sasfin Wealth

Sasfin Domestic Equity Model

Quarterly review – Q3 2022
30 June 2022 – 30 September 2022

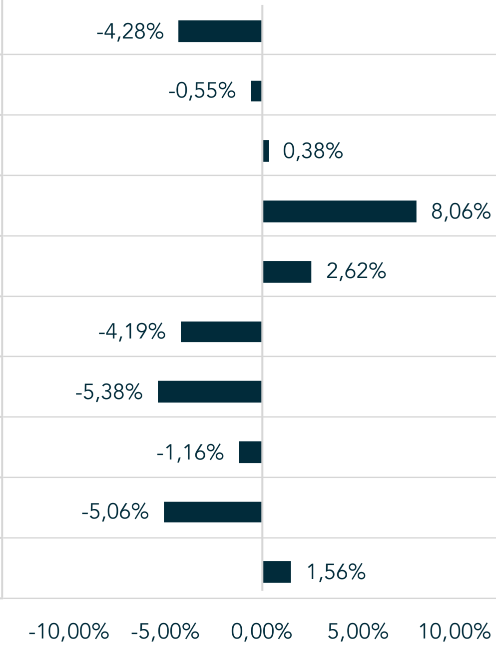
sasfin.com

PERFORMANCE

	3 Months	YTD	3 Year	Inception
SDEM	1.0%	-10.0%	9.1%	11.8%
J303 - All Share	-1.9%	-10.1%	9.2%	10.6%

PORTFOLIO POSITIONING (%WEIGHT)

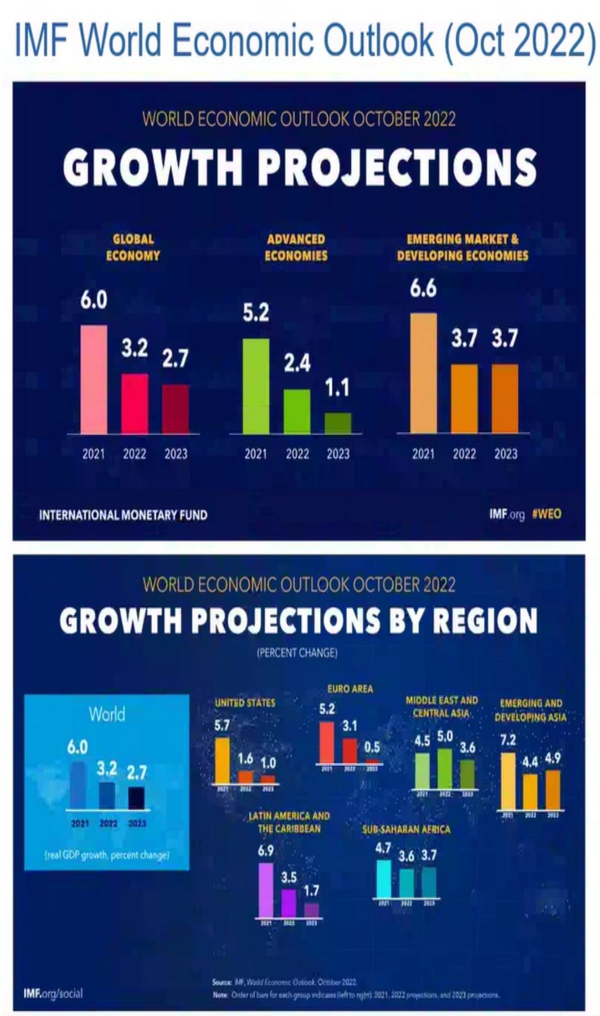
Sector	SDEM	All SHARE	Under/Over (%)
Technology	6.20%	10.48%	-4.28%
Telecommunications	4.60%	5.15%	-0.55%
Health Care	2.40%	2.02%	0.38%
Consumer Discretionary	9.00%	17.06%	-8.06%
Consumer Staples	11.90%	9.28%	2.62%
Industrials	0.00%	4.19%	-4.19%
Financials	15.00%	20.38%	-5.38%
Real Estate	2.10%	3.26%	-1.16%
Basic Materials	21.60%	26.66%	-5.06%
Energy	3.10%	1.54%	1.56%



Market Commentary

World equity markets once again fell for the quarter. The JSE did not escape the rout but did perform better than world markets dropping - 1.9% for the quarter compared to the -6.8% for the MSCI All World Index. South African markets were held up by commodities, especially in the energy sector with coal producer Thungela Resources moving up 20.74% in September alone. Other commodity performers in September were Sibanye Stillwater +12.87%, Glencore + 6.57% and BHP +3.99%. This led to the Sasfin Domestic Equity Portfolio outperforming the All Share for the quarter, returning +1% compared to the J303 which was down -1.9%.

