

# BALONDOLOZI

— INVESTMENT LEADERSHIP —

## BALONDOLOZI MODEL INCOME FUND

April 30, 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	R492 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

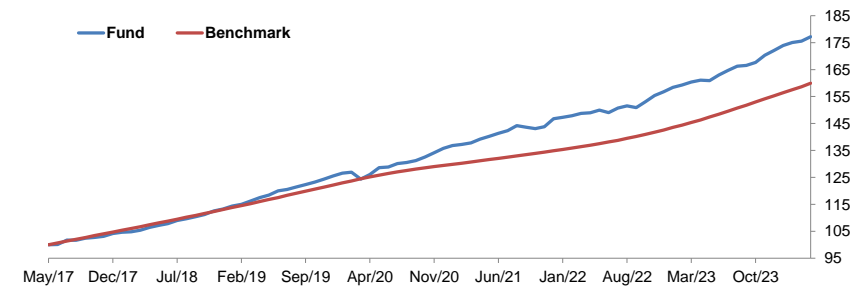
#### RISK RATIOS

	<i>Fund</i>	<i>Benchmark</i>
Annualised Return	8.62%	7.03%
Sharpe Ratio	1.83	4.32
Sortino Ratio	2.07	N/A
Max Drawdown	-2.00%	N/A
Drawdowns	7	0

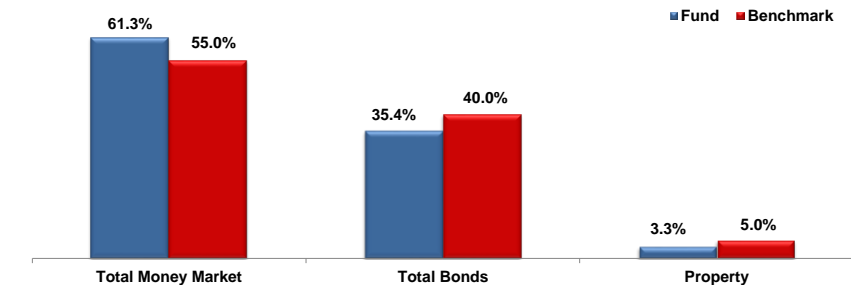
#### PERFORMANCE (Gross of fees)

	<i>Fund</i>	<i>Benchmark</i>
Apr-24	0.93%	0.82%
Year to Date	2.99%	3.03%
Rolling 12 months	10.01%	9.34%
Return p.a. since inception	8.62%	7.03%
Return since inception	77.19%	59.94%
Highest Rolling 1-year Return	10.30%	8.52%
Lowest Rolling 1-year Return	4.52%	3.79%

#### GROWTH OF R100 INVESTED AT INCEPTION



#### SECTOR ANALYSIS



## FUND COMMENTARY

The global economy has demonstrated remarkable resilience despite significant increases in central bank interest rates aimed at achieving price stability.

Nominal government bonds returned 1.34% (GOVI); vanilla credit bonds delivered 1.8% (OTHI); inflation linked bonds returned 0.26% (CILI); listed property returned -0.59% (SAPY); listed preference shares delivered 1.14% (J251) and cash returned 0.65% as indicated by the STeFi Call Index Apr 2024. Overall, the ALBI (All Bond Composite Index) returned 1.37% for the month.

During the same period, the yield for the R186 (benchmark bond) rose by +16 basis points to end the month at 9.43%. Concurrently, the R186/R208 spread ticked down by -35 basis points to 330 bps whilst medium-term break-evens tightened by -0.05% to 6.16%. Yields for 12-month negotiable certificates of deposits rose by +15 bps to close the month at 9.18%. Foreigners sold bonds worth -R19.4 billion as bond yields sold-off during the month of Apr 2024.

Overall, the fund delivered 0.93% for the month against the benchmark return of 0.82%. The fund outperformed due to holdings in longer dated fixed instruments as the bond yield curve rallied this month. Cash returns were positive for the month at 0.86% outperforming the STeFi call index of 0.74%. While bonds and property contributed positively for the month at 1.19% and 0.59% respectively. The duration of the fund is 1.46.

After registering a value of 5.6% in Feb 2024, headline inflation for Mar 2024 was 5.3% (consensus 5.4%). On the same note, the price for Brent crude oil fell by -0.77%, to end the month at \$86.33 per barrel and the Rand depreciated against the Dollar by -0.65% to close at R18.79 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) declined by -1.6 index points to reach 50.3 in Mar 2024.

