Institutional Managers' Digest

Issue 7: September 2024

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In this **edition**

The September 2024 iteration of the Institutional Managers' Digest provides insights into quarter three (Q3) performance of survey constituents while also delves into topics related to changes within the asset management landscape, that took place within the quarter.

Portfolio manager at Alexforbes, Msizi Msomi, features in our expert insights interview providing background on his journey within the investments industry and personal development.

Survey in focus features an overview of the International Manager Survey, with some comparative statistics related to performance being provided.

Introduction

Q3 witnessed a notable improvement in the performance of South African equities and bonds compared to quarter two (Q2), with the FTSE/JSE All Share index finishing the quarter at a return of 9.6%. Domestic bond markets continued to perform well within positive territory, with the All Bond Index (ALBI) producing a quarterly return of 10.5%. The FTSE/JSE SA Listed Property Index demonstrated strong performance for the quarter following stable month-on-month performance producing a return of 18.7%. The Large Manager Watch (LMW) category of our flagship Manager WatchTM Survey saw its constituents reflecting quarterly peer group median performance for the SA and global LMW categories of 9.4% and 6.3% respectively.

Globally, emerging markets showed strong performance in Q3, with the MSCI EM recovering from negative performance in Q2, resulting in a quarterly return of 2.8% which is significantly higher than the June 2024 return of 1.4%. MSCI EFM Africa ex SA showed strong performance, ending the quarter on 6.3%, outperforming MSCI EFM Africa, which had a quarterly return of 2.6%. MSCI World had fluctuating performance ending Q3 on 0.5%. With the S&P 500 showing a similar performance profile, however ending Q3 in negative territory with a return of -0.02% for the quarter.

Inflation in South Africa has trended remarkably lower in Q2 2024. The annual inflation rate eased to 4.6% in July, 4.4% in August and 3.8% in September, falling below the SARBs 4.5% inflation midpoint on average. 3.8% marks the lowest inflation rate since March 2021, signally a softening inflation environment. Considering these developments, the much-anticipated action by the SARB to reduce interest rates followed, dropping by 25 basis points from 8.3% to 8.0% in September 2024. Likewise, the FED reduced its federal funds rate by 50 basis points during the quarter, after a series of restrictive monetary policy. Interestingly, the ECB followed with a 0.3% rate cut of its major interest rates for the third time this year, which indicates that inflation in the eurozone is increasingly coming under control.

Sharpshooter

The Sharp Shooter (best absolute performer across all surveys) for the quarter is **Alexander Forbes Investments Property Fund**, participating in the **Property Survey** with a return of **20.36%**.

The best relative performer for the quarter was the **ClucasGray SA Balanced Prescient Fund**, participating in the **Manager Watch Survey S.A Best Investment View**, outperforming its benchmark by **10.83%.**

20.36% — Alexander Forbes Investments Property Fund

10.83% — ClucasGray SA Balanced Prescient Fund

Surveys in numbers

Some interesting facts generated over the third quarter of 2024 across all surveys include:

88 **Asset managers participating** across our surveys

778 **Participating strategies** across our surveys

R8.2 trillion Total assets under management (AuM - September 2024) of all participating strategies

49 BEE level 1 contributors

61 Signatories of the UN Principles for Responsible Investment (PRI)

503 **Portfolios outperformed their respective benchmarks** (excluding International, Namibia, FoHF, Africa and LDI surveys)

573 **Portfolios increased their market values** (excluding FoHF survey, international survey and LDI survey)

71 Companies endorsing the principals of the Code for Responsible Investing in South Africa (CRISA)

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Industry news

SA's largest asset manager, the PIC, feels the greylisting sting:
The Public Investment Corporation (PIC), which manages R2.69 trillion in investments for clients like the Government Employees' Pension Fund (GEPF), has faced challenges due to South Africa's greylisting by the Financial Action Task Force (FATF) since February 2023. The greylisting has increased scrutiny on the PIC's cross-border transactions and made it more difficult to conduct international business.

The FATF greylisted South Africa due to concerns about the country's inadequate measures to combat financial crimes, including money laundering and terrorist financing. As a result, financial institutions in SA were seen as vulnerable to illicit money flows, which could have far-reaching global security implications.

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FST sets aside FSCA decision that found R26bn fund's board improperly constituted
The Financial Services Tribunal (FST) has overturned the Financial Services Conduct Authority's (FSCA) decision regarding the R26 billion Municipal Employees Pension Fund (MEPF). The FSCA had previously found the MEPF board improperly constituted under the Pension Funds Act, removed its members and refused to approve amendments to the fund's rules and extend an exemption related to board elections for employees from over 100 municipalities.

After a legal challenge by the MEPF, the case was heard by the FST, which set aside the FSCA's decisions and sent them back to the regulator for reconsideration. This ruling is significant given the ongoing disputes between the MEPF, the FSCA and other parties involved, such as Mergence Investment Managers.

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New Asisa unit trust categories to launch on 1 October:
The Association for Savings and Investment South Africa (Asisa) is set to introduce significant changes to the classification of domestic unit trusts, effective from 1 October. New categories such as equity, multi-asset high equity and inflation-linked bonds will be added, while regional categories will be removed, with funds moving to global categories.

These changes come as flexible equity funds, which often invest more than 45% offshore, have tested prudential limits. This has led to discrepancies in performance within the same category, particularly with funds heavily exposed to outperforming US tech stocks compared to those focused on South African equities.

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Quarterly index performance

Best performing SA indices in the surveys

Quarter	1 year	3 years	5 years
19.14% FTSE/JSE All Property Index	51.34% FTSE/JSE SA Listed Property Index	15.97% FTSE/JSE SA Listed Property Index	14.07% FTSE/JSE Capped All Share Index

Best-performing peer group benchmarks as featured in the surveys

Quarter	1 year	3 years	5 years
9.96% SA BIV Average	23.97% SA BIV Average	12.64% SA BIV Average	12.19% Global Dynamic Average

SA and Global Best Investment View (BIV) - asset allocation

This section explores how asset managers are adjusting their investment strategies in both the South African and Global BIV categories of the Manager WatchTM survey. These adjustments are influenced by changes of Regulation 28 of the Pensions Funds Act, in the rules governing offshore investments, particularly an increase in the limit to 45%.

SA BIV - average asset allocation

	March 2024	June 2024	September 2024
SA equities	66.36%	67.23%	68.19%

Q3 allocation for participants in the SA BIV category depicts managers continuing to increase their domestic equities allocation with average allocation from Q2 to Q3 increasing by 0.96% from the previous quarter. Allocation to domestic bonds decreasing slightly by 0.21%, to a quarterly average of 22.10%. The mentioned changes could be in response to improved domestic market sentiment or the commencement of central bank easing cycles with managers gearing their portfolios to take advantage of improving inflationary conditions or to implement a broader strategy for managing risk and returns.

