

MONTH IN PICTURES

JANUARY 2021

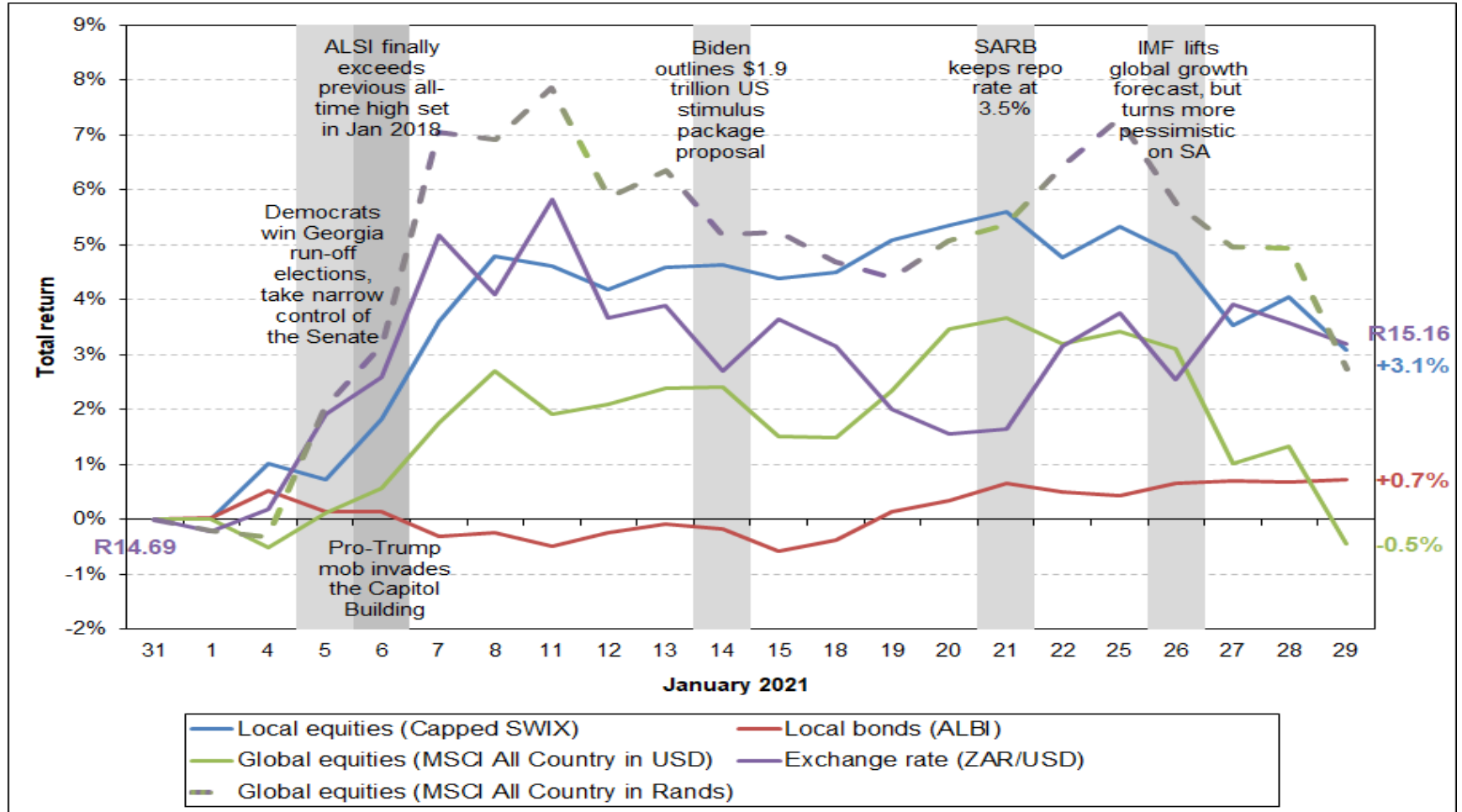
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The local equity market recorded its third consecutive month of positive returns in January, with the Capped SWIX returning +3.1% and the ALSI up 5.2%. The ALSI price level index (i.e., excluding dividends) also finally managed to break through its previous record high of 61,684 points set back in January 2018. The Capped SWIX still has to climb another 10% or so before reaching this milestone. Local equities have now returned a pleasing 20-21% over the last 3 months, following the vaccine rally that kicked off in November last year.
- Financials (-2.6%) and Listed Property (-3.2%) had a less enjoyable January, but strong gains over the previous two months still resulted in market-beating 3-month returns of +23.6% and +29.3% each. Industrials (+8.4%) and Resources (+5.1%) were therefore the main contributors in January, and now sport solid 3-month returns of +15.9% and +27.6%, respectively.
- Global markets did not share the same good start to the new year as local ones, with global equities and bonds delivering negative USD returns of -0.5% and -1.3%, respectively. A weaker Rand (by 3.2% against the US Dollar), resulted in small local currency gains of 2.7% and 1.9%, however.
- Over a 1-year period, which now includes the full impact of the Covid-19 crash and the subsequent strong recovery, the ALSI's return stands at a respectable +14.5%, with Industrials (+19.5%) and Resources (+32.0%) doing most of the heavy lifting. The Capped SWIX returned a much lower +6.4%, with its higher exposure to Financials (-17.4%) and Listed Property (-34.6%) being a drag on returns.
- With very strong recoveries underneath their belts, local asset classes now appear much more competitive when compared against their global counterparts. At the end of January, the ALSI's 1-year return of +14.5% was only marginally behind the global equity market's +18.3%, while local bonds (+8.2%) outperformed global bonds (+8.1%) despite the former's double downgrades last year. Local markets have continued to power ahead in February, with the local equity market eventually overtaking global equity markets on a rolling 1-year basis, despite the former's much larger losses at the beginning of this period.
- Along with other major central banks across the globe, the SARB kept the repo policy rate unchanged at 3.5%.
- The IMF lifted their forecasts for global economic growth in their latest review, with 2021's expectation upped to 5.5% from 5.2% previously. Unfortunately the same can't be said for South Africa, whose already meagre growth expectation of 2.8% was revised even lower, to 2.8%.
- SA's official unemployment rate increased to a record 32.5% in 2020 Q4 as a million more people joined the labour force, but only around 300,000 could find employment.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

| Market indicators (% change) ¹ | | Nov 2020 | Dec 2020 | Jan 2021 | 3 months | 12 months |
|---|------------------|----------|----------|----------|----------|-----------|
| Local equities | ALSI | 10.5 | 4.2 | 5.2 | 21.2 | 14.5 |
| | Capped SWIX | 10.4 | 5.5 | 3.1 | 20.0 | 6.4 |
| | Resources | 10.9 | 9.5 | 5.1 | 27.6 | 32.0 |
| | Industrials | 8.0 | (1.0) | 8.4 | 15.9 | 19.5 |
| | Financials | 17.1 | 8.3 | (2.6) | 23.6 | (17.4) |
| | Listed Property | 17.5 | 13.7 | (3.2) | 29.3 | (34.6) |
| Local bonds | ALBI | 3.3 | 2.4 | 0.8 | 6.6 | 8.2 |
| Local cash | STeFI Composite | 0.3 | 0.3 | 0.3 | 0.9 | 5.1 |
| Global equities | MSCI All Country | 7.0 | (0.6) | 2.7 | 9.3 | 18.3 |
| Global bonds | FTSE WGBI | (3.3) | (3.7) | 1.9 | (5.1) | 8.1 |
| Exchange rate | ZAR/USD | (4.8) | (5.0) | 3.2 | (6.6) | 1.1 |
| Inflation | CPI | 0.0 | 0.2 | 0.3 | 0.5 | 3.2 |

1. Total returns (in Rands) for the months and periods ending 31 January 2021.

MARKET INDICATORS

MEDIUM TO LONG TERM

| Market indicators (% change) ¹ | | 1 year | 3 years | 5 years | 10 years | 15 years |
|---|------------------|--------|---------|---------|----------|----------|
| Local equities | ALSI | 14.5 | 4.8 | 8.1 | 10.4 | 11.2 |
| | Capped SWIX | 6.4 | (0.3) | 4.3 | 9.2 | 10.2 |
| | Resources | 32.0 | 22.4 | 25.2 | 4.7 | 7.2 |
| | Industrials | 19.5 | 2.8 | 5.1 | 13.8 | 14.4 |
| | Financials | (17.4) | (9.5) | (1.1) | 8.0 | 7.7 |
| | Listed Property | (34.6) | (18.8) | (8.5) | 3.6 | 7.5 |
| Local bonds | ALBI | 8.2 | 8.5 | 9.6 | 8.6 | 8.1 |
| Local cash | STeFI Composite | 5.1 | 6.5 | 6.9 | 6.3 | 7.2 |
| Global equities | MSCI All Country | 18.3 | 17.1 | 12.5 | 17.4 | 13.5 |
| Global bonds | FTSE WGBI | 8.1 | 12.8 | 3.3 | 10.1 | 10.2 |
| Exchange rate | ZAR/USD | 1.1 | 8.5 | (0.9) | 7.8 | 6.3 |
| Inflation | CPI | 3.2 | 3.9 | 4.5 | 5.1 | 5.6 |

