sasfin Wealth

Multi Asset Class Quarterly Report

1 October 2022 – 31 December 2022

Portfolio Optimisation

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OVERVIEW & PERFORMANCE

As exceedingly high levels of inflation continue to be the scourge of central bankers, particularly those in developed markets, the pattern of rate hiking persisted during the final quarter. The US Federal Reserve ("Fed") increased its lending rate twice during the quarter, firstly by an increment of 75 basis points and later by a smaller increment of 50 basis points. The 25-basis point reduction in its most recent rate hike combined with what appears to be a plateauing of inflation, elevated hope among some that the Fed might reduce its hawkish stance and possibly even pivot towards the doves. This resulted in a "risk-on" sentiment for almost all asset classes in the final quarter of the year.

While the Fed will remain concerned over tackling inflation with higher interest rates, markets appear to have moved onto what the implications may be under an increasingly restrictive interest rate environment. The "R-word" is likely to be the hot topic in 2023 as recession fears loom. Corporate earnings and household balance sheets will be closely monitored for signs of deterioration, particularly in an environment of higher interest rates.

Total % returns in US Dollar*

	Quarter	YTD	1 Year	3 Years	5 Years	Inception
MAS Cautious	5.5	-10.9	-10.9	-0.3	2.6	6.9
MAS Moderate	7.6	-14.7	-14.7	0.7	3.1	7.4
MAS Growth	9.9	-15.6	-15.6	3.1	5.0	8.2
MSCI AC World Index	9.8	-18.4	-18.4	4.0	5.2	6.7

*As of 31 December 2022. Returns greater than one year are annualised. All returns are gross of management fees and net of underlying instrument fees. Inception 30/04/2009.

Risk

	3-Year Standard Deviation
MAS Cautious	9.4
MAS Moderate	10.9
MAS Growth	12.5
MSCI AC World Index	15.3

The Sasfin Multi-Asset Class Strategies are targeted return portfolios. The Cautious, Moderate and Growth strategies target a gross-of-fee total return of at least 2%, 3.5% and 5% respectively above US CPI over rolling periods of five years.

The performance and volatility figures above are benchmarked against the MSCI AC World Index to illustrate these strategies' risk-adjusted-returns relative to a pure equity index.

ASSET CLASS COMMENTARY

Equities

Global equity markets ended 2022 on a positive note as the MSCI All Country World Index returned 9.8% during the fourth quarter. Gains in global stocks can largely be ascribed to participants in equity markets anticipating a more subdued hawkish approach by central banks as we head into 2023. Global equities were also boosted following the news that Chinese authorities would relax certain lockdown conditions following a string of protests across the country.

Our quantitative model still prefers developed market equities outside of the USA, and this positioning served us well in the 4th quarter. The iShares® MSCI EAFE ETF, which gives investors exposure to a broad range of companies in Europe, Australia, Asia, and the Far East, rallied 17.6%. Our US equity ETF returned 4.78% over the same period.

Fixed Income

Despite the renewed ebullience within stock markets, bond yields edged higher during the quarter with the US and European 10-year benchmark yields closing the year at 3.88% (+8 bps) and 2.53% (+40 bps) respectively. The "risk-on" sentiment spilled over to the more volatile fixed income markets and the high yield corporate bonds and emerging market bonds in our models returned 4.4% and 8.4% respectively during the final 3 months of 2022.

The inflation-linked bonds on the portfolios are still riding the "inflation wave" and performed well with a 1.2% return for the quarter. The new ultra-short-term US Treasury exposure, which was introduced to the models in mid-November, returned 0.7%.

Private Equity

For the most part, our Private Equity instruments finished 2022 on a strong note. The iShares Listed Private Equity ETF returned 10.43%, HG Capital returned 11.09% and KKR returned 8.25%. Blackstone was the anomaly for the quarter, falling 10.50%. The reason for the fall in Blackstone was due to the redemption cap they placed on the Blackstone Real Estate Trust (BREIT). Despite this redemption, BREIT has a strong track record (13% annualised return since inception). Blackstone appears attractive at current prices. Investors can build a position in a best-in-class franchise and a quality growth company trading at 12x 2024 PE multiple.

Real Estate

2021 was the year of record numbers in Mergers & Acquisitions, fuelled by low-interest rates and abundant liquidity. 2022 was the year of pricing the uncertainty, the uncertainty being the timing of the peak of the rate cycle, the quantum of available liquidity, and the stubbornness of inflation – all reflected in valuations with the Dow Jones Real Estate Index being down 27.7% in 2022. 2023 will be the year of recalibration with inflation and interest rates the key considerations as these companies determine debt pricing and availability in the real estate market.

