



**NEDGROUP**  
INVESTMENTS

## QUARTERLY REPORT

# NEDGROUP INVESTMENTS XS SELECT DIVERSIFIED FUND OF FUNDS

as at 30 September 2019

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## Domestic asset class returns (ZAR)



### SA EQUITY



**1.9%** 1 year  
**5.1%** 3 years  
**12.3%** LT average

Rebalancing of the MSCI indices prompted further selling of SA equities

### SA PROPERTY



**-2.7%** 1 year  
**-3.5%** 3 years  
**11.8%** LT average

Hurt by a weak economic back drop and changing retail environment

### SA BOND



**11.4%** 1 year  
**8.9%** 3 years  
**6.9%** LT average

Pricing in a challenged fiscus, but benefitting from benign inflation outlook

### SA CASH



**6.6%** 1 year  
**6.7%** 3 years  
**5.9%** LT average

SA Reserve Bank cut interest rates 25bps in July



## Global asset class returns (USD)



### GLOBAL EQUITY



**1.9%** 1 year  
**10.3%** 3 years  
**8.5%** LT average

US and Japan were strong while the rest of Asia and EM struggled

### GLOBAL PROPERTY



**14.1%** 1 year  
**6.6%** 3 years  
**6.6%** LT average

Benefited from the lower interest rate environment

### GLOBAL BOND



**7.6%** 1 year  
**1.6%** 3 years  
**4.6%** LT average

High quality sovereign bonds contributed, but corporates detracted

### US CASH



**2.7%** 1 year  
**1.8%** 3 years  
**4.3%** LT average

Most central banks eased monetary policies and cut rates



## Exchange rates (Rand spot rate and quarterly change)



### US DOLLAR

**R15.16**

US dollar was particularly strong, reflecting shifting expectations for relative growth and interest rates



### BRITISH POUND

**18.68**

Brexit continues to cast a shadow over the UK economy, as the clock ticks towards the 31 Oct'19 deadline



### EURO

**R16.53**

Germany, the powerhouse of Europe, is showing signs of stress with manufacturing activity at a 10-yr low





## Domestic performance drivers



### HIGHLIGHTS

- The SA Reserve Bank acknowledged a contained inflationary backdrop and cut interest rates by 25bps in July, followed by a unanimous decision to keep rates unchanged in September.
- Moody's credit ratings agency provided a glimmer of hope as their stable outlook on South Africa remained unchanged.
- National Treasury released an Economic Policy Paper which sets out a blueprint for growth enhancing reforms over the short, medium and longer term.



### LOW POINTS

- Emerging market assets bore the brunt of the global risk off environment, with SA bond and equity markets seeing net outflows over the quarter, putting pressure on the Rand.
- Provisional budget data for this tax year suggest underperformance in tax revenues, with expenditure (although largely contained) increasing due to additional support for struggling SOE's, SAA and Denel.
- The South African business confidence index (compiled by the Bureau for Economic Research) fell to a 20-year low in the third quarter.



## Global performance drivers



### HIGHLIGHTS

- US and China trade tensions eased in September, as both sides suggested progress was being made ahead of the formal resumption of talks in early October.
- Central banks continued to provide enough support for risk assets to rally and oscillate around historic highs, with both the US Federal Reserve and ECB cutting rates in September.
- The low interest rate beneficiaries and stable earners outperformed the cyclical areas. Utilities (+5.7%), Consumer Staples (+3.7%) and Real Estate (+3.0%) were the best performers



### LOW POINTS

- Economic data releases continued to point to slowing growth and a rising recessionary risks in a number of economies
- The most significant area of weakness has been manufacturing. China and Germany have been particularly weak, with tariffs hurting Chinese exports and the poor performing autos undermining German manufacturing
- Compared to other asset classes, commodities disappointed, led lower by Crude Oil (-6.6%) and Agriculture (-6.1%).

