



analytics

THE ART AND SCIENCE  
OF PORTFOLIO DESIGN

May 2020

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## Summary of market returns:

12 months ending May 2020:

- In ZAR the best returns came from Offshore Equities (28.34%), and Global Bonds (27.88%). SA Property fell by (-45.92%) over the last 12 months while the ALSI fell by (-5.96%).
- The primary Economic Sectors within South Africa delivered the following returns: SA Resources Index (13.39%) the Financials Index (-38.01%) and the Industrials Index (3.33%).
- The South African equity market performance was negative across all market caps, with Large caps falling by (-2.81%), and the Mid-cap and Small-cap sectors returning (-20.39 and (-30.88%) respectively.
- The positive bond market return in the last 12 months was driven primarily by the shorter term 3-7 and 1-3 year dated instruments which returned (12.88%) and (10.56%) respectively. Corporate bonds continue to outperform Government bonds over the last year.
- The MSCI SA Growth Index continues to outperform the Value Index by a significant margin, returning (15.43%) over the last 12 months, while the MSCI SA Value Index contracted by (-36.77%).
- Separating the FTSE/JSE All Share Index into its Industry Sectors reveals Technology as the top performing sector, which grew by (25.79%). Basic Materials grew by (13.92%) and Consumer Services contracted by a significant (-30.57%).
- Equity stock returns were mixed, with British American Tobacco returning (46.91%) while Absa Group Ltd fell by (-46.92%).
- The MSCI Emerging Market Index grew by (16.23%) in ZAR, outperforming the (-5.96%) drop of the ALSI. The S&P 500 Index returned (36.65%) in ZAR over the last 12 months.
- In ZAR terms the Commodity market exhibited varied returns with Gold growing by (61.25%), and Platinum growing by (33.36%) while Brent Crude Oil decreased by (-33.66%).



# Asset Class Performance

## Performance of Asset Classes in ZAR Currency

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	YTD
ALSI	0.31%	0.46%	-7.15%	-5.96%	-1.85%	1.33%	2.46%	-10.12%
Property	-0.76%	-32.64%	-46.08%	-45.92%	-28.24%	-21.61%	-11.38%	-44.94%
ALBI	7.01%	0.39%	3.43%	6.39%	7.07%	8.18%	7.71%	1.51%
Cash (STeFI)	0.52%	1.62%	3.37%	7.06%	7.18%	7.26%	7.23%	2.81%
MSCI ACWI NR USD	0.17%	11.99%	13.15%	27.68%	20.36%	15.88%	13.39%	14.53%
FTSE EPRA NAREIT Global REITs TR USD	-3.74%	-8.53%	-9.58%	-0.34%	12.24%	8.03%	8.48%	-5.01%
BBgBarc Global Aggregate TR USD	-3.58%	12.19%	23.53%	27.88%	23.10%	13.97%	11.23%	28.69%
ICE LIBOR 3 Month USD	-3.92%	12.63%	21.61%	23.92%	20.85%	12.47%	9.31%	27.22%

## Performance of Asset Classes in USD Currency

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	YTD
MSCI ACWI NR USD	4.35%	-0.07%	-5.96%	5.43%	2.01%	5.19%	5.29%	-9.16%
FTSE EPRA/NAREIT Global REITs TR USD	0.28%	-18.37%	-24.85%	-17.71%	-4.87%	-1.94%	0.72%	-24.66%
BBgBarc Global Aggregate TR USD	0.44%	0.12%	2.67%	5.59%	4.34%	3.46%	3.28%	2.08%
ICE LIBOR 3 Month USD	0.09%	0.51%	1.08%	2.33%	2.43%	2.09%	1.49%	0.91%

## Currencies

	Value at end 2020/05/31	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
Rand/Dollar	17.54	12.06%	20.31%	21.10%	17.98%	10.16%	7.70%
RAND/STERLING	21.67	8.47%	14.99%	18.79%	13.72%	8.59%	3.26%
RAND/EURO	19.49	13.48%	21.38%	20.89%	15.17%	9.77%	8.01%

## Offshore Market Indices in USD Currency

	1 Month	3 Months	6 Months	YTD	1 Year	3 Years	5 Years
MSCI ACWI NR USD	4.35%	-0.07%	-5.96%	-9.16%	5.42%	5.19%	5.28%
MSCI ACWI GR USD	4.41%	0.10%	-5.69%	-8.94%	5.96%	5.74%	5.85%
S&P 500 Composite TR USD	4.76%	3.59%	-2.10%	-4.97%	12.81%	10.23%	9.86%
FTSE 100 TR GBP	1.28%	-10.02%	-19.67%	-23.69%	-13.51%	-4.36%	-2.93%
FTSE Germany TR GBP	9.06%	-0.58%	-10.50%	-12.40%	-0.60%	-2.43%	1.12%
MSCI Hong Kong Value PR USD	-11.92%	-19.10%	-20.91%	-23.80%	-28.12%	-11.75%	-7.16%
MSCI World GR USD	4.90%	1.08%	-5.16%	-7.95%	7.35%	6.49%	6.44%
MSCI EM GR USD	0.79%	-6.88%	-9.57%	-15.90%	-4.02%	0.22%	1.25%
SSE Composite PR CNY	-1.58%	-3.13%	-2.34%	-8.84%	-4.93%	-4.41%	-11.70%
Nikkei 225 Average TR JPY	7.54%	4.56%	-3.41%	-5.77%	9.42%	6.74%	6.26%
FSE DAX TR EUR	8.34%	-1.32%	-11.69%	-13.34%	-1.37%	-3.15%	0.59%
Euronext Paris CAC 40 NR EUR	4.79%	-9.82%	-19.06%	-21.52%	-8.71%	-2.26%	1.22%
DJ Americas TR USD	5.20%	1.95%	-3.75%	-6.58%	9.97%	8.94%	8.54%



# Snapshot of Analytics FoF Performances

Morningstar Fund Returns (Percentage)							
2020/05/31	1 Month	3 Months	6 Months	YTD	1 Year	3 Years	5 Years
Analytics Ci Cautious FoF	0.70	2.19	1.83	1.37	5.34	5.34	5.97
CPI + 3%	0.58	2.37	3.75	3.41	6.85	7.25	7.86
Analytics Ci Moderate FoF	-0.10	1.57	-0.58	-1.39	2.78	3.67	4.46
CPI + 5%	0.74	2.84	4.71	4.20	8.85	9.25	9.86
Analytics Ci Balanced FoF	-0.59	1.68	-1.46	-2.67	1.60	2.44	3.31
CPI + 5%	0.74	2.84	4.71	4.20	8.85	9.25	9.86
Analytics Ci Managed Equity	0.14	-1.25	-7.70	-11.41	-6.15	-0.93	0.19
FTSE JSE All Share Index	0.31	0.46	-7.15	-10.12	-5.96	1.33	2.46
Analytics Ci Worldwide Flexible FoF	-1.68	6.73	8.08	9.20	14.23	9.69	8.56
CPI + 5%	0.74	2.84	4.71	4.20	8.85	9.25	9.86

Morningstar returns are based on a lump sum investment with all distributions invested on a nav-nav basis

Returns for 3 and 5 years are annualized

## Our partners:

### STANLIB

#### Stanlib Bond:

The portfolio is actively managed by Victor Mphaphuli. The investment in bonds is driven by a broad-based fundamental view. Short-term opportunities in liquidity and supply and demand changes are exploited to add value to portfolios. Duration deviations from the benchmark, credit and yield curve bets are their main focuses for adding value. The All Bond Index is the benchmark.

#### Stanlib Corporate Money Market:

The Fund has a AA+(Zaf) long-term rating from Fitch. The Fund invests predominantly in the major South African Registered Banking institutions and Foreign Banking institutions authorised to conduct business in South Africa, and which have appropriately sound credit ratings. South African registered institutions must have at least a national short-term credit rating that is defined as 'highest credit quality' (Fitch: F1). Maximum weighted average duration is 90 days.



*The Ci Property Index is a passive portfolio tracking the FTSE/JSE S.A. REIT Index.*

#### Ci Diversified Income:

**Investec Diversified Income** is an actively managed portfolio by Malcolm Charles and Peter Kent. It is an actively managed, well diversified fixed income portfolio with multiple sources of return. The Strategy may actively allocate between South African bonds, cash, credit, listed property and international fixed income assets including currencies, corporate and emerging market debt. International assets are currently limited to 25% of the portfolio.

