OLDMUTUAL

OLD MUTUAL MULTI-MANAGERS

INSTITUTIONAL REPORT Q2 2024

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BUSINESS UPDATE

KIEYAM GAMIELDIEN
MANAGING DIRECTOR

The last three months (May to July 2024) have demonstrated the importance of focusing on market fundamentals amidst the significant events(noise) surrounding both the South African and United States elections. The Johannesburg Stock Exchange (JSE) hit a record high on 19 June, coinciding with the South African President's inauguration day.

Initially, the South African elections were perceived as a "risk" event. However, anxiety was soon replaced by relief and optimism following the formation of the Government of National Unity (GNU) and a subsequent strong positive performance of the JSE All Share Index in June. International headlines highlighted the ANC's acceptance of the election results and its prompt negotiations for a power-sharing agreement with rival parties as a noteworthy development.

It's important to acknowledge our relation to the global investment markets. South Africa accounts for less than 1% of global stock market capitalisation, and the JSE is heavily owned by international investors. Consequently, our markets are often influenced more by global events than local ones. The upcoming US elections, with its potential for unexpected developments, and the actions of the US Federal Reserve may have a more significant impact.

In the span of a month, several unexpected events unfolded around the US elections. Firstly, there was a peculiar debate between Biden and Trump, two presidential candidates who both appear to be past their prime. Secondly, a failed assassination attempt on Trump followed. Then the US election took an unexpected twist with Biden dropping out, meaning we went from a situation where Trump was the strong favourite to win, to one where it will be a closer race between him and Harris. This potentially means more uncertainty and volatility as the election approaches, especially since investors also await the first anticipated rate cut by the Federal Reserve.

Both SA and US markets illustrate the unpredictability of politics on financial markets, which is why we do not attempt to position portfolios for a specific political outcome. Nevertheless, numerous factors influence the market, and making investment decisions based on market noise can be perilous.

For South Africans, who are an engaged and passionate nation, it is easy to become distracted by the noise. However, we must focus on improving our household savings rates to grow our wealth and positively impact the economy. The recently released results from the 2024 Old Mutual Savings and Investment Monitor indicate that South Africans are increasingly recognising the importance of eliminating debt, saving, and investing. Enhancing household savings rates will ultimately benefit the economy. This is also why we must resist the temptation to withdraw from our savings pot as much as possible from 1 September when the new two-pot retirement system comes into effect. See more on this in Andrew's piece.

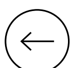
At Old Mutual Multi-Managers, we contribute to the principles of saving and investing by developing products that aim for inflation-beating returns, ensuring clients not only retain value but also build wealth. We have been doing this for over two decades, and our success is attributed to our ability to evolve and improve continually. Recently, we

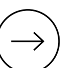
implemented enhancements to our fund range to deliver positive returns well into the future, as detailed in Roland's piece. Additionally, we strive to retain a highly skilled and experienced team that reflects our country's diverse population and intuitively understands the needs of investors from various backgrounds. With the recent departure of our Chief Investment Officer (CIO), we have appointed Roland Gräbe as CIO and Suvira Bodha as Deputy CIO, effective 1 July, and 1 August 2024, respectively. Roland, Suvira and the investment team are super excited, to take our investment and manager research capability to the next level ensuring we continue to meet our clients' expectations.

I'd like to conclude on an optimistic note with Paris 2024, where even those who are not typically sports enthusiasts might find themselves caught up in the excitement of the Olympics and Paralympics. The competitors are diverse, ranging from journeymen to multiple medal winners, rich and poor, allies and rivals, able-bodied and physically challenged. However, when they compete, the focus will be on their abilities, not their conditions, as they represent their countries. They also have one main thing in common namely they know how to use the noise of a full stadium – whether cheers or jeers - to reach their goals. We cheer especially for our 150 South African athletes. May the spirit of persistence, focus on goals, and ability to shut out the noise extend beyond the games and positively impact our everyday lives and country.

Thank you for your continued support.

Kieyam





INSTITUTIONALOVERVIEW

ANDREW DAVISON
HEAD | INSTITUTIONAL

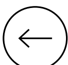
Our Q1 2024 report mentioned two events of particular interest for South African investors, especially those in the retirement fund industry – the general elections that were held on 29 May and the implementation of the Two-pot system on 1 September.

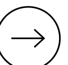
As we now know, the elections delivered the widely expected loss of majority for the ANC, but the extent of the party's poor showing was a surprise. This led to some hasty coalition talks, ending in the formation of the Government of National Unity (GNU). This provided a brief period of fame for the lowly wildebeest, which starred in many memes. The GNU was cheered by markets, with stock and bond markets up sharply and the rand strengthening. The post-election period has, however, seen heightened volatility across markets, a feature that is expected to continue until there is more substantial evidence of the proper functioning of the new government, control of rampant corruption and implementation of sound policies and growth-oriented reforms.

The implementation date for the Two-pot system draws nearer, as can be seen by the tsunami of communication material and articles on the topic. By the time of our Q3 2024 report, we will be firmly in the Two-pot world. We anticipate a large number of withdrawals from retirement savings during September and probably the remainder of 2024, as members access the seeding amount of 10% of their existing savings value as at the end of August 2024, capped at R30 000. This is despite numerous warnings from retirement experts that members should consider their retirement plans carefully before raiding their savings. This could see as much as R100 billion withdrawn from investment portfolios in the few months after 1 September 2024. Based on our own assessment and discussions with investment managers, we are of the view that most investment strategies have sufficient liquidity to handle these withdrawals, although it is likely to dampen demand for South African assets during this period. On the other hand, the flow of an estimated R50 to R100 billion into the South African economy is likely to provide a short-term fillip for some stocks, like retailers, although some (hopefully most) of this money is expected to be used to pay down debt.

Old Mutual Multi-Managers is supportive of the Two-pot system as we believe it will meaningfully improve retirement outcomes for South Africans in the long term. Our focus remains on constructing and managing diversified portfolios that outperform inflation over the long term and contribute to enabling retirement fund members to build the savings needed to provide them with a financially secure retirement.

Despite ongoing wars in Ukraine and Gaza, political uncertainty ahead of US elections including the attempted assassination of Donald Trump, concerns about a possible bubble in technology stocks, China struggling with a heavily over-indebted property market and a slow recovery from harsh Covid lockdowns, unprecedented levels of government debt in many developed countries and anticipated cuts to interest rates in the US as well as a range of other countries, our strategy of diversification and careful risk management continues to deliver inflation-beating returns to clients.





