NEDGROUP INVESTMENTS

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Quarterly review

Nedgroup Investments Core Global Fund

As at 30 June 2020

Best 3 months return since May 2009

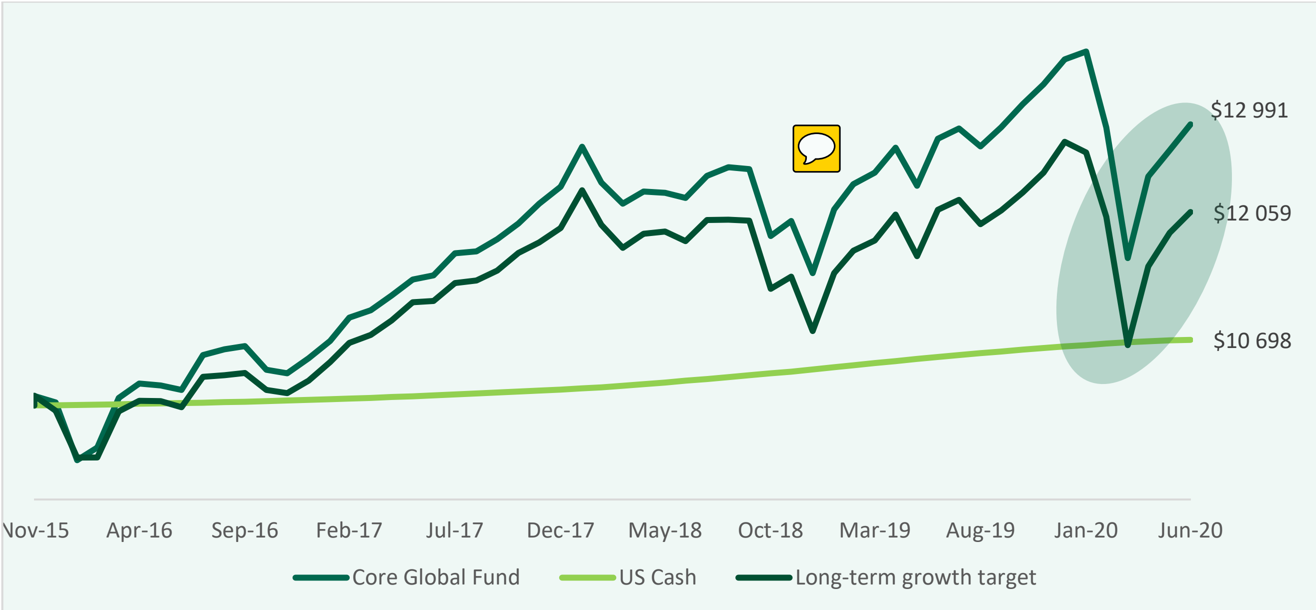
The second quarter of 2020 saw a rebound from the market pullback which occurred during February and March. This was due to hopes of progress being made on COVID-19/coronavirus medical treatments as well as signs that the worst of the global economic contraction may be behind us. Global risk assets have benefited most from government fiscal stimuli and coordinated central bank policies to restore liquidity back to the capital markets. With global equity and property returning 19.0% and 10.3%, respectively, the Nedgroup Investments Core Global Fund was up 12.3% for the quarter.

The table below compares an investment in the Nedgroup Investments Core Global Fund to US bank deposits (cash) and it 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 $12 991 at the 30th of June 2020. This is better than the $10 698 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 R10,000 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 %)*	$11 230 *12.3%*	$10 118 *1.2%*	$11 411 *4.5% p.a.*	$12 991 *5.8% p.a.*
Growth of US Cash *(Growth in %)*	$10 024 *0.2%*	$10 174 *1.7%*	$10 584 *1.9% p.a.*	$10 698 *1.5% p.a.*
Growth target (EAA Fund USD Aggressive Allocation) *(Growth in %)*	$11 339 *13.4%*	$9 983 *-0.2%*	$10 883 *2.9% p.a.*	$12 059 *4.2% p.a.*

Fund Return versus US Cash[1] from inception to 30 June 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 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.