**Prescient Income Provider** is an actively managed portfolio by the Fixed Interest team headed by Guy Toms. The Fund invests in cash, short-term and longer-term, high-quality capital market instruments, preference shares, property and international investments. The portfolio is managed actively and a number of quantitative techniques are used to generate returns, including duration management, yield enhancements via credit exposure and risk management strategies, where these strategies are designed to provide downside protection.



#### Global Equity:

Investec Global Franchise is an actively managed portfolio by Clyde Rossouw. By seeking an attractively valued portfolio of high quality businesses with superior investment characteristics they seek to create the conditions for attractive absolute returns at below average level of risk. Their research process is exclusively focused on seeking to identify companies that possess rare and exceptional characteristics with the best combination of quality, growth and yield. Cannacord Energy is an actively managed portfolio by Chris Colclough. This is a high conviction, bottom-up, focused direct equity offering selecting stocks from the Energy sector.



*The Ci Equity Index is a passive portfolio tracking the FTSE/JSE Shareholder-Weighted Index.*

**The Ci Engineered Equity Core is a multi-factor portfolio consisting of Value, Momentum and Quality components.**

**Coronation Equity** is an actively managed portfolio by Neville Chester. Coronation employs a common-sense, valuation driven investment process that identifies mispriced assets trading at discounts or premiums to their long-term business values.

**Investec Equity** is an actively managed portfolio by Chris Freund, Rhynhardt Roodt and Grant Irvine-Smith. Their distinctive philosophy of buying sustainable earnings revisions at a reasonable valuation has been the primary driver in delivering market-beating returns.



## Analytics Ci FoF Performance:

### **Funds of Funds Performance (A1-class used for commentary on performance for periods 5 years and shorter; and A-class used for periods longer than 5 years)**

- The Analytics Cautious FOF returned first quartile performance over the last year, second quartile performance over the last 3 years, first quartile performance over the last 5 years and second quartile performance over the last 10 years.
- The Analytics Moderate FOF returned second quartile performance over the last 1 and 3 years, first quartile performance over the last 5 years and second quartile performance over the last 10 years.
- The Analytics Balanced FOF returned second quartile performance for the last 1, 3, 5 and 10 years.
- The Analytics Managed Equity Fund returned second quartile performance for the last 1, 3, 5 and 10 years.
- The Analytics Worldwide Flexible FOF returned second quartile performance in the last year, first quartile performance over the last 3 and 5 years, and second quartile performance over the last 10 years.
- The Analytics International Flexible Fund returned second quartile performance for the last year and first quartile performance for the last 3 and 5 years.

### **Asset allocation added value in the last year:**

- Overweight Offshore Equity and SA Bonds added value.

### **Local Equity Performance added value in the last year:**

- Ninety One Equity and Coronation Equity both delivered first quartile performance for the last year.
- The Engineered Equity Core (smart beta component) delivered second quartile performance in the last year. The Ci Equity Index (passive component) delivered second quartile performance in the last year.

### **Local Property Performance detracted value in the last year:**

- The Ci Property Index fund will deliver comparable returns to the FTSE/JSE SA REIT Index, with any differences the result of cash flows and fees. Performance is expected to vary from year to year, but longer-term (3 years and more) performance should be consistently in the second and first quartile.

### **Local Fixed Income Performance added value in the last year:**

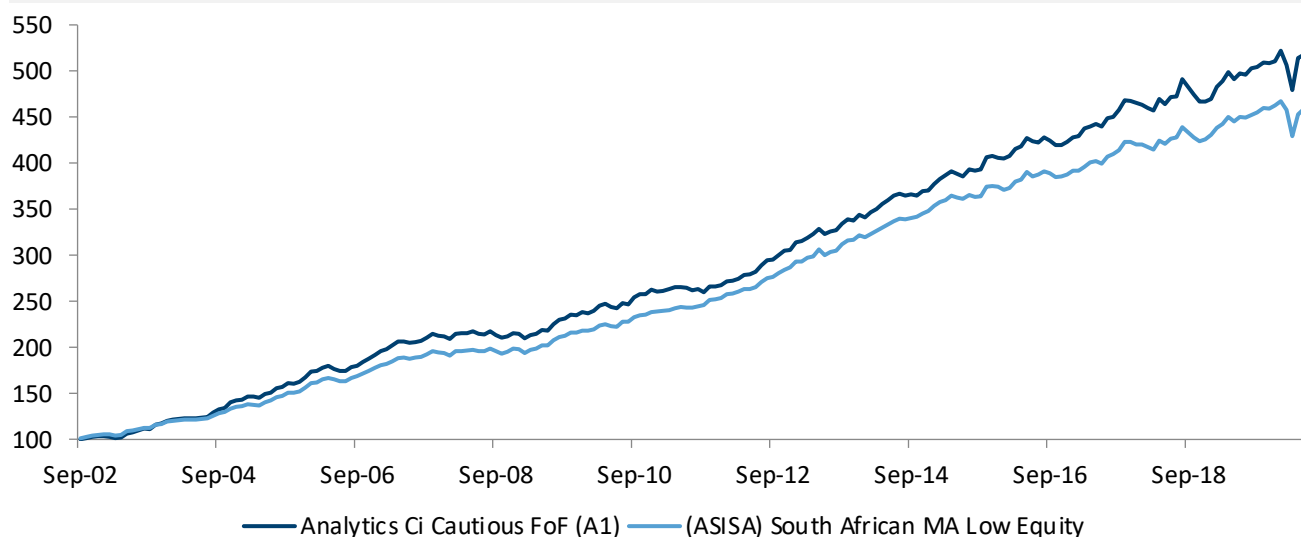
- Stanlib Bond returned first quartile performance for the last year. Longer-term the fund delivered first quartile performance in the last 3 and 5 years.
- The Ci Diversified Income Fund delivered first quartile performance for the last year, and the Prescient Income Provider Fund and Ninety One Diversified Income Fund delivered third and first quartile performance for the last year respectively.

### **International Performance added value in the last year:**

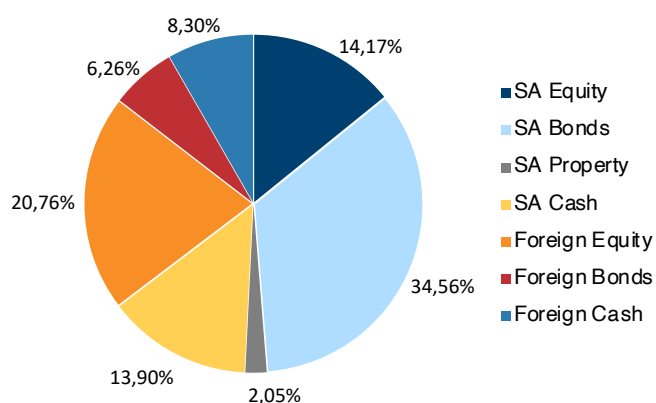
- The Analytics International Flexible Fund returned second quartile performance relative to its Global MA Flexible peers in the last year.
- Amongst the underlying managers, the Investec Global Franchise fund returned first quartile performance relative to its Global Equity peers.

