



NEDGROUP
INVESTMENTS

QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE GLOBAL FUND

as at 31 March 2020

See money differently



Q1 sees the worst week for global equities since 2008

The first quarter of 2020 saw significant declines in global markets. Global equity and listed property plunged over fears of the coronavirus, resulting in the worst week for equities since the 2008 financial crises. The economic fallout intensified with the crashing oil prices due to a conflict among major oil producers. These factors resulted in the Nedgroup Investments Core Global Fund seeing a decline of -15.5% over the quarter.

The table below compares an investment in the Nedgroup Investment Core Global Fund to US bank deposits (cash) and its Growth target over various time periods. For every \$10 000 invested in the Nedgroup Investments Core Global Fund at inception (16 November 2015), you would have \$11 568 at the 31st of March 2020. This is better than the \$10 673 you would have achieved had you invested your money in US bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market collapse, which helps to contextualise the returns experienced in the past few years.

Value of \$10,000 investment in Nedgroup Investments Core Global Fund versus US Cash¹

	3 Months	1 Year	3 Years	Inception 16 November 2015
Growth of fund (after fees) <i>(Growth in %)</i>	\$8 454 -15.5%	\$9 270 -7.3%	\$10 505 1.7% p.a.	R11 568 3.4% p.a.
Growth of US Cash <i>(Growth in %)</i>	\$10 042 0.4%	\$10 213 2.1%	\$10 684 1.9% p.a.	\$10 673 1.5% p.a.
Growth target (EAA USD Aggressive Allocation) <i>(Change in %)</i>	\$10 599 -17.0%	\$11 872 -9.5%	\$12 458 -0.4% p.a.	\$10 641 1.5% p.a.

Fund Return versus US Cash¹ from inception to 31 March 2020



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 term², 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.



Market panic from the COVID-19 pandemic

Amidst the fear and panic from the announcement by the World Health Organisation in March that the COVID-19 outbreak is a pandemic, the extreme market events in the wake of the disease went almost without notice. News and social media were flooded with COVID-19 breaking updates with the market chaos that accompanied it barely receiving a mention.

As the weeks passed, the world became more aware of the devastating impact of this virus and the resulting lockdowns on economic growth and markets. This is especially true of retirees who have limited ability to increase their savings and have to ensure that their money lasts throughout their retirement. Small business owners, those who are self-employed and companies with high debt levels are especially struggling with limited ability to earn an income but with little to no relief on their expenses. Some companies were able to pivot to provide essential goods and services in order to continue operating during lockdown. One such example is an alcoholic beverage producer that changed their production to manufacture hand sanitiser.

However, overall the impact has been devastating, with global markets experiencing significant volatility and losses. The MSCI All Country World Index (ACWI), which represents stock markets globally, fell 34% in US Dollars terms this year over a period of less than 2 months. Nonetheless, all is not lost, as global markets have recovered a fair portion of the losses incurred this year with a loss of only 15% year to date in US Dollar terms (to 14 April 2020).

Countries worldwide are forecasting lower economic growth, with a number of countries responding by implementing significant interest rate cuts in an attempt to stimulate the economy. Despite this stimulus, there is still much uncertainty in terms of the time markets and economies will take to recover. The more likely scenario is that that recovery will be slow and economic growth subdued for some time. The exact impact will of course depend on how long the lockdowns in South African and worldwide remain in place and the measures governments take in response to the pandemic.



How liquidity can help you stay the course

The ability to access savings or investments to carry one through difficult times is one of the most important risk management tools; for individuals and businesses. A “rainy day” fund can make a material difference when money is tight, especially if you are still servicing debt. In times like these the last thing you want is to be forced to sell out of less liquid savings such as a pension fund or an investment property which may be significantly down in value due to the tough market conditions.

For this reason, you should aim to have at least 3 times your monthly salary set aside for emergencies. If your earning is based on commissions, you may need 6 times to make sure you can cover your costs. These savings should ideally be easily accessible and provide you with some form of a return over the periods when you don’t need it.

It is also important to ensure that you have sufficient liquidity in your estate on death. On death your estate is faced with various liabilities (i.e. estate duty, executors fees, funeral costs, cash bequests, capital gains tax, outstanding loans). In order to settle these liabilities your executor requires cash and often the majority of assets in the estate cannot easily be reduced to cash. This may result in the executor having to sell assets within a short space of time which often results in the deceased estate receiving far below the market value for these assets. In order to guard against this, it is advisable to ensure that some of the assets in your estate is liquid.

