



**NEDGROUP**  
INVESTMENTS

## QUARTERLY REPORT

# NEDGROUP INVESTMENTS XS DIVERSIFIED FUND OF FUNDS

as at 31 March 2019

See money differently

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## 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

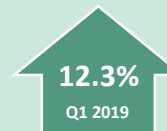
Rates remained unchanged



## 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



## 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

**75%**

TIME FRAME

min **5** years

BENCHMARK

Inflation **+5%**

PEER GROUP

SA Multi-Asset  
High Equity

REGULATION 28

Compliant

RISK PROFILE



## Fund costs (B)\*

MANAGEMENT FEE  
(excl. VAT)

**0.95%**

TOTAL  
EXPENSE RATIO

**1.26%**

TRANSACTION  
CHARGES

**0.11%**

TOTAL  
INVESTMENT CHARGES

**1.37%**



## Benefits of the XS range

COMPETITIVE  
PRICING



DIVERSIFIED ACROSS  
ASSET CLASSES



INVESTMENT  
EXPERTS



PASSIVE AND ACTIVE  
UNDERLYING INVESTMENTS



TAX  
EFFICIENT



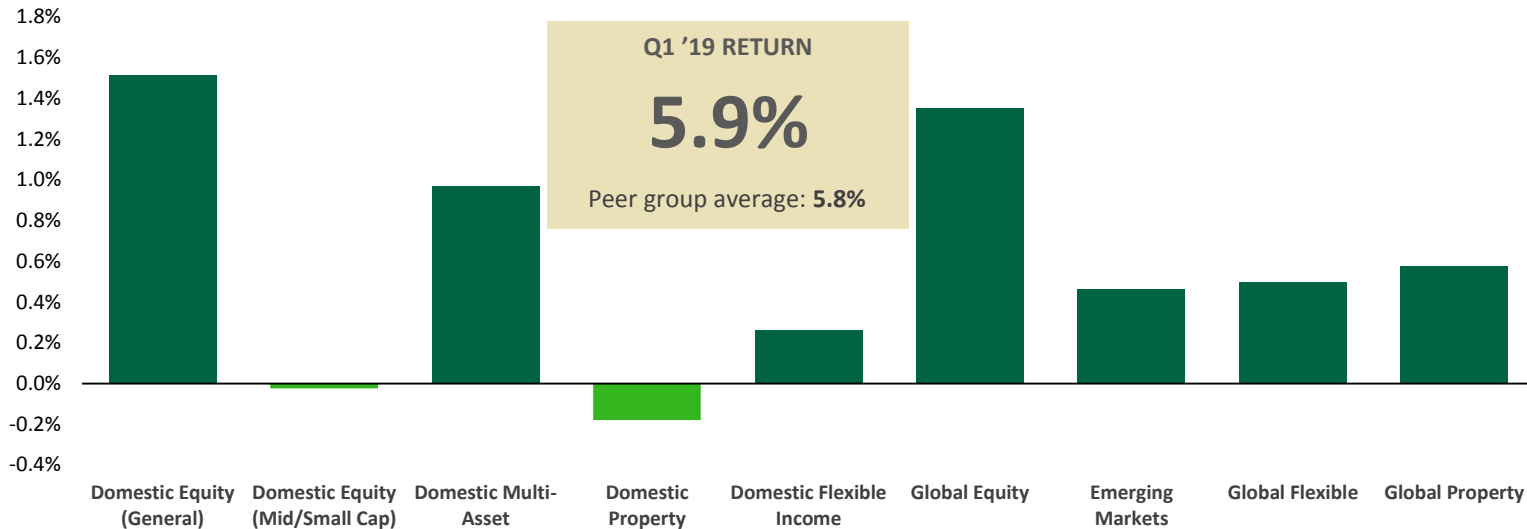
ONGOING  
DUE DILIGENCE



\*Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 01<sup>st</sup> of January 2016 and ending 31<sup>st</sup> December 2018.



## XS Fund of Funds performance contribution – Q1 2019



### CONTRIBUTORS THIS QUARTER

- The domestic equity carve-out 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.
- 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.
- Several holdings in our domestic property portion faced stock specific concerns (Delta, Rebosis and Arrowhead), over and above the general weak performance from the sector.

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## Fund performance (B)

Q1 '19 RETURN

**5.9%**

Peer group average: 5.8%

YTD RETURN

**5.9%**

Peer group average: 5.8%

1YR ANNUALISED RETURN

**5.3%**

Peer group average: 5.8%

3YR ANNUALISED RETURN

**4.3%**

Peer group average: 3.8%

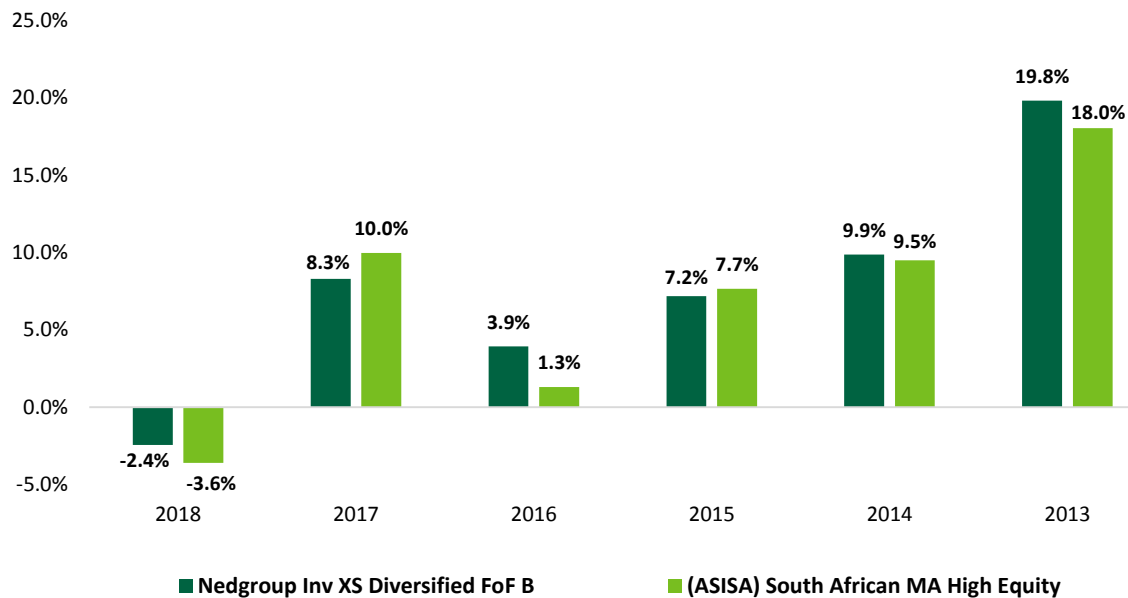
5YR ANNUALISED RETURN

**5.8%**

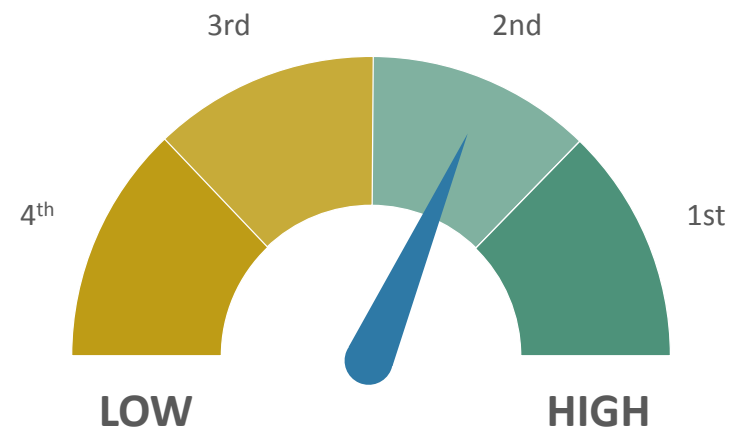
Peer group average: 5.5%



## Calendar year performance



## Peer group quartile ranking: 5Y



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## Risk measures since inception

