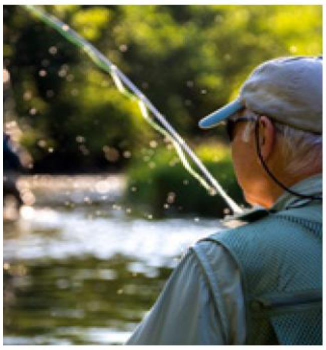
Report to
Wealth Associates Investors

September 2020

WEALTH ASSOCIATES
ASSET MANAGEMENT

Independence. Continuity. Value.




A global and local economic update

Local and global markets remain volatile, unsurprisingly in these uncertain times. Most markets softened leading up the end of September but have recovered since then. The longevity and current upward trend (in several countries) of the Covid-19 pandemic, US elections, Brexit and the interim budget in SA are key factors preventing investors taking strong positions for the long-term. Resources stocks have continued to soften in tandem with decreases in gold, platinum and oil prices.

Investment analysis on lump sums to 30th September 2020

Source – Morningstar, MSCI, XE.com	Month	YTD	1 year	3 Yrs	5 yrs	10 yrs
JSE INDICATORS						
Wealth Associates BCI Income Fund						
Wealth Associates BCI Cautious FoF A	(0.8)	1.0	3.0	6.1	7.2	
Wealth Associates BCI Moderate FoF A	(1.1)	0.4	2.8	5.5	6.7	
Wealth Associates BCI Balanced FoF A	(1.7)	(1.3)	2.0	4.3	5.6	
Wealth Associates BCI Flex Growth FoF A						
Wealth Associates BCI Equity Fund						
(ASISA) South African General Equity	(1.5)	(7.0)	(2.9)	(1.2)	1.4	6.6
(ASISA) South African Mid/Small Cap	1.3	(17.7)	(12.5)	(7.8)	(3.9)	4.6
(ASISA) South African Financials	1.7	(30.4)	(29.0)	(9.6)	(5.5)	5.0
(ASISA) South African Industrials	(1.3)	6.6	6.3	(2.1)	0.6	10.1
(ASISA) South African Resources	(3.8)	20.4	25.5	19.1	20.1	7.4
(ASISA) South African Property	(4.6)	(44.9)	(44.3)	(23.1)	(12.7)	1.3
(ASISA) South African Money Market	0.4	4.4	6.2	7.1	7.2	6.4
(ASISA) Global Equity	(4.4)	19.1	20.1	12.3	12.2	16.0
Rand / USD rate	0.8	(19.0)	(10.3)	(23.5)	(3.9)	(9.2)
Rand / EURO rate	2.8	(24.0)	(18.4)	(22.3)	(4.5)	(7.5)
Rand / GBP rate	4.3	(16.4)	(16.1)	(18.9)	(0.4)	(7.0)
GLOBAL INDICATORS						
MSCI UK 100 ($) – 982600	(5.1)	(25.4)	(18.7)	(9.5)	(4.5)	(1.9)
MSCI Europe ($) – 990500	(3.4)	(10.5)	(3.0)	(3.3)	1.4	1.3
MSCI US ($)- 984000	(3.9)	5.8	14.9	10.7	12.1	11.6
MSCI World ($) – 990100	(3.6)	0.4	8.6	5.8	8.4	7.2
MSCI Emerging Markets($)- 891800	(1.8)	(2.9)	8.1	0.0	6.4	0.1
MSCI - South Africa ($) - 971 000	(1.2)	(22.7)	(12.9)	(9.6)	(3.6)	(3.8)

Wealth Associates Asset Management view

Changes made over the last month have resulted in the addition of two new funds to the Wealth Associates stable. Further to this, the change of category for the Flexible Growth Fund means it loses its performance history (according to ASISA rules).

MORNINGSTAR® WEALTH ASSOCIATES

UNIT TRUSTS

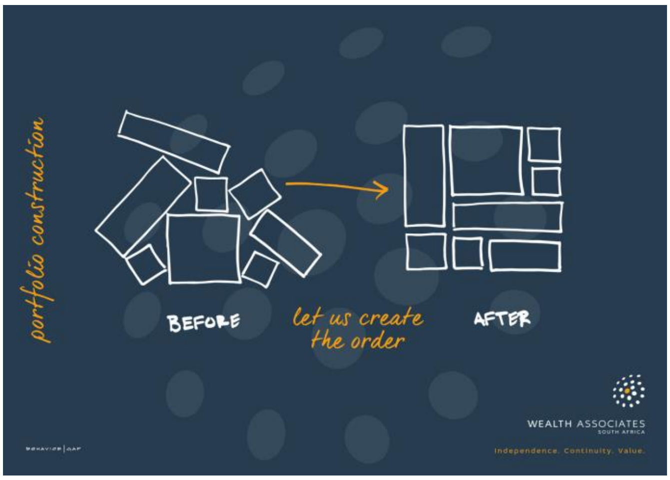
Group/Investment	Morning Star Rating ™	1 year 2019/10/01 2020/09/30 Return	Rank	2 years 2018/10/01 2020/09/30 Return	Rank	3 years 2017/10/01 2020/09/30 Return	Rank	4 years 2017/10/01 2020/09/30 Return	Rank
(ASISA) South African MA Low Equity									
Wealth Associates BCI Cautious FoF A	★★★★	3.00	85	5.30	38	6.06	19	6.43	15
Peer Group Average / Count		2.83	153	3.83	142	4.11	135	4.59	123
(ASISA) South African MA Medium Equity									
Wealth Associates BCI Moderate FoF A	★★★★	2.84	46	4.60	17	5.46	6	5.91	3
Peer Group Average / Count		2.53	94	2.91	89	3.13	82	3.62	72
(ASISA) South African MA High Equity									
Wealth Associates BCI Balanced FoF A	★★★★	1.98	100	3.38	56	4.33	25	4.87	25
Peer Group Average / Count		1.84	195	1.82	184	2.26	173	3.31	112

