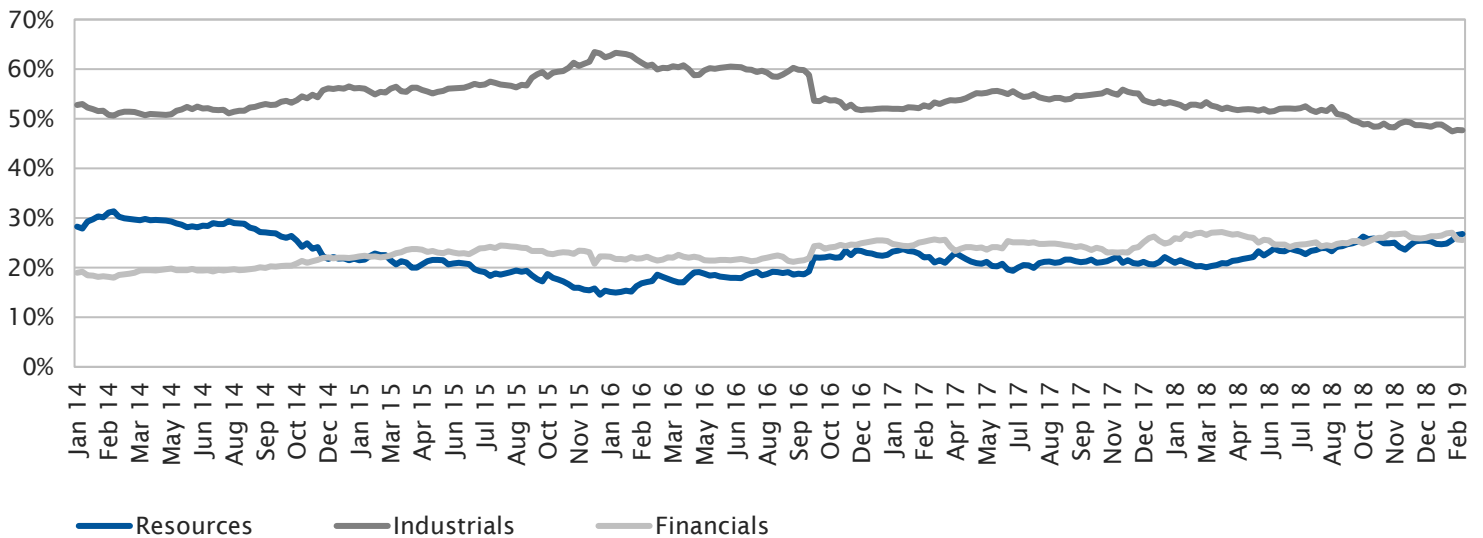


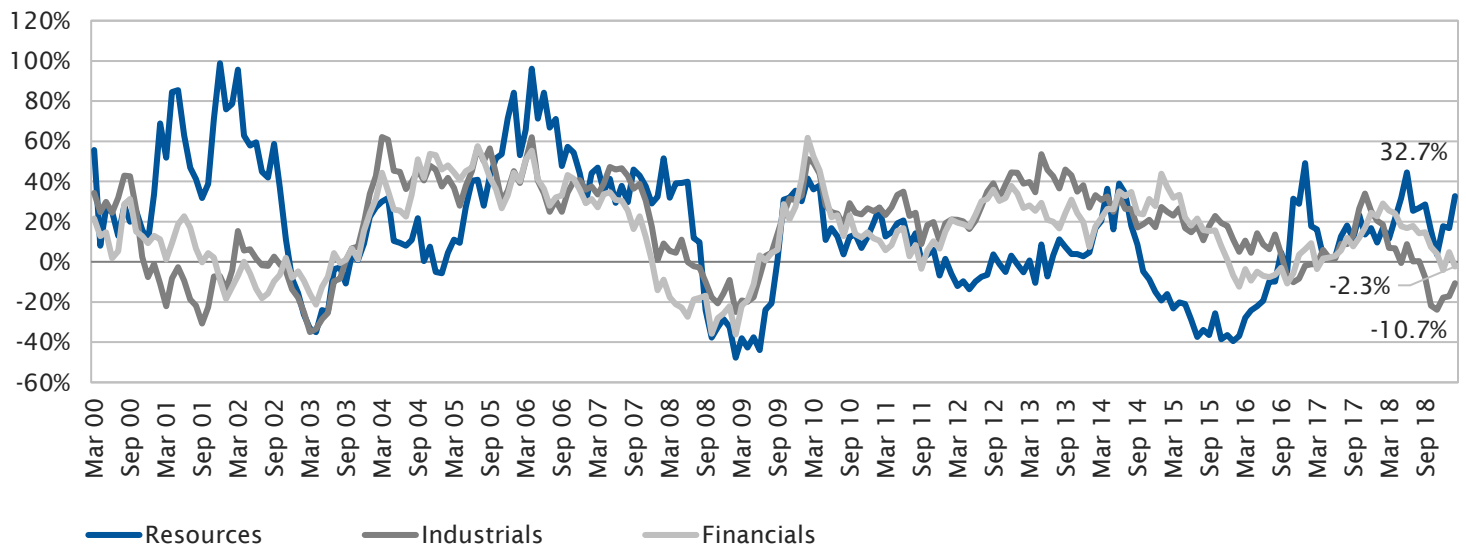
## JSE Sector Analysis

An important part of Seed’s multi management process is performing monthly asset class valuations using our in-house quantitative models. This process covers all the local and global asset classes that are suitable for inclusion in our multi asset class funds and model portfolios. The output of these models guides our tactical asset allocation decisions, where we under- or overweight certain asset classes in the short term, compared to our longer-term target weights.

When evaluating local equities, we take an in-depth look at each major sector on the JSE - Resources, Financials and Industrials. The chart below illustrates the weights of each sector in the JSE All Share Index over the last five