NEDGROUP INVESTMENTS

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

See money differently

as at 30 September 2022

Quarterly report:
Nedgroup Investments

Domestic asset class returns (ZAR)

SA Equity

-1.9% Q3 2022

Our market outperformed developed peers, with Absa and Thungela amongst the top contributors

3.5%	1 year
9.2%	3 years
12.3%	LT average

SA Property

-3.5% Q3 2022

The interest rate sensitive property sector remained under duress

-8.8%	1 year
-8.7%	3 years
11.8%	LT average

SA Bond

0.6% Q3 2022

Despite suffering in line with the global bond rout in September, bond market remained marginally positive

1.5%	1 year
5.7%	3 years
7.1%	LT average

SA Cash

1.3% Q3 2022

SARB hiked rates by 75bps at both the July and September meeting, taking the repo rate to 6.25%

4.2%	1 year
4.3%	3 years
5.9%	LT average

Global asset class returns (USD)

Global Equity

-6.7% Q3 2022

Weakness was broad-based. EMs suffered the most, while Japan and UK only had moderate losses

-20.3%	1 year
4.2%	3 years
10.2%	LT average

Global Property

-11.4% Q3 2022

Higher interest rates and slower economic growth expectations caused sharp declines in REIT market

-22.1%	1 year
-5.6%	3 years
5.8%	LT average

Global Bond

-6.9% Q3 2022

Concerns over higher central bank rates and inflation impacted both government and credit bonds

-20.4%	1 year
-5.7%	3 years
1.6%	LT average

US Cash

0.8% Q3 2022

After strong August inflation numbers, the US Fed unanimously raised rates by 75bps in Sep to 3-3.25%

1.3%	1 year
0.9%	3 years
4.3%	LT average

Exchange rates (Rand spot rate and quarterly change)

US Dollar R17.97

9%

The rand lost ground to the US dollar, depreciating 9% over the quarter. A combination of meaningful interest rate hikes, tighter financial conditions, and hawkish comments from US policy makers, supported a US dollar gain of 7.1% over the quarter on a trade weighted basis.

British Pound R20.06

1%

New UK prime minister, Lizz Truss, started her term with a mini budget that caused historic market turmoil. The market questioned the unfunded nature of the wide-ranging tax cuts, on top of the government financed freeze in energy bills. The UK pound weakened to its lowest level ever against the US dollar.

Euro R17.61

3%

The Euro plummeted to a 20-year low vs the US dollar in the middle of September after surveys showed the downturn in business activity across the euro zone accelerated and the economies were likely entering a recession.

Source: Morningstar; as at 30 September 2022

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Domestic performance drivers

Highlights

- President Ramaphosa announced the Energy Crises plan. This outlined measures to alleviate short term pressure and address energy shortages on more sustainable basis. Announcements include the doubling on bid window 6 capacity to 5200MW and the removal of the 100MW limit for embedded generation licensing. In addition, new feed-in tariff structures will be drawn up to encourage rooftop solar.
- August saw several high-profile arrests, as well as updates from the National Prosecuting Authority (NPA) and Hawks, outlining progress on the fight against corruption and state capture.

Low points

- Second quarter GDP printed at -0,7%; evidence of the impact of industrial action in the mining sector, loadshedding and floods in KwaZulu Natal.
- The enterprise-based measure of employment from the Quarterly Employment Survey (QES) showed continued job losses in the second quarter. While some of the decline can be attributed to temporary census workers, employment measures remain below pre-COVID levels. Unsurprisingly, business and consumer confidence remained weak in the second quarter.

Global performance drivers

Highlights

- US CPI for August benefitted from lower fuel prices and decelerated to 8,3% y-o-y, from 8,5% previously.
- Despite the further disruption of an indefinite suspension of gas availability from Nordstream 1 by Russia, European gas prices eased by circa 36,4% as the EU secured gas to fill 80% of storage capacity ahead of the coming winter.

