



See money differently

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

as at 30 September 2021

Quarterly report: Nedgroup Investments



Domestic asset class returns (ZAR)



SA Equity

-0.8%

Q3 2021

23.2% 1 year

8.6% 3 years

12.3% LT average

Domestically focussed shares did well this quarter, but Naspers and Platinum shares struggled.

SA Property

5.9%

Q3 2021

54.5% 1 year

-6.8% 3 years

11.2% LT average

After a tough July due to unrest in SA, the sector ended the quarter strong led by Resilient and Hyprop

SA Bond

0.4%

Q3 2021

12.5% 1 year

9.1% 3 years

7.0% LT average

SA bonds were volatile this quarter, reacting to changes in investor sentiment and global bond yields

SA Cash

0.9%

Q3 2021

3.5% 1 year

5.1% 3 years

5.9% LT average

The SARB kept rates unchanged, but highlighted risks to near term inflation pressure



Global asset class returns (USD)



Global Equity

-1.0%

Q3 2021

28.0% 1 year

13.1% 3 years

8.7% LT average

The quarter started well, but gains were erased by inflation fears and China worries

Global Property

-0.7%

Q3 2021

30.8% 1 year

7.2% 3 years

6.7% LT average

Value sectors exposed to the pandemic reopening theme outperformed growth sectors

Global Bond

-0.9%

Q3 2021

-0.9% 1 year

4.2% 3 years

4.6% LT average

US and EU yields ended the quarter unchanged. UK struggled amidst expected monetary policy tightening

US Cash

0.0%

Q3 2021

0.2% 1 year

1.3% 3 years

4.3% LT average

Global central banks turned hawkish in September, with the Fed providing indicative timelines for tapering



Exchange rates (Rand spot rate and quarterly change)



US Dollar R15.05

5%

The rand had a tough end to the quarter, giving back all of the gains made this year relative to the US dollar, as global investor sentiment turned. The US economy continued on a strong recovery path, despite the ongoing threat of rising inflation and Covid-19 infections, helping the US dollar to remain strong.



British Pound R20.29

3%

The British pound was the worst performer of the developed market currencies as UK's inflation reached its highest point ever in August, at 3.2%. Despite the economy expanding for a sixth consecutive month, the pace of the recovery was slower in July.



Euro R17.44

3%

Supply chain bottlenecks and rising energy prices (due to low gas supply and lack of summer wind) raised concerns around rising inflation. Germany held a general election in which Social Democrats (SPD) took the largest share of the votes. Coalition talks to form a new government are now under way.

Quarterly report: Nedgroup Investments



Domestic performance drivers



Highlights

- President Ramaphosa announced a cabinet reshuffle in August, which included changes to the security cluster and a new health minister, following the resignation of Zwele Mkhize. Most influential for markets, however, was the appointment of Enoch Godongwana as finance minister.
- The economy recorded quarterly GDP growth of 1,2% (not annualised), exceeding market expectations yet again.
- On the last day of the month, South Africa moved to adjusted alert level 1, further relaxing restrictions on movement and trade. This, combined with the removal of South Africa from various countries' "red lists" may provide some much-needed support for the country's economic recovery.



Low points

- The civil unrest in July 2021 left a significant dent in the economy, notably in the property sector. Several shopping centres, industrial properties (warehouses and storage facilities) and educational facilities, located primarily in Kwazulu-Natal and Gauteng, experienced significant trading interruptions due to looting and civil unrest.
- South Africa's daily covid-19 vaccination rate continues to fall short of the target of 300 000 daily doses with September's low point at 159,542 and August's at 147,307. Less than 25% of South Africa's adult population of approx. 40 million is fully vaccinated. South Africa needs to reach approximately 18 million more adults to reach the 70% coverage target.



Global performance drivers



Highlights

- The Delta variant of Covid-19 continued to spread, but most large eurozone countries have now fully vaccinated around 75% of their population against the virus, enabling many restrictions on travel and other activities to be lifted.
- Overall, net energy exporters outperformed this quarter. Most notably Colombia, Russia, Kuwait, Saudi Arabia, Qatar and the UAE.
- India was the best-performing index market during the quarter and achieved a strongly positive performance as accommodative monetary policy and the easing of Covid-19 restrictions boosted investor sentiment.



Low points

- With inflation pressure mounting in the United Kingdom, policymakers may be forced to raise interest rates as early as 2022. The economy is yet to fully recover from the pandemic.
- The potential failure of Evergrande Group (one of China's largest property developers with a \$300bn debt burden) sparked fears of global contagion. The commodity market was adversely impacted, especially precious and other industrial metals. Consequently, it was one of the worst quarters for emerging markets since the start of the pandemic.

