



JANUARY 2023

Dear CRF Member,

Wishing you a successful and happy 2023! December 2022 was once again a “risk-off” month, with local equities as measured by the capped SWIX, dropping 2.8% while offshore equities (MSCI World) was down in US dollar and in Rand terms. Local asset classes in general performed better than their offshore equivalents during the month. The CILI index, which is a measure of local inflation-linked bonds, was the best-performing major asset class in December 2022. Given that the CRF In-Fund Pension portfolio has a high exposure to local inflation-linked bonds, it wasn’t surprising that the In-Fund Pension portfolio was the best performing CRF portfolio during the month. The returns of the major asset classes for the month of December 2022 are shown below:

	1 month	3 months	6 Months	1 year
SA Equity (Capped SWIX)	-2.8%	12.2%	9.5%	4.4%
SA Bonds (ALBI)	0.6%	5.7%	6.3%	4.3%
SA Property (ALPI)	1.1%	19.3%	15.1%	0.5%
SA Cash (STeFI)	0.6%	1.6%	3.0%	5.2%
SA Inflation Linked Bonds (CILI)	2.6%	2.0%	1.0%	4.3%
Global Equity (MSCI World (\$))	-4.2%	9.8%	3.0%	-18.1%
Global Equity (MSCI World (R))	-4.1%	3.9%	6.9%	-12.7%
Global Bonds (WGBI (\$))	-0.2%	3.8%	-4.1%	-18.3%
Global Bonds (WGBI (R))	-0.1%	-1.7%	-0.4%	-12.9%

The returns of the CRF portfolios (net of all fees) to the end of December 2022 were as follows:

Portfolio	1 month	3 months	6 months	1 year
CRF Aggressive Portfolio	-0.7%	7.8%	8.4%	4.3%
CRF Growth Portfolio	-0.4%	7.6%	8.2%	4.0%
CRF Moderate Portfolio	0.2%	4.7%	5.8%	4.6%
CRF In-Fund Pension Portfolio	1.9%	3.0%	2.4%	4.7%
CRF Money Market Portfolio	0.6%	2.0%	3.1%	4.5%
CRF Shari'ah Portfolio	-1.2%	3.9%	5.5%	-0.4%
CRF Children’s Benefit Portfolio	0.4%	4.5%	5.4%	5.1%

Inflation in key economies remains elevated, keeping central banks on a hiking path. The US Federal Reserve delivered its fifth consecutive interest rate hike on 14 December 2022. However, as widely expected, the US Fed hiked by a slower pace of 0.5% as opposed to a 0.75% hike. The ECB followed suit and hiked their interest rates by 0.5% in December. The US Fed statement was viewed as hawkish as Chairman Powell mentioned that rates would still have to move higher to keep inflation at bay. His comments were made despite consecutive downward surprises in US inflation.

The unknown is whether inflation has been subdued for good. Most of the declines in the headline numbers are due to falling goods inflation but services inflation continues to remain elevated. In the US, this is partly due to high rental inflation, which should peak and decline soon given the recent weakness in the housing market. The measure of core inflation is one that will be closely watched as it also removes the often highly volatile components of inflation, such as energy and food prices.

Equity market returns in December were negative in the US and Europe. In the US, the Fed's slower tightening pace was welcomed but the much hoped-for "pivot" to lower interest rates is nowhere near and worries about a possible recession have not dissipated. 2022 was a year when the world moved from crisis to crisis. The Russia-Ukraine war, geopolitical tensions, rapid inflation rises and rate hikes across most of the world were just some of the issues that investors had to contend with.

Locally, in the month of December 2022, the ANC National Conference dominated the headlines. While political tensions were high given the events surrounding the Phala Phala investigation, the outcome of the conference resulted in lower perceived political risk as uncertainty was reduced. However, the electricity crisis continued to worsen which is likely to severely impact economic growth.

Foreigners remained net sellers of both South African bonds and equities in December 2022. The Rand recovered after the politically-driven spike at the end of November 2022. Local businesses will need to adjust to the fact that severe electricity shortages have become a permanent feature of South Africa's operating environment. Despite the darkness of loadshedding, the FNB/BER Consumer Confidence Index (CCI) recovered during the fourth quarter of this year, beating market expectations. One of the few shares that were up in December 2022 was Naspers, which delivered a 6.83% return. This was largely due to the Naspers share buyback programme and positive sentiment towards Chinese equities including Tencent (which explains the bulk of Naspers' value). The change in sentiment was due to the Chinese government lifting exceptionally strict Covid-19 lockdown regulations and greater certainty regarding the regulation of the technology sector.

The 12 months of 2022 were disappointing for many South African investors, but where there are risks and crises, there are also opportunities. Local valuations continue to remain attractive. SA bonds offer investors strong prospective returns compared to history and relative to other markets, even after having outperformed global bond markets in 2022. The SA 10-year government bonds started 2023 with a yield of over 10%, which compensates investors in real terms (after inflation) for the elevated inflation and interest rate risk being experienced. SA equities are also presenting good buying opportunities as the FTSE/JSE Capped SWIX Index ended 2022 on a 12-month forward PE ratio well below its historic average. Within equities, some caution is still required to separate out companies with strong balance sheets, those that can pass on price increases to customers to protect their margins, and those that can benefit from higher interest rates, like banks.

In 2023, CRF will continue to be cognisant of the risks in the global economy and focus on the long term. CRF members should do the same and stick to their investment strategy but always seek professional advice before making drastic changes amidst a volatile environment.

Kind regards,



Mr Raymond Wentworth
Principal Executive Officer

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