FG ASSET MANAGEMENT

QUARTERLY REPORT

Quarter 2 | 2020

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY

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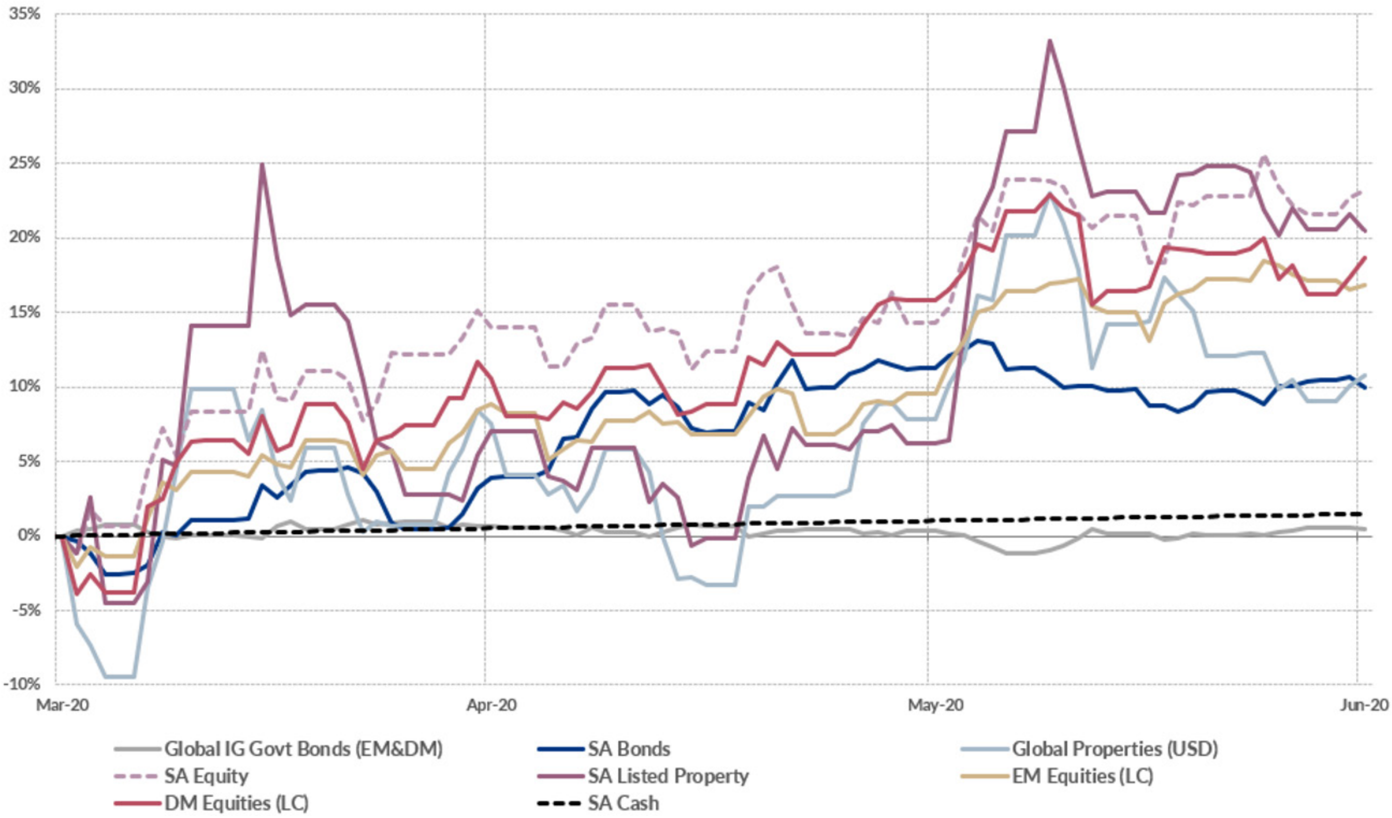
Most asset classes rebounded over the quarter

Over the quarter we saw a recovery across most global financial markets, as can be seen from Figure 1, although any improvement in the real economy is yet to follow. The recovery was mostly fueled by unprecedented stimuli from both governments and central banks, and disregarded the continuous climb in COVID-19 infections globally as investors focused on economies reopening after lockdowns. There were, however, small bouts of weakness over the quarter as fears grew concerning a second wave of infections and failed vaccination hopes.

