# DEFAULT STRATEGY PORTFOLIOS

## QUARTERLY FACT SHEET AS AT 31 DECEMBER 2022

The Acumen umbrella funds' default strategy portfolios invest in a range of local and foreign asset classes, including equities, listed property, bonds and cash. The management of the assets are outsourced to professional investment managers that have 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 each 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 managers themselves, or as separate building blocks. The underlying managers bring a diverse range of capabilities, investment styles and philosophies to the table, with the aim of achieving competitive relative performance throughout the market cycle. The portfolios are therefore designed to take care of the complex asset allocation and manager selection decisions.

## GENERAL PORTFOLIO INFORMATION [1]

| Portfolio: | Default Growth | | | Default Protection | | |
|---|---|---|---|---|---|---|
| **Objective:** | To maximise investment growth over the long term. | | | To provide moderate levels of investment growth over the medium term, while preserving capital at all times [1]. | | |
| **Underlying investment managers** (strategic allocation) | Abax | 20% | | Sanlam | 100% | |
| | Aylett | 20% | | | | |
| | Coronation | 20% | | | | |
| | Ninety One | 20% | | | | |
| | PSG | 20% | | | | |
| **Return target:** | Aims to achieve a net return of at least 5% a year above inflation over the long term (i.e., more than five years). | | | Aims to achieve a net return of 3-4% a year above inflation over the medium term (i.e., three to five years). | | |
| **Risk profile:** | **HIGH** | MED | LOW | HIGH | **MED** | LOW |
| | Has a moderate to high risk profile, and is suitable for members seeking high levels of capital growth, who can tolerate the associated high levels of capital volatility. | | | Has a low to moderate risk profile, and is suitable for members seeking reasonable investment growth but with no appetite for capital losses | | |
| **Inception date:** | 1 July 2019 | | | | | |

## DEFAULT STRATEGY

The Acumen umbrella funds' default investment strategy is as follows:

- For members more than three years to normal retirement age, the Growth Portfolio.
- Once a member is within three years to normal retirement age, the member's fund credit will be phased into to the Protection Portfolio. This transition will take place over a period of three years, with one third of the fund credit being switched from the Growth Portfolio to the Protection Portfolio on an annual basis.

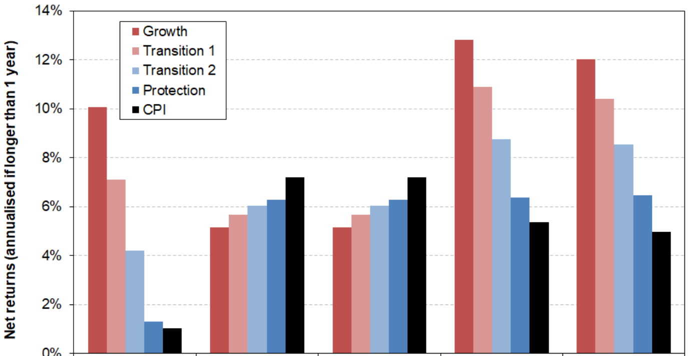
| Years to normal retirement age | Default portfolio | |
|---|---|---|
| | Growth | Protection |
| More than 3 | 100.0% | 0.0% |
| 2 to 3 (Transition 1) | 66.7% | 33.3% |
| 1 to 2 (Transition 2) | 33.3% | 66.7% |
| Less than 1 | 0.0% | 100.0% |

In establishing its default strategy, the trustees of the Acumen umbrella funds recognised that members need growth sufficiently in excess of inflation in order to stand a reasonable chance of maintaining their lifestyles after retirement. This is what the Growth Portfolio aims to achieve.

Given the Acumen umbrella funds' chosen annuity strategy (a living annuity arrangement) the need for growth close to, or even after retirement doesn't go away, but prudent financial planning would suggest that more measured growth would seem appropriate for the average member. The trustees deem it inappropriate to assume that the average member would be able to tolerate the potential short term losses that can accompany the Growth Portfolio, both from a financial and a behavioural point of view. The Protection Portfolio therefore aims to strike a sensible balance between risk and return during the last few years of a member's accumulation phase.

