



FG INVESTMENT PARTNERS

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EDITORIAL COMMENT

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Investors navigated headwinds in the second quarter while preparing for the risk of recession

It's times like these when investor sentiment tends to shift to a 'return of capital' from a 'return on capital' mindset. Macro conditions in the second quarter were hardly investor-friendly to say the least. Globally, inflation continued to surprise to the upside while central banks worldwide signalled significant interest rate increases, and just to crown it all, forecast economic growth has been meaningfully pared back with the 'r' word (recession), and is being readily bandied about. There was also little relief on the geopolitical front with the ongoing Russia-Ukraine conflict.

Against this backdrop, most asset classes experienced a difficult time in the second quarter. The prospect of recession in developed markets and a challenging economic environment in China (COVID-19 related) saw commodity prices come off the boil, which removed a key underpin for the rand (weakening by some 10% against a rampant US dollar in the quarter). The local equity market (FTSE/JSE All-Share Index) which had held up so well in the first quarter (helped substantially by the resources sector) finally succumbed to negative global market sentiment and lost more than 11% over the second quarter. The local bond market also suffered negative returns from a weakening rand and rising inflation pressures. On a brighter note, local inflation-linked bonds (we have exposure in some of our strategies) delivered a just under 3% positive return in the second quarter.

Globally, most asset markets suffered negative returns, although the weaker rand did lessen the blow somewhat for local investors. Global equity (MSCI World Index) returned a negative 6.03% in rand terms. Interestingly, while global bonds were meaningfully negative in US dollar terms, they reflected a positive return in rand terms, which goes to show the merits of offshore diversification.

INDEPENDENT TRANSPARENT COMPETENT

Investment decisions and portfolio construction going forward

It's easy to get negative when one looks at the challenging and murky macro conditions, but the key in assessing any investment is to work out what's in the price. The price you pay for the earnings and dividend (and interest for that matter) you are likely to get in **the future is not demanding relative to history right now**. Of course, risk assessment is part of the process, and this remains elevated which suggests a cautious approach for now. However, it's important that we don't throw the baby out with the bath water.

TINA stands for "there is no alternative" to equities, and when interest rates were very low, this was very pertinent. From TINA to TARA ("there are reasonable alternatives") with higher interest rates means that diversification should again play a meaningful role in portfolio construction. 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 topics which we hope will be of interest, especially when considering the current state of our market environments. Neville Chester, Senior Portfolio Manager at Coronation, reflects on portfolio construction in a rising inflation environment while explaining the value of real assets, real yields offered by South African bonds and the relative cheapness of local equities. Alwyn van der Merwe, Director of Investments at Sanlam Private Wealth, touches on the challenges being faced in constructing balanced portfolios in a bearish market environment and highlights his favour toward conservative positioning. Ross Briggs, Head of Equity at M&G Investments, takes a closer look at the merits of South African equity versus global equity and focusses on why there are times that you should opt for South Africa in volatile market conditions. Ninety One portfolio managers Deirdre Cooper, Juliana Hansveden and Stephanie Niven focus on a changing business world and the need for sustainable investment approaches to evolve to keep pace. And lastly, Darius van der Walt, Head of Product Development at M&G Investments, provides some advice to young people on how to handle their income.

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

As always, stay safe.

The FG Asset Management Investment Team



PORTFOLIO CONSTRUCTION AMID RISING GLOBAL INFLATION



Adapted from an article by
Neville Chester

Senior Portfolio Manager
Coronation



Taking money offshore may be popular, but, at present, South African opportunities are still more attractive.

The quick take

- The typical investments available to protect one from inflation are not functioning as expected.
- The South African Reserve Bank (SARB) is one of only a few central banks globally that have responded appropriately and timeously to rising inflation.
- SA inflation is currently well below inflation in many developed markets.
- Against this backdrop, South African equities and South African government bonds offer compelling investment opportunities compared to developed markets.

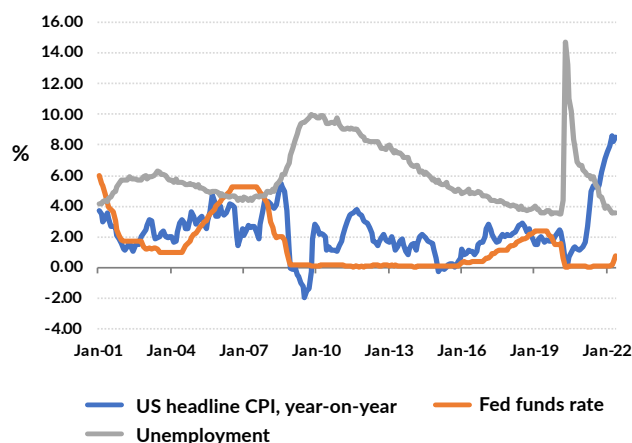
Rising inflation is the most dangerous risk for investors today

A popular question investors are currently asking is which risk we consider the most concerning. In an environment where there is a war between major powers on the European continent, collapsing tech share valuations, Chinese clampdowns on the private sector and zero-COVID-19 lockdowns, one is quite frankly spoilt for choice in naming risks. But, for me, the risk of rising global inflation certainly tops the list. Unlike the attention-grabbing risks just mentioned, inflation is insidious and, therefore, most dangerous in impacting the real returns investors ultimately receive.

Inflation in the Western world has returned to levels not seen since the early 1980s. As a result, there are very few politicians, central bankers, and, importantly, investors who have worked in an environment of high inflation. Moreover, interest rates have generally been exceptionally low ever since the Global Financial Crisis (GFC) in 2008 (Figure 1), so there is a large cohort of investors that have only known exceptionally low interest rates associated with low inflation. We believe that central banks in developed economies failed to normalise policy rates in the wake of the GFC, lulled by low inflation, even as the underlying economic recoveries gained momentum.

In an inflationary environment where interest rate hikes will have to follow, the implications for investors are now significant.

Figure 1: US monetary policy settings



Source: Haver

Traditional tools to deal with inflation

In an environment of inflation, especially where policy rates are negative in real terms, the best way to protect real capital is often through owning real assets: commodities and companies or properties that can pass inflationary increases on and grow earnings through an environment of rising costs. The current problem is that the exceptionally accommodative monetary policy (being low policy rates and quantitative easing to suppress the long end of the interest rate curve) means that the valuations of many of the real assets are already priced, on average, for perfection. Until recently, global equity markets were at all-time highs, residential property prices in major cities are all trading near all-time highs, and most commodity prices are close to their peak values. The conundrum now is how to protect against the known inflation risk when many of the traditional tools appear to already be priced for it.

Traditional financial theory will tell you that as inflation rises, central banks will respond by hiking interest rates, and bond markets will adjust nominal yields to account for the higher expected levels of inflation. However, over the recent past, none of the large developed economy central banks responded to rising inflation, initially diagnosing it as "transitory" and hence continuing with very accommodative monetary policies.



