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THE HOME OF WEALTH

BRENTHURST FUND OF FUNDS

QUARTERLY REVIEW

MARCH 2023 – JUNE 2023

INVEST WITH SA'S

LEADING BOUTIQUE WEALTH MANAGER

RANKED AMONGST THE TOP WEALTH MANAGERS FOR 7 CONSECUTIVE YEARS

WINNER 2020 & 2017 | RUNNER-UP 2023 & 2018 | TOP 3 2022 & 2021 | TOP 4 2019

Brenthurst Wealth Management (Pty) Ltd FSP No. 7833

Monthly Macro Economic Update

Investors seem more confused than ever as we approach the halfway mark of 2023. Those who were bearish at the beginning of the year suffered opportunity costs, mainly due to the strong performance of technology shares. Respected research houses are now predicting a significant decline in inflation in the USA during the year's second half, resulting in lower treasury bond yields and higher equity prices. Goldman Sachs has raised its target for the S&P 500 to 4600 by year-end. These changes in forecast sharply contrast with those at the start of the year, where some 500 Wall Street strategists forecast a collapse in earnings for 2023, projecting a level of 3300 for the S&P 500. A recession in 2023 and a pivot by the Fed later this year were widely anticipated.

So, why were the experts so wrong, and what could change in the year's second half compared to current expectations?

The answer is quite complex, so let's break it down. The story begins in 2020, when the world began to grapple with the impact of Covid-19. Central banks injected substantial amounts of money into the economy, with the Fed injecting around \$2.5 trillion. Most consumers saved these newly printed dollars as they adjusted to life under lockdown. Prices of scarce items started to rise due to supply constraints. Still, the Federal Reserve viewed these price increases as temporary, focusing more on avoiding a severe recession caused by supply and demand shocks.

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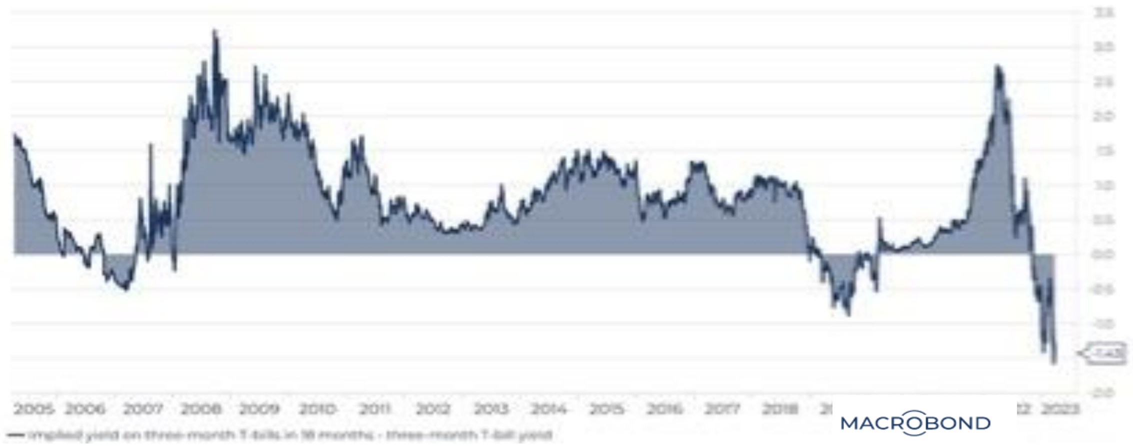
Chart 1 – US Yield Curve

POWELL'S FAVORITE RECESSION INDICATOR PUSHES FURTHER INTO NEGATIVE TERRITORY



Rising prices were further exacerbated by the invasion of Ukraine, which sent energy markets soaring and resulted in Europe experiencing inflation rates exceeding 10% for the first time in decades.

The Fed finally responded to the threat of higher inflation by gradually raising rates, pushing the US yield curve **(chart 1)** into negative territory for the first time since 2006.

Economists interpreted this as a signal that the US was heading towards a recession, with some predicting a significant drop in earnings for the S&P. As a result, bond yields in the US declined, with investors seeking safe haven assets and many avoiding equity exposure due to downside risks. **However, as often happens, equity indices delivered exceptional returns over six months, with Nasdaq the stand out.**

Chart 1 – US Yield Curve

But where did this surge in equity prices come from? The simple answer is abundant liquidity, low volatility and a resilient US economy.

In their efforts to support consumers during the Covid-19 pandemic, central banks injected vast amounts of liquidity into the system. Most of this liquidity remained as excess reserves on bank balance sheets. When banks have excess reserves, they place them back with the Fed through the reverse repurchase agreement **(reverse repo – chart 2)** market.

The Fed pays banks an interest rate based on how eager they are to accept these excess reserves. Notably, the reverse repo market structure was modified in March 2020 to accommodate higher demand from banks as compared to previous years. While the media tends to focus on the Fed Funds rate, less attention is given to the repo market.

