



See money differently

# Quarterly Report: Nedgroup Investments XS Guarded Fund of Funds

as at 31 December 2021

# Quarterly report: Nedgroup Investments



## Domestic asset class returns (ZAR)



### SA Equity

**15.1%**

Q4 2021

Local equity markets mirrored positive momentum from global equity markets.

**29.2%** 1 year

**15.7%** 3 years

**12.4%** LT average

### SA Property

**8.3%**

Q4 2021

The sector continued to recover from the Covid-19 induced operating pressures.

**36.9%** 1 year

**-2.9%** 3 years

**11.4%** LT average

### SA Bond

**2.9%**

Q4 2021

SA bonds ended 2021 strongly after a 3-month slump, supported by improving risk appetite.

**8.4%** 1 year

**9.1%** 3 years

**7.0%** LT average

### SA Cash

**0.9%**

Q4 2021

The SARB increased interest rates by 0.25% and said that near-term inflation risks are to the upside.

**3.5%** 1 year

**4.9%** 3 years

**5.9%** LT average



## Global asset class returns (USD)



### Global Equity

**8.3%**

Q4 2021

Overall, global equity markets performed strongly. DM outperformed while EM lagged.

**19.0%** 1 year

**21.0%** 3 years

**8.8%** LT average

### Global Property

**10.4%**

Q4 2021

The positive listed property return was mainly driven by a vaccine-fuelled recovery in the US.

**27.2%** 1 year

**12.9%** 3 years

**7.3%** LT average

### Global Bond

**-0.9%**

Q4 2021

Global bonds traded under pressure as bond yields rose alongside concerns of inflationary pressures.

**-4.7%** 1 year

**3.6%** 3 years

**4.5%** LT average

### US Cash

**0.0%**

Q4 2021

Many central banks have started to reduce monetary stimulus, some are now accelerating the withdrawal.

**0.0%** 1 year

**1.0%** 3 years

**4.3%** LT average



## Exchange rates (Rand spot rate and quarterly change)



### US Dollar R15.96

**6%**

After a strong start to the year, the rand experienced a much weaker fourth quarter depreciating by approximately 6.0% and breached the R16 to USD mark multiple times in December. Moderating commodity prices, coupled with mounting global concerns about growth, inflation and the likely policy response, continue to undermine risk appetite.



### British Pound R21.62

**6%**

The Bank of England hiked interest rates by 25bps for the first time since the pandemic, increasing its main interest rate to 0.25% from its historic low of 0.1%. UK inflation hit a 10-year high in November as the Consumer Price Index rose by an annual 5.1%, up from 4.2% in October and well above the central bank's target of 2%.



### Euro R18.15

**4%**

The European Central Bank (ECB) appeared content to continue with a more patient and gradual approach to monetary policy tightening. The ECB is looking to continue with asset purchases for another 10 months and is proposing no interest rate hikes for 2022, despite scaling back on bond purchases.

# Quarterly report: Nedgroup Investments



## Domestic performance drivers



### Highlights

- The Department of Minerals and Energy announced the preferred bidders for the fifth round of the Renewable IPP Procurement Programme, which is expected to add about 2500MW of capacity.
- The MTBPS confirmed a revenue overrun of R120bn relative to Budget 2021 estimates. Alongside the restatement of GDP, this delivered much improved fiscal metrics. Meanwhile, credit ratings agency Fitch moved South Africa's credit ratings outlook to stable from negative.
- With data indicating a moderation of Covid-19 case counts in the latter half of December, South Africa further relaxed restrictions on movement and trade, including a removal of the curfew.



### Low points

- The SA economy recorded a quarterly GDP contraction of 1,5% (not annualised) in the third quarter. The devastating impact of the riots, as well as load shedding, were the primary drivers.
- The unemployment rate recorded a new high of 34,9% in the third quarter, confirming the bleak picture many job seekers face.
- Several countries placed restrictions on travel to South Africa in the wake of the Omicron identification, dealing the travel, leisure, and services sectors a devastating blow.