We believe we'll see companies focusing on organic growth until there is more certainty around yields, rents, operational costs, construction costs, and energy prices. In the MAS Moderate portfolio we have exposure to data and infrastructure real estate assets (+1.4% in Q4), where we believe this sub-sector will be the main benefactor of capital flows in 2023 (alongside healthcare/life sciences real-estate exposure) as the digital storage and tower space supply has to keep up with the increasing demand as the adoption rate of cloud storage and 5G roll-outs continue. The ETF we hold for this exposure has a dividend yield of 4.11% and its Price to Funds From Operations is currently at 9.60.

Infrastructure

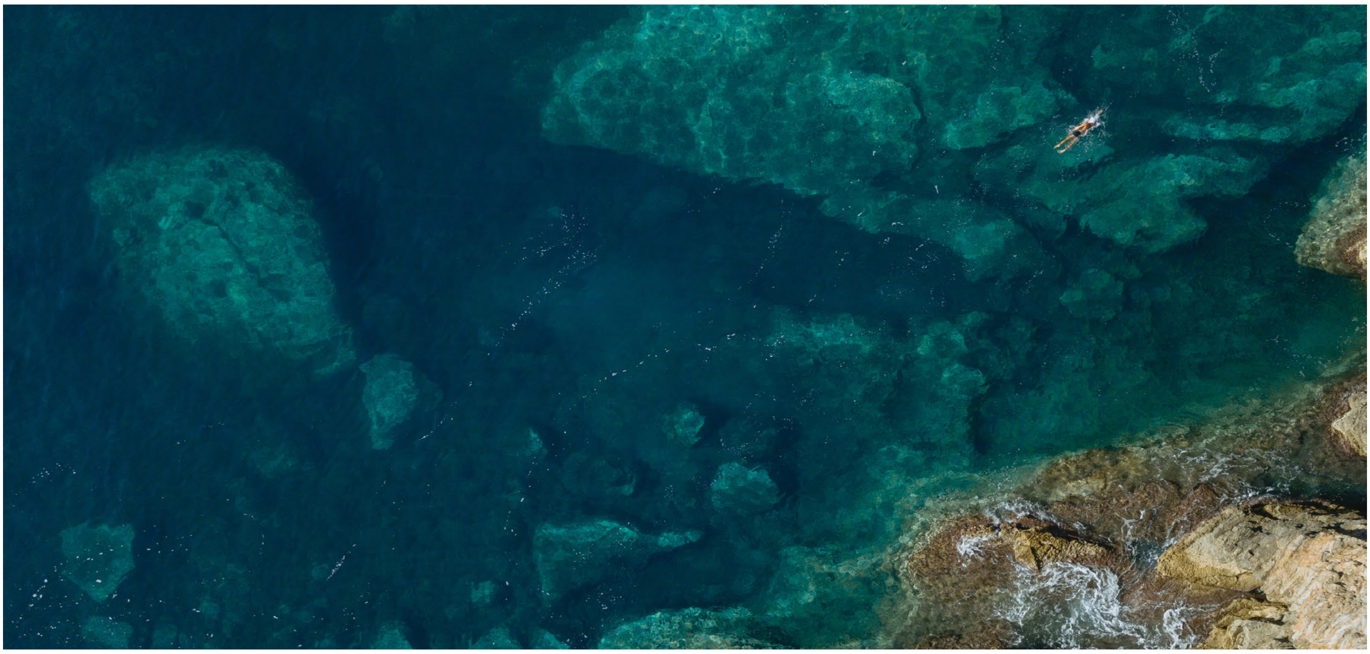
Generally, our infrastructure holdings performed well with our larger exposures to our ETF holdings, Global Infrastructure and Global Water returned 7.57% and 14.63% respectively. Williams Companies and Engie were most pleasing and continued their positive returns with respective gains of 16.40% and 23.16%. Our most recent portfolio optimisation indicated a slight increase to infrastructure within the Cautious Portfolio. This increase in weight percentage was allocated towards the existing exposure we have within the Global Infrastructure ETF.

The Moderate Portfolio, as well as our Growth Portfolio, indicated no change to our exposure towards Infrastructure. However, we did implement a few minor changes within the infrastructure holdings of both the Moderate and Growth Portfolios. United Utilities was sold in favour of adding Cheniere Energy. We believe that a greater exposure to direct energy infrastructure will bode well for future returns. Due to regulatory changes that would've impacted the feasibility of holding this counter, Brookfield Infrastructure Partners was also sold out and the proceeds moved directly towards the Global Infrastructure ETF in both the Moderate and Growth portfolios.

Commodities

When using the S&P GSCI (Standard and Poor's Goldman Sachs Commodity Index) as a measure, commodities as an asset class has – for the second year running – outperformed all other major asset classes – equities, bonds and property. It is no surprise that energy was the standout for the year, and perhaps not for the reason most think. Yes, the Russia/Ukraine conflict played a role but one can argue, justifiably, that a secular phenomenon is also at play. Hydrocarbons have been responsible for the eradication of poverty in many parts of the world, but we live in an age where western democracies are manifestly obsessed with climate change. Some commentators have called this illusory prophesying. Nevertheless, this presents an opportunity.

