Ninety One

# What a year it has been...

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# Important information

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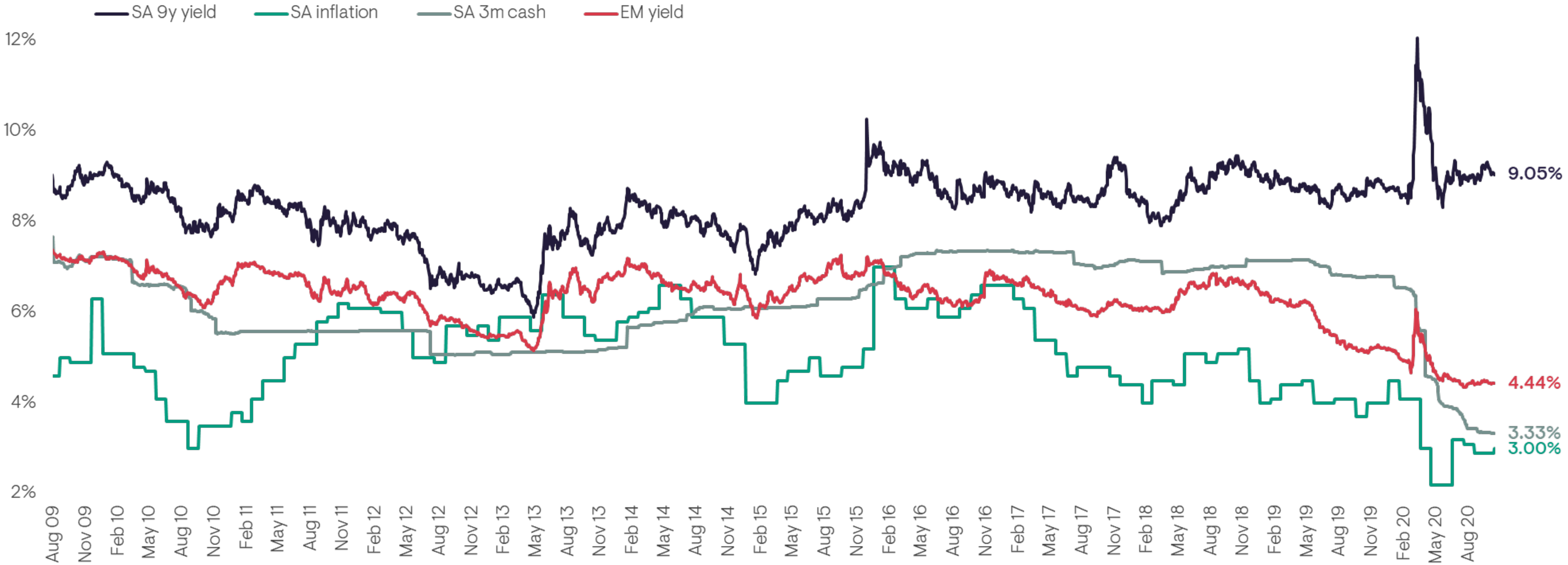
In the event that specific funds are mentioned please refer to the relevant minimum disclosure document in order to obtain all the necessary information in regard to that fund.

# What a year it has been …

… Pandemic => bonds worst month ever => SARB intervenes => bonds bounce back (sport still cancelled)

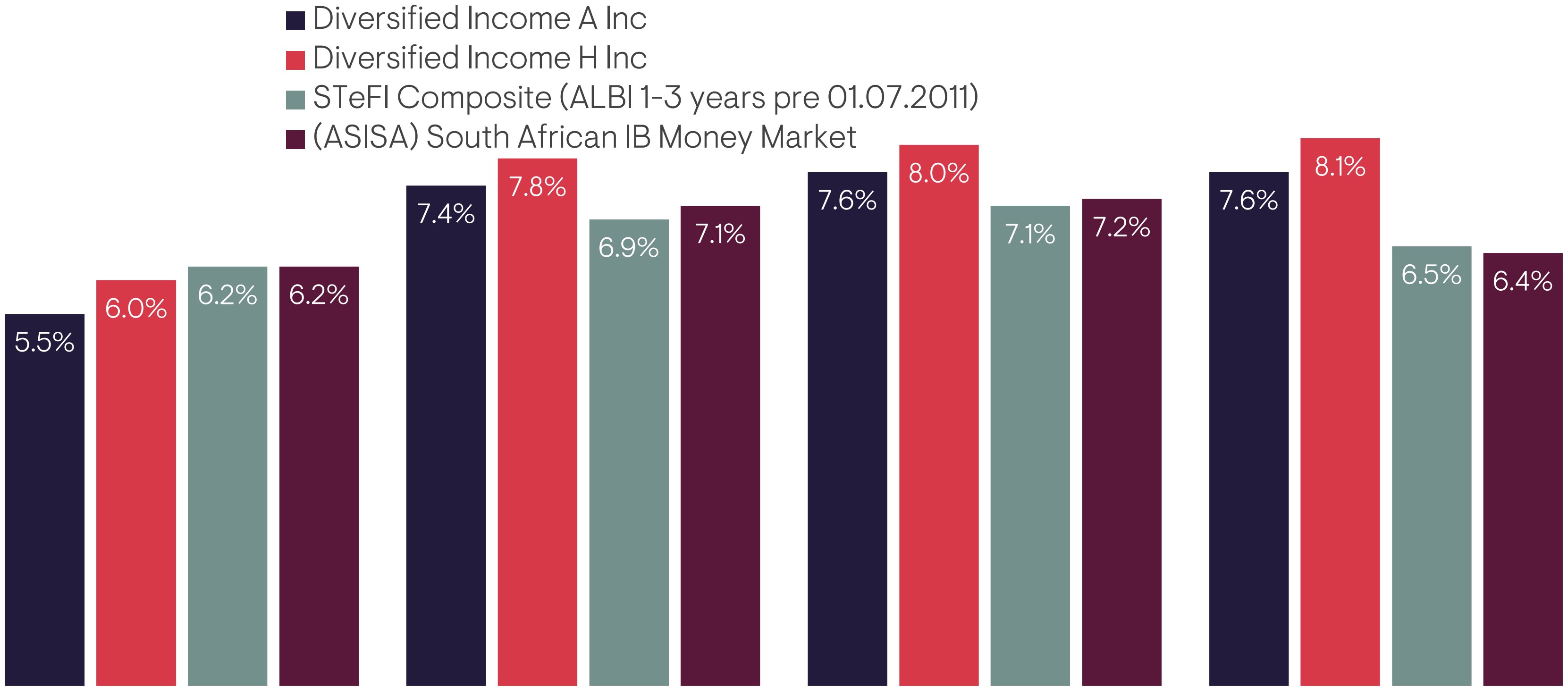


That was traumatic, it's all back to normal, right?

