

Nedgroup Investments Balanced Fund

Class A

October 2017



ASSET ALLOCATION RANGE

RISK RATING



Risk reward profile

Equity and property investments are volatile by nature and subject to potential capital loss. For credit and income instruments, while unlikely, capital loss may also occur due to an event like the default of an issuer. The portfolio may be subject to currency fluctuations due to its international exposure.

GENERAL INFORMATION

ASISA category

South African Multi Asset High Equity

Benchmark

ASISA Category Average

Investment manager

Truffle Asset Management (Pty) Ltd (Truffle) is authorised as a Financial Services Provider under the Financial Advisory and Intermediary Services Act (FSP no: 36584).

Inception date

04 October 2011

Appropriate term

Minimum 3 - 5 years

Market value

R 2,345 Million

Income distributions

Frequency: Semi-annually

June 2017: 9.65 cpu

Previous 12 months: 25.06 cpu

Fees and charges (excluding VAT)

Initial fees 0.00%
Annual management fee 1.35%

Total expense ratio 1.33%
Transaction costs 0.50%
Total investment charges² 1.83%

Please Note:

Differences may exist due to rounding

CONTACT

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Email info@nedgroupinvestments.co.za

Portfolio profile

The portfolio is suitable for investors requiring moderate levels of capital growth who do not wish to make complex asset allocation decisions between equities, cash and bonds, both locally and offshore. Diversification across asset classes and a maximum equity exposure of 75% helps to reduce risk and volatility relative to a general equity portfolio. The portfolio complies with Regulation 28 of the South African Pension Funds Act.

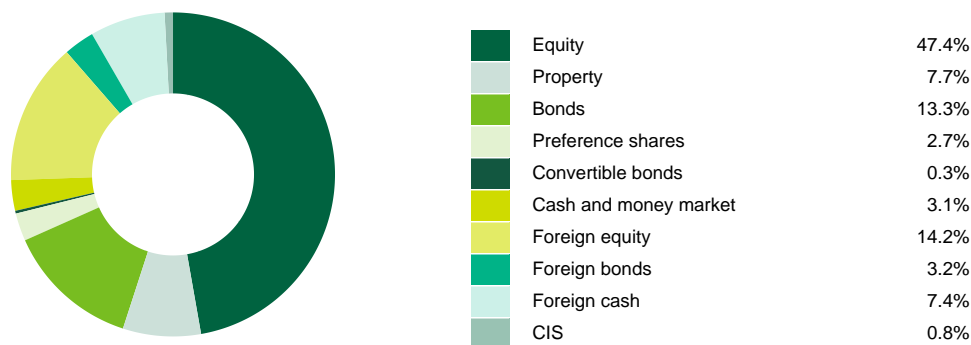
Performance¹

Period	Portfolio	Benchmark
1 year pa	9.9%	12.7%
3 Years pa	8.8%	7.6%
5 Years pa	12.8%	10.1%
Since Inception	14.2%	11.2%
Lowest 1 year return	-3.2%	
Highest 1 year return	30.1%	

Risk

Period	Portfolio	ALSI
Volatility [5 years]	7.5%	11.0%

Portfolio structure



Top 10 holdings

Share	Percentage
Old Mutual Plc	4.8
Steinhoff International H NV (JSE)	4.5
Naspers Ltd	4.2
Sasol Ltd	3.9
Indiabulls Housing Finance Warrant	3.5
Old Mutual 7.875% 031125	3.2
Spire Healthcare Group Plc	3.1
Barclays Africa Group Ltd	2.7
Reinet Investments	2.6
RECM & Calibre Ltd Pref Share	2.3
Total	35.0

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 ratio 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 TER's. Calculations are based on actual data where possible and best estimates where actual data is not available. The TER of the Fund is calculated on an annualised basis, however this cannot be determined accurately because the Fund was recently launched and has a short track record.

ASSET ALLOCATION RANGE

Investment manager commentary

Truffle Asset Management

The global equity bull market is still intact

Global equities, as measured by the dollar-denominated MSCI World Index, increased by 2.1% over the past month, bringing the total year-to-date return to 20.2%. Emerging markets gained 3.5% over the month, and 32.6% for the year. The MSCI World IT Index (+7%) and MSCI Materials Index (+3%) were the top performing global sectors over the month. This was unsurprising given some of the strong earnings reported from tech juggernauts like Amazon and Facebook. The Materials Index was well supported by a 4.4% increase in the LME Metals Index. South African equities, as measured by the FTSE/JSE All Share Index (ALSI), was up 6.3%. This was primarily driven by large-cap rand-hedge shares like Naspers (+18%), British American Tobacco (+7.5%) and the basic materials sector (+7.1%).

