Nedgroup Investments Multi-Manager XS Fund of Funds Range update
- 25 August 2019

NEDGROUP INVESTMENTS

MARKET COMMENTARY: 2019

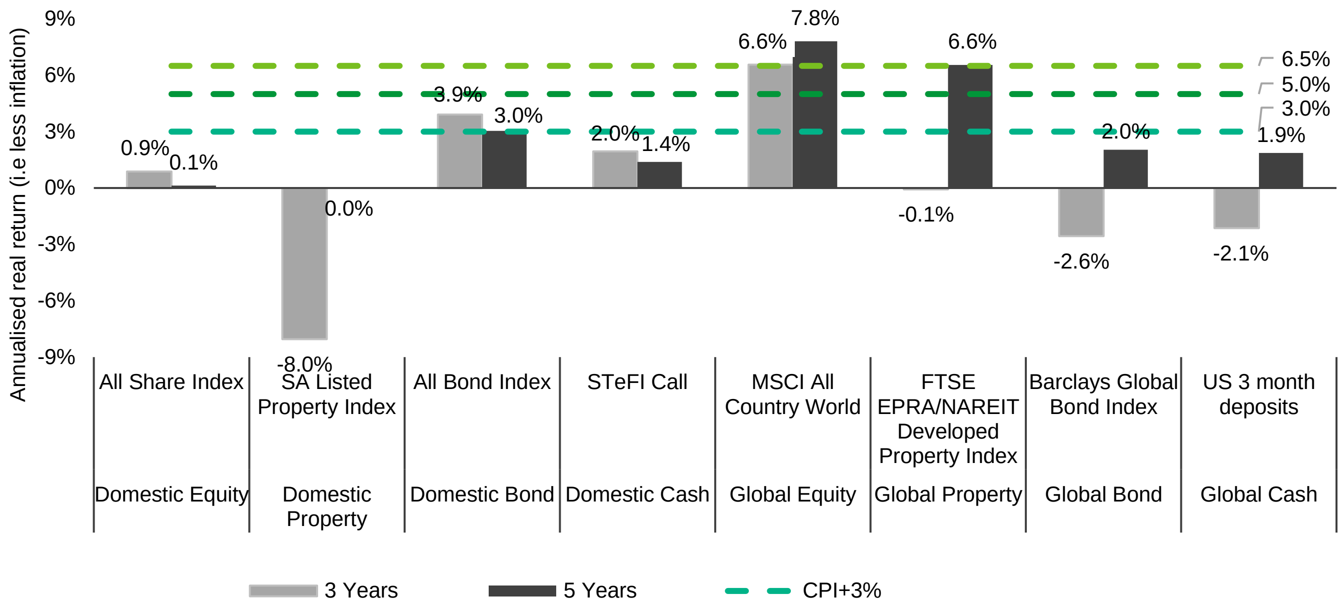
After a positive start to the year, equity markets have shown an increased level of market volatility since the first equity pullback in May. The table below shows figures as at 31 July 2019. Year-to-date (YTD) performance of all the major asset classes were still comfortably ahead of inflation, with equities lagging over the last 3 months. This short-term performance is similar to what we saw in the fourth quarter of 2018 when volatility spiked and risk assets (equity and listed property) sharply underperformed safe haven asset classes. There were several catalysts at the end of 2018 that caused this downrating, namely fears of the Federal Reserve raising interest rates faster than previously anticipated, US / China trade wars and continued uncertainty around Brexit.

