

BALONDOLOZI

— INVESTMENT LEADERSHIP —

BALONDOLOZI MODEL BALANCED FUND

February 29, 2024

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	R411 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	0.58%
Portfolio TER	0.58%
Management Fees	0.50%
Transaction Costs	0.00%
Audit Fees	0.00%
Other Costs	0.00%
Vat	15.00%
Pricing	Daily at 17:00

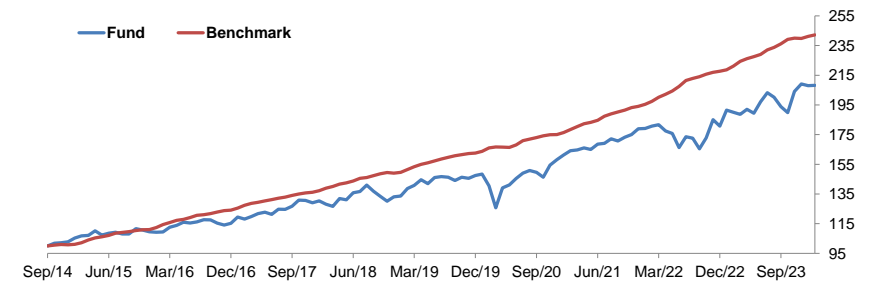
RISK RATIOS

	<i>Fund</i>	<i>Benchmark</i>
Annualised Return	8.10%	9.85%
Sharpe Ratio	0.22	2.47
Sortino Ratio	0.32	16.56
Max Drawdown	-10.52%	-0.27%
Drawdowns	44	5

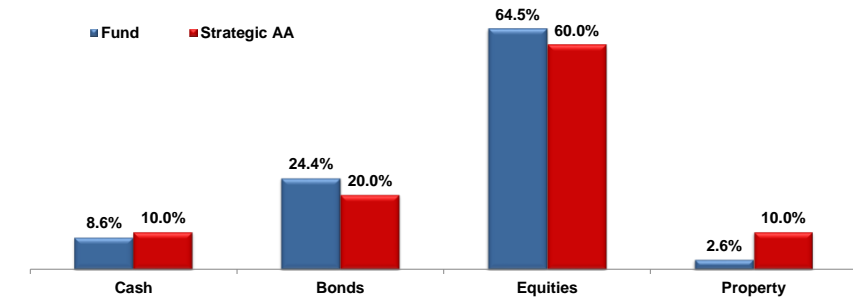
PERFORMANCE (Gross of fees)

	<i>Fund</i>	<i>Benchmark</i>
Feb-24	0.15%	0.42%
Year to Date	-0.42%	1.01%
Rolling 12 months	9.57%	9.51%
Return p.a. since inception	8.10%	9.85%
Return since inception	108.24%	142.19%
Highest Rolling 1-year Return	31.01%	12.88%
Lowest Rolling 1-year Return	-10.73%	6.64%

GROWTH OF R100 INVESTED AT INCEPTION



SECTOR ANALYSIS



FUND COMMENTARY

Globally, economic activity is still muted while core inflation indicators continue to be higher than pre-pandemic levels even though inflation rates have been declining.

Equities returned -2.19% (FTSE/JSE SWIX 40); S&P 500 delivered 5.17% (in rand terms); MSCI EM Equities delivered 4.63% (in rand terms); listed property returned 0.83% (SAPY); nominal bonds delivered -0.58% (ALBI); inflation linked bonds returned -0.7% (CILI) and cash returned 0.63% as indicated by the STeFi Call Index in Feb 2024. Within equities; the financial services sector delivered -0.85% (FINI 15), the industrial sector -0.64% (INDI 25) and the resources sector -6.92% (RESI 20).

During the same period; the yield for the R186 (benchmark bond) rose by +31.5 basis points to end the month at 8.96% whilst the historic price to earnings (P/E) ratio for the FTSE/JSE SWIX Top 40 drifted higher by +0.47 points to close at 11.5. Concurrently, the near term volatilities ticked down by -0.91% (SAVI) to 20.5% whilst medium-term break-evens widened by +0.27% to 5.65%. Yields for 12-month negotiable certificates of deposits rose by +7.5 bps to close the month at 8.98%. Foreigners sold assets worth -R39 billion as markets sold-off during the month of Feb 2024.

Overall, the fund delivered 0.15% for the month. Equities returned -2.11%; International Equities returned 5.11%; cash returned 0.92%; bonds delivered -0.54% and property exposure returned -0.68%. An overweight position in industrial counter Richemont contributed positively towards performance as continued positive momentum drove continued share price appreciation. An overweight position in banking counter, Standard Bank also contributed positively towards performance for the month. An underweight position in pulp, paper and packaging group, Sappi, detracted from performance for the month. Bonds outperformed due to sector allocation as an overweight in the 3-7 year sector outperformed the benchmark. Cash outperformed due to high yielding shorter dated non-bank fixed term deposits and longer-dated floating rate instruments. Property exposure underperformed the benchmark as NEPI Rockcastle added to performance, while MAS Real Estate and Vukile detracted from performance.

After registering a value of 5.1% in Dec 2023, headline inflation for Jan 2024 was 5.3% (consensus 5.4%). On the same note, the price for Brent crude oil rose by 1.69%, to end the month at \$81.91 per barrel and the Rand depreciated against the Dollar by -2.54% to close at R19.16 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) declined by -6.7 index points to reach 41.8 in Jan 2024.

