NEDGROUP INVESTMENTS

See money differently

# Quarterly Report:
# Nedgroup Investments Select Income Fund of Funds

as at 31 March 2023

# Quarterly report:
# Nedgroup Investments

## Domestic asset class returns (ZAR)

### SA Equity

**5.2%** Q1 2023

Strong performance from Industrial sector and index bellwethers Naspers and Prosus drove returns

| | |
|---|---|
| **4.9%** | 1 year |
| **24.2%** | 3 years |
| **12.3%** | LT average |

### SA Property

**-5.1%** Q1 2023

The property sector continues to struggle with high interest rates and high office vacancy rates

| | |
|---|---|
| **-3.4%** | 1 year |
| **18.2%** | 3 years |
| **11.3%** | LT average |

### SA Bond

**3.4%** Q1 2023

SA bond market was resilient despite SA being grey listed and the turmoil surrounding the US and European banks

| | |
|---|---|
| **5.8%** | 1 year |
| **11.6%** | 3 years |
| **7.0%** | LT average |

### SA Cash

**1.7%** Q1 2023

The SARB hiked the repo rate by 25bps in Jan and another 50bps in Mar, taking it to 7.75%

| | |
|---|---|
| **5.7%** | 1 year |
| **4.4%** | 3 years |
| **5.9%** | LT average |

## Global asset class returns (USD)

### Global Equity

**7.4%** Q1 2023

Reopening of China led to a strong Jan, with the rest of the quarter boosted by constructive economic data

| | |
|---|---|
| **-7.0%** | 1 year |
| **15.9%** | 3 years |
| **8.5%** | LT average |

### Global Property

**1.0%** Q1 2023

Globally REITs lagged equity stocks with the office sector in general the largest detractor

| | |
|---|---|
| **-20.6%** | 1 year |
| **7.6%** | 3 years |
| **6.2%** | LT average |

### Global Bond

**3.0%** Q1 2023

Bond markets swiftly priced in cooling inflation figures and the possibility of easier monetary policy

| | |
|---|---|
| **-8.1%** | 1 year |
| **-3.4%** | 3 years |
| **4.3%** | LT average |

### US Cash

**1.2%** Q1 2023

The US Fed hiked rates by 25bps in Feb and Mar taking the policy rate to the highest since 2007 at 4.75% - 5.0%

| | |
|---|---|
| **3.6%** | 1 year |
| **1.4%** | 3 years |
| **3.7%** | LT average |

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

### US Dollar R17.74

**4%**

The rand appreciated by 3.0% against the US dollar in March, supported by hawkish tones from the SARB and a weaker US dollar. However, market confidence towards the rand remains low amid political uncertainty and the delayed response to the energy crisis which is not being adequately addressed.

### British Pound R21.94

**7%**

UK headline CPI increased to 10.4% in February from 10.1% the prior month, setting the scene for the Bank of England (BoE) to increase interest rates by 25bps in March, following a 50bps hike in February. The pound is trading in a narrow band relative to the US dollar, that has weakened in March.

### Euro R19.28

**6%**

The ECB raised interest rates by 50 basis points in both February and March. The Eurozone inflation declined to a one-year low in March. The US dollar depreciated by 2.3% on a trade weighted basis in March, with the euro making up c.60% of this index, leaving the greenback 1.0% weaker over the quarter.

Source: Morningstar; as at 31 March 2023

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## Domestic performance drivers

### Highlights

- The Budget 2023 confirmed a gross tax revenue overrun of R93.7bn relative to the Budget 2022, enabling improved fiscal metrics for the financial year. R9bn was earmarked for incentives to support residential and business investment in rooftop solar.
- The much-anticipated cabinet reshuffle confirmed Dr Ramokgopa as the new Minister of Electricity.
- Public sector wage negotiations concluded with a two-year deal, with an effective increase of 7.5% this year.

