



FG INVESTMENT PARTNERS

GLOBAL BRIEF

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EDITORIAL COMMENT

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Markets rebound strongly in the fourth quarter of 2023 after dovish approach set by the Fed

After enduring a poor third quarter investors will certainly have enjoyed strongly positive market moves across the board in the final quarter of 2023. Global equities (MSCI World Index) achieved a US dollar return in excess of 11% while global bond returns were in excess of 5% over the same period. It is also worth noting that gold had a particularly strong quarter in the face of declining real yields with a performance in US dollar terms of more than 11%. The global narrative underpinning this turnaround in sentiment (and here we recognise the outsized influence of the US) was a continued and slightly better-than-anticipated decline in inflation combined with still relatively robust economics. The US labour market with an unemployment rate of just 3.7% certainly appears to be in rude health to say the least. The main catalyst however for the boost to market performance came from a somewhat surprising change of tone from the US Federal Reserve (the Fed) that sounded a lot less cautious and somewhat more dovish. Markets immediately (and somewhat optimistically) priced in 1.50% of cuts in the federal funds rate by the end of 2024. Bond yields fell and equity prices surged. Further support for equity markets came from improved liquidity conditions notwithstanding supposed quantitative tightening. Lower rates lead to a slightly weaker US dollar.

Local markets hold steady amid offshore sentiment

On the local front, the rand was a little firmer, equities gained just under 7% while bonds returned just over 8% over the quarter. As always, the South African market was strongly influenced by offshore market sentiment. While the Medium Term Budget Policy Statement in the quarter reflected conservative fiscal goals the fundamentals of the South African economy did not show any marked improvement.

INDEPENDENT TRANSPARENT COMPETENT

Global markets are hopeful for a soft landing, but challenges persist

Going forward (in a global context) while the consensus now seems to be for a soft landing financial markets are certainly not without risk. The recent dramatic easing of financial conditions in the US could potentially interrupt the declining inflation narrative, the tightness of the labour market also seems to be somewhat at odds with a 2% inflation target. Should inflation prove to be sticky (wage inflation still above 4%) interest rate cut expectations could well be cut back. Valuations are certainly not cheap either and appear to be pricing for a Goldilocks outcome. There is an additional risk of interest rates pricing to the upside given the wall of South African government debt that needs to be rolled and find buyers. There are risks on the economic outlook front as well as we have yet to witness the full impact of previous sharp interest rate hikes (it normally takes about 18 months from the first hike).

Locally valuations remain cheap but the outlook is far from certain

While a relatively cautious stance did not get its full reward from very bullish market conditions over the quarter, we continue to carefully review positioning and prospects. Overall our funds retain a good mix of high-quality growth and income assets, and continue to remain well diversified from a manager and style perspective.

What you can look forward to in this edition

Sandile Malinga, Co-Head of Multi-Asset at M&G Investments, reflects on a tumultuous 2023 with all its twists and turns and warns against relying solely on macroeconomic forecasts when building investment portfolios. Rael Bloom, Product Development Actuary at Coronation, speaks to a new era for South African retirement funds with the impending two-pot system dividing future contributions into a retirement “pot” and a savings “pot”. He brings to our attention that despite the potential for improved retirement outcomes there are significant risks associated with the transition. Raihan Allie, Fixed Income Portfolio Manager at Truffle, writes about opportunities in South African investment markets and the benefits of a flexible portfolio approach. He emphasises the attraction of high real yields available in South African capital markets in particular. Zain Wilson, Portfolio Manager at Old Mutual Investment Group, reflects on the advantages of extending your holding period and staying invested for the long run. This is lesson number two of the “long-term lessons” series from Old Mutual Investment Group. The article is aptly titled “Time is your friend” and it’s certainly worth a read.

We hope you find these articles insightful.

To staying informed.

The FG Asset Management Investment Team



PLOT TWISTS AND PORTFOLIOS: 2023 SURPRISES THAT RESHAPED INVESTOR THINKING



Adapted from an article by
Sandile Malinga

Chief Investment Officer
of Multi-Asset
M&G Investments



In 2023, investors' predictions fell short as four major economic forecasts proved inaccurate

Since the tumultuous year of 2023 has closed, investors have now naturally turned their focus to the new year and are trying their hands at predicting what might happen over the next 12 months. However, we decided to instead look back at the year that was, to some of the outcomes that were widely predicted, and what has actually transpired. In 2023, most experts and consensus forecasts were far off the mark for much of the time, which is why M&G Investments does not rely on macroeconomic predictions when building portfolios, but rely on actual asset valuations instead. 2023 was a year in which four big macroeconomic forecasts shaping investor thinking all proved to be misguided in the end.

The forecast incorrectly predicted that a recession was imminent

At the end of 2022, the prevailing view by far was that a recession in 2023 was practically a given, on the back of high inflation, sharply rising interest rates and slower economic growth. Starting in the US, it would spread to much of the developed world, and spark a string of financial crises in emerging markets and developing economies, with a lasting detrimental effect. A long list of indicators appeared to support this prediction, including a falling stock market, historic lows in consumer sentiment and the inversion in the US Treasuries yield curve. Instead, in the US, the economy defied the pundits, consistently beating even the most optimistic expectations: first quarter real GDP growth was positive at 2% year-on-year, as was second quarter growth at 2.1% year-on-year, and in the third quarter, the US economy expanded by an annualised 5.2%.

The stock market had a remarkable year despite predictions of its impending decline

At the end of 2022, the outlook for the stock market was bleak, to say the least. Against the backdrop of surging interest rates, high inflation, the Russian invasion of Ukraine and its negative effects, and the recession fears mentioned above, analysts were predicting a negative year for equities. What occurred instead was one of the best starts to a year, with the S&P 500 up by nearly 16% in the first six months, albeit with volatility along the way. By the end of November, the S&P 500 had posted a total return of 21% for the year to date, largely the result of technology stocks, in particular the so-called "Magnificent 7" mega-caps that are expected to take advantage of the burgeoning expansion of AI into industry and business. This is particularly impressive given that a US regional banking crisis rattled markets and investor confidence in the second quarter.

China was expected to lead the post-COVID-19 recovery but saw slow economic growth

As the world's second largest economy, many had hoped that China would be at the forefront of the global post-COVID-19 recovery. What happens in China has significant implications globally for inflation, growth and trade. But while China's economy has achieved positive growth this year, it has been at a slower pace than initially hoped for. While its actual GDP growth rates of 4.5% year-on-year in the first quarter of 2023 and 6.3% year-on-year in the second quarter of 2023 were favourable in absolute terms, they disappointed most pundits who were hoping for 7.3% year-on-year expansion in the second quarter, for example. Government policies to boost consumption and support the ailing property market have not had the desired impact, and deflation risks have been growing. Recently, the International Monetary Fund raised its growth forecast for China to 5.4% for 2023, but it expects growth to slow to 4.6% in 2024 due to continuing weakness in the Chinese property market, as well as subdued demand from global markets. Instead, it was the US – primarily the American consumer – that has been leading the world out of the COVID-19 doldrums.

Inflation did not continue to rise as predicted

Investors started the past year expecting inflation to continue spiralling upwards, or at least to remain at high levels for all of 2023. After all, many countries experienced their highest inflation rates in decades in 2022 as a result of the widespread economic dislocation and supply chain problems that COVID-19 triggered. Having peaked at 9.1% year-on-year in June 2022, US inflation declined to 6.4% year-on-year in January, marking the start of a downward trend. This trend persisted, and by the end of October, US inflation was just 3.2% year-on-year. A similar pattern was seen elsewhere, although inflation did prove more stubborn in certain regions like Europe and the UK before falling in the latter part of the year. Eurozone inflation, for instance, stood at 2.9% year-on-year in October, and at 4.6% year-on-year in the UK.

