



FG INVESTMENT PARTNERS

GLOBAL BRIEF

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EDITORIAL COMMENT

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What a bounce! The final quarter of the year produced very positive returns for asset classes across the board

In fact, the three months ending December pretty much looked like a mini mirror image of 2022 as a whole.

Globally the MSCI World Index produced a return of just short of 10% in US dollars for the quarter (-17.7% for the year as a whole), while global bonds returned 4.5% (-16.2% for the year). Locally the rand appreciated by over 5% against a weakening US dollar, the FTSE/JSE All Share Index returned just over 15% (3.6% for the year), while local bonds recorded a performance of just under 6% (4.3% for the year).

So why the turnaround and is it sustainable?

You will know that markets have suffered from rising inflation and a rising interest trajectory. So perhaps it should not be surprising that any relief from these factors would also produce some market relief. On the inflation front, it became evident that inflation was likely to have peaked with an easing of supply chain constraints and with some inflation readings, while still high, coming in below expectations. This led to a lower than previously expected interest rate hiking trajectory. On top of this, the dramatic Chinese turnaround on the zero-COVID-19 policy, boosted risk appetite for emerging markets.

While the fast start to the beginning of 2023 suggests that these recent themes have some momentum, it would be cavalier to disregard the significant risks that remain. There appears to be a substantial disconnect between what the market is implying and the US Federal Reserve messaging. The labour market remains very tight and wage inflation could prove to be sticky. The Fed forecasts that higher unemployment is required to achieve its inflation target. This suggests that the US Central Bank will look to maintain a hawkish stance. Higher unemployment would likely trigger a recession which would clearly be a negative for corporate earnings and risk assets.

INDEPENDENT TRANSPARENT COMPETENT

Locally, while the commodity outlook appears to have brightened and interest rate hikes appear to be close to an end, the economy faces many challenges, the greatest of which are high levels of loadshedding. The skill as always is to determine how much of this is reflected in valuations.

We continue to emphasise diversification in its many forms

Asset, manager, and style diversification has certainly paid off in the FGAM range of fund offerings and is likely to continue to do so in a tricky investment environment in 2023. We hope that you enjoy these articles and that you find them interesting.

What you can look forward to in this edition

Guy Monson from Sarasin suggests that with central banks still in hiking mode it is too soon to be sounding the “all clear” and that patience is required. This certainly strikes a chord with us. Pieter Hugo, Chief Client and Distribution Officer at M&G Investments, points out the value add of investment advisors, especially in tricky investment environments. Natalie Anderson, Investment Specialist from Prescient Investment Management, points out the pervasive impact of rising interest rates which is particularly relevant right now. Finally, with skilled emigration on the rise, Christine Bornman, Fiduciary and Tax Specialist from Sanlam Private Wealth, points out what happens to your estate plan when you emigrate.

We hope you enjoy your read and find these articles insightful.

As always, stay safe.

The FG Asset Management Investment Team



PATIENCE PLEASE. CENTRAL BANKS ARE NOT QUITE FINISHED



Adapted from an article by
Guy Monson

Chief Market Strategist and
Senior Partner
Sarasin House Report Q1 2023



A return to normality is never going to be easy after nearly a decade of super-easy money. The year 2022 illustrated this all too clearly, with the US Federal Reserve lifting rates seven times – four of them super-sized moves of 75 basis points. The result for investors was anything but plain sailing. All major asset classes declined and global balanced accounts suffered particularly as bonds and equities fell in tandem – the first time we have seen this on any scale in nearly 30 years.

As we enter 2023 there is some light at the end of the tunnel

US core consumer prices are down from a peak of 6.6% in September to 5.7% in December 2022. This echoes developments elsewhere, with German and French inflation rates also falling, alongside a very welcome decline in oil and European gas prices. We may then be past the peak of the great inflation shock, but rising labour costs and sticky prices suggest that getting back to central bank target levels will not be easy.

Better inflation and energy data also explain the improving backdrop for the last quarter of financial markets. After a brutal start to 2022 across all asset classes, markets finally rallied in October, with global equities climbing 9% through to the year-end, bond yields stabilising and credit spreads narrowing. We are a long way from erasing the market losses of 2022 but the decline in volatility in both bonds and equities and a retreat in the US dollar suggests a more stable backdrop for 2023.

It's too soon to sound the 'all clear'

There remains a chorus of central bankers who look at today's inflation, which is still a multiple of their targets, and say rates 'still have a way to go', as the Fed's Chairman; Jerome Powell commented after last month's US rate rise. Madame Lagarde at the European Central Bank (ECB) echoed this in November 2022, saying she is 'not yet done,' and even the Bank of Japan joined the fray with a surprise decision to lift its target level for Japanese government bond yields in December 2022.

This is significant because Japan is the world's largest creditor nation, so a change in policy rates in Tokyo could materially alter global fund flows. In short, interest rates are likely to rise higher and stay there a little longer than markets currently expect.

Between Scylla and Charybdis

If central bankers squeeze too hard, then the predicted soft landing of the US could turn into a global recession and a collapse in corporate profits. On the other hand, if central banks ease interest rates while the inflation genie remains out of the bottle,

then bond markets will take fright, risking another market-wide correction.

The journey is further complicated by two giant geopolitical events. The first is the brutal Russian invasion of Ukraine, which could become a multi-year stalemate. The second is the abrupt lifting of Chinese COVID-19 restrictions, which offers real support for global growth later in the year, but greater risks and suffering in the short term. Investors have a delicate balancing act in 2023, navigating between the Scylla of global recession and the Charybdis of renewed inflation. It will take strong nerves, ample reserves of patience and the ability to act quickly when opportunities arise.

Most importantly, managers need a clear eye on the longer-term goal – namely; the steady accumulation at the right price of equities that will be at the core of a new world order. Whether it is renewing the world's energy and transport infrastructure, automating factories and farms, or capturing a new wave of emerging market growth, it is an extraordinary time to accumulate long-term thematic exposure, but investors must remain wary of over-zealous central bankers.

Rising rates have claimed many scalps – there will be more

When global stock markets peaked in 2022, the Fed projected US interest rates ending 2023 at around 1.6% - its current forecast is 5.1%. Tighter policy on this scale has already claimed scalps in listed markets, but it has also cleared away many of the absurdities of a zero or negative interest rate world:

1. The global sum of negative yielding debt has largely evaporated. The total now stands at 254 billion US dollars, down from 18.4 trillion US dollars, two years ago. Government finances will be the principal losers but more rational capital allocation will ultimately support global growth.
2. Gone are the days in 2019/2020, when Mrs Merkel could issue German 10-year bunds at yields of minus 0.5% and be overwhelmed with demand - today they yield plus 2.45%. The end of negative rates is a sign of a more stable and mature Eurozone and a currency that is a more credible challenge to the US dollar.
3. The fall to earth of Crypto surprised few traditional investors and the recent Future Exchange (FTX) debacle is typical of a market mania brought low by tighter money. Crypto may re-emerge as a genuine asset class – but good regulation and good title are two necessary first steps.

