# CAMmuniqué

CADIZ ASSET MANAGEMENT INVESTMENT UPDATE

cadiz ASSET MANAGEMENT

Invest For The Future

December 2022


**Local and global markets have been incredibly volatile as in February the world came to grips with the Russian invasion of Ukraine and the resultant sanctions. Global inflation continued to spike on increased demand impacted by supply disruptions, caused, in part, by the Ukraine war, together with China's zero Covid policy. This propelled central banks around the world to aggressively raise interest rates in an effort to stem inflation.**

During the year inflation in many countries reached 30-year highs, and central banks will be forced to continue raising interest rates in 2023 to combat inflation. Notably, however, we expect the rate of increase to slow as economic growth slows, but will continue to impact world markets for some time.

As we process this extraordinary global complexity, I thought it would be helpful for us to take stock and review where we are from an investment perspective and across a range of factors and criteria, starting with asset allocation

## Asset Allocation

This is by far the most important factor to consider when constructing an investment portfolio. Asset allocation refers to how much of one's portfolio is allocated to local shares, local property, local fixed income (bond and money markets), and to offshore markets. Studies have shown that asset allocation accounts for nearly 90% of total returns over the longer term. When contemplating the ideal asset allocation for a client it is important to keep the big picture in mind, while understanding their respective risk and investment needs. This obviously varies across different jurisdictions. In South Africa, however, the big picture is local versus offshore considerations.

Locally, we are faced with a stagnant economy, a shrinking stock exchange, economic policies that are business unfriendly and an extremely volatile Rand.

**CADIZ MONEY MARKET FUND** – Cadiz Money Market Fund is the number one ranked South African money market fund over 1, 2, 3, 5, 7 and 10 years with an annualised yield of 7.29% from inception.

*Source: Morningstar | Performance reported for A Class net of fees in ZAR as at 30/11/2022 (ASISA) South African IB Money Market, Inception: 01/03/2006 | Annualised return is the weighted average compound growth rate over the period measured | Benchmark: STeFI Composite ZAR, Category Rank is against the (ASISA) South African IB Money Market Category |Highest Annual Return 12.27%; Lowest Annual Return 4.40%.*

The advantages of diversifying internationally include access to higher quality companies than locally (think of Nestle, Apple, Microsoft, etc.) and a broader investment universe characterised by companies and sectors of the economy which are simply not comparable in South Africa.

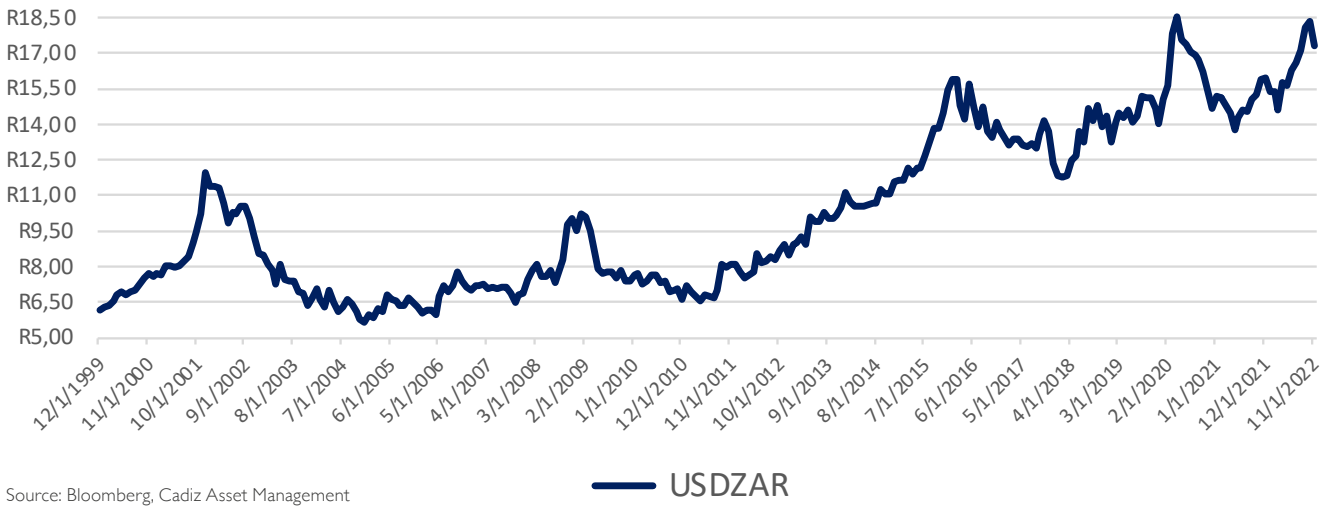
At the macro level, it is important to recognise that the South African economy represents just 0.9% of the global economy and most South Africans are already heavily 'invested' in South Africa due to their property ownership. Thus, it is imperative to diversify offshore through your investment portfolio to protect one from being too concentrated in such a small pocket of global economic activity.

