Institutional Managers' Digest

Issue 8: December 2024

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In this **edition**

The December 2024 iteration of the Institutional Managers' Digest provides insights into the fourth quarter (Q4) performance of survey constituents, while also delving into topics related to changes within the asset management landscape that took place within the quarter.

Alexforbes' Head of Multi-Asset Class Products, Ernest Mabaso, features in our expert insights interview, providing background on his journey within the investments industry and his personal development.

Survey in focus features an overview of the newly launched Discretionary Fund Manager (DFM) Survey, along with comparative statistics related to performance.

Introduction

Q4 saw a significant decline in the performance of South African equities and bonds relative to Q3, with the FTSE/JSE All Share Index finishing the quarter with a return of -2.1% and the All Bond Index (ALBI¬) producing a quarterly return of 0.4%. The FTSE/JSE SA Listed Property Index ended the quarter in negative territory following varied month-on-month performance, producing a return of -0.8%. The Large Manager Watch (LMW) category of our flagship Manager WatchTM Survey saw its constituents reflecting a quarterly peer group median performance for the SA and global LMW categories of -0.7% and 1.9% respectively.

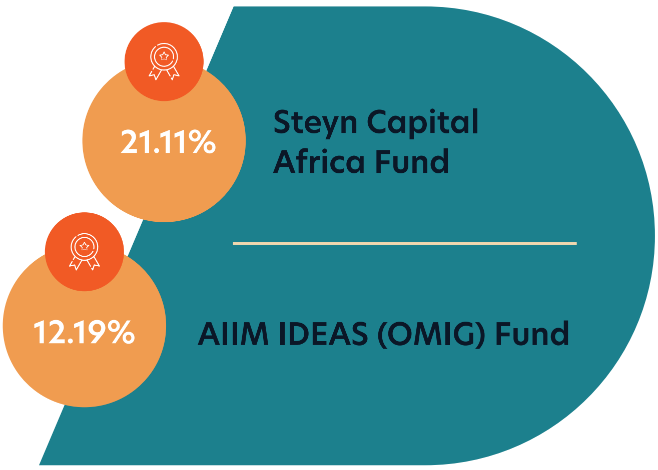
Globally, emerging markets underperformed in Q4 compared to Q3, with the MSCI EM declining from its strong performance in Q3. This resulted in a quarterly return of 0.9%, significantly lower than the 2.8% return recorded in September 2024. The S&P 500 TR recovered from its negative performance in Q3, delivering a strong Q4 return of 12.4%, significantly higher than the -0.02% recorded in September 2024. MSCI EFM Africa ex SA showed a strong performance, ending the quarter on 7.2%, outperforming MSCI EFM Africa, which had a quarterly return of 0.7%. MSCI World had a fluctuating performance, ending Q4 on 9.4%.

In Q4 2024, South Africa's inflation rate showed a noticeable trend, beginning with a slight decline in October to 2.8%, followed by a marginal increase to 2.9% and 3.0% in November and December, respectively. The marginal increases reflect the ongoing challenges of levelling domestic economic conditions with external factors such as global commodity prices and exchange rate volatility. Despite inflation edging upward throughout Q4, the average CPI for 2024 fell to 4.4% from 6.0% in 2023, remaining well within the 3%-6% South African Reserve Bank (SARB) target and below the 4.5% midpoint. On the global end, inflation in the United States rose to 2.9% in December 2024 from 2.7% in November 2024 and 2.6% in October 2024, driven mainly by energy prices and consumables. Interestingly, inflation in the United Kingdom decreased to 2.5% in December from 2.6% in November and 2.3% in October 2024, reflecting a tender economic environment.

Sharpshooter

The Sharpshooter (best absolute performer across all surveys) for the quarter is the **Steyn Capital Africa Fund**, participating in the **Africa Survey** with a return of **21.11%**.

The best relative performer for the quarter was the **AIIM IDEAS (OMIG) Fund**, participating in the **Targeted Development Investment survey** and outperforming its benchmark by **12.19%**.



