

moment of portfolio facts & figures

Momentum Classic Factor Portfolio Range

quarterly commentary to end September 2020

Assessing investment returns in an outcome-based investment context

The Momentum Classic Factor Portfolio Range is managed in terms of our outcome-based investing philosophy, where we design the portfolios to maximise the probability of achieving the inflation-plus return target of each portfolio over the relevant period, while continuing to meet the portfolios' risk targets. To achieve this, our portfolio management approach conceptually starts at an (multi) asset class level, then progresses to the identification of specific investment strategies within each asset class (if appropriate) and finally ends up in the selection of (potentially more than one) investment mandates awarded to investment managers that will implement the desired investment strategies.

Given this outcome-based investing framework, when assessing the returns of the Momentum Classic Portfolio Range, it is important to start with looking at the returns from the portfolios against their inflation-related targets. This allows us to answer the question: did we achieve our target over the most recent relevant period? We then assess these returns relative to this target in terms of the following:

- The returns provided by the asset classes included in the portfolios
- The returns from the building blocks that provide the asset class exposure for the portfolio against their asset class (or strategic) benchmark. This in turn is explained by:
 - The returns from the investment strategies (or styles) used in the building block (if any)
 - The returns from the investment managers that were awarded the mandates used in each of the building blocks

This quarterly review thus starts with the assessment of the investment returns generated by the portfolios against their targeted investment outcomes over the most recent periods. The next section focuses on the economic environment and the returns generated by the asset classes (beta) for the most recent quarter, measured against our average real return expectations for each asset class. We review the returns from the building blocks and the underlying investment managers against their strategic investment benchmarks.

Momentum Classic Factor Portfolio Range returns

The respective inflation objectives of the portfolios were difficult to attain, given the low return from growth asset classes for the last five years. However, the portfolios managed to outperform their respective benchmarks for all periods.

Economic overview

High-frequency data releases and sentiment indicators indicate that a strong bounce back in global economic activity in the third quarter of the year may fizzle out prematurely. The recovery has shown signs of being unbalanced. Businesses have become less pessimistic about the outlook for the economy and corporate earnings, whereas consumer behaviour appears to continue to reflect the uncertainty of COVID-19.

Ongoing stimulus is likely necessary to support financial markets and underpin confidence for sustained economic growth. With the blurring of fiscal and monetary policy, it is not clear what will force governments to rein in spending. This raises an additional concern of central banks becoming more vulnerable to political interference. Moreover, inflation expectations are also at risk of becoming unanchored down the line.

Even as further restrictions are lifted on the local economy, electricity shortages, policy uncertainty, lingering unemployment, an anticipated rise in bankruptcies, a slow pace of reform and soaring government debt will continue to restrain spending and investment, thereby limiting South Africa's (SA) recovery to a below-consensus 2.0% in 2021, in our view, from a contraction of around 8.0% in 2020.

Electricity tariffs pose the main upside risk to inflation in the near term. We anticipate an average headline inflation rate of just above 3% for 2020, rising mildly to just below 4% in 2021. Interest rates are expected to remain unchanged until the second half of 2021 when the SA Reserve Bank begins to unwind negative real interest rates to avoid endangering the savings industry and broader financial stability.

Portfolio management

The portfolios recorded positive returns for the quarter on the back of strong global and local equity returns, with the portfolios benefitting from being overweight positions to local and global equity and the underweight position in local property, whereas being underweight Inflation-link bonds detracted from returns.

We continue to manage the portfolios with caution, given that we expect market volatility during final quarter of 2020 and, therefore, still have protection strategies on local equity. Towards the end of the quarter, we also reduced the global property and global equity exposures and trimmed the local equity positions across the portfolios. We have also been incrementally increasing the cash exposures, as a risk-mitigation mechanism, given significant global political and key local economic events in the final quarter.

We continue to monitor these exposures and developments daily, with a view to provide the optimal risk-adjusted outcome to you as well as the assurance that your investments are being actively managed in a prudent and responsible manner.

Asset class returns

The returns for the asset class benchmarks for the third quarter of 2020 are reported in the first column of the table below. The next column highlights the returns for these asset classes for the previous year. These one-year returns are then converted

into real returns by deducting inflation (3.11%) for the year. The final column in the table contains the returns above inflation we expect to get (on average) for these asset classes for a full market cycle.

