NFP 2019 Model Portfolio Accreditation

Objective of the assessment

The purpose of the assessments is to ensure that Nedbank financial planners are equipped with the knowledge and understanding of investment jargon as well as basic investment and manager selection principles in order to construct suitable portfolios for matching their clients' financial needs.

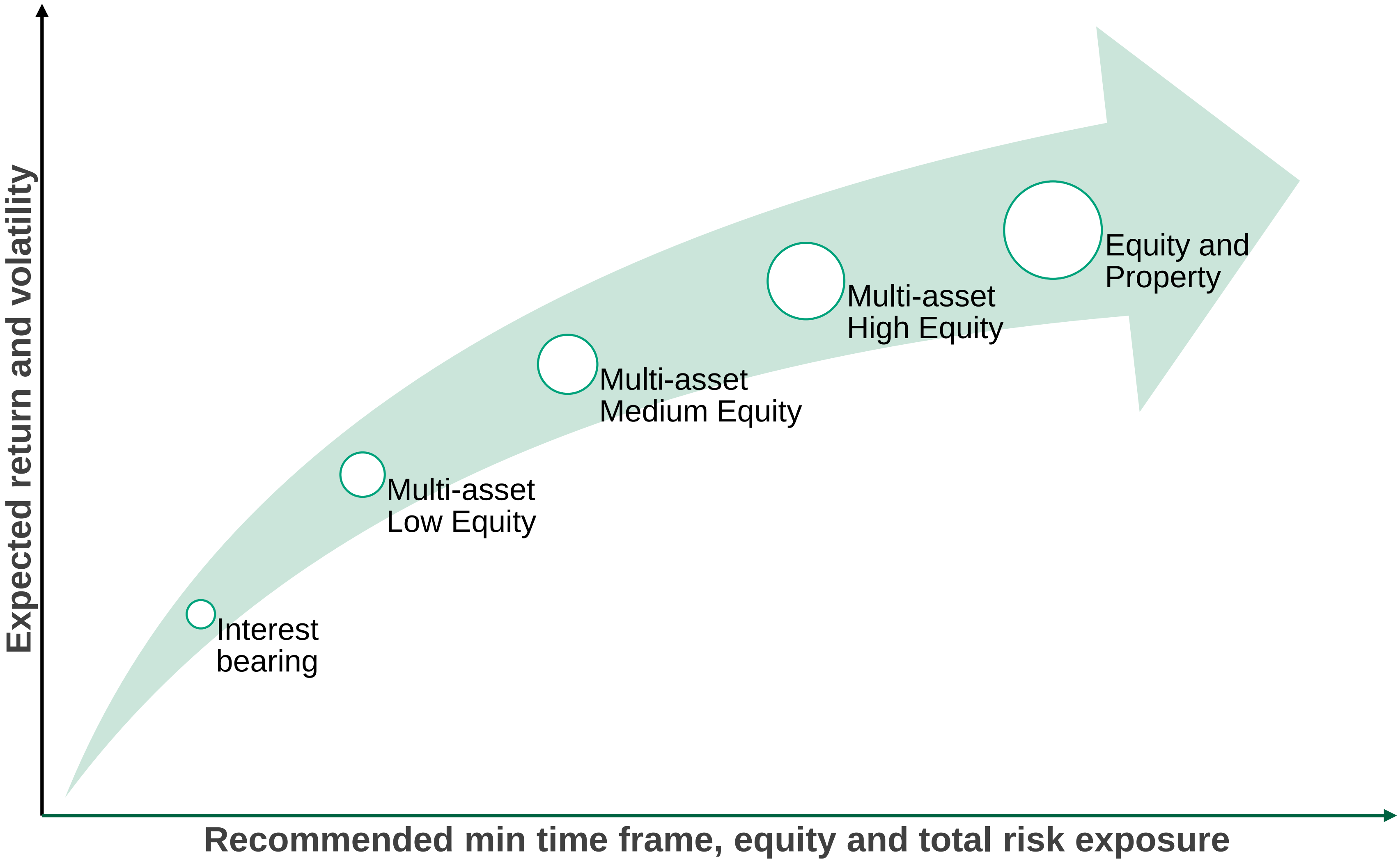
The assessment is split into two parts:

- **Part 1** focuses on testing your understanding of:
  - The relationship between risk, return and time
  - Investment jargon
  - The building blocks of the House View solution
- **Part 2** is to test application of the knowledge, with a specific focus on:
  - Blending various funds given certain objectives
  - Managing market conditions and clients' reaction to it

Part 1: Study material

http://nedgroupinvestmentsmultimanager.com

Determining a suitable balance between income and growth given a client's objectives is very NB



Articles and documents to read

http://nedgroupinvestmentsmultimanager.com/information-hub/

The following articles on the Nedgroup Investments Multi-Manager website are NB to read:

