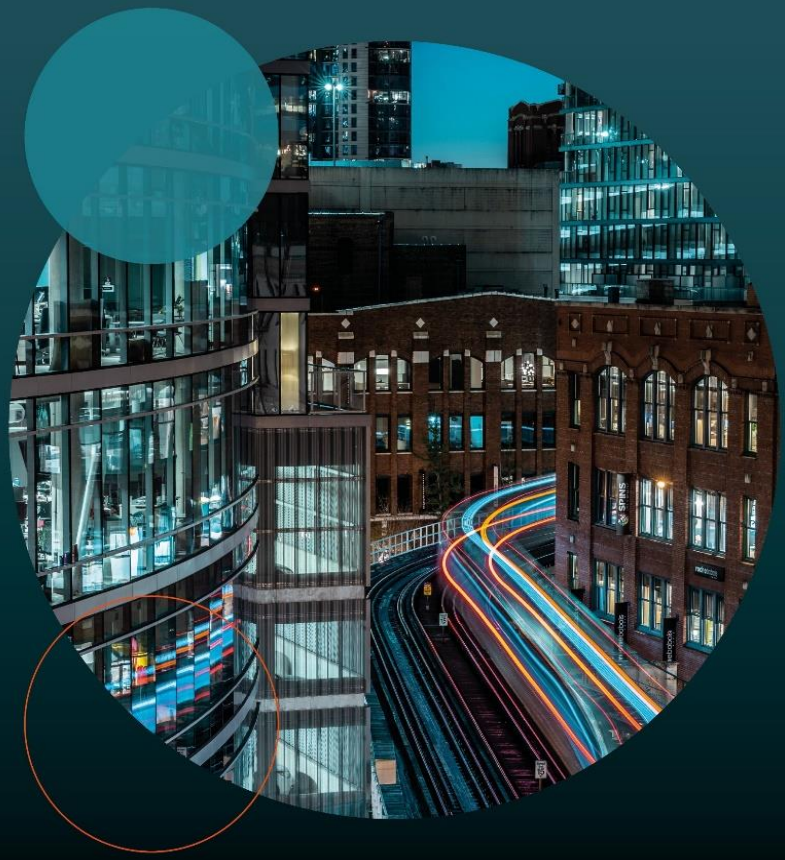
LDI Manager Watch™ Survey for the month ending July 2024



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LDI MANAGER WATCH™ SURVEY

HOW TO INTERPRET AND USE THIS SURVEY

LDI is a complex area of investment. AF strongly recommends that investors obtain professional assistance in determining whether a specific LDI strategy or LDI manager is appropriate for them. The guide below is not sufficiently comprehensive to enable most investors to reliably choose an LDI manager without further assistance. The guide will help investors appreciate the drivers of differential performance between managers and strategies at specific times in the market.

General

The LDI survey reports on the outperformance LDI asset managers deliver relative to a liability based benchmarks. The survey provides simple numerical measures that encapsulate the risk these managers have exposed clients to as well as the outperformance they have acheived. The survey reports on the performance of 'composites', or groups of portfolios with similar characteristics.

Most LDI hedging techniques are based on algorithmic solutions (or rules based mathematical techniques), suggesting that ineffective hedging techniques will very rapidly show up in this survey. The skill set of managers offering low risk solutions, tracking liabilities closely with tight mandate restrictions will generally show up over even short periods such as one year. It is however always preferable to evaluate these managers over a longer period if this is available. The period used for analysis should include at least one large shift in yield curves. More than one large shift in yields has occurred during the last twelve months; the short history available in this survey is hence adequate for judging manager's ability to create effective hedges.

In addition to focusing on tracking liabilities, some managers target outperformance of liabilities by investing in riskier asset classes such as credit (and potentially view taking on the markets). An evaluation of the approach used and the skills of each manager is required to assess how likely these managers are to deliver alpha in the future. The past performance of these managers can be used as part of this evaluation. Longer periods will be required to accurately form a view of how good the manager is at choosing and managing credit. The exact length will depend on the strategy used, but may require five years or longer. Many LDI managers do not have a track record this long. It is useful in such cases to look at the manager's performance in ordinary credit portfolios.

Investors also need to consider the time frame over which they measure risk when choosing a manager and more importantly, in setting their mandates, mandate restrictions and portfolio targets. For example, listed companies may need to manage pension fund or other sinking fund risks over a very short period to match their reporting requirements. Pension funds that are valued once every three year, with a larger risk appetite and a desire to target growth could use a longer evaluation period such as three years.

