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financial planning club

choose the life you want to live

active vs passive investing:
are you searching for alpha or beta?

Andrew Salmon
chairperson

acsis
trusted advice

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an investor's path

the investor

financial planner

property	cash	equities	bonds
			
active passive	active passive	active passive	active passive

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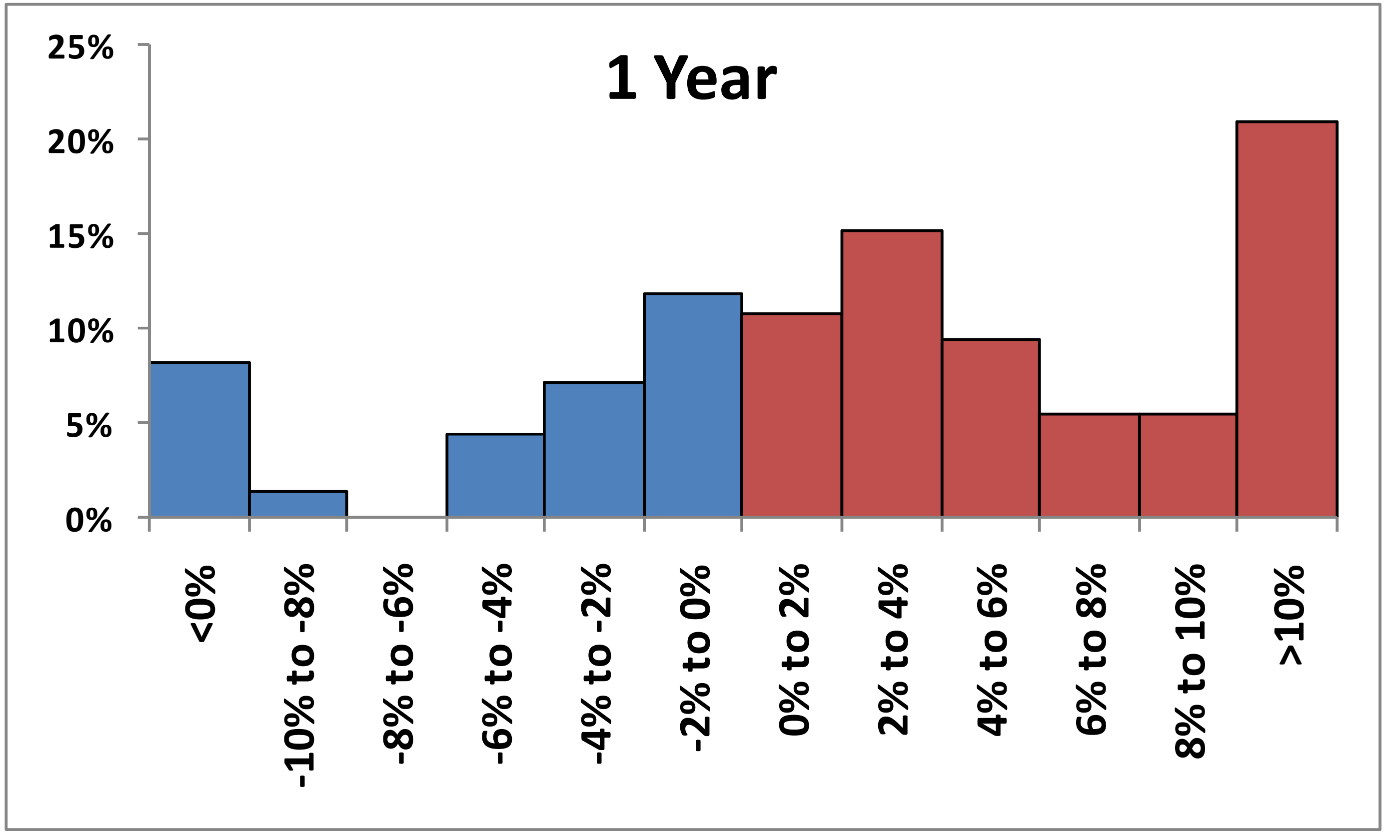
performance of general equity fm in SA – end August 2009



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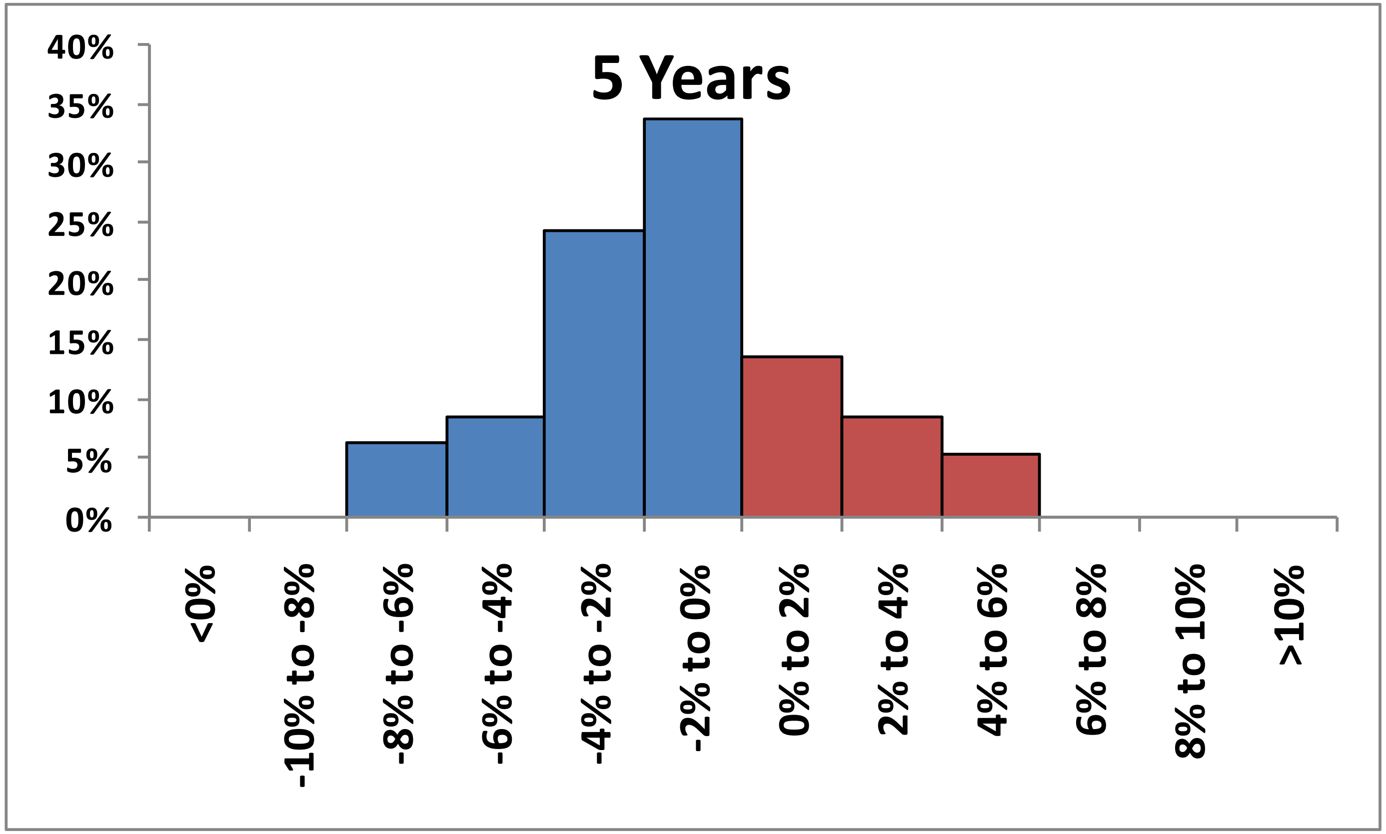

