



Risk Premia, Risks, Correlations, and some other interesting metrics

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Content

1. What are we trying to do?
2. Risk premia
3. Is it a good time to invest in credit?
4. What about high interest rates?
5. Conclusions



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What are we trying to do?

Why are we investing / managing?

- Nuts away for the winter?
- Horizon period?
- Having “A go” or “Swinging the bat”; looking for some “Pub speak”
- Trying to be a “Rock star” / “Have you seen my list of winners?”
- Increase returns or reduce portfolio risk, hopefully both
- Find a sustainable source of long-term wealth creation
- Stay true to our word, operate with high levels of integrity





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Long run performance in ZAR

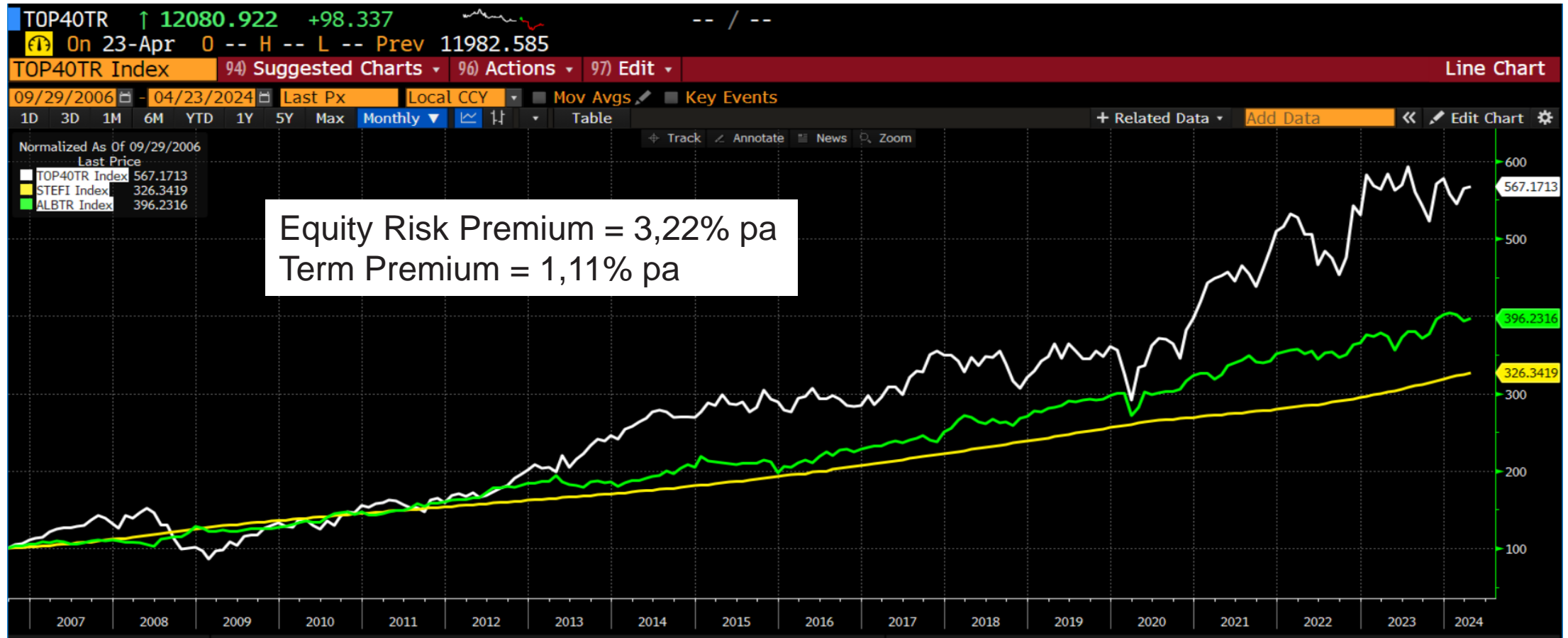
