Ninety One

Income: What can SA investors expect?

May 2020

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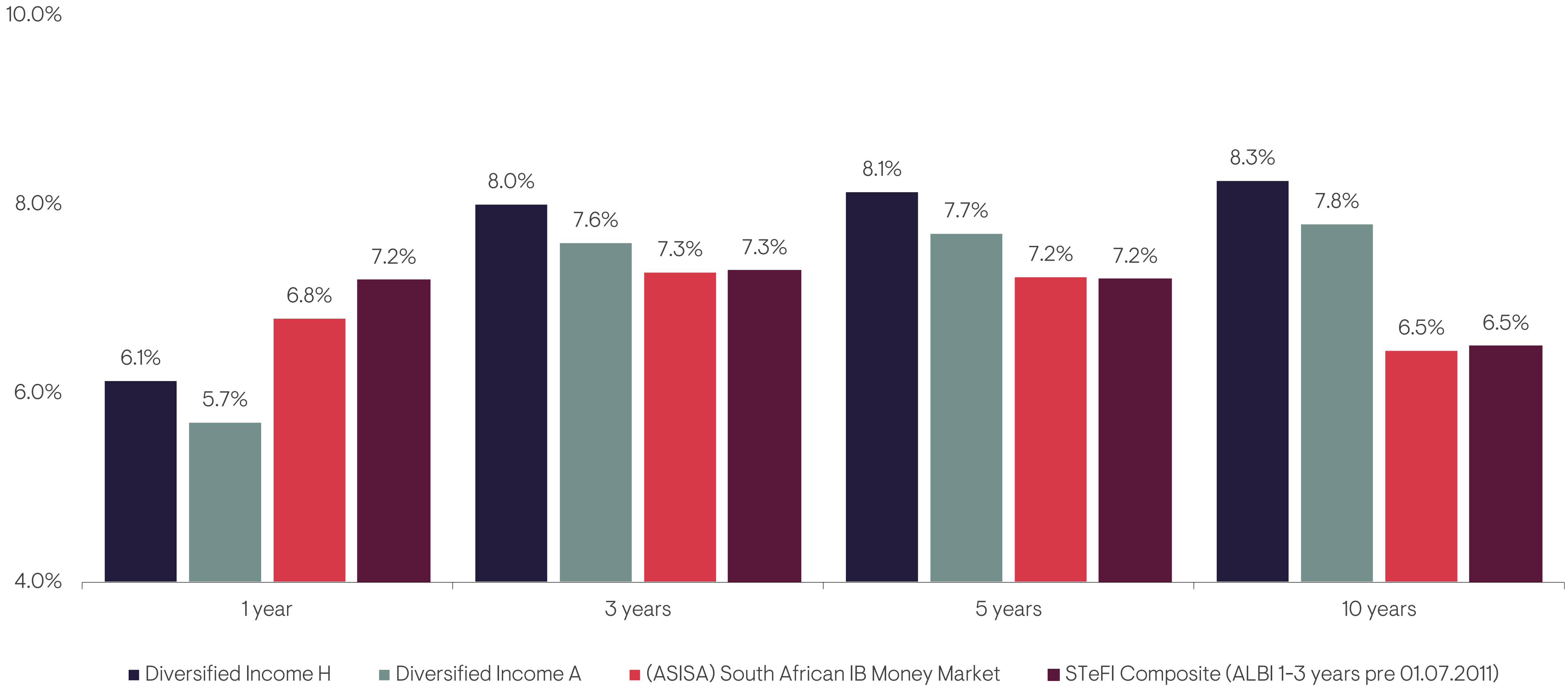
Ninety One Diversified Income Fund

