BALONDOLOZI

— INVESTMENT LEADERSHIP —

BALONDOLOZI MODEL INFLATION LINKED BOND FUND — **December 31, 2023**

FACT SHEET

INVESTMENT OBJECTIVE

The fund seeks to outperform the JSE ASSA Composite Inflation Linked Index (CILI) by 1% per annum after fees over a rolling 3 year term.

INVESTMENT STRATEGY

This fund aims to out-perform its benchmark through active and quantitatively managed exposure via RSA stock and investment grade high yield credit bonds. Through the active management of duration which can vary by 2 years relative to the benchmark, alpha generation is achieved. Quantitative techniques such as the use of derivatives are employed to fine tune strategy and hedge risk factors.

FUND INFORMATION

Fund Classification	South African - Multi Asset - Income
Benchmark	CILI
Risk Profile	Moderately Conservative
Fund Managers	Fannuel Tigere, Itumeleng Mojaki, Christopher Pratt, Sindisiwe Mahlangu (Analyst)
Inception Date	01 September 2018
Fund Size	R772 million
Currency	SA Rands
Administration	Prescient Management Company (RF) (Pty) Ltd
Trustees	Standard Bank
Regulator	Financial Sector Conduct Authority (FSCA)
Regulation 28	Compliant

FEES

Initial & Exit Fees	Nil
Total Investement Charge	0.39%
Portfolio TER	0.35%
Management Fees	*0.30%*
Transaction Costs	*0.04%*
Audit Fees	*0.00%*
Other Costs	*0.00%*
Vat	*15.00%*
Pricing	Daily at 17:00

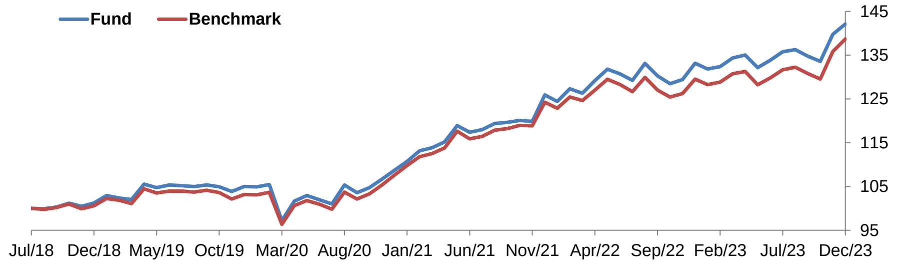
RISK RATIOS

	Fund	*Benchmark*
Annualised Return	6.70%	6.22%
Sharpe Ratio	0.35	0.30
Sortino Ratio	0.47	0.42
Max Drawdown	-7.83%	-7.06%
Drawdowns	26	26

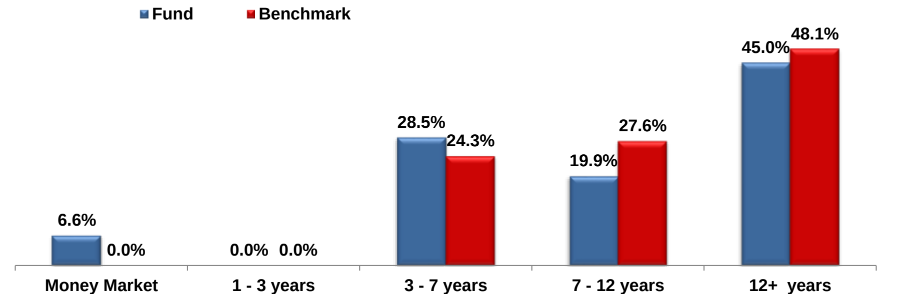
PERFORMANCE (Gross of fees)

	Fund	*Benchmark*
Dec-23	1.69%	2.12%
Year to Date	6.73%	7.08%
Rolling 12 months	6.73%	7.08%
Return p.a. since inception	6.70%	6.22%
Return since inception	42.12%	38.69%
Highest Rolling 1-year Return	16.62%	16.52%
Lowest Rolling 1-year Return	-7.93%	-7.76%

GROWTH OF R100 INVESTED AT INCEPTION



SECTOR ANALYSIS



FUND COMMENTARY

Globally, inflation remains a constant battle as the central banks continuously make efforts to bring it down to the targeted range, through their monetary tightening policies with the hopes of avoiding restricting economic growth and employment opportunities but improve the standards of living in the future.

