NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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NEDGROUP INVESTMENTS CORE INCOME

Quarter Three, 2021
Taquanta Asset Management

Nedgroup Investments Core Income Fund

Performance to 30 June 2021	Fund Performance[1]	SteFI Composite	*Hit Rate vs SteFI**
3 months	1.2%	1.0%	*100%*
12 months	4.4%	3.8%	*100%*

**percentage of rolling periods since 01/01/2015 the fund has outperformed its benchmark.*

Market Commentary

The fragility of the local economy has managed to keep interest rates accommodative. However, inflation tailwinds in the shape of food, electricity, fuel, and nominal wages, are envisaged to place upward pressure on short-term interest rates. Despite unanimously leaving the repo rate unchanged at 3.50%, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) cautioned the risks of rising inflation expectations as well as global monetary policy normalisation on the short-term interest rate outlook.

Employment in the non-agricultural formal sector decreased by 0.1% quarter-on-quarter. Notable layoffs were identified in community services (-2.3%), manufacturing (-1.4%), construction (-1.4%), and business services (-0.1%). According to Statistics South Africa, the total number of business liquidations increased by 12.1% in the first 8 months of 2021 compared with the first 8 months of 2020.

To this end, we see no room for further monetary easing, with the SARB likely to embark on a gradual hiking cycle in the interest of sustainable economic recovery. The Forward Rate Agreement (FRA) market is of a similar view, now fully pricing in a 25 basis-point interest rate hike in the first quarter of 2022. The risk is that should the fiscal outlook further deteriorate, and we have persistent currency weakness, the SARB may need to consider a more aggressive hiking pace.

Bond investors have also begun tapering their post-pandemic fiscal expectations weeks ahead of the November 2021 Medium-Term Budget Policy Statement (MTBPS). A rising inflation outlook as well as debt stabilisation challenges have recently resulted in an uptick in the sovereign risk premium in the latter weeks of September 2021.

To this end, we continue to see value in floating rate assets and structured notes, and we are looking to capture additional yield in the portfolio through these assets. The fund is invested in largely short duration floating rate assets and are constructed with a very low risk profile and has a very low sensitivity to any interest rate moves or any credit spread moves.

