

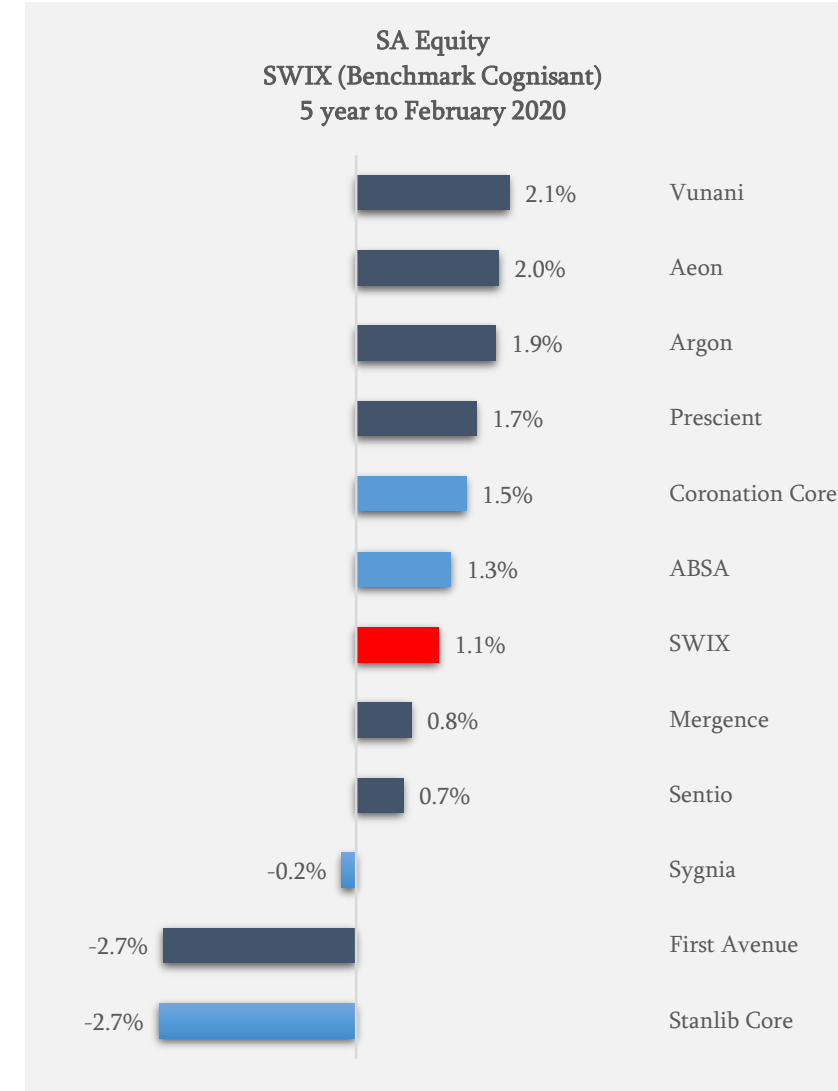
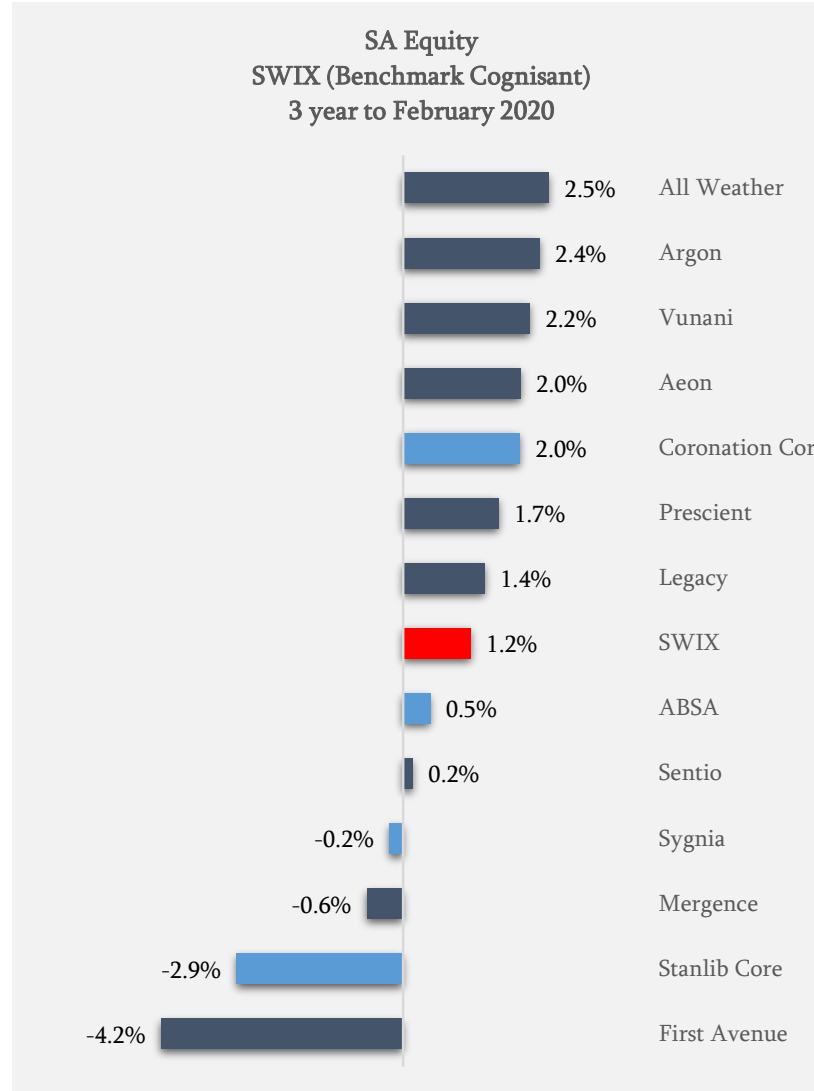
