



NEDGROUP
INVESTMENTS

see money differently

NEDGROUP INVESTMENTS CORE BOND FUND

Quarter One, 2018

For the period ended 31 March 2018

NEDGROUP INVESTMENTS CORE BOND FUND

MARKET OVERVIEW

The global economic expansion continued into the first quarter of 2018 as confirmed by key economic statistics, but at a slower pace than the last quarter of 2017. The economic news from the US remained positive, retail sales grew at a rate of 4.0% y-o-y, the unemployment rate was unchanged at 4.1% and consumer confidence rebounded.

US inflation edged up slightly to 2.2%. In a move that was widely expected, the US Fed's FOMC, meeting for the first time under new Fed's Chair, Jerome Powell, raised its target range for the federal funds rate by 25bps to 1.5%-1.75%. The trade war between the US and the China made global markets weaker and more volatile in March 2018 as President Trump decided to impose import tariffs on steel and aluminium. China then fuelled trade war fears with plans to impose tariffs on US goods. In the UK, the industrial growth, manufacturing conditions and business confidence improved in 2018. Retail sales in the UK increased and the unemployment rate reduced to 4.3%, the lowest in 42 years.

Locally, the South African economy ended 2017 better than expected, real GDP grew by a seasonally adjusted annualised 3.1% q-o-q in the final quarter of 2017. The final quarter growth helped push up the GDP growth for 2017 to 1.3% as a whole from 0.6% in 2016. The growth was mainly due to the strong improvement in the agricultural sector. Apart from agriculture, the pace of economic activity remained fairly weak. The repo rate of South Africa was reduced by 25bps in the last week of March to 6.5%, which was in line with market expectations and it is worth noting that this is only the third rate cut since 2012.

The much-anticipated rating decision by Moody's was announced on 23 March 2018. Moody's maintained South Africa's foreign and local currency rating one notch above junk at Baa3 and changed its outlook from negative to stable. The decision was driven by South Africa's fiscal consolidation, positive political changes and better growth figures.

The CPI Inflation decelerated further in February, reaching its lowest level since Dec 2013. CPI moderated more than expected to 4.0% y-o-y from 4.4% y-o-y the previous month. The print was lower than market consensus. Core Inflation was unchanged at 4.1% y-o-y. All the easing in the CPI print mainly came from food price inflation. Food price inflation fell to 3.9% y-o-y from 4.5% y-o-y the previous month. Headline CPI Inflation is expected to rise gradually going forward as the VAT increase and the fuel levy kicks in.

The Reserve bank now sees the inflation averaging 4.9%(unchanged) in 2018 and 5.2% (previously 5.4%) in 2019. PPI Inflation fell sharply to 4.2% y-o-y from 5.1% y-o-y the previous month due to food price deflation and the base effects from last year's drought continue to unwind. Private sector credit extension increased to 5.7% y-o-y from 5.5% y-o-y the month before and the increase was due to increases in both the household and corporate groups.

FUND PERFORMANCE

NEDGROUP INVESTMENTS CORE BOND FUND - CLASS R

* Money Market Inception: 1 November 2004

	3 months	1 year	3 years pa	5 years pa	7 years pa	Inception*	Volatility*
Portfolio	6.8%	15.5%	8.8%	8.0%	9.1%	9.2%	5.9%
Benchmark	8.1%	16.2%	8.6%	7.7%	9.4%	9.0%	7.2%
Peer group average	6.4%	13.4%	7.8%	6.9%	8.7%	8.5%	6.2%

Source: Morningstar

FUND MANAGER COMMENTARY

The aim of the fund is to produce superior risk adjusted returns relative to the peers. Studies have shown that there is very little persistence skill in the 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.

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.

The yield on the fund as at 31 March 2018 was 8.76%.

DISCLAIMER

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.

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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.

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For further information on the fund please visit: www.nedgroupinvestments.co.za

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