NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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Quarterly review

Nedgroup Investments Core Diversified Fund

As at 31 March 2021

Progress against COVID-19 leading to optimism abouth the economic rebound

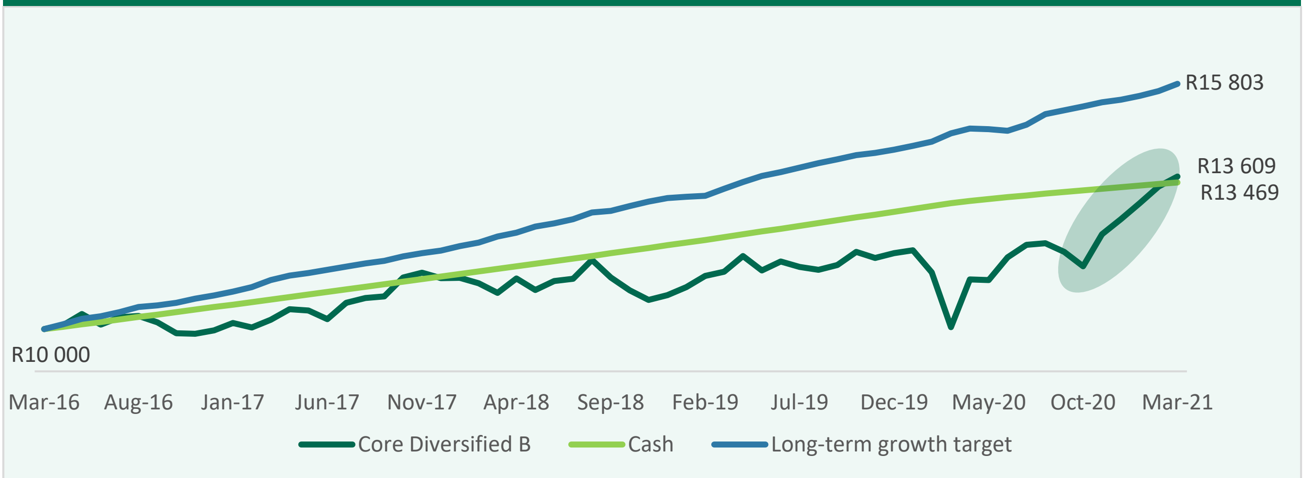
Despite the lockdown restrictions, the opening of economies and improved activity in 2021 are made more likely by approval and rollout of vaccines. These sentiments were echoed by the IMF and World Bank, both forecasting an expansion for the global economy for 2021 of 5.5%% and 4.0%, respectively. The OECD has now joined the ranks of entities that have lifted their economic growth forecasts to account for vaccine rollouts and greater US fiscal stimulus, now expecting global growth of 5.6% in 2021 (up from 4.2%). A historic rally saw the S&P 500, gain +56.4% over the year, supporting a +54.8% (in dollar terms) gain for the MSCI World Index.Overall, this was a volatile first quarter, with duration exposed assets in the crossfire with bond yields and earnings trending higher. Over the course of the quarter, the Nedgroup Investments Core Diversified Fund grew by +6.5%.

The table below compares an investment in Nedgroup Investments Core Diversified Fund to a bank deposit (cash) investment and its growth target over various time periods. For every R10 000 invested in the Nedgroup Investments Core Diversified Fund five years ago, you would have R13 609 at the 31st of March 2021. This slightly higher than the R13 469 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 recovery, which helps to contextualise the returns experienced in the past few years.

