

EXTRAORDINARY EXECUTION

Momentum Investments' smart beta funds deliver exceptional performance

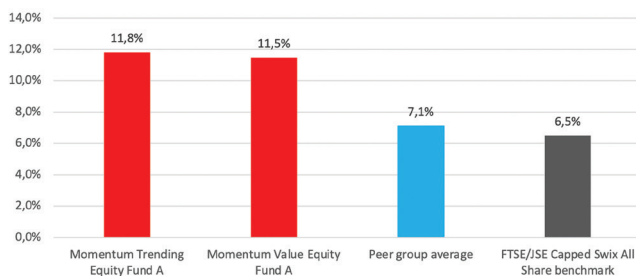
Smart beta investing is not as complex as it may sound. At its core, it is an investment approach that combines passive and active investing. Compared to their traditional colleagues, smart beta fund managers consider the same input parameters, but their approach to the investment process differs.

The main distinction between the managers of traditional funds and smart beta funds is that smart beta managers prefer objective numbers rather than subjective opinions. They base their investment decisions on quantifiable financial data rather than, for example, on an upbeat view expressed by management. And while their traditional peers may prefer certain styles, smart beta investors explicitly exploit investment styles such as momentum, value and quality. As they follow systematic processes, clients do not run the risk of their portfolios drifting away from their chosen styles just because a particular style temporarily goes out of fashion.

Keeping things simple

At Momentum Investments, we like to keep things simple. Simplicity allows for focus, and focus is key for delivering performance excellence. In April this year two of our funds, the R2.3-billion Momentum Trending Equity Fund and the R1.2-billion Momentum Value Equity Fund, celebrated their fifth birthday and they have both performed exceptionally well since inception. The Momentum Trending Equity Fund delivered a return of 11.8% per year, which is 5.3 percentage points ahead of its benchmark and 4.7 percentage points ahead of the average peer in the general equity category. It was ranked ninth out of 122 peers over this period. The Momentum Value Equity Fund delivered 11.5% per year, which is 5 percentage points ahead of its benchmark and 4.4 percentage points ahead of the average peer. It was ranked 13th out of 122 peers over this period.

Annualised five-year performance to April 2022

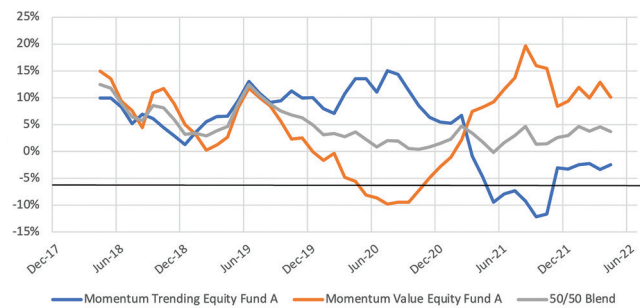


Source: Morningstar, IRESS, Momentum Investments
Date: 30 April 2022

It is important to remember that investment styles can be popular the one day but can fall out of fashion the next, only to gain traction later again. The chart below illustrates rolling 12-month outperformance relative to the FTSE/JSE Capped Swix benchmark index. From the chart, it is evident that while the Momentum Trending Equity Fund's strategy worked exceptionally well since inception until early 2021, it lagged towards the end of the five-year period as turbulent markets since the outbreak of Covid were not conducive to a trending strategy. The Momentum Value Equity Fund performed well until the end of 2019, then underperformed over most of 2020 and then suddenly started to outperform again from early 2021.

While investors in both these funds can look back to stellar five-year performance figures, the ride was by no means smooth. However, investors who would have invested 50% into each of these two funds would have enjoyed a much smoother return stream. While the average performance experienced would still be exceptionally high, the rolling 12-month return figures of such a blend would almost never have dropped below the benchmark.

Rolling one-year outperformance to April 2022



Source: Morningstar, IRESS, Momentum Investments
Date: 30 April 2022

Paying lower fees

Another factor to keep in mind when considering investing in smart beta funds is that because these funds follow predominantly quantitative processes, they do not require expensive research teams. The cost of running our smart beta business is much lower than that typically associated with traditional fund managers. This enables us to charge competitive fees, putting our clients in a materially better position to achieve their long-term financial goals. Because with us, investing is personal. ■



Loftie Botha, Portfolio Manager, Momentum Investments

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