NEDGROUP INVESTMENTS

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Quarterly review

Nedgroup Investments Core Global Fund

As at 31 December 2020

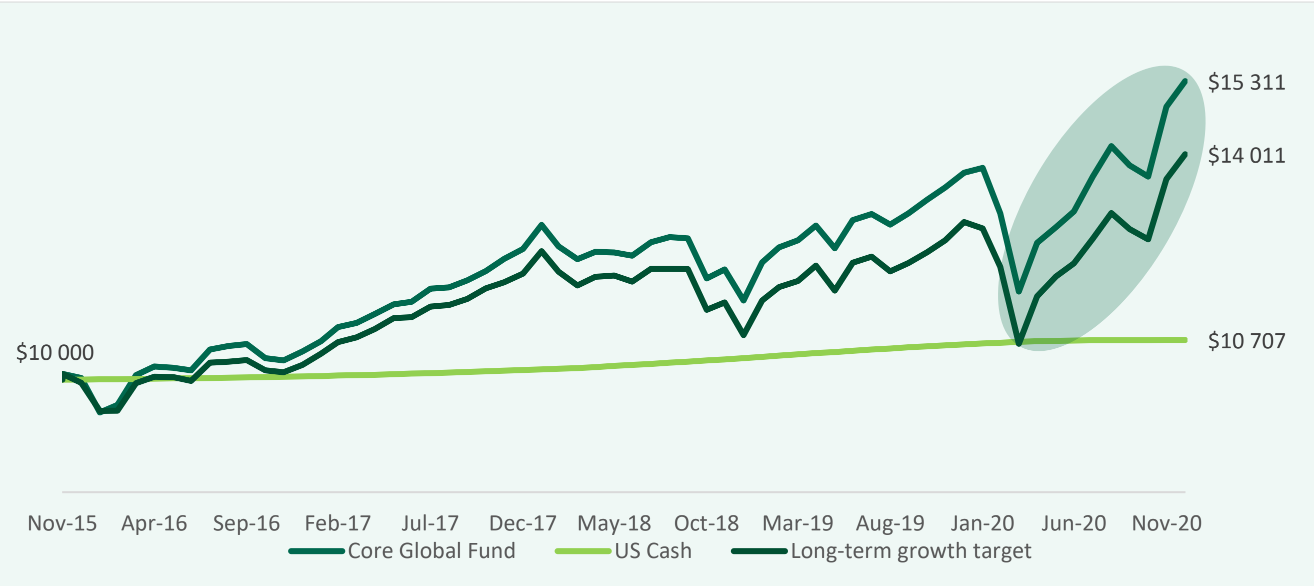
2020 finished in strong fashion

After a V-shaped recovery that started in the second quarter, global fiscal and monetary stimuli are keeping the economic recovery on track with regionally significant growth divergences. Major escalation in Covid-19 cases over the fourth quarter posed notable near-term challenges. In spite of the new outbreak, global markets rallied strongly with indices like the MSCI World reaching all-time highs. Investors continue to respond positively as regulators approve new Covid-19 vaccines and governments initiate programmes to administer them. Quick implementation of the vaccines coupled with the exceptional fiscal relief provided throughout 2020 should hopefully result in a quick economic recovery in 2021 and beyond. Over the course of the quarter, the Nedgroup Investments Core Global Fund grew by +10.8%.

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 $15 311 at the 31st of December 2020. This is better than the $10 707 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 recovery, 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	5 Years	Inception 16 November 2015
Growth of fund (after fees) ***(Growth in %)***	$11 082 *10.8%*	$11 190 *11.9%*	$12 420 *7.5% p.a.*	$15 262 *8.8% p.a.*	$15 311 *8.7% p.a.*
Growth of US Cash ***(Growth in %)***	$10 003 *0.0%*	$10 075 *0.7%*	$10 528 *1.7% p.a.*	$10 704 *1.4% p.a.*	$10 707 *1.3% p.a.*
Growth target (EAA Fund USD Aggressive Allocation) ***(Growth in %)***	$11 049 *10.4%*	$10 940 *9.3%*	$11 785 *5.7% p.a.*	$14 090 *7.1% p.a.*	$14 011 *6.8% p.a.*