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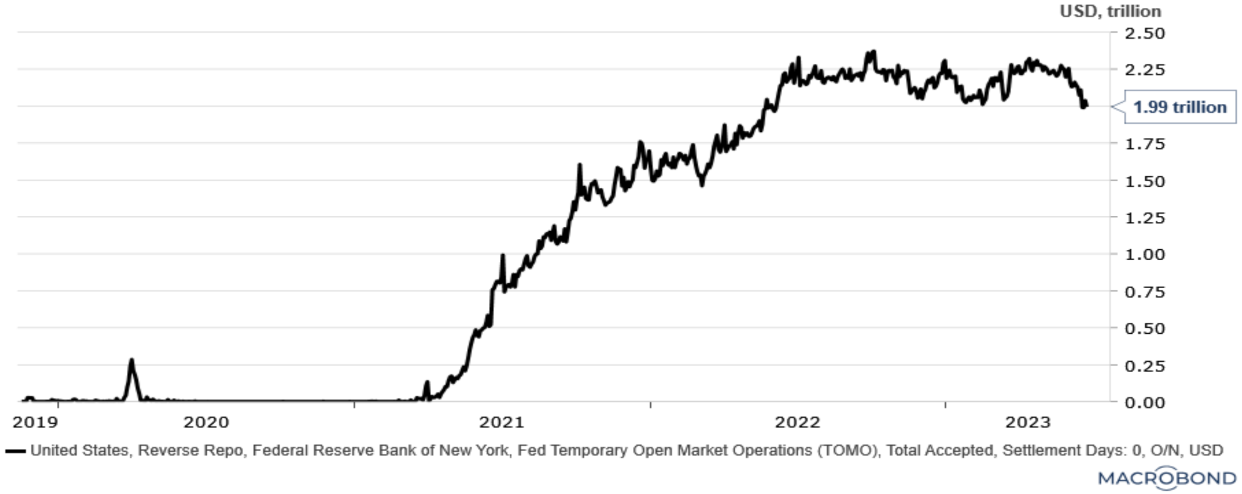
Chart 2 – US Federal Reserve Reverse Repo Rate

REVERSE REPO 0/N HITS ALL TIME HIGH

Federal Reserve Bank of New York (TOMO)



The **Fed Funds rate** is the interest rate at which depository institutions lend reserve balances to other institutions overnight without collateral.

In contrast, **the reverse repo rate** is the interest rate at which the Federal Reserve lends overnight reserve balances to depository institutions with collateral.

The difference between these rates is significant because the Fed can manage liquidity flows by adjusting the repo rate relative to the funds' rate. A higher repo rate encourages banks to place their excess reserves risk-free with the Fed.

So, how does this relate to higher equity prices?

Excess liquidity needs to find investment opportunities. As bond yields in the US fell due to lower inflation expectations and slower economic growth expectations, financial conditions became "easier."

Chart 2 – US Federal Reserve Reverse Repo Rate

These favourable financial conditions created a conducive environment for long-duration assets to perform well. However, this performance has been concentrated in under 20 stocks **(chart 3),** with the other 480 stocks in the S&P 500 remaining relatively flat for the year.

The message from the equity market is clear: the economic conditions for these 480 stocks are not as favourable as for the large tech companies.

Key macroeconomic indicators in the US, such as industrial production, manufacturing activity, new loan origination, and housing prices, all point to a downward trend.

Consumer-related statistics, such as factory orders, inventory levels, and retail sales, are currently holding up. However, higher interest rates will likely impact consumer behaviour in the coming months. Therefore, the broader backdrop for equities is unfavourable, and improvements are not expected over the next six months.

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Chart 3 – Stock Concentration in the S&P 500

Can the equity rally be sustained, and are we entering a new bull market?

It appears unlikely that equity prices will continue to rise over the next six months unless there is a shift in the breadth of the equity market. Market breadth depends on both earnings and valuation. While valuations are more attractive for the broader market, earnings forecasts remain weak due to the deteriorating macro environment.

Additionally, liquidity plays a crucial role in market breadth. We must consider the US debt ceiling, treasury notes, the General Treasury Account, Fed policy, and the repo market to understand the liquidity situation. Before the debt ceiling was lifted in late May, the US Treasury had no capacity to borrow, thus depleting its General Treasury Account from around $1 trillion to as low as $50 billion.

LARGEST STOCKS ARE DRIVING THE CURRENT S&P RALLY

Source: S&P Global

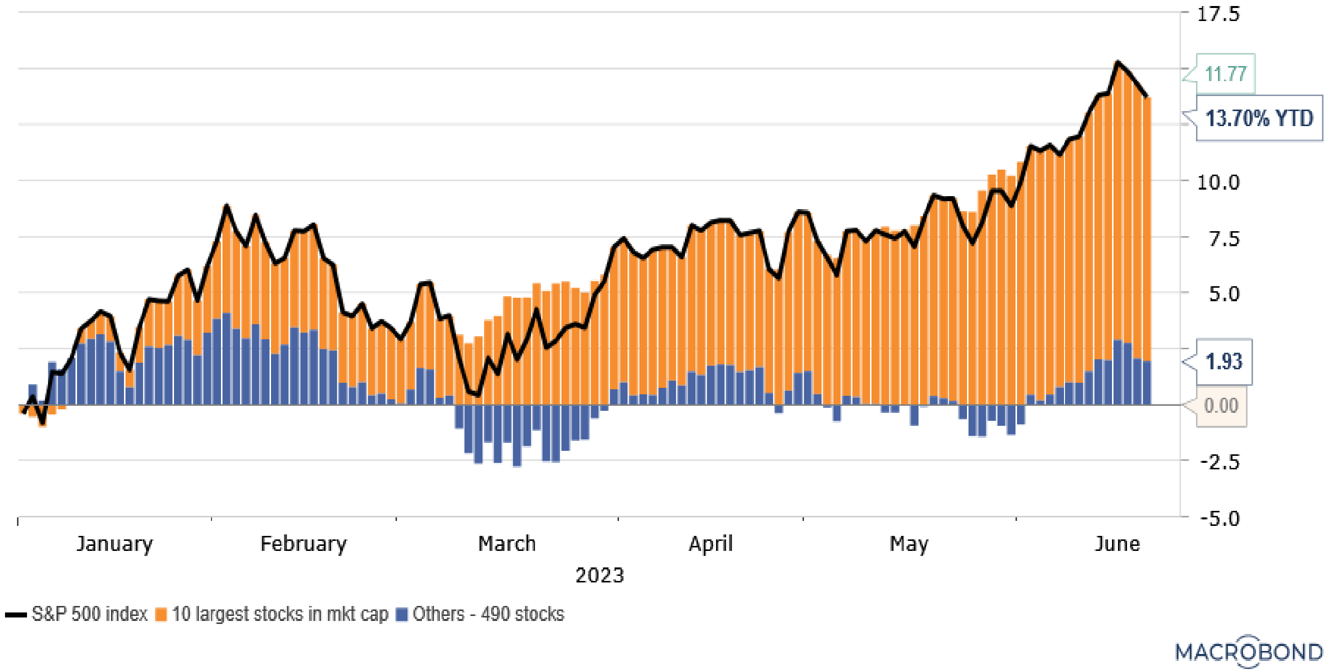

Chart 3 – Stock Concentration in the S&P 500

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Now that the debt ceiling has been raised, the US Treasury needs to replenish its funds. Treasury Secretary Yellen plans to issue approximately $450 billion by the end of June and another $650 billion by the end of September, primarily through short-term treasury notes to fund government expenditures and maintain a reserve. However, with short-term rates expected to rise as the Fed considers additional rate hikes, market participants may hesitate to invest in treasuries, fearing potential losses if rates increase. Logically, banks and money market funds prefer to keep their money at the Fed through the repo market.

