

MONTH IN PICTURES

JUNE 2021

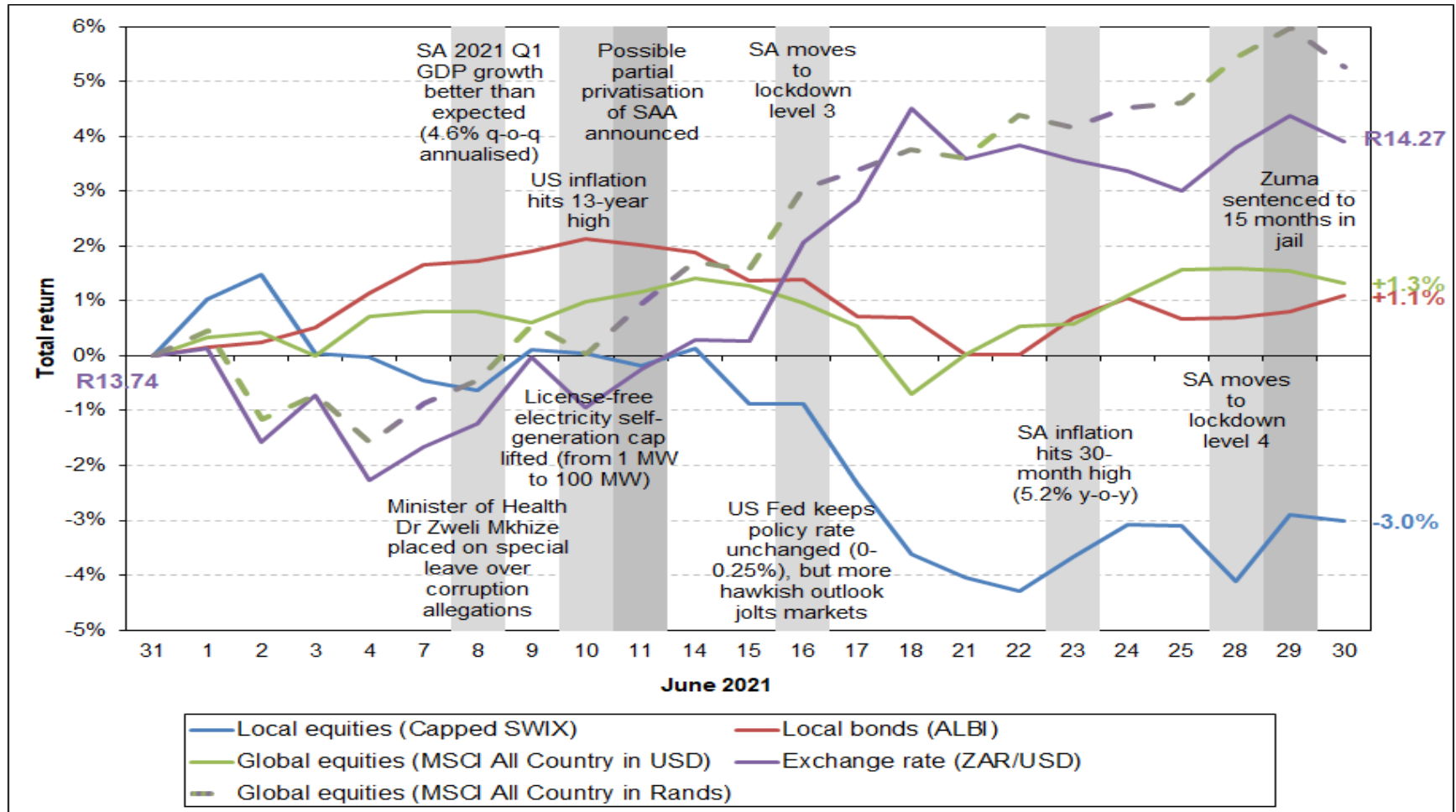
MONTHLY SNAPSHOT

NOTABLE EVENTS

- The local equity market's winning streak was halted in June as a more hawkish outlook from the US Fed rattled global markets (see below for details). The ALSI (-2.4%) and Capped SWIX (-3.0%) ended the month lower, with losses from Resources (-6.4%) and Financials (-3.0%), while Industrials (+0.4%) and Listed Property (+3.4%) managed to end the month in positive territory.
- The US Fed kept their policy interest rate unchanged (at 0-0.25%), but brought forward their median projection for the first expected rate hike(s) to 2023 (from 2024 previously), and signaling the possible near-term tapering of liquidity injections. The faster-than-expected economic recovery, along with US inflation hitting a 13-year high of 5.4% y-o-y in June, were the major contributors.
- This news also upset the Rand, which prior to the news traded as low as R13.40 to the US Dollar, before ending the month 3.9% weaker (at R14.27/USD).
- Global equity markets navigated this environment a bit better, gaining 1.3% in USD (or 5.3% in Rands).
- Local bonds made gains for a third month in a row, adding 1.1% in June, while cash returned 0.3%.
- Looking back at 2021 Q2, the local equity market ended the quarter essentially flat (ALSI = 0.0% and Capped SWIX = +0.6%), with strong returns from many of the previously neglected areas of the market (mid and small caps, financials and listed property) being offset by a slump in resource shares and Naspers/Prosus. Local bonds (+6.9%) and global equities (+3.7%) provided positive sources of return though, resulting in most retirement funds therefore managing to produce positive, but relatively low, returns in 2021 Q2.
- The share prices of SA's tech darlings, Naspers and Prosus, have been under considerable pressure of late, as a combination of continued regulatory crackdowns on Chinese tech companies (affecting Tencent, their largest investment) and management's latest attempt at reducing the infamous 'discount' failed to impress investors.
- Unfortunately much of the positive news and progress made in Q2 (the electricity self-generation cap being lifted, the proposed partial privatization of SAA, corruption fighting, large trade surpluses, etc.) was reversed early in Q3 by the unrest and destructive looting that followed in the wake of Jacob Zuma's arrest. Although the damage to the real economy has been significant, the impact on local investment markets have thankfully been fairly limited, thus far (see slide 23).

MONTHLY TIMELINE

IMPACT ON MARKETS



MARKET INDICATORS

SHORT TERM

Market indicators (% change) ¹		Mar 2021	Apr 2021	May 2021	3 months	12 months
Local equities	ALSI	1.0	1.6	(2.4)	0.0	25.1
	Capped SWIX	0.8	2.9	(3.0)	0.6	27.6
	Resources	2.9	(1.2)	(6.4)	(5.0)	29.6
	Industrials	(1.2)	1.6	0.4	0.8	19.4
	Financials	1.5	9.3	(3.0)	7.5	31.3
	Listed Property	11.7	(2.9)	3.4	12.1	25.2
Local bonds	ALBI	1.9	3.7	1.1	6.9	13.7
Local cash	STeFI Composite	0.3	0.3	0.3	0.9	4.0
Global equities	MSCI All Country	2.4	(3.8)	5.3	3.7	14.6
Global bonds	FTSE WGBI	(0.8)	(4.4)	2.8	(2.5)	(17.1)
Exchange rate	ZAR/USD	(1.9)	(5.2)	3.9	(3.4)	(17.7)
Inflation	CPI	0.7	0.1	0.2	1.0	4.9

1. Total returns (in Rands) for the months and periods ending 30 June 2021.

MARKET INDICATORS

MEDIUM TO LONG TERM

Market indicators (% change) ¹		1 year	3 years	5 years	10 years	15 years
Local equities	ALSI	25.1	8.1	8.1	10.9	11.1
	Capped SWIX	27.6	4.8	4.3	9.8	10.6
	Resources	29.6	20.9	20.6	5.7	6.3
	Industrials	19.4	6.2	5.5	13.5	14.9
	Financials	31.3	(3.1)	0.6	9.1	8.7
	Listed Property	25.2	(8.9)	(6.9)	5.1	9.5
Local bonds	ALBI	13.7	9.2	9.2	8.5	8.6
Local cash	STeFI Composite	4.0	6.0	6.6	6.3	7.1
Global equities	MSCI All Country	14.6	16.1	13.9	18.4	12.7
Global bonds	FTSE WGBI	(17.1)	4.9	1.1	9.3	8.2
Exchange rate	ZAR/USD	(17.7)	1.3	(0.6)	7.8	4.7
Inflation	CPI	4.9	3.8	4.2	5.0	5.6

