



See money differently

# Quarterly Report: Nedgroup Investments XS Guarded Fund of Funds

as at 30 September 2022

# Quarterly report: Nedgroup Investments



## Domestic asset class returns (ZAR)



### SA Equity



3.5% 1 year

9.2% 3 years

12.3% LT average

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

### SA Property



-8.8% 1 year

-8.7% 3 years

11.8% LT average

The interest rate sensitive property sector remained under duress

### SA Bond



1.5% 1 year

5.7% 3 years

7.1% LT average

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

### SA Cash



4.2% 1 year

4.3% 3 years

5.9% LT average

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



## Global asset class returns (USD)



### Global Equity



-20.3% 1 year

4.2% 3 years

10.2% LT average

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

### Global Property



-22.1% 1 year

-5.6% 3 years

5.8% LT average

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

### Global Bond



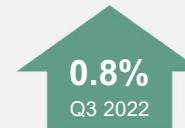
-20.4% 1 year

-5.7% 3 years

1.6% LT average

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

### US Cash



1.3% 1 year

0.9% 3 years

4.3% LT average

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



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



### US Dollar R17.97



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



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



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.

# Quarterly report: Nedgroup Investments



## 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.

# 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



## Fund costs (C – clean class)

Management fee\* (Excl. Vat)

**1.15%**

Total expense ratio

**1.29%**

Transaction charges

**0.07%**

Total investment charges

**1.36%**



## 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



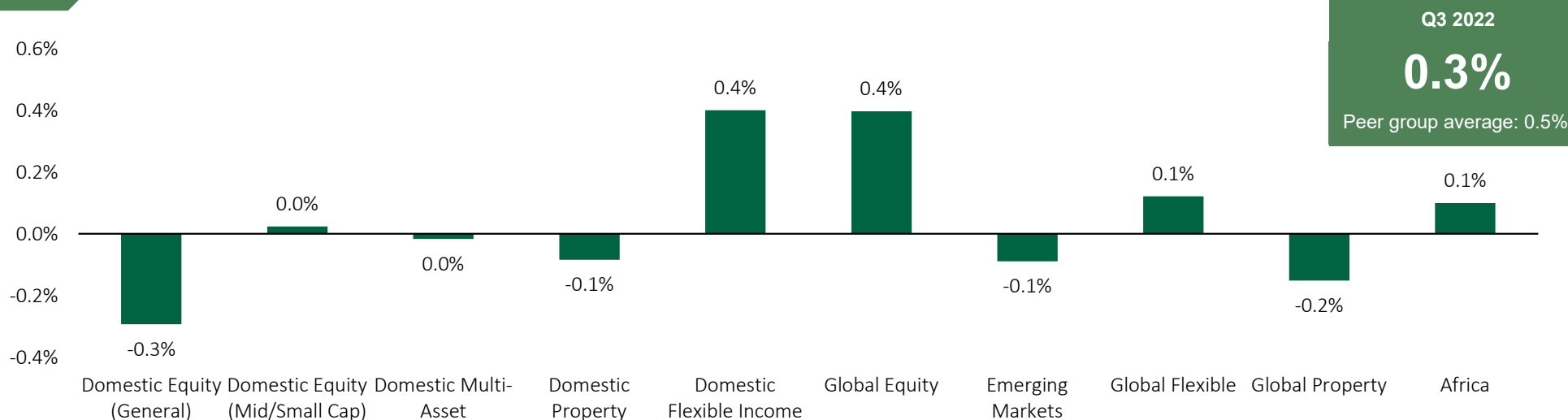
as at 30 September 2022

\*\*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 1<sup>st</sup> July 2019 and ending 30 June 2022

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## XS Fund of Funds performance contribution – Q3 2022



### Contributors this quarter

- Domestic flexible income and global equity buckets contributed the most to performance. The Nedgroup Investments Flexible Income Fund (up 1.6%), performed well over what was another difficult quarter for fixed income markets. The fund slightly outperformed cash (up 1.3%), during the quarter.
- 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 FoF range, returning 3.2% over the period. In addition, the XS Guarded FoF benefitted from the addition of the Ninety One Global Franchise Feeder Fund (up 2.1%), which has a bias to the quality segment of the market. These stocks tend to withstand any potential recessionary pressures whilst also benefitting from an inflationary improvement.



### 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. SA Inc. 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 Guarded FoF range, 40% of the top 10 holdings were resource facing while 20% of the top 10 were banks and financials.

