Momentum Classic Factor Portfolio Range

quarterly commentary to end September 2021

Assessing investment returns in an outcome-based investment context

The Momentum Classic Factor Portfolio Range is managed in terms of our outcome-based investing philosophy, where we design the portfolios to maximise the probability of achieving the inflation-plus return target of each portfolio over the relevant period, while continuing to meet the portfolios’ risk targets. To achieve this, our portfolio management approach conceptually starts at an (multi) asset class level, then progresses to the identification of specific investment strategies within each asset class (if appropriate) and finally ends up in the selection of (potentially more than one) investment mandates awarded to investment managers that will implement the desired investment strategies.

Given this outcome-based investing framework, when assessing the returns of the Momentum Classic Portfolio Range, it is important to start with looking at the returns from the portfolios against their inflation-related targets. This allows us to answer the question: did we achieve our target over the most recent relevant period? We then assess these returns relative to this target in terms of the following:

- The returns provided by the asset classes included in the portfolios
- The returns from the building blocks that provide the asset class exposure for the portfolio against their asset class (or strategic) benchmark. This in turn is explained by:
  - The returns from the investment strategies (or styles) used in the building block (if any)
  - The returns from the investment managers that were awarded the mandates used in each of the building blocks

This quarterly review thus starts with the assessment of the investment returns generated by the portfolios against their targeted investment outcomes over the most recent periods. The next section focuses on the economic environment and the returns generated by the asset classes (beta) for the most recent quarter, measured against our average real return expectations for each asset class. We review the returns from the building blocks and the underlying investment managers against their strategic investment benchmarks.
Momentum Classic Factor Portfolio Range returns

The respective inflation objectives of the portfolios have been difficult to attain, given the low return from growth asset classes for the last five years. However, the portfolios managed to outperform their respective benchmarks for all periods.

Economic overview

Regional economic fortunes are likely to remain highly divergent despite a strong rebound pencilled in for the globe. Less available fiscal and monetary policy space, as well as new and more severe virus strains in lower vaccinated countries, will likely keep the relative pace of economic recovery in emerging markets on the back foot. Despite a rapid narrowing of output gaps in many developed markets, we are not anticipating a persistent inflationary episode to follow given that demand is unlikely to remain above supply, above productivity-related wage increases are unlikely to persist and longer-term inflation expectations remain reasonably well anchored.

Unless a double-dip recession becomes a reality in the United States, a reset in bond yields to higher levels seems likely. Although further earnings upside should provide some underpin for global equities, the anticipated declining profit momentum and prospective tapering of asset purchases could lead to more choppiness in market returns going forward. In relative terms, global equities remain cheaply priced against global bonds.

While growth in the local economy staged a firmer-than-expected 7.5% rebound in the first half of the year, we expect growth to soften from here given ongoing supply constraints, a lagging vaccination rollout plan, elevated unemployment and an adverse effect of the riots on sentiment. Although the commodity price windfall has boosted revenues for this fiscal year, medium-term risks remain high in the context of shorter-term wage agreements and a push for pro-poor spending. We expect inflation to average close to the midpoint of the 3% to 6% inflation target range for the next three years in the absence of any currency, food or oil price shocks. As such, we view no immediate pressure on the South African Reserve Bank to raise interest rates and therefore see the risks to the first interest rate hike as being tilted towards the first quarter of 2022. We expect a gradual normalisation in interest rates to follow.

Strong earnings upgrades have been the norm for local equities this year. This has forced valuations down into very attractive territory, significantly enhancing the potential return upside. The main drawcard for investment in the local nominal bond market remains the high level of real yields available. Meanwhile, smaller monthly inflation accruals should provide less fundamental support for inflation-linked bonds until the second quarter of 2022. Despite weak property sector fundamentals, the expected limited further property value declines from here point to significant return upside in coming years, despite the many uncertainties in the sector.

Portfolio management

Our portfolios had another strong quarter, with all factors recording positive returns despite the market volatility experienced locally and globally. All asset classes posted positive returns and rand weakness contributed to global asset class returns. There were no significant asset allocation changes during the quarter. However, we increased local equity and bonds marginally, funded from global equity and local cash.

