

MONTH IN PICTURES

FEBRUARY 2020

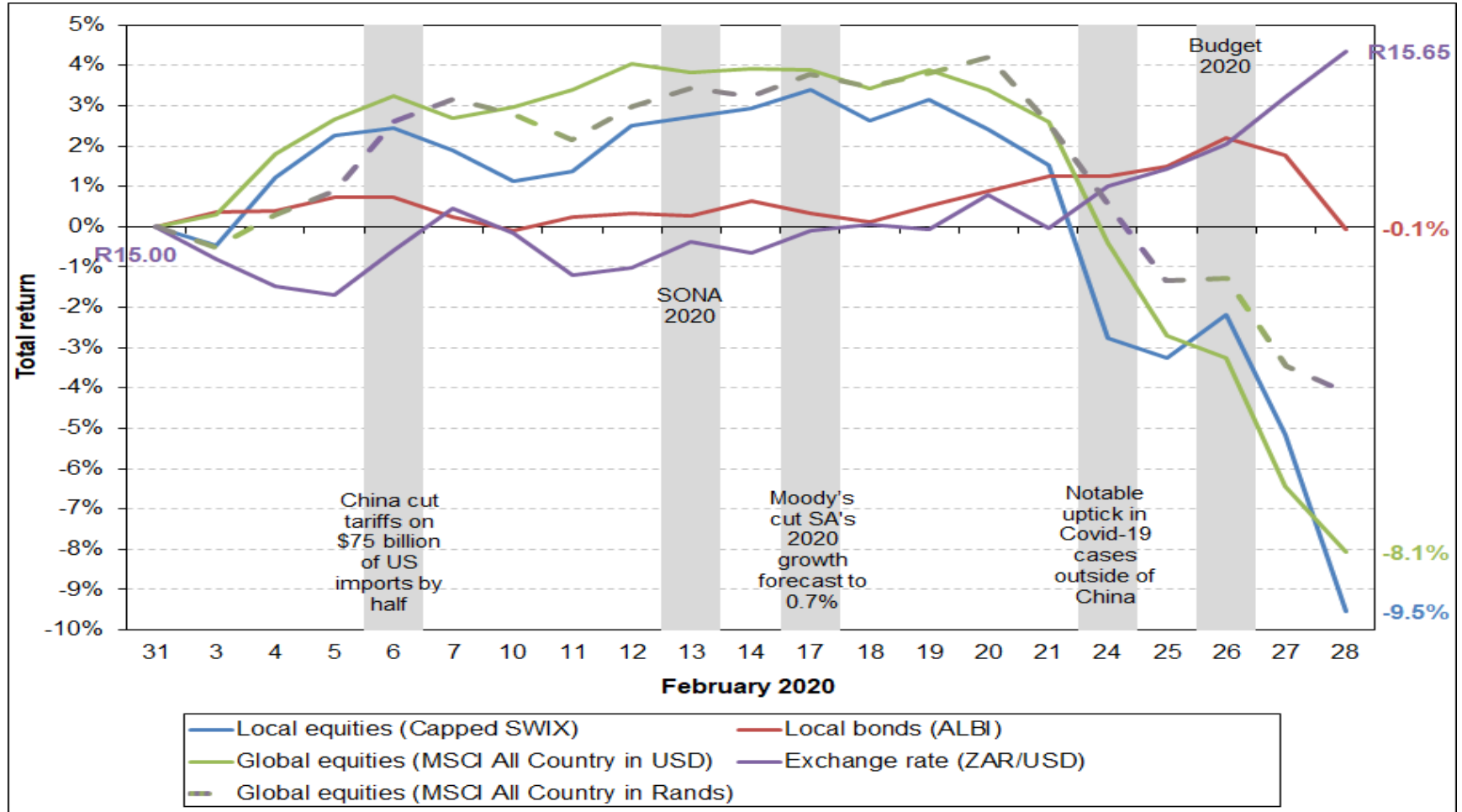
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The end of February marked the start of a global sell-off of epic proportions as the number of Covid-19 cases outside of China took a noticeable turn upwards.
- The local equity market (as measured by the Capped SWIX) shed 9.5%, while global equity markets lost 8.1% in US Dollars.
- The Rand continued to lose value against the US Dollar (ending the month 4.3% weaker), but not enough to turn the foreign currency losses of global equity markets into local currency gains, with the MSCI All Country index ending the month 4.1% lower in Rands.
- As we moved into March the seriousness of the Covid-19 pandemic became clear, with global risk assets, and emerging markets in particular, suffering the brunt of widespread panic selling.
- As we inch closer towards South Africa's unprecedented 21-day lockdown period market losses have been substantial, with the local equity market down by a further 19% in March (to the 25th) after at some point closing as much as 27% lower. This represents a 29% loss since the start of this year.
- Similarly, the Rand, which began 2020 at R14.00 to the greenback, currently trades at the R17.50 level, or around 25% weaker since the start of the year.
- Local bonds, which were flat in February, were also not immune to the sell-off, with losses from the ALBI standing at 13.5% at the time of writing.
- Even gold, which is traditionally seen as a safe haven in times like these, was at some point in March trading 9% lower for the month.
- Governments around the world have responded with a range of monetary and fiscal measures to support vulnerable consumers and businesses during this period, which for South Africa included a 100 basis point cut in its repo rate.
- South Africa's economy entered its second technical recession in two years after contracting by 1.4% (annualised and seasonally adjusted) in 2019 Q4. The average real growth rate for 2019 therefore clocked in at just 0.2%.
- While February is usually the month where a lot of attention is given to the National Budget, this has of course now been completely overshadowed by the Covid-19 pandemic. While the Budget was widely lauded for being market friendly (due to its focus moving away from tax increases and towards expenditure cuts) it's safe to say that any fiscal projections made *then* are now hopelessly out of date. Nevertheless, we have included some graphs and figures from the Budget for those interested.
- While the figures above make for depressing reading, now is not the time for emotional decision-making. Investors should note that even at this low point the local equity market's *real* return over the long term (i.e. typical retirement savings horizons of 20+ years) remains in excess of 6% p.a.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Dec 2019	Jan 2020	Feb 2020	3 months	12 months
Local equities	Capped SWIX	3.1	(2.6)	(9.5)	(9.1)	(9.6)
	Resources	7.0	(3.5)	(11.6)	(8.7)	(2.6)
	Industrials	2.3	1.6	(7.0)	(3.4)	(1.5)
	Financials	0.7	(5.2)	(9.5)	(13.6)	(16.8)
	Listed Property	(2.1)	(3.1)	(15.7)	(20.0)	(19.1)
Local bonds	ALBI	1.9	1.2	(0.0)	3.0	8.9
Local cash	STeFI Composite	0.6	0.6	0.5	1.7	7.3
Global equities	MSCI All Country	(1.0)	6.0	(4.1)	0.6	15.5
Global bonds	FTSE WGBI	(4.1)	8.9	5.4	10.0	20.2
Exchange rate	ZAR/USD	(4.4)	7.2	4.3	6.9	11.1
Inflation	CPI	0.3	0.3	1.0	1.5	4.6

1. Total returns (in Rands) for the months and periods ending 29 February 2020.

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	Capped SWIX	(9.6)	(1.1)	(0.2)	9.3	12.0
	Resources	(2.6)	14.4	2.9	2.5	8.0
	Industrials	(1.5)	0.5	1.1	13.3	15.2
	Financials	(16.8)	(1.6)	(0.7)	10.3	10.9
	Listed Property	(19.1)	(10.4)	(4.8)	8.0	12.4
Local bonds	ALBI	8.9	9.1	7.2	8.7	8.1
Local cash	STeFI Composite	7.3	7.3	7.2	6.5	7.3
Global equities	MSCI All Country	15.5	13.4	12.0	16.1	13.4
Global bonds	FTSE WGBI	20.2	10.8	9.1	9.6	10.1
Exchange rate	ZAR/USD	11.1	6.0	6.1	7.4	6.9
Inflation	CPI	4.6	4.2	5.2	5.1	5.7

1. Total returns (in Rands) for the months and periods ending 29 February 2020.

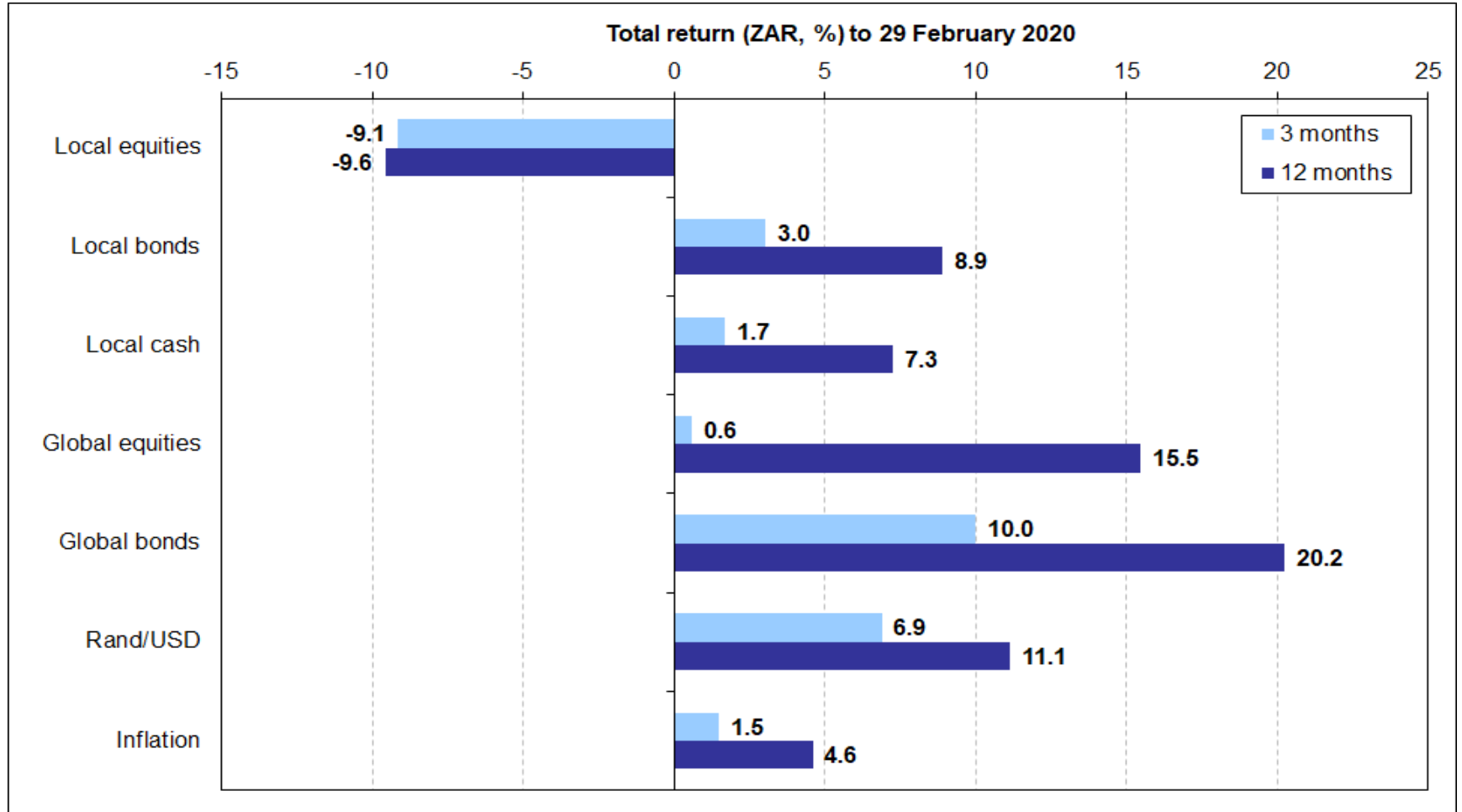
ECONOMIC INDICATORS

Economic indicators ¹	Feb 2018	Feb 2019	Dec 2019	Jan 2020	Feb 2020
Exchange rates:					
ZAR/USD	11.79	14.09	14.00	15.00	15.65
ZAR/GBP	16.23	18.68	18.56	19.81	20.07
ZAR/Euro	14.39	16.02	15.69	16.65	17.27
Commodities:					
Brent Crude Oil (USD/barrel)	64.65	66.42	66.15	58.16	49.67
Platinum (USD/ounce)	979.83	871.96	971.38	957.50	881.61
Gold (USD/ounce)	1,317.59	1,323.60	1,524.46	1,589.69	1,636.68

