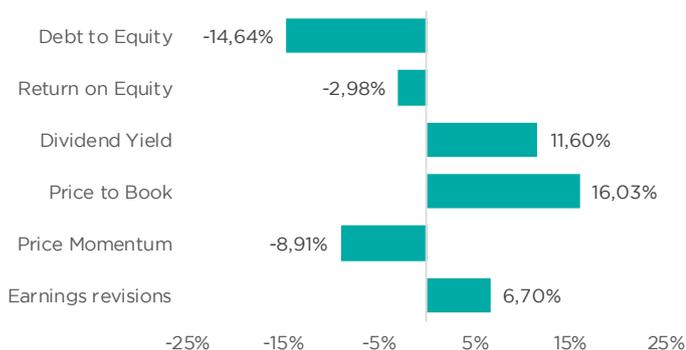


Satrix Style Tracker: Q1 2021

Q1 / 2021

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 latest analysis for the first quarter of 2021.

Quintile spread performance: Q1 2021



Source: Satrix 2021

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 deliver a specific investment philosophy

What worked and what didn't?

Globally, **Value** outperformed in most regions followed by **Quality**, while long-term **Momentum** contracted through the quarter. Locally, **Low Volatility** was the best performing factor followed by Value, extending the **Value** rebound and flight to "cheap and safe" assets. **Momentum**, along with **Quality**, continued its contraction this past quarter. It remains to be seen whether there will be a rotation out of Value and into Momentum for the remainder of the year.

For the sub-components, **Earnings revisions** (-8.3%) showed strong negative returns through the quarter while **Price Momentum** (6.4%) experienced a rebound, with the net effect being a contraction in the **Momentum** factor. The **Value** components delivered through the quarter, with **Price to Book** (7.3%), **Earnings Yield** (2.4%), **Dividend Yield** (4.7%) and **Price to Cash Flow** (11.9%) all seeing gains. **Growth** (4.5%) showed positive returns for the period, while **Profitability** (-7.9%) and **Leverage** (-1.0%) continued to lag, making Quality one of the underperformers for the quarter. **Low Beta** (11.0%) and **Low Vol** (11.3%) extended their rallies from last quarter, while most local indices experienced positive gains.

Key events that impacted performance in Q1 2021

Globally, stock markets ended the first quarter of 2021 in the green, with some emerging markets slightly in the red. Several countries went back to stricter levels of lockdown as third waves of Covid-19 gained momentum. Vaccine roll-outs have also been slower than anticipated, particularly in Europe, with several instances of vaccine related complications further slowing down the virus containment. Despite this, equities rounded out the quarter mostly in positive territory, with the US congress finally approving a historic fiscal stimulus package in March. There seems to be no slowdown in the global equity rally, with the MSCI World Index (4.9%), MSCI Emerging Markets Index (2.3%) and MSCI USA Index (5.4%) all gaining in net US dollars. Following a strong recovery late last year, the rand showed resilience through the quarter, weakening only slightly to the dollar (0.6%, closing at R14.76 to the dollar and R20.37 to the pound), but strengthening to the Euro (3.3% and closing at R17.34). This is a remarkable recovery of more than 23% since this time last year, where the rand traded north of R19.11 to the greenback as markets began pricing in the possibility of a virus induced global trade disruption.

The SA Reserve Bank voted to keep its repo rate unchanged at 3.5% in March to support the country's recovery, with most economists agreeing that the only real short-term drivers of inflation would be the petrol price (which rates would do little to affect).

An in-depth look at factor performance

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

Calendar total returns of Momentum factors (2010 to 2020)



Source: Satrix 2021

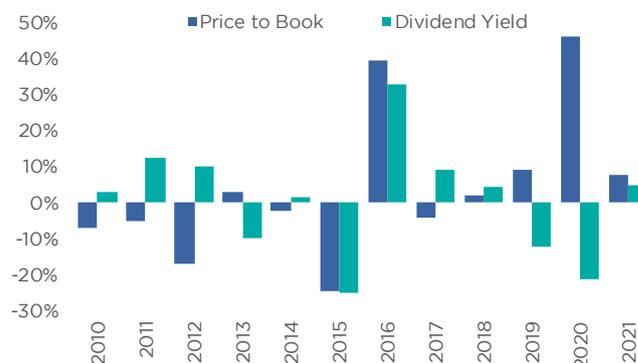
Price Momentum battled throughout 2020, clawing back some lost ground during the first 3 months of 2021, although it remains to be seen whether this will be a sustained recovery. **Earnings Revision**, however, continued to be a counter-balance to price momentum - outperforming in the last 12 months with spreads at 29.7%, while underperforming this quarter. Gold and Financial stocks continued detracting from Momentum's performance during the quarter.