Asset class	Q3 2020 returns	Nominal returns for the previous 12 months	Real returns for previous 12 months*	Expected real return (p.a.)
Local equity (Capped Swix)	1.01%	-5.02%	-8.12%	5.75%
Local bonds (Albi)	1.45%	3.58%	0.49%	3.25%
Local property (Sapy)	-14.14%	-46.07%	-49.17%	7.00%
Local ILBs (Ilbi)	1.21%	-1.92%	-5.02%	2.75%
Local cash (Stefi)	1.16%	6.20%	3.11%	1.25%
Global equity (MSCI ACWI)	4.53%	22.88%	19.78%	6.50%
Global bonds (WGBI)	-1.32%	17.47%	14.37%	-0.25%
Global property	-8.50%	-5.38%	-8.47%	4.00%
US dollar/rand**	-3.44%	10.70%		
SA CPI*	2.01%	3.11%		

*CPI is to end August 2020

**A positive/negative value here reflects the effects of a depreciation/appreciation of the rand against the US dollar on global asset class returns in rand terms. As the rand gets weaker/stronger, the returns of global investments get better/worse from a local investor's perspective.

Building block return assessment

As explained above, our outcome-based investment philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate level within each asset class. We thus construct building blocks that reflect our selected investment strategies and managers that were awarded the mandates to implement these to either improve on the returns of the asset class or manage its risk profile.

Local equity building block

The FTSE/JSE All Share (Alsi), Shareholder Weighted (Swix) and the Capped Shareholder Weighted (Capped Swix) Indices remained relatively flat at 0.67%, negative 0.33% and 1.0% respectively during the quarter. FTSE/JSE Financials increased 2.2% for the quarter, while FTSE/JSE Resources and Industrials were down 4.5% and 1.9% respectively. The rand strengthened by 3.6% to R16.75/\$ during the quarter. Iron Ore increased by 20.3% to \$118/t and Brent Crude oil increased by 1.29%, ending on \$42/bbl. Copper increased 11.1% to \$6668/t. Gold increased by 5.9% to \$1886/oz, Platinum at \$893/oz was up 7.7% along with Palladium which increased by 18.9% to \$2311/oz. The VIX Index (Volatility or 'Fear' Index) decreased by 13.4% to 26.4 during the quarter, but remained elevated due to geo-political uncertainty and fears of a second wave of COVID-19.

During the quarter, the building block achieved a return of 2.4%, which was above the return of the Capped Swix.

Fairtree recorded a return of 9.8% for the quarter, with the positions in resource shares being the main driver of outperformance. Positions in Northam (2.66%), Impala (2.62%), Harmony (1.13%), African Rainbow Minerals (1.07%) and Foschini (1.06%) contributed to returns, while positions in AngloGold (negative 0.80%), Naspers (negative 0.67%), Fortress (negative 0.47%) and Mr Price (negative 0.21%) detracted from returns. Fairtree believes SA is through the most disruptive part of the lockdown and, even though the market was somewhat volatile in September as some European countries, as well as the UK and Australia, warned of a second wave of the pandemic, the investment manager sees this as having less of an effect than the first round of global lockdowns. A breakdown in the dollar would constitute an important reflationary signal for the global economy and asset prices, which could result in strong emerging market returns relative to the US, and commodities (including

gold) would also benefit. Fairtree continues to build positions in local shares, but are selective and prefers liquidity to allow the flexibility to exit positions that do not work in the investment manager's favour. Fairtree remains positioned for an ongoing global and local recovery, but has positions in the portfolio that will protect from rising volatility.

Truffle also benefitted from being overweight resource shares and outperformed the benchmark during the quarter. Truffle recorded a return of 2.9%, with the net overweight in Platinum Group Metals (PGM) being a net contributor to returns during the quarter, as the increase in the PGM basket price helped drive the platinum company share prices higher. African Rainbow Minerals performed strongly for the quarter, helped by a buoyant iron ore price and an increase in the PGM basket price. Being overweight FirstRand and Cashbuild contributed to returns, as increased activity in the home renovations market helped the prospects for Cashbuild. Being underweight Aspen, Bid Corp and Sanlam also contributed to returns. Being underweight Shoprite and Mondi detracted from returns. During the quarter, the investment managers purchased Richemont, Bid Corp and Anheuser-Busch as well increased their exposure to locally focused companies with compelling valuations. These included Pepkor, FirstRand, Astral, Old Mutual, Bidvest and Motus holdings.