Title	Summary of content
Why should I stay invested in growth assets when cash offers me certainty?	• Reasonable 3-year return expectation of various fund types • Historic domestic investments cycles • Basic investment principles
Risk Profile and Time frame	• Understanding (ASISA) fund categories • Cost of too little risk exposure over a long investment horizon • Dangers of too much risk exposure over a short investment horizon

Also refer to the ASISA Fund Classification Standard - Effective 30 October 2018:

https://www.asisa.org.za/codes-standards-guidelines/standards/

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To choose the right funds, it is critical to really understand what all the jargon refers to

Some NB and frequently used terms:

- Total Investment Charges (TIC)
- Active vs Passive
- Benchmark cognisant vs agnostic
- Feeder funds vs direct offshore exposure
- Rand hedge stock
- Fund of Funds tax benefits

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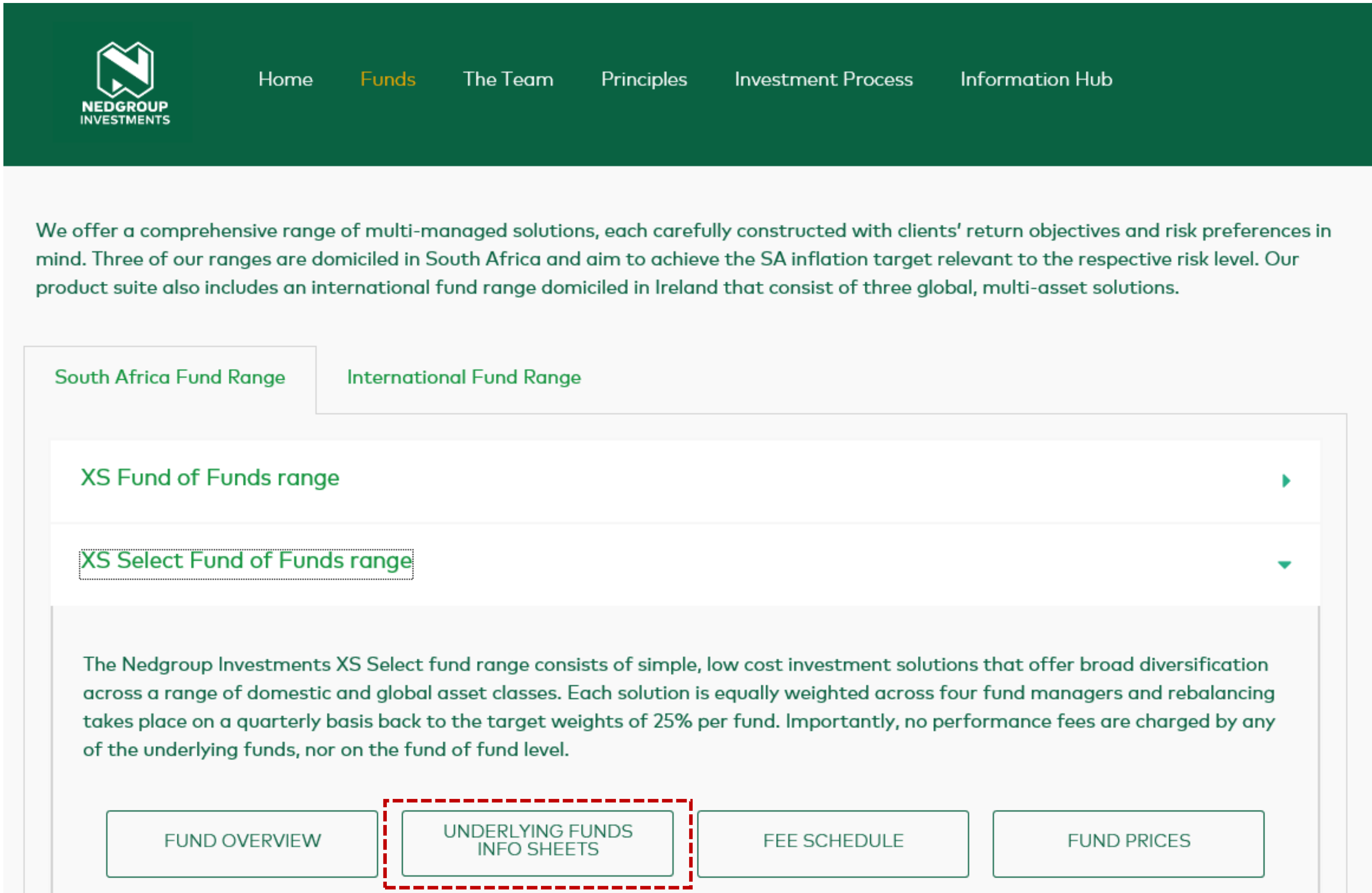
Title	Summary of content
What makes a good passive investment?	• The design of passive vs active solutions • Asset class exposure • Implementation and scale • How to identify a good passive investment
Investing offshore vs investing in offshore assets	• Options when investing in ZAR vs non-ZAR foreign exposure • Tax implications of currency movement in ZAR and non-ZAR foreign exposure • Basic investment principles
Investing offshore, have you ticked all the boxes	• Basic investment principles

