Managers' Digest

Issue 1 • 2023

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Content

In this **edition**

Welcome to the first edition of the Managers' Digest newsletter. In this edition, we delve into the top performers across various surveys, provide insights on industry movements and explore the importance of Environmental, Social, and Governance (ESG) considerations. We also include articles of interest, an expert interview, and investor education to empower you with knowledge and insights to make informed financial decisions.

The newsletter covers three main topics. First, it emphasizes the importance of protecting your financial well-being and provides tips on creating a budget, setting financial goals, and investing wisely. Second, it introduces the concept of multi-management as an investment approach that combines different asset managers to achieve investment goals. Lastly, it explains what it means for a country to be greylisted.

The newsletter concludes with a short story that emphasizes the influence of parents' financial habits on their children and encourages wise financial choices and consistency in teaching good financial habits.

Remember, taking control of your financial well-being today can help avoid a Humpty Dumpty-like fall tomorrow.

Introduction

The Alexforbes Manager Watch™ surveys highlight the performance and risk statistics of institutional fund managers in South Africa and have been published since 1994. Not only does Alexforbes pride itself in providing clients with a specialised range of analytical solutions, but we are also the only investment survey provider in South Africa that publishes a survey for all the major asset classes.

For the fourth consecutive year, the Alexforbes survey team was voted the winner in the Best Investment Survey Provider category at the 2022 New York-based Africa Global Funds (AFG) Service Providers Awards held on 31 October 2022.

Now in their seventh year, the AGF Service Providers Awards recognise and reward companies that excel at providing services to the African asset management industry.

Read more

Sharp Shooter

The Sharp Shooter (best absolute performer across all surveys) for the quarter is **Old Mutual Global Islamic Equity**, participating in the Shari'ah Survey with a return of 16.24%.

The best relative performer for the quarter was the **Visio BCI Shariáh Equity fund**, participating in the Shariáh survey outperforming its benchmark by 11.13%.

16.24% Old Mutual Global Islamic Equity

11.13% Visio BCI Shariáh Equity fund

Surveys in numbers

Some interesting facts generated over the first quarter of 2023 across all surveys, include:

81 Asset managers participating across our surveys.

581 Participating strategies across our surveys.

R7.3 trillion Total assets under management (AuM) as per the Dec 2022 AuM survey.

48 BEE level 1 contributors.

53

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

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

431 Portfolios increased their market values (excluding Africa, International, Namibia, LDI, TDI and FoHF surveys).

66 Endorses the principals of CRISA

Industry news

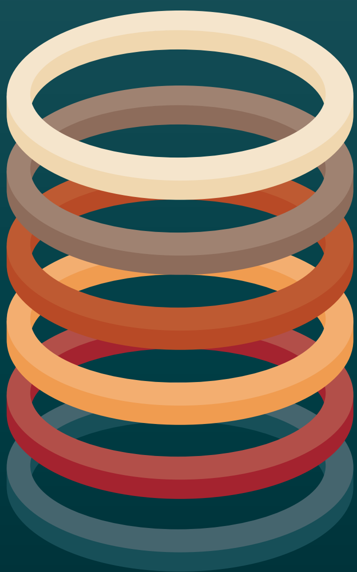
Movements within the domestic South African asset management industry has had an impact on the surveys over the quarter ending March 2023.

Sanlam Investment Management (SIM): On 1 December 2022, SIM acquired both the multi-manager and asset management entities of Absa Asset Management (ABAM). In December 2022, SIM reported assets under management (AuM) of R574 billion. However, we anticipate that this figure will increase once they include the assets held by Absa Asset Management in their AuM survey reporting for June 2023.

Aluwani Capital Partners: The acquisition of Afena Capital by Aluwani Capital Partners has resulted in the manager gaining an additional R1.86 billion (December 2022 AuM) in Afena assets.