Source: Bloomberg, Ninety One as at 28 October 2020

# Ninety One Diversified Income Fund

## Annualised performance in ZAR as at 30 September 2020



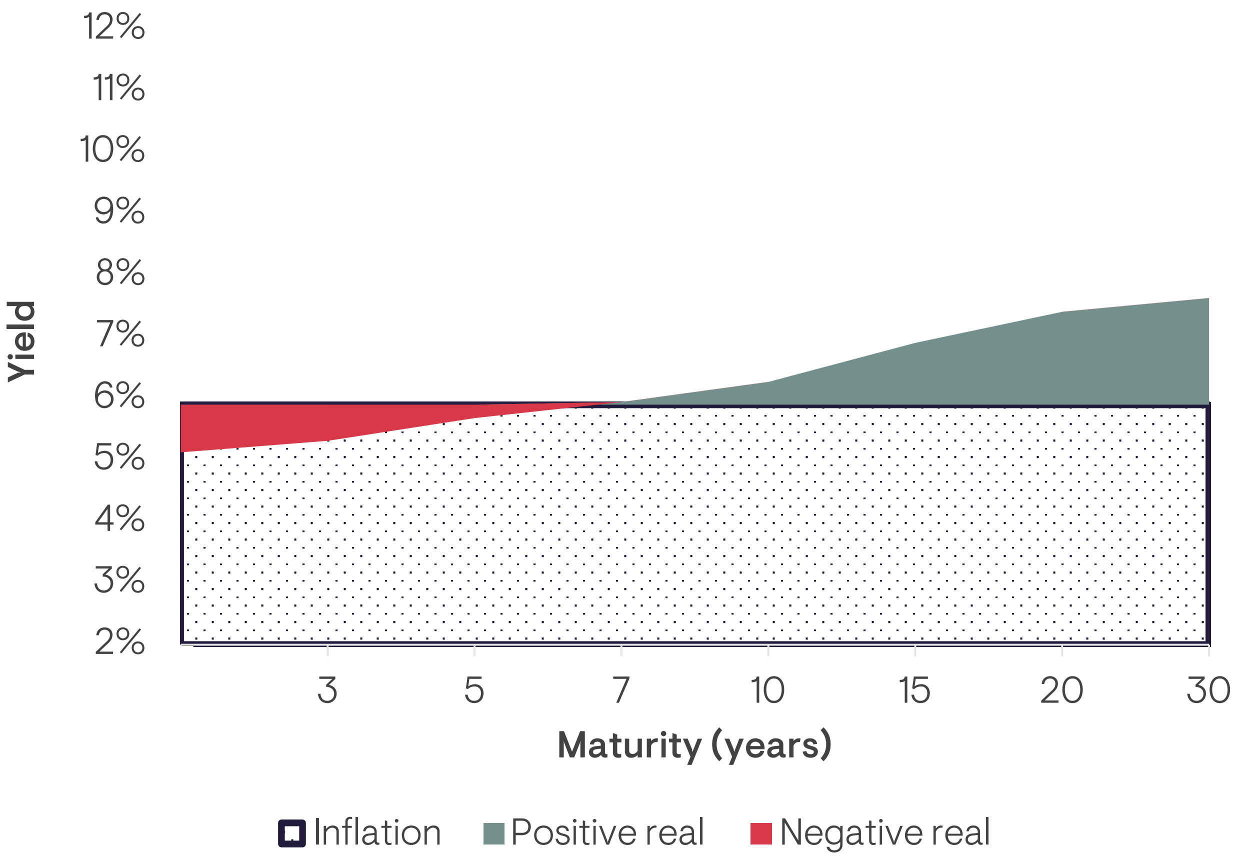
| | 1 year | 3 years p.a. | 5 years p.a. | 10 years p.a. |
|---|---|---|---|---|
| Diversified Income A | 5.5% | 7.4% | 7.6% | 7.6% |
| **Diversified Income H** | **6.0%** | **7.8%** | **8.0%** | **8.1%** |
| STeFI Composite (ALBI 1-3 years pre 01.07.2011) | 6.2% | 6.9% | 7.1% | 6.5% |
| (ASISA) South African IB Money Market | 6.2% | 7.1% | 7.2% | 6.4% |

Past performance is not a reliable indicator of future results, losses may be made.
Source: Morningstar, dates to 30 September 2020, performance figures above are based on lump sum investment, NAV based, inclusive of all annual management fees but excluding any initial charges, gross income reinvested, fees are not applicable to market indices, where funds have an international allocation this is subject to dividend withholding tax, in South African Rand. The Fund's benchmark is to the end of the previous month end. * Since Inception simulation date 01.09.08. Annualised performance is the average return per year over the period. Individual investor's performance may vary depending on actual investment dates. Highest and Lowest returns are those achieved during any rolling 12 months over the period specified. A Class: Jul 12.8% and Jan 14: 4.1%: H Class: Jul 12: 13.4% and Jan 14: 4.5%.

