

How smart is Smart Beta?

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9 and 11 November 2021

momentum
investments

Smart beta



Presentation overview



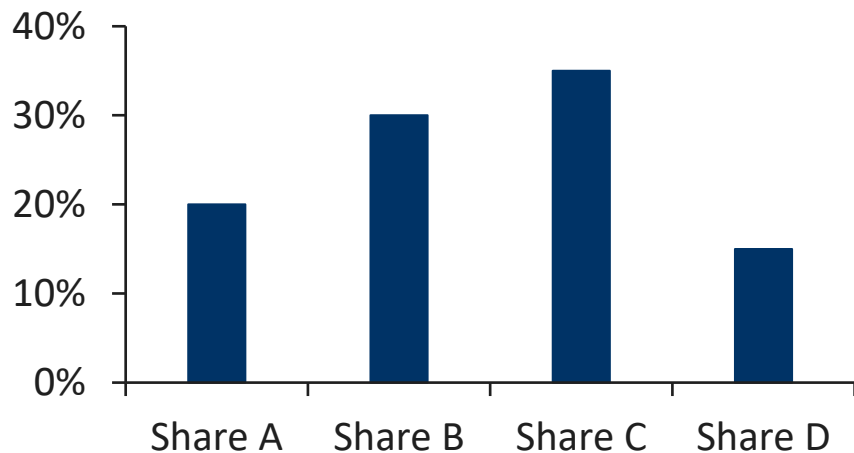
Traditional indices



Passive investment options

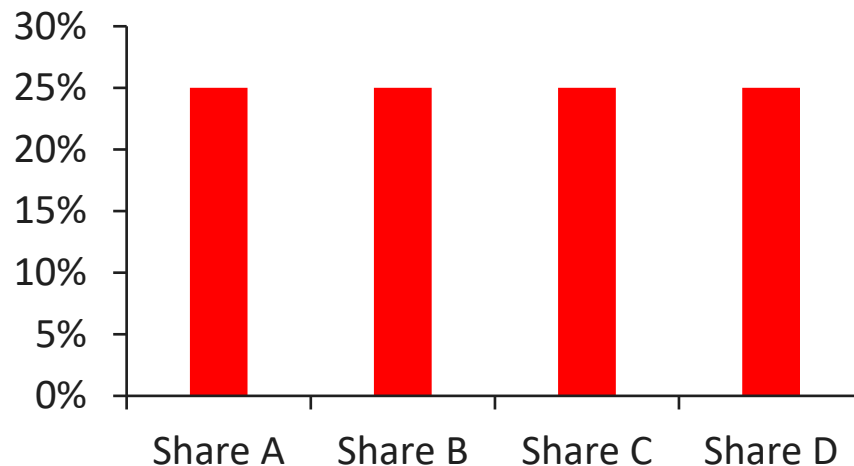
Potential higher weighting to overvalued shares and underweighting shares that could offer good value

Market cap weighted index



Liquidity risk in small cap shares
– equally weighted index

Equally weighted index



Passive compared to active management

The debate

- Tracks a predetermined index
- Lower fees
- May outperform some active strategies

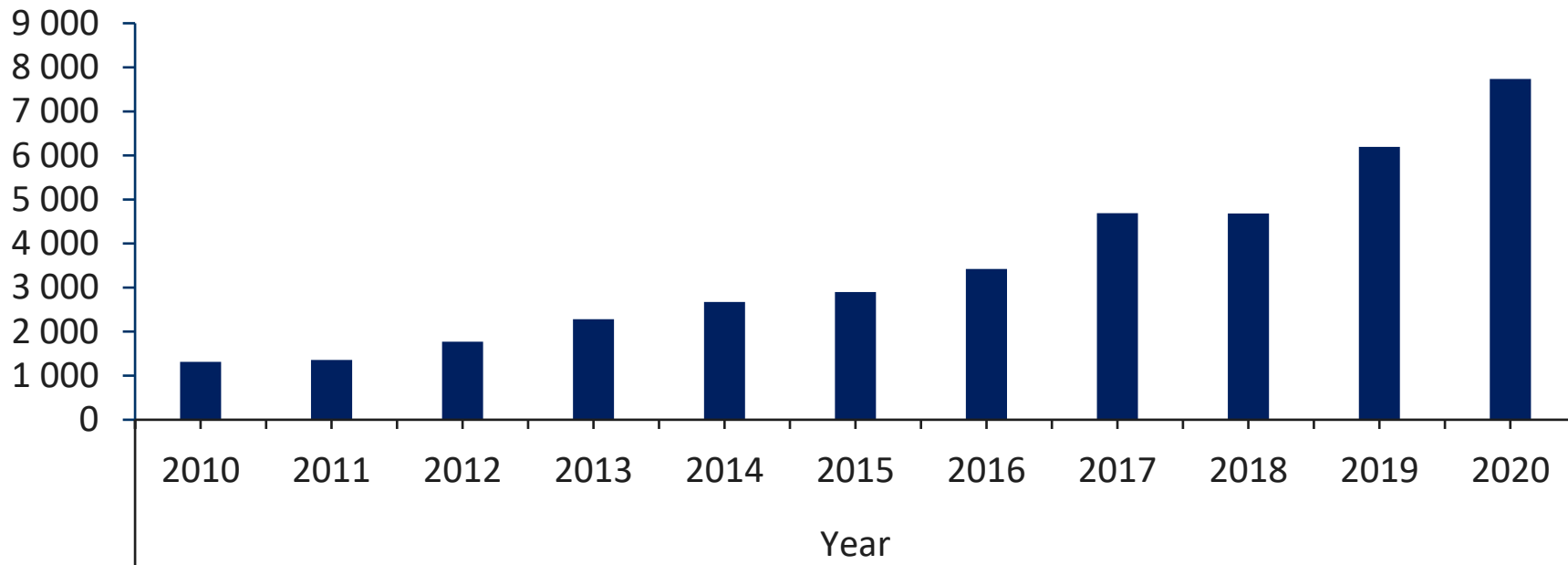


- Aims to outperform the benchmark
- Detailed investment research
- Higher fees
- Higher portfolio risk