QUARTERLY PERFORMANCE REVIEW

ROLAND GRÄBE
CHIEF INVESTMENT OFFICER

The outcome of our recent general elections surprised many analysts, with the ANC giving up significant ground to the recently established MK party. Although a rapid decline in ANC support was generally expected to be a strong negative signal for markets, what transpired turned out to be the exact opposite. The two most positive developments were firstly that the ANC, despite losing significant power, respected the election outcome. Secondly, the option for a Government of National Unity (GNU) proved to be a tailwind for our local markets, as the GNU included the more market-friendly DA, while excluding the more populist EFF and MK parties. The end result was that local markets rallied strongly during the month of June, significantly turning around the outcomes of not only the last month, but also over the quarter and 12-months periods.

As at the end of June 2024, the JSE Capped SWIX returned 10.0% over the last year, with 4.2% coming from the recent month. Bonds rose 13.7% for the year, outperforming equity over the same period. Local property also continued to recover off a low base, returning a stunning 26% over twelve months. Global markets continued to perform well, and despite the rand trending stronger in June (also an election outcome impact), we continued to benefit from strong global markets. A modest recovery in emerging markets is also taking place, after many years of lacklustre performance from this asset class.

The valuation picture remains largely unchanged, with the main themes still intact. In our valuation process, SA Equity, SA Bonds and Emerging Market equity show up as substantially undervalued. The rand, based on purchase power parity, remains weak relative to our models for fair value, despite some modest strength of late. Global equity has moved to slightly overvalued, and global bonds are now trading at yields much more in line with our long-term assumptions.

For the most part, global markets are now fully pricing in the upcoming interest rate cycle, which includes expectations of significant global rate cuts across the developed world. A few emerging markets are already in rate-cutting mode, whereas South Africa is expected to follow suit towards the fourth quarter of this year.

POSITIONING IN THE STRATEGY FUNDS

Our most recent modelling of valuation opportunities indicates that our decision to be conservative in our total offshore allocation is still appropriate. Therefore, we remain close to target in our offshore exposure, unlike many of our peers who are utilising the full 45% allowed allocation under Regulation 28. We see significant value in local equity and bonds and will continue to allocate cash flows towards the local sectors.

Given the market-friendly interest rate outlook, we are also comfortable with our total equity exposure being at minimum strategic targets, and continue to prefer local over global bonds. We remain cautious of rand strength, partly over expectations of dollar weakness, but also given our view on current rand weakness.

BUILDING BLOCK PERFORMANCE

Our local equity performance has improved over recent months, but we remain slightly behind the market index over the last year. The roughly 1% lag was mostly due to underperformance from Ninety One and M&G, whilst Coronation outperformed the market index by around 6% over the period. Our local property managers, Catalyst and Sesfikile, returned 23.3% and 27.3% respectively, ensuring our allocation contributing positively to the overall performance. We achieved some modest outperformance of the ALBI in our mandates with Coronation and M&G, while the Aluwani/Prescient mandate lagged behind.

Global equity managers continued to show highly uncorrelated performance. The standout managers over the last year included the World ESG Leaders Index managed by Old Mutual Investment Group (OMIG) as well as Orbis gaining some good returns over the year. Despite a strong turnaround in June, Ninety One Global Franchise remains behind benchmark. The recently added Montrosco Bolton Investments is delivering very strong returns and playing a vital role in balancing our overall style exposure in global equity.

Global bond returns were considerably softer than their local equivalent, but performance remained close to benchmarks with our diversified allocations performing in line with market benchmarks.

OLD MUTUAL MULTI-MANAGERS INSTITUTIONAL SOLUTIONS AND BENCHMARK RETURNS

PERIOD ENDING 30 JUNE 2024

	3 Months	Year to Date	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception	Inception
OMMM Inflation plus 1-3%	**3.30%**	**5.19%**	**11.51%**	**8.92%**	**9.40%**	**8.90%**	**8.68%**	**12.13%**	14-Oct-99
CPI + 2%	1.73%	3.33%	7.30%	8.13%	7.14%	6.96%	7.13%	7.63%	
OMMM Inflation plus 3-5%	**3.58%**	**5.97%**	**11.17%**	**10.44%**	**11.37%**	**9.88%**	**9.41%**	**13.40%**	31-Jul-03
CPI + 4% p.a	2.23%	4.33%	9.41%	10.25%	9.24%	9.06%	9.23%	9.44%	
OMMM Inflation plus 5-7%	**3.34%**	**6.19%**	**10.75%**	**10.91%**	**11.78%**	**10.04%**	**9.37%**	**13.33%**	14-Oct-99
CPI + 6% p.a	2.71%	5.33%	11.46%	12.35%	11.33%	11.15%	11.32%	11.85%	
Max 28	**3.39%**	**6.68%**	**11.85%**	**12.20%**	**11.96%**	**10.06%**	**9.32%**	**12.86%**	14-Oct-99
CPI + 6.5% p.a	2.84%	5.58%	11.98%	12.88%	11.85%	11.67%	11.85%	12.38%	
OMMM Moderate Tracker	**3.69%**	**5.67%**	**12.03%**	**9.95%**				**10.23%**	31-Oct-19
CPI + 4% p.a.	2.23%	4.33%	9.41%	10.25%				9.43%	
OMMM Balanced Tracker	**3.82%**	**6.38%**	**12.31%**	**11.02%**				**11.18%**	31-Oct-19
CPI + 5% p.a	2.47%	4.83%	10.41%	11.25%				10.44%	
OMMM Defensive Balanced	**2.77%**	**4.85%**	**11.58%**	**10.23%**	**9.55%**	**8.79%**	**8.43%**	**11.10%**	1-Oct-02
CPI + 3% p.a	2.23%	4.33%	9.41%	10.25%	9.24%	9.06%	9.23%	9.46%	
OMMM Managed	**3.65%**	**5.84%**	**12.91%**	**11.76%**	**11.73%**	**10.17%**	**9.00%**	**11.67%**	1-Apr-10
Median of Alex Forbes Global Large Manager Watch	3.83%	5.74%	10.78%	10.46%	10.11%	9.04%	8.21%	10.55%	
OMMM Money Market	**2.28%**	**4.61%**	**9.42%**	**7.32%**	**6.81%**	**7.20%**	**7.23%**	**8.22%**	1-Aug-00
STeFI 3 Month	2.00%	4.04%	8.29%	6.17%	5.69%	6.06%	6.21%	7.40%	
CPI Inflation	1.23%	2.31%	5.20%	6.01%	5.04%	4.86%	5.03%		

Annualised returns are shown for periods greater than 1 year.

