Quarterly Portfolio Commentary

Quarter 1 2022

Morningstar Investment Management South Africa

April 2022

Local Market Commentary
March 2022

MORNINGSTAR®

Market participants had no shortage of talking points during the first quarter of 2022. Inflation spikes and the reaction of key major developed and emerging market central banks remained top of mind. None more so than the US Federal Reserve (Fed), with Fed Chair Jerome Powell announcing a 0.25% increase in interest rates for the first time since December 2018. While the rate rise came as no surprise, the hawkish nature of the address and the communication of the expectation of several interest rate increases throughout the year left investors with much to ponder.

The invasion of Ukraine by Russia added to the significant market volatility during the quarter, with Western allies moving swiftly to denounce the actions of Russian President Vladimir Putin. This included the introduction of new sanctions against Russia and individuals linked to the Russian president in an attempt to bring a swift end to military action. Europe's large dependence on Russia for its energy requirements led to sharply higher oil prices during the quarter (along with several other key commodities), leading to concerns around the ability of central banks to bring down soaring global inflation prints.

Amid the concerning global backdrop, South African asset classes held up well during the quarter relative to other emerging markets. Local equities ended the quarter with positive performance, largely driven by strong returns from Resources and Financials. The performance of Industrials was weighed down by poor performance from large index constituents Naspers (-33%) and Prosus (-39%), which were both heavily impacted by weak performance from Tencent amid concerns around regulatory intervention in the Chinese technology sector. Local bonds delivered decent performance over the quarter, supported by the attractive yields on offer and strong returns from long-dated bonds. Local listed property had a rather volatile quarter, ending with negative performance despite a strong recovery in March. Concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Cash delivered a stable return over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank improving the future return prospects of the asset class slightly.

Despite recovering slightly towards the end of the quarter, global equity markets ended in negative territory. The weak performance was most pronounced in emerging equity markets, with Russian stocks becoming untradeable following the Ukraine invasion and Chinese equities also coming under pressure following concerns around regulatory intervention, particularly in the technology sector. Global bond markets had their worst quarter in 20 years, weighed down by rising sovereign yields (and lower prices) in response to future expected interest rate increases and spread widening in investment grade and high yield markets. Rand strength over the quarter also detracted from the performance of allocations to global asset classes, as South Africa continues to benefit from strong terms of trade as a result of higher commodity prices for key exports such as gold and base metals.

Overall, it was a rather difficult quarter for local investors, despite South African assets delivering robust performance relative to global assets. In most cases, the performance of local assets was not sufficient to offset weak hard currency performance from global assets along with a stronger rand, which acted as a detractor. Despite this, we are again reminded of the importance of building robust diversified portfolios that can withstand different market environments. We are confident that this will allow investors to achieve their financial goals in the long term, independent of the short-term volatility in the performance of key asset classes

Morningstar Cash Plus Portfolio Update
March 2022

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Income focussed investors managed to generate positive returns during the first quarter of 2022. This was largely due to positive performance from local bonds, as the asset class delivered robust performance over the quarter.

The Morningstar Cash Plus Portfolio returned 0.8% for the quarter and has generated a return of 6.8% over the past year.

The Portfolio remains conservatively positioned, with a diverse allocation to attractively valued assets which we expect to deliver stable inflation-beating returns over the long term.

Asset Allocation

Local bonds make up the bulk of the asset allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure due to concerns around inflation and higher interest rates. Inflation-linked bonds managed to eke out positive performance, as investors continue to seek out assets that maintain purchasing power in an environment of elevated inflation. Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter; weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Nedgroup Investments Core Bond delivered decent returns over the quarter; outperforming peers and more conservative fixed-income offerings. The Fund's significant allocations to medium and long-dated nominal SA government bonds contributed positively to performance. As yields moved higher, short-dated instruments came under pressure slightly, moving prices lower. This was in response to interest rate hikes by the South African Reserve Bank of 0.5% in the first quarter of the year. The 12+ year area of the nominal bond curve delivered the strongest performance over the quarter, supported by the high starting yields on offer, which favoured bond funds over more conservatively positioned low duration fixed income funds.

Nedgroup Investments Flexible Income managed to deliver positive performance but underperformed peers slightly over the quarter. Offshore bond and cash allocations struggled, as yields moved higher consequently lowering prices and the Rand strengthened materially against major developed market currencies.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

We are pleased that the Portfolio managed to generate a positive return over the quarter. The Portfolio continues to hold a diverse range of attractively priced fixed income assets, which we believe will generate stable inflation-beating returns in a variety of market environments.

