NEDGROUP INVESTMENTS

QUARTERLY REVIEW
NEDGROUP INVESTMENTS CORE ACCELERATED FUND

as at 31 March 2019

See money differently

A good start to the year for your investment

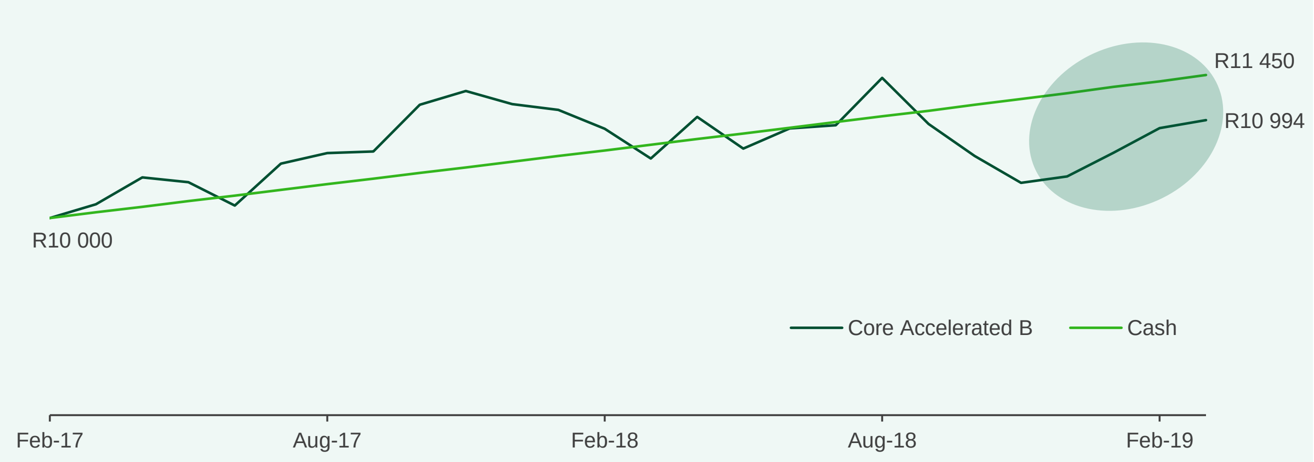
The start of 2019 has seen a sharp rebound in local and global equities from the sell-offs in late 2018. This had a positive impact on your investment, which grew by 5.5% over the quarter. This is the best start to a year since 2007. Compared to the previous quarter, there has also been an improvement to the longer-term performance numbers, as you can see in the table below.

For every R10 000 invested in the Core Accelerated Fund at inception (28 February 2017), you would have R10 994 at the 31st of March 2019. This is only slightly less than the R11 450 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 Core Accelerated Fund versus Cash[1]

	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 28 February 2017
Growth of fund (after fees) ***(Growth in %)***	R10 550 *5.5%*	R10 366 *3.7%*	-	-	-	R10 994 *4.7% p.a.*
Growth of cash ***(Growth in %)***	R10 162 *1.6%*	R10 657 *6.6%*	R12 176 *6.8% p.a.*	R13 625 *6.4% p.a.*	R14 997 *6.0% p.a.*	R11 450 *6.7% p.a.*

Fund Return versus Cash[1] from inception ending March 2019



The Core Accelerated Fund has a high exposure to shares (90% of the portfolio) so it can be quite volatile over shorter periods, such as the one in the graph above. Given the high exposure to shares, there is a possibility that your investment may be worth less than your original investment if you invest for a period less than 7 years.

It should be expected that occasionally there will be periods where market returns are muted over 7 years, leading to lower than average returns. Over the long term, 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) two-thirds of the time over any 7-year period.

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.

The global market recovery was not a tide that lifted all boats

South African equities experienced one of the best starts to a year since 2007; up by 8% over the first quarter of 2019. Most of the recovery, however, was driven by the large multi-national shares, while the mid- and small-business-size shares, which are mostly exposed to the SA economy, delivered poorer returns. Mid-caps were up by 2.8% while small-caps were down by -3.4% over the quarter. The were also a number of shares that experienced significant price drops over the quarter, most notably Aspen, that was down by -33% after their financial results were published.

