

sasfin

Wealth

Sasfin Innovation Portfolio

Quarterly Review – Q2 2024



The Macroeconomic Summary

“Citius, Altius, Fortius”, the original Latin motto for the Olympic Games, urged athletes to go “Faster, Higher, Stronger”. Three years ago, the International Olympic Committee altered that motto slightly to “Citius, Altius, Fortius – Communiter” or “Faster, Higher, Stronger - Together” to better reflect the unifying power of sport. The Olympic motto is reminiscent of the “faster, smaller, cheaper” approach to the “sport” of semiconductor manufacturing. Constant innovation and the drive to get more transistors on to each microchip have paved the way for faster and more affordable computing and the dawning of the artificial intelligence (“AI”) age. The drones, video phones, wearable technology and hoverboards imagined in the 1985 “Back to the Future” movie have all come to fruition and yes, a real hoverboard that works without wheels has been invented. We don’t yet have flying cars, but we certainly do have fully self-driving vehicles and are awaiting the imminent launch of Tesla’s new robotaxi. Humanity’s quest to learn more about the universe has accelerated the exploration of space and rocket launches now run into the hundreds each year. We’ve come a long way from the first launch of Sputnik 1 in 1957 and Yuri Gagarin’s pioneering manned space flight in 1961. The two crewed space stations currently in orbit (China’s Tiangong and the International Space Station) represent mankind’s ongoing thirst for knowledge and a better way of doing things. The Innovation Portfolio aims to provide an investment into those companies at the forefront of this exciting and ongoing search for new ideas.

The second quarter of the year for the markets began with a whimper as the MSCI All Country World Index (“MSCI ACWI”) lost 2.9% in April. The quarter ended with a bang though as this broad barometer of the health of global equities rose 3.5% in May and 2.4% in June to be up 2.9% for the quarter. After the first six months of the year, the MSCI ACWI had recorded growth of 12.2% in US dollar terms. The Innovation Portfolio’s benchmark, the Russell Small Cap Completeness Growth Index, followed a similar path over the quarter but the decline of 6.4% in April could not be recouped by the 2.3% index gain in May and the 2.1% gain in June. At the end of the quarter, the benchmark index closed 2.3% lower to be left up 6.3% for the first half of 2024.

The first quarter earnings season for S&P 500 companies played out over the course of April and early May and the market had little patience for companies that did not beat expectations on both revenue and earnings or that provided disappointing guidance on future earnings. The markets had been on a charge from January to March and April saw a degree of profit-taking and something of a reset as monetary policy easing expectations were scaled back. The European Central Bank continued to signal a first rate cut in June, but the Federal Reserve Bank remained adamant that rates would only be cut when inflation was firmly on track to reach the central bank’s target of 2%. Expectations for rate cuts from the Federal Reserve had already been revised lower but the markets became increasingly concerned that the so called “Fed-pivot” could still be some time away. Slowing economic growth in both the US and the world, along with the prospect of “high-for-longer” interest rates, provided something of a headwind for markets in the early going of the quarter. The successful negotiation of the earnings season though set the markets up for their next leg higher.

The S&P 500 companies, in aggregate, reported earnings growth of 5.9% y/y in the first quarter from revenue growth of 4.3% y/y. These numbers were flattered by a handful of high-flying technology stocks and the 461% y/y first quarter earnings growth from market darling Nvidia accounted for roughly one percentage point of the market’s 5.9% y/y earnings growth. The technology sector underperformed the general markets in April with a decline of 5.46% but bounced back with market-beating returns of 10.0% in May and 9.3% in June. Based on FACTSET consensus expectations, the technology sector is expected to report second quarter earnings growth of 16.1% y/y as the S&P 500 records earnings growth of 8.8% from forecast revenue growth of 4.6%. The outlook for earnings growth for the market remains positive for the remaining quarters of 2024 and 2025.