Also refer to the Summary of the CFA Institute's refresher reading on Active Equity Investing: Portfolio Construction

https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/2019/active-equity-investing-portfolio-construction

XS Select Fund of Funds range: Underlying funds info sheets

http://nedgroupinvestmentsmultimanager.com/funds/



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Nedgroup Investments Stable Fund

ASISA Category: South African - Multi Asset - Low Equity
Benchmark: CPI +4% over rolling 3 years
Domicile: South Africa
Inception Date: 01/11/2007
Liquidity: Daily
Currency: ZAR
Fund Managers: Dave Foord, Nick Balkin, Daryll Owen & William Fraser

Research Analyst: Seugnet de Villiers
Email: seugnetdev@nedgroupinvestments.co.za
Telephone Number: +27 (0) 21 416 6365

Risk Rating

The Risk Rating demonstrates where the fund ranks in terms of its potential risk and return. The higher the rank the higher the potential reward but the greater the risk of losing capital. The lowest category does not mean risk free. The rating is based on how the fund has performed in the past and may shift over time.

← 1 **2** 3 4 5 →

Low Medium High

Fund overview:

The Nedgroup Investments Stable Fund is part of the Nedgroup Best of Breed™ range, with the investment management of the fund currently outsourced to Foord Asset Management.

The fund is a low risk asset allocation fund that aims to generate returns in excess of inflation over the medium term with an inflation target of CPI +4% over rolling 3 year periods. The fund has the ability to invest across a range of asset classes including cash, bonds, property, equity and offshore investments. The equity exposure is limited to a maximum of 40% of the portfolio, which includes both the local and offshore exposure combined. In addition, offshore exposure is limited to a maximum of 30%, with an additional 10% in Africa and the property exposure is limited to a maximum of 25%. The fund is regulation 28 compliant.

The fund receives most of its offshore exposure through the Foord International Trust Fund which is managed by Dave Foord. This fund is a foreign flexible asset allocation fund that invests across equities, property, bonds, cash and commodities.

The Foord investment philosophy is one that focuses on the long term, by contrasting investment with speculation. The philosophy combines both a top down and bottom up approach. The Foord investment team subscribe to a few key investment pillars. They consider the entry point of utmost importance as this will have a considerable impact on future returns. They prefer to purchase assets that offer a margin of safety, i.e. at a price that they consider to be below their assessment of fair value. The benchmark is generally ignored when constructing a portfolio. Portfolios are constructed on the basis of objective and investment merit. Another one of the pillars that forms part of the investment philosophy is to get the big calls right. A significant aspect of generating superior long term returns is taking advantage of the economic cycle. Lastly the Foord philosophy has diversification as one of the pillars. They use diversification as a tool for risk management from both an asset allocation and a security selection point of view. However where there has been careful analysis resulting in greater conviction, less diversification can be applied.

The fund is managed on a multi-counsellor approach where Dave Foord along with three additional fund managers (Nick Balkin, Daryll Owen & William Fraser) are responsible for the management of their share of the fund's assets. This ensures that a diversified view is reflected in the fund from an asset allocation, sector and security selection point of view. On a monthly basis the investment team conducts macroeconomic reviews where key global and local macroeconomic data is evaluated and forecasted for a period of up to 3 years. At this stage the team also evaluates the levels of various macroeconomic variables that have triggered a review. There is an investment strategy session at least once a quarter. This is the forum where they try to get the big calls right. In this forum the Chief Investment Officer, assisted by portfolio managers, considers the long term outlook and various scenarios that may materialise as determined in the macroeconomic review process. It is at this stage that they determine asset and sector allocation to achieve the required level of diversification. There is a strong emphasis on limiting capital drawdowns and derivatives can be used protect the portfolio.

Our investment case:

- A tried and tested investment philosophy is being used to manage the fund
- A 30 year track record in asset allocation and absolute mandates
- Proven asset allocation and stock selection abilities
- Foord is an owner managed business that is small enough to remain flexible

Part 2: Study material

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The investment decisions you aren't aware you are making	• Illustration of investors' emotional biases and flows • Deeper delve into availability and anchoring bias • Overcoming these biases
How to avoid unforced errors in investing	• Common unforced errors in investing • The benefit of professional investment services

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How do people think about money?

