



NEDGROUP
INVESTMENTS

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XS
SELECT

QUARTERLY
REVIEW

Quarter One
2018

Nedgroup Investments

XS Select Quarterly Review

Quarter One, for the period ended March 2018

XS Select Equity FoF Class C		Q1 2018	1 year	2 year	3 year	5 year	Inception*	Volatility*
Fund of Funds	XS Select Equity	-4.3%	4.4%	3.0%	3.1%	9.0%	10.1%	11.3%
Benchmark	Inflation + 6.5%	3.1%	10.8%	12.0%	12.6%	12.3%	13.0%	n/a
XS Select Diversified FoF Class C		Q1 2018	1 year	2 year	3 year	5 year	Inception*	Volatility*
Fund of Funds	XS Select Diversified	-3.6%	4.3%	3.0%	3.8%	7.5%	9.4%	7.9%
Benchmark	Inflation + 5%	2.8%	9.2%	10.4%	11.1%	10.7%	11.4%	n/a
XS Select Guarded FoF Class C		Q1 2018	1 year	2 year	3 year	5 year	Inception*	Volatility*
Fund of Funds	XS Select Guarded	-1.6%	4.9%	4.0%	5.0%	7.7%	9.1%	4.5%
Benchmark	Inflation + 3%	2.3%	7.2%	8.3%	8.9%	8.6%	9.3%	n/a

* From 1 November 2006. Returns for Class A are used prior to launch of Class C, adjusted to an equal fee basis. Source: Morningstar; Returns for all periods greater than one year are annualised.

Portfolio performance

2018 is off to a good start for South Africans with 'Ramaphoria' keeping the positive sentiment going post the ANC's elective conference in December, but most markets have had a challenging start to the year. The 15-month global equity bull-run ended in February with a sharp market correction, the SA equity market is down 6.0% for the quarter, SA property is down 19.6% mainly due to stock specific concerns and the rand strengthening 4.5% to the US dollar had a negative impact on the fund of funds foreign exposure. As a result, the XS Select Fund of Funds ended the quarter in the red.

Similarly, the XS Select Fund of Funds three-year real returns ended the quarter still in negative territory. As per the table below, most major asset classes underperformed SA inflation over the last three years, making it very difficult for fund managers to find inflation-beating investment opportunities.

South Africa			Global		
Asset class	Market Index	3 year real return (ZAR)	Asset class	Market Index	3 year real return (ZAR)
Equity	All Share Index	-0.7%	Equity	MSCI All Country World	2.0%
Property	SA Listed Property Index	-5.9%	Property	S&P Developed Property Index	-3.2%
Bond	All Bond Index	2.7%	Bond	JPM Global Bond Index	-3.4%
Cash	STeFI Call	0.8%	Cash	US 3 month deposits	-5.5%

Source: Morningstar; Returns for all periods greater than one year are annualised.

The XS Select Fund of Funds continue to perform well relative to their respective peer groups over all meaningful periods. The performance of XS Select Guarded over the last three years (5.0%), five years (7.7%) and since inception (9.1%) is ahead of the (ASISA) SA Multi-Asset Low Equity peer group average at 4.8%, 6.9% and 8.0% respectively. The performance of XS Select Diversified over the same periods (3.8%; 7.5%; 9.4%) is ahead of the (ASISA) SA Multi-Asset High Equity peer group average at 3.4%, 7.4% and 8.6%. XS Select Equity is ahead of the (ASISA) South African Equity General peer group average at 3.1% vs 2.1% over three years, 9.0% vs 7.4% over five years and 10.1% vs 9.2% since inception.

Nedgroup Investments XS Select Equity Fund of Funds ('XS Select Equity')

Nedgroup Investments Value was the top performer this quarter. Its largest holding, Santam (9.4%) is up more than 20% YTD and not holding Naspers (-16.2% YTD) contributed to the fund's return relative to peers. The Nedgroup Investments Rainmaker was the top performer over the last year with the average allocation of 18.8% to Naspers contributing 6.3% and the average allocation of 6.3% to FirstRand contributing 2.8%.

British American Tobacco (BTI), widely held by the underlying managers, detracted this quarter with the share price declining by 16%, partly due to a global trend of disinvesting from consumer staples and partly due to regulatory concerns. The underlying managers still believe that the market is underappreciating the pricing power, stable earnings and cash flow generation inherent in the business.

As per the table below, XS Select Equity continues to have meaningful exposure to both rand hedges, like Sasol and British American Tobacco, as well as SA Inc. companies, like Santam and FirstRand. The exposure to Naspers has been reduced by almost 2% on the back of a very strong run in Tencent's share price.