Indexed to 100 end September 2006



Source: Bloomberg

Long run performance in ZAR

Indexed to 100 end September 2006



Source: Bloomberg

Long run performance in EUR

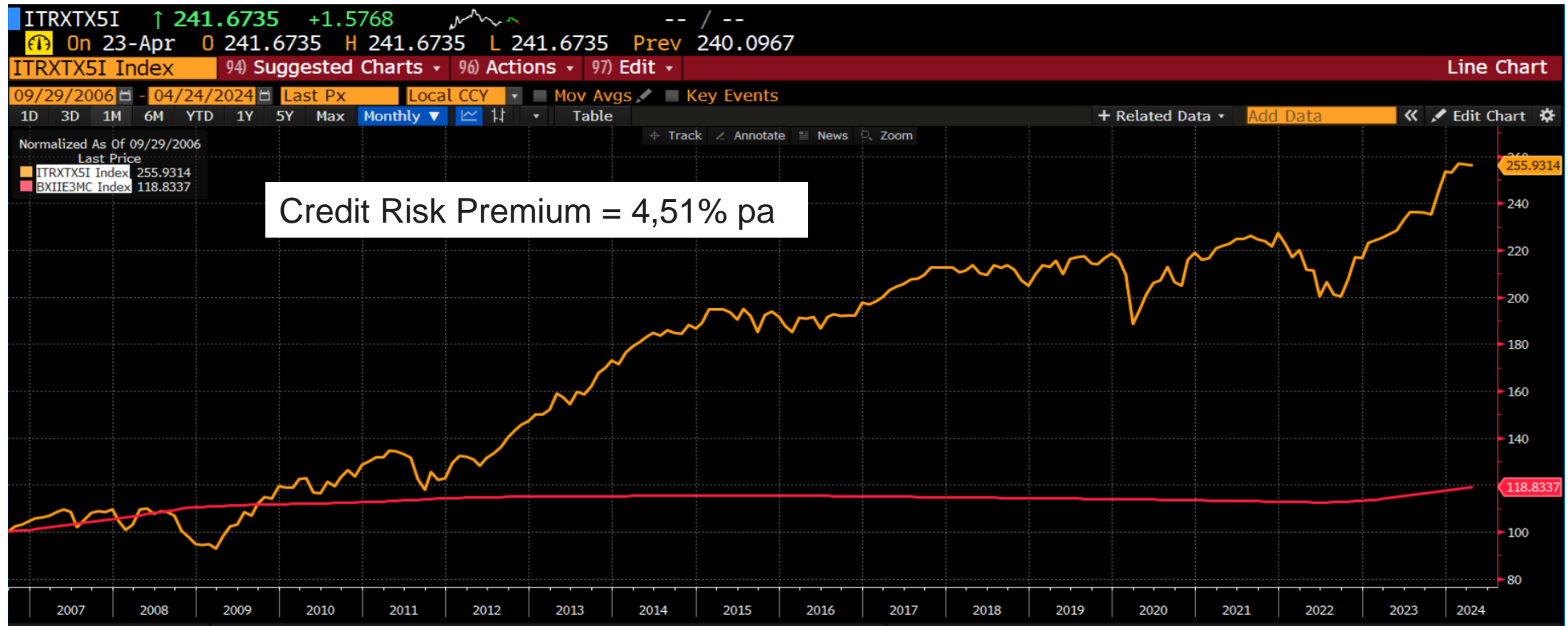
Indexed to 100 end September 2006



Source: Bloomberg

Long run performance in EUR

Indexed to 100 end September 2006



Source: Bloomberg

Index risk premia, risks, and correlations

Quite a compelling story

	Mean (pa)	STDEV
Equity Risk Premium (ERP)	3,22%	16,15%
Term Risk Premium (TRP)	1,11%	7,67%
Credit Risk Premium (CRP)	4,51%	8,24%

	ERP	TRP	CRP
ERP	1,00	0,21	0,53
TRP		1,00	0,33
CRP			1,00



Source: Bloomberg, Monthly data end Sep 2006 - end April 2024. Credit Risk Premium (CRP) iTraxx XOver TRI, Equity Risk Premium (ERP) TOP40TR Index, Term Risk Premium (TRP) ALBI Total Return Index.



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2024 – It's all about the bench