Locally the South African Reserve Bank is continuing to increase South African interest rates following similar moves from central banks around the world to bring down inflation. The US Federal Reserve minutes are still signalling for continued tightening and equity markets are battling to find a floor. The risk of a recession is weighed against a strong US economy with little to no unemployment and strong corporate earnings, which conflict with the negativity in world markets, brought on by the war in the Ukraine, stubbornly high inflation and a huge spike in European energy costs. All this is adding to uncertainty in markets. Growth projections for the world continue to be revised downward, however inflation is predicted to start coming down in 2023.



Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	2021	PROJECTIONS 2022	2023
World Output	6.0	3.2	2.7
Advanced Economies	5.2	2.4	1.1
United States	5.7	1.6	1.0
Euro Area	5.2	3.1	0.5
Germany	2.6	1.5	-0.3
France	6.8	2.5	0.7
Italy	6.6	3.2	-0.2
Spain	5.1	4.3	1.2
Japan	1.7	1.7	1.6
United Kingdom	7.4	3.6	0.3
Canada	4.5	3.3	1.5
Other Advanced Economies	5.3	2.8	2.3
Emerging Market and Developing Economies	6.6	3.7	3.7
Emerging and Developing Asia	7.2	4.4	4.9
China	8.1	3.2	4.4
India	8.7	6.8	6.1
ASEAN-5	3.4	5.3	4.9
Emerging and Developing Europe	6.8	0.0	0.6
Russia	4.7	-3.4	-2.3
Latin America and the Caribbean	6.9	3.5	1.7
Brazil	4.6	2.8	1.0
Mexico	4.8	2.1	1.2
Middle East and Central Asia	4.5	5.0	3.6
Saudi Arabia	3.2	7.6	3.7
Sub-Saharan Africa	4.7	3.6	3.7
Nigeria	3.6	3.2	3.0
South Africa	4.9	2.1	1.1
Memorandum			
Emerging Market and Middle-Income Economies	6.8	3.6	3.6
Low-Income Developing Countries	4.1	4.8	4.9

Source: IMF, *World Economic Outlook*, October 2022

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021. For the October 2022 WEO, India's growth projections are 6.9 percent in 2022 and 5.4 percent in 2023 based on calendar year.

INTERNATIONAL MONETARY FUND IMF.org

Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024.

Growth Forecasts
2021: 4.9% (4.9%)
2022: 1.9% (2.0%)
2023: 1.4% (1.3%)
2024: 1.7% (1.5%)

Source: SARB

Local Market

South African Banks continue to show resilient earnings and are paying shareholders back by providing strong dividends. During the quarter Walmart offered to buy out the rest of Massmart that they do not already own for R62.00 a share leading to a strong jump in the share, rallying as much as 30%. These corporate actions continue on the JSE and in recent weeks, Sanlam has made an offer for Afrocentric and One Logic has cleared a management buyout and will delist early next year. Many Small Cap JSE companies are trading on very low price to earnings and M&A parties are increasingly seeing opportunities to buy out these businesses and delist them. A far easier prospect than trying to start a new business in South Africa, this provides good opportunities for investors that are willing to take positions in these smaller companies. To counter the continued delisting of companies from the JSE, the JSE recently announced a tie-up with the NYSE to possibly list US stocks on the South African Exchange allowing investors locally a broader investable universe. This could be a game changer for the JSE and it is worth keeping up to date on the progress of this initiative.

During the quarter we added new holdings in ABSA Group and Glencore to the model and exited AngloGold while reducing our BHP Group holdings from 6.95% to 3.7%. We added to our British American Tobacco and Richemont holdings. At the end of June just before the start of the quarter we also added Thungela Resources to the portfolio.

