1%
3 year	2.6%	3.9%	3.8%	N/A	4.3%	4.1%
5 year	3.9%	5.3%	5.1%	N/A	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)	2.03%	1.00%	2.34%	0.04%	2.38%
B2 class (lisp)	0.88%	N/a	1.02%	0.04%	1.06%
C class (clean)	1.03%	N/a	1.19%	0.04%	1.23%
C1 class (product)	1.18%	N/a	1.35%	0.04%	1.39%

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