Asset class returns

The returns for the asset class benchmarks for the third quarter of 2021 are reported in the first column of the table below. The next column highlights the returns for these asset classes for the previous year. These one-year returns are then converted...
into real returns by deducting inflation (4.89%) for the year. The final column in the table contains the returns above inflation we expect to get (on average) for these asset classes for a full market cycle.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Q2 2021 returns</th>
<th>Nominal returns for the previous 12 months</th>
<th>Real returns for previous 12 months*</th>
<th>Expected real return (p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local equity (Capped SWIX)</td>
<td>3.19%</td>
<td>30.34%</td>
<td>25.45%</td>
<td>5.75%</td>
</tr>
<tr>
<td>Local bonds (ALBI)</td>
<td>0.37%</td>
<td>12.46%</td>
<td>7.57%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Local property (SAPY)</td>
<td>5.94%</td>
<td>54.43%</td>
<td>49.54%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Local ILBs (ILBI)</td>
<td>1.85%</td>
<td>14.99%</td>
<td>10.10%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Local cash (SteFI)</td>
<td>0.95%</td>
<td>3.80%</td>
<td>-1.09%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Global equity (MSCI ACWI)</td>
<td>5.08%</td>
<td>15.66%</td>
<td>10.77%</td>
<td>6.50%</td>
</tr>
<tr>
<td>Global bonds (WGBI)</td>
<td>4.36%</td>
<td>-11.36%</td>
<td>-16.25%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>Offshore property</td>
<td>4.65%</td>
<td>18.05%</td>
<td>13.16%</td>
<td>4.00%</td>
</tr>
<tr>
<td>US dollar/rand**</td>
<td>1.75%</td>
<td>-13.32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA CPI*</td>
<td>1.75%</td>
<td>4.89%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*CPI is lagged by 1 month

**A positive/negative value here reflects the effects of a depreciation/appreciation of the rand against the US dollar on global asset class returns in rand terms. As the rand gets weaker/stronger, the returns of global investments get better/worse from a local investor’s perspective.

### Building block return assessment

As explained above, our outcome-based investment philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate level within each asset class. We thus construct building blocks that reflect our selected investment strategies and managers that were awarded the mandates to implement these to either improve on the returns of the asset class or manage its risk profile.

#### Local equity building block

South African equities ended the month and quarter in negative territory, as positive local currents were largely offset by global shocks. The benchmark ALSI returned negative 0.8% for the quarter, with regulatory headwinds from China affecting the Naspers-Prosus stable. In contrast, capped indices fared much better as the Capped SWIX posted gains of 3.2% for the quarter. At a super-sector level, Financials (12%) delivered a robust return, while Resources and Industrials experienced a tough quarter, as both closed 4% weaker. The biggest contribution to the index return came from MTN, which delivered a return of 36.9%, while the biggest detraction came from Naspers, which was down 16.9%.

The classic equity building block returned 2.8%, which was marginally below the benchmark return.

Prudential delivered a return of 5.9% for the quarter, outperforming its benchmark by 2.7%. portfolio. Being overweight MTN continued to be a key contributor to the outperformance for the quarter and was, in fact, the largest contributor to returns. The position in Sasol also contributed meaningfully to absolute and relative returns, while the largest detractor from returns was being underweight Aspen Pharmaceuticals. Prudential thinks South African banks are trading at very undemanding valuations and therefore was overweight this sector. The investment manager remains optimistic regarding the South African equity market returns in the medium term due to the prevailing excessive levels of pessimism reflected in share prices and valuations. Prudential believes earnings and dividends in South Africa should show a strong return to growth in the medium term.
Fairtree returned negative 4.1% for the quarter. The Financial sector was a key contributor during the quarter, and positions in Old Mutual, Thungela, Glencore, Woolies and KAP contributed, while positions in Impala, Naspers, Northam and Prosus detracted from the returns. Being overweight Resources was a key detractor from returns for the quarter, as commodity prices declined. Fairtree is, however, comfortable with this exposure and is of the firm opinion that these shares are attractively priced and are offering decent upside for the patient investor.

