



**NEDGROUP**  
INVESTMENTS

## QUARTERLY REPORT

# NEDGROUP INVESTMENTS XS DIVERSIFIED FUND OF FUNDS

as at 31 December 2019

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# QUARTERLY REPORT: NEDGROUP INVESTMENTS XS

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## Domestic asset class returns (ZAR)



### SA EQUITY



**12.1%** 1 year  
**7.4%** 3 years  
**12.3%** LT average

Domestic equities were lifted alongside international markets

### SA PROPERTY



**1.9%** 1 year  
**-3.7%** 3 years  
**11.8%** LT average

Ended the quarter close to flat, despite losing -2.1% in December

### SA BOND



**10.3%** 1 year  
**9.4%** 3 years  
**6.9%** LT average

Driven by improved emerging market sentiment and robust Rand

### SA CASH



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

As expected, the SARB kept interest rates unchanged in November



## Global asset class returns (USD)



### GLOBAL EQUITY



**27.3%** 1 year  
**13.1%** 3 years  
**8.5%** LT average

Risk appetite returned to the market and EMs were the best performers

### GLOBAL PROPERTY



**23.1%** 1 year  
**9.3%** 3 years  
**6.6%** LT average

Benefited from lower interest rates and higher risk appetite

### GLOBAL BOND



**6.8%** 1 year  
**4.3%** 3 years  
**4.6%** LT average

Steepening of yield curves saw safe-haven sovereign bonds under pressure

### US CASH



**2.76%** 1 year  
**1.9%** 3 years  
**4.3%** LT average

Several notable interest rate cuts from US Federal Reserve and ECB



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



US DOLLAR

**R13.98**

**8%**

The rand took advantage of the reversal in USD strength as well as improved investor sentiment on the back of positive global trade developments and early signs of a stabilisation in some key global economic data.



BRITISH POUND

**R18.52**

**1%**

Rand gains against the pound were limited following optimism around a Brexit deal. In addition, most of the pound strength was due to a weaker USD in the run-up to the US Fed's interest rate cut in October.



EURO

**R15.70**

**5%**

Euro also advanced against the US dollar as Brexit uncertainty lifted and manufacturing data showed signs of improvement.



## Domestic performance drivers



### HIGHLIGHTS

- The work to bring justice to bear continues. Four individuals, including two former Eskom executives were arrested in late December on charges of corruption, fraud and money laundering
- Domestic equities were lifted alongside international markets and domestic bond markets benefitted from improved sentiment towards emerging markets and a robust Rand.
- Incoming Eskom CEO Andre de Ruyter, was asked to start earlier than planned to progress the urgent work of steadying the state-owned utility.



### LOW POINTS

- The intermittent load shedding at the end of the fourth quarter, increased the risk that economic growth would disappoint again.
- Credit ratings agencies Moody's and S&P downgraded the outlook for the sovereign from stable to negative.
- Strikes at national carrier South African Airways saw flights delayed and grounded, as staff and unions sought higher wages. The Government reaffirmed that there are no funds for bailouts and SAA went into voluntary business rescue in December.



## Global performance drivers



### HIGHLIGHTS

- In the UK, the Conservative election victory was taken positively as it dealt a fatal blow to the Labour Party's far left "Corbynistas", whilst also providing greater clarity over the next stage of Brexit.
- Investor confidence in next year's global and US economic outlook started to improve, helped by growing optimism over a trade deal and strong US job and wage data.
- Almost a year after the initial deal was signed, negotiators reached agreement on the US-Mexico-Canada Agreement, or new NAFTA agreement, moving it towards congressional ratification in the US.



### LOW POINTS

- Hong Kong protests escalated in November, with violence breaking out between anti-government protesters and the police at a local university. The pro-democracy protests started over the proposed extradition law that would enable easier extradition to mainland China but quickly evolved into a debate on the autonomy of Hong Kong and the relationship with China.
- In October, the IMF downgraded the 2019 global growth outlook to 3.0%, the lowest forecast since the global financial crisis, while China reported growth of 6% in Q3, its slowest pace in decades.