Uncertainty is undesirable, but inevitable

Of course, now that 2023 has ended, investors are once again trying to predict what might lie ahead in 2024. Humans do not like uncertainty and do their best to pin down all the possible future variables. Human nature also inclines us to anchor to the recent past and extrapolate it far into the future. Unfortunately, this is impossible since we never know all of the variables at play. Extrapolation from the past is also futile, given that our previous sense of financial balance was built on 40 years of successful inflation fighting, very low (and negative) real interest rates, rising globalisation, and increasing profit shares of GDP. Since COVID-19, these trends have started to reverse. As such, in the current environment the right answer to what the new year might bring must be "we don't know". Seemingly far-fetched views of the future have just as strong a chance of being right as some notion of a tweaked version of today.

THE TWO-POT SYSTEM: A NEW ERA FOR SOUTH AFRICAN RETIREMENT FUNDS



Adapted from an article by
Rael Bloom

Product Development Actuary
Coronation Fund Managers



Key takeaways

- This is the largest reform in the history of the South African retirement fund market and aims to ensure a balance between compulsory preservation and access to emergency funds.
- The system should result in better retirement outcomes for members in the long term.
- The required changes must be carefully managed to meet the September 2024 deadline.
- Upholding the principle of compulsory preservation is vital to ensuring the long-term sustainability of retirement savings.

South Africa's retirement fund system is at a critical juncture, with the imminent rollout of the two-pot system. A successful implementation promises to address key long-standing deficiencies in our current retirement framework, driving better retirement outcomes for members. In contrast, an unsuccessful or rushed implementation runs the risk of destabilising or undermining confidence in what is a crucial sector of the economy.

Understanding the proposed “two-pot” system for South African retirement savings

The “two-pot” system is a proposed reform that conceptually divides future retirement fund contributions into two parts: a “retirement pot” and a “savings pot”. The retirement pot, comprising two-thirds of contributions, is strictly preserved for retirement, and must be used to purchase a retirement income annuity, while the savings pot, accounting for the remaining one-third, can be accessed before retirement, with the intention that it should be used for financial emergencies. Members will be able to withdraw from the savings pot once per tax year, subject to certain conditions. The savings pot can also be understood to provide tax-disadvantaged early access opportunities to the tax-advantaged one-third retirement lump sum. The “vested” savings that members have accumulated prior to the implementation of the new system will remain subject to the rules that were previously in place.

Why is it being implemented?

1. It is an answer to improving retirement outcomes

The two-pot system is a significant step in National Treasury's efforts to improve retirement outcomes. Over the past decade, reforms have been implemented to address a range of issues in the retirement savings sector, such as harmonising the tax regime, promoting higher

levels of savings, preservation and annuitisation, enhancing value for money, and improving fund governance.

2. It addresses challenges faced by people cashing out savings before retirement

Despite progress in these areas, the critical issue of compulsory preservation has remained a key challenge. Under the current system, individuals are allowed to cash in their occupational retirement savings when leaving employment, which most members do. The result is that only a small minority of individuals have sufficient savings when they reach retirement.

3. It accommodates immediate financial needs as well as retirement savings

The COVID-19 pandemic highlighted the urgent need for a system that provides both compulsory preservation as well as access to short-term savings as a financial safety net. The financial distress caused by the pandemic brought into sharp focus the reality that, for many South Africans, there are times when immediate financial needs outweigh the need to save for retirement. This acted as a catalyst for the move toward the two-pot system, aiming to establish a balanced approach that allows for immediate financial access to a portion of retirement savings whilst also ensuring adequate preservation for retirement.

Challenges and tasks ahead for implementing the new retirement system

At the time of writing, parliament's finance portfolio committee has agreed to an implementation date of 1 September 2024, after having previously resolved that the system should be implemented on 1 March 2024. While this six-month reprieve does provide industry stakeholders with additional time to prepare for the change, the deadline remains challenging due to several key issues that must be resolved, including:

1. A raft of regulatory changes is required to give legal effect to this new system and to provide clarity about the changes that are required. This includes changes to the Income Tax Act and Pension Fund Act. This enabling legislation must still be finalised and promulgated.
2. SARS must adjust its systems and processes to accommodate the tax requirements.
3. The Financial Sector Conduct Authority (FSCA) must approve enabling rule amendments for all the retirement funds affected by the new system.
4. Administrators must make necessary system upgrades and adjustments to meet the requirements of the new system.
5. Funds must make necessary preparations, such as ensuring that they have the correct bank details for all members.
6. Member education about the new system is crucial. This involves helping members understand how the new two-pot system works, dispel many myths, and clarify what will happen to their accumulated (“vested”) savings pots.

Understanding the key benefits and risks of the new two-pot retirement system

Key benefits

The two-pot design provides an elegant way of addressing the unique challenges faced by the South African retirement industry. If it is implemented successfully, then it will result in materially better retirement outcomes for savers.

Even if we assume that most members withdraw the entire one-third from their savings pots before retirement, the beneficial effects of compounding on the two-thirds in the retirement pot over time should lead to substantially better retirement outcomes for the average member. Of course, those members who are able to keep their savings pots invested will be in an even better financial position at retirement.

Improved retirement outcomes will, in turn, improve the overall health of the retirement system, increasing the amount of capital available for investment, and providing long-term benefits to the economy.

Risks

However, if the system is not implemented properly, then there is a risk of member discontent, which could undermine confidence in the retirement industry. There are three key risks that need to be carefully managed:

1. Execution risk

The two-pot system is the largest reform of the South African retirement system in its history, and the aggressive timeline introduces the risk of delays, errors, and a lack of member understanding about the benefits to which they are entitled under the new system.

The practical challenges of implementing a reform as substantial as this means that the revised deadline of 1 September 2024 will still be tight but much more manageable than the initial 1 March 2024 target. To ensure a smooth transition to the new system, clear and effective communication with members about the upcoming changes is vital, alongside operational changes that are required for industry stakeholders to be able to deliver on their respective obligations under the new system.

2. Risks relating to the initial seed capital payment

There is a very real risk of significant member unhappiness in relation to an initial “seed capital” lump sum that will be available to members when the two-pot system is introduced.

How much will members be able to withdraw?

The first area of possible discontent is around how much members will be able to receive when the new system is implemented. Throughout the two-pot deliberations, there has been a strong push for an initial lump sum payment to be made to members at inception of the system in the form of a seed capital payment. While this is technically classified as a seed transfer from their vested pots (existing savings) into the new savings pot (which can then be accessed immediately), it will practically be seen as an initial once-off lump sum withdrawal that members will be allowed to take from their current retirement savings.

Advocates for the payment of seed capital emphasise the urgent need for members to access a portion of their capital, highlighting the financial hardships many are facing in the aftermath of COVID-19 and the ongoing economic challenges in South Africa.

The amount of seed capital is expected to be set at 10% of a member's retirement balance, subject to a maximum of R30 000. This is a gross amount, and the actual amount that members will receive will be lower than this because they will be reduced by tax and administration costs.

There is a risk that some members may not have a full understanding of the actual amount that they will receive when their seed capital is paid out.

By when would members be able to withdraw their savings?