Where will the axe fall next? Probably in less liquid assets, namely; commercial property and private asset markets, that have yet to reprice. The latter could provide a very interesting entry point for new money in late 2023 or 2024.

Reasons to be cheerful:

1. There are three factors that may help central banks contain global prices

The gas reservoirs of Europe are now 28% fuller than they were a year ago, and it would now take an extraordinary event to cause the catastrophic, zero-gas outcome feared in the early days of Russia's invasion. In fact, Europe may be able to secure much of next winter's energy supplies with minimal inflows. Gas prices in Europe are three times what they were two years ago – but six months ago they were nearly ten times.

2. Global supply chains are returning to normal

The Fed's global supply chain index is close to its five-year average, echoing positive comments from the management of many of the companies we visit. For China, the journey is just beginning, but the speed of reopening suggests that the transformation in Chinese manufacturing output might be very significant.

3. US and EU trade restrictions forced China to focus on intra-Asian trade – a boon for smaller Asian markets and emerging markets more generally

China's trade with ten of its neighbours has grown a staggering 71% since US tariffs were applied in 2018, and its trade with India grew 49% over the same period. By contrast, trade with Europe and the US grew by only 23% and 29% respectively. This surge in Asian trade will only accelerate as China reopens.

The policy implications for us are clear: a decade of underperformance in Asian and global emerging markets may be reversing. Liquidity conditions in these markets will also rise sharply if the US dollar continues to decline and oil prices are contained. It is important to note that this increase will not be achieved overnight.

Treading with care

Global markets are full of long-term opportunity, equity valuations are close to fair value (but not yet cheap), and corporate bond yields offer returns well above two-year inflation forecasts. But we still worry that the shadow of central bank policy hangs over markets. Tighten too much and you trigger Scylla's global recession and a collapse in corporate earnings; throw in the towel too soon and you have the Charybdis of resurgent inflation. The risks of over-tightening policy in the war on inflation are real.

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WHY FINANCIAL ADVISORS ARE WORTH IT



Adapted from an article by
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Chief Client and Distribution
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Key take-outs

- More global research these days substantiates the value-added to investors by financial advisors, which has been quantified.
- Their value-add comprises better savings discipline, tax efficiency and asset allocation and, most importantly, behavioural coaching to avoid costly mistakes.
- The current volatile market conditions, where South African investors are likely to be reluctant to invest in higher-risk assets, are ideal for advisors to add value. South African equities and bonds represent good value for long-term investors, and advisors can help clients overcome their reluctance to buy them and stay the course over time.

Question:

I've seen that you often advocate for investors to use qualified financial advisors, rather than going it alone in their investment journeys. But do they add value beyond the fees they charge? Is their advice really worth it?

Answer:

The value of advice is difficult to quantify, as it covers a wide range of aspects. However, these days there is a substantial body of global research that demonstrates measurable, quantitative value for financial advice. There is considerable evidence that this added value for investors derives from various aspects, including improved savings discipline, tax-efficient structuring, better asset allocation decisions and behavioural coaching to avoid costly mistakes. In addition, the better results from advised investing contribute to greater peace of mind for those clients, more success in meeting financial goals, and better preparation for retirement and emergencies, all non-quantifiable benefits that are, in fact, invaluable.

Evidence of value added

Most recently, the November 2022 Whitepaper Financial Advice in Canada highlighted several different studies that affirmed the value of financial advice. Perhaps the most well-known of these is the Russell Investments' Value of an Advisor study, conducted annually in the US for several years. In its 2022 report, Russell found that the approximate value of a financial advisor to their client was 4.91% – in other words, they added a net 4.91% to a client's total return for the year. They broke this total value into the following four components.

1. A percentage of 2.37% from behavioural coaching – preventing clients from moving to low-risk assets or selling out of their portfolios during market downturns, and therefore locking in losses.
2. A percentage of 1.22% from tax-efficient investing and planning.
3. A percentage of 1.21% from informed asset allocation choices and family wealth planning (involving insurance, accounting, trusts, etc).
4. A percentage of 0.11% from active portfolio rebalancing.

US research also found that investors with financial advisors prior to the 2008 Global Financial Crisis (GFC) on average lost significantly less money (6.25% less) and experienced less wealth volatility than unadvised investors, after accounting for the level of risk taken, partly because they were less likely to make costly mistakes like selling equities in a downturn (Grable & Chatterjee, 2014).

In Canada, the 2022 Mutual Fund and ETF Investor Study released jointly by the Investment Funds Institute of Canada (IFIC) and Pollara in October 2022, found that 80% of unit trust investors and 73% of Exchange Traded Fund (ETF) investors stated that they believed they received a better return on their investments due to the advice they received from their advisor, with 74% and 64%, respectively, saying they had better saving and investing habits due to them.

The Value of Advice Report by Canada's Center for Interuniversity Research and Analysis of Organizations (CIRANO) Institute in 2018, found that after 15 years of investing, advised investors had accumulated 2.3 times more assets compared to their unadvised counterparts. Even after only four to six years of investing with an advisor, clients had built up 1.58 times more assets. The factors identified as contributing to this better outcome were higher savings rates, a higher allocation to non-cash investments (i.e., high allocation to risk assets in order to match longer-term liabilities), and better disciplined behaviour through market downturns.