The pleasure that we will get from that cup of coffee

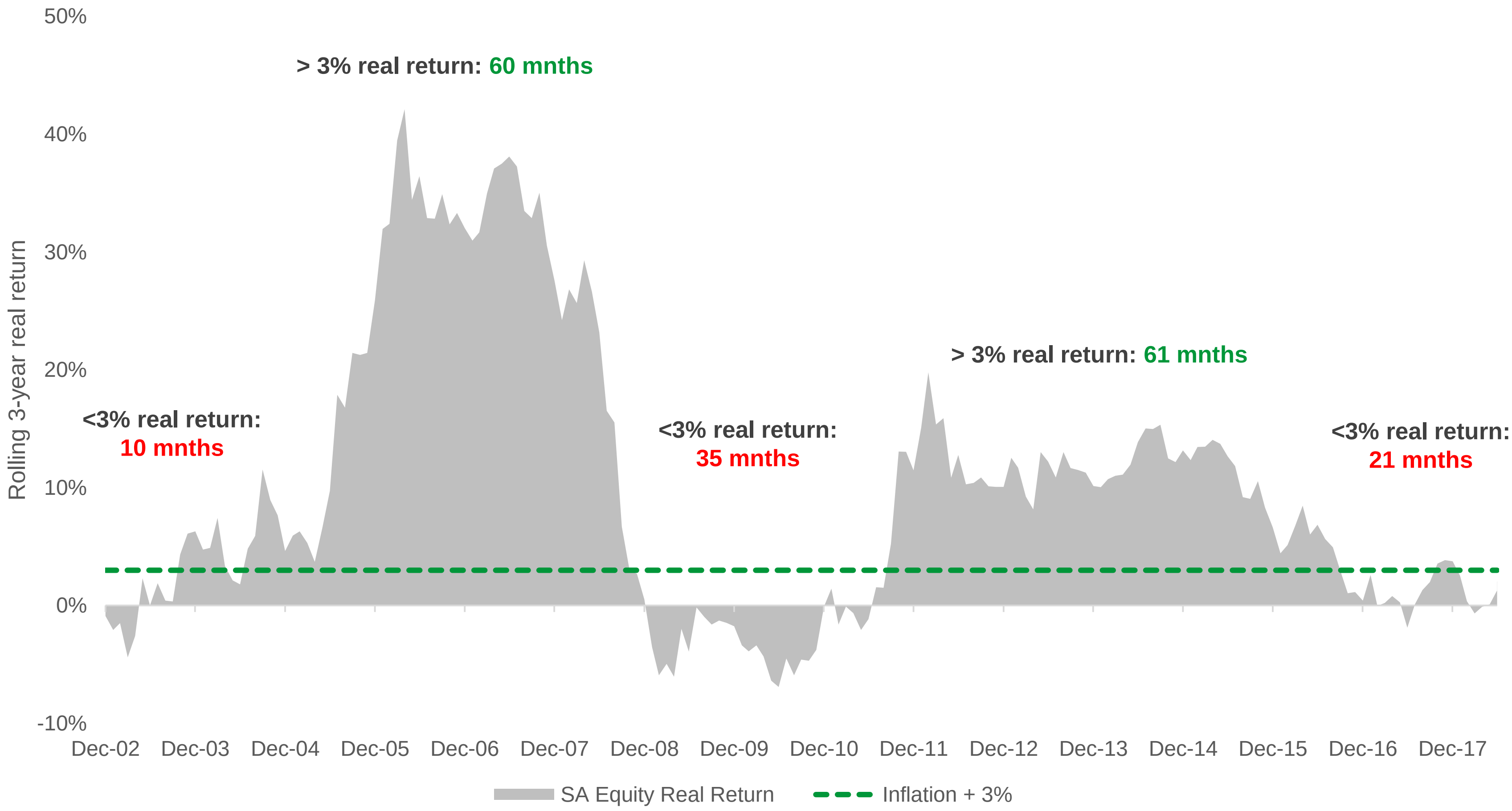
~~The benefit of saving the money instead~~