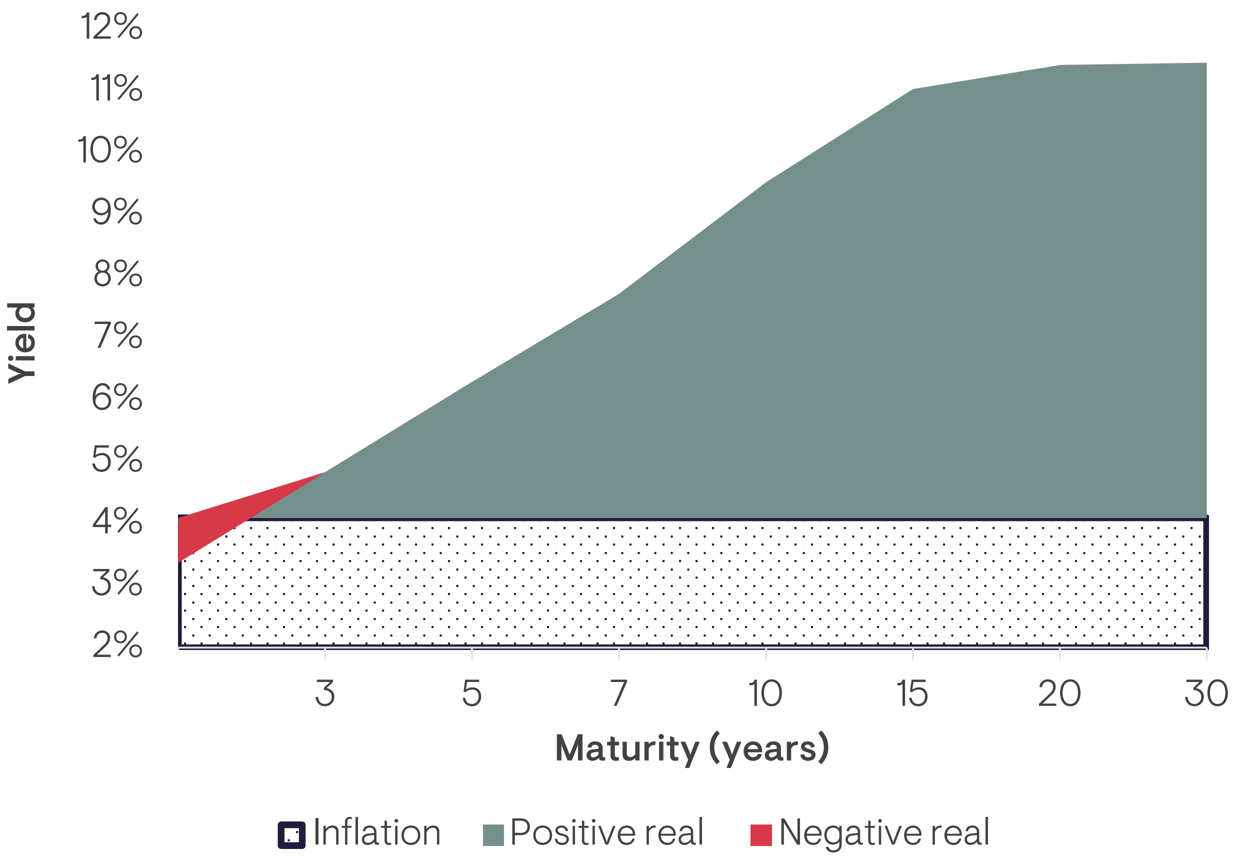
# If you're looking for inflation beating income, 2013...

... when the Fed was last doing QE, was arguably a riskier time than now

## Yield curve in the middle of 2013



## Yield curve now

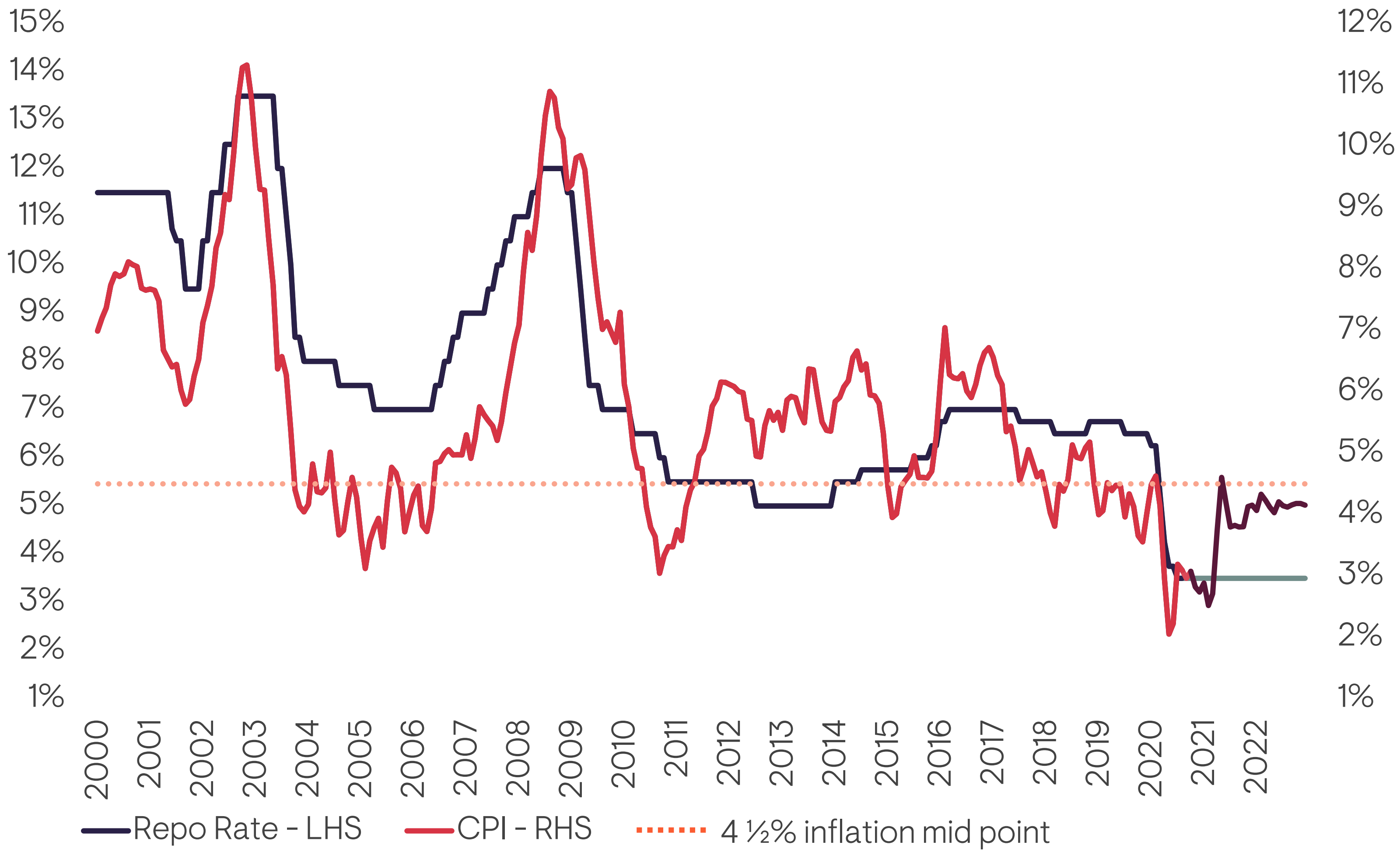


Is inflation a problem for the future?

Source: Ninety One as at 11 September 2020

# Rates lower for longer...

## Inflation is subdued under most scenarios



But is inflation the only risk for the local bond investor?

