

GLOBAL EQUITIES

LOCAL ALPHA

**Prescient**  
INVESTMENT MANAGEMENT

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Asset

Globalisation

GOING OFFSHORE  
The Opportunity Set





# ASSET GLOBALISATION

## The Opportunity Set



## ASSET GLOBALISATION

# The Opportunity Set

~0.4%

South Africa's share of  
global market capitalisation

*Staying local means ignoring 99.6% of the  
world's investable universe*

### Return Potential

Global equities have delivered superior long-run returns driven by depth of innovation, technological disruption and a broader growth opportunity set.

### Risk Diversification

SA economic cycles, rand volatility and policy risk are idiosyncratic. Global diversification materially reduces portfolio risk and drawdown depth.

### Regulatory Tailwind

Increasing offshore allocation limits signal a structural shift - investors are expected to access global markets. Staying fully local is no longer best practice.

*Every rand converted from a lifetime of work deserves to work in the broadest opportunity set available.*

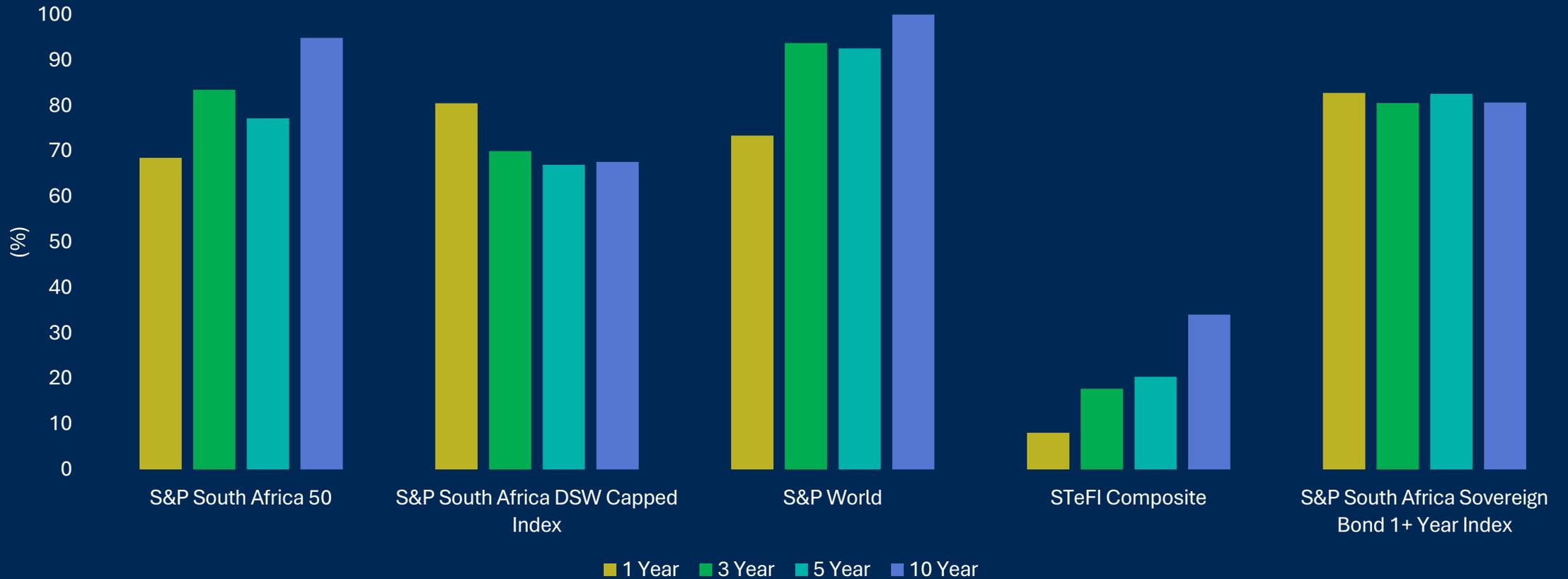


The Active  
Underperformance  
Problem

# THE ACTIVE UNDERPERFORMANCE PROBLEM

## The numbers

S&P SPIVA Mid-Year Scorecard 2025: South African Funds Underperformance



Source: S&P Dow Jones Indices, Morningstar, 30 June 2025

# THE UNDERPERFORMANCE PROBLEM

## Why Local Active Equity Managers Struggle

### Hyper-efficiency

Global large cap stocks are among the most researched in the world - thousands of analysts covering each name.