Returns are gross of OMMM and underlying investment manager charges.

"CPI" refers to the SA Consumer Price Index headline year-on-year rate as provided by Statistics South Africa but lagged by one month due to the timing of the release of the latest inflation figures.

Sources: Old Mutual Multi-Managers & I-Net

ANALYSING ACTIVE SOUTH AFRICAN EQUITY MANAGERS

TINTSWALO MUKANSI
INVESTMENT ANALYST

ANDREW DAVISON
HEAD | INSTITUTIONAL

The rise in popularity of passive investing has placed pressure on active managers to justify their higher fees, and even their very existence.

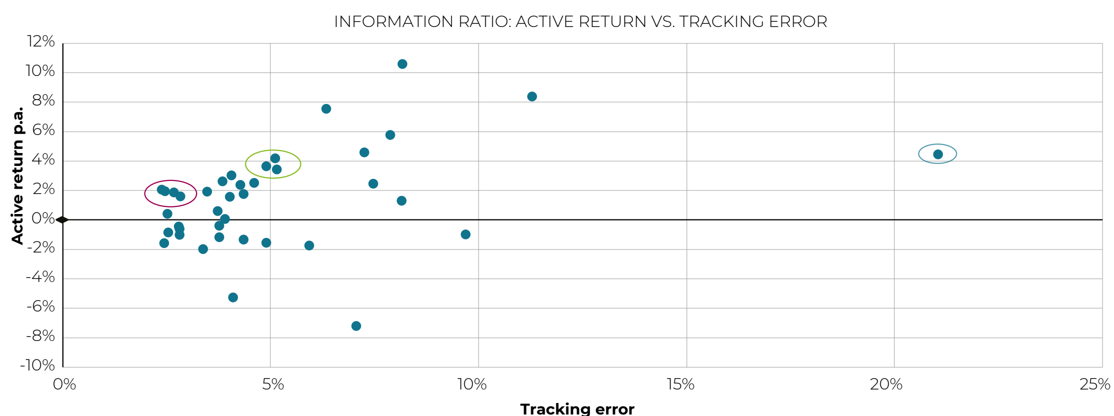
As a multi-manager, we are in the fortunate position of not having to pick sides between active and passive. We are able to combine active and passive building blocks to construct portfolios that balance the low fees and reliable beta of index-trackers with the potential for outperformance by active managers.

Understanding active managers and deciphering their ability to add active returns above the benchmark is a critical task for a multi-manager. In this article, we share some valuable insights derived from an analysis of the returns of South African equity managers over 10 years to the end of 2023. The data used in the analysis is the annual, gross-of-fees, calendar year returns, sourced from the Alexforbes SA Equity Manager Watch survey. All managers with a 10-year track record, according to the data, were included – resulting in 39 managers being analysed. Although not all managers use the same index as a benchmark, for comparison purposes the analysis used the most common benchmark for all managers, namely the FTSE/JSE Capped SWIX.

A common starting point when analysing asset managers is the Information Ratio, which measures the active return achieved (return minus benchmark return) relative to the tracking error (variance of the active return). Although it's useful to distil information to a single metric like the Information Ratio, it can lead to important insights being overlooked.

Graph 1 shows the two key elements of the Information Ratio – the active return vs the tracking error. 14 of the 39 managers failed to beat the index before fees while the other 25 managed a positive active return. On a quantitative basis, the managers in the red circle look worth investigating further if you are searching for managers who are benchmark cognisant (have a tracking error of 3% to 5%) and have outperformed. The managers in the green circle might be an option if the search is focused on identifying higher conviction managers (tracking error of 5% to 7.5%). The manager in the blue circle is a very high heartbeat manager, only to be used by investors who understand the nature of this manager's approach and have evidence that the additional risk (tracking error) is likely to be compensated by sufficient (active) return.

CHART 1: BREAKDOWN OF INFORMATION RATIO



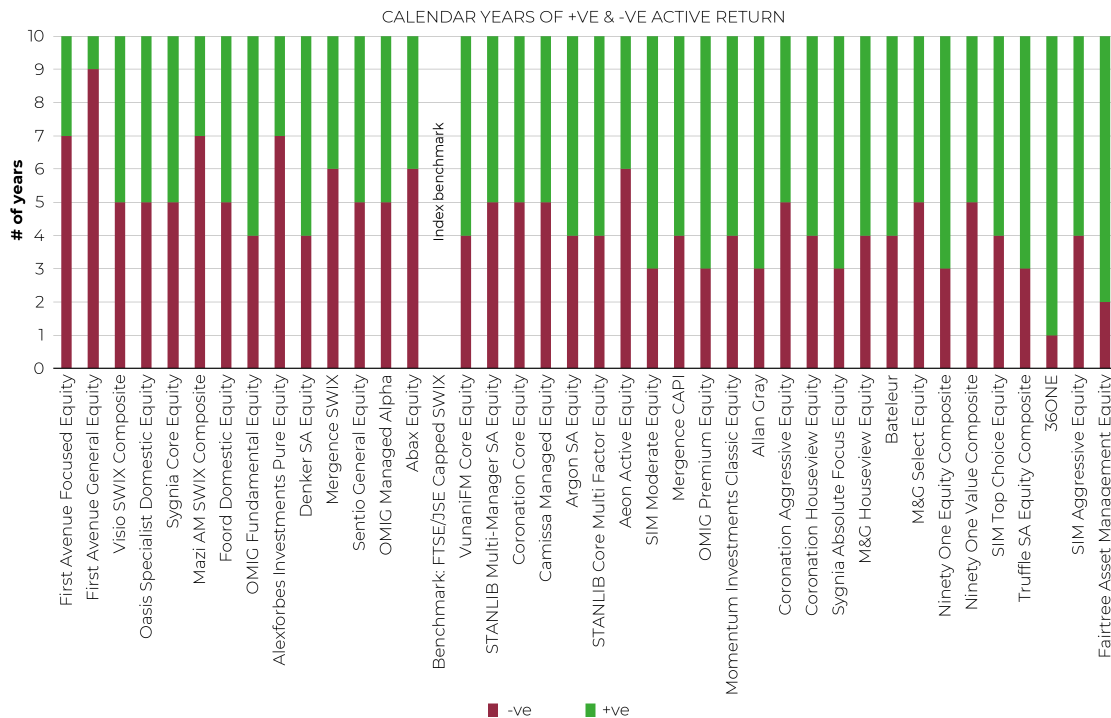
Sources: Alexforbes SA Equity Manager Watch & Old Mutual Multi-Managers

An extremely important feature of active asset management, and one that is poorly understood by many investors, is that even the best active managers have periods of underperformance. Behavioural research has shown that losses are felt more than gains. The result is that investors tend to have limited patience with any underperformance and chase performance. Acting on this impatience can be detrimental to long-term wealth generation.