Truffle returned 5.6% for the quarter and being underweight Prosus and Naspers contributed to returns, as Tencent underperformed due to regulatory pressures in China. The positioning in Diversified miners contributed, as Glencore outperformed Anglo America given is lack of iron ore exposure, which came under significant selling pressure during the quarter, and being overweight Sasol benefitted from the rising oil price. Being overweight financials contributed to returns, as the Liberty take out by Standard Bank resulted in significant outperformance for the quarter. The underperformance of the PGM basket price due to motor semiconductor shortages affected PGM miners, which resulted in them detracting from returns. Being overweight Aspen and MTN detracted from returns. Truffle increased its position in Anheuser-Busch Inbev and Mediclinic, which underperformed and were offering reasonable value.

Blue Alpha returned 2.1% for the quarter, which was marginally below the benchmark return. Being overweight MTN and FirstRand underweight Naspers/Prosus contributed to returns. Being underweight platinum and gold shares also contributed to relative returns. Detractors for the period included being overweight Foschini and Richemont. Changes during the quarter included adding Nedbank and Glencore and reducing Anglos and Billiton.

Foord returned 6.7% for the quarter, with outperformance being broad-based, as the portfolio’s resources, industrials and financials all outperformed their respective JSE counterparts. Healthcare shares contributed most this quarter, as long-standing investment in Aspen surged. Hospital groups, Netcare and Mediclinic, also added significantly. Mid-cap industrials, Omnia, Metair, KAP and Invicta, added alpha and there were also meaningful contributions from financials mainstays, FirstRand and Standard Bank. JSE-listed global stocks Richemont and Anheuser-Busch Inbev detracted heavily, as they tracked global bourses lower, as did the Naspers/Prosus duo on adverse sentiment for Chinese tech stocks. The portfolio’s positions in preferred resources shares BHP Group, Anglo American and Sasol added material alpha.

The Satrix Momentum strategy returned 3.1% for the period. From an attribution perspective, being overweight Investec and Sasol and underweight Naspers added value to the strategy during the quarter. Being underweight Standard Bank and MTN Group and overweight Northam Platinum detracted from returns. At the last rebalance in September, the portfolio was transitioned based on the evaluation of new factor signals and the risk levels in the portfolio. Based on these signals, Montauk, Nedbank and Remgro, were added to the portfolio, while positions in Royal Bafokeng Platinum and Sibanye-Stillwater were deleted from the indices. Noticeable increases in positions were Aspen, Glencore and MTN and decreased positions were Barloworld, Distell and Impala Platinum.

The trending smart beta strategy returned negative 1.1% compared to the benchmark return of 0.6%. At quarter end, the portfolio’s equity exposure was 99.4%. It was overweight the resource sector and materially underweight the financial and property sectors. Within the resource sector, being overweight platinum and general mining shares and, within the industrial sector, it was overweight retail shares. Within the financial sector, the portfolio was overweight insurance shares. During the quarter, Fortress A, Reinet, Goldfields and Prosus were sold, and Thungela Resources, Investec Plc, Royal Bafokeng Platinum, Foschini and Woolworths were introduced into the portfolio.

The value smart beta portfolio returned 4.1%, which was well ahead of the benchmark return. The portfolio was overweight the financial sector, underweight the industrial sector and slightly underweight the resource and property sectors. Within the resource sector, the portfolio was overweight general mining companies and underweight platinum shares. Within the industrial
sector, the portfolio was underweight retail companies and overweight telecommunication companies. Within the financial sector, the portfolio was overweight insurance companies. During the quarter, Thungela Resources, Capitec Bank, Imperial Logistics and Telkom were introduced into the portfolio.

The quality strategy portfolio returned 0.5%, marginally underperforming the benchmark. The portfolio was overweight the industrial sector. Within the industrial sector, it was overweight food and beverage as well as retail shares, while it was underweight personal and household goods shares as well as the property and financial sectors. Within the financial sector, the building block was underweight banks, and also the resource sector. Within the resource sector, the building block was underweight gold mining shares. During the quarter, Sanlam was sold, while Exxaro and Thungela Resources were introduced into the portfolio.

Local property building block

The third quarter of 2021 started on a sombre note, with widespread looting and destruction to property in KZN and some parts of Gauteng. While the lootings were limited to these two provinces, township and rural malls have been disproportionately affected. The cost of the destruction has been limited to between 1% to 3% of total portfolio value on average for SA REITS. Diversification has also helped minimise the effect of the lootings for SA REITS. Most SA REITS have been adequately insured for damage to property and loss of income. They have proactively started repairing properties using their own cash, while waiting for insurance proceeds. This was possible because the cost of damage to property has been palatable without putting balance sheets at risk.

