NEDGROUP INVESTMENTS

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CORE RANGE

QUARTERLY REVIEW

Quarter One
2018

NEDGROUP INVESTMENTS
CORE RANGE QUARTERLY REVIEW

FOR THE PERIOD ENDED MARCH 2018

The purpose of this report is to provide our partners, with a review of the past quarter's performance of the investment solutions in which your clients are invested. The report is structured as follows:

SECTION 1
MARKET REVIEW

This section provides a market review, which looks at the performance over the past quarter of local and global asset classes, as well as currencies, and puts this into perspective relative to longer-term performance. The purpose of this review is to provide a context in which the performance of the investment solutions in which your clients are invested can be assessed.

SECTION 2
FUND PERFORMANCE

This section provides an overview of the performance of the Core Range and contribution to returns from the various underlying asset classes. This is a high-level performance review over both shorter and longer time periods.

SECTION 1
MARKET REVIEW

The table below provides a review of key local and international investment indicators for the past quarter, as well as over longer periods.

SOUTH AFRICAN ASSET CLASSES (IN RANDS)

(Performance over periods to 31 March 2018)

Asset class	Indicator	3 months	1 year	3 years	5 years	LT-average*
Equity	All Share Index	-6.0%	9.6%	5.1%	10.0%	12.5%
	Shareholder Weighted Index	-6.8%	9.4%	4.5%	10.8%	
Property	Listed Property Index	-19.6%	-7.1%	-0.5%	7.1%	12.2%
Bonds	All Bond Index	8.1%	16.2%	8.6%	7.7%	6.9%
Cash	STeFI Call	1.6%	6.8%	6.6%	6.0%	5.9%
Inflation	CPI (one month in arrear)	1.5%	4.0%	5.8%	5.4%	5.7%

Source: Morningstar

GLOBAL ASSET CLASSES (IN DOLLARS)

(Performance over periods to 31 March 2018)

Asset class	Indicator	3 months	1 year	3 years	5 years	LT-average*
Equity	MSCI All Country World Index (ACWI)	-0.8%	15.4%	8.7%	9.8%	8.6%
Property	FTSE EPRA/NAREIT Developed TR USD	-4.3%	4.2%	2.4%	5.0%	7.2%
Bonds	Barclays Global Aggregate TR USD	1.4%	7.0%	3.1%	1.5%	4.6%
Cash	US 3-month deposits	0.4%	1.3%	0.7%	0.5%	4.4%
Inflation	US CPI (one month in arrear)	0.9%	2.2%	2.0%	1.4%	3.0%

Source: Morningstar

CURRENCIES

(Movements over periods to 31 March 2018)

Currency	Value at Month-end	3 months	1 year	3 years	5 years	LT-average*
Rand / Dollar	11.85	4.3%	11.6%	0.7%	-5.2%	-5.5%
Rand / Sterling	16.62	0.8%	0.9%	2.6%	-3.6%	-4.1%
Rand / Euro	14.57	2.0%	-1.6%	-3.8%	-4.3%	-5.5%

Source: Morningstar

* Updated annually from 1900, or longest available period

Returns for periods longer than 12 months are annualised.

INTERNATIONAL MARKET COMMENTARY

Note: All quarterly data in this international section is quoted in US dollar terms unless otherwise stated.

After a strong January, the mood of financial markets shifted suddenly, making February and March much more difficult for investors. Overall, it was a tough quarter for investors, with financial assets generally performing poorly as volatility rose and risk-appetite diminished. Although global economic data releases softened a little (albeit from elevated highs), the overall picture remained one of decent growth for 2018. Equally, after a strong Q4 corporate earnings season, the outlook for company profits this year also remains solid, with analysts generally looking to upgrade their shorter-term forecasts.

In searching for explanations for the sudden volte-face in market conditions, there are perhaps a number of factors worth highlighting. Firstly, in our view, the lack of volatility through 2017 created a degree of complacency on the part of investors. Linked to that, we believe that the strong returns seen over the last year or so pushed financial markets beyond fair value, heightening the risk of a market pullback.

Secondly, robust and synchronised global growth focused investors' minds on whether central banks might choose to accelerate their shift away from the extraordinarily accommodative policies that they have pursued over recent years. While investors have seemed comfortable with a gradual unwinding of these policies, they would not welcome any evidence that central banks are behind the curve, and having to tighten policy more quickly. Certainly one of the triggers for the late January / early February drawdown was the reporting of a higher than expected US hourly wage growth number, which had economists wondering whether inflationary pressures are building more than previously assumed.