Merchant West Investments: Cape Town based, Counterpoint Asset Management has gone through a rebranding campaign and is now operating under the name. The previously mentioned change has only affected the naming conventions of the ex-Counterpoint portfolios that still form part of the surveys.

Quarterly economic highlights



- Local and global financial markets had a positive Q1 2023, despite global economic challenges.
- Developed and emerging markets saw growth, but MSCI World and Emerging Markets Indices were down in ZAR terms.
- FTSE/JSE All Share and All Bond Indexes were up, but the property sector saw a negative return.
- Central banks, including the US Federal Reserve and SARB, continued to raise interest rates.
- Market volatility remains high globally, with subdued investor sentiment due to geopolitical tensions, inflation, and possible recessions.
- South African annual inflation rate rose to 7.1% in March 2023 from the previous month.

Read more

Best performing SA indices in the surveys

Quarterly	1 Year	3 Years p.a.	5 Years p.a.
6.22% FTSE/JSE Top 40 Index	6.81% FTSE/JSE Top 40 Index	25.62% FTSE/JSE Capped All Share Index	11.45% FTSE/JSE Top 40 Index

Best performing peer group benchmarks as featured in the surveys

Quarterly	1 Year	3 Years p.a.	5 Years p.a.
4.92% Global Large Manager Watch™ Median	6.98% Global Large Manager Watch™ Median	20.19% SA Large Manager Watch™ Average	9.11% Global Best Investment View Average

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

In February 2022, the Finance Minister announced an amendment to Regulation 28 (Reg 28), which increased the offshore exposure limits from 30% to 45% with exposure limits in Africa remaining at 10%. This amendment has resulted in a keen interest in the asset allocation dynamics of survey participants particularly those that participate in the Global Best Investment View (BIV) category of the survey.

The table below shows the change in average quarterly asset allocation for selected asset classes among BIV (domestic and global) category of the Manager Watch™ survey.

SA BIV - average asset allocation

	22-Sep	22-Dec	23-Mar
Domestic equities	63.65%	64.75%	64.34%

We observed a minor shift in the quarterly asset allocation of the participants in the SA BIV category from September 2022 to March 2023. On average, there was a modest increase of 0.7% in the allocation of assets to domestic equities. Among the managers, the one with the highest allocation to domestic equities had an exposure of 74.5%.

Global BIV - average asset allocation

	22-Sep	22-Dec	23-Mar
Domestic equities	41.53%	41.75%	40.03%
Total domestic assets	**70.91%**	**70.12%**	**68.59%**

	22-Sep	22-Dec	23-Mar
International equities	20.02%	20.96%	21.80%
Total international	**29.09%**	**29.88%**	**31.41%**

The global BIV category delivered an average performance of 4.3% for the quarter. The average assets allocated to offshore investments have increased by 2.3% from September 2022 to the quarter ending March 2023. Among the managers, the one with the highest allocation to international assets had an exposure of 45.4%. The average exposure to international assets of the participants in the peer group was 31.4%. Of the 40 managers, only 5 were lower than 30% by more than 5%.

Survey in focus:
BEE survey

The purpose of the BEE Manager Watch™ survey is to provide clients, trustees, consultants and asset managers with objective and meaningful performance and risk comparisons across SA BEE asset managers who are predominantly black-owned (51% plus).

For the quarter ended March 2023, the survey realised an increase of R20 billion in its market value to R408 billion, up from R388 billion at the end of the December 2022 quarter.

Below is a table highlighting the overall quarterly performance of funds participating in some categories of the BEE survey, versus their counterparts in the primary surveys.

