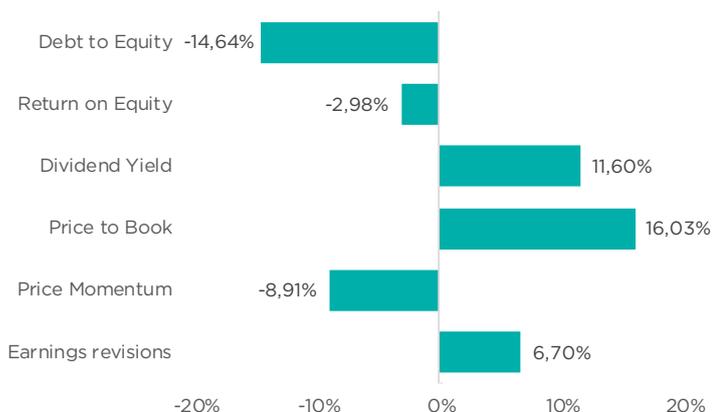


Satrix Style Tracker

Q4 / 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 latest analysis for the final quarter of 2020.

Quintile spread performance: Q4 2020



Source: Satrix 2020

What worked and what didn't

Locally, **Value** was the best-performing factor, continuing its rebound from years past and cementing the notion of a Value rebound. **Low Volatility** also posted double digit positive return on spreads through the quarter, highlighting that "stable" and "cheap" were the dominant stock features locally in an otherwise historically turbulent year.

Price Momentum (-8.9%) showed a strong negative return in Q4 while **Earnings Revisions** (6.7%) continued to contribute positively to the **Momentum** factor. Value features including **Price to Book** (16.0%), **Earnings Yield** (12.2%), **Dividend Yield** (11.6%) and **Price to Cash Flow** (13.5%) all rallied in Q4. **Growth** (15.5%) showed robust returns, while **Profitability** (-3.0%) lagged. **Leverage** (-14.65%) also failed to deliver. As markets recovered from the first half of the year's losses, **Low Beta** (12.7%) and **Low Vol** (11.5%) garnered strong market support.

Key events that impacted performance in Q3 2020

Globally, stock markets recovered from the deep drawdowns experienced in the first half of 2020 and ended the year mostly with positive double digit returns. The fourth quarter kicked off with a sharp sell-off in October, but markets soon rebounded again, with the MSCI World Index (14.0%), MSCI Emerging Markets Index (19.7%) and MSCI USA Index (13.0%) all handsomely paying off in net USDs. The South African Reserve Bank (SARB) kept the repo rate fixed in November at the 3.5% level. Despite multiple ratings downgrades, the rand appreciated by 12.1% to the US Dollar this quarter, with high local yields arguably establishing domestic debt as a global favourite among carry traders.

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

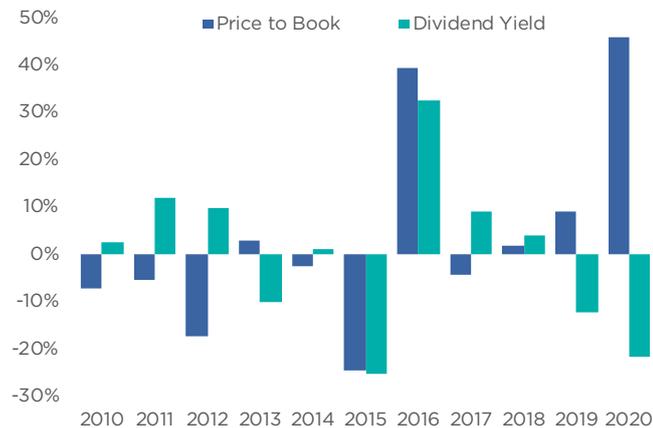
Price Momentum never recovered from its April underperformance, and closed the year down with spreads over 12 months at **-40%**. Despite this, **Earnings Revision** continued to outperform in 2020 with spreads at 21%, albeit mostly attributable to the quarter ending September. Gold stocks led the way into the negative territory during the quarter for the Momentum signal, and on a year-to-date basis, Platinum 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 on a quarterly period and over the last twelve months of 2020. For the last year, **Price-to-Book** (45.83%) and **Earnings Yield** (148.6%) attributes performed strongly, with **Financials** underpinning much of this spread performance. **Dividend Yield** (-21.5%) continued to underperform through the year, though it did pick up strongly during the past quarter (11.6%). **Price to Cashflow** (4.43%) also contributed positively, albeit less dramatically, over the course of 2020.