### Capital-intensive

Traditional offshore mandates require physically exporting rands - every rand sent abroad is a rand no longer working locally.

### Information disadvantage

SA-based managers face time zone gaps, travel costs and limited on-the-ground intelligence in foreign markets.

### Cost drag

Currency conversion costs, management fees and transaction costs compound into significant performance headwinds.

**15.31%**

of funds **outperformed** the S&P Composite 1500® over 5 years

**84.69%**

of funds **underperformed** the S&P Composite 1500® over 5 years



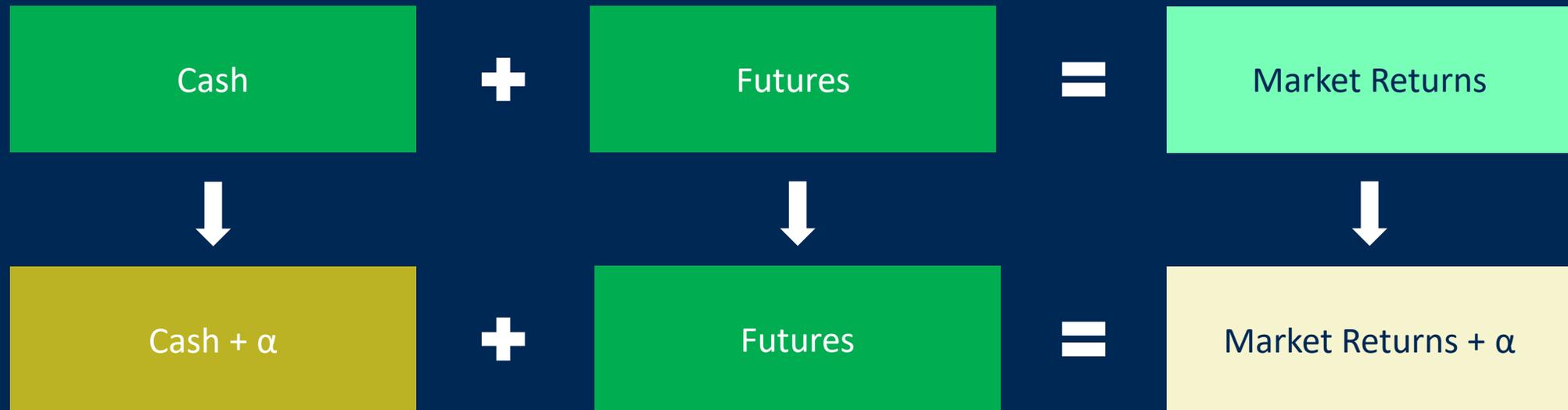


# The Systematic Solution

Holding  $\neq$  Exposure

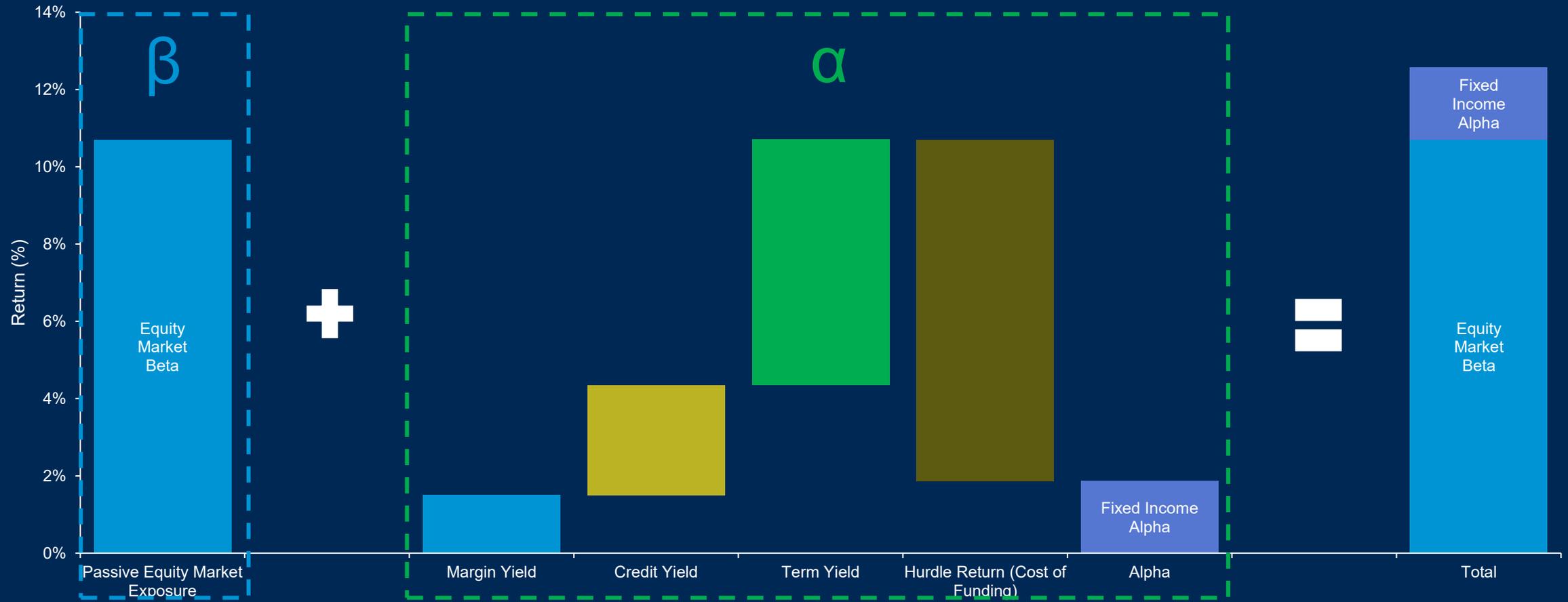
## THE SYSTEMATIC SOLUTION

# Portable alpha explained



# THE SYSTEMATIC SOLUTION

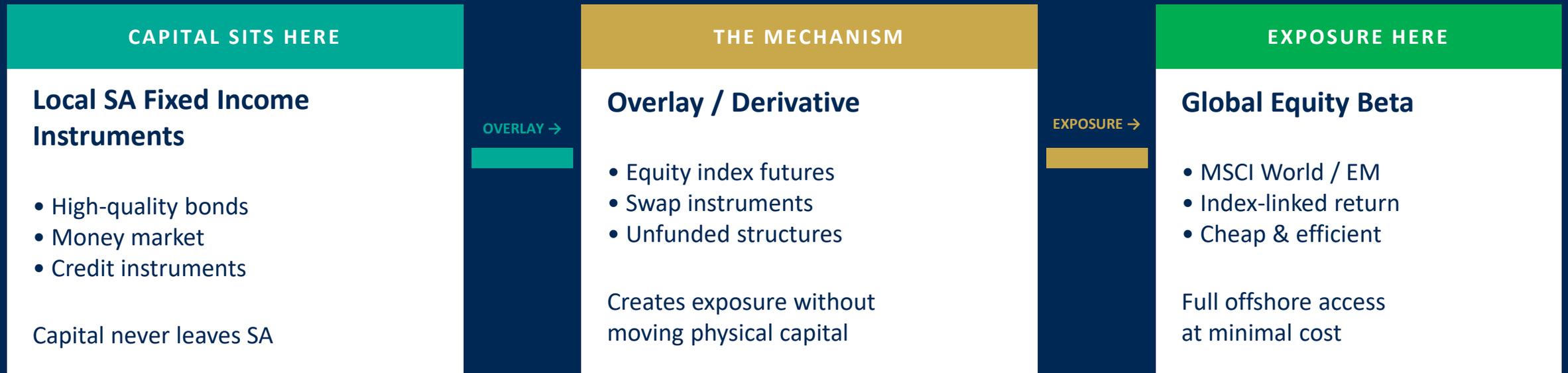
## Portable alpha explained



# THE SYSTEMATIC SOLUTION

## Portable alpha explained

Think: Liberating Capital While Maintaining Exposure



**RESULT: Two return streams - local fixed income alpha + global beta - from one pool of capital**



Why this works:

The Structural

Advantage

Where does the advantage come from?