### 2020 inflation scenarios

Rand

| Oil price | 16.4 | 17.4 | 17.9 | 18.4 | 18.9 | 19.4 | 19.9 | 20.4 |
|---|---|---|---|---|---|---|---|---|
| 22.4 | 2.1% | 2.4% | 2.5% | 2.7% | 2.9% | 3.0% | 3.2% | 3.3% |
| 27.4 | 2.2% | 2.5% | 2.7% | 2.9% | 3.0% | 3.2% | 3.4% | 3.5% |
| 32.4 | 2.4% | 2.7% | 2.9% | 3.1% | 3.2% | 3.4% | 3.6% | 3.7% |
| 37.4 | 2.6% | 3.0% | 3.2% | 3.4% | 3.5% | 3.7% | 3.9% | 4.1% |
| 42.4 | 2.7% | 3.1% | 3.3% | 3.4% | 3.6% | 3.8% | 4.0% | 4.2% |
| 47.4 | 2.9% | 3.2% | 3.4% | 3.6% | 3.8% | 4.0% | 4.2% | 4.4% |
| 52.4 | 3.0% | 3.4% | 3.6% | 3.8% | 4.0% | 4.2% | 4.4% | 4.6% |
| 57.4 | 3.2% | 3.6% | 3.8% | 4.0% | 4.2% | 4.4% | 4.6% | 4.8% |
| 62.4 | 3.4% | 3.8% | 4.0% | 4.2% | 4.4% | 4.6% | 4.8% | 5.0% |

### 2021 inflation scenarios

Rand

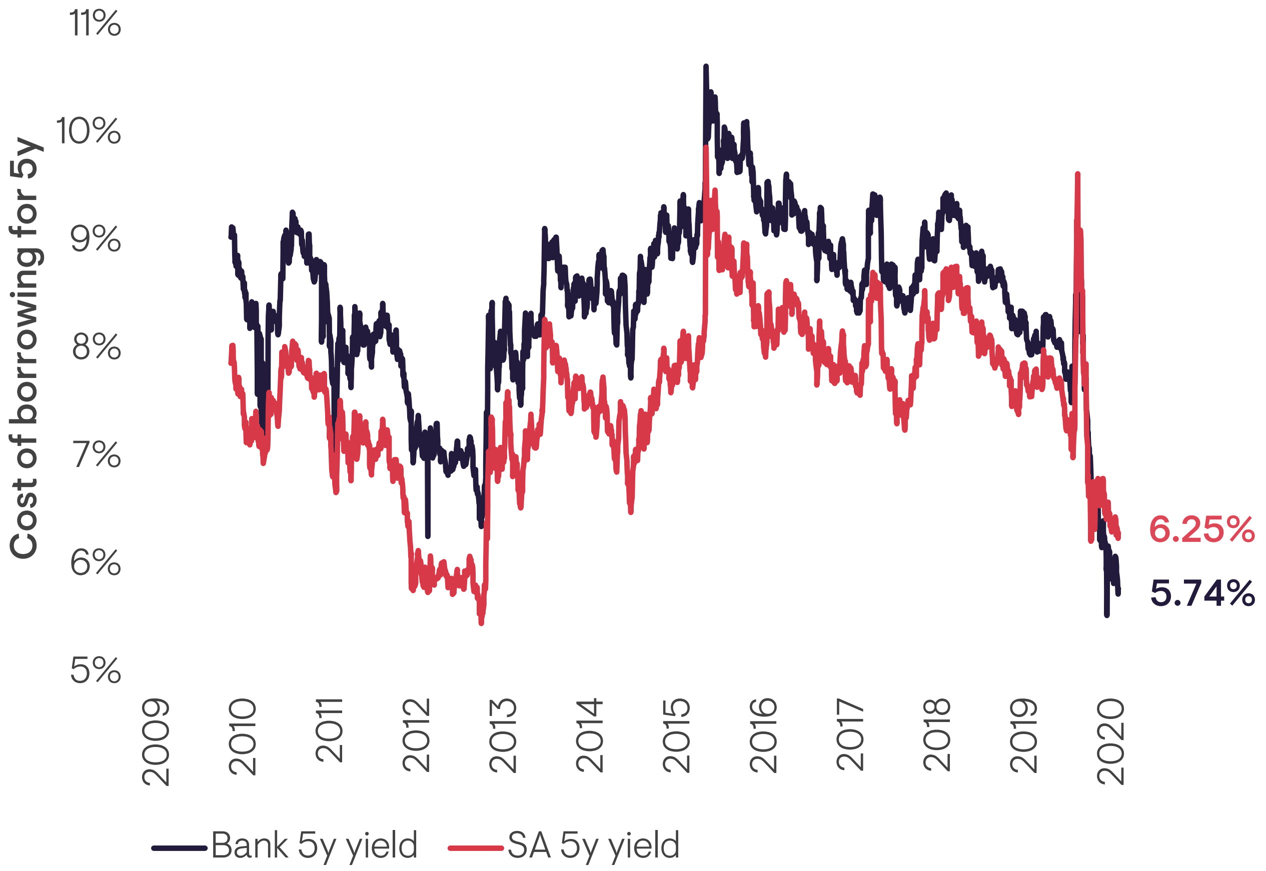
| Oil price | 15.5 | 16.5 | 17.0 | 17.5 | 18.0 | 19.0 | 19.5 | 20.0 |
|---|---|---|---|---|---|---|---|---|
| 24.2 | 2.6% | 3.0% | 3.1% | 3.3% | 3.5% | 3.8% | 4.0% | 4.2% |
| 29.2 | 2.8% | 3.2% | 3.4% | 3.5% | 3.7% | 4.1% | 4.3% | 4.4% |
| 34.2 | 3.0% | 3.4% | 3.6% | 3.8% | 4.0% | 4.3% | 4.5% | 4.7% |
| 39.2 | 3.2% | 3.6% | 3.8% | 4.0% | 4.2% | 4.6% | 4.8% | 5.0% |
| 44.2 | 3.4% | 3.8% | 4.0% | 4.2% | 4.4% | 4.8% | 5.0% | 5.2% |
| 49.2 | 3.6% | 4.1% | 4.3% | 4.5% | 4.7% | 5.1% | 5.3% | 5.5% |
| 54.2 | 3.8% | 4.3% | 4.5% | 4.7% | 4.9% | 5.3% | 5.6% | 5.8% |
| 59.2 | 4.1% | 4.5% | 4.7% | 4.9% | 5.2% | 5.6% | 5.8% | 6.0% |
| 64.2 | 4.3% | 4.7% | 4.9% | 5.2% | 5.4% | 5.8% | 6.1% | 6.3% |

