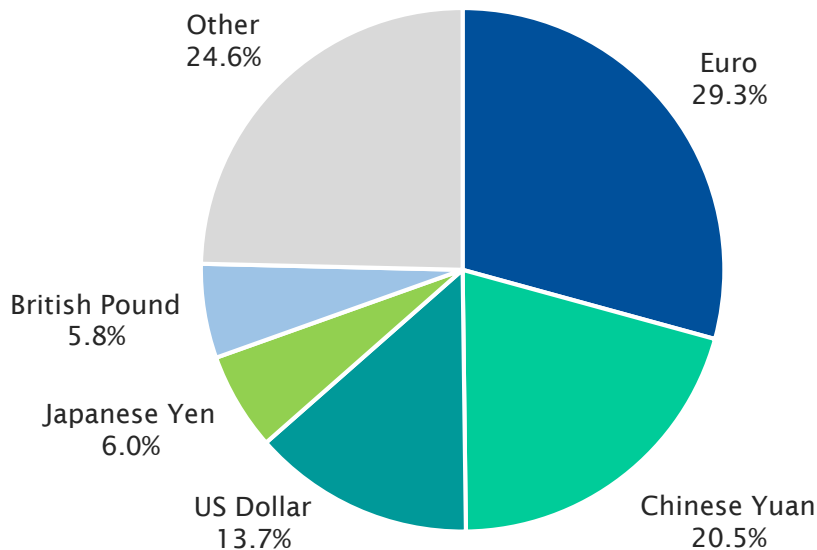


Trade Weighted Currency Basket

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.

One of the aspects we model on the currency side is the Trade Weighted Currency Basket, and specifically this basket's weighted exchange rate compared to the long-term trend.

The weights within the Trade Weighted Basket is based on bilateral trade between South Africa and its most important trading partners, and incorporates twenty different currencies. The five major currencies in the basket are illustrated in the chart below:

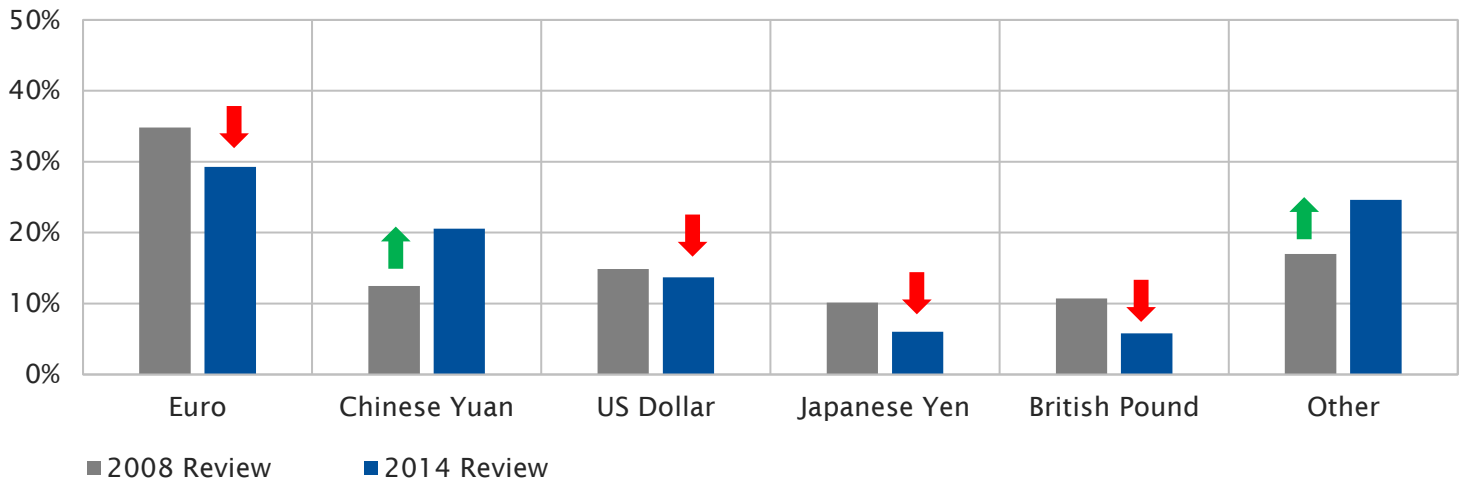


Source: www.resbank.co.za (30 April 2019)

The US Dollar, although the most watched and quoted currency in our local market, is not the most important in this context. Most of SA's export (55%) and import (75%) trade is with Europe and Asia, and it is the Euro and the Yuan rates that will drive company profits in Rand terms.