1. Month-end prices

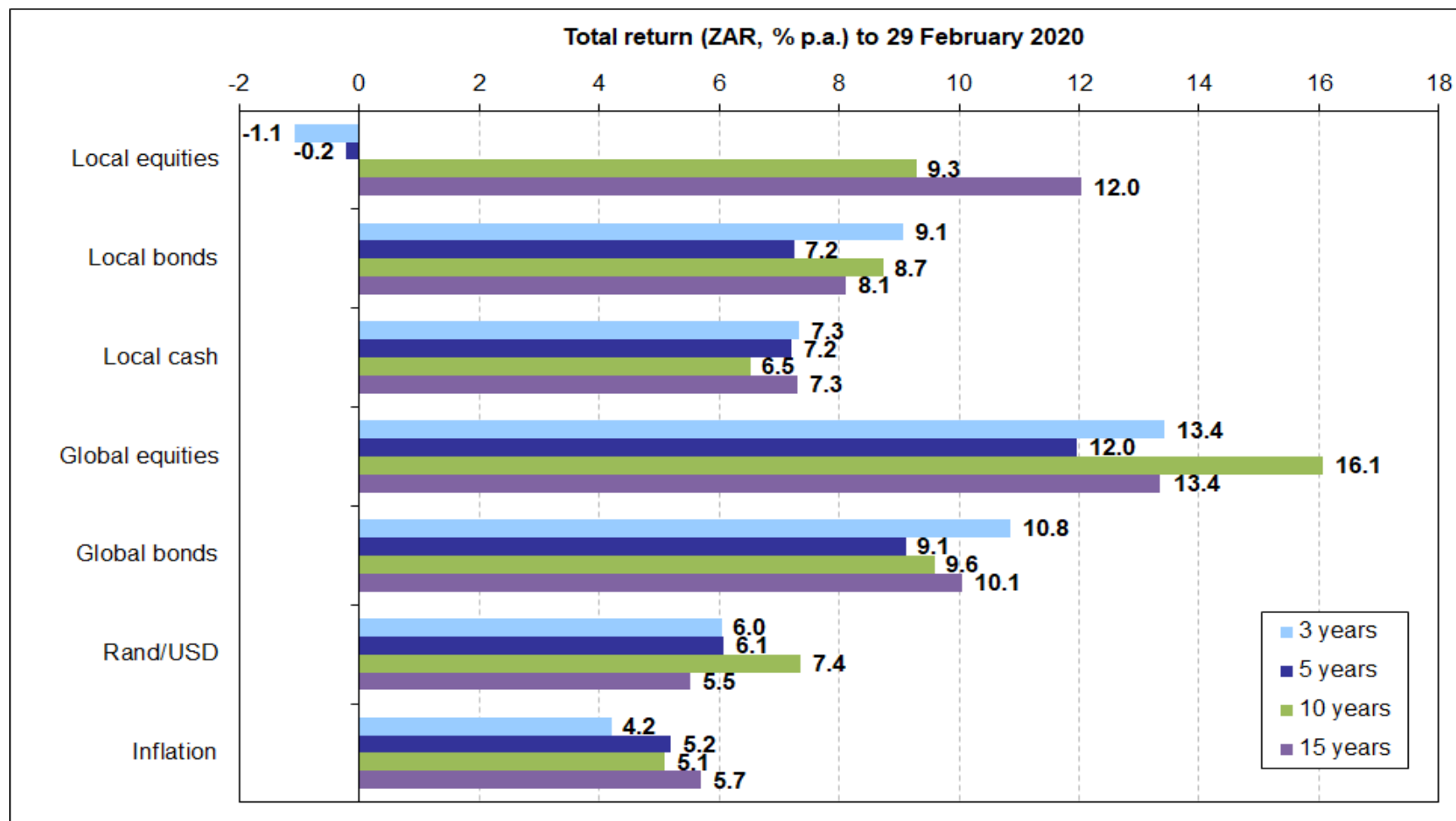
ASSET CLASS PERFORMANCE

SHORT TERM



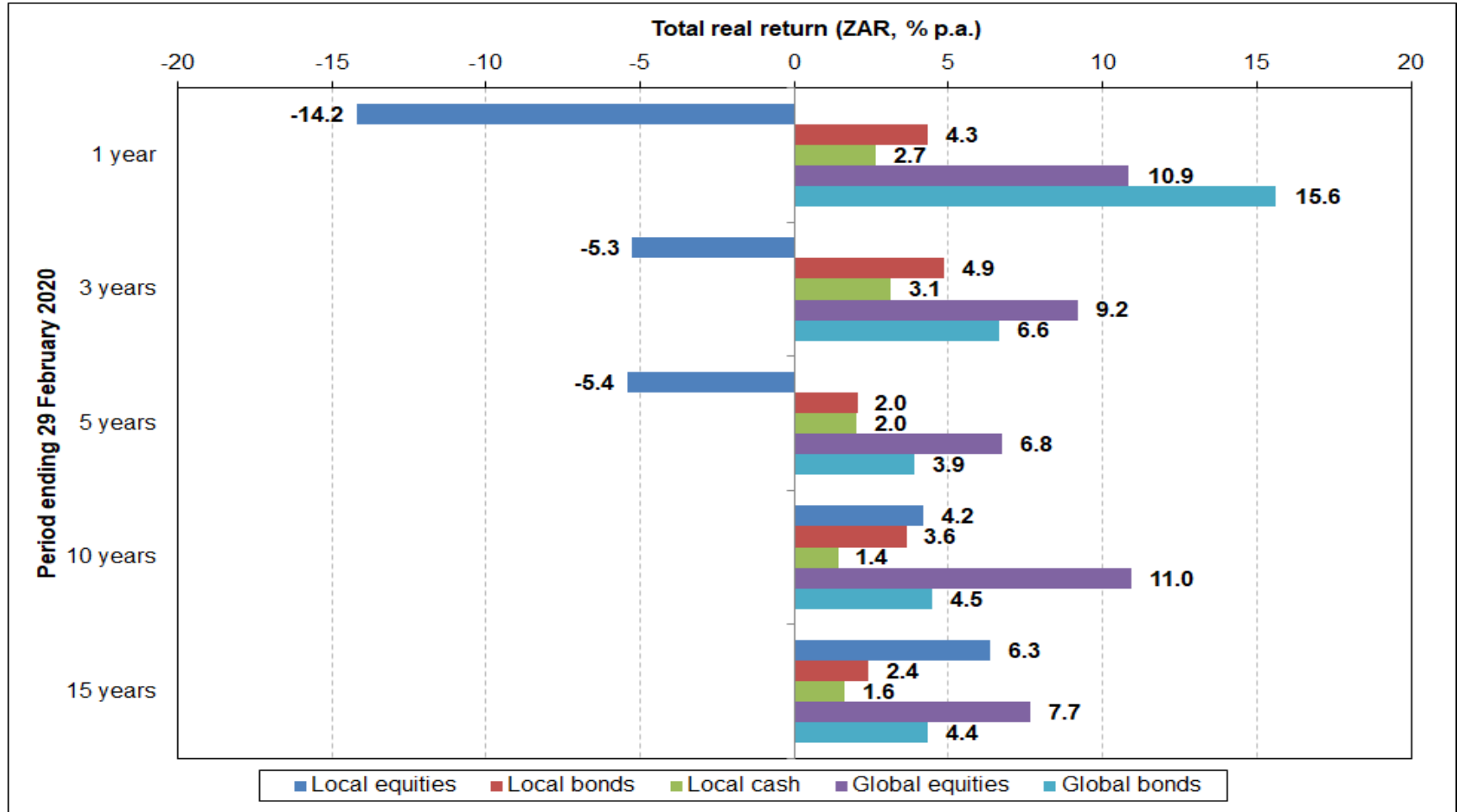
ASSET CLASS PERFORMANCE

MEDIUM TO LONG TERM



ASSET CLASS PERFORMANCE

REAL (EXCESS ABOVE INFLATION) RETURNS



MARKET PERFORMANCE

WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes (see earlier slides), what level of historical returns (in both nominal and real terms) can investors reasonably have expected from the markets?

To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e. 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

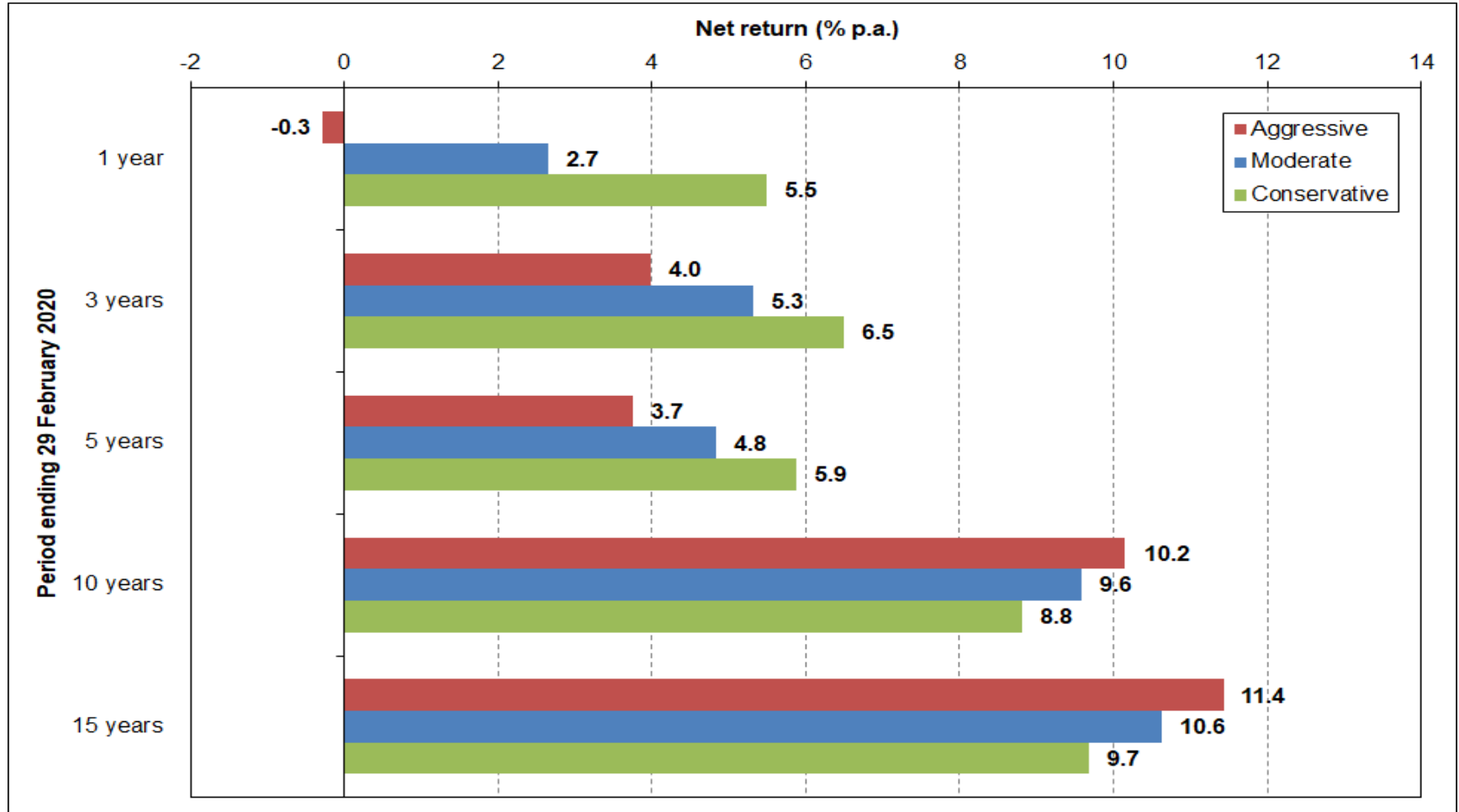
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%		55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%	100%
	Current allocation		~41%	~19%	~15%	~14%	~11%

CONSERVATIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	35%	65%		35%	65%
		EQUITIES VS BONDS VS CASH	100%	35%	65%	100%	100%
	Current allocation		~26%	~17%	~32%	~9%	~16%

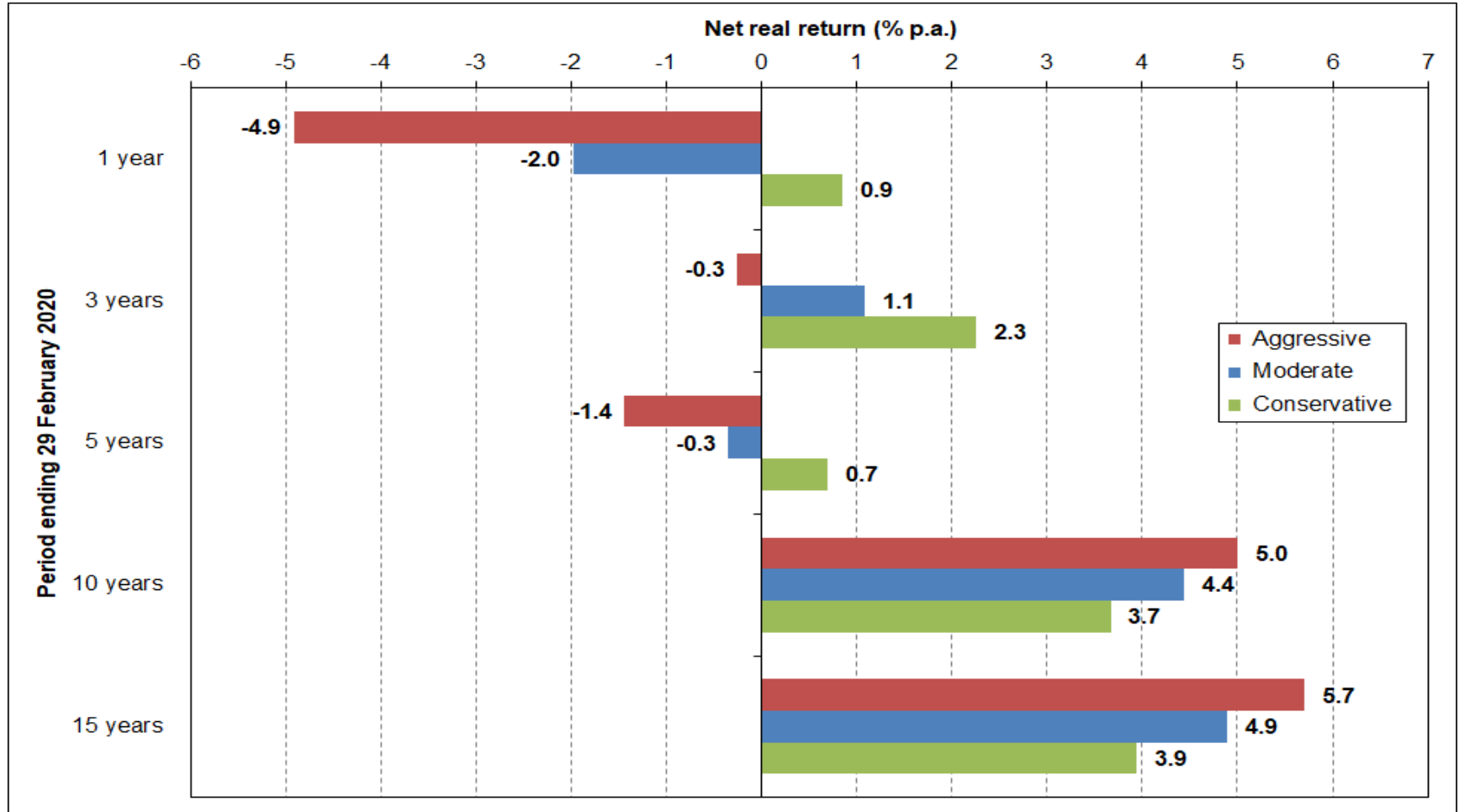
MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



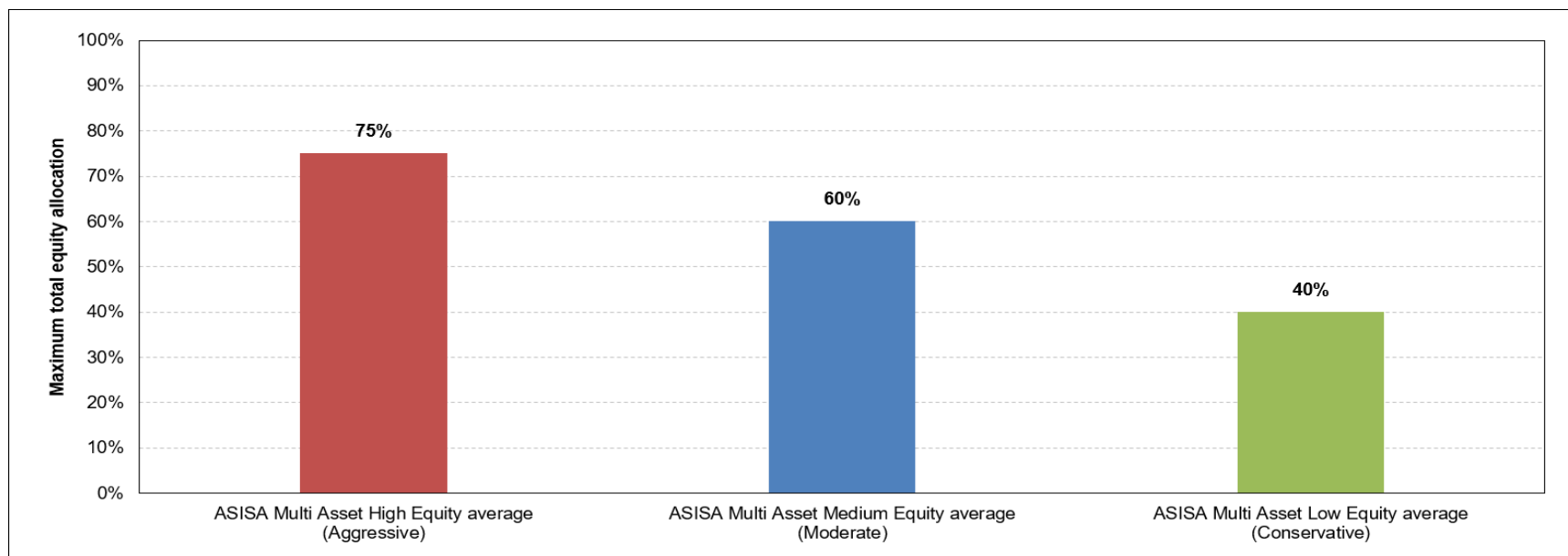
MANAGER PERFORMANCE

WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given what markets have delivered (see earlier slides), what level of returns (in both nominal and real terms) has the average *investment manager* delivered in this environment?