Secondly, some members are likely to expect that they will receive their initial seed payments on, or shortly after, the implementation date of 1 September 2024, whereas there is a risk that it may take longer for all stakeholders to have the necessary processes in place so that funds are able to make these payments to all their members. In the current system, most funds only need to make payments to a small percentage of their member base for life events such as retirement or resignation. In contrast, all members of retirement funds will be entitled to a seed capital withdrawal at inception, putting a huge administrative burden on funds, their administrators and other industry stakeholders such as SARS and the FSCA.

This risk of the seed capital payouts not meeting member expectations is compounded by the significant financial difficulties faced by many South Africans, coupled with the fact that funds have limited time to educate members about the new system.

3. Retirement savings sustainability risk

While the immediate focus is understandably on meeting the September deadline, a more significant long-term risk relates to the expectations that may be created following the payout of the initial seed capital lump sums. It is critical to the long-term sustainability of the retirement system that this initial seed payment is only allowed once, and that additional lump sum withdrawals from members' retirement pots and vested pots are not allowed. After the seeding has taken place, the only amounts that should be accessible to members should be the balances available in their savings pots.

The potential risks of creating an expectation for recurring lump sum withdrawals are highlighted by what happened in the Chilean retirement market during the COVID-19 pandemic. Prior to the pandemic, Chile's pension system was generally well regarded. However, the retirement system was decimated following a series of COVID-19 related withdrawals, with over \$50 billion flowing out of the system.

In contrast, Australia also allowed emergency withdrawals from superannuation funds during COVID-19, but only under very specific and limited means-tested conditions. This protected the integrity of the Australian system, allowing it to recover once the immediate needs of the pandemic had passed.

To avoid a fate similar to Chile's, it is essential for South Africa's shift to the two-pot system to clearly establish that no further rounds of seeding will be permitted. Such discipline is crucial to protect the industry and avert severe harm to retirement savers and to the broader economy over the long term.

Where to from here?

The retirement industry is at a crucial point, with a lot of work required to meet the tight timelines for rolling out the two-pot system, especially considering the extent of these changes, the need for coordination amongst stakeholders to implement this properly, and the importance of ensuring that members are properly educated about the upcoming changes.

While the stakes are high, we are optimistic that the end result can be a retirement system that finally provides the much-needed adjustments like compulsory preservation alongside a clear framework for access, in order to improve retirement outcomes for members. As we navigate these challenges, we are committed to working closely with clients and industry bodies to manage these risks and proactively prepare for this significant change.

MAKING LIGHT OF A DARK SITUATION



Adapted from an article by
Raihan Allie

Portfolio Manager: Fixed Income
Truffle Asset Management

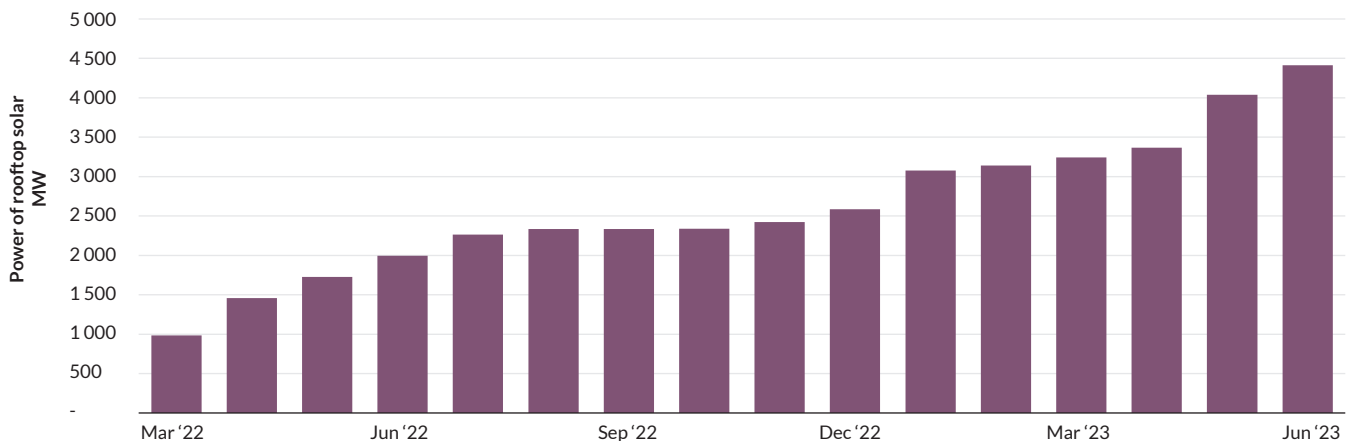


South Africans are persevering through loadshedding

In the face of adversity, South Africans have shown their resilience and “made a plan”. Adapting to persistent loadshedding in 2023 means efforts to combat loadshedding have gained, and continue to gain, traction.

Figure 1 shows how South African businesses and consumers are making light of a dark situation. Installation of alternative sources of power is accelerating, reinforced by related tax breaks announced earlier in the year.

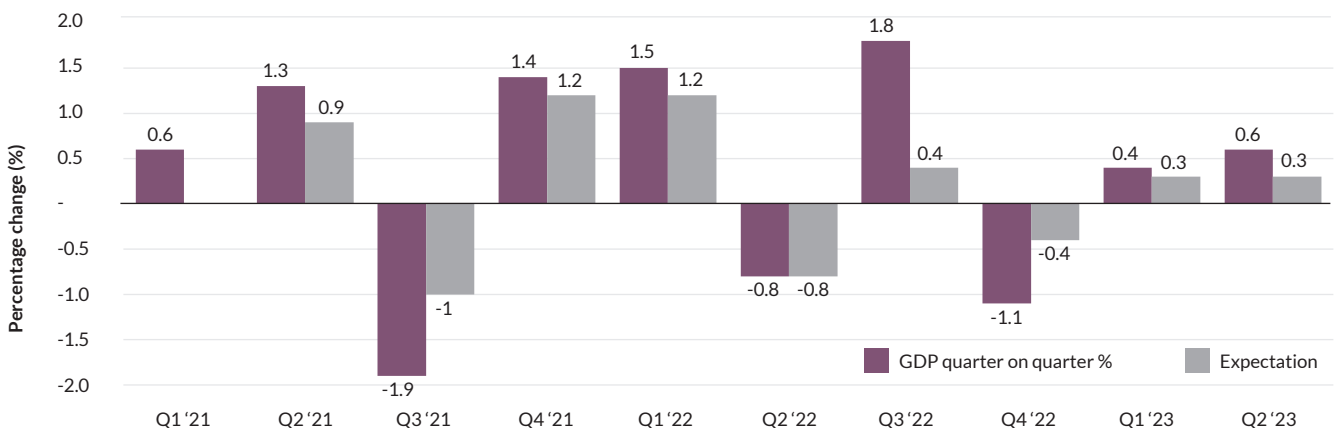
Figure 1: South Africa's increasing source of power from rooftop solar across households and businesses



Source: Eskom, Nersa and RMB Markets Research

In 2023, South Africa's economy has surprised on the upside with GDP growth more than market expectations as shown in figure 2. Even though at a low hurdle, the market is extrapolating the economic impact of loadshedding into perpetuity with near term expectations for the third quarter and fourth quarter, at 0.2% and 0.3%, respectively.

