

sasfin

Wealth

Sasfin Innovation Portfolio

Quarterly Review – Q3 2022
September 2022



INNOVATIVE COMPANIES WE INVEST IN



DIGITAL REALTY



Top 5 Holdings

Holding	Weight
Global X Lithium & Battery Tech ETF	12.0
iShares Automation & Robotics ETF	9.0
iShares Global Clean Energy ETF	10.0
iShares Healthcare Innovation ETF	7.7
First Trust NASDAQ Cybersecurity ETF	7.5

PORTFOLIO COMMENTARY

After the sharply lower global markets of the second quarter of 2022, the third quarter began with some optimism that inflation would soon peak and that in the near-term central banks and the US Federal Reserve Bank in particular, would bring an end to aggressive monetary policy tightening. The narrative at the time was around a “Fed pivot” where the Federal Reserve would soon stop the rapid hiking of interest rates and even begin contemplating a first rate cut in the earlier part of 2023. By mid-August, in the middle of the quarter, the Sasfin Innovation Portfolio’s benchmark, the Russell Small Cap Completeness Growth index, was up 21% for the quarter. Global markets were buoyant, and the broader mega-capitalisation S&P 500 index was up by almost 14% at the same time. It was towards the end of August that the Federal Reserve Bank poured cold water on the market’s enthusiasm with a much tougher stance on its monetary policy response to persistently high inflation.

The rhetoric from the Federal Reserve turned to a “higher for longer” view on interest rates as the US central bank aggressively targeted inflation expectations. The defining moment for that policy stance came at the Jackson Hole monetary policy symposium in late-August and was followed by the same hawkish tone whenever a Fed official found themselves in front of an audience. The September US Federal Open Market Committee (“FOMC”) meeting sealed the deal on another weak quarter when the Fed raised rates by 75 basis points for a third consecutive time and issued an updated “dot plot”, the quarterly view of FOMC members’ interest rate expectations for the coming years and for the longer term. The dot plot portrayed a view of interest rates potentially being hiked by more than was being expected and for longer than was being expected. Markets gave up their more recent gains and the S&P 500 ended the quarter down by just over 5%, the NASDAQ Composite closed 4% lower and the Russell Small Cap Completeness Growth index, the portfolio’s benchmark, finished the quarter at an almost identical level to where it ended the previous quarter (+0.2% q/q).

A number of the Sasfin Innovation Portfolio laggards in the second quarter were the big winners in the third quarter. The Trade Desk, a digital advertising platform and marketplace, returned just over 42% for the three-month period. Cloud networking solutions company Arista Networks was up 20% and global satellite communications company Iridium Communications was up 18%. The best performing exchange traded fund (“ETF”) in the portfolio for the quarter was the ARK Genomic Revolution ETF with a price gain of 4.3%.

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Amongst the laggards over the quarter, 3D printing business Stratasys finished 23% lower while technology-related real estate investment trust Digital Realty was down 24% for the three months. Wireless communications company Interdigital declined by 33% over the quarter.

The worst performing ETF for the period was the Global X Video Games and E-sports ETF with a price decline of just under 15%. The gaming industry has been under pressure in recent quarters with a dearth of new gaming titles being published – largely a function of tighter Chinese regulations around gaming content and the impact of higher inflation and interest rates on the disposable incomes of consumers. While the economic slowdown is expected to continue into 2023, there are a wide range of new gaming titles from key franchises slated to be published in the next two years.

In the current risk-off environment where funds have moved out of all manner of assets into the safe-haven of the US dollar, there has been a broad decline in the global equity markets. Uncertainty around future policy direction, economic growth and corporate earnings has additionally raised the level of volatility in the markets. While that uncertainty prevails and the Federal Reserve keeps to its “higher for longer” mantra on interest rates, equity markets are expected to remain volatile and under pressure. It’s never advisable in times like these to try and second guess the market’s tops and bottoms and it’s preferable to stay the course and remain invested through the cycles for the longer term.

The best defence that the management team of the Sasfin Innovation Portfolio has during times like these is to make sure that each and every investment instrument in the portfolio can justify its inclusion on an ongoing basis. New holdings are brought into the portfolio only on the back of a strong investment case and that investment case is regularly reviewed and tested with the publication of quarterly results and often additionally between results dates. The investment case of even the best company can sometimes falter and that’s why ongoing diligence (but not necessarily trading) is a prerequisite. The investment team will continue to manage the portfolio on this basis, making sure that the portfolio holdings represent the best longer-term investments into the exciting world of innovation.

