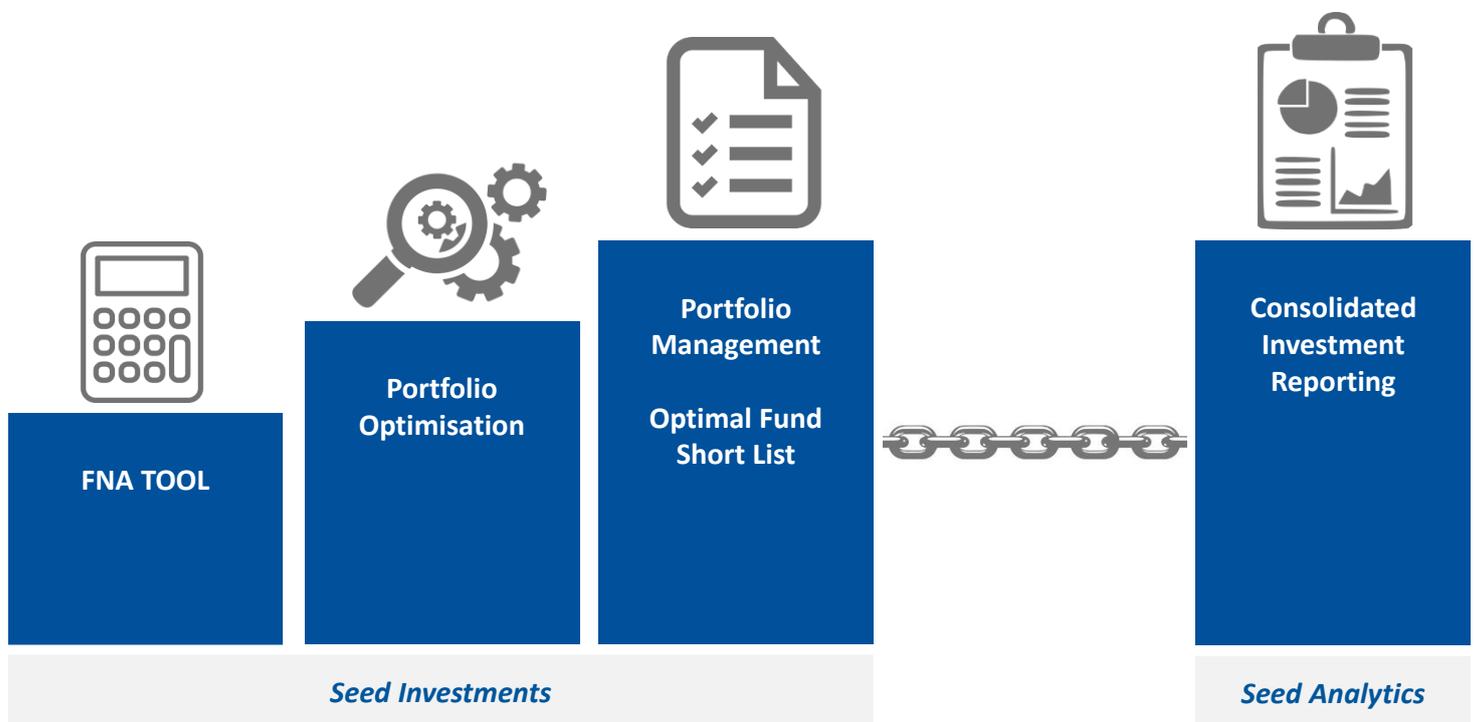


Serving clients and creating financial freedom for them defines our existence at Seed. We simplify complexity in the investing world, pursuing excellence through quality products and services we offer, optimising growth for all stakeholders in our business - including Advisors. As such, we have a holistic value offering for Advisors entailing Financial Needs Analysis (FNA tool), Portfolio Optimisation and Management, and Consolidated Investment Reporting. Let's dive in and explore the Seed Short List as a component of the portfolio management process.



What is the Short List?

The Short List is a list of carefully selected funds, using Seed's qualitative and quantitative manager research process. The funds are researched and monitored as part of the ongoing due diligence process. The aim is to select funds that will deliver on investment objectives over time, managed skilfully, using well-defined philosophies, and repeatable processes.

What it is Not

Although the funds may and will top performance charts at times, the Short List is not a list of the current top performing funds in the market.

A Deeper Understanding of the Short List

While we aim for consistent performance, we are cognisant performance is cyclical and that good funds can underperform. Furthermore, it is not an exhaustive list of all the good funds in the market but rather a focused list of good funds with different characteristics which an advisor can use for clients.

Why Does the Short List so Rarely Change?