## Global performance drivers



### Highlights

- World leaders gathered in Scotland for COP26 (the 26th Conference of Parties), to discuss and deliberate climate goals and funding for sustainable solutions. The European Union's €12bn inaugural green bond reportedly garnered demand of more than €135bn, delivering the world's largest green bond deal to date.
- Global domestic equities performed strongly over the quarter. Markets were also buoyed by the US third quarter earnings, which showed that more than 80% of companies that reported their financial results beat expectations.



### Low points

- The pandemic once again dominated headlines in November. An increase in COVID-19 cases in Europe led to new lock down restrictions in several countries.
- Emerging markets underperformed developed markets and bore the brunt of the risk off sentiment. Ongoing regulatory changes and a challenged property sector added to sizeable losses in the Chinese markets. Meanwhile, weaker growth from China and lower demand for certain commodities impacted several other emerging markets.

# 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

**1.34%**

Transaction charges

**0.07%**

Total investment charges

**1.41%**



### 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 31 December 2021

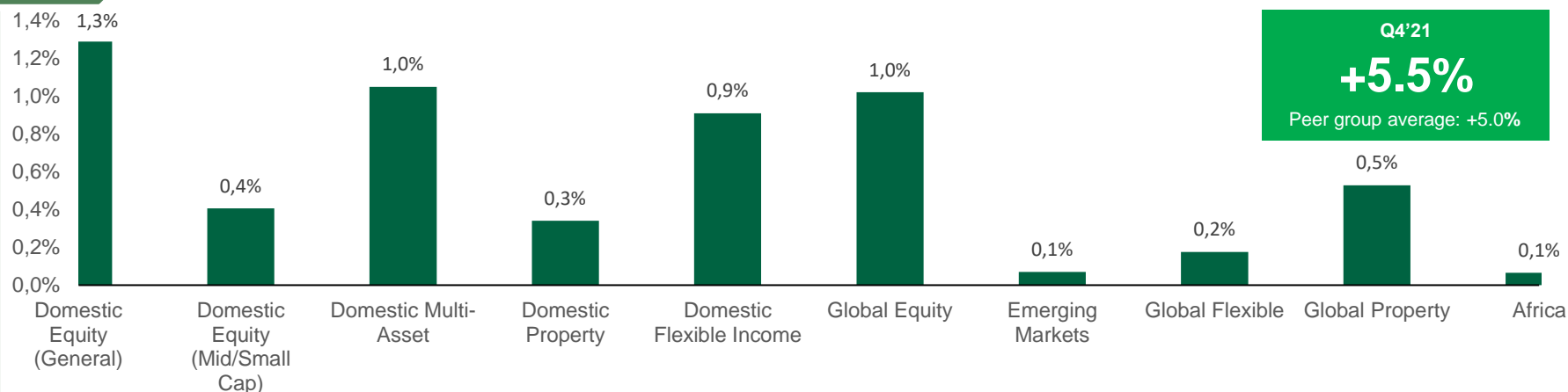
\*\*Includes BOTH multi-manager and underlying fund fees. Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 1<sup>st</sup> July 2018 and ending 30<sup>th</sup> September 2021

# Quarterly report:

## Nedgroup Investments XS Guarded Fund of Funds



### XS Fund of Funds performance contribution – Q4 2021



- Domestic and global equity, domestic multi-asset as well as the domestic flexible income bucket contributed the most to performance.
- The Flexible Income Fund (+2.3%) outperformed its benchmark (+0.9%) while domestic equities soared 15.1% in the fourth quarter. This was driven up by the resources sector, which benefited from rand weakness and sharply higher gold mining stocks. Our domestic asset managers were well positioned, having had exposure to resources with 30% of the top 10 positions in the fund from this sector. Dual-listed stocks were also supported by rand weakness as the dollar strengthened on Omicron panic.
- Foreign assets contributed most to fund returns on higher global equity markets and rand weakness, with positive contributions from materials company Freeport-McMoran, Google parent Alphabet and US healthcare provider CVS.