Annualised return: 31 July 2019 (ZAR)		3 months	YTD	1 year	3 year	5 year	7 year	10 year
Equity	All Share Index	-2.7%	9.5%	2.2%	5.6%	5.1%	10.6%	12.1%
Property	SA Listed Property Index	0.1%	4.8%	0.1%	-3.7%	5.0%	6.7%	12.0%
Bond	All Bond Index	2.2%	6.9%	8.1%	8.8%	8.2%	7.1%	8.8%
Cash	STeFI Call	1.7%	3.9%	6.6%	6.8%	6.5%	6.0%	6.0%
Inflation	CPI (one month in arrears)	1.3%	2.6%	4.5%	4.7%	5.0%	5.3%	5.2%
Annualised return: 31 July 2019 (ZAR)		**3 months**	**YTD**	**1 year**	**3 year**	**5 year**	**7 year**	**10 year**
Equity	MSCI All Country World	-0.5%	15.3%	12.0%	11.6%	13.2%	19.2%	16.5%
Property	FTSE EPRA/NAREIT Developed Property Index	0.8%	13.9%	17.0%	4.6%	11.9%	16.4%	17.2%
Bond	Barclays Global Bond Index	2.1%	3.7%	14.4%	2.0%	7.2%	9.6%	8.9%
Cash	US 3-month deposits	-0.4%	0.1%	11.0%	2.5%	7.0%	9.1%	6.9%

The graph below shows the annualised real returns (asset class return less inflation) of the major asset classes up to 31 July 2019. South African risk assets have given you flat to negative real returns over the past 3 to 5 years. This weak return environment has resulted in disappointing returns across the board for risk profiled investment solution type funds that are invested across the broad range of asset classes.

Only offshore property and equities have delivered real returns more than 6% over a 5-year period. This is on the back of a weakening South African Rand as well as the longest equity bull run in global equities in the last 50 years.

Table showing annualised 3 and 5-year Real Returns per Asset Class as at 31 July 2019



August has seen the continuation of the risk off environment, driven by the similar fears investors had at the end of 2018. The market is now pricing in a materially weaker global growth environment resulting in the US Federal Reserve cutting interest rates by 25bps - a first since 2008 during the global financial crisis. President Trump continues to have trade negotiations with China, with no agreement seeming to be possible in the medium term. The "tariff wars" continue to escalate between the two countries. The UK is going through a crisis of its own. The new Prime Minister, Boris Johnson, has added a number of loyal Brexiteers to his cabinet and is adamant to leave the EU "whatever the circumstances" on 31 October 2019. This has been labelled as a "hard Brexit" – something that markets had not initially priced in. China's GDP disappointed in July and the German economy has slowed down materially. The table below reflects very weak month-to-date numbers (as at 22 August 2019) with domestic growth assets falling materially in August and dragging the 1 and 3-year numbers down with them. Rand weakness has had a positive impact on foreign exposure measured in Rand.

Annualised return: 22 August (ZAR)		MTD*	3 months	YTD*	1 year	3 year	5 year
Equity	All Share Index	-4.4%	0.0%	4.7%	-4.7%	3.5%	4.1%
Property	SA Listed Property Index	-2.9%	0.6%	1.8%	-4.4%	-3.0%	3.8%
Bond	All Bond Index	0.5%	1.3%	7.4%	10.4%	9.7%	7.8%
Cash	STeFI Call	0.4%	1.6%	4.3%	6.7%	6.8%	6.5%
Annualised return: 22 August (ZAR)		**MTD***	**3 months**	**YTD***	**1 year**	**3 year**	**5 year**
Equity	MSCI All Country World	4.5%	8.9%	20.5%	3.9%	11.0%	14.0%
Property	FTSE EPRA/NAREIT Developed Property Index	9.0%	8.4%	24.1%	13.3%	6.6%	13.7%
Bond	Barclays Global Bond Index	9.2%	8.4%	13.3%	11.9%	3.2%	9.2%
Cash	US 3 month deposits	7.7%	0.05	7.8%	6.9%	3.0%	8.8%
Annualised return: 22 August (USD)		**MTD***	**3 months**	**YTD***	**1 year**	**3 year**	**5 year**
Equity	MSCI All Country World	-2.8%	4.0%	13.8%	-0.2%	10.8%	6.0%
Property	FTSE EPRA/NAREIT Developed Property Index	1.4%	3.6%	17.2%	8.8%	3.9%	5.8%
Bond	Barclays Global Bond Index	1.6%	3.6%	7.0%	7.5%	1.3%	1.5%
Cash	US 3 month deposits	0.2%	0.6%	1.8%	2.6%	1.7%	1.2%

