



FG INVESTMENT PARTNERS

GLOBAL BRIEF

Quarter 1 | 2023



EDITORIAL COMMENT

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FG Asset Management

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"You CAN'T predict. You CAN prepare"
- Howard Marks

Another quarter and more moving parts it seems. The focus, as it should always be, has been on inflation, interest rates and earnings. The narrative in the international context has been declining but still high inflation, rising but close to peaking interest rates, and resilient but slowing economic growth and earnings as elevated interest rates start to exact a toll. Amongst hotly debated issues in the market place were the "landing" scenarios which have ranged from "hard" to "soft" to "no" landing and then to "later" landing all it seems in double quick time. THEN we had the Banking wobble precipitated with Silicon Valley Bank (SVB), followed by others including Credit Suisse Group. The narrative then switched to one of tighter lending standards bringing forward a likely recession and doing the US Federal Reserve's (the Fed) work for them. In a heartbeat the market (not the Fed) started to anticipate a number of significant rate cuts by the end of this year and into 2024. Bond yields dropped quickly with the two-year US Treasury Security moving from a touch over 5% to around 4% currently. This has been positive for bond performance and lower yields have been supportive of equities, especially those with a "growth" profile. There is however a real risk that the bond market has overreacted as inflation remains quite sticky and that the equity market is a bit too complacent given the impact that a recession would have on earnings.

Locally the challenges remain as formidable as ever with loadshedding continuing to severely constrain economic growth

The International Monetary Fund (IMF) has recently lowered its 2023 growth forecast to just 0.1% for 2023. Inflation remains elevated and the South African Reserve Bank has responded by lifting interest rates by a further 0.50% (which had a positive impact on the rand). Foreigners have continued to be net sellers of both our equities and bonds. On a brighter note, it seems that the private sector is really starting to get a move on on the alternative energy front.

INDEPENDENT TRANSPARENT COMPETENT

From a markets perspective, the first quarter of the year produced some decent performance

Global equities (MSCI World Index) recorded a 7.9% performance in US dollar. Emerging Markets Equity returned 4% in US dollars and 3.0% in Global Bonds. South African Market returns have not been as favourable with the FTSE/JSE All Share Index (ALSI) returning 5.2% in rands but with the rand itself being 4.3% weaker over the period, this translated to only 0.9% in US dollar terms. Local bonds returned 3.4% in rands over the same period.

We can't predict likely short-term market moves but from a risk-return perspective there is little to suggest we should move away from our relatively cautious disposition at this stage. We remain well-diversified from an asset, manager and style perspective which continues to bear fruit in an increasingly unpredictable market environment.

What you can look forward to in this edition

This quarter, our featured articles cover a variety of topical issues that we hope you will find interesting. Jacobus Lacock from Fairtree Investments suggests that alongside various recession scenarios, a stagflationary environment is also a possibility worth thinking about. Gary Davids, Investment Analyst at Sanlam Private Wealth looks at the issue of South Africa's grey listing and concludes that this has largely been priced into local market valuations. Natalie Anderson, Investment Specialist at Prescient Investment Management, highlights the benefits of having derivative instruments as an additional tool in the toolbox especially when it comes to risk management. And lastly, I explore the pros and cons of active and passive investing by highlighting why investors should not limit themselves to just one of these investment approaches.

We hope that you enjoy these articles.

As always, stay safe.

The FG Asset Management Investment Team





STAGFLATION STILL LOOMS OVER DEVELOPED MARKETS IN 2023



Adapted from an article by
Jacobus Lacoek

Portfolio Manager
Fairtree Investments



Recession, instead of stagflation, has become the watchword in financial markets at the outset of 2023 as the global economic impact of the substantial interest rate hikes last year take effect in the first half of this year and inflation retreats. But the threat of stagflation (stagnant growth and high inflation) remains alive and well, particularly in developed countries.

The problem is core inflation

While we expect headline inflation, which includes fuel and food prices, to fall rapidly over the coming months, we disagree with the market's view that core inflation will return to central bank target levels of around 2% soon in the developed world. Tight labour markets, sticky services inflation and improving growth dynamics in China are all factors that could keep core inflation rates higher as economies come under recessionary pressure.

The near-term decline in inflation in the US, Europe and the UK will provide developed market central banks with the opportunity to continue slowing the pace of tightening and potentially pause over the next few months. But we disagree with the current view priced into markets, which is that the US Federal Reserve (the Fed) and other developed market central banks will begin cutting rates significantly from the second half of this year, to around 3% by the end of 2024.

On the growth front, we expect the tightening of financial conditions by developed market central banks last year to impact growth this year negatively

The cost of living remains high, and real incomes for households stay in negative territory. Leading indicators, inverted yield curves and business surveys are signalling a likely recession over the coming 12 months. We agree but expect a shallow recession because households in developed markets are well-positioned to provide some buffer to tighter economic conditions. Households stand to benefit from tight labour market conditions, low unemployment and excess savings built up during the pandemic. As inflation falls, their real incomes and confidence will start to improve, which reduces the likelihood of economies falling into a deep recession. However, stagflationary conditions will persist, with inflation still stuck at higher levels and economies experiencing low growth.

Last year we were most worried about European growth

This was caused by the cost of energy independence from Russia weighing heavily on European consumers and businesses, and the European Central Bank (ECB) that continued hiking interest rates.

Two significant developments occurred late last year that made us more optimistic about the European outlook. Firstly, energy prices declined sharply, and secondly, China dropped its zero-COVID-19 policy in December and started re-opening its economy. These developments will alleviate some of the intense price pressures of inflation and boost growth in Europe as Chinese demand picks up. We now feel more optimistic about European than US growth but expect growth to come close to zero in the region this year.

