UNUM CAPITAL
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MEETING YOUR **TRADING NEEDS**

Creating returns in a low growth world

Presented by Robby P

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- Finding alpha in a low growth world
  - Low growth
  - Headwinds
  - Get active (supplementing your equity portfolio)
- Achieving your desired / expected returns
  - Getting real
  - Expectation adjustment
- Protection against downside & Reducing portfolio volatility
  - Diversification

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What is "alpha"?

Returns of an investment relative to a benchmark/index

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How do assets behave in a low growth environment?

- Low growth
  - Increase in demand for safe assets as governments try to stimulate growth (fixed vs floating)
  - Weak economies require low interest rates to avoid debt deflation.
  - most developed nations are keeping their interest rates as low as possible to stimulate growth
  - Once artificial demand is removed, yields have only one direction to go…
  - The low GDP growth forecast, high GDP volatility means capital returns from equities are going to be much lower than before

What’s the drag in SA?

(challenge to the South African investor)

- Headwinds
  - Weak investor sentiment
  - Growth for 2019 is now projected at 0.8% (half a percentage point lower than April’s forecast and unchanged from 2018)
  - September saw the second consecutive sharp decline in factory activity and South Africa’s largest in a decade.
  - Eskom
  - Falling tax revenue
  - Policy uncertainty
  - Rising debt

Finding Alpha

Invest accordingly
(there’s no lack of opportunity)

- There’s a new playbook

- Don’t expect double digit returns from “buy and hold”
- The influence of policy makers on asset prices has increased
- Risk on & risk off sentiment changes more rapidly
- Diversify across tradable instruments to take advantage of short term sentiment. (Derivatives, Futures, options etc)
- An increase in volatility provides opportunity

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Achieving your desired/expected return

- Expectations
    - Be realistic
    - Understand how much risk you are prepared to take on
    - Your first target is to beat the price of money

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Parts of a diversified portfolio

Bonds:

Cash:

Property:

Equities:

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Parts of a diversified portfolio

Bonds:

Pay interest at what is called the coupon rate for the period. If you hold the bond for the full period, you get your capital back plus interest (which is normally paid every six months).

- low correlation to equities (protection against a stock market crash)
- They tend to be less risky than equities
- They provide capital growth and interest returns
- Affected by interest rates
- Difficult to understand

Parts of a diversified portfolio

Cash (interest bearing): Money in an interest-earning bank account.

- Lowest risk
- It provides the lowest returns of the four asset classes
- Unlikely to beat inflation (over the long term)
- Easy to access (liquid)

Parts of a diversified portfolio

Property:

You can buy and own property, including residential, commercial and industrial property, directly, or you can invest in stock-market-listed property stocks and ETFs

Listed property;

- low correlation to equities but tend to correlate with bonds because of the effect of interest-rates
- Likely to beat inflation over the long term
- Offer an income in the form of regular distributions of the rental income the (often linked to inflation)

Parts of a diversified portfolio

Equities:

Make capital gains from an increase in the value of a company and therefore its share price, and you share in the dividends.

- Historically offer best returns of the four asset classes
- Increasing income stream-dividends go up over time
- Protect against inflation
- They are volatile
- No guarantees

Parts of a diversified portfolio

Bonds:

Cash:

Listed property:

40 %

Equities:

60 %

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Parts of a diversified portfolio

Bonds: 

Cash: 

40 %

NewFunds Govi (3-month)

NewFunds ILBI ETF (NFILBI)

Ashburton inflation ETF (ASHINF)

Simple ETFs will do

Listed property: 

Local:
CoreShares Proptrax (SAPY)

Satrix Property

Foreign:

CoreShares Global Property

Sygnia Itrix Global property

Simple ETFs will do

Equities: 

60 %

Here’s where seek alpha

- Diversify (stock selection)
- Liquidity
- Protection against downside & Reducing portfolio volatility

