sasfin Wealth

Multi Asset Class ZAR Quarterly Report

1 January 2023 – 31 March 2023

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OVERVIEW & PERFORMANCE

USA

Markets rose in January as investors felt 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 expectation of some monetary policy easing in the latter part of the year. That January clarity of understanding was instantly replaced at the beginning of February with a view of sticky inflation coupled with the potential reality of higher interest rates that would be in place well into the year. Financial markets balked at this new notion and gave up a measure of their January index gains in February. No sooner had investors adopted this new vision of the market universe than something more bizarre came to light. It turned out that the recent 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, anticipating a bank collapse, rushed for their cash. The Federal Reserve was forced to quickly intercede to protect depositors as Silicon Valley Bank became the second largest bank failure in US history with Signature Bank, collapsing soon after SVB, becoming the third largest.

Whilst equity markets adopted a risk-off environment in early March, US bond yields instantly changed tack. The two-year treasury yield fell over 100 basis points in three trading days in early March as investors shifted their expectations back to an environment of peaking interest rates and easing monetary policy. As March progressed, investors became a little more comfortable with the banking sector after visible support by the fiscal authorities became apparent.

Overall, the financial market performance in quarter one 2023 was broadly positive. Expectations are that the US Federal Reserve ("Fed") rate hiking cycle is nearing an end which is supported by the reduction in US inflation from 7.1% in November 2022 to 6.0% in February and now at 5% In March.

South Africa

South Africa suffered an inflation shock in March, with February's CPI numbers (both Headline and Core) reverting upwards to 7.0% and 5.2%, respectively. Inflation expectations of the SARB were revised upwards with Headline Inflation expected to be 6.0% (up from 5.4% and Core Inflation at 5.9% (up from 5.5%). On the back of these sharp increases in inflation expectations, the SARB hiked Interest Rates by 0.5%. Although previously we felt this level would be the peak in the interest rate cycle, risks are firmly biased to the upside, and we may see further rate increases should Inflation pressures remain entrenched.

Economic growth, both globally and locally is forecast to remain sluggish, with global growth expected to be no more than 2.0% and locally an expectation of only 0.2%. We retain our outlook that the current market volatility and general market weakness is likely to persist throughout the first half of this year, with an increasing likelihood of recession. However, we remain constructive on our long-term inflation outlook in South Africa and believe that inflation will begin heading below 5% towards the end of this year.

Our Multi Asset Class risk-adjusted- return Models all performed acceptably within the first quarter and are in line with our expectations. No adjustments were made to any of the models within this quarter.

Total % returns in Rand*

	Quarter	YTD	1 Year	3 Years
MAS Cautious	2.33	2.33	n/a	n/a
MAS Moderate	2.77	2.77	6.41	10.14
MAS Growth	2.98	2.98	5.71	n/a
JSE Capped SWIX ALSI	2.44	2.44	0.23	23.02

*As of 31 March 2023. Returns greater than one year are annualised. All returns are gross of management fees and net of underlying instrument fees.

Risk

	6-month Standard Deviation
MAS Cautious	6.82
MAS Moderate	7.73
MAS Growth	9.75
JSE Capped SWIX ALSI	18.96

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 South Africa CPI over rolling periods of 5 years.

The performance and volatility figures above are benchmarked against the JSE Capped SWIX ALSI to illustrate these strategies' risk-adjusted-returns relative to a pure equity index.

ASSET CLASS COMMENTARY

Equities

Global

Global equity markets experienced a positive start to the year as the MSCI All Country World Index returned 7.31% during the first quarter of 2023. Gains in global stocks can largely be ascribed to participants in equity markets anticipating that the US Fed rate hiking cycle will soon come to an end. This opinion buoyed by the continued deceleration in inflation levels and evidence that US inflation has certainly peaked.

Our holding in the Sasfin Global Equity Feeder fund performed well, providing 10.86% return, well ahead of the MSCI AC World Index.

JSE

The JSE, which reached record levels when it breached 80 000 points earlier this year, ended January 8.8% stronger but has since given back some of these gains. The strength at the start of the quarter was on the back of the sooner than expected reopening of the Chinese economy after the relaxation of its strict Covid-19 policies. JSE companies performing well on the back of China reopening which have seen strong upward momentum in the likes of Naspers, Prosus, Richemont, AngloGold and Bidcorp.