Sweet spot or over extended? Timing can be important



Source: Bloomberg

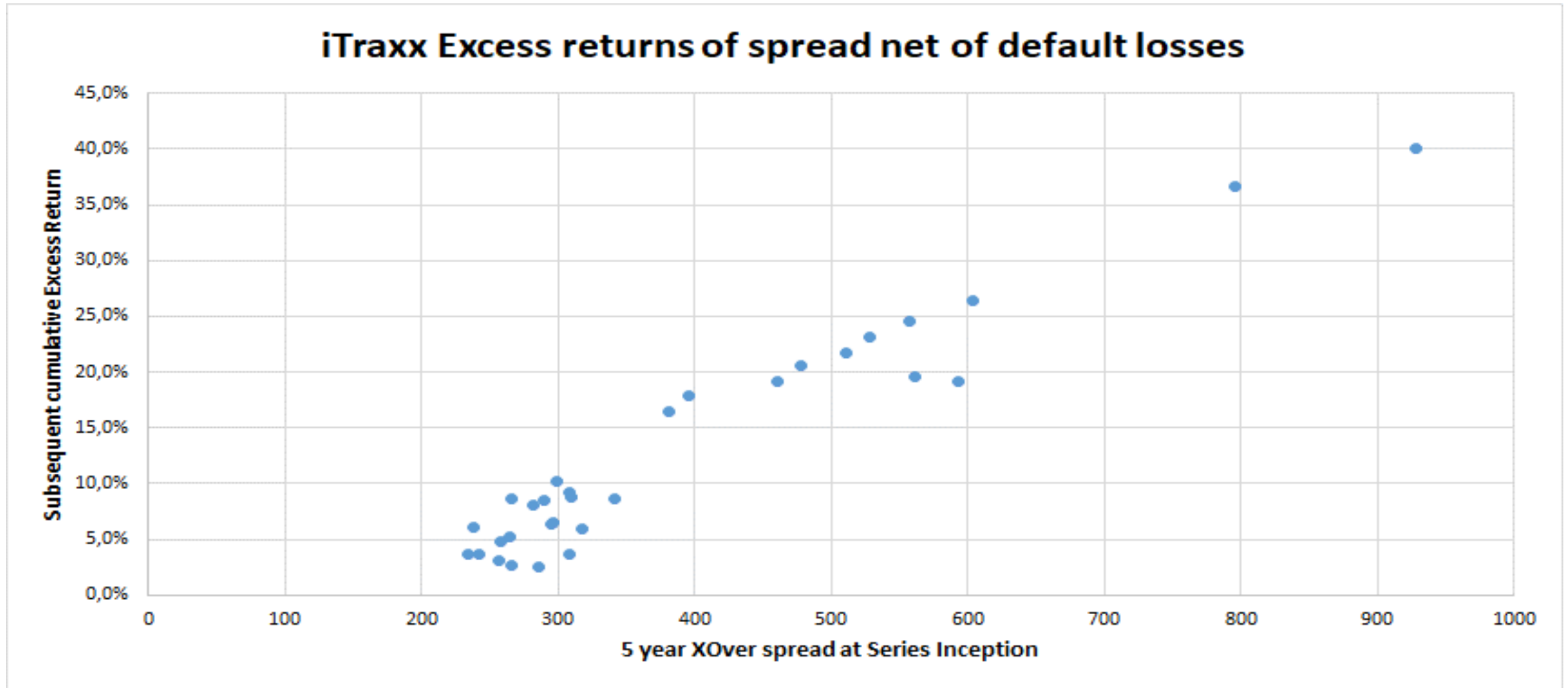
What has been delivered in permanent losses?

	Defaults	Capital Loss		Defaults	Capital Loss		Defaults	Capital Loss		Defaults	Capital Loss
Series 1	2	4,68%	Series 11	4	5,80%	Series 21	5	6,00%	Series 31	7	7,61%
Series 2	2	4,68%	Series 12	3	4,00%	Series 22	8	7,69%	Series 32	5	5,37%
Series 3	3	5,72%	Series 13	3	4,00%	Series 23	8	7,69%	Series 33	5	5,37%
Series 4	4	6,50%	Series 14	3	4,00%	Series 24	10	10,79%	Series 34	2	2,51%
Series 5	4	5,80%	Series 15	2	3,00%	Series 25	7	7,87%	Series 35	1	1,32%
Series 6	4	5,80%	Series 16	3	3,60%	Series 26	7	7,87%	Series 36	1	1,32%
Series 7	6	8,00%	Series 17	3	3,60%	Series 27	7	7,87%	Series 37	1	1,32%
Series 8	7	9,20%	Series 18	3	3,60%	Series 28	8	9,19%	Series 38	1	1,32%
Series 9	7	9,20%	Series 19	3	3,60%	Series 29	10	10,87%	Series 39	1	1,32%
Series 10	6	7,60%	Series 20	2	2,40%	Series 30	9	9,99%	Series 40	0	0,00%
									Series 41	0	0,00%



