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XS

QUARTERLY REVIEW

Quarter Two
2018

Nedgroup Investments
XS Quarterly Review

Quarter One, for the period ended June 2018

The purpose of this report is to provide our partners, with a review of the past quarter's performance of the investment solutions in which your clients are invested. The report is structured as follows:

Part one: Market review

The table below provides a review of key domestic and international investment indicators for the past quarter, as well as over longer periods.

South African asset classes (in rands)

(Performance over periods to 30 June 2018)

Asset class	Indicator	3 months	1 year	3 years	5 years	LT-average*
Equities	All Share Index	4.5%	15.0%	6.7%	11.1%	12.5%
Property	Listed Property Index	-2.2%	-9.9%	0.9%	6.7%	12.2%
Bonds	All Bond Index	-3.8%	10.2%	7.8%	7.4%	6.9%
Cash	STeFI Call	1.6%	6.7%	6.7%	6.1%	5.9%
Inflation	CPI (one month in arrears)	1.3%	4.4%	5.3%	5.4%	5.7%

Source: Morningstar

Global asset classes (in dollars)

(Performance over periods to 30 June 2018)

Asset class	Indicator	3 months	1 year	3 years	5 years	LT-average*
Equities	MSCI AC World Index	0.7%	11.3%	8.8%	10.0%	8.6%
Property	FTSE EPRA/NAREIT Developed Property Index	5.5%	6.7%	6.7%	6.9%	7.2%
Bonds	Barclays Global Aggregate TR	-2.8%	1.4%	2.6%	1.5%	4.6%
Cash	US 3-month deposits	0.5%	1.5%	0.9%	0.6%	4.4%
Inflation	US CPI (one month in arrears)	1.0%	2.8%	1.9%	1.6%	3.0%

Source: Morningstar

Currencies

(Movements over periods to 30 June 2018)

Currency	Value at month-end	3 months	1 year	3 years	5 years	LT-average*
Rand / Dollar	13.71	-15.7%	-4.6%	-4.1%	-6.7%	-5.5%
Rand / Sterling	18.10	-8.9%	-6.3%	1.8%	-3.7%	-4.1%
Rand / Euro	16.00	-9.8%	-7.1%	-5.8%	-4.4%	-5.5%

Source: Morningstar

** Updated annually from 1900, or longest available period*
Returns for periods longer than 12 months are annualised.

International market commentary

Notes: All quarterly data is quoted in US dollar terms unless otherwise stated.

Despite global forecasts for GDP and corporate earnings remaining robust, investors became more risk averse in the second quarter. Growing trade tensions were the major worry, with President Trump rarely missing an opportunity to pick a fight. The first tariffs (on US$50bn worth of Chinese exports to the US) were enacted on the 6th July, and Trump has threatened to extend import levies to goods from other countries and regions, such as the EU. In response, the EU has said it will retaliate by putting an equivalent amount of tariffs on US exports to Europe, with products like Harley Davidson motorbikes and Jack Daniels whiskey being targeted. More recently, Trump also stated he would put tariffs on an additional US$400bn of Chinese goods and US$360bn worth of auto-related imports. Naturally, all these threats and counter-threats did little for investor confidence, causing volatility to rise and risk assets to falter.

In Europe, the financial markets remained wary about the future budgetary plans of the new Five Star / Lega coalition government, while the Brexit talks continued to give all the appearance of being fairly shambolic on the part of the UK government. With the government, parliament and whole country hopelessly split down the middle on the best course of action, it appears that the prime minister is unable to determine what kind of a future relationship she wants with the EU. With the clock ticking on, business and consumer confidence is waning, which could further undermine both the pound and the UK economy.

Central banks also made headlines, with growing policy divergence contributing to considerable exchange rate volatility. In particular, the dollar was very strong, while many emerging market currencies fell sharply. While the Federal Reserve raised interest rates and made slightly more hawkish noises, the European Central Bank responded to signs of slowing growth and worries about the new anti-EU Italian coalition government by leaving policy unchanged and making generally dovish statements.

Over the quarter, equity markets advanced by +0.6%, according to the MSCI All Country World Index. As the dollar rose sharply, there was a lot of dispersion in performance across the different regions and markets, with the US (+3.4%) being the strongest, and Emerging Markets (-7.8%) the weakest. Sector performance was also broadly spread, with the extremes taken up by energy (+10.5%), which benefited strongly from increased oil prices, and financials (-5.5%), which weakened on lower interest rates and worries about future earnings growth. In terms of style, growth (+2.5%) once again outpaced value (-1.1%), while smaller companies (+2.2%) outperformed larger companies (+0.6%).

Having shown signs of weakness early in the quarter, the performance of safe haven bonds improved in the latter stages as investors' risk appetite waned. With the notable exception of US high yield, credit spreads generally widened, causing corporate bonds to underperform government bonds. Over the period, the JP Morgan Government Bond Index rose +0.2%, while the Merrill Lynch Global Investment Grade Corporate Bond Index declined -0.4% and the Merrill Lynch Global High Yield Bond Index lost -0.1%. Finally, the JP

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Morgan Global Emerging Market Bond Index (-3.5%) was particularly weak on worries that a stronger dollar and a wider trade war could become a headwind for some countries.

Commodities were another asset class that delivered quite disparate performance, although this was masked in aggregate by a modest +0.4% rise in the Bloomberg Commodity Index. Crude oil (+13.2%) was the best performing sector, as its supply and demand dynamics continued to improve. In contrast, gold (-5.5%) and agriculture (-8.7%) were weak, in part due to the strength of the US dollar.

Undoubtedly the main stories in the foreign exchange markets were the continued rise of the dollar (+5.3% versus the euro; +6.1% against the pound), and the marked weakness of some emerging market currencies. US economic strength, along with a Fed Funds hike and slightly more hawkish rhetoric, encouraged capital to flow towards the dollar and away from other currencies. This was most acutely felt by the weaker emerging market currencies, especially those that rely on foreign capital to fund trade deficits and government borrowing. Against the US dollar, some of the more dramatic moves included the Turkish lira (-16.6%), Argentinian peso (-43.9%), Brazilian real (-17.0%), South African rand (-16.0%) and Mexican peso (-8.8%).

Domestic market commentary

After the positive developments of the first quarter, the second quarter of 2018 started out with a lot of uncertainty over the proposed land expropriation bill and the implementation of higher VAT rates announced in the February 2018 Budget Speech, as it remained to be seen how long the “Ramaphoria” of the first quarter would last.

During the first quarter, GDP contracted 2.2% quarter-on-quarter, which was much worse than expected and the worst since the depths of the 2009 recession, raising question about how soon the confidence boost generated by South Africa’s new political leadership might translate into stronger investment and growth, even though the GDP expanded by 0.8% year-on-year.

