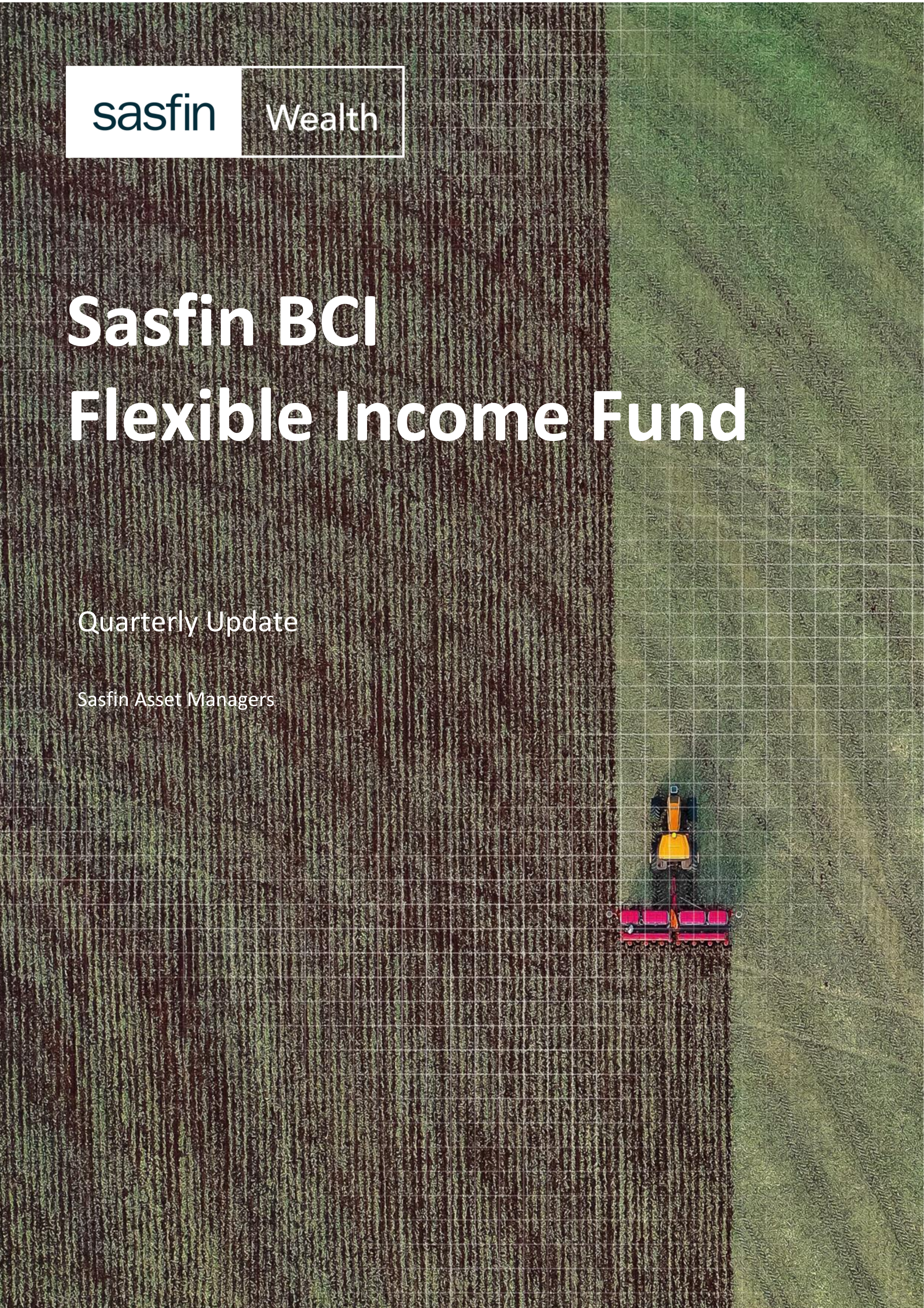


sasfin Wealth

Sasfin BCI Flexible Income Fund

Quarterly Update

Sasfin Asset Managers

Appropriate risk at the appropriate time

As we approach the end of 2022 in which investment markets have delivered an incredibly difficult environment in which to operate, it is safe to say that the previous post-2008 paradigm of low volatility and low interest rates is pretty much over. Instead we now deal with persistently higher inflation and significantly higher volatility – not just in asset prices but also in economic data.