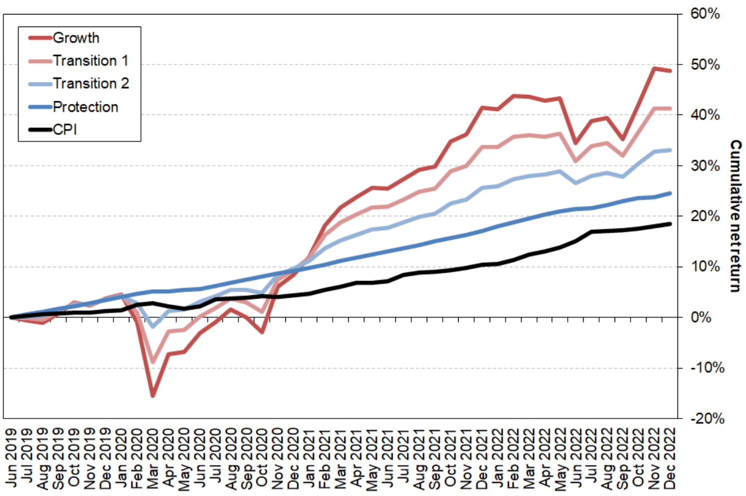
## PERFORMANCE

### NET RETURNS



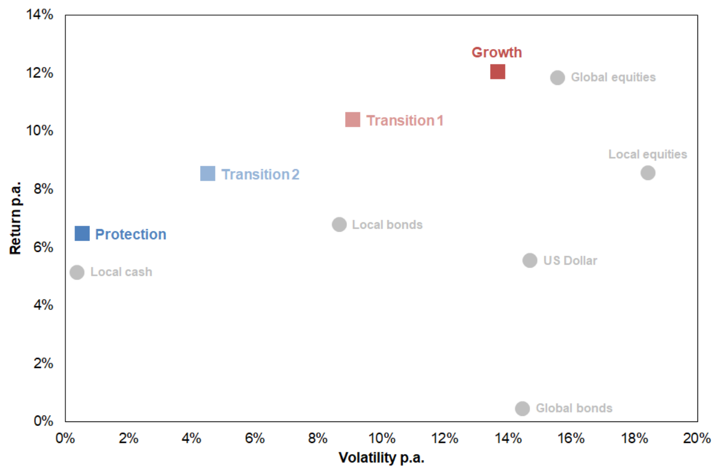

| | 3 months | Year-to-date | 1 year | 3 years | Since inception |
|---|---|---|---|---|---|
| Growth | 10.1% | 5.2% | 5.2% | 12.8% | 12.0% |
| Transition 1 | 7.1% | 5.7% | 5.7% | 10.9% | 10.4% |
| Transition 2 | 4.2% | 6.0% | 6.0% | 8.7% | 8.5% |
| Protection | 1.3% | 6.3% | 6.3% | 6.4% | 6.5% |
| CPI | 1.0% | 7.2% | 7.2% | 5.4% | 5.0% |

### CUMULATIVE NET RETURNS



# RISK

## VOLATILITY VS RETURN [2]




## OTHER RISK STATISTICS

| Risk statistic [2] | Growth | Transition 1 | Transition 2 | Protection |
|---|---|---|---|---|
| Volatility | 13.7% | 9.1% | 4.5% | 0.5% |
| % negative months | 33.3% | 26.2% | 14.3% | 0.0% |
| Largest monthly loss | -14.7% | -9.7% | -4.6% | 0.0% |
| Largest cumulative loss | -22.9% | -12.7% | -5.8% | 0.0% |

## TOTAL INVESTMENT CHARGES (TIC)

| | |
|---|---|
| Growth | 1.26% |
| Transition 1 | 1.30% |
| Transition 2 | 1.34% |
| Protection | 1.38% |

