UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

Quarterly review

Nedgroup Investments Core Bond Fund

As at 31 December 2022

Signs of easing inflationary pressures lift markets

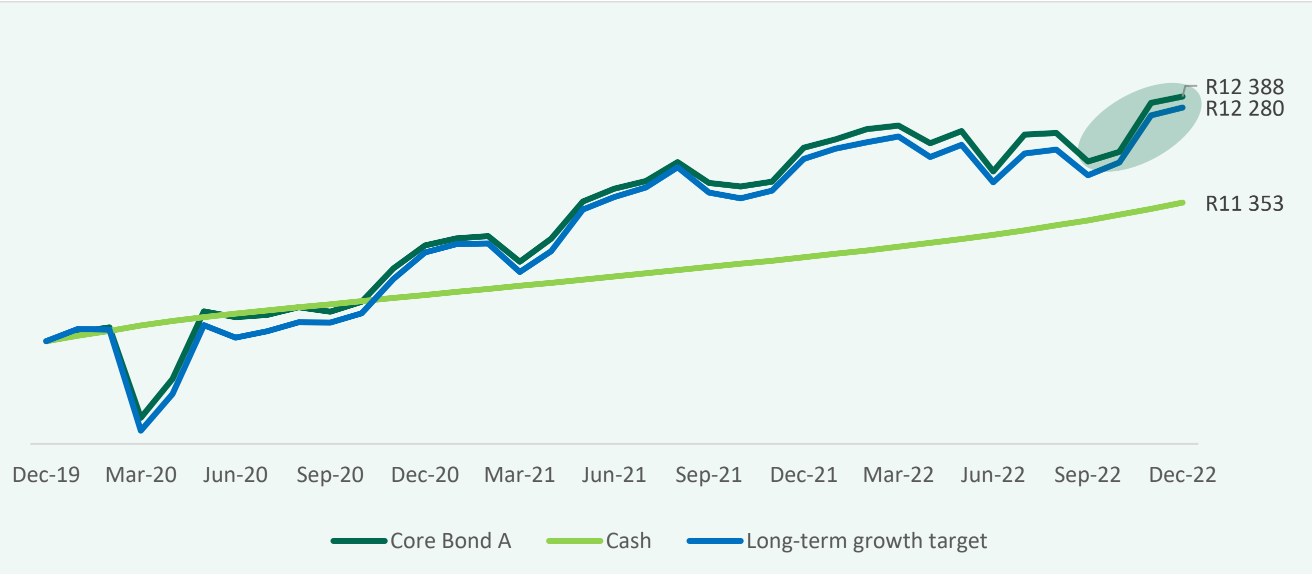
2022 was a tumultuous year, characterized by geopolitical tensions, rate hikes and inflation concerns across regions, with significant losses across asset classes. A turnaround that began in October was short-lived, leaving the S&P 500 with an annual decline of 18% - the worst since 2008. However, macro dynamics were a perfect embodiment of the soft-landing narrative, showing robust employment growth alongside noticeably slower wage inflation in the US. This easing inflationary pressure helped lift markets in the fourth quarter. In the fourth quarter, the Nedgroup Investments Core Bond Fund increased by 5.4%.

The table below compares an investment in the Nedgroup Investments Core Bond 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 Core Bond Fund three years ago, you would have R12 388 at the 31st of December 2022. This is greater than the R11 353 you would have achieved had you invested your money in bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market decline, which helps to contextualise the returns experienced in the past few years.

Value of R10,000 investment in Nedgroup Investments Core Bond Fund versus Cash[1] and the Growth target

	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years
Growth of fund (after fees) *(Growth in %)*	R10 540 *5.4%*	R10 421 *4.2*	R12 388 *7.4% p.a.*	R14 641 *7.9% p.a.*	R18 696 *9.3% p.a.*	R20 294 *7.3% p.a.*
Growth of cash *(Growth in %)*	R10 154 *1.5%*	R10 492 *4.9%*	R11 353 *4.3% p.a.*	R12 903 *5.2% p.a.*	R14 734 *5.7% p.a.*	R17 219 *5.6% p.a.*
Growth target (Beassa ALBI) *(Growth in %)*	R10 568 *5.7%*	R10 426 *4.3%*	R12 280 *7.1% p.a.*	R14 589 *7.8% p.a.*	R18 563 *9.2% p.a.*	R19 769 *7.1% p.a.*

Fund Return versus Cash[1] and the Long-term growth target for 3 years ending 31 December 2022



Over most periods, the Nedgroup Investments Core Bond Fund has done significantly better than bank deposits (cash) as the Fund benefited from the yield enhancement from investing in longer dated bond instruments. Over the past ten years it has delivered more than 1.7% of additional return per annum, or R3 075 for every R10 000 invested.

