momentum
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Momentum Investments Flexible Factor Portfolio Range

quarterly commentary to end March 2020

Assessing investment returns in an outcome-based investment context

The Momentum Investments Flexible 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 Flexible 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 Flexible 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

News of the emergence and worldwide spread of the COVID-19 virus has resulted in a very negative investment effect across global financial markets. The result of uncertainty regarding shorter-term economic growth and company profits intensified and subsequently resulted in developed market shares losing more than a fifth of their value in the first quarter of the year, with emerging market equities falling by a similar magnitude. The SA equity market followed suit, shedding 24.1% in the first quarter of the year, before experiencing some relief in April. The SA listed property index nearly halved in value since the end of 2019, as investors took a grim view on the sector as a whole. Traditionally, defensive asset classes provided some support relative to equities and property, but, in absolute terms, local government bonds fell 8.7% in the quarter, while inflation-linked bonds traded 6.9% weaker for the same period. Emerging market currencies also took a battering and the rand weakened more than 20% for the quarter.

The sharp sell off experienced across financial markets has been short in terms of trading days, yet severe in terms of magnitude, but the meaningful adjustments in asset prices in February and March 2020 suggest that some degree of a dire economic outcome is to some extent already discounted by numerous growth-orientated asset classes, including equity and property. These asset classes now look exceptionally cheap against their own histories.

As the spread and containment of the COVID-19 pandemic evolve across the globe, we should expect uncertainty to remain about the ultimate trajectory of the global economy, with volatility in financial markets likely to stay high in the near term. Once the virus effect has played out, global activity resumes to a degree of normality and isolation measures start to ease, there will be a rebound in economic growth and company profits on the back of the lagged effect of massive policy stimulus undertaken during the crisis. This economic rebound should renew risk appetite by global investors and will be discounted by rising risky asset prices ahead of the time. The recent market experience has similarities to when the tech bubble burst in 2001 and global financial crisis took hold of economies in 2008, albeit that the underlying cause and severity of those crashes were evidently not the same.

The barrage of fiscal and monetary policy measures enacted by global policy makers in reaction to COVID-19 should induce a strong lagged cyclical recovery in global growth in the aftermath of COVID-19. In our U-shaped recovery (base case), a sluggish upturn follows a more protracted slowdown. Disrupted global supply chains are only restored subsequent to the peak in COVID-19 fatalities in the third quarter of 2020, resulting in an economic recovery only taking hold from late 2020. While responses to public health in this scenario are sufficient, physical distancing and the control over the movement of citizens persist for additional months in an attempt to prevent a resurgence in infections.

Portfolio management

Diversification and risk management remains our best weapon in times like these and our portfolios have a healthy allocation to alternative asset classes and differentiated strategies, which helped absorb some of the market shock recently experienced. These include allocations to direct property, private equity and real assets, which are less affected by daily market moves and sentiment changes. Leading into 2020, we expressed our risk view by remaining underweight local property in favour of local equity and overweight cash in favour of local inflation-linked bonds and, where regulations allowed, we maintained an overweight exposure to global asset classes, which allowed the portfolios to benefit from rand weakness and added diversification benefits.

Given the extreme market returns, it is virtually impossible for anyone to reach their real growth targets and the severity of the market movements have resulted in our portfolios experiencing absolute drawdowns with the bulk of the decline concentrated in March. Depending on the risk profile and accompanying asset class mix, the shorter-term effect would have been dampened by as much as two thirds, so the more conservative portfolios provided members closer to retirement some level of protection.

In this environment, we continued managing the portfolios in terms of an outcome-based risk-mitigating process and looked for opportunities to protect portfolios, while still harnessing the available opportunity set towards our longer-term investment goals. In navigating our portfolios in this crisis environment where all asset classes start behaving in the same way, we implemented protection strategies to mitigate risk and we gave our investment managers appointed to our underlying mandates more flexibility to take advantage of any opportunities that may arise.