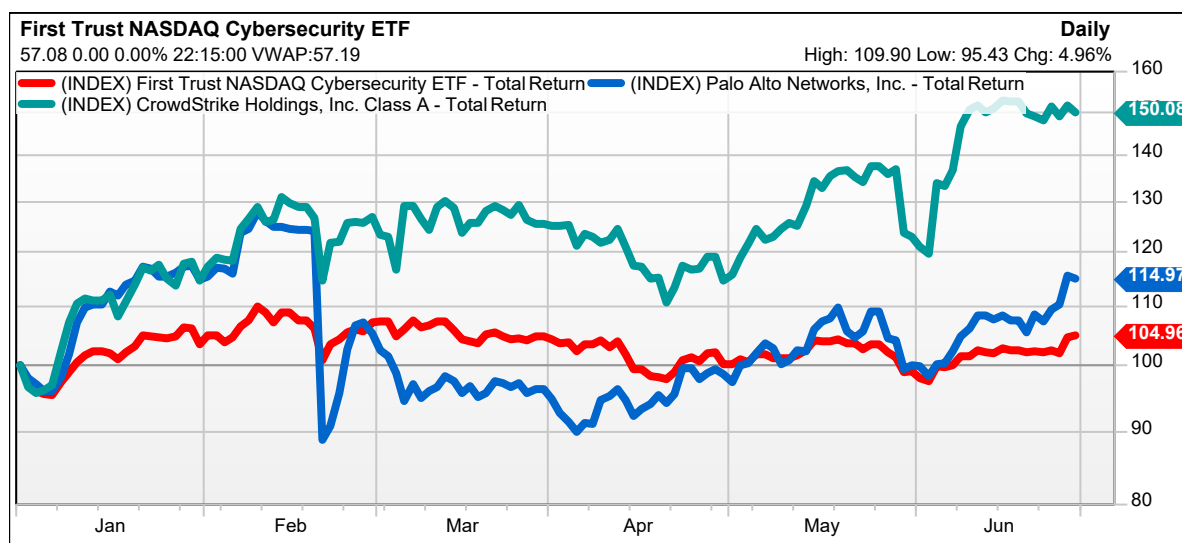
The Innovation Portfolio | Q2 2024

Over the past quarter, our strategic evolution has ignited a transformative journey within our Innovation portfolio. We have transitioned our focus from ETF exposure to harnessing the potential of individual stock holdings, particularly within the cybersecurity sector. Our analysis has shown greater performance compared to ETFs, prompting us to increase our investment in Palo Alto Networks (PANW) and to initiate a position in CrowdStrike Holdings, Inc. (CRWD). In addition to cybersecurity, we have explored new opportunities with Medpace Holdings, Inc. (MEDP), a trailblazer in innovative trial designs such as adaptive, decentralised, and virtual trials. Medpace's commitment to enhancing trial efficiency through AI, machine learning, and real-world data analytics underscores our dedication to investing in visionary companies that lead their industries.

Since the beginning of the year, overall software spending has been slower than anticipated, primarily due to gradual adoption of Generative AI technologies and cloud migrations. However, cybersecurity remains a resilient segment. Increasing threats, stringent regulatory requirements, and heightened board-level engagement continue to drive robust demand in this sector, even amidst restrained spending conditions. In response to this landscape, we strategically exited our position in the First Trust Nasdaq Cybersecurity ETF. While the ETF provided broad exposure, it did not match the dynamism and exceptional performance demonstrated by leading cybersecurity stocks (see figure 1). This realisation prompted us to reallocate our investments into more promising individual stocks within this dynamic and high-performing sector.

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.

Figure 1: YTD Indexed Performance – USD Total Return (%)



Source: FactSet

With confidence in our investment case, we bolstered the portfolio's exposure to Palo Alto Networks, a leading cybersecurity company renowned for its innovative approach to network security. Palo Alto Networks pioneered Next-Generation Firewalls (NGFW), which transcend traditional filters by inspecting and managing traffic based on application, user, and content.

Continually innovating beyond NGFWs, they introduce new solutions and features, earning consistent recognition in Gartner's Magic Quadrant for Network Firewalls (a significant accolade for any technology vendor).

Earlier this year, Palo Alto Networks played a pivotal role in mitigating the first-ever \$1 billion corporate cyberattack, aiding United Healthcare's subsidiary, Change Healthcare, in recovery and security restoration. With ransomware attacks surging by over 70% in the past year and global tensions rising, demand for Palo Alto Networks' advanced cybersecurity solutions is anticipated to escalate sharply.