The normally powerful bond markets, which would have signalled policy error by pushing yields up, were tamed by massive quantitative easing programmes, as central banks artificially suppressed yields by providing huge amounts of liquidity (mainly in dollars, euros and pounds) and by aggressively buying longer-dated bonds.

The enormous amount of debt issued by countries to provide relief during the COVID-19 lockdown period may now inhibit them from allowing interest rates to rise sufficiently to fight inflation as the rise in the cost of debt may prove to be unsustainable. The conundrum is thus complete. We know inflation is rampant, but the typical investments available to protect one from inflation appear to be either priced inappropriately or not behaving as they should.

The SARB has made some wise decisions amongst the volatility

However, South Africans have not experienced the mania in capital markets nor become reliant on the largesse of the SARB, as happened in other regions. While there are very few institutions left in the country that we can point to with pride, the SARB remains one of the shining lights of our economy. Despite immense pressure under differing regimes, it has remained fiercely independent and, even during the COVID-19 crisis, refrained from the excesses seen in other regions. Maintaining a somewhat tighter policy stance undoubtedly made life tougher in the short term but has clearly left the local economy in a much stronger position with lower inflation and better-anchored inflation expectations.

Portfolios positioned for resilience and long-term growth

Dividend yields and South African government bonds

With no quantitative easing policy in place, the real yields on South African government bonds are significantly positive, offering investors meaningful real returns. This high risk-free rate, combined with an absence of artificial monetary stimulus, has seen our equity market remain very cheap by global standards. Despite coming through the COVID-19 crisis in generally good shape and reporting better-than-expected results, the majority of South African listed companies are trading on exceptionally low ratings and offering dividend yields well in excess of cash returns. This has provided us with an opportunity to buy South African government bonds providing real returns as well as being overweight South African equities with the prospect of solid earnings underpinned by high single-digit dividend yields.

Offshore exposure

Given the recent change in Regulation 28 to increase the foreign asset limit for South African retirement funds, we believe now is not the time to be switching aggressively from very cheap domestic assets into more expensive global markets, where inflation is out of control and interest rates will keep rising.

Resources and local banks are attractive

One of the big advantages of our domestic equity market is the high weighting to resource companies. In previous periods of high inflation, the resources sector showed the ability to grow in real terms, and we believe this time will be no different. Resource shares currently make up the largest sectoral exposure of our equity portfolio.

While rising inflation and interest rates are negative for many industries, another sector that stands to benefit is the local banking industry. Higher rates, especially from a steepening yield curve, tend to benefit banking margins significantly. While this is normally offset by higher credit losses, after the provisioning from the COVID-19 period, and generally tepid loan growth of the past few years, we expect a muted uptick in bad debts, resulting in most of the margin benefit dropping to the bottom line.

As the above narrative indicates, it is important to know what equity you are exposed to when rates and inflation are rising. There will certainly be winners and losers, and many sectors that have benefited from the tailwinds of accommodative monetary policy will now be facing headwinds and vice versa. Being exposed to equity means one will still be exposed to the volatility of share price moves as markets digest the impact of higher interest rates and inflation. However, over time, we believe that investors will be rewarded as real earnings are achieved and passed through as cash returns.

Global assets are expensive, but there is alpha to be found

In our global portfolios, we have not yet gone overweight global equities, nor have we considered any exposure to global bonds as yet. With most sovereign debt still offering negative real yields, despite the recent move up in nominal yields, this asset class remains unattractive. Within global equities, we believe there is significant opportunity to generate alpha through skilled stock picking, given some of the extreme price moves that we have seen. This makes the argument for increasing global equity exposure slightly more compelling, even though overall market levels are not as attractive as locally.

An uncomfortable but necessary reset

While the current economic reset is uncomfortable, it is an important step in the normalising of markets. For too long, interest rates have been at or close to zero, accommodating inappropriate levels of risk-taking. As such, global capital markets, where many business models and asset classes were sustained by “free” money, are being recalibrated. Those businesses and asset classes with sustainable and defensible free cash flow will continue to thrive, and much of the excesses of the past decade will be cleared out. Expect plenty of volatility in the short term, but a focus on the long term should continue to deliver appropriate returns for investors.

GLOBAL MARKETS: HOW NERVOUS SHOULD INVESTORS BE?



Adapted from an article by
Alwyn Van Der Merwe

Director of Investments
Sanlam Private Wealth



In the current murky investment environment, it is an understatement of note to suggest that financial markets are jittery and have in many sectors been pushed into bear territory. Given the material sell-off in both equities and bonds, just how nervous should investors be? And how should one approach portfolio construction in these circumstances?

Prices of equities and government bonds have fallen drastically

Since the S&P 500 high recorded in November, shares in the US have fallen by 17% at the time of writing – just more than the 20% generally viewed as indicating a bear market. The technology-dominated Nasdaq index has now lost more than 38% and is clearly in bear market territory. It's not only equities that have given up much of their gains. Since November last year, long-dated US government bonds – often seen as a safe haven when equities are selling off – have lost an astounding 21%. Since these two asset classes normally constitute the major building blocks of a multi-asset portfolio, it raises the question of how asset managers should construct a balanced portfolio for individuals when its two key pillars are under severe attack.

The stimulus provided by economic authorities post-pandemic had its pros and cons

A good starting point for asset managers who want to construct a balanced portfolio would be to look at the developments preceding the major decline in the above asset classes. Following the pandemic lockdowns and the sell-off in equities in the first quarter of 2020, economic authorities responded to the second quarter's recession by opening the taps – they provided unprecedented stimulus, creating money by buying government bonds, slashing interest rates and expanding fiscal policy by paying social grants to consumers qualifying as 'victims' of the economic fallout. To be fair, these measures achieved their initial economic objectives. The global economy recovered and job losses were largely reversed to the point that the unemployment rate in the US is now the lowest since the Second World War.

Unfortunately, from a financial market perspective, the stimulus created an enormous amount of liquidity looking for an investment 'home', which drove the price of money down to unsustainably low levels. With interest rates at virtually 0% and excess money in the hands of unsophisticated investors, one can understand the zeal to buy assets with a great story in this so-called 'new normal' environment.

The demand for 'sexy' assets drove asset prices higher

Of course, this frenzy drove prices higher, seemingly vindicating the decisions of these traders. The prices of these assets rose to levels that, in our view, were discounting only good news and were failing to factor in that even in the case of growth shares, one should consider that the cycle may well peak and cool off.

The unprecedented stimulus created increased demand for goods, and the supply-side bottlenecks caused inflationary pressures over a wide front. Initially, it was thought that these pressures would be merely transitory or temporary, but they've turned out to be far stickier than the initial estimates of central bankers and the models of most economists.

Inflation concerns were addressed at the cost of economic growth and the price of money

It was at the US Federal Reserve's December meeting that the investment community finally realised that monetary authorities would have no choice but to address the inflation problem and would hike interest rates to levels higher than initially expected. This would have the effect of, first, revising economic growth forecasts downwards, and second, reducing liquidity and increasing the price of money – a sequence of events likely to reverse the upward spiral set out above.