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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



## Fund costs (B)\*

MANAGEMENT FEE\*  
(excl. VAT)

**0.95%**

TOTAL  
EXPENSE RATIO

**1.18%**

TRANSACTION  
CHARGES

**0.10%**

TOTAL  
INVESTMENT CHARGES

**1.28%**



## Benefits of the XS range

COMPETITIVE  
PRICING



DIVERSIFIED ACROSS  
ASSET CLASSES



INVESTMENT  
EXPERTS



PASSIVE AND ACTIVE  
UNDERLYING INVESTMENTS



TAX  
EFFICIENT



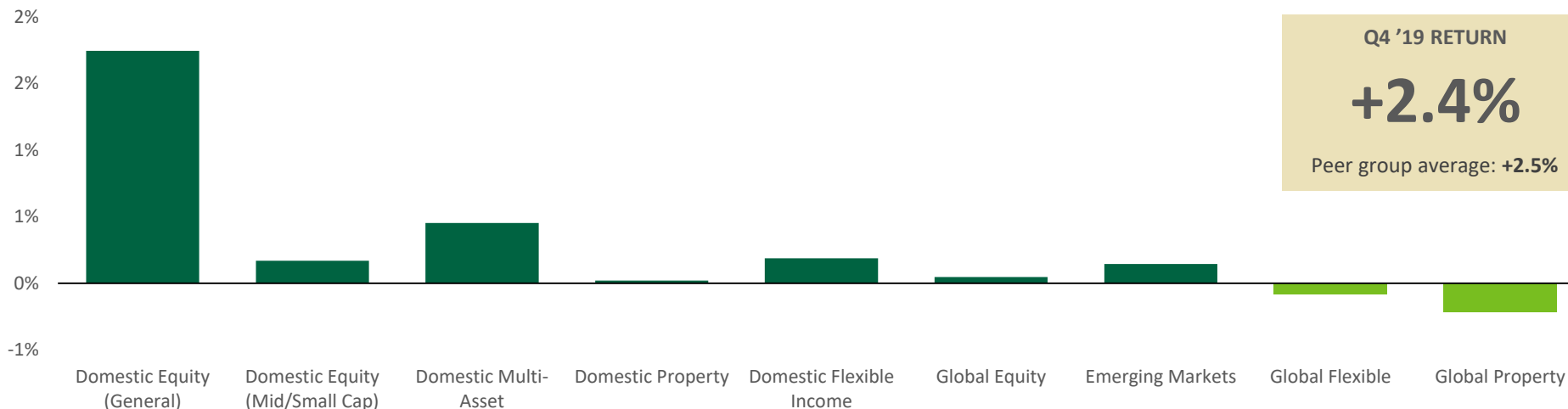
ONGOING  
DUE DILIGENCE



\*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 01<sup>st</sup> of October 2016 and ending 31<sup>st</sup> September 2019.



## XS Fund of Funds performance contribution – Q4 2019



### CONTRIBUTORS THIS QUARTER

- The Nedgroup Investments Value fund bounced back in the last quarter, with some of its big positions ending the year well: Aspen (+39%), Sasol (+20%), Capital and Counties (+10%).
- Maintaining a material exposure to domestic equity exposure enabled the FoF to take part in the domestic equity market's strong end to 2019.
- The Nedgroup Investments Flexible Income fund's preference share exposure, yield pick-up from floating rate notes as well as being underweight property contributed to performance.



### DETRACTORS THIS QUARTER

- The Rand strengthened 8% relative to the US dollar, benefitting from the positive global sentiment. This outweighed the impact of concerns about local electricity supply even though Eskom continued to implement load-shedding. A weaker USD also provided additional support to the local unit.
- Most managers had no to relatively low exposure to the top performing precious metal stocks: Sibanye Gold (+258% in 2019; +71% Q4); Impala Platinum (+290% in 2019; +51% Q4'19) and Northam Platinum (+186% in 2019; +49% Q4'19).
- Both domestic property managers (Bridge and Prudential) posted close to flat returns this quarter, as December was another difficult month for this sector of the market.

