



FG ASSET MANAGEMENT

# QUARTERLY REPORT

Quarter 1 | 2022

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

# MARKET COMMENTARY



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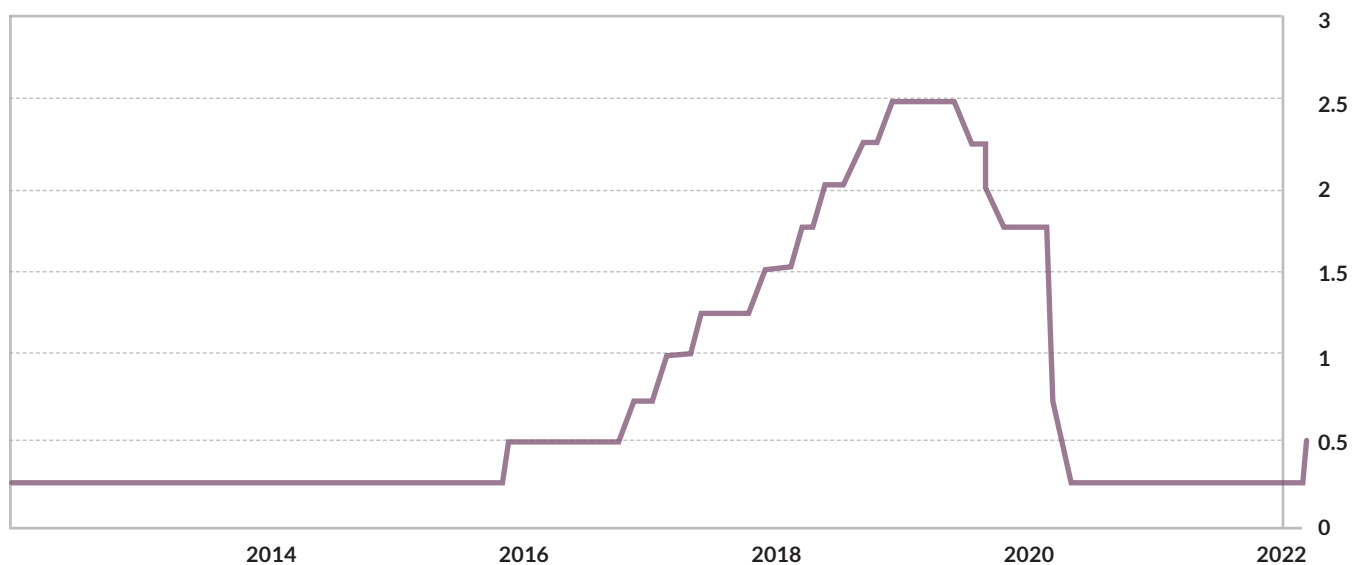
## Central banks are under pressure to tighten monetary policy due to deteriorating inflation

Inflation developments remained a key theme in markets over the quarter. The invasion of Ukraine by Russia has put additional pressure on energy and food prices, further deteriorating the outlook for inflation. As a result, central banks have come under increasing pressure to remove the accommodative monetary policy that has been in place since the COVID-19 pandemic started. Going forward, the extent of the policy withdrawal will be a very fine balancing act, as overly aggressive tightening combined with the burden of higher prices would push global economies into a recession.

## The fastest increase in US inflation since 1982 prompted a rate hike

US inflation increased to 7.9% (year-on-year) in February – the fastest annual price growth since January 1982. In addition to higher energy prices, the broadening of pricing pressure can also be seen within the food, shelter and new vehicle categories. As inflation continued to increase by more than expected throughout the quarter, the US Federal Reserve (Fed) signalled its intention to withdraw accommodative monetary policy at a faster rate than previously indicated. The Fed hiked interest rates by 0.25% to reach 0.5%, the first increase since rates were dramatically lowered during the COVID-19 pandemic in 2020.