Higher interest rates and the prospects of a sustained higher rate cycle to bring inflation back to the 2% target range, in the US, also mean that when investment analysts value a company, they are likely to use a higher discount rate to calculate its intrinsic value, which inevitably translates to a lower value for the company. In addition, lower economic growth forecasts reduce the earnings expectations for companies in general. It is this financial recalibration that should lead to lower equity prices.

I'm not convinced that unsophisticated retail investors would look at equities the same way. However, if these investors had bought such assets because they had surplus cash, and the prices of these assets appreciated handsomely, it would not be unrealistic to expect them to sell these assets because prices are falling and liquidity is no longer freely available.



How to best position portfolios during this time:

What should investors do now, given the material and ongoing sell-off in equities and bonds? How nervous should investors be? And how should one approach portfolio construction in the current murky global environment?

1. Rather than managing equity exposure, get the right selection within the asset class

Given the clouded macro-outlook and the material change in investor sentiment, it is tempting to go with the flow and reduce equities further. As always, however, the starting point for portfolio action is price. South African equities don't look

expensive, provided that commodity prices don't collapse against the background of slower economic growth. The rest of the market offers decent value.

2. Maintain a defensive position in offshore equities

In offshore equities, we advise that investors own shares in companies with a boring, but predictable income stream. For now, we don't foresee any changes to this approach. Figure 1 below shows how, from January 2020 to November 2021, value shares underperformed their growth peers. However, the tide has turned, and investors will now be able to reap the benefits of their patience with this strategy. We believe the trend is likely to continue as the value is only now starting to emerge in the growth universe.

Figure 1: MSCI World Value Index versus MSCI World Growth Index



Source: Bloomberg

3. Include government bonds in your portfolio

This is beneficial for two reasons. First, there are times when the income yield is attractive. Second, they provide an uncorrelated return to equities, particularly when equities sell off. In the case of global bonds, however, the yields are simply too low, for the reasons mentioned above. They have therefore not demonstrated uncorrelated price behaviour. Should yields continue to move higher, we're likely to reconsider our decision not to invest in this asset class.

4. Maintain low property exposure for now

Despite a material sell-off in property, in our view, the cycle remains under pressure, and it would be premature to attempt to bottom-fish in this area. Property generally has a tendency to perform relatively poorly in a rising interest rate environment, and it's unlikely to be different this time.

5. Increase your exposure to alternative assets

This is a defensive strategy – the intent is to reduce the volatility of the overall investment performance. The inclusion of alternative assets is not designed to provide equity-like returns, but to protect the portfolios during an equity sell-off and to beat cash after costs.

6. Consider adding a small proportion of direct gold exposure for select client portfolios

In South Africa, whether or not to own gold is always a heated discussion. Traditionally, gold performs well in times of uncertainty, as it did in the 1970s when inflation spiralled out of control. We're not suggesting that we're about to relive a spiral of that magnitude, but the risk of higher-than-expected inflation remains elevated.

In a nutshell

The sell-off in global equities and bonds has justifiably scared many investors, and the high prices in certain sectors and geographies are a concern. Within equities, we believe it is important to stay conservatively positioned and limit exposure to global bonds. In our view, this is the correct position for portfolios focused on the long term – and it provides optionality to buy good assets should the negative sentiment in financial markets continue for the foreseeable future.



SOUTH AFRICAN VERSUS GLOBAL EQUITIES: WHY OPT FOR SOUTH AFRICA IN VOLATILE TIMES?



Adapted from an article by
Ross Biggs

Head of Equity
M&G Investments



With South African equity valuations much cheaper than their global counterparts, especially in the US, it makes sense for investors to prefer SA equities in their multi-asset portfolios. As the US economy recovered far more quickly than the rest of the world from the COVID-19 crisis in 2020-2021, a wide valuation differential opened up between global equity markets (as measured by the MSCI All Country World Index (ACWI) and South African equities, and this gap has remained large ever since. With valuations as they stand currently, on a risk-adjusted basis South African equities have a stronger likelihood of outperforming the US, and therefore global equities broadly, than underperforming it going forward.

Why opt for South Africa in volatile times?

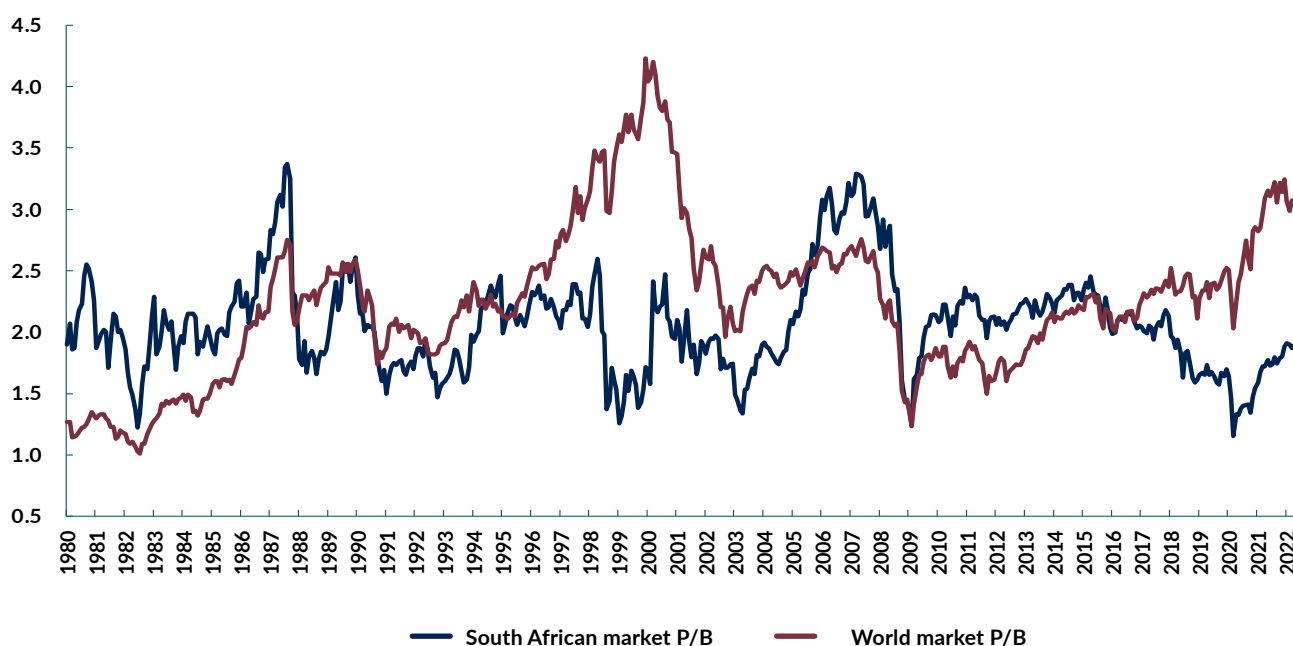
The future performance of the South African equity market relative to the US or global markets is likely to boil down to both relative starting equity valuations and the US dollar earnings growth of the South African equity market relative to a comparative global market such as the S&P 500, where the strength of the US dollar also plays a role. Here we unpack these factors for a better understanding of our ongoing preference for South African equities.

