# MODERATO FUND

## QUARTERLY FACT SHEET AS AT 30 SEPTEMBER 2022

The Moderato Fund invests in a range of local and foreign asset classes, including equities, listed property, bonds and cash. The management of the assets is outsourced to a professional investment manager that has been given full discretion to allocate capital between (and within) these asset classes in line with their views of current and expected market and economic conditions, in proportions appropriate to the portfolio's objective, and subject to the regulatory limits applicable to retirement funds. Passive strategies may be included where deemed appropriate, either by the underlying manager themselves, or as separate building blocks.

## GENERAL FUND INFORMATION

| FUND: | Moderato<br>(/ˌmɒdəˈrɑːtəʊ/, meaning at a moderate pace) | | HIGH | MED | LOW |
|---|---|---|---|---|---|

**Objective:** To provide moderate levels of investment growth over the medium term, while preserving capital at all times [1].

**Fund characteristics:**

The Moderato Fund is invested in a smoothed bonus portfolio.

Investment returns are smoothed by way of monthly, non-negative, bonus declarations [1]. The bonus declarations are based on the returns achieved on the portfolio's underlying investments, but some returns are set aside during periods of strong market growth in order to boost returns during periods of weaker performance.

The underlying manager also offers a capital guarantee [1] (so members will never get less out than what they put in), but the fees of this portfolio are higher than that of normal market-linked portfolios as a result.

**Return target:** Aims to achieve a net return of 3-4% a year above inflation over the medium term (i.e., three to five years).

**Total Investment Charges (TIC):** 1.43%

**Risk profile & suitability:**

Has a low to moderate risk profile, and is typically suitable for members who:

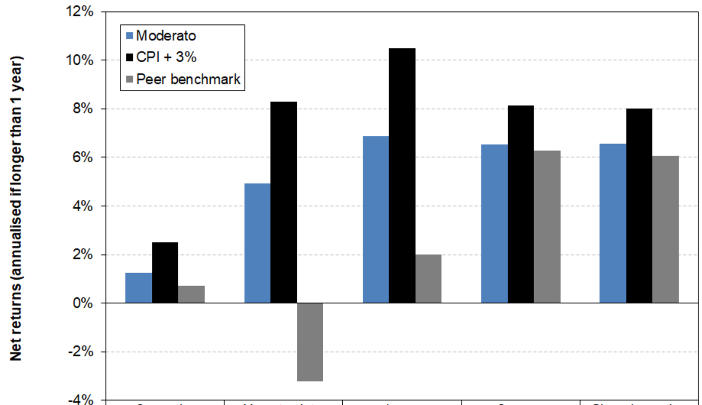
- Are seeking reasonable levels of investment growth;
- Have no appetite for capital losses;
- Are willing to pay higher fees to guarantee the value of their capital [1];
  - Do not intend to switch between funds on a regular basis [2];
  - Want to lessen the risk of investing in or disinvesting from the market at the wrong time.

**Peer benchmark:** Median of the Alexander Forbes Global Conservative survey

**Inception date:** 1 July 2019

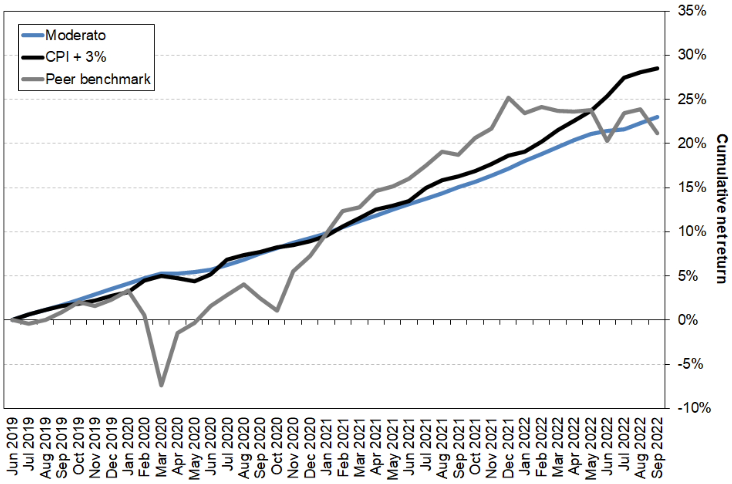
## PERFORMANCE

### NET RETURNS




| | 3 months | Year-to-date | 1 year | 3 years | Since inception |
|---|---|---|---|---|---|
| Moderato | 1.3% | 4.9% | 6.9% | 6.5% | 6.6% |
| CPI + 3% | 2.5% | 8.3% | 10.5% | 8.1% | 8.0% |
| Peer benchmark | 0.7% | -3.2% | 2.0% | 6.3% | 6.1% |

