FG INVESTMENT PARTNERS

GLOBAL BRIEF

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EDITORIAL COMMENT

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Challenges mounted in the first quarter against a backdrop of heightened geopolitical risk

There are times when the macroeconomic and geopolitical environment is steady and investment markets show little volatility. This is not one of those times. The first quarter was characterised by heightened geopolitical risk brought about by the Russia-Ukraine war, ballooning inflation courtesy of supply-constrained commodity prices (particularly oil), and strong (post COVID-19) demand. Central banks also turned more hawkish by signalling a tightening of monetary policy, i.e. rising interest rates and less liquidity.

Globally, this proved to be a difficult backdrop for both equities (higher risk-free rates and heightened prospects of an economic growth slowdown) and bonds. The MSCI World Index was down over 13% in rands, while global bonds suffered a negative return of just over 14%, also in rands. These negative returns were exacerbated by a strong rand, which benefitted from high metal commodity prices.

Local markets reflected a somewhat better picture. The fiscal position improved on the back of strong tax revenues from the resources sector, which in turn benefited from high export prices. The FTSE/JSE All Share Index returned just under 4% for the quarter, with the resources subsector returning just over 18%. The FTSE/JSE All Bond Index returned just under 2% over the same period.

Globally, there are a number of possible macroeconomic scenarios going forward.

These include the following:

- Interest rates rise at a pace and to a level that slows demand and inflation but does not cause a recession. Bond yields stabilise and while corporate earnings decelerate, earnings remain positive. This is a reasonable backdrop for both bonds and equities, which have already suffered substantial negative returns.
- Interest rates rise too far and too fast, which raises recessionary risks. Inflation will be tamed but at a significant economic cost. This is not a positive backdrop for risk assets.
- Central banks back off from a hawkish stance and accept a higher level of inflation. This would ultimately favour equities, especially those with pricing power over bonds.

While the first scenario is probably the most likely, there are risks and markets are likely to remain volatile

From a local perspective, equities and bonds do not look expensive, but risks abound. A slowing global economic environment potentially weakens support for commodities and the rand. China currently presents a particular challenge for the commodity outlook with its zero COVID-19 policy and consequent shutdowns. In addition, progress on the local reform agenda will affect investor sentiment.

One should not rely on predictions about the future, since these are rarely accurate

However, while you may not be able to predict the future, you can prepare for it, and we continue to emphasise a solid portfolio construct. We maintain a prudent balanced perspective, with an emphasis on diversification between asset classes, managers, and styles. We also retain a bias towards quality and are neutral from a risk positioning standpoint.

What you can look forward to in this edition

This quarter, our featured articles cover a variety of topical issues that we hope you will find insightful. Pieter Hundersmarck, Portfolio Manager at Flagship Asset Management, suggests caution in buying overvalued stocks just because they have fallen; circumstances may well have changed. Miranda Van Rensburg, Regional Sales Manager at M&G Investments, highlights some pitfalls and suggests some guidelines when investing offshore. Gielie de Swardt, Head of Retail Distribution at Sanlam Investments, puts a positive spin on the 2022 South African budget from an investor perspective. Nishan Maharaj, Head of Fixed Interest at Coronation, points out that the likelihood of South Africa falling into a debt trap over the next five years has diminished. And lastly, Fiona Zerbst, Development Writer at Old Mutual Corporate, reflects on how Russia's war on Ukraine is affecting investment markets.

We hope that you enjoy these articles and that you find them interesting.

As always, stay safe.

The FG Asset Management Investment Team

HOW RUSSIA'S WAR IN UKRAINE IS AFFECTING INVESTMENT MARKETS

Adapted from an article by Fiona Zerbst

Development writer Old Mutual Corporate

Five weeks after Russia invaded Ukraine, Izak Odendaal (Investment Strategist at Old Mutual Multi-Managers) unpacked what this showed about South African markets.

When Russia invaded Ukraine on 24 February 2022, $1 trillion was wiped off the value of the global stock market – but the subsequent rally shows that markets are probably more interested in the actions of US Federal Reserve (the Fed) Chair Jerome Powell than those of Russian President Vladimir Putin.

Although the situation remains unpredictable, with Putin's nuclear threats an obvious concern, the war is becoming background noise as markets adjust. "The initial shock and disbelief have worn off – markets have short memories so investors are more concerned about rising inflation, which was an issue in the US, the UK and Europe even before this crisis," explained Odendaal.

"Western countries are attempting to wean themselves off Russian oil – but if Putin decides to cut off gas to European countries, the situation could become more volatile," Odendaal added.

What to expect for inflation and interest rates

The Fed has said it's prepared to hike interest rates more aggressively to curb rising inflation.

"The increase in commodity prices and supply-chain disruptions will exacerbate inflationary pressures, meaning inflation will remain higher for longer, putting more pressure on the Fed to increase rates," Odendaal said. He added that the European Central Bank is also likely to raise interest rates as it's more concerned about inflation than the possibility of negative growth.

Shocks to supply chains are affecting countries all over the world. 'One German car manufacturer has had to stop production because it can't import a specific car part they used to get from Ukraine, for example. It's not just about how much cash companies have on their books," Odendaal explained.

With global growth weaker than expected, and some countries experiencing a resurgence of the pandemic, we could be faced with stagflation or recession in various countries, particularly in the face of further lockdowns, as in China, and the growing refugee crisis in Europe.

The knock-on effect of worldwide pressures on South Africa's economy

Despite inflationary pressures, it seems that South Africa could weather the storm reasonably well, notwithstanding petrol price and food price increases.

"Domestic inflation isn't rising as rapidly as in other countries, which gives the South African Reserve Bank some breathing space – they're likely to continue raising rates but at a gradual pace," Odendaal said. "A commodity exporter like South Africa can benefit from the situation. For example, the resource companies on the JSE have done well, despite coming off a low base, and aren't as affected by the interest rate."

He pointed out that there's an underlying resilience in the economy, despite South Africa's huge social problems, and believes that the country is more adaptable than we think. A weak point is the fact that high levels of government debt meant we had few fiscal buffers in place when the pandemic arrived on our shores, which wasn't the case during the 2008 global financial crisis. "The lesson in this is that we need to ensure that we have enough financial reserves to weather the new crises," he said.

The smart thing to do with your investments

Investments may not have performed as expected with the twin shocks of the Russian invasion and the COVID-19 pandemic, but Odendaal said that investors who've rushed to take their funds offshore have missed opportunities.

"South African assets have outperformed global assets in 2022– just one reason why it's important to have an appropriately diversified strategy and adhere to your long-term investment goal," he said. "As always, the only real threat to our investments is our own fear and greed. Don't time the market and sell out – you'll only harm your portfolio."

This article originally appeared on the Old Mutual Corporate resource hub.

PULLING BACK FROM THE BRINK

Adapted from an article by Nishan Maharaj

Head of Fixed Interest Coronation

While economic recovery challenges still abound, the likelihood of South Africa tumbling into a debt trap within the next five years has, thankfully, diminished.

The quick take

- Ongoing shocks to the global financial system continue to dog recovery in the post-pandemic world.
- Escalating commodity prices have favoured the rand and South Africa's terms of trade, placing South Africa in the unfamiliar territory of coming out on top.
- All eyes are on inflation globally, with the South African Reserve Bank (SARB) looking set to aggressively reign in South Africa's rate at around 6% by early 2023.

The first quarter of 2022 saw a significant increase in financial market volatility

Global inflation expectations for this year have more than doubled from a year ago (5.1% currently from 2.1% previously), while expectations for growth have moderated (4% currently from 4.6% previously). US monetary policy is now expected to move into restrictive territory, with the US Federal Reserve (the Fed) funds rate anticipated to end 2022 at 3.1%. Looking ahead, the Fed is expected to hike in increments of 0.5% (previously 0.25%) for at least the next two meetings of this year. Russia's invasion of Ukraine has placed risk on tenterhooks, while fanning concerns about global stagflation on the back of the resultant surging oil and other commodity prices. The hangover from COVID-19 and its many variants had already rendered economic outcomes relatively uncertain, and current geopolitical dynamics has only served to further muddy the outlook and perplex investors.

