



Live with confidence

Investments

# H2 FUND UPDATE 2022



A long, empty tunnel with a road and lights. The tunnel is dimly lit, with a series of bright lights along the ceiling that create a warm, yellowish glow. The road is dark and appears to be made of asphalt. The walls of the tunnel are concrete and have a slightly curved shape. The overall atmosphere is mysterious and somewhat eerie.

**absolute return**



# Absolute Return

## Market overview

Bonds

Investment process and philosophy

Fund performance

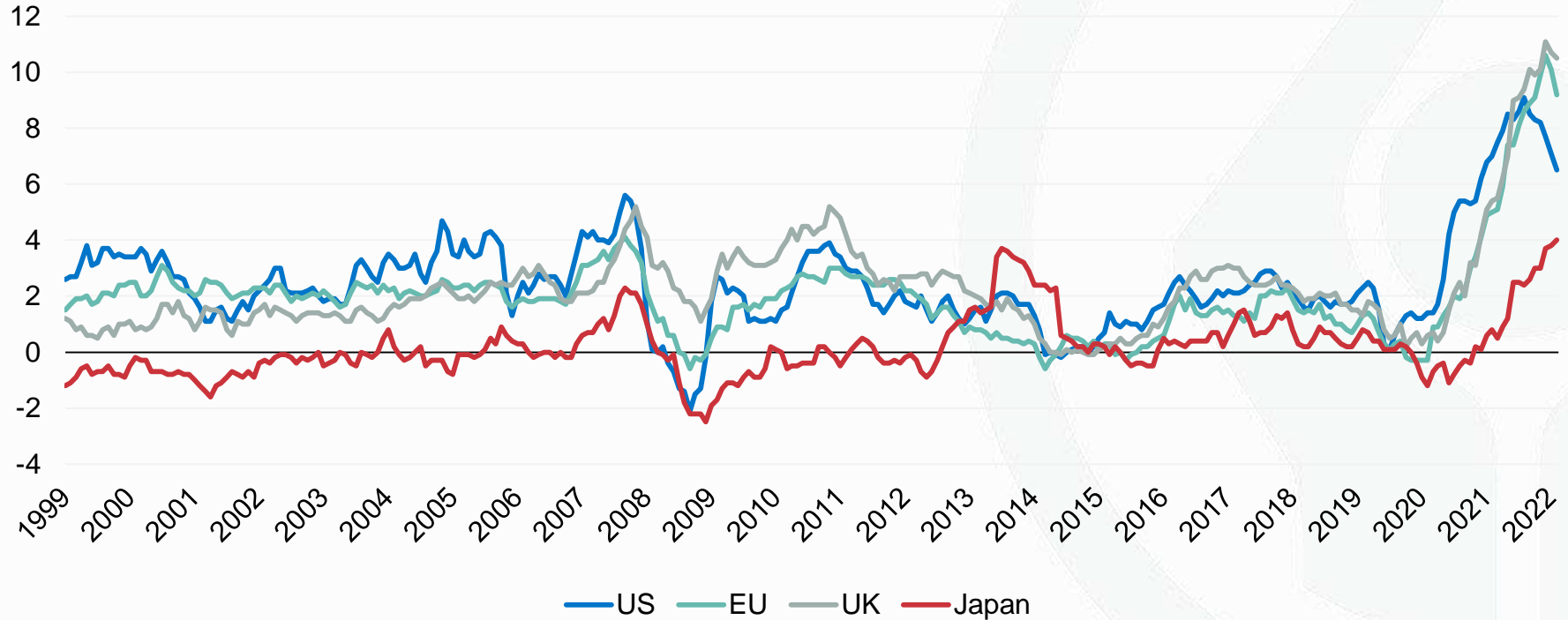
Market valuations

Fund positioning

Conclusion

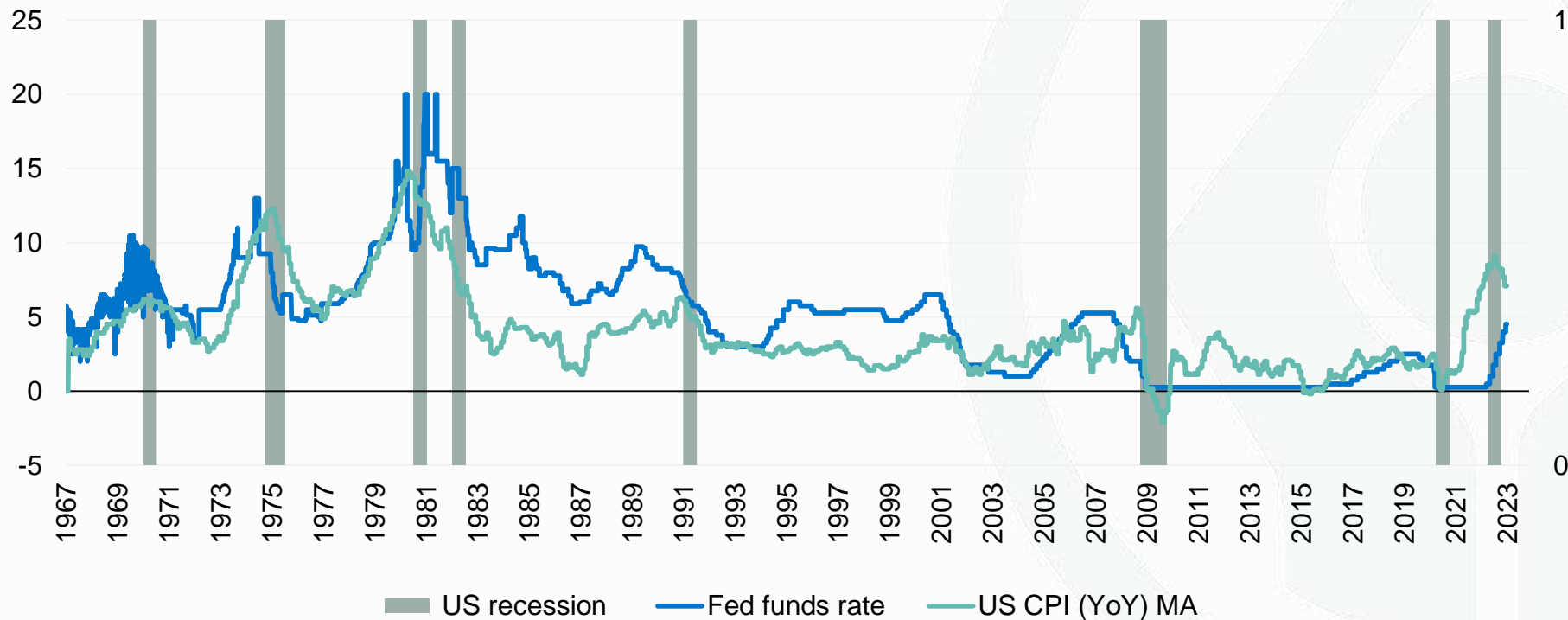
# Valuation

Global CPI rates still elevated



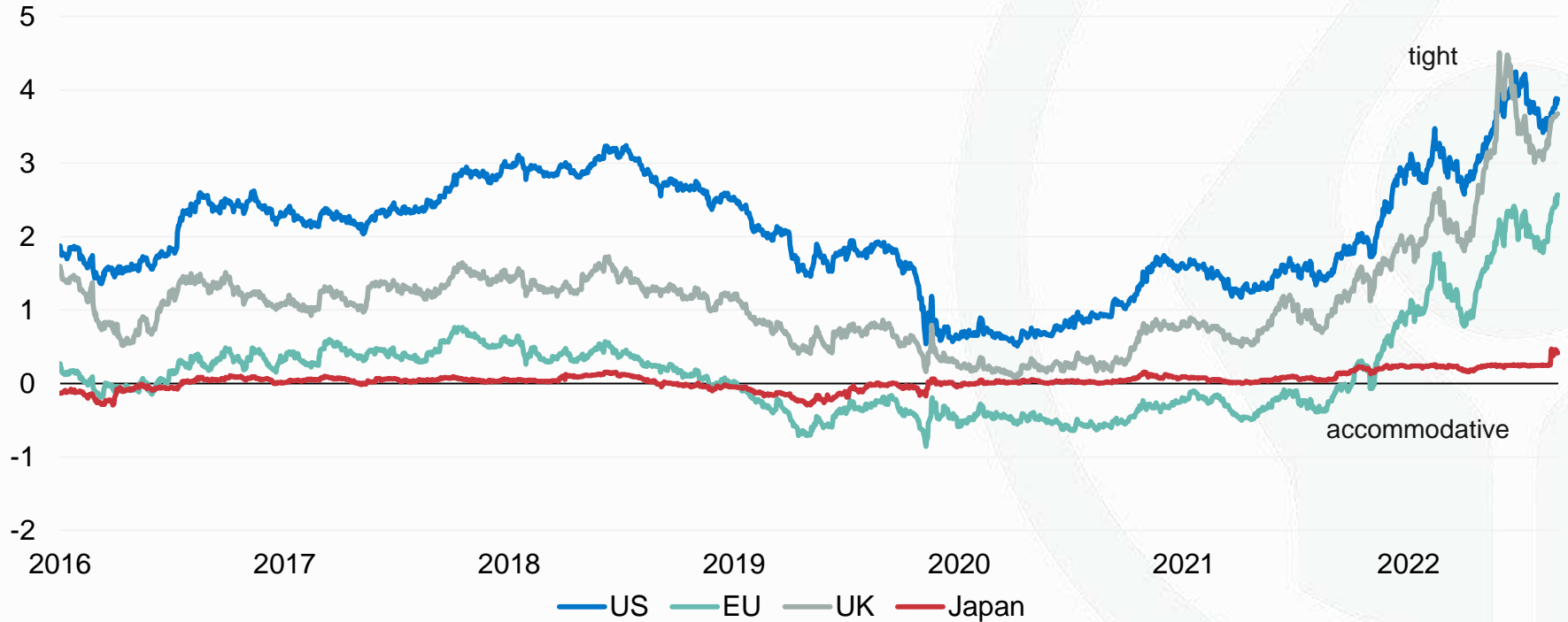
# Valuation

CPI, rates, recession



# Valuation

From TINA to “there is an alternative “





# Absolute Return

Market overview

## Bonds

Investment process and philosophy

Fund performance

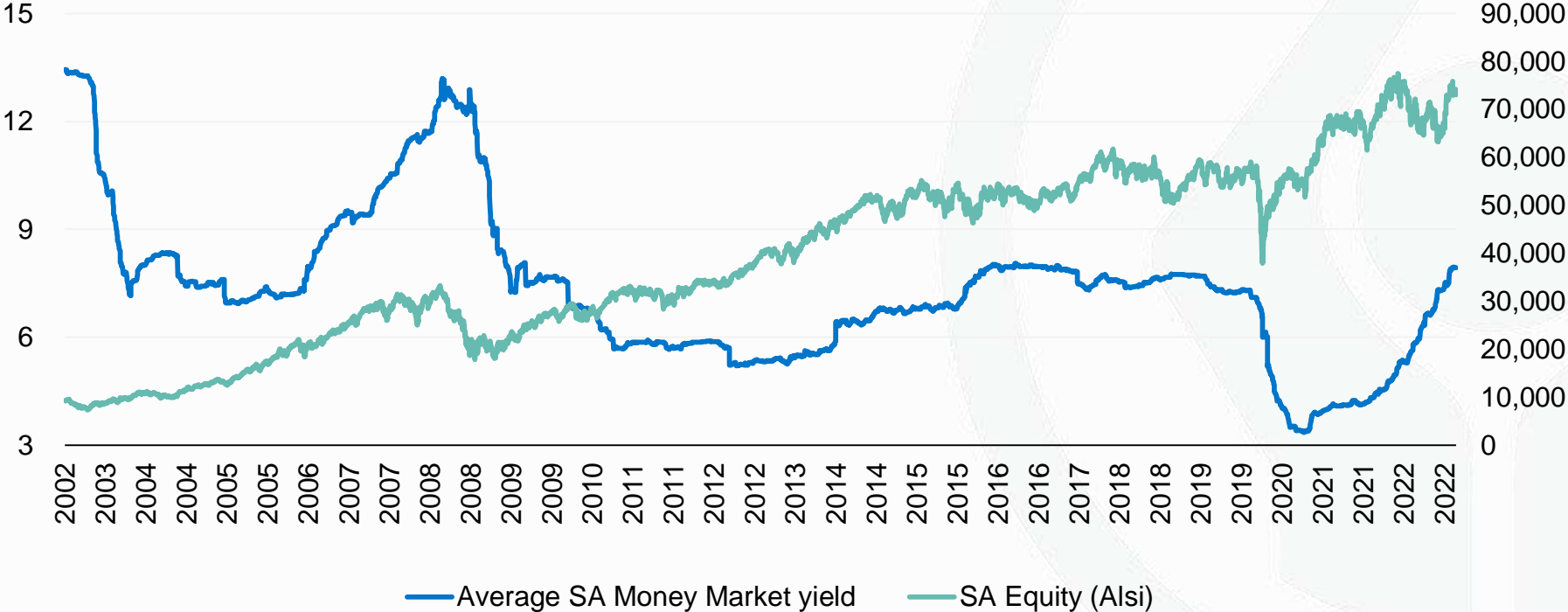