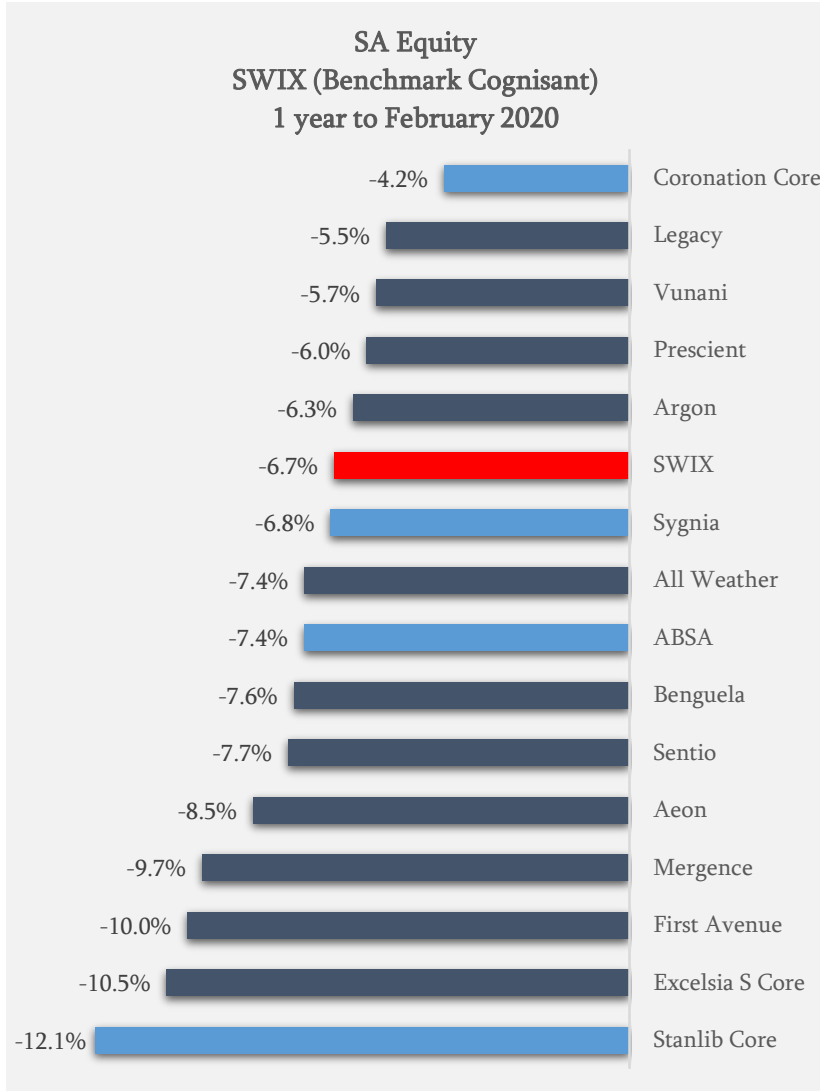
## South Africa Equity and Bond Survey