Inflation linked government bonds returned 2.17% (IGOV); Inflation linked state-owned credit delivered 2.86% (ISOE); inflation linked corporate credit bonds returned 1.86% (ICORP) and cash returned 0.67% as indicated by the STeFi Call Index in Dec 2023. Overall, the CILI (Composite Inflation Linked-Bond Index) returned 2.19% for the month.

During the same period, the yield for the I2029 (benchmark bond) fell by -26 basis points to end the month at 4.09%. Concurrently, the I2050/I2029 spread ticked up by +14 basis points to 78 bps whilst medium-term break-evens widened by +0.05% to 5.67%. Foreigners sold bonds worth -R3.9 billion as real yields rallied during the month of Dec 2023.

The fund returned 1.69% below the benchmark return of 2.12% this month. Underperformance was due to shorter duration (-0.46%) and sector allocation (-0.42%) as yields rallied in the long end of curve. Meanwhile, credit allocation (0.05%) and nominal exposure (0.002%) contributed positively. Trading costs also dragged performance due to the withdrawal.

After registering a value of 5.9% in Oct 2023, headline inflation for Nov 2023 was 5.5% (consensus 5.6%). On the same note, the price for brent crude oil fell by -4.72%, to end the month at $77.04 per barrel and the Rand appreciated against the Dollar by 2.96% to close at R18.3 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) nudged up by 6 index points to reach 54.7 in Nov 2023.

In the United States, the annual inflation eased to 3.1% in November from 3.2% in October, marking the lowest reading since July 2021 and aligns with the market expectations of 3.1%. This stems from a decline in energy costs of -5.4% vs. -4.5% in October as gasoline fell by -8.9%, fuel oil and utility gas fell by -24% and -10.4% respectively. On the contrary, costs for food slightly rose by 2.9% from 3.3%, new vehicles 1.3% vs. 1.9%, shelter 6.5% vs. 6.7%, and clothing 1.1% vs. 2.6%. The consumer sentiment for the US had a marginal improvement of 69.7% in December 2023 from a 69.4% preliminary estimate. In their December meeting, the Fed maintained the funds rate for a third consecutive meeting at 5.25% - 5.5%. This aligns to what the market expected as the Fed aim for a 75bps cut in 2024. Unemployment slightly improved to 3.7% in November compared to 3.9% in September 2023. New projections from the central banks indicated that GDP growth went up by 2.6% but will be slightly lower next year 2.4% vs 2.5%, while the unemployment rate is projected to remain at 3.8% in 2023 and 4.1% in 2024. Jerome Powell, the Fed's Chair, reiterated that even though the labour market is tight the conditions for supply and demand continue to reach a better balance as wage growth is slightly improving with rising labour supply and declining job vacancies. The United States continues to experience slow economic growth as job opportunities are moderate but remain strong and the continued low unemployment rate. Although it has decreased over the past year, inflation is still high.

The annual inflation rate in the Euro-area had a notable decline to 2.4% in November 2023 from 2.9% in October which is in line with the 2.4% market forecast. Although the inflation is well above the European Central Bank's (ECB) target of 2.0%, this shows progress as it is the lowest reading since July 2021.Conversely prices for services 4% vs 4.6% and food, alcohol, and tobacco 6.9% vs 7.4% increased at a slower rate while energy prices declined slightly more -11.5% vs -11.2% in October and the annual core inflation fell at 3.6%. To combat inflation, the ECB left the interest rate unchanged at 4.5% as expected by the market, for the second consecutive meeting and indicated an early end to its remaining bond purchasing scheme. The refinancing rate also remained at 4.5% and the deposit facility rate at 4%. The consumer confidence indicator increased by 1.8 points to -15.1 in December 2023 which is above the -16.4 market expectation, consumers hope interest rates will starts to fall as soon as inflation keeps slowing down. The economic growth contracted by -0.1% year-on-year in the third quarter of 2023 as large economies such Germany, France, and the Netherlands experienced contractions of -0.1%, -0.1% and -0.2% respectively. However, Spain expanded by 0.3% followed by Italy at 0.1%. On a lighter note, public expenditure improved by 0.3% and the household consumption also increased by 0.3%, marking an end to three periods of either stagnant growth or contraction. The S&P Global Eurozone Manufacturing PMI reading remained unchanged at 44.2 in December 2023 which came in below the market expectation of 44.6. Production declined as manufactures had a huge cut in the purchasing activity which resulted to the highest fall in inventories inputs, output and payroll being cut as job losses continue. The Hamburg Commercial Bank (HCOB) Eurozone Services PMI decreased to 48.1 in December 2023 from 48.7 in November 2023 as new orders for service providers fell and employment growth slowed down due to increasing input costs and elevated wages.