### Low points

- Fourth quarter GDP printed at -1.3%, a much lower figure than anticipated. This brings economic growth for 2022 to 2.0% but also reaffirms the poor momentum going into 2023.
- Credit ratings agency, S&P, downgraded the outlook for the sovereign's credit rating to stable from positive, raising concerns about the impact of the energy crises and the state of network industries on economic growth.
- Headline inflation for the year to Feb 2023 increased to 7.0% from 6.9% in Jan 2023, with core inflation increasing to 5.2%. Both figures were higher than market expectations and reflected continued upward pressure in food prices, while annual medical aid tariff increases led to higher core inflation.

## Global performance drivers

### Highlights

- After some upside surprises in the previous month, headline inflation across several regions continued to moderate as the impact from high energy prices subsided.
- The relaxing of China's zero Covid policy resulted in improved sentiment due to "the Chinese reopening effect". This, and a tapering of China's regulatory clampdown on the tech sector, supported a recovery in Chinese shares.
- US employment data confirmed robust and broad-based job growth, with unemployment recorded at 3.4%, the lowest figure since 1969.

### Low points

- The collapse of Silicon Valley Bank (SVB) sparked an exit from depositors and investors, which quickly impacted risk appetite for the broader banking complex and saw bank share prices hit hard. While SVB was a regional bank, largely exposed to the tech sector, with specific nuances, the impact of higher interest rates on their bond holdings and poor sentiment quickly turned a spotlight on other entities with possible vulnerabilities.
- With February marking a year since Russia invaded Ukraine, Russia announced it would cut oil production by 500 000 barrels a day from March in response to price caps imposed by Western countries, while tensions between China and the US regarding alleged surveillance reemphasised that geopolitics remains prominent as an ongoing risk.

# Quarterly report:
# Nedgroup Investments Select Income Fund of Funds

## Fund overview

| Max equity | Time frame | Benchmark | Peer group | Regulation 28 |
|---|---|---|---|---|
| 10% | Min 6 months | 110% STeFI Call | SA Multi-Asset Income | Compliant |

**Risk profile**

1 | 2 | 3 | 4 | 5

## Underlying fund structure

| | |
|---|---|
| ABAX investments | 34% |
| Coronation Fund Managers | 33% |
| Ninety One | 33% |

## Fund costs (C – clean class)

| Management fee* (Excl. Vat) | Total expense ratio |
|---|---|
| 0.74% | 0.90% |
| **Transaction charges** | **Total investment charges** |
| 0.01% | 0.90% |

## Benefits of the Select range

- Simple, low-cost Solution
- Diversified across Asset classes
- Passive and active underlying investments
- Quarterly Rebalanced
- Tax Efficient
- Ongoing Due diligence

as at 31 March 2023

**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 January 2020 to 31 December 2022.

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# Quarterly report:
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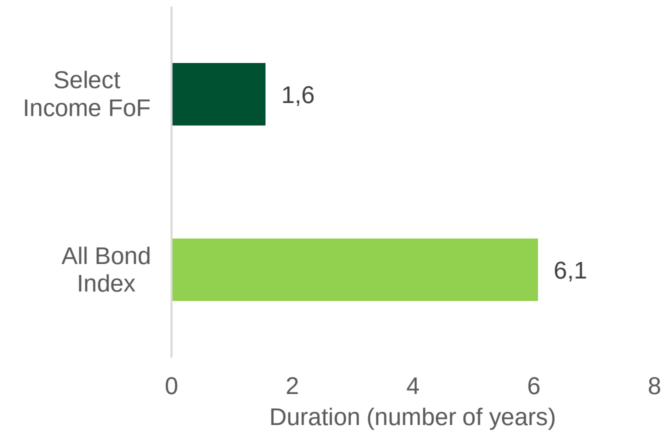
## Asset allocation

| Domestic Equity | Domestic Property | Domestic Fixed Interest |
|---|---|---|
| 0.8% | 2.7% | 81.6% |