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## Fund performance (B)

Q4 '19 RETURN

**+2.4%**

Peer group average: +2.5%

YTD RETURN

**+7.9%**

Peer group average: +9.5%

1YR ANNUALISED RETURN

**+7.9%**

Peer group average: +9.5%

3YR ANNUALISED RETURN

**+4.5%**

Peer group average: +5.1%

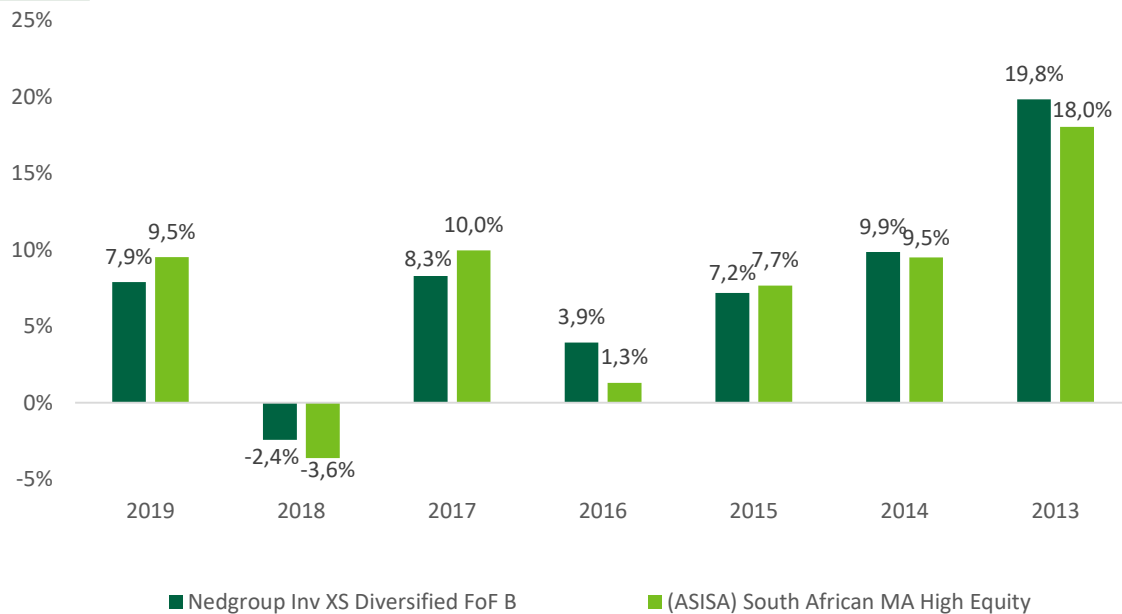
5YR ANNUALISED RETURN

**+4.9%**

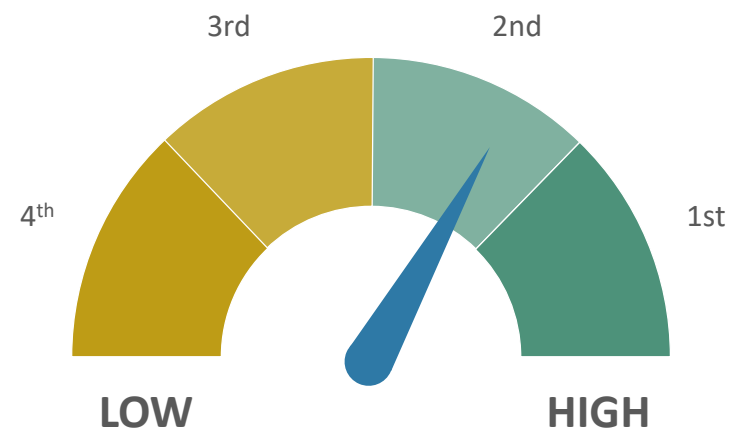
Peer group average: +4.8%



## Calendar year performance



## Peer group quartile ranking: 5Y



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## Risk measures since inception