Repeat past behaviour

Copy friends / neighbours

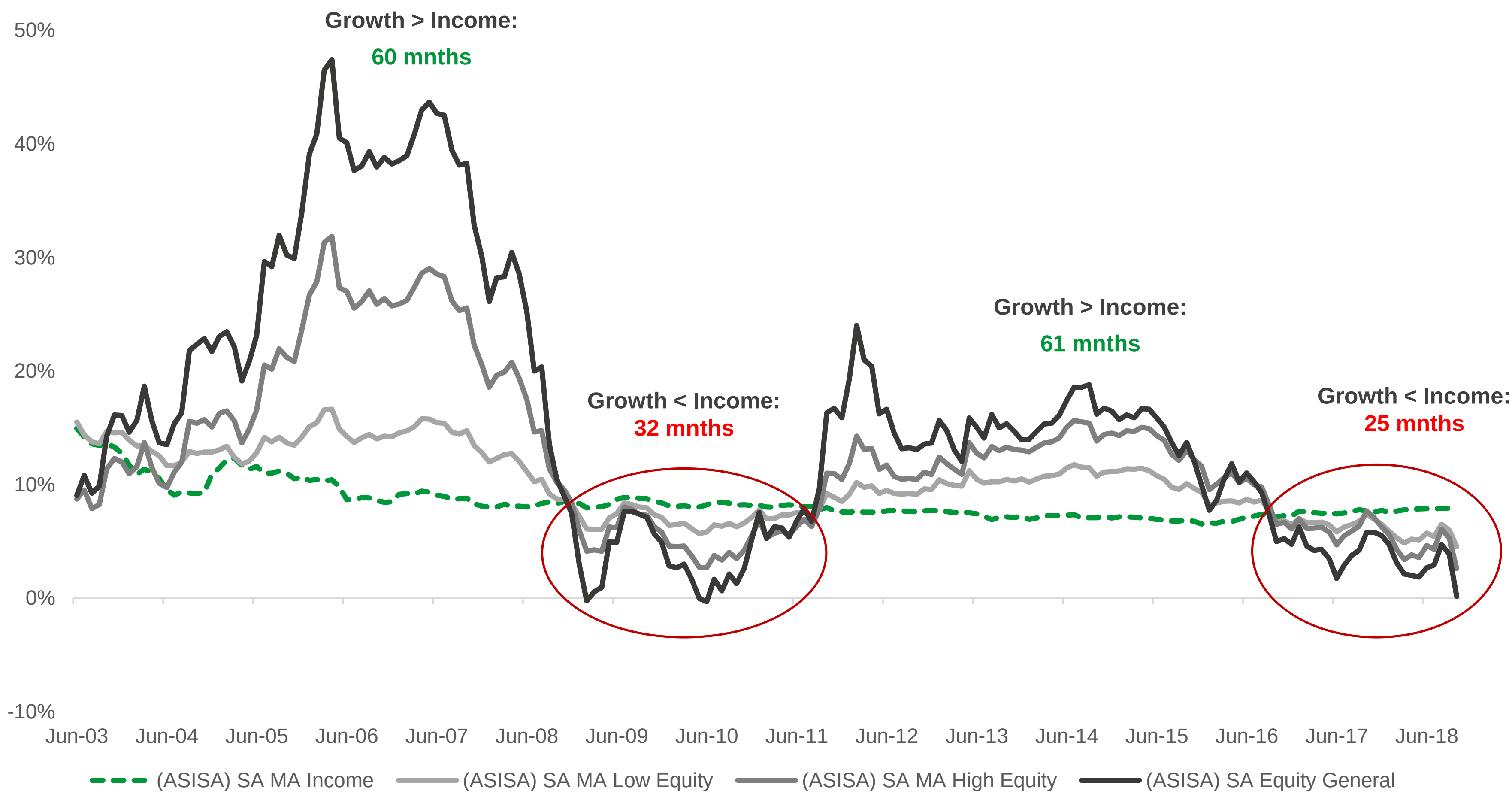
The trouble these ‘rules of thumb’ can cause is amplified when the decisions are about loans, retirement savings, and investments!

The investment cycle is full of Ups and Downs



Source: Morningstar; 1999/12/31 to 2018/06/30

The investment cycle is full of Ups and Downs



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Short-term weakness does not change the fundamentals

Rolling return hit rate of growth categories outperforming the median income fund

	SA Multi-Asset Low Equity	SA Multi-Asset High Equity	SA Equity General
3 YR	**69%**	**64%**	**67%**
5YR	**86%**	**88%**	**90%**
7YR	**100%**	**100%**	**100%**

Source: Morningstar; 2000/06/30 to 2018/06/30

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Growth assets offer more upside than Income assets

Average rolling alpha when our growth categories outperform income vs underperform income

	SA Multi-Asset Low Equity	SA Multi-Asset High Equity	SA Equity General
3 YR	**+3.1% vs -1.3%**	**+8.1% vs -2.6%**	**+13.2% vs -3.9%**
5YR	**+2.7% vs -0.4%**	**+5.9% vs -0.9%**	**+9.5% vs -1.3%**
7YR	**+2.3% vs -0%**	**+4.7% vs -0%**	**+7.7% vs -0%**