years. Industrials are by far the largest sector at a 48% weight, while Resources and Financials are similar in size at 27% and 25% respectively. There was a clear turnaround in the sector weights around January 2016, when Industrials had a peak weight of 63% and Resources a low of 15%.



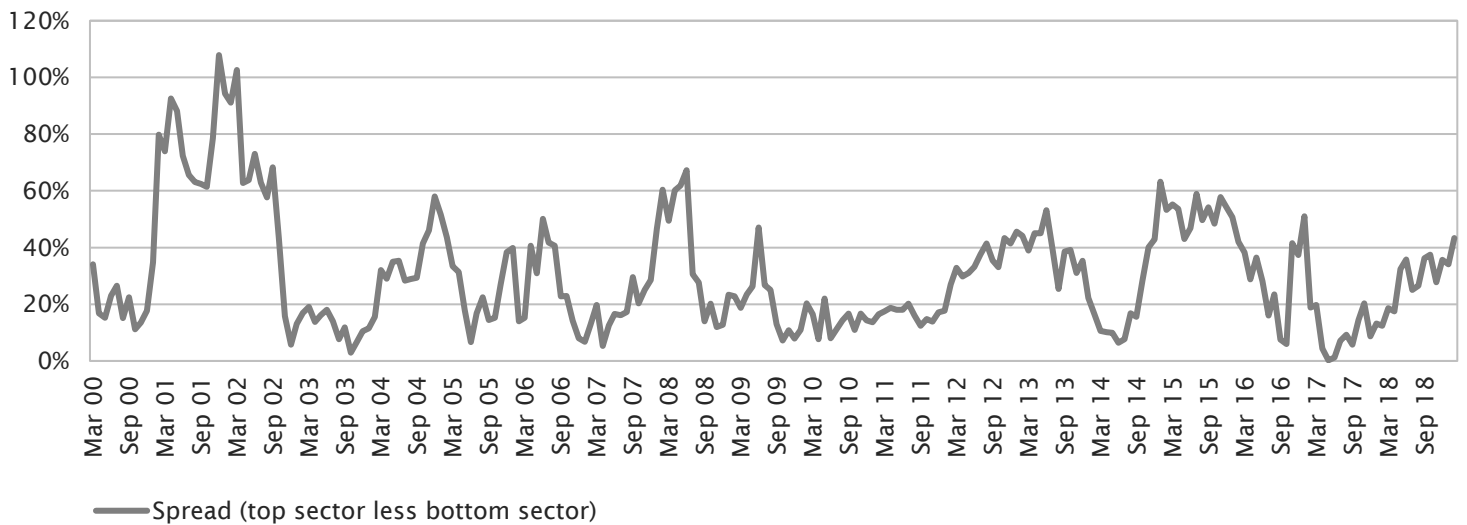
All three sectors have delivered similar returns over the last 20 years, but at very different levels of annual volatility. The Resources index has been around 50% more volatile and is also less correlated to Financials (31%) and Industrials (47%) than the latter two indices are to each other (69%). The rolling 1-year return chart below illustrates this relationship, and also shows that Resources has been an excellent sector to be invested in over the last three years.



