



FG ASSET MANAGEMENT

# QUARTERLY REPORT

Quarter 3 | 2021

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS



# MARKET COMMENTARY



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## Financial markets continued to focus on inflation

Inflation is a key determinant of how long global central banks will maintain the extremely easy monetary policy that was instated during the severe lockdowns in 2020. While the highly accommodative monetary policy has been very supportive of markets, we saw the first signs of market weakness in September when the US Federal Reserve (Fed) signalled its intent to start reducing its asset purchases before the end of the year. More macroeconomic data releases are also pointing towards a slowdown in the strong recovery of global growth as economies opened up after lockdowns. In addition, China introduced several new regulations across various sectors that have had significant global consequences and further weighed on investor confidence.

## The debate around inflation continued to be very divisive

One camp argues that inflation is only transitory and the other believes it will last longer and be more structural. Central banks, specifically the Fed, remain firmly in the first camp. This allows them to keep monetary policy easy by keeping interest rates low and continuing with quantitative easing for the moment.

The second camp seems to be growing as current global inflation continues to be elevated, with the underlying drivers not abating as quickly as first expected. Initially, the spike in inflation was driven by COVID-19-related supply chain disruptions, which have persisted longer than expected. The recent run-up in energy prices is also likely to push inflation higher, as companies need to pass on the higher input costs to protect profitability. Given that annual headline inflation in the US remained around the elevated level of 5.3%, the Fed's rhetoric became more hawkish towards the end of the quarter. They signalled that they would look to start reducing their emergency asset purchases before the end of the year and the market expects them to start increasing interest rates in 2022.

## Locally, inflation will be a key determinant of future interest rate hikes

Locally, the South African Reserve Bank's Monetary Policy Committee (MPC) kept the repo rate unchanged at 3.5% at both meetings that were held over the quarter. At the last meeting in September, the SARB warned that inflation may be higher than expectations of 4.4% average for 2021 and 4.2% in 2022. Future rate hike decisions remain very data dependent, which means the materialisation of higher-than-expected inflation will be a key determinant of how fast the SARB will raise the repo rate going forward. The latest headline inflation data that was released at the end of September showed inflation increasing from 4.6% back to 4.9%, driven by the increase in fuel, food and administered prices.

## The total cost and long-term impact of the July unrest is still unknown

In early July former South African president, Jacob Zuma, started serving a 15-month jail sentence for failing to appear before the Zondo Commission. In the week that followed, public unrest and looting escalated within KwaZulu-Natal and Gauteng, lasting for more than a week. Hundreds of businesses were destroyed and significant damage was done to key infrastructure. The relative underperformance of domestically focused bank and retail sectors reflected investor concerns about the impact of the unrest. However, these sectors recovered as the violence subsided and order was restored. The total cost of the unrest is difficult to assess as the longer-term implications are largely unknown. What we do know is that the impact will be significant, as the shock to investor confidence will put future planned fixed investments at risk. Following on from the social unrest, Treasury extended the COVID-19 grant to March 2022, which is expected to cost R27 billion. The grant extension will be funded from the overrun in tax revenues from the commodity sector.

## In response to the riots, President Ramaphosa also announced a new cabinet at the start of August

There were a number of changes, which included the noteworthy replacement of Tito Mboweni as Finance Minister with Enoch Godongwana. The new Finance Minister's comments reassured the market that Treasury's fiscal restraint policy remains in place and that there will be continuity.

## Stricter lockdown induced by the third wave will negatively affected third-quarter growth

In addition to the social unrest, South Africa was under Level four lockdown for most of July as the third wave of infections grew. Gauteng's active cases peaked early in July relative to the other major provinces, which only reached their peak levels later on in September. Certain sectors that were forced to close will be a further drag on the quarter's economic activity. As a result, expectations for third-quarter growth have been revised downwards.

