



NEDGROUP
INVESTMENTS

QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE INCOME FUND

as at 30 June 2019

See money differently

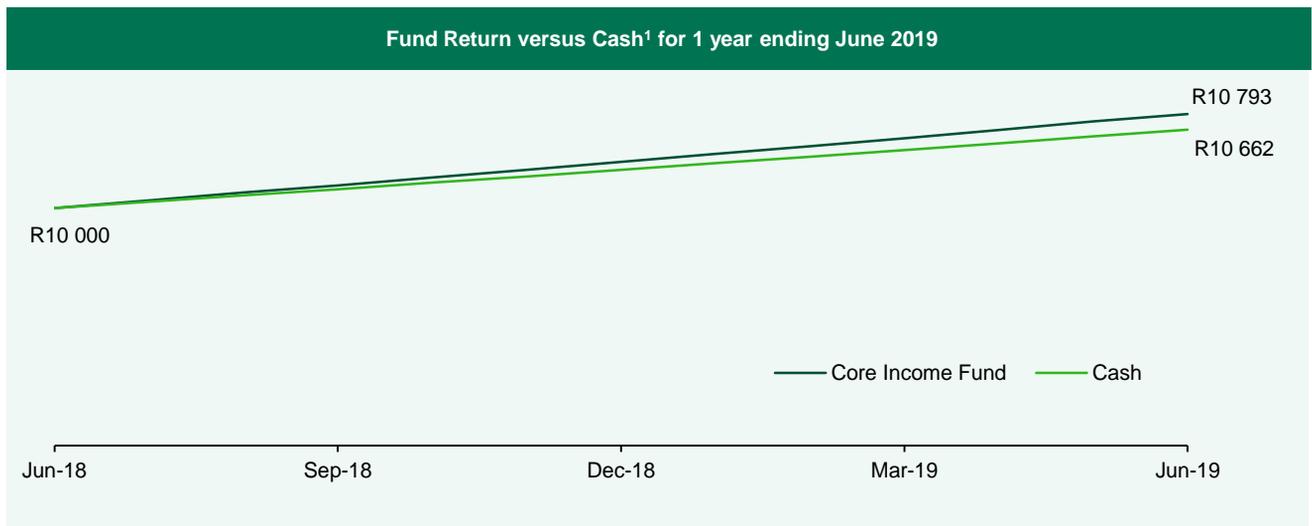


Smooth and steady growth in your investment

Over the past three months your investment has experienced a growth in value, mainly due to the interest earned in the fund. For every R10 000 invested, the fund value was up by R194 (1.9%). Over longer periods investors have been rewarded for taking on credit risk, as you can see in the table below.

For every R10 000 invested in the Nedgroup Investments Core Income Fund one year ago, you would have R10 793 at the 30th of June 2019. This is better than the R10 662 you would have achieved had you invested your money in bank deposits (cash) over the same period.

Value of R10,000 investment in Nedgroup Investments Core Income Fund versus Cash ¹						
	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years
Growth of fund (after fees) (Growth in %)	R10 194 1.9%	R10 793 7.9%	R12 629 8.1% p.a.	R14 374 7.5% p.a.	R16 103 7.0% p.a.	R19 763 7.1% p.a.
Growth of cash (Growth in %)	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.	R17 868 6.0% p.a.



Over most periods, the Nedgroup Investments Core Income Fund has done significantly better than bank deposits (cash) as the fund benefited from the yield enhancement from investing in longer dated money market instruments. Over the past ten years it has delivered more than 1% of additional interest per annum, or R1 905 for every R10 000 invested.

1. We used the STeFI call deposit rate for cash returns



South Africa's credit rating – hanging on by a thread

The South African economy contracted by - 3.2% (quarter-on-quarter annualised) during first quarter of 2019. This meant that the economy saw no growth over the 1-year period from 31 March 2018 to 31 March 2019. President Ramaphosa's new term is therefore off to a tough start. In his State of the Nation address he focussed on growth enhancing initiatives, but many considered it light on some of the critical issues like the Eskom restructuring.

The SA bond market provides us with some insights as to investors' expectations on inflation, monetary policy and possible future downgrades from credit agencies. As at the end of June the nominal bond markets priced in benign inflation and the likelihood of more accommodative monetary policy, ending the month up +2.2%. The local bond yield curve remains steep which means investors are expecting rate cuts on short/medium maturities, while longer dated bonds reflect concerns about the impact of Eskom support on the fiscus and the potential for a downgrade from credit ratings agency Moody's.



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? Ramaphosa'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.



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.



Nedgroup Investments Core Income Fund – a home for your emergency and short-term savings

Investors are notoriously bad at timing the equity market and quite often only invest after the market has rallied. They also tend to move all their investments into cash or into other income products right after the markets have seen a decline. The image below shows the emotional roller coaster and typical investor behaviour in response to market cycles over time:



There are, however, a place for a fund such as the Nedgroup Investments Core Income Fund in your financial plan. This fund can be used for the following financial needs:

- An emergency fund which helps cover unexpected expenses such as your car breaking down and needing repairs. It is advisable to have an emergency fund which is around 3 times your monthly take home salary so that you don't have to take on any unnecessary debt.
- A parking bay for a short-term (2 years and less) investment goal's such as saving for a holiday or a deposit on a home.



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