If the Fed aims to further drain liquidity from the system by adjusting the terms of the repo market, the window may not remain open. As treasury yields rise, particularly for short-dated paper, the trade-off between higher yields on treasury notes and the overnight repo rate may entice funds and banks away from the repo market.

Over the past month, we have observed decreased repo activity **(chart 2),** indicating that banks and money market funds may be shifting their focus. The significance of this shift is that while money invested in repos remains within the system, money invested in treasury notes "leaves" the system as banks pay for these notes using their excess reserves. Less liquidity translates to less support for risk assets such as equities, especially when market breadth is narrow.

With liquidity likely to tighten, what will happen to bond yields? The answer to this question is less specific. Our understanding of why the Fed is still discussing rate hikes despite the expected decline in headline inflation lies in core inflation and excess liquidity. As mentioned earlier, excess liquidity still needs to be drained from the system. Since the current rate hike cycle began, core inflation has also remained stubbornly high, leading the Fed to maintain a consistently hawkish stance. Core inflation is partly influenced by a tight labour market with low unemployment rates. The Fed needs to see a significantly softer labour market before reconsidering its stance on core inflation. Reaching a real Fed Funds rate of around 1.5% will take time.

Chart 3 – Stock Concentration in the S&P 500

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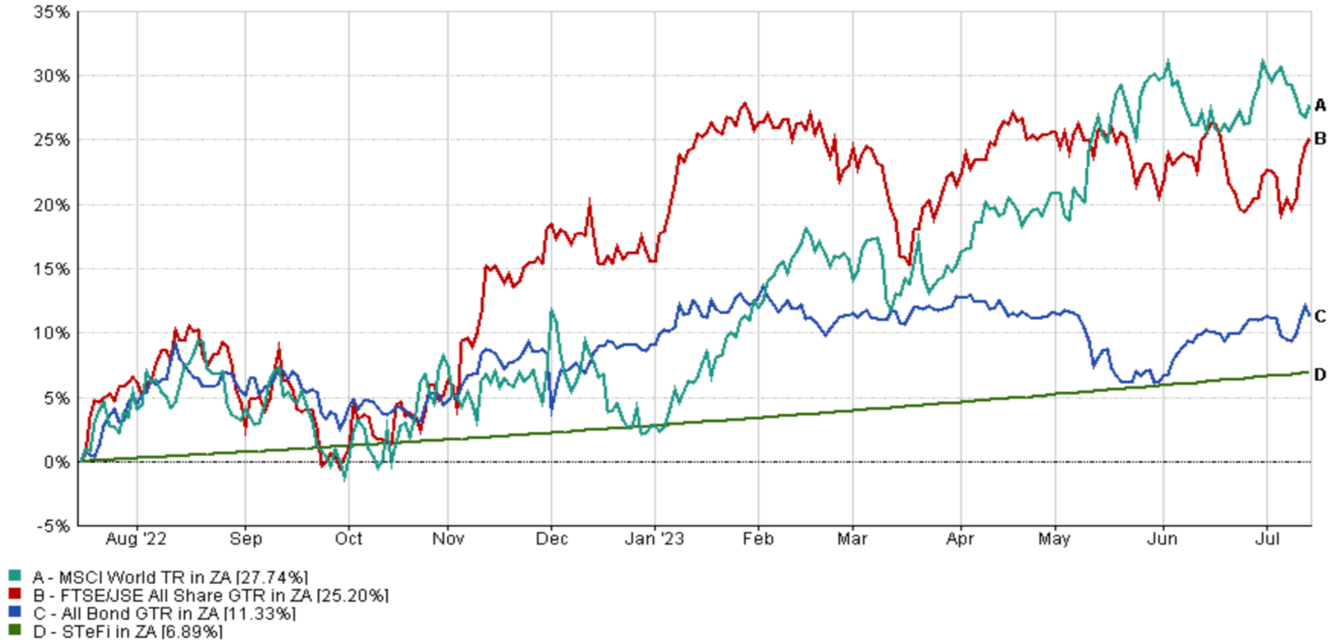
Are the risks skewed to the downside?

We believe so. Our base case scenario is that liquidity will tighten in the second half of the year due to softer economic conditions in the US, driven by higher rates, a weaker labour market, and declining manufacturing activity.

US bond yields may soften as the dollar weakens further during the second half. In our view, the environment is not conducive to a significant risk-on position.

Portfolio Performance & Attribution

As shown in **chart 4** below, asset class returns have favoured a risk on asset exposure. This has been contrary to most commentators' positioning, which has been highly defensive. **Chart 5** reflects the rather dramatic turnaround in sector returns over the past quarter compared to 2022.



