



see money differently

Quarterly review

Nedgroup Investments Core Global Fund

As at 30 September 2020



A quarter of modest returns

The third quarter emphasised the benefits of geographic diversification. The global economy is recovering, with activity indicators improving month on month, from a low base as people return to work and more businesses reopen. Having rallied over the last couple of months, global stock markets flipped in September. Defensive sectors held up well whilst those more sensitive to the economy led the declines. There is no doubt that uncertainty is rising again as a second wave of coronavirus cases gathers pace. With global equity delivering 8.3% and property just over 2%, the Nedgroup Investments Core Global Fund was up +6.4% for the quarter.

The table below compares an investment in the Nedgroup Investments 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 \$13 816 at the 30th of September 2020. This is better than the \$10 703 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 Cash¹

	3 Months	1 Year	3 Years	Inception 16 November 2015
Growth of fund (after fees) (Growth in %)	\$10 635 6.4%	\$10 660 6.6%	\$11 738 5.5% p.a.	\$13 816 6.9% p.a.
Growth of US Cash (Growth in %)	\$10 005 0.1%	\$10 121 1.2%	\$10 559 1.8% p.a.	\$10 703 1.4% p.a.
Growth target (EAA Fund USD Aggressive Allocation) (Growth in %)	\$10 499 5.0%	\$10 484 4.8%	\$11 102 3.5% p.a.	\$12 681 5.0% p.a.

Fund Return versus US Cash¹ from inception to 30 September 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.



Markets – Improving economic data and confidence

Second quarter earnings season delivered some staggering numbers, with earnings coming in better than market expectations. Entering the third quarter, most sectors were looking to leave the worst of Covid-19 behind and look towards recovery. While the consensus outlook was positive, second waves of Covid-19 infections in the US and Europe interrupted what was envisioned to be a smooth recovery. The reopening of economies was bound to lead to a resurgence in new coronavirus cases, but initial indications are that its impact is significantly less than earlier in the year. Amidst the uncertainty, several key asset classes earned positive returns.

Global risk assets roared into the second half of the year fuelled by over \$20 trillion of global stimulus. The MSCI World Index had its best August since 1986, leading to the Index gaining +8.3% (in dollars terms) for the quarter, while emerging markets edged up +9.5% (in dollars). A lot of investors became too comfortable in the first two months of the quarter, as they observed all the super-charged tech stocks hike higher without much of a thought. US tech giants, which had behaved like defensives during the early year sell-off, and like recovery stocks since, finally suffered a poor month in September leading to a Nasdaq decline of -5.7% for the month.

Moreover, the Barclays global bond index was up roughly +2.7% (in dollar terms) over the quarter. Argentina's freshly-restructured government bonds lost a quarter of their value to score the worst relaunch into markets since Greece in 2012. Meanwhile bonds in Italy were up nearly 8% helped by a super-sized coronavirus rescue plan despite Italy's 160% debt-to-GDP.

Formal talks between the UK and European Union resumed mid-September, meaning the Brexit risks are back on investors' radar. The prospect of the UK and EU reaching a trade agreement by an October deadline is looking less likely, with Prime Minister Boris Johnson stating that the UK would walk away from trade negotiations come October, casting further doubt over a ratified deal by end of the year. That risks the pound falling to a 35-year low, bond yields turning negative for the first time, and stocks that lag international peers.

In the US, election season kicked off with a presidential debate that devolved into a chaotic exchange of insults, interruptions and few hard facts. Considering the uncertainty surrounding the extent of the Covid-19 impact and the upcoming US election, the short-to medium-term outlook remains volatile. Thus far, earnings season has been mostly about banks, however, in Q4 we expect to see a broader range of companies reporting, providing a more comprehensive outlook of how the corporate world is doing and what the future has in store.

Asia's strong performance, delivering a 10% return on equity, has been helped by China's remarkable success in containing the virus. China was first to bear the impact of Covid-19 and first to start recovering economically. As with previous Chinese slowdowns, stimulus measures kickstarted their economy once again. China's 14th Five Year Plan, due to be unveiled in October, should contain further guidance on its future economic trajectory. Nonetheless, bouts of volatility are likely to keep markets on their toes in the coming last few months of the year. Vaccine trials have been progressing, hence, positive news on this front in the coming months could be a game changer for markets.



