



NEDGROUP
INVESTMENTS

QUARTERLY REPORT

NEDGROUP INVESTMENTS XS SELECT DIVERSIFIED FUND OF FUNDS

as at 30 September 2018

See money differently

QUARTERLY REPORT: NEDGROUP INVESTMENTS XS SELECT

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 region and Health Care the strongest sector

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 a 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

75%

TIME FRAME

min **5** years

BENCHMARK

Inflation **+5%**

PEER GROUP

SA Multi-Asset
High Equity

REGULATION 28

Compliant

RISK PROFILE



LOW

MEDIUM

HIGH



Underlying fund structure

25% Active

CORONATION
FUND MANAGERS

25% Active

FOORD

25% Active

PRUDENTIAL
INVESTMENT MANAGERS

25% Passive

Taquanta



Fund costs (C – clean class)

MANAGEMENT FEE
(excl. VAT)

0.98%

TOTAL
EXPENSE RATIO

1.35%

TRANSACTION
CHARGES

0.10%

TOTAL
INVESTMENT CHARGES

1.45%



Benefits of the XS Select range

SIMPLE, LOW-COST
SOLUTION



DIVERSIFIED ACROSS
ASSET CLASSES



PASSIVE AND ACTIVE
UNDERLYING INVESTMENTS



QUARTERLY
REBALANCED



TAX
EFFICIENT



ONGOING
DUE DILIGENCE



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Asset allocation

DOMESTIC EQUITY



44.0%

DOMESTIC PROPERTY



6.3%

DOMESTIC FIXED INTEREST



22.2%

FOREIGN EQUITY



23.5%

FOREIGN PROPERTY



0.8%

FOREIGN FIXED INTEREST



3.2%



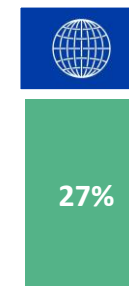
Regional exposure



PURE SA



RAND HEDGES



DIRECT FOREIGN



Top ten holdings

RSA R186 BOND

4.8%



4.8%



3.7%



3.3%



2.4%



2.1%



1.6%



1.5%



1.4%



1.4%

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Fund performance (clean class)