Among the managers, the one with the highest allocation to domestic equities had an exposure of 75.1% delivering a quarterly return marginally below the upper quartile.

Global BIV - average asset allocation

	March 2024	June 2024	September 2024
SA equities	37.17%	38.88%	40.30%
Total SA assets	**62.80%**	**64.59%**	**66.47%**

	March 2024	June 2024	September 2024
Global equities	26.86%	26.23%	24.71%
Total global	**37.20%**	**35.41%**	**33.53%**

Global BIV category constituents delivered an average performance of 6.72% for the quarter, which is 4.22% lower than the average performance generated by SA BIV constituents, for the same period.

Allocation to offshore investments continued to decrease with September 2024 allocation dropping by 1.61%. From quarter one (Q1), participants in the Global BIV category seem to be indicating a shift towards domestic (SA) assets which is seen by the increase in total SA assets of 1.88%, when comparing Q3 and Q2 allocation. The shift towards local markets is particularly present in the SA equities asset class which has seen an increase in allocation of 3.13% from Q1 to Q3. Among the managers, the one with the highest allocation to global equity for the quarter ending September 2024 had an exposure of 38.7%, delivering a quarterly return below the lower quartile. Conversely, the manager with the highest allocation to local (SA) equity generated a return that was above the upper quartile.

Overall, the data indicates a decreasing trend with respect to managers' offshore allocations, particularly in offshore equities. This suggests that asset managers are diversifying their portfolios to take advantage of both local and global opportunities and manage risk, considering the relative attractiveness of different asset classes and markets. Differences in offshore investments and performance across managers are likely to continue to vary, emphasising the importance of smart allocation decisions.

Survey in focus - **International Manager Watch™ survey**

The International Manager Watch Survey provides insights into the performance of asset managers overseeing global portfolios, evaluating them across multiple asset classes. It serves as a critical tool for investors looking to understand how international managers are performing relative to local counterparts and benchmark indices.

For Q3 2024, the survey highlights the challenging environment property and equity portfolios faced, while also shedding light on currency effects on fund performance when comparing international and South African-based strategies.

Performance Comparison Across Key Categories

Global equity (International Survey)

Average Return	Median Return	Highest Return	Lowest Return
14.65%	0.77%	1.16%	-3.98%

SA equity (Manager Watch Survey)

Average Return	Median Return	Highest Return	Lowest Return
18.56%	10.08%	10.29%	7.16%

Shifting focus to equity investments, SA equity funds again exhibited superior performance compared to their global equity counterparts. The highest quarterly return for SA equity reached an impressive 18.56%, surpassing the top return of 14.65% for global equity. Furthermore, SA equity showcased greater stability with a median quarterly return of 10.08% and an average of 10.29%. In stark contrast, global equity faced considerable volatility, evidenced by a median return of only 0.77% and a lowest return of -3.98%. This volatility underscores the challenges faced by global equity funds, many of which struggled to navigate the uncertainties of the international market environment during this quarter.

Global property (International survey)

Average Return	Median Return	Highest Return	Lowest Return
9.81%	8.67%	8.65%	7.59%

SA property (Manager Watch survey)

Average Return	Median Return	Highest Return	Lowest Return
20.36%	19.06%	17.83%	1.76%

In the realm of property investments this quarter, SA property funds significantly outperformed global property funds. The highest quarterly return for SA property reached an impressive 20.36%, well above the top return of 9.81% for global property. Additionally, SA Property demonstrated remarkable stability, with a median return of 19.06% and an average of 17.83%. In contrast, global property funds showed more modest performance, with a median return of 8.67% and an average of 8.65%. The lowest return in the global property category was 7.59%, indicating that these funds, while steady, lagged behind their South African counterparts.

Overall, both asset classes, property and equity, illustrate the advantages of local investments in South Africa. In each case, SA funds provided more robust and consistent returns compared to their global counterparts, highlighting the differing risk and reward profiles of these categories. As South African investors consider their strategies, these insights reinforce the value of focusing on domestic opportunities in the current market landscape.

Risk statistics - Volatility and tracking error

Lowest volatility

	1 quarter	3 years	5 years
SA Equity	**1.72%** Mergence SWIX Fund	**11.04%** Allan Gray Domestic Specialist Equity	**13.40%** First Avenue Focused Equity
Manager Watch SA Best Investment View	**2.34%** Foord Domestic Balanced	**8.54%** Allan Gray Domestic Balanced	**10.06%** Foord Domestic Balanced
Manager Watch Global Best Investment View	**0.21%** Sasfin BCI Prudential fund	**4.87%** Rezco Value Trend	**6.03%** Sasfin BCI Balanced fund

*Excluding Enhanced Index Funds

Volatility is a measure of investment price fluctuations over time. Higher volatility suggests larger price swings and potential gains or losses.

For example, the Sasfin BCI Prudential fund has demonstrated a very low volatility of 0.21%, indicating stability in its performance over the period. Despite this, it has delivered a modest quarterly return of 5.40%, suggesting a steady but not particularly high growth trajectory.

Highest volatility

	1 quarter	3 years	5 years
SA Equity	**9.71%** Cachalia Capital C Value Fund	**15.82%** Cachalia Capital C Value Fund	**23.40%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**6.16%** Camissa Balanced Fund	**12.22%** Camissa Balanced Fund	**14.57%** Camissa Balanced Fund
Manager Watch Global Best Investment View	**7.08%** Nedgroup Investments (Truffle) Balanced Fund	**11.71%** Merchant West SCI Managed P&G Fund	**16.08%** PSG Balanced Fund

*Excluding Enhanced Index Funds

Volatility is measure of investment price fluctuations over time. Higher volatility suggests larger price swings and potential gains or losses.

For example, the PSG Balanced Fund exhibited a notably higher 5-year volatility of 16.08% compared to its peer group's average volatility of 10.80%. This elevated volatility indicates that the fund's returns are more susceptible to significant fluctuations over time. Investors in the PSG Balanced Fund may experience larger swings in the value of their investments, which can be attributed to the fund's asset allocation strategies, underlying investments, or market conditions.

