



See money differently

Quarterly Report: Nedgroup Investments Select Defensive Fund of Funds*

as at 31 March 2021

*Nedgroup Investments XS Select Guarded and Nedgroup Investment Defensive Fund of Funds will be renamed on the day of the amalgamation: 4 June 2021

Quarterly report: Nedgroup Investments



Domestic asset class returns (ZAR)



SA Equity



The resources sector and small cap stocks delivered strong performance.

54.0% 1 year

9.7% 3 years

12.3% LT average

SA Property



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



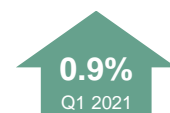
The domestic bond market fared worse than EM peers despite better economic data

17.0% 1 year

5.5% 3 years

7.0% LT average

SA Cash



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



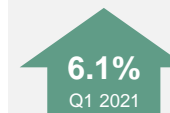
It was a volatile first quarter with developed markets outperforming EM

55.4% 1 year

12.7% 3 years

8.7% LT average

Global Property



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



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



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



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



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



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.

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 Select Defensive 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

1.27%

Transaction charges

0.05%

Total investment charges

1.32%



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 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

Quarterly report:

Nedgroup Investments Select Defensive Fund of Funds



Asset allocation

Domestic Equity



24.4%

Domestic Property



3.5%

Domestic Fixed Interest



45.2%

Foreign Equity



18.6%

Foreign Property



0.5%

Foreign Fixed Interest



7.8%



Regional exposure



60%

PURE SA



14%

RAND HEDGES



27%

DIRECT FOREIGN



Top ten holdings

6.5%

RSA R186 Bond



NASPERS

3.0%

2.6%

RSA R2035 Bond

2.0%

RSA R2044 Bond



1.8%

1.7%

RSA R2032 Bond

1.6%

RSA R2037 Bond

1.6%

RSA R2030 Bond

1.4%

RSA I2025 Bond

135%

RSA R202 Bond

as at 31 March 2021

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Fund performance (clean class)

Q1'21 return

+4.7%

Peer group average: +3.5%

Ytd return

+4.7%

Peer group average: +3.5%

1yr annualised return

+23.0%

Peer group average: +17.3%

3yr annualised return

+6.8%

Peer group average: +6.6%

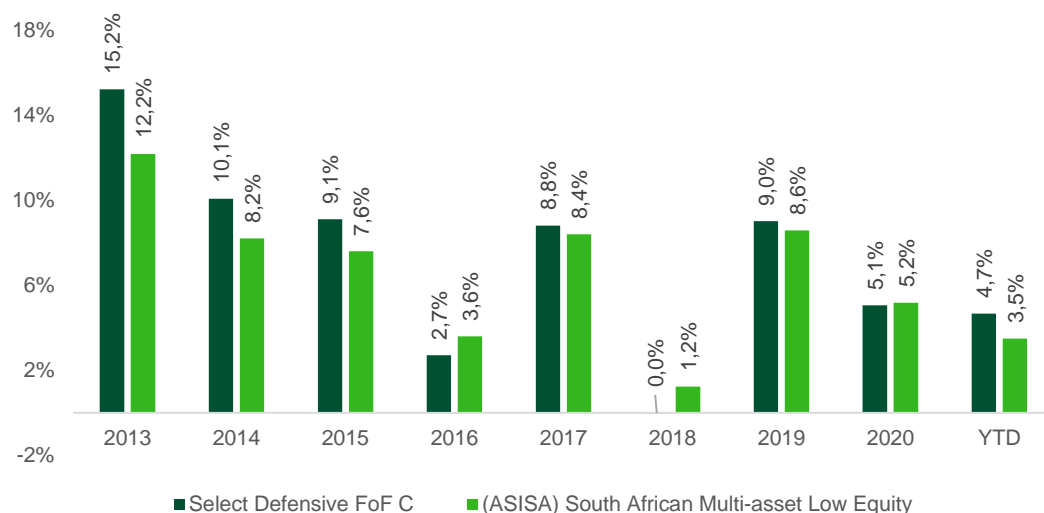
5yr annualised return

+5.7%

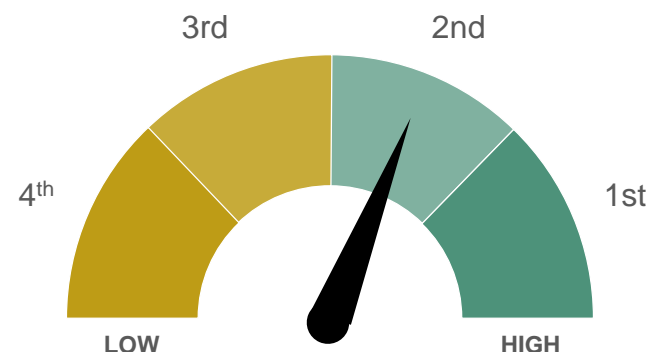
Peer group average: +5.8%



Calendar year performance



Peer group quartile ranking: 3yr



as at 31 March 2021

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Risk measures since inception