14/07/2022 - 14/07/2023 Data from FE fundinfo2023

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Chart 5 – Sector Returns

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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 %	Information Technology 44 %
2	Financials 20 %	Materials 21 %	Utilities 0.46 %	Comm. Services 31 %	Consumer Discretionary 32 %	Real Estate 42 %	Utilities -1.4 %	Comm. Services 40 %
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 36 %
4	Industrials 16 %	Financials 20 %	Information Technology -1.6 %	Industrials 27 %	Materials 18 %	Financials 33 %	Health Care -3.6 %	Industrials 10 %
5	Materials 14 %	Health Care 20 %	Real Estate -5.6 %	Consumer Discretionary 26 %	Health Care 11 %	Materials 25 %	Industrials -7.1 %	Materials 7.1 %
6	Utilities 12 %	Industrials 19 %	Consumer Staples -11 %	Real Estate 25 %	Industrials 9 %	Health Care 24 %	Financials -12 %	Real Estate 4.7 %
7	Information Technology 12 %	Consumer Staples 10 %	Financials -15 %	Consumer Staples 24 %	Consumer Staples 7.6 %	Consumer Discretionary 24 %	Materials -14 %	Consumer Staples 0.050 %
8	Consumer Discretionary 4.3 %	Utilities 8.3 %	Industrials -15 %	Utilities 22 %	Utilities -2.8 %	Comm. Services 21 %	Real Estate -28 %	Financials -0.044 %
9	Consumer Staples 2.6 %	Real Estate 7.2 %	Comm. Services -16 %	Materials 22 %	Financials -4.1 %	Industrials 19 %	Information Technology -29 %	Health Care -3.2 %
10	Real Estate 0.0053 %	Energy -3.8 %	Materials -16 %	Health Care 19 %	Real Estate -5.2 %	Consumer Staples 16 %	Consumer Discretionary -38 %	Utilities -5.2 %
11	Health Care -4.4 %	Comm. Services -6 %	Energy -20 %	Energy 7.6 %	Energy -37 %	Utilities 14 %	Comm. Services -40 %	Energy -7.3 %

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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.

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BRENTHURST BCI WORLDWIDE FLEXIBLE FUND

MI-PLAN
Asset Management
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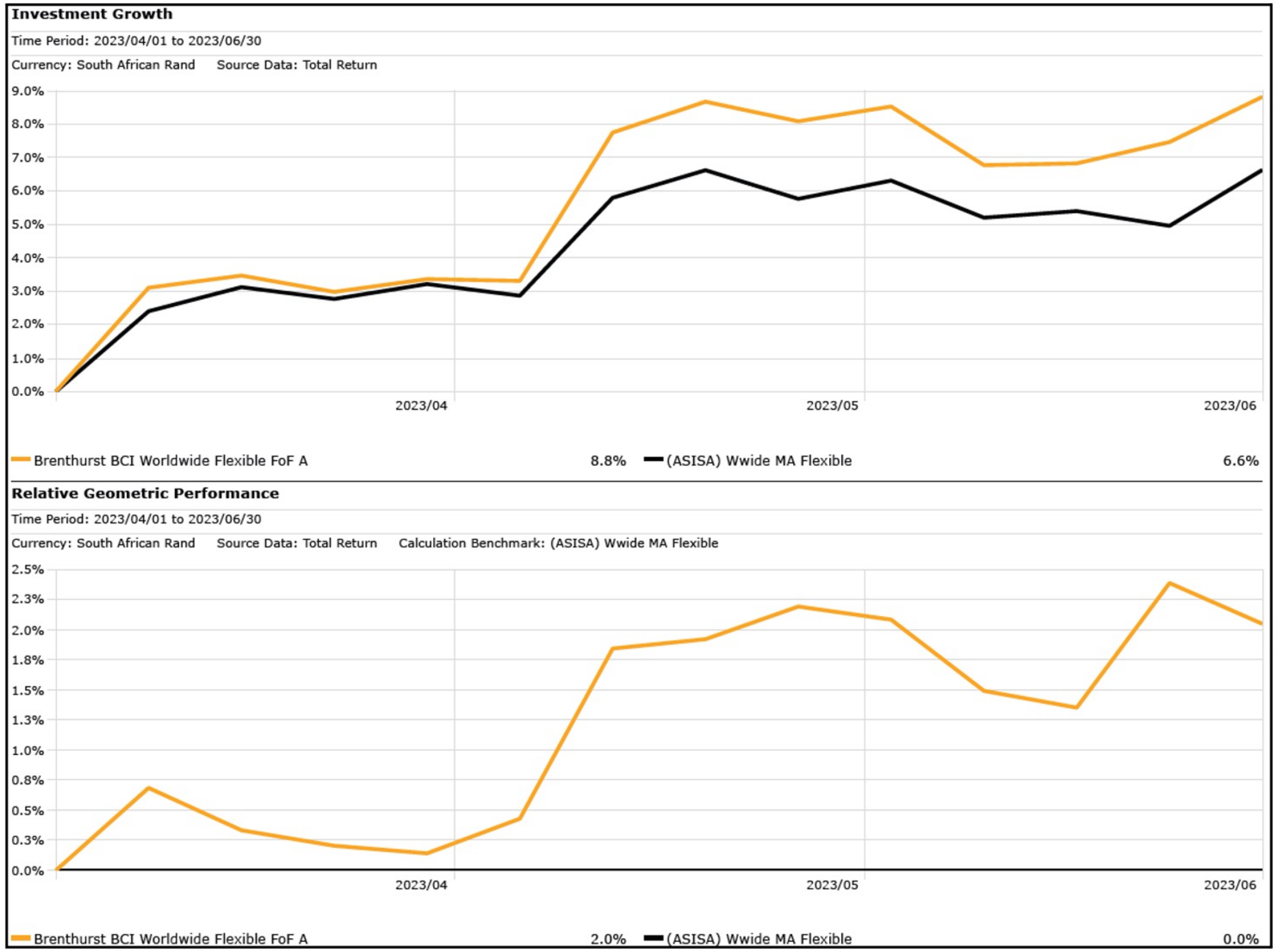

