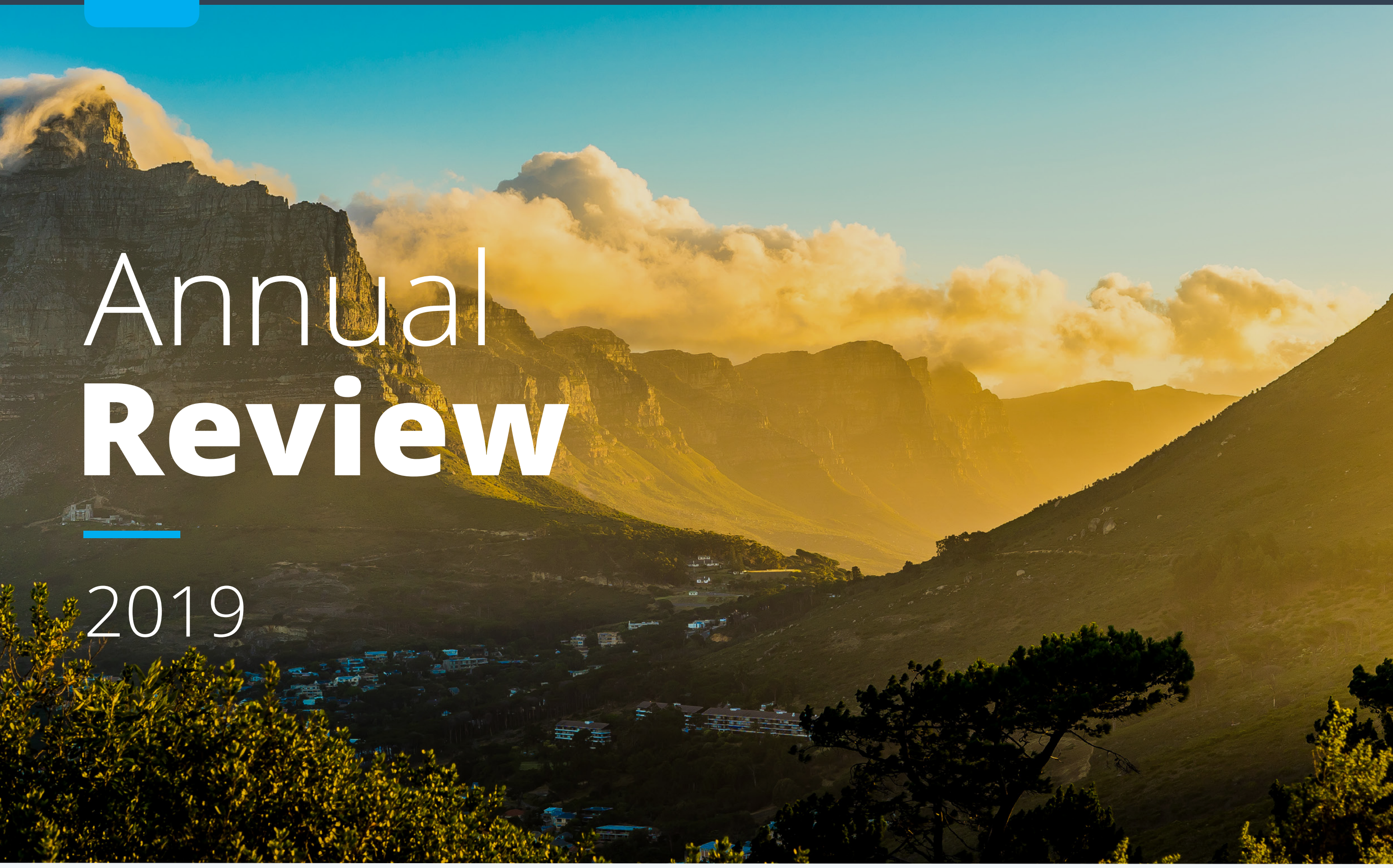
10X INVESTMENTS



Annual **Review**

2019

2019 was a "noisy" year, like most years, in fact. There was political posturing, local and international, there were laments about South Africa's electricity supply crisis, battle cries over Chinese-US trade, and widespread concerns about a possible US recession. The alarm bells sounded even louder on South Africa's declining fiscal position and the almost inevitable ratings downgrade that must follow. Investment prophets warned that the decade-long bull market in US stocks was coming to an end.

Set against this, mainly negative, commentary, the market surprised most people by delivering strong returns in 2019. In fact, the general market sentiment followed a similar roller-coaster to the spirit of South African sports fans in 2019: abject disappointment at the Cricket World Cup during the middle of the year and utter jubilation at the Rugby World Cup towards year-end.

Investment markets started the year strongly, following the sharp correction at the end of 2018. This recovery was spurred on by the US Federal Reserve (Fed), who indicated, at their January meeting, that they were going to pause the interest rate hiking cycle in the face of mounting concerns around economic growth. The promise of less restrictive monetary policy provided the stimulus for global markets, including South Africa's, to rebound and recover most of the ground lost the previous year.

Locally, South African election results were in line with expectations, with the ANC holding on to a smaller majority. However, domestic sentiment deteriorated as factional tensions frustrated President Cyril Ramaphosa's efforts to implement much-needed reform and provide policy certainty.

Different leaders within the ANC made contradictory statements on how to deal with failing state-owned enterprises, the nationalisation of the South African Reserve Bank and asset prescription in pension funds. It soon became apparent that there would be no silver bullet or quick fix to stimulate our economy. Inflation had been on a downward trajectory during the year, symptomatic of the lack of demand as a result of low economic growth. This provided room for the SARB to cut interest rates by 0.25% at its July meeting.

In the UK, Teresa May's failure to negotiate acceptable Brexit terms saw Boris Johnson replace her as prime minister. Market volatility tracked the volume of presidential tweets from the other side of the Atlantic as fear and uncertainty grew over how the escalating US-China trade war would impact global growth.

By the 3rd quarter, fear began to dominate investor sentiment. Equities sold off and money poured into safe havens, like US Treasuries. Global bond yields continued to fall around the world with approximately one third of global government debt carrying a negative yield. Falling yields was the dominant trend in 2019, which just goes to show how fallible market predictions are: no "expert" economist had predicted yields to fall as they did.

