

# BALONDOLOZI

— INVESTMENT LEADERSHIP —

## BALONDOLOZI MODEL BALANCED FUND

September 30, 2023

### FACT SHEET

#### INVESTMENT OBJECTIVE

The fund seeks to outperform CPI (inflation) plus 5% over a rolling 3 year period.

#### INVESTMENT STRATEGY

This is a Global Asset Allocation Fund that blends strategies employed in the Balondolozzi Money Market, Bonds, and Active Equity Funds. The equity benchmark is the FTSE/JSE Capped SWIX All Share Index, the bond benchmark is the All Bond Index (ALBI), the property benchmark is the South Africa Listed Property Index (SAPY), the international benchmark is 60% the MSCI World Index in Rands and 40% the Overnight US Libor Rate Index in Rands, and the cash benchmark is STeFi Call.

#### FUND INFORMATION

|                     |  |
|---------------------|--|
| Fund Classification | South African - Multi Asset - High Equity      |
| Benchmark           | CPI + 5%                                       |
| Risk Profile        | Moderate                                       |
| Fund Managers       | Fannuel Tigere, Christopher Pratt              |
| Inception Date      | 01 October 2014                                |
| Fund Size           | R384 million                                   |
| Currency            | SA Rands                                       |
| Administration      | Balondolozzi Investment Services (Pty) Ltd     |
| Trustees            | RMB  |
| Regulator           | Financial Services Regulatory Authority (FSRA) |
| Regulation 28       | Not Applicable                                 |

#### FEES

|                         |                |
|-------------------------|----------------|
| Initial & Exit Fees     | Nil            |
| Total Investment Charge | 0.59%          |
| Portfolio TER           | 0.58%          |
| Management Fees         | 0.50%          |
| Transaction Costs       | 0.01%          |
| Audit Fees              | 0.00%          |
| Other Costs             | 0.01%          |
| Vat                     | 15.00%         |
| Pricing                 | Daily at 17:00 |

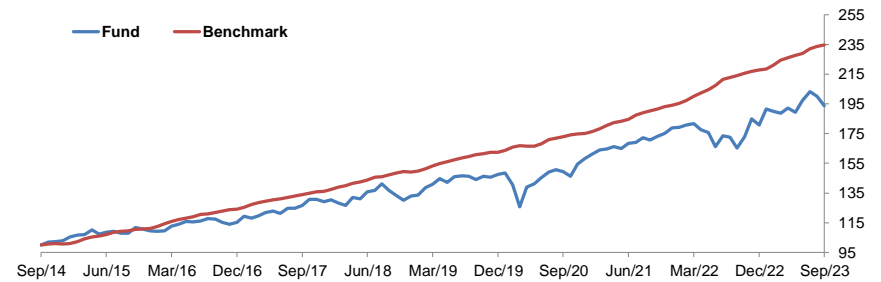
#### RISK RATIOS

|                   | <b>Fund</b> | <b>Benchmark</b> |
|-------------------|-------------|------------------|
| Annualised Return | 7.63%       | 9.94%            |
| Sharpe Ratio      | 0.27        | 3.14             |
| Sortino Ratio     | 0.37        | 21.81            |
| Max Drawdown      | -10.52%     | -0.27%           |
| Drawdowns         | 42          | 4                |

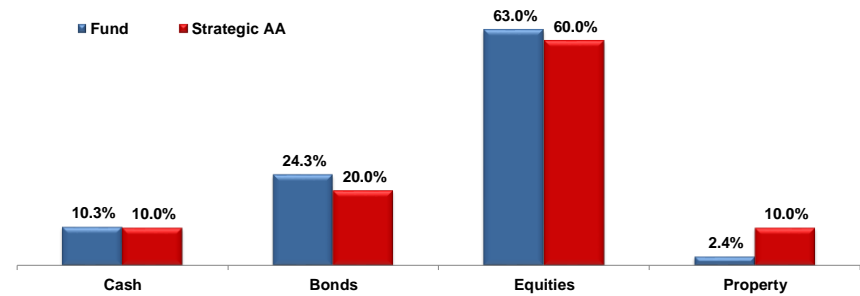
#### PERFORMANCE (Gross of fees)

|                               | <b>Fund</b> | <b>Benchmark</b> |
|-------------------------------|-------------|------------------|
| Sep-23                        | -3.19%      | 0.42%            |
| Year to Date                  | 7.23%       | 7.81%            |
| Rolling 12 months             | 17.19%      | 9.69%            |
| Return p.a. since inception   | 7.63%       | 9.94%            |
| Return since inception        | 93.79%      | 134.70%          |
| Highest Rolling 1-year Return | 30.57%      | 11.95%           |
| Lowest Rolling 1-year Return  | -13.09%     | 5.78%            |

