NORTHSTAR
ASSET MANAGEMENT

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Market Report

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Closer to the truth

Global multi-asset mandates, who does it well?

Adrian Clayton
CIO

This article should appeal to any investor that places the interest of their clients first, that seeks to support home grown talent and who is genuinely interested in preserving the well-being of the South African savings industry.

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Rugby talk

I'm sure you've heard the narrative that the Springboks play ugly rugby and score fewer tries than other classy teams. In the 2024 Rugby Championships, the Springboks topped the charts for tries scored (24), clean breaks (50) and meters gained (3053). They were an attacking team and the data shows it!

Many investors believe that South African based asset managers cannot manage global mandates – that we score fewer tries and its ugly stuff! But does the data corroborate this assertion?

Market narratives, facts or fiction

Three narratives have developed in the local market that deserve some testing with data.

- That the best global managers are big businesses with large research teams.
- That the best managers are in the USA, probably New York.
- That South African based managers cannot manage global mandates.

Regulation 28 rule changes and negative narratives do not bode well for SA managers

The Association of Savings and Investments South Africa recorded AUM of R3.87 trillion at the end of 2024 with 50% of these assets in multi-asset funds, many being Regulation 28 compliant. As you know, changes to Regulation 28 in 2023 allowed global exposure to increase from 30% to 45%.

Have managers used the larger offshore allowances?

The three largest funds in the High Equity Balanced Sector with assets of R420bn had an average offshore exposure before the new Reg 28 rules of 28%. This is currently at 38%. Some of it is growth, the rest is a shift in exposure offshore.

Are South African fund selectors using domestic managers for global mandates?

Our source of data is ASISA to scrutinize the manager selections of SA's largest fund of funds by assets and the largest fund of funds in the ASISA Offshore category.

PSG owns 4 of 5 largest retail fund of funds but they adopt a multi-asset approach, outsourcing asset allocation and thus global exposure decisions to underlying managers, thus making them less relevant for our analysis. Old Mutual owns the 4th largest fund of funds in SA and seemingly does not utilize any South African based managers for global mandates.

With regards to the ASISA Offshore category and the largest fund of funds represented there. PSG is in this grouping too as a multi-manager and it only uses Ninety-One, in terms of SA managers. Old Mutual and Stanlib outsource to offshore managers whereas Sygnia invests in its own ETF's. PortfolioMetrix, has exposures to Prescient and Fairtree, and PPS has a mere 0.5% of their fund allocated to Catalyst property, the balance being in the typical offshore names like Capital Group, Baillie Gifford etc.

The evidence points to very limited use of SA managers for managing global mandates.

Testing the narratives with data

Getting back to the narratives that are used to deselect SA-based global managers. We are testing these three narratives:

1. The most successful managers are large.
2. The best location to outperform is the USA.
3. SA domiciled managers struggle to compete globally.

The data

Fund selectors have their own ''unique'' ways to score underlying managers, but we applied a simple approach in this exercise, to recognize persistency of skill. The objectives and methodology being:

1. Find managers demonstrating skill in both stock picking and asset allocating. A universe of 866 multi-asset funds.
2. Funds are scored over four periods, each period weighted 25%. 1 year, 3 years, 5 years and 7 years. This rewards consistency.
3. The scoring system uses three metrics. 50% Sharpe ratio, 25% alpha generation and 25% standard deviation.

FINDINGS

The most successful managers are large: Well yes, and no!

Out of the universe of 866 funds, large managers dominate the top 20 positions. But two lesser-known managers are ranked 7th and 9th.

The 21st top performing fund is The Northstar Global Flexible Fund and then two other smaller managers make it into the top 50 rankings – 35th and 50th.

Thus, a total of 5 smaller managers are in the top 50 funds.

To win, you must be USA based or close to Wall Street: Untrue!

European funds dominate the top 20 position with regards to performance in the asset allocation funds space with only 4 American managers making it into the top 20. Two UK managers rank 5th and 16th.

An Israeli manager, and two Asian managers were the only top 20 performers with teams based outside of Europe, the UK and the US.

Within funds ranked between the 20th and 50th percentile, 5 managers fell outside large developed markets.

Nedgroup Investments Global Flex Fund ranks a very credible 37th but is unfortunately not managed by a South African team – it is outsourced to First Pacific Partners in Los Angeles.

