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Momentum Investments Classic Factor Portfolio Range

quarterly commentary to end June 2020

Assessing investment returns in an outcome-based investment context

The Momentum Investments Classic Factor Portfolio Range is managed in terms of our outcome-based investing philosophy, where we design the portfolios to maximise the probability of achieving the inflation-plus return target of each portfolio over the relevant period, while continuing to meet the portfolios' risk targets. To achieve this, our portfolio management approach conceptually starts at an (multi) asset class level, then progresses to the identification of specific investment strategies within each asset class (if appropriate) and finally ends up in the selection of (potentially more than one) investment mandates awarded to investment managers that will implement the desired investment strategies.

Given this outcome-based investing framework, when assessing the returns of the Momentum Investments Classic Portfolio Range, it is important to start with looking at the returns from the portfolios against their inflation-related targets. This allows us to answer the question: did we achieve our target over the most recent relevant period? We then assess these returns relative to this target in terms of the following:

- The returns provided by the asset classes included in the portfolios
- The returns from the building blocks that provide the asset class exposure for the portfolio against their asset class (or strategic) benchmark. This in turn is explained by:
  - The returns from the investment strategies (or styles) used in the building block (if any)
  - The returns from the investment managers that were awarded the mandates used in each of the building blocks

This quarterly review thus starts with the assessment of the investment returns generated by the portfolios against their targeted investment outcomes over the most recent periods. The next section focuses on the economic environment and the returns generated by the asset classes (beta) for the most recent quarter, measured against our average real return expectations for each asset class. We review the returns from the building blocks and the underlying investment managers against their strategic investment benchmarks.

Momentum Investments Classic Factor Portfolio Range returns

The respective inflation objectives of the portfolios have been difficult to attain, given the low return from growth asset classes for the last five years. However, the portfolios managed to outperform their respective benchmarks for most periods.

Economic overview

Despite the world thawing from containment measures, which froze economic activity, positive economic surprises are not a global trend as yet and sharp increases in the number of daily new cases in some countries have halted an easing in restrictions, causing positive data surprises to roll over in some geographies. Although a sizeable fiscal response was triggered in developed and emerging markets (EMs), EMs had fewer resources to deploy. As such, a number of economies may operate below their potential beyond 2021 and the divergence between richer and poorer nations is likely to grow. Monetary policy measures are likely to steady financial markets and spur inflation on asset prices, but the effects on the real economy are likely to be diluted.

The mood in global financial markets sweetened in the past quarter in reaction to a rapid and sizeable intervention by policymakers to counter the COVID-19 pandemic, but history has warned about a quick rebound in earnings. The current optimistic consensus could be in for a negative surprise given the disconnect between share prices and expected company profits against a backdrop of prevailing uncertainties. The bond market and the rand have nevertheless maintained a risk-off profile during this period, given concerns on the outlook for the economy.

The COVID-19 pandemic has aggravated South Africa's (SA) already severe socio-economic and political challenges. With the effectiveness of government's stimulus package being stymied by administrative challenges, the economy is still likely to contract by a sizeable 8.1% this year. We only see the economy recovering by 2% in 2021. We anticipate a further drop in headline inflation to around the 2% mark on pressured household incomes causing a drop in demand. Inflation is likely to average 3% in 2020 before rising to 3.6% in 2021, in our view. We see room for up to 50 basis points worth of easing in the repo rate in light of dismal growth and well-contained inflation.

We remain cautious of SA equities, as they are likely to take their lead from global equities during a risk-off drawdown period, but we are positive beyond that. We favour SA nominal bonds relative to inflation-linked bonds in the near term, given the expected slowdown in inflation. The relative rating of SA listed property to nominal bonds is still at historical extremes, suggesting a lot of bad news is already being discounted. We remain cautious in the interim, but we see the return profile as asymmetric to the upside beyond that.

