

QUARTERLY REPORT

▶ NEDGROUP INVESTMENTS PRIVATE
WEALTH DEFENSIVE FUND OF FUNDS

AS AT 31 MARCH 2019



NEDBANK
PRIVATE WEALTH
SINCE 1834

NEDGROUP INVESTMENTS PRIVATE WEALTH

DEFENSIVE FUND OF FUNDS | 31 MARCH 2019



Domestic asset class returns (ZAR)

SA EQUITY



5.0% 1 year
5.7% 3 years
12.3% LT ave

Global sentiment and commodity prices drove up the index

SA PROPERTY



-5.7% 1 year
-3.8% 3 years
11.8% LT ave

Weak sector fundamentals reflected in recent company results

SA BOND



3.5% 1 year
10.1% 3 years
6.9% LT ave

The positive unchanged decisions by both the SARB and Moody's

SA CASH



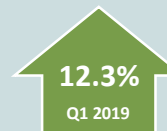
6.6% 1 year
6.8% 3 years
5.9% LT ave

Rates remained unchanged



Global asset class returns (USD)

GLOBAL EQUITY



3.2% 1 year
11.3% 3 years
8.5% LT ave

A shift in central bank policy guidance sprang life back to risk assets

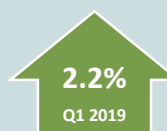
GLOBAL PROPERTY



14.3% 1 year
6.7% 3 years
6.7% LT ave

Global REITs supported by falling government bond yields

GLOBAL BOND



-0.4% 1 year
1.5% 3 years
4.6% LT ave

Relatively lower performance as rate expectations changed

US CASH



2.5% 1 year
1.5% 3 years
4.3% LT ave

Dovish outlook amongst central banks globally



Exchange rates (Rand spot rate and quarterly change)



US DOLLAR

R14.42

0.3%

The US Dollar not as strong due to mixed US economic data



BRITISH POUND

R18.79

2.6%

Sterling strength was a feature, as the likelihood of a hard Brexit diminished



EURO

R16.19

1.5%

The Euro slightly weaker due to economic growth concerns

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Domestic performance drivers



HIGHLIGHTS

- The South African Reserve Bank kept interest rates unchanged at 6.75%, partly due to inflation which slowed to 4.1% in February;
- The much-anticipated credit review from Moody's delivered no change in credit rating or outlook;
- The South African equity market delivered one of the best quarters in some time, benefitting from improved global sentiment and a rally in commodity prices.



LOW POINTS

- Load shedding returned and progressed to stage 4, causing consumers and industrial operators much distress;
- The National Energy Regulator of South Africa (NERSA) announced a 9% electricity tariff increase, following Eskom's higher request;
- Further downward adjustments were made to economic growth by different institutions such as the International Monetary Fund, the National Treasury and the South African Reserve Bank.



Global performance drivers



HIGHLIGHTS

- The US government shutdown came to an end, and Trump seems to have moderated his behaviour over recent months;
- Improvement in relationships between the US and China, with the trade talks appearing to be constructive, and both sides suggesting real progress is being made;
- Even though the UK Parliament remained deadlocked over Brexit, it would appear that the probability of an economically damaging hard Brexit has significantly diminished.



LOW POINTS

- Disappointing economic data release and a deteriorating economic outlook, which saw the shift in central bank policy guidance;
- In March, the short end of the bond yield curve inverted, leading to an equity market sell off in that month and a rally in the bond markets. The inversion of the bond yield curve has historically been regarded as one of the early warning signs to trigger a recession;
- Returns from Europe remained weak, representing the epicentre of economic growth concerns and business contending with Brexit's uncertainty.

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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 LOW MEDIUM HIGH
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Fund costs (A)*

MANAGEMENT FEE (excl. VAT) 1.45%	TOTAL EXPENSE RATIO 1.68%
TRANSACTION CHARGES 0.08%	TOTAL INVESTMENT CHARGES 1.76%

Benefits of the Nedbank Private Wealth FoF range

COMPETITIVE PRICING 	DIVERSIFIED ACROSS ASSET CLASSES 	INVESTMENT EXPERTS 
PASSIVE AND ACTIVE UNDERLYING INVESTMENTS 	TAX EFFICIENT 	ONGOING DUE DILIGENCE 

*Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 1 January 2016 and ending 31 December 2018.