#### Detractors this quarter

- Global flexible, Africa and the emerging market bucket contributed the least to performance.
- Emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by significant losses in China and Turkey.
- The Nedgroup Investments Global Emerging Market Feeder Fund underperformed its peers for the quarter (3.0% vs.9.4%). Stock selection in China and Brazil, holding 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)

Q4'21 return

**+5.5%**

Peer group average: +5.0%

Ytd return

**+15.6%**

Peer group average: +13.5%

1yr annualised return

**+15.6%**

Peer group average: +13.5%

3yr annualised return

**+9.0%**

Peer group average: +9.0%

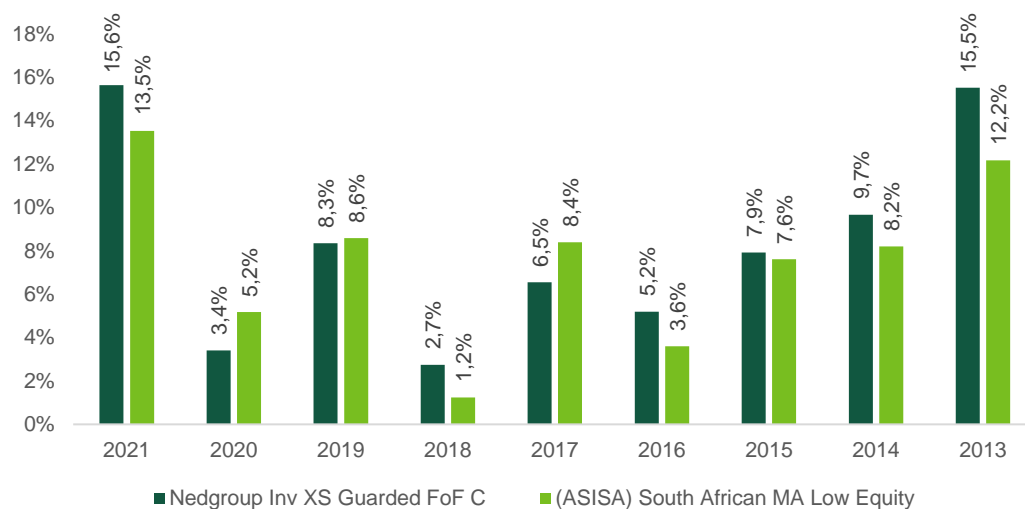
5yr annualised return

**+7.2%**

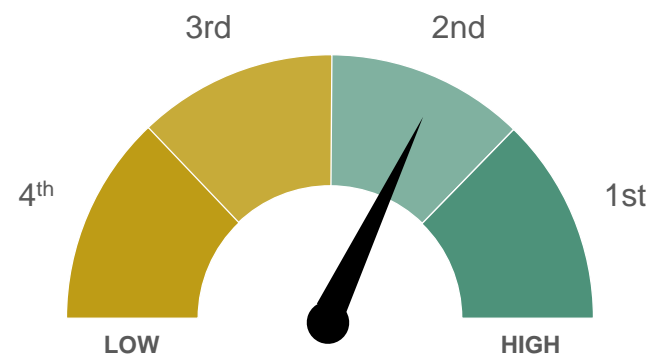
Peer group average: +7.3%



