MARKET INSIGHT

Summer 2015/6

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South African financial markets experienced turmoil as 2015 ended. The Rand raced to R16.07 from approximately R14.50 to the US Dollar as President Zuma recalled and replaced former Finance Minister Nhlanhla Nene with newcomer Minister David Van Rooyen, only to replace Minister Van Rooyen shortly thereafter with veteran Minister Pravin Gordhan.

The South African trade deficit for 2015 through to November stands at R58.2 billion. Furthermore, R17.3 billion was withdrawn from South Africa by foreign investors. These factors combined to make the Rand vulnerable, which vulnerability was illustrated by Nene-Gate. The shock brought about by an external factor (political decision) affected the Rand more harshly than would the case have been had our economy been in better shape.

A further factor that affected investment returns in December 2015 was the assessment of South Africa's sovereign rating by international rating agencies. Two of the three major rating agencies rate South Africa at the lowest investment grade. Further derating will see South Africa attain "junk" status, which may lead to capital outflows from South Africa.

Our sluggish economic growth and political events affected investment performance in 2015.

The Rand declined by 11.8% during the last quarter of 2015 and by 25.0% in 2015.

The rout of the Rand in December 2015 affected investment returns as the FTSE/JSE All Share Index produced 1.7% for the last quarter of 2015 (+5.1% for 2015). The worst affected sector was Resources where share prices fell by -19.2% in the quarter (-37.0% in 2015). Industrial shares achieved a return of -4.3% during the last quarter of 2015 (-10.1% for 2015) and Financial shares declined by -3.3% in the quarter (+3.9% for 2015).

The BEASSA All Bond Index declined by -6.4% in the quarter (-3.9% in 2015) and the STeFi Composite Index achieved a return of +1.7% in the quarter (+6.5% in 2015). SA Listed property declined by -4.7% over the quarter (+8.0% in 2015).

The Rand-return of global shares in the last quarter of 2015 was +18.1% (+34.6% in 2015) and global bonds achieved a Rand-return of 10.8% in the last quarter (+30.8% in 2015).

The interest rate decision in the US, the continued strength of the Dollar and slower economic growth in China continued to dominate the global economic agenda. The Chinese economic slowdown has a significant effect on South Africa, more so than the volatility in Chinese share prices. To date, the correlation between the share prices in China and share prices in South Africa has been not high and is coincidental rather than contributory. However, the Chinese share market's rocky start in 2016 is likely to lead to a re-assessment of emerging markets by global investors.

The investment return achieved by the risk-profiled peer groups are shown in the table that follows.

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

Peer group	3 months	1 year	3 years	5 years
Guaranteed	2.3%	12.5%	14.9%	12.5%
Conservative	4.2%	11.0%	11.8%	11.8%
Moderate	5.0%	11.6%	15.3%	14.7%
Aggressive	3.7%	6.9%	13.3%	13.7%

The investment returns generated by investment managers to December 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 December 2015

Top Quartile	3 months	1 year	3 years	5 years
	Allan Gray	Investec	Investec	Foord
	Momentum	Allan Gray	Coronation	Investec
	Foord	Momentum	Allan Gray	Coronation

Bottom Quartile	3 months	1 year	3 years	5 years
	OMIG Macro	SIM Global	SIM Global	OMIG Global
	SIM Global	Oasis	ABSA	SIM Global
	Re:CM	Re:CM	Re:CM	Re:CM

As remained the same from September 2015, Investec continue to dominate the top quartile which also has presence from Allan Gray and Foord at the top.

Re:CM remain in the last position of the bottom quartile. Noteworthy changes from the bottom would be the exit of Coronation and Momentum, who have seemingly increased pace from September to December of 2015.

We believe that share prices are still driven by macro-economic factors such as interest rate decisions and currency fluctuations. As we are likely to experience volatility in 2016, one has to be careful when selecting investment managers. Share selection will be important in 2016 as non-resource Rand-hedge shares are likely to lead other shares. It is important to go for quality - the investment managers that are likely to be more successful than their peers in 2016 are managers that adhere to a quality strategy. These investment managers often underperform their peers in an upswing, but do much better in downturns or during prolonged uncertainty.

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