1. Total returns (in Rands) for the months and periods ending 30 June 2021.

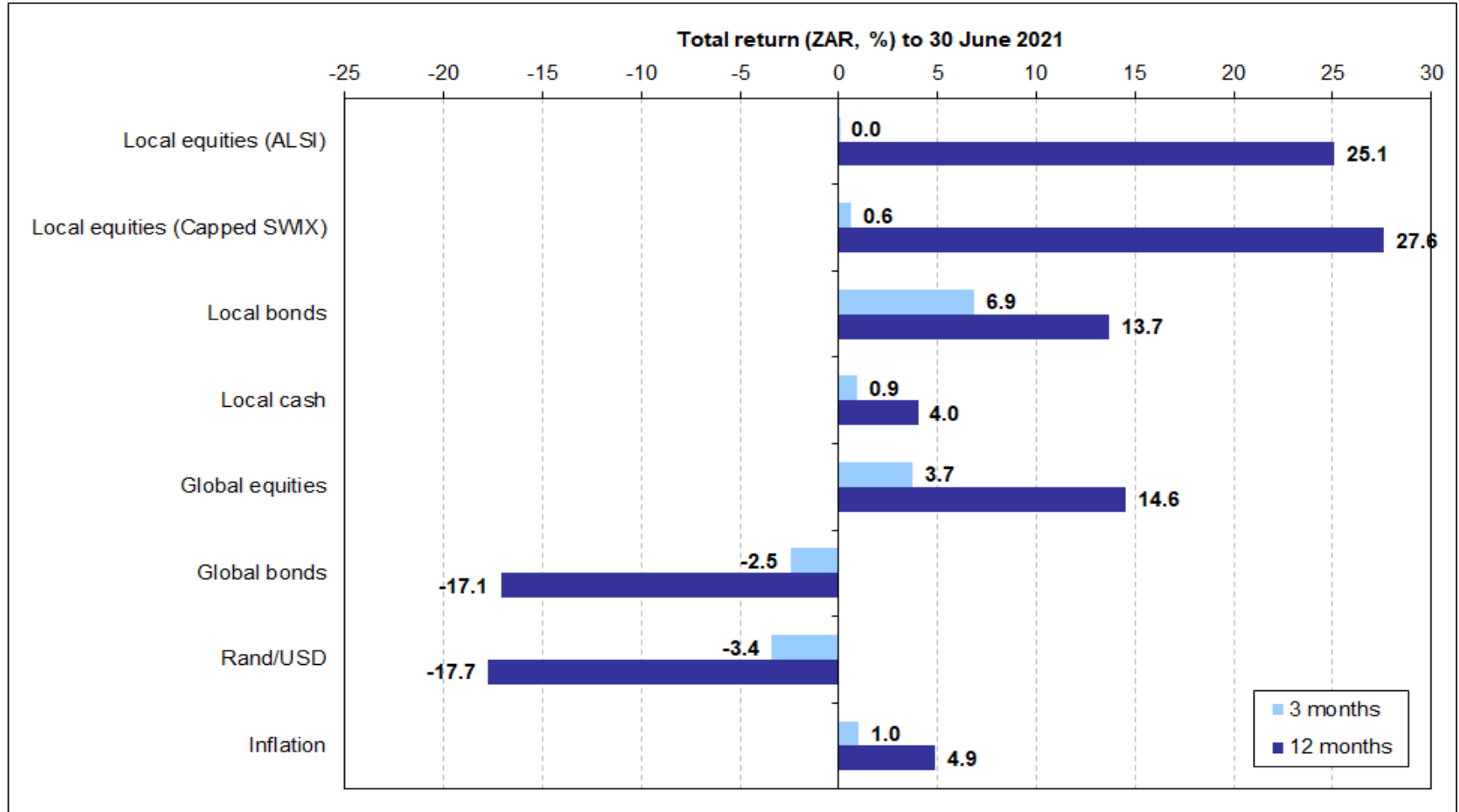
ECONOMIC INDICATORS

Economic indicators ¹	Jun 2019	Jun 2020	Apr 2021	May 2021	Jun 2021
Exchange rates:					
ZAR/USD	14.10	17.35	14.50	13.74	14.27
ZAR/GBP	17.89	21.52	20.03	19.53	19.75
ZAR/Euro	16.03	19.50	17.42	16.80	16.93
Commodities:					
Brent Crude Oil (USD/barrel)	64.41	41.27	66.76	69.33	74.62
Platinum (USD/ounce)	833.00	811.97	1,200.98	1,182.43	1,072.50
Gold (USD/ounce)	1,409.10	1,772.86	1,772.10	1,896.49	1,761.22