Absolute Returns

Brenthurst WW Flexible FoF

ASISA WW Flexible

Relative Returns

Brenthurst WW Flexible FoF

ASISA WW Flexible

Source: Morningstar: Data up to 30 June 2023

BRENTHURST WORLDWIDE FLEXIBLE FUND – **RETURN CONTRIBUTION**

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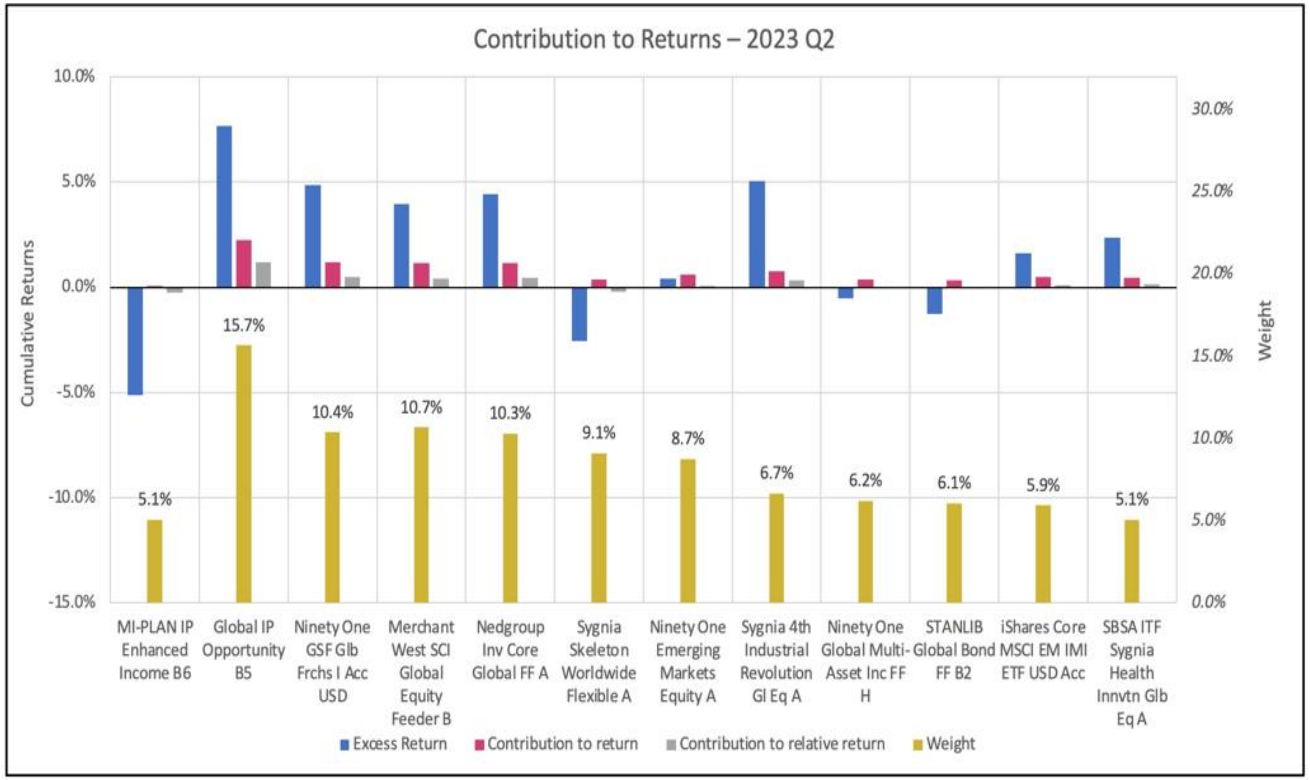
- Largest holding, **Global IP Opportunity**, was the biggest contributor to performance for the quarter: **large impact.**
- Following closely behind Global IP Opportunity was **Sygnia 4th Industrial Revolution, Ninety One Global Franchise, Merchant West SC Global Equity FF** and Nedgroup Inv Core Global FF with strong outperformance relative to the WW Flexible sector.
- The S**ygnia Skeleton Worldwide Flexible fund** with a tilt towards SA asset classes underperformed the WW Flexible sector-impact on the fund was relatively small as outperformance from other constituents offset this.
- As Q2 2023 was a risk-on quarter, **the Milan IP Enhanced Income and Stanlib Global Bond FF funds** underperformed the WW Flexible sector in this environment. Small weight in Fo: **small impact.**



***Source**: Morningstar. **Data** from 1 April 2023 up to 30 June 2023.*
***Excess return**: Fund return for the quarter – ASISA WW Flexible return for the quarter.*
***Contribution to return**: Weight of fund x Absolute return for quarter.*
***Contribution to relative return**: Weight of fund x Excess return for the quarter.*

BRENTHURST BALANCED FUND

As the charts (page 15) reflect, the Balanced Fund lagged its benchmark slightly over the measurement period. Funds with relatively large foreign exposure outperformed the ASISA High Equity sector.

Global IP Opportunity and Ninety One Global Franchise have generated the largest outperformance albeit at relatively small allocations within the FoF. As Q2 2023 was a risk-on quarter, the MiPlan IP Enhanced Income underperformed the High Equity sector in this environment.

Funds with large SA equity exposure underperformed the High Equity sector and contributed negatively to returns, specifically Merchant West (previously Counterpoint), which was 10% of the fund. Merchant West was removed from the fund in mid-May. Merchant West, Obsidian and 36ONE's performance was offset by SA MA.

BRENTHURST BCI BALANCED FUND

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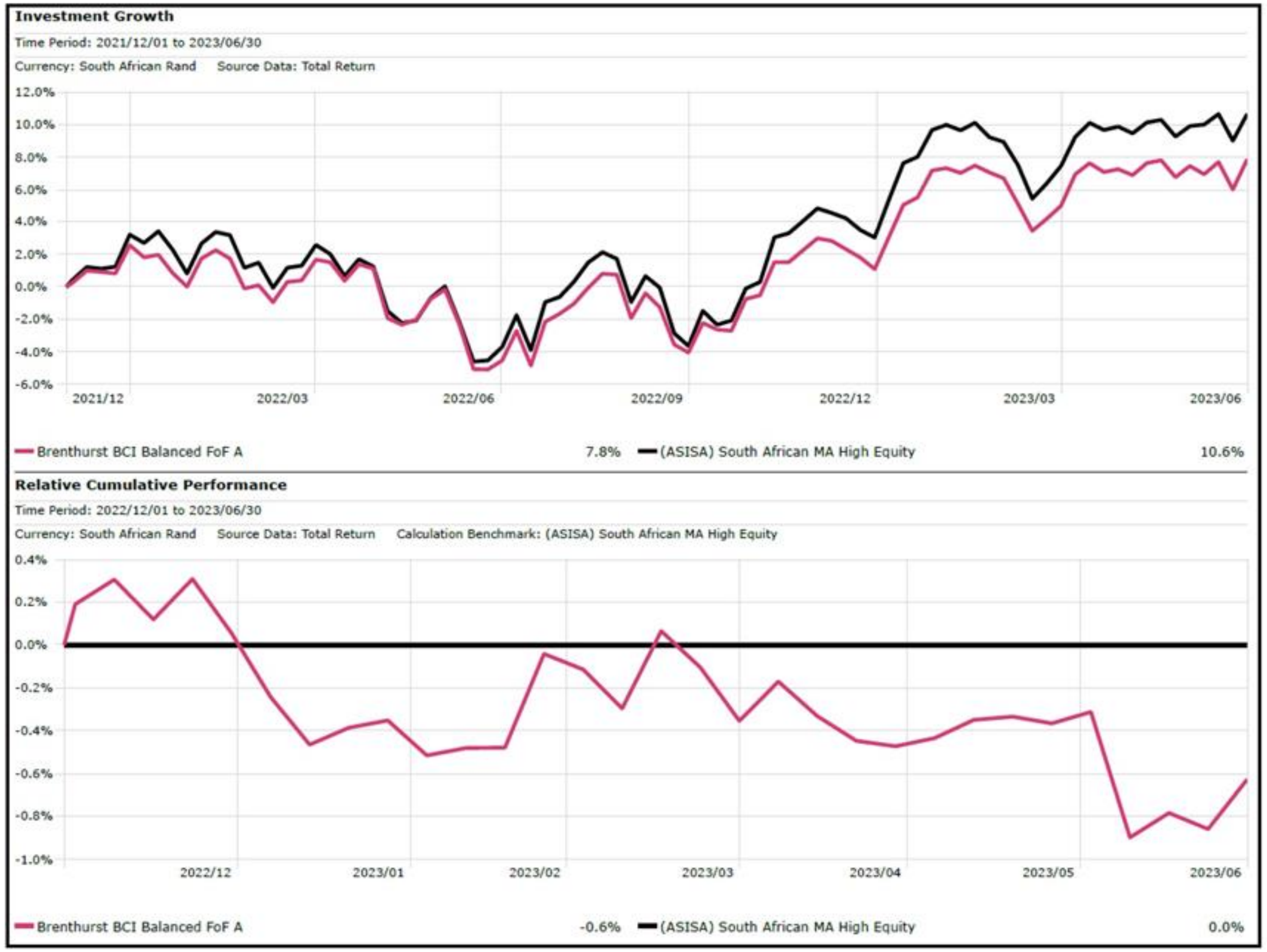

Source: Morningstar: Data up to 30 June 2023

Absolute Returns

ASISA MA High Equity

Brenthurst Balanced FoF

Relative Returns

ASISA MA High Equity

Brenthurst Balanced FoF

High Equity funds, Ninety One Opportunity and Nedgroup Inv Core Diversified and the foreign funds mentioned previously.

BRENTHURST BCI BALANCED FUND – **RETURN CONTRIBUTION**

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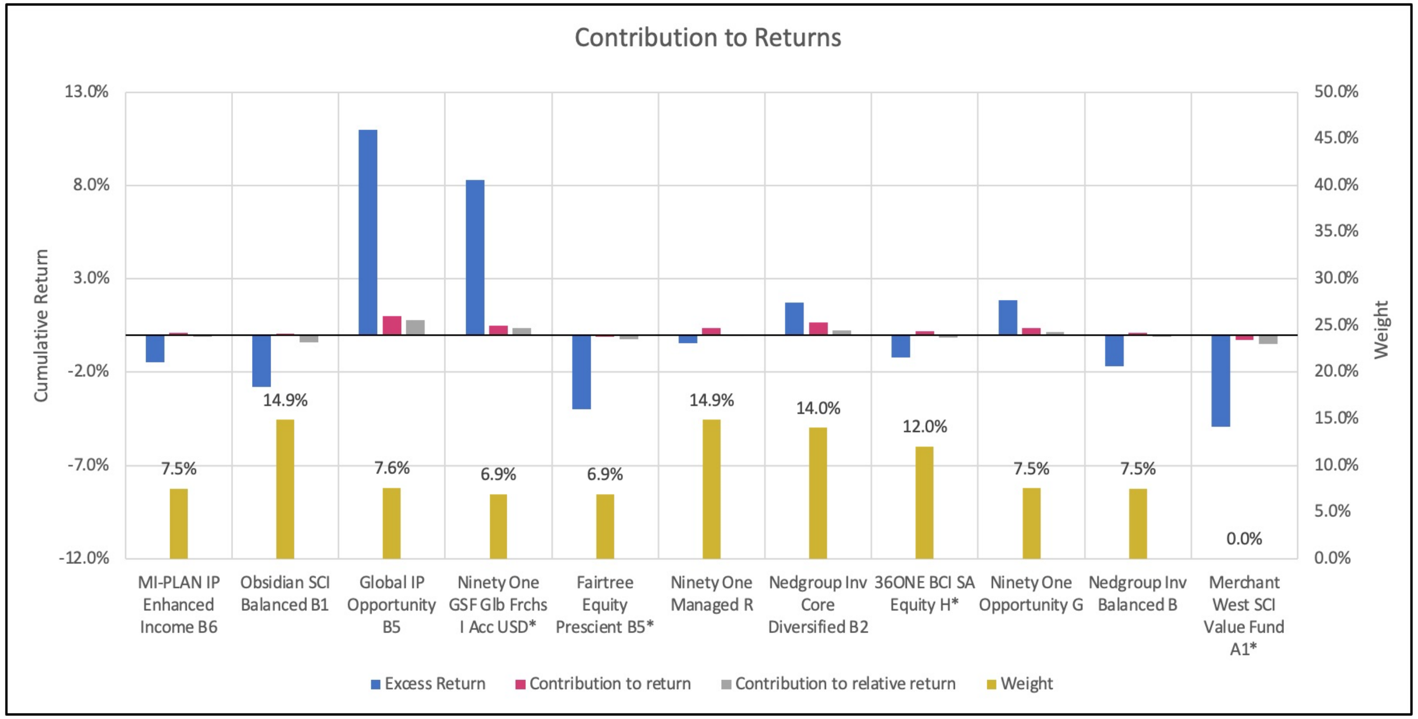
- Funds with relatively large foreign exposure outperformed the ASISA High Equity sector.
- **Global IP Opportunity and Ninety One Global Franchise** have generated the largest outperformance albeit at relatively small allocations within the FoF.
- As Q2 2023 was a risk-on quarter, **the MiPlan IP Enhanced Income** underperformed the High Equity sector in this environment.
- Funds with large SA equity exposure underperformed the High Equity sector and contributed negatively to returns, specifically **Merchant West (previously Counterpoint),** which was 10% of the fund. Merchant West was removed from the fund in mid-May. Merchant West, Obsidian and 360NE's performance was offset by SA MA High Equity funds, NinetyOne Opportunity and Nedgroup Inv Core Diversified and the foreign funds mentioned previously.