Source: Ninety One, data as at October 2020

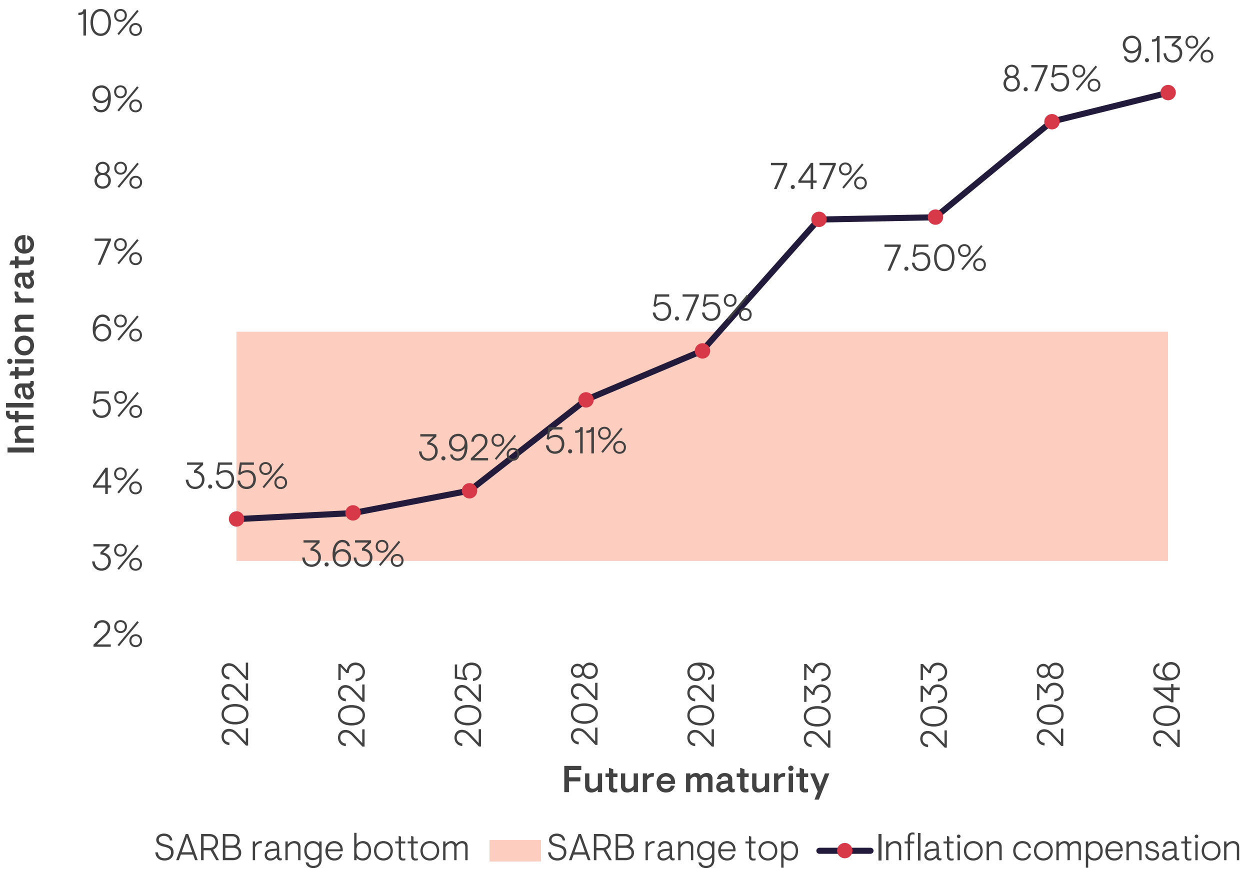
# There are signs of stress out there...

...with the government borrowing rates higher than banks, and future inflation pricing at 9%

### Government and banks borrowing costs over time



### Inflation compensation priced into the bond market

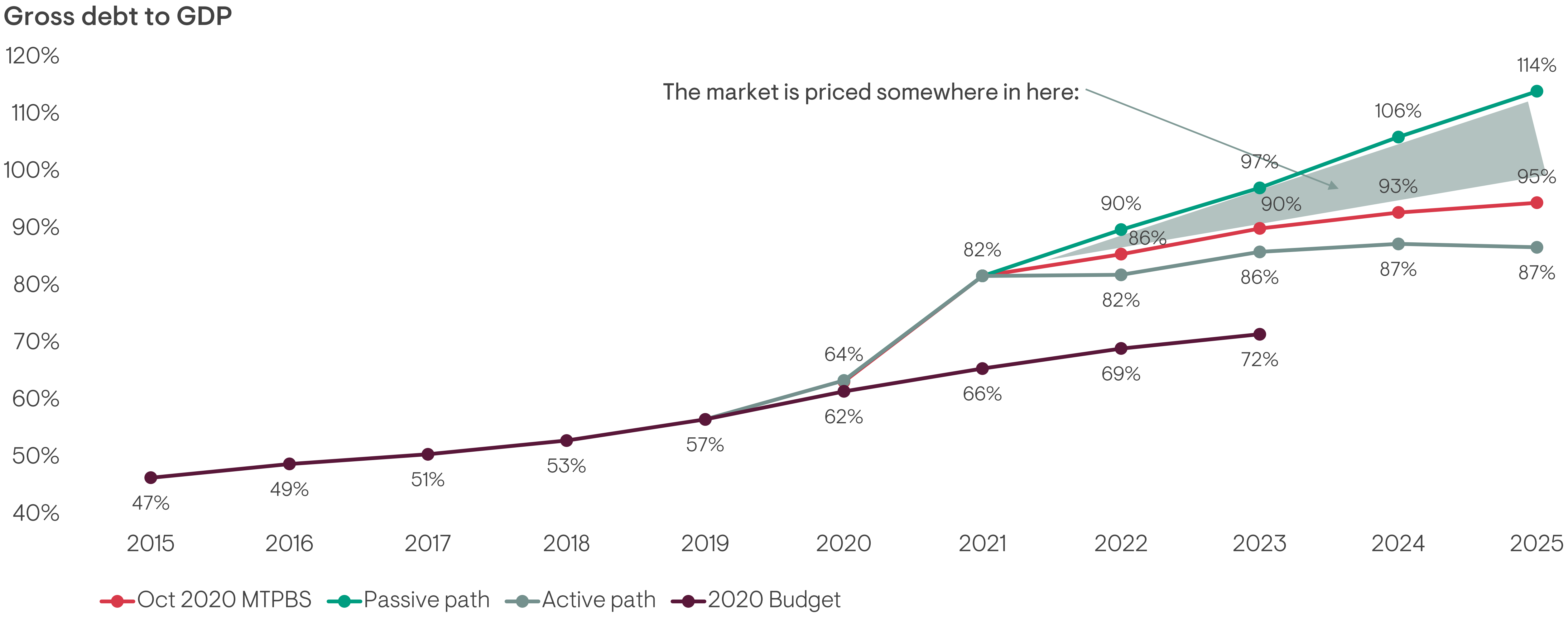


Is this market concern warranted?