Quarterly report:

Nedgroup Investments XS Guarded 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



Fund costs (C – clean class)

Management fee* (Excl. Vat)

1.15%

Total expense ratio

1.35%

Transaction charges

0.07%

Total investment charges

1.42%



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



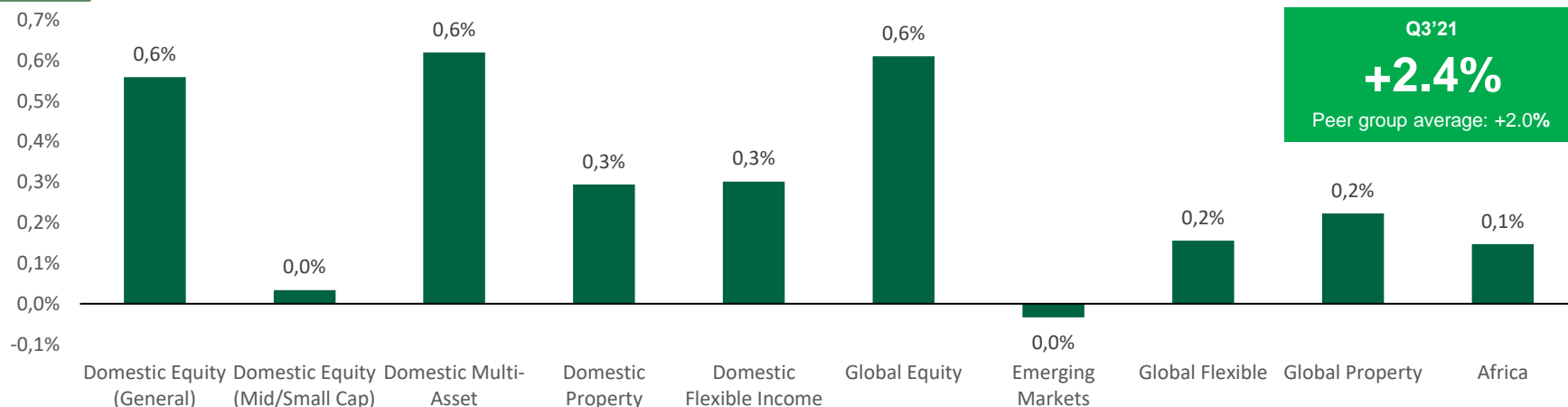
as at 30 September 2021

**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 July 2018 and ending 30th June 2021

Quarterly report: Nedgroup Investments XS Guarded Fund of Funds



XS Fund of Funds performance contribution – Q3 2021



- Global equity, local equity as well as the domestic multi-asset bucket contributed the most to performance. Local financial counters performed well over the quarter, contributing to performance as 40% of the fund's top 10 positions (namely Standard Bank, First Rand, Sanlam and Nedbank) are from this sector.
- Regarding global equities, positions in competitively advantaged stocks/sectors was a source of support. Alphabet (parent company of Google), continued to perform well over the quarter and Catalent (one of the world's largest drug manufacturers), has been involved in the manufacturing of covid-19 vaccines, including those from Moderna, AstraZeneca and Johnson & Johnson.



Detractors this quarter

- Global equity exposure (excluding currency movement) detracted during the quarter, given a slower than anticipated recovery in some markets and exposure to China and its wide-ranging regulatory interventions. In terms of local equities, Naspers was a large detractor, as the Chinese Technology regulator clamped down on tech businesses, severely impacting the share-prices of Chinese tech companies. Meanwhile, Iron ore and PGMs commodity spot prices came under pressure this quarter, putting pressure on the likes of Impala Platinum (-23%).
- In terms of emerging markets, stock selection in Taiwan and underweight positions in Gulf markets and Mexico while being overweight in Hong Kong detracted from performance. In terms of sector positioning, underweight positions in Energy and Materials and stock selection in some Financials hurt the manager's performance.