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## Fund performance (clean class)

Q3'22 return

**0.3%**

Peer group average: 0.5%

Ytd return

**-4.6%**

Peer group average: -3.3%

1yr annualised return

**+0.7%**

Peer group average: +1.5%

3yr annualised return

**+5.1%**

Peer group average: +5.4%

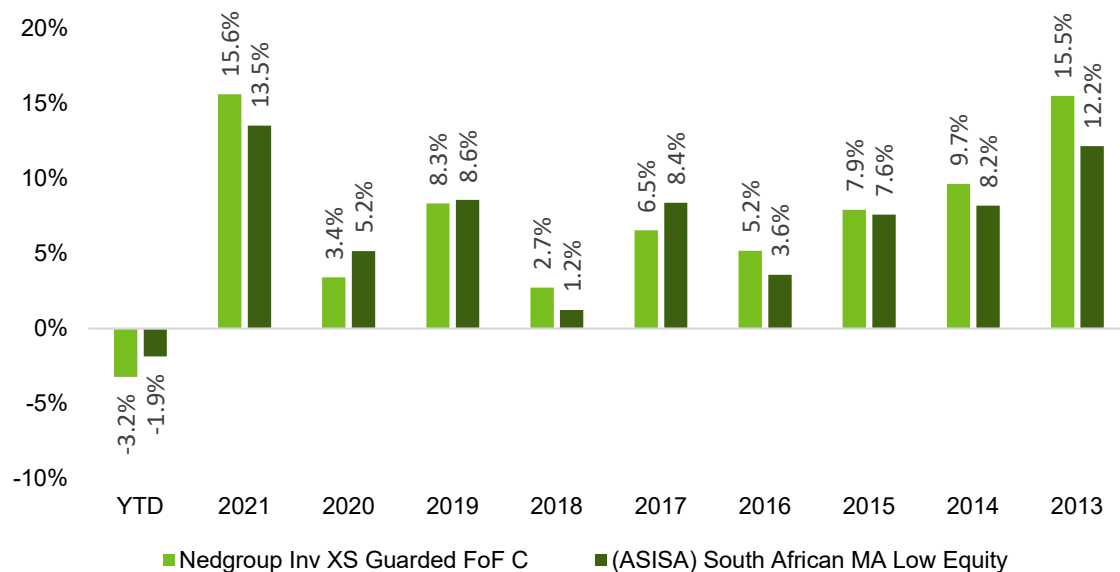
5yr annualised return

**+4.8%**

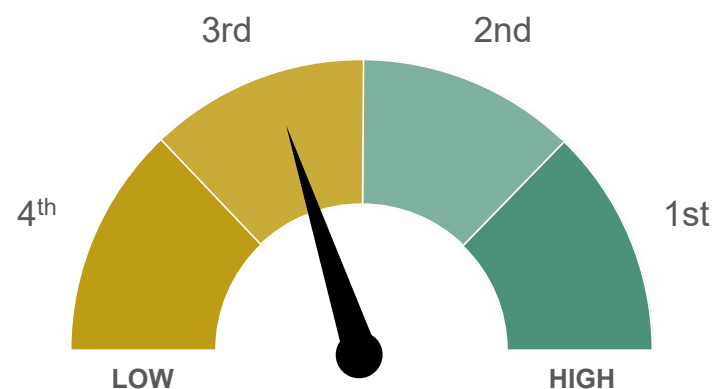
Peer group average: +5.2%



## Calendar year performance



## Peer group quartile ranking: 1yr



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## Risk measures since inception