We feel more optimistic about the outlook for emerging markets, where inflation has been chiefly headline driven by higher food, fuel and import prices

These prices are now coming down because many emerging market central banks started their hiking cycle earlier than in the developed markets. Thus, they don't suffer the same core inflationary pressures. We expect central banks to cut rates earlier and more times to support emerging market growth. China's re-opening may provide an additional boost to demand for commodity exporters and the tourism sectors. With global interest rates peaking, the US dollar weakening, and emerging market equity and bond market valuations favourable, the outlook for emerging market assets has improved.

China's re-opening is the most critical macro development and will shape the global economy in 2023

The decision to remove the stringent zero-COVID-19 regulations came earlier and was more aggressive than expected. A major COVID-19 wave ensued towards the end of November 2022, likely to have peaked during January 2023. Economic activity first stalled during this wave but is now picking up rapidly. We expect activity to normalise by the end of the first quarter.

As the economy re-opens and confidence improves, we believe there is ample scope for household consumption to contribute to growth. When the zero-COVID-19 policy was in place, effectively closing the economy, households did not spend and could build up considerable savings. At the same time, the property sector was in the doldrums, and household mortgages collapsed, leading to household deleveraging. Thus, we expect spending on services, tourism, and luxury goods will improve.

The Central Economic Work Conference (CEWC) reiterated the policy objectives laid out during the 20th Communist Party Congress. The priorities remain growth, improving confidence, supporting household demand, alleviating youth unemployment,



support for the private sector and property stabilisation. These imperatives and the recent easing of regulations governing property developers and the People's Bank of China's ongoing monetary easing will improve business conditions.

Longer term, we continue to see the US-China relationship as a significant source of geopolitical uncertainty

Recent bilateral meetings have eased some of the tensions, but the One China policy and competition with the US will create volatility. The US can't afford to enter a geopolitical battle with China when its attention needs to be focused on the Russia-Ukraine war and managing tense Middle East relations. We still expect the war between Ukraine and Russia to be long and drawn out. Economic sanctions may have peaked. However, it is uncertain what impact the existing energy sanctions will have on the oil and energy market in coming quarters.

Energy prices have decreased because of various reasons in Europe

These include moderate winter weather, excess gas reserves, new gas supplies and changing consumer behaviour. Oil prices are under pressure from the potential for slower growth, but China's re-opening may offset some global growth risk and thus increase oil demand. We believe the risk to oil prices remains on the upside from current levels of between US\$80 to US\$90 a barrel. Tensions between the US and Iran over a nuclear deal pose further upside risk.

We are optimistic about commodities in general

Not just because of improved demand from China and the ongoing push towards a greener economy (which is very commodity-intensive), but primarily due to the lack of supply and investment in commodity production. A strong US dollar weighed on commodity prices, including gold, for most of last year, but the likelihood of a weaker US dollar this year may reverse that.

US dollar valuations remain stretched

But with the divergence in the US versus Europe and China growth outlooks, and the Fed close to pausing rate hikes, we see further downside for the US dollar. On the other side, we see an improved outlook for the South African rand based on China's improving growth prospects, strong emerging market foreign portfolio flows into domestic assets, and stronger terms of trade. However, local economic dynamics remain weak, offsetting these strong external tailwinds.

Investor, consumer, and business confidence in South Africa remains weak

This is due to more intense loadshedding, labour strikes, higher interest rates, high food and fuel prices and high unemployment rates. We expect South Africa to experience a few difficult months as consumers and businesses grapple with the lack of energy. It remains highly uncertain when and how we will see fewer power cuts despite the government's best efforts to turn around the situation at Eskom.

We expect economic growth for this year to come in around 1%, adding risk to the fiscal outlook. But we believe the South African Reserve Bank (SARB) is reaching the end of its hiking cycle. Inflation has rolled over, and – in contrast to developed markets – core inflationary pressures are surprising to the downside despite rising inflation expectations among businesses and unions. The scope for rate cuts may improve towards year-end. We are encouraged by the improved standing of President Cyril Ramaphosa within the ANC, as it provides scope for ongoing and potentially accelerated economic reforms.

This year is not going to be easy

The global economy will likely face a prolonged period of stagflation, characterised by stagnant growth and high inflation, which could necessitate more active intervention by central banks. The risk of geopolitical conflicts is also expected to remain elevated. Against this backdrop, we expect cyclical opportunities in growth and defensive stocks to present themselves. Investors will need to complement their bottom-up analysis with a strong macro top-down view of the global economy and financial markets if they are to capitalise on these. Success will also lie in maintaining flexibility and humility and diversifying across sectors and asset classes.

GREY LISTING: ALREADY PRICED IN BY FINANCIAL MARKETS?



Adapted from an article by
Gary Davids

Investment Analyst
Sanlam Private Wealth

As has been widely reported in the media, South Africa has been included on the grey list of the Financial Action Task Force (FATF). This move by the FATF has economic consequences, but what does it mean for investors? Our view is that the grey listing was long-anticipated, and to a large extent, had already been 'priced in' by financial markets.

In February 2023 the FATF placed South Africa on a list of countries under increased monitoring – commonly known as the grey list – as the country is deemed to have inadequate anti-money laundering (AML) and counter financing of terrorism (CFT) controls in place.

While the FATF has recognised the significant progress made by our government in addressing the recommendations highlighted in its Mutual Evaluation Report of 2021, and despite several new laws fast-tracked in 2022, the view is that further improvements are needed to correct shortcomings in the fight against financial crime.

What is grey listing?