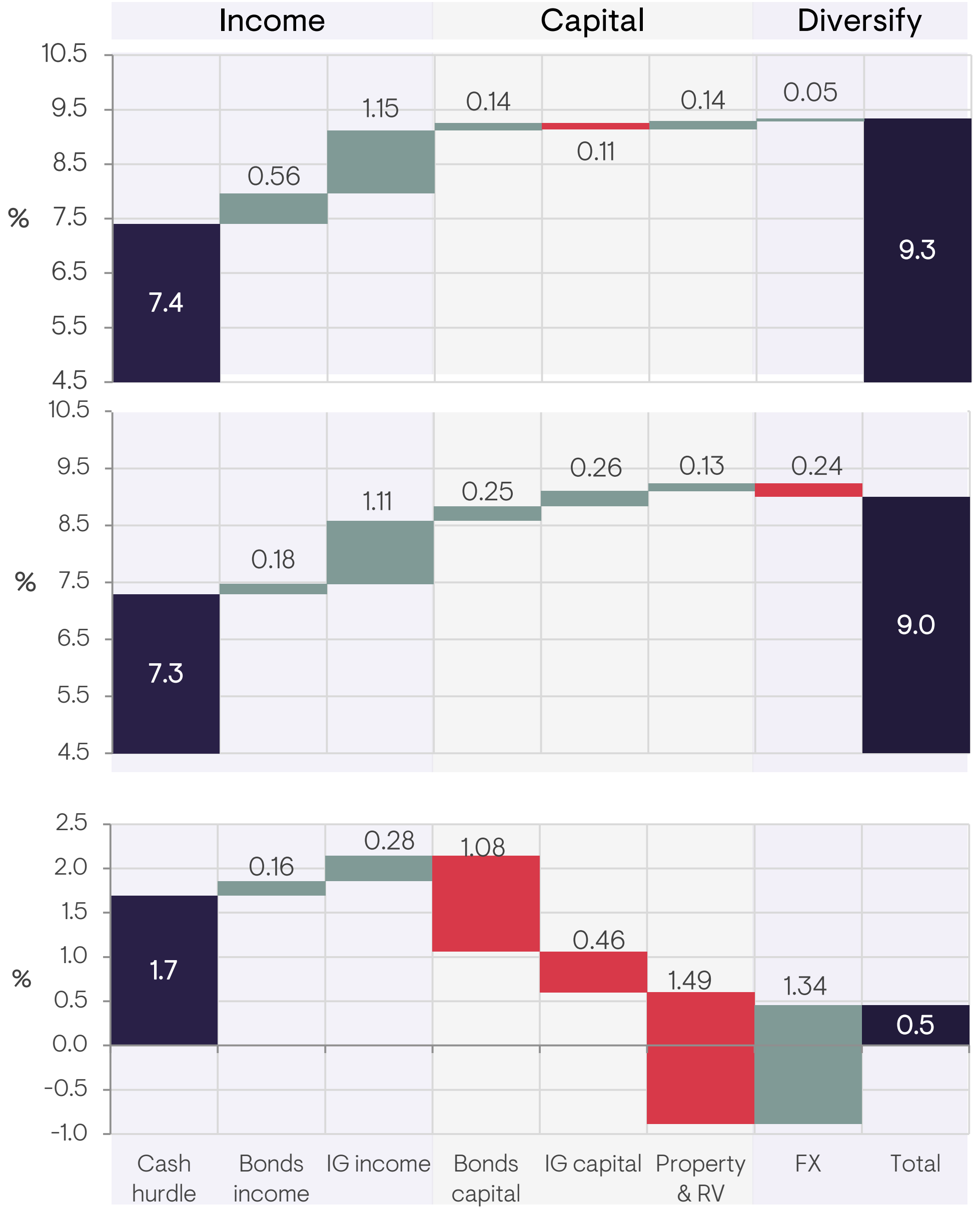
Annualised performance in ZAR as at 31 March 2020



Past performance is not a reliable indicator of future results, losses may be made.
Source: Morningstar, dates to 31 March 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. 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. H share class since inception (01.09.08)Jul 12: 13.4% and Jan 14: 4.5%. A share class since inception (01.10.09): Jul 12: 12.8% and Jan 14: 4.1%.

Ninety One Diversified Income Fund

What’s behind Q1’s performance?



2017 & 2018 sources of return:

ZAR rallied 2.5%:	Offshore low and changing USD mix to protect duration position
Bonds unchanged:	Building the SA “disinflation” theme
Property returned -4%:	Avoided the RES stable and have been tactical around a core underweight
Credit spreads tightening:	Overweight IG, still value

2019 sources of return:

ZAR rallied 7.1%:	Small ‘risk-mitigating’ FX exposure
Bonds rallied 0.9%:	Disinflation theme still in play, politics and global result in extreme choppiness
Property rallied 1.9%:	Strategic underweight with tactical opportunities, offshore property helping
Credit spreads tightening:	Bank spreads continue to tighten, still value in, reducing our overweight IG

2020 YTD sources of return:

ZAR sold off 20%:	Higher, more defensive, FX exposure
Bonds sold off 11%:	Pre-emptive duration reduction. Disinflation theme still in play, measured approach
Property sold off 48%:	Strategic underweight, valuation uncertainty
Credit spreads widening:	Bank spreads lead the widening, Underweight yield contribution similar due to higher spreads