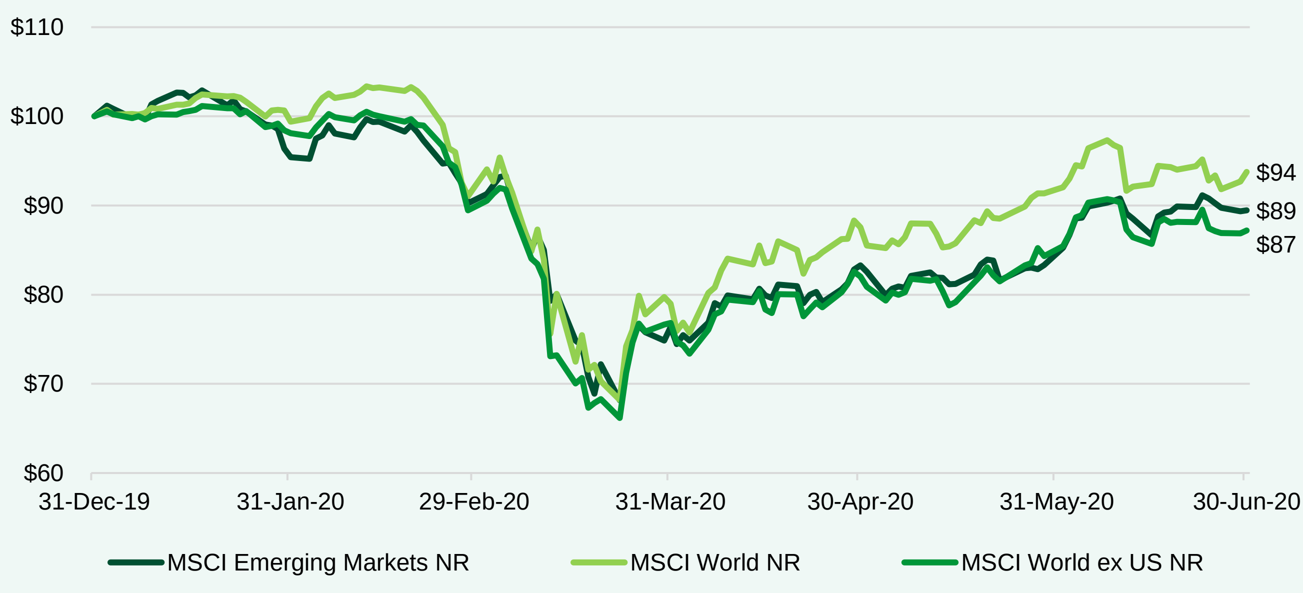
1. We used the ICE Bank of America 3 month deposit rate for US cash returns
2. Based on Global market returns from 1997 to 2018 (source Morningstar) using the same long-term equity allocation and fees.

Market euphoria after the panic

The first quarter ended grimly with global markets falling by more than 30%. This is in stark contrast to the second quarter, which saw markets bounce back remarkably quickly. The chart below provides a good illustration of the recovery. It depicts the relative performance of emerging markets, developed markets (MSCI World) and developed markets excluding the US (MSCI World ex US) from 1 January to 30 June 2020.

In fact, a whole market cycle was condensed into just a few months. This is very unusual and unlike typical market cycles which are driven by structural or cyclical changes, was driven by an event, the COVID-19 pandemic. There are a few ways in which the rapid recovery can be interpreted. One view is that the general sentiment of investors indicates that once the 'event' is over all is back to 'normal'. Other views include that the liquidity and relief provided by governments has either artificially boosted asset prices or is expected to successfully stimulate economic growth.

Year to date: market total returns in US Dollars



Although both developed markets (MSCI World) and emerging markets recovered well, they have not yet reached the same level as their peak earlier this year (in US Dollars terms). Developed markets yielded a total return of minus 6% and emerging markets minus 11% for year as at 30 June 2020. Ordinarily, these might not sound like great returns, but they are a vast improvement from their low in March of minus 32%.

The chart also illustrates that the difference in performance between developed and emerging markets was primarily driven by US markets. The developed markets index excluding the US (MSCI World ex US) had very similar performance to emerging markets. The outperformance of US markets may be attributed to positive investor sentiment arising from the liquidity pumped into the market by the Fed in response to COVID-19. Furthermore, the returns of the top 5 US companies greatly boosted US markets as tech stocks were favoured by investors due to increased demand for technology during the pandemic.

Of course, the market response to COVID-19 is just one side of the coin. The other side is the economic reality people are facing. Many countries around the world have seen a rapid rise in unemployment rates. Even the US saw its unemployment rate leap from 3.8% in February to 13% in May, the second highest unemployment rate since World War II. Experts estimate that it may be as high as 20% now.

Nobody can predict how long it will take for economies and the unemployment rate to bounce back. In the meantime, governments are doing their best to soften the blow by providing support to those most in need and implementing measures to stimulate economic growth.

Lessons from past pandemics

There is no doubt that the spread of the COVID-19 pandemic has resulted in a dual public health and economic crisis. With 10.1 million confirmed cases and 534,000 deaths worldwide as at the beginning of July 2020, the coronavirus pandemic has become a global tragedy unlike any other in our lifetimes. But, as historians remind us, this is neither our first nor our most deadly war with an infectious disease (see figure below).

History of Pandemics - Source: CDC & WHO

A look at the history of pandemics can be useful when looking for context and lessons learned from the past. History is very positive about how economies get out of pandemics. If we go way back to the Black Death pandemic in 1347 where one-third of the European population was destroyed, the implication was that Europe was going to go into some trauma after. However, the opposite happened, we had the starting of the flourishing Italian literature and printing press. The world responded incredibly positively to what was a trauma.

