

# Chalford Wealth CPI +2% p.a. Cautious Regulation 28 Portfolio

September 2019



## Who should invest

Suitable for clients who are risk averse and prefer a low volatility investment experience. Clients seeking a tax efficient income solution.

## Market & portfolio commentary

Markets ended the quarter positively, after central banks eased policy in response to slowing economic growth: both the Fed and ECB cut rates. The Fed also eased a liquidity shortage, while the ECB will restart asset purchases. Ongoing US-China trade tensions, an oil-price spike and more Brexit drama induced intra-month volatility. Local markets did not react to the SARB's expected decision to keep rates unchanged. A lot of patience is required to stay invested in capital markets, especially when you realise that only one of the main catalysts we listed as an important market driver has been concluded positively since January 2019, when we had our annual strategic planning session.

In no particular order, the drivers are:

- Actions to improve SA economic policy, addressing State-Owned Enterprises' financial conditions together with fiscal and economic stimulus to re-ignite SA GDP growth
- A deal between the US and China to end the trade war
- A definitive outcome to the UK and EU's Brexit negotiations
- Improving SA, emerging market and developed market corporate earnings.

The catalyst that has changed during 2019 is the end to the Fed's rate normalization cycle. This is one of the reasons why almost US\$16 trillion of developed market bonds are trading at negative yields! The fact that developed market bond yields are at historic lows, means that global investors have very little choice in terms of 'safe', high yielding instruments. This guarantees ongoing volatility as dividends, offer enhanced value relative to global bonds and possibly cause global investors, with a trading mentality, to attempt to buy low and sell high in equity markets in order to generate absolute returns over time.

There are many more factors that can and will influence capital market behavior, but until the main catalysts mentioned are resolved, investors will require a well-diversified portfolio of assets to safeguard themselves against global and local equity market volatility. The good news is that a lot of the bad news is already in the price of SA risk assets and globally the slowdown in economic activity is a 'known known' to economic policy leaders.

We therefore expect capital markets to grind higher, but with a guarantee of ongoing volatility.

Our preferred asset classes in the short term are Fixed Interest in SA for yield and Global Equities for growth. Therefore, in our SA portfolios, depending on each risk budget and investment objective, we remain underweight SA Equities (relative to our long-term strategic plan per portfolio) and are severely overweight SA Fixed Interest. We have some Gold bullion exposure to safeguard us if short-term global policy errors derail capital markets. Longer term, local and global equities should win the battle between asset classes as the value of equities remain compelling relative to other asset classes, but while the global and local catalysts remain on the sidelines, a trading strategy managed by seasoned professionals is favoured while owning local or global equities in a portfolio.

## Technical Overview

|  |                        |  |
|--|------------------------|--|
| Strategy Manager   | MitonOptimal SA        | <b>Investment strategy</b><br><br>This investment strategy includes a diversification of asset classes, managed by some of the most talented fund managers. The CPI +2% Cautious strategy aims to outperform SA inflation by 2% p.a. net of fund management fees over a rolling 2-year period. The Strategy aims to provide retired investors with a regular income while it aims to provide consistent real returns over the medium to long term within acceptable risk parameters. The Strategy only invests in asset allocation, target return and money market unit trust funds and aims to limit volatility to between 0.90 - 6.56% p.a. standard deviation. The strategy is diversified and managed by asset class in accordance with Regulation 28 of the Pension Fund Act. |
| Assets Under Administration  | USD\$ 1.2 billion      |  |
| Annual Mandate Fee   | 0.20% p.a. (excl. VAT) |  |
| <i>This excludes Advisor, Administration &amp; Underlying Fund fees which are disclosed in a Record of Advice provided by your Advisor</i> |                        |  |
| Benchmark  | CPI +2% p.a.           | <b>Suitable products</b><br><br>This portfolio can be utilised as an income option via a Living Annuity or as a Discretionary draw-down plan. Other suitable products would include low volatility Preservation Pension/Provident Fund savings, i.e. close to retirement risk averse investors.  |
| Valuation  | Quarterly Reporting    |  |
| Risk   | Low risk               |  |

Collective Investments are generally medium to long-term investments. The value of participating interests may go down as well as up and past performance is not necessarily a guide to the future. Commission and incentives may be paid and, if so, are included in the overall cost. Performance figures are sourced from IRESS for lump sum investments including income distribution, at NAV to NAV basis. The performance figures do not include annual LISP Administration fees. A Fund of Funds collective investment may invest in other collective investments, which levy their own charges. Collective Investment prices are calculated on a Net Asset Value basis and auditor's fees, bank charges, trustee and RSC levies are levied against the portfolio. Chalford Wealth (Pty) Ltd, Registration number 2013/106760/07 is an authorised financial service provider FSP number 15207. Should you have any further queries or complaints please contact Chalford Wealth (Pty) Ltd. For your information, the FAIS ombudsman provides an independent and objective advisory service. Should you not be satisfied with the outcome of a complaint handled by Chalford Wealth (Pty) Ltd, please write to: The Ombudsman, PO Box 74571, Lynnwoodridge, 0040. Telephone (012) 470 9080/99. Fax (012) 348 3447. Email: [info@faisombud.co.za](mailto:info@faisombud.co.za)