Graph 2 shows the incidence of negative or positive active returns for each manager. The managers are ranked by cumulative active return, with the lowest on the left and the highest on the right. The red bars show the number of underperforming years, and the green bars show the number of years of outperformance.

The striking feature is that not one of the managers, even the best-performing ones on the right, have delivered outperformance in all 10 years. In fact, many of the best managers only managed to outperform the benchmark in seven of the 10 years and only two of the 39 managers had more than seven years of positive active return. This is because each manager has an investment philosophy that does not work at all times. The best and worst managers have environments where they do very well or struggle. As an analogy, even the best sports teams have opposition they prefer not to face. It is also interesting that there is only a weak relationship between the number of years of positive active return and overall outperformance, although there are some serial underperformers.

CHART 2: OUT- AND UNDERPERFORMANCE OF MANAGERS BY CALENDAR YEAR



Sources: Alexforbes SA Equity Manager Watch & Old Mutual Multi-Managers

Scratching below the surface a bit, additional insights can be gained by breaking down the active return into the negative periods (when the manager lags the benchmark) and the positive periods (of outperforming the benchmark).

In Graph 3, the red line shows the total of the manager's underperformance of the benchmark over the 10-year period and the green line shows the total of outperformance of the benchmark. As in Graph 2, the managers

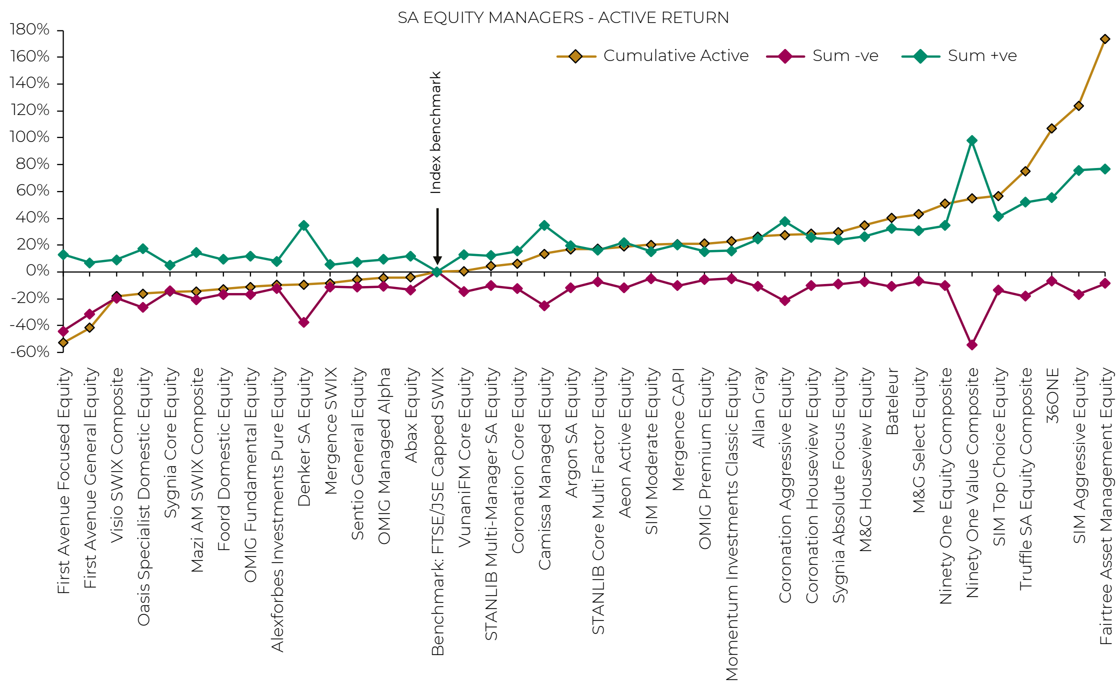
are ranked by cumulative active return. The “squeeze” point on the graph is the benchmark which, by definition, has a value of 0% for all three lines.

There are a number of interesting insights to gain from this graph. As a start, active managers as a whole are actually living up to their name – the green and red lines show meaningful out- and underperformance of the benchmark, with the possible exception of the few managers positioned on either side of the benchmark. There are four managers who are noticeably non-benchmark cognisant – they are visible as peaks on both the positive and negative side. These managers are not for the faint-hearted and, as can be seen, they have periods of strong relative returns and periods of lagging significantly behind the benchmark. The key for an investor considering these portfolios is to establish whether this wild ride results in a net positive outcome over time. What is clear is that more risk-taking does not necessarily result in better long-term returns.

The graph serves as a strong advertisement for active management, especially for those managers on the right-hand side. It is notable that these managers are adept at delivering strong periods of positive active return (the green line well above zero) and, although they don’t eliminate periods of negative active return, they manage to curtail giving back their relative gains (the red line much closer to zero). This indicates very good risk management within these portfolios. This ability to add incremental returns above the benchmark, while managing the risk carefully, compounds into meaningful outperformance over a long period like ten years. The yellow line shows that many managers are able to deliver cumulative returns in excess of 20% above the benchmark, with some generating more than 50%.

It is important to remember that these returns are gross of fees, so an allowance must be made for higher active fees, especially when evaluating active managers against their index-tracker counterparts. A fee of 0.6% p.a. over ten years requires a downward adjustment of about 6% to these cumulative active returns.