1. Total returns (in Rands) for the months and periods ending 31 January 2021.

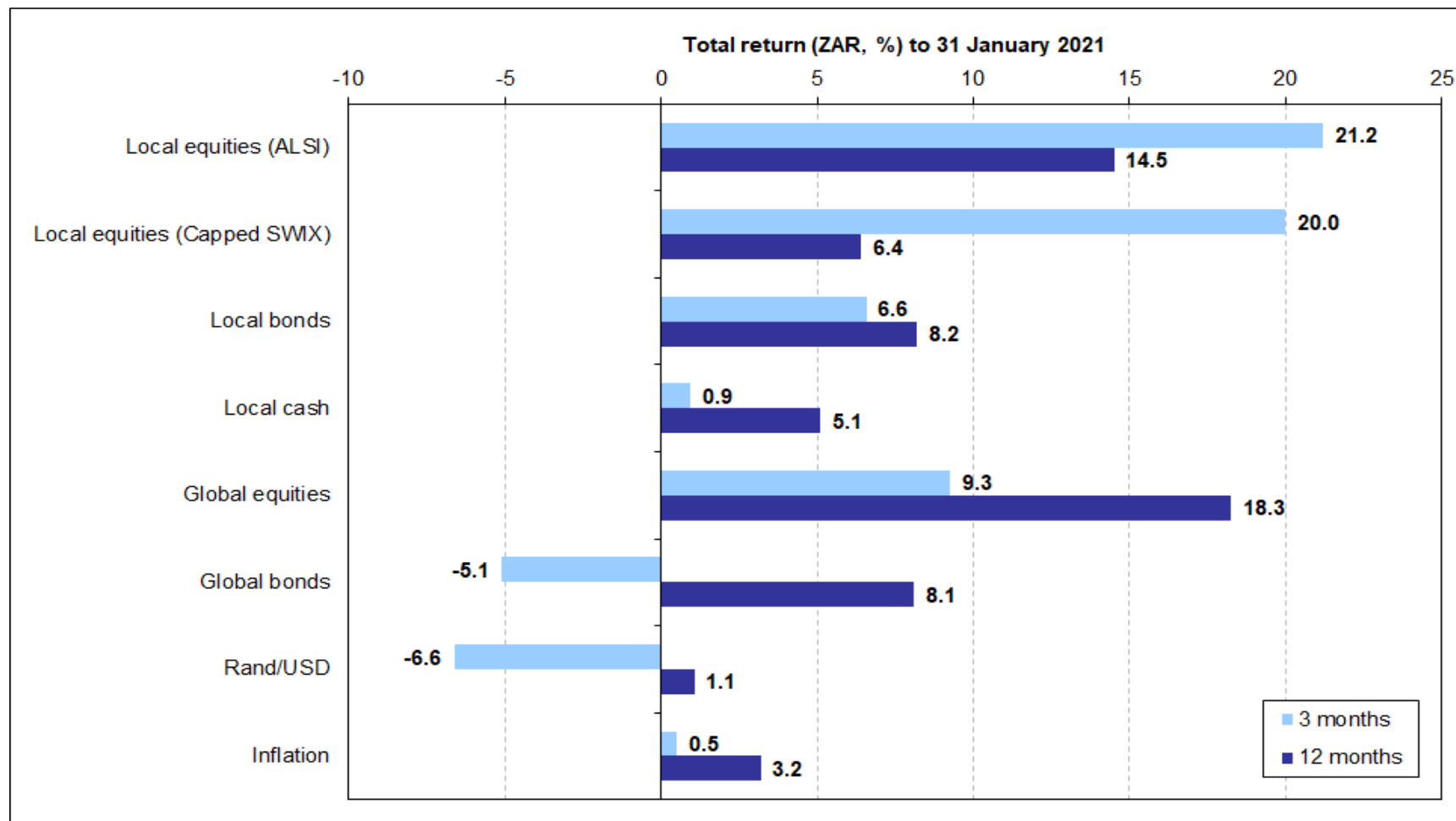
ECONOMIC INDICATORS

| Economic indicators ¹ | Jan 2019 | Jan 2020 | Nov 2020 | Dec 2020 | Jan 2021 |
|----------------------------------|----------|----------|----------|----------|----------|
| Exchange rates: | | | | | |
| ZAR/USD | 13.25 | 15.00 | 15.47 | 14.69 | 15.16 |
| ZAR/GBP | 17.36 | 19.81 | 20.60 | 20.08 | 20.78 |
| ZAR/Euro | 15.17 | 16.65 | 18.45 | 17.95 | 18.40 |
| Commodities: | | | | | |
| Brent Crude Oil (USD/barrel) | 61.10 | 58.16 | 47.88 | 51.80 | 55.04 |
| Platinum (USD/ounce) | 817.61 | 957.50 | 959.51 | 1,069.93 | 1,082.95 |
| Gold (USD/ounce) | 1,320.20 | 1,589.69 | 1,776.30 | 1,894.23 | 1,846.97 |