Market valuations

Fund positioning

Conclusion

# Monetary policy

Back to pre-Covid

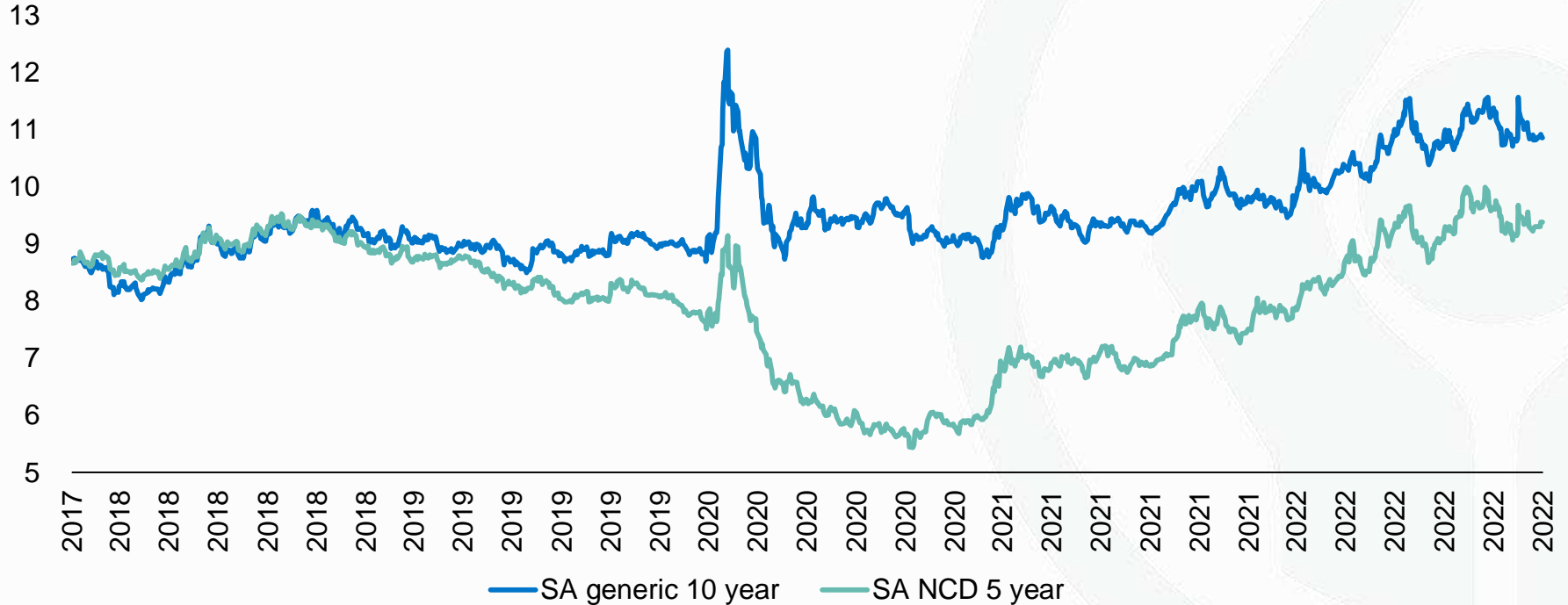


Source: SI (31 December 2022)



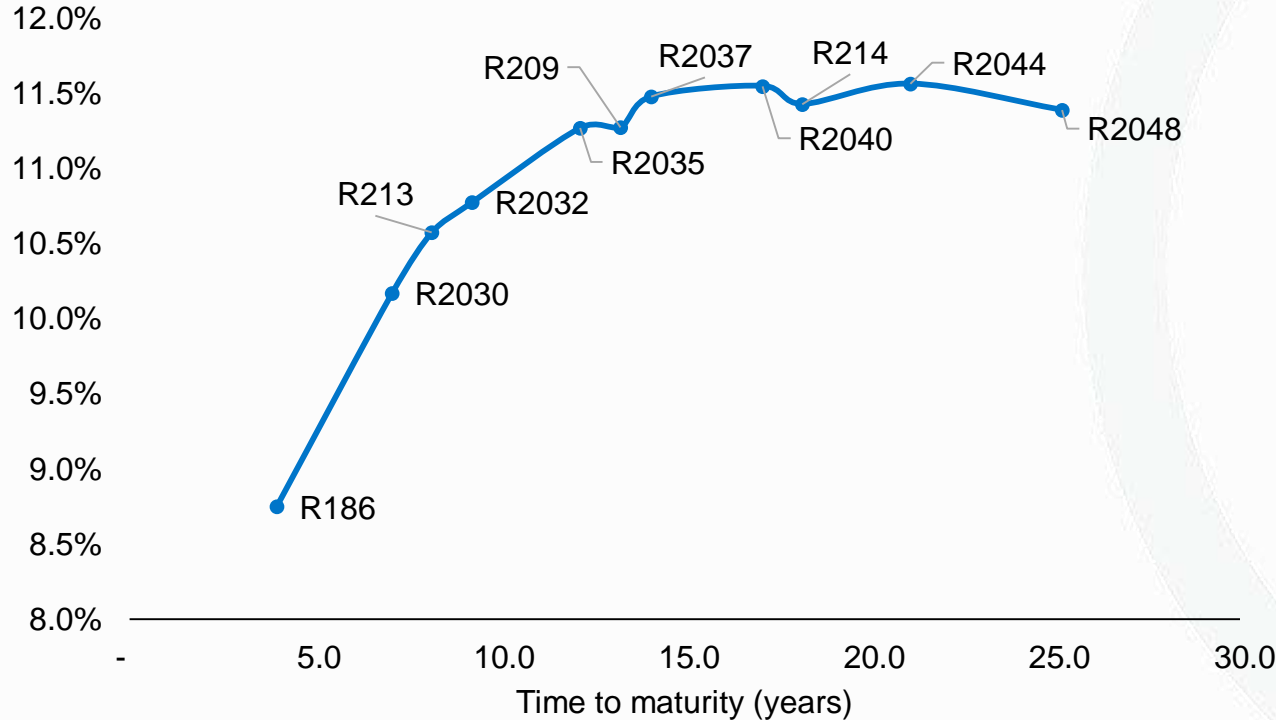
# Valuation

SA generic 10-year, 5-year NCD above pre-Covid levels



# Valuation

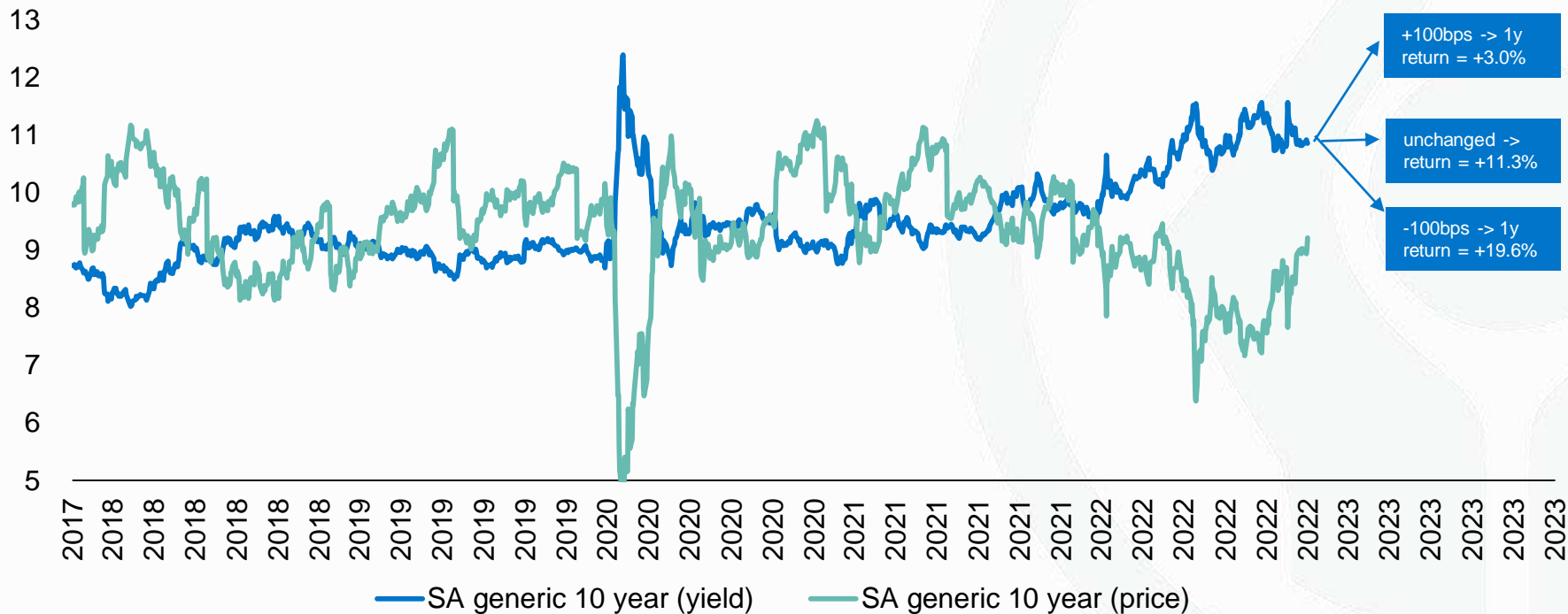
## SA nominal bond yield curve



Maturity date	Issuer	2021/06/30	Yields
2026/04/02	ESKOM	ES26	9.57
2033/09/15	ESKOM	ES33	12.22
2042/04/25	ESKOM	ES42	12.49
2026/10/01	FSB	FRX26	9.11
2034/07/31	SANRAL	HWAY34	12.03
2026/12/21	RSAGOV	R186	8.75
2030/01/31	RSAGOV	R2030	10.17
2032/03/31	RSAGOV	R2032	10.78
2035/02/28	RSAGOV	R2035	11.27
2037/01/31	RSAGOV	R2037	11.48
2040/01/31	RSAGOV	R2040	11.55
2044/01/31	RSAGOV	R2044	11.57
2048/02/29	RSAGOV	R2048	11.39
2036/03/31	RSAGOV	R209	11.28
2031/02/28	RSAGOV	R213	10.58
2041/02/28	RSAGOV	R214	11.43
2025/08/19	TRANSNET	TN25	9.60
2027/11/14	TRANSNET	TN27	11.06
2030/10/09	TRANSNET	TN30	11.73
2040/10/09	TRANSNET	TN40	12.61

