

Core Indexation Balanced (Reg28) - Allan Gray



October 2021

Who should invest

Suitable for clients who are saving for retirement via a retirement annuity or for investors who have a medium to long term financial objective they wish to achieve over the moderate to long term. Investors should be in a position to tolerate medium to higher levels of investment risk and can tolerate volatile markets over the medium term.

Market & portfolio commentary

US stocks remain around all-time peaks and the JSE recovered during October. Coronavirus treatments, easing travel curbs and the recent approval of a \$550 billion US infrastructure bill have aided sentiment. Key central banks have also indicated they plan to scale back loose monetary policy gradually. But a key risk is that the inflationary pressures caused by creaking supply chains and energy prices last longer than officials expect. Gold has now recovered over the last 2 months and dare we say that crypto currency markets are also trading at all time highs. It is reasonable to assume that our portfolios cannot invest in crypto currencies and as purists this phenomenon continues to question who the 'greatest fools' are.

From a SA capital market perspective, we continue to benefit from global equity market and consumer behaviour as fiscal stimulus and COVID-19 treatments aid consumer spending activities. The SA economy is also experiencing a recovery post lockdown which certainly assisted sentiment toward SA incorporated stocks as company management curbed costs causing higher than expected earnings results. Within the S&P 500, 79% of companies reported higher than expected earnings results.

During October the Rand weakened in the run-up to local municipal elections and as global and local bond yields spiked up in anticipation of the US FED speech in early November. The US FED announced a slowdown in US bond purchases and cooled market expectations by promising low interest rates until the US experiences stable employment and economic reform. This announcement calmed the bond markets, causing US and SA Bond yields to fall and the SA Rand to stabilise back to below the R15/USD level.

The SA municipal elections disappointed in the low voting participation numbers and leaves over 70 municipalities with a challenge to form coalitions between political parties. Add the current load shedding dilemma and we continue to raise a concern that the SA economy continues to score its own goals and we are more and more concerned that the governance of our country is depleting to a point where it is hard to see foreign investors finding value in SA capital markets. At the time of writing, we await the mid-term SA budget speech and although we expect no near-term surprises, our market needs more clarity and certainty on implementation of economic growth stimulus. The JSE is staging a virtual 4-day investor information conference (Structural Reform and Catalyses for Growth) marketing investment opportunities to US investors next week. This might be planned for after the mid-term budget. We hope this will deliver some impetus for foreign inflows.

Our portfolios remain exposed to SA and global equities – within SA equities we remain more exposed to stocks that face the global consumer, energy, technology and commodity markets and remain cautiously exposed to stocks relying on a positive SA economic growth trajectory. Within our funds we have increased our SA long-dated bond exposure (by selling USD cash) after the municipal election results and Fed speech as the yields remain very attractive vs. cash and expected SA inflation rates. Within our global exposure we remain exposed to quality and value proxies but overweight the US/Developed markets relative to emerging markets demographically and quality over value as a style proxy. Valuations do look stretched in the US equity market, but the economic policy remains very supportive, especially relative to Emerging markets as the current China regulatory rhetoric, a slowing Chinese economy, and concerns in the China Property market (debt defaults) continue to cloud emerging market sentiment negatively. We do however think that if global inflation is transitory and the Chinese government deploys more market friendly actions, the investor sentiment could benefit higher yielding emerging market bonds and the attractive valuation argument of emerging market equities. If US and global infrastructure spend is accelerated in the short term, it could re-ignite interest in 'producer' stocks which are found primarily in emerging market countries. We will first wait for confirmation of this rhetoric before we aggressively position portfolios accordingly.

In the short term we continue to be mindful of slowing global liquidity as key central banks tighten monetary policy and the global inflation risks. From a SA capital market perspective, a slowing Chinese economy and near-term SA economic recovery risks due to continued load shedding remain a concern. We therefore continue to seek some negative correlated funds/asset classes to hedge our portfolios against potential near term risks. Taking a longer-term view, we continue to be optimistic that our portfolios will generate the required absolute return mandate especially in the light of 'lower for longer' global interest rates.

Technical Overview

Strategy Manager MitonOptimal SA

Assets Under Administration USD\$ 1.2 billion

Annual Mandate Fee 0.18% p.a. (excl. VAT)

This excludes Advisor, Administration & Underlying Fund fees which are disclosed in a Record of Advice provided by your Advisor

Benchmark CPI +5-6% p.a.