A third factor on investors' minds has been Trump's determined attack on Chinese trade policy. Having purged his inner circle of some of the more moderate voices, Trump announced the imposition of tariffs on US$50bn worth of American imports from China, which was duly reciprocated with equivalent measures from the Chinese. Not to be upstaged, Trump then instructed the Office of the US Trade Representative, the agency responsible for developing trade policy, to consider imposing tariffs on an additional US$100bn worth of US imports from China. Beijing responded by threatening an equivalent response, and a willingness to fight back "at all costs". Is this Trump just extending his "Art of the Deal" business negotiating tactics to the international stage? Certainly many commentators think so, including ourselves, even though we recognise the risk of an escalation into a full blown trade war with all its economically damaging ramifications.

In other news, the Federal Reserve raised US interest rates by 0.25% in March. While this change was widely expected, Powell's accompanying speech struck a slightly more hawkish tone than his predecessor, which led many economists to suggest that the Federal Reserve could raise rates a little faster than previously anticipated.

Finally, the UK and EU Brexit negotiations seemed to take a small step forward as the two sides agreed high level terms on a transition period. This was welcomed by the market as it could reduce the damaging risk of the so called "cliff-edge" departure from the EU in March 2019.

Heightened risk aversion saw equity markets lose -1.0% over the quarter, when measured using the MSCI All Country World Index in US dollars. Among the majors, the best performers were Asia ex Japan (+0.5%), Global Emerging Markets (+1.3%) and Japan (+0.1%). Conversely, the UK (-3.9%) and Europe ex UK (-1.2%) were the biggest underperformers. At the sector level, performance was quite dispersed, with technology (+3.1%) and consumer discretionary (+1.0%) leading the way, while telecoms (-5.4%) and consumer staples (-4.8%) propped up the bottom of the performance table. In terms of style, growth (+0.6%) fared better than value (-2.5%), while smaller companies (-0.5%) marginally outperformed larger companies (-1.0%).

Having shown signs of weakness early in the quarter, the performance of safe haven bonds improved as investor risk-appetite declined. Government bonds ended up being one of the best performing asset classes over the quarter, while corporate and emerging market bonds underperformed as spreads widened. Overall, the JP Morgan Government Bond Index rose +0.4%, while the Merrill Lynch Global Investment Grade Corporate Bond Index declined -1.3%, the Merrill Lynch Global High Yield Bond Index lost -0.6%, and the JP Morgan Global Emerging Market Bond Index slipped -1.8% (all in hedged to US dollar terms).

Most commodities managed to advance, although the overall Bloomberg Commodity Index lost -0.4%. Crude oil (+8.8%) was the best performing sector, as it responded to a significant fall in US inventories. Gold (+1.0%) also posted a positive return on its perceived safe haven status. At the other end of the spectrum, industrial metals (-6.2%) were under pressure, largely on fears that a global trade war could negatively impact bulk commodity demand and pricing.

Dollar weakness continued to be a feature on the foreign exchange markets, as it slipped -5.5% versus the Japanese yen, -2.2% against the euro and -3.5% relative to the British pound. Better economic growth continued to help emerging market currencies, most of which managed to advance against the dollar over the period. Notable movers included the Chinese Renminbi (+3.1%), the Mexican peso (+7.6%) and the South African rand (+4.3%), with the latter responding enthusiastically to the replacement of Jacob Zuma with Cyril Ramaphosa as President of South Africa.

LOCAL MARKET COMMENTARY

The positive end to 2017 was set to continue into the New Year, following the election of Cyril Ramaphosa as president of the ANC at its national conference at Nasrec in December 2017. Positive political developments led to the S&P raising South Africa's GDP growth forecast to 2.0% for 2018, from 1.0% previously, and 2.1% for 2019, from 1.7% before, while improved investor sentiment has translated into a stronger rand and lower inflation.

In February, the ANC took the decision to remove Jacob Zuma from his post as President of South Africa, and, after initially refusing to step down, Zuma tended his resignation late on the evening of 14 February. Cyril Ramaphosa was sworn in as the 5th democratic President of South Africa the next day.

A cabinet reshuffled followed on 26 February, with 10 of the 35 cabinet ministers being dropped, including Zuma's allies like David Mahlobo and Faith Muthambi, while others such as Malusi Gigaba was kept. In addition, there were a lot of portfolio changes, with 23 ministers swopping portfolios. All in all, the Cabinet can be seen as an unavoidable compromise, the consequence of Ramaphosa winning the ANC election at Nasrec without the support of the greater majority. The most high profile changes, however, occurred in the economic cluster, with the appointments of Nhlanhla Nene at Finance, Gwede Mantashe at Mineral Resources, and Pravin Gordhan at Public Enterprises – clearly indicating where Ramaphosa's priorities lie.