ROLLING 5YR RETURN

**98%**

Hit rate: outperforming peer group average

VOLATILITY

**7.3%**

SA equity market: 14.4%

MAX DRAWDOWN

**-15.0%**

SA equity market: -40.4%

SHARPE RATIO

**0.4**

SA equity market: 0.4

% POSITIVE MONTHS

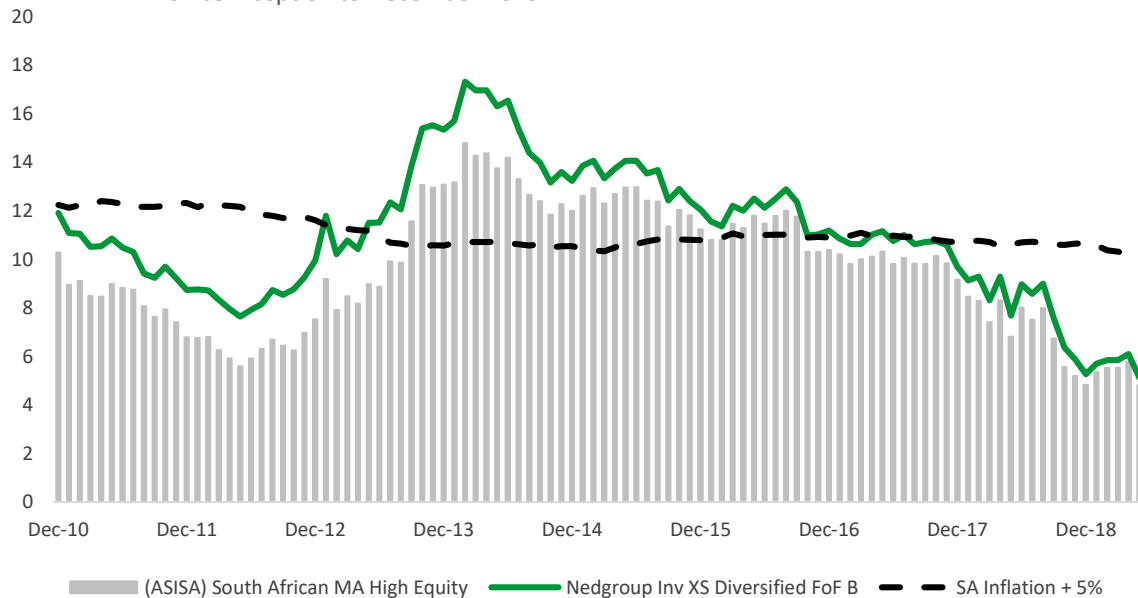
**70%**

SA equity market: 65%

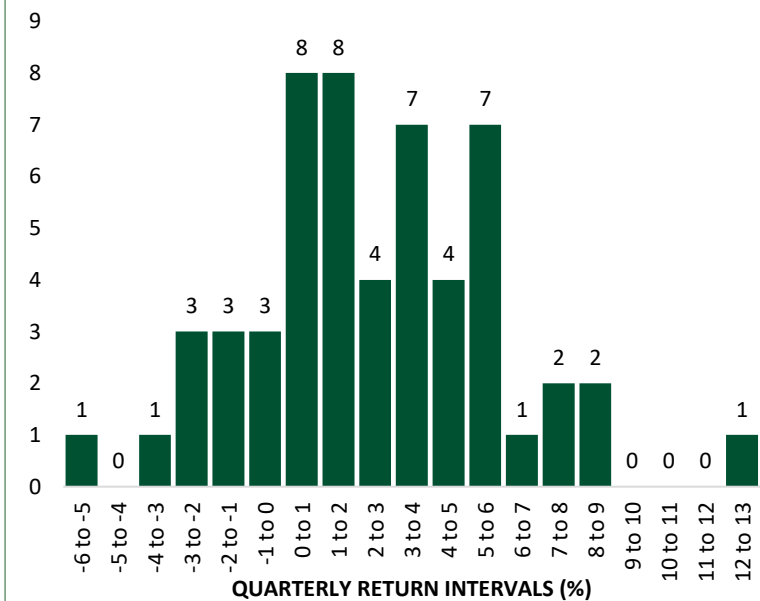


## Rolling 5-year annualised return

Since inception to December 2019



## Quarterly return distribution





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## Performance across classes