SA domiciled managers struggle to compete globally: Well yes, and no!

There are 128 SA branded funds within the universe of our 866 fund global asset allocation universe. They fall into three subsets:

- SA branded funds that are outsourced to global managers like Blackrock, Guiness and First Pacific Partners. This is the majority of the 128.
- SA managers but predominantly offshore based such Ninety-One and Orbis.
- Specialist managers that work from South Africa - Northstar, PSG, High Street and Peregrine are just a few names that manage global balanced mandates.

Ranking the 128 SA branded funds in quartiles provides for interesting reading.

- Top quartile – 13 funds
- Second quartile – 26 funds
- Third quartile – 36 funds
- Last quartile – 53 funds

The top performing SA funds based on our scoring system were:

1. Northstar Global Flexible Fund – ranked 21st
2. Nedgroup Inv Funds Global Flexible Fund – ranked 37th
3. Nedgroup Inv Funds Core Global – ranked 56th
4. Sanlam AI Global Managed Risk – ranked 61st
5. Old Mutual Global Balanced C – ranked 70th

Eighty-nine of the 128 (70%) SA branded funds within our universe of 866 global multi-asset funds rank below the 50th percentile, but many of these funds are outsourced to offshore managers.

Findings summary

It is true that large managers dominate the global multi-asset performance rankings, but 10% of the top performers are smaller managers. We see no evidence that a manager's location has a bearing on performance outcomes. South African managers can compete favorably against global competitors – Ninety-One and Orbis are doing so, albeit based abroad and Northstar is a top global performer, and the team is based in Cape Town, South Africa.

Conclusion

Nothing is more important than the custodial role of placing the interests of clients first. The evidence points to capital allocators (multi-managers) that are diversifying offshore, believing that to achieve this objective, requires of them to invest with non-SA based managers.

But South Africans are in the whole, patriotic, proud people that want to be supportive of fellow South Africans. As home-based investment managers, it is incumbent upon us to do all we can to prove to allocators that we are capable global managers. Equally, it is incumbent upon those allocating capital to find every reason to support domestic skill and talent.

I conclude with the following. Many of the domestic managers run annual graduate programs, the idea is to train grads from all walks of life. As this industry morphs and assets are internationalized to be managed across waters, have we thought past our own interests, have we quietly contemplated the future – who is going to nurture the talent for tomorrow!

Navigating the changing landscape of South African equities

Marco Barbieri
Director SA Equities

There is no denying that local equities have endured a challenging decade. Despite an improvement in returns since the onset of Covid-19, the South African equity market has undergone significant structural changes. We would argue that what has worked well for investment managers over the past ten years may not be as effective in the years ahead.

