

**momentum**  
investments



# **Smart beta | Factored in**

**Loftie Botha and Imtiaz Mohammed Alli**

# Smart beta investing



The best of both worlds

$\alpha$



**Traditional / Fundamental**

**Targets outperformance**

**Higher fees**

**Smart Beta**



**Factor / Active Quant**

**Targets outperformance**

**Lower fees**

$\beta$



**Passive / Index**

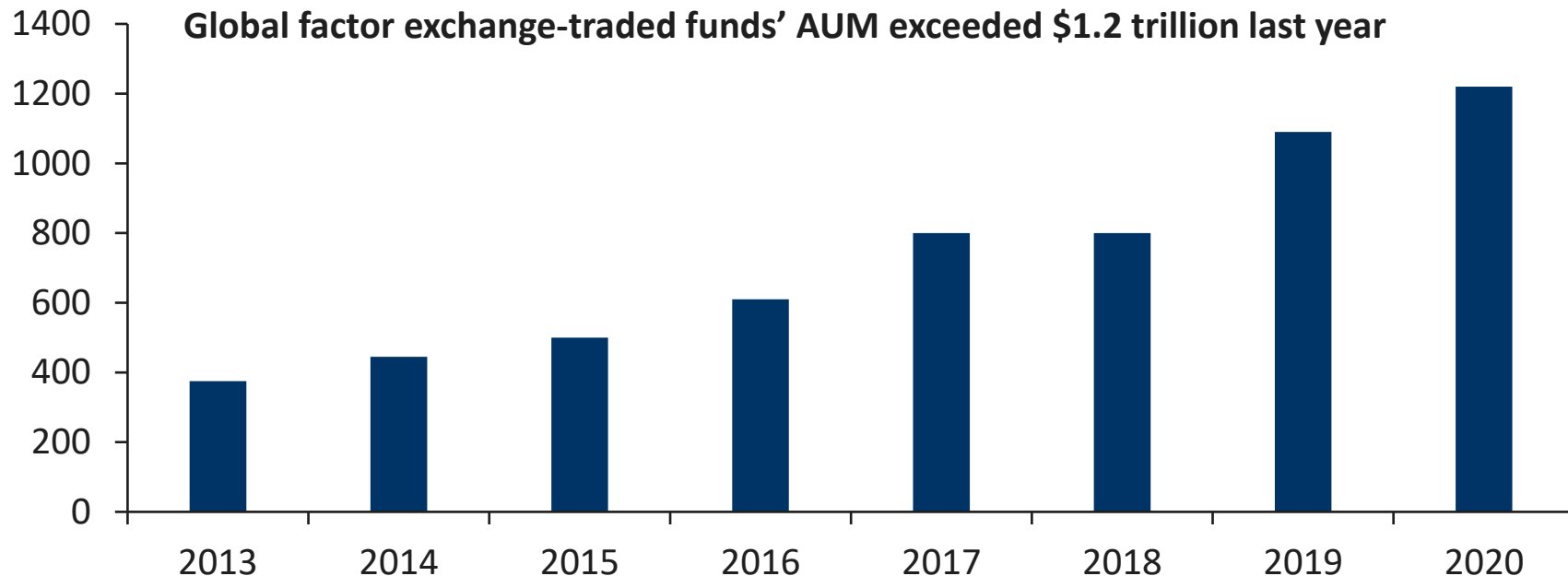
**Targets index returns**

**Lower fees**

# Global smart beta – phenomenal growth



Massive growth of around attractive 20% p.a. in the last 7 years, other sources estimate even higher figures