	Median return	Highest return	Lowest return
BEE Absolute Return	3.72%	5.59%	1.47%
Absolute Return	3.25%	9.61%	1.47%
BEE Bond	3.13%	4.16%	1.74%
SA Bond - Specialist	3.51%	4.32%	1.74%
BEE Equity	2.61%	6.55%	-0.74%
SA Equity	2.42%	7.22%	-3.68%
Shari'ah - SA Equity	2.15%	7.28%	-3.34%
BEE Money Market	1.95%	2.16%	1.72%
SA Money Market	2.00%	2.17%	1.87%
BEE Property	-4.76%	-0.25%	-5.16%
SA Property	-4.70%	2.06%	-5.33%
BEE - Global Balanced	3.91%	9.58%	3.12%
Shari'ah - Global Balanced	3.68%	5.79%	1.73%
Manager Watch™ - Global BIV	4.12%	9.27%	-0.28%
Manager Watch™ - Global LMW	4.92%	9.27%	3.91%
BEE - SA Balanced	2.43%	3.41%	-0.07%
Manager Watch™ - SA BIV	2.94%	7.49%	1.00%
Manager Watch™ - SA LMW	2.76%	7.49%	1.00%
Medical Aid	2.48%	3.31%	1.93%

Survey asset distribution

	Sep-22	Dec-22	Mar-23
Absolute Return	R204b	R213.4b	R224.1b
BEE	R359.6b	R388.3b	R408.1b
Manager Watch™	R1 270.1b	R1 355.8b	R1 412.7b
Medical-Aid	R78.3b	R82.3b	R89.4b
Multi-Manager	R439.8b	R472.9b	R487.8b
SA Property	R52.3b	R60.6b	R58.6b
SA Bond	R210.9b	R220.9b	R228.3b
SA Equity	R440.8b	R478.3b	R487.8b
SA Money Market	R462.2b	R471.4b	R487.3b
Shari'ah	R27.7b	R29.2b	R30.7b
Total	**R3 545.7b**	**R3 773.1b**	**R3 914.8b**

The figures in the table above suggest an overall positive trend in the asset distribution of the various surveys. The growth in asset values across most surveys indicates increased investor confidence. The consistent growth of the assets in the Manager Watch series of surveys is positive.

While these figures provide insight into the asset distribution of the surveys, it is important to note that additional analysis and context would be necessary to fully understand the implications of these trends. Factors such as market conditions, economic indicators, and investor behaviour would need to be considered to gain a comprehensive understanding of the observed changes.

Survey risk statistics: Volatility and tracking error

Lowest volatility

	Quarter	3 years	5 years
SA BIV	**10.37%** Absa Asset Management Domestic Balanced	**9.07%** Foord Domestic Balanced	**9.81%** Foord Domestic Balanced
Global BIV	**5.91%** Rezco Value Trend	**5.68%** Rezco Value Trend	**6.33%** Sasfin BCI Balanced

Highest volatility

	Quarter	3 years	5 years
SA BIV	**16.83%** Coronation Domestic Mandate	**12.34%** M&G Domestic Balanced	**14.83%** Merchant West SCI Managed P&G
Global BIV	**20.95%** Coronation Segregated Full Discretion	**14.80%** PSG Balanced	**16.12%** PSG Balanced

Lowest tracking error

	Quarter	3 years	5 years
SA BIV	**1.91%** Alexander Forbes Investments Performer Local	**1.80%** Alexander Forbes Investments Performer Local	**1.86%** Alexander Forbes Investments Performer Local
Global BIV	**0.05%** Sanlam Lifestage Accumulation	**0.54%** Alexander Forbes Investments (Spectrum)	**0.62%** Alexander Forbes Investments (Spectrum)

Highest tracking error

	Quarter	3 years	5 years
SA BIV	**14.74%** Aluwani Domestic Balanced	**11.35%** Merchant West SCI Managed P&G	**14.99%** Merchant West SCI Managed P&G
Global BIV	**18.07%** Old Mutual Multi-Managers Inflation Plus 5-7%	**16.06%** Rezco Value Trend	**16.36%** PSG Balanced

Environmental, Sustainability and Governance (ESG) considerations

What is ESG?

Environmental, social, and corporate governance is a framework designed to form the foundation of an organisation's strategy, which contemplate the needs and ways in which to generate value for all organisational stakeholders.

