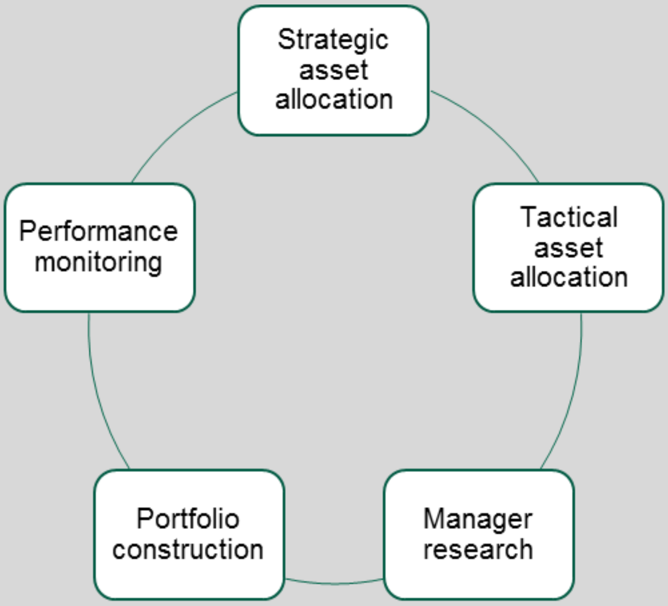
NEDGROUP INVESTMENTS

see money differently

NEDGROUP INVESTMENTS MULTI-MANAGER INVESTMENT PROCESS

OUR SOUTH AFRICAN OFFERING EXPLAINED

Our investment process comprises various disciplines, including strategic and tactical asset allocation for our range of Fund of Funds that we are responsible for managing, manager research, portfolio construction and performance monitoring and risk management.



STRATEGIC ASSET ALLOCATION

The starting point when combining specialist funds is to identify the relevant asset classes and as sensibly as possible determine their expected risk, return and correlations. This work is done considering clients' differing objectives or risk appetites, and aims to derive a normal (or neutral) asset allocation mix for each of our solutions that most efficiently maps to the risk and return preferences.

Our understanding of potential asset class risks, returns, cross-correlations and liquidity allows us to derive forward looking assumptions using a combination of analysing history and considering future trends. We use proprietary models to determine and graph the expected risk, return and probability of loss over various periods of all the asset classes considered to find the optimal blend. In other words, we determine the mix of asset classes that is most likely to achieve the solution's performance target over the relevant rolling investment horizon most often.

Once agreed and set, these strategic frameworks provide the basis around which tactical asset allocation initiatives are managed, and, as such, play an important role in defining the nature and extent of risks taken within each portfolio by the Investment Team. It also ensures that portfolios are always efficiently diversified across asset classes. Diversification occurs when assets that are not perfectly correlated (i.e. react differently to market forces) are combined and increases the expected return for a given level of volatility.

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TACTICAL ASSET ALLOCATION

As active managers, we vary the asset allocation of our solutions around their strategic frameworks to reflect the evolution of our views about potential returns and risks for different asset classes. This is called tactical asset allocation, and aims to emphasise exposure to those areas expected to do well, whilst minimising exposure to those where the outlook is less promising. The asset allocation process is led by the Nedgroup Investments Allocation Committee, which meets on a monthly basis to examine fundamental macroeconomic trends, investment opportunities, market risks and asset class valuations. This forum is ultimately responsible for setting the house policy that guides tactical asset allocation within client portfolios. Membership of the Nedgroup Investments Asset Allocation Committee includes all the most senior and experienced investors at Nedgroup Investments.

MANAGER RESEARCH

Manager research involves a blend of quantitative and qualitative assessment. The quantitative component explores the past performance of the fund manager. This process is critical in ascertaining whether or not performance was attributable to luck or skill and whether or not the manager maintained his stated philosophy and style throughout the period. We analyse performance through a number of full market cycles and special attention is given to a manager’s ability to protect capital in poor market conditions, as we believe that superior downside protection is an important component of long-term outperformance. To conduct these initial screens, the Investment Team uses various bought-in global databases, including Bloomberg and Morningstar Direct. The output of the quantitative assessment is a short-list of managers most suitable for the specific building block or solution that need to go through the second part of our manager research process.

The qualitative component concentrates on the complete ‘due diligence’ of a prospective manager. It is an iterative process and requires us to spend a significant amount of time with key and supporting members of the investment team. It includes details of the organisation, the experience and qualifications of the team, the culture and philosophy and a detailed analysis of the entire investment process. This affords us an in-depth understanding of how they work, their structure, as well as how effective they will be at producing superior results in the future.