Specific measures

Liability outperformance shows how much value, in excess of the growth in liabilities, the manager was able to add for their client. All else being equal, a larger outperformance is preferable. Investors should consider a sufficiently long performance period to smooth over interest, credit and inflation cycles if they are primarily concerned with the longer term performance of their liability hedging activities. For example, certain investors may require close tracking on a monthly basis, whilst others may be more concerned with longer term value add. Investors should therefore give adequate attention to manager performance over periods that match their own reporting, risk evaluation and risk tolerance frequency. Consideration should be given to all the stakeholders associated with the liability in reaching this decision.

Liability convexity and duration are technical measures of certain liability characteristics. In general, the larger these quantities are, the more difficult it is to create an effective hedge. These measures can hence be seen as one of the constraining factors governing managers' efficacy in hedging and adding outperformance. Performance is therefore not necessarily comparable between managers with vastly different liability durations and convexities. A typical defined benefit pensioner liability increasing with full inflation annually has a duration between nine and twelve years at current yields.

The % government bonds shows the portion of the manager's portfolios invested in government issued bonds. All else equal, the lower this percentage is, the greater one would expect the long term outperformance of liabilities to be. This figure may also reflect mandate constraints regarding the inclusion of credit.

The % unlisted exposure shows the proportion of the portfolio which is invested in unlisted instruments. Unlisted instruments may (but are not necessarily) subject to poor valuations or infrequent valuations by the manager. Many unlisted instruments such as swaps may be valued independently by a counterparty bank, partially mitigating this risk.

A brief description of the benchmark used is given for each composite. Only similar composites should be compared directly. For example, swap based and bond based benchmarks are not directly comparable.

Portfolio as a percentage of liability shows the size of the assets managed by the manager relative to the size of the liability the manager is mandated to hedge. For example, a pension fund with a R100 liability that gives their LDI manager R50 and invests R50 into the equity market would have a proportion of 50%. All else being equal, the larger this portion is, the easier it is to hedge a liability. This is hence an additional constraining factor on managers. Portfolios in the survey have been grouped into bands expected to offer similar hedging efficacy.

The minimum funding level shows the lowest funding level that would have applied over various time periods, assuming the investor's liabilities and assets were equal at the start of the period. Assuming all else is equal, larger minimum funding levels are preferable. A minimum funding level is an important risk measure in evaluating how well a manager can manage downside risk relative to the investor's liability.

Tracking error shows the dispersion of portfolio returns relative to the investor's liability. All else being equal, a lower tracking error is preferable. Unfortunately tracking error captures outperformance (desirable) as well as underperformance (undesirable). Where close liability tracking is not essential, the minimum funding level is a superior measure of risk. For example, a manager providing a high degree of outperformance and high minimum funding levels may be a suitable choice even if this manager has a high tracking error.

The risk adjusted outperformance shows the extent to which managers outperform liabilities, adjusted for the tracking error or risk they have introduced. All else equal, a larger risk adjusted return is preferable. The risk adjusted return may however be an inappropriate measure for certain investors with specific liability objectives. For example some risk tolerant investors wish to maximise long term outperformance of liabilities. Such investors should focus on outperformance of liabilities in choosing a manager. Other risk averse investors may wish to track their liabilities as closely as possible. Such investors should focus on choosing a manager based on tracking error.

BEE AND ESG DETAILS AS AT THE END OF JULY 2024						
Manager	Empowerment Rating	Total empowerment Shareholding (%)	Empowerment Shareholding		We endorse/are signatories to:	
			Ownership/Partner(s)	Empowerment shareholding composition as a percentage of total empowerment ownership	CRISA (Code for Responsible Investing in South Africa)	PRI (United Nations Principles for Responsible Investing)
Ashburton	Level 1	30.10%	BEE Partners Shareholding Other Royal Bafokeng Holdings (Pty) Ltd	17.28% 70.76% 11.96%	Yes	Yes
Ninety One	Level 1	36.14%	Ninety One Limited	100.00%	Yes	Yes
STANLIB	Level 1	35.75%	Liberty Holdings Limited	100.00%	Yes	Yes

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Objective - The portfolios included in this survey represent liability-driven investment funds with benchmarks expressly referencing investor liabilities.

