Mazi Balanced Composite

31 May 2023

Fund Information

Composite Type:	Unconstrained
Fund Size:	R470 million
Inception Date	June 2019
Manager:	Mazi Asset Management Pty Ltd
Contact Person:	Asanda Notshe(Asanda@mazi.co.za)

Investment Objective: To sustain high long term capital growth.

Investment Approach

Our investment process is firmly rooted in fundamental analysis. Our approach is predominantly bottom-up and sector agnostic. Key investment criteria include:

- Quality of management;
- Good corporate governance and transparency;
- Cashflow and balance sheet strength;
- Business strategy and systainability of business model.

Fund Performance Commentary - April 2023

January 2023 got off to a rollicking start for capital markets as participants continued to digest the prospect of inflation peaking in the United States (US) and the US Federal Reserve (Fed) slowing down the interest rate hikes that characterized the second half of 2022.

Top Holdings 31 May 2023

	Sector:
Naspers	Media
MTN Group Ltd	Telecoms
Absa Group Ltd	Banks
Prosus NV Ordinary Shares - Class N	Industrials
Investec	Banks
R2030	Bond
Anglo American	Resources
Sasol	Oil and Gas
NBK28A	Bond
Impala Platinum Holdings Ltd	Resources

Trailing Returns

	3 Mo	6 Mo	1 Year	2 Years	3 Years	Since Inception - 2023/05/31
Mazi Balanced Composite	1.78	10.94	25.75	28.92	17.98	16.41
Mazi Balanced Benchmark	9.18	21.46	34.53	29.42	15.05	16.29

Risk Statistics from Inception

	Return	Std Dev	Sharpe Ratio	Excess Return	Historical Tracking Error
Mazi Balanced Composite	7.77	13.65	0.73	-0.47	17.94
Mazi Balanced Benchmark	8.23	13.24	0.54	0.00	0.00

Monthly Returns - Mazi Balanced Composite

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	BMARK
2023	5.20	-2.77	-2.30	1.79	-5.20								-3.57	15.3
2022	2.01	1.56	1.02	-2.14	1.30	-6.47	3.36	-0.55	-2.62	2.46	8.34	-1.32	6.40	6.4
2021	3.31	3.56	2.31	0.27	0.94	-2.04	2.07	0.94	-1.29	4.21	3.11	4.77	24.26	3.0
2020	-1.08	-6.56	-12.78	10.36	0.49	5.75	1.46	-0.73	-1.26	-1.75	6.89	3.76	2.45	18.3
2019	—	—	—	—	—	2.55	-1.54	-1.61	0.41	1.79	-0.95	2.68	—	-5.0
2018	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Market Commentary - March 2023

January 2023 got off to a rollicking start for capital markets as participants continued to digest the prospect of inflation peaking in the United States (US) and the US Federal Reserve (Fed) slowing down the interest rate hikes that characterized the second half of 2022. However, the rally was short lived as it petered out into February and March, leaving Q1 2023 returns up modestly from Q4 2022 for most asset classes (see **Table 1**).

It was instructive that Q1's short-lived rally was marked by the Fed delivering a seventh consecutive rate hike of 25 basis points (bps)in March, with it suggested that there will be further 25bps hikes at their next 2 meetings in early May and mid-June. What continues to cause markets anxiety is when the Fed will pivot towards a dovish stance so that interest rate either remain static or begin decreasing, with the current hiking cycle only likely to end inQ4 2023 at earliest. What is evident is that the post-Global Financial Crisis era of ultra-low interest rates is behind us.

In our previous Quarterly Commentary, we noted that according to historical precedent, it would take somewhere between 6 to 12 months for the effects of higher rates to filter into the real economy. It was also possible that (1) the US economy *could* enter a recession during 2023, and (2) higher interest rates would *probably* have an adverse impact on earnings generated by US Inc.

Beside the heightened risks of these two events occurring in 2023, it is now common cause that the current rate heightening cycle precipitated the "mini" banking crisis witnessed in Q1 2023, where three regional banks in the US failed. Across the Atlantic, Credit Suisse was acquired by UBS in a Swiss Government brokered bail-out. On the face of it, it seems that a credit crisis has been averted, *for now*. However, a spotlight is now shining brightly on the balance sheets of banks worldwide.

From our point of view, we believe market participants will be critically re-appraising whether Held-to-Maturity Assets "correctly" reflect an economic reality defined by higher interest rates. Besides US Treasuries and mortgage-backed securities, other assets, held by banks that we think will come under renewed scrutiny include Commercial Real Estate and Private Equity Loans. As of this report, we feel it is too early to tell if the disturbances witnessed in the banking sector is a canary in the coal mine moment or an outlier. As Warren Buffet once said, "It is only when the tide goes out that you see who is swimming naked."

As the economic tide inevitably recedes during 2023, all will be revealed.