Surveys in numbers

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

90 Asset managers participating across our surveys

799 Participating strategies across our surveys

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

51 BEE level 1 contributors

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

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

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

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

Read more

Industry news

South Africa: Changes to OTC derivatives regulation – Key developments for 2025

South Africa's OTC derivatives regulatory landscape is evolving, with significant updates impacting market participants. In December 2024, the Financial Sector Conduct Authority (FSCA) granted Strate a Trade Data Repository (TDR) licence, marking a key milestone in trade data reporting. Market participants now await the commencement date and potential adjustments to reporting fields. Additionally, the Joint Notice 2 of 2024 requires OTC derivative providers and financial institution counterparties to report margin information through the Prudential Authority's Umoja portal from 1 April 2025, in addition to trade data reporting to Strate.

Another major regulatory development is the final phase of initial margin (IM) requirements for non-centrally cleared derivatives, set for September 2025, which will expand compliance obligations for institutions exceeding the R100 billion threshold. Meanwhile, the General Laws Amendment Bill, published in December 2024, introduces an expected amendment to the Resolution Framework, clarifying the non-application of certain resolution powers to ISDA Master Agreements and similar contracts. Stakeholders can submit comments on the Bill to the National Treasury by 6 February 2025.

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Four banks call it quits in South Africa in 2024

In 2024, several major banks announced significant changes to their operations in South Africa. BNP Paribas decided to scale back from its non-core African operations, ceasing to operate as a bank in South Africa, though it still owns credit provider RCS. HSBC, on the other hand, agreed to transfer its South African branch's business to FirstRand Bank, while also partnering with Absa to maintain access to global equities and securities for its clients. Both moves reflect broader strategic shifts as these international banks focus more on Europe and Asia.

Bidvest Group plans to sell Bidvest Bank and FinGlobal to position them for future growth and recycle capital. Sasfin, meanwhile, will close its Business and Commercial Banking division in 2025 due to increased losses, though its Wealth and Rental Finance sectors remain strong. Sasfin also sold its Capital Equipment Finance and Commercial Property Finance units to African Bank for over R3 billion. These changes reflect a reshaping of South Africa's banking landscape as banks adapt to market conditions

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2024 in review: A transformative year for Southern African private capital

In 2024, Southern Africa's private capital sector showed resilience despite global challenges, with growth driven by sectors like energy and fintech. Impact investing has also grown in prominence, with investors focusing on balancing social and environmental impact alongside financial returns. General partners (GPs) have shown their commitment by integrating environmental, social and governance (ESG) principles into their firms and portfolio companies.

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Quarterly index performance

Best-performing SA indices in the surveys

Quarter	1 year	3 years	5 years
2.01% Short Term Fixed Interest Rate Index	**29.82%** FTSE/JSE All Property Index	**12.59%** FTSE/JSE SA Listed Property Index	**12.50%** FTSE/JSE Capped All Share Index

Best-performing peer group benchmarks as featured in the surveys

Quarter	1 year	3 years	5 years
2.42% Global Dynamic Median	**15.89%** SA BIV Average	**10.44%** Global Dynamic Median	**12.05%** Global Dynamic Median

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 Watch™ survey. These adjustments are influenced by changes in Regulation 28 of the Pension Funds Act, particularly in the rules governing offshore investments, which include an increase in the limit to 45%.

SA BIV - average asset allocation

	June 2024	September 2024	December 2024
SA equities	67.23%	68.19%	67.36%

Q4 asset allocation for participants in the SA BIV category shows managers opting to decrease their domestic equity assets, with the average allocation dropping by 0.83% over the quarter. Domestic bonds on the other hand showed a slight increase of 0.65% from Q3, to a Q4 average of 22.75%. These changes could be a response to shifting sentiment toward domestic markets, including the continued interest rate cuts by the SARB, as managers adjust their portfolios to capitalise on volatile local markets amid improving inflationary conditions.

Among the managers, the one with the highest allocation to domestic equities had an exposure of 73.89%, delivering a quarterly return well above the upper quartile.