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Asset allocation

DOMESTIC EQUITY



23.7%

DOMESTIC PROPERTY



5.8%

DOMESTIC FIXED INTEREST



47.7%

FOREIGN EQUITY



15.7%

FOREIGN PROPERTY



4.4%

FOREIGN FIXED INTEREST



2.7%



Regional exposure



64.6%



12.6%



22.8%

PURE SA

RAND HEDGES

DIRECT FOREIGN



Top ten holdings (as a % of fund)



2.2%



1.2%



1.1%



1.0%



0.9%



0.8%



0.8%



0.7%



0.6%



0.6%

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Domestic asset class positioning



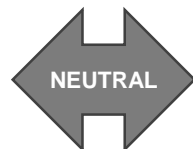
DOMESTIC EQUITY



23.7%

- Pockets of opportunity have opened up in the market, but are not without risks.
- Broadly balanced: rand-hedge exposure exists, with meaningful exposure to domestic-facing sectors.

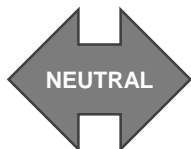
DOMESTIC PROPERTY



5.8%

- Neutral to overweight position retained. Preference for active management/stock selection.
- Remain invested in small/mid-sized domestically focused firms; with limited SAPY heavyweights present.

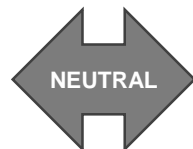
DOMESTIC BOND



14.8%

- Attractive yields and rewards for local risks, however mindful of global risk factors.
- Playing the interest rate cycle through our duration positioning given increased volatility.
- Overall underweight duration.

DOMESTIC CASH



32.9%

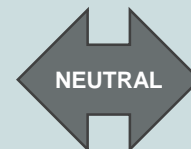
- The exposure to defensive assets remains prudent given the geopolitical risks that still exist.
- Provides consistent return profile.
- The healthy cash balance also provides optionality (dry powder) should opportunities arise.



Global asset class positioning



GLOBAL EQUITY



15.7%

- Room for earnings growth still exists; as well as the availability of reasonable levels of the equity/bond premium.
- International opportunities offering diversification, access to higher growth (e.g. EM) and risk adjusted returns, not just protection against rand weakness

GLOBAL PROPERTY



4.4%

- Overweight commercial property companies focused on offices and data centres, but underweight those specialising in residential and retail.
- Also positioned for concerns around the impact of technology disruption.

GLOBAL BOND



1.6%

- Underweight global bonds in general. Global government bond yields declined on concerns that global growth is now decelerating.

