September 2019

LOCAL HIGHLIGHTS & LOWLIGHTS

- A slight uptick in global risk appetite is positive news for South Africa.
- Moody's signalled that it may not downgrade local sovereign debt.
- Public revolt against gender based violence.
- Mixed bag of company results, retailers across the board indicate difficult local market conditions.

GLOBAL EVENTS OF NOTE

- USA and China trade war temporary standstill, trade talks on the horizon, but Trump unpredictable.
- With risk off the table for now international buyers are seeking yield and buying South African bonds again after being net sellers.
- Brexit terms very uncertain under Boris Johnson, who is facing a revolt in his own party.

**Rand/$** recovery (1m view, R14.76/$ @11 Sept)

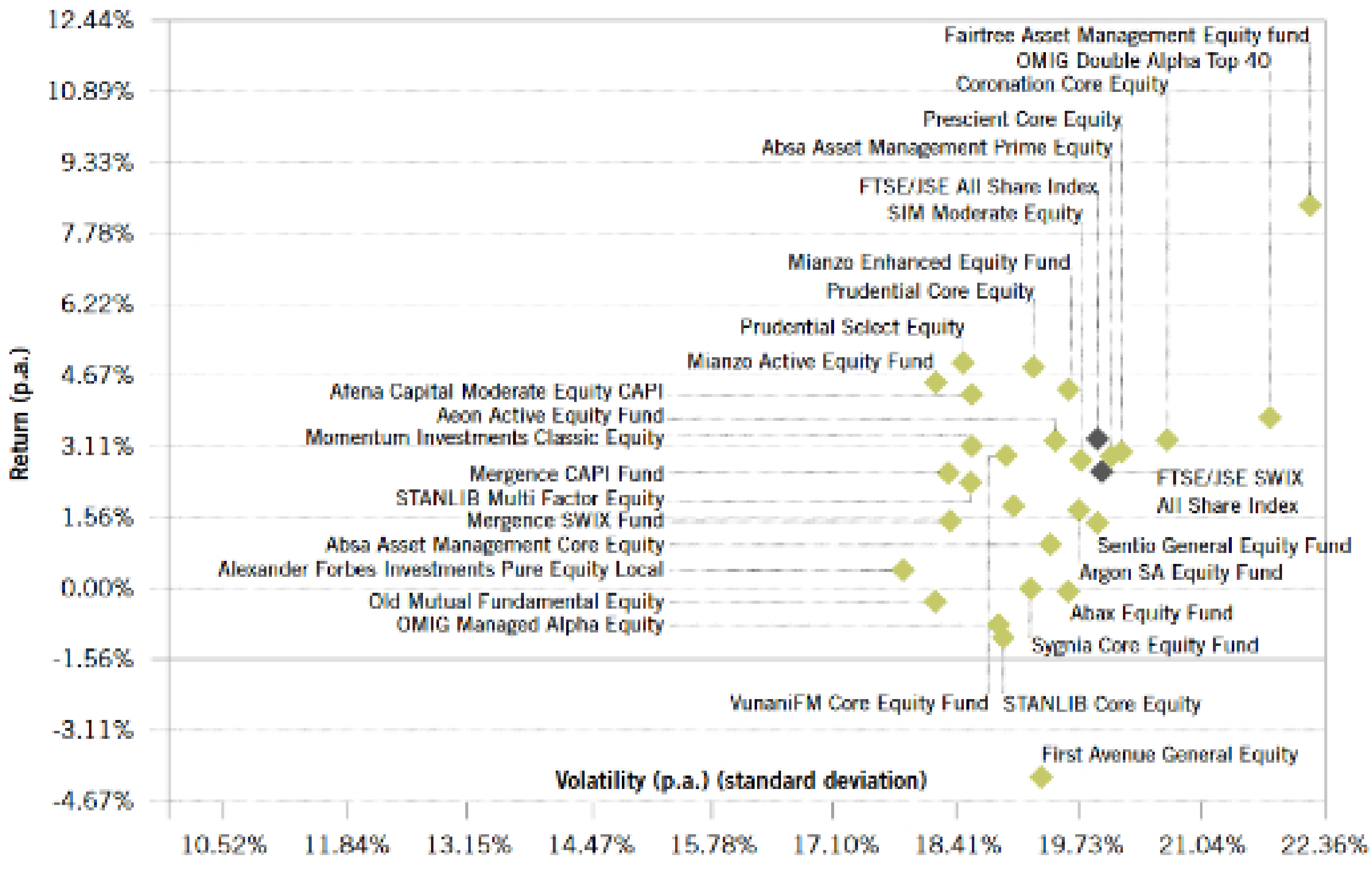
JSE AllShare: 55,523 (from 51,264 2 Jan '19)
(Data: Google currency, Bloomberg)

FOCUSED COMMENTARY: Benchmarks and equity unit trusts

Equity Unit Trusts (an investment fund that contains only shares) are a popular and well-known investment option in South Africa for people who want exposure to shares. Investors can either buy a fund that 'mimics' a particular index, or they can get exposure to a well-known investment manager or -team's expertise where the managers make calls on positions. These 'calls on positions' range from overweighting or underweighting a share relative to the weight in the index, or the manager can manage a fully active fund where they only invest in funds that offer value in their opinion.

Unit trusts adhere to specific regulations in South Africa, and these regulations specify that, among other things, each Unit Trust must have a benchmark. The benchmarks range from the well known AllShare Index, to the SWIX that was introduced in 2004, and more recently that managers say they intend to beat the average manager in their peer group. The left graph shows the benchmark-aware managers' performance over the tough 2016-2018 period (Source: Alexander Forbes Annual Manager Watch Survey), while the right graphs shows the rolling 12 month performance of the AllShare Index using 2014 to current data:

Benchmark cognisant SA Equity Managers (3 years ended 31 Dec 2018):



Rolling 12m JSE performance (IRESS data)

The graphs show the following: (i) The market-indices/benchmarks only delivered roughly 3% over the 3y investment window; (ii) Only a few of the benchmark cognisant managers actually beat the two featured benchmarks; (iii) While returns can be high the predictability of when it will happen can be unpredictable; (iv) Capital loss when investing in equities over the short term is a real possibility; and (v) the >17% level of volatility shows the unpredictability of the path the returns followed.

History has indeed shown that it is extremely difficult for these equity managers to consistently beat their benchmarks after costs over time. On top of that, fund manager's performance ranking relative to each other fluctuate immensely. The best managers are often referred to as 'top quartile managers', but constantly investing in the funds that recently outperformed does not deliver a benefit that outweighs the trading costs associated with 'chasing' recent performance.

Equity investing therefore needs patience (at least a seven year investment window according to most fund manager's fund fact sheets), a bit of luck with the timing of large investment contributions, and a risk appetite that suits the unpredictable road that equities will take an investor on.

Newsletter compiled by Dr Rousseau Lötter (Senior lecturer @ Department of Statistics and Actuarial Science, University of Stellenbosch)

Opportunity Global Investment
Suite 201, 2nd Floor, Edward 2 Building, Edward Street,
Bellville, 7530, Cape Town, South Africa
Reg: 2004/013672/07

021 919 9944
admin@opportunity.co.za