No time like the present for an advisor

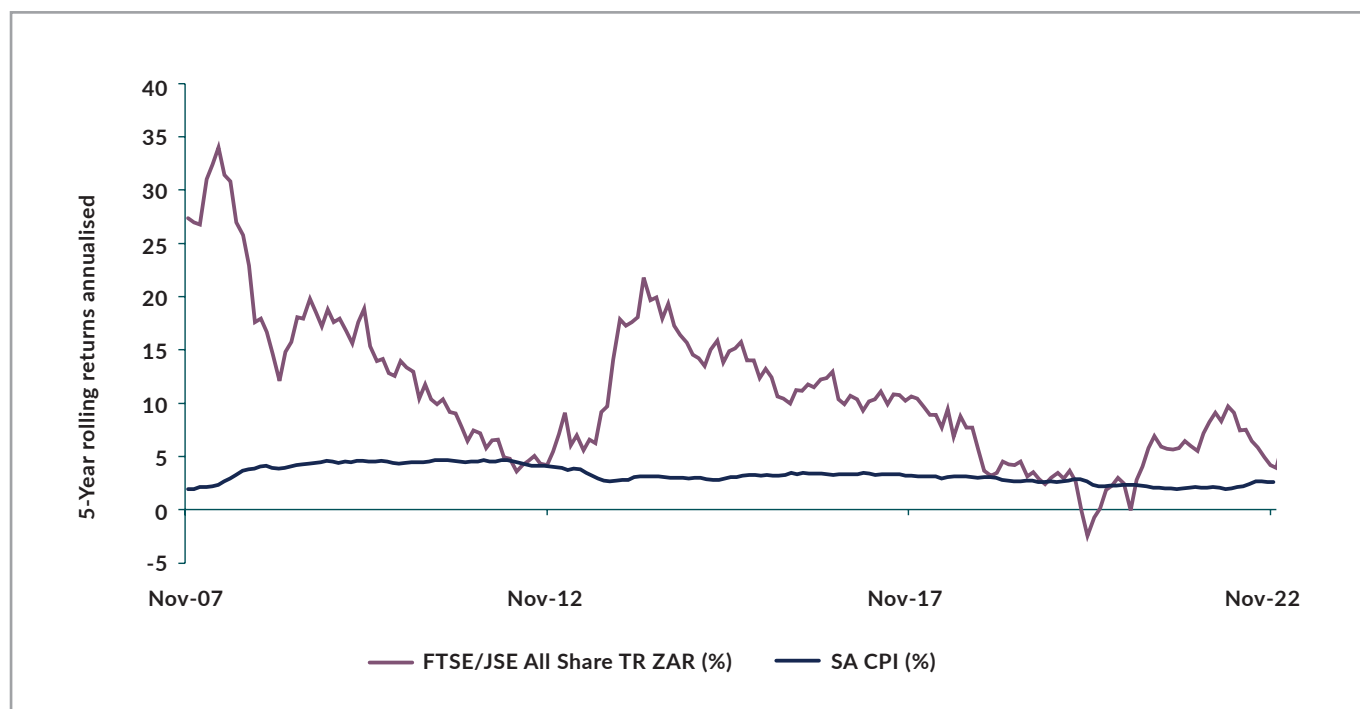
In South Africa, financial advisors can add as much value as in the developed country studies – and since our financial markets experience even more volatility due to their higher levels of risk, financial advice could conceivably be even more valuable. The current investing conditions are ideal for demonstrating this value, both in terms of actual investment returns and less quantifiable types of support. This is because periods like this – with most asset valuations cheap after having sold off through much of 2022, and market conditions highly uncertain and volatile – have been found to be when financial advisors can add the most potential value to client outcomes.

South African investors are understandably nervous and worried about the gloomy economic conditions both locally and globally. Slow growth (and a possible global recession in 2023) paired with high inflation and interest rates are top-of-mind. Exacerbating matters is that the poor performance in 2022 follows several years of pain from disappointing market returns already (especially longer-term domestic market returns), as Figure 1 shows, making investor sentiment even worse. No one wants to see their investment values continuing such low growth or even falling further.

This type of fearful mindset makes it easier to succumb to common human behaviours like short-term thinking, acting out of emotion, selling assets when markets are down, and being too conservative in investment choices. This is where behavioural counselling by a financial advisor can help you avoid costly mistakes like these, and to stay invested during the perpetual ups and downs of financial markets over time.

Figure 1: Investors taking pain from disappointing South African equity returns

FTSE/JSE All Share Index November 2007-November 2022



Source: Morningstar

Biting the bullet to buy risk assets

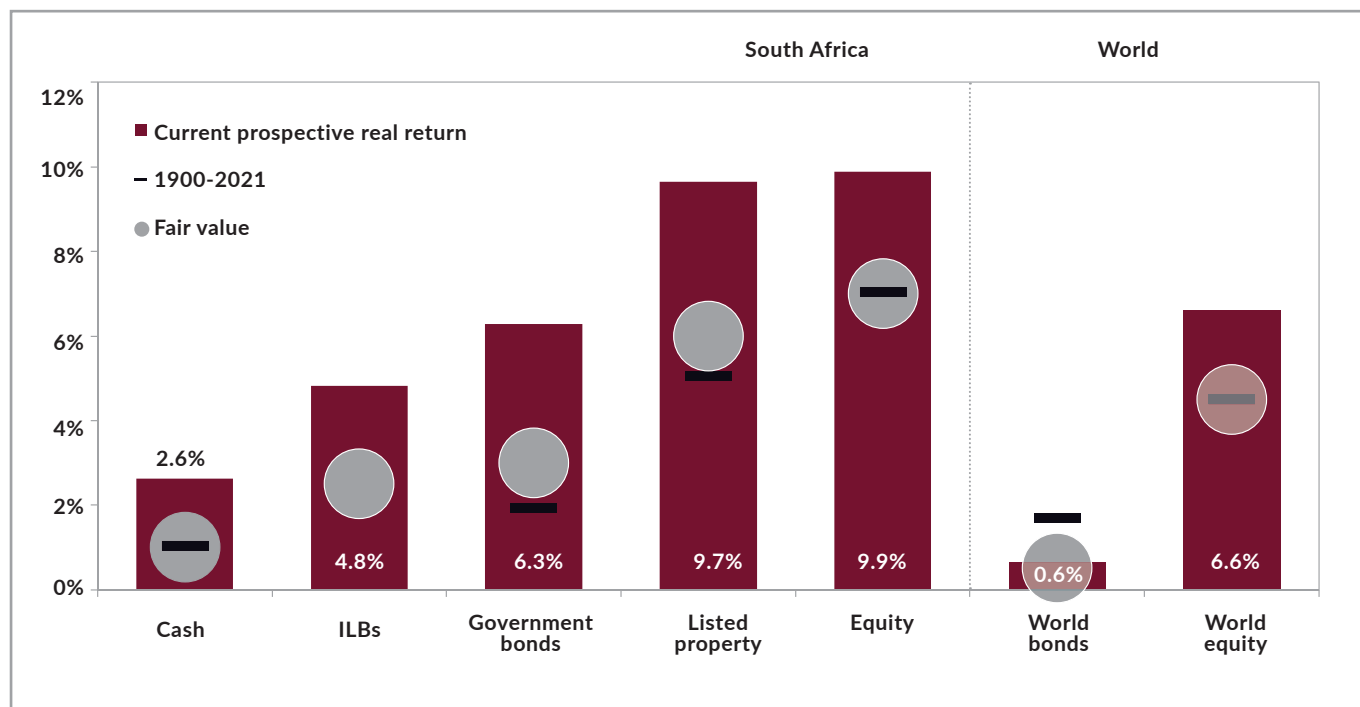
Investors are probably wondering how best to position their portfolios going into 2023. An advisor can help you answer this question by guiding you in your asset allocation and choice of unit trust funds most appropriate for your personal financial goals and investment timeframe. As the surveys highlighted, in many instances they have added value by helping their clients avoid overly conservative portfolio positioning, instead allocating less to cash and more to assets that can outperform inflation like bonds and equities than unadvised investors would in the same circumstances. This allowed them to better capture the higher prospective returns from these riskier assets.

