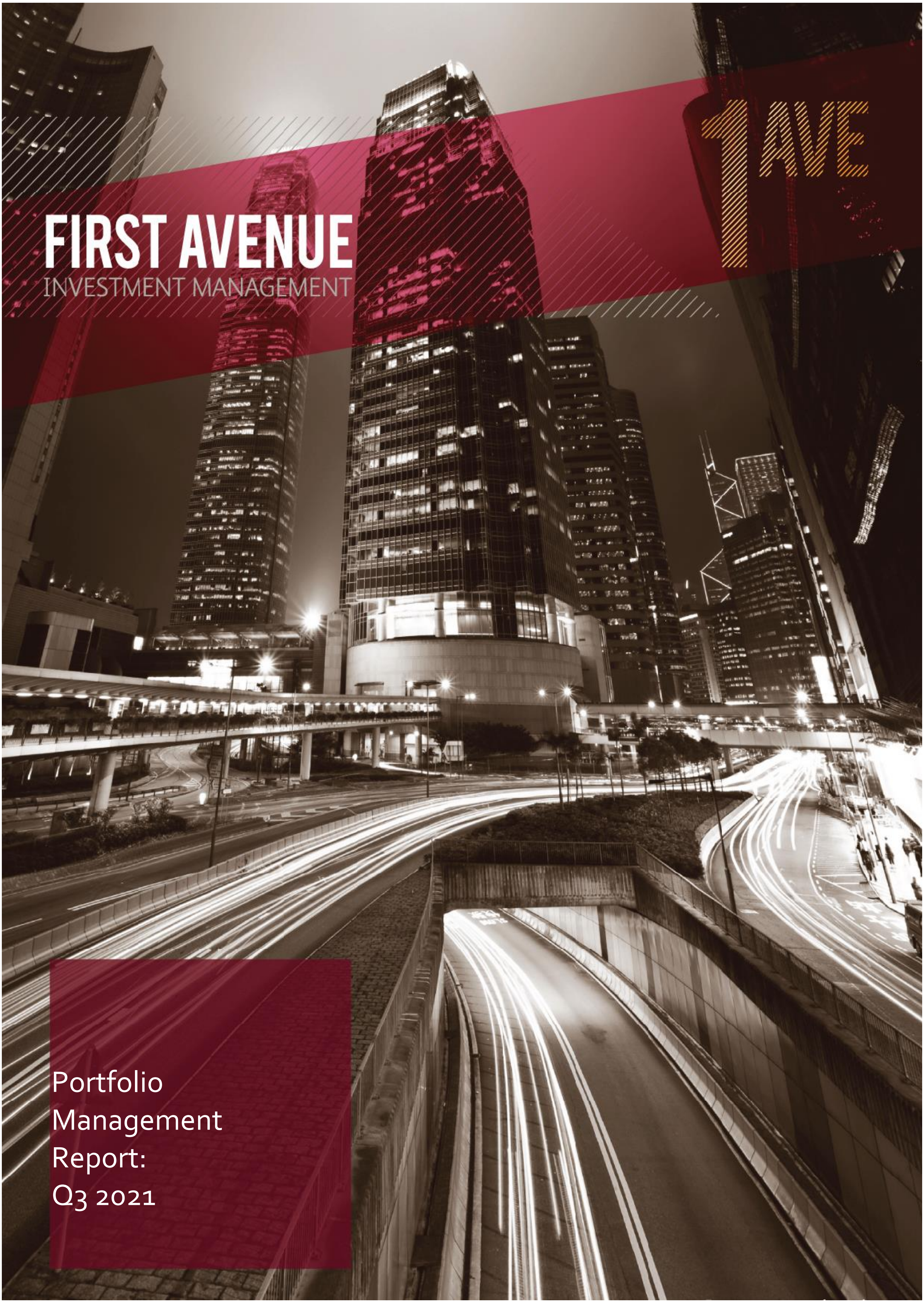


FIRST AVENUE
INVESTMENT MANAGEMENT

Portfolio Management Report: Q3 2021

FUND MANAGEMENT REPORT: Q3 2021

Investment Outcomes: Continued Strong Recovery in Performance

Last quarter we communicated our belief that we are entering the part of the cycle that favors Quality at the expense of Growth and Momentum. Investing is a zero-sum endeavor, where one style monopolizes investment returns at the expense of other styles. Styles allow clients to know when to expect a manager to be either on the negative or positive side of this monopolistic equation during the cycle. This helps managers maintain the integrity of their strategy without interference or pressure from the client. While our own experience shows this to be wishful thinking, about both manager and client temperament, we have persisted and persevered with Quality despite it having been on the negative side of the equation for quite some time now. We remain convinced that Quality investing is the most efficacious way to build wealth and are delighted with the turn in investment performance.

Figure 1: General Equity Composite vs. SWIX.

Risk/Return Period	Fund	Benchmark	Relative
Incep. Annualised	8.3%	10.2%	-1.9%
5 year .p.a.	1.0%	5.4%	-4.4%
3 year p.a	3.2%	6.4%	-3.1%
1 year	24.3%	22.9%	1.5%
YTD	14.1%	11.8%	2.3%
6m	3.6%	-1.3%	4.9%
3m	3.6%	0.5%	3.1%
Inception date :	***11-Feb***		

Source: Iress, First Avenue

Figure 2: General Equity Composite vs. Capped SWIX

Risk/Return Period	Fund	Benchmark	Relative
Incep. Annualised	-1.6%	4.9%	-6.5%
5 year .p.a.			
3 year p.a	1.7%	6.5%	-4.8%
1 year	29.9%	30.3%	-0.5%
YTD	18.3%	16.9%	1.4%
6m	8.5%	3.8%	4.6%
3m	5.8%	3.2%	2.6%
Inception date :	***17-Aug***		

Source: Iress, First Avenue

Our conviction that we are entering the part of the cycle in which Quality outperforms is driven by the recalibration of monetary and economic policy in the U.S., E.U. and China, respectively. In its efforts to stimulate growth while keeping the cost of borrowing down, Quantitative Easing (QE) has dislocated securities from their fundamental value. For instance, marginal producers in cyclical industries such as shale oil were able to fund themselves very favorably in the junk bond market as investors searched for higher yields. In other words, investors went down the credit risk curve (or the curve shifted up) inadvertently saving jobs in businesses that could have been bankrupt. The Fed has successfully staved of both economic and employment recession.

