NEDGROUP INVESTMENTS

See money differently

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

as at 31 March 2021

Quarterly report:
Nedgroup Investments

Domestic asset class returns (ZAR)

SA Equity

13.1% Q1 2021

The resources sector and small cap stocks delivered strong performance.

54.0%	1 year
9.7%	3 years
12.3%	LT average

SA Property

6.4% Q1 2021

Negative returns on some of the larger companies like Growthpoint held the sector back

34.5%	1 year
-12.9%	3 years
11.2%	LT average

SA Bond

-1.7% Q1 2021

The domestic bond market fared worse than EM peers despite better economic data

17.0%	1 year
5.5%	3 years
7.0%	LT average

SA Cash

0.9% Q1 2021

Money markets are pricing in the first repo rate hike in the 3rd quarter of this year, broadly in line with SARB

3.8%	1 year
5.6%	3 years
5.9%	LT average

Global asset class returns (USD)

Global Equity

4.7% Q1 2021

It was a volatile first quarter with developed markets outperforming EM

55.4%	1 year
12.7%	3 years
8.7%	LT average

Global Property

6.1% Q1 2021

The sector found support from the roll-out of Covid-19 vaccines and news of further US fiscal stimulus

36.0%	1 year
6.1%	3 years
6.7%	LT average

Global Bond

-4.5% Q1 2021

US Treasuries recorded the worst quarterly return in over three decades due to intensifying inflation concerns

4.7%	1 year
2.8%	3 years
4.6%	LT average

US Cash

0.1% Q1 2021

The US Fed, BoE and ECB kept rates on hold, but EM have already seen their first rate hike from Brazil

0.3%	1 year
1.7%	3 years
4.3%	LT average

Exchange rates (Rand spot rate and quarterly change)

US Dollar R14.77

1%

The local currency is likely to remain erratic, swinging rapidly both stronger and weaker, as global market events continue to impact its direction. However, higher interest rates in emerging market economies while the SARB sits pat could result in rand weakness.

British Pound R20.37

1%

The British pound retreated modestly against the US dollar in March after a sharp rise in February. The pound has rallied to the strong end of its post-Brexit referendum range against the euro, this was also supported in part by its superior vaccine rollout.

Euro R17.35

4%

The rand is firmer against the euro, mainly due to concerns over the bloc's growth prospects amidst the third wave of infections and slow vaccination roll out. Several countries, including Poland, Germany and France, have reintroduced stricter lockdown measures.

Source: Morningstar; as at 31 March 2021
https://nedgroupinvestmentsmultimanager.com/

Quarterly report:
Nedgroup Investments

Domestic performance drivers

Highlights

- Our economy grew by +1,5% (q-o-q, not annualised) in the fourth quarter of 2020, exceeding market expectations. The ongoing recovery of trade and manufacturing supported the production side, while lower restriction levels led to higher expenditure on restaurants and other recreational activities.
- SA tax revenues have surprised on the upside with tax receipts for the fiscal year ending Feb'21 ending R38bn above the budget estimate made in mid-February as the economy has rapidly bounced back and the benefits of the commodity price windfall manifests.
- President Ramaphosa is making progress in confronting corruption with calls for Ace Magashule to step down.

Low points

- The local recovery thus far has been fragile, with setbacks of load shedding and a slow rollout of vaccinations doing little to boost confidence.
- Energy regulator NERSA announced further revenue recovery by Eskom, which will result in substantial increases in electricity tariffs for this year. Against this backdrop, the South African Reserve Bank kept interest rates on hold with a vote of 3:2 in January and unanimously voted to again keep rates unchanged at their meeting in March.
- Although the February inflation print came in below expectations, rising oil prices, food inflation and base effect will see inflation tick higher in the coming months.