Morningstar Cautious Portfolio Update
March 2022

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Conservative investors will be disappointed with returns generated in the first quarter of 2022. Weak returns from global equity markets as well as a materially stronger rand acted as a headwind to performance.

The Morningstar Cautious Portfolio returned -1.3% for the quarter and has generated a return of 9.3% over the past year.

The Portfolio remains diversified in terms of its exposure to various asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local bonds make up the bulk of the asset allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure due to concerns around inflation and higher interest rates. Inflation-linked bonds managed to eke out positive performance, as investors continue to seek out assets that maintain purchasing power in an environment of elevated inflation. Offshore equity allocations detracted from performance over the quarter, as concerns around inflation, the possibility of higher interest rates, as well as Russia's invasion of Ukraine weighed on investor sentiment. Local equity allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. Offshore bond and cash allocations struggled during the quarter; weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

PSG Equity produced a strong performance relative to peers and delivered a return of 8.9% over the quarter. The Fund continues to benefit from its benchmark agnostic approach to stock picking. Discovery (26.1%), Standard Bank (30.0%), and Grindrod Shipping (40.1%) were all strong contributors to performance over the quarter.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite disappointing performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its investment objective over the long term.

Morningstar Balanced Portfolio Update
March 2022

MORNINGSTAR®

Moderate investors will be disappointed with returns generated in the first quarter of 2022. Weak returns from global equity markets as well as a materially stronger rand acted as a headwind to performance.

The Morningstar Balanced Portfolio returned 0.1% for the quarter and has generated a return of 13.6% over the past year.

The Portfolio remains diversified in terms of its exposure to various asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local equities make up the bulk of the asset allocation within the Portfolio. Local Equity delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). Local bonds make up the next largest asset allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under due to concerns around inflation and higher interest rates. Inflation-linked bonds managed to eke out positive performance, as investors continue to seek out assets that maintain purchasing power in an environment of elevated inflation. Offshore equity allocations detracted from performance over the quarter, as concerns around inflation, the possibility of higher interest rates, as well as Russia's invasion of Ukraine weighed on investor sentiment. Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

PSG Equity produced a strong performance relative to peers and delivered a return of 8.9% over the quarter. The Fund continues to benefit from its benchmark agnostic approach to stock picking. Discovery (26.1%), Standard Bank (30.0%), and Grindrod Shipping (40.1%) were all strong contributors to performance over the quarter.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite disappointing performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

Morningstar Adventurous Portfolio Update
March 2022

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Moderately aggressive investors had mixed fortunes from the underlying asset exposures in the first quarter of 2022. SA asset classes delivered decent performance while weak returns from global equity markets and a materially stronger rand acted as a headwind to performance.

The Morningstar Adventurous Portfolio returned 0.8% for the quarter and has generated a return of 15.0% over the past year.

The Portfolio remains diversified in terms of its exposure to different asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local equities make up the bulk of the allocation in the Portfolio. These allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). The performance of Naspers and Prosus was negatively impacted by weak performance from their underlying investment in Tencent, which came under pressure due to concerns around regulatory intervention in the Chinese technology sector. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure as a result of concerns around inflation and higher interest rates. Inflation-linked bonds managed to eke out positive performance, as investors continue to seek out assets that maintain purchasing power in an environment of elevated inflation. Offshore equity allocations detracted from performance over the quarter, as concerns around inflation and the possibility of higher interest rates, as well as Russia's invasion of Ukraine, weighed on investor sentiment. Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a positive return of 7.6% and outperformed peers over the quarter. Performance was primarily driven by the Fund's exposure to the resource sector. Thungela Resources continues to deliver high returns while Gold Fields (32.1%), Kumba Iron Ore (48.4%), and Sibanye Stillwater (24.6%) also contributed meaningfully to performance.

PSG Equity produced a strong performance relative to peers and delivered a return of 8.9% over the quarter. The Fund continues to benefit from its benchmark agnostic approach to stock picking. Discovery (26.1%), Standard Bank (30.0%), and Grindrod Shipping (40.1%) were all strong contributors to performance over the quarter.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite relatively muted performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

Morningstar Accumulator Portfolio Update
March 2022

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Moderately aggressive investors had mixed fortunes from the underlying asset exposures in the first quarter of 2022. SA asset classes delivered decent performance while weak returns from global equity markets and a materially stronger rand acted as a headwind to performance.

The Morningstar Accumulator Portfolio returned 1.1% for the quarter and has generated a return of 16.2% over the past year.