1. *Month-end prices*

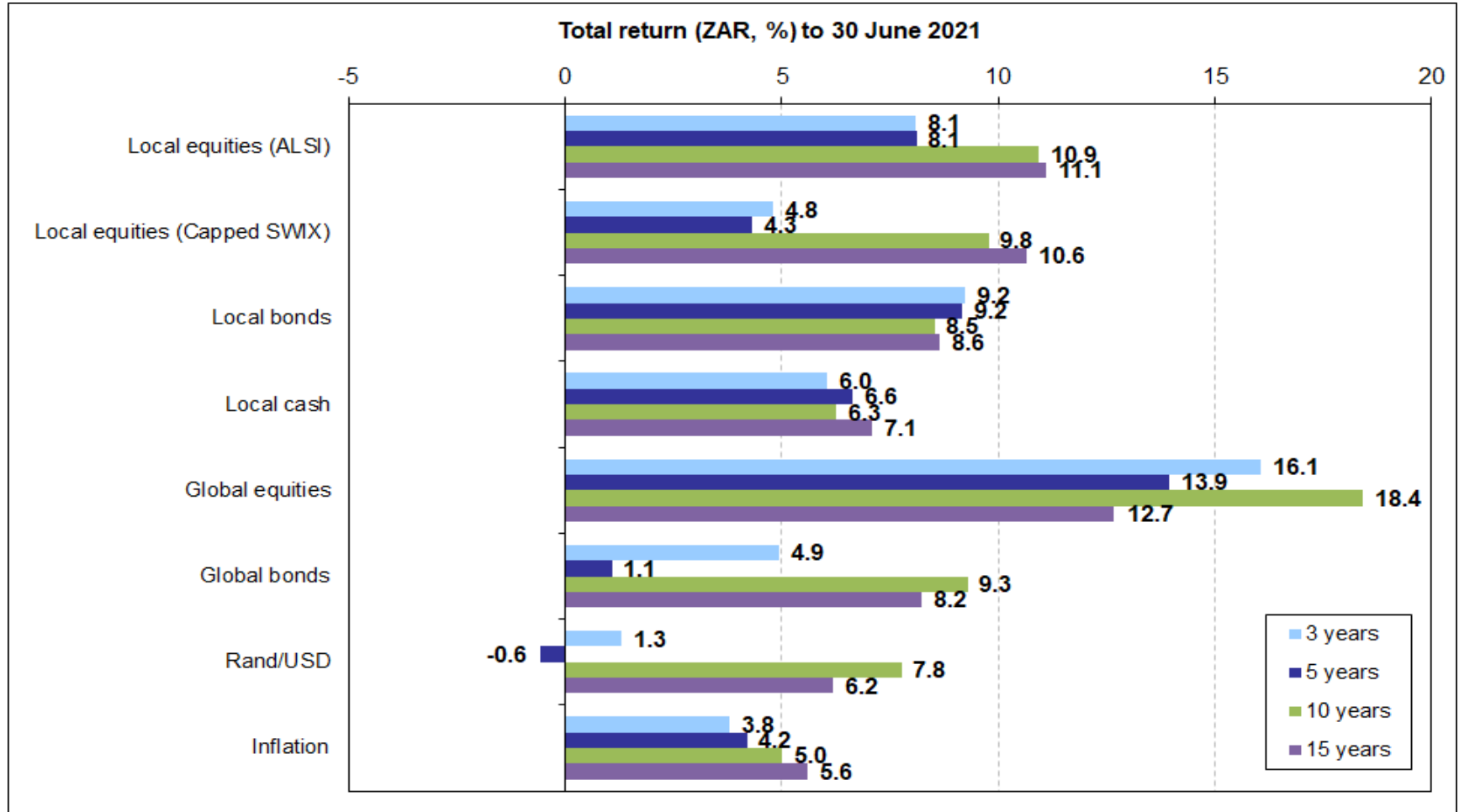
ASSET CLASS PERFORMANCE

SHORT TERM



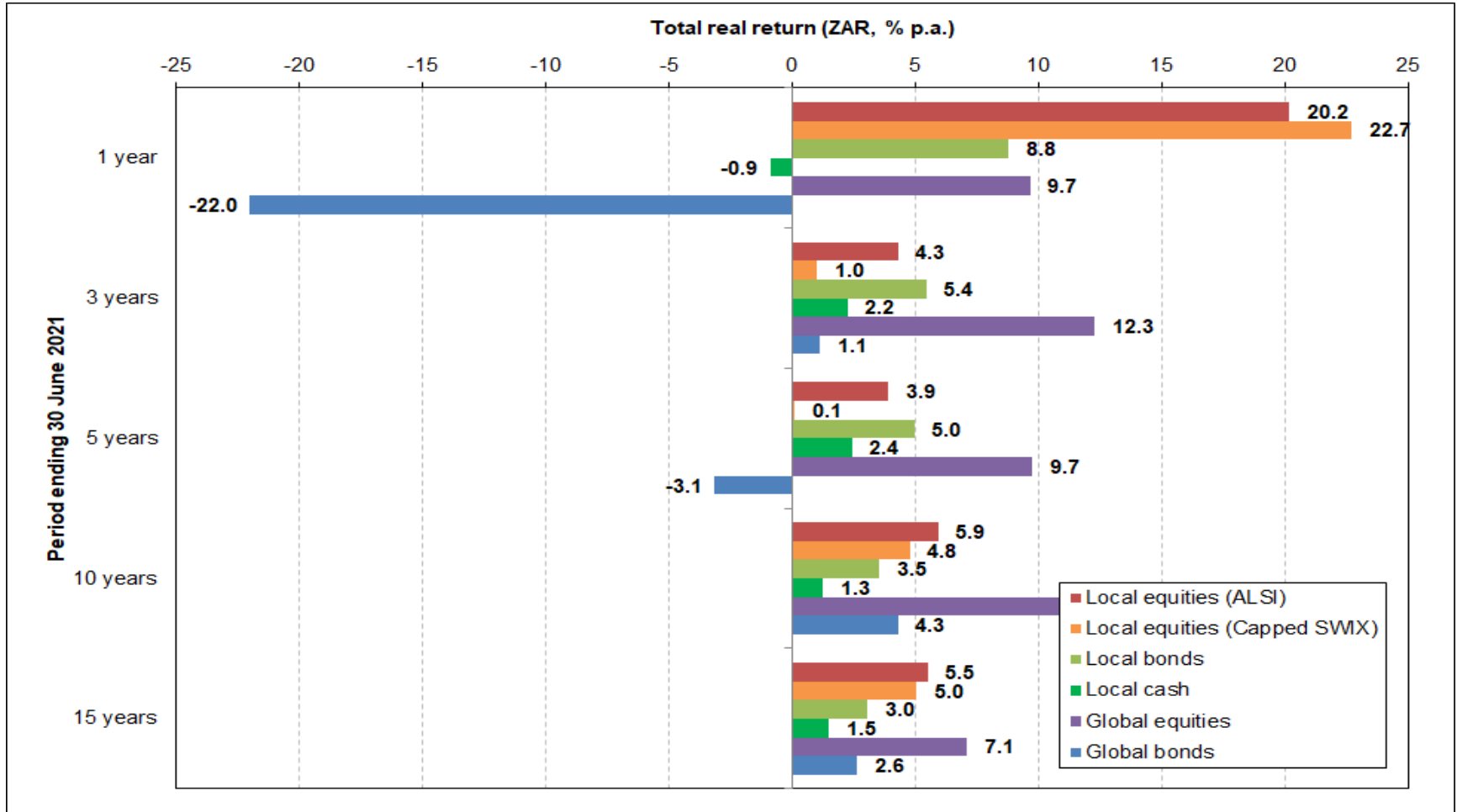
ASSET CLASS PERFORMANCE

MEDIUM TO LONG TERM



ASSET CLASS PERFORMANCE

REAL (EXCESS ABOVE INFLATION) RETURNS



MARKET PERFORMANCE

WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given the performances of the various asset classes (see earlier slides), what level of historical returns (in both nominal and real terms) can investors reasonably have expected from the markets?

To illustrate this, we calculated the hypothetical returns of various risk profiled 'portfolios' (Aggressive, Moderate and Conservative) using a rules-based asset allocation approach to cater for the change in the regulatory offshore allowance over time:

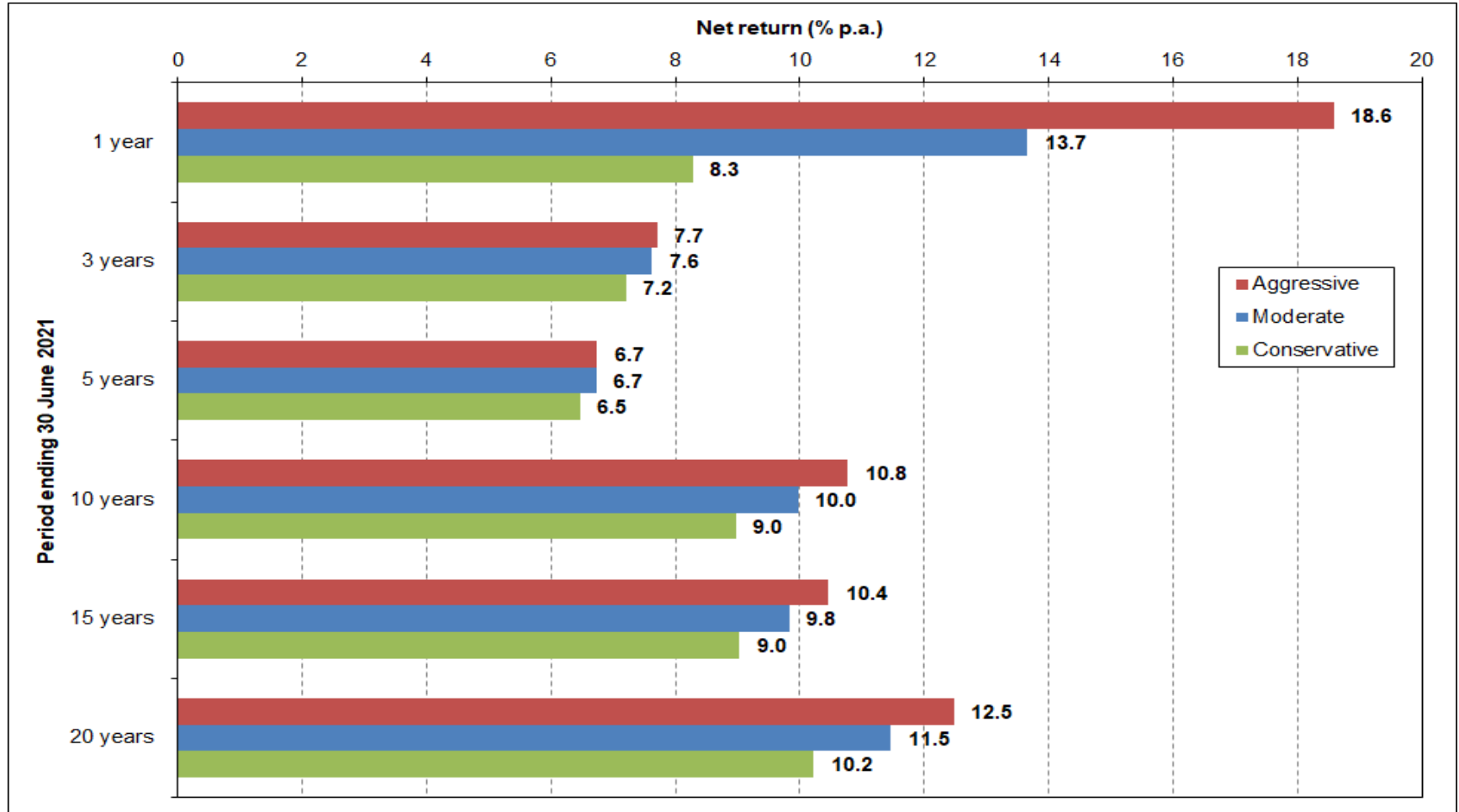
- The offshore allocation is kept at 5% below the prevailing regulatory maximum (15% to 2000, 20% to 2006, 25% to 2018 & currently at 30%).
- The equity allocation varies according to the risk profile, and is set at 75% for Aggressive, 55% for Moderate and 35% for Conservative, which applies to both the local (ALSI up to December 2001, SWIX up to June 2011, Capped SWIX thereafter) and offshore (MSCI All Country) portions.
- The remainder of the *local* assets is split between local bonds (ALBI) and cash (STeFI composite), with the local bond allocation being the same as the equity allocation in this sub-portion, i.e. 75% for Aggressive, 55% for Moderate and 35% for Conservative. The balance is kept in local cash.
- The remainder of the *offshore* assets is allocated to global bonds (FTSE WGBI).
- Fees are assumed at 0.4% p.a.