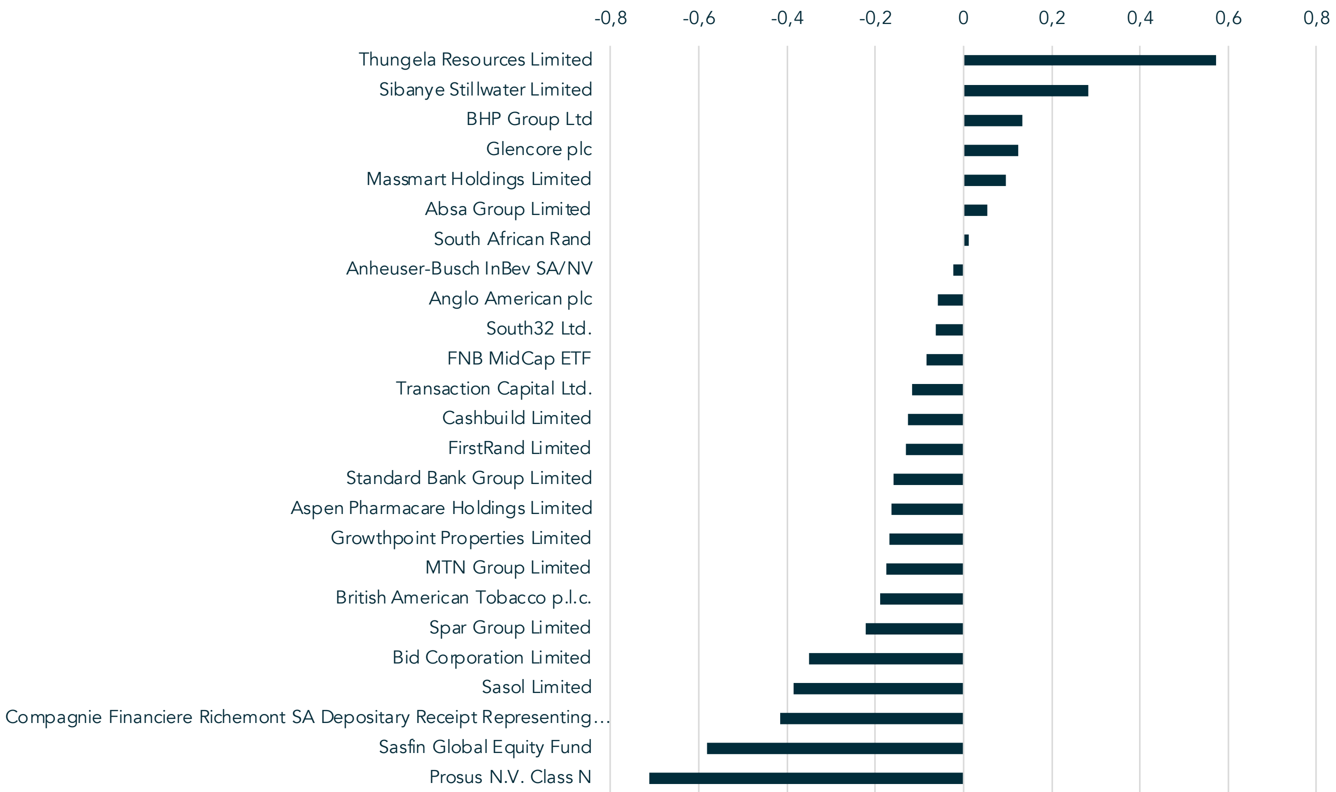
Bid Corp had strong earnings for the quarter and management was confident that they have seen peak inflation in the markets they deal in, which include the UK, Europe, Australia, Asia, South Africa, and South America. Bid Corp more often than not experiences inflation before market indices pick it up and they are a good leading indicator on where inflation is heading. If they are correct this time around it leaves Bid Corp in a strong position for further growth.

If one looks at the weightings in the portfolio against the All-Share, Consumer Discretionary stands out as being largely underweight. This is mainly due to Richemont's weighting in the index increasing to 13%. While China is a headwind for luxury, earnings from the US and Europe are still solid and growing leaving luxury earnings overall as defensive in this environment. We will look to add more to our Richemont holding in the months to come and in turn increasing the portfolios weighting to consumer discretionary, but with a strong rand hedge bias.

