

sasfin

Wealth

# Sasfin Innovation Portfolio

Quarterly Review – Q4 2023



### The Macroeconomic Summary

The fourth quarter began with low expectations as rising long-term interest rates extended the third quarter's decline in equity markets. Globally, both equity and bond markets reached quarterly lows near the end of October due to declining investor sentiment and confidence. However, the release of positive economic data, coupled with better-than-expected corporate earnings and improved business activity reports, initiated a market turnaround in November.

The resilience of the US jobs market bolstered consumer health, leading to better-than-expected consumer spending and economic growth. Additionally, inflation data softened faster than anticipated in the US, UK, and Eurozone. Neutral monetary policy guidance from the US Federal Reserve spurred a rapid and positive change in investor confidence. Consequently, both equity prices and long-term interest rates reversed direction, resulting in one of the strongest short-term rallies in the US equity and bond markets in recent years.

In the bond market, after causing much pain for investors in the first 10 months of 2023, the yield on the 10-year US Treasury ended the year roughly where it started at about 3.9%. In the equity market, after some volatility, the S&P 500 Index gained 11.2% in the fourth quarter and ended the year about 25% higher than where it started. However, these gains were heavily concentrated in a handful of shares known as the "Magnificent 7," which were responsible for nearly two-thirds of the S&P 500 index's gain in 2023. A closer look at the figures shows that 72% of the 500 companies held in the S&P 500 underperformed the index - a record number. This trend extended to US mid- and small-cap, other developed market, and emerging market equities.

### The Innovation Portfolio | Q4 2023

Although the Sasfin Innovation Portfolio had exposure to some of the "Magnificent 7" shares, most of the other shares and exchange traded funds (ETFs) held in the portfolio also performed well. For instance, during the fourth quarter of 2023, InterDigital surged more than 35% following financial results that exceeded expectations. InterDigital is a pioneer in advanced mobile technologies that enable wireless communications and capabilities. The company licenses its broad portfolio of technologies to wireless terminal equipment makers, which allows them to expand their core market capabilities. It has leading companies, such as Huawei, Samsung, LG and Apple, under its licensing agreements. Throughout 2023, InterDigital's shares gained 112%.

Other notable performers during the quarter were the cybersecurity shares and Arista Networks. The Innovation Portfolio's exposure to the Cybersecurity sector is via the First Trust NASDAQ Cybersecurity ETF and Palo Alto Networks. The latter was added to the portfolio toward the end of the third quarter of 2023. The ETF gained over 18% during the quarter while Palo Alto Network's shares increased over 25%. According to research from Deloitte, cybersecurity challenges are set to exacerbate as the cost of cybercrime is predicted to be \$14.6 trillion in 2024, more than double the \$6 trillion cost a few years ago in 2021. With the proliferation of artificial intelligence (AI) tools, it's now easier than ever for bad actors to impersonate others and deceive their targets. Many are using deepfakes to get around voice and facial recognition access controls as well as in phishing attempts. AI applications themselves, which demand huge amounts of data, are also rich targets for hackers. The security risks are multiplying with every new content-generation tool that hits the internet. However, organisations are responding through a mix of policies and technologies designed to identify harmful content and make their employees more aware of the risks.

The same generative AI tools used by bad actors to exploit organisations can be used to identify and predict attacks, allowing enterprises to get ahead of them. The disruption and growth driven by AI within the cybersecurity sector is expected to be a tailwind for companies such as Palo Alto Networks.

## Sasfin Innovation Portfolio - Quarterly Review

Palo Alto Networks offers network security solutions to enterprises, service providers and government entities worldwide and is considered the market leader within the global cybersecurity space. In 2023, the company saw its sales and earnings grow by 20% and 66%, respectively. Notably, in their most recent financial results, the company reported the annual recurring sales in its next-generation security segment, which features many of its cloud and AI-focused products, grew by 53%.

