

# Can SA fixed income produce 'equity-like' returns with less risk?

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**PORTFOLIOMETRIX BCI DYNAMIC INCOME FUND**

This presentation is intended for professional investment advisers



PORTFOLIOMETRIX  
Investment Management by Design



**Biggest question I get at the moment?**

**Should I buy a fixed life annuity  
for my clients at these high levels?**

**Biggest question we face every day?**

**Fixed rate bonds**  
**or**  
**Floating rate bonds**

**Biggest question we face every day?**

**Government Bonds (Volatility)**

**or**

**Corporate Bonds (Credit Risk)**

**or**

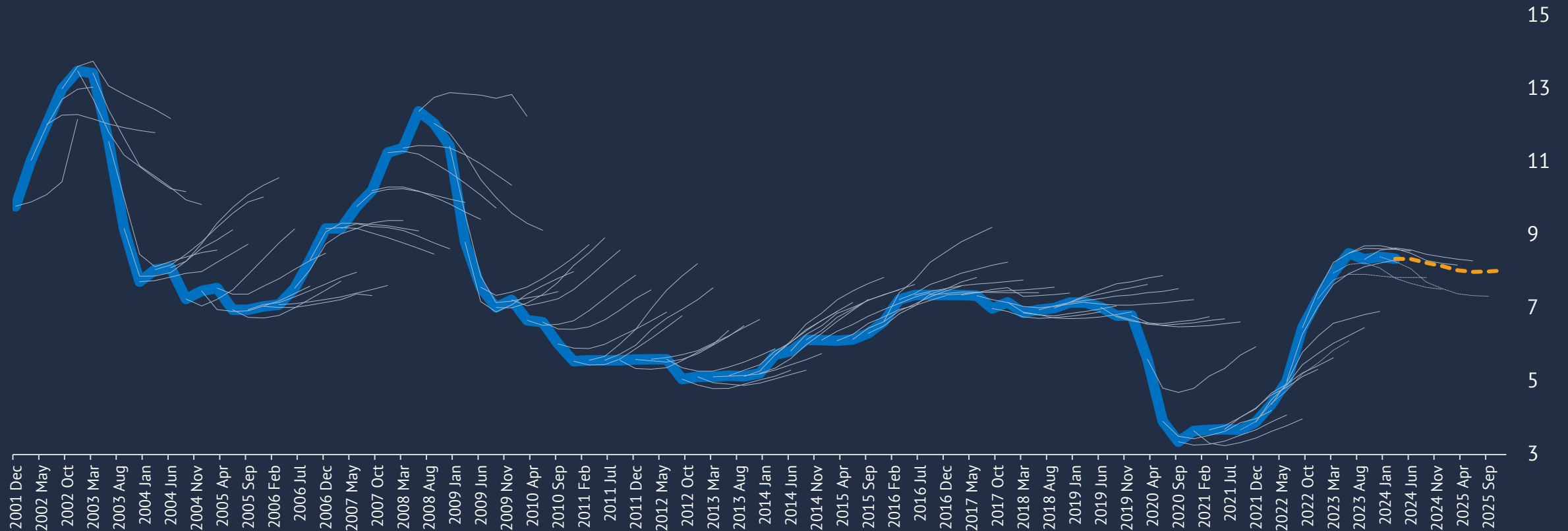
**Money Market**



# SA rates – market has changed its mind (again)

What lies ahead remains uncertain over the short-term

