Ninety One

Fixed Income Fund

Case Study

Agenda

- Macroeconomics Overview
- Fixed Income Fund Anaysis
- Questions

Ninety One

Macro Overview

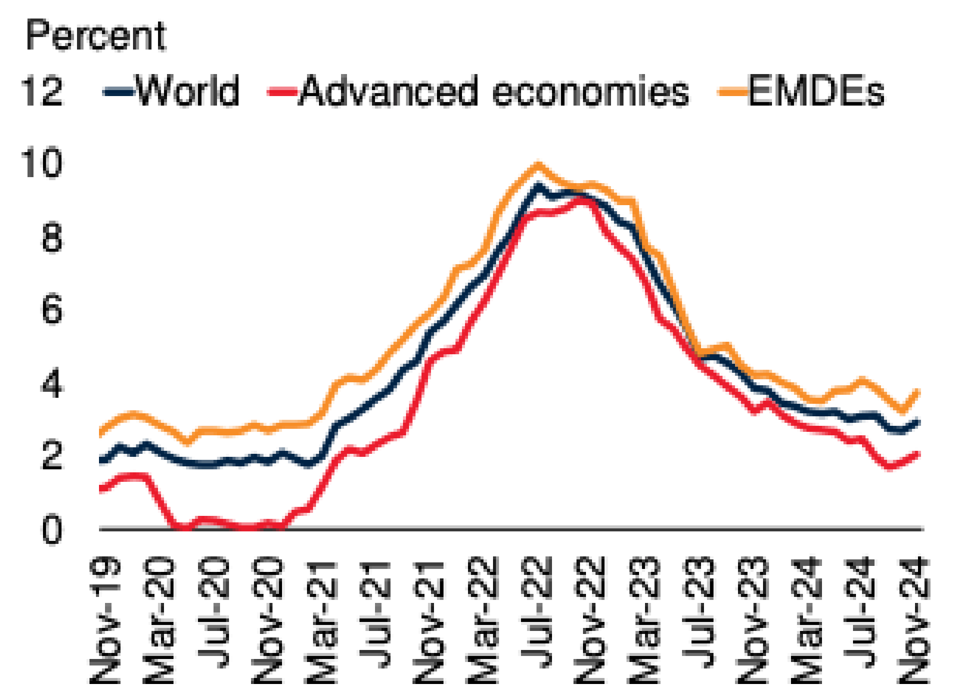
Global

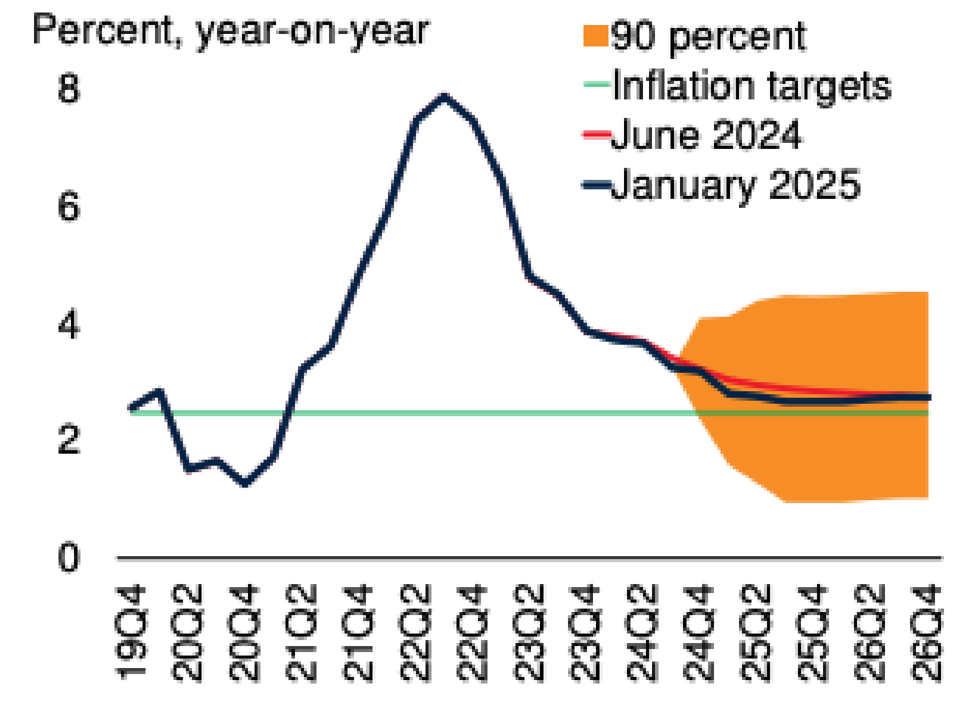
GDP Growth Forecast

(Real GDP, annual percent change)	ESTIMATE 2024	PROJECTIONS 2025	2026
World Output	3.2	3.3	3.3
Advanced Economies	1.7	1.9	1.8
United States	2.8	2.7	2.1
Euro Area	0.8	1.0	1.4
Germany	-0.2	0.3	1.1
France	1.1	0.8	1.1
Italy	0.6	0.7	0.9
Spain	3.1	2.3	1.8
Japan	-0.2	1.1	0.8
United Kingdom	0.9	1.6	1.5
Canada	1.3	2.0	2.0
Other Advanced Economies	2.0	2.1	2.3
Emerging Market and Developing Economies	4.2	4.2	4.3
Emerging and Developing Asia	5.2	5.1	5.1
China	4.8	4.6	4.5
India	6.5	6.5	6.5
Emerging and Developing Europe	3.2	2.2	2.4
Russia	3.8	1.4	1.2
Latin America and the Caribbean	2.4	2.5	2.7
Brazil	3.7	2.2	2.2
Mexico	1.8	1.4	2.0
Middle East and Central Asia	2.4	3.6	3.9
Saudi Arabia	1.4	3.3	4.1
Sub-Saharan Africa	3.8	4.2	4.2
Nigeria	3.1	3.2	3.0
South Africa	0.8	1.5	1.6
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.2	4.2
Low-Income Developing Countries	4.1	4.6	5.4

