Merchant West SCI Global Managed Growth Fund

Quarterly Report
Quarter ending 31 March 2023

Fund Details

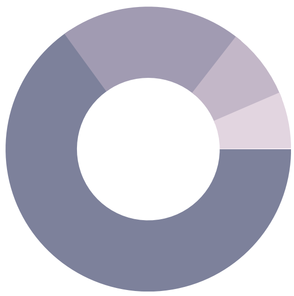
Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
US CPI + 3% in ZAR terms	Global Multi-Asset Flexible category average	Ian Anderson Richard Henwood	The Merchant West Sanlam Collective Investments Global Managed Growth Fund is suitable for an investor seeking to achieve a return of US Inflation (CPI) + 3% or more over rolling three-year periods at moderate aggressive risk levels.

Top 10 Holdings

Top 10 Holdings	%
iShares Global High Yield Corporate Bond ETF	4,0
iShares Global Corporate Bond ETF	3,9
Prologis Inc	3,1
Chubb Limited	2,6
SSE Plc	2,6
Microsoft Corporation	2,6
Zurich Insurance Group AG	2,6
Vinci SA	2,6
GSK Plc	2,6
TotalEnergies SE	2,6

Asset Allocation

Portfolio date: 31/03/2023



Asset Allocation	%
Global Equity	65,0
Global Property	20,5
Global Fixed Income	8,0
Global Cash	6,4
SA Cash	0,1
Total	**100**

Annualised Performance

Annualised Performance	Fund %	Benchmark %
3 months	4,4	6,3
1 year	7,9	32,9
3 years	8,0	8,2
5 years	12,6	16,1
Since Inception (August 2015)	7,7	10,8
Launch date (August 2015)		

Annual Returns

Annual Returns	%
Highest Annual %	35.3
Lowest Annual %	-11,8

Market Overview

The collapse of Silicon Valley Bank (SVB) in the United States and Credit Suisse in Switzerland during the first quarter of 2023 highlight some of the issues regulators are facing in trying to contain inflation by aggressively raising interest rates. While both banks are not representative of the global banking sector generally, the repricing of bank assets held in government bonds is a risk to the sector as a whole and is a function of higher inflation and higher interest rates. Regulators were quick to act in both cases, with the US Federal Reserve guaranteeing all deposits at SVB, while the Swiss regulators quickly engineered a takeover of Credit Suisse by its largest competitor, UBS. While the crisis was short-lived, it did have a material impact on the share prices of most banks in the United States and Europe, and is also likely to place a dampener on economic growth as banks reassess the quality of their asset books and adopt more stringent lending criteria. On the other hand, central banks are likely to be more circumspect about the pace and magnitude of further interest rate hikes given the fragility of certain banks in the financial system.

During the first quarter, global bond yields fell on expectations that central banks (and the US Fed in particular) will reduce the magnitude of rate hikes at upcoming policy meetings and start cutting interest rates again before the end of the year. The US Fed did raise official interest rates by 25 basis points at both the February and March meetings of the Federal Open Market Committee, but these were lower than the 50 basis point increase in December 2022 and the 75 basis point increases in June, July, September and November last year. The yield on 10-year US Treasuries fell more than 40 basis points during the quarter to trade below 3.5%, having touched 4.25% towards the end of last year. Lower bond yields helped growth stocks stage a significant rally in the first quarter, with the tech-heavy NASDAQ Index gaining 17%, while the Dow Jones Industrial Average (DJIA) was up just 0.9%. The NASDAQ underperformed both the DJIA and S&P 500 last year as bond yields in the United States rose by around 250 basis points.

While global real estate markets continue to be negatively impacted by the sharp spike in global bond yields, improving fundamentals across several property types and strong results from most companies in the sector helped push global real estate securities higher in the first quarter. Market participants are, however, concerned about the refinancing risks facing many office landlords, as debt currently attracting very low interest rates is maturing over the next 18 months at a time when interest rates are rising and office fundamentals are still weak. There has been an improvement in trading densities in shopping malls but fundamentals are not strong enough for a sustained increase in market rentals. Demand for warehousing remains strong as more companies look to stockpile inventories and raw materials to insulate themselves from any further disruptions to global supply chains, although there is likely to be some fallout from Amazon's decision to start shutting older warehouses in favour of newer, larger and more technologically advanced buildings.

Portfolio & performance commentary

During the quarter, the Fund returned 4.4%, underperforming the peer group average. The weaker relative performance resulted from the Fund's low allocation to the technology sector which was buoyed by lower bond yields, with the technology sector nowadays comprising a significant portion of most global equity indices. US Bancorp (-12.1%) and Wells Fargo (-5.0%) weathered the global banking crisis better than most, while the Fund's position in Microsoft (+25.7%) was the single biggest contributor to performance in the first quarter.

The Fund's bond positions have been maintained at approximately 8% after they were increased from 5% in the third quarter of last year, following a sharp spike in yields, particularly in the United States.

Current positioning & outlook

The Fund's current allocation to growth assets (equities and listed property) has been reduced from 90% to 85% but remains in line with the Fund's longer-term strategic allocation of 90% (65% equity and 25% listed property). The high allocation to growth assets reflects the view that future returns from cash and bonds will be low. The Fund's current allocation to equities emphasises quality over any other factor and with global growth slowing and inflation rising, quality is likely to outperform other styles, at least in the short to medium term.

Based on a combination of Bloomberg, FactSet, IRESS and Merchant West Investments forecasts, the current one-year forward income yield on the Fund is 3.2%, which compares very favourably with the yield on global money market and income funds, despite having a 90% allocation to growth assets. Based on those same forecasts, the income produced by the portfolio is expected to grow at approximately 4.4% per annum over the next three years, slightly above global inflation expectations over that same period.

The Fund is ideally suited for investors with sufficient excess capital and who are looking to build a hard currency linked income for their retirement and then to manage that hard currency income in retirement such that the major risks facing retirees, namely longevity (how long am I going to live), sequence of returns risk (getting the returns when you need them) and inflation (the hurdle rate and one that grows rather than shrinks in retirement), are mitigated and in some instances completely eradicated. Investors can live off the income provided by the portfolio and not draw excessively against the capital. In this way, the investor's capital is preserved and is only utilised in emergencies during their retirement, irrespective of how long that retirement lasts.

Ian Anderson
Portfolio Manager