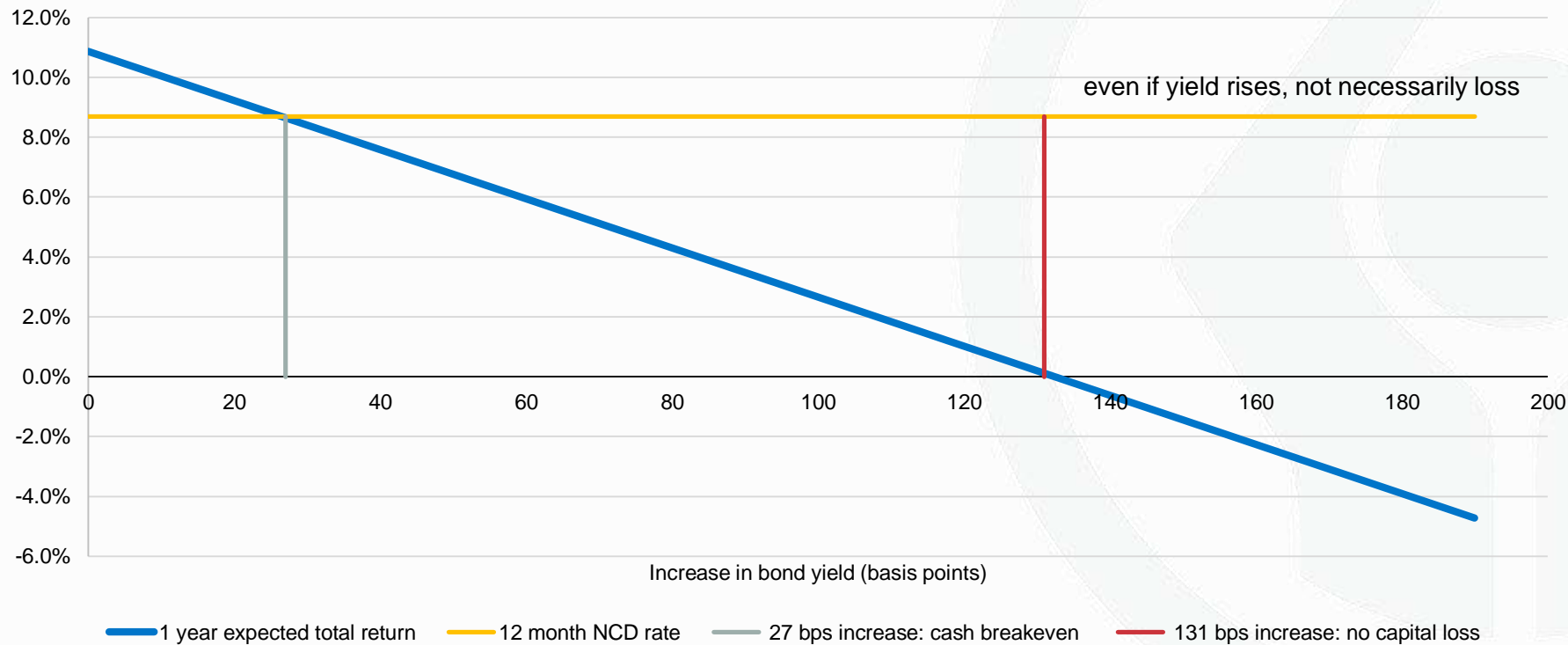
# Valuation

Scenario analysis over future 12 months: SA generic 10-year bond



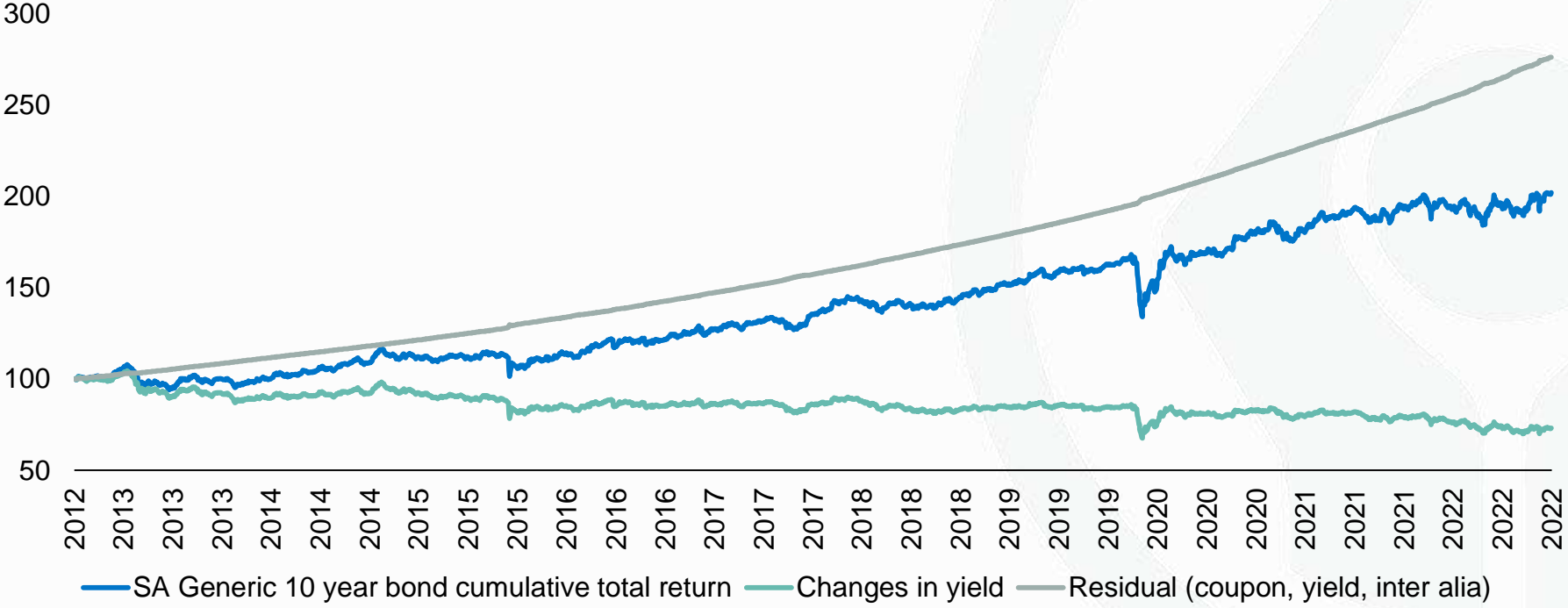
# Valuation

## Scenario analysis over future 12 months: SA generic 10-year bond



# Return decomposition: SA generic 10-year bond

Income component dominates and provides margin of safety



Source: Bloomberg (31 December 2022)