A graphical representation of the strategic and current asset allocations of the various risk-profiled 'portfolios' are provided below:

AGGRESSIVE	Strategic allocation	LOCAL VS OFFSHORE	75%		25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	75%	25%	75%	25%
		EQUITIES VS BONDS VS CASH	100%	75%	25%	100%
	Current allocation	~56%	~14%	~5%	~19%	~6%
MODERATE	Strategic allocation	LOCAL VS OFFSHORE	75%		25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	55%	45%	55%	45%
		EQUITIES VS BONDS VS CASH	100%	55%	45%	100%
	Current allocation	~41%	~19%	~15%	~14%	~11%
CONSERVATIVE	Strategic allocation	LOCAL VS OFFSHORE	75%		25% (5% below regulatory maximum)	
		GROWTH VS INCOME ASSETS	35%	65%	35%	65%
		EQUITIES VS BONDS VS CASH	100%	35%	65%	100%
	Current allocation	~26%	~17%	~32%	~9%	~16%

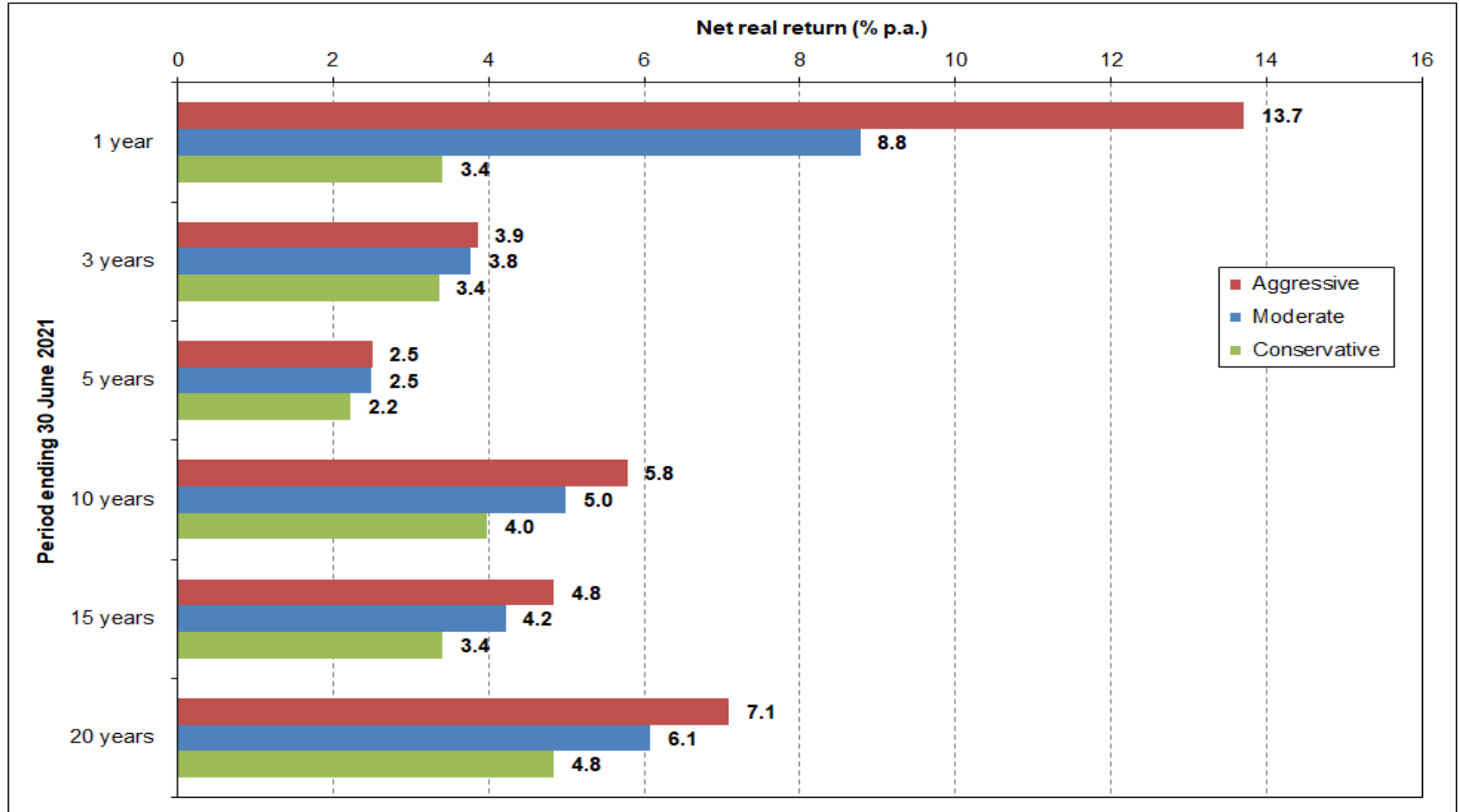
MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



MARKET PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



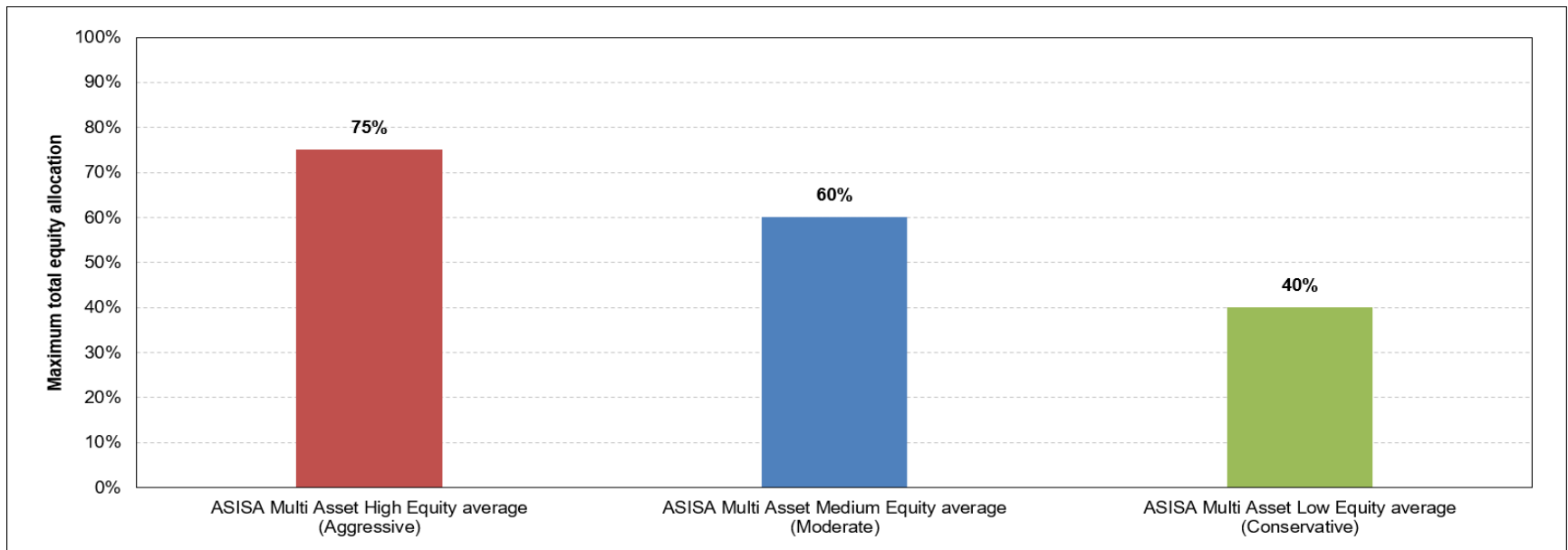
MANAGER PERFORMANCE

WHAT PAST RETURNS CAN INVESTORS REASONABLY EXPECT?

Given what markets have delivered (see earlier slides), what level of returns (in both nominal and real terms) has the average *investment manager* delivered in this environment?

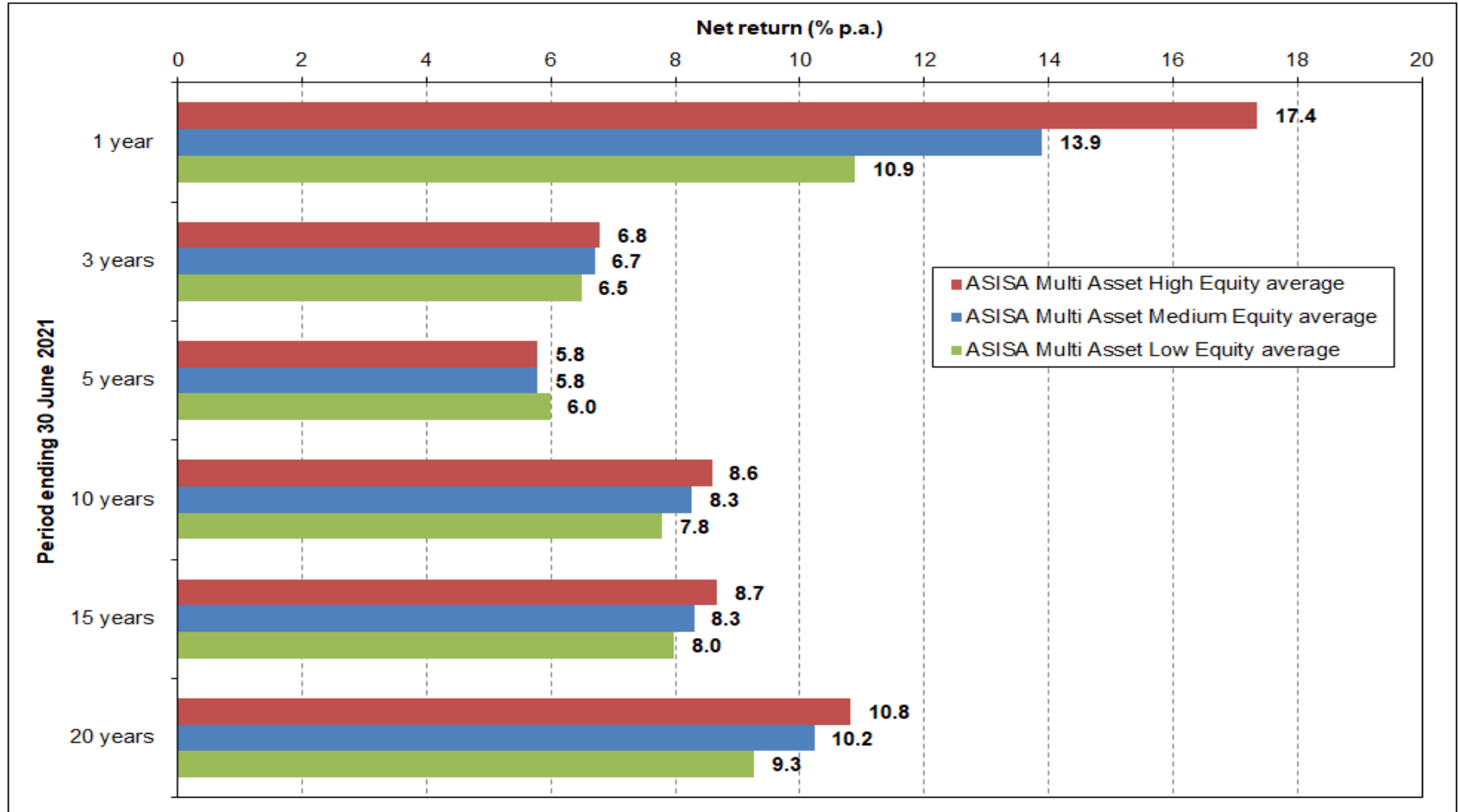
To illustrate this, we show the average returns from regulated collective investment schemes in the ASISA (Association for Savings and Investments South Africa) South Africa Multi Asset High, Medium and Low Equity categories to reflect the returns of typical Aggressive, Moderate and Conservative retirement fund portfolios.

The asset allocations of the portfolios in these categories are regulated by Regulation 28 of the Pension Funds Act, but ASISA also sets limits on the total equity allocations of these portfolios, as shown in the graphic below:



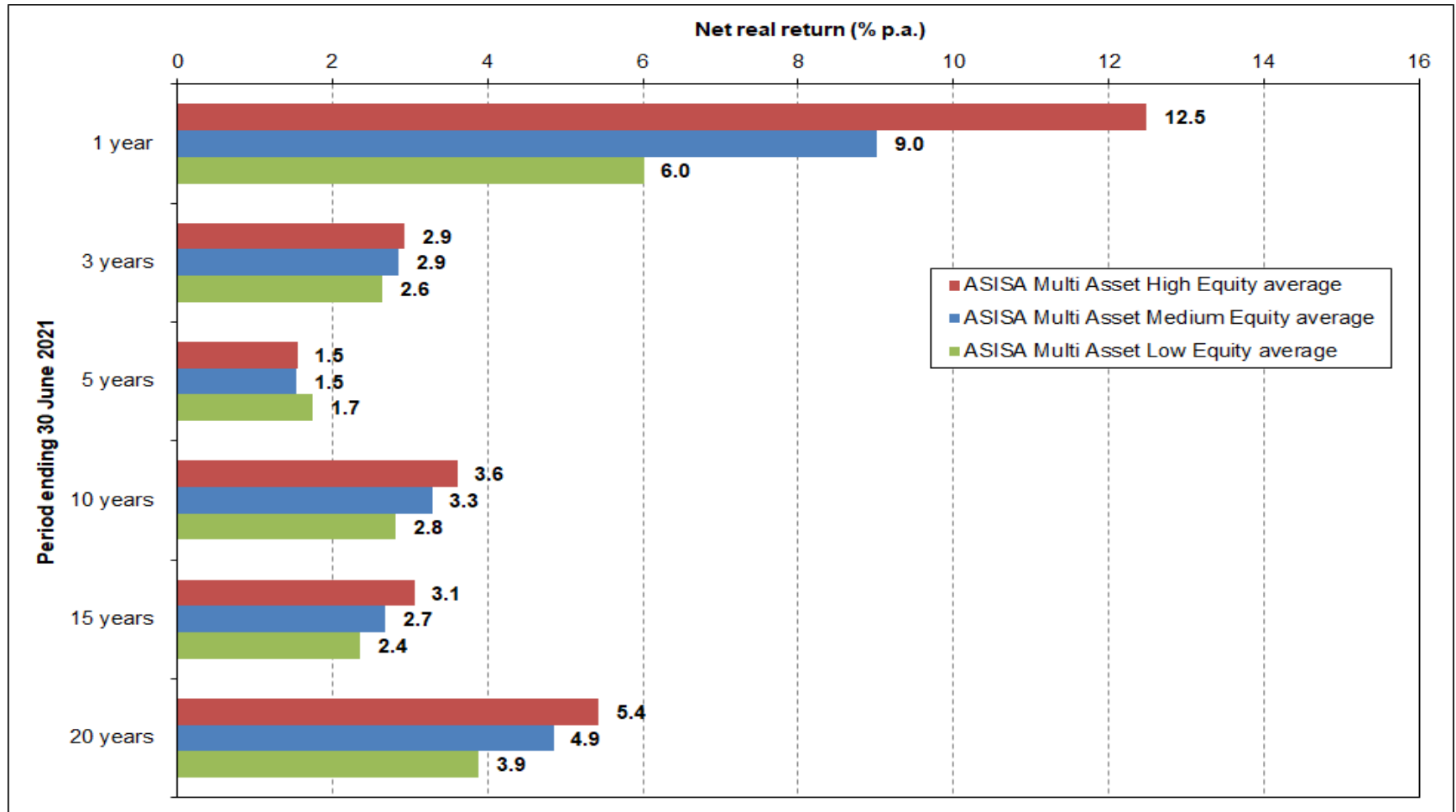
MANAGER PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST NOMINAL RETURNS WAS REASONABLY ACHIEVABLE?



MANAGER PERFORMANCE

FOR BALANCED PORTFOLIOS, WHAT RANGE OF PAST REAL RETURNS WAS REASONABLY ACHIEVABLE?



MAJOR ASSET CLASSES

SHORT TERM MOVEMENTS

		Returns at 30 June 2021					
Asset classes		Quarter (%)		Year-to-date (%)		1 year (%)	
Local	Equities	ALSI	0.0		13.2		25.1
		CAPI	1.6		14.6		28.6
		SWIX	-1.8		11.2		21.8
		Capped SWIX	0.6		13.3		27.6
		Resources	-5.0		12.8		29.6
		Industrials	0.8		13.8		19.4
		Financials	7.5		11.7		31.3
		Property	12.1		19.3		25.2
		Top40	-0.8		12.2		23.0
		Mid Cap	5.9		15.8		33.4
		Small Cap	8.0		30.9		65.2
		Value	3.2		17.5		32.2
		Growth	-2.9		9.2		18.9
		Interest-bearing	ALBI	6.9		5.0	
	ALBI (1-3 yrs)		1.4		1.2		4.9
	ALBI (3-7 yrs)		2.0		0.3		8.9
	ALBI (7-12 yrs)		6.6		4.3		13.0
ALBI (12+ yrs)	10.1			8.2		17.9	
Government bonds	6.8			4.9		13.6	
Non-government bonds	7.6			5.6		14.4	
Inflation-linked bonds	3.0			7.7		14.8	
Cash	0.9		1.8		4.0		
Global	Equities (All Country)	3.7		9.1		14.6	
	Equities (Developed)	4.1		9.8		14.4	
	Equities (Emerging)	1.5		4.4		15.9	
	Bonds	-2.5		-7.5		-17.1	

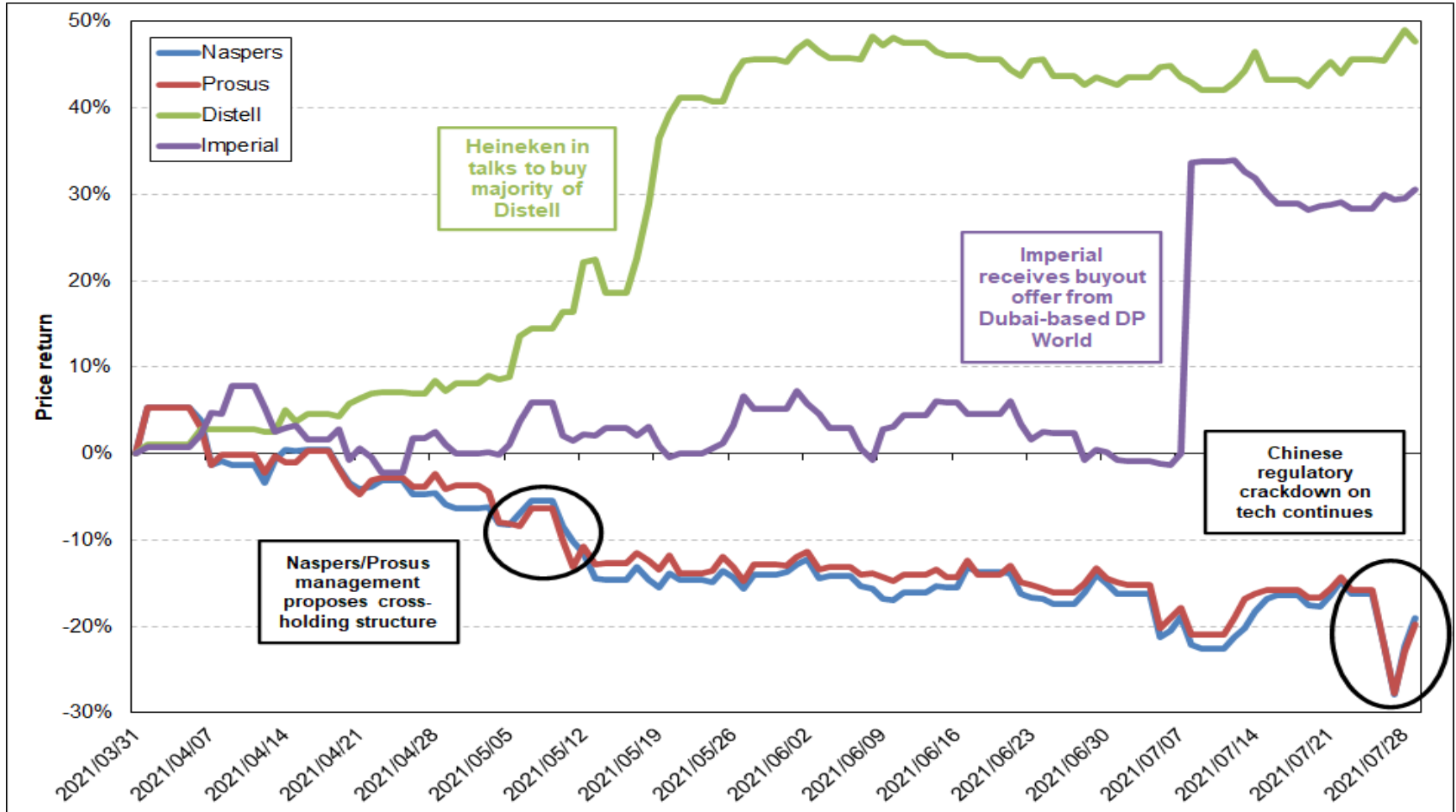
INVESTMENT PORTFOLIO CATEGORIES

SHORT TERM MOVEMENTS

		Average returns at 30 June 2021			
ASISA category		Quarter (%)	Year-to-date (%)	1 year (%)	
South Africa	Equities	General	0.5	12.8	25.0
		Resources	-6.2	13.0	30.1
		Industrial	-0.5	11.9	18.4
		Financial	7.1	11.8	31.2
		Property	11.5	19.6	24.3
		Large Cap	-0.8	11.3	21.8
		Mid/Small Cap	5.1	21.6	44.1
	Interest-bearing	Variable Term	6.3	5.6	13.6
		Short Term	1.3	2.3	5.5
		Money Market	0.9	1.8	4.0
	Multi Asset	Flexible	2.0	10.5	19.9
		High Equity	1.8	9.4	17.3
		Medium Equity	2.1	7.7	13.9
Low Equity		2.4	6.0	10.9	
Income		2.3	3.3	7.4	
Global	Equities	General	3.2	9.1	14.5
		Property	5.6	12.3	7.2
	Interest-bearing	Variable Term	-1.7	-6.3	-15.5
		Short Term	-3.0	-3.9	-15.0
	Multi Asset	Flexible	1.5	4.6	3.8
		High Equity	1.7	4.5	4.4
Medium Equity		-0.1	0.9		
	Low Equity	-0.9	0.0	-7.6	

LOCAL STOCKS

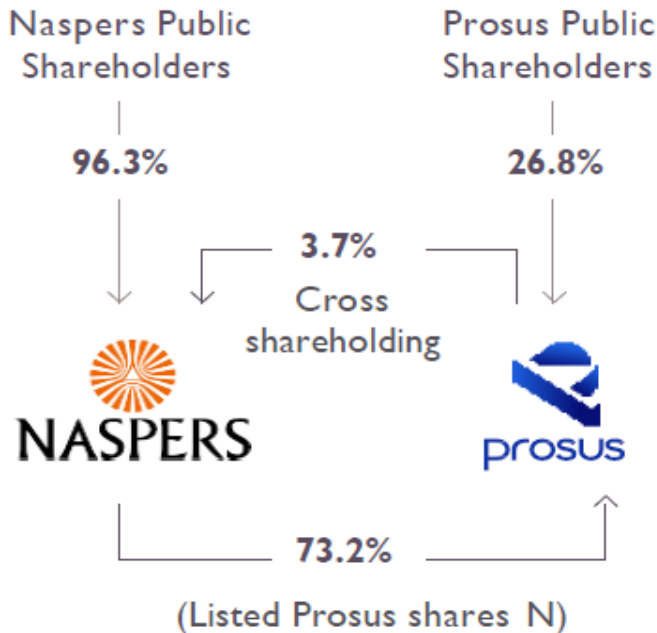
SMALL CAPS THRIVE UNDER ATTRACTIVE VALUATIONS AND BUYOUT OFFERS, WHILE TECH GIANTS STUMBLE



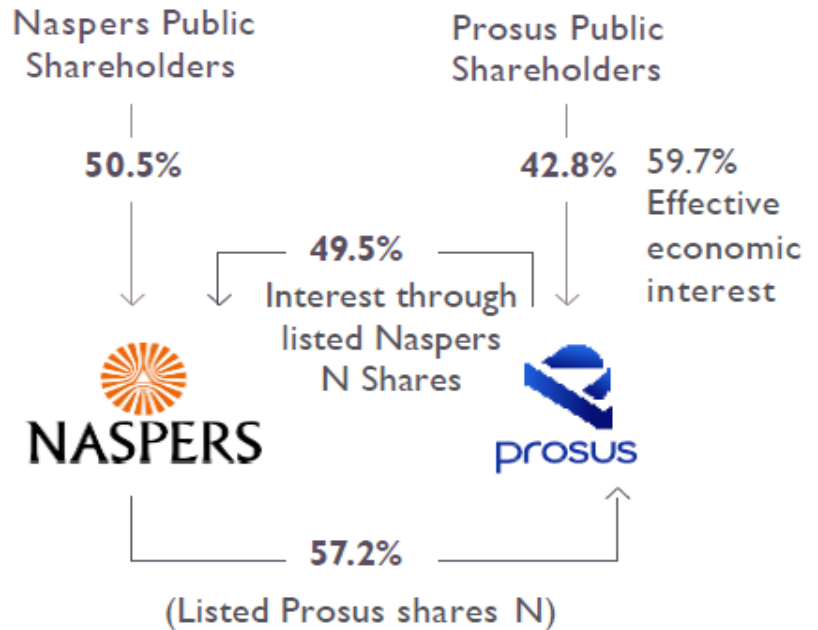
NASPERS & PROSUS

MORE COMPLEXITY TO REDUCE EVER-WIDENING DISCOUNT...

Current structure



Post transaction structure

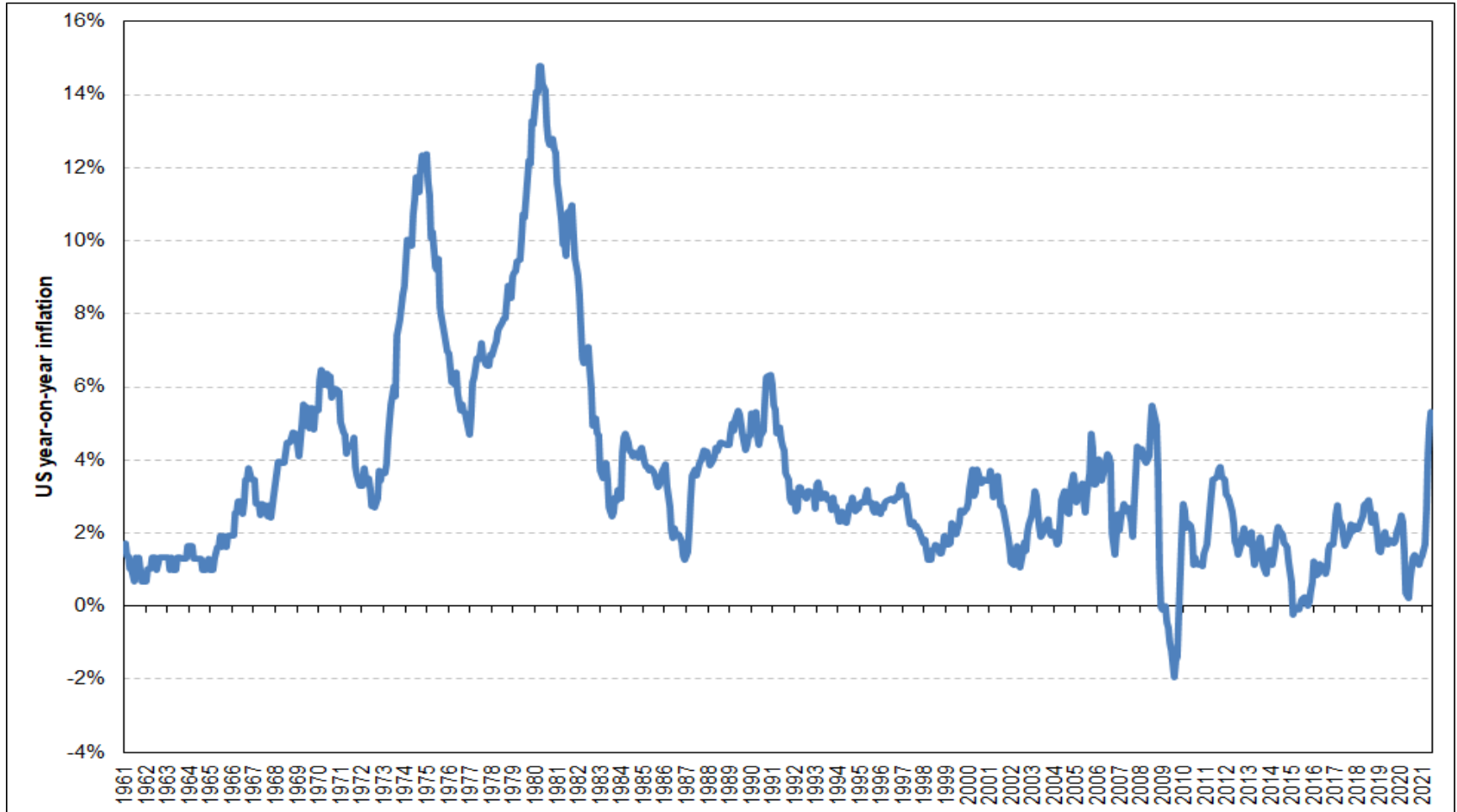


40.3% effective economic interest

Naspers retains control of Prosus through newly issued Prosus B shares

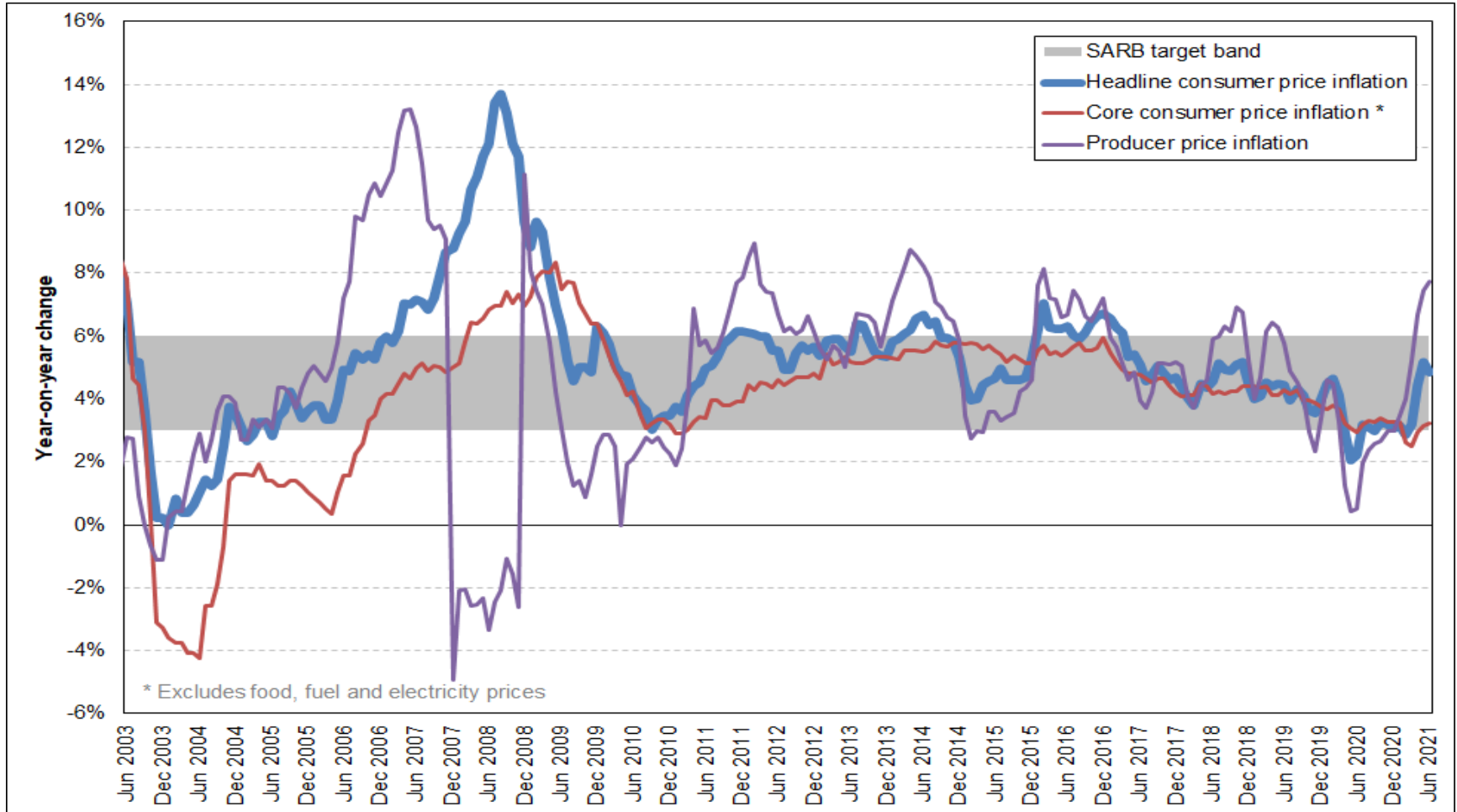
Source: Prosus Share Exchange Offer

US INFLATION HITS 13-YEAR HIGH



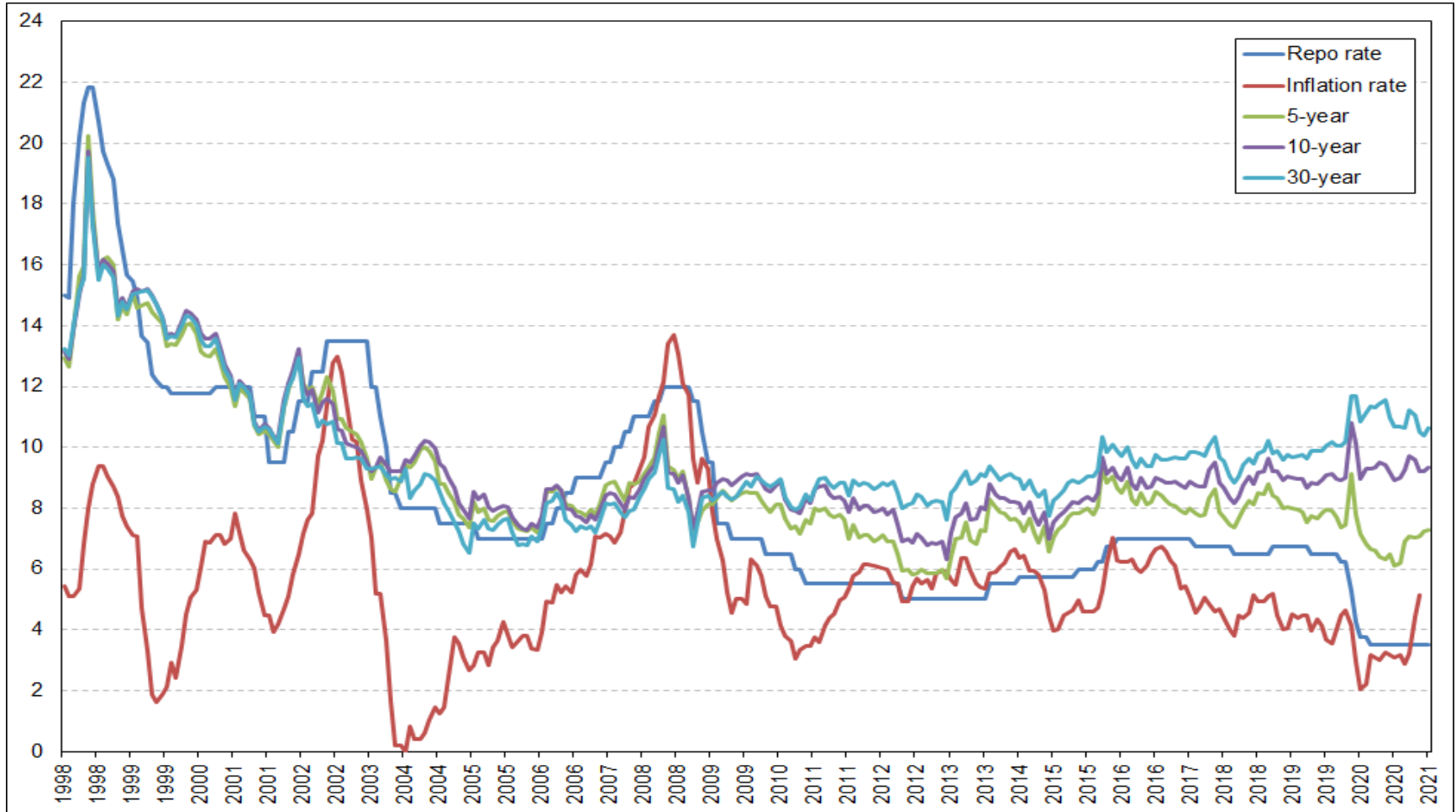
SA INFLATION

CONSUMER INFLATION STARTS TO STABILISE, BUT PRODUCER INFLATION STILL ON THE UP



SA INTEREST RATES

NEGATIVE REAL RETURNS FROM CASH, LARGE GAP BETWEEN SHORT- & LONG-TERM RATES



SA UNREST

MARKET IMPACT OF LOOTING FAIRLY LIMITED