The FATF is an intergovernmental watchdog that helps formulate policy to control the flow of money globally while stamping out organised crime. The organisation works to generate the political will to bring about national legislative reforms to combat money laundering and terrorist financing.

The FATF maintains two public lists of countries with weak AML and CFT regimes:

1. The grey list: 'Jurisdictions under increased monitoring' that 'are actively working with the FATF to address strategic deficiencies in their regimes'.
2. The black list: 'High-risk jurisdictions subject to a call for action' that are not actively engaging with the FATF to address these deficiencies.

Countries on the grey list are those that have committed to swiftly resolving identified strategic deficiencies within agreed time frames while being subject to increased monitoring. South Africa is now one of 23 countries on the grey list. There are currently only three countries on the black list: Iran, North Korea, and Myanmar.

Enhanced due diligence: Navigating the grey list and its impact on business in South Africa

The FATF doesn't impose direct obligations on its members to act against grey listed countries. Members are, however, asked to take the FATF assessment into account in their risk analysis or due diligence before conducting business in a grey listed country. The European Union has directed its member countries to ensure

that relevant institutions apply enhanced due diligence to high-risk countries, which includes those on the grey list. A similar ruling has been introduced in the UK.

The most recent FATF Mutual Evaluation Report on South Africa found that our large local banks are relatively more developed in terms of their money-laundering risk and mitigation measures, while smaller financial institutions outside the banking sector are problematic. National Treasury recently noted that 'there are no items on the action plan that relate directly to the preventive measures in respect of the financial sector. This reflects the significant progress in the application of a risk-based approach to the supervision of banks and insurers'.

The report cited concern about state capture and corruption, which were highlighted as key threats, as was a lack of progress on South Africa's ability to bring criminals to book.

The reputational risk of being grey listed

Being grey listed carries with it reputational risk – it signals to investors that a country is at risk of being exposed to money laundering and terrorist financing, which is likely to have negative consequences for the South African economy. However, estimating the extent of the impact is difficult – it depends on how quickly the country can meet the FATF requirements for being taken off the list. It has taken other grey listed countries on average two years to be removed. For example, Mauritius was on the list for 20 months, and was removed only after an extensive and committed campaign to meet the FATF requirements.

The implications for South Africa of being grey listed include:

- A strain on relationships with foreign banks and investors, who may reallocate resources to reduce exposure to a country deemed riskier than it had been previously. This could lead to capital and trade outflows for South African companies. Enhanced monitoring and due diligence of local businesses will increase the cost of doing business with these companies.
- Increased costs to ensure compliance with the FATF requirements. Failure to address inadequacies will result in fines for financial institutions by the South African Reserve Bank, and increased spend will be required to ensure compliance.

Beyond the announcement: South Africa needs to take swift action

In our view, South Africa being grey listed has been considered by the market over a prolonged period, and this long-anticipated event had been priced by local equity and bond markets before the actual announcement. We don't view it as being worse than a credit ratings downgrade – investors are already aware of the local political and macro environment as well as the perceived risks of doing business in South Africa, including the associated costs.

While grey listing may have a negative impact on local gross domestic product and capital flows, what is in our view more important is the progress South Africa now demonstrates, and the country's commitment to addressing the eight areas of strategic deficiencies identified by the FATF to be removed from the list within the next 24 months. We need to take swift action as a country – a prolonged grey list tenure would be more detrimental than the initial inclusion.



DERIVATIVES ARE NOT THE ENEMY



Adapted from an article by
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Investment Specialist
Prescient Investment
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Derivatives have developed a bad reputation over the years, with the horror stories spreading far and wide. Many of us have heard about Long-Term Capital Management, with its highly leveraged trading strategies that failed and nearly collapsed the global financial system in 1998. Many big hedge funds also dabbled in complex derivative structures that were costly and risky to clients, and, in many cases, unsuccessful.

Negative sentiment is usually hard to shake and reputations hard to recover

The fear and skepticism linger, and it's no surprise that these instruments have become associated with speculation, high risk and losses. But, as we face the uncertainty of 2023, amidst threats of a global economic recession, one could benefit from some assistance when navigating these markets. Enter: derivatives.

What we don't see in the headlines is all the times that derivatives were successfully used to protect investors from downside risk during uncertain times

The market is notoriously difficult to predict and during periods of market volatility, as we are currently experiencing, it becomes more likely that we could suffer a sudden downturn. It is in these instances where derivatives can be used as a powerful tool in the investment world. Instead of being used for leverage or gearing, which, as history has shown, adds risk to your portfolio, they can be used as a form of "insurance". If a portfolio manager is concerned about a possible market decline, they can invest in a hedging structure that is set up to limit losses in the event that this happens.

So, what is a derivative?

A derivative is a product that derives its value from an underlying asset. This underlying asset could be shares, bonds, currency, or commodities, to name a few. The most common derivatives used in investment management are options, futures, forwards and swaps. There are nuances to each but in any of these derivative structures, you enter a contract that either gives you the option or the obligation to buy or sell the underlying asset at a future point in time, and importantly, at a pre-determined price.

Options contracts and how they work:

If you hold a particular share, and you think the price may decline in the near future, you could enter an options contract which would give you the option to sell the share if the price started declining. There may be a certain price where, any price lower than this, you would deem the losses to be too great, or you may just want to lock

in profits that you have already made. This is the price you would set as the sell price in the contract. If the share price does decline, you can sell your share for this price and limit your losses. Remember, if you didn't have the options contract, you would need to sell your shares in the open market at whatever price it is currently trading at. It is important to note that the contract gives you the option to sell and limit your losses, but you are not required to do anything if the price doesn't move, or even goes up. The contract merely expires after a specified period.