Portfolio management

We continue to manage the portfolios with caution, given that we expect market volatility during the second half of this year and, therefore, still have protection strategies on local equity. During the quarter, we reduced our overweight exposures to global bonds and property, and we also reduced our global equity allocations slightly. We remain cautious on local property, as the full ramifications of the lockdown are still unknown and, therefore, have a material underweight position. We were, however, slightly overweight local equity and favour nominal bonds over inflation-linked bonds within fixed-income.
We maintained a slight overweight position to local cash, which was purely for capital protection purposes.

In summary, we are comfortable that the portfolios are positioned in a manner that will benefit from improved risk sentiment. However, elements of capital protection are embedded in case of another risk-off event.

We continue to monitor these exposures and developments daily, with a view to provide the optimal risk-adjusted outcome to you as well as the assurance that your investments are being actively managed in a prudent and responsible manner.

Asset class returns

The returns for the asset class benchmarks for the second quarter of 2020 are reported in the first column of the table below. The next column highlights the returns for these asset classes for the previous year. These one-year returns are then converted into real returns by deducting inflation (2.7%) for the year. The final column in the table contains the returns above inflation we expect to get (on average) for these asset classes for a full market cycle.

Asset class	Q2 2020 returns	Nominal returns for the 12 months	Real returns for 12 months*	Expected real return (p.a.)
Local equity (Capped Swix)	21.6%	-10.8%	-13.5%	5.8%
Local bonds (Albi)	9.9%	2.9%	0.2%	3.3%
Local property (Sapy)	20.4%	-40.0%	-42.7%	7.0%
Local ILBs (Igov)	4.8%	-3.3%	-6.0%	2.8%
Local cash (Stefi)	1.5%	6.9%	4.2%	1.3%
Global equity (MSCI World)	13.7%	26.3%	23.6%	6.5%
Global bonds (WGBI)	-1.2%	29.1%	26.4%	-0.3%
Global property	6.4%	3.2%	0.5%	4.0%
US dollar/rand**	-2.7%	23.1%		
SA CPI	**-0.8%**	**2.7%**		

* A positive/negative value here reflects the effects of a depreciation/appreciation of the rand against the US dollar on global asset class returns in rand terms. As the rand gets weaker/stronger, the returns of global investments get better/worse from a local investor's perspective.

Building block return assessment

As explained above, our outcome-based investment philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate level within each asset class. We thus construct building blocks that reflect our selected investment strategies and managers that were awarded the mandates to implement these to either improve on the returns of the asset class or manage its risk profile.

Local equity building block

Local equities had a strong quarter, with the Alsi advancing by 23.2%, recovering most of the year's prior losses and leaving it down a mere 3.2% for the year to date (YTD). The advance was led by Resource shares (up 41.3%) followed by Industrials (up 16.6%), with Financials lagging with a still respectable return of 12.4%. This divergence of returns was not unexpected, given the buoyancy of Resource prices and the underperformance of the local economy. Resource shares were in positive territory YTD, with a return of 5.7% and most Industrials exposed to global investments were also in positive territory, with Tobacco up 14.4% and the Technology sector advancing 39.3%. Locally, focused sectors like Financials and Retailers were down by 31.7% and 36.2% respectively YTD.

During the quarter, the building block achieved a return of 22.2%, which was above the return of the Capped Swix.

Fairtree had a stellar quarter, producing an impressive return of 41.4%. The resource sector was a key contributor during the quarter, and the portfolio's return was positively affected by positions in Impala (53.2%), Northam (67.4%), AngloGold (58.4%) and African Rainbow Minerals (67.8%), while positions in Foschini (negative 5.1%), Spar (negative 4.6%), Bidvest (negative 2.9%) and Capitec (negative 2.4%) detracted from the returns. Fairtree believes the outlook for the second half of 2020 looks better than the first half, but it still remains somewhat benign, as social distancing will greatly reduce the speed of economic recovery and, until vaccines are widely available to the public at large, the world economy is unlikely to operate at full capacity.

Against this backdrop, the investment manager remains constructive on the economic recovery. However, the short-term outlook remains volatile with some degree of uncertainty around politics and a second wave of infections, thus informing its gold position. Fairtree believes gold will continue to do well in an environment of low/negative real yields, political uncertainty and a weaker US dollar.