February 2020



*“Reshaping the SA Asset Management Industry”*

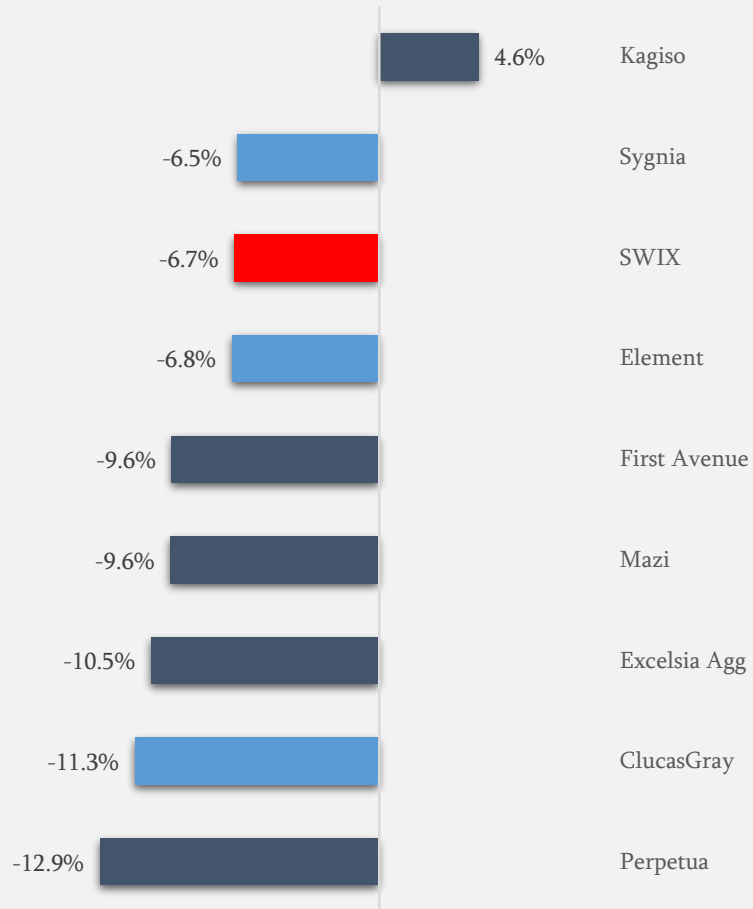
# SA Equity - SWIX (Benchmark Cognisant)



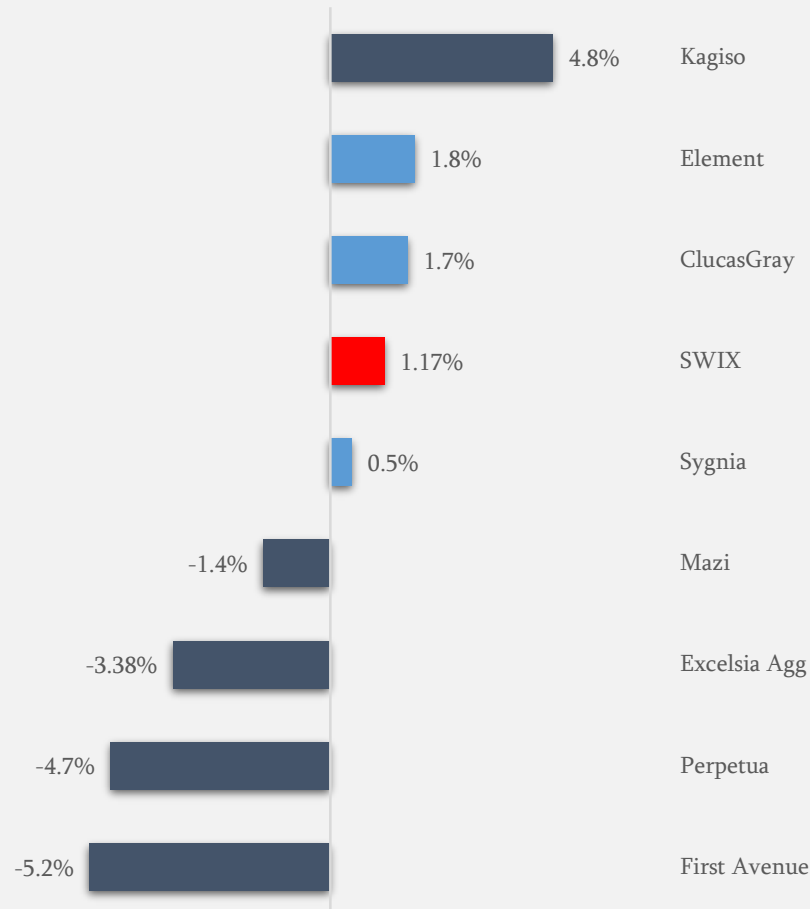
Source: Motswedi Research, Alexander Forbes Manager Watch