Commentary by Craig Pheiffer

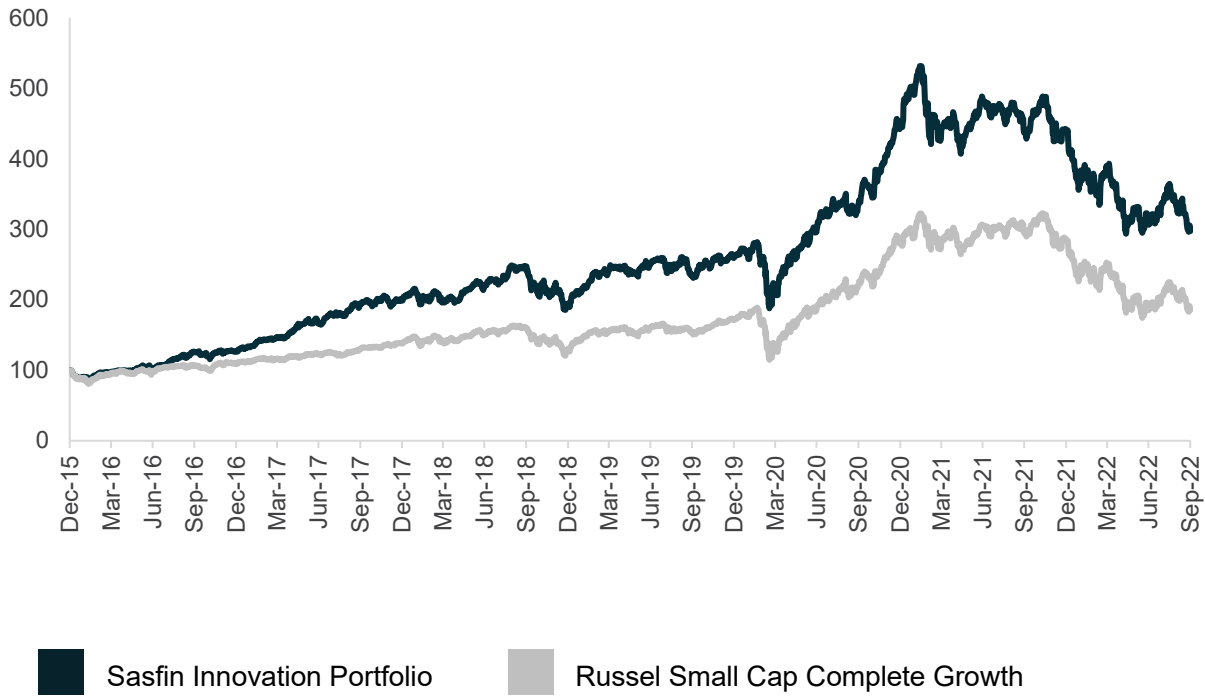
PERFORMANCE

Total return in US Dollar (USD) terms

USD Returns (%)	1 month	3 months	YTD	1 year	3 years*	5 years*	Since inception*
Sasfin Innovation Portfolio	-9.8	-2.7	-32.1	-32.2	8.4	9.1	17.8
Russell Small Cap Growth	-9.3	0.2	-34.7	-36.9	6.2	7.4	9.6

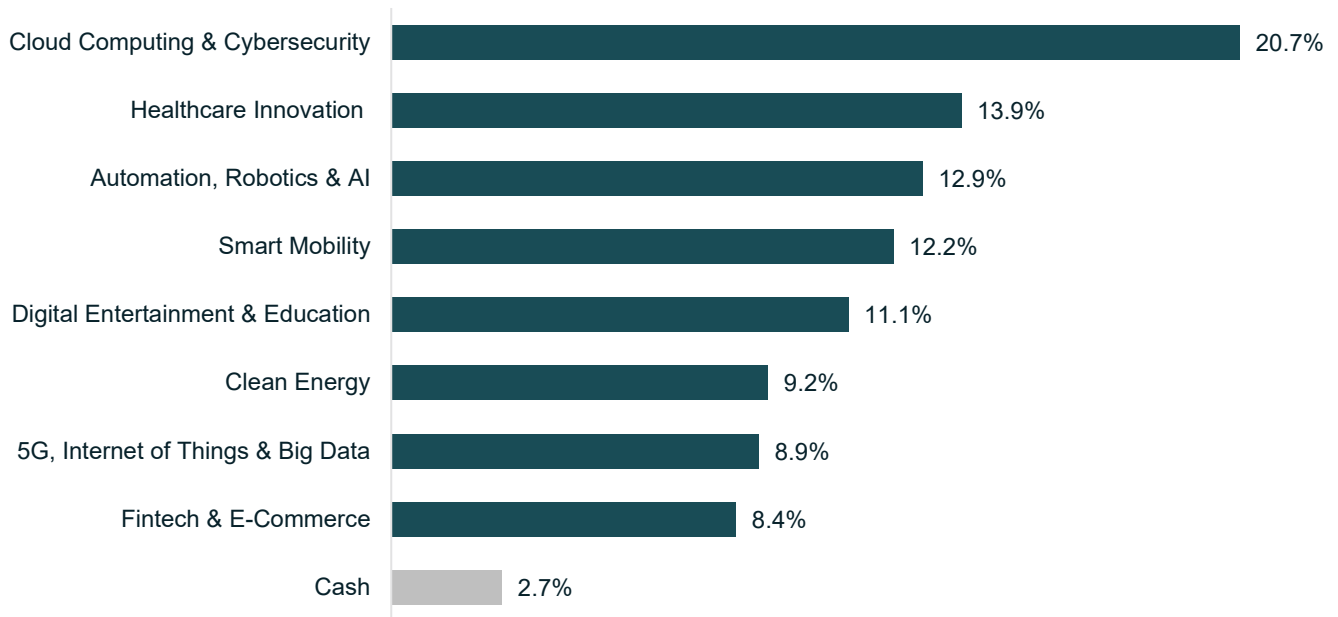
Note: As of 30 September 2022. Performance reflects simulated returns to January 2019. Periods greater than one year are annualised. All performance is net of underlying instruments fees and gross of management fees

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 seven 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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