Truffle also benefitted from being overweight resource shares and outperformed the benchmark for the quarter. The portfolio returned 26.3%, as being overweight Sasol contributed meaningfully to returns, because the oil price recovered from extremely depressed levels and the extent of a required rights issue was reduced. Being overweight PGM and gold miners and underweight non-discretionary retailers was a contributor to returns. Being overweight Netcare was a key detractor to returns, but remains underpinned by valuation. Being underweight Aspen and Bidcorp also detracted from returns, but Truffle remained underweight, as it feels both shares were trading above fair value.

Our exposure to investment managers with a strong quality bias, Foord and Blue Alpha, underperformed during the quarter.

Foord returned 15.7% for the quarter with the underweight position in commodity companies, and especially precious metals miners, being the largest detractor. The high, defensive allocation to cash detracted, as the market rallied in line with global equities. The diversifying holding in physical gold, ETF NewGold, delivered a positive return but lagged the market index. The core property holding in London listed property company Capital & Counties fell on continued pandemic disruption to retail economic activity in its core Covent Garden estate, partially offset by good returns from Fortress A and niche warehousing company Stor-Age. The largest contributor to relative returns was the core investment in pharmaceutical company Aspen, which continued to recover from its oversold position of the last two years. Share selection in consumer-facing companies was net positive with no allocation to underperforming staple retailers Shoprite, Pick n Pay and Clicks.

Blue Alpha returned 12.4% and also underperformed largely due to being underweight resources. The largest sectoral position was being overweight defensive shares, with the largest contributor to returns being overweight property, and being underweight rate-sensitive shares and global cyclicals. Specific local share performers were Anglo American Platinum, BHP Group and Bid Corp. Changes included buying Aspen and Coronation Fund Managers.

Perpetua delivered a return of 18% for the quarter. Being overweight Sasol and Anglogold, as well as underweight Clicks contributed to relative returns. Detractors from relative returns included being overweight Tiger Brands and Netcare as well as underweight Sibanye. Being overweight chemicals and underweight in food & drug retailers also contributed to relative returns. In terms of portfolio positioning, Perpetua remained overweight industrials and underweight resources. The investment manager was overweight financials, compared to being marginally underweight at the end of the first quarter. The largest overweight positions relative to the benchmark included British American Tobacco, Oceana and Woolworths.

Prudential also had a decent quarter, producing a return of 21.3%. Being underweight SA interest-rate-sensitive sectors, such as the retail sector, was a substantial contributor to returns. In particular, the investment manager did not hold positions in Clicks or Shoprite, each of which underperformed for the quarter. Being overweight Sasol was a noteworthy contributor to returns, after having been a substantial detractor from returns for the previous quarter. One of the largest detractors from returns was being underweight the gold sector. The portfolio does have positions in Anglogold and Goldfields. It was overweight Standard Bank, which was another notable detractor from returns.

The Satrix Momentum mandate delivered a return of 17.3%. For the quarter, the momentum factor underperformed the Capped Swix benchmark, while it outperformed the same benchmark for the last year. From an attribution perspective, being underweight Sasol and overweight RMB Holdings, Clicks and Dis-Chem detracted from returns. Shares that added value in the strategy included being overweight FirstRand and Sibanye Still Waters, while being underweight Shoprite also added to returns.

At the last rebalance date in June, the portfolio was transitioned based on the evaluation of new factor signals and the risk levels in the portfolio. Based on these signals Mondi, Kumba and Sasol were added to the portfolio, while positions in Bidvest, Bid Corp and Telkom were increased. These exposures were funded by reducing positions in Life Healthcare, Prosus, Dis-Chem and Anglo American.

The Momentum Systematic Strategies Portfolio outperformed the benchmark for the quarter, producing a return of 25.9%. Being overweight resources (platinum in particular) and underweight financials contributed to the outperformance. The holdings in Naspers and Prosus also contributed to absolute and relative returns. During the quarter, Harmony, Telkom, Resilient, Ninety One, Life Healthcare and Growthpoint were sold and FirstRand, Vodacom and Sanlam were included.