	A CLASS (ALL IN)	B CLASS (LISP)	C CLASS (CLEAN)	PEER GROUP	SA INFLATION + 5%
Q4 2019	2.1%	2.4%	2.4%	2.5%	1.6%
1 YEAR	6.3%	7.9%	7.5%	9.5%	8.7%
3 YEAR	2.9%	4.5%	4.1%	5.1%	9.7%
5 YEAR	3.3%	4.9%	4.5%	4.8%	4.5%



## Costs across classes\*

	MANAGEMENT FEE (excl. VAT)	FINANCIAL PLANNER	TOTAL EXPENSE RATIO	TRANSACTION CHARGES	TOTAL INVESTMENT CHARGES
A Class (all-in)	2.25%	1.00%	2.67%	0.10%	2.77%
B Class (LISP)	0.95%	N/A	1.18%	0.10%	1.28%
C Class (clean)	1.25%	NA	1.52%	0.10%	1.62%

\*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 01<sup>st</sup> of October 2016 and ending 31<sup>st</sup> September 2019.

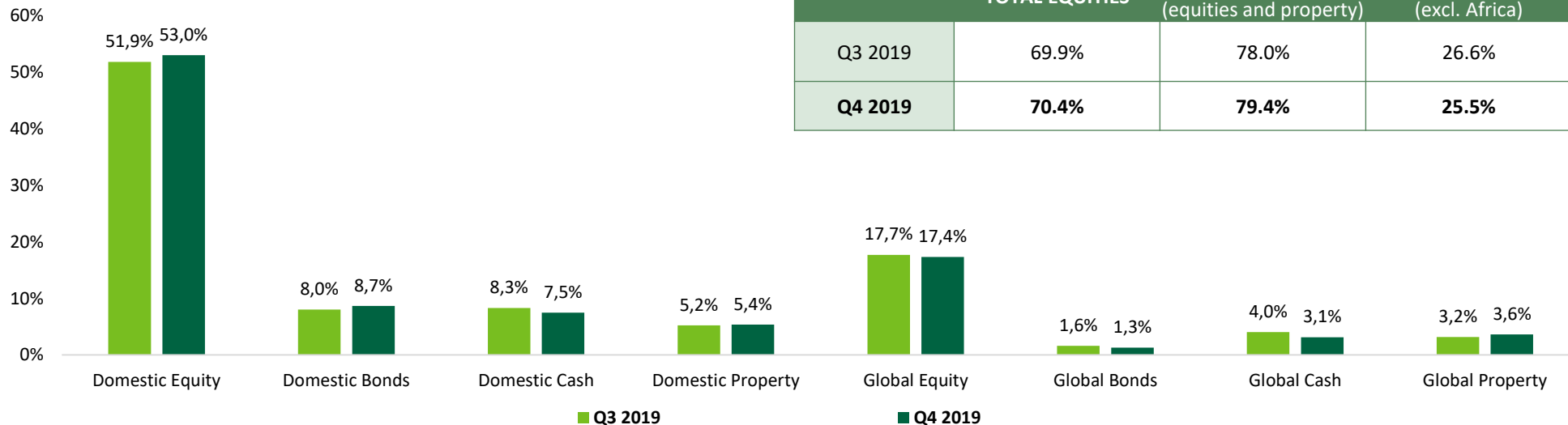
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[www.nedgroupinvestmentsmultimanager.com](http://www.nedgroupinvestmentsmultimanager.com)