Global performance drivers

Highlights

- Manufacturing production around the world has remained resilient, despite continued restriction measures and supply chain disruptions. This has helped mitigate the impact from weaker services sectors and is one of the reasons for more robust economic data in the last months of 2020.
- The OECD joined the ranks of entities that have lifted their economic growth forecasts to account for vaccine rollouts and greater US fiscal stimulus, now expecting global growth of 5,6% in 2021 (up from 4,2%).
- In early March, OPEC+ members surprised markets by keeping output unchanged, despite expectations of higher future demand as economies reopen.

Low points

- Expectations of a third wave of infections are prevalent, with a resurgence in cases already evidenced in Europe. Several countries in the region, including Poland, Germany and France, have reintroduced stricter lockdown measures.
- Supply chain disruptions have been common over the last year but have increasingly been problematic as demand for goods pick up. A shortage in shipping containers has been a noteworthy pain point for exporters.
- US government debt is mounting with debt-to-GDP forecast to escalate to 125% at the end of 2021 and corporate tax hikes are proposed.

Quarterly report:
Nedgroup Investments XS Diversified Fund of Funds

Fund overview

Max equity	Time frame	Benchmark	Peer group	Regulation 28
75%	Min 5 years	Inflation +5%	SA Multi-Asset High Equity	Compliant

Risk profile

1 2 **3** 4 5

Fund costs (C – clean class)

Management fee* (Excl. Vat)	Total expense ratio
1.25%	1.45%

Transaction charges	Total investment charges
0.10%	1.55%

Benefits of the XS Fund of Funds range

- Competitive pricing
- Diversified across Asset classes
- Investment experts
- Passive and active underlying investments
- Tax Efficient
- Ongoing Due diligence

as at 31 March 2021

**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 January 2018 and ending 31st December 2020

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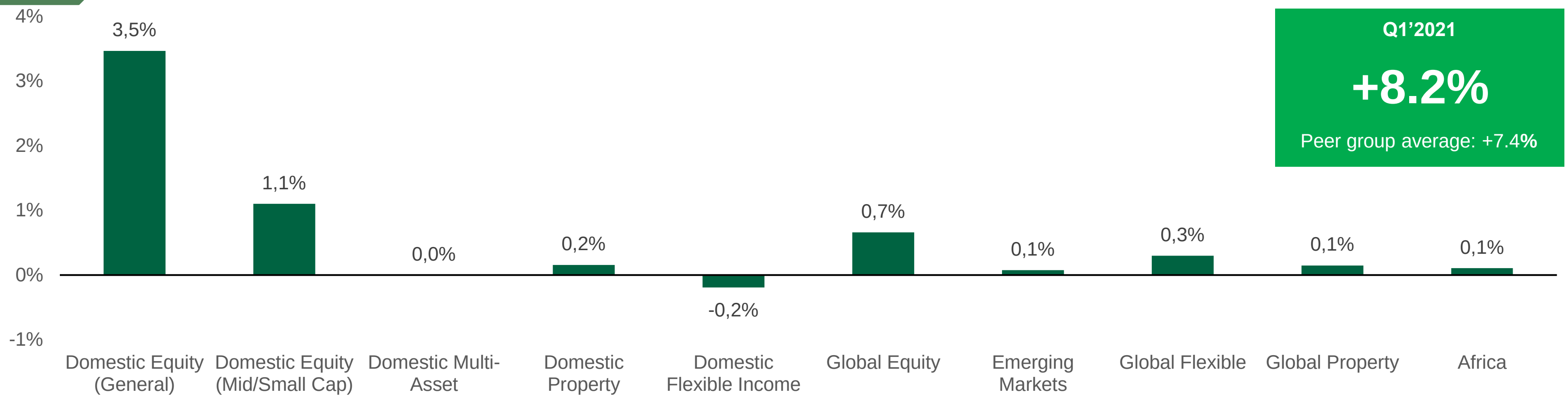
XS Fund of Funds performance contribution – Q1 2021



Q1'2021

+8.2%

Peer group average: +7.4%

Positive contributors this quarter

- The domestic equity market benefitted from higher commodity prices and the more robust global and local growth outlook. The strongest total return performance was from the resource sector (+18%). 40% of the fund's top 10 holdings are resource/mining facing (namely BHP Anglo, Impala Platinum and Northam platinum), which all posted double digit returns in the first quarter.
- In terms of stock selection in the domestic equity bucket (outside of resources), exposures to Naspers, Richemont and London value play Capital & Counties (which outperformed the property index), contributed positively.
- Consistent with the economic backdrop in Q1, small/mid caps performed well, with sharp rises witnessed in mid-caps such Hudaco, KAP and Value Group.