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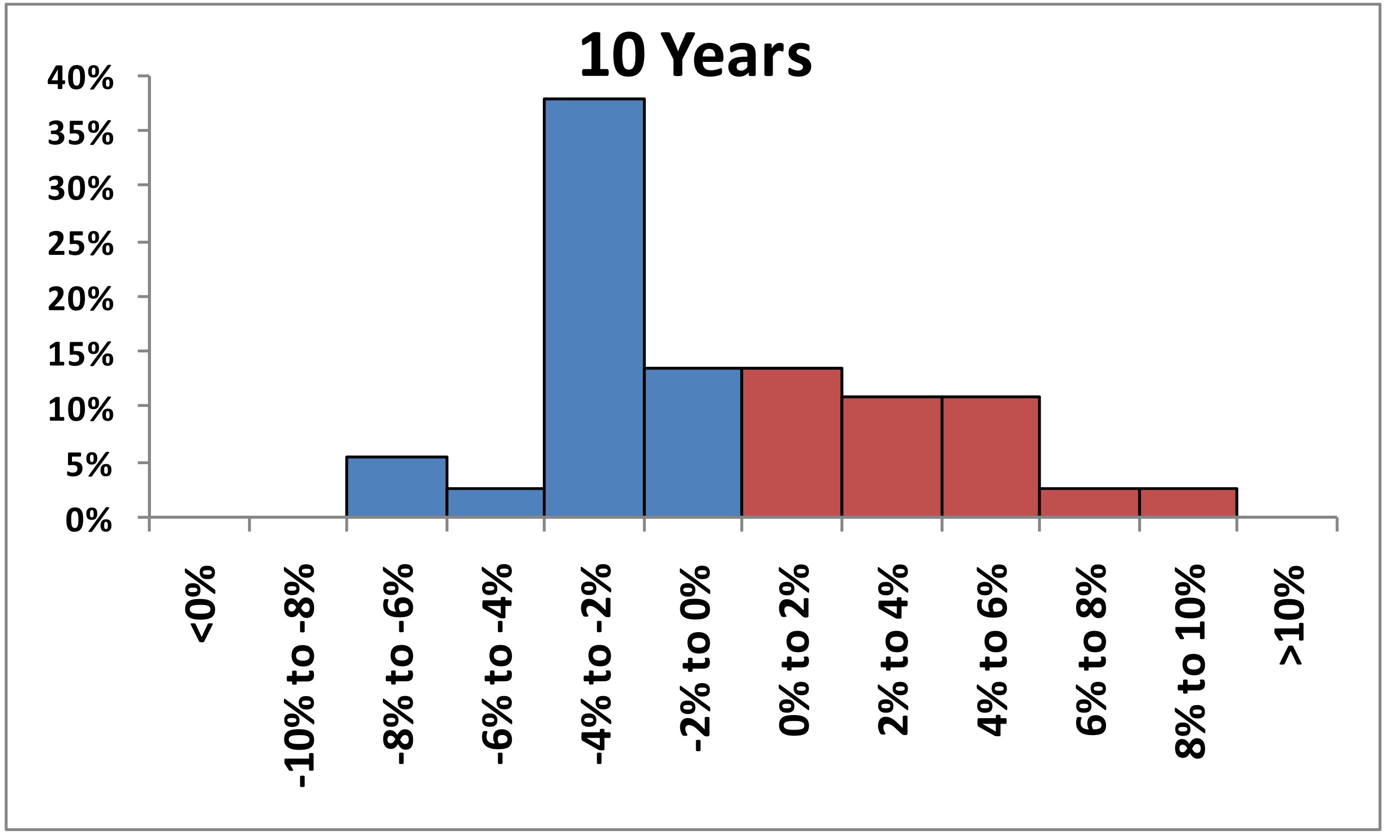