Fund Return versus US Cash[1] from inception to 31 December 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 Review: A Tale of Two Vs – Virus vs. Vaccines

The year 2020 will go down in history as an unprecedented year for human crises - financial, medical, and social. The extensive impact of Covid-19 crisis across 200+ countries could not have been predicted. It has been a learning and testing year not only for financial market participants and observers but also for the experts across epidemiology, pharmacology, medicine and molecular biologists. The initial surge of the pandemic in February through May took the world by surprise but good policies of lockdowns, test, social distancing and preventive measures helped slow down the virus toll in the summer months. However, since September many countries are experiencing a second or third surge of virus cases with governments imposing different variations of lockdowns. The struggle between virus and vaccine will determine whether this winter brings the positive sentiment and behaviour towards normalcy. Hopes of an economic and financial recovery hinge on the successful vaccination of 70% of the population which would entail safe, effective and equitable distribution of vaccines throughout the world.

Results from vaccine trials further buoyed sentiment, supporting risk appetite and driving markets to new highs. A historic rally saw the S&P 500, gain +12.2% over the quarter, supporting a +14,0% (in dollar terms) and +0.4% (in rand terms) gain for the MSCI World Index. Emerging markets benefitted from a weaker US dollar and resilient economic data from China. Further monetary and fiscal support from major economies solidified the year-end rally. A bellwether for increasing activity, the oil price rebounded, with Brent crude trading above the $50 mark for the first time since March 2020. Moreover, the Barclays global bond index was up roughly +3.3% (in dollar terms) but fell -9.0% (in rand terms) due to the rand appreciation over the quarter.

In the US, President Trump only recently conceded defeat in the US presidential elections, after none of his numerous attempts to overturn the results were successful. The Democrats will now control the White House, Senate and the House of Representatives when President-elect Joe Biden is inaugurated on the 20th of January. Why does this matter? Both Senate and House of Representatives typically need to pass legislation before it is signed off by the Presidency. On 24 December 2020, the UK finally agreed a deal with the European Union that will define their future relationship. China continued its impressive economic recovery, pulling much of the commodity market along with it. Along with a weakening US dollar, these factors further stimulated market sentiment to fresh highs, with the light at the end of the Covid-19 tunnel seemingly brighter than before.

While transportation, storage, availability, access and funding remain only a few of the outstanding hurdles, the vast amount of progress this year still offers hope for a better 2021. While sentiment is certainly positive, the environment is not without warning signs.

What the world can expect with Biden at the helm?

The approach Trump took during his presidency couldn't be more different than what we expect to see with Biden. Trump has a direct, 'no-nonsense' approach that some considered genius and others crazy; he said what he wanted, did what he wanted and flipped foreign relationships on their head. In contrast, Biden's approach is to work together, even with his opposition, to get people on his side on key issues. His entire approach can be summarised by this statement that he made: "when you get into blood matches, nothing gets done." This is likely to mean very different international relations with the US going forward.

In terms of international relations, many criticised Trump for building relationships with countries that have blatant human rights violations. In the run up to the elections Biden made the following comment about Trump: "This president embraces all the thugs in the world. I mean he's best friends with the leader of North Korea…He doesn't take on Putin in any way". Given this stance, under Biden's administration we can expect that the support and good relationships between the US and such countries will fall away.

In terms of other relations, Russia's foreign minister said that the relationship with the US has gotten worse and they have no intention of contacting Biden's transitional team.

On the flip side of the coin, analysts expect the relationships between the US and Europe to improve, with one of the high priority items on Biden's agenda being the Paris accord and climate change. In fact, he plans to re-join the Paris climate accord on day one. Of course, a focus on climate change might mean the potential demise or at least a reduction in profits of fossil fuel companies. Biden has also asked the EU to hold off on talks with China until they can come to a common approach. At this stage, it is uncertain what US-UK relationship will be in a post-Brexit world.

In Latin America, we are likely to see a reset back to the days of Barack Obama with a return to a more holistic approach including corruption, immigration, drug trafficking and organised crime. Immigration laws are expected to be relaxed somewhat but with a phase approach to implementation to avoid a flood of people coming in to the US at once.