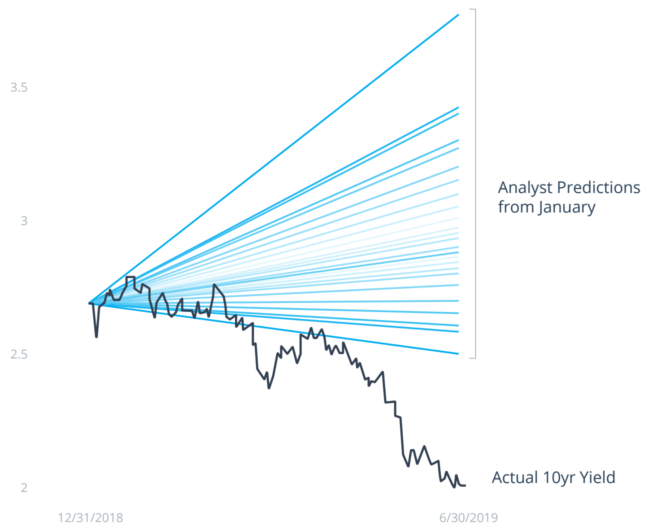
The drop in long bond yields led to an inversion of the US Treasury interest rate curve, ie long-term rates fell below short-term rates. Historically, this has been the harbinger of a recession in the US. The end of July had seen the Fed cut the US Fed Funds rate for the first time since the Great Financial Crisis in 2008/09, due to perceived threats to global growth. Two further cuts followed, leaving the Fed Funds rate 0.75% lower than it started the year.

In South Africa, October's Medium Term Budget Policy Statement painted a grim, but honest, picture of growth prospects and the debt burden. This had ballooned since the February Budget Speech, projecting for the first time that the debt-to-GDP ratio would not level off in the medium term.

The deteriorated outlook immediately raised the spectre of an imminent downgrade of South African debt to sub-investment grade, or "junk status", as it is commonly termed. Both Moody's and S&P changed their outlook to negative.

With the resumption of load-shedding, the South African Reserve Bank (SARB) refrained from further rate cuts, citing potential rand weakness as the main concern, despite subdued inflation. South African government debt provides a relatively high yield above inflation, compared with global counterparts. This high yield is a premium that investors demand for taking on the risks associated with our government bonds.

Figure 1: US 10yr Treasury Yield, Predicted vs. Actual

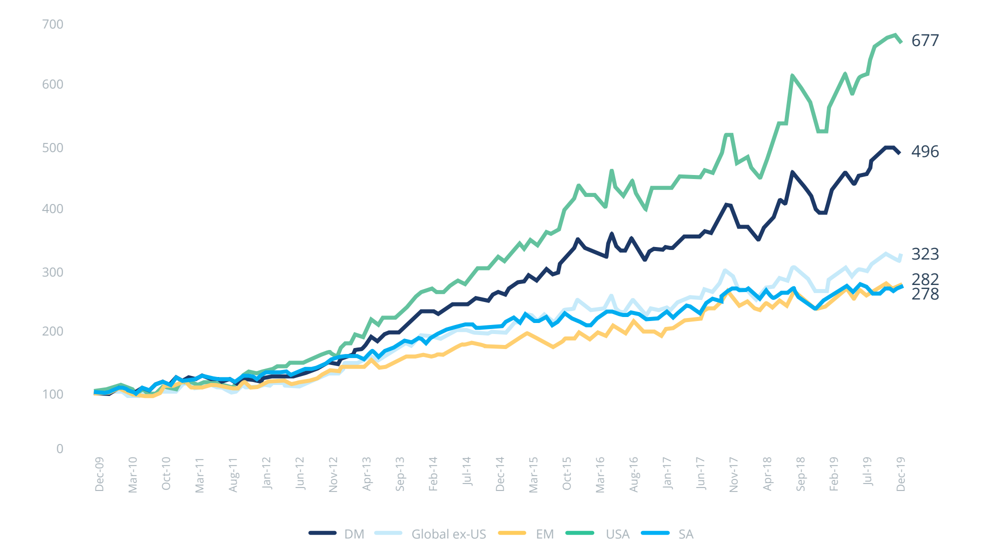


Source: Bloomberg, WSJ Survey of Economist Predictions

The easier global monetary conditions, coupled with an initial US-China trade agreement and a decisive outcome in the UK elections, removed much of the uncertainty and saw a rally in risk assets towards year end. This bullish global sentiment also buoyed our market, despite the negative local developments. Equities, bonds and the rand all finished the year strongly.

As we usher in a new decade, there is an opportunity to zoom out and reflect on the decade that was. The US equity market was certainly the place to be over the last 10 years. R100 invested at the start of the decade would have grown to R677 in the US, as measured by the S&P 500. As the US makes up close to 60% of the Developed Market index, this also performed strongly, with R100 growing to R496, despite the rest of the world delivering softer returns over the decade. Ex-US, the rest of the world would have grown R100 to R323.

