

Part 1 - by Cor van Deventer

South Africa's savings rate has recently jumped up from 14.2% in December 2020 to 18.0% in the first quarter of this year, but remains very low compared to the global average of around 25.0%. Finding room in the budget for discretionary savings remains tough for many workers, and often their only savings is through an employer-sponsored pension or provident fund.

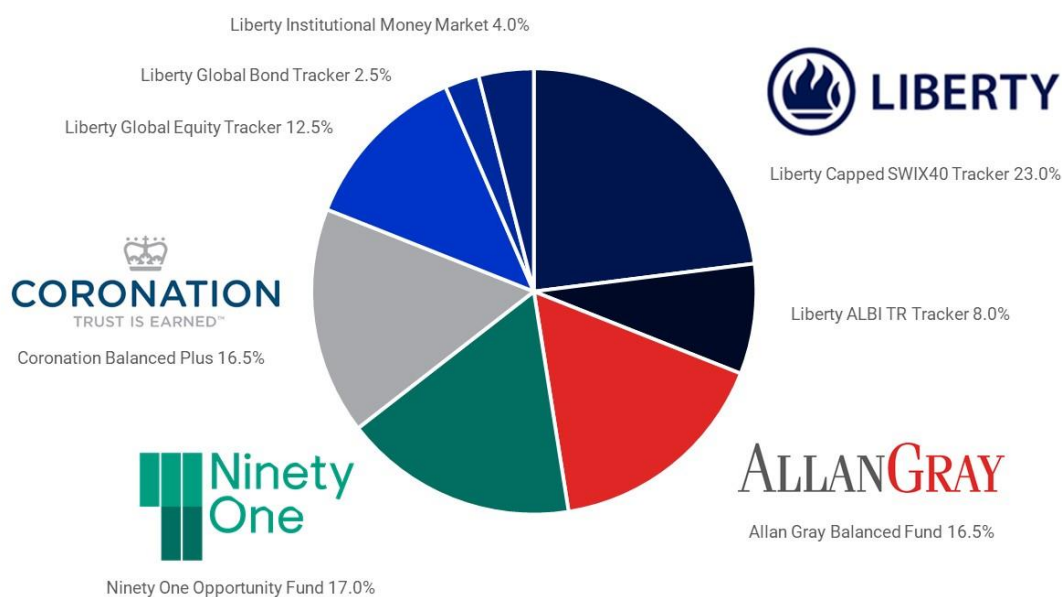
The Seed Lifestage Employee Benefits offering is a comprehensive solution that enables participating employers to provide their employees with an optimal, risk-appropriate and diversified retirement fund that is managed on a continuous basis. Seed's primary offering is available on the Liberty Corporate platform, but we also have parallel products that can be accessed on the Sanlam Umbrella and Momentum Funds at Work platforms.

The Seed Unitised Balanced is the flagship portfolio within the range, designed to deliver CPI + 5% - 6% over the long term and benchmarked against the ASISA Multi Asset High Equity category average.

Portfolio Construction

1) Core/Satellite Approach

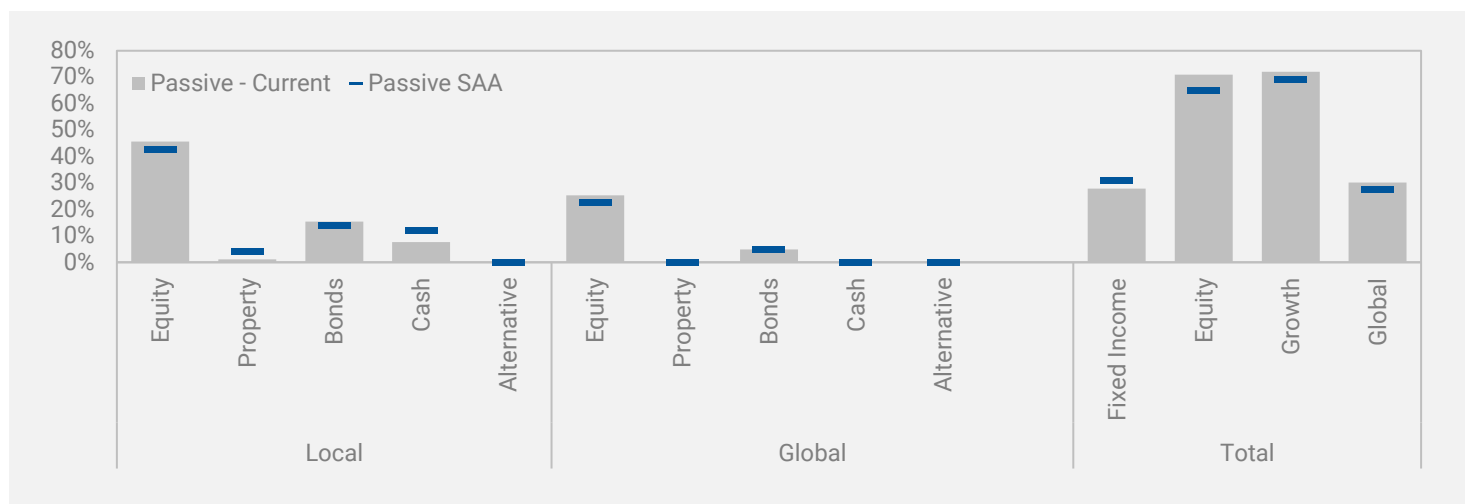
The Seed Unitised Balanced portfolio is constructed using a Core/Satellite approach, with an allocation of 50% to passive index tracking funds and 50% to actively managed balanced funds. This approach reduces overall portfolio costs, which is crucial in the retirement fund environment, while also allowing scope for outperformance via the active managers. The chart below illustrates the latest underlying components, with the passive components administered by Liberty (illustrated in blue).