At the start of April, there was quite a rapid recovery in investment markets, with almost every asset class experiencing solid gains by staying the course, while managing the risks in our portfolios, they benefitted from this short-term recovery. We positioned prudently, with sufficient levels of protection and diversification to provide risk mitigation, while, at the same time, continue to benefit from changes in sentiment and the knock-on effects of globally synchronised stimulus packages in the medium to longer term. We continue to monitor these exposures and developments daily with a view to provide the optimal risk-adjusted outcome to clients as well as the assurance that their investments are being actively managed in a prudent and responsible manner.

Asset class returns

The returns for the asset class benchmarks for the first 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 (4.63%) 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	Q1 2020 returns	Nominal returns for the 12 months	Real returns for 12 months*	Expected real return (p.a.)
Local equity (Capped Swix)	-26.58%	-24.53%	-29.16%	5.75%
Local bonds (Albi)	-8.72%	-2.99%	-7.62%	3.25%
Local property (Sapy)	-48.15%	-47.91%	-52.54%	7.00%
Local ILBs (Ilbi)	-16.82%	-15.23%	-19.86%	2.75%
Local cash (Stefi)	1.69%	7.21%	2.58%	1.25%
Global equity (MSCI World)	0.42%	9.92%	5.29%	6.50%
Global bonds (WGBI)	27.94%	29.27%	24.64%	-0.25%
Global property	-8.50%	-5.38%	-10.01%	4.00%
US dollar/rand**	27.52%	23.18%		
SA CPI	**1.50%**	**4.63%**		

* 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.

The table above highlights the challenges growth asset classes have experienced in the last year.

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 multiple balanced building block

The portfolio was down 20.3% for the quarter, which was ahead of the benchmark return of a negative 22.9%. For the past year, the portfolio returned negative 16.2%, while the benchmark return was a negative 20.4%. For the quarter, Abax was down 26.8% compared to a benchmark return of negative 22.9%, Prescient returned a negative 26.2%, and Coronation was down 20.8%, while Investec and Foord returned negative 19.3% and negative 14.1% respectively.

Foord was well positioned to defend the portfolio, with a focus on capital preservation rather than growth. A large portion of the portfolio was invested in good-quality businesses with strong balance sheets and sustainable longer-term earnings growth prospects. The investment manager favoured rand-hedge shares, avoiding SA retail and commercial property shares, given the structural challenges facing the sector, though a small listed property position was in place, focused on niche logistic and storage companies and UK-listed value play Capital & Counties. The Newgold ETF in large acted as an attractive, uncorrelated investment, responding favourably in times of increased market turmoil and as a safe-haven asset class. Medium-term government bond investments and cash were a meaningful component of the portfolio, offering abnormally high real yields. The portfolio exhibited reasonably high levels of optionality and liquidity, allowing for a swift investment in attractively priced long-term opportunities.

Investec's portfolio was quite resilient and contributed positively to absolute returns. Contributors to returns were the small cash holding, positions in Palladium Debentures and NewGold ETFs, British American Tobacco, Naspers and Prosus. Detractors were holdings in Absa, Firstrand, Foschini, Motus, Sanlam, Standard Bank and Truworths. The exposure to resources such and Anglo American, Anglo American Platinum, Impala Platinum, Sibanye-Stillwater and Sasol also dragged on absolute returns. Positions in MTN Group and the allocation to local bonds as well as listed property also weighed on returns. The portfolio maintained a material allocation to local government bonds. Elevated local yields and large premium over peers with a similar risk profile were wholly insufficient to compensate investors faced with a collapse in market liquidity and the sharp deterioration in local credit quality. The sell off seen across the asset class left the portfolio with materially higher yields and even larger potential compensation for the prevalent credit and inflationary risks. Going forward, however, Investec views the returns from local debt as a potentially attractive contributor to overall returns.

