



## Quarterly review

### Nedgroup Investments Prime Money Market Fund

As at 30 June 2020

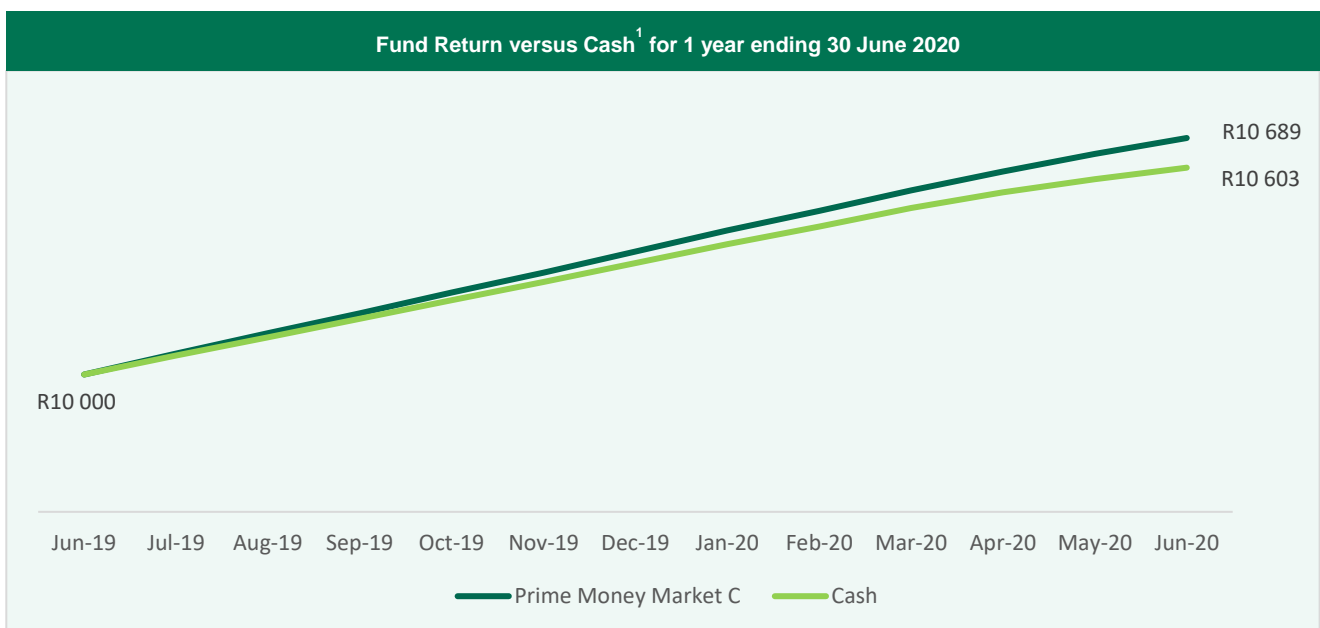


## Smooth and steady growth in your investment

During the second quarter, investors were rightly concerned about the falling short-term interest rates, inflation fears and rising deficits. However, during the first quarter's equity sell-off, we had a stark reminder of the key role bonds and cash can play as a diversifier in a portfolio. Over the quarter, for every R10 000 invested, the fund value was up by R144 (1.4%).

The table below compares an investment in the Nedgroup Investment Prime Money Market Fund to bank deposits (cash) over various time periods. This illustrates that over longer periods, investors have been rewarded for taking on interest rate risk. For every R10 000 invested in the Nedgroup Investments Prime Money Market Fund a year ago, you would have R10 689 at the 30th of June 2020. This is greater than the R10 603 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 Prime Money Market Fund versus Cash <sup>1</sup>		
	3 Months	1 Year
Growth of fund (after fees) (Growth in %)	R10 144 1.4%	R10 689 6.9%
Growth of cash (Growth in %)	R10 112 1.1%	R10 603 6.0%



Over most periods, the Nedgroup Investments Prime Money Market Fund has done significantly better than bank deposits (cash) as the fund benefited from the yield enhancement from investing in longer dated Prime Money Market instruments.