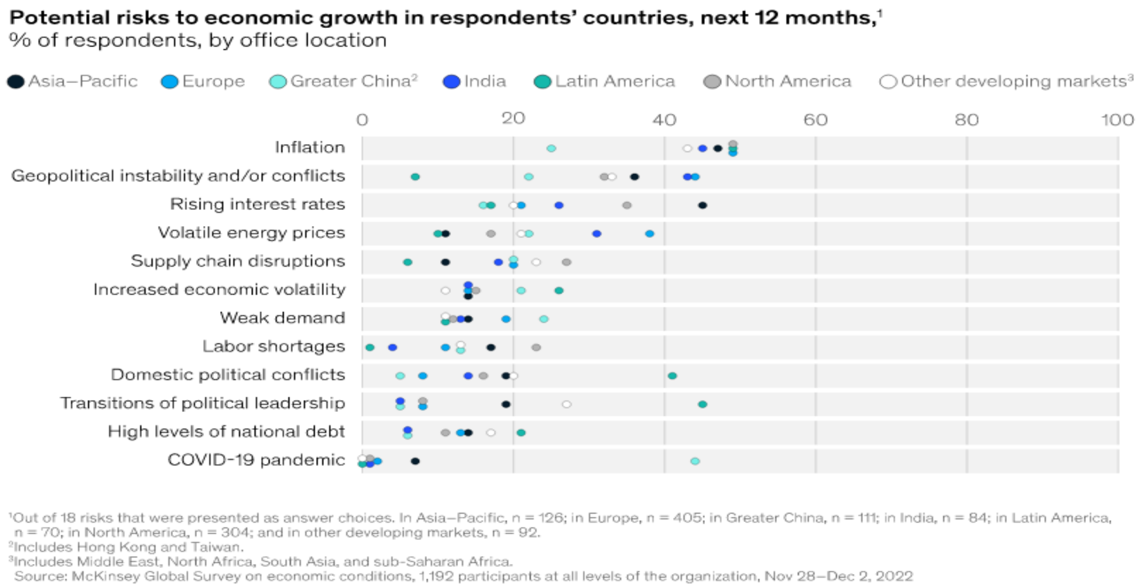
[1] We used the STeFI call deposit rate for cash returns

Economic and market review of 2022 and thoughts for the year ahead

The year 2022 was tough all round, and markets were no exception. Both global equity and bonds yielded double-digit negative returns (in USD). Developed markets (MSCI World Index) were down 18%, emerging markets (MSCI Emerging Markets Index) declined by 20% and global bonds (Barclays Global Aggregate Bond Index) were down by 16%, leaving investors with little place to hide. These losses were largely driven by rising global interest rates, which led to the repricing of assets. South African markets provided some respite with local equities returning 3.6% (FTSE/JSE All Share Index) and local bonds returning 4.3% (FTSE/JSE All Bond Index) in Rands for the year.

Looking ahead, expectations of economic growth in 2023 are very muted and some anticipate a recession. The anticipated challenges to economic growth are highlighted below in the McKinsey Global survey results from executives. Across most regions, inflation is the primary concern, followed by geopolitical instability and then rising interest rates. Both inflation and interest rate outcomes can be heavily influenced by central banks. Central banks face the challenging task of walking an interest rate tight rope; raise interest rates too much and risk further exacerbating the economic slowdown or, underestimate the interest rate hikes required and risk high inflation.

McKinsey Global Survey response on economic conditions December 2022



Source: Mckinsey (economic conditions outlook 2022)

In addition to influencing economic growth, the level of interest rates is also a notable determinant of asset prices. Generally, when interest rates rise, the price of assets (shares, bonds etc.) tends to decrease as investors require higher compensation on 'risk' assets relative to the interest rate they could earn on cash. Therefore, in the year ahead, one of the key influences to market returns is likely to be how inflation plays out and the responding actions taken by central banks.

However, it's important to contextualise the present as it helps to avoid making emotionally driven investment decisions. Current interest rates are by no means high relative to historical rates over the past 70 years and the recent hikes are considered by some to be a normalisation of interest rates. Below is a chart illustrating this, using the United States interest rates as an example. Although the recent rate hikes have occurred relatively quickly, they are by no means anywhere as aggressive as the US rate hikes in the late 70's and early 80's. The chart also illustrates that relative to history, current interest rates are not high and are well within historical depicted of between approximately 0% to 21%.