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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



## Underlying fund structure

20% Active

**CORONATION**  
FUND MANAGERS

20% Active

**FOORD**

20% Active

**PRUDENTIAL**  
INVESTMENT MANAGERS

20% Active

**ALLAN GRAY**

20% Passive

**Taquanta**



## Fund costs (C – clean class)

MANAGEMENT FEE\*  
(excl. VAT)

**1.01%**

TOTAL  
EXPENSE RATIO

**1.34%**

TRANSACTION  
CHARGES

**0.10%**

TOTAL  
INVESTMENT CHARGES

**1.44%**



## 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



\*Includes BOTH multi-manager and underlying fund fees. \*Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 1 July 2016 and ending 30 June 2019.

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## Asset allocation

DOMESTIC EQUITY



47.0%

DOMESTIC PROPERTY



5.3%

DOMESTIC FIXED INTEREST



20.6%

FOREIGN EQUITY



22.6%

FOREIGN PROPERTY



0.8%

FOREIGN FIXED INTEREST



3.7%



## Regional exposure



50%

PURE SA



23%

RAND HEDGES



27%

DIRECT FOREIGN



## Top ten holdings



4.8%

RSA R186 BOND

4.2%



3.1%



2.5%



2.2%



1.7%



1.4%



1.4%



1.3%

RSA R2040 BOND

1.2%

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## Fund performance (clean class)