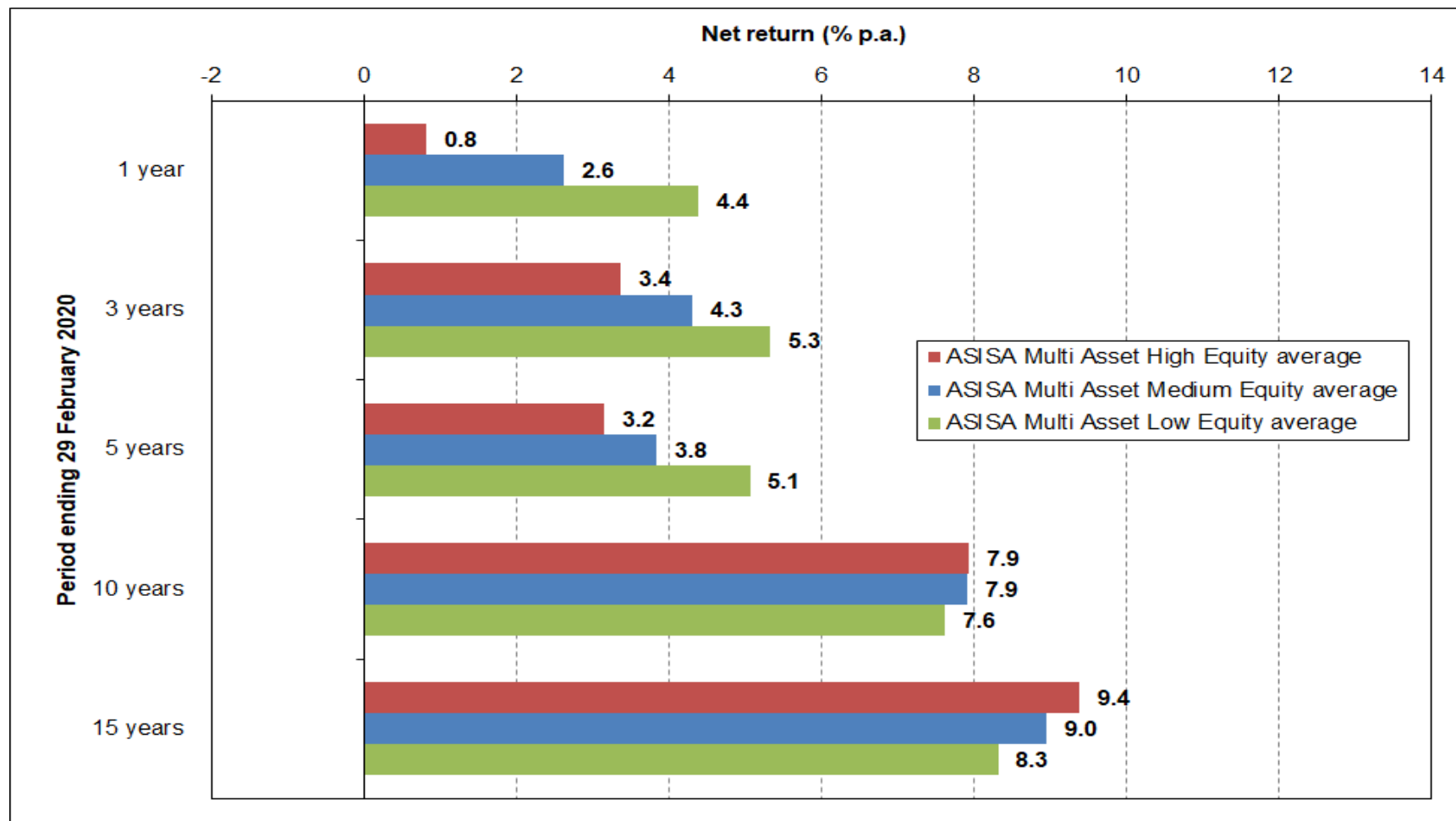
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement fund portfolios.

The asset allocations of the portfolios in these categories are regulated by Regulation 28 of the Pension Funds Act, but ASISA also sets limits on the total equity allocations of these portfolios, as shown in the graphic below:



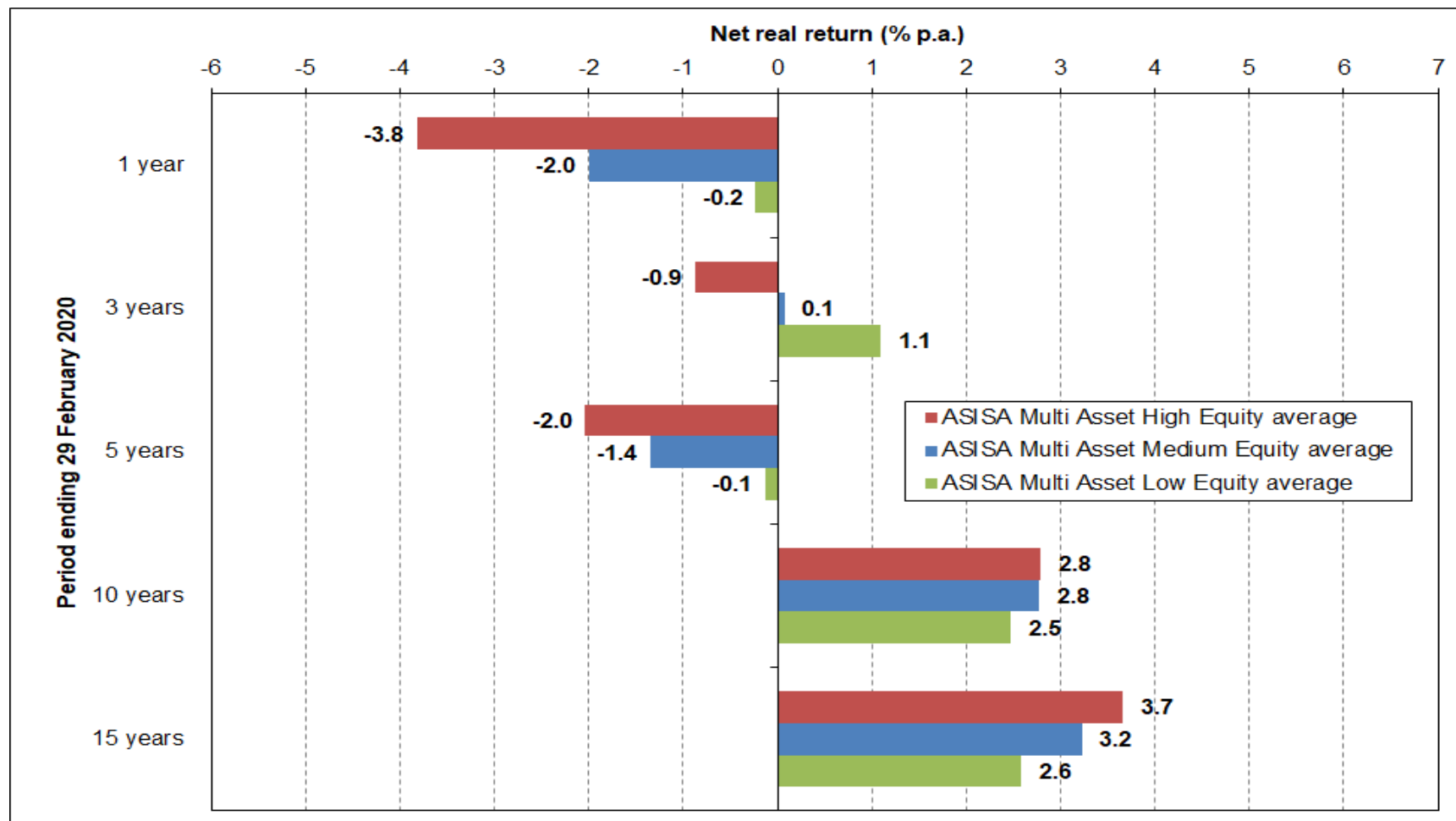
MANAGER PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



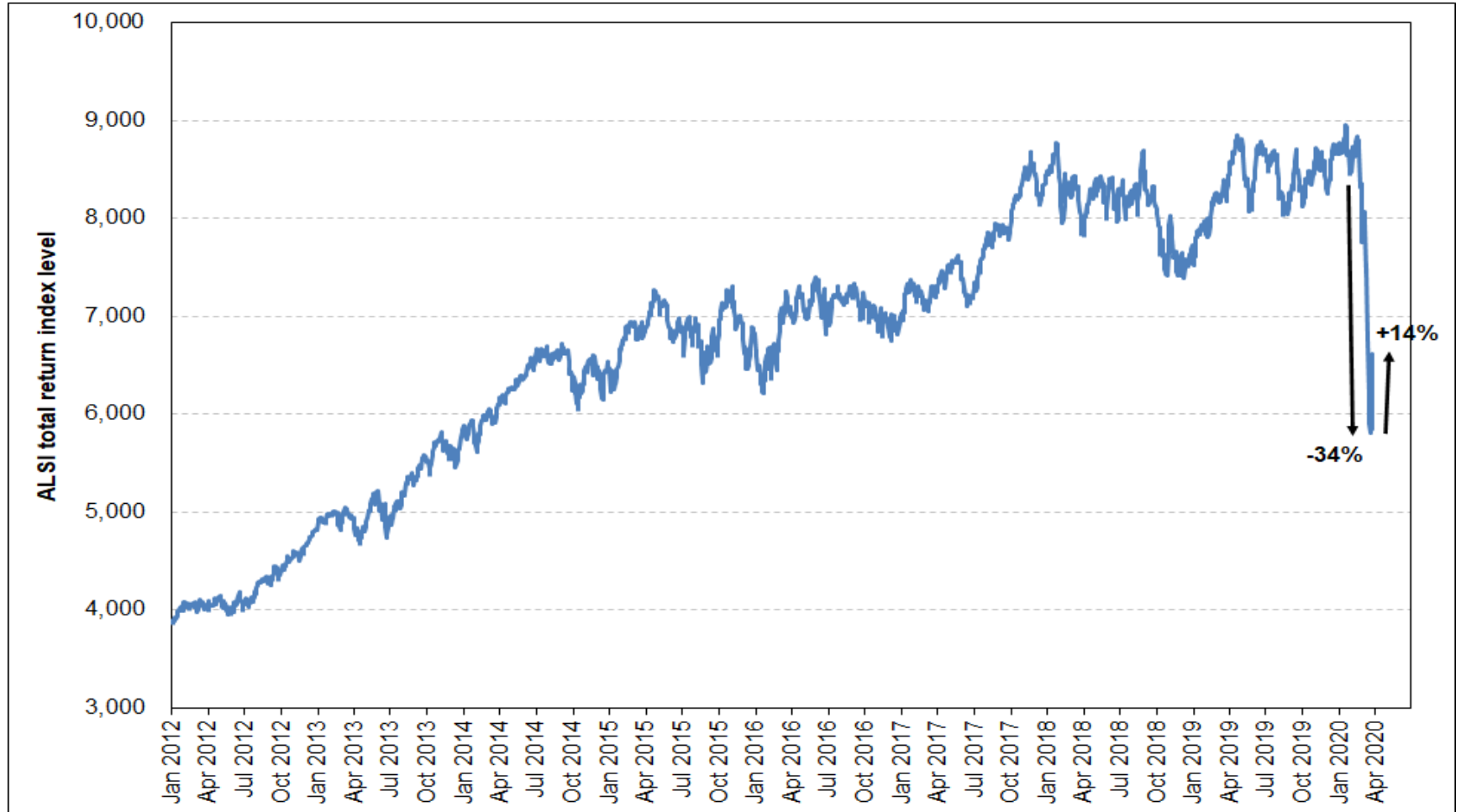
MANAGER PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



LOCAL EQUITY MARKET

COVID-19 CRASH



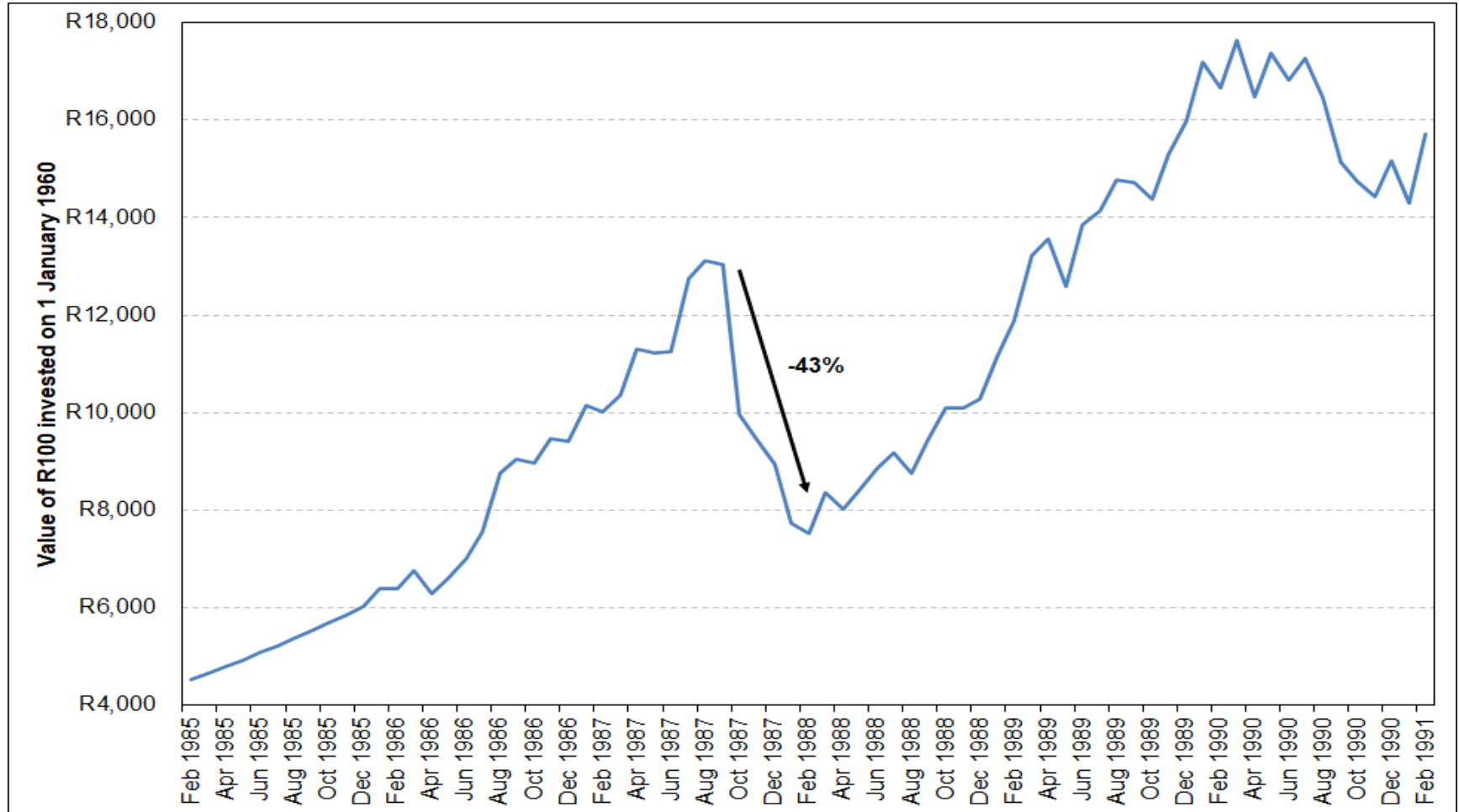
LOCAL EQUITY MARKET

WE'VE BEEN HERE BEFORE, AND ALWAYS CAME OUT
BETTER ON THE OTHER SIDE...