Global exchange-traded fund market

m

Continues to grow compound annual growth rate at 24%

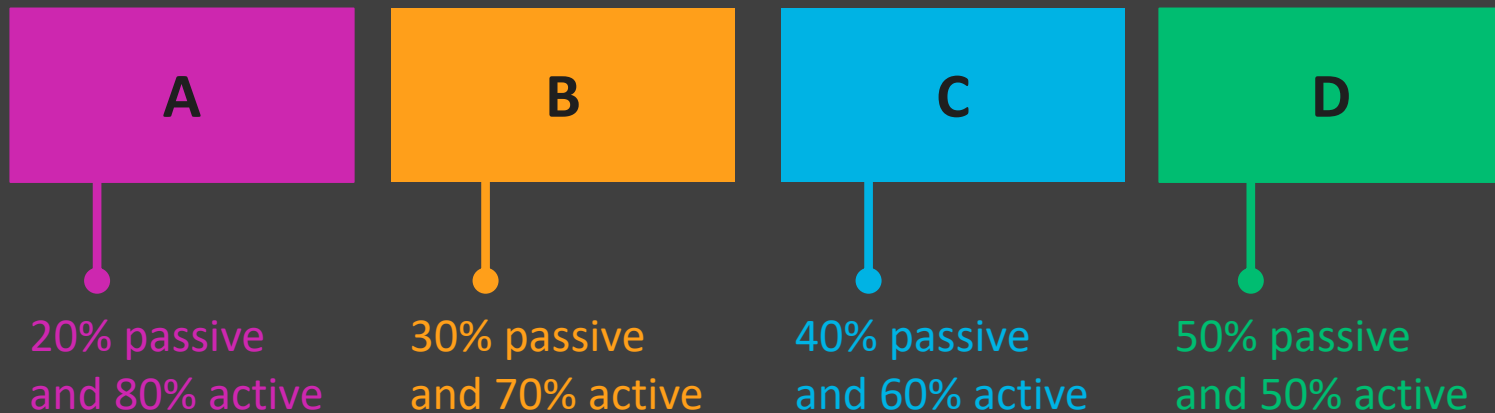


Source: [globalxetfs.com](https://www.globalxetfs.com) (Citing sources from Bloomberg, Morningstar and Statista.com)

Quick survey



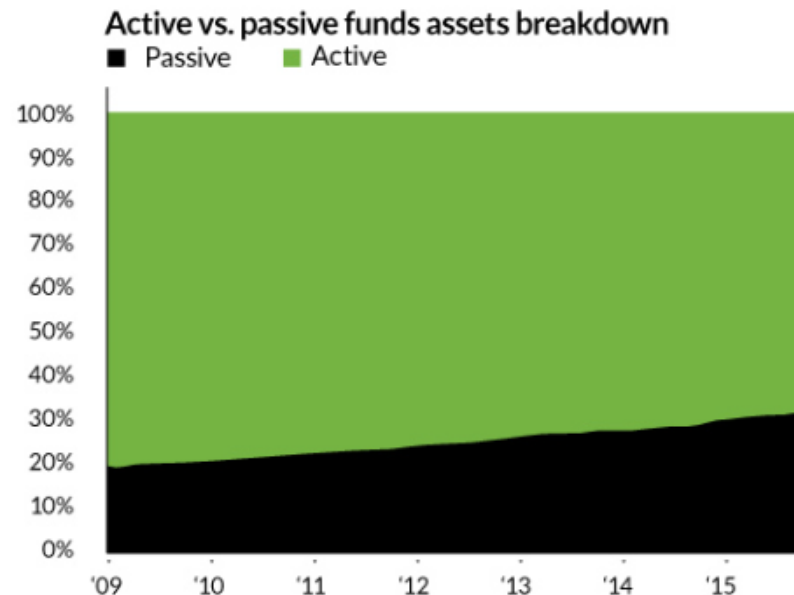
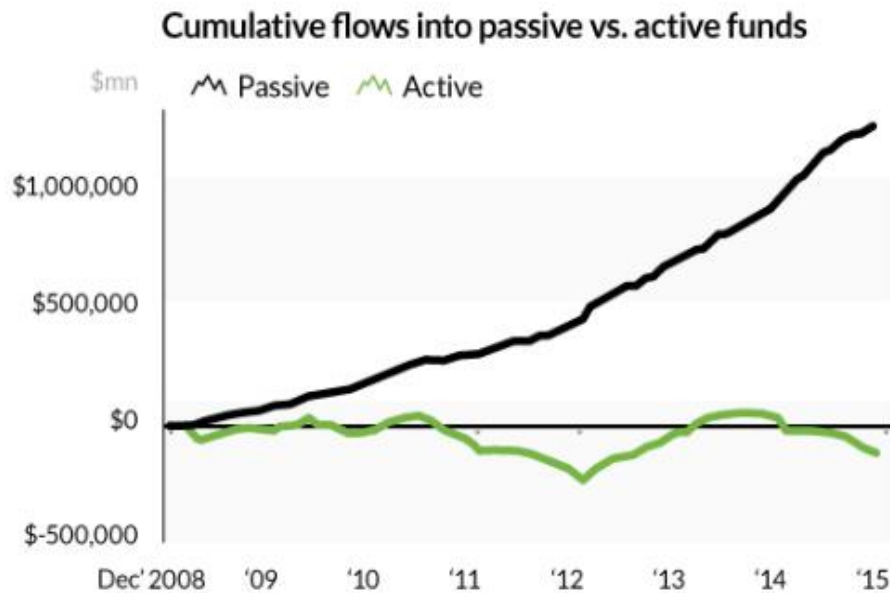
What is the percentage split between active vs passive assets under management ?