The People's Bank of China (PBoC) kept its lending rates unchanged in their December meeting, as the prime rate remained at 3.45% and the five-year rate was kept at 4.2% by PBoC. Economic growth improved to 1.3% in Q3 2023, compared to the 0.5% in Q2 2023, exceeding the market expectation of a 1.0% increase. This stems from monetary stimulus including interest rate cuts and centrals bank's constant liquidity injections in the past three months. However, the property sector which contributes to a quarter of the economy continues to drag post Covid recovery due to default risks by property developers. In November China's consumer prices dropped by -0.5% year-on-year, more than the -0.2% decline in November 2023, falling above the market expectation of a -0.1% drop. The fall attributed from decrease in food costs and a decrease in pork prices. The Consumer Price Index (CPI) declined by -0.5%, compared with consensus and October's figure of a -0.1% due to moderate education costs and a drop in transport prices. Housing and health inflation remained stable at 0.3% and 1.3% respectively while clothing saw an increase of 1.3% from 1.1% in October. The Supply chains continued to slightly improve performance as inflation eased. The Caixin China General Manufacturing PMI indicated a decline in PMI, coming in at 50.7 in November 2023 from 49.5 in October, surpassing market expectations of 49.8 the highest reading since August. Concurrently, Service PMI rose by 51.5 in November 2023 from 50.4 in the previous month. Output and buying levels both increased as new orders increased which was the highest in four months while the rate of job losses eased. China's unemployment remains constant at 5% as the government aims to create about 12 million new urban jobs.

Locally, the annual inflation rate for November 2023 moved within the South African Reserve Bank (SARB) target band of 3%-6% as it eased to 5.5% from 5.9% in October 2023, slightly below the market expectation of 5.6%, and higher than the midpoint of 4.5%. The decline in inflate rate is attributed from the slowdown in fuel prices 1.8% vs 11.2% and transportational cost 4.3% vs 7.4% in October. Conversely food prices rose by 9% in November as prices increased for milk, eggs & cheese 13.9%, sugar, sweets, and desserts 18.5%; fruit 11.5% and vegetables 23.5%. Currently the repo rate remains at 8.25%. However, the SARB Governor, Lesetja Kganyago, announced that the repo is projected to be between 7% - 7.25% next year, with its first cut in March 2024. Loadshedding continues to persist, however, in December we saw slight improvements as Eskom announced the suspension of loadshedding due to adequate emergency reserves and consistent improvements in the available capacity generation. On the 1st of December, the government bailed out Transnet with R47 billion to settle its immediate debt obligations, as Transnet's incapacity was crippling the economy particularly the vital sectors such as the commodity exports retail and manufacturing. Locally, the GDP weakened in the third quarter as the economy shrank by -0.2% following a 0.5% revised rise in Q2 2023, worse than the -0.1% fall anticipated by the market .The main contributor is the decline in industries such as Mining production -1.1%; Trade, catering and accommodation -0.2%; Manufacturing -1.3%; Construction -2.8% and Agriculture ,forestry & fishing -9.6%. Looking at the consumer sentiment, the consumer confident dropped to -17 points in Q4 of 2023 from -16 points in Q3, as consumers feel the pressure of the rising cost of living and higher borrowing costs. On a positive note, unemployment rate fell from 32.6% in Q2 to 31.9% in Q3, the lowest in a year while youth unemployment, dropped to an over one-year low of 58%.

Given this backdrop, momentum indicators suggest that real interest rates have limited upside risks while behavioural model indicate that medium term nominal bonds are "fairly priced to cheap" by some metrics. The fund closed the month with a short duration view. Since credit spreads are widening, the fund will minimise exposure to lower rated credit and target high quality names to benefit from the yield pick-up whilst minimising the risk of widening spreads.