BRENTHURST
THE HOME OF WEALTH

BRENTHURST FUND OF FUNDS

QUARTERLY REVIEW

JANUARY – MARCH 2023

INVEST WITH SA'S

LEADING BOUTIQUE WEALTH MANAGER

RANKED AMONGST THE TOP WEALTH MANAGERS FOR 6 CONSECUTIVE YEARS
WINNER 2020 & 2017, TOP 3 2022 & 2021

Brenthurst Wealth Management (Pty) Ltd FSP No. 7833

Monthly Macro Economic Update

Investors are, understandably, concerned. Predictions of a collapse in the US regional banking system, the Fed overtightening, interest rates being too tight, and inflation in the US and Europe remaining sticky, abound.

Extrapolating these predictions translates into imminent declines in risky assets, including US Equities, and spreads increase as credit conditions tighten. While each holds an element of truth, the optics differ from a financial markets' perspective. The decision taken by the Fed to hike rates by another 25 bp was seen by the market in a positive light. Equities rallied further while bond yields in the US declined.

Yields on 2yr US treasuries fell sharply, an indication that the bond market felt comfortable that the Fed was doing enough to tame inflation. Long-duration stocks such as technology rallied strongly, with many US heavyweight tech stocks recording their best quarter in over 20 yrs.

The dollar weakened slightly as emerging market currencies, including the rand, strengthened. After weakening by nearly 20%, the US regional banking index stabilised, with critical components rallying strongly. This picture is at odds with investor behaviour.

Monthly Macro Economic Update

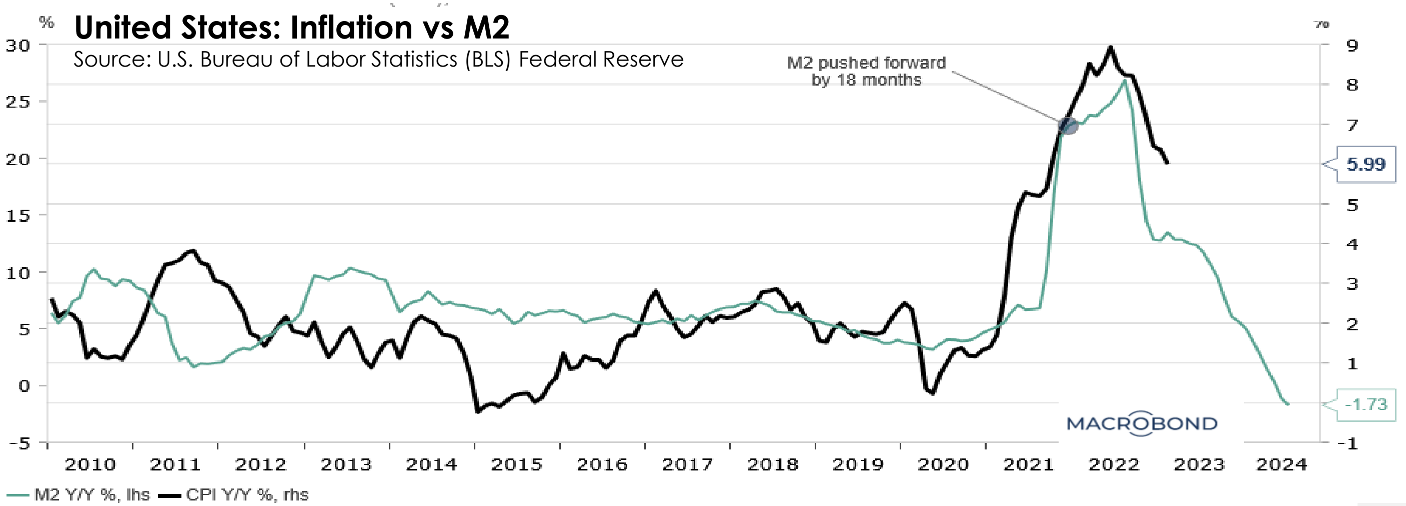
Investors in the US panicked, withdrawing a record amount of money from regional banks. They poured more money into short-term money market funds than the 2008 global financial crisis.

Option volatility increased as investors sought to protect themselves from the impending collapse in risky assets. Gold pushed higher as oil and natural gas prices fell to new lows.

Where does this leave us in marrying the behaviour of the market with the more bearish view taken by investors and market commentators?

We need to step back and examine a few variables to answer the question.

Chart 1 – US Inflation vs Money Supply (M2)



Inflation in the US will decline over the next two quarters (chart 1). The Fed does not need to do anything else for this to happen. But the "sticky" part is, well, sticky. The consequence is that inflation in the US may stay slightly higher than otherwise would have been the case. For inflation to decline more quickly, the labour market has to be a lot softer and consumer demand not so strong.

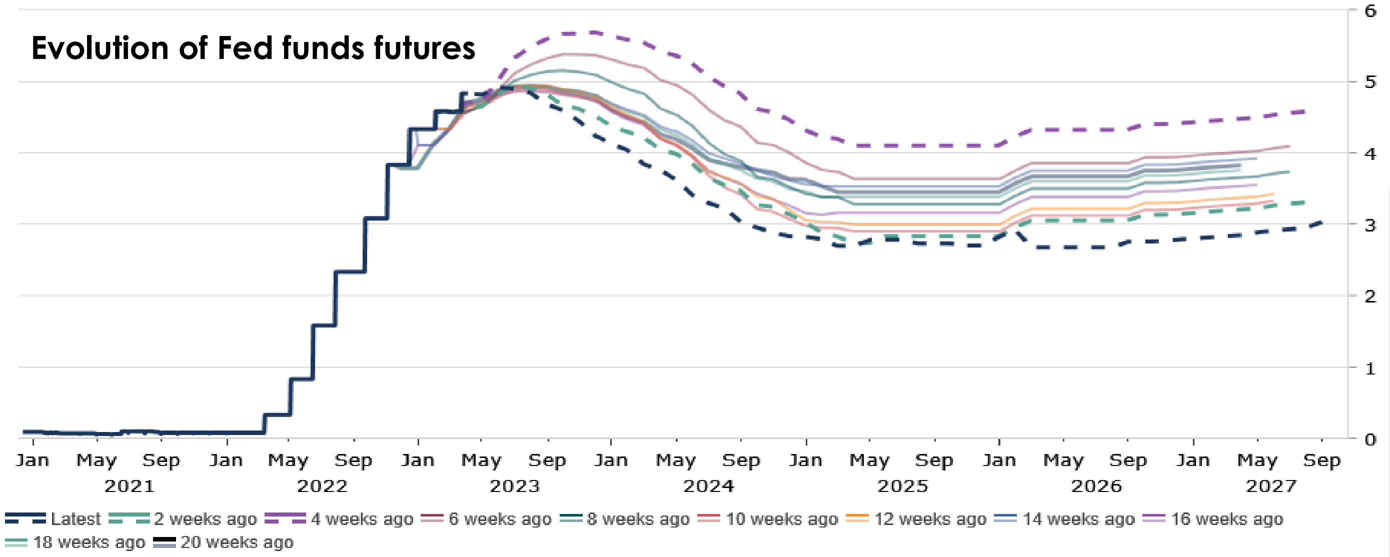
Inflation that is higher for longer and an economy that remains relatively robust translates into higher Fed fund rates for longer. **So it is not beyond reason that the Fed may increase rates again (chart 2)**. Notably, the Fed has been at pains to point out that it intends to keep its interest rate policy separate from its liquidity-driven "rescue" policy. The policy framework is theoretically elegant but, in our view, does not quite work that way in practice.

Chart 2 – US Fed Funds Futures

thinkcell

At a time when the Fed is creating tighter financial conditions through higher interest rates, the bond market is creating easier conditions through lower yields.

As the Fed pumps liquidity into the system to avert a banking crisis, it also creates easier liquidity (financial) conditions. As a result, lower US bond yields plus more liquidity from the Fed translate into a powerful tailwind for growth assets such as technology stocks, as seen over the past quarter.



