



See money differently

Quarterly Report: **Nedgroup Investments** **Select Income Fund of Funds**

as at 30 June 2021

Quarterly report: Nedgroup Investments



Domestic asset class returns (ZAR)



SA Equity



Smaller SA Inc. counters demonstrated resilience, but the resources sector had a poor June (-6.5%)

25.1% 1 year

8.1% 3 years

12.3% LT average

SA Property



SA property was the top performer in Q2, with counters like Vukile and Sirius leading the charge

25.2% 1 year

-8.9% 3 years

11.2% LT average

SA Bond



The longer-end of the curve outperformed, suggesting the pricing in of a rate hiking cycle

13.7% 1 year

9.2% 3 years

7.0% LT average

SA Cash



The MPC unanimously decided to keep rates unchanged at 3.5% at the May meeting

3.5% 1 year

5.4% 3 years

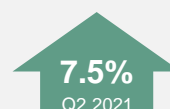
5.9% LT average



Global asset class returns (USD)



Global Equity



Growth stocks outperformed, tech rebounded and the EU benefited from strong corporate earnings

39.9% 1 year

15.1% 3 years

8.7% LT average

Global Property



Property markets globally continue to recover, as investors become more confident of its outlook

34.9% 1 year

7.4% 3 years

6.7% LT average

Global Bond



The US 10-year yield fell on the back of many countries' - incl. the US - inflation exceeding expectations

2.6% 1 year

4.2% 3 years

4.6% LT average

US Cash



The US Fed and other central banks are taking a slightly more hawkish stance on rates

0.2% 1 year

1.5% 3 years

4.3% LT average



Exchange rates (Rand spot rate and quarterly change)



US Dollar R14.28



The rand strengthened by more than 5% to the US dollar in May, reaching its best level since 2019 at the start of June. The demand for SA's mining commodities, resulting in the last two quarters being of the largest current account surpluses in our economic history, was one of the key drivers of rand strength.



British Pound R19.73



A number of the domestically focused areas fell back sharply in June, partly due to concerns around the impact of the covid-19 delta variant on the UK's re-opening plans. Retailers and travel and leisure sectors in particular performed poorly as the UK government delayed the date to further lift social distancing laws.



Euro R16.93



In Europe, the vaccine rollout has gathered pace, and a more sustained reopening of economies is on track for the second half of the year. The flash Markit eurozone composite PMI rose to 59.2 in June, its highest level since June 2006. Eurozone inflation was estimated at 1.9% in June, down from 2.0% in May.

Quarterly report: Nedgroup Investments



Domestic performance drivers



Highlights

- The Constitutional Court found former president Zuma guilty of contempt of court and issued a sentence of 15 months imprisonment. While the rule of law features prominently in the words of the ruling, their consequences perhaps speak even louder.
- Reforms took centre stage in June and appear to be gaining momentum. Government confirmed that Takatso, a consortium of private investors, will be the preferred equity partner for embattled air carrier, South African Airways. Transnet will unbundle the ports business to establish a new, independent Transnet National Ports Authority and the electricity self-generation limit will be increased to 100MW from 1MW previously.



Low points

- With the delta variant of covid-19 spreading rapidly in South Africa, the severity of the third wave prompted a move to Alert Level 4 restrictions for two weeks, to be reassessed in early July. While the global recovery is providing cyclical tailwinds, stricter lockdowns are an unfortunate setback.
- The BER consumer confidence index fell this quarter, after recording four consecutive positive quarters. This survey reflects “very depressed consumer confidence levels” and also highlights the divergence of the impact of covid-19 on the different income groups within South Africa.



Global performance drivers



Highlights

- At the end of the quarter, vaccination rates were close to 50% in the United States and Europe, and over 60% in the United Kingdom. New, more contagious covid-19 variants are spreading, but the existing vaccines seem effective against these variants.
- The European Commission signed off on the first of the national recovery plans which will receive funding from the €800 billion Next Generation EU fund. Spain and Portugal were the first countries to have their spending plans approved.