Foord returned 0.0% for the quarter, with being underweight commodity companies, and especially the contrarian low weight to precious metals miners being the largest detractor. The lower-than-index allocation to financials added value, and share selection was also beneficial with core holding FirstRand outperforming the index. The diversifying physical gold position in NewGold ETF was positive, as the dollar price of the metal rose more than the rand strengthened. The long-standing holding in pharmaceutical company, Aspen, detracted during the quarter, retracing at the margin after a strong rally in the past six months. Being overweight mid-cap companies, Invicta, Italtile and PSG, added value after underperforming in the previous quarter. Foord's portfolio was still skewed towards high-quality global businesses, with meaningful positions in Naspers, Prosus, British American Tobacco and ABI. During the quarter, the investment manager increased equity exposure on the back of price weakness in certain shares.

Blue Alpha returned negative 1.2% and also underperformed largely due to being underweight resources. The largest sectoral positions were being overweight rand-hedges and defensives, as well as being underweight rate-sensitives and banks. Specific share performers were FirstRand (8.3%) and Capitec (20.8%).

Changes during the quarter included buying Foschini, which was the only real exposure to local Cyclical, which was the single largest contributor to returns (28.5% for the quarter to date), and selling out of Mr Price. The portfolio was still defensively positioned, as the investment manager believes South Africa's recovery will be slower than global peers and, therefore, prefers to remain cautious.

Perpetua delivered a return of 2.6% for the quarter. Being overweight Royal Bafokeng Platinum and Shoprite, as well as underweight Naspers contributed to relative returns. Detractors from relative returns included being underweight Impala and Sibanye, as well as overweight Oceana. At a sector level, being overweight general retailers as well as underweight food & drug retailers and software & computer services contributed to relative returns. In terms of portfolio positioning, the investment manager remained overweight industrials and financials, as well as underweight resources. Since last quarter, being overweight industrials and underweight resources notably increased by 6.5% and 8.2%, respectively. In terms of industry exposure, food producers remained the largest overweight, with general retailers and healthcare equipment & services as the second- and third-largest overweights, respectively. Software & computer services, mining and mobile telecommunications remained the most prevalent underweights. The largest company overweights relative to the benchmark included British American Tobacco, Woolworths and Oceana.

Prudential returned negative 0.7% for the quarter. The largest contributor to returns was being overweight Impala Platinum. However, this outperformance was offset by being underweight another platinum and palladium company, Sibanye Stillwater,

which was benefiting even more from the de-risking of its businesses. Sibanye Stillwater was the second-largest detractor from returns. Being underweight Shoprite, which surprised the market with a solid set of results, also detracted from returns. Prudential continued to find very good value in the banking sector and some of the local consumer-facing businesses in SA, as the COVID-19 shutdown resulted in significant concern. The investment manager thinks the current low share prices now provide a substantial risk premium that more than compensate for the likelihood that dividends will be materially cut or be reduced to zero by many banks for the next couple of years. The main preference for the banking sector has been due to the good valuations and the very strong capital positions of the banks.

The Satrix Momentum mandate delivered a return of 2.1%. During the quarter, the momentum factor outperformed the Capped Swix benchmark, while it underperformed the same benchmark for the year. From an attribution perspective, being overweight Northam Platinum, Sibanye Stillwater and The Foschini Group added value to the strategy. Shares that detracted value from the strategy included being overweight Momentum and Harmony (HAR), while being underweight Shoprite also detracted from returns. At the last rebalance in September, the portfolio was transitioned based on the evaluation of new factor signals and the risk levels in the portfolio. Based on these signals, Distell, Mr Price, Rand Merchant and Shoprite were added to the portfolio, while positions in Discovery, Sasol and MTN Ltd were increased. These exposures were funded by exiting positions in AECL, Investec Ltd and Imperial from the fund and also decreasing positions in Capitec, Bid Corp and FirstRand.

The Momentum Trending Strategies Portfolio outperformed the benchmark for the quarter, producing a return of 1.26%. At quarter end, the portfolio was overweight the resource sector and underweight the financial sector. Within the resource sector, the portfolio was overweight gold, platinum and general mining shares and, within the industrial sector, it was underweight industrial goods and services. Within the financial sector, the portfolio was underweight banks and diverse financial services shares.