Value extended its run to be the best-performing factor on a twelve months basis. For the last year, **Price-to-Book** (116.8%) and **Earnings Yield** (263.1%) performed strongly, with financials underpinning most of the performance in the last quarter.

Dividend yield (-0.5%) continued to underperform through the last 12 months, seeing somewhat of a recovery during the first quarter (4.7%), with **Price to Cash low** (50.2%) also contributing positively over the last 12 months.

Value

Calendar total returns of Value factors (2010 to 2020)



Source: Satrix 2021

Quality

Calendar total returns of Quality factors (2010 to 2020)



Source: Satrix 2021

Quality produced mixed results both on a quarterly basis and on a full year basis.

While both **Growth** (29.1%) and **Leverage** (81.6%) outperformed for the year, during the first quarter **Growth** (4.5%) was the only positive contributor, with **Leverage** (-1.0%) and **Pro itability** (-7.9%) both underperforming.

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.

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International experience

The global experience mirrored the local experience, with **Value** and **Low Volatility** performing strongest in the US and other developed markets, while **Quality** and **Momentum** contributed the least. Since September 2020, **Value** has continued with its recovery, though it is still far from recovering the deep losses experienced in 2020.

Positive contributions

Value

Yield

Volatility

Profitability

Leverage

Growth

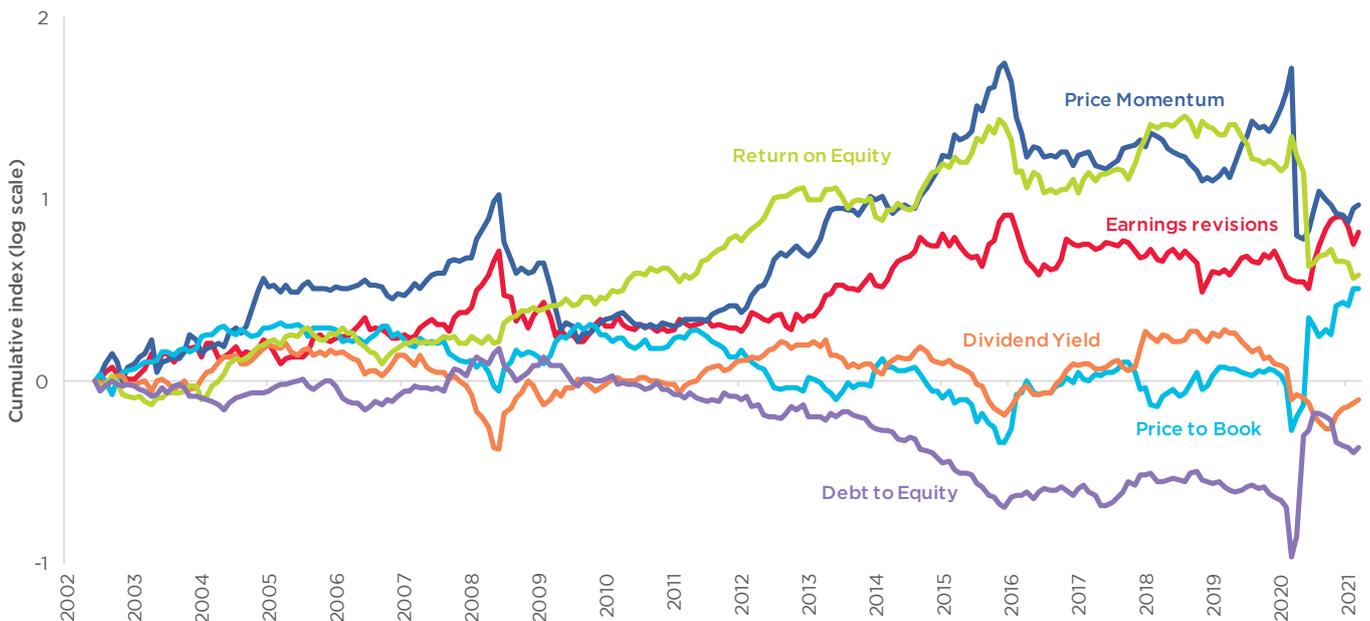
Negative contributions

Momentum

Size

Source: Bloomberg

Long-term SA factor performance since July 2002



Source: Satrix 2021

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.