Valuation Quarterly Reporting

Risk Moderate to High risk

Investment strategy

We follow a dynamic strategic asset allocation (SAA) process which includes Beta & Smart Beta instruments only and is adjusted once a year in February after our yearly SAA investment meeting has taken place. There will be no tactical asset allocation during the year. This investment strategy includes a diversification of asset classes. The High Growth strategy aims to outperform SA Inflation by 5-6% p.a. net of fund management fees over a rolling 6-year period. The Strategy aims to provide aggressive investors with consistent real returns over the long term within acceptable risk parameters. The strategy aims to limit volatility to between 5.55 - 11.41% p.a. standard deviation. The Strategy Mandate is expressly flexible to accommodate all approved asset classes.

Suitable products

Suitable products would include Retirement Annuities, Preservation Pension/Provident Funds, Endowments and Discretionary investment vehicles.

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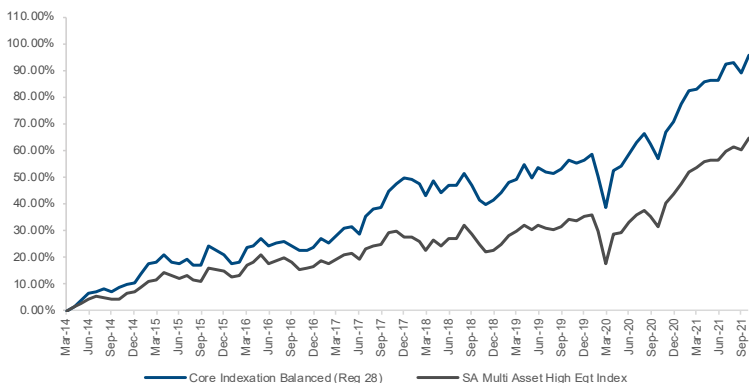


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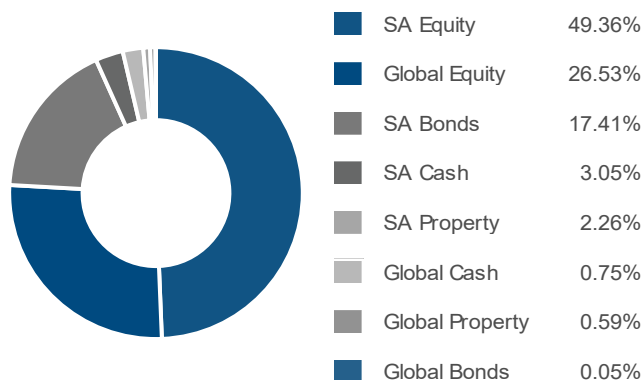
Performance & volatility (%)

		3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs	Since Launch
Performance	Portfolio	1.78	5.36	24.83	38.32	60.06	95.91
	Sector	3.19	5.62	25.15	32.03	42.41	64.59
Volatility	Portfolio	9.32	7.17	7.70	10.97	9.95	9.09

Cumulative performance



Current Asset Allocation



Discrete Performance (%)

	2017	2018	2019	2020	2021
Portfolio	18.25	-2.15	10.24	0.51	24.83
Benchmark	12.03	-3.72	7.81	-2.14	25.15

Neutral asset allocation (%)

SA Cash	SA Fixed Interest	SA Property	SA Equity	Global Assets
5	15	5	45	30

Composition (%)

Portfolio holdings	Weight	AMC	TER
IP Management Company - IP Active Beta A	30.00	0.46	0.85
Satrix - MSCI World Equity index feeder A1	21.00	0.58	0.88
Gryphon - All Share Tracker A	20.00	0.23	0.31
Satrix - Bond Index A1	12.00	0.51	0.49
Satrix - Smartcore Index A1	10.00	0.69	0.74
CoreShares - Top50 ETF	7.00	0.23	0.28
Total Portfolio	100		0.65



Roeloff Horne
 Director and Head of Portfolio
 Management South Africa
 MitonOptimal

Data provided by ProfileData and FE. Care has been taken to ensure that the information is correct but the suppliers neither warrant, represent nor guarantee the contents of the information, nor do they accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.

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