Figure 2: South Africa's GDP growth beating low expectations



Source: Stats SA

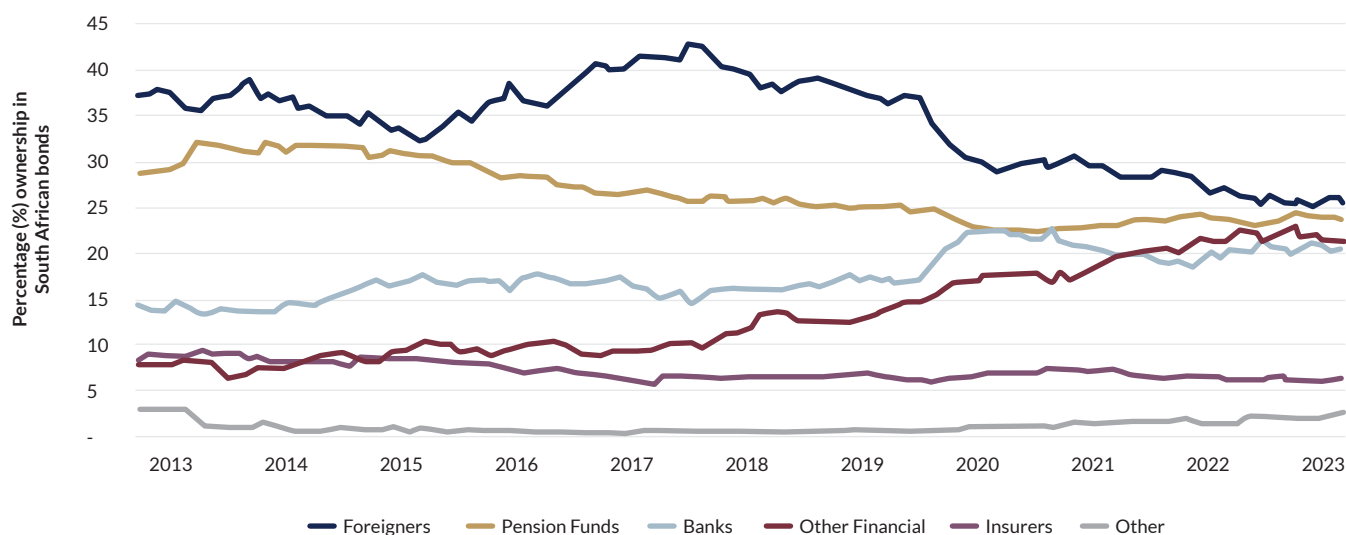
Should quarterly expectations play out, South Africa would achieve year-on-year growth of 1.5% versus an estimated 0.9% announced in the 2023 budget earlier this year. Not a bad outcome given the environment and generally poor sentiment.

South Africa faces economic challenges impacting bond prices and increasing debt concerns

Current South African debt prices are clearly forecasting a dire growth outlook, with energy access being the main constraint to economic growth. Given an energy availability factor of 55% (measure of South Africa's ability to produce power), the lack of optimism being priced into our local bonds comes as no surprise. Furthermore, South Africa's financial health is weighing on markets and as finances become more stretched through growing twin deficits (trade and fiscal), our funding requirements and costs continue to increase. Added to this, the probability of an impending debt spiral rises.

Funding these deficits means increasing treasury issuances are on the horizon and given weak foreign appetite for our debt (depicted in figure 3), it remains up to the locals to shoulder the burden and keep the state afloat.

Figure 3: Local investors increasingly supporting the South African government bond market



Source: National Treasury

There are still opportunities for higher returns and economic growth

The South African yield curve is currently pricing in a significant amount of "doom and gloom". It is often under these conditions, where we're able to find return opportunities. Continued upside surprises to GDP growth are not being priced in. Increasing GDP would reinforce the notion that a peak in debt-to-GDP can be achieved, if we can demonstrate restraint on our spending.

LESSON 2: TIME IS YOUR FRIEND



Adapted from an article by
Zain Wilson and extracted from
Old Mutual Investment Group's
Long-Term Perspectives 2023

Portfolio Manager
Old Mutual Investment Group



In a nutshell: long-term investments are your best bet

Extending your holding period, staying invested for the long run and avoiding acting during times of stress, is the best way to manage the risk of losing money in equities. A longer-term investment horizon gives you the best chance to meet your long-term financial goals, because time is your friend.

A study showed US investors lag behind their chosen funds, especially in uncertain times

In its annual Mind the Gap study¹, Morningstar looked at how US investor behaviour drives investment performance. The analysis showed that, over the past decade to the end of 2021, end investors earned about 1.7% less than the returns of underlying funds in which they invested. This gap widened during periods of increased uncertainty, especially for “riskier” asset classes that are more volatile over the short term, like equities. Interestingly, asset allocation funds fared the best, in part, thanks to their more stable returns.

Figure 1: Investors earn less than their funds

Illustrative: The gap by US category group (10-year returns)

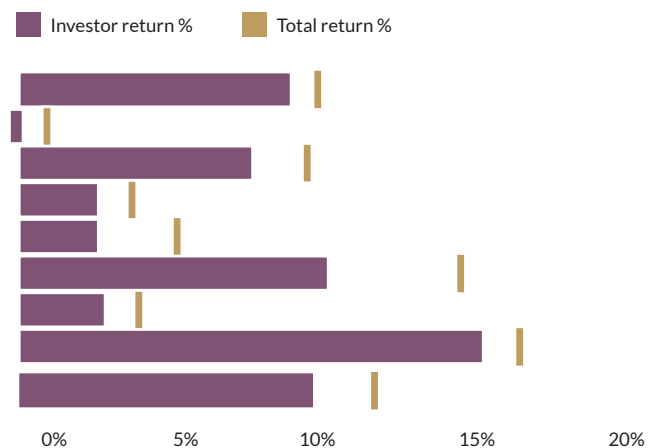
US category group	Investor return %	Total return %	Gap
Allocation	8.65	9.43	-0.77
Alternative	-0.52	0.65	-1.16
International equity	7.18	8.93	-1.75
Municipal bond	2.33	3.54	-1.21
Non-traditional equity	2.32	5.19	-2.87
Sector equity	9.59	13.84	-4.25
Taxable bond	2.41	3.58	-1.17
US equity	14.67	15.86	-1.19
Overall	9.31	11.04	-1.73

Source: Morningstar Direct. Data as of 31 December 2021.

Excludes commodities category group.

Gap numbers may not match differences in returns because of rounding.

-5%



What exactly does this mean? Essentially, the Morningstar study suggests that investors are prone, especially during periods of heightened uncertainty, to making costly decisions around their investment portfolios.

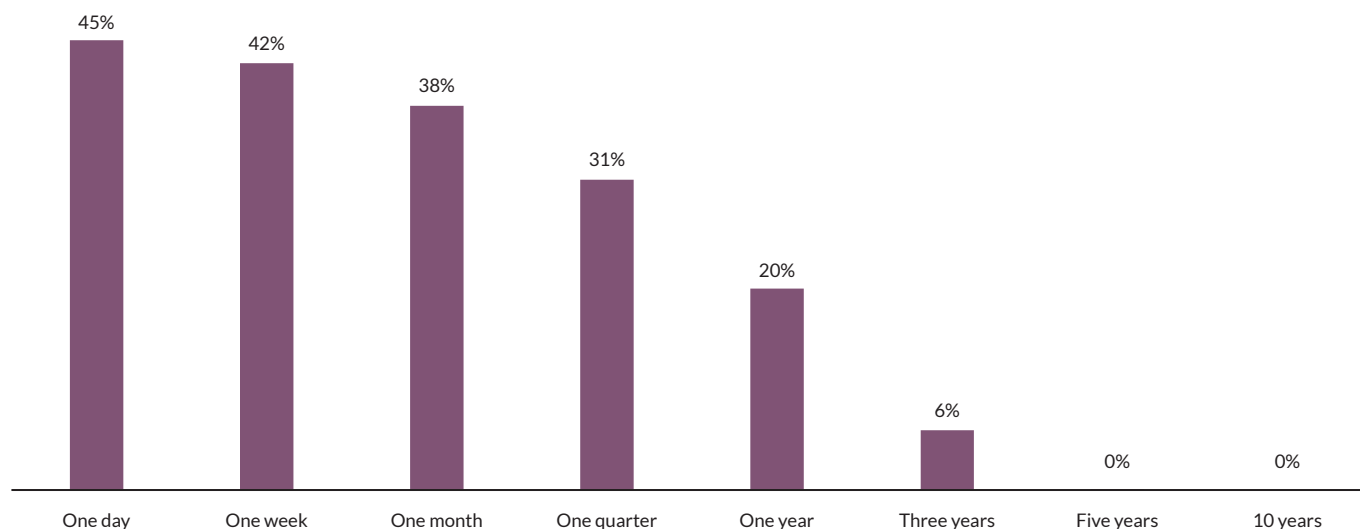
Staying invested trumps short-term uncertainty

