

# KZN DEFENSIVE FUND

JUNE 2023

The KZN Defensive Fund is a low risk fund that aims to balance the needs of members that are approaching retirement; to preserve their capital, to maintain exposure to growth assets and maintain the level of income that can be secured at retirement.

The fund is well diversified between asset classes, both locally and internationally, but is managed within conservative parameters. The fund's asset allocation is fixed and the fund makes use of specialist asset managers to select the most attractive securities to invest in within each asset class.

Due to its relatively low allocation to growth assets, the fund has a low chance of capital loss in the short term and is expected to achieve moderate real growth of capital over the long-term. The fund is best suited to members who have a short to medium term (1-3 years) investment horizon.

The portfolio complies with the prudential investment guidelines set out in Regulation 28 of the Pensions Funds Act.

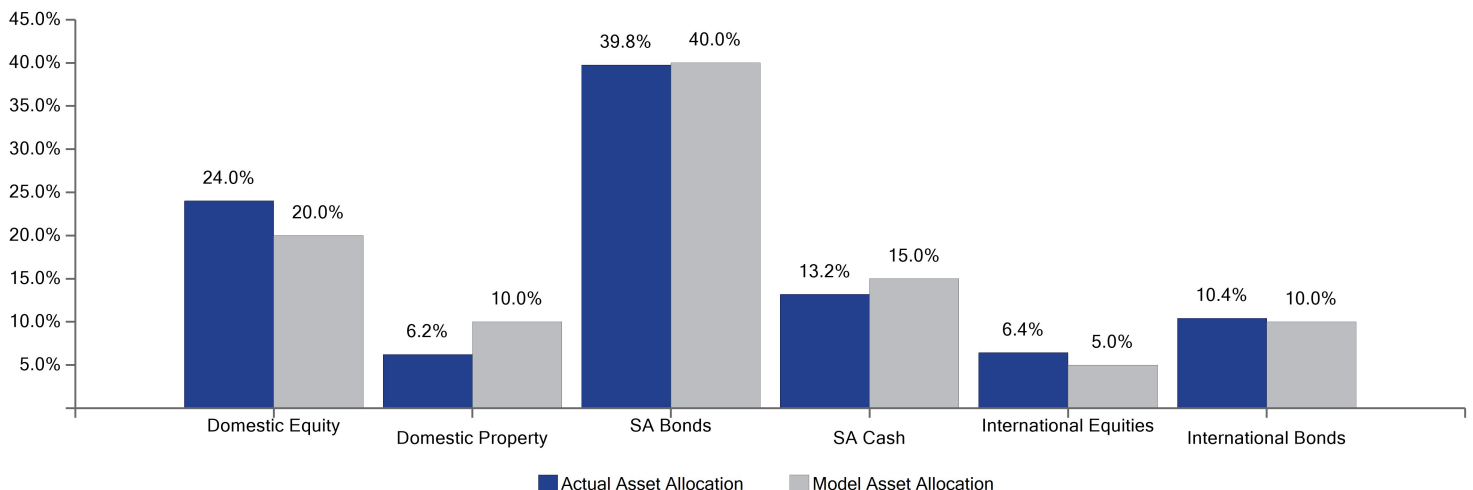
## MONTHLY COMMENTARY

Markets performed well in June, buoyed by the raising of the US debt ceiling, falling energy prices and resilient economic growth - but this resilience will lead to higher inflation for longer and a longer pause in interest rate hikes by the Federal Reserve (the Fed). It is therefore important to focus on what global policymakers do, rather than on what they say. The Fed maintained a hawkish tone but did not raise rates in June. On the other side of the world, China's official policy of prioritising economic growth was reflected in yet another rate cut and further fiscal stimulus, causing the market to rally briefly. However, the market is not yet convinced there is sufficient stimulus to promote robust reflation. While global energy prices have fallen, the current Ukrainian counteroffensive unfortunately aggravates geopolitical risk. If significant territorial shifts occur and Russia loses major ground, Russia may intensify its military pressure and further cut commodity exports. The Wagner group's push towards Moscow increases this risk.

Investor sentiment has surged to its highest level since late 2021, as evidenced by the CNN risk appetite indicator, which is sitting in extreme-greed territory. This suggests that equities are due for a correction, but a deep correction is not expected. The short-term outlook is dominated by two risks: China's policy support and the Fed's rhetoric on inflation. Further negative news on either of these fronts could be a catalyst for a pullback in equity markets. That said, there are reasons to believe that should a US recession occur, it will be a shallow one. First, there are no major imbalances or debt build-ups in corporates or individuals. Second, high cash balances have put a floor under household wealth. Third, the US regional banking system remains contained. And fourth, inflation is continuing to fall. BCA estimate that with inflation below 4%, real earnings will turn positive and a US earnings rebound in 2H is likely. In China, small steps are already being made to increase policy support. Absent a major escalation in geopolitical risk in the Ukraine or elsewhere, earnings should continue to grow this year, supporting equities. However, the lagged impacts of higher interest rates could take their toll next year.

The FTSE/JSE CAPPED SWIX Index increased by 3.8%, Industrials were up 3.7% and Financials climbed by 11.4%. The JSE All Bond Index improved by 4.6%, while the rand appreciated by 4.7% relative to the US dollar.