Q3'19 RETURN

**0.4%**

Peer group average: -0.1%

YTD RETURN

**7.6%**

Peer group average: 6.8%

1YR ANNUALISED RETURN

**0.8%**

Peer group average: 2.0%

3YR ANNUALISED RETURN

**3.6%**

Peer group average: 3.7%

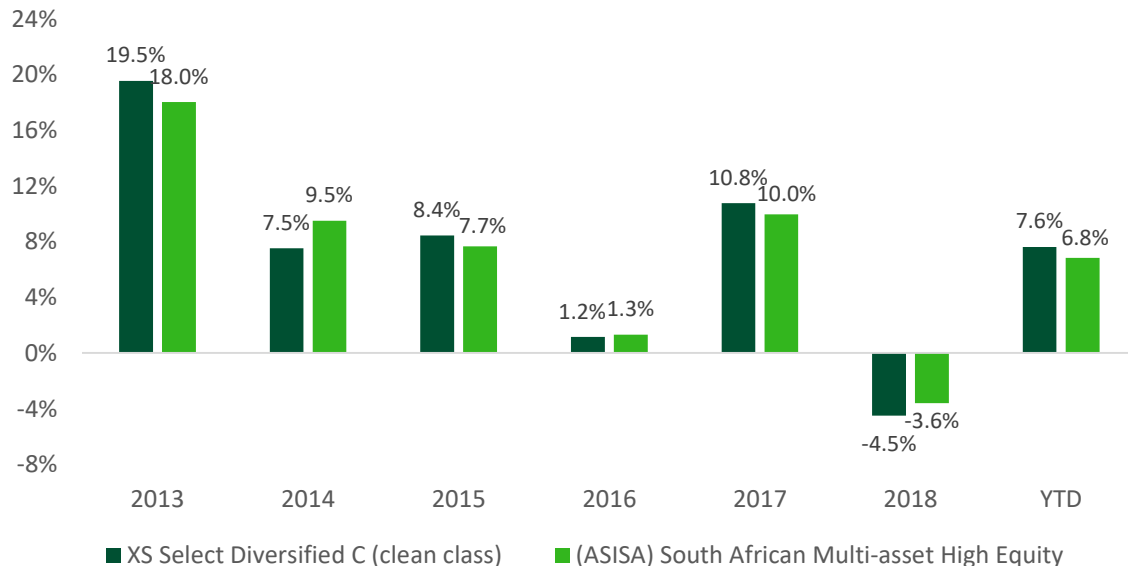
5YR ANNUALISED RETURN

**4.8%**

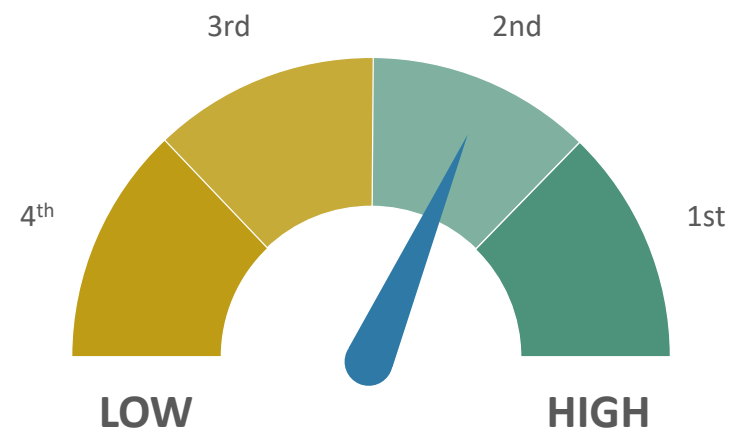
Peer group average: 4.8%



## Calendar year performance



## Peer group quartile ranking: 5Y



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## Risk measures since inception