The world, and especially Africa are hoping for more healthcare funding from the US after this dried up during Trump's tenure. Unfortunately for Africa, funding for healthcare is heavily influenced by US politics with most republican presidents deciding to enact the 'global gag rule' and most democrats deciding to rescind it. In short, the 'global gag rule' prevents funding to NGOs who provide abortions or referrals for abortions. Under the Trump administration, he took this policy a step further and expanded this to further restrict global healthcare funding from the US. Biden is expected to address this as a priority, making US funding for global healthcare more readily available thereby providing support for many healthcare NGOs around the world.

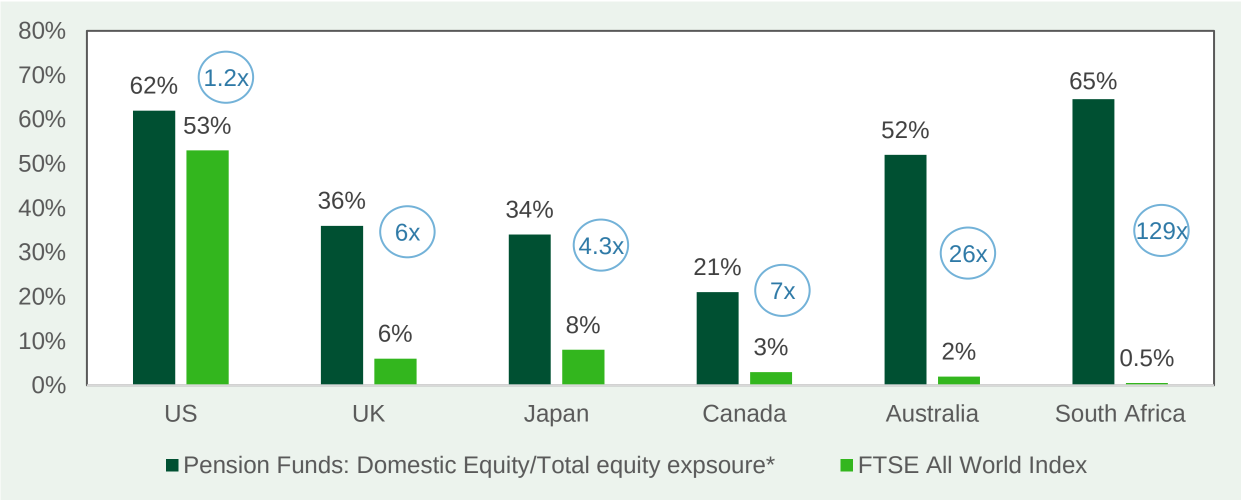
On the whole, under Biden we can expect better global trade opportunities and partnerships and stronger global business activity. However, he will face significant challenges with his term beginning with the double threat of a global pandemic and an economic crisis, that is sure to draw a substantial amount of his attention.

Home biases and changes to the Core Global Fund's asset allocations

In most countries around the world, investors have an overweight to their domestic market's equities and bonds. This overweight is described as having a *home bias*. Over the past few decades the case for a home bias has become less convincing, especially from an, accessibility, diversification and investor behaviour perspective.

The chart below shows the home biases within Pension Funds from different countries across the world. In developed countries home biases range between 1.2 times the FTSE All World Index weighting for the US to 26 times for Australia. Emerging countries such as South Africa have home biases of nearly 130 times its index weighting due to their small relative market caps.

Home biases in pension funds across the world



Source: FTSE Russell and Willis Towers Watson

The Nedgroup Investment Core Global Fund provides investors with broad global exposure across different asset classes, regions and currencies with no home bias. The fund is therefore ideally suited to manage an investors home bias. Investors can therefore easily combine the Nedgroup Investment Core Global Fund with their domestic portfolios to reduce the overall home bias to any level the investor desires while still being able to target their real return objectives over appropriate investment horizons.

