

BALONDOLOZI

— INVESTMENT LEADERSHIP —

BALONDOLOZI MODEL INCOME FUND

February 29, 2024

FACT SHEET

INVESTMENT OBJECTIVE

The fund seeks to outperform the STeFi Composite Index by 10% per annum without taking on excessive market risk.

INVESTMENT STRATEGY

This fund seeks out a high level of income which is consistent with the preservation of capital over the medium term. To meet its objective, the fund actively allocates between South African money market instruments, government bonds, corporate bonds and hybrid instruments. Although the fund aims to preserve capital over the medium term, capital depreciation is a possibility over the short term. Quantitative techniques such as the use of derivatives are employed to fine tune strategy and hedge risk factors.

FUND INFORMATION

Fund Classification	South African - Diversified Index - Income
Benchmark	110% STeFi Composite Index
Risk Profile	Conservative
Fund Managers	Fannuel Tigere, Itumeleng Mojaki, Christopher Pratt
Inception Date	01 June 2017
Fund Size	R479 million
Currency	SA Rands
Administration	Balondolozzi Investment Services (Pty) Ltd
Trustees	RMB
Regulator	Financial Sector Conduct Authority (FSCA)
Regulation 28	Compliant

FEES

Initial & Exit Fees	Nil
Total Investment Charge	0.29%
Portfolio TER	0.29%
Management Fees	0.25%
Transaction Costs	0.00%
Audit Fees	0.00%
Other Costs	0.00%
Vat	15.00%
Pricing	Daily at 17:00

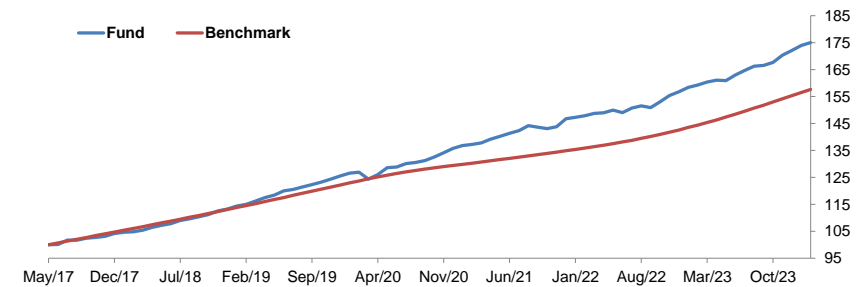
RISK RATIOS

	<i>Fund</i>	<i>Benchmark</i>
Annualised Return	8.65%	6.97%
Sharpe Ratio	1.86	4.39
Sortino Ratio	2.12	N/A
Max Drawdown	-2.00%	N/A
Drawdowns	7	0

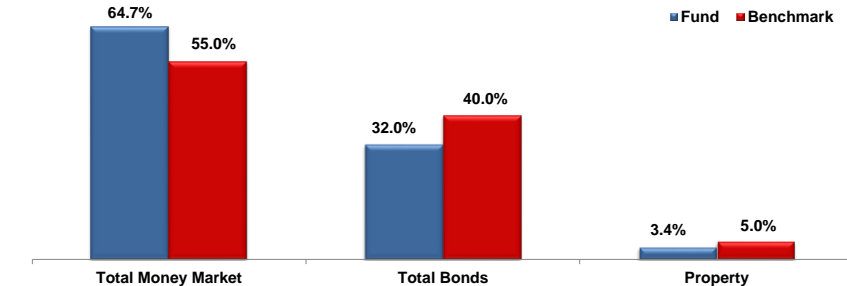
PERFORMANCE (Gross of fees)

	<i>Fund</i>	<i>Benchmark</i>
Feb-24	0.63%	0.72%
Year to Date	1.73%	1.49%
Rolling 12 months	9.91%	9.16%
Return p.a. since inception	8.65%	6.97%
Return since inception	75.02%	57.63%
Highest Rolling 1-year Return	10.30%	8.43%
Lowest Rolling 1-year Return	4.52%	3.79%

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.

Nominal government bonds returned -0.61% (GOVI); vanilla credit bonds delivered -0.24% (OTH); inflation linked bonds returned -0.7% (CIL); listed property returned 0.83% (SAPY); listed preference shares delivered 2.41% (J251) and cash returned 0.63% as indicated by the STeFi Call Index Feb 2024. Overall, the ALBI (All Bond Composite Index) returned -0.58% for the month.

During the same period, the yield for the R186 (benchmark bond) rose by +31.5 basis points to end the month at 8.96%. Concurrently, the R186/R2048 spread ticked down by -12 basis points to 344 bps 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 bonds worth -R29.2 billion as bond yields sold-off during the month of Feb 2024.

Overall, the fund delivered 0.63% for the month against the benchmark return of 0.72%. The fund underperformed due to holdings in longer dated fixed instruments as the bond yield curve steepened this month. Cash returns were positive for the month at 0.95% outperforming the STeFi call index of 0.65%. While bonds and property contributed negatively for the month at -0.14% and -0.68% respectively. The duration of the fund is 2.31 higher than the benchmark at 1.36.

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 (RRR) 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.

Globally, tightening of the monetary policy is muted and interest rates have peaked. Locally, forward rate agreements (FRAs) are trending downwards and are pricing in two 25bps cuts in the next 12-months with the first one being as soon as in the next 4 months. In essence, the swap curve is indicating that the SARB has reached the peak of the hiking cycle. Therefore, the fund will seek for opportunities to invest in more fixed instruments (and medium-term bonds) compared to floaters. Since credit spreads are widening, the fund will maintain exposure in high quality names to benefit from the yield pick-up whilst minimizing the risk noticed in lower rated credits.