PORTFOLIO UPDATE

SOUTH AFRICAN (ZAR) SOLUTION REBALANCE

Contents

1 INTRODUCTION

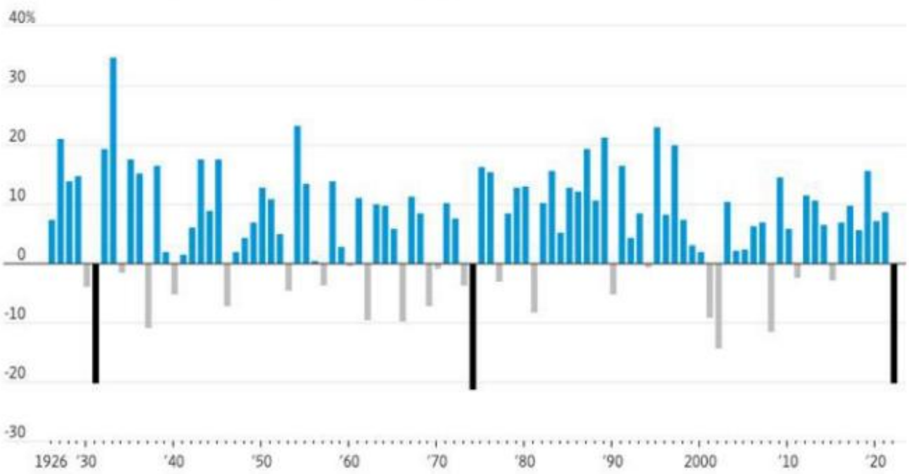
Markets have experienced a sharp pullback this year resulting in asset allocations across portfolios drifting away from their intended values. The environment has been characterised by higher and stickier inflation, tightening financial conditions, slowing growth, an energy crisis and growing geopolitical tensions. Digesting all these factors at once has increased volatility in markets and, with it, widened the distribution of potential outcomes. However, it is in volatile times like these that acting within portfolios can yield the highest benefits.

2 MARKET CONTEXT

The chart below contextualises how difficult things have been for investors this year:

No Shelter

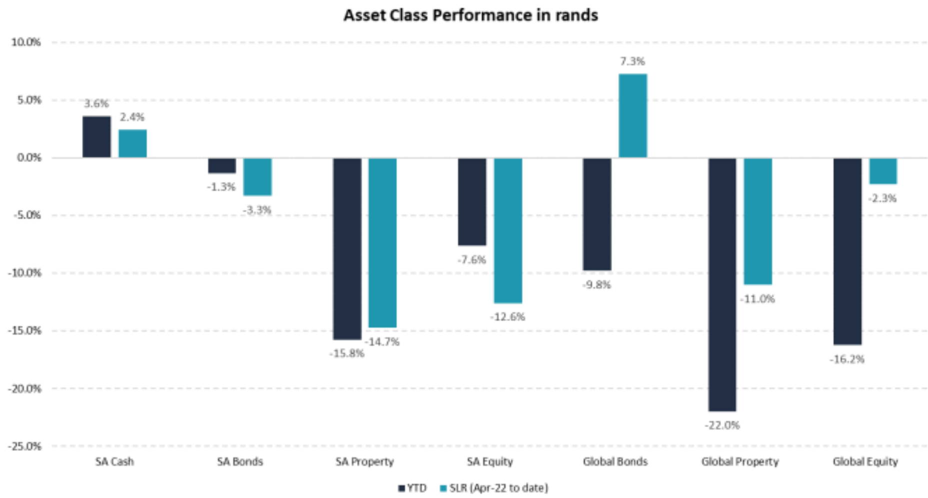
Here are the returns on a portfolio of 60% stocks and 40% bonds in the first three quarters of each year since 1926. Only two were worse than 2022: 1974 and 1931.



Note: Total returns of U.S. stocks and bonds measured by S&P 500, Bloomberg Barclays Aggregate Bond and predecessor indexes.
Source: Ned Davis Research

Only in 1931 and 1974 have the first 9 months of the year been worse than in 2022 and, as can be seen from the above, they were not much worse.

Performance of South African asset classes were not spared, however, generally the weakness in the rand has cushioned returns somewhat for offshore asset classes. We last made material changes to portfolio asset allocations in April 2022. This incorporated the significant increase in our offshore exposures for Regulation 28 portfolios. Below is a chart showing asset class moves in rands for both year-to-date and since our last rebalance (SLR) in early April 2022:



Source: Financial Express, PortfolioMetrix

3 ASSET ALLOCATION ADJUSTMENTS

Given the above movements in the markets we have taken the decision to rebalance portfolios back to the strategic asset allocation weights that we settled on in April 2022. Practically what this means is that we will be selling those asset classes that have done relatively well and we will be buying those asset classes that have underperformed. The below graphic provides an indication of what this will look like for portfolios:

Discretionary Portfolios			
	Change	Asset Class	Change
Local Asset Classes	↑	SA Equity	↑
		SA Bonds	↔
		SA Cash	↓
		SA Property	↑
Global Asset Classes	↓	Global Equity	↓
		Global Bonds	↓
		Global Cash	↔
		Global Property	↑

Regulation 28 Portfolios			
	Change	Asset Class	Change
Local Asset Classes	↑	SA Equity	↑
		SA Bonds	↔
		SA Cash	↓
		SA Property	↑
Global Asset Classes	↓	Global Equity	↓
		Global Bonds	↓
		Global Cash	↔
		Global Property	↑

Key	
↓↓	Significant Downweight
↓	Downweight
↔	No Material Change
↑	Upweight
↑↑	Significant Upweight

4 TIMING

We have begun engaging with the various administrators (Momentum Wealth, Ninety One, Allan Gray etc) and we will execute the changes as soon as they can accommodate us.

5 CONCLUSION

We believe these changes appropriately balance the risks we see in the markets with the opportunity set available to us to produce inflation beating returns.