The objective of the Sasfin BCI Flexible Income fund is to offer a similar or better return to the ALBI with lower volatility and provide bond market exposure while preserving capital. We do this by actively managing duration, curve and credit risks looking for the best risk-return opportunities in the market.

The Federal Reserve remains committed to their hawkish path to raise rates further to rein in inflation. Whether the terminal rate will be 5% or even 7% remains uncertain. Precipitous behaviour of market participants, hopeful of better news, has resulted in increased volatility and large price swings. This also means we are likely to continue to see a fair degree of continued volatility and weakness in our bond market. Whereas the United States and other European countries remain behind the curve in their battle against inflation, locally we are likely nearing the end of ours. Consensus continues to point to a further easing of our inflation outlook, with inflation expected to trend back towards the SARB's midpoint of 4.5% towards the beginning of 2024. We expect the SARB to conclude their hiking either at their next meeting in November or at their first meeting in 2023, with rates likely to peak at 7 – 7.25%. Rate cuts typically follow about 8 to 12 months after the conclusion of the hiking cycle. And so, we are at the beginning of a likely divergence between economic conditions between the United States and other Developed and Emerging economies.

The Stagflation scenario: This is characterised by persistently higher inflation, combatted by Central Banks raising rates rapidly to cool off demand-led inflation causing a shift to much lower growth rates, but as base effects on energy prices start coming in, inflation peaks out and growth is not pushed into a steep recession. Higher than normal inflation prospects but lower growth than normal means markets cannot rally strongly.

The Recession scenario: Characterised similarly by the initial persistent inflation, but Central Banks do not dodge the pain and trigger a sharp global recession with commodity prices tumbling dramatically and inducing rapid falls in inflation rates back towards long run norms. Equity markets are most vulnerable in this scenario.

The Goldilocks scenario: This is the so-called "bullish" scenario, where contrary to market expectations, inflation does indeed fall back towards long run norms without Central Banks having to raise rates much further than current levels. Markets would take comfort from this and precipitate an enormous "relief" rally.

Current Fund Positioning

In the scenarios we paint above, we continue to believe that active duration management is required to navigate a path through the risks. Until we have high conviction around which scenario is likely to dominate, we continue with interest rate risk rather than credit risk being the most significant contributor to performance in our multi-strategy fund management approach. In addition, ensuring that the liquidity profile of the fund remains elevated in order to allow quick shifts in strategy dependent on the macro situation that unfolds.

This speaks to the need to be nimble in our approach with the ability to change duration risks rapidly as the expected heightened volatility will produce opportunities for additional return or may conversely produce capital losses in short bursts. On a valuation basis our bond yields are cheap as noted above, but they are likely to remain so until we see a sustained move downwards in US bond yields, and, crucially, because the inflation outlook improves, and not as a result of a global search for safety.

After the MTBPS in October we saw local bond markets rally and we have reduced overall duration into that strength and note that we remain cautious from a credit risk perspective. With SA inflation having likely peaked we have reduced our explicit inflation-linked exposures as nominal bonds now offer better value.

With the uncertain current environment, we have embarked on a deliberate strategy to derisk the fund and ensure that liquidity is of the utmost importance. This can be illustrated below through the change in issuer type exposure since December 2021 in the fund. The current exposure and fund positioning also provides us with the ability to react to most market moves within a short space of time (See table 1).