***Source**: Morningstar. **Data** from 1 April 2023 up to 30 June 2023 (excluding that for Merchant West SCI Value which is from 1 April 2023 to 23 May 2023).*
***Excess return**: Fund return for the quarter – ASISA South Africa MA High Equity return for the quarter.*
***Contribution to return**: Weight of fund x Absolute return for quarter.*
***Contribution to relative return**: Weight of fund x Excess return for the quarter.*
***Mid-May Fund Changes: Removed Merchant West SCI Value and increased Ninety One Global Franchise, Fairtree Equity and 36ONE BCI SA Equity.*

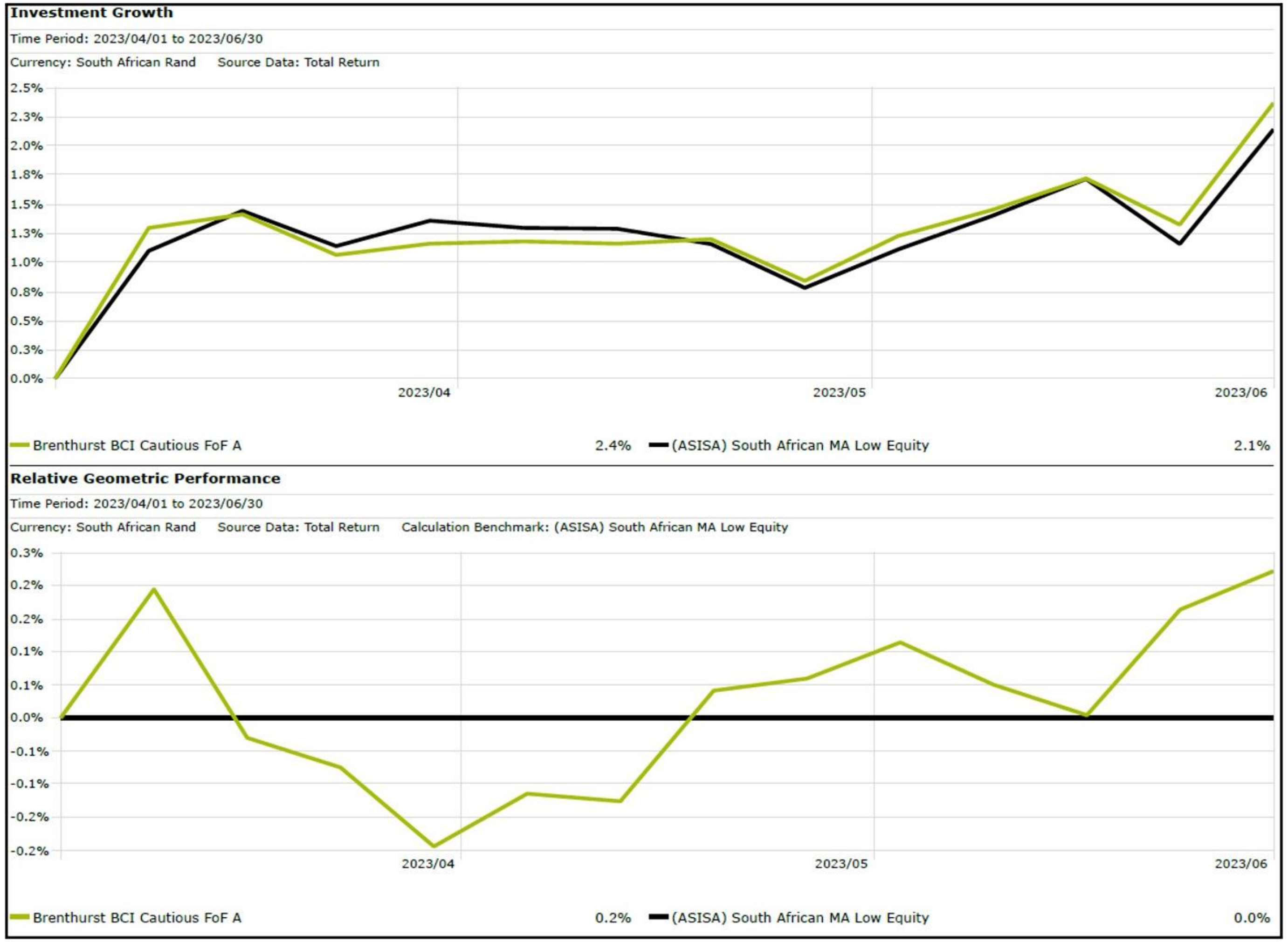
BRENTHURST CAUTIOUS FUND

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

Funds with relatively large foreign exposure outperformed the ASISA Low Equity sector. Satrix MSCI World, Global IP Opportunity and Ninety One Global Franchise have generated the largest outperformance albeit at relatively small allocations within the FoF.