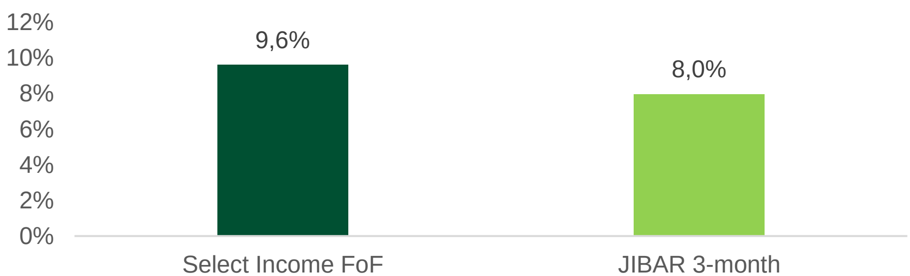
| Foreign Equity | Foreign Property | Foreign Fixed Interest |
|---|---|---|
| 0% | 0.2% | 14.6% |

## Modified duration*

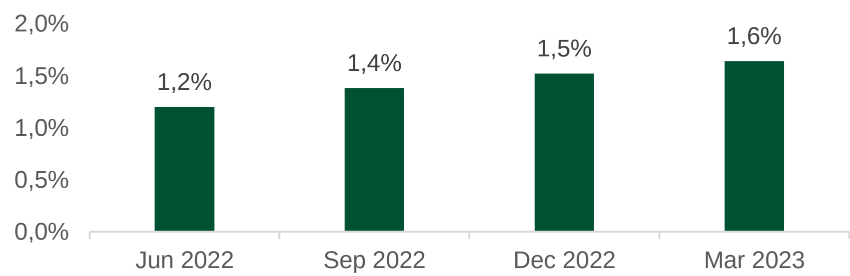



## Yield and Distribution

Gross fund yield (forward-looking)




Quarterly distribution yield (actual) - C class




as at 31 March 2023
*Select Income FoF includes ILB duration

# Quarterly report:
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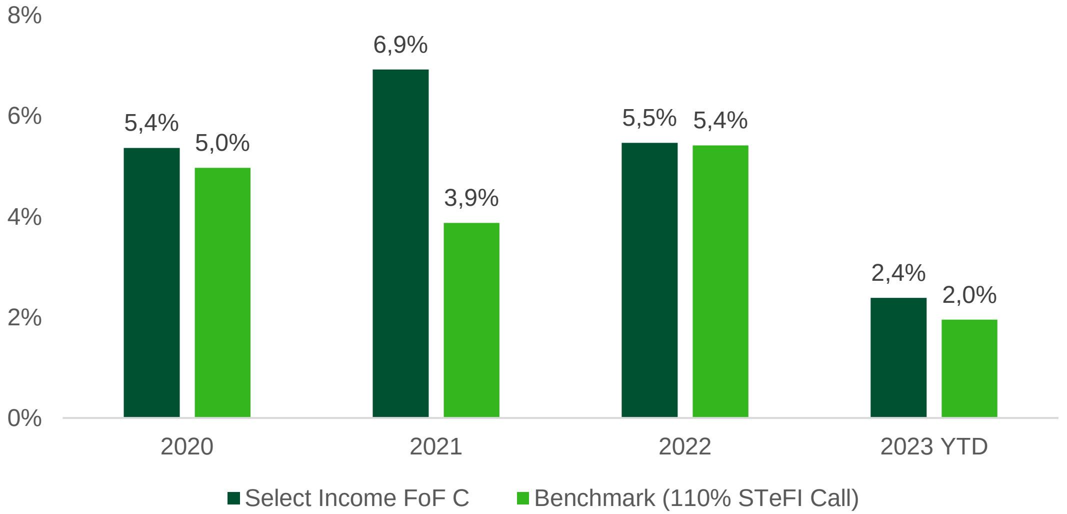
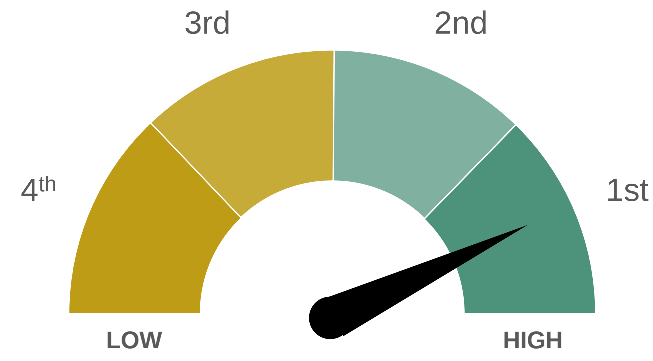
## Fund performance (clean class)