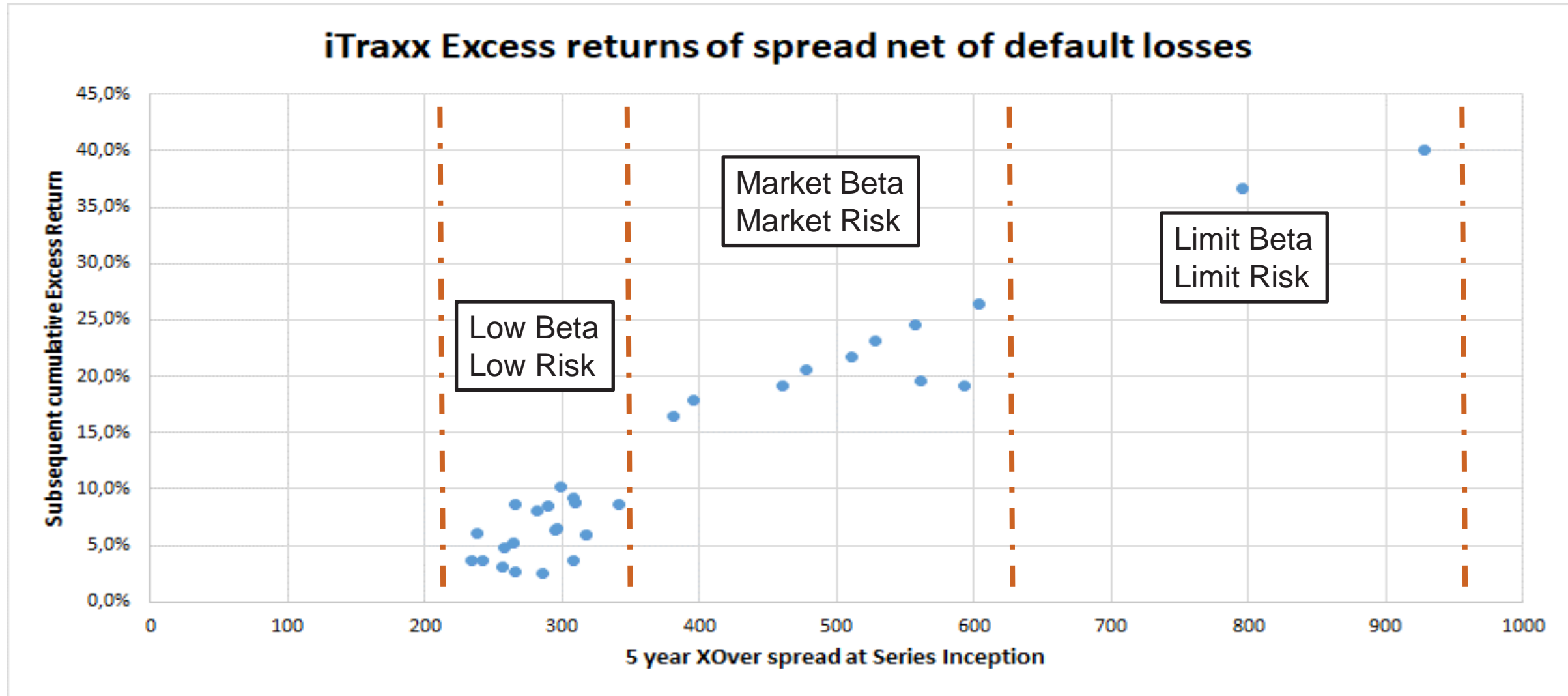
Source: Bloomberg

Is spread a good predictor of excess return?