“That’s one of the crazy things: in the real world, things generally fluctuate between ‘pretty good’ and ‘not so hot’. But in the world of investing, perception often swings from ‘flawless’ to ‘hopeless’. The pendulum careens from one extreme to the other, spending almost no time at ‘the happy medium’ and rather little in the range of reasonableness.” - Howard Marks

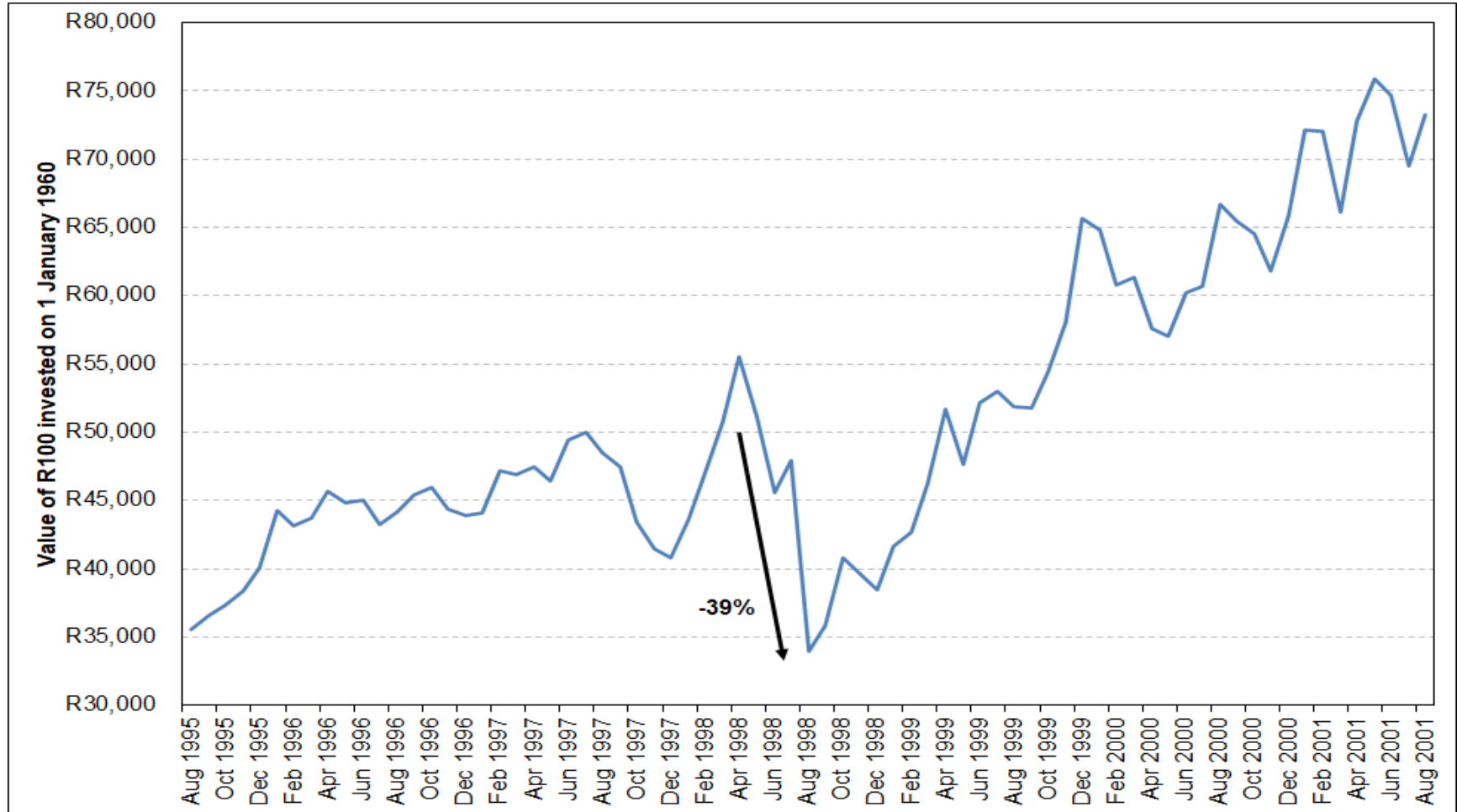
LOCAL EQUITY MARKET

...1987 (BLACK MONDAY)...



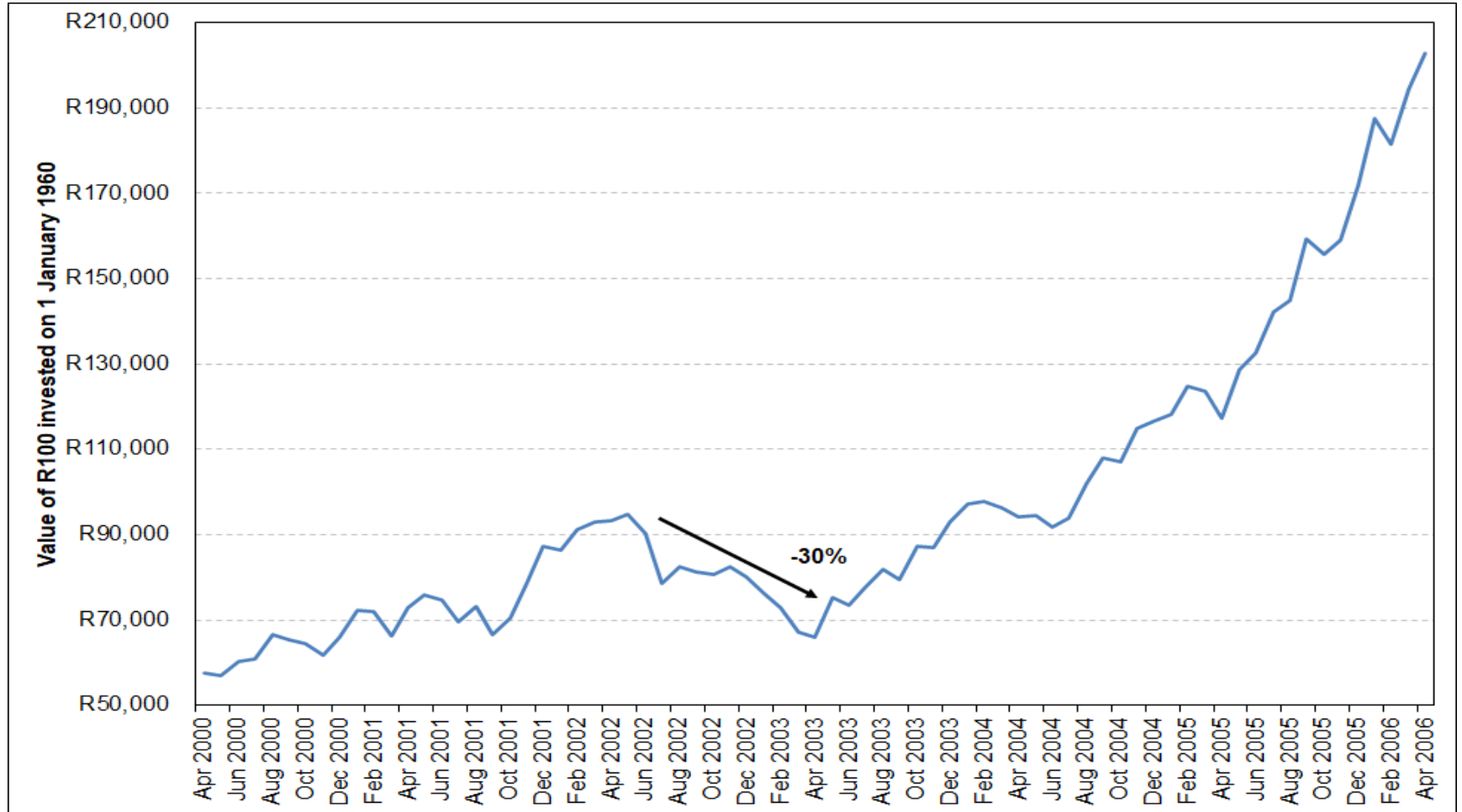
LOCAL EQUITY MARKET

...1998 (EMERGING MARKETS CRISIS)...



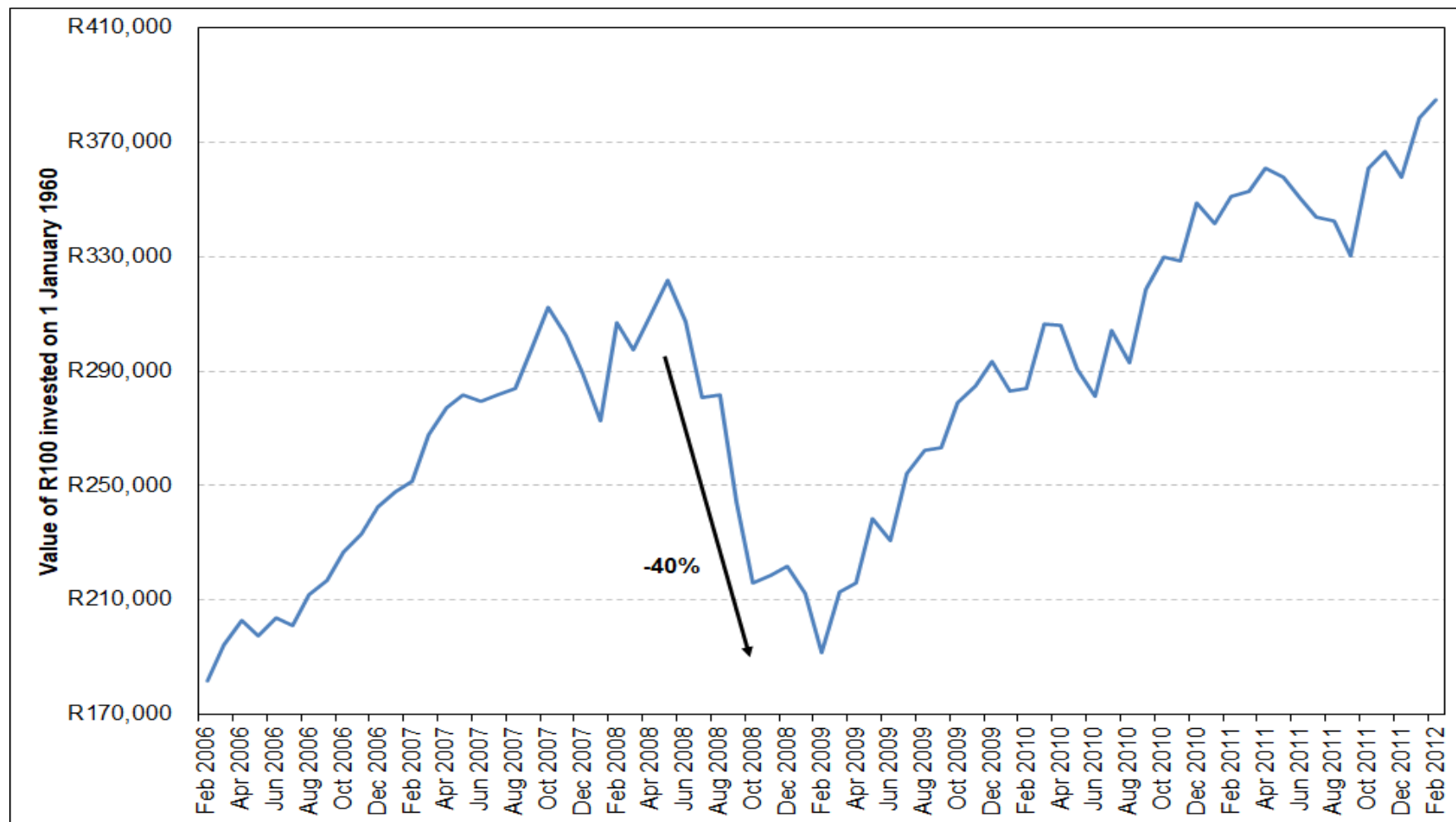
LOCAL EQUITY MARKET

...2002 (COLLAPSE OF THE TECH BUBBLE)...