GLOBAL CASH

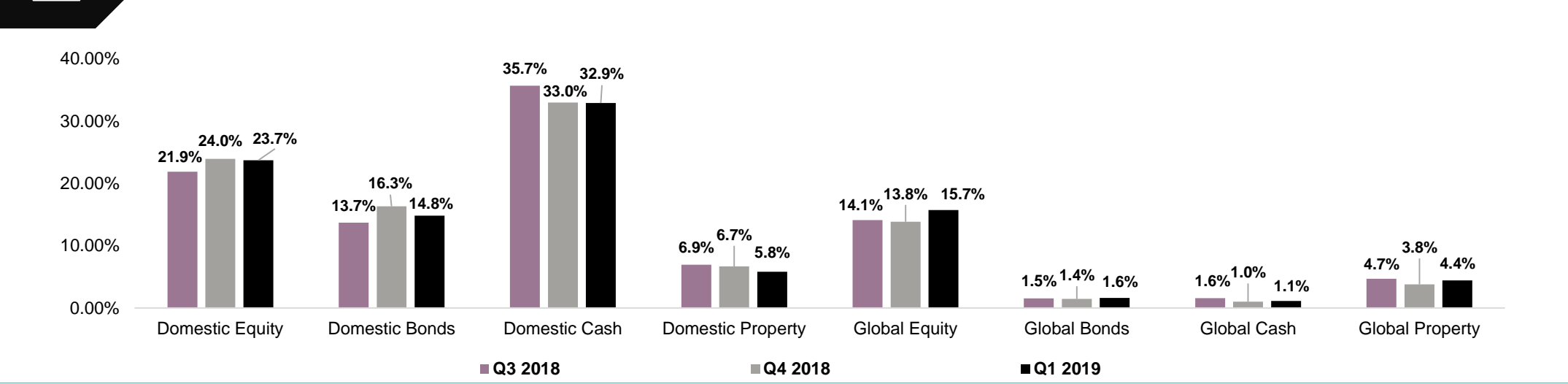


1.1%

- Cash positions remain as the underlying managers find compelling, idiosyncratic opportunities.

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Asset allocation changes



Summary of recent changes

- No active asset allocation decision was made over the first quarter of 2019.
- Any asset allocation differences shown above, for the Nedgroup Investments Private Wealth Defensive Fund of Funds, is as a result of market movements and minor trades conducted by the Investment Team to ensure that the portfolio is in line with our current house view and fund positioning.
- A healthy allocation to defensive assets remain whilst our neutral position to domestic bonds and domestic property is largely retained.
- The funds are well diversified across all asset classes, with a moderate risk positioning.

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Domestic: fund manager exposures