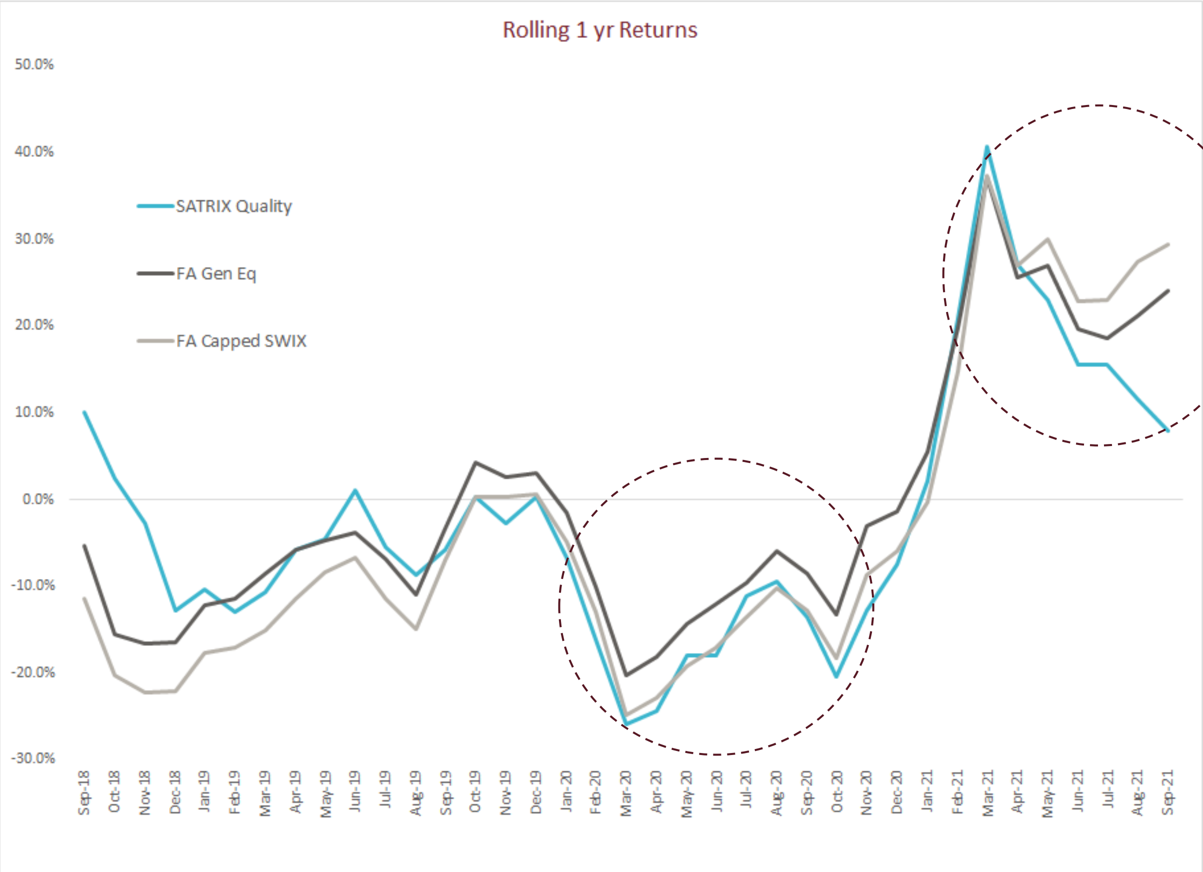
South Africa, a significant beneficiary of export earnings from mining and metals, was fiscally governed from Washington by the Fed's actions. Our own government and central bank's actions were indiscernible in bolstering the country's finances. Commodities rode along with junk bonds as investors extracted positive roll yields from Rhodium (with Chinese demand) and Palladium (E.U. demand), members of the Platinum Group Metals. Palladium was in backwardation for 35 straight months, a six-sigma event in the futures markets!

It is only natural that an unwind of the Fed's program, comprising US$120bn in monthly purchases of yield-based securities will recalibrate the relationship between asset values and their fundamental value. Investors will stop going to look for love (yield) in all the wrong places. During QE, there was no point paying a premium for the superior free cash flows of a Quality business. What downside were they going to protect an investor from that the Fed had not prevented from happening? In fact, having outsourced downside protection to the Fed, investors were free to take all the risk they could find!

The leading central bank in the world, the Federal Reserve Bank, has announced its intention to taper off its bond buying program. We expect them to start in either November or December this year. Central banks from other western nations (E.U. and Japan) will follow the Fed's lead to keep interest rate differentials at parity. China, a critical engine of global growth, is facing a myriad of self-created problems. First, it has finally decided to combat pollution by imposing emission limits on its highly pollutant steel industry. The country intends to achieve net zero emissions by 2050. Second, the country's property sector is facing a liquidity crunch due to decades of debt fueled growth and property speculation. Third, China has (petulantly) imposed sanctions on Australian coal used in its power stations. 70% of the country's electricity is coal fired. The steel, property, and energy sector are critical for China's growth.

Going forward, the global economy will be far more "accident" prone than it has been in the past 12 years. Investors will seek out guard rails to hold onto in the absence of the risk underwriting by central banks. The best guard rails will be Quality equities and Cash. That said, let us squash the perception that Quality is in the eye of the beholder. It is not. There is such a thing as empirical Quality, and both the S&P Quality Index and SATRIX Quality ETF (the latter tracks the former) are not. We may all not agree on what Quality is, but we agree that Quality should exhibit greater downside protection. Experience has shown that the SATRIX Quality ETF expressly fails to do so. First Avenue's offerings do. The following chart shows just how poorly SATRIX Quality responded to both the March 2020 pandemic induced correction and recent announcements by the Fed on tapering.