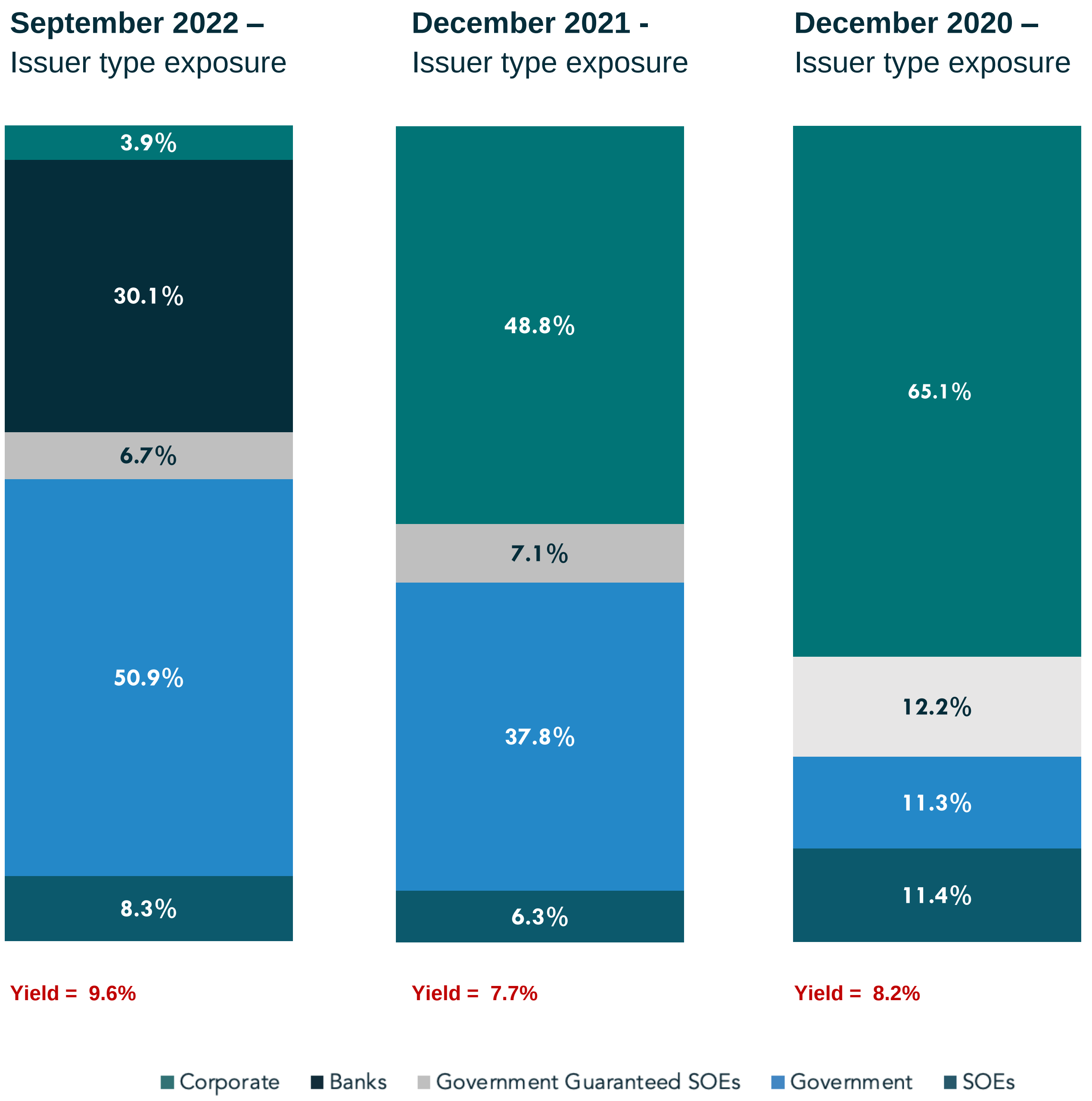
Table 1: Allocation/positioning @ 31 October 2022

Summary	*Yield (gross)	Duration (years)
Sasfin BCI Flexible Income	9.6%	2.4
ALBI	10.5%	6.1
Fixed rate bonds	10.9%	5.1
Floating rate bonds	8.8%	0.2
ILBs	9.9%	1.7
Cash	7.2%	0.2

Current instrument allocation type	Fixed Rate	Floating Rate	ILBs	< 1-year
Sasfin BCI Flexible Income	43.7%	42.0%	2.6%	11.6%

*Not guaranteed

Issuer type exposure over time - credit risk reduced without comprising performance

