QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE GLOBAL FEEDER FUND

as at 30 September 2019

See money differently

Rand weakening enhances US Dollar returns

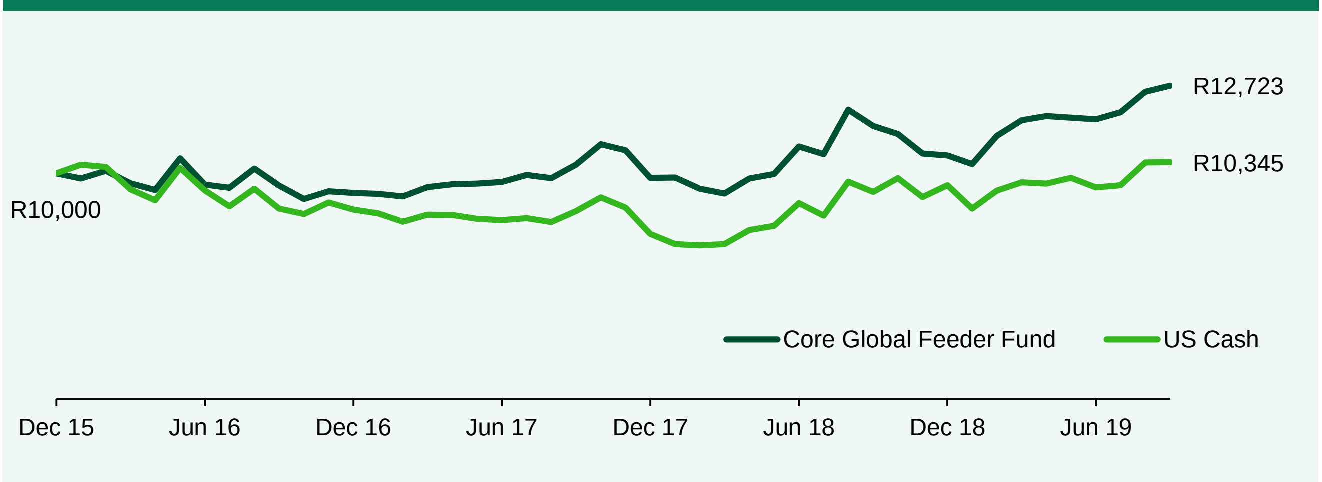
Despite tough economic conditions, your investment in the Nedgroup Investment Core Global Feeder Fund grew by 8.9% over the quarter. The rand weakening over the quarter enhanced the rand returns of the offshore portion in the SA Core Range and the Nedgroup Investments Core Global Feeder Fund.

The table below compares an investment in Nedgroup Investment Core Global Feeder Fund to US bank deposits (cash) investment over various time periods. For every R10 000 invested in the Nedgroup Investments Core Global Feeder Fund at inception (4 January 2016), you would have R12 723 at the 30th of September 2019. This is better than the R10 573 you would have achieved had you invested your money in US bank deposits (cash) over the same period.

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

	3 Months	1 Year	3 Years	Inception 4 January 2016
Growth of fund (after fees) ***(Growth in %)***	R10 892 *8.9%*	R11 096 *11.0%*	R13 228 *9.8% p.a.*	R12 723 *6.6% p.a.*
Growth of US Cash ***(Growth in %)***	R10 814 *8.0%*	R10 979 *9.8%*	R11 613 *5.1% p.a.*	R10 345 *0.9% p.a.*
Change in Dollar exchange rates ***(Change in %)***	R14.35 to R15.14 *-5.3%*	R14.77 to R15.14 *- 2.6%*	R13.46 to R15.14 *-3.9% p.a.*	R15.50 to R15.14 *0.5% p.a.*

Fund Return versus US Cash[1] in Rand from inception ending September 2019



Since the inception of the Nedgroup Investments Core Global Feeder Fund it has done better than 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 Feeder Fund would have delivered a higher return than US cash around 86% of the time over any 5-year period.

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

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.

Celebrating 10 years of market-leading rules-based investing

The Nedgroup Investments Core Diversified Fund celebrated its 10th anniversary on the 31st of August 2019. It was the first multi-asset rules-based (passive) unit trust fund launched in South Africa and set the course for the Nedgroup Investments Core Guarded, Nedgroup Investments Core Global (UCITS), Nedgroup Investments Core Global Feeder and Nedgroup Investments Core Accelerated Funds that were launched over the following years.

The Nedgroup Investments Core Diversified Fund built up an enviable track record over the past 10 years and received the 2015 Morningstar award for the best risk-adjusted performance in the Aggressive Allocation category. It was also the runner up in 2018, illustrating the consistency of the fund's performance. During August 2018 it became the largest rules-based fund in South Africa when it crossed the R10 billion mark. Currently, the fund size is nearly R15 billion making it the 10th largest balanced fund (SA Multi-Asset High Equity category) in South Africa.

The Nedgroup Investments Core Diversified Fund is not the only fund that has enjoyed success in the Core Range. The Nedgroup Investments Core Guarded Fund will reach its 10-year milestone in January 2020 and with over R6 billion in assets making it the 9th largest conservative balanced fund (SA Multi-Asset Low Equity category) in South Africa.

The combined Assets Under Management (AUM) of the Core range reached R32 billion during September, which is around 13 times higher than 5 years ago! This stellar growth would not have been possible without the broad support from clients and partners. There are currently over 2000 financial advisors and over 100 participating employers using the Core Range as investment solutions for their clients/members.

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