ARC PENSION FUND PORTFOLIO UPDATE

30 April 2022

After receiving an increasing number of enquiries from ARC pension fund members regarding the portfolio performance and current market events, we have put together a short update touching on market events locally as well as globally and the ARC Pension Fund Portfolio performance.

Market Summary:

Markets fall as risk appetite sours:

Global markets had a miserable April, with the MSCI World Index having its worst month of an already bad year, down -8.3% for the month and -12.9% year to date, as tightening monetary conditions, the ongoing war in Ukraine, and worsening COVID-19 lockdowns in China rattled investors. US tech shares were amongst April's biggest losers, with the tech-heavy Nasdaq 100 Index, down -13.3% for the month, experiencing its worst monthly drawdown since 2008. Losses were particularly severe for the largest tech companies and the FAANG grouping of Facebook parent (Meta), Amazon, Apple, Netflix, and Alphabet, which saw their share prices fall by at least 10% during April 2022.

Emerging markets fared only slightly better, with the MSCI Emerging Market Index falling -5.6% for the month, thanks at least in part to a late-month rally in Chinese stocks as the government pledged support for economic growth, which has been hampered by severe lockdowns related to China's "Zero-COVID" policy. Top Chinese leaders pledged to meet economic targets for the year and the People's Bank of China cut reserve requirements for banks and vowed to increase support for the economy.

The ongoing conflict in Ukraine continued to weigh on energy prices, with the price of Brent crude oil remaining above US$100 per barrel, while the price of natural gas jumped by 28% for the month to a level that is now almost double from where it started this year. Higher energy prices, along with ongoing supply chain bottlenecks, continued to stoke inflationary fears, and US March inflation data did nothing to allay those concerns, with headline inflation (up by 8.5% year on year) increasing for the sixteenth consecutive month. Expectations that the US Federal Reserve (Fed) will now be forced into aggressive monetary tightening continue to increase, with markets now priced for 1.5% of US rate hikes over the next three Fed meetings and investors expecting the US Fed funds rate to reach 3% by the first Fed meeting of 2023 – a level not seen since 2008.

It was red across the board locally as well, as South Africa's FTSE JSE All Share Index followed global markets lower, closing April down -4.1% and -1.7% year to date.

The rand, which has held up remarkably well going into 2022 in the face of souring risk appetite, could not hold up against a surging US dollar in April and was the worst-performing major currency for the month, lower by -7.6% vs the US dollar. While most currencies fared poorly against the US dollar in April, the rand's woes were exacerbated by domestic issues, with Eskom implementing rolling blackouts during the month and warning that the country could experience more than 100 days of loadshedding during the year. The country was also forced to declare a state of disaster because of one of its worst natural disasters, with floods in KwaZulu-Natal causing roughly 500 deaths, destroying more than 5,000 homes, and causing extensive damage to infrastructure.

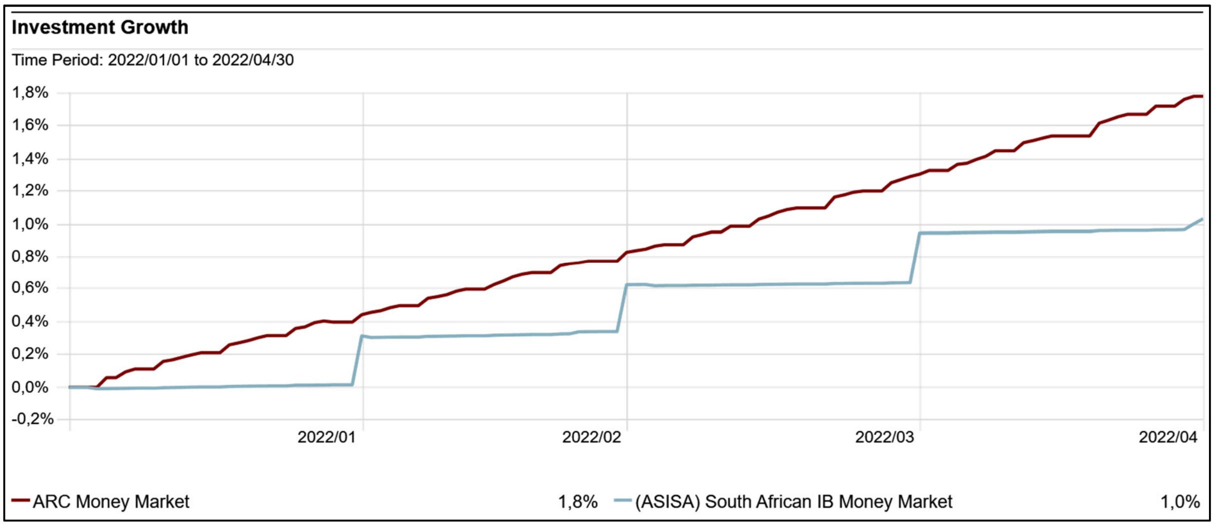
SA government bonds also had a poor month, selling off alongside global bonds as SA 10-year government bond yields jumped 0.4% to end the month at 10.4%.