Source: Morningstar; 2000/06/30 to 2018/06/30

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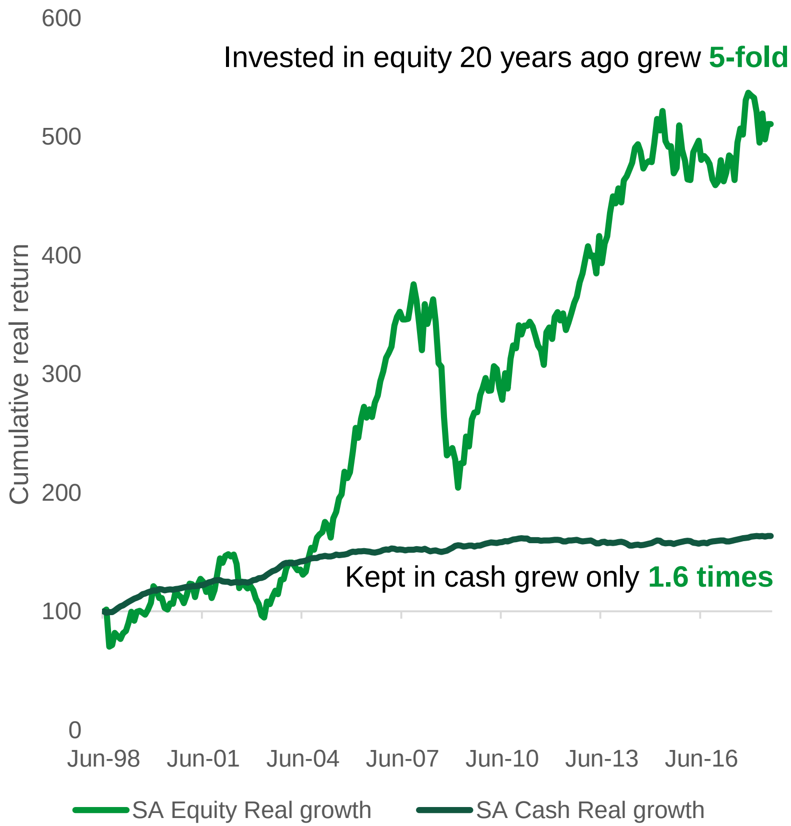
Equity exposure can grow your wealth in real terms

Purchasing power of R100 20 years ago…



What you could afford then vs now?

20 years ago	
Today, if you invested in **Cash**	
Today, if you invested in **Equity**	

Source: Morningstar; 1998/07/01 to 2018/06/30

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The anchoring bias in clients' investment decisions

Past *short-term* performance is one of the most dangerous anchors!

Calendar year return and net flow ranked highest to lowest								
2014 Return	**2015 Flows**	**2015 Return**	**2016 Flows**	**2016 Return**	**2017 Flows**	**2017 Return**	**2018* Flows**	**2018* Return**
Prudential	Prudential	**Allan Gray**	**Allan Gray**	**Allan Gray**	Core	Prudential	**Allan Gray**	**Allan Gray**
Core	Core	Stable	Core	Core	**Allan Gray**	Core	Core	Stable
Stable	Stable	Prudential	Prudential	Prudential	Prudential	**Allan Gray**	Prudential	Coronation
Coronation	Coronation	Core	Stable	Coronation	Coronation	Coronation	Coronation	Core
Allan Gray	**Allan Gray**	Coronation	Coronation	Stable	Stable	Stable	Stable	Prudential

How do you solve this problem?

…Eliminate the anchor!

Source: Morningstar

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John’s meeting with his financial planner at the end of 2007

- John, 32-years old, wants to buy a house when he turns 35
- He just inherited R500k and would like to use this as a deposit
- His planner advised him what he can expect:
  - Time frame: **3 years**
  - Return target: **Inflation + 3%**
  - Suitable strategy: **Low equity balanced**

- They agreed that XS Select Guarded is the right solution

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John’s actual investment journey

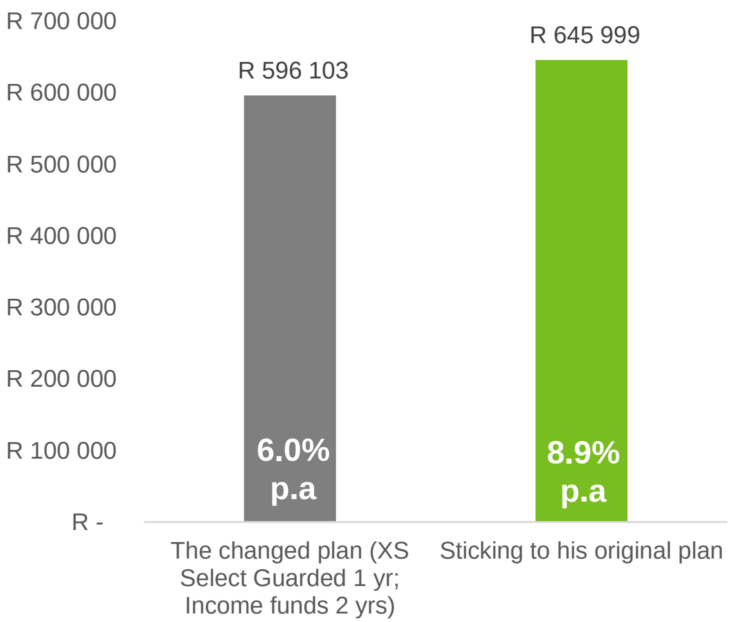
1 year later…

- John goes back to his planner and is very upset about the fact that if he invested in an income fund, he would’ve been better off

Value of his investment	R 513 k
If he invested in an income fund	*R 544 k*

- Despite his planner’s best efforts, John insisted on changing the plan and switching to a blend of income funds

His result at the end of 2010…



Sticking to the original, suitable investment plan outperformed by 3.2% p.a.