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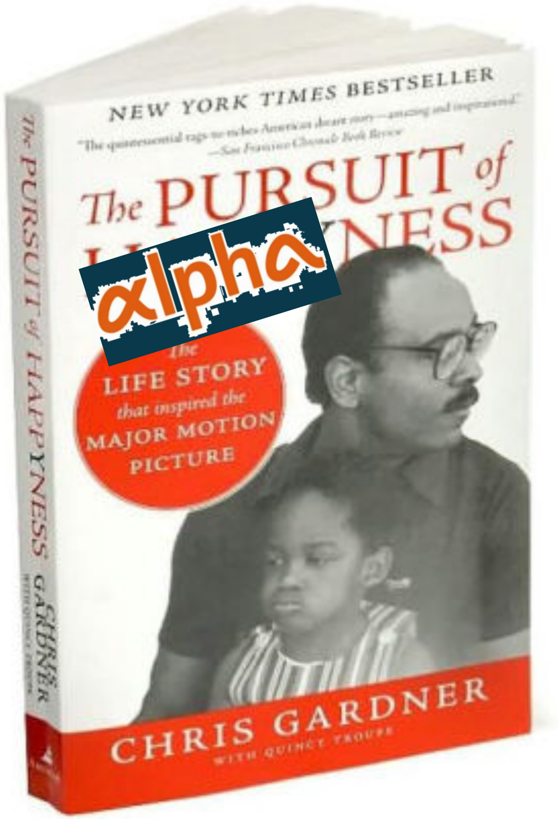
Finding alpha in a low growth world



The pursuit of alpha

In a low growth world

What we’re looking for

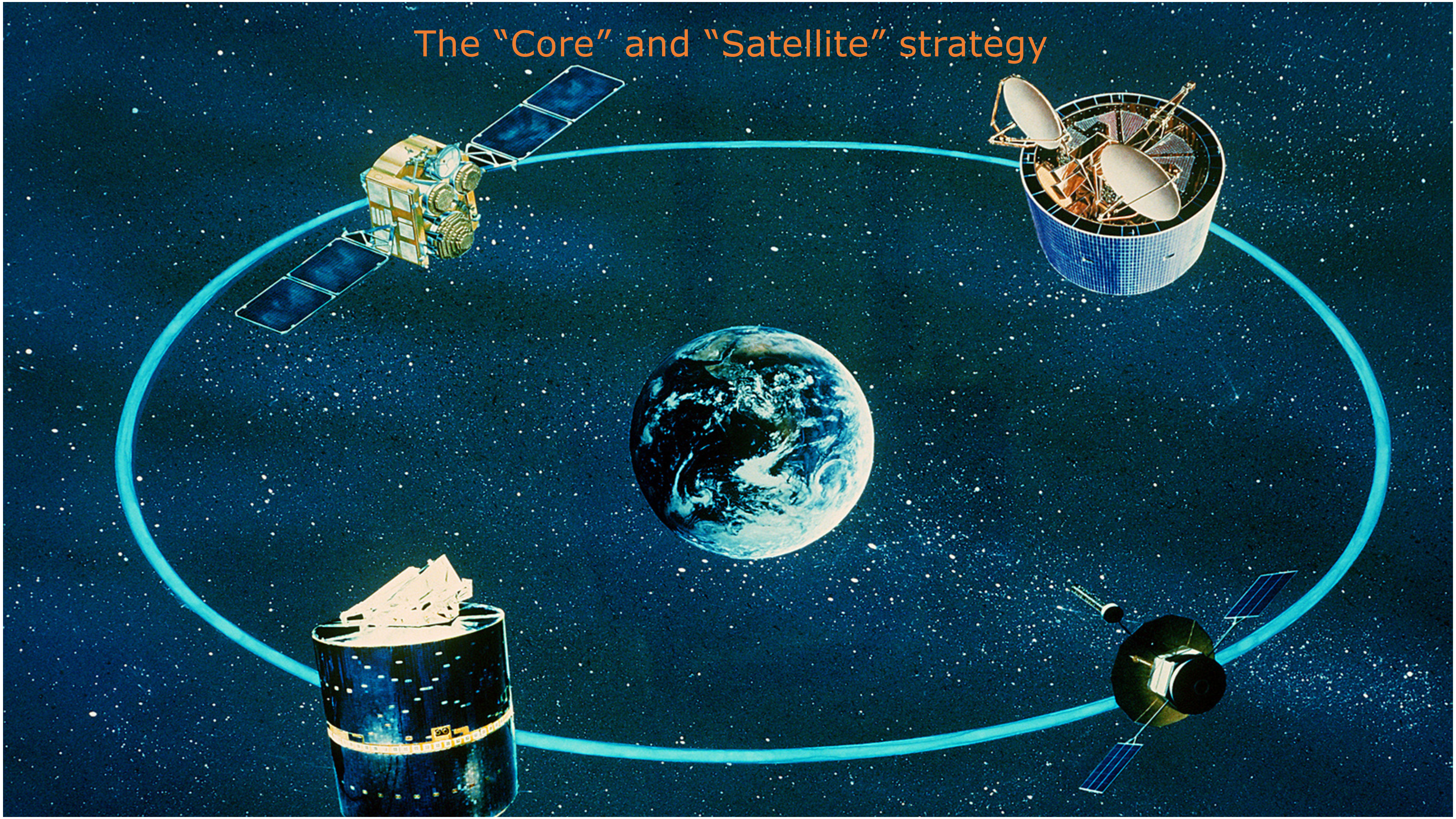
Companies who’s sales are least affected in a downturn