The third quarter of 2021 was also a reporting period for the majority of South African listed property companies. Despite the benefit of a low base created by COVID-19 hard lockdowns in the second quarter of 2020, financial results continue to be weakened by lease escalations trending down, increasing office vacancies and pervasive negative rental reversions. The third wave of COVID-19 hampered recovery in retail but community shopping centres continued to buck the trend by reaching or surpassing pre-COVID-19 tenant sales levels.

The strong property market rally extended into the third quarter of 2021 with ALPI (6.5%) and SAPY (5.9%) outperforming equities (negative 0.8%), bonds (0.4%) and cash (1.0%), notwithstanding the operating environment.

The building block achieved a return of 6.9% for the period, which was above the benchmark return.

Meago returned 6.1% for the quarter. The largest contributors to returns were being underweight Fortress B and Liberty 2D and overweight Sirius and Fairvest. The largest detractors to returns were underweight Hyprop, Industrials Reit and Resilient.

The Momentum Listed Property Portfolio returned 6.7%. The investment managers continue being overweight core holdings in Sirius, Equites, MAS Real Estate and Nepi Rockcastle, and these contributed to returns for the quarter. Being underweight Hyprop, Arrowhead and Stenprop detracted from returns.

Catalyst returned 7.4% for the quarter. The portfolio benefitted from being overweight the retail subsector. The main contributors to returns were being overweight Hyprop, Arrowhead-B, Lighthouse Capital, Resilient and Vukile, which outperformed relative to the benchmark and underweight Fortress B, which underperformed the benchmark. The main detractors were being overweight Octodec, which underperformed the sector and underweight Sirius, EPP and Stenprop.
Local absolute strategies building block

The absolute strategies building block benefited from the continued rally in local asset classes and returned 2.9% for the quarter. Being overweight equity as well as allocations to inflation-linked bonds and property were the main drivers of returns.

The Sentio Absolute Return Fund delivered a return of 2.4%, despite the sharp September equity sell-off. Contributions came from equity positions in MTN, Sasol, FirstRand, Aspen, Standard Bank and Shoprite. Property positions in Resilient, Redefine and NEPI Rockcastle were also among the contributing positions. In fixed income, the investment manager reduced some of the risk, but maintained a slight overweight duration position given the attractive valuations and benefitted from bull flattening during the first half of the third quarter, but some of this outperformance was conceded during September.

Prudential had another solid quarter and outperformed the objective. The portfolio returned 4.1% for the quarter. The largest asset-class contributors to absolute returns for the quarter were exposures to SA equities (by far) followed by SA inflation-linked bonds. SA property was also a strong contributor to returns. In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were holdings in diverse shares like MTN and Sasol, as well as financial shares like Investec, Absa, Standard Bank, Old Mutual and Remgro. Naspers was by far the largest equity detractor from absolute returns, while resource holdings like Implats, Amplats and Sibanye also weighed on returns.

Laurium delivered a return of 2.9% for the quarter. Laurium continued to think the SA equity component of the fund was well diversified, with decent upside potential going forward. The investment manager increased the exposure to selected healthcare shares, which should benefit from COVID-19 tapering off, and which traded at very attractive multiples. It also continued switching the bank exposure into the insurance sector, which it believed provided more upside from these depressed levels. Laurium is starting to see some very interesting opportunities in select foreign-exposed stocks. This could result in the fund’s SA Inc. exposure decreasing marginally from the current 35% weighting over time. From a SA fixed income perspective, the majority of the exposure is in South African sovereign debt, given the very attractive real yields.

The real return building block, which is a conservative strategy and more focused on capital protection, returned 2.5% for the quarter and 15.9% for the year. These returns outperformed the inflation objective by a healthy margin.

Absa Asset Management returned 2.8% for the quarter. The investment manager remained very conservatively positioned but found opportunities for growth in the local market, which appeared attractive relative to developed markets that seemed priced-for-perfection. The view for the remainder of 2021 is to be overweight property and bonds, as well as neutral cash and equities.

Prescient delivered a return of 1.9% for the quarter. Preference shares were the strongest contributors to returns for the quarter, while equities detracted. The component had a sizeable exposure to growth and high-yielding investments given low cash rates.