Your risk profile and investment objectives will determine what portion of your liquid assets should be invested in offshore companies that provide goods and services globally and are set to continue growing their future earnings. A simple way to look at this is to understand that over the longer term, inflation and interest rates will come down again, and the advanced global economies such as the USA, Eurozone, UK, and China, are likely to be in a better place (and shape) in the future than the South Africa economy. Now let's look at currency as a factor

## Currency

Out house view is to have an allocation to offshore assets in our equity and multi-asset portfolios, being cognisant that currency fluctuations influence these valuations. As humans we tend to think in the short term. Memories are short and sometimes we need to put things into perspective. Bearing this in mind, below is a graph of the rand dollar exchange rate over the past 20 years.

Figure 1: USD ZAR Performance from 31/12/1999 to 30/11/2022




Source: Bloomberg, Cadiz Asset Management

**"As humans we tend to think in the short term. Memories are short and sometimes we need to put things into perspective."**

Just 10 years ago one could have bought a US dollar for ~R8.90 and today that same dollar will cost R17.20. This represents an enormous devaluation of the rand over the past decade. This is a long-term trend that has been unfolding over decades and is likely to continue for a myriad of reasons, including political mismanagement of the economy, Eskom, corruption, higher inflation, and interest rates, to name but a few.

It is very important to note, however, that the devaluation doesn't happen in a linear pattern. There are periods when the rand appreciates in value, but the longer-term trend is devaluation. We must, therefore, ask ourselves where the rand will be in the next five-to-ten years? What about timing?

## Timing

It is important to understand that investing is a life-long exercise and we must be mindful to not try and time the market. Timing the market refers to buying in at the right time and then selling again at the right time so that we can then 'buy back in' at the optimal time. This is impossible to do on a consistent basis and is a main reason for investor capital loss and disappointment.

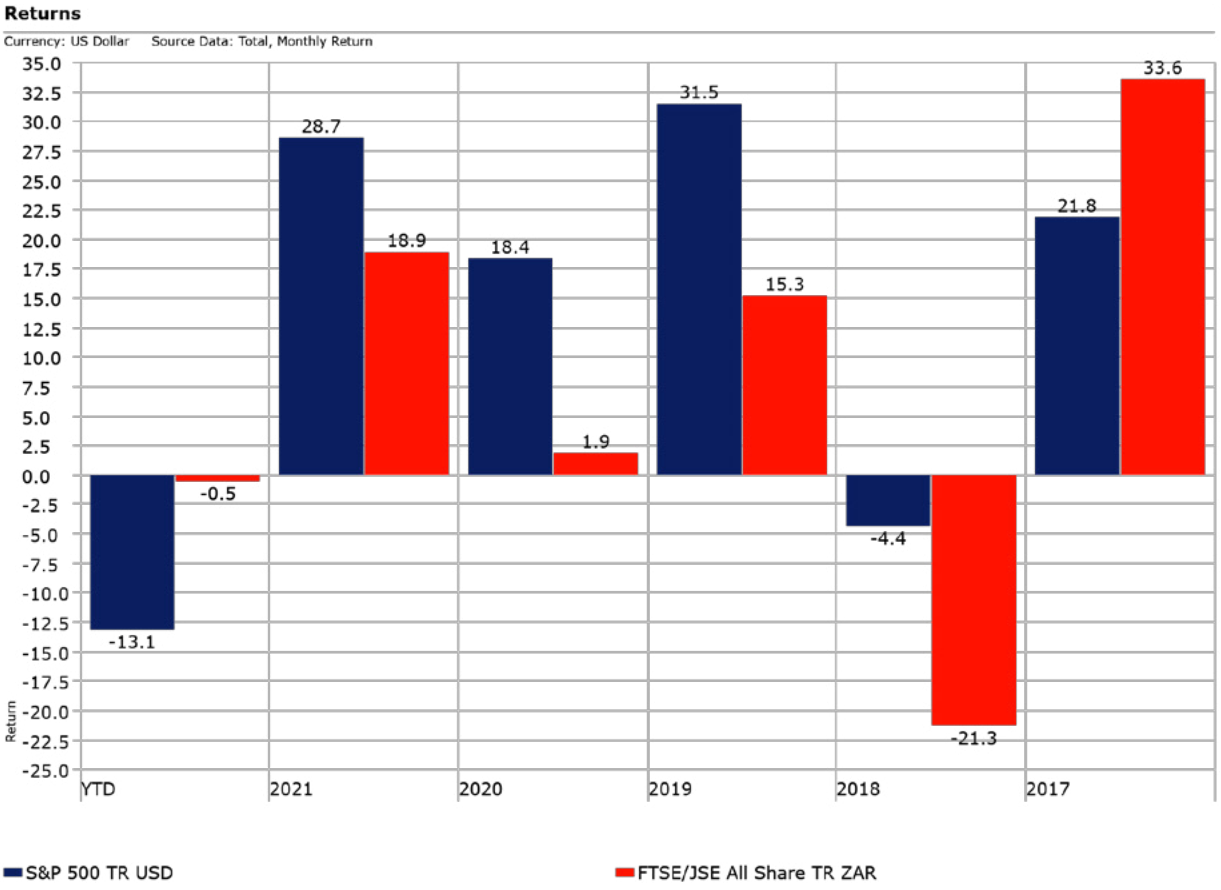
Examining global market average returns over the last 100 years, the market produced an average annual return of approximately 9%. The average investor's annual return over the same period was only approximately 5%. The reason for this underperformance is because the average investor did not remain invested. Rather, they tried to time the market by jumping in and out and changed strategies when short term returns didn't look so great, just as we have seen during 2022.