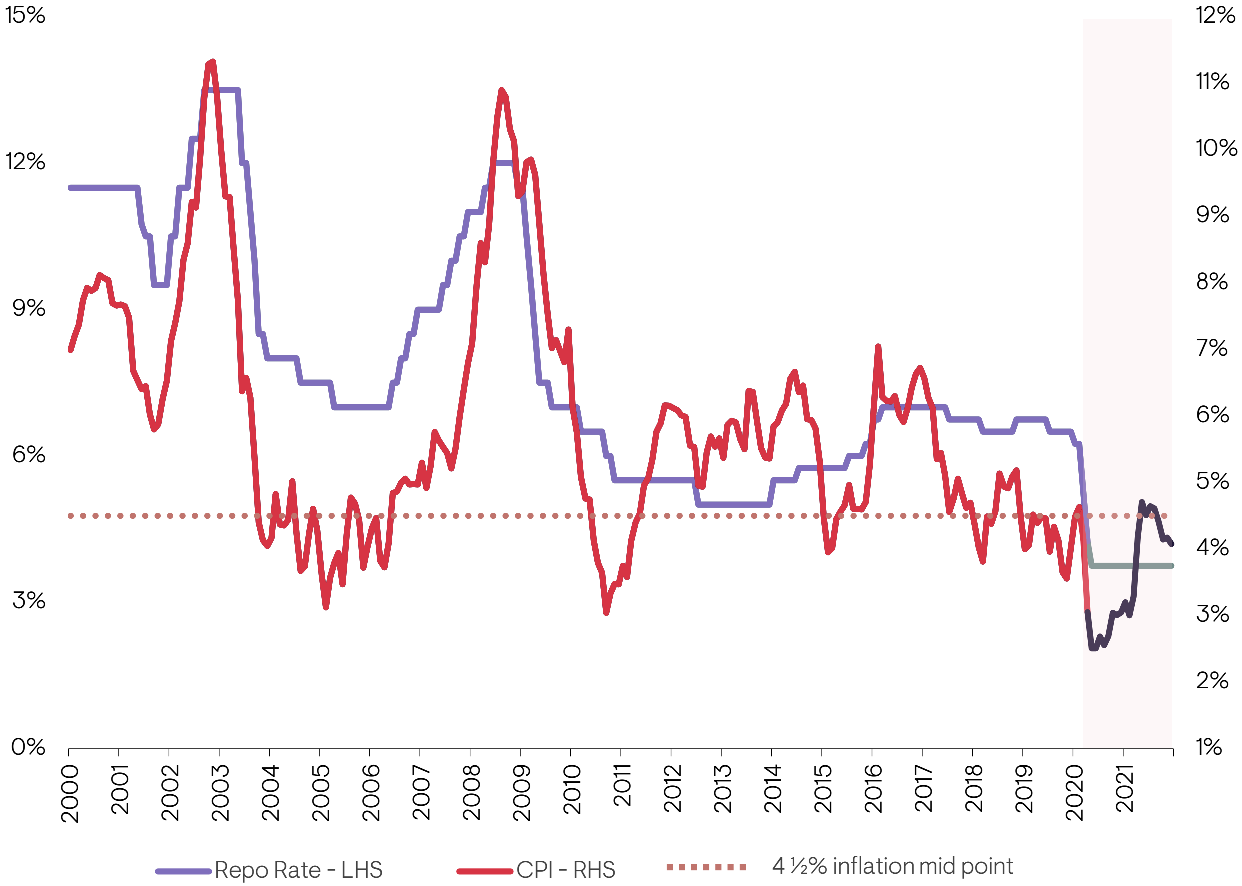
Source: Ninety One, gross of fees to 31 March 2020. Note: figures quoted represent contribution to returns

Local factors

Macro view

SARB can now come to the party…

Inflation is subdued under most scenarios, allowing for further cuts



2020 inflation scenarios

	Rand							
Oil price	16.4	17.4	17.9	18.2	18.9	19.9	20.4	20.9
18.8	1.7%	2.0%	2.2%	2.3%	2.5%	2.8%	3.0%	3.1%
23.8	1.9%	2.3%	2.4%	2.6%	2.8%	3.1%	3.3%	3.5%
28.8	2.2%	2.5%	2.7%	2.9%	3.1%	3.4%	3.6%	3.8%
33.8	2.4%	2.8%	3.0%	3.2%	3.3%	3.7%	3.9%	4.1%
38.8	2.7%	3.0%	3.2%	3.4%	3.6%	4.0%	4.2%	4.4%
43.8	2.9%	3.3%	3.5%	3.7%	3.9%	4.3%	4.5%	4.7%
48.8	3.2%	3.6%	3.8%	4.0%	4.2%	4.6%	4.8%	5.0%
53.8	3.4%	3.8%	4.0%	4.2%	4.5%	4.9%	5.1%	5.3%
58.8	3.6%	4.1%	4.3%	4.5%	4.7%	5.2%	5.4%	5.6%

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%	2.9%	3.1%	3.3%	3.5%	3.8%	4.0%	4.2%
29.2	2.8%	3.2%	3.4%	3.6%	3.8%	4.1%	4.3%	4.5%
34.2	3.1%	3.4%	3.6%	3.8%	4.0%	4.4%	4.6%	4.8%
39.2	3.3%	3.7%	3.9%	4.1%	4.3%	4.7%	4.9%	5.1%
44.2	3.5%	3.9%	4.2%	4.4%	4.6%	5.0%	5.2%	5.4%
49.2	3.8%	4.2%	4.4%	4.6%	4.8%	5.3%	5.5%	5.7%
54.2	4.0%	4.5%	4.7%	4.9%	5.1%	5.6%	5.8%	6.0%
59.2	4.2%	4.7%	4.9%	5.2%	5.4%	5.9%	6.1%	6.3%
64.2	4.5%	5.0%	5.2%	5.4%	5.7%	6.1%	6.4%	6.6%