Inflation increased to 4.5% in April, compared to 3.8% in March, driven by a rise in fuel prices and alcoholic beverages. At the end of the quarter, the fuel price reached record highs, breaking R16/litre in some places, as the rising price of oil and a weakening rand placed pressure on the commodity, urging President Ramaphosa to task ministers in the economic cluster to investigate measures of relieving the public of the effects of high fuel prices and the VAT increase.

In May, ratings agency Standard & Poors Global Ratings kept South Africa’s sovereign credit rating unchanged at “BB+”, the first notch of sub investment grade, and South Africa’s foreign-currency debt unchanged at “BB”, the second grade of junk status, while maintaining a stable outlook. The agency said that South Africa still faces considerable economic and social challenges as economic growth remains tentative and the government’s debt burden continues on a rising path.

On the political front public hearings on land expropriation has got underway across the country, but it remains unclear on how land reform will work; the Mining Charter draft has been published for public comment, but early indications are that further consultation is required as the deadline has already been extended; and the proposed National Health Insurance Bill was gazetted in June, detailing an ambitious plan to roll out health care nationally, but while there is no dispute that South Africa's health care system needs major reforms, the proposed bill still contains too many inconsistencies and unanswered questions for it to be the final roadmap to universal health care in the country.

On the economic front, local and global uncertainty led to the rand weakening by more than 15% to the dollar during the second quarter of 2018, while the bond market retreated by 3.8% on the back of large outflows from foreign investors. Bonds still remain in positive territory for the year, having returned 4.0% year-to-date.

In equities, large cap stocks were helped by rand hedges, as the JSE All Share returned 4.5% for the quarter with the Top 40 index producing 6.2%. Small-cap and mid-cap stocks struggled, returning -4.5% and -7.2% respectively, while SA listed property produced -2.2%. The resources index had a bumper quarter, delivering 21.7%, while industrials produced a 5.3% return. Financials stocks declined by 6.6%, in line with the weakening currency and poorer economic outlook.

Part two: Investment solutions' performance

XS Accelerated Class C

As at 30 June 2018		Q2 2018	1 year	3 years	5 years	7 years	10 Years	Inception*	Volatility*
Fund of Funds	XS Accelerated	4.0%	6.1%	4.6%	9.4%	**10.8%**	10.5%	14.0%	9.8%
Benchmark	CPI + 6-7%	2.9%	11.2%	12.2%	12.3%	**12.3%**	12.4%	12.6%	n/a
Category average	SA MA Flexible	2.8%	5.9%	3.2%	7.5%	**9.0%**	8.4%	12.2%	8.1%

XS Diversified Class C

As at 30 June 2018		Q2 2018	1 year	3 years	5 years	7 years	10 Years	Inception*	Volatility*
Fund of Funds	XS Diversified	3.9%	6.1%	5.1%	**8.6%**	9.8%	9.9%	12.3%	7.4%
Benchmark	CPI + 4-6%	2.6%	9.6%	10.6%	**10.7%**	10.8%	10.8%	11.0%	n/a
Category average	SA MA High Equity	3.5%	7.2%	4.6%	**8.0%**	9.4%	8.4%	11.6%	7.4%

XS Guarded Class C

As at 30 June 2018		Q2 2018	1 year	3 years	5 years	7 years	10 Years	Inception*	Volatility*
Fund of Funds	XS Guarded	3.9%	6.5%	**6.4%**	8.5%	9.3%	9.2%	10.4%	4.0%
Benchmark	CPI + 2-4%	2.1%	7.5%	**8.5%**	8.6%	8.6%	8.7%	8.9%	n/a
Category average	SA MA Low Equity	2.8%	6.9%	**5.7%**	7.3%	8.4%	8.1%	9.2%	3.7%

** From 1 September 2004*
For periods prior to launch of C-class, performance has been adjusted to be on an equivalent fee basis.
Returns for periods longer than 12 months are annualised.

Portfolio performance

Thus far 2018 has been a tale of two quarters. The SA equity market delivered strong performance (+4.5% All Share Index) with rand hedges benefiting from rand weakness, while we saw a reversal in many SA Inc. stocks' (such as SA-focused banks and retailers) strong first quarter performance. The small/mid cap universe were not spared by the fading of expectations of a SA recovery.

The Nedgroup Investments XS Fund of Funds underweight in Naspers hurt performance, given its strong quarterly performance of 20.5%. Global asset classes delivered very strong performance for rand investors predominantly due to currency weakness. The increase in exposure to our portfolios offshore carve-out was the main contributor to the outperformance, relative to the peers' average return. Nominal bonds experienced further outflows from foreigners, which contributed to the -3.8% quarterly return (not far from the higher -3.1% relative return of our underlying bond fund).

The property sector staged a comeback in the last month of the quarter, delivering +7.7% as news flow from the Resilient group helped stabilise share prices. The property sector was however still down 2.2% in Q2 2018, and our portfolios' domestic property portion lagged given the concern on the corporate governance overhang that still exists. We are of the view that there remains tremendous pockets of value in the sector. The funds remain well positioned, with a healthy cash allocation, to take advantage of any opportunities that may arise.

Over the last three years, which is equivalent to the lower-risk-profiled fund's investment horizon, returns are behind the CPI+ benchmarks. This performance gap is not unique to this strategy and has been a function of higher inflation in the recent years coupled with no domestic asset classes delivering real returns in excess of the inflation plus targets for the three years ending June 2018.

Three-year annualised real return vs SA inflation (5.3%) as at 30 June 2018 (ZAR)

Domestic asset classes			Global asset classes		
Equity	All Share Index	1.3%	Equity	MSCI All Country World	7.5%
Property	SA Listed Property Index	-4.2%	Property	S&P Developed Property Index	5.7%
Bond	All Bond Index	2.3%	Bond	JPM Global Bond Index	1.3%
Cash	STeFI Call	1.2%	Cash	US 3 month deposits	-0.2%

We would expect the performance differentials of the XS Fund of Funds to narrow, as the high real yields available in the domestic bond market as well as the derating of various pockets of the market to more attractive levels. This give us reason to be more optimistic about reaching the inflation targets in the near future.

The table below highlights our rankings relative to respective peer fund categories, over various time periods. The appropriate measurement period for each solution is in bold.