Global BIV - average asset allocation

	June 2024	September 2024	December 2024
SA equities	38.88%	40.30%	39.08%
Total SA assets	**64.59%**	**66.47%**	**64.82%**

	June 2024	September 2024	December 2024
Global equities	26.23%	24.71%	26.82%
Total global	**35.41%**	**33.53%**	**35.18%**

Constituents of the Global BIV category delivered an average performance of 1.75% for the quarter, which is 2.41% higher than the average performance generated by SA BIV constituents, in the same period.

The manager's total average allocation to offshore investments increased during Q4, with the December 2024 allocation rising by 1.65%. From Q1 to Q3, participants in the Global BIV category seemed to be indicating a shift towards domestic (SA) assets, which changed in Q4, as seen by the decrease in both SA equity and total SA assets by 1.22% and 1.65% respectively. Among the managers, the one with the highest allocation to global equity for the quarter ending December 2024 had an exposure of 50.05%, delivering a quarterly return above the upper quartile. Conversely, the manager with the highest allocation to local (SA) equity generated a return that was below the lower quartile.

Overall, the data indicates a turn in the decreasing trend, with respect to participating asset manager's offshore allocations. This suggests that asset managers are diversifying their portfolios to navigate the constantly evolving global geopolitical landscape by assessing the relative attractiveness of different asset classes across various markets while also managing risk. Differences in offshore investments and performance across managers are likely to continue to vary, emphasising the importance of smart allocation decisions.

Survey in focus –
Discretionary Fund Manager (DFM) Manager Watch™ Survey

Building on the legacy of our highly regarded Institutional Manager Watch series, we are excited to unveil our newly formed Discretionary Fund Manager (DFM) Manager Watch™ Surveys. These surveys mark a significant milestone in our ongoing mission to enhance transparency, performance measurement and benchmarking standards within the investment industry. This new initiative further cements Alexforbes' position as a trusted provider of comprehensive, up-to-date performance data for independent financial advisers (IFAs) and investors.

The DFM landscape has experienced substantial growth in recent years, with an increasing emphasis on tailored investment strategies and sophisticated portfolio management. However, performance measurement and appropriate benchmarking remain persistent challenges for many in the industry. Recognising the need for comprehensive, up-to-date and actionable performance data, Alexforbes is stepping forward with a solution designed to meet these challenges head-on.

Comprehensive coverage across diverse categories

The DFM Manager Watch™ Survey adopts a structure similar to the Retail Manager Watch™, categorising multi-asset class portfolios into four distinct groups:

Low equity:
Portfolios designed for conservative investors prioritising stability and reduced volatility, with lower equity exposure.

Medium equity:
Balanced portfolios catering to investors with moderate risk appetites, offering a measured approach to risk and reward.

High equity:
Portfolios aimed at investors with a higher risk tolerance, seeking significant long-term growth but accepting increased volatility.

Global-only balanced:
Portfolios focused on globally diversified investments.

Global-only equities:
For investors seeking exposure to globally diversified equity portfolios.

The October 2024 DFM Manager Watch™ Survey includes four DFMs, represented by 41 portfolios with total assets under management (AuM) of R45 billion. The November 2024 survey will feature an expanded dataset as two additional DFMs have confirmed their participation.

Looking ahead, the survey will introduce further categories to include specialist asset classes such as bonds, equity, money market and property, ensuring a comprehensive overview of the DFM landscape.

A commitment to insight and innovation

As the Alexforbes Surveys team, we are uniquely positioned to deliver value in the DFM space by leveraging our well-established survey expertise and deep understanding of the investment landscape. The DFM Manager Watch™ surveys are designed to provide stakeholders, whether DFMs, institutional investors or consultant, with a trusted resource for evaluating performance, comparing strategies and understanding market trends.

The surveys will not only address the critical need for performance transparency but will also help drive improved decision-making by offering:

Granular data: Detailed performance metrics and benchmarking tailored to individual investment categories.