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

	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 31 August 2009
Growth of fund (after fees) ***(Growth in %)***	R10 804 *8.0%*	R13 551 *35.5%*	R12 540 *7.8% p.a.*	R13 609 *6.4% p.a.*	R16 714 *7.6% p.a.*	R32 261 *10.6% p.a.*
Growth of cash ***(Growth in %)***	R10 085 *0.9%*	R10 380 *3.8%*	R11 789 *5.6% p.a.*	R13 469 *6.1% p.a.*	R15 072 *6.0% p.a.*	R19 218 *5.8% p.a.*
Growth target (inflation+5%) ***(Growth in %)***	R10 242 *2.4%*	R10 800 *8.0%*	R12 966 *9.0% p.a.*	R15 803 *9.6% p.a.*	R19 389 *9.9% p.a.*	R30 439 *10.1% p.a.*

Fund Return versus Cash[1] and the Long-term growth target for 5 years ending 31 March 2021



The Nedgroup Investments Core Diversified Fund has a long-term growth target of 5% above inflation (around 10% per year) over 5-year periods. The fund has provided returns closer to cash over the past 5 years. However, history[2] demonstrates that two thirds of the time a fund such as this would have achieved or surpassed its long-term target. This confirms the importance of being invested for the long term. In fact, if you increase your investment horizon, the risk of underperforming this target decreases.

[1] We used the STeFI call deposit rate for cash returns
[2] Based on SA market returns from 1960 to 2018 (source Firer 2006) using the same long-term equity allocation and fees.

Economic and market performance – One step forward

By the end of March, 32% of the US population and 75% of adults over 65 years had received at least one dose of the vaccine. With approximately 3 million doses being administered each day in the US, and as this pace of vaccination continue, the prevailing expectation is that the economy will experience significant pickup in domestic and global economic activities. As vaccination continue to accelerate in large economies, providing a much-needed boost to the economic activities, slow vaccination rollout and extended lockdowns in countries with lack of access to the vaccine threatens the recovery. Hence, this has kept the pandemic at the forefront of everyone's mind, most notably that of policy makers.

Stock markets enjoyed another positive quarter, the fourth in a row since last year's March pull back, with the S&P 500 closing at a +6.2% gain over the quarter. Developed markets gained +4.0% over the quarter, meanwhile emerging markets only gained +2.3% against a stronger US Dollar and heightened volatility. Global Real Estate also saw a positive return over the quarter with the index gaining +6.2%. Global bond markets lost further ground on higher bond yields resulting in a -4.5% decline in the Barclays Global Aggregate Index. It is not unusual to see bonds loose value when stocks are doing well because generally high-quality bonds move in the opposite direction of equities.

The first quarter also saw the US President elect Joe Biden's inauguration proceeding without incident given the lingering concerns that protests at the Capitol would be repeated. The new administration moved swiftly to reverse many of the previous administration's decisions, which can now easily be done since the balance of power is in favour of the Democratic Party.

Global central banks have done all they can to communicate their preference to remain accommodative, especially given the uneven nature of vaccine rollouts and economic recovery to date. Bond markets are, however, already pricing a future of expansion in fiscal support, economic growth and potential for related inflation, as reflected in higher bond yields. The European Central Bank (ECB) kept monetary policy unchanged at its meeting in March. The Pandemic Emergency Purchase Programme (PEPP) was maintained at $1.85 trillion, although policymakers noted that the total amount might not be utilised unless inflationary pressures became risky. The short-term economic outlook remains uncertain; however, a moderate rebound in activity is expected sometime this year. The ECB views the current uptick in inflation as temporary. Time will tell whether markets will force policy makers to act, but for now, the tussle will continue to impact broader asset prices.

Over the quarter, the rand registered exceptional gains against the three major currencies, teetering between R14.20/$ and R14.30/$. After tracking below the SA Reserve Bank's inflation target range of 3 to 6% in the midst of the pandemic, local inflation was recorded at an average inflation rate of 3.3% for the calendar year 2020. The South African Reserve Bank (SARB) voted to keep interest rates unchanged at their March MPC meeting – a unanimous decision by the committee. This arguably signals that the next move could be an increase, but the SARB took some time to highlight that policy would remain accommodative and that more evidence would be required before acting. Local market had a good start to the year with the FTSE/JSE All Share Index gained +1.6%, bringing the first quarter return to a pleasing +13.1%. This was mainly due to the strong quarterly performance from the resources sector (+18.7%). The domestic property sector gained +1.2% in March, bringing the quarterly returns to a healthy +6.4%. The All Bond Index declined by -2.5% in March, bringing the first quarter returns to -1.7%. Inflation-linked bonds benefitted from the prospects of reflation, returning +4.6% over the quarter.