XS Solution (C Class)	Peer Category	Year-to-date	1 year	3 years	5 years	7 years	10 Years	Since Inception*
XS Accelerated	South African – Multi Asset Flexible	20/63	33/59	20/51	13/42	**14/39**	10/32	4/13
XS Diversified	South African – Multi Asset – High Equity	29/189	125/182	57/132	**34/91**	37/70	14/47	14/18
XS Guarded	South African – Multi Asset – Low Equity	10/144	80/141	**27/108**	14/78	17/64	8/45	3/11

Source: Morningstar
** 1 September 2004*

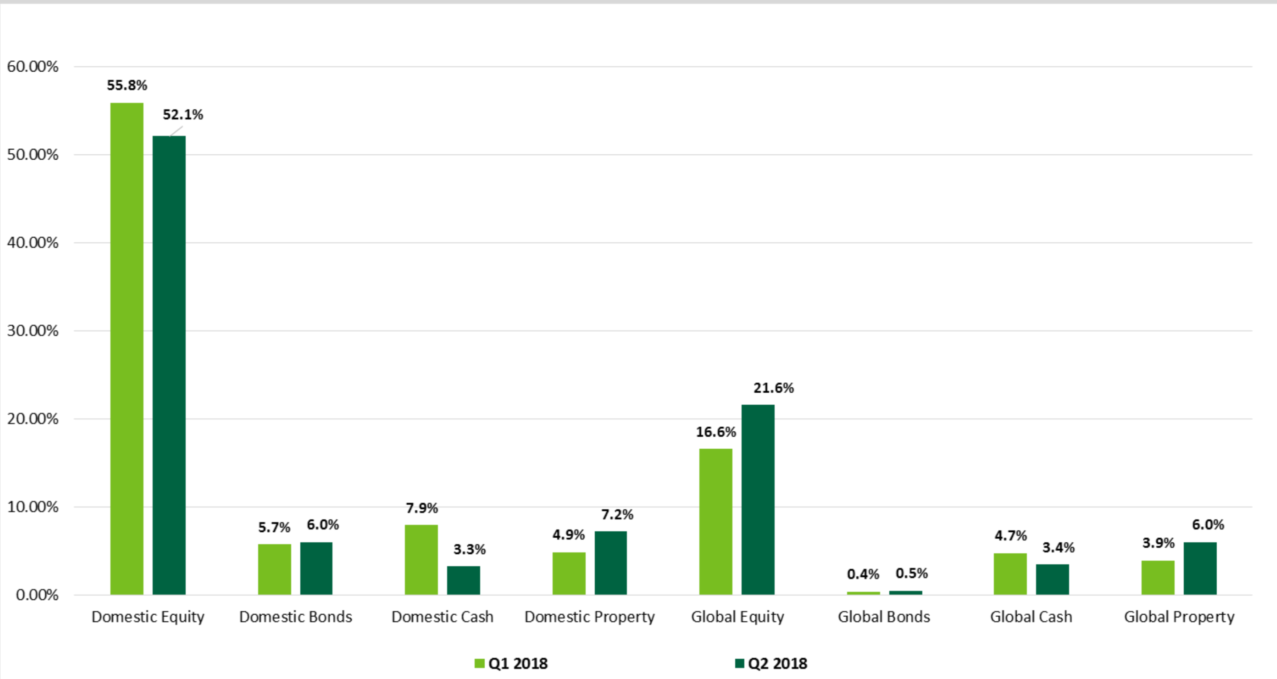
Part three: Portfolio positioning

As communicated in the last quarter's commentary; the Nedgroup Investments Multi-Management team was in the process of rolling out investment-led changes to the Nedgroup Investments XS Fund of Funds range, which were finalised by mid-July 2018. These changes involved our fund manager allocation – which included the introduction of a core passive holding.

As part of these changes, we used some of the cash buffer we had to introduce a 2% allocation to emerging market equities, which continue to show attractive value. The neutral position to local nominal bonds was largely retained; and the funds remains well positioned, with modest risk and a healthy cash allocation, to take advantage of any pockets of value.

As a result of the fund manager changes, our recent asset allocation views, market movements and attempts to keep the funds in line with their ASISA mandates; below is the asset allocation of the XS Fund of Funds range as at the end of the second quarter of 2018. The deployment of cash by the underlying offshore managers; as well as the strong performance of the offshore carve-out resulted in an increase in the offshore risky-assets exposure. Further trades will be conducted to take some profits; and ensure that the portfolios are compliant and within their regulatory limits.

XS Accelerated



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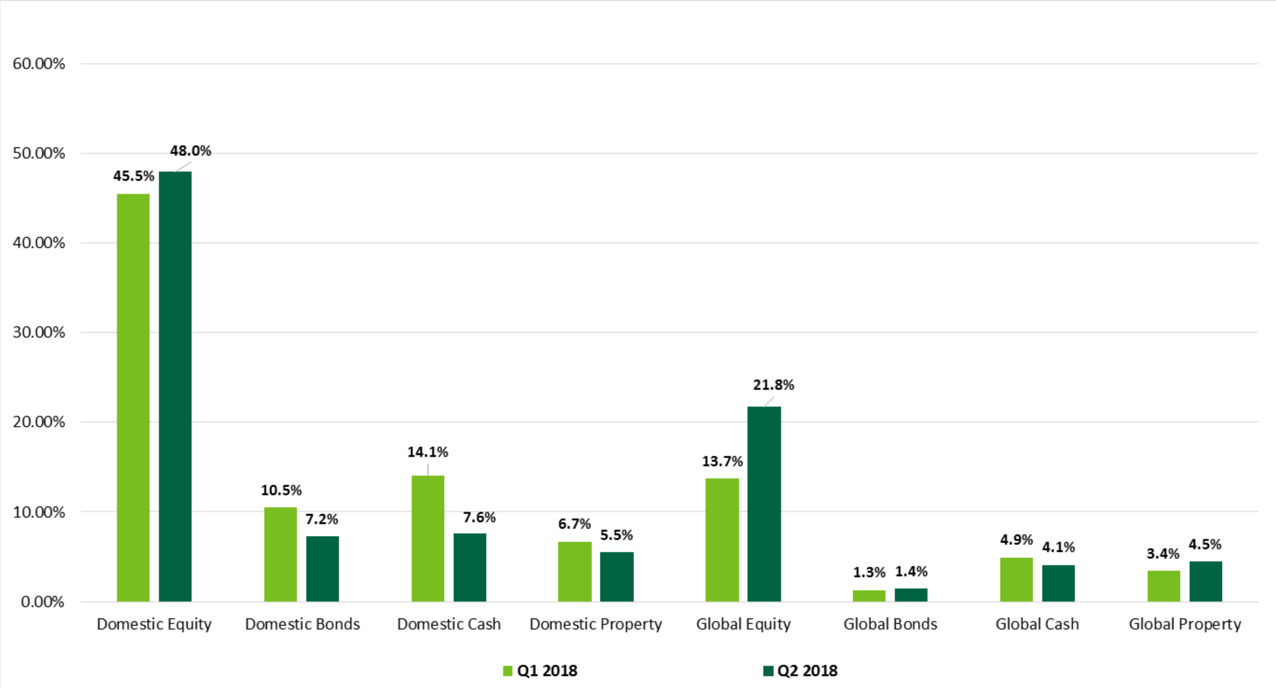
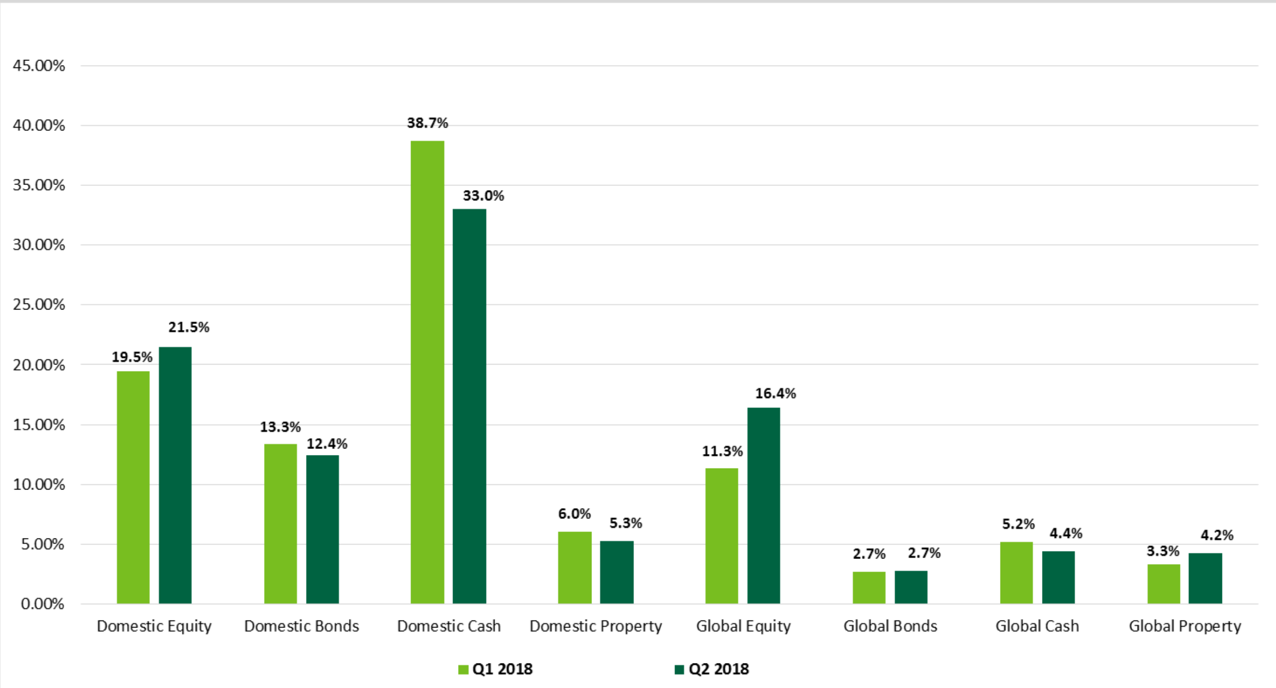
XS Diversified



