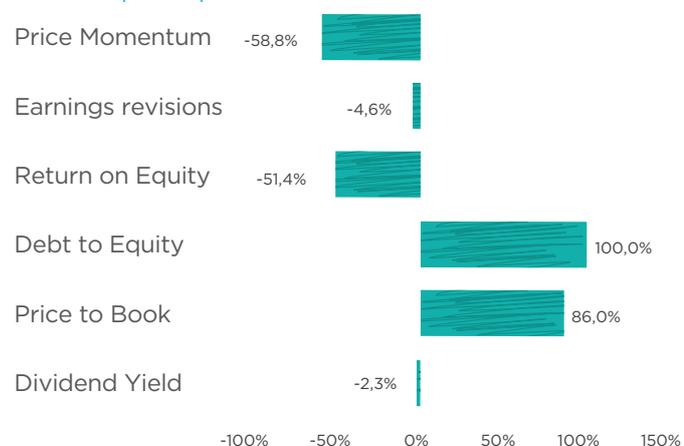


Satrix Style Tracker

Q2 / 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 second quarter of 2020.

Quintile spread performance: Q2 2020



Source: Satrix 2020

What worked and what didn't in Q2 2020

Debt to Equity and Price-to-Book deliver stellar returns

Price Momentum (-58.8%) and **Return on Equity** (-51.4%) which were strong performers in the sell-off, got hit hard in the second quarter. **Debt to Equity** (100%) and **Price-to-Book** (86.0%) delivered stellar returns as these value and geared stocks surged from their bottom. **Dividend Yield** (-2.3%) was marginally negative over the quarter. Over a one-year period, only **Price to Book** and **Debt to Equity** delivered positive returns.

Key events that impacted performance in Q2 2020

Despite extreme volatility in Q2, the markets experienced one of the fastest recoveries from the global stock market crash. For the quarter, the MSCI World Index, MSCI Emerging Markets Index and MSCI USA Index all gave substantial positive returns in US dollars. The South African rand appreciated by 2.4% to the US dollar, closing at R17.38 to the greenback, R21.52 to the pound and R19.54 to the euro. In spite of the market's recovery, the SARB committee stated due to the slow recovery of the economy, they would keep inflation below the middle of their target range. In May, the SARB continued to cut the repo rate by 0.5% to 3.75%, the lowest level in its history.

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

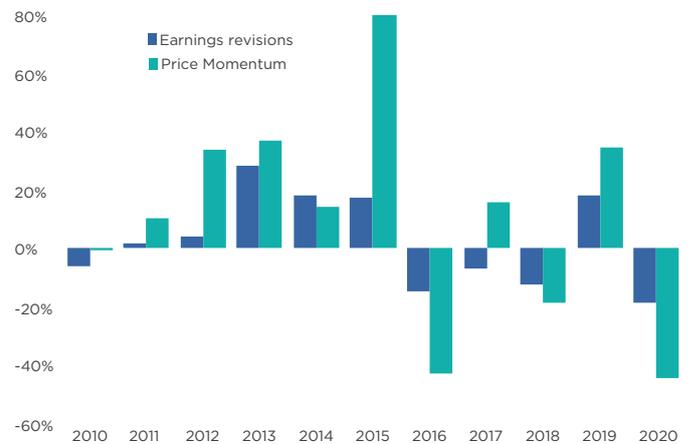
In the charts on the following page, we look in-depth at the drivers of the last quarter's performance for the various styles: **Momentum** (Price Momentum and Earnings Momentum), **Value** (Dividend Yield) and **Quality** (Return on Equity and Debt to Equity).

Momentum

The **Momentum** signal had a dramatic turnaround and wiped out its previous advances and is now down 37% over a 12-month period. An underweight in Sasol, which surged over 200% in the quarter, is only one of the examples of why **Price Momentum** doesn't perform well at sharp inflection points. Positive contributors were gold mining and as well as other miners.

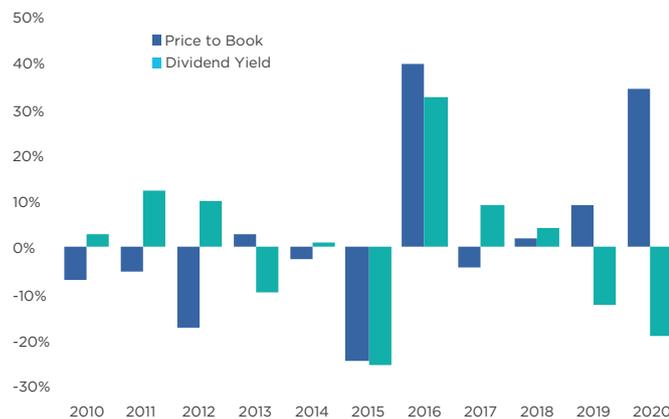
Even though **Earnings Revisions** was negative over the quarter, it softened the blow of Price Momentum and is now down 15.6% over 12 months.

