



NEDGROUP
INVESTMENTS

QUARTERLY REPORT

NEDGROUP INVESTMENTS XS GUARDED FUND OF FUNDS

as at 30 September 2018

See money differently

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as at 30 September 2018



Domestic asset class returns (ZAR)



SA EQUITY

-2.2%

Q3 2018

3.3% 1 year

6.7% 3 years

12.5% LT average

Poor sentiment towards emerging markets

SA PROPERTY

-1.0%

Q3 2018

-15.7% 1 year

-1.4% 3 years

12.2% LT average

Domestic firms hurt by weak SA economic data

SA BOND

0.8%

Q3 2018

7.1% 1 year

7.7% 3 years

6.9% LT average

Reversed Q2 losses due to slow down in foreign outflows

SA CASH

1.6%

Q3 2018

6.6% 1 year

6.7% 3 years

5.9% LT average

Rates remained unchanged



Global asset class returns (USD)



GLOBAL EQUITY

4.4%

Q3 2018

10.4% 1 year

14.0% 3 years

8.6% LT average

The US was the strongest market

GLOBAL PROPERTY

-0.2%

Q3 2018

4.6% 1 year

7.2% 3 years

7.2% LT average

REITs hurt by rise in bond yields and UK market by Brexit concerns

GLOBAL BOND

-0.9%

Q3 2018

-1.3% 1 year

2.0% 3 years

4.6% LT average

Headwinds of stronger dollar and trade wars

US CASH

0.6%

Q3 2018

1.8% 1 year

1.1% 3 years

4.4% LT average

Fed hiked rates by 0.25% in September



Exchange rates (Rand spot rate and quarterly change)



US DOLLAR

R14.15

-3%

Stronger US growth and higher interest rates supported the US dollar



BRITISH POUND

R18.45

-2%

Various outcomes still possible for Brexit increases uncertainty



EURO

R16.44

-3%

Investors concerned about credit-worthiness of Italy



Domestic performance drivers



HIGHLIGHTS

- Ramaphosa revealed a fiscal stimulus plan to reinvigorate the sluggish economy through structural reforms, with the help of an R400bn infrastructure fund and partnering with the private sector and development agencies;
- The Reserve Bank kept interest rates unchanged at 6.5%, mainly due to inflation which slowed to 4.9% in August;
- The long-awaited Mining Charter was finally gazetted in September and has been widely welcomed.



LOW POINTS

- GDP contracted a revised 2.6% for the 1st quarter and a further 0.7% in the 2nd quarter, indicating that SA has entered a recession for the first time since the global financial crisis;
- Continued local and global uncertainty led to further weakening of the Rand;
- The equity market suffered due to poor sentiment towards emerging markets.



Global performance drivers



HIGHLIGHTS

- Financial market volatility remained relatively low, whilst risk assets performed positively when viewed from the perspective of a global investor;
- World growth and corporate earnings data continued to impress, although it remains quite dependent on the US;
- The success of the NAFTA 2.0 talks, or the U.S.M.C.A talks as they are now called, was taken well by markets (these are the trade agreements between the US, Mexico and Canada).



LOW POINTS

- Trump continued to escalate the US's trade war with China, while also picking a fight with Turkey by imposing punitive sanctions;
- Italy spooked investors when its new populist anti-EU coalition government announced a draft budget that would increase the country's debt burden;
- The long running and seemingly intractable Brexit saga rolled on with no obvious sign of any real progress on the crunch issues between the UK and the European Union.

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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



Fund costs (B)*

MANAGEMENT FEE
(excl. VAT)