Taking advantage of cheap valuations

South African equities and bonds are offering attractive (well above-average) prospective returns for the risk involved in holding them going forward. I believe it would be a mistake for longer-term investors to avoid South African equities and bonds in the present conditions, despite the negative news that dominates.

Figure 2 illustrates our high-level estimates of the prospective real returns from different asset classes based on their current valuations. As a brief overview, you can see that South African equity has the highest real return potential at 9.9% per annum over the medium to long term, compared to its historic average (fair value) of 7% per annum. South African listed property is also very attractive, but our in-depth analysis suggests they come with higher risks to prospective earnings than other equity sectors.

Figure 2: Prospective real asset class returns from current valuations



Source: Bloomberg, Credit Suisse, M&G Investments (7 December 2022)

Additionally, South African government bonds stand out for their high prospective real return of 6.3% per annum, more than double their historic average of 3.0%. In our view, investors get handsomely rewarded for their associated risks. This is why, going into 2023, we prefer both South African equities and bonds over other local asset classes.

To benefit requires courage and patience

For investors to be successful in taking advantage of these excellent valuations, there are some personal qualities they require – the courage to buy assets like equities that have underperformed and disappointed in the recent (and not so recent) past, and the patience to wait out market downturns and hold these investments until their prospective returns are delivered. No one knows the future trajectory or timing of financial markets, and history shows that it can take years for these “riskier” investments to pay off. But in the end they have done so, as Figure 2 confirms.

This is where the importance of having a financial advisor comes to the fore. There are few people who can stand to suffer financial losses, without being tempted to run for safety. Most need a partner throughout their investment journey who can offer their expertise in deciding how to invest through time, while also helping curtail the often self-destructive human instincts that emerge along the way. We are all human and prone to the same behavioural mistakes. That is exactly where having a sounding board or financial coach can help you most.

In conclusion, if you don't already have a financial advisor who has proven their worth, make sure you find one. Do your homework on the advisor, just as you would for any other professional service provider (lawyers, accountants, builders, etc.) to make sure they're properly qualified and experienced. Then, even though you never know what's to come in the investment universe, you'll have greatly enhanced your chances of reaping the rewards of investing.

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THE KNOCK-ON EFFECT OF INFLATION AND INTEREST RATES IN OUR DAILY LIVES



Adapted from an article by
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Inflation and interest rates have been the economic buzzwords for 2022 as central banks worldwide have stepped in to tackle rising inflation in the aftermath of the COVID-19 pandemic

In South Africa, along with our usual burdens, such as continued loadshedding, we also have to contend with seemingly ever-increasing interest rates. In December 2022, the South African Reserve Bank (SARB) elected to increase interest rates again. This was the seventh consecutive increase in the last 12 months, leaving interest rates at pre-pandemic levels.

What is driving their decision to increase rates, and how do these interest rate hikes ultimately affect us as consumers?

Taking a step back, we need to understand the driving factors behind this inflationary environment, and, in turn, the interest rate hikes. Inflation measures the price of goods and services in the economy. Currently, in South Africa (and globally), we are experiencing high inflation. The SARB has an inflation target range of 3-6%, and our most recent inflation print was 7.6%, well above the upper limit of the band. This means that goods and services are expensive, which puts pressure on the consumer's cost of living.

High inflation can negatively impact society as it erodes our purchasing power, which means that our money is worth less - we can't buy as much as we previously could with the same amount of money. Because of these consequences, the SARB needs to step in to alleviate this pressure, and they do this by raising interest rates.

Where does this inflation come from in the first place?

Simply put, when supply and demand get out of balance, it causes inflation. For example, when the supply of a good is limited, the price would naturally increase as supply can no longer meet the demand. We saw this when Russia's invasion of Ukraine disrupted oil supplies and sent prices soaring. High oil prices feed directly into our fuel costs. Increases in production costs for businesses and a surge in demand for products and services can also cause inflation.

Central banks raise interest rates to curb inflation and try to cool the economy

How does this affect us? When interest rates are high, borrowing becomes expensive, so people borrow less. Therefore, they have less money to spend, reducing demand for goods and services, and ultimately prompting prices to fall.

The interest rate is our "borrowing cost" so we experience the effects of it in many different aspects of our lives. For example, interest rates influence the way we spend and save money. How much would you save if your savings account paid you 3% versus 8%? The average credit card balance in South Africa is R21 200 - would you still spend on your credit card if your interest rate went from 10% to 20%? And would you still take the additional risk of investing in stocks if your savings account was giving you a relatively high return?

We feel rising interest rates on a personal level in the form of home loans, vehicle financing, student loans and credit cards. With the latest 0.75% increase in interest rates that was recently announced, a homeowner's first worry is what the new bond repayment is going to be. For instance, a 0.25% hike on average adds R250 to the monthly repayment of a R1 million home loan. It's easy to see how persistent interest rate hikes over time can start to put pressure on consumers' budgets.

It's not just the consumer who is affected by high borrowing costs

Businesses' financial decisions and growth opportunities are also affected. As taking out loans becomes more expensive, companies may be forced to reconsider expanding their operations, ultimately stunting their growth. It may take a bit longer to filter through, but reduced consumer spending also directly and negatively impacts businesses. Reduced demand decreases sales, and as a result, revenue declines. Possible knock-on effects include staff layoffs as businesses cut costs to stay afloat.

In terms of your personal investments, as businesses experience low growth and, as a result, decreased earnings, their share price may be impacted, which can negatively affect the value of your investments. For fixed-income investments, high interest rates are great because you are the receiver of this interest, but rising rates negatively affect the price of the investment. Many scenarios could play out that will ultimately affect your personal investments - all of which highlight the value of having a diversified portfolio that can withstand different economic conditions.

It is not all doom and gloom

If the interest rate hikes do what they are supposed to, we should see inflation coming down. This means that the higher cost of living, such as the high fuel and food costs, should start alleviating. In the meantime, consumers can revisit their financial goals and priorities, review their budgets to account for increased expenses and cut back on non-essential spending wherever possible. Most importantly, make sure any decisions you make are well-informed so that you can make the best decisions for your financial future.

LEAVING SOUTH AFRICA: WHAT HAPPENS TO YOUR ESTATE PLAN?



Adapted from an article by
Christine Bornman

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Since the amendments to tax laws targeting the foreign earnings of South Africans came into effect on 1 March 2020, the number of local residents seeking to cease their South African tax residency has increased significantly. Leaving the country could have significant implications for estate planning. Here's what you need to know.