Constraints on supply of a commodity will drive the price of said commodity up, and if lawmakers continue to follow the whim of a moment, this will not change. Producers of hydrocarbons will keep feeling the pinch but ironically, shareholders/investors should continue benefiting from share buybacks and dividends. In addition to this, China is turning, labour-dominated governments need to spend on infrastructure to stimulate their respective economies, interest rates appear to be approaching a period of slower hikes and subsequent stabilisation, and the US dollar is starting to weaken. This is bullish for commodities.



THE OCTOBER/NOVEMBER 2022 MODEL OPTIMISATION

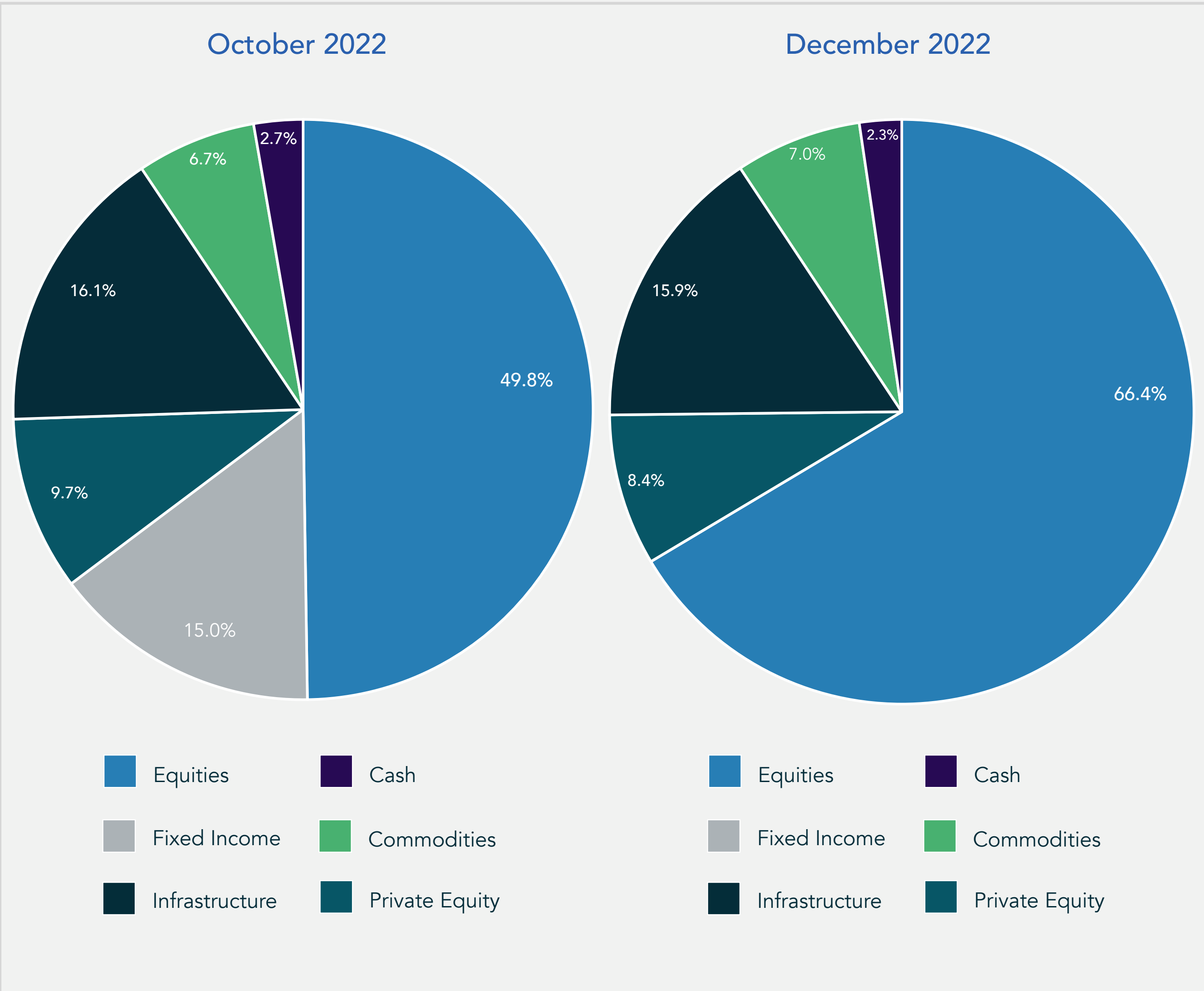
The 2nd rebalance of the year is normally what we refer to as a “hard” rebalance. We do take a medium to long-term view on these portfolios and therefore our return assumptions on each of the asset classes are normally for the next 3 years.

The biggest change to our portfolios, was the disinvestment from the iShares® Cautious, Moderate and Growth Allocation ETFs. These ETFs were used as our proxy to an absolute return investment strategy on each of the models. The underlying asset allocation of each of the ETFs is however fixed rule based and the investment committee decided that it will be prudent to also manage this component of the models actively.

