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A close-up photograph of an open book with white pages, showing the binding and the edges of the pages. The book is positioned on the left side of the page, with the pages fanning out towards the right.

Quarterly review

Nedgroup Investments Core Diversified Fund

As at 30 June 2024

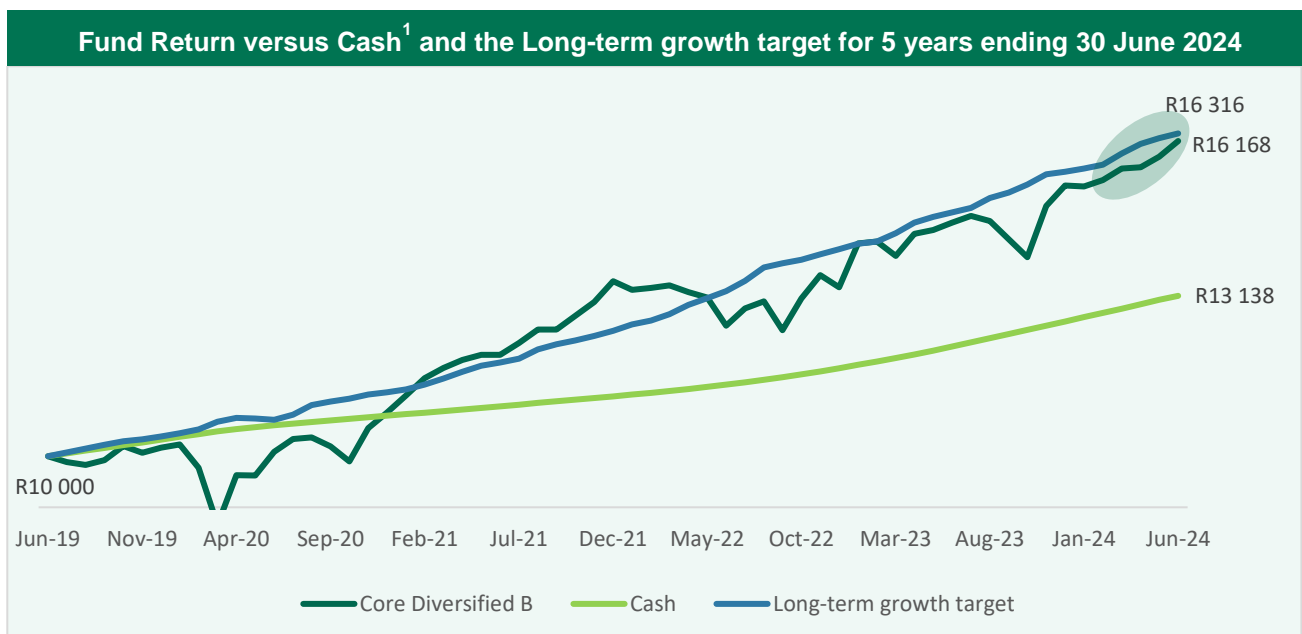


South Africa's new political dawn

The recent elections were a watershed moment for South Africa and its democracy. The collapse in ANC support left the ruling party in uncharted territory with the task of not only finding a new leadership solution but also including far larger opposition parties than initially thought. Over the quarter, the Nedgroup Investments Core Diversified Fund increased by 3.5%.

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 R16 168 on the 30th of June 2024. This is slightly higher than the R13 138 you would have received had you invested your money in bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market increase, which helps to contextualise the returns experienced over 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 345 3.5%	R11 094 10.9%	R13 490 10.5% p.a.	R16 168 10.1% p.a.	R18 332 9.0% p.a.	R44 470 10.6% p.a.
Growth of cash (Growth in %)	R10 194 1.9%	R10 818 8.2%	R11 968 6.2% p.a.	R13 138 5.5% p.a.	R14 948 5.9% p.a.	R23 198 5.8% p.a.
Growth target (inflation+5%) (Growth in %)	R10 247 2.5%	R11 047 10.5%	R13 789 11.3% p.a.	R16 316 10.3% p.a.	R19 618 10.1% p.a.	R43 145 10.4% p.a.



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, history² 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.



During the second quarter, a discernible shift occurred in the US economy, as evidenced by the US Citigroup Economic Surprise Index dropping from 40 to -30. This index gauges a variety of economic metrics, with a positive value indicating that outcomes were better than expected and a negative value indicating they were worse. With these developments, and particularly an increase in the US unemployment rate to 4.1% and a reduction in inflation rates to 3% year-on-year, it's predicted that the US may start cutting interest rates in the latter half of the year. On the global scene, the European Central Bank has already initiated a decrease in rates by 25 basis points. As is common, emerging markets may well follow suit and cut their interest rates, accordingly, leading to an overall decline in interest rates.

At first glance, US equity markets seem to project a different narrative, with the S&P 500 exhibiting gains of over 4% for the quarter and 14% for the first half of the year when measured in US Dollars. Delving deeper reveals that this 4% growth is predominantly credited to three tech companies — Nvidia, Apple, and Microsoft — while the rest of the market generally fared poorly. Similarly, developed market equities worldwide posted nearly 3% returns in the second quarter, as indicated by the MSCI All Country World Index in USD. Surpassing their developed counterparts, emerging markets returned more than 5%³ for the quarter, driven mainly by AI-related firms. However, other sectors like global property and bonds experienced declines of over 2%⁴ and 1%⁵, respectively.

Post-election tensions have eased in South Africa, paving way for the new Government of National Unity (GNU). This broad coalition government encompasses 11 parties, with 32 ministers and 43 deputy ministers. Though the formation of GNU spells optimism for the nation, it's yet to be proven how effectively it can manage the daily governance activities given its diversity of viewpoints and ideologies. Concessions will inevitably be necessary for national progress.

The South African Rand strengthened by 5% during the quarter, compensating for some losses from the first quarter of 2024. The Johannesburg Stock Exchange also made strong advances, with the Capped SWIX climbing 8.2% in the quarter, buoyed by optimistic market sentiment post the elections. South African bonds and real estate markets reacted positively too; the JSE All Bond Index had its best month this June since May 2020, registering a gain of 5.2% and culminating in an impressive 7.5% return for the quarter. Property delivered a 5.7% increase for the same period.

To summarize, South Africa sees encouraging economic signs. Given the new government's inauguration, there's a chance to rejuvenate business and consumer assurance from their present low levels. However, South Africa's long-term economic growth hinges on consistent and reliable energy supply, rail logistics reform, as well as advancements in water and infrastructure.

³ MSCI Emerging Markets Gross Index in US Dollars

⁴ FTSE EPRA/NAREIT Developed Net Index in US Dollars

⁵ Bloomberg Global Aggregate Bond Index in US Dollars





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