Figure 3: First Avenue Strategies vs. SATRIX Quality ETF

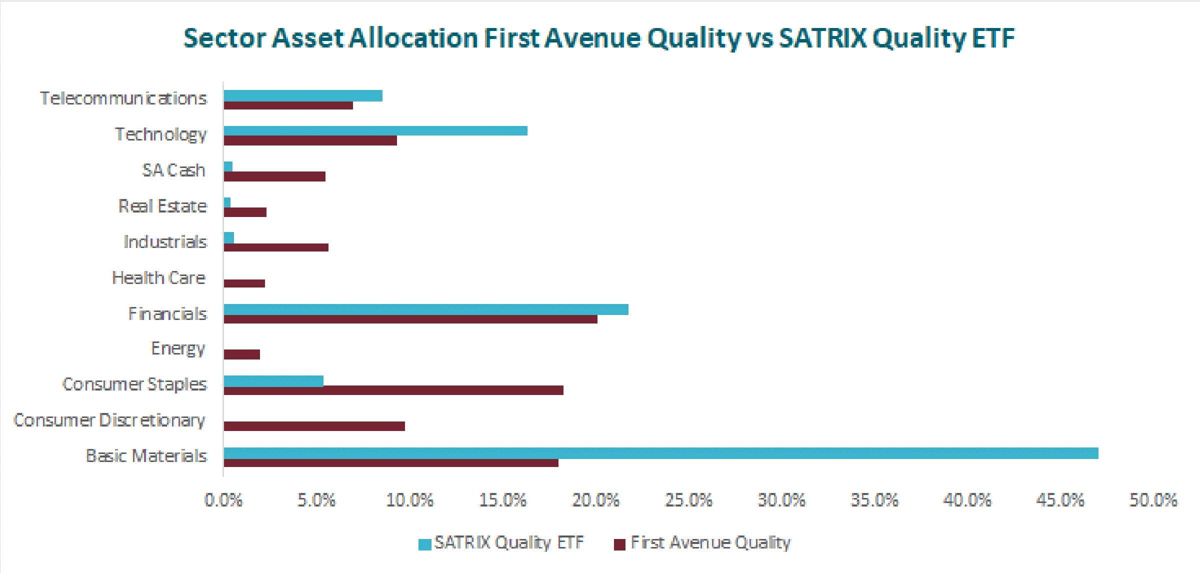


Source: Infront, First Avenue

In both market drawdowns, the stocks that fell the most exhibited price momentum. That the SATRIX Quality ETF fell in sympathy with them indicates that it is in fact a Momentum ETF. These are the dangers of fooling oneself to think Quality equities present themselves aesthetically (in the eye of the beholder) rather than empirically (meet strict real-world standards). Empirically, Quality must help an investor build wealth while Momentum helps the investor generate investment performance.

Comparing sector weights between First Avenue strategies and SATRIX Quality explains the difference between wealth creation (Quality) and investment performance (Momentum). SATRIX ETF has a 48% weight allocation to Basic Materials compared to 18% for First Avenue. It must be because SATRIX includes price momentum criteria in its definition while we exclusively utilize fundamental measures. To prove this, SATRIX Quality has a zero weight in the Consumer Discretionary sector which has underperformed in recent years. We have allocated 10% of our portfolio to this sector as it is replete with moats. Apparently, SATRIX Quality thinks Cashbuild's 18 303.95% share price return since listing on March 16, 2001, is not a sign of Quality but rather a complete fluke.

Figure 4: **Sector Breakdown SATRIX Quality vs. First Avenue**

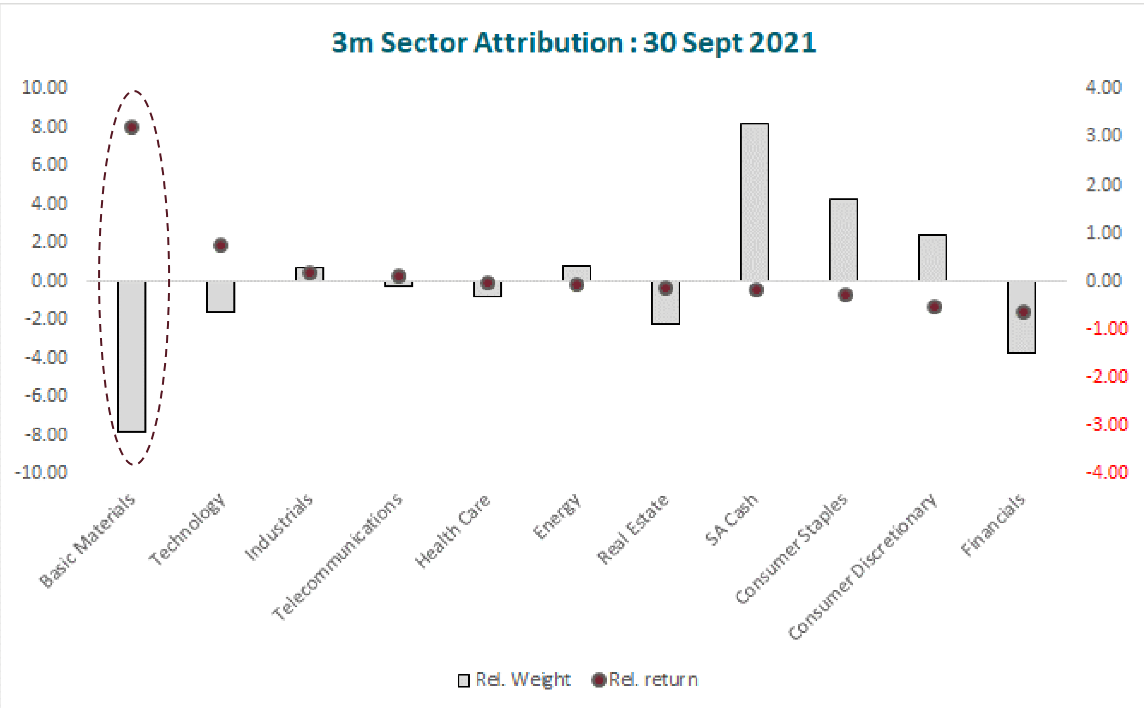


Source: Statpro, First Avenue

Attribution Analysis

An analysis of our outcomes in the quarter reveals that we generated most of the alpha from an underweight position in Basic Materials. You will recall that this position has been the bane of our existence. As we mentioned earlier, basic materials and precious metals are highly leveraged to QE. For as long as easy money was the order of the day, we were on a hiding to nothing. Ultimately, the dislocation of price momentum from valuation shone at the very first sight of trouble.

