

sasfin

Wealth

# Sasfin Innovation Portfolio

Quarterly Review – Q1 2023



## INNOVATIVE COMPANIES WE INVEST IN



### Top 5 Holdings

Holding	Weight
Global X Lithium & Battery Tech ETF	10.6
iShares Automation & Robotics ETF	9.7
iShares Clean Energy ETF	8.0
First Trust NASDAQ Cybersecurity ETF	7.8
iShares Healthcare Innovation ETF	7.6

As of 31 March 2023

## PORTFOLIO COMMENTARY

The Innovation Portfolio got off to a solid start in 2023 generating a return of +16.2%. In comparison the S&P 500 and the Russel Small Cap Index (which serves as the benchmark) returned 7.0% and 10.4% respectively. The strong outperformance was on the back of falling inflation and inherently, a light on the horizon that might signal the peak in the interest rate cycle in the US.

### The Macroeconomic Summary

In January, markets rose as investors thought they had a good understanding of the inflation and interest rate dynamics to come. That view entailed ongoing disinflation with an imminent peaking in interest rates and some monetary policy easing in the latter part of the year.. The clarity of understanding gained in January was instantly replaced at the onset of February with a view of sticky inflation and higher interest rates that would extend well into the next year.

The markets balked at this new notion and gave up a measure of their January index gains in February.

It turned out that the rapid rise in interest rates, designed to reduce inflation back to target levels, had other ramifications. Some poorly managed mid-size banks in the US found themselves in trouble as depositors, sniffing a bank collapse, rushed for their cash. The Federal Reserve Deposit Insurance Company was forced to quickly intercede to protect depositors as Silicon Valley Bank became the second largest bank failure in US banking history and Signature Bank became the third largest.

As March progressed, investors became a little more comfortable with the banking sector after visible support by the fiscal authorities. There was also the belief that measures taken after the Global Financial Crisis in 2008/09 to improve the integrity of the global financial system would prevent a repetition of those events. The dilemma that central banks faced at their March meetings was whether to continue hiking interest rates in an environment of unacceptably high inflation or ease up on their tightening in the face of a potential banking crisis and possible credit crunch. As it turned out, the big central banks didn't flinch. They stressed that the banking sector was safe, and that inflation remained public enemy number one. The Federal Reserve hiked rates by 25 basis points, the European Central Bank hiked their policy rate by 50 basis points and the Bank of England moved the bank rate up by 25 basis points.

## Sasfin Innovation Portfolio - Quarterly Review

The markets continue their standoff with the central banks, taking the view that interest rates would not go up much more and won't need to stay elevated for long. The US equity market is thumbing its nose at the Federal Reserve and the market strength is an indication that investors believe that the first interest rate cut will be earlier than Jerome Powell and his Federal Open Market Committee colleagues are suggesting.

### The Innovation Portfolio | Q1 2023

With the market's anticipation of a peak in the interest rate cycle approaching, this high-growth segment of the market is rejoicing as these companies' valuations are most sensitive to interest rate changes, as we've written about previously - the higher the interest rates, the lower the value that the market applies to them and vice versa.

Our main goal for 2022 was to ensure our portfolio of companies are not over-levered or loss making, really focusing on each holding to ensure we are correctly positioned for a higher interest rate environment. Although 2022 was a negative year, our strategy paid off as we have outperformed our benchmark by more than 2% and outperformed some of our competitors by as much as 34% during last year.

The Innovation Portfolio handsomely outperformed the market and the portfolios benchmark during the first quarter of 2023, being up by +16.20%.

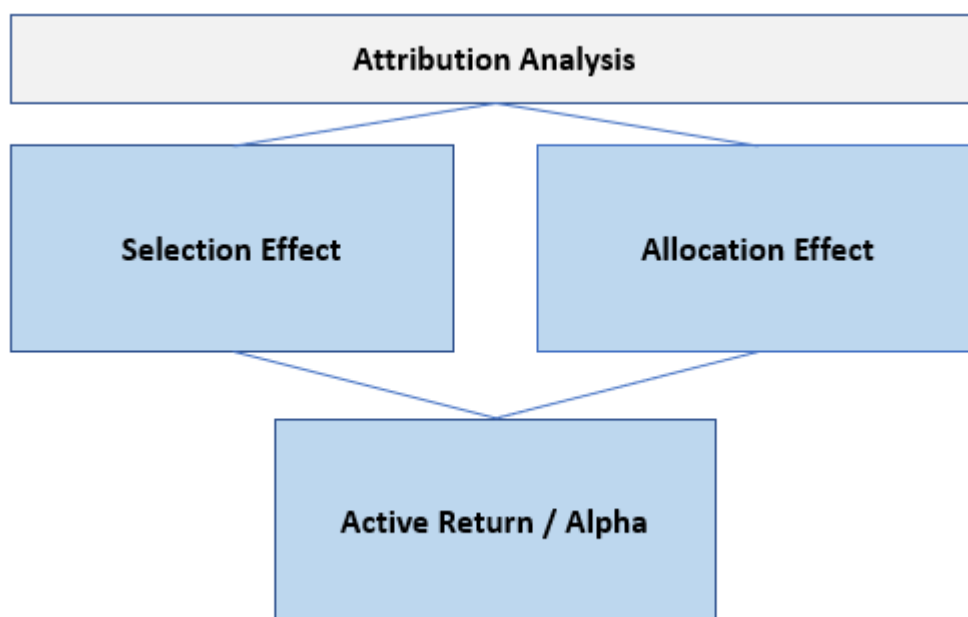
**Looking into what drove performance we can see that our direct holdings, where we do active stock-picking, outperformed our diversified theme exposure through ETFs (Exchange Traded Funds).**