Arista Networks, which has been a holding in the Innovation Portfolio since inception also enjoyed a strong fourth quarter, with their share price gaining around 28% during the period. The company reported sales and earnings growth of 28% and 46% respectively when compared to the same quarter last year. Arista is well positioned to benefit from the investment in AI due to its leading position in the datacenter equipment space, providing best in class networking equipment to large technology companies such as Microsoft and Meta Platforms. As AI workloads within datacenters grow, datacenter operators need to invest in higher performance network switches which are required for AI applications to function efficiently. For example, capital spending by Microsoft is expected to grow by more than 45% in 2024, largely driven by AI related investment. Estimates from Morgan Stanley values the AI networking equipment market at \$8 billion by 2028, presenting a significant new growth opportunity for Arista over the coming years.

The poorest performing share held in the portfolio during the quarter was InMode which lost around 27%. InMode is a medical technology company which holds a leading position in the non-invasive medical aesthetics market. In 2023, Novo Nordisk and Eli Lilly's diabetes and weight loss drugs, Wegovy and Ozempic, gained significant traction. Market participants speculate these drugs will continue take market share from the broader healthcare market as the incidence of medical conditions associated with obesity and diabetes are expected to fall thanks to these drugs. Since InMode's products are used for aesthetic fat reduction (among other treatments), some degree of competition is expected from Wegovy and Ozempic and in the fourth quarter we have seen InMode cut their growth outlook. Furthermore, the company's manufacturing facilities are based in Israel, however management assured shareholders that operationally they do not see any risk to the business. Nevertheless, this is still perceived as a risk by the market given the current geopolitical situation.

Heading into 2024, the global economy is undergoing a transformation driven by innovative technologies such as artificial intelligence, which will have lasting impacts on the economic landscape. The Innovation Portfolio committee remains focused on identifying opportunities to invest in companies that are at the forefront of technological innovation and disruption.