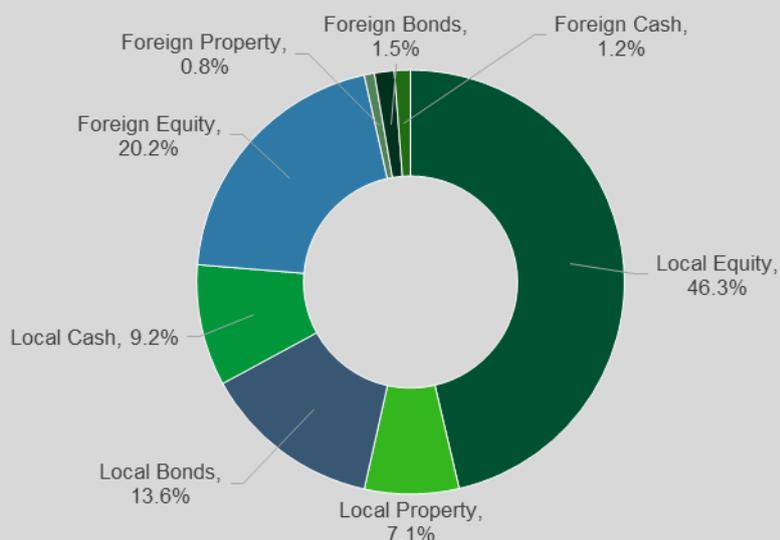
Company	XS Select Equity (% allocation)	Company	XS Select Equity (% allocation)
Naspers Ltd	7.3%	Santam Ltd	2.3%
British American Tobacco Plc	5.7%	BHP Billiton Plc	2.3%
Standard Bank Group Ltd	5.6%	RMB Holdings Ltd	2.0%
Sasol Ltd	3.5%	Hudaco Industries Ltd	1.8%
MTN Group Ltd	2.7%	FirstRand Ltd	1.8%

Nedgroup Investments XS Select Diversified Fund of Funds ('XS Select Diversified')

Prudential Balanced was the top performer this quarter and over the last year. The average allocation of 12.5% to SA bonds was the biggest contributor this quarter and the average allocation of 40.9% to SA equities the biggest contributor over the last year.

Foord Balanced underperformed peers over the last year. The allocation to the R186 government bond delivered positive returns for the quarter and over the last year, while the allocation to foreign assets was the biggest detractor for the quarter and the allocation to SA equity the biggest detractor over the last year. Foord has maintained a bias to global businesses as they remain concerned that shares exposed to the local economy have run ahead of fundamentals.

The chart below illustrates the asset allocation of XS Select Diversified as at 31 March 2018. The total equity exposure is at 66.5% and including property, exposure to growth assets at 74.6%. The allowable maximum direct foreign exposure was increased from 25% to 30% following the 2018 National Budget set in February, but XS Select Diversified's direct foreign exposure has been maintained at just under 25%. The rand is currently trading at, to slightly stronger than, fair value and arguably offering an attractive entry point. However, global market valuations are, in general still stretched and not offering fund managers enough compelling investment opportunities to increase their exposure to the new 30% limit.



Nedgroup Investments XS Select Guarded Fund of Funds ('XS Select Guarded')

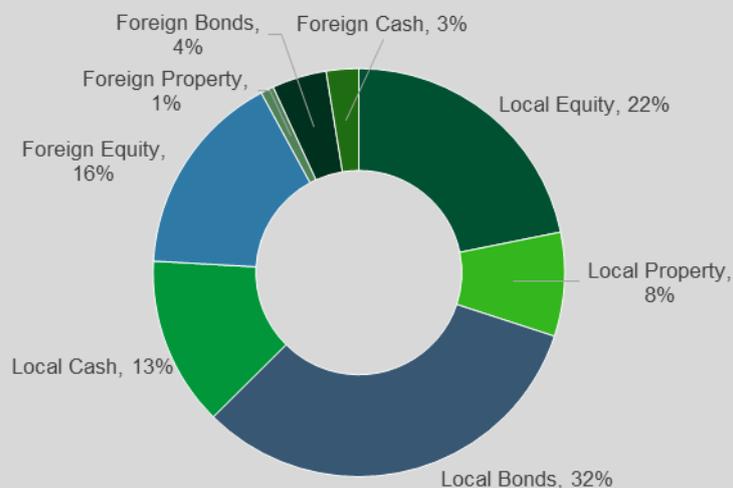
Nedgroup Investments Core Guarded was the top performer this quarter and over the last year with SA bonds and cash being the biggest contributors. The SA bond exposure benefitted from maintaining a fairly high duration in a year the SA All Bond Index returned 16.2% and effective management of the fund's high cash allocation resulted in a 2% outperformance relative to the cash benchmark (STeFI Call Index).

The Resilient stable that made up close to 40% of the SA Listed Property Index at the end of last year, detracted from performance this quarter due to Prudential Inflation Plus's strategic weight of 15% to SA listed property.

- Resilient (-67% YTD), NEPI Rockcastle (-46% YTD), Greenbay (-61% YTD), Fofress A (-14% YTD) and Fortress B (-72% YTD).

Research reports published at the end of last year raised concerns around share price manipulation within the group causing the share prices to de-rate. An independent investigation initiated by Resilient has not found any illegal activity, but the market is waiting for the results of investigations launched by the Financial Services Board (FSB) and the Johannesburg Stock Exchange (JSE). The challenge is that questions have been raised and if found to be true, will make it difficult for these shares to recover. Consequently, Prudential has reduced its exposure to these companies while maintaining its overall SA property exposure at the strategic benchmark weight.

The chart below illustrates the asset allocation of XS Select Guarded as at 31 March 2018. The total equity exposure is at 37.2% and including property, exposure to growth assets at 46.5%. Similar to XS Select Diversified, direct foreign exposure has been maintained at just under 25%.



Disclosures:

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