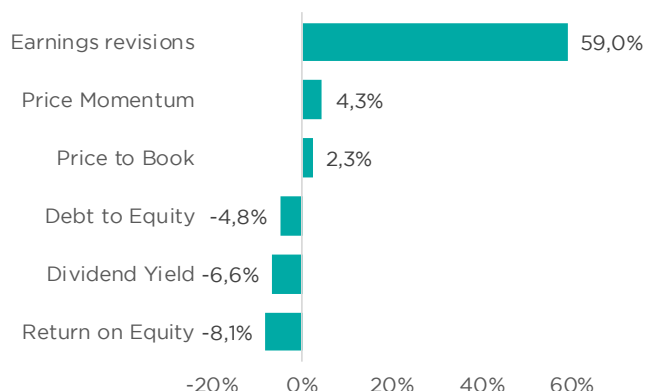


The quarterly Satrix Style Tracker chronicles the success of a range of factors over the medium to long-term for the South African investor. In this publication, we share with you our latest analysis for the second quarter of 2021.

Quintile spread performance: Q2 2021



Source: Satrix 2021

What worked and what didn't

Globally, **Value** detracted from performance, with investors falling out of favour with cheaper stocks. **Quality (Profitability)** was the best-performing factor for the quarter, while **Momentum** underperformed. Locally, **Momentum** was the best-performing factor, followed by **Value** from a long-short return point of view. **Quality** remained out of favour, followed by underperformance from **Low Vol** stocks.

Earnings revisions (56%) showed a strong positive return through the quarter as did **Price Momentum** (4.3%). **Price to Book** (2.3%) and **Price to Cash Flow** (5.5%) delivered well, with **Dividend Yield** (-6.6%) and **Earnings Yield** (-4.6%) detracting from Value. **Growth** (10.2%) showed positive returns, while **Profitability** (-8.1%) and **Leverage** (-4.8%) continued to lag. **Quality** also underperformed in Q2. Stocks with **Low Beta** (-8.3%) and **Low Volatility** traits (-5.9%) also underperformed.

Key events that impacted performance in Q2 2021

Stock markets across the globe posted positive returns for Q2 of 2021, continuing the equity rally from March 2020. Local equities were flat over Q2 as South Africa went back to Level 4 of lockdown amid the third wave of Covid-19 from the Delta variant. International markets experienced a positive quarter as vaccine rollouts accelerated in developed markets, and several highly vaccinated countries re-imposed stricter lockdown measures, indicating the virus' impact may be felt for some time. For the quarter, the MSCI World Index (7.7%), MSCI Emerging Markets Index (5.1%) and MSCI USA Index (8.8%) all delivered positive returns in net USDs.

Locally, the SA rand strengthened against the US dollar in Q2, closing at R14.31 to the greenback, while ending the quarter at R19.75 to the pound and R16.96 to the euro. The SARB voted to keep its repo rate unchanged at 3.5% during its May meeting, confirming most analyst expectations. The Reserve Bank highlighted concerns of the economic impact of slow vaccine roll-outs and energy issues at Eskom. Forecast annual growth for South Africa was revised upward to 4.2% from the previous 3.8% (although this was before the third lockdown). The Reserve Bank forecast two possible interest rate hikes for the year.

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 by systematically replicating active management styles;
- to reliably and consistently deliver a specific investment philosophy;

Factor performance at a glance

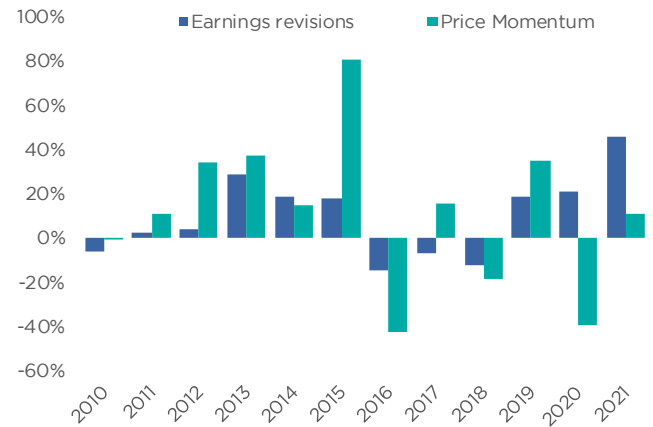
In the charts on the following page, we look in-depth at the drivers of the last quarter's performance for the various styles: **Momentum** (Price Momentum and Earnings Momentum), **Value** (Dividend Yield) and **Quality** (Return on Equity and Debt to Equity).

Momentum

On the local front, **Momentum** was the best performing factor for the quarter. Earnings Revision **posted** strong positive returns through the quarter, continuing to outperform over the past 12 months, with long-short spreads at 116.2%. Price Momentum also showed strong gains **during the quarter (19.7%)**.

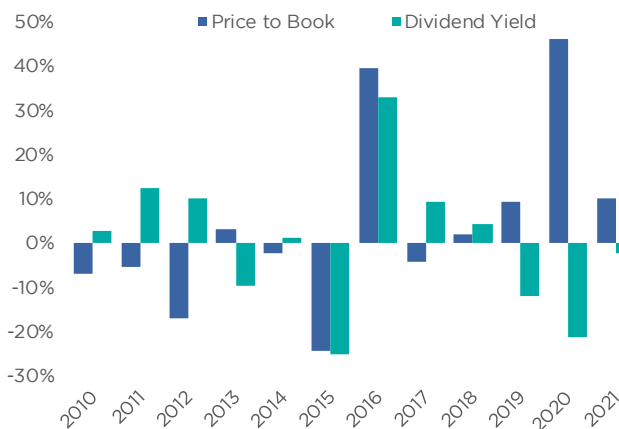
As gold stocks lost momentum in the first quarter, the reduction in their exposure contributed positively to the **Momentum** strategy during the second quarter, while consumer services weighed negatively on the signal. Recovering Value stocks also rotated into the Momentum bucket, driving the Momentum factor's performance in the second quarter.