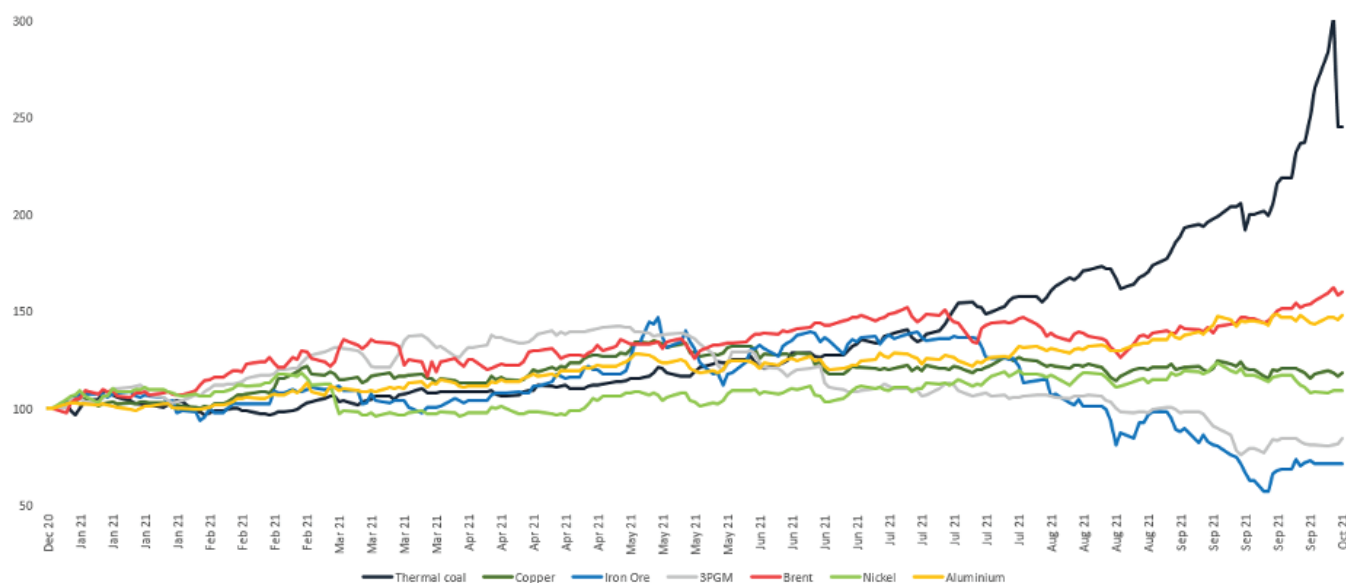
## Supply disruptions and Chinese regulations led to divergent performance from commodities

In August, local resources started to weaken as global growth concerns resurfaced on the back of a rise in infections from the Delta variant, which pushed certain economies back into lockdowns.



However, it is important to note that there has been significant performance divergence across the respective commodities over the quarter. For example, iron ore (a key input in steel production) has been severely hit over the quarter by the decarbonisation regulation in China that aims to cap steel production at 2020 levels. In contrast, the energy sector has done very well, specifically natural gas and coal. Several unrelated factors came together to create significant supply disruptions. These include coal supply shortages in China after it stopped buying coal from Australia following a political spat, low natural gas inventories in Europe exacerbated by reduced supply from Russia, droughts in Brazil (which relies heavily on hydro power) that pushed them to rely more heavily on natural gas, to name a few. China's low coal inventories have actually led to certain provinces experiencing load shedding, which will of course feed through negatively to the country's growth.

Figure 1: Commodity performance year to date



Sources: Matrix Fund Managers, Bloomberg

### Concerns over Chinese property companies contributed to risk aversion in September

The liquidity and solvency fears over Chinese property development companies was another concern that contributed to the heightened risk aversion that we saw in September. Since last year, the Chinese government started clamping down on highly leveraged property developers by limiting their access to further debt. Evergrande, a very large and highly indebted Chinese property developer, was unable to make a key interest repayment in September, triggering concerns that it would feed through into broader market panic. Fortunately, the market contagion seems to have been limited. Nevertheless, there will be longer-term negative implications for the Chinese real estate sector, which is a key driver of Chinese growth and commodity demand (especially steel and therefore iron ore).