1. Month-end prices

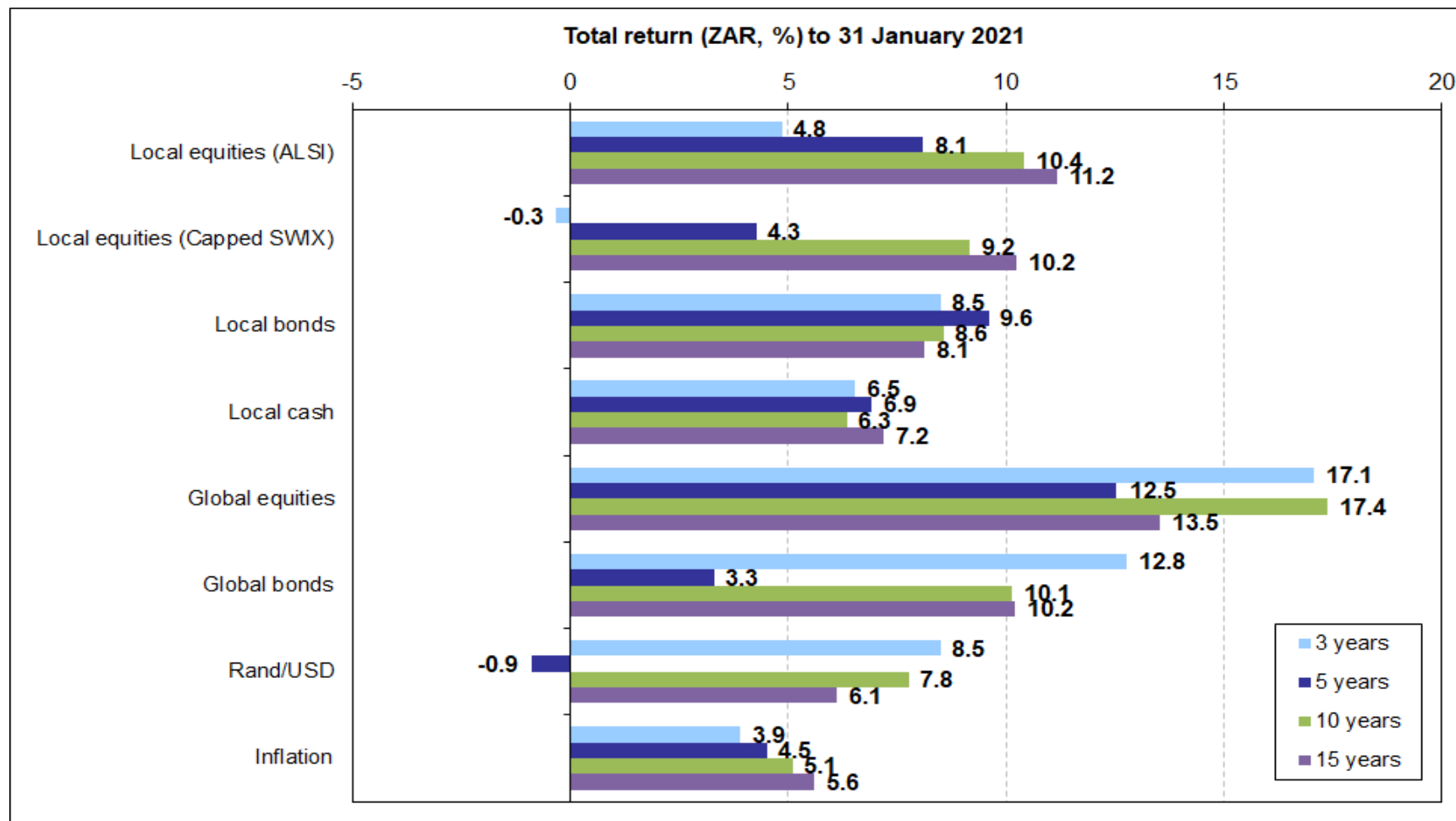
ASSET CLASS PERFORMANCE

SHORT TERM



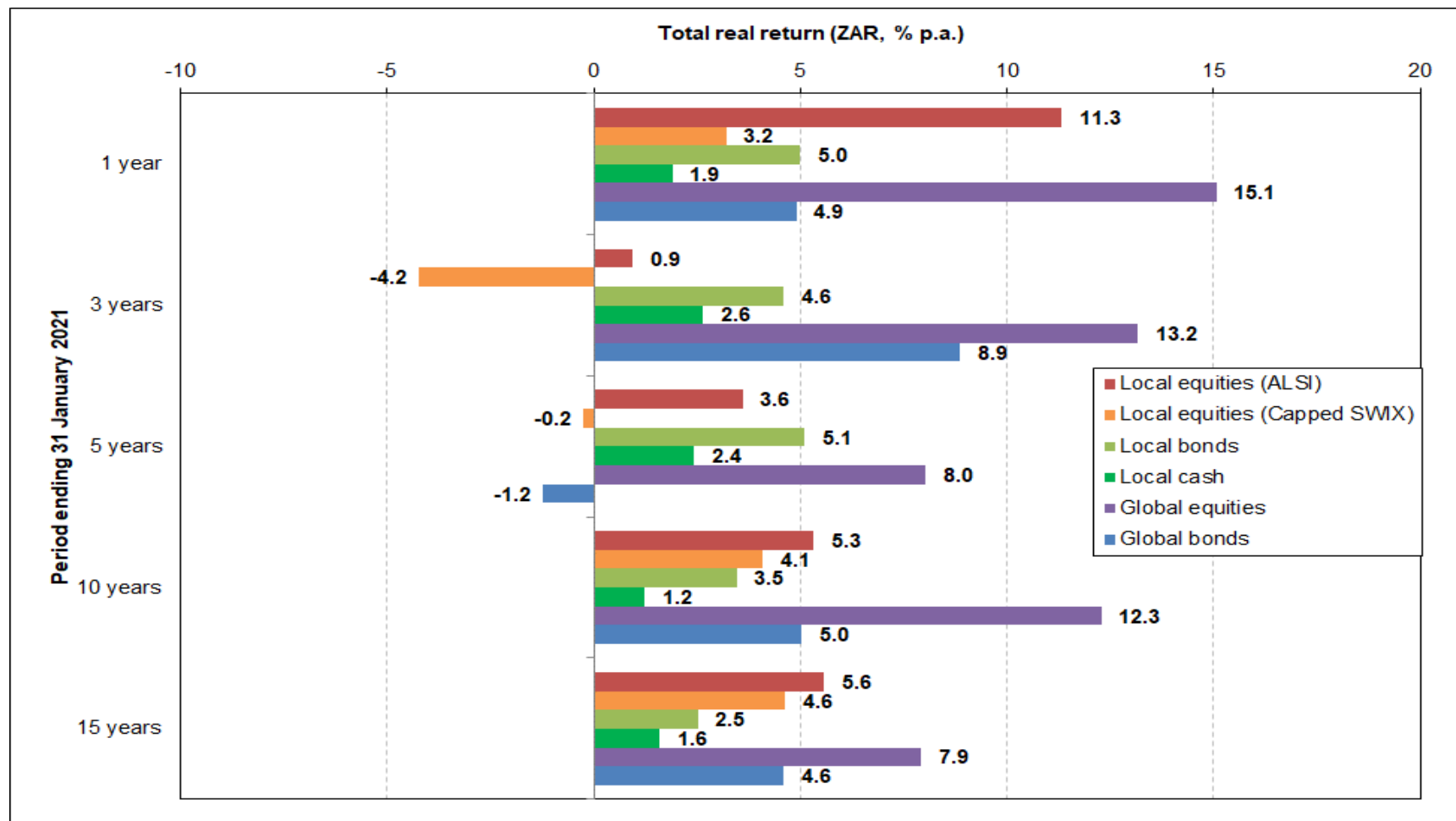
ASSET CLASS PERFORMANCE

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:

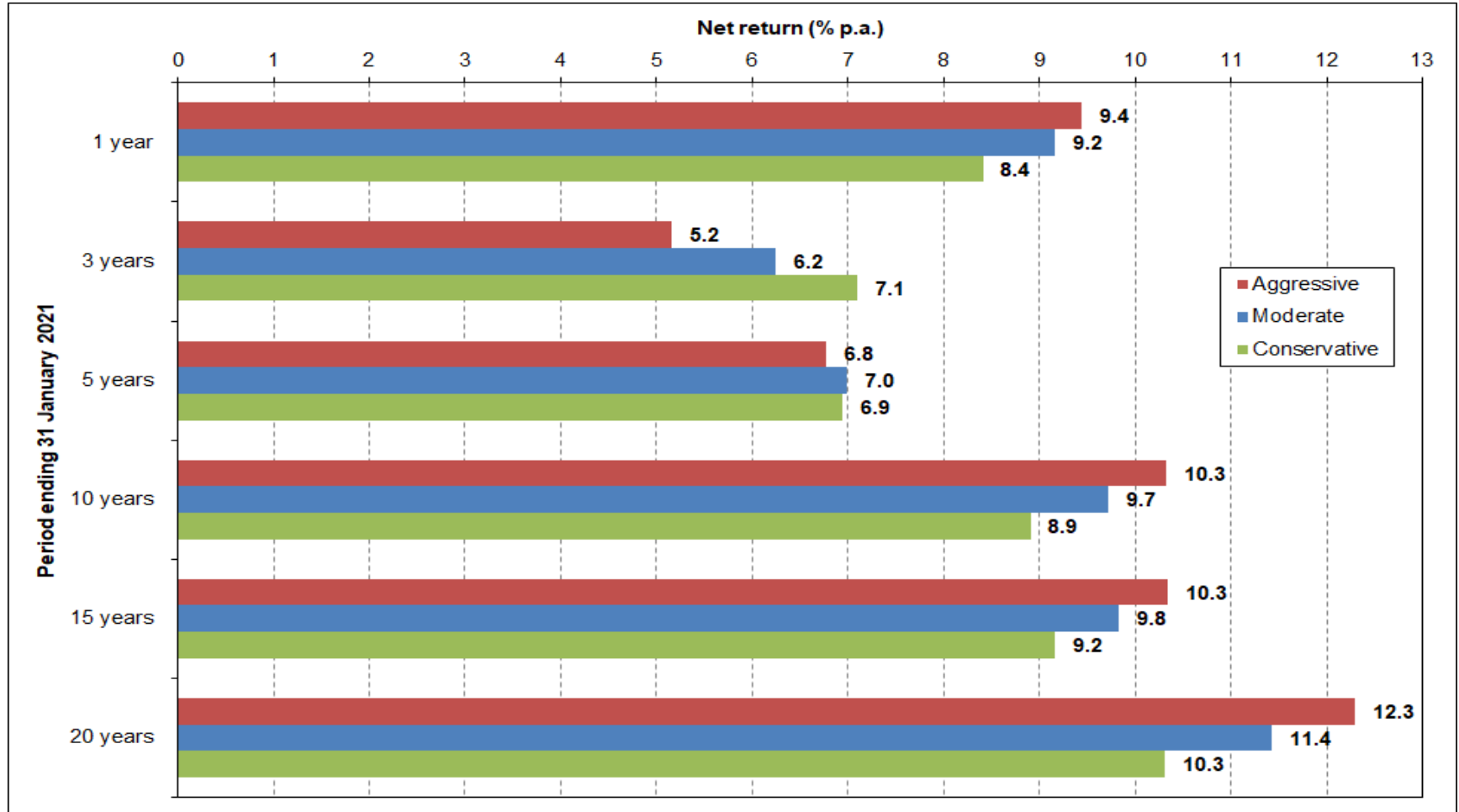
| | | | | | | | |
|------------|----------------------|---------------------------|------|------|-----|-----------------------------------|------|
| AGGRESSIVE | Strategic allocation | LOCAL VS OFFSHORE | 75% | | | 25% (5% below regulatory maximum) | |
| | | GROWTH VS INCOME ASSETS | 75% | 25% | | 75% | 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% |