Lowest tracking error

	1 quarter	3 years	5 years
SA Equity	**0.36%** Camissa Core Equity Capped SWIX Fund	**1.34%** Aluwani Capped SWIX Equity Composite	**1.73%** Alexander Forbes Investments Pure Equity Local
Manager Watch SA Best Investment View	**0.50%** Alexander Forbes Investments Performer Local	**1.60%** Alexander Forbes Investments Performer Local	**1.93%** Alexander Forbes Investments Performer Local
Manager Watch Global Best Investment View	**0.18%** SIM Global Unique	**0.51%** Alexander Forbes Investments (Spectrum)	**0.64%** Alexander Forbes Investments (Spectrum)

*Excluding Enhanced Index Funds

The **tracking error** measures how closely an investment follows a benchmark index. It reflects the divergence between the investment's returns and the index's returns, indicating the effectiveness of replicating the benchmark's performance.

For example, the Alexander Forbes Investments (Spectrum) fund has shown an impressively low 3-year tracking error of 0.51%, indicating its ability to closely mirror the performance of its underlying index. Over the same period, it has achieved a solid 3-year return of 11.30%, highlighting its effectiveness in capturing the momentum within the market.

Highest tracking error

	1 quarter	3 years	5 years
SA Equity	**8.94%** Cachalia Capital C Value Fund	**10.12%** Ninety One Value Composite	**11.05%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**5.50%** Aluwani Domestic Balanced Fund	**11.48%** Aluwani Domestic Balanced Fund	**12.22%** Nedgroup Investments (Truffle) Managed Fund
Manager Watch Global Best Investment View	**6.82%** PSG Balanced Fund	**15.99%** Rezco Value Trend	**16.58%** Rezco Value Trend

*Excluding Enhanced Index Funds

The **tracking error** measures how closely an investment follows a benchmark index. It reflects the divergence between the investment's returns and the index's returns, indicating the effectiveness of replicating the benchmark's performance.

For example, the Rezco Value Trend fund's 5-year tracking error of 16.58% suggests significant deviation from its benchmark index over the period. Despite this, it has delivered a respectable 5-year return of 8.58%, showcasing its potential for returns despite the tracking discrepancies.

Survey asset distribution

	March 2024	June 2024	September 2024
Absolute Return	R219 billion	R225 billion	R262 billion
BEE	R717 billion	R734 billion	R782 billion
Manager Watch	R1 522 billion	R1 605 billion	R1 699 billion
Medical-Aid	R63 billion	R68 billion	R68 billion
Multi-Manager	R548 billion	R573 billion	R614 billion
Namibia	R97 billion	R101 billion	R105 billion
Property	R62 billion	R64 billion	R73 billion
SA Bond	R229 billion	R229 billion	R249 billion
SA Equity	R497 billion	R525 billion	R577 billion
SA Money Market	R547 billion	R544 billion	R551 billion
Shari'ah	R33 billion	R34 billion	R35 billion
TDI	R74 billion	R77 billion	R82 billion
Total	**R4 615 billion**	**R4 784 billion**	**R5 103 billion**

The figures in the table above show that the total assets under management of survey participants increased by more than R319 billion in Q3. Notable changes in asset value that occurred within the quarter has been with the participants of the Absolute Return survey where their overall value increased by R37 billion, compared to the R6 billion increase in the previous quarter. The mentioned increase was driven by the addition of two new funds in the survey, along with growth in the portfolio sizes of 46 out of the 51 portfolios in the Absolute Return survey. This quarter, only 6 of the participating funds in our flagship Manager Watch survey experienced a decline in their market values, decreasing from 15 funds in the previous quarter. This has led to the overall asset value of our flagship survey increasing by over R94 billion which is the largest for Q3.

Sustainable investment considerations
The significance of COP29 for South African youth and Joe Soap

COP29, the 29th United Nations Climate Change Conference, taking place in Baku, Azerbaijan from 11 to 22 November 2024, is an important global event where countries collaborate to address the growing crisis of climate change. This event holds significance not just for world leaders and policymakers but also for ordinary people like South African youth and the "man in the street," - Joe Soap. The outcomes of COP29 will potentially shape our daily lives, our job prospects and the future of our communities, particularly in a country like South Africa, which is already feeling the effects of climate change.

Why COP29 matters for South Africans

South Africa is highly vulnerable to climate change, facing severe droughts, floods and extreme weather. Over the past three months, the country has experienced several significant climate-related events that highlight this increasing impact.

Between August and October 2024, heavy rains caused severe flooding in the Eastern Cape and KwaZulu-Natal, leading to extensive damage to homes and infrastructure and displacing many residents. Essential services and transport networks were disrupted, leaving communities at risk.

The Northern Cape experienced prolonged heatwaves, raising serious concerns about water shortages and posing significant health risks, especially for vulnerable populations. Additionally, low rainfall during this period worsened drought conditions in the Western Cape, resulting in stricter water restrictions.

Coastal areas also faced challenges, as strong waves and coastal erosion damaged shorelines and threatened infrastructure and habitats. In October 2024, dry conditions and high temperatures led to wildfires in Mpumalanga and Limpopo, impacting natural vegetation and threatening biodiversity.

These climate issues directly affect our economy, increasing unemployment, raising food prices and putting additional pressure on already struggling communities. South Africa's unemployment rate is alarmingly high at 32.9% in the first quarter of 2024, with youth unemployment even higher at 62.1%[1]. Climate change threatens traditional industries like agriculture and mining but it also creates new opportunities in green energy and sustainable development. According to the National Treasury, climate change could reduce South Africa's GDP by 5% by 2050[2] if action is not taken. This would worsen poverty and inequality, which are already significant challenges in South Africa.

COP29 matters because the conference aims to address these issues by promoting sustainable development, green energy and climate resilience. For unemployed youth and ordinary citizens, this means the potential for new job opportunities, skills development and long-term economic growth.

What COP29 sets out to achieve

At COP29, the focus will be on several key objectives that have direct implications for South Africa:

Climate action and job creation:

COP29 will promote renewable energy industries, such as solar and wind power, which are growing sectors in South Africa. According to the Council for Scientific and Industrial Research (CSIR), South Africa's renewable energy sector has created over 40,000 jobs since 2011[3], and this number is expected to increase as the country shifts away from coal.

Reducing carbon emissions:

South Africa is one of the world's top 20 carbon emitters, largely due to its reliance on coal for energy[4]. COP29 will push for stronger commitments to reducing emissions, which will involve transitioning to cleaner energy sources and improving energy efficiency across industries.

Adapting to climate change:

South Africa needs to prepare for the impacts of climate change, which include water shortages and increased temperatures. COP29 will emphasise the need for investment in climate resilience, which can protect vulnerable communities and ensure that critical infrastructure can withstand extreme weather.

1. Statistics South Africa (Stats SA), 2024. *Quarterly Labour Force Survey – Q1 2024*. Pretoria: Stats SA.
2. National Treasury, 2021. *Financing a Sustainable Economy*. Pretoria: South African National Treasury.
3. Council for Scientific and Industrial Research (CSIR), 2022. *The Socio-Economic Impact of South Africa's Renewable Energy Programme*. Pretoria: CSIR.
4. Department of Environmental Affairs, 2019. *National Climate Change Response White Paper Review*. Pretoria: Department of Environmental Affairs.