Detractors this quarter

- The increasing inflation expectations globally led to the rise in treasury yields. This translated into a poor quarter for local bonds, with the ALBI returning -1.7%. While inflation linked bonds, floating rate notes, property, preference shares and convertible bonds all contributed positively to performance, the allocation to local nominal bonds detracted.
- In terms of emerging markets (EM), disappointingly for the fund, a good deal of the strong absolute and relative gains in the first half of the quarter were eroded during the retreat. Country selection was negative for the quarter as conditions deteriorated in Brazil where our EM fund manager had been overweight, whilst underweights positions in the Gulf region and in South Africa. These positions dragged on performance.

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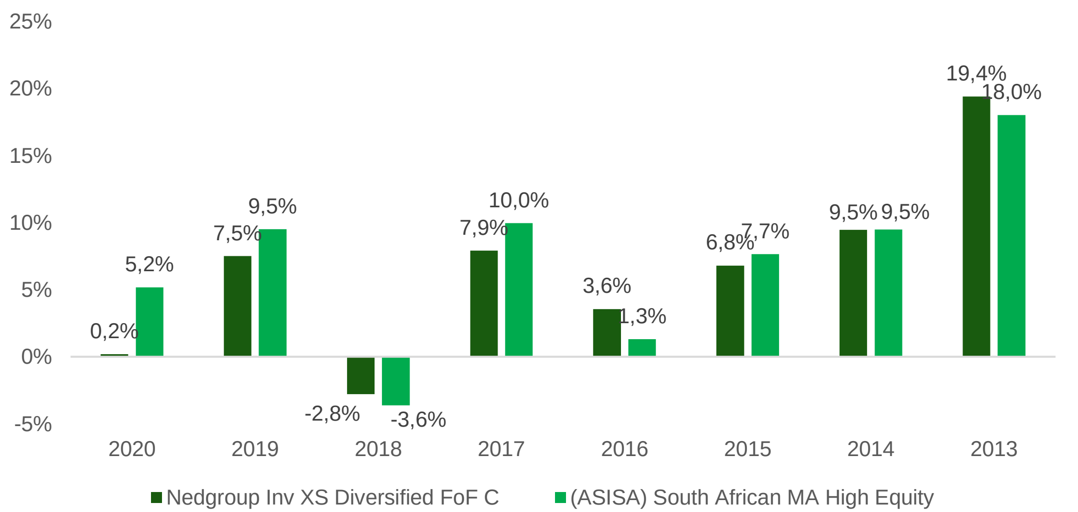
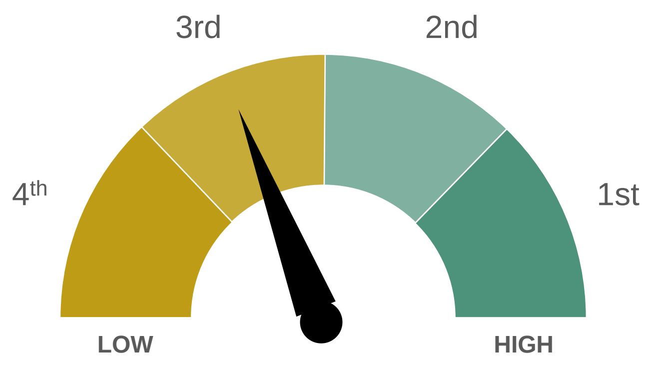
Fund performance (clean class)