Figure 1: Asset class returns for the second quarter



Source: Morningstar

The speed and size of the stimulus that has been injected into the system has made this recovery extraordinary

We saw similar monetary stimulus following the global financial crisis in 2008, where major global central banks started buying bonds and implementing zero interest-rate policies. A significant difference this time around – in addition to the monetary stimulus – was the fiscal stimulus. While the austerity measures that where implemented following the global financial crisis restricted economic recovery, the COVID-19 economic relief packages are expected to accelerate the economic recovery. However, the one important drawback this time is that governments have had to increase their borrowing significantly to fund this spending. As a result, debt-to-GDP ratios have deteriorated significantly and further worsened global governments' debt problems. How this heightened debt burden will be repaid in the future remains an important question.

Economic activity improved significantly as lockdown restrictions eased

April was a low point for global activity as many countries were still in their strictest form of lockdown. Since then, lockdown restrictions have eased, with global PMIs (Purchasing Managers Index) reflecting significant improvements from the depressed lows that we saw in April. Developed market economic data has recovered dramatically, with data releases from the US specifically exceeding economists' expectations. The Citi Economic Surprise Index tracks the actual economic data releases relative to consensus forecasts, and is shown in Figure 2.

Figure 2: Citigroup Economic Surprise Index

Sources: Citigroup, Daily Shot

Nevertheless, risks to the recovery remain as lockdown restrictions can be reinstated at any time if we experience subsequent waves of COVID-19 infections; and the fact of the matter is that COVID-19 will only be truly mitigated once a vaccine becomes accessible.

The South African Reserve Bank (SARB) took decisive policy action

Locally, the SARB, alongside global central banks, took aggressive and decisive policy action. The SARB cut the repo rate by 1.5% in total over the quarter, to its lowest level on record, at 3.75%. Inflation is expected to decline to just below 3% over the second and third quarter, before retracing back towards the SARB's mid-point target of 4.5%. Inflation receding to the lower end of the target range allowed the Monetary Policy Committee (MPC) some room to cut rates without breaching its mandate. Over the quarter, the SARB lowered its economic growth projection by 6.8% from -0.2% at the end of March to -7.1% for 2020, reflecting the extreme pace of the downturn and the difficulty of predicting the true extent of the impact of the lockdown on the economy.

South Africa's long-term sovereign credit rating was lowered one notch by both Fitch and Standard and Poor's

Both ratings agencies already had South Africa's foreign and local currency ratings at sub investment grade and the downgrades were further into high yield territory, as can be seen from Figure 3. Fitch's main concerns were the impact of COVID-19 on South Africa's finances and economic growth. They were also looking for a clearer strategy on stabilising South Africa's increasing debt projections. Standard and Poor's downgrade was also related to the significant implications that COVID-19 would have on South Africa's growth and fiscal situation.

Figure 3: South Africa's sovereign credit ratings (foreign currency)

Description	S&P	Moody's	Fitch	DBRS	Grade
Prime	AAA	Aaa	AAA	AAA	Investment
High Medium Grade	AA+	Aa1	AA+	AA(high)	
	AA	Aa2	AA	AA	
	AA-	Aa3	AA-	AA(low)	
Upper Medium Grade	A+	A1	A+	A(high)	
	A	A2	A	A	
	A-	A3	A-	A(low)	
Lower Medium Grade	BBB+	Baa1	BBB+	BBB(high)	
	BBB	Baa2	BBB	BBB	
	BBB-	Baa3	BBB-	BBB(low)	
Speculative	BB+	Ba1	BB+	BB(high)	Speculative
	BB	Ba2	BB	BB	
	BB-	Ba3	BB-	BB(low)	
Highly Speculative	B+	B1	B+	B(high)	
	B	B2	B	B	
	B-	B3	B-	B(low)	