# Absolute Return

Market overview

Bonds

**Investment process and philosophy**

Fund performance

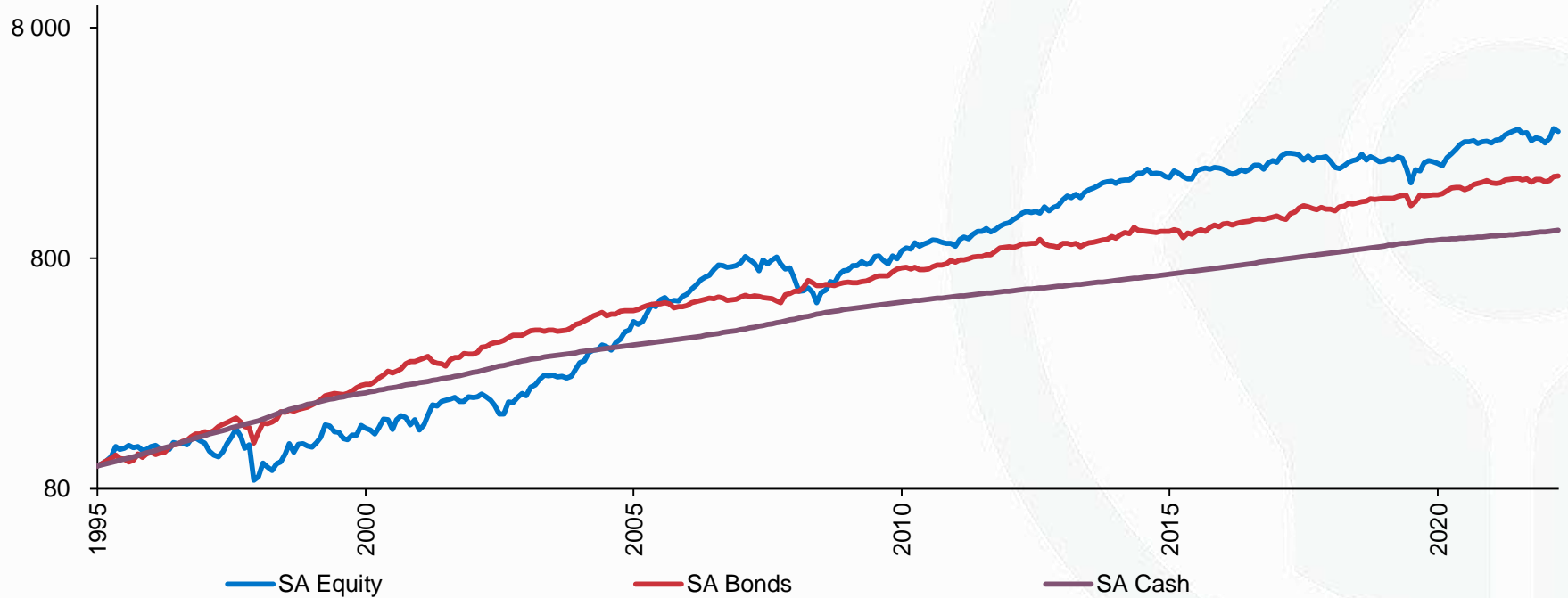
Market valuations

Fund positioning

Conclusion

# Growth assets

Compensate for risk over the long term



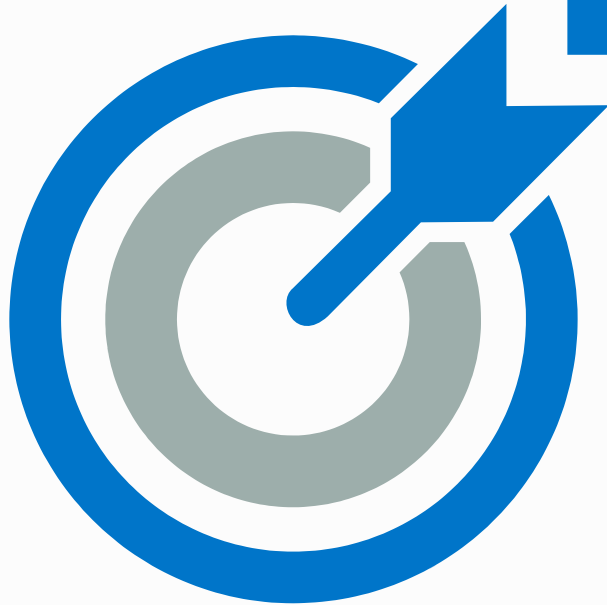




**Absolute Return investing**

**Real Return Funds**

**Target**

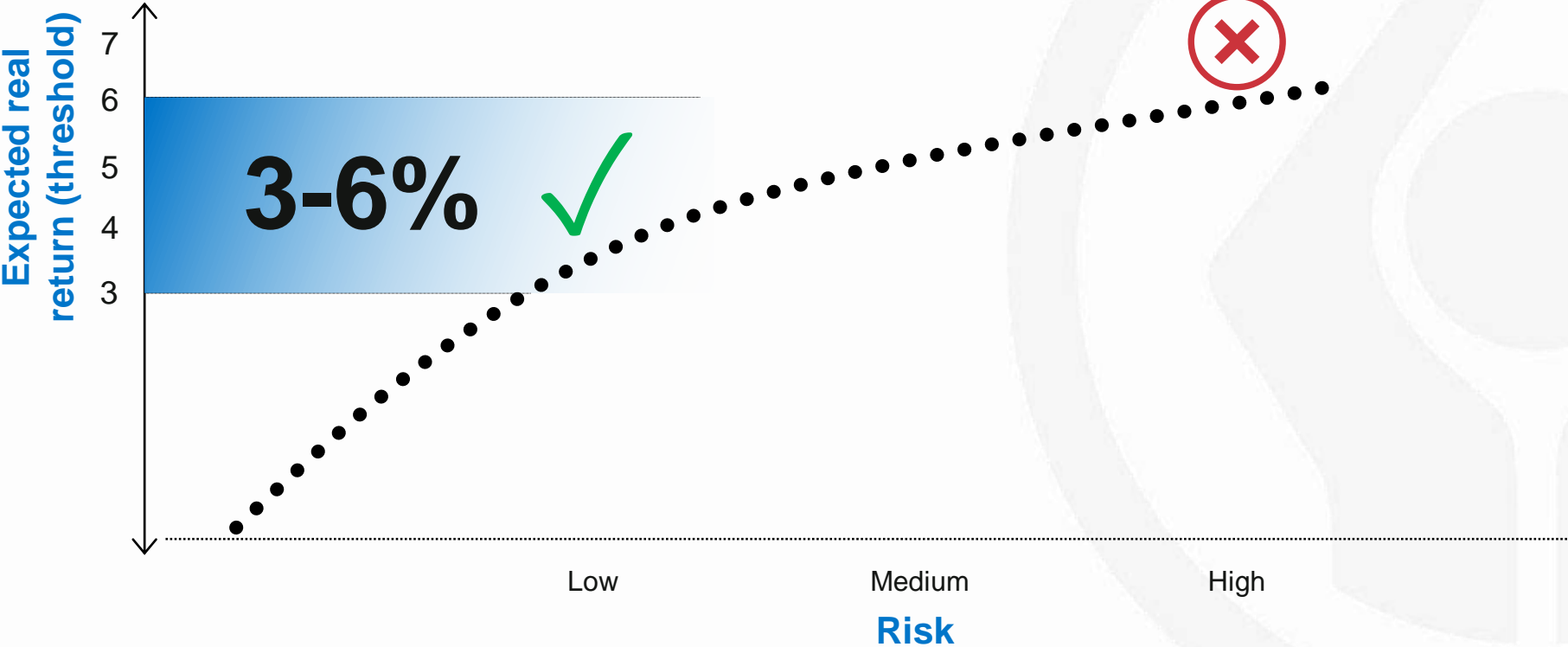


Explicitly  
targeting returns  
above inflation

Aiming to protect  
capital over rolling  
12-month periods

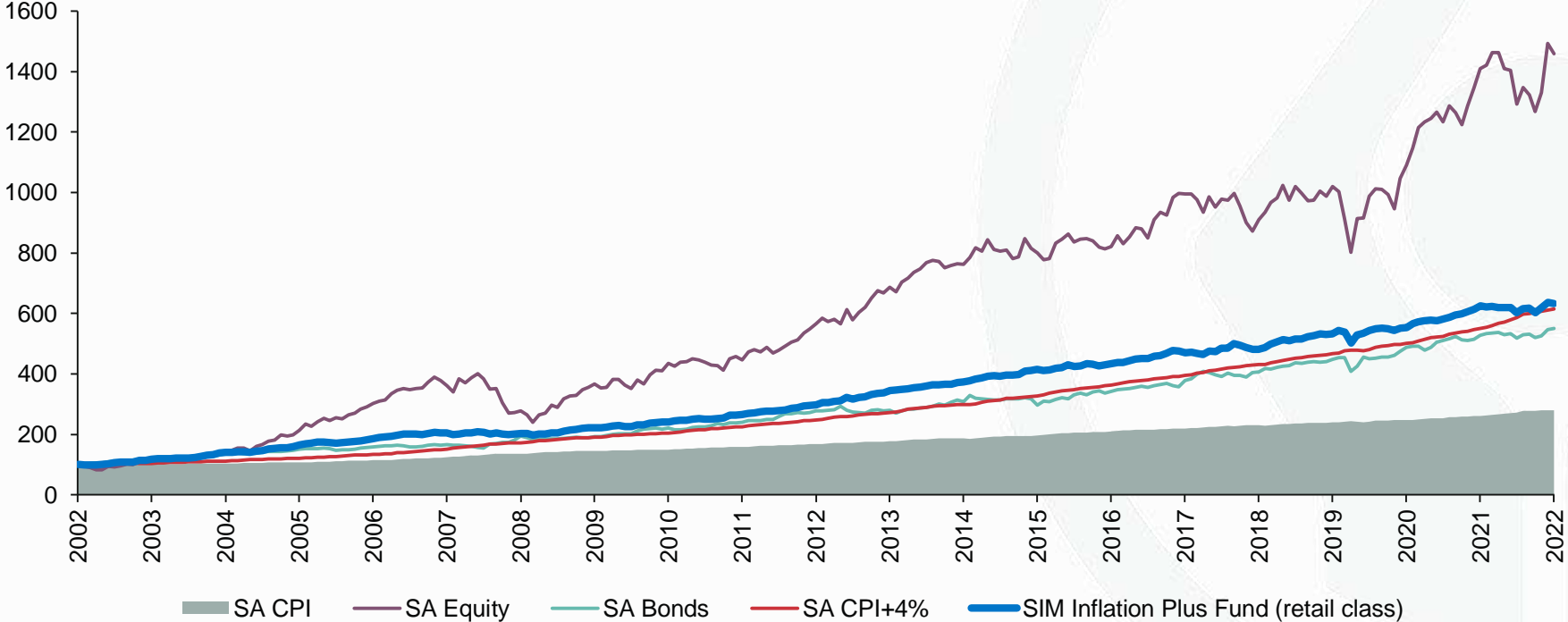


# Risk/Return profile



# Resilient performance even through troubled times

Cumulative total returns



Source: SI (31 December 2022)



# Absolute Return

Market overview

Bonds

Investment process and philosophy

**Fund performance**

Market valuations

Fund positioning

Conclusion

# Asset class returns

In rand terms

Index	3 Months	6 Months	1 Year	3 Years	5 Years
SA Equity (SWIX)	12.4%	2.0%	3.6%	8.8%	4.4%
SA Listed Property	19.3%	3.2%	0.5%	-3.4%	-7.2%
SA Nominal Bonds	5.7%	4.1%	4.3%	7.1%	7.9%
SA Inflation-linked Bonds	2.0%	2.0%	4.3%	7.9%	5.2%
SA Cash	1.6%	3.7%	5.2%	4.8%	5.8%
Developed Market Equity	4.0%	1.6%	-12.3%	12.6%	13.7%
Emerging Market Equity	3.8%	-2.1%	-14.7%	3.9%	5.1%
Foreign Nominal Bonds	-1.0%	1.6%	-10.7%	2.0%	4.8%
USDZAR	-5.7%	8.1%	6.9%	6.8%	6.6%
SA CPI+4%	2.1%	6.7%	11.2%	9.4%	9.0%

Source: SI. Numbers quoted for periods > 1 year are annualised (31 December 2022)

# What worked over past 6 months, and what didn't?

## What worked well?

- SA nominal bond and short-term interest-bearing exposure
- Hard currency allocation
- SA equity exposure
- Local equity and bond stock selection

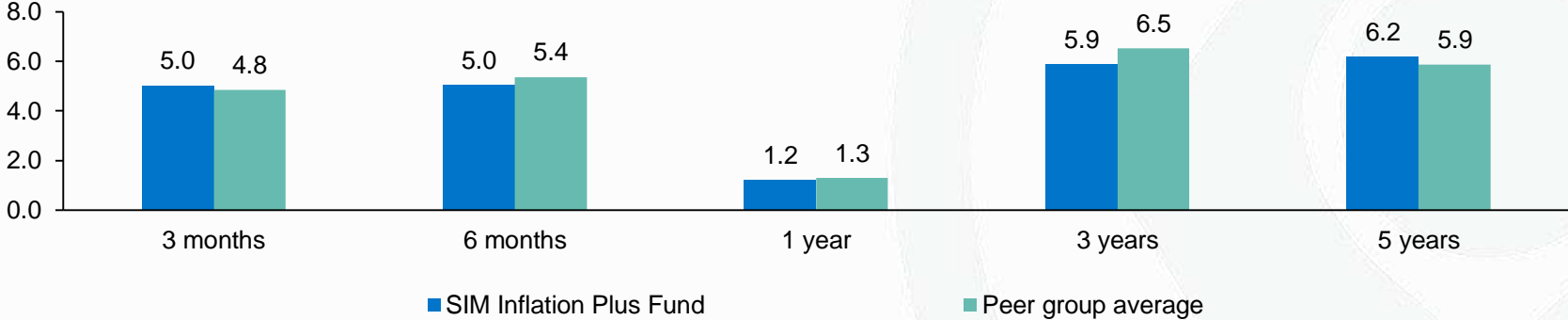
## What has not worked?

- Emerging market equity allocation
- Developed market equity exposure
- SA inflation-linked bond exposure.

# Peer comparison: Retail

## SIM Inflation Plus Fund

ASISA statistics (net of fees)

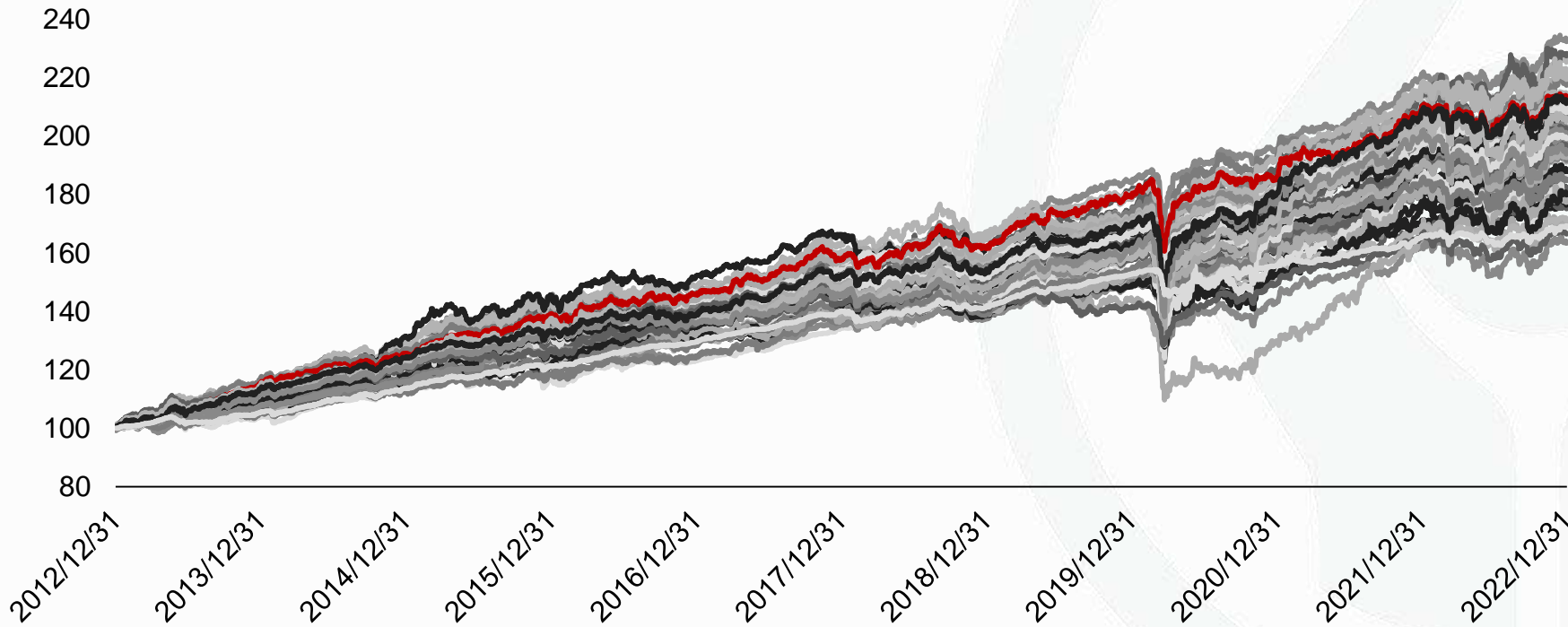


Peer group average	3-month rank	6-month rank	1-year rank	3-year rank	5-year rank
<b>SIM Inflation Plus Fund</b>	72/159 Q2	105/158 Q3	76/156 Q2	104/145 Q3	52/123 Q2
<b>Range within category</b>	[-1.6,8.8]	[0.5,7.8]	[-8.8,10.7]	[2.3,12.3]	[1.6,11.1]

Source: Morningstar (31 December 2022)

# Resilient performance even through troubled times: 10 years

ASISA MA Low Equity peers; red = SIM Inflation Plus

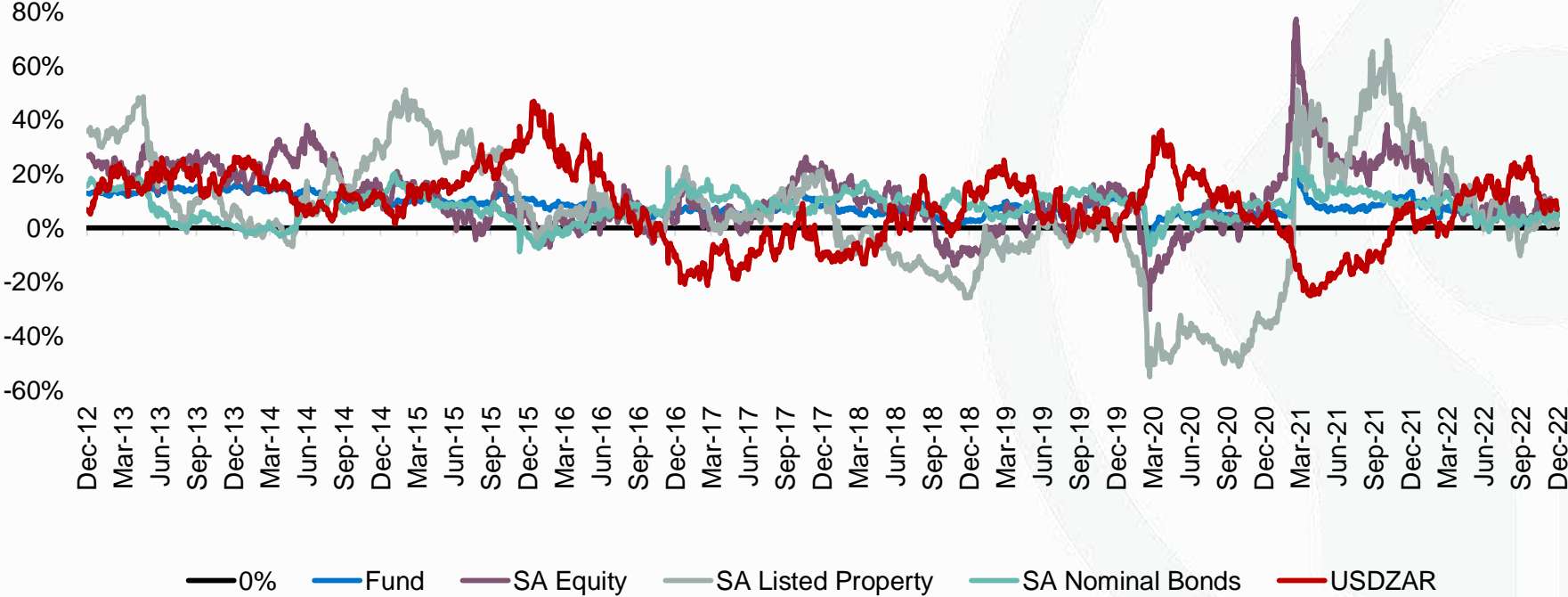


Source: SI (31 December 2022)