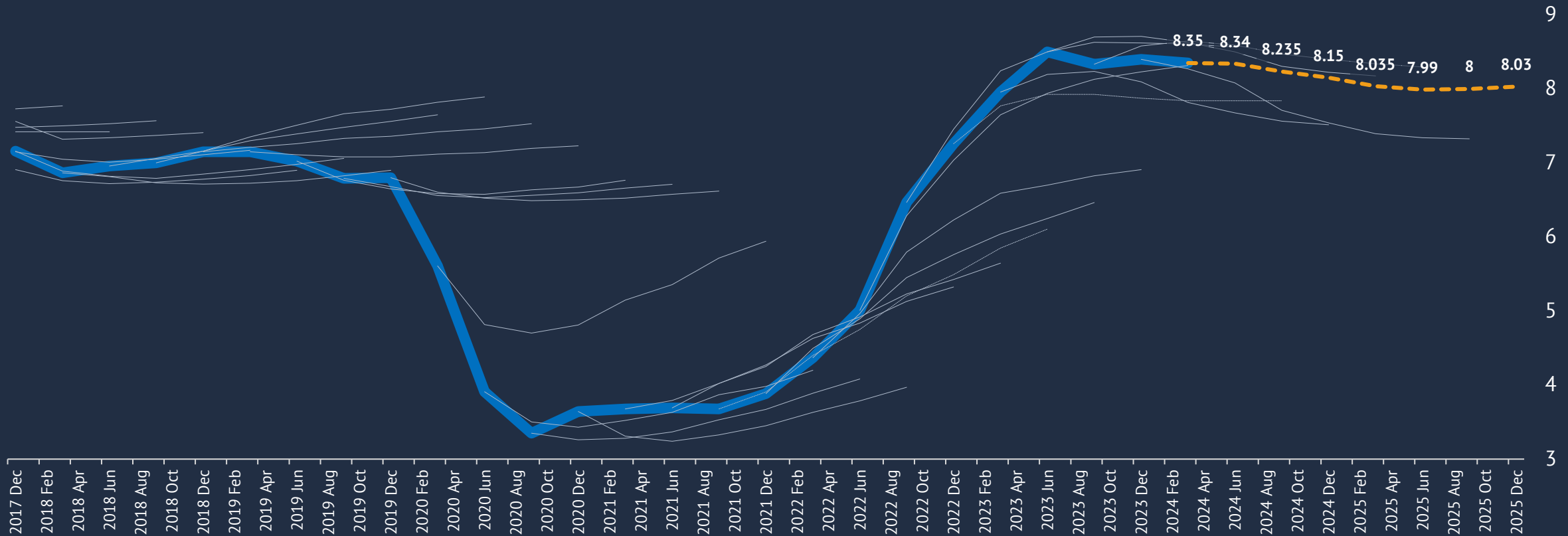
SARB Repo Rate versus FRA Expectations



# Forward rates aren't helpful predicting rate cuts

What lies ahead remains uncertain over the short-term

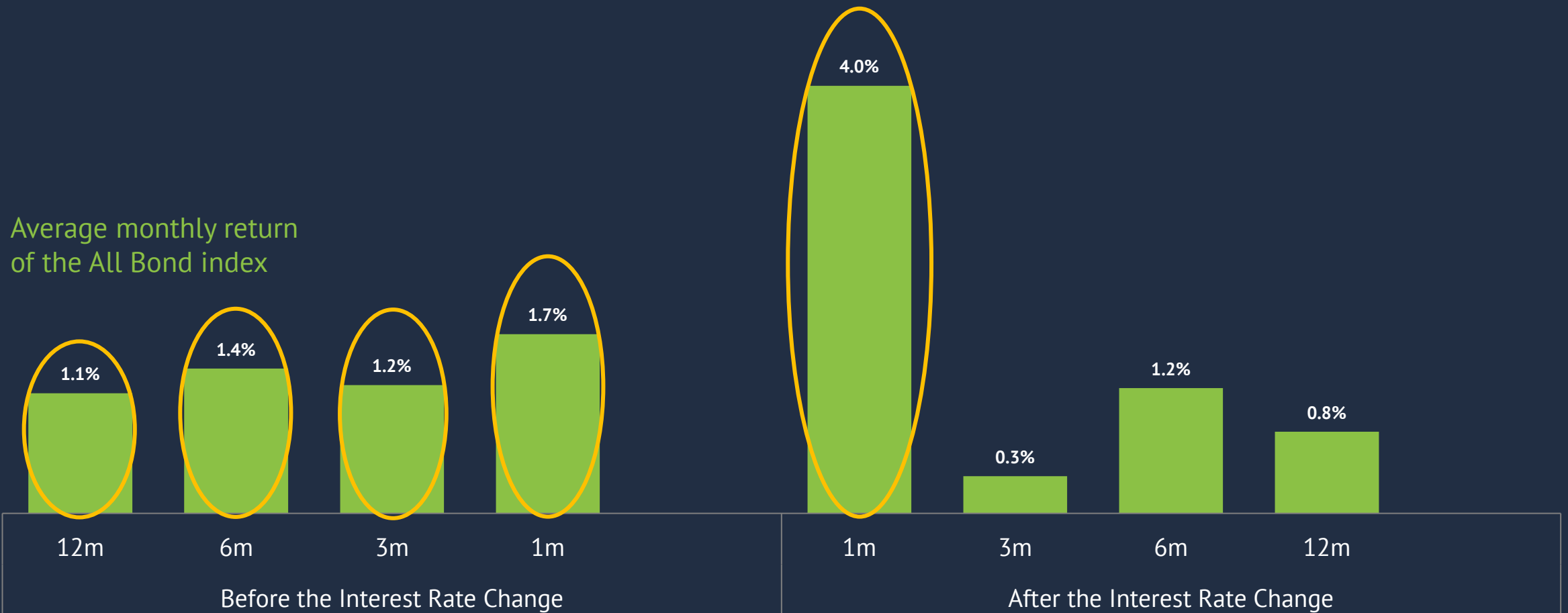
SARB Repo Rate versus FRA Expectations





# Investors need to buy bonds *before* rate cuts begin

Timing this is tricky and thus there needs to be a tradeoff between risk and return



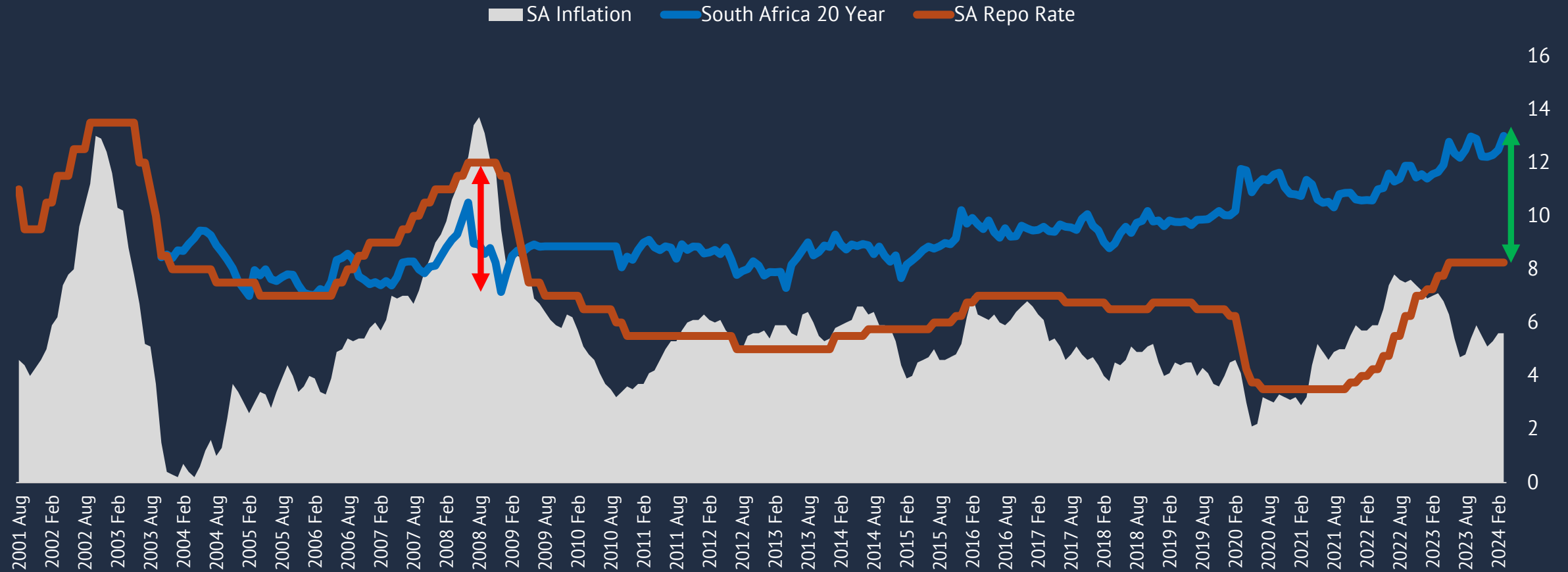
Source: Bloomberg, PortfolioMetrix.

Data assess cutting cycles between 2001 and January 2022, average monthly return in SA Rand (FTSE/JSE All Bond Index) by Central bank policy action



# SA bond yields haven't factored in rate cuts ... yet

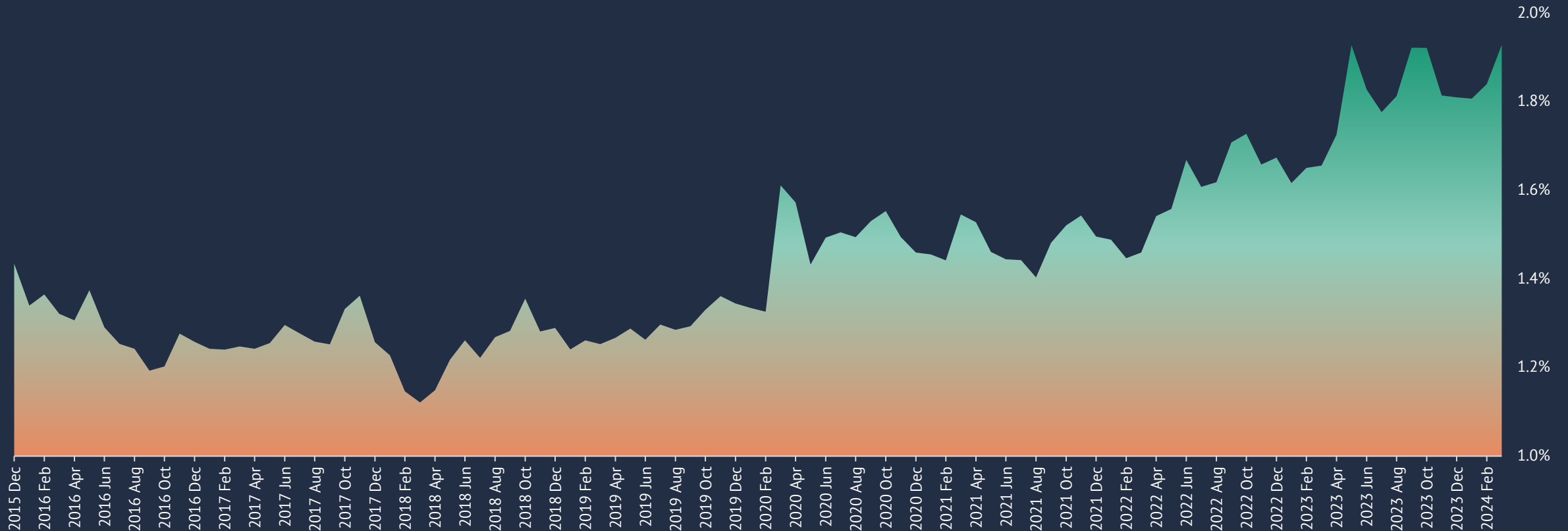
Bonds now offer much higher yields than cash