Steady dividends

Operates overseas or offshore exposure

Investments of the future

Avoid cyclical stocks


The "Core" and "Satellite" strategy

The "core"

The core of the portfolio consists of exchange traded funds (ETFs) or collective investments which tracks a market or an index.

By so doing, the "meat" of your portfolio performs as the market or index which it tracks

The “core”

What do we want to track?

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The “core”

What do we want to track (ETFs)?

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What do we want to track (ETFs)?

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Avoid cyclical stocks

Consumers can afford to buy more of during a booming economy

- Big ticket items
- Houses
- loans

The “core”

What do we want to track (ETFs)?

Consumers can afford to buy more of during a booming economy

- Big ticket items
- Houses
- loans

Standard & Poors classify stocks into ten sectors. Two of the sectors, Consumer Staples and Utilities, are non-cyclical stocks, and the rest are cyclical. So it’s impossible to avoid cyclical industries all together

What's the drag in SA?
(the consumer challenge)

- Let me REMIND you
  - Weak investor sentiment
  - Slowing growth
  - factory activity slowing most in a decade.
  - High unemployment
  - High interest rate
  - High cost of living
  - High indebtedness

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The "core"

What do we want to track (ETFs)?

Consumers can afford to buy more of during a booming economy

- Big ticket items
- Houses
- loans

Banks are highly cyclical!

- They make money by borrowing and lending.
- Reduced ability to fund borrowings
- bank lending is slowing
- Delinquencies are rising

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The "core"

What we're looking for

Companies who's sales are least affected in a downturn

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Operates overseas or offshore exposure

Investments of the future

Look for themes

α

Avoid cyclical stocks

Financials are out

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The "core"

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Investments of the future

Look for themes

Avoid cyclical stocks

Financials are out

Sygnia Offshore ETFs

- Eurostoxx50
- FTSE100
- MSCI Japan
- MSCI US
- SP 500

Coreshares Offshore ETF

- CSP 500

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Thematic ETF

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Thematic ETF

WORLD ECONOMIC FORUM

"The Fourth Industrial Revolution represents a fundamental change in the way we live, work and relate to one another. It is a new chapter in human development, enabled by extraordinary technology advances…"

