NEDGROUP
INVESTMENTS

see money differently

Quarterly review

Nedgroup Investments Core Global Fund

As at 30 September 2021

A volatile quarter for risk assets and large cap companies

Over the quarter, global vaccination efforts were provided a boost when the Phizer/BioNTech vaccine became the first vaccine to gain full approval from the US Food and Drug Administration (FDA). It was a turbulent quarter for risk assets which saw volatile periods of recovery and retracement. Commodity prices increased and in turn the concerns spilled over to the emerging markets in what proved to be one of the worst quarters for emerging markets since the start of the pandemic. Global financial markets were weighed down during September as investors become more wary of rising inflation and interest rates. Over the course of the quarter, the Nedgroup Investments Core Global Fund declined by -0.4%.

The table below compares an investment in the Nedgroup Investments Core Global Fund to US bank deposits (cash) and its growth target over various time periods. For every $10 000 invested in the Nedgroup Investments Core Global Fund at inception (16 November 2015), you would have $16 627 at the 30th of September 2021. This is better than the $10 711 you would have achieved had you invested your money in US bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market recovery, which helps to contextualise the returns experienced in the past few years.

	Value of R10,000 investment in Nedgroup Investments Core Global Fund versus US Cash[1]				
	3 Months	1 Year	3 Years	5 Years	Inception 16 November 2015
Growth of fund (after fees) ***(Growth in %)***	$9 956 *-0.4%*	$12 035 *20.3%*	$13 284 *9.9% p.a.*	$15 637 *9.4% p.a.*	$16 627 *9.0% p.a.*
Growth of US Cash ***(Growth in %)***	$10 000 *0.0%*	$10 007 *0.1%*	$10 378 *1.2% p.a.*	$10 667 *1.3% p.a.*	$10 711 *1.2% p.a.*
Growth target (EAA Fund USD Aggressive Allocation) ***(Growth in %)***	$9 918 *-0.8%*	$11 943 *19.4%*	$12 681 *8.2% p.a.*	$14 578 *7.8% p.a.*	$15 158 *7.3% p.a.*

Fund Return versus US Cash[1] from inception to 30 September 2021

Source: Morningstar

Since the inception of the Nedgroup Investments Core Global Fund, it has delivered returns in excess of US cash. However, it is to be expected that occasionally there will be periods where the Fund does not beat US cash over 5 years. Over the long term[2], a portfolio such as Nedgroup Investments Core Global Fund would have delivered a higher return than US cash approximately 64% of the time over any 5-year period.

1. We used the ICE Bank of America 3-month deposit rate for US cash returns
2. Based on Global market returns from 1997 to 2018 (source Morningstar) using the same long-term equity allocation and fees.

Market and economic commentary

The most notable event in the third quarter was the Chinese crackdown on tech. In July, Chinese government officials announced that they intend to closely police antitrust and consumer protection practices over the next 6 months. The crackdown has been widespread and far reaching, sending a clear message that the Chinese government is taking cybersecurity very seriously.

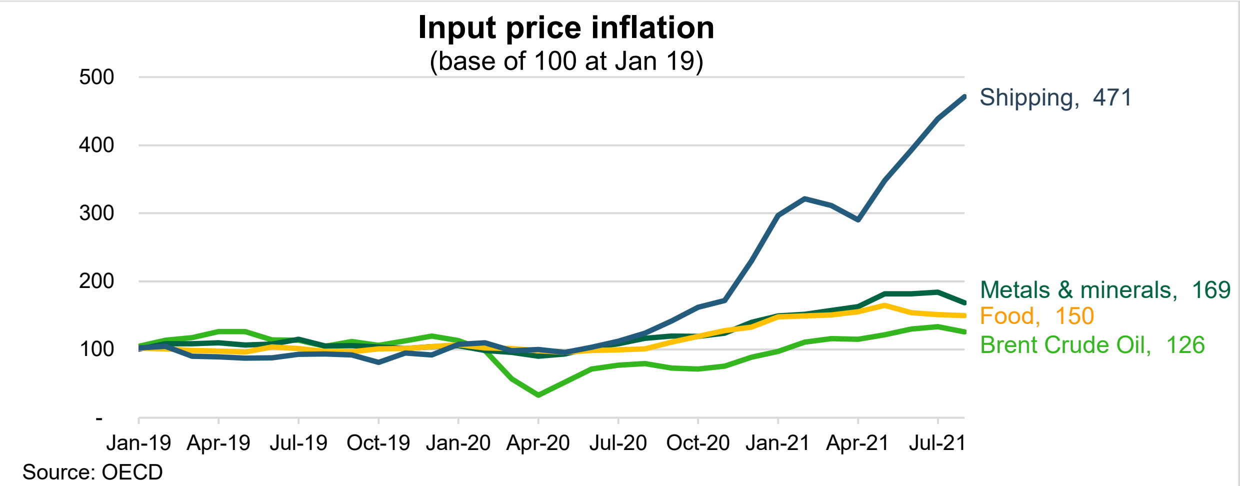
In the past, prior to the internet being commonplace in most households, China relied on the measures in the Golden Shield Project to provide ‘digital protection’; essentially blocking many foreign players from entering the Chinese tech market, thereby boosting the growth of home-grown tech companies.