Top 10% | 1st Quartile | 2nd Quartile | 3rd Quartile

Fund manager update

The two new funds in the Wealth Associates basket are the Income Fund and the Equity Fund, which help fulfil demand for adequate solutions in the SA fixed income sector as well as the offshore equity sector. As always, when we believe there isn't a suitable solution to meet our clients' needs, we put our heads together to structure the best new solution possible.

Wealth Associates BCI Income Fund – As cash has lost its appeal for SA investors with zero real return (following the 3% drop in rates earlier this year), we have struggled to find suitable funds with the mandate to significantly increase bond duration during such periods and then reduce that exposure as the economic cycle turns. We thus designed this fund to accommodate duration changes in the fixed income sector at a lower risk to clients, allowing the fund management team to make minor adjustments to duration where opportune.



Wealth Associates BCI Equity Fund – This fund is a mirror of the old Flexible Growth Fund, which was a proxy for the SA equity market with a benchmark allocation of 25% to 30% in offshore shares.

Wealth Associates Flexible Growth Fund – We have not found a suitable offshore fund that gives investors some fixed income exposure combined with an active diversification across styles of stocks, which is critical to a more stable portfolio. Fund managers tend to align themselves to a quality, value, momentum or growth bias when selecting a portfolio of shares, which significantly increases risk when the cycle turns. We thus restructured this fund to accommodate all equity styles and allow the fund management team to make small weighting changes where opportune.

These three new funds will be used as building blocks to achieve the desired risk rating required by investors in our existing Cautious, Moderate and Balanced Funds

Investment discussion

We review some of pertinent facts that will be added to the myriad of information assisting us in making investment decisions for our clients.

- US housing prices have rebounded from the crash in March - May as have retail sales.
- Equity sector winners from Covid-19 have been IT, Consumer Discretionary and Communications.
- Losers have been Energy, Financials, Real Estate and Travel Utilities.
- US debt, along with most other first world economies, is not going away. The US Federal Reserve has confirmed that it will keep interest rates / borrowing costs low for as long as possible.
    - This is relevant because most central banks increase rates as inflation rises above their targets. This usually moderates demand and thus slows inflation.
    - If the US Fed has declared that it will not do so, the suggestion is that inflation may rise higher than expected for 2021.
    - So if you are a global investor, investing in US bonds is not particularly attractive if you are looking for a return above inflation.
        - This has been the case for many years, and thus encourages investors to seek other opportunities such as buying shares in companies that at least will give you a dividend higher than inflation and hopefully some capital growth too.

The “circle of life” for global investors

- Typically, global investors will hold 30 to 50% in government bonds and the rest in property and shares. The investment is guaranteed by the respective government, and you will get a fixed return which allows you to mage your income expectations accurately.
    - South African investors have very little invested in government bonds (prefer to hold cash) and a higher portion in more volatile property and equity.
- Global investors will also typically hold bonds in a variety of countries that offer more attractive yields than the US, and stock in other economies that could have more attractive growth potential.