The objective is to expose clients to good funds, managed by skilful teams, in good sustainable businesses, that will deliver on investment objectives over time. Lacking patience and constantly changing funds is value destructive for clients through either missing the best days in the market, or by investing or disinvesting from funds at wrong time while chasing performance. Chart 1 below illustrates this point.

Chart 1: (1) Missing the best days on the JSE and (2) Fund (Time-Weighted) vs Investor (Dollar-Weighted) Returns



Source: Morningstar Direct (31 August 2021)

1. 20-Year FTSE/JSE All Share Index daily returns to 17 August 2021. Significant reduction in performance from missing the best days.
2. Fund and investor return up to 31 July 2021 of a high equity fund on the Short List. The investor return reflects the average investor experience, accounting for timing of cash inflows and outflows. Over 1 Year, the fund returned 23.2% but the average investor got a return of 21.4%.

We recommend staying invested in the funds over time, exercising patience if the funds encounter underperformance cycles which are not a result of qualitative issues. Seed advises if and when changes are necessary.

Why the Short List is for YOU

The Short List simplifies the complexity of fund selection, which include:

- Roughly 2 000 South African funds
- Over 100 000 Global funds
- Numerous fee classes, changing mandates and changing personnel
- Cyclical performance and difficulty in distinguishing between skill and luck

The funds are well researched and continuously monitored giving the advisor and client a peace of mind, and it also offers funds with different characteristics, which is useful for blending to get a more consistent return profile.

The Seed Edge

Seed has systems, analytical tools, fund and market data for thorough research and analysis. The team makes use of proprietary research tools for in-depth analysis and offers fund analysis and comparison reports which advisors can present to clients to motivate investments. The Seed team is experienced and qualified and has vast industry knowledge built over the last two decades.

Short List Blends

Within South African multi-asset categories, we recommend blending funds for a more consistent return profile. The blends are built using quantitative optimisation process, emphasizing risk reduction, to deliver good risk-adjusted returns. Funds go through cycles of out-or-under-performance so blending helps to improve the client investment journey.

Table 1 and 2 below illustrate the consistency of performance (outperforming peer average) of the high equity blend which consists of 3 funds. The short period used aligns with the short-term client experience while still focusing on delivery on long-term objectives.

Table 1: Rolling 1 Year Outperformance over the ASISA South African Multi-Asset High Equity Peer Group Average

Fund	Outperformance over Peer Average	
	No. of Times	% of Time
High Equity Blend	93	76%
Seed Balanced	73	60%
Fund A	76	62%
Fund N	71	58%

Source: Morningstar Direct (31 July 2021).

Returns in Rands, net-of-fees since 1 July 2010 (Seed Balanced inception).

The High Equity Blend consists of 40% Seed Balanced and 30% each of Fund A and Fund N.

Table 2: Calendar Year Returns with Outperformance over High Equity Peer Average highlighted

	YTD	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Years Outperformed
Seed Balanced Prescient A1	11.7	1.9	10.3	-2.9	9.2	0.0	10.8	12.9	19.5	20.2	5.4	7 out of 10
Fund N	9.7	10.3	13.0	-0.6	9.4	1.1	14.0	8.5	13.5	17.9	11.0	6 out of 10
Fund P	12.2	8.2	11.3	-3.6	17.7	2.0	8.7					
Fund A	11.0	3.8	6.9	-2.9	11.2	6.5	12.5	9.2	23.8	13.3	11.9	6 out of 10
High Equity Blend	11.2	6.5	11.3	-2.5	11.6	0.8	11.0	11.7	18.8	17.3	8.9	9 out of 10
(ASISA) South African MA High Equity	11.5	5.2	9.5	-3.6	10.0	1.3	7.7	9.5	18.0	16.3	5.3	

Source: Morningstar Direct (31 July 2021).

Return in Rands, net-of-fees since 1 July 2010 (Seed Balanced inception).

The High Equity Blend consists of 40% Seed Balanced and 30% each of Fund A and Fund N to May 2014. Fund P (2014 inception) replaced Fund A in the blend from June 2015.

Lastly (and importantly), Fees...

Performance is presented after costs. It goes without saying that investors are benefitting from the reduction in fees happening in the industry. It is worth noting that being the lowest cost fund does not necessarily guarantee the best after-cost performance. Careful selection including a thorough due diligence is still necessary as fees trend lower.

Seed as a multi-manager gives investors access to multiple funds/strategies including low-cost options bundled into one fund, a one-stop solution to access multiple funds at an optimal cost. Through diversification of managers, investment style, geography etc., the funds add to diversity on the Short List. Ultimately not just offering good risk-adjusted returns but value given all the underlying funds/strategies a client is exposed to at an optimal cost.

Kind regards,



Tawanda Mushore CFA, FRM

Head of Research

A Deeper Understanding of the Short List

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