Source: Bloomberg

Spread as a portfolio risk management tool



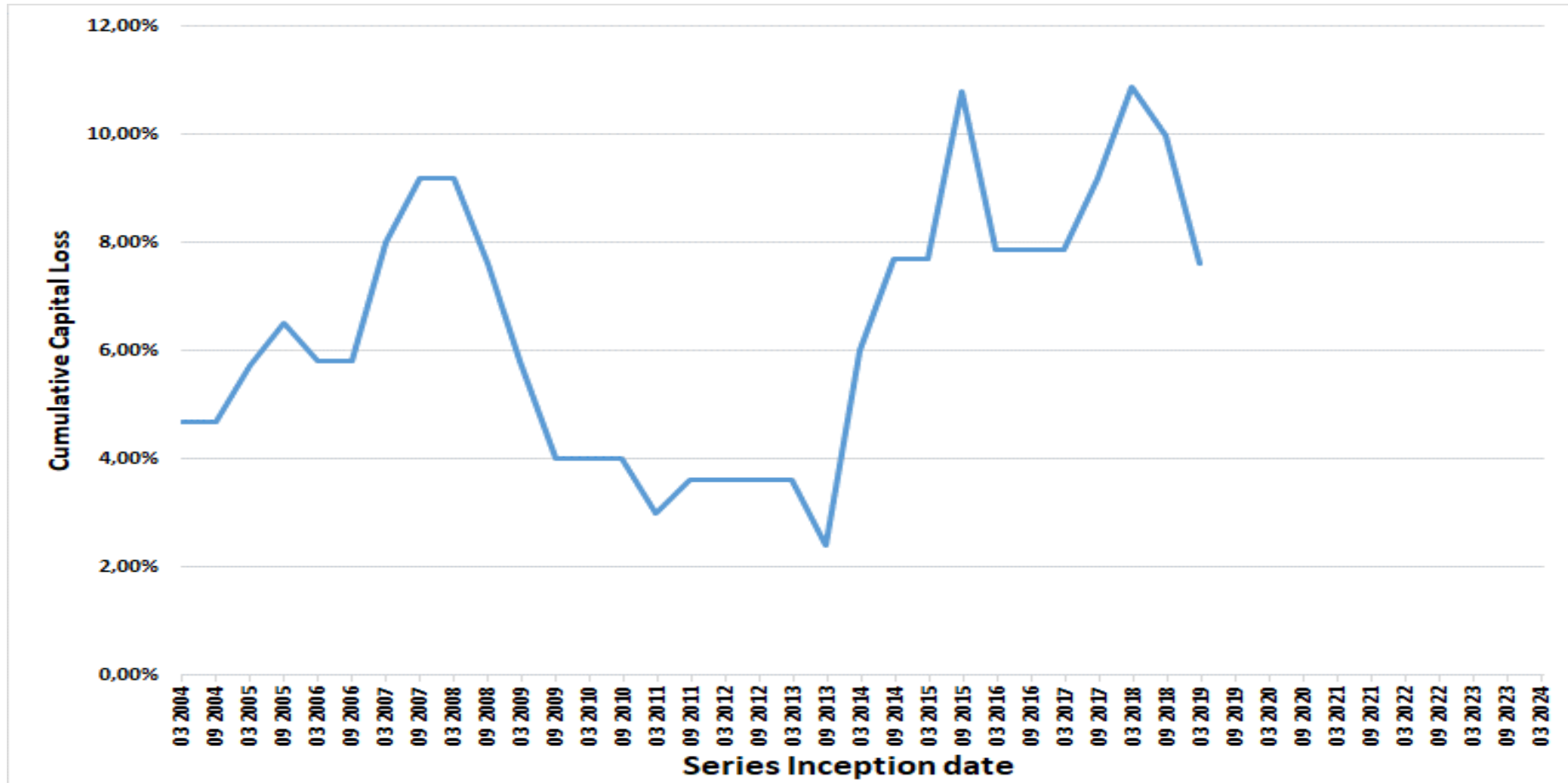
Source: Bloomberg



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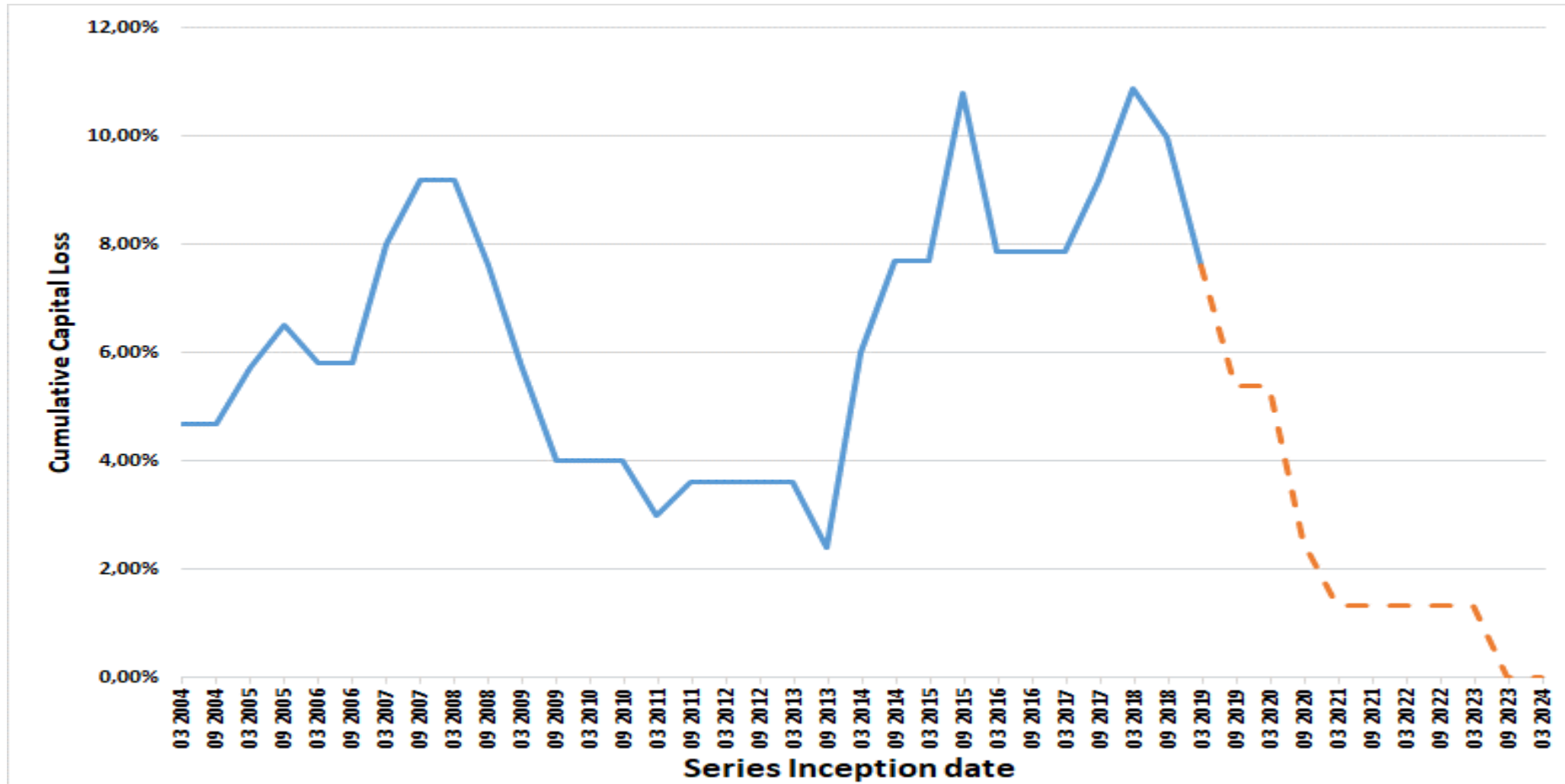
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“But the default rates are going up...so I have heard”