Source: IMF

Headline CPI Forecast





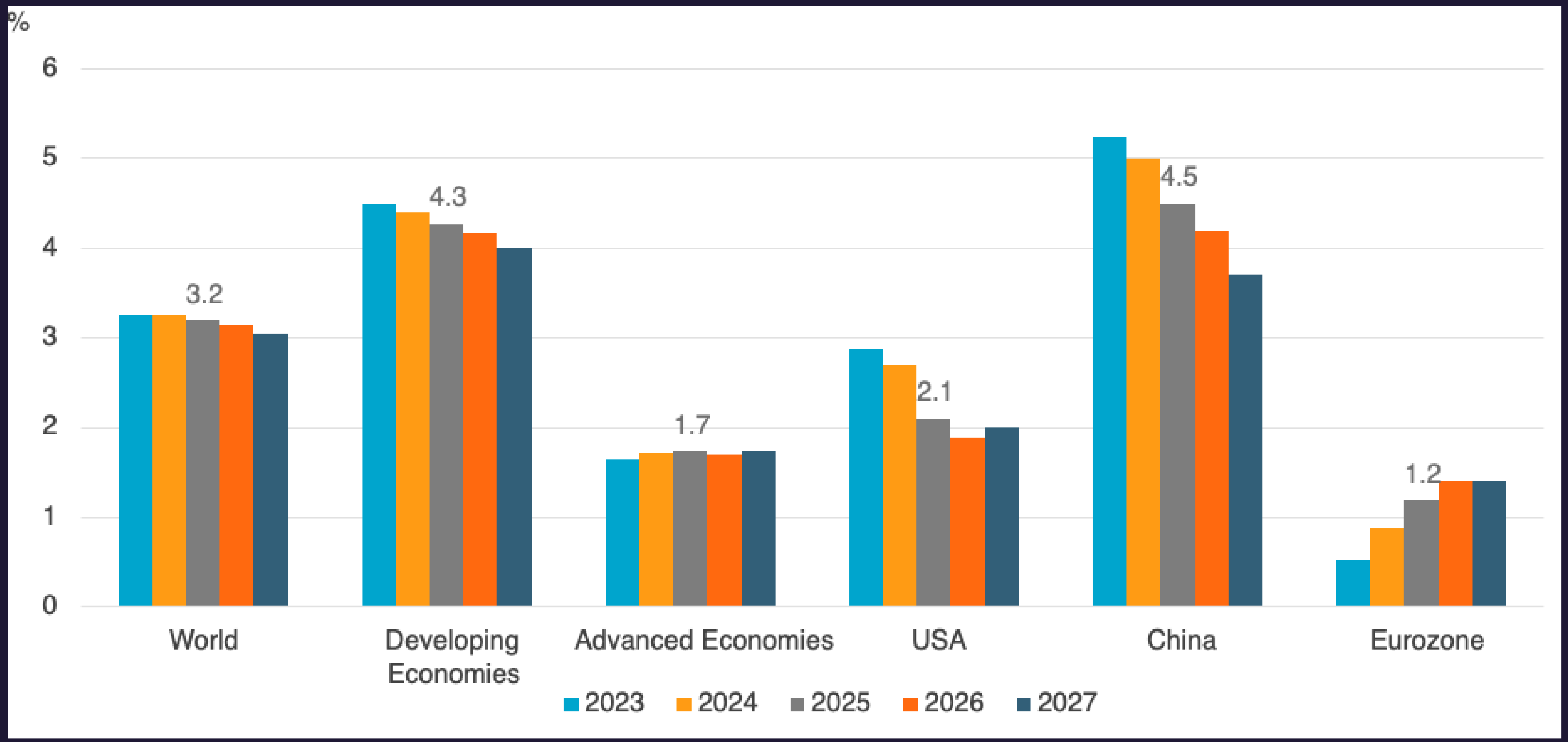
Source: World Bank

Global

- **Global growth** projected at **3.3%** in both 2025 and 2026, up from 2024's average of 3.2% (IMF)
- **Global headline inflation** is slowing and is expected to reach **2.7%** in 2025 and 2.5% in 2026, down from 2024's average of 3% (World Bank)
- Economic policy uncertainty has increased sharply in recent months, mostly with the imposition of trade tarrifs by the U.S. Geopolitical tensions in the Middle East and around the Russia/Ukraine conflict which has caused Central Banks to adopt a more cautious approach to easing monetary policy

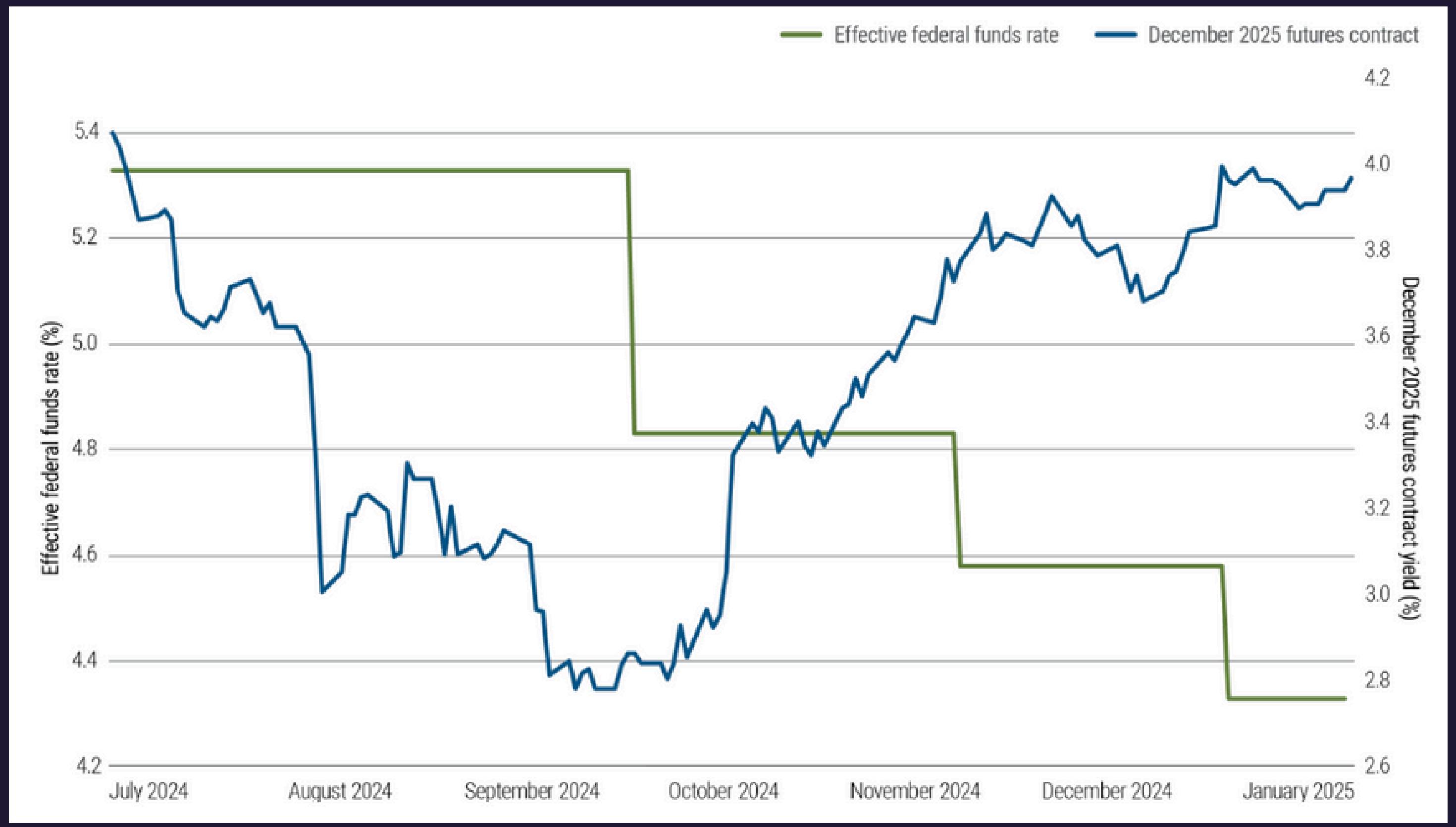
United States

GDP Growth Forecast



Source: Euromonitor International

FED Funds Rate vs. DEC Futures



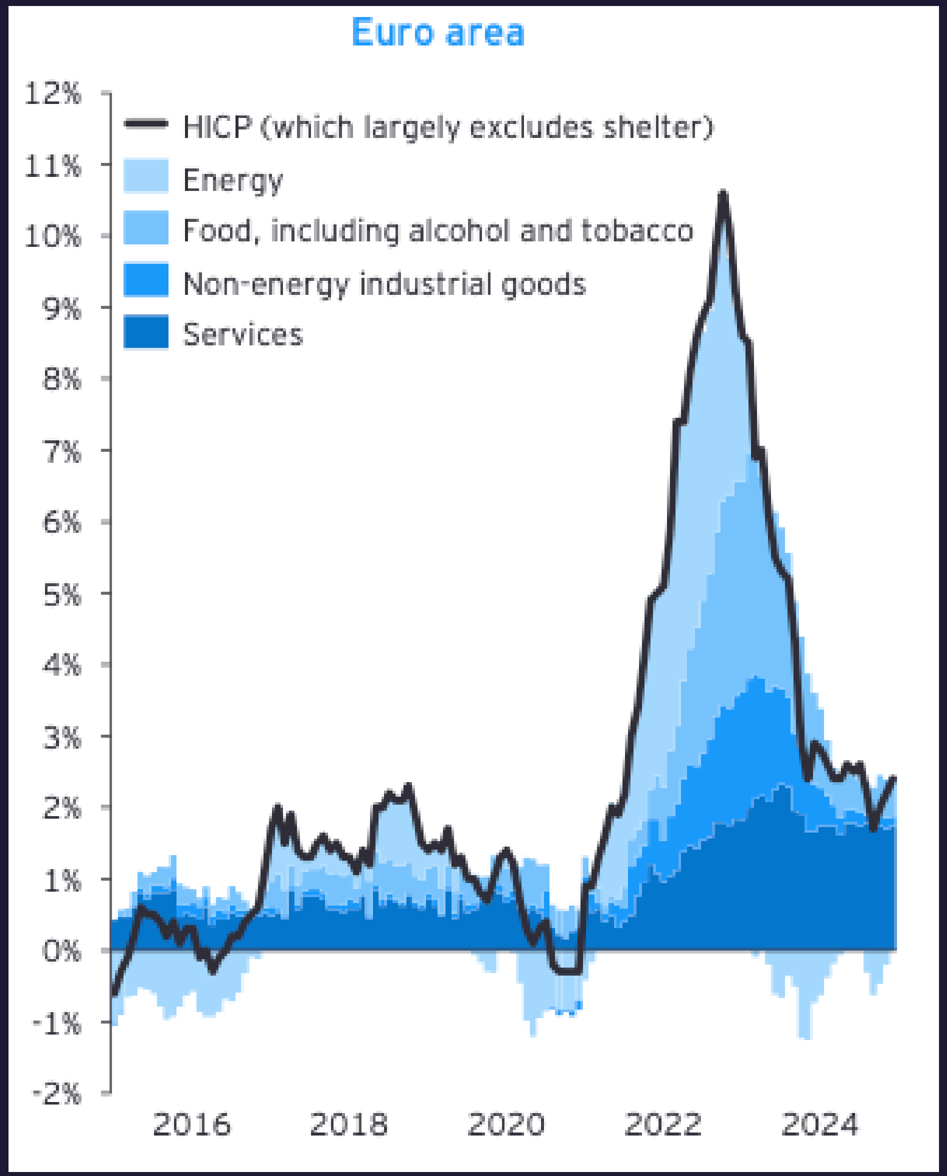
Source: PIMCO

United States

- U.S. **GDP growth** for 2025 revised up from 2.1% to **2.7%**
- Economy remains robust with **inflation** struggling to move below **2.5%**
- Supported by a mix of strong wealth effects, less restrictive monetary policy, supportive financial conditions and an ongoing increase in employment
- Risks include a global trade war due to tarrif impositions and excessive tax cuts that could cause a surge in gvt debt weakening their fiscal position
- FOMC have highlighted upside risks and have commented that inflation “remains somewhat elevated” which may prompt the FED to PAUSE on further rate cuts

