

NEDGROUP
INVESTMENTS

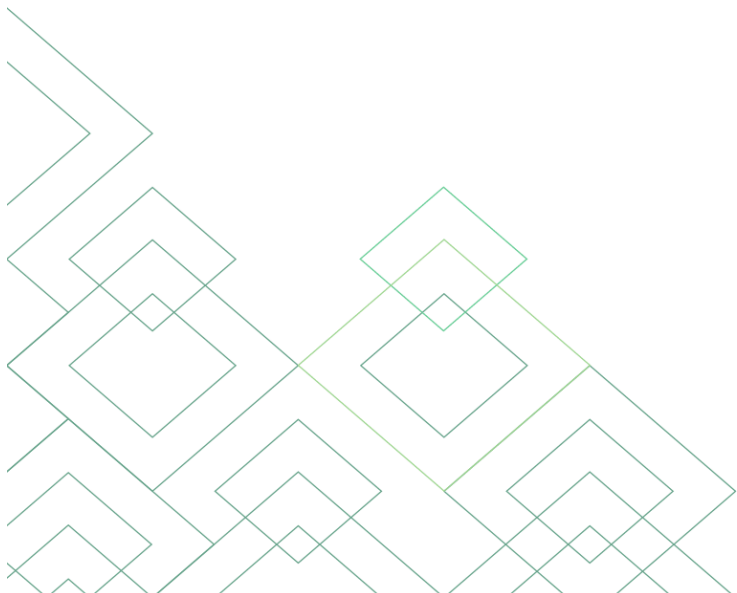
UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently



Quarterly review

Nedgroup Investments Core Diversified Fund



As at 30 June 2021



Risk assets delivered a strong performance in second quarter

Over the quarter, global equities advanced, 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 and property 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. The rand also registered exceptional gains against the three major currencies, teetering between R13.42/\$ and R14.30/\$. Over the course of the quarter, the Nedgroup Investments Core Diversified Fund grew by +2.2%.

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 758 at the 30th of June 2021. This slightly higher than the R13 361 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 218 2.2%	R11 887 18.9%	R12 485 7.7% p.a.	R13 758 6.6% p.a.	R16 218 7.2% p.a.	R32 964 10.6% p.a.
Growth of cash (Growth in %)	R10 086 0.9%	R10 354 3.5%	R11 704 5.4% p.a.	R13 361 6.0% p.a.	R15 004 6.0% p.a.	R19 384 5.8% p.a.
Growth target (inflation+5%) (Growth in %)	R10 353 3.5%	R11 133 11.3%	R13 089 9.4% p.a.	R15 881 9.7% p.a.	R19 447 10.0% p.a.	R31 513 10.2% 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.





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 locally and 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 to 30 June 2021

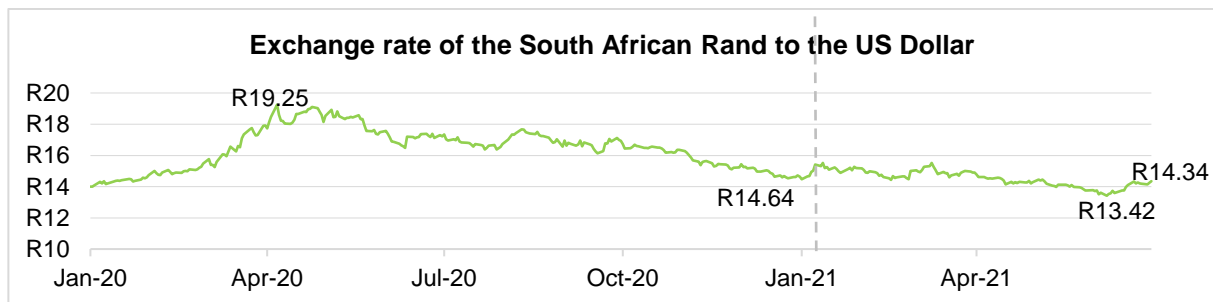
Local	Rands	Global	US Dollar
SA Equity	13.2%	Global Equity	12.3%
SA Property	19.3%	Global Property	16.1%
SA Bond	5.0%	Global Bond	-3.2%
SA Cash	1.7%	Global Cash	0.0%

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.

Despite buoyant markets, local consumer confidence levels back pedalled in the second quarter, falling from -9% in March this year to -13%, as indicated by the FNB/BER Consumer Confidence Index. This decline was driven by a fall in durable goods, which includes items such as vehicles, furniture, and household appliances. This sentiment reflects consumer views that it is inappropriate to spend on 'unnecessary' items in times like these.

In contrast local and global manufacturing has been booming, as indicated by the manufacturing purchasing managers' index. A level of 50 indicates no change in the amount of activity since the last quarter, and values above 50 indicate increased activity. The JPMorgan global manufacturing purchasing managers' index was 55.5 and the local Absa manufacturing purchasing managers' index was 57.4 index points in June 2021 so both indicate increased activity.

Coming closer to home, the rand has significantly recovered from its high of R19.25 last year. This trend of rand appreciation has been consistent over the last 14 months, reaching a low of R13.42 in early June; a level last seen more two years ago in February 2019. Since early June, this trend has reversed somewhat, with the rand depreciating back to R14.34 as at 30 June 2021.