The catch is that this "insurance" is not free

You need to pay a premium which forms as compensation for the counterparty to your contract. In conclusion, you pay a fee (and lose some upside profits) to gain the option to limit losses in potentially negative scenarios.

Investment managers use derivatives in a myriad of ways to add value to the portfolios they manage

One way, is for risk management – when risk is an important consideration in a portfolio, measures need to be put in place to ensure that they are able to deliver on the capital preservation targets. As in the example above, derivatives assist the portfolio manager to hedge against sudden, negative market movements by paying away a portion of upside potential to limit losses.

In addition to risk management, derivatives can be used to enhance efficient portfolio management

They can be used to gain exposure to an underlying asset, without actually owning it, which has its own benefits. For example, buying futures on an Equity Index gives you exposure to the market movements of the underlying shares but is more cost effective than buying the physical shares as this method incurs lower brokerage fees. Futures are also more liquid and therefore more easily traded than the physical asset.

Derivatives can also be used to apply tactical tilts to a portfolio, which are short-term deviations from the strategic asset allocation, to express a portfolio manager's views

Instead of buying and selling physical assets, which, again, incurs fees and can be affected by liquidity constraints, a derivative structure that overlays the portfolio can change its composition in a cheap and efficient manner. Another example would be taking the full 45% offshore exposure in a balanced portfolio, following the

new changes in Regulation 28 (of the Pension Funds Act 24 of 1956), and using derivatives to strip out a portion of the currency risk. This gives the investor exposure to the offshore assets, and the resultant diversification, without adding any undue volatility from fluctuations in the rand.

It's clear from the advantages highlighted above that derivatives are not the problem – it's how they are used

They are certainly complex and can be risky if they are being used for speculative purposes or without a deep understanding, but investment managers with expertise in this area can exploit these skills to reduce risk and enhance returns in their portfolios.

Managing the downside risk may come at a marginal cost, but the power of compounding positive returns through time is priceless and leads to consistent outperformance

We cannot predict the market but derivatives can help create a degree of certainty in these increasingly uncertain markets.



THE ROLE OF ACTIVE AND PASSIVE INVESTING IN A PORTFOLIO



Adapted from an article by
Sarah Crone

Director and Investment
Committee Member
FG Asset Management

Active investing and passive investing are two different investment approaches that investors can use to build investment portfolios. Many investment specialists have engaged in the 'debate' of the better option between active and passive investing in a portfolio. To some degree this debate has prompted the option of exploring or combining both offerings.

Below is a brief explanation of each approach and a table outlining the pros and cons of each, followed by our views on the matter.

	Active investing	Passive investing
What is it?	Active investing involves selecting individual stocks, bonds, or other securities with the goal of outperforming the market. Active investors typically rely on market research, financial analysis, and their own judgement to make investment decisions. Active investors may buy and sell securities frequently to try to capture short-term gains or respond to changes in the market.	Passive investing involves investing in a diversified portfolio of securities that track a market index, such as the FTSE JSE All-Share Index or a bond index. Passive investors typically buy and hold their investments for the long term, and do not try to pick individual securities.
Pros:	• The potential for higher returns: Active investing offers the potential for higher returns than passive investing, particularly if an investor can identify undervalued securities. • Flexibility: Active investors can adjust their portfolio holdings in response to changes in the market, economic conditions, or other factors. • Control: Active investors have more control over the composition of their portfolio than passive investors, allowing them to focus on specific sectors, companies, or investment styles.	• Lower fees: Passive investing generally involves lower fees than active investing, as it requires less research and analysis and has lower transaction costs. • Diversification: Passive investors can achieve diversification by holding a broad range of assets across different sectors, geographies, and market capitalisations. • Simplicity: Passive investing is a relatively simple and low-maintenance approach to investing that requires less time and effort than active investing. • It minimises the risk of underperforming a benchmark index.
Cons:	• Higher fees: Active investing typically involves higher fees than passive investing due to the costs associated with research and analysis, as well as higher transaction costs. • Greater risk: Active investing can be riskier than passive investing due to the potential for underperformance or losses if an investor makes poor investment decisions. • Time-consuming: Active investing can require significant time and effort to research and analyse individual securities and may be less suitable for investors with limited time or resources.	• Lower potential for outperformance: Passive investing may not offer the potential for outperformance that active investing does, particularly if an investor is able to identify undervalued securities. • Limited flexibility: Passive investors cannot adjust their portfolio holdings in response to changes in the market or economic conditions. • Exposure to market risk: Passive investors are exposed to market risk and may experience losses during market downturns.

Our opinion:

At FG Investment Partners, we understand that investing at any scale or level, is not a one-size-fits-all approach

The needs, preferences and realities of individual investors differ. This then affects how different investment options apply to different people and why we believe professional and personal financial advice is essential.

Another important factor to note is that markets are by nature unpredictable

They may be positive today, and on the opposite end tomorrow. It is for these reasons that we believe there is room for both approaches.

Why we believe we should not limit ourselves to just the one or the other:

While active and passive investing have their own set of advantages and disadvantages, incorporating both strategies in a well-diversified portfolio can offer investors the best of both worlds. By combining both approaches in varying degrees over time, investors can potentially achieve higher returns while managing risk and maintaining flexibility. A diversified portfolio that includes both passive and active investments can provide exposure to a range of investments with varying risk profiles, while still allowing investors to adjust their holdings in response to changing market conditions. By using both active and passive investing, investors can achieve a more balanced and customised investment approach, as reflected in our range of options.





