see money differently

NEDGROUP INVESTMENTS BALANCED FUND

Quarter Three, 2019

For the period ended 30 September 2019

NEDGROUP INVESTMENTS BALANCED FUND

Performance to 30 September 2019	Nedgroup Investments Balanced Fund	ASISA category average	SA inflation + 4% Geometric
3 months	+2.73%	-0.06%	+2.0%
12 months	+7.39%	+2.03%	+8.5%

World economic growth continues to be revised lower

The International Monetary Fund continues to revise projections for the world economic growth rate lower. The latest revision forecasts global growth in 2019 to slow to 3.2%, compared with the previous estimate of 3.3% made in April 2019. This compares with a global growth rate of 3.7% in 2018. In a synchronised slowdown, the IMF expects economic performance in 2019 from the United States, Europe and China to be below 2018 levels, with Europe expected to record the weakest growth. Chinese industrial production growth continues to fall and is currently at all-time lows in China's modern era. Although the IMF expects a recovery in 2020, the news flow continues to be negative and it is likely that next year's forecasts could, in the future, be revised still lower.

There is no sign that the trade relations between the US and China are warming. On the contrary the latest utterings suggest that the Trump administration is considering quantitative restrictions on US private sector investment in China. This would represent an escalation of the differences between the two countries that is likely to have a negative impact on investor sentiment. On both sides since late last year, as a result of the trade standoff, export tariffs have been steadily increasing and this has had a negative impact on global trade. As expected, the decline in US exports was the largest contributor to the deceleration of the economy in the second quarter.

Brexit still dominates European politics. The UK government continues to adopt a very hardline approach to any opposition to its objective of delivering a break from the European Union on 31 October. Parliament and the Executive are currently firmly gridlocked, and it is apparent at this stage that all options from a hard no-deal Brexit to no Brexit and everything in-between are still possible, with neither side in a consolatory mood.

Central banks around the world have responded to the faltering economic prospects with a further round of monetary easing, but interest rates are currently so low that its effectiveness is questionable. Currently, according to the World Bank, about a third of global debt is offering a negative yield.

Global currencies continued to reflect the mid-year realignment, with the US dollar strong relative to both the sterling and the euro, driven largely by the move to quality and higher interest rates. The rand remains weak but has been supported by the high interest rates on offer.

The PGM basket continues to outperform most commodities

Both the palladium and rhodium prices increased over the month of September, largely driven by potential supply constraints. As expected, Middle East tension drove the oil price higher but fortunately the price closed below intra-month highs, but a more serious conflict could have a very negative impact on the future oil price. With the exception of nickel, base metal prices were generally weaker over the month.

South Africa's growth prospects continue to disappoint

South Africa's economic performance continues to disappoint amidst calls on the government to adopt a more growth focused economic policy increasing by the day. Confidence remains fragile as the very necessary restructuring of the parastatals and municipalities holds the prospect of job cuts and further tax increases, both impediments to a meaningful recovery in the short term. There is some evidence of an embryonic pick-up in the construction sector, coming after many years of steep declines. This was reflected in a good share price performance from the sector in the month.

Global equity markets in a trading range

Global equities have been trapped in a trading range for the last two years. Although the historic bull market is very mature, and valuations are modestly stretched, the current low interest rate environment is, in our opinion, not creating a sufficiently attractive alternative to encourage withdrawal of capital from equity markets. However, the risks are skewed to the downside given the limited scope for further monetary policy easing and the increased likelihood of negative earnings revisions. Global bond markets are not offering reasonable value either. Only in the US are 10-year yields roughly in line with the inflation rate but still not offering yields in-line with long term averages. Elsewhere, developed market yields are either negative or only barely positive, as in the case of UK bonds.

South African financial markets require an injection of confidence

South African equity markets eked out modest gains in September. Resources lost ground in the month but remain the top performing economic group this year. Despite overall declines from mining shares, platinum shares were up in the month. Industrial shares also contracted in September, but financials recovered strongly from the prior months' losses.

Indices have been driven by the divergence of strong performances of global and export orientated companies and poor performances from companies reliant on SA Inc.

Given the likelihood of the South African economy remaining weak for a protracted period and consequently earnings growth remaining lacklustre, valuations for domestically focused counters are not compelling. Some of the large offshore exposed companies including British American Tobacco and Prosus appear to be offering reasonable value at these levels.

South African bonds are offering very high real yields but are hostage to South Africa's sovereign credit rating and economic woes. A downgrade by Moody's, the only ratings agency to still maintain South African debt as investment grade, would be bad news, most likely preventing real yields from contracting much.

PORTFOLIO POSITIONING

The precious metal miners were the major contributors to performance, primarily because of higher precious metal prices which were underpinned by low valuations. Our positions in Impala Platinum, Sibanye Gold, AngloGold Ashanti and Northam Platinum all contributed meaningfully to performance.

Global defensives were also up strongly and our exposure to Anheuser-Busch, British American Tobacco and Reinet all provided strong outperformance. In addition to the weaker rand, Reinet's discount to its underlying investments closed meaningfully, helped by share buy-backs. Anheuser-Busch's corporate actions to reduce gearing were well received by the market.

Sasol detracted from performance as it delayed its annual financial results for a second time to allow for a more in-depth investigation into what went wrong during construction of its $13 billion Louisiana chemical project. Our holding in Anglo American detracted from performance as commodity prices came under pressure over the period.

Top contributors	Ave. weight	Performance contribution	Top detractors	Ave. weight	Performance Contribution
Impala Platinum	3.8%	1.2%	Anglo American	1.4%	-0.8%
FirstRand USD bond	6.4%	0.6%	Sasol Ltd	1.9%	-0.7%
NewGold Platinum ETF	2.7%	0.5%	Prosus NV	1.0%	-0.3%
Reinet Investments	2.1%	0.4%	RECM and Calibre	1.9%	-0.2%
Sibanye Gold	1.7%	0.4%	African Rainbow	0.6%	-0.2%
		3.1%			**-2.2%**

We increased our position in banks post the sell-off and were well positioned into the rally in September. We increased our exposure to Anheuser-Busch, Reinet, and Quilter. We took profits in Impala Platinum and AngloGold Ashanti, and switched into Sibanye Gold. The fund reduced its weighting in Sasol due to higher risks associated with the counter. We also reduced our exposure to the diversified miners, MTN, and Woolworths - all on valuation grounds.

Our holding in the NewGold Platinum ETF benefited from the higher platinum price and our holding in dollar-denominated FirstRand debt benefitted from the weaker rand. We purchased Phillip Morris as valuations were attractive post the collapse of the Altria deal. We increased our exposure to the MSCI Japan ETF and reduced exposure to the EuroStoxx 50 ETF and Vanguard Value ETF. We took profits on the NewGold Platinum ETF.

DISCLAIMER

WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

OUR TRUSTEE
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PERFORMANCE
Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

PRICING
Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

FEES
Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

DISCLAIMER
Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

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