Quarterly report: Nedgroup Investments XS Guarded Fund of Funds



Fund performance (clean class)

Q3'21 return

+2.4%

Peer group average: +2.0%

Ytd return

+9.6%

Peer group average: +8.1%

1yr annualised return

+13.2%

Peer group average: +12.0%

3yr annualised return

+6.1%

Peer group average: +6.6%

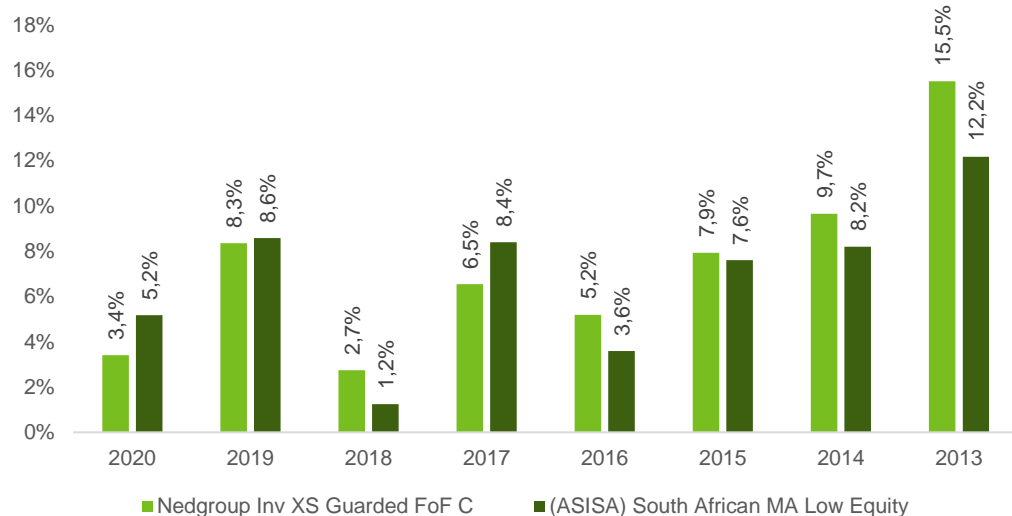
5yr annualised return

+6.3%

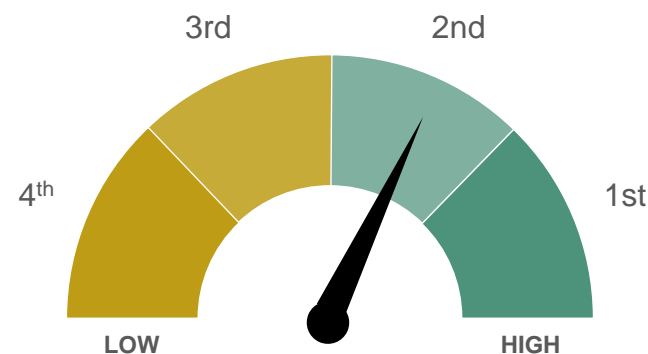
Peer group average: +6.2%



Calendar year performance



Peer group quartile ranking: 1yr



as at 30 September 2021

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Risk measures since inception

