



**NEDGROUP**  
INVESTMENTS

QUARTERLY REVIEW  
**NEDGROUP INVESTMENTS CORE GLOBAL FEEDER FUND**

as at 31 March 2019

See money differently



## A good start to the year for your investment

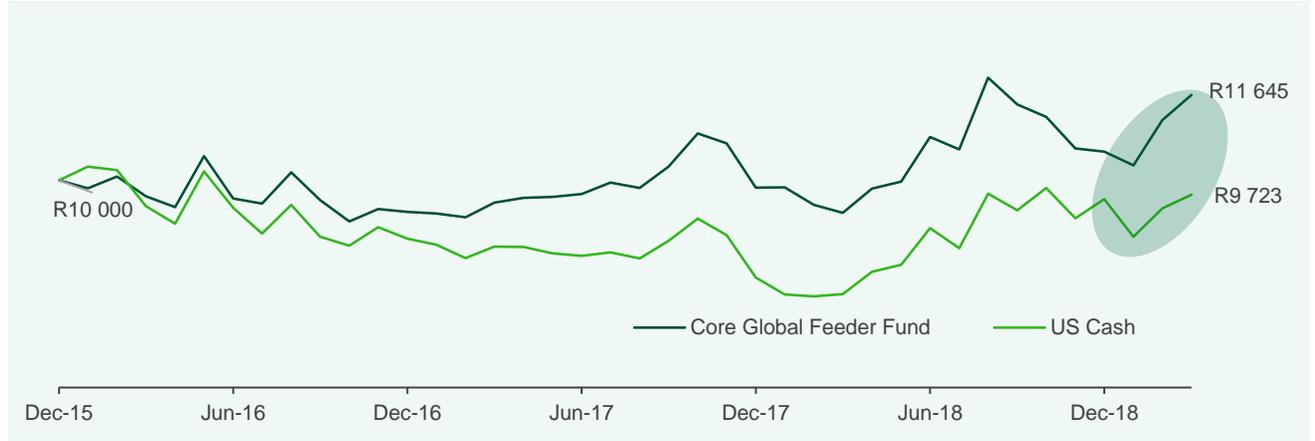
The start of 2019 has seen a sharp rebound in local and global equities from the sell-offs in late 2018. This had a positive impact on your investment, which grew by 10.4% over the quarter. In many global markets this is the best start to a year since 1998. Compared to the previous quarter, there has 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 Global Fund at inception (4 January 2016), you would have R11 645 at the 31<sup>st</sup> of March 2019. This is better than the R9 473 you would have achieved had you invested your money in bank deposits (US 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 Global Feeder Fund versus US Cash<sup>1</sup>

	3 Months	1 Year	3 Years	Inception 4 January 2016
<b>Growth of fund (after fees)</b> <i>(Growth in %)</i>	R11 036 10.4%	R12 426 24.3%%	R12 014 6.3% p.a.	R11 645 4.9% p.a.
<b>Growth of US Cash</b> <i>(Growth in %)</i>	R10 090 0.9%	R12 458 24.6%	R10 233 0.8% p.a.	R9 473 -0.9% p.a.
<b>Change in Dollar exchange rates</b> <i>(Change in %)</i>	R14.39 to R14.49 -0.3%	R11.82 to R14.49 -17.8%	R14.65 to R14.49 0.7% p.a.	R15.50 to R14.49 2.0% p.a.

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



Since the inception of the Core Global Fund it has done better than US cash. However, it is to be expected that occasionally there will be periods where the fund does not beat US cash over 5 years. Over the long term<sup>2</sup>, a portfolio such as Core Global Feeder would have delivered higher return than US cash around 86% of the time over any 5-year period.

1. We used the ICE Bank of America 3 month deposit rate for US cash returns converted into Rands  
 2. Based on Global market returns from 1997 to 2018 (source Morningstar) using the same long-term equity allocation and fees.



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

After the declines in the last quarter of 2018 and headline fatigue setting in, investors would be forgiven for maintaining a more cautious stance going into 2019. But despite lingering concerns around global growth, improved sentiment around US-China trade talks, Chinese stimulus and more accommodative central banks were enough to propel risk assets forward in the first quarter.

The US market (S&P 500) had the best start to a year since 1998, up by 13.7% over the three month period. However, 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.

As the US market makes up more than half of global markets according to size, it also contributed toward the MSCI World index's performance of 12.7%. Emerging Markets also had a good start to the year and the MSCI Emerging Markets index was up by 10.0%. In contrast, returns from Europe remain weak, representing the epicentre of economic growth concerns.

Note: All data quoted in this section is in US dollars unless otherwise stated



## Brexit in the UK and global growth uncertainty – 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.

It is also noteworthy that over the quarter, one of the early warning signs for an impending US recession was triggered. The inversion of the bond yield curve has historically been regarded a precursor to recession, although the lag between the move and recession has varied and therefore its predictive use. In March, the short end of the bond yield curve inverted, leading to an equity market sell off and a rally in the bond markets. Although the inversion reversed in the month to come, it has given investors pause in light of a long in the tooth economic cycle.

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 Global Feeder 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 Global Feeder Fund is right for you?

With thousands of unit trusts available in South Africa, 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. There are a number of advantages to using the Core Global Feeder Fund within your investment portfolio:

1. The Total Investment Charges of the Core Global Feeder Fund are significantly less than the average charges in similar balanced funds. The difference in charges is over 1% per annum, which means that you save around \$100 on a \$10 000 investment per annum. Over a 10-year period, this compounds to over \$1 700 of total costs saved on a \$10 000 investment. Therefore, in Core Global Fund your investments work harder so that you retain more of the growth instead of paying it away in fees.
2. The Core Global Feeder Fund is also very well diversified as it holds nearly 3 000 global shares and 8 000 global interest earning instruments, meaning that you don't have all your eggs in one basket. In the event of any one particular company failing, your risk is mitigated by having only small amounts invested in any one instrument. The largest individual investment in your portfolio is Microsoft which consists of R120 for every R10 000 invested.



## 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 -8% drop over the last three months of 2018 and switched your investment into cash, you may have missed the 10.4% 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%)<sup>3</sup>. 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.

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



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