A disappointing budget update weighed on the rand and the local bond market

The rand weakened by 4% to R14.13 to the dollar and the BEASSA All Bond Index (ALBI) weakened by 2.3%. These negative moves happened after the Medium-Term Budget Policy Statement. Treasury forecasted a budget deficit of 4.3% of GDP, compared to their previous forecast of 3.1% and a consensus expectation of 3.9%. The underperformance seems to be primarily due to low tax collections and poor GDP growth. The finance minister didn't provide a plan to reign in the deficit, and treasury forecasted that the deficit would continue to rise over the next three years. A policy response is likely to depend on the outcome of the ANC Elective Conference in December.

A credit downgrade is likely

Given the high deficit and no proposed remedial action, a credit downgrade seems inevitable. It will be very difficult to reduce government expenditure, so we would not be surprised to see higher tax rates in future. This will have a negative impact on (already) poor consumer and investor confidence. The rand weakness will also limit the South African Reserve Bank's ability to cut rates despite the weak domestic economy.

Synchronised global growth and liquidity is driving asset prices

Monetary policy remains highly accommodative and the major global economies continue to deliver improved economic growth. US GDP grew by 3% in the third quarter of 2017 and Chinese GDP grew by 6.8%. Europe's unemployment rate fell to 8.9%, its lowest level since 2009. Most commodities have continued to move upwards, with the Brent crude oil price up 7.7% and the LME Metals Index up 4.4%. A buoyant global economy and liquidity has helped drive rand-hedge ALSI shares to new highs. By our estimates, over 60% of the ALSI benefits from a weak rand.

The divergence between rand-hedge and locally exposed shares continues

Although the ALSI continues to deliver strong returns, this is primarily driven by the large-cap rand-hedge shares. Most locally exposed sectors continue to deliver returns substantially below the ALSI's 19.7% return for the year to date. General retailers are down 5.3% and banks are only up 4.7% for the year to date. Many market participants are asking whether a positive election result in December will be sufficient to lift us out of the confidence slump that is affecting economic growth. Unfortunately, even a capable government will take many years to rectify the structural challenges of unemployment, budget deficits and poor education.

We are finding opportunities in rand-hedge companies

We maintain that there is a larger opportunity set that offers the potential to earn higher risk-adjusted returns in the rand-hedge space of the ALSI. This view is reflected by our low holdings in retail and local industrials. We maintain our significant positions in Steinhoff, Old Mutual, British American Tobacco and Sasol.

Fixed income remains short duration, property exposure is selective and our cash exposure is high

The portfolio's fixed income exposure remains focussed on short duration instruments. While our overall property exposure remains relatively high, most of the positions are geared to the European market, where fundamentals continue to improve. The locally focussed property exposure remains low and the portfolio continues to hold high cash balances for tactical reasons.

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, 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

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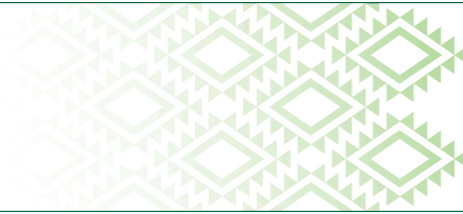
For further information on the fund please visit: www.nedgroupinvestments.co.za

Our offices are located at

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

Write to us

PO Box 1510, Cape Town, 8000



Fund Positioning

We increased our exposure to Sasol. The share is currently discounting an oil price substantially below \$60, which is close to our long-term assumed price. The healthcare sector has delivered a negative return of 18.7% for the year to date. This has been partly due to medical aids placing more stringent controls on hospital admissions. Valuations, which are now more reasonable, have offered us an entry point via Life Healthcare. Vodacom's share price has also been under pressure and is currently on a dividend yield of 6%. Since we expect above-inflation growth, we think the prospective defensive return of more than 13% warrants a holding in this share.

We have trimmed our exposure to certain shares that have become more expensive. This would include the Equities Property Fund, Richemont and Steinhoff Africa Retail (STAR). Richemont's price-earnings multiple is now above its long-term average. STAR had a successful listing, in which we participated. The valuation rapidly reached a level that warranted a reduction in our position.

Offshore

We reduced a portion of our exposure to European banks due to the uncertainty arising from Catalonia's independence referendum.