Over the short term, equity markets are volatile, responding to news flow and the appetites of investors. This can be difficult to digest, especially with conflicting explanations from commentators for why markets were up or down on any particular day, week or month. Increased uncertainty leads to increased risk aversion.

¹Mind_the_Gap_2022.pdf (contentstack.io)

Paradoxically, in most instances, the best way to manage the risk of losing money is not to sell when uncertainty rises, but to rather remain invested. Looking at the past performance of a more volatile asset class, like South African equity, Figure 2 shows that historically, as soon as you extended your holding period for more than three years, the chance of losing money became negligible.

Figure 2: Frequency of negative returns over different time periods



Sources: Old Mutual Investment Group, FactSet
 1 day and 1 week: Rolling total returns, June 1995 to December 2022
 1 month to 10 years: Rolling returns, January 1960 to December 2022

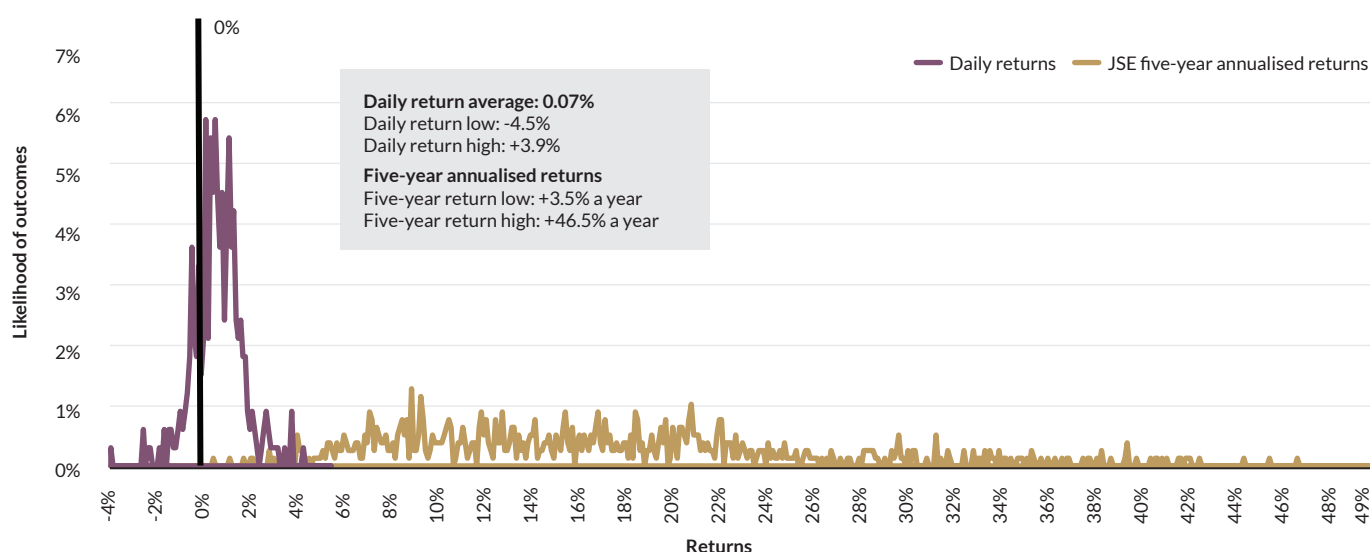
How our biases impact investment decisions

Cognitively, we are hardwired to weigh losses and recent experiences more heavily than gains and past events. Acting in response to recent losses exposes investors to a greater long-term risk of missing out on the compounding power of equities over time.

To better understand the implications of reacting to short-term events, Figure 3 shows daily returns for South African equity versus annual five-year returns². Daily returns averaged a meagre 0.07% and ranged widely from -4.5% to +3.9%. In contrast, five-year returns averaged 16% a year, and there were no negative returns. When trading in the short term, it is difficult to distinguish trends within the randomness of the noise. Add our cognitive biases to this, and it is clear that the odds are stacked against the short-term trader.

Figure 3: A longer-term view reduces the potential for losses

Illustrative: Range of annualised real returns from South African equity



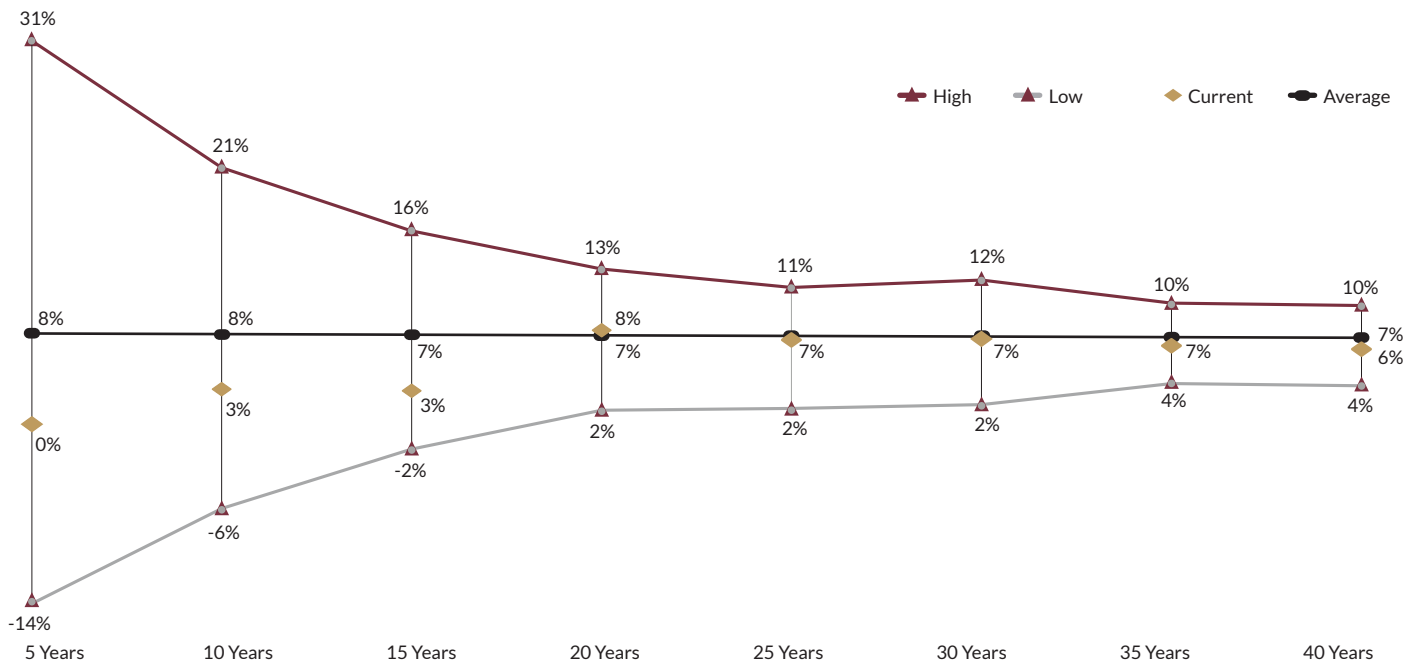
Daily data 1995 to 2022, annual data 1925 to 2022

²For South African equity, we only have daily data dating back to 1995, while we have annual data as far back as 1925.



