ACUMEN UMBRELLA FUNDS

DEFAULT INVESTMENT STRATEGY

2023 Q3

INVESTMENT REPORT

Robson • Savage

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1. MARKET COMMENTARY

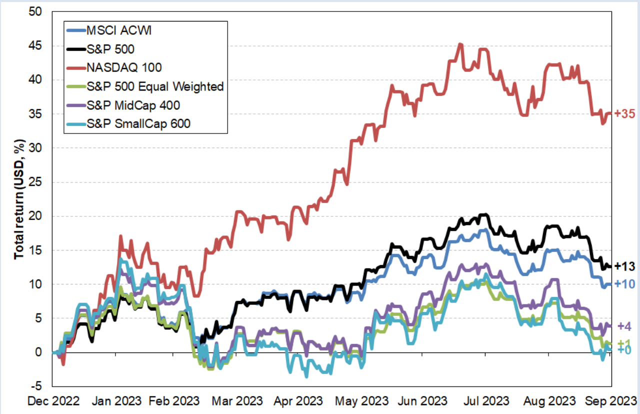
1.1. GLOBAL MARKETS

All returns in this section are quoted in US dollars and global equity market return figures are from MSCI.

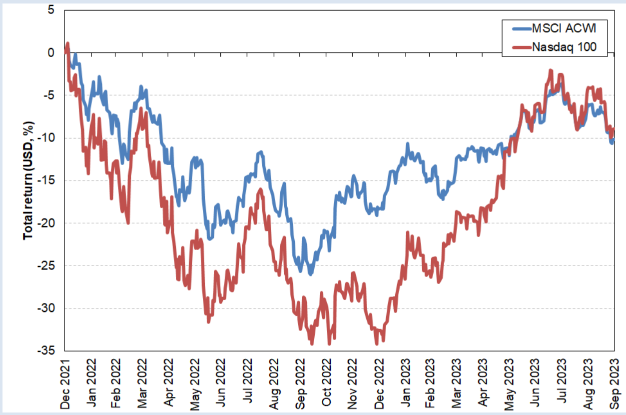
It was a difficult quarter for the markets, with investors finally coming to the realisation that interest rates might stay higher for longer. This came about as inflation numbers seemed to have bottomed out above the levels central banks were hoping for, with consumer demand staying resilient, labour markets remaining tight, oil prices rising sharply (+22% in 2023 Q3), and central bankers remaining hawkish as a result. As some analysts and officials have put it, the trajectory for interest rates is now more likely to resemble Table Mountain, than the Matterhorn (or Devil's Peak if we want to keep it local). In this scenario, rates are expected to stabilise, but remain restrictive for some time, rather than being cut any time soon.

US & global equities in 2022 & 2023 *(figure 1.1)*

2023's recovery remains narrow *(figure 1.1.1)*



And still not complete *(figure 1.1.2)*



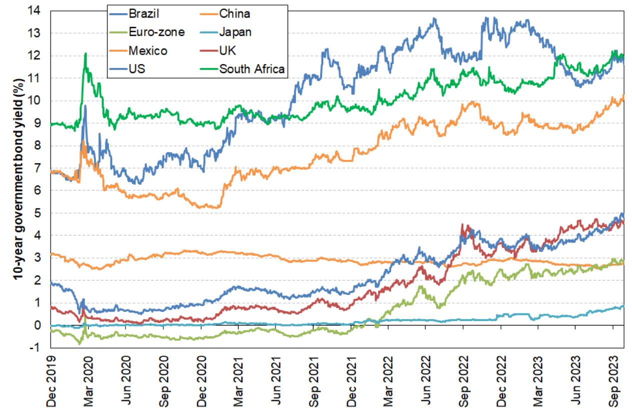
Source: Iress, Morningstar

As is to be expected, with borrowing costs and discount rates remaining elevated, most asset classes came under pressure in 2023 Q3. Although the quarter started off strong, with global equities gaining 3.7% in July, the MSCI ACWI ultimately fell by 3.4% during the quarter. After a good start to the year global equities is still up 10.1% year-to-date (YTD), however.

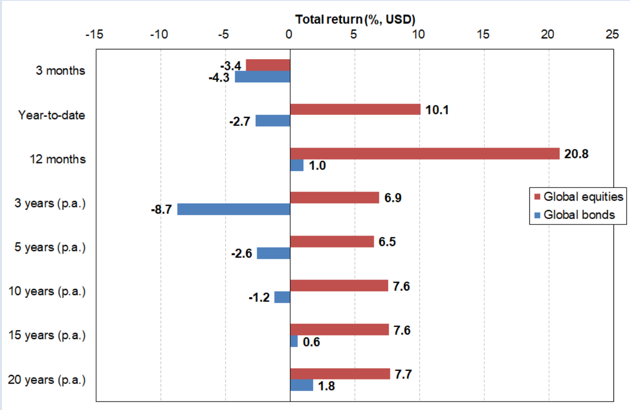
The breadth we saw returning to the markets in June and July did unfortunately fizzle out again (see figure 1.1.1), so 2023's gains can still mostly be attributed to a narrow grouping of US mega-cap tech stocks. As explained in last quarter's commentary, these stocks have been dubbed the Magnificent Seven, and include well-known names such as Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla whose prices have surged following much excitement surrounding the prospects for AI.

The narrow nature of the recovery is evidenced by the YTD returns of +10%, +13% and +35% from the MSCI ACWI, S&P 500 and Nasdaq respectively, compared to the low single-digit gains produced by the equal-weighted, mid, and small cap versions of the S&P. Although some members of the Magnificent Seven had to retreat after coming under fire in Q3 (with Apple, Amazon, Microsoft and Tesla falling by up to 10%), the strong advances these stocks made earlier this year put them in a strong position on a YTD basis (up by approximately 30-200%).

Global bond yields shifting higher *(figure 1.2)*



Global equities vs bonds *(figure 1.3)*

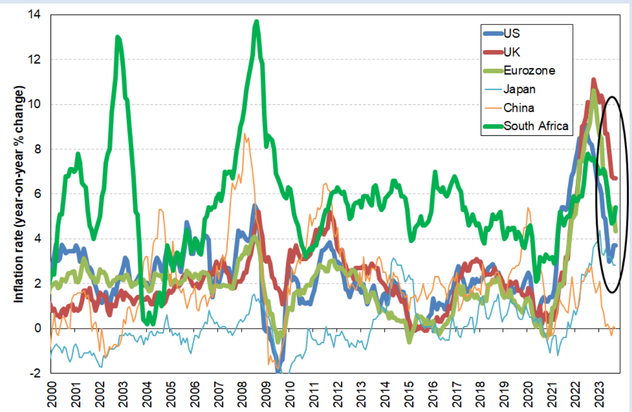


Sources: Iress

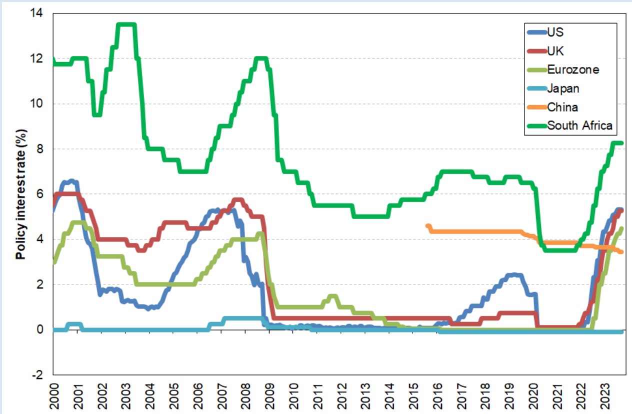
The 'higher for longer' interest rate narrative unsurprisingly impacted bond markets as well (see figure 1.2), with yields moving sharply higher, and prices therefore doing the opposite. In the US, for example, the 10-year yield moved by nearly 75 basis points (bps), ending the quarter at 4.58%, and thereby reaching a 16-year high. Although yields were more meaningfully positive at the start of the quarter than they have been for some time, moves of this magnitude can't easily be absorbed, so global bonds ended up suffering a loss of 4.3% in Q3. Bonds therefore provided no protection to the traditional '60/40' portfolio yet again. YTD the return from global bonds now stands at -2.7%, and it remains a poor performing asset class over the last two decades (see figure 1.3), with losses all the way up to ten years (-1.2% p.a.), and only small gains over longer periods (+0.6% p.a. over 15 years and +1.8% p.a. over 20 years).

Although speculation around the current level and likely future trajectory of interest rates still dominate financial headlines, the pace of hikes continued to slow in Q3 (see figure 1.5). During the quarter we saw increases of just 25 bps in the UK and US, while the eurozone hiked by 50 bps. In China there was another small cut of 10 bps, as their economy continue to struggle to regain its previous lofty growth rates as it emerges from lockdown. Importantly, both the US Fed and the UK's BoE kept rates on hold at their recent meetings, while the eurozone's ECB hinted at doing the same when they next meet. In fact, during the quarter the number of rate *cuts* globally exceeded the number of rate *hikes* for the first time since November 2020.

Inflation: Hitting resistance *(figure 1.4)*



Interest rates: Higher for longer? *(figure 1.5)*



Sources: Iress, Morningstar

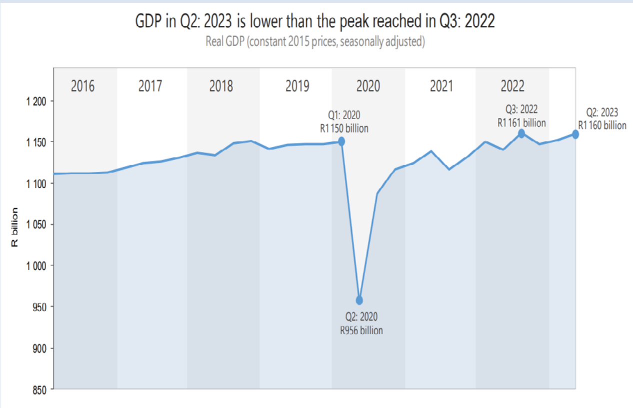
Ordinarily this would be positive for the markets, but the mere fact that *expectations* have turned more hawkish was enough to derail the recovery. In the US, for example, predictions of no more hikes in 2023 and 100 bps of cuts in 2024, quickly shifted towards possibly one more hike this year (of 25 bps), and cuts of only 50 bps next year. Markets are thus expected to remain under pressure until the outlook for interest rates improve.

1.2. LOCAL ECONOMY

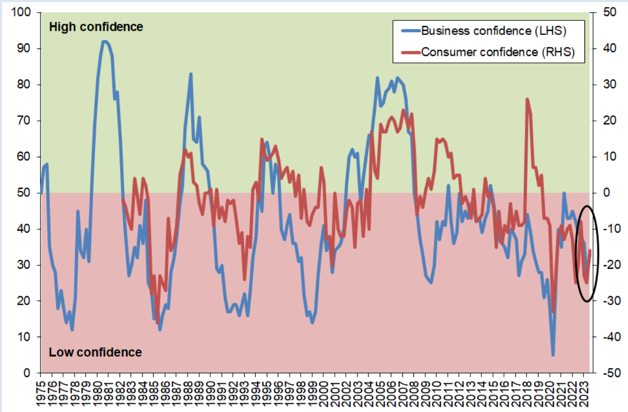
The South African (SA) economy continued to muddle along in 2023 Q3, with some of the more notable recent economic data releases showing marginal improvement:

- The local economy grew by 0.6% in Q2 (see figure 1.6), beating consensus expectations of 0.1% by a decent margin.
- Growth expectations for 2023 have been revised upwards to 0.7% (SARB) and 0.9% (IMF) from just 0.2% (SARB) and 0.1% (IMF) previously.
- Business confidence (as measured by the RMB/BER Business Confidence Index, see figure 1.7) rose to 33 points in Q3, from 27 in Q2 (the neutral level is 50).
- Consumer confidence (as measured by the FNB/BER Consumer Confidence Index) increased to -16 points in Q3, from -25 in Q2 (the neutral level is 0).
- The official unemployment rate fell to 32.6% in Q3 (from 32.9% in Q2), while the expanded rate dropped to 42.1% (from 42.4%).
- The intensity of loadshedding was less severe in Q3 than Q2, due to some improvements in Eskom's generation capacity as well as lower demand following a notable uptick in solar rooftop installations (from 983 MW in March 2022 to 4,412 MW in June 2023).

SA economy *(figure 1.6)*



SA confidence *(figure 1.7)*



Sources: StatsSA, BER, RMB, FNB

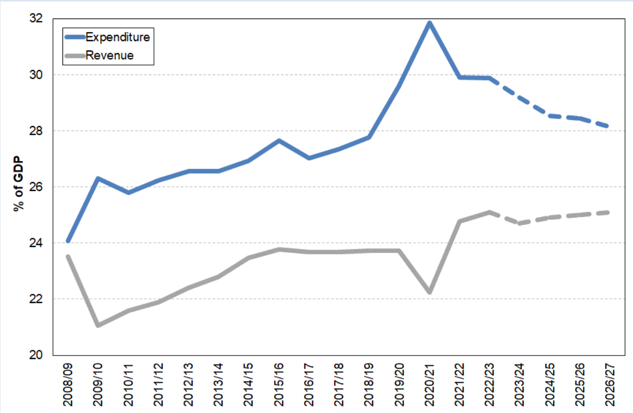
It was not all plain sailing though, with the following indicators backsliding:

- Conditions in SA's manufacturing environment continued to deteriorate, with the Absa Purchasing Managers' Index (PMI) declining to 45.4 points at the end of Q3, compared to 47.6 at the end of Q2, and 53.1 at the start of the year (a score above 50 suggests expansion).
- SA's fiscal situation continues to worsen (see figure 1.8), as was made clear during a particularly gloomy Medium Term Budget Policy Statement delivered a couple of weeks after quarter-end:
    - Tax revenues for the 2023/24 fiscal year are estimated to be R57 billion lower than was expected in the 2023 Budget, mainly due to significantly reduced profits in the mining sector (on the back of lower commodity prices, weaker global growth, power cuts and logistical constraints).
    - This means that SA's main budget deficit is forecasted to increase to 4.9% this fiscal year, up from 4.0% expected in February.

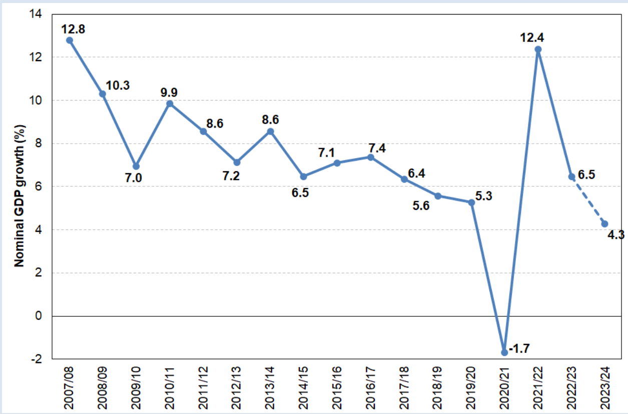
- With very little appetite and ability to curtail our expenditure, SA will need to borrow a whopping R553 billion on average per year over the medium term.
- This will take our debt burden from R4.8 trillion currently to R6 trillion (that's with twelve zeros), which will equate to nearly 78% of GDP (compared to 74% expected in previously, and up from just 24% in 2008).
- By that time 22 cents of every rand government spends will go towards paying interest.