# ACTIVE INCOME ALPHA

## The Local Advantage

Factor	Global Equity	Local FI
Market Efficiency	High	Moderate
Analyst Coverage	Very High	Moderate
Manager Edge	Low	High
Alpha Opportunity	Low	High
Cost of Access	High	Low

### Genuine Information Edge

Local bond and credit markets are less liquid and less widely followed. Deep local expertise — relationships, issuer access, market micro-structure knowledge — translates directly into performance.

### Real Yield Opportunities

South African fixed income offers attractive real yields relative to developed markets. Skilled duration and credit positioning adds consistent value over time.

### Consistent, Low-Volatility Alpha

Unlike equity alpha which is lumpy and cyclical, fixed income alpha from systematic credit and income strategies tends to be more stable, with lower drawdown risk.

Harvest **beta** where it is cheap, mine **alpha** where it is richest

# THE CAPITAL DEPLOYMENT FRAMEWORK

## Where Capital Should Work

### Buying Beta

*via physical allocation*

Efficiency: **Very Efficient**

Exp. Return: **Low**

- Markets fully price this
- Cheaply available via futures
- Zero information advantage
- No alpha opportunity

### Harvesting Local Yield

*active fixed income management*

Efficiency: **Less Efficient**

Exp. Return: **Higher**

- Genuine manager edge
- Institutional frictions to exploit
- Real yield pickup available
- Consistent alpha generator

### Systematic Alpha Engine

*rule-based, multi-premium*

Efficiency: **Least Efficient**

Exp. Return: **Highest**

- Multiple premia stacked
- Complexity is the moat
- Behavioural + structural edge
- Compounding diversification

Capital should be deployed where markets are least efficient - and that is precisely what portable alpha does.

# WHY THIS WORKS

# The Structural Carry

## Why EM Rates Are Structurally Higher

### Inflation Risk Premium

EM central banks maintain higher policy rates to anchor inflation expectations in volatile macro environments.

### Currency Risk Premium

Higher rates compensate global investors for holding EM currency exposure.

### Fiscal Risk Premium

Sovereign credit risk and higher debt-service costs embed additional spread into local rates.

### Liquidity Premium

Thinner markets mean investors demand extra compensation for liquidity risk at all tenors.

## The Portable Alpha Carry Mechanic

Local Cash Return USD

*SA short-end (SARB repo + EM spread)*

Alpha

*Active cash management benefit (structural benefit)*

Funding Cost

*DM short rates (USD SOFR + funding spread)*

$$E[\text{Excess Return}] = (\text{Local USD Rate} - \text{Funding Rate}) + \text{Alpha} - \text{Costs}$$

# WHY THIS WORKS

## The Structural Carry

Expected Excess Return =

$$(\text{Local USD Rate} - \text{Funding Rate}) + \text{Alpha} - \text{Costs}$$

### + Local USD Rate

*EM Short Rate*

Example: ~5% (SA Bank USD Depo)

This is the return on capital deployed to **local USD instruments**. It is the richest leg.

### - Funding Rate

*DM Short Rate*

Example: ~4% (USD SOFR)

The **cost of gaining offshore equity beta** exposure via futures/swaps.

### + Alpha

*Active Outperformance*

Example: +1-2% target

The additional return from **skilled active management** in less efficient local markets.