XS Guarded



House View Summary

Asset Allocation and general positioning as at 30 June 2018

Asset Class	POSITIONING	General positioning
Domestic Equity	NEUTRAL	• **Up-weighted to neutral from a slight underweight** • Headline market valuations remain elevated relative to history. Pockets of opportunity have opened up market, but are not without risks. • Broadly balanced: rand-hedge exposure increased, although there remains meaningful exposure to domestic-facing sectors.
Domestic Property	NEUTRAL	• Neutral position retained due to derating in this sector providing more attractive entry points. Preference for active management, as stock selection is crucial. • Remain invested in **small/mid-sized** domestically focused listed property companies', although **SAPY heavyweights** are present via the new enhanced tracker holding.
Domestic Bonds	NEUTRAL	• Long dated bonds offer attractive yields and offer reasonable reward for local risks. We are however mindful of global risk factors, which tempers our outlook. We have played this cycle through our duration positioning given increased volatility. • Overall underweight duration in the funds' bond exposure.
Domestic Cash	SLIGHTLY UNDERWEIGHT	• **Overweight reduced.** Provides optionality and consistent return profile.
Offshore Equity	OVERWEIGHT	• International opportunities offer diversification, access to higher growth (e.g. EM) and risk adjusted returns, not just protection against rand weakness. • Underlying managers **exposed to the more attractive cyclical sectors** that are expected to benefit from the continued global earnings recovery and growth upturn.
Offshore Property	SLIGHTLY OVERWEIGHT	• Positioned for concerns around rising interest rates and impact of technology disruption. • Some exposure to data centre and cell tower REITS; and office and industrial REITS.
Offshore Bonds	UNDERWEIGHT	• **U/W global bonds in general.** Minor exposure to EM bonds.
Offshore Cash	SLIGHTLY OVERWEIGHT	• The underlying mangers have **deployed cash**, towards attractive stock specific opportunities. • Relatively a **sizeable foreign cash holding** remains, via Veritas and FPA.

Top 10 domestic equity holdings per investment solution as at 30 June 2018

	XS Accelerated Solution	%
1	Naspers Ltd	4.7%
2	British American Tobacco Plc	3.2%
3	Sasol Limited	2.8%
4	Standard Bank Group Ltd	2.4%
5	BHP Billiton Plc	2.1%
6	Santam Limited	1.7%
7	Richemont SA	1.6%
8	FirstRand Ltd	1.6%
9	RMB Holdings Limited	1.4%
10	Hudaco Ind Ltd	1.4%

	XS Diversified Solution	%
1	Naspers Ltd	4.4%
2	British American Tobacco Plc	3.0%
3	Sasol Limited	2.7%
4	Standard Bank Group Ltd	2.2%
5	BHP Billiton Plc	2.0%
6	Santam Limited	1.6%
7	Richemont SA	1.5%
8	FirstRand Ltd	1.5%
9	RMB Holdings Limited	1.3%
10	Hudaco Ind Ltd	1.3%

	XS Guarded Solution	%
1	Naspers Ltd	2.0%
2	British American Tobacco Plc	1.3%
3	Sasol Limited	1.1%
4	Standard Bank Group Ltd	0.9%
5	BHP Billiton Plc	0.8%
6	Santam Limited	0.7%
7	FirstRand Ltd	0.6%
8	Richemont SA	0.6%
9	Hudaco Ind Ltd	0.5%
10	RMB Holdings Limited	0.5%

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Manager Allocation as at 30 June 2018

	Underlying holdings	Accelerated	Diversified	Guarded
1	Rainmaker (ABAX)	15.8%	14.8%	5.9%
2	Value (Foord)	16.0%	15.2%	5.9%
3	Mazi Prime Equity	5.1%	5.4%	3.0%
4	Entrepreneur (ABAX)	8.0%	6.8%	4.0%
5	Core RANGE (Taquanta)	19.5%	17.5%	17.7%
6	Property (Bridge)	2.7%	2.2%	2.3%
7	Prudential Enhanced SA Property Tracker	1.2%	0.9%	0.9%
8	Bond (Taquanta)	5.0%	4.8%	7.6%
9	Core Income (Taquanta)	0.0%	0.0%	11.6%
10	Flexible Income (ABAX)	0.0%	5.5%	18.5%
11	Global Equity (Veritas)	15.8%	14.7%	8.2%
12	Coronation GEM Flexible	1.9%	2.0%	2.0%
13	Global Flexible (FPA)	3.5%	5.7%	8.2%
14	Global Property FF (Resolution Capital)	5.2%	4.3%	4.1%
	Local Cash	0.3%	0.1%	0.1%
		100.0%	**100.0%**	**100.0%**

Highlighted are the new manager holdings introduced over the quarter; with full implementation of the communicated changes completed in mid-July 2018.

