Consequence Private Wealth Investment Process

RESTRUCTURING OF THE CONSEQUENCE BALANCED PORTFOLIO (EFFECTIVE MAY 2020)

In their selection of managers in the Consequence Balanced Portfolio, the Investment Committee aims to achieve an appropriate degree of diversification while combining the investment expertise of quality investment managers. Certain changes are necessary from time to time to ensure the Portfolio reflects our best investment views. The following changes will be implemented in May 2020:

1) We are re-aligning the Portfolio with our positive asset class convictions given the opportunities available in the current market environment.
2) We are removing multi-asset funds and replacing them with specialist funds per asset class. This allows us to better express our asset allocation views and leads to a significant reduction in costs.

REASON FOR THE CHANGES:

Over the past few weeks, we have witnessed significant market movements - both locally and globally. This is largely due to concerns around a pending economic slowdown, declines in company profitability and the dramatic fall in oil prices. The sell-off has been quite indiscriminate and has caused dislocation in the markets. This new market environment has also presented us with new investment opportunities.

Given the available opportunities, we will be restructuring our portfolios for the coming year to be aligned with our conviction levels as detailed below.

POSITIVE CONVICTION:

- **Local and global equities** – we were underweight equities going into 2020. This has provided somewhat of a buffer for investor returns year to date. Given the significant movement in equity markets, we are increasing our exposure to have a largely neutral allocation.
- **SA Bonds** – it is quite unbelievable that yields have risen to current levels and are offering a nominal return in excess of 10% - which translates to a real return (return after inflation) of above 7%. Bond yields increase when the bond value decreases. Globally all emerging market bonds sold off going into the current market turmoil. We are increasing our exposure to SA government bonds.

LOW CONVICTION:

- **Local credit** – we are concerned about liquidity and whether all of the risks have been priced into credit, particularly given the contraction in credit spreads over the past few years. We prefer SA government bonds which have greater liquidity and price more efficiently.
- **Local listed propert**y – we see more fundamental headwinds for the sector and distributions are uncertain. In portfolios where this asset class was used as a source of yield; we have opted to remove the allocation. In portfolios with a longer investment horizon, we have reduced our position size, however, we have maintained a small position as the sector is trading at a significant discount to net asset value.
- **Global government bonds** – as investors have retreated into safe-haven investments over the month, we have seen yields on global government bonds continue to trend downwards and prices of bonds increase.

We remain committed to building portfolios that are aligned with our asset class convictions. We will continue to monitor the ever-changing landscape and we will act on opportunities as they arise.

CHANGES TO THE UNDERLYING FUNDS

The Consequence Balanced Portfolio was historically constructed using multi-asset funds, whose risk and return targets were of a similar nature to that of our balanced strategy. This methodology has proven successful; however, it is also a costlier way to build portfolios and assumes a large reliance on the underlying managers to reflect our chosen asset allocation. In our efforts to constantly improve performance, efficiency and reduce costs, the Investment Committee has chosen to change the construction methodology of the Portfolio. This will result in the underlying multi-asset managers being replaced with specialist managers, enabling the Portfolio to invest with managers to access their sole focus and area of expertise and for the funds to accurately reflect the asset allocation decisions of the Consequence Investment Committee.

Although we are replacing multi-asset funds with specialist funds, you will still notice a common thread in the manager exposure. We are still investing with our favourite managers - the difference is that we are only accessing the areas where we see their best expertise. For example, whilst we are removing Allan Gray Balanced Fund from the Portfolio; we are introducing Allan Gray Equity Fund and Allan Gray Bond Fund to our Equity and Fixed income components respectively.

The underlying unit trusts selected for the new portfolio have been subject to rigorous qualitative and quantitative analysis. The blend of unit trusts in each asset class achieves an appropriate degree of diversification. Allocation to each asset class is based on a pre-determined golden copy asset allocation benchmark, while taking the macro-economic environment into account.

Consequence Balanced | Old Portfolio	
Asset class	**Fund**
Multi-Asset	Allan Gray Balanced
	Coronation Balanced Plus
	PSG Flexible
	Nedgroup Inv Core Diversified
	Prudential Inflation Plus
Property	Sesfikile BCI Property

Consequence Balanced | New Portfolio	
Asset class	**Fund**
Equity	Allan Gray Equity
	Coronation Top 20
	PSG Equity
	Ninety One Equity
Fixed income	Coronation Strategic Income
	Ninety One Diversified Income
	Allan Gray Bond
Global	Nedgroup Inv Core Global
	Ninety One Global Franchise

FEE SAVINGS

Investors will benefit from a decrease in costs of 22 bps. The total cost of the Portfolio will drop from 1.38% to 1.16%.

	Old Portfolio	New Portfolio
Average Weighted TIC of the underlying funds	1.21%	0,99%
Investment Management Fee (incl VAT)	0.17%	0,17%
Total cost (incl VAT)	**1.38%**	**1.16%**