# SA Bonds - High reward for more volatility

Adjusting for the interest rate risk we are seeing historically high levels of reward for duration

Percent of Yield on offer for every year of duration



As of 2024/03/31

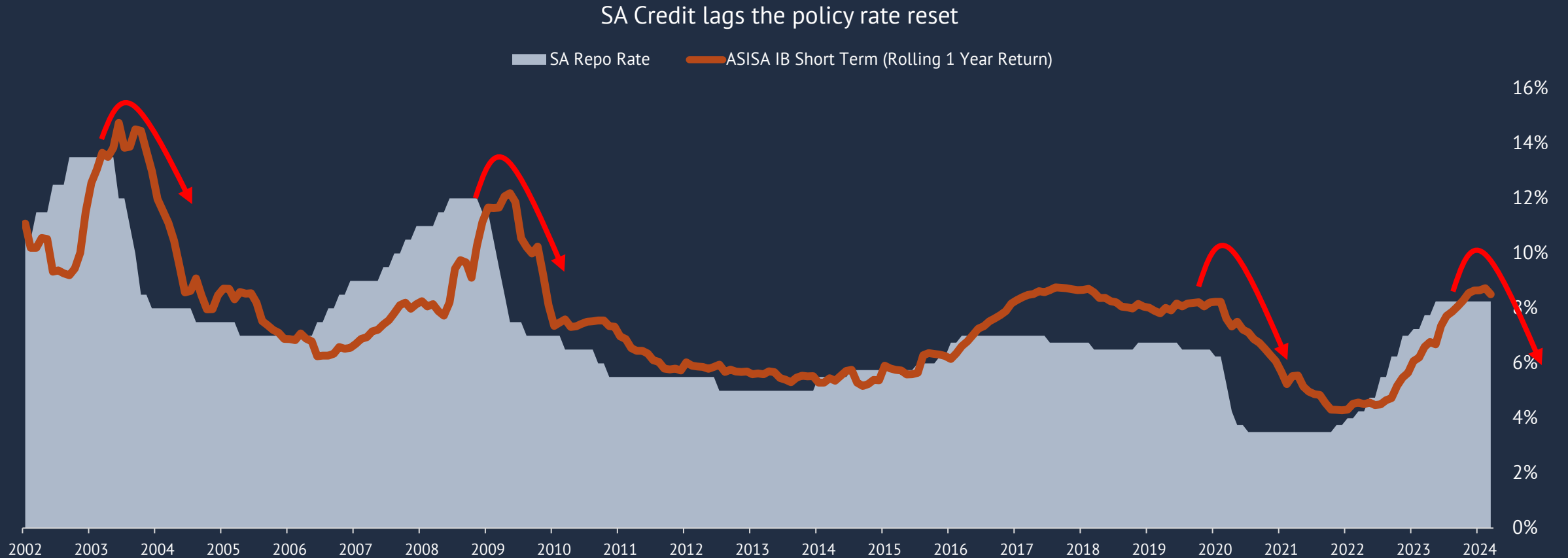
Source: Bloomberg, PortfolioMetrix.

FTSE/JSE All Bond Index Yield and Modified Duration



# Credit returns reduce after rate cuts

Floating rate bonds yields move up and down with interest rates



Source: Bloomberg, PortfolioMetrix.

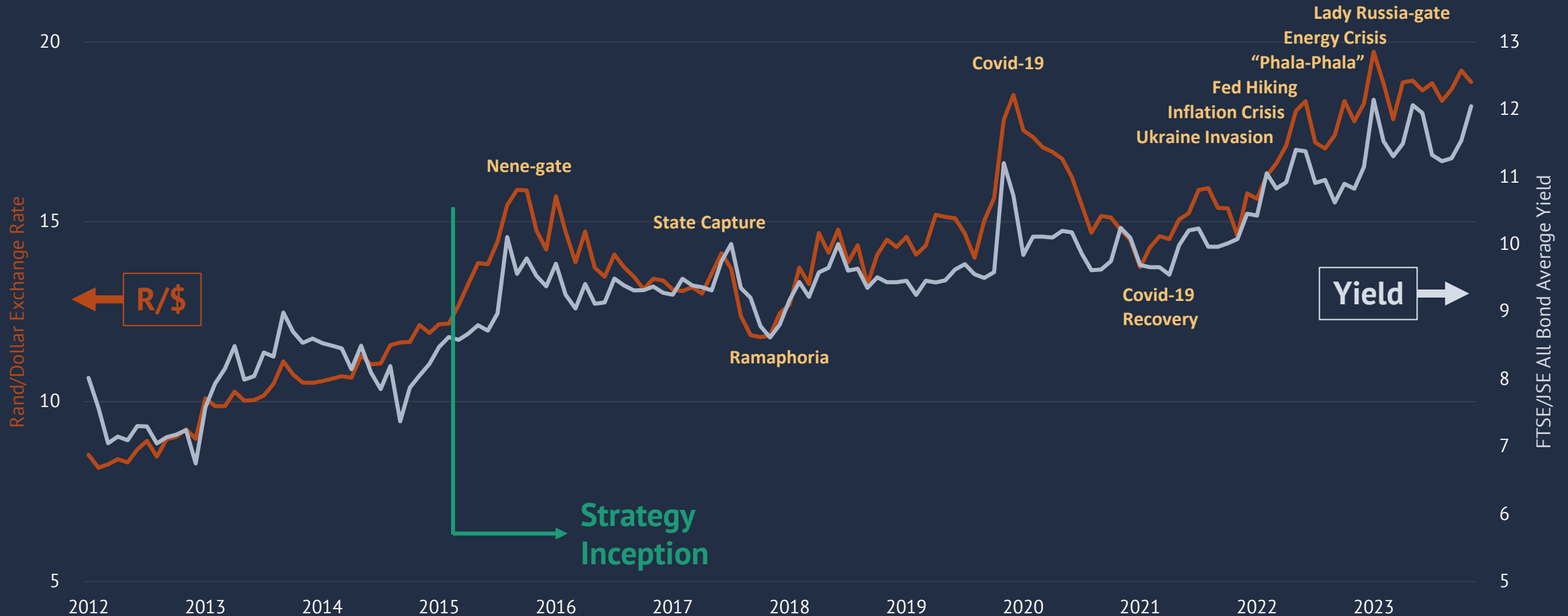
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**But what will happen if  
interest rates don't go down?**

