



KINGSLEY WILLIAMS
Chief Investment Officer,
Satrix and
MARIE DU PLESSIS
Head of Pooled Investment
Solutions, Sanlam



Unpacking the Satrix Enhanced Balanced Tracker Fund's performance

The Satrix Enhanced Balanced Tracker Fund was launched over 10 years ago as an employee benefit pooled fund utilising Sanlam's life licence to create market-linked investment products. It is ideally suited to investors with a longer-term investment horizon. Typically, these would be investors who are in the earlier stages of saving towards retirement and can afford higher volatility associated with larger allocations to equities. The fund has a proud history of delivering consistent returns to investors through its unique design of combining low-cost index tracking strategies and sensible tactical asset allocation.

These are the key highlights regarding the fund's design and how it is managed:

- The fund is benchmarked to a strategic multi-asset class benchmark, where the benchmark is rebalanced monthly back to its strategic weights
- The fund employs tactical asset allocation relative to the strategic weights within a +/-2% range
- The fund is managed within a tolerance relative to the tactical asset allocation, with a view to minimise turnover in the fund. Only once an internal tolerance is breached in excess of the tactical asset allocation, will a trade be generated. This will typically be off the back of cash flows or extreme market movements
- When trades are necessary, a weight is targeted relative to the tactical asset allocation, to further minimise turnover
- Cash is actively managed to generate excess returns relative to the STeFI Composite Index returns within the multi-asset benchmark
- Within each asset class, the fund tracks its respective asset class benchmark index, either through physical replication, synthetic replication, or a combination of the two. Synthetic replication facilitates excess returns relative to the index by employing a portable alpha strategy with enhanced cash returns.

The fund outperformed its strategic asset allocation benchmark over the last one- and three-years, and performed exactly in line over five-years, as indicated in Figure 1.

FIGURE 1: PERFORMANCE OF SATRIX ENHANCED BALANCED TRACKER FUND AS OF 30 JUNE 2019



Source: Satrix | Gross Total Returns | Returns for periods in excess of 1-year are annualised.

TABLE 1: ASSET ALLOCATION CHANGES

	Benchmark Index	Original Strategic Asset Allocation	Revised Strategic Asset Allocation 1 Feb 2019
Local		78	75
Equity	FTSE/JSE SWIX → FTSE/JSE Capped SWIX 18 June 2018	52.5	49
Property	FTSE/JSE SAPY	5	8
Bonds	JSE All Bond (ALBI)	13	10
Inflation-Linked Bonds	S&P South Africa Inflation Linked Bond 1+Year	0	6
Cash	STeFI Composite	7.5	2
Global		22	25
Equity	MSCI World → MSCI All Country World (ACWI) 1 Feb 2019	14	21
Bonds	Bloomberg Barclays Global Aggregated	8	4
Total Equity		66.5	70

This naturally gives rise to the question, what specifically contributed to the outperformance after trading costs relative to the benchmark? It is also worth noting that a number of changes to the benchmark occurred over the periods analysed, as summarised in Table 1.

Over one-year, the outperformance is attributable to asset allocation effects, primarily being underweight

Source: Satrix

the fund is managed within before a trade is triggered, help to minimise the turnover and transaction costs within the fund. Finally, the fund's size (now in excess of R2bn) further helps to reduce transaction costs arising from flows as these are now relatively insignificant in relation to the size of the fund.

For more information see <http://bit.ly/2Zw1wRe>.

on local equities and bonds relative to the benchmark. This was offset marginally by an underweight position in international asset classes. Within each asset class there is typically a degree of underperformance due to transaction costs, except for local cash, which typically outperforms the STeFI Composite index. Global assets also collectively managed to outperform their respective asset class benchmarks over the last year.

Over three-years, the outperformance is again attributable to asset allocation effects, primarily driven by overweight allocations to local bonds and cash, and an underweight allocation to local equities. The underweight allocation to global equities and bonds detracted marginally from the overall positive allocation effect relative to the benchmark. Within each asset class, there was similarly a degree of underperformance due to transaction costs, except for local cash and offshore assets.

Over five years, the asset allocation effect was marginally positive, which offset the marginally negative selection effect within each asset class, resulting in the fund performing in line with its benchmark.

A key benefit of this fund is its ability to add value from its tactical asset allocation positioning, thereby offsetting the transaction costs associated with tracking a multi-asset class index. Furthermore, the ranges and asset allocation tolerances



2019 Retirement and Investment

JHB: 16th September
KZN: 17th September
CPT: 18th September

T: 011 470 6000 | E: academy@fpi.co.za