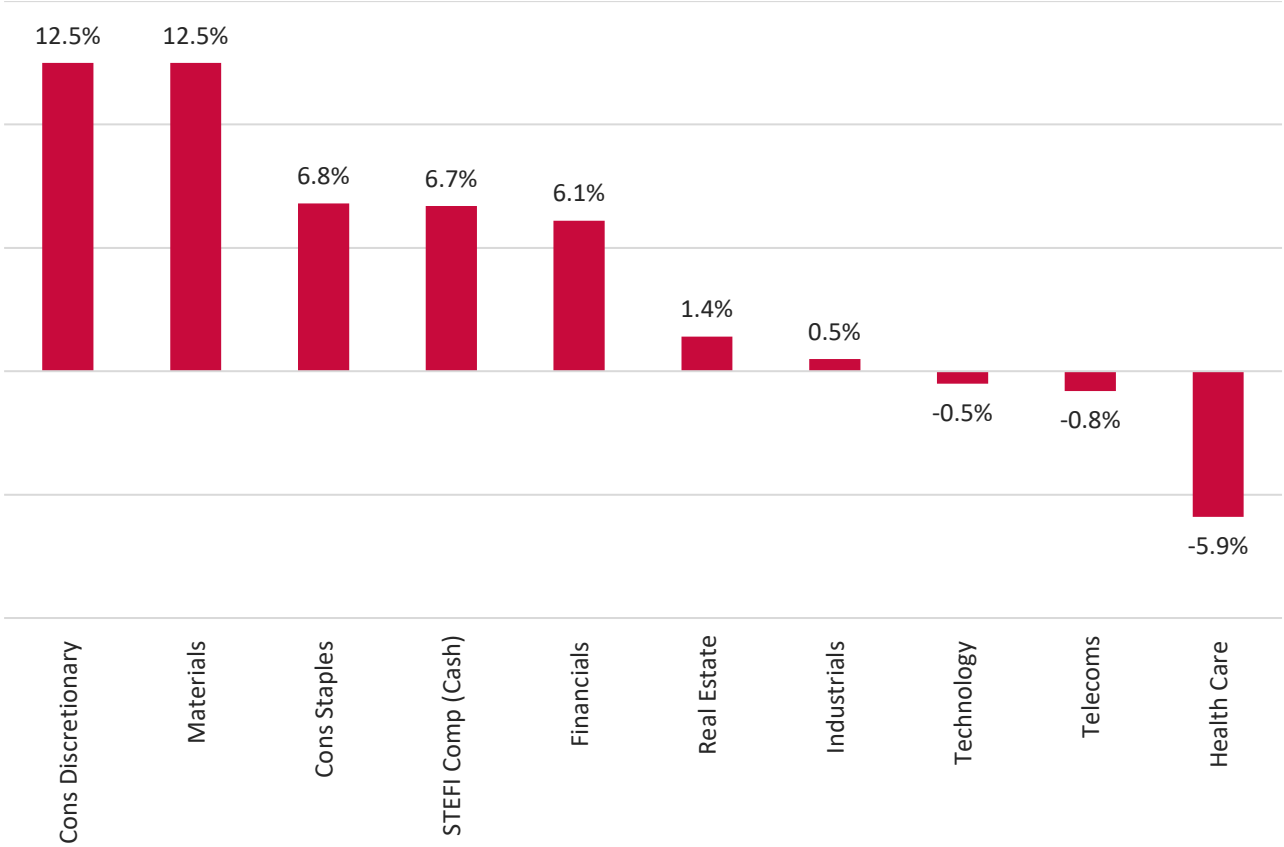
Structural shifts in the market

Over the past 25 years, the number of listed stocks on the JSE has declined dramatically — from over 1,300 in 1997 to about 270 in 2025. This contraction has had far-reaching implications, not only shrinking the investable universe but also limiting the ability of managers to implement pure-style strategies effectively.
Moreover, South Africa's relevance in the emerging market (EM) equity landscape has diminished. As the global EM space becomes increasingly competitive, SA equities now comprise a smaller portion of the investable universe, reducing their influence and visibility among global investors.

Adding to the complexity, mid- and small-cap stocks — traditionally fertile ground for alpha — now represent a smaller slice of the overall All Share Index (ALSI). This limits diversification and narrows the scope for strategy differentiation.

The result? A market that has become significantly more concentrated and cyclical. Performance has grown increasingly polarised, with stark differences in returns across sectors and stocks over the past decade. See Chart 1 that follows.

Chart 1: South African sector performance - 10 year CAGR (%)