Equity General: 23.0%

Small/Mid Cap Equity: 2.8%

Property: 4.9%

Multi-Asset: 6.7%

Flexible Income: 43.3%

Global: fund manager exposures

Equity: 11.8%

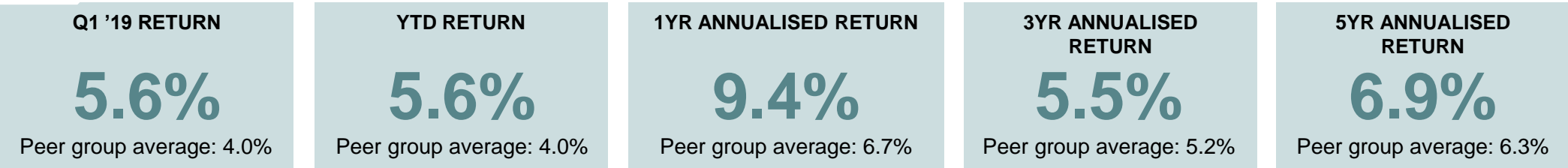
Emerging Markets Equity: 1.8%

Property: 4.4%

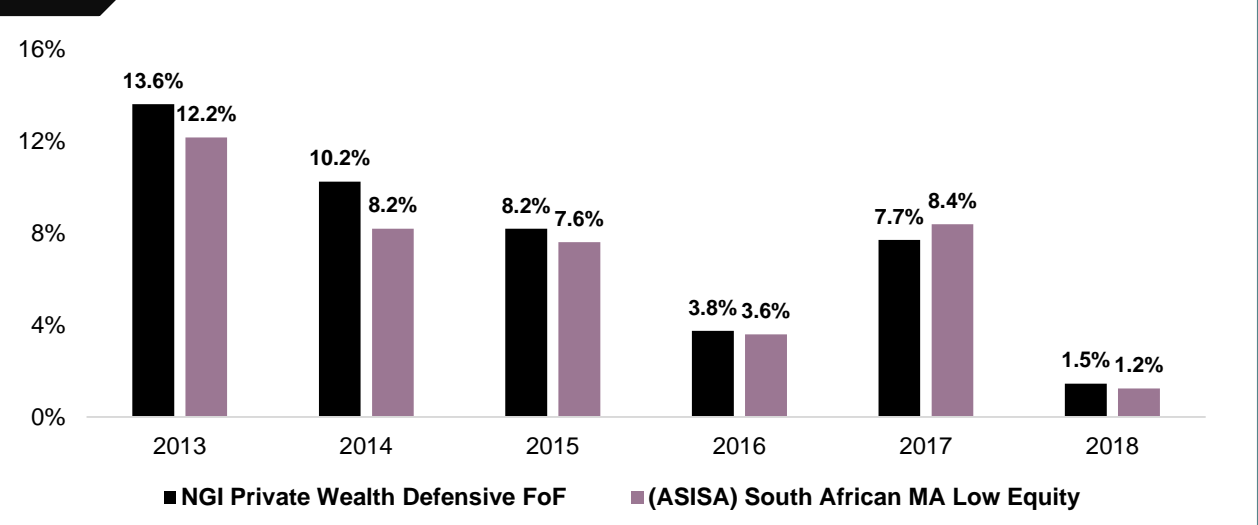
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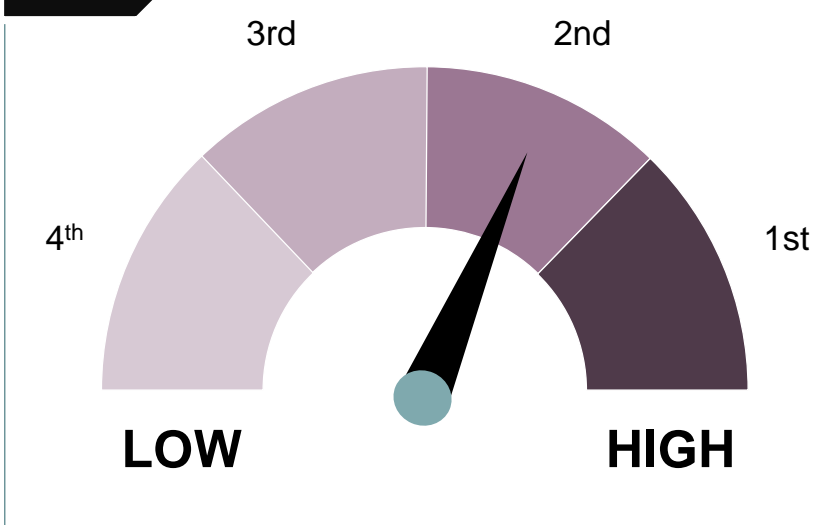
Fund performance (A)



Calendar year performance



Peer group quartile ranking: 3Y



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Risk measures since inception

