

SINGLE MANAGER

NFB Ci CAUTIOUS FUND OF FUNDS: COMMENTARY

BI-ANNUAL: 30 NOVEMBER 2015



PORTFOLIO PERFORMANCE

Portfolio performance to the end of October 2014 remains strong. The return for the year was 11.96% versus a benchmark return of 7.59%. More importantly the 3-year return was 11.26% per annum (p.a.) versus a benchmark return of 8.49% p.a. The 5-year return was 10.91% p.a. versus a benchmark return of 8.53% p.a. The applicable benchmark for the Portfolio is inflation plus 3% p.a.; measured over rolling three-year periods. The Portfolio has also outperformed its sector averages over all of the above periods. The relevant returns for the above periods for the sector are: 9.59%, 10.08% p.a. and 9.78% p.a. The relevant sector for the Portfolio is the South African Multi-Asset Low Equity sector; which has a maximum equity exposure of 40% and a maximum offshore exposure of 25%.

RISK COMPARISON

The NFB AM Investment Committee's conscious efforts to take more risk than historically taken are beginning to become evident in the 3-year standard deviation of the Portfolios' returns which, at 4.7%, is higher than the 3-year standard deviation of the sector average's returns (3.6%). However, this is still less than the 3-year standard deviation of returns of its peers (5.2%). The sector average consists of all collective investment schemes in the Low Equity sector (including the Portfolio). The peer group consists of collective investment schemes from the Low Equity sector included on NFB AM's House View (excluding the Portfolio).

SOUTH AFRICAN INFLATION OUTLOOK

The year-on-year change for CPI for October came in at 4.7%; comfortably within the South African Reserve Bank's inflation-target range. Short-term break-even inflation rates are at 5.9% p.a. and long-term break-even inflation rates are at 7.3% p.a. A year ago these numbers were at 5.8% p.a. and 6.2% p.a. respectively. The former remaining largely unchanged and the latter accelerating meaningfully; indicating that short-term inflationary pressures remain well contained but that the market is becoming increasingly nervous of the long-term inflation outlook; perhaps as a result of second-round effects attributable to the exchange rate (even though the pass-through rate has fallen). The pass-through rate is the rate at which rand weakness translates into local inflation.

EQUITY ALLOCATION

The Portfolio has an equity allocation range of 0% through 40% and currently has an equity allocation of 26%. This continues to be skewed in favour of global equities (62% of total equity exposure) relative to local equities (38%). Local equity exposure continues to be in the form of the Ci Equity Index Fund which tracks the FTSE/JSE Shareholder Weighted Total Return Index (SWIX) and offshore equity exposure continues to be in the form of the DB X-Tracker MSCI World ETF (a JSE-listed instrument). The above commentary, however, hides trading activity during the last 6-months. Toward the end of August, after a period of local equity market weakness, the Portfolio sold 2% of its local fixed-interest exposure and bought local equity exposure. At the beginning of November, after the market had rallied strongly, this trade was reversed.