## Asset allocation changes



	TOTAL EQUITIES	TOTAL RISK ASSETS (equities and property)	TOTAL OFFSHORE (excl. Africa)
Q3 2019	69.9%	78.0%	26.6%
Q4 2019	<b>70.4%</b>	<b>79.4%</b>	<b>25.5%</b>



## Summary of recent changes

- The foreign equity overweight was reduced to neutral and the local fixed interest (short duration) increased to overweight in October.
- A healthy allocation to defensive assets remain whilst our neutral position to domestic bonds and domestic property is largely retained.
- The funds are well diversified across all asset classes, with a moderate risk positioning.

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## Asset allocation

DOMESTIC EQUITY



53.0%

DOMESTIC PROPERTY



5.4%

DOMESTIC FIXED INTEREST



16.2%

FOREIGN EQUITY



17.4%

FOREIGN PROPERTY



3.6%

FOREIGN FIXED INTEREST



4.4%



## Regional exposure



51,3%

PURE SA



23,2%

RAND HEDGES



25,5%

DIRECT FOREIGN



## Top ten holdings (as a % of fund)

  
NASPERS

3.7%

  
BRITISH AMERICAN  
TOBACCO

2.7%

  
BHP

2.6%

  
SASOL

2.4%

  
Standard Bank

2.2%

  
Anglo American

1.9%

  
santam

1.6%

  
FIRSTRAND

1.6%

  
prosus

1.5%

  
RICHEMONT

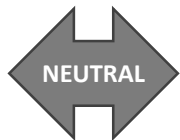
1.4%



## Domestic asset class positioning



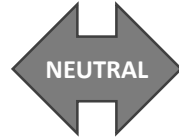
### DOMESTIC EQUITY



53.0%

- Pockets of opportunity have opened up in the market, but are not without risks.
- Broadly balanced: rand-hedge exposure exists, with a meaningful tilt towards domestic-facing companies.

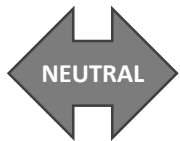
### DOMESTIC PROPERTY



5.4%

- Neutral position retained. Preference for active management/stock selection.
- Within the active component, we remain invested in small/mid-sized domestically focused firms; with SAPY index heavyweights present via the enhanced tracker holding.

### DOMESTIC BOND



8.7%

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

### DOMESTIC CASH



7.5%

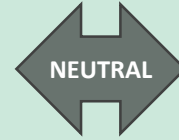
- The exposure to defensive assets remains prudent given the geopolitical risks that still exist.
- Provides consistent return profile.
- The healthy cash balance also provides optionality (dry powder) should opportunities arise.



## Global asset class positioning



### GLOBAL EQUITY



17.4%

- Room for earnings growth still exists; as well as the availability of reasonable levels of the equity/bond premium.
- International opportunities offering diversification, access to higher growth (e.g. EM) and risk adjusted returns, not just protection against rand weakness.

### GLOBAL PROPERTY



3.6%

- Overweight commercial property companies focused on offices and data centres, but underweight those specialising in residential and retail.
- Also positioned for concerns around the impact of technology disruption.

### GLOBAL BOND



1.3%

- Underweight global bonds in general. Global government bond yields declined on concerns that global growth is now decelerating.
- Minor exposure to EM bonds.

### GLOBAL CASH



3.1%

- Cash positions remain as the underlying managers look for compelling, idiosyncratic opportunities.

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## Domestic: fund manager exposures

Equity General:  
38.9%



Small/Mid Cap  
Equity: 7.7%



Property: 2.9%



Passive Multi-  
Asset: 19.2%



Flexible Income:  
10.8%



## Global: fund manager exposures

Equity: 11.3%



Emerging Markets  
Equity: 2.1%



Flexible Multi-  
Asset: 3.2%



Property: 3.4%



The residual balance (out of 100%) is held as domestic cash to provide liquidity  
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