### - Implementation Costs

*Friction*

Example: ~0.4%

**Derivatives roll costs, management fees, admin.** Kept deliberately low by systematic design.



The Evidence  
Active FI Alpha  
Exists Locally

# ACTIVE INCOME OUTPERFORMANCE

## South African Fund Managers

**34%**

of funds **underperformed** the SteFI Composite over 10 years

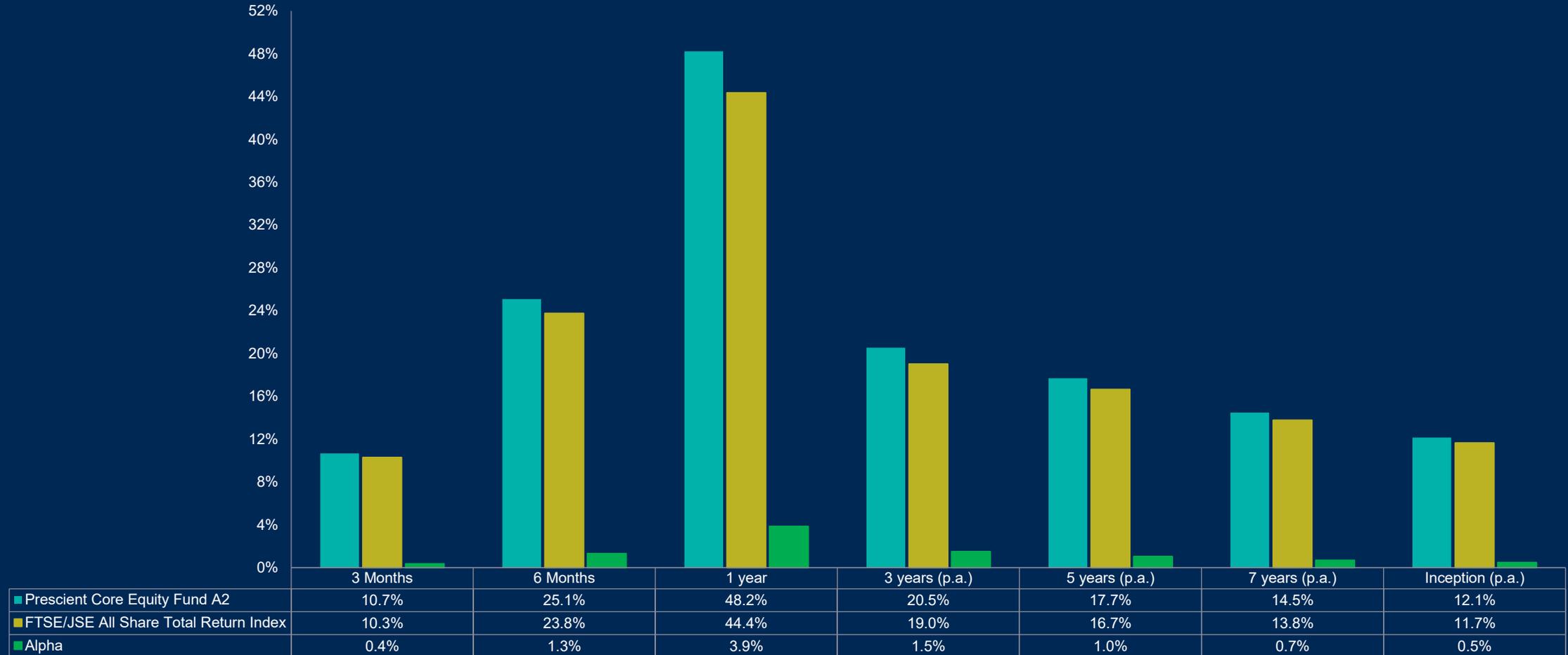
**66%**

of funds **outperformed** the SteFI Composite over 10 years



# THE NEW EDGE

## Consistency in a Noisy World





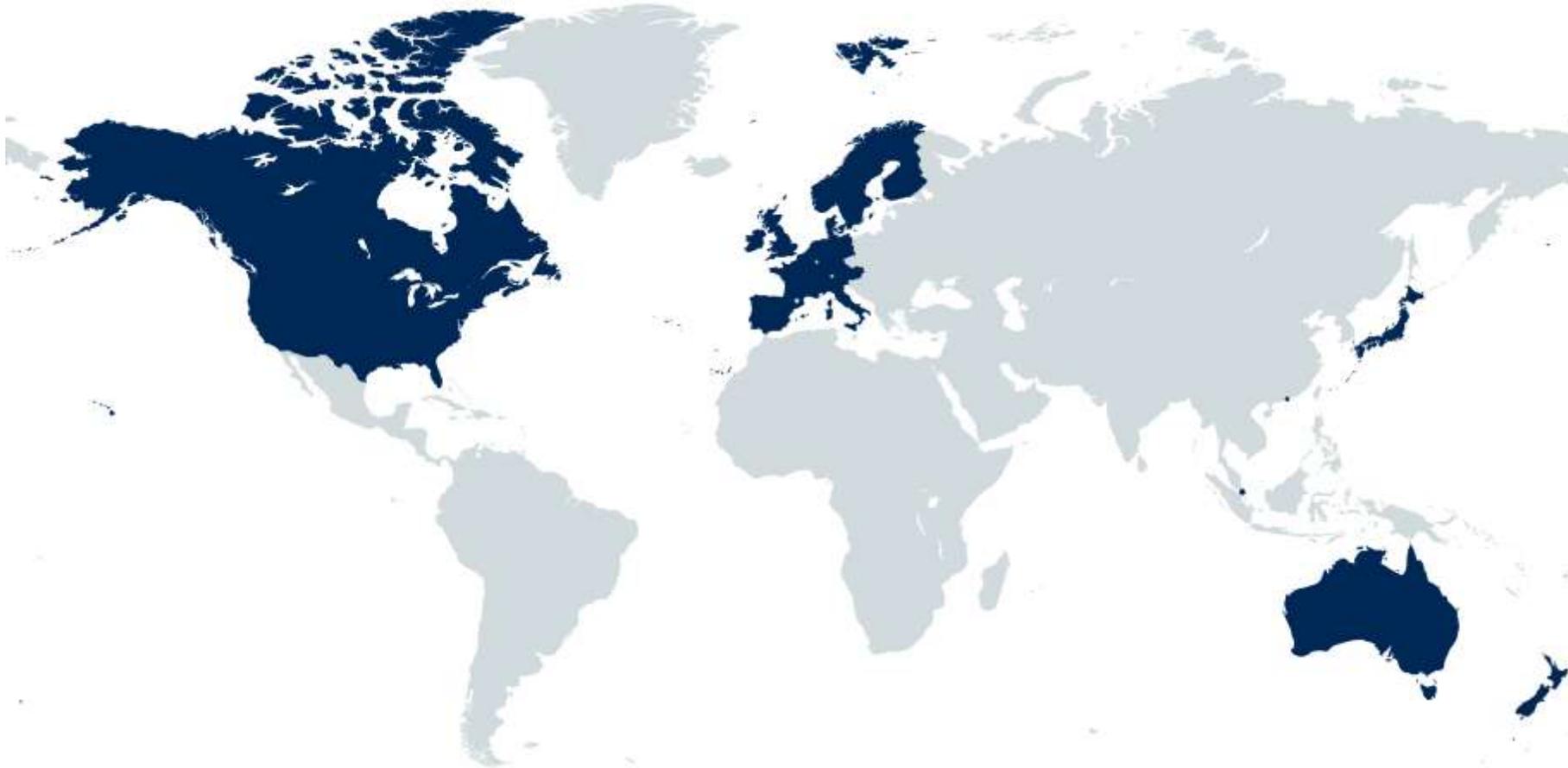
Equity

Outperformance