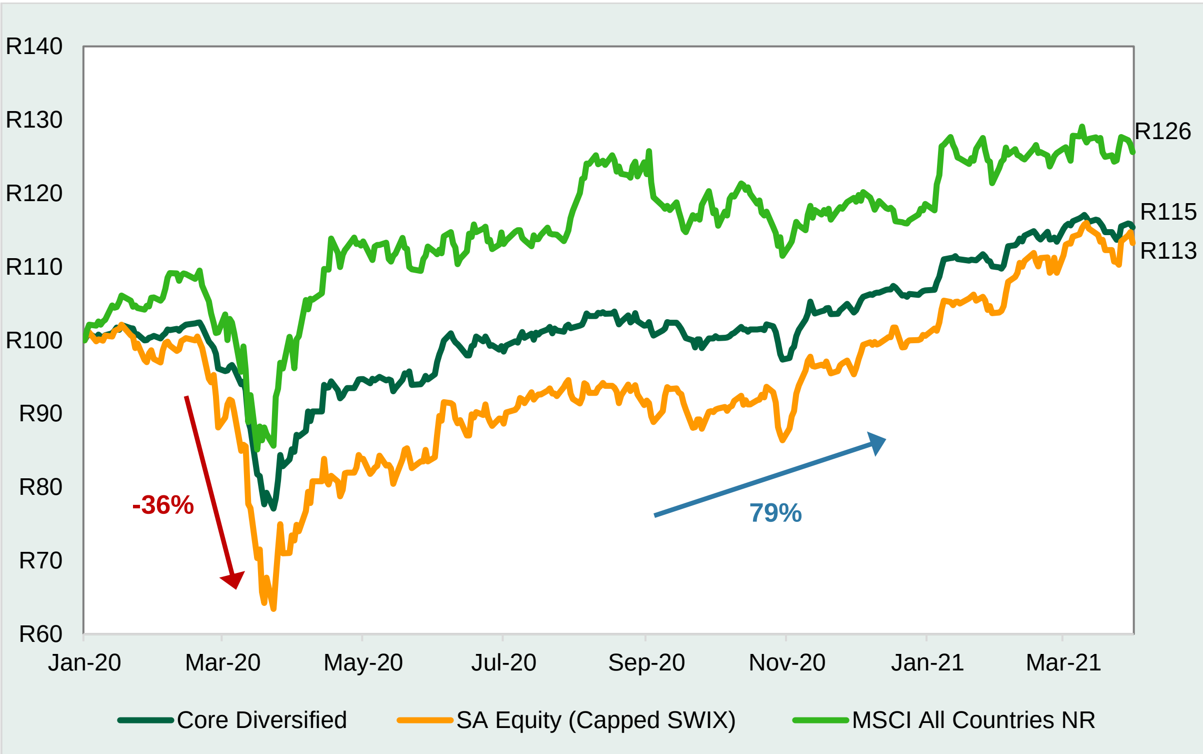
Investments lessons over the past year

A year on from the first global lockdown and related market rout, the world is still grappling with the pandemic, but is slowly on the mend. Expectations of a third wave of infections are prevalent, with a resurgence in cases already evidenced in Europe. Slow vaccination rollouts and extended lockdowns threaten the economic recovery in the region and highlights the risks faced by other countries with lack of access to vaccines or slow distribution.

South African equities had a strong start to the year resulting in a return of 12.6% (Capped SWIX) over the quarter. This was partly driven by resources, up 18.7% and to a lesser extent small caps up 21.2% for the quarter. Global market returns in Rands were up by around 5% during while global bonds declined by 4% as bond yields trended higher.