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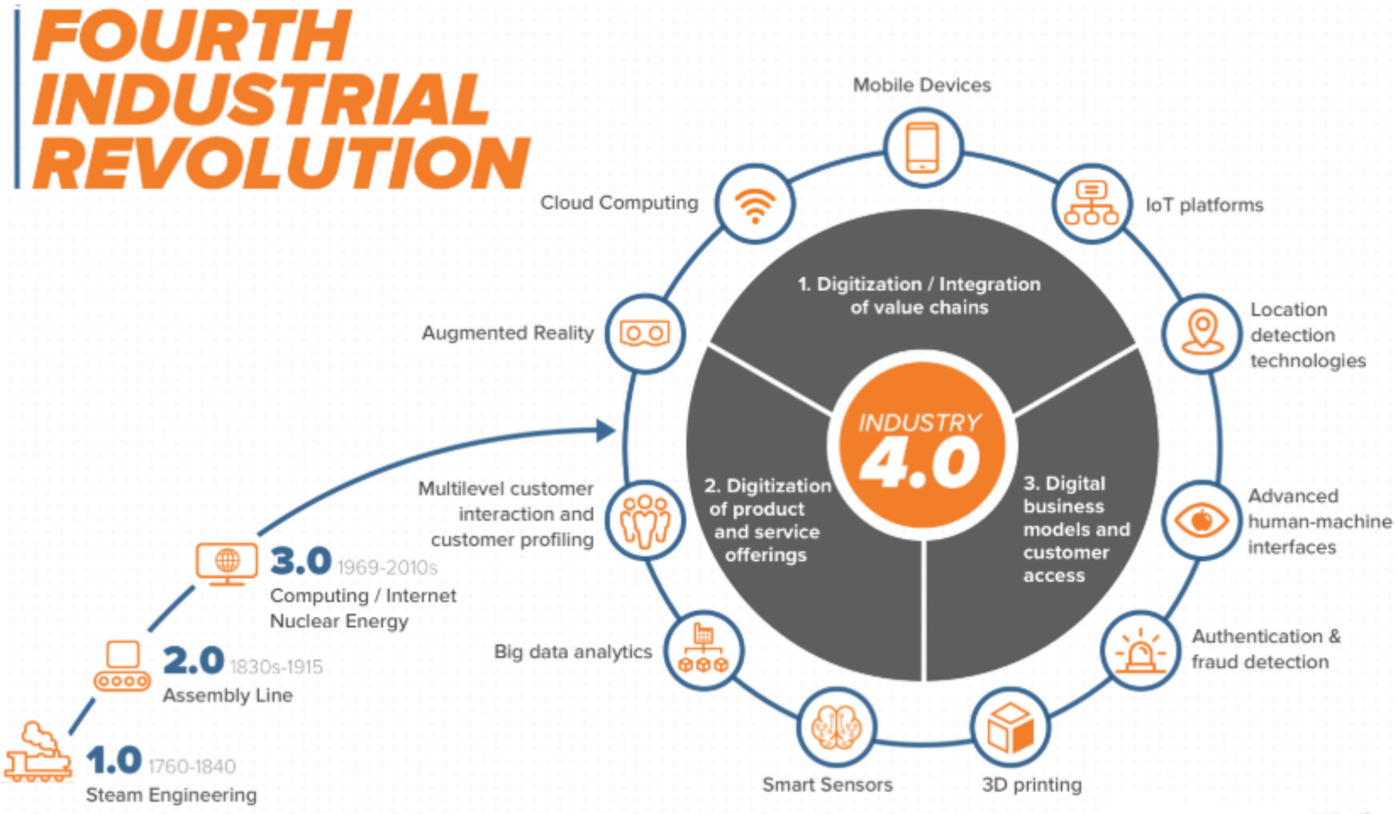
Thematic ETF



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The "core"

What we're looking for

Companies who's sales are least affected in a downturn

Steady dividends

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Avoid cyclical stocks

Financials are out

Operates overseas or offshore exposure

Investments of the future

Look for themes

4th Industrial revolution

<u>Sygnia Offshore ETFs</u>

- Eurostoxx50
- FTSE100
- MSCI Japan
- MSCI US
- SP 500

<u>Coreshares Offshore ETF</u>

- CSP 500

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What my core looks like so Far

Local ETFs (stripped out Financials)
Satrix Industrials
Satrix Resources

Offshore ETFs
Sygnia Eurostocks 50
Satrix Emerging markets

Thematic ETF
SYG4IR (4th Industrial revolution)
Satrix Nasdaq 100

What my core looks like so Far

Equities:

60 %

Local ETFs (stripped out Financials)
Satrix Industrials
Satrix Resources

Offshore ETFs
Sygnia Eurostocks 50
Satrix Emerging markets

Thematic ETF
SYG4IR (4th Industrial revolution)
Satrix Nasdaq 100

How much am I spending?

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How much am I spending?

R 1 000 000

Bonds:

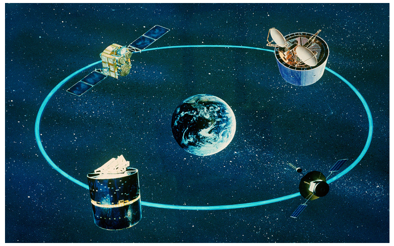
Cash:

Listed property:

Equities:

40 %

60 %



R 400 000

R 600 000

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How much am I spending?

R 600 000

30% Core ETF (R 180 000)

Local ETFs (stripped out Financials)
Satrix Industrials 10%
Satrix Resources 15%
(USD/ZAR)

Offshore ETFs
Sygnia Eurostocks 50 15%
Satrix Emerging markets 15%

Thematic ETF
SYG4IR (4th Industrial revolution) 25% (4.5%)
Satrix Nasdaq 100 20%

60% Satellites (stocks) (R360 000)