Figure 2: R100 invested in global equity markets 2010-2019

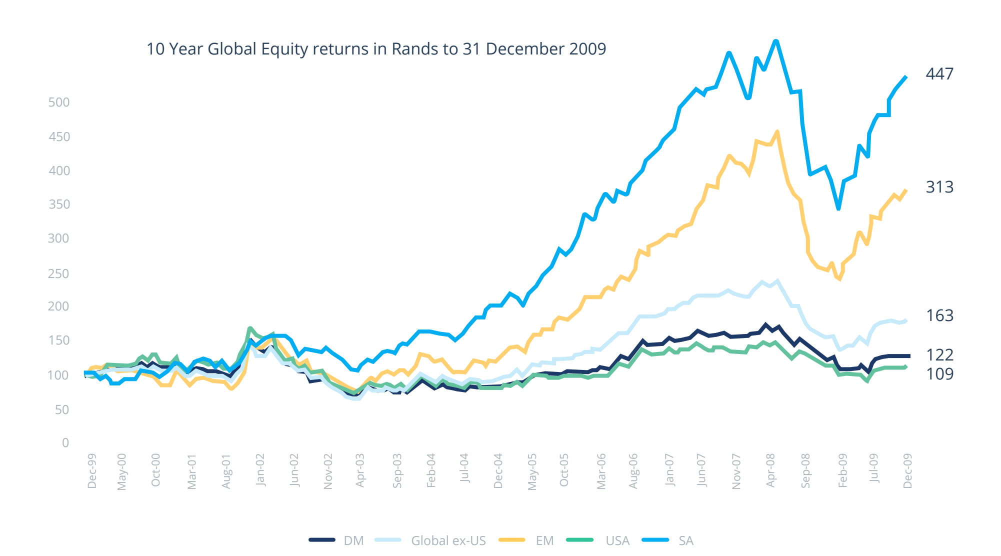


Source: Refinitiv Datastream

Emerging markets were the relative laggard this decade. R100 would have grown to R282 in emerging markets, which is comparable to South Africa's R278. This should not come as a surprise as we are classified as emerging market ourselves.

Given the strong performance over the past decade, it is tempting to believe that US outperformance will continue indefinitely. However, if we rewind 10 years, and conduct the same exercise, we see that things can change dramatically from one decade to the next. R100 invested at the start of 2000 in US equities would have grown to only R109 after 10 years. Instead, it was the rest of the world, and, specifically, emerging markets, that dominated global equity returns, with R100 invested in emerging markets growing to R313, and R447 in South Africa.

Figure 3: R100 invested in global equity markets 2000-2009



Source: Refinitiv Datastream

While we do not make market predictions, we would be surprised if the trends of the last ten years were to persist over the coming decade.

Recent returns vs long-term returns

At 10X, we don't make economic forecasts or align our portfolios to speculative predictions. That would go against the very essence of the 10X investment philosophy and our one optimal solution. We do, however, take a view on return prospects, based on how much markets have delivered in the recent past relative to what they have delivered over the long-term. We do this because we believe in mean reversion, that asset class returns (after inflation) ultimately trend back to their long-run average.

Figure 4: Real (after inflation) growth asset returns vs long term mean

Source: 10X Investments; Dimson, Marsh and Staunton

Fig 4 above shows the real (after inflation) annualised return of the 10X growth asset classes over different periods (1, 3, 5, 7 and 10 years). The red lines represent the long-term average return for each asset class. Short-term returns (up to 5 years) can deviate markedly from the average, but over longer periods (10 years or more) we would expect returns to trend back towards the historical average.

SA Equity delivered an annual return just below the long-term average. The 5-year real return around zero indicates that SA Equity has delivered inflationary type returns over this period. As a result, the 10-year return has been dragged below the long-run average. While this does not automatically mean that we will see strong returns in 2020, it does make us more optimistic about the future.

SA Property had a poor 2019, delivering returns below inflation. Combined with a poor 2018, 3-year returns are now deeply negative, both in real and nominal terms. Despite the poor recent showing, the longer-term real returns are still above average, indicating how strongly the asset class performed early in the decade. We are thus less confident about the recovery prospects for this asset class compared with SA Equity.

International Equity returns have two main drivers: the performance of international equity markets and the performance of the rand. All periods shown have delivered returns above the long-term average. Comparing that against International Cash in the section below (Figure 5), we can see that the strong 10-year real returns have not been materially impacted by rand depreciation, but rather by strong international equity market performance.

The 7- and 10-year real returns are far above the long-term average and we would expect these to moderate in the future.

Figure 5: Real (after inflation) defensive asset returns vs long term mean

Source: 10X Investments; Dimson, Marsh and Staunton

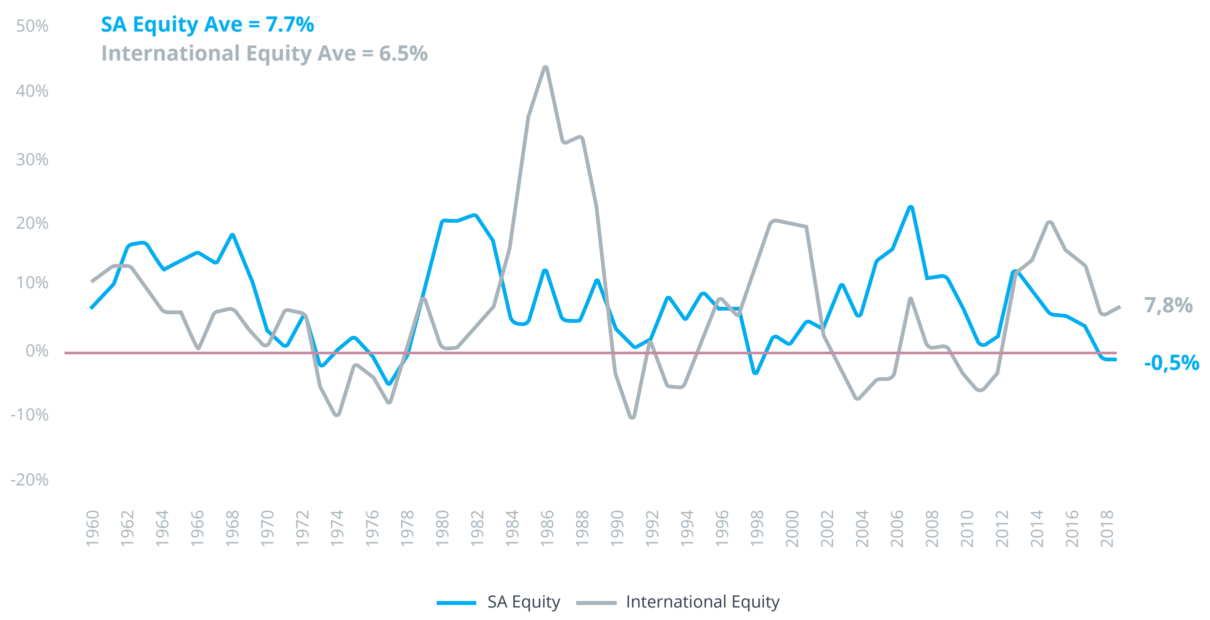
Against the backdrop of declining inflation, **SA Government Bonds** delivered strong returns over the last 1- and 3-years, despite the risks of a potential downgrade to sub-investment grade. Longer term returns are above the historical average, which is an indication of the benign inflationary environment in recent times compared with what we were historically accustomed to.

SA Cash continues to deliver real returns above the long-run average. A combination of low inflation and conservative monetary policy from the SARB, which is reluctant to cut interest rates despite low inflation and economic growth, are the drivers behind this. However, over 10 years, the real return has been only around 1%, underlining that this asset class is not suitable for long-term investors.

Given the low interest rates in the US in recent years, the 1- and 3-year real returns to **International Cash** mirror mainly currency movements and SA inflation. Longer-term returns are in line with the long-run average, and only slightly above that of SA Cash. In other words, simply moving money abroad for the rand hedge effect is not the panacea for long-term financial security that many people think it is.

Given the current performance of the S&P500, which dominates the international equity markets, many investors have begun to believe that this superior performance is a sure thing and here to stay. This is a type of recency bias, expecting a short-term trend to become the long-term norm.

Figure 6: Real (after inflation) 5 year rolling returns for SA Equity and International Equity from 1960-2019



Source: 10X Investments, Dimson, Marsh and Staunton

We often get caught up in the emotions of the "now", but looking back at history, we can see that local and international equity markets have been through periods of highly disparate returns, favouring either one or the other. But the pendulum has always swung back.

When looking at returns over the long-term, it is important to strip out the impact of inflation. The red line in Figure 6 represents a return in line with inflation, otherwise referred to as zero real (after-inflation) return. Looking at SA Equity, we can see that it has delivered 5-year returns around inflation a number of times over the last 60 years, including 1973, 1976, 1991, 1998, 2011 and in 2019. But then so has International Equity, and typically much more severely.

Comparing rolling 5-year real returns of SA Equity and International Equity, (as we do in Figure 6) it can be seen that, historically, each asset class has outperformed the other for extended periods.

No one can predict when these cycles turn, but what is important is to ensure that you are adequately diversified across these asset classes to ensure that you consistently receive above inflation returns.

Over the long run, SA Equity has delivered a higher long-term average return than International Equity, to compensate investors for the higher risk associated with investing in South Africa as opposed the Developed Markets.

As much as we emphasize focusing on the long-term, the reality is that stock market volatility can be very hard to ignore. It almost never feels like the right time to invest. After strong performance, all the good news is in the price, or the economic outlook is so poor that it makes no sense to invest. This dilemma can cause anxiety, but rather than listening to the short-term noise we need to strip out the emotion and look at the cold, hard facts.

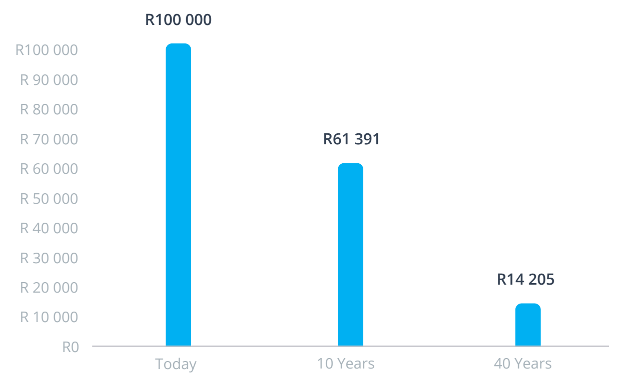
What are the facts that we know about investing?

1) Asset allocation determines long-term returns
2) Diversification improves risk-adjusted returns
3) Fees have highest predictive value
4) No-one knows which asset class will outperform over the short term
5) No-one knows which manager or strategy will beat an index over the long term

At 10X Investments, we focus on the 'knowns' that will increase your probability of success.

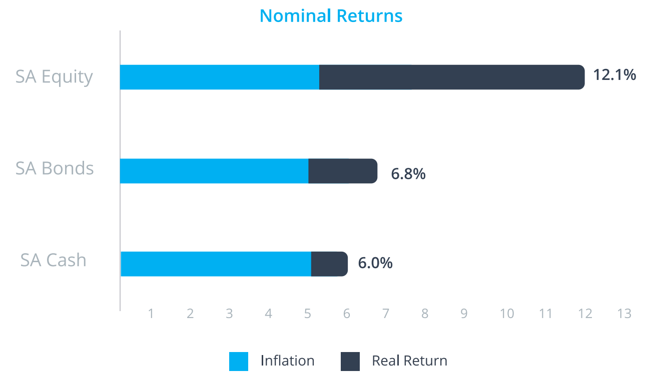
1) Asset allocation determines long-term returns

Figure 7: Impact of inflation on a starting value of R100,000



Source: 10X Investments

Figure 8: Nominal and Real returns since 1900



Source: 10X Investments; Dimson, Mash and Staunton

Earning returns in line with inflation means your wealth remains constant as prices rise around you. Inflation erodes your purchasing power each year, as the same amount of money buys less. Figure 7 shows how inflation at 6% a year erodes R100,000. It is important to ensure that you achieve inflation-beating returns over the long run.

Equities have historically provided the best inflation-beating returns over the long run. While it might feel safe to hold cash, as has been the case over the last 5 years, the reality is that for long-term investors cash is trash. Looking at data going back to 1900, it would have taken nearly 7 times as long to double the value of your cash in real (after-inflation) terms compared with being invested in equities.

Table 1: Years to double money in real terms

SA Cash	SA Bonds	SA Equity
69	39	10

Source: 10X Investments; Dimson, Mash and Staunton

2) **Diversification improves risk-adjusted returns**

With concentrated portfolios, there is a risk of being over exposed to an unforeseeable event that impacts a specific asset class or company, such as Steinhoff. That's why, at 10X, we cap our holding in any one stock at 6% twice a year, at rebalance. This means, in our 10X High Equity portfolio, which has 50% in SA equity, no one share will make up more than 3% at rebalance.

In addition, clients are invested in more than 3000 global shares, local property, SA nominal and Inflation-linked bonds, SA cash and international cash. Each of these asset classes performs differently under different market conditions, so at least part of your portfolio is delivering positive returns at all times.

Table 2 below shows the annual and the 10-year average return of each asset class over the last decade. While growth asset classes, such as equities and property, can swing from a large positive return at the top of the table one year to a negative return at the bottom of the table the next, the benefit of diversification in the 10X High Equity portfolio can be seen with more consistent returns from year to year, whilst still providing strong returns over the long-run.

Table 2: Asset Class Performance and Diversification

2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	10 Year Average
DM Equity 24.9%	Int Cash 16.2%	EM Equity 23.8%	SA Govt Bonds 14.9%	SA Property 45.0%	DM Equity 16.8%	DM Equity 57.8%	SA Equity 28.7%	SA Property 25.5%	SA Equity 20.3%	EM Equity 37.7%	DM Equity 16.6%
EM Equity 16.0%	SA Govt Bonds 6.9%	SA Property 18.5%	SA Property 11.1%	Int Cash 33.7%	SA Equity 13.0%	SA Property 34.7%	**10X High Equity 24.1%**	Int Cash 22.0%	SA Property 16.4%	SA Equity 31.9%	SA Property 12.7%
10X High Equity 11.2%	SA Cash 7.0%	SA Equity 16.9%	SA Cash 7.0%	DM Equity 32.7%	**10X High Equity 12.9%**	Int Cash 23.8%	EM Equity 24.1%	DM Equity 15.1%	**10X High Equity 16.2%**	**10X High Equity 21.9%**	**10X High Equity 11.2%**
SA Equity 10.2%	DM Equity 5.2%	**10X High Equity 13.7%**	SA Infl Bonds 6.1%	EM Equity 13.6%	SA Infl Bonds 11.1%	SA Equity 21.4%	DM Equity 20.8%	SA Infl Bonds 12.8%	SA Govt Bonds 14.6%	SA Cash 8.6%	SA Equity 10.8%
SA Govt Bonds 10.2%	SA Infl Bonds 0.1%	SA Govt Bonds 10.4%	SA Equity 2.9%	**10X High Equity 9.1%**	Int Cash 10.3%	**10X High Equity 21.0%**	SA Infl Bonds 19.6%	SA Govt Bonds 8.9%	SA Infl Bonds 10.8%	SA Infl Bonds 7.7%	EM Equity 10.7%
SA Cash 6.9%	EM Equity -0.6%	DM Equity 10.4%	**10X High Equity 2.0%**	SA Cash 6.1%	SA Govt Bonds 9.8%	SA Govt Bonds 0.5%	SA Property 18.1%	**10X High Equity 7.6%**	EM Equity 7.0%	SA Property 5.7%	SA Govt Bonds 8.7%
SA Infl Bonds 2.4%	**10X High Equity -2.9%**	SA Cash 7.1%	EM Equity -1.3%	SA Infl Bonds 3.6%	EM Equity 7.8%	SA Infl Bonds 0.8%	SA Govt Bonds 15.7%	SA Cash 5.5%	SA Cash 6.6%	DM Equity 1.7%	SA Infl Bonds 6.8%
SA Property 1.2%	SA Equity -8.0%	SA Infl Bonds 2.6%	DM Equity -5.2%	SA Equity 3.0%	SA Cash 5.7%	SA Cash 5.0%	SA Cash 5.4%	SA Equity 4.5%	DM Equity -0.4%	SA Govt Bonds -0.8%	Int Cash 6.6%
Int Cash -2.7%	SA Property -26.2%	Int Cash -9.9%	Int Cash -11.2%	SA Govt Bonds -3.4%	SA Property -0.6%	EM Equity 20.5%	Int Cash 4.7%	EM Equity -0.2%	Int Cash -10.4%	Int Cash -22.3%	SA Cash 6.2%

Source: 10X Investments; SPDJI; FTSE/JSE; MSCI; Refinitiv Datastream

3) **Fees matter**

While returns vary over the short-term, fees are constant. If a high equity portfolio delivers an after-inflation return of 6.5% before fees, and you are paying the industry standard of approximately 3% in fees. You are giving up 45% of your real return to fees.

Many proponents of high-cost active managers argue that fees are irrelevant, that the only thing that matters is return after costs. While this is true, what they miss is that fees have the highest predictive power when trying to assess which funds will outperform.

In a 2016 US study, Morningstar[1] found that the cheapest 20% of funds were 3x times more likely to outperform the most expensive 20% of funds.

Even this evidence is sometimes disputed by the industry at large in South Africa, with arguments being made that the JSE is less efficient than the US market, or the SA universe of stocks is somehow different to that of developed markets.

In 2017, Morningstar[2] conducted research in South Africa and the results were in line with those in the US: the cheapest 20% of funds had a much higher probability of outperforming more expensive funds. This should come as no surprise to any one who understands the corrosive impact of fees over the long term.

Assuming a long-term nominal return of 12.5% per annum, you can see the impact of the fee differential over your savings life.

Table 3: Impact of fees over a lifetime

	Today	10	20	30	40
1% Fee	100,000	293,682	862,491	2,532,979	7,438,899
3% Fee	100,000	239,465	573,436	1,373,181	3,288,291

[1] *Predictive Power of Fees, R Kinnel, Morningstar, 2016*

[2] *Fees as a Predictive Tool of Outperformance, K Cox, Morningstar, 2017*

4) **Match asset mix to time horizon**

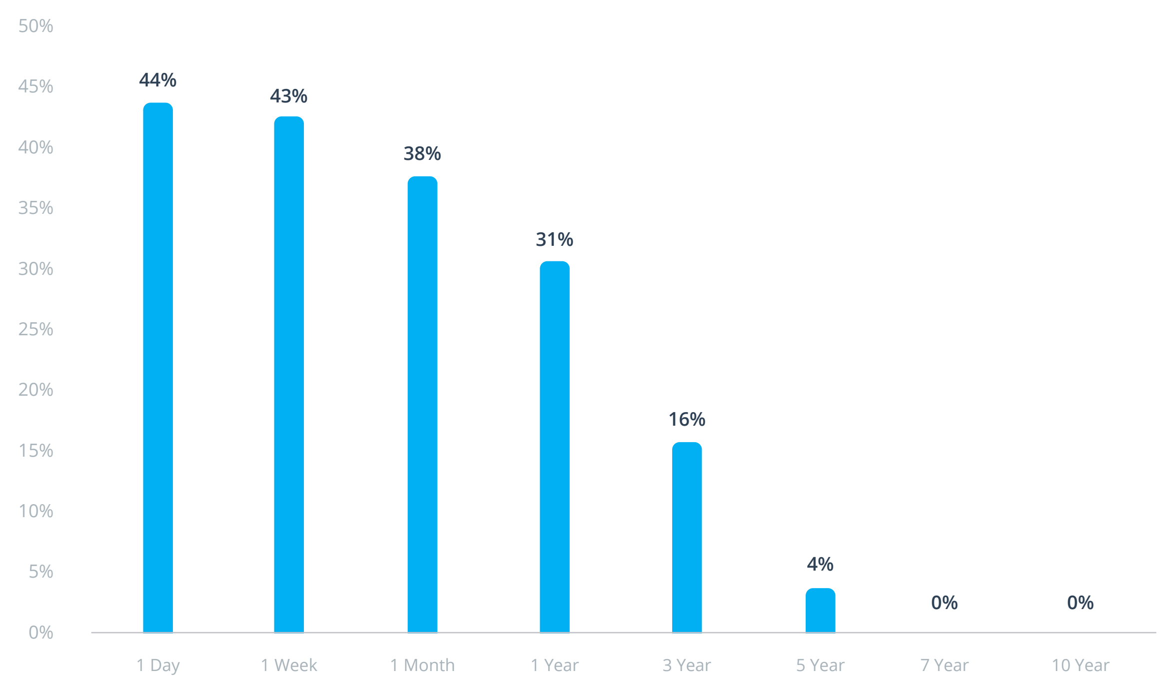
Investors are often tempted to make knee-jerk reactions to market events. The reality is that even if the market falls sharply it should not matter too much to investors – financially, that is, it might hurt emotionally.

If you are a short-term investor, you should be carrying very little market risk; as a long-term investor, you have time on your side to ride out what happens over the next year or two.

Rather than speculating on next month's return you should have the right asset mix for your time horizon. If you have 5 years or longer to go, you can afford to have a much higher weighting in shares. If you have a short time horizon, your focus should be on preserving your pot with a lower weighting in shares so that short-term volatility doesn't take a big chunk of your savings when you have little time to recover.

As your time horizon increases, so the probability of negative returns in SA shares decreases.

Figure 9: 1 Probability of negative returns over different time periods - SA Equity



Source: 10X Investments; Datastream; DImson, Marsh and Staunton. 1 Day - 1 Month 1973-2019, 1 Year to 10 Years 1902-2019

5) **Over all time periods index-trackers beat active managers**

When it comes to active management versus indexing, the evidence is clear, as can be seen by the latest research by Morningstar into the performance of active and passive equity funds in South Africa. Over all time periods, passive funds outperformed active funds, with the difference ranging between 1.4%-3.0% p.a. This superior performance by passive funds is significant.

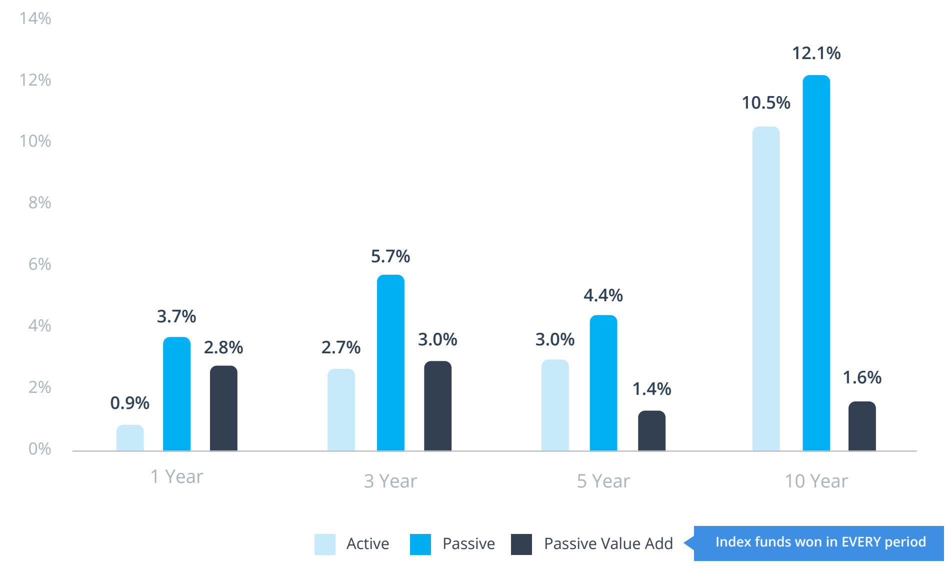
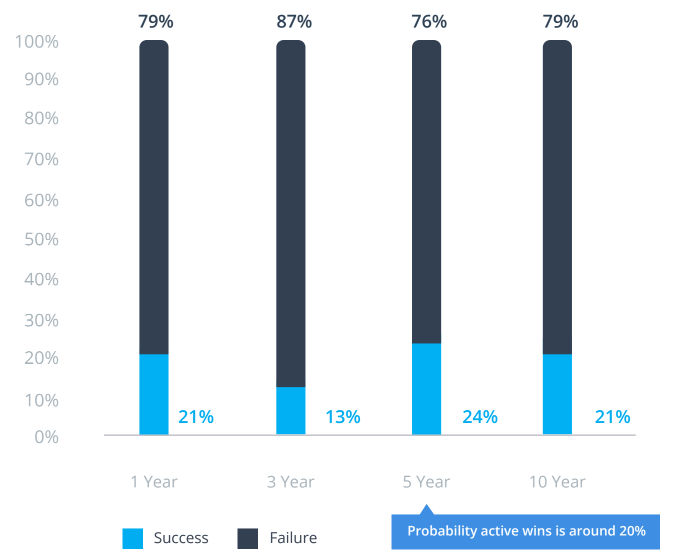


