NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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# NEDGROUP INVESTMENTS CORE INCOME

Quarter Four, 2021

Taquanta Asset Management ("TAM")

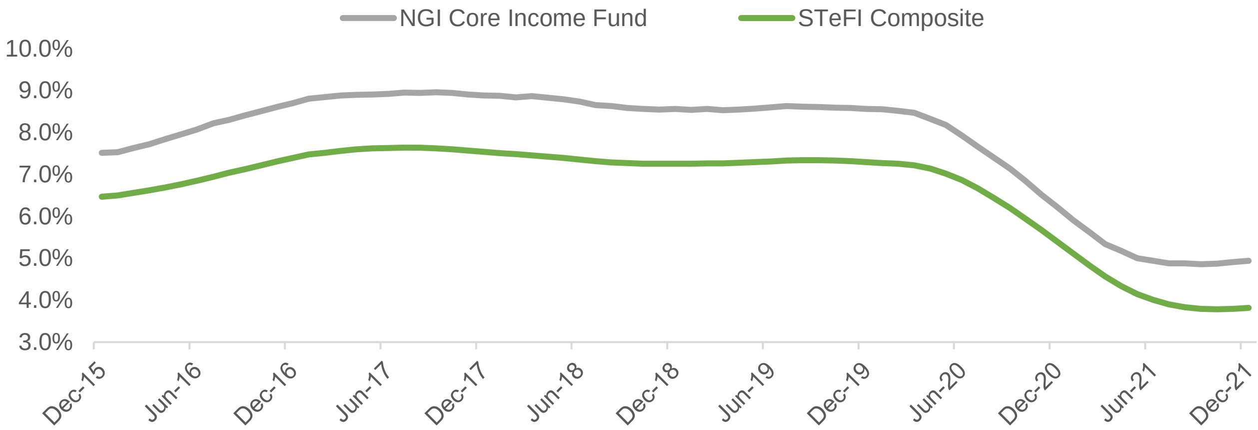
| Performance to 31 December 2021 | Fund Performance[1] | SteFI Composite |
|---|---|---|
| 3 months | 1.0% | 1.0% |
| 12 months | 4.2% | 3.8% |

**Market Commentary**

Throughout the quarter, the fund has continued to maintain its consistent outperformance of the benchmark. This is due to the careful management of counterparty risk, instrument risk, interest rate risk and most importantly liquidity risk. Compared to the benchmark, the fund has exposure to corporates, securitisations and SA Government/ Government guaranteed paper over and above the bank exposure which adds a credit premium to returns.

The outperformance gap narrowed in 2020 due to the 300bps of interest rate cuts by the South African Reserve Bank (SARB) as well as credit spread compression. As can be seen from the chart below, this trend has started reversing with the outperformance gap widening from Q2 2021. The outperformance gap continued to widen throughout the last quarter of 2021, and the fund will continue to benefit if the SARB continues to hike rates, as the market expects, during the year.