The Momentum Value Smart Beta Portfolio produced a return of 21.1%, which was marginally below the benchmark return. This strategy was overweight financials and underweight industrials. The portfolio was slightly overweight resources, specifically diversified miners. During the quarter, Resilient, Fortress B and Redefine were sold and AngloGold, Sibanye-Stillwater, Anglo American Platinum, FirstRand and MTN were included.

The Momentum Quality Strategy Portfolio produced a return of 16.2%, underperforming the benchmark by 5.4%. At quarter end, the portfolio was moderately underweight resources. Within the resource sector, the portfolio was underweight gold mining shares and overweight basic materials stocks. Within the industrial sector, it was overweight retail shares and food and beverage shares, while it was underweight personal and household goods. Within the financial sector, the portfolio was overweight insurance companies and underweight banks and property shares. During the quarter, Hyprop and Motus were sold while AngloGold, Ninety One and Netcare were introduced into the portfolio.

Local property building block

The Sapy and the FTSE/JSE All Property Index (Alpi) returned 20.4% and 18.7% respectively for the quarter ended June 2020, with the historic yield of the Sapy ending the quarter at 8.55%.

Property returns for the six months were materially affected by the imposed 'hard' lockdown during March 2020, which had a devastating effect on the SA economy, including commercial real estate. The Sapy returned negative 36.57% for March alone. Downgrades to the country's sovereign credit rating by Moody's to junk status further explained some of the weakness in property returns YTD. Although collection of rentals billed by landlords proved to be more resilient than most expected, it was nonetheless significantly lower than normal levels. The greatest pressure was felt in the retail sector, particularly large shopping centres, as most of the tenants could not trade, while convenience centres fared better, as they primarily sell non-discretionary items, which are essential for day-to-day living. On average, rental collections from Reits retail portfolios came in around 50%. Reits operating in the office sector saw their rental collections efforts around the 60% to 70% range, while industrial sector operators achieved reasonably high collection rates.

The building block returned 19.0% for the quarter, which underperformed the benchmark.

The Momentum Listed Property Portfolio returned 16.8% compared to the index return of 20.43% during the quarter, resulting in the portfolio underperforming the benchmark by 3.6% for the quarter. Although the returns track recorded has been partly dented by this short-term returns, we remain positive that the portfolio will be resilient and continue to deliver strongly relative to the benchmark for the long term. During the quarter, the investment manager exited and reduced holdings in companies it deemed non-core holdings, including exposure in SA Corporate, Hyprop, EPP NV and Fortress, and reducing the position in Redefine.

The Catalyst portfolio returned 19.0% for the quarter as well. Being overweight Dipula-A and cash, which underperformed the benchmark, and underweight EPP, Redefine and Fortress B, which outperformed the benchmark, detracted from relative returns. However, being overweight Resilient, which outperformed the benchmark, contributed to returns relative to the benchmark. Being underweight Sirius, Attacq, Emira and L2D, which underperformed the benchmark, also contributed to returns relative to benchmark

Meago returned 19.8% for the quarter, with the largest positive contributors to returns being overweight Ninety One Property Fund and Resillient and underweight Growthpoint and Hospitality B. The largest detractors to returns were being underweight Fortress B, Redefine and overweight Attacq, Emira and Equites property.

Local flexible bond building block

There was a sharp rebound in returns from the fixed income asset class for the second quarter of 2020 after the severe risk-off period experienced in the first quarter. Listed property (Sapy) returned 20.43%, nominal bonds (Albi) followed, delivering 9.94%, with ILBs (Igov) and cash (Stefi) returning 4.75% and 1.46% respectively.

For the quarter, the building block yielded 9.50% compared to the Albi's 9.94%. Measured over an appropriate investment term of three years, the building block yielded a mere 5.67% compared to the Albi's 8.1% and, for the five-year period, it yielded 7.2% compared to 7.5% generated by the Albi.