In the United States, the economy expanded by a 1.6% annualized rate in the latest quarter, marking its slowest growth in the past two years. While GDP growth fell short of experts' expectations, domestic demand remained strong. In the fourth quarter, the US economy surged by 3.4%, still outpacing the 1.8% rate considered non-inflationary by US central bank officials. The International Monetary Fund (IMF) has revised its estimate for US GDP growth in 2024 from 2.1% in January to 2.7%, despite the impact of high interest rates and lingering effects of previous energy cost increases. This underscores the United States' ability to outpace other advanced economies. However, annual inflation in the US rose for the second consecutive month to 3.5% in March 2024, its highest level since September 2023. Energy prices experienced a notable increase, with fuel oil and utility gas services seeing smaller declines compared to previous months. Despite Federal Reserve officials' hopes of suppressing inflation, price hikes have persisted over the last three months. The Federal Open Market Committee is expected to conclude its two-day meeting on May 1, 2024, with no changes to the fed funds rate, signaling the Fed's intent to maintain high interest rates to temper economic activity and curb inflation until stability is restored. Since July 2023, the Federal Reserve has held its benchmark interest rate steady within a range of 5.25% to 5.5%.

In the Euro Area, economic growth has resumed with an anticipated growth rate of 0.2% in the current quarter and 0.3% in Q1 2024. April witnessed a notable increase in the services sector Purchasing Managers' Index (PMI), surpassing all projections by rising to 52.9 from 51.5 the previous month. However, a decline in the manufacturing index from 46.1 to 45.6 challenges forecasts for growth, casting doubt on the overall economic picture. Despite this, the Euro Area's overall business activity grew at its strongest rate in almost a year, driven by a rebound in the service sector that offset a sharper decline in manufacturing. While the data suggests the Euro Area is emerging from recession, the European Central Bank is expected to lower interest rates in June, as calls for rate cuts mount amidst inflation nearing the bank's two percent target. In April 2024, the annual inflation rate in the Euro Area remained at 2.4%, as anticipated by the market, with decreases in the inflation rates for services and non-energy industrial products, while the inflation rate for food, alcohol, and tobacco increased slightly.

In China, both the manufacturing and services sectors experienced slower growth in April, indicating a potential loss of momentum at the beginning of the second quarter. The purchasing managers' index (PMI) for manufacturing decreased from 50.8 in March to 50.4 in April, while the services sub-index expanded at its slowest rate since January, from 52.4 to 50.3 in April. Despite a strong first quarter GDP performance, the slowing activity in April underscores irregular demand growth and challenges for policymakers. To stimulate economic expansion, the People's Bank of China has implemented slight reductions in interest rates and reserve requirement ratios (RRR), along with increased infrastructure spending and investments in high-tech manufacturing. Additionally, China plans to issue 1 trillion yuan (R659 billion) in special ultra-long term treasury bonds to bolster key sectors and sustain fiscal expenditure intensity.

On the local front, headline inflation in South Africa eased to 5.3% in March from 5.6% in February after a two-month surge, remaining stable between 5% and 6% since September 2023. March saw significant yearly price changes in miscellaneous goods & services (up 8.5%), education (up 6.3%), health (up 6.0%), and housing & utilities (up 5.9%). This trend was reflected in the Consumer Confidence Index for South Africa, which marginally increased from -17 in the final quarter of 2023 to -15 in the first quarter of 2024, the highest level in five quarters, driven by increased confidence among high-income households. Despite some positive developments, such as reduced load-shedding and inflation slowdown, challenges persist, including rising petrol costs and job losses, with the unemployment rate reaching 32.1% in Q4 of 2023. South Africa's trade surplus narrowed to ZAR 7.3 billion in March 2024, with imports increasing by 6.1% to ZAR 156.9 billion and exports growing at a slower rate of 1.8% to ZAR 164.12 billion, primarily due to increased shipments of precious metals and stones.

Globally, central banks are pushing back interest rate cuts as they await inflation to fall closer to the target bands. Locally, forward rate agreements (FRAs) are no-longer trending downwards compared to where they were 3-months ago and are pricing in two 25bps cuts in the next 12-months. 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.