However, this time things are different. The new regulations and tech crackdown have been applied to both foreign and local players. The new regulations include the Data Security Law which came into effect in September and the Personal Information Protection Law, which was passed in August 2021, which together insure the necessary protection of data.

The crackdown has had a notable effect on tech giants and their market prices. For example, under 18s are only permitted to play games for a maximum of three hours a week at dedicated times, with the media equating gaming to “electronic drugs” and “spiritual opium”. Tencent Holdings, a significant player in the Chinese gaming market, has experienced the brunt of the clampdown with its share price dropping almost 30% since the end of June. Other measures ‘to protect’ its youth include banning profits on educational subjects that are covered in primary and middle school, not allowing new registrations of private tutoring companies and banning raising capital. Other examples include forcing Didi (akin to the Uber of China), to remove it’s app form the Chinese app store and blocking new users from signing up, earlier in the year Alibaba was fined $2.75 for antitrust violations and Tencent experienced yet another knock with it being banned from engaging in exclusive music streaming agreements.

For now, it looks like cybersecurity and Chinese protectionism trumps the need for the fast growth that tech companies have been inclined to deliver.

Looking beyond China, the global economic recovery has remained strong, underpinned by good progress in vaccinations and central bank support. In fact, in many countries, GDP has risen to pre-COVID levels. However, there are large deviations from country to country driven by marked differences in vaccinations rates forcing some countries to revert to lock down restrictions. This stop-start of economies has created all sort of demand and supply pressures creating bottlenecks in supply chains and ultimately leading to inflation. This is evident in the chart below, with shipping in particular increasing by almost 5 times over the last three years!



Central banks will have to balance rising inflation with their accommodative monetary policy. Given that a fair portion of inflation has been driven by supply chain disruptions, inflation rates could normalise once the pandemic related disruptions are no longer present.

Inflation outlook and what it means for asset prices

It is no secret that inflation is top of mind for investors right now as prices for housing, used cars, commodities, airfare, and hotels increase at a faster rate. Inflation is a metric we, and the rest of the market, have followed exceptionally closely over the past few months, as it signals whether and for how long low interest rates and asset purchases can continue. In 2020, the US Federal Reserve confirmed a shift in policy to target average inflation of 2%. Fast forward a year and inflation across the world has risen in the US above the 2% mark. This has backed the Federal Reserve switch to inflation-averaging from inflation-targeting to alleviate potential policy pressures from inflation. Some drivers will no doubt be transitory, while other areas of pricing pressure may prove to be more persistent. For many countries, inflation prints over the quarter exceeded expectations, but a similar result for US inflation gauges and the resultant US Federal Reserve's (Fed) response was the main bellwether for market volatility.

Globally, inflation increased in September. US CPI increased to 5.4% y/y in September from 4.2% y/y in April and UK inflation rose to 3.2% y/y in August from 1.5% y/y in April. In the Eurozone, inflation increased to 2% y/y in September from 1.6% y/y previously. Higher energy prices and ongoing supply constraints has kept input prices elevated for much longer than anticipated, especially for producers. Hence, global financial markets were weighed down during September as investors become more wary of rising inflation and interest rates.

The rapid pace of the global recovery saw the Federal Open Market Committee cut its forecast for 2021 growth in the nation's GDP from the 7% it projected in June to 5.9% in the September meeting, bringing forward their expectation for tapering and interest rate hikes. We have seen large inflation prints (5% most recently) for an economy that targets 2% inflation, but this was largely expected due to the low base effects from 2020 and is communicated by policy makers to be short lived given the pent-up demand in the system. The market largely seems to believe this rhetoric, amplified by the fact that CPI has spiked due to specific components such as used cars (where semiconductor shortages are reducing car outputs), airfare and hotels (which are quickly rebounding given the pent-up demand). This is playing into the Feds transitory story, and the market thus far has been relatively relaxed about the higher inflation prints.

The risk remains that they are wrong, that these pressures last longer than expected, and that other components in the basket also start to contribute to this persistently. Should inflation turn out to be a persistent issue, the Fed will be forced to make the impossible decision: raise interest rates in a leveraged system or suffer the consequences of high inflation. Combined, the idea of peak growth and more persistent inflation has stoked fears of potential stagflation further down the line and a concern that the reluctance of policy makers to acknowledge inflationary pressures as anything but "transitory" will leave them behind the curve.

