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Momentum Value Equity Fund

Here's why value investing has not run out of steam | Momentum Value Equity Fund grows AUM by almost 70%, driven by a recovery in the equity market and by strong inflows

The Momentum Value Equity Fund grew assets under management (AUM) by nearly 70% and was one of a handful of funds to see net inflows for the year ending February 2021. Fund manager Loftie Botha explains the factors behind the fund's success.

Despite an exceptionally strong equity market, the year ending February 2021 was a tough one for South African fund managers from a business point. More than half of equity funds experienced net outflows, according to Morningstar data.

The Momentum Value Equity Fund was a notable exception.
"Over the year ending February 2021, the Momentum Value Equity Fund saw total net inflows of R701 million as investors recognised the merits of the fund's distinctive process and philosophy," said Loftie.
"The fund forms part of our Smart Beta product suite, which offers the best of both worlds which is both active and passive investing. Our aim is to achieve benchmark-beating returns at lower fees than that which is associated with traditional equity portfolios," he said.

"To achieve this, we follow a rules-based process to identify shares that are likely to outperform due to their value attributes." The fund buys shares that offer value in terms of widely used measures such as dividend yield, free cash flow yield, price to book, price to earnings and price to sales. Investment decisions are based on objective data and subjectivity is kept to a minimum.
Loftie cites the benefits of the fund's approach as a repeatable investment process, a lack of style drift and a high probability of benchmark beating returns.
Since its launch on 4 April 2017 the unit trust has beaten its Capped Swix Benchmark by 3.8% p.a. and ranked 25th out of 129 General Equity Unit Trust peers up to 28 February 2021.

How has this been achieved?
Loftie believes the secret behinds the fund's success is the investment team's unwavering commitment to the value process and philosophy, effective risk management techniques and a hands-on approach.

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"It doesn't matter to us whether value investing is in vogue or not," Loftie said. "Extensive research has shown us that the value risk premium has a high likelihood of being rewarded in the market, so it's an investment approach we stick to no matter how tough times may get.

"At the same time, sometimes stocks are cheap for a reason. We implement proprietary screens and portfolio construction techniques that help us mitigate the risk of exposure to so-called 'value traps'," he said.

How is this different to peers?

Unlike more conventional general equity unit trusts managers, Loftie and his co-fund manager Imtiaz Mohammed Alli follow a systematic process based on objective data to perform stock selection.

In contrast to fellow Smart Beta fund managers that tightly track pre-designed indices and re-balance at set frequencies, we follow a hands-on approach to investment. "We prefer an active approach in which we apply our minds every day to the question of which shares to trade, when to trade them and how much to trade," Loftie said.

Isn't value investing dead?

There's been no shortage of criticism of the value approach in recent years, given how the style has underperformed compared to growth.

But Loftie belies style timing is difficult and not necessarily the right approach to investing.

"In our view, the question should never be when will value outperform, but if value will outperform over a cycle," he said. "We think that the most pragmatic approach is to have exposure to style tilts that make sense and that have always rewarded investors over the medium to long term.

"As value ticks both these boxes, we believe any equity investor should always have material exposure to the value style," he concluded.

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