In the United States, the US economy grew by 3.2% in the fourth quarter of 2023 as opposed to 3.3% which is less than the 4.9% increase in the third quarter. In addition, the goods trade deficit increased, topping estimates of \$88 billion in January 2024 to reach \$90 billion. The Federal Reserve's (Fed) favoured measure of inflation showed growth in January 2024. The price index for personal consumption expenditures rose by 2.4% from the previous year, precisely what analysts had predicted. This confirmed data from the Consumer Price Index for January, which increased by 3.1% annually in January 2024, down from a 3.4% uptick in December 2023 but above the 2.9% expected by the market, further indicating that inflation remained persistently sticky. The Federal Open Market Committee (FOMC) have stated that the current inflation rate is only a temporary setback and there is no indication that inflation is heading in the wrong direction. The benchmark interest rate remains at 5.50%. Minutes from the January FOMC meeting revealed that while Fed policymakers believed the policy rate was at its peak for this tightening cycle, they stated that they did not expect it would be appropriate to reduce it until they had more assurance that inflation was moving sustainably toward 2%.

The Euro Area's economic confidence index fell to 95.4 in February 2024, below the market's expectations of 96.7 and below the revised result of 96.1 in January. Confidence deteriorated among manufacturers (-9.5 vs -9.3 in January), service providers (6.0 vs 8.4), retailers (-6.7 vs -5.6), and constructors (-5.4 vs -4.6), but improved slightly among consumers (-15.5 vs -16.1). This month, the recession in Germany, the largest economy in Europe, became worse as a slightly better services sector could not offset a significant decline in manufacturing. The Euro Area's inflation rate printed at 2.8% in January 2024, slightly down from December 2023 2.9% and still above the 2.0% target set by the European Central Bank.

Concurrently, the core rate which does not account for fluctuating food and energy price cooled to 3.3%, its lowest level since March 2022, for the sixth consecutive month. According to the minutes of the most recent ECB meeting, officials agreed that it was premature to talk about interest rate cuts, even though there are signs that inflationary pressures were abating throughout the Eurozone. They voiced worries that this kind of action would be hasty and might prevent or postpone the prompt return of inflation to target levels.

China's economy is in trouble as the nation's birth rate is still dropping, its youth unemployment rate is alarmingly high, and its GDP growth has reached 30-year lows as the GDP figures for Q4 of 2023 fell to 1% from a previous reading of 1.3% in Q3 below market expectations of 1.5%. In the meantime, the country's financial markets are collapsing, the real estate sector has collapsed, the level of local government debt is concerning to international investors. In February 2024, China's official purchasing managers' index (PMI) dropped from 49.2 in January to 49.1 for a fifth consecutive month, as manufacturing owners struggle to get orders both domestically and internationally. This might heighten the call for further stimulus measures. China's lacking post-COVID recovery has sparked concerns about the viability of its economic model and increased anticipation that policymakers will have to take reforms into account as consumers delay purchases, foreign companies pull out, manufacturers battle to find customers, and local governments grapple with massive debt loads. This was also highlighted by China's consumer prices declining by -0.8% year-on-year in January 2024, which was the biggest decline in almost 14 years and less than the -0.5% decline predicted by the market. The CPI fell for the fourth consecutive month, the longest reduction since October 2009. As a result, The People's Bank of China resolved to reduce the banks' reserve requirement ratios (RRRs) by 50 basis points on February 5, the largest reduction in two years, to support the economy's flagging growth and free up 1 trillion yuan (\$139.0 billion) in long-term liquidity.

Locally, Finance Minister Enoch Godongwana delivered the 2024 Budget Speech earlier this month and emphasised that due to South Africa's poor economic performance, tough choices must be made to ensure that the country's economy expands and adds employment. The government recognized that millions of South Africans depend on social grant payment to make ends meet, and that the cost of living has increased as a result about 60% of the budget, excluding interest payments, was allocated to funding social services, which included paying public employees' wages. Poverty and unemployment have become more entrenched because of the slow economic growth, estimated at 0.6% in 2023 and averaging only 0.8% over the previous ten years while state budgets are being choked by spiralling debt. This year, the government expects to pay R382 billion in debt service, which is more than three times the amount the nation plagued by crime spends on law enforcement. The tax on alcohol and tobacco goods will increase by up to 8.2% and 7.2%, respectively, but the tax bands will not be adjusted for inflation, resulting in an increase in personal income tax. Additionally, a "global minimum corporate tax" of 15% will be imposed on international firms by South Africa, regardless of where their earnings are situated. The increases are expected to assist in reducing the deficit from 4.9% of GDP this fiscal year to 3.3% in 2026-2027, together with further cost-cutting initiatives and changes on the utilization of valuation gains from foreign currency reserves. As a source of revenue, government tapped in Gold and Foreign Exchange Contingency Reserve Account (GFECRA), to lower borrowing needs. Gross debt is projected to peak at 75.3% of GDP in 2025/26, lower than before. The 2024 budget stresses fiscal consolidation by boosting the primary surplus, managing debt costs, and promoting reforms to improve public finances, diversify revenues and spur growth.

Given this backdrop, valuations suggest that equities are undervalued (Developed markets however showing signs of being fairly valued) and the PPP-models suggest that the Rand is undervalued. Economic metrics suggest there is value in bonds. 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.