Annual Letter to Our Partners & Investors

Dear Partner,

2020 was a great year for New Road Capital. We launched 4 risk profiled funds in April during the height of the lockdowns and would not have experienced such a successful launch without your support and faith in us.

We are extremely happy with the performance of the funds since our inception in 2020 especially considering that all of them were conservatively positioned throughout the year while risk assets strongly recovered from the lows seen in March.

Return Since Inception (April 2020)	
New Road BCI Income Fund of Funds	**7.06%**
STeFI Composite Index	2.53%
New Road BCI Stable Fund of Funds	**7.84%**
ASISA SA Multi Asset Low Equity Category Average	7.65%
New Road BCI Moderate Fund of Funds	**10.66%**
ASISA SA Multi Asset Medium Equity Category Average	10.38%
New Road BCI Managed Fund of Funds	**11.78%**
ASISA SA Multi Asset High Equity Category Average	12.67%

Returns up to 31 December 2020.
Past performance is no indication of future performance.
Source: Morningstar Direct.

Considering that we focus strongly on risk management within the funds, risk adjusted returns are particularly important to us, and a metric we look at closely in our funds is the Sharpe ratio. The Sharpe ratio measures how much additional return a portfolio achieves per unit of additional market risk it takes on. Generally, more market risk is needed in order to achieve a higher return. However, with the correct risk management and optimisation methods, one can maximise a return per additional level of market risk in a portfolio. The higher the Sharpe ratio, the higher the risk adjusted returns are for that portfolio. We are proud that all of the funds have significantly higher Sharpe Ratios than their peer group averages and benchmarks, as it demonstrates the effectiveness of our portfolio construction process in terms of managing risk.

Sharpe Ratio Since Inception (April 2020)	
New Road BCI Income Fund of Funds	**4.59**
STeFI Composite Index	4.09
New Road BCI Stable Fund of Funds	**2.18**
ASISA SA Multi Asset Low Equity Category Average	1.47
New Road BCI Moderate Fund of Funds	**2.06**
ASISA SA Multi Asset Medium Equity Category Average	1.36
New Road BCI Managed Fund of Funds	**1.82**
ASISA SA Multi Asset High Equity Category Average	1.37

Up to 31 December 2020. Risk Free Rate: STeFI Call Deposit

Past performance is no indication of future performance.

Source: Morningstar Direct, Based on Monthly Data (1/5/2020 – 31/12/2020).

Additionally, we launched a global flexible offering at the end of October which has also gotten off to a great start. The global flexible offering is similarly designed to the risk profiled funds in that we include both passive and active underlying investments in our portfolio construction. The fund is well diversified and provides access to all of the major global asset classes. We look forward to partnering with you on what is a well-balanced offshore offering in 2021.

2020 – A Tumultuous Year

2020 was one of the most volatile and tumultuous years in living memory with the most rapid and aggressive market crash since “Black Monday” in 1987. The subsequent recovery was almost as swift, with many asset classes ending the year at higher levels than when they started the year.

This was driven mostly by the excess liquidity pumped into global financial systems through both monetary stimulus from bond buying programmes by central banks as well as fiscal stimulus by governments who literally threw money into the economy via programmes like paycheck protection and business relief measures.

However, government debt to GDP across the globe has increased significantly and creates a potential risk to the global economic expansion and recovery. Inflationary pressures have also increased with a much higher level of money supply in the economy compared to the start of 2020.

2021 – What Lies Ahead

2021 will be an interesting year as we hopefully recover from the Covid-19 pandemic. Global markets are full of both expensive and cheap asset classes, with many of the “retail focused” parts of the market like cryptocurrencies and the unstoppable “tech” stocks being driven up to extremely high historical valuations by the excess liquidity pumped into the markets from the various fiscal stimulus programmes.

Additionally, many bond yields are at all-time lows due to the bond purchasing programmes instituted by the major central banks, one of the exceptions being the SA bond market where yields are still high relative to peers.

Further stimulus looks set to take form throughout the year as Joe Biden has proposed an additional $1.9 trillion stimulus plan in the US.

It will be interesting to watch the interplay between a global economic recovery and certain asset classes that have already discounted a strong economic recovery.

On the other hand, there are certain asset classes that still look relatively attractive. Many shares on the JSE are expensive, however the local "SA Inc" shares listed on the JSE are starting to offer value based on SA's economic prospects going forward, as there could be some positive developments regarding improved business confidence as a result of a crackdown on corruption and sentiment around the easing of lockdown restrictions. The SA bond market is also offering attractive real yields compared to its peers around the globe.

Our Positioning

Although a global recovery seems to be a high probability going into 2021, we remain cautiously positioned across our different offerings, focusing on where we believe there is value to be unlocked. We will continue our endeavour to generate strong risk adjusted returns for our investors while attempting to protect against any unforeseen shocks or risks that emerge.

Once again, thank you for your support during a milestone year for New Road Capital. We look forward to partnering with you through 2021 and into a bright future!

Yours faithfully,

Paul Fouché
Chief Investment Officer