Quarterly Portfolio Commentary

Quarter 2 2022

Morningstar Investment Management South Africa

July 2022

Local Market Commentary
June 2022

The second quarter of 2022 provided no reprieve for investors, as volatility and significant weakness gripped both bond and equity markets. The common themes that drove the market downturn this quarter included inflation, central bank's actions to curb inflation (namely raising interest rates) and fears of a possible global recession. Persistently high inflation has prompted central banks to raise interest rates aggressively, whilst the war in Ukraine has pushed up energy prices and disrupted supply chains, all of which has painted a bleak picture for the global economy.

The U.S. Federal Reserve raised interest rates in May and June by a cumulative 125 basis points (1.25%) and promised more hikes until inflation moves toward their 2% goal. This rapid rise in the risk-free "price of money" put strong downward pressure on valuations of longer-term cashflows and assets in all currencies. This devaluation of equities along with fears of a global recession led many equity indices close to (or into) bear market territory.

Turning to local assets, most major South African asset classes were under significant pressure in the second quarter, with only cash and inflation-linked bonds generating a positive return. Local equities had a volatile and particularly weak quarter, driven largely by the resource sector. Resources came under considerable selling pressure during the quarter, as commodity prices fell on the back of the rising possibility of slower global economic growth. On the other hand, the industrial sector proved more resilient, largely driven by strong returns from Naspers (+42.3%) and Prosus (+32.6%), as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Local bonds were not spared in the selloff that gripped local markets, unwinding the gains this year, weighed down by rising yields (and lower prices). Yields on the benchmark 10-year South African government bond moved closer to 11%, as the pressure on global fixed income markets, as well as uncertainty around the domestic outlook for inflation, continued to concern both local and foreign investors. During the quarter local inflation moved through the upper limit of the South African Reserve Bank's (SARB) 3% - 6% target band. Food and transport were the main contributors to the higher inflation print with these costs expected to continue to apply upward pressure on inflation given the fallout from the ongoing Russian invasion of Ukraine. On the back of higher inflation, the SARB raised interest rates by 0.50% in May, with further interest rate hikes penciled in for the next quarter. Local listed property had yet another tough quarter due to a spike in bond yields and negative sentiment surrounding the property sector. With the raising of interest rates, cash continued to deliver a stable return over the quarter.

Global equities and global bonds were both weak this quarter, and, for only the second time in 40 years, both equities and bonds posted losses for two consecutive quarters. The weak performance was more pronounced in developed markets, whereas emerging markets held up better then their peers, largely due to Chinese equities, which managed to generate positive returns over the quarter. After a tough start to the year, Chinese equities pushed higher on the back of regulatory relief and the re-opening of larger cities after a COVID spike. Global bonds continued their decline in the quarter, weighed down by rising sovereign yields (and lower prices), as the bond market continued to price in expectations of further interest rate increases. The rand was weaker over the quarter against the major developed market currencies, cushioning, to some extent, the performance of allocations to global asset classes, however, this was insufficient to compensate for negative hard currency returns from major global equity markets.

In conclusion, investors may have felt they had nowhere to hide this quarter in terms of the allocations in their portfolios. As we look ahead, all eyes will be on central banks as they continue the difficult balancing act of tackling inflation without derailing economic growth over the next quarter. Despite this, we are again reminded of the importance of building diversified portfolios that can withstand different market environments. We continue to believe stocks and bonds are important assets to help investors reach their financial goals. Furthermore, given the recent market moves, the valuations for both stocks and bonds have improved, shedding a bit of light in what has been quite a dark and tough quarter for investors.

Morningstar Cash Plus Portfolio Update
June 2022

Income focussed investors struggled to generate meaningful returns during the second quarter of 2022. This was largely due to weak returns from local bonds, as medium and long dated nominal SA government bonds came under pressure due to higher yields (resulting in lower prices).

The Morningstar Cash Plus Portfolio returned 0.3% for the quarter and has generated a return of 4.4% 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 and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). Local cash allocations managed to deliver stable returns, with cash ending the quarter as the only local asset class to deliver positive performance. A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Nedgroup Investments Flexible Income managed to deliver performance ahead of peers over the quarter. The Fund's conservative asset allocation and minimal exposure to long dated instruments contributed positively to performance, as these instruments came under pressure due to rising yields (lower bond prices) and the higher interest rate sensitivity of these allocations. Offshore bond and cash allocations also contributed to performance over the quarter, due to rand weakness against the major developed market currencies.

Nedgroup Investments Core Bond delivered disappointing performance over the quarter, underperforming more conservatively positioned fixed income offerings. This was largely driven by weak performance from medium and long dated nominal SA government bonds as spiking local inflation and the global risk-off environment led to higher yields (and lower bond prices) in this area of the curve. The worst performing areas of the curve were the 7 to 12 year area, which delivered a return of -3.4%, and the 12+ year area, which delivered a return of -5.2%.