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

For the first time in the year, **Value** was the best performing factor, as beaten down stocks surged in the second quarter and investors snapped up some bargains.

Price-to-Book performed particularly well with these bargain stocks outpacing the market which bounced back in the second quarter.

The **Dividend Yield** strategy marginally underperformed as historical yields don't count for much in these uncertain times.

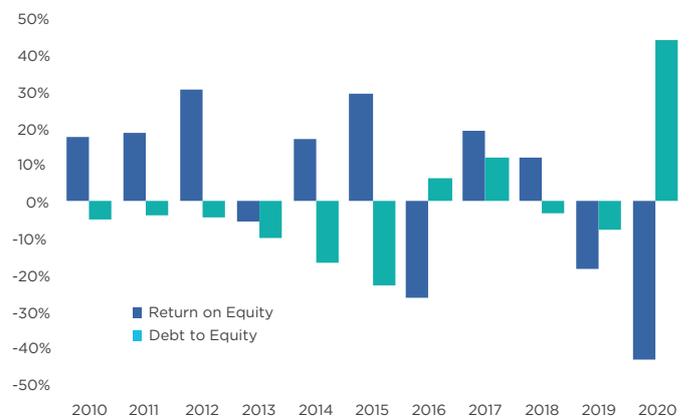
Quality

Quality reversed its fortunes of Q1 as those stocks with higher profitability were not preferred in a market which showed some hope of a prolonged recovery.

Return on Equity was the worst performing quality signal, giving away more than 50% over the quarter.

Debt to Equity, however, surged as highly leveraged stocks that overreacted to the market sell-off in Q1, sharply reversed in Q2.

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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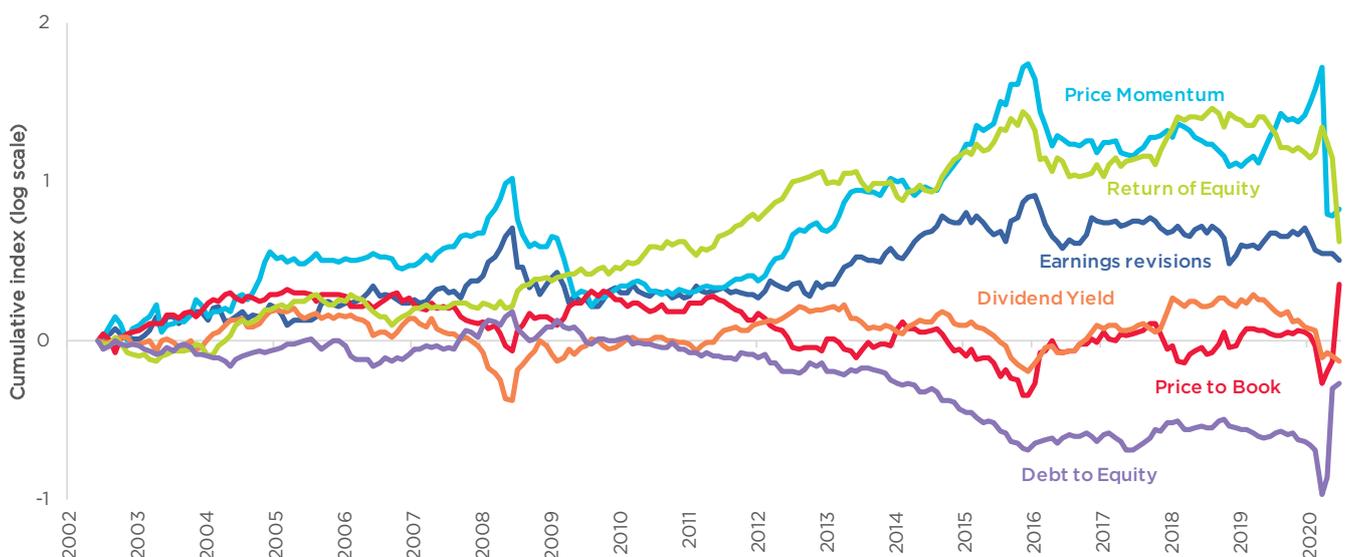
International experience

Extreme volatility continued into the second quarter of 2020, but this time markets experienced one of the fastest recoveries from a global stock market crash. Even with the rebound, the pay-offs in the different factor styles and regions were very different. In developed markets, high volatility and growth stocks gained the most versus their benchmarks, while Quality and Value underperformed during the quarter. Large cap stocks also underperformed small caps while Momentum exceeded its benchmark

Top	Bottom
Volatility	Dividend Yield
Beta	Operating Margin
Sales Growth	Price to Book
EPS Growth	Price to Earnings
Leverage	Price Momentum Yield

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.