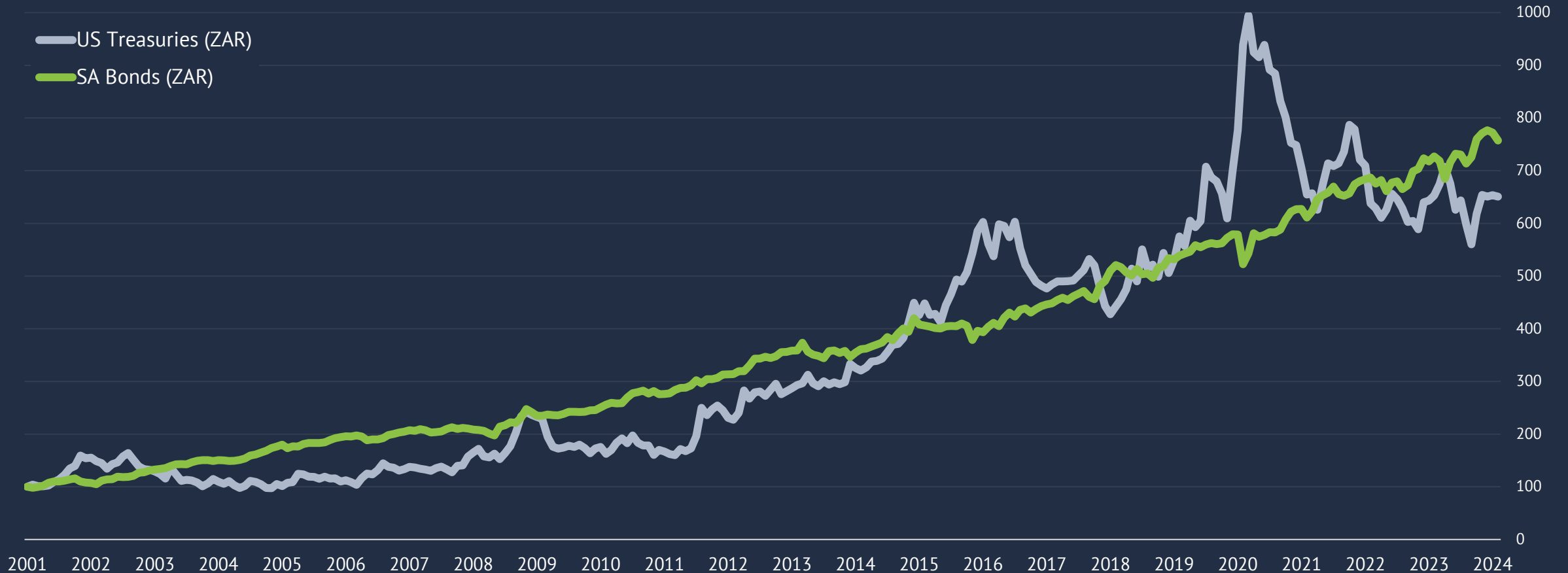
# It's been a terrible time for SA bonds

SA bond yields rising dramatically should have been terrible for bond investors



# A tough period for SA bonds?

But you outperformed the global risk-free asset in rands



As of 2024/03/31

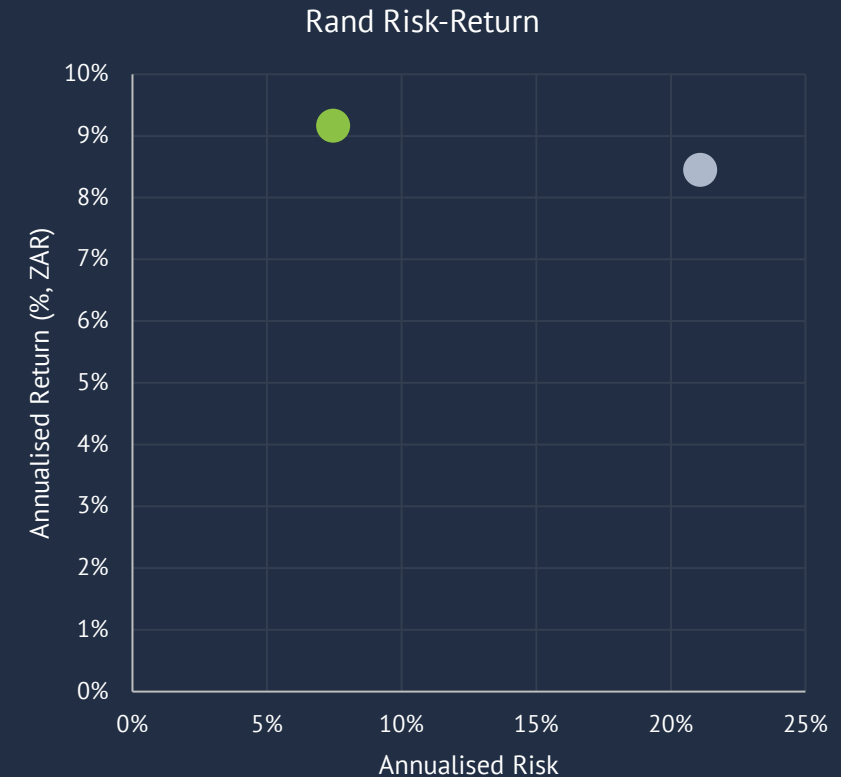
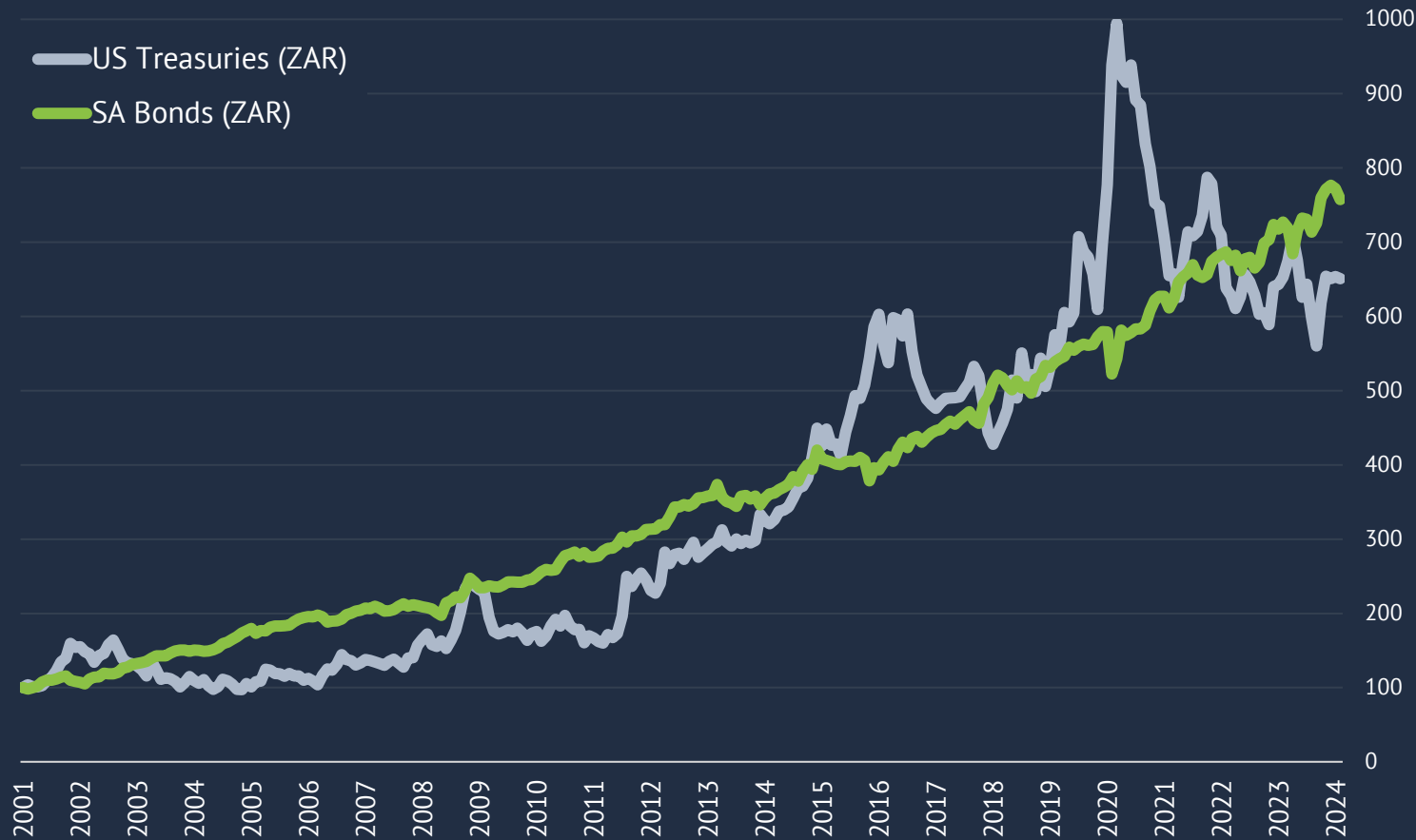
Source: Bloomberg, PortfolioMetrix

