FG ASSET MANAGEMENT

QUARTERLY REPORT

Quarter 2 | 2021

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY

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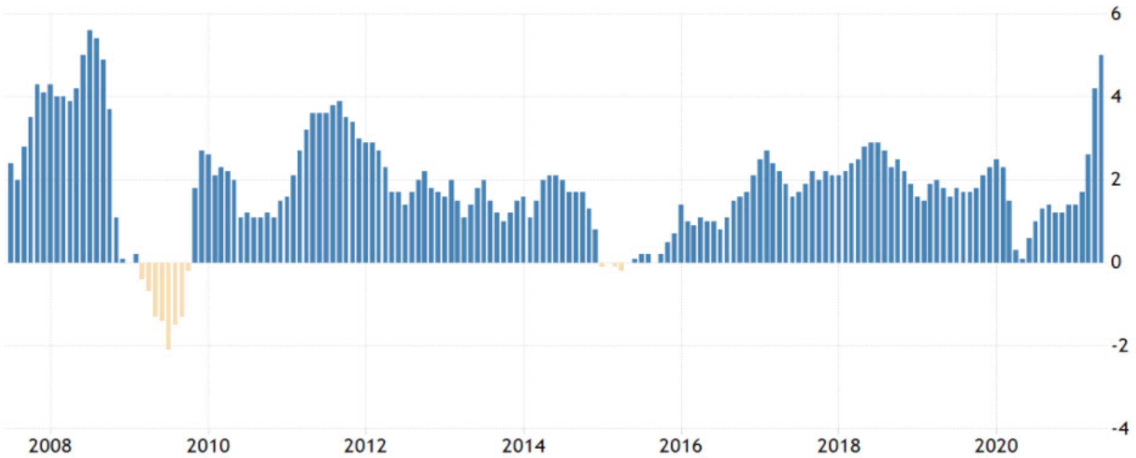
FG Asset Management

The rise in global inflation has raised concerns about whether accommodative monetary policies will be maintained

The much-anticipated rise of global inflation became a reality in the second quarter. This was coupled with a rise in market concerns over the ability of key central banks, specifically the US Federal Reserve (Fed), to maintain their accommodative monetary policy stance. As a result, market participants closely followed all economic data releases that could provide insight into the direction and momentum of any future policy changes. Given that a significant part of the recovery since the market drawdowns of March last year had been the result of the substantial amount of accommodative monetary policy, it is understandable that the market is concerned about any withdrawal going forward.

Both local and global inflation increased notably over the quarter. In the US, the annual inflation rate rose to 5%, the highest level since August 2008 (as can be seen from Figure 1). The low base effects from gasoline prices, which increased by 65.2% over the last 12 months, made a significant contribution to the increase. Supply constraints (used cars sales were up 29.7% year-on-year) and pent-up demand for services that are reopening (airline fees were up 24.1% year-on-year) further added to the higher-than-expected inflation rate.

Figure 1: The US inflation rate (%)