Comparative analysis: Insight into how DFMs perform relative to peers and indices, enabling more informed discussions on value creation.

Enhanced credibility: A platform for DFMs to demonstrate their capabilities to clients and industry stakeholders.

As the investment industry continues to evolve, the importance of robust, transparent performance evaluation becomes ever more critical. By participating in these surveys, DFMs can contribute to shaping the benchmarks and standards that will define the industry moving forward.

Risk statistics - Volatility and tracking error

Lowest volatility

	1 quarter	3 years	5 years
SA Equity	**0.29%** Truffle SA Equity Composite	**10.87%** Rezco Equity	**13.34%** First Avenue Focused Equity
Manager Watch SA Best Investment View	**2.22%** Camissa Balanced Fund	**8.44%** Allan Gray Domestic Balanced	**10.09%** Foord Domestic Balanced
Manager Watch Global Best Investment View	**0.93%** Nedgroup Investments XS Diversified Fund of Funds	**4.84%** Rezco Value Trend	**5.58%** Rezco Value Trend

*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 Truffle SA Equity Composited experienced a quarterly volatility of **0.29%**, reflecting relatively stable performance despite market fluctuations. The composite delivered a quarterly return of **-1.20%**, which, while negative, outperformed the equity fund's category average. This indicates a degree of resilience in challenging market conditions, suggesting effective risk management or sector positioning that mitigated downside pressures relative to peers.

Highest volatility

	1 quarter	3 years	5 years
SA Equity	**6.93%** Cachalia Capital C Value Fund	**15.51%** Cachalia Capital C Value Fund	**23.15%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**6.23%** ClucasGray SA Balanced Prescient Fund	**11.82%** Camissa Balanced Fund	**14.50%** Camissa Balanced Fund
Manager Watch Global Best Investment View	**7.31%** Abax Balanced Fund	**11.35%** Merchant West SCI Managed P&G Fund	**16.10%** PSG 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 PSG Balanced Fund exhibited a notably higher 5-year volatility of 16.10%, compared to its peer group's average volatility of 11.61%. 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	**0.38%** SIM Moderate Equity	**1.27%** Aluwani Capped SWIX Equity Composite	**1.67%** Alexander Forbes Investments Pure Equity Local
Manager Watch SA Best Investment View	**0.21%** Truffle Domestic Balanced	**1.57%** Alexander Forbes Investments Performer Local	**1.94%** Alexander Forbes Investments Performer Local
Manager Watch Global Best Investment View	**0.10%** Momentum Investments Enhanced Factor 6	**0.52%** 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 a low 3-year tracking error of 0.52%, 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 9.47%, highlighting its effectiveness in capturing the momentum within the market.

Highest tracking error

	1 quarter	3 years	5 years
SA Equity	**5.92%** Cachalia Capital C Value Fund	**10.02%** Ninety One Value Composite	**10.84%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**6.53%** ClucasGray SA Balanced Prescient Fund	**11.36%** Aluwani Domestic Balanced Fund	**10.78%** Nedgroup Investments (Truffle) Managed Fund
Manager Watch Global Best Investment View	**6.69%** Aeon Balanced Fund (CPI + 5%)	**15.45%** Rezco Value Trend	**16.60%** 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 16.60% suggests significant deviation from its benchmark index over the period. Despite this, it has delivered a respectable 5-year return of 8.13%, showcasing its potential for returns despite the tracking discrepancies.

Survey asset distribution

	June 2024	September 2024	December 2024
Absolute Return	R225 billion	R262 billion	R264 billion
BEE	R734 billion	R782 billion	R814 billion
Manager Watch	R1 605 billion	R1 699 billion	R1 744 billion
Medical-Aid	R68 billion	R68 billion	R69 billion
Multi-Manager	R573 billion	R614 billion	R622 billion
Namibia	R101 billion	R105 billion	R109 billion
Property	R64 billion	R73 billion	R72 billion
SA Bond	R229 billion	R249 billion	R298 billion
SA Equity	R525 billion	R577 billion	R551 billion
SA Money Market	R544 billion	R551 billion	R592 billion
Shari'ah	R34 billion	R35 billion	R35 billion
TDI	R77 billion	R82 billion	R85 billion
Total	**R4 784 billion**	**R5 103 billion**	**R5 263 billion**