# SA Equity - SWIX (Not Benchmark Cognisant)

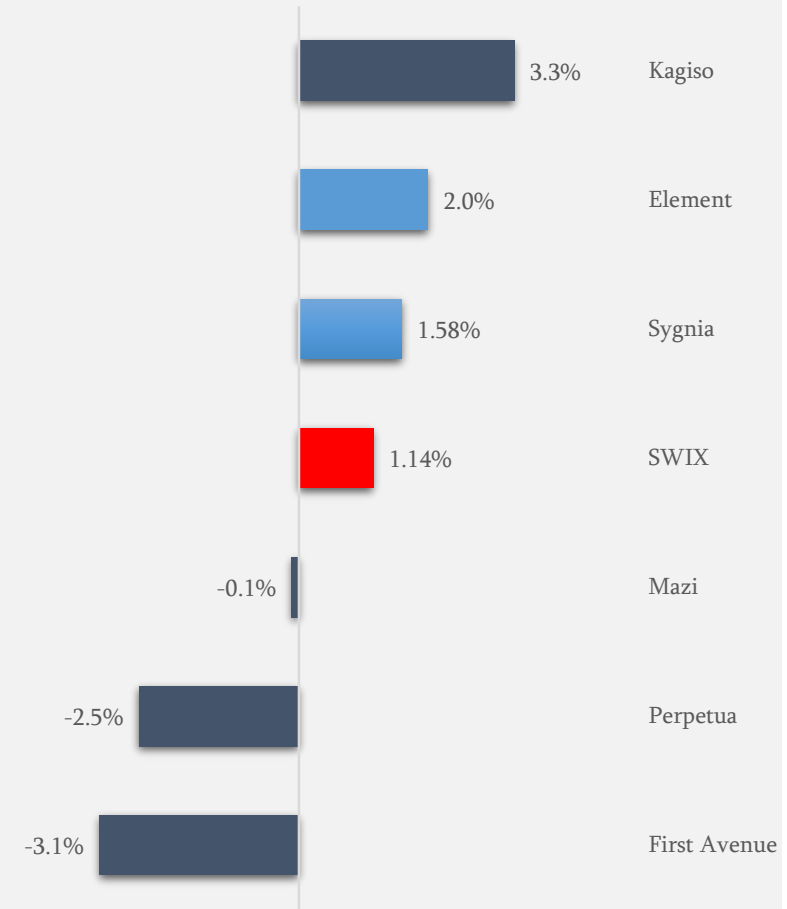
SA Equity  
SWIX (Not Benchmark Cognisant)  
1 year to February 2020