The Portfolio remains diversified in terms of its exposure to different asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local equities make up the bulk of the allocation in the Portfolio. These allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). The performance of Naspers and Prosus was negatively impacted by weak performance from their underlying investment in Tencent, which came under pressure due to concerns around regulatory intervention in the Chinese technology sector. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure as a result of concerns around inflation and higher interest rates. Inflation-linked bonds managed to eke out positive performance, as investors continue to seek out assets that maintain purchasing power in an environment of elevated inflation. Offshore equity allocations detracted from performance over the quarter, as concerns around inflation and the possibility of higher interest rates, as well as Russia's invasion of Ukraine, weighed on investor sentiment. Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a positive return of 7.6% and outperformed peers over the quarter. Performance was primarily driven by the Fund's exposure to the resource sector. Thungela Resources continues to deliver high returns while Gold Fields (32.1%), Kumba Iron Ore (48.4%), and Sibanye Stillwater (24.6%) also contributed meaningfully to performance.

PSG Equity produced a strong performance relative to peers and delivered a return of 8.9% over the quarter. The Fund continues to benefit from its benchmark agnostic approach to stock picking. Discovery (26.1%), Standard Bank (30.0%), and Grindrod Shipping (40.1%) were all strong contributors to performance over the quarter.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite relatively muted performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

Morningstar All Seasons Portfolio Update
March 2022

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Aggressive investors will be disappointed with returns generated in the first quarter of 2022. Weak returns from global equity markets as well as a materially stronger rand acted as a headwind to performance.

The Morningstar All Seasons Portfolio returned -8.9% for the quarter and has generated a return of 4.7% over the past year.

The Portfolio retains a strong bias toward global and local equities, which we expect to deliver significant inflation-beating returns in the long term.

Asset Allocation

Offshore equities make up the largest allocation in the Portfolio. These allocations detracted from performance over the quarter, as concerns around inflation, the possibility of higher interest rates, as well as Russia's invasion of Ukraine weighed on investor sentiment. The weak performance was most pronounced in emerging equity markets; with Russian stocks becoming untradeable following the Ukraine invasion and Chinese equities also coming under pressure following concerns around regulatory intervention, particularly in the technology sector. Value-oriented stocks posted their best quarter of relative performance compared to their growth equivalents since the depths of the dot-com bubble in 2002. Local equity allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). The performance of Naspers and Prosus was negatively impacted by weak performance from their underlying investment in Tencent, which came under pressure due to concerns around regulatory intervention in the Chinese technology sector. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure as a result of concerns around inflation and higher interest rates. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Coronation Global Optimum Growth FF had a tough quarter, they underperformed peers and the benchmark over the quarter. Their overweight position to Russia was the biggest detractor to performance as the exposure was written down to zero. Some of the losses from Russia and China were offset by their positions in gold and other resource companies.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite disappointing performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to have a large allocation to global and local equities, which we expect to deliver significant inflation-beating returns over the long term.

Morningstar Moderate Income Portfolio Update
March 2022

Moderate investors will be disappointed with returns generated in the first quarter of 2022. Weak returns from global equity markets as well as a materially stronger rand acted as a headwind to performance.

The Morningstar Moderate Income Portfolio returned -2.6% for the quarter and has generated a return of 10.9% over the past year.

The Portfolio remains diversified in terms of its exposure to various asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local bonds make up the bulk of the asset allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure as a result of concerns around inflation and higher interest rates. Inflation-linked bonds managed to eke out positive performance, as investors continue to seek out assets that maintain purchasing power in an environment of elevated inflation. Local equity allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). Offshore equity allocations detracted from performance over the quarter, as concerns around inflation, the possibility of higher interest rates, as well as Russia's invasion of Ukraine weighed on investor sentiment. Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a positive return of 7.6% and outperformed peers over the quarter. Performance was primarily driven by the Fund's exposure to the resource sector. Thungela Resources continues to deliver high returns while Gold Fields (32.1%), Kumba Iron Ore (48.4%), and Sibanye Stillwater (24.6%) also contributed meaningfully to performance.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite disappointing performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

Morningstar TFSA Portfolio Update
March 2022

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Aggressive investors will be disappointed with returns generated in the first quarter of 2022. Weak returns from global equity markets as well as a materially stronger rand acted as a headwind to performance.

The Morningstar TFSA Portfolio returned -8.2% for the quarter and has generated a return of 10.4% over the past year.

The Portfolio retains a strong bias toward global and local equities, which we expect to deliver significant inflation-beating returns in the long term.

