QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE GLOBAL FEEDER FUND

as at 31 December 2019

See money differently

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The fourth quarter decides the year in favour of the bulls

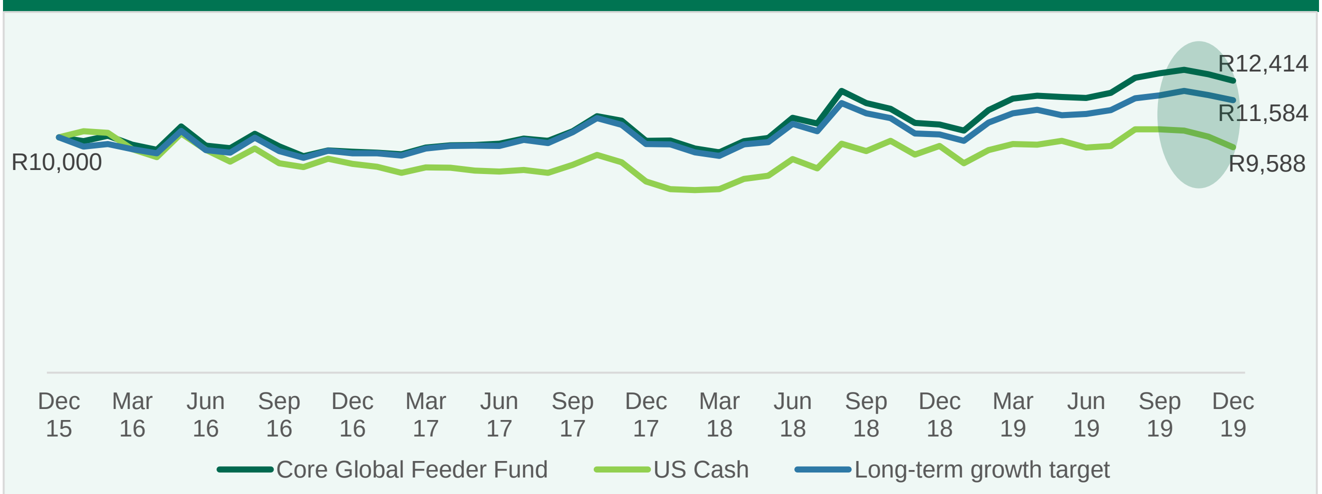
During the fourth quarter, global equities and property were up 9.1% and 2.0% in US Dollars. The rand appreciated by 7.8% over the quarter, offsetting the positive growth in global equity and property resulting in a negative return in rands for the Fund. The Nedgroup Investments Core Global Feeder Fund declined by 2.4% over the quarter (shown by the shaded area below), which is significantly lower than the positive return of 8.9% observed in the third quarter.

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 414 at the 31st of December 2019. This is better than the R9 588 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 %)***	R9 757 *-2.4%*	R11 756 *17.6%*	R13 221 *9.8% p.a.*	R12 414 *5.6% p.a.*
Growth of US Cash ***(Growth in %)***	R9 268 *-7.3%*	R9 950 *-0.5%*	R11 803 *2.6% p.a.*	R9 588 *-1.0% p.a.*
Change in Dollar exchange rates ***(Change in %)***	R15.10 to R13.99 *7.8%*	R14.35 to R13.99 *2.8%*	R13.69 to R13.99 *-0.75% p.a*	R15.50 to R13.99 *2.5% p.a.*

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



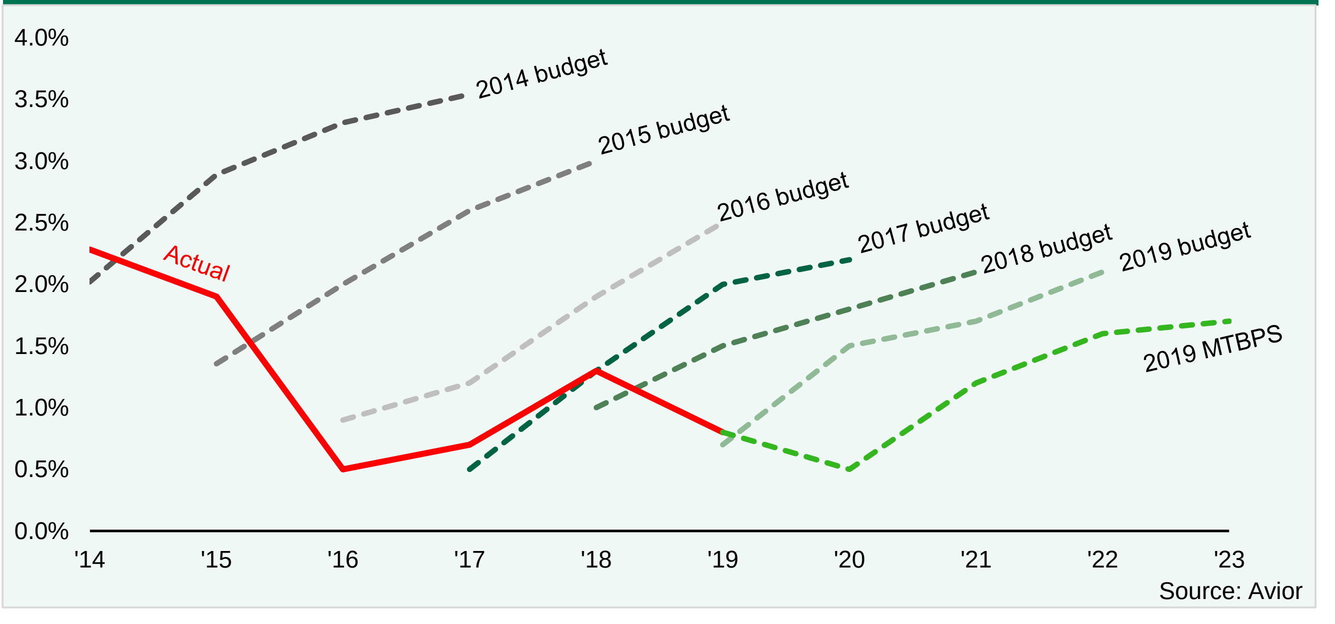
Since the inception of the Nedgroup Investments Core Global Feeder Fund it has done better than US cash. However, it is to be expected that occasionally there will be periods where the fund does not beat US cash over 5 years. Over the long term[2], a portfolio such as Nedgroup Investments Core Global 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.

South African markets: The year in review

The South African economy had a tough 2019 with economic growth forecast downgrades. The troubled power utility, Eskom, added to the economic woes, with rolling blackouts at various times during the year. In fact, Gross Domestic Product (GDP) to the end of quarter three was only 0.2% year-on-year. National Treasury has a track record of being overly optimistic with their GDP growth forecasts. The chart below shows the forecasts made in the annual budgets from 2014 to the mid-term budget of 2019. This is compared to the actual growth (in red).

National Treasury GDP Growth Forecasts vs. Actual GDP Growth



Despite the weak economic climate, South African equities provided a return of 9.3% in 2019 (Capped SWIX Index). The majority of this growth arose from the strong recovery in quarter four, with South African equities delivering 5.3% over the final quarter of 2019.

The SA Nominal Bond market benefited from the improved sentiment towards emerging markets gaining 1.7% over the quarter and 10.3% over the year. However, SA inflation-linked bonds were not so fortunate, earning a return of only 2.6% over the year. This trend of nominal bonds outperforming inflation-linkers has been continuing for a number of years. Similarly, SA property limped along in tough trade conditions, returning 1.9% for the year. SA cash earned a decent return of 6.6% for the year.

Against the backdrop of low inflation (3.6% year on year to the end of November 2019), returns were decent. In fact, the SA Nominal Bond and SA Cash real returns far exceed their expected long term average.

The World Bank forecasts that GDP in South Africa in 2020 will be below 1% due to the ongoing struggles with electricity supply. Similarly, the International Monetary Fund is forecasting low growth for South Africa for 2020 and in general a synchronised global slow down.

Given the uncertainty in the SA economy there are likely to be surprises in 2020 which will have an impact on financial markets. However, the Fund is well diversified across asset classes and within asset classes, which should make it robust to a range of different scenarios.

Global markets: The year in review (in USD)

It has been a tough year for many with economic growth forecast downgrades, trade wars and high levels of uncertainty. In response, both the US Federal Reserve and European Central Bank lowered rates during the year in an attempt to stimulate economic growth. As the year drew to a close, both central banks elected to leave interest rates unchanged, signalling that central banks will be placing their focus on stimulating growth rather than inflation concerns.

Despite a year of significant uncertainty and weaker global economic climate, market returns for 2019 exceeded all expectations. MSCI World returned an impressive 28.4% (in USD) for the year and MSCI Emerging Markets returned 18.9% for the year. A sizeable portion of the Emerging market return was earned in December, with the index gaining 7.5%, in part due to the USD weakening, particularly relative to emerging market currencies. Bond markets (FTSE World Government Bond Index) were not as buoyant but earned a decent return of 5.9% for the year. More generally, risk assets globally ended the year on a high, as a result of economic data alluding to early signs of stabilisation in trade and manufacturing, accommodative approach of central banks and positive progress on global trade talks.

To put the US-China trade war into perspective, the International Monetary Fund estimates that the cumulative impact of the trade tensions is 0.8% on GDP by 2020. This is significant given that they forecasted GDP of only 3% for 2019. However, there is light at the end of the tunnel with both countries taking a break from their trade war, averting further tariffs. Moreover, Phase One of the US-China trade deal is scheduled to be signed by Chinese Vice Premier Lui He on 15 January 2020. However, with the deal shrouded in secrecy and nobody giving actual details of what is contained in the agreement, it’s hard to assess the impact of this reprieve.

Moreover, the US-Mexico-Canada trade agreement is almost ready for implementation, nearly a year after it was initially signed. The US House has cleared the agreement and the US Senate Finance Committee approved it on 7 January 2020. The next step is a full Senate vote. This vote may be delayed by plans to send articles of impeachment to the Senate prior to this, as the impeachment will supersede all other Senate business.

Meanwhile, in the UK, the Brexit debate raged resulting in Teresa May announcing her resignation as Prime Minister on 24 May 2019. Boris Johnson proceeded to win the UK general election with an outright majority, with strong support for getting Brexit done. The new Brexit deadline is 31 January 2020. The UK parliament have voted in favour of the deal negotiated by Boris Johnson, however there is legislation which must be passed in order to give it effect. This is expected to be wrapped up before the end of January 2020. Assuming that the EU also gives the go ahead, then there will be a transition period until the end of 2020, giving them time to negotiate the exit fee.

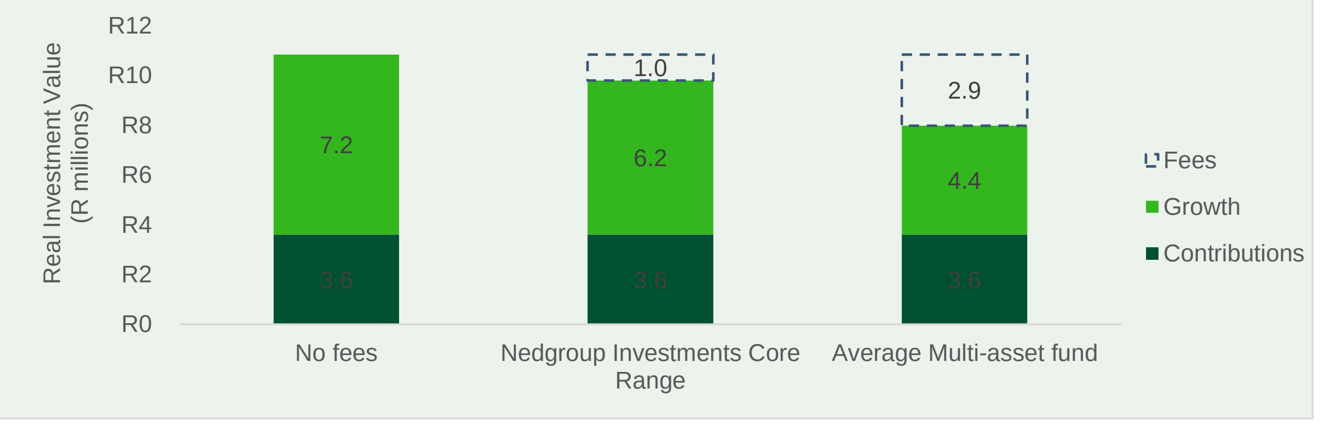
All in all it has been a year filled with great uncertainty. Thus far the path ahead for 2020, appears be more certainty if the agreements discussed above go according to plan. Even with this uncertainty resolved and clarity on trade agreements, experts forecast a year of low growth globally.

The role fees play in helping you reach your investment goal

The cost associated with an investment portfolio is one of the key factors in determining success over the long term. Costs can be determined before investing and any savings in costs will effectively improve the net returns to investors. The annual management fee of the Core portfolio is 0.35% per annum (excluding VAT).

The Total Investment Charges (TIC) of the Nedgroup Investments Core Range which includes VAT, transaction costs and the TICs of the underlying offshore funds, is currently between 0.49% and 0.59%, around 1.2% per annum less than the average multi-asset portfolio. This savings in costs can have a significant impact on your investment in the long run.

Real Investment growth over 30 years based on R10 000 monthly contributions growing at a 6% real return before fees



The graph above illustrates the impact of this fee difference over a 30 year time horizon where we have stripped out the impact of inflation to show investment values in todays money. We assumed an investment growth of Inflation plus 6% before fees. One can see that the total fees paid and compounded impact thereof in the average Multi-asset fund is nearly three times as high over the investment period which is a significant reduction in your investment value.

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