Here are some of the highlights of our algorithmic-driven process:

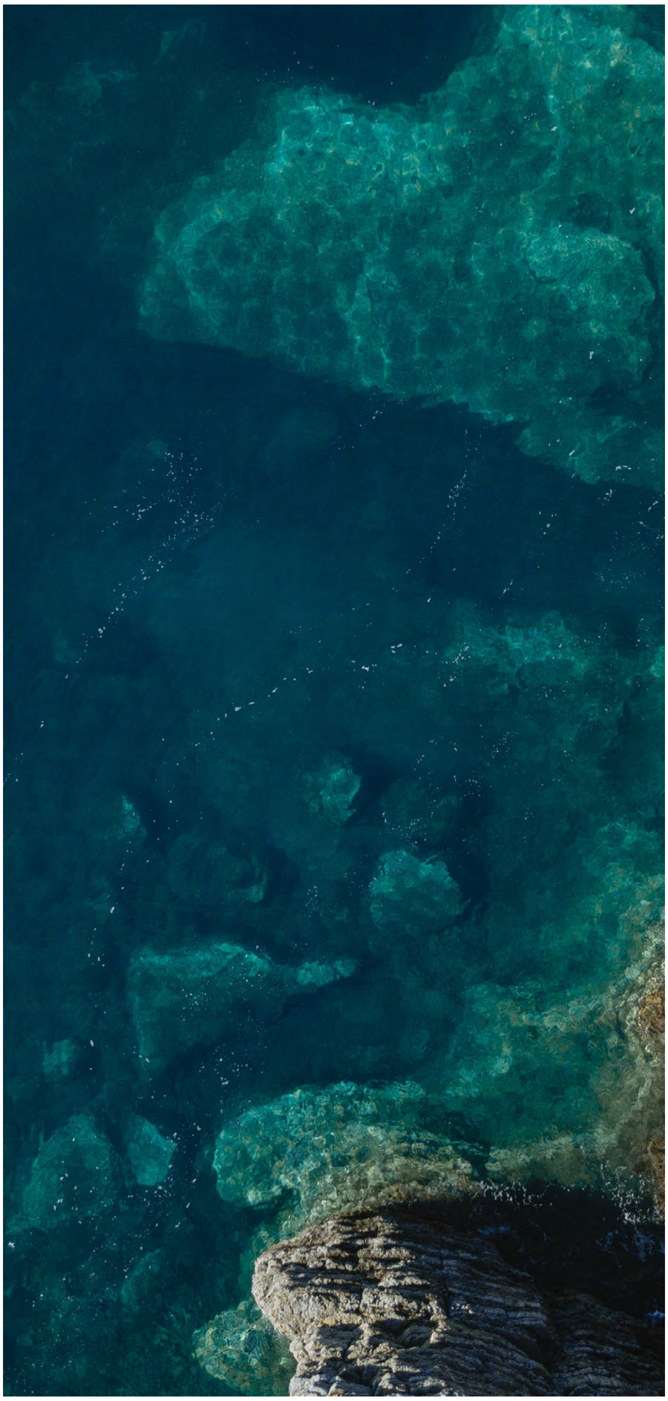
After the rebalance, the Growth model has no exposure to fixed income assets and the allocation to developed market equities was increased from 50% to 65%. The allocation to listed private equity, commodities, and listed infrastructure remains the same. This could be viewed as an aggressive move, and we do expect the volatility in equities to persist for perhaps another 3-6 months. However, our expected return assumptions clearly show that equities do offer an excellent entry point for long-term investors with a very favorable risk-return ratio.