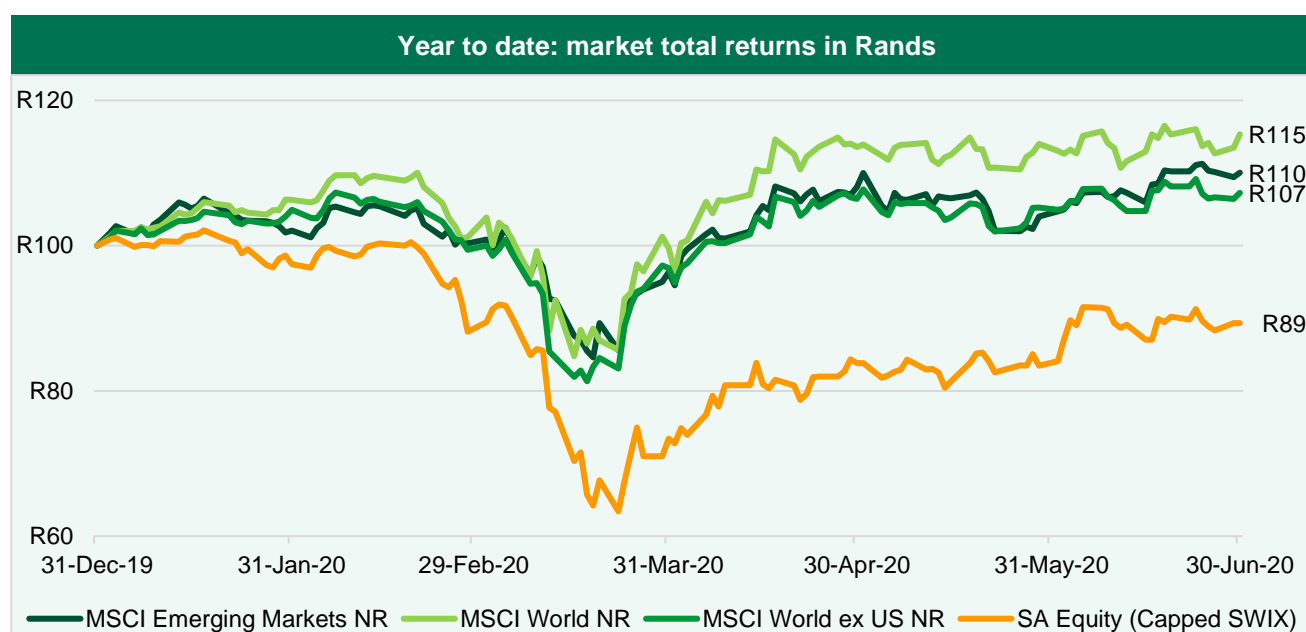
1. We used the STeFI call deposit rate for cash returns



## Market euphoria after the panic

The first quarter ended grimly with local and international 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), developed markets excluding the US (MSCI World ex US) and South African markets 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 investor sentiment indicates that once the 'event' is over all is back to 'normal'. Other views include that the liquidity and relief provided by governments has artificially boosted asset prices or is expected to stimulate economic growth.



Moreover, both developed markets (MSCI World) and emerging markets not only recovered but reached a new high for the year (in rand terms). A portion of this can be attributed to rand depreciation but the main driver was strong underlying market returns. The chart also illustrates that the difference in performance between developed and emerging markets was primarily driven by the US. 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 ascribed to positive investor sentiment arising from the liquidity pumped into the market by the Fed and outperformance of the top 5 US stocks driven by increased demand for technology during the pandemic.

Unfortunately, South African markets didn't quite share in the same level of exuberance as global markets. Although they did recover somewhat, they have not yet reached their peak earlier this year. SA markets are still down by 11% relative to the start of the year and are significantly lagging other emerging markets (in rands).

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. National Treasury estimates that job losses in South Africa could reach up to R1.8 million during the pandemic with a worst-case scenario of an unemployment rate as high as 50%. South Africa is not the only country facing such challenges. Even the US saw its unemployment rate leap from 3.8% in February to 13% in May, the second highest 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.



## Retirees solve their own retirement dilemma

We are really excited to have launched the MyRetirement Solution in May 2020; a solution co-created with retirees, empowering them to solve their own retirement dilemma. This solution is designed for South Africans who are close to retirement or already retired and incorporates the Core Fund range.

For most South Africans, their retirement savings are the largest sum of money they will ever have. As they approach retirement, making a decision on what to do with their entire life savings is a daunting task. Unfortunately, the odds are stacked against them with less than 6% of South African's being able to retire without financial assistance. This statistic is not new, it hasn't improved in decades despite all the new products, innovations and legislation that has attempted to turn it around.

As a financial industry we are often guilty of developing solutions with a range of experts giving input but without including the retiree themselves and hearing their voice throughout the process. This leads to good solutions but not necessarily the right solution. A fresh approach is needed, one that includes the voice of the retiree.

At Nedgroup Investments we have taken a new approach to solve this age-old dilemma. With this approach, the retiree is integrally involved in every step of the journey, giving feedback and guiding the outcome. Using this feedback, Nedgroup Investments developed a solution called the MyRetirement Solution. The MyRetirement Solution is the first retirement investment planning offering of its kind in South Africa.

During development, every few weeks, we conducted user tests with South Africans from all walks of life who are approaching retirement. This feedback is used to amend the solution and so, the solution evolves into something that retirees understand, leads to positive behavioural changes and meets their needs. In fact, you could say that retirees are solving their own retirement dilemma. What emerged from our findings is that the majority of people share three key needs. The MyRetirement Solution addresses these three needs.