Low points

- Several central banks escalated their interest rate hiking cycles in Sep, frontloading with sizeable hikes in their fight against inflation. The European Central Bank (ECB) hiked interest rates by 75bps, the biggest hike on record, with guidance for more to come, in acknowledgement of European inflation data printing at another high of 9,1%.
- The Brent crude oil price reflected weaker global growth expectations with a decline of circa 8,8% in September and 23,4% over the quarter, with prices near levels last seen before the Russia/Ukraine conflict.
- September was a historic month in British history with the passing of the UK's longest serving monarch, Queen Elizabeth II.

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Fund overview

Max equity	Time frame	Benchmark	Peer group	Regulation 28
75%	Min 5 years	Inflation +5%	SA Multi-Asset High Equity	Compliant

Risk profile

1 2 **3** 4 5

Fund costs (C – clean class)

Management fee* (Excl. Vat)	Total expense ratio
1.25%	1.31%
Transaction charges	**Total investment charges**
0.13%	1.44%

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 2022

**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 2019 and ending 30 June 2022

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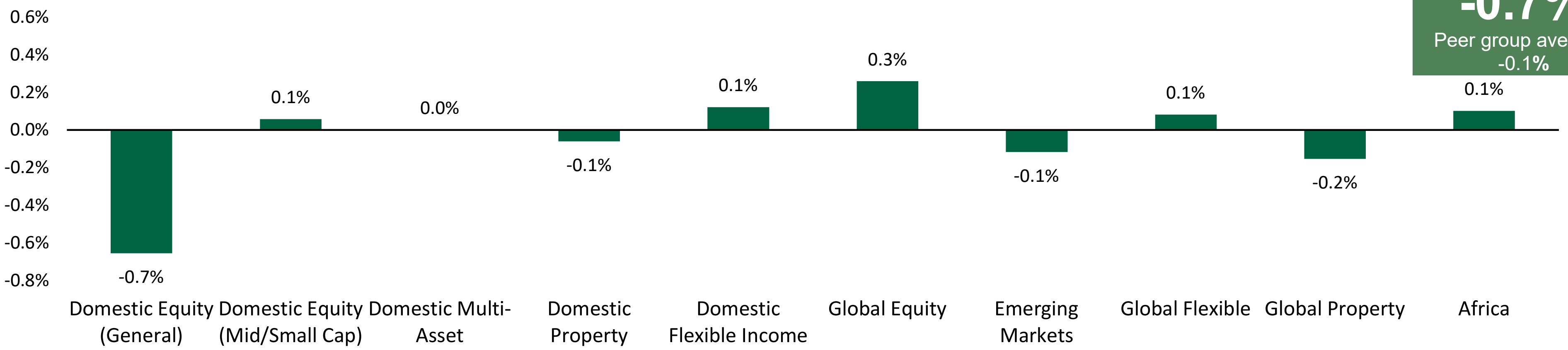
XS Fund of Funds performance contribution – Q3 2022

Q3 2022

-0.7%

Peer group average: -0.1%



Contributors this quarter

- The global equity bucket contributed the most to performance. The MSCI All Country World Index returned 2.3% (in rand terms). The peer group average (ASISA) Global Equity General was up 1.2% for the quarter. The Nedgroup Investments Global Behavioural Feeder Fund was the top performing global equity fund held within our XS Fund of Funds range, returning 3.2% over the period.
- In addition, the XS Diversified FoF benefitted from the addition of the Ninety One Global Franchise Feeder Fund (up 2.1%), which has a bias to the quality segments of the market. These stocks tend to withstand any potential recessionary pressures whilst also benefitting from an inflationary improvement.
- The Laurium Africa USD Bond fund (held across the XS FoF range) was up 3,6% for the quarter. The fund took advantage of attractive yields which proved to return better return expectations than local bonds and cash.

Detractors this quarter

- Increasing inflationary pressures, rising interest rates and tensions between Ukraine/Russia, continued to put risk assets under pressure. Domestic equities and global property were the biggest detractors to performance.
- Locally, the FTSE/JSE All Share Index (ALSI) returned -1.9% for the quarter. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally-oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources.
- Within the XS Diversified FoF range, 40% of the top 10 holdings were resource facing while 20% of the top 10 were banks and financials.