Prescient had a large exposure to the 12-plus-years sector of the yield curve at the end of the quarter (58.9%), compared to the Albi at 47.7%. Coronation, on the other hand, started off the quarter with being overweight the 12-plus-years sector and subsequently moved this exposure to the 7-12 years sector, ending with zero exposure to the 12-plus-years sector.
The allocation to listed property (3.7%) contributed to returns. The allocation to ILBs (almost 15%), however, detracted from the relative returns of the portfolio, as this asset class delivered only 4.75% for the quarter.

At the end of the quarter, the building block had a duration position of 7.7 years compared to the Albi of 6.5 years. Duration was increased by Prescient during the quarter under review. On aggregate, the building block was overweight the 7-to-12-years sector and underweight all the other sectors.

Local flexible income building block

For the quarter, the flexible income building block yielded 2.9%, underperforming the benchmark by 3.4%. It also underperformed the benchmark (10.6%) for the year, as it returned 6.8%. For the three-year period, the building block did not manage to outperform the benchmark either (8.6% compared to the Albi (1 to 3 years) at 9.7%). It had a very high exposure of 75.7% in shorter-dated instruments, with a maturity less than one year (mainly floating-rate notes).

For the quarter, cash, as measured by the Stefi, delivered 1.5% and the Albi returned 9.9%. The bulk of the Albi return was generated by the 3-7-year sector (12.8%). However, the building block only had a 5.1% allocation to this sector.

For the year, cash delivered 6.9% and the Albi returned 2.9%. The allocation to ILBs (7.9%) and listed property (0.6%) detracted from the return, as these asset classes delivered negative 3.3% and negative 39.9% respectively. The building block had a modified duration of 1.3 years, which was shorter than the Albi (1 to 3 years) at 2.4 years.

Local inflation-linked bond building block

Inflation-linked bonds have been among the more volatile and illiquid asset classes, but the investment backdrop they face is distinctly challenging. So, the view is that this quarter's rally was simply a pull back after the significant sell off in the first quarter, and they still face a lack of inflation in the local economy and elevated issuance by the government going forward.

The total return from inflation-linked bonds can be divided into two components – the monthly accrual and the mark-to-market of the capital value, due to the move in the real yields. The first component of return is the monthly accrual from the yield on the bonds and the inflation uplift. This component of the total return was a healthy 2.55% this quarter, with a 1.58% from inflation uplift and around 0.97% from yield accrual. The second component of the return is determined by the move in real yields of the bonds. Real yields moved lower during the quarter (22 bps), thereby generating capital gains to the tune of 2.2%.
These components combined thus explain the index (Igov) total return of 4.75%.

For the quarter, the building block yielded 4.8% against the benchmark Igov (4.8%). Credit spreads widened quite significantly (particularly on Landbank) and this has impaired returns for the quarter. The spread widening causes unrealised losses to come through in the building block total return but does offer attractive opportunities for investing new cash. However, investors should be very cautious deploying capital into ILB credit in the current environment.

For the year, the building block yielded a return of negative 2.6%, compared to the benchmark of negative 3.3%. It had a modified duration of 8.60 years, compared with the Igov of 8.68 years. The investment manager was slightly underweight the 3-to-7-years and the 7-to-12 years sectors and overweight the 1-to-3-years and 12-plus-years sectors.

Local cash building block

For the quarter, the building block delivered a return of 2.0% compared to 1.7% for the Stefi benchmark.

There were four interest rate cuts by the Sarb, totalling 275 basis points since beginning of the year. The building block return was expected to be slightly lower for the next number of months, as floating-rate notes reset at lower benchmark rates.
The local primary market remained frozen (no public auctions held), due to market uncertainty around COVID-19. Credit spreads in the secondary market were generally widened since the pandemic, effectively making credit cheaper and thus returns on the building block were lower than was previously the case. This was largely as a result of investors selling credit and moving into more liquid and less risky asset classes.

For the year, the building block delivered a return of 8.4% against the Stefi benchmark of 7.8%. It consistently met its objective of capital preservation, by maintaining positive returns on a one-year rolling basis. Both investment managers had high exposures to floating-rate notes, which provided a fair degree of liquidity, while also providing excellent yields. The investment managers have started to adopt a more conservative approach to credit, i.e. focusing on more defensive and higher quality companies and investing in shorter-dated area.