**Chart 1: Rolling 12-month gross MTM performance (NACA) against the benchmark**




Source: Taquanta Asset Managers

**Current positioning and outlook**

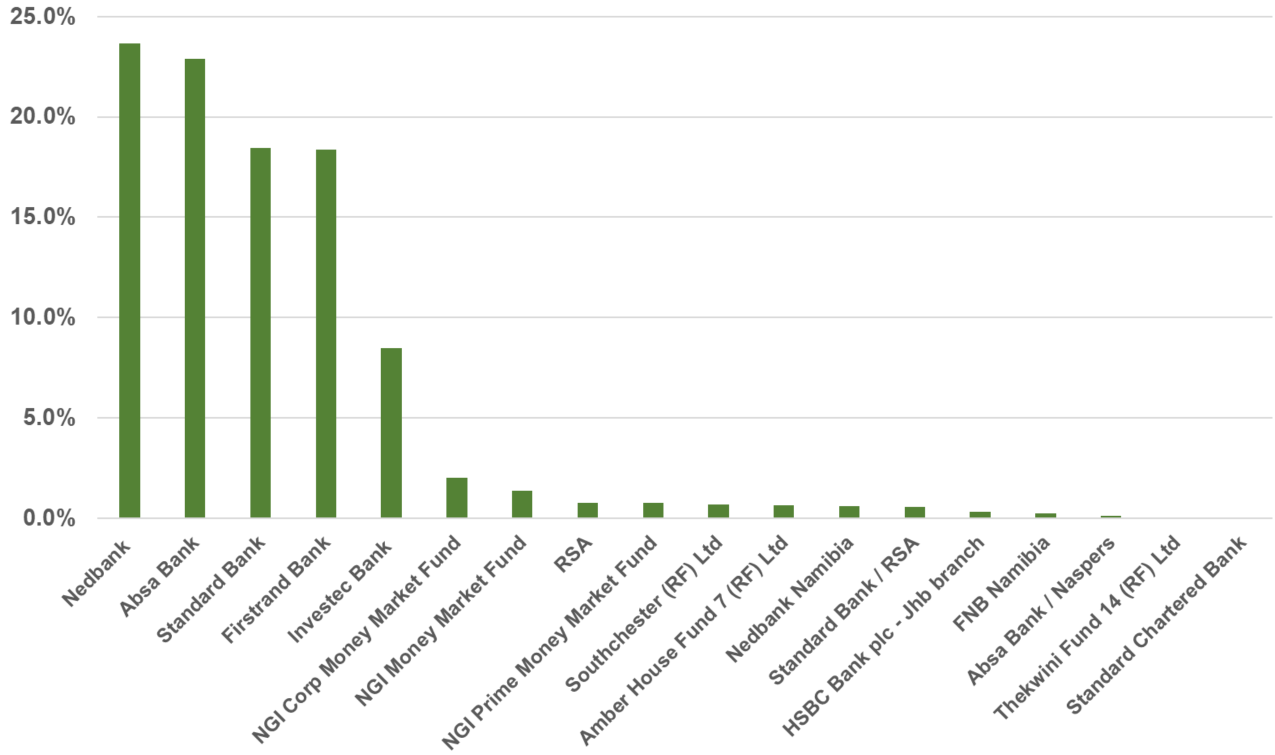
Looking ahead, the market expectation (as depicted in the FRA curve below) is for short-term interest rates to recover from current levels. There are indications that 2022 will see a continuation of the interest rate hiking cycle that started in the last quarter of 2021. TAM's view is that the SARB will embark on a more gradual hiking cycle throughout 2022 in the interest of balancing sustainable economic recovery in the presence of formidable demand-pull inflation. TAM will continue to monitor prevailing external risks in the shape of global oil inventory levels, the timing of the Fed's interest rate lift-off, as well as the resurgence of COVID-19 infections and mutations.

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

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.

**Credit Review**

The Nedgroup Investments Core Income Fund favours counterparties with annuity-based revenue streams and strong balance sheets, hence our bias to the banks. The funds have a bias to the big 5 SA banks, namely Standard Bank, Absa, Firstrand, Nedbank and Investec. The balance of the fund consists of high credit quality investment grade corporates and securitizations, local branches of foreign banks as well as SA Government guaranteed paper.




The most liquid instrument in the market is a Negotiable Certificate of Deposit (NCDs) issued by the big five SA banks, namely, Absa Bank, Nedbank, FirstRand Bank, Standard Bank and Investec Bank. NCDs are the largest holding in all the funds. These instruments are easily tradable and can be liquidated same day assuming normal market conditions. The fund is only exposed to senior ranking debt and there is no subordinated debt in any of the funds.