0.85%

TOTAL
EXPENSE RATIO

1.12%

TRANSACTION
CHARGES

0.06%

TOTAL
INVESTMENT CHARGES

1.18%



Benefits of the XS range

COMPETITIVE
PRICING



DIVERSIFIED ACROSS
ASSET CLASSES



INVESTMENT
EXPERTS



PASSIVE AND ACTIVE
UNDERLYING INVESTMENTS



TAX
EFFICIENT



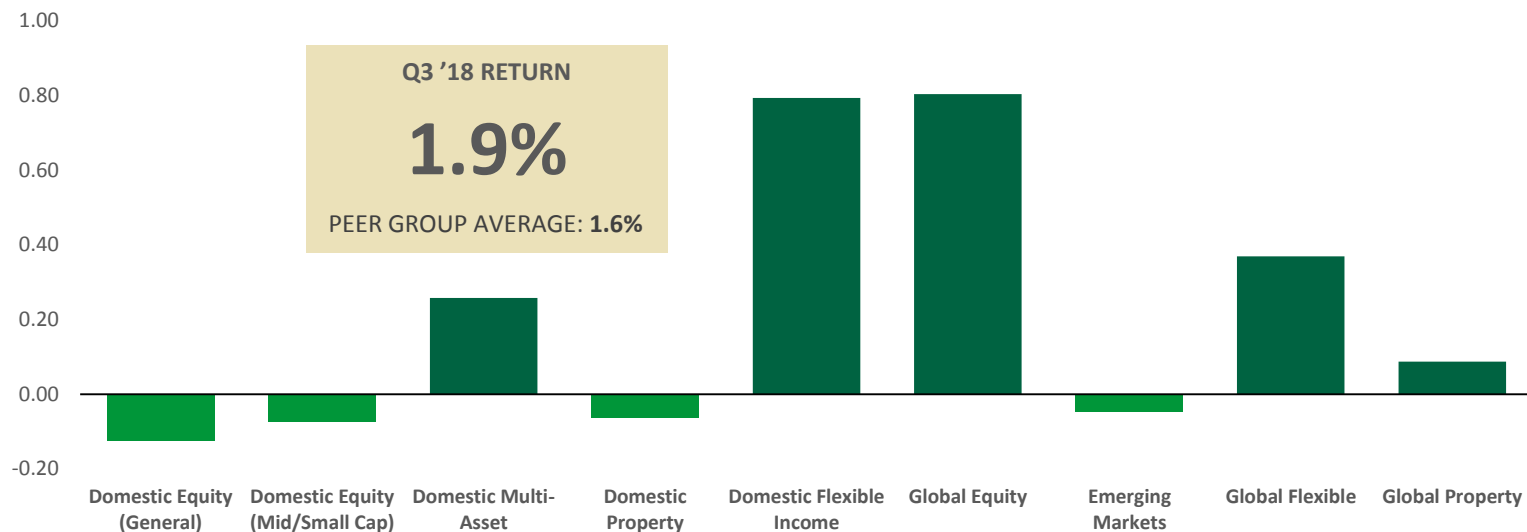
ONGOING
DUE DILIGENCE



*Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 01st of July 2015 and ending 30th September 2018.



XS Fund of Funds performance contribution – Q3 2018



POSITIVE CONTRIBUTORS THIS QUARTER

- Global asset classes delivered a strong performance for rand investors predominantly due to currency weakness.
- Our allocation to foreign assets was the largest contributor amidst an emerging market sell-off and a strong US equity market.
- SA nominal bonds also contributed despite rising yields given the high real yield and relatively short modified duration.



DETRACTORS THIS QUARTER

- Weakness in South African financial shares and domestically focussed companies due to the economy slipping into recession.
- Our portfolios' domestic property portion was also not spared; performing in line with the sector.
- Company specific losses: Naspers, British American Tobacco.

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Fund performance (B)

