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# Morningstar SA Managed Portfolios Restructure

May 2023

## PORTFOLIO CHANGE RATIONALE

At the heart of the Morningstar SA Managed Portfolios' process is our valuation-driven asset allocation. This process continually seeks the most undervalued assets, and in turn, avoids what we consider to be expensive. With that in mind, the local portfolio range has been refreshed to match our current thinking, but within the context of our long-term decision-making framework. While we aim to keep portfolio turnover low, as prices move and our asset class convictions change, we are active in our allocation to areas of high conviction.

Changes at both portfolio and asset allocation levels are necessary from time to time to ensure that investors' risk/return objectives are met. The upcoming restructure seeks to reposition the unconstrained portfolios in our range to achieve the following:

- ✓ **Reduce the drift in local versus offshore allocations** (following the Rand depreciating by almost 20% to the US Dollar over the last 12 months).
- ✓ **Reduce costs** by increasing our passive allocation to Satrix MSCI World Equity Index where appropriate.
- ✓ **Reduce manager concentration risk** by trimming allocations to Ninety One Global Franchise and Allan Gray Orbis Global Equity, and introducing Glacier Global Stock where appropriate.

## SUMMARY OF THE CHANGES TO PORTFOLIOS

The following changes will be implemented during May 2023 in each of the below listed Morningstar Managed Portfolios:

- **Morningstar TFSA Portfolio**  
At a manager level, we are introducing Glacier Global Stock to the portfolio and increasing the allocation to Satrix MSCI World Index, funded by reductions in allocations to Ninety One Global Franchise, Nedgroup Global Equity, and Old Mutual Global Equity.
- **Morningstar Moderate Income Portfolio**  
At a manager level, we are increasing the allocation to Nedgroup Core Bond, funded by a reduction in allocation to Ninety One Global Franchise. South African Government Bonds are presently the highest-ranked asset in our local opportunity set and pay attractive yields for income-oriented investors. This change will effectively bring global exposure back to our target weight of 35% and allow for some profit-taking after the pronounced dollar strength over the past year.
- **Morningstar All Seasons Portfolio**  
At a manager level, we are introducing Glacier Global Stock and Aylett Equity Prescient to the portfolio, funded by small reductions in allocations to Ninety One Global Franchise, Allan Gray Orbis Global Equity, Coronation Global Optimum Growth, Nedgroup Core Global, Fairtree Equity Prescient and Marriott Property Income.
- **Morningstar Capped All Seasons Portfolio:**  
At a manager level, we are introducing Truffle SCI General Equity to the portfolio and increasing the allocation to Satrix MSCI World Equity Index, funded by reductions in allocations to PSG Equity, Aylett Equity, Fairtree Equity, and Ninety One Global Franchise.

## FUND MANAGER INTRODUCTIONS

**Glacier Global Stock Feeder Fund** feeds directly into the Dodge & Cox Global Stock Fund, managed by Dodge & Cox Worldwide Investments. The fund's value-oriented investment style and process are uncorrelated to other global equity fund managers. The fund has been added to diversify our global equity core and reduce manager concentration risk in portfolios. The fund scores highly through Morningstar's 5 P process, with a stable parent; a well-resourced team (people); a process that has a strong sense of collaborative decision-making and that is repeatable; a strong performance track record that falls within expectations; and an attractive fee structure (price).

**Aylett Equity Prescient Fund** invests in local and global equities. Aylett Fund Managers was founded in 2005 by the current Chief Investment Officer, Walter Aylett. He is assisted by Dagon Sachs and Justin Ritchie in the management of the fund. Aylett doesn't follow a prescribed investment style but rather tries to be rational in their approach to investing. The investment approach is completely benchmark agnostic and portfolios are built from the bottom up. Importantly, the team looks for good businesses first and mispricing second, with portfolio turnover kept as low as possible. Aylett will not invest in the equity of a business if they do not trust management due to previous experiences with senior members of the company.

**Truffle SCI General Equity** is co-managed by Iain Power, Saul Miller, Nicole Agar, and Sophie-Marié van Garderen. The fund managers are benchmark aware and remain cognisant of all the instruments listed in the FTSE/JSE Capped Swix Index, deviating above and below marginally as they see opportunities, and providing a smoother alpha profile over time. The fund will be added to our equity core as a diversifier and South African equity building block.