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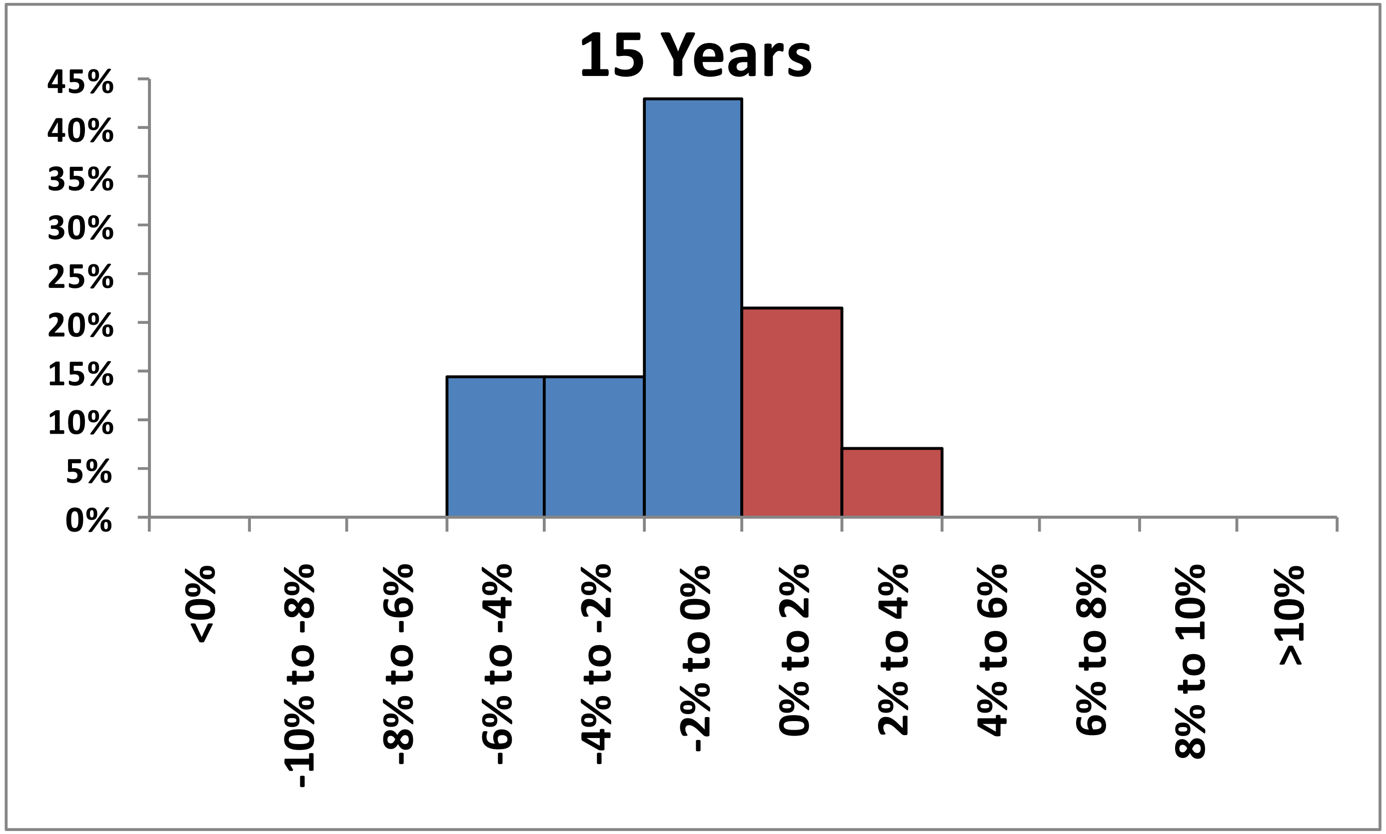
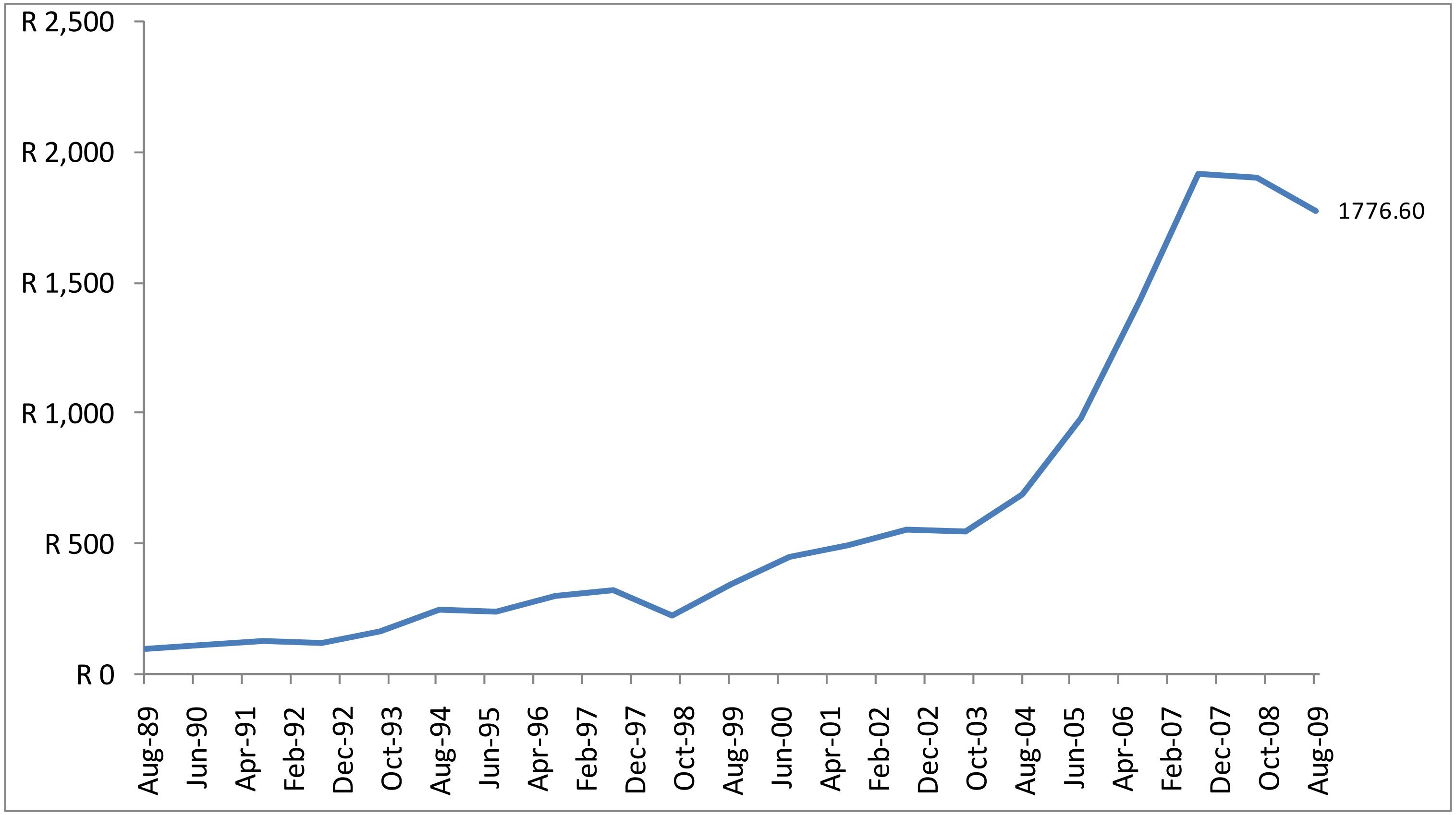
performance of general equity fm in SA – end August 2009



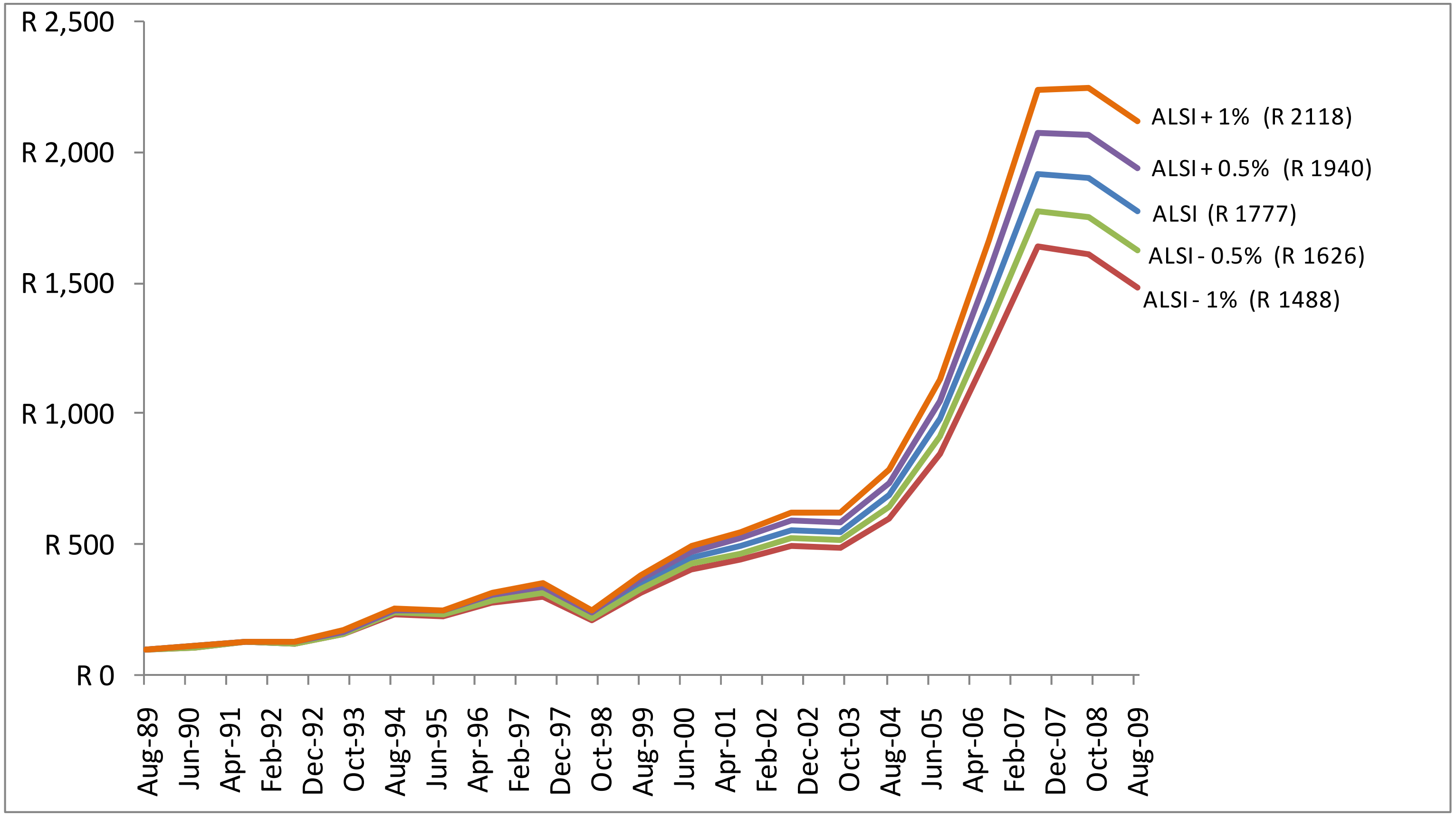
performance of general equity fm in SA – end August 2009

