



**NEDGROUP**  
INVESTMENTS

QUARTERLY REVIEW  
**NEDGROUP INVESTMENTS CORE ACCELERATED FUND**

as at 30 June 2019

See money differently



## Another quarter of positive returns

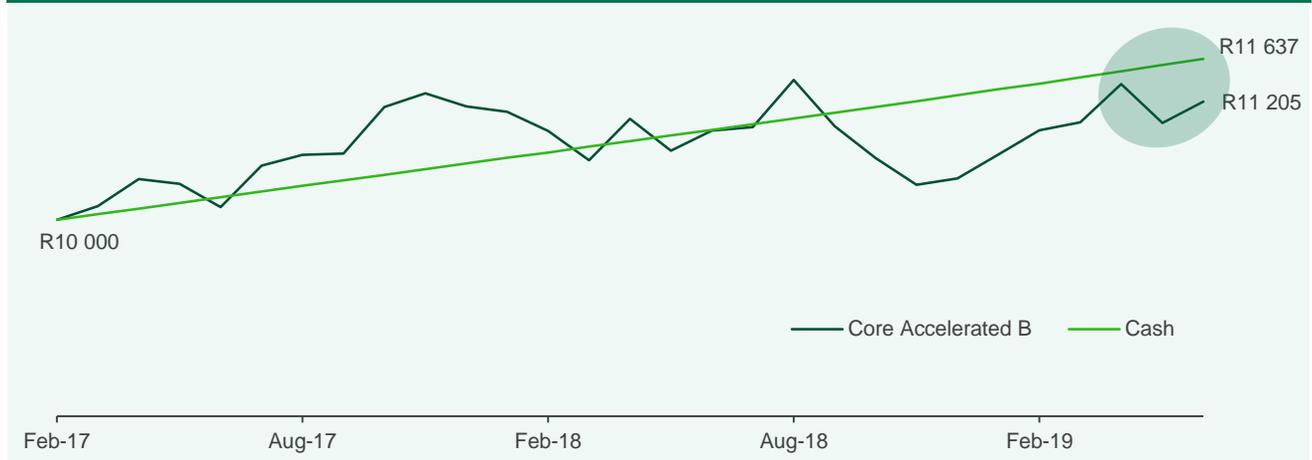
Despite tough economic conditions, your investment in the Nedgroup Investment Core Accelerated Fund grew by 1.9% over the quarter. Returns this quarter were somewhat muted compared to the sharp rebound observed in the first quarter. The table below compares an investment in Nedgroup Investment Core Accelerated Fund to bank deposits (cash) investment over various time periods.

For every R10 000 invested in the Nedgroup Investment Core Accelerated Fund at inception (28 February 2017), you would have R11 205 at the 30<sup>th</sup> of June 2019. This is only slightly less than the R11 637 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 months.

Value of R10,000 investment in Nedgroup Investment Core Accelerated Fund versus Cash<sup>1</sup>

	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 28 February 2017
<b>Growth of fund (after fees) (Growth in %)</b>	R10 192 1.9%	R10 271 2.7%	-	-	-	R11 205 5.0% p.a.
<b>Growth of cash (Growth in %)</b>	R10 164 1.6%	R10 662 6.6%	R12 171 6.8% p.a.	R13 668 6.4% p.a.	R15 048 6.0% p.a.	R11 637 6.7% p.a.

Fund Return versus Cash<sup>1</sup> from inception ending March 2019



The Nedgroup Investment Core Accelerated Fund is designed for investment periods of 7 years and longer as it has a high exposure to shares (90%). This means that it can experience significant fluctuations over shorter periods but in the long-term has a growth target of 6% above inflation (around 12% per year), as demonstrated in the chart above.

The Nedgroup Investment Core Accelerated Fund has fallen short of this target since inception. However, history<sup>2</sup> demonstrates that two-thirds of a fund such as the Nedgroup Investments Core Accelerated Fund would have achieved its long-term growth target of 6% above inflation (around 12% per year) over any 7-year period. In fact, as the time horizon extends, so the risk of underperforming this target decreases.