NEDGROUP INVESTMENTS

PERFORMANCE OF THE NEDGROUP INVESTMENTS XS FUND OF FUNDS RANGE

The XS Fund of Funds (FOF) are either in line or slightly behind their respective peer groups over the short-term, but ahead or in line with peers over their respective minimum investment time horizons of 3-years, 5-years and 7-years. Although we do expect our mangers to have periods of underperformance, the results of our domestic equity managers have been disappointing. We tend to focus on managers who "protect" capital in market drawdowns, but over the past few months our managers have struggled with this. It has largely been to some large price pullbacks on several specific stocks (see details below). In addition, Bridge have had a torrid time in the listed property space, with their fund showing a large level of short term under-performance to peers and the benchmark – after strong outperformance last year.

Annualised return: 22 August 2019	MTD	3 months	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
XS Guarded	**0.0%**	**0.5%**	**5.6%**	**2.1%**	**5.2%**	**6.1%**	**8.1%**	**8.6%**
(ASISA) SA Multi-asset Low Equity	0.2%	1.6%	5.7%	3.6%	5.0%	5.9%	7.3%	7.9%
SA Inflation + 3%		1.8%	4.3%	7.4%	8.0%	8.2%	8.5%	8.4%
XS Diversified	**-1.2%**	**-1.2%**	**3.6%**	**-4.2%**	**2.5%**	**4.0%**	**7.5%**	**9.0%**
(ASISA) SA Multi-asset High Equity	-0.8%	0.8%	4.9%	-0.9%	2.9%	4.4%	7.6%	8.5%
SA Inflation + 5%		2.2%	5.5%	9.3%	10.1%	10.3%	10.6%	10.5%
XS Accelerated	**-1.3%**	**-1.3%**	**3.5%**	**-5.6%**	**1.6%**	**3.6%**	**8.0%**	**9.9%**
(ASISA) SA Multi-Asset Flexible	-1.5%	-0.3%	2.6%	-2.4%	1.8%	3.3%	6.8%	8.3%
SA Inflation + 6.5%		2.4%	6.4%	10.8%	11.6%	11.9%	12.2%	12.1%

The tables below set out the performance of the various underlying managers within the funds.

<u>Table showing Domestically exposed underlying fund performances as at 22 August 2019</u>

Annualised return: 22 August (ZAR)	MTD*	1M	3M	YTD	1Y	3Y	5Y
Nedgroup Investments Core Income	0.5%	0.6%	1.9%	5.1%	7.9%	8.1%	7.7%
Nedgroup Investments Flexible Income	0.6%	0.6%	1.9%	5.9%	9.5%	8.2%	8.4%
STeFI Call	**0.4%**	**0.5%**	**1.6%**	**4.3%**	**6.6%**	**6.8%**	**6.5%**
Nedgroup Investment Core Bond	0.6%	-0.4%	1.6%	7.3%	10.1%	9.8%	8.1%
(ASISA) South African IB Variable Term	**0.5%**	**-0.4%**	**1.3%**	**6.5%**	**9.0%**	**8.1%**	**7.1%**
Nedgroup Investments Rainmaker	-4.3%	-5.4%	-3.3%	-1.1%	-12.1%	-1.7%	1.6%
Nedgroup Investments Value	-3.8%	-4.7%	-6.0%	-5.1%	-12.6%	-1.6%	0.8%
Mazi Equity	-7.1%	-8.5%	-8.0%	-5.7%	-15.5%	-2.8%	1.9%
(ASISA) South African EQ General	**-4.3%**	**-5.1%**	**-1.8%**	**1.3%**	**-6.7%**	**0.1%**	**1.5%**
Nedgroup Investments Entrepreneur	-4.5%	-5.7%	-7.7%	-9.3%	-14.3%	-3.7%	1.9%
(ASISA) South African EQ Mid/Small Cap	**-4.8%**	**-5.7%**	**-4.4%**	**-6.4%**	**-9.2%**	**-5.6%**	**-1.3%**
Nedgroup Investments Property	-7.1%	-7.5%	-9.1%	-15.9%	-29.5%	-9.6%	-1.6%
Prudential Enhanced SA Property Tracker	-3.1%	-5.1%	0.8%	0.6%	-6.0%	-4.9%	3.5%
(ASISA) South African RE General	**-3.0%**	**-5.2%**	**-0.6%**	**-0.9%**	**-6.4%**	**-4.2%**	**3.1%**