But the persistence of higher short-term rates creates stress. In the US, regional banks lend to regional businesses. The withdrawal of nearly $ 3tn in deposits from the regional banking system by depositors means that banks have to borrow this money from the Fed, often at higher rates than would have been paid to depositors.

US regional banks are also the leading lenders to regional property investors. Higher rates plus less liquidity translate into potential risks in the property sector. Less liquidity for regional banks translates into tighter credit standards making loans harder to come by. **The pressure on regional banks will likely translate into layoffs in the financial sector as regional bank profitability declines (chart 3).** These pressure points could lead to a more severe recession and financial jitters in the months ahead.

Chart 3 – US Banks Deposits vs Money Market Funds

One very plausible argument that links the two views is that the banking crisis, in a very similar vein to 2008/09, has created a surge in central bank liquidity that has underpinned growth assets.

But the liquidity surge has masked the actual economic impact of the fall-out, leaving equity prices vulnerable to further setbacks.

Add to this the effect of additional layoffs in labour markets, the escalation of conflict in Ukraine, excessive inventory levels, lower energy prices and some $300bn in unrealised losses within US regional banks as well at the 20% drawdown at AT1 (no space otherwise it looks like 1-yr bonds) bond yields as a result of the crisis at Credit Suisse.

US bank balance sheets: deposits are melting
Source: Investment company Institute (ICI), Federal reserve

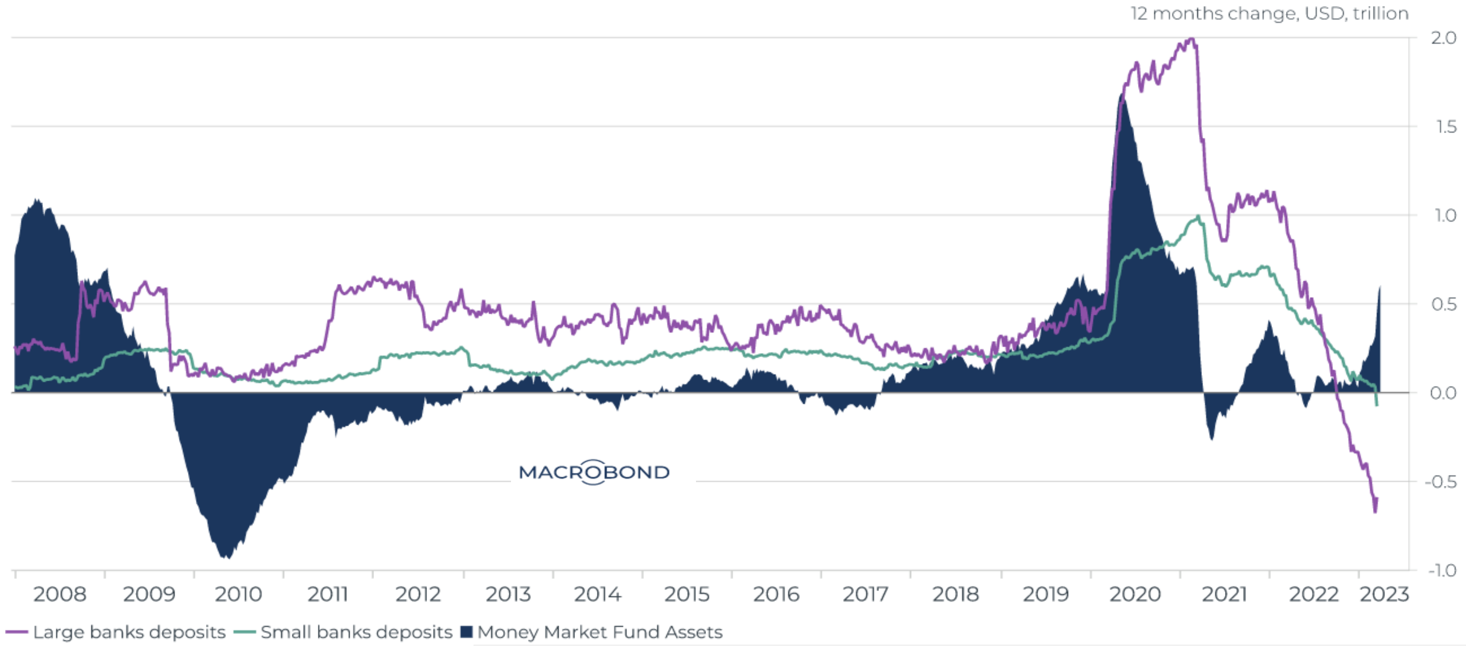


Chart 3 – US Banks Deposits vs Money Market Funds

Looking at it from a different perspective, the question could be posed differently. For example, is the run in technology stocks likely to continue, and are banking stocks offering an attractive entry point for accumulation? In addition, is Europe likely to continue to lead the equity recovery during the second quarter, and could commodities rally?

For these early-stage cyclical (banks, commodity stocks, consumer durables & homebuilders) stocks to perform, the market must be persuaded that the regional bank crisis in the US has no contagion impact, and that China and Europe will continue to edge towards recovery.

We would suggest that the recent relative outperformance of growth stocks is somewhat masked by the surge in central bank liquidity coupled with lower US bond yields.

Between the Bank of Japan defending its yield curve, the BoE dealing with the Truss mess and unintended Brexit fall-out, and the PBoC stimulating to reflate the Chinese economy, financial markets have been awash with cash. The picture may have looked quite different had this liquidity not been forthcoming.

One driver of continued performance in growth stocks would be lower US bond yields. We don't believe that yields will decline as recessionary risks increase. At the core of Fed policy is the re-establishment of real yields (chart 4).

Before the Fed commenced its rate hikes in early 2022, real rates were negative 1% - today, the rate is 1.3%. The current break-even inflation in the US on the same time horizon is 2.3%.

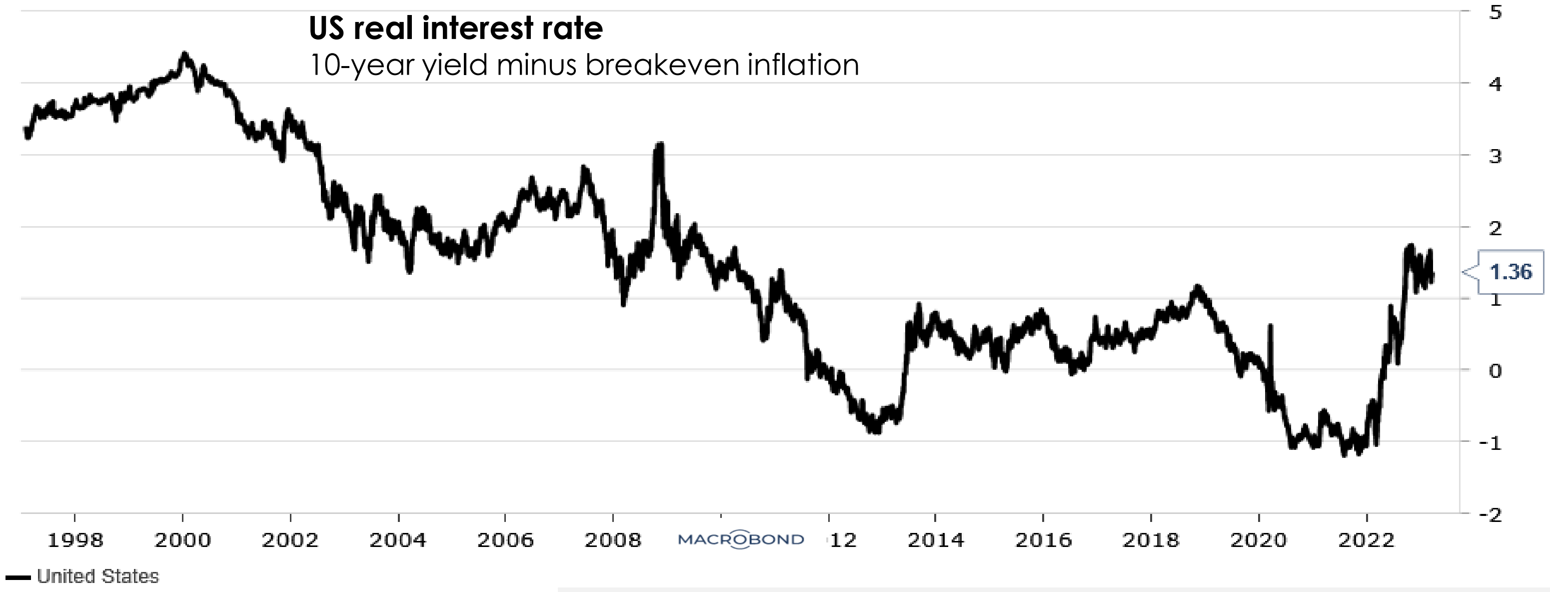
Adding the two together translates into a nominal 10-yr yield of 3.6%. To argue that the long bond yield would be materially lower during the second half of 2023 means that either the real rate or break-even inflation rate would need to be lower. We don't see either as likely as the Fed will need to ensure that real rates normalise back to levels that existed around the time of the global financial crisis in 2008. The Fed needs the economy to slow to ensure lower inflation. Slowing growth and increased financial stress don't augur well for growth. Equity markets will respond well to lower inflation, but only if bond yields decline.