Figure 1: US federal funds rate (2013-2022)



Sources: Federal Reserve, [www.tradingeconomics.com](http://www.tradingeconomics.com)

## Further US rate hikes and quantitative tightening are expected, pending key economic data

The concern around the elevated level of inflation was reflected in the Federal Open Market Committee (FOMC) also increasing its rate hike expectations for this year. The median view is for rate increases of another 1.5% in 2022. Fed Chairman Jerome Powell also confirmed that the central bank will start applying quantitative tightening by reducing the bond holdings on its balance sheet once the rate hiking

cycle commences. Powell further stated that the policy could change if inflation and employment figures turn out materially different to what they are expecting. This makes the market even more sensitive towards economic data releases as it tries to gauge the extent of monetary policy withdrawal, pushing up market volatility.



## Western nations' sanctions on Russia pose a threat to oil and gas supply

Over the second half of February, Russia invaded Ukraine. In an unexpectedly unified front, most Western nations came together to impose very broad-based sanctions on Russia. Although Russia and Ukraine's combined gross domestic product (GDP) is not material in a global context, the real concern is the world's dependence on Russian oil and gas. Russia is the world's third largest producer of oil and Europe is very reliant on its supply of gas. If Russian oil and gas supply had to be cut off in retaliation to the sanctions, the negative impact on economic growth and inflation would be severe. This risk of reduced supply was already reflected in the spike in oil prices, with Brent crude oil reaching a high of over \$130 per barrel in early March, from where it dropped to \$112 by quarter-end.

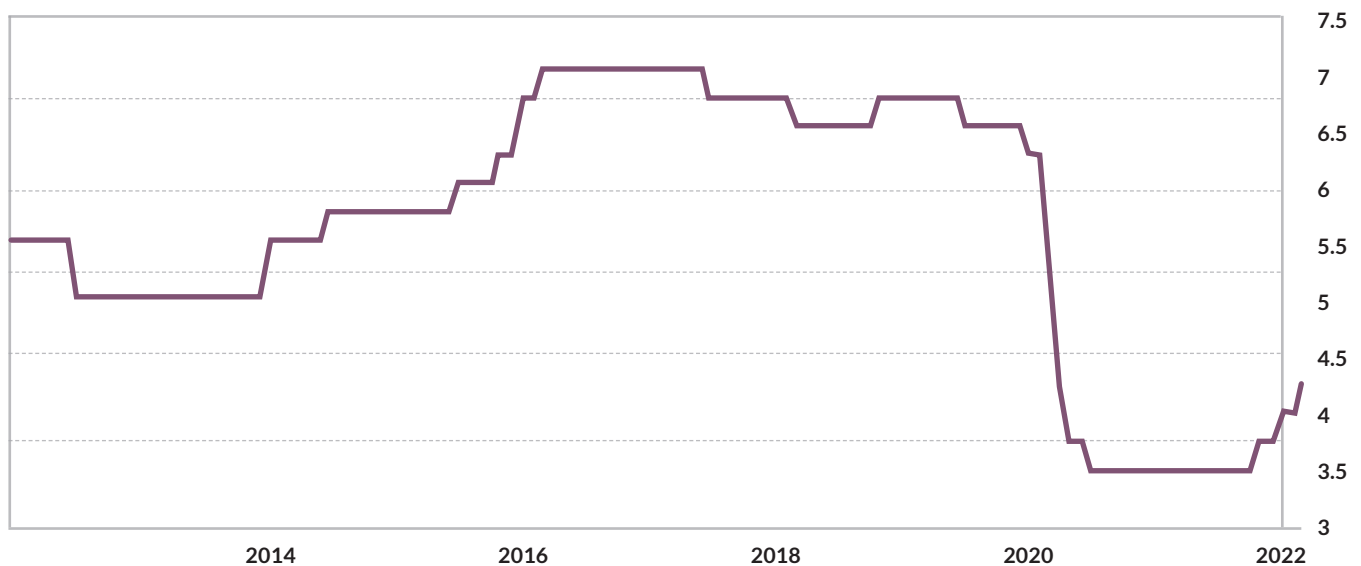
Higher energy prices have significant global inflation implications. Together with elevated inflation due to COVID-19, global central banks are left with little alternative but to continue to tighten monetary policy to try and keep inflation under control. At this stage, it is difficult to determine how the conflict will end and for how long it could drag on. This adds to the uncertainty of the global growth and inflation outlook.