CHART 3: DELIVERY OF ACTIVE RETURN



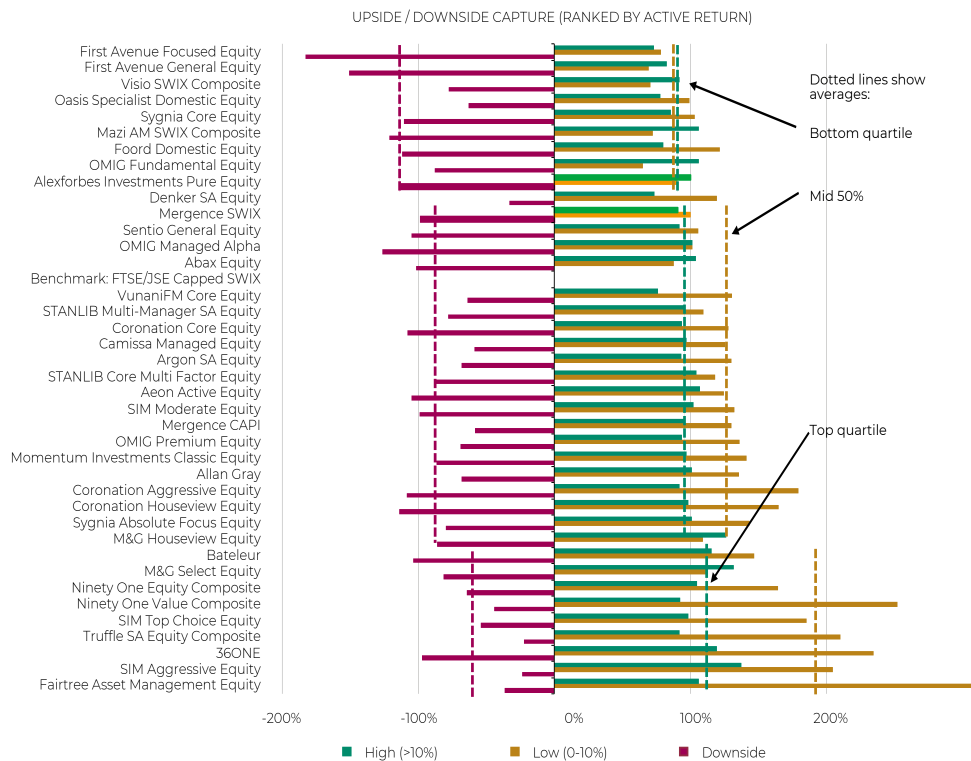
Sources: Alexforbes SA Equity Manager Watch & Old Mutual Multi-Managers

Another useful measure to evaluate managers is upside and downside capture. Upside capture refers to the ability of the manager to capture returns during periods when the index return is positive. An upside capture figure of 90% means the manager is generating returns equivalent to 90% of the index return during positive years, i.e. the manager generates slightly lower returns than the index. Downside capture measures the same thing, only when the index return is negative. Upside capture of more than 100% and downside capture of less than 100% would be an appealing profile of manager.

In Graph 4 we have further segmented upside capture into two called Low (yellow bars) and High (green bars). Low upside capture measures the capture of positive returns below 10% in a year and High measures the capture of returns when the index return exceeds 10% per year. Downside capture is shown in red bars. The dotted lines show the averages of the three metrics for the bottom quartile of portfolios, the middle 50% and the top quartile – with colours matching the bars to which they relate.

The first interesting insight, looking at the averages, is that managers in the top quartile are better at minimising downside as well as capturing both low and high upside. These managers are very good at limiting downside, with downside capture less than 100% for all of them. What is very interesting is that these managers are particularly skilled at eking out excess returns during years when the index only achieves single digit returns – the average upside capture for the top quartile managers during these periods was over 190%, whereas the bottom quartile of managers only captured 85%! This suggests that these managers are able to shift their portfolios to find unique stock picking opportunities in markets that move sideways. Our research has shown that it is one thing to know when a company is undervalued, and another thing to know the best moment to buy it. The saying, “a rising tide lifts all boats” comes to mind when looking at the green bars showing the capture of high index returns – all managers from the bottom quartile to the top showed similar, good capture of these returns. One point to note is that these results are based on calendar years, so there are only ten data points – one year can thus make a difference to the results.

CHART 4: DOWNSIDE AND UPSIDE CAPTURE



Sources: Alexforbes SA Equity Manager Watch & Old Mutual Multi-Managers

Analysis like this can provide valuable insights into the behaviour, ability, benchmark cognisance and risk management of different asset managers. Importantly, good manager research relies on solid quantitative analysis but just as important is the qualitative assessment of the asset management firm, its philosophy, processes and people. To illustrate the practical importance of having an intimate understanding of the asset managers and their human decision-makers, the individual portfolio managers who delivered the excellent profiles of returns for two of the top performers in this list of portfolios have since moved to another asset manager, one positioned towards the lower end of these graphs. It's tempting to think that they will then surely reproduce these sparkling returns at this hitherto more pedestrian performer. However, it's not that simple. Our experience is that superior investment outcomes are the result of numerous factors that combine to produce consistently good investment decisions. Although the portfolio managers are undoubtedly an important piece of this complex framework in any asset management firm, they are supported and enabled by teams, systems, research, data, and processes and if they are separated from these ecosystems, something can break resulting in very different and unpredictable investment outcomes.

Our view is that a strong multi-manager research process should:

1. Understand the historical numbers and the context in which they occurred.
2. Understand whether the investment manager still has the ingredients to deliver the same sort of outcomes for their clients in the future.
3. Lastly, in understanding all the above, it is important to always remember that no manager performs in all environments. Markets, like many things in life, move in cycles.

What the future holds is unknowable, but doing solid research enables us to find managers that do things differently and deliver value over the long-term and then blend them with managers who have proven ability to track an index, resulting in a superior ability to deliver on our clients' objectives.

LOCAL AND GLOBAL MARKET COMMENTARY

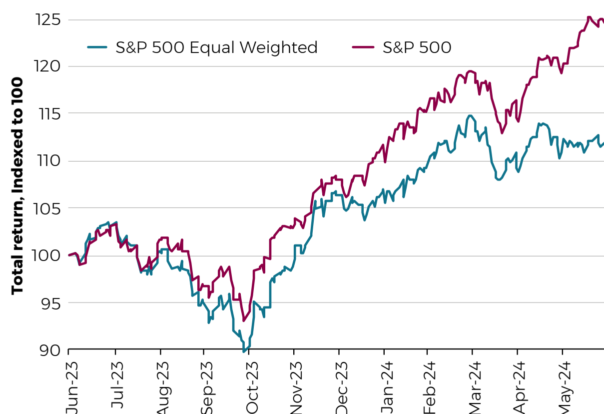
IZAK ODENDAAL
CHIEF INVESTMENT STRATEGIST

GLOBAL

June was a positive month for global equities, capping a strong first half of the year. The MSCI All Country World Index returned 2% in US dollars in the month, boosting the year-to-date return to 11% and the 12-month return to 19.4%.

