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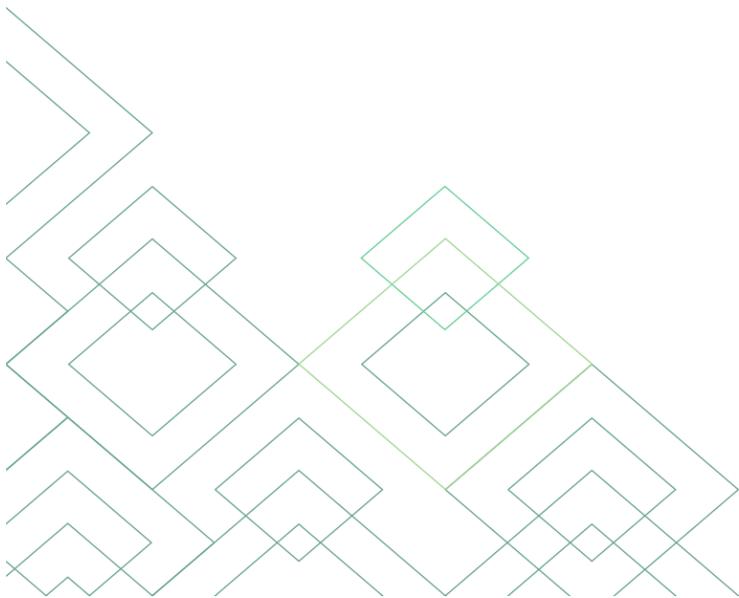
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Quarterly review

Nedgroup Investments Core Diversified Fund

As at 31 December 2023





Interest rates and central bank expectations continued to influence markets throughout 2023

The fourth quarter started out with low expectations as rising long-term interest rates extended the decline in the S&P 500, taking asset and portfolio values down. We saw the stock and bond markets reaching crescendo lows near the end of October as investor sentiment and confidence declined. With the release of positive third-quarter economic data and business activity reports coupled with better than feared corporate earnings results, markets began to turn. Over the quarter, the Nedgroup Investments Core Diversified Fund increased by 7.4%.

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 R16 429 on the 31st of December 2023. This is slightly higher than the R13 052 you would have received had you invested your money in bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market increase, which helps to contextualise the returns experienced over 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 736 7.4%	R11 493 14.9%	R14 088 12.1% p.a.	R16 429 10.4% p.a.	R17 796 8.6% p.a.	R42 067 10.5% p.a.
Growth of cash (Growth in %)	R10 200 2.0%	R10 780 7.8%	R11 710 5.4% p.a.	R13 052 5.5% p.a.	R14 867 5.8% p.a.	R22 313 5.8% p.a.
Growth target (inflation+5%) (Growth in %)	R10 269 2.7%	R11 080 10.8%	R13 834 11.4% p.a.	R16 307 10.3% p.a.	R19 771 10.2% p.a.	R41 160 10.4% 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.





In the fourth quarter, inflation data softened faster than expectations and neutral monetary policy guidance from the Federal Reserve led to a rapid change in investor confidence. As a result, both stock prices and long-term interest rates reversed direction, and we experienced one of the more powerful rallies in both the stock and bond markets than we have seen in recent years. With global equity and bond markets experiencing a significant rally in the last two months, this led to positive returns for the fourth quarter and improved returns over 12 months.

Despite existing challenges and elusive inflation targets, policy makers' lack of resistance in December meetings didn't alter the market's perception of peak interest rates, suggesting a shift might be coming. Particularly, dovish statements from US policy makers paved the way for further reduction in bond yields, even though mixed US labour market data led markets to delay the timing of the first interest rate cut. In the bond market, after causing much pain for investors in the first 10 months of the year, the yield on the 10-year US Treasury ended the year roughly where it started at about 3.9%. In December, global bond yields continued to decrease significantly. The Bloomberg Global Aggregate Bond Index rose by 4.2% in December, resulting in a substantial quarterly return of 8.1%. This left the returns for 2023 positive at 5.7%. Concurrently, gold performed well over the quarter, increasing by 11.6%.

If one looks at the S&P500 which was up by approximately 26.3% over the past year, the stock market performance has primarily been driven by 10 companies. Those 10 companies make up over 30% of the S&P 500 (Apple and Microsoft combined accounting for almost 14% of the overall index), pushing most of the return in the index this year. Meanwhile, after some volatility, the MSCI World and MSCI Emerging Markets ended the year ahead by about 24.4% and 10.3%, respectively.

In November, Chinese inflation figures remained in deflation, with a headline CPI of -0.5% year-on-year. Inflation rates across European countries fell, with Eurozone headline inflation for November dropping to 2.4% year-on-year from 2.9% the previous month. UK inflation also slowed to 3.9% year-on-year from 4.6% in October, marking the lowest figure in nearly two years. This trend has been aided by lower energy prices, but the removal of energy subsidies across the region is expected to increase future inflation figures. In the US, headline inflation slowed to 3.1% year-on-year in November, decelerating at a slower rate, while core inflation remained steady at 4.0%.

In the end, 2023 turned out to be a good year for both stock and bond investors. As we enter 2024, the US economy has thus far avoided the feared recession and a re-acceleration of inflation. The Federal Reserve has turned from hawkish to neutral and now sounds more dovish about the year to come, providing a good backdrop to start the year. Monetary and fiscal policy are huge drivers of the global economy, and one needs to pay attention to not only policy action, but also associated Fed speak as it can indicate how policy makers are leaning and give clues to future direction.

Domestically, the third quarter GDP was disappointing, with a -0.2% decrease due to electricity and logistic challenges, as well as disappointments from the agriculture sector. The current account narrowed, supported by an improved trade surplus due to lower imports. Fiscal data showed resilience in revenues, but expenditure still exceeded planned expenditure, making the 2024 Budget difficult.

Domestic assets saw a surge in line with global equity and bond markets. South African equities managed to build on November's returns, with another positive month in December. Local equity markets finished the quarter positively, with the FTSE/JSE All Share SWIX yielding a 8.1% return, including gains in industrials (5.9%) and financials (12.3%). The FTSE/JSE All Bond Index increased by 1.5% in December, resulting in an impressive 8.1% return for the quarter. South African Property & REITs finished 2023 on a high note with the 4th quarter yielding a return of approximately 16.4%. Declining bond yields and the prospect of lower interest rates also helped push SA Property's returns north of 10% for the year, but SA REITs annual return was lower at 3% after a difficult start to the year.





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