Q3 '18 RETURN

1.5%

Peer group average: 1.1%

YTD RETURN

2.0%

Peer group average: 0.9%

1YR ANNUALISED RETURN

3.8%

Peer group average: 3.1%

3YR ANNUALISED RETURN

6.1%

Peer group average: 5.3%

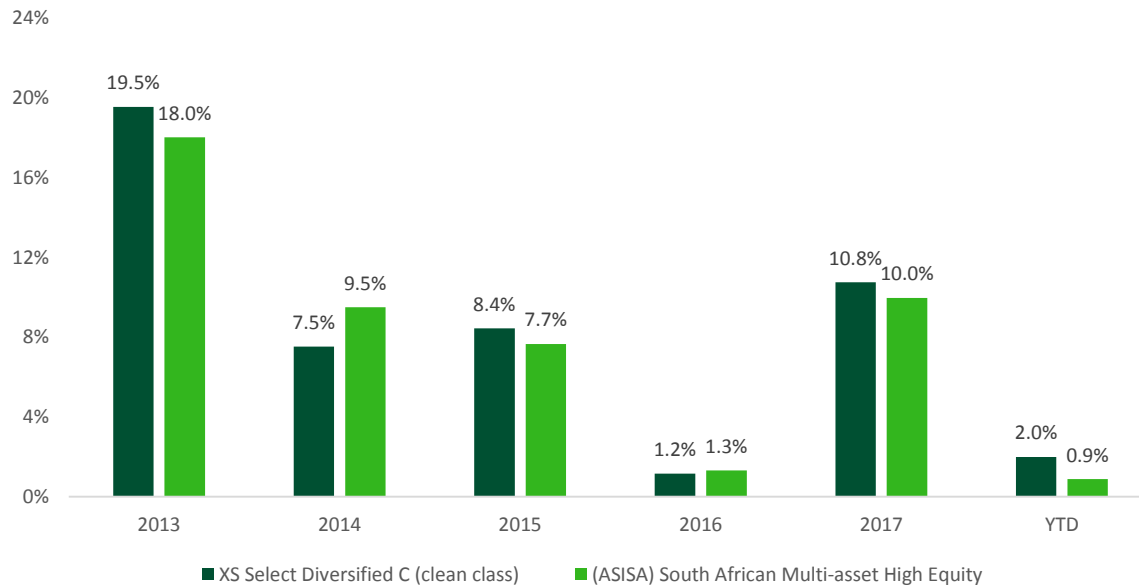
5YR ANNUALISED RETURN

6.7%

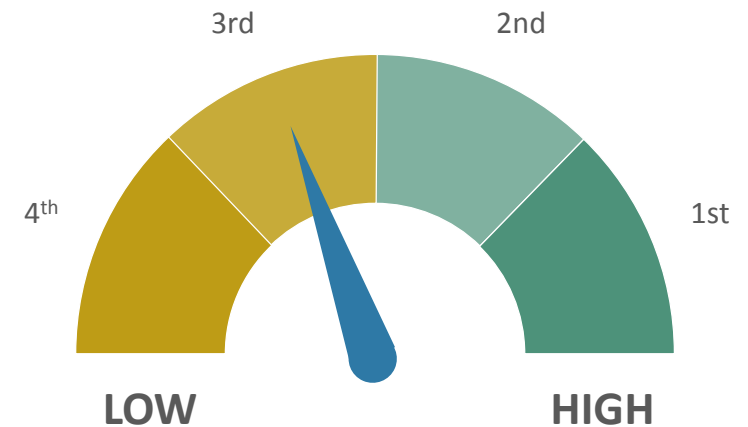
Peer group average: 6.7%



Calendar year performance



Peer group quartile ranking: 5Y



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Risk measures since inception