# Statistics: Composite

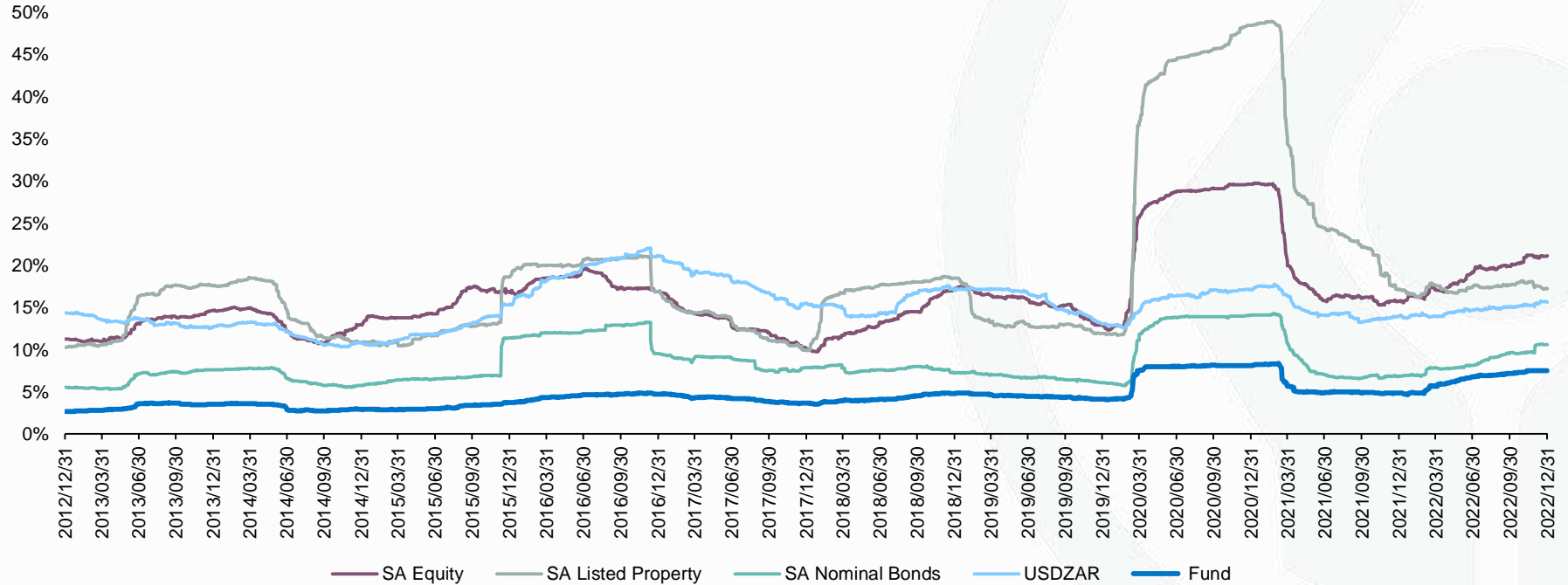
Rolling 12-month returns



Source: SI (31 December 2022)

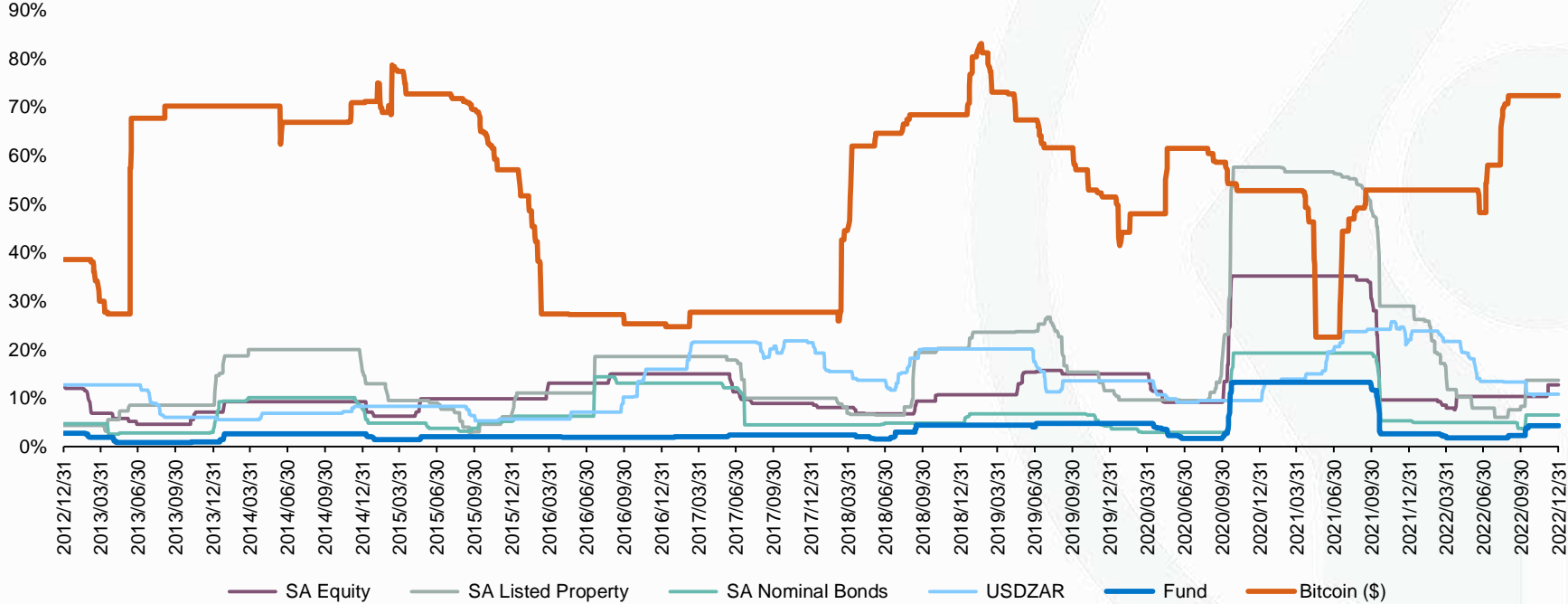
# Statistics: Composite

## Rolling volatility



# Statistics: Fund

## Rolling maximum drawdown



Source: SI (31 December 2022)



# Absolute Return

Market overview

Bonds

Investment process and philosophy

Fund performance

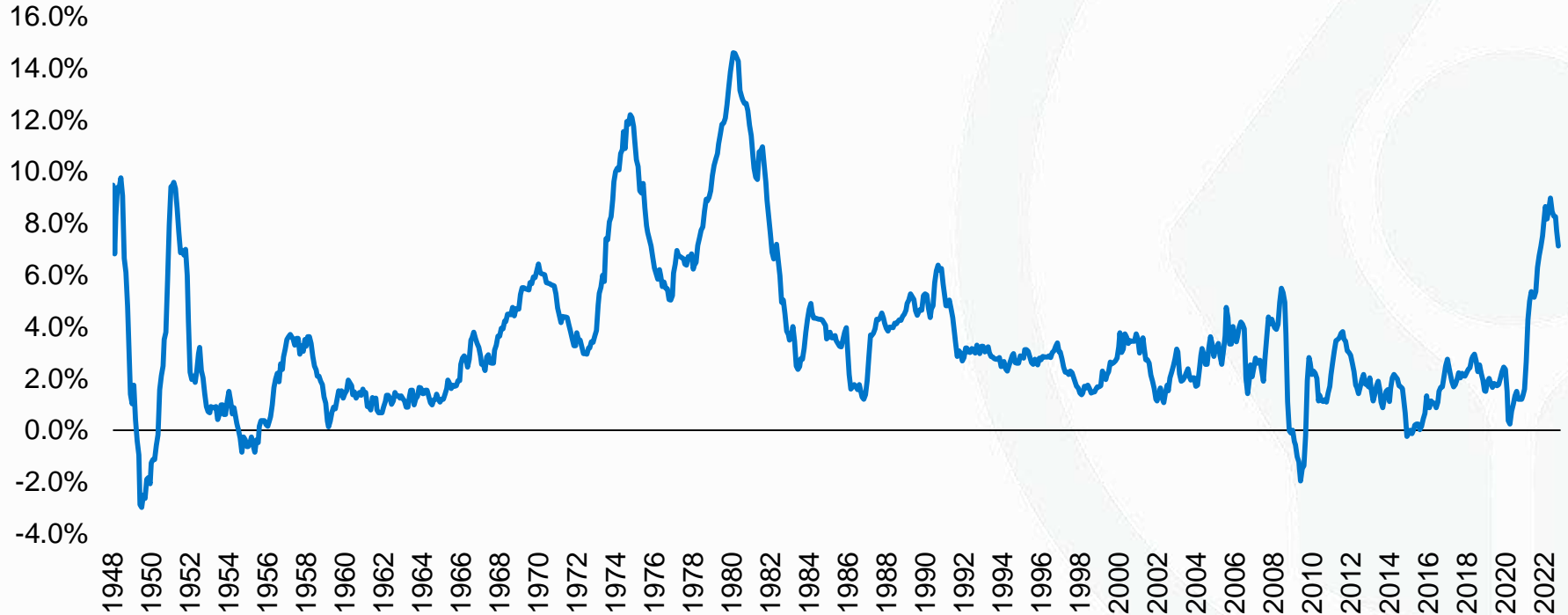
**Market valuations**

Fund positioning

Conclusion

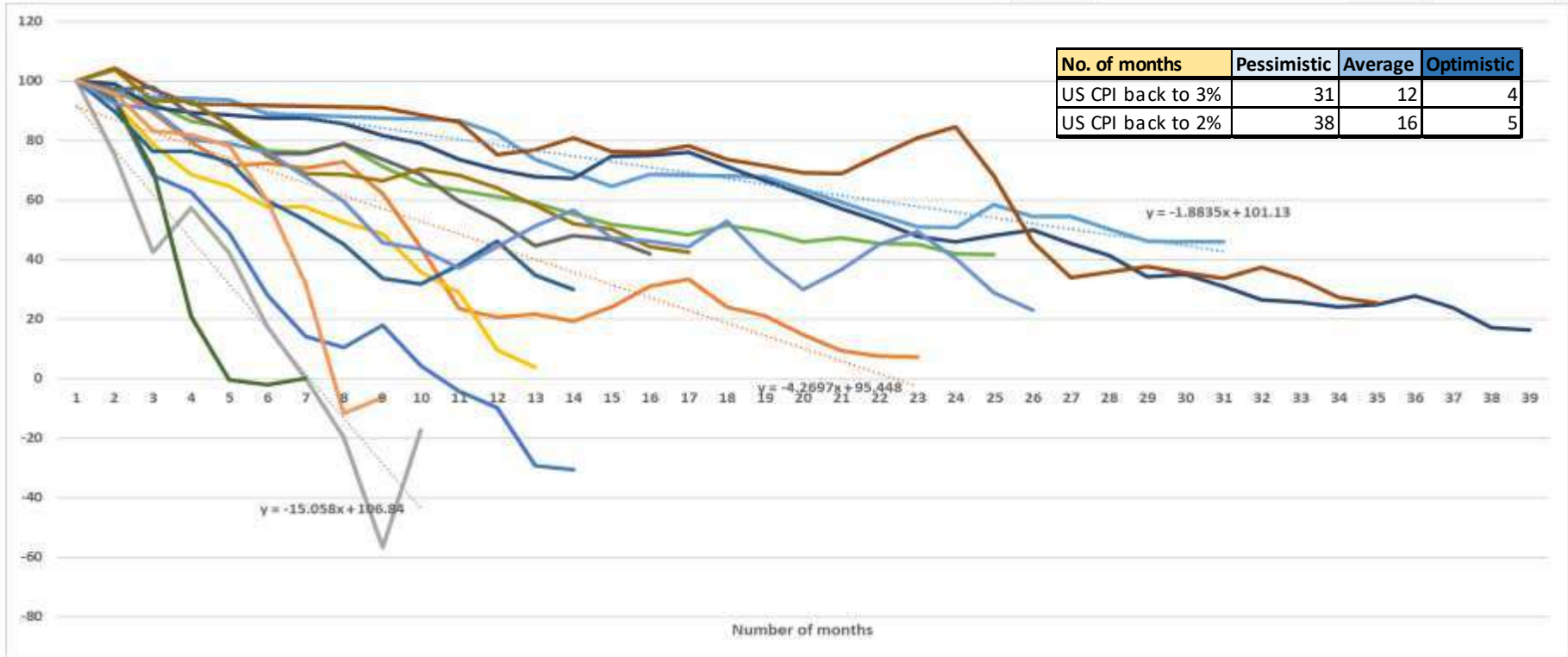
# Valuation

US CPI yoy: how long to get to 2-3%?