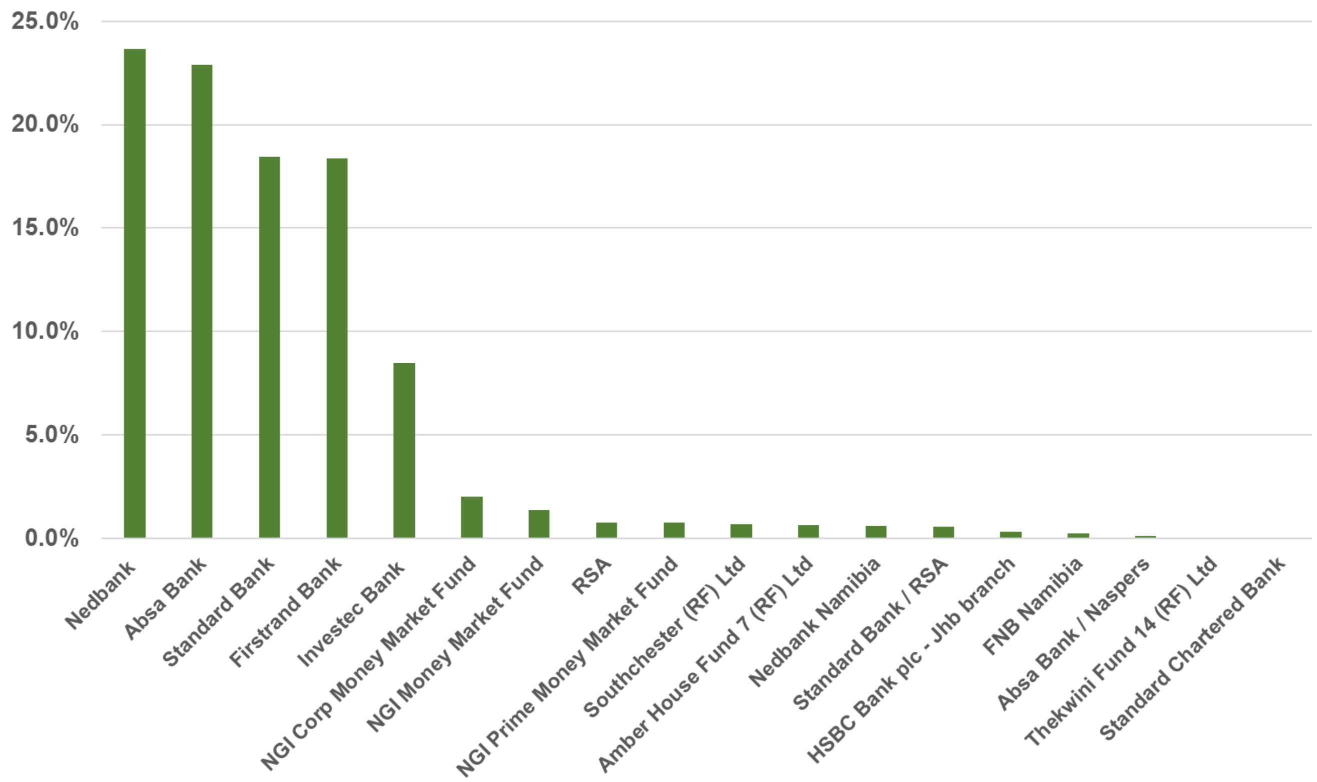
Current positioning and outlook

The fund's investment philosophy of conservative credit selection continues to support returns. The high-quality credit profile reduces the risk of default which is crucial to the protection of capital. The fund has a bias towards issuers whose business model has stable annuity-type revenue streams. Compared to the benchmark, the fund has exposure to corporates, securitisations, and SA Government issued debt which is currently paying a credit premium over and above the bank exposure.

[1] Net return for the Nedgroup Investments Core Income Fund, C3 class. Source: Morningstar (monthly data series).

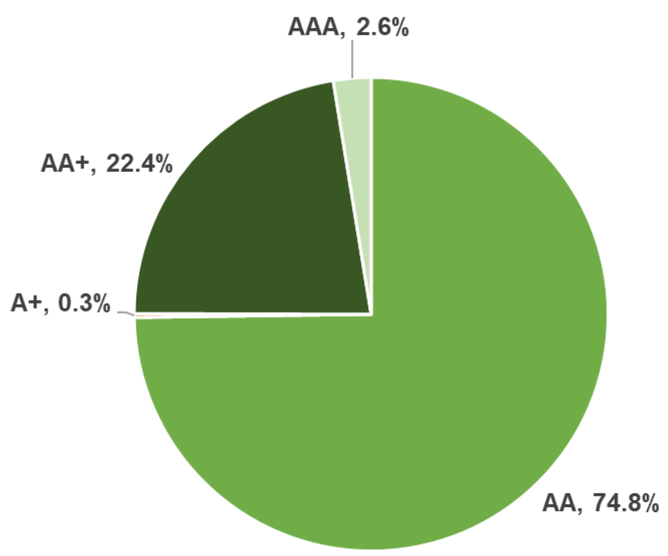
Core Income Credit Profile

The Fund's counterparty exposure at September 2021 quarter-end was as follows:



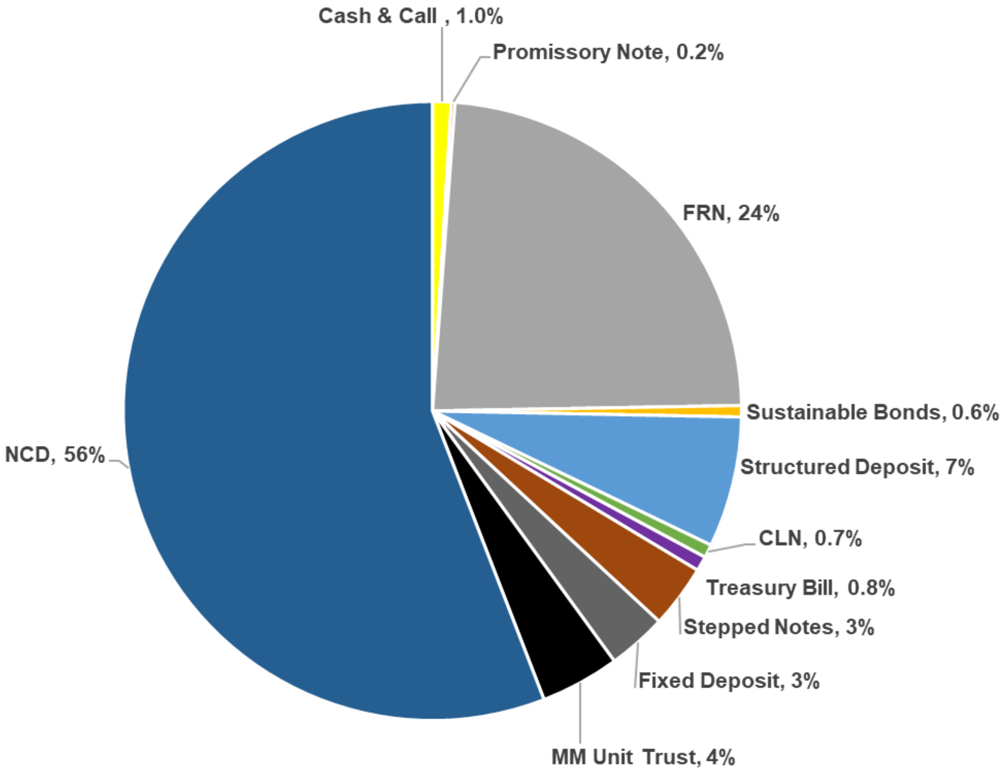
The Core Income portfolio was well invested across all local and foreign banks as well as having exposure to AAA rated entities. The fund is within its mandate limits, with investments in high quality investment grade issuers.