Medium Term Budget Policy Statement (MTBPS) *(figure 1.8)*

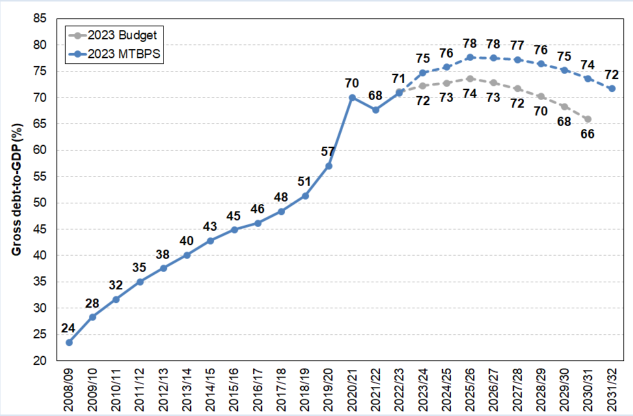
Spending too much *(figure 1.8.1)*



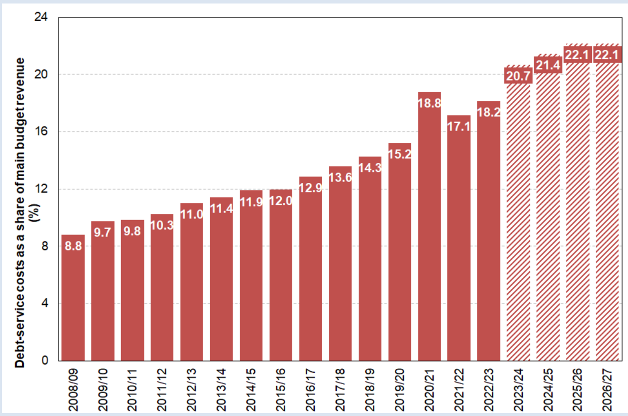
Growing too slowly *(figure 1.8.2)*



Debt growing *(figure 1.8.3)*



Interest payment ballooning *(figure 1.8.4)*



Sources: StatsSA, BER, RMB, FNB

- After dropping to a low of 4.7% year-on-year (y-o-y) in July, inflation edged back up to 5.4% y-o-y in September, mainly on the back of higher fuel prices. The outbreak of Avian flu and conflict in the Middle East pose further upside risks to the inflation outlook.

Despite these risks, the South African Reserve Bank (SARB) kept interest rates on hold (at 8.25%) for the second meeting in a row. It was once again a close decision though, with two of the five Monetary Policy Committee members voting for a 25-bp hike. Like much of the developed world the expected timing of the first rate cuts in this cycle has unfortunately been pushed out further.

1.3. LOCAL MARKETS

Unless indicated otherwise, all returns from this section onwards are quoted in South African rands (ZAR).

Local markets fell along with their global counterparts in 2023 Q3. The ALSI and Capped SWIX returned -3.5% and -3.8% respectively, with Financials (+2.2%) being the only major sector able to make a gain.

Industrials (-6.2%) suffered the steepest loss following sharp drops in the share prices of index heavyweights Richemont (-28%), MTN (-18%), Naspers (-11%), and Prosus (-10%). This came amid concerns around slowing economic growth (especially in China), and for MTN, a devaluation in the Nigerian naira.

Resources (-4.3%) had another difficult quarter following further weakness in precious metal prices. The precious metal miners ended Q3 with a loss of 16.3%, which for the sector as a whole was partially offset by good gains from the coal miners and Sasol on the back of rising energy prices.

Local bonds weren't immune to the headwinds facing this asset class globally, with local yields rising sharply in sympathy with those offshore, as well as in response to SA's deteriorating fiscal outlook. The local 10-year yield rose by 64 bps during the quarter, flirting with 2020's highs, but the ALBI ultimately ended Q3 with a loss of just 0.3%, courtesy of its high running yield.

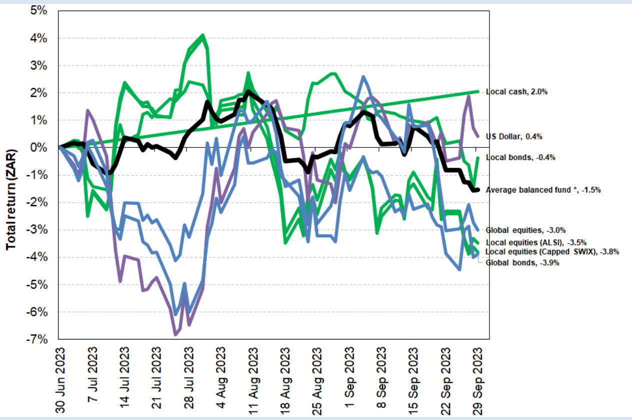
Having done most of its depreciation in the first half of the year the rand managed to hold its own against a strong US dollar during the quarter (weaking by just 0.4%), and thus did little to cushion investors from global market losses. The local currency returns of global equities and bonds were thus -3.0% and -3.9% respectively.

With most markets negative and the repo rate still quite high, cash was comfortably the quarter's best performer with a return of +2.1%.

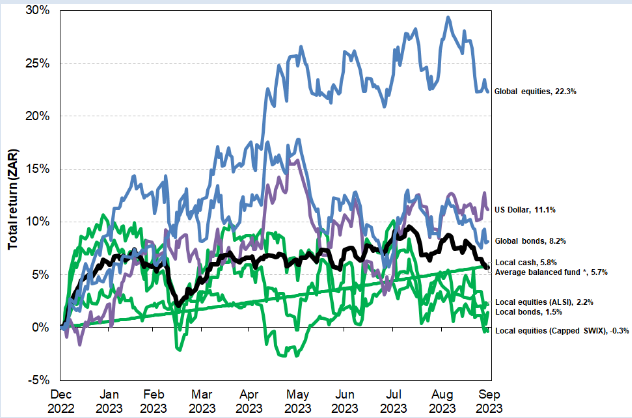
With green numbers being few and far between, the average balanced fund lost almost 2% in Q3 (see figure 1.9.1).

Major asset classes and the average balanced fund * in 2023 *(figure 1.9)*

2023 Q3 *(figure 1.9.1)*



2023 YTD *(figure 1.9.2)*



Sources: Iress, Morningstar

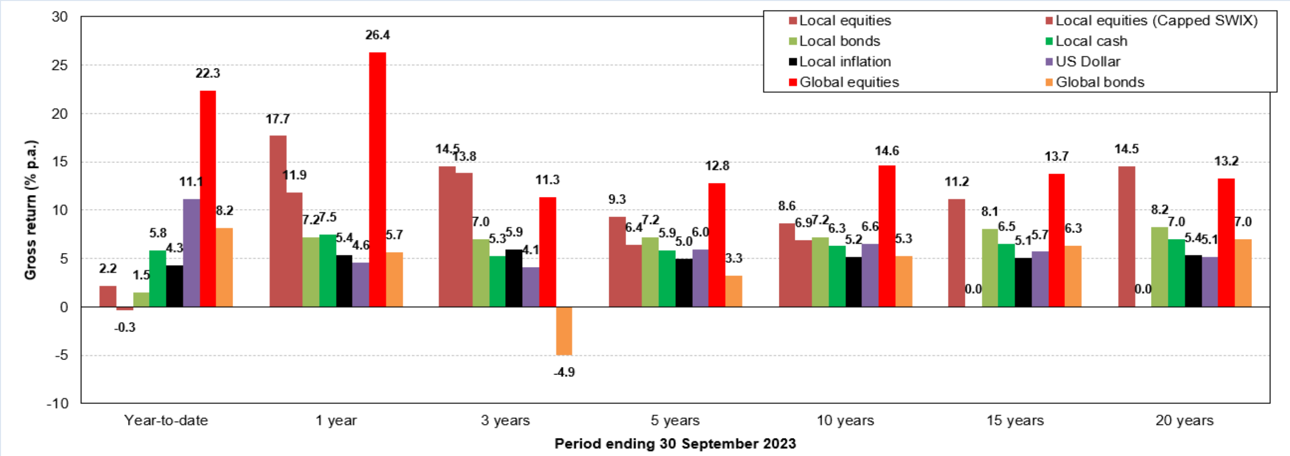
** ASISA South African Multi Asset High Equity category average (net of fees)*

After also having a difficult Q2, local markets have thus disappointed YTD (see figure 1.9.2), with relatively low returns of +2.2% (ALSI), -0.3% (Capped SWIX), +1.5% (local bonds) and +5.8% (local cash). With a helpful boost of 11% from a weaker rand, global equities and bonds have delivered solid rand returns of +22% and +8.2% YTD, respectively. Global markets have therefore done most of the heavy lifting for local retirement funds in 2023, with the average balanced fund having gained around 5-6% YTD.

Equity market returns over the last year remain strong following the lowish base set by the mid-2022 sell-off (ALSI = +18%, Capped SWIX = +12% and global equities = +26%), while local and global bonds have unsurprisingly delivered more subdued returns (6-7%) given the rising interest rate environment. The average balanced fund delivered a solid return of +13% over this period.

3-year returns continue to trend lower from their highs earlier this year, but remain relatively strong (local equities = +14% p.a. and global equities = +11% p.a.), which means that average balanced fund has gained a decent return of around 10-11% p.a. over this period.

Asset class returns * *(figure 1.10)*



Balanced portfolio performance * *(figure 1.11)*

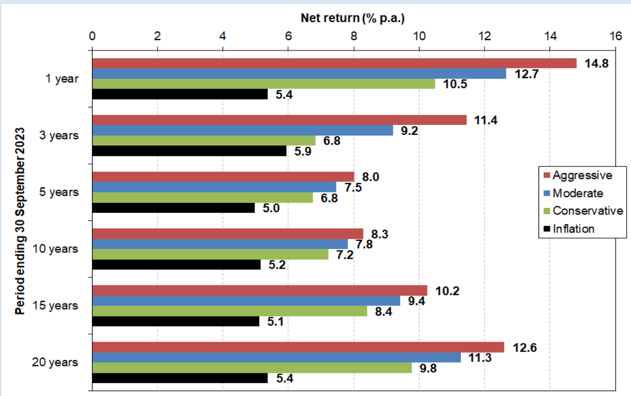
*** Given the performances of the various asset classes, what level of historical returns can retirement funds reasonably expect?**
To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018, 30% to 2022 & currently at 45%), with changes to the offshore allocation made in the middle of the year in which the limit changed.
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e., 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

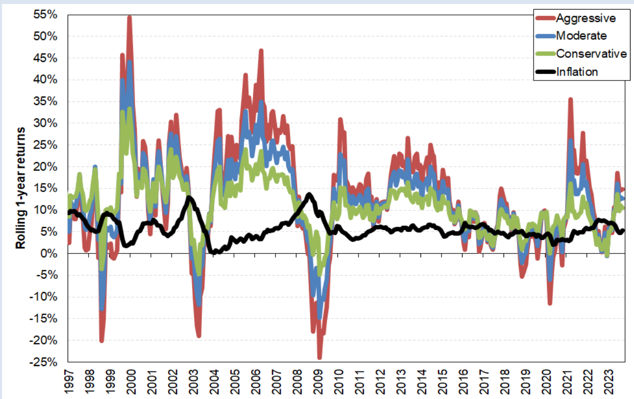
A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

Profile						
AGGRESSIVE	Strategic allocation: LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	75%	25%		75%	25%
	EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation	~45%	~11%	~4%	~30%	~10%
MODERATE	Strategic allocation: LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	55%	45%		55%	45%
	EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation	~33%	~15%	~12%	~22%	~18%
CONSERVATIVE	Strategic allocation: LOCAL VS OFFSHORE	60%			40% (5% below regulatory maximum)	
	GROWTH VS INCOME ASSETS	35%	65%		35%	65%
	EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
	Current allocation	~21%	~14%	~25%	~14%	~26%

Returns *(figure 1.11.1)*



Rolling 1-year returns *(figure 1.11.2)*



Source: Iress, Morningstar

2. INVESTMENT STRATEGY

2.1. DEFAULT PORTFOLIOS

The Acumen umbrella funds' default strategy portfolios invest in a range of local and foreign asset classes, including equities, listed property, bonds and cash. The management of the assets are outsourced to professional investment managers that have been given full discretion to allocate capital between (and within) these asset classes in line with their views of current and expected market and economic conditions, in proportions appropriate to each portfolio's objective, and subject to the regulatory limits applicable to retirement funds. The underlying managers bring a diverse range of capabilities, investment styles and philosophies to the table, with the aim of achieving competitive relative performance throughout the market cycle. The portfolios are therefore designed to take care of the complex asset allocation and manager selection decisions.

DEFAULT GROWTH PORTFOLIO

Objective: To maximise investment growth over the long term.

Portfolio features:

Given the portfolio's objective of maximising returns, it will usually have a high exposure to equities (up to the regulatory limit of 75%).

While the performance of the Default Growth Portfolio is expected to be the higher than the Default Protection Portfolio over the long term, returns can be very volatile over the short term, with the possibility of occasional temporary losses.

Some periods where the Default Growth Portfolio underperforms the Default Protection Portfolio over the short to medium term should therefore be expected.

HIGH	MED	LOW

Risk profile & suitability: Has a moderate to high risk profile, and is typically suitable for members who:

- Are seeking high levels of investment growth;
- Can tolerate the associated high levels of volatility;
- Have an investment horizon of more than five years.

Return target: Aims to achieve a net return of at least 5% a year above inflation over the long term (i.e. more than five years).

Underlying investment managers (strategic allocation):

Portfolio	Strategic allocation
Abax Balanced	20.0%
Aylett Balanced	20.0%
Coronation Managed	20.0%
Ninety One Balanced	20.0%
PSG Balanced	20.0%

DEFAULT PROTECTION PORTFOLIO

Objective: To provide moderate levels of investment growth over the medium term, while preserving capital at all times [1].

Portfolio features:

The Default Protection Portfolio is invested in a smoothed bonus fund.

Investment returns are smoothed by way of monthly, non-negative, bonus declarations [1]. The bonus declarations are based on the returns achieved on the portfolio's underlying investments, but some returns are set aside during periods of strong market growth in order to boost returns during periods of weaker performance.

The underlying manager also offers a capital guarantee [1] (so members will never get less out than what they put in), but the fees of this portfolio are higher than that of normal market-linked portfolios as a result.

HIGH	**MED**	LOW

Risk profile & suitability: Has a low to moderate risk profile, and is typically suitable for members who:

- Are seeking reasonable levels of investment growth;
- Have no appetite for capital losses;
- Are willing to pay higher fees to guarantee the value of their capital [1];
- Do not intend to switch between portfolios on a regular basis [2];
- Want to lessen the risk of investing in or disinvesting from the market at the wrong time.

