Quarterly Report:

Nedgroup Investments XS Select Income Fund of Funds

NEDGROUP INVESTMENTS

See money differently

as at 30 September 2020

Quarterly report:
Nedgroup Investments

Domestic asset class returns (ZAR)

SA Equity

0.7% Q3 2020

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

-14.1% Q3 2020

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

1.5% Q3 2020

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

0.9% Q3 2020

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

8.3% Q3 2020

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

2.3% Q3 2020

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

2.7% Q3 2020

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

0.1% Q3 2020

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

4%

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

0%

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

0%

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.

Source: Morningstar; as at 30 September 2020

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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.

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Fund overview

Max equity	Time frame	Benchmark	Peer group	Regulation 28
10%	Min 6 months	110% STeFI Call	SA Multi-Asset Income	Compliant

Risk profile

1 | 2 | 3 | 4 | 5

Underlying fund structure

ABAX investments	34%
Coronation Fund Managers	33%
Ninety One	33%

Fund costs (C – clean class)

Management fee* (Excl. Vat)	Total expense ratio
0.74%	0.95%
Transaction charges	**Total investment charges**
0.01%	0.97%

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

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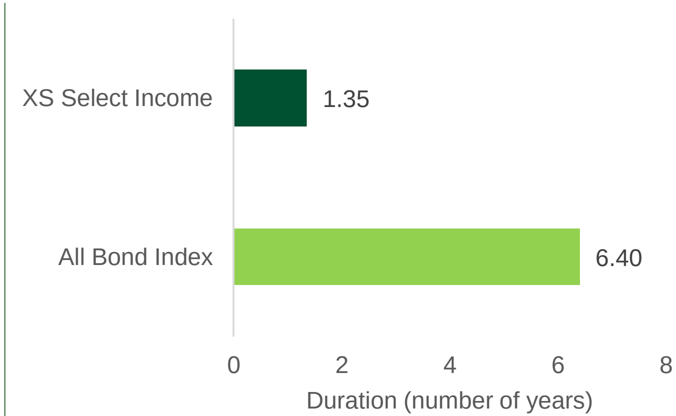
Asset allocation