# Analytics Ci Cautious Fund of Fund

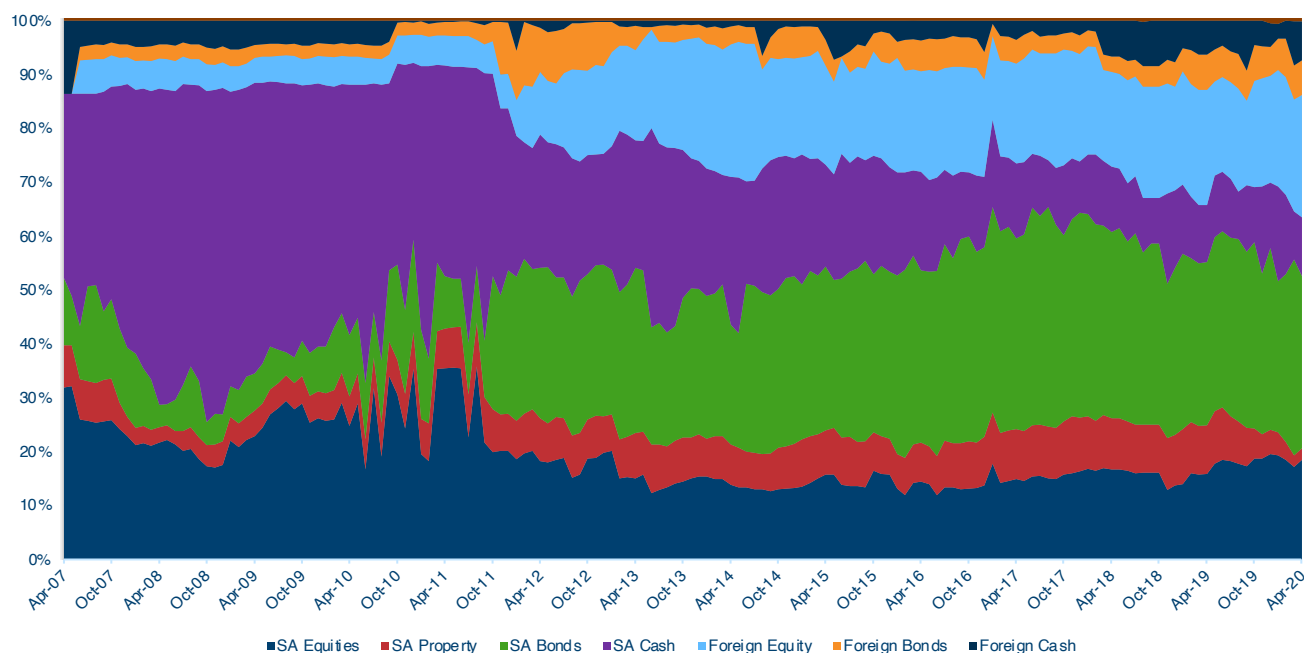
Period	Performance	Average	Out/Under
<b>YTD</b>	1.37%	-0.89%	2.26%
<b>1 Year</b>	5.34%	2.92%	2.42%
<b>3 Year</b>	5.34%	4.45%	0.89%
<b>5 Year</b>	5.97%	4.78%	1.19%



Analytics Ci Cautious Fund of Funds	
Top 10 Shares	
NASPERS	3.39%
VISA INC	1.47%
ANGLO AMERICAN PLC	1.32%
MICROSOFT CORP	1.31%
MOODY'S CORP	1.15%
VERISIGN INC	1.11%
BRITISH AMERICAN TOBACCO PLC	1.07%
JOHNSON & JOHNSON	0.97%
RECKITT BENCKISER GROUP PLC	0.88%
ROCHE HOLDING AG	0.83%



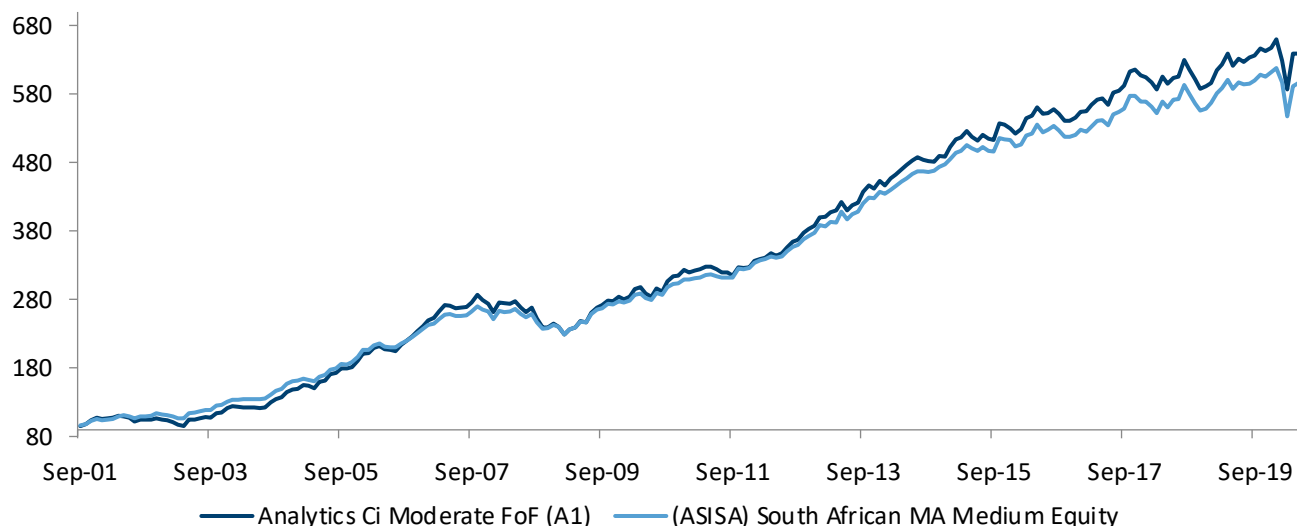
## Analytics Ci Cautious FOF: Asset Allocation



The following tables provide a snapshot of the returns on the Analytics Ci Funds as provided by independent data provider MORNINGSTAR as at the end of May 2020. The Class A1 units of the portfolios are used for all periods under 5 years, and the Class A units are used for all periods of 5 years and greater.

# Analytics Ci Moderate Fund of Fund

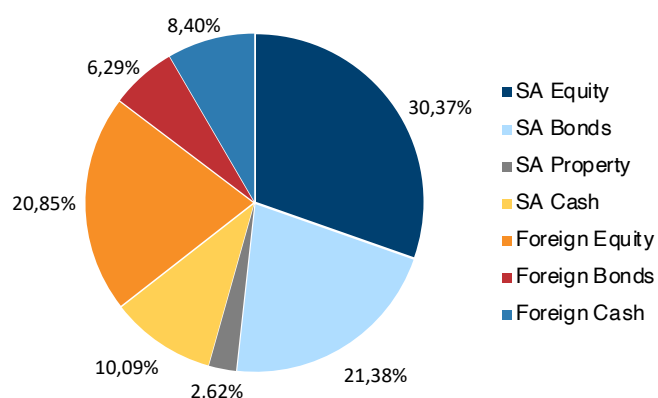
Period	Performance	Average	Out/Under
<b>YTD</b>	-1.39%	-2.49%	1.10%
<b>1 Year</b>	2.78%	1.53%	1.25%
<b>3 Year</b>	3.67%	3.26%	0.41%
<b>5 Year</b>	4.46%	3.57%	0.89%



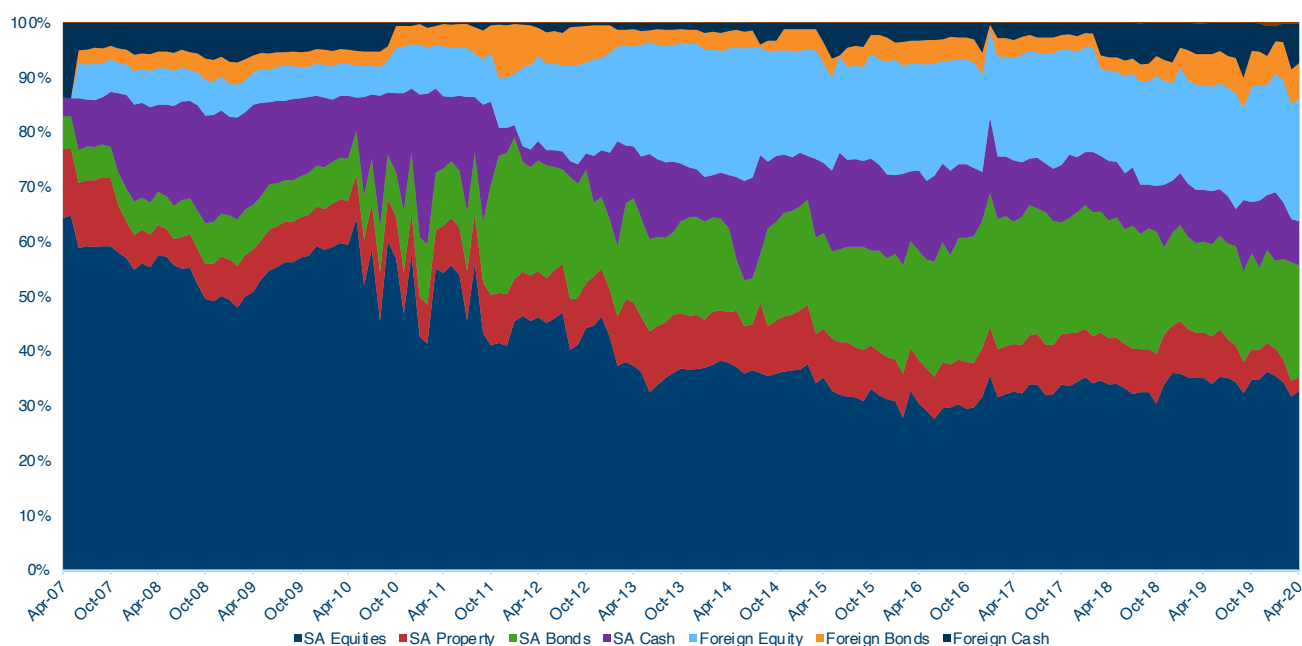
## Analytics Ci Moderate Fund of Funds

### Top 10 Shares

NASPERS	5.98%
ANGLO AMERICAN PLC	2.34%
BRITISH AMERICAN TOBACCO PLC	1.89%
PROSUS NV	1.47%
VISA INC	1.46%
STANDARD BANK GROUP LTD	1.32%
MICROSOFT CORP	1.30%
BHP GROUP PLC	1.26%
IMPALA PLATINUM HOLDINGS LTD	1.17%
MOODY'S CORP	1.14%