Returns in ZAR using monthly data. Indices: SA Bonds = FTSE/JSE All Bond Index (TR), US Treasuries = Bloomberg US Treasuries Index Unhedged (TR)



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But you outperformed the global risk-free asset in rands



As of 2024/03/31

Source: Bloomberg, PortfolioMetrix

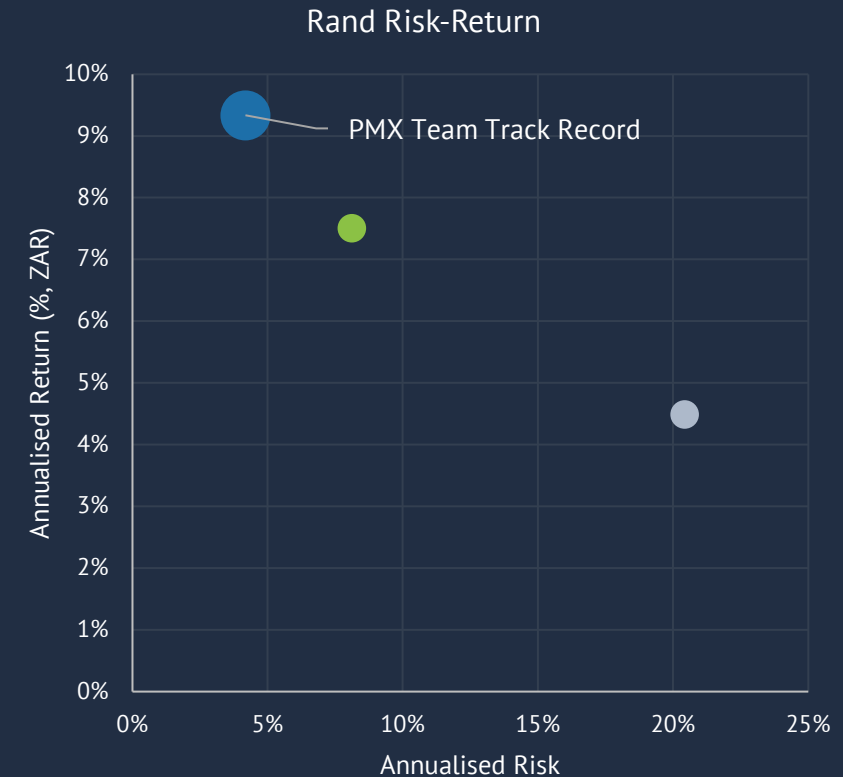
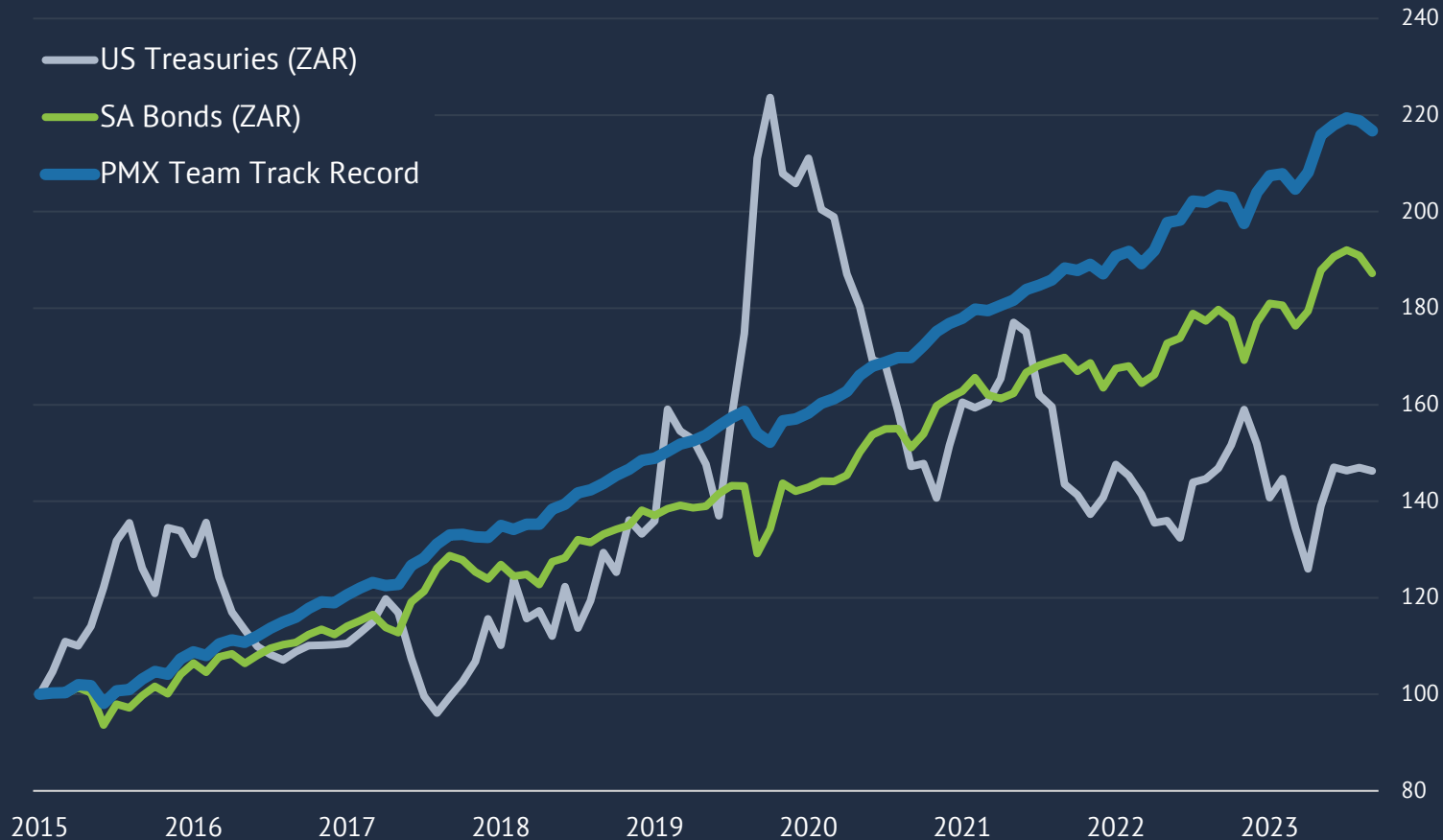
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PMX Team Track Record is a composite of similar fixed income portfolios managed by the current portfolio management team. Details are available upon request.