Coronation's low exposure to SA shares contributed to the equity portion of the portfolio and, in an environment with such extreme price moves, individual share selection proved critical. Two of the portfolio's highest conviction ideas – Naspers/Prosus and British American Tobacco (BAT) – came through strongly during the quarter. Naspers (11%) and Prosus (17%) benefited from their exposure to Tencent, whose business is proving to be

incredibly resilient during the economic disruption caused by COVID-19. Demand for digital services, such as communication tools, social networking, mobile games, online video and food and grocery delivery, exploded during the lockdown period. Consumer demand for cigarettes remained remarkably defensive during this unanticipated economic shock. BAT's (2%) steady growth algorithm of high single-digit revenue growth, driven by strong pricing power, continued cost savings and deleveraging, remains intact. SA government bonds remained a reasonably attractive investment opportunity, given their high yields and absence of near-term inflation pressures in the SA economy. ILBs sold off in sympathy with nominal bonds and due to lower inflation expectations. This weak price action offered an opportunity to switch a sizeable portion of nominal bonds into ILBs (specifically) the i2029, at very attractive real yields of c6%.

Prescient's equity exposure was through the allotment of index futures and physical equity holdings, and used the Prescient Property Equity Fund to gain exposure to local listed property. While the portfolio had low effective equity exposure coming into the month of March of 30%, losses were experienced by the portfolio across all asset classes. Equities, local bonds and preference shares detracted from returns, as tightening financial conditions led to weaker financial asset prices.

Abax's large position in Naspers aided returns. The portfolio's Sasol position and banking exposure hurt returns in the short term. From having no stake in MTN, a position was initiated in the middle of March at very favourable levels, resulting in a positive contribution despite the negative quarterly return. Abax, however, remained extremely cautious on local discretionary spend and had limited exposure (Truworths being the preferred holding). The virus and the subsequent government response resulted in a reduction in consumer demand and forced store closures. While earnings and cashflows will suffer during this period, Truworths went into this crisis with one of the strongest balance sheets in the sector, being in a net cash position. For some time now, the portfolio avoided companies with uncomfortably high leverage (such as Foschini). The defensive nature of Abax's local consumer exposure led to a preference for non-discretionary local consumer shares and thus the portfolio initiated a position in Spar. The Reit sector declined 51% in the first quarter of the year and Abax used the weakness to increase holdings in the property sector. The main holdings were Atlantic Leaf Properties and Dipula A units. With still very high levels of uncertainty in the forecast horizon, Abax believed volatility would remain the order of the day and would try and use the portfolio's sizeable cash position to buy good businesses at attractive prices.

On a look-through basis, the portfolio was overweight cash, commodities and gold, and underweight equity and property.

Local property building block

In line with global equity markets, the South African listed property sector, as measured by the Sapy benchmark, ended the first quarter of 2020 down with significant capital losses. The expected damaging effects of the COVID-19 pandemic on industries (including real estate markets) and on global economic growth drove equity markets lower during the quarter.

In South Africa, the United Kingdom and some parts of Central Eastern Europe, governments have imposed lockdowns and regulations limiting human interaction – some of which include barring large gatherings in work places and shopping centres. In addition, governments have prohibited trading in goods deemed as non-essential.

In what was already a challenging operating environment in South Africa, COVID-19 has added to the uncertainty around the ultimate effect it will have on property fundamentals, valuations and the recovery period.

As such, the Sapy declined by 48.15% in the first quarter of 2020, with most of the sell off escalating significantly in March. The sector materially underperformed the Swix (negative 23.3%), inflation-linked bonds (negative 16.8%), the Albi (negative 8.7%) and cash (+1.7%) for this period.

The building block underperformed benchmark for the quarter by 0.27% and 0.39% for the year ending 31 March 2020.

The component managed by Momentum Asset Management declined by 46.96%, outperforming the Sapy (negative 48.15%) by 1.19%. Being underweight Hyprop, Fortress and SA corporate real estate as well as being overweight equites, Sirius and Stor-Age were the largest contributors to the outperformance relative to the benchmark for the period. Key detractors from returns were largely because of being overweight retail shares, namely Mas Real Estate, Vukile and Nepi Rockcastle. In absolute terms, the sell off in Redefine, Growthpoint Nepi Rockcastle and Vukile accounted for just more than half of the losses during the quarter. The current portfolio positioning resembles the companies the investment manager was comfortable with, given the economic environment.