Source: SBG Securities (March 2025), Northstar Asset Management

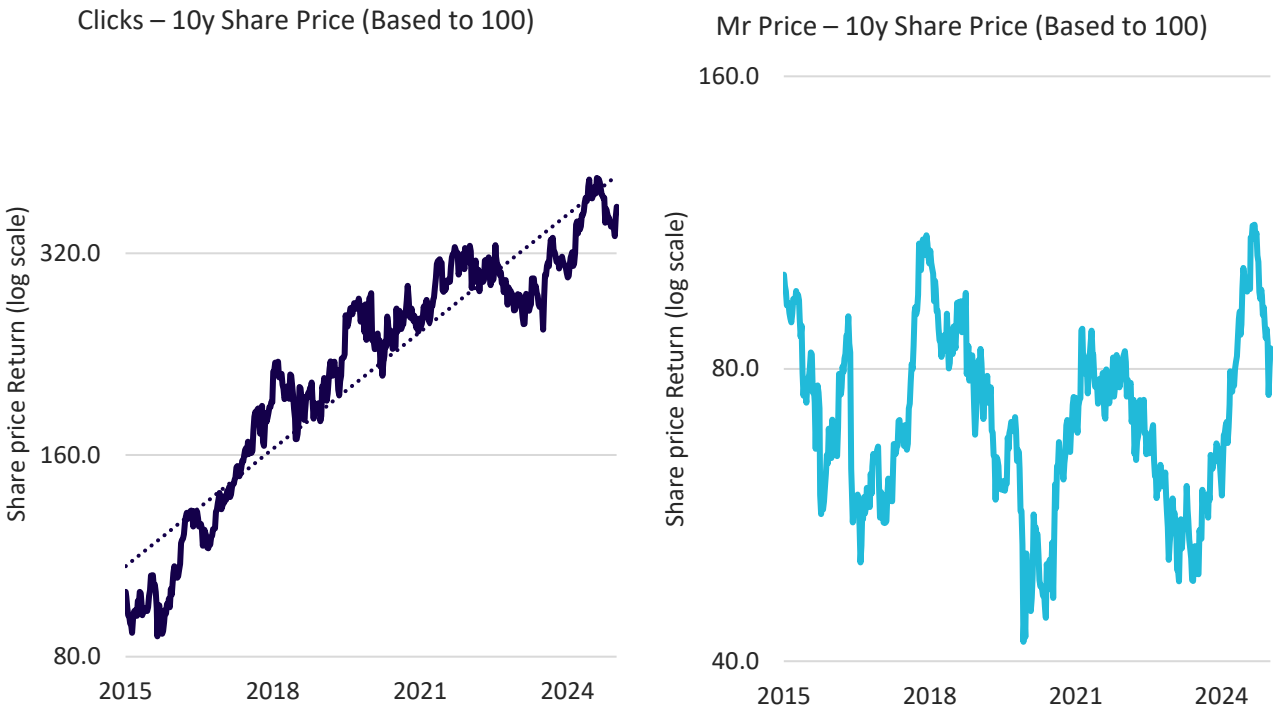
Given these changes, the implications for portfolio construction are critical, and the importance of a well-thought-out investment strategy has never been greater. We believe that tactical flexibility — underpinned by a deep understanding of risk, return, and probability — is essential for success in this evolving environment. Let's explore this concept in practice.

Compounders vs. cyclicals: A tale of two stocks

Consider two local stocks: Clicks (CLS) and Mr Price (MRP). Both are household-name retailers, but their return profiles tell vastly different stories (Chart 2). CLS is one of the JSE's most successful compounders of returns — a company with consistent earnings growth and relatively low forecasting risk (i.e., the uncertainty in estimating returns). The stock has grown at a rate of 17% per annum over the past decade.

MRP's return profile, on the other hand, has been highly cyclical, heavily influenced by economic conditions and consumer sentiment, and has delivered only a 1% annual return since 2015.

Chart 2: CLS and 10-year share price performance (log-scale)



Source: S&P CapitalIQ, Northstar Asset Management

While investors may profit from well-timed entries into MRP — think August 2020 or September 2023 — the complexity of such a strategy is far greater than that of a simple buy-and-hold approach.