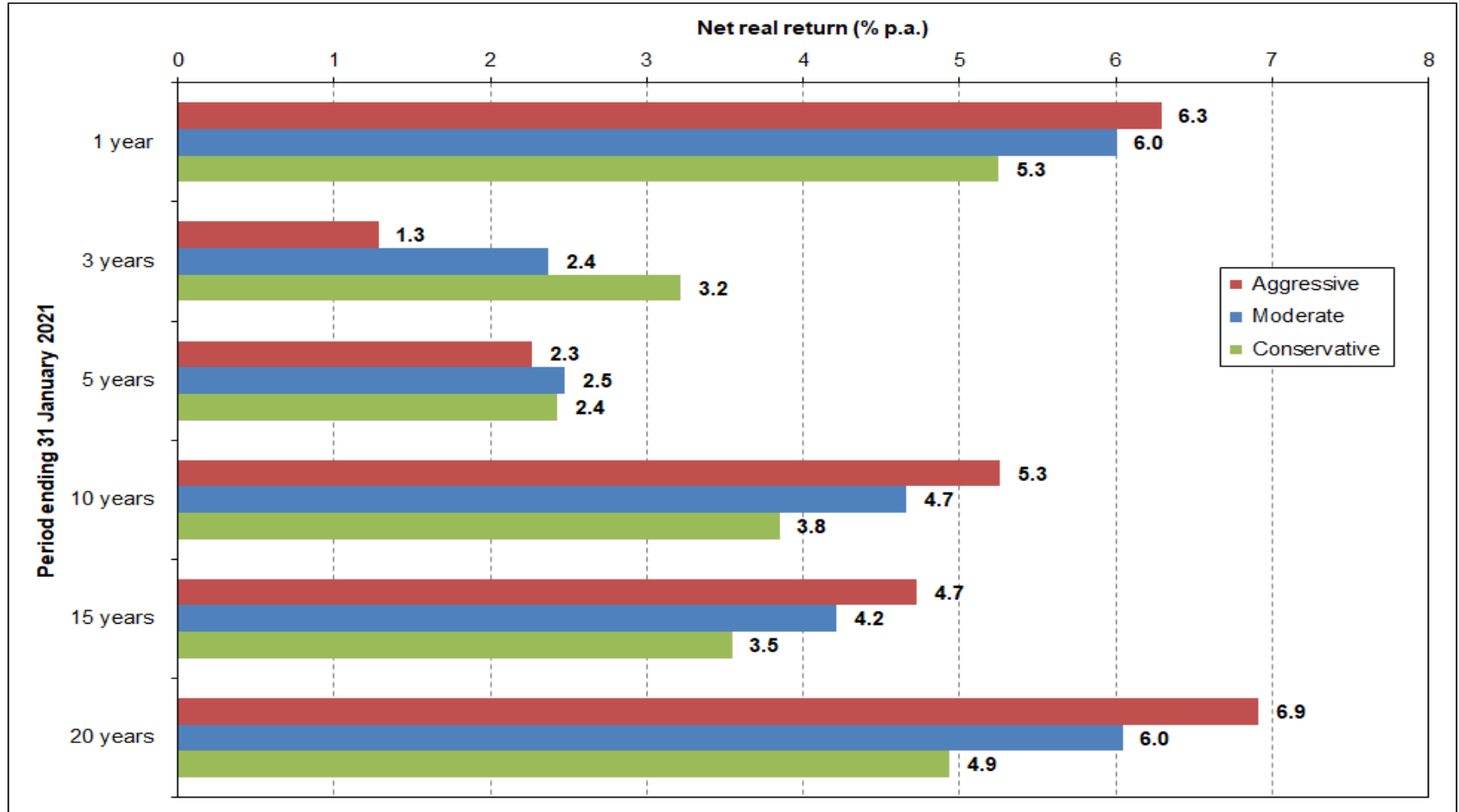
MARKET PERFORMANCE

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?



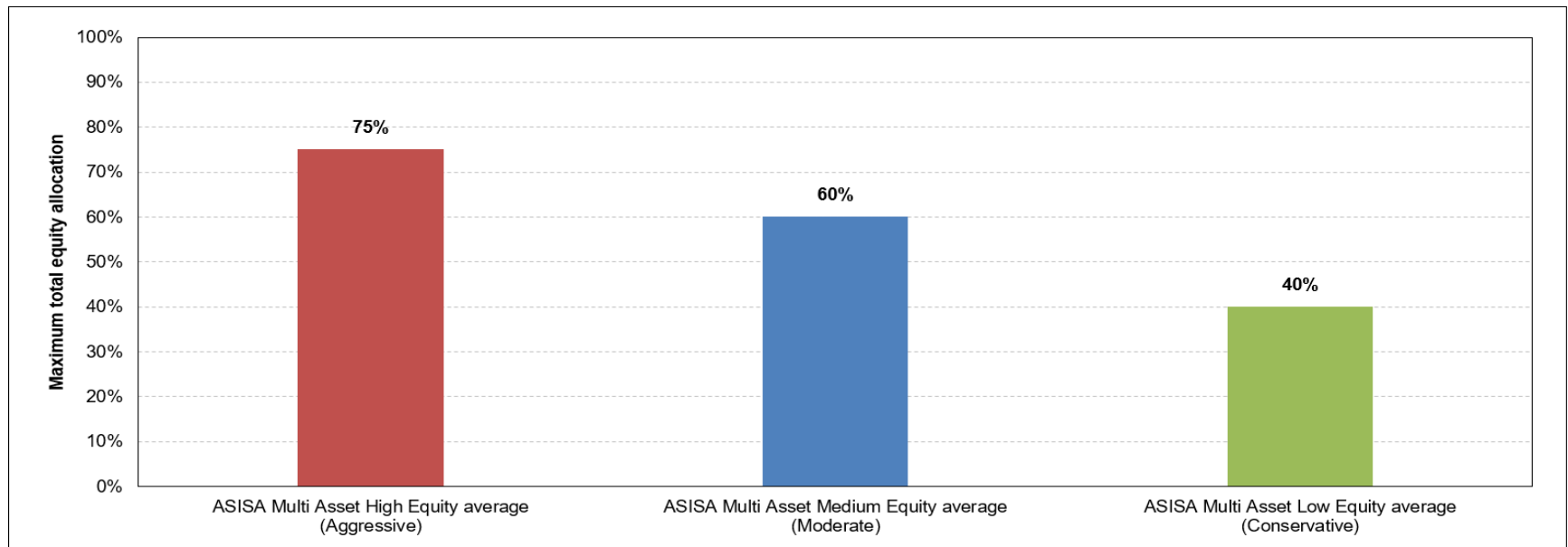
MANAGER PERFORMANCE

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?

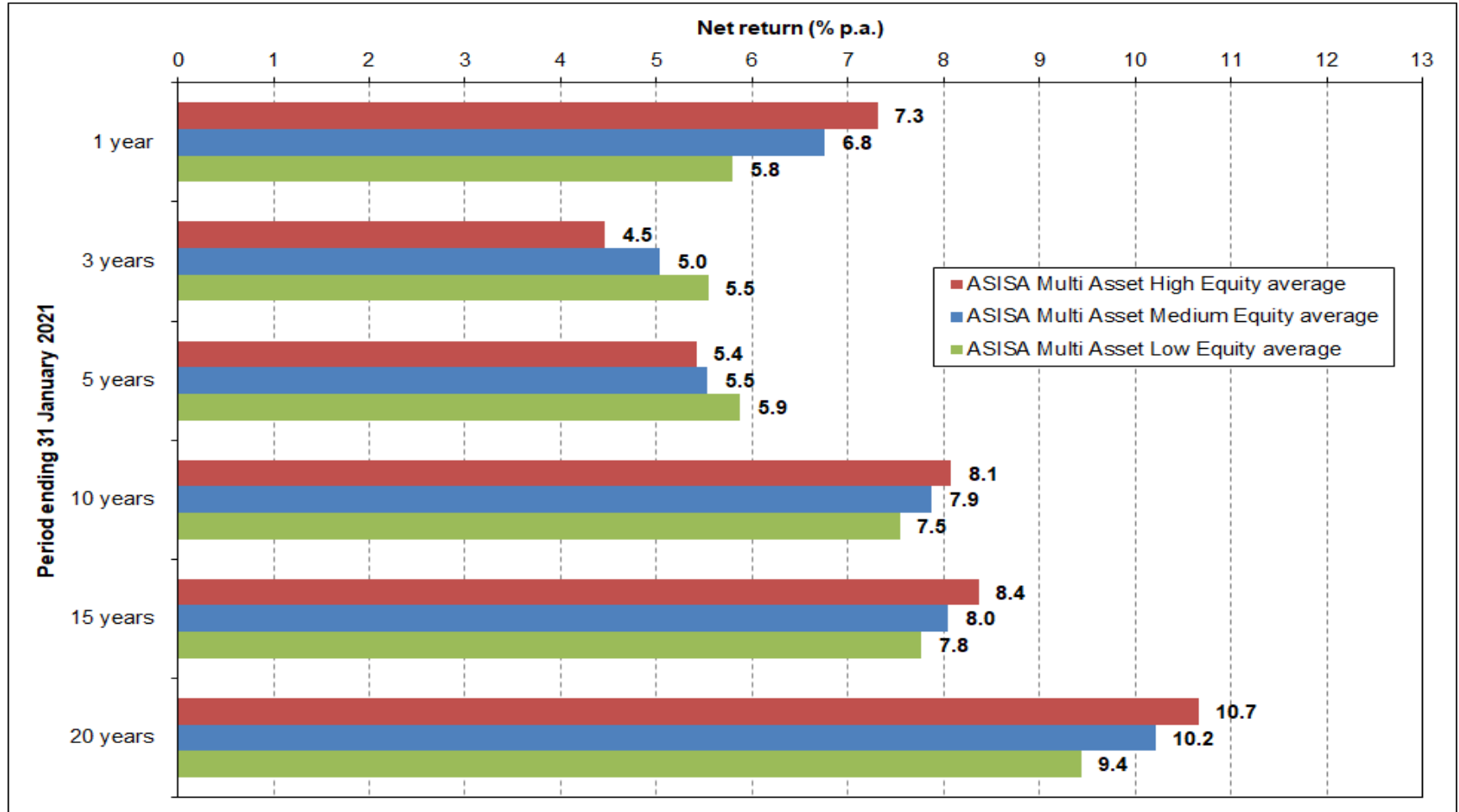
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



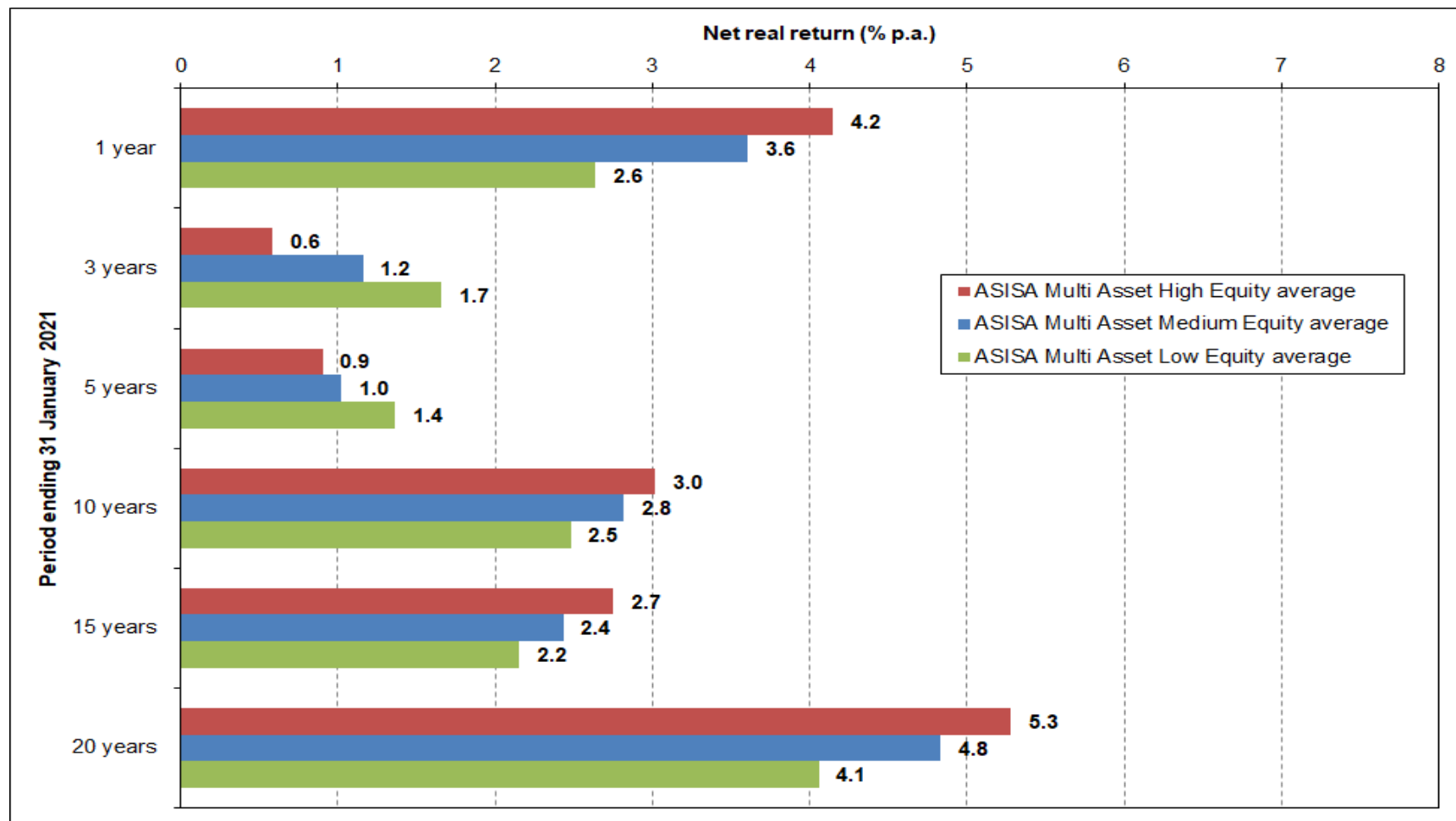
MANAGER PERFORMANCE

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



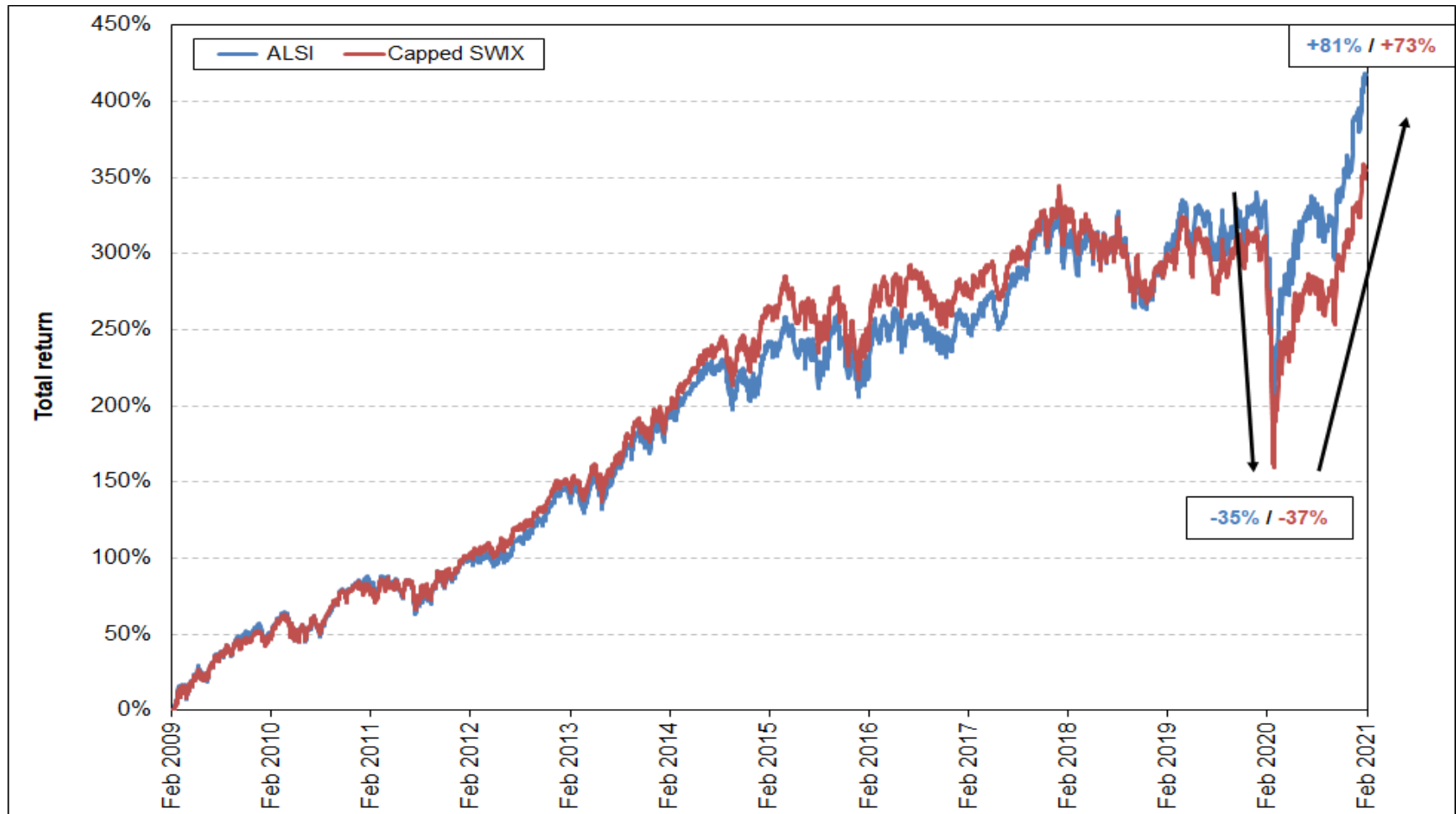
MANAGER PERFORMANCE

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



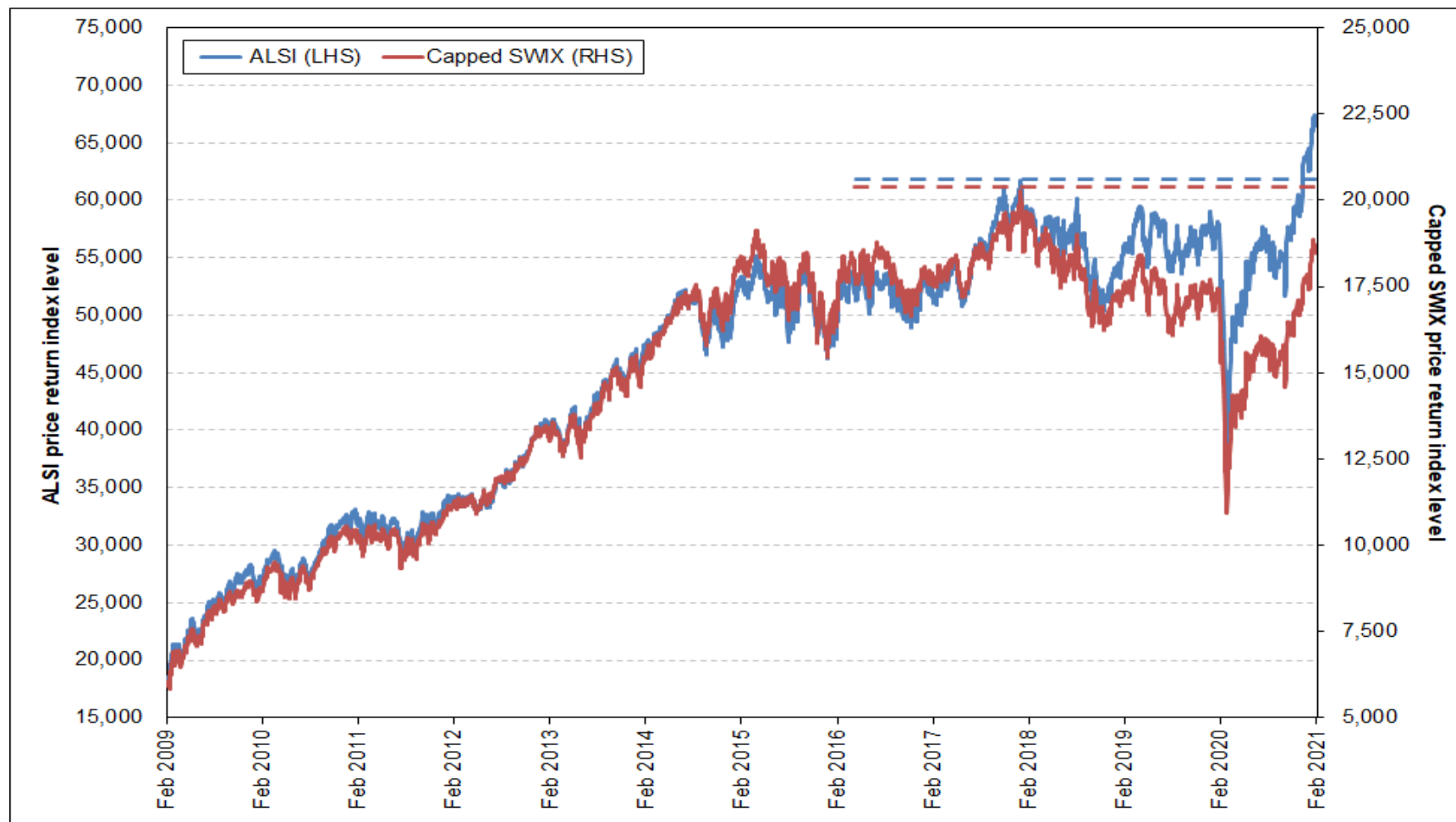
LOCAL EQUITY MARKET

MASSIVE RALLY ERASES 2020 LOSSES AND THEN SOME...



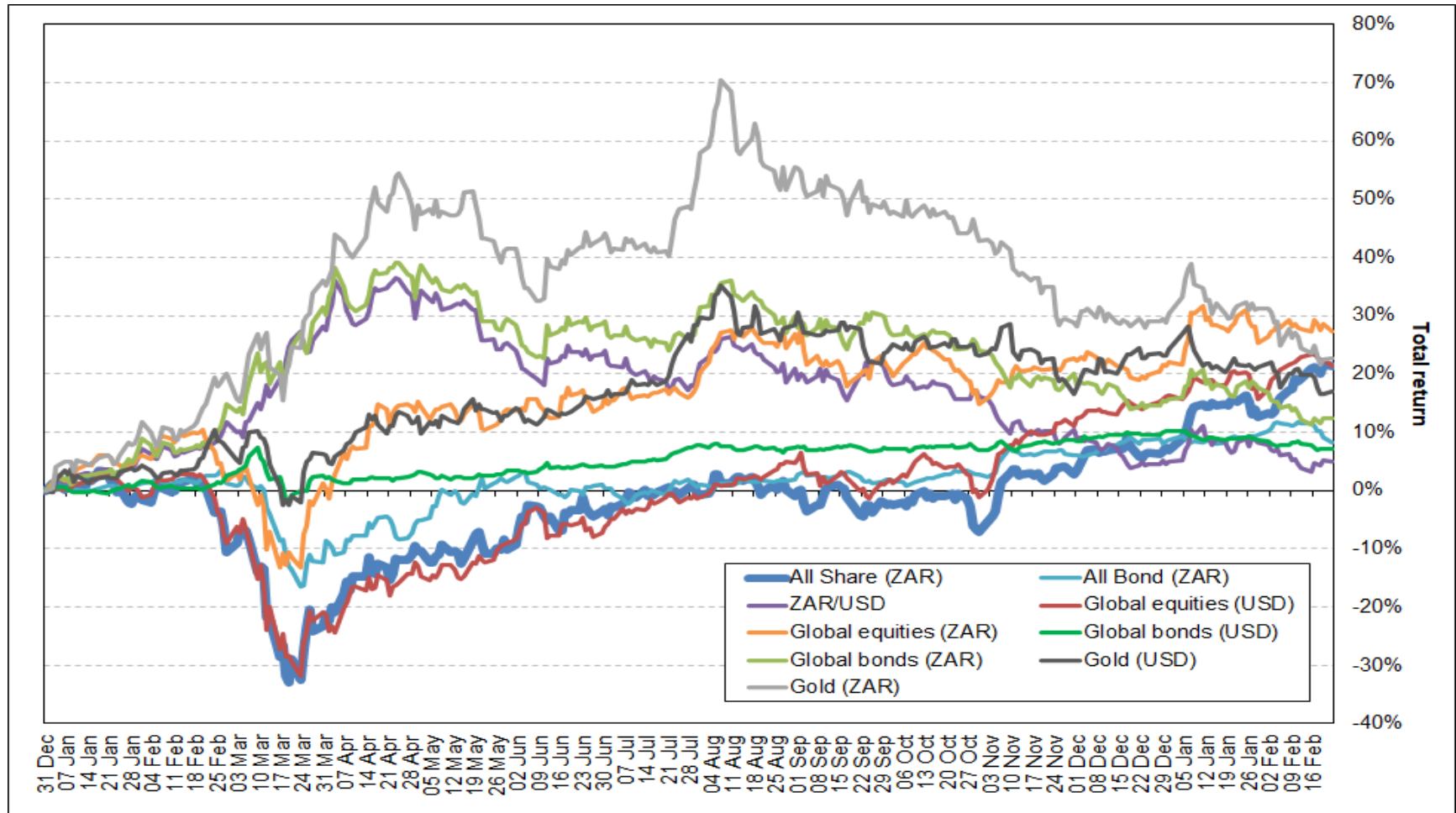
LOCAL EQUITY MARKET

...WHILE THE ALSI (EXCLUDING DIVIDENDS) BREAKS THROUGH PREVIOUS RECORD HIGHS



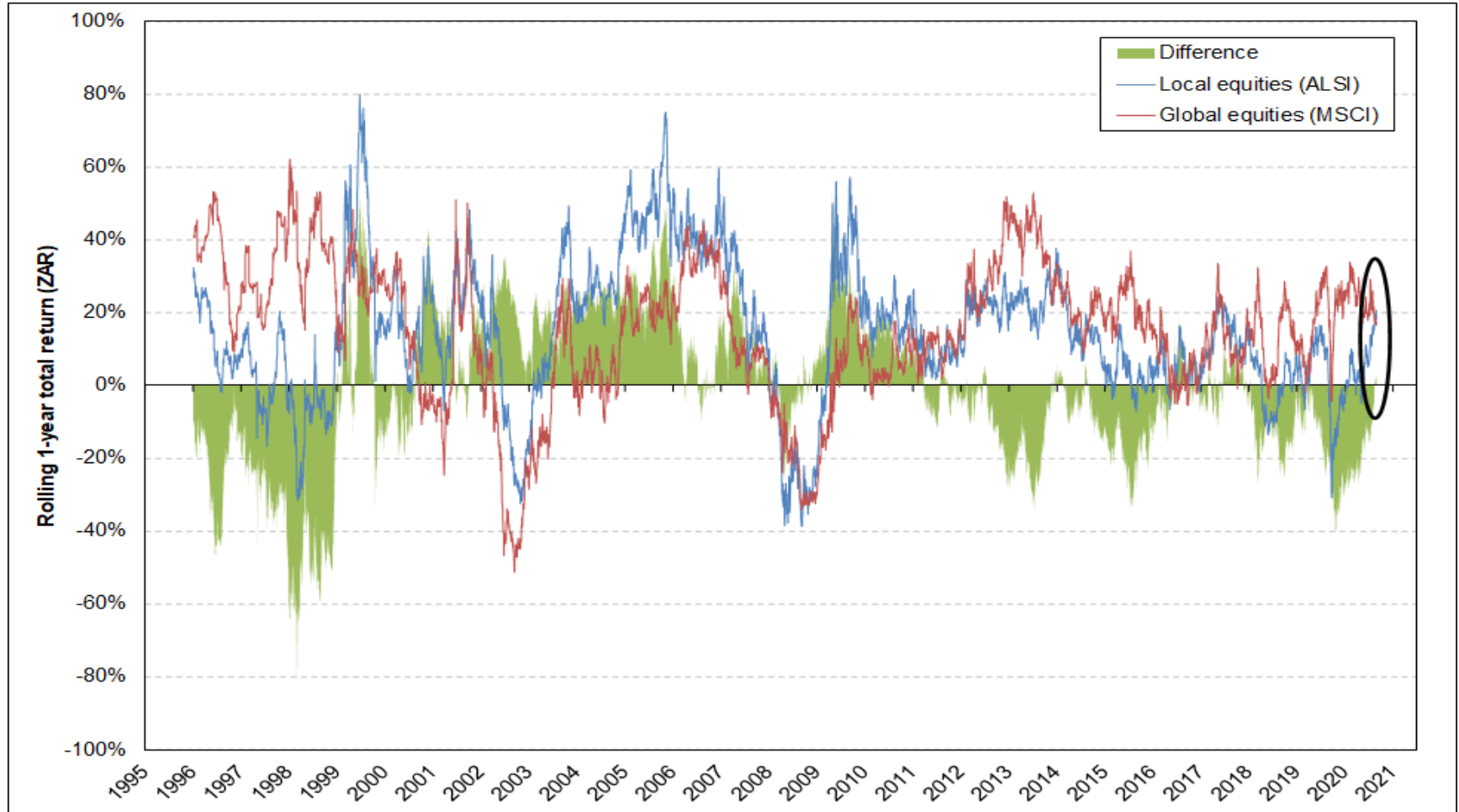
LOCAL EQUITY MARKET

FAST BECOMING ONE OF THE BEST-PERFORMING MAJOR ASSET CLASSES FOR LOCALS SINCE THE START OF 2020...



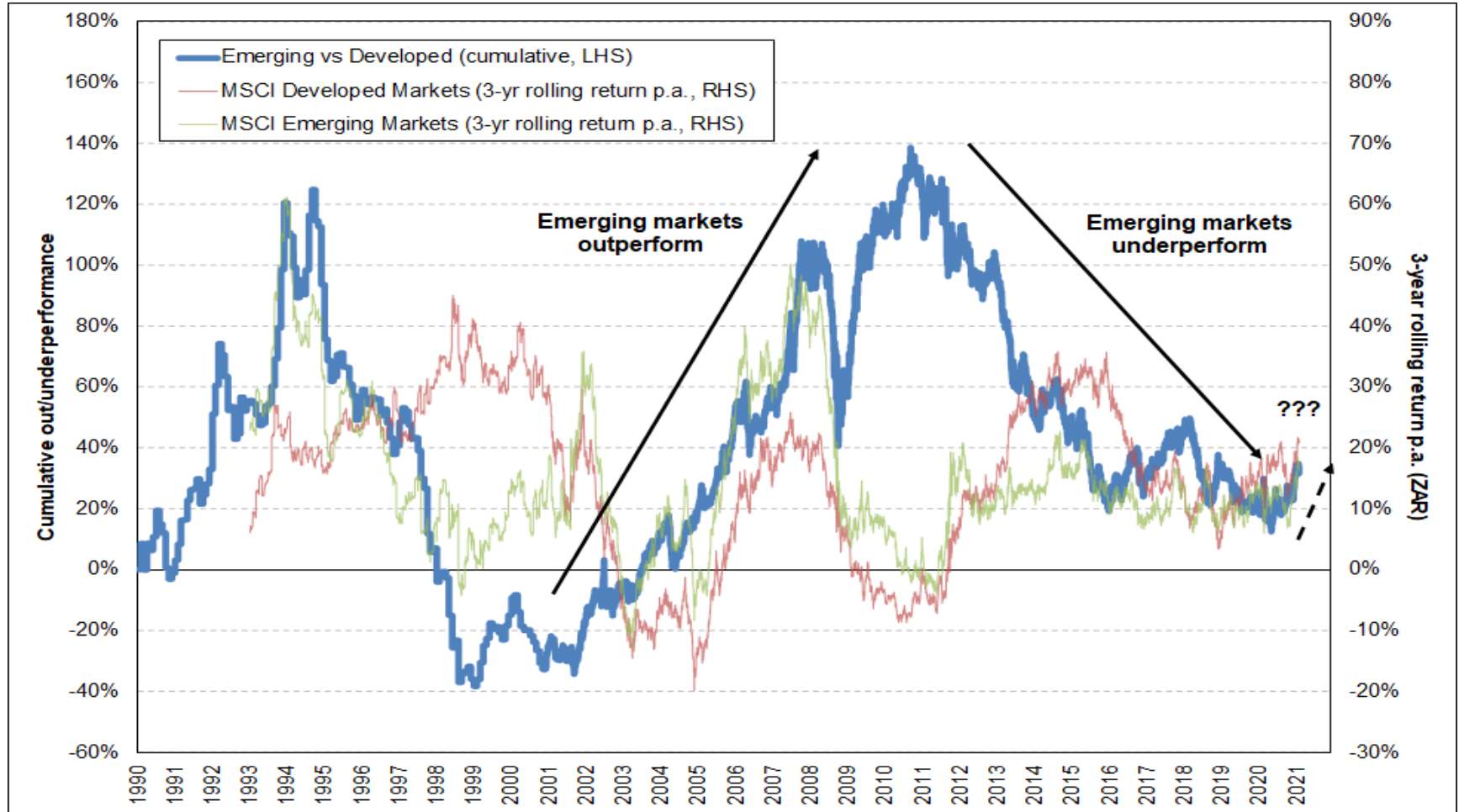
LOCAL EQUITY MARKET

...AND OVERTOOK GLOBAL EQUITIES ON A ROLLING 1-YEAR BASIS IN FEBRUARY, DESPITE PANDEMIC CRASH



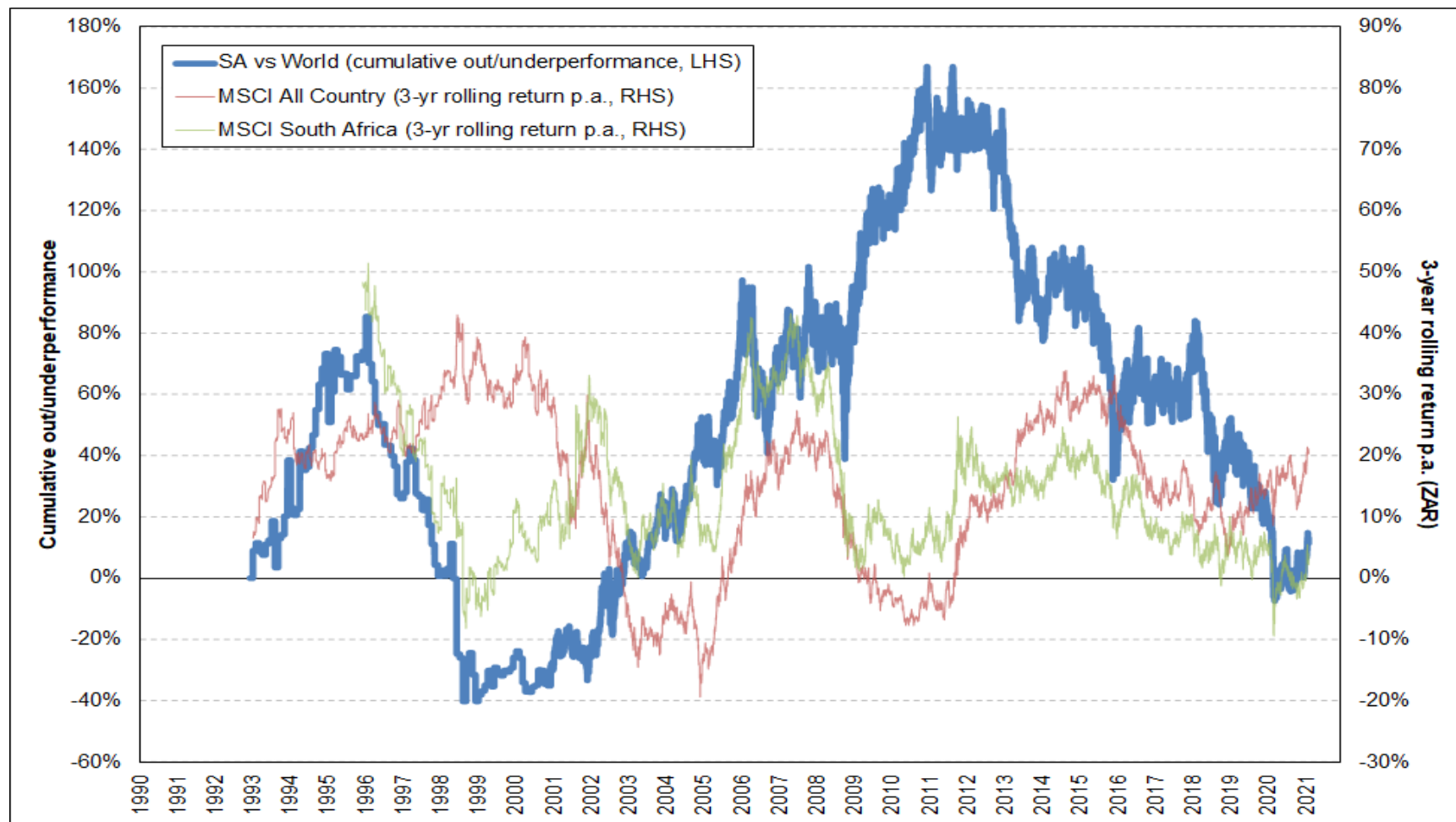
EMERGING VS DEVELOPED EQUITIES

IS THE CYCLE FINALLY TURNING AGAIN?



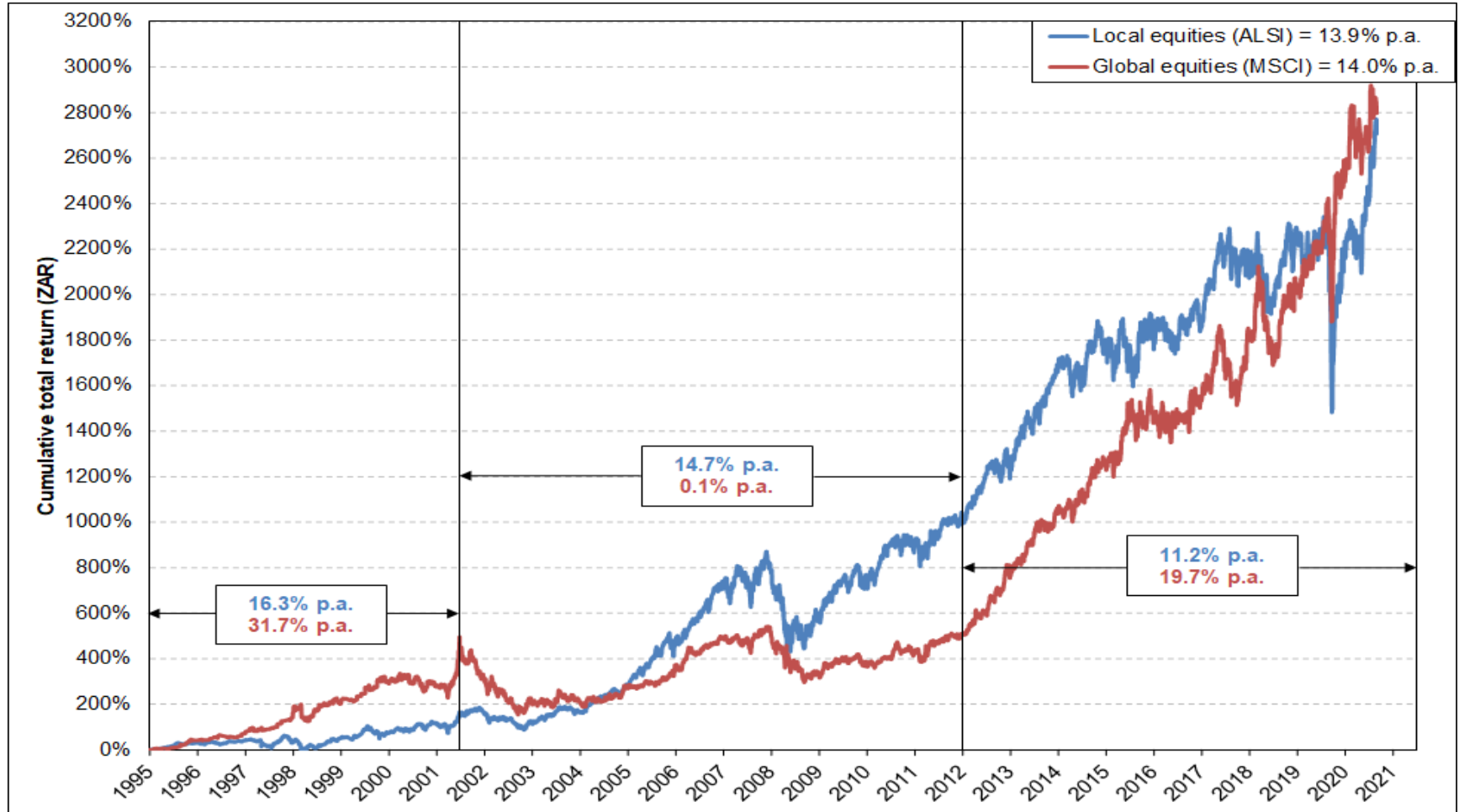
SA VS GLOBAL EQUITIES

IS THIS THE SAME PICTURE?



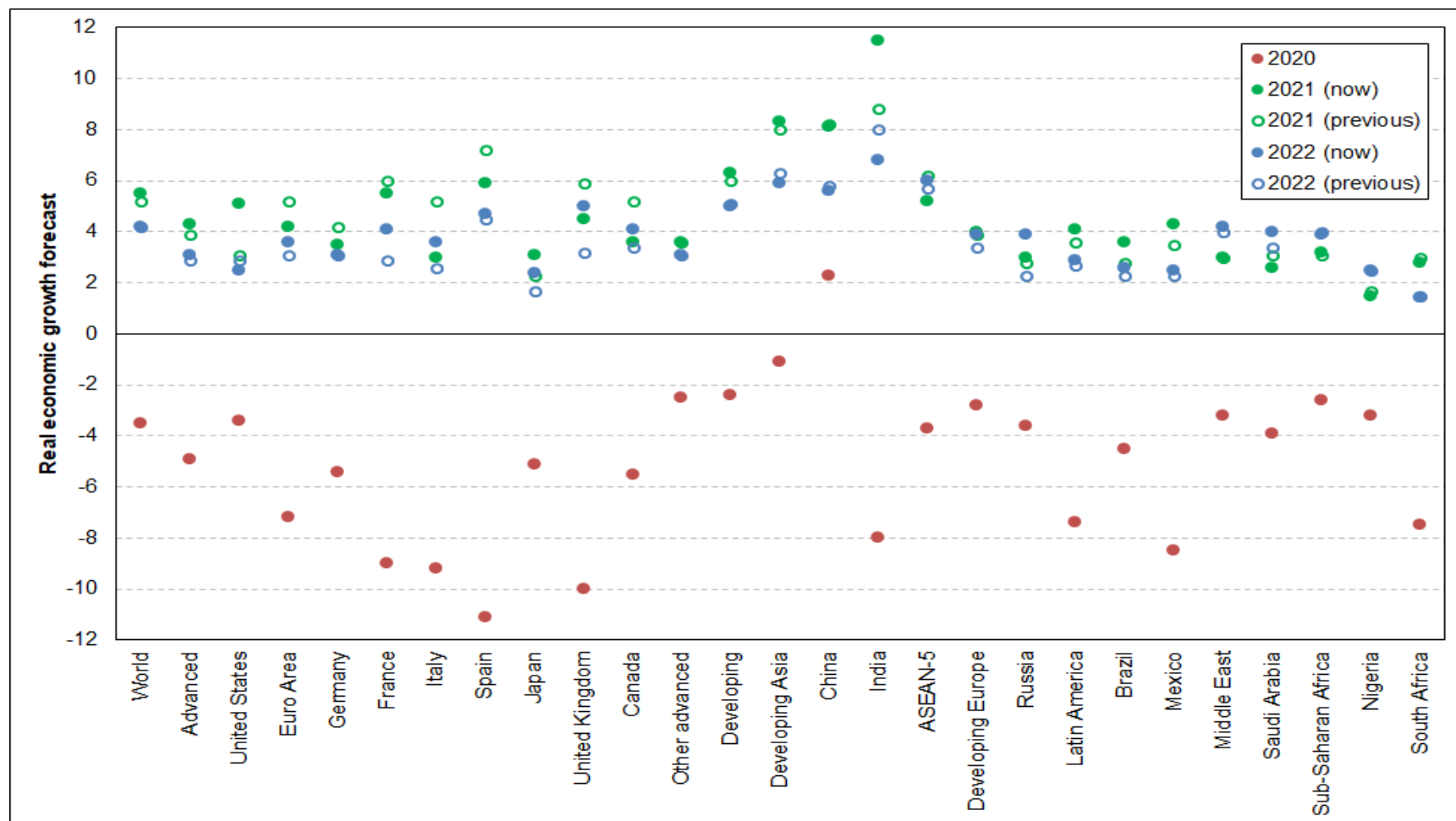
SA VS GLOBAL EQUITIES

NECK AND NECK OVER THE LONG TERM



GLOBAL ECONOMIC GROWTH FORECASTS

UPGRADED FOR MOST, BUT NOT SOUTH AFRICA



SA UNEMPLOYMENT REACHES NEW RECORD HIGHS