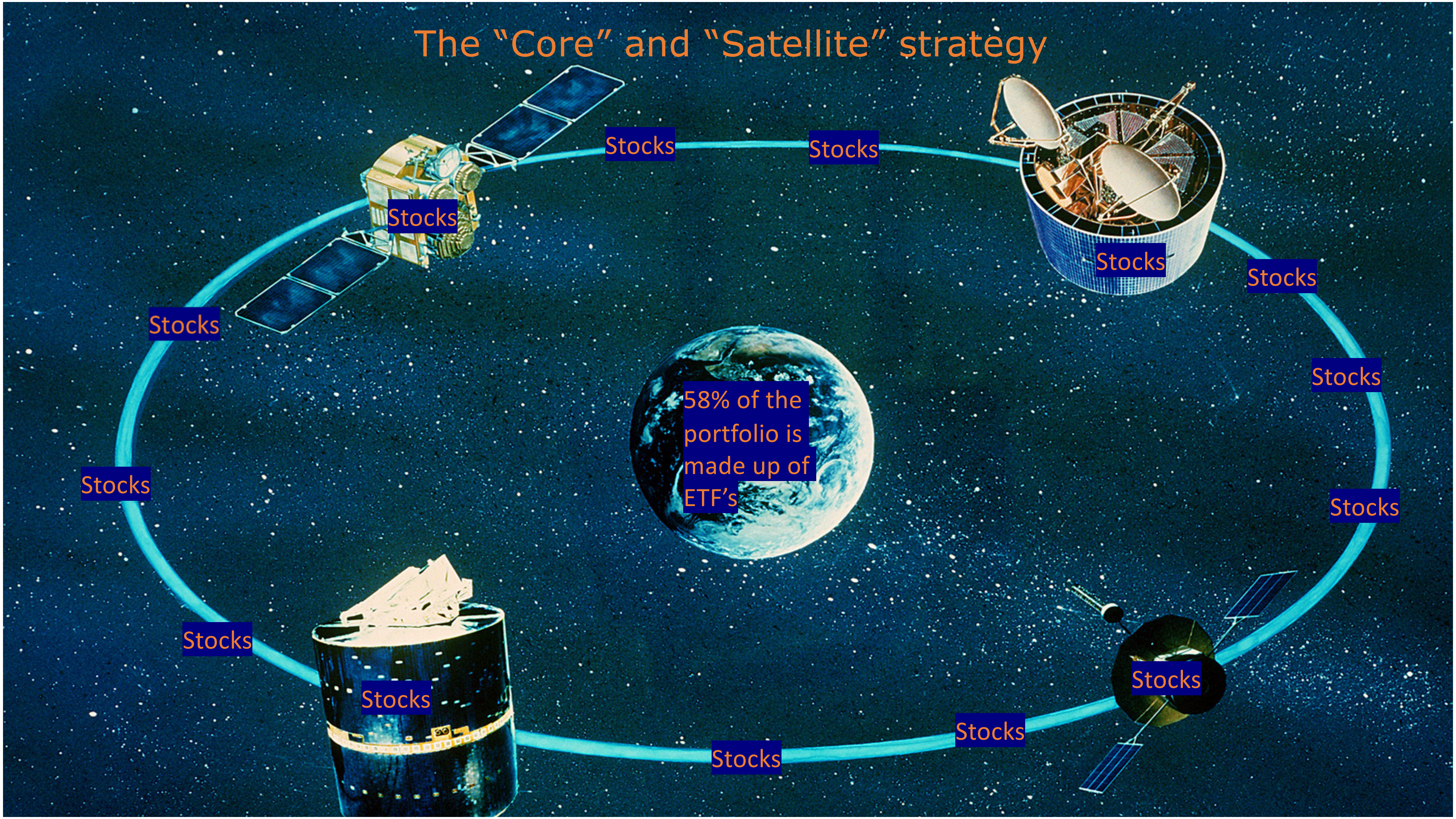
Stock Picking

- Spending R22 000 per stock avoids minimum trade fees
- Gets you 15 to 16 stocks
- Each stock will then represent 2.2%
- Diversify across sectors
- Trade liquid stocks
- Identify rising dividends (not high dividends)

10% opportunistic (R60 000)

"Supplementing" risk capital

- This is high risk capital
- Ready to deploy for high conviction speculation
- Hedge portions of your portfolio
- You will need a leveraged account (futures)


The "Core" and "Satellite" strategy
58% of the portfolio is made up of ETF's
Stocks
Stocks
Stocks
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Stocks
Stocks
Stocks

Our game plan

Bonds:

Cash:

40 %

Listed property:

Equities:

60 %

Here's where seek alpha

Keep up with inflation and earn a yield

- Offshore exposure to boost returns
- Track major markets and sectors
- Hand pick stocks with growth and dividend potential
- Thematic exposure
- Ability to speculate and hedge
- Dampened downside SA risk
- We've thrown the net wider

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What we're trying to achieve?

1. Beat inflation

2. Beat the returns a South African Investor would get from the market

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