Resources dominated over the three-month period driven by a rise in commodity prices, especially our gold counters, AngloGold, Gold Fields and Harmony.

During the last month of the quarter, the banking sector lost ground on the back of the banking crisis in the US and an increase in bad debt provisions locally. Underperformers being retailers, banks and food producers as well as Transactional Capital.

Our equity exposure is Rand hedge bias, with a 17.2% holding in direct offshore equity and 22% in commodities. Prosus and Richemont make up a further 16.3%. We see Rand weakness into quarter two.

If the US Fed indicates a pause in rate increases it should start a USD weakening cycle, which we will monitor closely. The JSE All share Index closed the first quarter to end March up 4,2%. The US market equities performed better up 7,9% for the same period.

FIXED INCOME

We expect local bonds to relatively outperform this year, with double-digit returns on some maturities being a real possibility The anticipated shift in the bond yield curve denoting longer-dated bonds experiencing a good year ahead.

We forecast the All Bond Index to return in excess of 10% this year. Cash and floating rate products should all return between 8% and 10% as well due to our higher interest rates.

Since the Flexible Income Fund is a "through-the-cycle fund", short-term performance will often lag the All Bond Index. However, over longer periods, the Fund is expected to outperform Bonds. The Flexible Income Fund returned 2.6% for the past quarter ending 31 March 2023. This compares favourably to the returns for the All Bond Index which were 3.4% over the same period.

Even without taking on too much duration risk, our fund is positioned to deliver a return of between 9% and 15% for the next 12 months.

REAL ESTATE

Loadshedding, higher interest rates, diesel costs for generators, capital outlay for solar power, a low 0.1% GDP growth rate (IMF estimates) and increased security costs are creating the perfect storm for the SA real estate industry. The possibility of higher loadshedding stages and/or blackouts, generator breakdowns, business failures, security risks and civil disruption, which are not quantifiable, will add further risk and complexity to the local real estate industry.

The upside is that the above is applicable to less than 50% of the ETF position we hold, as more than 50% of this ETF is exposed to international assets of which NEPI Rockcastle (21% exposure in fund) is the star performer. We believe a lot of negative news and risks are already priced in and further downside is muted.

The Satrix Property ETF delivered a negative return of -5.81% for the quarter.

INFRASTRUCTURE

For the first quarter of 2023 our infrastructure position generally performed in line with global markets and continued its positive momentum in share price movement from the previous quarter. The ETF holding consist of the Satrix Global Infrastructure Feeder ETF delivering 1.87% return in quarter one.