Environmental

The environmental "E" portion of ESG takes into account a company's use of natural resources and the effect that both of their direct operations and supply chains interactions have on the physical environment.

Sustainability

"S" in ESG the framework refers to the social aspect of sustainable investing. This part of the ESG seeks to address the question around how a company can manage its relationships with its workforce, the societies in which it operates, and the political environment while remaining profitable.

Governance

Corporate governance "G" is the portion of the ESG framework that outlines the purpose of the corporation, the role and makeup of the boards of directors, and the compensation and oversight of top executives have emerged as core issues in companies' corporate governance structures.

Alexforbes has recently released their inaugural stewardship report, highlighting the importance of active stewardship and engagement in creating and protecting sustainable value as an asset owner and fiduciary. The report offers insights into ESG integration in South Africa gathered from Alexforbes' engagements with a range of asset managers and includes an overview of our responsible investing framework, our private markets ESG report, and key findings such as:

- Half of ESG risks being part of top 10 holdings
- 77% of asset managers having a diversity policy
- ESG measurement and reporting were identified as focus areas.

Access our stewardship report here

Access the executive summary here

Articles of interest:

Understanding the "E" in ESG

Alexforbes: Asset managers face pressure to be accountable

Expert insights:
An interview with...

Ernest Mabaso

Head of Multi-Asset Class Products • AF 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 too 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 he or she 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 out there 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 can be common among novices due to the fear of missing out. An important question to always ask is why am I buying and is there value in the asset.

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

AI will help bring solutions to investors and clients in real time via the provision of more data driven insights and analysis. AI can also contribute towards portfolio optimisation by analysing large volumes of data and aid decision making a lot 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 avail 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 aim 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 its no cause for panic and rather see that, as opportunity to buy assets cheaply and be patient for the reward will come in time.

Word
on the street

**"Humpty Dumpty sat on a wall
Humpty Dumpty had a great fall
All the king's horses and all the king's men
Couldn't put Humpty together again!"**

Just like Humpty Dumpty, your financial well-being can come crashing down if you don't take the necessary steps to protect it. Without proper financial planning, all the king's horses and all the king's men won't be able to put your finances back together again.

Take control of your finances today by creating a budget, setting financial goals, and investing in your future. Don't wait until it's too late to start taking steps to secure your financial future.

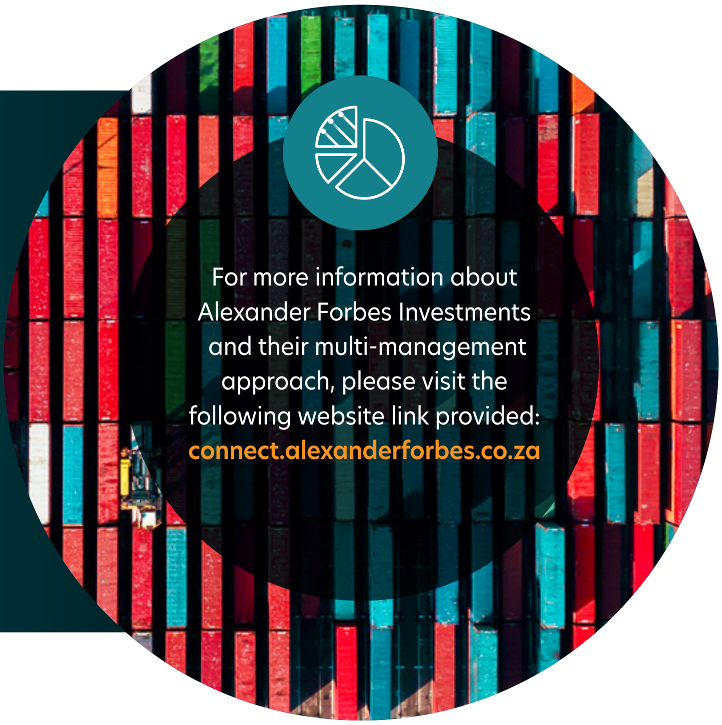
Whether you are saving for a goal, diversifying your investment portfolio or bolstering your savings, a unit trust can help you to reach your target.