1. Relative starting equity valuations

Going into the COVID-19 crisis, in our view, South African equities were already undervalued, and they continue to trade at levels which we think are exceptionally attractive. The price-to-book value (P/B) ratio of the JSE was under 1.7X as at the end of April 2022, compared to its historic average of 2.1X. In our view, this reflects excessive levels of pessimism in current share prices and valuations. Not only does this make us optimistic regarding South African equity returns over the medium term, but we also believe that there is an adequate margin of safety for many of the risks that the market is currently worrying about, namely: rising inflation, interest rates and subdued growth.

Figure 1 below highlights how much more expensive the valuation of the MSCI All Country World Index is, with a P/B ratio of around 3.0X, versus South African equities. Meanwhile, figure 2, shows that US equities, with a P/B ratio of around 4.5X, have clearly been the main driver of higher global asset valuations. Currently, South Africa, emerging markets (EM) and the World-ex-US all represent very good value relative to the US, which means that the odds of better future returns are against US equities and in favour of ex-US equity markets.

Figure 1: South African equities are far cheaper than global equities (P/B value FTSE/JSE All Share Index (ALSI) versus MSCI World Index)



Source: Datastream, Bloomberg 4 April 2022

Figure 2: US, World equities are more expensive than South African equities (P/B value)



Source: Datastream, Bloomberg 4 April 2022

2. Relative South African earnings growth

The role of US dollar strength

It is worth pointing out that the US dollar has been exceptionally strong since the start of 2022 - appreciating by over 10% as measured by the US Dollar Index. This is partly due to its status as a safe-haven currency. More importantly, however, it has been relatively strong since the end of the global financial crisis. Owning the S&P 500 over the last decade has been a winning trade, as not only have US dollar earnings been relatively strong compared to most other markets, but US equities have re-rated.

Which markets might outperform relatively in terms of US dollar earnings, and where are the most attractive relative starting valuations?

The US dollar earnings of the ALSI versus the US S&P 500 from 1960 through 2021 can be seen in Figures 3 and 4 below. Perhaps surprisingly for some, the JSE managed to deliver a slightly better return than the S&P 500 in US dollar terms over this 61-year period at 10.6% per year versus 10.4% per year, and this came despite the JSE's exceptionally poor relative underperformance of over 50% between 2011 and 2021.

The JSE's earnings have been stagnant in US dollar terms for over 10 years now, but have recently begun to move up. This lack of growth in US dollar earnings is likely one of the main reasons why South Africa has underperformed the US since 2010.

The US dollar strengthens, while gold surprisingly weakens

During threats of war and instability, such as the present, we would normally also expect the gold price to be seen as a safe haven, but rising interest rates make gold less attractive and the US dollar relatively more attractive. Equally, robust US economic growth relative to many other countries is also seen as a potentially comforting factor to investors. The strong US dollar

is having a different impact on many non-US countries. In our view, the countries or regions most at risk from a stronger dollar, where earnings growth could be more impacted than others, are those emerging markets with high debt levels, and those which are importing ever-increasing inflation in the form of higher food and energy prices. Emerging market countries producing dollar-priced commodities (like South Africa) may be seen as relative beneficiaries of the strong dollar, although they are also likely to experience rising inflation and pressure on consumers. As always, investing is a relative game, and it is noteworthy that these large inflationary pressures and substantial relative currency movements may start to expose the weaker countries and regions.

It is worth looking at history to get a sense of relative earnings growth. Figures 3 and 4 below show the total market return in US dollars of an investment in the JSE since 1960, relative to the S&P 500. The year 1960 was indeed a bad one for South Africa, with a dire social and economic outlook given the Sharpeville massacre. With this dire economic outlook and the formation of South Africa's own currency, the rand, in 1961 (which at the time could buy around 1.5 US dollars), one might have argued that the prospects for good relative US dollar returns from an investment on the JSE were poor. The starting dividend yield of the JSE was 4.3% versus the S&P 500 at 2.9%. i.e., the JSE started on a cheaper valuation. The JSE also managed to keep up with the US dollar earnings growth of the S&P 500 over the period, delivering 6.3% growth (-4.9% + 7.8% + 3.4%) versus the S&P 500 at 6.5% (3.7% + 2.8%) and this again despite the substantial recent outperformance of the S&P 500 earnings relative to the JSE.



Figure 3: ALSI US dollar return since 1960

1960-2021	Annual return
Total market (USD)	10.6%
Currency	-4.9%
P/E expansion (Re-rating)	0.1%
Inflation	7.8%
Earnings per share growth	3.4%
Dividend yield	4.3%

Source: Bloomberg; trailing data

Figure 4: S&P 500 US dollar return since 1960

1960-2021	Annual return
Total market (USD)	10.4%
P/E expansion (Re-rating)	0.7%
Inflation	3.7%
Earnings per share growth	2.8%
Dividend yield	2.9%

Source: Shiller data

Conclusion

What this history shows us is that South African earnings growth is capable of keeping pace with the US market and slightly outperforming it, through different economic cycles, even with a depreciating currency and little to no price-earnings (P/E) re-rating. It appears that the South African market is pricing in far higher risk premia for South African equities currently than is merited by the likely outcomes for inflation, interest rates and growth. On both an absolute and a relative basis, these valuations make it more likely that the JSE will be able to outperform the US equity market and therefore the MSCI All Country World Index, as it has done before.

SUSTAINABLE INVESTING NEEDS TO EVOLVE. FAST.

Adapted from an article by Deirdre Cooper (Co-Head of Thematic Equity), Juliana Hansveden (Portfolio Manager Multi-Asset) and Stephanie Niven (Portfolio Manager Multi-Asset)



Deirdre Cooper



Juliana Hansveden



Stephanie Niven



The fast view

- The business world is changing – sustainable investment approaches must adapt to keep up.
- Asset managers need to invest in developing new skillsets, better analytical tools, and valuation methodologies that can price the full spectrum of externalities.

New investment approaches are needed

Sustainable investing has been the subject of fierce debate recently. But rather than arguing about how well it has worked in the past, it would be more useful to figure out what kind of investment approaches we need now, and that starts with taking a view on what the future looks like.