Low points

- In late June President Joe Biden also secured a deal on an infrastructure package worth about \$1 trillion to upgrade roads, bridges and broadband networks over the next eight years. The agreement fell short of the \$2.3 trillion infrastructure spending plan announced in March, and did not address the social safety-net spending proposed in April.
- Indian hospitals ran out of beds and life-saving oxygen during a devastating second wave of coronavirus in April and May. This devastating surge in covid-19 cases and fatalities, highlighted the importance of rapid vaccination rollouts.

Quarterly report:

Nedgroup Investments Select Income Fund of Funds



Fund overview

Max equity

10%

Time frame

Min **6** months

Benchmark

110% STeFI Call

Peer group

SA Multi-Asset
Income

Regulation 28

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)

0.74%

Total expense ratio

0.95%

Transaction charges

0.01%

Total investment charges

0.96%



Benefits of the 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 June 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 April 2018 to 31 March 2021

Quarterly report:

Nedgroup Investments Select Income Fund of Funds



Asset allocation

Domestic Equity



0.9%

Domestic Property



2.9%

Domestic Fixed Interest



83.3%

Foreign Equity



0%

Foreign Property



0.1%

Foreign Fixed Interest



12.8%



Modified duration

Select Income FoF

1,5

All Bond Index

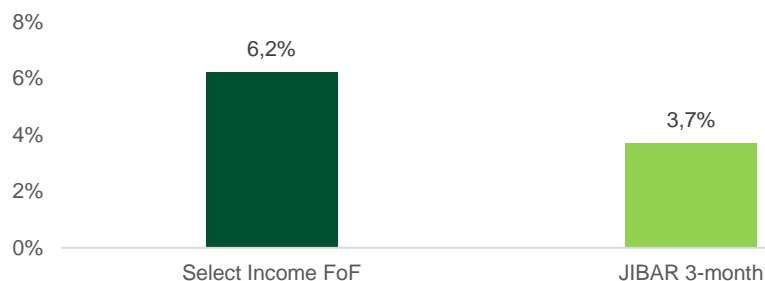
6,5

Duration (number of years)

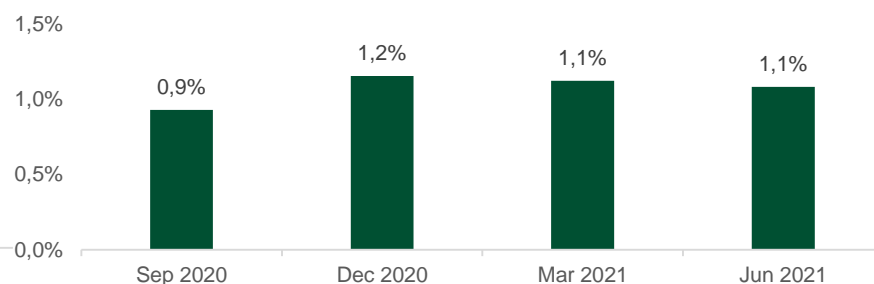


Yield and Distribution

Gross fund yield (forward-looking)



Quarterly distribution yield (actual) - C class



as at 30 June 2021

Quarterly report: Nedgroup Investments Select Income Fund of Funds



Fund performance (clean class)