Q3 '18 RETURN

1.9%

Peer group average: 1.6%

YTD RETURN

5.9%

Peer group average: 3.1%

1YR ANNUALISED RETURN

5.6%

Peer group average: 4.7%

3YR ANNUALISED RETURN

7.1%

Peer group average: 6.0%

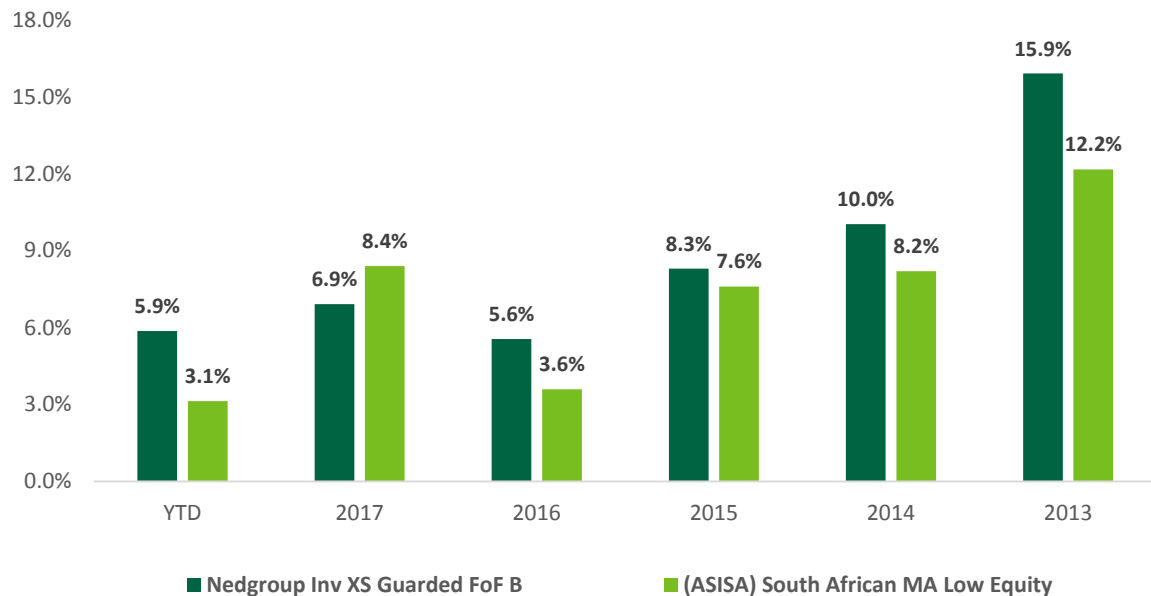
5YR ANNUALISED RETURN

8.2%

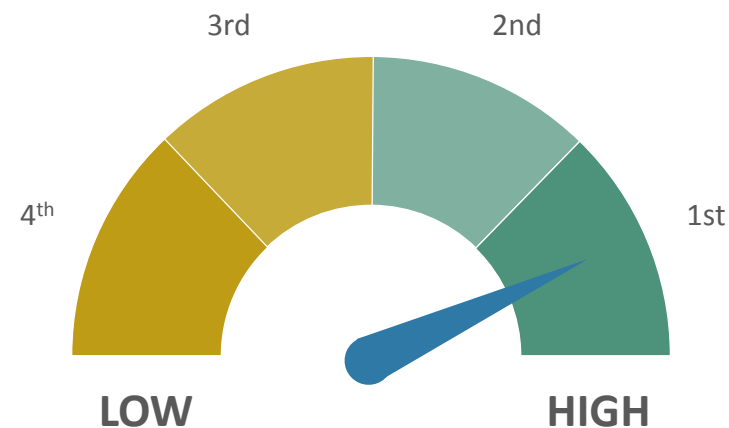
Peer group average: 6.8%



Calendar year performance



Peer group quartile ranking: 3Y



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Risk measures since inception