It is obvious that the future looks pretty terrifying, unless we get better at allocating capital to tackling climate change and other pressing sustainability concerns. According to the Climate Policy Initiative, annual climate finance needs to increase almost six-fold in order to limit global warming to 1.5°C, and it's crucial that this capital goes to the right places. Today, around 80% of the world's financial assets are located in developed markets, but we know that at least 70% of the investment required to achieve the Paris Agreement climate targets and the UN's Sustainable Development Goals must be directed to emerging markets. The net-zero transition, and sustainable development more broadly, remain woefully underfunded in the developing world.

Good eggs and bad eggs in ESG scores

This is unlikely to change with today's sustainable investment approaches, many of which essentially involve giving companies an environmental, social and governance (ESG) score and dividing them into good eggs and bad eggs for portfolio inclusion or exclusion. Often, emerging market companies end up in the 'bad egg' pile because their scores tend to be lower than those of their developed market counterparts.

Firstly, this gives no consideration to a company's willingness or ability to drive sustainable development where it is desperately needed, including regarding climate solutions, financial inclusion, physical and digital infrastructure, healthcare and education. Secondly, it ignores emerging companies' potential to deliver growth and profits for the benefit of shareholders. Many in

the Western world fail to appreciate that being a leader in sustainability can be a growth tailwind for these businesses, too. Surveys show that developing world consumers also care about biodiversity and nature loss. The Chinese, in fact, are even more willing to buy electric vehicles than Germans.

So, the first item on the to-do list is to evolve today's simplistic and backwards-looking sustainability assessments into more intelligent, contextualised appraisals. This way, the babies will not be thrown out with the bathwater and emerging markets will be properly represented in sustainable portfolios.

Understanding your companies' impact on the environment, society and people

Next, we need to adapt the way we invest to reflect changes in the business world. Perhaps the most significant of these is that companies are increasingly being held to account for their externalities, i.e., their impacts on the environment, society and individuals.

The traditional way of thinking about shareholder returns is that they are generated at the expense of other stakeholders. Today, we see evidence that consumers, society and markets are starting to reward companies that consider the impact they have on all stakeholders, and in doing so, create value for all. For example, some 80% of consumers now think about the environment when making technology purchases, according to a Ninety One survey, suggesting a strengthening link between consumer goods companies' environmental impacts and sales.

Meanwhile, a recent Massachusetts Institute of Technology study found that corporate culture was by far the biggest determinant of talent lost during the Great Resignation. In other words, companies' impacts on the day-to-day lives of employees matter more to their ability to hold onto the best and brightest than how much they pay.

'Good egg, bad egg' sustainable investing approaches are not equipped to value these externalities, i.e., to calculate the returns generated on the natural, social and human capital companies deploy. Thus, we can add 'develop externality-valuation tools' to the to-do list.

This trend towards the internalisation of corporate externalities – an overblown way of saying that companies' chickens will increasingly come home to roost – is happening to a far greater

extent than many people seem to realise. To get ahead of this shift in how the world appraises companies, investment managers are likely to have to expand the skillsets and cognitive diversity of their teams. If the companies of tomorrow succeed because they act and think differently to their predecessors, it seems to be a fair bet that the successful investment teams of the future will look and behave differently to those of today.

New metrics and methodologies used to calculate environmental capital value

At this point, you may be hearing hoots from traditional portfolio managers, who will say that we are merely confirming what they have argued all along, which is that ESG has always been a sideshow, and that they have always invested sustainably in the sense that their valuations have accounted for any factor that may influence a company's financial return, including externalities.

But how? Details on companies' carbon emissions has only been collected relatively recently and that's at the data-rich end of the sustainability spectrum. There is a paucity of metrics and methodologies that enable portfolio managers to calculate the value of the environmental capital companies create or destroy through externalities that impact biodiversity, land, water and air quality. The same goes for estimating the social capital value of companies' impact on communities, and the changes in employees' aggregate human capital value caused by their workplace practices.

You may be thinking that ESG data providers collect information on all this stuff. They certainly collect myriad datapoints. But what does the percentage of women holding board seats or executive roles really tell you about a company's future growth and profitability?

More sophisticated assessments for valuing externalities

These often cited diversity metrics offer a neat illustration of where sustainable investing is today, and where it needs to get to. By itself, diversity will not make a company more innovative and responsive to customers' needs. These drivers of growth will only be unlocked if the company is run in a way that enables people from all walks of life to contribute and exert influence. Is the company a melting pot, or just a salad bowl? To answer this, the analyst needs to appraise not only a company's diversity, but its inclusiveness. This is a more complicated, qualitative assessment that requires in-depth, direct knowledge of a company.

Who possesses the latter? Portfolio managers. The final to-do is for them (and the more diverse and inclusive investment teams that will hopefully succeed them) to fully incorporate these new methodologies for valuing externalities into their fundamental analysis, rather than relying on external ESG ratings and other outsourced sustainability insights.

Thus, there's no need to throw sustainable investing onto the junk pile of bad ideas. In some ways it is coming home, to the heart of the investment process and it isn't broken. It just needs to evolve towards new skillsets, better analytical tools, and valuation methodologies that can price the full spectrum of externalities.



THREE TIPS FOR TEACHING YOUNG ADULTS HOW TO HANDLE INCOME



Adapted from an article by
Darius van der Walt

Head of Product Development
M&G Investments



Learning how to handle income is an important part of becoming an adult. In a tribute to Youth Month in June, Darius and his team explored a few ways to steer young adults in the right direction.

Earning your first salary, whether it's from a full or part-time job, is an important milestone in a young person's life, and can be quite exhilarating. Suddenly you have more money at hand than ever before and everything you've ever wanted is potentially within your reach - particularly if you're still staying at home and don't have to pay for things like food and rent.

This is the mindset that parents face when their children start earning and it's a mindset they need to moderate if they want their children to build a financially healthy future.

1. Save from the start

Your children might officially be adults – free to sign contracts and conduct their own affairs – but they're inexperienced. As difficult as it can be to rein in an older child who's earning their own money, it's necessary, since what they do with that money over the first five to 10 years of working can be vital to their long-term financial well-being. Once those years are gone, you never get them back.

Perhaps trying a little shock tactic is a good place to start. Ask them how much money they think it takes to retire in reasonable

comfort. They probably have no idea, but get them to have a look at a retirement calculator where they can see how much savings they might need. A common rule of thumb for retirement planning calls for approximately eight times their projected final salary. So, if they're earning R3 million a year by the time they're 65, (which, taking inflation into account, is not inconceivable) they'll need a retirement nest egg of R24 million. This is a staggering figure, but one that, thanks to the power of investing and compound growth, can be achieved by starting young, preferably from their first paycheck.

It's not about simply saving eight times your projected final salary, in this case R24 million, that would be quite a daunting task. Rather, it's about investing consistently over time as your salary increases, and allowing for compounding, which means that you stay invested and allow growth on your previous gains to occur. It takes about 40-45 years to achieve a comfortable retirement, especially as we're living longer than ever before.