### Rolling 3yr return

**70%**

Hit rate: outperforming  
peer group average

### Volatility

**5.1%**

SA equity market: 15.1%

### Max drawdown

**-10.6%**

SA equity market: -40.4%

### Sharpe ratio

**0.4**

SA equity market: 0.4

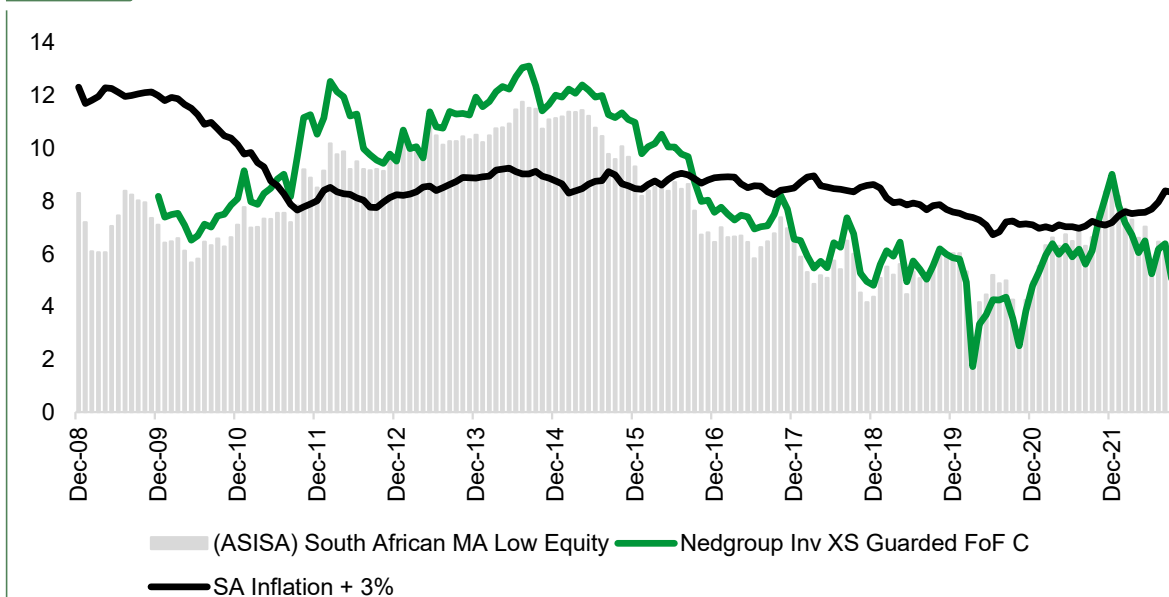
### % Positive months

**75%**

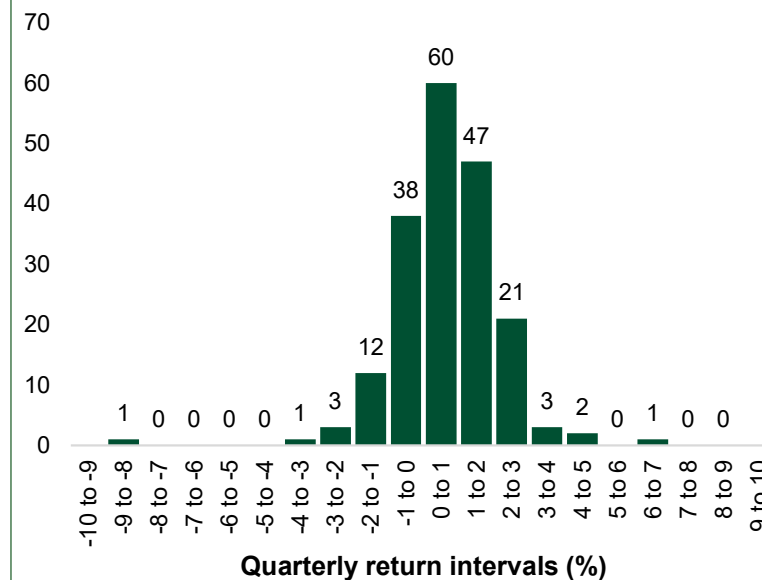
SA equity market: 61%



## Rolling 3-year annualised return



## Quarterly return distribution



as at 30 September 2022

# 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	0.0%	0.4%	0.3%	0.5%	2.8%
1 year	-0.5%	1.1%	0.7%	1.5%	7.6%
3 year	3.9%	5.4%	5.1%	5.4%	5.2%
5 year	3.6%	5.2%	4.8%	5.2%	5.0%



### 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%	2.44%	0.07%	2.51%
B Class (LISP)	0.85%	N/A	0.95%	0.07%	1.02%
C Class (clean)	1.15%	NA	1.29%	0.07%	1.36%