### IMPACT OF THE CHANGES ON THE PORTFOLIOS

Table 1: The SA Managed Portfolios' fund allocations post the changes:

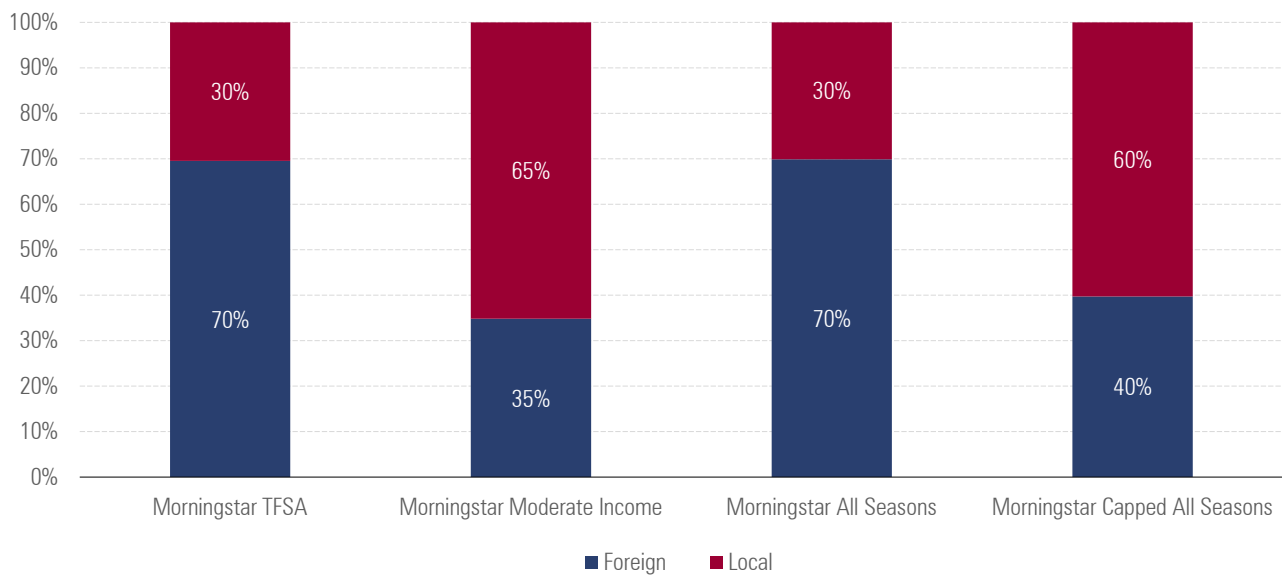
		Morningstar TFSA	Morningstar Moderate Income	Morningstar All Seasons	Morningstar Capped All Seasons
Equity	PSG Equity	7%		6%	11%
	CoreShares S&P SA Top 50		11%		12%
	Fairtree Equity Prescient	9%	6%	6%	10%
	Truffle SCI General Equity				7%
	Aylett Equity Prescient		5%	5%	11%
	Methodical BCI Equity Preserver		10%		
		<b>16%</b>	<b>32%</b>	<b>17%</b>	<b>51%</b>
Property	Marriott Property Income	4%		3%	5%
			<b>4%</b>	<b>0%</b>	<b>3%</b>
Fixed Income	Coronation Strategic Income		10%		
	Ninety One Diversified Income		10%		
	Nedgroup Core Bond	12%	17%	11%	11%
		<b>12%</b>	<b>37%</b>	<b>11%</b>	<b>11%</b>
Global	Old Mutual Global Equity	10%			
	Ninety One Global Franchise FF	11%	13%	12%	12%
	Nedgroup Global Equity FF	11%			
	Satrix MSCI World Equity Index FF	20%		14%	8%
	Glacier Global Stock FF	8%		6%	
	Nedgroup Core Global FF		18%	12%	5%
	Nedgroup Global EM Equity FF	8%		9%	8%
	Allan Gray Orbis Global Equity FF			8%	
	Coronation Global Optimum Gr FF			8%	
		<b>68%</b>	<b>31%</b>	<b>69%</b>	<b>33%</b>

Table 2: The costs of the SA Managed Portfolios post the changes\*

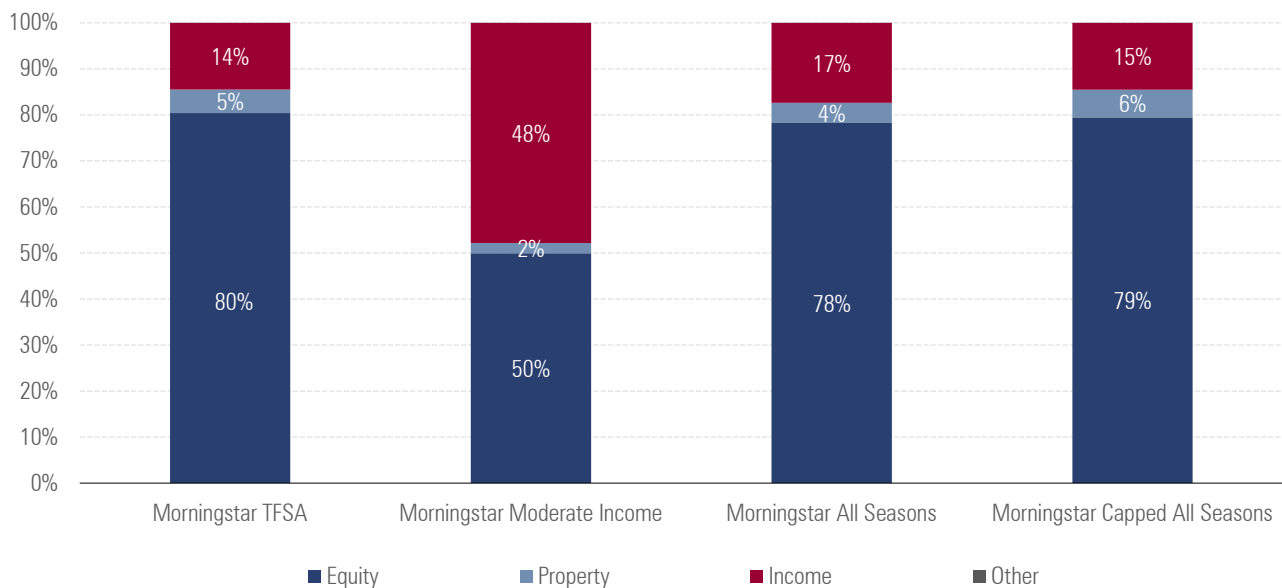
Portfolio	TER	TIC	DFM Fee including VAT	Total including VAT	Cost Saving vs Current
Morningstar TFSA	0.97%	1.08%	0.23%	<b>1.31%</b>	<b>0.11%</b>
Morningstar Moderate Income	0.69%	0.76%	0.23%	<b>0.99%</b>	<b>0.03%</b>
Morningstar All Seasons	0.91%	1.01%	0.23%	<b>1.24%</b>	<b>-0.01%</b>
Morningstar Capped All Seasons	0.87%	1.05%	0.23%	<b>1.28%</b>	<b>0.01%</b>