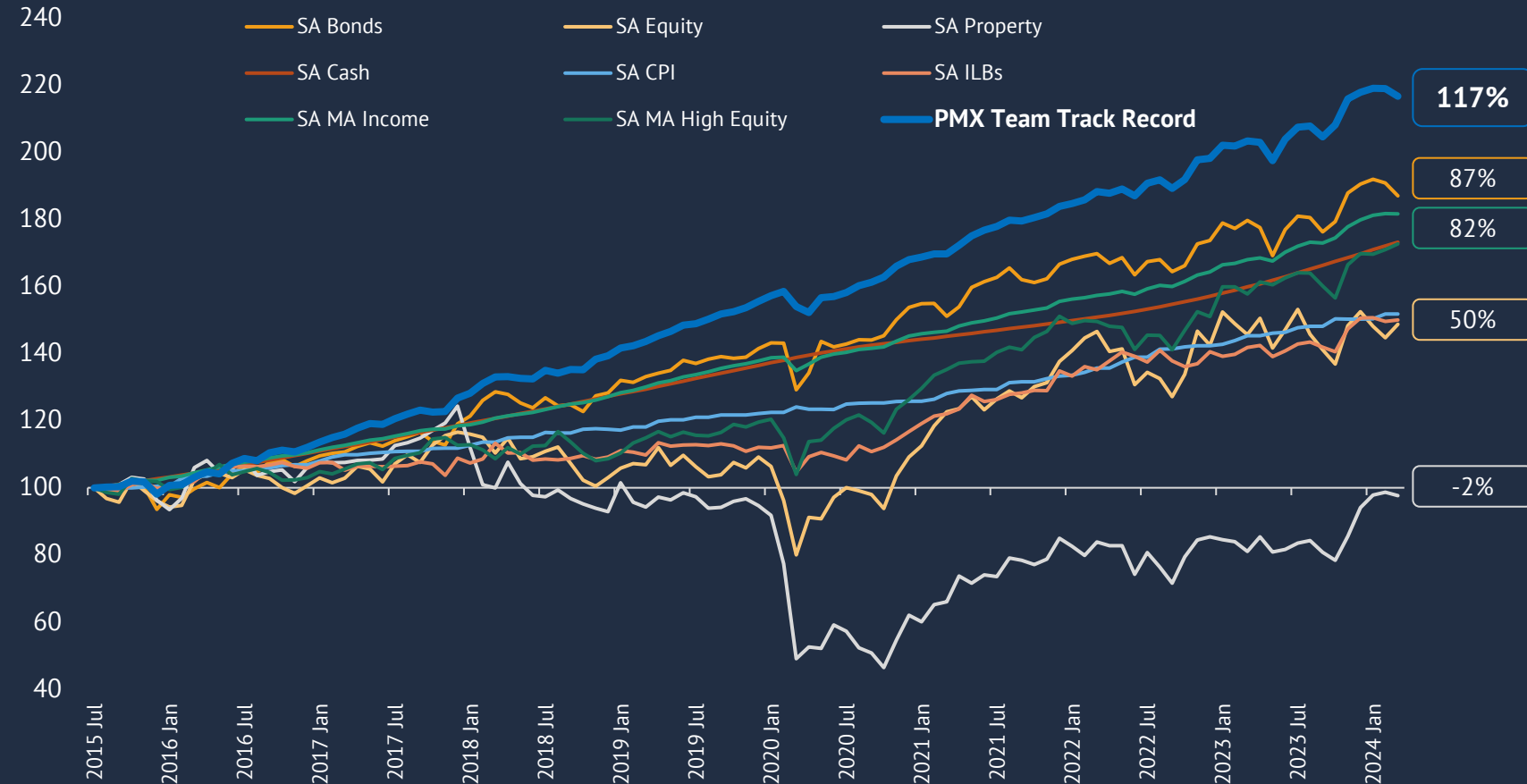
# A profitable period for SA bond investors

SA bonds have rewarded investors, despite all the bad news

## Annualised Performance

PMX Team Track Record	9.3%
SA Bonds	7.5%
SA MA Income	7.1%
SA Cash	6.5%
SA MA High Equity	6.5%
SA CPI	4.9%
SA ILBs	4.8%
SA Equity	4.7%
SA Property	-0.3%

Annualised return from  
2015/07/31 to 2024/03/31



As of 2024/03/31

Source: Trustnet, Bloomberg, PortfolioMetrix. (ALBI, Capped SWIX, SAPY, Stefi, SA CPI, CILI, ASISA SA MA Income and High Equity Peer group averages).

