Nedgroup Investments Balanced Fund

Class A

November 2017

NEDGROUP INVESTMENTS

ASSET ALLOCATION RANGE

RISK RATING

1 2 **3** 4 5

Low Medium High

Risk reward profile

Equity and property investments are volatile by nature and subject to potential capital loss. For credit and income instruments, while unlikely, capital loss may also occur due to an event like the default of an issuer. The portfolio may be subject to currency fluctuations due to its international exposure.

GENERAL INFORMATION

ASISA category

South African Multi Asset High Equity

Benchmark

ASISA Category Average

Investment manager

Truffle Asset Management (Pty) Ltd (Truffle) is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP no: 36584).

Inception date

04 October 2011

Appropriate term

Minimum 3 - 5 years

Market value

R 2,276 Million

Income distributions

Frequency: Semi-annually

June 2017: 9.65 cpu

Previous 12 months: 25.06 cpu

Fees and charges (excluding VAT)

Initial fees	0.00%
Annual management fee	1.35%
Total expense ratio	1.36%
Transaction costs	0.42%
Total investment charges [2]	**1.78%**

Please Note:

Differences may exist due to rounding

CONTACT

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Minimum Disclosure Document

Portfolio profile

The portfolio is suitable for investors requiring moderate levels of capital growth who do not wish to make complex asset allocation decisions between equities, cash and bonds, both locally and offshore. Diversification across asset classes and a maximum equity exposure of 75% helps to reduce risk and volatility relative to a general equity portfolio. The portfolio complies with Regulation 28 of the South African Pension Funds Act.

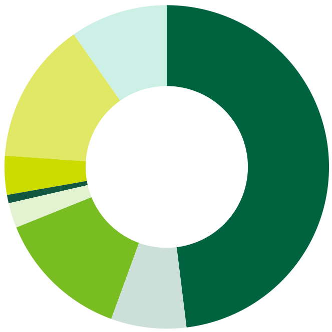
Performance [1]

Period	Portfolio	Benchmark
1 year pa	9.6%	12.7%
3 Years pa	8.1%	7.1%
5 Years pa	12.3%	9.8%
Since Inception	13.9%	11.0%
Lowest 1 year return	-3.2%	
Highest 1 year return	30.1%	

Risk

Period	Portfolio	ALSI
Volatility [5 years]	7.5%	11.0%

Portfolio structure



Equity	48.1%
Property	7.5%
Bonds	13.2%
Preference shares	2.7%
Convertible bonds	0.7%
Cash and money market	3.8%
Foreign equity	14.3%
Foreign cash	9.7%

Top 10 holdings

Share	Percentage
Old Mutual Plc	5.1
Steinhoff International H NV (JSE)	4.2
Naspers Ltd	4.0
Indiabulls Housing Finance Warrant	3.4
Sasol Ltd	3.3
Barclays Africa Group Ltd	2.8
Spire Healthcare Group Plc	2.6
British American Tobacco Plc	2.5
RECM & Calibre Ltd Pref Share	2.3
Barclays 11.122% 170322	2.1
Total	**32.3**

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 date of reinvestment and dividend withholding tax. Due to the delayed release of inflation data, relevant benchmarks will lag by one month.
Data source: © Morningstar Inc. All rights reserved.

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 ratio 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 TER's. Calculations are based on actual data where possible and best estimates where actual data is not available. The TER of the Fund is calculated on an annualised basis, however this cannot be determined accurately because the Fund was recently launched and has a short track record.

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ASSET ALLOCATION RANGE

Investment manager commentary

Truffle Asset Management

Global Equities are close to enjoying 12 consecutive months of positive returns
Global equity markets enjoyed yet another good month, advancing 2% in US dollars. Year-to-date global equity markets have advanced 22.6%. Should the month of December produce yet another positive outcome for global equities, it would reflect 12 consecutive months of positive returns. A very rare event indeed, but reflective of the overwhelming positive sentiment fuelling global developed equity markets. Interestingly, geographic differences between developed markets have been small with Europe ahead with a year-to-date return of 24.3% in US dollars, followed by the Pacific region with a 22.8% return and North America with a 20.1% return. Driving this improving growth scenario has been the very accommodating monetary policy adopted by the Federal Reserve, the ECB and other central banks over many years that is finally starting to bear fruit. In addition, the stimulus of the expected US tax cuts is adding to the positive outlook. Strangely, global equity markets are ignoring the rising political risks facing the world currently in the Middle East and in North Korea.