MAS USD GROWTH

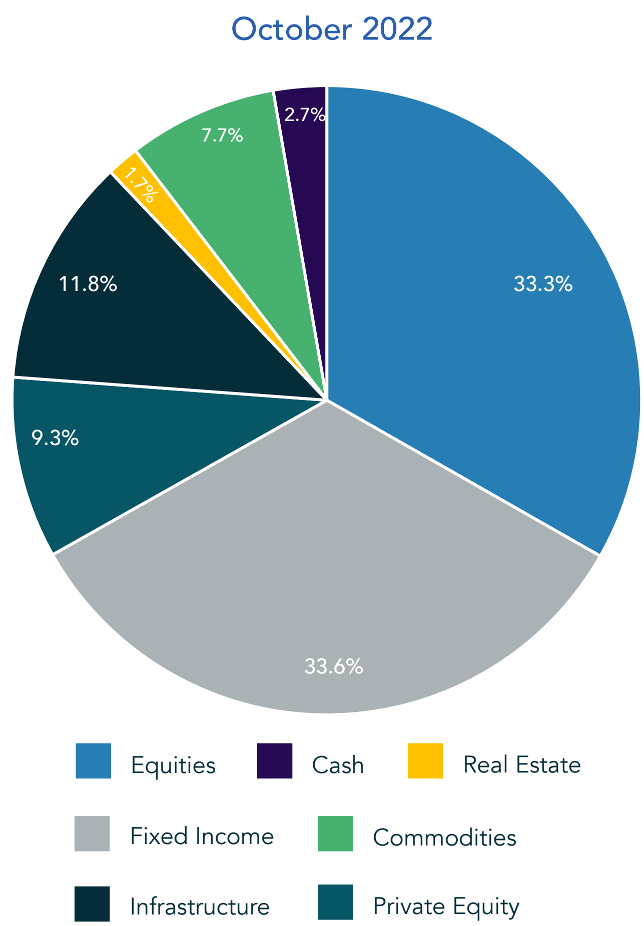


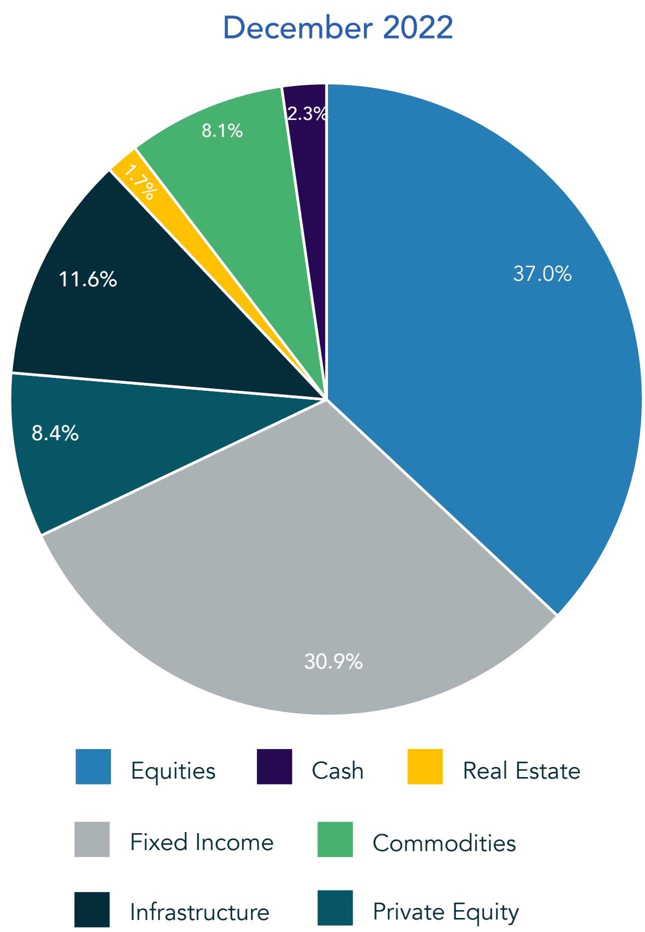
The Moderate portfolio's allocation to commodities, listed infrastructure, listed private equity and real estate is effectively the same. The model's exposure to fixed income was reduced by ±2% and this was added to equities.

The composition of the fixed income allocation changed significantly. As mentioned above, the absolute return strategy was sold and 70% of this strategy's bond exposure was allocated towards an ultra-short-term US Treasury bond ETF with a yield to maturity of over 4%. The allocation to emerging market bonds was increased from just under 4% to almost 7% and the exposure to high yield corporate bonds remains the same.

