

# KZN MODERATE FUND

FEBRUARY 2023

The KZN Moderate Fund is a 50% / 50% combination of the KZN Managed Fund and KZN Defensive Fund. It is a fund with moderate risk that aims to deliver real growth but with less volatility.

The portfolio is well diversified and invests across all local and foreign asset classes and makes use of good quality balanced asset managers and specialist asset managers within certain asset classes.

Over the longer term returns are expected to be less volatile but at the same time lower than for a typical balanced fund, because of the 50% exposure to the KZN Defensive Fund.

Due to its moderate allocation to growth assets, the fund has a moderate chance of capital loss in the short term, but is expected to achieve real growth of capital over the long-term, albeit lower than that of a typical balanced fund. As a result, the fund is best suited to members who have medium term (3-5 years) investment horizon.

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

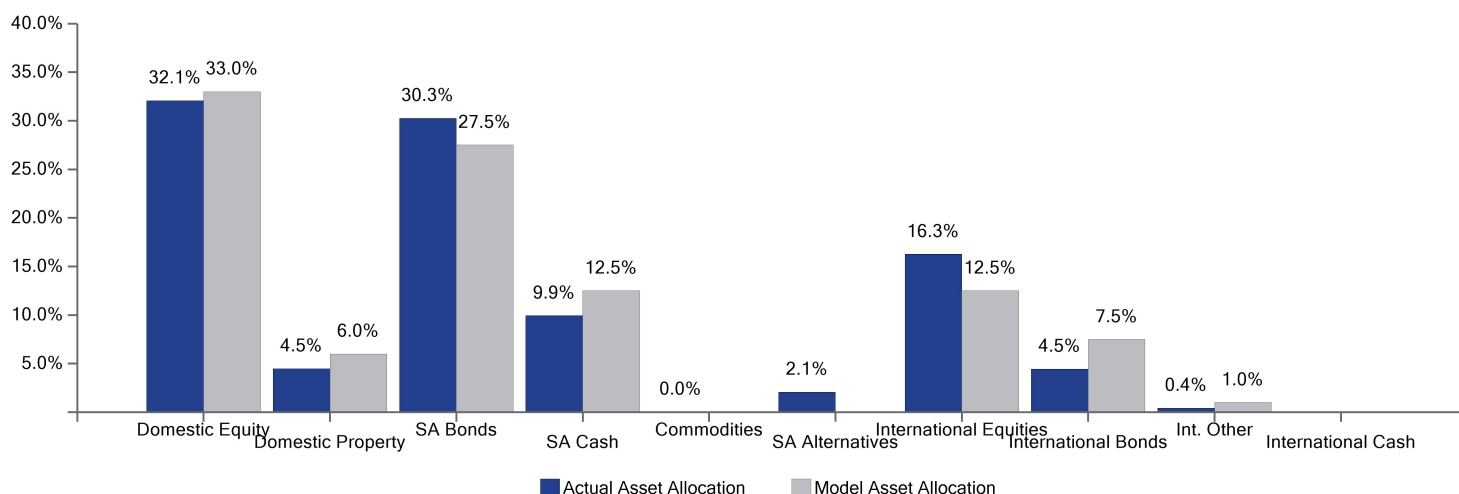
## MONTHLY COMMENTARY

After January's euphoric performance, markets in February digested the moves and contemplated the array of risks faced by the global economy despite more stable demand. Through February, we continued to monitor three key global macro risks: the prospect of US inflation staying higher for longer, forcing the US Federal Reserve (Fed) to push the economy into a deep recession; the expanding impact of the Russia/Ukraine war on global markets via energy costs; and the lapse of judgement that sparked a geopolitical incident between China and the US. February brought no significant news on any of these risks, however: US inflation was only a little higher than expected, Russian forces made incremental progress in their assault on the Ukrainian city of Bakhmut and nothing emerged from the US and China's balloon races. In fact, most of the news in February was local, with the State of the Nation Address, Budget and grey listing updates reflecting in the rand's significant weakening over the month.