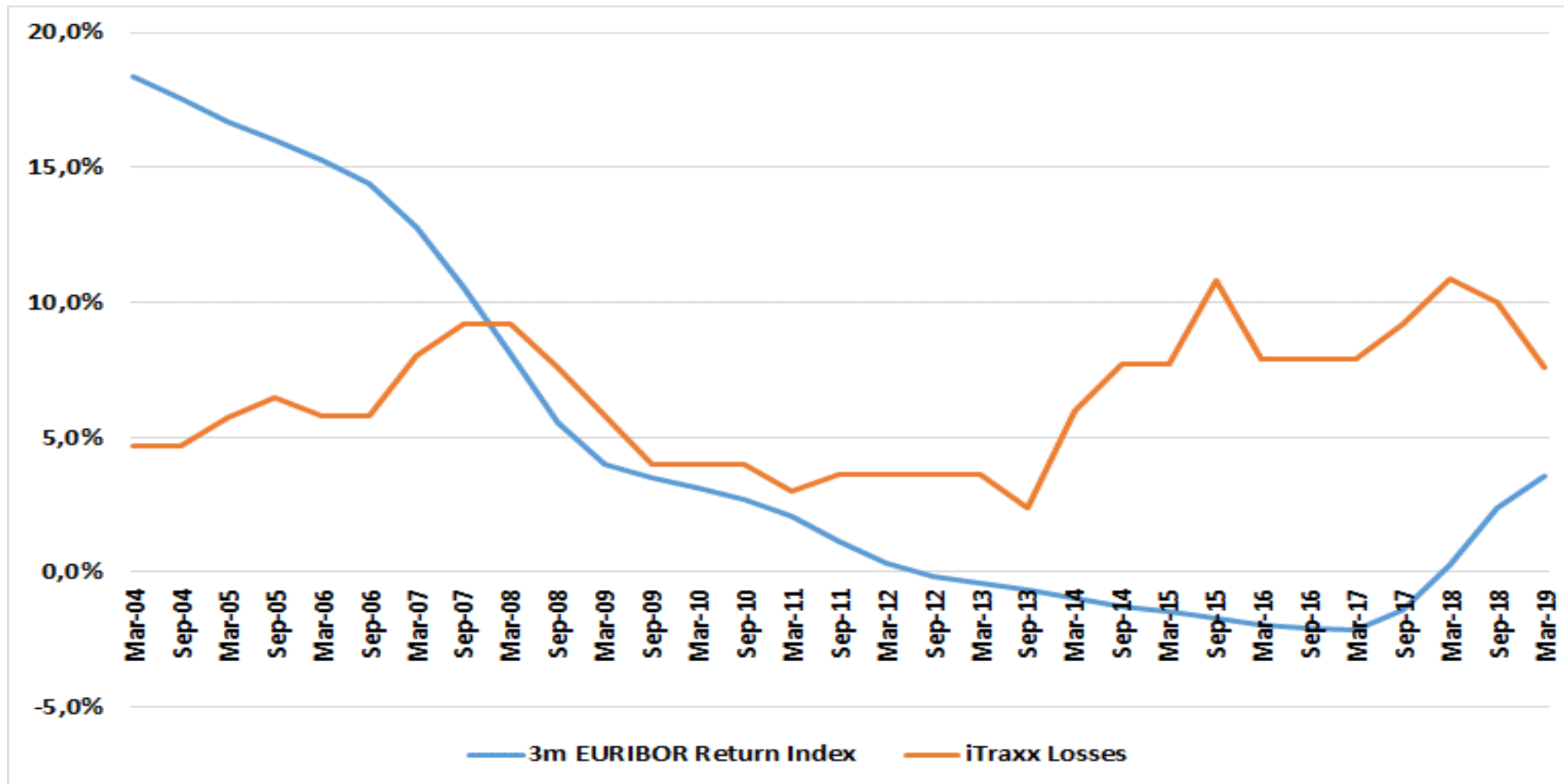
Source: Bloomberg

“But the default rates are going up...so I have heard”