Over the past year SA equities delivered a staggering 54%, SA real estate (REITS) 30% and global equities 27% in Rands. It is however important to contextualise these returns to the market events that took place at the beginning of the Covid19 crisis. The chart below shows the returns of equity markets over that past 15 months.

Equity market returns over the past 15 months



One can see that during the crisis SA equities dropped by 36% before starting its recovery in April 2020. Since then we have seen growth of 79% to achieve a cumulative return of 13% over the full 15month period. If an investor had panicked at the bottom of the market, they would have locked in the 36% loss and missed out on the recovery performance. This highlights the importance of staying invested for the long term as markets generally recover over time. In this case it was a quick recovery by historical standards as there has been periods where it took years to recover.

For that reason, diversification across local and global asset classes is the most sensible strategy to deal with market uncertainty as it smooths out the investment journey. One can see that the Nedgroup Investments Core Diversified Fund experienced drawdown of 23% which it recovered from by June 2020.

International investing in 3 easy steps

Many people are interested in investing internationally but are often unsure of where to start. A useful framework to unpack international investing is the golden circle: Why? How? What?.

Why invest internationally?
There are different reasons why people want to invest internationally, and it is important to know what your reasons are, as these will determine which type of international investment will be right for you. The three most common reasons that South African's want to invest internationally are diversification, protection against rand depreciation and being able to access money outside of South Africa. We did a poll recently and by far the most compelling reason, at about 60% of the audience, was diversification, with the other two reason's being a close tie around 20% each.

To contextualise the need for diversification, if you had to draw a map and represented each country by the size of their economy, South Africa would be less than half a percent of the global economy.

What are the international investment options?
There are two main options when it comes to international investments accessed via a fund. Option 1 is international investments accessed in South Africa in rands and option 2 is international investments accessed outside of South Africa in a foreign currency.

The first option is a simple way to access international investments and avoids the trouble of going to the bank to get forex done. There are two variations of option 1. The first only has a portion invested internationally (e.g. Nedgroup Investments Core Guarded Fund or Nedgroup Investments Core Diversified Fund), but the more relevant variation is a feeder fund, which is effectively fully invested offshore (e.g. the Nedgroup Investments Core Global Feeder Fund).

On the other hand, option 2 requires you to convert your rands to another currency and use this currency to buy an international investment that is outside of South Africa. An example of this is the Nedgroup Investments Core Global Fund.

Table: Comparison of the two types of funds with international investments

	Option 1 (access in SA)	**Option 2 (access outside SA)**
Diversification[3]	✓	✓
Protect rand depreciation	✓	✓
Accessible outside of SA	✗	✓
Simplicity	✓	Not as simple
Monthly debit order	✓	✗
Minimums	R500 per month R10k initial lump sum	$4000 initial lump sum

Both options can provide you with diversification and protection against rand depreciation. Therefore, the main difference is how you access the money. With the first option, you cannot access the money outside of South Africa and if your main reason for wanting to hold international investments, then this may not be the option for you. Of course, you can opt to do a combination of both option 1 and 2.

Then comes the question of simplicity. Option 2 can be a little more complex to set up and transact on as you cannot set up a debit order or monthly withdrawals.

[3] Assuming that the underlying investment holdings in the fund are well diversified

Another consideration is the differences in tax. For example, when you withdraw money from a feeder fund, capital gains tax will be applied on the growth in the foreign currency and if the rand has depreciated, you will also pay capital gains tax on that. However, in an international fund you will only pay capital gains tax on the growth in the foreign currency.

How do you invest?
Option 1: To invest in our funds that can be accessed in South Africa, click here. This will guide you through a digital onboarding process that will take under 10 minutes. You will need a digital copy of your ID.

Option 2: To invest in our international funds in a foreign currency, you will need to:

- Apply for your Foreign Tax Clearance Status on your eFiling profile if you are transferring more than R1m out of South Africa in that calendar year.
- Click here to download the application form. You will also need a physical certified copy of identification and the original or a certified copy of proof of address.
- Ask your bank or other party to do the forex transaction and send proof of payment.

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