Global exchange-traded fund market

m

Demand for alpha



Source: Visualcapitalist.com

Smart beta



Definitions

Different definitions
based on your source of
information

Shares weighted according
to investment styles



Term first coined by Towers
Watson. Characteristics
should include:

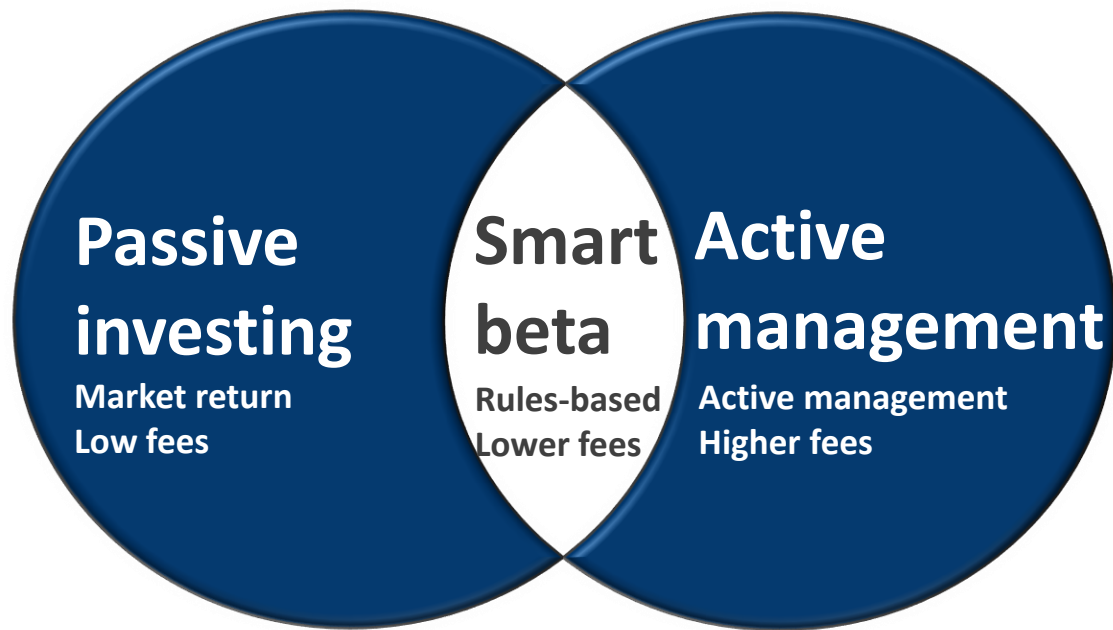
- Simplicity
- Transparency
- Low fees
- Systematic methodology

Lower risk, as overvalued
shares with higher market
cap will not have high
weighting in the index

Smart beta concept



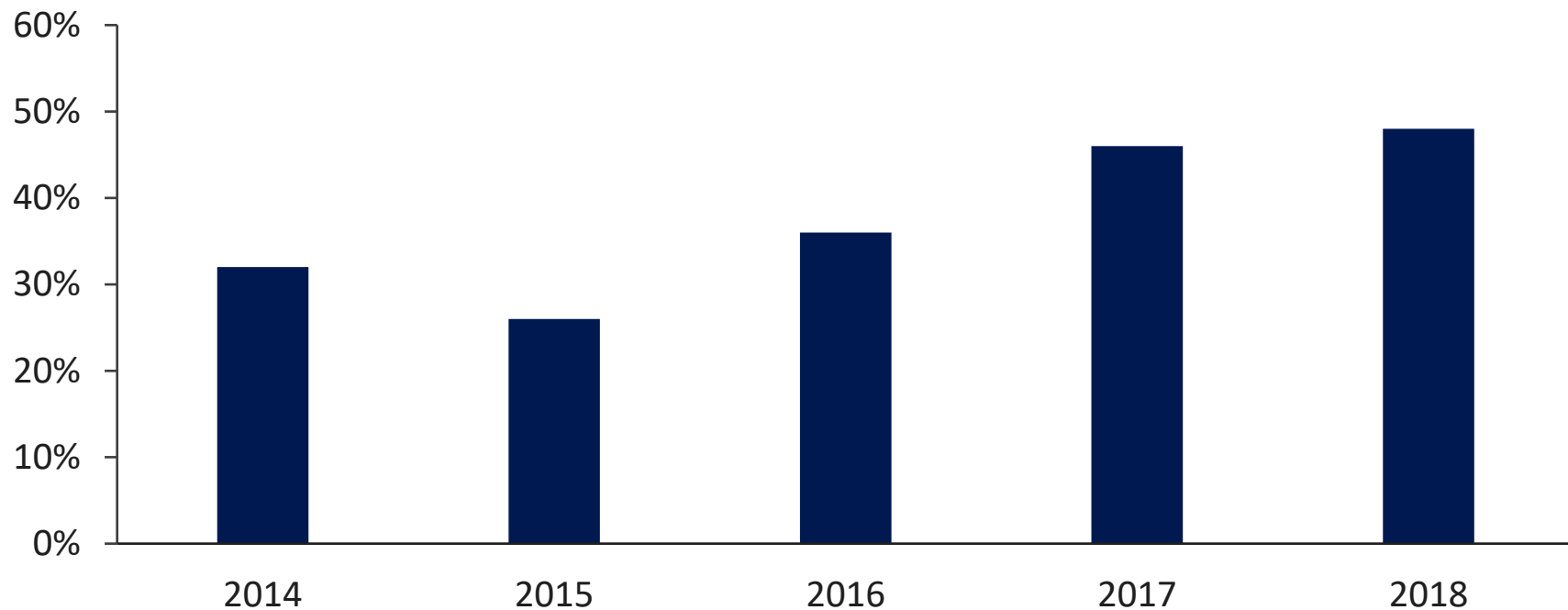
The best of both worlds



Growing interest



Increasing adoption rates



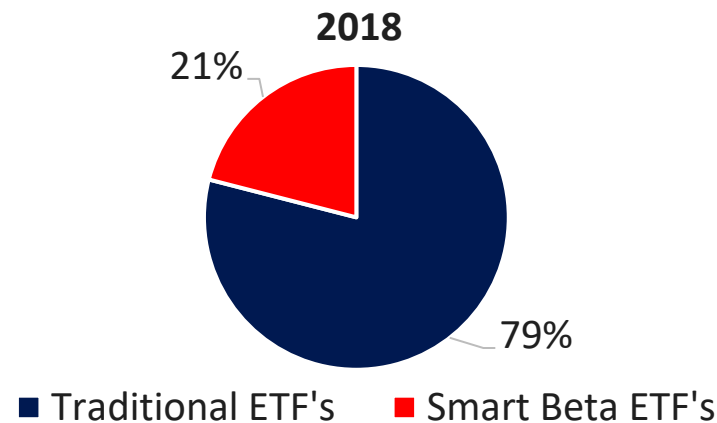
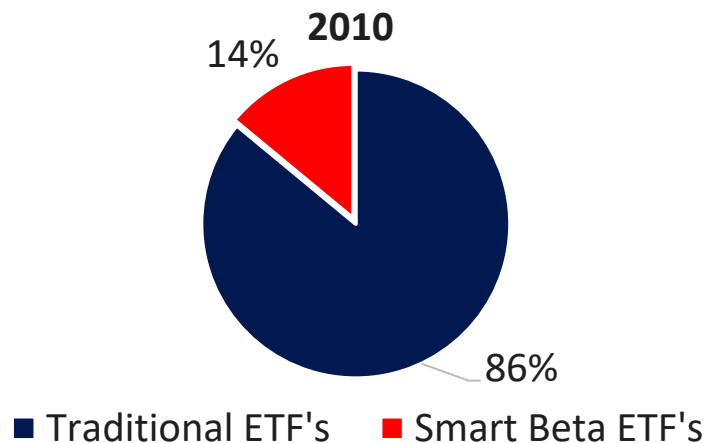
Source: FTSE Russell. Global smart beta surveys of asset owners, 2014, 2015, 2016, 2017 and 2018