SA Equity  
SWIX (Not Benchmark Cognisant)  
3 years to February 2020

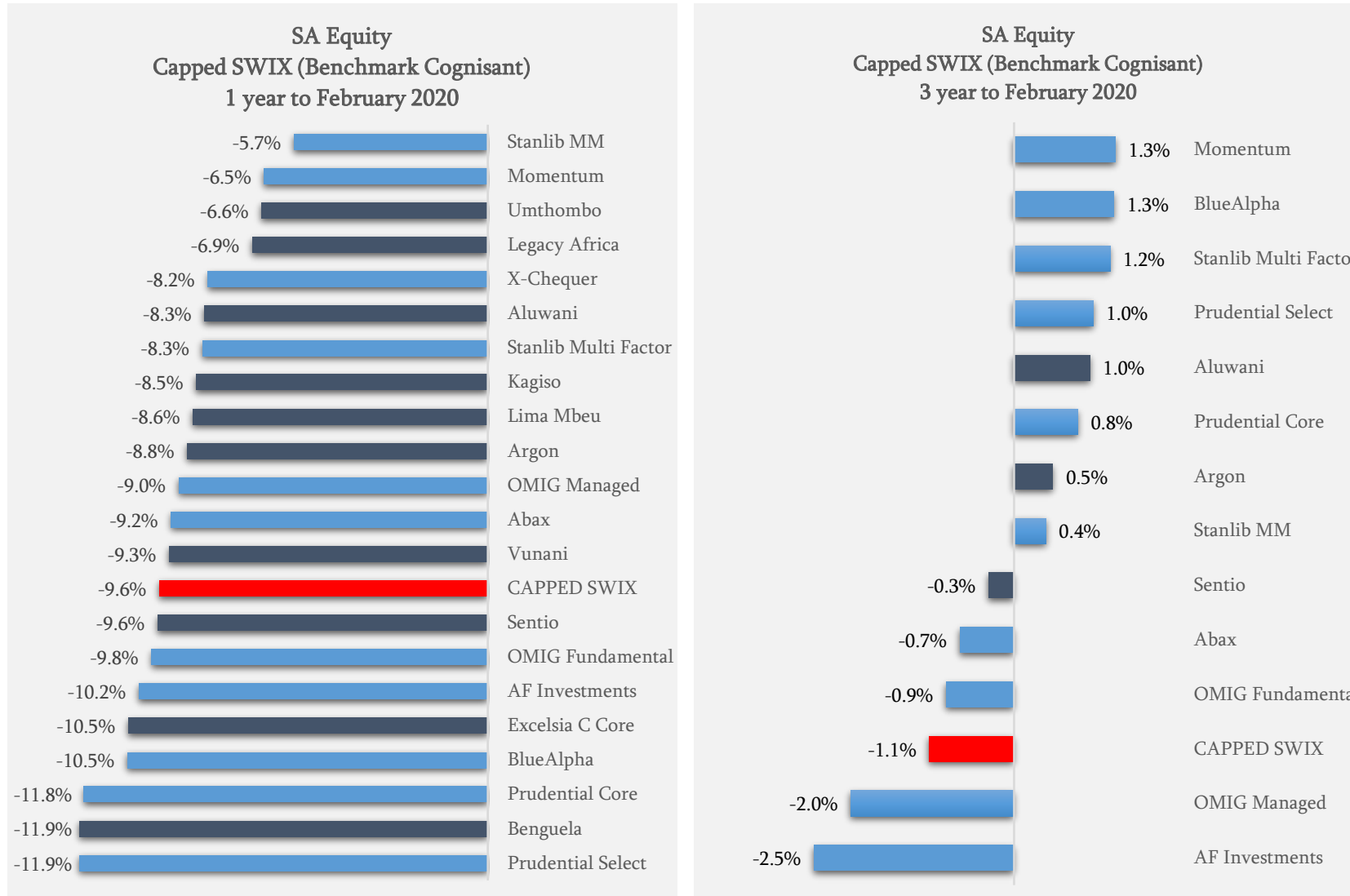


SA Equity  
SWIX (Not Benchmark Cognisant)  
5 years to February 2020



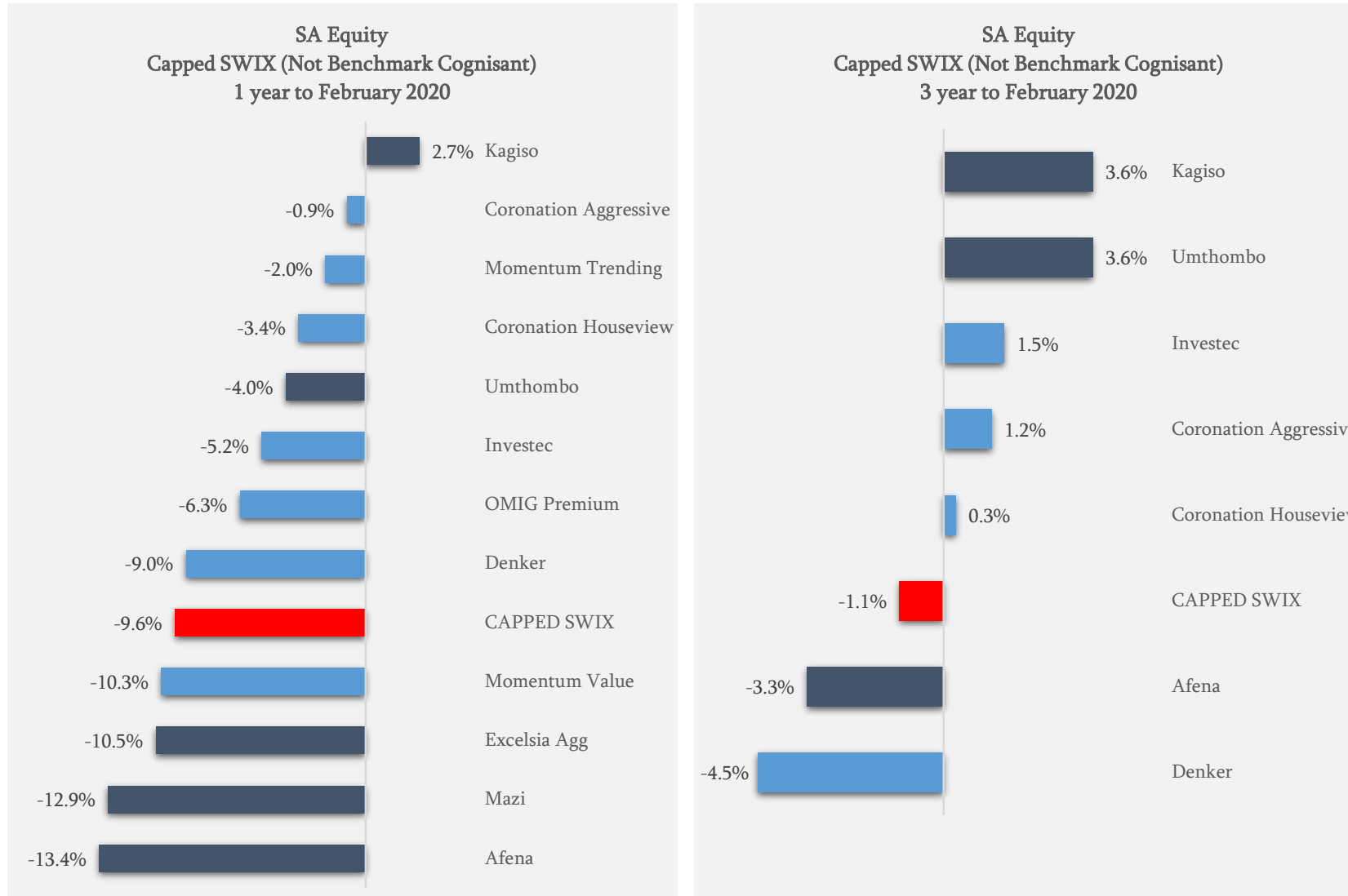