In Emerging Markets, we have seen some central banks hike rates, including Mexico, Russia, Brazil, Hungary and the Czech Republic. Unlike South Africa, these countries have hiked largely as a result of inflationary pressures, but this could exert pressure on the South African Reserve Bank (SARB) to hike rather sooner than later. The SARB has the difficult job of balancing this with the fact that our economic growth might be again affected by current round of lockdown due to COVID-19.

In conclusion, the US Fed continues to support the premise that inflationary pressures will be transitory but refined their communication at the September meeting to reflect a slightly more hawkish stance. It is important to monitor this to assess how long the stimulatory factors (asset purchases and low rates) will remain in the market and economy. Markets are keenly aware that price increases are again playing a part in Fed policy even if the rhetoric is muted. The Federal Reserve may have thought its switch to inflation-averaging from inflation-targeting would alleviate potential policy pressures from inflation. It has not. Inflation is a very public drag on consumption at a time when the economy needs all the spending families can muster. Looking ahead, the market expectation is for interest rates to remain below the inflation rate for the years to come. Should inflation become problematic, it is more likely that methods of yield curve control are employed, as opposed to a return of normal monetary policy. Talk of tapering or the withdrawal of liquidity will no doubt become one of the main drivers of potential volatility for markets that have become used to, if not dependent, on easy financial conditions.

The Core Global fund has truly delivered "what's on the tin"

Investment theory states that the average asset weighted return of all participants investing in a market should be equal to the market return less fees. A recent study conducted by Morningstar indicate that most global fund categories do follow investment theory. The asset weighted returns over the past 10 years ending in December 2020 for the global large cap blend and the global emerging markets categories were in favour of the passive funds. Lower fees clearly resulted in better performance for passive funds.

Asset weighted annualised returns	Global Large Cap Blend		Global emerging markets		Global Bonds	
	Active	Passive	Active	Passive	Active	Passive
10-years ending 2020	11.5%	11.9%	3.7%	3.8%	3.5%	2.6%

Source: Morningstar European Active passive barometer year end 2020

The Nedgroup Investments Core Global Fund has benefited from the passive fund return advantages and has delivered what's on the tin. The Fund is ranked 13th out of 62 funds since its inception (16 November 2015). As the Core Global fund builds up its track record, we could expect similar strong performance as the rest of the Core range who have been around since 2009.

Disclaimer

This is a marketing communication. Please refer to the Prospectus of the UCITS Fund and the KIID before making any final investment decisions.

Nedgroup Investments Funds PLC (the Fund) is authorised and regulated in Ireland by the Central Bank of Ireland. The Fund is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011) as amended from time-to-time.

This document is not intended for distribution to any person or entity who is a citizen or resident of any country or other jurisdiction where such distribution, publication or use would be contrary to law or regulation.

Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority.

Please refer to the Prospectus of the UCITS Fund and the KIID before making any final investment decisions.

The Prospectus of the Fund, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com

Nedgroup Investment Advisors (UK) Limited (reg no 2627187) is authorised and regulated by the Financial Conduct Authority.

The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000. UK investors should read the Appendix for UK Investors in conjunction with the Fund's Prospectus which are available from the Investment Manager www.nedgroupinvestments.com. The Fund has been recognised under paragraph 1 of schedule 4 of the Collective Investment Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

Changes in exchange rates may have an adverse effect on the value price or income of the product.

This document is of a general nature and intended for information purposes only. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document.

Funds are generally medium to long-term investments. The value of your investment may go down as well as up. International investments may be subject to currency fluctuations due to exchange rate movements. 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 and not getting back the value of the original investment.

Nedgroup Collective Investments (RF) Proprietary Limited administers the Nedgroup Investments unit trust portfolios and is authorised to do so as a manager in terms of the Collective Investment Schemes Control Act. Collective Investment Schemes (unit trusts) are generally medium to long-term investments. The value of participatory interests (units) or the investment may go down as well as up and past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and the investor will carry the investment and market risk, which includes the possibility of losing capital. Collective Investment Schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments. Certain Nedgroup Investments unit trust portfolios apply a performance fee.

The total return to the investor is made up of interest received and any gain or loss made on any particular instrument and that in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for the fund of funds. A feeder fund is a portfolio that invests in a single portfolio of a collective investment scheme, which levy its own charges, which could result in a higher fee structure for the feeder fund.

Please note that Nedgroup Collective Investments (RF) Proprietary Limited is not authorised to and does not provide financial advice. This presentation is of a general nature and intended for information purposes only. It is not intended to address the circumstances of any investor and cannot be relied on as legal, tax or financial advice, either express or implied. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this presentation. Nedgroup Collective Investments (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA).