Nedgroup Investments Core Bond Fund

Class A

November 2017

NEDGROUP INVESTMENTS

INCOME RANGE

RISK RATING

← 1 **2** 3 4 5 →

Low Medium High

Risk reward profile

For credit and income instruments, while unlikely, capital loss may occur due to an event like the default of an issuer. The portfolio typically displays higher volatility than a money market portfolio, but lower volatility than a general equity or balanced portfolio.

GENERAL INFORMATION

ASISA category

South African Interest Bearing Variable Term

Benchmark

Beassa All Bond Index (ALBI)

Investment manager

Taquanta Asset Managers (Pty) Ltd is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No. 618).

Inception date

02 August 1999

Appropriate term

Minimum 3 years

Market value

R 844 Million

Income distributions

Frequency: Quarterly

September 2017: 3.16 cpu

Previous 12 months: 12.68 cpu

Fees and charges (excluding VAT)

Initial fees	0.00%
Annual management fee	0.35%

Total expense ratio	0.44%
Transaction costs	0.01%
Total investment charges [2]	**0.45%**

Please Note:

Differences may exist due to rounding

CONTACT

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Minimum Disclosure Document

Portfolio profile

The portfolio is suitable for investors who require specific exposure to the South African bond market as part of their overall investment strategy.

Performance [1]

Period	Portfolio	Benchmark
1 year pa	7.2%	6.0%
3 Years pa	5.2%	4.4%
5 Years pa	6.1%	5.6%
7 Years pa	7.4%	7.4%
10 Years pa	8.5%	8.1%
Lowest 1 year return	-5.4%	
Highest 1 year return	20.0%	

Risk

Period	Portfolio	ALSI
Volatility [5 years]	6.8%	11.0%

Maturity spread

Maturity spread	% Spread
0 - 1 year	3.5%
1 - 3 years	6.1%
3 - 7 years	12.8%
7 - 12 years	29.9%
> 12 years	40.1%
Other	7.6%
Total	**100.0%**

Portfolio structure

Republic of South Africa	63.2%
Cash and money market	7.6%
Transnet	6.5%
Eskom	6.0%
Standard Bank	4.0%
FirstRand Bank	3.1%
ABSA	2.5%
Nedgroup Collective Investments	2.4%
Nedbank	2.0%
Umgeni Water	1.2%
Old Mutual Life Assurance Co SA Ltd	1.1%
Trans-Caledon Tunnel Authority	0.2%

1) The annualized total return is the average return earned by an investment each year over a given time period. Performance is calculated for the portfolio and individual investment performance may differ as a result of initial fees, the actual investment, the actual investment date, the date of reinvestment and dividend withholding tax. Due to the delayed release of inflation data, relevant benchmarks will lag by one month.

2) Total Expense Ratio (TER), expressed as a percentage of the Fund, relates to expenses incurred in the administration of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TERs. Transaction Costs (TC), expressed as a percentage of the Fund, relate to the costs incurred in buying and selling the underlying assets of the Fund. TC are a necessary cost in administering the fund and impact fund returns. It should not be considered in isolation as returns may be impacted by other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. The Total Investment Charges expressed as a percentage of the Fund, relates to all investment costs of the Fund. Both the TER and TC of the Fund are calculated on an annualised basis, beginning 01/10/2014 and ending 30/09/2017

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Investment manager commentary

Taquanta Asset Management

Growth in developed, and most larger, emerging economies has continued to gather momentum throughout 2017. The IMF reported that stronger global growth has fuelled stronger manufacturing activity. Focusing on emerging economies, the IMF notes that China continued to enjoy higher domestic demand, while India saw a contraction in growth off the back of the demonetisation initiative and the countrywide implementation of the Goods and Services Tax. In South East Asia, external demand supported higher growth, while in Brazil healthy exports and a slower pace of contraction in local demand has seen the economy return to growth this year. In Turkey and Russia, stronger domestic and external demand also bolstered growth. Risks that could throw the global economy off the growth path are; among others, ill-advised Federal Reserve Bank policies, a fall out from the Chinese economy, protectionist policies in the US, and oil price volatility.

In South Africa, the Reserve Bank held rates steady at the last MPC meeting, saying they believe it prudent to do so, given the high degree of uncertainty present in the economy, and considering the balance of risks such as the implications of the ANC electoral conference and further downgrades. The bank noted that their Quarterly Projection Model implied three interest rate increases of 25 basis points each by the end of 2019. This policy path is however dependent on economic conditions, hence actual decisions may differ from the projected path, while still achieving the inflation target.

CPI slowed to 4.8% year-on-year in October from 5.1 % in September. PPI inflation was down to 5% year-on-year in October compared to 5.2% the previous month. Potential significant electricity tariff hikes and sustained higher oil prices in the coming year would place upward pressure on inflation. The Reserve Bank confirmed that there should be clarity around Eskom's tariff application by the January MPC meeting. The inflation forecast produced by the Reserve Bank's Quarterly Projection Model was revised slightly upwards to 5.2% for 2018 (previous forecast 5.1%), and 5.5% for 2019 (previously 5.4%).

One day after the November MPC meeting, Standard and Poor's (S&P) issued a notice in which they downgraded South Africa's foreign currency rating to BB from BB+. S&P also lowered the long-term local currency sovereign credit rating to sub-investment grade from BBB- from BB+. S&P cited South Africa's deteriorating public finances, a stagnating economy and a belief that the 2018 budget in February may be insufficient to stabilise public finances in the near term, as the key factors driving their decision.

The implications of the downgrade mean that South Africa will remain in the Citi World Government Bond Index, but would be excluded from the smaller Barclays Aggregate Bond Index. Moody's opted not to downgrade South Africa in November, but have placed South Africa's rating on review for downgrade, with the next review expected in March 2018.

Private sector credit extension has continued a downward trajectory, printing at 5.4% year-on-year in October from 5.6% in September. The slowdown was a direct result of sluggish corporate credit growth. Money supply (M3) was down 5% year-on-year in October from 7.1% in September, the contraction was due to lower financial corporate deposits.

The yield on the Nedgroup Investments Core Bond Fund as at 30 November 2017 was 9.02%.

The aim of the fund is to produce superior risk adjusted returns relative to the peers. Studies have shown that that there is very little persistence skill in timing duration bets and consequently the ability to outperform on a consistent basis. The approach of this fund is to attempt to outperform peers through the following:

- Staying largely neutral on modified duration;
- Lower fees;
- A low turnover approach;
- Prudent and timeous exposure to credit to enhance returns;
- Optimal portfolio construction to select stock exposures.

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As at: 18 December 2017

To achieve this goal the fund has largely reduced its relative negative duration position, although its position is still net short the All Bond Index. The Fund weighs the risk of adverse capital movements relative to the attractiveness of yields offered on the long end of the curve and to this end has increased its exposure in this area in order to reduce its relative risk.

Please note an important change that will be effective January 2018. Fund commentary will be produced on a quarterly basis, moving from the current monthly cycle, to provide an enhanced analysis of the fund over a longer period.