The table below represents the issuer credit rating breakdown as at 30 September 2021:



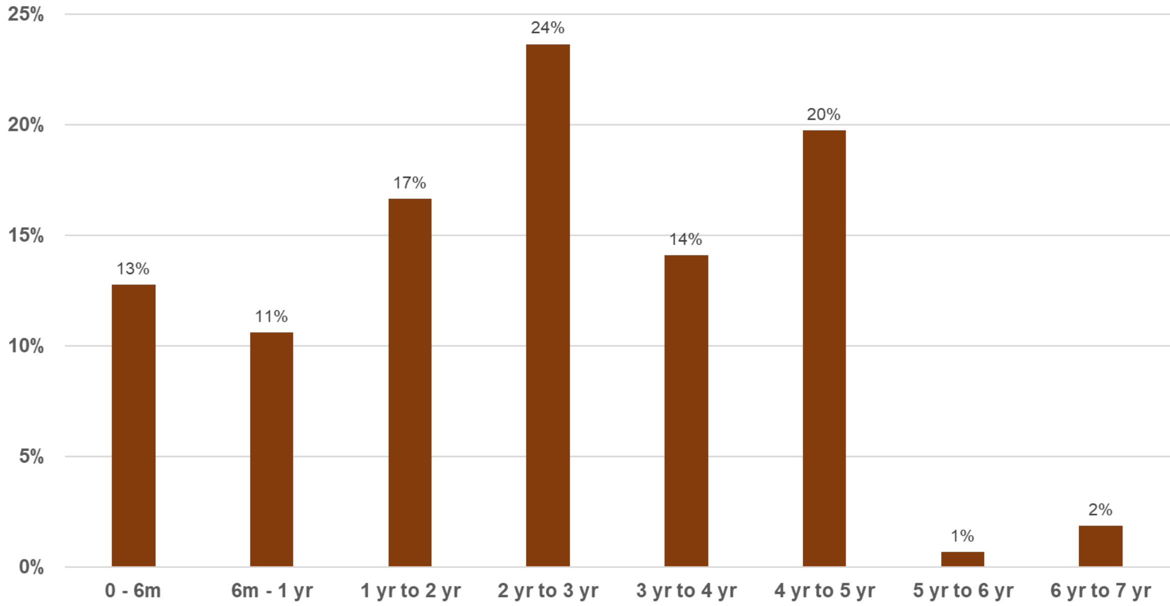
Instrument Holdings

The Fund's instrument holdings at September 2021 quarter-end were as follows:



Core Income Maturity Profile and Duration

As at 30th September 2021, the weighted average term to final maturity of the fund was 2.5 years and the fund had a conservative duration of 37 days. The maturity profile (term to final maturity) of the assets in the fund at September 2021 quarter-end was as follows:



Market Expectations

Looking ahead, the market expectation is for short-term interest rates to recover from current levels. Key drivers to this interest rate outlook are underpinned by a recovery in the global inflation cycle as well as a narrowing output gap. Slow progress in reducing the debt burden of beleaguered SA State-owned Enterprises (SOEs), the third COVID-19 wave, and increasing global inflation pressures are also expected to exert moderate pressure on yields.

The fund is positioned defensively given inflation concerns and the current uncertain and fragile economic climate. The fund's low duration creates a defensive position which mitigates the impact from rising rates. Taking on longer dated instruments, which are floating rate, allows us to extract higher yield (i.e. term spread vs cash).

Summary and Conclusion

The SARB's Quarterly Projection Model (QPM) indicates a repo rate increase of 25 bps in Q4 of 2021 and in each quarter of 2022 as do the FRA curve. The Forward Rate Agreement (FRA) market has turned more hawkish, currently projecting 240 bps worth of hikes over the next 2 years, compared to a projection of 185 bps in July. This implies a repo rate of 5.9% by the end of 2 years, which is below SARB's forecast of 6.36%. The investment philosophy of conservative credit selection and low duration continues to support returns in the fund. The fund has a bias towards floating rate instruments linked to 3-month Jibar. This bodes well for future returns in the fund given the general interest rate view.

Disclaimer

WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited is an authorised Collective Investment Scheme and the representative of Nedgroup Investments Funds PLC in terms of the Collective Investment Schemes Control Act. It is a member of the Association of Savings & Investment South Africa (ASISA)..

OUR TRUSTEE
The Standard Bank of South Africa Limited is the registered trustee.
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HOW ARE OUR FUNDS PRICED
Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

FEES
A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

DISCLAIMER

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Our funds are traded at ruling prices and can engage in borrowing and scrip lending.

Some funds may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks, which could include foreign exchange risks, market conditions and macro-economic and political conditions.

A fund of funds may only invest in other funds, and a feeder fund may only invest in another single fund, both will have funds that levy their own charges, which could result in a higher fee structure.

The Nedgroup Investments Money Market Fund offering aims to maintain a constant price of 100 cents per unit. A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument held. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of a capital loss. Excessive withdrawals from the fund may place the fund under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet. Nedgroup Investments has the right to close its funds to new investors in order to manage it more efficiently.

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