Aligning with the United Nations Sustainable Development Goals (SDGs)

The discussions at COP29 will be closely linked to the United Nations Sustainable Development Goals (SDGs), particularly:

8 DECENT WORK AND ECONOMIC GROWTH

Goal 8:

Decent work and economic growth:

By promoting green industries, COP29 can help create new job opportunities for unemployed youth and the broader population. The International Labour Organization estimates that the shift to a green economy could create 24 million jobs globally by 2030[5].

13 CLIMATE ACTION

Goal 13:

Climate action:

COP29 aims to accelerate global efforts to combat climate change and limit its devastating impacts. This goal is crucial for South Africa, where vulnerable communities are already feeling the effects of climate change through water scarcity and food insecurity.

A call to action for South African youth and the man in the street

As South Africans, whether we are unemployed youth or just everyday people trying to make a living, the outcomes of COP29 will affect us all. Climate change is not a distant problem; it is something that is already impacting our country, our economy and our future.

This is your moment to take action.

- Get informed about how climate change affects you and your community.
- Advocate for green jobs, renewable energy and sustainable industries that can benefit everyone.
- Use social media, join community groups, and attend local events to make your voice heard. Every voice counts and together we can push for meaningful change that brings jobs, skills and growth to our communities.

Climate action is not just a global issue - it is a local opportunity.

By engaging in climate discussions, we can help create a future that is not only environmentally sustainable but also economically inclusive. The future belongs to us and we have the power to shape it.

5. International Labour Organization (ILO), 2018. *World Employment and Social Outlook 2018: Greening with Jobs*. Geneva: ILO.

Expert insights - **An interview with ...**

Msizi Msomi

Portfolio Manager, Alexforbes Investments

Please introduce yourself: name, designation and company name.

Msizi Msomi, Portfolio Manager, Alexforbes Investments

What motivated you to become an investment professional?

From a young age, I've been fascinated by how things work, particularly in the financial markets. Each movement in the market tells a story, and I am driven to understand the underlying reasons. This curiosity has shaped my approach to investing, enabling me to see the bigger picture behind each decision. Growing up playing sports taught me valuable lessons about teamwork, strategy and adaptability. I view client relationships as collaborative efforts, where we work together to create tailored strategies that align with their goals. My aim is to empower clients to turn their financial goals into reality, using my insights to guide and walking with them through the journey. I believe that in investing, much like in sports, you have a limited amount of time—whether it's 80 or 90 minutes, plus extra time—to make a difference. This perspective highlights the importance of delivering on client objectives within their specific time horizons, whether for retirement, personal savings, or investments. It's crucial to make that time count and truly make a difference.

How does your investment style and philosophy influence your approach to managing client portfolios?

My investment philosophy focuses on seeing the big picture, setting clear goals, and making small tweaks to reduce risks while seizing opportunities. Think of it like a well-played game of rugby or soccer—it's all about being disciplined, strategic, and keeping your eyes on the long haul. Just like top athletes who read the field and adjust on the fly, I apply that same quick thinking to managing portfolios. Staying flexible is key, and so is having a vision for success. In both sports and investing, finding the right balance is essential. I believe in diversification, striking a blend between chasing growth and managing risks, much like having a mix of speedy forwards and solid defenders on a team. My curiosity about how things work drives me to dig deep into the fundamentals of each investment. This helps me create strong, goal-centered portfolios for my clients that can handle whatever the market throws our way. After all, the best teams—whether on the field or in investing—are the ones that play smart, adapt quickly and keep their goals in focus.

How do you stay disciplined and avoid making emotional decisions during market volatility?

Imagine this: it's the 80th minute of a Rugby World Cup match. A single kick for goal or a fierce defensive stand can secure victory for your team while the world watches in anticipation. If you've prepared and planned for this moment, the challenge now is to stay calm—the hard work is done, and it's all about sticking to the plan. The odds may be against you; the stadium could erupt with distracting noise. Yet, it's your commitment to the strategy that will carry you through. I draw inspiration from rugby and soccer during times of market volatility, where keeping a cool head under pressure is essential. Just as in sports, where the game can shift in an instant, I rely on preparation and strategy instead of impulsive reactions. Focusing on long-term goals, I remind myself that volatility is part of the journey, much like the unexpected twists in a match. By staying grounded in fundamentals and regularly revisiting client objectives, I can steer clear of emotional decisions.

What are one or two of the most common mistakes you see novice investors make and how can they avoid them?

You can't be Warren Buffett or Peter Lynch—these legendary investors thrived in unique market and geopolitical conditions that were very different from those we face today. A common pitfall for new investors is attempting to time the market, believing they can pinpoint the perfect moments to buy or sell. This often leads to impulsive decisions driven by the latest market headlines rather than following a solid long-term plan that can withstand fluctuations. Another challenge is letting emotions influence investment decisions. The fear of missing out (FOMO) may tempt individuals to invest at market highs, while panic can drive them to sell when the market declines. To navigate these emotional challenges, new investors should focus on cultivating patience and rational thinking. Establishing clear investment goals and regularly reviewing their portfolios can serve as a guide, helping them stay grounded and less reactive to market volatility. After all, investing is a marathon, not a sprint and maintaining a level head can make all the difference in successfully reaching the finish line.

How do you think advancements in technology such as AI is changing the investment industry and how are you adapting to these changes?

AI is here to stay. If you don't embrace it or at least familiarize yourself with it, you risk falling behind. Advancements in technology, especially AI, are revolutionizing the investment industry by enhancing data analysis, improving decision-making processes, and automating various trading strategies. AI algorithms can analyse vast amounts of market data and identify patterns much faster than human analysts, enabling more informed investment choices and better risk management. Additionally, robo-advisers are making investing more accessible to all types of investors by offering tailored portfolio management services based on individual goals and risk tolerance. To adapt to these changes, we need to engage in continuous learning about emerging technologies and their applications in finance. This involves staying updated on AI developments and integrating relevant tools into our investment strategies. By embracing technology while maintaining a focus on fundamental analysis, we can ensure that our investment approach remains both innovative and grounded in sound principles.

What are one or two of the biggest challenges you face as an investment professional and how do you address them?

Navigating market volatility can be one of the most challenging aspects of investing. Economic shifts, geopolitical tensions, and unexpected events often lead to rapid fluctuations that test even the most experienced investors. To address this, I focus on maintaining a diversified portfolio and implementing thoughtful risk management strategies. By balancing different asset classes and sectors, I aim to minimise potential losses while remaining open to the opportunities that turbulent times may present. I also recognise how overwhelming the ever-changing regulatory landscape can be. New regulations can significantly impact investment strategies and compliance requirements, adding complexity to decision-making.