Source: Bloomberg

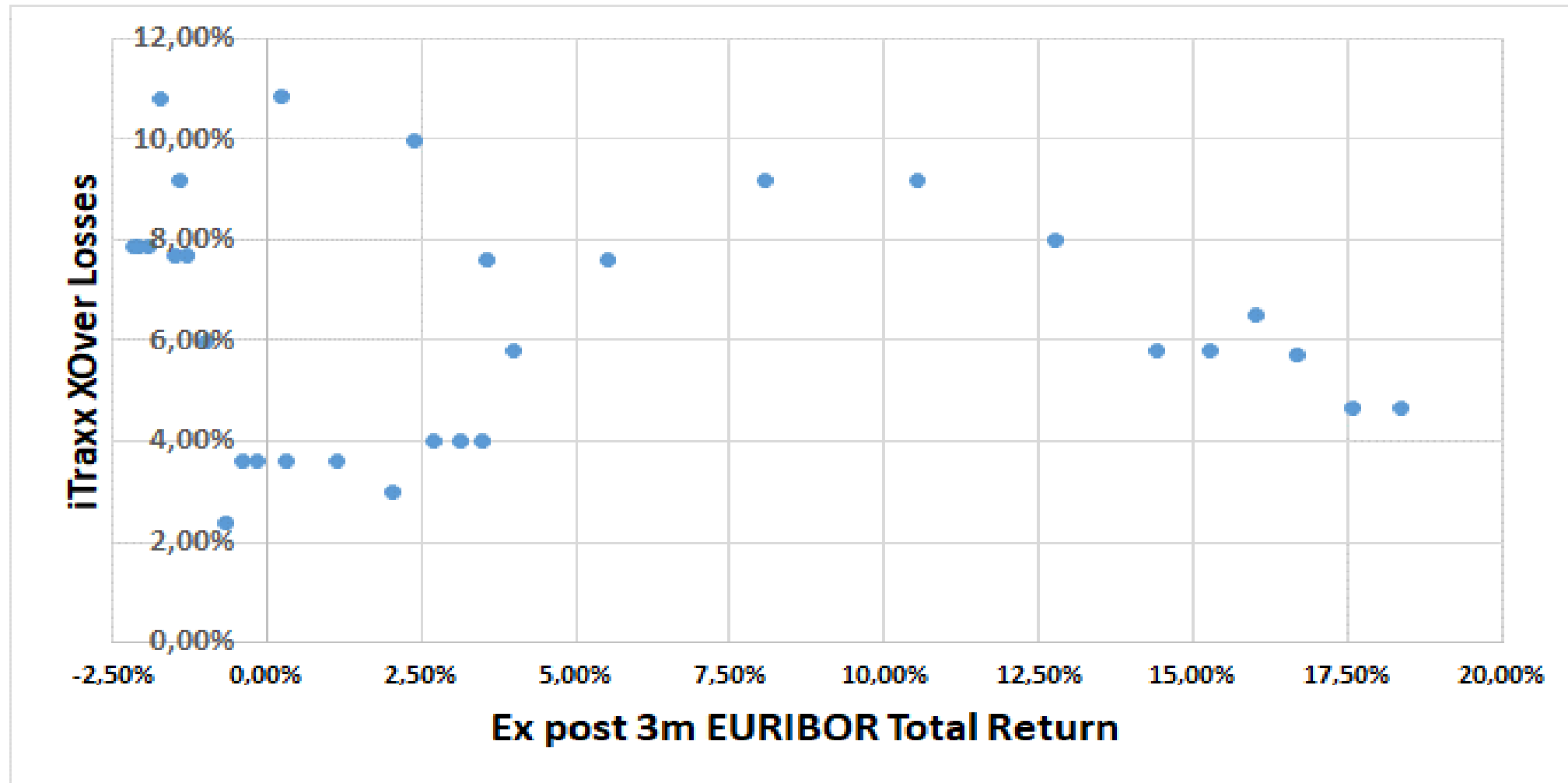
“But what about high interest rates... they will have an effect”



