

BALONDOLOZI

— INVESTMENT LEADERSHIP —

BALONDOLOZI MODEL INCOME FUND

August 31, 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, Karabo Matsepe, Sindisiwe Mahlangu
Inception Date	01 June 2017
Fund Size	R525 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

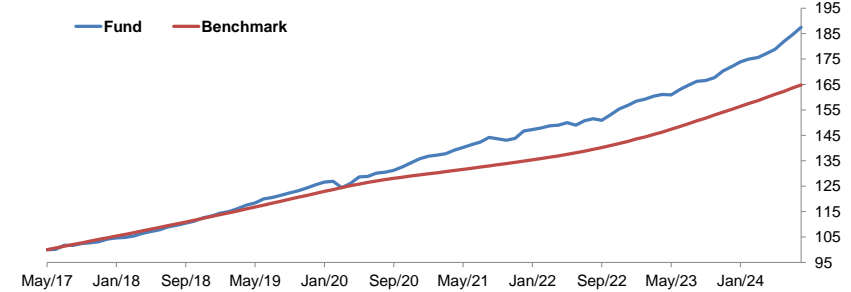
RISK RATIOS

	Fund	Benchmark
Annualised Return	9.06%	7.13%
Sharpe Ratio	1.93	4.17
Sortino Ratio	2.22	N/A
Max Drawdown	-2.00%	N/A
Drawdowns	7	0

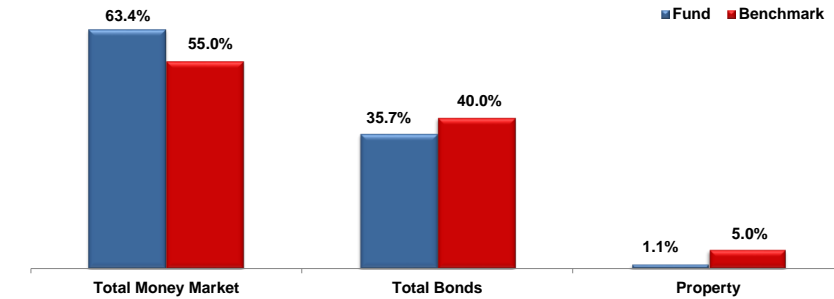
PERFORMANCE (Gross of fees)

	Fund	Benchmark
Aug-24	1.63%	0.74%
Year to Date	8.99%	6.17%
Rolling 12 months	12.77%	9.37%
Return p.a. since inception	9.06%	7.13%
Return since inception	87.51%	64.82%
Highest Rolling 1-year Return	12.58%	8.59%
Lowest Rolling 1-year Return	4.52%	3.79%

GROWTH OF R100 INVESTED AT INCEPTION



SECTOR ANALYSIS



FUND COMMENTARY

The global economic outlook presents a complex and varied picture when considering the four economies, the US, Euro Area, China and South Africa. Recent indications suggest that imminent interest rate reductions by central banks and a decline in inflation are contributing to improved economic sentiment. Despite rising unemployment in certain regions and underperformance in the manufacturing sector in others, several countries continue to demonstrate resilience and strength in the broader economic market.

Nominal government bonds returned 2,35% (GOVI); vanilla credit bonds delivered 2,7% (OTHI); inflation linked bonds returned 2,24% (CILI); listed property returned 8,25% (SAPY); listed preference shares delivered 1,78% (J251) and cash returned 0,65% as indicated by the STeFi Call Index August 2024. Overall, the ALBI (All Bond Composite Index) returned 2,38% for the month.

During the same period, the yield for the R186 (benchmark bond) fell by -15 basis points to end the month at 8,17%. Concurrently, the R186/R208 spread ticked down by -7 basis points to 202 bps whilst medium-term break-evens widened by +0,13% to 4,81%. Yields for 12-month negotiable certificates of deposits fell by -32,5 bps to close the month at 8,23%. Foreigners bought bonds worth R4,1 billion as bond yields rallied during the month of August 2024.

Overall, the fund delivered 1.63% for the month against the benchmark return of 0.74%. 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 0.87% outperforming the STeFi call index of 0.65%. While bonds and property contributed positively for the month at 2.06% and 4.36% respectively. The duration of the fund is 1.62.