Return target: Aims to achieve a net return of 3-4% a year above inflation over the medium term (i.e. three to five years).

Underlying investment managers (strategic allocation):

Portfolio	Strategic allocation
Sanlam Stable Bonus	100.0%

2.2. DEFAULT STRATEGY

The Acumen umbrella funds' default investment strategy [3] is as follows:

- For members more than three years to normal retirement age, the Default Growth Portfolio.
- Once a member is within three years to normal retirement age, the member's fund credit will be phased into to the Default Protection Portfolio. This transition will take place over a period of three years, with one third of the fund credit being switched from the Default Growth Portfolio to the Default Protection Portfolio on an annual basis.

Years to normal retirement age	Default portfolio	
	Growth	Protection
More than 3	100.0%	0.0%
2 to 3 (Transition 1)	66.7%	33.3%
1 to 2 (Transition 2)	33.3%	66.7%
Less than 1	0.0%	100.0%

In establishing its default strategy, the trustees of the Acumen umbrella funds recognised that members need growth sufficiently in excess of inflation in order to stand a reasonable chance of maintaining their lifestyles after retirement. This is what the Default Growth Portfolio aims to achieve.

Given the Acumen umbrella funds' chosen annuity strategy (a living annuity arrangement) the need for growth close to, or even after retirement does not go away, but prudent financial planning would suggest that more measured growth would seem appropriate for the average member. The trustees deem it inappropriate to assume that the average member would be able to tolerate the potential short term losses that can accompany the Default Growth Portfolio, both from a financial and a behavioural point of view. The Default Protection Portfolio therefore aims to strike a sensible balance between risk and return during the last few years of a member's accumulation phase.

Notes

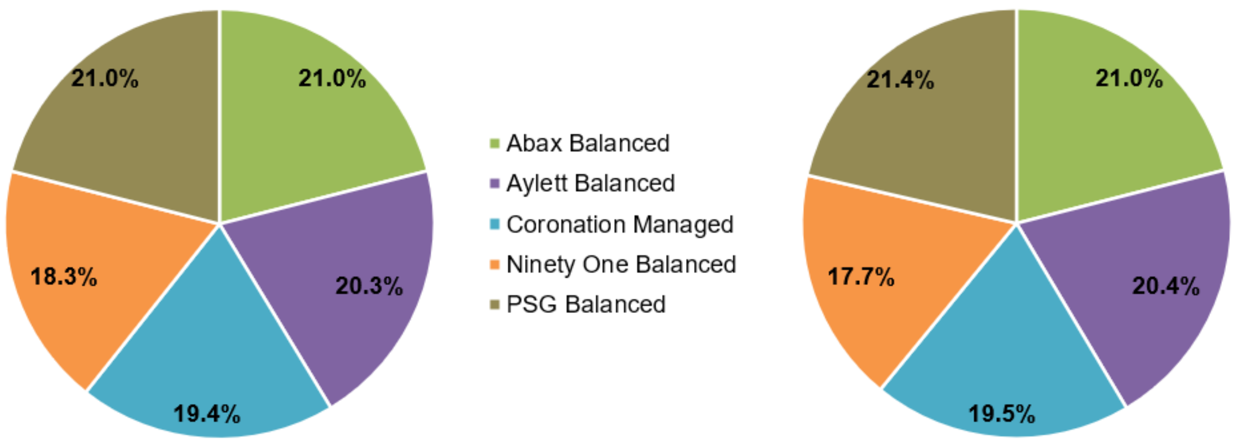
1. A bonus, which consists of a vesting and non-vesting component is declared monthly in advance. Bonuses cannot be negative.
2. The book value is the net contributions accumulated at the bonus rates. The market value is the value of the portfolio's underlying assets. The book value is the value that is guaranteed to be paid out for benefit payments (death, disability, resignation, retrenchment, retirement and pension payments) regardless of market conditions. The lower of book or market value will however be paid out for switches
3. It should be noted that some clients opted to only make use of one of the default portfolios, which means that the transition outlined in the table above will not apply.

3. MANAGER ALLOCATION

The graphs below summarise the current allocation of assets between the underlying investment managers:

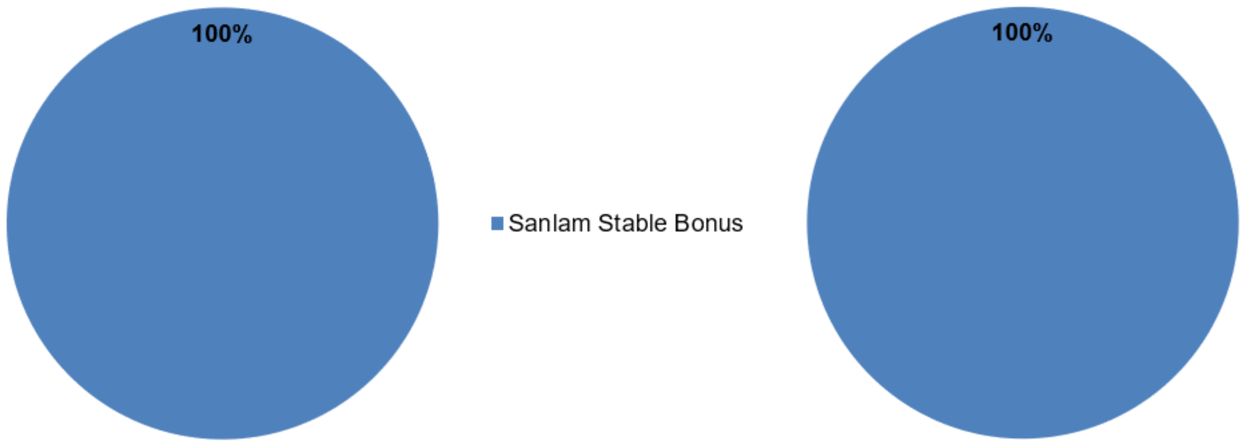
DEFAULT GROWTH

2023 Q2 **2023 Q3**



DEFAULT PROTECTION

2023 Q2 **2023 Q3**

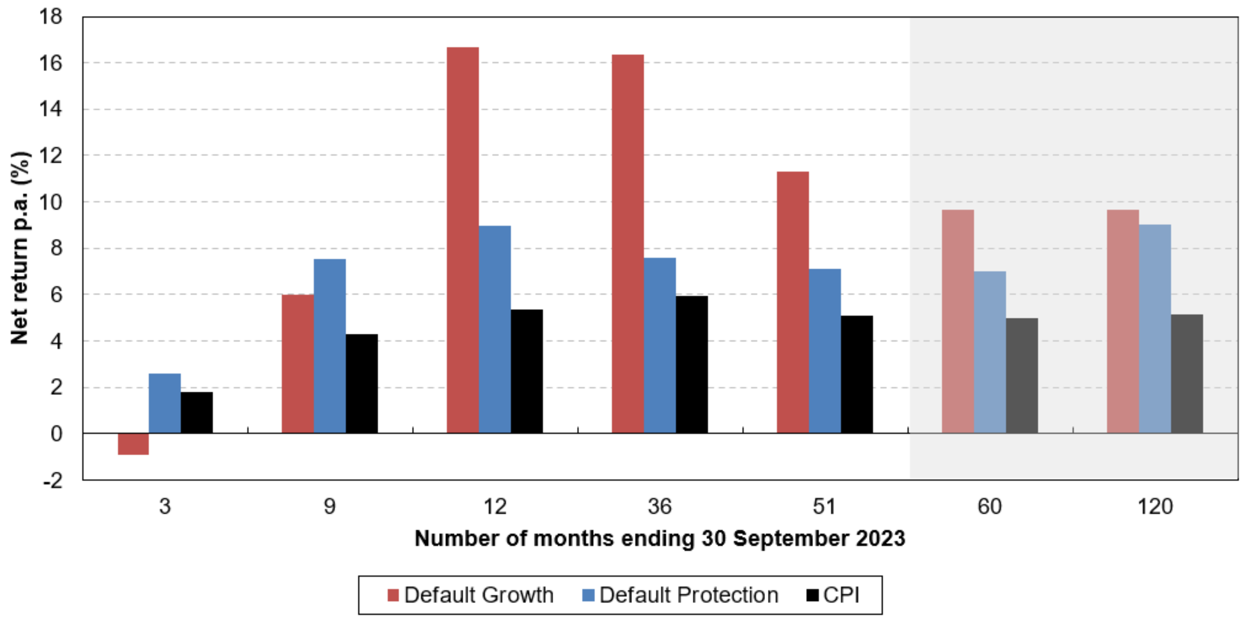


4. PERFORMANCE

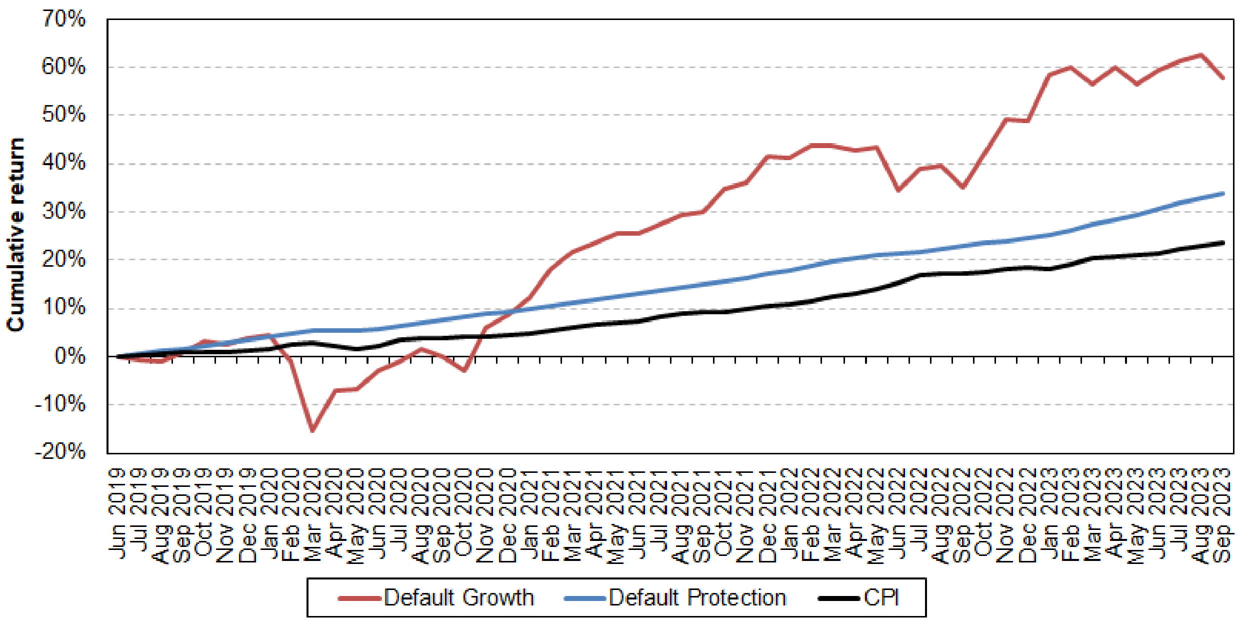
4.1. SUMMARY

Net returns (%) [1]	Number of months ending 30 September 2023						
	3	9	12	36	51 [2]	60	120
Default Growth	-0.9	6.0	16.7	16.4	11.3	9.7	9.7
Default Protection	2.6	7.6	8.9	7.6	7.1	7.0	9.0
Inflation (CPI)	1.8	4.3	5.4	5.9	5.1	5.0	5.2

Fund returns *(figure 4.1.1)*



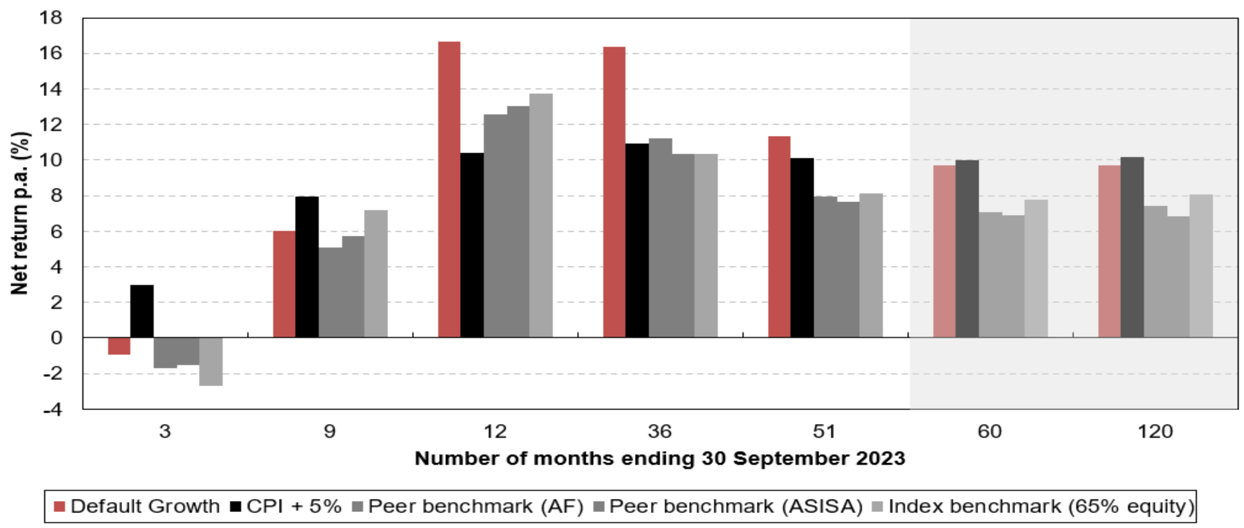
Cumulative returns *(figure 4.1.2)*



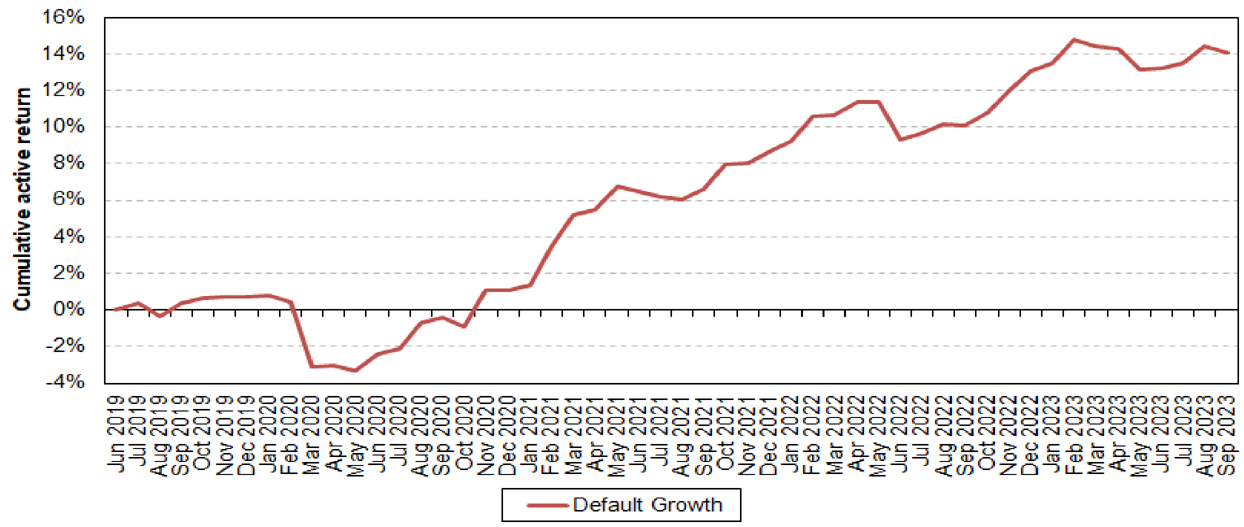
4.2. DEFAULT GROWTH

Net returns (%) [1]	Number of months ending 30 September 2023						
	3	9	12	36	51 [2]	60	120
Abax Balanced	-1.0	10.5	22.5	18.7	12.5	11.4	10.7
Aylett Balanced	-0.3	2.7	12.4	17.4	12.9	11.2	-
Coronation Managed	-0.3	7.6	17.4	13.8	10.5	9.5	8.4
Ninety One Balanced	-4.1	0.8	8.3	9.5	7.4	6.7	8.5
PSG Balanced	0.7	8.1	22.3	22.4	12.1	8.5	9.5
Default Growth	**-0.9**	**6.0**	**16.7**	**16.4**	**11.3**	**9.7**	**9.7**
Portfolio benchmark (CPI + 5%)	3.0	8.0	10.4	10.9	10.1	10.0	10.2
Peer benchmark (AF) [3]	-1.7	5.1	12.6	11.2	7.9	7.1	7.4
Peer benchmark (ASISA) [4]	-1.5	5.7	13.0	10.4	7.7	6.9	6.8
Index benchmark (65% equity) [5]	-2.7	7.2	13.7	10.3	8.1	7.8	8.1