Figure 4: Over time, returns become less volatile

Illustrative: Range of annualised real returns from South African equity (December 1924 to December 2022)



Patience can go a long way towards meeting your financial goals

Shifting your decision-making to a longer time horizon reduces the pain of losses and the randomness of noise, while also increasing the probability of meeting your financial goals. The time funnel (Figure 4) shows the range of the annualised real returns investors would have achieved over various periods (listed on the horizontal axis). The funnel narrows from both the top and bottom as you increase the length of time invested, showing that time softens the impact of large positive or negative periods. And the longer you stay invested, the less you have to worry about capital losses from equities.

The main reason investors prefer cash to equities is the fear of losing money. This fear makes us react irrationally and, in the long run, can meaningfully impede wealth generation and the likelihood of us meeting our financial goals over time.

The adage holds true: It's time in the market, not timing the market, that counts.

“We think about time as something not to waste, not as something to invest.”

Garry Kasparov, former World Chess Champion



FG ASSET MANAGEMENT

QUARTERLY REPORT

Quarter 4 | 2023

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY



Jacy Harington
Portfolio Manager
FG Asset Management

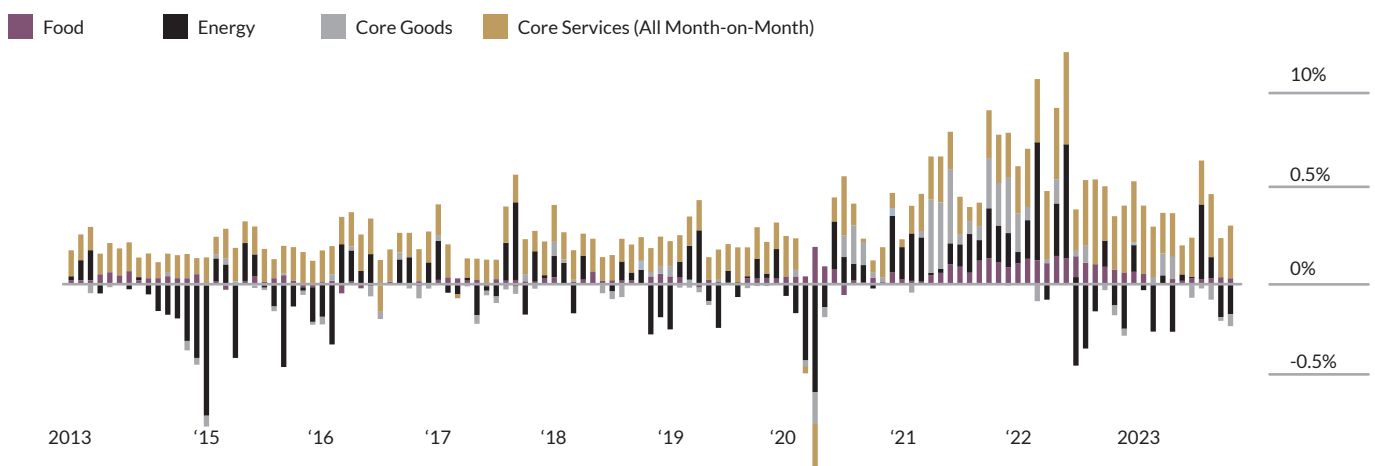
Recent inflation declines shift investors' monetary policy expectations

Mandates for global central banks have always been centred around maintaining the price stability or inflation of a currency. Over the past 18 months, developed market inflation reached elevated levels not seen for many decades. As a result, interest rates increased at a pace few market participants have ever experienced. What the market was grappling with is 'where to from here?'. Do these elevated interest rates stay until inflation targets are achieved and how long until inflation declines back to its target levels? The key change over the past 3 months has been investors' perception that the current tight monetary policy would be eased sooner than previously thought, with the belief that the war against inflation has been victorious. Only time will tell whether these expectations are indeed correct as future reductions in inflation will be more challenging going forward.

US inflation drop prompts market speculation and bond yield fluctuations

Given the importance of US monetary policy to the rest of the world, US inflation continued to be closely followed. Overall headline US inflation reduced by 0.5% since the previous quarter end. Initially, the 3.7% level that was released in October continued to fuel speculation that the US Federal Reserve (the Fed) would need to hike rates again before the end of the year. The big surprise however came in November when inflation fell to 3.20%, prompting the significant fall in bond yields as the market started pricing in five 0.25% rate cuts by the end of 2024. Energy and goods inflation have driven the majority of the past year's inflation decline, while price pressures remain within the services sector, specifically shelter and wage inflation. Prices within these subsectors have proven to be stickier and their future declines should not be taken as a given.

Figure 1: US Inflation breakdown (monthly % change)



Source: Bloomberg Economic Analysis (2013 to 2023)

The US economy remains resilient amid monetary policy tightening, with strong GDP growth and robust consumer spending

Overall, US economic data releases continued to surprise on the upside showing little sign of buckling under the substantial monetary policy tightening from the past 18 months. Third quarter US GDP came in stronger than expected at +5.2% annualised from the previous quarter's +2.1% and well ahead of expectations. Most sectors made meaningful contributions to growth; however, it was consumer spending that was a key driver behind the strength. Household income has been supported by the strong US labour market with the unemployment rate remaining below 4% over the quarter. Going forward, unemployment and therefore the sustainability of the US consumer's strength will be key in determining how the US economy will fare over the next 12 months.



The Fed shifts tone from hawkish to hints of easier monetary policy, surprising markets and bolstering global assets

The Fed held two meetings during the quarter where they kept interest rates unchanged at the target range of 5.25-5.50%. For the first half of the quarter, Fed Chairman, Jerome Powell's, hawkish message remained unaltered; that the committee remains committed in its fight against inflation. In a speech in October, he even mentioned that if the strength seen in the US economy persists it could necessitate further rate increases. At the press conference of the early November meeting, the Chairman however hinted that interest rates have reached a peak and that rate hikes were finished for this cycle. At the last meeting of the year in December, we received further evidence from the Fed that they are indeed looking to pivot towards an easier monetary policy stance. This surprised the market as up until this point the Fed had stood firm in its rhetoric of higher rates for longer. The closely watched dot plot showed that the median of Fed governors expects three rate cuts in 2024 relative to their expectation of two in September. This was based on their economic projections of inflation coming down further, unemployment remaining steady and growth only gradually slowing. This further drove US bond yields lower as market participants brought forward future rate cuts, pricing in two additional rate cuts by the end of 2024 relative to the Fed's projections. The expectation for easier monetary conditions was also supportive for global growth assets such as equities and property, supporting the rally into year end.

Local inflation driven by transportation and food prices rises to 5.5%, while core inflation sees a positive decline

Locally, inflation increased over the quarter from 4.8% to 5.5%, closer to the top end of the South African Reserve Bank's (SARB) 3%-6% target. Transportation (fuel) and food remain the main culprits pushing inflation higher. On the positive side, over the quarter, core inflation which strips out food and transportation declined to the lowest level in 14 months of 4.4%, as a result of slowing rental, insurance, and motor vehicle inflation.