The Momentum Value Smart Beta Portfolio produced a return of negative 0.6%, underperforming the benchmark return of 1%. The portfolio was overweight the financial sector, underweight the industrial sector and a marginally underweight the resource sector. Within the resource sector, the portfolio was mainly overweight general mining companies and underweight gold and platinum shares. Within the industrial sector, the portfolio was underweight media and retail companies and overweight telecommunication companies. Within the financial sector, the portfolio was overweight insurance companies.

The Momentum Quality Strategy Portfolio produced a return of negative 0.6%, underperforming the benchmark. The portfolio was underweight the resource sector. Within the resource sector, the portfolio was underweight gold mining shares and overweight the industrial sector. Within the sector, it was overweight food and beverage as well as retail shares, while it was underweight industrial goods and services shares. The portfolio was underweight the financial sector. Within the sector, the portfolio was overweight insurance companies and underweight banks and property shares

Local property building block

The third quarter of the year was abuzz with activity, as it coincides with the period during which some of the real estate investment trusts (Reits) report their June financial results. This reporting period provided valuable insights into the operating conditions tenants faced during various levels of the lockdown, and how Reits navigated the environment. As expected, the key takeaway from the results was that the outbreak of COVID-19 had a significant effect on tenant operations. Owing to the lockdowns, many tenants could not operate at the same level of capacity they did before the outbreak of the pandemic. These trading conditions have negatively affected tenant cash flows and their ability to service operating commitments such as rental expenses. To alleviate the cash flow pressures faced by tenants during the period, Reits provided some rental relief to tenants which came in the form of rental discounts or deferrals. Most of the relief packages were directed towards retail tenants (including SMME retail operators, gyms and sit-down restaurants) as their businesses were directly affected by lockdowns.

Office and industrial sector tenants received minimal rental relief, as many continued to trade throughout the lockdown, albeit at interrupted levels. A marked improvement in operating activity was noted in the third quarter relative to where operating activity was in the second quarter of the year. This improvement follows the relaxation of lockdown regulations, as the country moved from alert level 3 regulations from beginning June, to alert level 2 regulations in August and, recently, alert level 1 regulations, which took effect from 21 September 2020. Rental collection metrics are also off the lows from the second quarter, and the picture today is very pleasing across all sectors, although rental collections are not at the 95% to 100% range we are accustomed to.

Notwithstanding these improved conditions, the SA listed property sector index (Sapy) ended the quarter near similar levels to those seen at the height of the lockdowns in March and April. During the quarter ended September 2020, the Sapy declined by 14.1%.

The building block returned negative 13.8% and outperformed the benchmark return.

The Momentum Listed Property Portfolio delivered a negative 12.4% return, as holdings in Sirius, Investec Property fund, Equites and Investec Australia minimised the downside. The investment managers retained a preference for companies they believed would be able to withstand the weakness in the South African market, or offshore real estate companies listed on the local market, but operated in regions with macroeconomic conditions supportive of property fundamentals.

Meago delivered a negative 13.3% return for the quarter. The largest contributors to returns were being overweight Investec Property Fund and underweight Fortress B, Vukile and Hyprop. The largest detractors to returns were being overweight Attacq and Redefine.

Catalyst returned negative 14.2%, as being underweight Attacq, Fortress B and Redefine, which underperformed the benchmark, contributed to returns relative to benchmark.

Being overweight Hyprop and Vukile, which underperformed the benchmark, and underweight Investec Australia, Sirius and Investec Property Fund, which outperformed the benchmark, detracted from returns relative to benchmark.

Local flexible bond building block

There was much less volatility in the third quarter of 2020 for local fixed income asset classes, after what happened the previous quarter. However, uncertainty remains elevated and this is reflected in the returns for the period. Nominal bonds led the way with the Albi delivering 1.45%, marginally outperforming cash as measured by the Stefi (1.16%). ILBs, as measured by the Igov, continued to lag, delivering 1.00% and listed property (Sapy) yet again delivered negatives returns of 14.14%.

For the quarter, the portfolio yielded negative 0.61% compared to the Albi's 1.45%. Measured over an appropriate investment term of three years, the portfolio yielded a mere 4.3% compared to the Albi's 7.3% and, for the five-year period, it yielded 6.8% compared to 7.6% generated by the Albi.