# Valuation

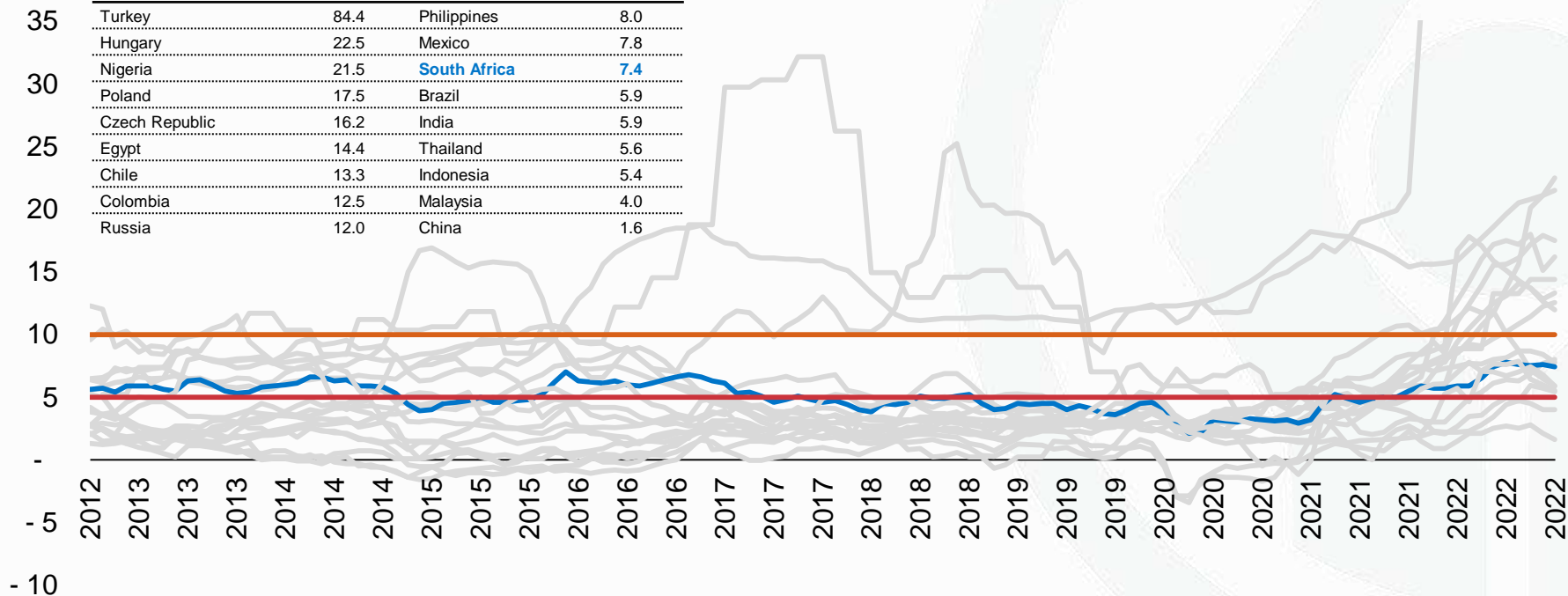
US CPI yoy – regress on all falls



# Valuation

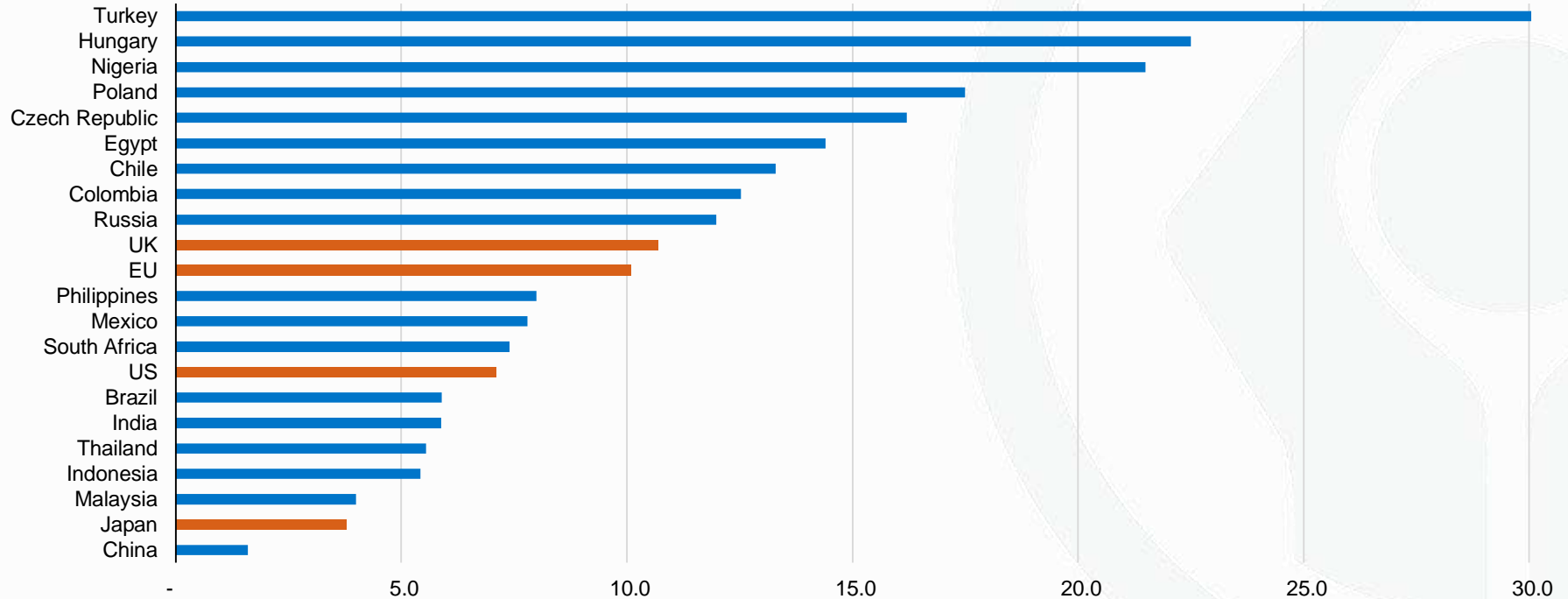
## EM CPI: wide dispersion

Country	CPI (yoy)	Country	CPI (yoy)
Turkey	84.4	Philippines	8.0
Hungary	22.5	Mexico	7.8
Nigeria	21.5	<b>South Africa</b>	<b>7.4</b>
Poland	17.5	Brazil	5.9
Czech Republic	16.2	India	5.9
Egypt	14.4	Thailand	5.6
Chile	13.3	Indonesia	5.4
Colombia	12.5	Malaysia	4.0
Russia	12.0	China	1.6



# Valuation

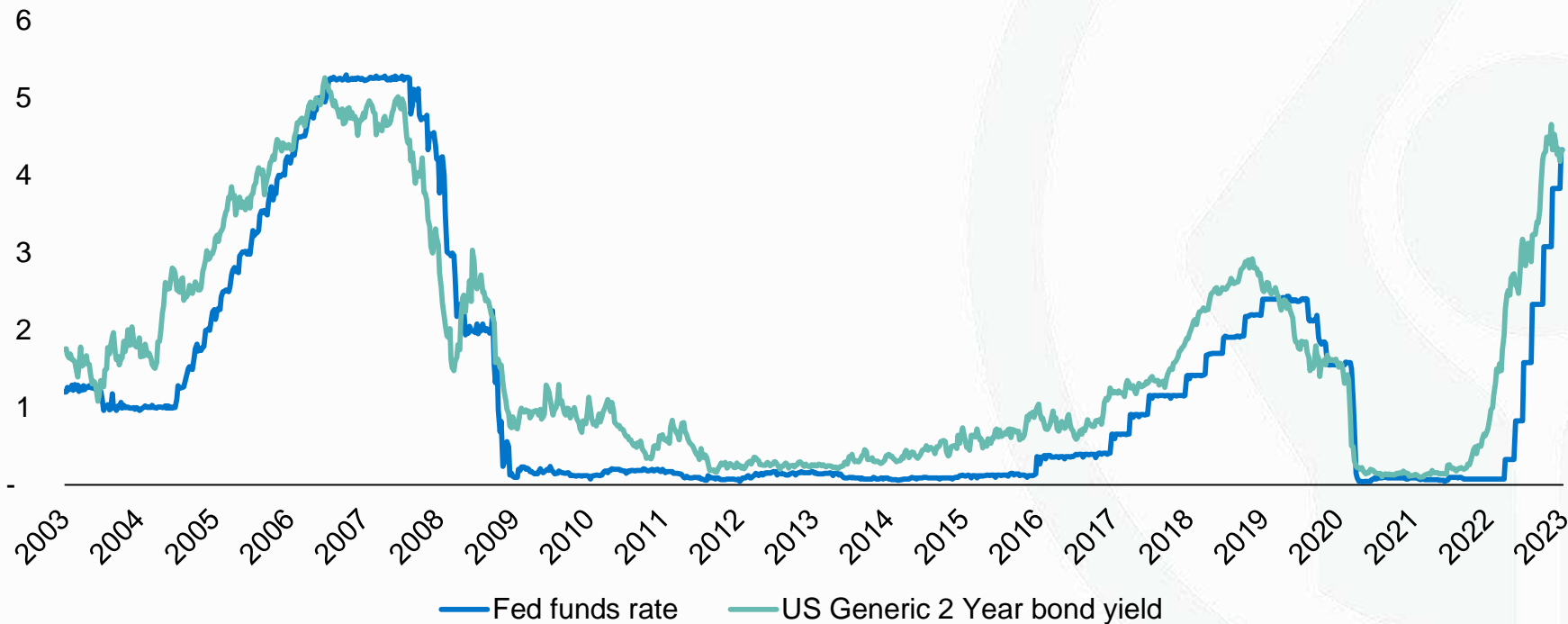
## Global CPI





# Valuation

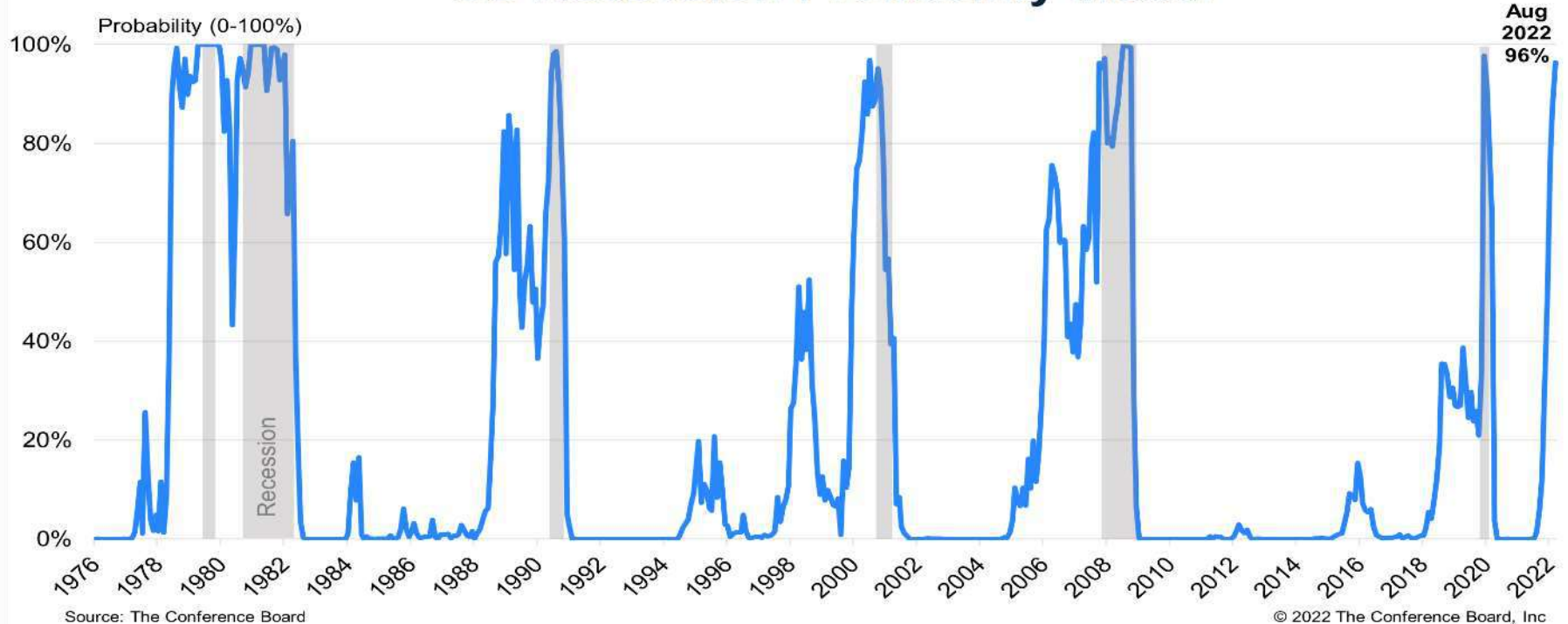
Significant hikes required, to “neutral”



# Valuation

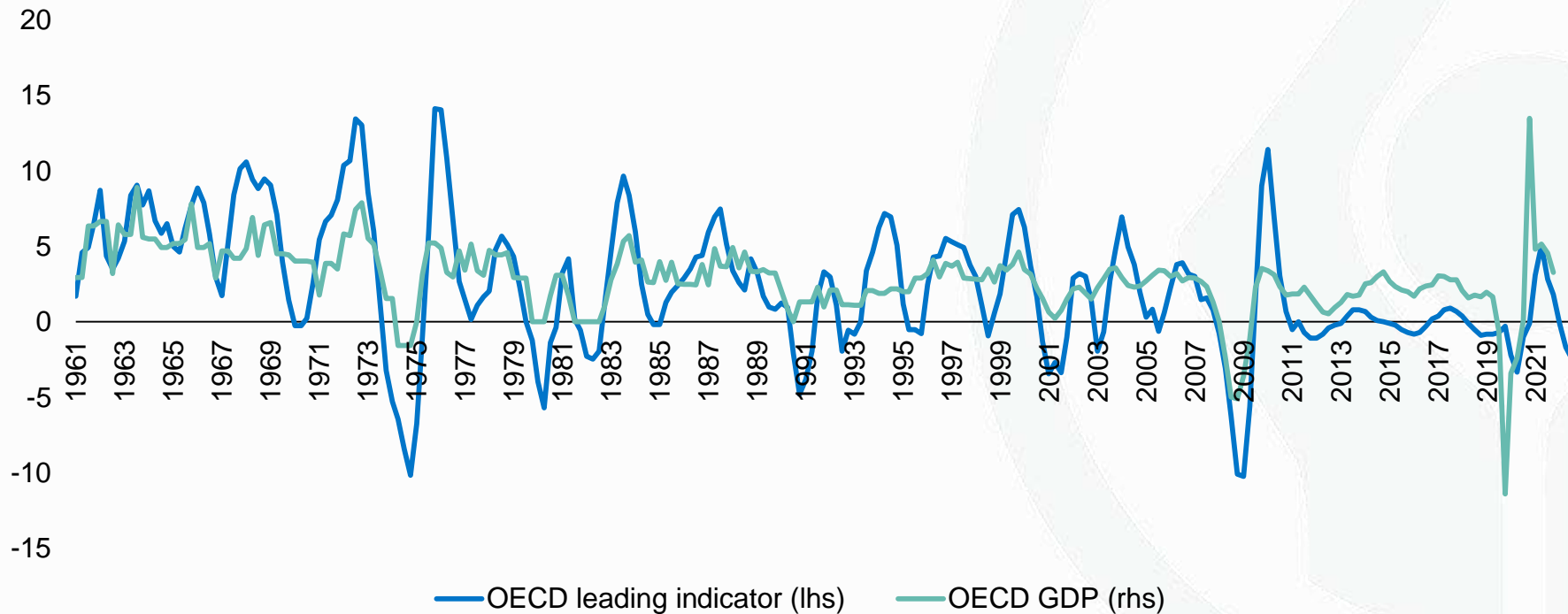
Conference board US recession probability model

