

KZN DEFENSIVE FUND

JANUARY 2024

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

Geopolitical tensions in the Middle East have risen sharply after the US and UK launched airstrikes on Houthi targets in Yemen to stop it attacking ships in the Red Sea. This has triggered the biggest diversion of international trade in decades, rerouting ships away from the Suez Canal to take much longer and more expensive routes around southern Africa. Global supply chains have been disrupted and freight costs have surged. The probability of escalation in the Middle East has risen but is still not our base case. Impacts are limited for now, but maintaining this status is dependent on the timing of the reopening of the Suez Canal. Increasing geopolitical tensions in Russia/Ukraine have prompted NATO's allies to launch a series of military exercises called Steadfast Defender from February to May this year. It will be the largest such operation since the Cold War, with participation from 90 000 troops from all 31 allied countries and Sweden.

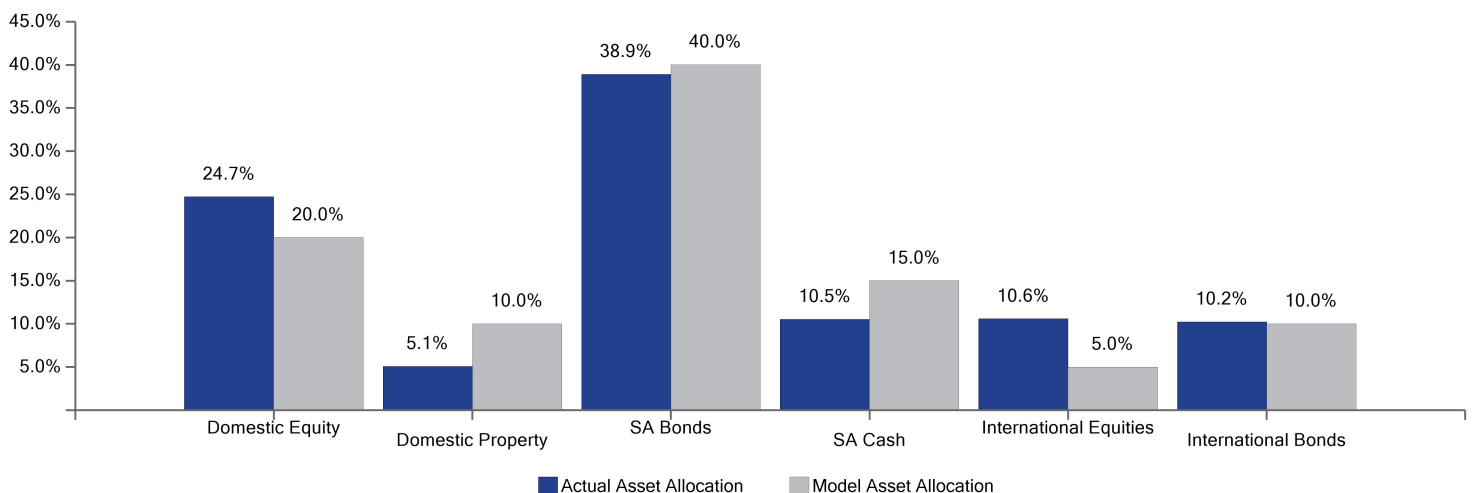
In South Africa, inflation fell to 5.1%, below expectations, and the February budget could see an increase to the wage bill, which would be negative - but we expect no major surprises. More significant is the election risk, tentatively scheduled for 22 or 29 May.

Chinese data continue to send deflationary signals. Although Q4 GDP came in at 5.2%, above the official target, it was below the expectation of 5.3%. The GDP deflator declined 1.5% year-on-year as China continues to export deflation. The property market is still deteriorating, with the contraction in new home prices and residential property sales deepening. China has announced a cut in the reserve rate requirement by 0.5%, which will provide 1 trillion yuan in liquidity. This cut is far above the 0.25% cuts seen throughout 2023 and signals a strong intention to support markets.

Economies (and labour demand) are likely to accelerate in developed economies over the next few months thanks to easier financial conditions, a pick-up in housing and a stabilisation in global manufacturing, but the unemployment rate should be monitored for signs of a recession in early 2025. Our base case is still no recession; as Covid effects move out, the economy will recover as rates are cut. We remain overweight US equities despite their valuation premium.

The FTSE/JSE CAPPED SWIX Index decreased by 2.8%, Industrials were down by 1.3% and Financials fell by 2.9%. The JSE All Bond Index improved by 0.7%, while the rand depreciated by 1.7% relative to the US dollar.