Smart beta



A growing trend

- 1195 Smart beta exchange-traded funds (ETFs) in the US market with total assets under management of about \$1.5 trillion
- Strong market share gains since 2010
- Five-year CAGR of smart beta ETFs was 32% compared to 21% for cap-weighted funds



Sources: ETF.com, Morningstar direct and ETFGI.com

Smart beta factors



Most common factors of smart beta exchange-traded funds

Momentum

Shares that have done well continue to outperform

Quality

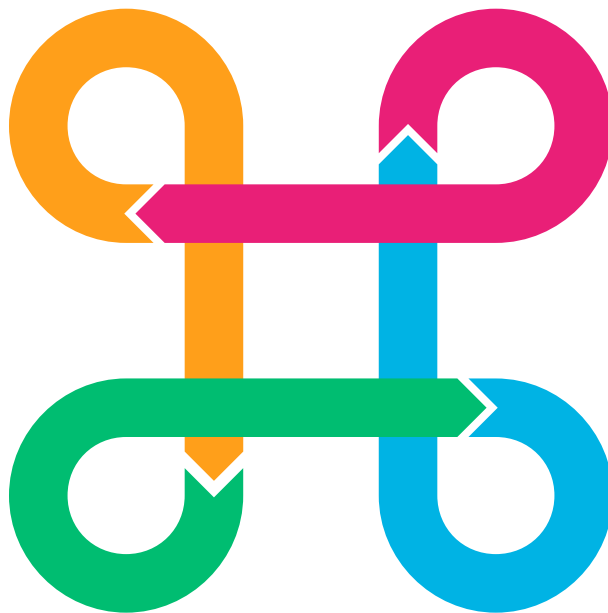
Strong balance sheet and high return on equity