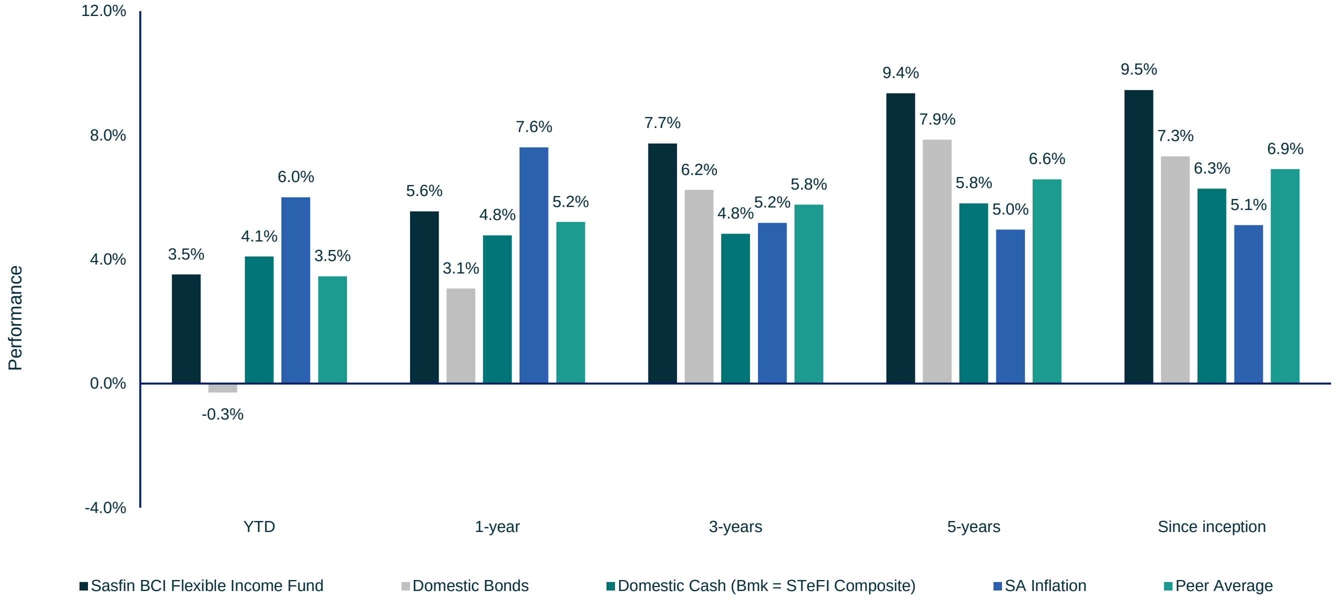


Based on current and historic holdings., not illustrative of future liquidity profile

How has the fund performed

Since inception gross of fees the fund has delivered on its objective as stated above. The fund has achieved 9.5% per annum over this time. This is an outperformance of inflation of 4.4% on average per annum.

Sasfin BCI Flexible Income Fund Performance ending October 2022



Source: Morningstar
Notes: A-class; Inception of 01 July 2015; Domestic Bonds = FTSE JSE All Bond Index; Peer average refers to the ASISA SA Multi-Asset Income average; Annualised return is weighted average compound growth rate over the period measured; Actual annual figures are available to the investor on request; SA Inflation lagged Fund highest and lowest calendar year performance (as at 31 December 2021): High = 14.22%; Low = 8.42%

Going forward

Over the medium to longer term, we would expect bond yields to start falling again. although this is probably only after the US Dollar and inflation begins heading downwards with conviction. In that scenario we could see yields correcting in moves of up to 1%. The exact timing of this shift is very difficult predict. If in 12 months time we are in the middle of a recession and Fed policy is still restrictive, then we may see only a limited recovery in SA bond yields, unless our country specific fiscal and political risks have been resolved by then.

In this environment we see returns in our bond market ranging between 5% and 14% over the next 12 months, although our favoured and more likely scenario is for a double-digit return. With inflation towards the end of next year expected to be closer to 4.5%, we think that the Sasfin BCI Flexible Income Fund should provide clients with a very attractive, above-inflation return in the coming 12 months, both in terms of the capital appreciation and the income yield that the fund will offer.

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