FG ASSET MANAGEMENT

QUARTERLY REPORT

Quarter 1 | 2023

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY



Jacy Harington
Portfolio Manager
FG Asset Management

Financial markets remained unstable in the first quarter of the year

Financial markets were volatile, as market participants tried to get more clarity about the 'stickiness' of elevated inflation, the magnitude of additional monetary policy tightening still required to reduce inflation and what that would mean for global growth. All new economic data releases were therefore closely monitored which made for an unsteady ride as expectations changed as the quarter progressed. March brought additional market volatility as concerns escalated over the global banking sector stability following the biggest US bank failure since 2008.

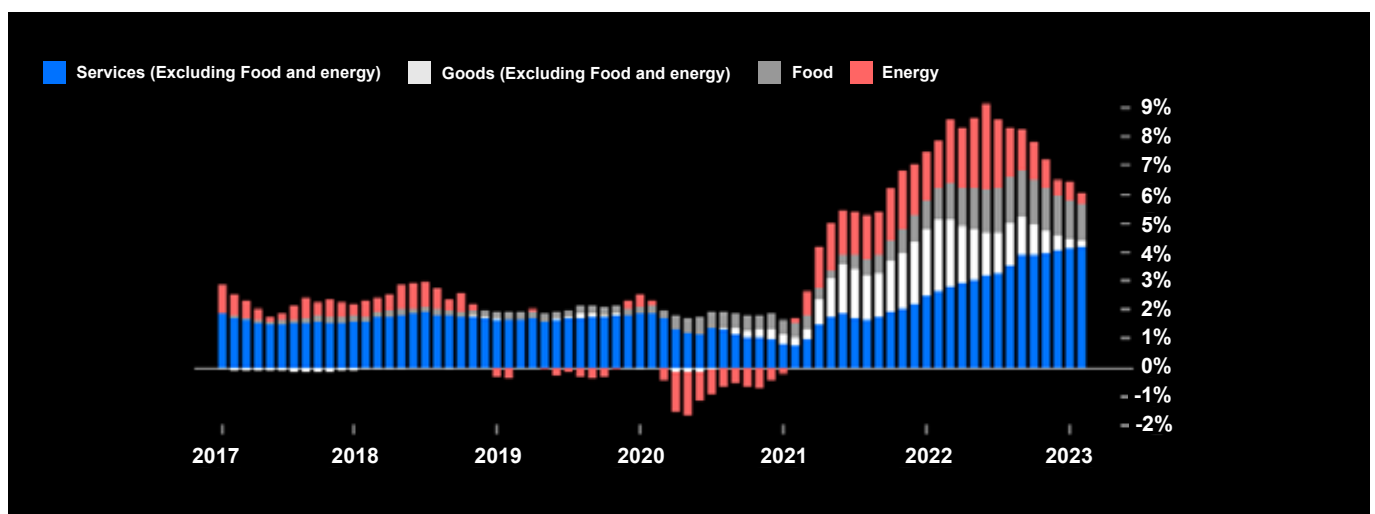
China's surprising policy reversals contributed positively to global markets

At the start of the year risk sentiment was supported by the surprising turnaround in several restrictive policies in China. The speed of the dismantling of the zero-COVID-19 policies, together with a less tough stance on technology company regulation and the relaxation of property company restrictions, were very unexpected positive developments. These changes can be seen as an effort by the Chinese government to support the Chinese economy, which has been struggling under the restrictions. This is expected to support global demand and offset some of the growth weakness in developing nations such as the US and Europe.

The US Federal Reserve's (the Fed) policy decisions remained important as they have significant economic implications for the rest of the world

Economic data releases, which have meaningful influence on the Fed's policy path, were therefore closely observed. US inflation continued to trend lower over the period, with headline inflation declining from 6.5% to 6%. Declining energy prices have been driving headline inflation lower, however elevated services inflation, specifically within the shelter component, have been offsetting the declines. Overall, this has led to inflation falling slower than the market participants were expecting.

Figure 1: US inflation breakdown



Source: Bloomberg, (2017 to 2023)



Early in March, Silicon Valley Bank (SVB) failed, leading to fluctuating markets

The bank's failure was due to bad banking practices which brought about a significant liquidity mismatch on the bank's balance sheet and ended with a run on the bank. It was the second largest bank to ever fail in the US. The Fed, US Treasury and the Federal Deposit Insurance Corporation (FDIC) reacted swiftly with emergency liquidity measures and SVB's depositors were rescued. This managed to calm markets and reinforced the view that this was a specific mismanagement problem at SVB and not a reflection of systemic problems within the US banking sector. Six days later however, the announcement was made that the Swiss National Bank would provide liquidity support for Swiss lender, Credit Suisse. In contrast to SVB, Credit Suisse is a large global bank which is 'too big to fail', given its interconnectedness within the global financial system, and it ended with the Union Bank of Switzerland (UBS) taking over Credit Suisse in what has been termed a 'forced takeover'.

While markets recovered after the fall of SVB, negative growth consequences are expected to be gradual

The market recovery into quarter end suggests that enough has been done to stop any further contagion within the global banking sector. The negative growth consequences will, however, only be apparent over time. Historically, the confidence knocks that follow bank failures, result in banks tightening up their lending standards, which negatively impacts growth. The full extent of tightening from banks will only be evident in time and could mean that the Fed will need to do less in terms of further tightening from the monetary side as the weaker growth will help bring down inflation.