Tax changes and implications for South Africans who work abroad

South Africans working abroad for more than 183 days during any 12-month period, which includes a continuous period exceeding 60 full days during that 12-month period, were until March 2020, not taxed in South Africa on their foreign employment income. Section 10(1)(o)(ii) of the Income Tax Act 58 of 1962 (ITA) provided a specific exemption for this income. This has now changed. Treasury was of the view that the exemption was creating opportunities for double non-taxation in cases where the foreign host country either doesn't impose income tax on employment income, or taxes such income at a significantly lower rate. With effect from 1 March 2020, Section 10(1)(o)(ii) was amended to allow the first R1.25 million of foreign remuneration to be exempt from tax in South Africa.

As a result of this amendment, all South African tax residents working abroad are now subject to tax in South Africa on all foreign employment income earned exceeding R1.25 million. However, if tax has been paid on these earnings in the foreign host country, you will be able to claim this as a credit in South Africa, limited to the amount of local tax payable on the foreign earnings.

Cessation of tax residency

Generally, individuals who live abroad and who did not formally cease their tax residency through the SARS eFiling system tend to be of the view that they no longer have any obligation towards SARS. They are under the false impression that they can transfer funds abroad or receive their inheritance freely without obtaining a tax clearance certificate.

Under the new process, you need to inform SARS that you have left South Africa permanently in order to cease to be a South African tax resident in terms of the ordinarily resident criteria, and pay the necessary 'exit' taxes, i.e. capital gains tax. After you've ceased your South African tax residency, you'll no longer be taxed in South Africa on your worldwide income but only on South African-sourced income, for example, rental income.

Impact on estate planning

If you haven't formally ceased your South African tax residency with SARS, how will it impact your estate plan, especially the intergenerational transfer of wealth? What do you need to think about? Many South Africans are either trustees or beneficiaries of a local trust. If you are a trustee, complications may arise if you wish to relocate. You may in fact need to resign as trustee. The Master of the High Court may require that you furnish security, unless there are grounds for exemption. If no security can be provided, the Master may request that you be removed as a foreign trustee.

What if you don't know that you are the beneficiary of a trust?

In cases where a trust has been set up by parents or grandparents for the purposes of intergenerational planning and preservation of wealth, beneficiaries may not even be aware of their status as such. It is important to communicate honestly and openly between generations – the financial impact can be significant if decisions about wealth transfer plans are made without the full knowledge of relevant family members.

There are also implications if beneficiaries living abroad are in need of financial assistance, and the trustees authorise trust distributions to these beneficiaries. When a capital gain is distributed to a non-South African resident trust beneficiary, the conduit principle (shifting the tax burden to the beneficiary) will not apply and the trust will pay the taxes at a higher effective rate of 36%.

Punitive taxes

Punitive taxes imposed by some other jurisdictions present a further potential challenge. If you as a beneficiary are living in the US, UK or Australia and receive distributions from foreign trusts, including South African trusts, those countries may hit you with punitive taxes. If a local or an offshore trust has beneficiaries in these jurisdictions, it's crucial to obtain expert advice before any distributions are considered.

In broad terms:

- When an Australian resident beneficiary receives a capital distribution consisting of current or historic capital gains from a South African trust, the capital distribution has to be included in assessable income in Australia.
- In the case of a US tax resident beneficiary (typically a US citizen or green card holder), the entire distribution could become payable to the US Internal Revenue Service (IRS) as tax.
- In the UK, the rules pertaining to the nature and composition of distributions are extremely complex. This may result in additional taxes arising in the hands of UK beneficiaries if the trustees have not kept a careful record of historical income and gains, and kept income and gains separate.

To complicate matters further, the US Foreign Accounts Tax Compliance Act (FATCA) requires trustees or the relevant financial institution managing the trust assets to report to SARS that a US resident or green card holder is a beneficiary of a trust, and SARS will report the same to the IRS. Similarly, resident beneficiaries may be subject to certain Foreign Bank Account Report (FBAR) requirements directing them to declare to the IRS if they have funds available outside the US.

In terms of the Common Reporting Standards (CRS), the details of settlors and beneficiaries of trusts must be recorded, and this information is available to all CRS member countries, including South Africa, Mauritius, the Channel Islands, Australia and the UK. Besides setting up a trust, another option for transferring wealth to the next generation is simply to bequeath assets directly by way of a last will and testament. Again, it's important to understand all the implications. If your children have not ceased their South African tax residency with SARS, they'll only be allowed to transfer their inheritance offshore after obtaining tax compliance status from SARS.

It should be clear that ceasing your tax residency doesn't mean an end to all problems. It's critical to consider the impact on your estate plan (whether it's your own or an intergenerational plan) when you leave South Africa. There is no one-size-fits-all solution.





FG ASSET MANAGEMENT

QUARTERLY REPORT

Quarter 4 | 2022

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY



Jacy Harington
Portfolio Manager
FG Asset Management

A few factors revived some hope in financial markets

Financial markets saw a marked improvement in investor sentiment over the quarter as the heightened recession fears which drove the market declines turned into a hopeful rally in October and November. There were a number of key drivers, which included the US Federal Reserve (Fed) indicating that they were looking to slow the pace of interest rate increases going forward. The expectation for less aggressive monetary policy was further supported by lower-than-expected US inflation print for October. In addition, the gradual easing of the Chinese zero-COVID-19 policy restrictions, together with government support for the Chinese property sector, improved the global growth outlook.

Fears of global recession rise as monetary policies tighten

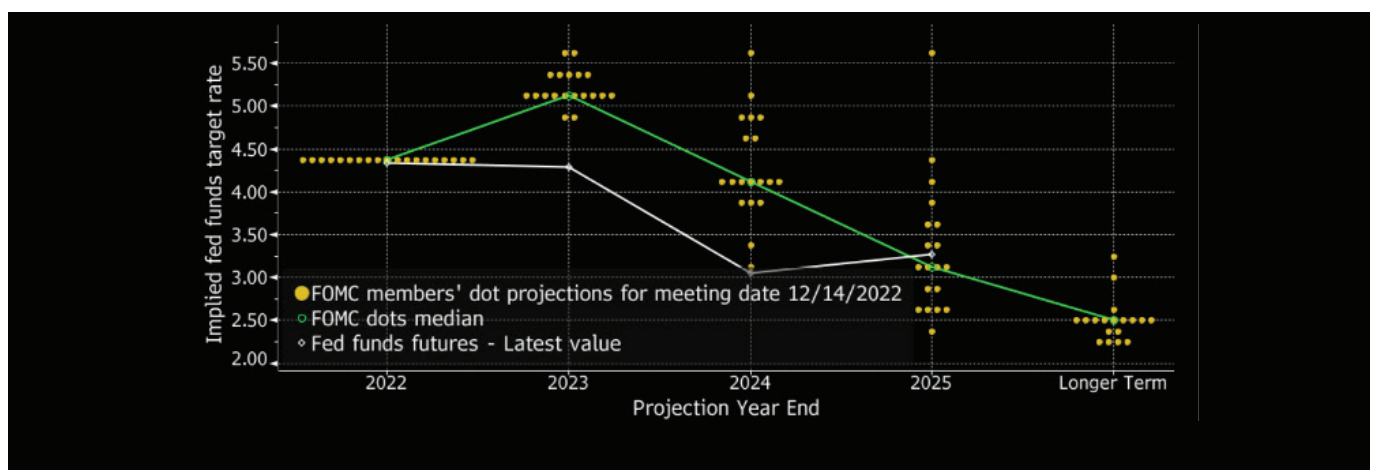
The rise of global inflation to multi-decade highs over the past year has forced global central banks to tighten monetary policy at an eye-watering pace. The unprecedented nature of the tightening has in turn fuelled fears for a global recession. Developments within global monetary policy therefore remained a key driver for financial markets over the past three months. The Fed's policy decisions remain crucial as they have significant economic implications for the rest of the world. Investors continued to follow inflation releases closely for any signs of abating pricing pressures that would allow for central banks to ease the pace of tightening. The closely watched US inflation showed three consecutive monthly declines, with the