Fund returns *(figure 4.2.1)*



Cumulative active return [6] *(figure 4.2.2)*



Notes

1. Returns for periods longer than 12 months have been annualised. The returns reflect that of the Provident Fund, but the Pension Fund assets are identically managed and have therefore achieved similar returns.
2. The Acumen umbrella funds' default strategy portfolios were officially opened in July 2019. The longer term numbers in this report (which have been greyed out) therefore reflect the historic performance of the underlying managers (using the average of those underlying portfolios that were operational at the time) to give readers a sense of how retirement funds and strategies like Acumen's default portfolios have performed over the long term.
3. Estimated net median return derived from the Alexander Forbes Global Manager Watch™ - Best Investment View Survey (non-investable). Fees assumed at 0.8% p.a.
4. ASISA South Africa Multi Asset High Equity category average.
5. A passive benchmark where equity exposure (both local and global) is kept at 65% and total offshore exposure is kept at 5% below the prevailing regulatory maximum. The balance of the local assets are split 65/35% between bonds and cash, while the remainder of the global assets are 100% in bonds. The current allocation is therefore as follows: 39% local equities (Capped SWIX), 14% local bonds (ALBI), 7% local cash (STeFI), 26% global equities (MSCI World All Country) & 14% global bonds (FTSE World Government Bond Index). Fees assumed at 0.4% p.a.
6. Shows the cumulative out/underperformance relative to the AF peer benchmark.

COMMENTARY

Overview

The markets

Most asset classes came under pressure in 2023 Q3, as investors came to the realisation that global interest rates might stay higher for longer. Local equities fell by nearly 4% (ALSI = -3.5% and Capped SWIX = -3.8%), while local bonds lost 0.3% as global yields shifted higher. After doing most of its depreciation in 2023 H1, the rand managed to hold its own against a strong US dollar during the quarter (weakening by just 0.4%), and thus did little to cushion local investors from global market losses (equities = -3.0% and bonds = -3.9% in rands). With green numbers being few and far between, the average balanced fund lost around 2% in Q3.

After also having a difficult Q2, local markets have thus disappointed year-to-date (YTD), with relatively low returns of +2.2% (ALSI), -0.3% (Capped SWIX), +1.5% (local bonds) and +5.8% (local cash). With a helpful boost of 11% from a weaker rand, global equities and bonds have delivered solid local currency returns of +22% and +8.2% YTD, respectively. Global markets have therefore done most of the heavy lifting for local retirement funds in 2023, with the average balanced fund having gained around 5-6% YTD.

Equity market returns over the last year remain strong following the lowish base set by the mid-2022 sell-off (ALSI = +18%, Capped SWIX = +12% and global equities = +26%), while local and global bonds have unsurprisingly delivered more subdued returns (6-7%) given the rising interest rate environment. The average balanced fund delivered a solid return of close to +13% over this period.

3-year returns continue to trend lower from their highs earlier this year, but remain relatively strong (local equities = +14% p.a. and global equities = +11% p.a.), which means that average balanced fund has gained a decent return of around 10-11% p.a. over this period.

Your fund

The Default Growth portfolio wasn't quite able to avoid losses in Q3 (-0.9%), but did manage to perform slightly better than the market (i.e. peer and index) benchmarks, thanks to some valuable capital protection from PSG (+0.7%) and, to a lesser extent, Aylett and Coronation (-0.3% each).

YTD (+6.0%) Default Growth has outperformed the market benchmarks by a small margin, with solid contributions from Abax (+10.5%), Coronation (+7.6%) and PSG (+8.1%) being partially offset by underperformance from Aylett (+2.7%) and Ninety One (+0.8%).

Over the last year (+16.7%) Default Growth outperformed the market benchmarks by 4%, with Abax (+22.5%), PSG (+22.3%) and Coronation (+17.4%) doing very well.

With the low base in 2020 to some degree still in play, Default Growth has returned a solid +16.4% p.a. over the last three years, compared to gains of 10-11% p.a. from the market benchmarks.

Since its inception 51 months ago Default Growth has returned +11.3% p.a., outperforming the market benchmarks by 3-4% p.a. and inflation by 6.2% p.a.

Underlying portfolios

Abax

Abax had a negative quarter (-1.0%), but marginally outperformed the market benchmarks, assisted by their below-average level of risk asset exposure.

YTD (+10.5%) and over the last year (+22.5%) Abax has been one of the market's best performers, outperforming the peer benchmarks by 5% and 10% over these periods, respectively.

Abax thus remains one of the market's top performers since the inception of the Default Growth strategy 51 months ago, with their return of +12.5% p.a. being almost 5% p.a. ahead of the market benchmarks.

Aylett

Aylett managed to end the quarter only marginally down (-0.3%) following outperformance from their local stock picks.

YTD (+2.7%) Aylett has underperformed, mainly due to underperformance from their local and global stock picks.

Even though they've been a below-average performer in 2023, they have performed in line with the peer benchmarks over the last year (+12.4%), maintain a significant lead over the market benchmarks over the last three years (+17.4% p.a. vs 10-11% p.a.), and remain the strategy's best performer since inception 51 months ago (+12.9% p.a. vs 7-8% p.a. from the market benchmarks).

Coronation

Coronation managed to end the quarter only marginally down (-0.3%), supported by outperformance from their local and global equity components.

YTD Coronation sports a good return of +7.6% (compared to gains of 5-6% from their peers), with the largest contribution in absolute and relative terms coming from the global portion of the portfolio.

Over the last year Coronation (+17.4%) has been one of the best performers in the market, with the steep increase in their offshore exposure (to nearly 42%), coupled with outperformance from their offshore holdings contributing the most to returns.

Over the last three years Coronation has also done well (+13.8% p.a.), outperforming the market benchmarks by 3-4% p.a., with their local stock picks being the biggest contributor in absolute and relative terms.

Over longer periods Coronation continues to outperform the market benchmarks by 1-2% p.a.

Ninety One

Ninety One (-4.1%) had a disappointing quarter, with underperformance from their local and global stock picks being mostly to blame.

After underperforming in Q2 as well, Ninety One's YTD return is only marginally positive (+0.8%). With the 2023 returns of most balanced portfolios being propped up by a strong run in global stocks (+22% YTD), Ninety One's single digit return (+7%) from this part of their portfolio has been the largest detractor in relative terms. This also explains their underperformance over the last year (+8.3% vs +13% from the market benchmarks).

With momentum shifting many times in the markets over the last three years, Ninety One's investment style, which focuses on earnings revisions, has generally struggled, with their return of +9.5% p.a. being around 1-2% p.a. behind the market benchmarks.

Over the long term Ninety One remains 1-2% p.a. ahead of their peers, however.

<u>PSG</u>

After a tough 2023 Q2, PSG was one of only a few managers able to produce a positive return in Q3 (+0.7%). This was mostly due to their local and global stock picks making good gains in a falling market.

YTD PSG has delivered a solid return of +8.1% (compared to gains of 5-6% from their peers), with the global portion of the portfolio making the largest contribution in absolute terms.

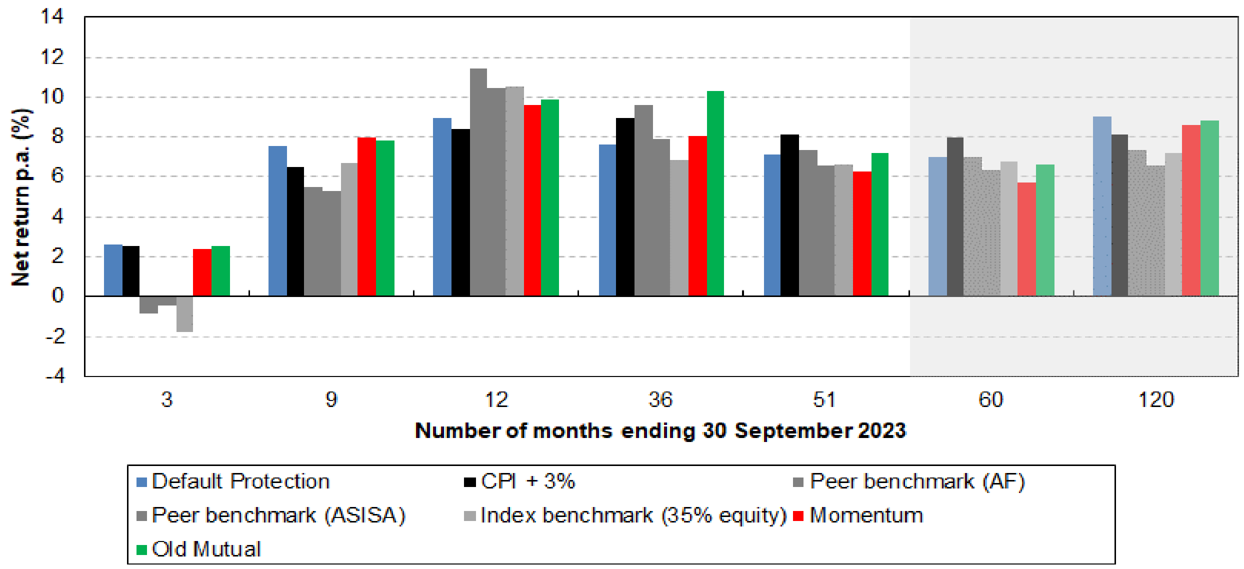
It's a similar story over the last year, where PSG's return of +22.3% is almost 10% ahead of the market benchmarks, again largely driven by outperformance from offshore. Over the last three years PSG's return of +22.4% p.a. is ahead of the market benchmarks by an even larger margin of 11-12% p.a., where they remain the market's best performer. Over this period it was both their local and global stock picks that contributed to their outperformance.

In the 51 months since the Default Growth's inception, PSG has returned +12.1% p.a., which is 4-5% p.a. ahead of the market benchmarks.

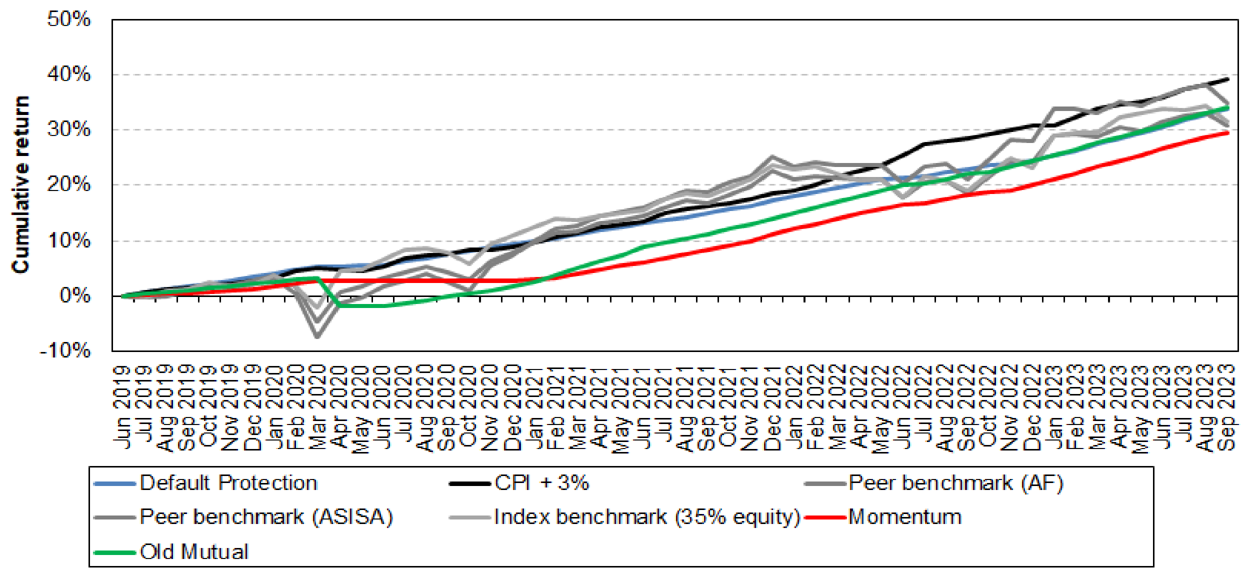
4.3. DEFAULT PROTECTION

Net returns (%) [1]	Number of months ending 30 September 2023						
	3	9	12	36	51 [2]	60	120
Sanlam Stable Bonus	2.6	7.6	8.9	7.6	7.1	7.0	9.0
Default Protection	**2.6**	**7.6**	**8.9**	**7.6**	**7.1**	**7.0**	**9.0**
Portfolio benchmark (CPI + 3%)	2.5	6.5	8.4	8.9	8.1	8.0	8.2
Peer benchmark (AF) [3]	-0.9	5.5	11.4	9.6	7.3	7.0	7.4
Peer benchmark (ASISA) [4]	-0.5	5.3	10.4	7.9	6.5	6.3	6.6
Index benchmark (35% equity) [5]	-1.8	6.7	10.5	6.8	6.7	6.8	7.2
Momentum [6]	2.4	8.0	9.6	8.1	6.3	5.7	8.6
Old Mutual [6]	2.6	7.9	9.9	10.3	7.2	6.7	8.8

Fund returns *(figure 4.3.1)*



Cumulative return *(figure 4.3.2)*



Notes

1. Returns for periods longer than 12 months have been annualised. The returns reflect that of the Provident Fund, but the Pension Fund assets are identically managed and have therefore achieved similar returns.
2. The Acumen umbrella funds' default strategy portfolios were officially opened in July 2019. The longer term numbers in this report (which have been greyed out) therefore reflect the historic performance of the underlying managers (using the average of those underlying portfolios that were operational at the time) to give readers a sense of how retirement funds and strategies like Acumen's default portfolios have performed over the long term.
3. Estimated net median return derived from the Alexander Forbes Global Manager Watch™ - Conservative Survey (non-investable). Fees assumed at 0.8% p.a.
4. ASISA South Africa Multi Asset Low Equity category average.
5. A passive benchmark where equity exposure (both local and global) is kept at 35% and total offshore exposure is kept at 5% below the prevailing regulatory maximum. The balance of the local assets are split 35/65% between bonds and cash, while the remainder of the global assets are 100% in bonds. The current allocation is therefore as follows: 21% local equities (Capped SWIX), 14% local bonds (ALBI), 25% local cash (STeFI), 14% global equities (MSCI World All Country) & 26% global bonds (FTSE World Government Bond Index). Fees assumed at 0.4% p.a.
6. Net returns from competing smoothed bonus (partially vesting) portfolios, specifically the Momentum Multi Manager Smooth Growth portfolio and the Old Mutual Absolute Stable Growth portfolio.