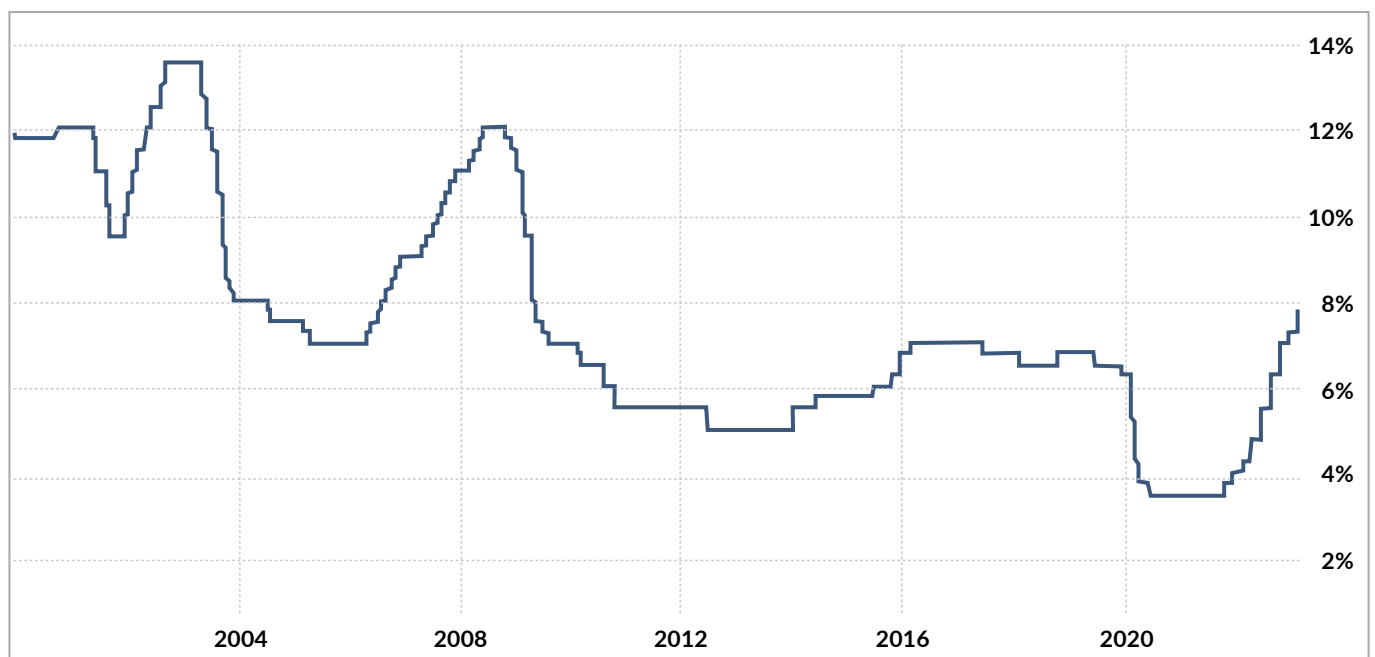
The Fed held two monetary policy committee meetings and increased interest rates by 0.50%

This brought the Fed funds rate to a range of 4.75% to 5%. This was in line with expectations and brings the total interest rate increases to 4.75% since they started over a year ago. US interest rates are now at their highest since September 2007. The second hike was after the failure of SVB with the Fed Chairman, Jerome Powell, reiterating that the Fed remains "committed to restoring price stability" and sees its role to bring inflation down as separate from maintaining stability in the banking sector. He did, however, acknowledge that the turmoil in the banking sector could lead to tighter lending standards and, in turn, help the Fed with their fight against inflation.

Locally, inflation declined from 7.2% to 7% and the repo rate increased over the quarter

This was as a result of lower energy prices that fed through to lower transportation price increases. Food inflation, however, unexpectedly increased to 13.6% on an annual basis, because of loadshedding putting upward pressure on food prices, therefore offsetting the declines in the energy sector. The South African Reserve Bank (SARB) also held two meetings over the quarter. In January, the Monetary Policy Committee (MPC) hiked the repo rate by 0.25%. It was smaller than the 0.5% hike expected by the market. This could be attributed to the SARB's growth forecasts being revised lower at the meeting. The growth expectation for 2023 was reduced to only 0.3% from 1.1% and 2024's growth expectation was revised to 0.7% from 1.4%. The key driver behind the growth deterioration is the increased intensity of the projected loadshedding, which is estimated to reduce growth by 2% in 2023. In contrast, at the SARB's March meeting, the MPC increased rates by 0.50% to 7.75%, the highest level in 14 years. It was more than the 0.25% hike expected by the market and can be put down to the SARB's concern over the upside risk to domestic inflation with this also evident in the increased forecast of 6% inflation for 2023, up from 5.4%.

Figure 2: South Africa's repo rate



Source: South African Reserve Bank, www.tradingeconomics.com (2000 to 2023)

The much-anticipated budget announcement was well received by the market

This was largely owned to there being no unexpected tax increases, more clarity over Eskom's debt support and government reiterated their commitment to maintaining a prudent fiscal stance. It was encouraging to see that government remains committed to staying fiscally prudent and stabilising South Africa's debt. There were concerns that the expense and revenue forecasts and the achievability of the deficit and debt targets were too optimistic. Notwithstanding this, Treasury's intention to keep South Africa fiscally prudent, especially a year ahead of the 2024 national elections, must not be underappreciated. In addition, the budget also provided more detail of the plans to support Eskom. National Treasury committed R243 billion in debt relief to Eskom over the next three years. The bailout will help alleviate Eskom's weak financial position; however National Treasury has put strict conditions on Eskom to 'safeguard public money.' This will free up cash for maintenance and investment in other much needed areas.