annual US inflation rate slowing from 8.2% to 7.1%. Both October and November's inflation releases came in below expectations, with November's inflation release 2% lower than the peak in June and the lowest level since December 2021. The deceleration of prices was across categories, including energy, food, apparel and used cars and truck prices.

Concerns about the impact of the US inflation declining remain on a high

Despite the slowing of the US inflation over the quarter, uncertainty remains around the pace at which pricing pressures will decline, and the restrictiveness of monetary policy needed to bring inflation back into target range. There were two Federal Open Market Committee (FOMC) meetings held over the quarter, increasing the interest rates by 1.25% in total to bring the Fed funds rate to the new range of 4.25% to 4.5% by the end of December. The hikes were widely expected by the market and have brought the Fed funds rate to the highest range in 15 years. Notably the November FOMC statement and press conference signalled that the pace of rate hikes would be slowing going forward, providing time to observe the lagged effect of the significant tightening that has been implemented since the start of this year. At the December meeting the Fed's Chairman, Jerome Powell, commented that the policy tightening is set to continue until the Fed is confident that the 2% inflation target is within reach - which is not expected to be within the next 12 months according to their forecasts. The FOMC median expectation for the Fed funds rate is to finish 2023 at 5.1%, higher than the market's expectations of 4.3%.

Figure 1: Fed dot plot

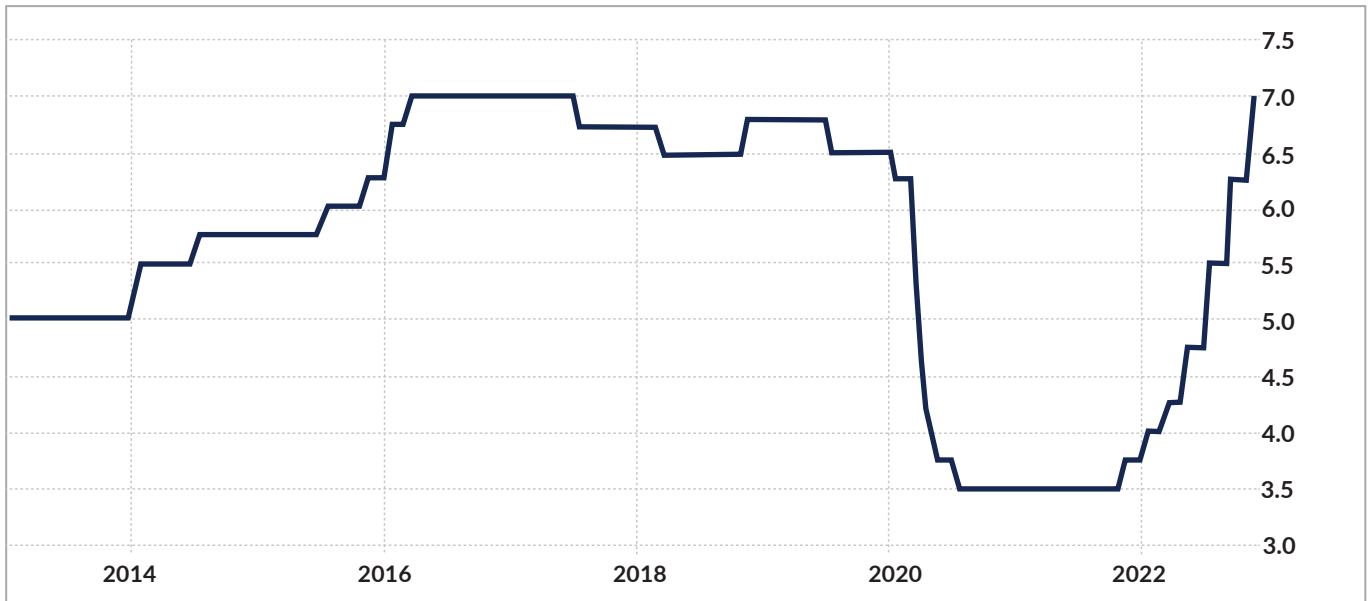


Source: Bloomberg, (December 2022)

South Africa's inflation declined but is expected to return to mid-point target in 2023

In contrast, South African headline inflation rate has only declined 0.4% from its cycle high of 7.8% in July to finish the quarter at 7.4%. Any declines in fuel price increases were offset by food inflation which continued its upward trajectory. Going forward, inflation is expected to return to the 4.5% mid-point target in 2023 as a result of the base effects in both fuel and food inflation. It was therefore of little surprise when the South African Reserve Bank (SARB) increased the repo rate by 0.75% at its only Monetary Policy Committee (MPC) meeting that was held over the quarter. Since the start of the hiking cycle a year ago, the MPC has increased the repo rates by 3.5% to bring it to 7%, the highest level since 2017.