	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
ALSI Total Return	-6.8%	7.4%	20.8%	18.0%	17.6%	14.1%
median manager	-4.0%	6.9%	19.2%	19.4%	16.5%	13.5%
% outperfomed	67%	44%	27%	61%	41%	29%
% underperformed	33%	57%	74%	41%	62%	79%
number of funds	296	176	95	69	37	14

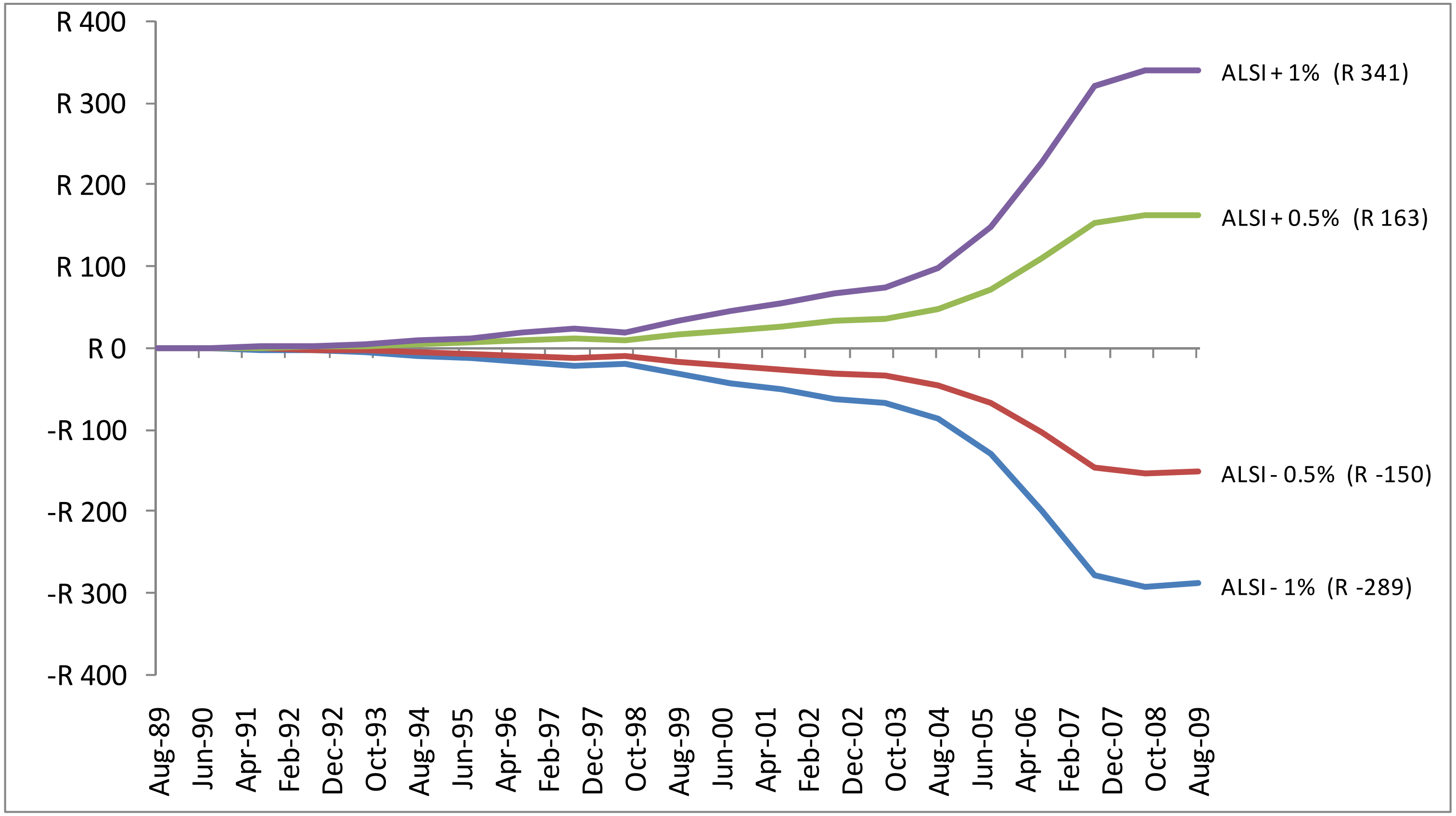
ALSI growth of R100 invested



R100 invested



difference in R100 invested 20 years ago



growth of R100 invested 5,10,15,20 years ago

	ALSI	ALSI - 1%	ALSI - 0.5%	ALSI + 0.5%	ALSI + 1%
5 years	R 257	R 247	R 252	R 263	R 268
10 years	R 506	R 464	R 485	R 528	R 551
15 years	R 720	R 629	R 673	R 770	R 823
20 years	R 1,777	R 1,488	R 1,626	R 1,940	R 2,118

difference in growth of R100 invested 5, 10,15,20 years ago

	ALSI - 1%	ALSI - 0.5%	ALSI + 0.5%	ALSI + 1%
5 years	-R 11	-R 5	R 5	R 11
10 years	-R 42	-R 21	R 22	R 45
15 years	-R 91	-R 47	R 50	R 103
20 years	-R 289	-R 150	R 163	R 341

15 year outperformance

SIM Growth Fund	-4.8%
Nedgroup Investments Growth Fund	-4.4%
STANLIB Equity Fund	-2.9%
Absa General Fund	-2.8%
STANLIB Prosperity Fund	-1.9%
Investec Growth Fund	-1.0%
SIM General Equity Fund	-0.8%
Old Mutual Investors Fund	-0.3%
Old Mutual Top Companies Fund	-0.2%
Old Mutual Futuregrowth Albaraka Equity Fund	0.0%
Community Growth Equity Fund	0.4%
Metropolitan General Equity Fund	0.6%
RMB Equity Fund	1.4%
Investec Equity Fund	2.6%

active vs passive investing:

are you searching for alpha or beta?

