November 2020

Ninety One
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Previously Investec Asset Management

Defend and diversify: are government bonds still up to the job?

Historically government bonds have been included in portfolios to provide defensive returns, yield and diversification. Now their role is being challenged. So, what are the alternatives? How else can you generate attractive levels of income together with some stability — or ballast — to counter a potentially volatile stock market?

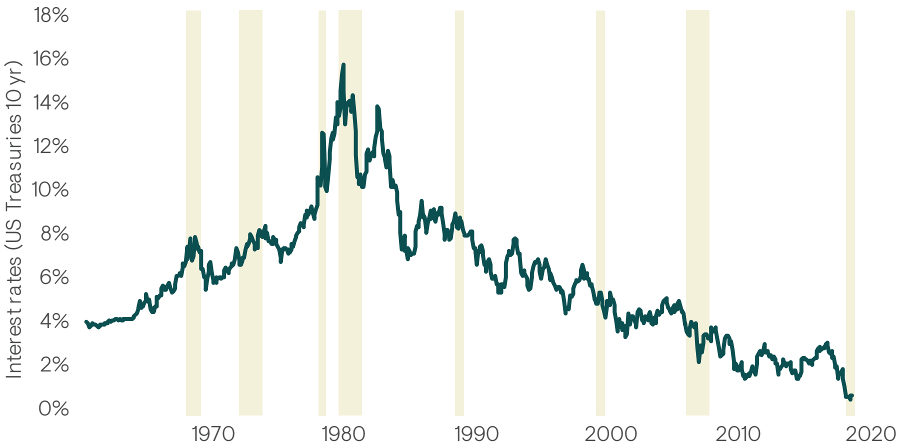
Government bonds are failing to diversify

The main drivers for government bonds providing diversification in portfolios are deteriorating or becoming increasingly uncertain:

1. Yield

> Yields are at historic lows.
>
> Whilst their future direction is open to debate, yields are unlikely to rise significantly any time soon.

Yields have plummeted over the past four decades to previously unthinkable lows



Source: www.macrotrends.net 19 Year Treasury Rate — 54 year Historical Chart 30 September 2020. Shaded areas indicate recession.

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2. Value

We believe government bonds look expensive. The current yield of US Treasuries is far lower than our assessment of fair value.

Fair value	Current yield
Structural 1.4%	0.8%
Cyclical 1.6%	

Source: Ninety One, October 2020. Structural, cyclical fair value and current yield of US 10 year Treasury bond.

3. Diversification

Negative correlation with equities has become less stable, so government bonds have become less effective diversifiers.

Low yields and longer duration of many bonds in issue increases the probability that they will suffer losses, reducing the diversification benefit to portfolios.

Correlations between bonds and equities have varied over the past 50 years

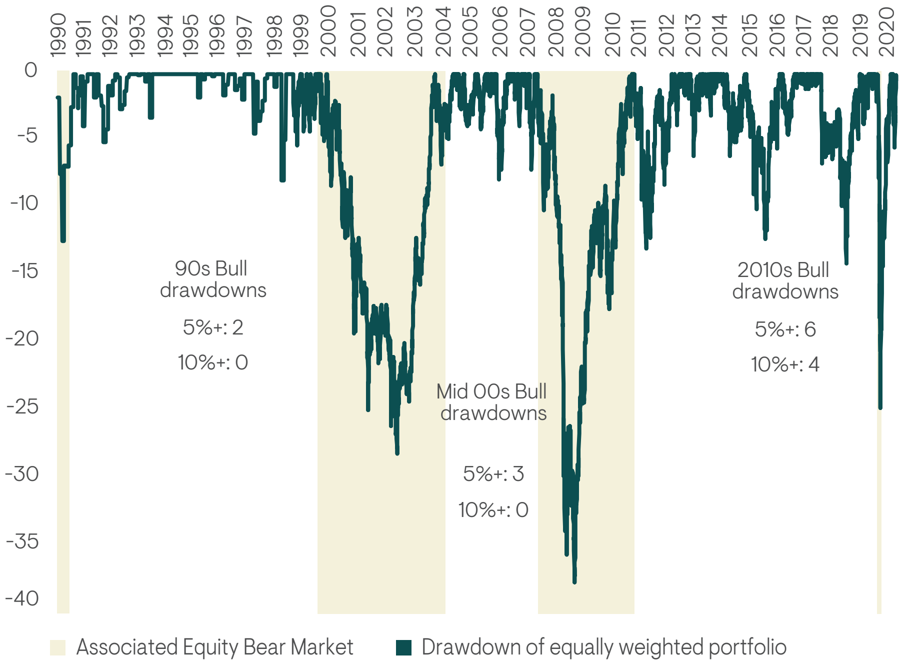
Source: Ninety One, Bloomberg, as at 30 September 2020. Enquiries = S&P 500 USD. Government bonds = UST 10 year TR.