Q2'21 return

2.1%

Benchmark: +0.9%

Ytd return

3.5%

Benchmark: 1.9%

6 month return

3.5%

Benchmark: 1.9%

1yr annualised return

6.9%

Benchmark: 3.9%

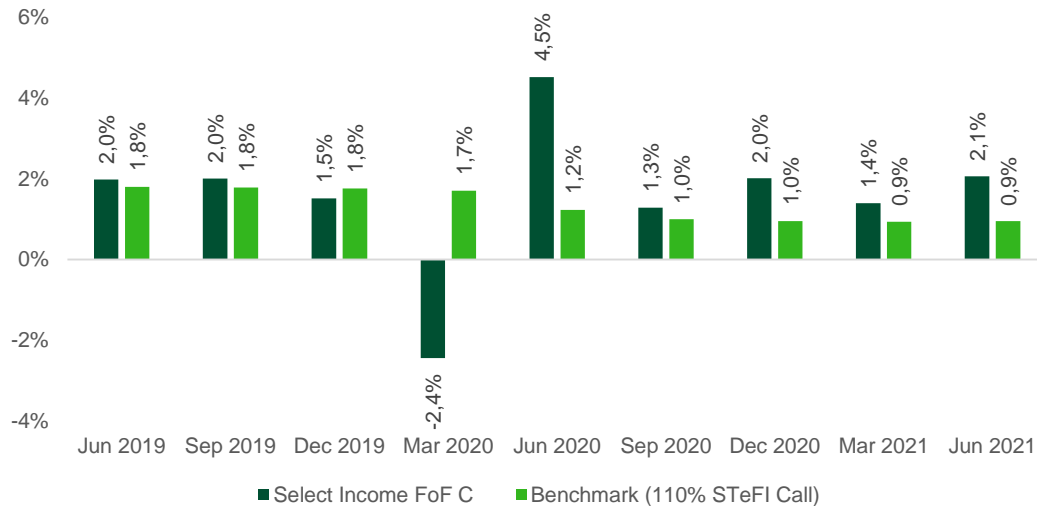
2yr annualised return

6.3%

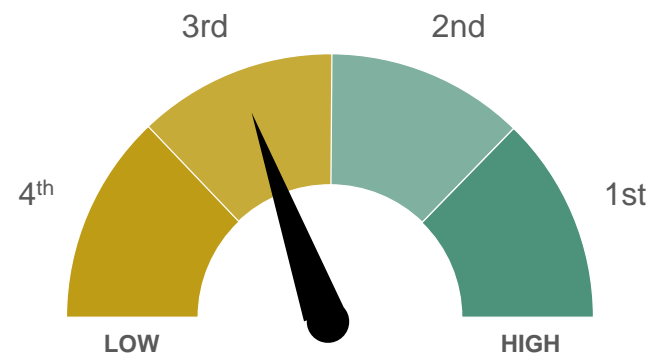
Benchmark: 5.2%



Quarterly performance



Peer group quartile ranking: 1yr



as at 30 June 2021

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Risk measures since inception*

