Nedgroup Investments Financials Fund

Class A

November 2017

NEDGROUP INVESTMENTS

EQUITY RANGE

RISK RATING

1 2 3 4 **5**

Low Medium High

Risk reward profile

Equity investments are volatile by nature and subject to potential capital loss. Due to its specialist nature, the portfolio will typically display higher volatility than a general equity portfolio. The portfolio may be subject to currency fluctuations due to its international exposure

GENERAL INFORMATION

ASISA category

South African Equity Financial

Benchmark

ASISA Category Average

Investment manager

Denker Capital is an independent asset manager specialising in both local and offshore equities. Denker Capital authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP No 47075).

Inception date

03 November 2003

Appropriate term

Minimum 5 - 7 years

Market value

R 435 Million

Income distributions

Frequency: Annually

December 2016: 473.54 cpu

Previous 12 months: 473.54 cpu

Fees and charges (excluding VAT)

Initial fees	0.00%
Annual management fee	1.50%

Total expense ratio	1.92%
Transaction costs	0.27%
Total investment charges [2]	**2.19%**

Please Note:

Differences may exist due to rounding

CONTACT

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Email info@nedgroupinvestments.co.za

Minimum Disclosure Document

Portfolio profile

The portfolio is suitable for investors who require specific exposure to financial sector shares as part of their overall investment strategy , with maximum capital appreciation as their primary goal over the long term.

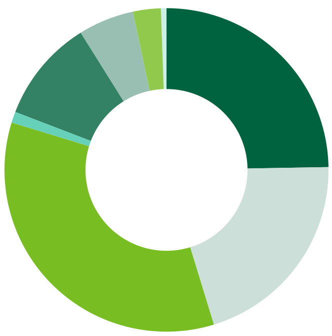
Performance [1]

Period	Portfolio	Benchmark
1 year pa	11.4%	11.5%
3 Years pa	9.7%	4.3%
5 Years pa	16.0%	12.0%
7 Years pa	17.0%	13.5%
10 Years pa	12.8%	10.4%
Lowest 1 year return	-35.3%	
Highest 1 year return	69.0%	

Risk

Period	Portfolio	ALSI
Volatility [5 years]	11.7%	11.0%

Portfolio structure



Banks	24.8%
Insurance	20.3%
Financial services	34.5%
Cash and money market	1.2%
Foreign banks	10.4%
Foreign financial services	5.4%
Foreign insurance	2.8%
Foreign cash	0.6%

Top 10 holdings

Share	Percentage
Sanlam Ltd	10.9
FirstRand Ltd	8.5
Standard Bank Group Ltd	8.4
Old Mutual Plc	7.7
Investec Ltd	6.7
JSE Ltd	5.8
PSG Group Ltd	5.6
Nedbank Group Ltd	4.5
SASFIN Holdings Ltd	4.3
Barclays Africa Group Ltd	3.5
Total	**65.9**

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.

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.

NEDGROUP INVESTMENTS FINANCIALS FUND

November 2017

NEDGROUP INVESTMENTS

INVESTMENT MANAGER COMMENTARY

Investment manager commentary

Denker Capital

In the past two months' commentaries, I wrote about the scenarios we are faced with - Cyril Ramaphosa being elected leader of the ANC, or not. In reality the issues are:

- The impact of macro events versus micro events. In other words, how important is the macro environment when making investment decisions?
- To what extent markets anticipate macro events.

Yes, the macro environment does play a role over the long term, but selecting good companies has always proven to be easier than forecasting macro. Macro forecasting consists of many different factors, both global and local, that are often interrelated. South Africa's growth rate is affected by what happens around the world, for example in the USA, Europe and China and with the oil and platinum prices. More importantly, markets often anticipate good and bad news and in many cases valuations already reflect these expectations. Only when an outcome is totally unexpected (like the pro-Brexit vote, Trump election victory, Modi's demonetization plan in India) does the market react violently, often just making a short-term impact.

November gave us a practical demonstration of the above. The news flow was increasingly negative: further debt downgrades for both our sovereign and bank credit ratings and further regression in terms of South Africa's debt and budget deficits. The only good news was the unexpected removal of Robert Mugabe as Zimbabwe's "president-for-life". Many investors saw the bad news as confirmation of their views: The rand and South African stocks are doomed. Yet, in November the JSE bank sector rallied 8.3% and the financial index 5.7% - because the market had already more than discounted all the negative news. The valuations then looked attractive for fresh investors, especially in terms of the quality of the track records of the businesses.

Our banks have been cautious in their lending over the past few years. So while interest rates will most probably increase under a Dlamini-Zuma scenario (to compensate lenders for increased risk of investing in South African government debt) the banks should not experience a significant increase in bad debts. In fact, the immediate effect of higher interest rates will be an increase on the banks' returns on capital (because of wider lending spreads).

During November the rand strengthened 3% (a negative for the fund's investment in the Sanlam Global Financial Fund) while the banks (particularly FirstRand and Absa) as well as PSG and Sanlam performed particularly well (based on continued good operational results). Two shares we have large investments in that have performed poorly this year are Investec and Sasfin. There are reasons for their poor performance but we think that the market has overreacted in both cases and that they should be outperformers in 2018.

We made a few changes to our holdings since 1 October, reflecting our views on valuations. We added to Absa, Nedbank and Investec and funded these by reducing the fund's holdings in Old Mutual, Coronation and FirstRand (after the Aldermore bid).

We can't forecast the outcome of the ANC leadership election in December, but we are happy that the companies the fund is invested in have long track records with management teams that have overcome many tough environments before. While the wrong leader will cause our country's growth rate to remain sub-par over time, over the medium term we believe that the market has anticipated a lot. We have done our best to ensure the fund is well diversified (also investing outside South Africa) and that the combination and diversification of the selection should generate a satisfactory result in 2018, almost regardless of the outcome.

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.

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As at: 18 December 2017