The rand strengthened over the first quarter, while the yield curve flattened

South Africa has proved to be the prettiest among its ugly siblings. In the first quarter, the rand appreciated more than 9% against the US dollar (only outdone by the Brazilian real), ending the quarter at R14.61/$. The terms of trade boost (higher export prices relative to import prices) on the back of higher commodity prices has been the primary driver of the rand's outperformance. South African government bonds (SAGBs) returned 1.86% over the quarter, ahead of cash and inflation-linked bonds (ILBs), which returned 0.93% and 0.31% respectively. Over the last 12 months, SAGBs have returned an impressive 12.37%, well ahead of cash (3.6%) and ILBs (10.76%). This outperformance has been driven by a flattening of the yield curve, that saw bonds with a maturity of 12 years returning 17.77% over the last year. The combination of rand appreciation and bond returns has made SAGBs the best performer in the global bond universe, well ahead of global bond indices, which have been dragged into negative territory due to the sell-off in US bond yields.

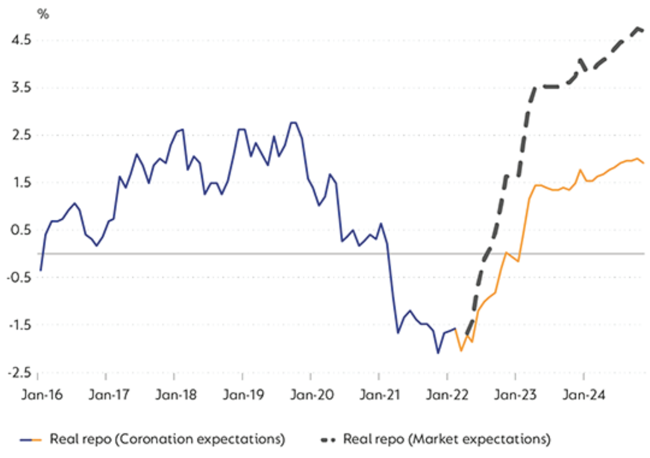
SAGB investors are still faced with assets that trade at historically and comparatively high yields, suggesting a significant embedded risk premium. However, considering recent global gyrations, a reassessment of the risks and repercussions thereof is warranted. Locally, fiscal and inflation risks must be re-evaluated considering recent commodity price moves, while from a global perspective, the impact of stressed US bond yields needs to be factored into current valuations.

Rising inflation poses risks for South Africa, increasing the pace of rate hikes

South Africa's inflation was expected to average 5.5% in 2022 and 4.6% in 2023 prior to the move in commodity prices. Consequently, the SARB was expected to continue the normalisation of interest rates at a very gradual pace, taking the nominal repo rate to between 6% and 6.5% by the beginning of 2024, hence maintaining the real repo rate within the 1.5-2% range. However, things have changed significantly since the start of the year, with white maize and oil prices higher by 12% and 42% respectively. Despite the poor demand backdrop in South Africa, given that a large part of the inflation basket is comprised of food- and fuel-related items, the longer these prices stay high, the stickier inflation becomes at higher levels and the more likely it becomes that this elevates other prices in the basket (second-round effects of higher food and fuel prices). Inflation is now expected to average over 6% for 2022 (peaking above 6.5%) before coming down to an average above 5% in 2023. The risks, however, are very much tilted to the upside and surveyed expectations for longer-term inflation are now at 5.5% (up from 4.8%). Therefore, it is highly likely that the SARB will accelerate the path to reaching a nominal repo rate of between 6% and 6.5% in the first quarter of 2023. This would help to anchor inflation expectations at a lower level and keep pace with the expected path of global monetary policy normalisation.

In the years preceding COVID-19, the average real repo rate averaged 1.6%, which is lower than our expectations of 1.9% by the end of 2024 (Figure 1). Current market pricing for the real repo rate based on our expectation for inflation suggests a real repo rate of 4.5% by the end of 2024, which is almost triple what it has been historically and double our expectations. This suggests that current market pricing embeds a significant inflation premium, which translates into a high embedded inflation premium for bond yields. It is highly likely that the market expectations for inflation recede as inflation prints materialise lower, thus compressing the inflation premium in bond yields.

Figure 1: South Africa's real repo rate expectations



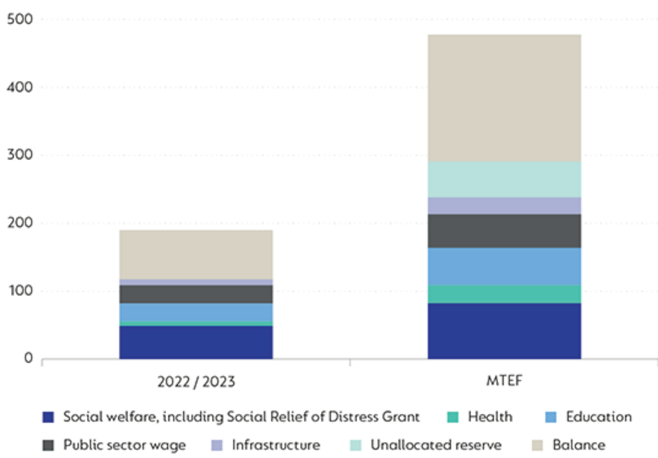
Sources: Coronation, Bloomberg

Higher export prices and tax revenue should translate into a lower debt-to-GDP ratio

The flipside of higher commodity prices, specifically higher metal prices, is that the prices of South Africa's exported products increase relative to its imported prices. This means that South Africa receives more money for the same volume of exports and, of course, if volumes increase, then there is a significant multiplier effect. Tax revenue is likely to increase as company earnings increase and South Africa's current account remains in surplus, reducing its reliance on portfolio flows. Fiscally, this translates into a lower deficit, due to higher tax revenue that should imply a lower borrowing requirement. The precedent set in the March budget saw 55% of the windfall revenue used to reduce the borrowing requirement while the other 45% was spent on funding free tertiary education, along with higher municipal and healthcare wages (Figure 2).

Unfortunately, these do not have a significant growth dividend and are very hard to recoup, making it an unproductive recurrent expenditure. At current prices, government can expect another R100 billion in tax revenue next year, which will hopefully be spent on reducing the known risks in the economy. Namely, the Eskom debt overhang, ailing municipal and state-owned-enterprise finances, and a permanent solution to the basic income grant debate. Thankfully, South Africa's starting position is better than it has been, and the debt-to-GDP ratio is expected to peak at 75% in five years. This is by no means an insignificant debt load, but relative to peers, this is no longer outrageous. This makes the prospects of South Africa entering a debt trap a much lower probability over a five- to 10-year horizon.

Figure 2: South African fiscal: Expenditure allocations



Sources: Coronation, Bloomberg

SAGB breakeven relative to cash remains high

With the debt trap issue being kicked into the long grass, it is worth looking at SAGB breakeven relative to cash based on our new expectations for the repo. On average, breakeven to cash has come down by 25 basis points (bps) but remains historically high (Figure 3).