Interest rates remain unchanged amid a hawkish outlook by the Monetary Policy Committee (MPC)

There was one MPC meeting held during the quarter in November, where interest rates were left unchanged at 8.25%. The MPC however continued to have a hawkish outlook, warning that inflation risks remain on the upside, and should they materialise, the committee would increase interest rates further. Over the quarter, one of the SARB's deputy governors, Kuben Naidoo, tendered his resignation to President Cyril Ramaphosa. Naidoo was widely considered to have more of a dovish view (favouring lower interest rate policies) and therefore concerns increased that his departure could lead to the committee becoming more hawkish (favouring higher interest rates to fight inflation). Going forward, the now four-person MPC decisions will rely on SARB Governor, Lesetja Kganyago's, deciding vote in the case of a tie, until they have found a replacement.

A larger budget deficit prompts anticipation of new tax measures for the new year

The much-anticipated Medium Term Budget Policy Statement took place at the start of November, which was in line with expectations. Importantly, the statement outlined the larger budget deficit of 4.7% of GDP relative to the 3.9% estimate published in February's Budget Speech. This was a result of lower tax revenues, higher spending- and debt-servicing costs. The finance minister is to announce new tax measures in next year's Budget Speech to raise additional revenue to cover the larger deficit. As a result, the Mini Budget showed South Africa's debt-to-GDP peaking at 77.7% in 2025/2026 relative to February's projection of 73.6%.

Geopolitical tensions in the Middle East drive volatility in oil prices and the demand for gold

At the start of October, geopolitical conflicts escalated in the Middle East which contributed to volatility in the oil price and the demand for safe haven assets like gold. Throughout October there were bouts of risk aversion as the market digested news which increased the risk of an escalation of the war between Israel and Hamas. In November, there were a number of cease-fire agreements which built confidence that the conflict would not escalate to the rest of the region. The conflict, however, continues with no resolution in sight.



FG SCI* JUPITER INCOME FUND OF FUNDS

For periods until 31 December 2023

Performance and quartile ranking in sector | Inception date: 15 August 2005

	Year to Date	6 Months	1 Year	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ¹
FG SCI Jupiter Income FoF	9.72%	5.78%	9.72%	7.38%	7.11%	7.36%	7.78%
STeFI Composite Index	8.06%	4.20%	8.06%	5.68%	5.94%	6.43%	6.95%
ASISA SA Multi Asset Income Category Average	9.45%	5.56%	9.45%	7.18%	7.14%	7.14%	7.64%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

¹Data 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

- 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 ²	Benchmark ²
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	3.25%	3.76%
% positive months	92.73%	100.00%

²Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Jupiter Income Fund of Funds returned +4.02% in the fourth quarter of 2023 and +9.72% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +2.09%, and the 12-month return of +8.06%. The Terebinth SCI Strategic Income (Amplify) was the best-performing underlying fund over the quarter, returning +5.32%. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Jupiter Income FoF	0%	2%	70%	23%	5%

*The full registered name of the fund is FG Sanlam Collective Investments Jupiter Income Fund of Funds.



FG SCI* VENUS CAUTIOUS FUND OF FUNDS

For periods until 31 December 2023

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

	Year to Date	6 Months	1 Year	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ¹
FG SCI Venus Cautious FoF	11.31%	4.64%	11.31%	9.16%	8.82%	7.77%	8.57%
ASISA SA Multi Asset Low Equity Category Average	11.05%	4.96%	11.05%	8.52%	7.85%	6.80%	7.52%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

¹Data 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 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)
- Matrix SCI Stable Income 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
- Satrrix 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 ²	Benchmark ²
Highest 12-month performance	16.83%	17.26%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	71.72%	70.71%

²Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Venus Cautious Fund of Funds returned +4.41% in the fourth quarter of 2023 and +11.31% over the past 12 months, underperforming the benchmark peer group average quarterly return of +5.42%, while outperforming the 12-month return of +11.05%. The Ninety One Global Multi-Asset Income Feeder Fund was the worst-performing underlying fund over the quarter, returning +2.43%. The Coronation Global Optimum Growth Feeder Fund's allocation was redeemed over the quarter, the proceed of the redemption was switched into a combination of the Ninety One Global Franchise Feeder Fund and the Ninety One Global Multi-Asset Income Feeder Fund.

Asset allocation as at 30 November 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	14%	2%	47%	15%	22%

*The full registered name of the fund is FG Sanlam Collective Investments Venus Cautious Fund of Funds.



FG SCI* SATURN MODERATE FUND OF FUNDS

For periods until 31 December 2023

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

	Year to Date	6 Months	1 Year	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ¹
FG SCI Saturn Moderate FoF	12.15%	4.66%	12.15%	10.94%	10.19%	7.81%	10.05%
ASISA SA Multi Asset Medium Equity Category Average	11.28%	4.34%	11.28%	9.40%	8.60%	6.80%	8.73%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

¹Data 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)
- Matrix SCI Stable Income Fund
- Ninety One Global Multi-Asset Income Feeder Fund
- Ninety One Opportunity Fund
- PSG Flexible Fund
- Satrix Bond Index Fund
- Terebinth SCI Strategic Income Fund (Amplify)
- Truffle SCI Wealth Protector Fund (Amplify)

Performance statistics

	Fund ²	Benchmark ²
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	69.55%	65.91%

²Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Saturn Moderate Fund of Funds returned +4.78% over the fourth quarter of 2023 and +12.15% over the past 12 months, underperforming the benchmark peer group average quarterly return of +5.80%, while outperforming the 12-month return of +11.28%. The Ninety One Global Multi-Asset Income Feeder Fund was the worst-performing underlying fund, returning +1.87% over the quarter. A switch from global equities to global bonds was made over the quarter. The Rezco Value Trend Fund allocation was fully redeemed over the quarter. The proceeds of the redemption were allocated to the Bateleur Flexible Prescient Fund, the Matrix SCI Stable Income Fund, and the Ninety One Global Multi-Asset Income Feeder Fund.

Asset allocation as at 30 November 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	27%	3%	28%	10%	32%

*The full registered name of the fund is FG Sanlam Collective Investments Saturn Moderate Fund of Funds.



FG SCI* NEPTUNE GROWTH FUND OF FUNDS

For periods until 31 December 2023

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

	Year to Date	6 Months	1 Year	3 Years ¹	5 Years ¹	Since Inception ¹
FG SCI Neptune Growth FoF	10.78%	3.69%	10.78%	10.82%	10.37%	7.75%
ASISA SA Multi Asset High Equity Category Average	12.25%	4.56%	12.25%	10.49%	9.21%	6.70%
			1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

¹Data 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

- Abax Balanced Prescient Fund
- Bateleur Flexible Prescient Fund
- Coronation Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Laurium Flexible Prescient Fund
- Matrix SCI Stable Income Fund
- M&G Balanced Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Ninety One Global Multi-Asset Income Feeder Fund
- PSG Flexible Fund
- Saffron BCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sanlam Multi Manged Inflation Linked Bond Fund
- Terebinth SCI Strategic Income Fund (Amplify)
- Truffle SCI Flexible Fund
- Veritas Global Equity Feeder Fund (Nedgroup)

Performance statistics

	Fund ²	Benchmark ²
Highest 12-month performance	38.17%	30.65%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	63.39%	61.61%

²Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Neptune Growth Fund of Funds returned +4.97% over the fourth quarter of 2023 and +10.78% over the past 12 months, underperforming the benchmark peer group average quarterly return of +6.18%, and the 12-month return of +12.25%. The Ninety One Global Multi-Asset Income Feeder Fund was the worst-performing underlying fund, returning +1.87% over the quarter. Over the quarter the fund's South African nominal bond exposure was reduced and rotated into an offshore global bond allocation in the Ninety One Global Multi-Asset Income Feeder Fund. The Rezco Value Trend Fund allocation was fully redeemed and the fund's Coronation Global Optimum Growth Feeder Fund was reduced over the quarter as well. The proceeds of these redemptions were reallocated to the Bateleur Prescient Flexible Fund (new fund allocation) and a combination of the Ninety One Global Franchise Feeder Fund, the Matrix SCI Stable Income Fund, the Terebinth SCI Strategic Income Fund (Amplify), and the Ninety One Global Multi-Asset Income Feeder Fund.