Value

Share prices trading below book value

Low volatility

Least volatile shares to outperform over long periods



Source: Momentum Investments

Smart beta factors



Returns over investment cycles



Source: Momentum Investments

Multi-factor

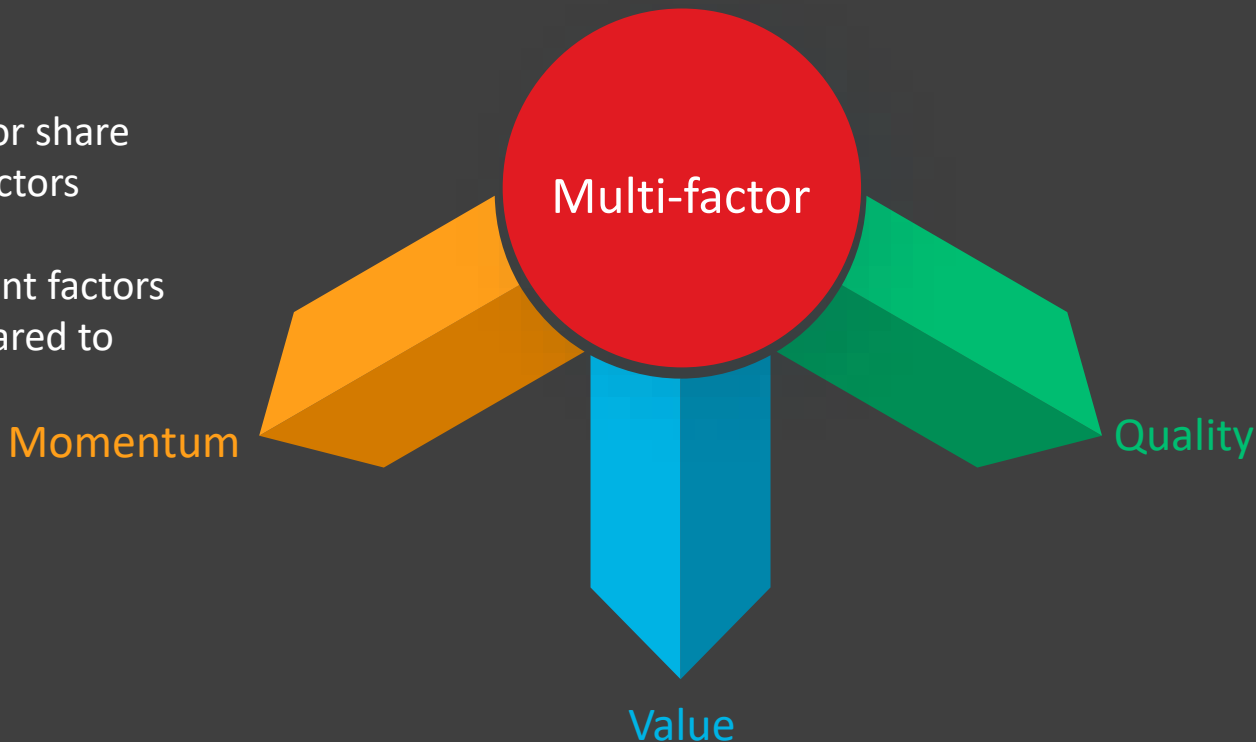
Smoothing investment returns

Construction

- Allocation to factor portfolios or share selection based on different factors

Benefits

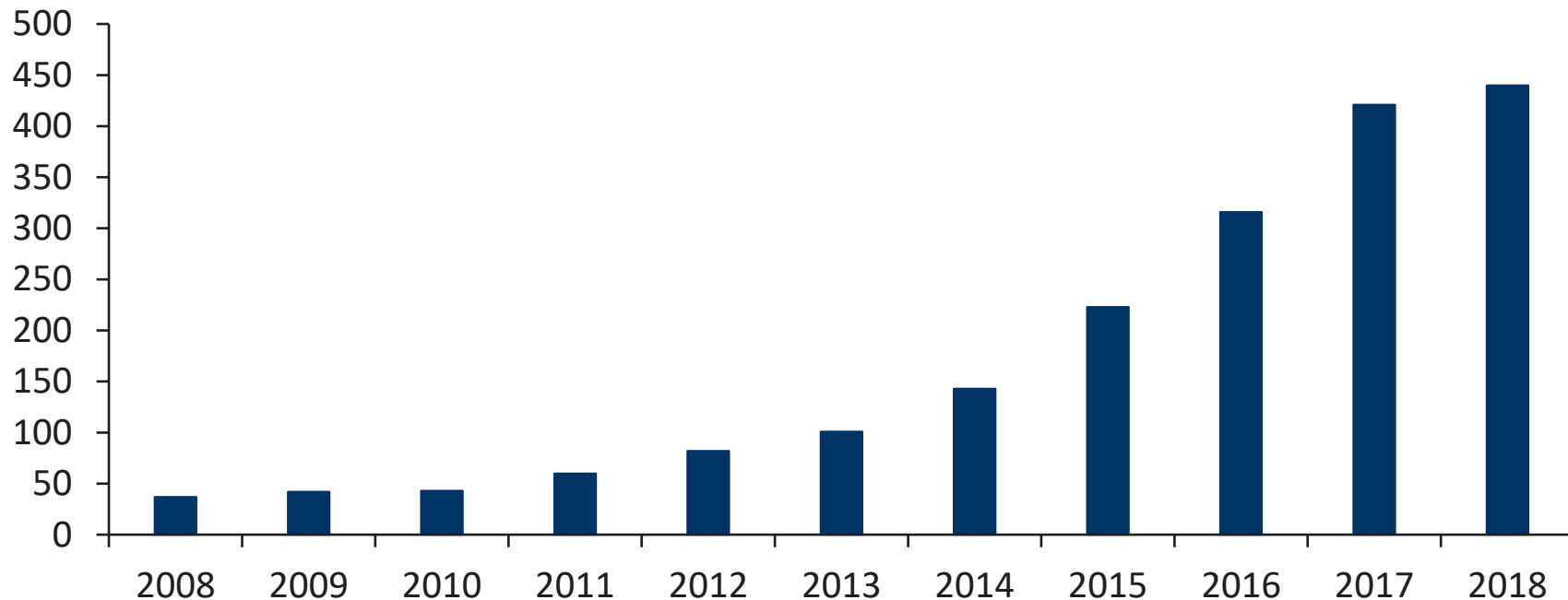
- Diversification between different factors
- Smoother return profile compared to single factors



Multi-factor



Growing number of portfolios and assets under management

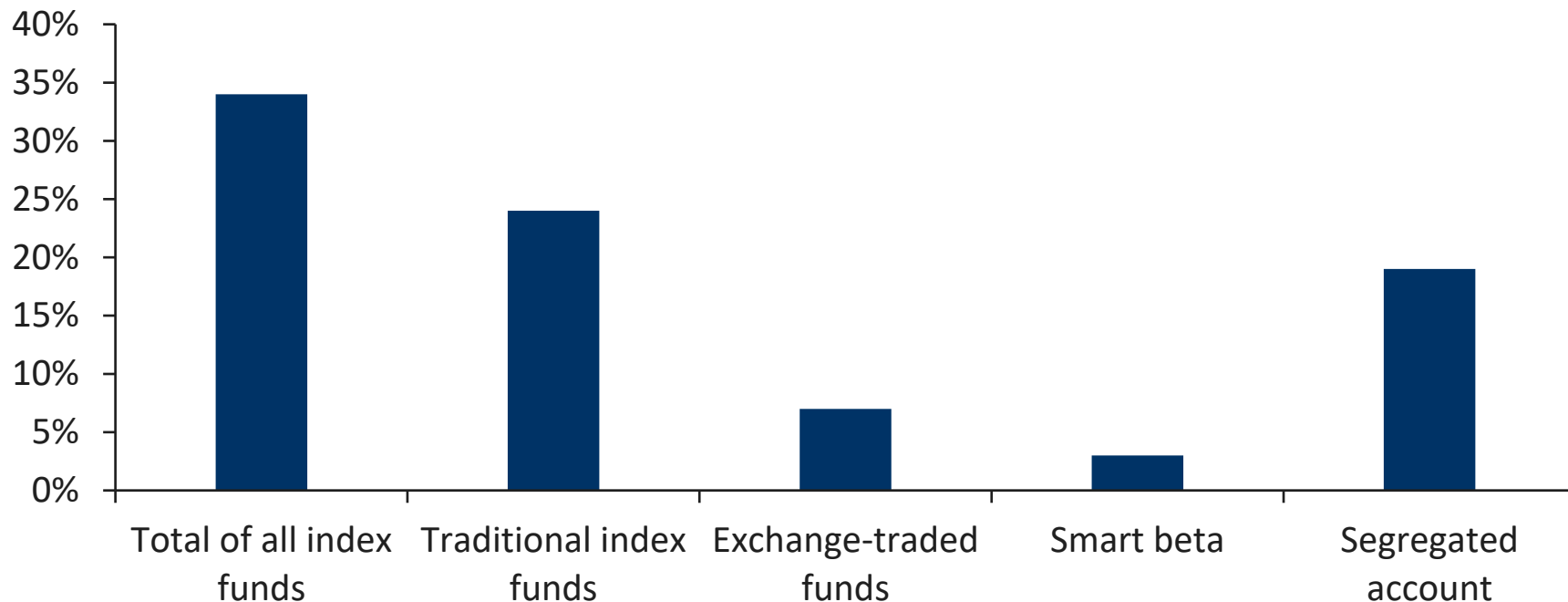


Source: Morningstar direct data at 30 April 2018

Smart beta



Retirement fund adoption: 127 retirement fund investment managers surveyed in 20 countries