Karl Leinberger / Neville Chester

Coronation Fund Managers

the case for active investing

active investing

- the full universe of investors will mathematically always achieve the return of the market
  - for every buyer there is a seller
  - every man’s gain is another man’s loss
- professional investors charge fees
- therefore (after fees) the average active manager must under-perform the market

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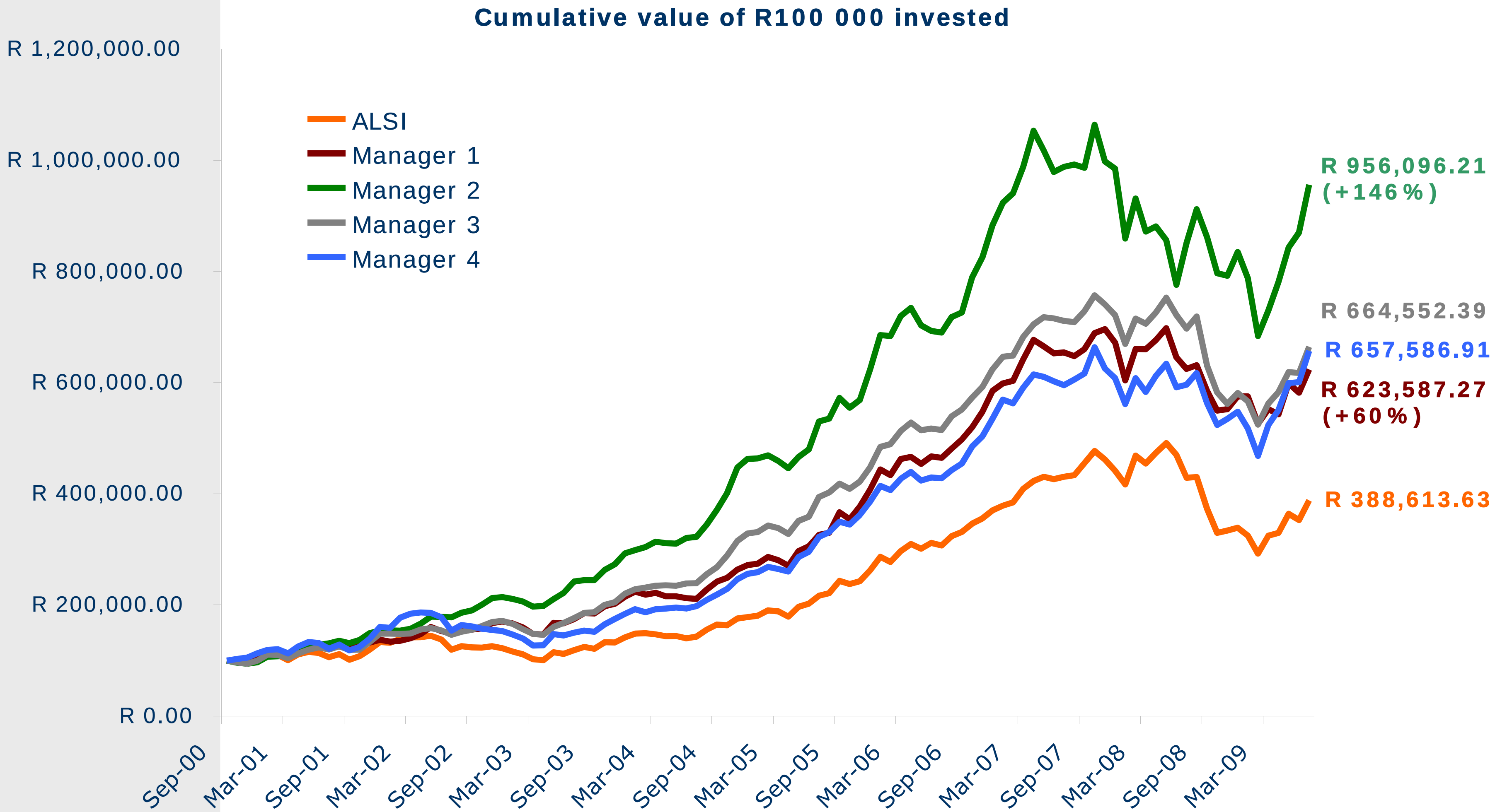
active investing

- while the *average* Fund Manager under-performs

- there are good Managers that *consistently* beat the market
  - short term performance is incontrovertibly random
  - managers should only be assessed on their LT results

- And by a big margin..........

Good managers in SA unit trust market have outperformed big time



Coronation LT track record*

its over the long term that we measure results

* composite of Coronation Equity portfolios since inception of company

active investing

- Will investors that got it right in the last 10 years get it right in the future?
  - in a competitive market surely their competitive advantage will not endure?
  - Are markets not becoming more efficient?

active investing

- we think good investors will keep performing
  1. *emotion* (greed & fear) has trumped reason since the beginning of time.....
  2. *short time horizons* will always result in poor LT decisions
     - smart people make bad LT decisions
     - because under pressure to perform this year
  3. Passive investors & benchmark huggers will always be on the ‘other side’
     - always buy high and sell low

