



**NEDGROUP**  
INVESTMENTS

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# NEDGROUP INVESTMENTS CORE BOND FUND

Quarter Two, 2019

For the period ended 30 June 2019

### MARKET COMMENTARY

US and China make up a third of the global economic activity, their trade wars have now impacted the growth forecast of the World Bank. The World Bank reduced its growth forecasts in June down to 2.6% for 2019 from 2.9% previously. The Fed turned dovish as a result of low inflation, which resulted from weaker global trade and geopolitical tension from trade wars. Fed forecast is now pricing in a decrease in interest rates by year end, and a further reduction in 2020.

Domestically, during the month of June we had the State of the Nation address (SONA) which was mainly a continuation of the February budget speech. President Ramaphosa announced the affirmation of SARB's independence as mentioned in the constitution. He also mentioned that Eskom will run out of funds to finance obligations by October 2019, which leads to a fast-tracking of bailout funds amounting to R230 billion. Total bailout funds for SOE's are likely to be higher than R23 billion per annum.

The Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) looks set to lower interest rates at its upcoming MPC meeting on the 18th of July, given the benign inflation outlook. The Governor of the SARB has discussed the possibility of lower interest rates over the next 12 months citing muted growth projections and subdued inflation.

South Africa GDP had its biggest quarterly contraction since 2009 in a quarter, moving from 1.4% q/q growth in previous quarter to -3.2% q/q in Q1 of 2019. The drivers of this contraction are the manufacturing, mining and trade sectors. On the expenditure side we had a decrease in exports, with net exports contributing -7.5% towards the GDE contraction of 3.4% q/q.

CPI inflation increased slightly to 4.5% y/y in June, from 4.4% y/y in May below market consensus. Contributors of this rise in CPI inflation is the slight increase in food price inflation and housing. PPI Inflation has a slight decline from 6.5% y/y in April to 6.4% y/y in May, this was in line with market consensus.

Trade balance shifted back into surplus grounds in May, with R1.74 billion following April's deficits of R3.4 billion. This surplus was supported by an 8.1% m/m lift in exports, ahead of 3% m/m rise in imports. Private sector credit extension (PSCE) weakened slightly in May, to 7.7% y/y from 8% y/y in April. Marginally lower than market expected, which was mainly driven by a decline in corporate sectors loans and advances.

## MARKET PERFORMANCE

Market Performance:

The All Bond Index returned 3.70% over the quarter while the BESA Composite Inflation-Linked Bond Index returned 2.83%. The STeFI Call Deposit Index returned 1.64%, while CPI increased 0.90% quarter-on-quarter to the end of February (one-month lag).

**TABLE 1: MARKET PERFORMANCE SUMMARY**

	Current Month	Previous month
<b>CPI**</b>	4.5%	4.4%
<b>PPI**</b>	6.4%	6.5%
<b>Rand/Dollar</b>	14.1	14.7
<b>Repo</b>	6.8%	6.8%
<b>Prime</b>	10.3%	10.3%
<b>3-month NCD</b>	6.9%	7.0%
<b>6-month NCD</b>	7.3%	7.5%
<b>9-month NCD</b>	7.5%	7.7%
<b>12-month NCD</b>	7.7%	7.9%
<b>3-month Jibar</b>	7.0%	7.2%

Sources: Taquanta Asset Managers. July 2019

## PERFORMANCE DECOMPOSITION

**TABLE 2: PERFORMANCE SUMMARY**

	NGIBND	Benchmark	Active Return
Period Returns	6.7		
For month	2019/06/30		
3 months	3.5%	3.7%	-0.2%
Year to date	7.0%	7.7%	-0.6%
1 year	11.1%	11.5%	-0.4%
3 years p.a.	10.3%	9.9%	0.4%
5 years p.a.	8.9%	8.6%	0.3%
Since Inception	8.1%	7.5%	0.5%
Volatility Incept	6.7%	7.6%	1.5%

Sources: Taquanta Asset Managers. July 2019

## INVESTMENT STRUCTURE

### Strategy of the Fund

A South African bond portfolio which aim to produce superior risk adjusted returns relative to the peers by charging lower fees and staying largely neutral on modified duration.