Domestic Equity

The domestic equity allocation has detracted approximately 3% YTD and approximately 4% over the last year from the XS FOF performance, with stock selection by our underlying managers being the key driver. A few poor performing stocks are held across all three funds (Nedgroup Investments Rainmaker, Nedgroup Investments Value, Mazi Equity), amplifying the impact on the FOF.

- *Standard Bank* is down almost 5% YTD, despite being one of the top performing domestic banks at the end of July, as all domestic financials were hurt by negative sentiment in August.
- Sasol is down close to 20% YTD and 55% over the past 12 months. This as a result of the company announcing substantial cost overruns for its Lake Charles Chemicals Project in Q2.
- British American Tobacco is down close to 30% over the last year due to continued regulatory risk around menthol as an ingredient in their new vape products in the US as well as their latest acquisition increasing their revenue exposure to the US.
- Finally, Compagnie Fin Richemont, a key holding across both Rainmaker and Value is down approximately 12% over the past 12 months on the back of less demand for luxury goods in a globally lower growth environment.

A big disappointment has been our fund that focusses on small and medium cap equities, the Nedgroup Investments Entrepreneur fund. One of the fund's core portfolio positions, KAP Industrial is down over 26% in the past 12 months. In the prior financial year, profit growth was impeded by a delayed and problematic 50% capacity expansion at their Hosaf plant. The expectation of this not reoccurring, as well as the further pay down of their debt and reduced interest charge to the income statement, was expected to easily generate reasonable profit growth. Unfortunately, the company delivered a weak trading update in the previous quarter and the stock is down close to 40% since February 2019.

Looking at the respective XS funds performance – one will see that the funds with the larger domestic equity exposure have struggled recently to peers. This reflects in the XS Accelerated and XS Diversified funds, which are lagging peers by around 2% over the past 12 months. This is due to the poor equity returns we have experienced. Rainmaker and Value which make up the majority of our equity exposure (over 80% of our exposure - with the balance spread between Mazi and Entrepreneur) are down more than -12% versus peers of -6% over the last year. Similarly, the Nedgroup Investments Property fund, which makes up 70% of our domestic property allocation, has significantly underperformed.

Domestic Property

The Nedgroup Investments Property fund tends to be biased towards smaller market capitalisation, domestically focused firms. As a result, the fund lags its peers when the economy is contracting, and business and investor confidence is low. Many of these domestically focused firms reported results below market expectations or warned that property fundamentals had continued to deteriorate (higher vacancy rates and lower market rentals) and near-term distribution growth rates were likely to be lower than current consensus estimates. Some of the largest stock detractors for the fund over the past 12 months have been Octodec Investments (-42%), Arrowhead Properties (-29%) and Delta Property fund (-64%).

Table showing Foreign and Passive underlying fund performances as at 22 August 2019