Rolling 3yr return

80%

Hit rate: outperforming
peer group average

Volatility

5.8%

SA equity market: 15.3%

Max drawdown

-11.4%

SA equity market: -40.4%

Sharpe ratio

0.4

SA equity market: 0.3

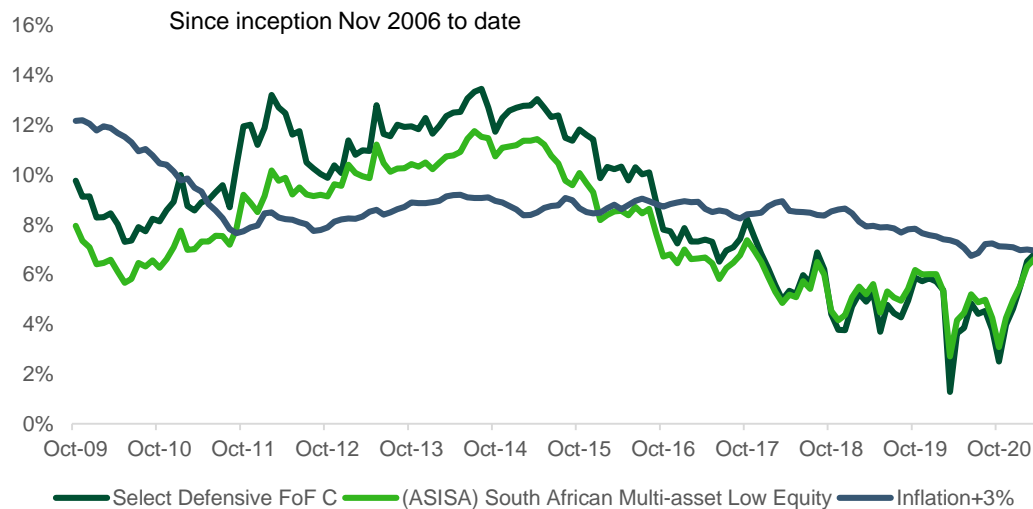
% Positive months

73%

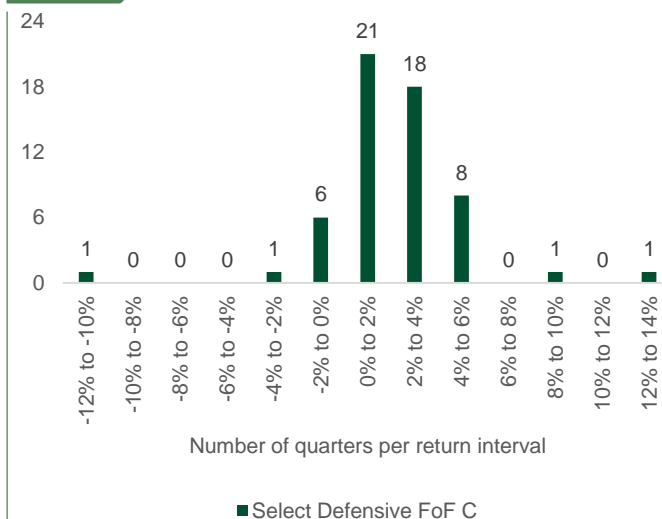
SA equity market: 61%



Rolling 3-year annualised return



Quarterly return distribution



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Underlying fund performance

Key	2016	2017	2018	2019	2020	YTD
Allan Gray Stable	6.4%	11.1%	2.9%	11.1%	11.8%	5.7%
Coronation Balanced Defensive	4.6%	9.8%	2.6%	9.5%	7.2%	5.5%
Nedgroup Investments Core Guarded	4.4%	9.6%	2.0%	8.7%	6.4%	4.6%
Nedgroup Investments Stable	3.9%	7.8%	1.7%	7.1%	3.5%	4.6%
Prudential Inflation Plus	0.4%	7.1%	-4.3%	6.5%	-0.2%	1.0%



Positive contributors this quarter

- The recovery in economic activity - mainly driven by the injection of significant monetary and fiscal stimulus, as well as the successful rollout of the vaccination strategy in many countries – led to the rise of inflation expectations. This allowed inflation linked bonds to outperform in the first quarter of 2021. Prudential Inflation Plus in particular benefited from this rally.
- Both domestic and global equities contributed to performance, with both these asset classes having a strong start to the year.
- Naspers (+17% for the quarter) continued with their share buybacks during the quarter which aided performance and is consistent with their long-term strategy to unlock value.



Detractors this quarter

- The rise in U.S. treasury yields brought on by the recovery in economic activity, translated into a poor quarter for local nominal bonds. Nedgroup Investments Stable large domestic nominal bond exposure detracted from performance.
- The increase in economic growth, inflation expectations and equity returns has resulted in a decreased demand for traditional safe haven asset gold. The NewGold debenture (-10% for the quarter) thus detracted from the Nedgroup Investments Stable fund performance.
- Overall, the fund had a relatively low exposure to the domestic resource sector (+19%), which benefitted from the increase in commodity prices.

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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	4,4%	4,7%	4,7%	4,6%	3,5%	1,2%
1 year	21,6%	23,2%	23,0%	22,7%	17,3%	2,9%
3 year	5,6%	7,0%	6,8%	N/A	6,6%	3,9%
5 year	4,5%	5,9%	5,7%	N/A	5,8%	4,4%



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%	2.42%	0.05%	2.47%
B2 class (lisp)	0.88%	N/a	1.10%	0.05%	1.15%
C class (clean)	1.03%	N/a	1.27%	0.05%	1.33%
C1 class (product)	1.18%	N/a	1.43%	0.05%	1.48%

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