Source: Bloomberg



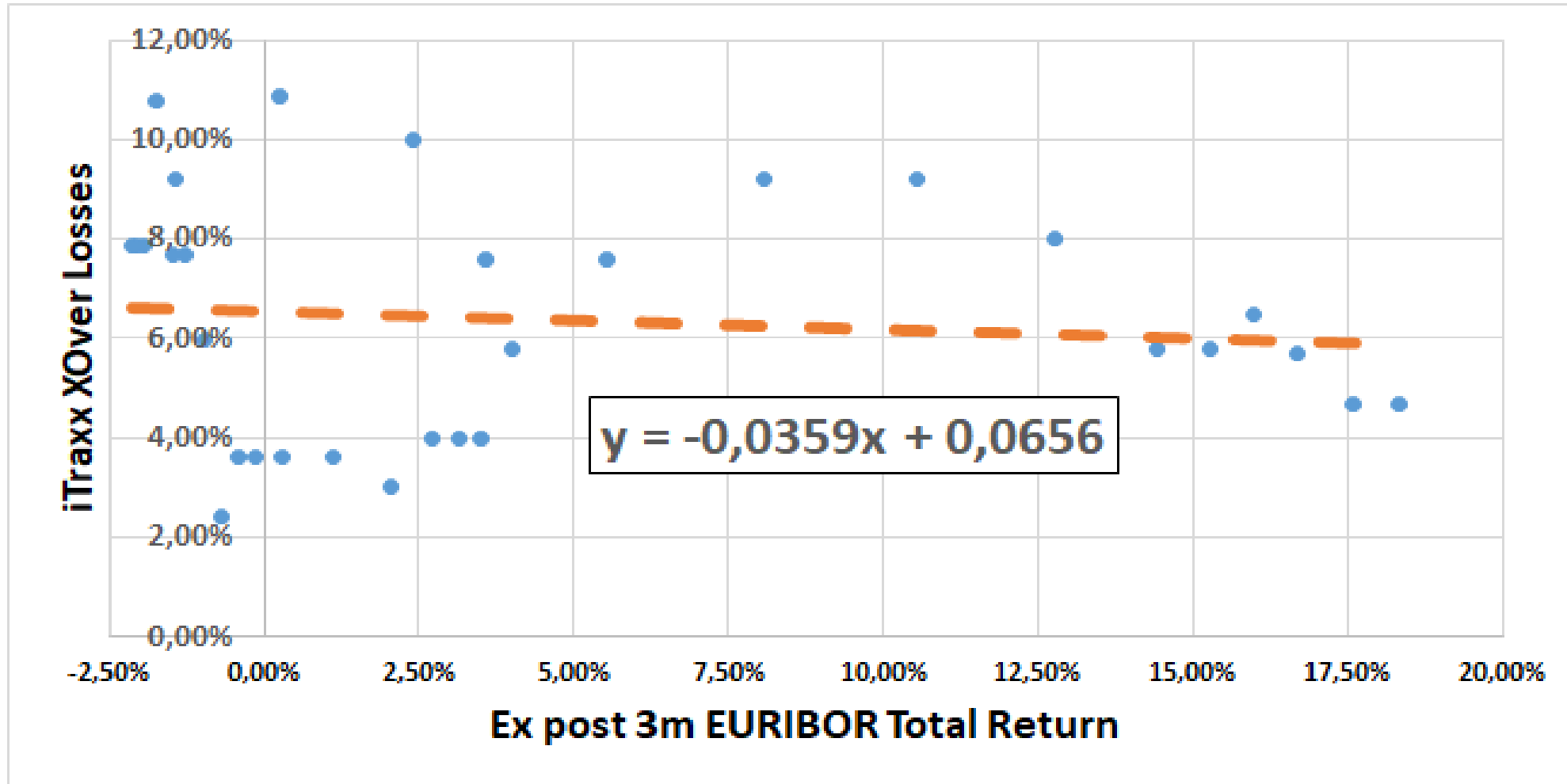
“But what about high interest rates...
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Source: Bloomberg



“But what about high interest rates...
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Conclusions

- Invest with a purpose and stay true to that purpose
- Credit Risk Premium is real, and very compelling
- Each series of iTraxx XOver has generated positive alpha over a 5-year period
- Ex post returns are strongly linked to initial investment level
- Currently tactically defensive
- Default experience is not correlated to short term interest rates
- Lots of “of the opinion” in the market, rather look at evidence / numbers

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Thank you