Figure 5: **3 Month Attribution: General Equity Composite vs. Capped SWIX**

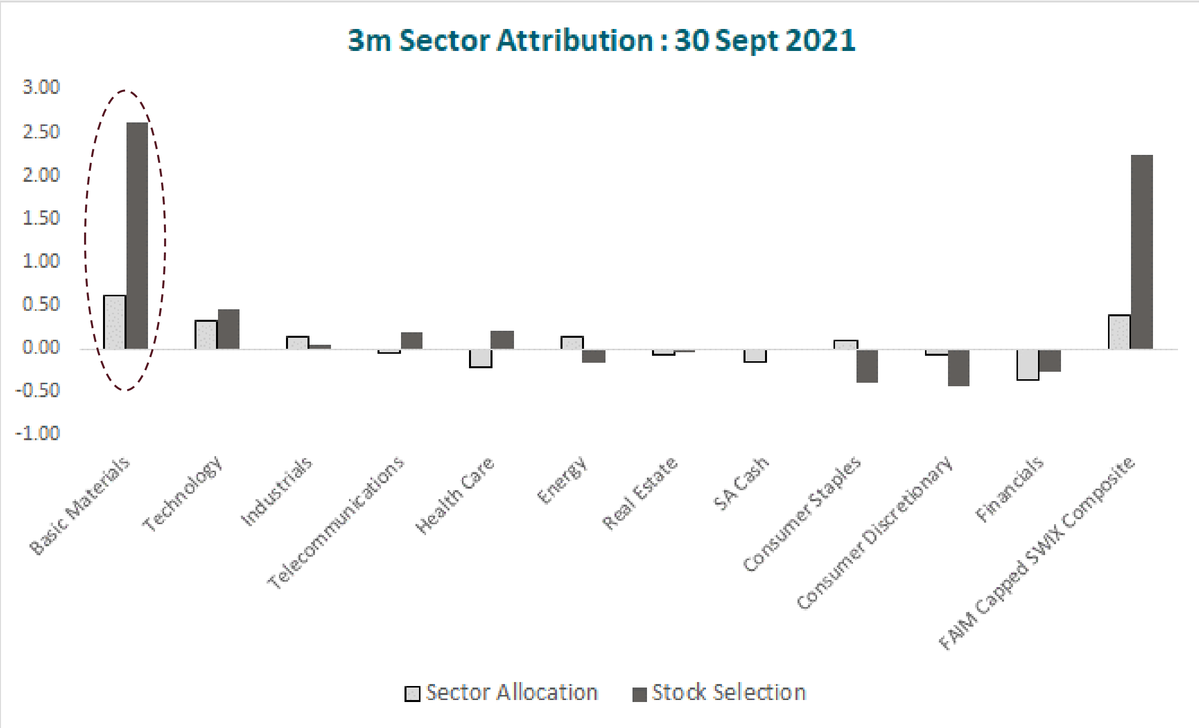


Source: Statpro, First Avenue

What is equally pleasing is that our sector attribution was either at, or better, than the index in 7 out of 10 sectors.

For granularity, we chart our stock and sector selection together in the following graphic. The graphic should help confirm that even though we added miners to the portfolio, we did not stray away from our investment philosophy. Far from chasing Price Momentum, we picked stocks within Basic Materials that outperformed the sector.

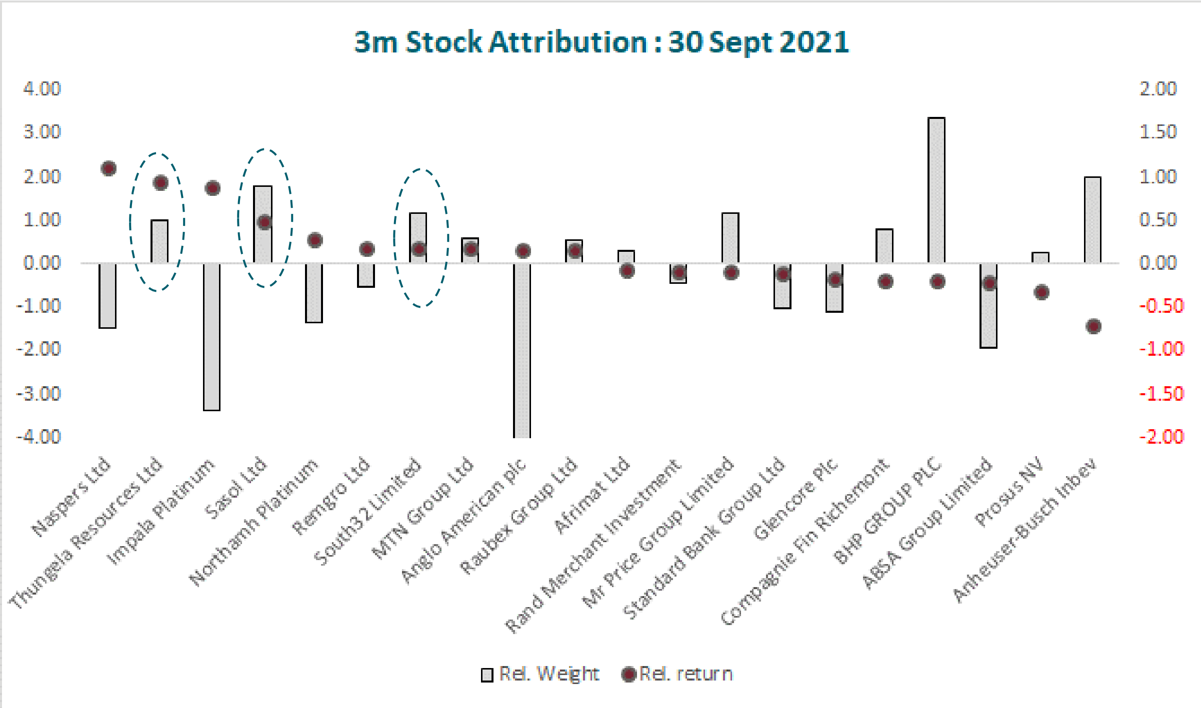
Figure 4: 3 Month Attribution Analysis: Stock Selection and Sector Allocation vs. Capped SWIX



Source: Statpro, First Avenue

Digging into performance by security, avoiding price momentum (Naspers, PGMs) saved us a whole heap of trouble. On the other side of the coin, investing in companies in neglected extractive industries made us a lot of money (Sasol, Thungela). Due to ESG concerns, investment in oil and thermal coal woefully lags the demand that renewable energies cannot yet service. Hence the run up in prices of both oil and thermal coal. Oil companies are dedicating most of their capital expenditure to renewable fuels (and even rebranding themselves into energy companies). Jointly, the sector has only committed US$135bn to expanding supply of oil over the next few years. However, the amount needed to meet current demand is US$600bn. But therein lies the conundrum. Why expand supply of a fuel whose customers have signed commitments to discard at the first instance of availability of renewable energy? The only conclusion we reach is that the world will have to live with heightened oil and coal prices as it transitions to renewables (one other reason why inflation is not transitory). Therefore, intensive users of fossil fuels have started to adjust their interest rates upwards (Russia, India, New Zealand, Singapore). South Africa is expected to raise rates by 25bps in November.