Type of Holding in Portfolio	Percentage of Holdings Outperforming Benchmark	Q1 Performance	Q1 Performance	Q1 Performance	Q1 Performance
		0%-(-10%)	0%-20%	20%-40%	40%-100%
Exchange Traded Funds	13%	13%	87%	0%	0%
Direct Holdings	75%	13%	13%	50%	25%

We have enhanced our screening process and have been slightly more active over the past year – but we need to break down our performance and ultimately see whether it was due to skill or pure luck and for this we do an attribution analysis on our portfolio.

#### A quick recap on what is an attribution analysis.

Also known as “performance attribution”, it is an evaluation tool to explain and analyze a portfolio against its benchmark and used to identify sources of excess returns from a manager's active investment decisions.



**Allocation Effect:** Measuring the managers skills i.t.o over- or under-allocating to sectors relative to the benchmark.

**Selection Effect:** Quantifying the managers skill for accurate stock picking and also timing of the security selection.

**Active Return or Alpha:** The excess return we achieved over the benchmark

### Sasfin Innovation Portfolio | Attribution Analysis Results | 31 December 2022 – 31 March 2023

Type of Holding in Portfolio	Allocation Effect	Selection Effect	Active Return / Alpha
Exchange Traded Funds	-0.00%	-1.90%	-1.90%
Direct Holdings	-0.28%	7.82%	7.54%
<b>Total</b>	<b>-0.28%</b>	<b>5.92%</b>	<b>5.64%</b>

#### Interpretation & Takeaways:

- Over the past quarter, different sector weightings than the benchmark, led to a -0.28% difference in performance,
- We have outperformed by 5.92% relative to the benchmark by choosing the correct instruments at the right time, especially where we made calls of our direct equity portion of the portfolio / stock picking.
- The active management of this portfolio led to a relative outperformance of 5.64% vs our benchmark.

## A Theme Update

We have bored you enough with the analytics of the portfolio, so its time to look at a few updated market growth estimates on three of our secular themes.

### Smart Mobility:

- **Drivers:** Cost of technology, emissions regulations, cost of electrified vehicles (“EVs”), environmental awareness, attractive products
- **Growth:** “We are confident that by 2025 the share of EVs (full-electric, plug-in, and full hybrids) will be above 30% of global light-vehicle sales, with the addressable market of the overall theme around USD 475bn. By 2030, those amounts should increase to 60 – 75% of electrified vehicle penetration and roughly USD 2tr, respectively” UBS

### Automation & Robotics:

- **Drivers:** Deglobalisation (reshoring of manufacturing), labour scarcity, rising wages, precision work & efficiency.
- **Growth:** Renub Research expects that the worldwide robotics market will grow with a double digit CAGR (*compounded annual growth rate*) of 15.25% from 2022 to 2027.

### Artificial Intelligence (“AI”):

- **Drivers:** History shows that technology of any sort ultimately makes productive workers more productive and is net additive to employment and economic growth, AI accelerates this trend.
- **Growth:** “The broad AI hardware and services market was nearly USD 36bn in 2020, based on IDC and Bloomberg Intelligence data. We expect the market to grow by 20% CAGR to reach USD 90bn by 2025. We see strong interest from enterprises to integrate conversational AI into their existing ecosystem.” UBS

Commentary by Wouter Van Der Merwe, CFA and Craig Pheiffer

## PERFORMANCE

### Total return in US Dollar (USD) terms

USD Returns (%)	3 months	YTD	1 year	3 years*	5 years*	Since inception*
Sasfin Innovation Portfolio	16.2	16.2	-8.6	16.6	11.2	19.0
Russell Small Cap Growth	10.6	10.6	-15.0	15.2	7.9	10.6
FTSE/JSE All Share	0.9	0.9	-13.6	24.5	1.9	7.4