Here's a current example of compounding: Say your child invested R500 a month into a South African balanced unit trust fund. The table below shows the amount he/she would have contributed over various periods, the returns achieved, the growth this translated into, and the total value per period. After 20 years, he/she will have contributed R120 000. But his/her capital will have grown to R337 380. This is the power of investing and compounding, and it should act as an incentive to save from day one.

Years	Contributions	Annualised return*	Growth earned	Total value
1 year	6 000	7.7%	137	6 137
3 years	18 000	8.9%	3 008	21 008
5 years	30 000	6.6%	6 869	36 869
10 years	60 000	8.5%	26 722	86 722
15 years	90 000	7.5%	79 878	169 878
20 years	120 000	10.5%	217 380	337 380

2. Avoid 'bad' debt

In addition to investing from their first paycheck, your working children need to understand the dangers of racking up too much debt, and the difference between 'good' and 'bad' debt. Companies have long encouraged consumers to 'buy now and pay later'. While it sounds easy enough, few young people really understand the impact on their finances. Let's say your child 'purchases' some top designer shoes on credit for R4 200 and pays them off over five years. In the end, it could cost him/her double that amount. Does your child really want to pay so much? Is it that important? Going into debt for luxury items at high interest rates is a costly exercise and rarely worth it.

Now the same could be said for cars, but without a decent public transport system, having a car is essential in South Africa, but does he/she really need a brand new car? Won't a decent second hand car do just as well? After all, whether new or second hand, cars depreciate the minute they're driven off the showroom floor. Spending less each month on car payments will allow your child to invest the difference.

While it's true that people talk about 'good' debt and 'bad' debt, there is really only one form of 'good' debt. That is, debt that pays for an asset that can actually gain value over time, such as property. Most debt pays for depreciating assets, and that's where you really want to be careful.

3. Understand risk and return

There are many financial concepts and terms for young adults to learn, but the concepts of risk and return are among the most important. Put simply, there is always a positive relationship between the potential return on an investment, and the level of risk taken to achieve that return. In terms of traditional investments, bank accounts typically offer the lowest returns and the lowest risk, while equities offer the highest returns, at the highest level of risk.

At least that was the case until the arrival of cryptocurrencies. Starry-eyed about the potential for high returns, young adults today are strongly drawn to digital, or 'crypto' currencies such as Bitcoin and Ethereum (in fact, as at 15 June this year, there were 9 905 cryptocurrencies, according to [Coinlore](#)). Yet these currencies also come with very high levels of risk, and although potentially useful as a payment mechanism, as a successful long-term investment, the jury is decidedly still out.

Giving guidance to our children never really stops, it just becomes more complex. But when it comes to something as important as building a solid financial future, it's worth the effort.





FG ASSET MANAGEMENT

QUARTERLY
REPORT

Quarter 2 | 2022

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY



Jacy Harington
Portfolio Manager
FG Asset Management

Global growth is compromised as central banks fight to keep inflation under control

The second quarter saw the focus shift from concerns about elevated inflation to the implications on global growth as a result of the more aggressive monetary policy tightening by global central banks to bring inflation under control. Following the invasion of Ukraine by Russia in February, we have seen energy and food prices shoot up, forcing the hand of central banks to become even more hawkish. In addition, the strict COVID-19 restrictions in China have added to the deteriorating growth outlook. Financial markets remained weak and volatile over the quarter as market participants continued to work through the extent to which these factors will weigh on global growth.

The Russia-Ukraine war continues to have an unforeseeable impact on inflation going forward

There was no resolution with regards to the Russian invasion of Ukraine, with the outcome of the war remaining very uncertain. The conflict has exacerbated inflation and weighed on growth. The unpredictable nature of the war creates additional uncertainty for the inflation path from here, and subsequently, the extent with which the global central banks will have to tighten monetary policy. How the war develops from here remains very uncertain and will continue to be a key driver of the global economy.

The Chinese economy is expected to strengthen in coming months

In addition, the strict zero-COVID-19 policy in China has further added to inflation and growth concerns, as several major Chinese cities were severely restricted over the quarter in response to COVID-19 infections. This has significantly weighed on the Chinese economic activity over the first half of the year. However, there was some relief towards the end of May as a number of lockdowns were

lifted. The Chinese government has also announced some stimulus measures to provide relief, with more expected to come in the second half of the year. Given that China is the second largest global economy, this should provide some support for global growth going forward.

US inflation is on a steep incline, hitting record highs

Global inflation remained elevated this quarter, with the annual US headline inflation rate accelerating to the highest level in 40 years to 8.6% in May (see Figure 1 below).

Figure 1: US inflation rate (1981-2022)



Sources: US Bureau of Labour Statistics, www.tradingeconomics.com

A large inflation increase surprised investors and created concerns around future global growth

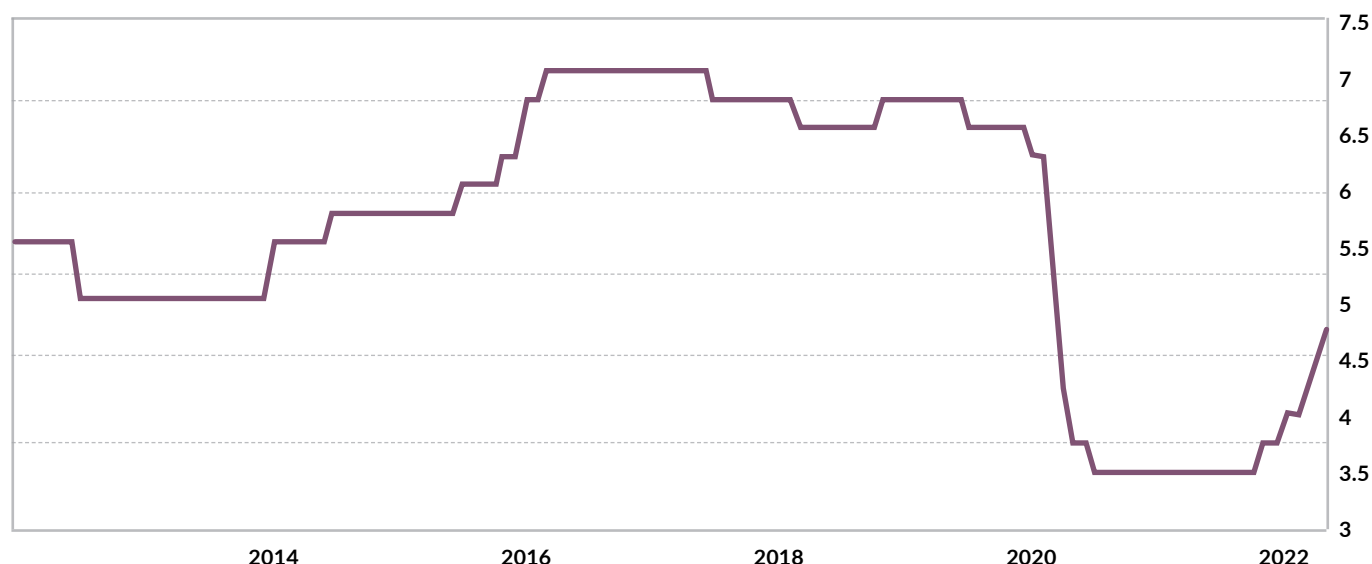
The price increase was well ahead of expectations and broad-based with food, shelter and energy remaining the main components behind the increases. Any hopes that inflation had reached a top were dashed and replaced with fresh expectations of more aggressive tightening from the US Federal Reserve (the Fed). The withdrawal of the accommodative monetary remained a key driver for markets throughout the quarter. In the US specifically, we saw the Fed becoming more concerned about the elevated US inflation and signalled that the central bank would take more aggressive action if necessary. The Fed tightened monetary policy by hiking interest rates by 1.25% in total over the quarter, 0.50% in April, and another 0.75% in June to finish at 1.75% by quarter end. In early May, Fed Chairman Jerome Powell ruled out a 0.75% rate increase, but following the unexpected inflation surprise, the market sharply adjusted its interest rate expectations to 0.75%. June's hike was the largest rate increase since 1994. The unexpected inflation increase and a more aggressive Fed stance saw significant weakness in global financial markets as participants started to factor in a much tighter monetary policy to bring inflation under control.