The consequence

> Since the GFC, portfolio drawdowns have become more frequent and larger.

> This is because government bonds have been increasingly unable to sufficiently offset equity losses.

Investors have faced sharper and more frequent drawdowns in the recent bull market



Source: Ninety One, Bloomberg 30 September 2020. Drawdowns of equally weighted government bond and equity portfolio. Bonds: FTSE World Government Bond Index (WGBI) USD. Equities: MSCI World Index USD.

Ninety One Diversified Income Fund: an alternative

The Ninety One Diversified Income Fund is a multi-asset fund which seeks to provide

— Defensive returns
— Attractive and sustainable income, targeting around 4%+ p.a.*
— With less than half the volatility of equities*

A better alternative

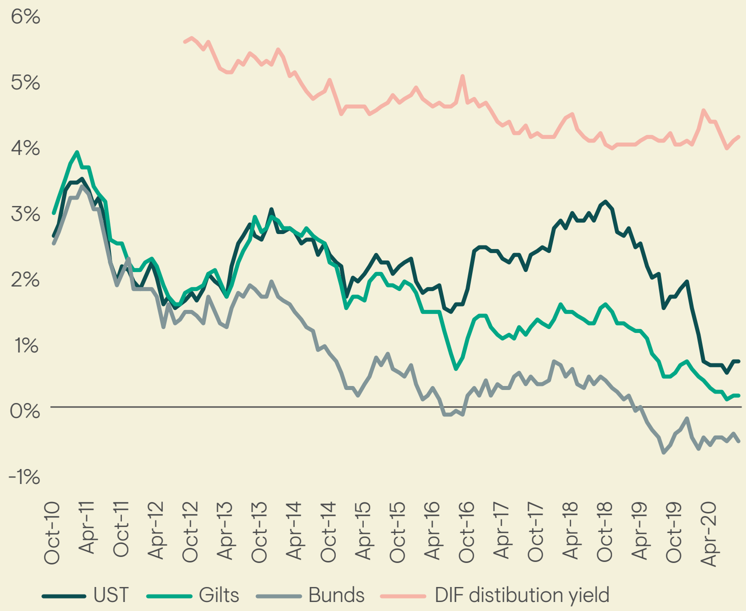
1. Yield

Since inception**, the Fund has provided an attractive and sustainable yield which has been higher and more consistent than developed government bonds.

It accesses a higher yield by careful, bottom up security selection across a range of asset classes.

It avoids the indiscriminate search for yield that often comes with an unrewarded level of risk.

Yield comparison over 10 years DIF vs. Developed Market sovereign bonds



Past performance is not a guide to future, losses may be made. Charges are taken from capital and may constrain future growth. The amount of income may rise or fall. For further information on yields, please see the important information section.

Source: Ninety One, 30 September 2020. 10 year yields shown for UST (US), Gilts (UK), and bunds (Germany). DIF distribution yield shown for I Ince 2 share class.

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* Performance and volatility targets may not necessarily be achieved, losses may be made. The amount of income may rise or fall. The yield target, whilst achieved to date since inception, is dependent upon market conditions and consequently may need to be revised. These internal parameters are subject to change not necessarily with prior notification. Equities defined as FTSE-All Share TR.