Looking forward, the February Market Purchasing Manager Index (PMI) surveys further evidenced a sustained rebalancing of the global economy as services continued to rebound and manufacturing remained in contraction. Barring any surprises from geopolitics, the main risk to the global economy is from central banks (mostly the Fed) pushing the world into recession with overaggressive monetary policy. This will generally only happen against the backdrop of a strong economy (underpinned by strong corporate earnings) or if inflation expectations become unanchored and start to rise. Current forecasts suggest the contrary: a weak US economy with weak earnings and stable inflation expectations. We therefore expect to see moderated policy conviction in the nearer term at least, which will only change if a combination of strong economic data and a reacceleration of inflation reignites the Fed's rate-hike resolve. While a US recession is likely, we still only see its emergence as probable in Q4 2023 or early in 2024. US resilience will probably lead to near-term strength in the dollar, supported by trends in two-year interest rate differentials. Longer term, the dollar remains expensive on a purchasing power parity basis and should depreciate. We have put additional protection measures in place in expectation of heightened volatility into the second quarter.

The FTSE/JSE CAPPED SWIX Index dropped by 2.3%, Industrials were up 1.7% and Financials increased by 2.5%. The JSE All Bond Index fell by 0.9%, while the rand depreciated by 5.3% relative to the US dollar.

## ACTUAL ASSET ALLOCATION



### FRONT OFFICE CONTACT DETAILS

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**KZN**

MUNICIPAL PENSION FUND

## FUND SUMMARY AS AT 28 FEBRUARY 2023

| STATISTIC         | FUND   | BENCHMARK |
|-------------------|--------|-----------|
| % Positive Months | 65.0%  | 65.0%     |
| % Negative Months | 35.0%  | 35.0%     |
| Worst Month       | -9.1%  | -8.8%     |
| Best Month        | 7.8%   | 8.3%      |
| Average Return    | 0.7%   | 0.6%      |
| Median Return     | 0.9%   | 0.9%      |
| Maximum Drawdown  | -12.4% | -12.3%    |

## PERFORMANCE ANALYSIS TO 28 FEBRUARY 2023

| PERIOD          | FUND  | BENCHMARK |
|-----------------|-------|-----------|
| 1 Month         | -0.3% | -0.5%     |
| 3 Months        | 3.7%  | 3.3%      |
| 6 Months        | 8.9%  | 9.1%      |
| Year to Date    | 4.4%  | 4.4%      |
| 1 Year          | 6.8%  | 5.7%      |
| 3 Years         | 11.9% | 10.2%     |
| 5 Years         | 8.3%  | 7.7%      |
| Since Inception | 7.8%  | 7.6%      |

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

## FEES

|                               | PERCENTAGE       |
|-------------------------------|------------------|
| Total Expense Ratio (TER)     | 0.53% (Dec 2022) |
| Transaction Costs (TC)        | 0.09% (Dec 2022) |
| Total Investment Charge (TIC) | 0.62% (Dec 2022) |