To tackle this challenge, I prioritise ongoing education and nurture strong relationships with compliance experts. This approach ensures that our practices align with current regulations. By staying informed about industry trends and participating in professional networks, I strive to anticipate changes and adapt our strategies accordingly. My goal is to navigate these challenges with care, ensuring compliance while compassionately pursuing our investment objectives.

What are one or two of the most important lessons you have learned about investing over the course of your career?

One of the biggest lessons I've picked up about investing is how important it is to be patient. Warren Buffett nailed it when he said, "The stock market is a device for transferring money from the impatient to the patient." The market can be really unpredictable and it's easy to get caught up in the short-term ups and downs. But I've noticed that keeping a long-term view usually leads to better results. Sticking to a solid investment strategy and resisting the urge to make quick moves based on market chatter has been key to handling the rollercoaster of investing.

Another crucial takeaway is the need for continuous learning and being adaptable. The investment world is always changing, thanks to new technology, shifts in the economy and evolving market trends. Embracing a mindset of lifelong learning—whether that means reading, attending seminars or connecting with others in the industry—has helped me stay in the loop and flexible. By being open to new ideas and strategies, I can position myself and my clients for success in this fast-changing market.

What sets you apart from other investment professionals, and how do you differentiate yourself in a crowded field?

What makes me different from other investment pros is my well-rounded approach to investing. I blend quantitative analysis with qualitative insights. While some people might only look at the numbers, I believe it's crucial to grasp the bigger economic picture and the human behaviours that influence market trends.

This way, I can create investment strategies that go beyond just figures. I believe in building strong, trusting relationships. These relationships can carry us through turbulent times when facing economic and market headwinds. It's important to take the time to understand clients' goals, risk tolerances, and values, ensuring our investment strategies align with their objectives. This personal touch fosters deeper connections, which is essential in a market where many offer similar products.

"Investors play a vital role, but they do not control the market or the economy; their influence over the product is limited. Remember, the product thrives as a reflection of broader market conditions." — Msizi Msomi

Finally, what advice would you give to someone who is just starting to invest their money and looking to build a diversified portfolio?

If you're new to investing, one key piece of advice is to focus on learning before you jump into the markets. Understanding the basics—like risk, returns, and why diversification is important—can make a big difference. Think about it like a sports team: having a mix of players helps you succeed, just like spreading your investments across stocks, bonds and real estate can lower risk. It's also important to set clear financial goals, whether it's saving for retirement or buying your dream house. Your goals will guide your investment strategy, kind of like drafting a game plan in sports. When starting out, look into low-cost index funds or exchange-traded funds (ETFs) that offer instant diversification. Remember to check your portfolio regularly and be ready to make small tweaks as you go, just like athletes adjust their game based on how things are unfolding. Above all, be patient! The market can be unpredictable, and it's easy to get caught up in the day-to-day ups and downs. Remember, investing is more of a marathon than a sprint. Stick to your strategy, don't jump at every bit of news, and keep your focus on the long game. With a curious mind, a willingness to learn, and a dedicated approach to your goals, you'll be setting yourself up for a solid investment journey.

Word
on the street

Unpacking China's property crisis: **Its causes and impact**

In recent years, the Chinese property market has experienced a major downturn in performance. The real estate sector, that powered China's booming economic growth and the global economy for several decades faces major plunges, marked by significant bad debt by property developers and low demand for housing. The supply of homes had grown far beyond the number of people looking to buy them, causing house prices to decline dramatically which impacted domestic and foreign investment in the sector. In general, the property slowdown has sparked uncertainty and negative shifts in investor sentiment towards Chinese investments, weighing down economic performance and China's financial stability. The debt crunch in the powerhouse sector has evidently had implications on the performance of the economy and financial markets given that it accounts for 25% of GDP, generates 20% of the country's fiscal revenue and makes up 25% of total bank loans. The property crisis in China does not only affect China, it may also harm investments in other emerging markets, where China has been a major investor and makes up 27.16% of the widely used MSCI Emerging Markets index.

China's fiscal land reform in the 1990s significantly accelerated infrastructural development in the country, allowing for private and commercial land use, particularly in urban areas. As the size and value of the real estate market rose in subsequent years, consumers preferred to hold their wealth in real estate relative to alternative saving instruments. It is estimated that 70% of households wealth in China is allocated to real estate[1]. Developers accumulated debt to build more housing, expecting further investment and rising property values.

Through government financing instruments, property development corporations obtained land use rights to further expand housing in urban regions in China while sustaining the economy. However, developers became increasingly reliant on speculative building, leading to the accumulation of even larger debt. By 2018, China's largest property companies had borrowed more money than any other in the world, creating huge debt that made financial instability inevitable. To many, the seeds of the property crisis were planted in the 2000s and 2010s where rapid growth was financed by easy credit with minimal equity backing. Over time, the fears of insolvency in these corporations reduced demand for housing, leaving many building projects to a standstill and new ones to be delayed[2].

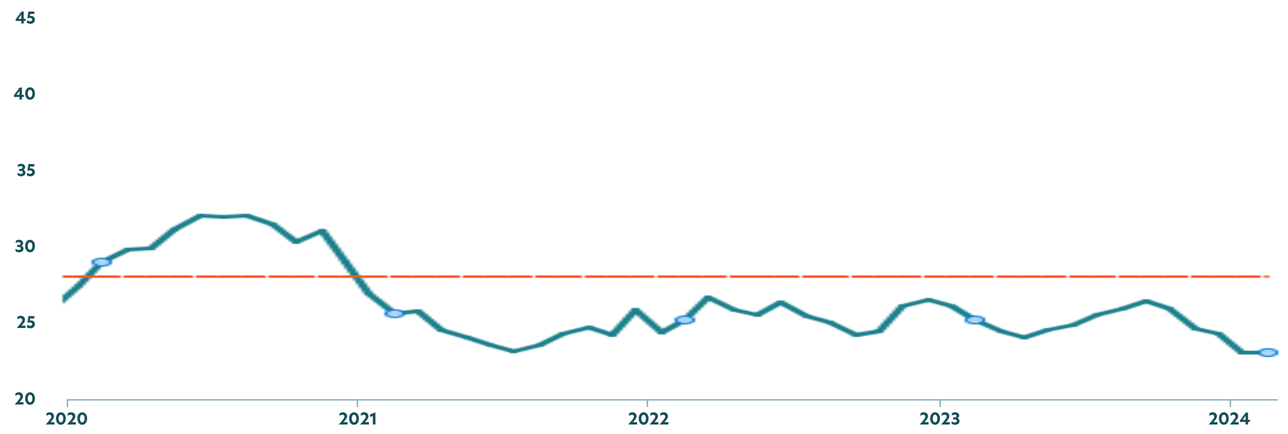
The evolution of the housing crisis

In attempts to revive the troubled sector, the national government imposed the three red lines policy in 2020, requiring developers to limit their debt proportionate to the company's cash flow, assets and capital levels for permissible debt growth. That is, developers should possess 1.) A liability-to-asset ratio of less than 70%, 2.) Net debt should not exceed 100% equity and 3.) Money reserves must at least be 100% of short term debt, to increase their credit[3]. It became apparent that the majority of existing developers did not meet this criteria and were therefore not eligible for excess credit. It is estimated that only 6.3% of China's accredited developers could fully adhere to all three red lines in 2020[4], which eventually led to major developers declaring bankruptcy in 2021.