INVESTMENT DATA TO THE END OF JULY 2024												
	3rd Party Assets	OUTPERFORMANCE OF LIABILITY					LIABILITY CHARACTERISTICS				PORTFOLIO CHARACTERISTICS	
		Month	Quarter	1 Year	3 Years (p.a.)	5 Years (p.a.)	Liability benchmark duration	Liability benchmark convexity	% exposure to credit assets	% unlisted exposure	Portfolio Size (R m)	Benchmark
INFLATION-LINKED BOND YIELD CURVE BENCHMARKING												
Ashburton	Yes	-0.35%	-0.96%	-0.55%	-0.40%	-0.03%	6.13	62.58	1.70%	0.00%	689.16	Liability benchmark, zero spread
STANLIB Composite 1	Yes	0.29%	2.17%	5.75%	6.82%	6.46%	7.52	96.49	100.00%	11.47%	1 567.12	Liability benchmark, zero spread
STANLIB Composite 3		0.01%	-0.13%	0.02%	0.10%	0.26%	11.68	222.69	0.00%	0.00%	911.20	Liability benchmark, zero spread
NOMINAL BOND YIELD CURVE BENCHMARKING												
Ninety One	Yes	0.00%	0.00%	0.00%	0.00%	0.00%	2.08	9.00	0.00%	0.00%	5 179.45	Liability benchmark, zero spread
STANLIB Composite 2	Yes	-0.11%	0.06%	0.41%	0.67%	0.77%	6.93	83.63		0.00%	522.38	Liability benchmark, -25bps spread
TOTAL											**8 869.31**	
INDICES												
All Bond Index		3.96%	10.22%	15.58%	8.72%	8.82%						
JSE ASSA SA Gov ILB Index		1.82%	3.94%	9.43%	7.37%	6.73%						
STeFi		0.70%	2.08%	8.56%	6.62%	6.08%						

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INVESTMENT DATA TO THE END OF JULY 2024												
RISK STATISTICS												
	LDI portfolio as a percentage of liability (P = Physical / E = Effective)				Minimum funding level assuming an artificial starting level of 100% at the start of the period				Tracking error (annualised)			
	<25%	25-50%	50-75%	>75%	Quarter	1 Year	3 Years	5 Years	Quarter	1 Year	3 Years	5 Years
INFLATION-LINKED BOND YIELD CURVE BENCHMARKING												
Ashburton			PE		99.04%	99.45%	98.82%	99.84%	2.45%	1.39%	1.01%	2.05%
STANLIB Composite 1			P	E	100.68%	99.80%	100.34%	100.48%	1.57%	2.06%	1.84%	1.74%
STANLIB Composite 3				PE	99.85%	99.90%	100.06%	99.92%	0.20%	0.18%	0.17%	0.60%
NOMINAL BOND YIELD CURVE BENCHMARKING												
Ninety One				PE	100.00%	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%	0.00%
STANLIB Composite 2				PE	100.04%	100.08%	100.08%	99.58%	0.44%	0.55%	0.39%	0.62%

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INVESTMENT DATA TO THE END OF JULY 2024			
	1 Year	3 Years (p.a.)	5 Years (p.a.)
INFLATION-LINKED BOND YIELD CURVE BENCHMARKING			
Ashburton	-0.40	-0.39	-0.02
STANLIB Composite 1	2.79	3.71	3.71
STANLIB Composite 3	0.11	0.58	0.43
NOMINAL BOND YIELD CURVE BENCHMARKING			
Ninety One	Zero tracking error	Zero tracking error	Zero tracking error
STANLIB Composite 2	0.74	1.71	1.25

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EXPLANATORY NOTES

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Quantitative figures are calculated on three year performance returns.

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General :

Managers are ranked from highest to lowest active return. In some cases rankings may be different due to return differences disguised by the rounding. Rankings are purely for illustrative purposes.

Statistical Definitions :

The Median is the value above or below which half the managers fall.

The Upper Quartile is the value above which one quarter of the managers fall.

The Lower Quartile is the value below which one quarter of the managers fall.

Risk Analysis Definitions :

"Active return" is the return earned by the manager in excess of the benchmark, measured geometrically.

"Active Return" is a measure of the value that the manager has added or detracted over the benchmark return.

"Risk adjusted return" is the annualised standard deviation of the monthly "Active Returns".

"Risk adjusted retun" is a measure of the variability of the manager's returns relative to the benchmark returns.

"Minimum funding level" is the minimum cummulative active return during the measurement period added to one.

"Tracking Error" is a measure of the manager's ability to manage funding level risks.

"Prescribed Duration Measure" is the average of the time at which liability cashflows are paid, weighted by the proportion of present value paid at each time.

Prescribed Duration Measure = $\frac{\sum_{t\ in\ T} PV(t) * t}{\sum_{t\ in\ T} PV(t)}$

"Prescribed Duration Measure" is one of many factors affecting the difficulty of hedging a liability or adding outperformance. In general, the larger this value, the more challenging the mandate will be.

"Prescribed Convexity Measure" is the average of the squares of the times at which liability cashflows are paid, weighted by the proportion of present value paid at each time.

Prescribed Convexity Measure = $\frac{\sum_{t\ in\ T} PV(t) * t^2}{\sum_{t\ in\ T} PV(t)}$

"Prescribed Convexity Measure" is one of many factors affecting the difficulty of hedging a liability or adding outperformance. In general, the larger this value, the more challenging the mandate will be.