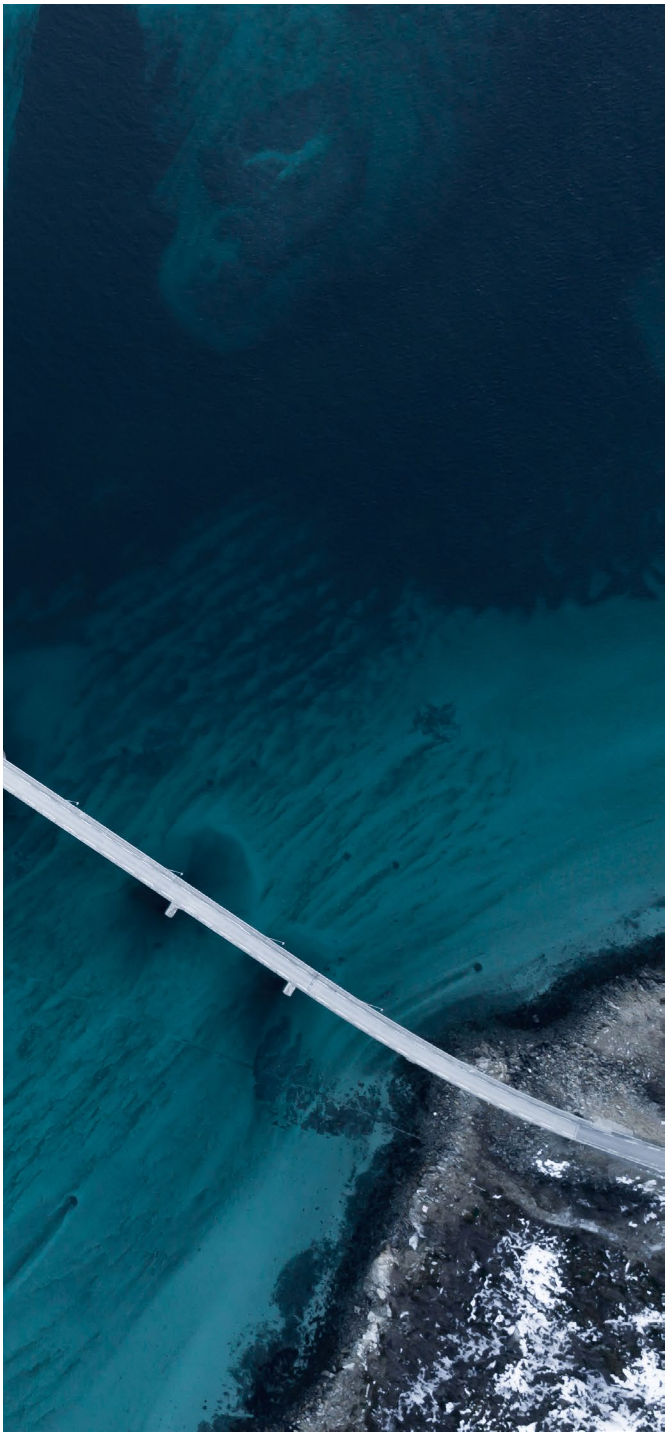


MAS USD MODERATE

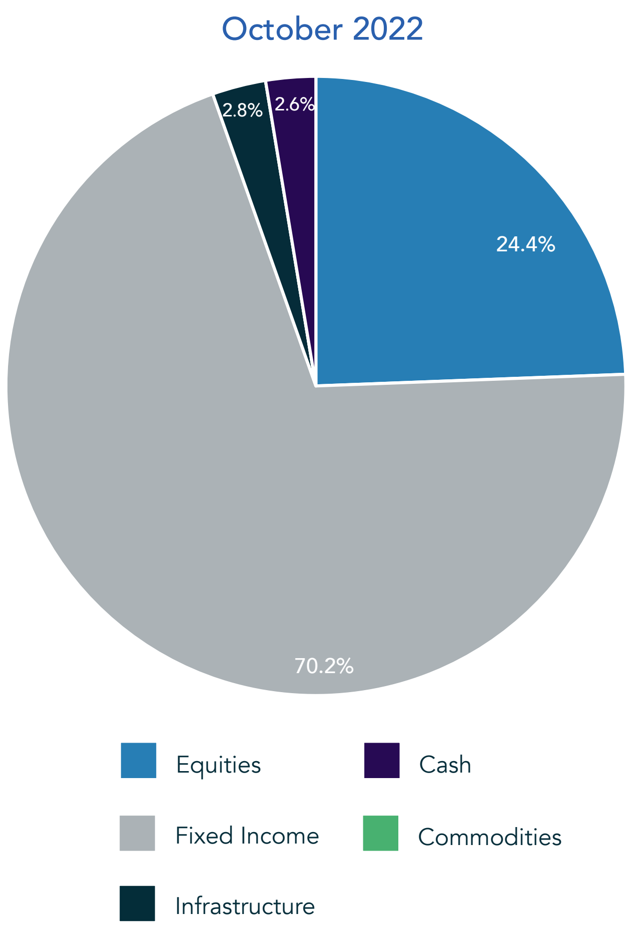


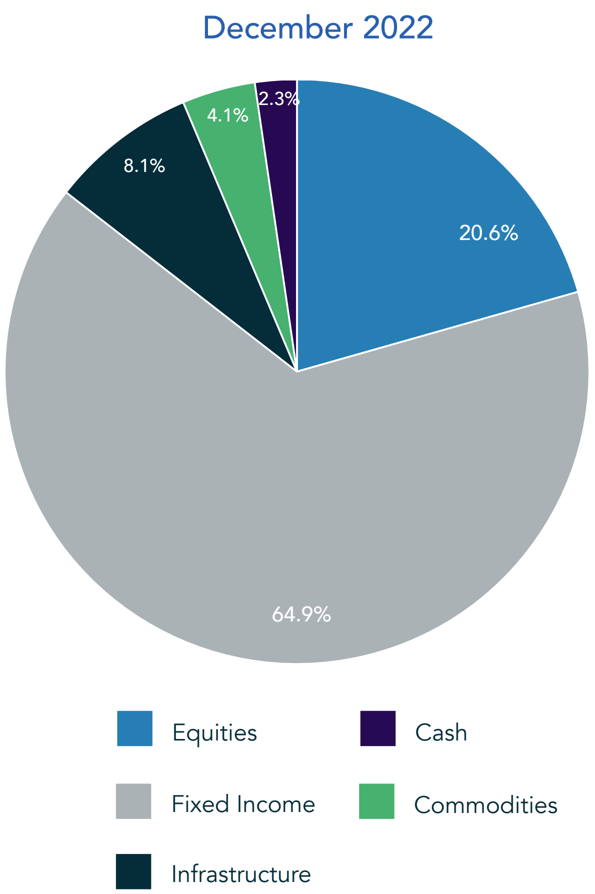


The Cautious strategy's allocation to developed market equities and global fixed income was reduced in favour of a 4% allocation to commodities and an increase in the exposure to listed infrastructure. This model's fixed income allocation also saw a significant change in the underlying composition. Inflation has peaked and