Figure 3: South African government bond/cash break-even rate

Bond	Maturity	Yield	1-year breakeven (cash 6%)	1-year breakeven (cash 4.5%)
R186	21 Dec 26	8.09	0.74	1.24
R2030	31 Jan 30	9.55	0.74	1.04
R2032	31 Mar 32	9.93	0.69	0.94
R2035	28 Feb 35	10.29	0.65	0.88
R209	31 Mar 36	10.26	0.57	0.77
2040	31 Jan 40	10.55	0.61	0.80
R214	28 Feb 41	10.53	0.55	0.73
R2044	31 Jan44	10.58	0.57	0.76
AVERAGE BREAKEVEN			0.64	0.90

Sources: Coronation, Bloomberg

In addition, the value shifts more towards the 10-year area of the curve. This shift in value is reflective of the recent risk premium compression that has occurred between the 10- and 20-year areas of the yield curve (curve flattening), which is now at historical norms (Figure 4). SAGBs therefore still embed a significant risk premium, both in terms of inflation expectations and relative to cash, with the value point now being the 10-year area of the yield curve

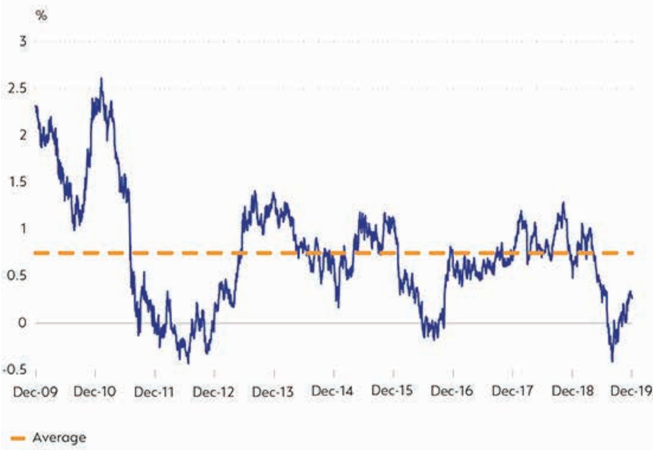
Figure 4: South African government bond (20-year bond minus 10-year bond)

Sources: Coronation, Bloomberg

The real funding rate of US debt should remain relatively low

The recent rise in US bond yields has raised concerns of an imminent sell-off in emerging market bond yields, similar to the taper tantrum of 2013. First, it is important to point out that although the emerging market debt load has escalated, in developed markets, more specifically the US, the increase has been sharper. The weighted average maturity of US debt is just over five years, which means the cost of funding the debt load is closely connected to what happens with short-term rates. This argues for the real funding rate of US debt to remain relatively low compared to history, and for the cost of debt funding to remain below real growth. Over the decade preceding the COVID-19 crisis, the average real US 10-year yield versus realised inflation (represented by the US Personal Consumption Expenditure Index) has averaged 0.77% (Figure 5). This implies that, going forward, this real rate should be, at most, between 0% and 0.5%, which puts the long-term US 10-year fair yield, assuming a long-term US inflation outcome of 2.5-3%, at 2.5-3.5%. In the short term, we can expect volatility in the US 10-year bond as inflation prints higher; but 2.5-3.5% is where US yields should settle.

Figure 5: US 10-year bond minus US personal consumption expenditure index (year on year)



Sources: Coronation, Bloomberg

The current level of the US 10-year bond remains in the range of 2.5-3.5% and SAGB yields are still more than 700 bps above US yields (Figure 6). This suggests a significant risk cushion to absorb a move in the US 10-year yield to levels that would be deemed fair with longer-term expectations.

Figure 6: South African 10-year bond yield minus US 10-year bond yield

Sources: Coronation, Bloomberg

We can expect the pace of both global and monetary policy normalisation to increase

Geopolitical tensions have increased the risk of higher global inflation and a faster normalisation of global monetary policy. South Africa has benefited from a significant terms of trade boost that provides more breathing room for the fiscus, but that will place pressure on the SARB to normalise rates at a similar pace to global central banks. SAGBs still trade at historically high yields and are elevated compared to their emerging markets counterparts. The current market pricing of interest rate normalisation in South Africa also suggests that the embedded inflation premium in bond yields remains excessive and that yields have a significant risk buffer to absorb higher local inflation and higher US bond yields. We continue to advocate long-duration positions that are focussed in the 10-year area of the yield curve.

BUDGET 2022 POSITIVE FOR INVESTORS

Adapted from an article by Gielie de Swardt

Head of Retail Distribution Sanlam Investments

On 23 February 2022, Finance Minister Enoch Godongwana delivered a mostly benevolent Budget Speech. It showed sympathy with the plight of the poor in the form of more social grants. It also showed an understanding that South African taxpayers are unlikely to shoulder further tax hikes without another blow to economic growth in the wake of ever-decreasing disposable income.

Individuals will have more after-tax money left

Minister Godongwana announced that Treasury would be adjusting the income tax brackets and rebates by 4.5%, in line with inflation. This means that individuals should see a net increase in their take-home pay, which leaves more money available to invest. People under 65 years of age earning up to R91 250 will not be liable for income tax. For those between 65 and 75, that figure is R141 250, and for those over 75, this tax threshold is R157 900.

Medical tax credits are also increasing from R332 to R347 per month for the first two members of a medical scheme and from R224 to R234 per month for remaining members. Those in the top income tax bracket – earning more than R1 731 600 of taxable income per year – continue to be taxed at 45% but will also see an uptick in their after-tax earnings. View the SARS income tax tables here.

No increase in the main taxes on investments

The two taxes that hit investors the hardest are dividend withholding tax and capital gains tax (CGT). In 2016, the CGT inclusion rate was increased from 33.3% to 40.0%, meaning that taxpayers can owe SARS as much as 18% of their capital growth. For long-term investors with many years to compound growth, this future tax liability can grow into a substantial tax bill; fortunately, the rate was not raised this year.

Dividend withholding tax was also kept constant at 20%. This tax is paid to SARS before the net-of-tax dividend enters the investor account. The returns published for unit trusts and exchange-traded funds are after dividends tax has been withheld, and investors needn't make provision for paying this tax to SARS as part of the annual tax filing process. Still, it reduces the net return in an investor's pocket.

Retirement fund tax relief and limits remain unchanged

No changes were announced to the annual tax relief granted via retirement fund contributions. In addition to tax relief for contributions up to 27.5% of total income (capped at an annual contribution of R350 000), all the income and gains in a retirement fund are tax-free until retirement age. And on retirement date, the first R500 000 of the lump-sum withdrawal is taxed at the 0% rate.

Retirement funds may now hold more offshore assets

Despite the handsome tax benefits of retirement funds, they are often criticised for being too prescriptive regarding where and how the portfolio may invest. Previously, only 30% (it used to be 25% a few years ago) of a retirement portfolio could be invested globally and an additional 10% in Africa. Now retirement funds may invest up to 45% of their assets offshore, with no separate allocation for Africa. Africa is viewed as part of the definition of 'offshore'.

In addition, Treasury is working on developing a "two-pot system" where investors in these funds will have access to a portion of their retirement portfolio before retirement age, in case of emergency. These regulations are in draft format and could take some time to implement.

VAT stays at 15%

Alongside "sin tax", value-added tax (VAT) is another tax used by the government to steer its citizens towards less consumption and more saving. Even though South Africa's VAT rate of 15% is low by international standards, the government did not increase it this year.

South African tax rates are high, keeping tax-efficient accounts attractive

South Africans pay high tax rates compared to countries with a similar income profile, and investors are paying more tax on dividends and capital gains than 10 years ago. On the other hand, investors now have more scope to use tax-free and tax-efficient products. The tax relief potential of retirement funds has been raised – with qualifying contributions at 27.5% of income compared to the limit of 15.0% six years ago. And in 2015, Treasury also launched tax-free savings accounts to stimulate savings in the country. For now, Treasury has pressed "pause" on increasing taxes on individual investors, but investors have every incentive to maximise their savings in the products designed for optimal tax relief – the tax-free savings account and the retirement fund.

PITFALLS AND GUIDELINES IN OFFSHORE INVESTING

Adapted from an article by Miranda van Rensburg

Regional Sales Manager
M&G Investments

Key take-outs

- South Africans often rely on investing offshore to preserve their wealth over time, and foreign assets can offer the benefits of higher growth potential and greater diversification.
- The South African government recently raised the offshore limits for retirement funds to 45%. In M&G Investments' view, this allowance is sufficiently high to no longer act as a true constraint on investors' "ideal" offshore exposure.
- These days, the offshore vehicle you choose, as well as tax and estate planning issues, are important considerations when investing.

There is a saying in Brazil, "Pai rico, filho nobre, neto pobre", which translates to "Rich father, noble son, poor grandson"

Similar quotes can be found in different languages in many countries. There is even a well-known "third generation rule" that holds that 70% of affluent families will have lost all their wealth by the third generation. Cornelius Vanderbilt famously said that anyone, even a fool, can make lots of money. However, it takes intelligence to maintain the fortune for the following years.