# ASSET ALLOCATION

| Asset class | Growth | | | Transition 1 | | | Transition 2 | | | Protection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Local | Foreign | Total | Local | Foreign | Total | Local | Foreign | Total | Local | Foreign | Total |
| Equities | 40.8% | 26.6% | **67.4%** | 37.6% | 24.1% | **61.7%** | 34.3% | 21.7% | **56.0%** | 31.1% | 19.2% | **50.3%** |
| Property | 2.3% | 0.6% | **2.9%** | 3.8% | 1.2% | **5.0%** | 5.4% | 1.7% | **7.1%** | 6.9% | 2.3% | **9.2%** |
| Bonds | 22.1% | 2.9% | **25.0%** | 23.3% | 2.3% | **25.6%** | 24.5% | 1.6% | **26.1%** | 25.7% | 1.0% | **26.7%** |
| Cash | 1.5% | 2.2% | **3.6%** | 3.2% | 2.5% | **5.6%** | 4.9% | 2.7% | **7.6%** | 6.6% | 3.0% | **9.6%** |
| Other | 1.0% | 0.0% | **1.0%** | 0.7% | 1.4% | **2.1%** | 0.3% | 2.8% | **3.1%** | 0.0% | 4.2% | **4.2%** |
| **Total** | **67.7%** | **32.4%** | **100.0%** | **68.5%** | **31.5%** | **100.0%** | **69.4%** | **30.6%** | **100.0%** | **70.3%** | **29.7%** | **100.0%** |

# NOTES

1. Please refer to the fact sheets of the Growth and Protection portfolios for more information. The Protection Portfolio fact sheet in particular contains important information regarding this portfolio's capital preservation features.
2. Since inception.

# COMMENTARY

**The markets**

After 2021's bonanza 2022 turned out to be a low-return year, as global markets buckled under the pressure of aggressive interest rate hikes amid multi-decade-high inflation numbers. In this environment steep losses on global markets (equities & bonds = -13%) largely offset the small gains eked out by our local ones (equities & bonds = +4%), with the average balanced fund ending the year basically unchanged (-1% to +1% depending on the benchmark used), compared to the +/-20% gains of 2021.

It could have been much worse, however, were it not for the healthy inflation-moderating- and China-reopening-driven returns of 2022 Q4. In this strong end to a difficult year local equities enjoyed double-digit gains (ALSI = +15% & Capped SWIX = +12%) and local bonds returned a solid +6%. At the same time a sharply appreciating Rand (+6% against the US Dollar) eroded most of the almost as-strong USD returns from the global equity and bond markets (+3% and -2%, in ZAR, respectively). The average balanced fund thus returned +7% in Q4, largely erasing its earlier losses.

It has certainly been a tumultuous last three years, with a pandemic, lockdowns, a war and rising inflation and interest rates causing a lot of volatility on global markets. Despite this very tough backdrop the average balanced fund has returned +8 to +9% p.a. over this period, comfortably ahead of cash (+4.8% p.a.) and inflation (+5.4% p.a.).

**Your portfolios**

<u>Default Growth</u>

The Default Growth portfolio participated in the strong market gains of 2022 Q4, delivering a solid return of +10.1% for the quarter, and beating the peer benchmark by nearly 3%.

Despite a strong finish Default Growth was unfortunately not immune to the low-to-negative returns on offer from the markets in 2022, but thanks to Abax (+6.6%), Aylett (+6.6%) and PSG (+10.1%) managed to deliver a good *relative* return (+5.2%) for the year. This was around 4% ahead of the peer benchmark, and ahead of all of the major asset class returns.

Over the harrowing 3-year period Default Growth has also done remarkably well by not only delivering a double-digit gain of 12.8% p.a., but also outperforming inflation by more than 7% p.a. and the peer benchmark by more than 4% p.a.

## COMMENTARY (CONT'D)

It has now been three and a half years since the inception of the Default Growth strategy. Over this period all of its underlying managers have outperformed the peer benchmark, while all of the managers, with the exception of Ninety One, managed to deliver double-digit returns. This puts Default Growth around 4% p.a. ahead of the peer benchmark and 2% p.a. ahead of its real return target since inception.

Default Protection

Sanlam declared bonusses totalling +1.3% for the quarter, bringing its 1-year return to +6.3%. This means that the Stable Bonus portfolio outperformed cash as well as most of its market-linked peers in 2022. Despite a tough year for the markets the portfolio starts 2023 off in a fully funded position, which bodes well for future returns if markets do well, but also ensures some protection should markets fall.