

QUARTERLY REVIEW
NEDGROUP INVESTMENTS MONEY MARKET FUND

as at 31 March 2020

See money differently

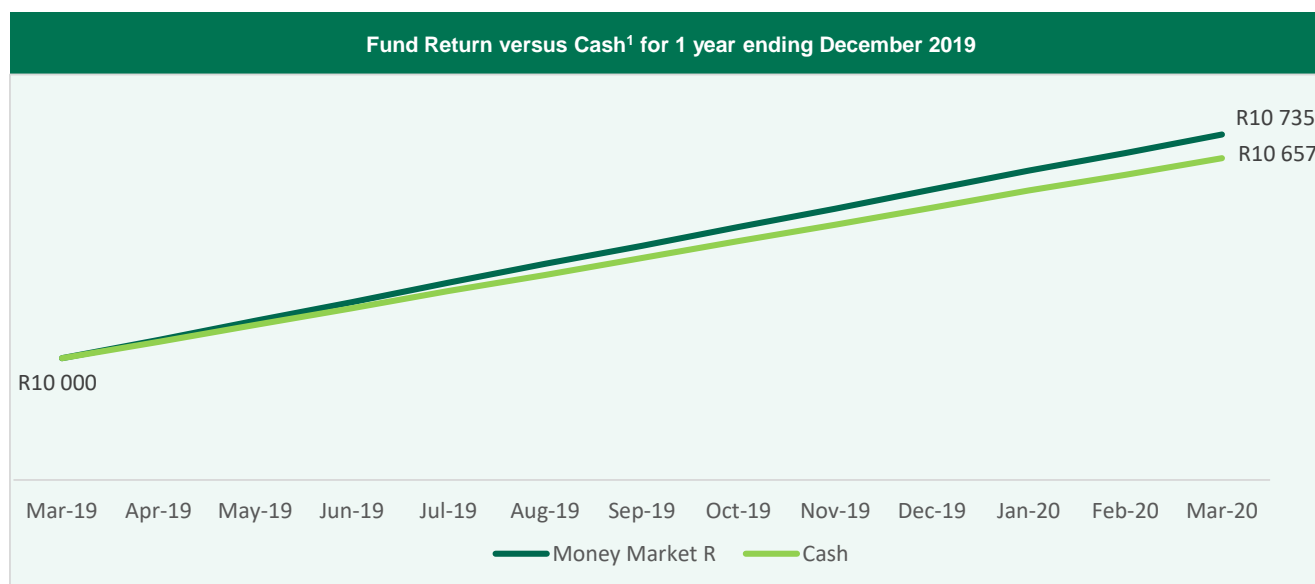


Cash funds beneficiaries of risk-off trades

The second quarter saw concern over economic growth and corporate profits heightening as the prospects of a pandemic grew. Industry flows into money market mutual funds were the biggest seen in records dating back to January 1992 as investors look for a place to hide. Certainly it was not unusual for cash funds to be the beneficiaries of risk-off trades. This conservatism was extremely beneficial to the portfolios during the COVID19 crisis and the funds have since then also taken steps to generate even further liquidity, whilst still maintaining competitive yields on the funds. Over the reporting period, for every R10 000 invested, the fund value was up by R171 (1.7%). Over longer periods investors have been rewarded for taking on credit risk, as you can see in the table below.

The table below compares an investment in the Nedgroup Investment Money Market Fund to bank deposits (cash) over various time periods. For every R10 000 invested in the Nedgroup Investments Money Market Fund one year ago, you would have R10 735 at the 31st of March 2019. This is better than the R10 657 you would have achieved had you invested your money in bank deposits (cash) over the same period.

Value of R10,000 investment in Nedgroup Investments Money Market Fund versus Cash ¹						
	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years
Growth of fund (after fees) (Growth in %)	R10 171 1.7%	R10 735 7.3%	R12 409 7.5% p.a.	R14 251 7.3% p.a.	R15 886 6.8% p.a.	R18 771 6.5% p.a.
Growth of cash (Growth in %)	R10 155 1.6%	R10 657 6.6%	R12 132 6.7% p.a.	R13 755 6.6% p.a.	R15 227 6.2% p.a.	R17 821 6.0% p.a.



Over most periods, the Nedgroup Investments Money Market Fund has done significantly better than bank deposits (cash) as the fund benefited from the yield enhancement from investing in longer dated money market instruments. Over the past ten years it has delivered more than 0.5% of additional interest per annum, or R950 for every R10 000 invested.

1. We used the STeFI call deposit rate for cash returns



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.

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.



Positioned to protect investors

In 2020, there have been three cuts in the Repurchase rate in South Africa to the middle of April. The first cut was 0.25% on 16th January, followed by two more dramatic cuts of 1% each on 19th March and 14th April in an attempt to mitigate the economic slowdown resulting from the COVID-19 lockdown.

The impact of these rate changes on the yields on the Nedgroup Investments Money Market fund will be staggered over the next 3 months. This is because the fund comprise predominantly floating rate notes where interest rates are reset every 3 months. Therefore, these notes will only reflect the new rates as and when their reset dates occur.

As expected, Moody's downgraded South Africa to sub-investment grade. This was inevitable given the lack of local growth and sharp rise in projected ratio of government debt to GDP. In anticipation of an early downgrade in 2020, the portfolios were already de-risked in 2019, which entailed:

- **Liquidity risk:** increasing cash or near-cash balances and increased holdings in the most liquid and tradable instruments available in the South African market.
- **Credit risk:** shifting credit exposures in favour of large banks, such that the Nedgroup Investments cash fund range now has the bulk of their (>90%) exposure to the big 5 domestic banks in South Africa.
- **Interest rate risk:** The Nedgroup Investments cash fund range is effectively 100% invested in floating rate assets, protecting the portfolios against interest rate volatility.

As a result of the downgrade to sub-investment grade, South African government bonds will no longer be eligible to be included in the FTSE World Government Bond Index (WGBI) as of the next rebalance date, which has been delayed to the end of April. The exact impact thereof is uncertain but significant sales in SA government bonds are expected. Despite the substantial drop in short- and long-term yields, there may be further fallout after the WGBI rebalance.

Despite significant market turmoil and uncertainty, the Nedgroup Investments Money Market fund continue to deliver fixed deposit type yields, with the benefits of call account type access. Capital preservation remains the overriding driver with high levels of liquidity. In addition to historically high levels of liquidity in the funds, further liquidity raising plans have been prepared and will be implemented should the need arise.



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.

Unit trusts 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. For example for shorter term emergencies, unit trusts such as the Nedgroup Investments Money Market Fund or Nedgroup investments Core Income Fund are ideal as they pay interest but is not exposed to the equity markets.



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