ROLLING 5YR RETURN

**100%**

Hit rate: outperforming peer group average

VOLATILITY

**7.3%**

SA equity market: 14.5%

MAX DRAWDOWN

**-15.0%**

SA equity market: -40.4%

SHARPE RATIO

**0.5**

SA equity market: 0.4

% POSITIVE MONTHS

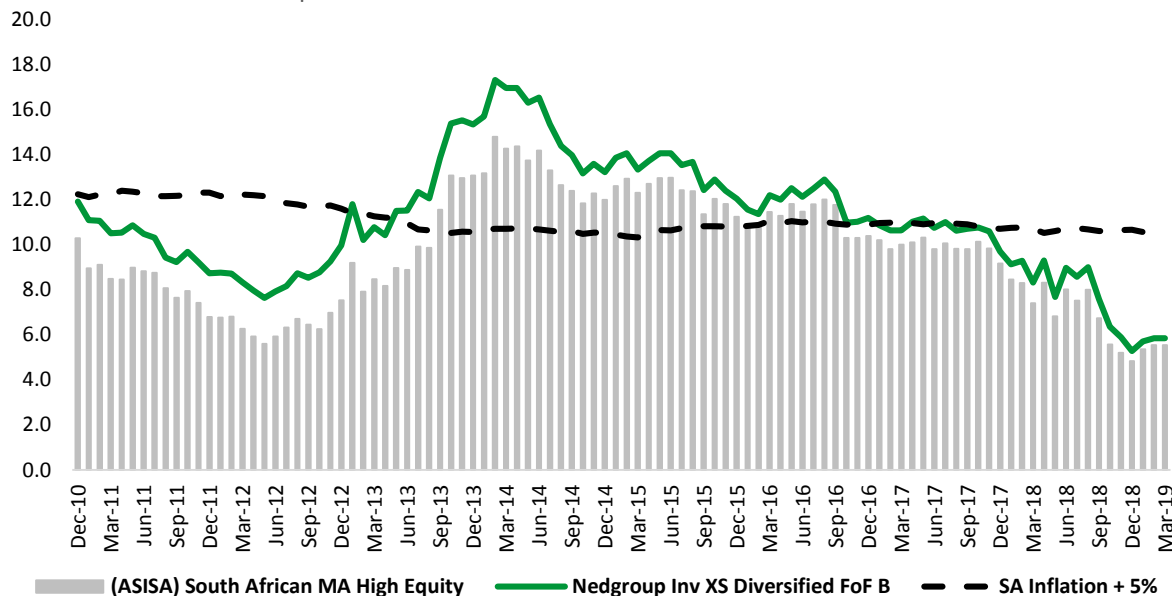
**67%**

SA equity market: 62%

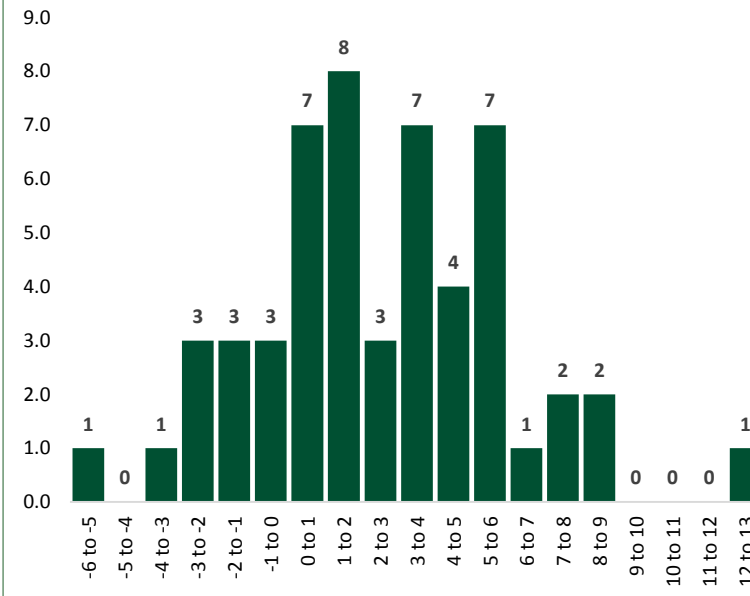


## Rolling 5-year annualised return

Since inception to March 2019



## Quarterly return distribution



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## Performance across classes

	A CLASS (ALL IN)	B CLASS (LISP)	C CLASS (CLEAN)	PEER GROUP	SA INFLATION + 5%
Q1 2019	5.5%	5.9%	5.8%	5.8%	1.7%
1 YEAR	3.8%	5.3%	5.0%	5.8%	9.3%
3 YEAR	2.8%	4.3%	4.0%	3.8%	10.0%
5 YEAR	4.3%	5.8%	5.5%	5.5%	10.3%



## 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%	2.75%	0.11%	2.86%
B Class (LISP)	0.95%	N/A	1.26%	0.11%	1.37%
C Class (clean)	1.25%	NA	1.60%	0.11%	1.71%

\*Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 01<sup>st</sup> of January 2016 and ending 31<sup>st</sup> December 2018.