Responsible stewardship from one generation to the next is paramount, but obviously can be fraught with difficulties. In South Africa, the way that many investors think about preserving wealth is primarily by taking their funds offshore.

Offshore benefits are compelling

Ongoing economic concerns, a broadly depreciating rand, political uncertainty, and the quest for diversification have propelled increasing flows into funds that invest outside South African borders. The local opportunity set is small: South Africa makes up less than 0.4% of global GDP and only 0.44% of the global equity universe (as represented by the MSCI All Country World Index). Offshore investing facilitates access to a range of other currencies, geographies and growth opportunities, adding valuable diversification to a portfolio.

South Africans are known to be innovative , and initially the wealthy were using offshore tax havens to not only preserve their wealth, but also to evade local taxes in the process. In 2016, SARS introduced the Special Voluntary Disclosure Programme to allow for the wealthy to disclose their holdings without facing penalties, which proved to be quite successful, luring more South Africans back into the tax net. Since then, the world (and SARS) has evolved, and SARS now receives reports from more than 80 tax jurisdictions on South Africans' offshore investments. The message is clear: If your name is on the list and you haven't disclosed it to SARS, expect big penalties. South Africans have quickly discovered that it's best to disclose all offshore holdings and earnings.

Not so many restrictions these days

The merits of offshore investing are myriad. The latest budget has also allowed for an increase in the offshore allocation that a Regulation 28 fund can make to offshore assets. This means that pension funds and other funds subject to Regulation 28 can now invest up to 45% offshore. In M&G Investments' view, this higher allowance no longer acts as a true constraint on investors' "ideal" foreign exposure for their retirement portfolios; it is more than adequate to provide the necessary diversification benefits and growth opportunities, as long as the investor wants to retire in South Africa.

In addition, in recent years, the South African government has increased foreign travel and investment allowances for individuals. South African residents over the age of 18 years are entitled to a single discretionary allowance of up to R1 million per calendar year. On top of this, South Africans are also entitled to a foreign investment allowance of up to R10 million per calendar year, subject to SARS clearance.

Given the much more relaxed environment and widespread options for going offshore these days, investors typically spend a large amount of time determining which funds of the increasingly growing list of offshore funds to invest in, sifting through tables of top holdings, and getting engrossed in the virtues of technology shares versus more cyclical shares such as airlines and hotels. What has become clear, however, is that they should be spending at least as much time considering exactly how to invest and determining which vehicle(s) is most suitable for them.

Going offshore: feeder funds versus direct funds

Generally, there are two ways to access global investments: rand feeder funds domiciled in South Africa or foreign currency-denominated direct funds domiciled offshore, using one's South African foreign investment allowance.

Rand feeder funds can be found on different South African investment platforms offering various offshore options. They invest using South African rands, so that when you sell your investment you receive the proceeds in rands. These funds generally have lower investment minimums and lower fees than direct offshore funds, and payments can be made directly into your local bank account. Furthermore, because they are domiciled in South Africa, estate planning is more efficient and probate and other legal issues are less complicated.

Direct offshore funds, on the other hand, invest via foreign currency, so that the proceeds are returned to you in the foreign currency. Typically, their structure facilitates less capital gains tax being paid on disposal in an environment where the rand depreciates, but they also typically require a larger initial investment. Additionally, estate planning and legal issues can be more complex, and the investor has to open an offshore bank account if they want to retain the proceeds offshore in foreign currency.

Wills, taxes and other legal considerations

As Benjamin Franklin famously said, "In this world nothing is certain but death and taxes", and tax planning should certainly be a major consideration when deliberating the "how's" of offshore investing, along with estate planning.

South Africans are taxed on their worldwide income, which therefore necessitates diligence when choosing the best structure for these offshore investments. Double taxation may arise if the same assets of the deceased person are subject to estate duty in South Africa as well as the equivalent in the foreign country, unless agreements are in place between South Africa and the respective country.

A term that is often used is "situs tax". Situs refers to the location of an asset, for example where a property is located, or the country where funds are invested. Situs taxes are the taxes levied on such assets upon death. In the US, for example, situs tax comes into play even at the relatively low level of US$60 000.

Turning to estate planning, under certain circumstances, a separate will is required for assets held offshore. However, even with a separate foreign will, significant complications can occur when winding up an estate. Typically, winding up a foreign estate at the same time as the South African estate can be difficult where originals of documents are required to be sent back and forth. The South African Master requires an original will, and so do the offshore authorities. Where the amounts invested offshore are small, it is difficult to find offshore executors willing to help with winding up the foreign portion of the estate as it is not worth their while.

Another complication looms as a result of probate, which occurs where foreign jurisdictions do not recognise the South African executor. In this case, a local court authority has to be appointed before the estate can be wound up. This process can be lengthy and costly. Some countries can even consider a South African drafted will to be invalid.

An important factor worth considering is forced heirship, which exists in some form in most major countries. Such rules restrict a testator's freedom in deciding how assets are to be distributed after death. These rules have implications for the existing will when finalising the estate. Once again, the importance of consulting your financial advisor on proper estate planning cannot be underestimated.

Estate duty can be high, depending on the country where this is applicable, as shown in Figure 1.

Figure 1: Estate duty rates in different countries

Country	Estate/Inheritance tax rate
Turkey	10%
Denmark	15%
Japan	55%
US	40%
UK	40%
May-98	R150 970
May-02	R92 168
Apr-08	R28 180
Apr-19	R10 654

Source: PWC

For example, an investment in the US done directly through a mutual fund there would attract estate duties in the US, which for non-US residents could be as high as 40%. Fortunately, there are numerous structures made available through South African insurers for South Africans to invest offshore in a way that is beneficial to tax planning as well as estate planning.

Offshore trusts and endowments can help reduce and simplify the tax and legal implications

Two of the most well-known structures include offshore trusts and offshore endowments. The latter allows the owner to nominate beneficiaries to which proceeds of an investment will be paid on death. This circumvents the issue of probate, which saves significant time and cost. Proceeds can simply be paid out without being subject to executor's fees. Estate duty would still be applicable, but only in the local market, where our estate duty is significantly less. In addition, should a spouse be the beneficiary, there wouldn't be any estate duty payable.

Offshore investments are a well-known and accepted option for preserving wealth for future generations.

In addition, more solutions are becoming increasingly accessible to South Africans. However, it remains just as complicated as ever when it comes to taxation, retirement and estate planning: there are numerous factors at play and landmines are all around. Consequently, the value of an experienced financial advisor who understands these issues and is able to guide an investor down the road of potential options cannot be underestimated.

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BOTTOM FISHING IN EMERGING MARKETS DOESN'T ALWAYS WORK

Adapted from an article by Pieter Hundersmarck

**Portfolio Manager
Flagship Asset Management**

When price-earnings (P/E) multiples fall and never recover

There are two occasions when bottom fishing or "catching a falling knife" doesn't work. The first instance is classic overvaluation, which is when the valuation of a share discounted over-zealous prospects at the time of purchase. Because you overpaid, buying all the way down will rarely generate a great return, unless you apply more than your initial capital (which few investors do). The second instance is when there is a structural shift in the way a geography or sector is valued by the market.

Be careful to buy overvalued stocks just because they have fallen

Cisco provides a good example of the first. At the turn of the new millennium, the IT hardware, software and networking equipment company was one of the hottest stocks in the US stock market. From early 1999 to March 2000, the shares rose over 200% to \$80 per share, backed by euphoria about the technological shifts brought about by the internet. The thesis was solid: as a provider of networking equipment, Cisco was the "shovel-seller in the internet gold rush".

But the thesis was also well understood. At the March 2000 peak, Cisco's P/E multiple stood at over 200 times. As the dotcom bubble deflated, Cisco's share price collapsed by 80%, a total market capitalisation loss of \$431 billion. Today, Cisco's shares trade at \$56, still 30% below their peak reached over 20 years ago.