Total fund modified duration slightly decreased to 6.5 in Q2 2019 from 6.7 Q1 2019

Duration:

**TABLE 3: DURATION BREAKDOWN as at 30 June 2019**

NGIBND			Q2 2019	Q1 2019
Asset Class	Instrument Class	Issuer name	Mdur	Mdur
Global Cash	Call Accounts	Bank of New York	-	-
Local Bonds	Credit Linked Note	Nedbank Limited	3.6	3.8
	Vanilla Bond	ABSA Bank Limit	0.9	1.1
	Vanilla Bond	Eskom Holdings S	6.6	6.6
	Vanilla Bond	Firststrand Bank Lir	3.4	3.1
	Vanilla Bond	Nedbank Limited	0.2	0.4
	Vanilla Bond	Old Mutual Life As	4.1	4.3
	Vanilla Bond	South African Nat	1.0	1.2
	Vanilla Bond	Standard Bank of	-	0.1
	Vanilla Bond	The Republic of S	7.9	8.0
	Vanilla Bond	Trans-Caledon Tu	1.7	1.9
	Vanilla Bond	Transnet SOC Ltd	2.6	2.7
Local Cash	Call Accounts	ABSA Bank Limit	-	-
	Fee Accruals	Standard Bank of	-	-
	Floating Rate Note	ABSA Bank Limit	0.1	0.1
	Money Market Unit Trust	Nedgroup Investm	-	-
	Negotiable Certificate of Deposit	Standard Bank of	0.1	0.1
	Negotiable Certificate of Deposit	Firststrand Bank Lir	0.1	-
	Settlement Accounts	Standard Bank of	-	-
	Settlement Provision Account	Standard Bank of	-	-
	Unit Trust	Nedgroup Investm	-	-
<b>Modified Duration</b>			<b>6.5</b>	<b>6.7</b>

Sources: Taquanta Asset Managers. July 2019

## CURRENT FUND POSITIONING

Asset Allocation:

**TABLE 4: ASSET ALLOCATION as at 30 June 2019**

NGIBND		Q2 2019	Q1 2019
Domicile	Asset Class	Weight	Weight
Global Cash	Call Accounts	0.0%	0.0%
Local Bonds	Credit Linked Note	0.9%	0.9%
	Vanilla Bond	92.8%	95.4%
Local Cash	Call Accounts	1.2%	0.9%
	Fee Accruals	-0.1%	-0.1%
	Floating Rate Note	0.5%	0.5%
	Money Market Unit Trust	5.5%	2.9%
	Negotiable Certificate of Deposit	1.2%	0.2%
	Settlement Accounts	0.1%	0.1%
	Settlement Provision Account	-2.2%	-1.5%
	Unit Trust	0.0%	0.7%
		<b>100.0%</b>	<b>100.0%</b>

Sources: Taquanta Asset Managers. July 2019

Issuer Allocation:

**TABLE 5: ISSUER ALLOCATION AS AT 30 June 2019**

NGIBND		Q2 2019	Q1 2019
Domicile	Issuer Name	Wgt	Wgt
Global Cash	Bank of New York Mellon Corporatio	0.0%	0.0%
Local Bonds	ABSA Bank Limited	1.4%	1.5%
	Eskom Holdings SOC Limited	5.4%	5.6%
	Firstrand Bank Limited	4.3%	3.4%
	Nedbank Limited	1.7%	1.8%
	Old Mutual Life Assurance Compan	1.1%	1.1%
	South African National Roads Agen	1.2%	1.2%
	Standard Bank of South Africa Limit	0.0%	0.4%
	The Republic of South Africa	72.5%	74.8%
	Trans-Caledon Tunnel Authority	0.2%	0.2%
	Transnet SOC Ltd	5.9%	6.2%
Local Cash	ABSA Bank Limited	1.7%	1.4%
	Nedgroup Investments Core Income	0.0%	0.7%
	Nedgroup Investments Money Mark	5.5%	2.9%
	Standard Bank of South Africa Limit	-1.9%	-1.3%
	Firstrand Bank Limited	1.0%	0.0%
		100.0%	100.0%