The political landscape

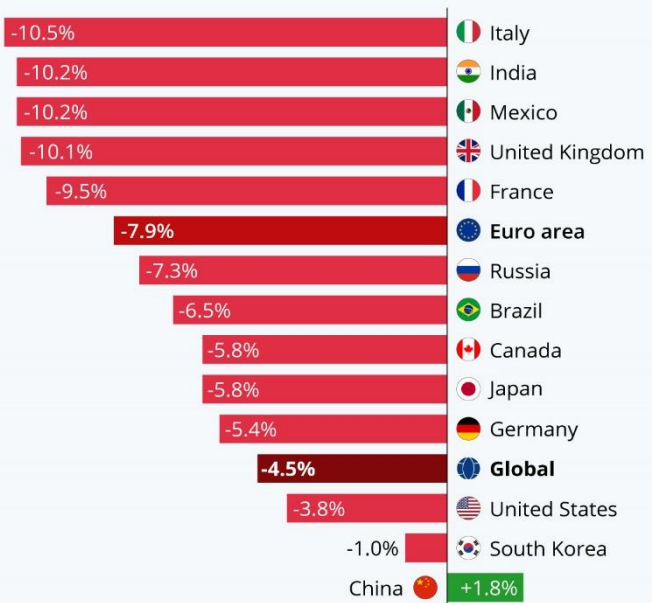
COVID-19 and the resulting policy responses continue to dominate the global political landscape, especially in light of the resurgence of COVID-19 in many countries. Most governments have responded by re-introducing some of the lockdown measures that were in place earlier that year in the affected areas. The challenge for policy makers in dealing with the resurgence, is how best to balance controlling the pandemic against stimulating growth in a flailing global economy.

Almost all countries are expected to see a decline in real GDP this year, with the exception of China. This has led to stimulus packages and significant reductions in interest rates, leaving investors that rely on interest income high and dry. A critical implication of the stimulus measures is the burgeoning debt to GDP ratios that are forecast, driven by the double whammy of falling GDP and rising debt. One such example is South Africa's debt to GDP, which is expected to rise from 63% at the end of Q1 to over 80% by the end of the year (according to Trading Economics). This puts South Africa in a precarious situation and the political will to make the necessary tough decisions for economic reform is nowhere to be seen.

Moreover, the depressing state of the economy has caused a shift in voters' sentiments. Nowhere is this more evident than in the US, where Trump is losing support predominantly amongst white working-class voters driven by their loss of faith in the way he handled the pandemic and the resulting economic fallout.

How Hard Will GDP Be Hit in 2020?

Year-on-year real GDP growth forecasts for 2020



Source: OECD



statista

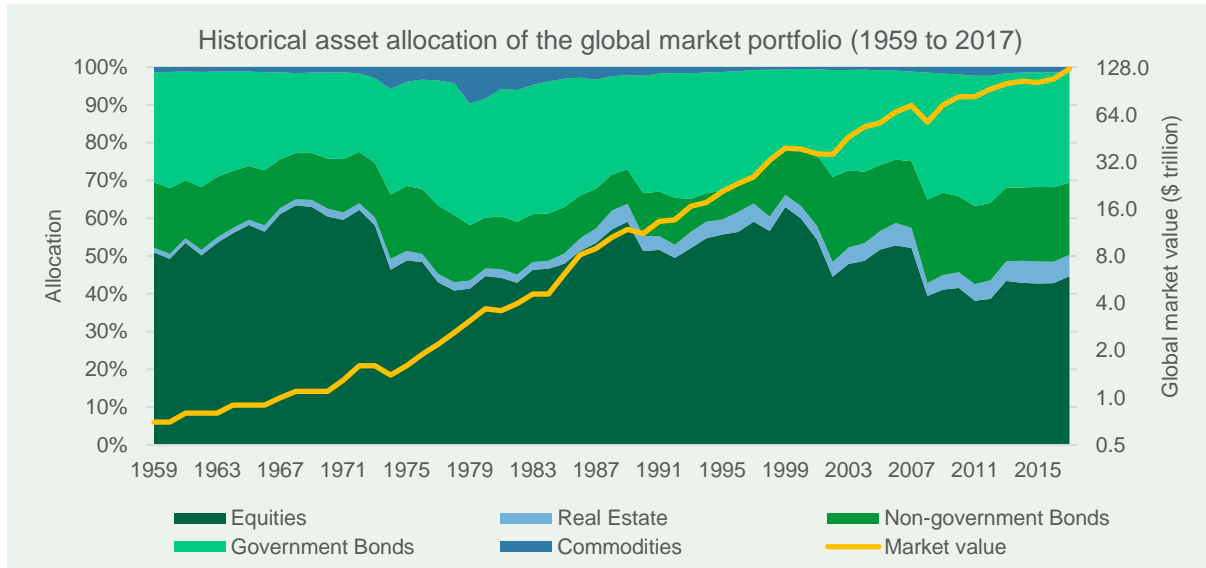
Across the Atlantic, the saga of Brexit continues. The UK put forward the Internal Market Bill, which removes the requirement for a new customs arrangement with Northern Ireland and ignores key aspects that were previously agreed. The draft bill has been criticised for undermining international law.

Furthermore, the UK ignored the deadline set by the EU of the end of September to remove the controversial changes. In response, Brussels has taken legal action, arguing that the UK draft bill is "a breach of the obligation of good faith laid down in the withdrawal agreement". This is expected to come to a head on the 15 October, when Prime Minister Boris Johnson is meeting with the EU in a crunch summit, which will ultimately determine whether the UK exits the EU without a deal. The EU's key concern is to ensure a level playing field in order to avoid distortions.