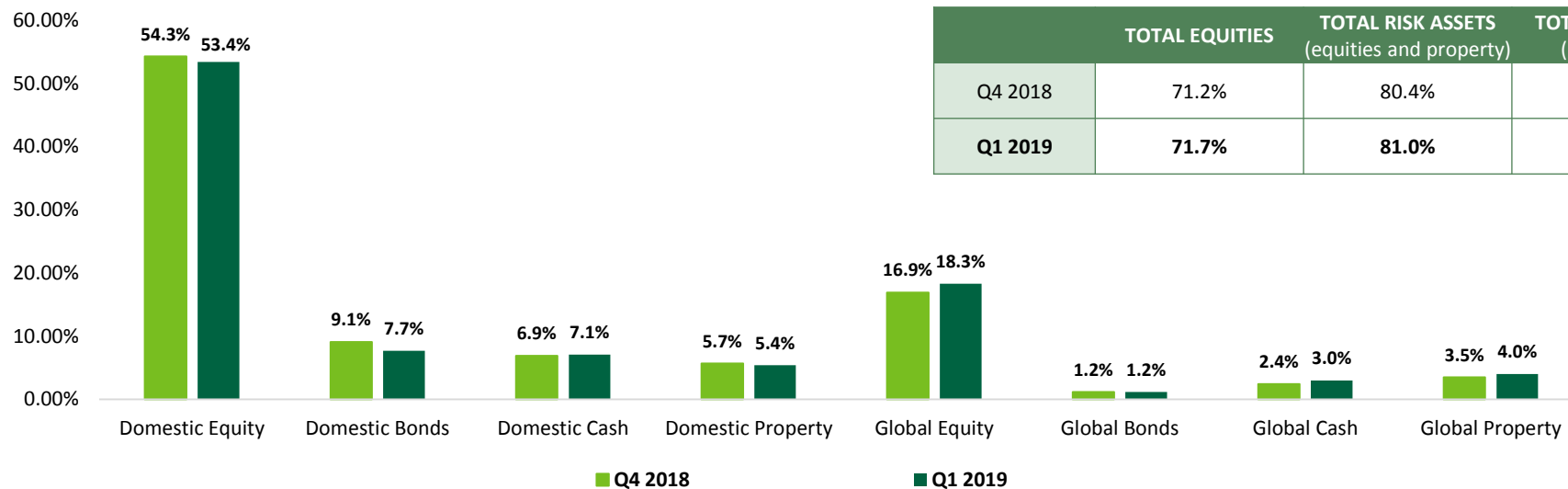
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[www.nedgroupinvestmentsmultimanager.com](http://www.nedgroupinvestmentsmultimanager.com)





## Asset allocation changes



	TOTAL EQUITIES	TOTAL RISK ASSETS (equities and property)	TOTAL OFFSHORE (excl. Africa)
Q4 2018	71.2%	80.4%	24.0%
<b>Q1 2019</b>	<b>71.7%</b>	<b>81.0%</b>	<b>26.5%</b>



## 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 XS Diversified 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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## Asset allocation

DOMESTIC EQUITY



**53.4%**

DOMESTIC PROPERTY



**5.4%**

DOMESTIC FIXED INTEREST



**14.8%**

FOREIGN EQUITY



**18.3%**

FOREIGN PROPERTY



**4.0%**

FOREIGN FIXED INTEREST



**4.2%**



## Regional exposure



50.8%

PURE SA



22.7%

RAND HEDGES



26.5%

DIRECT FOREIGN



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



4.1%



2.8%



2.7%



2.6%



Standard Bank

2.3%



1.7%



1.6%



1.5%



1.5%



1.4%



## Domestic asset class positioning



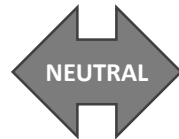
### DOMESTIC EQUITY



53.4%

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

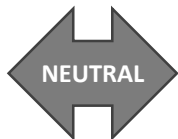
### DOMESTIC PROPERTY



5.4%

- Neutral position retained. Preference for active management/stock selection.
- Remain invested in small/mid-sized domestically focused firms; with SAPY index heavyweights present via the enhanced tracker holding.

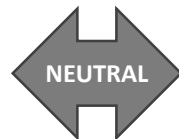
### DOMESTIC BOND



7.7%

- 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



7.1%

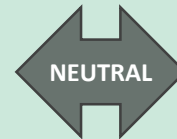
- The exposure to defensive assets remains prudent given the geopolitical risks that still exist.
- Provides consistent return profile.
- The healthy cash balance also provides optionality (dry powder) should opportunities arise.



## Global asset class positioning



### GLOBAL EQUITY



18.3%

- 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



4.0%

- 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



1.2%

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

### GLOBAL CASH



3.0%

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



Domestic: fund manager exposures

Equity General:  
40.1%



Small/Mid Cap  
Equity: 7.9%



Passive Multi-  
Asset: 19.0%



Property: 3.3%



Flexible Income:  
8.1%



Global: fund manager exposures

Equity: 11.0%



Emerging Markets  
Equity: 2.3%



Flexible Multi-  
Asset: 4.6%



Property: 3.7%



The residual balance (out of 100%) is held as domestic cash to provide liquidity

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