As at 30 September 2022

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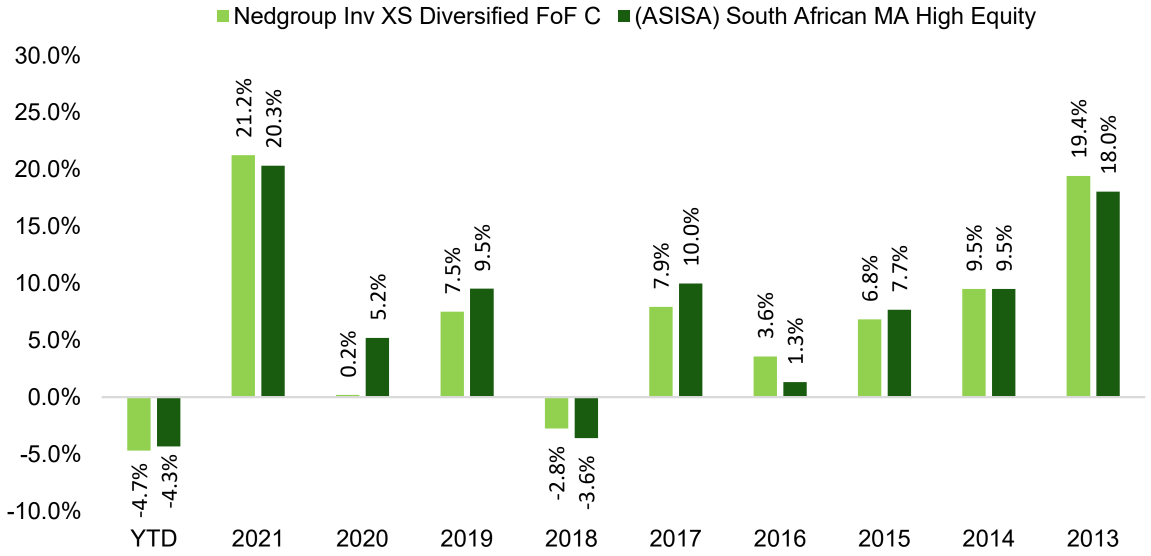
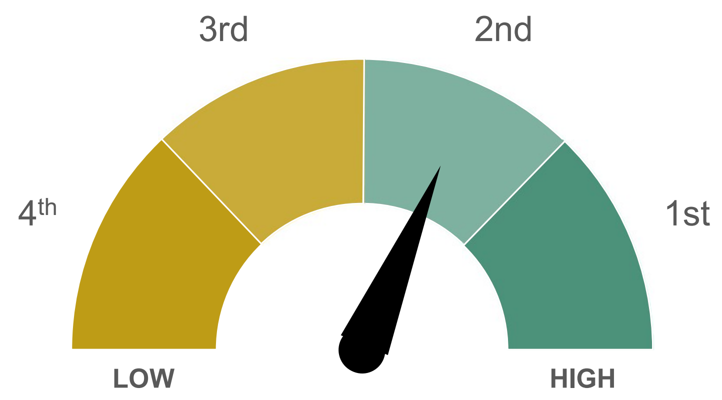
Fund performance (clean class)

Q3'22 return	Ytd return	1yr annualised return	3yr annualised return	5yr annualised return
-0.7%	-6.3%	+0.6%	+5.2%	+3.6%
Peer group average: -0.1%	Peer group average: -6.6%	Peer group average: +0.2%	Peer group average: +6.6%	Peer group average: +5.0%