## ACTUAL ASSET ALLOCATION



### FRONT OFFICE CONTACT DETAILS

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**KZN**

MUNICIPAL PENSION FUND

## FUND SUMMARY AS AT 30 JUNE 2023

STATISTIC	FUND	BENCHMARK
% Positive Months	65.0%	63.3%
% Negative Months	35.0%	36.7%
Worst Month	-7.3%	-11.3%
Best Month	5.3%	9.4%
Average Return	0.6%	0.6%
Median Return	0.8%	0.6%
Maximum Drawdown	-9.7%	-13.7%

## PERFORMANCE ANALYSIS TO 30 JUNE 2023

PERIOD	FUND	BENCHMARK
1 Month	2.3%	2.4%
3 Months	2.2%	1.0%
6 Months	5.1%	4.1%
Year to Date	5.1%	4.1%
1 Year	11.9%	10.9%
3 Years	10.0%	9.0%
5 Years	7.7%	6.4%
Since Inception	7.5%	6.2%

Inception Date: 29 May 2015. Returns prior to inception are backtested. Returns are net of the TIC.

## FEES

	PERCENTAGE
Total Expense Ratio (TER)	0.44% (Mar 2023)
Transaction Costs (TC)	0.05% (Mar 2023)
Total Investment Charge (TIC)	0.50% (Mar 2023)

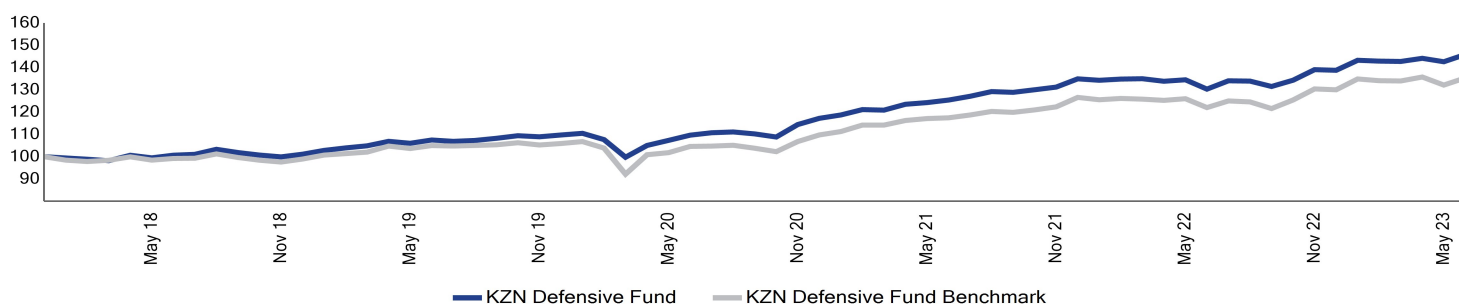
## BENCHMARK COMPOSITION

The fund benchmark is a composite benchmark consisting of: 21.4% Capped SWIX, 41.6% ALBI, 8.5% SAPY, 13.5% STeFI, 5% MSCI All Country World Index, 10% Barclays Global Agg Bond Index,

## HISTORICAL PERFORMANCE

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2021	1.3%	2.0%	-0.2%	2.2%	0.6%	0.9%	1.3%	1.7%	-0.3%	0.9%	0.9%	2.8%	15.1%
2022	-0.5%	0.4%	0.1%	-0.8%	0.5%	-3.1%	2.9%	-0.1%	-1.8%	2.1%	3.5%	-0.2%	2.8%
2023	3.2%	-0.3%	-0.1%	1.0%	-1.1%	2.3%							5.1%

## CUMULATIVE INVESTMENT PERFORMANCE



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## CALENDAR YEAR RETURNS

PERFORMANCE	FUND	BENCHMARK
2020	6.8%	3.6%
2021	15.1%	15.3%
2022	2.8%	2.7%

## MANAGER ALLOCATION 30 JUNE 2023

MANAGER	PERCENTAGE
Coronation Absolute Bond - SA Bonds	20.0%
Coronation - SA Cash	13.1%
Vunani	11.9%
Stanlib Bond Fund	7.9%
M&G Global Bond Fund	6.0%
BlackRock - International Equity	4.9%
Argon SA Equity Fund	4.7%
Mergence Equity (Swix) Fund	3.8%
P1 Finance PLC (listed bond)	3.7%
MAZI Capital SA Equity (Swix) Fund	3.7%
SMMI Positive Return Fund Three B11	3.2%
STANLIB Property Income Fund Class B3	3.1%
KZN Satrix SWIX Portfolio	2.8%
Lima Mbeu Equity Portfolio	1.9%
Mianzo Capped Swix Active Equity Fund	1.8%
MSM Property Fund (Pty) LTD	1.6%
Avior Trading Account	1.4%
AFI Private Markets Fund	1.1%
BlackRock MSCI Emerging Market Equity	0.8%
Prescient Clean energy & Infrastructure Debt I	0.7%
ATA Fund 3	0.6%
Old Mutual - SA Private Equity	0.4%
Vuna	0.4%
Prescient Clean energy & Infrastructure Debt II	0.3%
SPDR S&P Kensho New Economies Composite ETF	0.3%
Mahlako Energy Fund I Partnership	0.2%
Cash	0.1%
Avior Currency Hedge	-0.3%