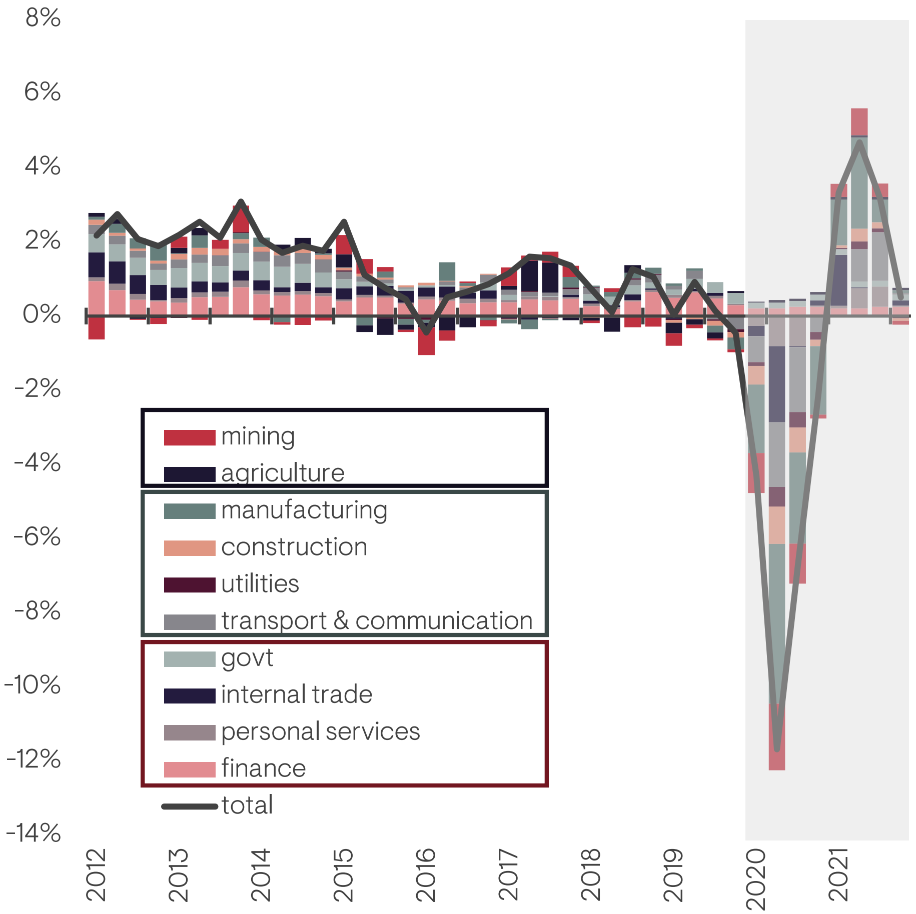
> … to try and save the economy

Source: Ninety One, data as at 29 April 2020

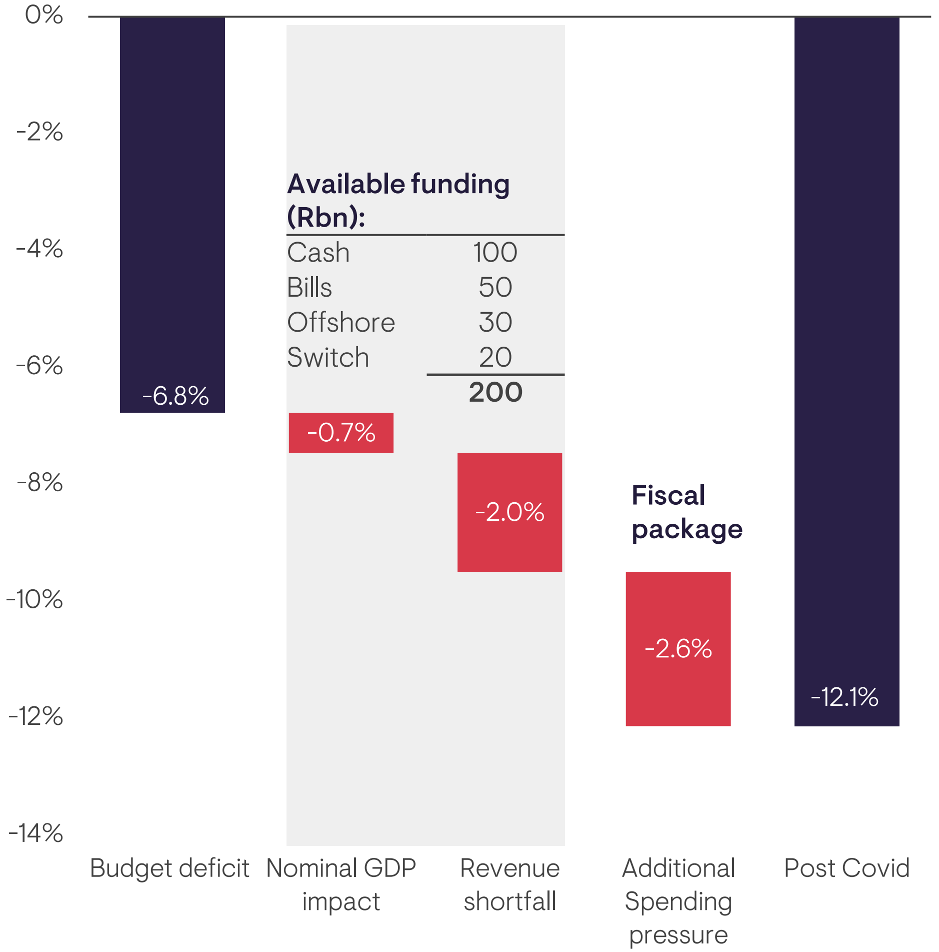
Growth remains our biggest challenge

… we're in for a shocking few quarters

Quarterly GDP changes



Budget deficit



Available funding (Rbn):

Cash	100
Bills	50
Offshore	30
Switch	20
	200

Resulting in an annual GDP decline of 8%

Source: Statistics SA, Ninety One, data as at April 2020

What is behind the fiscal package?

Spending of up to 10% of GDP, but fiscal burden considerably less

	Expenses			**Funding**			
	Health	**Individual**	**Corporates**	**Agencies***	**Existing**	**UIF***	**Banks$^+$**
Health	20			20			
Municipalities	20			20			
Grants		50		30	20		
Wage support		40			40		
Tax relief			26		26		
Tax delay			44		44		
Job support			100			100	
Business loans			200				200
	40	90	370	70	130	100	200
			500				**500**

* will add to our debt burden
$^+$ is a contingent liability

Funding secured!