South Africa was grey listed at the end of February

This means that it was identified as a country that will come under increased monitoring following deficiencies in our anti-money laundering, terrorism, and proliferation financing framework. Government has addressed 59 of the 67 deficiencies that were first identified, with only eight remaining deficiencies still to be resolved. The effective implementation of the legislation was identified by the Financial Action Task Force (FATF) as lacking, however government's request for a formal assessment again in June 2023 could be seen as an indication that progress is expected regarding the enforcement of legislation. Overall, the grey listing does not prevent new investments, although it does increase the cost of doing business.





FG SCI* JUPITER INCOME FUND OF FUNDS

For periods until 31 March 2023

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	2.46%	5.46%	7.17%	7.68%	6.87%	7.05%	7.71%
STeFI Composite Index	1.75%	3.36%	5.96%	4.82%	5.78%	6.19%	6.89%
ASISA SA Multi Asset Income Category Average	2.29%	5.26%	6.76%	7.36%	6.80%	6.85%	7.57%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data longer than 12 months are 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 (Nedgroup)
- Granate BCI Multi Income Fund
- Matrix SCI Stable Income Fund
- Prescient Income Provider Fund
- Terebinth SCI Strategic Income Fund (Amplify)

Performance statistics

	Fund	Benchmark
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	3.25%	3.76%
% Positive months	93.36%	100.00%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Jupiter Income Fund of Funds returned +2.46% in the first quarter of 2023 and +7.17% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.75%, and the 12-month return of +5.96%. The Terebinth SCI Strategic Income Fund (Amplify) was the best-performing underlying fund over the quarter, returning +3.43%. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2023

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



FG SCI* VENUS CAUTIOUS FUND OF FUNDS

For periods until 31 March 2023

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	3.78%	8.44%	7.84%	10.96%	7.99%	8.04%	8.52%
ASISA SA Multi Asset Low Equity Category Average	3.59%	8.61%	5.96%	10.54%	6.90%	6.90%	7.42%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data longer than 12 months are 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 (Nedgroup)
- Coronation Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Granate BCI Multi Income Fund
- Matrix SCI Defensive Balanced Fund (Amplify)
- 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 Managed Inflation Linked Bond Fund
- Terebinth SCI Strategic Income Fund (Amplify)
- Veritas Global Equity Feeder Fund (Nedgroup)

Performance statistics

	Fund	Benchmark
Highest 12-month performance	16.83%	17.26%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	71.96%	70.90%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Venus Cautious Fund of Funds returned +3.78% in the first quarter of 2023 and +7.84% over the past 12 months, outperforming the benchmark peer group average quarterly return of +3.59%, and the 12-month return of +5.96. The Veritas Global Equity Feeder Fund (Nedgroup) was the best-performing underlying fund, returning +14.12% over the quarter. The fund's local property allocation was reduced to neutral, and rotated into local equity, while the fund's South African nominal bond and inflation-linked bond exposure was reduced and rotated into a manager with lower duration.

Asset allocation as at 28 February 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	11%	2%	35%	29%	23%



FG SCI* SATURN MODERATE FUND OF FUNDS

For periods until 31 March 2023

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	4.35%	10.28%	8.81%	14.83%	8.77%	8.29%	10.05%
ASISA SA Multi Asset Medium Equity Category Average	4.04%	10.32%	5.55%	12.94%	7.39%	7.21%	8.70%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data for longer than 12 months are 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 (Nedgroup)
- Bateleur Flexible Prescient Fund
- Coronation Market Plus Fund
- Coronation Global Optimum Growth Feeder Fund
- Matrix SCI Defensive Balanced Fund (Amplify)
- Ninety One Opportunity Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Satrix Bond Index Fund
- SIM Inflation Plus Fund
- Truffle SCI Flexible Fund
- Truffle SCI Wealth Protector Fund (Amplify)
- Veritas Global Equity Feeder Fund (Nedgroup)

Performance statistics

	Fund	Benchmark
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	69.67%	65.88%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Saturn Moderate Fund of Funds returned +4.35% over the first quarter of 2023 and +8.81% over the past 12 months, outperforming the benchmark peer group average quarterly return of +4.04%, and the 12-month return of +5.55%. The Veritas Global Equity Feeder Fund (Nedgroup) was the best-performing underlying fund, returning +14.12% over the quarter. Following changes in the portfolio manager for the SIM Inflation Plus Fund, a decision was made to fully redeem the fund's exposure to this particular fund and rotate the position into the Truffle SCI Wealth Protector Fund (Amplify) over the quarter.

Asset allocation as at 28 February 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	29%	2%	24%	16%	29%



FG SCI* NEPTUNE GROWTH FUND OF FUNDS

For periods until 31 March 2023

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	4.09%	11.54%	6.75%	17.53%	9.51%	7.68%
ASISA SA Multi Asset High Equity Category Average	4.24%	11.45%	5.00%	15.07%	7.60%	6.38%
			1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data for longer than 12 months are 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
- 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 (Nedgroup)

Performance statistics

	Fund	Benchmark
Highest 12-month performance	38.17%	30.65%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	63.11%	62.14%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Neptune Growth Fund of Funds returned +4.09% over the first quarter of 2023 and +6.75% over the past 12 months, underperforming the benchmark peer group average quarterly return of +4.24%, while outperforming the 12-month return of +5.00%. The ABSA Property Equity Fund was the worst-performing underlying fund, returning -3.85% over the quarter. The fund's global property exposure was reduced (redeemed Catalyst Global Real Estate Prescient Feeder Fund) and rotated into global equity over the quarter.

