

# Nedgroup Investments Flexible Income Fund

Class R

November 2017



## INCOME RANGE

### RISK RATING



### 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 and lower liquidity than a money market portfolio. The portfolio may be subject to currency fluctuations due to its international exposure.

### GENERAL INFORMATION

#### ASISA category

South African Multi Asset Income

#### Benchmark

110% STeFI Call Deposit

#### Investment manager - since October 2012

Abax Investments (Pty) Ltd is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No. 856).

#### Inception date

01 November 2004

#### Appropriate term

Minimum 6 months

#### Market value

R 11,302 Million

#### Income distributions

Frequency: Quarterly

September 2017: 29.41 cpu

Previous 12 months: 110.48 cpu

#### Fees and charges (excluding VAT)

Initial fees 0.00%  
Annual management fee 0.75%

Total expense ratio 0.88%

Transaction costs 0.02%

**Total investment charges<sup>2</sup> 0.91%**

#### Please Note:

Differences may exist due to rounding

### CONTACT

Client Services Centre

Tel: 0860 123 263

Fax 0861 119 733

Website: [www.nedgroupinvestments.co.za](http://www.nedgroupinvestments.co.za)

Email [info@nedgroupinvestments.co.za](mailto:info@nedgroupinvestments.co.za)

### Portfolio profile

The portfolio is suitable for investors seeking enhanced money market returns, but who have a low tolerance for capital loss and who do not wish to make complex asset allocation decisions between cash, bonds, property and other fixed interest asset classes

### Performance<sup>1</sup>

Period	Portfolio	Benchmark
1 year pa	7.3%	7.6%
3 Years pa	8.2%	7.0%
5 Years pa	7.9%	6.4%
7 Years pa	8.5%	6.2%
10 Years pa	8.8%	7.2%
Lowest 1 year return	4.7%	
Highest 1 year return	14.2%	

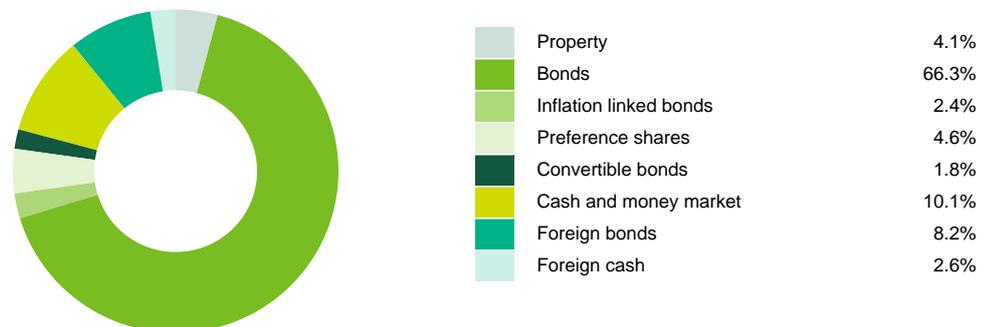
### Risk

Period	Portfolio	ALSI
Volatility [5 years]	1.2%	11.0%

### Maturity spread

Maturity spread	% Spread
0 - 1 year	30.5%
1 - 3 years	22.5%
3 - 7 years	35.9%
7 - 12 years	4.9%
> 12 years	0.1%
Other	6.2%
<b>Total</b>	<b>100.0%</b>

### Portfolio structure



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. 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 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

## INVESTMENT MANAGER COMMENTARY

### Investment manager commentary

#### Abax Investments

November saw its fair share of domestic market related flashpoints. S&P downgraded South Africa's local and foreign currency ratings as anticipated in last month's market commentary. Moody's however decided to go for a stay of execution and put South Africa on review for a downgrade. This implies that they will likely downgrade but are giving policymakers an opportunity to set policy that would allay a few of their concerns, and potentially avert the downgrade. Bonds and the currency rallied strongly post these announcements making back losses recorded earlier in the month. The ANC Elective Conference in December presents an unusual binary event risk, creating a more complex investment management environment.

The South African Reserve Bank (SARB) decided to leave interest rates unchanged at their November meeting. They are again concerned about potential upside risks to the CPI outlook largely emanating from currency weakness. Fears of further downgrades from rating agencies had increased after a very weak MTBPS was delivered in October. The MPC also stated the following "the less favourable path of fiscal consolidation could potentially reduce the scope for further monetary accommodation". The MPC also presented a new model used for assessing the inflationary risks facing the economy. This model has an endogenous interest rate path used to determine its forecasts. Failure to follow this path at times could present communication complications for the MPC in the future, as the inputs and outputs of the model could dominate questions from market participants rather than the macro-economic fundamentals. We believe that the MPC may have reached the point where additional communication complexity could become counterproductive. It could resemble the Federal Reserve's dot plot communication conundrum.

Global markets continued their very benign run, with the VIX Index ending the month at 11.28, which is low by historical standards. Corporate bonds spreads have remained at their tightest levels for years and global equities continue to perform well with the MSCI World Index up 2.22% for the month. This environment was assisted by representatives of most the major central banks turning more dovish as CPI inflation continued to undershoot forecasts and targets. Federal Reserve governors continue to indicate a December hike is on the cards and that they will continue to increase the pace at which the balance sheet is run down, but their cautious tone has served to calm any market concerns regarding rapid tightening.

The Nedgroup Investments Flexible Income Fund lost 0.1% in October, underperforming the cash benchmark. The domestic fixed income allocation continued to perform well. The offshore fixed income and property allocation underperformed as the rand appreciated. Preference shares detracted from performance.

Corporate credit spreads remain very compressed. This is largely a function of the global liquidity dynamic and lack of corporate bond issuance in South Africa. Credit spreads have also failed to widen in an environment of wider asset swap spreads on government bonds. As such we have not purchased meaningful amounts of local corporate debt recently.

We continue to add exposure to short-term inflation-linked assets with real yields above 3%, using bank issued CPI-linked bonds. This is attractive relative to money market and will provide yield enhancement as inflation begins to move higher.

The currency exposure is 7% at present. We have an additional 3.5% allocated to European property assets. Our offshore bond holdings offer a very favourable return profile. We continue to see UK property as cheap, relative to fair value. The underlying assets are priced at crisis era discounts to gross asset value. Intu is our biggest holding and is now trading at a 7.1% yield in GBP.

The fund duration has been increased to 0.4 years as we feel that the recent sell off in bonds has re-priced the yield curve such that it now reflects a risk premium nearer to where we see fair value, compared to being overvalued previously. We have focused on maximising the yield of the fund by accumulating good quality floating rate assets at very attractive levels. The weighted average yield of the Nedgroup Investments Flexible Income Fund is currently 8.55%.

**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.**

#### Who we are

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 funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

#### Our trustee

The Standard Bank of South Africa Limited is the registered trustee.  
Contact details: Standard Bank, Po Box 54, Cape Town 8000,  
[Trustee-compliance@standardbank.co.za](mailto:Trustee-compliance@standardbank.co.za), Tel 021 401 2002.

#### Performance

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

#### Pricing

Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

#### Fees

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

#### Disclaimer

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

#### Nedgroup Investments contact details

Tel: 0860 123 263 (RSA only)  
Tel: +27 21 416 6011 (Outside RSA)  
Fax: 0861 119 733 (RSA only)  
Email: [info@nedgroupinvestments.co.za](mailto:info@nedgroupinvestments.co.za)  
For further information on the fund please visit: [www.nedgroupinvestments.co.za](http://www.nedgroupinvestments.co.za)

#### Our offices are located at

Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001

#### Write to us

PO Box 1510, Cape Town, 8000