ROLLING 5YR RETURN

96%

Hit rate: outperforming peer group average

VOLATILITY

7.9%

SA equity market: 14.5%

MAX DRAWDOWN

-17.2%

SA equity market: -40.4%

SHARPE RATIO

0.3

SA equity market: 0.3

% POSITIVE MONTHS

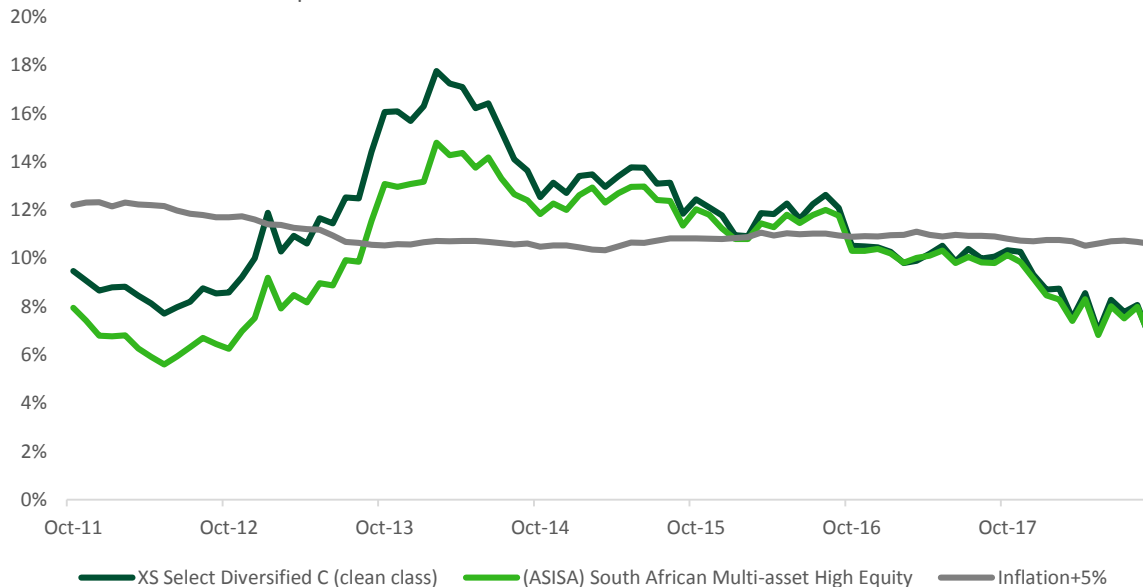
67%

SA equity market: 61%



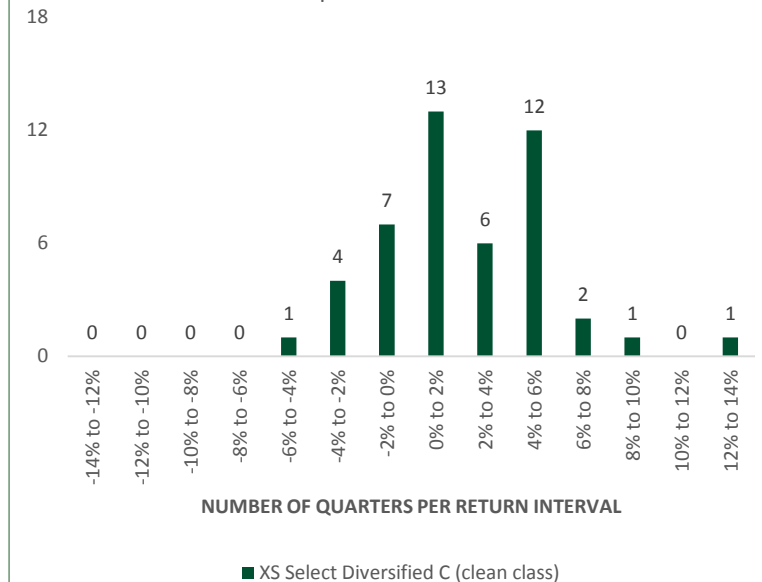
Rolling 5-year annualised return

Since inception Nov 2006 to date



Quarterly return distribution

Since inception Nov 2006 to date





Underlying fund performance

| KEY | 2014 | 2015 | 2016 | 2017 | YTD |
|---------------------------------------|-------|-------|------|-------|-------|
| Coronation Balanced Plus | 13.4% | 10.7% | 4.7% | 13.2% | 3.8% |
| Foord Balanced | 12.5% | 9.2% | 2.4% | 12.6% | 3.4% |
| Prudential Balanced | 11.4% | 8.6% | 1.0% | 12.2% | 0.0% |
| Nedgroup Investments Core Diversified | 11.3% | 8.3% | 0.0% | 7.9% | -0.1% |



POSITIVE CONTRIBUTORS THIS QUARTER

- The allocation to foreign assets was the largest contributor driven by rand weakness amidst an emerging market sell-off and a strong US equity market;
- Resources had another good quarter with the fund's biggest holdings in this sector being Sasol (+10%), Anglo American (+6%) and BHP Billiton (+2%);
- R186 government bonds also contributed despite rising rates given their high real yield and relatively short modified duration.



DETRACTORS THIS QUARTER

- Emerging market (EM) equities continued their underperformance, returning -1% for the quarter relative to developed markets at 6%;
- Good quality rand hedges Naspers' (-12%) and British American Tobacco (-4%) detracted due to stock specific issues;
- UK property holdings Intu (-13%) and Hammerson (-8%) had another disappointing quarter due to the economic uncertainty surrounding Brexit.

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Performance across classes

| | A CLASS (ALL IN) | B2 CLASS (LISP) | C CLASS (CLEAN) | PEER GROUP | SA INFLATION |
|---------|------------------|-----------------|-----------------|------------|--------------|
| Q3 2018 | 1.2% | 1.6% | 1.5% | 1.1% | N/A |
| 1 YEAR | 2.7% | 4.0% | 3.8% | 3.1% | 4.9% |
| 3 YEAR | 4.9% | 6.3% | 6.1% | 5.3% | 5.2% |
| 5 YEAR | 5.5% | N/A | 6.7% | 6.7% | 5.3% |



Costs across classes

| | MANAGEMENT FEE (excl. VAT) | FINANCIAL PLANNER | TOTAL EXPENSE RATIO | TRANSACTION CHARGES | TOTAL INVESTMENT CHARGES |
|------------------|----------------------------|-------------------|---------------------|---------------------|--------------------------|
| A Class (all-in) | 0.98% | 1.00% | 2.50% | 0.10% | 2.60% |
| B2 Class (LISP) | 0.83% | N/A | 1.18% | 0.10% | 1.28% |
| C Class (clean) | 0.98% | NA | 1.35% | 0.10% | 1.45% |



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