the quantitative process showed a definitive shift away from inflation protected bonds and is leaning more towards US Treasuries. Hence, the model's 33% allocation to TIPS was cut back to 20% and an ultra-short-term US Treasury ETF was introduced. The exposure to emerging market bonds and high-yield corporate bonds were kept the same.



MAS USD CAUTIOUS





APPENDIX

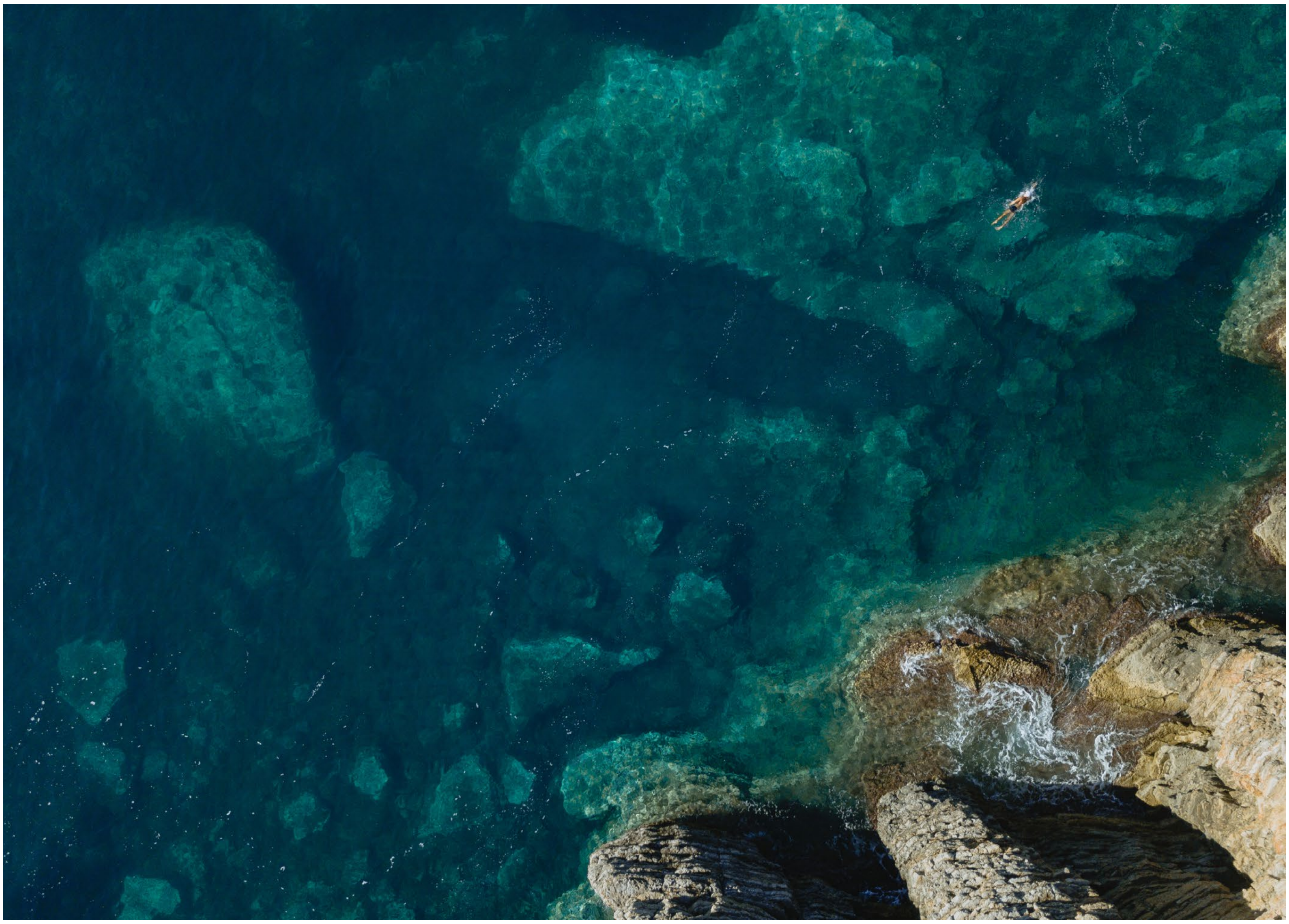
What are the Sasfin Multi-Asset Class Strategies (MAS)?