ROLLING 3YR RETURN

100%

Hit rate: outperforming peer group average

VOLATILITY

4.1%

SA equity market: 14.6%

MAX DRAWDOWN

-4.2%

SA equity market: -40.4%

SHARPE RATIO

0.4

SA equity market: 0.2

% POSITIVE MONTHS

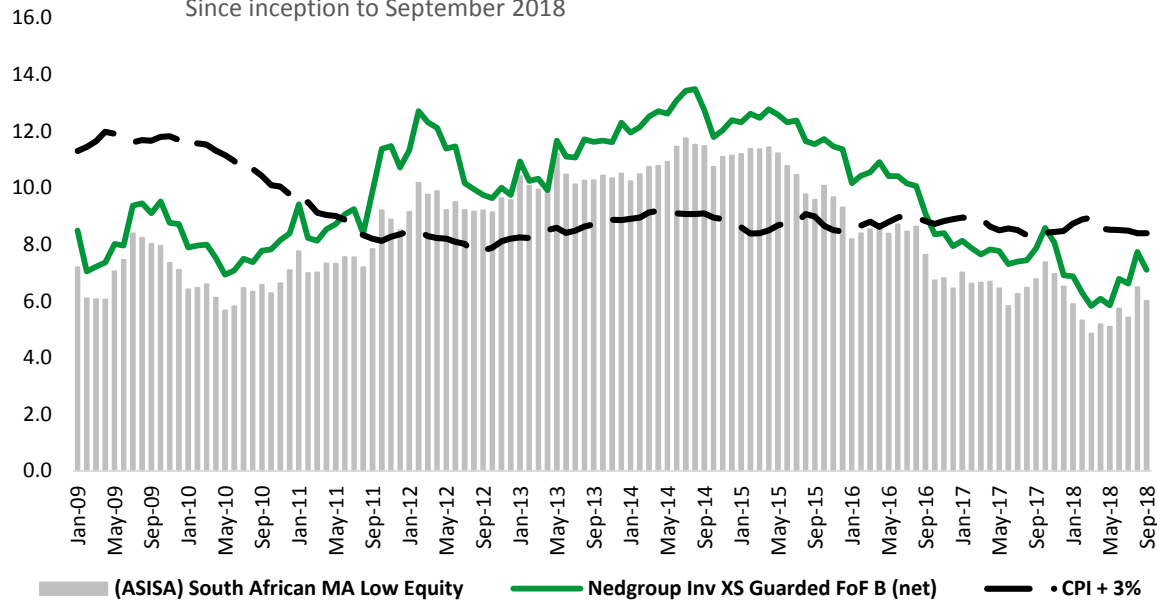
77%

SA equity market: 60%

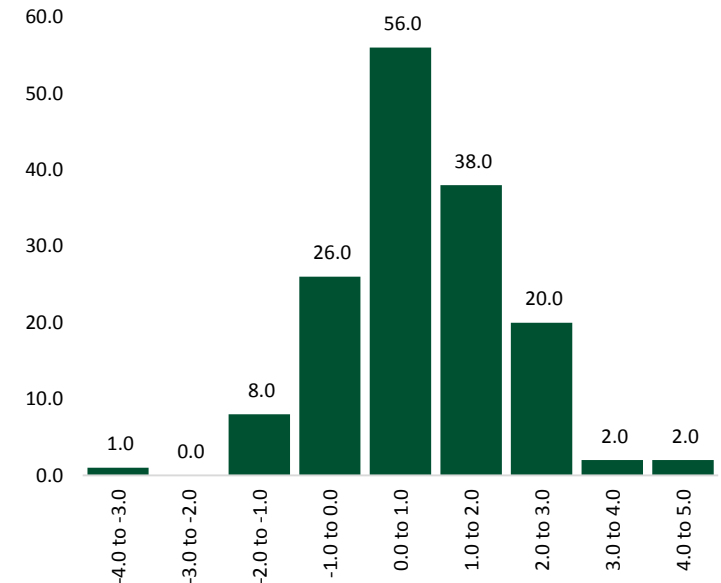


Rolling 3-year annualised return

Since inception to September 2018



Quarterly return distribution



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Performance across classes

	A CLASS (ALL IN)	B CLASS (LISP)	C CLASS (CLEAN)	PEER GROUP	SA INFLATION + 3%
Q3 2018	1.5%	1.9%	1.8%	1.6%	1.9%
1 YEAR	4.0%	5.6%	5.2%	4.7%	8.1%
3 YEAR	5.6%	7.1%	6.8%	6.0%	8.4%
5 YEAR	6.6%	8.2%	7.8%	6.8%	8.5%



Costs across classes*

	MANAGEMENT FEE (excl. VAT)	FINANCIAL PLANNER	TOTAL EXPENSE RATIO	TRANSACTION CHARGES	TOTAL INVESTMENT CHARGES
A Class (all-in)	1.15%	1.00%	2.60%	0.06%	2.66%
B Class (LISP)	0.85%	N/A	1.12%	0.06%	1.18%
C Class (clean)	1.15%	NA	1.46%	0.06%	1.52%