Annualised return: 22 August (ZAR)	MTD*	1M	3M	YTD	1Y	3Y	5Y
Nedgroup Investments Global Flexible Feeder	**2.2%**	**3.5%**	**6.1%**	17.0%	6.6%	8.1%	11.2%
(ASISA) Global MA Flexible	**3.9%**	**5.0%**	**6.6%**	**15.7%**	**5.7%**	**6.7%**	**9.0%**
Nedgroup Investments Global Equity Feeder	5.6%	7.3%	10.1%	25.2%	14.1%	12.6%	14.5%
Coronation Global Emerging Markets Flexible	**1.8%**	**1.9%**	9.7%	28.1%	12.2%	9.6%	6.4%
Nedgroup Investments Global EM Equity FF A	**1.7%**	**2.5%**	7.2%				
(ASISA) Global EQ General	**3.0%**	**4.0%**	**7.1%**	**19.1%**	**4.6%**	**8.8%**	**10.7%**
Nedgroup Investments Global Property Feeder	8.3%	10.1%	7.3%	25.2%	16.9%	8.0%	
(ASISA) Global RE General	**7.6%**	**8.8%**	**6.8%**	**21.9%**	**13.3%**	**5.1%**	**10.8%**
Annualised return: 22 August (ZAR)	**MTD***	**1M**	**3M**	**YTD**	**1Y**	**3Y**	**5Y**
Nedgroup Investments Core Guarded	-0.1%	-0.3%	1.5%	5.9%	3.4%	5.3%	6.6%
(ASISA) South African MA Low Equity	**-0.1%**	**-0.3%**	**1.6%**	**5.8%**	**3.6%**	**5.0%**	**5.9%**
Nedgroup Investments Core Diversified	-1.5%	-1.8%	0.6%	5.0%	-1.3%	3.2%	5.2%
Nedgroup Investments Core Accelerated	-2.1%	-2.6%	0.0%	4.3%	-3.6%		
(ASISA) South African MA High Equity	**-1.3%**	**-1.7%**	**0.8%**	**5.2%**	**-0.9%**	**2.9%**	**4.4%**

As per the table above, the FOFs foreign allocation has performed well YTD and the passive multi-asset solutions kept up with peers. The funds are close to their full capacity offshore – which is limited by regulation to 30%. Strong returns over the past 12 months by global equities, along with Rand weakness have produced strong returns. We are in the process of trimming back some of this offshore exposure.

RECENT AND UPCOMING CHANGES

The following manager changes were made across the funds during the second quarter of 2019:

- Added the *Nedgroup Investments Global Diversified Equity Feeder fund* at a 1% weight. This fund is managed by Ardevora a London based boutique asset manager. They manage a well-diversified global equity fund with an excellent long-term track record.
- Replaced Coronation Global Emerging Markets with *Nedgroup Investments Global Emerging Markets Feeder fund* with a 2% weighting. This fund is managed by NS Partners who are based in London and have over a 16-year track record managing pure emerging market equities. They focus on combining both a global macro top down process with specific stock picks across emerging market countries.

We will be making the following changes to the FOF positioning before the end of the third quarter of 2019:

Global equities - *Reduce overweight to neutral*

- Markets have delivered strong performance taking valuations to elevated levels;
- Recent rand weakness also contributed, and we reached the 30% foreign allocation limit;
- Lock in some of these gains by bringing money back to South Africa.

Domestic equities – *Introduction of a new equity manager*

- We will slowly start allocating capital to the Laurium Equity Fund. This fund will be used alongside our other existing managers. Laurium are a Johannesburg based boutique manager, with experience in managing both long equities and a range of hedge funds successfully in South Africa. They have built up a sound track record and have a robust investment process.
- We anticipate increasing our exposure to domestic equities as opportunities arise during market pullbacks.

Domestic Short Duration Fixed Income – *Increase weight to overweight in short term*

- Use as parking space for repatriated money in the short-term;
- Allocate to Nedgroup Investments Flexible Income fund to achieve around 8% - 9% p.a.

CONCLUSION

We see opportunity for improved returns from domestic equities and property stocks looking forward over the next investment cycle and believe that the FOFs are well-positioned to take advantage of this. We will remain diversified across asset classes, asset managers and investment styles and focus on market valuations as the driver of our asset allocation process. Stock markets across the globe are in interesting and challenging times at the moment and we believe the key is to focus on diversification as well as domestic and global assets. One needs to couple this with a robust asset class valuation process.

We will continue to focus our efforts on the positioning and performance of XS Fund of Funds and doing the best we can for investors.

The Nedgroup Multi-Manager Team
25 August 2019