The global market portfolio

The global market portfolio (GMP) represents the views of all market participants across the globe in respect to the values of each asset class. This portfolio therefore represents the only truly “passive” or market portfolio. The GMP is therefore the one true benchmark for all investors’ strategic asset allocation weightings and according to Bill Sharpe, the man behind modern portfolio theory, it should be the starting point for setting any investors strategic asset allocation. The historical asset allocation of this portfolio is given below.



Source: Doeswijk et al. (Doeswijk, R Q; Lam, T W; Swinkels, L, 2020)

Over the past 60 years the average allocation to equities in the GMP has been around 50%, which is in line with the weighting in a moderate global balanced portfolio. By increasing or decreasing the allocation to risk assets (equities, real estate and commodities) one can then construct a growth global balanced portfolio for longer term investing or a conservative global balanced portfolio for shorter term investing, respectively. The Nedgroup Investments Core Global [Feeder] Fund is such a growth global balanced fund with no home bias and therefore offering the broadest diversification in line with the GMP.

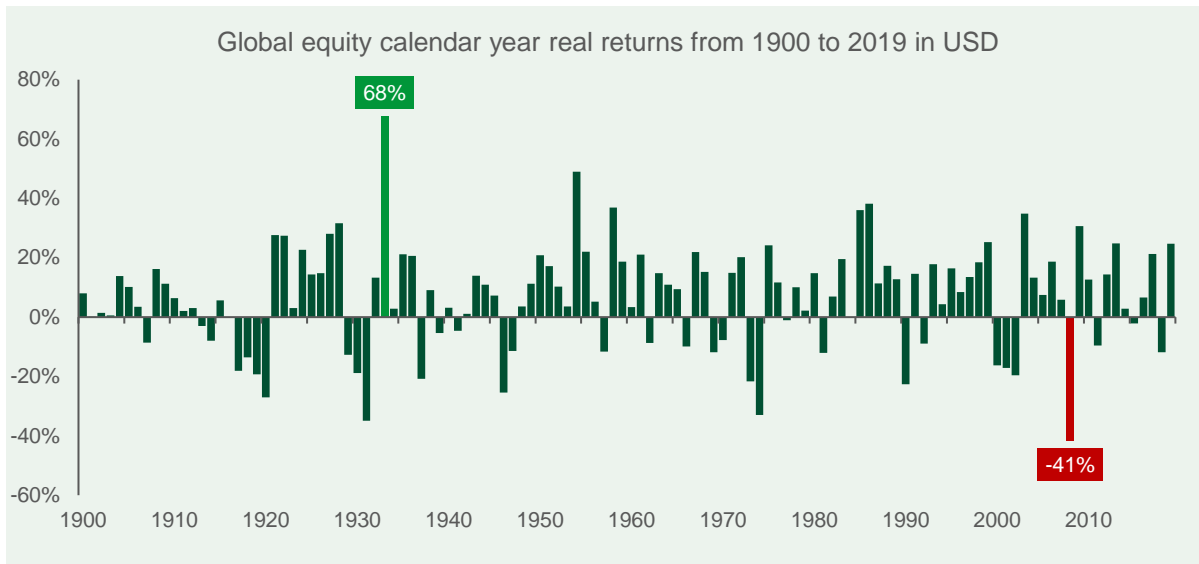
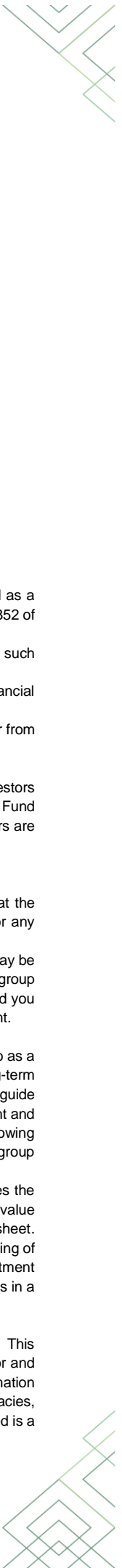


Is this the worst time in markets

The past four years have been eventful across the world. Britain voted to leave the European Union in June 2016 and Donald Trump being elected as President of the US in November of that year. Over the following years we saw a rise on populist political parties, even in many traditionally centrist European countries. We also saw the beginnings of increased protectionism and a trade war between the US and China started. 2020 topped it all off with a global pandemic with devastating consequences to nearly all economies around the world.

One may well think that this must surely be one of the worst times to be invested in the markets – until you look at the equity market returns over the past 120 years. Global equities in dollars delivered its highest real returns of 68% in 1933 and its lowest return of - 41% during 2008. The average real return on global equities over the 120-year period was 6.6% of which 85 (70.8%) of the calendar years were higher than inflation.

There are two important take out from these returns. The first is that it is important to stay invested as many of the worst calendar years were followed by some of the best years. The second is the importance of diversification which would include exposure to global markets.



Source: Dimson-Marsh-Staunton Global Returns Data

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