Local absolute strategies building block

For the quarter, the absolute strategies building block returned 9.3%, 4% below its internal strategic benchmark, which returned 13.4%. Following the strong rebound in equity markets during the second quarter (the Capped Swix was up 22% for the period), the high equity investment managers, Prudential and Tantalum, added to the building block's return, returning 16% and 15% respectively, while the more defensively positioned investment managers detracted. Sentio was up 10.4%, Prescient returned 5.8% and Absa returned 4.1%. For the year and for four years, which is the relevant measurement period, the building block outperformed the strategic benchmark, returning negative 2.2% and 3.8% relative to the benchmark returns of negative 3.5% and 3.4%, respectively. The inflation plus 4% target, however, was up 6.7% for the year and 8.3% per year for the last four years.

Prudential's portfolio significantly outperformed its objective for the second quarter. The largest asset class contributor was being overweight local equities. Local bonds, inflation-linked bonds (ILBs) and listed property all contributed towards returns. There were no asset classes that detracted from returns for the quarter. Within equities, Naspers, Sasol, Anglo American and Implats were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from British American Tobacco, MTN, Exxaro and Bidcorp. The larger detractors from absolute returns for the period were PPC, Pick 'n Pay and Ninety One plc. The portfolio continues to be overweight SA equities, SA nominal bonds, while neutral in ILBs, substantially underweight SA listed property and holds very little cash. Due to the large interest rate cuts from the Sarb, prospective returns from cash are now much lower than before the Coronavirus market crash.

Tantalum enjoyed a strong quarter with core contributors to equity returns including Sasol, Anglogold, Naspers, Omnia and Anglo American. Detractors were limited but included FirstRand, British American Tobacco, Molson Coors and Life Healthcare. The portfolio remains above neutral in terms of duration, with current yield levels providing a risk premium to compensate for increased fiscal risks. Due to a concern of possible issuance indigestion and potential further market volatility in the coming month, the investment manager was not significantly overweight bonds. The investment manager also retains an appropriate level of liquidity to allow it to buy into weakness in equities and bonds in the periods ahead.

Sentio's portfolio, while positioned for the expected recovery of the market, fell behind the benchmark, due to the extent of the strong recovery and aggressive style rotation. Positive contributors included positions in Naspers, Anglogold, Prosus, Anglo American, British American Tobacco and Sibanye. Top detractors include the protection strategies, as well as positions in FirstRand, Clicks, Ninety One, Netcare and Barloworld. Within bonds, the portfolio was overweight duration at the beginning of the quarter and the investment manager decided to take some profit following the strong nominal bond rally in May. The portfolio was overweight duration at the end of the quarter but to a lesser extent relative to the beginning of the quarter. The investment manager still saw upside in bonds and maintained its overweight nominal bonds and duration position. There is also continued optionality, which would protect the portfolio during a sell-off whilst participating in further bond rallies.

Prescient's portfolio's contributors to returns were the 5% exposure in listed property; 11% in preference shares and interest generated by income-bearing investments. Detractors were the longer-dated fixed interest exposure, such as 1% of the portfolio in ILBs, 12% in fixed-rate bonds. The portfolio maintained low equity exposure throughout the quarter and continues to do so. Given the significant real yield available, 9% for 10-year bonds, 9% for preference shares and 7.5% for ILBs, these remain the investment manager's preferred asset classes over equity.

Absa's defensive positioning also lagged the strong market recovery with consolidation of monetary and fiscal policies providing a significant boost to risky investments. The investment manager remains on high alert, with the expectation that the remainder of the year will remain volatile and thus remains cautiously positioned in this period with 10% in SA equities, 3% in listed property, 11.9% in cash and the remainder in bonds, floating-rate notes and ILBs.

On a look-through basis, the building block had a neutral position to equities, was overweight bonds and inflation-linked bonds, while underweight property and cash.