Sources: tradingeconomics.com, US Bureau of Labor Statistics

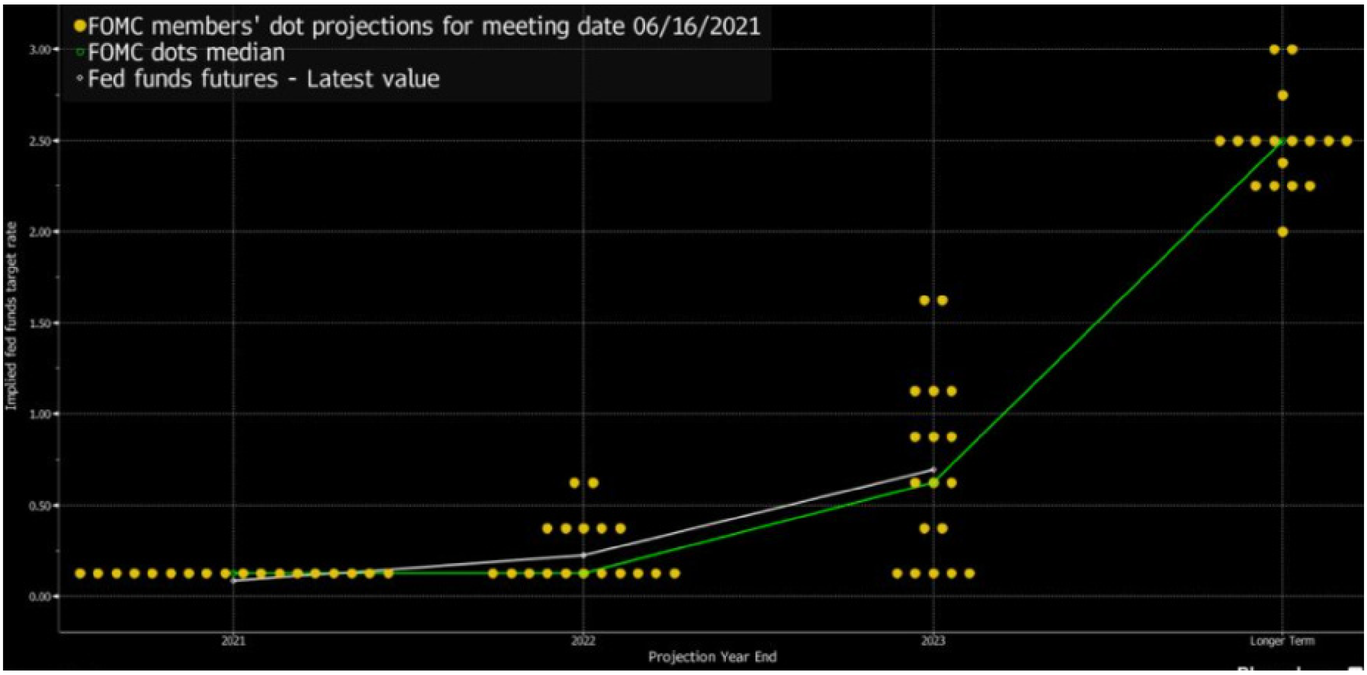
Weak US employment figures alleviated some of the fears

In contrast, the weaker-than-expected US employment releases over the quarter helped to alleviate fears that the Fed would be forced to withdraw the easy monitory policy sooner than expected. Given that the Fed targets both price stability and maximum employment, the slow recovery in new jobs being added in April and May validated its stance to provide monetary policy support to the economy until the recovery is complete.

On the back of increasing growth and inflation forecasts, US rate hikes are now expected in 2023

In June, the Fed held their second Federal Open Market Committee (FOMC) for the quarter, where they kept interest rates near zero and maintained their asset purchases. Despite the FOMC increasing their economic growth forecast for this year from their March forecasts, they maintained that risks to the economic outlook remain. The FOMC also revised up their forecast for inflation for this year to 3.4% as a result of unexpected supply constraints, followed by a decrease to 2.1% in 2022. The dot plot that reflects FOMC members' expectations for the federal funds rate (see Figure 2) showed that the higher-than-expected growth and inflation forecasts have brought forward the median forecasts for the first two rate hikes to 2023.

Figure 2: The Fed dot plot (June 2021)



Sources: Bloomberg, US Federal Reserve

Despite the market seeing the meeting as hawkish overall, with risk assets coming under pressure and the US dollar appreciating, the Fed's stance of waiting for the complete recovery before withdrawing easy policy remained. As a result, market moves were not substantial.

Locally, South Africa's inflation path mirrored that of the US

Our headline rate of inflation increased by 2.0% on an annual basis, from 3.2% in March to 5.2% in May. The 37.4% rise in the oil price from the low levels in May last year contributed significantly to the substantial increase in headline inflation. Despite this big jump, inflation still remained within the South African Reserve Bank's (SARB's) 3 - 6% range and is expected to average around the mid-point target of 4.5% for 2021.