## US Recession Probability Model



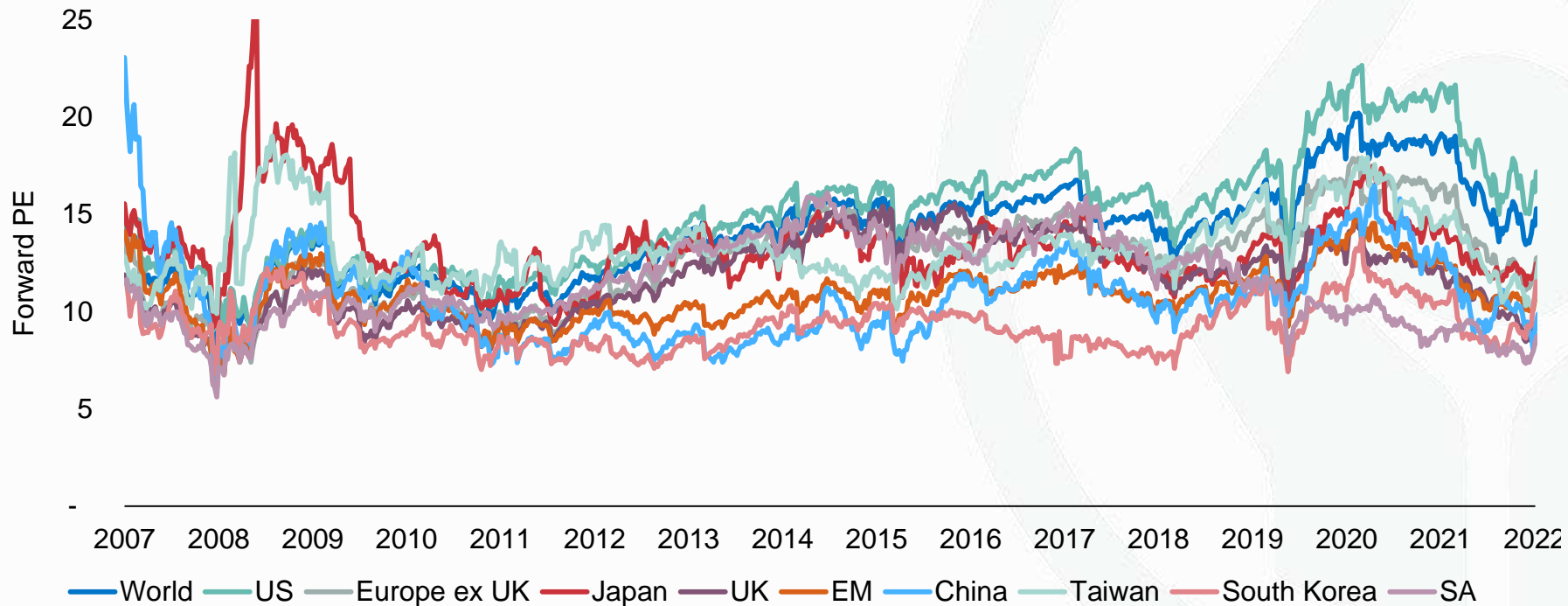
# Valuation

## OECD leading indicator



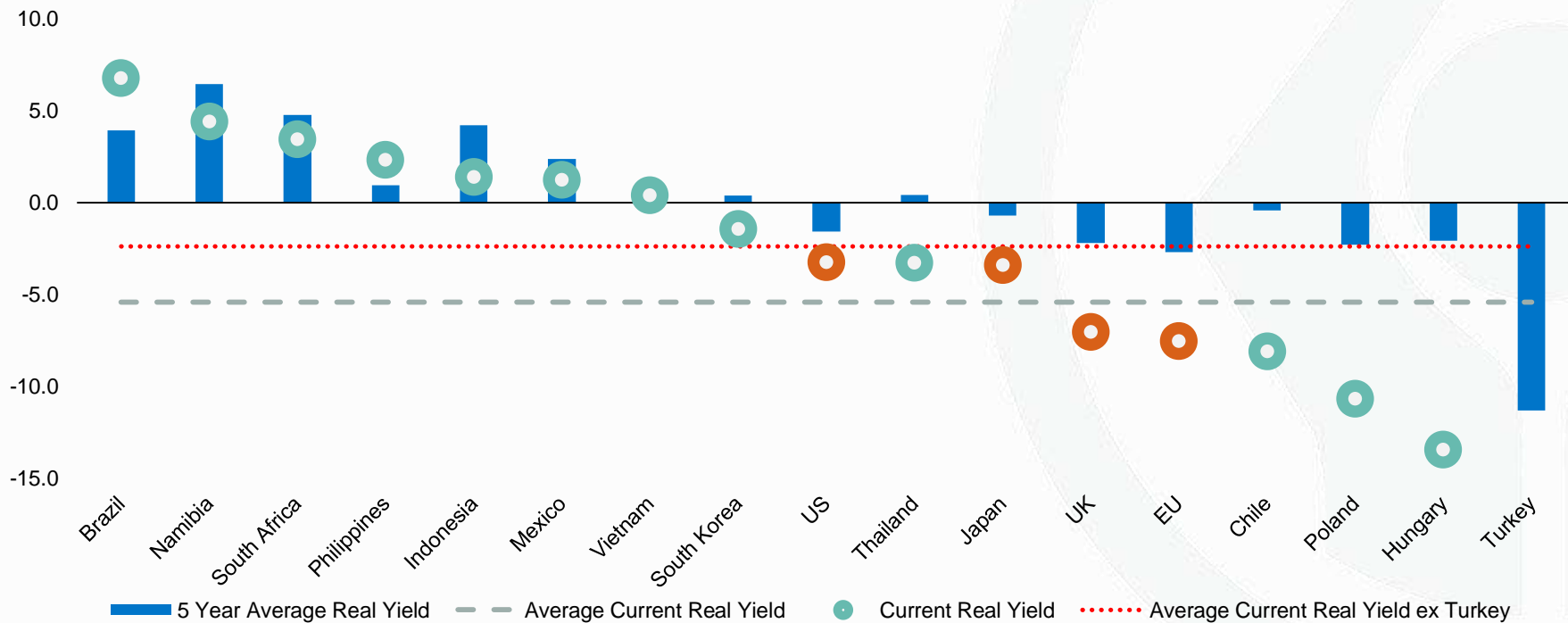
# Valuation

SA > EM > DM



# SA nominal bonds provide solid real yields

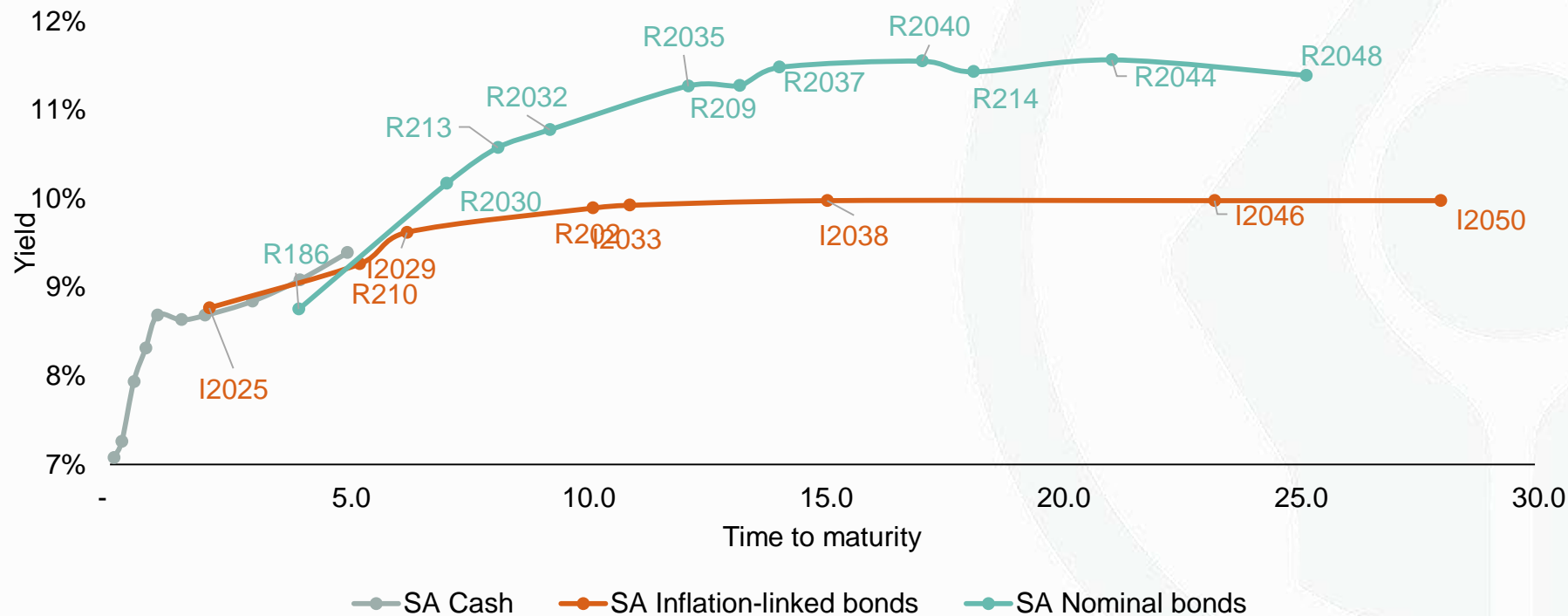
Attractively priced relative to EM and DM peers



Source: Reuters (31 December 2022)

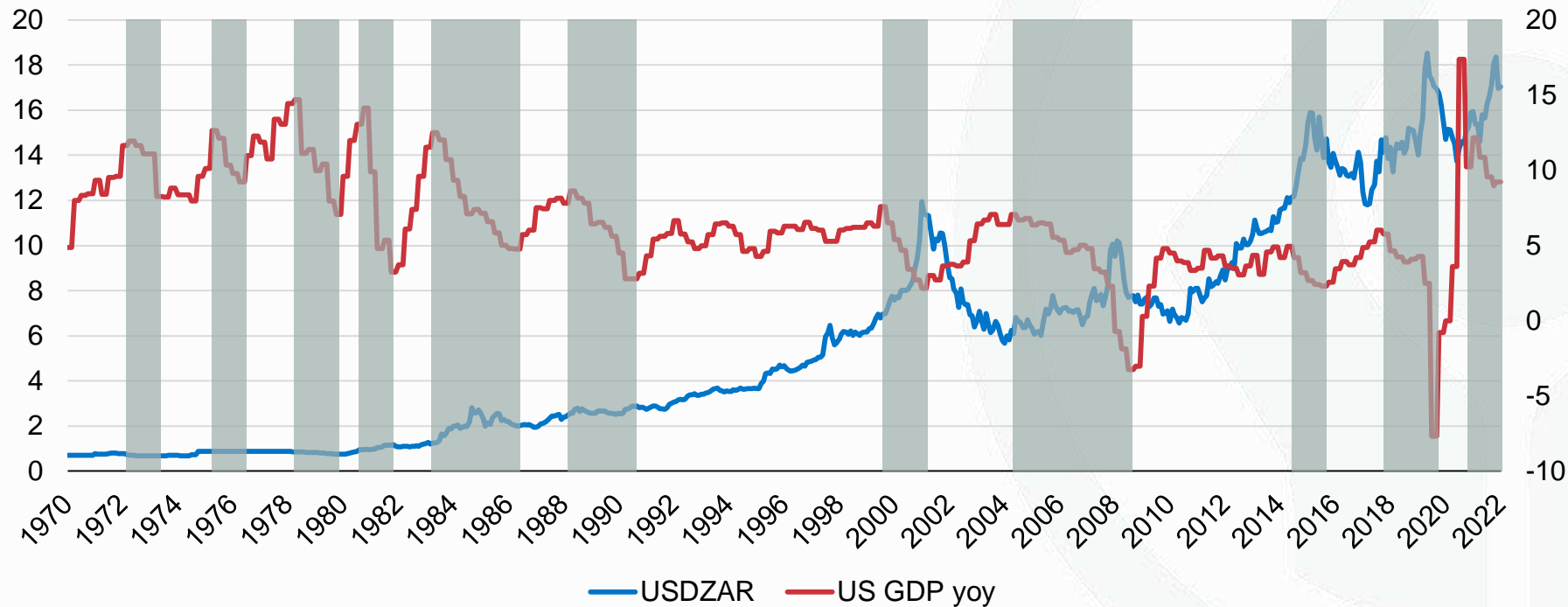
# Valuation

ILBs a bit pricey



# Valuation

USDZAR – notable weakness during low US growth





# Absolute Return

Market overview

Bonds

Investment process and philosophy

Fund performance

Market valuations

**Fund positioning**

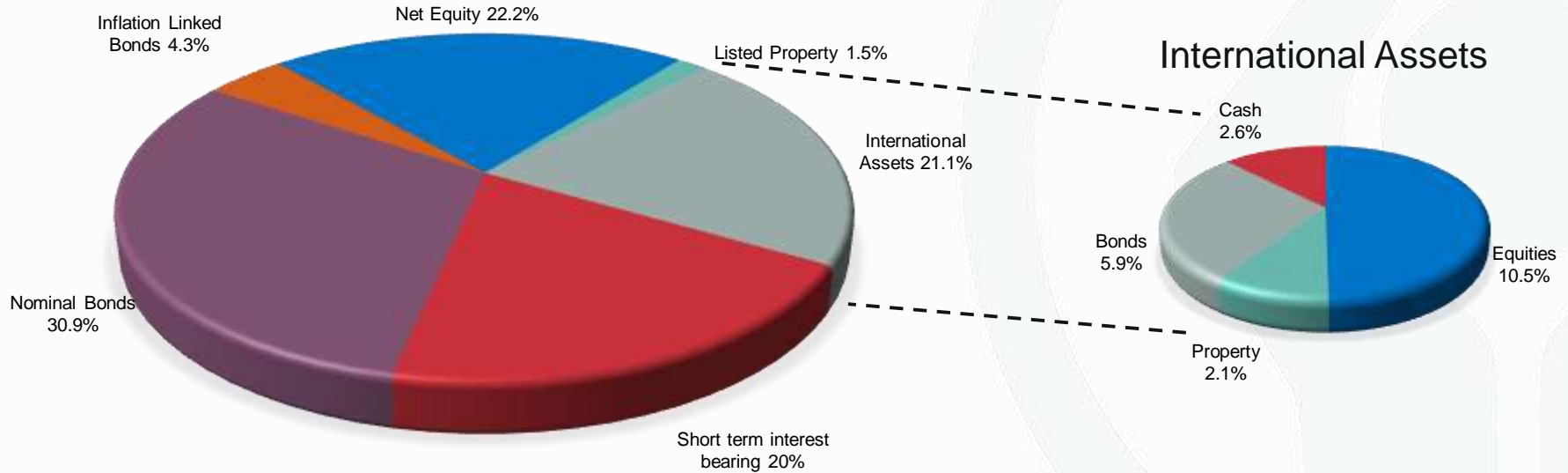
Conclusion



# Asset allocation

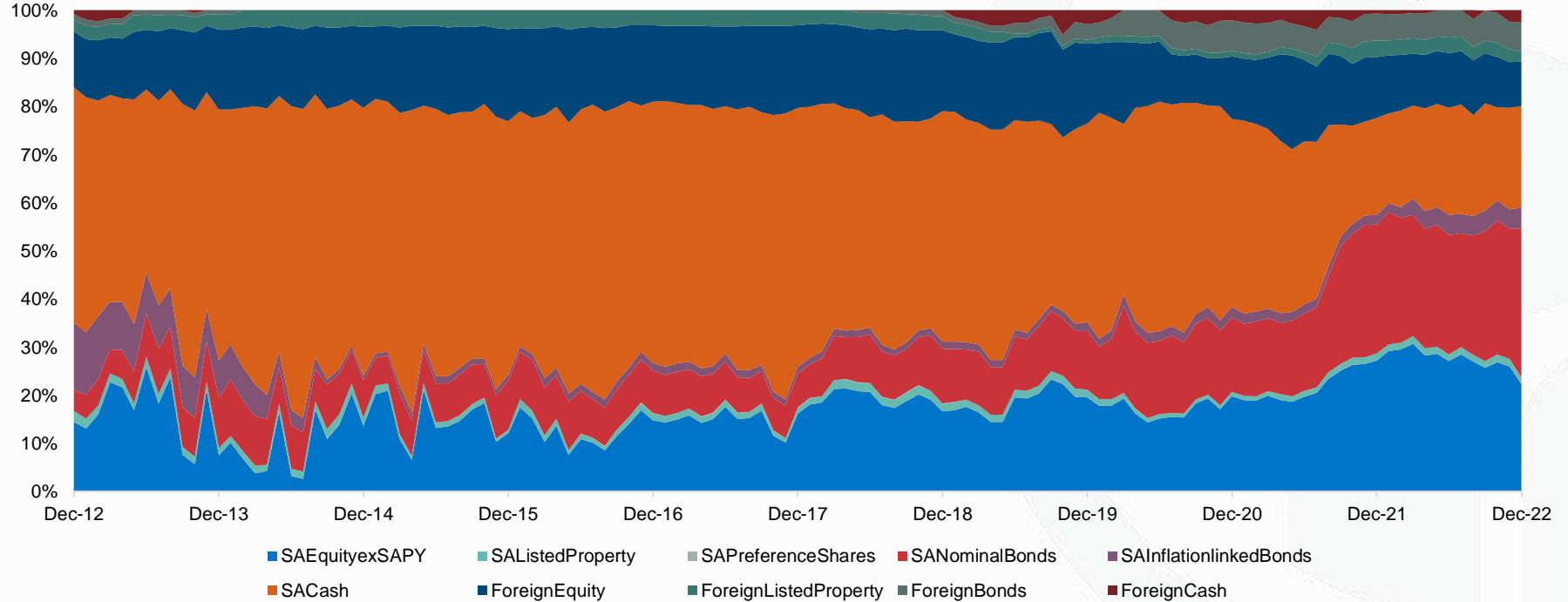
Effective Asset Allocation (%): 31 December 2022

## SIM Inflation Plus Fund



# TAA: key contributor to performance

## SIM Inflation Plus Fund





# Absolute Return

Market overview

Bonds

Investment process and philosophy

Fund performance

Market valuations

Fund positioning

**Conclusion**

# Looking ahead: key considerations

- Inflation stubbornly persistent at elevated levels
- Macro and political risks weighing heavily on asset class returns
- SA nominal bonds attractive relative to EM peers and history
- SA NCD rates also looking interesting at circa 9.5% p.a
- EM equities undervalued vs DM
- SA Equities offering better value within EM
  
- ESG considerations included in investment research process for equities and bonds
- Have to be cautious and nimble
- Current positioning well split between income and growth assets
- **Disciplined process** giving the fund its long-term track record

# Disclaimer

Sanlam Collective Investments (RF)(Pty) Ltd (“SCI”) and Satrix is a registered and approved in Collective Investment Schemes in Securities and the retains full legal responsibility for the co-brand portfolios. Collective investment schemes are generally medium- to long-term investments. Past performance is not necessarily a guide to future performance, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the on request. Collective investments are traded at ruling prices and can engage in borrowing and lending. This does not provide any guarantee either with respect to the capital or the return of a portfolio. Performance is based on calculations with income reinvestments done on the date. Performance is calculated for the portfolio and the individual investor performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. The performance of the portfolio depends on the underlying assets and variable market factors. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 (“CISCA”). Fixed interest funds derive income primarily from interest-bearing instruments. International investments or investments in foreign securities could be accompanied by additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information. The manager has the right to close the portfolio to new investors in order to it more efficiently in accordance with its mandate.