Source: Bloomberg as at 11 September 2020

# The fiscus is very vulnerable…

## …with the market pricing somewhere between the “passive” and “active” path

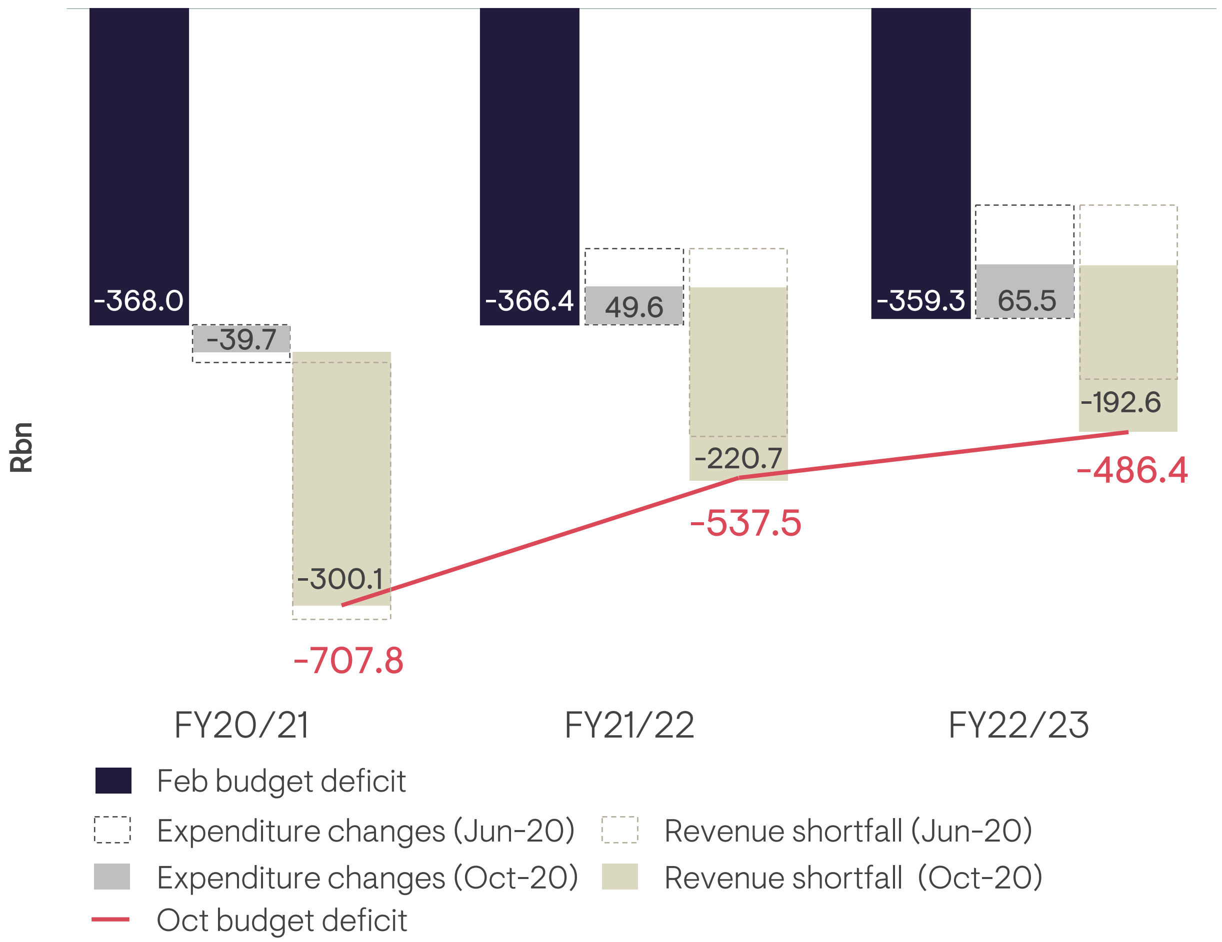


Is there a way to earn this yield and keep the risks manageable?