Rolling 1 year

91%

Hit rate: outperforming benchmark

Volatility

1.9%

SA bond market: 8.2%

Max drawdown

-3.7%

SA bond market: -9.8%

Sharpe ratio

1.1

SA bond market: 0.2

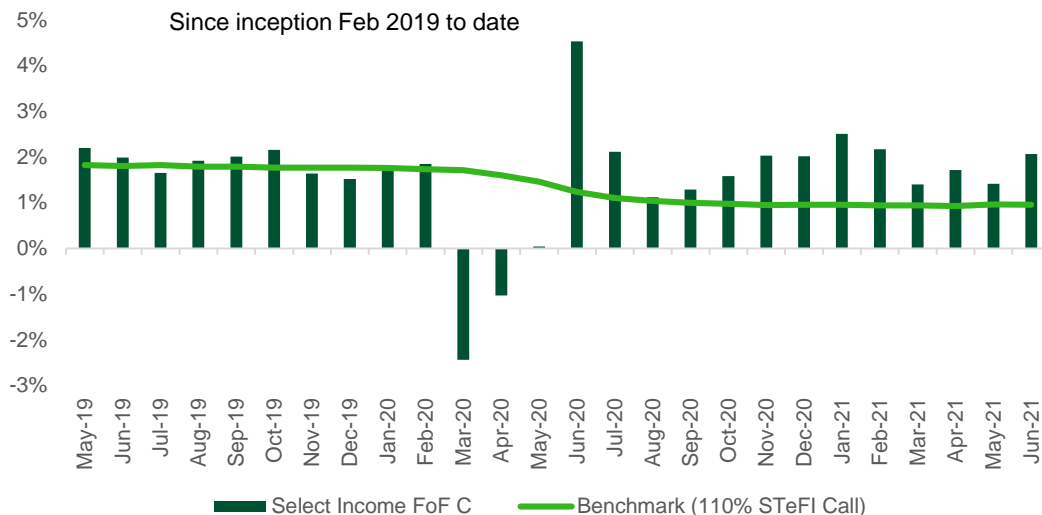
% Positive months

96%

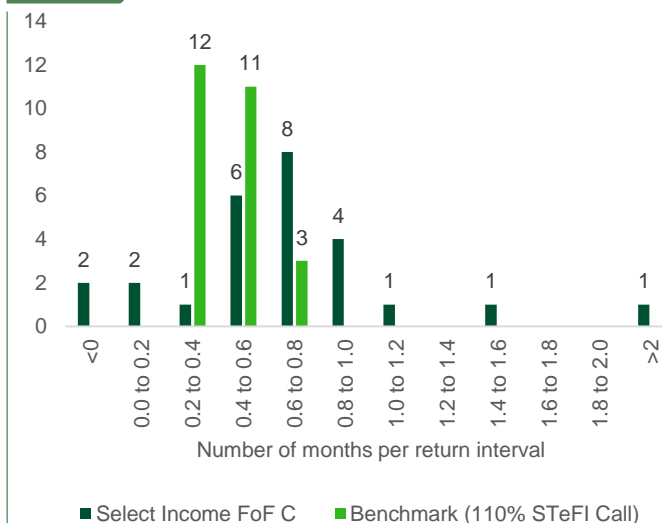
SA bond market: 65%



Rolling 3-month return



Monthly return distribution



as at 30 June 2021

The track record of the Select Income FoF displayed here includes the backtested return from 31 October 2012 to 1 February 2019, when the Nedgroup Investments 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 Select FoF process

Quarterly report:

Nedgroup Investments Select Income Fund of Funds



Underlying fund performance

Key	Q2 2019	Q4 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Coronation Strategic Income	2.4%	2.3%	1.8%	0.2%	4.8%	2.0%	2.5%	2.2%	2.6%
Nedgroup Investments Flexible Income	2.2%	2.2%	1.5%	-2.0%	3.8%	1.1%	2.1%	1.3%	2.1%
Ninety One Diversified Income	2.1%	2.1%	1.4%	-3.4%	3.1%	1.0%	2.0%	0.9%	1.9%



Positive contributors this quarter

- The local bond market has delivered exceptional returns this quarter, led by the strong performance of bonds with a maturity of >12 years, as the yield curve has continued to flatten. As a result, the fund's nominal bond exposure, of both fixed and floating rate assets, was the top contributor to performance.
- The local property market had a very good quarter with the FTSE/JSE SA Listed Property Index up 12%. The fund's exposure to select stocks in this sector was a meaningful contributor to performance, with Growthpoint (+18% in Q2'21) and NEPI Rockcastle (+9%) being the top contributors.
- The fund's exposure to preference shares, predominantly the big 4 banks, continues to contribute to performance as banks recover from the initial covid-19 shock. The pre- and post-tax yield remains attractive in this environment.



Detractors this quarter

- The funds' exposure to US dollar priced fixed income assets detracted from performance, as the rand strengthened by 3% to the US dollar this quarter, mainly on the back of strong demand for our mining commodities.
- The Ninety One Diversified Income fund lagged peers slightly this quarter, mainly due the fund's duration being on the lower end during a quarter where the longer end of the curve outperformed.
- The Nedgroup Investments Flexible Income fund's allocation to convertible bonds detracted from performance this quarter. Their holding in the Royal Bafokeng convertible bond was closed out this quarter. Abax believes that convertible bonds can provide an inflation hedge, and in an environment of financial repression represent a differentiated way for income funds to hold real assets. However, these assets are currently expensive making new opportunities hard to find.

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Performance across classes

	B2 Class (lisp)	C Class (clean)	C1 Class (product)	Benchmark
Quarter	2.1%	2.1%	2.0%	0.9%
6 month	3.6%	3.5%	3.4%	1.9%
1 year	7.1%	6.9%	6.8%	3.9%
2 year	6.4%	6.3%	6.1%	5.2%



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%	0.79%
C class (clean)	0.74%	N/a	0.95%	0.01%	0.96%
C1 class (product)	0.89%	N/a	1.12%	0.01%	1.13%

as at 30 June 2021

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