## Calendar year performance



## Peer group quartile ranking: 1yr



as at 31 December 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: 15.1%

### Max drawdown

**-10.6%**

SA equity market: -40.4%

### Sharpe ratio

**0.5**

SA equity market: 0.4

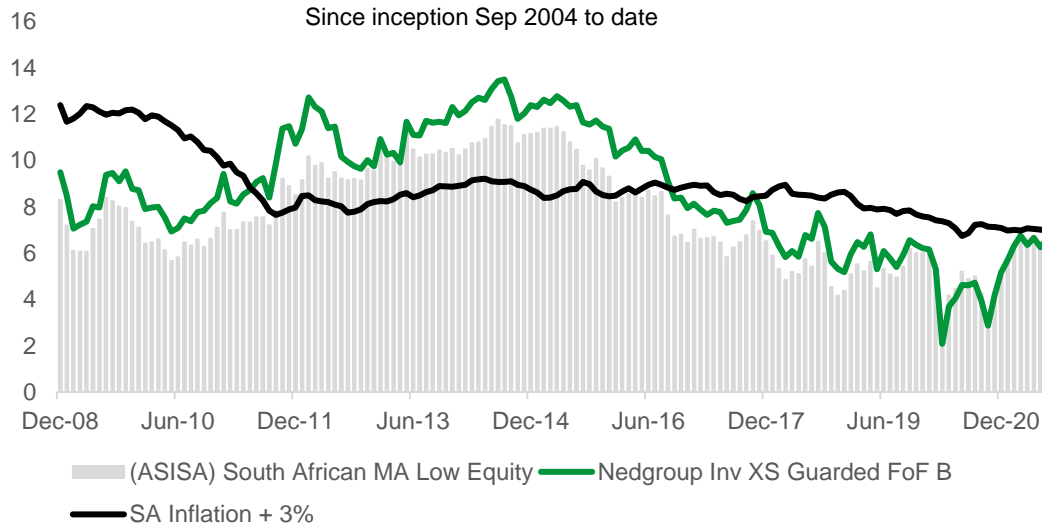
### % Positive months

**82%**

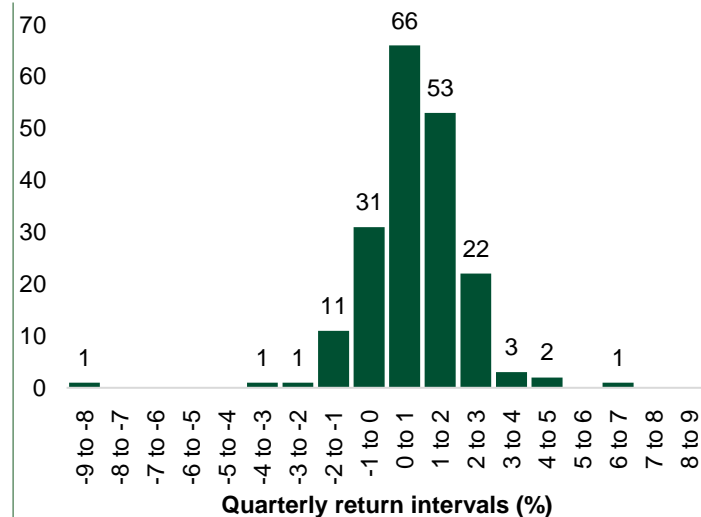
SA equity market: 74%



## Rolling 3-year annualised return



## 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	4.2%	5.6%	5.5%	5.0%	1.7%
1 year	14.3%	16.2%	15.6%	13.5%	8.6%
3 year	7.8%	9.6%	9.0%	9.0%	7.2%
5 year	6.0%	7.8%	7.2%	7.3%	7.5%



### 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%	2.49%	0.07%	2.56%
B Class (LISP)	0.85%	N/A	1.00%	0.07%	1.07%
C Class (clean)	1.15%	NA	1.34%	0.07%	1.41%

as at 31 December 2021

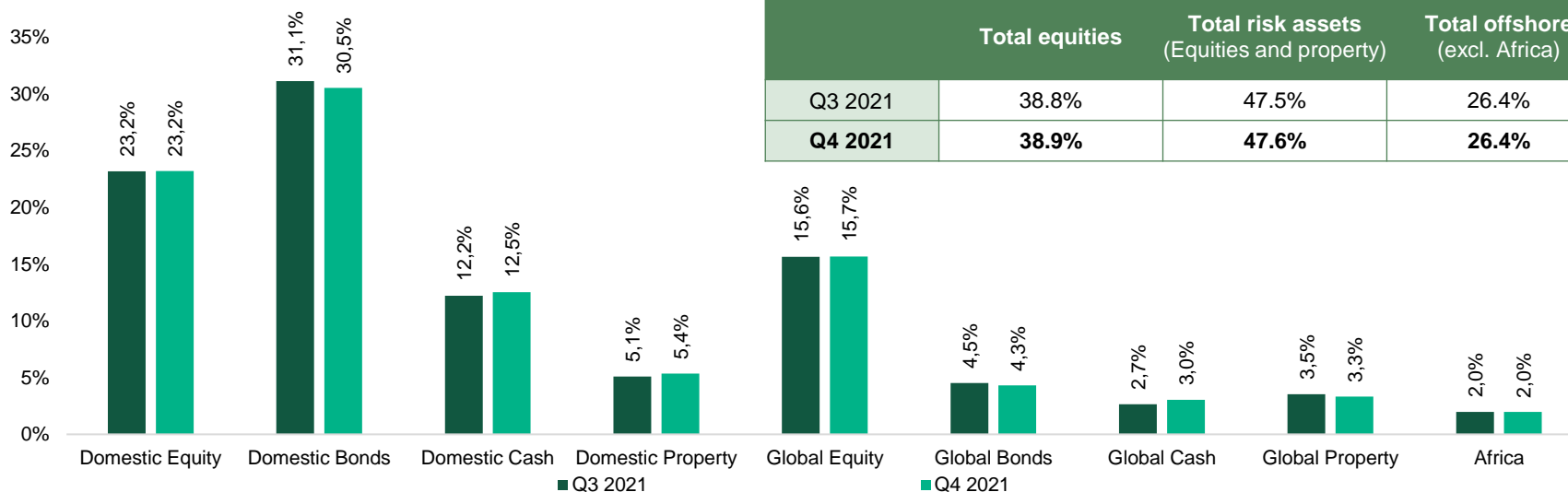
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## Asset allocation changes