Figure 6: **3 Month Stock Attribution**

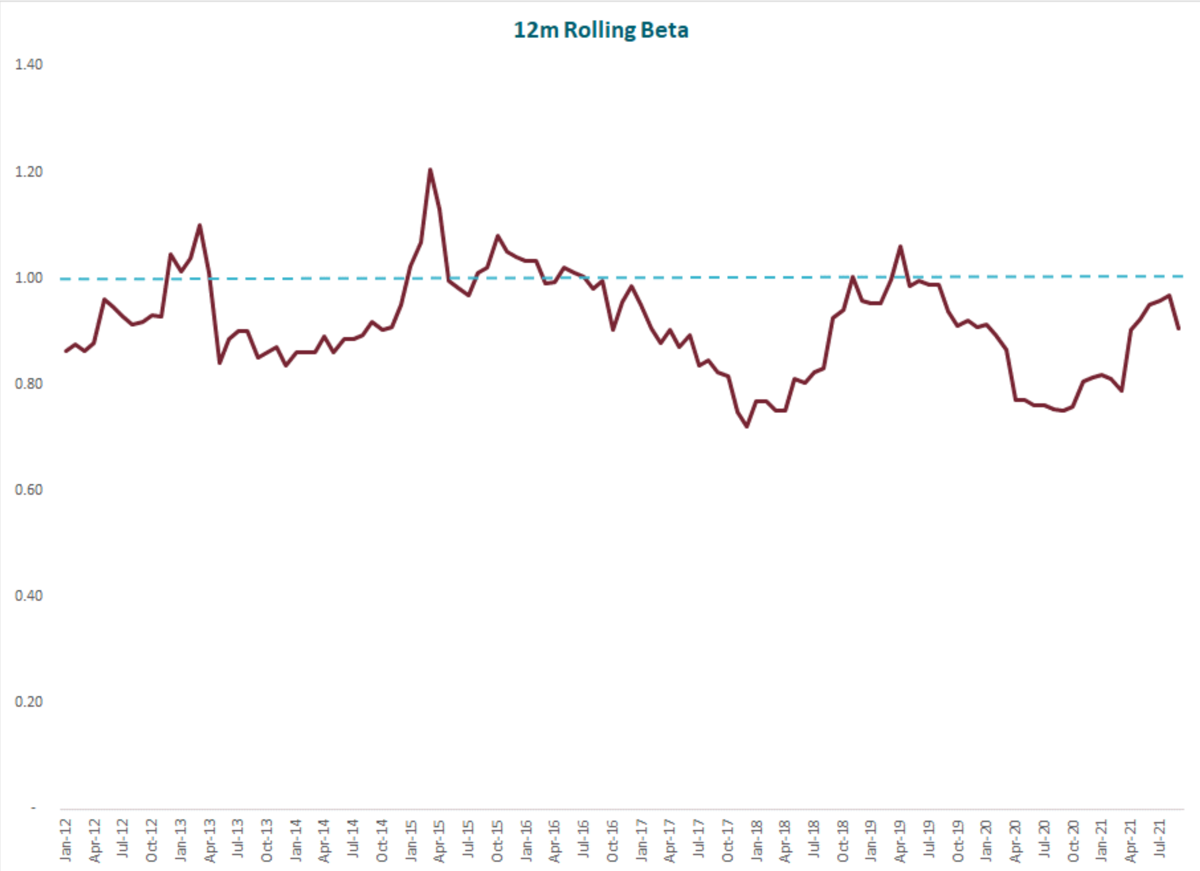


Source: Statpro, First Avenue

As proof that we are stock pick away from price momentum, South32, a base and bulk metal miner neglected by most because it is not in the benchmark outperformed both benchmark favorites BHP and Anglo-American Corporation (AGL). We hold South32 because it allocates capital in ways reminiscent of High-Quality companies. Since unbundling from BHP, it has bought back 12% of its shares in issue, achieving earnings accretion from A$4.00 to A$4.50. Last, we hope you can tell from the above attribution chart that we remain confident in taking large bets. Unlike most managers who hedge their bets by owning both Anglo American and BHP, we prefer BHP (4% overweight) over AGL (4% underweight).

What made this result special was how despite having added beta heavy securities (mining companies) to the portfolios in good quantity, the overall beta of the portfolio remains firmly below 1. This is yet more evidence that we are capable of picking shares in the Resource sector without sacrificing the signature trait of Quality, namely, defensiveness. As long as we keep taking care of what is in our control (Valuation and Quality), we put ourselves in a good position to avoid system risks to wealth creation.

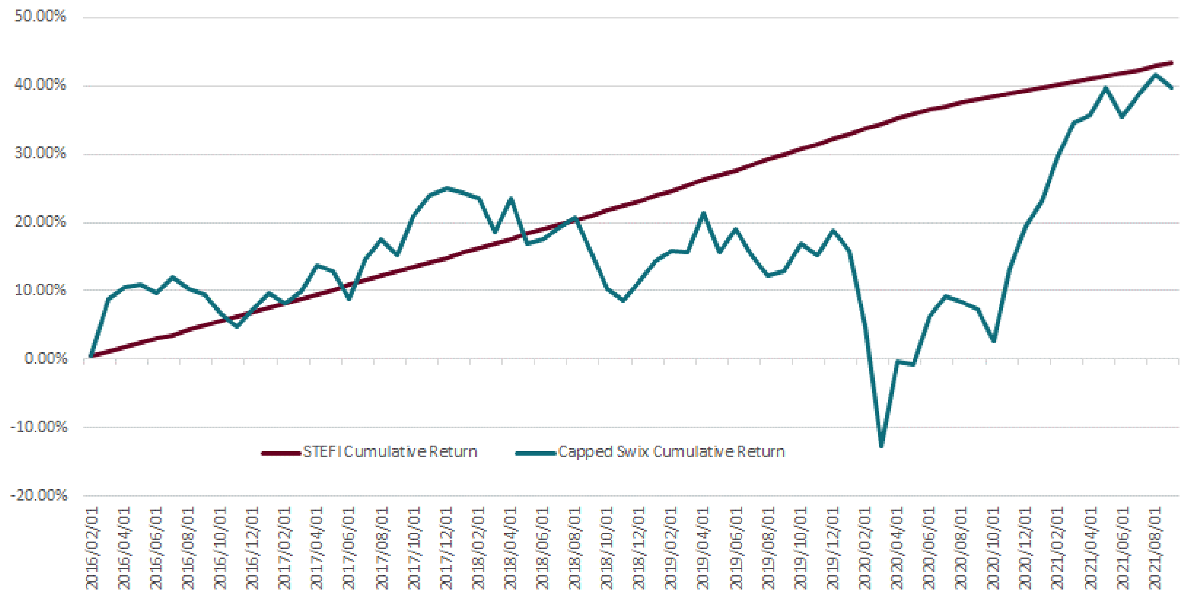
Figure 7: **Rolling 12month Beta: General Equity Composite**



