QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE GLOBAL FUND

as at 30 September 2019

See money differently

A quarter of slow but positive growth

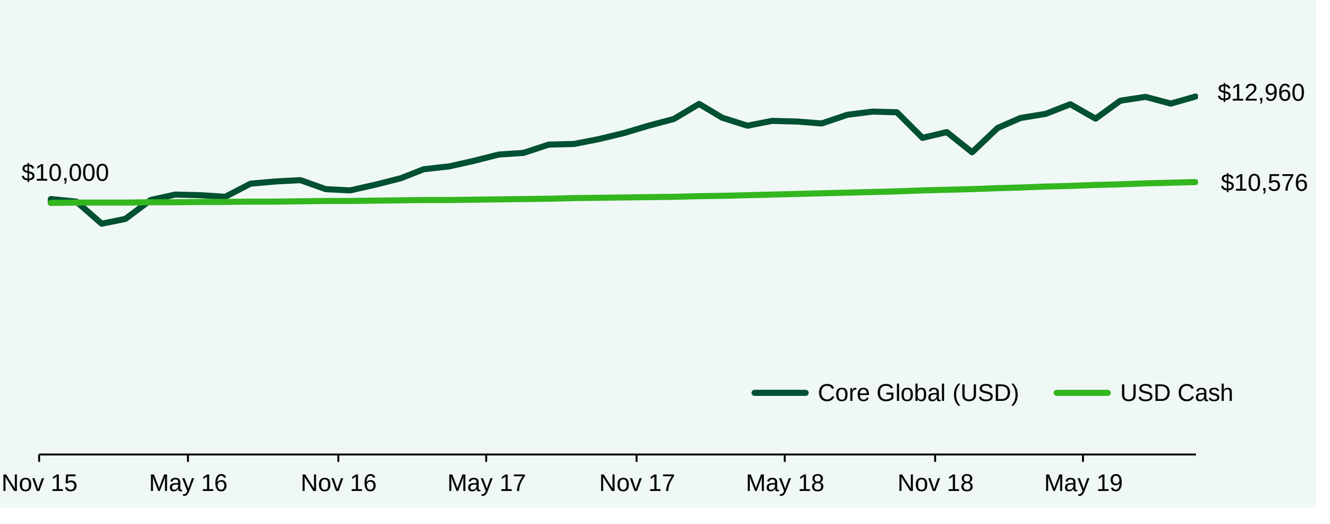
Despite tough economic conditions, your investment in the Nedgroup Investment Core Global Fund grew by 0.9% over the quarter. Returns this quarter were somewhat muted compared to last quarter's return of 2.9%.

The table below compares an investment in the Nedgroup Investment Core Global Fund to US bank deposits (cash) over various time periods. For every \$10 000 invested in the Nedgroup Investments Core Global Fund at inception (16 November 2015), you would have \$12 960 at the 30th of September 2019. This is better than the \$10 576 you would have achieved had you invested your money in US bank deposits (cash) over the same period.

Value of \$10 000 investment in Nedgroup Investments Core Global Fund versus US Cash[1]

	3 Months	1 Year	3 Years	Inception 16 November 2015
Growth of Fund (after fees) ***(Growth in %)***	\$10 094 *0.9%*	\$10 354 *3.5% p.a.*	\$12 188 *6.8% p.a.*	\$12 960 *6.9% p.a.*
Growth of US Cash ***(Growth in %)***	\$10 057 *0.6%*	\$10 246 *2.5%*	\$10 532 *1.7% p.a.*	\$10 576 *1.4% p.a.*

Fund Return versus US Cash[1] from inception to 30 September 2019



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.

Markets driven by high levels of uncertainty

Markets reflected the high levels of uncertainty this quarter, with some months providing positive returns and others negative (in USD). Overall, market returns were fairly flat at 0.1% for the quarter for the MSCI All Country World Index. However, there was a sharp contrast between developed and emerging markets; the MSCI Emerging Markets Index was down by 4.2%. Developed markets (MSCI World Index) were slightly positive providing a return of 0.5% for the quarter.

Global confidence 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. Moreover, rates at the long end of the US yield curve declined, leading to an inverted yield curve. Many interpret this as a sign of an impending recession due to this phenomenon being observed prior to a number of previous recession, each with different lags until the recession was observed.

Global trade wars also weighed on business confidence, making 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

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.

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 range celebrated its 10th anniversary on the 31st of August 2019. It was the first multi-asset rules-based (passive) unit trust range launched in South Africa. Six years later the Nedgroup Investments Core Global Fund was launched following the same philosophy and used for global exposure within the South African Core range.

The Nedgroup Investments Core range has 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 range's performance. During September the Nedgroup Investments Core Global Fund crossed the $500 million mark.

The combined Assets Under Management (AUM) of the Core range recently went past $2 billion, 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.

Disclaimer