Asset allocation as at 28 February 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	37%	2%	17%	10%	34%



FG SCI* MERCURY EQUITY FUND OF FUNDS

For periods until 31 March 2023

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	3.53%	14.85%	5.65%	24.36%	9.55%	8.31%	10.54%
FTSE/JSE Africa All Share (Total Return)	5.17%	21.11%	4.90%	24.22%	10.42%	10.22%	12.77%
ASISA SA Equity General Category Average	2.25%	13.09%	1.24%	20.96%	7.03%	7.23%	10.10%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data longer than 12 months are 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 (Nedgroup)
- 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	62.09%	61.14%

*Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Mercury Equity Fund of Funds returned +3.53% in the first quarter of 2023 and +5.65% over the past 12 months, underperforming the +5.17% quarterly return of the benchmark FTSE/JSE All Share Total Return Index while outperforming the 12-month return of +4.90%. The M&G Equity Fund was the worst-performing underlying fund, returning -0.33% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	74%	2%	1%	5%	18%



FG SCI* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 31 March 2023

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	9.14%	10.14%	12.10%	7.36%	9.38%	9.91%	8.45%
Benchmark**	8.79%	11.45%	11.34%	7.45%	10.48%	10.05%	9.38%
ASISA Global Multi Asset Flexible Average***	8.79%	11.45%	11.34%	7.45%	10.66%	10.30%	8.50%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data for longer than 12 months are 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 (Nedgroup)
- 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	56.22%	59.14%

*Source until 31 May 2018: Iress

Source from 30 June 2018: Morningstar

The FG SCI International Flexible Fund of Funds returned +9.14% in the first quarter of 2023 and +12.10% over the past 12 months, outperforming the benchmark peer group average quarterly return of +8.79%, and the 12-month return of +11.34%. The Ninety One Global Franchise Fund was the best-performing underlying fund over the quarter, returning +11.47% in rand terms. No changes were made to the fund over the quarter.

Asset allocation as at 28 February 2023

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	66%	23%	5%	3%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	66%	3%	8%	7%	13%	3%



MARKET PERFORMANCE

Index	Asset Class	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Last 12 months	Year to Date 2023*
STEFI Composite Index	Local Cash	1.15%	1.35%	1.57%	1.75%	5.96%	1.75%
FTSE/JSE All Bond (Total Return)	Local Bonds	-3.71%	0.60%	5.68%	3.39%	5.83%	3.39%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-11.56%	-3.54%	19.31%	-5.05%	-3.36%	-5.05%
FTSE/JSE Africa All Share (Total Return)	Local shares	-11.69%	-1.92%	15.16%	5.17%	4.90%	5.17%
JP Morgan World Govt Bond index (USD)	Global Bonds	-8.43%	-7.15%	3.84%	3.08%	-8.99%	3.08%
FTSE EPRA Nareit Global REITs TR USD	Global Property	-17.02%	-10.84%	6.89%	1.66%	-19.60%	1.66%
MSCI World GR USD	Global Shares	-16.05%	-6.08%	9.89%	7.88%	-6.54%	7.88%
MSCI ACWI GR USD	Global Shares	-15.53%	-6.71%	9.88%	7.44%	-6.96%	7.44%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	12.11%	9.71%	-5.33%	4.28%	21.42%	4.28%

*(Return until 31 March 2023)

Source: Morningstar



ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG SCI International Flexible FoF A	20,887,313.86	33.61	1.53
FG SCI International Flexible FoF A1	83.82	32.89	2.09
FG SCI International Flexible FoF B	1,431,444.35	27.02	3.20
FG SCI International Flexible FoF B1	2,576,531.48	27.96	2.96
FG SCI International Flexible FoF C	3,770.93	32.93	—
FG SCI Jupiter Income FoF A	71,660,086.40	12.32	1.04
FG SCI Jupiter Income FoF A1	55.02	12.31	1.61
FG SCI Jupiter Income FoF B	6,363,678.77	12.25	2.77
FG SCI Jupiter Income FoF B1	5,114,337.20	12.26	2.48
FG SCI Jupiter Income FoF C	301,618.51	12.15	—
FG SCI Mercury Equity FoF A	4,360,298.47	43.08	1.58
FG SCI Mercury Equity FoF A1	16.92	43.02	2.11
FG SCI Mercury Equity FoF B	273,900.51	41.29	3.31
FG SCI Mercury Equity FoF B1	49,829.03	42.24	3.02
FG SCI Mercury Equity FoF C	22.92	42.65	—
FG SCI Neptune Growth FoF A	25,915,654.91	15.15	1.66
FG SCI Neptune Growth FoF A1	48.67	15.13	2.20
FG SCI Neptune Growth FoF B	1,939,469.98	15.05	3.38
FG SCI Neptune Growth FoF B1	1,251,728.92	15.07	3.09
FG SCI Neptune Growth FoF C	65.35	15.03	—
FG SCI Saturn Moderate FoF A	47,821,705.39	33.91	1.56

* NAV (Mo-End) and no. of participatory interests as at 31 March 2023

**TER as at 31 December 2022



ADDITIONAL FUND INFORMATION

(CONTINUED)

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG SCI Saturn Moderate FoF A1	21.24	33.84	2.11
FG SCI Saturn Moderate FoF B	6,913,328.36	33.65	3.29
FG SCI Saturn Moderate FoF B1	5,239,602.00	33.68	3.00
FG SCI Saturn Moderate FoF C	4,797.26	33.41	—
FG SCI Venus Cautious FoF A	79,277,624.54	18.41	1.27
FG SCI Venus Cautious FoF A1	38.22	18.38	1.82
FG SCI Venus Cautious FoF B	2,887,065.44	18.22	3.00
FG SCI Venus Cautious FoF B1	8,029,512.51	18.23	2.71
FG SCI Venus Cautious FoF C	90,766.93	18.12	—

* NAV (Mo-End) and no. of participatory interests as at 31 March 2023

**TER as at 31 December 2022



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