Figure 10: Investment performance p.a. of South African Equity Funds

Source: Morningstar Active Passive Barometer Midyear 2019

Figure 11: Active Manager Failure



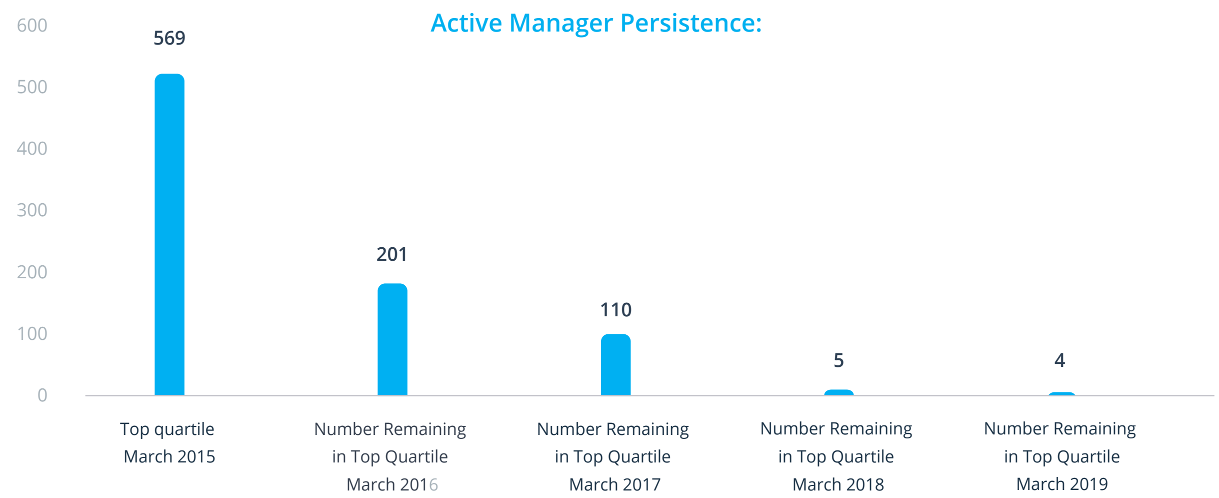
Source: Morningstar Active Passive Barometer Midyear 2019

Oftentimes an active fund will outperform a passive fund. No one disputes this, but the probability is low. The proportion in South Africa has been 13%-24% in recent times.

If you were lucky enough to pick the 1 in 5 active funds that beat the benchmark historically, chances are that same fund will not outperform in future. This lack of persistent performance is a major failing of the active management industry. Research by S&P Dow Jones Indices looked at persistence among active managers in the US. Of 569 funds that made up the top quartile of funds in March 2015, only 4 remained in the top quartile 4 years later.

So yes, you might beat a passive fund but, with such low odds over the long-term, is it worth the gamble? The data show that investing via a passive fund is anything but settling for average.

Figure 12: S&P Dow Jones Indices researched 2 276 US Funds, over a 5-year period



Source: S&P Dow Jones Indices Persistence Scorecard March 2019

10X Asset Class Performance

Table 4: Asset Class Returns to 31 December 2019

	2019	2018	2017	3 Years	5 Years	7 Years	10 Years
SA Equity	10.2%	-8.0%	16.9%	5.8%	4.7%	8.1%	10.8%
SA Gvt Bonds	10.2%	6.9%	10.4%	9.1%	7.6%	6.9%	8.7%
SA Gvt Inflation-Linked Bonds	2.4%	0.1%	2.6%	1.7%	2.9%	3.8%	6.8%
SA Property	1.2%	-26.2%	18.5%	-4.0%	7.3%	9.7%	12.7%
SA Cash	6.9%	7.0%	7.1%	7.0%	6.8%	6.4%	6.2%
International Developed Markets	24.3%	6.1%	10.3%	13.3%	13.0%	18.8%	16.7%
International Emerging Markets	15.3%	-0.7%	23.7%	12.3%	9.7%	10.9%	10.5%
International Cash	-2.7%	16.2%	-9.9%	0.7%	3.9%	7.4%	6.6%
SA Inflation (CPI)	**4.0%**	**4.5%**	**4.7%**	**4.2%**	**4.9%**	**5.1%**	**5.1%**

Source: 10X Investments, StatsSA

SA Equity (10.2%) delivered respectable returns for 2019, following a negative 2018. While this may suggest short-term volatility and sentiment swings, the reality is that the local market has been stuck in a broad trading range for more than 5 years now. This becomes evident when looking at 3-year and 5-year SA Equity returns, which only just exceed inflation, if at all.

The Resource sector was the shining light in 2019, delivering a 25% return. This was driven by the strong performance of platinum miners with some counters returning more than 200% for 2019, as a result of a spike in platinum group metals, including palladium and rhodium, which rallied following multiple car manufacturer emission scandals.

This contrasts with the 1% return posted by the locally focused Financial sector. This reflects the challenges facing the South African economy and consumer, which put banks, insurers and property companies under pressure.

The Industrial sector, which is dominated by rand hedge shares, was up in line with the broad market index at 11%. This sector provides a microcosm for the broad SA Equity market, with more than 60% of the index made up by the Naspers Group (+20%), British American Tobacco (+36%) and Richemont (+20%). Their strong performance masks the poor performance of many locally focused SA Industrial shares.

The key take way for SA Equity performance in 2019 is that, despite the negativity and poor performance of SA-focused shares, the 10X SA Equity index was able to deliver returns roughly in line with the long-term real return from SA equities.

Following a sharp decline in 2018 (-26,2%), **SA Property (1.2%)** delivered anaemic returns in 2019. A cut in the Repo rate and falling long bond yields could not support this asset class, which has yet to recover from the 2018 bear market. The South African economic backdrop and low business confidence provides a very tough operating environment for landlords. This is evident in the performance of the General Retailers Index (-18%), with many indicating that they were looking to reduce the size of their store footprint.

It is important to note the evolution of the SA Property sector over the last 5 years. Much like the listed equity space, there has been a strong trend of increasing offshore exposure, which is now sitting just below 50%. The offshore exposure of this income-generating sector provides a partial hedge against struggling local tenants and the deteriorating SA economic climate.