Chart 4 – US Real Yields

thinkcell

The Fed will also be critically aware that the more money it pumps in to save regional banks and keep the financial system liquid, the more it underpins inflation or at least increases the risk of inflation.

While a broader range of commentary seems focused on the risk of recession, few consider the risk of structurally higher inflation driven by the latest round of monetary easing combined with "sticky" inflation.



While your portfolio has been well positioned to take advantage of the rally in growth shares based on easier financial conditions, greater certainty would be needed before moving into early-stage cyclicals such as banks and homeowners.

Credit spreads would need to narrow, band credit default swaps would need to fall, and we would need to see a bull steepener in US treasuries. A bull steepener is when short rates fall more quickly than long rates – unlikely over the next quarter.

Chart 4 – US Real Yields

There is a growing risk in both the corporate and property sectors.

In a recent study published by the IMF, (source: IMF March 2023) the proportion of corporate risk across 55 countries has increased materially from early 2021. Corporates across 55 advanced economies have borrowed more than $ 12 trillion since the start of the pandemic.

75% of those corporates are now adjudged to represent medium levels of risk of default as compared to 20% in 2021. Housing prices have, similarly, started to show signs of stress.

Prices in Denmark, New Zealand, Sweden, and Canada have declined by more than 5% over the last quarter with commercial property prices in the US now 15% lower than a year ago. Both sources carry significant additional risks for banks. Leveraged loans only add to the potential mix across many regions and economic sectors.

So what is likely to cause the break in global growth?

In short, an answer is a liquidity-driven event caused by a currency or break in one or more interest rate-sensitive markets. While calculating the probability of such an event is always foolish, it is instructive that the ECB, BoJ and BoE have pumped nearly $3 trillion into the financial system over the past few months.

To put this in perspective, the total injection of new money during Covidamounted to around $15tn.

Chart 4 – US Real Yields

Why would central banks inject such vast quantities of money when inflation is the policy focus?

Again, the short answer is liquidity stress within the system. Rising interest rates and liquidity stress are uncomfortable partners in any risk equation. Either can lead to an exogenous event that translates into a sizeable disinflationary pulse. While the Fed and other central banks would welcome the reduction in inflation, they would find the developments most unwelcome from a structural perspective. Liquidity crises are a lot harder to manage than persistent inflation.

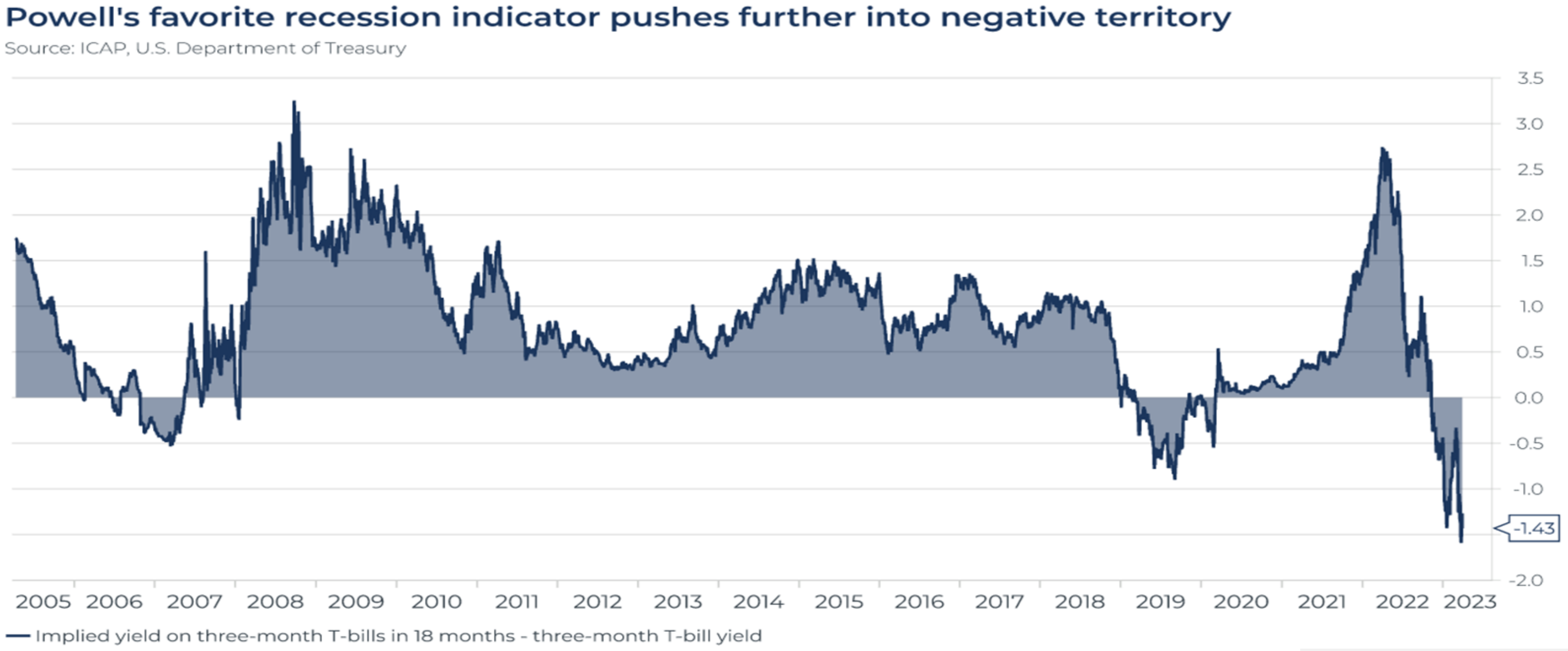
Where does this leave equity and bond markets?

The paradox embedded in the concept of the "Fed's Conundrum" provides part of the answer (chart 5). The inverted yield curve in the US is not a guarantee of economic recession. Instead, it is the measure of financial tightness. The inverted yield curve (short rates are much higher than long bond yields) indicates tight financial conditions. If inflation remained persistent for longer (not our base case), yields across the curve would rise. This isn't good for equities.

The flip side of the equation is that the more the bond market believes the Fed is on top of inflation, the more likely it is to reduce interest rates (i.e. bond yields will fall). This is good for equities as long as earnings don't drop much.

Slower growth and falling inflation are equity-positive, and slower growth and rising inflation equity negative. Any liquidity-driven event is, by definition, poor for equities but very positive for bonds, as a deflationary pulse is the most likely result.

Chart 5 – Fed's Conundrum



Portfolio Restructuring, Performance % Attribution

Over the past two quarters, a series of reviews led to a few changes in the structure and composition of your three portfolio groups.

The broad framework included taking more exposure to risk assets and compositional changes based on assessing manager correlation and tracking error risks.

As shown in **chart 6 asset class returns** have favoured a risk on asset exposure. This has been contrary to most commentators' positioning, which has been highly defensive. **Chart 7 reflects the rather dramatic turnaround in sector returns over the past quarter compared to 2022.**

Chart 6 – Market Returns

thinkcell

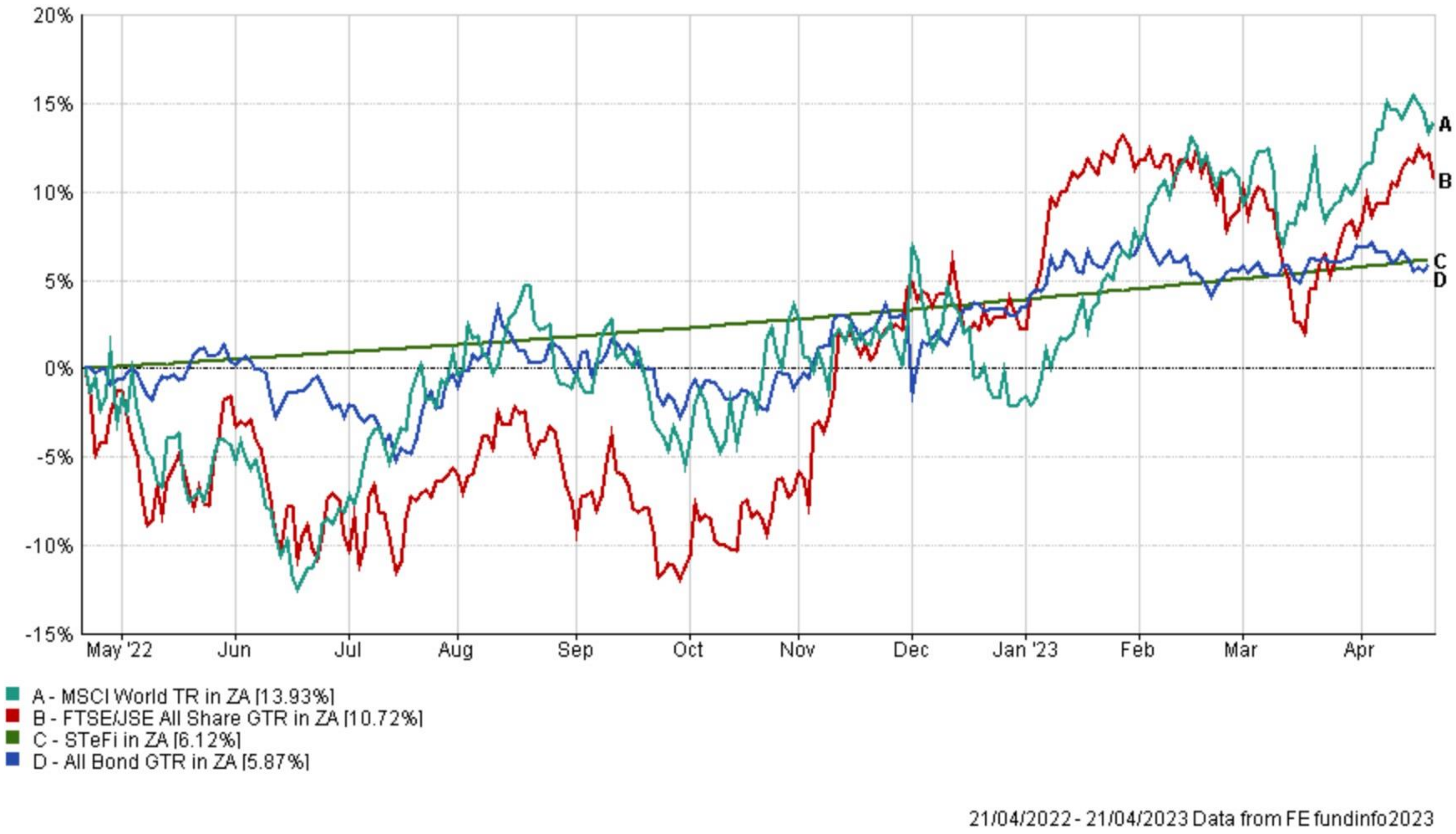


Chart 6

Asset class returns have favoured a risk on asset exposure.

Chart 7 – Sector Returns

S&P 500 Sector Annual Performance Ranking

Rank	2016	2017	2018	2019	2020	2021	2022	2023
1	Energy 24 %	Information Technology 37 %	Health Care 4.7 %	Information Technology 48 %	Information Technology 42 %	Energy 48 %	Energy 59 %	Comm. Services 23 %
2	Financials 20 %	Materials 21 %	Utilities 0.46 %	Comm. Services 31 %	Consumer Discretionary 32 %	Real Estate 42 %	Utilities -1.4 %	Information Technology 20 %
3	Comm. Services 18 %	Consumer Discretionary 21 %	Consumer Discretionary -0.49 %	Financials 29 %	Comm. Services 22 %	Information Technology 33 %	Consumer Staples -3.2 %	Consumer Discretionary 12 %
4	Industrials 16 %	Financials 20 %	Information Technology -1.6 %	Industrials 27 %	Materials 18 %	Financials 33 %	Health Care -3.6 %	Materials 2.4 %
5	Materials 14 %	Health Care 20 %	Real Estate -5.6 %	Consumer Discretionary 26 %	Health Care 11 %	Materials 25 %	Industrials -7.1 %	Consumer Staples 1.1 %
6	Utilities 12 %	Industrials 19 %	Consumer Staples -11 %	Real Estate 25 %	Industrials 9 %	Health Care 24 %	Financials -12 %	Real Estate 0.26 %
7	Information Technology 12 %	Consumer Staples 10 %	Financials -15 %	Consumer Staples 24 %	Consumer Staples 7.6 %	Consumer Discretionary 24 %	Materials -14 %	Industrials -0.44 %
8	Consumer Discretionary 4.3 %	Utilities 8.3 %	Industrials -15 %	Utilities 22 %	Utilities -2.8 %	Comm. Services 21 %	Real Estate -28 %	Utilities -1 %
9	Consumer Staples 2.6 %	Real Estate 7.2 %	Comm. Services -16 %	Materials 22 %	Financials -4.1 %	Industrials 19 %	Information Technology -29 %	Health Care -1.8 %
10	Real Estate 0.0053 %	Energy -3.8 %	Materials -16 %	Health Care 19 %	Real Estate -5.2 %	Consumer Staples 16 %	Consumer Discretionary -38 %	Energy -2.7 %
11	Health Care -4.4 %	Comm. Services -6 %	Energy -20 %	Energy 7.6 %	Energy -37 %	Utilities 14 %	Comm. Services -40 %	Financials -6.7 %

MACROBOND

BRENTHURST WORLDWIDE FLEXIBLE FUND

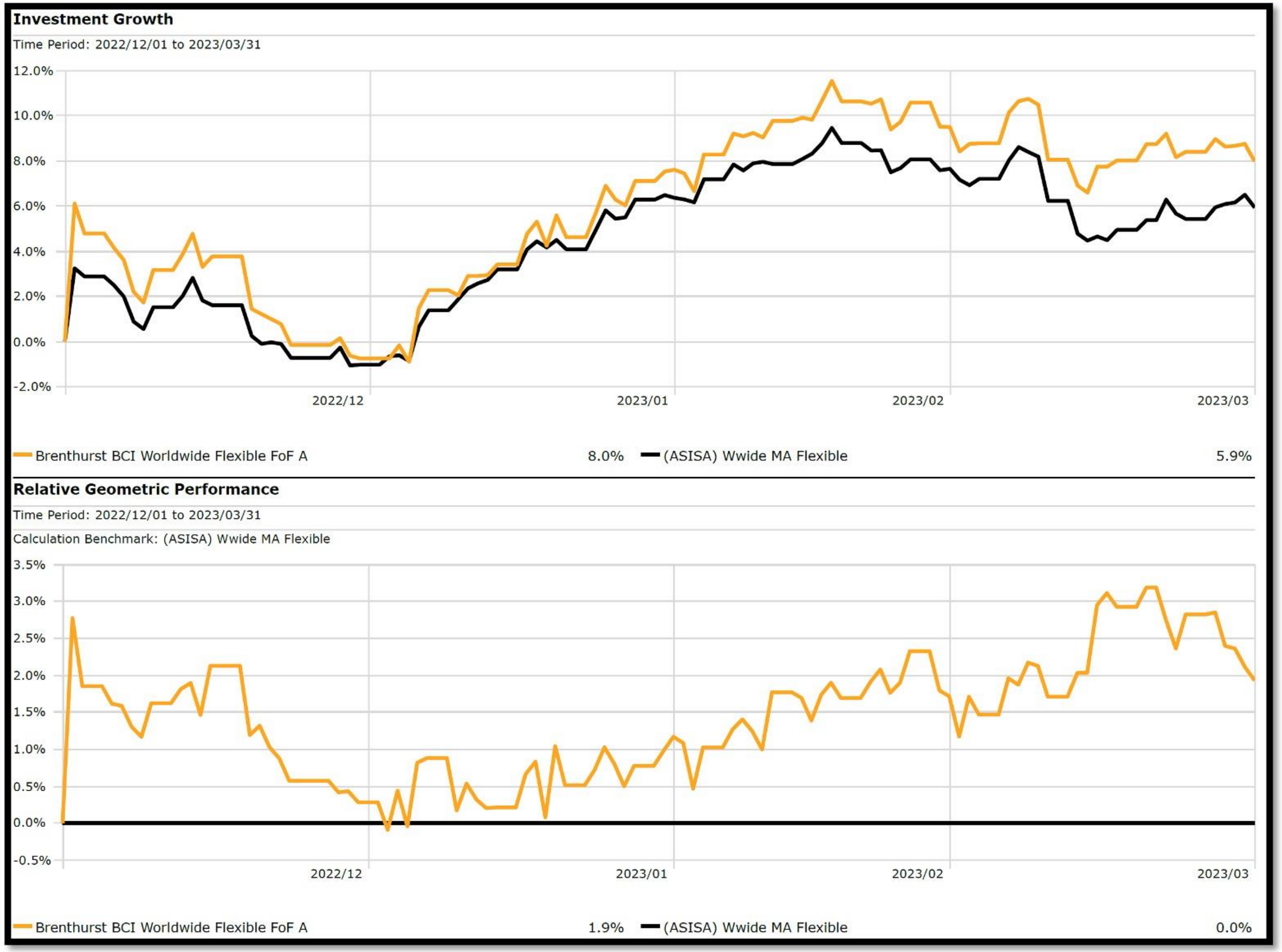
As reflected in the charts below the Flexible Fund has outperformed its benchmark over the measurement period.

The key contributor to performance was the **Brenthurst Global IP Opportunity Fund** with the largest detractor the Sygnia Health Innovation Fund.

This fund carries the smallest active weight in the flexible fund.

BRENTHURST
THE HOME OF WEALTH

BRENTHURST WORLDWIDE FLEXIBLE FUND



Absolute Returns

Brenthurst WW Flexible FoF

ASISA WW Flexible

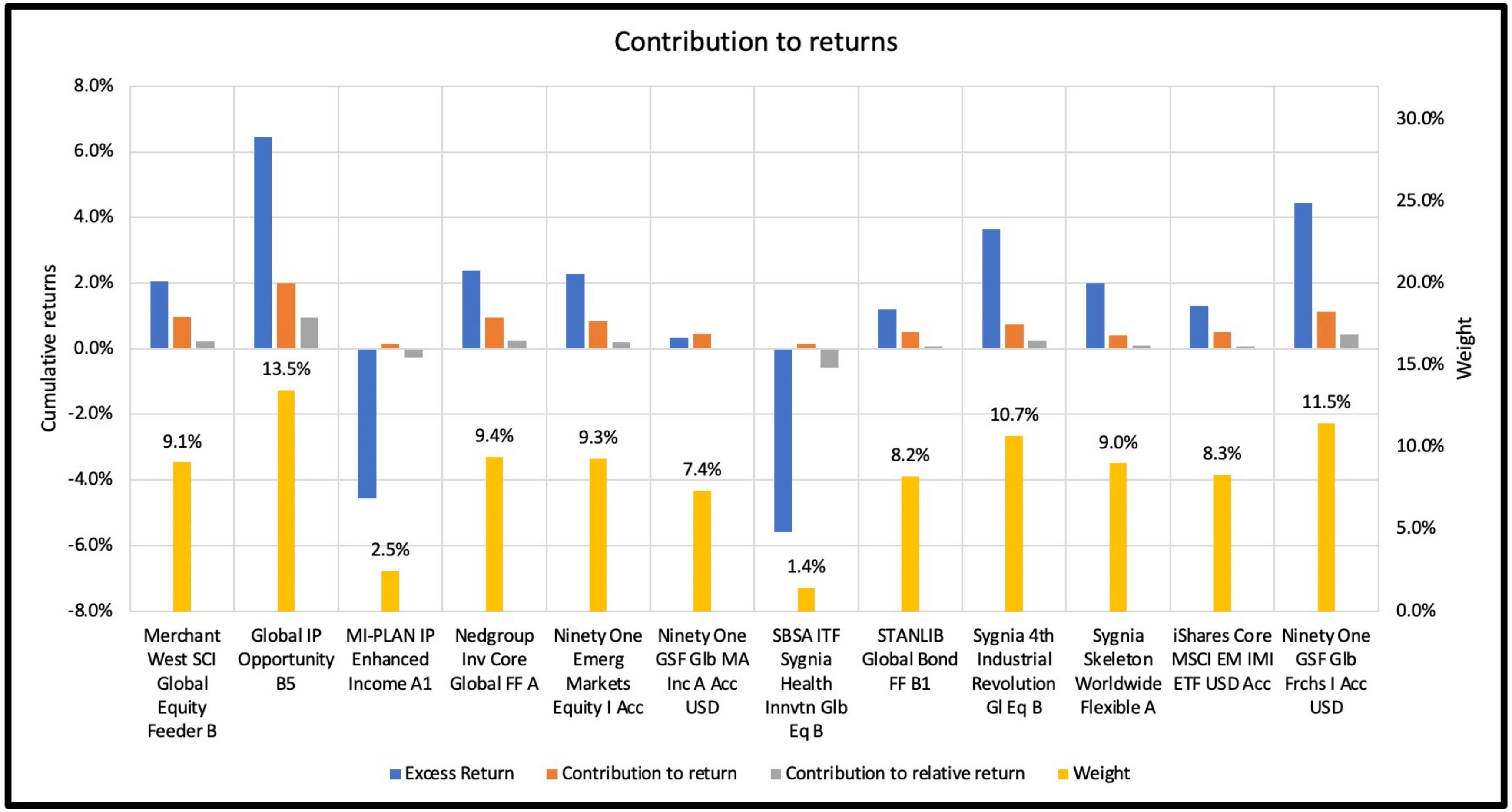
Relative Returns

Brenthurst WW Flexible FoF

ASISA WW Flexible

Source: Morningstar. Data up to 31 March 2023

BRENTHURST WORLDWIDE FLEXIBLE FUND – **RETURN CONTRIBUTION**



- ***Global IP opportunity*** *with largest weight and biggest outperformance for the quarter :* ***Large impact****.*
- ***Ninety One Global franchise*** *following Global IP opportunity (top 2 holdings of FoF).*
- *Risk-On quarter :* ***MiPlan enhanced income*** *underperforming the WW Flexible sector. Small weight in FoF :* ***small impact****.*
- ***Sygnia Health Innovation*** *with largest underperformance but also smallest weight in FoF :* ***small impact.***

Source*: Morningstar.* ***Data*** *from 1 January 2023 up to 31 March 2023.*
Excess return *: Fund return for the quarter – ASISA WW Flexible return for the quarter.*
Contribution to return *: Weight of fund * Absolute return for quarter.*
Contribution to relative return *: Weight of fund * Excess return for the quarter.*

BRENTHURST BALANCED FUND

As the charts below reflect, the Balanced Fund has matched its benchmark over the measurement period. The key contributor to performance were funds with relatively large foreign exposure that outperformed the ASISA High Equity sector.

Global IP opportunity and Ninety One global franchise were the biggest outperformers but at relatively small weights.

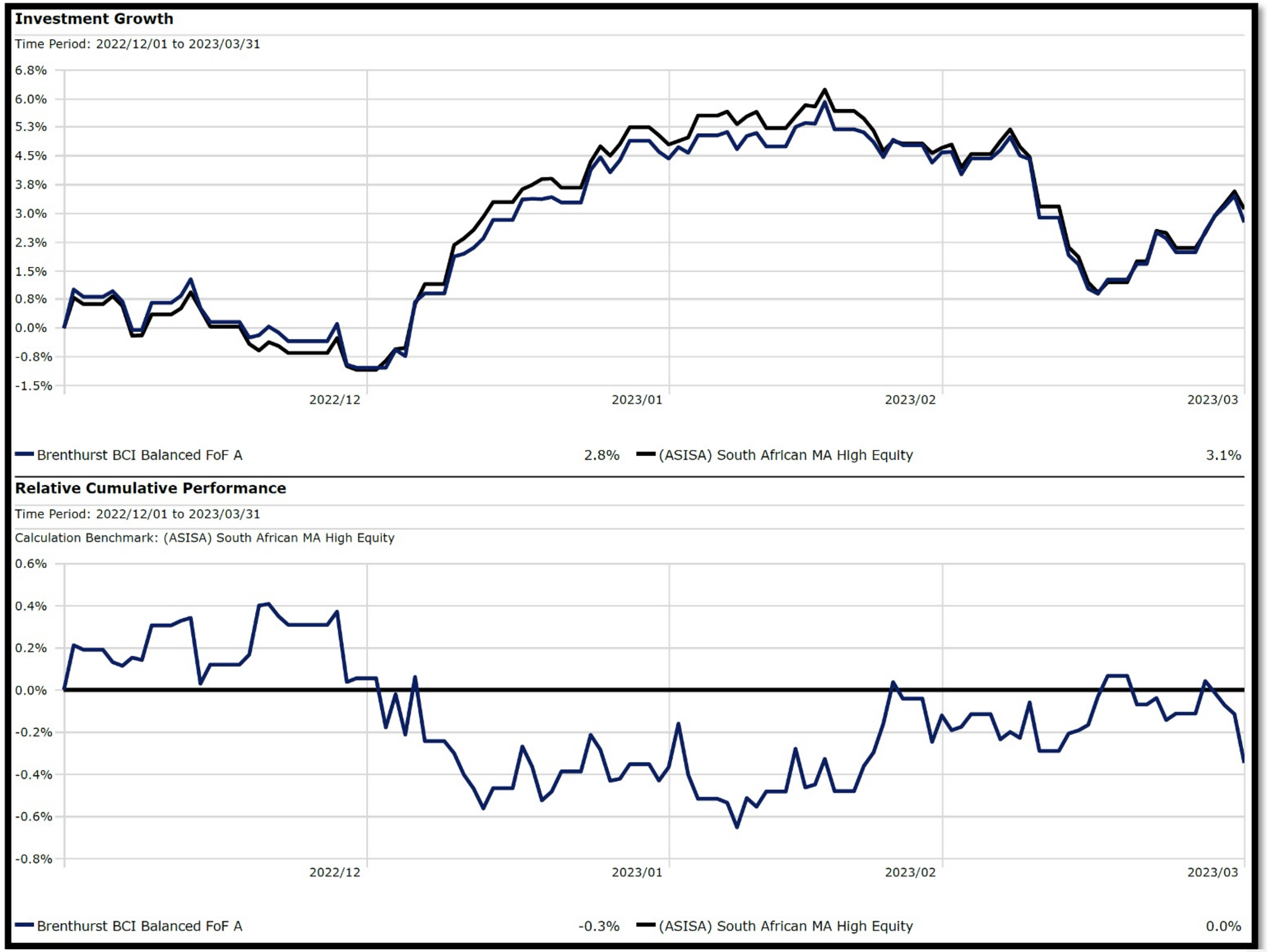
Sygnia Health Innovation was the smallest weight in FoF but underperformed the other two global managers.

In a risk-off quarter, it is expected that the **MiPlan enhanced income** underperformed the High Equity sector.

Funds with large SA equity exposure and a tilt towards value underperformed the High Equity sector.

Merchant West (MWI, previously Counterpoint) reflected the largest underperformance and the highest weight. Countered by Ninety One Managed, Ninety One Opportunity and the low-cost core, Nedgroup Core Diversified.

BRENTHURST BALANCED FUND



Absolute Returns

ASISA MA High Equity

Brenthurst Balanced FoF

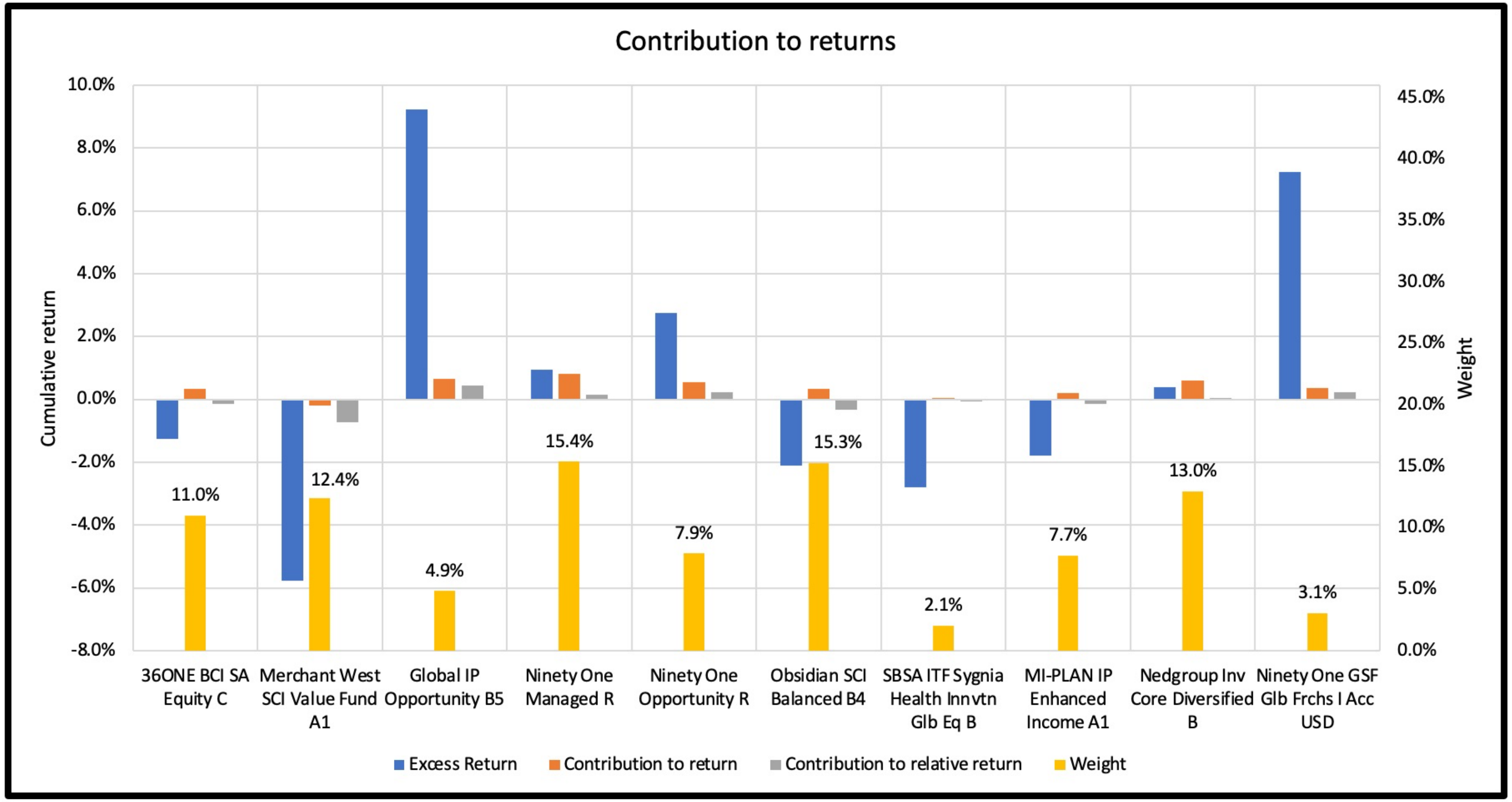
Relative Returns

ASISA MA High Equity

Brenthurst Balanced FoF

Source: Morningstar. Data up to 31 March 2023

BRENTHURST BALANCED FUND – **RETURN CONTRIBUTION**



- *Funds with relatively large foreign exposure outperforming the ASISA High Equity sector.*
- ***Global IP opportunity and Ninety One global franchise** with biggest outperformance but at relatively small weights. **Sygnia Health Innovation,** smallest weight in FoF, however not moving along with the other 2 global managers.*
- *Risk-On quarter : **MiPlan enhanced income** underperforming the High Equity sector.*
- *Funds with large SA equity exposure combined with a tilt towards value underperformed the High Equity sector.*
- ***Merchant West (MWI, previously Counterpoint)** with largest underperformance but also high weight. Countered by **Ninety One Managed, Ninety One Opportunity** and the low-cost core, **Nedgroup Core Diversified**.*

***Source**: Morningstar. **Data** from 1 January 2023 up to 31 March 2023.*
***Excess return** : Fund return for the quarter – ASISA South Africa MA High Equity return for the quarter.*
***Contribution to return** : Weight of fund * Absolute return for quarter.*
***Contribution to relative return** : Weight of fund * Excess return for the quarter.*

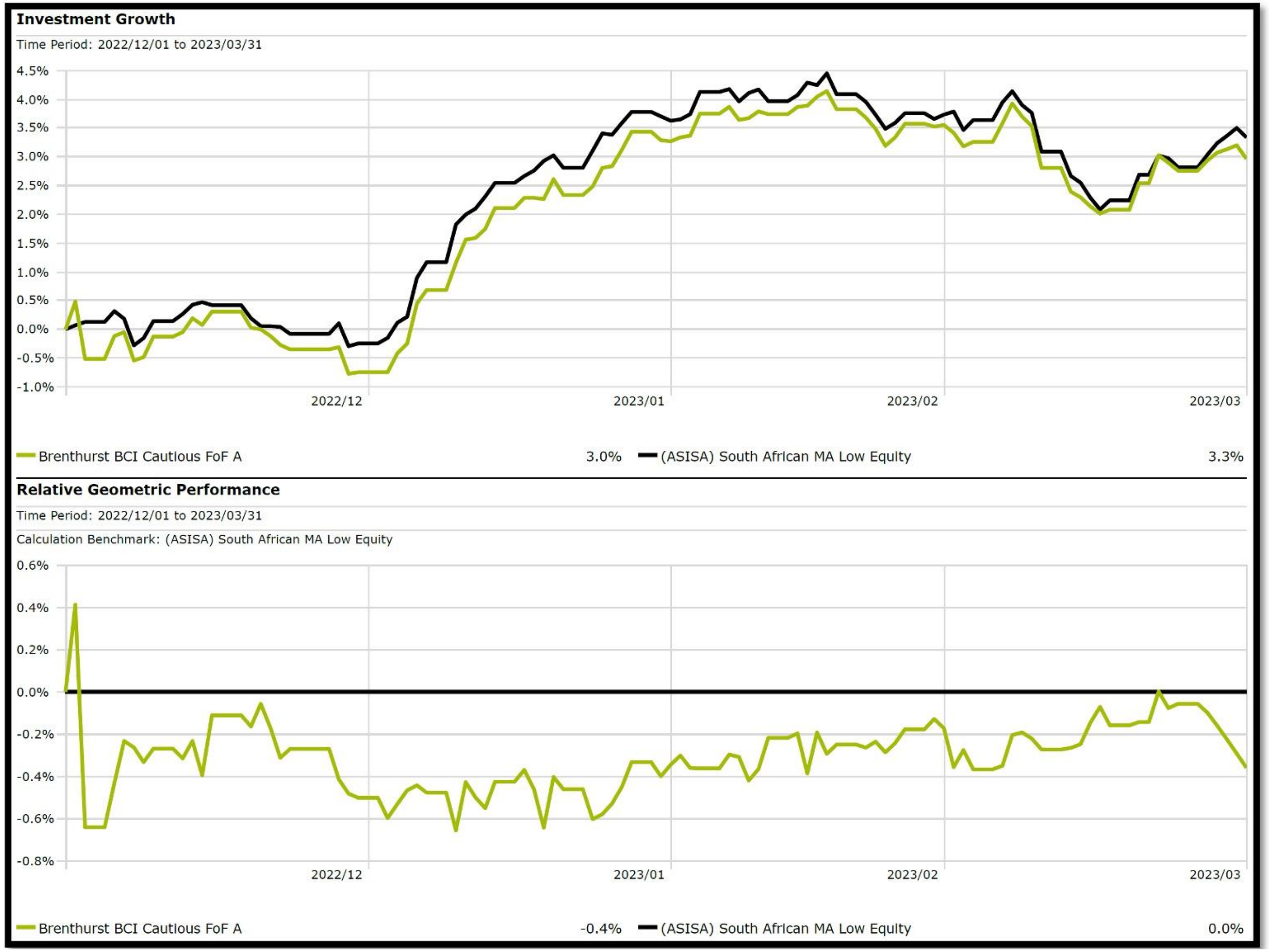
BRENTHURST CAUTIOUS FUND

As the charts below reflect, the Balanced Fund has matched its benchmark over the measurement period.

Standout performances from the Brenthurst Global IP Opportunity Funds and the Ninety One Global Franchise Feeder fund contributed.

But given the cautious positioning of the overall fund, their contribution was relatively muted. The ability of the fund to match the sector average over a defined risk on period is notable.

BRENTHURST CAUTIOUS FUND



Absolute Returns

ASISA MA Low Equity

Brenthurst Cautious FoF

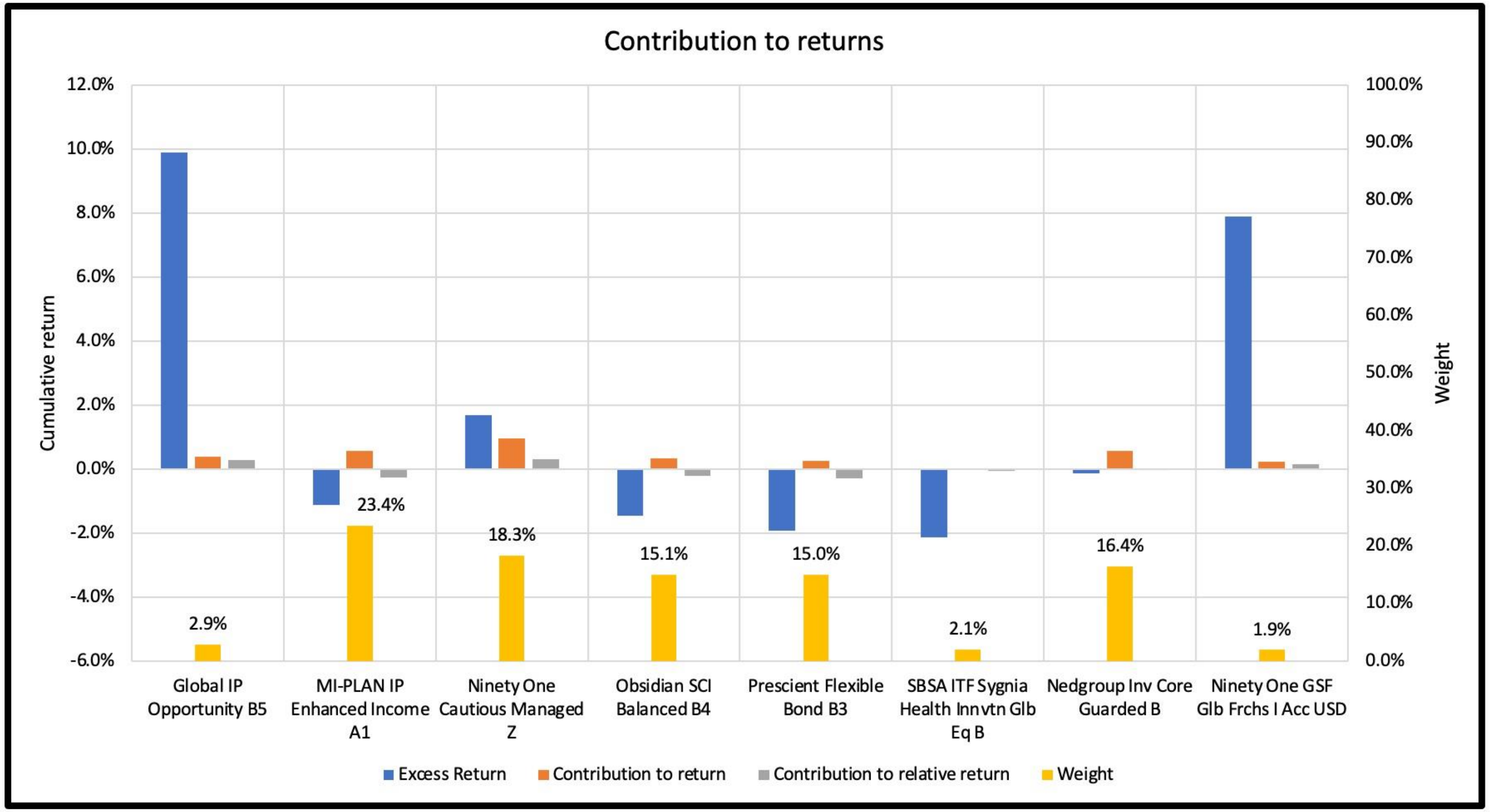
Relative Returns

ASISA MA Low Equity

Brenthurst Cautious FoF

Source: Morningstar. Data up to 31 March 2023

BRENTHURST CAUTIOUS FUND – **RETURN CONTRIBUTION**



Source*: Morningstar.* ***Data*** *from 1 January 2023 up to 31 March 2023.*
Excess return *: Fund return for the quarter – ASISA South Africa MA Low Equity return for the quarter.*
Contribution to return *: Weight of fund * Absolute return for quarter.*
Contribution to relative return *: Weight of fund * Excess return for the quarter.*

- *Funds with relatively large foreign exposure outperforming the ASISA Low Equity sector.*
- ***Global IP opportunity and Ninety One global franchise*** *with biggest outperformance but at relatively small weights.* ***Sygnia Health Innovation*** *however not moving along with the other 2 global managers.*
- *Risk-On quarter :* ***MiPlan enhanced income*** *underperforming the Low Equity sector.*
- *Funds with long bond duration exposure (****Prescient Flexible bond****) underperformed the Low Equity sector as well as Income funds due to continued rise in interest rates in South Africa.*
- ***Ninety One Cautious managed*** *with high foreign exposure also outperforming the Low Equity sector, leaving behind Obsidian Balanced with large SA Equity exposure.*

BRENTHURST STRENGTHENS TIES WITH

TONY BELL & MI-PLAN

Award-winning fund manager and investment officer of ThinkCell joins Brenthurst Wealth as a consulting investment advisor.

Brenthurst Wealth has appointed Mi Plan and Thinkcell to provide joint advisory services on its range of funds, effective November 2022

With his extensive expertise, Tony Bell, Chief Investment Officer at ThinkCell, will collaborate closely with our internal investment committee and the team at MiPlan to ensure optimal asset allocation and fund selection based on thorough research, benefiting the construction of client portfolios and delivering superior investment services and solutions to our valued clients.

The renowned Mi Plan / Bell Team will now provide advisory services to Brenthurst Wealth, specifically on fund selection within the Brenthurst fund of funds range.

This includes the Brenthurst BCI Balanced Fund of Funds, Brenthurst BCI Cautious Fund of Funds and Brenthurst BCI Worldwide Flexible Fund of Funds.

Bell's successful management of the Global IP Opportunity Fund for Brenthurst clients via Mi Plan spans seven years, showcasing an exceptional track record, earning the prestigious Raging Bull Award in the Global Multi-Asset Flexible category in 2021

Furthermore, their management of the Mi Plan IP Global Macro Fund has garnered nine awards, including seven consecutive Raging Bull Awards from 2016 to 2022, setting an industry milestone.

BRENTHURST STRENGTHENS TIES WITH

TONY BELL & MI-PLAN

Bell says consistent top-quartile performance cannot be achieved by only running valuation models. His differentiation in managing portfolios is seeing numbers as pictures, referred to as second-order thinking, as opposed to trying to forecast what a company's share price should be. This involves a deeper understanding of the picture the market is painting of a company and how this picture changes over time.

The Mi-Plan Bell Team's performance since inception places them solidly in the first quartile over all periods longer than four years to the end of January 2023 and in the second and third quartile for all other periods.

	1 Year Annualised Return		2 Year Annualised Return		3 Year Annualised Return		4 Year Annualised Return		5 Year Annualised Return		6 Year Annualised Return		7 Year Annualised Return		8 Year Annualised Return		Since Inception Annualised Return*	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Global IP Opportunity Fund B5	**3.11**	36 / 49	**5.30**	25 / 44	**8.47**	17 / 40	**14.33**	8 / 37	**12.81**	5 / 32	**12.54**	4 / 29	**9.94**	4 / 28	**12.47**	2 / 23	**12.46**	2 / 22
Sector: ASISA - Global MultiAsset Flexible	*6.28*		*6.14*		*7.73*		*11.68*		*9.71*		*8.83*		*6.64*		*8.92*		*8.60*	

"Tony has exceptional insights, and we believe his analysis, coupled with the research and technical quants skills of Mi-Plan, will make a meaningful contribution to the deliberations and decision-making of the Brenthurst Investment Committee. The Global IP Opportunity Fund, now well in excess of R1bn, has been an anchor fund in portfolios providing offshore exposure via means of asset swaps. It is included in several client portfolios and has weathered market storms to the benefit of our clients. We look forward to the continued engagement with this formidable team of Mi-Plan and Tony," says **Magnus Heystek, Brenthurst Director and Investment Strategist.**

Legal Disclaimer

Information and Content

The information and content (collectively 'information') provided herein are provided by BRENTHURST WEALTH Management as general information for information purposes only. BRENTHURST does not guarantee the suitability or potential value of any information or particular investment source. Any information herein is not intended nor does it constitute financial, tax, legal, investment, or other advice. Before making any decision or taking any action regarding your finances, you should consult a qualified Financial Adviser. Nothing contained herein constitutes a solicitation, recommendation, endorsement or offer by BRENTHURST.

Disclaimer

BRENTHURST has taken care to ensure that all information provided herein is true and accurate. BRENTHURST WEALTH will therefore not be held responsible for any inaccuracies in the information herein. BRENTHURST shall not be responsible and disclaims all loss, liability or expense of any nature whatsoever which may be attributable (directly, indirectly or consequentially) to the use of the information provided. BRENTHURST WEALTH Management Limited

Brenthurst Wealth Management is a Financial Services Provider licensed under the Financial Advisory and Intermediary Services Act, 37 of 2002. FSP license No: 7833