The US S&P 500 Index gained 3.5% in June and 15% in the first half of 2024. The 12-month return of 26% remains impressive. However, it should be noted that equity returns this year have largely been driven by a handful of mega technology shares, particularly Nvidia, and the equal weighted version of the S&P 500 only returned 5% year to date.

CHART 1: US EQUITIES, 12 MONTHS TO END JUNE 2024



Source: LSEG Datastream

Japanese equities returned 3% in June in yen and 19% in the first six months of the year. The yen remains very weak, and at the end of June it cost ¥160 to purchase one US dollar, 14% more than at the start of 2024. Eurozone equities lost 1% in June in euro terms, dragging year-to-date returns down to 9% and the one-year return to 15%. The euro also lost ground against a resurgent US dollar, closing at $1.07, 3% weaker since the start of the year.

Emerging market equities had a solid month with the MSCI Emerging Markets Index returning 4%. Korea, South Africa, and India made strong contributions, while China was negative. The 13% return over one year means emerging markets still lag developed markets.

Global bond yields declined somewhat during June as US inflation eased further. The benchmark US 10-year Treasury yield fell from 4.4% to 4.3% during the month, while the two-year yield fell from 4.9% to 4.7%. However, both yields are higher than the start of the year. Therefore, while the Bloomberg Global Aggregate Bond Index returned 0.4% in unhedged dollar terms in June, the return for the first six months of the year is negative at -3%.

Listed property shares (REITS) were positive in June with the FTSE/EPRA Nareit Developed Index returning 0.3% in the month. However, this was not enough to pull year-to-date numbers into the black. The 12-month return of 4.5% is ahead of bonds but well behind equities.

The Brent crude oil price rebounded 5% in June to close the month at $85 per barrel, 16% higher than a year ago. This means fuel prices are still putting some upward pressure on headline inflation rates across the world. The gold rally paused in June with the price

flat at $2 301 per ounce. Platinum declined by 3% to $1 002 per ounce, but palladium gained 2%. Copper and iron ore prices were negative during the month.

LOCAL

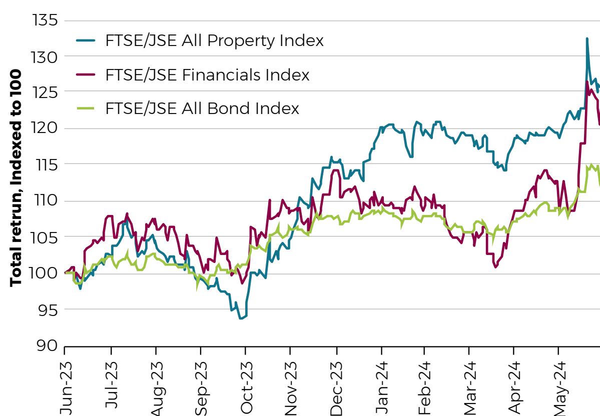
South African equities rallied in June, with the establishment of a centrist governing coalition boosting SA Inc. shares. The FTSE/JSE Capped SWIX retuned 4% in the month, boosting first half 2024 returns to 5.7% and the one-year return to 10%, ahead of cash and inflation.

The financials sector soared 14.5% in June and into positive territory for 2024. The 12-month return is 27%.

The resources sector lost 3.7% in June, reducing returns for the first six months to 4%. Over one year, the sector is basically flat. Industrials returned 1.6% in the month and 5.7% year to date.

South African bonds had a stellar month, returning 5.2% on optimism of improved growth prospects. The JSE All Bond Index returned 5.6% for the first six months of the year, and 13.6% over one year, ahead of cash (Stefi Composite) at 8.5%. Inflation-linked bonds returned 3.2% in the month and 9% over one year.

CHART 2: SA RATE-SENSITIVE SECTORS, 12 MONTHS TO END JUNE 2024



Source: LSEG Datastream

Along with other interest rate-sensitive sectors, listed property jumped in June, with the FTSE/JSE All Property Index (ALPI) returning 6% in the month. Its return of 9% year to date and 27% over one year are ahead of other local asset classes.

The rand had a volatile month but ended 3% stronger at R18.20 per dollar, close to where it started the year. It is also 3.5% stronger than a year ago, meaning that the currency detracted somewhat from global returns from the perspective of local investors.

Note: All bond, equity and property returns are total returns including reinvested dividends/interest unless stated otherwise. Data as of 30 June 2024.

Sources: Iress, LSEG Datastream, national statistical agencies and central banks.

MARKET INDICES PERFORMANCE TABLE

	3 months	1 year	2 years	3 years	4 years	5 years	7 years	10 years
SA Equities								
JSE AllShare (J203T)	8.19%	9.13%	14.24%	10.96%	14.33%	10.56%	10.29%	8.18%
JSE Capped SWIX (J433T)	8.21%	10.04%	11.74%	10.12%	14.25%	8.74%	7.53%	6.52%
JSE INDI (J257T)	5.21%	5.11%	18.75%	9.72%	12.07%	10.42%	7.87%	7.80%
JSE RESI (J210T)	3.45%	-1.34%	0.76%	3.28%	9.06%	9.58%	15.28%	4.75%
JSE Top 40 (J200T)	7.94%	7.21%	14.45%	11.07%	13.94%	10.88%	10.77%	8.23%
JSE Midcaps (J201T)	9.54%	17.27%	12.29%	9.43%	15.00%	7.58%	6.67%	6.59%
JSE Smallcaps (J202T)	10.73%	20.23%	15.42%	16.76%	27.33%	15.17%	8.90%	8.26%
JSE All Property Index (J803T)	5.71%	25.99%	17.16%	11.10%	14.55%	0.57%	-1.65%	1.92%
SA Bonds								
ALBI	7.49%	13.74%	10.95%	7.62%	9.10%	7.82%	8.68%	8.21%
Global Equities								
MSCI ACWI (Net)	-0.80%	15.39%	24.52%	14.44%	14.44%	16.63%	15.36%	14.45%
MSCI EM (Net)	1.25%	8.79%	12.99%	3.05%	6.10%	8.57%	8.57%	8.50%
Global Property Bmark	-5.92%	1.05%	5.46%	3.37%	4.93%	4.58%	6.28%	7.90%
SA Cash								
STeFI	2.06%	8.55%	7.64%	6.47%	5.85%	6.05%	6.41%	6.56%
Inflation & Forex								
SA CPI	1.23%	5.20%	5.75%	6.01%	5.80%	5.04%	4.86%	5.02%
ZARUSD	3.77%	3.58%	-5.35%	-7.77%	-1.15%	-4.98%	-4.55%	-5.23%

Currency: ZAR

ASSET CLASS AND MANAGER REVIEWS Q2 2024

SA EQUITY

TINTSWALO MUKANSI |
INVESTMENT ANALYST

South African equity markets had a strong second quarter. In the early part of the year central banks guided towards later and slower rate cuts, global inflation continued to surprise to the downside, and a few major central banks commenced with rate cuts. Locally, the uncertainty of the local election was resolved, with the ANC losing their outright majority. However, much to the relief of local and global markets, a market-friendly Government of National Unity was formed. It was with this background that the local equity market delivered 8.2% while the South African equity portfolio marginally outperformed delivering 8.3% (after fees).