APPENDIX

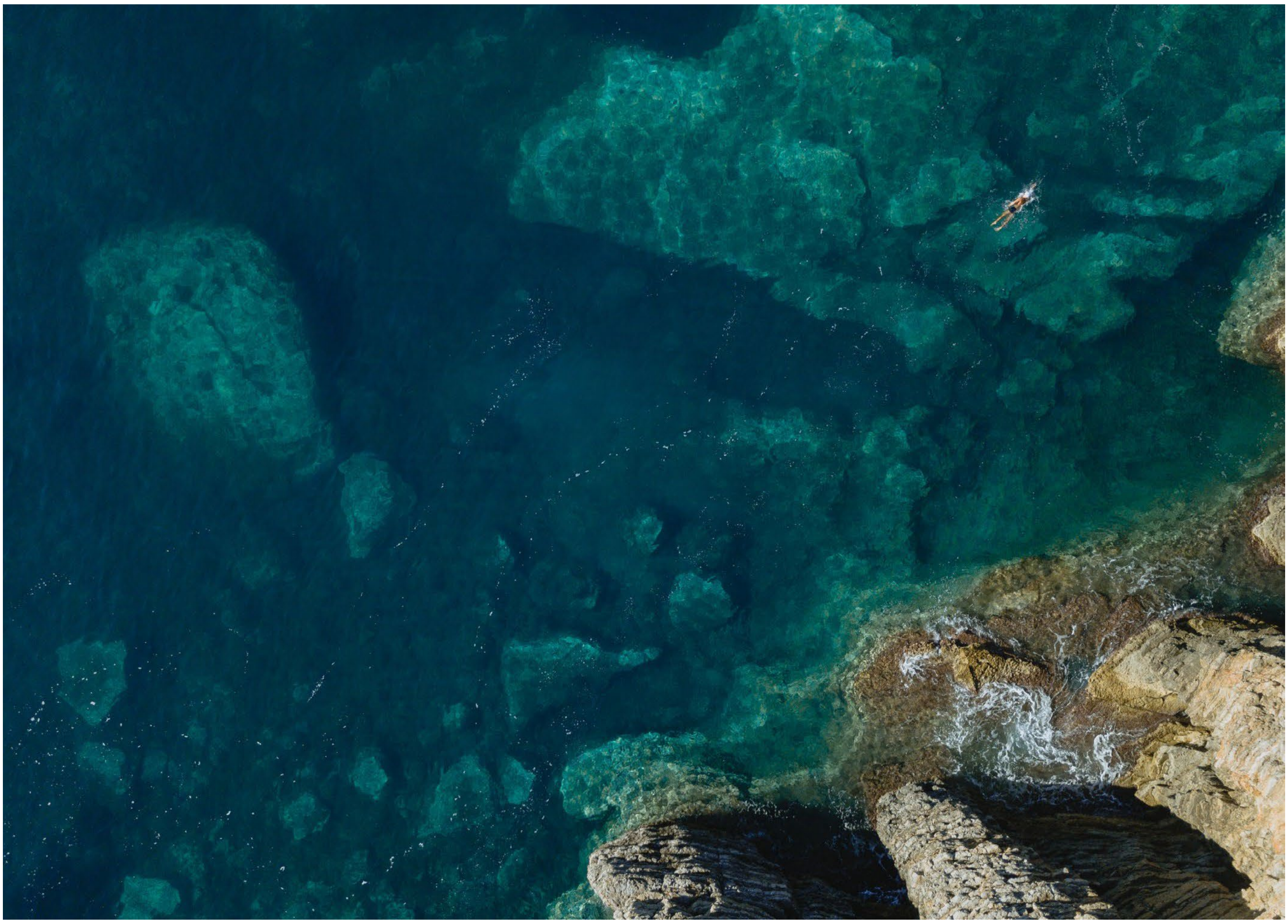
What are the Sasfin Multi-Asset Class Strategies (MAS)?

- 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.
From 2007 to 2022 Craig fulfilled the roles of General Manager (Investments) and Chief Investment Strategist at Absa Stockbrokers and Portfolio Management before returning to Sasfin Wealth as Chief Investment Strategist.
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, Equities & Fixed Income

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.

Nicholas Sorour
Business Unit Head & Portfolio Manager, Infrastructure

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.

Michelle Bester
Business Unit Head & Portfolio Manager, Infrastructure

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 traveler, and outside of work you'll likely find her enjoying the outdoors with her family and her Boston Terriers.

THE **TEAM**

Robert Towell
Fund Manager: Sasfin Domestic Equity Fund

Robert has been with Sasfin Wealth for 7 years and has 17 years of industry experience. He currently sits on the Sasfin Wealth Investment Committee which adopts a multi counsellor approach. He is responsible for the Domestic Equity Model for the Sasfin Wealth Committee.
Robert specialises in manages HNW private clients local and offshore portfolios. He holds a BCom Economics, has a Postgraduate in Business Administration from GIBS and has the RPE and FAIS RE5 qualifications.

Jonathan Wernick
Fund Manager: Sasfin Global Equity Fund

Jonathan joined Sasfin in 2015. He is an analytically aware investment professional with experience in the financial services industry since 2006, focusing on equity analysis and investment banking. He offers expert analytical and communication abilities as well as advanced skills in equity valuations, financial modelling and project management. Jonathan is a CFA charterholder and completed CAIA examinations.

Rossouw Steyn
Portfolio Manager, Real Estate and Fixed Income

Rossouw Steyn started his career in 1989 with Frankel Kruger Vinderine Stockbrokers and after 4 years running the asset management side of a Financial advisory company, joined Sasfin in 2001. He is a senior Portfolio Manager based at Sasfin Wealth, Pretoria branch and is a member of the Investment Committee. He is passionate in assisting clients in achieving their investment goals thus giving them financial peace of mind. Rossouw holds a B Com degree in Investment management from the University of Johannesburg

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