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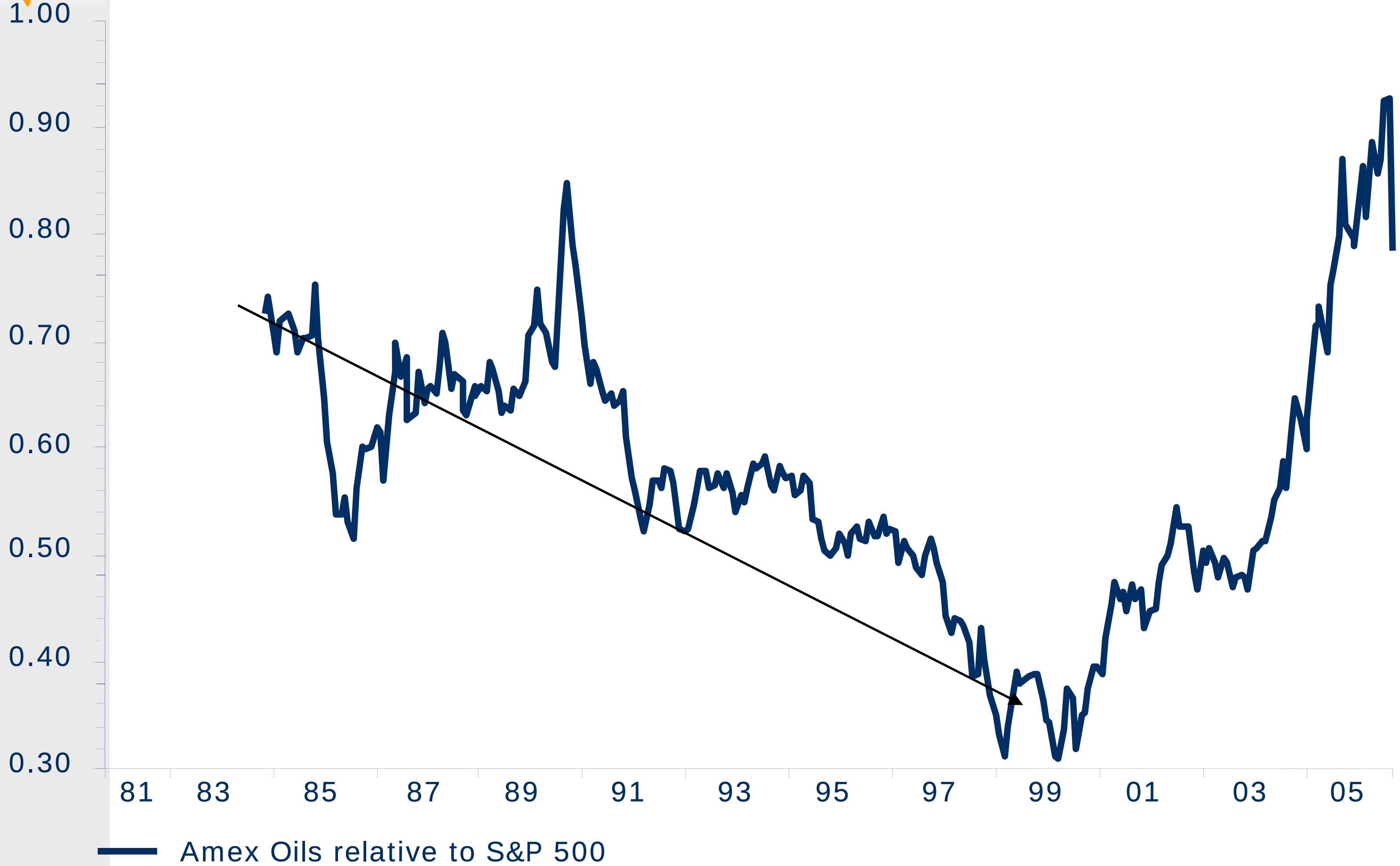
why indices force you to buy high

20 largest global stocks - 1980

- IBM
- AT&T
- Exxon Mobil
- Royal Dutch
- Amoco
- Schlumberger
- Standard Oil
- Mobil
- Chevron Corp
- BP
- Atlantic Richfield
- General Electric
- General Motors
- Texaco Inc
- Shell T&T
- Eastman Kodak
- Halliburton Co
- Phillips Petroleum
- Gulf Corp
- Marconi

oil vs US market



Source: Thomson Datastream

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taking a longer-term view
20 largest global stocks - 1990

- NTT
- Industrial Bk Japan
- Sumitomo Bank
- Fuji Bank
- Dai–Ichi Kangvo
- Bank Tokyo-Mits
- Exxon Mobil
- General Electric
- Tokyo Electric
- IBM
- Sanwa Bank
- Toyota Motor
- AT&T
- Nomura Securities
- L-T Credit Bank
- Royal Dutch
- Philip Morris
- Nippon Steel
- Tokai Bank
- Sakura Bank

Japanese stock market

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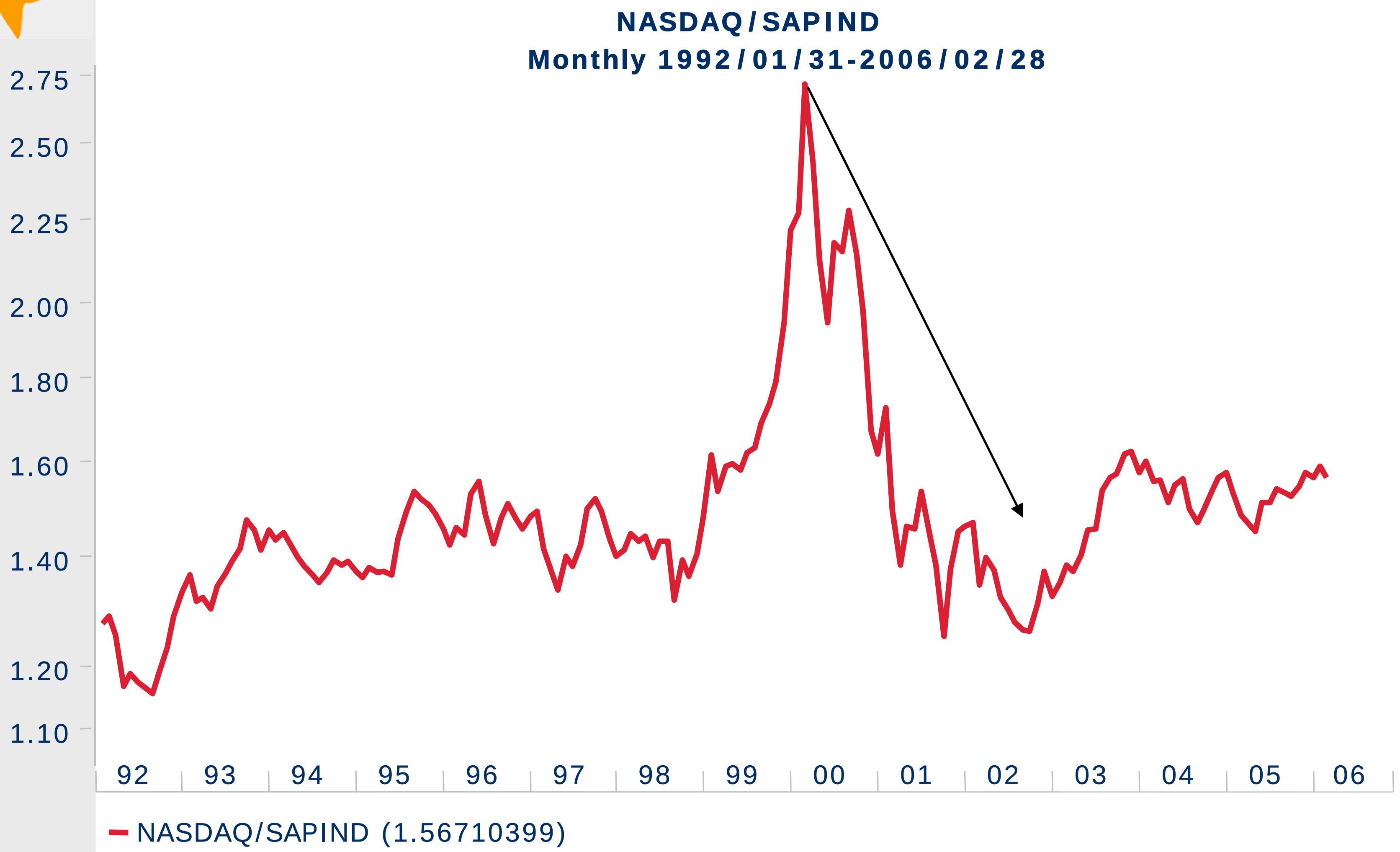
taking a longer term view
20 largest global stocks – March 2000

