



NEDGROUP
INVESTMENTS

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NEDGROUP INVESTMENTS FINANCIALS FUND

Quarter One, 2018

For the period ended 31 March 2018

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Considering that the rand has gained 11.5% over the 12 months to 31 March 2018, the JSE's performance of 18.1% (measured in US dollar terms) is not bad compared to the MSCI World Index's 13.6%.

Bearing the above in mind, the correction in the first quarter of the year should not have surprised investors. Markets had become overly optimistic, discounting too much future profit growth (both locally and internationally). This resulted in the JSE correcting by -6.8% in rand (-2.2% in US dollars, in line with the MSCI World Index's -2.2%). JSE financials corrected -1.8% in rand and the MSCI World Financial Index -2.2%. Cyril Ramaphosa's election as new ANC leader has continued to attract record "hot money" portfolio flows, helped by the backdrop of a weak US dollar which has been good for most emerging markets currencies.

THE FUND PERFORMED WELL OVER THE QUARTER

South African banks reported satisfactory financial results. Nedbank performed especially well as it was too cheap to begin with. It has been rerated on the confirmation that Ecobank (mainly Nigeria) has turned. FirstRand was too expensive and hence lagged while Investec and Absa's results were disappointing. Of the insurers, Sanlam reported the best results while Old Mutual reported good progress on its unbundling program. MMI and Liberty's results highlighted why both needed new top management.

Other shares that helped the fund outperform were JSE and Coronation. Our holding in PSG hurt performance as the share price lost 16.3% in the quarter due to Capitec losing 20.1% on the back of the Viceroy report (but Capitec was very expensive to start off with).

The investment in the Sanlam Global Financial Fund, which is managed by Denker Capital, was positive and outperformed the MSCI World Financials and MSCI World indices (which were both negative).

WHAT TO EXPECT FOR THE REMAINDER OF 2018

Both global and South African financials were starting to get overextended, but the pullback in share prices is helping to restore some sanity. However, it's important to bear in mind that the companies the fund is invested in are growing their shareholder value between 12%-18% per annum. Also, both the global and local outlook for financials is improving (in terms of better growth, lower bad debts and globally better interest margins).

More importantly, in terms of a 15-year perspective, both South African and global financials are not expensive (South African financials are marginally above their long-term average valuations) but in the current environment one has a high degree of certainty about their ability to continue to deliver good shareholder growth.

CHANGES TO THE PORTFOLIO

The only changes made during the quarter were a slight reduction in the fund's investment in banks and the JSE based on their valuations becoming expensive in the short term. We increased the fund's investment in PSG (after the sharp drop in the share price after the sell-off in Capitec shares) and Coronation.

ESG – ENVIRONMENTAL, SOCIAL AND GOVERNANCE

None of the large financial services players in South Africa follow unsustainable ESG practices, but ranking them by best practice is difficult due to the number of factors involved.

Our investment focus on quality above growth has always steered us to companies with management teams whose DNA we can identify with. We find out how they achieve their financial targets. The more profit-driven a management team, the less socially aware its management tends to be (and the more corporate governance gets side-lined). In all sectors, but the financial services industry in particular, it is non-negotiable that management teams maintain the highest standards of corporate governance.

Also of vital importance is social responsibility in terms of their lending practices and who they do business with. For example: banks in America are suddenly being asked if they provide loans to stores that sell assault weapons to the public, while in South Africa banks are asked if they provide funding to coal-fired plants.

The recent focus on ESG has forced companies to draft formal policies, but our experience over the years has been that the culture or DNA of the top management is more important than formal policies. However, the ESG focus does mean that managements write more about their policies – making it easier for us and investors to judge whether their management practices (of which ESG is one) will result in their return on capital being sustainable over the long term.

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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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