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**Which will do better in the future?**

**Fixed rate bonds**

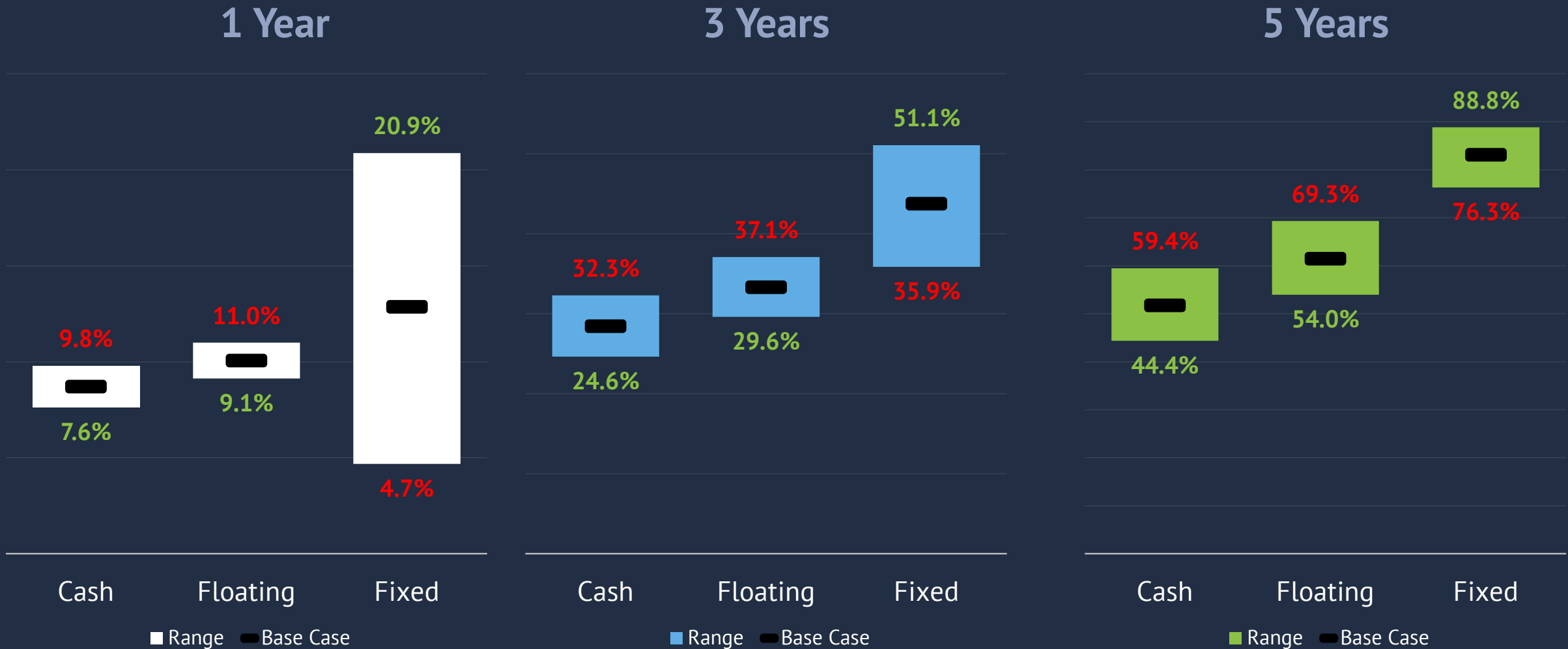
or

**Floating rate bonds**

or

**Cash**

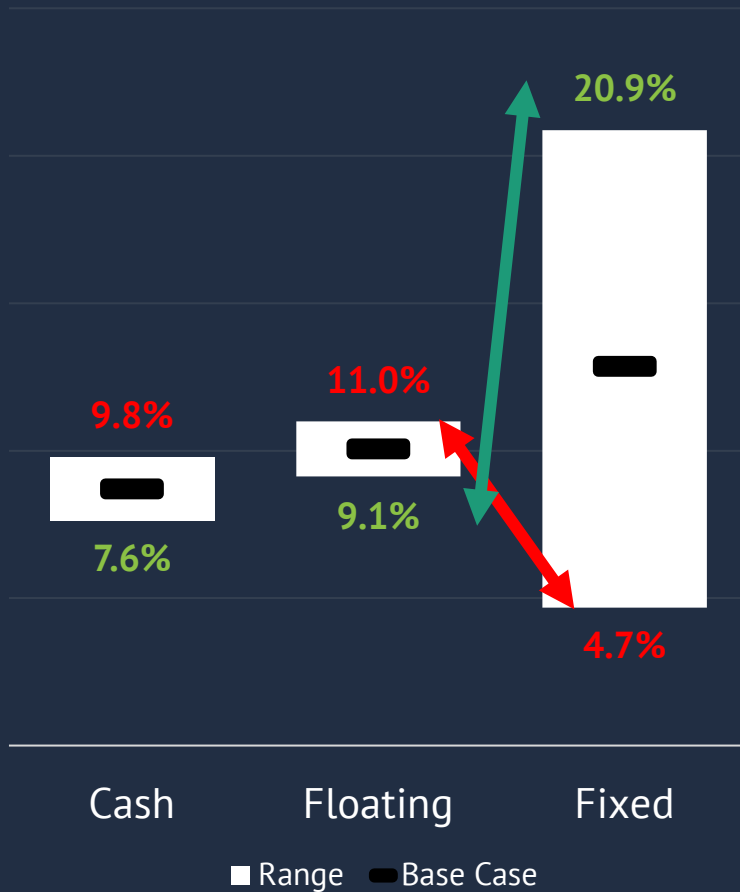
# Fixed versus Floating bonds – bull vs. bear scenarios



All scenarios follow the same path of immediate +1% and -1% adjustments to Interest Rates and Bond Yields. Yields as of 2024/02/29. Returns are cumulative in SA rands. Cash is represented by Jibar 3-month rate, the floating instrument is the Standard Bank SBS51, and the Fixed is a government R2044 bond. Income is reinvested at payment intervals: Cash 1 month, floating 3 months, fixed 6 months. Workings available upon request.

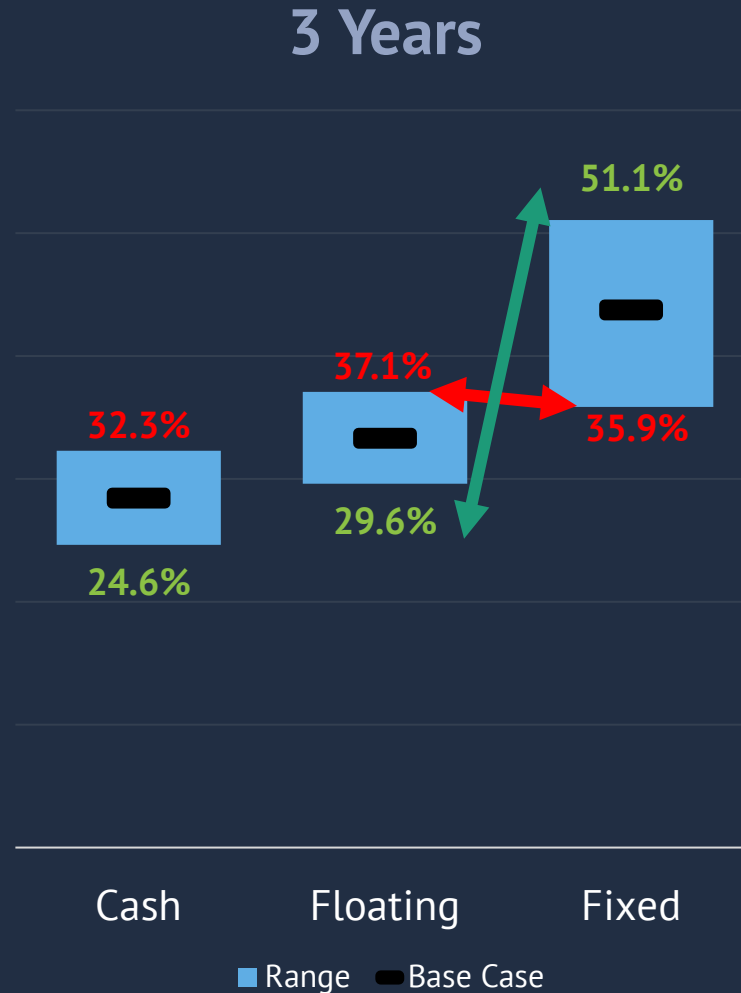
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1 Year