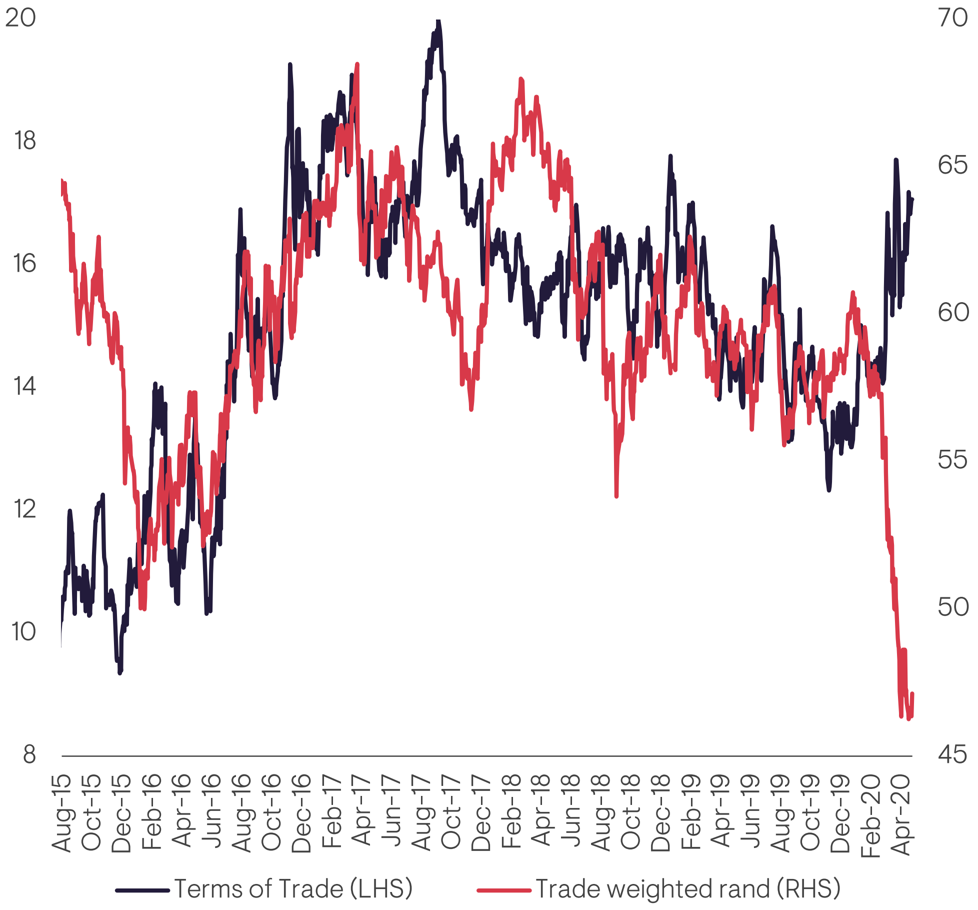
Global factors

Macro view

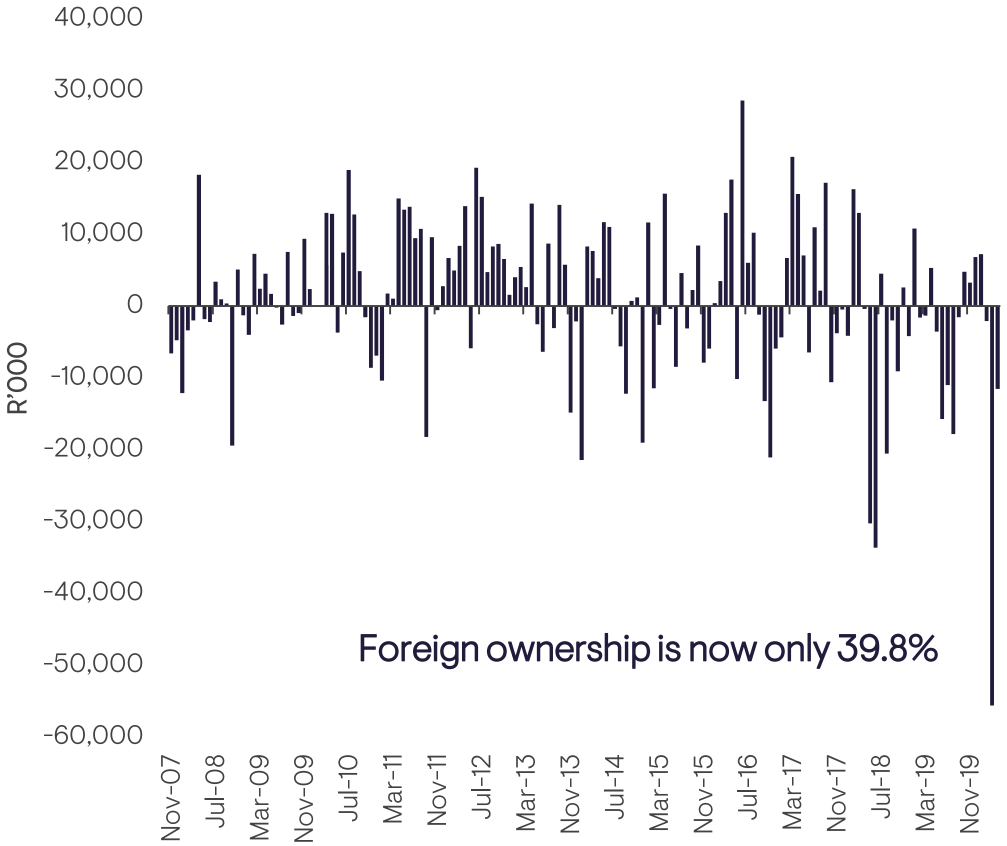
The outlook for the rand

It’s a battle between current and capital accounts