## Local inflation also continued to rise, resulting in continued rate hikes

Locally, headline inflation ended the quarter at 5.7% for February, remaining within the South African Reserve Bank's (SARB) 3-6% target range. Higher transportation and food prices continued to be major drivers of the elevated inflation. Going forward, the risk of inflation exceeding the SARB's upper limit of 6% has increased, given the significantly higher oil and global food prices following the Russian invasion of Ukraine.

The SARB raised the repo rate by 0.25% at each of its meetings in January and March to finish the quarter at 4.25%. The rate hikes were in line with market expectations. However, it was surprising that two of the five members voted for a 0.50% rate increase at the March meeting. The SARB again expressed concern over the deteriorating outlook for inflation, specifically in fuel, food and electricity. It increased its inflation outlook for this year from 4.9 to 5.8%. While the rate hikes are likely to put additional pressure on an already strained consumer, the SARB is determined to keep inflation expectations anchored and to keep pace with global central banks' monetary tightening to support the rand.

Figure 2: South African interest rate (2013-2022)



Sources: South African Reserve Bank, [www.tradingeconomics.com](http://www.tradingeconomics.com)

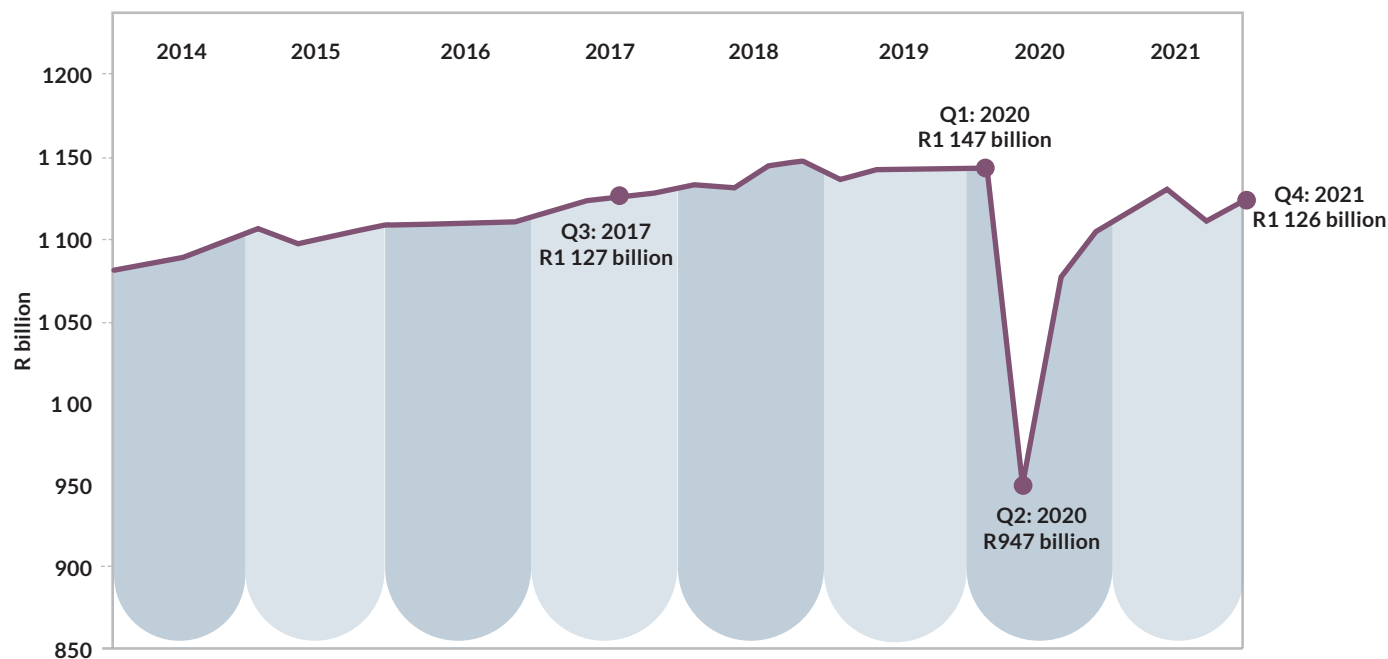
## While the 2022 Budget was positive overall, reduced spending and policy implementation will be vital going forward