You can invest as little as R500 per month or R30 000 up front, or a combination of both.

Investor **education**

What is multi-management?

Multi-management is an investment approach that allows us to select and combine many single-asset managers, across different asset classes and styles of money management, into one portfolio solution. Our multi-managed solutions were built, and are closely managed, by specialist teams with in-depth investment knowledge and insight. They ensure our portfolio solutions work hard for our clients, giving them a greater opportunity to achieve their investment goals, no matter what the markets do.



For more information about Alexander Forbes Investments and their multi-management approach, please visit the following website link provided: **connect.alexanderforbes.co.za**

What does it mean for a country to be greylisted?

When a country is greylisted, it means that it is under review by an international organisation, such as the Financial Action Task Force (FATF), due to concerns over its compliance with international standards related to money laundering and terrorist financing.

The impact of being greylisted can vary, but it often results in increased scrutiny on the country's financial transactions and stricter regulations on its banking sector. This can make it harder for individuals and businesses in the country to conduct international financial transactions, access certain financial services, and can lead to increased costs for complying with regulations.

In some cases, being greylisted can also damage a country's reputation and make it less attractive to foreign investors, which can have a negative impact on the country's economy and job market.

Financial food for thought:
A short story

"Little things affect little minds" – Benjamin Disraeli

A frail old man went to live with his son, daughter-in-law, and four-year-old grandson. The old man's hands trembled, his eyesight was blurred, and his step faltered. The family ate meals together at the big family table. The elderly grandfather's shaky hands and failing sight made eating difficult. Peas rolled off his spoon onto the floor. When he grasped the glass, milk spilled on the tablecloth.

The son and daughter-in-law usually became irritated with the mess. "We must do something about Grandfather," said the son. "I've had enough of his spilled milk, noisy eating, and food on the floor." So the husband and wife set a small table in the corner. There, Grandfather ate alone, while the rest of the family enjoyed dinner at the big table. Since Grandfather had broken a dish or two, his food was served in a wooden bowl. When the family glanced in Grandfather's direction, sometimes he had a tear in his eye as he sat alone. Still, the only words the couple had for him were sharp admonitions when he dropped a fork or spilled food. The four year old watched it all in silence.

One evening before supper, the father noticed his son playing with wood scraps on the floor. He asked the child sweetly, "What are you making?" Just as sweetly, the boy responded, "Oh, I am making a little bowl for you and Mama to eat your food in when I grow up." The four year old smiled and went back to work. The words so struck the parents that they were speechless. Then tears started to stream down their cheeks. Though no word was spoken, both knew what must be done.

That evening the husband took Grandfather's hand and gently led him back to the family table. For the remainder of his days he ate every meal with the family.

In addition, for some reason, neither husband nor wife seemed to care any longer when a fork was dropped, milk spilled, or the tablecloth soiled.

Children are remarkably perceptive. With their eyes they observe, with their ears they listen, and with their minds they process the messages they have absorbed. If they see us patiently provide a happy home atmosphere for family members, they will imitate that attitude for the rest of their lives. The wise parent realizes that every day the building blocks are being laid for the child's future. Let us be wise builders and role models.

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The moral of the story...

As a parent, you want the best for your children. You want to lay a foundation that they can build upon to do well in life.

If you want your children to develop good spending and saving habits, they need to see you making smart spending and saving choices. In short, practice what you preach and preach with consistency.

People who receive financial advice can make the most of what they have, understand the importance of committing to an investment strategy that is appropriate for them and have the best chance of reaching their goals.

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 hope you found this newsletter informative and insightful, and we look forward to hearing your thoughts and feedback. Please feel free to share any comments, questions, or suggestions by sending an email to **managerwatch@alexforbes.com**.