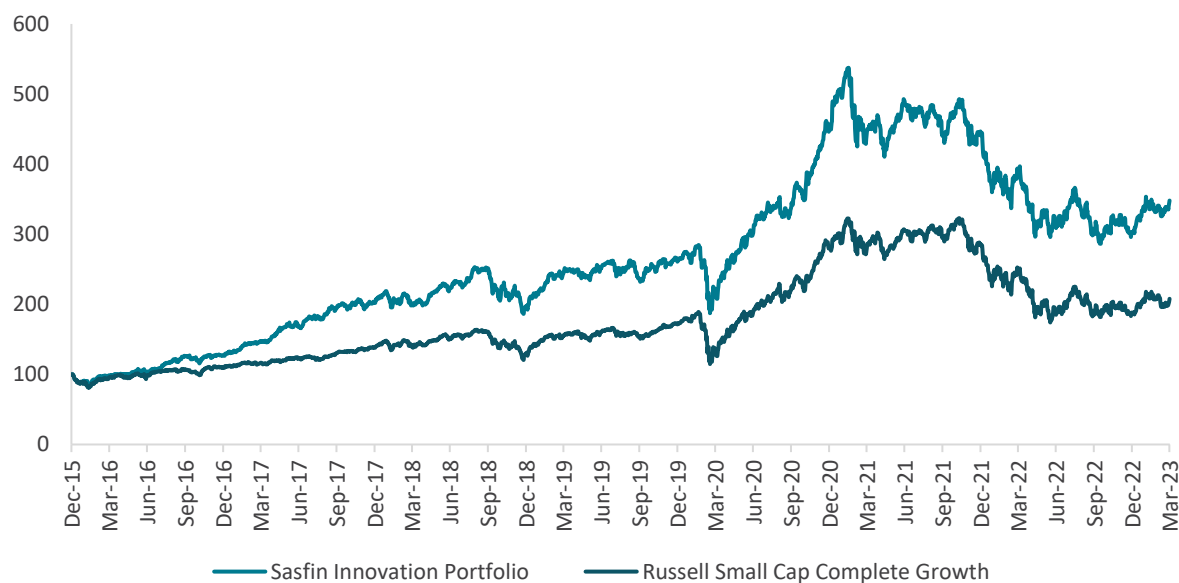
Note: As of 31 March 2023. Performance reflects simulated returns to January 2019. Periods greater than one year are annualised. All performance is net of underlying instruments fees and gross of management fees

## Total return in Rand (ZAR) terms

ZAR Returns (%)	3 months	YTD	1 year	3 years*	5 years*	Since inception*
<b>Sasfin Innovation Portfolio</b>	<b>20.5</b>	<b>20.5</b>	<b>12.8</b>	<b>16.4</b>	<b>20.3</b>	<b>20.9</b>
Russell Small Cap Growth	14.9	14.9	6.4	15.0	16.3	12.5
FTSE/JSE All Share	5.1	5.1	7.8	24.3	10.3	9.2

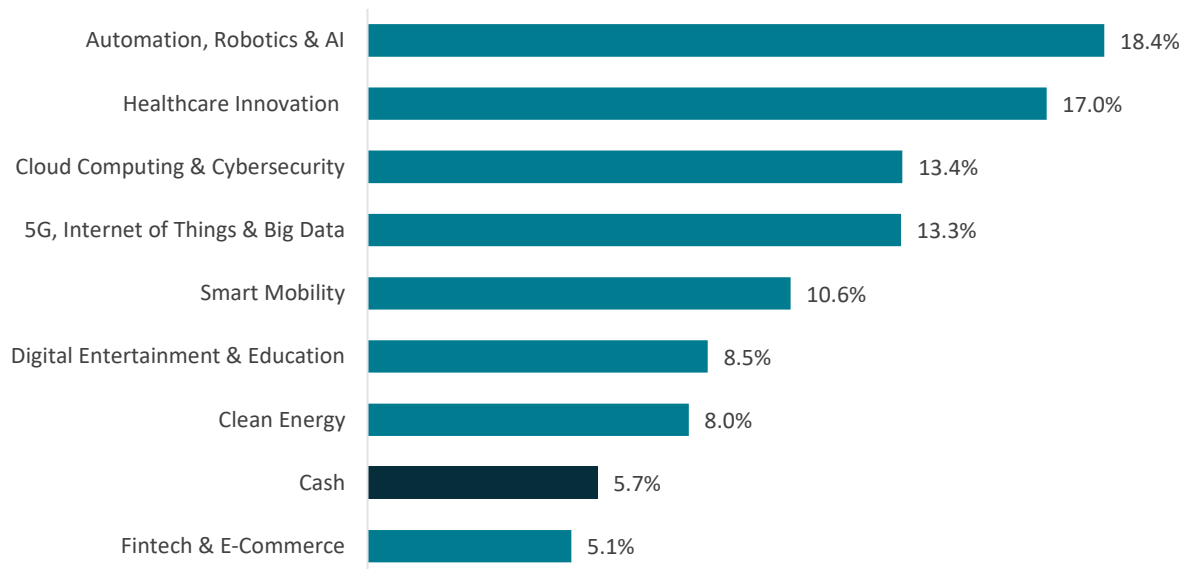
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## Indexed performance in USD since inception