Asset Allocation

Offshore equities make up the largest allocation in the Portfolio. These allocations detracted from performance over the quarter, as concerns around inflation, the possibility of higher interest rates, as well as Russia's invasion of Ukraine weighed on investor sentiment. The weak performance was most pronounced in emerging equity markets; with Russian stocks becoming untradeable following the Ukraine invasion and Chinese equities also coming under pressure following concerns around regulatory intervention, particularly in the technology sector. Value-oriented stocks posted their best quarter of relative performance compared to their growth equivalents since the depths of the dot-com bubble in 2002. Local equity allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). The performance of Naspers and Prosus was negatively impacted by weak performance from their underlying investment in Tencent, which came under pressure due to concerns around regulatory intervention in the Chinese technology sector. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government as well as inflation-linked bonds. The attractive starting yields on offer on medium and long-dated nominal SA government bonds led to positive performance from the asset class, despite most global sovereign bond markets coming under pressure as a result of concerns around inflation and higher interest rates. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

PSG Equity produced a strong performance relative to peers and delivered a return of 8.9% over the quarter. The Fund continues to benefit from its benchmark agnostic approach to stock picking. Discovery (26.1%), Standard Bank (30.0%), and Grindrod Shipping (40.1%) were all strong contributors to performance over the quarter.

Ninety One Global Franchise struggled in the first quarter of 2022. The Fund underperformed its peers and benchmark. The rotation out of growth/quality into value impacted the Fund's performance. The Fund's position in Intuit (-25.1%), Estee Lauder (-26.3%), Moodys (-13.4%), and Verisign (-12.4) were some of the largest detractors over the quarter.

The Nedgroup Inv Core Global FF performance was in line with peers over the quarter. A stronger rand over the quarter amplified the negative returns from the global market.

There were no changes to the underlying fund structure of the Portfolio in the first quarter.

Summary

Despite disappointing performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to have a large allocation to global and local equities, which we expect to deliver significant inflation-beating returns over the long term.

Morningstar Capped All Seasons Portfolio Update
March 2022

Aggressive investors had mixed fortunes from the underlying asset exposures in the first quarter of 2022. SA asset classes delivered decent performance while weak returns from global equity markets and a materially stronger rand acted as a headwind to performance.

The Morningstar Capped All Seasons Portfolio returned 0.8% for the quarter.

The Portfolio remains diversified in terms of its exposure to different asset classes, and we remain confident in its ability to deliver inflation-beating returns over the long term, independent of the market environment.

Asset Allocation

Local equities make up the bulk of the allocation in the Portfolio. These allocations delivered mixed performance over the quarter. Allocations to Financials (+20%) and Resources (+19%) contributed to performance, while a weak performance from Naspers (-33%) and Prosus (-39%) dragged down the performance of Industrials (-13%). The performance of Naspers and Prosus was negatively impacted by weak performance from their underlying investment in Tencent, which came under pressure due to concerns around regulatory intervention in the Chinese technology sector. Offshore equity allocations detracted from performance over the quarter, as concerns around inflation and the possibility of higher interest rates, as well as Russia's invasion of Ukraine, weighed on investor sentiment. Local cash allocations delivered stable returns for investors over the quarter, with two interest rate hikes of 0.25% each by the South African Reserve Bank, slightly improving the future return prospects of the asset class. A small allocation to local listed property acted as a detractor from performance, as concerns around the sector's exposure to the property market in Central and Eastern Europe weighed on sentiment. Offshore bond and cash allocations struggled during the quarter, weighed down by low starting yields which increased during the quarter (impacting prices negatively), and a materially stronger rand, which acted as a headwind to the performance of global asset classes.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a positive return of 7.6% and outperformed peers over the quarter. Performance was primarily driven by the Fund's exposure to the resource sector. Thungela Resources continues to deliver high returns while Gold Fields (32.1%), Kumba Iron Ore (48.4%), and Sibanye Stillwater (24.6%) also contributed meaningfully to performance.

PSG Equity produced a strong performance relative to peers and delivered a return of 8.9% over the quarter. The Fund continues to benefit from its benchmark agnostic approach to stock picking. Discovery (26.1%), Standard Bank (30.0%), and Grindrod Shipping (40.1%) were all strong contributors to performance over the quarter.

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Despite relatively muted performance in the first quarter of 2022, we remain comfortable with the positioning of the Portfolio, both from an asset allocation and a manager selection perspective. The Portfolio continues to be allocated to a diverse range of attractively priced local and global asset classes and we are confident that it will be able to deliver on its objective over the long term.

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Risk Warnings

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