Source: worldgovernmentbonds.com

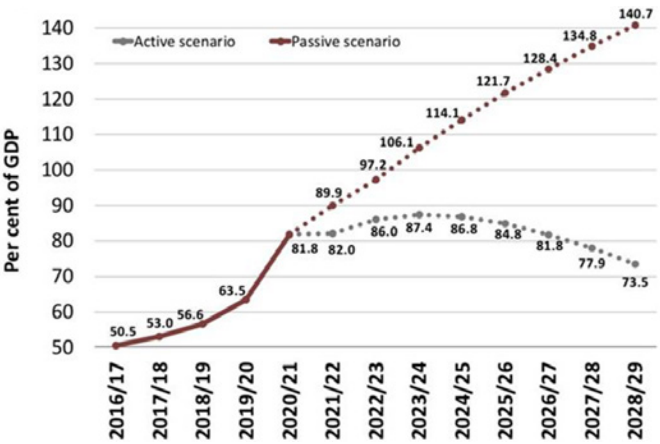
The anticipated exit of South African bonds from the World Government Bond Index (WGBI) was priced in by the market

The much-anticipated event of South African government bonds officially falling out of the WGBI transpired at the end of April as a result of the downgrade from Moody's at the end of March. Local government bonds had already sold off during March and the 10-year bond yield was above 11% ahead of the downgrade. As a result, we actually saw yields reverse the moves in March following the downgrade, with bonds finishing the quarter at 9.2%, levels last seen at the start of March 2020.

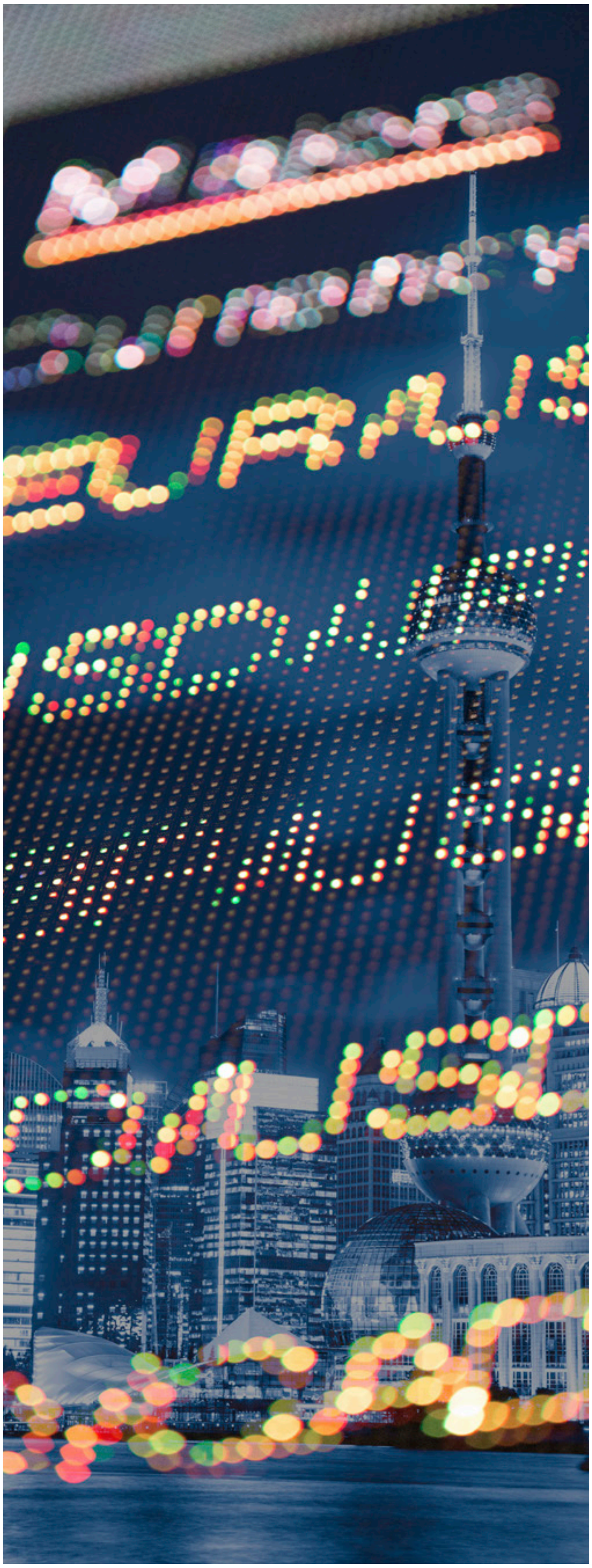
A key event was the Supplementary Budget that was delivered at the end of June