## Analytics Ci Moderate FOF: Asset Allocation

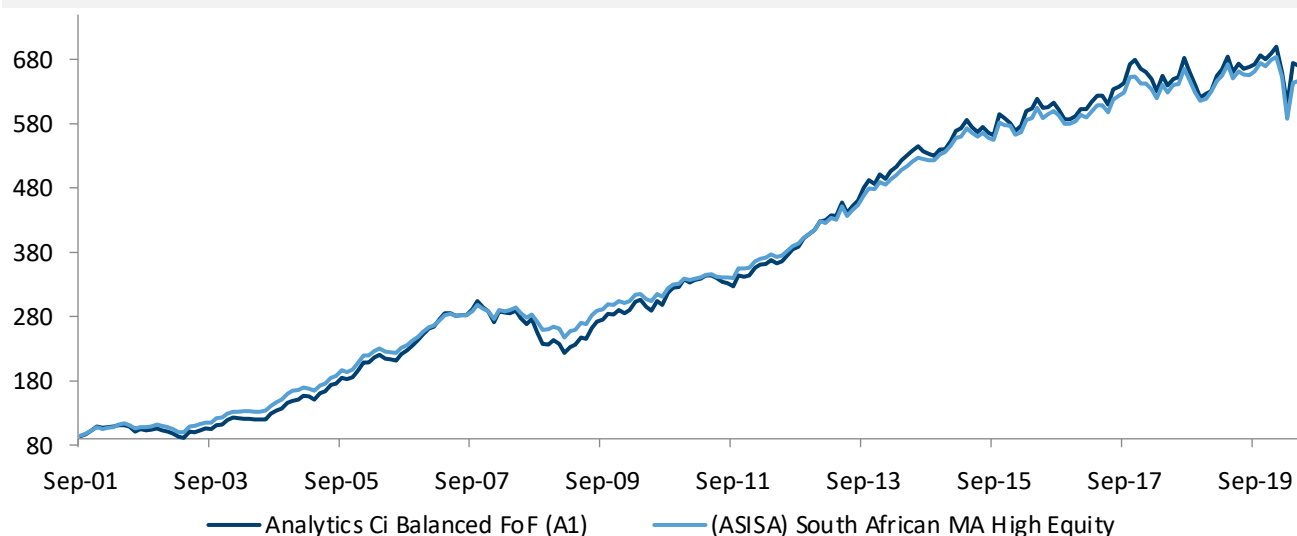


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# Analytics Ci Balanced Fund of Fund

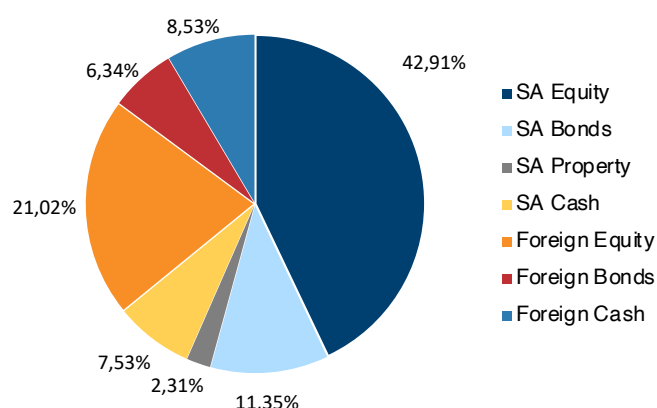
Period	Performance	Average	Out/Under
<b>YTD</b>	-2.67%	-4.80%	2.13%
<b>1 Year</b>	1.60%	-0.71%	2.31%
<b>3 Year</b>	2.44%	1.97%	0.47%
<b>5 Year</b>	3.31%	2.68%	0.63%



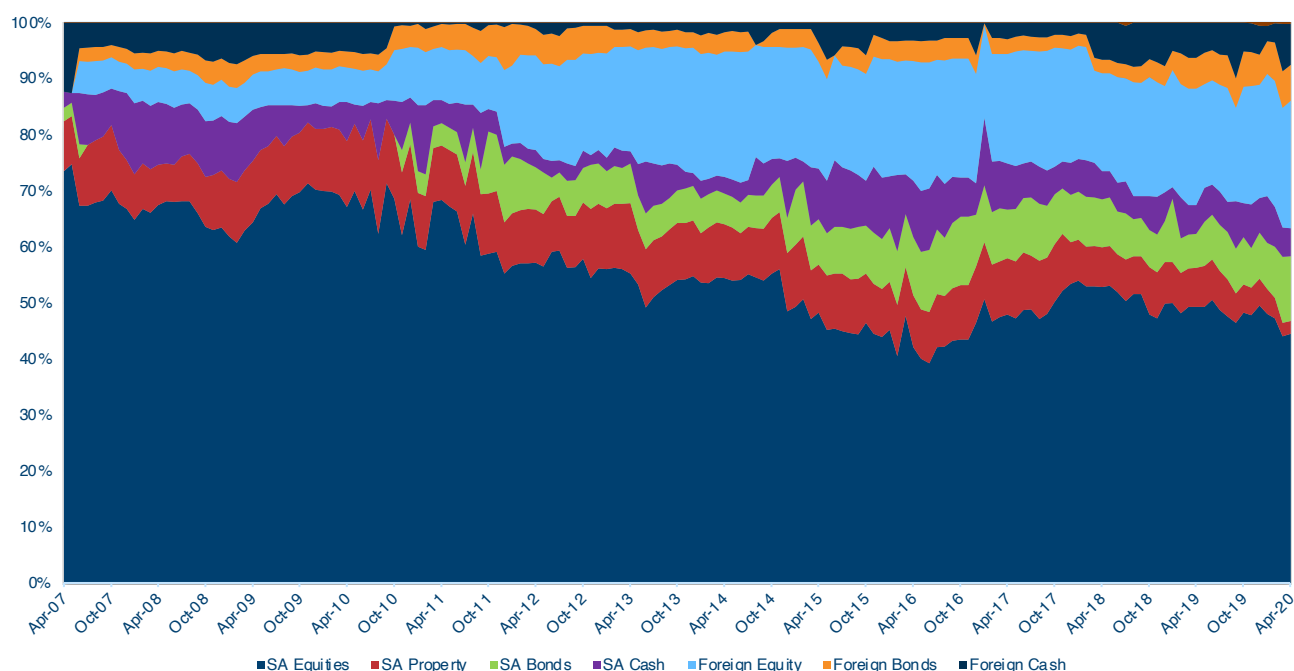
## Analytics Ci Balanced Fund of Funds

### Top 10 Shares

NASPERS	8.13%
ANGLO AMERICAN PLC	3.17%
BRITISH AMERICAN TOBACCO PLC	2.56%
PROSUS NV	1.99%
STANDARD BANK GROUP LTD	1.79%
BHP GROUP PLC	1.72%
IMPALA PLATINUM HOLDINGS LTD	1.59%
VISA INC	1.47%
ANGLOGOLD ASHANTI LTD	1.47%
MICROSOFT CORP	1.31%