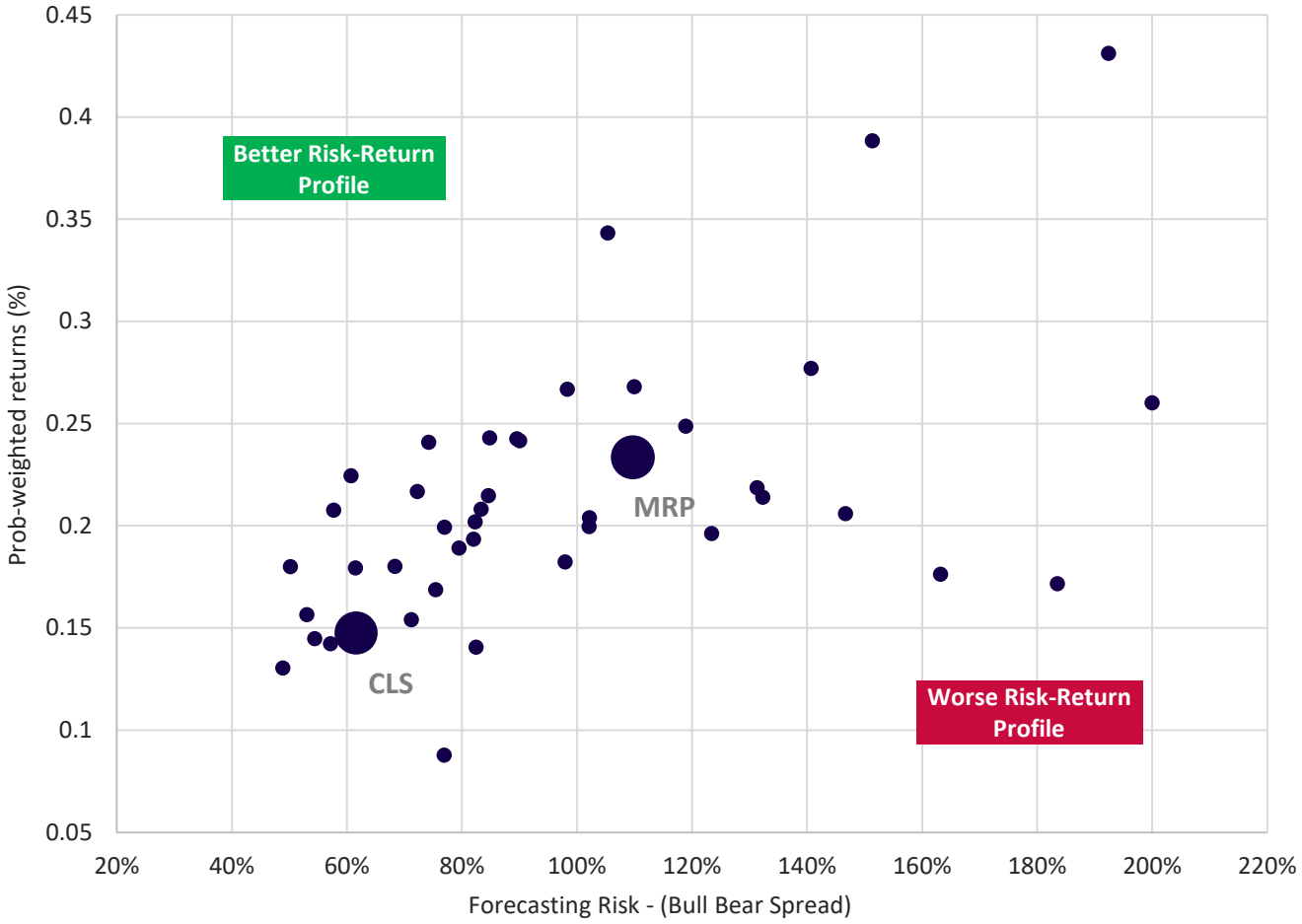
Based on our calculations, more than 80% of local equities now tend to exhibit MRP-like cyclical characteristics. It is therefore increasingly important for investors not only to conduct robust qualitative assessments that uncover a business's earning power and quality but also to develop a strong understanding of cyclicality and the ability to quantify valuation and forecasting risk.

Risk, return, and the role of probability

When comparing CLS and MRP within the broader context of local investment opportunities, it becomes clear that while profits can be made from buying cyclical stocks like MRP, the associated forecasting risk tends to be higher than for typical compounders like CLS. As a result, our conviction in such positions is generally lower.

In Chart 3 that follows, we highlight this concept: while we expect higher medium-term returns from MRP versus CLS, the accuracy of such estimates is lower compared to CLS's more stable return profile. For this reason, we believe a portfolio construction process that accounts for forecasting risk — and not just prospective returns — is more likely to deliver reliable results over time.

Chart 3: 3-Year prospective returns vs forecasting risk



Source: S&P CapitalIQ, Iress and Northstar Asset Management

This probabilistic framework also challenges the notion of highly concentrated portfolios in the local market. Given the elevated uncertainty — particularly in cyclical sectors — we believe it is difficult to justify a 10- to 20-stock portfolio with confidence in the consistency of returns.

Conclusion: portfolio construction focus

South Africa's equity market has changed fundamentally, with fewer stocks, greater cyclicality, and increased concentration. Traditional strategies are becoming less effective, making it crucial for investors to adopt a more flexible, risk and market aware, and probabilistic approach to portfolio construction.

At Northstar, we not only invest significant effort in understanding the qualitative aspects of a business and modelling its medium-term earnings outlook, but we also strive to better understand the forecasting risk associated with our estimates — incorporating this knowledge into a robust and disciplined portfolio construction process.

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