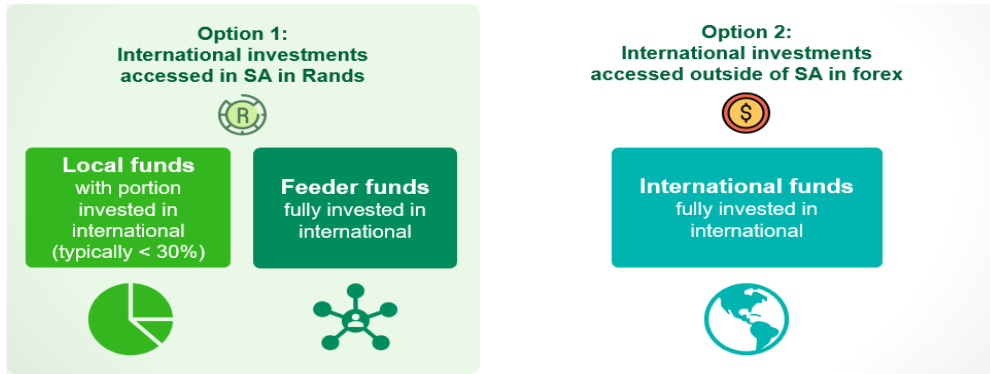




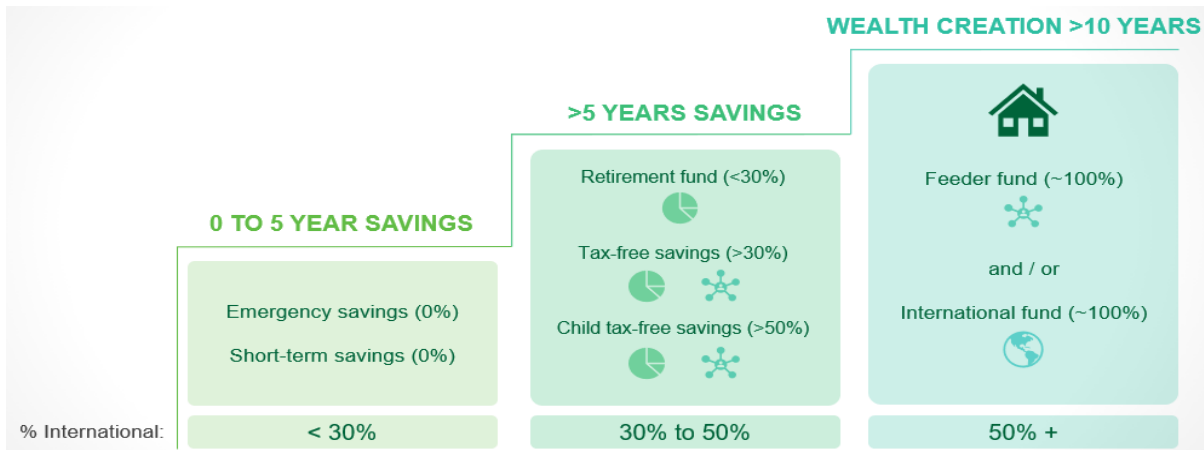
How to incorporate international investments into your savings plan



In the previous quarterly review, we covered international investing in 3 easy steps, including the types of funds that provide international exposure. Below is a recap of the funds that can be used to gain international exposure.



The infographic below is an example of how a South African individual could incorporate international investments into their overall savings plan. The local fund, feeder fund and international funds in the infographic are represented by their icons depicted above. The percentage in brackets represents the portion invested in international.



Note: The above information does not constitute advice and the details relate to the example discussed

Let's call the South African individual in this example, Thabo. Thabo plans to stay in South African and doesn't have any explicit expenses in foreign currency, such as a child planning to study abroad.

Thabo's investments can broadly be divided into three buckets:

1. **Short-term savings** of less than 5 years – this would include money set aside for emergencies and other short-term goals e.g. saving for a house deposit.
2. **Medium-term savings** of more than 5 years – this would include saving for retirement, tax-free savings accounts and savings for Thabo's children's education.
3. **Wealth creation** and legacy savings – these are very long-term savings without any particular objective other than to grow wealth or leave a legacy.

Thabo's short-term savings, illustrated in the first step of the infographic, would typically have very little to no international exposure. The reason for this is that foreign investments can be very volatile over short time periods due to currency fluctuations.

The next step is medium-term savings, which lends itself to including more international investments than short-term savings. Thabo could consider having 30% to 50% exposure to international investments in this bucket.





Retirement funds are restricted to having a maximum of 30% in international. In contrast, a tax-free savings account has more flexibility and international exposure can be obtained via local funds and/or feeder funds. Since there is a lifetime limit of the amount someone can contribute to a tax-free savings account and that there is no replacement of the lifetime limit, it lends itself to having money invested for as long as possible with few withdrawals. It is this long-term nature that makes it well-suited to a relatively high percentage in international. Furthermore, Thabo could also open a tax-free savings account for his children. Given that his children are young, he can invest a relatively high portion in international as they will only need the money at age 18 or later.

The final step is wealth creation and building a legacy. These investments are very long-term in nature with no specific goal. Therefore, this bucket is suited to having the highest portion in international investments. Depending on the reason that Thabo wants exposure to international investments, he could either obtain this exposure via a feeder fund which is accessible in South Africa in rands and/or an international fund priced in foreign currency. When considering this bucket, it is important for Thabo to view all his investments holistically. For example, Thabo may have a house and rent out another property, which increases his exposure to South African investments. He needs to keep this in mind as it gives him more scope to invest in international funds in this bucket to improve the diversification of his investments.

To summarise, the principle is that the longer the savings term, the greater the exposure can be to international investments as there is time to ride out volatility while still enjoying the benefits of diversification.



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 studies³ 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.

³ Scientific Beta Publication — "Honey, I Shrunk the ESG Alpha": Risk-Adjusting ESG Portfolio Returns — April 2021.





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