- Statistically, over 90% of returns within a multi asset portfolio can be explained by asset allocation. *
- Our MAS portfolios diversify investor risk through an algorithmic-based portfolio optimisation process. This process recommends allocation weighting towards eight different asset classes to achieve a predetermined inflation-based return over a rolling five-year period with the least amount of risk.
- The MAS portfolios invest in traditional asset classes (equities, fixed income, and cash); alternative asset classes (absolute return strategies and private equity); and real asset classes (commodities, real estate, and infrastructure).

Why should you consider investing in these portfolio strategies?

- The MAS portfolios provide exposure to alternate and real assets. These alternative and real assets offer a level of diversification unavailable to investors exposed purely to traditional assets, allowing the creation of portfolios with superior risk and return characteristics.
- The MAS portfolios are optimised to generate a specific target return with the least amount of risk. These portfolios can be utilised as building blocks in an investor's overall wealth and retirement plan.
- The portfolio is managed by a dedicated and experienced investment team, with a deep understanding of global markets, the asset classes, and underlying holdings therein.

*Brinson GP, Hood RL, Beebower, GL. Determinants of Portfolio Performance. Financial Analyst Journal, 42(No.4,Jul.-Aug.,1986), pp.39-44.



THE **TEAM**

Craig Pheiffer
Chief Investment Strategist

Craig Pheiffer began his career as an investment professional in 1990. In 2000 Craig was appointed Chief Investment Strategist at Sasfin Frankel Pollak Securities and was the director responsible for investment strategy and research. In 2016 Craig was appointed Chief Investment Strategist of Absa Stockbrokers and Portfolio Management following the merger of Absa Stockbrokers and Absa Portfolio Managers. Craig served as a Key Individual and Representative on the Financial Services Provider licence and as a member of the Executive Committees of Absa Investments and Absa Wealth Management. He also served as a director of Absa Portfolio Managers (Pty) Ltd and Fradey Nominees (Pty) Ltd. His master's dissertation on "Capital Flight from Middle Income Countries" won the Economic Society of South Africa's Founders medal for the best dissertation in 2000. Craig is also a CFA Charter Holder and a member of the CFA Institute

Dawid Balt
Branch Manager & Portfolio Manager

Dawid has investment management experience since 2001 and assists clients to identify long-term global investment opportunities across multiple asset classes. Managing investment risk is fundamental to his investment philosophy. He serves on both the multi-asset class portfolio and multi-asset class income portfolio solutions. Dawid holds a BCom degree in Economics & Informatics and the International Capital Markets Qualification.

Andrew Padoa
Branch Manager & Portfolio Manager

Andrew Padoa is a Portfolio Manager at Sasfin Wealth in Durban. He holds a B Com Honours in Financial Management, Advanced Post Grad Diploma in Financial Planning Law and is a member of the South African Institute of Stockbrokers.

Nicholas Sorour
Portfolio Manager & Business Unit Head

Nicholas is a Senior Portfolio Manager based at the Sasfin Wealth, Pretoria branch. With a BCom Economics degree from the University of Pretoria, his investment expertise and his experience at Sasfin since 2005, he has helped create financial freedom for many of his clients. Nicholas is passionate about financial markets, and what he enjoys most about his job is interacting with clients and building wealth for them. He forms part of the Investment Committee, chairs the Infrastructure Asset Class sub-committee and specialises in global diversification. When he's not working, he loves to travel and experience new adventures with his wife and daughter.

THE **TEAM**

Michelle Bester
Business Unit Head & Portfolio Manager

Michelle is a Senior Portfolio Manager who has managed clients' personal wealth locally and offshore since approximately 2001. Her background includes a BCom(Hons) in Financial Management from the University of Pretoria and as a seasoned Portfolio Manager, she enjoys client relations and offering them innovative investment solutions to grow their wealth. Michelle also forms part of the Investment Committee and sub committees at Sasfin Wealth which ensures clients benefit from opportunities across global markets. She is an avid cyclist and traveller, and outside of work you'll likely find her enjoying the outdoors with her family and her Boston Terriers.

Wouter van der Merwe
Portfolio Manager

Wouter has worked as a Portfolio Manager at Sasfin Wealth since 2014, building wealth and a legacy for high net worth individuals and families. He is also a member of the Sasfin Investment Committee and is especially 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.

Bruce Mills
Portfolio Manager

Bruce has been with Sasfin Wealth since 2007 and has experience in the industry since 2001. He currently sits on the Sasfin Wealth Investment Committee which adopts a multi counsellor approach, as such he is responsible for the commodity and absolute return components. He is also part of the teams responsible for the Multi Asset Strategy, Domestic Equity and Global Equity Models and manages the Precious Metals Yield Portfolio. Outside of work, Bruce is an avid freediver and besides having being part of the first freediving expedition to the world's largest underground lake, has swum alongside whale sharks in the Red Sea and Orca in the Arctic.

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