COMMENTARY

Sanlam declared bonusses totalling +2.6% for the quarter, bringing their YTD return to +7.6%. This is ahead of most balanced funds, and due to declaring a positive return in a largely negative quarter, the portfolio's funding level stood at 97% at the end of the quarter.

Despite sharply rising interest rates, Sanlam (+8.9%) outperformed cash (+7.5%) and inflation (+5.4%) over the last year.

5. INVESTMENT CHARGES

The table below summarises the latest available fees and charges (as a percentage of assets) of the Acumen default portfolios:

Fee component	Default Growth	Default Protection
Management fees	0.82%	0.38%
Guarantee premium	0.00%	0.90%
Performance fees	0.07%	0.00%
Other costs [1]	0.08%	0.04%
Total Expense Ratio (TER)	**0.97%**	**1.31%**
Transaction Costs (TC) [2]	0.20%	0.08%
Total Investment Charge (TIC = TER + TC)	**1.17%**	**1.39%**

Notes

1. This include other costs associated with managing the portfolio, such as custody charges, bank charges and trustee fees.
2. Trade related costs such as brokerage, STT, commission and taxes, exchange charges and VAT on these costs.

6. UNDERLYING PORTFOLIO FACT SHEETS

6.1. DEFAULT GROWTH – ABAX BALANCED

This section is based on information received from Abax Investments. Abax Balanced is a Regulation 28 compliant portfolio with a mandate to invest across a wide range of local and foreign asset classes. The portfolio has a maximum net equity exposure of 75% and a maximum net foreign exposure of 30% and 10% Africa (excl. South Africa).

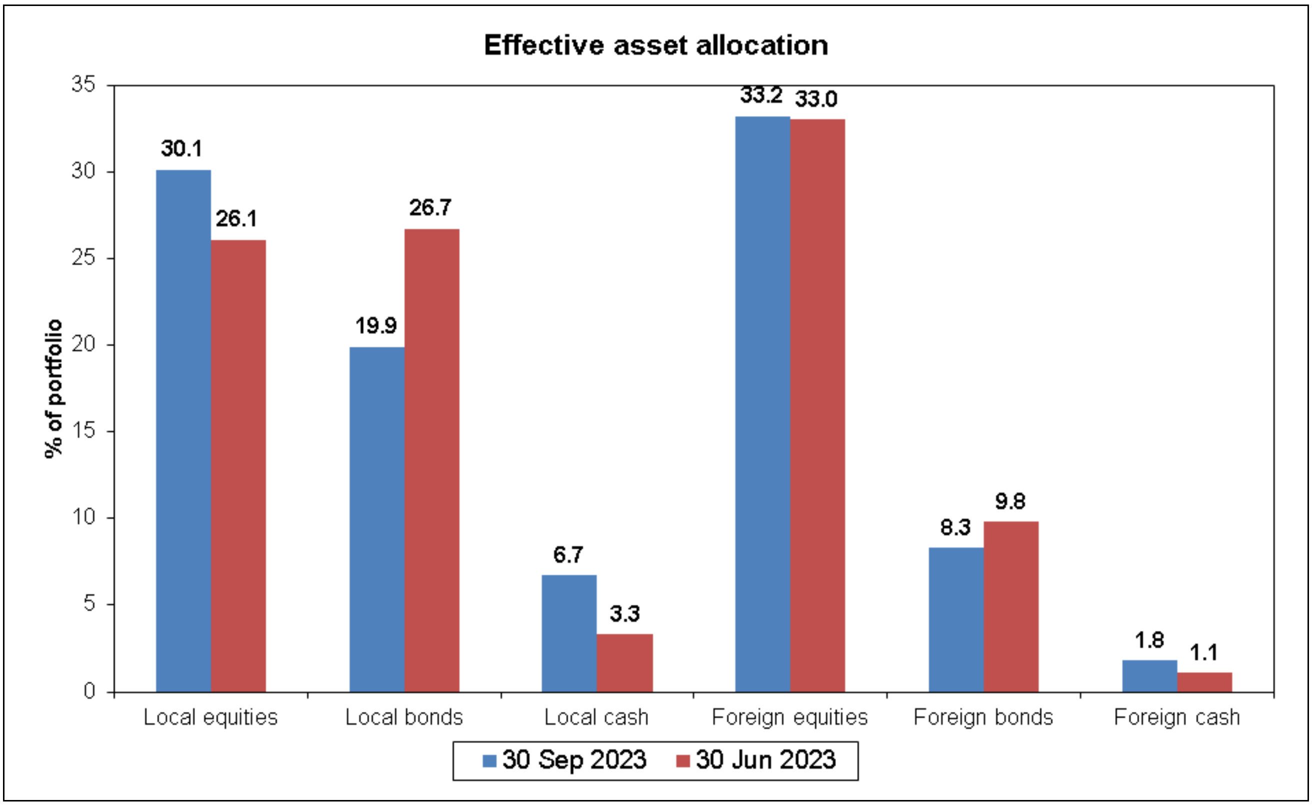
The portfolio has a moderate to high risk profile, and is suitable for investors seeking high levels of capital growth and moderate levels of income, who can tolerate the associated high levels of capital volatility.

The portfolio is actively managed and draws upon Abax's full skillset: asset allocation, valuation-based equity and fixed income security selection as well as their hedging capabilities.

6.1.1. Benchmark

The portfolio's primary objective is to outperform the peergroup (as measured by the ASISA MA High Equity category average) on a net-of-fee basis over the medium term.

6.1.2. Asset allocation



Top 10 local equity holdings

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Prosus	3.1	-10.0	30.8
Richemont	2.3	-27.6	35.5

Holding	% of portfolio	Price return (%)	
		3 months	12 months
British American Tobacco	2.2	-5.2	-8.5
Anglo American	1.8	-2.2	-3.8
South 32	1.6	-13.7	-4.8
PSG Konsult	1.1	-0.8	21.6
FirstRand	1.0	-6.8	5.1
Mondi Plc	1.0	9.7	12.8
Absa	0.9	4.1	-1.0
Dipula Income Fund B	0.9	15.4	1.3
Total	**15.9**		
Capped SWIX		**-5.1**	**7.6**

6.1.3. Performance

The table below reflects the portfolio's performance (in percentage) net of investment management fees:

	Number of months ending 30 September 2023 [1]				
	3	12	36	60	120
Abax Balanced	-1.0	22.6	18.8	11.6	10.8
Benchmark [2]	-1.5	13.0	10.4	6.9	6.8
Outperformance [3]	**0.5**	**9.6**	**8.4**	**4.7**	**4.0**

1. Returns for periods longer than 12 months have been annualised.
2. ASISA South Africa Multi-asset High Equity category average.
3. Colour coding reflects **out** / **under** performance relative to benchmark.

6.1.4. Portfolio manager commentary

Market overview

The past quarter continued the theme of the past year where the hawkishness of developed market central banks remains front and centre in the market narrative. While market participants keep hoping for signs of pivots in this rhetoric, policy makers continue to disappoint in this regard. The September US FOMC meeting was particularly newsworthy and initiated the latest recalibration of interest rates by the market (with different asset markets reacting accordingly). Although they kept the federal funds target range unchanged, it was their projection of future rates that caught the market off guard. They continue to imply one more 25bp hike later this year, but the median projections for next year and end 2025 shifted higher, implying a slower pace of cuts than previously communicated.

On the local side, the September MPC was more hawkish than expected. The committee kept rates on hold and remains acutely aware of restrictive global central banks, upside inflation risks (particularly from oil) and a deteriorating fiscus that might require a higher neutral real rate and communicated that they are ready to act with additional hikes if necessary.

On the back of this 'higher for longer' narrative, the S&P 500 lost 3.3%, largely in line with other developed markets, with the MSCI World Index returning -3.4%. The MSCI EM Index returned -2.8% while the FTSE/JSE Capped Shareholder Weighted Index returned a disappointing -3.8% for the quarter. Rates saw a significant uptick, with the US 10Y yield moving out 73 bps, ending the quarter at 4.57%. As base rates rose, local bonds experienced a similar widening in yields. The high yield level on local bonds does, however, substantially mitigate the return impact from this move, with the ALBI and ILB indices returning -0.3% and +0.8% respectively. Local property lost 1.0% over the quarter.

Fund performance and contributors/detractors

The Abax Balanced portfolio produced a return of -1.0% (net of fees) for the quarter. This compares to the peergroup average of -1.5%. Over the past year, the fund is up 22.6% (vs peergroup of 13.0%). Over longer periods, the portfolio is ranked amongst the top quartile of the peergroup.

Largest contributors over the quarter were L'Occitane (which Abax sold on rumours of management taking the business private), Google, Shell and Capitec. Largest detractors were Richemont, Prosus and Heineken, all of which Abax added to into weakness over the course of the quarter.

Current positioning and strategy

It was a tough quarter for most asset classes as the threat of higher rates led to asset price adjustments. The SA 10-year bond yield rose close to 12% in the third quarter. Abax still believe local bonds (both nominal and inflation-linked) are attractively valued with inflation expectations still anchored between 5-6%. This implies a prospective real return that is similar to the long run equity risk premium. But local bonds are not without risk as the fiscal side remains a concern and the market is coming to terms with what is now expected to be a very poor MTBPS on 1 November. Data suggests that the fiscal deficit for the 2023/24 fiscal year will be more than 1% wider than Treasury's 3.9% forecast, on the back of weaker commodity prices, growth impacted by electricity cuts and growing expenditure.

As mentioned during previous quarters, global fixed income has become an investable asset class for the first time in many years. US Treasuries are yielding close to 4.6% from around 1.5% at the beginning of 2022. The relative valuation gap between these US Treasuries and local bonds has narrowed significantly and during the quarter Abax added to their global bond component, specifically to the longer end of the yield curve. Abax believe this offers longer term value while also being a great diversifier in times of economic slowdowns and crisis (however unlikely that may seem at the moment).

Abax added to their local equity exposure during the weakness experienced in the quarter (while maintaining a healthy hedged equity component). The South African equity market continues to be attractively priced, both on a relative and absolute basis. Unfortunately, we've seen little buying interest from foreign or domestic investors. Abax retain their preference for quality counters and global businesses listed here whose fortunes are not solely dependent on the SA economy and the most attractively valued local stocks where dividend yield is a large part of the expected total return, but who also have some angle around the ability to grow despite the headwinds.

Abax continue to see value in their SA bank holdings (principally Firstrand and Absa), with fundamentals holding up better than expected as revealed by several recent trading updates and results. Their interest margins have risen during a period of rising interest rates which cushioned the impact of rising bad debt costs. The balance sheets are conservatively provisioned and corporate credit quality remains reasonably good.

Resource stocks continue to be weighed down by the threat of a global economic slowdown with many commodity prices materially lower. Earnings and dividend declines that we have seen already will continue, driven by lower commodity prices and rampant uncontrollable cost growth. Abax maintain a relatively low resources weight which has aided relative performance this year. Their preference is the diversified miners, principally Anglo American, that will benefit from an uptick in demand, yet their diversified product mix should also prove more defensive should that not occur.

Abax view US equities to be on the expensive side, especially on a relative basis. They will look to add to global equities into any further market weakness. The current consensus forward price/earnings

(FPE) ratio of about 20 times is viewed as expensive; especially with the lagging effects of extreme policy tightening still to play out.

Conclusion

In order to try and manage the many risks (known and unknown) that global economies and companies are currently contending with, Abax have endeavored to build a robust portfolio. They have done this by being well diversified across asset classes, geographies and individual securities; by favouring high quality but undervalued stocks (preferably well off their highs) with strong balance sheets that can cope with higher interest rates (and have the firepower to repurchase shares if they deem appropriate); by hedging some of their equity beta with derivative overlays; and by trying to seek out the parts of the capital structure with a risk/reward best suited to the objective of the portfolio.