Changing narratives can permanently impair the earnings multiple the stock market will attach to a country

The second example of bottom fishing not working out is perhaps more intriguing. Structural shifts in the narrative around a specific geography can destroy market multiples as well as any reversion-to-mean argument. Russia provides a recent example of how this shift can damage portfolios. China provides a worrying example of another shift that may be taking place.

The popular investment narrative around emerging markets goes something like this: emerging markets are volatile, and they go in and out of favour due to commodity and currency flows. Timing these various macro-related flows will allow you to reap generous rewards,or lose your shirt.

For example, commodity producers like Brazil, Russia and South Africa benefit from commodity price booms until their local inflation gets out of control and their currencies tank. Russian shares are a play on oil and gas-related revenues and their effect on the economy. Commodity importers, like India and Turkey, typically benefit from low oil prices and perform poorly when commodities rise.

Not all emerging markets are the same, and its high time investors stopped bundling them together. Besides their various commodity or economic blessings or curses, the main variance comes in the type of government, and the type of equity culture that this creates.

Equity culture covers two aspects. The first is the willingness and ability of a population to invest in equity as an asset class. Investors in many emerging markets typically put their money into tangible assets, such as real estate or gold, before they are lured into the financial market. As wealth rises, this changes. However, a lack of trust in regulation and financial institutions is one reason why emerging populations may be wary of financial assets.

South Africa, as well as Chile, are the rare exception to the rule. Retirement investment in individual capital accounts was made compulsory for Chilean workers in 1981. As a result, a local equity culture, which includes significant overseas investments, has developed. South Africa has one of the most developed life insurance markets, dating back to when companies like Old Mutual were founded at the turn of the last century.

The second aspect is the regulatory and institutional environments that protect investments in financial assets. Most emerging markets are highly protectionist, domestically focused, and overseen by considerable amounts of government intervention. In China, for instance, the state typically has a majority stake in listed companies, so there is at least the potential for a conflict of interest between the regulators and minority investors.

Democratic, capitalist countries like India and Brazil have a chance at becoming better places for equity cultures to thrive. Repressive regimes like Turkey, Russia and China offer far less opportunity for the required frameworks and trusted institutions to be created.

When these institutions are weak, or there is a risk that the conflict between state and shareholder is irreconcilable and subject to change at whim, then investors are on dangerous ground.

The largest stock in Russia, Gazprom, is a good example of how narratives can change. When Russian stocks opened for global investors in 1996, the first 10 years saw the Russian Trading System (RTS) Index rise 2 662% to its peak in December 2007. Much of this was due to a low base effect as well as strong commodity prices. However, many Russian stocks also attained similar P/E multiples to their developed market peers. Gazprom in particular began trading at over 11 times earnings in 2006, which was on par with BP plc – see Figures 1 and 2.

Figure 1: Gazprom's one-year forward P/E multiple and share price (2006-2022)

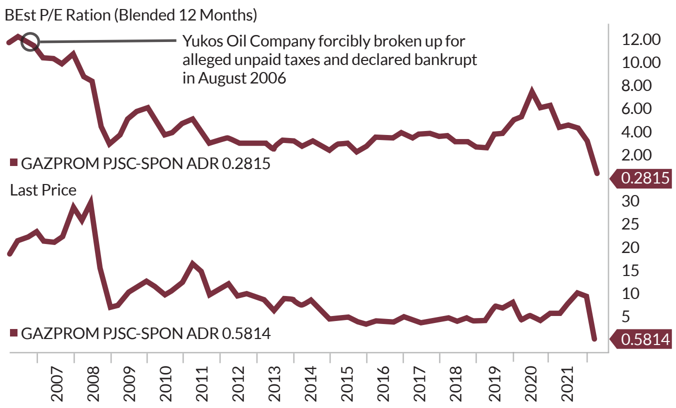
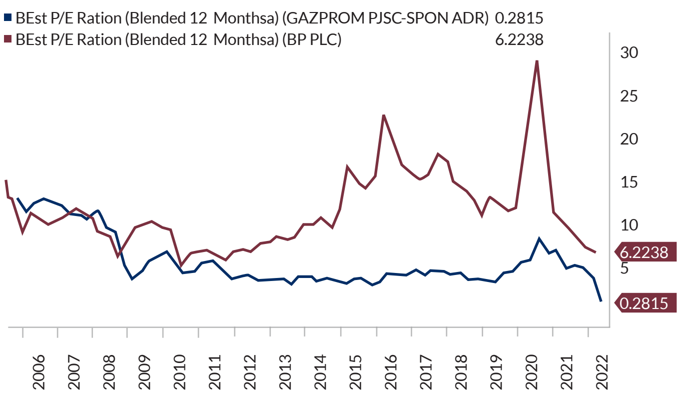


Figure 2: BP's one-year forward P/E multiple in purple and Gazprom's in blue (2006-2022)



However, things changed. In August 2006, the Yukos Oil company expropriation changed the risk appetite for Russia. The misalignment between the state and shareholders became obvious as Gazprom and other state-influenced firms pursued initiatives that marginalised shareholder interests. Even as commodity prices recovered post the global financial crisis, Gazprom's P/E multiple sank to an average of 3.5 times from that point on, never to recover.

The most recent example of the tension between the state and minority shareholders is Chinese equities. Investing in Chinese equities like Tencent requires investors to differentiate between business-specific risks (including structural changes that are occurring in the Chinese tech/gaming and e-commerce markets) and market risks (including the P/E multiples that Chinese shares should trade at relative to global peers). This can be a tricky call. Is the past a good indicator of what P/E multiples Chinese shares should trade at versus their global peers? An investor betting on the multiples of Russian shares in 2006 mean-reverting to their long-run average with global shares would have been spectacularly wrong.

China and Russia are not uninvestable per se. But things can change. Certain geographies provide an altogether different risk profile beyond the risks apparent in developed equity markets. Investors need to know their risks, especially their tail risks, for when structural changes are happening.

Equity investing works over the long term primarily due to the institutional and regulatory bodies that protect equity as an asset class. They allow members of capitalist democracies to participate in the growth of their economies and to use that growth to build capital for retirement. Since the US and Europe have a long history of equity culture and their retirement funds, their pensions, and their foundations all invest in equities, there is a certain sense of "we're all in this together". Tail risks are lower.

In China, Turkey and Russia, none of these conditions hold. There are a few large pension funds that need to invest in regulated equity markets to provide for citizens' retirement. There aren't many retail investors investing in their local markets. Instead, the main funder of retirement is the government pension system (which is effectively a claim on tax revenue). Equity prices are primarily a function of international investors dipping in and out of the country.

Could China be the next Russia?

Given the precipitous falls in Chinese stocks, there are many armchair investors who have been buying the dip, in the hope that their contrarian stance is proven correct. Things move in cycles after all, and the current disgust with Chinese shares due to heavy-handed regulation may also pass.

While they may be correct in the shorter term, for many investors, all the wrong lessons will be learned. As Figure 1 shows, investing with the rear-view mirror offers false confidence. Russian stocks may yet recover, but the shares will most certainly trade at depressed multiples versus their previous levels. It would be interesting to see if Tencent ever trades at over 30 times earnings again.