ROLLING 5YR RETURN

**85%**

Hit rate: outperforming peer group average

VOLATILITY

**8.0%**

SA equity market: 14.4%

MAX DRAWDOWN

**-17.2%**

SA equity market: -40.4%

SHARPE RATIO

**0.3**

SA equity market: 0.2

% POSITIVE MONTHS

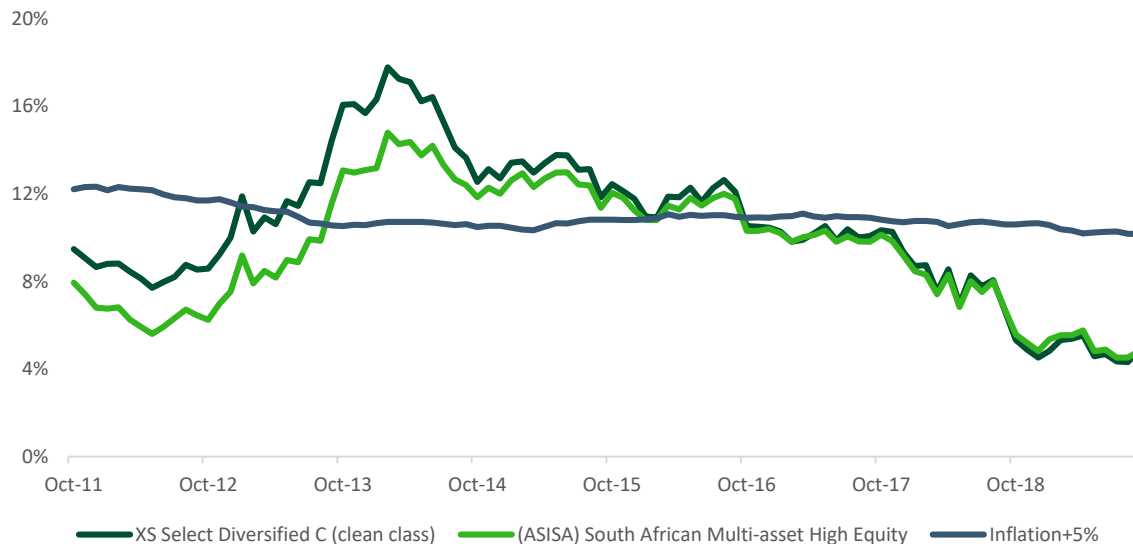
**66%**

SA equity market: 60%

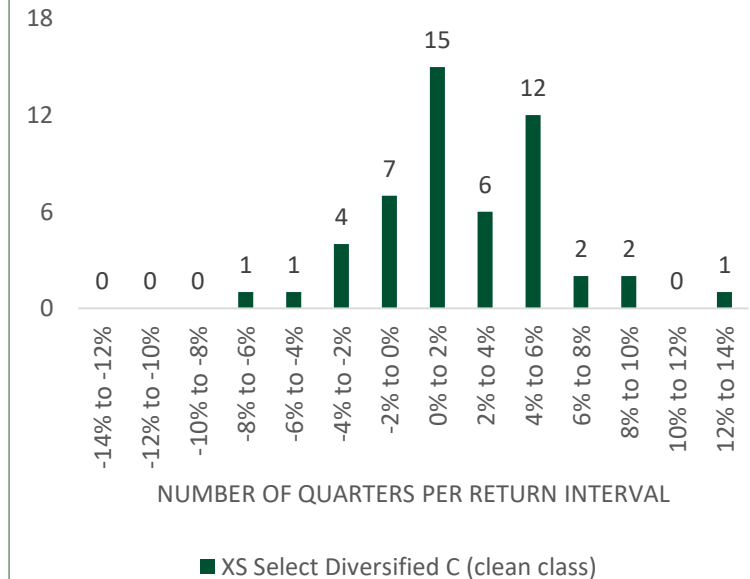


## Rolling 5-year annualised return

Since inception Nov 2006 to date



## Quarterly return distribution





## Underlying fund performance

Key	2015	2016	2017	2018	YTD
Allan Gray Balanced	12.3%	6.3%	12.7%	-2.6%	8.9%
Coronation Balanced Plus	9.2%	4.7%	12.6%	-3.1%	8.9%
Foord Balanced	9.1%	2.6%	12.4%	-3.6%	7.0%
Nedgroup Inv Core Diversified	8.5%	0.5%	11.0%	-3.8%	6.5%
Prudential Balanced	8.1%	-1.0%	6.9%	-6.3%	4.0%



### POSITIVE CONTRIBUTORS THIS QUARTER

- Foreign exposure at close to the regulated maximum of 30% made a meaningful contribution as the rand weakened 8% to the US dollar and global equity markets outperformed the domestic market.
- British American Tobacco (+14%) reported results in line with market expectations, which led to a share price rally after a long period of negative sentiment towards the tobacco companies.
- Defensive rand hedges, Reinet (+22%) and Anheuser-Busch Inbev (+16%), benefited from a weaker rand. In addition, Reinet's underlying investments performed well and Anheuser-Busch Inbev's corporate action to reduce gearing was well received by the market.



### DETRACTORS THIS QUARTER

- Domestic property stocks and emerging market equities were weak this quarter.
- Sasol (-28%) delayed the release of financial results on 16<sup>th</sup> August and 6<sup>th</sup> September, citing the need for more time to conclude their investigation into the budget overruns and delays of the Lake Charles Chemical Project (LCCP).
- RMB Holdings (-9%), Standard Bank (-9%) and FirstRand (-7%) performed in line with the Financials sector (-7%) as the market continues to price in a challenging environment for South African focused stocks.



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## Performance across classes

	A CLASS (ALL IN)	B2 CLASS (LISP)	C CLASS (CLEAN)	C1 CLASS (PRODUCT)	PEER GROUP	SA INFLATION
<b>QUARTER</b>	0.1%	0.4%	0.4%	0.3%	-0.1%	1.0%
<b>1 YEAR</b>	-0.4%	1.0%	0.8%	0.6%	2.0%	4.3%
<b>3 YEAR</b>	2.5%	3.8%	3.6%	N/A	3.7%	4.7%
<b>5 YEAR</b>	3.7%	N/A	4.8%	N/A	4.8%	4.9%



## Costs across classes

	MANAGEMENT FEE* (excl. VAT)	FINANCIAL PLANNER	TOTAL EXPENSE RATIO	TRANSACTION CHARGES	TOTAL INVESTMENT CHARGES
<b>A CLASS (ALL-IN)</b>	2.05%	1.00%	2.48%	0.10%	2.58%
<b>B2 CLASS (LISP)</b>	0.90%	N/A	1.16%	0.10%	1.26%
<b>C CLASS (CLEAN)</b>	1.05%	N/A	1.34%	0.10%	1.43%
<b>C1 CLASS (PRODUCT)</b>	1.20%	N/A	1.48%	0.10%	1.57%

\*Includes BOTH multi-manager and underlying fund fees. \*Both the Total Expense Ratio (TER) and Transaction Costs (TC) of the Fund are calculated on an annualised basis, beginning 1 July 2016 and ending 30 June 2019.

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