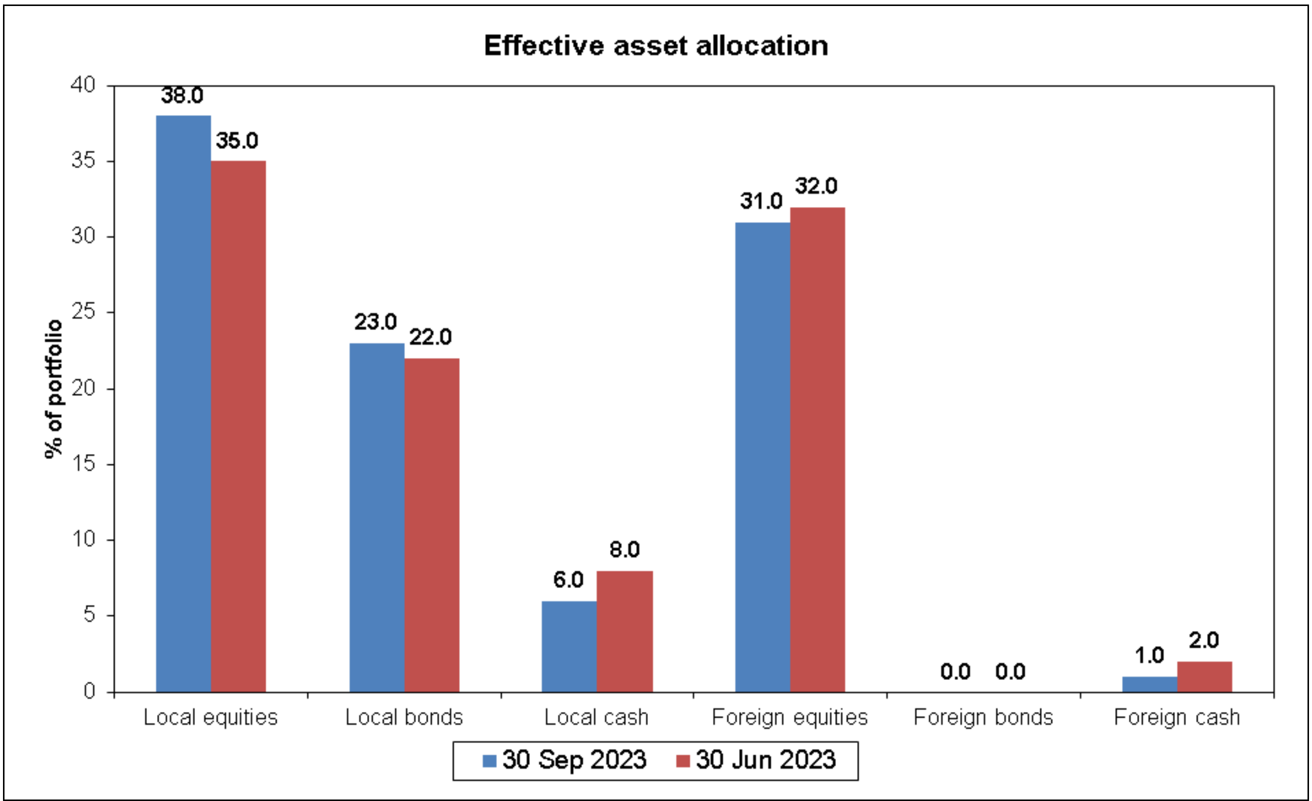
6.2. DEFAULT GROWTH – AYLETT BALANCED

This section is based on information received from Aylett & Co Fund Managers. The objective of the portfolio is to maximise long term capital appreciation by investing in assets on behalf of clients that will preserve their purchasing power in real terms and earn a satisfactory return on that capital.

6.2.1. Benchmark

ASISA South Africa Multi-asset High Equity category average.

6.2.2. Asset allocation



Top local equity holdings

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Reinet	8.1	-0.3	55.7
British American Tobacco	4.5	-5.2	-8.5
AECI	2.6	24.7	31.0
Curro	2.4	16.8	16.8
Anglo American	2.2	-2.2	-3.8
Tsogo Sun Gaming	2.2	-3.2	2.7
Hudaco	1.9	-1.2	14.1
BHP Group	1.9	-3.8	18.5
Remgro	1.9	1.0	11.9

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Ninety One Ltd	1.8	-4.2	11.6
Total	**29.5**		
Capped SWIX		**-5.1**	**7.6**

6.2.3. Performance

The table below reflects the portfolio's performance (in percentage) net of investment management fees:

	Number of months ending 30 September 2023 [1]			
	3	**12**	**36**	**60**
Aylett Balanced	-0.3	12.4	17.4	11.3
Benchmark [2]	-1.5	13.0	10.4	6.9
Outperformance [3]	**1.2**	**-0.6**	**7.0**	**4.4**

1. Returns for periods longer than 12 months have been annualised.
2. ASISA South Africa Multi-asset High Equity category average.
3. Colour coding reflects **out** / **under** performance relative to benchmark.

6.2.4. Portfolio manager commentary

For the quarter ended September 2023, the JSE All Share returned -3.5%, the All Bond Index (ALBI) -0.3% and cash 2.1%. Against this background the portfolio lost 0.3%, making up some ground in relative terms compared to its benchmark. AECI and Curro were the major contributors this quarter, while Spirit Aerosystems had a more challenging time. All three of these businesses have different degrees of new leadership. Aylett are encouraged by what they see so far.

There has been little significant change in the portfolio, however Aylett were able to deploy some cash into equities during market negativity. This raised local equity exposure from 35% to 38%. Offshore and fixed income exposure has remained stable. Frequent trading is not Aylett's style – they are not the brokers' best friends.

Markets have responded to the fed announcements with the usual fear and greed. World markets have become increasingly correlated, and our market is no exception. Aylett do not profess to know what the Fed will do but they sit waiting for the market to give them what they want at the prices *they* want. South African assets are cheap but not without a reason. Aylett have worked hard to make sure that the South African assets in the portfolio deserve their place. In other words, the payback period must compensate for the risk.

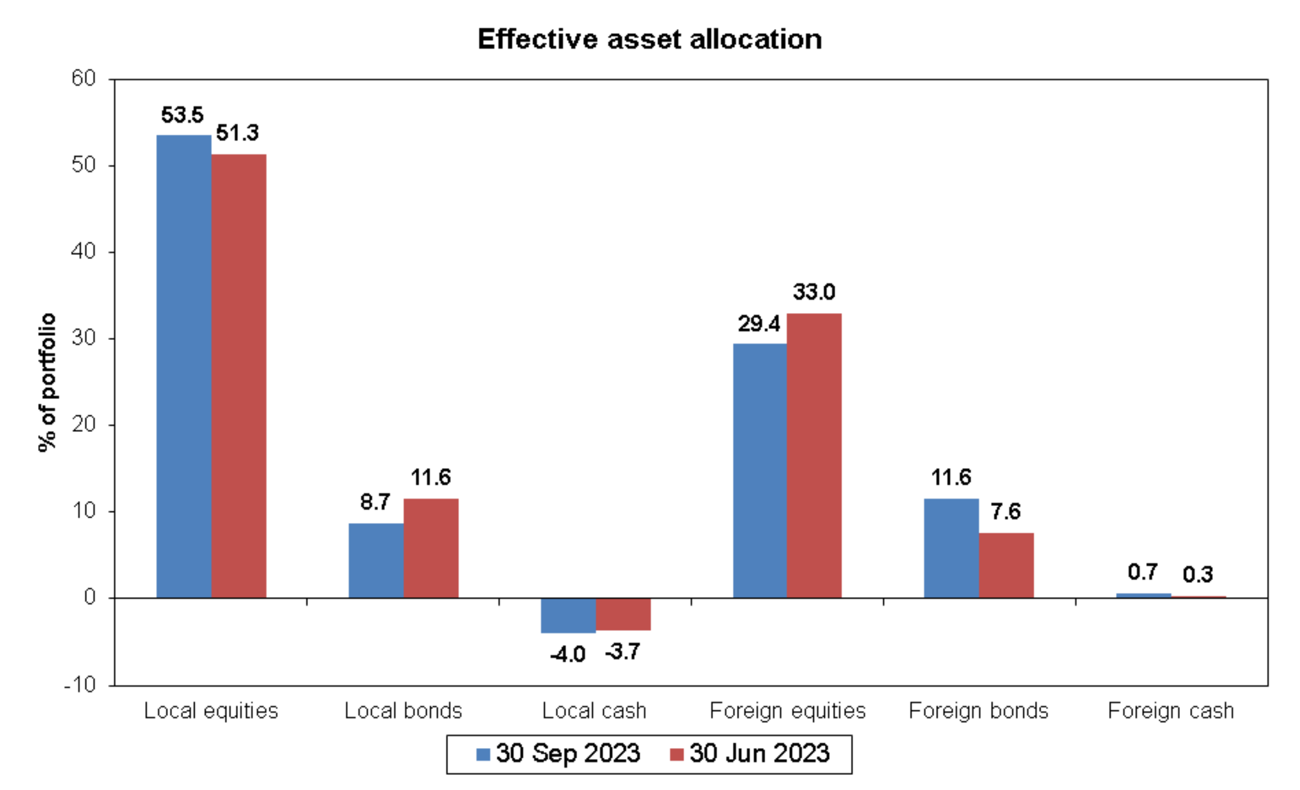
6.3. DEFAULT GROWTH – CORONATION MANAGED

This section is based on information received from Coronation Fund Managers. The Coronation Managed Portfolio is an aggressive unconstrained, balanced portfolio.

6.3.1. Benchmark

The Coronation Managed Portfolio is managed with the sole aim of outperforming the median of the relevant peer surveys over a full investment cycle.

6.3.2. Asset allocation



Top 10 local equity holdings

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Prosus	5.0	-10.0	30.8
Standard Bank	3.7	3.5	27.6
Nedbank	3.0	-11.5	1.3
British American Tobacco	2.5	-5.2	-8.5
Anglo American	2.1	-2.2	-3.8
MTN	2.1	-18.3	-5.9
Richemont	1.8	-27.6	35.5
Anheuser Busch Inbev	1.5	-1.6	27.1
Sasol	1.4	11.9	-8.7

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Quilter	1.2	2.9	7.5
Total	**24.4**		
Capped SWIX		**-5.1**	**7.6**

6.3.3. Performance

The table below reflects the portfolio's performance (in percentage) gross of investment management fees:

	Number of months ending 30 September 2023 [1]				
	3	**12**	**36**	**60**	**120**
Coronation Managed	0.0	18.7	15.0	10.5	9.3
Benchmark [2]	-2.0	14.2	11.9	7.8	8.3
Outperformance [3]	**2.0**	**4.5**	**3.1**	**2.7**	**1.0**

1. Returns for periods longer than 12 months have been annualised.
2. Alexander Forbes Global Large Manager Watch median (non-investable)
3. Colour coding reflects **out** / **under** performance relative to benchmark.

6.3.4. Portfolio manager commentary

Markets remained extremely volatile throughout this quarter as global markets digested the real possibility of higher interest rates for longer to deal with stickier inflation. Concerns about sovereign debt levels, both at home and abroad, also added pressure to longer-term interest rates. Ultimately, these rates impact all asset classes as they represent the benchmark risk-free rate used in the pricing of assets.

The portfolio continues to deliver compelling performance, with one year returns well ahead of inflation and the benchmark. The outperformance was driven by good asset allocation decisions, as well stock picking within the portfolio's equity, bond, and property allocations. Periods of volatility should provide attractive opportunities for active managers, and this certainly has been the case over the past year, where some of the significant moves provided good entry points for longer-term investors. Performance over more meaningful longer term time periods also remains pleasing.

For many years, Coronation have used a normal level of 4% for the US 10-year long bond. This is the base building block amongst almost all assets globally. For over a decade, rates have been well below this level, causing many shorter-term investors and capital allocators to misallocate capital based on the presumption that rates would remain this low for the foreseeable future. Now, for the first time since 2007, 10-year rates are sitting above 4%, and even close to 5%. After years of there being no alternatives to equities with which to achieve mid-single digit returns in US dollars, the large and deep bond market now offers investors and savers a very real alternative, resulting in the reduction of a lot of speculative investing as there is a real cost attached to this activity.

Despite offering more attractive yields, some caution is however still required when considering US Treasuries. The US is highly indebted, and the political ructions in a divided Congress have seen the risk of US default raised by rating agencies as the Democrats and Republicans tussle over the debt ceiling. The key point is that a significant guiding light in the valuation of all assets has changed significantly, and the impact has yet to be fully reflected across all asset prices.

The portfolio did well over the past 12 months by increasing global exposure early in the financial year and benefiting from the recovery in global markets, driven by the peaking and decline in inflation rates. Coronation have subsequently reduced some of their offshore exposure, both through outright selling and through the buying of put protection. One of the peculiarities of equity markets is that as they trend upwards, the cost of buying protection (volatility) declines, making it cheaper to buy put protection when markets are highly priced.

Coronation have found the offshore fixed income credit space particularly attractive. While sovereign bond yields have picked up, Coronation remain concerned about levels of indebtedness. Counter to this, global corporate credit spreads remain wide, and with base rates having risen worldwide, Coronation can identify attractive credit risk exposures, offering them yields in US dollars and euros close to 10%. Coronation now have a diversified portfolio of credits, making up close to 10% of the portfolio, offering good returns and diversification away from pure South African (SA) risks.

In Coronation's domestic equity allocation, they have not cut the exposure, principally due to the upside returns they can identify from specific names on the JSE. The bias is still towards global businesses and resource companies whose drivers are not closely linked to the fate of the SA economy. As Eskom (still without a CEO after 10 months) and Transnet (now also without a CEO) have dragged down the local economy, it is hard to find any reason that will see domestic businesses thrive. The only local businesses that are seeing growth are those that are replacing government services or facilitating companies that replace the services that the government used to provide. The local banks are a great example of this, as they are seeing very good asset growth for retail and corporate customers' financing of self-provided power.

The market valuation of many SA businesses is at very low levels. Some of these businesses will be 'value traps' struggling with no top-line growth amid ongoing cost pressures, while others will manage to defend their top line by taking market share and managing their costs. The latter will offer investors great returns as the market starts to differentiate between the winners and losers. Coronation have taken advantage of this and have built up a portfolio comprising several smaller positions in domestic businesses that they think offer the prospect of decent returns.

These positions have been funded by selling down the portfolio's exposure to the life companies. These companies bore the brunt of Covid costs during 2021 and 2022, resulting in short-term negative market price moves, which allowed Coronation to build up significant positions at very attractive prices, generally at large discounts to their embedded value. As earnings have bounced back, we have seen a strong recovery in these share prices, and Coronation have prudently cut back on these holdings.

While not having a large holding in domestic property, the portfolio benefited from Coronation's two largest exposures in the property sector, both due to corporate activity. Their holding in L2D rallied strongly on the announcement of a takeout by Standard Bank, and their holding in Attacq benefited from the announced sale of a portion of its top-class Waterfall estate to the Government Employees Pension Fund. Now, Coronation see some opportunities in the global property stocks listed in SA; they are trading on very attractive yields but aren't facing the same challenges as local landlords with high vacancies and double-digit administered costs.

Coronation's domestic bond holdings have reduced as they funded the global bond positions referred to above. Local credit spreads and sovereign fiscal worries are keeping Coronation away from the domestic markets as they don't think yields sufficiently reward investors for the inherent risks.

A year ago, Coronation certainly would not have forecast the very strong return that the portfolio managed to generate, even though they could see asset classes were cheap. Once again, Coronation sit in a position where they can see significant upside in their portfolio holdings but have no foresight of what short-term market returns will bring. Yet, Coronation are confident that over the longer term, the rebasing higher of global risk rates implicitly means better long-term returns for investors and savers in future.