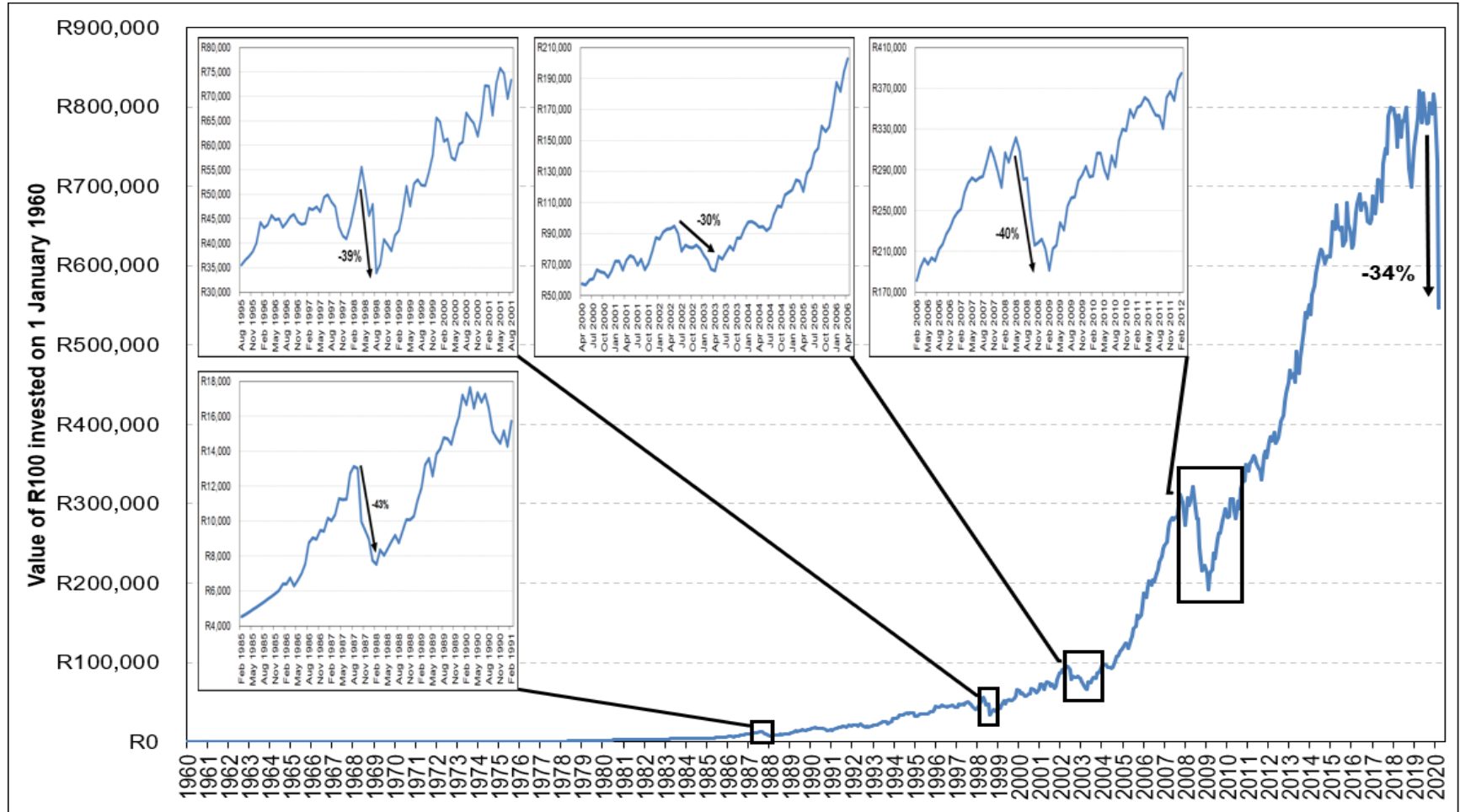
LOCAL EQUITY MARKET

...2008 (GLOBAL FINANCIAL CRISIS)...