This is behavioural economics 101 and is the subject of many universities' textbooks. Simply put, if the average investor had remained invested over the long term, they would have enjoyed the full returns provided by the market.

Figure 2 indicates the annual performance of the S&P 500 index vs the FTSE JSE All-Share index, in USD, from 2017 to date.

This illustrates that it is imperative to look at the timing and duration of the performance period as short-term decisions should not be made that negatively impact the longer-term outcomes of your portfolio.

## Figure 2: S&P 500 TR Index performance vs FSTE/JSE All-Share Index in USD

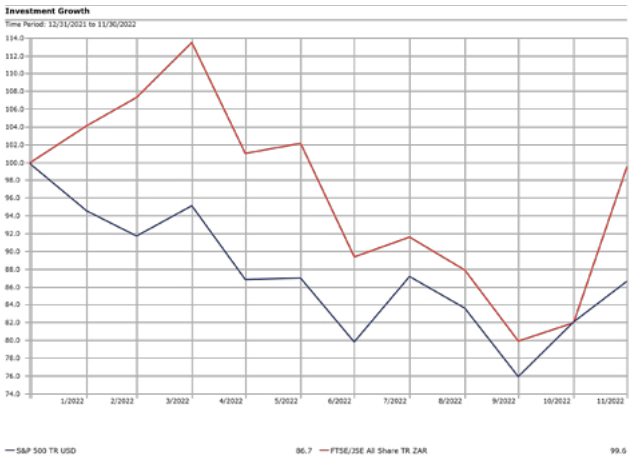



Source: Morningstar Direct

## Current Snapshot

Bearing in mind the above topics we now take stock of the current situation. At the time of writing, rand dollar exchange rate is R17.34, which is ~9% weaker than a year ago. The FTSE JSE All-Share index is down 0.5% year-to-date, while the S&P 500 index is down 13.1% (both in USD). However, both the local and offshore markets have seen a strong rebound in asset process since the September lows, refer to figure 3.

### Figure 3: S&P 500 TR index vs FTSE JSE All-Share index year to date in USD




Source: Morningstar Direct

### Figure 4: S&P 500 TR index vs FTSE JSE All-Share index year 5- and 10-year returns

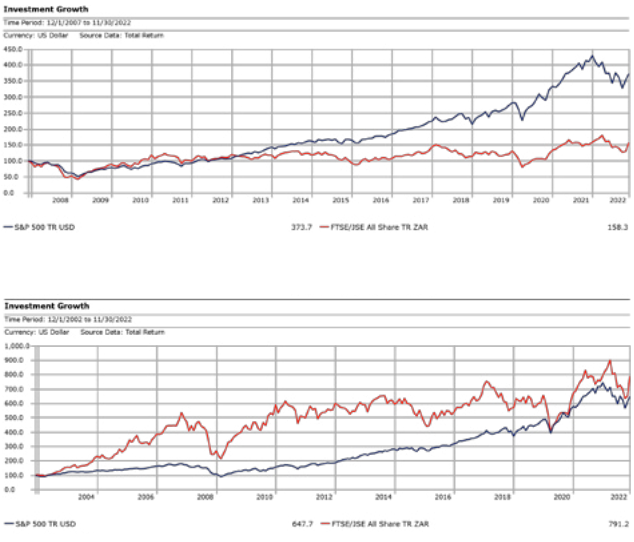

Source: Morningstar Direct

Our local multi-asset portfolios have approximately 30% invested offshore, so the local currency movements, together with the relative underperformance of the offshore markets, may negatively affect the overall valuation of the portfolios. However, we are cognisant that the rand is likely to devalue over the longer term and that offshore markets will also recover.