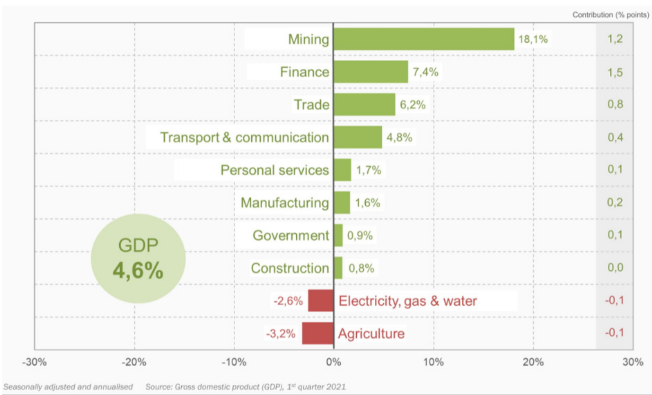
The local repo rate is currently expected to return to the 6% level by the end of 2023 only

The SARB held only one Monetary Policy Committee (MPC) meeting over the quarter in May, where the MPC decided to keep the repo rate unchanged at 3.5%. The MPC's quarterly projection model continued to signal two 0.25% hikes in the second half of this year, followed by 1.00% increases in 2022 and 2023 respectively. This means that the repo rate is expected to return to the 6% level only by the end of 2023. However, the projection model is only to be used as a guide and could change as market conditions evolve. The MPC slightly lowered its inflation forecast for 2021 from 4.3% to 4.2%, while its inflation forecast for 2022 and 2023 were kept unchanged at 4.4% and 4.5% respectively.

While GDP growth for the first quarter exceeded expectations, we haven't reached pre-COVID-19 levels

Early June we received South Africa's first quarter's GDP growth estimate, which came in at 4.6% (annualised) from the previous quarter, significantly higher than the 2.5% expected. Growth was broad based with eight out of ten industries reporting positive growth rates (as shown in Figure 3).

Figure 3: South African first quarter GDP growth rate breakdown



Source: statssa.gov.za

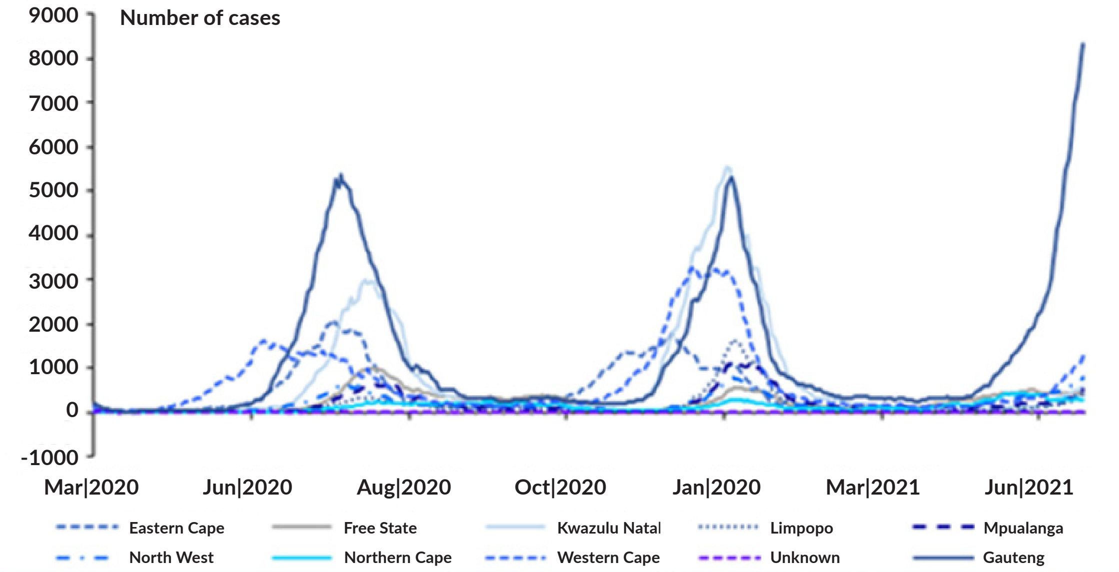
Despite South Africa's growth exceeding expectations over each of the past three quarters, the overall growth is still 3.2% below the pre-COVID-19 levels of the first quarter of 2020. It is expected to only recover to that point in 2022.