### **Need 1: Human touch**

Retirees wanted an actual human to walk them through this decision. This is understandable as it's a daunting decision to make with significant ramifications. MyRetirement Solution includes a retirement coach or financial planner, who is with the retiree (physically or via a video call) when they complete the online portal.

### **Need 2: Advice**

Retirees, even the well informed, wanted to be told that they were making the right decision and needed reassurance. Therefore, it is important that an actual recommendation is given to retirees as opposed to presenting them with options and facts.

The MyRetirement Solution includes an online portal which provides advice. Retirees are also given an opportunity to 'play around' with their plan and compare the outcomes. This is where we witnessed positive behavioural changes and people taking ownership of their retirement.

### **Need 3: Innovative retirement products**

The MyRetirement Solution portal recommends a life annuity, living annuity or the Nedgroup Investments new innovative solution called the Living Annuity Plus depending on the retirees needs. The Living Annuity Plus combines some of the best annuity features in one product. It offers retirees the flexibility of a living annuity (i.e. to choose their income and investments) but with an increased probability that their income will last for life. Nedgroup Investments pays extra money (called top-ups) into the retiree's investment account over and above their investment returns to make their income last longer. The top-up paid depends on the percentage that the retiree elects to leave to their partner and/or dependants on their death. The lower this percentage, the greater the top-ups are.

To learn more about the MyRetirement Solution, which we co-created with retirees, please visit:

<https://www.nedgroupinvestments.co.za/content/NGISingleSiteContent/Local/Institutional/post-retirement---myretirement-solution.html>.



## 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.

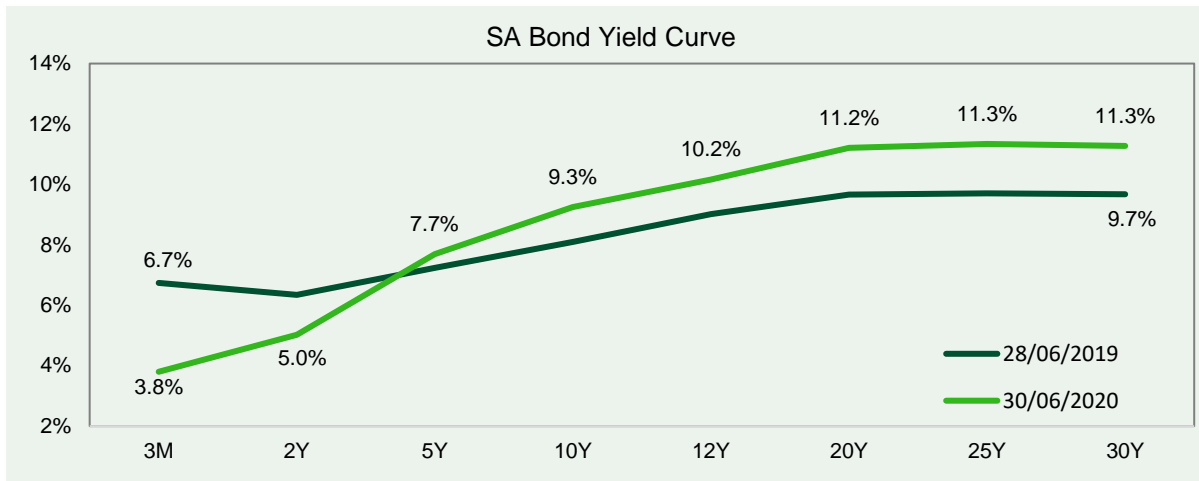
It is understandable why investors find it hard to find context while keeping track of the unfolding news about the COVID-19 outbreak. Every day there is new research, new reports of deaths, new policy controversies and debates about the economy, our public health system and whether the world will ever 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

Over the past few months we have seen a steepening of the yield curve as interest rates have come down while bond yields have gone up. As one can see from the chart below, following the recent aggressive rate cuts, longer term government bond yields have become quite attractive relative to short-term rates, with the current 10-year government bond yield sitting at around 9%. This has resulted in many investors increasing their bond exposure.



Some investors, however, feel that they are caught between a rock and a hard place as the higher yields on longer term government bonds come with its own risks. Growth reforms, reprioritisation and expenditure cuts are critical to getting the country's debt burden under control. Should these not materialise or take much longer, the fiscal deterioration will get much worse. These factors are likely to keep government bond valuations under pressure.

Even though short-term yields have dropped, the Nedgroup Investments Prime Money Market Fund still offers investors yield enhancement compared to bank deposits. The fund provides investors with daily liquidity and do not expose them to the volatility of government bonds.



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