Source: Statpro, First Avenue

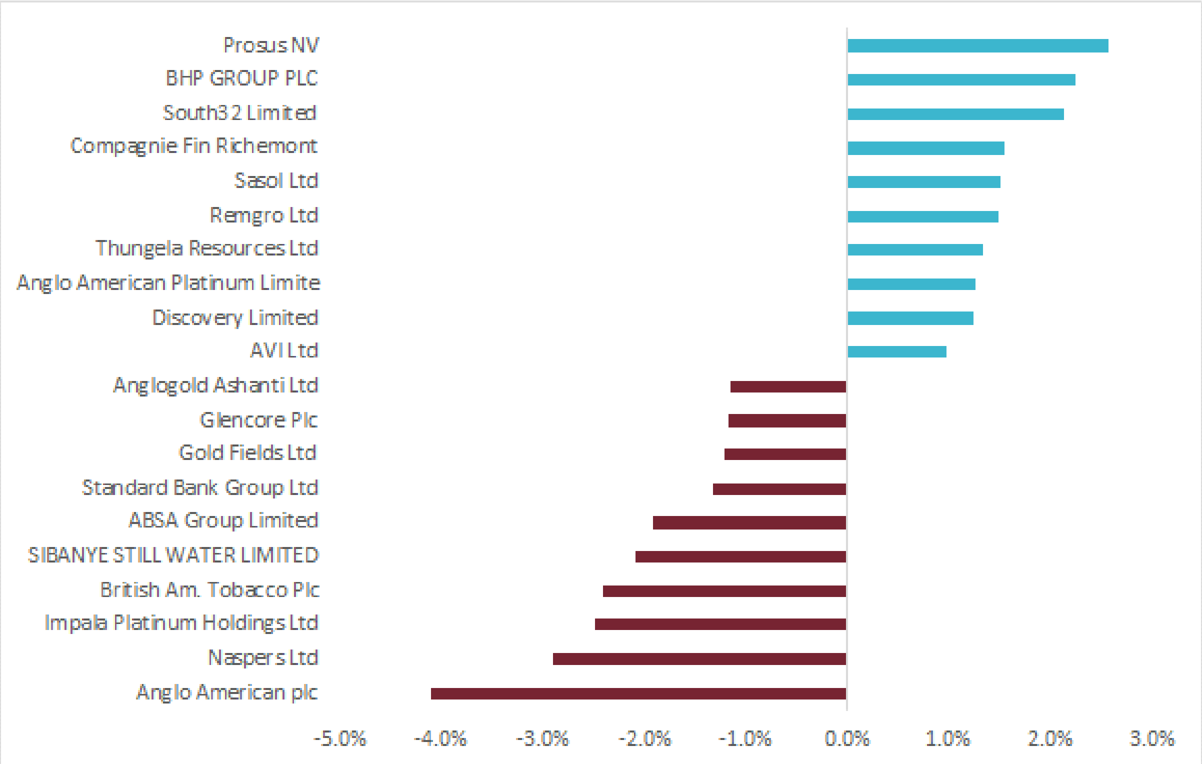
Portfolio construction plays a big role in keeping beta "quiet" while adding high beta securities (miners). While hedging is a valid way to protect the portfolio against increased volatility, cash is in fact a better asset (especially in an environment of potentially rising rates). It may come as a surprise to you that since 2016, when Resources took over leadership of the market from domestics, cash has outperformed equities. Our cash position across portfolios is between 8% and 15% depending on mandates (institutional) and fund deeds (retail). We think the yield on cash will be an increasingly important contributor to our overall returns going forward.

Figure 8: Cash vs. SWIX (2016 – Sept 30, 2021)