Portfolio Performance:

During January 2022 we adopted a new investment strategy in all of the ARC portfolios (except for the Money Market portfolio). Below you will see a comparison between the actual ARC portfolio (red line), the old strategy (green line) and the category average (light blue line). Despite all of the headwinds faced, we are pleased with the performance of the new strategy and continue to monitor the global environment closely.

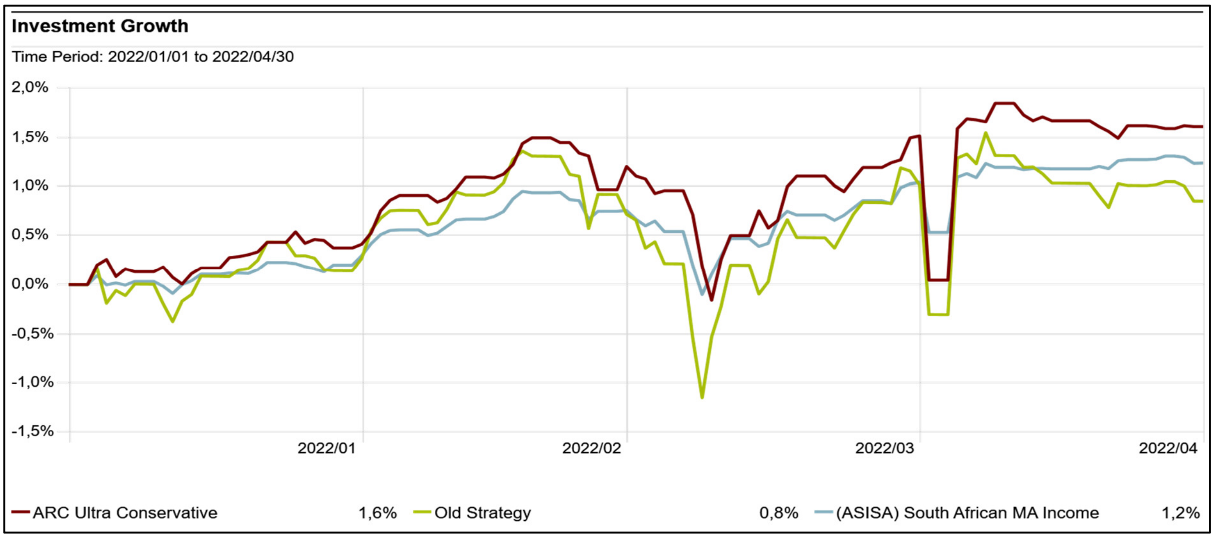
ARC Money Market

The ARC Money Market portfolio delivered top quartile performance for the period 1 January 2022 ending 30 April 2022, delivering 1.78% versus the category average of 1.0%, placing 2nd overall in the SA IB Money Market category.