## Analytics Ci Balanced FOF: Asset Allocation

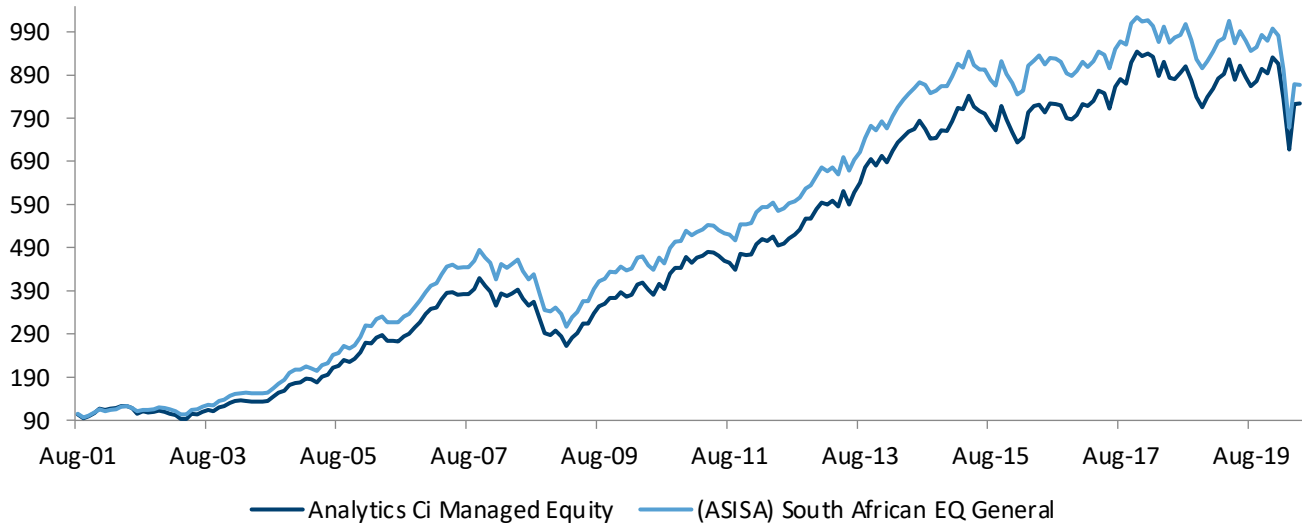


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# Analytics Ci Managed Equity Fund

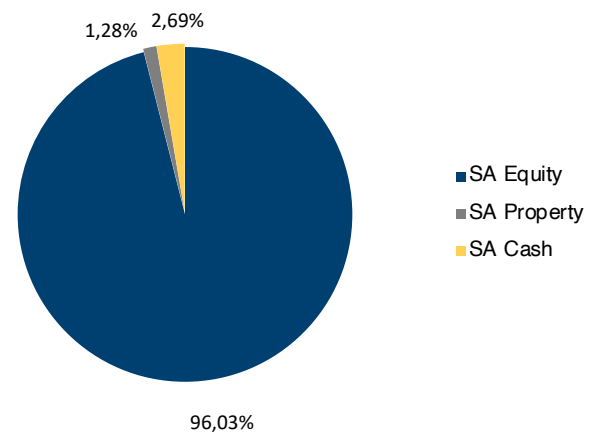
Period	Performance	Average	Out/Under
<b>YTD</b>	-11.41%	-13.08%	1.67%
<b>1 Year</b>	-6.15%	-10.08%	3.93%
<b>3 Year</b>	-0.93%	-2.57%	1.64%
<b>5 Year</b>	0.19%	-1.04%	1.23%



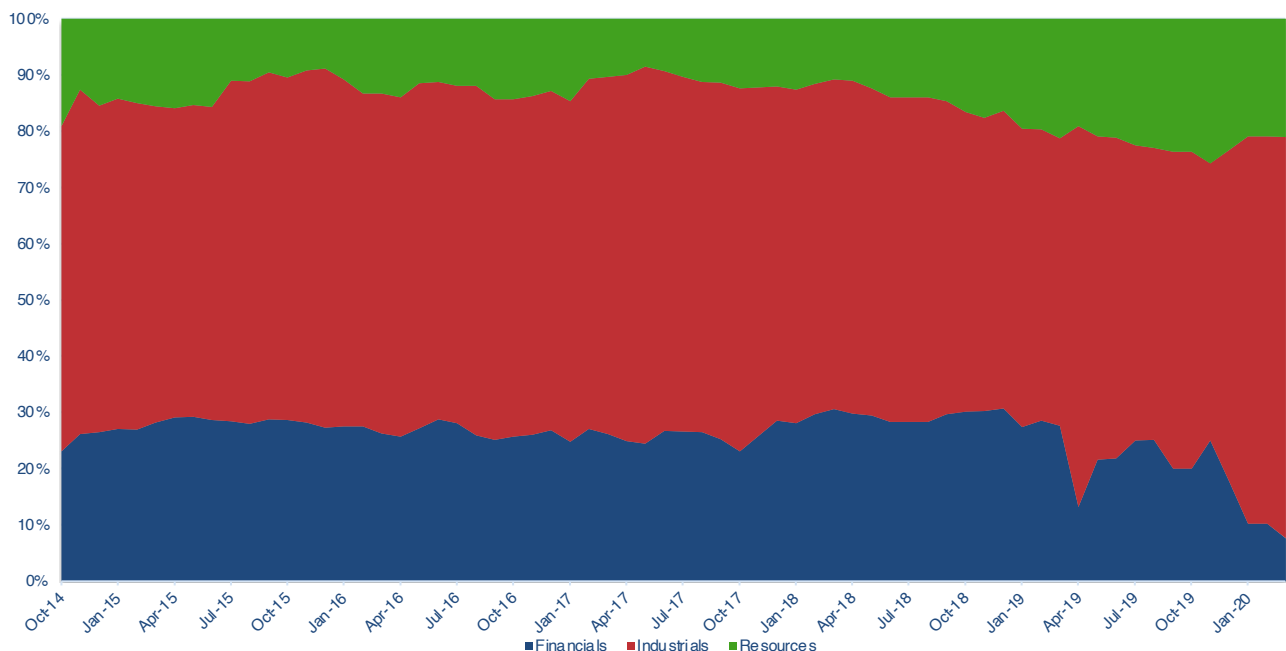
## Analytics Ci Managed Equity Fund

### Top 10 Shares

NASPERS	17.53%
ANGLO AMERICAN PLC	6.84%
BRITISH AMERICAN TOBACCO PLC	5.52%
PROSUS NV	4.29%
STANDARD BANK GROUP LTD	3.86%
BHP GROUP PLC	3.70%
IMPALA PLATINUM HOLDINGS LTD	3.43%
ANGLOGOLD ASHANTI LTD	3.16%
COMPAGNIE FINANCIERE RICHEMONT SA	2.47%
GOLD FIELDS LTD	2.34%



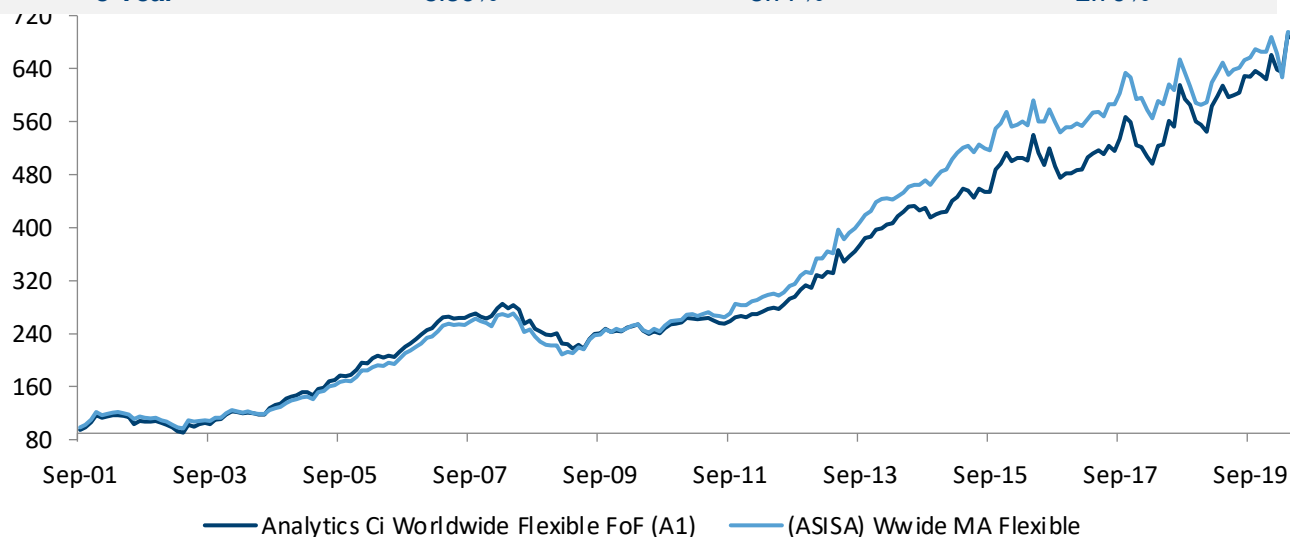
## Analytics Ci Managed Equity FOF: Asset Allocation