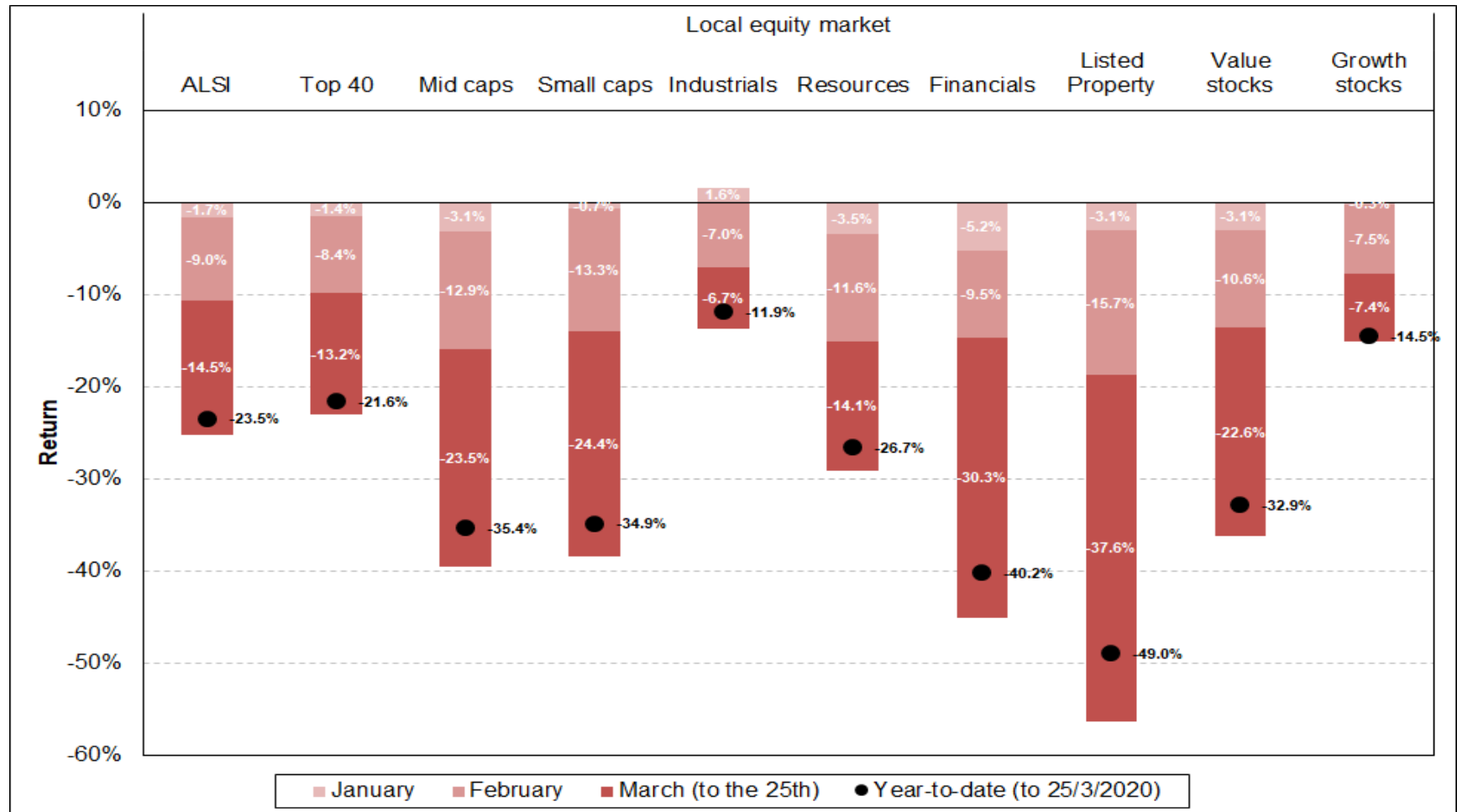
LOCAL EQUITY MARKET

...YET LONG TERM RETURNS REMAIN IMPRESSIVE



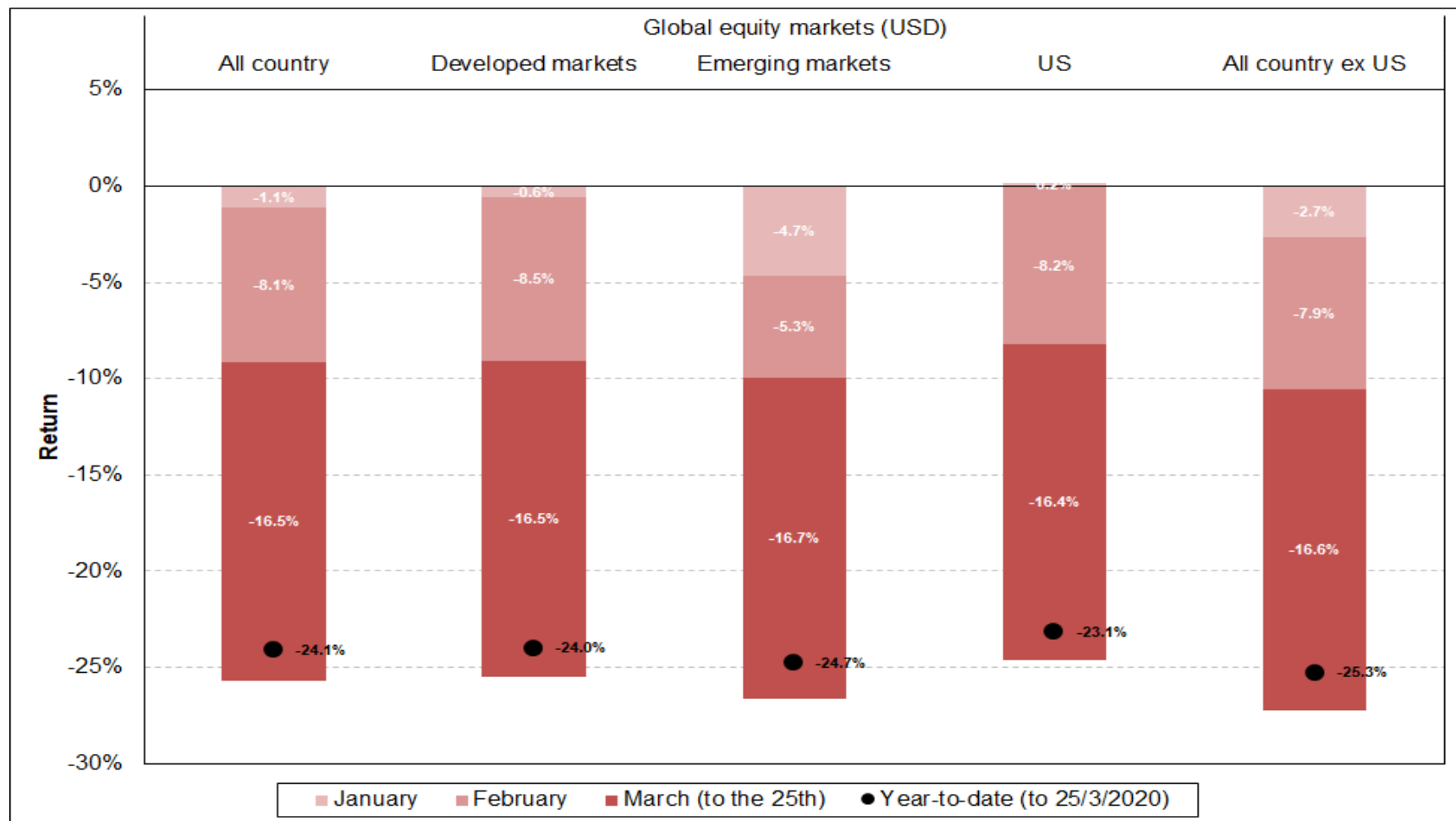
ASSET CLASS PERFORMANCE

CHAOTIC 2020



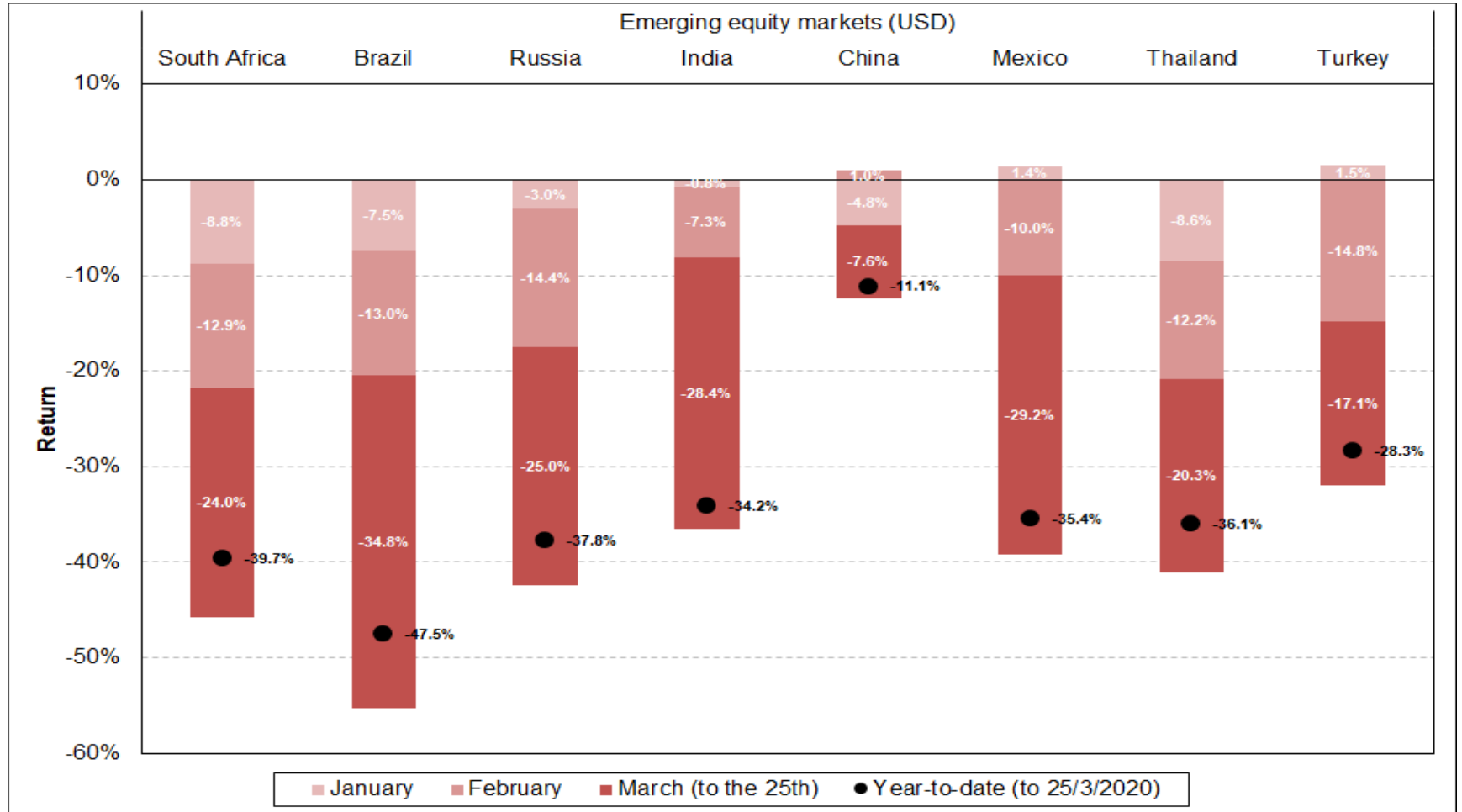
ASSET CLASS PERFORMANCE

CHAOTIC 2020



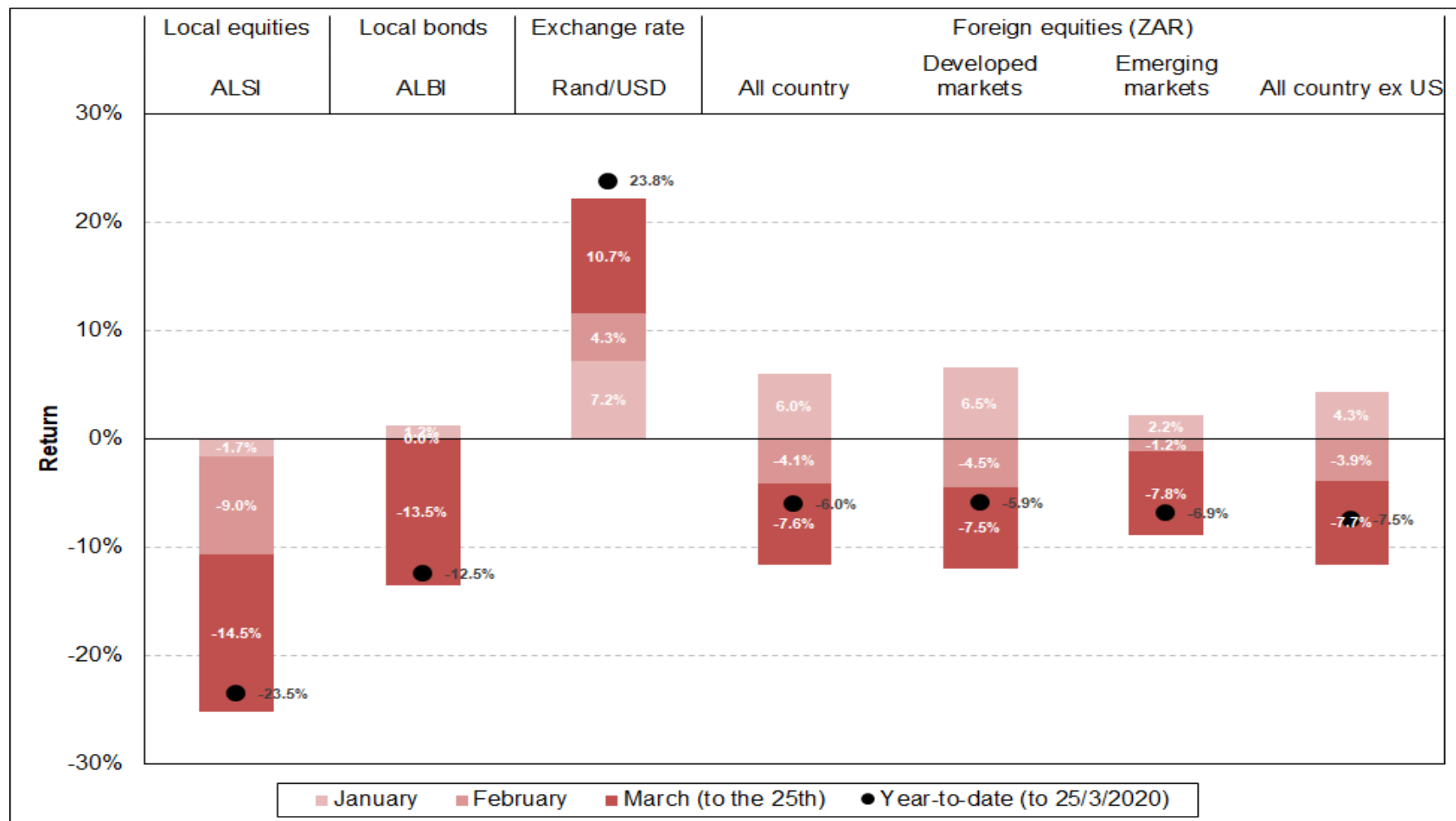
ASSET CLASS PERFORMANCE

CHAOTIC 2020



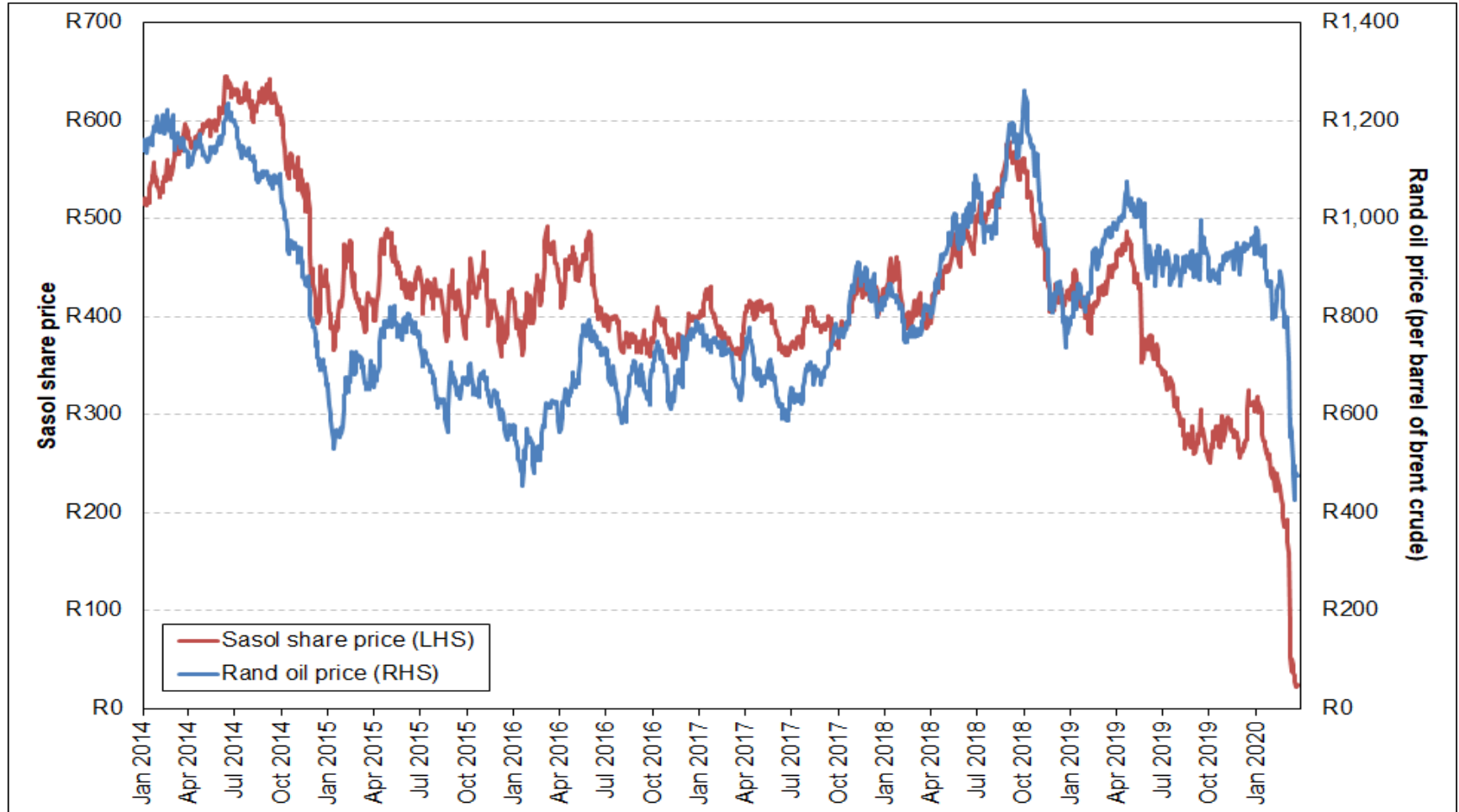
ASSET CLASS PERFORMANCE

CHAOTIC 2020



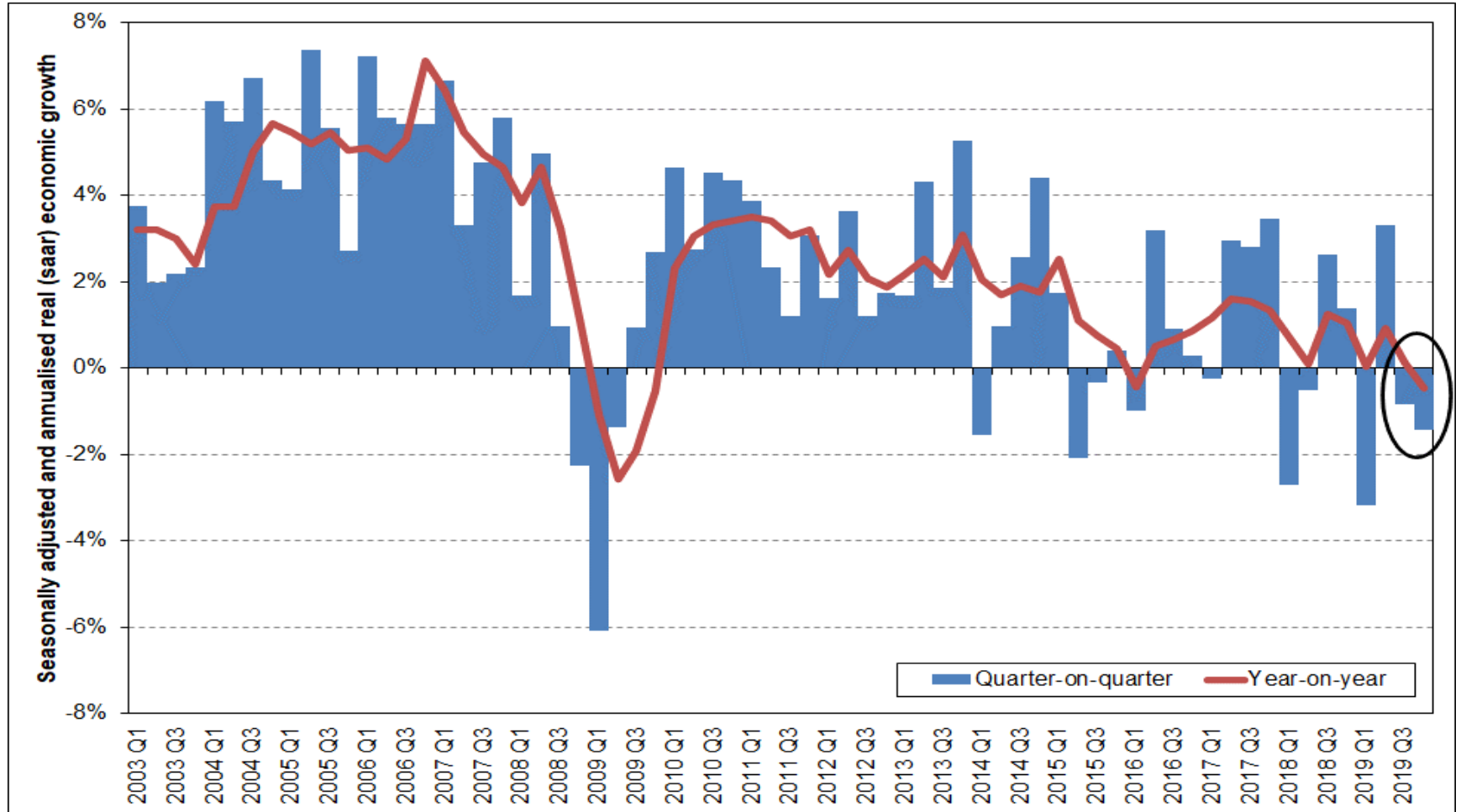
ASSET CLASS PERFORMANCE

CHAOTIC 2020



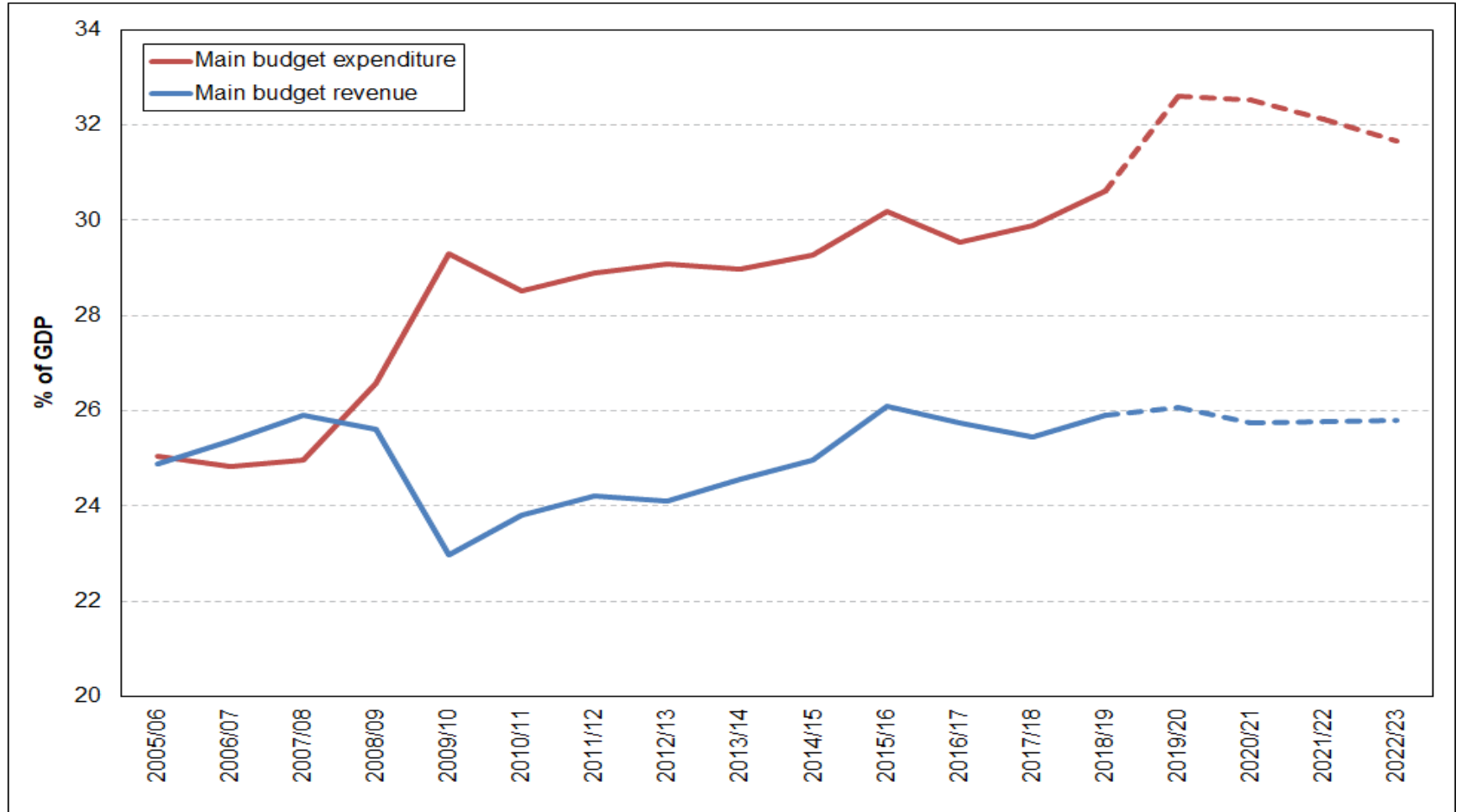
LOCAL ECONOMY

SA ENTERS ANOTHER TECHNICAL RECESSION



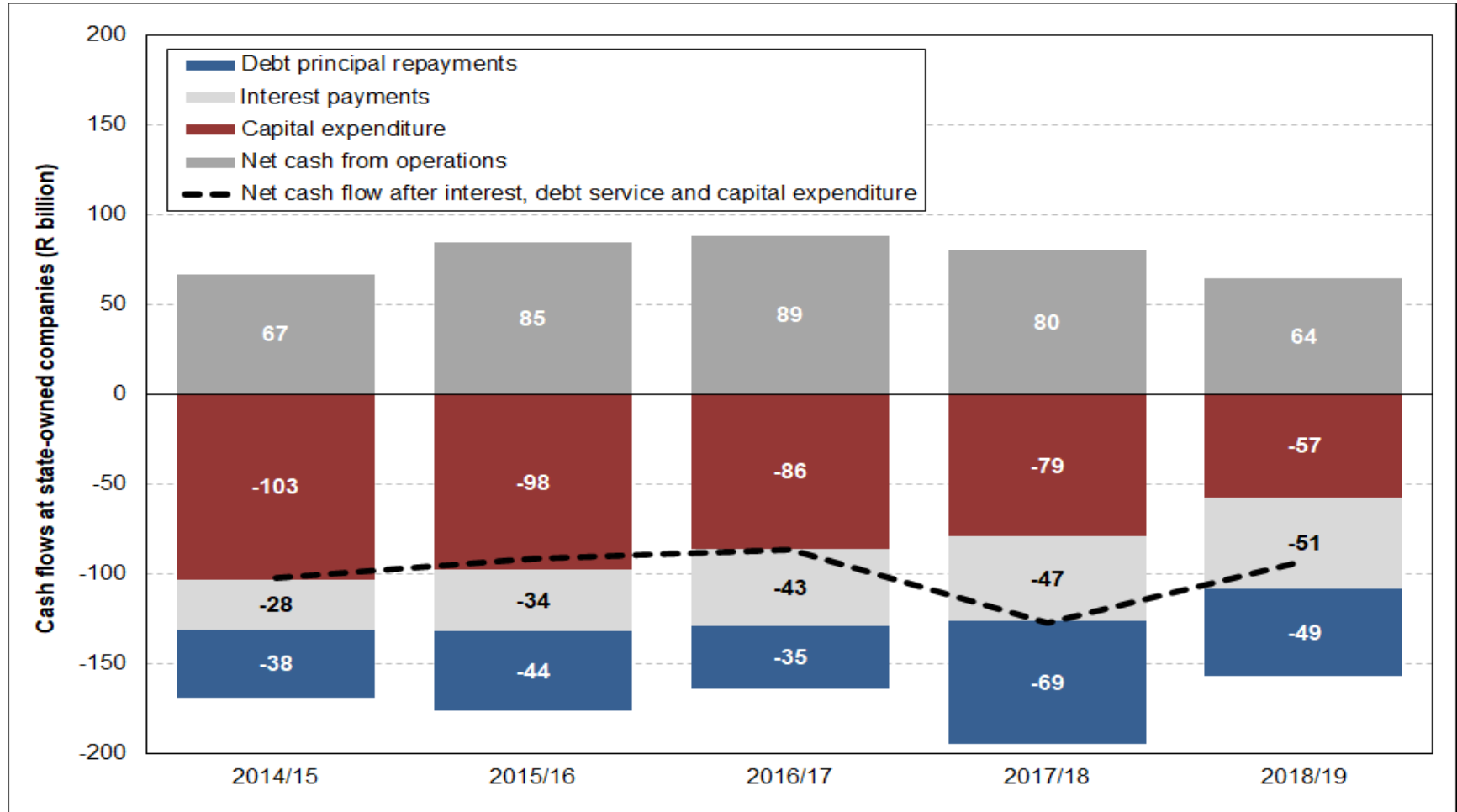
BUDGET 2020

GOVERNMENT SPENDING CONTINUES TO OUTPACE ITS INCOME...



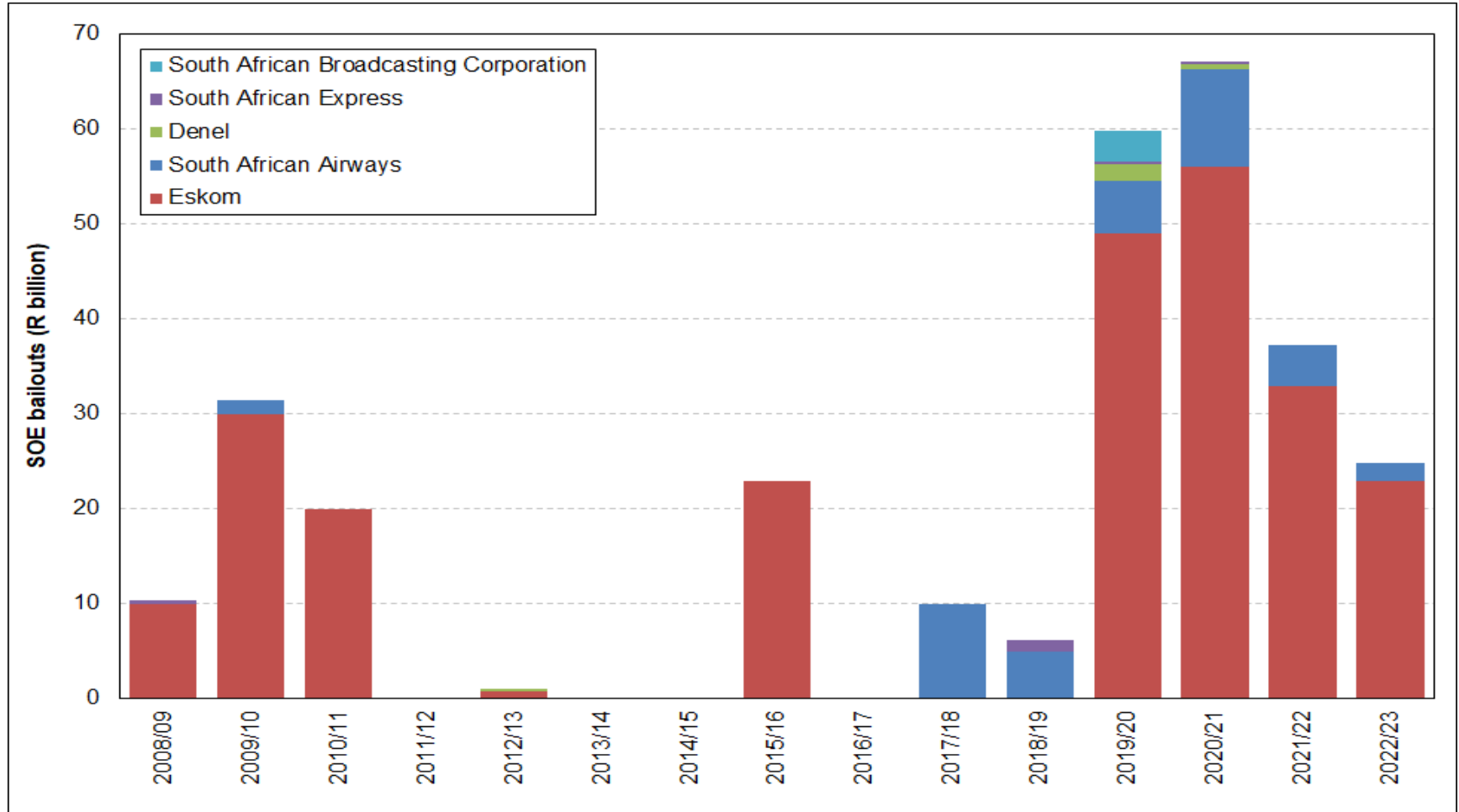
BUDGET 2020

...WITH SOEs RUNNING AT SIGNIFICANT LOSSES & REQUIRING CONSTANT BAILOUTS (next slide)



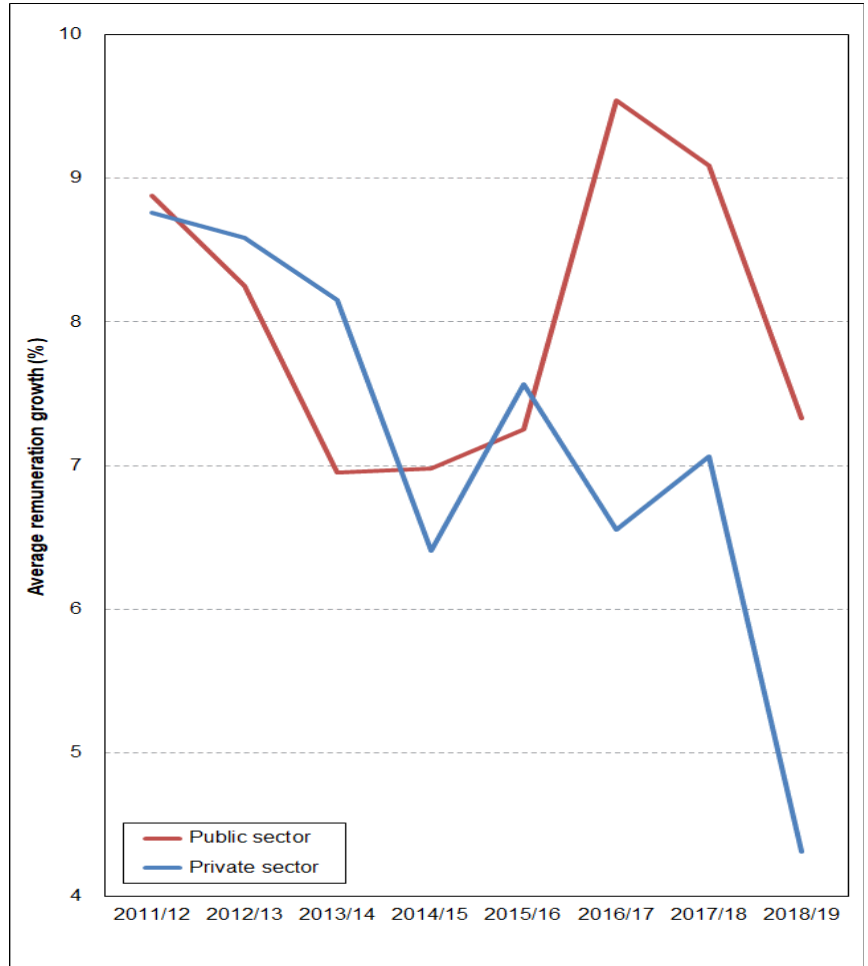
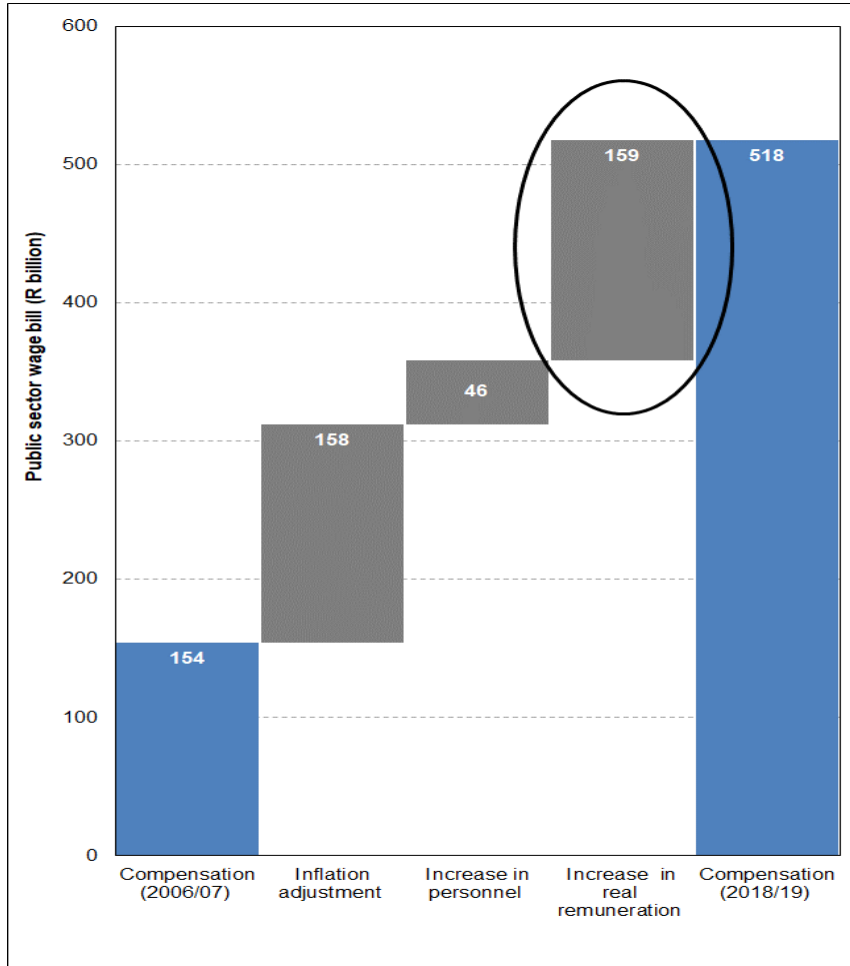
BUDGET 2020