Current account will be improving…



… foreign flows won’t



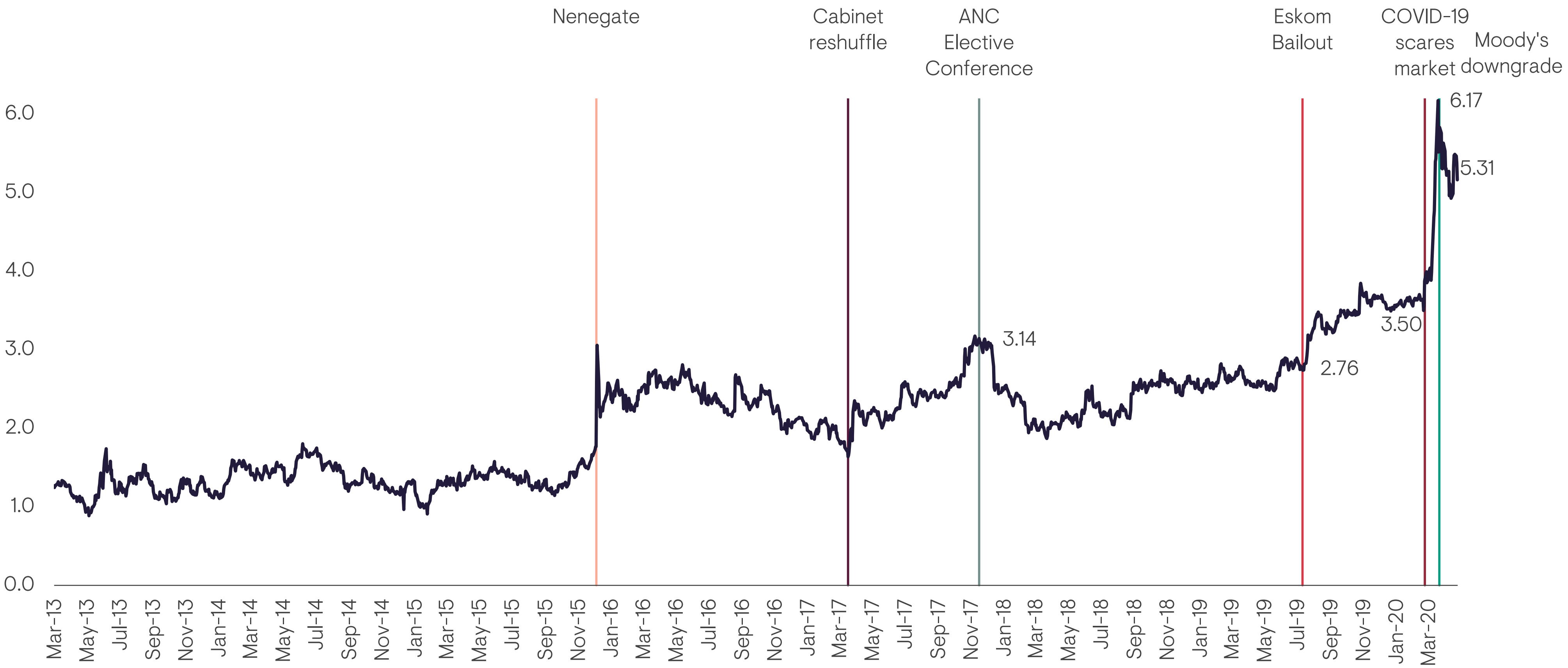
In a world in need of capital, we are towards the back of the queue