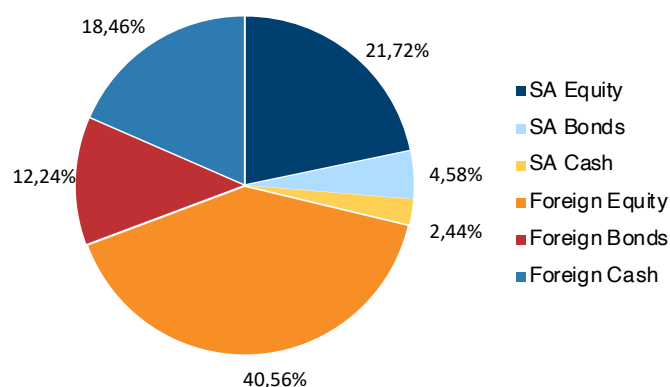
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# Analytics Ci Worldwide Flexible Fund of Funds

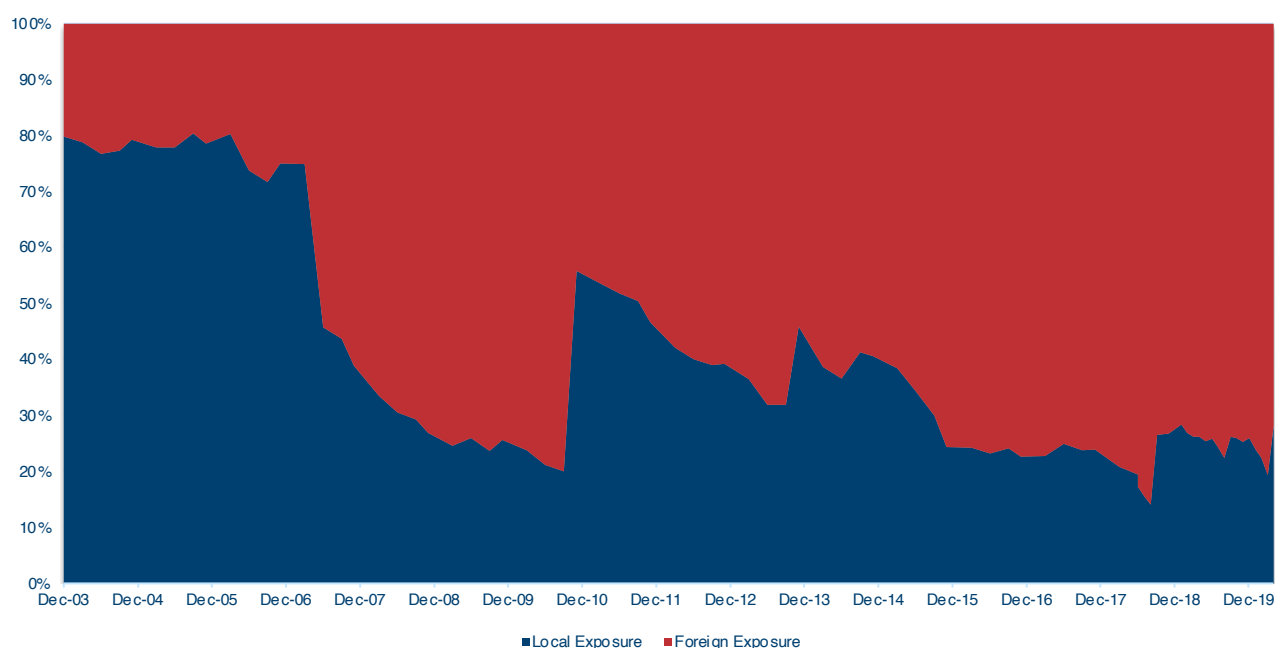
Period	Performance	Average	Out/Under
<b>YTD</b>	9.20%	4.08%	5.13%
<b>1 Year</b>	14.23%	9.87%	4.36%
<b>3 Year</b>	9.69%	6.44%	3.25%
<b>5 Year</b>	8.56%	5.77%	2.79%



Analytics Ci Worldwide Flexible FoF	
Top 10 Shares	
NASPERS	3.89%
VISA INC	2.80%
MICROSOFT CORP	2.50%
MOODY'S CORP	2.19%
VERISIGN INC	2.12%
JOHNSON & JOHNSON	1.85%
RECKITT BENCKISER GROUP PLC	1.68%
ROCHE HOLDING AG	1.58%
NESTLE SA	1.57%
ANGLO AMERICAN PLC	1.52%



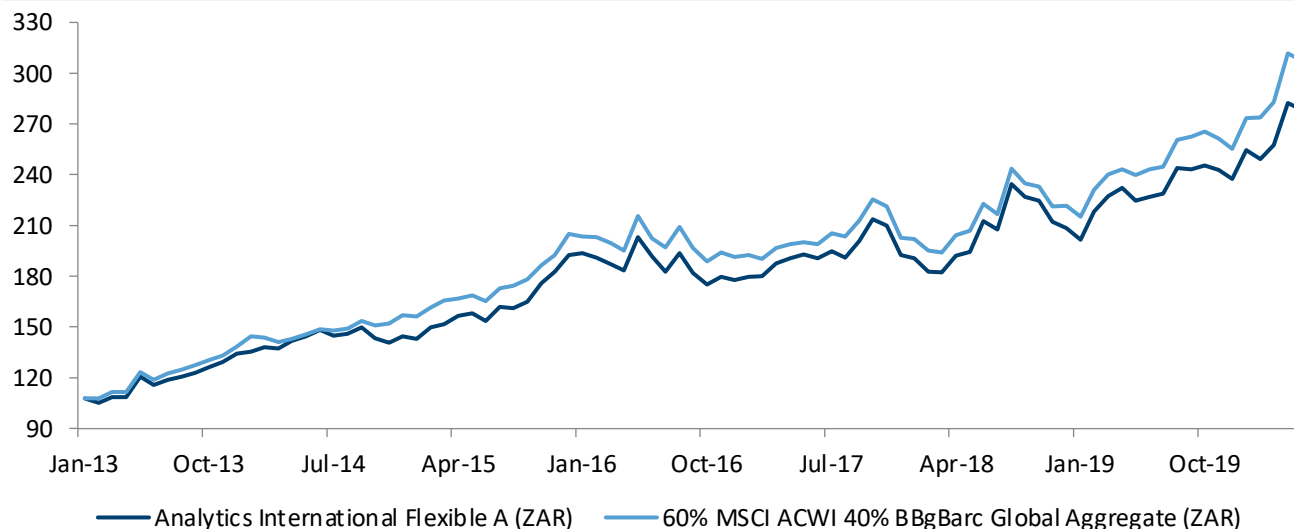
## Analytics Ci Worldwide Flexible FOF: Asset Allocation



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# Analytics International Fund

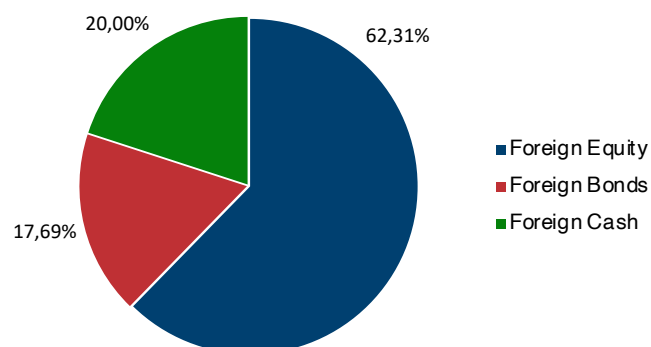
Period	Performance	Average	Out/Under
<b>YTD</b>	17.24%	21.36%	-4.12%
<b>1 Year</b>	23.89%	29.25%	-5.36%
<b>3 Year</b>	13.05%	13.30%	-0.25%
<b>5 Year</b>	12.01%	13.30%	-1.29%