Asset allocation as at 30 November 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	34%	1%	20%	9%	36%

*The full registered name of the fund is FG Sanlam Collective Investments Neptune Growth Fund of Funds.



FG SCI* MERCURY EQUITY FUND OF FUNDS

For periods until 31 December 2023

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

	Year to Date	6 Months	1 Year	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ¹
FG SCI Mercury Equity FoF	7.63%	2.70%	7.63%	13.07%	11.15%	7.45%	10.32%
FTSE/JSE Africa All Share (total return)	9.25%	3.20%	9.25%	13.52%	11.89%	8.78%	12.44%
ASISA SA Equity General Category Average	7.25%	4.05%	7.25%	11.92%	9.07%	6.17%	9.95%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

¹Data 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 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 ²	Benchmark ²
Highest 12-month performance	56.14%	53.98%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	61.82%	60.91%

²Source until 31 May 2018: MoneyMate

Source from 30 June 2018: Morningstar

The FG SCI Mercury Equity Fund of Funds returned +5.12% in the fourth quarter of 2023 and +7.63% over the past 12 months, underperforming the +6.92% quarterly return of the benchmark FTSE/JSE All Share (total return) Index and the 12-month return of +9.25%. The Laurium Equity Fund (Nedgroup) was the worst-performing underlying fund, returning +2.76% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2023

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	74%	3%	0%	4%	19%

*The full registered name of the fund is FG Sanlam Collective Investments Mercury Equity Fund of Funds.



FG SCI* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 31 December 2023

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

	Year to Date	6 Months	1 Year	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ¹
FG SCI International Flexible FoF	21.26%	2.05%	21.26%	8.59%	9.89%	8.81%	8.75%
Benchmark ²	21.69%	2.47%	21.69%	8.77%	11.01%	9.11%	9.68%
ASISA Global Multi Asset Flexible Average ³	21.69%	2.47%	21.69%	8.77%	11.01%	9.01%	8.84%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

¹Data for longer than 12 months are annualised

Annualised returns are period returns re-scaled to a period of 1 year

²Benchmark 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

³Current 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 ⁴	Benchmark ⁴
Highest 12-month performance	40.26%	34.52%
Lowest 12-month performance	-16.99%	-15.05%
% positive months	56.19%	58.97%

⁴Source until 31 May 2018: Iress

Source from 30 June 2018: Morningstar

The FG SCI International Flexible Fund of Funds returned +5.84% in the fourth quarter of 2023 and +21.26% over the past 12 months, outperforming the benchmark peer group average quarterly return of +5.70%, while underperforming the 12-month return of +21.69%. The Ninety One Global Strategic Managed Fund was the best-performing underlying fund over the quarter, returning +8.72% in rand terms. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2023

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	61%	23%	11%	2%	3%

	USD	GBP	Euro	JPY	Other	Rand
Currency Breakdown	71%	2%	6%	6%	12%	3%

*The full registered name of the fund is FG Sanlam Collective Investments International Flexible Fund of Funds.



MARKET PERFORMANCE

Index	Asset Class	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Last 12 months	Year to Date 2023*
STEFI Composite Index	Local cash	1.75%	1.92%	2.07%	2.09%	8.06%	8.06%
FTSE/JSE All Bond (total return)	Local bonds	3.39%	-1.53%	-0.33%	8.11%	9.70%	9.70%
FTSE/JSE SA Listed Property (total return)	Local property	-5.05%	0.66%	-0.97%	16.37%	10.15%	10.15%
FTSE/JSE Africa All Share (total return)	Local shares	5.17%	0.66%	-3.48%	6.92%	9.25%	9.25%
Bloomberg Global Aggregate TR USD	Global bonds	3.01%	-1.53%	-3.59%	8.10%	5.72%	5.72%
FTSE EPRA Nareit Global REITs TR USD	Global property	1.66%	0.94%	-6.50%	15.58%	10.89%	10.89%
MSCI World GR USD	Global shares	7.88%	7.00%	-3.36%	11.53%	24.42%	24.42%
MSCI ACWI GR USD	Global shares	7.44%	6.35%	-3.30%	11.15%	22.81%	22.81%
US dollar/South African rand (+ weaker rand, - stronger rand)	Exchange rate	4.28%	6.47%	-0.27%	-2.93%	7.48%	7.48%

*Return until 31 December 2023
All performances until 31 December 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	12,081,133.98	37.33	1.53
FG SCI International Flexible FoF A1	22.68	36.38	2.09
FG SCI International Flexible FoF B	48,927.36	29.66	3.20
FG SCI International Flexible FoF B1	1,262,866.62	30.73	2.97
FG SCI International Flexible FoF C	10,644,777.25	36.51	1.79
FG SCI Jupiter Income FoF A	33,581,304.14	12.77	1.04
FG SCI Jupiter Income FoF A1	56.70	12.73	1.59
FG SCI Jupiter Income FoF B	8,472.12	12.64	2.76
FG SCI Jupiter Income FoF B1	1,180,370.77	12.66	2.48
FG SCI Jupiter Income FoF C	52,769,188.38	12.75	1.32
FG SCI Mercury Equity FoF A	4,390,325.74	44.04	1.55
FG SCI Mercury Equity FoF A1	17.15	43.93	2.05
FG SCI Mercury Equity FoF B	117.15	42.05	3.27
FG SCI Mercury Equity FoF B1	32,577.90	43.04	2.98
FG SCI Mercury Equity FoF C	454,849.65	43.99	1.79
FG SCI Neptune Growth FoF A	26,553,061.69	15.91	1.79
FG SCI Neptune Growth FoF A1	49.18	15.87	2.30
FG SCI Neptune Growth FoF B	65.17	15.75	3.51
FG SCI Neptune Growth FoF B1	1,131,279.28	15.77	3.23
FG SCI Neptune Growth FoF C	2,286,221.65	15.89	1.81
FG SCI Saturn Moderate FoF A	40,869,359.85	35.72	1.53
FG SCI Saturn Moderate FoF A1	21.61	35.60	2.06
FG SCI Saturn Moderate FoF B	115,570.47	35.29	3.25
FG SCI Saturn Moderate FoF B1	3,371,610.95	35.35	2.96
FG SCI Saturn Moderate FoF C	13,982,536.34	35.65	1.76
FG SCI Venus Cautious FoF A	58,837,639.85	19.22	1.24
FG SCI Venus Cautious FoF A1	39.15	19.16	1.77
FG SCI Venus Cautious FoF B	31,301.41	18.94	2.97
FG SCI Venus Cautious FoF B1	2,962,283.06	18.97	2.68
FG SCI Venus Cautious FoF C	26,456,776.98	19.19	1.45

* NAV (month-end) and no. of participatory interests as at 31 December 2023

**TER as at 30 September 2023



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

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