#### GROWTH OF R100 INVESTED AT INCEPTION



#### SECTOR ANALYSIS



## FUND COMMENTARY

Despite the moderation of inflation globally, the hawkish stance from central banks continues. In addition to the dramatic slowdown in global growth, rising global interest rates are also increasing the danger of financial stress in emerging market and developing economies.

Equities returned -3.7% (FTSE/JSE SWIX 40); S&P 500 delivered -4.87% (in rand terms); MSCI EM Equities delivered -2.81% (in rand terms); listed property returned -4.08% (SAPY); nominal bonds delivered -2.34% (ALBI); inflation linked bonds returned -1.07% (CLB) and cash returned 0.63% as indicated by the STeFi Call Index in Sep 2023. Within equities; the financial services sector delivered -3.83% (FINI 15), the industrial sector -4.44% (INDI25) and the resources sector 1.21% (RESI20).

During the same period; the yield for the R186 (benchmark bond) rose by +55 basis points to end the month at 9.42% whilst the historic price to earnings (P/E) ratio for the FTSE/JSE SWIX Top 40 edged lower by 0.51 points to close at 11.03. Concurrently, the near term volatilities ticked up by +0.66% (SAVI) to 20.64% whilst medium-term break-evens widened by +0.49% to 6.48%. Yields for 12-month negotiable certificates of deposits rose by +32.5 bps to close the month at 9.18%. Foreigners sold assets worth -R53.2 billion as markets sold-off during the month of Sep 2023.

Overall, the fund delivered -3.19% for the month. Equities returned -3.32%; International Equities returned -5.28%; cash returned 1.12%; bonds delivered -2.11% and property exposure returned -10.16%. Active positions in resources counters were mixed, with underweight exposure in AngloGold contributing positively towards alpha while underweight exposure in platinum miner, Sibanye Stillwater, detracted from performance. An overweight position in retailer, Truworths, contributed positively towards alpha, with underweight exposure in AB Inbev also contributing positively towards performance. Active positions in financial counters came under pressure, with overweight exposure in banking counter, Standard Bank, and property counter, Nepi Rockcastle detracting from performance. Bonds outperformed due to a short duration relative to ALBI. Cash outperformed due to high yielding shorter dated non-bank fixed term deposits and longer-dated floating rates instruments. Property exposure underperformed the benchmark as NEPI Rockcastle and Vukile added positively to performance, while MAS Real Estate detracted from performance.

After registering a value of 4.7% in Jul 2023, headline inflation for Aug 2023 was 4.8% (consensus 5.2%). On the same note, the price for Brent crude oil rose by 6.18%, to end the month at \$92.2 per barrel and the Rand depreciated against the Dollar by -0.26% to close at R18.92 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) nudged up by 5.9 index points to reach 50.7 in Aug 2023.

In accordance with market expectations and following a 25bps increase in July, the Federal Reserve reaffirmed its target range for the interest rate at a 22-year high of 5.25%–5.5% in September 2023, but it did hint that there might be another increase this year. The annual inflation rate increased for the second consecutive month, rising to 3.7% in August from 3.2% in July, exceeding market expectations of 3.6%. Inflation has increased because of rising oil prices over the last two months, base effects from last year, and other factors. The US unemployment rate increased marginally to 3.8% from 3.5%, above market estimates of 3.5%. US initial jobless claims showed some tightness in the labour market adding to further interest rate hiking. The number of new filings edging up slightly to 204k, below consensus expectations of 214k. In comparison to the first quarter's upwardly revised 2.2% growth, the US economy expanded at an annualized pace of 2.1% in the second quarter of 2023. Consumer expenditure increased far more slowly than anticipated (by 1.7% in the second estimate against 0.8% in the first estimate), but non-residential fixed investment, exports, and residential investment all saw increases. 3.3% more was spent by the government, in accordance with the earlier projection. The Fed forecasts 2.1% economic growth for 2023.