Local flexible bond building block

After a very strong first half of 2021, the third quarter was a bit more of a mixed bag for local fixed income asset classes. Suddenly, the strong risk-on environment that markets have enjoyed looked a lot more uncertain and this was reflected in the risk premiums embedded in fixed income asset classes. Bond yields sold off, inflation-linked bond (ILB) yields were a mixed bag and listed property yields rallied strongly. The ALBI limped to a 0.37% return and ILBs delivered a respectable 2.00%, although this was largely driven by a big rally in the short end of the curve. Listed property continued its stellar, yet bumpy recovery, returning 5.94%. The risk-free cash benchmark (SteFI) returned 0.95%.
For the quarter, the building block yielded 0.34% compared to the ALBI’s 0.37%. Active asset allocation and duration decisions by the investment managers and revised positioning on the yield curve resulted in a return virtually matching the ALBI. Measured over an appropriate investment term of three years, the building block yielded 7.3% compared to the ALBI’s 9.1%, underperforming largely due to the negative returns in the first quarter of 2020 at the start of the COVID-19 pandemic. For the five-year period, it yielded 8.1% compared to 8.5% generated by the ALBI.

Prescient had a large exposure to the 12-plus-years sector of the yield curve at the end of the quarter, with a 76.7% exposure, compared to the ALBI at 48.3%. Coronation, on the other hand, ended the quarter being overweight the 7-12-years sector (37.6% against the ALBI’s 18.7%) and the 12-plus-years sector was at 49.8%. The 1-3-years sector was the strongest-performing sector for the quarter (1.2%), while the 12-plus-years sector was the weakest-performing sector, returning negative 0.01%. The 3-7-years sector returned 1.2% and the 7-12-years sector returned 0.2%.

The building block allocation to listed property (2.3%) boosted returns. The allocation to ILBs (9.7%), also contributed to the relative returns of the building block, as this asset class delivered 2.0% for the quarter.

At the end of the quarter, the building block had a duration position of 7.98 years compared to the ALBI of 6.35 years. Duration was increased by Prescient during the quarter. On aggregate, the building block was substantially overweight the 12-plus-years sector and underweight all the other sectors.

**Local inflation-linked bond building block**

ILB’s delivered another good quarter, buoyed by rising inflation risk and a further decline in real yields, although the move was very specific to the short end (R212 & R197) of the yield curve. The total return from ILBs can be divided into two components – the monthly accrual and the mark-to-market of the capital value due to the move in the real yields. The first component of return was the monthly accrual from the yield on the bonds and the inflation uplift. This component of the total return continues to be substantial given rising inflation and the elevated level of real yields, delivering 1.77%, with 1.00% from inflation uplift and around 0.77% from yield accrual. The second component of the return was determined by the move in real yields of the bonds and there were large declines in short-dated yields while the rest of the curve was largely stable. The curve declined an average 10bps over the quarter but steepened prodigiously in the process. This bull steepening of the curve generated capital gains to the tune of 0.23%. These components combined thus explain the index (IGOV) total return of 2.00%.

For the quarter, the building block yielded 1.53% against the benchmark IGOV (2.00%).

For the year, the building block yielded a return of 14.83%, compared to the benchmark of 15.0%. It had a modified duration of 9.0 years, which was slightly shorter than the IGOV at 9.3 years. The investment manager was overweight the 7-12-year and 12-plus sectors and underweight all the other sectors.

**Local cash building block**

In the third quarter of 2021, there was again no change in the repo rate, as it remained at an all-time low of 3.5%. There were MPC meetings in July and September and both delivered unanimous (5-0) decisions to leave monetary policy at what is considered an accommodative level. The traded money market was largely sanguine as well, as the expected path for the repo rate has been well communicated and there have been no material surprises. The three-month JIBAR rate was anchored at 3.68% for the entire quarter, as there remains no immediate threat of interest rates rising. However, the 12-month rate continued to edge up an additional 13 basis points to close at 4.92%, reflective of the normalisation of monetary policy to a more neutral level that is likely to occur during 2022. Based on these JIBAR rate levels the total return for the SteFI composite index was 0.95% for the quarter.
For the quarter, the building block delivered a return of 1.27% compared to 0.95% for the SteFI benchmark.