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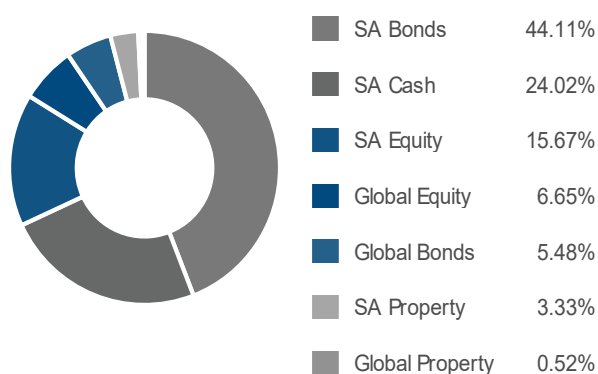
September 2019



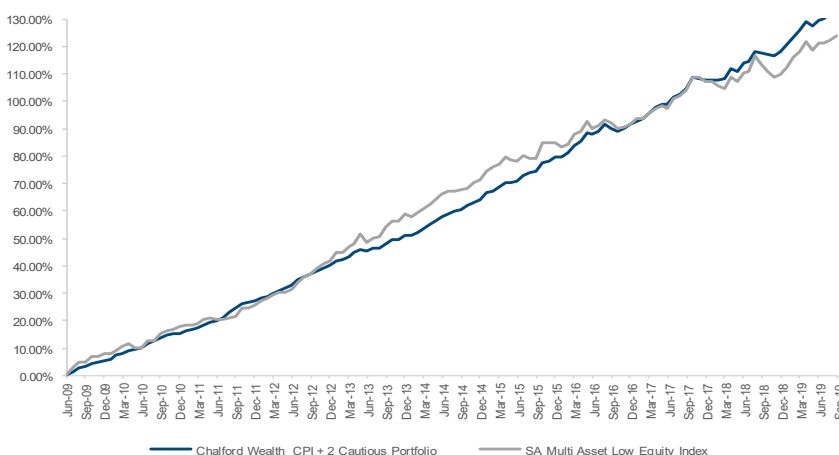
## Performance & volatility

|             |           | 3 Mths % | 6 Mths % | 1 Year % | 3 Years % | 5 Years % | Since Launch % |
|-------------|-----------|----------|----------|----------|-----------|-----------|----------------|
| Performance | Portfolio | 1.89     | 3.47     | 7.36     | 22.86     | 45.47     | 133.78         |
|             | Sector    | 1.14     | 2.67     | 4.83     | 16.57     | 33.62     | 123.89         |
| Volatility  | Portfolio | 1.20     | 2.34     | 2.32     | 2.45      | 2.29      | 1.85           |

## Latest asset weightings



## Performance v sector since launch



## Neutral asset allocation

| SA Equity | SA Property | SA Fixed Interest | SA Money Market | Global Assets |
|-----------|-------------|-------------------|-----------------|---------------|
| 11.5%     | 3%          | 43%               | 30%             | 12.5%         |

## Composition

| Portfolio holdings                                   | Weight %   | AMC % | TER %       |
|--|------------|-------|-------------|
| Coronation - Strategic Income P                      | 17.00      | 1.15  | 0.53        |
| Nedgroup - Investments Flexible Income B1            | 16.00      | 1.15  | 0.61        |
| Allan Gray - Stable C                                | 13.00      | 1.44  | 1.26        |
| Prescient - Income Provider A2                       | 13.00      | 1.55  | 0.60        |
| Coronation - Balanced Defensive P                    | 10.00      | 0.92  | 1.15        |
| Granate - Granate SCI Unconstrained Fixed Interest A | 9.00       | 0.46  | 1.01        |
| Sanlam - Select Defensive Balanced A 1               | 7.50       | 0.46  | 0.94        |
| Satrix - Balanced Index A2                           | 5.75       | 0.68  | 0.54        |
| Allan Gray - Optimal A                               | 5.00       | 1.35  | 1.36        |
| IP Management Company - IP Active Beta A             | 3.75       |       | 0.82        |
| <b>Total Portfolio</b>                               | <b>100</b> |       | <b>0.87</b> |

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