2) Passive Component

The Passive component of the portfolio is designed to outperform CPI + 6% pa (and hence peers) over the long term and is managed on a Strategic Asset Allocation (SAA) basis. The SAA was updated in October 2020 using a comprehensive quantitative process and incorporating a Peer Review aspect for the first time. The Peer Review element ensures that our Passive asset allocation does not deviate too far from our top peers and provides a reasonability check to our asset class valuation models.

The actual asset class weights will only deviate moderately from the SAA, and only in cases of extreme relative valuations. The chart below illustrates the latest positioning of the Passive component relative to its SAA, with overweight allocations to Local Equity (attractive valuations), Local Bonds (high starting yield) and Global Equity (based on BCA Research's views) and underweights to Local Property and Local Cash.



3) Active Component

As an established Multi Manager, Seed uses a qualitative and quantitative research process to select managers and funds from the range available on the various platforms. The objective is to identify skills and key differentiators that will drive future outperformance relative to peers. We also view a thorough, repeatable process and a well-articulated investment philosophy as essential.

The goal on the Active component is to blend the best complementary active managers to outperform their peers as consistently as possible. The current manager selection is tabled below -

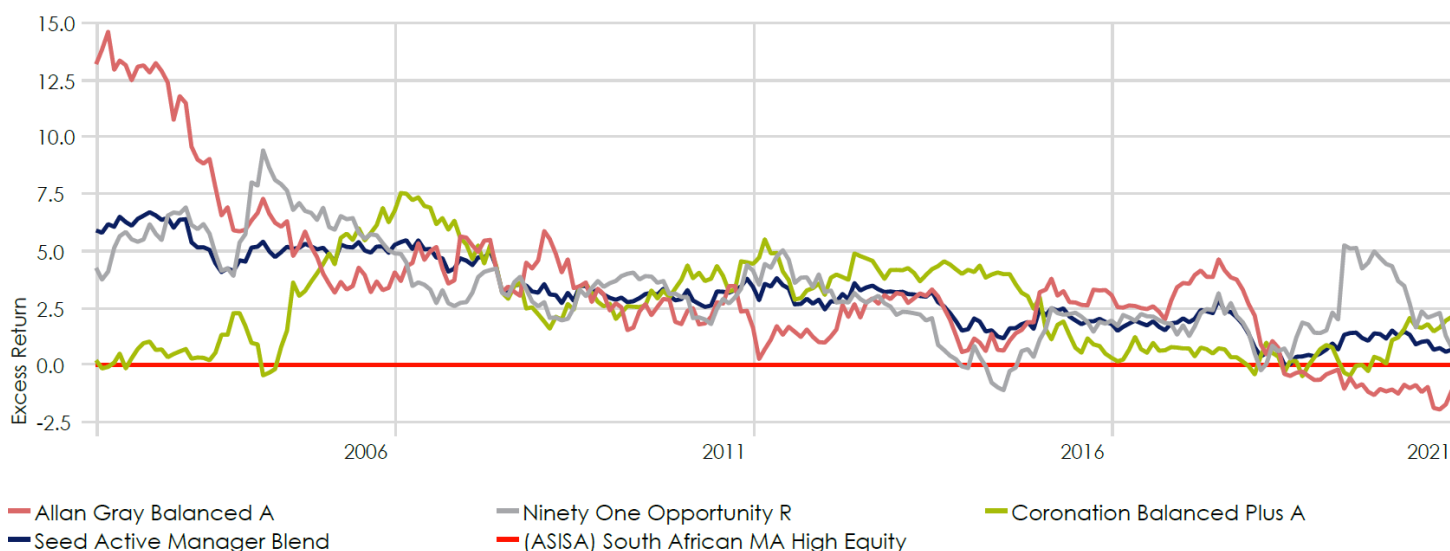
Fund	Weight	Investment Case
Allan Gray Balanced	33.0%	Contrarian valuation approach, good overall upside and downside capture. Blends very well with other balanced funds given unique return profile.
Coronation Balanced Plus	33.0%	More aggressive than average peer, geared to the market and generally captures more upside, but comes with higher volatility.
Ninety One Opportunity	34.0%	Bias towards Global and Quality exposure, with great defensive characteristics during market drawdowns.

The chart below illustrates the benefits of combining the different investment philosophies, processes and market views of these managers. On a rolling 3-year basis, all three have gone through periods of outperformance and underperformance vs. the ASISA Multi Asset High Equity peer group benchmark, but the blend has resulted in a much more consistent combination.

Rolling Alpha

Time Period: Since Common Inception (1999-11-01) to 2021-10-31

Rolling Window: 3 Years 1 Month shift



Seed Weekly

Seed Lifestage Employee Benefits Offering



Conclusion

Seed believes that the Core/Satellite approach of blending Active and Passive is the ideal solution in the retirement fund environment, and historic return profiles confirm that each of these components can outperform the ASISA Multi Asset High Equity peer group benchmark over time.

The Passive component is managed using Seed's proven tactical asset allocation process, while remaining mindful of how our top peers are positioned and not deviating too far from our long term SAA. The Active component has contributed significantly to returns since inception, which proves the value of blending complementary managers vetted by an experienced fund selector.

The Seed team is confident that the Seed Lifestage Employee Benefits range remains positioned to deliver peer-beating returns over the long term. For more information or assistance in allocating your corporate clients into the Seed Lifestage solution, please reach out to Cor on cor@seedinvestments.co.za – he would love to hear from you!

Kind regards,



Cor van Deventer CFA, FASSA

Portfolio Manager

Chart Data Source(s) : Seed Investments, Morningstar Direct (31 October 2021).

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