| Q1'23 return | Ytd return | 6 month return | 1yr annualised return | 3yr annualised return |
|---|---|---|---|---|
| 2.4% | 2.4% | 5.5% | 7.4% | 7.6% |
| Benchmark: 1.7% | Benchmark: 1.7% | Benchmark: 3.6% | Benchmark: 6.3% | Benchmark: 4.8% |

## Calendar year performance




## Peer group quartile ranking: 1yr



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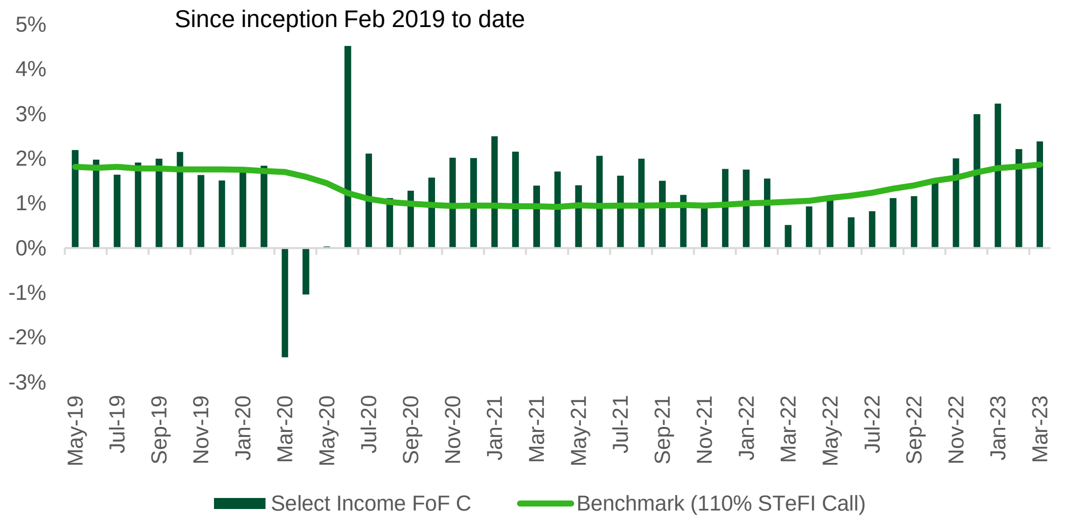
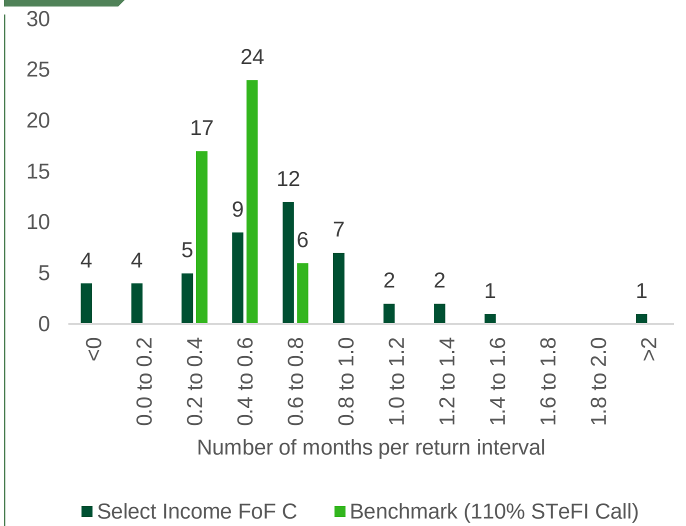
## Risk measures since inception*

| Rolling 1 year | Volatility | Max drawdown | Sharpe ratio | % Positive months |
|---|---|---|---|---|
| **92%** | **1.9%** | **-3.7%** | **1.1** | **95%** |
| Hit rate: outperforming benchmark | SA bond market: 6.1% | SA bond market: -9.8% | SA bond market: 0.2 | SA bond market: 66% |