Commodities building block

Commodities as an asset class responds differently to the very drivers that have rocked the global equity markets in 2020. However, the agricultural, energy and metals sectors respond differently to the same fundamental drivers. Similar to equities, the economically sensitive commodities had aggressive sell offs and vigorous bounces, while the traditional safe haven, gold, continued to perform its expected role, as a store of value in turbulent times.

Exposure to economically sensitive commodities (energy and base metals) was low for most of the first quarter in 2020. However, exposure has been methodically increased in diesel and copper late in the second quarter, as prices recovered in rand terms. A rising US dollar gold price was somewhat offset by a strengthening rand late in the quarter. This resulted in a minor correction and a moderate lightening of the gold holding.

The commodities building block returned 2.61% for the quarter.

Global equity building block

The disconnect that occurs from time to time between returns from the stock market and economic reality could not have been more stark than in the second quarter of 2020. Induced by pandemic, the world entered its steepest and deepest recession for almost 100 years, yet stock markets moved relentlessly higher, with Wall Street leading the way with a return of 20% for the quarter, recovering much of the ground lost in the February and March sell off. Driving markets was the huge monetary stimulus, unleashed by the Federal Reserve on 23 March, with asset purchases on a scale never before seen, unlimited in size and duration, and including, for the first time, corporate bonds with sub-investment grade credit ratings. It was the critical moment in this crisis, and no coincidence that markets bottomed on that day. The Fed followed up in the second quarter with a commitment to continue asset purchases at the monthly rate of $120 billion and guiding that interest rates will be near zero through 2022. These actions averted a liquidity crisis, pushed interest rates on bonds to record lows, thereby supporting riskier and duration proxy investments, and ensured the smooth functioning of credit and money markets. Other major central banks have also taken drastic action, with extensions of stimulus programmes announced by the European Central Bank, Bank of Japan and Bank of England, and all effectively committing to near zero interest rates for years ahead.

Against this backdrop, the building block achieved a return of 15% compared to the MSCI AC World benchmark return of 18%.

The growth-style investment managers were the largest contributors to the building block’s return for the quarter, driven by Jennison and Granahan. Jennison’s returns are mainly attributable to its allocation to the IT Software and Consumer Products sectors, both of which form a significant part of its overall book. Granahan performed well due to its stock selection within the IT Software and Consumer Services sectors, which constitute most of its portfolio.

The main detractors came from our quality style investment managers in the period. This underperformance was due to the Robeco Conservative strategy and Morgan Stanley. The Robeco Conservative strategy suffered due to its allocation in the Consumer Staples and Utilities sectors. Morgan Stanley underperformed due to its allocation to the Consumer Staples sector and stock selection within the IT Software sector.

Global property building block

The global property building block returned 6.3% for the quarter, in line with the benchmark return. The positive return was largely due to the gradual re-opening of many economies in Europe and the USA.

Global fixed income building block

Global aggregate bonds ended the quarter 3.3% higher in US dollar terms, after a flat first quarter, when credit spread widening offset treasury led gains. There was a marked improvement in sentiment to risky investments with little price deterioration from treasury bonds, which made for perfect conditions for the asset class. Spreads on the global index fell from 0.82% to 0.58% but remain wide of the 0.38%, where it started the year, leaving the prospect for some further upside from credit.

The best fixed income returns for the month and quarter were recorded by the credit segment and by 'peripheral' country bonds. Overall, the 'peripheral' countries benefited from the EU's proposed recovery plan: the 10-year spreads on Spain and Portugal narrowed, ending the quarter at less than 0.9%, with Italy continuing to sit wider. Investment-grade corporate spreads tightened from 2.66% to 1.56% for the quarter.

The global bond building block returned negative 0.5% for the quarter, which was ahead of the benchmark return of negative 1.2%.

Conclusion

It's only natural to be concerned when investment markets experience the volatility that 2020 has. The key during uncertain and volatile times like these is to remain invested and not to succumb to emotional reactions and to look beyond short-term fears. The portfolio managers are continually assessing how best to manage your well-diversified portfolio during this period.