Figure 2: Broad Market Leadership

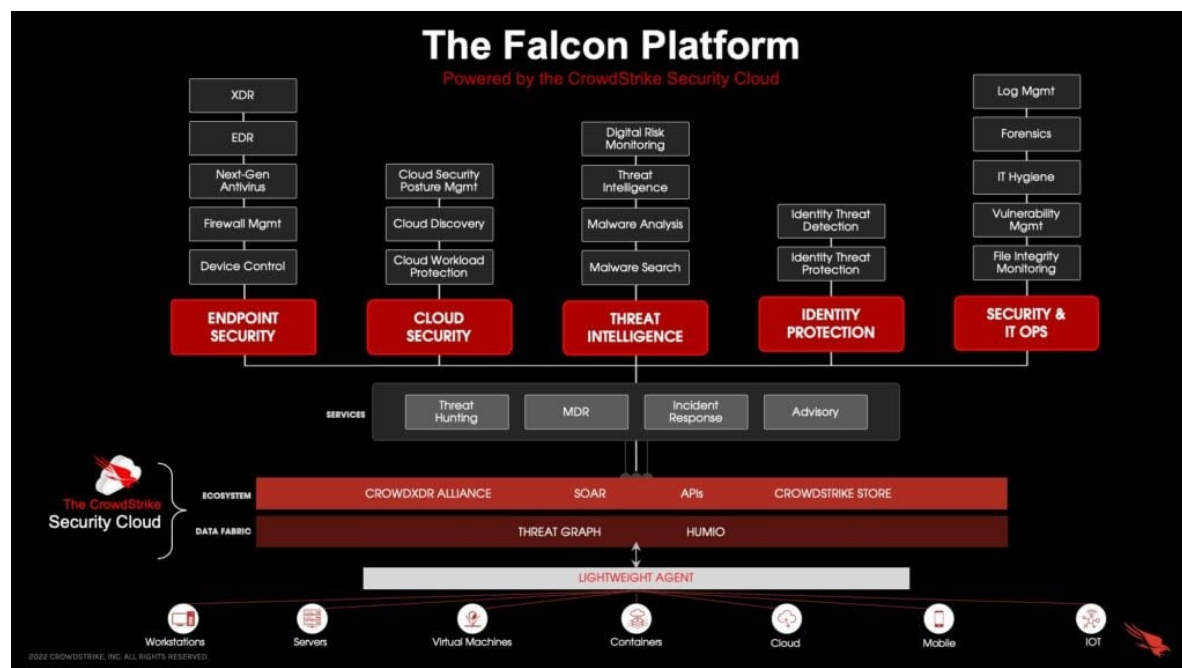


Source: Palo Alto Networks

Palo Alto Networks also unveiled AI-driven security innovations such as AI Access Security, AI Security Posture Management, and AI Runtime Security. These advancements not only address evolving AI security challenges but also position Palo Alto Networks as a leader in integrating AI into cybersecurity solutions and opening new avenues for growth. Their platformisation strategy, consolidating security tools and enhancing vendor efficiency, coupled with a strengthened partnership with IBM and acquisition of IBM QRadar's Software as a Service (SaaS) assets, reinforce their dominance in the SIEM/Security Analytics market projected to exceed \$20 billion by 2026. This strategic expansion and Palo Alto's broad market leadership position (see figure 2) underscore our confidence in increasing our current holdings in Palo Alto Networks.

As previously mentioned, we have initiated a position in CrowdStrike. A leader in cloud-delivered endpoint protection, CrowdStrike leverages artificial intelligence to provide advanced threat protection. Their Falcon platform (see figure 3) offers a comprehensive suite of services, including threat detection, prevention, and response. This makes it a preferred choice for organisations seeking robust cybersecurity solutions. With the cybersecurity market projected to exceed \$200 billion by 2024, CrowdStrike's significant market presence and cutting-edge technology position them at the forefront of addressing evolving cyber threats.

Figure 3: The Falcon Platform



Source: CrowdStrike

CrowdStrike’s financial resilience, demonstrated by rapid revenue growth and profitability, underscores their commitment to sustainable business practices. Their focus on recurring subscription models ensures stable cash flow, enabling continuous advancements in cybersecurity innovation. This, combined with a global threat intelligence network, allows CrowdStrike to proactively neutralise emerging threats.

CrowdStrike’s subscription-based model also fosters enduring client relationships, creating high barriers to switching and fostering long-term loyalty. Their dedication to innovation ensures their solutions evolve with evolving challenges and maintain a competitive edge. As CrowdStrike solidifies its role as a trusted cybersecurity partner for enterprises worldwide, their focus on client success drives exceptional satisfaction and loyalty.

Lastly, during our ongoing exploration of new opportunities we added Medpace to our portfolio, recognising their pivotal role in biopharmaceutical development. As a full-service Contract Research Organisation (CRO), Medpace offers comprehensive clinical trial solutions to the biopharmaceutical industry, providing medical expertise, regulatory guidance, and operational execution. Their specialised focus on therapeutic areas ensures deep medical insights that assist with streamlining operations and reducing complexities for their sponsors (figure 4 shows Medpace’s largest sponsors according to market capitalisation). Medpace is a compelling investment due to the rapidly expanding landscape for outsourced clinical trials, especially among smaller biotech firms facing high drug development costs.