Finance Minister Tito Mboweni presented two possible scenarios for South Africa's debt burden, as shown in Figure 4. The first, a passive scenario, showed what would happen if nothing is done. South Africa's debt would spiral out of control (with debt-to-GDP greater than 100% by the 2023 financial year) and debt servicing costs would crowd out public spending. In light of this scenario, government made resolutions to stabilise debt (88% debt-to-GDP by the 2024 financial year) by actively implementing reform measures to boost economic growth, constraining long-term expenditure, and improving revenue collection. Concerns remain about whether these targets are achievable, as the details on the initiatives that will be used to reach these active scenario targets will only be provided in October at the time of the Medium Term Budget Policy Statement.

Figure 4: Debt outlook scenarios



Source: National Treasury



FG IP JUPITER INCOME FUND OF FUNDS

For periods until 30 June 2020

Performance and quartile ranking in sector | Launch date 15 August 2005

	Year to date	6 months	1 year	3 years*	5 years*	Since inception*
FG IP Jupiter Income FoF	1.87%	1.87%	5.46%	7.17%	7.56%	7.88%
STeFI Composite Index	3.18%	3.18%	6.86%	7.17%	7.20%	7.29%
SA Multi Asset Income Category Average	1.90%	1.90%	5.49%	7.14%	7.27%	7.83%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- Nedgroup Investments Flexible Income Fund
- Coronation Strategic Income Fund
- Prescient Income Provider Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	3.25%	5.17%
% positive months	93.26%	100.00%

The FG IP Jupiter Income Fund of Funds returned +4.35% in the second quarter of 2020 and +5.46% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.46% and underperforming its 12-month return of +6.86%. The Terebinth SCI Strategic Income Fund was the best-performing underlying fund over the quarter, returning +5.60%. No changes were made to the fund over the quarter.

Asset allocation as at 30 May 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Jupiter Income FoF	0%	2%	34%	60%	4%

FG IP VENUS CAUTIOUS FUND OF FUNDS

For periods until 30 June 2020

Performance and quartile ranking in sector | Launch date 2 July 2007

	Year to date	6 months	1 year	3 years*	5 years*	Since inception*
FG IP Venus Cautious FoF	2.05%	2.05%	5.98%	6.02%	6.32%	8.47%
SA Multi Asset Low Equity Category Average	0.56%	0.56%	3.23%	5.20%	5.18%	7.22%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Equity Fund
- ABSA Property Equity Fund
- Coronation Optimum Growth Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Matrix SCI Defensive Balanced Fund
- Nedgroup Investments Opportunity Fund
- Ninety One Diversified Income Fund
- Ninety One Global Multi-Asset Income Feeder Fund
- Ninety One Global Franchise Feeder Fund
- Prescient Income Provider Fund
- Saffron SCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sesfikile SCI Property Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	15.12%	16.56%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	71.15%	71.15%

