Seed Weekly

The Local Market – What to Expect

A key part of the investment process at Seed Investments is determining which asset classes we should overweight (relative to a Strategic Asset Allocation – SAA) and which should be underweight. The process has evolved over the past decade plus, but at its heart, a model has been conceptualised and designed for each asset class that we track, which is updated monthly. They determine whether we should be over or under weight versus our benchmark weights using fundamental investment principles.

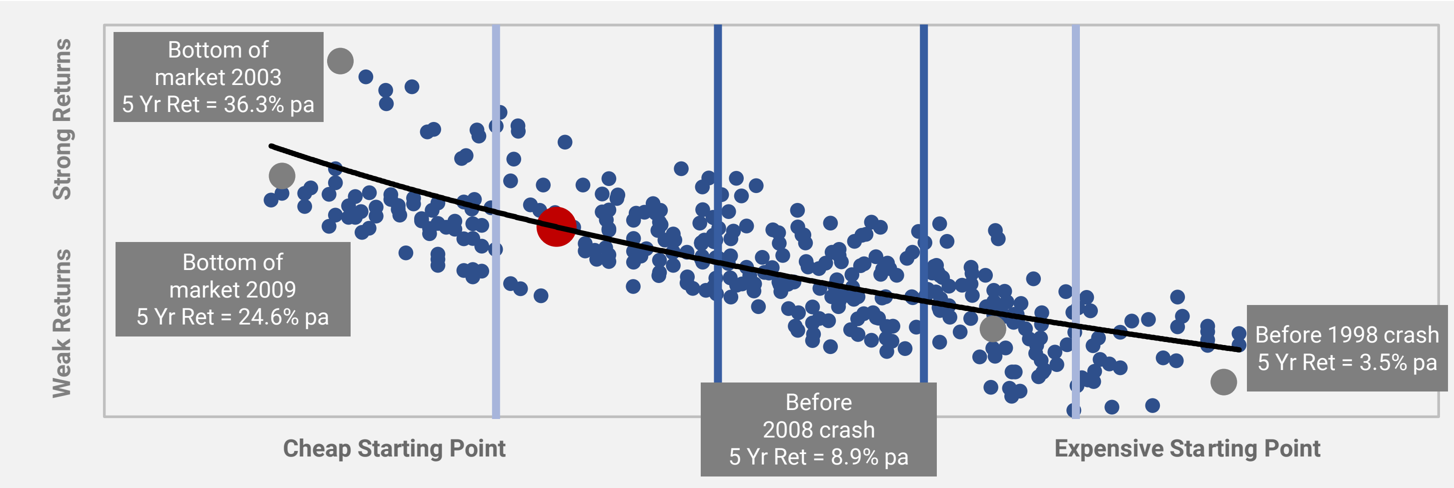
For the Seed Balanced and Stable Funds, the allocation and relative weighting to local equities is one of the bigger decisions that needs to be made, given their respective SAA weightings of 40% and 17.5%. Having a robust model for this asset class is, therefore, crucial in how we manage these Funds - and a range of portfolios with similar mandates.

Over the years we have developed a model that largely focuses on the valuation of the local market, as we have seen that the current market valuation plays a large role in the longer term (5 year) returns from the asset class. While we understand that valuation is a poor timing tool, constantly being overweight in equities when valuations are cheap and underweight when valuations are expensive, has both added to returns and reduced volatility when compared to a simple strategy of remaining at benchmark weighting.

The chart below gives a graphic illustration of this principle. In the chart, each dot references a starting valuation point (market PE ratio) and the subsequent 5 year return. There are a few grey dots that show well known turning points. The market's valuations in early 2003 and 2009 were extremely cheap, and those investors brave enough to invest when all others were fearful were fantastically rewarded with 5 year (annualised) returns of 36.3% and 24.6% respectively. Likewise, investing in mid-1998 and 2008, when the market was expensive, wasn't great when looking at the subsequent 5 year returns.

Seed Weekly

The Local Market – What to Expect



The dark red dot reflects the market's current, undemanding, valuation. It is in a range where we would look to have an overweight allocation, but not be maxed out. On top of this model, we have a range of supporting models and analysis that either help to confirm or deny what we're seeing when looking solely at the valuations, and also assist with timing the changes to the asset class weighting. The models also further break the market down by sector and market cap to see whether there are any anomalies on a cross sectional basis.

At the moment, the secondary research is supportive of this primary model, and we are therefore comfortable with our overweight local equity positioning within both the Seed Balanced Prescient Fund (current local equity weight of 46% – versus SAA of 40%) and the Seed Stable Prescient Fund (20% vs 17.5%).

Our expectation is that stock selection is going to be very important within this asset class, given shifting global market dynamics, and so we have a healthy allocation to active equity managers that will, hopefully, not only be able to extract above average market returns, but generate additional performance over and above the index returns.

Take care,

Mike Browne *CFA*
Portfolio Manager

Sources : Seed Investments (30 September 2021)

Data and illustrations compiled by Seed Investment Consultants (Pty) Ltd. Seed is a licensed Financial Services Provider (2346).
For more information please visit our website on **www.seedinvestments.co.za.**

DISCLAIMER

Seed Investment Consultants is an Authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act (Act No. 37 of 2002). The laws of the Republic of South Africa shall govern any claim relating to or arising from the contents of this document. This document may not be amended, reproduced, distributed or published without the prior consent of Seed Investment Consultants.

No guarantee is provided as to the values of any financial product mentioned in this document. All illustrations, forecasts, information and opinions provided within this document are of a general nature and are not intended to address the circumstances of any particular individual or entity. This document does not constitute a solicitation, invitation or investment recommendation. While we endeavour to provide accurate and timely information, all illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only. We make no representation or warranty, expressed or implied with respect to the correctness, accuracy or completeness of the illustrations, forecasts, information or opinions. No party should act upon such information or opinion without obtaining the appropriate professional and specialised financial, legal and tax advice based upon a thorough examination of their particular situation. Seed Investment Consultants will not be held liable for any direct or consequential loss or damage suffered by any party as a result of that party acting on or failing to act on the basis of information or opinion provided by or omitted from this document.

The value of financial products can increase as well as decrease over time depending on the value of the underlying securities and market conditions. Changes in exchange rates may have an adverse effect on the value price or income of any product.

Past performance is not necessarily a guide to future performance. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager upon request.

Prescient Management Company (RF) (Pty) Ltd are registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. There is no guarantee in respect of capital or returns in a portfolio. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. The CIS may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. In the event that specific CIS in securities are mentioned please refer to the relevant Minimum Disclosure Document in order to obtain all the necessary information in regard to that unit trust. In rare instances redemption transactions may be subject to a redemption fee. The applicable Prospectus and Key Investor Information Document will be made available upon request.

Please note that there are stipulated cut-off times for all documents, notifications of deposit, investment, redemption and switch applications. These cut-off times are product or fund specific and the applicable guidelines have been stipulated on the relevant supporting or transaction documents, application forms and Minimum Disclosure Documents. Where all required and supporting documentation is not received before the stated cut off time no service provider shall not be obliged to transact at the net asset value price as agreed to. Prices are published daily and are available on the Prescient website at www.prescient.co.za.

Investors should at all times remain aware of the risks involved in the buying or selling of any financial product. Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks, and potential limitations on the availability of market information. The investor hereby acknowledges the inherent risk associated with any selected investments and that there are no guarantees (Paragraph 6(2)(f) of BN92). The Manager retains full legal responsibility for any third-party named portfolio (Paragraph 6(1)(g) of BN92).

For any additional information please visit our website on **www.seedinvestments.co.za.**