

sasfin

Wealth

Sasfin Innovation Portfolio

Quarterly Review – Q4 2022



INNOVATIVE COMPANIES WE INVEST IN



Top 5 Holdings

Holding	Weight
Global X Lithium & Battery Tech ETF	11.4
iShares Automation & Robotics ETF	9.5
iShares Global Clean Energy ETF	9.2
iShares Healthcare Innovation ETF	8.0
First Trust NASDAQ Cybersecurity ETF	7.4

As of 11 January 2023

PORTFOLIO COMMENTARY

Having declined for three consecutive quarters, global equity markets ended 2022 on a positive note. Gains in global stocks can largely be ascribed to participants in the equity markets anticipating a more subdued hawkish approach by central banks going into 2023.

As exceedingly high levels of inflation continue to be the scourge of central bankers, particularly those in the developed markets, the pattern of rate hiking persisted during the final quarter. The most influential central bank of them all, 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, possibly even pivot towards the doves, resulting in a renewal in confidence for stocks. For others, this may have just been a bear market rally, only time will tell.

Wording from the Fed suggests that the central bank remains concerned over inflation noting that further evidence would still be required to support the idea that inflation is headed back down and that additional rate increases would still be appropriate. Positive reads from the most recent economic data points added further murkiness to the interest rate picture. US third quarter GDP was revised upwards, and the US labour market continues to show signs of resilience as recent jobless claims came in lower than expected. Both data points would count against the Fed pausing, let alone reversing its process of hiking interest rates.

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 large. Corporate earnings and household balance sheets will be closely monitored for signs of deterioration, particularly in an environment of higher interest rates.

Against this backdrop, the Sasfin Innovation Portfolio managed to eke out a small gain in the fourth quarter. While the portfolio experienced a significant decline over the year, it was pleasing that it managed to consistently outperform its benchmark, the Russell Small Cap Completeness Growth Index. The risk of the portfolio has also been in line with the benchmark when measured in terms of its standard deviation but compares favourably when looking at the Sharpe and Sortino Ratios.

Sasfin Innovation Portfolio - Quarterly Review

In order to navigate the highly challenging trading environment the investment team actively reviewed and managed the portfolio. The following holdings were sold during the quarter: Digital Realty Trust, Elastic and Stratasys. The proceeds of these sales were used to add two new stocks to the portfolio: Nvidia and InMode.

With a market capitalisation of nearly \$400 billion, Nvidia is the largest company held in the portfolio currently by a large margin. Nvidia specialises in the design of graphic processing units (GPUs). GPUs were originally designed for the rendering of 3D graphics which made them particularly useful for gaming as well video and image editing by professionals. However, the ability of the GPU to perform multiple computations simultaneously meant that they are well-suited to the realm of artificial intelligence and its subsets, including machine learning and deep learning. In addition, cryptocurrency “miners” also make use of GPUs when mining for Bitcoin and Ethereum.

Historically, gaming has been the predominant end-use for Nvidia’s GPUs but as cloud computing and AI have grown in prominence, so has the demand for Nvidia’s GPUs particularly in the data centre space where Big Tech companies such as Alphabet, Amazon and Microsoft make extensive use of Nvidia’s products. Nvidia also operates in the automotive space providing infotainment to a host of customers as well as autonomous driving through its Drive PX platform, which is a deep learning tool used by over 300 partners.

InMode is a medical device company that was founded in 2008. The company designs, develops, manufactures and markets non- and minimally invasive aesthetic medical products that target an array of procedures including permanent hair reduction, facial skin rejuvenation, wrinkle reduction, cellulite treatment, skin appearance and texture and superficial benign vascular and pigmented lesions. It has eight patented technologies across 10 product families.

Holding a leading position in the non-invasive medical aesthetics market, InMode has consistently delivered strong revenue and profit growth since listing through product innovation and customer acquisition. Its business model includes both one-time, as well as recurring revenue drivers along with sustainable cost advantages making its long-term business fundamentals robust. The company headquarters are in Yokneam, Israel, with subsidiaries in the US, Canada, and Spain, and joint ventures in the UK and China.

Looking ahead, and as stated in our third-quarter review, the best defence that the management team of the Sasfin Innovation Portfolio has during highly uncertain times like these is to make sure that each 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 Nicholas Dakin and Jonathan Wernick

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	-7.2	0.6	-31.7	-31.7	4.9	8.5	17.2
Russell Small Cap Growth	-6.6	1.3	-33.9	-33.9	3.0	6.4	9.4
FTSE/JSE All Share	-2.4	21.6	-2.8	-2.8	5.6	1.3	7.5