The risk of higher inflation and higher interest rates is rising
Theory suggests that prolonged periods of accommodative monetary policy lead to price inflation, but, to date this has not happened. However, ominously, the oil price is now slowly creeping up. Brent crude, having fallen to a low of $49/bbl. in June, is now approaching $63/bbl. Industrial metal prices are also showing strength. It is yet to be seen whether these price increases will filter through to broader price increases and, in the event, what the Central Bank's interest rate response might be. The risk of higher interest rates is rising although the Federal Reserve has, in the recent past, been particularly cautious in raising rates and will in all likelihood continue with this strategy notwithstanding the change in chairmanship from Yellen to Powell in 2018.

Local equities had a good month
In November the All Share Index was up 1.5% reflecting a 21.4% gain year to date. On the surface the year-to-date return is high but this must be seen against the equivalent Naspers return of 83.5% and the company's 20.5% weighting in the ALSI. Leading the advance over the month were industrial metals (+15.3%), industrial support services (+8.8%), general retailers (+8.4%) and banks (+8.3%). The laggards were software & computers (-11.4%), personal goods (-10.2%), household goods (-8.4%) and electronic & electrical (-8.4%). As a result of the political uncertainty, the currency has depreciated from a low of R13.1 in May to R13.7 to the dollar in November.

All South Africans are waiting for the outcome of the ANC leadership contest
The ANC leadership indaba in mid-December is currently dominating headlines and is likely to remain the central issue until the new ANC leader is accepted by the party. If the conference result is inconclusive or challenged, uncertainty could spill over into next year. Irrespective of who the new ANC leader is, urgent attention needs to be given to stimulating the SA economy to increase job creation. Economic growth has been too moribund to generate the jobs required to make a dent in the unemployment rate and should remain a key focus of the new leadership if stability is to be maintained.

Bonds had a second bad month
In November long bond yields continued to tick up, ending the month at 9.5% compared with 8.7% at the end of September. Bond returns over the month were therefore a subdued -1% following a -2.3% in October. We remain invested in short duration credit which yields 2.5% to 3% over JIBAR. We still think there is insufficient upside to warrant switching out of credit into longer duration government bonds.

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As at: 18 December 2017

Fund Positioning

Domestic

The fund unfortunately held 4% in Steinhoff at month end. The share price has since fallen significantly post the announcement of an investigation into accounting irregularities together with the resignation of the CEO. At this stage it is almost impossible to ascertain a fair value for Steinhoff as the information being released by the company has been cryptic and lacking in detail. Given the near certainty of significant fraud in terms of overstatement of assets and earnings, determining a lower bound value is difficult. As a result, we have reduced our position. We will continue to closely monitor events as they unfold.

Over 50% of the fund's equity has been exposed to rand hedges and remains so. This has been a result of more value being apparent in the offshore exposed shares. However, with the underperformance of local economy stocks, certain opportunities have presented themselves. We have increased our exposure to Remgro, Vodacom and the Foschini group. We funded these purchases primarily with Reinet sales.

Offshore

Our largest offshore holding remains India Bulls, a mortgage provider for entry level home buyers in India. The company benefits from a structural urbanisation trend which is being partly driven by government providing tax financing incentives for home buyers. Bad debt experience has been low and deposits required from borrowers are significant. Loan to value is low at 70%. The share offers good value on a PE of 13.5X.

We have held a position in the Spire Healthcare group, a UK hospital group. Due to waiting periods for NHS procedures increasing, the earnings outlook has moderated in the short term. Mediclinic took advantage of the subsequent share price weakness to make an offer to purchase Spire. This offer was rejected by the Spire board as being too low, which resulted in further share price pressure as the value unlock from corporate activity receded. However, on a PE of 12 on normalised earnings we think the share offers good value. Ultimately, NHS waiting lists have to be reined in which will result in higher demand for Spire hospitals.

We have purchased Technip, a supplier of services to oil drillers, and we reduced our exposure to NetEase as they have been losing market share to Tencent and their gaming pipeline has been shrinking.

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.