The growing concern over the quarter was that the Fed was more willing to sacrifice growth to ensure that the high inflation does not become persistent.

The South African Reserve Bank (SARB) continued to hike interest rates in response to rising inflation

Local headline annual inflation increased to 6.5% over the quarter. May's print surprised to the upside well ahead of the market's expectations of 6.1%. This was also the first break through the SARB's 6% upper limit since 2017. Higher transportation and food prices continue to be significant drivers behind the acceleration of prices, however, increases in other categories does signal that the pricing pressures are becoming more broad-based. Given elevated inflation, the interest rate increases by the SARB were well expected by market participants. The SARB hiked rates by 0.50% at its only meeting for the quarter in May to increase the repo rate to 4.75%. The hike was in line with market expectations as inflation risks have increased to the upside, specifically within food, fuel, and wages. Overall, the SARB has raised rates by 1.25% since the rate hiking started in November last year.

Figure 2: South African interest rate (2014-2022)

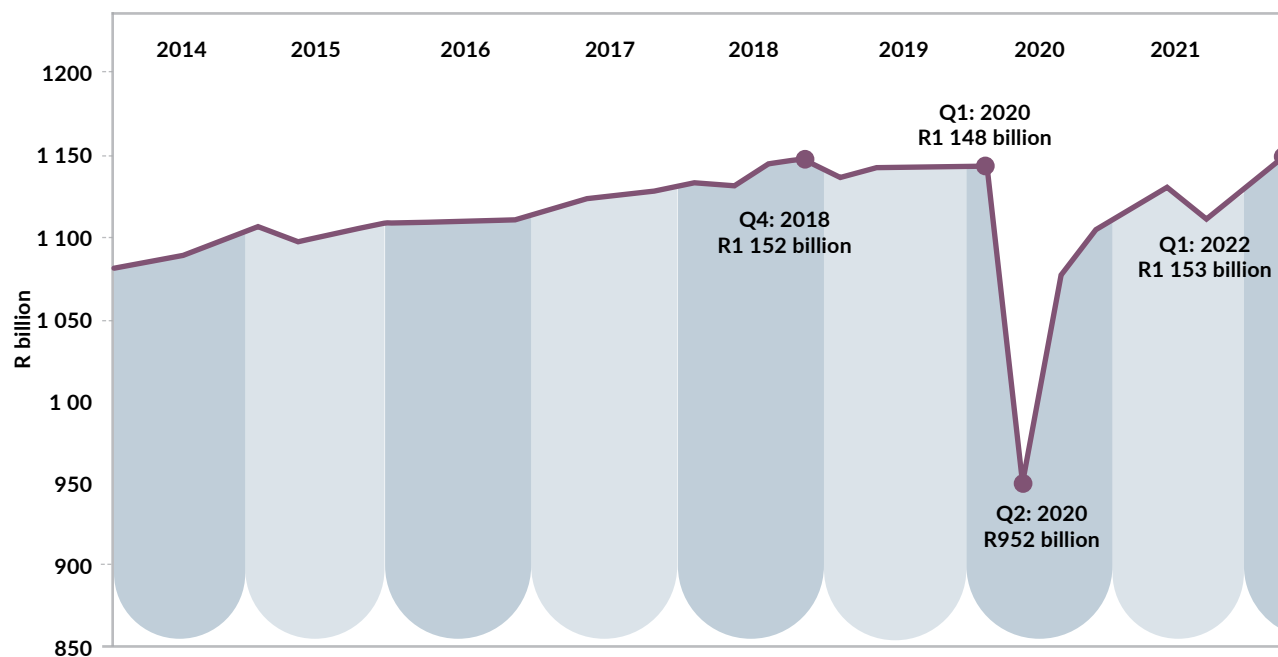


Sources: South African Reserve Bank, www.tradingeconomics.com

Early June also saw the release of the first quarter's gross domestic product (GDP) growth

The South African economy expanded by 1.9% from the previous quarter. The growth was driven mainly by manufacturing, retail and finance. The size of the South African economy is now back to pre-pandemic levels in real terms.

Figure 3: South African gross domestic product (2014-2022)



Source: Stats SA

The second quarter's growth is expected to be weak

As a result of the devastating KwaZulu-Natal floods which occurred in April and Eskom's loadshedding, which intensified towards the end of the second quarter as employees striking over wage negotiations significantly constrained power supply, there are no expectations for growth to strengthen in the second quarter.



FG SCI* JUPITER INCOME FUND OF FUNDS

For periods until 30 June 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	1.20%	1.20%	4.65%	5.73%	6.65%	7.05%	7.64%
STeFI Composite Index	2.19%	2.19%	4.18%	5.01%	5.93%	6.11%	6.91%
ASISA SA Multi Asset Income Category Average	1.30%	1.29%	4.64%	5.85%	6.72%	6.83%	7.52%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th 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	93.56%	100.00%

The FG SCI Jupiter Income Fund of Funds returned +0.39% in the second quarter of 2022 and +4.65% over the past 12 months, underperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.15%, while outperforming the 12-month return of +4.18%. The Terebinth SCI Strategic Income Fund and the Coronation Strategic Income Fund were the worst-performing underlying funds over the quarter, with both funds returning +0.11%. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Jupiter Income FoF	0%	2%	49%	44%	5%



FG SCI* VENUS CAUTIOUS FUND OF FUNDS

For periods until 30 June 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	-2.45%	-2.45%	4.14%	6.77%	6.48%	8.09%	8.29%
ASISA SA Multi Asset Low Equity Category Average	-3.79%	-3.79%	3.04%	5.65%	5.87%	7.17%	7.18%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th 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
- Satrux 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	71.67%	71.11%