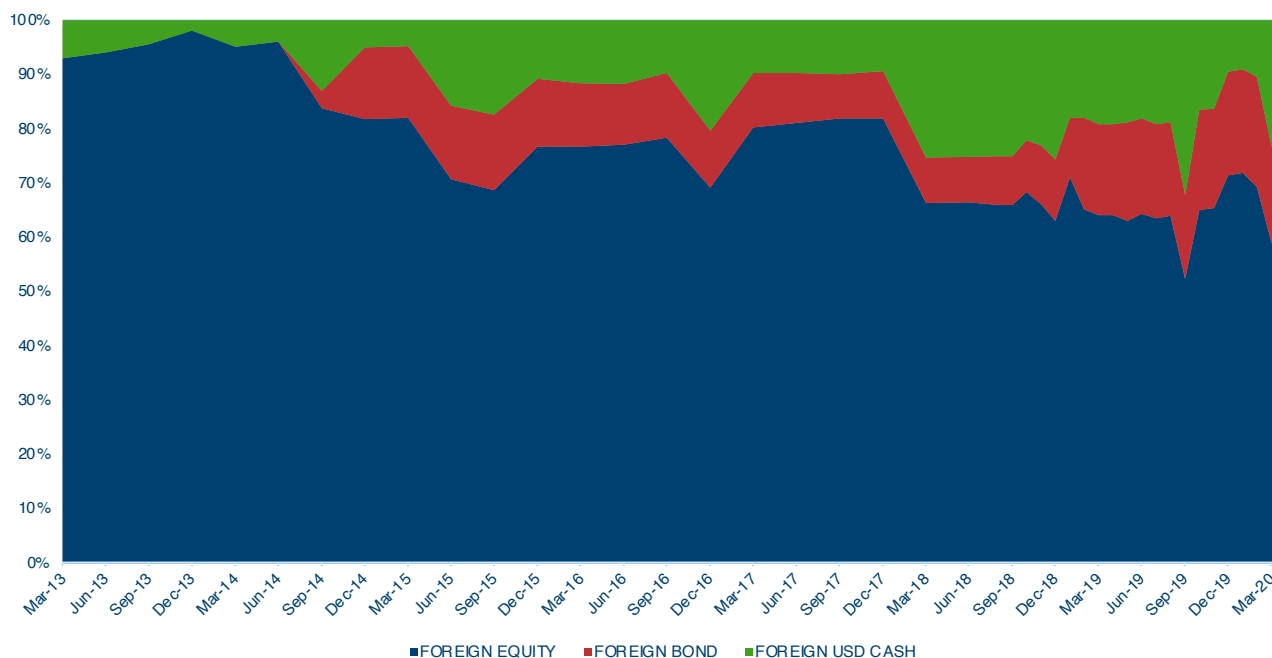
## Analytics International Fund

### Top 10 Shares

VISA INC-CLASS A SHARES	4.29%
MICROSOFT CORP	3.58%
MOODY'S CORP	3.37%
VERISIGN INC	3.11%
NESTLE SA-REG /CHF/	2.25%
ROCHE HOLDING AG-GENUSSC /CHF/	2.22%
JOHNSON & JOHNSON	2.11%
BOOKING HOLDINGS INC	2.02%
INTUIT INC	1.95%
ASML HOLDING NV /EUR/	1.79%



## Analytics International Flexible Fund: Asset Allocation



The following tables provide a snapshot of the returns on the Analytics Ci Funds as provided by independent data provider MORNINGSTAR as at the end of May 2020. The Class A1 units of the portfolios are used for all periods under 5 years, and the Class A units are used for all periods of 5 years and greater.



# ECONOMIC AND MARKET OVERVIEW

analytics

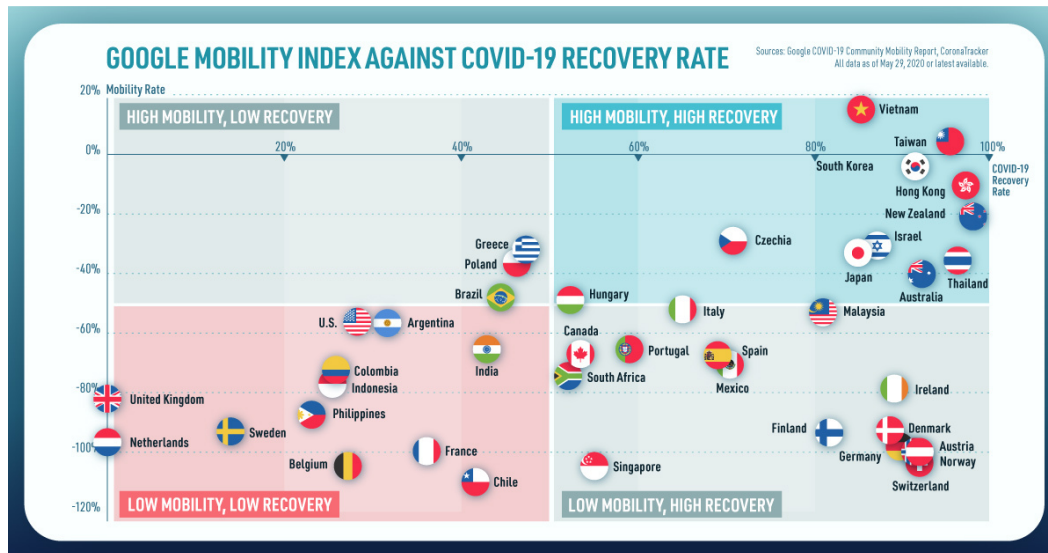
June 2020

## Global

As the exponential spread of Covid-19 around the globe started to slow down in many territories, the world's focus moved to the opening up of economies.

Investment markets recovered strongly post their March lows, however if the global economy does not return to some semblance of normal activity it may be the cue for another down-leg in what could become a prolonged bear market.

In a recent Covid-19 report, Google demonstrated how economies around the world are opening based on two metrics: a mobility index and a Covid-19 recovery rate. The mobility index measures people's movements as a deviation from the baseline (being at home) while the recovery rate calculates the number of recovered cases divided by the total number of identified Covid-19 cases in a country. The higher the mobility rate, the more economic activity it signifies:



Source: Google Covid-19 Community Mobility Report, CoronaTracker (as at 29 May 2020)

The latest forecasts for the expected decline in global economic output is now well over 4%. If this contraction is not followed by a strong recovery in 2021 investment markets may not yet be out of the woods.

The good news is that most governments are pulling out all the (fiscal and/or monetary) stops to kickstart their economies again. As such, companies that are able to weather this storm should have a number of tailwinds in their favour in the second half of the year.

Recent data also shows that US consumer confidence improved in May. Stanlib reports that there is increasing evidence, particularly over the past two weeks, that the US economy is starting to recover – albeit at a modest pace. This improvement in activity is reflected in an increase in airline passengers, a rise in gasoline consumption, and an upward trend in mobility data.

...it may be the cue for another down-leg...

...the MPC may consider **one or two more rate cuts** before the end of the year.

The Rand steadied itself after much weakness and **ended the month around 5% stronger** against the US Dollar

... from one recognised index in 1884 to nearly **3 million** today.

The **market capitalisation** of South African listed ETFs now **exceeds R100 billion...**

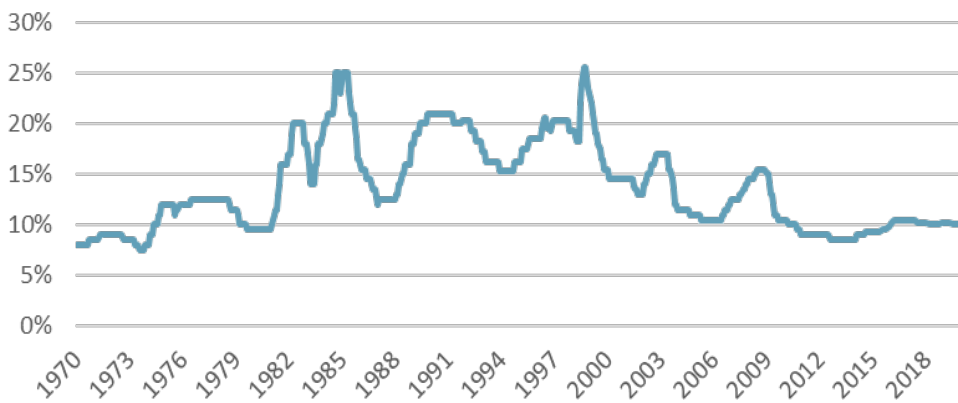
In the world's second largest economy there is also reason for optimism. China's official manufacturing Purchasing Managers' Index (PMI) remained above the neutral 50-point level in May, suggesting that manufacturing continues to expand as China returns to normal activity. However, this was at a slower pace amid some domestic and global challenges.

## South Africa

The South African Reserve Bank's Monetary Policy Committee (MPC) announced a reduction of 0.50% in the repurchase rate, taking it to 3.75% and the prime lending rate to 7.25%.