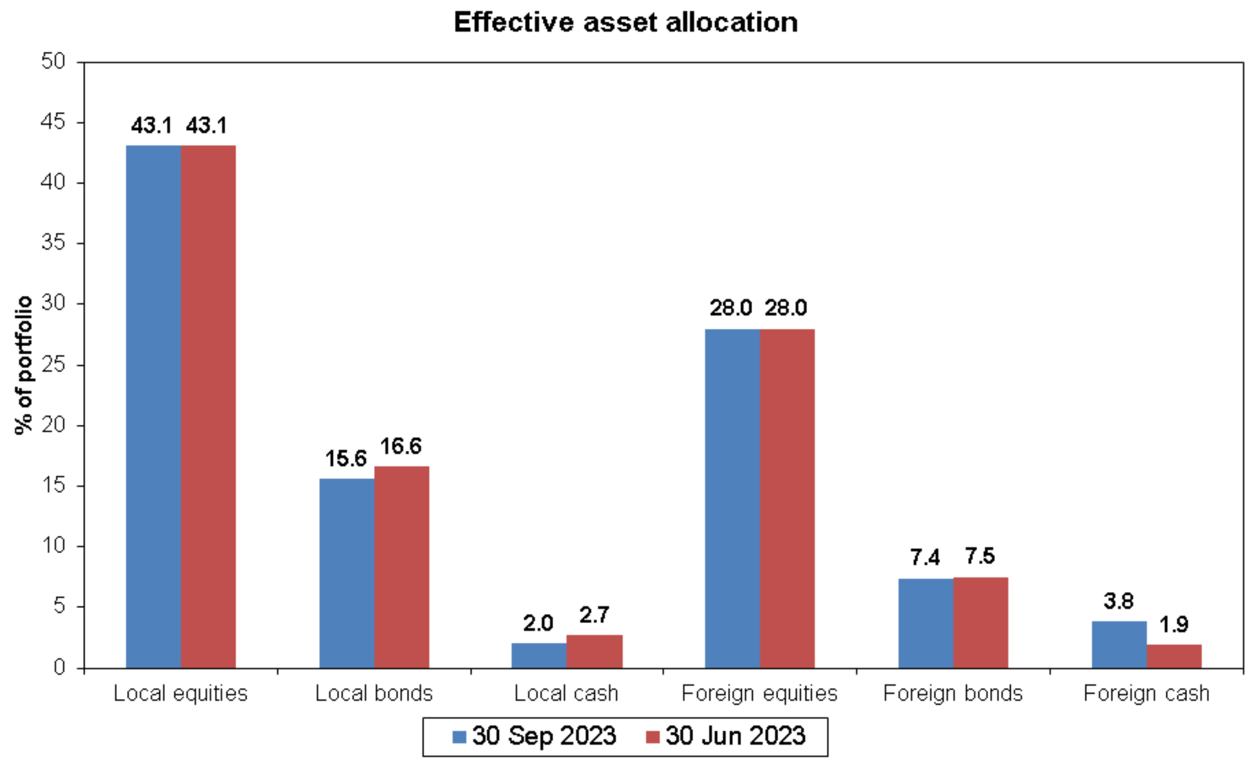
6.4. DEFAULT GROWTH – NINETY ONE BALANCED

This section is based on information received from Ninety One Asset Management. The investment objective of this moderate risk portfolio is to achieve consistent, above average, performance over the medium to long term. To achieve this investment objective, Ninety One will manage the portfolio so as to outperform the peer group median over a rolling 36-month period.

6.4.1. Benchmark

The median of the Alexander Forbes Global Larger Manager Watch (non-investable) survey.

6.4.2. Asset allocation



Top 10 local equity holdings

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Naspers	4.1	-11.0	33.7
FirstRand	2.6	-6.8	5.1
Prosus	2.5	-10.0	30.8
BHP Group	2.5	-3.8	18.5
Absa	2.0	4.1	-1.0
Glencore	1.9	1.4	13.0
Standard Bank	1.7	3.5	27.6
Sanlam	1.7	12.5	27.3
Shoprite	1.5	6.3	10.5

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Bidcorp	1.4	2.2	51.4
Total	**21.7**		
Capped SWIX		**-5.1**	**7.6**

6.4.3. Performance

The table below reflects the portfolio's performance (in percentage) gross of investment management fees:

	Number of months ending 30 September 2023 [1]				
	3	**12**	**36**	**60**	**120**
Ninety One Balanced	-4.0	9.7	10.4	7.6	9.2
Benchmark [2]	-2.0	14.2	11.9	7.8	8.3
Outperformance [3]	**-2.0**	**-4.5**	**-1.5**	**-0.2**	**0.9**

1. Returns for periods longer than 12 months have been annualised.
2. Alexander Forbes Global Large Manager Watch median (non-investable).
3. Colour coding reflects **out** / **under** performance relative to benchmark.

6.4.4. Portfolio manager commentary

Performance

For the quarter, the portfolio delivered a negative absolute return as market sentiment reverted to risk-off after flirting with the risk-on sentiment seen towards the end of the second quarter and into July.

Sentiment soured after it became evident that global rates would remain higher for longer, causing bond yields to spike across developed and developing markets, and spilling into equity markets – leaving few places for investors to hide. Indeed, at an asset class level, the only place to hide was in cash.

Earlier in the quarter, Ninety One lightened some of the portfolio's exposure to global and SA bonds and kept the proceeds in cash. Some of this cash was deployed later in the quarter, topping up existing holdings – for instance in diversified miners - on price weakness. Ninety One also added new positions, for instance in selected SA retail holdings, again on price weakness.

Key positive contributions:

- Energy stocks: ExxonMobil and BP on oil prices that surged higher following extended production cuts by Saudi Arabia and new cuts from Russia.
- Alphabet (Google's parent company) added value from an absolute perspective.
- SA Inc: Stocks including ABSA, Shoprite, Sanlam, and Standard Bank Group had a strong run, providing relief in a sea of red.
- SA bonds: although negative on an absolute basis, they outperformed every other global asset class, largely due to the yield underpin.
- Partners Group: the private equity group has seen its stock rise by 28% since July on the back of results that exceeded expectations and demonstrated growth despite the low liquidity and high rate environment. Ninety One believe there is still runway ahead.

- Property stocks (Vonovia & Tritax): the European property group and UK-listed REIT have rallied by circa 25% since June, as investors diverted from cyclical to defensive assets in a risk-off European growth backdrop.

Key negative contributions:

- Global equities, across all sectors, including tech stocks and utilities.
- Global bonds, as yields rose on expectations that rates will remain higher for longer.
- Stocks with exposure to China – diversified miners such as BHP Group and South32, Richemont, Naspers and Prosus.

Outlook and strategy

The local market continues to be impacted by global market developments. Sentiment is now decidedly risk off as markets recognise that higher rates for longer will dampen global demand. Ninety One remain cautiously positioned and outline some of the factors that are potentially at play over the last quarter of the year that could test the asset class:

- Evidence is building, especially outside of the US, that growth is slowing. This is becoming increasingly apparent in the eurozone, where data points to a recession sooner rather than later.
- In the US hopes are fading that a recession will be confined to a soft landing. Ninety One will monitor economic data releases in the coming months to confirm their thesis of a recession in 2024. In addition, while inflation is coming down, the base effects in the coming months may create volatility in the data.
- The massive shakeout in global bonds, coupled with US dollar strength (which reduces global liquidity), tight policy and slowing global growth creates a potent risk-off cocktail. This means volatility and uncertainty will remain.
- Ninety One are monitoring China closely. After months of negative data releases there are some early signs that the bottom may have been reached. For instance, the Shanghai Stock Exchange Composite Index reached a bottom on August 25; exports contracted at a milder pace in August than the previous month, a key manufacturing gauge improved slightly, and deflation pressure eased.
- Also, local governments have ramped up borrowing to lift spending on infrastructure projects, selling the most amount of special bonds in more than a year in August, presenting an underpin to growth.
- Liquidity is tightening and will likely impact risk assets in the months ahead.

Given this backdrop, Ninety One remain cautious. Their overall equity exposure has increased modestly, but their equity mix is still tilted towards growth and defensives over cyclicals. Ninety One are paying close attention to this, as the market forecasts and the resultant share price reactions tend to overshoot to the downside, and this will create opportunities to buy these companies back in the months ahead. Ninety One believe this is starting to happen – hence they have opened positions on select SA retail stocks.

Ninety One have increased their exposure to European bonds, a holding they believe will add value in time. While Ninety One maintain a healthy allocation to SA Bonds, which have an attractive yield underpin, they took advantage of the mid-quarter rally and converted some of their holdings to cash, which is yielding an attractive risk-free return. Ninety One's concern about SA fiscal slippage is preventing them from adding to SA bonds for the time being. They will remain on the side-lines until 'event-risk' (the November budget) is behind us.

This dry powder in cash puts Ninety One in a better position to take advantage of future opportunities.

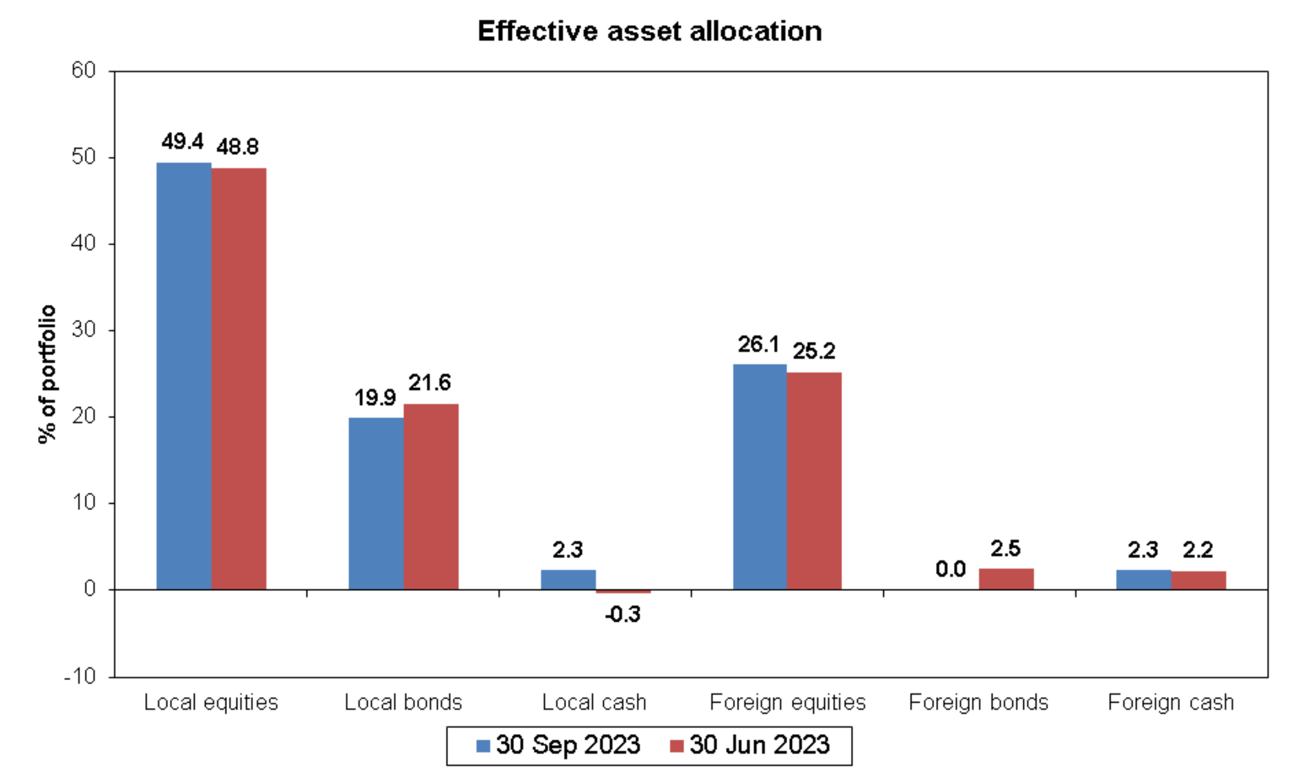
6.5. DEFAULT GROWTH – PSG BALANCED

This section is based on information received from PSG Asset Management. This portfolio invests in all asset classes: equities, bonds, property and cash both domestically and in foreign markets. The portfolio can have up to 75% in equities, up to 25% in listed property and up to 45% in foreign markets. The portfolio aims to deliver inflation plus 5% over time. Investors in this portfolio should be comfortable with moderate market fluctuations and should have an investment horizon of five years and longer.

6.5.1. Benchmark

The median of the Alexander Forbes Global Larger Manager Watch (non-investable) survey.

6.5.2. Asset allocation



Top 10 local equity holdings

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Discovery	4.6	-6.0	30.7
Anheuser Busch Inbev	3.0	-1.6	27.1
AECI	2.4	24.7	31.0
Northam Platinum	2.4	-8.5	-26.8
Glencore	2.3	1.4	13.0
Hammerson	2.2	-4.0	57.1
Sun International	2.2	22.0	49.3

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Anglo American	2.1	-2.2	-3.8
Pepkor	2.1	4.5	-16.9
Thungela Resources	1.9	17.4	-47.9
Total	**25.3**		
Capped SWIX		**-5.1**	**7.6**

6.5.3. Performance

The table below reflects the portfolio's performance (in percentage) gross of investment management fees:

	Number of months ending 30 September 2023 [1]				
	3	12	36	60	120
PSG Balanced	1.0	23.4	23.7	9.7	10.7
Benchmark [2]	-2.0	14.2	11.9	7.8	8.3
Outperformance [3]	**3.0**	**9.2**	**11.8**	**1.9**	**2.4**

1. Returns for periods longer than 12 months have been annualised.
2. Alexander Forbes Global Large Manager Watch median (non-investable).
3. Colour coding reflects **out** / **under** performance relative to benchmark.

6.5.4. Portfolio manager commentary

Portfolio performance

Over the quarter the PSG Balanced portfolio returned 1.0% versus the peer benchmark return of -2.0%. Offshore stock picks Noble Corporation plc, Babcock International Group plc and Jackson Financial Inc contributed most to positive performance. Meanwhile, Pepco Group NV, Prudential plc and Telkom SA SOC Ltd were the primary detractors. The portfolio is suitable for investors with an investment term of 5 years and longer. Over the short-term, returns can be volatile and for this reason it is important to measure returns over the relevant investment term. Over the 5-year time horizon, the portfolio returned 9.7% p.a. versus the peer benchmark return of 7.8% p.a.

Current context

Despite widespread expectations of an imminent recession, the global economy continues to show unexpected resilience in many key areas, and in labour markets in particular. As underlying inflation remains elevated, central banks are signalling a commitment to keeping interest rates high. As a result, financial conditions have tightened materially over the quarter. Meanwhile, the South African economy continues to struggle as underperforming infrastructure and elevated interest rates constrain economic growth.

Globally, equity markets were weak over the quarter. The MSCI World Index declined by 3.4%, as European and other developed equity markets generally struggled. Meanwhile, emerging markets fared better, with the MSCI Emerging Markets Index down 2.8%. Developed market government bonds were notably weak as well, with most developed market bond indices declining by mid-single digits. US 10-year Treasury bond yields rose by 78 basis points and long-duration bonds saw material capital losses. Energy markets were strong, with the Brent crude oil price surging by 27.2% bringing the year-to-date increase to over 10%.