Source: Motswedi Research, Alexander Forbes Manager Watch

# SA Equity - Capped SWIX (Benchmark Cognisant)



Source: Motswedi Research, Alexander Forbes Manager Watch

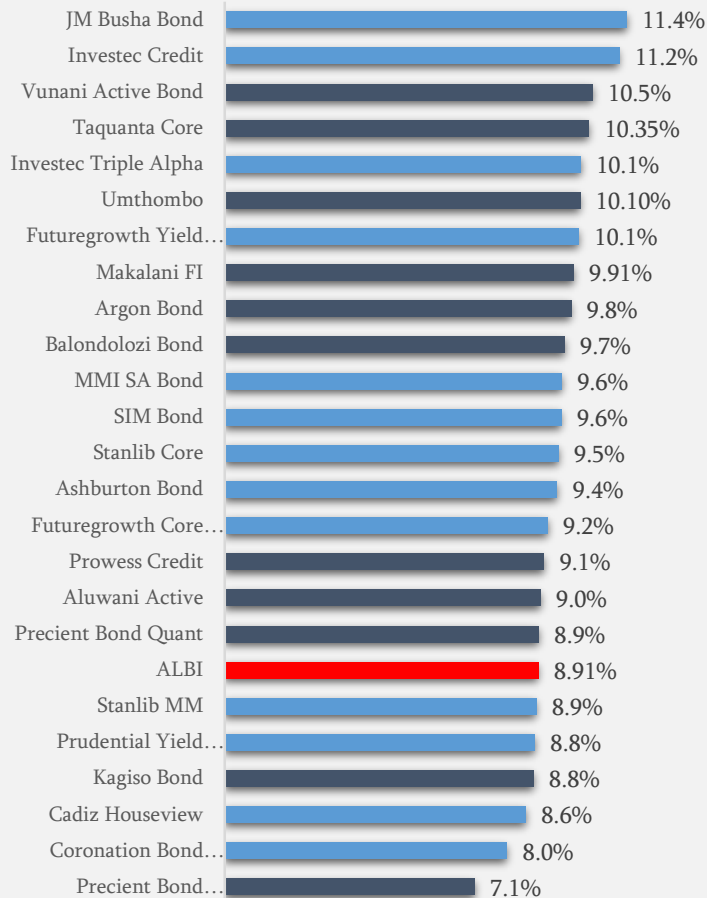
# SA Equity - Capped SWIX (Not Benchmark Cognisant)