The FG IP Venus Cautious Fund of Funds returned +8.47% in the second quarter of 2020 and +5.98% over the past 12 months, outperforming the benchmark peer group average quarterly return of +8.34% and the 12-month return of +3.23%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +41.06% over the quarter, as its resources and industrials exposure contributed positively to performance. The fund's total allocation to the Nedgroup Investments Entrepreneur Fund was redeemed, and the Satrix Bond Index Fund as well the Fairtree Equity Prescient Fund were added as underlying funds in its place. The position previously held by the Old Mutual Global Equity Fund was allocated to the Ninety One Global Franchise Feeder Fund over the quarter.

Asset allocation as at 30 May 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Venus Cautious FoF	13%	4%	20%	40%	22%

FG IP SATURN FLEXIBLE FUND OF FUNDS

For periods until 30 June 2020

Performance and quartile ranking in sector | Launch date 15 August 2005

	Year to date	6 months	1 year	3 years*	5 years*	Since inception*
FG IP Saturn Flexible FoF	-0.16%	-0.16%	4.11%	4.56%	4.91%	9.75%
SA Multi Asset Medium Equity Category Average	-0.31%	-0.31%	2.16%	4.47%	4.19%	8.50%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Flexible Opportunity Fund
- Coronation Market Plus Fund
- Ninety One Opportunity Fund
- Nedgroup Investments Opportunity Fund
- Matrix SCI Defensive Balanced Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- SIM Inflation Plus Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	68.54%	66.29%

The FG IP Saturn Flexible Fund of Funds returned +11.79% in the second quarter of 2020 and +4.11% over the past 12 months, outperforming the benchmark peer group average quarterly return of +11.32% and the 12-month return of +2.16%. The Coronation Market Plus Fund was the best-performing underlying fund, returning +17.26% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 30 May 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Saturn Flexible FoF	33%	2%	16%	24%	25%

FG IP NEPTUNE GROWTH FUND OF FUNDS

For periods until 30 June 2020

Performance and quartile ranking in sector | Launch date 1 September 2014

	Year to date	6 months	1 year	3 years*	5 years*	Since inception*
FG IP Neptune Growth FoF	-1.39%	-1.39%	2.45%	5.38%	4.96%	5.29%
SA Multi Asset High Equity Category Average	-1.87%	-1.87%	0.54%	3.63%	3.52%	4.14%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- ABSA Property Equity Fund
- Catalyst Global Real Estate Prescient Feeder Fund
- Coronation Optimum Growth Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Laurium Flexible Prescient Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Balanced Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	14.27%	12.31%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	62.86%	61.43%

The FG IP Neptune Growth Fund of Funds returned +16.24% over the second quarter of 2020 and +2.45% over the past 12 months, outperforming the benchmark peer group average quarterly return of +13.47% and the 12-month return of +0.54%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +41.06% over the quarter, as its resources and industrials exposure contributed positively to performance. The position previously held by the Old Mutual Global Equity Fund was allocated to the Ninety One Global Franchise Feeder Fund over the quarter.

Asset allocation as at 30 May 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Neptune Growth FoF	44%	3%	13%	13%	27%

FG IP MERCURY EQUITY FUND OF FUNDS

For periods until 30 June 2020

Performance and quartile ranking in sector | Launch date 15 August 2005

	Year to date	6 months	1 year	3 years*	5 years*	Since inception*
FG IP Mercury Equity FoF	-3.82%	-3.82%	-2.00%	1.91%	1.30%	9.25%
FTSE/JSE Africa All Share (Total Return)	-3.16%	-3.16%	-3.30%	5.11%	4.16%	11.92%
SA Equity General Category Average	-8.02%	-8.02%	-7.52%	0.42%	0.31%	9.16%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Equity Fund
- Coronation Optimum Growth Fund
- Fairtree Equity Prescient Fund
- Gryphon All Share Tracker Fund
- Laurium Prescient Equity Fund
- Nedgroup Private Wealth Core Equity Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Equity Fund
- PSG Equity Fund
- Sesfikile BCI Property Fund
- Truffle SCI General Equity