Sources:
1: Bruegel
2: The Economist
3: UBS Asset Management
4: S&P Global Ratings

Figure 1 below depicts the lending out of money in the form of credit loans and debt instruments in China (2020-2024), using the Bloomberg credit impulse index. The restriction imposed on issuing credit is shown by a downward trend in 2021. For investors, the credit impulse index is useful as it indicates the amount of liquidity available to support economic activity i.e. new credit helps finance investments, new business and production. Therefore, a low and declining credit impulse, as shown below for China, reflects a drag in growth and brewing macro-challenges, among other factors, which is likely to dampen investor confidence in the economy. We also observe that China has kept a low credit impulse amid the unfolding property crisis (2021-2024). This means less new credit is available to fund investments and business, which slows down economic growth.

Figure 1: China credit impulse



Sources: Bloomberg, Alexander Forbes Investments

The impact on emerging market equities

In addition to domestic markets, China's instability also has ramifications for emerging countries. As a rapidly growing economy itself, China has played a significant role in driving growth and development in other emerging markets; as a source of direct investment in research, technology, energy and transport. Importantly, China weighs more than one-fourth of a majority of emerging market indices (S&P Emerging LargeMidCap Index, FTSE EM Index, MSCI EM Index), indicating that any investor with funds invested in an emerging market index likely has a sizable holding in Chinese equities[5]. The article uses the MSCI benchmark indices as analytical sources to examine the link between China's property market (MSCI China Real Estate) and investment in emerging markets (MSCI EM index). The MSCI is selected because it is a widely applied and highly regarded benchmark source with a verified informative background.

5: U.S. Bank Wealth Management

Figure 2a shows monthly returns for the equity and property markets in China for 2019-2024 while **Figure 2b** depicts monthly returns for the Chinese equity market and emerging markets. The graphical analysis shows relatively comparable return changes in the Chinese equity and property markets but shows slight variation in the fluctuations between Chinese equity returns and the MSCI EM index. These variations may be explained by Chinas MSCI EM index weighting of only 27.16%, which may be outweighed by the performance of the other 24 emerging countries included in the index. The variations indicate that the index does not solely reflect the movements in Chinese equites but also includes equities in India and Taiwan for instance, weighing 18.12% and 18.05% respectively. Nonetheless, Chinese equities and the EM Index seem to follow a somewhat similar trend, which may highlight the connectedness of financial markets and the importance of China in the emerging markets space. China's instability may therefore influence how investors perceive the capabilities and sustainability of other emerging countries that rely on its investments and imports.

However, identifying similar trends in the performance of the respective markets does not imply correlation or causation. While this article focuses on the property crisis, other factors like trade tensions with the US and the slowdown caused by COVID-19 also play a big role in China's overall economic performance. As such, simultaneous increases and decreases in Chinese property, Chinese equities and the EM index may be caused by differing factors despite them moving in tandem. Mawusi Honu, an asset allocation Analyst from Alexforbes Investments notes that movements in China's real estate, as seen in Figure 2a, simply follow the broad Chinese equity market - "similar to how a boat (real estate) rises when the sea level (China equity market) rises".

Figure 2a: Returns on Chinese equities and property

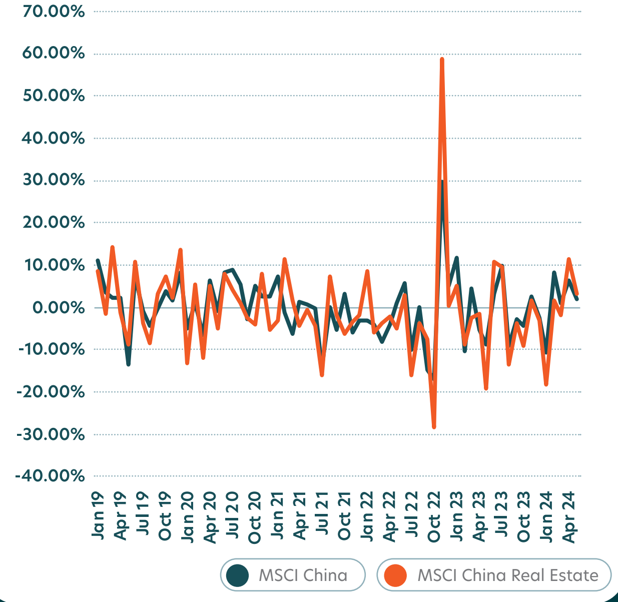
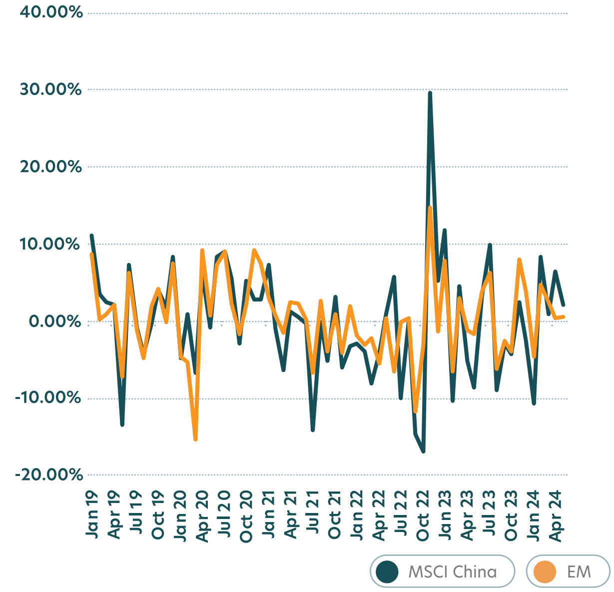