South African assets were also weak over the quarter. The South African rand (ZAR) weakened by 0.4% against the US dollar (USD), which was generally strong against most world currencies. Domestic equities saw weakness as the JSE All Share Index (ALSI) lost 4.8% in local currency while listed property declined by 1.6%. Domestic government bonds fared considerably better than their global counterparts, as the All Bond Index Total Return Index declined by 0.3%. Domestic inflation-linked bonds performed even better, with a local currency gain of 0.8% over the quarter.

PSG's perspective and positioning

The world is gradually adjusting to a new post-pandemic reality. PSG have discussed the persistent inflationary forces that seem to have become entrenched extensively in previous commentaries. Fiscal policy has now taken centre stage, surpassing monetary policy as the primary tool of this era. Governments are leveraging this potent tool by running sizable fiscal deficits, necessitating record levels of debt issuance. Unlike households and businesses, the US government missed the opportunity to secure low interest rates far into the future, resulting in a relatively short maturity profile for US government debt. Consequently, they must now issue a substantial volume of bonds, not only to roll maturing bond issues but also to fund the growing deficit. This is happening at the same time as investors demand higher returns.

Interest rates have rapidly normalised worldwide over the last two years. Government bond yields have increased significantly, leading to substantial capital losses on the asset class that was supposed to be a risk-free portfolio diversifier. Although investors are adapting to this new environment, many still perceive it as temporary, expecting a return to low inflation and interest rates. As a result, many investors are still positioned in long-duration financial assets such as US Treasury bonds, and paying a premium for quality and growth equities. PSG think there are substantial risks to this consensus view.

These developments hold significant implications for investors:

- Look elsewhere for safe havens: US bonds (and expensive bond proxy shares) are unlikely to play a reliable role as portfolio diversifiers like they did in the past. Investors will need to explore alternative risk mitigation options. PSG's portfolio include integrated energy companies, real assets, gold, cash and volatility-driven instruments like put options as safer assets.
- Opportunities beyond the US: The era of US exceptionalism characterised by low interest rates and high PE multiples may have already peaked. Many global investors remain heavily concentrated in US assets. PSG advise diversifying into opportunities outside the US and they own good companies in unloved regions such as the UK, Europe, Hong Kong, Japan and emerging markets where valuations are attractive. Despite the evident challenges locally, PSG are finding good opportunities in some JSE-listed equities and local government bonds and have been increasing their exposure where appropriate over the last few months.
- Focus on valuations: As high interest rates increase the hurdle rate of taking on risk, the price paid for securities becomes increasingly crucial. Valuation spreads, highlighting disparities between expensive and affordable segments of the market, are currently at extreme levels. Identifying well-considered opportunities within the less crowded and cheaper parts of the market is an attractive and a risk-reducing strategy, and one that suits PSG's investment approach.

In these extraordinary times, PSG have aimed to construct a sensible portfolio of attractive and under-owned securities, balanced with an array of portfolio diversifiers well suited to an investment environment characterised by elevated macro volatility and higher interest rates.

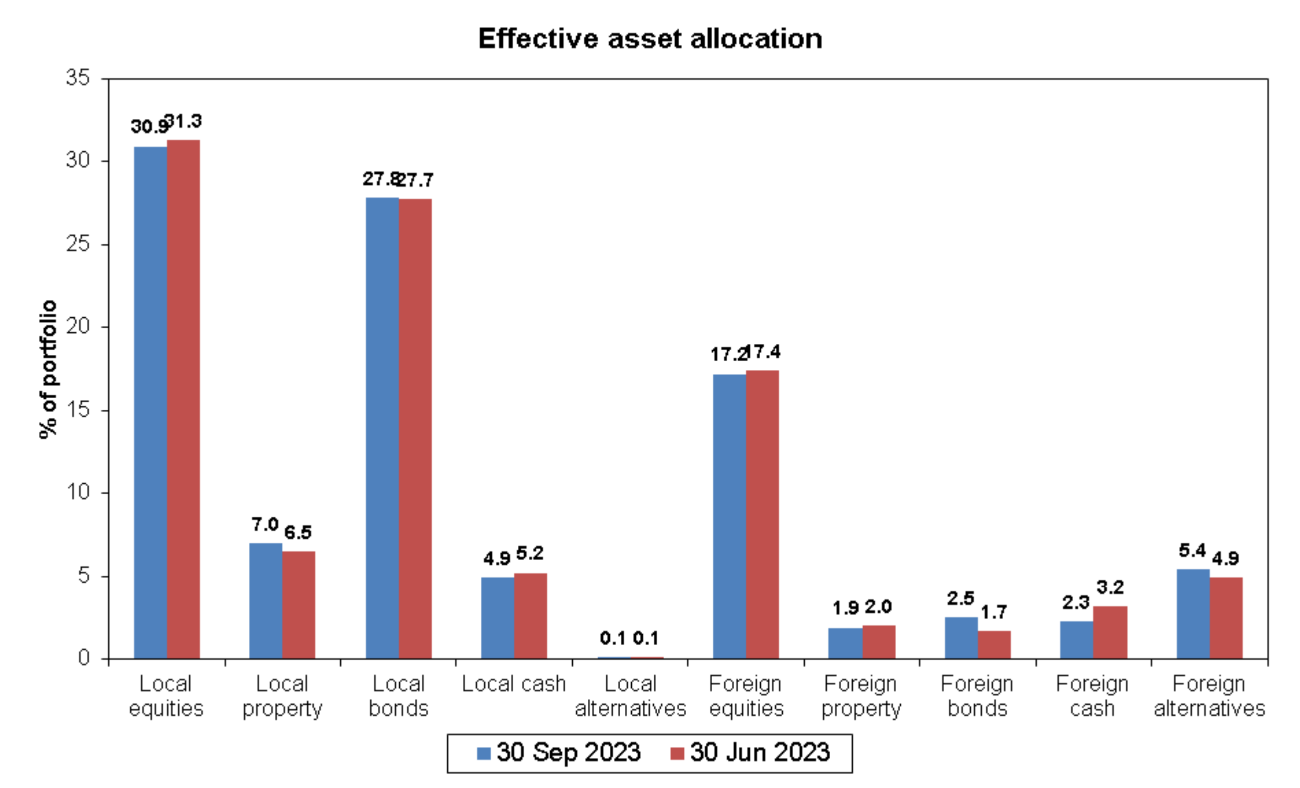
6.6. DEFAULT PROTECTION – SANLAM STABLE BONUS

The Stable Bonus portfolio provides stable smoothed returns with a partial guarantee on benefit payments. A bonus, which consists of a vesting and non-vesting component is declared monthly in advance. Bonuses cannot be negative.

6.6.1. Benchmark

Inflation (CPI).

6.6.2. Asset allocation



Top 10 local equity holdings

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Anheuser Busch Inbev	2.8	-1.6	27.1
Naspers	1.8	-11.0	33.7
FirstRand	1.6	-6.8	5.1
Gold Fields	1.4	-21.5	39.2
British American Tobacco	1.3	-5.2	-8.5
MTN	1.2	-18.3	-5.9
Prosus	1.1	-10.0	30.8
Sasol	1.0	11.9	-8.7
Standard Bank	0.9	3.5	27.6

Holding	% of portfolio	Price return (%)	
		3 months	12 months
Anglo American	0.9	-2.2	-3.8
Total	**14.0**		
Capped SWIX		**-5.1**	**7.6**

6.6.3. Financial strength

The capital levels of Sanlam Life are shown in the table below:

	31 December 2022
Solvency Capital Requirement (SCR)	230%

Sanlam Life has a Standard & Poors (S&P) credit rating of zaAAA.

The Stable Bonus Portfolio was 97.01% funded as at 1 October 2023.

6.6.4. Performance

The table below reflects the portfolio's performance (in percentage) gross of investment management fees:

	Number of months ending 30 September 2023 [1]				
	3	12	36	60	120
Sanlam Stable Bonus	2.7	9.4	8.0	7.4	9.4
Benchmark [2]	1.8	5.4	5.9	5.0	5.2
Outperformance [3]	**0.9**	**4.0**	**2.1**	**2.4**	**4.2**

1. Returns for periods longer than 12 months have been annualised.
2. Inflation (CPI).
3. Colour coding reflects **out** / **under** performance relative to benchmark.

APPENDIX 1 – FINANCIAL INDICATORS

Indicator		2023			Period (in months) ending / before 30 September 2023				
		Jul	Aug	Sep	3	12	36	60	120
Equity markets (% change)									
J203T FTSE/JSE All Share Index		4.0	-4.8	-2.5	-3.5	17.7	14.5	9.3	8.6
J303T FTSE/JSE CAPI Index		4.0	-4.8	-2.5	-3.4	16.4	15.6	9.3	8.6
J403T FTSE/JSE SWIX Index		4.1	-4.9	-3.1	-4.0	12.2	11.2	6.2	7.1
J433T FTSE/JSE Capped SWIX Index		4.1	-4.8	-3.0	-3.8	11.9	13.8	6.4	6.9
FTSE/JSE Resources Index		3.2	-8.4	1.2	-4.3	-0.6	10.0	12.8	6.8
FTSE/JSE Industrial Index		2.6	-4.7	-4.1	-6.2	27.4	12.9	8.9	8.3
FTSE/JSE Financial Index		7.8	-1.6	-3.7	2.2	21.7	22.3	3.9	7.3
FTSE/JSE Listed Property Index		2.3	0.9	-4.1	-1.0	12.9	16.8	-3.5	1.5
FTSE/JSE Top 40 Index		4.2	-5.6	-3.1	-4.6	19.8	14.2	9.9	8.8
FTSE/JSE Mid Cap Index		5.8	-3.5	-1.1	0.9	7.7	14.1	5.8	6.4
FTSE/JSE Small Cap Index		1.4	1.7	-2.0	1.1	7.0	28.8	9.2	7.9
FTSE/JSE Value Style Index		4.6	-2.4	-1.3	0.7	11.0	20.1	8.2	6.4
FTSE/JSE Growth Style Index		3.3	-8.0	-3.6	-8.4	22.5	9.8	10.2	10.1
MSCI All Country World Index	ZAR	-1.7	2.6	-3.9	-3.0	26.4	11.3	12.8	14.6
	USD	3.7	-2.8	-4.1	-3.4	20.8	6.9	6.5	7.6
MSCI World Index	ZAR	-2.0	3.1	-4.1	-3.1	27.6	12.6	13.7	15.4
	USD	3.4	-2.4	-4.3	-3.5	22.0	8.1	7.3	8.3
MSCI Emerging Markets Index	ZAR	0.7	-0.9	-2.4	-2.5	16.8	2.3	6.6	8.8
	USD	6.2	-6.2	-2.6	-2.9	11.7	-1.7	0.6	2.1
Debt markets (% change)									
STeFI Composite Index		0.7	0.7	0.7	2.1	7.5	5.3	5.9	6.3
JSE ASSA All Bond Index		2.3	-0.2	-2.3	-0.3	7.2	7.0	7.2	7.2
JSE ASSA All Bond (1-3 yrs) Index		1.4	0.9	-0.4	2.0	8.8	5.4	7.6	7.4
JSE ASSA All Bond (3-7 yrs) Index		1.9	0.7	-1.2	1.4	9.2	5.5	8.6	8.1
JSE ASSA All Bond (7-12 yrs) Index		2.5	-0.1	-2.8	-0.6	8.7	7.1	7.8	7.4
JSE ASSA All Bond (12+ yrs) Index		2.5	-1.1	-3.0	-1.6	4.1	7.7	6.1	6.6
JSE ASSA Government Bond Index		2.3	-0.2	-2.4	-0.3	7.2	6.9	7.0	7.0
JSE ASSA Non-government Bond Index		2.3	-0.3	-2.1	-0.1	7.7	7.8	8.0	7.8
JSE ASSA Inflation-linked Bond Index		1.4	0.4	-1.1	0.8	3.0	8.6	5.5	5.3
FTSE World Global Bond Index	ZAR	-4.8	4.1	-3.0	-3.9	5.7	-4.9	3.3	5.3
	USD	0.3	-1.4	-3.2	-4.3	1.0	-8.7	-2.6	-1.2

Indicator		2023			Period (in months) ending / before 30 September 2023				
		Jul	Aug	Sep	3	12	36	60	120
Inflation (% change)									
Consumer Price Inflation		0.9	0.3	0.6	1.8	5.4	6.0	5.0	5.1
Producer Price Inflation		0.2	1.0	1.5	2.8	5.1	9.7	7.1	6.4
Exhange rates									
Rand/US $	Value (R)	17.88	18.87	18.92	18.85	18.09	16.76	14.15	10.03
	Change (%)	-5.2	5.6	0.3	0.4	4.6	4.1	6.0	6.6
Rand/UK £	Value (R)	22.94	23.92	23.09	23.94	20.20	21.65	18.44	16.24
	Change (%)	-4.2	4.3	-3.5	-3.6	14.3	2.2	4.6	3.6
Rand/Euro €	Value (R)	19.65	20.46	20.01	20.57	17.74	19.64	16.42	13.55
	Change (%)	-4.5	4.1	-2.2	-2.7	12.8	0.6	4.0	4.0
Commodity markets									
Brent Crude Oil	Value (USD/barrel)	85.43	86.83	92.20	75.41	85.14	42.30	82.90	107.8
	Change (%)	13.3	1.6	6.2	22.3	8.3	29.7	2.1	-1.6
Platinum	Value (USD/ounce)	951	968	904	901	865	870	813	1,404
	Change (%)	5.5	1.8	-6.6	0.4	4.6	1.3	2.2	-4.3
Gold	Value (USD/ounce)	1,955	1,945	1,849	1,920	1,661	1,888	1,192	1,329
	Change (%)	1.8	-0.5	-5.0	-3.7	11.3	-0.7	9.2	3.4
Interest rates (% value)									
Repo rate		8.3	8.3	8.3	8.3	6.3	3.5	6.5	5.0
Prime rate		11.8	11.8	11.8	11.8	9.8	7.0	10.0	8.5
3-month NCD		8.5	8.4	8.4	8.6	5.8	3.5	7.1	5.2
10-year SA government bond yield		11.1	11.3	12.0	11.4	11.3	9.5	9.2	7.6

Indicator	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Real economy (% change at seasonally adjusted rates)								
Gross Domestic Product (GDP)	2.4	1.6	-4.4	7.1	-3.3	6.1	5.5	-7.5
Household Consumption Expenditure	-1.0	1.4	2.8	-0.3	0.3	4.8	11.6	-11.6
Gross Fixed Capital Formation	15.7	7.3	5.9	1.6	1.5	11.5	6.0	-0.6
Current account balance (% of GDP)	-2.3	-0.9	-2.3	-0.2	-1.7	2.5	2.1	3.5

1. Returns for periods longer than 12 months have been annualised.
2. % change figures reflect the change in the value of the indicator over the relevant period, or over the number of months ending at the reporting date as applicable.
3. Value figures reflect the value of the indicator at the end of the relevant period, or at the end of the period specified by the number of months before the end of this reporting period.