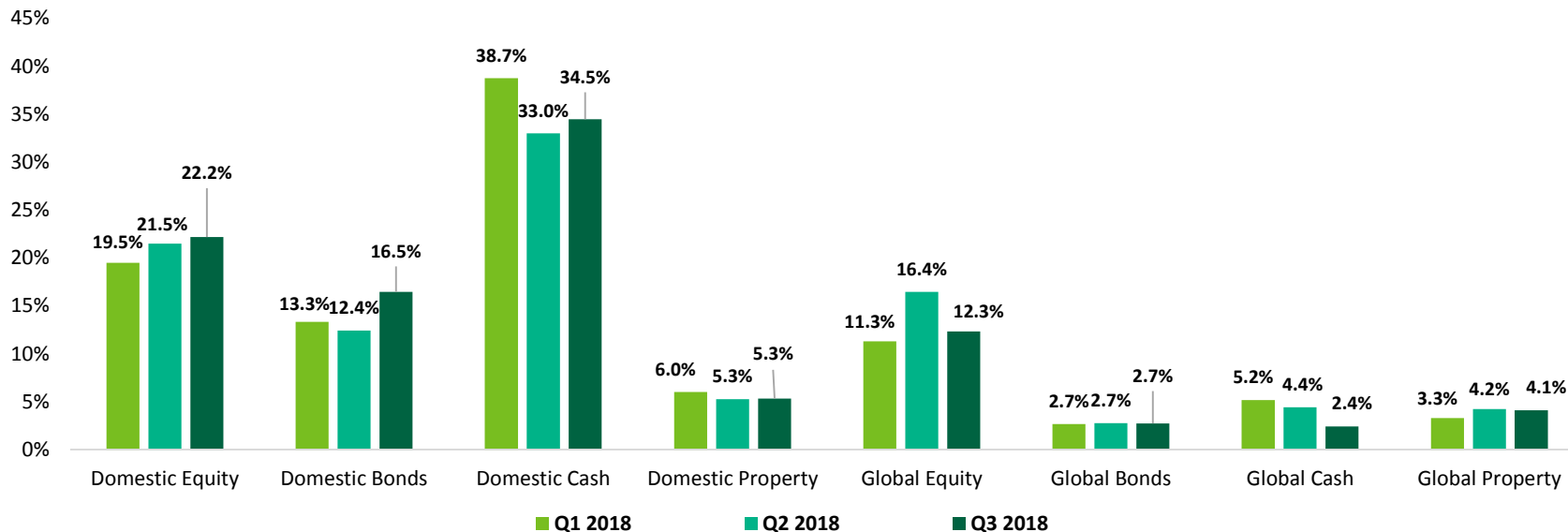
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Asset allocation changes



Summary of recent changes

- The chart above reflects the Nedgroup Investments XS Guarded Fund of Funds' asset allocation exposures over the past three quarters of 2018. It provides one with a reflection of our current house views and fund positioning.
- Trades were conducted over the quarter to take profits from the offshore exposure, due to extreme weakness in the ZAR currency. Proceeds were allocated to the domestic portion of the portfolios.
- The funds are currently well diversified across asset classes, along with healthy cash allocations to take advantage of timeous market opportunities.

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Asset allocation

DOMESTIC EQUITY



22.2%

DOMESTIC PROPERTY



5.3%

DOMESTIC FIXED INTEREST



50.9%

FOREIGN EQUITY



12.3%

FOREIGN PROPERTY



4.1%

FOREIGN FIXED INTEREST



5.1%



Regional exposure



68.7%

PURE SA



9.7%

RAND HEDGES



21.6%

DIRECT FOREIGN



Top ten holdings (as a % of fund)



1.7%



1.3%



1.3%



Standard Bank

0.9%



0.8%



0.8%



0.7%



0.6%



0.6%



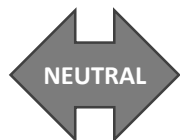
0.5%



Domestic asset class positioning



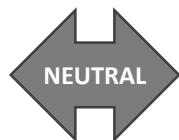
DOMESTIC EQUITY



22.2%

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

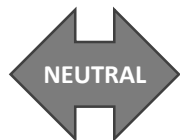
DOMESTIC PROPERTY



5.3%

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

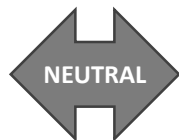
DOMESTIC BOND



16.5%

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

DOMESTIC CASH



34.5%

- Neutral to slight overweight position maintained.
- The healthy cash balance provides optionality (dry powder) should opportunities arise.
- Provides consistent return profile.



Global asset class positioning



GLOBAL EQUITY



12.3%

- International opportunities offer diversification, access to higher growth (e.g. EM) and risk adjusted returns, not just protection against rand weakness.
- Exposed to the more attractive cyclical sectors.

GLOBAL PROPERTY



4.1%

- Positioned for concerns around rising interest rates and impact of technology disruption.
- Some exposure to data centre and cell tower REITS; as well as office and industrial REITS.

GLOBAL BOND



2.7%

- U/W global bonds in general.
- Minor exposure to EM bonds.

GLOBAL CASH



2.4%

- The underlying managers have deployed cash, towards attractive stock specific opportunities.
- A relatively sizeable foreign cash holding remains.

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Domestic: fund manager exposures

Equity General:
14.8%



Small/Mid Cap
Equity: 4.6%



Property: 3.2%



Passive Multi-
Asset: 20.1%



Flexible Income:
41.1%



Global: fund manager exposures

Equity: 6.9%



Emerging Markets
Equity: 2.0%



Flexible Multi-
Asset: 3.3%



Property: 3.9%





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