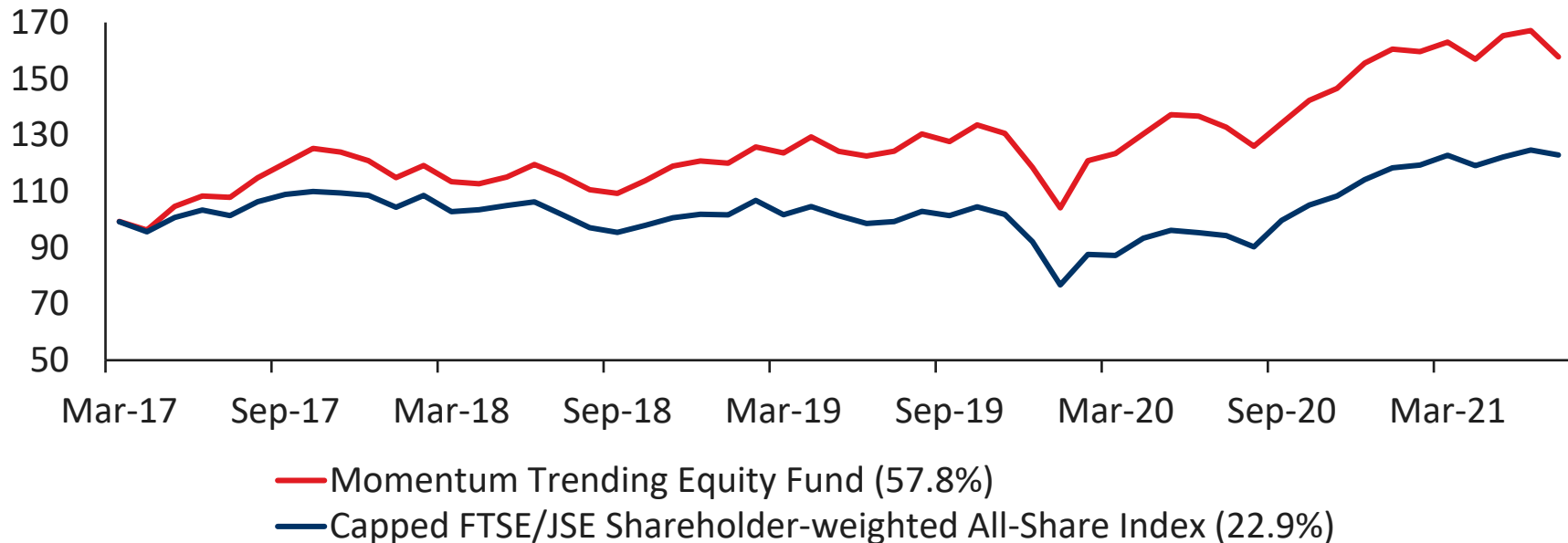


Source: EFT stream.com, CREATE research

Investment returns



Momentum Trending Equity Fund since inception compared to the Capped FTSE/JSE Shareholder-weighted Index



Sources: Morningstar and Momentum Investments

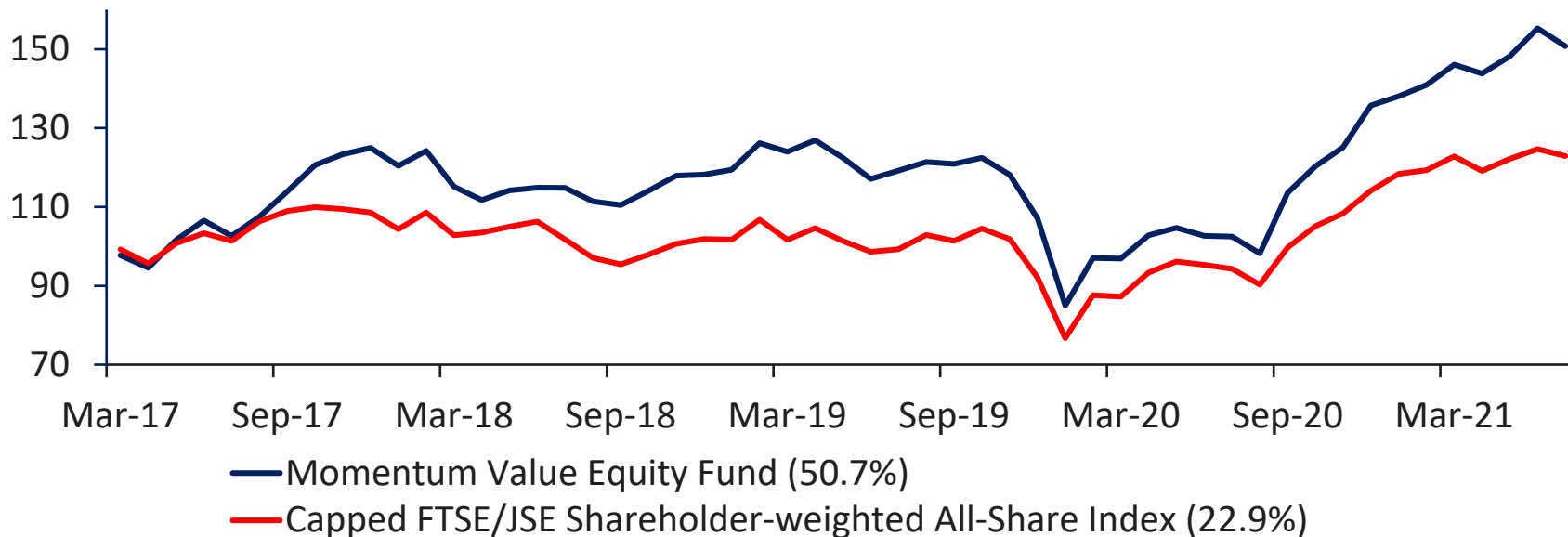
CIS disclosures

Collective investments are generally medium- to long-term investments. The value of participatory interests may go down as well as up and past returns are not necessarily a guide to the future. Momentum Collective Investments (RF) (Pty) Ltd (the management company) does not provide any guarantee, either with respect to the capital or the return of this investment fund. Additional information on the proposed investment including, but not limited to, brochures, application forms, the annual report and any half-yearly report can be obtained, free of charge, at momentuminv.co.za or on request from the management company. A schedule of fees and charges and maximum commissions is available on request from the management company. CISs are traded at ruling prices and can engage in borrowing and securities lending. The CIS may borrow up to 10% of the market value of the investment fund to bridge insufficient liquidity. Different classes of units apply to investment funds, which are subject to different fees and charges. Forward pricing is used.