** Since inception: 3 September 2012.

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2. Value

> We believe the Fund's multi-asset portfolio is of higher quality and has a more attractive yield than the broader market.

> Our broad opportunity set allows us to navigate the uncertain environment in a risk-controlled way.

Fund characteristics vs. the market

Equity holdings	Fund	MSCI World
Number of holdings	49	1,607
Return on Equity	16%	8%
Forward P/E	19x	20x

Sovereign debt	Fund	Citi G7
Number of holdings	28	746
Proportion with negative yield	0%	29%
AAA and above	100%	70%

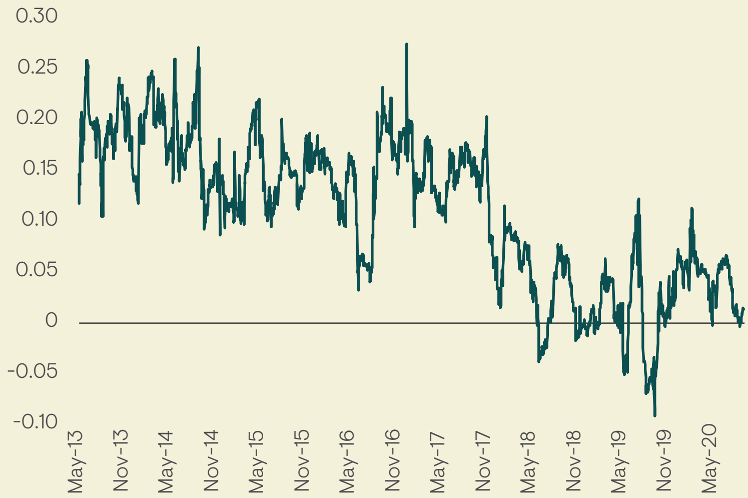
Source: Ninety One 30 September 2020. "Fund characteristics" shows a selection of the portfolio. The yield of the underlying securities is not guaranteed, there is no assurance of its stability and sustainability and it does not represent the yield of the Fund. A positive yield does not imply a positive return. The Fund does not have a benchmark, MSCI World and Citi G7 are shown for illustrative purposes only. The Fund is a multi-asset fund and is therefore subject to other risks factors which are not applicable to a pure equity / fixed income product. The above table is solely for information purposes and should not be relied upon. For further information on indices, please see the Important Information section.

3. Diversification

> The Fund actively seeks to manage downside risk.

> Beta is a better measure of exposure to the downside risk of equities than correlation. The beta of the Fund since inception has been low and is actively managed.

DIF 60 day Rolling Beta to FTSE-All Share Index



Source: Ninety One, 30 September 2020. Rolling 60 day beta of Ninety One Diversified Income Fund I Acc GBP vs FTSE-All Share Index TR GBP, since fund inception (3 September 2012).

The results

The Diversified Income Fund has produced superior risk-adjusted returns than developed market government bonds, and with a higher more consistent yield.

DIF: Superior risk-adjusted returns and yield

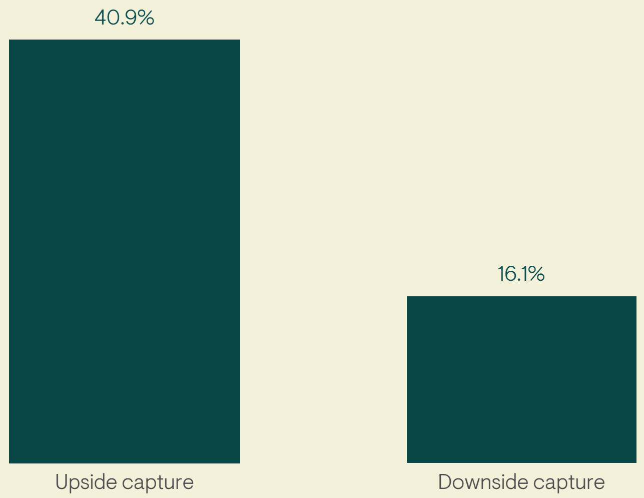
	Annualised return	Volatility	Sharpe ratio	Yield as at end of Q320
DIF	5.5%	4.7%	1.2	4.1%
UST	3.5%	5.3%	0.7	0.7%
Gilts	3.3%	5.0%	0.7	0.2%
Bunds	3.1%	4.1%	0.8	-0.5%

Past performance is not a reliable indicator of future results, losses may be made. Charges are taken from capital and may constrain future growth. The amount of income may rise or fall.