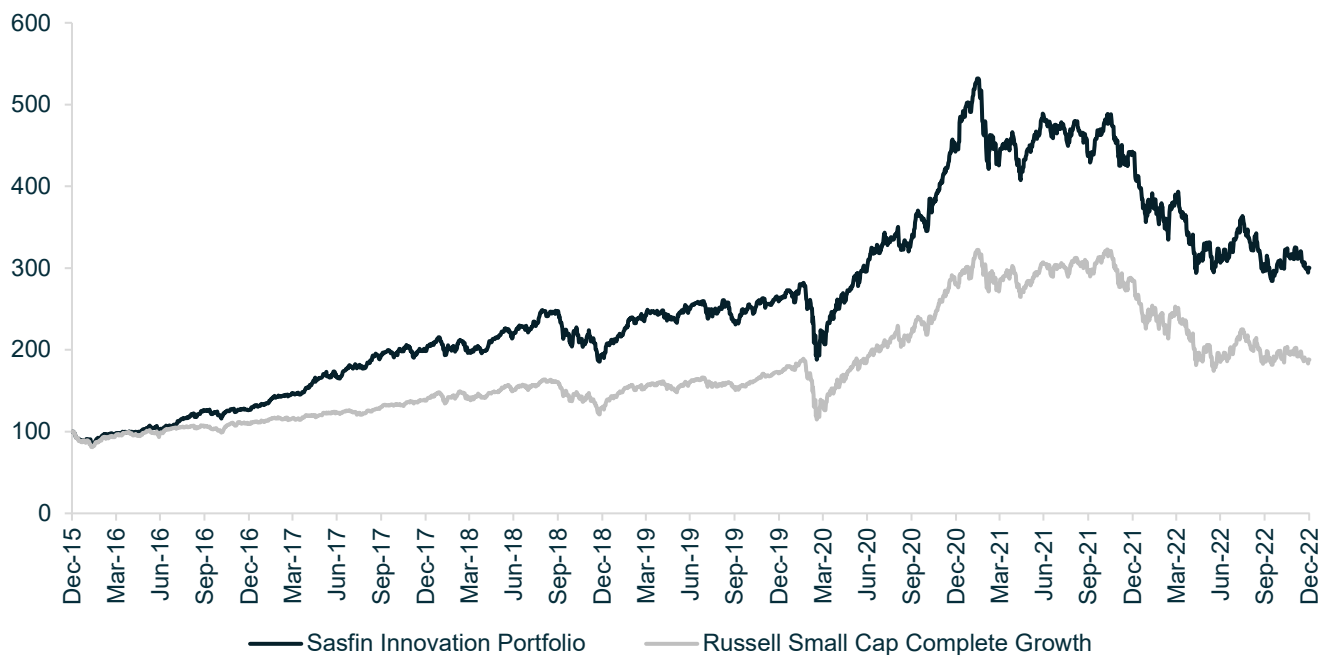
Note: As of 31 December 2022. Performance reflects simulated returns to January 2019. Periods greater than one year are annualised. All performance is net of underlying instruments fees and gross of management fees

Total return in Rand (ZAR) terms

ZAR Returns (%)	1 month	3 months	YTD	1 year	3 years*	5 years*	Since inception*
Sasfin Innovation Portfolio	-7.1	-4.7	-25.1	-25.1	11.7	15.1	18.5
Russell Small Cap Growth	-6.5	-4.1	-27.3	-27.3	9.8	12.9	10.8
FTSE/JSE All Share	-2.3	16.3	3.8	3.8	12.3	7.9	8.8

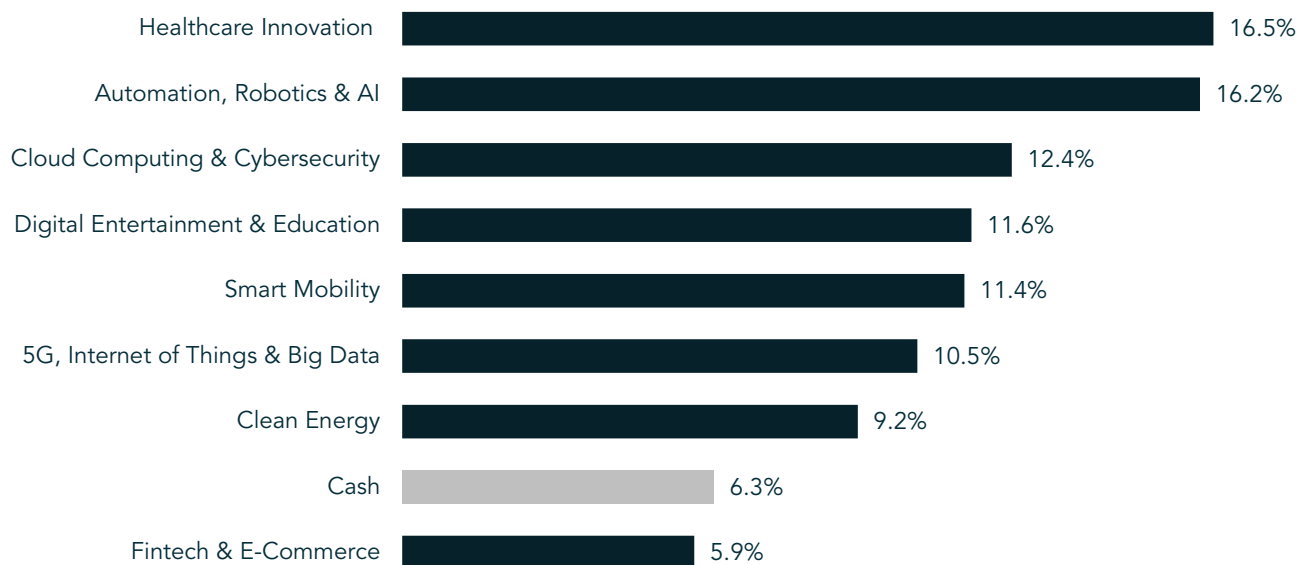
Note: As of 31 December 2022. Performance reflects simulated returns to January 2019. Periods greater than one year are annualised. All performance is net of underlying instruments fees and gross of management fees

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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