QUARTERLY REVIEW

NEDGROUP INVESTMENTS CORE BOND FUND

as at 30 September 2019

See money differently

Smooth and steady growth in your investment

Over the quarter, your investment has grown in value, primarily due to the interest earned in the fund. For every R10 000 invested, the Fund returned R119 (1.2%).

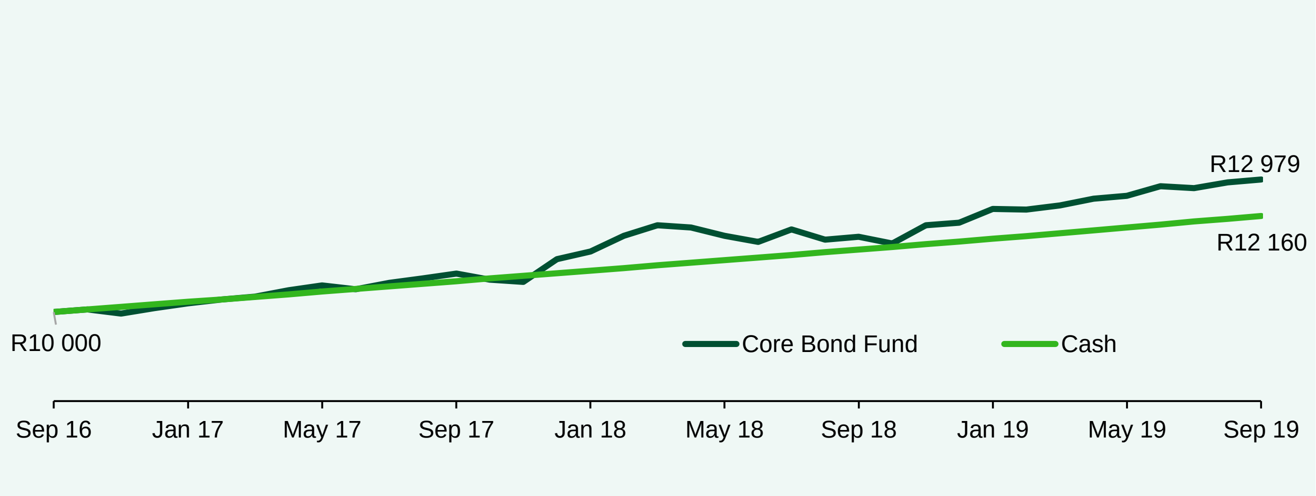
The table below compares an investment in the Nedgroup Investment Core Bond Fund to bank deposits (cash) over various time periods. This illustrates that over longer periods, investors have been rewarded for taking on interest rate risk.

For every R10 000 invested in the Nedgroup Investments Core Bond Fund three years ago, you would have R12 979 at the 30th of September 2019. This is better than the R12 160 you would have achieved had you invested your money in bank deposits (cash) over the same period.

Value of R10,000 investment in Nedgroup Investments Core Bond Fund versus Cash[1]

	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years
Growth of fund (after fees) ***(Growth in %)***	R10 119 *1.2%*	R11 101 *11.0%*	R12 979 *9.1% p.a.*	R14 880 *8.3% p.a.*	R16 455 *7.4% p.a.*	R22 939 *8.7% p.a.*
Growth of cash ***(Growth in %)***	R10 162 *1.6%*	R10 664 *6.6%*	R12 160 *6.7% p.a.*	R13 702 *6.5% p.a.*	R15 105 *6.1% p.a.*	R17 846 *6.0% p.a.*

Fund Return versus Cash[1] for 3 years ending September 2019



Over most periods, the Nedgroup Investments Core Bond Fund has done significantly better than bank deposits (cash) as the Fund benefited from the yield enhancement from investing in longer dated bond instruments. Over the past ten years it has delivered more than 2.7% of additional return per annum, or R5 093 for every R10 000 invested.

1. We used the STeFI call deposit rate for cash returns

Markets driven by high levels of uncertainty

Markets reflected the high levels of uncertainty locally and globally this quarter, with some months providing positive returns and others negative.

Locally, the South African business confidence index (compiled by the Bureau for Economic Research) fell to a 20-year low. Four of the five sectors in the survey showed a decline, with only the motor industry indicating a slight improvement in confidence.

Moody's credit ratings agency provided a glimmer of hope as their stable outlook on South Africa remained unchanged. They are the only credit rating agency that continues to classify South African debt as investment grade. However, they raised concerns of rising debt to GDP and no sustainable plan to tackle the burgeoning Eskom debit. It is unlikely that they will downgrade South Africa to junk status in November. Moody's are more likely to first change their outlook to negative before making any downgrade decisions. This buys South Africa time to demonstrate that we are serious about reforms and stimulating economic growth. Should Moody's downgrade South African to junk status, our government bonds will fall out of the Citigroup World Government Bond Index which can put us at risk of foreign capital outflows at a time when foreign investment is desperately needed.

Globally confidence also took a knock, with the US showing a slump in consumer confidence, a slow down in the jobs market and impending calls for Trump to be impeached. Global trade wars continue to make business planning difficult as businesses need to place orders months in advance, without knowing what tariffs they will be paying on imports.

In Europe, revised growth and inflation forecasts for 2019 and 2020 are both down from previous estimates. This together with uncertainty surrounding Brexit, led the European Central bank to cut its deposit rate by 0.10% in September and approve another round of quantitative easing. Even Germany, the powerhouse of Europe, is showing signs of stress with manufacturing activity at a 10-year low and services softening in September.

Governments mask the true state of the global economy

The last few years in South Africa have delivered cash and bond returns well above inflation and their long-term real return. This has provided investors with a safe haven from market turmoil and led to unrealistic future expectations. On the other end of the risk spectrum, South African share returns over the last 5 years have been poor, delivering lower returns than bonds and cash. However, this cannot continue forever and must at some point revert.

In contrast, global shares (in USD) have delivered higher returns than US bonds and cash, as is to be expected. Quantitative easing and extremely low (and even negative) global interest rates have provided large volumes of funding at very cheap rates to businesses. This has driven global share markets.

Most investments in the world, are priced relative to US long dated government bond yields (i.e. the interest rate you would earn on the bond if you held it to maturity). If these US yields drop then yields around the world are likely to drop. The recent US interest rates cuts and the potential for future cuts, are likely to drive global yields down. This would lead to an increase in bond prices and thus returns as bond prices move in the opposite direction to yields. For South Africa, this could mean that even if there is a widening in our credit spread due to a Moody's downgrade, that the absolute interest rate could still go down, driving bond prices and returns up. This could provide some cushion to the impact of a downgrade.

Furthermore, lower interest rates tend to lead to improved share returns as companies are able to obtain funding at lower interest rates. This should help drive share markets in the short term.

That is all very well in the short term, but all this money being pumped into economies around the world by governments is leading to burgeoning debt to GDP ratios. At some point this funding could dry up, which may have serious implications for share and bond markets around the world, leaving investors little place to hide.

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