NEDGROUP INVESTMENTS

QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE GUARDED FUND

as at 31 December 2019

See money differently

The fourth quarter decides the year in favour of the bulls

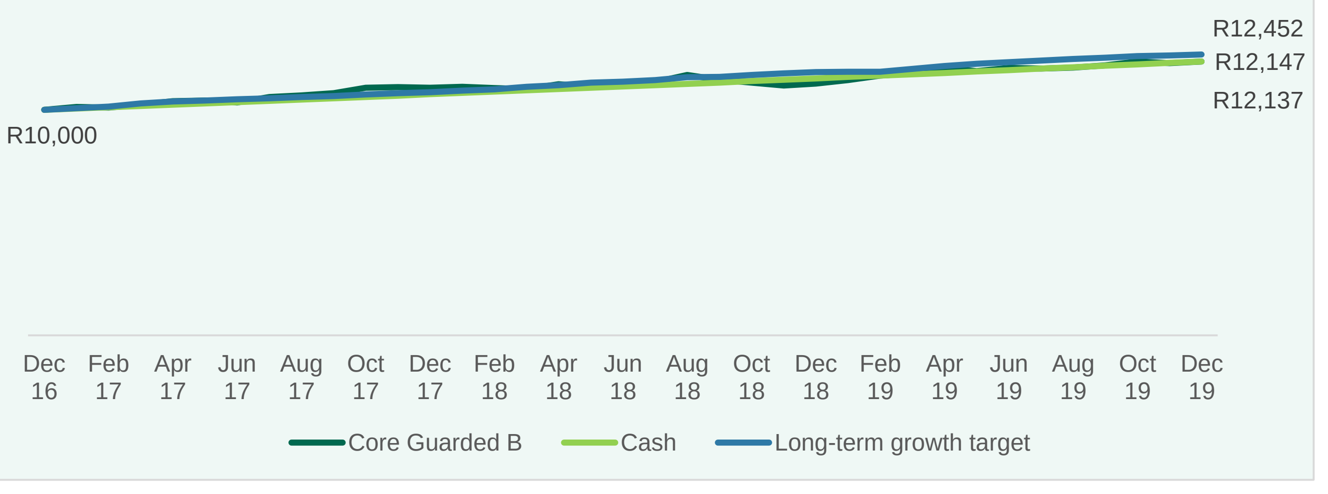
After the sharp falls in SA equity and property by more than 4% in the third quarter, financial markets welcomed alleviating geopolitical pressures in the fourth quarter. During the fourth quarter, SA and global risk assets continued to rally, resulting in a strong rebound in SA equities of nearly 5.3% (Capped SWIX Index) which was the primary driver of returns in the Fund. The surprise was not the performance of SA government bonds but the firm bounce back in equities in contrast to the backdrop of weaker economic data. The Nedgroup Investments Core Diversified Fund increased by 1.4% over the quarter, despite the decline in returns in November. The Fund return this quarter was slightly greater compared to the 0.9% return observed in the third quarter.

The table below compares an investment in Nedgroup Investment Core Guarded Fund to bank deposits (cash) investment over various time periods. For every R10 000 invested in the Nedgroup Investment Core Guarded Fund three years ago, you would have R12 137 at the 31st of December 2019. This is a little lower than the R12 147 you would have achieved had you invested your money in bank deposits (cash) over the same period.

Value of R10,000 investment in Nedgroup Investment Core Guarded Fund versus Cash[1] and the Growth target

	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 29 January 2010
Growth of fund (after fees) ***(Growth in %)***	R10 143 *1.4%*	R10 868 *8.7%*	R12 137 *6.7% p.a.*	R13 754 *6.6% p.a.*	R17 293 *8.1% p.a.*	R24 549 *9.5% p.a.*
Growth of cash ***(Growth in %)***	R10 160 *1.6%*	R10 664 *6.6%*	R12 147 *6.7% p.a.*	R13 730 *6.5% p.a.*	R15 167 *6.1% p.a.*	R17 746 *6.0% p.a.*
Growth target (inflation+3%) ***(Growth in %)***	R10 110 *1.1%*	R10 666 *6.7%*	R12 452 *7.6% p.a.*	R14 752 *8.1% p.a.*	R17 448 *8.3% p.a.*	R22 056 *8.3% p.a.*

