Media Release
Actuarial Society of South Africa
21 April 2020

Only look at your Q1 unit trust statement to assess whether your portfolio is delivering in line with its mandate

The first quarter of this year has been a rollercoaster ride for investors, with unit trust portfolios having delivered a wide range of returns. Only one of the 168 South African Equity General unit trust portfolios managed to eke out a small positive return in the three months to the end of March 2020, while the rest delivered negative returns. The worst performing general equity portfolio lost almost 35% of its value over this period.

Andrew Davison, deputy chair of the Investments Committee of the Actuarial Society of South Africa, says while seeing double digit negative returns on their quarterly unit trust portfolio statements would have caused distress for many investors, there is absolutely no point in drawing any material conclusions from such a short performance period.

“The reality is that it’s not business as usual. Uncertainty abounds and stock markets, bond markets and the rand have experienced significant falls because of anxiety about the effects of COVID-19 on the global economy and businesses of all sorts and sizes.”

While this is not the time for panic and knee-jerk investment decisions, Davison says this is however a very good opportunity to assess whether the portfolio you are invested in is performing in line with expectations.

“Periods of stress like this can shine a spotlight on inadequacies that aren’t obvious when markets are positive and picking stocks seems easy. As Warren Buffet once said, ‘when the tide goes out you get to see who’s been swimming without trunks on’.”

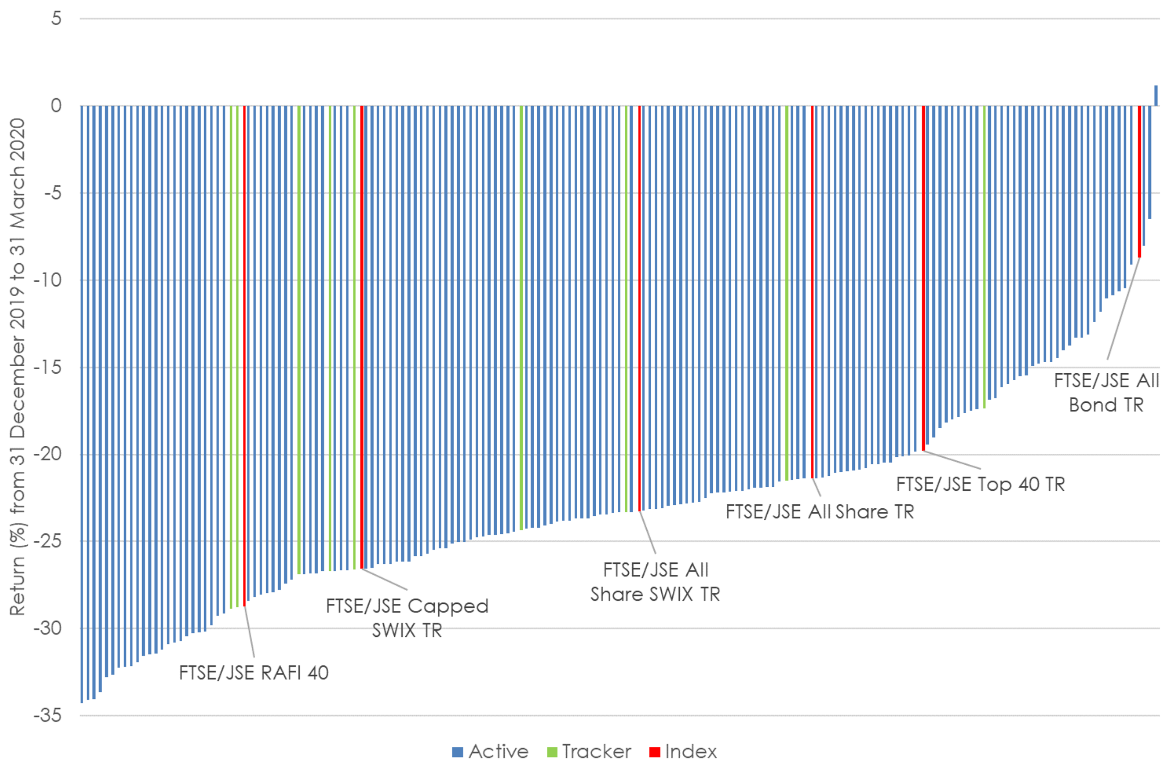
Same volatility, different outcomes

Davison points out that the FTSE/JSE All Share index lost 23% in the first three months of this year. This means that an investment portfolio with 100% exposure to the stock market is likely to have suffered a considerable reduction in wealth for many investors, at least on paper.