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Part four: Fund manager review

The Nedgroup Investments investment philosophy is one that seeks to appoint specialist portfolio managers who are most appropriate for the achievement of each solution's benchmark. This allows us to implement the fund management of your investment solutions using a number of investment specialists with proven track records. Below are summaries extracted from the underlying managers' quarterly commentaries and the recent interactions we have had with them.

DOMESTIC GENERAL EQUITY

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
ABAX Investments	-0.4	8.3	3.6	10.1	9.9
Foord Asset Management	0.1	3.6	2.9	8.3	11.3
Mazi Asset Management	0.5	8.3	3.3	10.4	N/A
ASISA SA Equity General Peer Group	1.1	7.9	2.7	7.9	8.4

Mazi Fund Managers were introduced to this building block during May 2018. Older than 3 moths' performance data based on Mazi's long-term track record.

ABAX Investments

Thus far 2018 has been a tale of two quarters. This is most evident when you assess the top contributors and detractors to the fund's performance. Standard Bank and Truworths which were the primary contributors to the fund's outperformance in Q1 2018, proved to be the largest detractors in Q2 2018, a notable reversal of fortunes.

Predicting the impact of sentiment on equity prices in the short term considering how widely they have swung in the last six months alone is a very challenging task. The approach at ABAX is always to try and remove the emotional aspect and analyse each company's prospects on the facts they have to hand. Their long-term approach of investing in economically robust businesses, at reasonable prices, run by competent management teams and which they believe will produce consistent compounding growth in profits and dividends. Thus, it does not come as a surprise that there has been little change to the top holdings in the portfolio since the end of the last quarter. The most notable changes in the portfolio are a reduction in the size of the Truworths position (no longer in the top 10 due to a combination of taking profits and share price underperformance) and the overall increase in their rand-hedge exposure. Following the strong rally seen in select sectors, they also reduced exposure to some of the top performers (such as Truworths, Mr Price, Massmart and FirstRand). A substantial portion of the proceeds from these disposals were rotated into rand hedges. The manager added to several existing positions including Anglos, Sasol, Richemont and British American Tobacco. It is interesting to note that at quarter end, the rand hedge versus purely SA composition of the portfolio had swung back in favour of rand hedges. Rand-hedge shares represent approximately 50% of the fund at June 2018, notably higher than at the end of the first quarter (Mar'18: 45%) as well as at the start of the calendar year (December 2017: 47%). During the quarter they also made the decision to sell out of the last Steinhoff shares owned. This was not a decision we took lightly, but as new news became available it became evident that conditions for the firm had continued to deteriorate to a point where the future of Steinhoff as a going concern became very precarious. As we begin the third quarter of 2018, political turbulence and uncertainty around trade disputes has increased and they remain on guard that this may undermine confidence levels and impact financial asset prices. The team remains focused on equity selection and believe that the diversified portfolio structure, built around a core of the highest quality companies will prove resilient. The portfolio currently trades on a forward rolling Price/Earnings (P/E) ratio of 13.7x and a dividend yield of 3.4%.

Foord Asset Management

Foord retains some allocation to domestic facing local businesses, but is still in favour of companies whose earnings are derived offshore. Their bias towards rand-hedge industrials has thus remained intact, despite having a zero allocation to Naspers (in line with their value investment style). Some domestically focused companies detracted (Metair, Invicta, EOH Holdings), although the underweight allocation to domestic retailers protected the portfolio from further losses. Substantial positions in rand hedges, BHP Billiton (+32.7%), Sasol (+25.1%), CF Richemont (+9.8%) rebounded strongly and were the major contributors to performance. Capital & Counties (+15.3%), their only property holding at 6%, performed strongly as a key beneficiary of rand weakness but also because of the company announcing its intention to split the company. NewGold (+11.3%) was a positive contributor to performance.

Regarding Steinhoff, the PwC investigation is still underway with no finality on the scale and breadth of the alleged wrongdoings that have thus far been uncovered. The supervisory board are also currently in the process of finalising a restructuring plan to enable Steinhoff to operate on a financially self-sustaining basis going forward, the results of which are likely to be disclosed in the next few months. In light of these uncertainties, Foord currently remains invested in Steinhoff given the upside optionality that exists off of a low share price prior to the restructuring plan being implemented. The manager's cash holding reduced by almost half, to under 5%. They have also kept a near benchmark exposure to the local resource sector.

Mazi Asset Management

The second quarter of 2018 proved to be challenging with the fund returning 0.53% against the ALSI SWIX benchmark return of 2.1%. Positions in Exxaro, Pick and Pay, Amplats, Anglo American, Investec and Clicks were notable contributions to the delivery of the return. In addition, the portfolio benefited from having very little exposure to the hospital and telecoms group as well as companies such as Nedbank, Barloworld, Tiger Brands and Steinhoff. As for hospitals and SA telecommunication companies they find the growth outlook unexciting while neither industry has meaningful pricing power in their opinion and face the added headwind of governmental and/or social pressures. The sharp selloff in the domestic markets meant that the portfolio suffered from positions held in Cashbuild, The Foschini Group, Truworths, Old Mutual, Attacq, Dischem and Bidvest. In terms of corporate action, Libstar listed on the stock exchange during the quarter and was not spared as the company was down 15% since the IPO – contributing negatively to the portfolio's return. The construction sector continues to struggle as the dearth of opportunities continue – with the portfolios exposure to PPC, Afrimat, Group 5 and Aveng detracting from performance. The banking sector was also impacted with positions in FirstRand and Standard Bank detracting from performance, while Capitec contributed marginally as the company's share price continues to slowly recover from the allegations levelled against it earlier in the year.

The manager remains constructive on the outlook for South Africa as they anticipate a multi-year economic expansion as corruption is rooted out and the country starts the process of rebuilding institutions, infrastructure and productive capacity. The fund is overweight the banking, retail and construction/retail sectors, while being underweight the hospital and telecommunications sectors. The biggest overweight position is Old Mutual, where they expect that substantial value will be unlocked by the managed separation which is currently underway. Finally, they continue to see substantial value in Naspers (biggest absolute contributor), both from a narrowing of the discount to underlying businesses and continued growth of its biggest investment, Tencent. This new domestic equity holding was introduced to the Nedgroup Investments XS Fund of Funds range towards the end of May 2018.