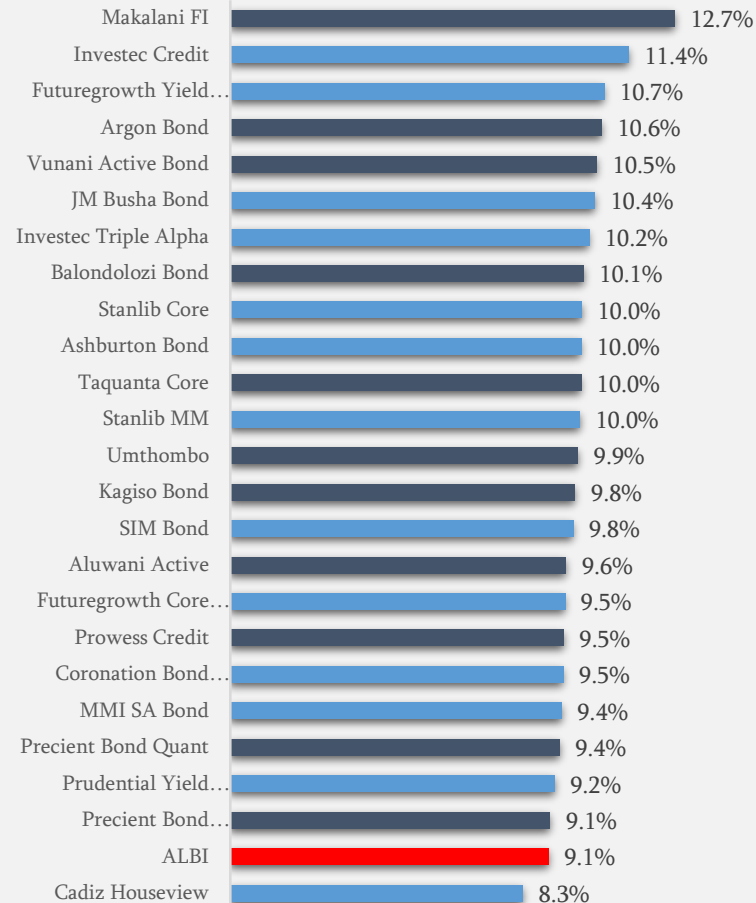
Source: Motswedi Research, Alexander Forbes Manager Watch

# SA Bonds - ALBI

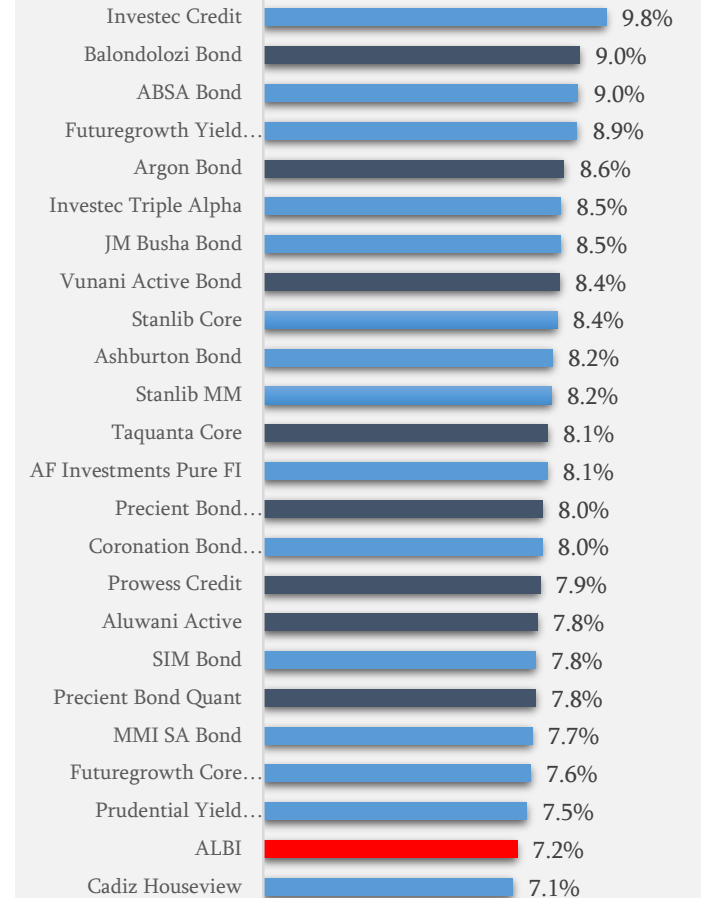
SA Bond  
All Bond Index (ALBI)  
1 year to February 2020