ACTUAL ASSET ALLOCATION



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FUND SUMMARY AS AT 31 JANUARY 2024

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	0.7%	0.6%
Median Return	0.8%	0.6%
Maximum Drawdown	-9.7%	-13.7%

PERFORMANCE ANALYSIS TO 31 JANUARY 2024

PERIOD	FUND	BENCHMARK
1 Month	0.5%	0.3%
3 Months	7.3%	8.5%
6 Months	4.4%	5.0%
Year to Date	0.5%	0.3%
1 Year	7.9%	6.8%
3 Years	9.2%	9.0%
5 Years	8.5%	7.4%
Since Inception	7.7%	6.5%

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

FEES

	PERCENTAGE
Total Expense Ratio (TER)	0.45% (Sep 2023)
Transaction Costs (TC)	0.05% (Sep 2023)
Total Investment Charge (TIC)	0.50% (Sep 2023)

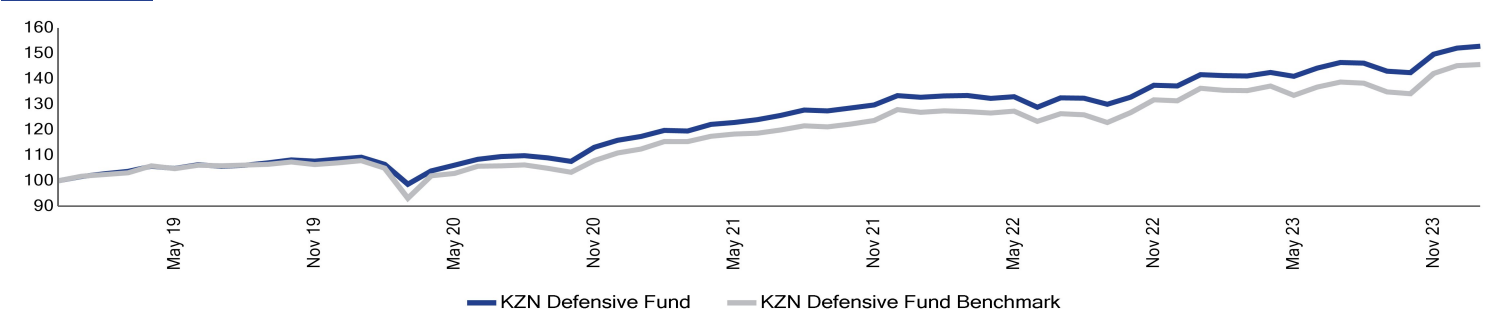
BENCHMARK COMPOSITION

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
2023	3.2%	-0.3%	-0.1%	1.0%	-1.1%	2.3%	1.5%	-0.2%	-2.2%	-0.4%	5.1%	1.6%	10.8%
2024	0.5%												0.5%

CUMULATIVE INVESTMENT PERFORMANCE



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CALENDAR YEAR RETURNS

PERFORMANCE	FUND	BENCHMARK
2022	2.8%	2.7%
2023	10.8%	10.5%

MANAGER ALLOCATION 31 JANUARY 2024

MANAGER	PERCENTAGE
Vunani	19.4%
Coronation Absolute Bond - SA Bonds	11.7%
BlackRock	9.4%
Stanlib	10.3%
Coronation - SA Cash	5.2%
Taquanta Core Cash - KZN Municipal Pension Fund	5.2%
Argon SA Equity Fund	4.4%
Mianzo Capped Swix Active Equity Fund	3.5%
MAZI Capital SA Equity (Swix) Fund	3.4%
M&G Global Bond Fund	3.1%
Garrington Capital (Coral Cove)	2.7%
KZN Satrix SWIX Portfolio	2.6%
SMMI Positive Return Fund Three B11	2.5%
P1 Finance PLC (listed bond)	2.3%
Lima Mbeu Equity Portfolio	1.8%
MSM Property Fund (Pty) LTD	1.8%
Mergence Equity (Swix) Fund	1.7%
Avior	1.4%
AFI Private Markets Fund	1.2%
Prescient Clean energy & Infrastructure Debt	1.2%
Old Mutual - SA Private Equity	0.7%
ATA Fund 3	0.7%
Vuna	0.6%
SPDR S&P Kensho New Economies Composite ETF	0.5%
KZN APEX	1.0%
P1 Finance PLC (3 year listed bond)	0.6%
UMTHOMBO Private Markets Fund	0.4%
Ascension Private Equity Fund I	0.3%
Mahlako Energy Fund I Partnership	0.3%
Infra Impact Mid-Market Infrastructure Fund 1	0.1%