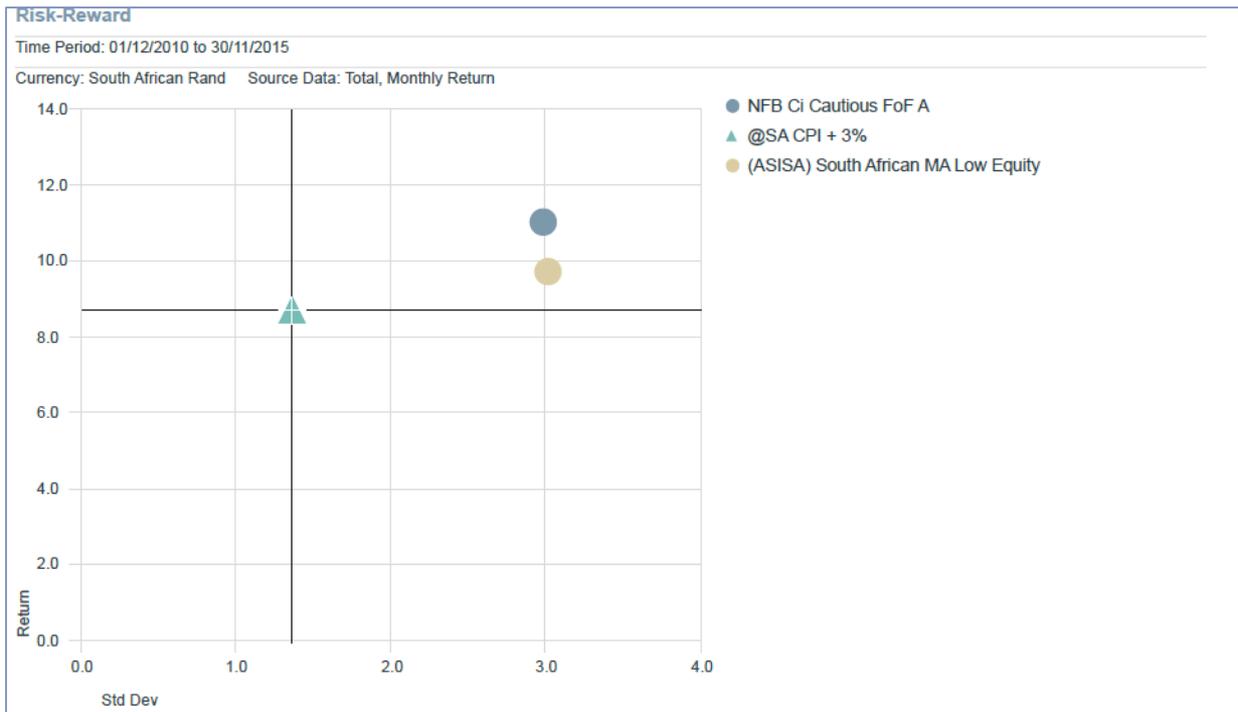
GLOBAL ALLOCATION

The Portfolio has a global allocation range of 0% through 25%, excluding African exposure (which is allowed to be as high as 5%), and currently has a global allocation of 23%. 65% of the global allocation (or 15% of the total Portfolio value) is held directly via the DB X-Tracker MSCI World ETF and the remainder is held indirectly through the Portfolio's allocations to local flexible income collective investment schemes.

PROPERTY ALLOCATION

There is an allocation of 4% to property (roughly three-quarters in local property and one-quarter in global property), all of which is indirectly held as during the previous period the NFB AM Investment Committee elected to sell all of its exposure to the Ci Property Index Fund; a collective investment scheme that tracks the FTSE/JSE Listed Property Index (J253).

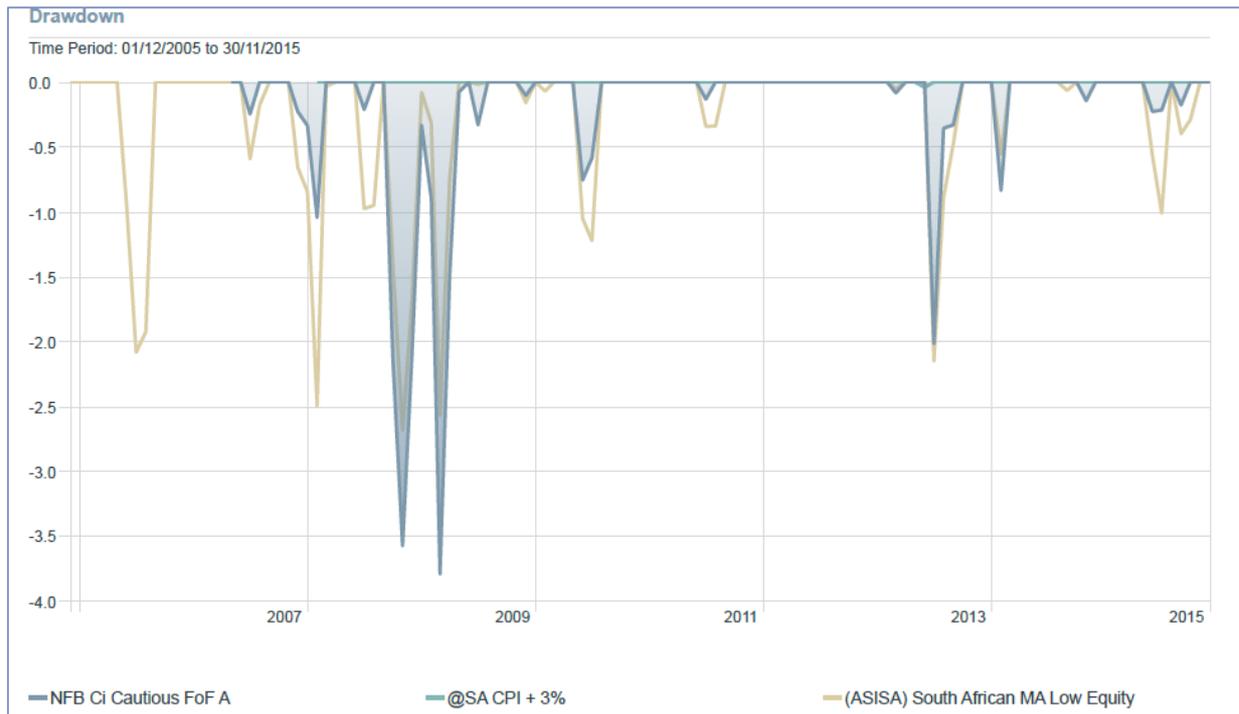




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KNOWLEDGE INTO WEALTH

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