Figure 4: Medpace's Major Sponsors (according to Market Capitalisation)



Source: Company websites

Medpace's proven financial strength, with a track record of profitability and robust cash flow, reflects a strong growth trajectory and solid market demand. The lengthy timelines and high switching costs in drug development fortify their market position, ensuring long-term engagements and recurring revenue. Embracing innovations like Real World Evidence, AI, machine learning, and regenerative medicines positions them at the forefront of industry evolution.

Figure 5: Medpace's Bioanalytical Laboratory



Source: Medpace

Our strategic shift towards direct stock holdings in high-performing cybersecurity companies like Palo Alto Networks and CrowdStrike, alongside Medpace in the contract research organisation (CRO) sector, reflects our commitment to optimising portfolio performance and capitalising on emerging opportunities. As we navigate the investment landscape, these companies stand as cornerstones in their respective sectors and that provides greater confidence in expected returns and long-term investment success.

Performance

In USD terms, the Innovation Portfolio achieved an impressive return of 6.07% for the quarter, significantly outperforming its benchmark, the Russell Small Cap Completeness Growth Index, which posted a return of -2.16%. Notably, the portfolio has consistently outpaced its benchmark over various timeframes, including year-to-date, three years, five years, and since inception. Although the one-year performance slightly lagged the benchmark, the overall results for Q2 underscore the remarkable strength and resilience of the Innovation Portfolio (see table 1).

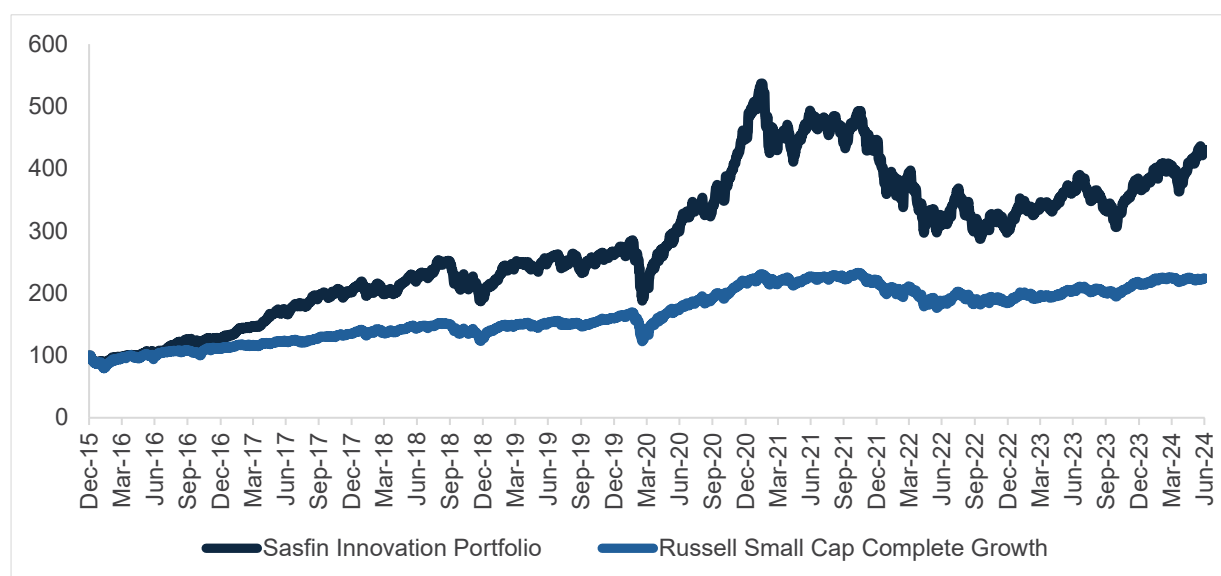
Table 1: USD Returns

	3m	YTD	1yr	3yrs	5yrs	Inception
Innovation USD	6.07	12.95	16.07	-4.28	11.34	18.73
Russell Small Cap Completeness Growth index	-2.16	6.32	18.22	-4.40	10.69	10.50
FTSE/JSE All Share Capped index	10.91	3.72	8.51	-1.81	1.24	7.10