“A BILLION HERE, A BILLION THERE, AND PRETTY SOON YOU’RE TALKING ABOUT REAL MONEY” - Everett Dirksen



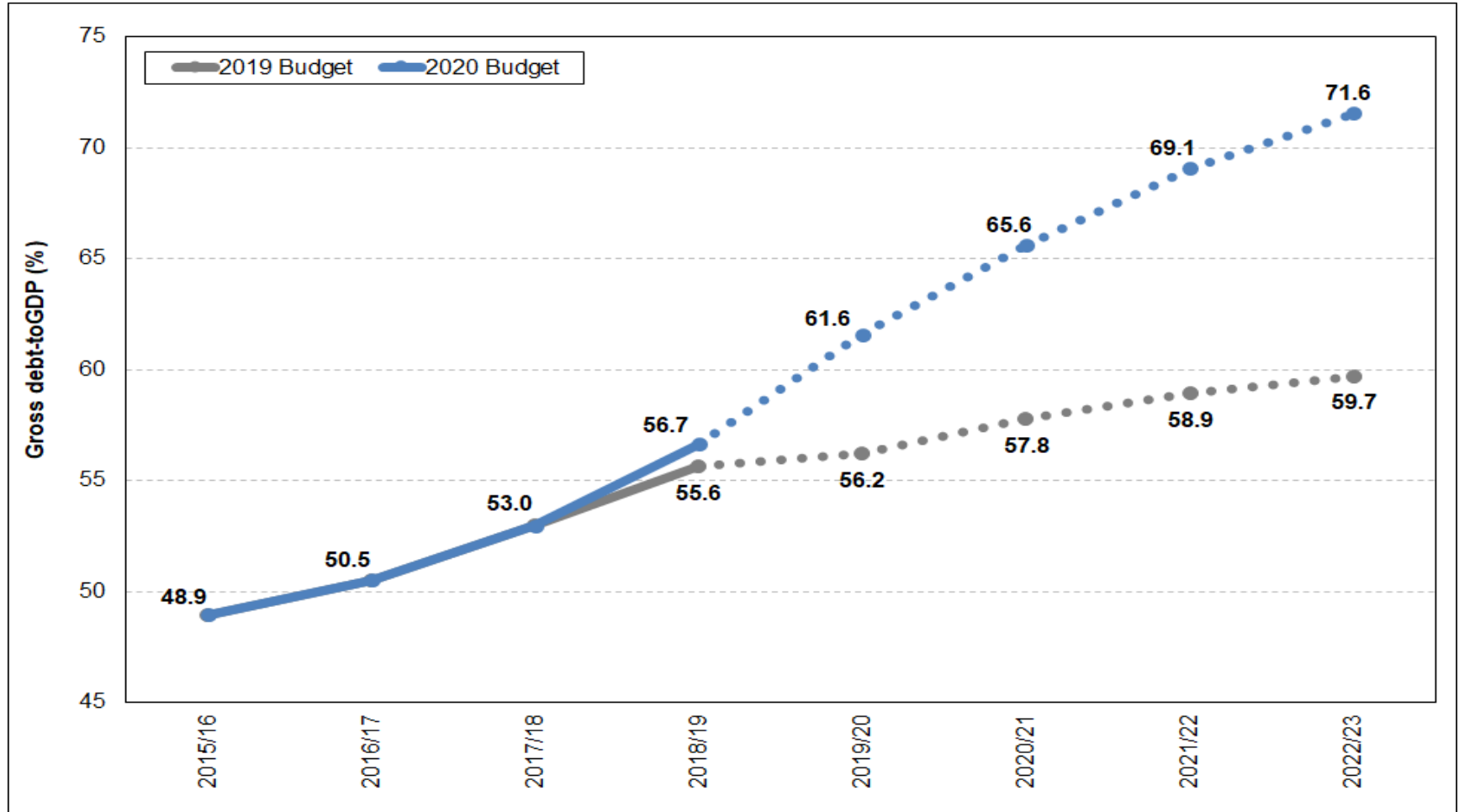
BUDGET 2020

...WHILE PUBLIC SECTOR WAGES HAVE INCREASED AT A RAPID RATE



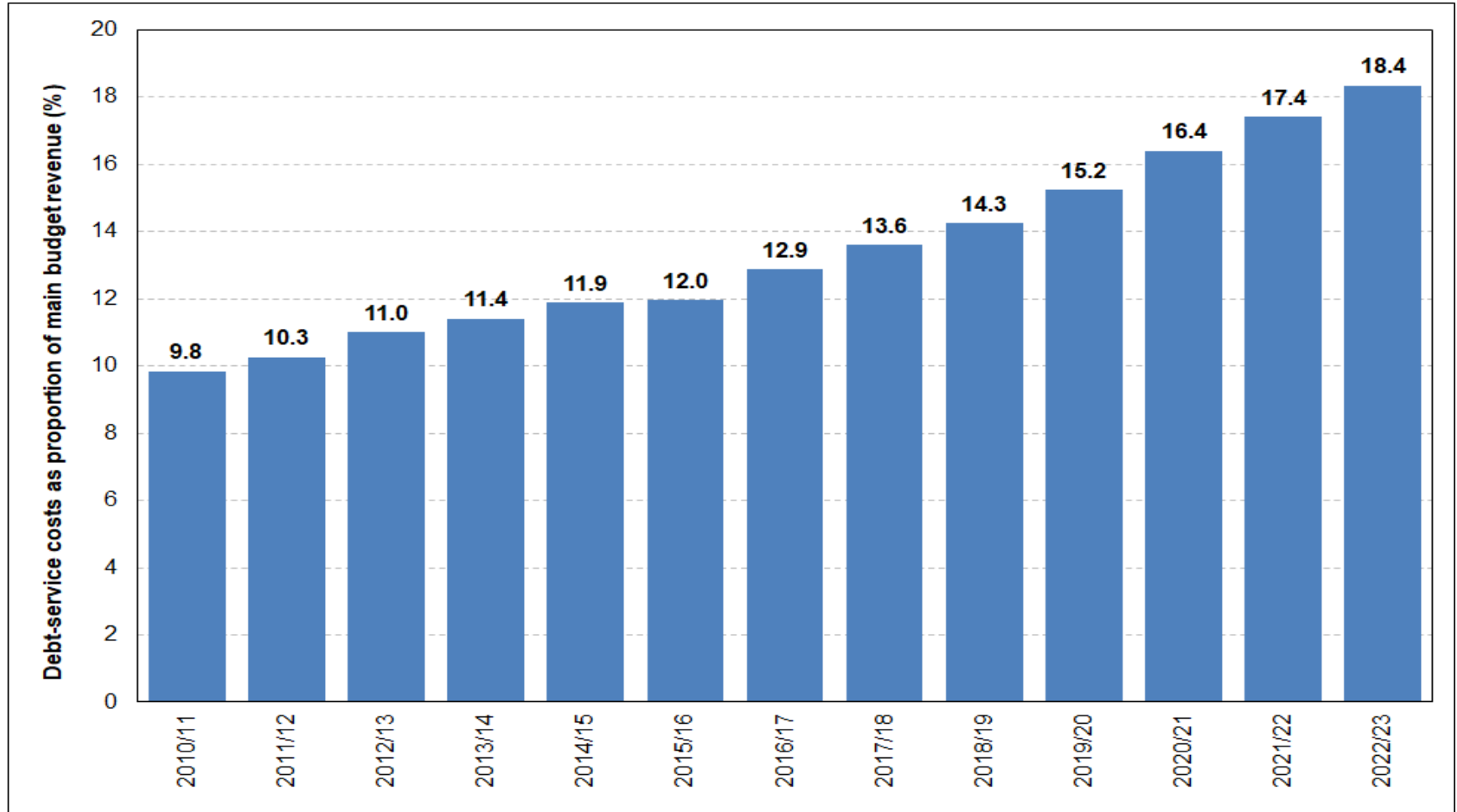
BUDGET 2020

= SKYROCKETING GOVERNMENT DEBT &...



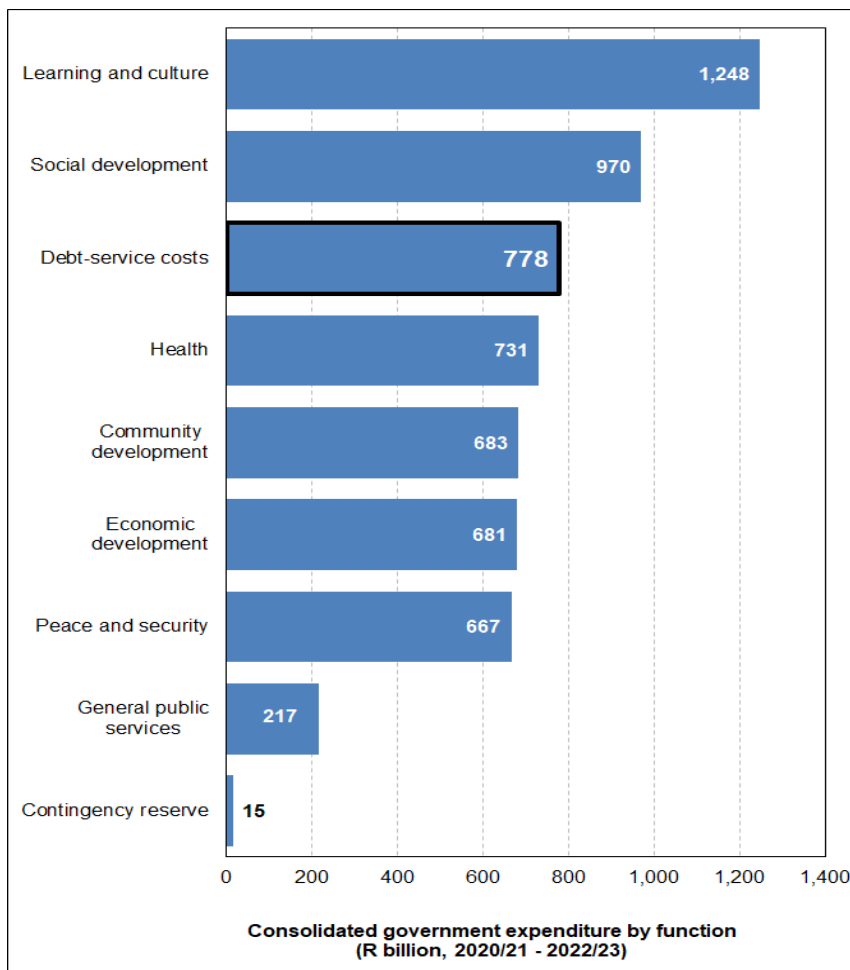
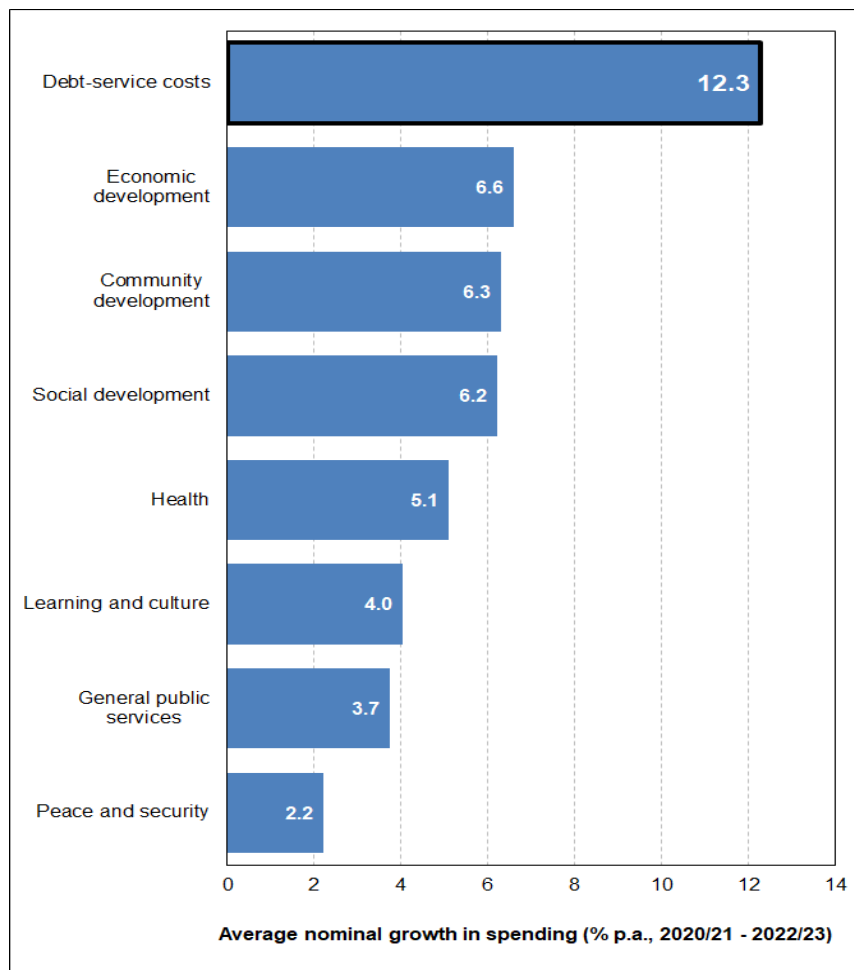
BUDGET 2020

...A MASSIVE RISE IN DEBT SERVICE COSTS...



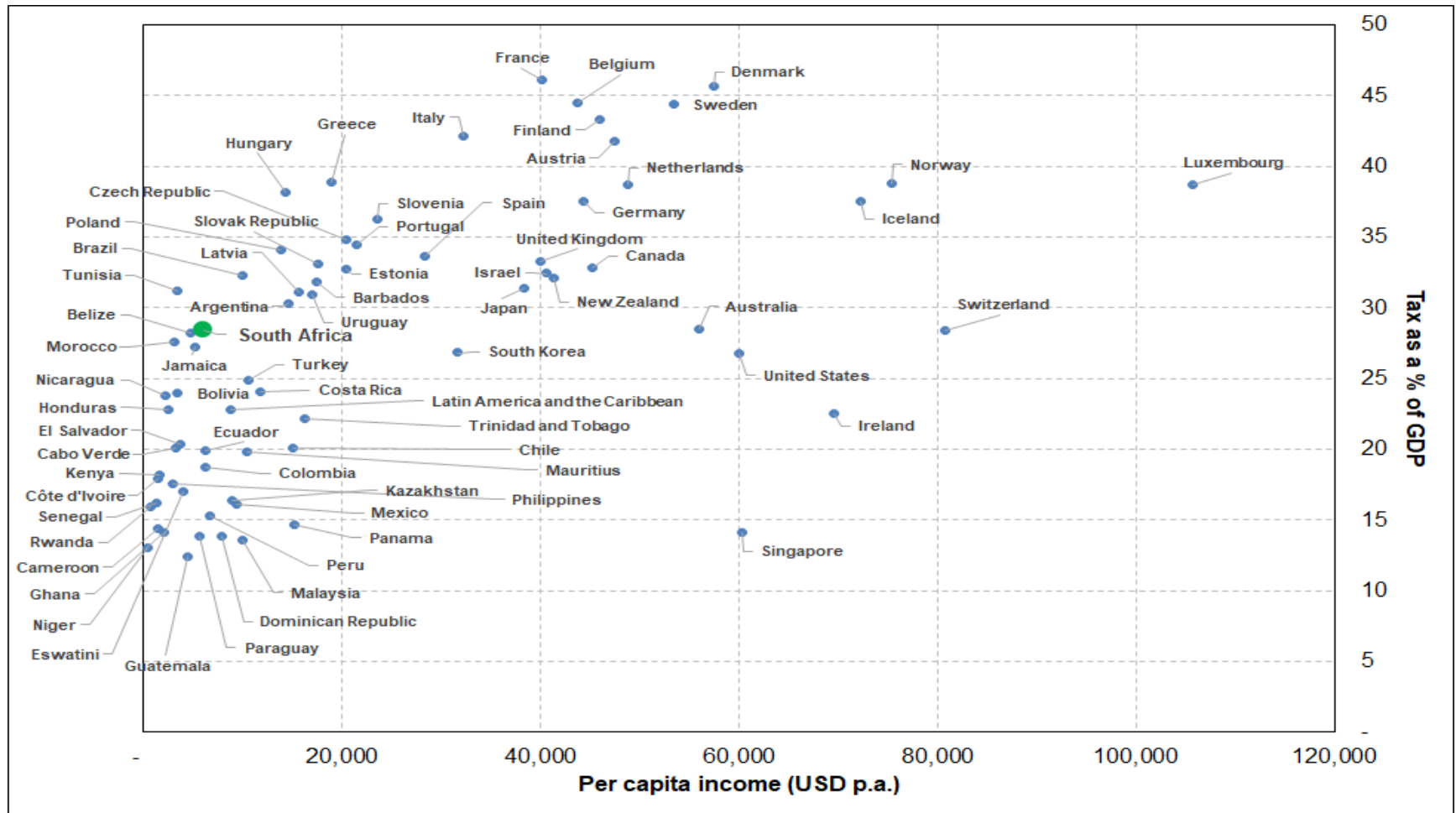
BUDGET 2020

...WHICH IS CROWDING OUT MORE PRODUCTIVE SPENDING



BUDGET 2020

TAX BURDEN ALREADY HIGH, SO LITTLE ROOM FOR FURTHER HIKES



BUDGET 2020

TAX BURDEN ALREADY HIGH, SO LITTLE ROOM FOR FURTHER HIKES