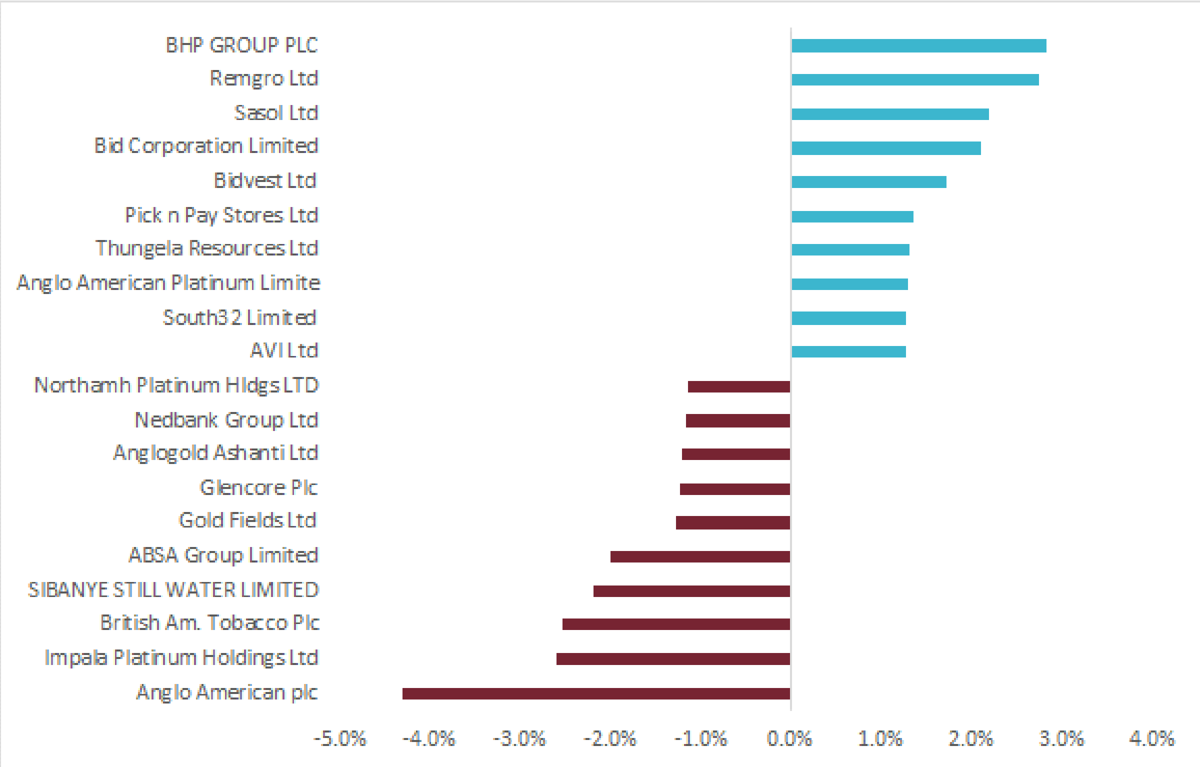
Source: Statpro, First Avenue

Figure 9: Top 10 Over/Underweights General Equity vs. SWIX: Sept 30



Source: Statpro, First Avenue

Figure 10: Top 10 Over/Underweights General Equity vs. CAPPED SWIX: Sept 30



Source: Statpro, First Avenue

We think our portfolio is well positioned for the coming environment and see no reason to alter it.

Global Equity Strategies

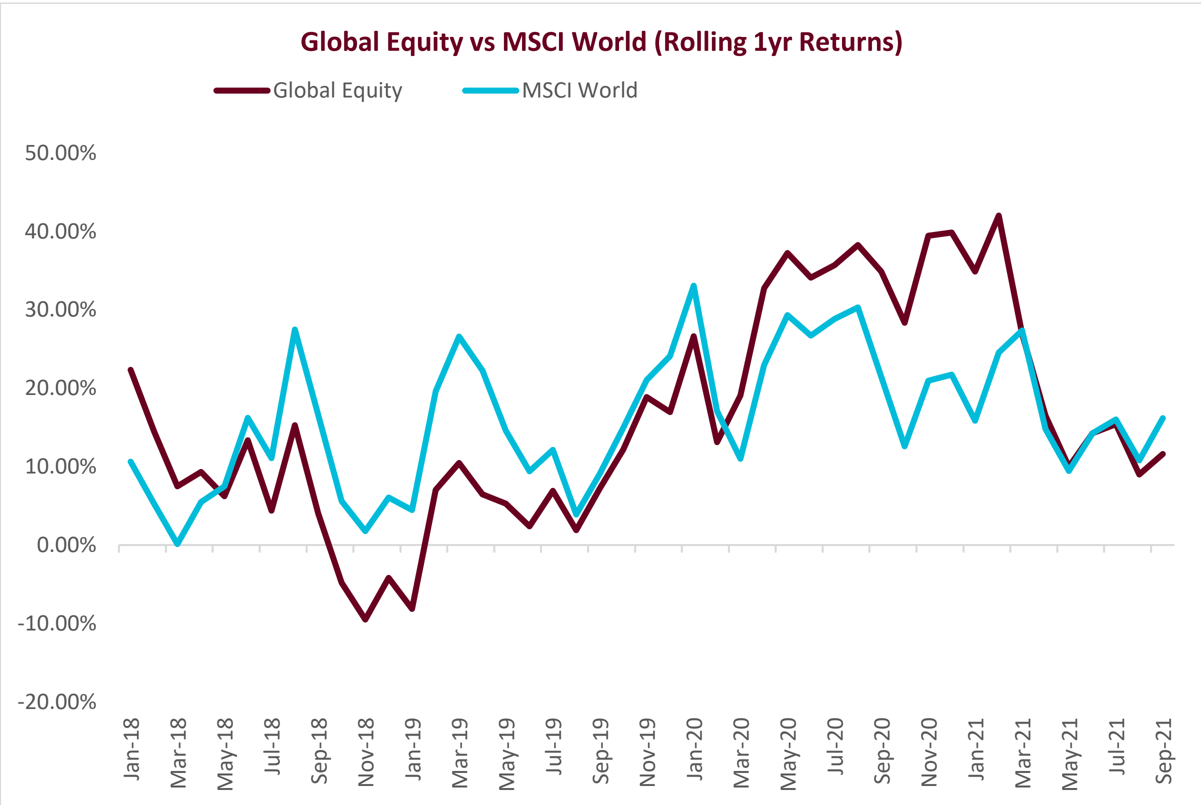
Last quarter, we expressed doubts that inflation is as transitory as the Fed seemed to intimate. We had no better way of knowing other than listen to business after business in North America and the European Union report on both what they are experiencing and seeing down the pike (inflation). We in fact profiled a portfolio holding, Copart, who salvages vehicles written off by insurance and sell them to dealerships. The spike in used car sales, due to the impact of chip shortages on new vehicles, was quite the adrenaline shot to the salvage business! While we take no delight in the stickiness of inflation, we want to add that the Fed worked hard to inflate the global economy. The disruption of global supply chains by Covid simply ushered inflation to the table like a "maître d" would an enthusiastic diner who had endured the long reservation period. Consequently, the Fed has brought forward when it thinks it may hike rates to 2022 from 2023. We did not make any changes to your portfolios in the quarter as we think our portfolios possess the requisite traits to traverse the coming environment successfully.

Figure 11: **Top 10 Holdings: 3rd Quarter Global Equity**

Global Equity	
HERMES INTERNATIONAL	5.24%
LVMH MOET HENNESSY	4.92%
FIN RICHEMONT NAMEN A	4.06%
ALPHABET C	4.02%
WALMART	3.97%
BERKSHIRE HATHAWAY B	3.70%
OKTA	3.06%
DISNEY (WALT)	2.96%
CARRIER GLOBAL	2.59%
TESLA	2.57%