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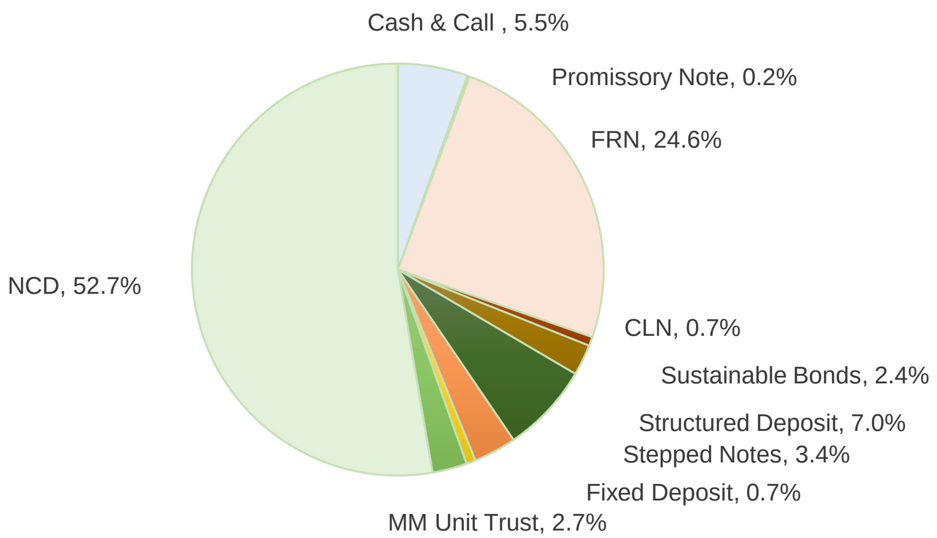
market conditions. The fund is only exposed to senior ranking debt. There is no subordinated debt in any of the funds.

**Chart 3: Nedgroup Investments Core Income Fund – Instrument Breakdown as of 31 December 2021**




The fund is well invested, and TAM foresee the outperformance of the benchmark being maintained. The weighted term to final maturity of the fund is 3.2 years and the duration of the fund is 0.1 years as at the end of December 2021.

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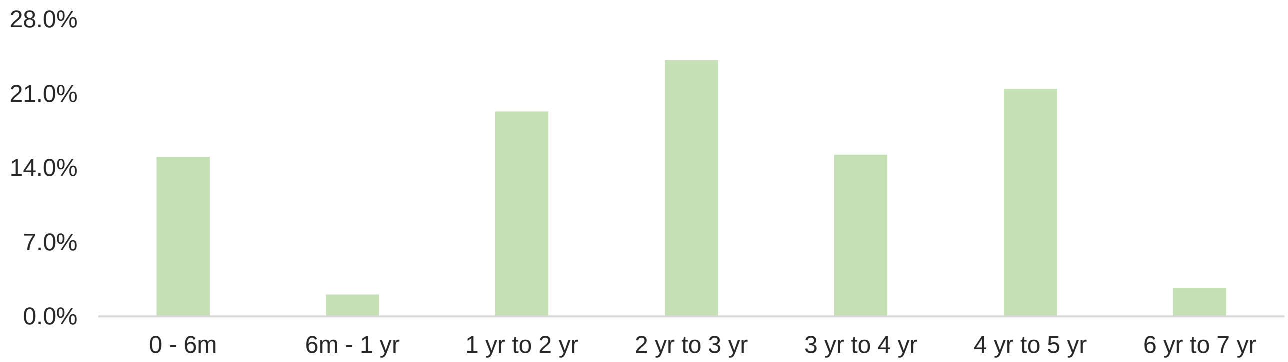
**Chart 3: Nedgroup Investments Core Income Fund – Maturity Profile as of 31 December 2021**