## POSITIONING

### Investment Theme Weightings





### APPENDIX

#### What is the Innovation Portfolio?

- Numerous disruptive thematic innovations are set to fuel world economic growth in the 2020s. The Innovation Portfolio seeks to capitalise on the themes driving this growth such as Smart Mobility, Healthcare Innovation, Internet-of-Things & 5G, Robotics & AI, Cloud Computing & Cybersecurity, e-Commerce & Digital entertainment, and Clean Energy.
- The Innovation Portfolio invests in innovative global companies, using a combination of **active and passive investment strategies**. The portfolio invests in exchange traded funds (ETFs) to provide diversified exposure to each of the investment themes. Thereafter, stocks are selected by the investment team to complement these ETFs within each theme.
- It is an **offshore share portfolio** (the client owns each of the underlying holdings), based in US dollars, and benchmarked against the Russell Small Cap Complete Growth Index.

#### Why should you consider investing in this portfolio?

- The Innovation Portfolio provides **exposure to innovative global companies** that are positioned to benefit from attractive long-term investment themes that are driving growth and changing the world.
- The portfolio is managed by a **dedicated and experienced investment team**, with a deep understanding of global markets, the investment themes, and underlying holdings.
- The portfolio contains a relatively **small number of holdings** to ensure that they are understood in detail. However, it is highly diversified across geographies, sectors, and investment themes.
- All proposed portfolio changes must be passed by the Sasfin Investment Committee thereby ensuring **good governance**.



### Investment Team



**Craig Pheiffer, CFA**

Craig began his career as an investment professional in 1990 in the fixed income division of Frankel Kruger stockbrokers. He was involved with bond trading, institutional bond sales, primary dealing and market-making and has held various investment strategy roles since being appointed Chief Investment Strategist at Sasfin Frankel Pollak Securities in 2000. Craig is the chair of the Sasfin Securities Investment Committee and a CFA Charterholder and holds a BSc Computer Science (Wits), and a BCom, BCom Hons and an MCom in Economics (Unisa).



**Nicholas Dakin**

Nicholas is a Portfolio Manager based at Sasfin's Cape Town branch, with over seven years of industry experience. He manages bespoke portfolios for private clients. Nicholas is a member of the Sasfin Securities Investment Committee and holds a Bachelor of Business Science in Economics Honours and Mathematical Statistics Honours, and a Master of Commerce in Financial Markets from Rhodes University. He covers the following investment themes: Digital Entertainment & Education; Smart Mobility.



**Nicholas Pittaway**

Nicholas joined Sasfin Wealth at the start of 2021 as a Portfolio Manager with more than nine years of industry experience. With an investment universe that is constantly changing, Nicholas views change and thematic investing as an opportunity to create alpha / additional performance for clients. Nicholas holds a Bachelor of Commerce in Financial Planning and covers the following investment themes: Healthcare Innovation; Cloud computing & Cybersecurity.



**Wouter van der Merwe,  
CFA**

Wouter has worked as a Portfolio Manager at Sasfin Wealth for ten years. He is also a member of the Sasfin Securities Investment Committee and is particularly involved in looking at the technology sector. Wouter holds a Bachelor of Commerce in Financial Management, Honours in Financial Economics and Investment Management, and is a CFA Charterholder. Wouter covers the following investment themes: FinTech & E-Commerce; Automation, Robotics & Artificial Intelligence.



**Samuel van Tonder,  
CFA**

Sam has worked as a Portfolio Manager in David Shapiro's investment team for over five years. He is focused primarily on the management of offshore equity portfolios. Sam holds a Bachelor of Commerce in Investment Management, Honours in Economics and Financial Analysis, and is a CFA Charterholder. Sam covers the following investment themes: Healthcare Innovation; Clean Energy; Cloud Computing & Cybersecurity.



**Muhammed Wagley**

Muhammed Wagley is a Portfolio Manager at Sasfin Wealth. Prior to his employment as a portfolio manager, Muhammed had worked as a portfolio assistant in David Shapiro's investment team. Muhammed has an honours in Corporate Finance and Investment Management from Wits University and is currently a CFA Level 2 candidate. He has a methodical, bottom-line approach to the customer focused industry within which he operates and assists Nicholas Dakin with his coverage of the Digital Entertainment & Education Theme.

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