- Microsoft
- Cisco
- General Electric
- NTT Docomo
- Intel
- Vodafone Airtouch
- Deutche Telekom
- Exxon Mobil
- Nokia
- Wal-Mart
- Oracle
- IBM
- Lucent
- Ericsson
- NTT
- France Telecom
- Sun Microsystems
- Citigroup INC
- Soft Bank
- Nortel Networks

NASDAQ vs US market



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taking a longer-term view

20 largest global stocks - 2008

- Exxon Mobil
- Petro China
- China Mobile
- GE
- Gazprom
- Ind & Comm BK
- Microsoft
- PetroBras
- Royal Dutch
- BHP Billiton Ltd
- AT & T
- BP
- Wal Mart
- China Construction Bank
- HSBC
- Procter & Gamble
- Berkshire Hathaway
- Total SA
- Chevron
- Nestlé

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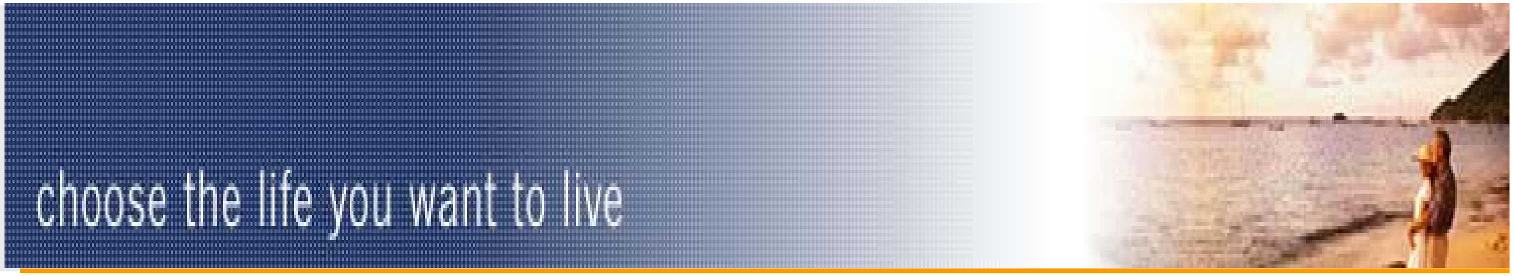


active vs passive investing:
are you searching for alpha or beta?

Roland Rousseau
Independent Consultant to Satrix

the case for passive investing

skill is not enough!

"An investment manager is somebody who is happy to trade your hard-earned money for his commission."

quote in the Financial Times by an investor

the Bill Miller debate...

The Legg Mason Primary Value Fund is one of the most successful active funds in the world and has outperformed the S&P500 for 13 years in a row.

Active Community: What is the chance of tossing that many heads in a row? ie. 0.2%

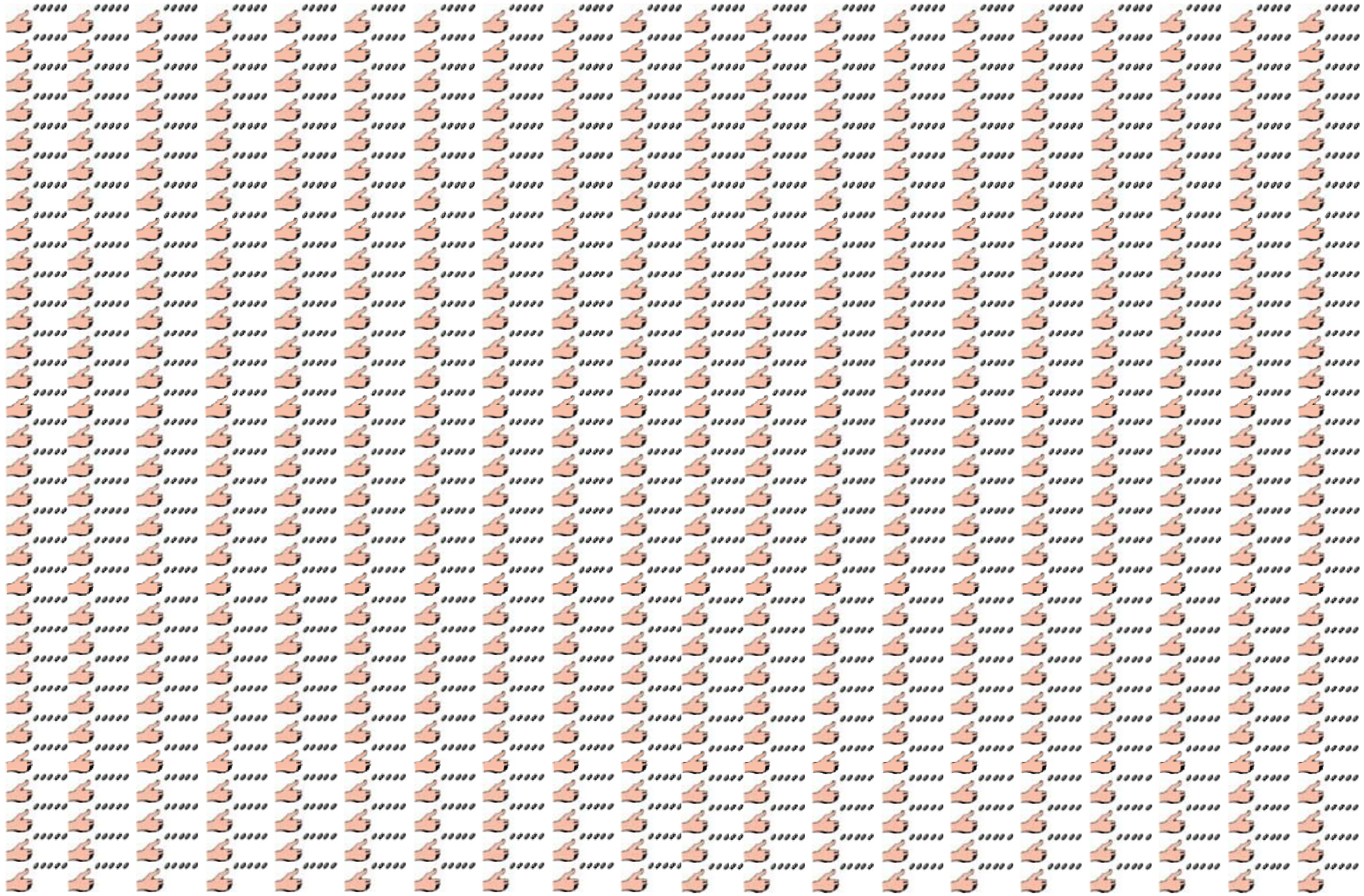
Passive Community: But there are over 1000 managers tossing coins! ie. 2 managers

Dartmouth College lets its students, as part of their education, analyse how much the Legg Mason fund's return variability comes from value, size and market risk. Their conclusion is: *"The high returns are associated with the fund's extreme exposure to small-cap and value risk rather than the skill of the manager. The three factors explain all but 8% of the variation in historical returns."* So 92% of the returns' variability come from just 3 factors!