Total assets under management of survey participants increased by more than R160 billion in Q4. Notable changes in asset value during the quarter occurred within the SA Bond and SA Money Market surveys, where overall values increased by R49 billion and R41 billion, respectively. The increases were primarily driven by growth in portfolio sizes as well as the addition of four new funds in each of the mentioned surveys, contributing more than R25 billion and R34 billion in the growth of each survey.

41 of the 112 funds participating in our flagship Manager Watch survey saw a decline in their market values in Q4. This was offset by the entry of four new funds in the survey, producing a combined market value over R18 billion, contributed to an overall increase of R45 billion in the total asset value of our flagship survey.

Sustainable investment considerations

South African government signs the Electric Vehicle Incentive Plan

On 24 December 2024, President Cyril Ramaphosa signed the Electric Vehicle (EV) Incentive Plan, which will come into effect in March 2026 and end in March 2037. The EV plans' main point of allure lies in the 150% tax incentive for manufacturers of electric and hydrogen-powered vehicles.

The tax incentive has been put in place by the government with the hopes of assisting in increasing the presence of sustainable production processes and zero-emission goods within the automobiles industry, by alleviating financial burdens through reducing tax liabilities. Even though South Africa has been in the grips of an energy crisis over the past decade, the presidency still holds the ambition and aim to promote the uptake of alternatively powered vehicles.

150%

EV and hydrogen power train producers will have the opportunity to claim 150% of eligible investment expenditures related to production capacity for electric and hydrogen-powered vehicles, during the initial year of investment. The projected tax expenditure is anticipated to reach R500 million for the fiscal year 2026/27.

National Treasury says any motor vehicle manufacturer investing in new and unused buildings, machinery, plant, implements, utensils and articles, which are to be used for the production of electric or hydrogen-powered vehicles, will qualify for the incentive. Importantly, only new and unused assets will qualify for the incentive. This is done to ensure that assets are added to the production capacity for electric and hydrogen-powered vehicles that entities plan to produce.

The plan will be accompanied by additional incentives, to be announced in February 2025, with a similar goal of encouraging automotive brands with local manufacturing plants, such as Ford, Volkswagen, BMW and Mercedes-Benz, to produce sustainable new-energy vehicles within South Africa's borders.

Optimism has been the prevailing sentiment among industry participants, who believe the incentive could drive an increase in EV sales in the country, where internal combustion engine (ICE) vehicles still account for more than 99% of the new vehicle market. The implementation of such an incentive is justified within the local vehicle market. Although sales of pure-electric cars nearly doubled in 2023 to 931 units, this remains a drop in the ocean compared to the more than 530 000 ICE vehicles sold.

Sources:
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https://nedlac.org.za/wp-content/uploads/2024/08/SA-rolls-out-tax-incentives-to-boost-electric-vehicle-manufacturing-by-2026.pdf
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Expert insights - An interview with …

Ernest Mabaso

Head of Multi-Asset Class Products at Alexforbes Investments

Please introduce yourself: name, designation and company name.

Ernest Mabaso, Head of Multi-Asset Class Products at Alexforbes Investments

What motivated you to become an investment professional?

I enjoy the challenging nature of the industry and how fast paced it is. I enjoy problem solving and interpreting financial data, but I realise that finance is not just about numbers, it is about people and meeting their goals.

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

I always believe that if I can buy an asset for a client portfolio below its true value, I have a high degree of confidence that the client will be rewarded in the future as long as they remain patient. If the same asset grows in value beyond what is deemed its fair value, I am happy to sell and bank the profits, and look for other cheaper opportunities in the market.

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

I see volatility as an opportunity to buy assets cheaply when investors begin to panic. Importantly, if one has a longer-term view in the market, you stand to benefit when things correct.

