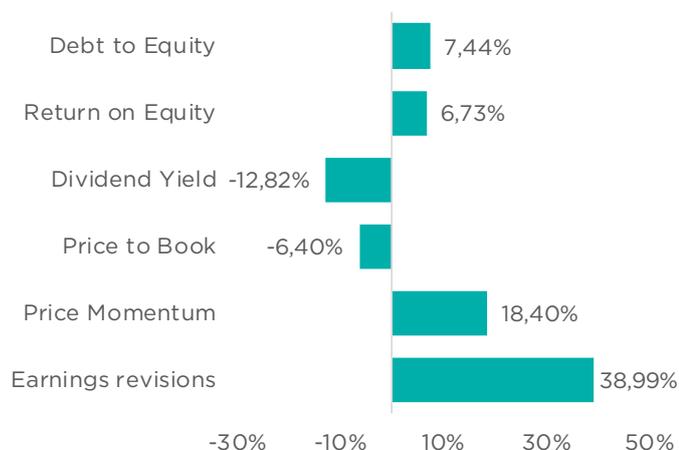


Satrix Style Tracker

Q3 / 2020

The quarterly Satrix Style Tracker chronicles the success of a range of factors over the medium to long-term for the South African investor. In this publication, we share with you our analysis for the third quarter of 2020.

Quintile spread performance: Q3 2020



Source: Satrix 2020

What worked and what didn't

Value continued to outperform **Momentum** and **Quality** on a year-to-date basis. **Volatility** reduced through the quarter, leading to less distorted dispersion in factor spreads than in the previous quarter. **Price Momentum** (18.4%) showed a high return predictive signal through the quarter, while **Earnings Revisions** (39.0%) continued to bolster the **Momentum factor**.

Price to Book (-6.4%) and **Earnings Yield** (-1.0%) trailed during the quarter. **Profitability** (6.7%) and **Leverage** (7.4%) showed robust return predictive signals, while **Growth** (-5.7%) failed to deliver. **Low Beta** (6.8%) and **Low Vol** (4.5%) showed improved performance.

Key events that impacted performance in Q3 2020

High levels of uncertainty continued through the third quarter of the year, with an unprecedented contraction in GDP numbers reported globally. The MSCI All World Index (7.9%), MSCI Emerging Markets Index (9.6%) and MSCI USA Index (9.5%) all gave positive returns in net US dollars. Locally, the rand appreciated by 4% to the US dollar, closing at R16.69 to the greenback, R21.65 to the pound and R19.56 to the euro. The South African Reserve Bank (SARB) committee continued to cut the repo rate in July by 0.25% to another record breaking 3.5% level, but decided to hold rates fixed in September despite their downward revision of growth and inflation forecasts.

Introducing factor investing

What are factors?

Factors are measurable characteristics of listed stocks that may in some way explain future performance. The most well understood factor is likely the price to earnings (PE) ratio. Many studies have shown that stocks that have low PEs tend to outperform stocks with high PEs over the long term. This is often referred to as 'value investing' in the active space. We measure many of these 'factors' and then test to see whether they have any predictive power.

Why is factor investing important?

Factor investing has the ability to empower asset consultants and multi-managers to build client portfolios simply and efficiently. Factor investing is revolutionising both the passive and active investment industry, from

- the transparent way in which factor portfolios are systematically constructed
- to the capability of building tailored investment outcomes with greater diversification and predictability
- to lower fees, and lastly
- to reliably and consistently delivering a specific investment philosophy.

Factor performance at a glance

In the charts on the following page, we look in-depth at the drivers of the last quarter's performance for the various styles: **Momentum** (Price Momentum and Earnings Momentum), **Value** (Dividend Yield) and **Quality** (Return on Equity and Debt to Equity).

Momentum

Although **Price Momentum** picked up in July and August, it continued its 12-month correction through September, correcting -32.4% over this period.

Despite this, **Earnings Revision** continued to outperform in the last year, with spreads at 20% over that period and most of the performance coming through from the quarter ending September. Platinum stocks led the way during the quarter for the Momentum signal, and on a year-to-date basis the mining stocks in general continued to be the main positive contributor.

Calendar total returns of Momentum factors (2010 to 2020)



Source: Satrix 2020

Calendar total returns of Value factors (2010 to 2020)



Source: Satrix 2020

Value

Value continued to be the best-performing factor, both on a year-to-date basis and over the last twelve months. For the last year, **Price-to-Book** (25.8%) and **Earnings Yield** (114.9%) performed particularly well, with previously beaten down stocks outpacing the market, which was fairly flat during the third quarter.

Dividend yield and **Price to Cashflow** continued to underperform during the quarter, but had a counter-balance in the form of the **Price to Book** and **Earnings Yield** signals.