Rolling 3yr return

90%

Hit rate: outperforming
peer group average

Volatility

4.9%

SA equity market: 15.2%

Max drawdown

-10.6%

SA equity market: -40.4%

Sharpe ratio

0.5

SA equity market: 0.4

% Positive months

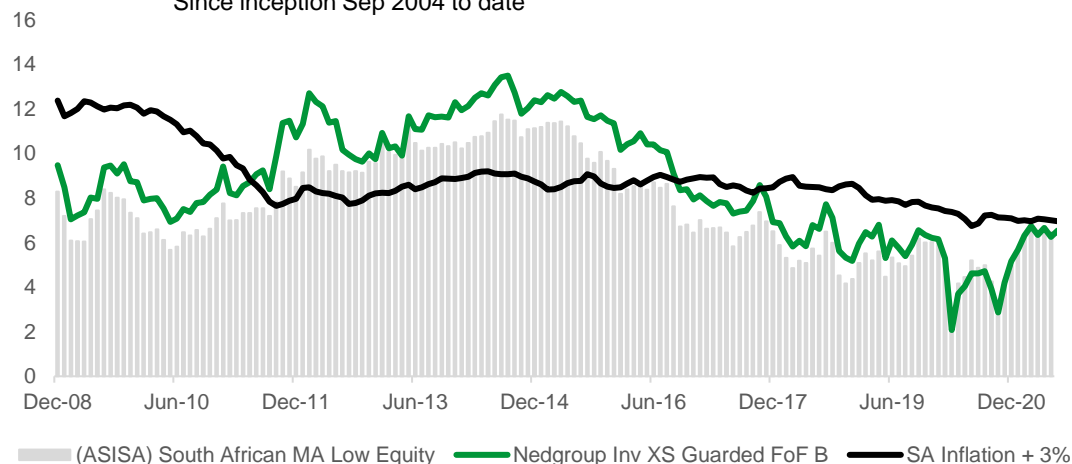
91%

SA equity market: 72%

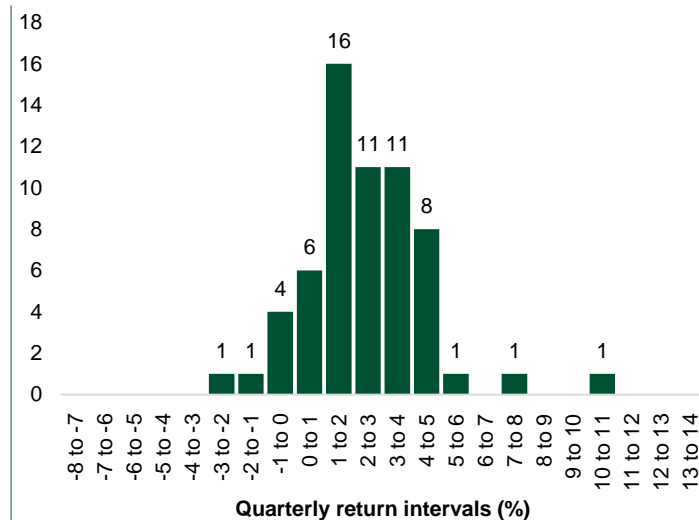


Rolling 3-year annualised return

Since inception Sep 2004 to date



Quarterly return distribution



Quarterly report:

Nedgroup Investments XS Guarded Fund of Funds



Performance across classes

	A Class (all in)	B Class (lisp)	C Class (clean)	Peer group	SA inflation
Quarter	2.1%	2.6%	2.4%	2.0%	1.8%
1 year	11.9%	13.8%	13.2%	12.0%	4.9%
3 year	4.3%	6.7%	6.1%	6.6%	4.1%
5 year	5.1%	6.8%	6.3%	6.2%	4.4%



Costs across classes

	Management fee (excl. Vat)	financial planner	total expense ratio	transaction charges	total investment charges
A Class (all-in)	1.15%	1.00%	2.50%	0.07%	2.57%
B Class (LISP)	0.85%	N/A	1.00%	0.07%	1.07%
C Class (clean)	1.15%	NA	1.35%	0.07%	1.42%

as at 30 September 2021

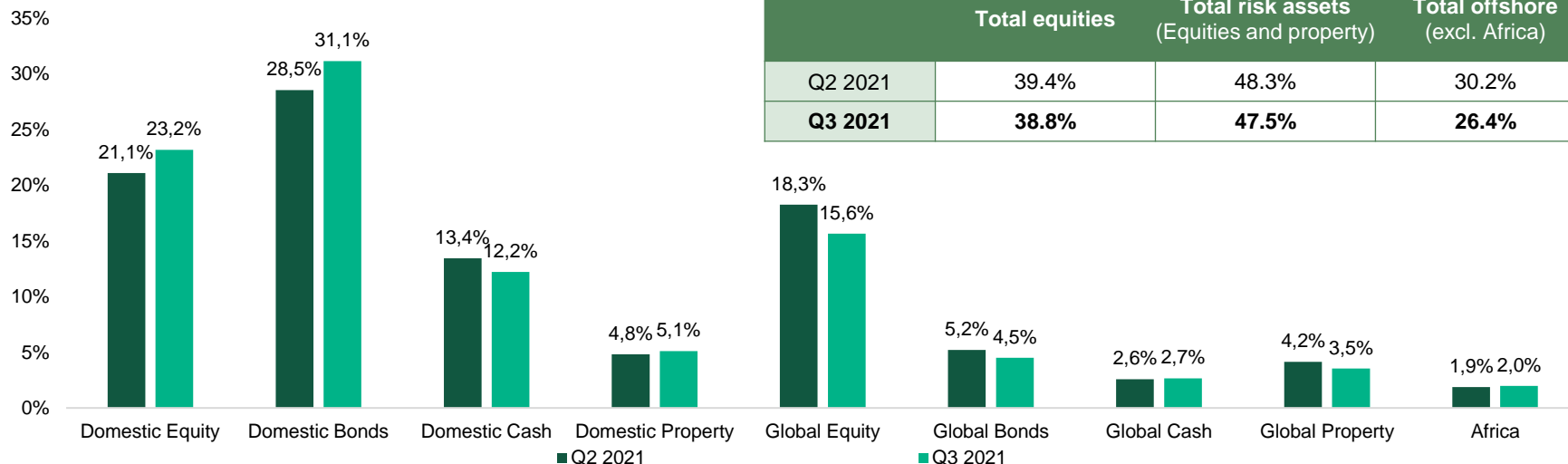
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Asset allocation changes