Eurozone

Headline CPI

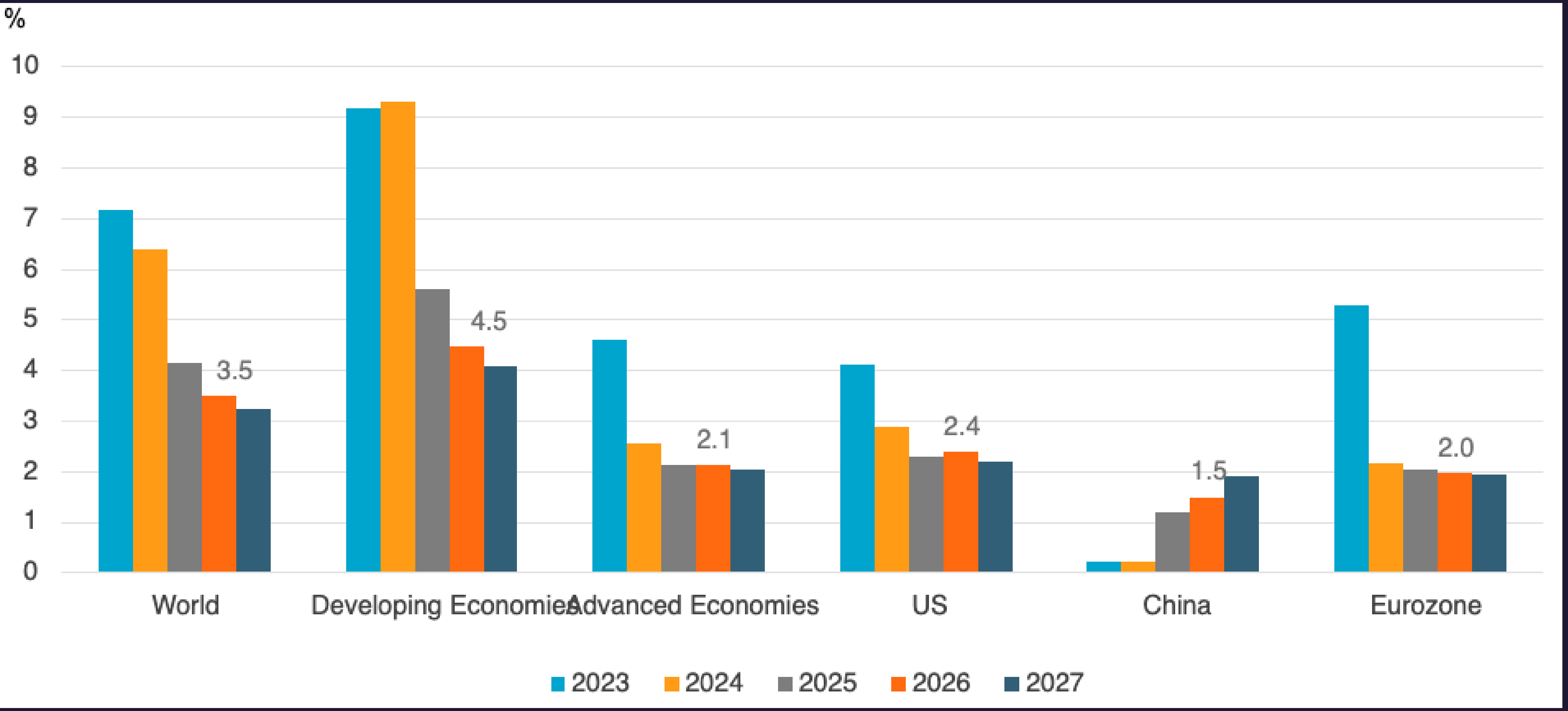


Source: EY

- EU **GDP growth** forecast to be to **1.2%** for 2025 representing a mild recovery from 2024's 0.8%
- Inflation briefly fell below ECB's 2% target in Sep-24 but has since accelerated in each of the last 3 months due to higher energy prices
- Sticky inflation along with recent deveopments in the Russia/Ukraine conflict may cause the ECB to take more careful approach to further rate cuts in the short to medium term