Calendar year performance



Peer group quartile ranking: 1yr



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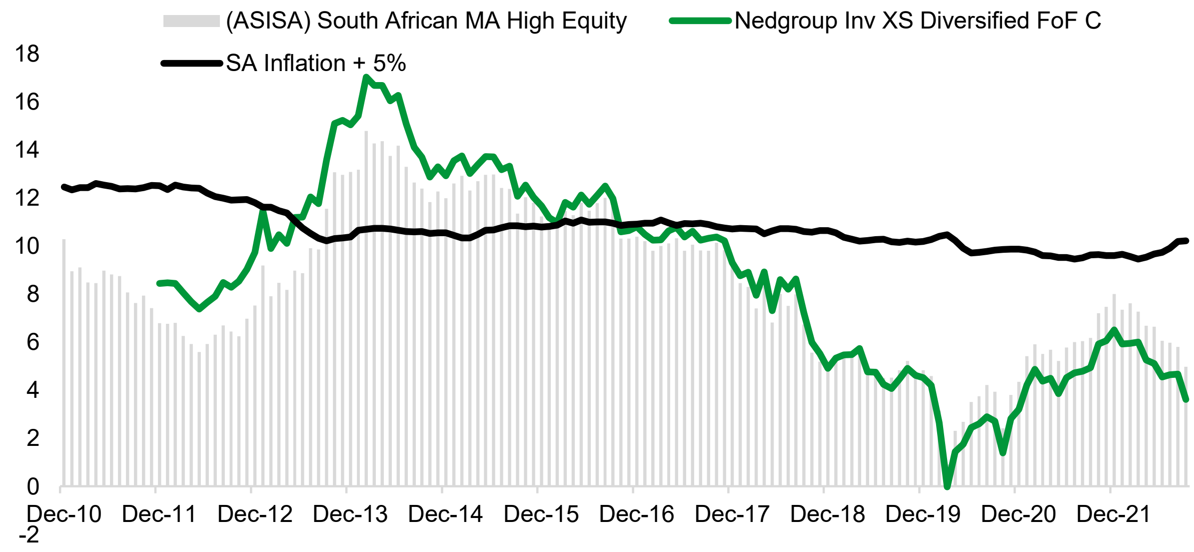
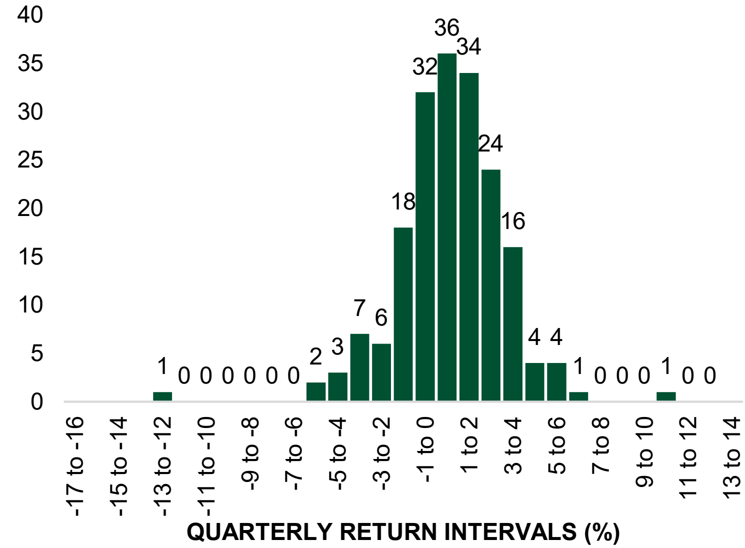
Risk measures since inception

Rolling 5yr return	Volatility	Max drawdown	Sharpe ratio	% Positive months
61%	**8.4%**	**-18.6%**	**0.3**	**66%**
Hit rate: outperforming peer group average	SA equity market: 15.1%	SA equity market: -40.4%	SA equity market: 0.4	SA equity market: 61%

Rolling 5-year annualised return



Quarterly return distribution



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Performance across classes

	A Class (all in)	B Class (lisp)	C Class (clean)	Peer group	SA inflation
Quarter	-1.0%	-0.6%	-0.7%	-0.1%	2.8%
1 year	-0.5%	1.0%	0.6%	0.2%	7.6%
3 year	4.0%	5.6%	5.2%	6.6%	5.2%
5 year	2.4%	4.0%	3.6%	5.0%	5.0%