Quality

Quality signals continued to produce mixed results both on a quarterly basis and on a full year basis. While both **Growth** (32.6%) and **Leverage** (32.1%) outperformed for the year, on a quarterly basis Growth (14.5%) was the only outperformer, while Leverage (-14.6%) and **Profitability** (-3.0%) underperformed during the quarter.

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

The US market and other developed markets experienced outperformance in **Value** and **Volatility** while **Quality, Growth, Momentum** and **Yield** underperformed. Recent stimulus packages after the US election contributed to the outperformance of Value stocks from Growth, while European Growth stocks had a stronger performance in December compared to US stocks. The outperformance of Value in developed markets was good but it was not enough to change the overall underperformance of the factor over the year, and the spreads remained high amongst the different sub-factors for Value in all regions.

Positive contributions

Low Vol

Beta

Price to Earnings

Price to Book

Dividend Yield

Negative contributions

EBITDA to EV

Growth

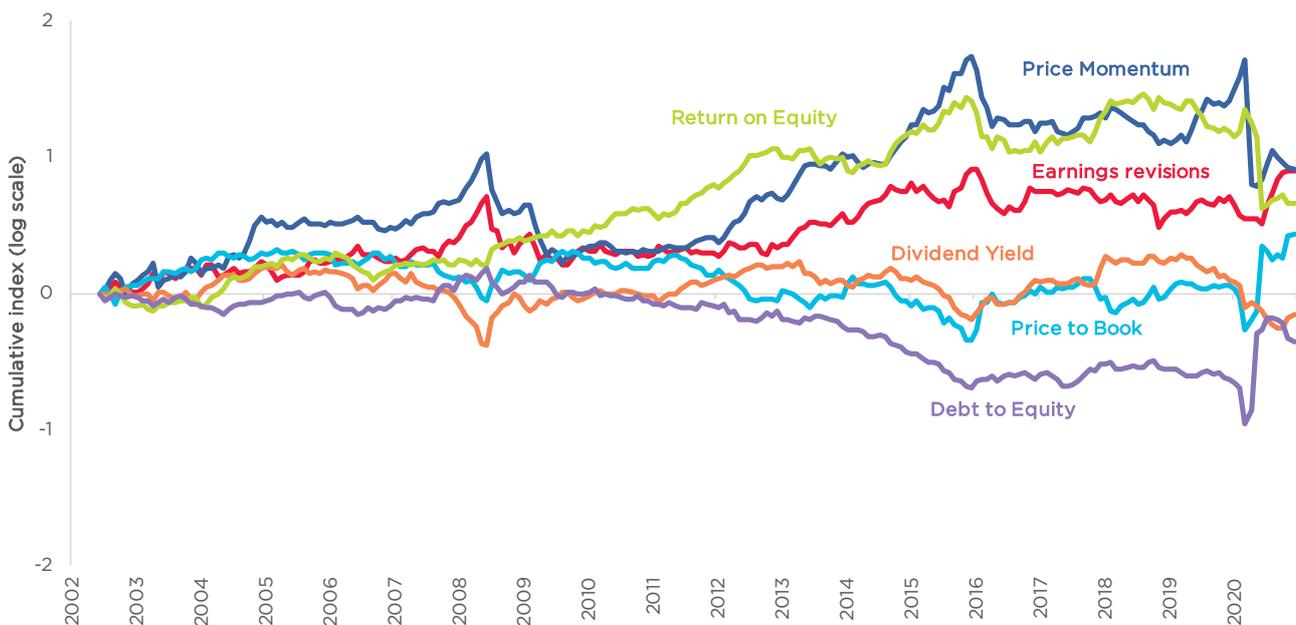
Price Momentum

Net Profit Margins

ROE

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.