Who is going to be the next Bill Miller?

fact: over last 5 years, ±600 coin tossers in SA pa.

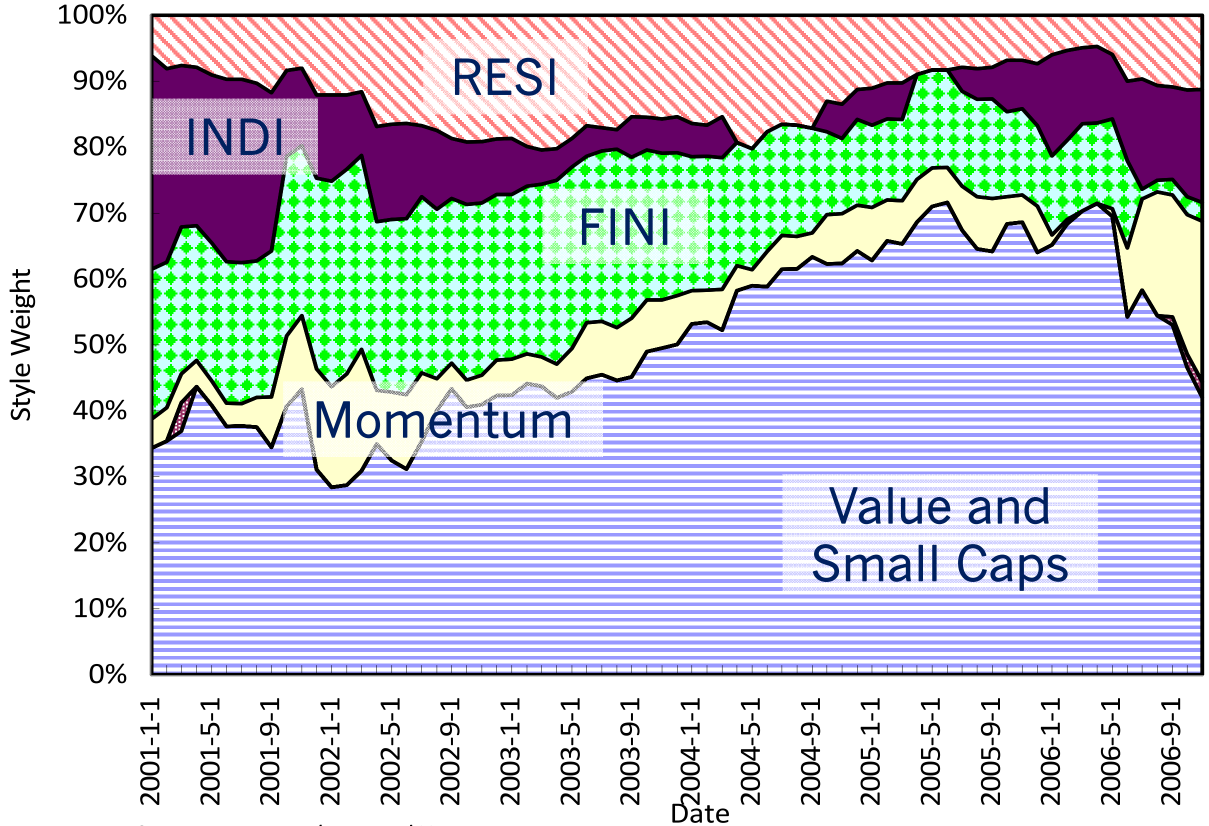
Fact: Only 40 Liquid stocks on the JSE



Fact: Statistically, 18/600 managers should toss 5 heads in a row, without any skill !

DNA of portfolio returns

historic breakdown of DOEQ returns using only few building blocks



Source: van Rensburg and Yu

Out-of-sample Style Breakdown

ACI Domestic Equity Funds	91%
Allan Gray Equity Fund	87%
Coronation Equity Fund	89%
Investec Equity Fund	87%
African Harvest Equity	89%
Oasis Gen Equity Fund	82%
OM Investors Fund	92%
Prudential Equity Fund	85%

Conclusion: only ±10% of the variability in portfolio returns is due to manager stock selection skill

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costs matter

~ what are the odds of outperforming after costs?

Period	Chance of outperforming with 0.75% costs pa
1 year	40%
5 year	34%
10 year	22%
25 year	16%
50 year	6%

Source: Ennis Knupp – United States

~ never underestimate the impact of costs (0.4% vs 1.7% in SA)!

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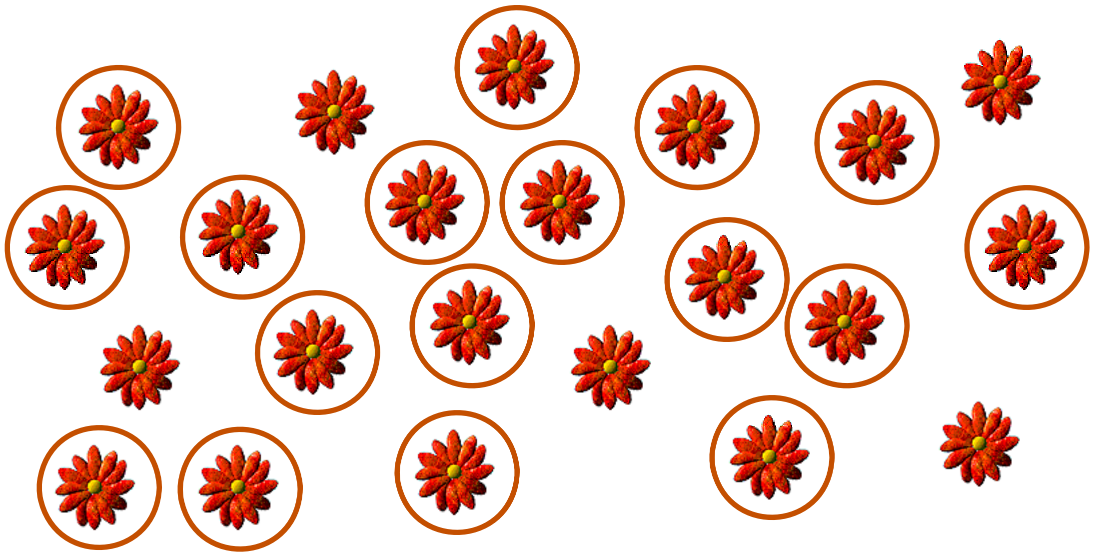
conclusion

~ would you invest with this manager if he outperformed
17/22 general equity funds over the last 5 years?



Since June 2004, only 5/22 general equity funds managed to outperform the FTSE/JSE Top 40 index!

thank you

Roland Rousseau
Independent Consultant to Satrix