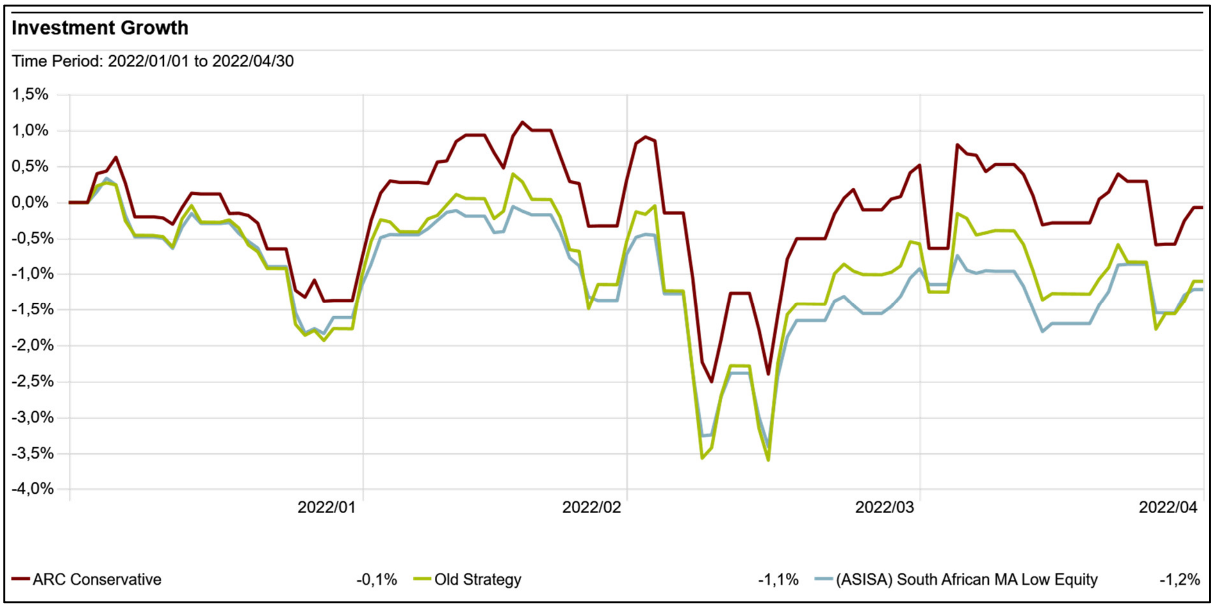
ARC Ultra Conservative

The ARC Ultra Conservate portfolio delivered top quartile performance for the period 1 January 2022 ending 30 April 2022, delivering 1.6% versus the category average of 1.2%, finishing in the top 20 in the SA Multi-Asset Income Category, outperforming the old strategy by 0.8% over the period.



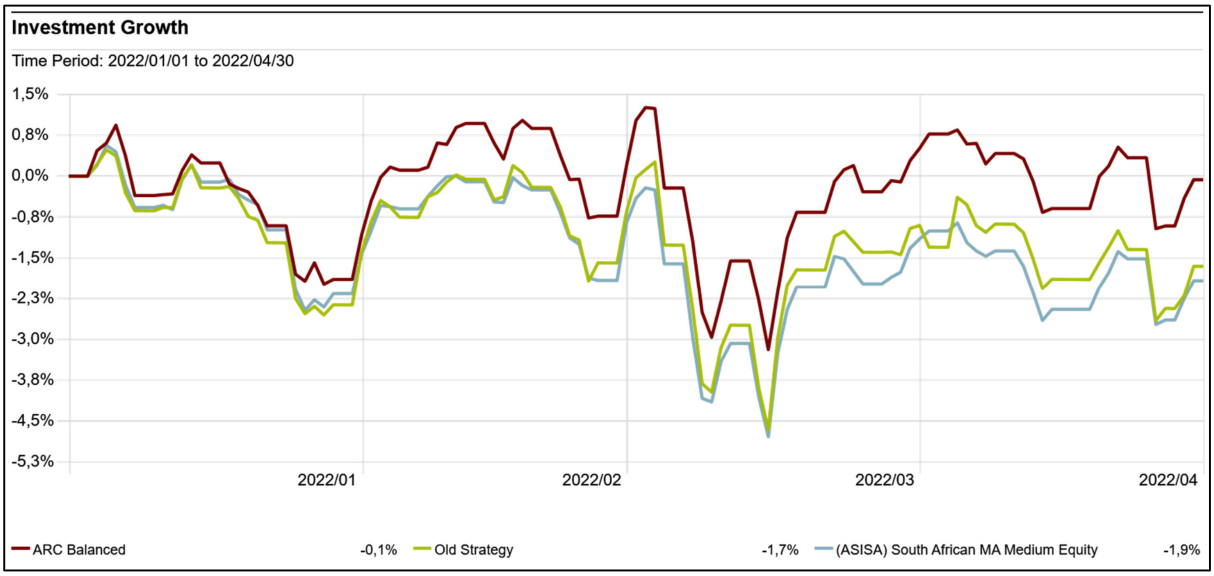
ARC Conservative

The ARC Conservate portfolio delivered top quartile performance for the period 1 January 2022 ending 30 April 2022, delivering -0.07% versus the category average of -1.20%, outperforming the old strategy by 1.0% over the period.