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

Buying the flavour-of-the-month stocks is common among novices due to the fear of missing out. An important question to always ask is: Why am I buying this, and is there value in the asset?

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

AI will help bring solutions to investors and clients in real time through the provision of more data-driven insights and analysis. AI can also contribute towards portfolio optimisation by analysing large volumes of data and aiding decision-making much quicker.

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

Managing client expectations all the time is a key challenge as markets keep changing. It is important to always look ahead and take a longer-term view. It is hard to predict where markets can go over the short term due to market volatility. In addition, high interest rates tend to be negative for markets as they affect investor sentiment. It becomes important to look ahead and beyond the cycle, and take advantage of opportunities that become available in the market and buy them cheaply.

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

Be patient and take a long-term view.

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

The way I think about risk is different. Everyone in the crowded field wants to deliver the highest return without much recognition of how much risk is taken to deliver such return. For me, it's all about avoiding the major speed bumps along the road and aiming to deliver steady and consistent performance, which accumulates over time.

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

Think long term. If markets go down, it's no cause for panic. Rather, see that as an opportunity to buy assets cheaply and be patient, for the reward will come in time.

Word on the street

Money lessons: common questions and answers

There are some common financial guidelines that members regularly question. As a result, we've listed some of these questions and provided the answers from the desk of a financial planner.

Financial planners recommend opening an emergency fund. How much should I have saved in my emergency fund?

Add up all your monthly expenses and times that amount by six. In other words, you should aim to have at least 6 months' worth of monthly expenses in your emergency fund. Some financial planners recommend 6 to 12 months. Start with 6 months – once you get to that point you can aim for 9 months and then 12. Every little bit that you save counts. Start small and keep going.

Quick tip

Don't feel bad if it takes you a long time to save up enough money in your emergency fund. Life happens. Just commit to your goal. Once you have enough money in your emergency fund, you'll be surprised at how much peace of mind it will give you.

Is it bad to have too many credit cards? Should I close them as soon as possible?

Remember to be cautious about closing your credit cards. It's not necessarily bad to have multiple credit cards – especially if you don't have credit card debt or you have very little debt. Your credit cards, and the way that you manage them, could help you get a better credit rating. This means that if you buy a house or a car, you could pay less interest because your credit score is good. The less you use the credit available to you, the better.

My late payment was sent to a collections agency. How long will this stay on my credit history?

Even if you've paid the late payment off it could stay on your credit history for six to seven years. If you think you may have a problem paying something for the month, rather contact the company and explain your situation to them. In most cases, they will make an arrangement to assist you. Just make sure you do this as soon as possible. If you have an arrangement, they won't let it affect your credit score.

Quick tip

If you have a question that you would like to ask our financial planners, please send them to **UmbrellaFundNews@alexforbes.com**. We will share your question anonymously in this newsletter so that all our readers can learn from the answers.

People are always talking about 'net worth'. What is it and how do I calculate it?

Your net worth tells you how healthy your finances are. It gives you a snapshot of your financial position. You can calculate your net worth by subtracting what you owe (liabilities) from what you own (your assets). Just remember that debt isn't always a bad thing. If you borrow money to buy an asset, it can be a good thing. For example, buying a house that increases in value over time can give you more money when you sell it – especially if you take good care of your house.

Risk-adjusted measures for investments: Sharpe and Information Ratios

A typical goal for all investors is to maximise their returns while managing risk. In order to gain a view of whether an investment is producing the desired outcome, as mentioned above, investment professionals employ the use of risk-adjusted performance measures.

Performance is usually measured using the returns generated by a portfolio over a stipulated period(s). These returns are usually compared to a benchmark, which comes in the form of either a single index or a combination of indices and other comparative measures. The variability of a portfolio's performance over a certain time is how risk is measured using the standard deviation of returns.

Risk-adjusted measures enable us to combine the data produced when computing performance and risk, allowing us to weight the two measures against each other. This produces a more insightful view of whether the mandate of a portfolio is being executed on.