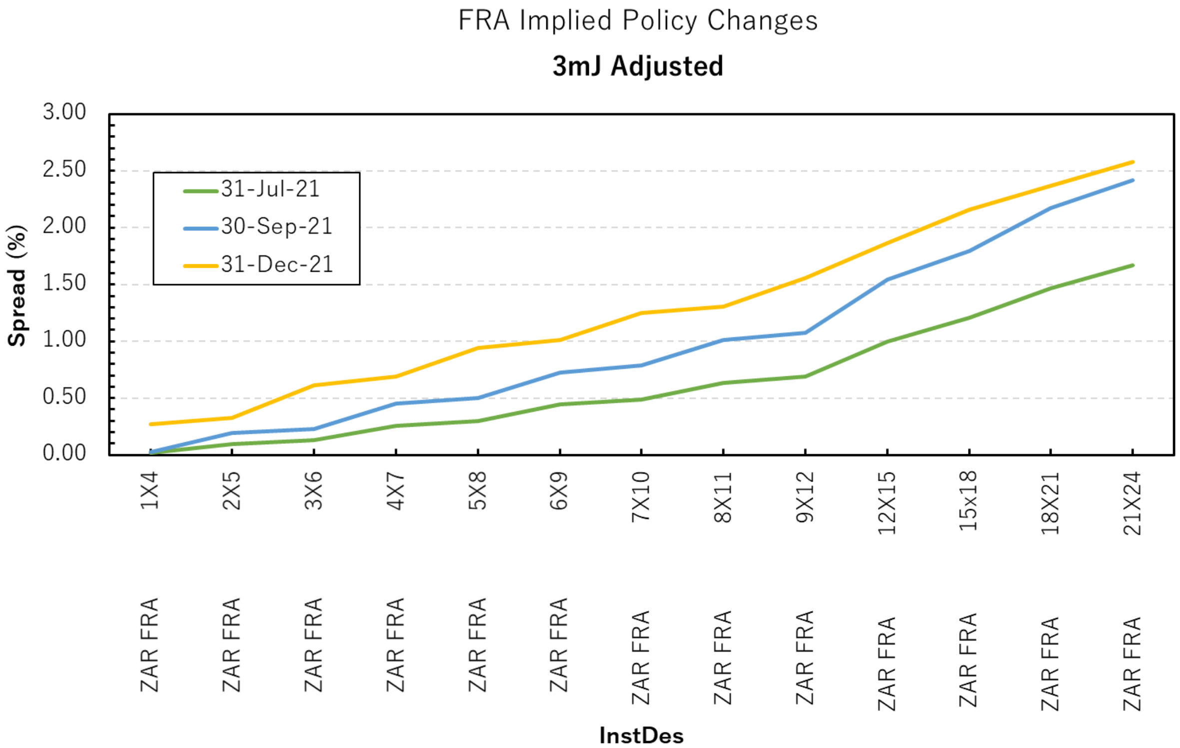



***Source: Taquanta Asset Managers***

Looking ahead, the market expectation (as depicted in the FRA curve below) is for short-term interest rates to recover from current levels. We believe 2022 will see a continuation of the interest rate hiking cycle that started in the last quarter of 2021. We see the SARB embarking on a more gradual hiking cycle throughout 2022 in the interest of sustainable economic recovery, as well as the absence of formidable demand-pull inflation. We continue to monitor prevailing external risks in the shape of global oil inventory levels, the timing of the Fed's interest rate lift-off, as well as the resurgence of COVID-19 infections and mutations. We will observe the dynamics of these and other unforeseen risks and adjust our views accordingly if required.

The fund is well positioned for the interest rate hiking cycle, as we are predominantly invested in floating rate instruments, which reprice higher when rates rise, and will maintain this strategy throughout the expected series of policy normalization depicted in the chart below:

**Chart 4: FRA Curve - Implied Policy Changes**




*Source: Reuters, Taquanta Asset Managers*

## Summary and Conclusion

TAM remain cognisant of the low spread environment and the current disconnect between pricing and credit fundamentals due to excess market liquidity. While we look for opportunities, the manager remains prudent around credit and interest risk, and continues to manage the liquidity and maturity risk as efficiently as possible.

# 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
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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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DATE OF ISSUE
16 October 2019