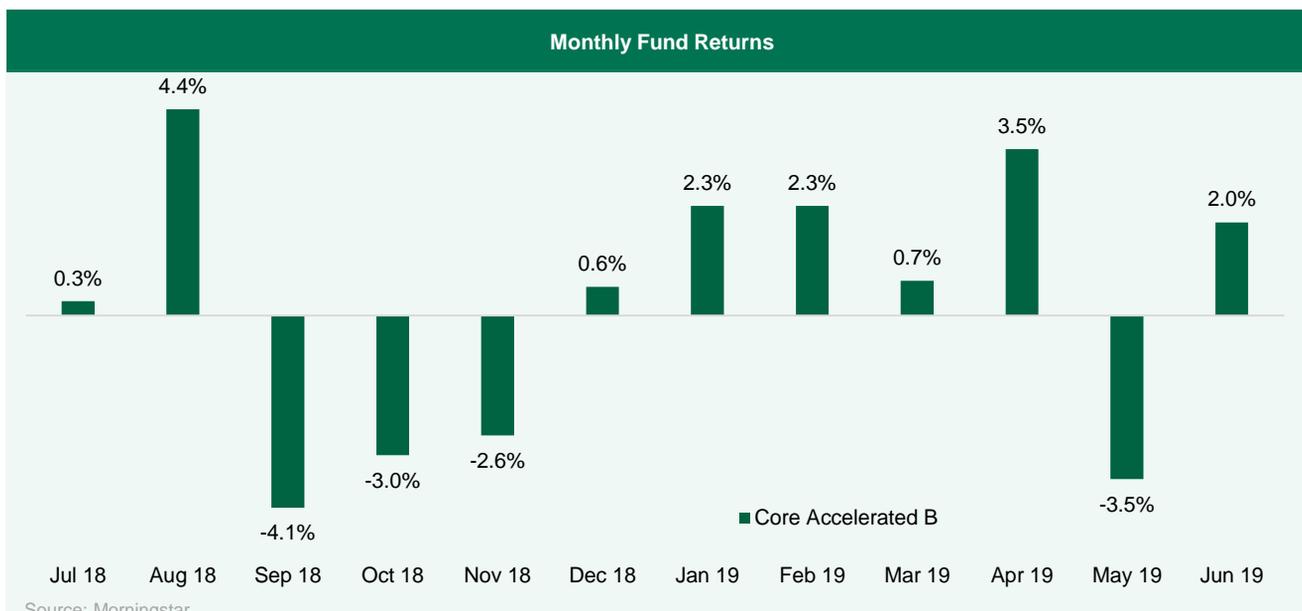
1. We used the STeFI call deposit rate for cash returns  
 2. Based on SA market returns from 1960 to 2018 (source Firer 2006) using the same long-term equity allocation and fees.



## Markets – an emotional roller coaster

Markets in 2019 have been an emotional roller coaster ride with some great months and some poor months. South African shares (Shareholder Weighted Total Return Index) had their highest return this year in April at 5.7% for the month, followed by their lowest return in May at -5.6%, losing almost all the gains of the previous month. Despite this, year-to-date (to 30 June 2019) South African shares have provided a return of 9.0%, which is above the long-term expected return.

The Nedgroup Investment Core Accelerated Fund is significantly affected by South African share markets as it has a high exposure to South African shares. The portfolio only lost 3.5% in May compared to South African shares which lost 5.6% - due to the diversification in the portfolio which cushioned it against some of the losses experienced. The chart below illustrates the impact that market volatility has had on the monthly returns of Nedgroup Investment Core Accelerated Fund.



Despite the volatile ride markets have experienced, Nedgroup Investment Core Accelerated Fund has earned a great return of 7.5% this year (to 30 June 2019). Unfortunately, many investors on this emotional roller coaster panicked, got off and have missed out on the upside.



## Global trade wars – is there a glimmer of hope?

United States President, Donald Trump, is embattled in trade wars with numerous countries. During the G20 summit in Japan, Trump is said to have one-on-one meetings lined up with the Presidents of several countries, including Russia, Turkey, India, China, on this very topic. Top of the list is his meeting with Chinese President Xi Jinping.

The US-China trade war is being cited by the International Monetary Fund as posing one of the biggest threats to the global economy. However, there is a glimmer of hope, with rumours that a truce may be struck between the two countries, albeit short lived. With both presidents under pressure to bring home the best deal for their respective countries, a truce is likely to provide a brief respite but unlikely to imply the end of this trade war.

Despite the many trade wars waging, few US companies have shifted production to the US, with a survey from the American Chamber of Commerce in China revealing that a mere 6% of US companies are considering shifting production away from China to the US. Instead, there appears to be a redistribution of production out of China into other countries. Surveys from the American Chamber of Commerce in China indicate that 40% of companies surveyed have moved their operations out of China or plan to do so. While this is terrible for China, it has benefited other countries.