For the year, the building block delivered a return of 4.8% against the SteFI benchmark of 3.8%. It consistently met its objective of capital preservation, by maintaining positive returns on a one-year rolling basis. Both investment managers had a high exposure to floating-rate notes, which provided a fair degree of liquidity, while also providing above-benchmark yields.

**Commodities building block**

Commodity supercycles are rare but long lasting. Since the mid-19th century there have been just four supercycles – each underscored by major historical events. The most recent supercycle, which started in 2000, was driven by urbanisation, investment and an ascendant middle class in emerging markets – most notably China – but was interrupted by the 2008 Global Financial Crisis.

Proponents of the resumption of the supercycle argue that commodity prices will be driven by stimulus spending (which places greater emphasis on job creation and environmental sustainability than on inflation control), rising inflation and a weaker dollar. This macroeconomic backdrop should prove to be more supportive of real assets like commodities than financial assets.

Endorsing this are the captains of the commodity suppliers. Across the energy and metals sectors they state that current supply and demand dynamics easily justify current prices, but question where the supply will come from to satisfy future demand growth.

The building block’s commodity exposure was increased from 43% to 57% during the quarter. Agriculture and metals were increased. Diesel, which began the quarter at benchmark, was closed out during the downturn in mid-August. This is topical because the building block’s investment universe does not include the many large movers in the energy sector, and so was unable to fully participate in the sector’s activity. Consequently, returns did not keep pace with the index.

The building block returned negative 1.75% for the quarter, outperforming the SteFI’s 0.95% and returned 1.17% for the last year, underperforming the SteFI’s 3.79%.

**Global equity building block**

In the face of strengthening and broadening headwinds, the unbroken run of seven months of gains in equities came to an abrupt halt in September, with the MSCI World Index wiping out all the gains of the preceding two months. The possibility of a more sustained rise in inflation remains the key risk for markets in coming months. While the major central banks continue to see the rise as transitory, they have become more hawkish and expect the inflation surge to continue for longer than previously anticipated.

Investors have been given much to worry about in recent weeks. The peak rate of growth after the surge following the end of COVID-19 lockdowns is behind us; supply chain constraints are impeding growth and proving to be more persistent and damaging than previously expected; and rises in energy prices are leading to concerns that the rise in inflation will be stickier and more persistent than previously forecast, as well as directly affecting household disposable incomes and corporate profit margins. The US debt ceiling and fiscal spending package negotiations are going to the wire and unnerving investors, while, in China, the fallout from the regulatory clampdown this year and the shake out in the property sector are damaging to growth in the world’s second-largest economy.
Against this backdrop, the building block returned 4.2% for the quarter, underperforming its MSCI AC World Index benchmark, which returned 5.0% in the same period. For the year, the building block returned 18.9%, outperforming the benchmark return of 15.6%.

Growth stocks continued to drive markets during the quarter, which was reflected in the underlying investment manager returns. Jennison was the largest contributor to returns, mainly due to its stock selection within the Consumer Products and Retail sector, which forms a large component of its overall book. Our value style investment managers were the main detractor from returns for the quarter. Robeco’s value strategy was the biggest relative detractor, coming from its stock selection within the IT Hardware sector.

**Global property building block**

Global property continued to recover from the fallout experienced in 2020, as the pace of the vaccine rollout and re-opening of more sectors exceeded initial forecasts. Furthermore, data points signaling a pickup in inflation supported the positive sentiment towards real estate markets during the course of 2021.

Against this backdrop, the global property building block returned 6.0%, which was above its respective benchmark return of 4.7%.

**Global fixed income building block**

At its September meeting, the Federal Open Market Committee (FOMC) provided advance notice that tapering may soon be introduced. Some commentators are of the opinion that the FOMC will likely announce the start of tapering at its November 2021 meeting, with proviso that tapering will be dependent on the economic recovery. Global bond indices were negative for the quarter in US dollar terms. However, rand weakness during the period aided returns of the building block. The building block returned 4.4% for the quarter, which was marginally above the benchmark return.

**Conclusion**

We continue to manage the portfolios actively, taking economic and valuations into account. We are confident that our portfolios are well positioned and are suitably diversified across asset classes and strategies. We remain overweight local and global equity, despite the recent volatility.