Q1'21 return	Ytd return	1yr annualised return	3yr annualised return	5yr annualised return
+8.2%	**+8.2%**	**+30.4%**	**+5.0%**	**+4.4%**
Peer group average: +7.4%	Peer group average: +7.4%	Peer group average: +30.7%	Peer group average: +7.3%	Peer group average: +5.5%

Calendar year performance



Peer group quartile ranking: 1yr



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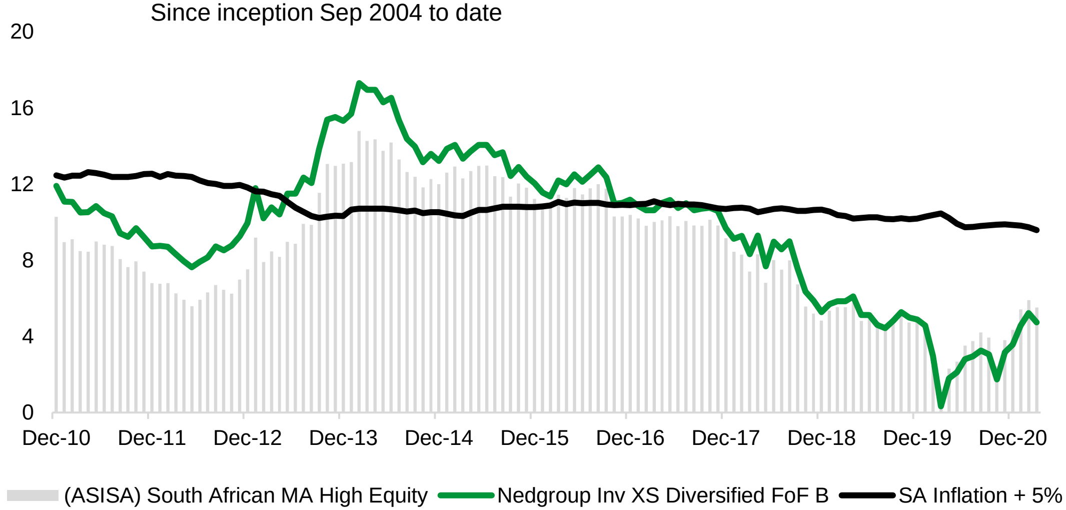
Risk measures since inception

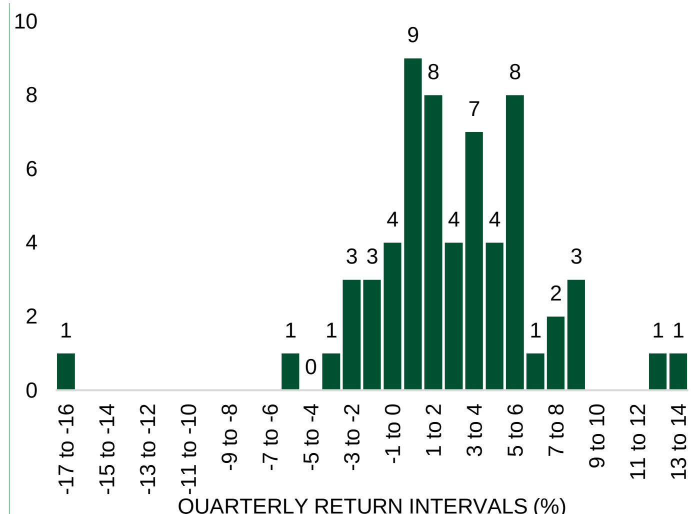
Rolling 5yr return	Volatility	Max drawdown	Sharpe ratio	% Positive months
79%	**8.5%**	**-18.1%**	**0.4**	**77%**
Hit rate: outperforming peer group average	SA equity market: 15.3%	SA equity market: -40.4%	SA equity market: 0.4	SA equity market: 70%