## Rolling 3-month return




## Monthly return distribution




as at 31 March 2023
*The track record of the Select Income FoF displayed here includes the backtested return from 31 October 2012* to 1 February 2019, when the Nedgroup Investments Select Income FoF was launched. The B2-class fee of 0.20% (excl. VAT) was applied to the net returns of the underlying funds, rebalanced quarterly as per the Select FoF process

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## Underlying fund performance

| Key | Q2 2020 | Q4 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q4 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coronation Strategic Income | 4.8% | 2.0% | 2.5% | 2.2% | 2.6% | 1.9% | 2.3% | 1.0% | 0.8% | 1.7% | 3.6% | 2.5% |
| Nedgroup Investments Flexible Income | 3.8% | 1.1% | 2.1% | 1.3% | 2.1% | 1.4% | 2.0% | 0.5% | 0.6% | 1.6% | 3.1% | 2.4% |
| Ninety One Diversified Income | 3.1% | 1.0% | 2.0% | 0.9% | 1.9% | 1.4% | 1.7% | 0.1% | 0.2% | 1.0% | 2.8% | 2.3% |

### Positive contributors this quarter

- The rand weakened 4.3% over the quarter, making it one of the worst performing emerging market currencies. As a result, the direct offshore exposure of the fund (held in US dollar) contributed to performance.
- Performance from nominal bonds (particularly offshore bonds) contributed to performance. Most of the All Bond Index, up 3,4% for the quarter, positive return was driven by a change in the shape of the yield curve, with 7- to 12-year maturities outperforming maturities of more than 12 years, as the latter steepened significantly over the last quarter.
- An increasing yield from floating rate bonds contributed positively to returns, as our rates continue to rise. The South African Reserve Bank (SARB) raised the repo rate by 50bps, moving the policy rate to 7.75% at the March Monetary Policy Committee Meeting.

### Detractors this quarter

- Listed property, which makes up less than 3% of the fund, delivered a negative return this quarter. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current poor growth outlook, combined with an increase in cost base due to higher administered prices and second-round effects on loadshedding, will weigh on the sector's earnings in the coming year.
- Inflation-linked bonds (ILBs) have continued to lag the performance of the ALBI and cash over the last quarter, up just less than 1% for the quarter. This has been predominantly due to a move higher in real yields in sympathy with nominal bonds and reduced inflation accrual as inflation has been heading lower.
- Preference shares was also a detracting sector this quarter.

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## Performance across classes

| | B2 class (lisp) | C class (clean) | C1 class (product) | S class (sip) | Peer group | Benchmark |
|---|---|---|---|---|---|---|
| **Quarter** | 2,4% | 2,4% | 2,4% | 2,4% | 2,4% | 2,7% |
| **6 month** | 5,6% | 5,5% | 5,4% | 5,4% | 5,3% | 3,6% |
| **1 year** | 7,6% | 7,4% | 7,3% | 7,4% | 6,8% | 6,3% |
| **3 year** | 7,8% | 7,6% | 7,5% | n/a | 7,4% | 4,8% |

## Costs across classes

| | Management fee* (excl. Vat) | Financial planner | Total expense ratio | Transaction charges | Total investment charges |
|---|---|---|---|---|---|
| **B2 class (lisp)** | 0.59% | N/a | 0.73% | 0.01% | 0.73% |
| **C class (clean)** | 0.74% | N/a | 0.90% | 0.01% | 0.90% |
| **C1 class (product)** | 0.89% | N/a | 1.07% | 0.01% | 1.08% |
| **S class (sip)** | 0.79% | N/a | 0.94% | 0.01% | 0.95% |

as at 31 March 2023
**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 January 2020 to 31 December 2022.

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