The basket's weights were last updated in 2014, based on trade data from 2010 to 2012. This review has seen the Chinese Yuan become much more significant at the expense of the Euro, Yen and Pound.

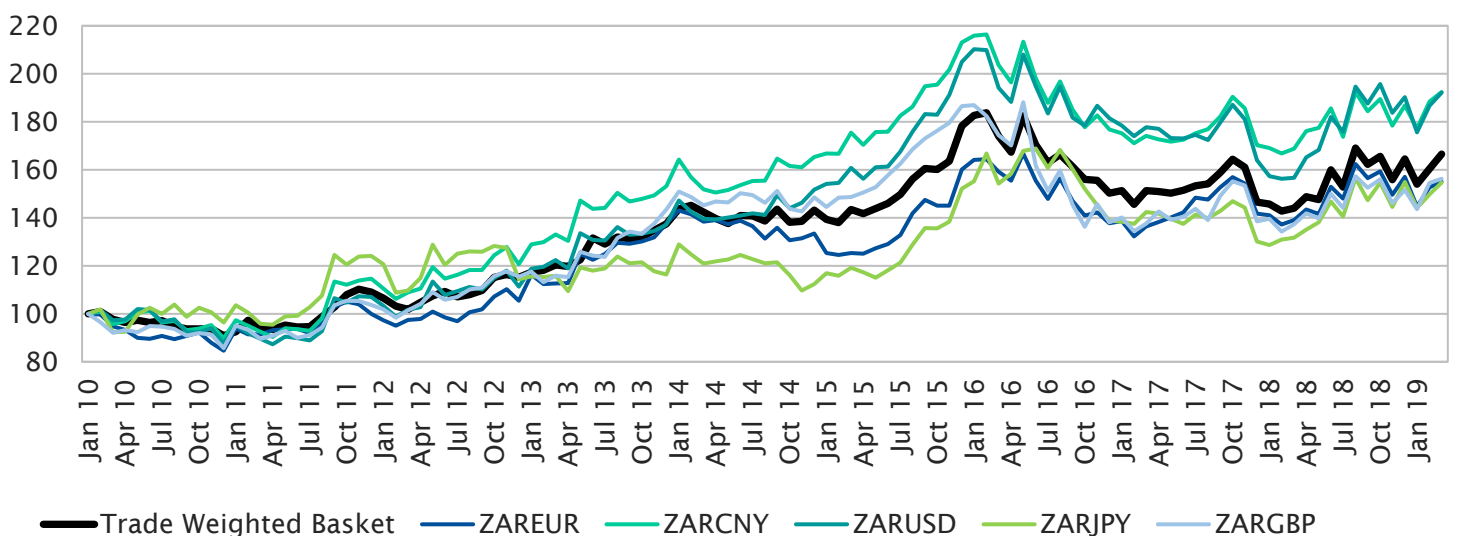
Trade Weighted Currency Basket



Source: www.resbank.co.za (30 April 2019)

But how have these major components contributed to the overall performance of the basket? The chart below illustrates the basket and five main underlying currencies since 2010, rebased to 100 to enable a like-for-like comparison.

First, it is clear that the Rand has weakened against all five other currencies over this 9-year period. Rand weakness over the long term can be explained by the Purchasing Power Parity relationship - a consumer should be able to pay the same price for a diversified basket of goods, no matter in which economy the purchase is made. SA's high inflation rate will erode purchasing power quicker than in developed markets with lower inflation rates, and SA consumers need to be "rewarded" with more Rand per foreign currency each year - resulting in Rand depreciation.



Source: Seed Investments (30 April 2019)

Trade Weighted Currency Basket

Over the shorter term, events such as the Eurozone crisis (2011), Taper Tantrum (2013) and Nenegate (2015) introduced additional downside volatility to the Rand. The Euro, Pound and Yen (total 41% of basket) has appreciated less than the Yuan and US Dollar (total 34% of basket), which have been very strong over this period.

According to our valuation models, the Rand is currently around 8% undervalued (weak) against the trade weighted basket compared to the long-term trend. This deviation from trend is not large enough to warrant any changes to our global asset allocations at the moment, and we maintain exposures of 31% to global assets (including 22% to global currencies) in the [Seed Balanced Prescient Fund](#).

As we head into elections next month, we will keep an eye out for any short-term opportunities that might arise due to increased Rand volatility.

Kind regards,



Cor van Deventer *B.Com (Hons), FASSA*

Portfolio Manager

Trade Weighted Currency Basket

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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.