FG ASSET MANAGEMENT

QUARTERLY REPORT

Quarter 1 | 2022

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY

Jacy Harington

Portfolio Manager
FG Asset Management

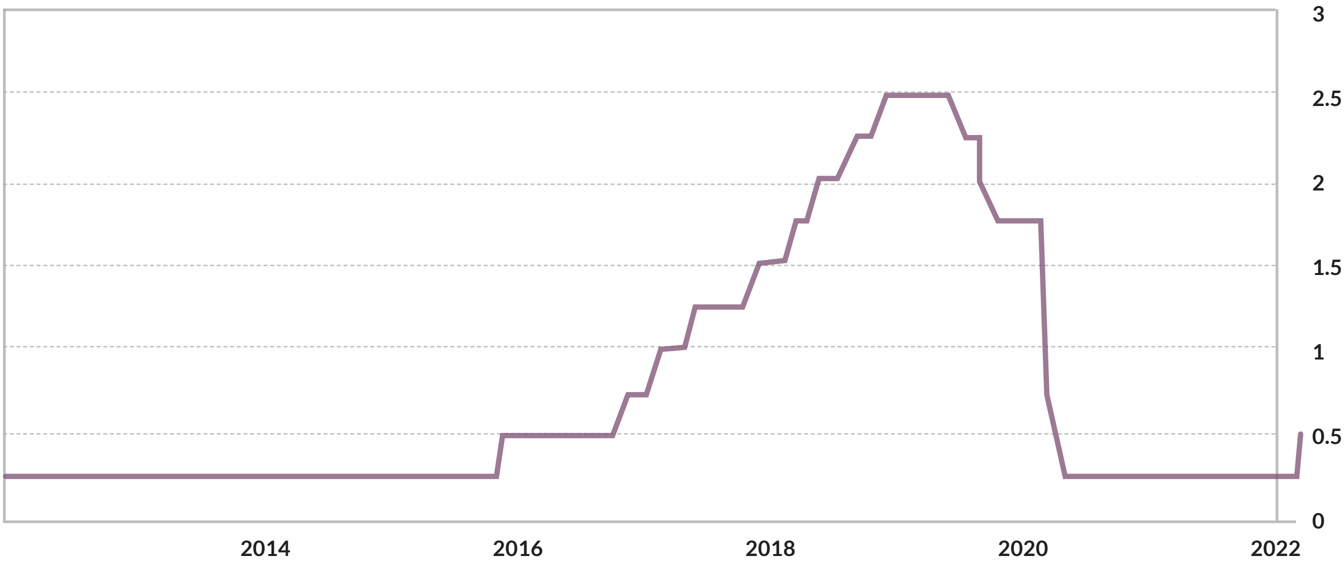
Central banks are under pressure to tighten monetary policy due to deteriorating inflation

Inflation developments remained a key theme in markets over the quarter. The invasion of Ukraine by Russia has put additional pressure on energy and food prices, further deteriorating the outlook for inflation. As a result, central banks have come under increasing pressure to remove the accommodative monetary policy that has been in place since the COVID-19 pandemic started. Going forward, the extent of the policy withdrawal will be a very fine balancing act, as overly aggressive tightening combined with the burden of higher prices would push global economies into a recession.

The fastest increase in US inflation since 1982 prompted a rate hike

US inflation increased to 7.9% (year-on-year) in February – the fastest annual price growth since January 1982. In addition to higher energy prices, the broadening of pricing pressure can also be seen within the food, shelter and new vehicle categories. As inflation continued to increase by more than expected throughout the quarter, the US Federal Reserve (Fed) signalled its intention to withdraw accommodative monetary policy at a faster rate than previously indicated. The Fed hiked interest rates by 0.25% to reach 0.5%, the first increase since rates were dramatically lowered during the COVID-19 pandemic in 2020.

Figure 1: US federal funds rate (2013-2022)



Sources: Federal Reserve, www.tradingeconomics.com

Further US rate hikes and quantitative tightening are expected, pending key economic data

The concern around the elevated level of inflation was reflected in the Federal Open Market Committee (FOMC) also increasing its rate hike expectations for this year. The median view is for rate increases of another 1.5% in 2022. Fed Chairman Jerome Powell also confirmed that the central bank will start applying quantitative tightening by reducing the bond holdings on its balance sheet once the rate hiking cycle commences. Powell further stated that the policy could change if inflation and employment figures turn out materially different to what they are expecting. This makes the market even more sensitive towards economic data releases as it tries to gauge the extent of monetary policy withdrawal, pushing up market volatility.

Western nations' sanctions on Russia pose a threat to oil and gas supply

Over the second half of February, Russia invaded Ukraine. In an unexpectedly unified front, most Western nations came together to impose very broad-based sanctions on Russia. Although Russia and Ukraine's combined gross domestic product (GDP) is not material in a global context, the real concern is the world's dependence on Russian oil and gas. Russia is the world's third largest producer of oil and Europe is very reliant on its supply of gas. If Russian oil and gas supply had to be cut off in retaliation to the sanctions, the negative impact on economic growth and inflation would be severe. This risk of reduced supply was already reflected in the spike in oil prices, with Brent crude oil reaching a high of over $130 per barrel in early March, from where it dropped to $112 by quarter-end.

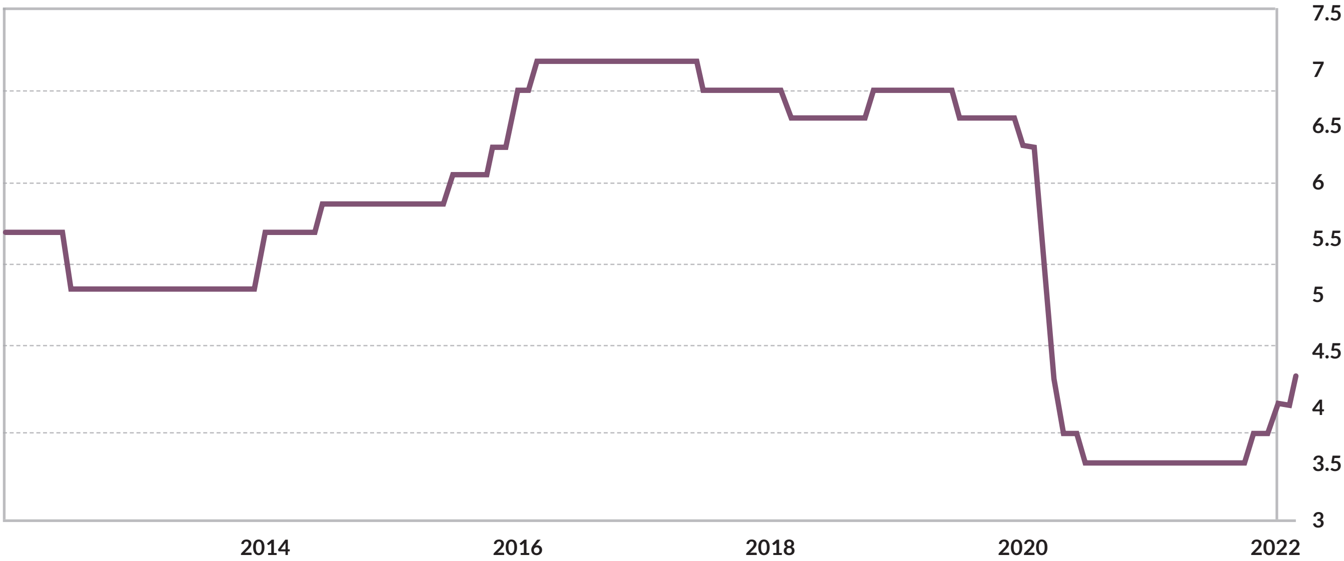
Higher energy prices have significant global inflation implications. Together with elevated inflation due to COVID-19, global central banks are left with little alternative but to continue to tighten monetary policy to try and keep inflation under control. At this stage, it is difficult to determine how the conflict will end and for how long it could drag on. This adds to the uncertainty of the global growth and inflation outlook.

Local inflation also continued to rise, resulting in continued rate hikes

Locally, headline inflation ended the quarter at 5.7% for February, remaining within the South African Reserve Bank's (SARB) 3-6% target range. Higher transportation and food prices continued to be major drivers of the elevated inflation. Going forward, the risk of inflation exceeding the SARB's upper limit of 6% has increased, given the significantly higher oil and global food prices following the Russian invasion of Ukraine.

The SARB raised the repo rate by 0.25% at each of its meetings in January and March to finish the quarter at 4.25%. The rate hikes were in line with market expectations. However, it was surprising that two of the five members voted for a 0.50% rate increase at the March meeting. The SARB again expressed concern over the deteriorating outlook for inflation, specifically in fuel, food and electricity. It increased its inflation outlook for this year from 4.9 to 5.8%. While the rate hikes are likely to put additional pressure on an already strained consumer, the SARB is determined to keep inflation expectations anchored and to keep pace with global central banks' monetary tightening to support the rand.