Source: Ninety One 30 September 2020. Data cites performance of I Inc 2 share class since inception of Ninety One Diversified Income Fund (3 September 2012). Comparison is with 10-year UST, Gilts, Bunds. For five-year calendar year performance comparison with these asset classes, please see table on p. 8. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in GBP.

The Fund has achieved its defensive return profile by focusing on limiting drawdowns and maximising upside capture.

Attractive upside skew vs. UK equities

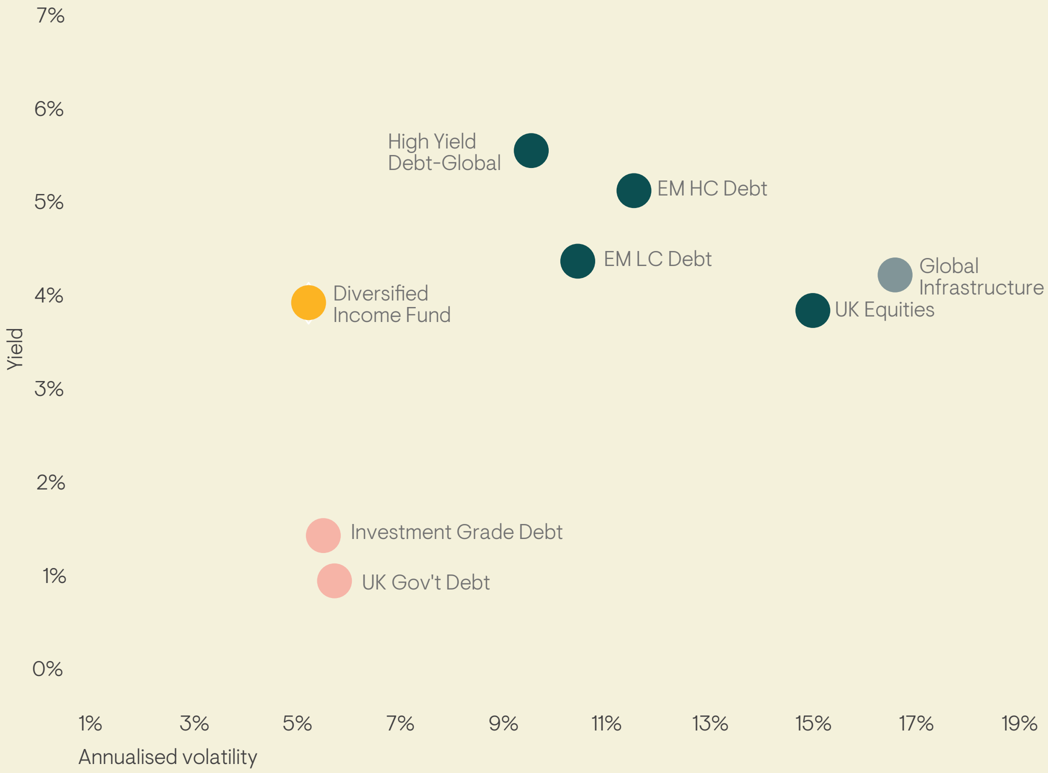


Past performance is not a reliable indicator of future results, losses may be made.

Diversified Income Fund average monthly gain and loss as a proportion of UK Equities average gain and loss.
Source: Ninety One, in GBP gross of fees and taxes with income reinvested, UK Equity returns are for FTSE-All Share Index, from 1 September 2012 to 30 September 2020.

