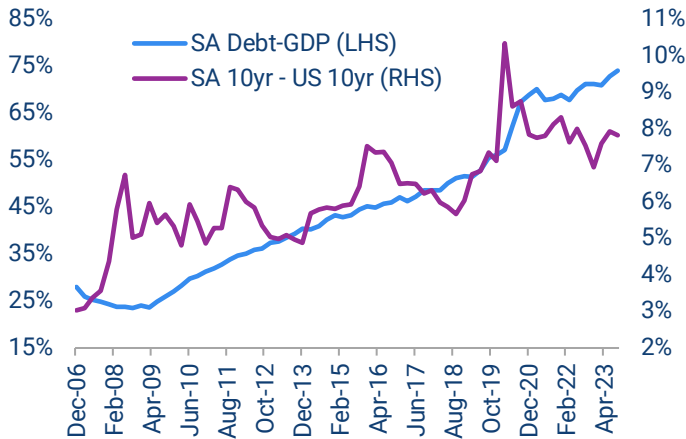


## Increasing SA debt leading to higher financing costs

SA Debt-to-GDP vs 10yr government spread to US Treasuries



Source: 10X Investments, Bloomberg

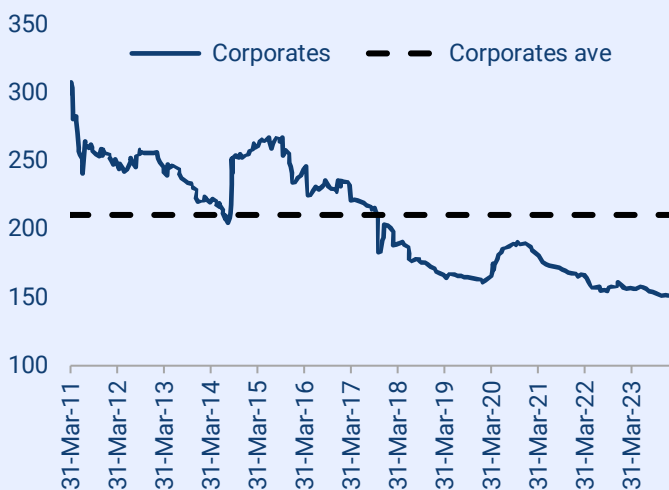
South Africa's government debt has tripled over the last 15+ years, rising from c.25% to c.75% of GDP. During this period, the cost of servicing the debt has also increased significantly as the sovereign risk premium, measured by the spread between SA and US 10-yr yields, has widened from 2.3% to 7.5%.

The level of debt together with the cost of debt is unsustainable and crowds out investment in both the public and private sectors. Debt service costs are expected to consume 21% of tax revenue this tax year.

The use of GFECRA has helped avoid additional debt issuance this year, but if deficit targets are missed, the government may need to issue more bonds, leading to even higher financing rates.

## SA credit spreads are tight

SA corporate credit spreads 2011 - 2024



Source: 10X Investments, RMB

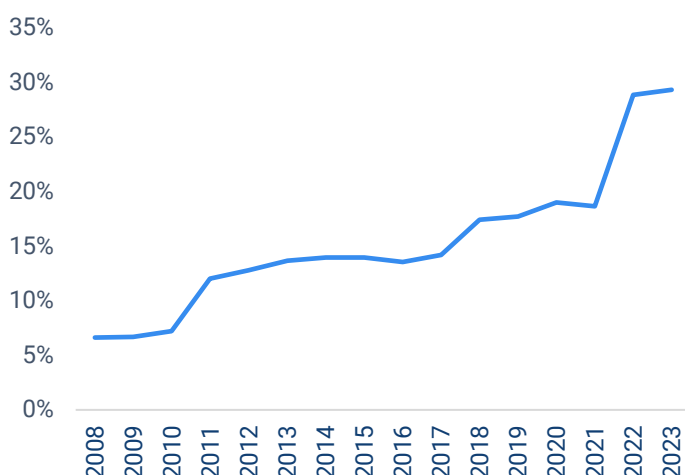
The weak economic environment and rising cost of debt has contributed to a decline in the supply of corporate debt as South African companies have limited profitable growth projects to fund.

At the same time, we have seen strong demand from large investors like income funds chasing the scarce supply, which has led to a continuous compression of credit spreads in South Africa over the past 13 years.

This distortion means that investors in South African credit are now receiving very little additional return for assuming the real risk of default. Despite recent concerns around default risk related to entities linked to Bridge Taxi Finance, this impact has not yet been reflected in the broader credit spreads. For us, SA credit represents unrewarded risk.

## US Equities have grown in importance for SA Investors

Effective US equity weight in Reg 28 portfolios 2008 -2023



Source: 10X Investments, MSCI and SARB

\*Assumes that 100% of offshore exposure is allocated to MSCI ACWI

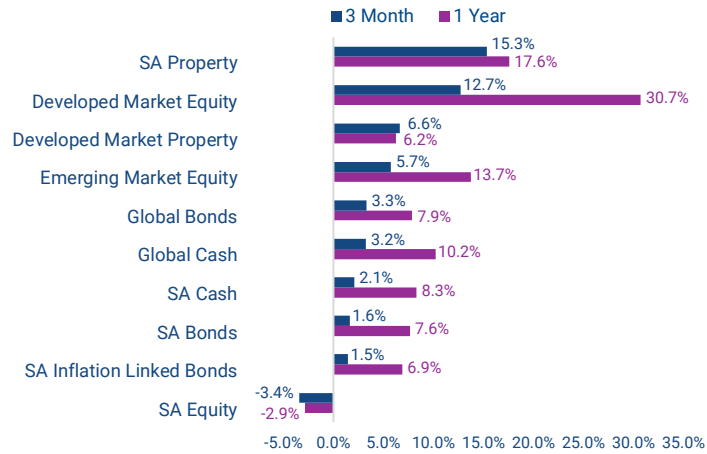
US equities have outperformed other major markets over the past 15 years. As a result, US exposure in global equity markets, as measured by the MSCI ACWI, has risen from 44% to 65% by the end of 2023.