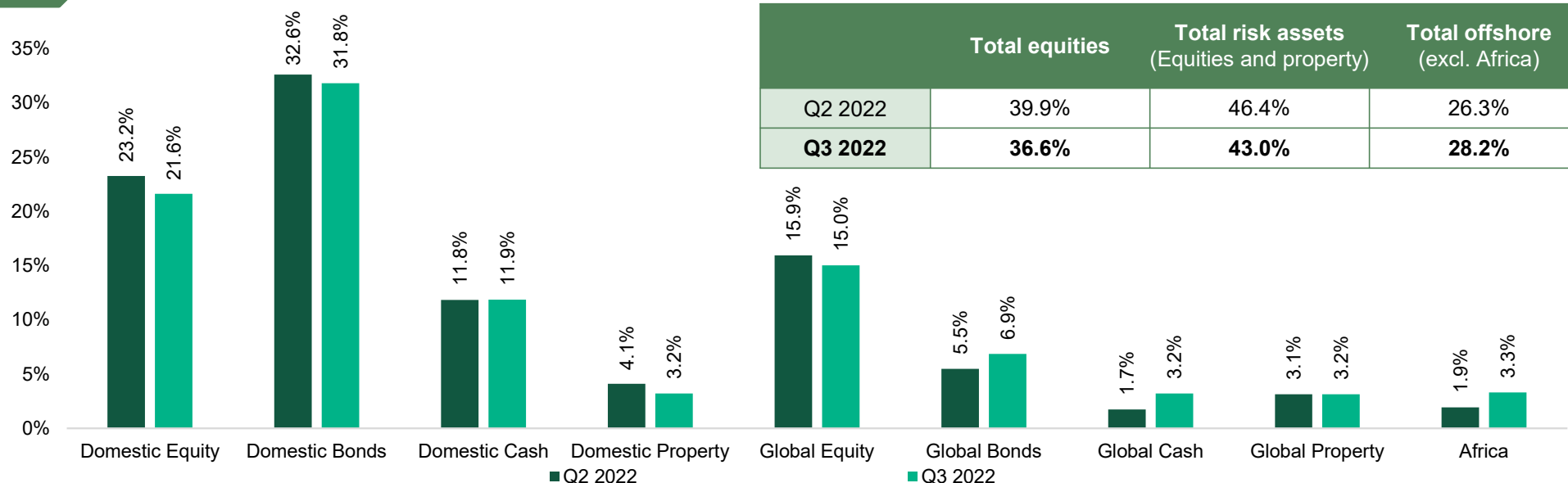
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## Asset allocation changes



	Total equities	Total risk assets (Equities and property)	Total offshore (excl. Africa)
Q2 2022	39.9%	46.4%	26.3%
Q3 2022	36.6%	43.0%	28.2%



## 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



**21.6%**

### Domestic Property



**3.2%**

### Domestic Fixed Interest



**43.6%**

### Foreign Equity



**15.0%**

### Foreign Property



**3.2%**

### Foreign Fixed Interest



**10.1%**

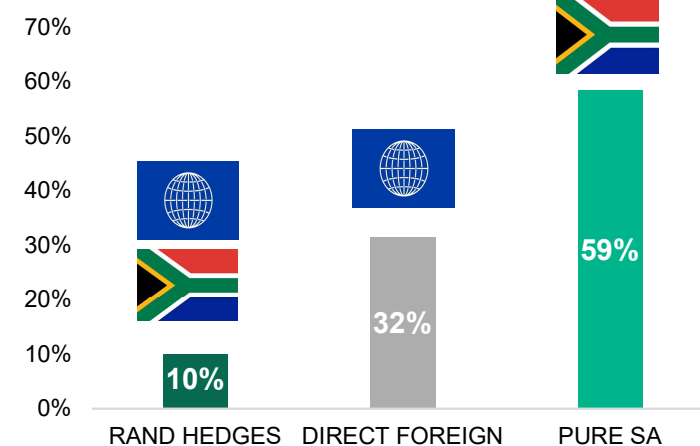
### Africa



**3.3%**



## Regional exposure



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



**1.6%**



**1.4%**



**1.1%**



**1.0%**



**0.9%**



**0.8%**



**0.8%**



**0.8%**



**0.7%**



**0.6%**

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## Domestic asset class positioning



### Domestic Equity



21.6%

SA equities are still viewed as attractive on a relative basis, especially in the context of many developed markets. While SA equities have done well YTD (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



3.2%

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.

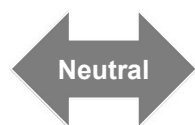
### Domestic Bond



32.0%

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



11.9%

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

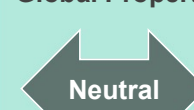


15.0%

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



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



6.9%

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



3.2%

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: 15.8%



### Small/Mid Cap Equity: 2.6%



### Passive Multi-Asset: 18.3%



### Property: 2.0%



### Flexible Income: 36.3%



## Offshore and Africa: fund manager exposures

### Equity: 7.8%



### EM Equity: 1.4%



### Multi-Asset: 9.3%



### Property: 2.3%



### 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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