Looking further afield, while we think the potential geopolitical risk from Russia's invasion of Ukraine is by and large discounted, the end of China's zero-tolerance COVID-19 policy and the re-opening of its economy *should* be positive for South Africa in the shape of increased Chinese demand for many industrial commodities produced within our borders. This is especially relevant given that there has been a paucity of large-scale capital investment by mining companies in general.

Against this backdrop, we make the following observations:

We maintain our view that volatility will remain a core feature of capital markets as market participants digest slower economic growth (and possible recessionary conditions). Probable earnings downgrades will be a feature through the remainder of 2023,

1. In addition, higher interest rates may leave certain sectors within the global economy exposed, such as credit,
2. In the short term – <u>downside equity protection to mitigate the impact of losses while still benefitting from market gains is key,</u> with some upside participation given the volatility in asset prices alluded to,
3. We remain constructive on the theme of China's re-opening, which is a net-positive for SA Inc.,
4. Notwithstanding the attractive valuations of many South African companies, we have tempered our equity exposure *and* continue to have downside protection to mitigate any negative earnings (or other surprises) that may have negative consequences for global markets (see **Table 2**).

Market Commentary - March 2023

Table 1 - Summary of asset class returns (all in ZAR where applicable)

Asset Class total returns	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Cash	1.70%	1.50%	1.30%	1.10%
Capped SWIX	2.40%	12.20%	-2.40%	-10.60%
ALBI	3.40%	5.60%	0.60%	-3.70%
ILB	1.00%	2.00%	-1.00%	2.90%
SAPY	-5.10%	19.30%	-3.50%	-11.60%
ZAR USD	-4.20%	6.10%	-10.00%	-10.10%
MSCI All-Country World Index	11.70%	3.20%	3.50%	-6.30%
CPI	1.40%	0.90%	1.80%	2.40%

Model Portfolio

Table 2 - Portfolio Positioning

Asset Class Ending Weight	Benchmark	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Domestic: Equity	65%	64.8%[2]	69.3%	69.3%	71.3%
Domestic: Property	5%	4.5%	4.6%	4.3%	4.4%
Domestic: Bonds (Nominal)	15%	19.5%	16.5%	17.2%	15.5%
Domestic: Bonds (Inflation)	5%	5.4%	5.3%	5.8%	3.9%
Domestic: Cash	10%	5.8%	4.0%	3.4%	4.9%
Global: Bonds	0%	0.0%	0.0%	0.0%	0.0%

Market Commentary - March 2023

We went neutral on equities during Q3 2022, with our gross equity exposure declining to 64.8% as of 31 March, 2023 (see **Table 3** for equity moves over the quarter). In addition, we continue to hedge against potential downsides in equity with a derivative overlay, which in effect reduces our exposure interest rate and inflation changes by another 17% should the Capped SWIX40 (“DCAP”) trade between 16,320 and 19,300. In other words, if the DCAP trades between 7% and 21% lower than current levels (at the time of writing) our effective net equity exposure drops to c. 48%. Importantly, the derivative overlay allows the fund to participate in equity upsides on our existing exposure of 64.8%, as noted above, to a level of 22,890 – c. 11% above current levels (at the time of writing).

In the fixed income basket, we still view nominal government bonds as attractive even in the face of heightened risk premiums and a marginal deterioration in South Africa’s fiscal outlook, as corroborated in the February 2023 budget. Our preference for nominal bonds over inflation-linked bonds (ILBs) is shown in our weighting, with a neutral allocation in ILBs versusa 4.5% overweight in nominal bonds. In nominal bonds, we maintain a pragmatic position on the 7 to 12 year part of the curve. However with bear market sentiment on the rise, , we believe value can be created by extending the duration marginally closer to the overall benchmark duration.

Our allocation in property remains underweight, premised on dampened earnings growth impaired by operational constraints and subdued demand within the economy. At current levels, our preference remains for companies that provide some organic earnings growth and that are capable of unlocking potential value.

The current interest rate hike cycle has made cash allocations more appealing, especially as a way to de-risk a portfolio relative to more risky asset classes. We expect inflation to peak in 2023 (or perhaps it may have already peaked) but with further interest rate hikes expected this year, we remain underweight on cash for the time being. As a consequence, and considering our dim view on short-term market outcomes, we have increased our allocation to cash through bank neogitable certificates of deposit (NCD) and short term notes yielding more thanthe 6 month Jibar benchmark (8.5% at the time of writing).

Taking into account elevated global risk factors, our allocations to global bonds are underweight and do appear attractive (government bonds that provide high yields are generally sound investments heading into a recession). With US 2Y Treasuries at 4%, and Fed Fund Futures at 4.875%, there is still potential for further tightening within the market. Despite this, front-end global yields do provide decent carry return with less risk. However, returns could become victim to FX headwinds on a fully hedged basis, particularly if the US Dollar hits its peak in Q4 2023.

In summary, we don’t expect a smooth ride in 2023 as several risks loom large. Our positioning has considered the implications of a possible recession and we anticipate turmoil to be baked into the markets over the short term, which we have accounted for as described above. We enter Q2 2023 with some caution, with the quarter likely to be defined by sluggish growth and market volatility.