Calendar total returns of Momentum factors (2010 to 2021)



Source: Satrix 2021

Calendar total returns of Value factors (2010 to 2021)



Source: Satrix 2021

Value

The Value signal underperformed in the second quarter, although it continued to be one of the best-performing factors on a twelve-month basis. Over the past year, the **Price-to-Book (19.2%)**, **Earnings Yield (8.4%)** and **Price-to-Cashflow (31.8%)** factors performed strongly.

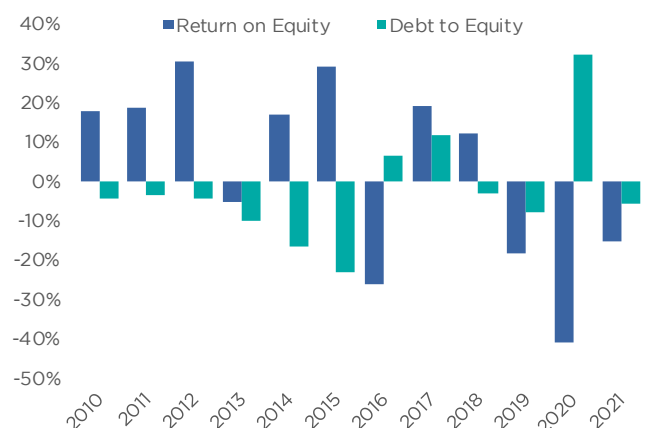
Dividend yield (-4.9%) continued to underperform through the last 12 months following from its poor quarter in Q2 2020 (-6.6%).

Quality

The Quality factor was on the back foot again in the second quarter, continuing to produce mixed results both on a quarterly basis and on a full year basis.

The **Growth (24.3%)** signal delivered value for the year, and during the second quarter, **Growth (10.2%)** was again the only outperformer. **Leverage (4.8%)** and **Profitability (-8.1%)** underperformed during the quarter and also on a 12 months basis (-13.6% & -12.3% respectively).

Calendar total returns of Quality factors (2010 to 2021)



Source: Satrix 2021

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 portfolio's returns 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

The US market and other developed markets experienced outperformance in Quality while Momentum and Value struggled with Yield, ending the quarter negative against the markets in all regions. There was a rotation from Growth to Value then back to Growth during the quarter in the US markets, while in Europe the Growth signal was stronger than the Value signal.

Positive contributions

Profitability

Size

Growth

Leverage

Momentum

Volatility

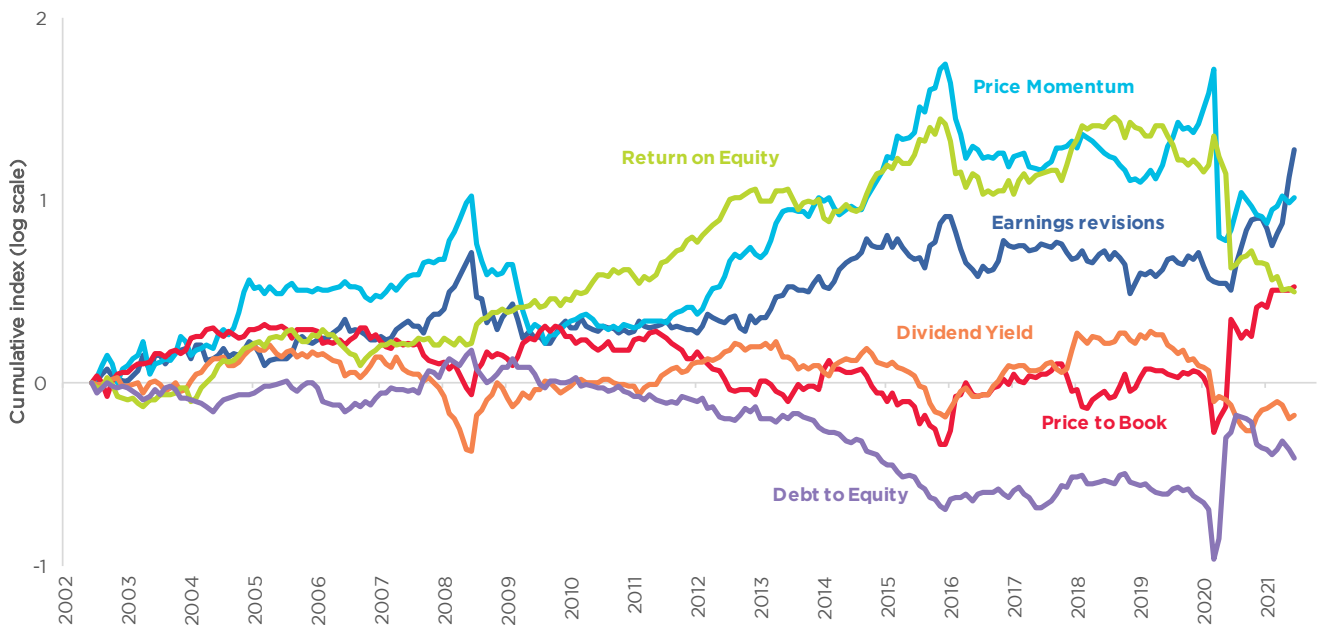
Negative contributions

Yield

Value

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.