Quality

Quality signals produced mixed results on a full-year basis. While both **Profitability** and **Leverage** outperformed during the third quarter, on a 12-month basis **Profitability** underperformed by -40.8% while **Leverage** outperformed by 47.8%.

Calendar total returns of Quality factors (2010 to 2020)



Source: Satrix 2020

How we measured this...

The strategies shown in this report are factors we believe to be most significant in our domestic market. The universe we use is the All Share universe, excluding property and small cap shares. We rank the stocks from highest to lowest factor score for each factor and divide the universe into quartiles (subsets or groups of four). We then calculate the quartile spread by taking the top quartile's return experience less that of the bottom quartile.

Rebalancing and performance calculations are conducted each month. The performance results do not reflect transaction costs, tax withholdings or any investment / advisory fees. The results of these quantitative factor strategies are significantly less diversified, and, as such, their performance is more exposed to specific stock or sector results. Past performance should not and cannot be viewed as an indicator of future performance.

While many factors outperform over the long-term, all suffer from periods of underperformance. Combining factors reduces the exposure to a single factor's cyclical risk, and can create more diversified portfolios.

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International experience

While global equity markets continued the rebound that was seen in the second quarter, a sharp dispersion in factor returns remained. The US market and other developed markets experienced outperformance in **Momentum** and **Growth**, while **Quality** and **Yield** underperformed. Europe performed similarly to the US market, with both **Momentum** and **Growth** showing strong performances during this period. For the US market, September was the first month that Value outperformed the market, on the back of a challenging year for the signal.

Top

Price Momentum

Beta

Growth

Low Vol

ROE

Bottom

Dividend Yield

Net Profit Margins

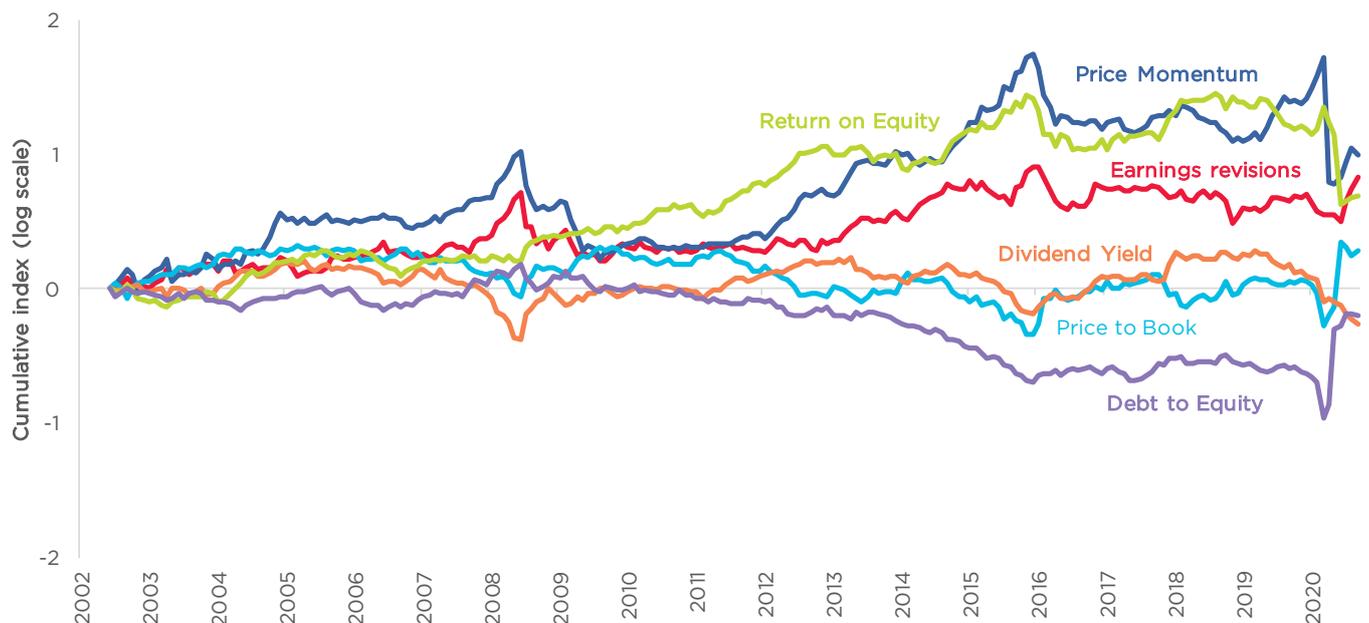
Price to Book

Price to Earnings

EBITDA to EV

Source: Bloomberg

Long-term SA factor performance since July 2002



Source: Satrix 2020

Meet the team



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Performance is based on NAV to NAV calculations of the portfolio. Individual performance may differ to that of the portfolio as a result of initial fees, actual investment date, dividend withholding tax and income reinvestment date. The reinvestment of income is calculated based on actual distributed amount and factors such as payment date and reinvestment date must be considered.