The FG SCI Venus Cautious Fund of Funds returned -1.64% in the second quarter of 2022 and +4.14% over the past 12 months, outperforming the benchmark peer group average quarterly return of -2.90%, and the 12-month return of +3.04%. Ninety One Global Multi-Asset Income Feeder Fund was the best-performing underlying fund, returning +6.79% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	16%	4%	34%	26%	20%



FG SCI* SATURN MODERATE FUND OF FUNDS

For periods until 30 June 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	-3.23%	-3.23%	4.85%	8.25%	6.85%	8.79%	9.83%
ASISA SA Multi Asset Medium Equity Category Average	-5.65%	-5.65%	2.78%	6.13%	5.93%	7.60%	8.46%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th 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	69.80%	66.34%

The FG SCI Saturn Moderate Fund of Funds returned -2.08% over the second quarter of 2022 and +4.85% over the past 12 months, outperforming the benchmark peer group average quarterly return of -4.55%, and the 12-month return of +2.78%. The Rezco Value Trend Fund was the best-performing underlying fund, returning +4.06% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	33%	3%	25%	14%	25%



FG SCI* NEPTUNE GROWTH FUND OF FUNDS

For periods until 30 June 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	-4.51%	-4.51%	4.02%	8.58%	7.90%	6.91%
ASISA SA Multi Asset High Equity Category Average	-6.52%	-6.52%	2.83%	6.62%	6.05%	5.56%
			1 st Quartile	2 nd Quartile	3 rd Quartile	4 th 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	63.83%	62.77%

The FG SCI Neptune Growth Fund of Funds returned -4.46% over the second quarter of 2022 and +4.02% over the past 12 months, outperforming the benchmark peer group average quarterly return of -5.65%, and the 12-month return of +2.83%. The Rezco Value Trend Fund was the best-performing underlying fund, returning +4.06% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	43%	3%	16%	11%	27%



FG SCI* MERCURY EQUITY FUND OF FUNDS

For periods until 30 June 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	-3.94%	-3.94%	7.50%	10.45%	7.79%	8.64%	10.17%
FTSE/JSE Africa All Share (Total Return)	-8.30%	-8.30%	4.69%	8.18%	8.74%	10.45%	12.22%
ASISA SA Equity General Category Average	-5.29%	-5.29%	6.38%	7.14%	6.13%	7.71%	9.87%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th 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
- Laurium 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	62.87%	61.88%

The FG SCI Mercury Equity Fund of Funds returned -7.38% in the second quarter of 2022 and +7.50% over the past 12 months, outperforming the -11.69% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +4.69%. The Ninety One Global Franchise Feeder Fund was the best-performing underlying fund, returning -3.59% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	80%	2%	0%	4%	14%



FG SCI* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 30 June 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	-14.12%	-14.12%	-3.45%	5.14%	5.94%	11.03%	7.95%
Historical benchmark**	-14.35%	-14.35%	-3.50%	6.42%	6.57%	10.64%	8.76%
ASISA Global Multi Asset Flexible Average***	-14.35%	-14.35%	-3.50%	6.42%	6.79%	11.40%	8.00%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th 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

***Current benchmark

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	56.25%	59.32%

The FG SCI International Flexible Fund of Funds returned -1.46% in the second quarter of 2022 and -3.45% over the past 12 months, outperforming the benchmark peer group average quarterly return of -2.25% and the 12-month return of -3.50%. Ninety One Global Strategic Managed Fund was the best-performing underlying fund over the quarter, returning +2.27% in rand terms. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2022

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	64%	14%	15%	4%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	62%	3%	12%	6%	14%	3%



MARKET PERFORMANCE

Index	Asset Class	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Last 12 months	Year to Date 2022*
STEFI Composite Index	Local Cash	0.95%	0.98%	1.03%	1.15%	4.18%	2.19%
Beassa ALBI Total Return	Local Bonds	0.37%	2.87%	1.86%	-3.71%	1.25%	-1.93%
FTSE/JSE SA Listed Property (Total Return)	Local Property	5.94%	8.35%	-1.27%	-11.56%	0.22%	-12.68%
FTSE/JSE Africa All Share (Total Return)	Local shares	-0.84%	15.13%	3.84%	-11.69%	4.69%	-8.30%
JP Morgan World Govt Bond index (USD)	Global Bonds	-1.08%	-0.87%	-6.24%	-8.43%	-15.81%	-14.14%
FTSE EPRA Nareit Global REITs TR USD	Global Property	-0.14%	12.46%	-3.53%	-17.02%	-10.10%	-19.95%
MSCI World GR USD	Global Shares	0.09%	7.86%	-5.04%	-16.05%	-13.94%	-20.29%
MSCI ACWI GR USD	Global Shares	-0.95%	6.77%	-5.26%	-15.53%	-15.37%	-19.97%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	5.42%	5.93%	-8.44%	12.11%	14.73%	2.65%

*(Return until 30 June 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	26 273 099.64	29.67	1.53
FG SCI International Flexible FoF A1	97.53	29.04	2.10
FG SCI International Flexible FoF B	1 610 232.04	24.05	3.20
FG SCI International Flexible FoF B1	3 588 699.90	24.84	2.97
FG SCI Jupiter Income FoF A	77 414 207.35	12.17	1.05
FG SCI Jupiter Income FoF A1	52.52	12.13	1.62
FG SCI Jupiter Income FoF B	7 670 633.17	12.05	2.78
FG SCI Jupiter Income FoF B1	11 404 597.70	12.06	2.49
FG SCI Mercury Equity FoF A	4 380 439.90	38.62	1.56
FG SCI Mercury Equity FoF A1	16.63	38.52	2.10
FG SCI Mercury Equity FoF B	287 424.53	36.86	3.28
FG SCI Mercury Equity FoF B1	55 209.84	37.73	3.00
FG SCI Neptune Growth FoF A	23 320 220.77	13.90	1.74
FG SCI Neptune Growth FoF A1	47.77	13.86	2.30
FG SCI Neptune Growth FoF B	1 988 264.76	13.74	3.46
FG SCI Neptune Growth FoF B1	1 243 936.49	13.77	3.17
FG SCI Saturn Moderate FoF A	48 974 574.67	31.42	1.56
FG SCI Saturn Moderate FoF A1	20.75	31.31	2.12
FG SCI Saturn Moderate FoF B	7 291 389.58	31.04	3.28
FG SCI Saturn Moderate FoF B1	6 241 085.71	31.09	3.00
FG SCI Venus Cautious FoF A	77 369 590.69	17.56	1.29
FG SCI Venus Cautious FoF A1	36.78	17.50	1.85
FG SCI Venus Cautious FoF B	3 069 917.69	17.30	3.01
FG SCI Venus Cautious FoF B1	11 665 960.34	17.32	2.73

* NAV (Mo-End) and no. of participatory interests as at 30 June 2022

**TER as at 31 March 2022



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