# FG IP JUPITER INCOME FUND OF FUNDS

For periods until 30 September 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	3.91%	5.07%	7.50%	6.87%	7.20%	7.81%
STeFI Composite Index	1.88%	2.80%	3.80%	5.77%	6.43%	7.03%
ASISA SA Multi Asset Income Category Average	3.69%	4.70%	7.32%	6.95%	7.17%	7.67%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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

- 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%	3.80%
% positive months	93.78%	100.00%

The FG IP Jupiter Income Fund of Funds returned +1.53% in the third quarter of 2021 and +7.50% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +0.95% and 12-month return of +3.80%. The Prescient Income Provider Fund was the best-performing underlying fund over the quarter, returning +1.95%. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Jupiter Income FoF	0%	3%	44%	47%	6%



# FG IP VENUS CAUTIOUS FUND OF FUNDS

For periods until 30 September 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	4.02%	7.88%	11.14%	7.55%	6.96%	8.56%
ASISA SA Multi Asset Low Equity Category Average	4.48%	8.13%	12.01%	6.62%	6.22%	7.49%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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
- 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	71.93%	71.93%

The FG IP Venus Cautious Fund of Funds returned +1.58% in the third quarter of 2021 and +11.14% over the past 12 months, underperforming the benchmark peer group average quarterly return of +2.00%, and the 12-month return of +12.01%. The Fairtree Equity Prescient Fund was the worst-performing underlying fund, returning -4.56% over the quarter. A rotation out of cash into longer duration bonds was implemented, which resulted in a decrease in the allocation to the Prescient Income Provider Fund and an increase in the allocation to the Satrix Bond Index Fund over the quarter.

## Asset allocation as at 31 August 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Venus Cautious FoF	15%	4%	35%	27%	19%



# FG IP SATURN FLEXIBLE FUND OF FUNDS

For periods until 30 September 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	4.49%	11.53%	16.78%	8.22%	6.75%	10.14%
ASISA SA Multi Asset Medium Equity Category Average	4.22%	9.97%	14.95%	6.90%	6.10%	8.83%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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	69.95%	67.36%

The FG IP Saturn Flexible Fund of Funds returned +2.29% over the third quarter of 2021 and +16.78% over the past 12 months, outperforming the benchmark peer group average quarterly return of +2.12% and the 12-month return of +14.95%. The PSG Flexible Fund was the best-performing underlying fund, returning +9.17% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Saturn Flexible FoF	35%	3%	23%	15%	24%



# FG IP NEPTUNE GROWTH FUND OF FUNDS

For periods until 30 September 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	3.35%	12.47%	20.21%	8.78%	7.86%	7.41%
ASISA SA Multi Asset High Equity Category Average	4.40%	12.13%	18.72%	7.25%	6.18%	6.12%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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	64.71%	64.71%

The FG IP Neptune Growth Fund of Funds returned +2.25% over the third quarter of 2021 and + 20.21% over the past 12 months, underperforming the benchmark peer group average quarterly return of +2.51%, but outperforming the 12-month return of + 18.72%. The Fairtree Equity Prescient Fund was the worst-performing underlying fund, returning -4.56% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Neptune Growth FoF	46%	3%	17%	8%	26%



# FG IP MERCURY EQUITY FUND OF FUNDS

For periods until 30 September 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	3.54%	16.90%	29.18%	8.98%	6.75%	10.38%
FTSE/JSE Africa All Share (Total Return)	-0.79%	12.25%	23.19%	8.58%	7.83%	12.44%
ASISA SA Equity General Category Average	3.15%	15.76%	26.92%	6.62%	5.02%	10.10%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Equity Fund
- PSG Equity Fund
- Sesfikile BCI Property Fund
- Truffle SCI General Equity Fund

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	56.15%	53.98%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	62.18%	61.66%

The FG IP Mercury Equity Fund of Funds returned +3.11% in the third quarter of 2021 and +29.18% over the past 12 months, outperforming the -0.84% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +23.19%. The PSG Equity Fund was the best-performing underlying fund, returning +9.75% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Mercury Equity FoF	77%	3%	0%	6%	14%