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

Summary

Despite the difficult market environment, we are pleased that the Portfolio managed to hold up relatively well compared to more aggressively positioned offerings. 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
June 2022

Conservative investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from local and global risk assets and the local bond market acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar Cautious Portfolio returned -2.4% for the quarter and has generated a return of 3.8% 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 and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). Offshore equity allocations detracted from performance over the quarter, as concerns around continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Local equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Local cash allocations managed to deliver stable returns, with cash ending the quarter as the only local asset class to deliver positive performance. A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a negative return of -7.1% but produced top quartile performance over an especially difficult quarter for SA equities. Performance was primarily driven by the Fund's exposure to Naspers (42.3%) and Prosus (32.6%). SA Resources was a leading detractor with Gold Fields (-32.9%), Anglo American (-23.6%), Northam Platinum (-21.5%), and Impala Platinum (-19.5%) all coming under pressure during a relatively broad-based market selloff.

Nedgroup Investments Core Bond delivered disappointing performance over the quarter, underperforming more conservatively positioned fixed income offerings. This was largely driven by weak performance from medium and long dated nominal SA government bonds as spiking local inflation and the global risk-off environment led to higher yields (and lower bond prices) in this area of the curve. The worst performing areas of the curve were the 7 to 12 year area, which delivered a return of -3.4%, and the 12+ year area, which delivered a return of -5.2%.

The portfolio was restructured over the quarter to reflect changes in Regulation 28. SA Equity was marginally increased while foreign exposure was maintained at 25% to ensure suitability for more conservative investors.

Summary

Despite disappointing performance in the second 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
June 2022

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Moderate investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from local and global risk assets and the local bond market acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar Balanced Portfolio returned -4.5% for the quarter and has generated a return of 5.5% 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 and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). Local equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Offshore equity allocations detracted from performance over the quarter, as concerns around continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Local cash allocations managed to deliver stable returns, with cash ending the quarter as the only local asset class to deliver positive performance. A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a negative return of -7.1% but produced top quartile performance over an especially difficult quarter for SA equities. Performance was primarily driven by the Fund's exposure to Naspers (42.3%) and Prosus (32.6%). SA Resources was a leading detractor with Gold Fields (-32.9%), Anglo American (-23.6%), Northam Platinum (-21.5%), and Impala Platinum (-19.5%) all coming under pressure during a relatively broad-based market selloff.

Aylett Equity had a challenging quarter, posting a negative return and lagging behind peers. The Fund's Platinum Group Metals ("PGM") exposure through Anglo American (-23.6%) and Impala Platinum (-19.5%) was heavily sold off in a tough quarter for SA Resources. Other more benchmark agnostic positions in Reinet (-42.8%), Transaction Capital (-25.3%), and Remgro (-13.1%) also succumbed to pronounced selling pressure over the quarter.

Nedgroup Investments Core Bond delivered disappointing performance over the quarter, underperforming more conservatively positioned fixed income offerings. This was largely driven by weak performance from medium and long dated nominal SA government bonds as spiking local inflation and the global risk-off environment led to higher yields (and lower bond prices) in this area of the curve. The worst performing areas of the curve were the 7 to 12 year area, which delivered a return of -3.4%, and the 12+ year area, which delivered a return of -5.2%.

The portfolio was restructured over the quarter to reflect changes in Regulation 28. Overweight positions in SA equity were reduced while global equities were slightly increased. The total foreign exposure was maintained at 28%.

Summary

Despite disappointing performance in the second 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
June 2022

Moderately aggressive investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from local and global risk assets and the local bond market acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar Adventurous Portfolio returned -5.6% for the quarter and has generated a return of 5.6% 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. SA equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Industrials (-3%) fared slightly better than both Financials (-16%) and Resources (-21%) over the quarter. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Offshore equity allocations detracted from performance over the quarter, as concerns around continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). Local cash allocations managed to deliver stable returns, with cash ending the quarter as the only local asset class to deliver positive performance. A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Fairtree Equity generated a negative return of -7.1% but produced top quartile performance over an especially difficult quarter for SA equities. Performance was primarily driven by the Fund's exposure to Naspers (42.3%) and Prosus (32.6%). SA Resources was a leading detractor with Gold Fields (-32.9%), Anglo American (-23.6%), Northam Platinum (-21.5%), and Impala Platinum (-19.5%) all coming under pressure during a relatively broad-based market selloff.

Aylett Equity had a challenging quarter, posting a negative return and lagging behind peers. The Fund's Platinum Group Metals ("PGM") exposure through Anglo American (-23.6%) and Impala Platinum (-19.5%) was heavily sold off in a tough quarter for SA Resources. Other more benchmark agnostic positions in Reinet (-42.8%), Transaction Capital (-25.3%), and Remgro (-13.1%) also succumbed to pronounced selling pressure over the quarter.