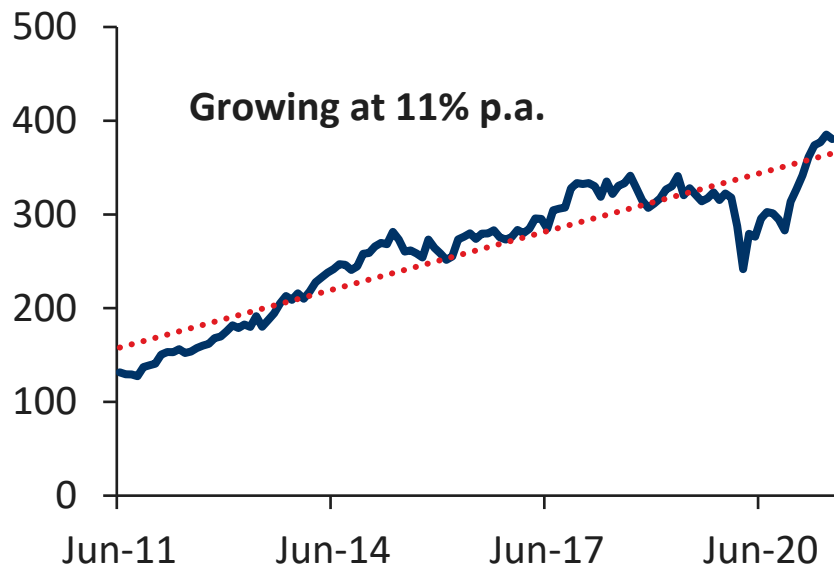
Sources: Morningstar and S&P DJI

# South African smart beta CIS growth

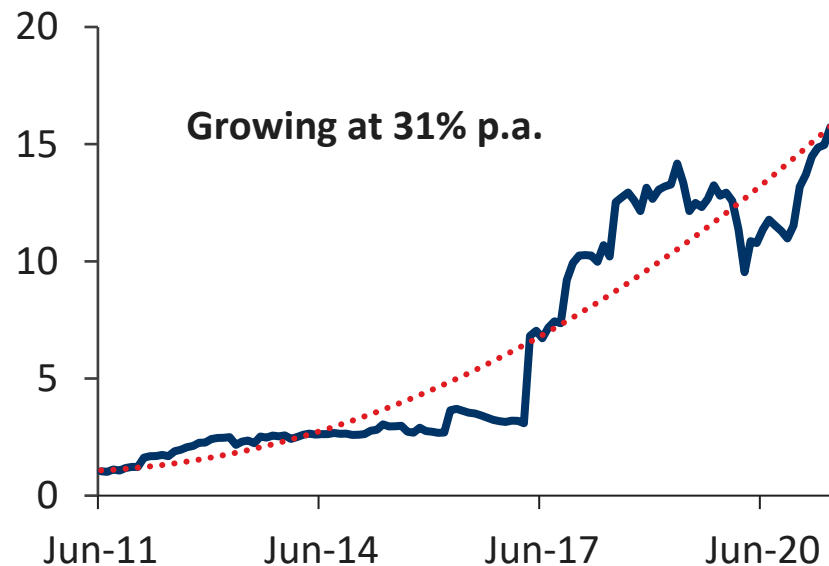


AUM now at R15bn compared to R380bn of sector, number of funds grew from 5 to 25

## SA General Equity UT Assets



## SA Smart Beta UT Assets (R'bn)

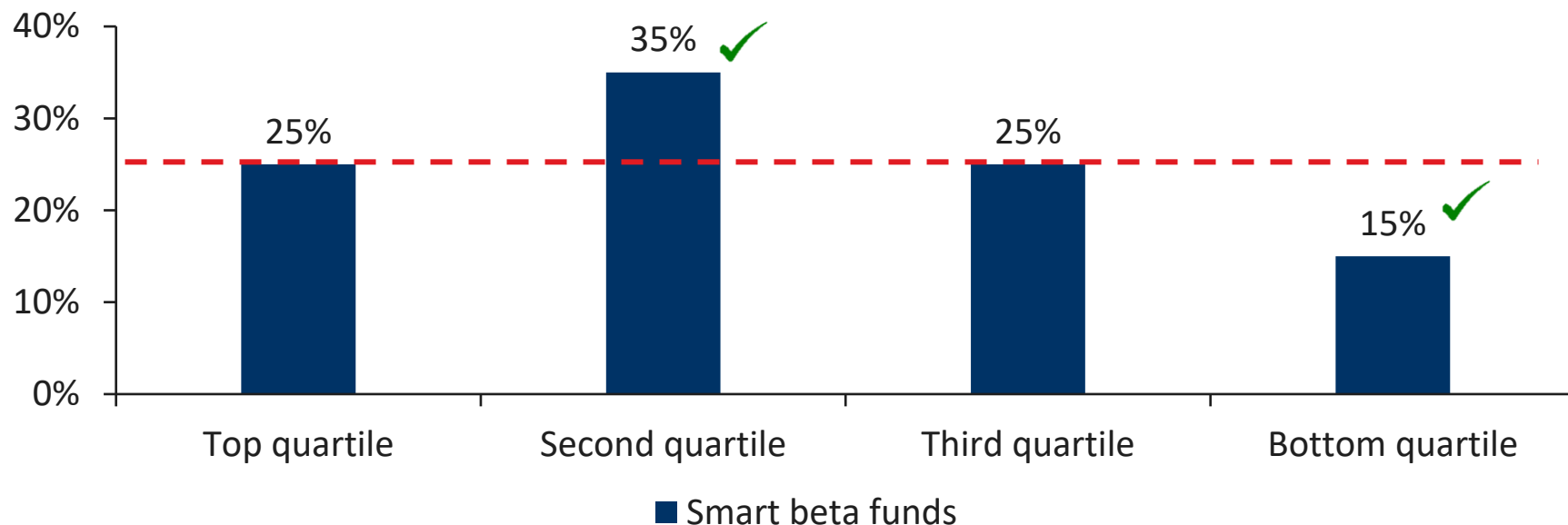


Sources: Morningstar, Momentum Investments

# Drivers of growth – pleasing returns



Twenty smart beta funds had three-year track records by June 2021



Sources: Morningstar, Momentum Investments

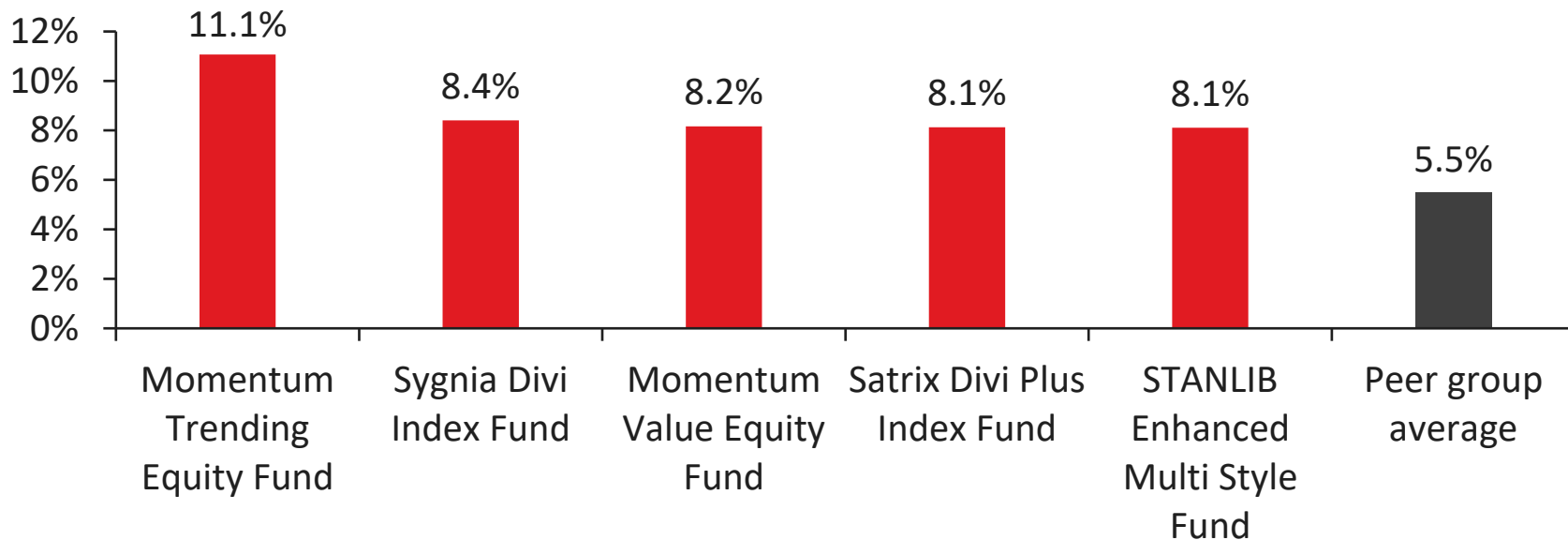
## CIS disclosures

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](http://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.