Rolling 5-year annualised return

Since inception Sep 2004 to date



Quarterly return distribution



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Performance across classes

	A Class (all in)	B Class (lisp)	C Class (clean)	Peer group	SA inflation
Quarter	7.9%	8.4%	8.2%	7.4%	1.2%
1 year	28.9%	31.1%	30.4%	30.7%	3.2%
3 year	3.8%	5.5%	5.0%	7.3%	3.6%
5 year	3.2%	4.9%	4.4%	5.5%	4.4%

Costs across classes

	Management fee (excl. Vat)	financial planner	total expense ratio	transaction charges	total investment charges
A Class (all-in)	1.25%	1.00%	2.60%	0.10%	2.70%
B Class (LISP)	0.95%	N/A	1.11%	0.10%	1.21%
C Class (clean)	1.25%	NA	1.45%	0.10%	1.55%

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* 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 October 2017 and ending 30th of September 2020

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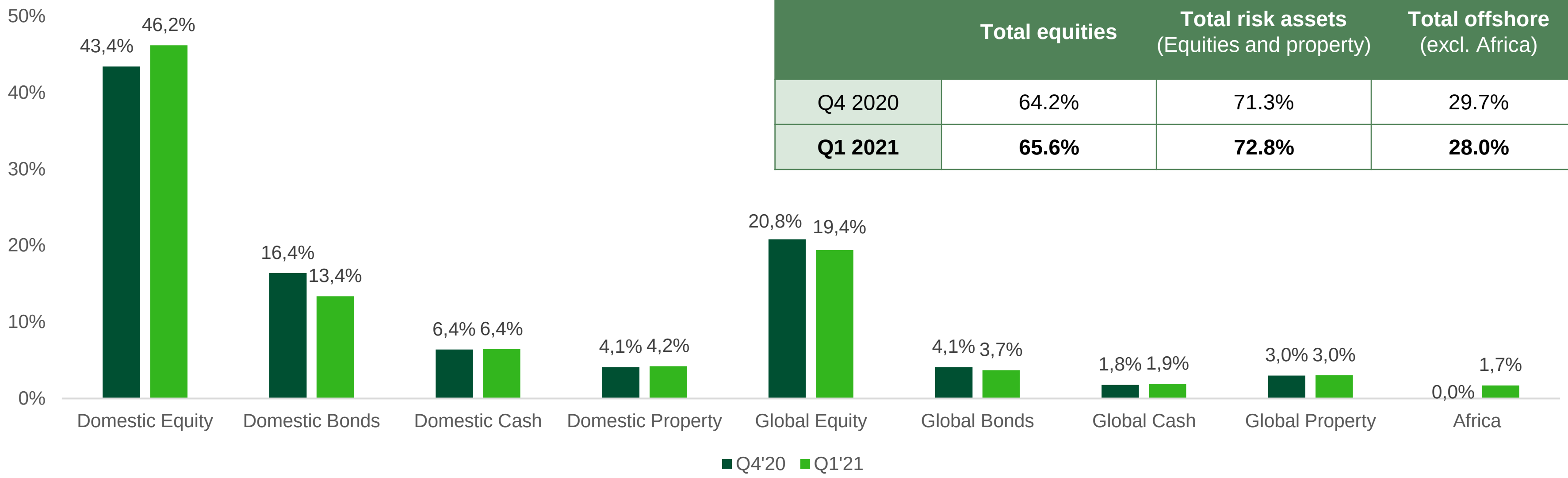
Asset allocation changes

	Total equities	Total risk assets (Equities and property)	Total offshore (excl. Africa)
Q4 2020	64.2%	71.3%	29.7%
Q1 2021	**65.6%**	**72.8%**	**28.0%**



Summary of recent changes

The following asset allocation decisions were made during the quarter:

- We moved to reduce the underweight position in **domestic equities**, allowing our equity weight to drift upwards with the markets.
- We trimmed our position **in local fixed interest** (bonds and cash) in favour of **equity** (both domestic and global), while maintaining our overweight position to domestic bonds.
- We moved to reduce the underweight position in **domestic property** by allowing our weight to drift upwards with the markets.
- We introduced exposure to **Africa** by 2%, this was funded from cash.

