SIMEKA

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MARKET INSIGHT

SPRING 2015

Time to be careful...

Astute observers remarked that financial markets weathered severe storms in the third quarter of 2015.

The resource-rich FTSE/JSE All Share Index declined by -2.1% and, paradoxically, the more representative FTSE/JSE Shareholder Weighted Index came down by -4.2%. This is despite the -17.9% produced by the Resources Index.

Listed property performed very well and achieved a return of 6.1% in the third quarter of 2015.

Bonds performed modestly over the quarter with the BEASSA All Bond Index achieving 1.1%. In the money market, the representative STeFi Composite Index produced a return of 1.6%.

The Rand devalued by 13.6% over the quarter and the Rand-based return from global shares was 1.8% and global bonds achieved 14.6%.

A sharp sell-off in shares around the world came about from large-scale speculation about a possible increase to interest rates in the United States. In September 2015, the Federal Reserve's Open Market Committee decided to leave interest rates unchanged and an equally sharp rebound in share prices followed in October 2015.

The share market in South Africa was event driven in the third quarter of 2015. If investment managers got their calls on these events correct, their portfolios benefited; but if they got these calls wrong, their investors paid the price.

For example, as the outcome of the SABMiller-merger became more certain, the SABMiller share increased sharply. SABMiller accounts for 11.3% of the FTSE/All Share Index and its share price increased by 23.6% in the third quarter. Many investment managers did not have 11.3% exposure to SABMiller and their performance lagged as a result.

A second example is the MTN Group, which accounts for 4.6% of the FTSE/JSE All Share Index. As it became clear the MTN Group may have an unspecified liability in Nigeria (later confirmed at US$5.2 billion), the MTN Group share price dropped by -23.6% in the third quarter. Investment managers who maintained full exposure to MTN Group shared in this loss.

Pity the investment manager who had both no exposure to SABMiller and overweight exposure to MTN Group.

The conclusion is that share prices are demanding at present and depend on the release of data, whether it is about interest rates, employment figures and factory orders etc. This shows that thin market conditions prevailed without solid broad-based support.

For the year to September 2015, the FTSE/JSE All Share Index produced a mediocre return of 4.8% (11.6% to October). The BEASSA All Bond Index achieved a 12-month return of 7.0% to September (4.9% to October) and the STeFi Composite achieved 6.4% for the 12-months to September 2015 (6.4% to October). The return achieved by listed property for the 12-months to September 2015 is 26.6% (27.4% to October). The 12-months Rand-based return of global shares was 17.0% to September (28.2% to October) and on global bonds, the 12-months Rand-based return to September 2015 was 18.6% (21.4% to October).

The average investment return achieved by the risk profiled peer groups (page 2) shows an inverse dispersion for portfolios with market value exposure, as higher risk (aggressive) portfolios have not been rewarded commensurately during the quarter.

Guaranteed funds are still achieving strong results as reserves built-up over the past two years are released to bolster investment returns.

Average index-based investment return of risk profile peer groups to September 2015

Peer group	3 months	1 year	3 years	5 years
Guaranteed	2.8%	14.6%	16.3%	13.2%
Conservative	2.1%	8.1%	11.8%	11.4%
Moderate	-0.9%	5.5%	13.6%	13.3%
Aggressive	-1.0%	4.8%	13.9%	13.8%

The investment returns generated by investment managers to September 2015, are indifferent in comparison with previous periods, mainly because of modest returns that prevailed in financial markets. The top and bottom quartiles of the global balanced peer group are reflected below:

Top and bottom quartiles of Global Balanced Funds to September 2015

TOP QUARTILE	3 months	1 year	3 years	5 years
	Allan Gray	Investec	Investec	Foord
	Investec	OMIG Macro	Coronation	Investec
	Stanlib	Foord	Prudential	Coronation

BOTTOM QUARTILE	3 months	1 year	3 years	5 years
	OMIG Macro	Oasis	SIM Global	SIM Global
	Coronation	Allan Gray	ABSA	Momentum
	Re:CM	Re:CM	Re:CM	Re:CM

In the top quartile of investment managers, Investec continues to dominate. The most conspicuous development is that Coronation is no longer as dominant in the top quartile as had been the case in recent years. In the bottom quartile Re:CM remains in last position throughout all time periods.

Looking ahead, two possible risks dominate our assessment of financial markets:

1st, the continued expectations of an increase to interest rates in the USA. In anticipation, South African monetary authorities increased its domestic interest rate by 0.25%, possibly to protect that Rand against the anticipated strengthening of the US Dollar in the event of an interest rate increase in the USA.

2nd, the risk that we take note of the possibility of a sell-off of South African shares and bonds in the event that global rating agencies down-rate South Africa. Presently, South Africa is still considered at investment grade, but if down-rated, it may be assigned "junk status," in which case it will fall out of global investable indices. Global index tracking and passive portfolios will then be expected to sell their South African exposure. For a variety of reasons we are not positive about South Africa's prospects.

We are comfortable to see investors reduce their risk in the next four to six months.

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