MitonOptimal

Q1 2021

ASSET ALLOCATION VIEWS

We at MitonOptimal take asset allocation (AA) very seriously, taking into consideration both Strategic AA (3-7 years) and Tactical AA within the various assets classes. In that context, this quarterly piece provides insight into our short term tactical calls on a 12-month view (reviewed quarterly) and as such may diverge from our long term strategic AA views. We review our strategic AA annually at the beginning of each year as we believe this is prudent practice, in a world dominated by debt de-leveraging, central bank and political interference.

IP Active Beta Performance

CPI +5 Reg 28 Fund Solution

Source: FE Analytics
30/12/2016 – 31/03/2021

IP Active Beta Performance

CPI +5 Reg 28 Fund Solution

Pricing Spread: Bid-Bid • **Period:** Month End (31 Mar 2021) • **Ranking Method:** Ranked Within Full Sector • **Performance Growth Option:** Annualised • **Currency:** South African Rand

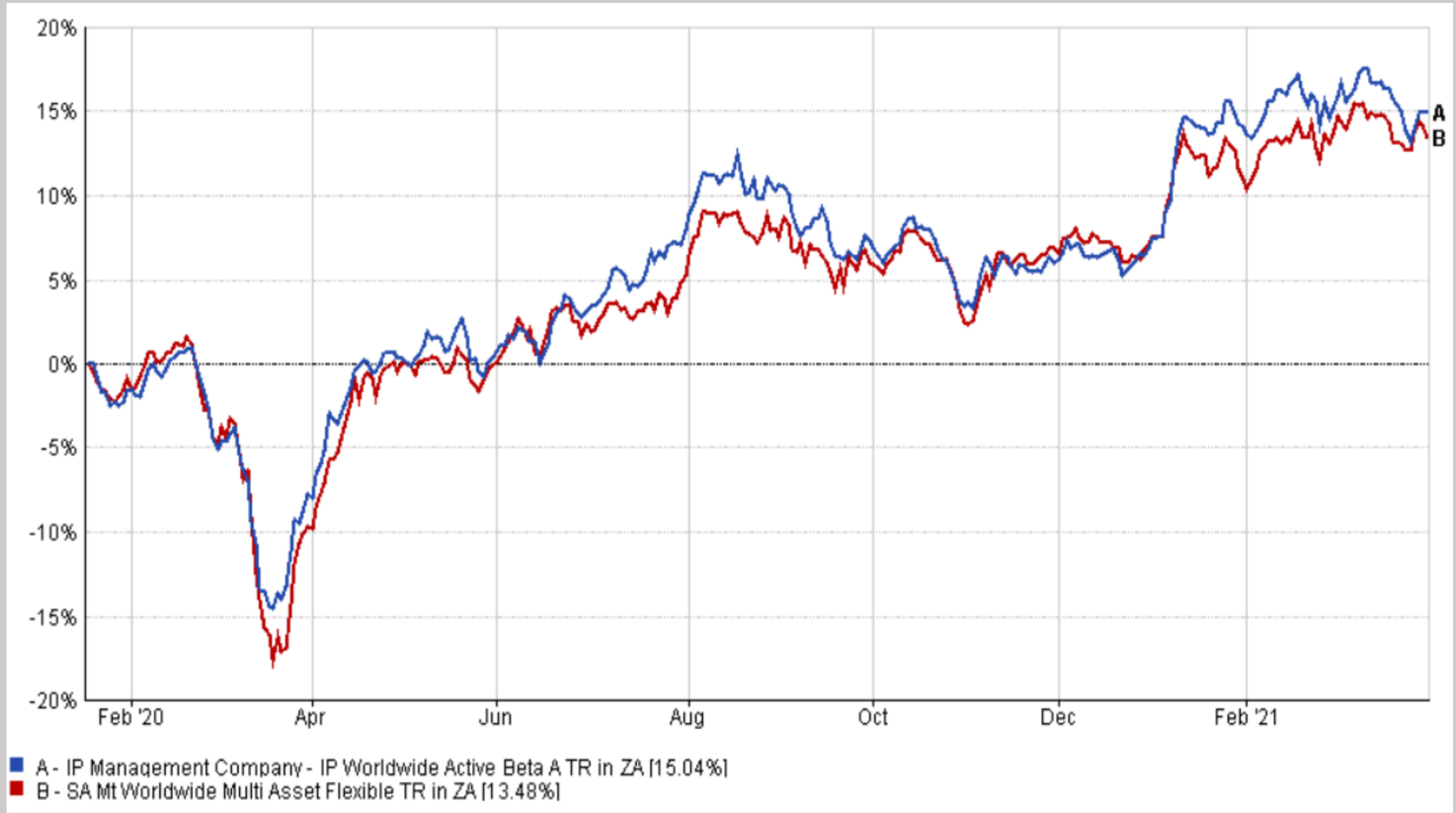
South African Multi Asset High Equity (276) (2)

Customise Columns	Ann. 3yr		Ann. 5yr	
	Value	Rank	Value	Rank
IP Management Company IP Active Beta A TR in ZA	9.62	32 / 234	6.41	47 / 190
Sector SA Mt South African Multi Asset High Equity TR in ZA	7.58		5.50	

Source: FE Analytics
30/12/2016 – 31/03/2021

IP Worldwide Active Beta Performance

CPI +5 Discretionary Fund Solution



Source: FE Analytics
20/01/2020 – 31/03/2021

IP Active Beta Performance

CPI +5 Reg 28 Fund Solution

Pricing Spread: Bid-Bid • **Ranking Method:** Ranked Within Full Sector • **Price Range:** from 21 Jan 2020 to 06 Apr 2021 • **Performance Growth Option:** Annualised • **Currency:** South African Rand

Worldwide Multi Asset Flexible (128) (2)		
Customise Columns	Custom Period Performance	
	Value	Rank
IP Management Company IP Worldwide Active Beta A TR in ZA	12.19	54 / 118
Sector SA Mt Worldwide Multi Asset Flexible TR in ZA	11.92	

Source: FE Analytics
20/01/2020 – 31/03/2021

3–7 years: ZAR

REAL RETURN FORECAST

Neutral	SA Equity (SWIX)	SA Property	SA Long Dated Bonds	SA Flexible Income	SA Money Market	Intl Dev Mkt Equity	Intl EM Equity	Intl Bond	Intl Cash	Intl Prop
2019	6.5%	3%	3.5%	2%	1%	8%	8%	1%	-0.5%	4%
2020	6.0%	3%	5%	2.5%	1%	7%	7.25%	0%	2%	3%
2021	6.0%	3%	4%	2.5%	0.5%	6.5%	6.75%	0%	1%	2.5%

Assumptions:

CPI : 4% p.a.

ZAR: 2% p.a. weaker – long term

Q1 2021 Neutrals

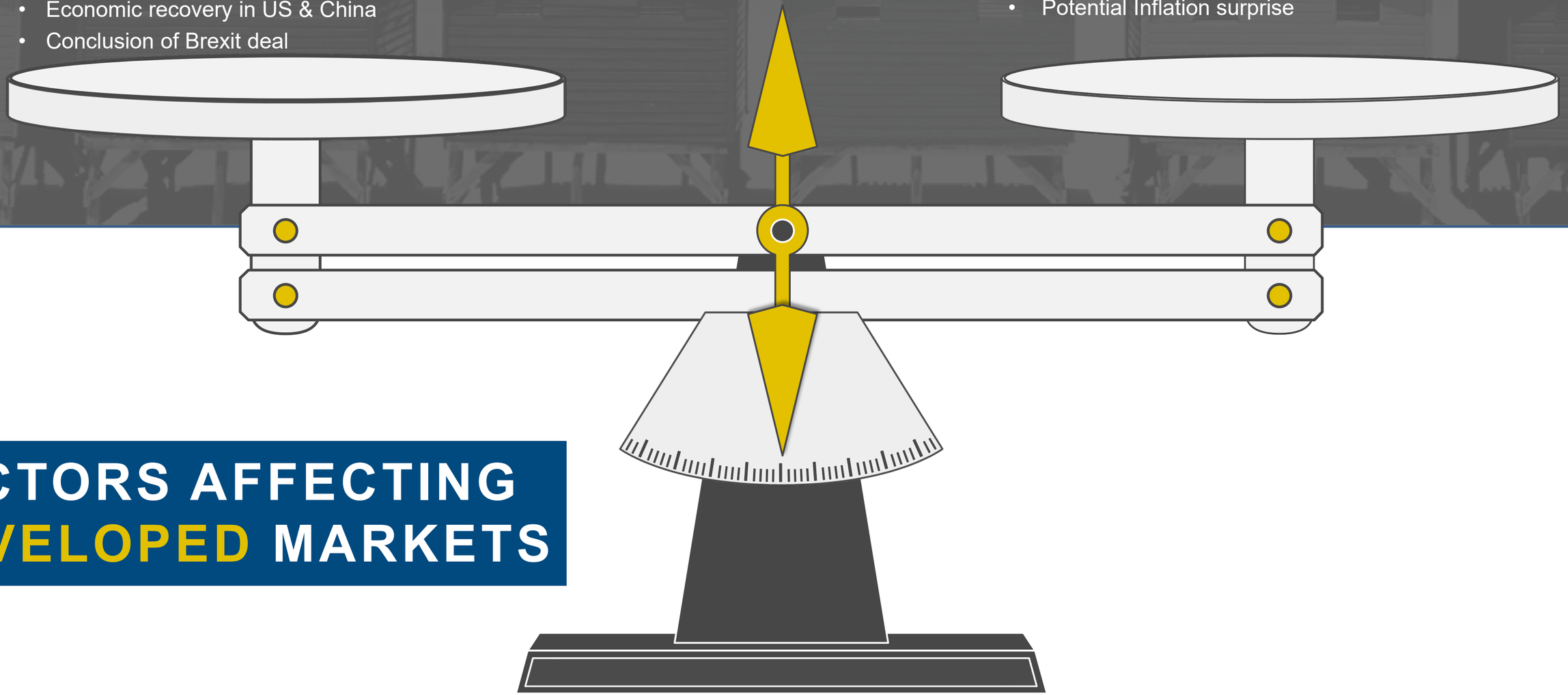
NEUTRAL POSITIONING PER PORTFOLIO

Asset Class	CPI +1 Constrained (Reg 28)	CPI +2 Constrained (Reg 28)	CPI +3 Constrained (Reg 28)	CPI +4 Constrained (Reg 28)	CPI +4 Unconstrained (Discretionary)	CPI +5-6 Constrained (Reg 28)	CPI +5-6 Unconstrained (Discretionary)	CPI +6 Constrained (Recurring RA)
SA Equity	5.0%	10.0%	18.0%	38.0%	33.0%	45.0%	33.0%	45.0%
SA Property	3.0%	4.0%	4.0%	7.0%	7.0%	5.0%	0.0%	5.0%
SA Fixed Interest	33.0%	57.5%	44.0%	25.0%	25.0%	15.0%	0.0%	15.0%
SA Money Market	52.0%	15.0%	5.0%	5.0%	5.0%	5.0%	0.0%	5.0%
Global Equities	7.0%	8.5%	22.0%	25.0%	30.0%	30.0%	67.0%	30.0%
Global Bonds	0.0%	2.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Global Cash	0.0%	1.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Global Property	0.0%	2.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

FACTORS AFFECTING DEVELOPED MARKETS

- Developed Market Financial Conditions
- Developed Market Fiscal Stimulus- US$ 4-5 Trillion
- Increasing global liquidity
- Vaccination success in developed economies
- Low interest rates/bond yields
- Economic recovery in US & China
- Conclusion of Brexit deal

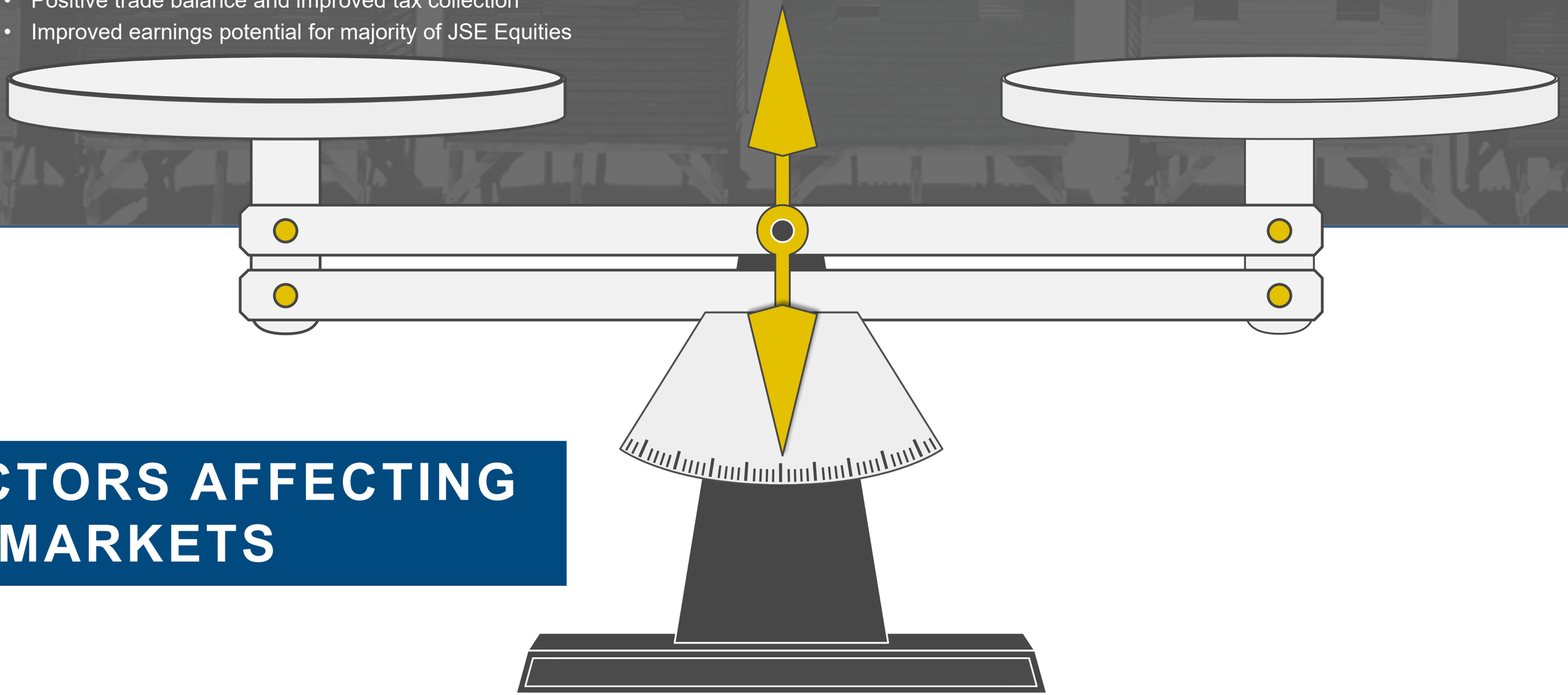
- Economic uncertainties due to COVID -19 infections
- Cross-border activity not open soon
- Hard on Service sector - travel & tourism
- Limited fiscal headroom for EM Countries
- Growing Global Government Debt
- Potential Inflation surprise



FACTORS AFFECTING SA MARKETS

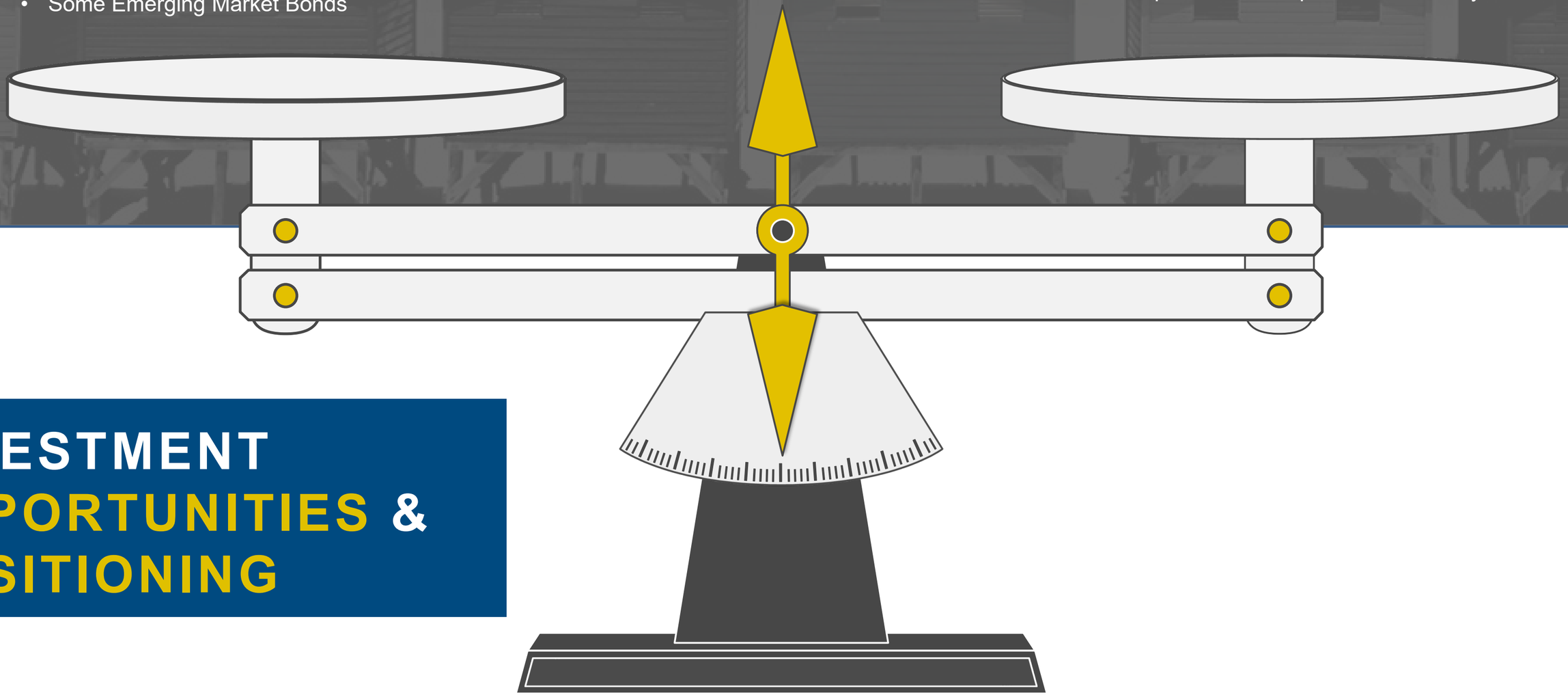
- US reflationary stance benefit EM exports
- US/China recovery /infrastructure spend benefiting commodity producers
- Naspers/Prosus benefit from IT developments in East
- Attractive real yields in SA
- Positive trade balance and improved tax collection
- Improved earnings potential for majority of JSE Equities

- Vaccination progress slow
- SA political rhetoric
- Little action in SA economic reform
- High unemployment
- Government and private debt burden increasing



- The rotation from Growth to Value/Cyclical stocks
- Resource stocks remain favourite SA sector
- Gold Bullion, Platinum, Rhodium demand
- IT sector, although expensive
- ZAR Bonds remain attractive – nominal and inflation linked
- Some Emerging Market Bonds

- Stock/sector selection becomes important
- Remain underweight SA Incorporated Stocks
- Underweight SA Property
- Underweight Global Property
- Avoid sectors linked to tourism
- Beware of spikes in developed market bond yields



INVESTMENT OPPORTUNITIES & POSITIONING

Q1 2021 Asset Allocation Views

SA & GLOBAL PORTFOLIO POSITIONING

	Asset class	Q1 2021 position	Q4 2020 position
SOUTH AFRICA	**SA Equities**	Neutral	Neutral
	SA Fixed Interest	Neutral	Neutral to overweight
	SA Cash	Neutral	Neutral to overweight
	SA Property	Marginally underweight	Underweight
GLOBAL	**Global Equities**	Marginally underweight	Neutral to overweight
	Global Fixed Interest	Underweight	Underweight
	Global Cash	Overweight	Neutral
	Global Property	Underweight	Underweight

Q1 2021 Asset Allocation Justification

SOUTH AFRICAN EXPOSURE

SA EQUITIES

NEUTRAL

We remain optimistic about SA equities. The JSE Trades at big 20-30% discount relative to developed and certain emerging equity markets.

ZAR has been one of the best performing currencies in EM, despite a stronger US Dollar the past quarter. This can be ascribed to a stronger trade surplus now at R29bn.

We still see opportunity for further rerating in SA equities, currently trading at a 12m forward PE of 10.3x, 23% below the long-term average of 13.4x. Positive earnings revisions in SA equities (average + 12%) continue to outpace most other Emerging Markets.

Many SA Inc equities screen attractively on value metrics relative to history and warrants exposure as ‘value’ themes in our SA portfolios.

SA FIXED INTEREST

NEUTRAL

The reduction by the South African Reserve Bank has made the short end of the yield curve much less attractive. The long end is still offering compelling returns.

The risk though is the growth of government debt and the ability to pay off that debt – the so-called “fiscal cliff”. Long bonds still enjoy a place in the portfolio with a weather eye on events such as SARB meetings, foreign investor interest and the trajectory of global bond yields.

Q1 2021 Asset Allocation Justification

SOUTH AFRICAN EXPOSURE

SA CASH

NEUTRAL

We need a float to benefit from opportunities and will tend to keep some liquid assets in reserve.

SA PROPERTY

MARGINALLY UNDERWEIGHT

Even the SA property companies with offshore exposure look cheap.

High levels of debt and extreme uncertainty about the reliability of one's tenants either to pay the current rent or renew the lease make the asset class uncertain.

The range of outcomes makes this asset class risky, but certain quality counters in the sector deserve an allocation in our portfolios as they can certainly deliver more than CPI +3% even in the current 'Covid deprived environment'.

Q1 2021 Asset Allocation Justification

GLOBAL EXPOSURE

GLOBAL EQUITIES

MARGINALLY UNDERWEIGHT

In general, we prefer global equity to SA equity. “Global equity” is not a single asset class and requires careful share selection and choice of fund managers.

Outside of the handful of large US and Chinese tech companies which have rallied strongly as users have ramped up their use of tech in lockdown, there are bargains in the next few tiers of equities.

We have reduced our exposure to Technology and Emerging Market Equities during the past quarter and rotated some of the proceeds to Value Proxies in developed and emerging market equities. The arguments in favour of value as opposed to growth are becoming louder as shares that have been cheap for a long time are looking attractive.

GLOBAL FIXED INTEREST

UNDERWEIGHT

With both long and short term rates anchored to zero the asset class is to be avoided. Long rates are rising due to improved growth conditions, especially in the US (but maybe not for a long while) and only the emergence of inflation will tempt Central Banks to raise at the short end.

Q1 2021 Asset Allocation Justification

GLOBAL EXPOSURE

GLOBAL CASH

OVERWEIGHT

We will hold it for liquidity to enable us to buy in the dips and capitalize on corrections.

GLOBAL PROPERTY

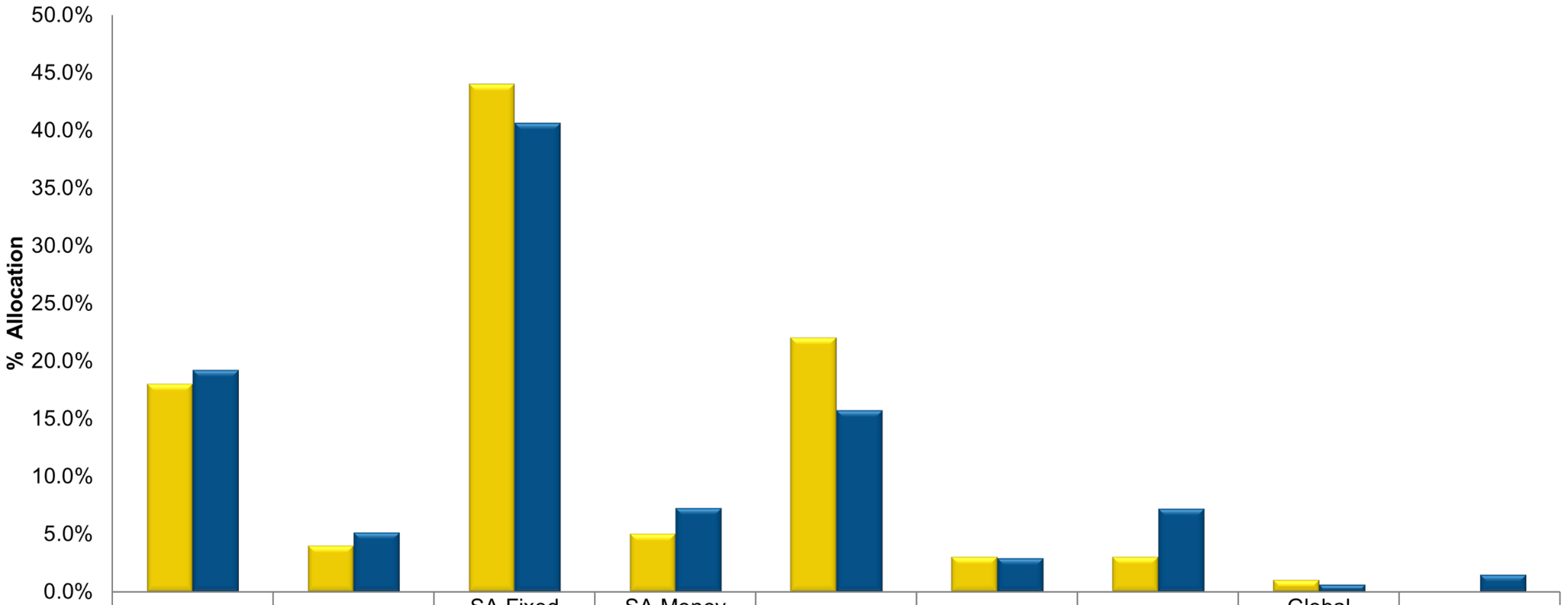
UNDERWEIGHT

Real estate exposed to bricks-and-mortar retail, office space and even some industrial space are battling while personal storage, cloud and physical data storage - both general and logistics - have a more assured future.