Prescient had a large exposure to the 12-plus-years sector of the yield curve at the end of the quarter (62.3%) – Albi at 55.7%. Coronation, on the other hand, started off the quarter with being overweight the 7-12 years sector and subsequently moved the bulk of this exposure to the 12-plus-years sector 49.1%. This sector of the Albi was the weakest-performing area on the yield curve (negative 2.6%, while the Albi returned 3.6%), thus illustrating the significant effect incorrect positioning on the yield curve could have on the portfolio's overall returns. The allocation to listed property (3.1%) detracted from returns. The allocation to

inflation-linked instruments (14.3%), however, detracted from the relative returns of the portfolio, as this asset class delivered only 1.0% for the quarter.

At the end of the quarter, the portfolio had a duration position of 7.7 years compared to the Albi of 6.3 years. Duration was increased by Prescient during the quarter under review. On aggregate, the portfolio was overweight the 12-plus-years sector and underweight all the other sectors.

Local flexible income building block

For the quarter, the flexible income building block yielded 1.7%, underperforming the benchmark by 0.7%. It also underperformed the benchmark (11.9%) for the year, as it returned 6.7%. For the three-year period, it did not manage to outperform the benchmark either (8.3% compared to the Albi (1 to 3 years) at 9.7%). The building block had a very high exposure of 76.3% in shorter-dated instruments, with a maturity less than one year (mainly floating-rate notes).

For the quarter, cash, as measured by the Stefi, delivered 1.2% and the Albi returned 1.6%. The bulk of the Albi return was generated by the 3-7-year sector (4.2%). However, the building block only had a 6.0% allocation to this sector.

For the year, cash delivered 6.2% and the Albi returned 3.6%. The allocation to inflation-linked bonds (4.7%) and listed property (0.5%) detracted from the return, as these asset classes delivered negative 2.4% and negative 346.1% respectively. The building block had a modified duration of 1.4 years, which was shorter than the Albi (1 to 3 years) at 2.2 years.

Local inflation-linked bond building block

Inflation-linked bonds continue to experience high volatility and low liquidity, weighing on their prospects. However, real yields were a lot more stable this quarter, as inflation seems to have bottomed and is moving up slightly.

The total return from inflation-linked bonds could be divided into two components – the monthly accrual and the mark-to-market of the capital value, due to the move in the real yields. The first component of return was the monthly accrual from the yield on the bonds and the inflation uplift. This component of the total return was a mere 0.35% this quarter, with a 0.60% from inflation uplift and around 0.95% from yield accrual. The second component of the return was determined by the move in real yields of the bonds. Real yields moved substantially lower in the short-end maturities, but marginally higher in the long end of the yield curve, thereby generating capital gains close to 0.65%. These components combined thus explain the index (Igov) total return of 1.00%.

For the quarter, the portfolio yielded 1.9% against the benchmark Igov (1.0%).

For the year, the portfolio yielded a return of negative 1.23%, compared to the benchmark of negative 2.4%. It had a modified duration of 8.64 years, compared with the Igov of 8.50 years. The investment manager was slightly overweight the 12-plus-years sector and underweight all the other sectors.

Local cash building block

For the quarter, the portfolio delivered a return of 1.5% compared to 1.2% for the Stefi benchmark.

There was further easing in the repo rate, but only a 0.25% cut at the July meeting, which was followed by a pause at the September meeting. The repo rate was anchored at historical lows of 3.50%. The Jibar rate is at 3.35%. The forward rate agreements curve indicates that the market does not expect any further interest rate moves from current levels in 2020.

Credit spreads have started to compress strongly during the latter part of the quarter and the exposure to non-government issuers has been decreased somewhat.

For the year, the portfolio delivered a return of 7.8% against the Stefi benchmark of 6.2%. The portfolio consistently met its objective of capital preservation, by maintaining positive returns on a one-year rolling basis. Both investment managers had a high exposure to floating-rate notes, which provided a fair degree of liquidity, while also providing excellent yields.

Local absolute strategies building block

For the quarter, the absolute strategies building block returned 1.1%, which was 0.7% above its internal strategic benchmark, which returned 0.4%. The real return component (60% Absa, 40% Prescient), which is the most defensively positioned, returned 1.7%. Tantalum, a high equity investment manager returned 1.6%, while Sentio and Prudential were up 0.6%. For the year and for four years, which is the relevant measurement period, the building block outperformed the strategic benchmark, returning negative 0.7% and 3.6% relative to the benchmark returns of negative 1.7% and 3.1%, respectively. The inflation plus 4% target, however, was up 5.7% for the year and 8.1% per year for the last four years.