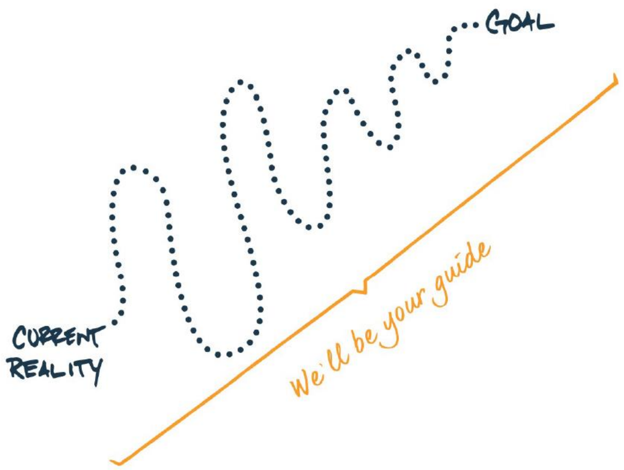
- When global markets enter a phase of heightened uncertainly, investors panic.
    - They rush to US bonds, which in turn drives the bond prices downwards (more demand so they become cheaper).
        - Stocks in other economies drop.
        - The currencies drop.
        - Their bond yields rise.
        - USD strengthens.
- When they panic about the USD, they rush to gold, and the gold price spikes.
- When bond yields go lower than inflation, investors trend towards shares, which increases demand and pushes prices up.
    - US stock prices get expensive due to demand.
    - Dividend yields on shares drop relative to their price.
    - Bond yields moderate as a result of the exit to equity.
- When US stock prices get expensive and uncertainty diminishes, investors return to more aggressive strategies such as other economies that are growing faster and have slightly less regulation but more opportunity (like emerging markets).
    - US stocks drop.
    - US currency weakens with outflows.
    - Other economies currencies rise with inflows.
    - Other markets rise on demand.
    - Investors are happy as they are now once again earning more than inflation.
- Then we get some global uncertainty and the cycle continues, and history still repeats itself in the face of "this time is different".

This cycle is driven by investor psychology, which is a balancing act between

- Fear of losing your money;
- Fear for missing out on the next best idea;
- Fear of not being able to live off your portfolio;
- Fear of running out of money when you are too old to earn.

We as advisers hear and understand your fears. However decisions with fear at the forefront are rarely successful. When a lion charges you in the wild, running is only going to speed up the end of your life. When the markets are down 40%, exiting them will also speed up the end of your money.

If we are able to plot where you are in the above circle of global investor life, then hopefully more rational decisions can be made to ensure that your portfolio is positioned for the future rather than for the past.



Financial services notes

We covered prescribed assets in our June newsletter, and the rhetoric we are hearing four months later seems to back up our original thoughts. Adjustments to the legislation for pension fund assets (Regulation 28) still need to be confirmed, but the rhetoric appears less restrictive and thus calamitous than expected.

To add context to the article below, Regulation 28 in the 1980s forced pension funds to invest 25% of their portfolios in government bonds. The current regulation is that a fund must have 25% in a combination of cash, bonds and property. It is worth noting that most retirement funds already have between 10 and 20% in government bonds through their fixed income component, especially as most have reduced their cash and property exposure since interest rates have been cut this year and the outlook for SA property has deteriorated.

Prescribed Assets

A hot topic! Below is an excerpt from an Old Mutual report casting some light on the current proposals.

The Economic Transformation Committee (ETC) of the ANC has developed a policy framework for Reconstruction, Growth and Transformation, with the objective of building a new, inclusive economy.

In order to achieve this the ETC has proposed to amend Regulation 28 of the Pension Funds Act to allow (not force) pension funds to invest directly in infrastructure assets and the Development Finance Institutions such as the Development Bank of South Africa and Industrial Development Corporation.

Just as a reminder, Regulation 28 of the Pension Funds Act determines the limitations on what a pension fund may invest in and in what proportions it may invest. The sections that are relevant to 99% of retail clients (who have RAs, preservation funds and unit linked pension/provident funds) are summarised in three lines:

- Maximum 30% offshore and 5% in Africa
- Maximum 75% in equity
- At least 25% in cash/bonds/property.

There are, however, onerous limits on the quantum of shares a pension fund can buy respective assets and debt etc. The Act is 70 pages long, and the summary table is four pages. The impact of the proposed changes is mostly affecting large pension funds where the trustees invest on behalf of the members. There are a number of assets that have stringent limits on these holdings, and a number of assets that pension funds may not invest in. The proposals are related to these limitations.

These proposals are thus unlikely to affect our clients. Living annuities are not governed by the Pension Funds Act and thus do not need to comply to Regulation 28, so they are not affected.

Investment strategy

Markets are chugging along and going nowhere. Tech stocks shot up and have moderated slightly, retailers and consumer related industries are still waiting for consumers to get back to shopping. Most investors are waiting for US elections, Brexit, economic development plans, interim budget announcements, China vs Taiwan, China vs US, to name a few. These are things that keep investors on high alert and, looking at the circle of life for an investor, thus invested in the USD and the US market.

We remain of the view that the USD is very expensive against other global currencies and that if you do not have a reasonable spread of other economies, this is a good time to diversify your holdings. You could wait for other investors to start the trend and give you a bit more certainty on the outcome, but then you may miss the opportunity.

In the interim, holding a diversified portfolio and doing nothing is a very strong investment strategy.

As always, please do not hesitate to call us for assistance if you have any queries.

Keep well.

ALASTAIR MACKIE - on behalf of the investment management team

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Wealth Associates Asset Management (Pty) Ltd

Reg. 2003/012179/07 FSP: 21018

Directors: M du Plooy, J Squier Key Individuals: J Squier, M du Plooy (Management)

Suite 180, Private Bag x87, Bryanston, 2021 T 011 807 6182

www.wealthassociates.co.za