The South African Budget Review for 2022 was positive overall, since it was in line with expectations. It was also reassuring to hear the new Finance Minister, Enoch Godongwana, maintaining his firm stance to reduce debt and government spending. There was a large revenue overrun, predominantly from higher-than-expected corporate taxes from commodity companies, some of which will be used to reduce government debt. However, the revenue overrun is not sustainable. Going forward, government can therefore not depend on the overrun to help reduce debt or finance expenditure. Future spending remains highly uncertain and successful policy implementation will be essential to drive higher economic growth, something South Africa has struggled with in the past.

## Despite positive local GDP growth in 2021, the economy is still not back at pre-pandemic levels

In March, the fourth quarter's GDP growth data was released, which showed that the South African economy grew by 1.2% over the last quarter of 2021 and by 4.9% for the year overall. Regardless of the Omicron wave, the economy was able to grow positively, specifically within personal services, agriculture, trade and manufacturing. Despite the strong growth for the year, the economy is still 1.8% smaller than it was before the pandemic.

Figure 3: South African gross domestic product (2014-2021)



Source: Stats SA

### Elevated and unpredictable inflation continues to pose a threat to markets

Global risk assets declined over the quarter as multidecade-high inflation together with the uncertainty brought about by the Russian-Ukraine war weighed on investor sentiment. South African equities outperformed developed and emerging market equities, with both resources and financials providing support over the quarter. The rand benefited from better terms of trade as the conflict-induced supply constraints supported South African commodities. Current inflation levels threaten global demand and central banks' response will be key going forward. Given the high level of uncertainty, it remains important to stay invested, with diversification more important than ever.





# FG SCI\* JUPITER INCOME FUND OF FUNDS

For periods until 31 March 2022

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

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Jupiter Income FoF	0.80%	2.66%	6.68%	6.34%	6.97%	7.29%	7.74%
STeFI Composite Index	1.03%	2.02%	3.95%	5.23%	6.08%	6.13%	6.94%
ASISA SA Multi Asset Income Category Average	1.04%	2.93%	6.74%	6.52%	7.06%	7.02%	7.62%
				1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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 BCI Multi Income Fund
- Matrix SCI Stable 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%	3.76%
% Positive months	93.97%	100.00%

The FG SCI Jupiter Income Fund of Funds returned +0.80% in the first quarter of 2022 and +6.68% over the past 12 months, underperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.03%, while outperforming the 12-month return of +3.95%. The Abax Flexible Income Fund was the worst-performing underlying fund over the quarter, returning +0.15%. A 5% reallocation was made from the Coronation Strategic Income Fund into the Granate BCI Multi Asset Income Fund over the quarter.

## Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Jupiter Income FoF	0%	2%	48%	45%	5%



# FG SCI\* VENUS CAUTIOUS FUND OF FUNDS

For periods until 31 March 2022

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

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Venus Cautious FoF	-0.83%	4.23%	8.43%	7.87%	7.14%	8.52%	8.56%
ASISA SA Multi Asset Low Equity Category Average	-0.92%	4.03%	8.69%	7.29%	6.67%	7.69%	7.52%
				1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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 Global Optimum Growth Feeder 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 BCI Opportunity Income Fund
- Satrux Bond Index Fund
- Sanlam Multi Manged 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	71.75%	71.75%

The FG SCI Venus Cautious Fund of Funds returned -0.83% in the first quarter of 2022 and +8.43% over the past 12 months, outperforming the benchmark peer group average quarterly return of -0.92%, while underperforming the 12-month return of +8.69%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +7.27% over the quarter. A 2.5% reallocation from the Sanlam Multi Manged Inflation Linked Bond Fund into the Ninety One Global Franchise Feeder Fund was made over the quarter.

## Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	17%	4%	37%	26%	16%



# FG SCI\* SATURN MODERATE FUND OF FUNDS

For periods until 31 March 2022

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

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Saturn Moderate FoF	-1.18%	4.67%	9.38%	9.18%	7.42%	9.12%	10.12%
ASISA SA Multi Asset Medium Equity Category Average	-1.17%	5.43%	9.88%	8.31%	7.02%	8.23%	8.90%
				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 Global Optimum Growth Feeder 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	69.85%	67.34%

The FG SCI Saturn Moderate Fund of Funds returned -1.18% over the first quarter of 2022 and +9.38% over the past 12 months, in line with the benchmark peer group average quarterly return of -1.17%, while underperforming the 12-month return of +9.88%. The PSG Flexible Fund was the best-performing underlying fund, returning +7.21% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	36%	3%	22%	16%	23%



# FG SCI\* NEPTUNE GROWTH FUND OF FUNDS

For periods until 31 March 2022

## 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 SCI Neptune Growth FoF	-0.05%	6.48%	10.05%	10.52%	8.85%	7.80%
ASISA SA Multi Asset High Equity Category Average	-1.17%	6.04%	10.71%	9.00%	7.21%	6.52%
			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 Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Laurium Flexible Prescient Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- M&G Balanced Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Saffron BCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sanlam Multi Manged 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	64.84%	64.84%

The FG SCI Neptune Growth Fund of Funds returned -0.05% over the first quarter of 2022 and +10.05% over the past 12 months, outperforming the benchmark peer group average quarterly return of -1.17%, while underperforming the 12-month return of +10.71%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +7.27% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	45%	3%	14%	12%	26%





# FG SCI\* MERCURY EQUITY FUND OF FUNDS

For periods until 31 March 2022

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

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI Mercury Equity FoF	3.72%	12.55%	16.55%	13.42%	9.19%	9.46%	10.84%
FTSE/JSE Africa All Share (Total Return)	3.84%	19.55%	18.62%	14.22%	11.39%	11.94%	13.26%
ASISA SA Equity General Category Average	4.15%	14.01%	17.63%	11.16%	7.78%	8.68%	10.66%
				1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> 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 Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Gryphon All Share Tracker Fund
- Nedgroup Investments SA Equity Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- M&G Equity Fund
- PSG Equity 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	63.32%	62.81%

The FG SCI Mercury Equity Fund of Funds returned +3.72% in the first quarter of 2022 and +16.55% over the past 12 months, underperforming the +3.84% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +18.62%. The Coronation Global Optimum Growth Feeder Fund was the worst-performing underlying fund, returning -17.50% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 28 February 2022

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	81%	1%	0%	5%	13%



# FG SCI\* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 31 March 2022

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

	Year to Date	6 Months	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
FG SCI International Flexible FoF	-12.85%	-5.91%	0.40%	5.18%	6.52%	11.38%	8.20%
Benchmark**	-12.38%	-4.83%	0.21%	7.16%	7.59%	11.41%	9.16%
ASISA Global Multi Asset Flexible Average	-12.38%	-4.83%	0.21%	7.16%	7.64%	11.87%	8.31%
				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

Annualised returns are period returns re-scaled to a period of 1 year

\*\* Benchmark before June 2013: 50% MSCI World Index, 50% JP Morgan Global Government Bond Index

Benchmark between July 2013 and July 2015: 55% MSCI AC World Index, 33% JP Morgan Global Government Bond Index, 7% FTSE EPRA Nareit Global Property, 5% Stefi Call

## 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	56.65%	59.77%

The FG SCI International Flexible Fund of Funds returned -12.85 in the first quarter of 2022 and +0.40% over the past 12 months, underperforming the benchmark peer group average quarterly return of -12.38 but outperforming the 12-month return of +0.21%. The Ninety One Global Franchise Fund was the worst-performing underlying fund over the quarter, returning -16.34% in rand terms. No changes were made to the fund over the quarter.