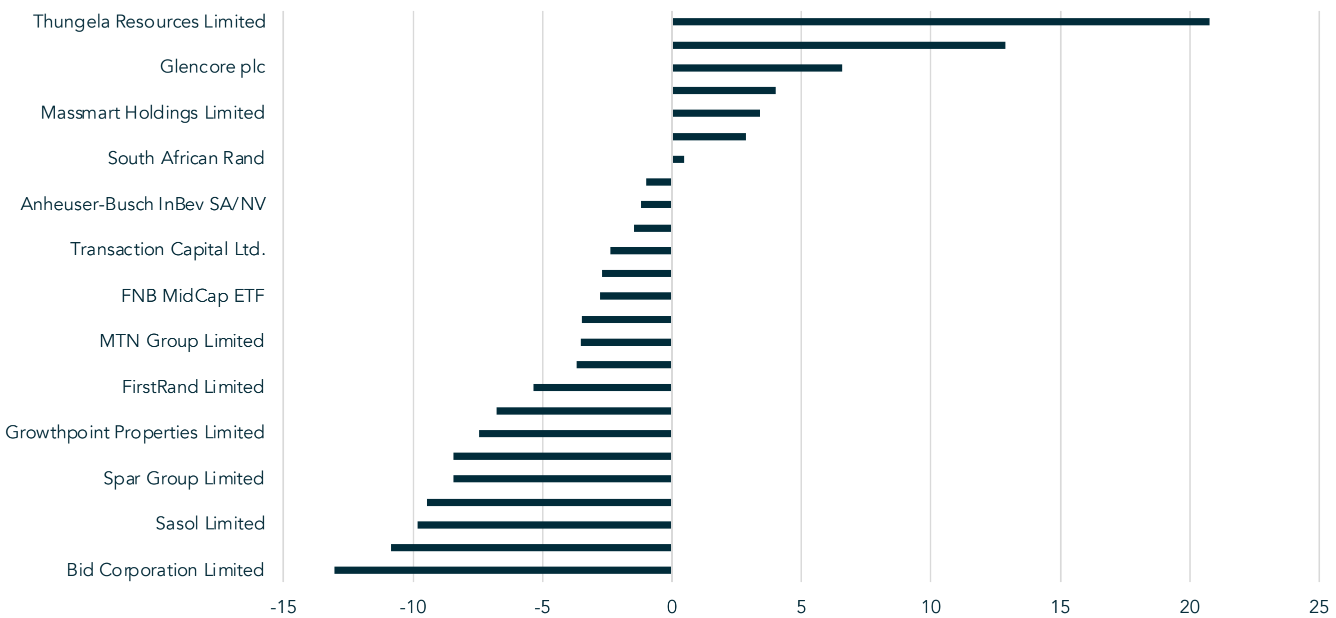
Stock Contributions

Strong commodity contributions added to performance with Thungela not only moving up substantially in price but also declaring a R60.00 dividend in the quarter. Prosus continues to sell off with the double whammy of negative Tech sentiment coupled with negative Chinese sentiment. We are underweight in this counter and will not look to add to it in the current environment, even though extensive share buybacks from Prosus, Naspers and Tencent are supportive of earnings per share. Richemont as mentioned above was not immune to the Chinese slow down either causing both counters to be the main detractors of performance for September and bringing down the quarterly return.

Monthly Contribution to portfolio return: September 2022



Monthly Individual Stock Performance: September 2022



OUTLOOK

"Behind every stock is a company. Find out what it's doing"

- Peter Lynch

The next quarter locally will be driven by interest rate increases again, as well as the South African Mid Term Budget which will likely see government taking on some of Eskom's debt directly and the ANC elective conference towards the end of the year, where we will see what faction of the ANC takes control and whether Cyril Ramaphosa stays the president of the ANC and the country.

With world markets in flux and with extreme swings in price from day to day, the markets are presenting good investment opportunities. We currently continue to work hard on our valuation models and forward earnings projections on the companies we hold and those in our investing universe to make sure we are agile enough to take up these opportunities when they arise. Dividends are also starting to make a big difference in total returns with banks dividends and property income delivering 8% and 14%.

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