During this same period, offshore limits associated with Regulation 28 have also increased from 15% to 45%. Assuming a full allocation to global equities, the effective US equity exposure has increased fivefold, from 6% to roughly 30%.

While this increased exposure has positively impacted portfolio performance over the past 15 years, investors should be aware of the increasing role this asset class has for SA retirement outcomes. Investors should think about managing the current risks around elevated US valuations and increased single stock risk (Mag 7).

## Asset class returns to 29 February 2024

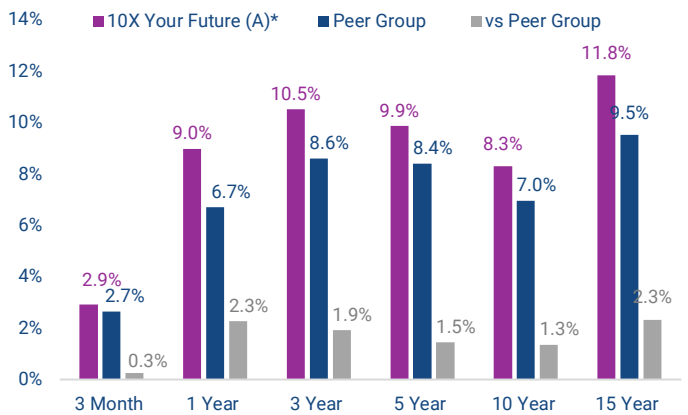
Strong returns over 3 months



Source: 10X Investments Bloomberg

## Portfolio returns to 29 February 2024

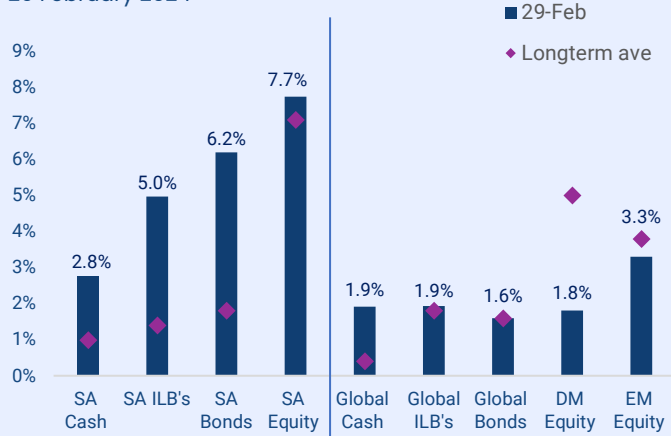
Consistent performance



Source: 10X Investments Morningstar, CPI lagged by 1 month; \* returns prior to March 2019 are those of 10X Umbrella Pension Fund adjusted for Class A fee

## 5-10 year expected asset class return

29 February 2024



Source: 10X Investments, Bloomberg

## Real (after-inflation) return expectations

SA bond yields increased over the month, tracking global yields higher as the SA Budget was digested.

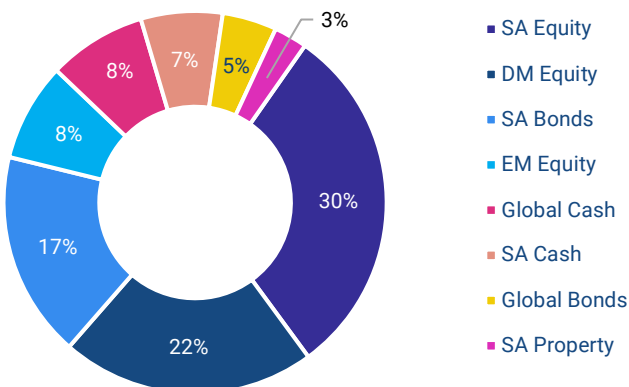
Off the back of these higher yields, SA bonds are providing very attractive real returns whilst global fixed income is around fair value.

Long-term SA equity valuations continue to de-rate in the face of higher real yields and are set to deliver returns in-line with long-term averages.

Strong DM Equity returns YTD have been driven by multiple expansion, reducing long-term expected return from this point.

## 10X Your Future Fund Asset Allocation

29 February 2024



Source: 10X Investment

## Asset Allocation

Rand weakness together with strong global equity returns has seen the global exposure increase to 43%.

On the back of strong performance driven by re-rating and deteriorating long-term return expectations we reduced our exposure to DM Equities.

Exposure to SA Equities continues to naturally reduce in the portfolio, given the poor relative performance from this asset class.

The portfolio remains defensively positioned with a high allocation to local and global cash.



**Anton Eser**  
Chief Investment Officer



**Chris Eddy**  
Head of Multi Asset Funds

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