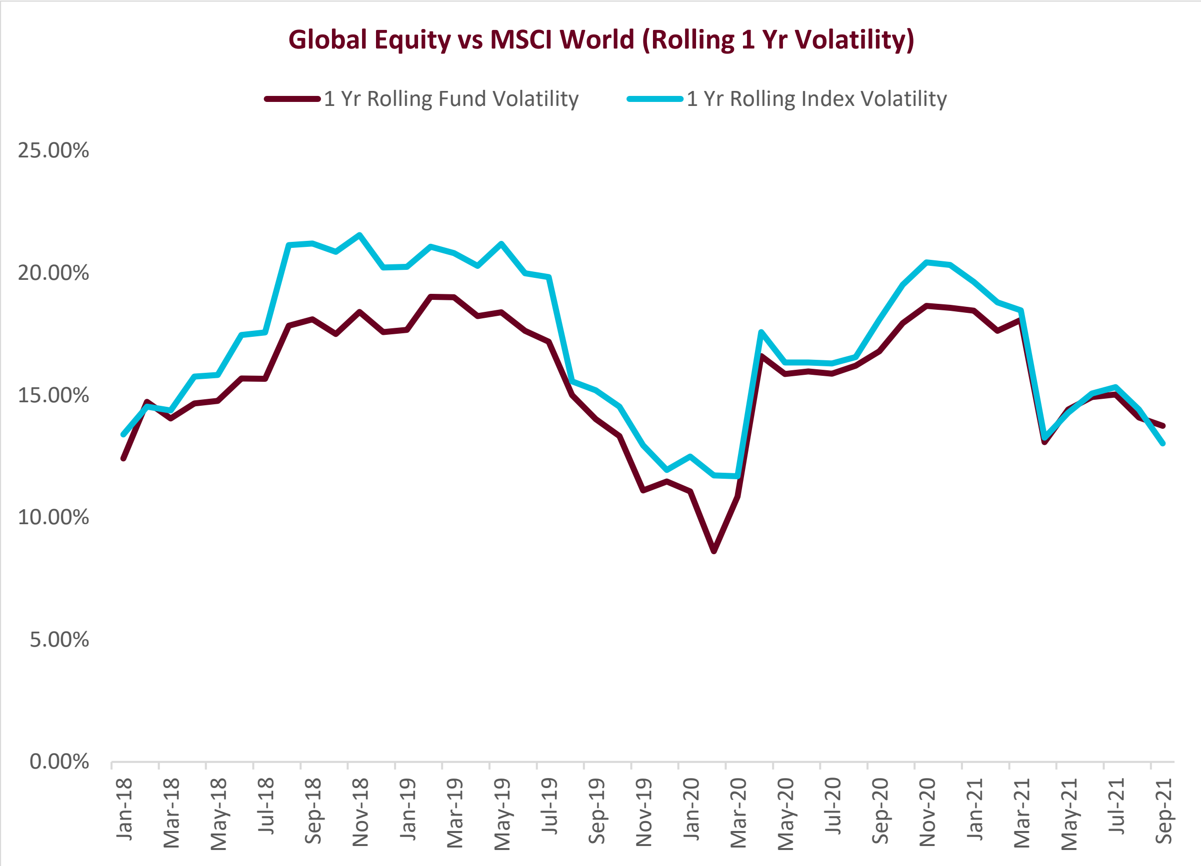
Source: First Avenue, Infront

Figure 12: **Global Equity Fund vs. MSCI World: Rolling 1yr Returns Q3 '21 (ZAR Returns)**



Source: Statpro, First Avenue

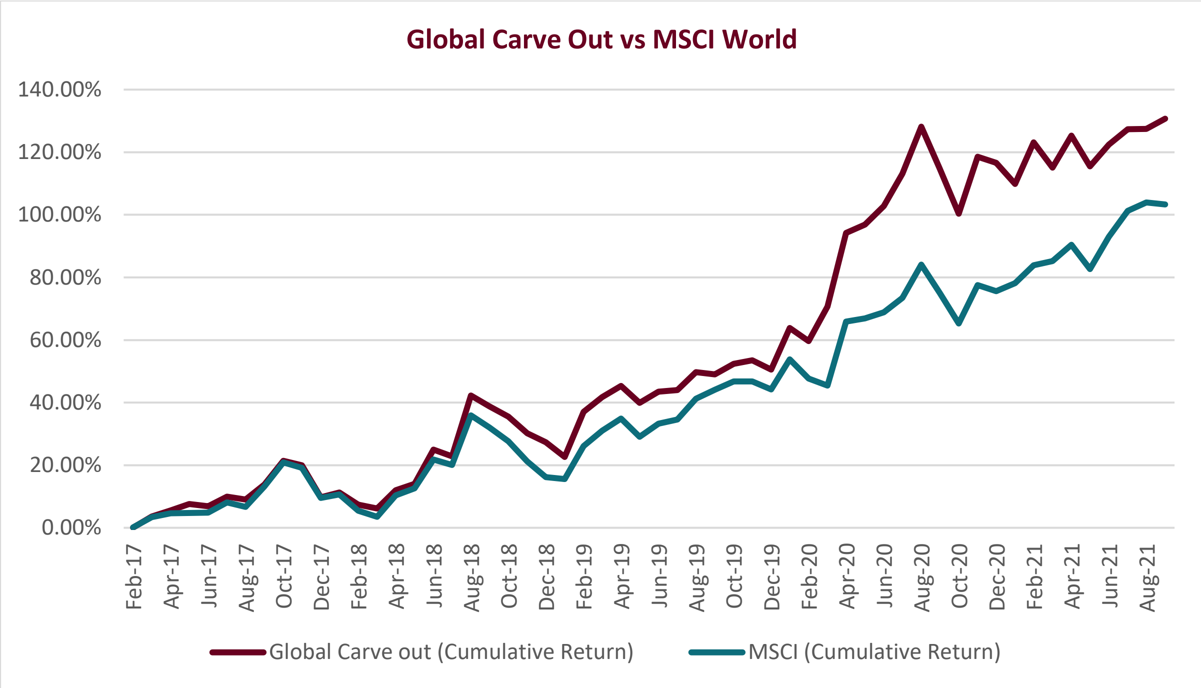
Figure 13: Global Equity Fund vs. MSCI World: 1yr Rolling Volatility Q3'21



Source: Statpro, First Avenue

SA/Global Equity Fund is a local fund with an offshore offering. While the global carve-out has outperformed the MSCI World over time, movement in the ZAR adds volatility to the overall fund outcome (see following table).

Figure 13: SA/Global Equity: Global Carve Out vs. MSCI World



Source: Statpro, First Avenue

Because we maintain a structural 30% (maximum) allocation to offshore, our overall returns are hurt when the ZAR appreciates against the USD and vice versa. That said, we aim to outperform the respective indices of the two components of the fund (local portion vs. SWIX and global carve out vs. MSCI World) and leave the ZAR to drift toward its long-term weakening bias. In the long term, emerging market currencies do not outperform DM currencies.

Figure 14: SA/Global Equity: Global Carve Out vs. MSCI World Q3 2021

	Global Carve Out	MSCI World - ZAR	USD/ZAR
31-Jul	2.22%	4.29%	2.51%
31-Aug	0.05%	1.34%	-0.70%
30-Sep	1.43%	-0.31%	3.70%

Source: First Avenue, Infront

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