DOMESTIC SMALL/MID CAP EQUITY

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
ABAX Investments	-6.0	5.1	4.3	9.4	12.6
ASISA SA Small/Mid Cap Peer Group	-5.5	-3.5	-0.6	4.7	7.3

ABAX Investments

The first quarter was characterised by strong performance in domestic oriented businesses benefiting from a further appreciation of the rand and a surge in business and consumer confidence. Sadly, much of this unwound in the second quarter as an appreciation for the enormity of this task sank in, as well as the time it will take and some doubt around its eventual success. The Nedgroup Investments Entrepreneur Fund, despite maintaining its relative performance against the small and mid-cap indices has surrendered all of its relative outperformance of Q1 against the JSE All Share Index in Q2.

Investors in the fund will notice little change to the top 10 holdings in the portfolio since the end of the last quarter. The two most notable movements in the portfolio since the last quarter are the reduction in the size of the KAP position and the increase in exposure to Imperial which has resulted in it being elevated into the Top 10. In the March 2018 commentary it was noted that the fund had opportunistically used the part disposal of Steinhoff's stake in KAP during Q1'18 to increase exposure to KAP at what the manager considered to be good valuations. During the course of Q2 it became increasingly apparent that the Steinhoff balance sheet remains in an extremely precarious if not insolvent position. ABAX consequently believe that the requirement to dispose of the remaining 26% it still owns in KAP to be an inevitability. This factor combined with a decline in equity values for all SA domestic oriented businesses from banks to retailers to manufacturers and industrial companies resulted in further weakness for KAP. While they consider the current valuation of KAP to be attractive in the context of its short- and medium-term growth prospects (and why it remains a core position), the technical market headwinds it faces are undeniable, and the overhang created by the eventual placing of the remainder of the stock owned by Steinhoff is an event they anticipate. So, in the light of these circumstances the team re-evaluated the original very heavy position in the stock and concluded it was too aggressive and so reduced the position quite substantially from ±6.5% at the end of Q1’18 to ±3.5% at the end of Q2 2018.

Imperial management has worked hard to streamline a bloated company to focus on a reduced number of core activities by shedding non-core businesses and cutting costs. In addition, the recent decision by the Board to split and separately list its two essential components – Car Dealerships / Distributorships and Logistics Operations is viewed positively and expected to unlock further value. As a consequence, following the removal of Imperial from the JSE Top 40 Index and the short term relative under-performance of the stock since the end of Q1 2018 (reasons discussed above), the manager elected to dispose of Supergroup entirely and to consolidate into a single exposure through Imperial which is their preferred counter.

As at the end of June 2018 the Fund’s weighted P/E, dividend yield and Price to Book ratios were 14.2, 3.3% and 2.1X respectively.

DOMESTIC MULTI-ASSET

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
Taquanta Asset Managers (Core Guarded)	2.3	8.1	6.6	8.8	-N/A
ASISA SA MA Low Equity Peer Group	2.8	6.9	5.7	7.3	8.1
Taquanta Asset Managers (Core Diversified)	2.6	8.7	5.5	9.8	-N/A
Taquanta Asset Managers (Core Accelerated)	2.8	7.6	-N/A	-N/A	-N/A
ASISA SA MA High Equity Peer Group	3.5	7.2	4.6	8.0	8.4

Taquanta Fund Managers were appointed to manage this building block during May 2018 (prior to this was Truffle). Performance data based on Taquanta’s long-term track record.

Taquanta Fund Managers

Over the past three months the SA Core range was up by between 2.3% (Core Guarded) to 2.8% (Core Accelerated). These returns were mainly driven by SA equity markets and the rand depreciation on the global exposure. Cash was also a key contributor to the funds’ performance, especially in the more conservative Core Guarded Fund. The past 12 months have delivered returns of between 7.6% (Core Accelerated) and 8.7% (Core Diversified), driven by the same drivers as above. SA listed property was however a major detractor over the past year, down by nearly 8% across the three portfolios.

On the offshore side, the Nedgroup Investments Core Global Fund (USD) which is used in the local Core range, experienced moderate growth of 7.2% over the past 12 months. This was mainly driven by global equities and listed property. The rand weakening over the quarter enhanced the rand returns of the offshore portion in the SA Core range.

DOMESTIC PROPERTY

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
Bridge Fund Managers	-5.9	-4.8	2.3	7.9	-N/A
Prudential Investment Management	-2.5	-11.1	1.3	7.1	-N/A
ASISA SA Real Estate General Peer Group	-2.1	-8.7	0.9	6.9	14.1

Prudential were introduced to manage the enhanced passive tracker as part of this building block during May 2018. Performance data based on Prudential's long-term track record.

Prudential Enhanced SA Property Tracker

The FTSE/JSE SA Listed Property (SAPY) Index declined by 2.2% in the second quarter of 2018. Since the start of the year, the SAPY Index has declined by 21.4%, mainly because of large price declines in Fortress B, Greenbay, NEPI Rockcastle and Resilient ("the Resilient group"). While the share prices of both Fortress B and Resilient gained more than 20% in the second quarter, year-to-date Fortress B is still down 62.2% and Resilient is down 57.1%. Most SA listed property companies delivered negative returns for shareholders in the second quarter (continuing with the trend since the beginning of the year). Excluding the four Resilient companies, the asset class is trading modestly above its fair value range. Detractors from relative performance, by Prudential, were largely as a result of underweight positions in Fortress REIT B shares and NEPI Rockcastle of 0.15% and 1.75% respectively. These positions are examples of the risk-conscious approach to active stock selection and of the manager's fundamental strategy; being underweight large-cap and lower-yielding stocks and holding excess weight in higher-yielding stocks. Prudential is of the view that the sector is priced to deliver attractive low double-digit returns over the medium term, but they also remain concerned about the risks in the sector, including slow growth and rising inflationary pressures.

Bridge Fund Managers

Most investors in the listed property sector have lost a fifth of their capital (-21.4%) since the end of December last year, while the Nedgroup Investments Property Fund in contrast is down 3.0% year-to-date. The steep losses experienced by the average investor in the sector have no doubt undermined confidence in South African listed property companies. However, the bulk of the losses incurred by the sector in 2018 were company-specific and the manager is of the view that they do not reflect a systemic risk in the sector. Most of the companies continue to trade at significant discounts to net asset value and on yields well above the yields on longer-dated SA government bonds, offering significant value for long-term investors. During the second quarter of 2018, the fund underperformed the SAPY Index as well as the average of the peer group.