	Total equities	Total risk assets (Equities and property)	Total offshore (excl. Africa)
Q2 2021	39.4%	48.3%	30.2%
Q3 2021	38.8%	47.5%	26.4%



Summary of recent changes

The following asset allocation decisions were made during the quarter:

- Trimmed our offshore equity exposure, however, we remain slightly overweight this asset class.
- Increased the domestic equity exposure to reflect and maintain the neutral position in this asset class.
- After allowing our domestic property exposure to drift upwards with market movements, we trimmed our exposure to our neutral position.

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Nedgroup Investments XS Guarded Fund of Funds



Asset allocation

Domestic Equity



23.2%

Domestic Property



5.1%

Domestic Fixed Interest



43.4%

Foreign Equity



15.6%

Foreign Property



3.5%

Foreign Fixed Interest



7.2%

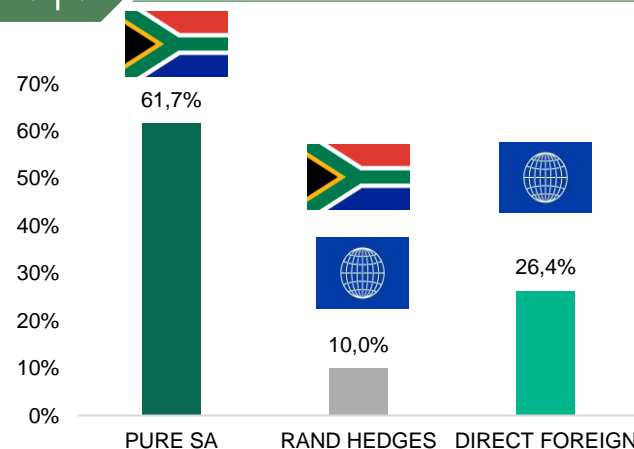
Africa



1.9%



Regional exposure



Top ten holdings (as a % of fund)



1.9%



1.4%



0.9%



Standard Bank

0.9%



0.9%



0.8%



0.7%



0.6%



0.5%



0.4%

Quarterly report:

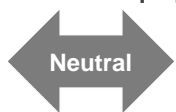
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Domestic asset class positioning



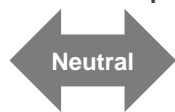
Domestic Equity



23.2%

- There are signs of positive structural reform and the cyclical upswing in 2022 and 2023 should prove supportive for domestic equities.
- While valuations appear fair, a low growth environment is an impediment and there is still implementation risk on other structural reforms required. Therefore, stock selection will remain a key factor.

Domestic Property



5.1%

- While we recognise the opportunities which exist in this asset class, low inflation is currently not supporting physical asset pricing.
- Returns are also likely to be constrained by balance sheet concerns and the sector remains under continuous review. Stock picking will remain key.

Domestic Bond



31.1%

- Local bonds offer an attractive return relative to cash and yields remain attractive
- However, we are still cognisant of the fiscal risk as the wage agreement and the risk of a debt trap is material.

Domestic Cash



12.2%

- Cash is likely to underperform other assets over the next 12 months.
- Waiting on more attractive entry points on select equity opportunities..



Global asset class positioning



Global Equity



15.6%

- The environment remains favourable for equities, although there are signs of growth moderating in some regions.
- Preference for DM where economies are reopening and valuations are not stretched. EMs are attractive from a valuations perspective. The vaccine take up and Covid-19 infections have also improved.

Global Property



3.5%

- Real assets appear attractive as an alternative to fixed income and with some inflation protection.

Global Bond



4.5%

- Hawkish remarks from major global central banks are likely to result in bond yield curves steepening.
- However all bond yields will likely remain in a low absolute range, anchored by near zero central bank rates with inflation is a clear threat to mid to longer duration positioning.

Global Cash



2.7%

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

Quarterly report:

Nedgroup Investments XS Guarded Fund of Funds



Domestic: fund manager exposures

Equity General: 16.2%



Small/Mid Cap Equity: 3.0%



Passive Multi-Asset: 20.0%



Property: 3.6%



Flexible Income: 34.4%



Offshore and Africa: fund manager exposures

Equity: 8.3%



EM Equity: 2.6%



Multi-Asset: 6.4%



Property: 3.3%



Africa: 2.2%



As at 30 September 2021
The residual balance (out of 100%) is held as domestic cash to provide liquidity

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