	Total equities	Total risk assets (Equities and property)	Total offshore (excl. Africa)
Q3 2021	38.8%	47.5%	26.4%
Q4 2021	38.9%	47.6%	26.4%



## Summary of recent changes

- There were no changes made to asset allocation during the quarter.
- Any other differences noted above are purely as a result of market movements, and minor trades conducted by the investment team to ensure that the portfolio is in line with the houseview.
- A healthy allocation to defensive assets remain and the funds are well diversified across all asset classes, with a conservative risk positioning

# Quarterly report:

## Nedgroup Investments XS Guarded Fund of Funds



### Asset allocation

#### Domestic Equity



23.2%

#### Domestic Property



5.4%

#### Domestic Fixed Interest



43.1%

#### Foreign Equity



15.7%

#### Foreign Property



3.3%

#### Foreign Fixed Interest



7.4%

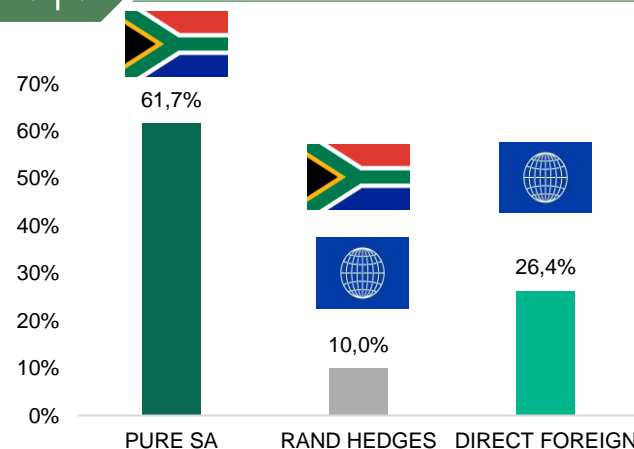
#### Africa



1.9%



### Regional exposure



### Top ten holdings (as a % of fund)



1.5%



1.5%



NASPERS

1.4%



BRITISH AMERICAN  
TOBACCO

1.0%



Standard Bank

0.9%



0.8%



0.7%



0.7%



NEDBANK

0.6%



0.5%

# Quarterly report:

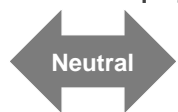
## Nedgroup Investments XS Guarded Fund of Funds



### Domestic asset class positioning



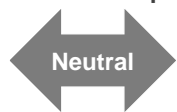
#### Domestic Equity



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



5.4%

- 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



30.5%

- 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



12.5%

- 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



15.7%

- 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



3.3%

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

#### Global Bond



4.3%

- 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



3.0%

- 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: 16.5%



#### Small/Mid Cap Equity: 3.1%



#### Passive Multi-Asset: 20.0%



#### Property: 3.8%



#### Flexible Income: 34.4%



### Offshore and Africa: fund manager exposures

#### Equity: 8.7%



#### EM Equity: 2.3%



#### Multi-Asset: 6.5%



#### Property: 3.1%



#### Africa: 2.2%



As at 31 December 2021  
The residual balance (out of 100%) is held as domestic cash to provide liquidity

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