SA Bond  
All Bond Index (ALBI)  
3 years to February 2020



SA Bond  
All Bond Index (ALBI)  
5 years to February 2020



Source: Motswedi Research, Alexander Forbes Manager Watch

# Manager views: Diversity in an investment portfolio

by Independent Alternatives Investment Managers

Bond markets declined by around 10% and Equity markets declined by around 17% during March 2020. The sharp decline in both domestic bonds and equities reinforces the long-held view that even though bonds appear lowly correlated to equities when observing static correlations over time, the picture changes dramatically when correlations are viewed across a time varying spectrum.

In more recent times, correlations tend to be even more elevated during liquidity driven global sell-offs given the role played by offshore investors in the South African bond market. Independent Alternatives believe that the experiences of March 2020 further highlight the value that good hedge fund products can add in a portfolio as a risk mitigating tool and to offer diversification away from traditional capital markets.

The Independent Alternatives' flagship hedge fund, the Muhu Multi Strategy Hedge Fund (RHF), has been able to deliver on the promise of protecting and growing clients' wealth during volatile market conditions.

While the fund suffered a small estimated decline of 0.50% in March 2020, the fund delivered 1.40% during the first quarter of the year. This is regarded as a reasonable outcome when compared to domestic equity and bond markets which declined approximately 30% and 10% respectively over the quarter.

Markets have experienced an extreme surge in volatility over the first quarter of 2020 – risky assets as well as some safe havens registered double digit declines. As in most crises, correlations have been increasing. The sudden stop to economic activity brought about by the novel coronavirus (Covid-19) has been unprecedented.

At the same time asset valuations coming into this crisis were high relative to historical levels. In this environment, the most effective risk mitigating tools are in cash, short selling or making use of optionality. Independent Alternatives have used these tools at various points during the market sell-off, which has allowed the fund to perform significantly better than traditional assets classes.

# Manager views: Diversity in an investment portfolio

continued...

Other segregated mandates run by Independent Alternatives have also performed well during the market sell-off. The Muhu Short Biased Equity Hedge Fund delivered strong results during the sell-off. The fund has an objective to hedge investors who are significantly exposed to the local equity market. The fund aims to outperform during market stresses and volatility expansions, where performance will be driven by a quantitative market neutral equity long short core, and an active derivative trading strategy. The fund delivered a return of around 20% for March 2020, driven by volatility expansions in the domestic equity and USDZAR currency markets. Year-to-date, the fund is up approximately 33%, hedging the equity market drop. The fund also delivered a credible return of nearly 17% in 2019.

The Muhu Active Bond Fund also delivered significant alpha in March 2020, as the Independent Alternatives' preference for a steeper SAGB curve helped to minimise significant capital losses experienced in longer term bonds. The fund delivered alpha of 1.40% for March 2020, bringing the year-to-date outperformance to 2.17% over the All Bond Index.

In terms of the next few weeks, Independent Alternatives will maintain an open mind on how markets evolve. They believe financial markets are not yet fully pricing in the full impact of Covid-19 on modern society, as well as the sudden stop to economic activity. Therefore, they will remain defensively positioned.

Monetary and fiscal policies have back-stopped markets and economies, but they believe without medical advances that increase confidence in virus containment and immunity, the current social, market and economic dynamics will continue. They also doubt the effectiveness of further global monetary and global fiscal stimulus to arrest the economic fallout brought about by Covid-19, as a V-shaped recovery to economies are unlikely to materialise.



# About Motswedi

Motswedi Emerging Manager Strategists is an independent asset manager research business focusing on the South African investment management industry with specialisation in transformation initiatives. We are the industry leader in providing insight and access to the new generation of emerging asset managers in South Africa. We encourage the development of a more diverse industry that can contribute towards economic growth.

Our vision is to be a financial services company that services both institutional and retail clients to provide access to high quality and well researched emerging managers. Our higher purpose is premised on “Reshaping the South African asset management industry” by promoting transformation, gender equality, skills development and stimulating economic growth through supporting and investing with transformed asset managers.

## CONTACT US

The office:  
Block D  
Country Club Estate  
21 Woodlands Drive  
Woodmead  
Sandton  
2080  
South Africa

Website  
[www.motswedi.co.za](http://www.motswedi.co.za)

Tel:  
+27 87 702 3800

E-mail:  
[info@motswedi.co.za](mailto:info@motswedi.co.za)