## Political ping pong in SA – the faction war continues

The past few months have seen a continuation of the factions fights within the ANC, unfortunately at the expense of the exchange rate and investor confidence. According to political analyst JP Landman this faction fight is currently being fought on three fronts, namely the South African Reserve Bank (SARB), land appropriation without compensation, and the Public Protector's actions.

Few central banks across the world have private shareholders; the SARB is one of the few exceptions with around 750 shareholders. However, the shareholders have little to no influence on the policies as Government appoints the governor, deputy governor and most of the directors. Furthermore, the independence and mandate of the SARB is clearly set out in the constitution. This mandate is to 'achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa'.

The sentiment around Ace Magashule's statement regarding changing the mandate of the SARB was therefore quickly reflected in the exchange rate as the Rand went through R15 to the dollar mark. Over the following two days he was forced to back down as the Top 6 of the ANC issued a statement affirming the mandate of the SARB. The Rand recovered upon this news and ended June at R14.08.

What does this tell us? Rhamaphosa's approach of following a process to its conclusions was confirmed in the SARB incident. This may be frustrating to some who want to see faster actions but it has led to decisive outcomes. He asserted his authority through the Top 6 in the SARB case and will most likely follow the same approach in the land appropriation and public prosecutor cases.



## Different ways to use the Nedgroup Investment Core Accelerated Fund

The Nedgroup Investments Core Accelerated Fund can be used in a number of different ways for various purposes. These purposes can broadly be divided into two categories – retirement and discretionary (other savings excluding retirement savings).

### 1. Retirement

The Nedgroup Investments Core Accelerated Fund is well suited as an underlying investment for your retirement savings (as it complies with Regulation 28 of the Pension Funds Act). The retirement vehicles listed below are tax efficient as all returns earned within the retirement vehicle are tax free.

- a. A **Retirement Annuity Fund** is perfect for you if you want to make contributions towards your retirement savings but do not have access to a retirement fund via your employer e.g. if you have your own business, or your employer doesn't provide access to a retirement fund. It can also be used by individuals who wish to make additional contributions towards their retirement savings over and above the contributions made towards their company's retirement fund.  
In addition to the return on your investments being tax free within the fund, your contributions into a Retirement Annuity are also tax deductible up to a maximum of 27.5% of your remuneration or taxable income (whichever is higher), subject to a cap of R350,000 per tax year. Furthermore, there are tax benefits on cash lumpsum withdrawals.
- b. A **Preservation Fund** is suitable for you if you are leaving your current employer and wish to preserve your current retirement savings in a retirement fund that is not linked to your employer. Individuals who already have a preservation fund may also transfer this to another preservation fund should they wish.  
As with a Retirement Annuity, there are tax benefits on cash lumpsum withdrawals.
- c. A **Living Annuity** is for individuals that are retired and need to draw an income from their retirement savings. Each year the retiree may select an income between 2.5% and 17.5% of their investment balance. On death, any remaining investment balance is paid to your nominated beneficiaries.

*Continued on the next page ...*



## Different ways to use the Nedgroup Investment Core Accelerated Fund continued...

### 2. Discretionary

The Nedgroup Investments Core Accelerated Fund is also suitable as an investment held in other savings vehicles too. These include the following.

- a. A **Tax-free Investment (TFI)** is tax-efficient way for you to save. While there are no tax deductions on contributions, once invested all returns earned are tax free. You may contribute up to a maximum of R33,000 per tax year with a lifetime cap of R500,000 in contributions per person. Although you may request to withdraw some or all of the money in your Tax-free Investment at any time, it is generally preferable to make such withdrawals from other savings first if possible due to the lifetime cap on contributions.  
Parents may also open a Tax-free Investment on behalf of their minor child.
- b. An **Endowment** is a tax-efficient vehicle for individuals that have already maximised their Tax-free Investment contribution, have a marginal tax rate that exceeds 30% and are happy to commit to an investment term of at least 5 years (subject to one withdrawal). A tax rate of 30% is applied to all investments in an Endowment regardless of the individuals tax rate. Therefore, it is a poor choice for investors with a marginal tax rates below 30%.
- c. A **Unit trust (without a savings vehicle)** is suitable if you need to be able to withdraw your savings on short notice and if you have have already made use of other tax efficient vehicles where possible (e.g. Retirement Fund and Tax-free Investment). In this case, you are making an investment directly into the unit trust and not via another savings vehicle. Despite this not being as tax efficient as some of the other savings vehicles, in a unit trust you will still benefit from the annual interest and capital gains exemption.



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