



Consequence Private Wealth Investment Process

RESTRUCTURING OF THE CONSEQUENCE CAUTIOUS PORTFOLIO (EFFECTIVE MAY 2020)

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 property** – 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 FUND SELECTION

Prudential Inflation Plus and Nedgroup Investments Core Guarded will be removed from the Portfolio.

Ninety One Cautious Managed (formerly Investec Cautious Managed), Nedgroup Investments Flexible Income, and Coronation Balanced Defensive will be introduced to the Portfolio.

These changes will be implemented between 7 – 10 May 2020.