ROLLING 3YR RETURN

94%

Hit rate: outperforming peer group average

VOLATILITY

6.2%

SA equity market: 14.8%

MAX DRAWDOWN

-6.6%

SA equity market: -40.4%

SHARPE RATIO

0.8

SA equity market: 0.6

% POSITIVE MONTHS

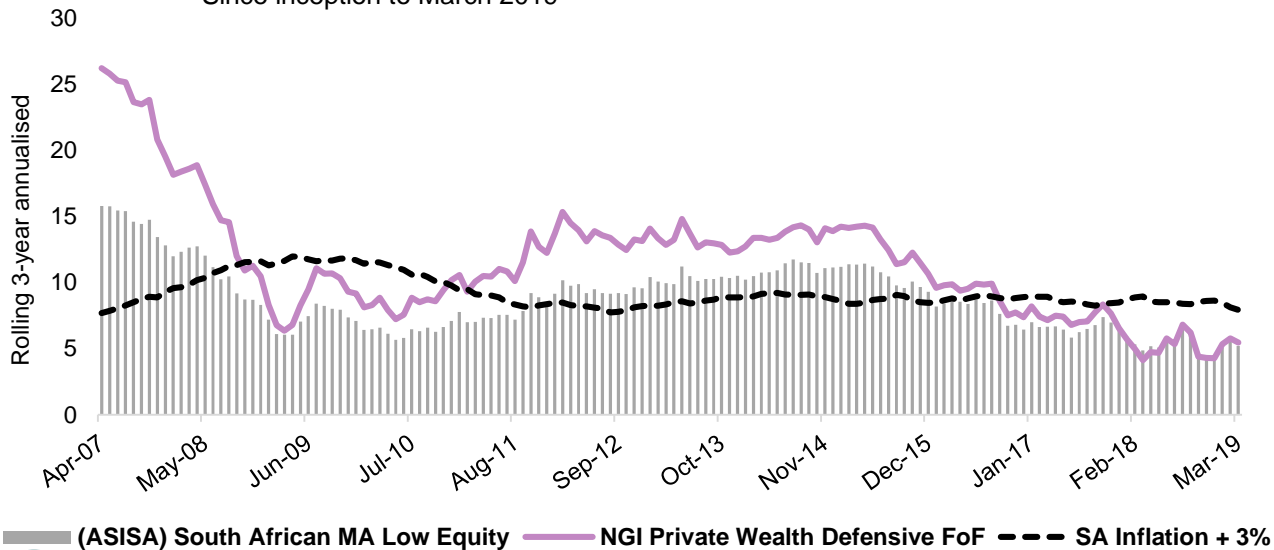
70%

SA equity market: 63%

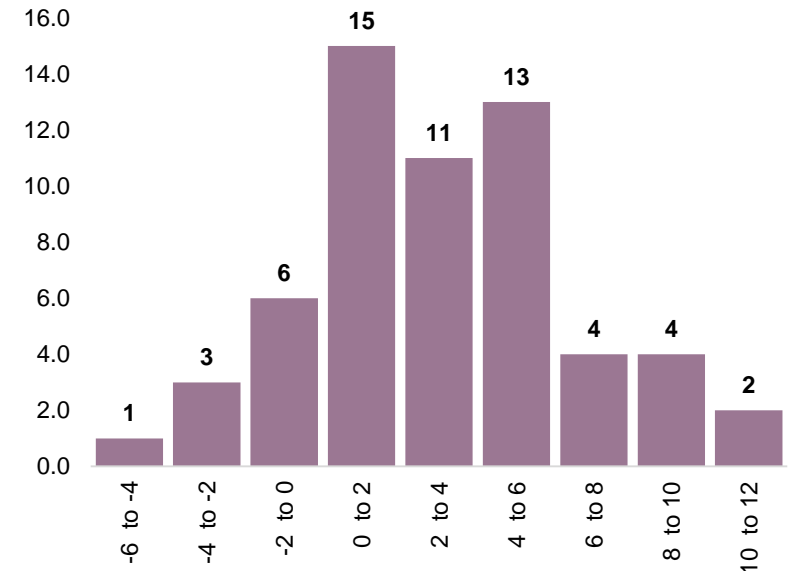


Rolling 3-year annualised return

Since inception to March 2019



Quarterly return distribution



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Fund Contributors and Detractors – Q1 2019



CONTRIBUTORS THIS QUARTER

- The domestic equity carve-out generally did well for the quarter, led by the rand-hedges.
- The decision to maintain duration in the domestic bond carve-out paid off. SA bonds gained as (i) global bond yields decreased, (ii) the SARB keeping rates unchanged and (iii) Moody's maintaining the country's rating.
- Our portfolios' domestic property portion managed to remain positive, outperforming both the sector and the peers.
- The offshore exposure, including emerging markets, took part in the rally given the shift in central bank policy guidance that saw the Fed and the ECB stating that they no longer expect to raise interest rates in 2019.



DETRACTORS THIS QUARTER

- Limited exposure to the resource sector, which continued to do well over the period and the past year.
- Given disappointing economic activity and increased concerns around weaker SA GDP growth, performance of most SA domestic sectors was weak. This negatively impacted our allocation to the mid-small cap sector.
- Other several holdings (EOH, Pepkor, Aspen, Advtech) also faced stock specific concerns. For example, Aspen traded down -31.0% for the quarter, following results which offered little in terms of top line growth but lots in terms of balance sheet issues.



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Performance across classes

	A CLASS (all-in)	A1 CLASS (clean)	A2 CLASS (product)	PEER GROUP	SA INFLATION + 3%
Q1 2019	5.6%	5.8%	5.7%	4.0%	1.2%
1 YEAR	9.4%	10.1%	9.8%	6.7%	7.2%
3 YEAR	5.5%	6.1%	5.7%	5.2%	7.9%
5 YEAR	6.9%	N/A	N/A	6.3%	8.2%



Costs across classes*

	MANAGEMENT FEE (excl. VAT)	TOTAL EXPENSE RATIO	TRANSACTION CHARGES	TOTAL INVESTMENT CHARGES
A Class (all-in)	1.45%	1.68%	0.08%	1.76%
A1 Class (clean)	0.95%	1.15%	0.08%	1.23%
A2 Class (product)	1.10%	1.42%	0.08%	1.50%

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