Nedgroup Investments Core Bond delivered disappointing performance over the quarter, underperforming more conservatively positioned fixed income offerings. This was largely driven by weak performance from medium and long dated nominal SA government bonds as spiking local inflation and the global risk-off environment led to higher yields (and lower bond prices) in this area of the curve. The worst performing areas of the curve were the 7 to 12 year area, which delivered a return of -3.4%, and the 12+ year area, which delivered a return of -5.2%.

The portfolio was restructured over the quarter to reflect changes in Regulation 28. Foreign exposure was increased from 28% to 35% through higher allocations to global equities funded by a combination of SA equity and cash.

Summary

Despite disappointing performance in the second 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
June 2022

Aggressive investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from global and local risk assets acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar All Seasons Portfolio returned -4.8% for the quarter and has generated a return of -3.5% 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 continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Most major equity markets struggled to generate positive performance, however, China, was one of the few bright spots, following a period of meaningful weakness. At the sector level, energy stocks were the standout performer, while defensive value-oriented areas of the market lived up to their reputation and held up relatively well during the downdraft. Sectors include healthcare, utilities, and consumer staples, all of which provide services that are required regardless of market sentiment. Local equities make up the next largest allocation in the Portfolio. SA equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Industrials (-3%) fared slightly better than both Financials (-16%) and Resources (-21%) over the quarter. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government bonds and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

The Nedgroup Inv Global Emerging Markets FF was one of the top-performing funds over the quarter. The Fund was able to eke out a positive return with the help of a weaker rand, over a quarter where the majority of global funds were negative. The Fund's high allocation to Chinese-linked companies contributed to its performance. Some notable contributors are Longi (37.8%), Wuliangye (40.3%) and Nio (31.3%).

Allan Gray Orbis Global Equity FF also delivered top quartile performance over the quarter. The Fund's regional allocation was a contributor to performance. The Fund is underweight in the US and overweight in the UK and Emerging markets. The Fund's allocation to Consumer Defensives (British American Tabaco), Healthcare (UnitedHealth), and Chinese exposed companies (Naspers, Prosus, and NetEase) were all positive contributors to performance.

Coronation Global Optimum Growth FF underperformed its benchmark and peer group over the quarter. Being underweight in Energy, Healthcare, and Staples and overweight in Consumer Cyclicals (Amazon, Porsche, and MercadoLibre) and Communication Services (Netflix and Snap Inc) detracted from performance. Their position in Materials, AngloGold Ashanti, and Anglo America were also notable detractors. The Fund's exposure to Chinese companies (JD.com, Prosus, Netease, and Alibiba) was up for the quarter.

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

Summary

Despite disappointing performance in the second 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
June 2022

Moderate investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from local and global risk assets and the local bond market acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar Moderate Income Portfolio returned -4.3% for the quarter and has generated a return of 3.0% 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 and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). Local equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Offshore equity allocations detracted from performance over the quarter, as concerns around continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Local cash allocations managed to deliver stable returns, with cash ending the quarter as the only local asset class to deliver positive performance. A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

Methodical BCI Equity Preserver generated a negative return over the quarter but managed to outperform peers. The protected equity strategy used by the Fund muted some of the more pronounced market drawdowns. Naspers (42.3%) and Prosus (32.6%) contributed to performance while Anglo American (-23.6%), MTN Group (-30.5%) and FirstRand (-19.5%) were the main detractors.

Aylett Equity had a challenging quarter, posting a negative return and lagging behind peers. The Fund's Platinum Group Metals ("PGM") exposure through Anglo American (-23.6%) and Impala Platinum (-19.5%) was heavily sold off in a tough quarter for SA Resources. Other more benchmark agnostic positions in Reinet (-42.8%), Transaction Capital (-25.3%), and Remgro (-13.1%) also succumbed to pronounced selling pressure over the quarter.

Nedgroup Investments Core Bond delivered disappointing performance over the quarter, underperforming more conservatively positioned fixed income offerings. This was largely driven by weak performance from medium and long dated nominal SA government bonds as spiking local inflation and the global risk-off environment led to higher yields (and lower bond prices) in this area of the curve. The worst performing areas of the curve were the 7 to 12 year area, which delivered a return of -3.4%, and the 12+ year area, which delivered a return of -5.2%.