Performance statistics

	Fund	Benchmark
Highest 12-month performance	41.30%	48.30%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	61.24%	61.80%

The FG IP Mercury Equity Fund of Funds returned + 22.58% in the second quarter of 2020 and -2.00% over the past 12 months, underperforming the +23.18% quarterly return of the benchmark FTSE/JSE All Share Total Return Index while outperforming its 12-month return of -3.30%. The Ninety One Global Franchise Feeder Fund was the worst-performing underlying fund over the quarter, returning +10.68%, as the rand's 2.74% appreciation relative to the US dollar detracted from performance. The position previously held by the Old Mutual Global Equity Fund was allocated to the Ninety One Global Franchise Feeder Fund over the quarter.

Asset allocation as at 30 May 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Mercury Equity FoF	74%	4%	0%	6%	17%

FG IP INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 30 June 2020

Performance and quartile ranking in sector | Launch date 17 October 2007

	Year to date	6 months	1 year	3 years*	5 years*	Since inception*
FG IP International Flexible FoF	11.95%	11.95%	17.09%	10.37%	9.29%	9.32%
Benchmark	14.11%	14.11%	20.36%	11.51%	10.29%	10.52%
Global - Multi Asset - Flexible Average	14.11%	14.11%	20.36%	11.51%	9.65%	9.30%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares
Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- FGAM Global Cautious Fund
- FGAM Global Growth Fund
- Nedgroup Investments Global Flexible Fund
- Ninety One Global Strategic Managed Fund
- Ninety One Global Franchise Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	40.26%	34.52%
Lowest 12-month performance	-16.99%	-15.05%
% positive months	56.58%	59.48%

The FG International Flexible Fund of Funds returned +9.57% in the second quarter of 2020 and +17.09% over the past 12 months, outperforming the benchmark peer group average quarterly return of +8.76% while underperforming the 12-month return of +20.36%. The FGAM Global Cautious Fund was the worst-performing underlying fund over the quarter, returning +4.47%, as the fund's relative lower allocation to global equities created a lag in performance. The position previously held by the Merian Global Equity Fund was allocated to the Ninety One Global Franchise Fund over the quarter.

Asset allocation as at 30 May 2020

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG IP International Flexible FoF	64%	5%	23%	5%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	64%	4%	12%	5%	12%	3%

MARKET PERFORMANCE

Index	Asset Class	3Q 2019	4Q 2019	1Q 2020	2Q 2020	Last 12 months	Year to Date 2020*
STeFI Composite Index	Local Cash	1.79%	1.74%	1.69%	1.46%	6.86%	3.18%
BEASSA ALBI Total Return Index	Local Bonds	0.74%	1.73%	-8.72%	9.94%	2.85%	0.36%
FTSE/JSE SA Listed Property Index (Total Return)	Local Property	-4.44%	0.58%	-48.15%	20.43%	-39.98%	-37.56%
FTSE/JSE Africa All Share Index (Total Return)	Local Shares	-4.57%	4.63%	-21.38%	23.18%	-3.30%	-3.16%
JP Morgan World Govt Bond Index (USD)	Global Bonds	1.14%	-0.52%	3.10%	1.46%	5.24%	4.60%
EPRA/NAREIT Global Index (USD)	Global Property	2.49%	2.63%	-29.10%	8.93%	-18.76%	-22.77%
MSCI AC World Index (USD)	Global Shares	-0.53%	8.56%	-21.74%	18.66%	0.28%	-7.14%
USD/ZAR (+ weaker ZAR, - stronger ZAR)	Exchange Rate	7.49%	-7.65%	27.45%	-2.74%	23.06%	23.96%

*(Return until 30 June 2020)

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