Despite its initial strength, the rand weakened into quarter-end on the back of US dollar appreciation and the third wave

Over the quarter we also saw the rand appreciate significantly, especially relative to the US dollar. It reached a low of R13.42/$ in the first week of June, almost 30% stronger from the high seen in April last year (R19.01/$). A key driver of the rand strength has been South Africa's high trade surplus, which has been driving demand for the rand as commodity, agriculture and vehicle exports benefitted from the recovery in global economies.

However, the rand weakened again into quarter-end as the US dollar appreciated following the hawkish FOMC meeting. The local spike in COVID-19 infections (shown in Figure 4), especially in Gauteng (a key economic province for South Africa, where infections quickly surpassed those of the first and second waves) also weighed on the rand.

Figure 4: Regional daily case increase in COVID- 19 cases (7-day rolling average)



Sources: National Department of Health, Investec

The slow pace of the vaccination rollout remains a key concern locally

At the end of the quarter, level 4 lockdown was reinstated again as the third wave of infections grew. While this does pose an increased risk to South Africa's economic recovery, as before, the extent of the impact still remains very uncertain. A greater concern at this stage is the slow pace of the vaccination rollout, with only 2.9 million doses administered (4.8 doses per 100 people) by the end of the quarter. Given this slow rollout there is the possibility of a fourth or even a fifth wave over the next 12 months.

Property was the best performer locally, while global equity markets continued to benefit from the global recovery

Overall, the property sector had a stellar quarter and was the best-performing asset class, returning 12.1%. Local bonds (+6.9%) followed, as South Africa's fiscal prospects improved given the strong terms of trade. The South African equity market, as measured by the FTSE/JSE All Share Index, was flat for the quarter, with resources being the worst-performing sector (-5.0%). Commodity prices started to come under pressure in May when the Chinese government expressed concerns about the extent of the price increases. The weakness extended into June as the US dollar appreciated following the hawkish FOMC meeting. The improving global economic outlook remained a key driver of global equity markets, with support from ongoing fiscal and monetary policies. The MSCI World Index and the MSCI Emerging Markets Index returned 7.9% and 5.1% respectively over the quarter, in US dollars.

FG IP JUPITER INCOME FUND OF FUNDS

For periods until 30 June 2021

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

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG IP Jupiter Income FoF	3.48%	3.48%	7.09%	7.01%	7.35%	7.83%
STeFI Composite Index	1.83%	1.83%	4.01%	6.05%	6.62%	7.08%
ASISA SA Multi Asset Income Category Average	3.25%	3.25%	7.38%	7.11%	7.26%	7.70%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data 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

- Abax Flexible Income Fund
- Coronation Strategic Income Fund
- Granate SCI Multi 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%	4.01%
% positive months	93.68%	100.00%

The FG IP Jupiter Income Fund of Funds returned +2.33% in the second quarter of 2021 and +7.09% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +0.92% and 12-month return of +4.01%. The Terebinth SCI Strategic Income Fund was the best-performing underlying fund over the quarter, returning +3.57%. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Jupiter Income FoF	0%	2%	45%	47%	6%

FG IP VENUS CAUTIOUS FUND OF FUNDS

For periods until 30 June 2021

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

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG IP Venus Cautious FoF	6.20%	6.20%	10.29%	7.59%	7.04%	8.60%
ASISA SA Multi Asset Low Equity Category Average	6.01%	6.01%	10.86%	6.49%	5.98%	7.48%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data 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
- Abax Opportunity Fund
- ABSA Property Equity Fund
- Coronation Optimum Growth Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Matrix SCI Defensive Balanced 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
- Sanlam Multi Managed Inflation Linked Bond Fund
- Sesfikile BCI Property Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	16.83%	17.26%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	72.02%	72.02%

The FG IP Venus Cautious Fund of Funds returned +2.40% in the second quarter of 2021 and +10.29% over the past 12 months, underperforming the benchmark peer group average quarterly return of +2.43%, and the 12-month return of +10.86%. The Fairtree Equity Prescient Fund was the worst-performing underlying fund, returning -2.85% over the quarter. A rotation out of cash into longer duration bonds was implemented. This resulted in a decrease in the allocation to the Coronation Strategic Income Fund and an increase in the allocations to the Satrix Bond Index Fund and the Sanlam Multi Managed Inflation Linked Bond Fund over the quarter.