Fund Return versus Cash[1] for 3 years ending 31 December 2019



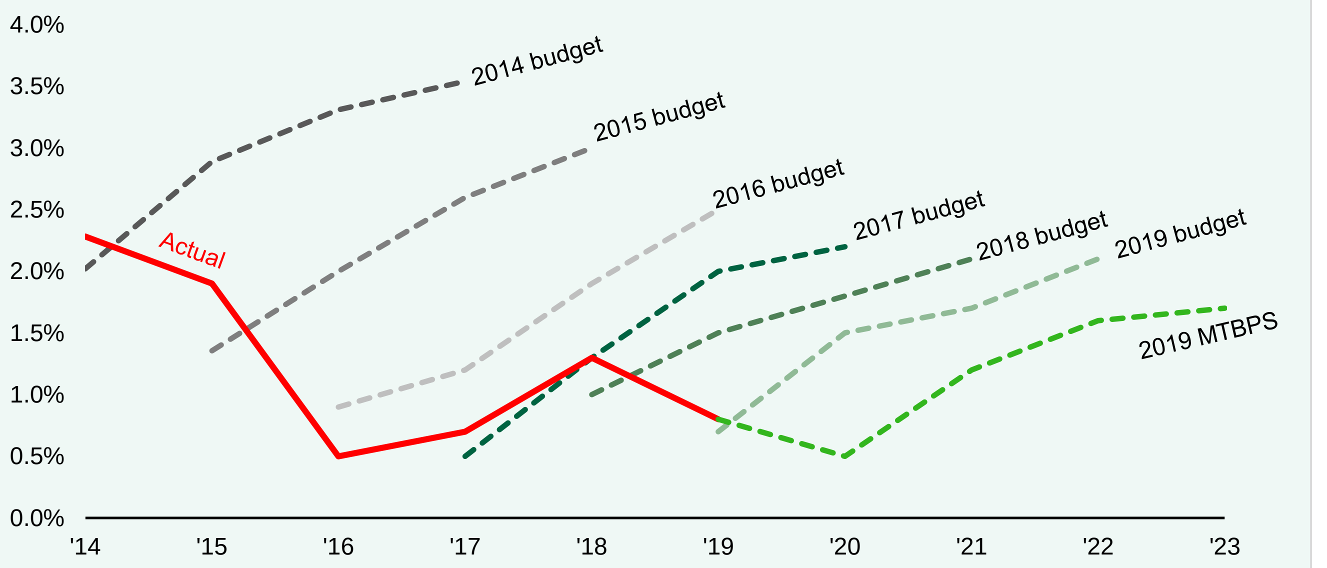
The Nedgroup Investment Core Guarded Fund has a growth target of 3% above inflation (around 8% per year) over 3 year periods. The Fund has almost reached its target over the last 3 years. However, history[2] demonstrates that one-third of the time, a fund such as the Nedgroup Investments Core Guarded Fund, would have underperformed its long-term growth target over any 3-year period. The other two-thirds of the time it would have achieved or exceeded it's long-term target.

1. We used the STeFI call deposit rate for cash returns
2. Based on SA market returns from 1960 to 2018 (source Firer 2006) 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



Source: Avior

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.

Disclaimer

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 portfolios. Unit trusts are generally medium to long term investments. The value of your investment may go down as well as up. 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. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A schedule of fees and charges and details of our awards are available on request from Nedgroup Investments. A fund of funds may only invest in other unit trust funds, that levy their own charges, which could result in a higher fee structure. Nedgroup Investment Advisors (Pty) Ltd (the 'Investment Manager') an authorised as a financial services provider under the Financial Advisory and Intermediary Services Act (FSP No. 1652), is the appointed Investment Manager of the Management Company.

Certain Nedgroup Investments unit trust portfolios include international assets, whereby a change in the exchange rates may cause the value of those investments to rise and fall. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

Please note that Nedgroup Collective Investments (RF) Proprietary Limited is not authorised to and does not provide financial advice. This presentation is of a general nature and intended for information purposes only. It is not intended to address the circumstances of any investor and cannot be relied on as legal, tax or financial advice, either express or implied. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this presentation. Nedgroup Collective Investments (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA).