

MONTH IN PICTURES

AUGUST 2020

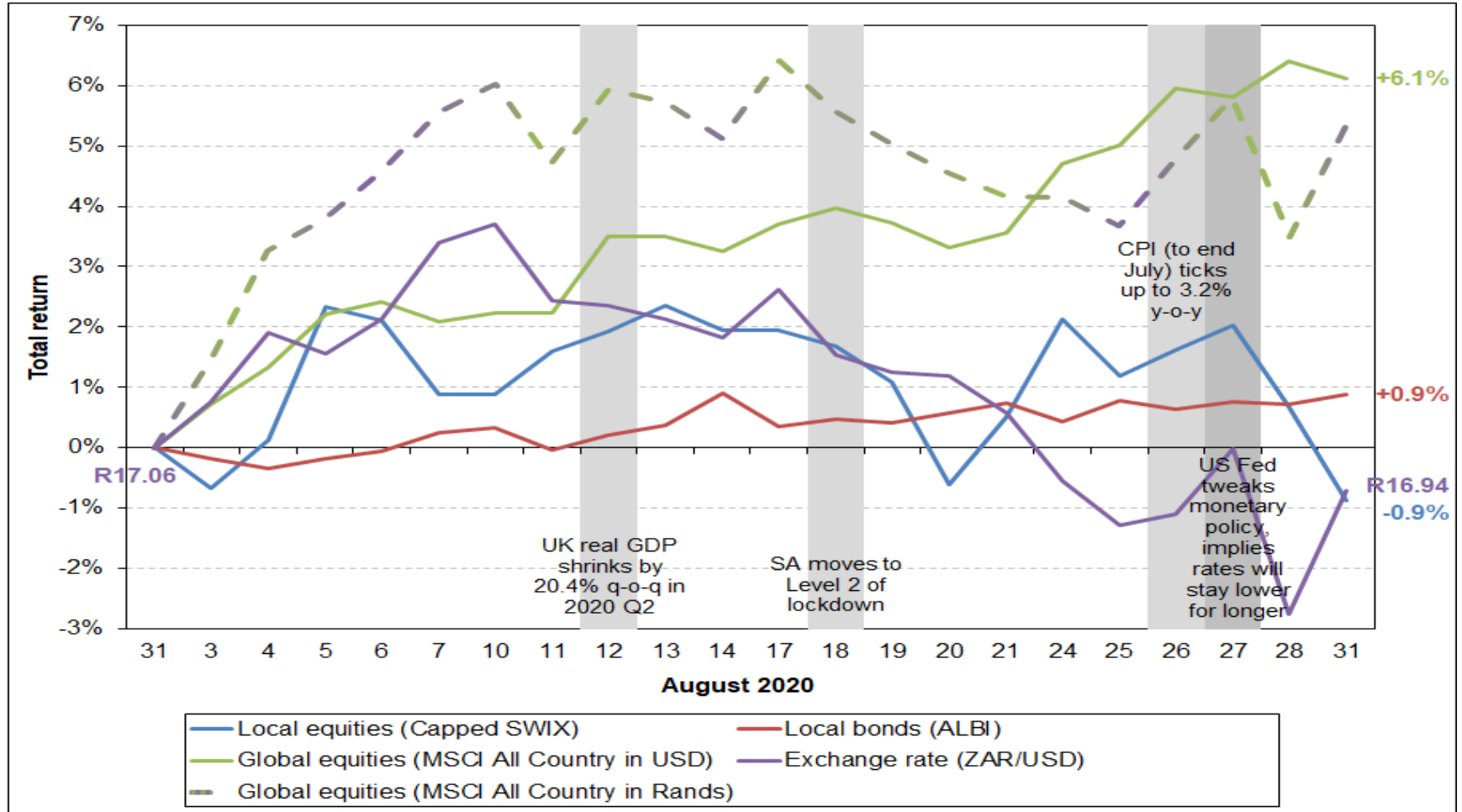
MONTHLY SNAPSHOT

NOTABLE EVENTS

- After trading in positive territory for most of the month, the local equity market gave back some of its strong post-March gains by ending August 0.9% lower. This was mostly driven by the more 'SA Inc.' exposed sectors, as Financials (-4.2%) and Listed Property (-8.6%) came under pressure yet again. Industrials and Resources managed to buck the trend by adding 0.5% and 0.7% for the month respectively.
- The local fixed income market had another relatively subdued month, with bonds ending the month 0.9% higher and cash returning +0.4%.
- The Rand continued to strengthen against a broadly weaker US Dollar, closing below R17 for the first time since the Covid-19 market crash. At the end of August the Rand stood at R16.94/USD, compared to a peak of R19.10 (if intra-day movements are ignored) in April.
- Global equity markets continued to grind higher, returning a solid +6.1% in USD (or +5.4% in Rands). This was once again driven by the US (+7.5% in USD), where positive economic data and dovish comments from the US Fed (which implied that interest rates there will likely stay lower for longer) supported equities. After underperforming in July, developed markets outperformed emerging markets in August (6.7% vs 2.2% in USD).
- After hitting historic lows in 2020 Q2, business and consumer confidence improved somewhat in Q3, but remains in deeply depressed territory.
- South Africa's 2020 Q2 GDP figures have revealed the extent to which Covid-19 and lockdown have damaged the local economy. SA's real GDP shrank by 16.4% for the quarter, or by 17.1% when compared to the same quarter last year. The media reported widely on a 51% decline, but it should be noted that this the *annualised* figure, and therefore rather meaningless in the context of a highly unusual quarter like 2020 Q2. Nevertheless, Q2's results are still unprecedented, with the largest quarterly (non-annualised) contraction on record previously being a mere 2.1% in 1982 (and just 1.6% at the height of the Global Financial Crisis in 2008/2009).
- Despite downwardly revised economic growth and inflation expectations the South African Reserve Bank kept the repo rate steady at 3.5% at their September meeting.
- Lastly, we recently 'attended' a virtual investment manager conference by around 30 local and international portfolio managers where a number of interesting topical issues were covered. We have included a snapshot of some of the more interesting graphs that were presented at the end of this slide pack.

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Jun 2020	Jul 2020	Aug 2020	3 months	12 months
Local equities	Capped SWIX	7.0	3.0	(0.9)	9.2	(3.4)
	Resources	8.8	9.0	0.7	19.4	30.4
	Industrials	8.3	(1.3)	0.5	7.4	5.1
	Financials	4.2	0.4	(4.2)	0.2	(30.1)
	Listed Property	13.4	(3.2)	(8.6)	0.4	(44.3)
Local bonds	ALBI	(1.2)	0.6	0.9	0.3	4.2
Local cash	STeFI Composite	0.4	0.4	0.4	1.3	6.4
Global equities	MSCI All Country	2.1	3.5	5.4	11.4	30.0
Global bonds	FTSE WGBI	(0.4)	1.9	(1.2)	0.3	17.8
Exchange rate	ZAR/USD	(1.1)	(1.7)	(0.7)	(3.4)	11.5
Inflation ²	CPI	0.5	1.3	0.3	2.2	3.2

1. Total returns (in Rands) for the months and periods ending 31 August 2020.

2. Estimated for August 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	(3.4)	(2.7)	1.1	9.2	11.2
	Resources	30.4	21.3	14.6	6.0	8.9
	Industrials	5.1	(0.3)	3.8	13.7	15.0
	Financials	(30.1)	(11.8)	(6.1)	6.8	8.1
	Listed Property	(44.3)	(22.7)	(12.2)	2.4	8.0
Local bonds	ALBI	4.2	7.7	7.6	7.7	8.0
Local cash	STeFI Composite	6.4	7.0	7.2	6.4	7.3
Global equities	MSCI All Country	30.0	19.0	15.7	19.4	14.1
Global bonds	FTSE WGBI	17.8	13.6	9.4	11.0	10.4
Exchange rate	ZAR/USD	11.5	9.2	5.0	8.7	6.7
Inflation ²	CPI	3.2	4.2	4.6	5.1	5.6

1. Total returns (in Rands) for the months and periods ending 31 August 2020.

2. Estimated for August 2020.

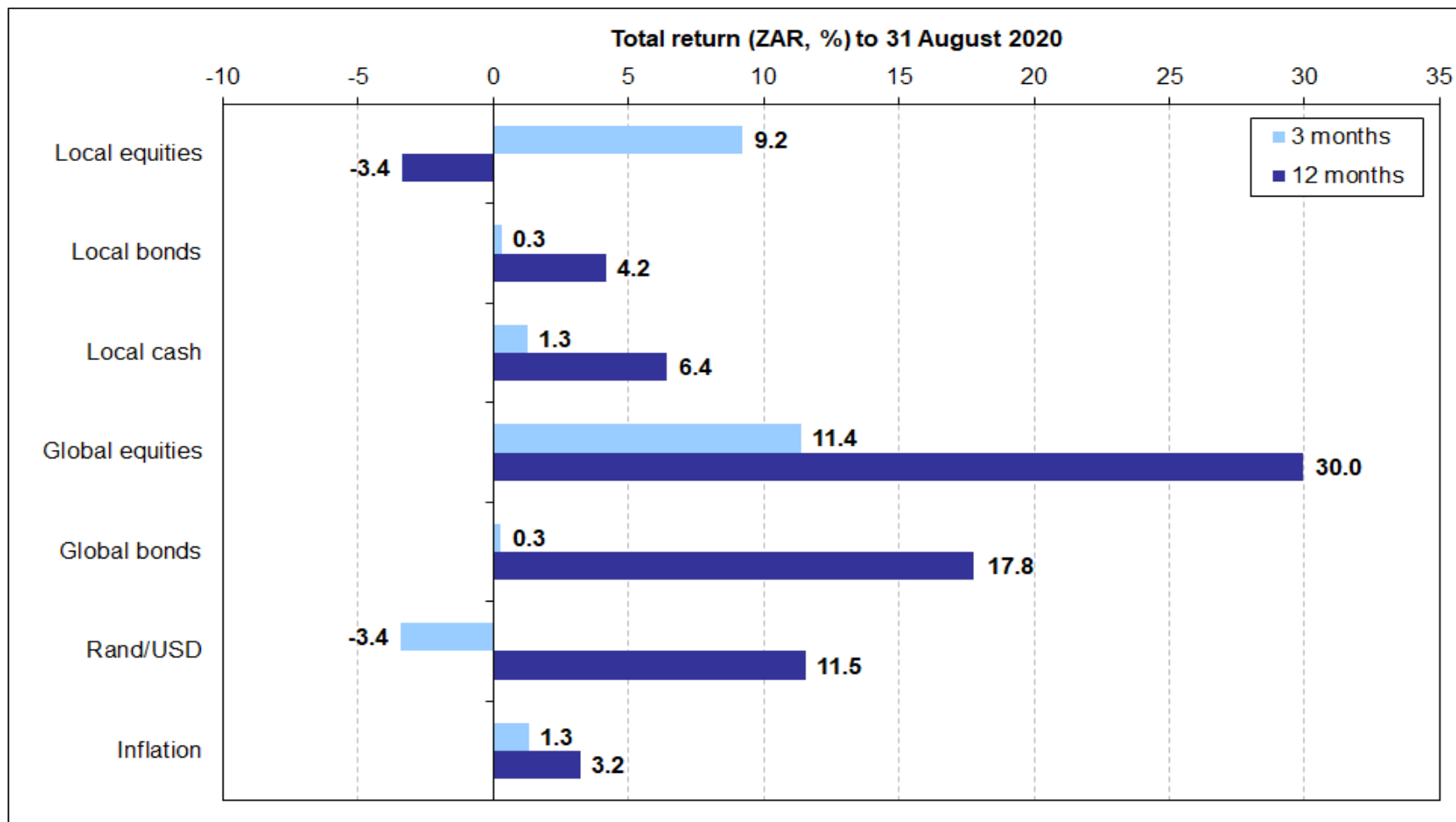
ECONOMIC INDICATORS

Economic indicators ¹	Aug 2018	Aug 2019	Jun 2020	Jul 2020	Aug 2020
Exchange rates:					
ZAR/USD	14.68	15.19	17.35	17.06	16.94
ZAR/GBP	19.03	18.46	21.52	22.34	22.64
ZAR/Euro	17.04	16.69	19.50	20.11	20.22
Commodities:					
Brent Crude Oil (USD/barrel)	77.73	58.93	41.27	43.52	45.28
Platinum (USD/ounce)	785.00	930.75	811.97	908.50	930.39
Gold (USD/ounce)	1,201.50	1,520.34	1,772.86	1,976.28	1,958.40

1. Month-end prices

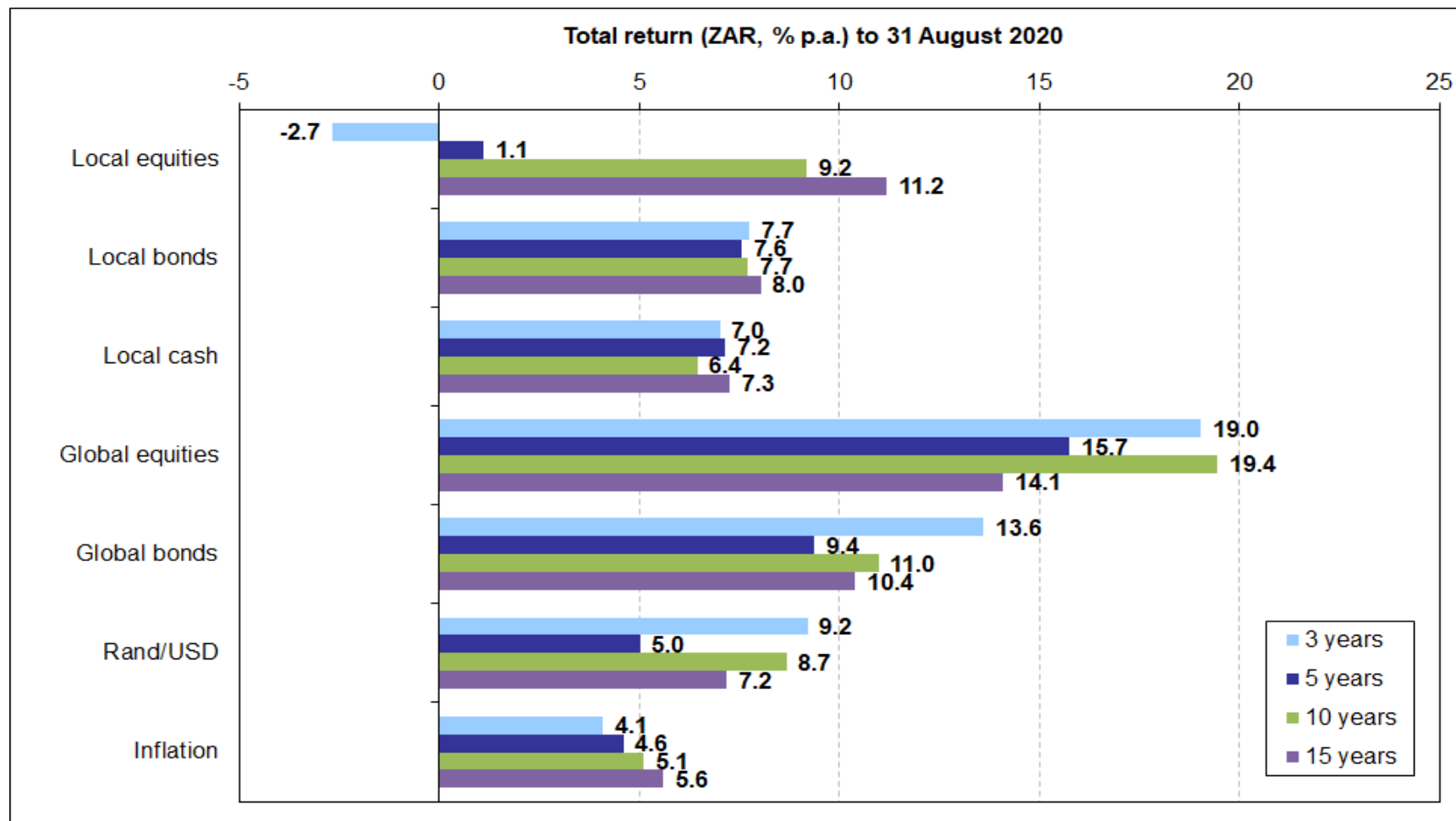
ASSET CLASS PERFORMANCE

SHORT TERM



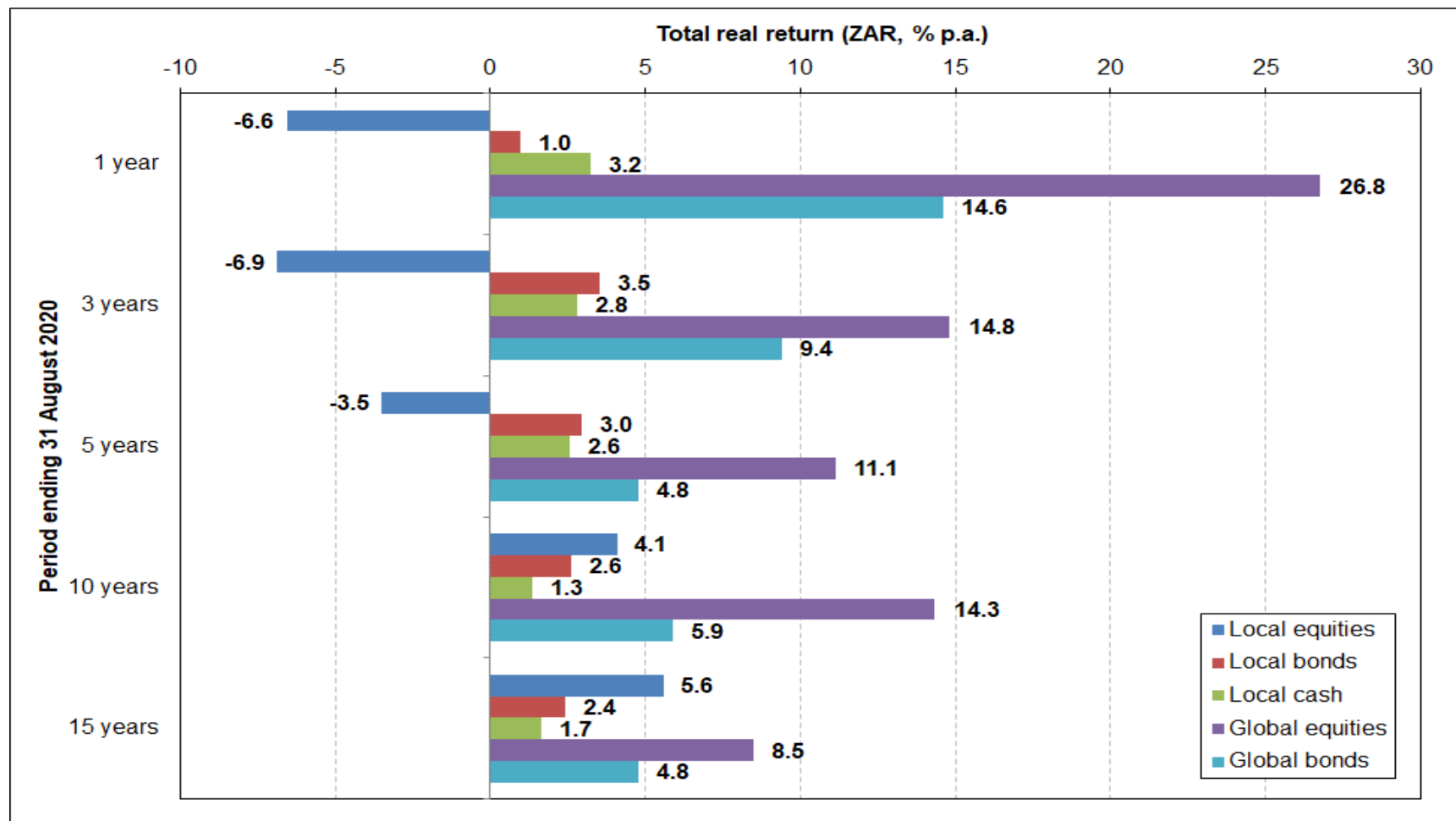
ASSET CLASS PERFORMANCE

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:

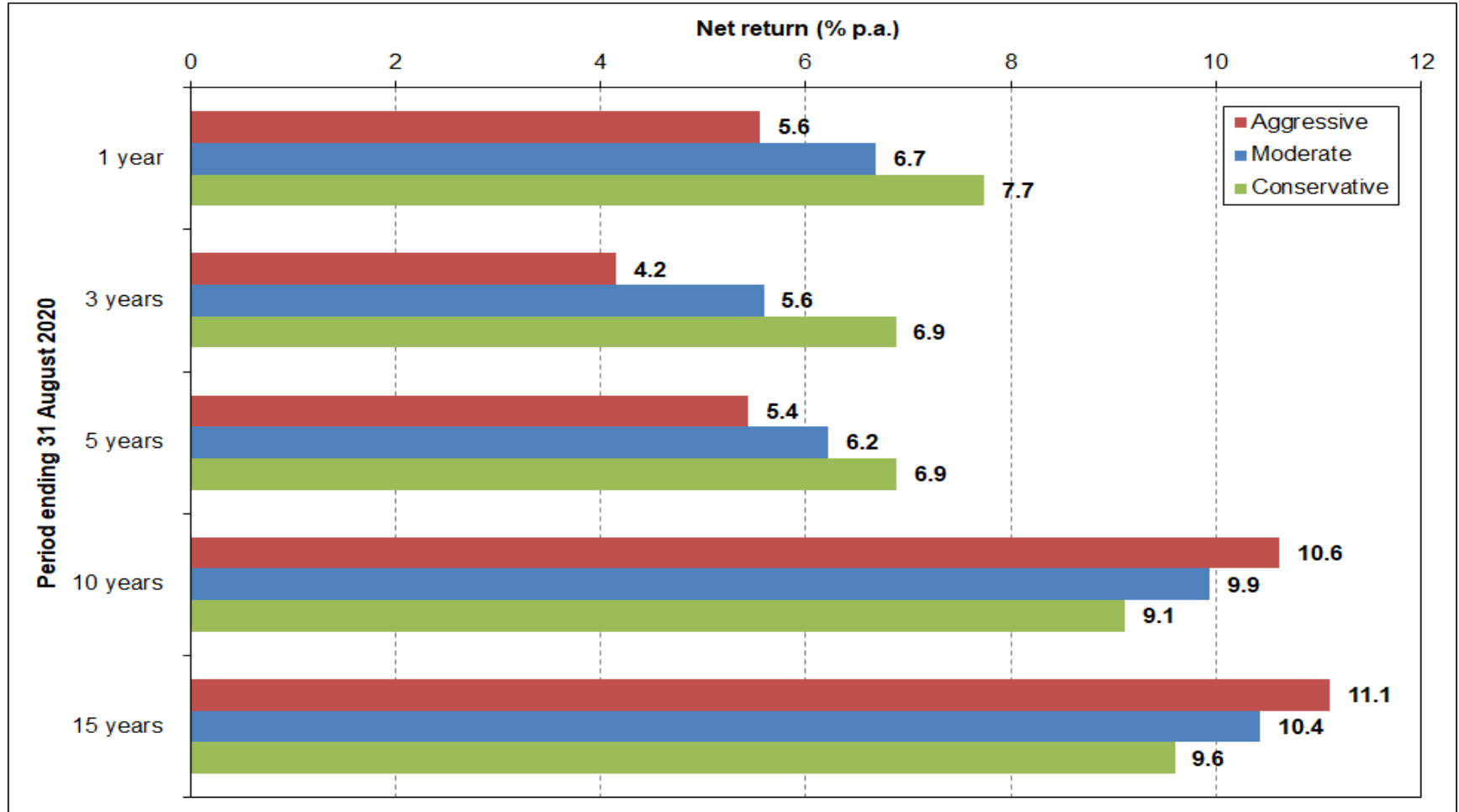
AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%			25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%		75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%	100%
	Current allocation		~56%	~14%	~5%	~19%	~6%

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%

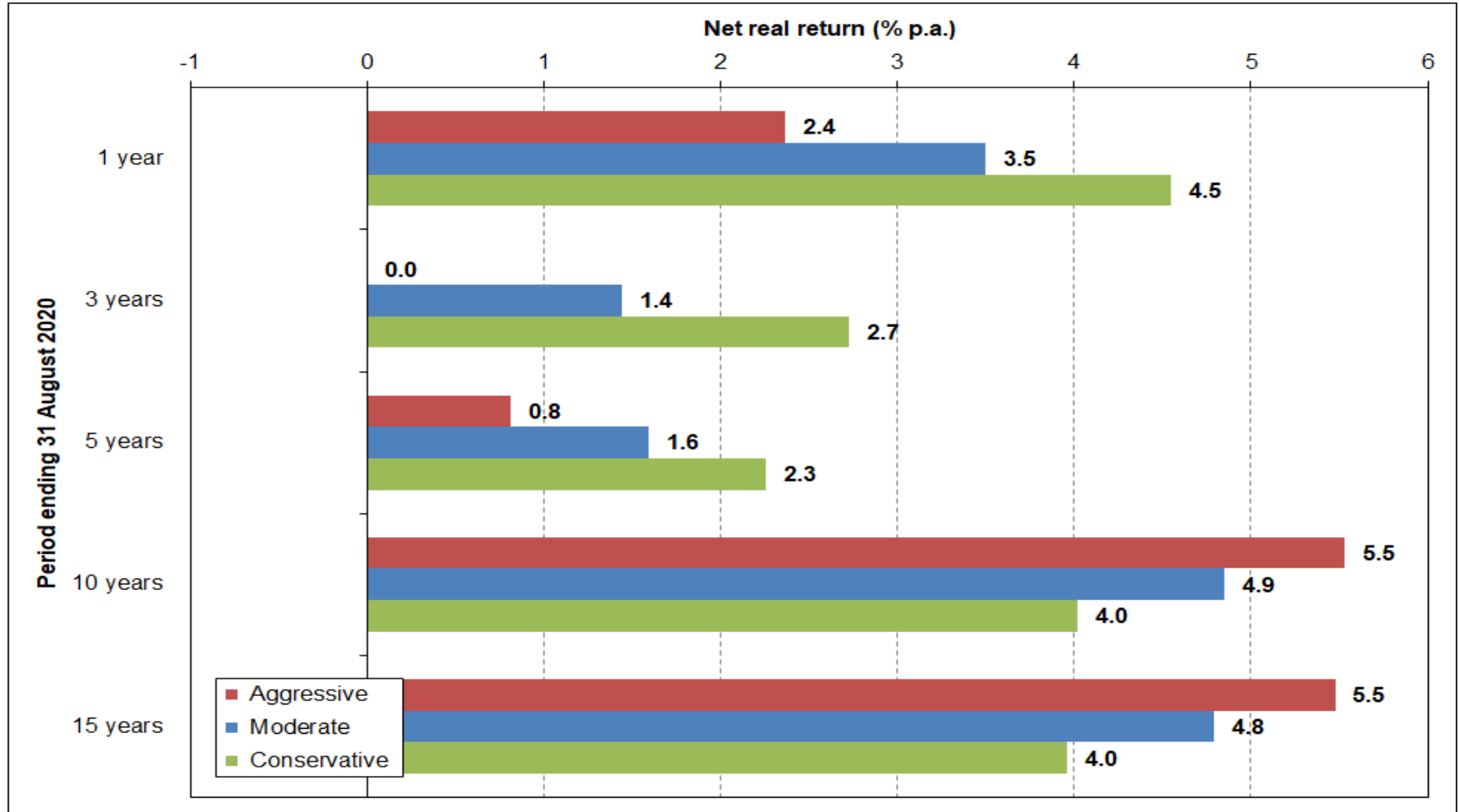
MARKET PERFORMANCE

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?



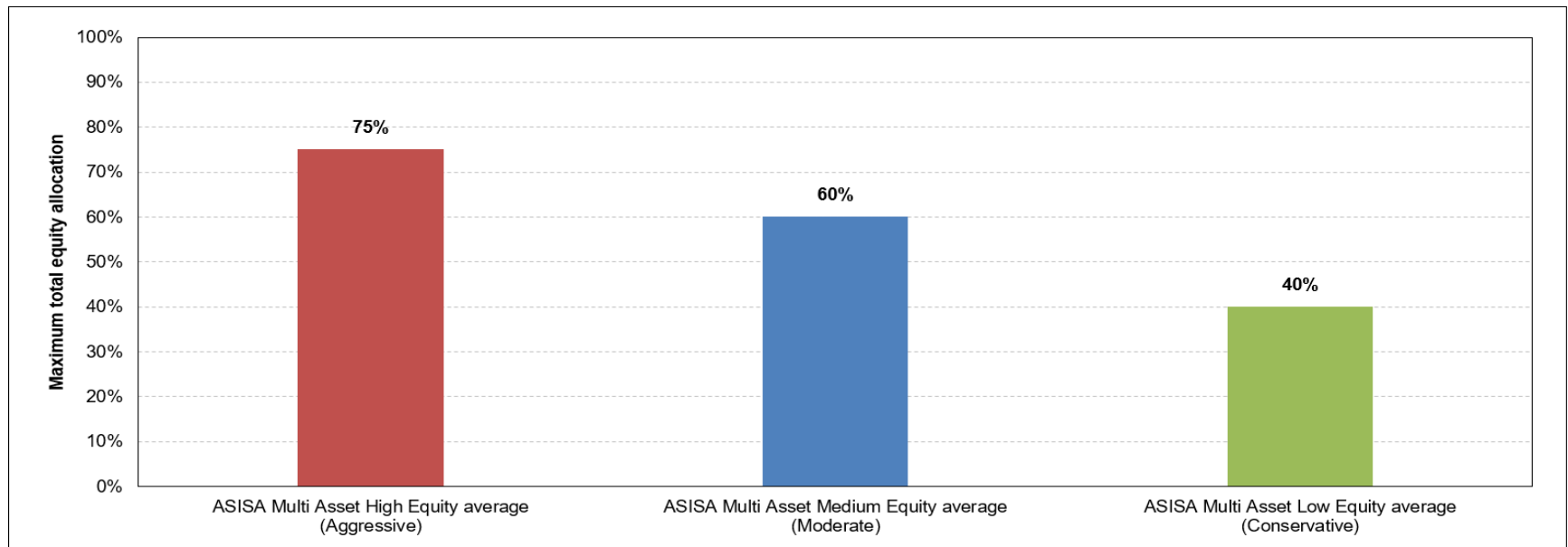
MANAGER PERFORMANCE

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?

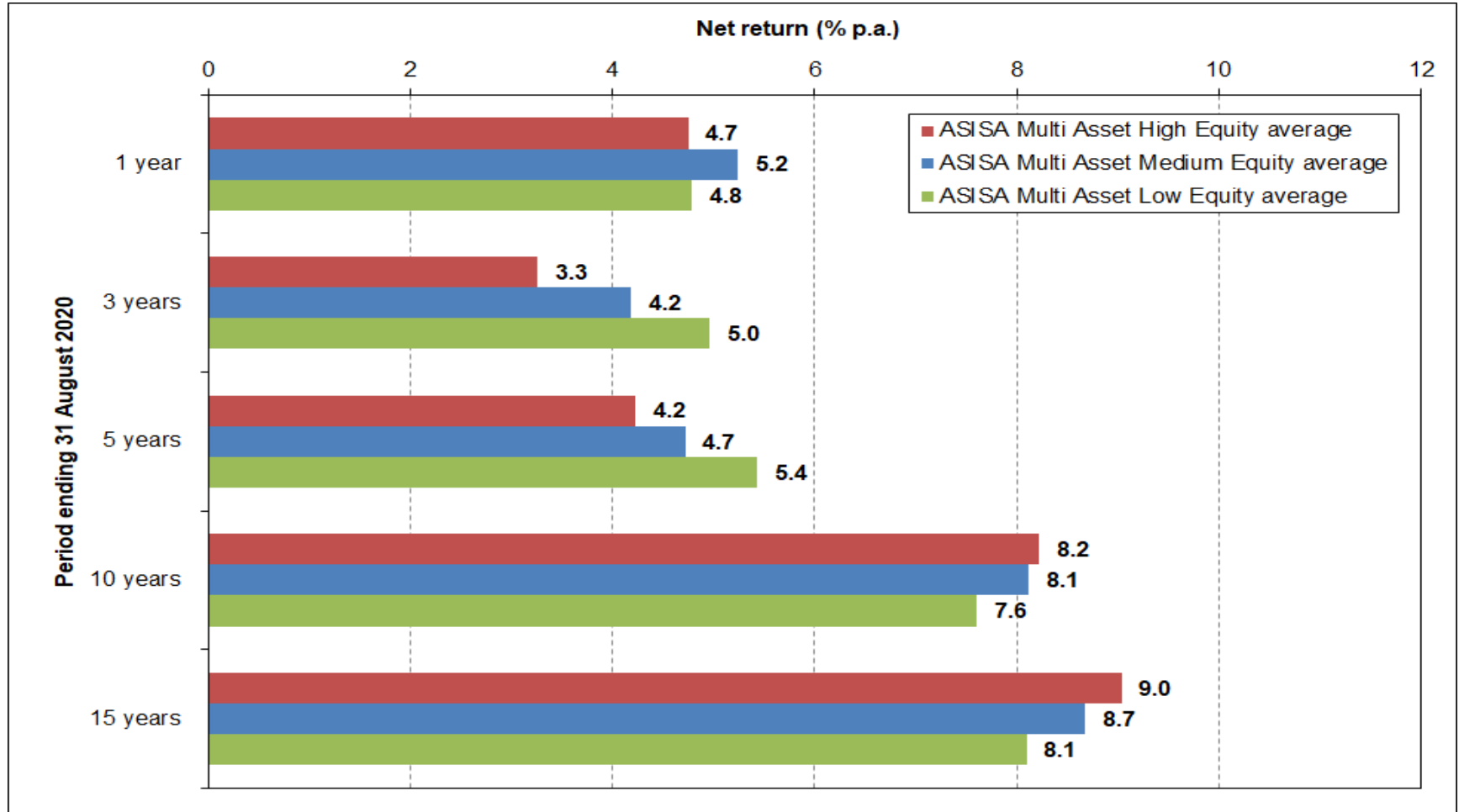
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement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



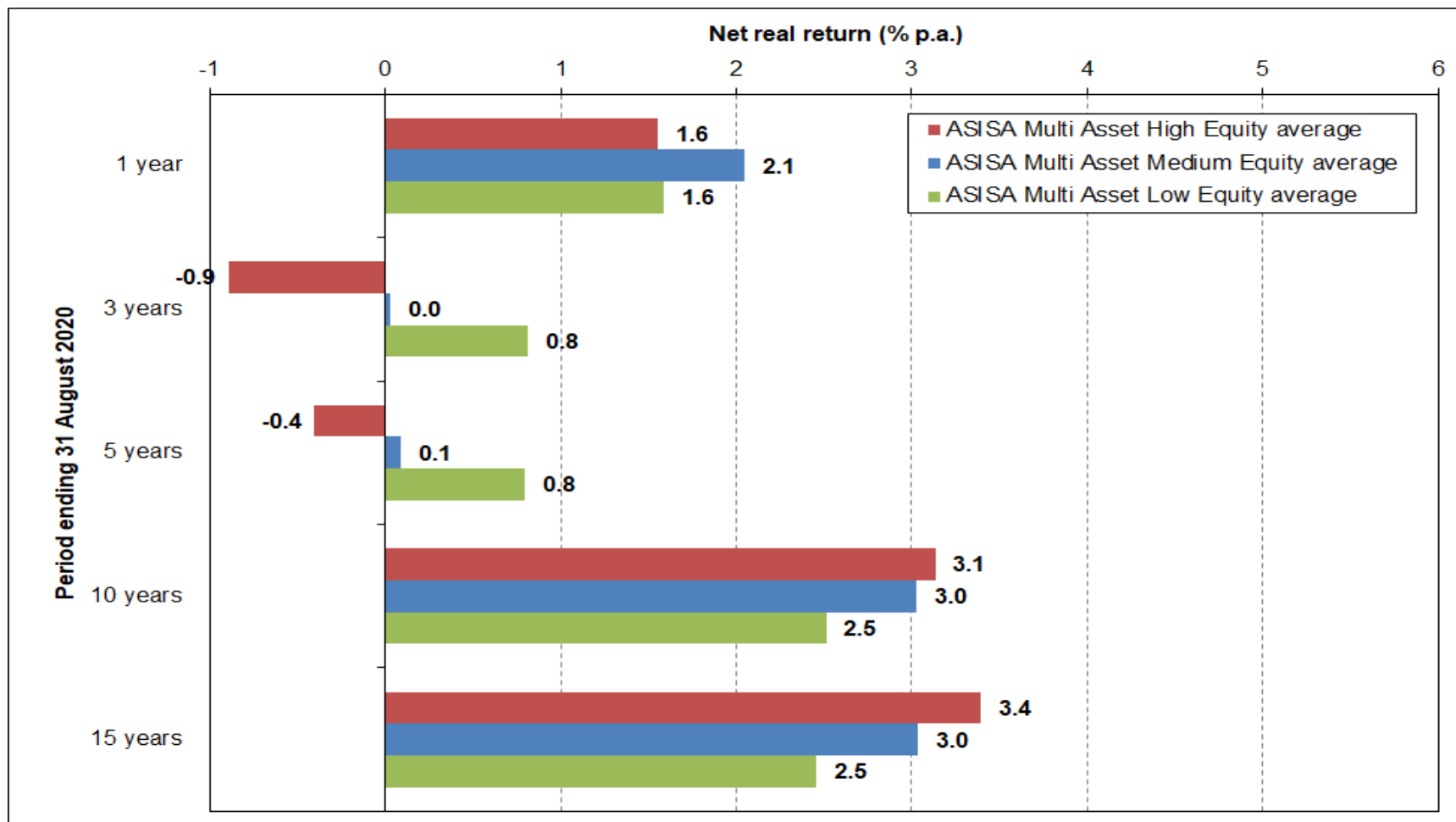
MANAGER PERFORMANCE

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

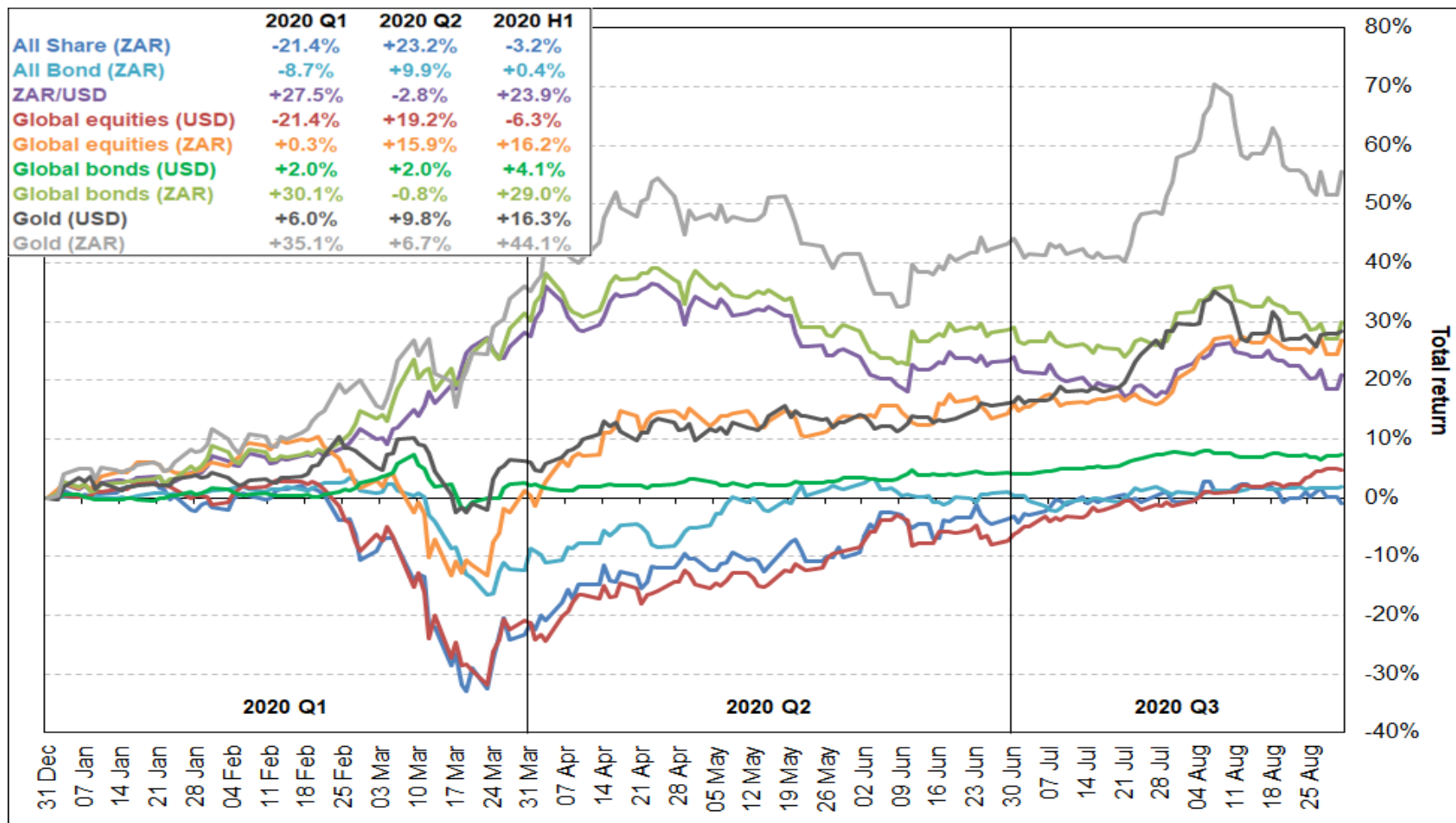


MANAGER PERFORMANCE

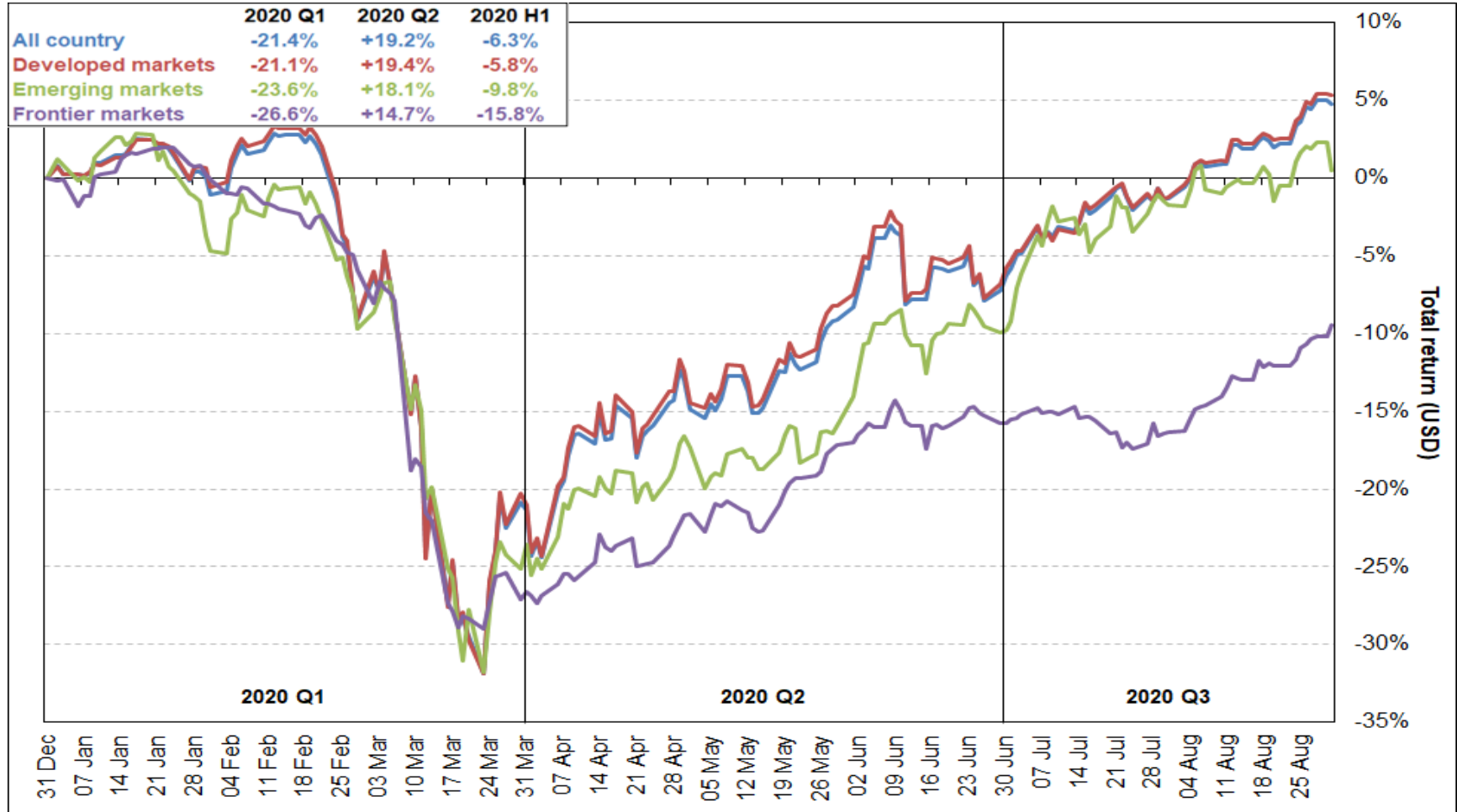
FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



2020 YTD MAJOR ASSET CLASSES

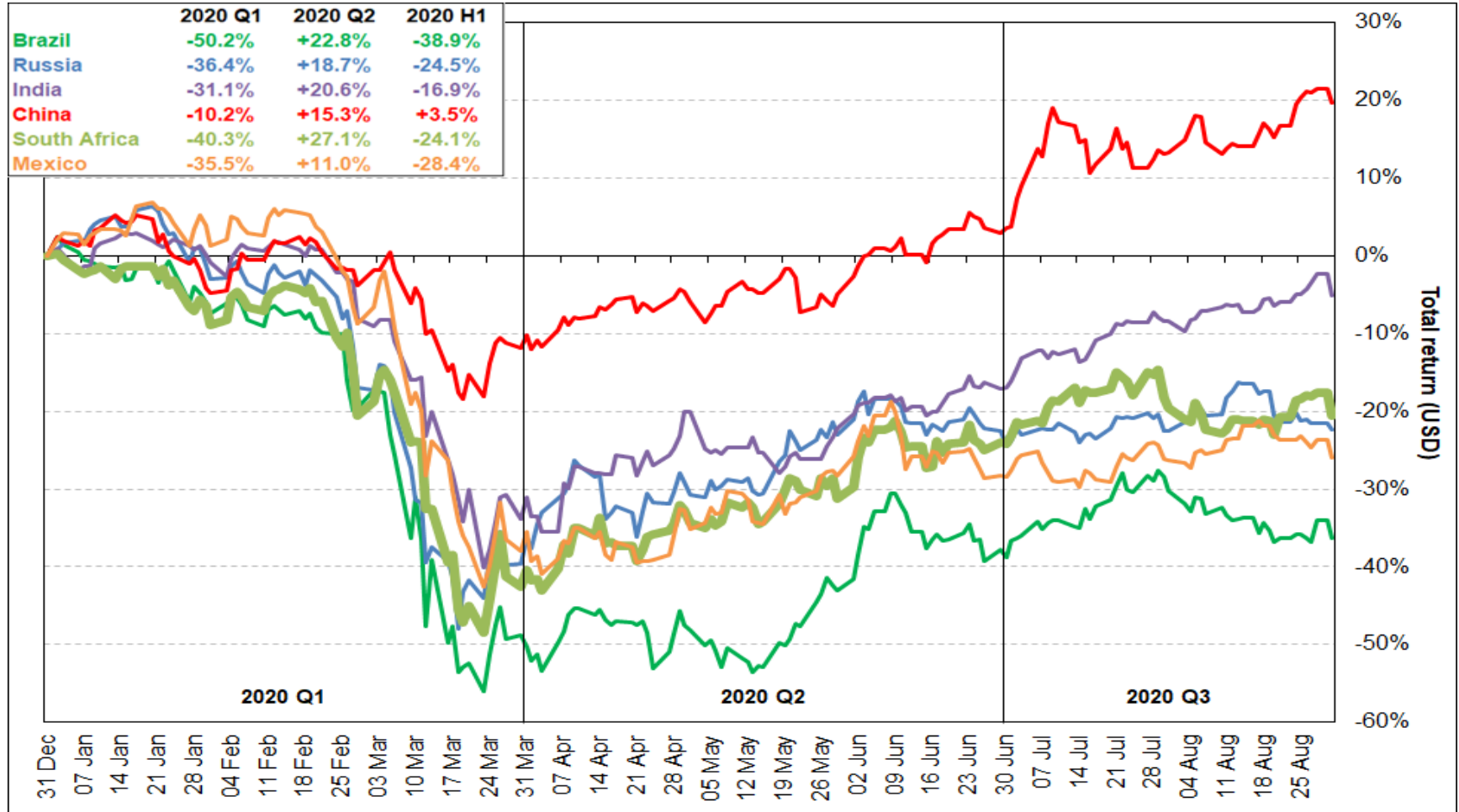


2020 YTD GLOBAL EQUITY MARKETS (USD)

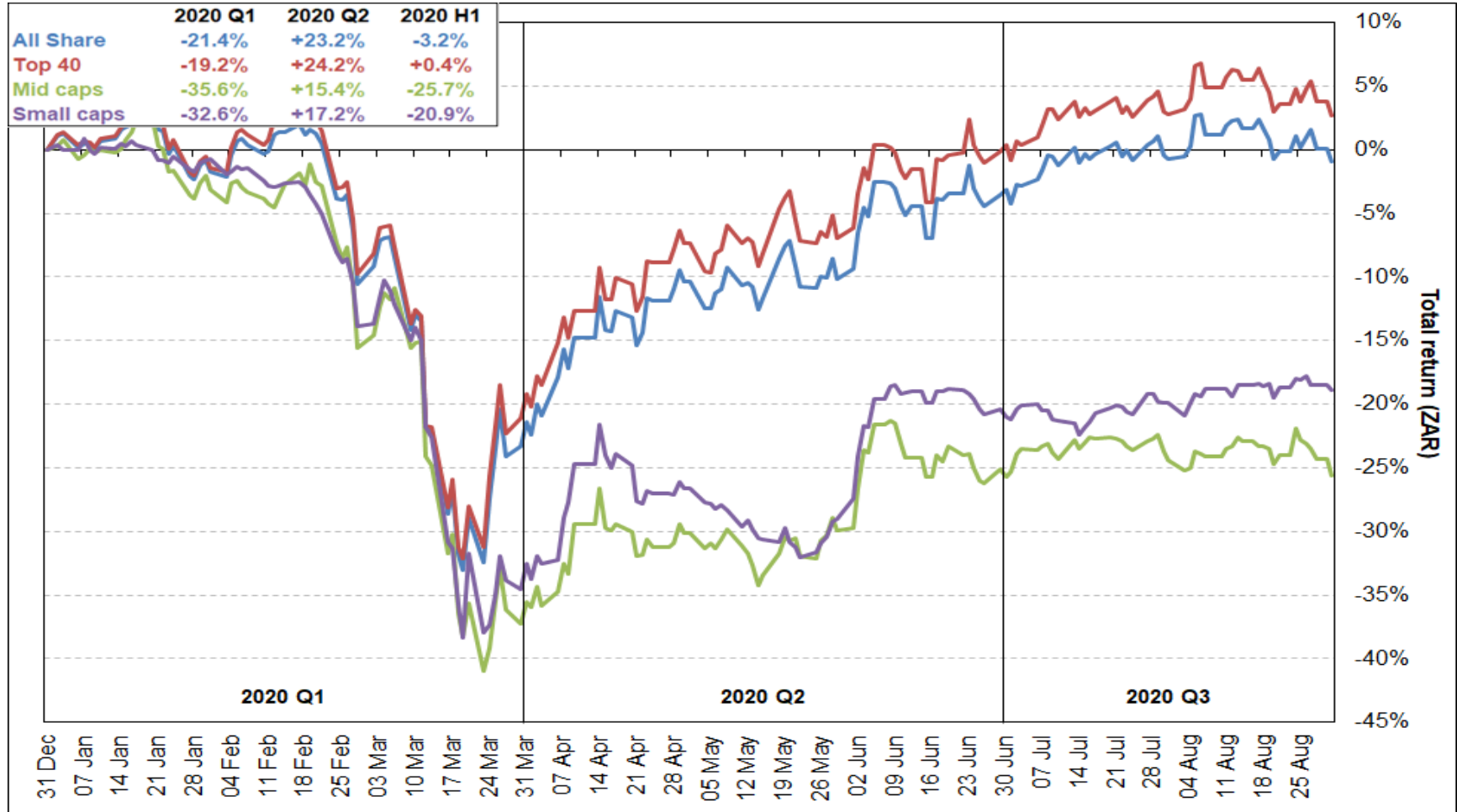


2020 YTD

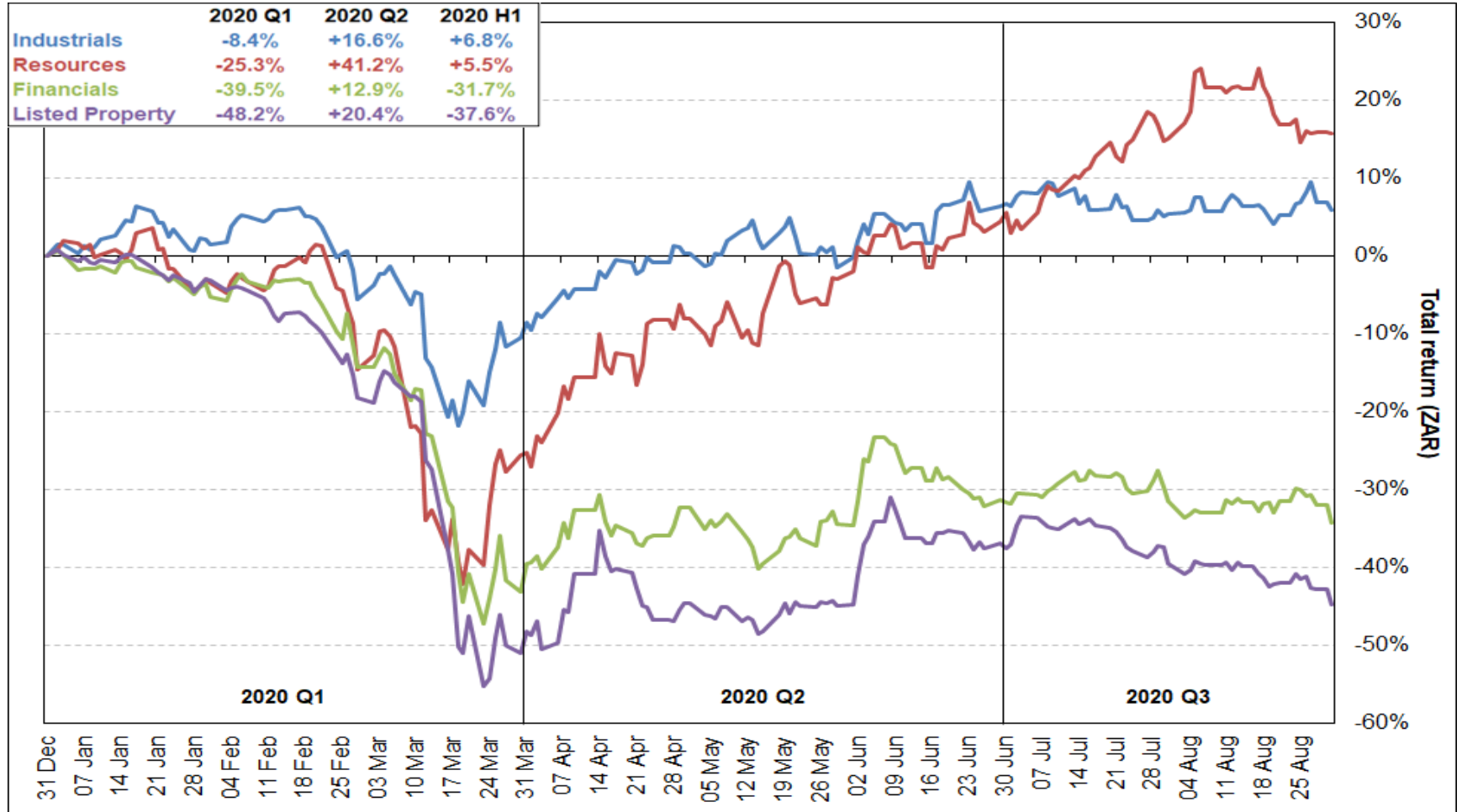
GLOBAL EMERGING EQUITY MARKETS (USD)



2020 YTD LOCAL EQUITY MARKET

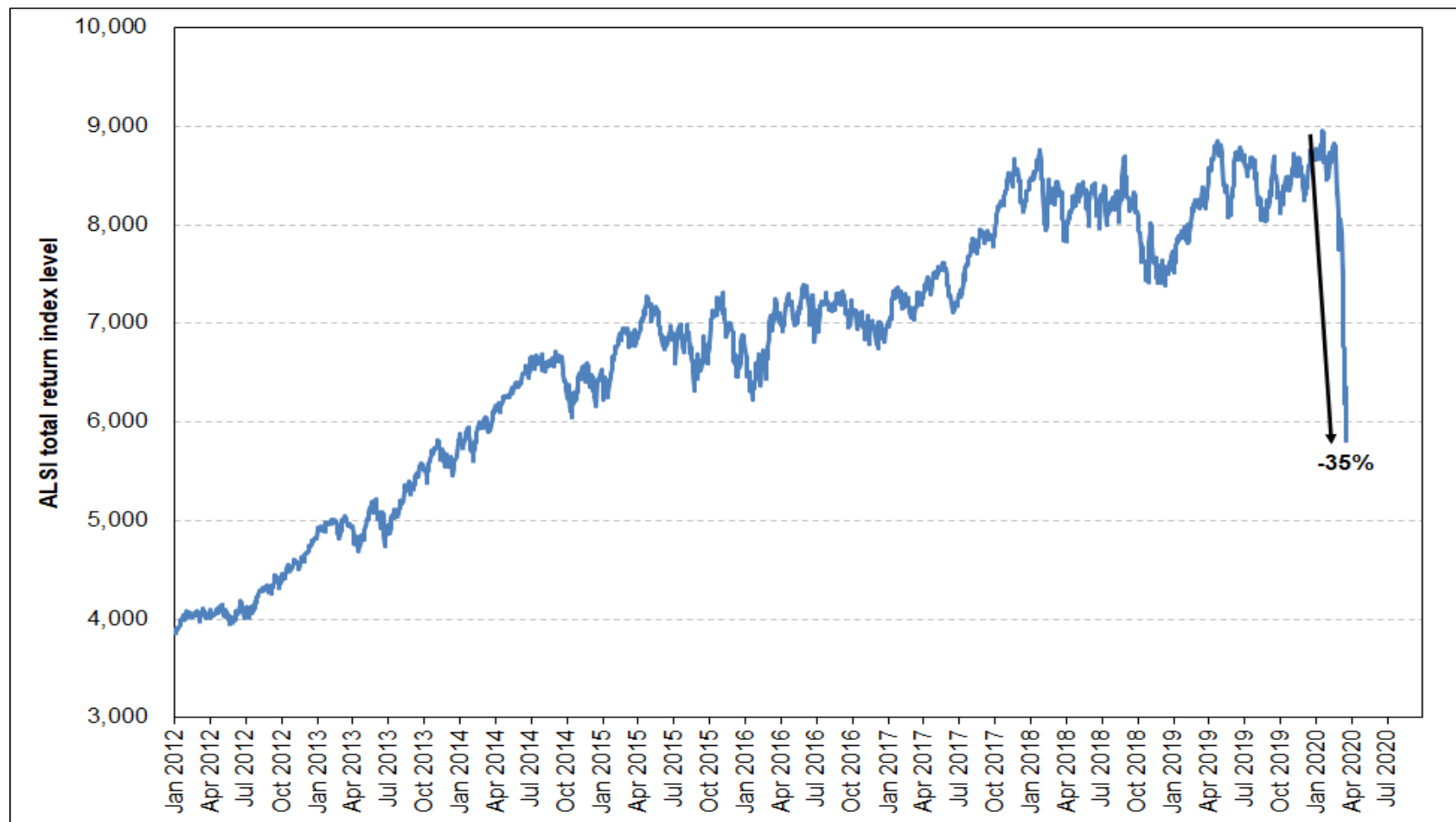


2020 YTD LOCAL EQUITY MARKET

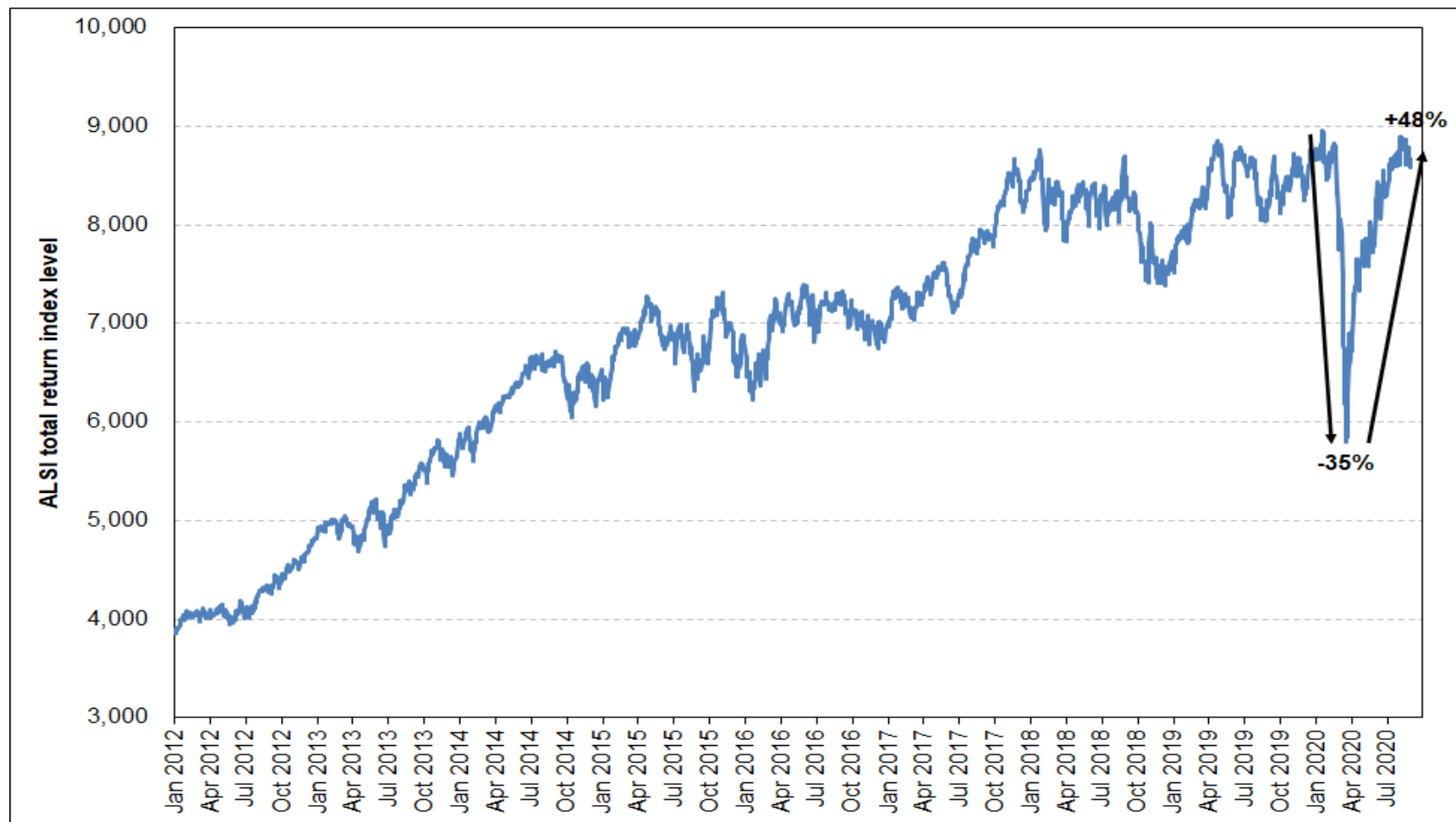


LOCAL EQUITY MARKET

COVID-19 CRASH

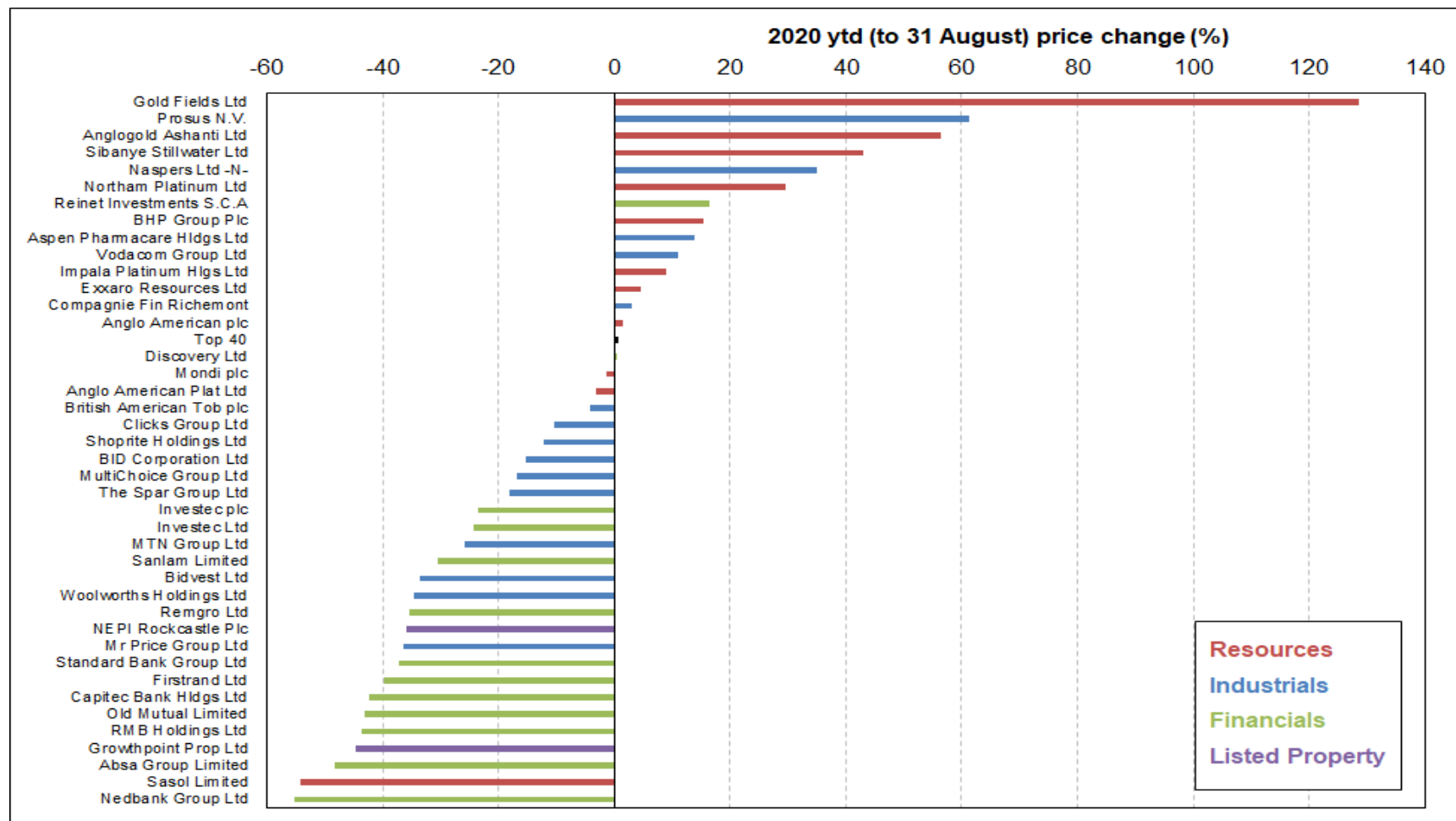


LOCAL EQUITY MARKET WAS THAT IT?



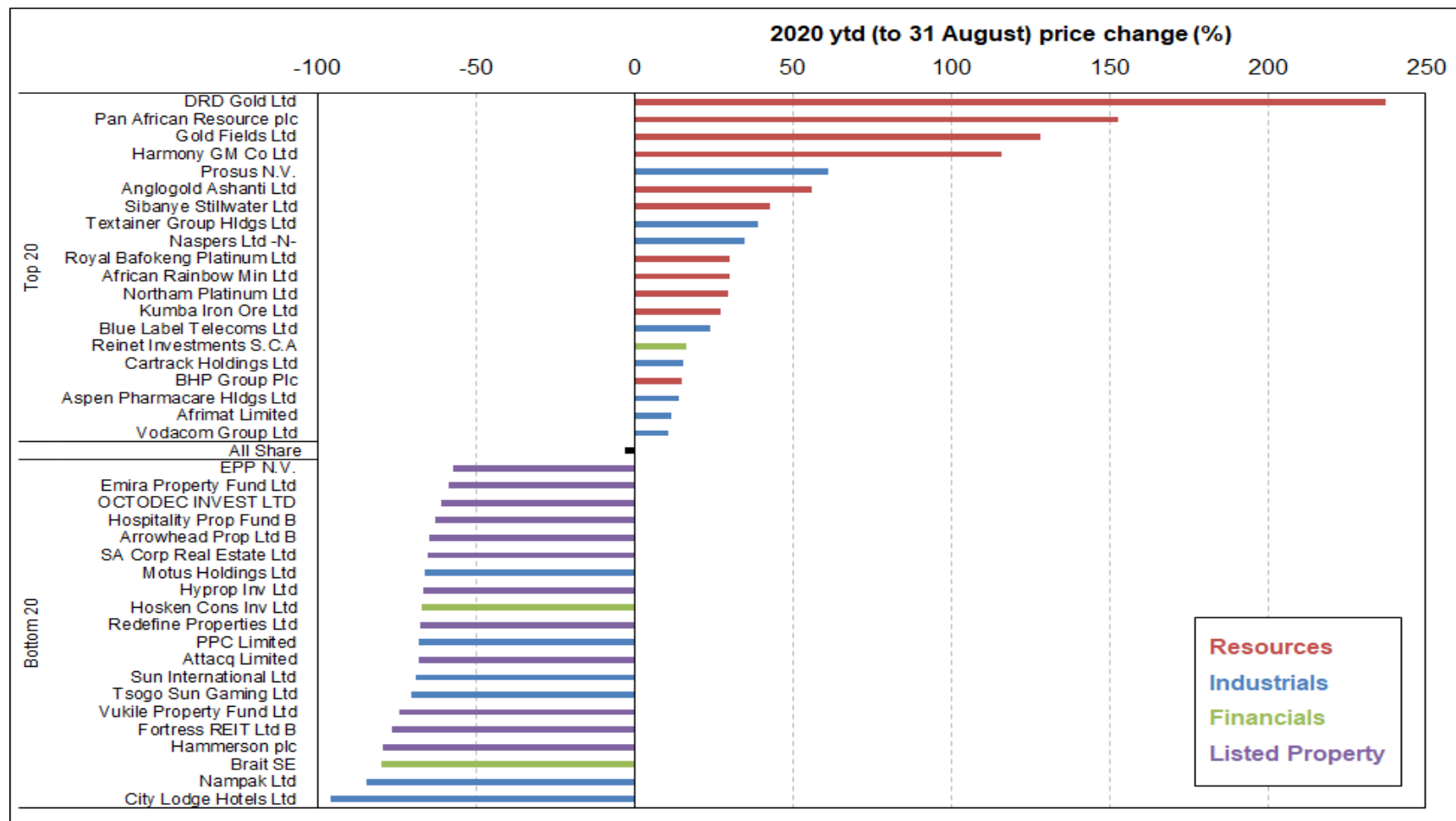
LOCAL EQUITY MARKET

TOP 40 (LARGE CAP) STOCKS IN 2020



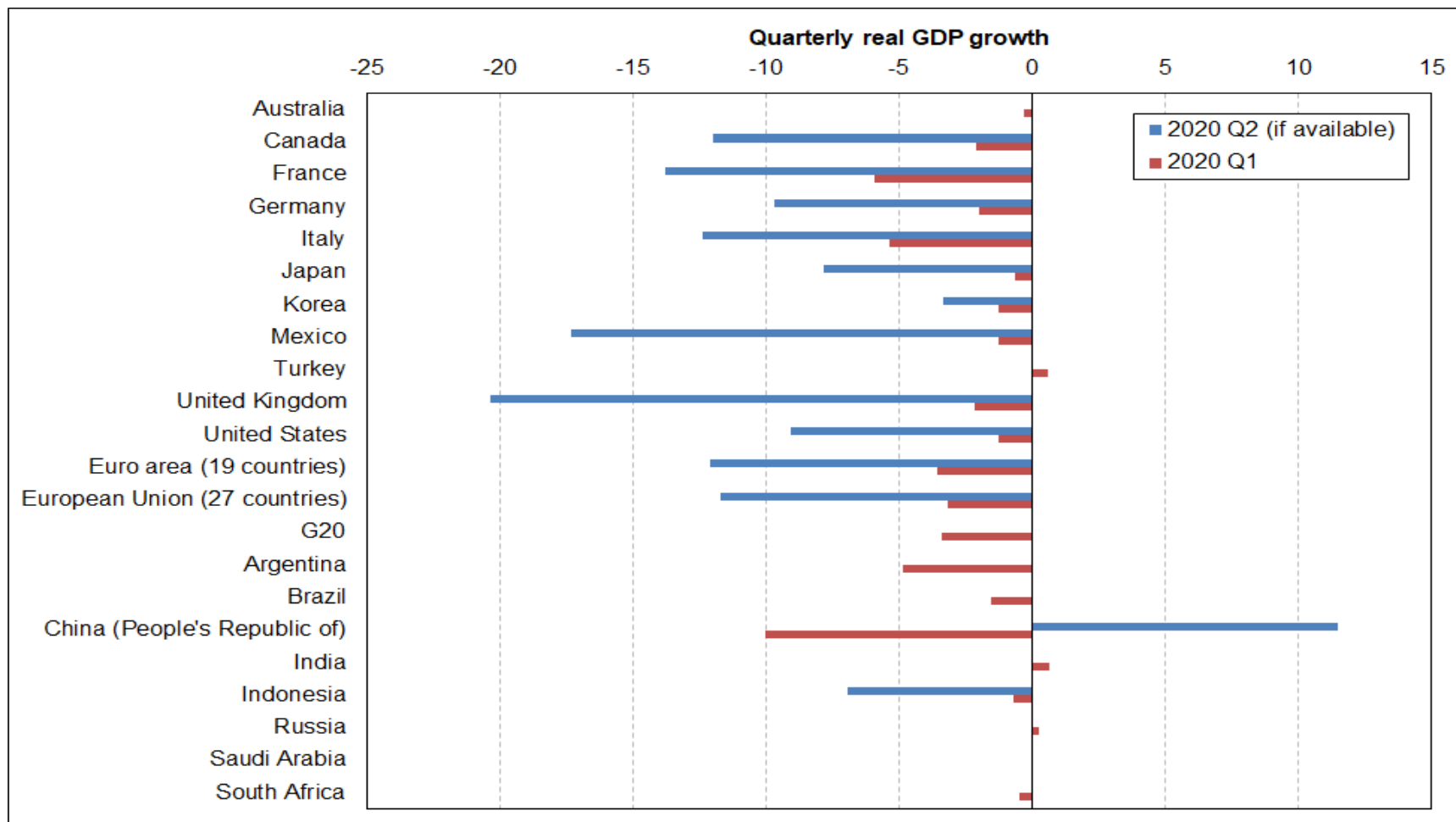
LOCAL EQUITY MARKET

BEST & WORST PERFORMERS IN 2020



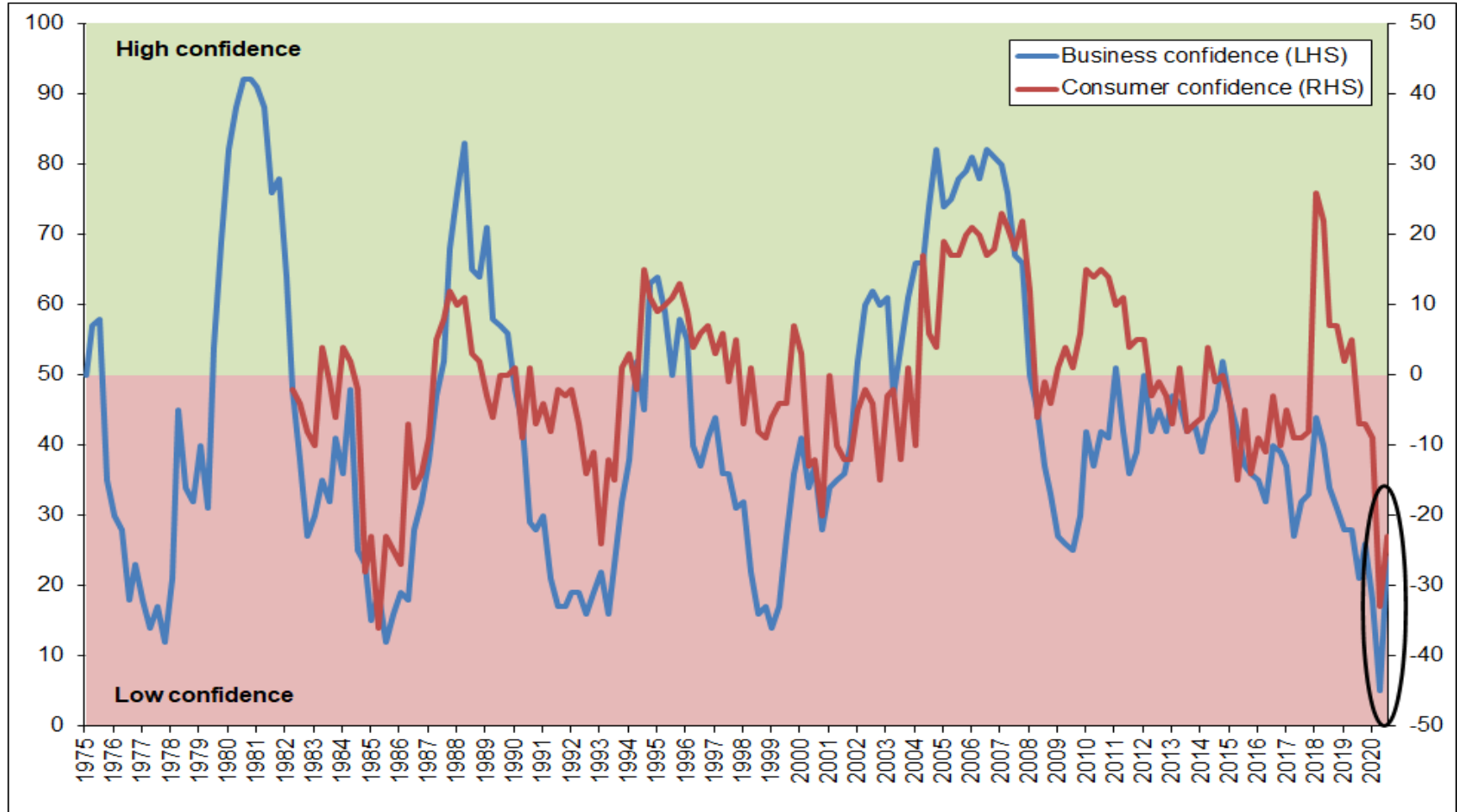
LOCKDOWN LOSSES

2020 Q2 GDP GROWTH FIGURES DEEP IN NEGATIVE TERRITORY. WHAT WILL OURS LOOK LIKE?



BUSINESS & CONSUMER CONFIDENCE

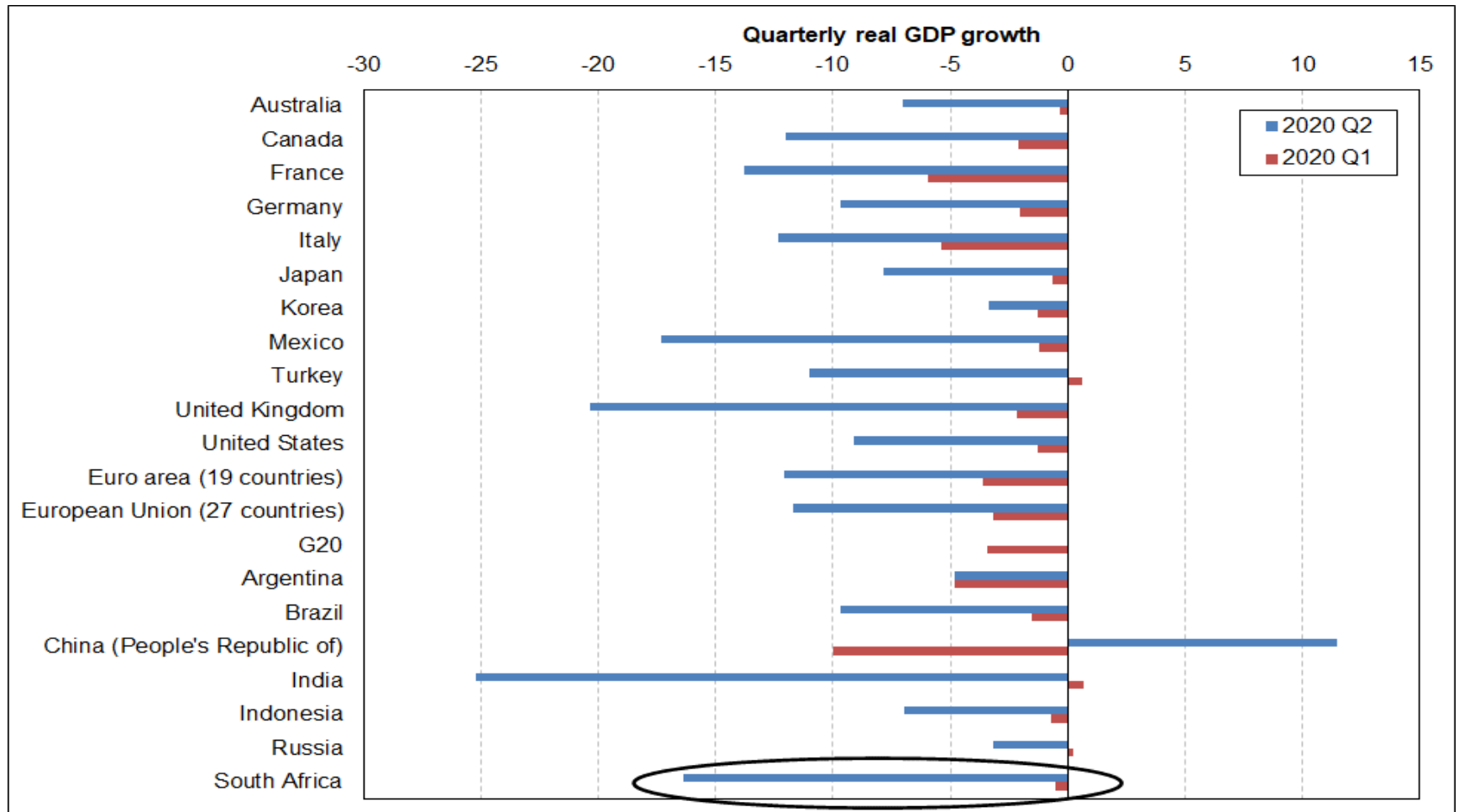
IMPROVES AFTER HITTING HISTORIC LOWS IN Q2



LOCKDOWN LOSSES

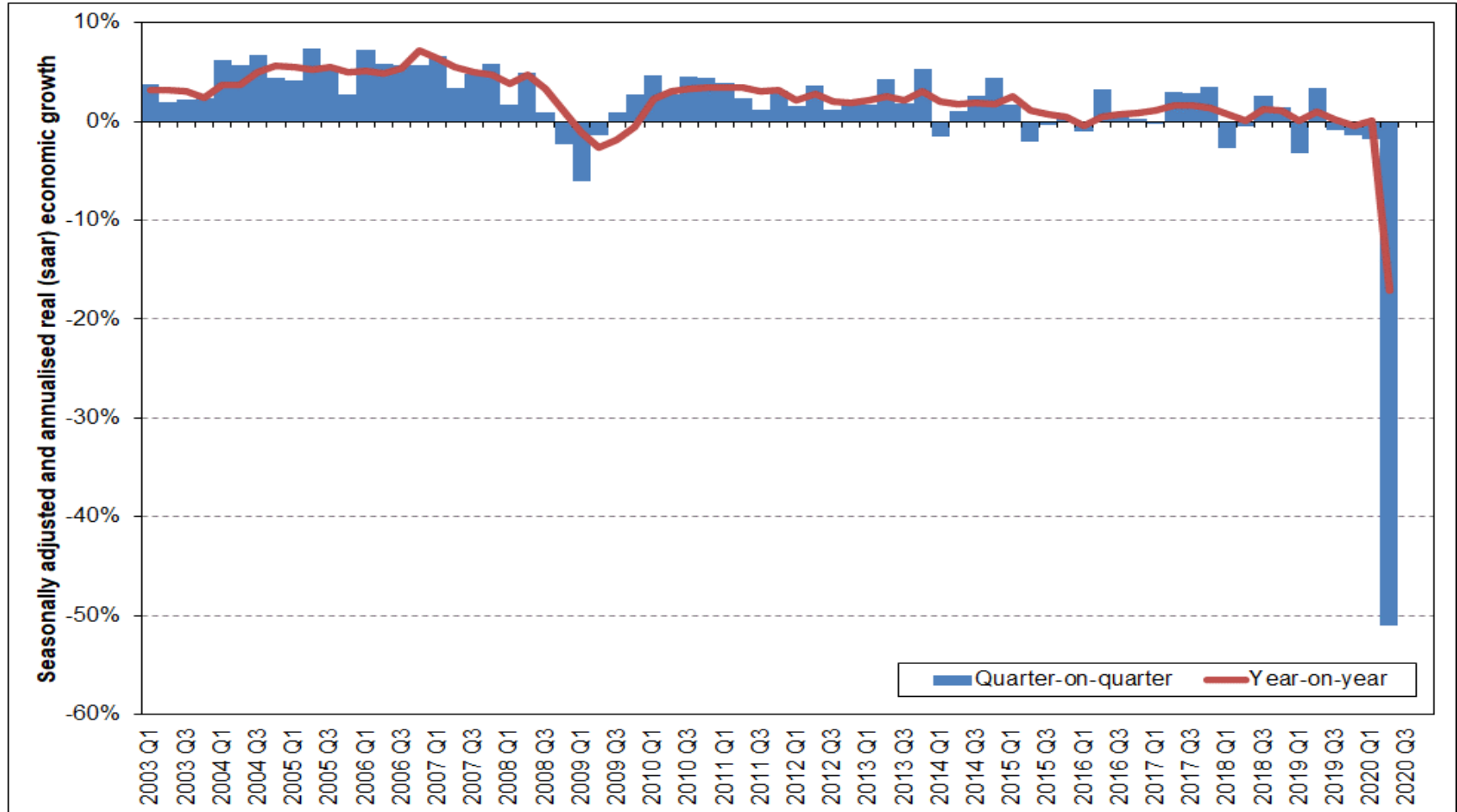
2020 Q2 GDP (QUARTERLY CHANGE)

SOUTH AFRICA ONE OF THE WORST AFFECTED



SA 2020 Q2 GDP

WHAT IT LOOKS LIKE WHEN YOU ANNUALISE AN UNPRECEDENTED QUARTER...



LOCAL EQUITY MARKET

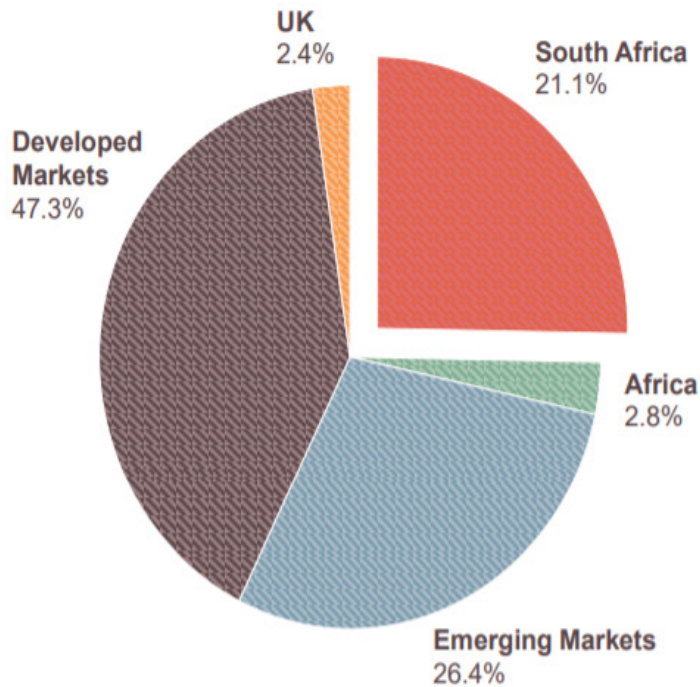
MAJORITY OF REVENUES NOW EARNED OFFSHORE

Composition of SA Equity Indices

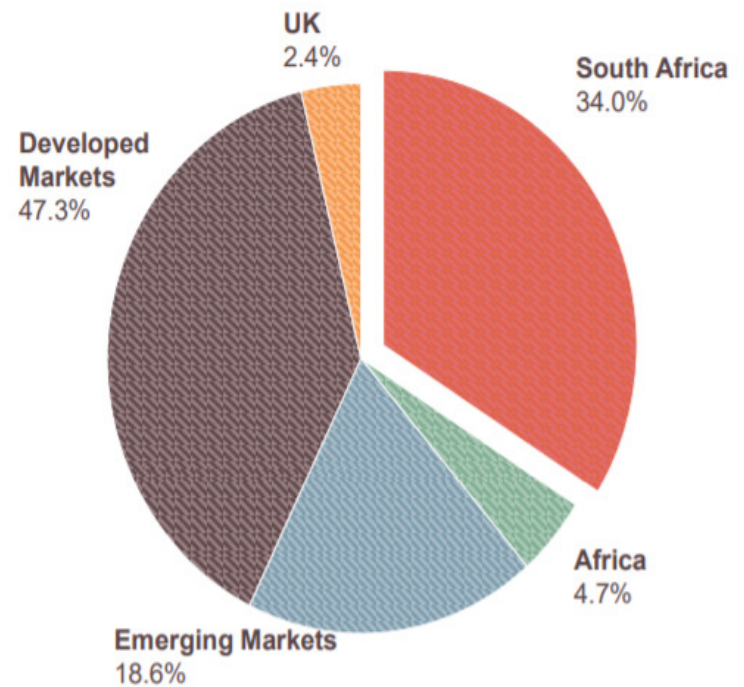
South Africa a relatively small component



All Share Equity Index



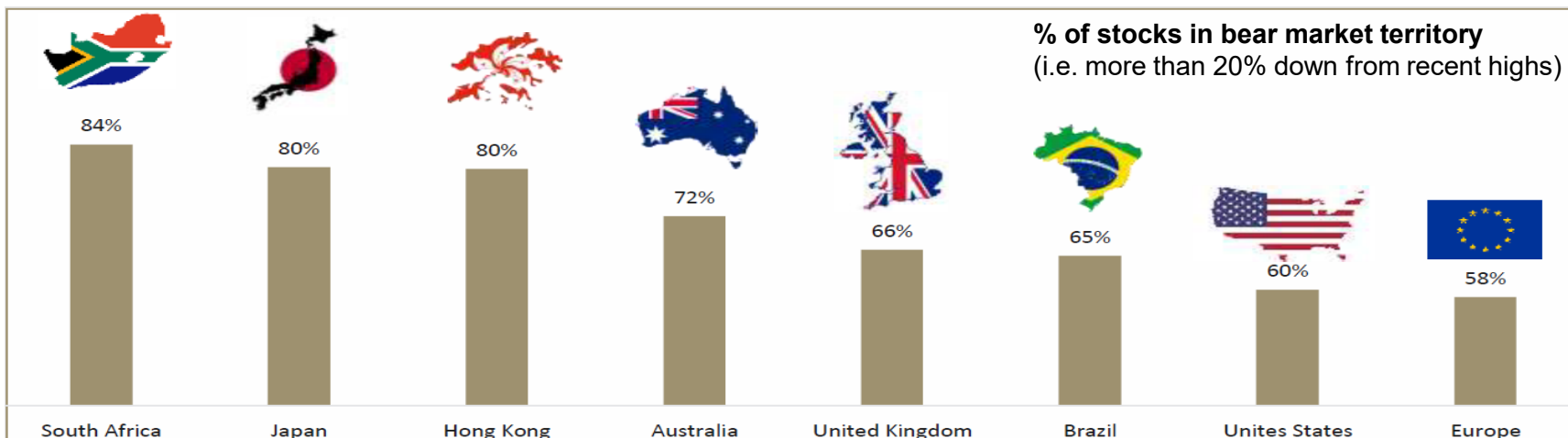
Capped SWIX Equity Index



LOCAL & GLOBAL EQUITY MARKETS

MOST STOCKS IN MOST MARKETS STILL IN BEAR MARKET TERRITORY

	3 year return	% of index	Number of stocks
FTSE/JSE All Share Index	-6%		
Top ten constituents	49%	62%	10
Other constituents	-29%	38%	127



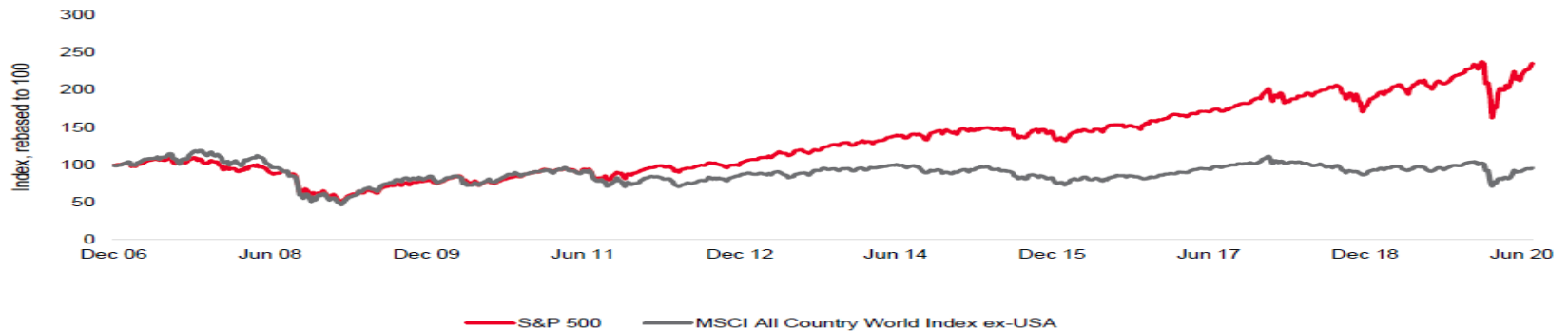
US EQUITY MARKET

STELLAR PERFORMANCE DRIVEN BY A HANDFUL OF LARGE TECH STOCKS...