On a look-through basis, the building block was overweight equities and bonds, while underweight ILBs, property and cash.

Absa remains conservatively positioned, with 14% of the portfolio invested in growth asset classes and 86% in defensive asset classes, returning 1.9% for the quarter. The investment manager's expectation was that third-quarter GDP growth throughout most of the world was positive. The key risks, however, are that fourth-quarter growth could slow and overall growth for 2020 could disappoint to the downside. The investment manager is keenly watching growth markets, poised to take up any investment opportunities as they develop, for longer-term superior returns.

Prescient is predominantly invested in fixed interest asset classes given the attractive yields available in this space, with longer-term bonds trading above 11%, longer-dated real yields for ILBs approaching 5%, and preference shares yielding in the region of 10%. The portfolio favours fixed interest exposure over equity to limit downside risk in the portfolio. The portfolio returned 0.6% over the quarter.

Tantalum benefitted from holdings in British American Tobacco, FirstRand, Absa, Omnia and Motus. Detractors from returns were AngloGold Ashanti, Naspers, Prosus, Reinert and Sasol. Overall sectoral positioning remains well diversified with equity derivative overlays remaining in place. With higher yields on offer across the government bond curve, the portfolio was marginally overweight bonds, taking into account South Africa's current fiscal and economic outlook.

Sentio's portfolio had contributions from positions in Harmony, Sibanye Stillwater, Impala and FirstRand and Northam Platinum. Top detractors from returns included positions in Naspers, Nepi RockCastle, BTI, Sanlam, BidCorp and Vukile. Many of the detractors have a strong fundamental valuation underpin and the investment manager is comfortable holding these shares as the value is expected to unlock. In fixed income, the portfolio was overweight duration at the beginning of the quarter with some profit taking before the September Sarb meeting taking place, as the investment manager did not believe the central bank would ease rates further. The portfolio remains slightly overweight duration with expected upside in bonds from current levels but optionality is being maintained due to short-term volatility, which would protect the portfolio during a sell off, while participating in further bond rallies.

Prudential's largest asset-class contributors for the period were the portfolio's exposure to ILBs and bonds. Listed property holdings were the only significant detractors from the portfolio's absolute returns. In terms of specific equity exposure, the portfolio's holdings in Implats, Gold Fields and Northam were among the strongest contributors to absolute returns for the

quarter. The larger detractors from absolute returns for the period were holdings in Nepi Rockcastle, Naspers and British American Tobacco. Being underweight Sanlam, AngloGold, and Aspen added relative value, while being underweight Shoprite, Sibanye Stillwater and Capitec detracted from value. The investment manager increased being overweight equities, maintained being substantially underweight listed property, maintained being overweight nominal bonds, favouring longer-dated maturities and increased ILB exposure.

Commodities building block

The broad Bloomberg Commodities Index (in US dollar terms) rallied 25% from 30-year lows in sync with the global equity bounce in the third quarter of 2020. This was largely due to global systemic factors, notably aggressive stimulatory monetary policies in response to the virus-driven global economic downturn, as well as optimism on the speed and nature of economic recovery.

For South African investors, commodities were a tale of two 'sectors' this quarter. South African agricultural commodities, driven by local supply and demand idiosyncrasies, enjoyed powerful bull markets rising between 40% and 50% in the quarter. However, the second-quarter bounces by the globally traded, US dollar-priced energy and metal sectors lost momentum in the third quarter, also in sync with the global equity markets. Crude oil and gold fell by 15% and 10% respectively, while platinum fell 20%. The downturn in these two sectors was compounded by a 15% rally in the rand compared to the US dollar late in the second quarter.

The building block returned 5,8% for the quarter, outperforming the Stefi's 1,2%.