Domestic Equity	Domestic Property	Domestic Fixed Interest
0.8%	2.1%	83.2%

Foreign Equity	Foreign Property	Foreign Fixed Interest
0%	0.1%	13.8%

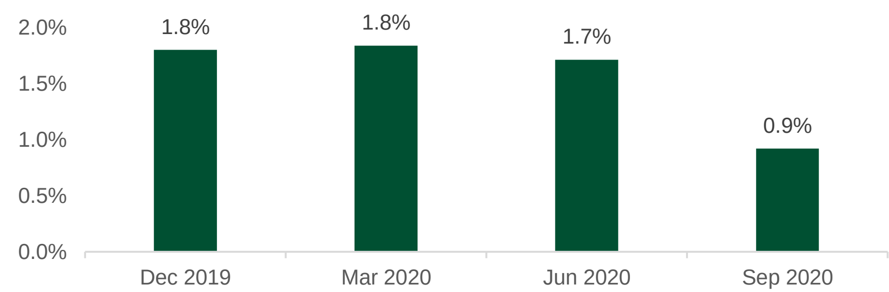
Modified duration



Yield and Distribution

Gross current yield

Quarterly distribution yield (actual) - C class



as at 30 September 2020

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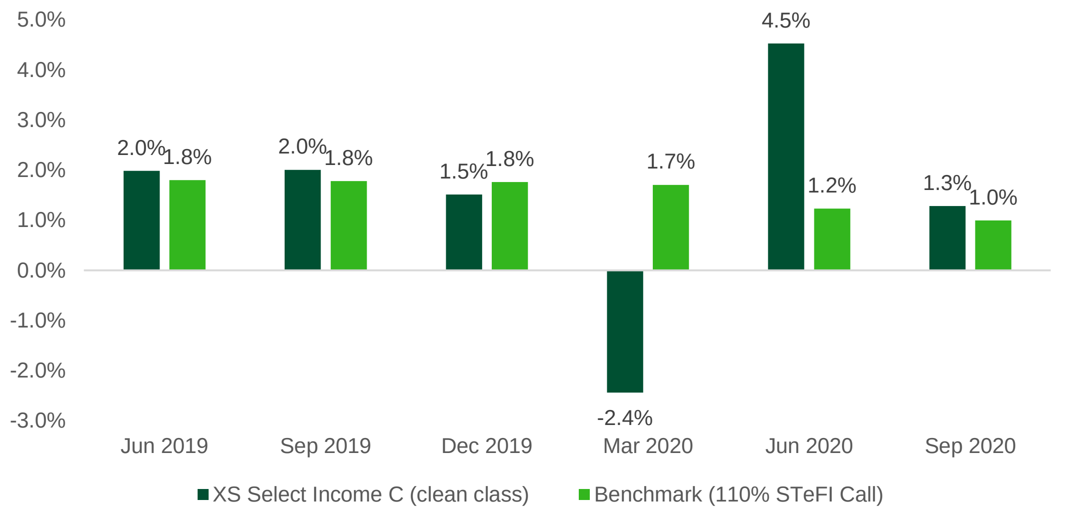
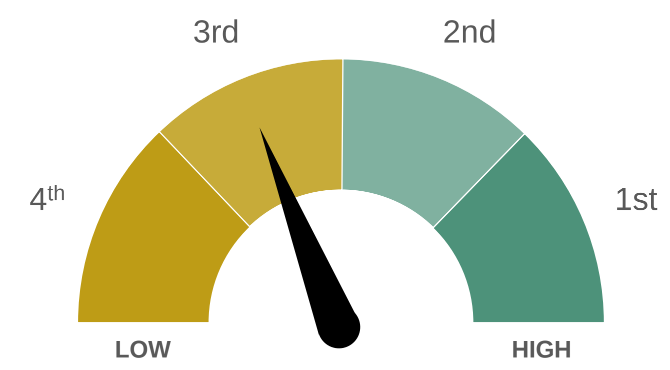
Fund performance (clean class)

Q3'20 return	Ytd return	6 month return	9 month return	1yr annualised return
+1.3%	+3.3%	+5.9%	+3.3%	+4.9%
Benchmark: +1.0%	Benchmark: +4.0%	Benchmark: +2.2%	Benchmark: +4.0%	Benchmark: +5.8%

Quarterly performance



Peer group quartile ranking: 1yr



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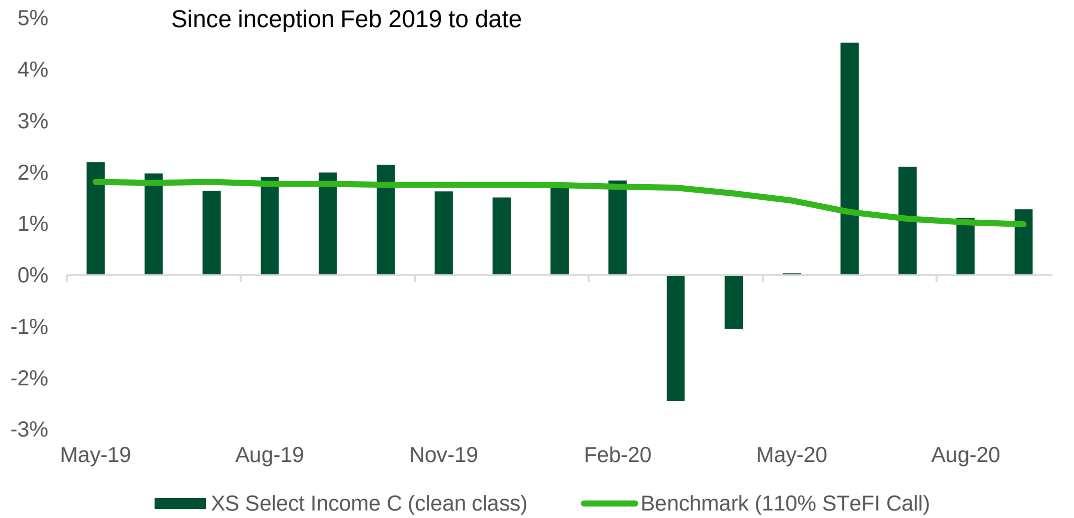
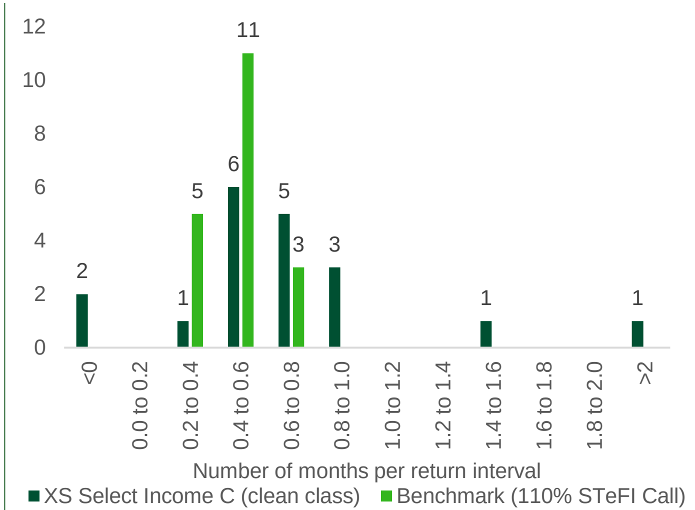
Risk measures since inception*