The boutique manager portfolio had a particularly strong quarter outperforming the benchmark by 0.8% (net of fees). Ninety One also had a strong quarter outperforming by 0.7% (net of fees). Ninety One had particularly strong picking with rand hedges over the quarter. M&G underperformed over the quarter by 0.9% (after fees). The manager was underweight some of the banks that had a strong quarter, while their overweights in MTN and MultiChoice were detractors.

Over the last 12 months, the South African Equity Market rose 10.0%. The institutional building block underperformed the benchmark by 1.5% (net of fees). The underperformance was driven by overweights in domestically and Africa dependent companies. In addition, the portfolio was underweight gold shares – which were the best performing sector.

Ninety One and M&G both underperformed the benchmark by 3.8% and 2.6% respectively (both net of fees) over 12 months. Coronation outperformed over the 12 months, delivering outperformance of 5.8% (net of fees). Coronation performed relatively better over the period because of a greater rand hedge exposure relative to peers, while the quality bias in their SA Inc positions protected them in a difficult local operating environment. Ninety One and the boutique managers had a particularly difficult 12-month period. Ninety One was incorrectly positioned within rand hedge shares and had limited gold exposure. The institutional manager was overweight the resources and held overweights in the domestically focussed business.

From a forward-looking perspective, the portfolio continues to be underweight the gold sector. Within the financial sector the preferred ideas are overweight positions in ABSA, Investec, and Quilter; Capitec, Nedbank, Discovery, and life insurers are the underweights in the sector. The energy theme remains overweight in the portfolio with Exxaro and HCI featuring in the top 10 overweights. Managers are increasingly seeing value in the mid-cap part of the market. As result, there is a collection of mid-cap names which fall just outside the top 10 overweights. These include Truworths, The Foschini Group, Oceana, Datatec, and Telkom.

CONSOLIDATED TOP 10 HOLDINGS

Rank	Top 5 Overweights
1	Prosus
2	Investec
3	HCI
4	Anglogold
5	Naspers

Rank	Top 5 Underweights
1	Gold Fields
2	Harmony Gold
3	Bidvest Group
4	Clicks
5	Nedbank

LONG SHORT EQUITY FUND OF HEDGE FUND (LSE)

NOSIBUSISO NQGONDOYI | HEAD OF PROPERTY AND HEDGE

South African financial markets rebounded during the second quarter on the back of a government election outcome that was positively received by the market as it signalled continued policy stability. South African equities (Capped SWIX) rebounded 8.2% and recorded the best asset class return for the quarter. Hedge funds also performed well against this backdrop, with the OMMM Long Short Equity Fund posting a 5.5% return for the quarter. While this is below the equity return, it is in line with the two thirds up-capture that the Fund targets. The Fund is well ahead of SA equities over the 12-month period to June, with a return of 14.4% versus the SA Equity market return of 10.0%, an alpha of more than 4% net of fees. This was generated at a lower net exposure and beta to the equity market. The Fund remains ahead of equities over all the trailing periods it is measured on, including 10 years where it delivered an annualised alpha of 3.0% net of fees. We are pleased that the fund has continued to display strong capital preservation and capital growth properties over the short and the long term. Hedge funds continue to prove their worth as a valuable source of return diversification, more so during periods of volatile markets.

SA ENHANCED INCOME AND FLEXIBLE FIXED INCOME

AMEER AMOD | HEAD OF ABSOLUTE AND FIXED INTEREST

SA fixed-income markets had a volatile last quarter. The yield on the 10-year bond traded well over 12% into the elections and below 11% by the end of June 2024 as the details of the GNU emerged, giving investors some comfort in our young democracy. The All Bond Index (ALBI) was up 7.5% over the quarter, bringing its 12-month return to 13.7%. This is well ahead of cash with a quarter-to-date return of 2% and a one-year return of 8.3%, and inflation-linked bonds with a quarter-to-date return of 2.4% and a one-year return of 9.1%. Bond performance was driven by the outperformance of bonds in the '7-12' area or 'belly' of the curve.

The rand strengthened about 4% against the US dollar, which also put the ALBI's return ahead of global bonds. The boost to sentiment from the GNU has been felt in asset prices as the risk premium in SA fixed income has seen a significant reduction. However, the SA economy still faces significant challenges, however, the direction of travel is positive.

Inflation in SA has proven to be stickier than anticipated, but recent developments in food and oil prices, combined with a stable rand, have helped produce a slightly better outcome. Expectations remain for inflation to dip towards the midpoint of the band (4.5%) by the end of 2024. The South African Reserve Bank's commitment to getting inflation sustainably on a path to 4.5%, the need to keep the real policy rates high amidst a higher-for-longer global rate environment, and high fiscal risks implies a higher real policy rate than past experience.

Enhanced Income

At the end of June, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.86% (3 year) and 9.34% (5 year). Interestingly, the NCD market implies even less (if any at all) of a cutting cycle. The current pricing of these instruments remains attractive due to their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs have the added benefit of being liquid.

Flexible Fixed Income

Developed market central banks met in June, with the European Central Bank (ECB) administering the first rate cut, while the other central banks opted to keep policy rates on hold. Headline inflation readings remain stubbornly above the target range, although, food prices continue to moderate. The US Fed kept the Fed funds rate unchanged at the 5.25%-5.50% target range during their meeting in June. The Fed statement noted strong economic activity, resilient labour markets, and the low unemployment rate in the US as conditions which continue to support tight

monetary policy settings. Furthermore, the FOMC cautioned that it was not yet appropriate to reduce the target range as inflation remains elevated and more progress is needed to reach the 2% target range. Similarly, for the SA Reserve Bank to get inflation sustainably on a path to 4.5% will require real policy rates to remain high amidst a higher-for-longer global rate environment and high fiscal risks, both locally and globally.