Global equity building block

Despite a sharp setback during September, risky asset classes made further gains in the third quarter, building on the recovery, which began in late March. Wall Street, particularly tech stocks and other clear beneficiaries of the pandemic, again led the way, with the S&P500 returning 8.8%. Chinese markets also performed strongly, with the CSI 300Index up 10% and, this, with a weak dollar, helped push emerging markets to a return of 9.6%, outpacing the MSCI Developed Market Index, up 7.9%. European markets were weighed down by increasing concerns about a damaging second wave of COVID-19 and rising anxiety about the Brexit discussions ahead of key deadlines in October.; Europe ex UK returned only 1.4% in euro terms, while the UK market fell 4.3% in pound terms. The underperformance of the UK, which was also held back by the dominance in the index of energy and financials, sectors which were severely damaged by the effect of the pandemic, were stark: so far this year the market is down 21% compared with a rise in the US of 5%.

Driving markets were two key factors. First was the continuing economic recovery from the pandemic-induced collapse in the early months of the year. This was sharper than many predicted and in turn resulted in corporate profits generally coming in ahead of expectations, although clearly not across all sectors. Second was the extraordinary support provided by the major central banks, which continued to purchase assets on a substantial scale, while keeping interest rates close to or below zero, and provide guidance, which points to a long period ahead of ultra-loose policy.

Against this backdrop, the building block underperformed its MSCI AC World Index benchmark for the past quarter, returning 4.0% relative to 5.8% for the benchmark.

Growth stocks continued to drive markets during the quarter, which was reflected in our underlying manager returns. Jennison was the largest contributor to returns, mainly due to stock selection within the IT Hardware and Consumer Products sectors, which form a significant part of the investment manager's overall book.

The main detractor from returns for the quarter was our value and quality style investment managers. Robeco's value strategy was the biggest relative detractor, coming from stock selection within the IT Hardware and Consumer Products sectors.

On a sector basis, all sectors delivered positive returns through the quarter except Energy, which remains a small part of the portfolio and a relative underweight. Consumer Discretionary and Information Technology were the biggest contributors to returns, while Financials and Utilities lagged the broader market gains.

Our largest individual stock contributor was Tesla, which almost doubled in price for the quarter, after a five-for-one stock split designed to make stock ownership more accessible, particularly helping retail buyers. Other winners within the Consumer Discretionary sector included Chinese ecommerce company Meituan Dianping, which sells vouchers for local services such as entertainment and dining, and Bed Bath and Beyond. US retailer Bed Bath and Beyond returned 41%, as its remarkable recovery from the pandemic continues. The business has experienced a boom in online sales since the pandemic hit and has been successfully controlling costs, as it moves towards an omni-channel model.

Within Technology, Apple was a notable contributor in absolute terms, although the portfolio remained underweight relative to the benchmark. The company became the first US public company to reach \$2trn market cap, after announcing positive results for the last quarter and a planned stock split. Gains also came from lesser-known names such as LivePerson, as the company raised revenue guidance for 2020, due to strong demand for its conversational artificial intelligent business.

On the negative side, large integrated energy companies such as Chevron, Total and Royal Dutch Shell, detracted during the period. Royal Dutch Shell announced an 82% slump in profits, as the oil price recovery seen last quarter appeared to stall. Elsewhere, there were some mixed returns from Financials, as large cap names such as AIG and Citigroup underperformed. AIG announced disappointing results due to underwriting losses and reduced private equity returns, while Citigroup results outperformed expectations, as it announced the appointment of a new CEO to start next year.

Global property building block

The global property building block returned negative 3.4% for the quarter, which was below the benchmark return of negative 1.8%. Rand strength and tighter restriction measures, specifically in the UK and Europe, were the major reasons for the negative returns.

Global fixed income building block

The global bond building block returned negative 1.8% for the quarter, which was below the benchmark return of negative 1.5%.

Despite the continued COVID-19 uncertainty and expectations that the virus's economic effect will be longer lasting than initially envisioned, markets remained beholden to central banks and government stimulus packages. The US Federal Reserve now foresees ultra-low policy rates remaining in place until 2023, which has anchored US Treasury yields to date (US ten year at 0.65%), dampened volatility and encouraged investors to seek out higher yields within corporate credit (US credit outperformed government bonds by 1.7% in the third quarter and high yield outperformed by 4.5%) or other riskier asset classes.

Conclusion

It's only natural to be concerned when investment markets experience the volatility that 2020 has. The key during uncertain and volatile times like these is to remain invested and not to succumb to emotional reactions and to look beyond short-term fears. The portfolio managers are continually assessing how best to manage your well-diversified portfolios during this period.