The fund continues to have no exposure to the Resilient group of companies as they remain under investigation by the FSCA and the JSE following allegations of share price manipulation which lead to the companies becoming grossly overvalued by the end of 2017. Among the mid-capitalisation companies, Arrowhead's share price declined by more than 14% in the second quarter despite a slightly more upbeat outlook statement from the company's management following increased letting activity which should see a meaningful reduction in the company's vacancy rate and lead to stronger distribution growth in the 2019 financial year.

Based on a combination of FactSet, IRESS and Bridge Fund Managers' forecasts, the weighted average forward yield of the portfolio is currently 12.3%. Based on the same forecasts, the weighted average forward yield on the FTSE/JSE SA Listed Property (SAPY) Index is 8.5%, while the yield on government's R186 bond is 8.7%. As stated before, the fund continues to invest predominantly in small and mid-sized, domestically-focused listed property companies. These companies continue to trade at discounts to net asset value due to a lack of meaningful institutional support, thus providing a significant margin of safety for investors. These property businesses also continue to offer investors attractive initial income yields well above the yields on long-dated government bonds, while at the same time offering growth in distributions that are forecast to exceed inflation over the medium and long-term. As a result, they allow the fund to meet its objectives of providing a high level of current income, consistent inflation-beating income growth and long-term inflation beating capital growth.

DOMESTIC FIXED INCOME

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
ABAX Investments (flexible)	2.3	7.4	8.2	8.2	8.6
Taquanta Asset Management (cash)	2.0	8.4	8.2	7.4	-N/A
ASISA SA IB Money Market Peer Group	1.8	7.5	7.4	6.8	6.9
110% STeFI Call Deposit	1.7	7.4	7.3	6.6	7.0
Taquanta Asset Management (bond)	-3.1	10.1	8.0	7.5	9.6
ASISA SA IB Variable Term Peer Group	-3.2	8.4	6.9	6.7	9.2

ABAX Investments

ABAX Investments believes that government bonds are now closer to fair value, after a significant sell-off. Given that the risks to the economy and fiscus remain, they prefer to only take on a material long duration position if the market were to cheapen further. As the market for fixed income assets weakened over the quarter, the manager added to the fund's domestic nominal duration position. Domestic duration is now around 0.2 from 0 last quarter. This is still a relatively low duration exposure as SA yields are only marginally cheaper than fair value. The team anticipates that worse fundamentals and greater pressure on emerging markets as central banks reduce monetary support, will present an opportunity to invest at higher yields. The portfolio has a high degree of credit quality, with no unlisted issuers. Corporate credit spreads remain very compressed, as a function of the global liquidity dynamic and lack of corporate bond issuance in South Africa. They have focused their asset purchases on senior bank debt and will wait for value to emerge before taking corporate bond exposure. The rand is currently marginally cheaper than fair value after this quarter's significant sell-off. As a consequence, they reduced the fund's exposure to foreign currencies by 2%. The team used the opportunity to lock in some gains using derivative overlays. These will benefit them if the rand appreciates, while offering further participation to rand weakness. The team believes it makes sense to maintain a foreign exposure at these levels. The effective currency exposure is 6.5% at present.

They hold just under 4% in convertible bonds issued by Royal Bafokeng Platinum (local) and Remgro (offshore). The manager has historically added value through this asset class as it provides a mix of yield and capital appreciation. They will look to increase the exposure if they see value. The manager's aim is to generate a reasonable return with a low level of downside risk, and take advantage of opportunities provided by any shocks to add risk exposure when the market offers value. A more volatile environment, which they are starting to see materialise, and wider credit spreads will create opportunities for the Nedgroup Investments Flexible Income Fund.

Taquanta Fund Managers (Core Income and Core Bond)

The Core Income portion of our portfolios is well invested across all the major SA banks as well as having international bank and South African government exposure. The fund is within its mandate with investments in high quality issuers, with almost all with an investment grade rating. Approximately 39% of the assets have been obtained within the last year and assets that are maturing in the next 90 days will be reinvested with new assets. In line with the manager's long-standing philosophy of immunising their portfolios against market risk by including a high level of floating rate assets, the fund holds a large number of floating rate NCDs issued by banks (60%). The general nature and quality of the assets also provide a high degree of liquidity to the Fund whilst still providing excellent yields. The average modified duration (term to re-pricing) of the Core Income portfolio was approximately 38 days. The fund is well positioned to take advantage of the current economic climate and any rate hikes should they materialise sooner than expected.

The aim of the Nedgroup Investments Core Bond Fund, managed by Taquanta, is to produce superior risk-adjusted returns relative to the peers. The manager believes that there is very little persistence skill in the timing of duration bets and consequently the ability to outperform on a consistent basis. The approach of this fund is to attempt to outperform peers through the following:

- Staying largely neutral on modified duration;
- Lower fees;
- A low turnover approach;
- Prudent and timeous exposure to credit to enhance returns;
- Optimal portfolio construction to select stock exposures.

To achieve this goal the fund has largely reduced its relative negative duration position, although its position is still net short the All Bond Index. The fund weighs the risk of adverse capital movements relative to the attractiveness of yields offered on the long end of the curve and to this end has increased its exposure in this area in order to reduce its relative risk. Exposure to government bonds is at 75% of the fund, while 23% is in credit (lower than peers). The yield on the fund as at 30 June was 9.36%.

GLOBAL EQUITY

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
Veritas Asset Management	19.3	9.0	11.7	15.6	10.7
Coronation Fund Managers	5.3	10.4	9.3	9.5	-N/A
ASISA Global Equity Peer Group	15.6	12.9	10.1	13.9	9.7

Coronation were introduced to manage emerging markets as part of this building block during May 2018. Performance data based on Coronation's long-term track record.

Veritas Asset Management

For the second quarter of the year, the global building block portion of our portfolios delivered just over 19%, with the weak rand adding to the strong performance. The portfolio also outperformed the index over the quarter. The key contributors were within health care, IT and industrials. Turning first to health care, the two largest price rises came from Baxter International and UnitedHealth Group. Dentsply Sirona within health care was a detractor as it fell over the quarter. The portfolio is overweight in IT with a number of positions performing well over the quarter. These included Baidu, Alphabet, Black Knight, Microsoft and Facebook. The key detractors over the quarter were the two US cable companies, which despite performing well in June and finishing positive for the quarter, rose less than the benchmark.