The European Central Bank (ECB) increased interest rates by 25 bps citing the expectation that inflation will moderate. However, upside risk still remain as reflected by average inflation projections revised higher to 5.6% for 2023 due to a spike in energy prices. This increased both the rate on the deposit facility and refinancing operations to a high of 4% and 4.5%.

The annual consumer price inflation rate reading came at 4.3% in September 2023, below market expectations of 4.5%. Services, non-energy industrial products, and food, alcohol, and tobacco all saw slower price growth than the overall increase of 5.5%, 4.7%, 4.2%, and 9.7%, respectively. Energy prices also continued to decline (-4.7% vs. -3.3%). Meanwhile manufacturing in the region deteriorated as shown by the decline in Eurozone Manufacturing PMI to 43.4 in September from 43.5 in the previous month. The reading persisted in indicating that the industrial sector is extremely vulnerable and weak in the face of declining demand. Following a flat first quarter, the Eurozone's economy expanded by 0.1% in the second quarter of 2023, lower than initial expectations of 0.3%. Demand growth was presumably aided by an easing of price pressures. However, the economy of the single currency region continues to be burdened by rising interest rates and declining confidence. France and Spain showed consistent growth rates expanding 0.5% and 0.4%, while Germany's GDP remained stagnant, and Italy's economy unexpectedly contracted. However, worries about the state of the bloc's economy continue, and there is rising scepticism about its capacity to avert a recession, particularly given the gloomy outlook for Germany.

China's slow economic recovery appears to have hit a wall, with declining retail sales, manufacturing output, pricing power, and loan growth in September. This setback increases the likelihood that China would miss the originally set 5% growth objective by the central government and raises concerns about slow third-quarter growth. Despite a sharp decline in mortgage rates, China's struggling real estate market exhibited symptoms of deterioration in September with declining home prices, weakening real estate prices, and weak sales. The People's Bank of China has reiterated its commitment to upholding currency stability in light of the yuan's roughly 5.5 percent decline against the dollar this year. Consumer prices in China increased by 0.1% yoy in August 2023, below market expectations of a 0.2% increase and following the country's first monthly decline in more than two years, which was 0.3%. The Caixin China General Service PMI decreased from 51.8 to 50.2 in September 2023, signaling the softest growth in services activity since the year's beginning. Both business activity and new orders grew the least in 2023 to date, as demand remained weak despite several support measures. After reaching a six-month high of 51.0 in August, China's Manufacturing PMI dropped to 50.6 in September 2023, falling short of market expectations of 51.2.

Locally, in line with expectations, the South African Reserve Bank (SARB) held the benchmark repo rate unchanged at 8.25% during its September 2023 meeting with two members of the Committee advocating a 25-basis point rise, while the other three preferred to keep rates unchanged, but stressed that the struggle against inflation was far from over. Fuel and food costs have mostly influenced the trend of South Africa's headline inflation rate. Fuel price inflation is much greater in 2023 (from -3.1%) than it was in the previous meeting, and it will reach 5.8% in 2024. The SARB's prediction for 2023 food price inflation is still strong and substantially unchanged at 10.4% (from 10.3%). The prediction for 2024 stays the same at 5.2%. In recent months, both oil prices and the prices of commodities exported have increased. As the current account deficit rises from the anticipated 2.0% of GDP this year (from 1.9%), to 3.0% of GDP in 2024, and to 3.4% of GDP in 2025, South Africa's external finance needs will rise. These patterns in supply and demand allowed the Bank to increase its estimate of GDP growth from 0.4% in July to 0.7%. The bank also noted that the rand has declined over the past year, losing 10% of its value against the US dollar, and is exhibiting considerable volatility in response to periods of risk-on and risk-off trading. This still suggests that South Africa is still stuck in the stagflation quagmire.

Given this backdrop, valuations suggest that equities are undervalued (Developed markets however showing signs of being fair valued) and the PPP-models suggest that the rand is undervalued. Economic metrics suggest a bearish bond market. The fund maintains its constructive stance on local equities. Since credit market spreads are increasing as economic growth falls, together with the downgrade effects on corporate cost of capital, the fund will maintain its exposure in high quality names to benefit from the yield pick-up whilst minimising the risk of widening spreads. Going forward, the managers will not hesitate to take short term opportunities offered by the volatility in the markets.