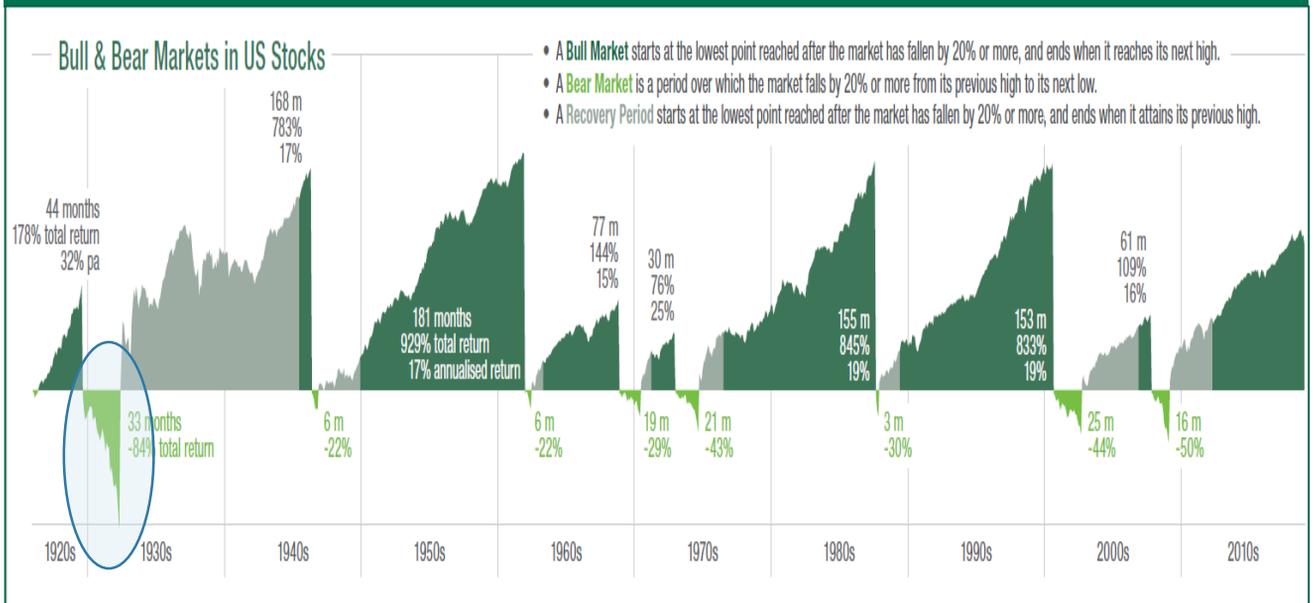
Collective Investment Schemes make ideal investment vehicles for liquidity requirements as they can be access within a day or two. They also cater for different investment horizons and risk appetites.



We've been here before: Market crashes and recovery

Global markets have been in decline since the end of February as the coronavirus COVID-19 pandemic became a worldwide phenomenon. This is not the first, nor will it be the last time markets have responded negatively to global events. The chart below illustrates this by showing the bull and bear markets in US equities over the period 1 January 1920 to the end of 2019. Over this long period there were nine periods, including the present, where the market value of US equities dropped by more than 20%. The biggest drop in US markets occurred between 1929 and 1932 when it was down by whopping 84%!

Bull and bear markets of US equities – 1920 to 2019



There is a saying “this too shall pass” which is applicable to most market corrections. Sometime markets can rebound within a short period and deliver staggering returns such as in the 30-month period after 1971 when markets delivered a total return of 76% (or 25% per annum!).

While we have no idea when this crisis will be over, we can apply what we have learned from history. Markets do recover at some point and so for long term investments such as retirement savings it pays to stay invested. It is also important to invest across different asset classes and regions of the world to reduce some of the impact of a market pull back and poor economic conditions.



Battle of the oil giants

During early March, oil prices had one of the biggest falls in history, taking the price of Brent crude to around \$22 a barrel by the end of the month. This was the lowest price since January 1991 at the start of the gulf war. At the beginning of March, OPEC+ held several meetings, where it was expected that further production cuts would be agreed to. This occurred after the release of a report by the International Energy Agency (IEA) indicating that global oil demand is expected to contract for the first time since 2009 due to the containment measures applied in more than 187 countries. Despite this fact, Russia refused to agree with Saudi Arabia for deeper production cuts to counter the effects of the spread of Covid-19 on demand. The outcome of these meetings meant an effective collapse of an agreement between Russia and OPEC+, resulting in Saudi Arabia declaring an oil price war. The Kingdom indicated that it would put another 2.6million barrels per day in the oil market, in an apparent attempt to punish Russia. The supply shocks caused oil futures prices to fall by 40% in March. This is first time since the 1930s that we saw a severe demand shock now combined with a supply shock.

What now? There is a lot of uncertainty around how long the price war will last. However, the short-term outlook for oil prices is likely to be volatile, given the changing sentiments surrounding major oil producing nations, the cost pressure across the industry and the uncertainty surrounding the extent of the Covid-19 pandemic. With the oil price sitting around \$26 a barrel, the immediate impact has been damaging for oil companies. Major oil companies are preparing for prolonged periods of low oil prices, for example Occidental Petroleum in the US has cut its dividend by almost 90%.



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