Costs across classes

	Management fee (excl. Vat)	financial planner	total expense ratio	transaction charges	total investment charges
A Class (all-in)	1.25%	1.00%	2.46%	0.13%	2.59%
B Class (LISP)	0.95%	N/A	0.97%	0.13%	1.10%
C Class (clean)	1.25%	NA	1.31%	0.13%	1.44%

as at 30 September 2022

* 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 of July 2019 and ending 30th June 2022

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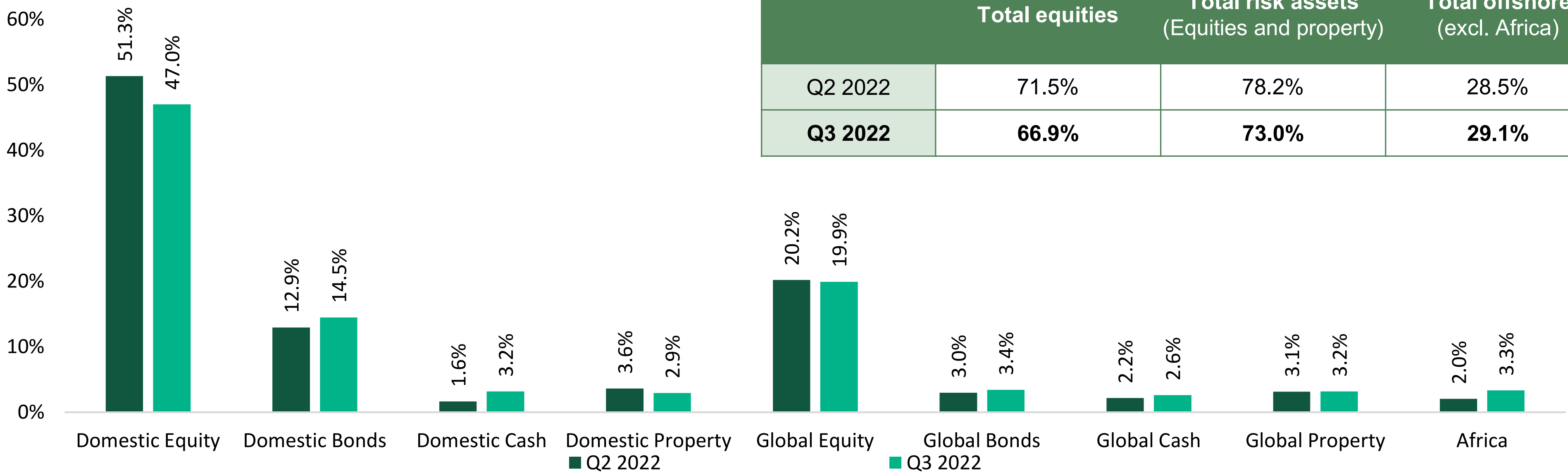
Asset allocation changes



	Total equities	Total risk assets (Equities and property)	Total offshore (excl. Africa)
Q2 2022	71.5%	78.2%	28.5%
Q3 2022	**66.9%**	**73.0%**	**29.1%**

Summary of recent changes

- **Domestic equity:** Changed overweight to neutral. SA equities have done well year-to-date (relative to developed markets) and we recognise that valuations are still attractive, but economic growth projections have worsened.
- **Domestic property:** Mildly underweight, and trimmed our exposure in favour of domestic cash.
- **Domestic cash** serves as a balancing item and has increased. This improves capital preservation ability of the fund and provides liquidity to take advantage of opportunities.
- Within **global equities** we favour quality segments of the market. We trimmed exposure from global managers who had a value and EM bias and increased exposure to quality.
- We increased exposure to **African bonds** to between 3.2% and 3.4% across the XS FoF (previously at 2.0%). Yields are attractive on African sovereign bonds, and currently offer better returns when compared to SA equities and SA fixed income.