US Federal Funds Interest Rate

Source: https://www.macrotrends.net/2015/fed-funds-rate-historical-chart

Markets continue to be volatile

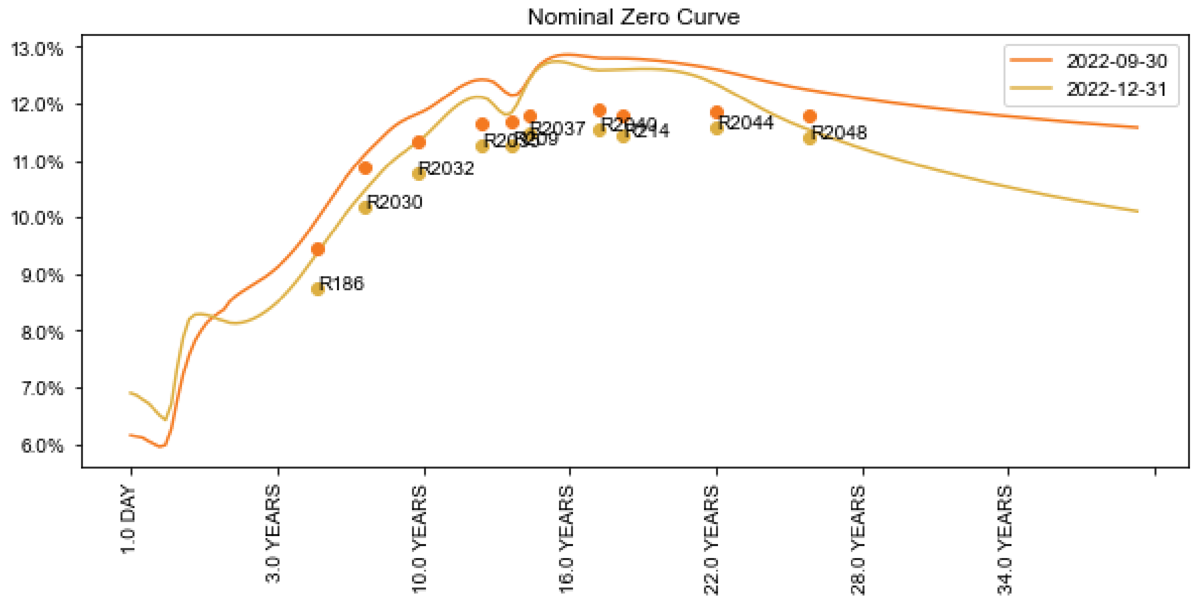
During the quarter, the bond market was dominated by some major political news, being the outcome of the ANC's leadership contest held at NASREC, in the middle of December, and before that, the findings of the Section 89 Panel into the Phala Phala farm robbery, led by former Chief Justice Sandile Ngcobo, released on the night of 30 November 2022. These major risk events were superimposed on a global bond market grappling with the prospect of the world's major economies going into recession and inflation having peaked.

The report concluded that the president may have committed numerous breaches of the law, putting into question his ability to lead given his stated objectives of cleaning up the ANC.

Shortly after the release of the findings, it looked as if the president may resign. The market took this news badly given the lack of credible leadership alternatives, and the possibility of the RET faction within the ANC gaining control. The South African 10-year bond rose 90 basis points from 10.3% the previous day, to 11.2% by the middle of the 1 Dec, before settling back to 10.94%. The impact on bond prices of the 90 basis points move was a loss of around 6.0%. During the days following this news, it became apparent that Cyril Ramaphosa would not relinquish power, and the market clawed back its losses. The fund was able to increase its exposure to bonds and significantly cheaper levels on the day of the sell-off, deploying over 5% of fund.

The next risk event, of less significance, was the tussle for the leadership of the ANC for the next 5 years. At one point there was a small possibility that Cyril Ramaphosa may not get the required number of votes, and the bond market rose 20 basis points.

As mentioned, all this noise occurred on top of global yields trending down. This was in the end, the major theme for the quarter, with the FTS/JSE All Bond Index up 5.6%, with the South African 10-year bond yield dropping to 10.2% from 10.9%. The entire curve shifted down, with the shorter end, moving down around 50 basis points, and the long-end moving down around 40 basis points.



Disclaimer

Nedgroup Collective Investments (RF) Proprietary Limited is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust portfolios. Unit trusts are generally medium to long term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A schedule of fees and charges and details of our awards are available on request from Nedgroup Investments. A fund of funds may only invest in other unit trust funds, that levy their own charges, which could result in a higher fee structure. Nedgroup Investment Advisors (Pty) Ltd (the 'Investment Manager') an authorised as a financial services provider under the Financial Advisory and Intermediary Services Act (FSP No. 1652), is the appointed Investment Manager of the Management Company.

Certain Nedgroup Investments unit trust portfolios include international assets, whereby a change in the exchange rates may cause the value of those investments to rise and fall. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

Please note that Nedgroup Collective Investments (RF) Proprietary Limited is not authorised to and does not provide financial advice. This presentation is of a general nature and intended for information purposes only. It is not intended to address the circumstances of any investor and cannot be relied on as legal, tax or financial advice, either express or implied. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this presentation. Nedgroup Collective Investments (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA).