NEDGROUP INVESTMENTS

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Quarterly review

Nedgroup Investments Core Global Fund

As at 30 June 2021

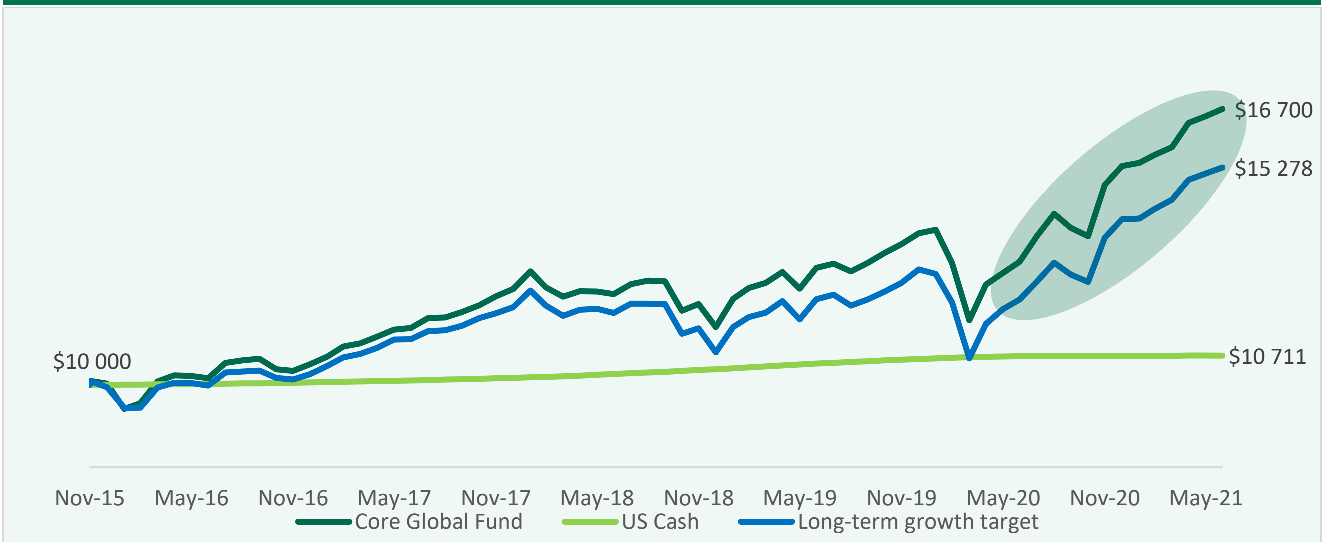
Risk assets delivered a strong performance in second quarter

Over the quarter, global equities advanced in Q2, supported by the accelerating roll-out of Covid-19 vaccines. Growth stocks outperformed more lowly valued parts of the market. This performance was echoed by Emerging market equities which registered a strong return over the second quarter. This was despite a sell-off in May as higher-than-expected US inflation renewed concerns over the timing of global monetary policy tightening. Over the course of the quarter, the Nedgroup Investments Core Global Fund grew by +5.9%.

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 $16 700 at the 30th of June 2021. This is better than the $10 711 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 %)***	$10 590 *5.9%*	$12 855 *28.6%*	$13 680 *11.0% p.a.*	$16 427 *10.4% p.a.*	$16 700 *9.6% p.a.*
Growth of US Cash ***(Growth in %)***	$10 001 *0.0%*	$10 012 *0.1%*	$10 436 *1.4% p.a.*	$10 683 *1.3% p.a.*	$10 711 *1.2% p.a.*
Growth target (EAA Fund USD Aggressive Allocation) ***(Growth in %)***	$10 343 *5.4%*	$13 614 *26.5%*	$12 446 *9.2% p.a.*	$14 550 *8.8% p.a.*	$15 278 *7.8% p.a.*

Fund Return versus US Cash[1] from inception to 30 June 2021



Source: Morningstar

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 and economic commentary

Despite the ongoing challenges and COVID-19 lockdowns around the globe, returns year-to-date to the end of June 2021 have exceeded long-term averages for most asset classes, with the only notable underperformer being global bond (in US Dollars terms). The FTSE World Government Bond Index incurred a loss of 4.8% in US Dollars year-to-date.

Risk assets globally have delivered strong performance this quarter and year-to-date. However, with talks of central banks tapering liquidity and potentially even withdrawing liquidity, this could change the easy financial conditions that have driven risk asset returns.

Year-to-date returns in US Dollars to 30 June 2021	
Global Equity	12.3%
Global Property	16.1%
Global Bond	-3.2%
Global Cash	0.0%

Source: Morningstar

The global property market has yielded some surprises. A Reuters poll done in May with more than 100 property market experts showed considerable upgrades to house price forecasts for the United States, Britain, Canada, Australia and Dubai, which is a noticeable change from 3 months ago, driven by a boost in confidence due to the successful vaccine roll-outs. However, the real surprise was in the change in outlook for office space. CBRE conducted research with companies regarding their expectations for the size of office space required. The latest survey showed that only 9% of large companies plan to significantly reduce their office space. This is in stark contrast to the survey done last year September where 39% of large companies planned to significantly reduce their office space. The trend has shifted to businesses holding off and waiting to see how hybrid and flexible working plays out.