The most notable changes in the portfolio is the 40% turnover of the Top 10 holdings, which saw the largest counter Comcast being trimmed down from 5.9% to being 3.2% over the quarter. Charter Communications, also a US cable company, was increased and is now the new largest holding at 6.7%; followed by American Express (5.6%), Microsoft (4.2%), Rolls Royce (4.1%) and Cigna Corp (4.0%). Airbus has also been reduced, to just under 4%, given its good results which were well above expectations and led to the share price rising. Robust free cash flow growth has been at the core of the team's investment thesis for Airbus since they initiated the position and is clearly now coming to fruition. The Veritas Global team are adherents of both quality investing and value investing at the same time, aiming to buy companies with substantial competitive advantages (i.e. quality) when they are available at attractive valuations. Given the prolonged bull market we have experienced over the last 9 years and particularly the increasing trend to invest in "quality" companies it has become harder to find attractively valued opportunities. Consequently, Veritas has more recently increased existing opportunities (Cigna, Facebook, Unilever and Reckitt Benckiser) when others are selling due to short-term concerns, reducing their cash holding by over 4% to 9.2% as the end of June 2018. The purchase of Unilever and Reckitt Benckiser in the last 6 months, and after 5 years since the portfolio held a position within Consumer Staples (a sector that contains a high number of high quality companies), was due to an opportunity that often arises if a company goes through a difficult period or is perceived to be suffering from a significant competitive threat.

Over the quarter, the manager completely disinvested out of the healthcare company, Express Scripts. The geographical allocation of the fund is currently mainly split between the US (55.7%), European (18.6%) and UK (11.5%) equity markets. The fund has smaller holdings across Asian equity markets (5.0%) through Baidu and Sonic Healthcare.

Coronation Fund Managers

The fund appreciated by 5.3% in the past quarter, slightly behind the 6.9% increase in the MSCI EM index. The largest negative detractors over the period were the Brazilian education stocks, Kroton and Estácio, which together detracted 2.3%. The Brazilian education stocks, after being significant positive contributors in both 2016 and 2017, have been large detractors in 2018 so far. The main positive contributors were YES Bank (+0.7%) contribution), Baidu (+0.5%) and Airbus (+0.5%). Since the fund launched 10.5 years ago it has appreciated by 9.8% per annum when compared with the 8.2% per annum return from the MSCI Emerging Markets Index.

There were three new buys during the quarter: Phillip Morris International (4.8% of fund and the largest new position), Anheuser Busch InBev (1.7% of fund) and YUM China (0.8% of fund). For the c. 10.5-year period since inception of the fund in December 2007 and until January of this year, the team had on average 1% exposure to the tobacco companies. However, they believe that for the first time in several years tobacco stocks are now very attractive and BAT and PMI (both of which have high emerging market exposure: 43% and 55% respectively) are 5.4% and 4.8% positions in the fund.

Members of the team continue to travel extensively to enhance their understanding of the businesses they own in the fund, their competitors and the countries in which they operate, as well to find potential new ideas. The weighted average upside to fair value of the fund at the end of June was an attractive c. 53%.

GLOBAL FLEXIBLE

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
First Pacific Advisors (FPA)	16.4	8.4	9.4	12.5	9.2
ASISA MA Global Flexible Peer Group	14.9	9.5	7.8	11.4	8.6

FPA were appointed to manage this building block during June 2012 (performance prior to this was Sarasin & Partners)

First Pacific Advisors

The top five performing positions added 1.13% to the contrarian-value-oriented global flexible mandate, while the bottom five detracted 1.34%. The strong performance for the second quarter of the year was largely driven by the weakening of the rand, which benefited the SA investor.

The manager still has concerns about the elevated valuations but managed to find pockets of opportunities, where they locked gains by reducing positions into strength and bought into weakness when opportunities presented themselves. MMC Norilsk Nickel was reduced (to almost zero); and this is in line with other decreases to Russian names in the portfolio earlier in the quarter (e.g. Gazprom, Rosneft). The manager wanted to reposition their total exposure and would ideally like to invest in more compounder types of businesses rather than retaining commodity based trading opportunities. The Microsoft holding was also reduced (no longer forms part of the Top 10 holdings) due to a decrease in valuation driven by the large price increase continuing over the first half of the year. The team used the recent increase in volatility to add to new positions in the portfolio, such as Lafarge, HeidelbergCement and JD.com. The total equity allocation now sits at a higher 62.2%; and the cash holding has been reduced to 35.5% as at the end of June, from 41.3% in the previous quarter. The high cash buffer is not a yield play, but reflects their view that markets are not sufficiently compensating investors for the risks to which they're being exposed and they are patiently waiting for opportunity to deploy more capital. Over the longer, more appropriate investment horizon, the fund has managed to outperform both its composite benchmark and the category average peers.

GLOBAL PROPERTY

Fund Manager Performance as at 30 June 2018	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)	10 Years (annualised)
Resolution Capital	20.4	11.6	11.9	15.3	14.2
ASISA Global Real Estate Peer Group	18.9	8.4	7.9	11.4	9.0

Resolution Capital were appointed to manage this building block during September 2016 (prior to this was Catalyst and Oasis). Performance data based on Resolution Capital's long-term track record.

Resolution Capital

Following weakness in the preceding quarter, the global listed real estate sector rebounded to produce strong returns for the quarter ended 30 June 2018. The portfolio underperformed the benchmark, although remained ahead of the category peer average. The REITs short-term performance was boosted by balanced supply/demand conditions with broad tenant demand absorbing moderately elevated commercial construction activity; strong transaction pricing of direct real estate; and increasing levels of REIT M&A activity. Furthermore, during the quarter, investors appeared to be willing to take more risk within the REIT sector, buying what the manager considers to be real estate at the lower quality end of the spectrum as well as real estate sectors with shorter-term leases, such as self-storage and hotels. Additionally, REIT sectors which had underperformed in recent periods (such as US health care and retail) rebounded. It was notable that U.S. and Hong Kong retail related REITs appeared encouraged by improving retail sales and signs that an increasing number of retailers are adapting to an omni-channel environment, which involves a combination of on-line and in-store sales platforms. The fund's lack of exposure to the strongly performing self-storage sector was a major detractor from relative performance. Furthermore, some of the key stock positions failed to perform in the quarter, namely ProLogis, Empire State Realty Trust and Sun Hung Kai. In light of strong market gains, the circa 4% cash exposure also acted as a drag on returns. The manager did get some calls right – their decision in the earlier part of the year and quarter to selectively buy and increase positions in retail and healthcare property focused vehicles in Hong Kong and the US limited some of the underperformance. Both Simon Property Group and U.S. Healthcare REIT HCP were two of the largest contributors to performance for the quarter.

The portfolio changes that were made by the manager over the past three months was disinvesting out of the US retail REIT GGP and the Australian office REIT Investa Office Fund. The team also introduced exposure to US health care REIT Healthcare Realty Trust Incorporated, increased over benchmark weight in US healthcare REIT HCP, switched from over to under benchmark weight in European retail REIT Unibail-Rodamco-Westfield and reduced over benchmark weight in US industrial REIT ProLogis. This carve-out remains exposed to REITs with high quality property portfolios which are underpinned by contractual medium to long-term inflation-linked income streams and balance sheets appear to them to be in reasonable, if not strong, shape.

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