Low equity funds, Nedgroup Inv Core Guarded and Ninety One Cautious Managed (with high foreign exposure) also contributed positively to performance as they outperformed the Low Equity sector, offsetting performance from Obsidian SCI Balanced and Fairtree Equity Prescient with larger SA Equity exposure. As Q2 2023 was a risk-on quarter, the MiPlan IP Enhanced Income fund underperformed the Low Equity sector in this environment. Funds with longer bond duration exposure (Prescient Flexible Bond) underperformed both the Low Equity sector and income fund due to continued rise in interest rates in South Africa.

BRENTHURST BCI CAUTIOUS FUND



Absolute Returns

Brenthurst Cautious FoF

ASISA MA Low Equity

Relative Returns

Brenthurst Cautious FoF

ASISA MA Low Equity

BRENTHURST CAUTIOUS FUND – **RETURN CONTRIBUTION**

MI-PLAN
Asset Management
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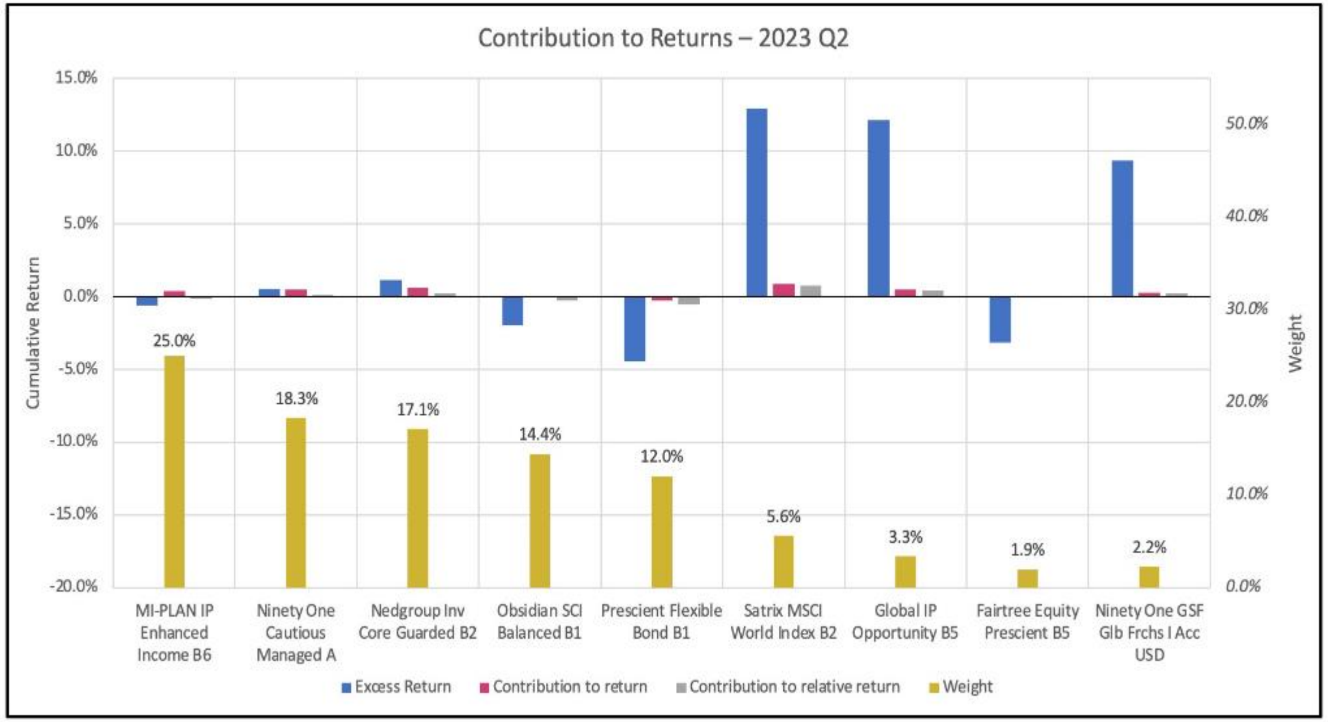
- Funds with relatively large foreign exposure outperformed the ASISA Low Equity sector.

- **Satrix MSCI World, Global IP Opportunity and Ninety One Global Franchise** have generated the largest outperformance albeit at relatively small allocations within the FoF.

- Low equity funds, **Nedgroup Inv Core Guarded and Ninety One Cautious Managed** (with high foreign exposure) also contributed positively to performance as they outperformed the Low Equity sector, offsetting performance **from Obsidian SCI Balanced and Fairtree Equity Prescient** with larger SA Equity exposure.

- As Q2 2023 was a risk-on quarter, the **MiPlan IP Enhanced Income fund** underperformed the Low Equity sector in this environment.

- Funds with longer bond duration exposure **(Prescient Flexible Bond)** underperformed both the Low Equity sector and income fund due to continued rise in interest rates in South Africa.



***Source**: Morningstar. **Data** from 1 April 2023 up to 30 June 2023.*
***Excess return**: Fund return for the quarter – ASISA South Africa MA Low Equity return for the quarter.*
***Contribution to return**: Weight of fund x Absolute return for quarter.*
***Contribution to relative return**: Weight of fund x Excess return for the quarter.*

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.

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