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INVESTMENTS

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XS
SELECT

QUARTERLY
REVIEW

Quarter Two
2018

Nedgroup Investments

XS Select Quarterly Review

Quarter Two, for the period ended June 2018

XS Select Equity FoF Class C		Q2 2018	1 year	2 year	3 year	5 year	Inception*	Volatility*
Fund of Funds	XS Select Equity	1.1%	6.4%	4.1%	3.4%	9.7%	9.9%	11.3%
Benchmark	Inflation + 6.5%	2.9%	11.2%	11.7%	12.2%	12.3%	13.0%	n/a
XS Select Diversified FoF Class C		Q2 2018	1 year	2 year	3 year	5 year	Inception*	Volatility*
Fund of Funds	XS Select Diversified	4.2%	7.8%	5.2%	5.0%	8.3%	9.5%	7.9%
Benchmark	Inflation + 5%	2.6%	9.6%	10.2%	10.6%	10.7%	11.4%	n/a
XS Select Guarded FoF Class C		Q2 2018	1 year	2 year	3 year	5 year	Inception*	Volatility*
Fund of Funds	XS Select Guarded	3.4%	7.2%	5.2%	6.0%	8.2%	9.2%	4.5%
Benchmark	Inflation + 3%	2.1%	7.5%	8.1%	8.5%	8.6%	9.3%	n/a

* From 1 November 2006. Returns for Class A are used prior to launch of Class C, adjusted to an equal fee basis. Source: Morningstar; Returns for all periods greater than one year are annualised.

Portfolio performance

After the positive developments of the first quarter, the second quarter of 2018 started out with a lot of uncertainty over the proposed land expropriation bill and the implementation of higher VAT rates announced in the February 2018 Budget Speech. As a result, “Ramaphoria” was renamed “Ramafearia” by many. We also saw a major reversal in investor sentiment towards emerging markets as global investors de-risked their portfolios with growing trade tensions being the major worry.

The SA Equity market delivered strong performance (+4.5% All Share Index) with rand hedges benefiting from rand weakness, while we saw a reversal in many SA Inc. stocks (like SA focused banks and retailers) strong first quarter performance. Global asset classes also delivered very strong performance for rand investors predominantly due to currency weakness, while domestic bonds was the worst performing asset class for the quarter (-3.8% All Bond Index).

The XS Select Fund of Funds performed well relative to its respective peer group averages in the volatile Q2'18 conditions and also remain ahead of its peer group averages over 3-, 5- and 7-years. Despite a slight improvement in the longer term real returns, the XS Select range (as well as its peers) continues to lag the respective ‘inflation plus’ targets as not a single domestic asset class has delivered even inflation+3% over the last 3 years. However, the high real yields available in the domestic bond market as well as the derating of various pockets of the market to more attractive levels, give us reason to be more optimistic about reaching the inflation targets in the near future.

3-year annualised real return vs SA Inflation (5.3%) as at 30 June 2018 (ZAR)

Domestic asset classes			Global asset classes		
Equity	All Share Index	1.3%	Equity	MSCI All Country World	7.5%
Property	SA Listed Property Index	-4.2%	Property	S&P Developed Property Index	5.7%
Bond	All Bond Index	2.3%	Bond	JPM Global Bond Index	1.3%
Cash	STeFI Call	1.2%	Cash	US 3 month deposits	-0.2%

Nedgroup Investments XS Select Equity Fund of Funds ('XS Select Equity')

Investec Equity was the top performer this quarter (+4.2%) and over the last year (+11.7%). The fund's exposure to foreign equities and the resource sector, specifically its overweight to Mondi and BHP Billiton, were the top contributors to performance this quarter. Over the last year, adding to SA Inc. stocks before the 2017 ANC elective conference and taking profits again at the end of the first quarter, as well as the allocation to foreign equities, contributed to performance.

The reversal in many of the SA Inc. names this quarter like Truworths (-28%) and Standard Bank (-10%) gave fund managers the opportunity to selectively increase their exposure to SA Inc. at more attractive levels. XS Select Equity does, however, remain biased to global markets with 11% direct foreign equity exposure and 47% SA listed rand hedged exposure. As per the table below, only three of the top 10 positions (highlighted green) are classified as 'SA Inc.'.

Stock	Weight (30 Jun'18)
Naspers	8.0%
British American Tobacco	6.5%
Sasol	5.8%
Standard Bank	5.1%
BHP Billiton	4.3%
Cie Financiere Richemont	3.6%
MTN Group	3.1%
Anglo American	3.0%
FirstRand Bank	2.5%
Santam Ltd	2.3%
Total	44.1%

Nedgroup Investments XS Select Diversified Fund of Funds ('XS Select Diversified')

Foord Balanced was the top performer this quarter (+6.7%). Foreign assets (+16.4%) at 31% of the fund contributed materially with rand weakness being the key driver, followed by SA listed rand hedges and Newgold (+9.9%). Prudential Balanced was the top performer over the last year (+11.3%). The fund's SA equity allocation was the biggest contributor at +6.5% followed by foreign equity at +3.7%.

Coronation has been reducing their weight in global equities, as according to their models valuations and risks have become elevated according to their. However, XS Select Diversified maintains a slight bias to global markets with 27% direct foreign exposure and 27% SA listed rand hedged exposure.

Nedgroup Investments XS Select Guarded Fund of Funds ('XS Select Guarded')

Nedgroup Investments Stable was the top performer this quarter at +5.4%. Foreign assets contributed materially with rand weakness being a key driver. SA listed rand hedges like BHP Billiton (+32.7%), Sasol (+25.1%), CF Rlichemont (+9.8%) and Capital & Counties (+15.3%) also rebounded strongly. Nedgroup Investments Core Guarded was the top performer over the last year with SA equity and foreign assets being the top performing asset classes.

The R186 government bond is the biggest holding in XS Select Guarded at 7.2% and delivered a negative return this quarter (-2.5%) as yields moved higher. An increase in withdrawals from foreign investor due to rising geopolitical tension and higher developed market yields were the key drivers of this weakness. This weakness gave fund managers the opportunity to increase their exposure to SA government bonds at attractive yields of between 9% and 10%.

Disclosures:

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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.