A look at the Russian Flu in the 1890s which killed a million people offers us the same lesson. After the pandemic we had the age of science and mass production. Things started to speed up with several key inventions in the 1900s. Think gasoline engines, airplanes, chemical fertilizer. All inventions that helped us go faster and do more. The 'Spanish' influenza pandemic of 1918-1919 was the most severe in recorded history as shown in the chart above, affecting approximately 25% of the world's population and killing in the order of 50 million people. However, the reaction after the pandemic technologically was phenomenal in the 1920s, where we saw the introduction of electricity, the radio and massive stock market boom. Inventions such as this transformed the way people lived and communicated. When you stop and think about it, it was this industrial revolution, the second one, that resulted in the modern world. The economics profession teaches us that in order to understand the economy you need to understand human nature. This brings us to our first lesson, which is that when humans get faced with something as unbelievably traumatic where the implication is to go into some trauma after the pandemic, the speed of adoption of existing innovation trends gets accelerated which changes how we do things.

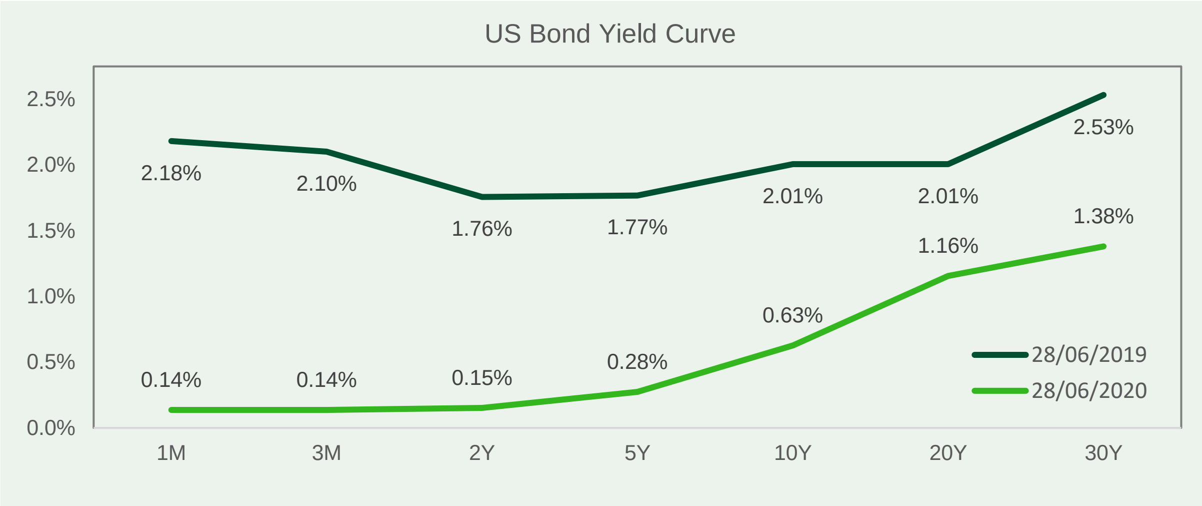
The second profound lesson to be learned is that this can end. As horrific as COVID-19 is, its death toll may not reach the meteoric levels of the flu epidemic of 1918. Our public health systems, scientific tools and medical supplies are far better. The coming months will no doubt be painful, but with collaborative work underway to develop treatments and a vaccine, all we need is time.

It is understandable why investors find it hard to find context while keeping track of the unfolding news about the COVID-19 outbreak. Every day there is new research, new reports of deaths, new policy controversies and debates about the economy, our public health system and whether the world will ever be the same. However, the history of pandemics offers considerable advice, but only if people know the history and respond with wisdom. History is kind to humanity with respect to how we get out of pandemics, put simply, history in this case teaches us that a few years after the pandemic, we will react in an incredibly positive way.

The search for yield – caught between a rock and a hard place

We have seen yields on developed market government bonds come down over the past 6 months as governments bolster their balance sheet to deal with the economic fallout from the COVID 19 pandemic. The US 10-year bond yield has dropped from 2% to 0.6% over the past year.

Investor searching for yield find themselves in a difficult position. High yield credit and emerging market bonds offer higher yields but with their own risks. This is unlikely to change in the near term as the US Federal Reserve has indicated that they would keep interest rates close to zero through 2022.



While many investors have increased their exposure to high yield credit and emerging markets, the strategic weightings in the Nedgroup Investments Core Global Fund has remained unchanged. This is because the fund was designed with reliability in mind and follows a robust long-term strategic asset allocation strategy. The Fund holds no high yield credit but has a 2.5% exposure to global investment grade credit.

Resilience through volatility

Over the past six months global markets have significant moves: The MSCI All Country World Index (MSCI ACWI) was down by 21.3% in USD over the first quarter and up by 19.4% over the second quarter. Over these two quarters the Nedgroup Investments Core Global Fund (UCITS) was down by 15.5% and up by 12.3%, respectively. Over the six-month period the Fund was down by 5% compared to - 5.8% for its peer group median and -6.3% for the MSCI ACWI.

There are several reasons why the Fund's performance was so resilient through this volatile period. The Nedgroup Investments Core Global Fund was designed to provide broad global exposure with no home bias across five different asset classes (equity, listed real estate, government and corporate bonds, inflation-linked bonds and cash). The fund offers broader diversification across and within asset classes than any of its peers. It also offers diversification across different regions and currencies. The combination of these features and the Fund's low-cost structure leads to robust performance throughout different market cycles.

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