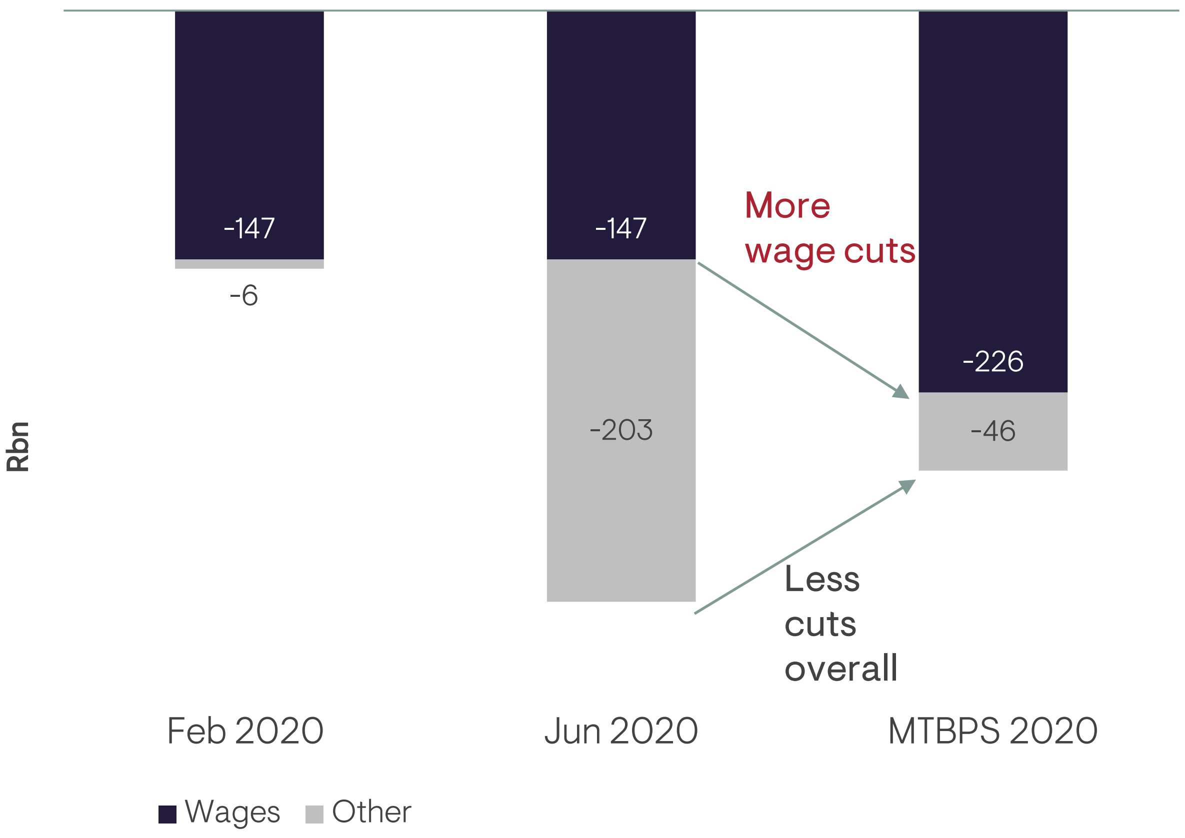
Source: National Treasury

# MTBPS: worse numbers, better mix

Fiscal deficit changes: Feb => June => October



Planned expenditure cuts: Feb => June => October



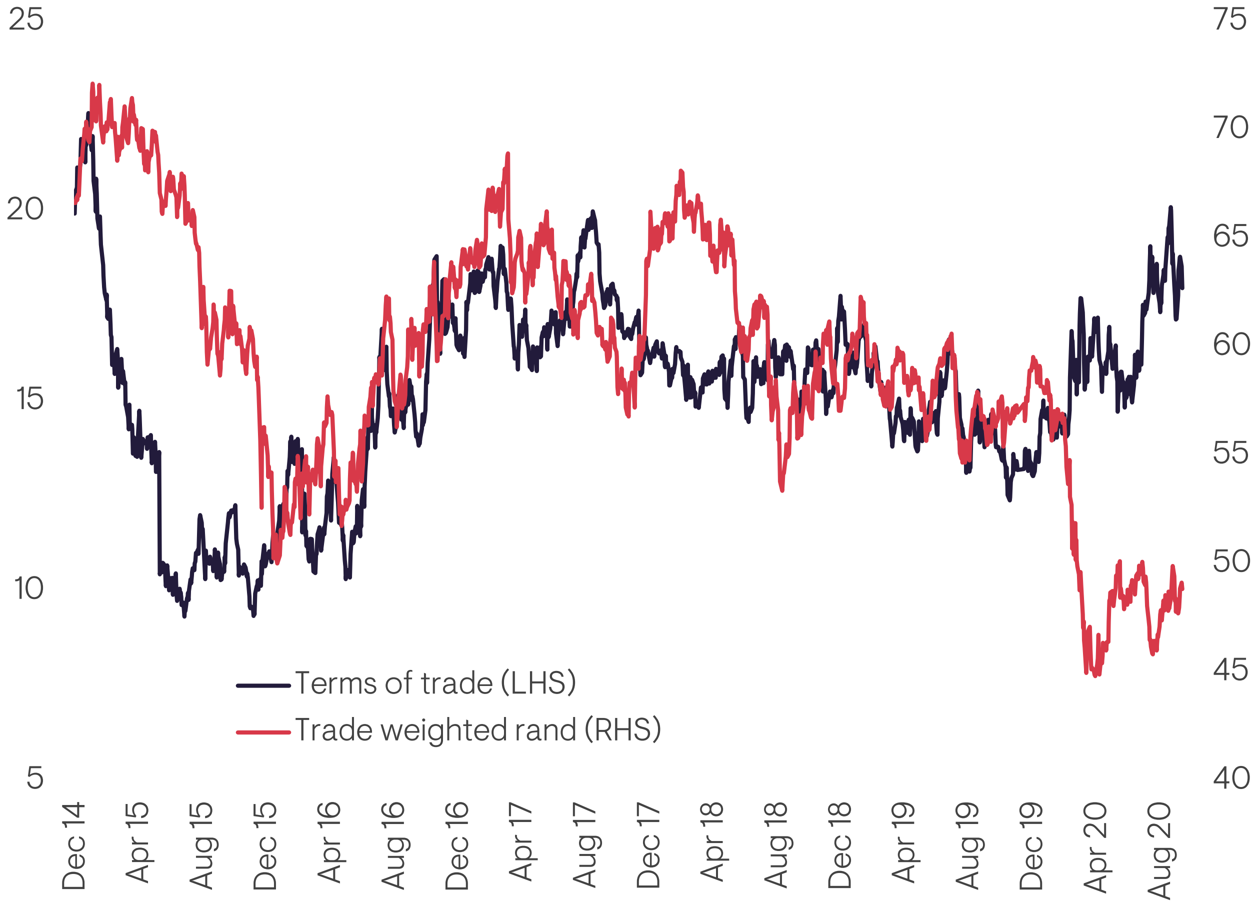
It’s all about wages

Source: Ninety One

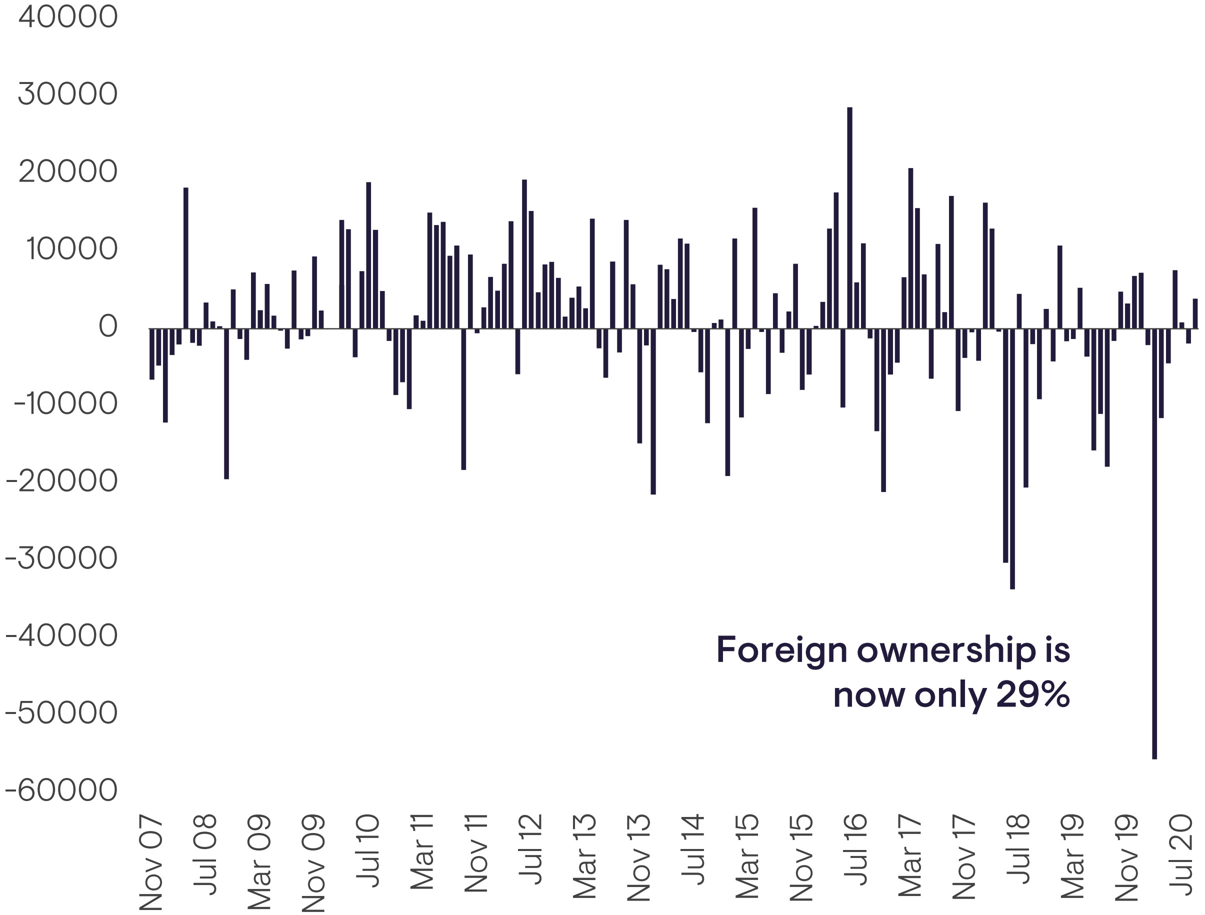
# You can’t be too bearish the rand

## It’s a battle between current and capital accounts

### Current account will be improving…



### … foreign flows won’t



**Foreign ownership is now only 29%**

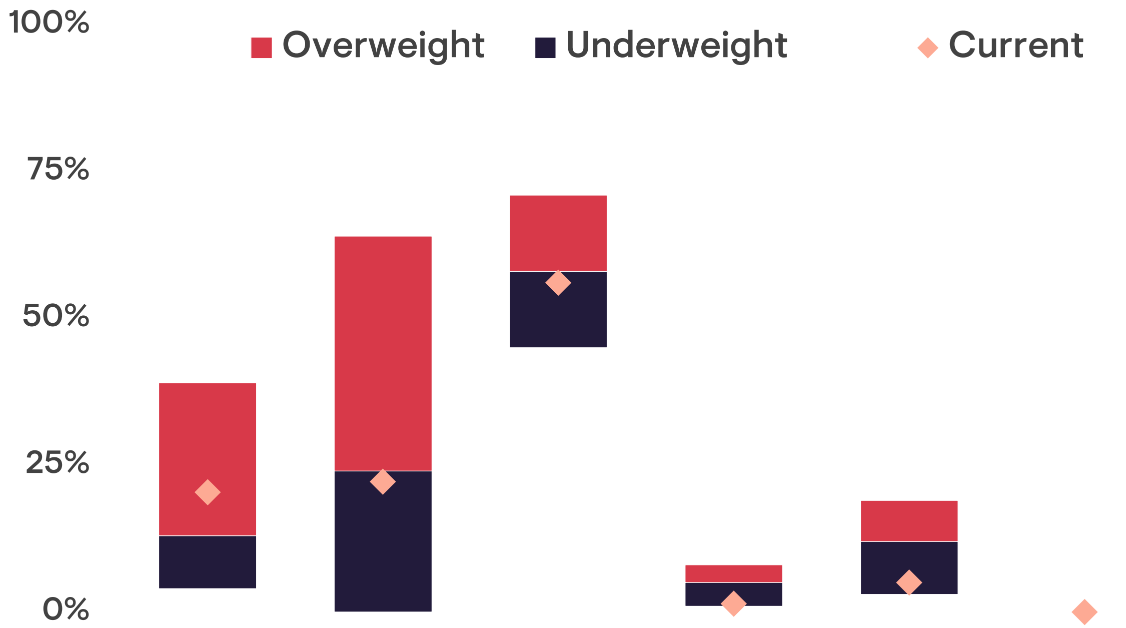
Which means a small offshore allocation to help mitigate the fiscal risk

Source: Bloomberg, data as at 30 September 2020

Source: Bloomberg, data as at 7 September 2020

# Ninety One Diversified Income Fund

## Current positioning: Still defensive, measured duration and underweight property



| | Cash | Bonds | Credit | Property | FX | Alternative |
|---|---|---|---|---|---|---|
| Current | **20.4%** | **22.2%** | **56.1%** | **1.4%** | **5.0%** | **0.0%** |
| Local | 17.6% | 20.6% | 51.3% | 1.4% | | |
| Offshore | 2.8% | 1.6% | 4.7% | - | | |

- No growth, no inflation: cash rates will remain low
- Fiscal better than feared: expenditure targets are (too) ambitious
- Reforms, execution risk, same story…
- Global central banks are supporting fiscal stimulation
- **VOLATILITY** is the game in town

| Duration | | Exposure | | Yield* |
|---|---|---|---|---|
| Nominal | 1.19 | USD | 2.1% | 6.50% |
| ILBs | 0.21 | EUR | 1.3% | |
| | | EM | 1.6% | |
| **Years** | **1.40** | **FX** | **5.0%** | |

Positioned to participate and protect

Source: Ninety One, data as at 27 October 2020
NCDs: 16.0% *Current yield as at 14 October 2020. The yield is calculated by estimating the income receivable of all the instruments in the fund divided by the net asset value.

Ninety One

# Thank you

www.ninetyone.com