Rolling 1 year	Volatility	Max drawdown	Sharpe ratio	% Positive months
92%	2.0%	-3.7%	1.0	96%
Hit rate: outperforming benchmark	SA bond market: 8.4%	SA bond market: -9.8%	SA bond market: 0.1	SA bond market: 63%

Rolling 3-month return



Monthly return distribution



as at 30 September 2020
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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Underlying fund performance

Key	Q2 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Coronation Strategic Income	2.6%	2.4%	2.3%	1.8%	0.2%	4.8%	2.0%
Nedgroup Investments Flexible Income	2.6%	2.2%	2.2%	1.5%	-2.0%	3.8%	1.1%
Ninety One Diversified Income	1.8%	2.1%	2.1%	1.4%	-3.4%	3.1%	1.0%

Positive contributors this quarter

- The Nedgroup Investments Flexible Income fund was the top performer this quarter, with its allocation to domestic bonds being the largest driver of return. Both nominal and inflation linked bonds did well, with its holding of the R186 government bond (maturing 2026) being one of the top performers in the nominal bond space and the I2025 government bond one of the top performers in the inflation linked bond sector.
- Convertible Bonds had a good quarter and contributed meaningfully to performance,
- Currency hedges that protect the direct foreign holdings contributed to performance this quarter as the recent US dollar weakness result in the rand strengthening +4% to the US dollar over the quarter.

Detractors this quarter

- Domestic property continues to be under pressure as it is directly impacted by this post pandemic economy with the impact of retail and office being significant. The fund's exposure to this sector of the market is limited and selective, but it still detracted from performance
- The preference share exposure of the fund is concentrated in the domestic banking sector and these stocks had another poor quarter. Preference shares offer a steady dividend yield. The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares. This will limit availability. In addition, most of the bank-related preference shares trade at a discount, which enhances their attractiveness for holders from a total return perspective and increases the likelihood of bank buybacks.

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Performance across classes

	B2 Class (lisp)	C Class (clean)	C1 Class (product)	Benchmark
Quarter	1.3%	1.3%	1.2%	1.0%
6 month	6.0%	5.9%	5.8%	2.2%
9 month	3.4%	3.3%	3.2%	4.0%
1 year	5.0%	4.9%	4.7%	5.8%

Costs across classes

	Management fee* (excl. Vat)	Financial planner	Total expense ratio	Transaction charges	Total investment charges
B2 class (lisp)	0.59%	N/a	0.78%	0.01%	0.80%
C class (clean)	0.74%	N/a	0.95%	0.01%	0.97%
C1 class (product)	0.89%	N/a	1.13%	0.01%	1.14%

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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