Thandi visited her financial planner at the end of 2008

- Thandi's daughter is about to start high school and is already dreaming about becoming a doctor
- Thandi has R100k in savings that she can put away towards university fees
- Her planner advised her what she can expect:
  - Time frame: **5 years**
  - Return target: **Inflation + 5%**
  - Suitable strategy: **High equity balanced**
  - Suitable fund: **XS Select Diversified**

- The recent financial credit crisis made Thandi too nervous to invest her savings in the market. Sending her daughter to university is just too important. So she insisted on an income fund instead.

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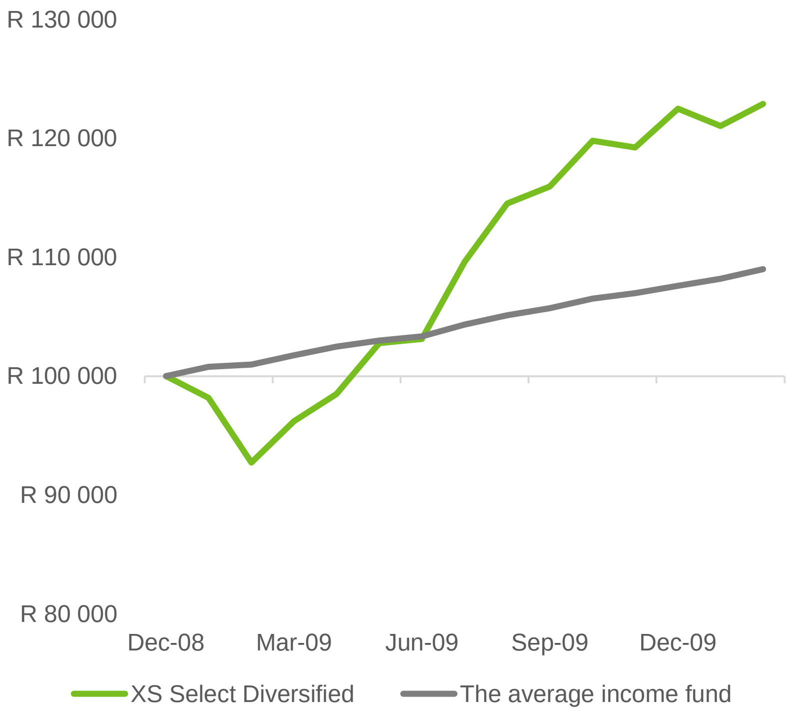
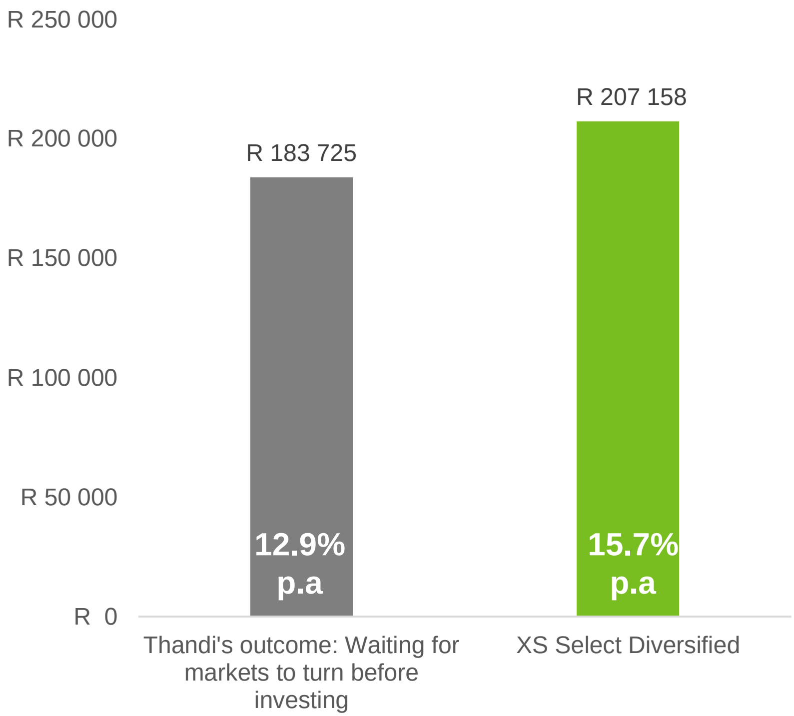
Thandi's actual investment journey

By Feb 2010 her planner finally managed to convince her to switch to XS Select Diversified



December 2013



Investing in the suitable portfolio from the beginning outperformed by 2.8% p.a.

Mr. and Mrs. Smit's story

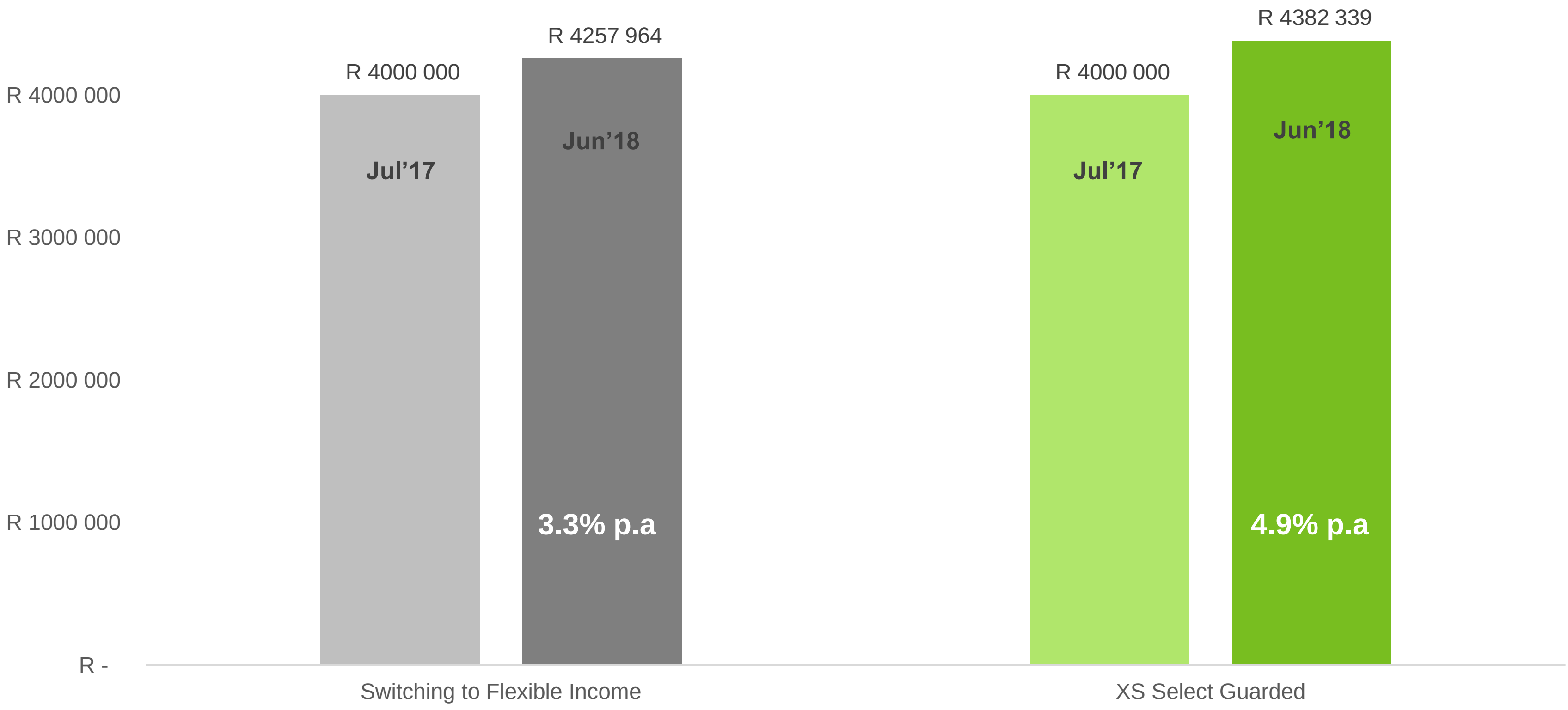
- Mr. and Mrs. Smit are retiring in 2019 and have R 4 million saved for retirement
- Their financial planner advised them to de-risk a bit at the start of 2016:
  - Time frame: 3 years
  - Return target: Inflation + 3%
  - Risk target: No negative 12-months
  - Suitable strategy: Low equity balanced

- They agreed on the Nedgroup Investments Stable fund

- 6 months later, they were so upset about this fund's return, they insisted to start switching to the Nedgroup Investments Flexible Income fund on a monthly basis

How are Mr. and Mrs. Smit doing?

Investing in a well-diversified solution from the beginning outperformed by 1.5% p.a.



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Thank you

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