A number of global markets had even better starts to the year compared to the South African market. The US market (S&P 500) had the best start to a year since 1998, up by 13.7% over the three month period. As the US market makes up more than half of global markets according to size, it also contributed toward the MSCI World's performance of 12.7%. As with the South African market, this rising tide did not lift all boats and was mainly driven by the large technology giants which collectively were up by 16.9% as measured by the NASDAQ 100 index.

Brexit in the UK, Eskom and elections in SA – where is it safe to invest?

Despite great market returns in the first quarter of 2019, global growth concerns continue to linger with some early warning signs of an impending recession in the US. In Europe, businesses have to contend with the uncertainty of Brexit, leading to stockpiling and new alternative head offices in Europe. The UK faces a number of options come 31 October (extended from the 12 April): leave the EU without a deal, a prolonged delay – which includes participation in EU elections, get parliament to agree on Theresa May's deal or revoke the Article 50 process altogether.

Locally, South Africa faced another setback to the efforts to revive domestic activity, with load shedding progressing to stage 4 for much of March. The precarious state of Eskom's infrastructure was truly revealed when tropical cyclone Idai hit neighbouring Mozambique in early March. The financial and operational stability of Eskom remains one of the primary risks for South Africa over the medium term. This will no doubt be evident in the first quarter GDP numbers.

With South Africa in the challenging position of high levels of debt and poor projected growth, many are looking to political parties to pull South Africa out of this situation, especially with elections around the corner.

So, the question on everyone's mind is: should I change my investments due to local and global market concerns? As history has shown us, there are likely to be positive and negative surprises in financial markets. Investors need to be cognisant of not making emotional investment decisions. We witnessed this in quarter one, with many investors taking a more cautious stance going into 2019 after the terrible returns in quarter four of 2018. As a result, many investors missed out on the great returns we have seen in the first quarter of 2019.

The Nedgroup Investments Core Accelerated Fund, is broadly diversified across and within asset classes, so should be robust in a range of different scenarios.

How do you know if the Core Accelerated Fund is right for you?

With thousands of unit trusts available in South Africa alone, determining whether an investment portfolio is right for you can be a daunting task. This is not an issue for investors who have a financial advisor, but it can be a big stumbling block for potential investors who do not have an advisor.

We recognise that this is a big need in South Africa as many potential investors do not have access to financial advice. To help you answer this question ("Is this fund right for me?") we have developed a digital advisor that is available 24 hours a day. This simulates the conversation you would have with an advisor. To make the digital experience more engaging we have incorporated additional elements such as interactive facial analysis to 'guess your age' rather than just asking how old you are.

The digital advisor considers four basic investment needs:

- Investing for retirement
- Education
- Personal goal such as a holiday
- General savings

If you are not sure whether this is the right investment fund for you, use our digital advisor to find out by clicking on this link https://extraordinarylife.nedbank.co.za/.

Are your own emotions your biggest investment risk?

The big markets moves over the past two quarters may have felt like an emotional roller-coaster ride for some investors, especially after three years of muted returns. Periods like these can take a toll on your longer-term investment strategy and lead to panicking at the worst possible time. For example, if you had panicked after the -4.9% drop over the last three months of 2018 and switched your investment into cash, you may have missed the 5.5% rebound over the first quarter of 2019.

There have been numerous studies which show that investors typically fare worse than the funds that they invest in. This difference in performance is called *the investor behaviour gap*. DALBAR recently published the outcomes for US investors during 2018 and showed that the average equity fund Investor lost twice the amount of the money that the S&P lost in 2018 (- 9.4% compared to -4.4%)[3]. Over the long term, mistakes such as these compound - leading to the average investor barely beating cash but taking on equity risk without being compensated.

In a recent Nedgroup Investments insight article - The investment decisions you aren't aware you are making - we looked at why investors make these kind of mistakes and what you can do to try and avoid them. Here are two of the tips that could help you protect your investments from your own emotions:

- Have a clear investment plan, preferable written down, stating your investment goal and the time period you will be invested to achieve this goal. E.g. saving for a child's university education which will start in 6 years time.
- Seek financial coaching or advise to assist you in sticking with your investment plan. This could include the Nedgroup Investments digital advisor described above.

3. DALBAR'S *Quantitative Analysis of Investor Behavior,* 25th Edition, 2019

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