Figure 2b: Returns on Chinese equity and MSCI EM



Source: Bloomberg

Table 1: Correlation matrix of index returns

	EM	China equity	China property
EM	1.0000		
China equity	0.7823	1.0000	
China property	0.6232	0.8109	1.0000

Source: Bloomberg data

Prospects for recovery

While long term prospects remain unclear, the Chinese government has since made efforts to stabilise the property market and restore confidence through regulatory changes including mandating banks to cut lending rates and lowering their bank reserves. However, according to Alexforbes' Head of Asset Allocation, Mandisa Zavala, the Chinese government failed to show remarkable commitment to injecting liquidity into the financial system and stimulating the property market. Mandisa noted that the Chinese economy has encountered various policy mistakes including the lack of stimulus packages and consumer reassurance during the crisis, which may have delayed the markets recovery. As such, the property market and the overall economy suffered greatly from a crisis of confidence, where consumer confidence and foreign interest in the sector remained apprehensive. Mandisa adds that recent incentives proposed by Chinese authorities have sparked optimism but full recovery in the market, where high returns are realised, will likely take time. She expects that investors will remain cautious towards Chinese property market, seeing that there is great opportunity in other emerging markets.

Conclusion

This article examined the impact of China's property market crisis, driven by excessive debt and defaults by developers, using the credit impulse index and correlation matrix. We found that China's credit impulse significantly declined during the 2021-2022 defaults, leading to reduced liquidity and slower economic activity.

The analysis tracked the MSCI China Real Estate, MSCI China, and MSCI EM Index, revealing similar trends in returns and strong correlations between Chinas property and equity markets and between Chinese equity and the EM index. While the analysis suggests that the crisis might have affected emerging market performance via the Chinese equity market, observing correlations alone does not establish whether one market drives changes in the other. Although China remains a crucial player in emerging markets, the analysis showed that the collective performance of emerging countries is influenced by many other factors - interest rates, commodity prices, global economic conditions. While we have touched on key aspects of China's property crisis, it's important to remember that other ways to measure its full impact exist. Further research beyond the articles basic understanding is essential to fully understand the multifaceted effects of the crisis on both domestic and global economic landscapes.

Investor education

Alternative investments: Private equity and venture capital.

Alternative investments refer to assets that are less conventional, such as private equity, commodities (like gold and platinum), hedge funds, venture capital and cryptocurrencies which offer potential high returns and diversification benefits. Alternative investments are generally high-risk but offer investor with hedging opportunities that may lead to the potential for high returns being earned. Given below is a description of private equity and venture capital investing which form part of the alternative investment's asset class.

Private equity overview

Private equity (PE) refers to investments in private companies that are not listed on public stock exchanges like the Johannesburg Stock Exchange (JSE) or the New York Stock Exchange (NYSE). Typically, PE investments operate on a "buy-to-sell" basis, with investors holding assets for several years before exiting to realize profits. The life cycle of a PE fund usually spans ten years and follows two timelines: fundraising and closing timeline, as well as the fund term timeline. In South Africa, private equity funds are structured as limited liability partnerships, where general partners (GPs) manage the fund while limited partners (LPs) invest capital.

Unlike in other countries, private equity in South Africa remains largely unregulated but private equity fund managers must still comply with the FAIS and FSCA Acts. The most recent update in regulation surrounding the PE landscape includes the amendments to Regulation 28 of the Pension Funds Act, where there was an increase in the allowable allocation to PE funds from 10% to 15% of a retirement fund's portfolio. Furthermore, the upcoming Conduct of Financial Institutions (COFI) Bill could significantly impact the industry by regulating fund managers of alternative investment funds.

Private equity involves the use of different exit strategies which are used to help private equity firms to exit their investment positions. The most common exit strategies in South Africa over the past five years include IPO's, Trade sale or simply selling their investments to other private equity firm just to mention a few.

Research findings from the 2024 PE Industry Survey by SAVCA estimate that South African PE firms invested R28.1 billion in 2023 where the leading sectors were energy, manufacturing, infrastructure, and telecommunications. The highest concentration of deals was in energy (33.6%), followed by manufacturing (12.4%) and infrastructure (9.6%).

Private equity is divided into different categories which include Leveraged buyout, Venture capital, Growth equity funds, Real Estate Private Equity (REPEI), Infrastructure, Fund of Funds, Mezzanine Capital, Distressed Private Equity as well as Secondaries.

Venture Capital (VC) Funds

Venture capital (VC) is a form of private equity financing provided by investors to startups and small businesses that are believed to have long-term growth potential. It plays a critical role in fostering innovation and business growth, particularly in technology and high-growth sectors.

VC funds differ fundamentally from mutual funds and hedge funds in that they focus on a very specific type of early-stage investment. All firms that receive venture capital investments have high-growth potential, are risky, and have a long investment horizon. Venture capital funds take a more active role in their investments by providing guidance and often holding a board seat. VC funds, therefore, play an active and hands-on role in the management and operations of the companies in their portfolio.

Many of these funds make small bets on a wide variety of young startups, believing that at least one will achieve high growth and reward the fund with a comparatively large payout at the end. This allows the fund to mitigate the risk that some investments will fold.

A common feature among asset classes, including alternative investments, is that they are influenced by both local and global factors. Alternatives such as PE and VC investments have been gaining momentum within the domestic landscape, allowing investors the opportunity to further diversify their interests and increase income earning opportunities.

Financial food for thought: **Weakness or strength?**

The obstacle in our path

In ancient times, a king had a boulder placed on a roadway. Then he hid himself and watched to see if anyone would remove the huge rock. Some of the king's wealthiest traders and dignitaries came by and simply walked around it.

Many loudly blamed the king for not keeping the roads clear, but none did anything about getting the big stone out of the way. Then a peasant came along carrying a load of vegetables. On approaching the boulder, the peasant laid down his burden and tried to move the stone to the side of the road. After much pushing and straining, he finally succeeded. As the peasant picked up his load of vegetables, he noticed a purse lying in the road where the boulder had been.

The purse contained many gold coins and a note from the king indicating that the gold was for the person who removed the boulder from the roadway. The peasant learned what many others never understand.

Every obstacle presents an opportunity to improve one's condition.

In finance, every challenge is a chance to create value. Much like the peasant who removed the boulder and found gold, tackling financial obstacles head-on can uncover unexpected opportunities. Start your journey to financial success by embracing challenges and transforming them into opportunities.

Begin today by reviewing your investment strategy for potential hurdles, and discover the hidden potential in overcoming them. Schedule a consultation with our financial advisors to turn obstacles into opportunities.

* To find out more about your options and to get help when you need it, contact our My Money Matters centre on 0860 000 381 or **mymoneymatters@alexforbes.com**.