The 2018 Budget speech was delivered by ex-Finance Minister Malusi Gigaba (now Minister of Home Affairs), who produced a tough financial plan for the country with some difficult decisions at its core. In order to achieve a more sustainable fiscal trajectory, expenditure cuts were announced, alongside additional revenue raising measures. Most notably, the VAT rate was increased to 15% from 14%, the first such increase since 1993. Although the country's VAT rates are low relative to many other countries, this remains a politically difficult decision in a country with high inequality and levels of poverty - but one that yields enough to address the gaping hole in the budget.

The positive political changes, along with the upgrade to economic growth figures and a more transparent and predictable policy framework, led Moody's to keep South Africa's credit rating at investment grade, while revising the outlook to stable from negative. In a further economic boost, the South African Reserve Bank (SARB) announced on 28 March that the repo rate has been cut by 25 basis points to 6.5%.

Further on the political front, Parliament's Constitutional Review Committee will look into amending Section 25 of the Constitution to allow for expropriation without compensation, after the ANC supported an amended EFF motion. The ANC will be hosting an internal workshop, before the committee can begin its investigations, which will include public participation, and report its findings to Parliament in August.

On the economic front, the positive political and economic changes has led to the rand strengthening by 4.3% to the US dollar over the first quarter of 2018, while the bond market produced a return of 8.1% and cash 1.8% for the quarter.

Following the troubles at Steinhoff in December 2017, however, local markets have been decidedly skittish about any company specific allegations, especially against those with elevated valuations. A recent Viceroy report on Capitec was decidedly negative and, despite the rebuttal from the company, the share price failed to return to prior levels. Against this backdrop, another report written by hedge fund manager, 36One, questioning the valuation of the Resilient Group and related entities led to a significant de-rating of these companies. With the broader Resilient stable making up on average 40% of the property sector (at the time), the share price moves of these entities contributed significantly to the property sector's poor performance of -19.6% over the first quarter of 2018.

In general, the local equity market struggled against the backdrop of increased global volatility and further weakness in risk assets, with the South African All Share Index producing -6.0% for the quarter. Market favourite Naspers contributed to local equity market weakness as the share price of Tencent, their key return driver, sold off in tandem with global technology stocks. Further weakness followed on the announcement that Naspers would be selling part of their stake (up to 2%) in Tencent to a group of international investors.

The strengthening of the rand hurt rand-hedge industrial stocks as well as the offshore portion of most of South African investors' portfolios. However, all the equity sectors suffered during the first quarter, with the industrial sector (-8.7%) being hit the hardest.

SECTION 2
FUND PERFORMANCE

Performance over periods to 31 March 2018

NEDGROUP INVESTMENTS CORE GUARDED FUND – CLASS B

* Portfolio Inception: 29 January 2010

	3 months	1 year	3 years pa	5 years pa	7 years pa	Inception*	Volatility*
Portfolio	-0.5%	6.9%	5.9%	8.6%	10.0%	10.2%	4.1%
CPI + 3% (month in arrears)	1.6%	7.2%	8.9%	8.6%	8.8%	8.5%	-
Peer group average	-1.3%	4.8%	4.8%	6.9%	8.1%	8.2%	3.2%

Source: Morningstar

NEDGROUP INVESTMENTS CORE DIVERSIFIED FUND – CLASS B

* Portfolio Inception: 31 August 2009

	3 months	1 year	3 years pa	5 years pa	7 years pa	Inception*	Volatility*
Portfolio	-3.2%	6.2%	4.6%	9.7%	11.4%	11.7%	6.9%
CPI + 5% (month in arrears)	2.1%	9.2%	11.1%	10.7%	10.9%	10.5%	-
Peer group average	-3.6%	3.4%	3.4%	7.4%	8.9%	9.3%	5.9%

Source: Morningstar

NEDGROUP INVESTMENTS CORE ACCELERATED FUND – CLASS B

* Portfolio Inception: 28 February 2017

	3 months	1 year	3 years pa	5 years pa	7 years pa	Inception*	Volatility*
Portfolio	-4.9%	4.6%	-	-	-	6.1%	7.6%
CPI + 6% (month in arrears)	2.3%	10.3%	-	-	-	12.7%	-
Peer group average	-3.6%	3.4%	-	-	-	4.4%	6.5%

Source: Morningstar

NEDGROUP INVESTMENTS CORE GLOBAL FUND – CLASS A (USD)

* Portfolio Inception: 16 November 2015

	3 months	1 year	3 years pa	5 years pa	7 years pa	Inception*	Volatility*
Portfolio	-1.5%	10.3%	-	-	-	8.5%	7.2%
Peer group average	-1.9%	8.1%	-	-	-	6.7%	6.9%

Source: Morningstar

NEDGROUP INVESTMENTS CORE GLOBAL FEEDER FUND – CLASS A (ZAR)