Asset allocation as at 31 May 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Venus Cautious FoF	16%	4%	31%	28%	21%

FG IP SATURN FLEXIBLE FUND OF FUNDS

For periods until 30 June 2021

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

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG IP Saturn Flexible FoF	9.03%	9.03%	16.22%	7.80%	6.45%	10.15%
ASISA SA Multi Asset Medium Equity Category Average	7.69%	7.69%	13.85%	6.69%	5.77%	8.83%
			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

- 36ONE BCI Flexible Opportunity Fund
- Abax Opportunity Fund
- Coronation Market Plus Fund
- Coronation Optimum Growth Fund
- Matrix SCI Defensive Balanced Fund
- Ninety One Opportunity Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Satrix Bond Index 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	69.47%	67.37%

The FG IP Saturn Flexible Fund of Funds returned +2.15% in the second quarter of 2021 and +16.22% over the past 12 months, outperforming the benchmark peer group average quarterly return of +2.06% and the 12-month return of +13.85%. The Satrix Bond Index Fund, which was added to the fund over the quarter, was the best-performing underlying fund, returning +6.73%.

Asset allocation as at 31 May 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Saturn Flexible FoF	36%	3%	25%	13%	23%

FG IP NEPTUNE GROWTH FUND OF FUNDS

For periods until 30 June 2021

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

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG IP Neptune Growth FoF	9.99%	9.99%	20.14%	8.68%	7.54%	7.34%
ASISA SA Multi Asset High Equity Category Average	9.39%	9.39%	17.31%	6.77%	5.78%	5.96%
			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
- 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
- Saffron SCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sanlam Multi Managed Inflation Linked Bond Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	38.17%	30.65%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	64.63%	64.63%

The FG IP Neptune Growth Fund of Funds returned +1.07% over the second quarter of 2021 and +20.14% over the past 12 months, underperforming the benchmark peer group average quarterly return of +1.84%, but outperforming the 12-month return of +17.31%. The Fairtree Equity Prescient Fund was the worst-performing underlying fund, returning -2.85% over the quarter. The Coronation Strategic Income Fund position was switched into the Saffron SCI Opportunity Income Fund, Satrix Bond Index Fund and Sanlam Multi Managed Inflation Linked Bond Fund over the quarter.

Asset allocation as at 31 May 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Neptune Growth FoF	45%	3%	18%	8%	26%

FG IP MERCURY EQUITY FUND OF FUNDS

For periods until 30 June 2021

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

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG IP Mercury Equity FoF	13.37%	13.37%	27.91%	7.83%	6.27%	10.34%
FTSE/JSE Africa All Share (Total Return)	13.20%	13.20%	25.07%	8.09%	8.11%	12.71%
ASISA SA Equity General Category Average	12.81%	12.81%	24.99%	5.46%	4.61%	10.09%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data 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
- 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	56.15%	53.98%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	62.11%	62.11%

The FG IP Mercury Equity Fund of Funds returned +0.41% in the second quarter of 2021 and +27.91% over the past 12 months, outperforming the +0.05% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +25.07%. The Sesfikile BCI Property Fund was the best-performing underlying fund, returning +11.15% over the quarter. The Nedgroup Private Wealth Core Equity Fund position was fully redeemed over the quarter and the proceeds of the redemption was prorated across the existing equity mangers within the fund.