Catalyst underperformed by 0.68% and 0.85% for the quarter and year respectively. Being overweight Nepi Rock and cash, which outperformed the benchmark, contributed to relative returns. Being underweight Attacq, Redefine and Fortress B, which underperformed the benchmark, also contributed to returns relative to benchmark. However, being overweight Hyprop & Vukile, which underperformed the benchmark, and underweight Investec Australia, Sirius & Equites, which outperformed the benchmark, detracted from returns. In the short term, the investment manager expects real estate companies to pay out as little dividends as they can to preserve their balance sheets. Catalyst's view is that the sub-sectors most exposed to the short-term effect of the economic 'shutdown' are hospitality and retail. Retail is the largest sub-sector in the SA listed property sector. Retail sales in malls are already negatively affected and closure of non-essential services within malls will have a materially negative effect on mall owners in the short term.

Meago underperformed for the quarter by 0.45%. The largest positive contributors to returns were being underweight Hyprop, Hospitality B, Vukile and overweight Nepi. The largest detractors from returns were being underweight Storage, Sirius and Liberty 2 Degrees and overweight Attacq and Investec Property Fund.

Local flexible income building block

For the quarter, the flexible income building block yielded 2.0%, underperforming the benchmark by 1.2%. It also underperformed the benchmark (6.8%) for the year, as it returned 6.3%. For the three-year period, the building block managed to marginally outperform the benchmark (8.33% compared to the Albi (1 to 3 years) at 8.27%). The building block had a very high exposure of 78.5% in shorter-dated instruments with a maturity less than one year (mainly floating-rate notes).

Cash, as measured by the Stefi, delivered 7.3% and the Albi returned negative 8.72%%. The allocation to inflation-linked bonds (8.4%) and listed property (0.5%) detracted from the return. The building block had a modified duration of 1.3 years, which is shorter than the Albi (1 to 3 years) at 2.5 years.

Local inflation-linked bond building block
Inflation-linked bonds were among the asset classes most affected by a lack of liquidity and panic selling by investors. They went into the quarter on the back foot as lack of inflation in the local economy and elevated issuance by the government continues to plague them. The risk events during the quarter were simply the last straw that broke the camel's back. Real yields rose an average 65 bps for the quarter, but at one stage were up a whopping 200 bps, to trade above 6% real, decoupling from any logical valuation anchor, in our view. At the end of the quarter, the long end yields were at 5% real.

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 on the low side at 1.40% this quarter, with 0.4% from inflation uplift and around 1.0% from yield accrual. The second component of the return is determined by the move in real yields of the bonds. Real yields moved substantially higher during the quarter, thereby generating capital losses of about 8.3%. These components combined thus explain the index (Igov) total return of negative 6.9%.

For the quarter, the building block yielded a negative 7.9% against the benchmark Igov (negative 6.9%). For the year, it yielded a return of negative 5.6%, compared to the benchmark of negative 5.1%. The building block had a modified duration of 8.2 years, compared with the Igov of 8.6 years. The investment manager was slightly overweight the 1-3-years, 3-to-7-years sectors and 7-to12-years sectors and underweight the 12-plus-years sector (39.8% compared to the Igov at 55.0%).

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

The local credit market had performed well up to now; perhaps too well, as it was buffered by excess demand rather than fundamentally based investment rationale. But clearly the backdrop sketched above poses significant risk and uncertainty for the credit market and spreads began to widen meaningfully during March. The stability of the local credit market is thus being tested and the widening credit spreads added to investor woes. This degree of volatility comes as a complete shock to traditionally stable income building blocks. Investment managers are focused on capital preservation and, to this extent, the well-diversified building block does provide some level of comfort. However, the risks are much higher than they were three months ago.

For the year, the building block delivered a return of 8.6% against the Stefi benchmark of 7.2%. The building block consistently met its objective of capital preservation, by maintaining positive returns on a one-year rolling basis. Both investment managers had a high exposure to floating-rate notes, which provided a high degree of liquidity, while also providing excellent yields, notably in 2019 pre the event risks mentioned above.

Local absolute strategies building block
For the quarter, the absolute strategies building block returned negative 12.7%, 3.1% above its internal strategic benchmark, which returned negative 15.8%. For the year, and for four years, which is the relevant measurement period, the building block outperformed the strategic benchmark, returning negative 8.6% and negative 2.2% relative to the benchmark returns of negative 12.4% and 0.8%, respectively. The inflation plus 4% target, however, was up 8.6% for the year and 8.7% per year for the last four years.

Tantalum returned negative 17.2%, relative to the internal strategic benchmark, (negative 15.8%). Going into March, the investment manager believed that listed equities presented the most value and the portfolio had begun accumulating positions on a measured basis in shares such as Remgro, Barlows, RMH and Truworths. These positions unfortunately cost the portfolio in the quarter, with the most significant detractor from returns being Sasol, which fell sharply with the oil price collapse, and is facing a potential rights issue at the worst possible time, as its Lake Charles capex only just came to an end. Positive contributors to returns in the month were few and far between. Naspers and Prosus held up very well (although the portfolio was underweight the benchmark), as did Assore (only recently added and which received an offer to buy out minorities), Anglogold, and BHP. The investment manager increased nominal bond exposure but is still cautious on corporate bonds.

Sentio was down 14.2% for the quarter, adding some alpha over the internal strategic benchmark. Derivative hedges and positions in Naspers, Prosus, BTI and Rhodes Foods contributed positively, while positions in Sasol, Sanlam and MTN were among the main detractors in equities. Given the significant sell off of 400bps in bonds, the investment manager slowly extended duration and was slightly overweight duration with optionality to protect the portfolio during a sell off, while participating in a bond rally. Sentio still expects significant volatility in the short term, as the market is correctly focused on the war against the virus and another significant sell off cannot be ruled out in the coming months. The portfolio therefore maintains a balanced 'barbell' exposure with higher exposure to gold and defensive asset classes offset with cheaper cyclical exposure, tilted toward lower beta defensive equities.

Prudential lost 21.9% for the quarter. However, the investment manager had the conviction that the portfolio was well positioned to achieve its risk and return objectives. Prudential saw exceptionally attractive valuations across a wide range of the asset classes with an overweight position in local equities, focusing on high-quality businesses that can survive reduced earnings and cash flows for an extended period. The investment manager also favoured resource shares, with exposure to global growth and foreign currency earnings. The portfolio was even further underweight local property, reflecting significant macroeconomic uncertainty exacerbated by the pandemic. The portfolio was overweight nominal bonds, while neutral to ILBs, as Prudential believed the long-term prospects of nominal bonds and local equities were higher in the medium term, and more liquid than ILBs.

Absa Investment Management ended the quarter defensively positioned, following the stress the markets experienced in March. The investment manager's view was that bonds appeared attractive relative to inflation and cash – with selection based on duration and yield curve level crucial, however. In Absa's view, property should best be seen within the lens of a paradigm shift and was therefore underweight the asset class. Equity remained under pressure, as fundamentals came to bear and further earnings revisions were expected. The portfolio was down 3.3% for the quarter, which was 10.5% ahead of the internal strategic asset allocation benchmark.

Prescient reduced longer-dated optionality given increased volatility and a rise in the cost of protection. While interest-bearing asset classes contributed to returns, equity, property and preference shares detracted. The portfolio was down 9.2% for the quarter, which was 5.5% ahead of the internal strategic asset allocation benchmark.

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

Moderate hedge solution building block

The moderate hedge solution returned negative 17.1% for the quarter, bringing the one-year return to negative 5.16% after the deduction of all fees. This portfolio is diversified across strategies and within strategies. However, most sold off during March with the fixed income strategies also unable to provide diversification, as the liquidity in the fixed income and derivatives markets evaporated. The Fairtree Proton Fund was the best performer, returning 4.02% for the quarter. Although the credit positions in the fund lost value as credit spreads increased drastically, returns were supported by a long volatility position.

Aggressive hedge solution building block

The FTSE/JSE Capped Shareholder Weighted All-Share Index (Capped Swix) returned negative 27% for the quarter. The aggressive solution returned negative 17.77% for the period, bringing the one-year number down to negative 12.15%, underperforming the 50%/50% Capped Swix/Short-term Fixed Interest Composite Index. The alternative equity beta strategy performed in line with the benchmark, returning negative 13.27% for the quarter, while most of the active hedge strategies sold off with the market.