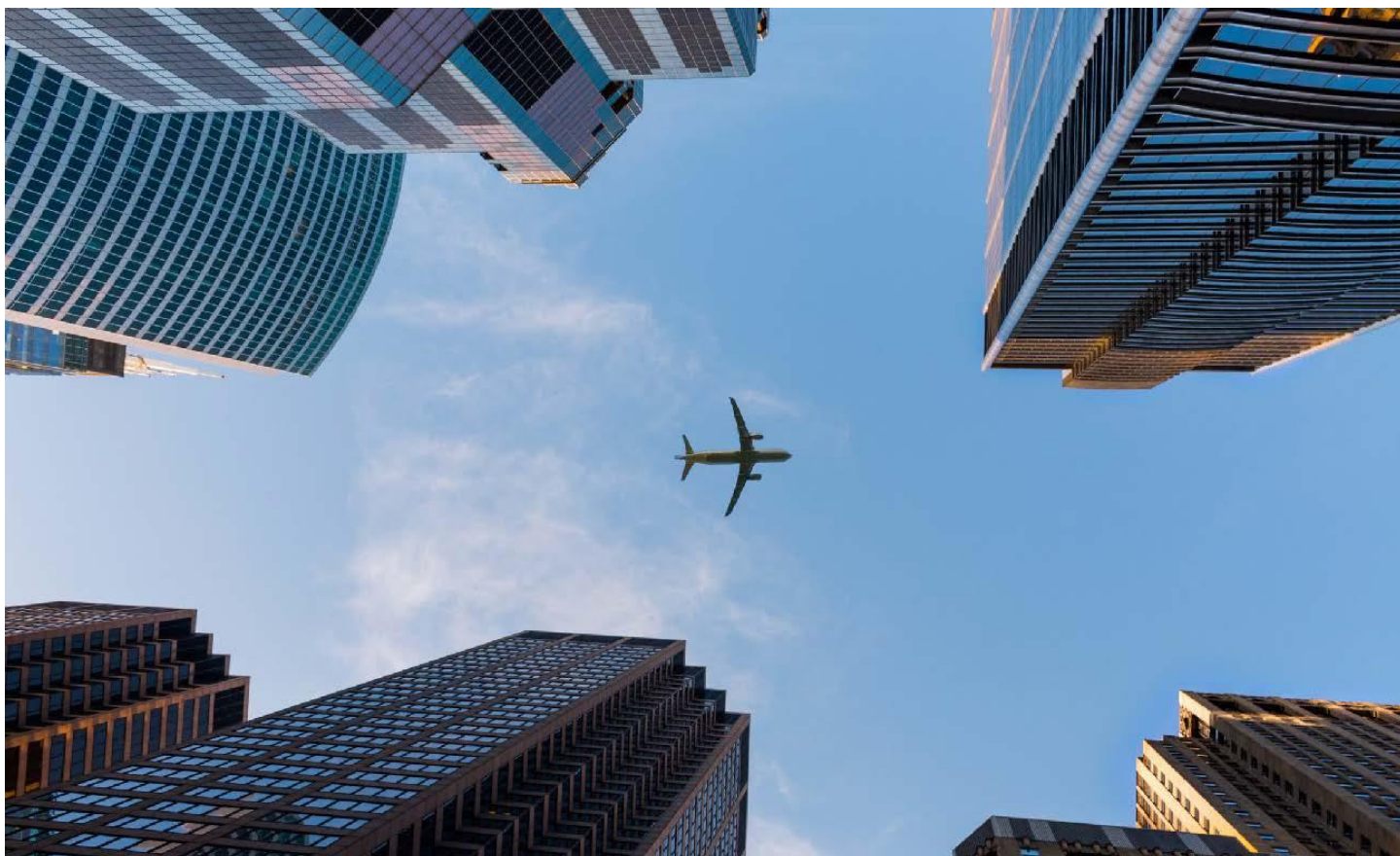
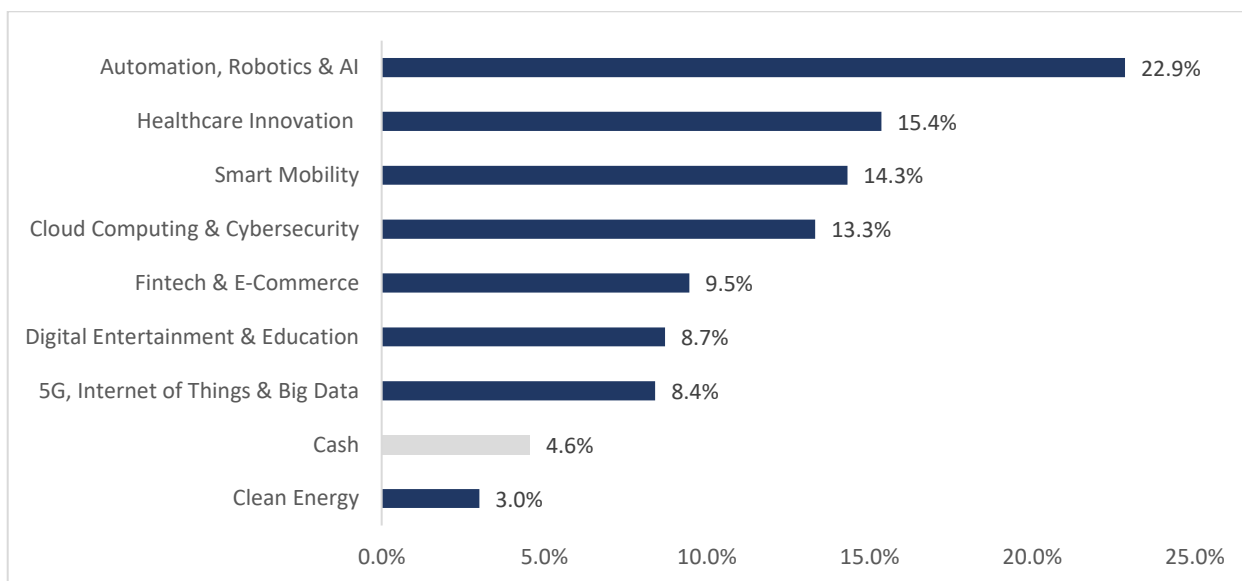
### USD Returns

	3m	YTD	1yr	3yrs	5yrs	Inception
<b>Innovation USD</b>	11.9	27.5	27.5	-5.0	14.3	18.4
Russell Small Cap Growth	15.1	33.4	33.4	-3.6	13.9	12.2
All Share	10.1	1.7	1.7	6.4	1.5	7.8



## 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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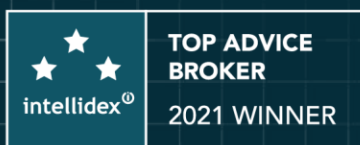
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