Figure 2: South African interest rate

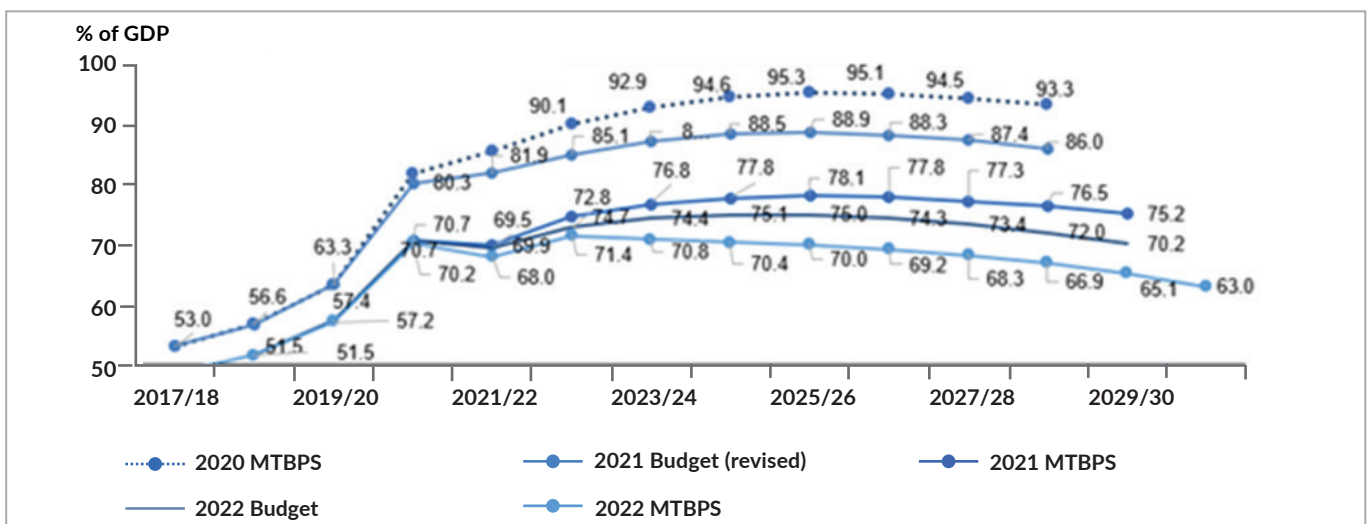


Source: South African Reserve Bank, www.tradingeconomics.com (2013 to 2022)

South Africa's fiscal position continued to improve

Locally, the fourth quarter also brought the much anticipated Medium Term Budget Policy Statement (MTBPS) which was released towards the end of October. The statement reflected a further improvement of South Africa's fiscal position as revenue overruns were partially used to reduce debt. This consolidation has helped to reduce the debt-to-GDP ratio, which is now expected to peak earlier in 2022/2023 at 71.4%.

Figure 3: South Africa's gross debt-to-GDP forecast



Source: 2022 MTBPS, Investec (2017 to 2030)



Mining revenue overruns are expected to continue and wages are expected to increase

The revenue overrun was again coming from higher commodity prices driving higher profits at mining corporates. It is however important to note that National Treasury expect these mining revenue overruns to continue for the next three years. In addition, they only expect a 3% increase in public sector wages. Both assumptions might prove to be ambitious given that the global economy is heading for a slowdown and inflation remains elevated. The debt outlook however reflects National Treasury's commitment to contain government expenditure going forward.

Local markets were negatively affected by the allegations against President Cyril Ramaphosa

At the start of December there was significant political turmoil surrounding President Cyril Ramaphosa and the allegations around his Phala Phala game reserve. Local markets came under significant pressure as speculation raged that the President would resign, given the findings of an independent panel report. Given that it was only two weeks ahead of the ANC's five yearly elective conference, intensified the situation. The markets however managed to regain most of the losses once it was confirmed that the President would challenge the outcome of the report in addition to being re-elected as the head of the ruling party.

Zero-COVID-19 restrictions began to ease in China

A noteworthy development over the quarter was the 20th National Congress of the Chinese Communist Party that was held in October where President Xi Jinping secured his third term as head of the party. A new Politburo Standing Committee was also announced, all of which are close Xi supporters. Despite the perception that the consolidation of power could mean the continuation of recent unfriendly market policies, we saw the gradual easing of China's zero-COVID-19 controls over the course of the second half of the quarter. The easing of controls was unexpected especially given that China is in its winter season, positive COVID-19 cases are rising, and a large portion of the elderly population remain unvaccinated. Given that China is the world's second largest economy, its reopening will be a material boost for global growth going forward. Especially at a time when the rest of the world economies are slowing or even heading for a recession. The prospect of the Chinese economy reopening was therefore another positive market driver.

Overall inflation has declined but we think this may not be enough to avoid recession

The revision of expectations for less aggressive monetary policy tightening from the Fed to bring inflation under control together with the improvement in the outlook for global growth fuelled the recovery in global financial markets over the quarter. Although global inflation has been declining since July, we still see risks that inflation will remain elevated above their respective targets and by implication global monetary policy will be restrictive. We therefore remain cautiously positioned, well diversified and focussed on capital preservation. In addition, we are also carefully considering conditions as they change and opportunities as they arise.





FG SCI* JUPITER INCOME FUND OF FUNDS

For periods until 31 December 2022

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

	6 Months	Year to Date	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Jupiter Income FoF	4.19%	5.44%	5.44%	5.95%	6.77%	6.98%	7.67%
STeFI Composite Index	2.94%	5.21%	5.21%	4.79%	5.78%	6.14%	6.88%
ASISA SA Multi Asset Income Category Average	4.11%	5.45%	5.45%	6.04%	6.76%	6.78%	7.54%
				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
- 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	93.27%	100.00%

Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Jupiter Income Fund of Funds returned +2.93% in the fourth quarter of 2022 and +5.44% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.57%, and the 12-month return of +5.21%. The Granate BCI Multi Income Fund was the best-performing underlying fund over the quarter, returning +3.61%. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 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 December 2022

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

	6 Months	Year to Date	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Venus Cautious FoF	5.64%	3.06%	3.06%	7.38%	6.71%	7.90%	8.40%
ASISA SA Multi Asset Low Equity Category Average	5.37%	1.36%	1.36%	6.56%	5.87%	6.91%	7.29%
				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
- Fairtree Equity Prescient Fund
- Granate BCI Multi Income 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 Managed Inflation Linked Bond Fund
- Sesfikile BCI Property Fund
- Terebinth SCI Strategic Income Fund
- Veritas Global Equity Feeder Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	16.83%	17.26%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	72.04%	70.97%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Venus Cautious Fund of Funds returned +4.49% in the fourth quarter of 2022 and +3.06% over the past 12 months, underperforming the benchmark peer group average quarterly return of +4.85%, while outperforming the 12-month return of +1.36%. The Ninety One Global Multi Asset Income Feeder Fund was the worst-performing underlying fund, returning -2.39% over the quarter. The fund's local bond allocation was reduced, and the exposure was rotated into shorter duration by allocating to an existing flexible income manager over the quarter.