Sources: Taquanta Asset Managers. July 2019

**TABLE 6: TOP TEN ISSUER WEIGHTS**

NGIBND		Q2 2019
Rank	Issuer name	Weight
1	The Republic of South Africa	72.5%
2	Transnet SOC Ltd	5.9%
3	Nedgroup Investments Money Mark	5.5%
4	Eskom Holdings SOC Limited	5.4%
5	Firstrand Bank Limited	5.3%
6	ABSA Bank Limited	3.2%
7	Nedbank Limited	1.7%
8	South African National Roads Agen	1.2%
9	Old Mutual Life Assurance Compan	1.1%
10	Trans-Caledon Tunnel Authority	0.2%

Sources: Taquanta Asset Managers. July 2019

## SUMMARY

Net inflows for the quarter were invested in short dated floating rate assets thus effectively shortening the fund's duration by 0.2 of a year. These actions are in line with our view that given South Africa's deteriorating fiscal metrics, the increased funding required by Eskom, coupled with weak economic growth, risks remain elevated for an upward move in the curve as well as curve steepening. The fund slightly increased exposure to credit via an allocation to a FirstRand fixed rate note.

The yield on the fund as at 30 June 2019 was **9.33%**.

Cashflow:

**TABLE 7: CASH FLOWS FOR Q2 2019**

	<b>Contributions</b>	<b>Withdrawals</b>	<b>Net Flow</b>
Q2 2019	83 138 167.75	- 47 719 690.64	35 418 477.11
Q1 2019	42 444 203.94	- 102 499 423.17	- 60 055 219.23

Sources: Taquanta Asset Managers. July 2019

## INVESTMENT OUTLOOK

The market is projecting a cut at the next MPC as the South African Forward Rate Agreement (FRA's) are discounting a rate reduction of 25bp within 3 months and a further 25bp cut before year end. In addition to this we have seen a softening in the 3 Month JIBAR rate of 15 basis points over the past few weeks. The fund is well positioned to take advantage of the current uncertain economic climate.

## RESPONSIBLE INVESTING

### Social, Environmental & Ethical Responsibility

Taquanta Asset Managers is committed to integrating consideration of environmental, social and governance issues into its investment decision making process and ownership policies, thereby improving long term returns to beneficiaries. Taquanta Asset Managers' approach in this regard takes into account the UN principles of responsible investment. Taquanta Asset Managers will encourage disclosure on these issues and promote acceptance of the principles whenever possible.

Taquanta Asset Managers is fully committed to employment equity and to facilitating the empowerment of previously disadvantaged persons.

### Corporate Governance:

Taquanta Asset Managers (Pty) Ltd. Is a wholly owned subsidiary of Taquanta Investment Holdings (Pty) Ltd. Taquanta Asset Managers (Pty) Ltd recognizes its accountability to all shareholders & stakeholders and as such is committed to upholding the highest standards of good corporate citizenship.

Taquanta Asset Managers (Pty) Ltd has taken cognizance of both local and international corporate governance best practice guidelines, including:

- The King Code on Corporate Governance (King III)
- The Companies Act
- Basel Conventions
- The UK Combined Code
- JSE Rules
- IMASA Guidelines
- Local Regulatory Requirements
- The UN Principles for Responsible Investment

Taquanta Asset Managers (Pty) Ltd will endeavour to apply both the letter and the spirit of these guidelines to all aspects of its business operations.

## 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.

Contact details: Standard Bank, Po Box 54, Cape Town 8000,

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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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For further information on the fund please visit: [www.nedgroupinvestments.co.za](http://www.nedgroupinvestments.co.za)

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### WRITE TO US

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