Investment returns



Momentum Value Equity Fund since inception compared to the Capped FTSE/JSE Shareholder-weighted Index



Sources: Morningstar and Momentum Investments

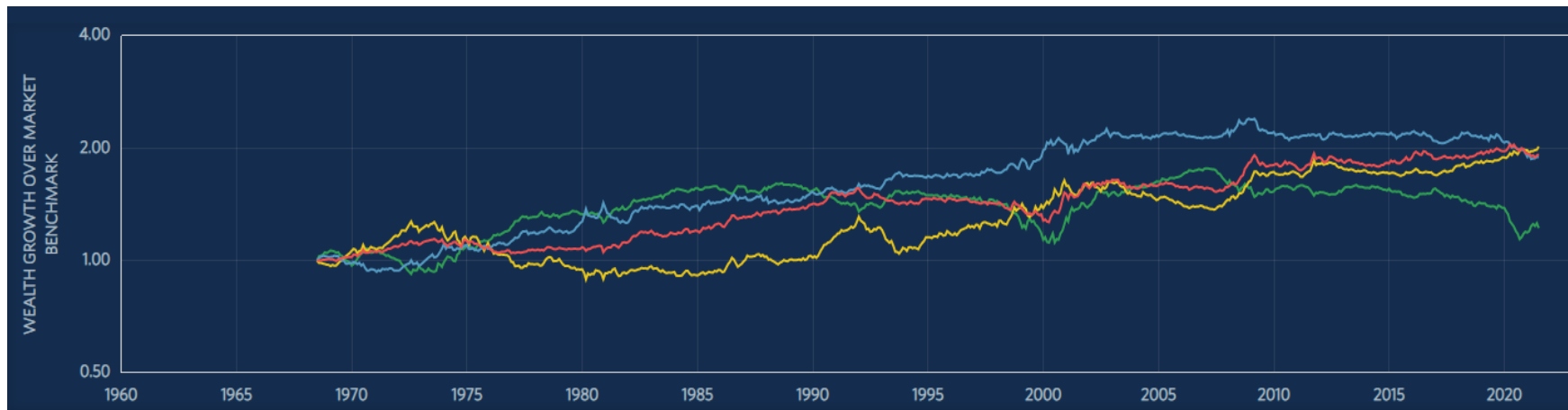
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Multi-factor simulation



Smoothing investment returns



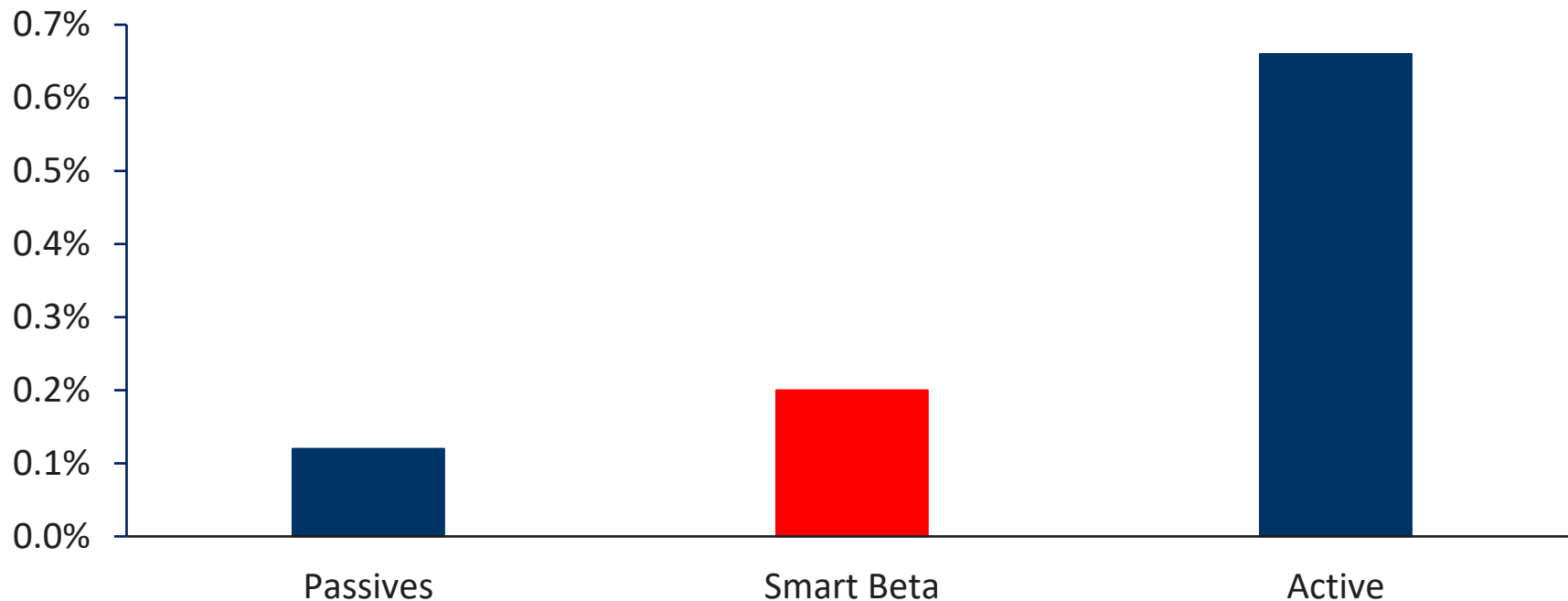
	Value	Quality	Momentum	Multifactor
Tracking error	4.60%	3.60%	4.10%	3.90%
Access historical return	0.38%	1.34%	1.21%	1.25%