The relative valuations of SA government bonds suggest the risk premium has narrowed significantly post elections. There might still be 20-50 basis points of valuation uplift. However, for this risk premium to narrow further would require a shift in the underlying fundamentals with regard to either inflation or fiscal accounts. SA bonds are thus fairly valued at current levels.

At current valuation levels, inflation-linked bonds are now starting to look quite appealing. If we expect inflation to average between 5%-5.5% over the longer term, allocation to ILBs presents an attractive opportunity notably in maturities less than 10 years.

The current level of credit spreads on offer in SA are at historically compressed levels despite SA being close to its weakest economic position in its history. Corporate profitability and creditworthiness are inevitably tied to economic outcomes, with significant polarisation in performance. The local listed property sector was up 6.2% over the month, bringing its 12-month return to 26%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current poor growth outlook combined with an increase in cost base due to higher administered prices will weigh on the sector's earnings. One must remain cautious due to the high levels of uncertainty around the strength and durability of the local recovery.

SA PROPERTY
NOSIBUSISO NQGONDOYI |
HEAD OF PROPERTY AND HEDGE

South African financial markets rebounded during the second quarter on the back of a government election outcome that was positively received by the market as it signalled continued policy stability. The local listed property sector finished the quarter up 5.7%, while local bonds and equities recorded returns of 7.5% and 8.2% respectively. The SIS SA Property composite posted a return of 6.6% for the quarter and outperformed the benchmark with both Catalyst and Sesfikile contributing positively to returns. The manager outperformance was driven primarily by overweight exposure in stocks like Fortress, Equites, Hyprop, SA Corporate, amongst others, which saw some of the deep value unwind as SA pessimism eased through elections. The fund performed in line with the benchmark over the one-year period to June with a net return of 25.8%, relative to a benchmark return of 26.0%. The fund continues to be ahead of the benchmark over the medium to long term.

Hedge funds continue to prove their worth as a valuable source of return diversification, more so during periods of volatile markets.

GLOBAL EQUITY
ANDREEA BUNEA |
HEAD OF GLOBAL

Positive economic momentum in US and Europe continued to support global equity markets, with the MSCI All Country World Index returning 2.9% in US dollars during the quarter. At the same time, inflation in the US remains stickier than previously thought, with the rates markets expecting fewer rate cuts by the Fed compared to expectations in the beginning of the year. Global equity returns were concentrated in larger US companies, while rate sensitive small cap stocks and REITS suffered from confirmation of the higher-for-longer interest rate environment. Returns were supported by narrow leadership concentrated in companies exposed to artificial intelligence, while the gap between growth and value stocks widened by a further 7.4% during the quarter. Emerging Markets had a strong showing, delivering 5.1% in US dollars for the quarter, with China and Taiwan as the main drivers of performance. The global equity strategy struggled under the weight of the market's narrow leadership, with all active managers lagging the broader index during the quarter. Amongst the value managers, Harris Associates was held back by several economically sensitive counters across US and Europe, while Orbis lagged on the back of stocks

in tech and consumer discretionary sectors. Stock selection in financials, energy and materials weighed on Baillie Gifford's performance during the quarter, while Ninety One's stock selection struggled within the tech and financials sectors. Montrusco Bolton also lagged the benchmark during the quarter, held back by stocks with less impressive forward guidance. Our emerging markets manager contributed positively through its stock selection in Asia ex Japan. The overall strategy maintains a balanced exposure to various sectors, with a tilt in favour of cheaper areas of global markets, such as Europe and UK, at the expense of the US. From an aggregate holdings perspective, the strategy holds its largest overweight positions in Microsoft, Alphabet, and Nvidia.

GLOBAL PROPERTY
NOSIBUSISO NQGONDOYI | HEAD OF PROPERTY AND HEDGE

The second quarter of 2024 saw Global Reits as measured by the FTSE EPRA/NAREIT Developed Index down 2.4% as the US Federal Reserve (Fed) left the benchmark interest rates unchanged, despite the hugely anticipated rate cuts. Asia Pacific (APAC) was the worst performing region with a total USD return of -6.0%, while Europe and the United States were marginally down by 0.40% and 0.20% respectively. The health care sector led gains year to date with a total return of 8.6%, followed by residential at 3.7% and data centers at 1.8%, while telecommunications and industrial sectors declined 11.9% and 11.7% respectively. The SIS International Property Composite outperformed the benchmark and finished the quarter down 0.62%, and 1.8% ahead of the benchmark, with all our managers contributing positively to performance. The fund is also ahead of the benchmark over the one-year period to June, with a net return of 6.2% relative to a 4.5% benchmark return and remains ahead of the benchmark over the longer term.

GLOBAL FIXED INCOME
SHAWN THOMAS | HEAD OF GLOBAL FIXED INCOME & ALTERNATIVE INVESTMENTS

The Global Fixed Income Building Block recorded a net return of -2.04% (ZAR) in the last quarter, outperforming its composite benchmark by 82 basis points (bps). Over one year to end June the Building Block returned 4.68%, outperforming the composite benchmark by 328 bps.

In the second quarter, US Treasury yields increased with the two-year yield rising by 13 bps, the five-year by 16 bps, the 10-year by 20 bps, and the 30-year by 22 bps over the year. The US rate markets adjusted their expectations for rate cuts in 2024, predicting only two cuts due to a reassessment of the Federal Reserve's stance.

Throughout the quarter, Nonfarm Payrolls for May significantly exceeded expectations, coming in at 175K versus the anticipated 180K. The Consumer Price Index (CPI) month over month saw two below-expectation prints of 0.3% in April and 0.0% in May, reversing the trend of higher inflation observed in the first quarter. The unemployment rate increased to 4.0% from 3.8% in March.

Overall, the second quarter saw market expectations shift away from rate cuts, influenced by various economic data releases, central bank decisions, and rising geopolitical tensions. The evolving stance of the Federal Reserve, the European Central Bank's (ECB) rate decisions, and the Bank of Japan's transition from negative interest rates significantly impacted market expectations and trends. Political, economic, and geopolitical risks continue to obscure the short-term outlook. Longer term, the outlook for fixed income remains strong, with opportunities to add value through sector rotation and issue selection in volatile markets.

From a sector perspective, high yield has now delivered seven successive quarters of positive returns; a remarkable achievement given the broader backdrop of high levels of volatility. The short duration of high yield makes it less sensitive to big swings in yield, while the high coupon provides holders with strong positive carry.

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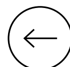

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