# FG IP INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 30 September 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	6.71%	9.24%	5.12%	7.07%	7.98%	8.98%
Benchmark	5.29%	8.54%	5.68%	9.23%	8.82%	10.02%
ASISA Global Multi Asset Flexible Average	5.29%	8.54%	5.68%	9.23%	8.87%	9.00%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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	56.89%	60.12%

The FG International Flexible Fund of Funds returned +4.14% in the third quarter of 2021 and +5.12% over the past 12 months, outperforming the benchmark peer group average quarterly return of +3.73% but underperforming the 12-month return of +5.68%. The Ninety One Global Franchise Fund was the best-performing underlying fund over the quarter, returning +4.84%. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2021

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG IP International Flexible FoF	66%	9%	16%	5%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	60%	3%	12%	7%	14%	4%



# MARKET PERFORMANCE

Index	Asset Class	4Q 2020	Q1 2021	Q2 2021	Q3 2021	Last 12 months	Year to Date 2021*
STeFI Composite Index	Local Cash	0.97%	0.90%	0.92%	0.95%	3.80%	2.80%
FTSE/JSE All Bond (Total Return)	Local Bonds	6.71%	-1.74%	6.86%	0.37%	12.46%	5.38%
FTSE/JSE SA Listed Property Index (Total Return)	Local Property	22.19%	6.40%	12.12%	5.94%	54.43%	26.39%
FTSE/JSE Africa All Share Index (Total Return)	Local shares	9.75%	13.14%	0.05%	-0.84%	23.19%	12.25%
JP Morgan World Govt Bond Index (USD)	Global Bonds	2.26%	-5.65%	1.07%	-1.08%	-3.54%	-5.67%
FTSE EPRA Nareit Global REITs (Total Return) USD	Global Property	13.91%	7.40%	9.94%	-0.14%	34.31%	17.91%
MSCI World (Total Return) USD	Global Shares	14.07%	5.04%	7.89%	0.09%	29.39%	13.43%
MSCI ACWI (Total Return) USD	Global Shares	14.79%	4.68%	7.53%	-0.95%	27.98%	11.49%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-12.21%	0.78%	-3.31%	5.42%	-9.82%	2.72%

\*(Return until 30 September 2021)



## ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG IP International Flexible FoF A	19 827 646.07	32.00	1.59
FG IP International Flexible FoF A1	97.53	31.44	2.15
FG IP International Flexible FoF B	1 747 305.46	26.27	3.25
FG IP International Flexible FoF B1	10 436 961.07	27.08	3.02
FG IP Jupiter Income FoF A	78 589 264.83	12.22	1.06
FG IP Jupiter Income FoF A1	50.95	12.19	1.63
FG IP Jupiter Income FoF B	7 976 469.45	12.12	2.78
FG IP Jupiter Income FoF B1	14 059 308.76	12.14	2.50
FG IP Mercury Equity FoF A	4 469 227.17	37.46	1.72
FG IP Mercury Equity FoF A1	16.51	37.37	2.28
FG IP Mercury Equity FoF B	320 640.98	35.82	3.44
FG IP Mercury Equity FoF B1	52 914.00	36.61	3.15
FG IP Neptune Growth FoF A	19 991 890.60	13.84	1.57
FG IP Neptune Growth FoF A1	47.32	13.81	2.15
FG IP Neptune Growth FoF B	2 128 256.09	13.70	3.30
FG IP Neptune Growth FoF B1	1 264 616.79	13.73	3.01
FG IP Saturn Flexible FoF A	49 089 973.12	31.10	1.47
FG IP Saturn Flexible FoF A1	20.54	31.01	2.03
FG IP Saturn Flexible FoF B	7 971 836.54	30.81	3.19
FG IP Saturn Flexible FoF B1	6 346 591.39	30.84	2.90
FG IP Venus Cautious FoF A	72 006 211.40	17.49	1.40
FG IP Venus Cautious FoF A1	36.15	17.44	1.96
FG IP Venus Cautious FoF B	3 565 310.16	17.28	3.12
FG IP Venus Cautious FoF B1	13 867 783.38	17.29	2.84

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

\*\*TER as at 30 June 2021



# ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

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