Merchant West SCI* Stable Payers & Growers® Fund

Quarterly Report
Quarter ending 31 December 2023

Fund Details

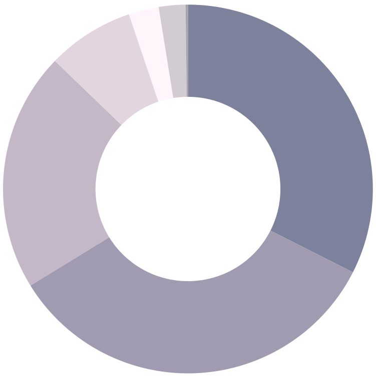
Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
CPI + 4%	South African Multi-Asset Low Equity	Ian Anderson Richard Henwood	The Merchant West Sanlam Collective Investments Stable Payers and Growers Fund is suitable for investors who require a balance between growth and income at moderate to conservative risk levels. The Fund is Regulation 28 compliant and has a maximum effective equity exposure limit of 40%. The recommended investment horizon is three years or more.

Top 10 Holdings

Top 10 Holdings	%
Merchant West SCI* Global Managed Growth Fund Class Z	11,5
RSA Govt Bond R2030 8.0% 31012030	11,5
RSA Govt Bond R2035 8.875% 28022035	10,5
Spear REIT Ltd	3,9
Dipula Income Fund B	3,7
Fairvest Limited B	3,7
FirstRand F/R 09032025	2,7
Redefine F/R 22032024	2,6
Stor-Age Property REIT Ltd	2,6
RSA Govt Bond R186 10.5% 122026	2,5

Asset Allocation

Portfolio Date: 31/12/2023



Asset Allocation	%
SA Equity	32,0
SA Fixed Income	33,3
SA Property	20,7
Global Equity	7,5
SA Cash	2,6
Global Property	2,3
Global Cash	0,2
Global Bonds	1,4
Total	**100**

Annualised Performance

Annualised Performance	Fund %	Benchmark %
3 months	6,6	2,5
1 year	9,7	9,4
3 years	13,1	10,2
5 years	4,7	9,1
10 years	5,5	9,2
Since Inception (May 2009)	7,0	9,1
Launch Date (May 2009)		

Annual Returns

Annual Returns	%
Highest Annual %	28,3
Lowest Annual %	-9,6

Market Overview

Global markets recovered strongly in the fourth quarter of 2023 as inflation in the US continued to decline, coming in at 3.1% for the 12 months ended November. This prompted optimism that a pivot in the Fed Funds rate was on the cards in 2024, with increased bets on the first 25 basis points drop happening as early as March 2024. The Federal Reserve kept the Fed Funds rate steady at 5.25% - 5.5% for a third consecutive meeting in December 2023, in line with expectations but indicated the potential for 75 basis points of cuts in 2024.

Optimism surrounding potential rate cuts led to a sharp decline in bond yields, with the US 10-year Treasury yields ending the year on 3.86% from 4.57% at the end of September 2023. The trend was the same in most other regions and led to a stellar return of 8.1% for developed market bonds over the quarter and 7% for emerging market bonds, both in US dollars. Lower bond yields also had a positive impact on global listed property, with the GPR 250 REIT Index gaining 15.8% in US dollars over the quarter.

While inflation remains somewhat more stubborn in the UK and Europe, the trajectory has remained downward, and it seems that rates there too have peaked with the possibility of rate reductions on the cards for 2024. Both the Bank of England (BoE) and the European Central Bank (ECB) kept interest rates on hold during the last quarter, with rates in both regions at multi-year highs. In the UK the interest rate is at a 15-year high of 5.25% and the eurozone at a 22-year high of 4.5%. In contrast to the US, the UK and eurozone economies remain depressed, with the third quarter of 2023 GDP decreasing by 0.1% compared to the previous quarter for both regions.

The MSCI World Index posted a total return of 11.4% for the quarter (+23.8% for the year) and the MSCI Emerging Markets Index returned 7.9% (9.8% for the year), both in US dollars. Stripping out China – one of the worst performing markets due to continued concerns over economic growth and market-unfriendly regulations – the Emerging Markets Index would have shown returns of 13% and 20% for the quarter and year respectively.

South Africa's annual inflation eased to 5.5% in November from 5.9% in October, just below market forecasts of 5.6%. The main contributor to lower inflation was a slowdown in transportation price increases to 4.3% year-on-year (y/y). Food inflation in South Africa remains worrisome, coming in at 9.0% y/y. South Africa's core inflation increased to 4.5% in November from 4.4% y/y in October. While it is expected that the inflation rate should decline further in 2024 in line with the global trend, the South African Reserve Bank remains vigilant as risks to the inflation outlook are still assessed to the upside.

The South African economy contracted by 0.7% y/y in the third quarter of 2023, slightly worse than market forecasts. Notwithstanding the poor state of the economy, South Africa's equity market rose in line with global markets over the fourth quarter with the FTSE/JSE All Share Index gaining 6.9%. Financials were the winners in Q4 with a gain of 12.3% versus 5.9% for Industrials and 3.0% for Resources. Of the major equity sectors, Precious Metals recorded the largest Q4 total return of 19.5% as the gold price gained almost 12% on the back of continued geopolitical tensions in the Middle East and prospects of lower interest rates in 2024.

The best performing asset class in South Africa in the fourth quarter was listed property, with the SA Listed Property (SAPY) Index advancing by 16.4%, in line with global listed property markets. South African bond yields declined in the fourth quarter in line with global bond yields, resulting in the BEASSA All Bond Index showing a total return of 8.1% while inflation-linked bonds returned 5.5%.

Portfolio and Performance Commentary

During the quarter, the Fund returned 6.6%, outperforming its benchmark (CPI + 4%) and the peer group average. The outperformance can largely be attributed to the Fund's low exposure to the Resources sector in South Africa, as well as the Fund's relatively high exposure to growth assets (equities and listed property) when compared to the peer group average. Retailers, Banks and Listed Property were the main contributors to the strong absolute and relative performance of the Fund during the quarter, as the prospect of a Fed pivot helped drive the performance of interest rate sensitive sectors.

The Fund's position in the Merchant West SCI Global Managed Growth Fund has been maintained at just over 11% of the Fund, given the current level of the rand and the outlook for risky assets like emerging market equities in a declining interest rate environment.

The Fund paid a distribution of 33.72c for the A class and 35.25c for the A1 class, in line with expectations. The distribution for 2023 declined by 4% for the A class and 3.7% for the A1 class, again in line with expectations, The decline in distributions was mainly because of the timing of the investment into the Merchant West SCI Global Managed Growth Fund, which resulted in no income being recognised in 2023 on that investment. The Fund is expected to deliver strong distribution growth in 2024 as six months of 2023's global income will be recognised at the start of the new year.

Current Positioning and Outlook

The Fund's current allocation to growth assets (equities and listed property) has been maintained at 62% and is not far off the maximum permissible allocation of 65% (40% equity and 25% listed property).

Based on a combination of Bloomberg, Refinitiv, IRESS and Merchant West Investments forecasts, the current one-year forward income yield on the Fund is 7.9%, which compares very favourably with the yield on money market and income funds, despite having a 62% allocation to growth assets. Based on those same forecasts, the income produced by the portfolio is expected to grow at approximately 3.5% per annum over the next three years, reflecting the expectation of a slowdown in economic activity both globally and in South Africa.

The Fund is ideally suited for investors looking to build an income for their retirement and then to manage that 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