



Fund Details

Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
CPI + 4%	South African Multi-Asset Low Equity	Ian Anderson Richard Henwood	The Merchant West Sanlam Collective Investments Stable Payers and Growers Fund is suitable for investors who require a balance between growth and income at moderate to conservative risk levels. The Fund is Regulation 28 compliant and has a maximum effective equity exposure limit of 40%. The recommended investment horizon is three years or more.

Top 10 Holdings

	%
RSA Govt Bond R2030	12,7
RSA Govt Bond R2035	11,9
RSA Govt Bond R186	4,6
Spear REIT Ltd	4,5
Fairvest Limited B	4,4
Dipula Income Fund B	3,3
Accelerate Property Fund	2,5
FirstRand F/R 09032025	2,4
Redefine F/R 22032024	2,3
Stor-Age Property REIT Ltd	2,2

Asset Allocation Portfolio date: 31/03/2023



SA Equity	37,3
SA Fixed Income	37,7
SA Property	21,5
SA Cash	3,5
Total	100

Annualised Performance

	Fund %	Benchmark %
3 months	1,1	2,0
1 year	0,7	11,0
3 years	15,6	9,4
5 years	1,6	9,0
10 years	5,3	9,1
Since Inception (May 2009)	6,7	9,2
Launch date (May 2009)		

Annual Returns

	%
Highest Annual %	28,3
Lowest Annual %	-9,6

Market Overview

The collapse of Silicon Valley Bank (SVB) in the United States and Credit Suisse in Switzerland during the first quarter of 2023 highlight some of the issues regulators are facing in trying to contain inflation by aggressively raising interest rates. While both banks are not representative of the global banking sector generally, the repricing of bank assets held in government bonds is a risk to the sector as a whole and is a function of higher inflation and higher interest rates. Regulators were quick to act in both cases, with the US Federal Reserve guaranteeing all deposits at SVB, while the Swiss regulators quickly engineered a takeover of Credit Suisse by its largest competitor, UBS. While the crisis was short-lived, it did have a material impact on the share prices of most banks in the United States and Europe, and is also likely to place a dampener on economic growth as banks reassess the quality of their asset books and adopt more stringent lending criteria. On the other hand, central banks are likely to be more circumspect about the pace and magnitude of further interest rate hikes given the fragility of certain banks in the financial system.

During the first quarter, global bond yields fell on expectations that central banks (and the US Fed in particular) will reduce the magnitude of rate hikes at upcoming policy meetings and start cutting interest rates again before the end of the year. The US Fed did raise official interest rates by 25 basis points at both the February and March meetings of the Federal Open Market Committee, but these were lower than the 50 basis point increase in December 2022 and the 75 basis point increases in June, July, September and November last year. The yield on 10-year US Treasuries fell more than 40 basis points during the quarter to trade below 3.5%, having touched 4.25% towards the end of last year. Lower bond yields helped growth stocks stage a significant rally in the first quarter, with the tech-heavy NASDAQ Index gaining 17%, while the Dow Jones Industrial Average (DJIA) was up just 0.9%. The NASDAQ underperformed both the DJIA and S&P 500 last year as bond yields in the United States rose by around 250 basis points.

South Africa's equity market was up more than 5% in the first quarter, with gold miners, Aspen, Richemont, Naspers and Prosus all delivering impressive double-digit returns. The rand weakened by approximately 5% during the quarter and provided a tailwind for the large dual-listed industrials. The Resources sector, excluding the gold miners, performed poorly as PGM prices tumbled. Amplats (-30.7%), Northam (-22.7%) and Implats (-21.2%) all lost more than a fifth of their value during the quarter. It was also a tough quarter for domestically focussed businesses in South Africa, given the significant increase in both the level and quantum of loadshedding and the South African Reserve Bank's decision to raise interest rates by 50 basis points following the conclusion of their March policy meeting. They had raised official interest rates by 25 basis points at their January meeting and consensus was for a 25 basis points increase. In fact, every economist polled ahead of the March meeting had expected interest rates to rise by 25 basis points, given the deteriorating economic outlook in the face of weaker global growth and increased loadshedding.

Portfolio & performance commentary

During the quarter, the Fund returned 1.1%, underperforming its benchmark (CPI + 4%) and the peer group average. The underperformance can largely be attributed to the Fund's above-average exposure to domestically focused equities and listed property securities. South Africa's listed property sector was down just over 5% in the first quarter, underperforming equities, bonds and cash. Equites (-8.7%) and Stor-Age (-7.0%) were particularly weak during the quarter given their exposure to the UK and the perceived near-term risks associated with that market as interest rates continue rising. Reunert (+20.8%) and Bidvest (+20.2%) were the top performers during the quarter.

The Fund paid a distribution of 20.19c for the A class and 21.44c for the A1 class. This represents growth of 36.1% and 33.0% over the corresponding period a year ago. The high growth rate for the year can be attributed to the lower base caused by the COVID-19 pandemic and growth rates for the remainder of the year should be lower (but still positive).

Current positioning & outlook

The Fund's current allocation to growth assets (equities and listed property) remains below just 60% but is not far off the maximum permissible allocation of 65% (40% equity and 25% listed property). The mix between floating rate notes and fixed coupon bonds continues to change, reflecting the attractive valuations in the South African bond market.

Based on a combination of Bloomberg, FactSet, IRESS and Merchant West Investments forecasts, the current one-year forward income yield on the Fund is 8.8%, which compares very favourably with the yield on money market and income funds, despite having a 60% allocation to growth assets. Based on those same forecasts, the income produced by the portfolio is expected to grow at approximately 4.3% per annum over the next three years, reflecting the expectation of a slowdown in economic activity both globally and in South Africa, where persistent loadshedding is expected to become a feature of the economic landscape for at least the next twelve months.

The Fund is ideally suited for investors looking to build an income for their retirement and then to manage that income in retirement such that the major risks facing retirees, namely longevity (how long am I going to live), sequence of returns risk (getting the returns when you need them) and inflation (the hurdle rate and one that grows rather than shrinks in retirement), are mitigated and in some instances completely eradicated. Investors can live off the income provided by the portfolio and not draw excessively against the capital. In this way, the investor's capital is preserved and is only utilised in emergencies during their retirement, irrespective of how long that retirement lasts.

Ian Anderson
Portfolio Manager

Disclaimer

Sanlam Collective Investments (RF) (Pty) Ltd is a registered Manager in terms of the Collective Investment Schemes in Securities. Collective investment schemes are generally medium to long-term investments. Please note that past performance is not necessarily a guide to future performance, and that the value of investments may go down as well as up. A schedule of fees, charges and maximum commissions can be obtained from the Manager. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and script lending. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Performance is based on NAV-to-NAV calculations with income reinvestments done on the ex-dividend date. Lump sum investment performances are quoted. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage, and service fees. The actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. Charges of the most expensive fee class, maximum fund charges include (incl. VAT): Manager initial fee (max.): 3.45%; Manager annual fee (max.): 1.15%; Total Expense Ratio (TER): 1.17%. The Manager retains full legal responsibility of the third-party portfolio. The registered name of the Fund is "Merchant West Sanlam Collective Investments Stable Payers and Growers® Fund." The performance of the portfolio depends on the underlying assets and variable market factors. The Management of this portfolio is outsourced to Merchant West Investments (Pty) Ltd, (FSP) License No. 44508, an Authorised Financial Service Provider under the Financial Advisory and Intermediary Services Act, 2002.