\*Please note that due to share class availability, the total fund management costs could vary depending on the platform.

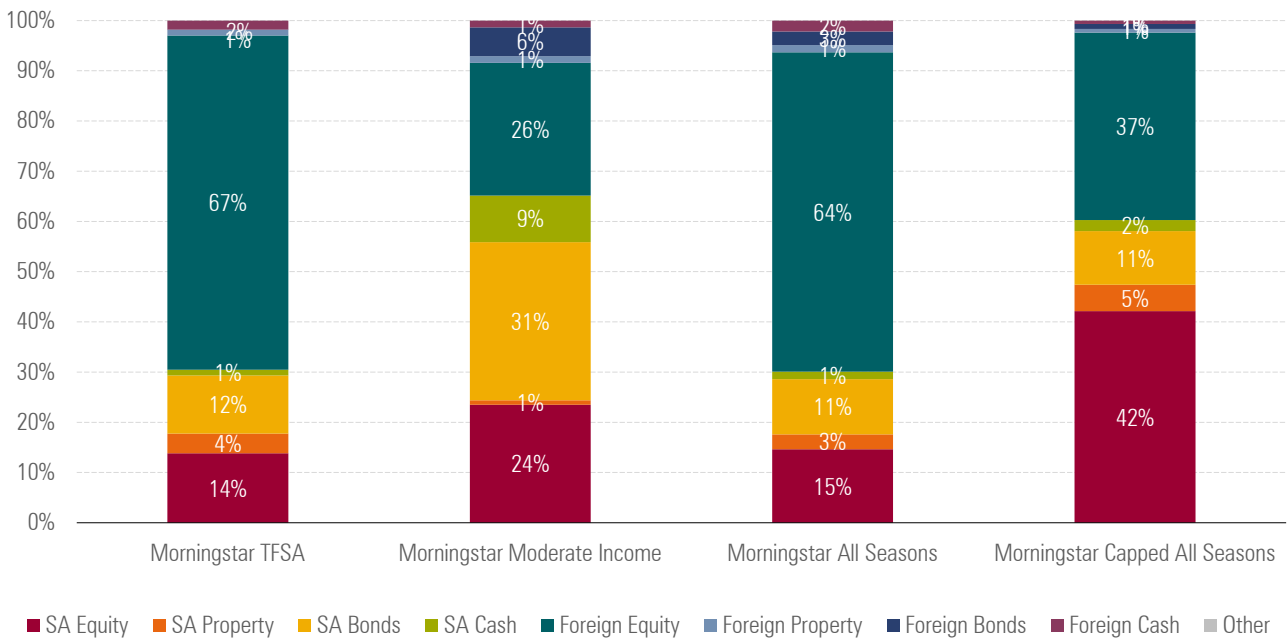
Graph 1: The SA Managed Portfolios' foreign and local asset split post the changes:



Graph 2: The SA Managed Portfolios' broad asset allocation post the changes:



Graph 3: The SA Managed Portfolios' detailed asset split post the changes:



**A note on Capital Gains Tax**

For investors in discretionary products, the CGT impact will vary per investor. Please contact your platform for CGT details.

**Morningstar Investment Management South Africa Disclosure**

The Morningstar Investment Management group comprises Morningstar Inc.'s registered entities worldwide, including South Africa. Morningstar Investment Management South Africa (Pty) Ltd is an authorised financial services provider (FSP 45679) regulated by the Financial Sector Conduct Authority and is the entity providing the advisory/discretionary management services.

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**Footnote**

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