Table 2: ZAR Returns

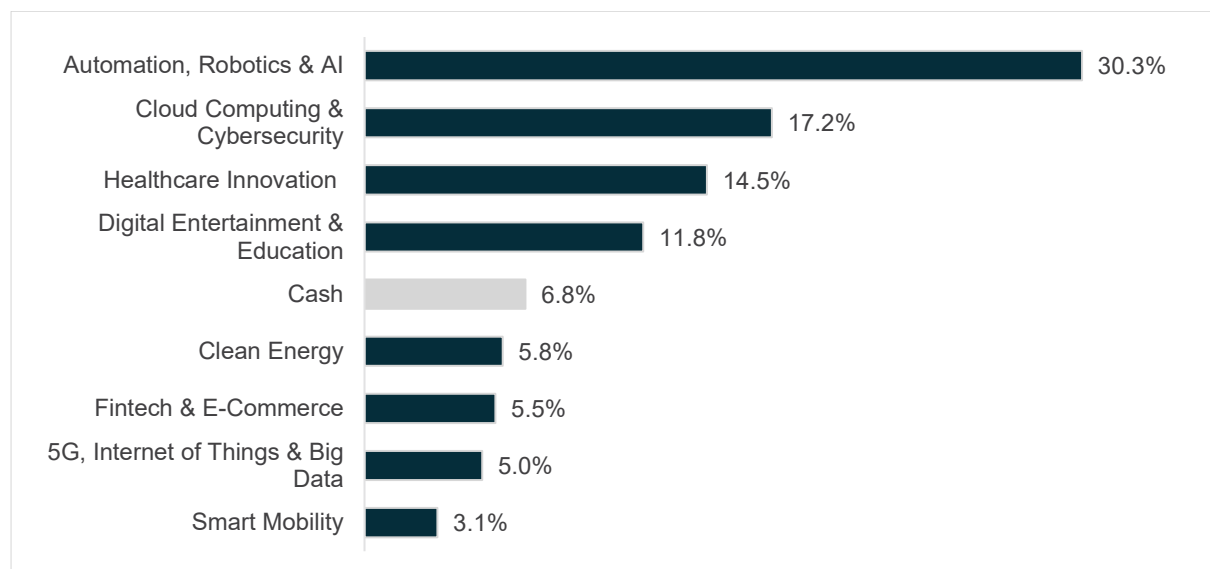
	3m	YTD	1yr	3yrs	5yrs	Inception
Innovation USD	2.28	12.78	12.19	3.90	17.24	21.05
Russell Small Cap Completeness Growth index	-5.65	6.16	14.27	3.77	16.56	18.46
FTSE/JSE All Share Capped index	6.95	3.56	4.88	6.58	6.61	10.97

Figure 6: Indexed Performance in USD since inception – USD Total Return (%)



Positioning

Investment Theme Weightings



Report authored by: Albert Blankson, Bongive Mdiniso & Craig Pheiffer

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.

Contact us

Johannesburg
011 809 7500
140 West Street,
Sandown Sandton,
Johannesburg

Durban
031 271 8700
6 The Boulevard
Westway Office Park
Spine Road
Westville

Pretoria
012 425 6000
Lord Charles Office
Park Brooklyn

Port Elizabeth
& Plettenberg
Bay
041363 5989
30 6th Avenue,
Walmer, Gqeberha
(Port Elizabeth)

Cape Town
087 3501142
155 Campground Office Park,
Newlands

Stellenbosch
087 365 4900
Unit G2, Ground Floor
Trumali Forum Building
C/O Trumali Road & the R44
Stellenbosch



sasfin.com

The information contained in this communication is for information purposes only and does not constitute advice in any form, including but not limited to investment, accounting, tax, legal or regulatory advice. Terms, conditions and values contained herein are indicative only and subject to negotiation and change. This material does not constitute an offer, advertisement or solicitation for investment, financial or banking services. The material has no regard to the specific investment objectives, financial situation or particular needs of any specific person. The material is based upon information considered reliable, but the parties do not represent that it is accurate or complete or that it can be relied upon as such. All illustrations, forecasts or hypothetical data are for illustrative purposes only and are not guaranteed. Sasfin Wealth accept no liability whatsoever, whether direct, indirect or consequential for any loss or damage of any kind arising out of the use of all or any part of this material and any reader or prospective is urged to be aware of all the risks involved in dealing with any financial product and the need to specifically consult with a professional adviser before making any decision or taking any action. Sasfin Wealth, a division of the Sasfin Bank Group of Companies include Sasfin Securities (Pty) Ltd, 1996/005886/07, a member of the JSE; Sasfin Asset Managers (Pty) Ltd, 2002/003307/07 an authorised financial services provider FSP No. 21664 and Sasfin Financial Advisory Services (Pty) Ltd, 1997/010819/07 an authorised financial services provider FSP No. 5711.