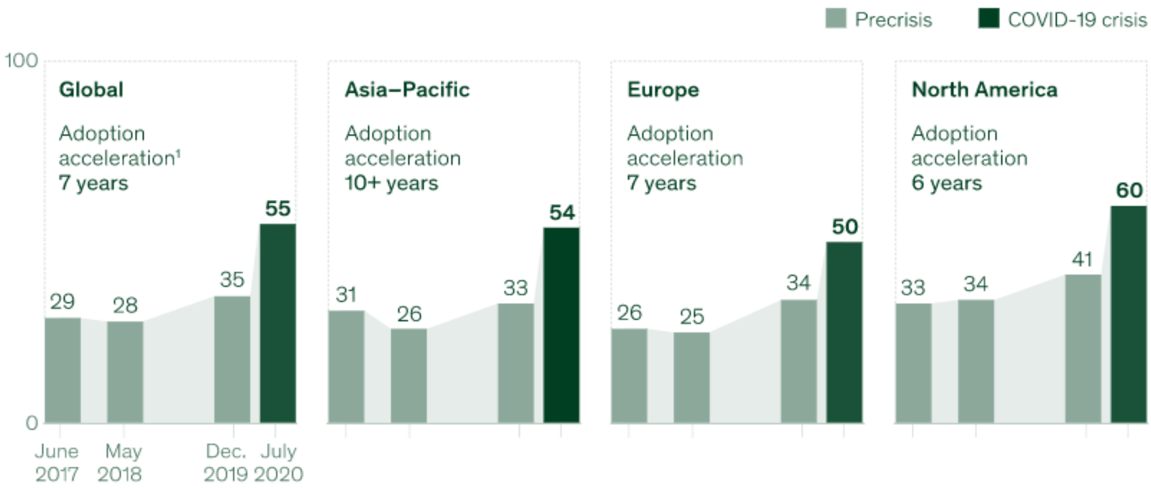
Over the past quarter we reviewed the Nedgroup Investment Core Global Fund's asset allocation. The aim was to enhance the fund's diversification so that it can used by any investor no matter where they are domiciled. This review resulted in an increase in growth asset exposure to 75% and a reduction in REITs, Inflation linked-bonds and Cash exposures.

	Original strategic asset allocation	New strategic asset allocation
Global Equity	62.5%	67.5%
Global REITs	10.0%	7.5%
Global Bonds	7.0%	7.0%
Global Credit	3.0%	4.5%
Global Inflation Linked Bonds	10.0%	8.5%
Cash and liquidity	7.5%	5.0%
Limits		
Total Equity and Property	72.5%	75.0%

The acceleration of digital adoption

Over the past year the coronavirus pandemic has accelerated structural trends that otherwise may have taken years to unfold. Some of these include how and where we work, receive education, communicate and shop. We have seen an increased focus on topics such sustainability, income and health inequality and digital adoption. A recent survey of executives by McKinsey found that companies have accelerated the digitisation of their customer and supply-chain interactions and their operations by three to four years. They also found that the share of digital products has been accelerated by 7 years. The chart below gives a breakdown by region.

Average share of products and/or services that are partially or fully digitized, %



[1]Years ahead of the average rate of adoption from 2017 to 2019.

Source: McKinsey, Global Survey of executives, October 2020

Another interesting finding was that companies responded faster than executives thought possible before the crises. The table below looks at twelve possible changes in organisations and industries. We can see that for most of these changes, companies acted 20 to 25 times faster than under normal business conditions. Covid-19 also forced companies to implement remote working 40 times faster than they thought possible before the pandemic. It took most business an average of 11 days to implement their remote working solutions.

Time required to respond to or implement changes,[1] expected vs actual, number of days

Organizational changes / Industry-wide changes

	Expected	Actual	Acceleration factor, multiple
Increase in remote working and/or collaboration	454	10.5	43
Increasing customer demand for online purchasing/services	585	21.9	27
Increasing use of advanced technologies in operations	672	26.5	25
Increasing use of advanced technologies in business decision making	635	25.4	25
Changing customer needs/expectations[2]	511	21.3	24
Increasing migration of assets to the cloud	547	23.2	24
Changing ownership of last-mile delivery	573	24.4	23
Increase in nearshoring and/or insourcing practices	547	26.6	21
Increased spending on data security	449	23.6	19
Build redundancies into supply chain	537	29.6	18

[1]Respondents who answered "entry of new competitors in company's market/value chain" or "exit of major competitors from company's market/value chain" are not shown; compared with the other 10 changes, respondents are much more likely to say their companies have not been able to respond.
[2]For instance, increased focus on health/hygiene.

Source: McKinsey, Global Survey of executives, October 2020

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