Asset allocation as at 30 November 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	13%	4%	34%	26%	23%



FG SCI* SATURN MODERATE FUND OF FUNDS

For periods until 31 December 2022

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

	6 Months	Year to Date	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Saturn Moderate FoF	6.49%	3.05%	3.05%	9.01%	7.27%	8.27%	9.93%
ASISA SA Multi Asset Medium Equity Category Average	6.29%	0.29%	0.29%	7.43%	5.92%	7.22%	8.59%
				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
- Bateleur Flexible Prescient 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
- Veritas Global Equity Feeder Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	69.71%	66.35%

Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Saturn Moderate Fund of Funds returned +5.68% over the fourth quarter of 2022 and +3.05% over the past 12 months, underperforming the benchmark peer group average quarterly return of +6.04%, while outperforming the 12-month return of +0.29%. The Veritas Global Equity Feeder Fund was the worst-performing underlying fund, returning -0.91% over the quarter. The Bateleur Flexible Prescient Fund was added as an underlying fund over the quarter.

Asset allocation as at 30 November 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	32%	2%	25%	14%	27%



FG SCI* NEPTUNE GROWTH FUND OF FUNDS

For periods until 31 December 2022

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

	6 Months	Year to Date	1 Year	3 Years*	5 Years*	Since inception*
FG SCI Neptune Growth FoF	7.34%	2.51%	2.51%	9.77%	7.63%	7.40%
ASISA SA Multi Asset High Equity Category Average	6.80%	-0.17%	-0.17%	8.11%	5.93%	6.05%
			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 Managed Inflation Linked Bond Fund
- Truffle SCI Flexible Fund
- Veritas Global Equity Feeder Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	38.17%	30.65%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	64.00%	63.00%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Neptune Growth Fund of Funds returned +7.16% over the fourth quarter of 2022 and +2.51% over the past 12 months, outperforming the benchmark peer group average quarterly return of +6.91%, and the 12-month return of -0.17%. The ABSA Property Equity Fund was the best-performing underlying fund, returning +17.98% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	42%	2%	17%	8%	31%



FG SCI* MERCURY EQUITY FUND OF FUNDS

For periods until 31 December 2022

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

	6 Months	Year to Date	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Mercury Equity FoF	10.18%	5.84%	5.84%	13.37%	7.87%	8.13%	10.48%
FTSE/JSE Africa All Share (Total Return)	12.95%	3.58%	3.58%	12.72%	7.98%	9.94%	12.63%
ASISA SA Equity General Category Average	8.90%	3.13%	3.13%	10.03%	5.53%	7.31%	10.11%
				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 Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	56.15%	53.98%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	62.50%	61.54%

Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Mercury Equity Fund of Funds returned +10.93% in the fourth quarter of 2022 and +5.84% over the past 12 months, underperforming the +15.16% quarterly return of the benchmark FTSE/JSE All Share Total Return Index while outperforming the 12-month return of +3.58%. The Ninety One Global Franchise Feeder Fund was the worst-performing underlying fund, returning +3.66% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	79%	1%	0%	4%	16%



FG SCI* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 31 December 2022

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

	6 Months	Year to Date	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI International Flexible FoF	4.23%	-10.49%	-10.49%	5.02%	6.61%	10.30%	7.97%
Benchmark**	4.70%	-10.32%	-10.32%	6.16%	7.40%	10.22%	8.93%
ASISA Global Multi Asset Flexible Average***	4.70%	-10.32%	-10.32%	6.16%	7.57%	10.81%	8.05%
				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	56.04%	59.02%

The FGSCI International Flexible Fund of Funds returned +0.91% in the fourth quarter of 2022 and -10.49% over the past 12 months, underperforming the benchmark peer group average quarterly return of +2.45%, and the 12-month return of -10.32%. The FGAM Global Cautious Fund was the worst-performing underlying fund over the quarter, returning -0.75% in rand terms. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2022

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	66%	23%	6%	3%	2%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	69%	3%	7%	6%	13%	2%



MARKET PERFORMANCE

Index	Asset Class	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Last 12 months	Year to Date 2022*
STEFI Composite Index	Local Cash	1.03%	1.15%	1.35%	1.57%	5.21%	5.21%
FTSE/JSE All Bond (Total Return)	Local Bonds	1.86%	-3.71%	0.60%	5.68%	4.26%	4.26%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-1.27%	-11.56%	-3.54%	19.31%	0.49%	0.49%
FTSE/JSE Africa All Share (Total Return)	Local shares	3.84%	-11.69%	-1.92%	15.16%	3.58%	3.58%
JP Morgan World Govt Bond index (USD)	Global Bonds	-6.24%	-8.43%	-7.15%	3.84%	-17.22%	-17.22%
FTSE EPRA Nareit Global REITs TR USD	Global Property	-3.53%	-17.02%	-10.84%	6.89%	-23.71%	-23.71%
MSCI World GR USD	Global Shares	-5.04%	-16.05%	-6.08%	9.89%	-17.73%	-17.73%
MSCI ACWI GR USD	Global Shares	-5.26%	-15.53%	-6.71%	9.88%	-17.96%	-17.96%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-8.44%	12.11%	9.71%	-5.33%	6.61%	6.61%

*(Return until 31 December 2022)

Source: Morningstar



ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG SCI International Flexible FoF A	21,008,765.82	30.93	1.52
FG SCI International Flexible FoF A1	97.53	30.18	2.09
FG SCI International Flexible FoF B	1,467,927.05	24.86	3.19
FG SCI International Flexible FoF B1	2,699,640.47	25.71	2.96
FG SCI Jupiter Income FoF A	76,016,478.73	12.38	1.04
FG SCI Jupiter Income FoF A1	53.61	12.34	1.61
FG SCI Jupiter Income FoF B	6,406,870.14	12.25	2.76
FG SCI Jupiter Income FoF B1	5,430,821.41	12.27	2.48
FG SCI Mercury Equity FoF A	4,330,679.78	42.03	1.57
FG SCI Mercury Equity FoF A1	16.79	41.92	2.10
FG SCI Mercury Equity FoF B	274,535.92	40.12	3.30
FG SCI Mercury Equity FoF B1	50,424.36	41.07	3.01
FG SCI Neptune Growth FoF A	25,030,997.34	14.73	1.72
FG SCI Neptune Growth FoF A1	48.25	14.68	2.27
FG SCI Neptune Growth FoF B	1,991,296.43	14.57	3.44
FG SCI Neptune Growth FoF B1	1,248,697.05	14.59	3.15
FG SCI Saturn Moderate FoF A	47,139,687.28	33.04	1.59
FG SCI Saturn Moderate FoF A1	20.95	32.93	2.14
FG SCI Saturn Moderate FoF B	6,977,333.56	32.65	3.31
FG SCI Saturn Moderate FoF B1	5,351,917.49	32.70	3.02
FG SCI Venus Cautious FoF A	77,864,529.05	18.13	1.27
FG SCI Venus Cautious FoF A1	37.51	18.08	1.83
FG SCI Venus Cautious FoF B	2,932,030.46	17.86	3.00
FG SCI Venus Cautious FoF B1	8,534,196.11	17.89	2.71

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

**TER as at 30 September 2022



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