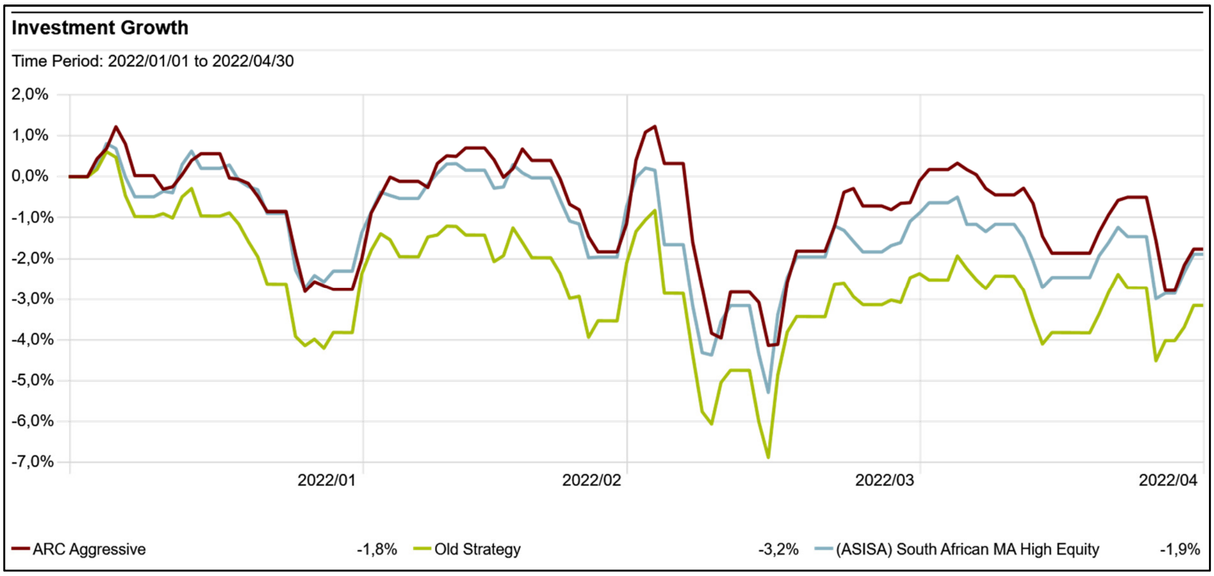
ARC Balanced

The ARC Balanced portfolio delivered top quartile performance for the period 1 January 2022 ending 30 April 2022, delivering -0.07% versus the category average of -1.90%, placing 8th overall in the SA Multi-Asset Medium Equity Category, outperforming the old strategy by 1.6% over the period.



ARC Aggressive

The ARC Aggressive fund finished in the second quartile for the period 1 January 2022 ending 30 April 2022, delivering -1.8% versus the category average of -1.90%, outperforming the old strategy by 1.4% over the period.



Although April 2022 was a tough month for markets globally, at the time of writing (10 May 2022), markets show no sign of mercy and continue their bearish rout as concerns of a slowing US economy, rate hikes and inflation concerns is rattling investors globally. Notwithstanding the economic contraction, the US economy is running way too hot with unfilled job vacancies putting the country on a precipice of an inflation spiral. Rate hikes are essential to slow down job creation in the US, even though the economy is likely to slow towards 1% growth rates later in 2022. The market narrative is starting to shift from inflation (US core inflation likely peaked this month and is going to subside from here). The narrative is now becoming about the slowing economy, the impact of rate hikes and the ability of the US Federal Reserve to achieve a soft landing without plunging the economy into a recession. The Federal Reserve's track record is terrible. In fact, they have not once succeeded in slowing job growth without causing a recession. That is a 0% success rate! This time around, they have factors like strong personal balance sheets and a robust services sector on their side, so perhaps they may put their first victory on the scoreboard.

It is going to be a bumpy ride, but the destination will be worth the journey.

- END –

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