AG

The US continues to outperform the broader market

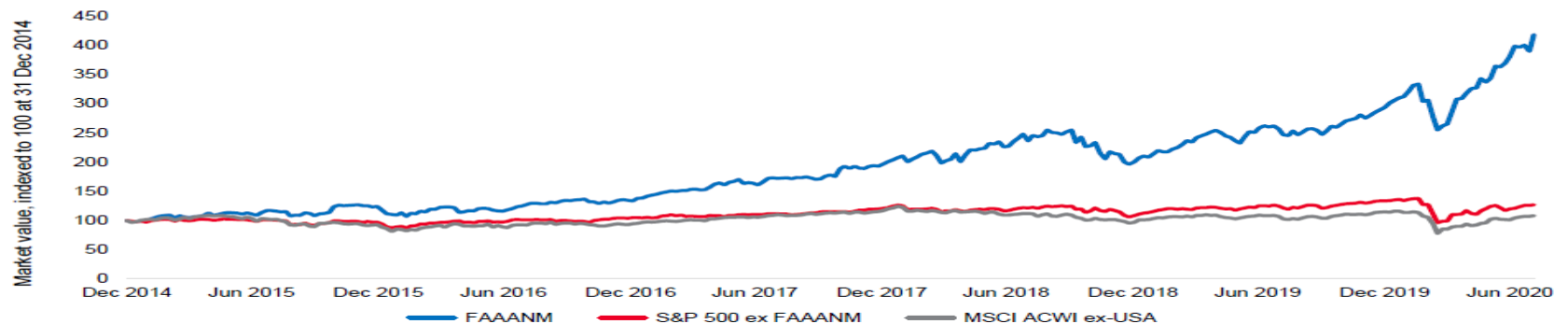
S&P 500 versus the MSCI All Country World Index ex-US



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FAAANM stocks account for most of the S&P outperformance

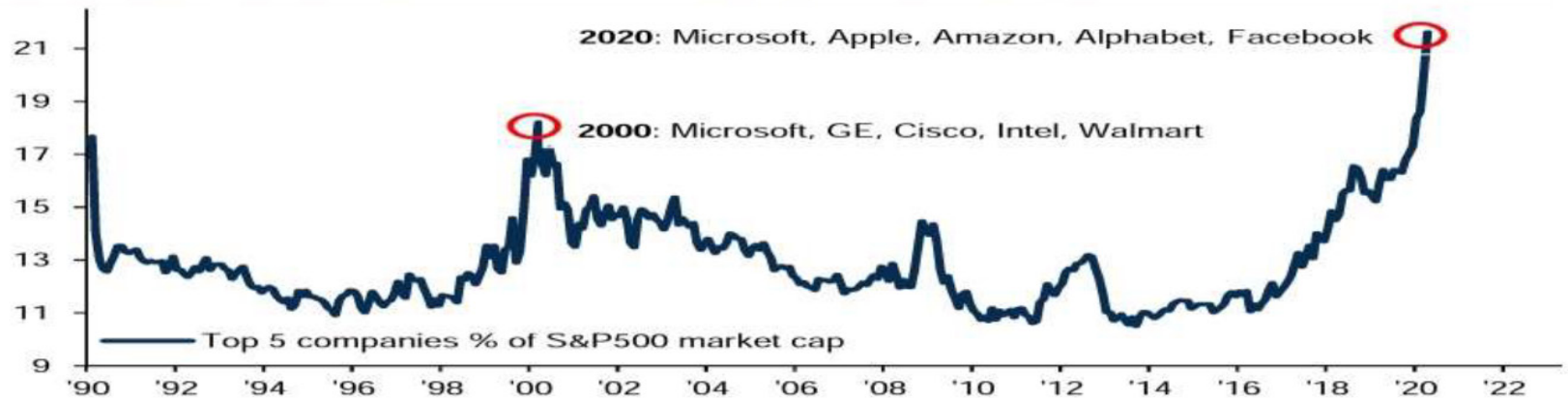
S&P 500 market value, Dec 2014 = 100



US EQUITY MARKET

TECH MEGA CAPS NOW AS LARGE AS EVER, BUT LEADERS COME AND GO...

Chart 2: S&P500 now more concentrated in the 5 largest stocks than ever

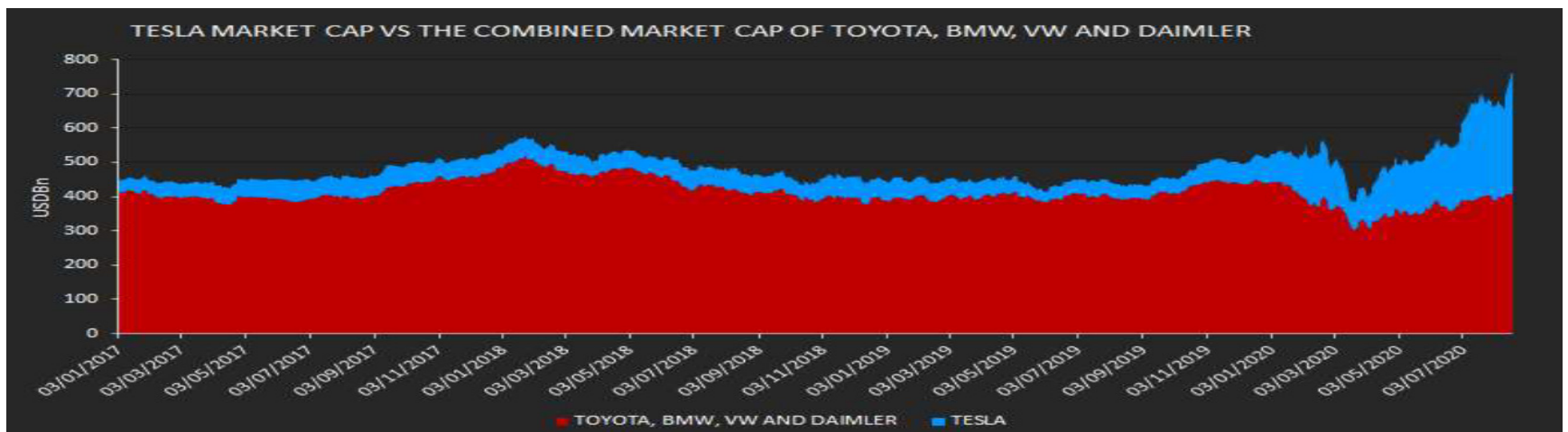
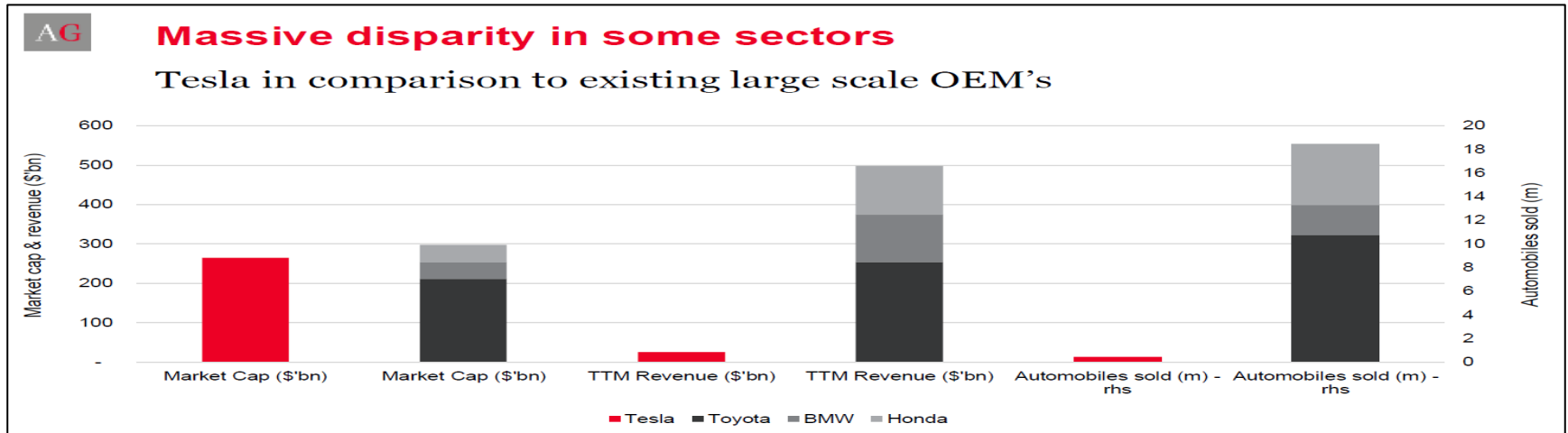


The world's 10 largest companies by market capitalization (ex Berkshire and Aramco)

1980: Peak oil	1990: Japan will take over the world	2000: TMT bubble	2010: China will take over world	2020: US tech offers only growth
IBM	NTT	Microsoft	Exxon Mobil	Microsoft
AT&T	Bank of Tokyo-Mitsubishi*	General Electric	PetroChina	Apple
Exxon	Industrial Bank of Japan	NTT DoCoMo	Apple Inc.	Amazon
Standard Oil	Sumitomo Mitsui Banking*	Cisco Systems	BHP Billiton	Google
Schlumberger	Toyota Motors	Wal-Mart	Microsoft	Facebook
Shell	Fuji Bank	Intel	ICBC	Alibaba
Mobil	Dai ilchi Kangyo Bank	NTT	Petrobras	Tencent
Atlantic Richfield	IBM	Exxon Mobil	China Construction Bank	Johnson & Johnson
General Electric	UFJ Bank	Lucent Technologies	Royal Dutch Shell	JP Morgan Chase
Eastman Kodak	Exxon	Deutsche Telekom	Nestlé	Exxon Mobil

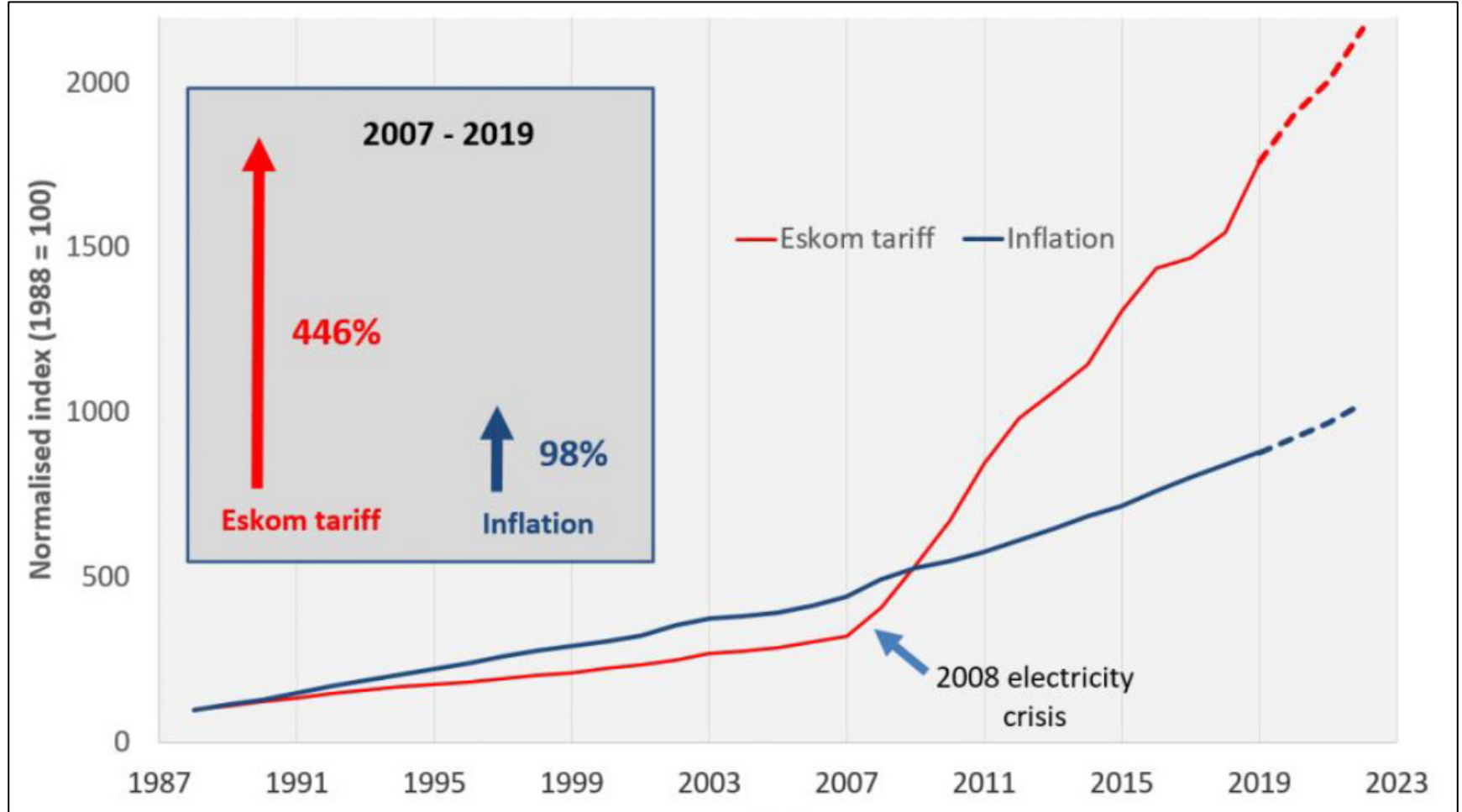
*Merged entities

TESLA'S MARKET CAP NOW BIGGER THAN OTHER LEADING AUTO MANUFACTURERS COMBINED...



ELECTRICITY TARIFFS

...



LOCAL GOVERNMENT BONDS

LONG TERMS YIELDS – ATTRACTIVE OR FAIR REFLECTION OF THE RISK?