## Asset allocation as at 28 February 2022

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	65%	12%	16%	4%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	63%	3%	12%	6%	13%	3%



# MARKET PERFORMANCE

Index	Asset Class	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Last 12 months	Year to Date 2022*
STEFI Composite Index	Local Cash	0.92%	0.95%	0.98%	1.03%	3.94%	1.03%
Beassa ALBI Total Return	Local Bonds	6.86%	0.37%	2.87%	1.86%	12.37%	1.86%
FTSE/JSE SA Listed Property (Total Return)	Local Property	12.12%	5.94%	8.35%	-1.27%	27.06%	-1.27%
FTSE/JSE Africa All Share (Total Return)	Local shares	0.05%	-0.84%	15.13%	3.84%	18.61%	3.84%
JP Morgan World Govt Bond index (USD)	Global Bonds	1.07%	-1.08%	-0.87%	-6.24%	-7.07%	-6.24%
FTSE EPRA Nareit Global REITs TR USD	Global Property	9.94%	-0.14%	12.46%	-3.53%	19.11%	-3.53%
MSCI World GR USD	Global Shares	7.89%	0.09%	7.86%	-5.04%	10.60%	-5.04%
MSCI ACWI GR USD	Global Shares	7.53%	-0.95%	6.77%	-5.26%	7.73%	-5.26%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-3.31%	5.42%	5.93%	-8.44%	-1.04%	-8.44%

\*(Return until 31 March 2022)

Source: Morningstar, Maitland



## ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG SCI International Flexible FoF A	26 521 313.86	30.11	1.53
FG SCI International Flexible FoF A1	97.53	29.51	2.10
FG SCI International Flexible FoF B	1 615 424.57	24.51	3.20
FG SCI International Flexible FoF B1	3 625 932.01	25.30	2.97
FG SCI Jupiter Income FoF A	78 172 293.83	12.12	1.06
FG SCI Jupiter Income FoF A1	52.52	12.10	1.63
FG SCI Jupiter Income FoF B	7 806 964.90	12.05	2.78
FG SCI Jupiter Income FoF B1	11 835 181.94	12.06	2.49
FG SCI Mercury Equity FoF A	4 335 744.75	41.70	1.61
FG SCI Mercury Equity FoF A1	16.63	41.65	2.17
FG SCI Mercury Equity FoF B	294 173.05	39.97	3.34
FG SCI Mercury Equity FoF B1	62 130.08	40.89	3.05
FG SCI Neptune Growth FoF A	19 411 506.64	14.55	1.60
FG SCI Neptune Growth FoF A1	47.77	14.52	2.18
FG SCI Neptune Growth FoF B	1 976 392.51	14.45	3.33
FG SCI Neptune Growth FoF B1	1 244 673.46	14.46	3.04
FG SCI Saturn Moderate FoF A	50 053 150.25	32.09	1.49
FG SCI Saturn Moderate FoF A1	20.75	32.02	2.06
FG SCI Saturn Moderate FoF B	7 417 031.65	31.84	3.22
FG SCI Saturn Moderate FoF B1	6 329 229.27	31.86	2.93
FG SCI Venus Cautious FoF A	75 976 489.60	17.85	1.35
FG SCI Venus Cautious FoF A1	36.78	17.82	1.91
FG SCI Venus Cautious FoF B	3 162 465.97	17.66	3.07
FG SCI Venus Cautious FoF B1	11 917 736.71	17.67	2.78

\* NAV (Mo-End) and no. of participatory interests as at 31 March 2022

\*\*TER as at 30 September 2021





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