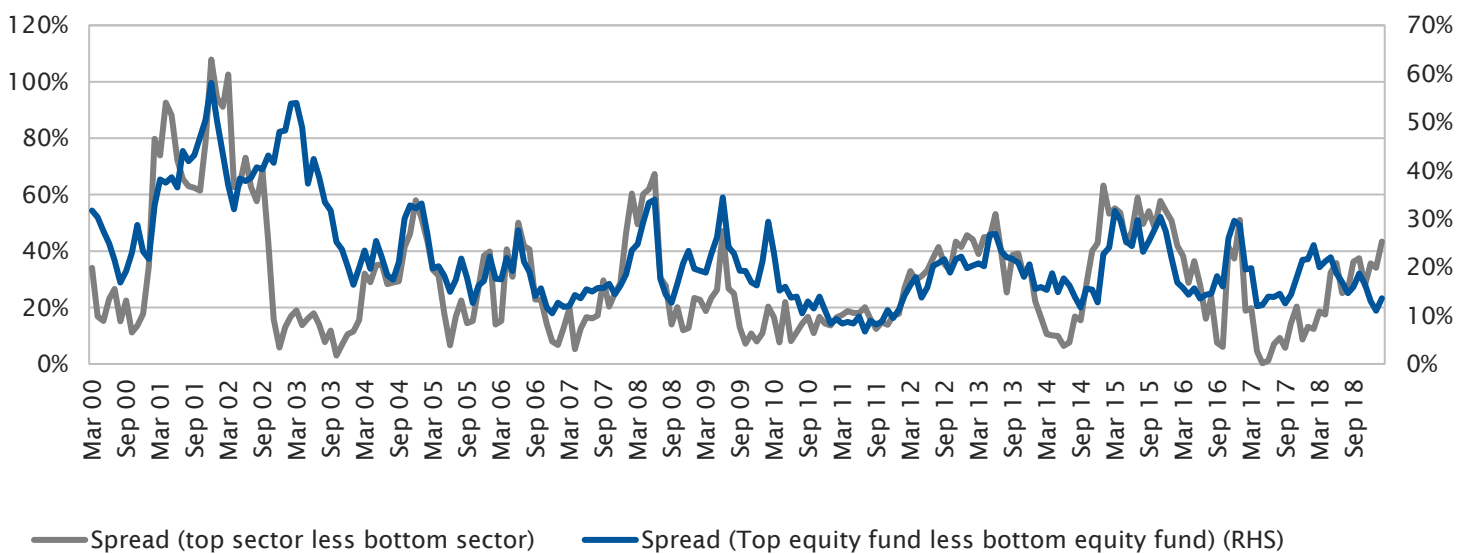
## JSE Sector Analysis

When selecting equity managers for our portfolios and shortlists, we come across many processes that lean towards specific sectors and may not work across the board. Often a manager may avoid an entire sector due to the volatility (e.g. Resources) or unexpected losses sustained previously.

An interesting measure to look at is the difference between the best and worst sector on an annual basis, which gives an idea of the alpha on offer by being nimble and investing across all three sectors. When the difference is high - as it currently is - it means that certain equity managers had opportunity to outperform peers who are not truly sector agnostic. Practically, this boils down to whether an equity manager had a view on the Resources sector and if this view turned out to be correct!



The chart below overlays the wide spread of returns that the local equity manager peer group generates on a rolling annual basis. This spread is a result of both sector selection and picking stocks within each sector. We believe that managers' understanding of the Resources cycle accounts for a lot of this divergence in performance.



## JSE Sector Analysis

At Seed, we realise that there is significant opportunity cost in avoiding an entire sector of the equity market. Therefore, we have selected managers with proven ability of investing across all three sectors when they perceive enough value, growth or quality. We also ensure that each manager has appropriate risk management strategies in place to deal with Resources' added volatility.

Kind regards,



**Cor van Deventer**

Seed Portfolio Manager

*Source: All illustrative data sourced from Morningstar and Iris (data as at 28 February 2019)*

## JSE Sector Analysis

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### ADDITIONAL INFORMATION (where applicable)

Performance has been calculated using net NAV to NAV numbers with income reinvested. Full performance calculations are available from the manager on request.

### DEFINITIONS (where applicable)

Annualised Return	Annualised return shows longer term performance rescaled to a 1-year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1-year period have been shown.