We have increased our exposure to US REITS marginally during the quarter as US growth dynamics remain superior relative to the rest of the world

Q1 2021 Current Positioning

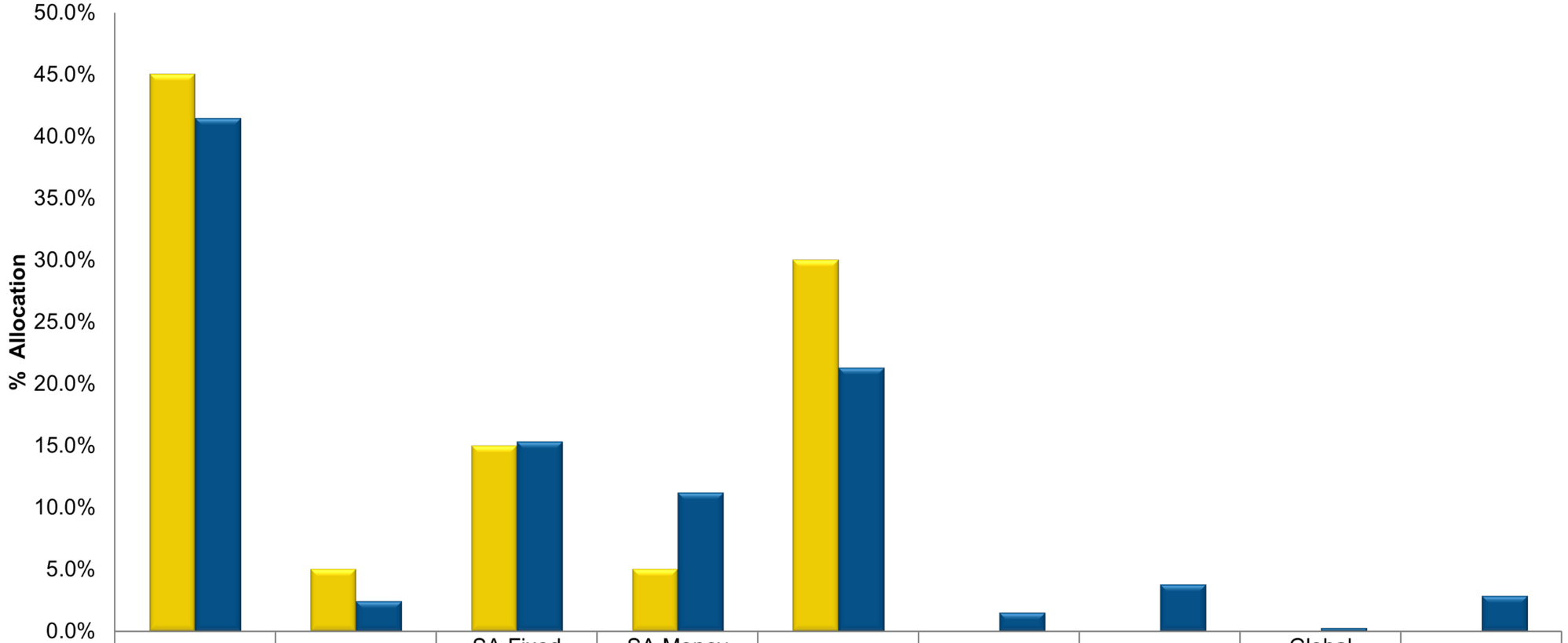
CPI +3 Reg 28 Solution



	SA Equity	SA Property	SA Fixed Interest	SA Money Market	Global Equity	Global Bonds	Global Cash	Global Property	Other
Neutral	18.0%	4.0%	44.0%	5.0%	22.0%	3.0%	3.0%	1.0%	0.0%
Actual	19.2%	5.1%	40.6%	7.3%	15.7%	2.9%	7.2%	0.6%	1.5%

Q1 2021 Current Positioning

CPI +5 Reg 28 Solution



	SA Equity	SA Property	SA Fixed Interest	SA Money Market	Global Equity	Global Bonds	Global Cash	Global Property	Other
Neutral	45.0%	5.0%	15.0%	5.0%	30.0%	0.0%	0.0%	0.0%	0.0%
Actual	41.4%	2.4%	15.3%	11.2%	21.3%	1.5%	3.8%	0.3%	2.9%

Dare greatly
and
accept the result in
2021