### CUMULATIVE NET RETURNS

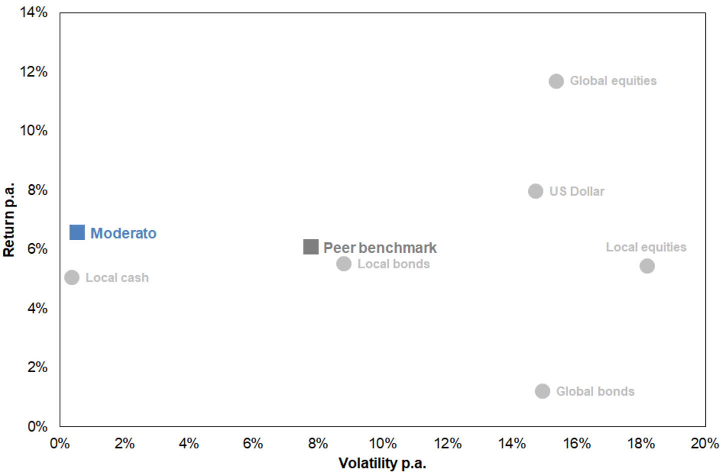



### MONTHLY NET RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total | Peer benchmark |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | | | | | | | 0.6% | 0.5% | 0.5% | 0.6% | 0.6% | 0.6% | **3.5%** | **2.3%** |
| 2020 | 0.6% | 0.6% | 0.4% | 0.0% | 0.2% | 0.2% | 0.5% | 0.6% | 0.6% | 0.5% | 0.6% | 0.5% | **5.6%** | **4.9%** |
| 2021 | 0.5% | 0.6% | 0.7% | 0.6% | 0.6% | 0.5% | 0.5% | 0.6% | 0.6% | 0.5% | 0.6% | 0.7% | **7.2%** | **16.6%** |
| 2022 | 0.7% | 0.7% | 0.7% | 0.6% | 0.6% | 0.3% | 0.2% | 0.5% | 0.6% | | | | **4.9%** | **-3.2%** |

## RISK

### VOLATILITY VS RETURN




## ASSET ALLOCATION

| Asset class | Local | Foreign | Total |
|---|---|---|---|
| Equities | 31.8% | 19.4% | **51.2%** |
| Property | 7.0% | 2.4% | **9.4%** |
| Bonds | 26.0% | 0.0% | **26.0%** |
| Cash | 5.5% | 3.3% | **8.8%** |
| Other | 0.0% | 4.6% | **4.6%** |
| **Total** | **70.3%** | **29.7%** | **100.0%** |

## RISK

| Risk statistic | Moderato | Peer benchmark |
|---|---|---|
| Volatility | 0.5% | 7.8% |
| % negative months | 0.0% | 30.8% |
| Largest monthly loss | 0.0% | -8.0% |
| Largest cumulative loss | 0.0% | -10.4% |

## UNDERLYING PORTFOLIO ALLOCATION

| Portfolio | Strategic allocation | Current allocation |
|---|---|---|
| Sanlam Stable Bonus | 100.0% | 100.0% |

## IMPORTANT NOTES

1. A bonus, which consists of a vesting and non-vesting component is declared monthly in advance. Bonuses cannot be negative.
2. The book value is the net contributions accumulated at the bonus rates. The market value is the value of the portfolio's underlying assets. The book value is the value that is guaranteed to be paid out for benefit payments (death, disability, resignation, retrenchment, retirement and pension payments) regardless of market conditions. **The lower of book or market value will however be paid out for switches.**

## COMMENTARY

**The markets**

2022 Q3 was another exceptionally volatile quarter, as markets continued to worry about stubbornly high inflation rates and the aggressive reactions from global central banks. Thankfully it ended up being a less harrowing experience than the previous quarter, with most asset classes showing some improvement on Q2. Local equities ended the quarter 2% in the red (-11% in Q2), while local bonds eked out a gain of 0.6% in Q3 (-4% in Q2). On global markets equities and bonds stayed in negative territory in Q3 with USD returns of -7% and -8%, respectively (compared to losses of 16% and 9% in Q2). The Rand (and most other currencies for that matter) did however have a terrible quarter against the US Dollar, which at least provided local investors with positive ZAR returns of 3.5% and 2.6% from their global equity and bond investments. After many ups and downs the average balanced fund ended 2022 Q3 marginally down (-0.1%).

With very little change in Q3, and most asset classes still in negative territory year-to-date (YTD), the average balanced fund's YTD loss therefore remains at around 6-7%.

1-year returns have fallen dramatically from the double-digit levels reached in 2021 and early-2022 and are now barely positive for the average balanced fund (<1%), caused by a combination of losses on global markets (equities = -5% & bonds = -7%) and quite low returns locally (equities & bonds = +1 to +3%).

Over the medium term (i.e., 3 to 10 years) the situation looks a bit better, with average returns ranging between 5 and 9% per annum (p.a.), despite the market crash in 2020 and the many other issues we've faced over this period (a stagnant economy, political uncertainty, a global pandemic, and a war, to name just a few). With inflation averaging around 5% p.a., this does unfortunately mean that very few retirement funds have been able to meet their real return targets over these periods.

Long term investors should however still be smiling, with real returns of 5-6% p.a. having been achieved by the average balanced fund over the last 20 years.

Although returns over the short to medium term have taken a knock, market valuations have become considerably more attractive over the course of the year (especially on local markets), which usually bodes well for *prospective* (medium to long term) returns. That being said, we should remember that valuations have virtually no predictive power over the short term, so some patience will likely be required.

**Your portfolio**

The portfolio declared bonusses totalling +1.3% over the quarter, comfortably ahead of the peer benchmark.

After declaring positive returns in a flat market, the portfolio's funding level decreased marginally (from 96% to 95%), but members have enjoyed capital protection and good YTD (+4.9%) and 1-year (+6.9%) returns in difficult market conditions.