

HOW TO CONSISTENTLY BEAT INFLATION

In a challenging low growth and volatile SA equity market, how do investors beat inflation without taking on excessive risk?



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We take a closer look at Nedgroup Investment's Flexible Income Fund and how, since April 2006, it has provided investors with a high probability of outperforming cash and inflation on a rolling 1-year basis.

The fund is one of the top performing income funds in South Africa, offering investors a fully liquid income-producing investment with a predictable low risk-return profile. Here is a closer look at its performance versus its peer group, cash and inflation:

31 December 2018	1-year	3-years	5-years	7-years	Since Inception
Nedgroup Inv Flexible Income A-Class	10.3%	8.7%	8.2%	8.2%	8.9%
(ASISA) MA Income Peer-Group	7.3%	7.8%	7.1%	7.2%	6.0%
110% STeFI	7.3%	7.4%	6.8%	6.4%	7.5%
SA CPI (Headline)*	5.2%	5.5%	5.4%	5.4%	6.0%

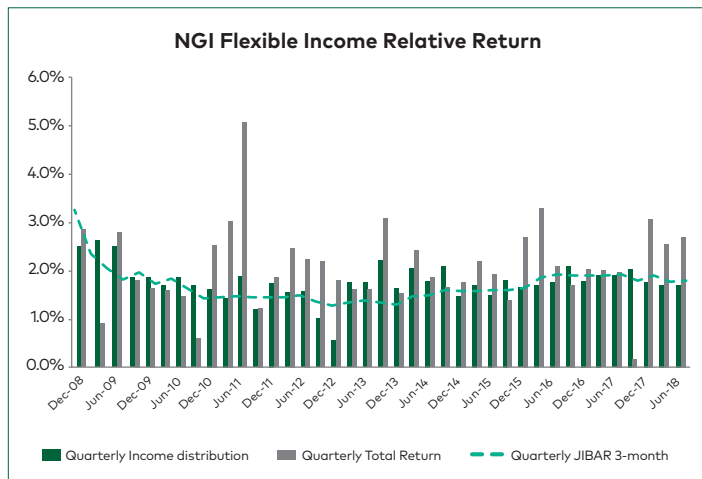
Source: Morningstar data, 31st December 2018.
*SA CPI (Headline) lagged by 1-month

With its philosophy of diversified alpha, the fund has achieved an attractive return of 8.9% since inception and has consistently beaten its cash benchmark of STeFI Call Deposit +110%, while outperforming headline inflation on a rolling 1-year period 100% of the time.

This philosophy combined with high credit quality and a focus on avoiding expensive asset classes has controlled volatility and limited drawdowns by sticking to our valuation methodology and diversified alpha approach.

This is demonstrated in the fund's performance, which has managed to avoid ever suffering a loss to invested capital over a rolling 3-month period and has maintained a stable cash distribution to investors, even during periods of strained performance like December 2017.

The graph below illustrates the performance of the fund's total return (broken into investor quarterly cash distributions and capital gains) and compares it to the 3-month SA money market investment rate:



The graph highlights several interesting points:

- **Stable cash income stream:** the fund has managed to achieve a consistent cash distribution over the previous 10-years, even during challenging periods such as Dec '17, which has broadly be in line with SA money market returns.
- **Downside protection:** the fund has never suffered from a capital loss over a 3-month rolling period since inception.

The fund's success is primarily attributable to 3-factors:

- **Diversified Investment Process:** the fund can allocate capital domestically and internationally to a wide range fixed income asset classes including Money Market, Bonds, Property and Inflation Linked Bonds.

This enables the portfolio manager to build an income portfolio across a diversified set of asset classes and strategically position the fund to protect it against inflation, interest rate and currency risks.

- **Focus on valuation and avoiding expensive assets / asset classes:** historically, drawdowns in income funds have generally occurred when an asset class corrects from overvalued levels which the fund aims to avoid through a robust valuation process. Where the fund does not see value in an asset class, the fund will simply invest in low risk money market instruments.
- **High level of credit quality:** the fund focuses on high quality assets with a maximum 5-year maturity and has never bought any asset below a single A-rating. The fund does not venture into the sub-investment grade or unlisted credit space, where the risks of investors losing capital are highest.

The Nedgroup Investments Flexible Income Fund has delivered on its mandate to outperform cash with a predictable and low risk-return profile. Its performance is attributable to its philosophy of investing in a diversified range of fixed income asset classes, avoiding expensive asset classes and focusing on high credit quality. By sticking to this investment philosophy, the fund has been able to establish itself as one of the top performing income funds in the South African market. ■

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A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any

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