Yet, notes Davison, while all portfolios and asset managers were exposed to the same extreme volatility, there have been marked differences in the outcomes achieved by different portfolios and different asset managers.

To highlight this, Davison compiled the graph below, which shows the returns from 31 December 2019 to 31 March 2020 for the 168 unit trusts in the SA General Equity category. Returns shown are net of fees and include reinvestment of any dividends.

Year to date returns (to 31 March 2020) for SA General Equity unit trusts



Source: Morningstar, I-Net

Davison comments that one key reason for the wide disparity in returns is that the mandates of the unit trust portfolios differ. Some portfolios are, for example, limited to JSE-listed stocks while others are allowed up to 30% in global listed stocks and another 10% in stocks listed in the rest of Africa.

Davison points out that the graph paints an interesting picture for investors who utilise low cost index trackers (green bars), namely that the choice of index (red bars) to be tracked makes a marked difference to the returns achieved. Tracking the FTSE/JSE Top 40, for example, would have resulted in a smaller loss, down just under 20%, whereas tracking the FTSE/JSE RAFI 40 would have resulted in a loss of almost 29%.

"In general, the index trackers did a good job of tracking their designated indices closely, with a small lag due to fees. However, there are two green bars that have strayed materially from the indices they purport to track – one delivers a much better return and the other a much lower return."

According to Davison, it is noteworthy that roughly a quarter of the active managers underperformed all of the major indices (All Share, Top 40, SWIX and Capped SWIX). On the other end of the spectrum, roughly a quarter of them outperformed all of these indices.

"The index used as a benchmark by each fund may have a bearing on its performance, although some asset managers build their portfolios from scratch, paying little or no heed to the benchmark," explains Davison.

Insights for investors

Davison reminds investors that any losses suffered by their portfolios remain paper losses until a disinvestment is made. Therefore, he says, the only reason investors should be analysing their portfolios at this time is to assess aspects like the following:

- If it is an index tracker, is it tracking the index closely?
- If the mandate of the portfolio states "low volatility" and the portfolio is one of the biggest fallers, then is it doing its job correctly?
- If the portfolio is allowed to invest a portion offshore and the rand has weakened, then has the portfolio captured the extra diversification benefits?
- If it is a fund of funds and it is one of the worst performers, then does the multi-manager have the ability to select and blend different managers?
- Assessing the ability of an actively managed portfolio to deliver better risk-adjusted returns than the index requires a much longer period than three months. However, actively-managed unit trusts that have dropped even more than all the indices, especially when indices are often momentum-driven and hence prone to hard falls, should expect some scrutiny.

Davison encourages investors to assess their portfolios together with their financial advisers who are likely to have deeper insights into the investment style of the asset manager and performance against the stated benchmarks and the portfolio's mandate.

He also reminds investors that timing the markets is impossible, even for seasoned asset managers. Instead, it is time in the market that delivers long-term results.

"Many unit trust investors learnt this lesson the hard way in 2009 following the stock market crash that was prompted by the global financial crisis. At the end of the first quarter of 2009, the FTSE/JSE All Share index had dropped to 18 121. By the end of September 2009, it had regained 37.5% of its value, but many investors lost out on this growth after having sold their units in a panic."

Ends

To set up interviews please contact:
Lucienne Fild
Independent Communications Consultant
082 567 1533
lucienne@fild.co

Issued on behalf of:
Andrew Davison
Deputy Chair: Investments Committee
Actuarial Society of South Africa

The Actuarial Society of South Africa is the professional organisation for actuaries and actuarial students in South Africa. The vision of the Actuarial Society is an actuarial *profession of substance and stature, serving, and valued by, our communities as a primary source of authoritative advice and thought leadership in the understanding, modelling and management of financial and other measurable risks.*