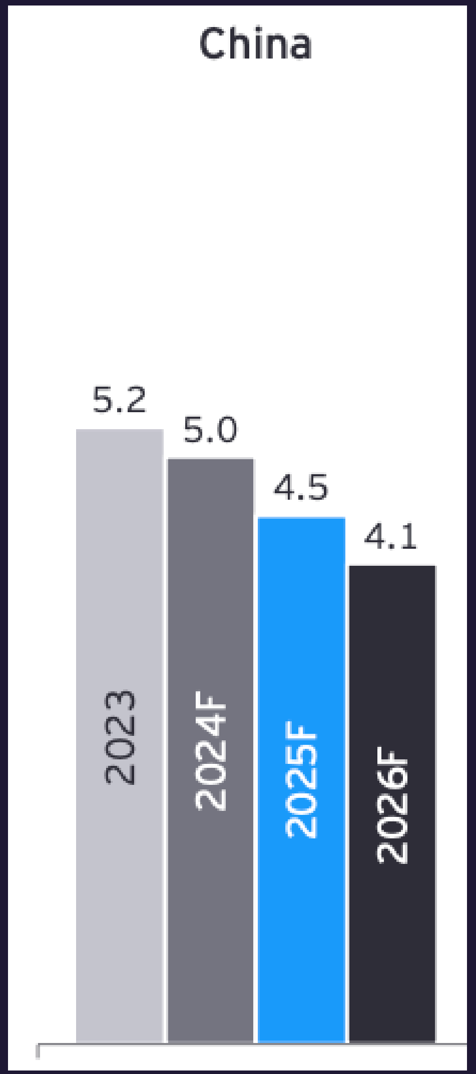
China

CPI Growth Forecast



Source: Euromonitor International

GDP Growth



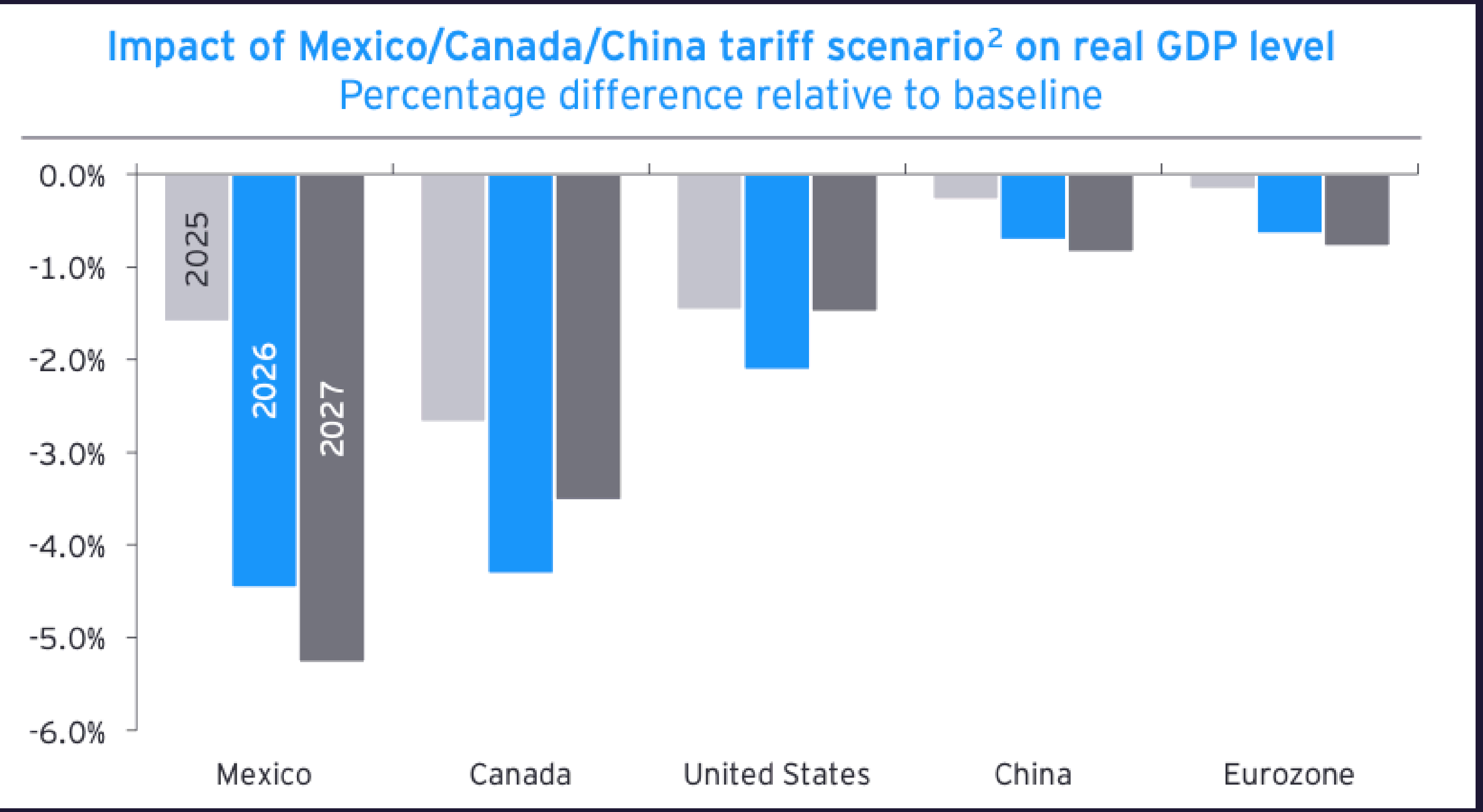
Source: EY

China

- China achieved its GDP growth target of 5% mainly due to the production side of the economy. This despite ongoing challenges, including a property market slump and weak domestic consumer demand
- This is reflected in the subdued inflation numbers which averaged 0.2% in 2024, unchanged from 2023 and well below PBoC's target of 3%
- Heavy reliance on government to stimulate consumption in the economy
- Escalating trade tensions with the U.S. as well as currency concerns pose a major threat to the growth prospects
- Given these risks, **GDP is expected to slow to 4.5%** in 2025 and 4.1% in 2026

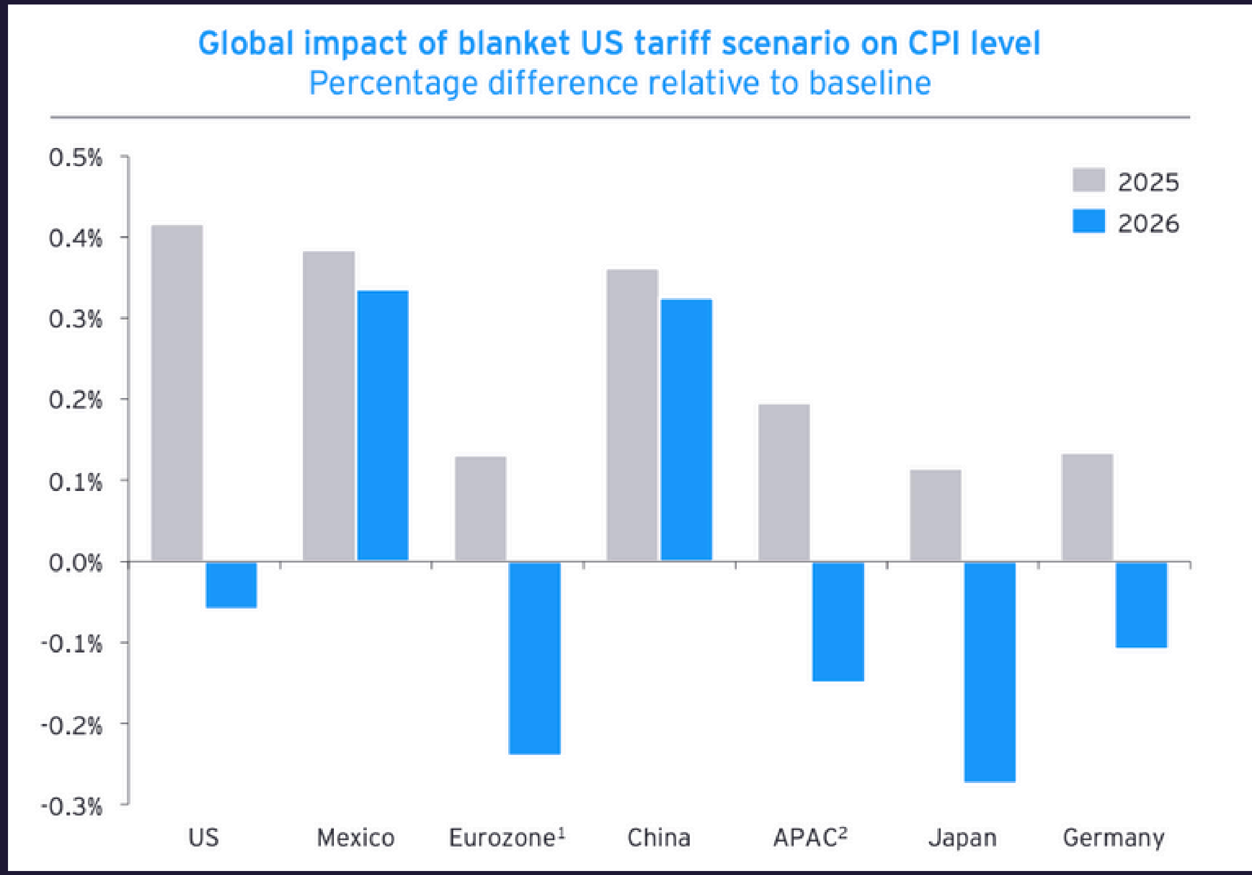
Tariff Impact

GDP Relative to Base



Source: EY

CPI Relative to Base



Source: EY

- Scenario assumes 10% tariffs on imports from China and 25% from Mexico and Canada starting in Q1 2025
- Significant impact with U.S. real GDP reduced by 1.5% in 2025 and 2.1% in 2026. Increased import costs would lift CPI by 0.4% in 2025 and with the upward pressure to inflation, a more hawkish FED would be disinflationary

Key Takeaways

- **Global Trade War:** The biggest threat is a potential global trade war, primarily initiated by US policies, which could significantly undermine economic fundamentals worldwide
- **US Policy**: The uncertainty surrounding President Trump's economic policies, particularly trade protectionism and fiscal policy, is a major source of risk
- **Geopolitical Tensions**: Ongoing geopolitical tensions, including those in the Middle East and the Russia/Ukraine conflict, continue to pose a threat to economic stability
- **China's Deflation**: China's potential deflationary pressures and uneven growth remain a concern

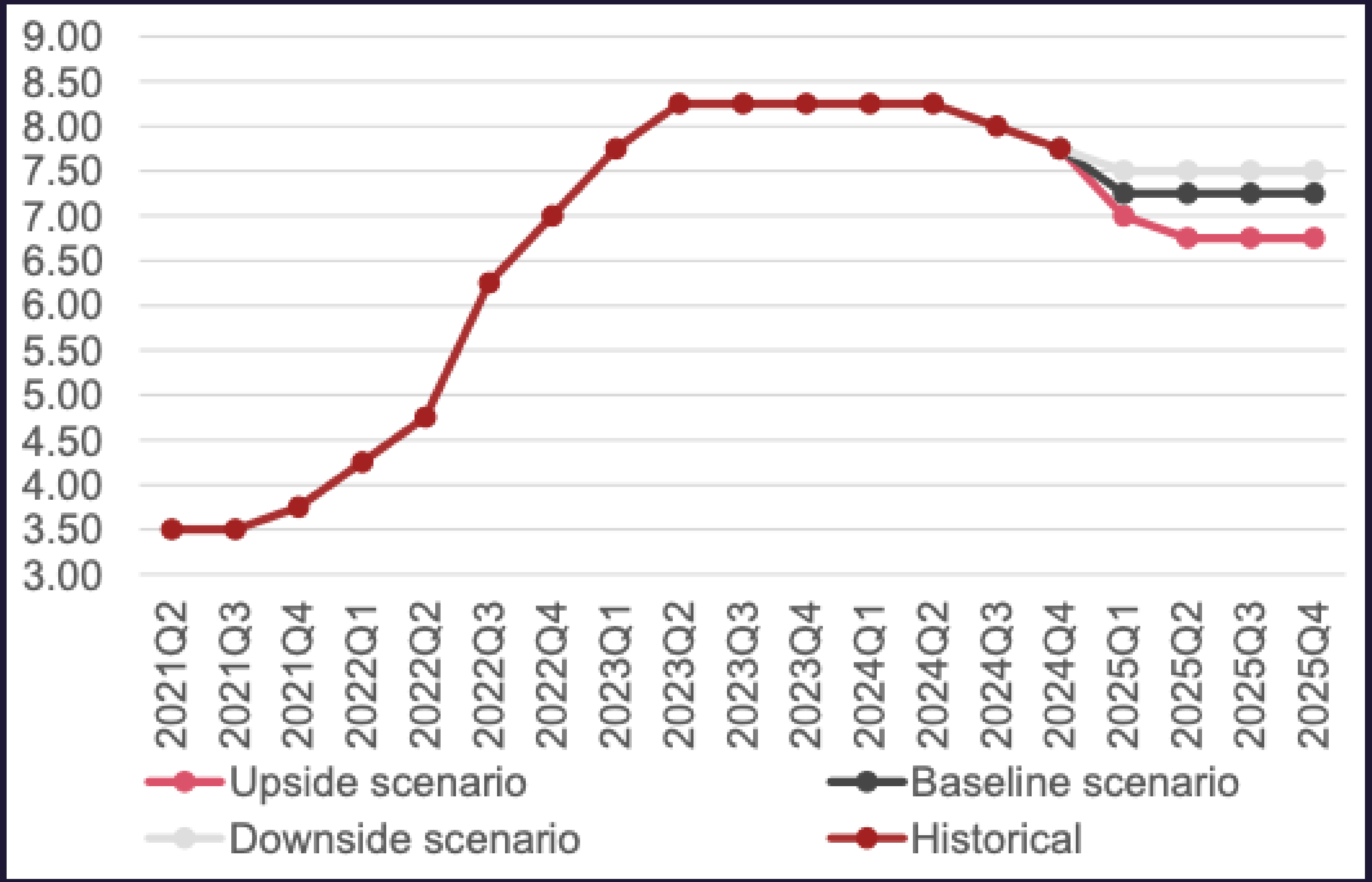
South Africa

Macroeconomic Forecasts

Baseline scenario	2023	2024E	2025F	2026F
ZAR/USD	18.45	18.32	18.82	19.32
Consumer price inflation (%)	5.9	4.4	4.5	4.6
Repo rate (end-of-period)	8.25	7.75	7.25	7.00
Real GDP growth (%)	0.7	0.5	0.8	1.3
Unemployment rate (%)	32.1	32.7	33.1	33.3
Probability weighted average	**2023**	**2024E**	**2025F**	**2026F**
ZAR/USD	18.45	18.32	18.81	19.30
Consumer price inflation (%)	5.9	4.5	4.5	4.5
Repo rate (end-of-period)	8.25	7.75	7.15	7.03
Real GDP growth (%)	0.7	0.5	0.9	1.3
Unemployment rate (%)	32.1	32.7	33.1	33.3

Source: PwC

SARB Repo Rate Scenario’s



Source: PwC

South Africa

- **GDP Growth** expected to average 0.5% for 2024 (Actual 0.6%) with a moderate improvement to **0.8%** forecast for 2025 (1.5% IMF) and 1.3% for 2026 (1.6% IMF)

- **Inflation** is expected average 4.4% in 2024. Initial forecasts were for CPI to slow below 4% in 2025, however with increased upside risks to the cost of food, electricity, water, insurance and wages forecasts have been revised upwards

- Unemployment remains a challenge due to slow economic growth

- Increased unpredictability of the rand due to economic and global risks

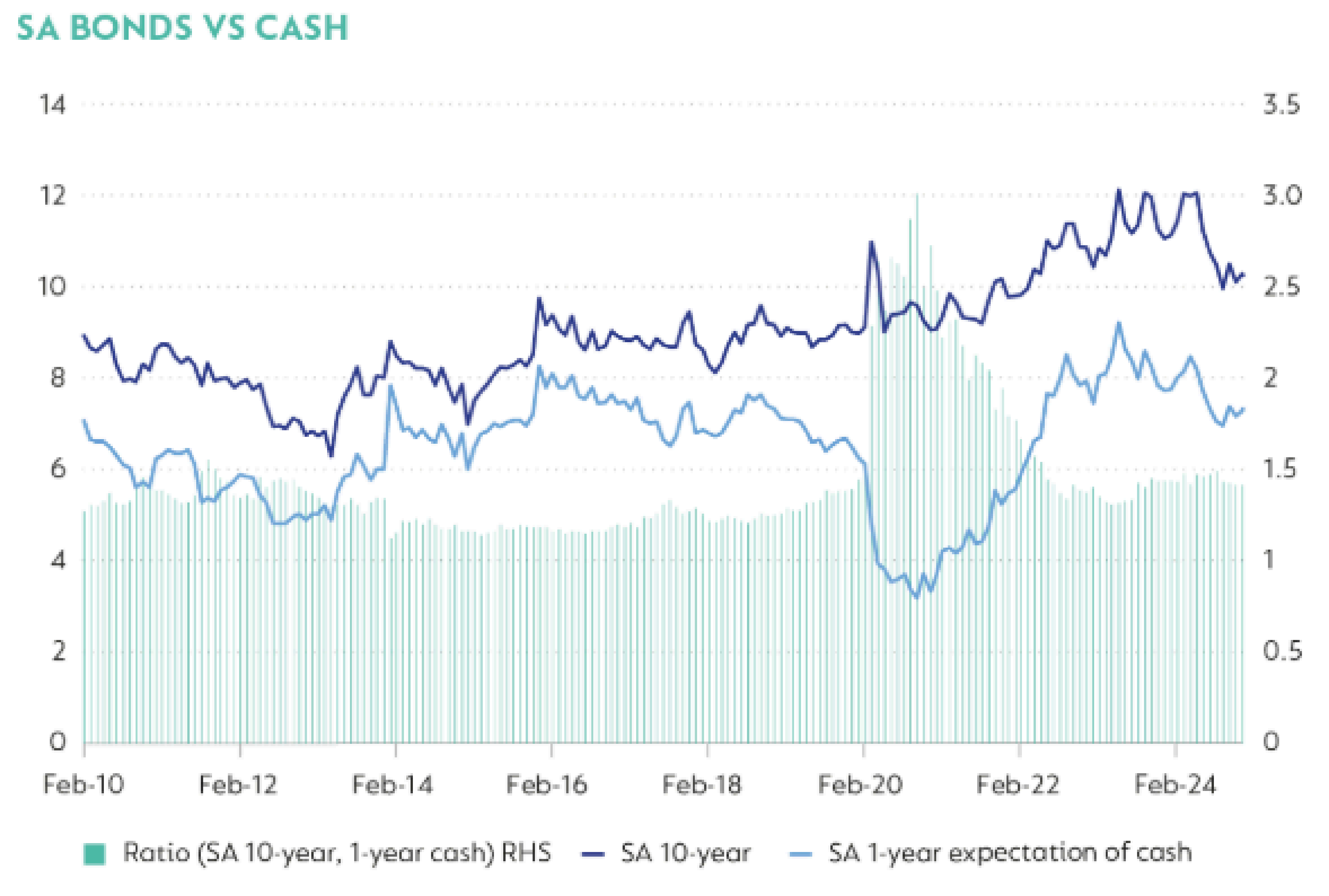
- Given these risks, inflation is expected to be 4.5% in 2025 and 4.6% in 2026

South Africa

SA 10Yr vs. US 10Yr

Source: Bloomberg

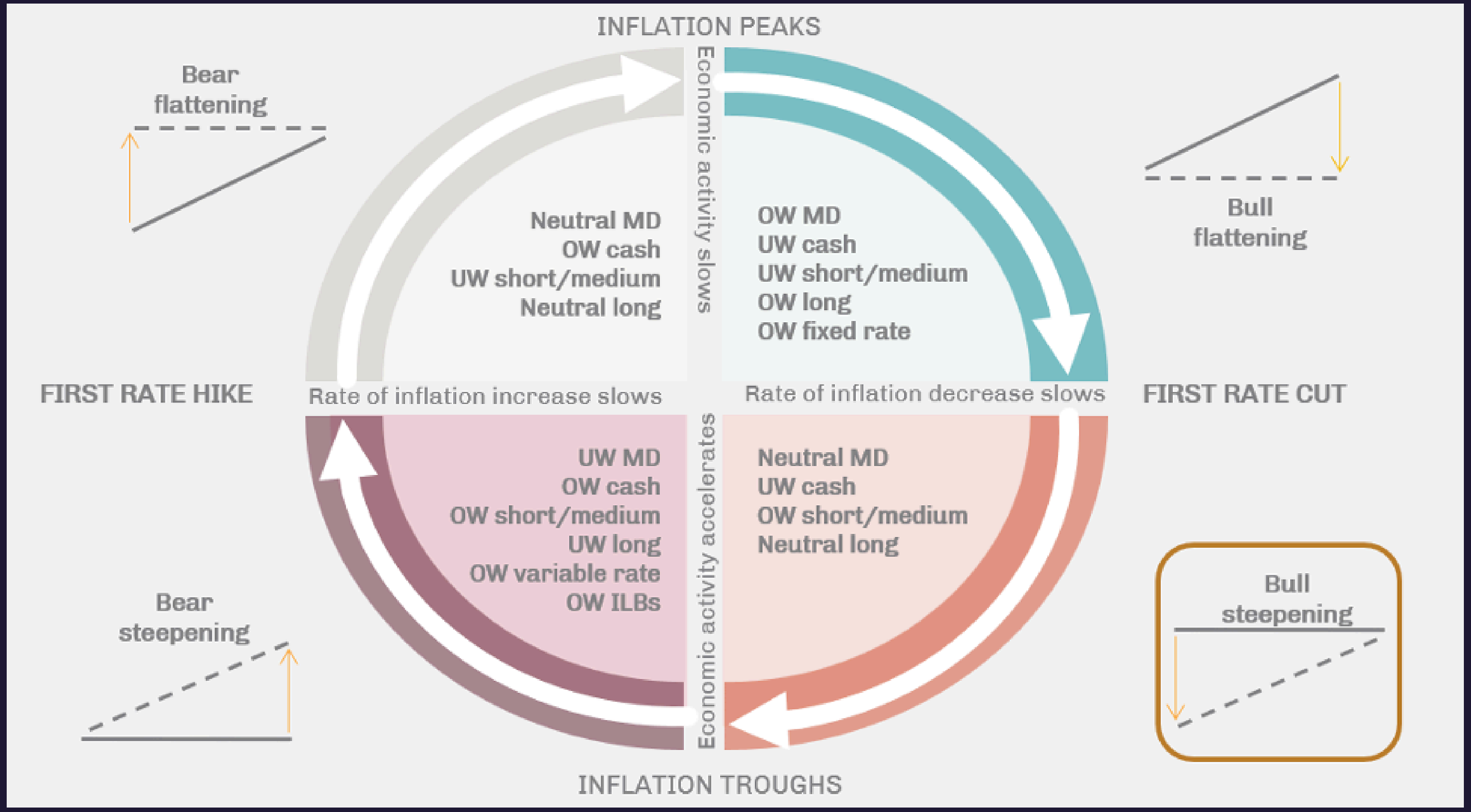
Bonds vs. Cash



Source: Bloomberg

South Africa

Inflation Cycle



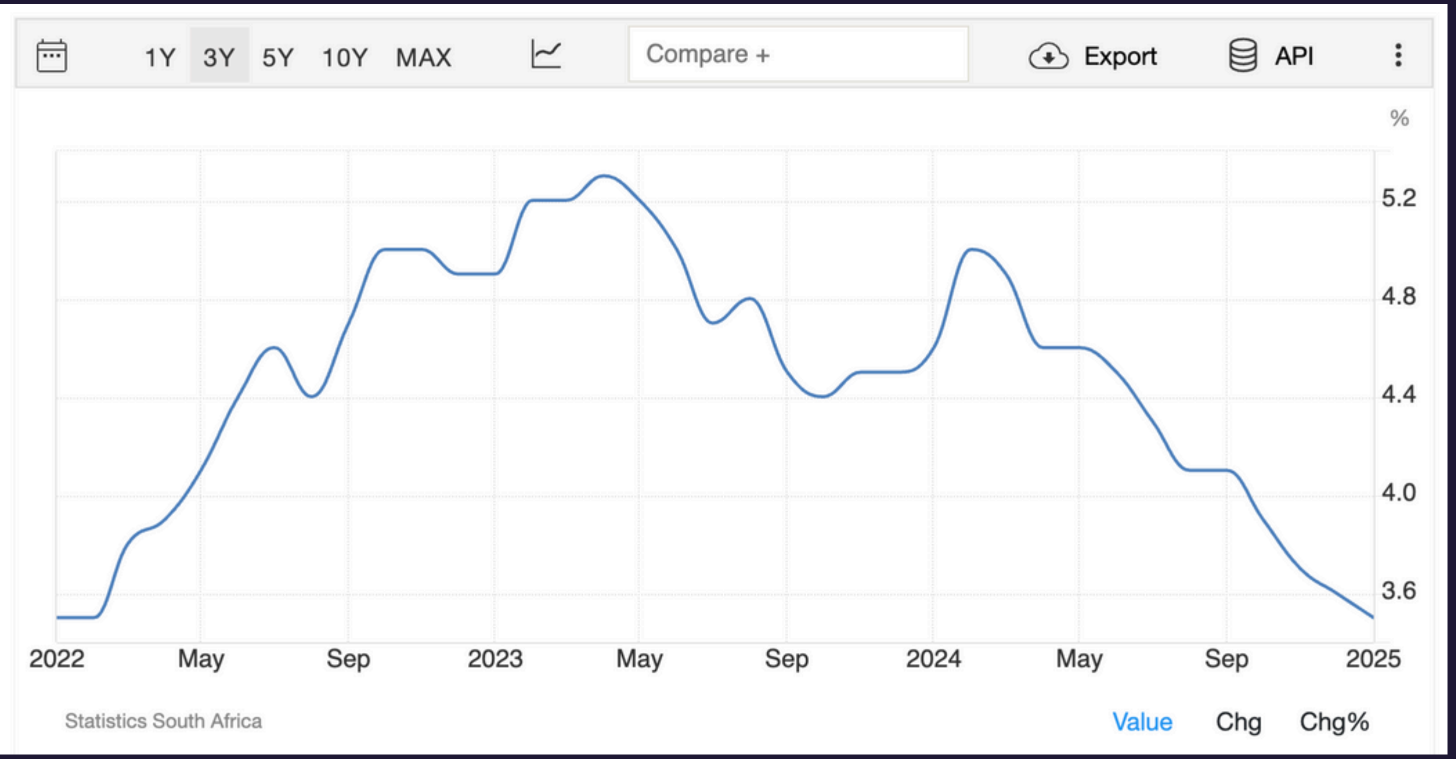
Source: CFA Notes

- Due to the notable upside risks to inflation as well geopolitical and economic uncertainties, it is likely that the SARB will adopt a more cautious approach to interest rate decisions
- My view is that they puase for the next few meetings before deciding on the next move
- Even though yields are high and offer value, the risk premium (bonds vs. cash and SA 10yr vs. US 10Yr) has come off a bit and I think it would be prudent to have a more defensively positioned portfolio with neutral duration and assets focused in the short-medium end of the curve

FI Fund Analysis

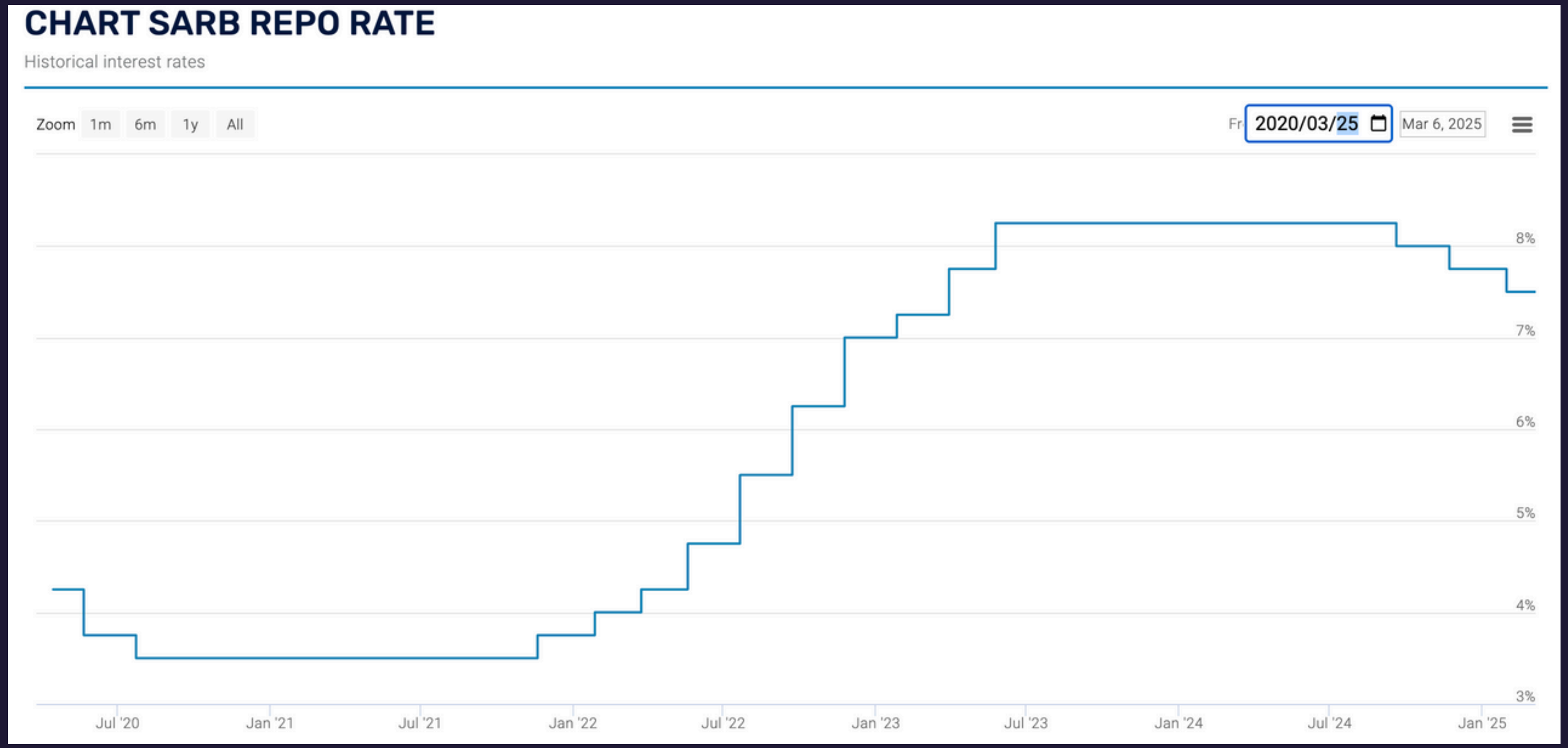
Time Series Analysis

SA CPI



Source: Stats SA

Repo Rate



Source: SARB

Time Series Analysis

Tracking Error vs. Spread Duration

- Portfolio looks to have increased duration around May-2024

Correlation Matrix

	BetaP	Tracking Error (Ex Ante)	SpreadDuration (Active)	CreditSpreadDur (Active)
BetaP	1.00	0.91	0.49	-0.18
Tracking Error (Ex Ante)	0.91	1.00	0.60	-0.07
SpreadDuration (Active)	0.49	0.60	1.00	-0.29
CreditSpreadDur (Active)	-0.18	-0.07	-0.29	1.00

Time Series Analysis

- Looking at the historical CPI and Repo rates graphs above, we note that in an effort to combat high inflation, the SARB began hiking rates in Oct-21. The cycle continued through 2022 and was paused in July-2023

- The aggressive hiking policy taken by the SARB over this period saw the repo rate increase by a cumulative 475bps from 3.5% to 8.25%

- Afterwards inflation began to decline but picked up again somewhat leading up to the May-24 elections

- Following the relatively smooth elections and a further falling inflation rate which saw the rate print below 3% in Jul-24, the SARB began it’s rate cutting cycle in September of last year

Time Series Analysis

- Looking at the numbers for the Tracking Error (T/E) vs. Spread Duration (Interest Rate sensitivity), we note that the fund was relatively defensively positioned during the hiking period

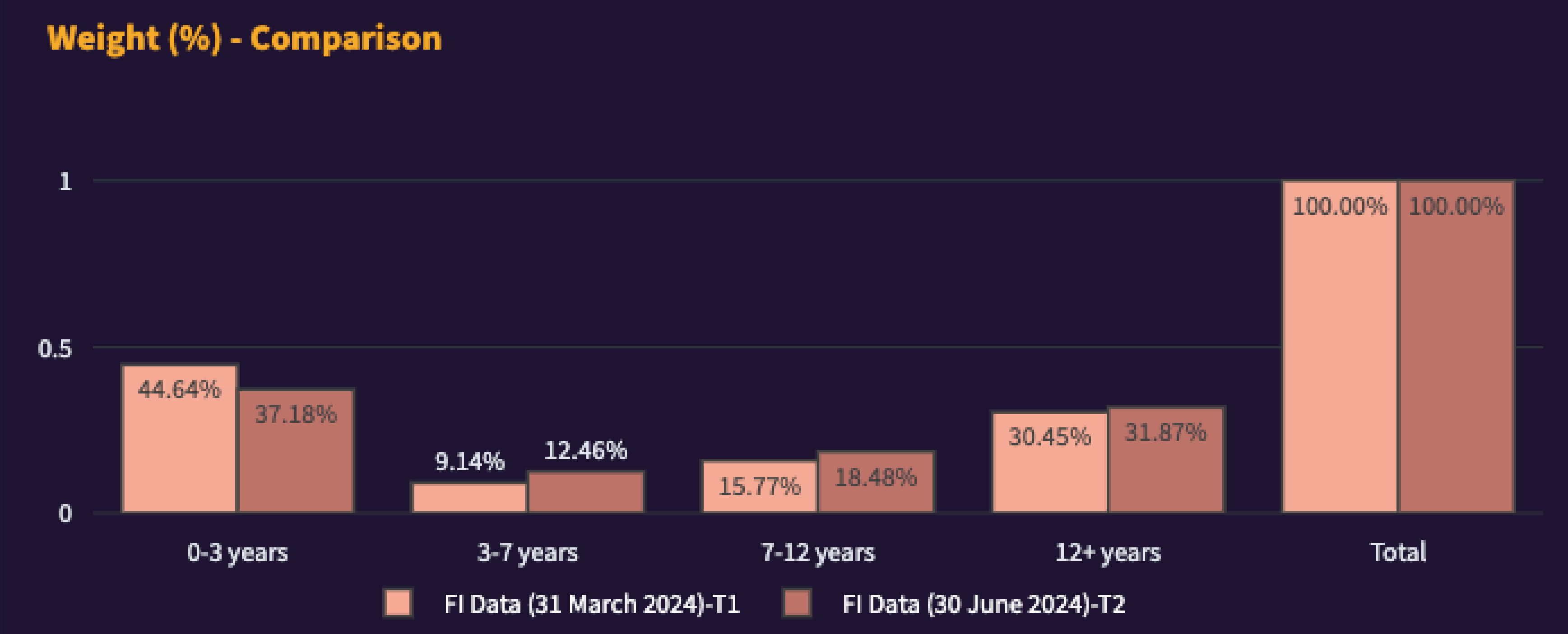
- T/E and Spread Duration appeared fairly correlated with each other and given the lower duration figures (< 1), suggests that the fund was below the benchmark duration

- Following the successful elections last year and again with the falling inflation, the portfolio Spread Duration was increased in May-24. This mostly likely in anticipation of impending rate cuts that would come through from the SARB

- The timing of this was nearly perfect as the SARB began cutting rates in Sep-24

Time Period Comparison

Portfolio Change - Weight (%)



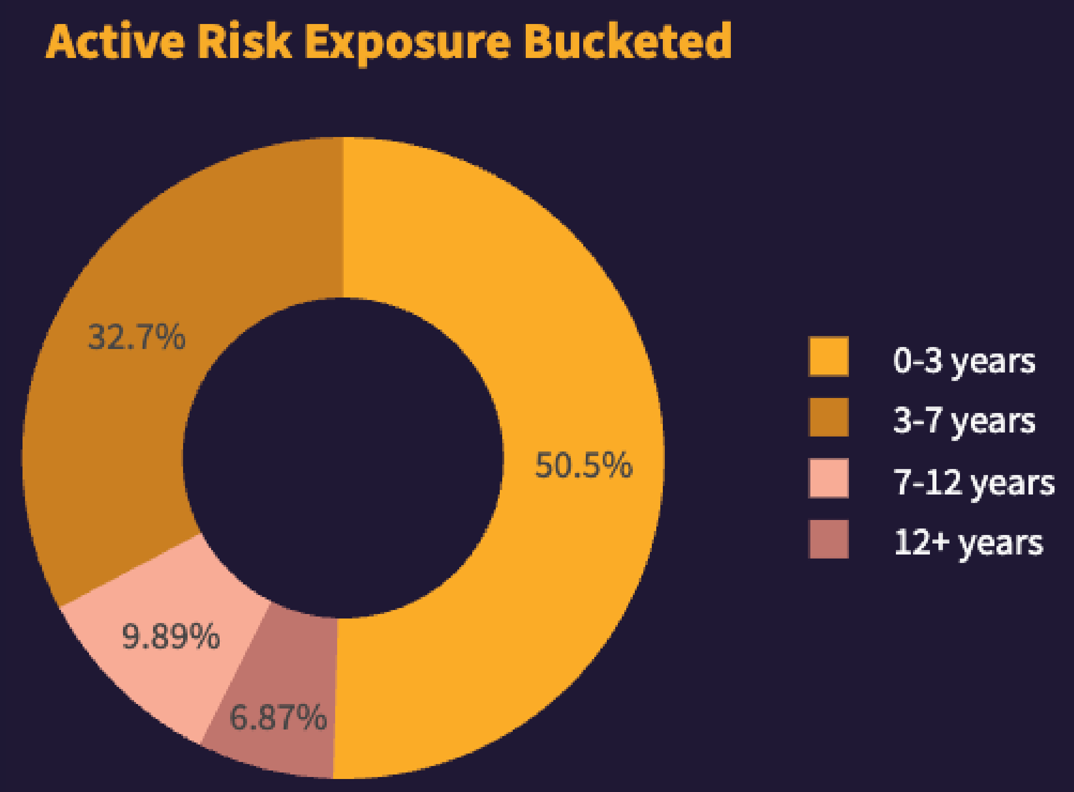
Time Bucket Comparison

Bucket	FI Data (31 March 2024)-T1	FI Data (30 June 2024)-T2
0-3 years	44.64%	37.18%
3-7 years	9.14%	12.46%
7-12 years	15.77%	18.48%
12+ years	30.45%	31.87%
Total	**100.00%**	**100.00%**

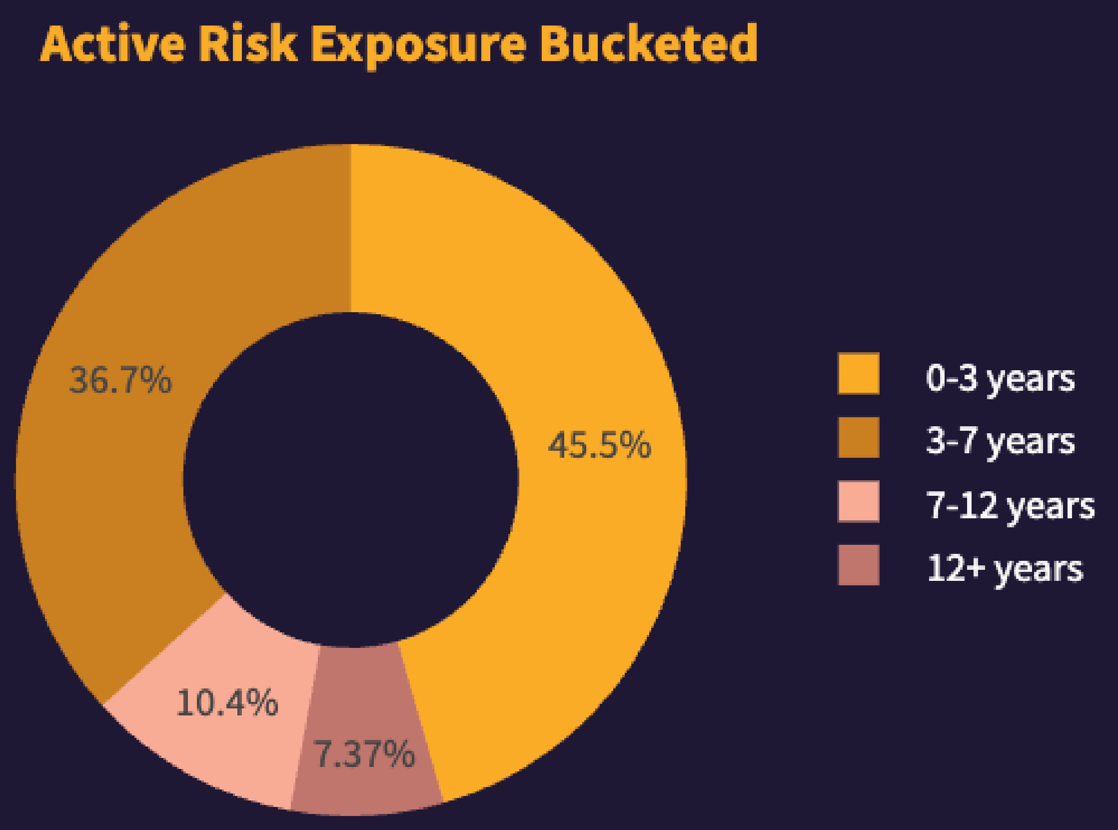
- The insights drawn from the time series analysis above is further supported when comparing the portfolio between March-24 and June-24. Considering the time bucket exposure, we note that portfolio weights were increased by around 3% in each of the 3-7 years and 7-12 years buckets with a marginal increase of just over 1% in 12+ years
- The decrease in the 0-3 years was mainly drawn from cash

Time Period Comparison

FI Data (31 March 2024)



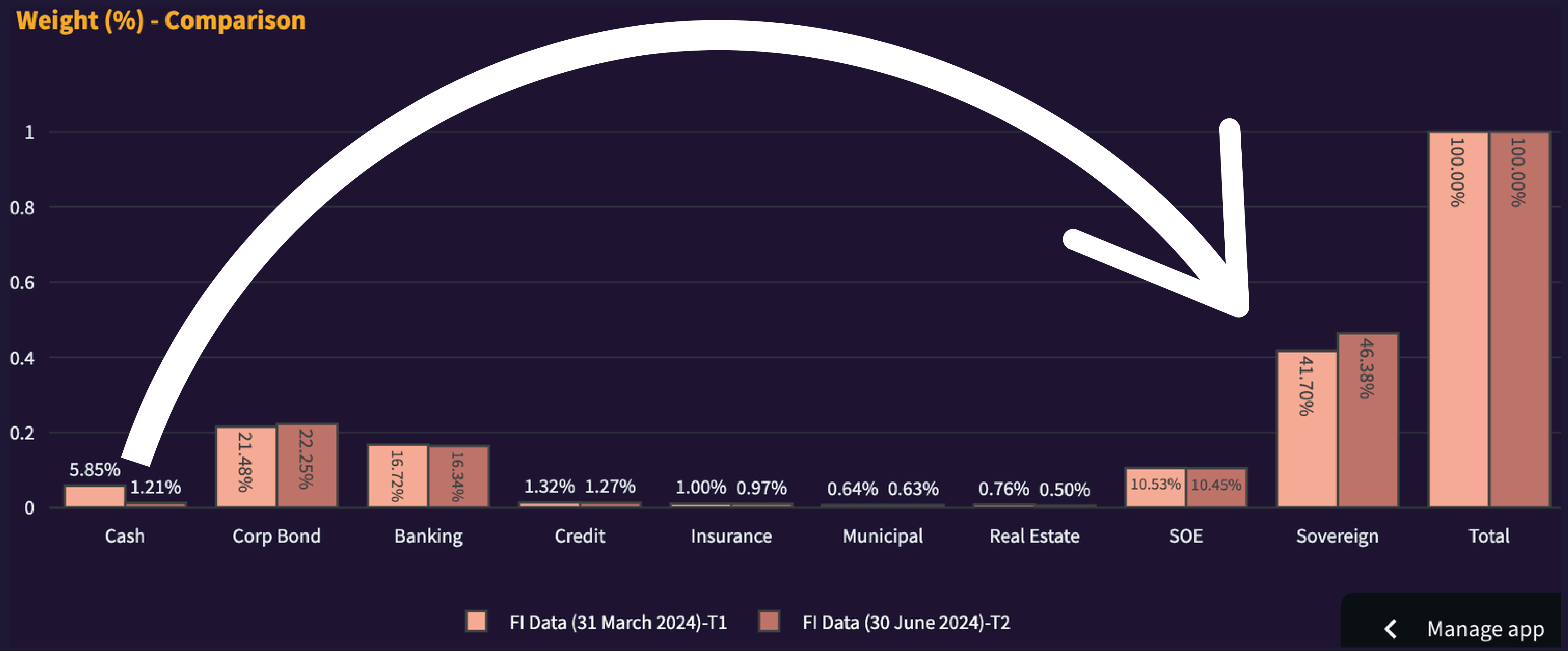
FI Data (30 June 2024)



- The same conclusion can be drawn when looking at the ative risk between the time periods. The fund most likely added to duartion by reallocating funds towards the belly (middle) of the curve

Time Period Comparison

Portfolio Change - Weight (%)



- The Sector breakdown reveals that 4.6% of cash was moved into government bonds
- Other noteworthy insights were the Asset Swap holdings in the fund which seemed to increase over the two periods

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THANK YOU

Questions?