Figure 2: South African interest rate (2013-2022)



Sources: South African Reserve Bank, www.tradingeconomics.com

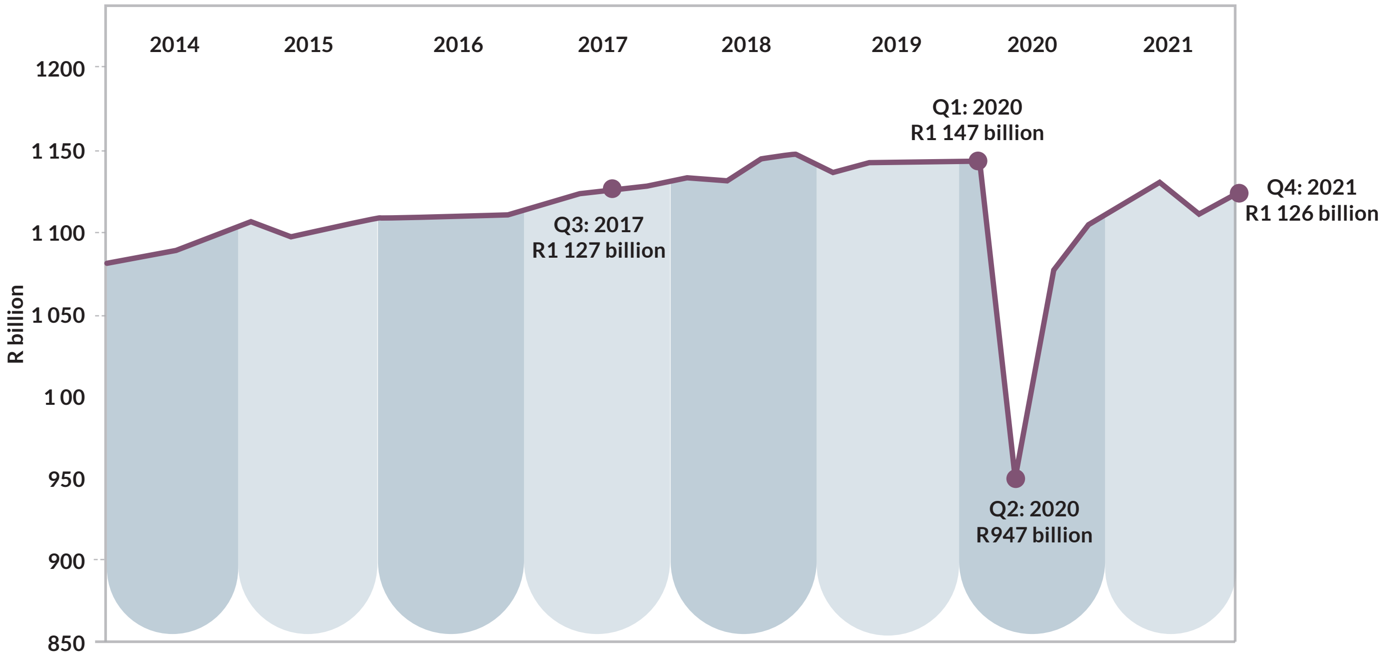
While the 2022 Budget was positive overall, reduced spending and policy implementation will be vital going forward

The South African Budget Review for 2022 was positive overall, since it was in line with expectations. It was also reassuring to hear the new Finance Minister, Enoch Godongwana, maintaining his firm stance to reduce debt and government spending. There was a large revenue overrun, predominantly from higher-than-expected corporate taxes from commodity companies, some of which will be used to reduce government debt. However, the revenue overrun is not sustainable. Going forward, government can therefore not depend on the overrun to help reduce debt or finance expenditure. Future spending remains highly uncertain and successful policy implementation will be essential to drive higher economic growth, something South Africa has struggled with in the past.

Despite positive local GDP growth in 2021, the economy is still not back at pre-pandemic levels

In March, the fourth quarter's GDP growth data was released, which showed that the South African economy grew by 1.2% over the last quarter of 2021 and by 4.9% for the year overall. Regardless of the Omicron wave, the economy was able to grow positively, specifically within personal services, agriculture, trade and manufacturing. Despite the strong growth for the year, the economy is still 1.8% smaller than it was before the pandemic.

Figure 3: South African gross domestic product (2014-2021)



Source: Stats SA

Elevated and unpredictable inflation continues to pose a threat to markets

Global risk assets declined over the quarter as multidecade-high inflation together with the uncertainty brought about by the Russian-Ukraine war weighed on investor sentiment. South African equities outperformed developed and emerging market equities, with both resources and financials providing support over the quarter. The rand benefited from better terms of trade as the conflict-induced supply constraints supported South African commodities. Current inflation levels threaten global demand and central banks' response will be key going forward. Given the high level of uncertainty, it remains important to stay invested, with diversification more important than ever.

FG SCI* JUPITER INCOME FUND OF FUNDS

For periods until 31 March 2022

Performance and quartile ranking in sector | Launch date 15 August 2005

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Jupiter Income FoF	0.80%	2.66%	6.68%	6.34%	6.97%	7.29%	7.74%
STeFI Composite Index	1.03%	2.02%	3.95%	5.23%	6.08%	6.13%	6.94%
ASISA SA Multi Asset Income Category Average	1.04%	2.93%	6.74%	6.52%	7.06%	7.02%	7.62%
				1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- Abax Flexible Income Fund
- Coronation Strategic Income Fund
- Granate BCI Multi Income Fund
- Matrix SCI Stable Income Fund
- Prescient Income Provider Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	3.25%	3.76%
% Positive months	93.97%	100.00%

The FG SCI Jupiter Income Fund of Funds returned +0.80% in the first quarter of 2022 and +6.68% over the past 12 months, underperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.03%, while outperforming the 12-month return of +3.95%. The Abax Flexible Income Fund was the worst-performing underlying fund over the quarter, returning +0.15%. A 5% reallocation was made from the Coronation Strategic Income Fund into the Granate BCI Multi Asset Income Fund over the quarter.

Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Jupiter Income FoF	0%	2%	48%	45%	5%

FG SCI* VENUS CAUTIOUS FUND OF FUNDS

For periods until 31 March 2022

Performance and quartile ranking in sector | Launch date 2 July 2007

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Venus Cautious FoF	-0.83%	4.23%	8.43%	7.87%	7.14%	8.52%	8.56%
ASISA SA Multi Asset Low Equity Category Average	-0.92%	4.03%	8.69%	7.29%	6.67%	7.69%	7.52%
				1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Equity Fund
- Abax Opportunity Fund
- ABSA Property Equity Fund
- Coronation Global Optimum Growth Feeder Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Matrix SCI Defensive Balanced Fund
- Ninety One Diversified Income Fund
- Ninety One Global Multi-Asset Income Feeder Fund
- Ninety One Global Franchise Feeder Fund
- Prescient Income Provider Fund
- Saffron BCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sanlam Multi Manged Inflation Linked Bond Fund
- Sesfikile BCI Property Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	16.83%	17.26%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	71.75%	71.75%

The FG SCI Venus Cautious Fund of Funds returned -0.83% in the first quarter of 2022 and +8.43% over the past 12 months, outperforming the benchmark peer group average quarterly return of -0.92%, while underperforming the 12-month return of +8.69%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +7.27% over the quarter. A 2.5% reallocation from the Sanlam Multi Manged Inflation Linked Bond Fund into the Ninety One Global Franchise Feeder Fund was made over the quarter.

Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	17%	4%	37%	26%	16%

FG SCI* SATURN MODERATE FUND OF FUNDS

For periods until 31 March 2022

Performance and quartile ranking in sector | Launch date 15 August 2005

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Saturn Moderate FoF	-1.18%	4.67%	9.38%	9.18%	7.42%	9.12%	10.12%
ASISA SA Multi Asset Medium Equity Category Average	-1.17%	5.43%	9.88%	8.31%	7.02%	8.23%	8.90%
				1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Flexible Opportunity Fund
- Abax Opportunity Fund
- Coronation Market Plus Fund
- Coronation Global Optimum Growth Feeder Fund
- Matrix SCI Defensive Balanced Fund
- Ninety One Opportunity Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Satrix Bond Index Fund
- SIM Inflation Plus Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	69.85%	67.34%

The FG SCI Saturn Moderate Fund of Funds returned -1.18% over the first quarter of 2022 and +9.38% over the past 12 months, in line with the benchmark peer group average quarterly return of -1.17%, while underperforming the 12-month return of +9.88%. The PSG Flexible Fund was the best-performing underlying fund, returning +7.21% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	36%	3%	22%	16%	23%

FG SCI* NEPTUNE GROWTH FUND OF FUNDS

For periods until 31 March 2022

Performance and quartile ranking in sector | Launch date 1 September 2014

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	Since inception*
FG SCI Neptune Growth FoF	-0.05%	6.48%	10.05%	10.52%	8.85%	7.80%
ASISA SA Multi Asset High Equity Category Average	-1.17%	6.04%	10.71%	9.00%	7.21%	6.52%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- ABSA Property Equity Fund
- Catalyst Global Real Estate Prescient Feeder Fund
- Coronation Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Laurium Flexible Prescient Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- M&G Balanced Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Saffron BCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sanlam Multi Manged Inflation Linked Bond Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	38.17%	30.65%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	64.84%	64.84%

The FG SCI Neptune Growth Fund of Funds returned -0.05% over the first quarter of 2022 and +10.05% over the past 12 months, outperforming the benchmark peer group average quarterly return of -1.17%, while underperforming the 12-month return of +10.71%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +7.27% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	45%	3%	14%	12%	26%

FG SCI* MERCURY EQUITY FUND OF FUNDS

For periods until 31 March 2022

Performance and quartile ranking in sector | Launch date 15 August 2005

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Mercury Equity FoF	3.72%	12.55%	16.55%	13.42%	9.19%	9.46%	10.84%
FTSE/JSE Africa All Share (Total Return)	3.84%	19.55%	18.62%	14.22%	11.39%	11.94%	13.26%
ASISA SA Equity General Category Average	4.15%	14.01%	17.63%	11.16%	7.78%	8.68%	10.66%
				1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Equity Fund
- Coronation Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Gryphon All Share Tracker Fund
- Nedgroup Investments SA Equity Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- M&G Equity Fund
- PSG Equity Fund
- Truffle SCI General Equity

Performance statistics

	Fund	Benchmark
Highest 12-month performance	56.15%	53.98%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	63.32%	62.81%

The FG SCI Mercury Equity Fund of Funds returned +3.72% in the first quarter of 2022 and +16.55% over the past 12 months, underperforming the +3.84% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +18.62%. The Coronation Global Optimum Growth Feeder Fund was the worst-performing underlying fund, returning -17.50% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	81%	1%	0%	5%	13%

FG SCI* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 31 March 2022

Performance and quartile ranking in sector | Launch date 17 October 2007

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI International Flexible FoF	-12.85%	-5.91%	0.40%	5.18%	6.52%	11.38%	8.20%
Benchmark**	-12.38%	-4.83%	0.21%	7.16%	7.59%	11.41%	9.16%
ASISA Global Multi Asset Flexible Average	-12.38%	-4.83%	0.21%	7.16%	7.64%	11.87%	8.31%
				1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Annualised returns are period returns re-scaled to a period of 1 year
** Benchmark before June 2013: 50% MSCI World Index, 50% JP Morgan Global Government Bond Index
Benchmark between July 2013 and July 2015: 55% MSCI AC World Index, 33% JP Morgan Global Government Bond Index, 7% FTSE EPRA Nareit Global Property, 5% Stefi Call

Underlying funds

- FGAM Global Cautious Fund
- FGAM Global Growth Fund
- FPA Global Flexible Fund
- Ninety One Global Strategic Managed Fund
- Ninety One Global Franchise Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	40.26%	34.52%
Lowest 12-month performance	-16.99%	-15.05%
% positive months	56.65%	59.77%

The FG SCI International Flexible Fund of Funds returned -12.85 in the first quarter of 2022 and +0.40% over the past 12 months, underperforming the benchmark peer group average quarterly return of -12.38 but outperforming the 12-month return of +0.21%. The Ninety One Global Franchise Fund was the worst-performing underlying fund over the quarter, returning -16.34% in rand terms. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2022

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	65%	12%	16%	4%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	63%	3%	12%	6%	13%	3%

MARKET PERFORMANCE

Index	Asset Class	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Last 12 months	Year to Date 2022*
STEFI Composite Index	Local Cash	0.92%	0.95%	0.98%	1.03%	3.94%	1.03%
Beassa ALBI Total Return	Local Bonds	6.86%	0.37%	2.87%	1.86%	12.37%	1.86%
FTSE/JSE SA Listed Property (Total Return)	Local Property	12.12%	5.94%	8.35%	-1.27%	27.06%	-1.27%
FTSE/JSE Africa All Share (Total Return)	Local shares	0.05%	-0.84%	15.13%	3.84%	18.61%	3.84%
JP Morgan World Govt Bond index (USD)	Global Bonds	1.07%	-1.08%	-0.87%	-6.24%	-7.07%	-6.24%
FTSE EPRA Nareit Global REITs TR USD	Global Property	9.94%	-0.14%	12.46%	-3.53%	19.11%	-3.53%
MSCI World GR USD	Global Shares	7.89%	0.09%	7.86%	-5.04%	10.60%	-5.04%
MSCI ACWI GR USD	Global Shares	7.53%	-0.95%	6.77%	-5.26%	7.73%	-5.26%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-3.31%	5.42%	5.93%	-8.44%	-1.04%	-8.44%

*(Return until 31 March 2022)
Source: Morningstar, Maitland

ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG SCI International Flexible FoF A	26 521 313.86	30.11	1.53
FG SCI International Flexible FoF A1	97.53	29.51	2.10
FG SCI International Flexible FoF B	1 615 424.57	24.51	3.20
FG SCI International Flexible FoF B1	3 625 932.01	25.30	2.97
FG SCI Jupiter Income FoF A	78 172 293.83	12.12	1.06
FG SCI Jupiter Income FoF A1	52.52	12.10	1.63
FG SCI Jupiter Income FoF B	7 806 964.90	12.05	2.78
FG SCI Jupiter Income FoF B1	11 835 181.94	12.06	2.49
FG SCI Mercury Equity FoF A	4 335 744.75	41.70	1.61
FG SCI Mercury Equity FoF A1	16.63	41.65	2.17
FG SCI Mercury Equity FoF B	294 173.05	39.97	3.34
FG SCI Mercury Equity FoF B1	62 130.08	40.89	3.05
FG SCI Neptune Growth FoF A	19 411 506.64	14.55	1.60
FG SCI Neptune Growth FoF A1	47.77	14.52	2.18
FG SCI Neptune Growth FoF B	1 976 392.51	14.45	3.33
FG SCI Neptune Growth FoF B1	1 244 673.46	14.46	3.04
FG SCI Saturn Moderate FoF A	50 053 150.25	32.09	1.49
FG SCI Saturn Moderate FoF A1	20.75	32.02	2.06
FG SCI Saturn Moderate FoF B	7 417 031.65	31.84	3.22
FG SCI Saturn Moderate FoF B1	6 329 229.27	31.86	2.93
FG SCI Venus Cautious FoF A	75 976 489.60	17.85	1.35
FG SCI Venus Cautious FoF A1	36.78	17.82	1.91
FG SCI Venus Cautious FoF B	3 162 465.97	17.66	3.07
FG SCI Venus Cautious FoF B1	11 917 736.71	17.67	2.78

* NAV (Mo-End) and no. of participatory interests as at 31 March 2022

**TER as at 30 September 2021

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SCI* - Sanlam Collective Investments (RF) (Pty) Ltd

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