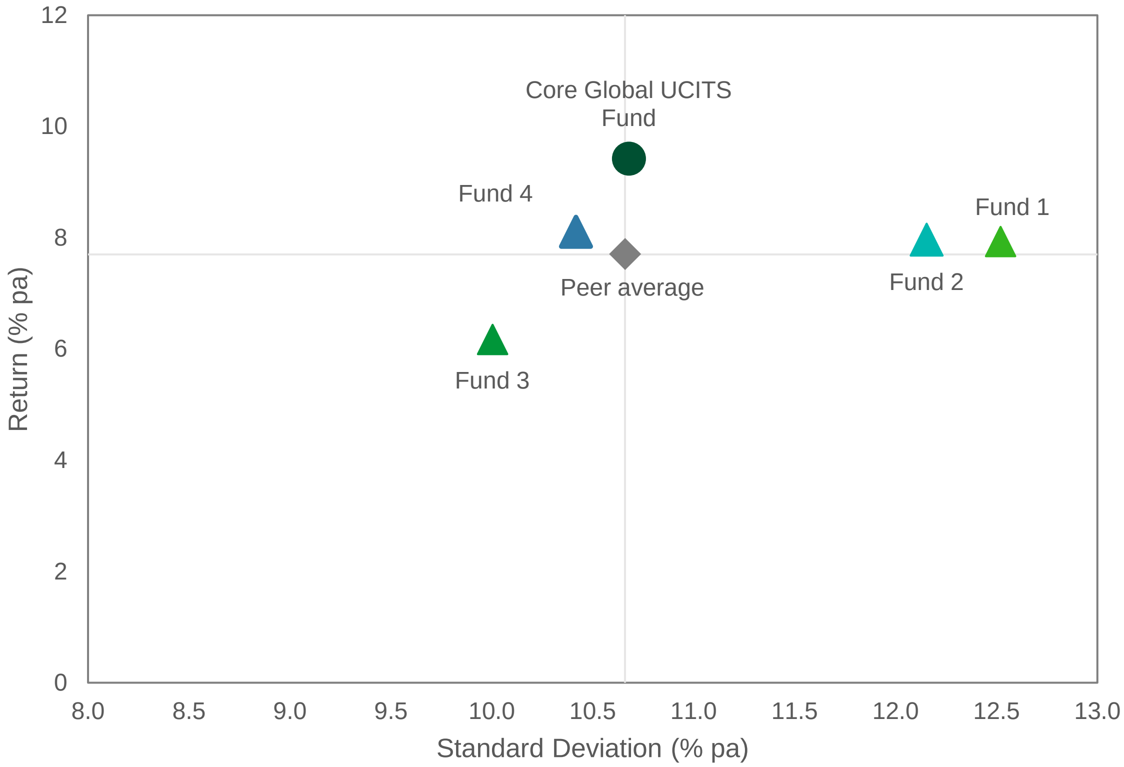
Another positive outlook is the OECD consumer confidence indicator which has shifted from below 100 to just over 100 as at May 2021. The significance of an index level of over 100, is that it signals a shift to a positive outlook with consumers spending money on major purchases and a reduced focus on saving. In contrast, values below 100 indicate a pessimistic attitude with consumers focusing on saving money and spending declines.

Yet, a further positive sign is that global manufacturing continues to boom, as indicated by the JPMorgan global manufacturing purchasing managers' index which was 55.5 index points in June. A level of 50 indicates no change in the amount of activity since the last quarter, and values above 50 indicate increased activity.

All round, markets have delivered great returns and confidence levels have recovered to levels similar to early last year before the pandemic hit.

The importance of broad diversification

Diversification has often been described as a "free lunch" as it often smooths out returns and deliver better risk-adjusted returns. Studies have shown that the relative returns between funds are smaller when they offer broader diversification across asset classes, regions, sectors and currencies[1] This boded well for lower cost rules-based strategies such as the Nedgroup Investments Core Global Fund which holds nearly 6000 shares and over 15 000 fixed income instruments across the globe (developed and emerging markets). The chart below shows how the fund compares to the largest four active funds in Global Balanced and the Morningstar Aggressive Allocation peer average between inception (16th of November 2015) and the 30th of June 2021. One can see how the fund delivered better performances compared to peers for the same amount of risk.



Source: Morningstar

In previous newsletters we also highlighted how share and regional level concentrations risks are reduced, for example the top 10 holding in the fund makes up around 10% of the portfolio compared to a US equity tracker who's top 10 makes up over 26%. The fund has no home bias and can therefore be used by investors across the world as means to build long term wealth.

[1] RA Ferri and AC Benke, A Case for Index Fund Portfolios, 2013

Incorporating sustainability objectives into passive investments is no easy task

There has been an increase awareness of sustainability in investments over the past few years, with some funds focussing on Environmental, Social and Governance (ESG) considerations. The Environmental component includes considerations such as climate change, pollution and waste. The Social component includes skills development, employee wellbeing, labour relations and client – and stakeholder relationships while Governance looks at corporate governance and behaviour.

Over the past two years funds that incorporate sustainability criteria into their investment strategies have made headlines for outperforming traditional strategies. However, longer term studies[2] show that this "outperformance" is mainly due to over weights in certain sectors such as technology and certain portfolio tilts towards known drivers of higher risk-returns factors such as quality. This poses challenges for incorporating sustainability criteria into passive or rules – based strategies as it introduces unintended bets. This in turn leads to a deviation from pure benchmark exposure which introduces relative performance risks.

'Greenwashing' is another challenge for incorporating sustainability considerations into passive investment strategies. This entails strategies that claims but does not actually achieve better sustainability outcomes for investors.

It is important that any sustainability criteria which gets integrated into an investment strategy needs to be supported by robust research with proper qualification and use of sustainability data and which sends clear signals to the corporates which it will invest into. Investor must also understand that sustainable investment strategies is not about achieving outperformance but rather about aligning values, having a positive long-term impact and mitigating risks.

[2] Scientific Beta Publication — "Honey, I Shrunk the ESG Alpha": Risk-Adjusting ESG Portfolio Returns — April 2021.

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