Sources: Research affiliates, CRSP/Compustat and Worldscope/Datastream

Fees



Smart beta fees positioned between active and passives portfolios

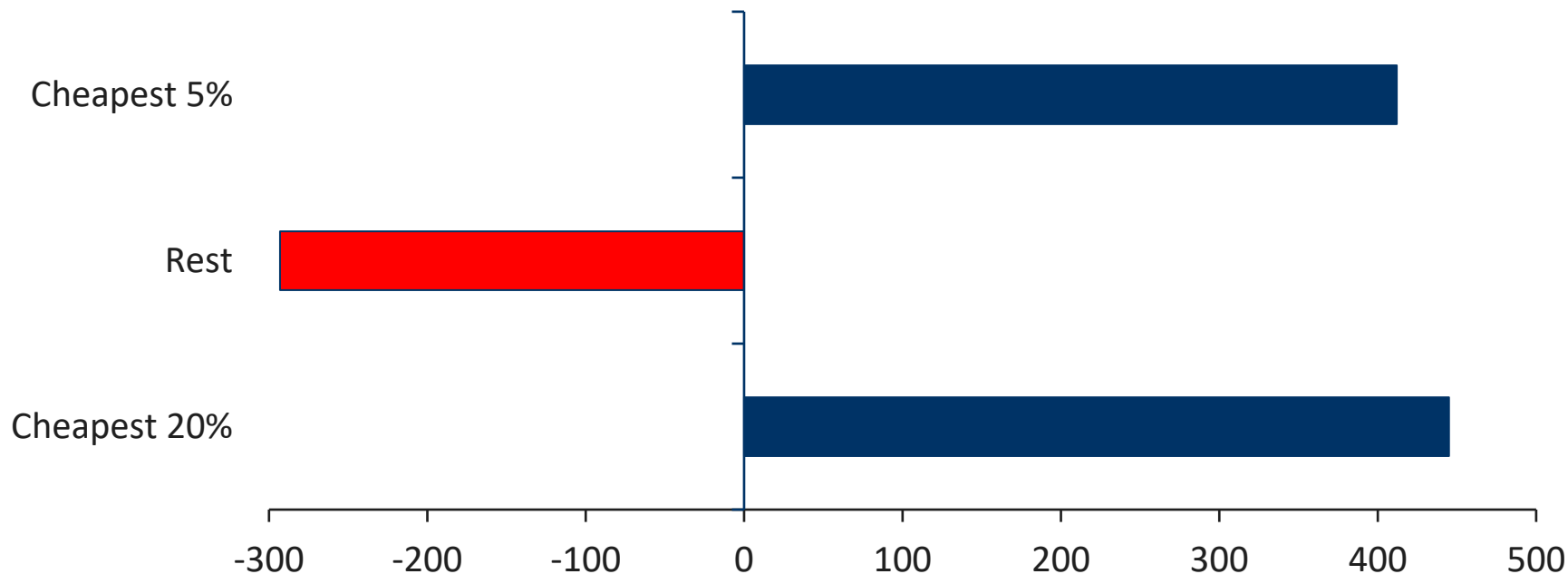


Source: Morningstar – Annual fund fee study

Investment flows



Lower fees attract inflows



Source: Morningstar – Annual US fund fee study

Smart beta



How smart is Smart Beta?

A 'BETA' way to your investment goal



This investment fund is administered by Momentum Collective Investments (RF) (Pty) Ltd (the management company), registration number 1987/004287/07, which is authorised in terms of the Collective Investment Schemes Control Act, No 45 of 2002 (CISCA) to administer collective investment schemes (CISs) in securities. The management company is the manager of the Momentum Collective Investments Scheme (the scheme) and a part of Momentum Metropolitan Life Limited, an authorised financial services provider (FSP) (FSP6406) under the Financial Advisory and Intermediary Services Act No. 37 of 2002 (FAIS), a registered credit provider (NCRCP173), a full member of the Association for Savings and Investment SA (Asisa) and rated B-BBEE level 1. Standard Bank of South Africa Limited, registration number 1962/000738/06, is the trustee of the scheme.

A fund of funds, apart from investments in liquid form, consists solely of participatory interests in investment funds of CIS, which may levy their own charges and could result in a higher fee structure for fund of funds than some other forms of CISs.

All investment fund returns are calculated for a class. Individual investor returns may differ as a result of fees, actual date(s) of investment, date(s) of reinvestment of income and withholding tax. All investment fund returns shown are after the deduction of the total investment charges (TIC) but exclude any initial or ongoing advisory fees that may, if applicable, be charged separately. Annualised returns, also known as compound annualised growth rates, are calculated from cumulative returns and provide an indication of the average annual return achieved from an investment that was held for the stated period. Actual annual figures are available from the management company on request. All investment fund return figures quoted (tables and charts where present) are based on a lump sum investment, using net asset value (NAV) to NAV prices with income distributions reinvested on the ex-dividend date. Inflation figures, where present, are lagged by one month. Cash figures, where present, are Short-term Fixed Interest Composite Index returns. All figures quoted in are in rand terms.

CISs are generally medium- to long-term investments. The value of participatory interests may go down as well as up and past returns are not necessarily a guide to the future. CISs are traded at ruling prices and can engage in borrowing and securities lending. The CIS may borrow up to 10% of the market value of the investment fund to bridge insufficient liquidity. Different classes of units apply to investment funds, which are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the management company.

The management company reserves the right to close and reopen certain investment funds to new investors from time to time to manage them more efficiently in accordance with their mandate. The following transaction cut-off times apply: for money market funds is 10:00 on the pricing date; for all investment funds, except for fund of funds, feeder funds and money market funds is 14:00 on the pricing date; for fund of funds and feeder funds is 14:00 on the business day before the pricing date. The following investment fund valuation times apply: All investment funds, except for fund of funds and feeder funds is 15:00 and 17:00 on the last business day of every month; fund of funds and feeder funds is 24:00. Latest prices can be viewed at momentuminv.co.za and in some national newspapers. Forward pricing is used. The management company does not provide any guarantee, either with respect to the capital or the return of this investment fund. Additional information on the proposed investment including, but not limited to, brochures, application forms, the annual report and any half-yearly report can be obtained, free of charge, at momentuminv.co.za or on request from the management company.

Foreign securities within investment funds may have additional material risks, depending on the specific risks affecting that country, such as potential constraints on liquidity and the repatriation of money, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks as well as potential limitations on the availability of market information. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Investors are reminded that an investment in a currency other than their own may expose them to a foreign exchange risk. The terms and conditions, a schedule of fees, charges and maximum commissions, performance fee frequently asked questions as well as the minimum disclosure document (MDD) and quarterly investor report (QIR) for each portfolio are available at momentuminv.co.za. Associates of the management company may be invested within certain investment funds and the details thereof are available from the management company.

This document should not be seen as an offer to purchase any specific investment fund and is not to be construed as advice. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of the management company's investment funds. The complaints policy and procedure as well as the conflicts of interest management policy are available at momentuminv.co.za.

Thank you