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

Summary

Despite disappointing performance in the second 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
June 2022

Aggressive investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from global and local risk assets acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar TFSA Portfolio returned -4.5% for the quarter and has generated a return of -0.3% 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 continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Most major equity markets struggled to generate positive performance, however, China, was one of the few bright spots, following a period of meaningful weakness. At the sector level, energy stocks were the standout performer, while defensive value-oriented areas of the market lived up to their reputation and held up relatively well during the downdraft. Sectors include healthcare, utilities, and consumer staples, all of which provide services that are required regardless of market sentiment. Local equities make up the next largest allocation in the Portfolio. SA equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Industrials (-3%) fared slightly better than both Financials (-16%) and Resources (-21%) over the quarter. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government bonds and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

The Nedgroup Inv Global Emerging Markets FF was one of the top-performing funds over the quarter. The Fund was able to eke out a positive return with the help of a weaker rand, over a quarter where the majority of global funds were negative. The Fund's high allocation to Chinese-linked companies contributed to its performance. Some notable contributors are Longi (37.8%), Wuliangye (40.3%) and Nio (31.3%).

Fairtree Equity generated a negative return of -7.1% but produced top quartile performance over an especially difficult quarter for SA equities. Performance was primarily driven by the Fund's exposure to Naspers (42.3%) and Prosus (32.6%). SA Resources was a leading detractor with Gold Fields (-32.9%), Anglo American (-23.6%), Northam Platinum (-21.5%), and Impala Platinum (-19.5%) all coming under pressure during a relatively broad-based market selloff.

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

Summary

Despite disappointing performance in the second 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
June 2022

Aggressive investors will be disappointed with returns generated in the second quarter of 2022. Weak returns from global and local risk assets acted as a headwind to the performance of the Portfolio over the quarter.

The Morningstar Capped All Seasons Portfolio returned -7.4% for the quarter and has generated a return of 4.0% 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

Local equities make up the largest allocation in the Portfolio. SA equities tracked global markets lower during the quarter, with all equity sectors ending in negative territory. Industrials (-3%) fared slightly better than both Financials (-16%) and Resources (-21%) over the quarter. Naspers (+42%) and Prosus (+33%) were two of the few counters to finish the quarter with strong performance, as the entities announced an open-ended buyback program through the intended unwinding of their holding in Tencent. Offshore equities make up the next largest allocation in the Portfolio. These allocations detracted from performance over the quarter, as concerns around continued elevated inflation prints, rising interest rates, a slowing global economy, and lower company earnings weighed on risk assets. Most major equity markets struggled to generate positive performance, however, China, was one of the few bright spots, following a period of meaningful weakness. At the sector level, energy stocks were the standout performer, while defensive value-oriented areas of the market lived up to their reputation and held up relatively well during the downdraft. Sectors include healthcare, utilities, and consumer staples, all of which provide services that are required regardless of market sentiment. Local bonds make up the next largest allocation within the Portfolio. This includes allocations to corporate, government bonds and inflation-linked bonds. Short dated nominal bonds held up well over the quarter and managed to eke out positive performance, however, medium and long dated instruments struggled as a result of higher yields in these areas of the curve. Inflation-linked bonds managed to generate decent performance over the quarter, supported by continued demand for inflation protection as the level of inflation breached the upper end of the South African Reserve Bank's (SARB) target range of between 3% and 6% (the latest print came in at a level of 6.5% year-on-year to the end of May 2022). A small allocation to local listed property detracted from performance, as the asset class was heavily impacted by poor performance in June on the back of weak returns from index heavyweights including Growthpoint (-14%) and NEPI Rockcastle (-11%). Offshore bond and cash allocations contributed to performance, supported by a weaker rand against major developed market currencies, which acted as a tailwind to the performance of offshore allocations over the quarter.

Fund Selection

The contribution from fund selection was mixed over the quarter.

The Nedgroup Inv Global Emerging Markets FF was one of the top-performing funds over the quarter. The Fund was able to eke out a positive return with the help of a weaker rand, over a quarter where the majority of global funds were negative. The Fund's high allocation to Chinese-linked companies contributed to its performance. Some notable contributors are Longi (37.8%), Wuliangye (40.3%) and Nio (31.3%).

Fairtree Equity generated a negative return of -7.1% but produced top quartile performance over an especially difficult quarter for SA equities. Performance was primarily driven by the Fund's exposure to Naspers (42.3%) and Prosus (32.6%). SA Resources was a leading detractor with Gold Fields (-32.9%), Anglo American (-23.6%), Northam Platinum (-21.5%), and Impala Platinum (-19.5%) all coming under pressure during a relatively broad-based market selloff.

Aylett Equity had a challenging quarter, posting a negative return and lagging behind peers. The Fund's Platinum Group Metals ("PGM") exposure through Anglo American (-23.6%) and Impala Platinum (-19.5%) was heavily sold off in a tough quarter for SA Resources. Other more benchmark agnostic positions in Reinet (-42.8%), Transaction Capital (-25.3%), and Remgro (-13.1%) also succumbed to pronounced selling pressure over the quarter.

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

Summary

Despite disappointing performance in the second 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.

Risk Warnings

Morningstar Investment Management South Africa Disclosure

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