# Drivers of growth – pleasing returns



Five top-quartile smart beta funds over three years to June 2021



Sources: Morningstar, Momentum Investments

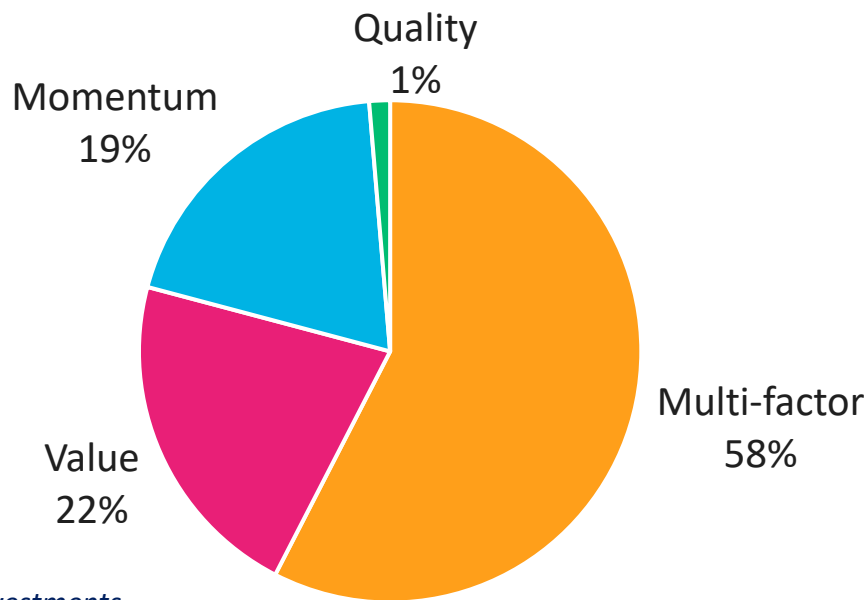
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# Drivers of growth – risk reduction



## Opportunities for diversification



Sources: Morningstar, Momentum Investments

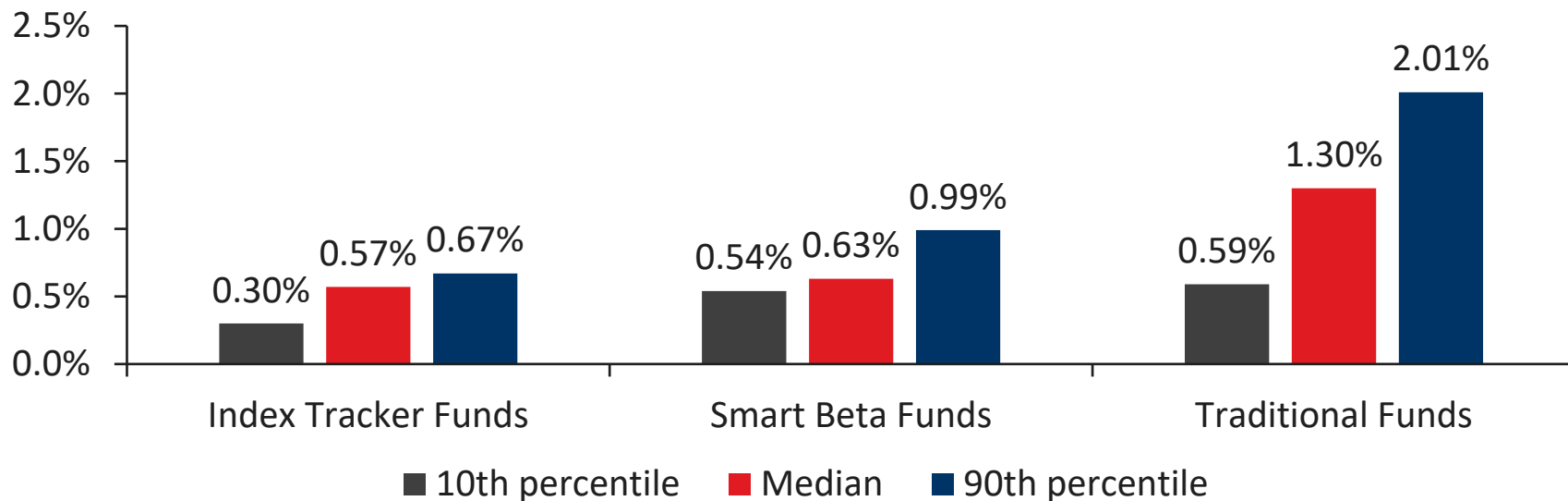
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# Drivers of growth – attractive fees



Positioned between index trackers and traditional funds



Sources: Morningstar, Momentum Investments

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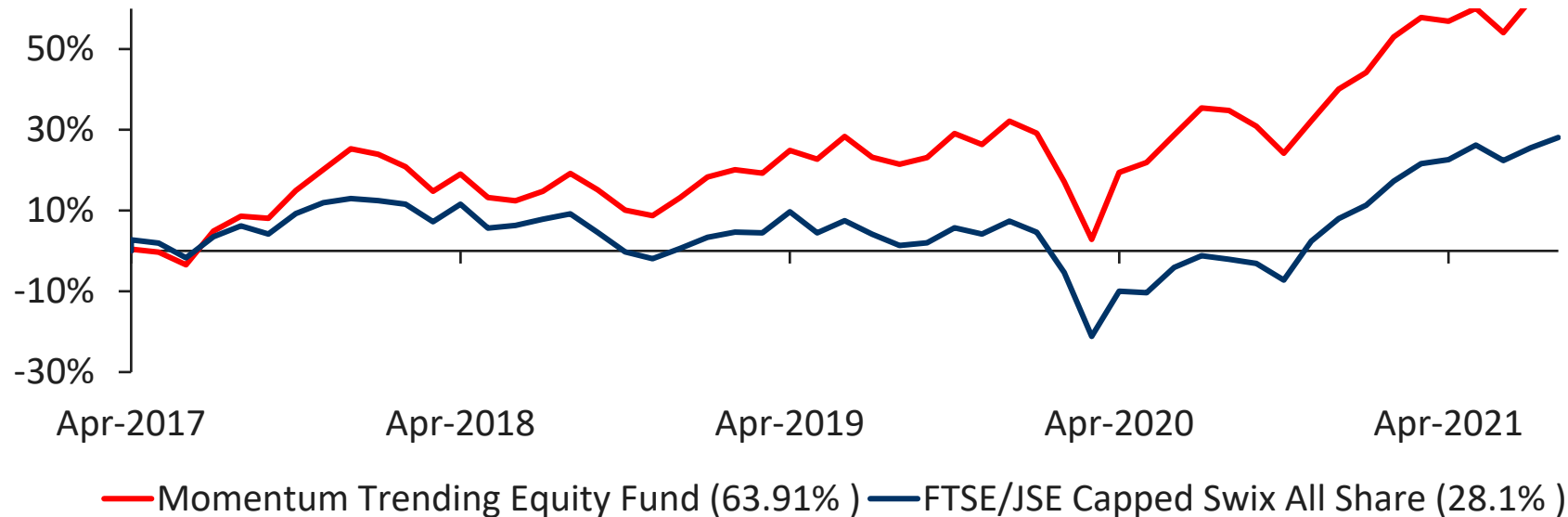
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# Momentum Trending Equity Fund



Investment returns to August 2021 since launch on 4 April 2017, ranked 5th out of 124 general equity CISs



Sources: Morningstar, Momentum Investments

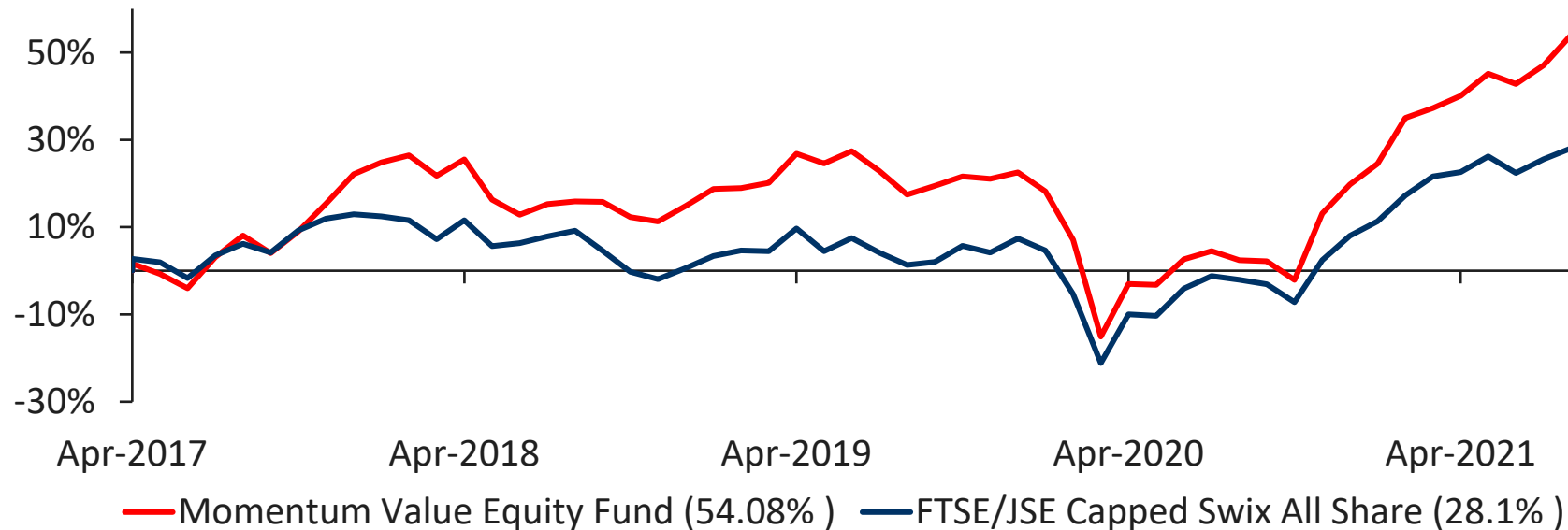
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# Momentum Value Equity Fund



Investment returns to August 2021 since launch on 4 April 2017, ranked 13th out of 124 general equity CISs



Sources: Morningstar, Momentum Investments

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# Capitec: The trend is your friend

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Sector: Banking

## Historic trend at 31 December 2020

- Annualised outperformance vs benchmark: 21.8%
- Average annual growth in earnings over the last five years: 19.7%

## Update from results for the half year to August 2021

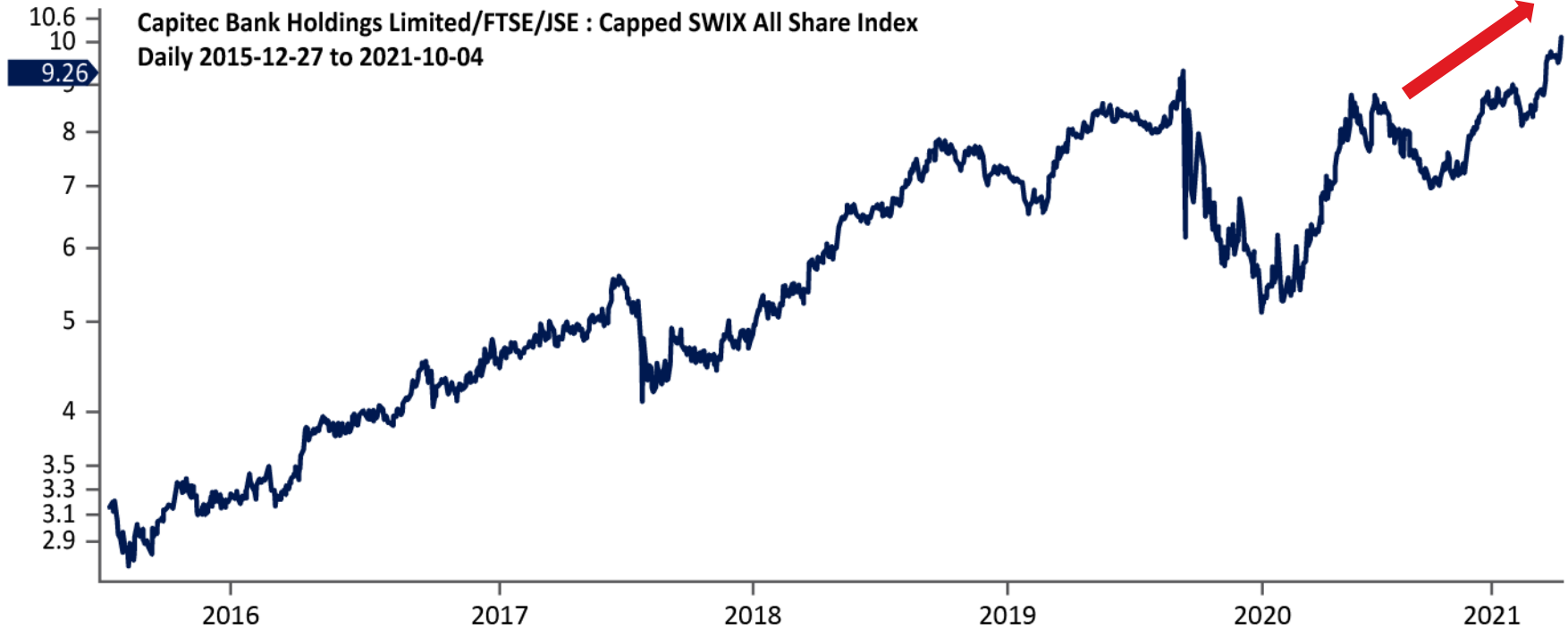
- Banking clients continue to search for better value
- Key industries recover as lockdown is relaxed
- Lower income segment more severely affected by lockdown
- Funeral plans remain a priority for clients
- Subdued appetite for credit

Source: [capitecbank.co.za](https://capitecbank.co.za)



# CPI: The trend continues

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Source: Bloomberg

# MTN: A value call



**Sector: Mobile telecommunications**

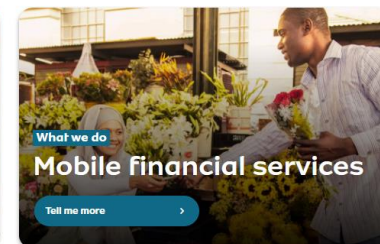
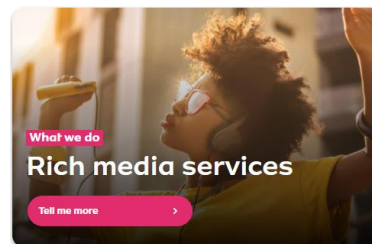
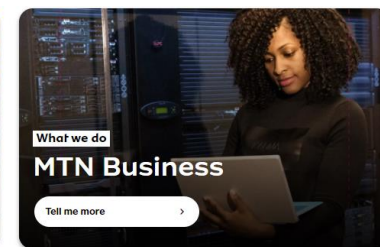
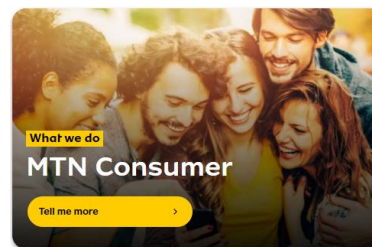
## Value at 31/12/2020

- Price/Book: 1.4 vs 3.2 (historic average)
- FCF Yield: 11 vs 5.7 (historic average)
- PE: 8.6 vs 16.4 (historic average)

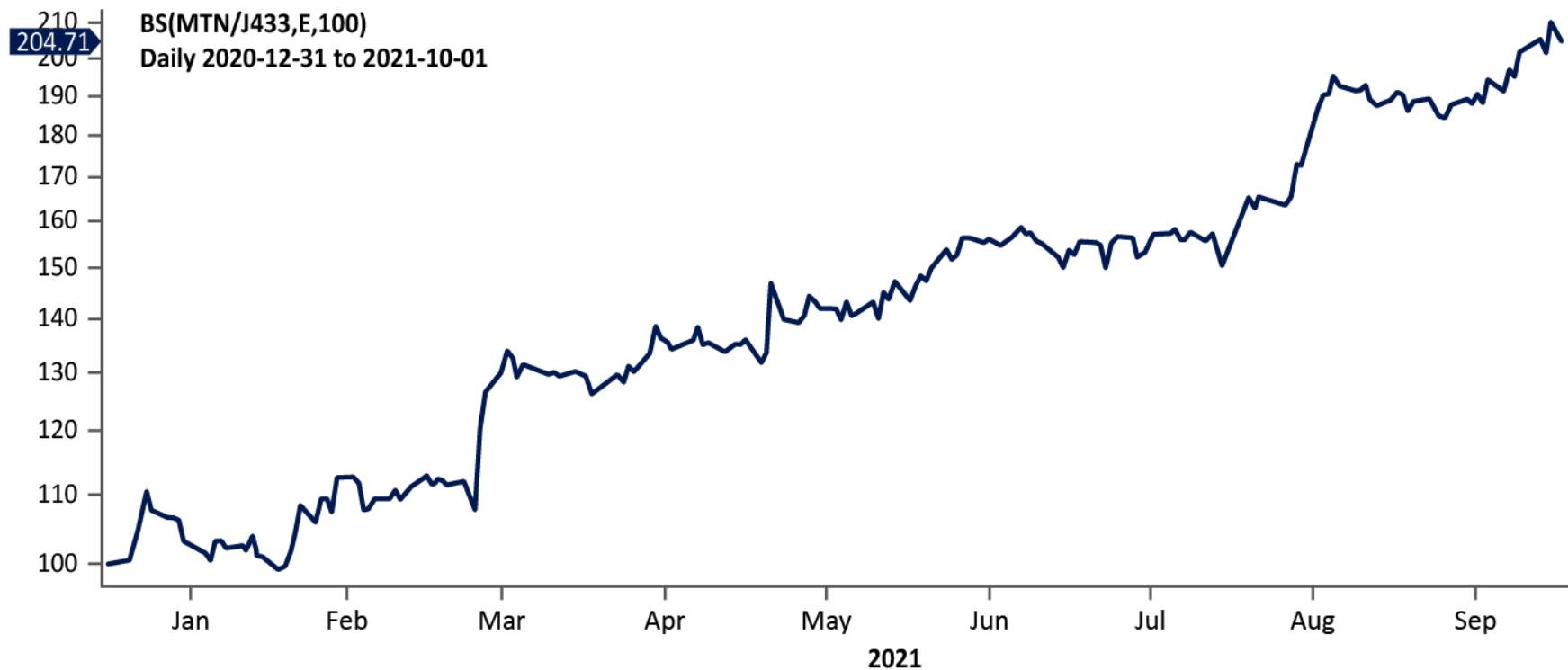
## Update from results for the half year to June 2021

- R9,3 billion in cash up streamed from operating companies including R4 billion from MTN Nigeria.
- No interim dividend declared. Board advised shareholders of reinstatement of dividends for FY 2021 with consideration for special dividend and share buy backs.
- Further de-leveraging of the balance sheet through the asset realisation programme.

Source: [mtn.co.za](https://www.mtn.co.za)



# MTN: Value unlock



Source: Bloomberg

# Mr Price: Quality at a good price



Sector: Apparel retail

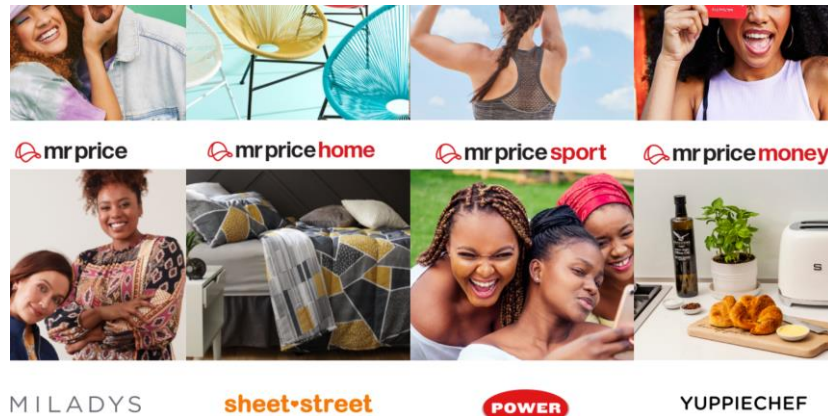
## Quality ratios at 31/12/2020

- Debt to equity: 53 vs 61.90 (universe average)
- ROE: 0 vs 7 (universe average)
- Operating margin: 17.50 vs 10.7 (universe average)
- CAGR (35-year average): 19.40%

## Update from results for the year end to March 2021

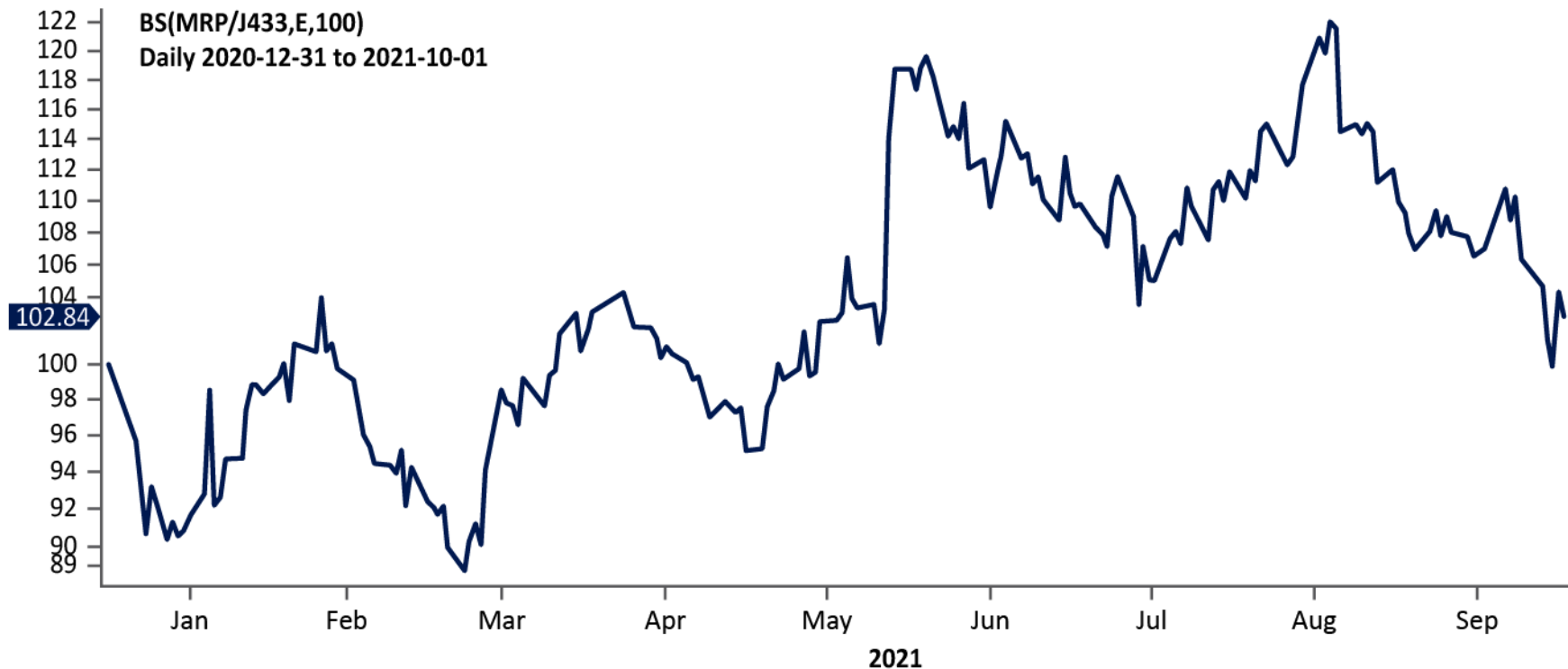
- Market share gains of 150bps.
- Strong growth in online sales.
- Increase in GP margins.
- Acquired Power Fashion (effective 1 April 2021) and Yuppiechef (Comp Comm in process).
- Strong cash position - post acquisition cash of R4.9bn available to fund future growth. Group remains free of financing debt.

Source: [mrp.co.za](http://mrp.co.za)



# MRP: Outperforming the benchmark

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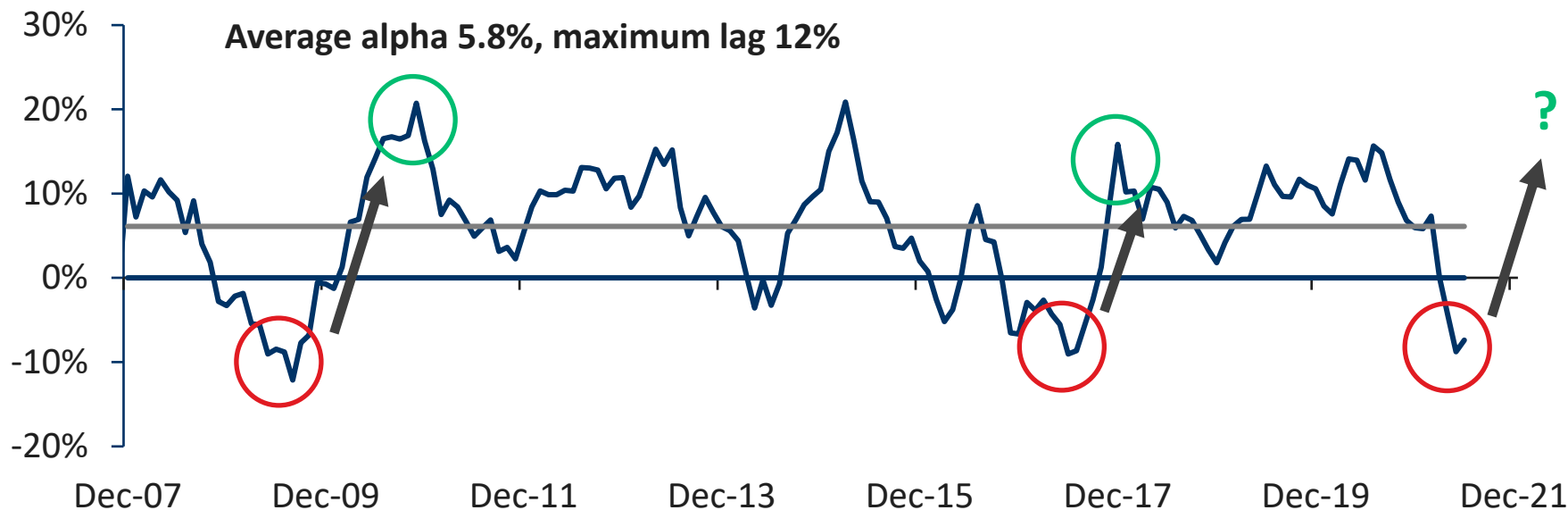
Source: Bloomberg



# Trending strategy: Rolling one-year alpha

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'Stay invested and buy the dips'



Source: Momentum Investments, back-tested data up to April 2017

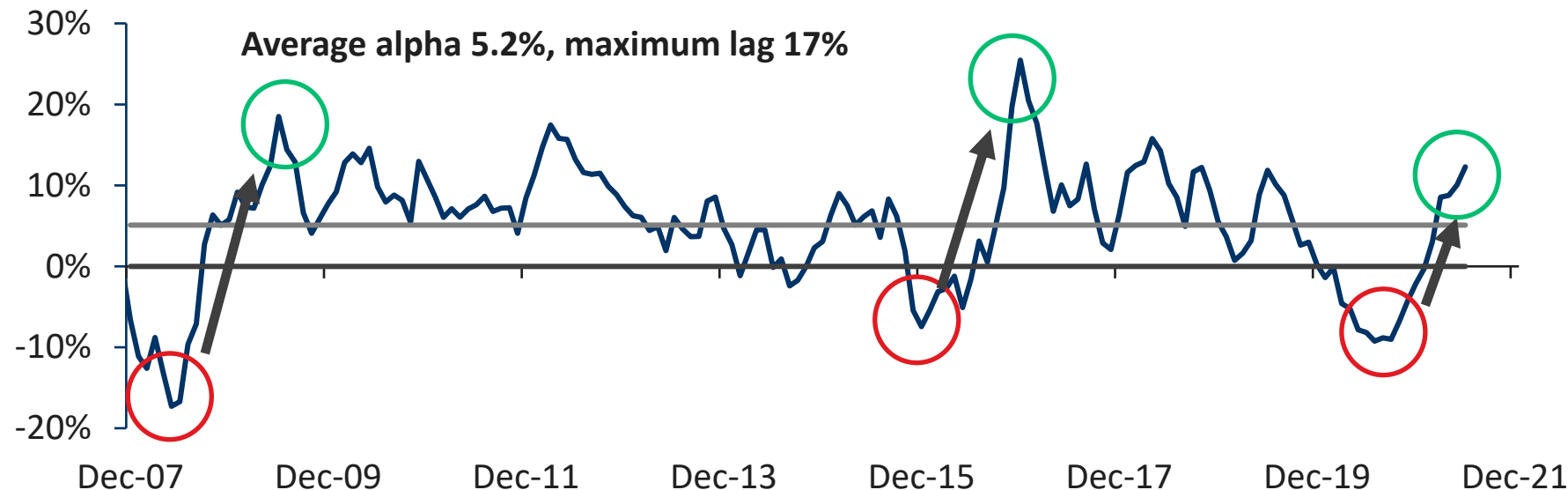
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# Value strategy: Rolling one-year alpha

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'Stay invested and buy the dips'



Source: Momentum Investments, back-tested data up to April 2017

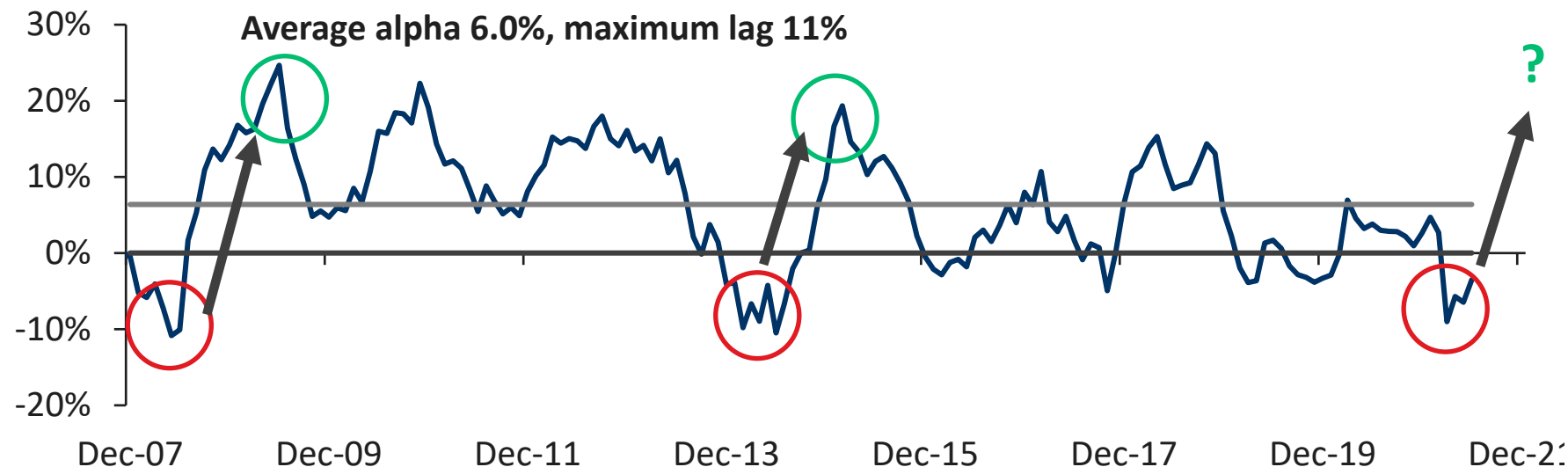
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# Quality strategy: Rolling one-year alpha

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'Stay invested and buy the dips'



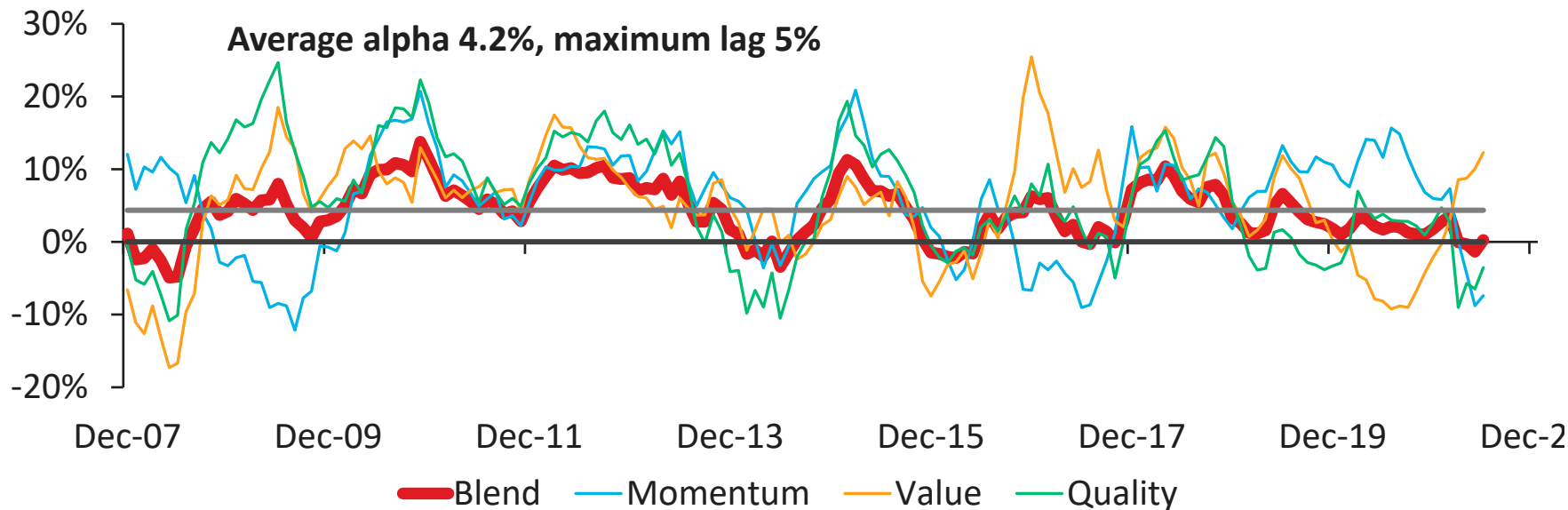
Source: Momentum Investments, back-tested data up to April 2017

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# Multi-factor strategy: Rolling one-year alpha<sup>™</sup>

‘Diversify and enjoy a smoother ride’



Source: Momentum Investments, back-tested data up to April 2017

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# Multi-factor



**After diversification: Alpha still >4% with less than HALF the risk!**

Parameter	Trending	Value	Quality	Multi factor
Average alpha p.a.	5.8%	5.2%	6.0%	4.2%
Tracking error	7.0%	7.4%	7.9%	3.8%
Information ratio	83%	70%	77%	111%
Worst 12 months lag	-12%	-17%	-11%	-5%

*Source: Momentum Investments, blend of back-tested and actual data*

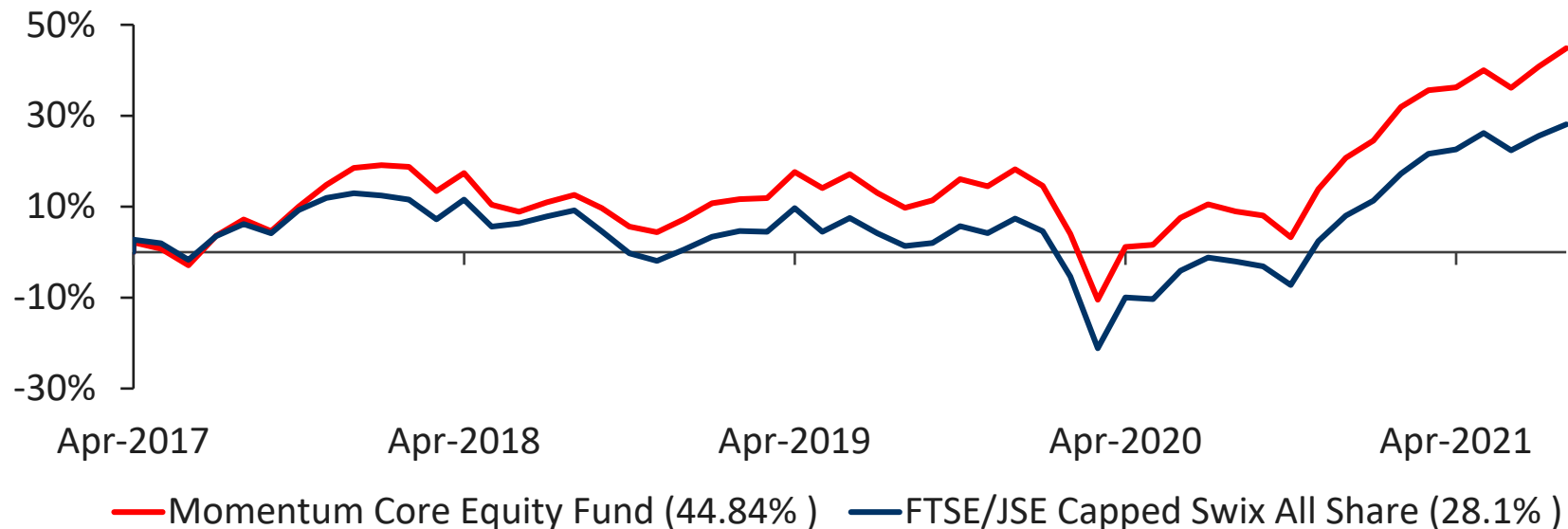
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# Momentum Core Equity Fund



Investment returns to August 2021 since launch on 4 April 2017, ranked 26th out of 124 general equity CISs



Sources: Morningstar, Momentum Investments

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# The outlook for smart beta in SA

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Continued pushing from service providers

Continued pulling by investors

Increased media coverage – a great story to tell

**Industry players who do not participate in this space will be missing out!**



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.

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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](http://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](http://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](http://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](http://momentuminv.co.za).



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**Thank you**