After registering a value of 5.1% in June 2024, headline inflation for July 2024 was 4.6% (consensus 4.6%). On the same note, the price for Brent crude oil fell by -4.84%, to end the month at \$76.93 per barrel and the Rand appreciated against the Dollar by 2% to close at R17.83 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) nudged up by 5.8 index points to reach 49 in July 2024.

The United States Federal Reserve Bank's chair, Jerome Powell, delivered the much-anticipated speech highlighting recent developments in the country's economic outlook and the Fed's monetary policy independence. US annual inflation has slowed for the fourth consecutive month to 2.9%, the lowest level since 2021, though it remains above the 2% target due to persistent price pressures. Food price inflation held steady at 2.2%, while the energy index increased by 1.1%, marking the fifth consecutive month of rising energy prices, excluding gasoline and fuel oil. Looking ahead, the Federal Reserve is prepared to reduce interest rates in response to the approaching resolution of inflation and signs of a cooling job market. Consequently, it is anticipated that South Africa will follow a similar trend. Exports of goods and services have continued to grow, rising by \$3.9 billion, driven primarily by increases in civilian aircraft, natural gas, fuel oil, and petroleum products.

In the Eurozone, the European Central Bank has strengthened economic sentiment with expectations of rate cuts in September 2024, leading to the Euro trading at \$1.108 at the end of August.

Annual inflation rates in the Eurozone fell to 2.2% from 2.6% in August 2024, aligning with market expectations. This slowdown follows a period of persistent inflation above the European Central Bank's 2% target, attributed to a significant decline in energy costs and non-energy industrial goods. However, inflation increased for services, food, alcohol, and tobacco, rising by 10-20 basis points above expected figures. The manufacturing Purchasing Managers' Index (PMI) dropped to 45.6, reflecting a decline like that in July. This decrease is linked to a reduction in workforce numbers and diminished demand for purchases and finished goods.

In China, the annual inflation rate exceeded market forecasts by 20 basis points, reaching 0.5%. This marks the sixth consecutive month of consumer inflation as Beijing has intensified stimulus measures to boost economic consumption. While food prices remained stable, non-food prices continued to rise by 10 basis points, driven by sustained increases in the costs of clothing, housing, healthcare, and education. Conversely, transport costs declined further by 0.6% compared to 0.3% previously, as the effects of utility price hikes and higher railway ticket prices in major cities diminish. The People's Bank of China maintained interest rates at record lows during the August fixing. The Chinese yuan has strengthened against the dollar, reaching its highest level since June 2023. This appreciation is supported by increased dollar selling by Chinese companies and rising expectations of interest rate cuts by the Federal Reserve. However, unemployment rates have risen to 5.2%, slightly above market forecasts.

South Africa's manufacturing output for June fell short of expectations both on a month-over-month and year-over-year basis, highlighting potential challenges for the country's fourth largest industry. However, there are signs of easing inflationary pressures, as the producer price index (PPI) recorded a smaller-than-expected decline of 0.2% from the previous month. Additionally, the consumer price index (CPI) and core CPI both increased by 4.6% and 4.3%, respectively. The annual inflation rate has decreased for the second consecutive month, approaching the South African Reserve Bank's (SARB) target of 4.5%. Despite the central bank's previous cautious stance, this softer inflation figure raises the possibility of interest rate cuts at the much-anticipated Monetary Policy Committee Meeting scheduled for September 2024. Unemployment rates have continued to defy expectations, with the rate rising to 33.5% in the second quarter of 2024, contrary to forecasts of a decline. The number of unemployed individuals has reached 8.4 million, with approximately 60% of them being youth.

On a positive note, for the country's economic outlook, Eskom anticipates that the persistent electricity issues may be resolved as the warmer months approach. As a result, the South African rand has hit a record 13-month high – trading below R17.70/USD - signalling economic recovery.

Globally, the majority of central banks have gradually started their cycle of cutting interest rates, with others expected to follow in the upcoming months. Locally, forward rate agreements (FRAs) are trending downwards and are pricing in two 25bps cuts by the end of the year and a total of four 25bps cut 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 tightening, 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.