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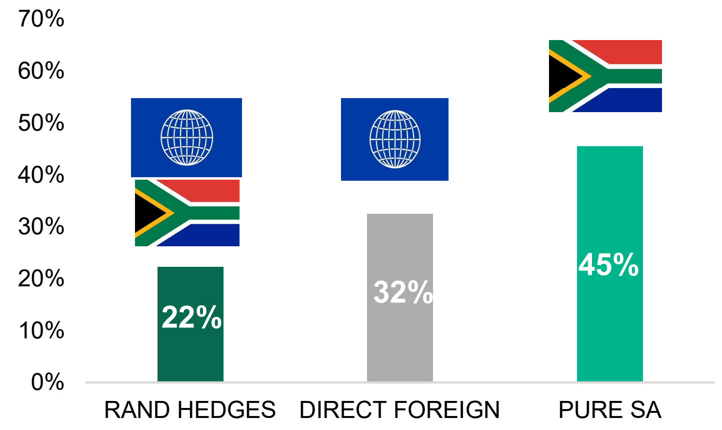
Asset allocation

Domestic Equity	Domestic Property	Domestic Fixed Interest
47.0%	2.9%	17.6%

Foreign Equity	Foreign Property	Foreign Fixed Interest	Africa
19.9%	3.2%	6.1%	3.3%

Regional exposure



Top ten holdings (as a % of fund)

Holding	% of fund
prosus	3.5%
NASPERS	3.0%
ANGLO AMERICAN	2.4%
Standard Bank	2.2%
IMPALA PLATINUM	2.1%
BRITISH AMERICAN TOBACCO	1.9%
MTN	1.8%
sasol	1.7%
FIRSTRAND	1.6%
GLENCORE	1.5%

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Domestic asset class positioning

Domestic Equity

Over weight

47.0%

SA equities are still viewed as attractive on a relative basis, especially in the context of many developed markets. While local equities have done well year-to-date (relative to developed markets), economic growth projections have worsened. This is likely to negatively impact future company earnings and investor sentiment. Therefore, sector and stock selection will be key.

Domestic Property

Under weight

2.9%

While some talk of expansion by listed property companies was starting to gain traction, subdued economic prospects will likely weigh on return expectations as weak growth, higher utility costs and a cash strapped consumer would be pressure points for this asset class.

Domestic Bond

Over weight

14.5%

While it is difficult to see the fiscus continue its path of fiscal consolidation in the absence of high commodity prices (due to expenditure pressures, continued SOE support and lower growth all hampering tax revenues), we can concede that relative to many other EMs we are no longer on the precipice of a fiscal cliff and have managed to buy ourselves time.

Domestic Cash

Neutral

3.2%

We have increased our cash position as this improves the capital preservation ability of the fund and provides us with liquidity to take advantage of opportunities that may arise in the current volatile conditions.

Global asset class positioning

Global Equity

Under weight

19.9%

Equities will outperform fixed income, with an expectation of high single digit returns over the course of the year.

We favour quality segments of the market with the expectation that these areas will withstand any potential recessionary pressures whilst also benefitting from an inflationary improvement.

Global Property

Neutral

3.2%

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

Selective commercial property segments and the broader infrastructure sectors will benefit from the continued reflation of economies.

Global Bond

Under weight

3.4%

Fixed income markets will underperform equities over a 12-month period. We anticipate shifting away from credit risk towards interest rate risk as implied yields climb. There is the potential for an overshoot on rate expectations, particularly if inflation levels start to show signs of peaking.

Global Cash

Under weight

2.6%

Cash positions remain as underlying managers look for compelling idiosyncratic opportunities. Less negative on cash given the rise in interest rates.

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Domestic: fund manager exposures

Equity General 35.6%

Small/Mid Cap Equity: 5.8%

Property: 1.4%

Passive Multi-Asset: 17.4%

Flexible Income: 14.6%

Offshore and Africa: fund manager exposures

Equity: 11.9%

EM Equity: 2.1%

Multi-Asset: 4.8%

Property: 2.9%

Africa: 3.5%

As at 30 September 2022
The residual balance (out of 100%) is held as domestic cash to provide liquidity

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