We'll be looking at two widely used metrics for assessing investment performance relative to risk or risk-adjusted measures, which are the Sharpe Ratio and the Information Ratio.

Sharpe Ratio:

The Sharpe Ratio was developed by Nobel Laureate William F. Sharpe and it helps in measuring the excess return (active return), which is measure by subtracting the portfolio performance from its benchmark, over the risk of the portfolio. This computation produces a view of the excess return per unit of risk taken by an investment. It is calculated as:

$$Sharpe\ Ratio = \frac{R_p - R_f}{\sigma_p}$$

where:

R_p = Portfolio return

R_f = Risk-free rate

σ_p = Standard deviation of portfolio returns

A higher Sharpe Ratio indicates better risk-adjusted returns

For example, if Portfolio A has a return of 10% with a standard deviation of 8% and a risk-free rate (benchmark) of 2%, its Sharpe Ratio is 1.0. If Portfolio B has the same return but a standard deviation of 12%, its Sharpe Ratio is 0.67. This indicates that on a risk-adjusted performance basis, Portfolio A is the better option.

Information Ratio:

The Information Ratio (IR) evaluates an investment manager's ability to generate excess returns relative to a benchmark, while considering the consistency of those returns. It is calculated as:

$$InformationRatio = \frac{R_p - R_b}{\sigma_T}$$

where:

R_p = Portfolio return

R_b = Benchmark return

σ_T = Tracking error (standard deviation of excess returns)

A higher IR signifies superior active management

For instance, if a fund produces an excess return of 2% annually with a tracking error of 4%, its IR is 0.5. Another fund achieving the excess return with only a 2% tracking error has an IR of 1.0, indicating more efficient active management.

The described ratios help investors compare funds or strategies at a deeper, risk-adjusted level. While a high Sharpe Ratio suggests a well-diversified portfolio offering strong risk-adjusted returns, a high Information Ratio indicates a manager's skill in consistently beating a benchmark.

Asset managers and institutional investors use these measures to assess portfolio performance and refine investment strategies for optimal risk-return trade-offs. By incorporating the Sharpe and Information Ratios, they can make more informed decisions that align with their risk tolerance and return objectives.

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

The milkmaid

A milkmaid was on her way to the market to sell some milk from her cow. As she carried the large jug of milk on top of her head, she began to dream of all the things she could do after selling the milk.

“With that money, I’ll buy a hundred chicks to rear in my backyard. When they are fully grown. I can sell them at a good price at the market.”

As she walked on, she continued dreaming, “Then I’ll buy two young goats and rear them on the grass close by. When they are fully grown, I can sell them at an even better price!”

Still dreaming, she said to herself, “Soon, I’ll be able to buy another cow, and I will have more milk to sell. Then I shall have even more money.”

With these happy thoughts, she began to skip and jump. Suddenly she tripped and fell. The jug broke and all the milk spilt onto the ground.

No more dreaming now, she sat down and cried.

The moral of the story....

Just like the milkmaid who didn’t think about the milk spilling, when you invest money, remember things might not always go as planned. It is good to think about what could go wrong and have different types of investments.

The milkmaid made big plans based on money she didn’t have yet. In investing, it is better to make choices based on real information and careful thinking, not just hopes or guesses.

Understand what you’re investing in. Look at how companies are doing and what’s happening in the market. Have a backup plan. Always have a little extra money saved for unexpected things that might happen.

These tips could help you make smarter choices with your money, thinking about both the good and bad that can happen.

* 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 financial and investment-related topics in the newsletter, providing an outline of some intriguing survey findings and covering 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 risk-adjusted measures 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 money-saving tips. We hope you found this newsletter 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 specialise 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.

DFM (Discretionary Fund Manager) is a professional who manages an investment portfolio on behalf of a client, making decisions on asset allocation and trades without needing prior approval for each action, based on a predefined investment strategy and the client's financial goals.

ECB: European Central Bank.

Exit strategy are methods for investors to realise 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 standardised 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.

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(+) **Infrastructure works** 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.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 start-ups 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.