Many of our more financially conservative clients are invested in fixed income portfolios. This is because it is the least volatile asset class, and more financially conservative clients who draw an income monthly require a less volatile portfolio. This asset class derives its returns in the form of interest and like elsewhere in the world, South African interest rates are increasing to combat higher inflation.

This too is temporary and interest rates will start to decline again in due course. This illustrates the importance of understanding how the timing of the reporting period can influence how you feel about your investments. We must be mindful of this and look through investment cycles before making decisions that could detract from the longer-term strategy decided upon. Figures 4 and 5 illustrate the need to look through investment cycles, rather than merely short-term performance.

### Figure 5: S&P 500 TR index vs FTSE JSE All-Share index year 15- and 20-year returns




Source: Morningstar Direct

## The role of a Financial Advisor

Finally, the question often arises: "What is the role of my Financial Advisor"? This is obviously a complicated question with an equally complicated answer.

The role of a Financial Advisor is to assist clients to make sense of market factors and to formulate a strategy, together with the client, to navigate the complex world of investing. Principally this will help clients avoid short-term knee-jerk reactions that will prevent them from reaching their individual long-term investment goals.

Your financial advisor should keep a constant eye on your investments so that you can rest-assured that you are in good hands. With all this in mind, we would encourage you to talk to your financial advisor to ensure you invest wisely and avoid unnecessary costly mistakes. Having provided this summary overview of this volatile and challenging year for markets and investors, all that remains if for me to wish you and everybody close to you a joyous festive season and a prosperous New Year. Should you be travelling over the festive period please travel safely and we look forward to all that 2023 will offer us.

**Physical Address:** Alphen Estate, Alphen Drive, Constantia 7848, Cape Town / **www.cadiz.co.za**

This document is confidential and issued for the information of the addressee and clients of Cadiz only. It is subject to copyright and may not be reproduced in whole or in part without the written permission of Cadiz. The information, opinions and recommendations contained herein are and must be construed solely as statements of opinion and not statements of fact. No warranty, expressed or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such recommendation or information is given or made by Cadiz in any form or manner whatsoever. Each recommendation or opinion must be weighed solely as one factor in any investment or other decision made by or on behalf of any user of the information contained herein and such user must accordingly make its own study and evaluation of each strategy/security that it may consider purchasing, holding or selling and should appoint its own investment or financial or other advisers to assist the user in reaching any decision. Cadiz will accept no responsibility of whatsoever nature in respect of the use of any statement, opinion, recommendation or information contained in this document.

This document is for information only and do not constitute advice or a solicitation for funds. Investors should note that the value of an investment is dependent on numerous factors including, but not limited to, share price fluctuations, interest and exchange rates and other economic factors. Performance is further affected by uncertainties such as changes in government policy, taxation and other legal or regulatory developments. Past performance provides no guarantee of future performance.

Cadiz Asset Management (Pty) Ltd (Reg. No. 2013/118580/07) is an authorized financial services provider (FSP 45442)

Boutique Collective Investments (RF) (Pty) Ltd ("BCI") is a registered Manager of the Boutique Collective Investments Scheme, approved in terms of the Collective Investments Schemes Control Act, No 45 of 2002 and is a full member of the Association for Savings and Investment SA.

Collective Investment Schemes in securities are generally medium to long term investments. The value of participatory interests may go up or down and past performance is not necessarily an indication of future performance. The Manager does not guarantee the capital or the return of a portfolio. Collective Investments are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees, charges and maximum commissions is available on request. BCI reserves the right to close the portfolio to new investors and reopen certain portfolios from time to time in order to manage them more efficiently. Additional information, including application forms, annual or quarterly reports can be obtained from BCI, free of charge.

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax.

A money market portfolio is not the same as a bank deposit account. The price is targeted at a constant value. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but that in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average.

Actual annual figures are available to the investor on request.

Investments in foreign securities may include additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information.

Boutique Collective Investments (RF) Pty Ltd retains full legal responsibility for the third party named portfolio.

Although reasonable steps have been taken to ensure the validity and accuracy of the information in this document, BCI does not accept any responsibility for any claim, damages, loss or expense, however it arises, out of or in connection with the information in this document, whether by a client, investor or intermediary. This document should not be seen as an offer to purchase any specific product and is not to be construed as advice or guidance in any form whatsoever. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of BCI/the Manager's products.