This brings the prime rate to levels last seen in the early seventies as the graph below illustrates:

South African Prime Overdraft Rate



Source: South African Reserve Bank

The economic outlook for South Africa, however, remains bleak. The Reserve Bank's forecasted economic contraction for 2020 is now 7%, which indicates an erosion in the real growth in the local economy since 2014. The bank expects some of the lost ground to be made up in 2021 and 2022, but it will take an extraordinary effort from government, corporates, labour and consumers to set South Africa on the growth path that's required to address ever increasing unemployment and greater inequality.

The silver lining is that inflation is likely to remain low for some time: 3.4% this year and below 4.5% to the end of 2022. Against this backdrop the MPC may consider one or two more cuts of 0.25% each before the end of the year.

## Market Performance

Tantalum Capital reports that global risk appetite continued to rebound in May. On balance, markets took their cue from the more optimistic outlook with regards to the Covid-19 pandemic and the wave of easy money on the back of the various fiscal stimulus packages. The MSCI World (all Country) index rose by 4.4% (in USD) in May, with US Equities (measured by the S&P 500) came to within 10% of it's high in February.

In their monthly market overview, Visio Capital noted that domestic bonds had their best month since July 2008 and now have fully recovered March's losses as the South African Reserve Bank cut the repo rate to an all-time low, continuing the disinflationary trend. The strong equity market rally of April fizzled out to a large extent as investors digested the weak and increasingly uncertain outlook for company earnings. Domestically focused sectors such as financials and consumer goods and services remain out of favour despite government's effort to provide relief to consumers.

The property sector, having lost its appeal as a "certain" income generator, continues to suffer from its equity-like volatility making the asset class, for now, unsuitable for income funds.

The Rand steadied itself after much weakness and ended the month around 5% stronger against the US Dollar. The JSE All Share Index returned 0.3%, with Financials down 4.7%. Industrial shares shed 1.6% for the month, but Resources helped the All Share index into positive territory as they gained 5.6% in May.

Lastly the oil price also showed signs of recovery and gained over 33% last month as the global economy began to open. This led to fuel price increases in South Africa after two months of significant reductions.

MARKET INDICES <sup>1</sup> (All returns in Rand)	31 May 2020		
	3 months	12 months	5 years
SA equities (JSE All Share Index)	0.5%	-6.0%	2.5%
SA property (S&P SA Reit Index)	-37.6%	-53.0%	-12.2%
SA bonds (SA All Bond Index)	0.4%	6.4%	7.7%
SA cash (STeFI)	1.6%	7.1%	7.2%
Global developed equities (MSCI World Index)	13.3%	30.0%	14.6%
Emerging market equities (MSCI Emerging Market Index)	4.4%	16.2%	9.0%
Global bonds (Barclays Global Aggregate)	12.2%	27.9%	11.2%
Rand/dollar <sup>2</sup>	12.1%	21.1%	7.7%
Rand/sterling	8.5%	18.8%	3.3%
Rand/euro	13.5%	20.9%	8.0%
Gold Price (USD)	11.0%	33.0%	7.9%
Oil Price (Brent Crude, USD)	-30.1%	-45.2%	-11.6%

1. Source: Factset

2. A negative number implies fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

## Commentary – The misery of choice

In recent years the debate about active versus passive management has featured in almost every investment conference worth attending. The active managers talk about their ability to make a judgement call and manage risk during market downturns while advocates of passive investing talk about lower fees, rationality and the historical inability of the average active manager to beat the index or benchmark. More recently “smart beta” or “factor” investors have joined the party with the best of both worlds (their words, not mine...) as they combine different investment themes or strategies with methodical and formula-driven stock selection, all at a price lower than active managers. A consequence of all the research that’s gone into this area of investments is that the number of indices used by active managers (to measure their performance), passive managers (to track a market capitalisation index) and factor investors (to create a rule for anything in-between) has ballooned: from one recognised index in 1884 to nearly 3 million today.

According to a recent Citywire article by James Phillips, The Dow Jones Industrial Average (DJIA) is regularly cited as the granddaddy of all benchmarks. Introduced in 1896, it was actually launched 12 years after its sister index, the Dow Jones Transportation Average. Set up by Charles Dow, who was also the co-founder of The Wall Street Journal, it was designed to provide consistent price data on the blue chips of the day. Initially comprising nine railroad stocks, along with Western Union and the Pacific Mail Steamship Company, it very much reflected the underlying economy of the time but was soon overtaken by the DJIA as the most-quoted index when manufacturing became all-powerful in the US economy.

More and more formalised regional equity benchmarks began springing up around the world, with the FT 30 index – a forerunner to the FTSE 100 – launched in the UK in 1935. Its constituents also provided a snapshot of what was powering the country at the time. Stuffed full of heavy industry, such as coal, rubber and steel, it was designed to ‘test the feel and changing moods of the equity market’, with the number of members capped in part so its value could be calculated manually and published every 15 minutes.

Comparing indices proved very difficult right from the start. The Dow, for example, was constructed using a price-weighted methodology, which ranked companies by the cost of their individual shares, rather than the firm’s overall worth, while the FT 30’s components were equal-weighted, with the constituents of both selected by committee. The highly concentrated nature of these early indices and the idiosyncrasies in their calculation limited their usefulness as benchmarks.

The introduction of the S&P 500 index in 1957 provided a much deeper and more diversified market cap-weighted universe of stocks that could truly be used as a benchmark. The FTSE All-Share followed in 1962. As investors grew evermore sophisticated so too did their requirements. New indices were established at home and abroad, with the MSCI World index introduced in 1969, opening up global equities to a new audience, while 1984 saw the FTSE 100 launched to provide a UK index with greater breadth, and the Russell 2000 in the US, the first American small-cap index.

Today, benchmarks (and the investment recipes for passive investments) are ubiquitous. There are indices covering every possible investment, whether you are allocating money according to your religious beliefs, geographical preferences or desire to gain exposure to the hottest new areas, such as robotics or medicinal cannabis.

At the last count, there were 2.96 million investment indices worldwide, according to the New York-based Index Industry Association, and many expect that number to only rise from here.

The exponential growth in the gauges used to measure investments is very much a recent phenomenon which mushroomed over the last two decades, as pointed out by David Barron, head of index equity and factor-based investing at Legal & General Investment Management. He believes the drivers were twofold: the emergence of exchange-traded funds (ETFs) at the turn of the century and the wider adoption of passive investment strategies as fee pressures and concerns about active managers' ability to deliver consistent outperformance grew.

'The proliferation of benchmarks has been massive. We've seen an explosion in strategies since the mid-2000s and that really ramped up when we passed through the financial crisis in 2008,' Barron says.

'Because everything went down so much, people started looking at what they were paying for that return and moving their core exposure into passives – with a much lower fee – on the equity and fixed income side. It was also a catalyst for them to look beyond the traditional market cap-weighted indices at alternative strategies, with indices being used more as solutions rather than just as benchmarks.'

Total assets in ETFs ballooned from around \$800bn in 2008 to over \$5.4tn at the end of March 2020, underlining the size of the wall of money that moved into passive or rules-based investment strategies. This saw the creation of a myriad of new benchmarks for fixed income, an area that initially lagged in passive take-up, as investors sought increasingly specific mandates to target their exposure, whether by credit, issuer or geography.

At the same time, the rise of smart beta and factor-based products, which now hold \$680bn, saw a whole industry emerge in creating new approaches to diversifying exposures, all requiring new underlying benchmarks.

South African investors took longer to warm up to the idea of passive investing but in recent years these products have started to appear in most investment portfolios. The success of the Satrix range of exchange traded funds has opened the door for many more providers of passive investments to follow suit. The market capitalisation of South African listed ETFs now exceeds R100 billion – a fourfold increase since 2009. Add to this another estimated R50 billion in index funds and it's starting to become a sizable industry. It is, however, still very small compared to the total savings industry of over R6 trillion.

Against the backdrop of a rapidly expanding passive investment industry the question, of course, remains which strategy (i.e. index) should an investor choose? Soon there will be more than 3 million indices. This is almost 5 times more than the number of exchange listed stocks around the world. Just as passive managers are able to find an index that outperforms most active strategies so active managers can find an index that they can consistently beat.

What is the secret to investment success with so much choice? Know what you're investing in and pay the right price for it. It may just be a sensible combination of the above. And if you don't know? Ask your financial adviser. It will be worth it.





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Trustee - FirstRand Bank (0)87 736 1732

FSP - Analytics Consulting Tel: (011) 463-9600 Fax: (011) 463-8279. Website: [www.analytics.co.za](http://www.analytics.co.za)