The investment team attends a monthly meeting dedicated to the management of the South African Fund of Fund offering. The results of the manager research process will be presented by the relevant analyst(s) and follow-up meetings scheduled to address any questions or concerns raised by the rest of the team. We have set clear principles to guide our decision-making process of whether or not a manager can be added to our buy list.

- Good managers exist and can be found
- Beating the market is difficult, especially over short term; therefore judge managers over full market cycle
- Investment philosophy and process of manager must be bought into
- Stability and strength of fund manager/team
- Access to fund manager and investment team
- Alignment of interests
- Act as stewards of capital
- Size is a consideration
- Separate operational due diligence
- If in doubt, don’t choose

The open plan office environment allow the team to be in continuous discussion to enable quick decision making when necessary.

In addition to the investment research, Nedgroup Investments also puts managers and their products through an operational due diligence process conducted by the Risk and Compliance Team, which is independent of the Investment Team. In this part of the process, the Risk and Compliance Team is tasked with ensuring that any proposed investment complies with all regulatory requirements and restrictions, and that it is not compromised by any potential risk factors, such as insufficient investor protection, or conflicts of interests.

PORTFOLIO CONSTRUCTION

This is the part that pulls it all together and effectively consists of the combination of strategic and tactical, asset and fund manager allocation. The aim of our portfolio construction process is to build and maintain a well-diversified mix of exposures, which emphasises those risks that we expect to deliver positive rewards, and minimises those that we believe might detract value.

Our in-depth understanding of our selected managers' investment philosophies and processes – and how we expect them to complement each other over time - allows us to determine a neutral weight per fund used as a target in each of our solutions' fund allocation models.

Effective portfolio construction requires all managers to provide us with detailed holdings data on a monthly basis in order for us to analyse all the portfolio risk factors that we are interested in, such as style, industry, sector, duration, credit quality, currency etc., allowing us to fully assess the overall positioning of our solutions on a regular basis. This is discussed at our monthly meeting and allows us to understand the key risks. These internal presentations are archived, so they can be used to assess how key factors have changed through time.

After careful analysis of the information, portfolios may be adjusted to ensure that they have the appropriate level of active risks to achieve the objectives, but that these risks are consistent with our overall views, whilst not being overly concentrated on any single factor.

PORTFOLIO MONITORING

Portfolio monitoring is multi-faceted, and primarily involves ongoing manager research, regular holdings based risk assessments, performance measurement and attribution (of both the underlying managers, as well as our solutions) and mandate position limits and regulatory checks.

1) Once an investment has been made, our analysts meet with the fund managers on an ongoing basis to monitor progress, and to ensure that our original investment rationale remains valid. Our analysts use these meetings to refresh in-house manager reports, which are shared with other members of the Investment Team.

2) We use Morningstar Direct to generate holdings-based reports analysing key elements like market capitalisation and style exposure as well as holdings overlap across managers. This allows us to understand the risks being taken, and if necessary, make adjustments to our solutions.

3) We monitor performance progress for all of our underlying managers and solutions using Morningstar Direct. These databases provide us with index and peer group benchmarking data, allowing us to conduct detailed performance attribution analysis for client portfolios.

4) All portfolios are subject to detailed and ongoing monitoring and review to ensure that they remain within their specific mandate limits and investment restrictions.

Sells can be triggered by a number of factors, but as a general rule, they usually occur because some kind of change has undermined the strength of the investment thesis supporting the original decision. By way of examples, the Nedgroup Investments Multi-Manager Team might consider selling a manager when it sees detrimental changes to the:

1) Key fund manager

2) Resource commitment

3) Portfolio characteristics/risk levels

4) Fund size (i.e. the fund has grown too big, or too small)

5) Risk controls/compliance

6) Performance

7) Transparency/disclosure

As well as being triggered by “manager specific” factors, sales can also occur as a result of events beyond the manager’s control, such as:

1) The identification of a more compelling alternative

2) Asset allocation changes

GOVERNANCE AND OVERSIGHT

The Nedgroup Investments Multi-Manager process is subject to the oversight of various boards and management committees which are responsible for ensuring compliance with all legal and regulatory requirements, as well as the maintenance of best industry practice.

These forums work to ensure that Nedgroup Investments delivers the highest level of integrity and care in terms of its investment process, compliance and client service, whilst maintaining a strong capability which is backed by adequate resources and infrastructure.

Disclosures:

Nedgroup Collective Investments (RF) Proprietary Limited is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust portfolios. It is a member of the Association of Savings & Investment South Africa (ASISA).

Unit trusts are generally medium to long term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments. A fund of funds may only invest in other unit trust funds that levy their own charges, which could result in a higher fee structure. The funds mentioned in this document are managed by authorised Financial Service Providers under the Financial Advisory and Intermediary Services Act.

Performance calculated for the funds and individual investment performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. The annualized total return is the average return earned by an investment each year over a given time period.