Asset allocation as at 31 May 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Mercury Equity FoF	76%	3%	0%	6%	15%

FG IP INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 30 June 2021

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

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG IP International Flexible FoF	4.90%	4.90%	2.82%	7.14%	7.17%	8.83%
Benchmark	4.64%	4.64%	3.77%	9.53%	7.69%	9.86%
ASISA Global Multi Asset Flexible Average	4.64%	4.64%	3.77%	9.53%	7.74%	8.89%
			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
- FPA 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	56.71%	59.39%

The FG International Flexible Fund of Funds returned +2.47% in the second quarter of 2021 and +2.82% over the past 12 months, outperforming the benchmark peer group average quarterly return of +1.51% but underperforming the 12-month return of +3.77%. The Ninety One Global Franchise Fund was the best-performing underlying fund over the quarter, returning + 6.29%. No changes were made to the fund over the quarter.

Asset allocation as at 31 May 2021

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG IP International Flexible FoF	67%	9%	18%	5%	1%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	61%	4%	12%	7%	15%	1%

MARKET PERFORMANCE

Index	Asset Class	3Q 2020	4Q 2020	Q1 2021	Q2 2021	Last 12 months	Year to Date 2021*
STeFI Composite Index	Local Cash	1.16%	0.97%	0.90%	0.92%	4.01%	1.83%
FTSE/JSE All Bond (Total Return)	Local Bonds	1.46%	6.71%	-1.74%	6.86%	13.68%	5.00%
FTSE/JSE SA Listed Property Index (Total Return)	Local Property	-14.14%	22.19%	6.40%	12.12%	25.17%	19.30%
FTSE/JSE Africa All Share Index (Total Return)	Local Shares	0.67%	9.75%	13.14%	0.05%	25.07%	13.20%
JP Morgan World Govt Bond Index (USD)	Global Bonds	2.54%	2.26%	-5.65%	1.07%	-0.01%	-4.64%
FTSE EPRA Nareit Global REITs (Total Return) USD	Global Property	1.66%	13.91%	7.40%	9.94%	36.73%	18.08%
MSCI World (Total Return) USD	Global Shares	8.05%	14.07%	5.04%	7.89%	39.67%	13.33%
MSCI ACWI (Total Return) USD	Global Shares	8.25%	14.79%	4.68%	7.53%	39.87%	12.56%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-3.90%	-12.21%	0.78%	-3.31%	-17.80%	-2.55%

*(Return until 30 June 2021)

ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG IP International Flexible FoF A	19 276 428.84	30.73	1.61
FG IP International Flexible FoF A1	159.32	30.24	2.18
FG IP International Flexible FoF B	2 139 061.87	25.33	3.28
FG IP International Flexible FoF B1	10 200 680.68	26.10	3.05
FG IP Jupiter Income FoF A	81 966 660.33	12.04	1.06
FG IP Jupiter Income FoF A1	50.95	12.02	1.63
FG IP Jupiter Income FoF B	11 703 542.93	11.99	2.79
FG IP Jupiter Income FoF B1	15 883 459.00	12.00	2.50
FG IP Mercury Equity FoF A	4 068 123.40	36.33	1.73
FG IP Mercury Equity FoF A1	16.51	36.30	2.29
FG IP Mercury Equity FoF B	739 077.15	34.88	3.46
FG IP Mercury Equity FoF B1	59 652.11	35.63	3.17
FG IP Neptune Growth FoF A	19 755 684.41	13.54	1.58
FG IP Neptune Growth FoF A1	47.32	13.53	2.13
FG IP Neptune Growth FoF B	2 222 247.76	13.45	3.30
FG IP Neptune Growth FoF B1	1 281 880.91	13.48	3.02
FG IP Saturn Flexible FoF A	46 658 905.70	30.40	1.45
FG IP Saturn Flexible FoF A1	20.54	30.36	2.01
FG IP Saturn Flexible FoF B	10 795 689.65	30.25	3.18
FG IP Saturn Flexible FoF B1	6 349 687.63	30.26	2.89
FG IP Venus Cautious FoF A	66 375 171.85	17.22	1.42
FG IP Venus Cautious FoF A1	36.15	17.20	1.99
FG IP Venus Cautious FoF B	5 415 539.38	17.08	3.15
FG IP Venus Cautious FoF B1	12 960 389.00	17.08	2.86

*Fund size and no. of participatory interests as at 30 June 2021

**TER as at 31 March 2021

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