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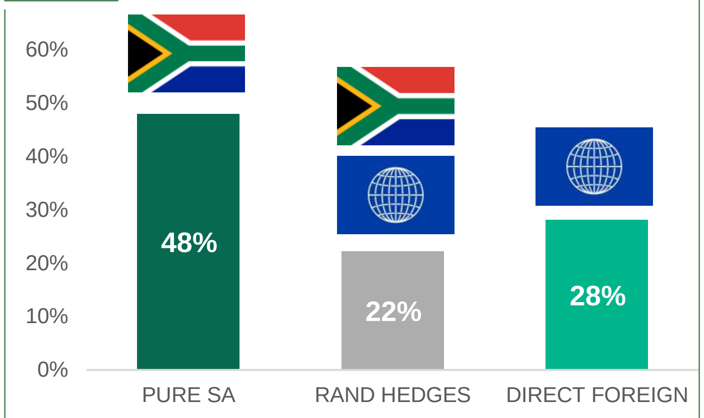
Asset allocation

Domestic Equity	Domestic Property	Domestic Fixed Interest
46.2%	4.2%	19.8%

Foreign Equity	Foreign Property	Foreign Fixed Interest	Africa
19.4%	3.0%	5.6%	1.7%

Regional exposure



Top ten holdings (as a % of fund)

Holding	% of fund
Naspers	4.4.%
Anglo American	2.1%
BHP	1.9%
FirstRand	1.8%
British American Tobacco	1.8%
Standard Bank	1.5%
Implats	1.4%
MTN	1.1%
Northam Platinum Limited	1.0%
Richemont	0.9%

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Domestic asset class positioning

Domestic Equity

Under weight | 46.2%

- We have moved to reduce the underweight position to this asset class as opportunities have been created in the market.
- .Small cap stocks tend to be most exposed to the domestic environment and while they may benefit during a turnaround, during periods of low growth they are the most exposed.

Domestic Property

Under weight | 4.2%

- We acknowledge the very attractive yields on offer in the domestic property market.
- The local economic backdrop does not warrant materially increasing exposure to this asset class as yet.

Domestic Bond

Over weight | 13.4%

- 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

Under weight | 6.4%

- Provides consistent return profile however, cash interest rates remain low.
- The healthy cash balance also provides optionality (dry power) should opportunities arise.

Global asset class positioning

Global Equity

Over weight | 19.4%

- Unprecedented stimulus coupled with accommodative central bank policy should prove positive for equity markets and we believe prospects remain favourable.
- However, we remain cautiously optimistic on equity markets. A balanced exposure to growth and value stocks remains important

Global Property

Over weight | 3.0%

- We have grown increasingly positive on the prospects for property, and specifically commercial property within the prime space of central retail and hospitality to benefit from a continued economic reopening.

Global Bond

Under weight | 3.7%

- The conundrum continues with fixed income markets and the longer term prospect of higher rates.
- Our preference remains for taking less duration risk.

Global Cash

Neutral | 1.9%

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

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Domestic: fund manager exposures

Equity General 28.8%

- Foord
- Mazi
- Laurium Capital
- Satrix
- Matrix Fund Managers
- Coronation Fund Managers

Small/Mid Cap Equity: 6.5%

- Abax investments

Property: 2.5%

- Bridge Fund Managers
- Sesfikile Capital (Listed Property Investments)
- Prudential Investment Managers

Passive Multi-Asset: 19,7%

- Taquanta

Flexible Income: 14.32%

- Abax investments
- Taquanta

Offshore and Africa: fund manager exposures

Equity: 9.2

- Veritas Asset Management
- Ardevora

EM Equity: 3.4%

- NS Partners

Multi-Asset: 7.3%

- FPA investor
- Pyrford International

Property: 2.8%

- Resolution Capital

Africa: 2.0%

- Laurium Capital

As at 31 March 2021

The residual balance (out of 100%) is held as domestic cash to provide liquidity

Nedgroup Investments

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