Portable alpha hedge solution building block

The portable alpha building block returned negative 33.82% for the quarter, bringing the one-year number to negative 30.9% after the deduction of fees. This compares to the Capped Swix, which returned negative 27.12% for the quarter and negative 27.3% for the last year. Beta exposure across the portfolio was reduced in the middle of March in an effort to reduce market exposure across investor portfolios. As such, the portfolio was more conservatively positioned later in the month and did not participate fully in the recovery into the end of the month.

Special opportunities building block

Despite the significant economic and financial turmoil that has gripped the world economy during the COVID-19 pandemic, the portfolio return for the first quarter was 4.05% and for the year, it was 12.40%. The annualised return after the deduction of fees for the 44 months of history was 10.10%. The return since inception was estimated at inflation plus 5.7% a year, which is in line with the CPI plus 6% return before the deduction of fees, which is the objective of the portfolio.

The portfolio's investment strategy features were expressly designed to show limited correlation during short periods of market turmoil. The investment thesis is playing out and monthly returns remain relatively unaffected by volatility in global risk asset classes. One must remember, when evaluating the portfolio, that the investment manager will allocate to investment strategies that price infrequently and thus can have a dampening effect on returns and volatility in the short term.

Global active building block

The global active building block returned 5.8% against a benchmark return of 10.8% for the quarter. For the same investment period, Foord's return of 14.3% was ahead of the benchmark, followed by Investec with a return of 7.4% and Orbis returned 0.8%.

Foord's hedging strategies on the US equity market offered some protection from the falling market fall and the portfolios' gold position contributed to returns. US-based agricultural chemicals company and largest holding FMC Corp (negative 17.7%) detracted from returns. However, asset allocation was beneficial, as being overweight equities (a detractor) was offset by the weighting in derivatives (a contributor).

The global component of Investec's portfolio was quite resilient and a significantly weaker rand contributed to absolute returns. Within the global investments, the material cash position (predominantly US dollars) was beneficial, while the exposure to Asian equities (mainly Chinese and unhedged Japanese stocks) cushioned the drawdown, as these markets fell less than major global indices.

While Allan Gray Orbis' return was disappointing and the market's price declines were relentless, Orbis believed that almost all of the holdings in the portfolio looked much more attractive than they did two months before. During the market turmoil, Orbis noted that being thoughtful and calm could be unusually difficult, but believed its fundamental, long-term and contrarian investment philosophy helped to distil an incredibly complicated situation.

Global fixed income building block

The quarter was dominated by developments in the COVID-19 outbreak, which spread outside of China, driving a risk-off market sentiment. In this environment, equities sold off drastically, with the S&P 500 Index experiencing its largest weekly fall since 2008. With equities selling off, developed market government bond yields rallied in a flight to quality. German bund yields fell considerably and the US 30-year traded below 1.5% for the month. Corporate bonds lagged government bonds, particularly high yield. US dollars and the Japanese yen were the best-performing currencies, as investors sought safe-haven asset classes.

The global bond building block returned 27.9% for the quarter, which was below the benchmark return of 31.5%.

Global equity building block

During the first quarter of 2020, global stocks, as measured by the MSCI All Countries World Index and MSCI World Index returned negative 21.4% and negative 21.0% (in US dollar terms) respectively. At a regional level, US equities returned negative 19.6%, European equities returned negative 24.3%, Japanese equities returned negative 16.8% and emerging markets equities returned negative 23.6% for the period. Sector returns from the MSCI World Index was negative across all sectors and, most notably energy, financials and materials. The sectors that were the least negative for the quarter included healthcare, utilities and information technology.

The global equity building block returned 0.9% (in rand terms) for the quarter, which was below the benchmark return of 1.0%.

Global property building block

The global property building block was affected by the general risk-off environment and in particular the closure of many retail centres as well as many industrial properties across the globe. The global property building block recorded a negative return of 8.2%, compared to the benchmark return of negative 8.6%.

Conclusion

It’s only natural to be concerned when investment markets experience sharp drawdowns. 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.