Source: Bloomberg as at 28 April 2020

Moody’s downgrade has come and gone

We now trade at a significant discount to EM peers

SA 9 year bond yield vs EM spread



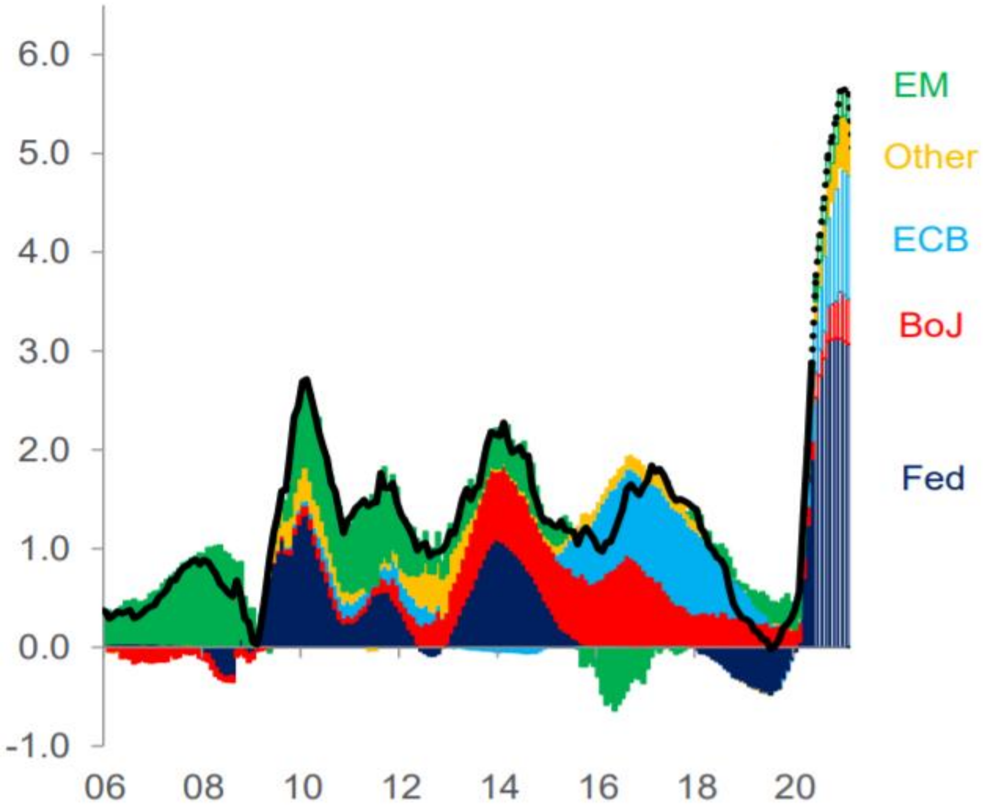
So hopefully not the last in the queue

Source: Bloomberg, data as at 29 April 2020

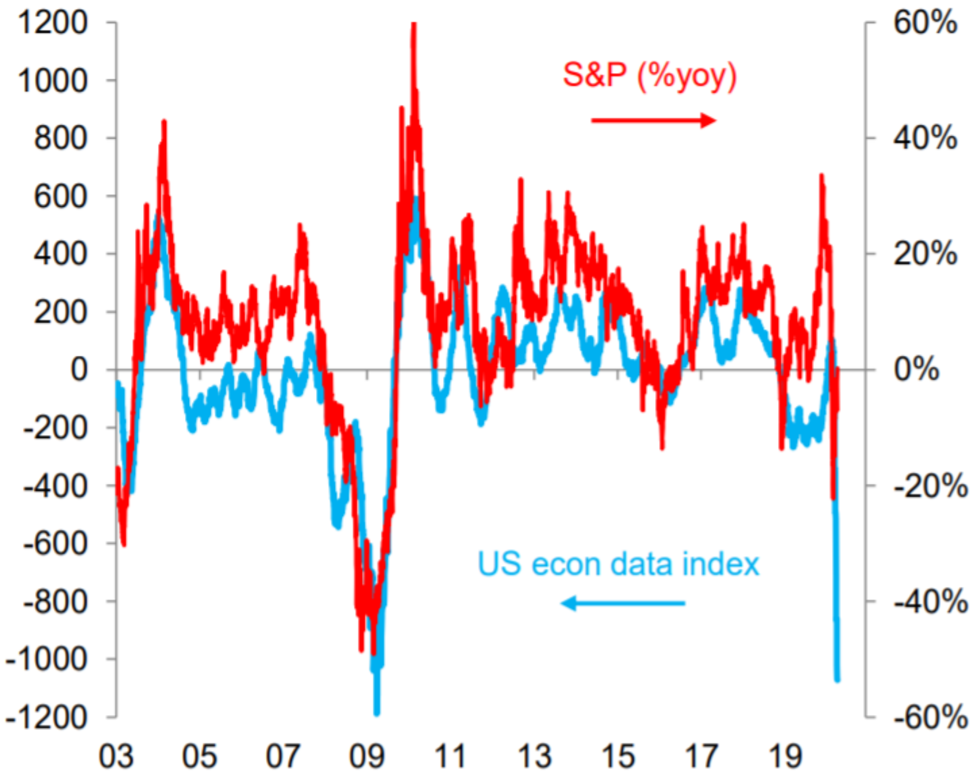
Global markets have stabilised...

...on the back of an unprecedented monetary and fiscal response

Total central bank purchases



US equity market performance versus data



It would be naïve to think the story is over

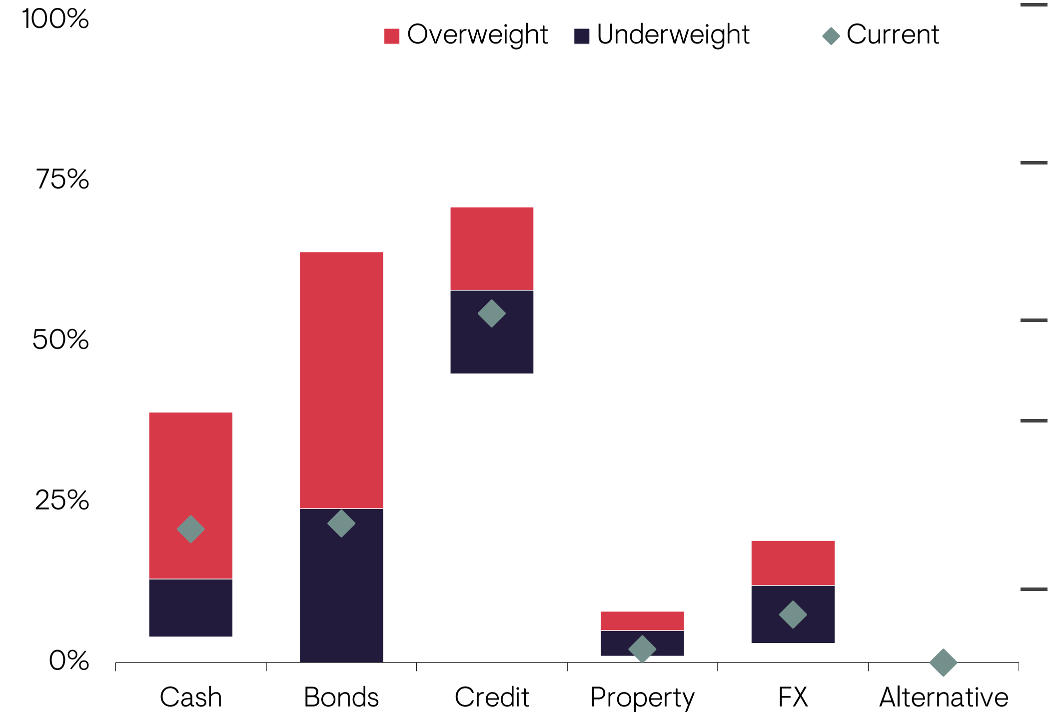
Source: National Central banks, Citi Research, Projections based on CB announcements

Source: Citi Research

Portfolio positioning

Ninety One Diversified Income Fund

Positioning as at 30 April 2020: Still defensive, measured duration and property increases



Current	**20.8%**	**21.7%**	**55.4%**	**2.1%**	**8.5%**	**0.0%**
Local	20.8%	19.6%	54.4%	1.4%		
Offshore	-	2.10%	1.1%	0.7%		

- No growth, no inflation: SARB will do what is necessary
- Budget 2020 showed some resolve: priorities (and funding) have changed
- Reforms, or else?
- Global central banks are slashing rates and supporting fiscal stimulation
- VOLATILITY is the game in town

Duration		**Exposure**		**Yield**
Nominal	1.01	USD	3.6%	8.0%
ILBs	0.23	EUR	1.6%	
		JPY	1.2%	
		EM	2.1%	
Years	1.24	FX	8.5%	

Positioned to participate and protect

Source: Ninety One as at 30 April 2020

Ninety One

Thank you

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