Conclusion

We addressed several different financial and investment-related subjects in the newsletter, giving an outline of some intriguing survey findings and covered prominent industry news with key points based on quarterly economic performance.

Furthermore, we presented data on asset class performance and covered responsible investing in our sustainable considerations section. We also included an insightful interview with a field expert, discussed the concept of private market investing and shared a brief story as financial food for thought.

Lastly, we closed off with a "word on the street" section where we presented key insights related to the property crisis that China has been grappling. We hope you found this newsletter to be stimulating and educational and eagerly await your comments and ideas. Please feel free to share any comments, questions or suggestions by sending an email to **managerwatch@alexforbes.com**.

Glossary

⊕ **Asset allocation**: Dividing an investment portfolio among different types of assets (like equities, bonds, and cash) to achieve the desired risk and return, based on goals, risk tolerance, and time horizon.

⊕ **Active return** also known as relative return, represents the difference between the actual return of the portfolio and the return of a specified benchmark over a given period of time.

⊕ **Best Investment View (BIV):** The portfolio/ composites included in this -survey represent the asset managers' best unconstrained investment view, appropriate to Regulation 28 compliant retirement funds.

⊕ **Code for Responsible Investing in South Africa (CRISA):** Guidelines in South Africa that promote responsible investing practices. It encourages considering environmental, social, and governance (ESG) factors in investment decisions.

⊕ **Credit Impulse Index** measures the change in new credit issued to the non-financial private sector expressed as a percentage of GDP. The non-financial private sector includes households and non-financial firms and corporations primarily producing/ manufacturing goods and services.

⊕ **COFI bill** is a bill proposed into law in South Africa that will regulate private equity funds and other financial institutions. It essentially proposes to regulate providers of participatory interests in alternative investment funds, which includes private equity funds structured as limited liability partnerships, companies, trusts, or other legal forms.

⊕ **Correlation matrix:** A correlation matrix is a table that shows how different variables are related to each other. Each cell in the table reveals the strength and direction of the relationship between two specific variables. A score of 1.0 implies perfect correlation.

⊕ **Distressed Private Equity** specialize in lending to companies in financial crises. When the funds invest in companies, their purpose is to take control of the business during the bankruptcy or restructuring processes so they can buy the company at a lower purchase price. Then, they'll work to turn the companies around and, eventually, sell them.

⊕ **ECB:** European Central Bank.

⊕ **Exit strategy** are methods for investors to realize their returns on investments in a portfolio of companies. The goal is to receive a return that's higher than the initial investment. Some common examples include Trade sale and IPOs.

⊕ **FED:** Federal Reserve System.

⊕ **Fund of Funds** raises capital from investors but doesn't invest in private companies or assets. Instead, it acts as an investor and buys into a portfolio of other private equity funds.

⊕ **Futures** are standardized contracts to buy or sell an asset at a predetermined price and date in the future.

⊕ **General Partner (GP)** these are individuals or entities that manage and makes the investment decisions for a private equity fund on behalf of the Limited Partners.

⊕ **Geopolitical tensions:** Conflicts or disputes between nations that impact financial markets. They can cause trade disruptions, policy changes, or increased market volatility.

⊕ **Gharar** refers to excessive uncertainty or ambiguity in Islamic finance. It pertains to transactions that involve an element of risk or speculation that is considered excessive and is not allowed according to Islamic principles.

⊕ **Growth equity funds** inject investments into mature, established companies that still need significant funding to grow. These companies usually have good cash flow and established business models but lack the financial boost for scalability or expansion regionally or globally.

⊕ **Haram** means forbidden or prohibited in Islamic law. It refers to actions, behaviours, or practices that are considered sinful or unethical and are not allowed according to Islamic teachings.

⊕ **IPO (Initial Public Offering)** is the process by which a private company offers its shares to the public for the first time, thus becoming a publicly traded company. Through an IPO, a company can raise capital by selling its stock to investors. This transition allows the company to access public markets for funding, which can be used for expansion, paying off debt, or other corporate purposes.

Infrastructure works similarly to real estate equity. Firms raise capital from private equity investors. Then, they use that capital to buy assets, operate them, and eventually sell them for profit. The difference with infrastructure funds is that they invest in assets that provide essential utilities or services. This includes sectors like utilities (e.g., gas, electricity, water) and transportation (e.g., airports, roads, bridges, rail transit).

Limited Partner (LP): These are the investors such as high net worth individuals, Institutional investors as well as pension funds who invest into private equity funds which are managed by a General Partner (GP).

Median return: the middle value of a set of returns or performance of a group of investments.

Mezzanine Capital is a hybrid form of financing that combines elements of debt and equity. It is typically used by companies to finance growth, acquisitions, or buyouts. This type of capital ranks between senior debt (like bank loans) and equity in terms of risk and repayment priority.

Options contracts provide the buyer the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset at a predetermined price within a specified period.

Principles for Responsible Investment (PRI): A global initiative promoting sustainable investing. It encourages investors to incorporate ESG factors for long-term sustainable returns.

Private Equity refers to a form of investment made into companies that are not publicly traded on a stock exchange. These investments typically come from private equity firms, venture capital firms, or wealthy individuals.

Regulation 28: South African regulation for retirement funds, setting investment limits and guidelines. It ensures diversification and risk management by specifying exposure to different asset classes, sectors, and regions.

Real Estate Private Equity (REPE) are simply funds that raise capital to acquire, develop, operate, improve, and sell buildings in order to generate returns for their investors. They generally invest in properties using different strategies.

Retail investing involves individuals directly buying and selling securities like stocks and bonds through brokerage firms or online platforms, using their own money rather than managing funds for organisations. It's accessible to ordinary people, who make investment decisions based on personal research and goals.

Riba means interest. It refers to the prohibition of charging or earning interest in Islamic finance, as it is considered unethical and against Islamic principles.

SARB: South African Reserve Bank

Secondaries is an investment vehicle that focuses on acquiring existing limited partnership interests in private market funds from other investors. These funds provide an avenue for investors to gain exposure to a diversified portfolio of companies or assets that are already established.

Shari'ah: Islamic principles and guidelines for financial activities, including investments. It prohibits interest-based transactions and investments in sectors like alcohol, gambling, or pork.

Swaps involve the exchange of cash flows or other financial instruments between two parties.

Targeted Development Investment (TDI): These investment portfolios aim to maximise investor returns while paying attention to socially responsible investing and issues relating to the development and upliftment of previously disadvantaged communities

Venture Capital (VC) is a form of private equity financing provided by investors to startups and small businesses that are believed to have long-term growth potential. It plays a critical role in fostering innovation and business growth, particularly in technology and high-growth sectors.

Warrants are options issued by financial institutions, granting the holder the right to buy or sell an underlying asset at a predetermined price.