* Portfolio Inception: 04 January 2016

	3 months	1 year	3 years pa	5 years pa	7 years pa	Inception*	Volatility*
Portfolio	-4.9%	-2.1%	-	-	-	-2.8%	15.0%
Peer group average	-5.2%	-3.3%	-	-	-	-3.6%	14.4%

Source: Morningstar

CONTRIBUTION TO RETURN FOR THE PAST 12 MONTHS*

Nedgroup Investments Core Guarded	Median Weight	Return over the past 12 months	Contribution to return of the fund
SA Equity	23.1%	9.2%	2.2%
SA Property	5.0%	-5.5%	-0.3%
SA Bonds	14.3%	15.5%	2.2%
SA ILBs	6.7%	7.0%	0.5%
SA Cash	30.4%	9.1%	2.6%
Global	20.3%	-0.2%	-0.1%

Nedgroup Investments Core Diversified	Median Weight	Return over the past 12 months	Contribution to return of the fund
SA Equity	50.7%	8.7%	4.6%
SA Property	5.0%	-4.4%	-0.2%
SA Bonds	6.4%	16.0%	1.0%
SA ILBs	4.1%	7.3%	0.3%
SA Cash	9.3%	9.3%	0.8%
Global	24.1%	0.2%	0.1%

Nedgroup Investments Core Accelerated	Median Weight	Return over the past 12 months	Contribution to return of the fund
SA Equity	56.9%	7.7%	4.8%
SA Property	9.8%	-4.7%	-0.5%
SA Bonds	1.9%	14.6%	0.3%
SA ILBs	1.6%	6.9%	0.2%
SA Cash	5.9%	6.5%	0.4%
Global	24.0%	-0.5%	-0.1%

Nedgroup Investments Core Global (USD)	Strategic Weight	Market Return over the past 12 months (USD)	Contribution to return of the fund (USD)
Global Equity	62.5%	15.4%	9.7%
Global Property	10.0%	4.2%	0.4%
Global Bonds	10.0%	7.0%	0.7%
Global ILBs	10.0%	9.0%	0.9%
Global Cash	7.5%	8.9%	0.7%

***** Returns are gross of fees and will not perfectly match fund returns on previous page.

FUND COMMENTARY

The past quarter saw big drops across equities and listed property with South African listed property being hit the hardest. The local Core Range's SA listed property allocation only includes Real Estate Investment Trusts (REITS) which did not suffer nearly as much as the Real Estate Holding & Development shares; REITS were down by only 13.4% while the Holding & Development shares were down by 31.2% over the quarter. In the local Core Range the Real Estate Holding & Development shares are included under SA equity which therefore resulted in its benchmark returning 8.2% over the past 12 months, versus the 9.4% of the standard SWIX index. The SA equity carve-out in the three local funds were up between 7.7% and 9.2% across, the differences arising due to larger transaction cost on the newer Core Accelerated Fund which has grown rapidly over this period. For reference, a balanced fund typically incurs around 0.15% in transaction costs (brokerage and Securities Transfer Tax (STT)) every time it doubles in size. For this reason we subsidised all asset management related fees in the Core Accelerated fund until it reached R100 million to reduce the impact of transaction cost on the portfolios returns while the fund is small.

South African fixed income provided some downside protection to the local Core Range with SA bonds delivering the best returns over the past 12 months, up 16% in the Core Diversified Fund. The cash holdings in the Core Guarded and Core Diversified Funds benefitted from the 2% yield pickup vs STeFI Call, partly due to their holdings in the Nedgroup Investments Core Income, Nedgroup Investments Money Market and Nedgroup Investments Corporate Money Market Funds.

On the offshore side, the Nedgroup Investments Core Global Fund (USD) which is used in the local Core Range, experienced double digit growth over the past 12 months. This was mainly due to global equities having a very good year. However, due to the significant strengthening of the rand towards the end of the year, the rand returns of the offshore portion in the local Core Range and the Nedgroup Investments Core Global Feeder Fund were muted.

On a relative basis the funds have done well against their peers as shown below.

Fund	Peer category	Peer rankings				
		1 year	3 years	5 years	7 years	Inception*
Core Guarded	SA – Multi Asset – Low Equity	29 out of 158	26 out of 120	8 out of 90	5 out of 75	2 out of 68
Core Diversified	SA – Multi Asset – High Equity	30 out of 203	36 out of 144	11 out of 99	7 out of 73	6 out of 58
Core Accelerated	SA – Multi Asset – High Equity	64 out of 203	-	-	-	72 out of 201
Core Global Feeder	Global – Multi Asset – High Equity	6 out of 12	-	-	-	5 out of 11
Core Global (USD)	Morningstar Aggressive Allocation	28 out of 75	-	-	-	25 out of 62

Source: Morningstar as at 31 December 2017

Disclosures:

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

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