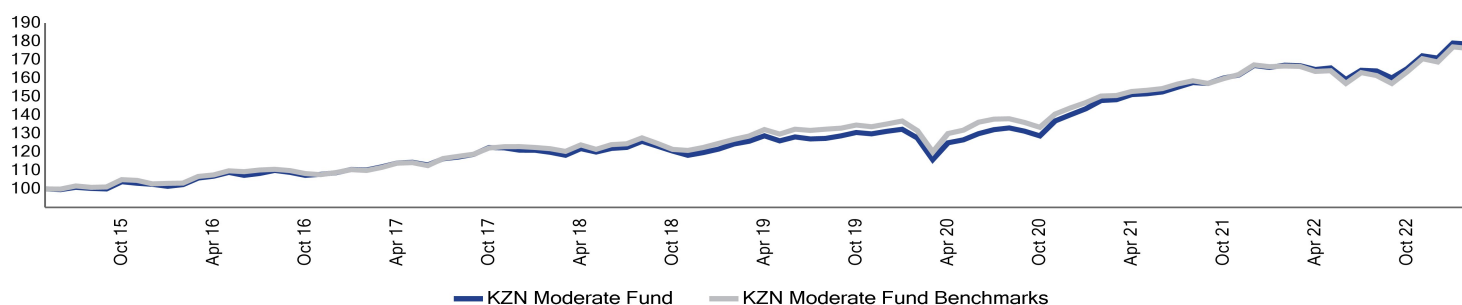
## BENCHMARK COMPOSITION

The fund benchmark is a composite benchmark consisting of: 33% SWIX, 27.5% ALBI, 6% SAPY, 12.5% STeFI, 12.5% MSCI World Index, 7.5% Barclays Global Bond Index, 1% Global Cash

## HISTORICAL PERFORMANCE

| YEAR | JAN   | FEB   | MAR   | APR   | MAY  | JUN   | JUL  | AUG   | SEP   | OCT  | NOV  | DEC   | YEAR  |
|------|-------|-------|-------|-------|------|-------|------|-------|-------|------|------|-------|-------|
| 2021 | 2.3%  | 3.1%  | 0.3%  | 1.9%  | 0.3% | 0.6%  | 1.7% | 1.6%  | -0.3% | 1.8% | 1.0% | 3.2%  | 19.1% |
| 2022 | -0.6% | 0.7%  | -0.2% | -1.2% | 0.5% | -3.8% | 3.2% | -0.2% | -2.3% | 3.1% | 4.2% | -0.7% | 2.4%  |
| 2023 | 4.8%  | -0.3% |       |       |      |       |      |       |       |      |      |       | 4.4%  |

## CUMULATIVE INVESTMENT PERFORMANCE



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## CALENDAR YEAR RETURNS

| PERFORMANCE | FUND  | BENCHMARK |
|-------------|-------|-----------|
| 2020        | 6.8%  | 6.4%      |
| 2021        | 19.1% | 16.2%     |
| 2022        | 2.4%  | 1.0%      |

## MANAGER ALLOCATION 28 FEBRUARY 2023

| MANAGER   | PERCENTAGE |
|---|------------|
| Coronation Absolute Bond - SA Bonds             | 11.0%      |
| M&G - Global Balanced                           | 9.9%       |
| Coronation - Global Balanced                    | 9.8%       |
| Ninety One Global Balanced Fund                 | 9.8%       |
| Coronation - SA Cash                            | 7.8%       |
| Vunani  | 6.7%       |
| BlackRock - International Equity                | 5.5%       |
| Argon SA Equity Fund                            | 4.9%       |
| Stanlib Bond Fund                               | 4.4%       |
| M&G Global Bond Fund                            | 4.3%       |
| Mergence Equity (Swix) Fund                     | 3.9%       |
| MAZI Capital SA Equity (Swix) Fund              | 3.9%       |
| KZN Satrx SWIX Portfolio                        | 3.0%       |
| P1 Finance PLC (listed bond)                    | 2.2%       |
| Lima Mbeu Equity Portfolio                      | 1.9%       |
| Mianzo Capped Swix Active Equity Fund           | 1.9%       |
| SMMI Positive Return Fund Three B11             | 1.8%       |
| STANLIB Property Income Fund Class B3           | 1.8%       |
| MSM Property Fund (Pty) LTD                     | 1.4%       |
| AFI Private Markets Fund                        | 0.9%       |
| BlackRock MSCI Emerging Market Equity           | 0.9%       |
| Prescient Clean energy & Infrastructure Debt I  | 0.6%       |
| ATA Fund 3                                      | 0.5%       |
| SPDR S&P Kensho New Economies Composite ETF     | 0.3%       |
| Prescient Clean energy & Infrastructure Debt II | 0.3%       |
| Old Mutual - SA Private Equity                  | 0.3%       |
| Mahlako Energy Fund I Partnership               | 0.2%       |
| Cash  | 0.1%       |
| Transition Portfolio                            | 0.1%       |