The Fund has achieved a yield on a par with the relatively risky assets of equities and emerging market debt, but with lower volatility than bonds.

Yield vs. volatility



Past performance is not a reliable indicator of future results, losses may be made. The amount of income payable may rise or fall. Charges are taken from capital and may constrain future growth. The amount of income may rise or fall.

Source: Morningstar, Bloomberg, BofA Merrill Lynch, Ninety One, in GBP, 30 September 2020. Annualised standard deviation of monthly returns over 3 years. Investment Grade Debt: BofAML Sterling NonGilts TR GBP; UK Gov't Debt: FTSE Gilts All Stocks TR GBP; EM HC Debt: JPMorgan EMBI Global Diversified; EM LC Debt: JPMorgan GBI-EM Global Diversified; Global Infrastructure: S&P Global Infrastructure TR USD; High Yield Debt - Global: BofAML Global High Yield TR USD; UK Equities: FTSE-All Share TR; Diversified Income Fund: Distribution Yield and volatility of I Inc-2 share class. For more information on indices and yields please see Important Information section.

Diversified Income Fund

A record of positive returns every calendar year since inception.

	3 months	YTD	1 year	3 years p.a.	5 years p.a.	Since Inception p.a.*
Diversified Income I Acc	1.6%	0.2%	2.0%	2.5%	3.9%	4.1%

	2013	2014	2015	2016	2017	2018	2019
Diversified Income I Acc	6.2%	5.3%	2.0%	5.9%	4.8%	0.4%	5.4%

Past performance is not a reliable indicator of future results, losses may be made.
Source: Ninety One, 30 September 2020. Performance is net of fees (NAV based, including ongoing charges), gross income reinvested (net of UK basic rate tax pre 5 April 2016), in GBP.
* Since inception: 3 September 2012. Prior to this date, the fund was called Managed Distribution, and was managed to a different investment objective. The fund is actively managed, any index shown is for illustrative purposes only.

	DIF	Bund	UST	Gilts
2015	2.0%	0.8%	1.7%	0.7%
2016	5.9%	4.3%	1.0%	7.9%
2017	4.8%	-0.9%	2.5%	1.8%
2018	0.4%	2.7%	0.9%	1.5%
2019	5.4%	3.2%	8.5%	4.8%

Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in GBP.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Past performance is not a reliable indicator of future results. Where charges are taken from capital, this may constrain future growth. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations.

Specific risks. **Currency exchange:** Changes in the relative values of different currencies may adversely affect the value of investments and any related income. **Default:** There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Emerging market:** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Government securities exposure:** The Fund may invest more than 35% of its assets in securities issued or guaranteed by a permitted sovereign entity, as defined in the definitions section of the Fund's prospectus. Interest rate: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise.

Important information

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The Fund is a sub-fund of the Ninety One Funds Series range (series i - iv) which are UCITS incorporated in England and Wales as investment companies with variable capital. Ninety One Fund Managers UK Ltd (registered in England and Wales No. 2392609 and authorised and regulated by the Financial Conduct Authority) is the authorised corporate director of the Ninety One Funds Series range.

This communication is not an invitation to make an investment nor does it constitute an offer for sale. Any decision to invest in the Fund should be made after reviewing the full offering documentation, including the Prospectus, which sets out the fund specific risks. Fund prices and copies of the Prospectus, annual and semi-annual Report & Accounts, Instruments of Incorporation and the Key Investor Information Documents may be obtained from www.ninetyone.com.

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Indices

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The yield reflects the amount that may be distributed over the next 12 months as a percentage of the Fund's net asset value per share, as at the date shown, based on a snapshot of the portfolio on that day. Where there is a yield number in brackets, it is calculated in the same way, however, as the charges of the share class are deducted from capital rather than income, it shows the level of yield had these charges been deducted from income. This has the effect of increasing the income payable whilst reducing capital to an equivalent extent. Yields do not include any preliminary charge and investors may be subject to tax on their distributions.

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