Globally

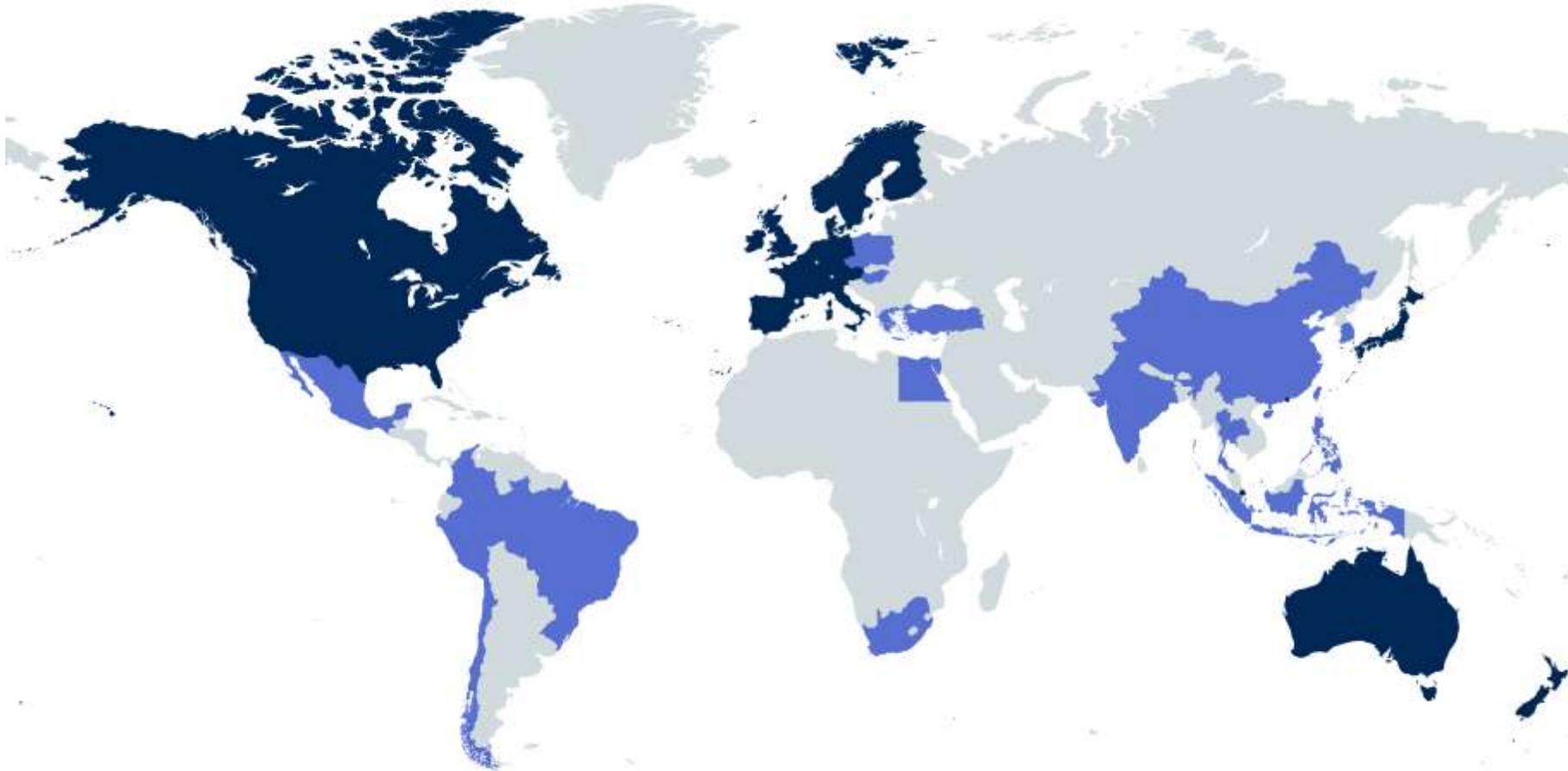
EQUITY OUTPERFORMANCE ACROSS ALL INDICES

# Operationally Efficient: MSCI World Countries



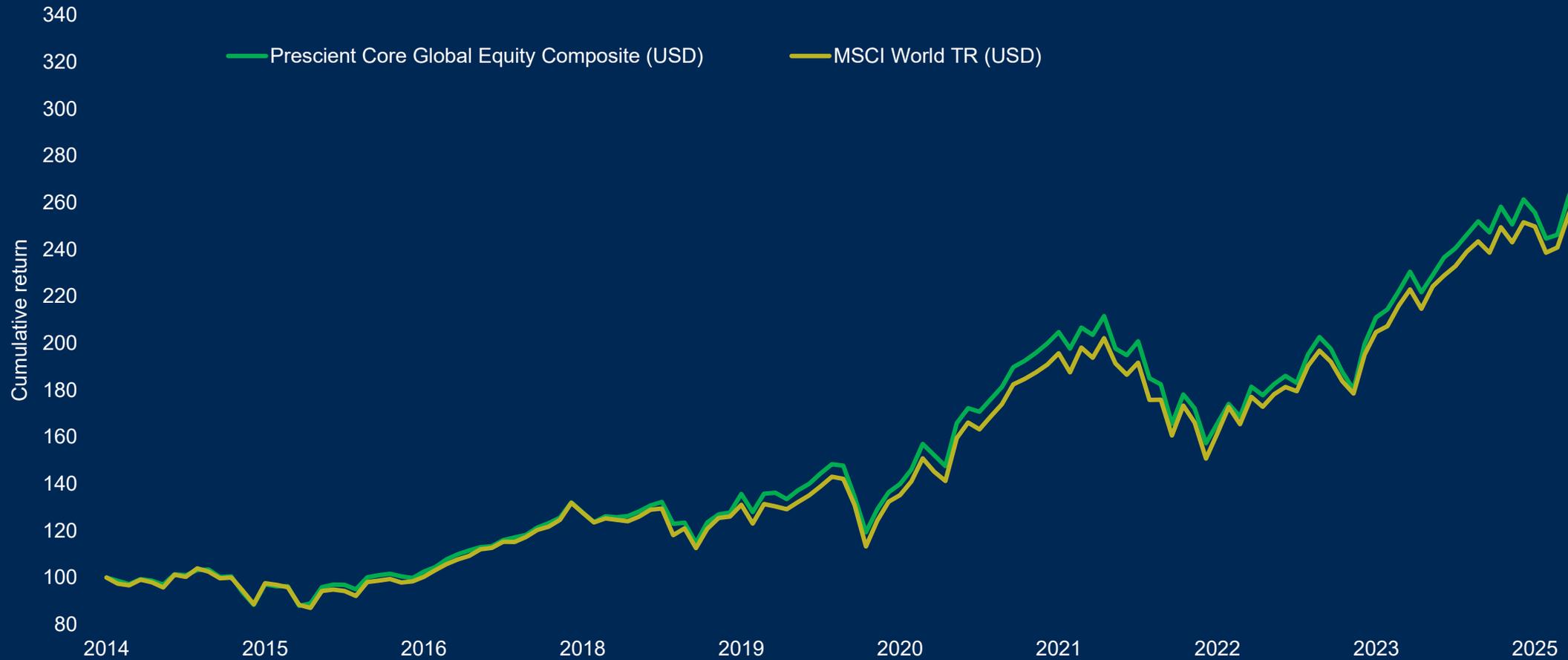
EQUITY OUTPERFORMANCE ACROSS ALL INDICES

# Operationally Efficient: MSCI ACWI Countries



# THE NEW EDGE

## Consistency in a Noisy World



## COMMON QUESTION

# Why isn't everyone doing this?

### Derivatives Expertise

Requires deep experience in equity futures, swaps, and structured overlay construction

### Fixed Income and Cash Management

Managing collateral, margin, duration and credit exposure demands sophisticated fixed income skill set.

### Risk Overlay Infrastructure

Real-time risk monitoring across multiple premia layers needs institutional-grade systems and investment infrastructure set up.

### Operational Sophistication

Settlement, reporting, compliance, and oversight of synthetic structures is non-trivial.

**Prescient**  
INVESTMENT MANAGEMENT

# THANK YOU

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Long-Term Insurance: Category B2	X	X	X
Long-Term Insurance: Category B2 - A	X	X	X
Long-Term Insurance: Category B1 - A	X	X	X
Long-Term Insurance: Category C	X	X	X
Retail Pension Benefits	X	X	X
Pension Funds Benefits	X	X	X
Shares	X	X	X
Money market instruments	X	X	X
Debentures and securitised debt	X	X	X
Warrants, certificates and other instruments	X	X	X
Structured deposits	X	X	X
Participatory interest in a hedge fund	X	X	X
Bonds	X	X	X
Derivative instruments	X	X	X
Participatory interests in Collective Investment Schemes	X	X	X
Forex Investment	X	X	X
Long – term Deposits	X	X	X
Short – term Deposits	X	X	X

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