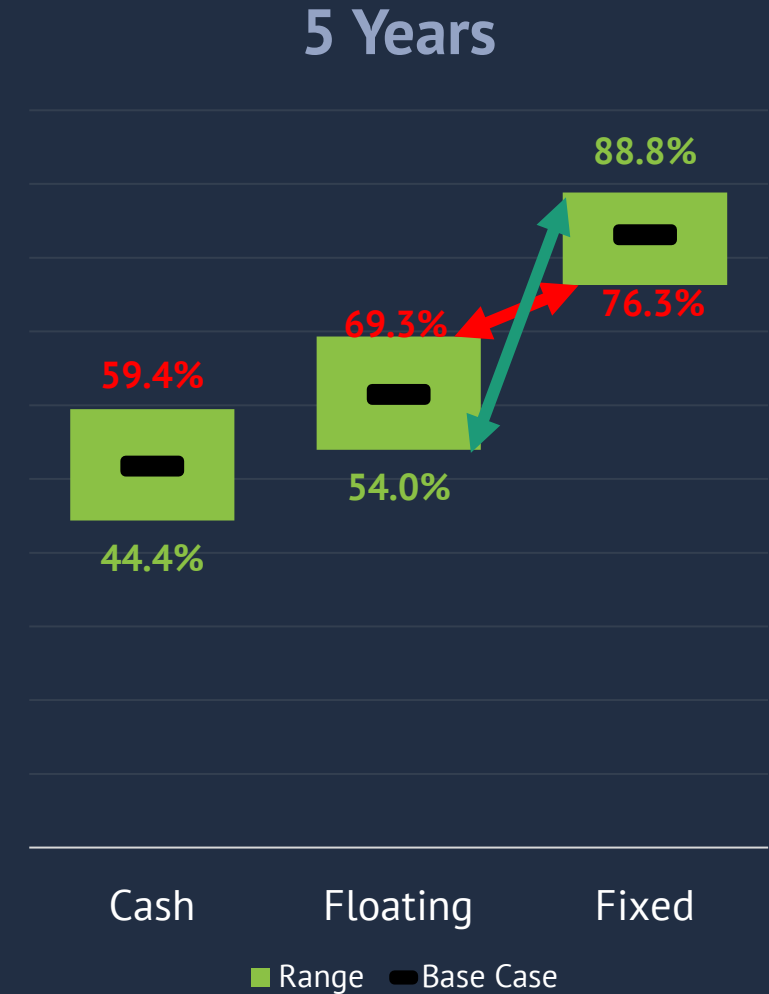
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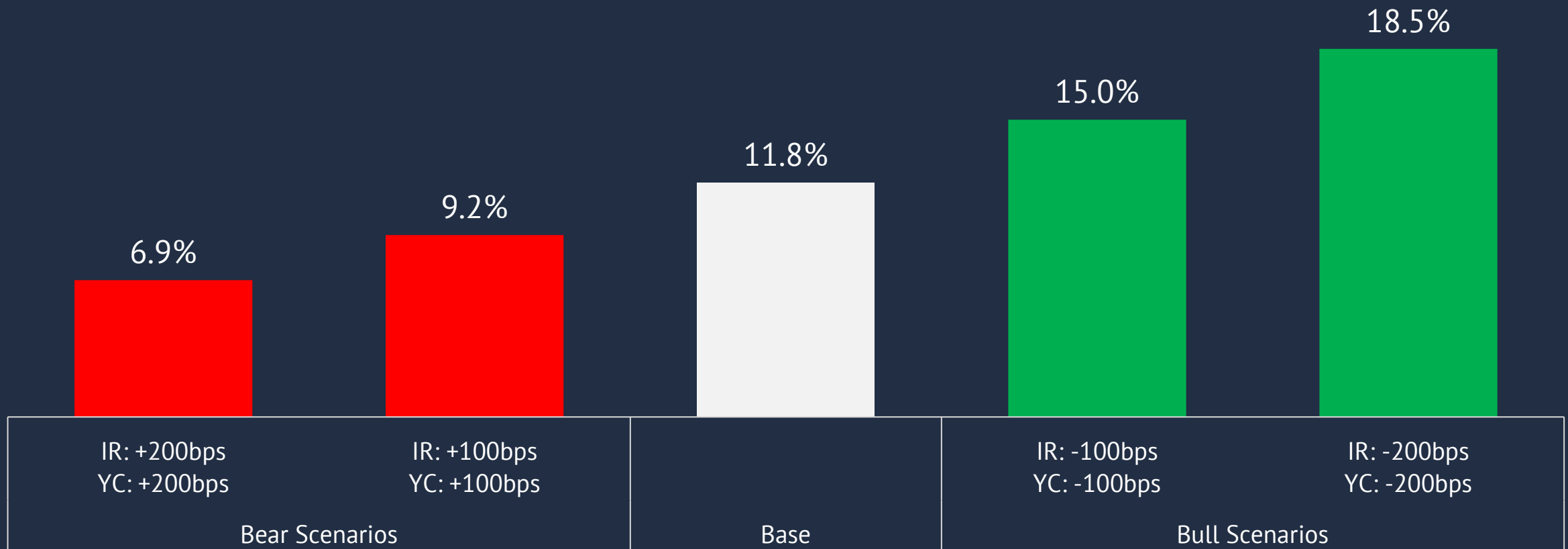


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# Dynamic Income bull and bear scenarios

Demonstrating our ability to protect on the downside and participate in the upside

Bull and Bear Return Scenarios over the next year



Source: Avior, PortfolioMetrix. As of 2024/02/08. Bull scenario accounts for a parallel -1/200bps shift in the yield curve. Bear scenario accounts for a parallel +1/200bps shift in the yield curve. Base case assumes no change in yields. \*Current yields and duration figures are indicative (2023/12/31). Income funds derive their income from interest-bearing instruments in accordance with Section 100(2) of the Act. The yield is a gross current yield and is calculated daily





# PortfolioMetrix BCI Dynamic Income Fund

- Fund current yield is **12.3%** (CPI + 7%)
- Investors should choose more volatility over more credit risk
- Investors need to fix interest rates *before* rate cuts begin
- Dynamic Income is positioned to do well even if interest rates don't go down



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**“Sunshine all the time  
makes a desert”**



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