The sector is offering the best historic yield (9.5%) in more than 12 years, which indicates that the price of the sector has declined, and factors in the poor outlook. Historically, higher starting yields have provided better future returns. The critical question is whether these property companies can continue to grow, or at least maintain their dividends.

Whilst a downgrade of South African Government Bonds to sub-investment grade was averted in 2019, the market is certain it will happen eventually, and is now pricing South African Bonds in line with sub-investment grade countries. Despite this, **SA Government Bonds (10.2%)** delivered strong returns in 2019. The backdrop of falling inflation and global bond yields more than offset the heightened certainty of the ratings downgrade.

Inflation (4%) consistently fell short of the South African Reserve Bank's inflation expectations, finishing the year below the mid-point of the inflation targeting band of 3%-6%. As a result, **South African Inflation-Linked Government Bonds (2.4%)** delivered a relatively soft return. Inflation-linked bonds perform relatively better in an environment of rising inflation and, conversely, softer returns when inflation is falling. This is because the amount of interest paid by these bonds is linked to the CPI index.

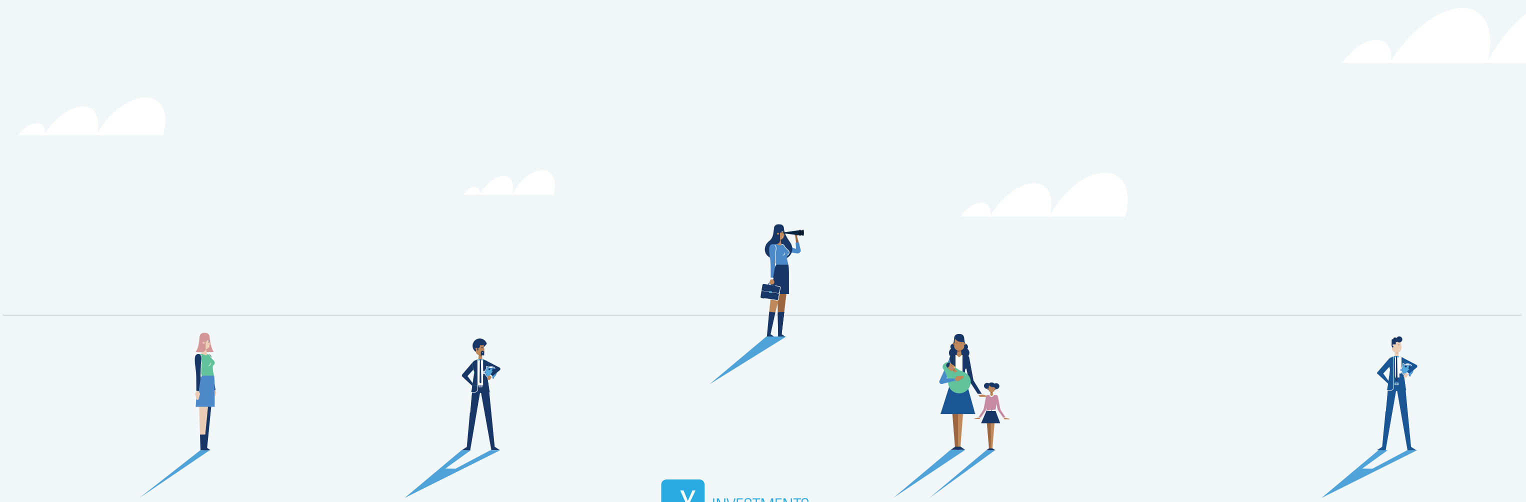
SA Cash (6.9%) continues to deliver strong returns, benchmarked against inflation. This trend has continued over the last 3 years. The SARB cut the repo rate by 25bps at its July meeting, citing weak demand, and growth as a concern. Many commentators feel that the SARB has been too conservative and should have cut rates more aggressively to counter low economic growth in South Africa. However, they have remained relatively hawkish, fearing the inflationary impacts of a weaker currency following a potential downgrade. The result of this conservative monetary policy is a relatively high real return on South African cash. In this way, investors are being rewarded for the risk of keeping their money in South Africa.

International Developed Markets (24.3%) were driven by the strong performance of the US stock market (approximately 60% of developed market equity). Stocks started the year on a positive footing following a strong selloff in Q4 of 2018. Mid-year, volatility returned as the US Treasury yield curve inverted. This means that short-term rates are higher than long-term rates. In the past, this has often forewarned of a coming recession.

Concerns around global growth were rooted in the trade war between the US and China, which resulted in a U-turn from the Fed, which cut the Fed Funds Rate three times when no such cuts had been expected at the beginning of the year. This boosted growth assets for the remainder of 2019. Market performance was driven by re-rating rather than an increase in earnings as lower rates allayed investor fears of a recession.

International Emerging Markets (15.3%) delivered a strong return for the year. Chinese exposure now makes up nearly 35% of the Emerging Markets Index. The US stock market had a strong year, but it was outperformed by China as measured by the CSI 300 (+37%). The strong Chinese performance masked relatively soft EM performance of markets like India, Mexico and South Korea.

International Cash (-2.7%) delivered negative return with the rand strengthening against the dollar in 2019. This was on the back of broad-based dollar strength seen in 2018. 2019 saw the first interest rate cut in the US since 2008. There were 3 interest rate cuts during the year, totalling 0.75%.



10X Portfolio Performance

Each 10X life-stage portfolio blends the returns of the various asset classes, in proportion to its asset allocation.

Table 5: 10X Portfolio Performance as at 31 December 2019

	2019	2018	2017	3 Years	5 Years	7 Years	10 Years
10X High Equity	11.2%	-2.9%	13.7%	7.1%	6.4%	9.3%	11.2%
10X Medium Equity	8.9%	-2.2%	11.8%	6.0%	6.0%	8.5%	10.4%
10X Low Equity	7.5%	2.7%	8.9%	6.3%	6.5%	7.7%	8.7%
10X Defensive	6.6%	5.2%	7.4%	6.4%	6.7%	7.3%	8.0%
SA Inflation (CPI)	**4.0%**	**4.5%**	**4.7%**	**4.4%**	**5.0%**	**5.1%**	**5.1%**

Source: 10X Investments, StatsSA

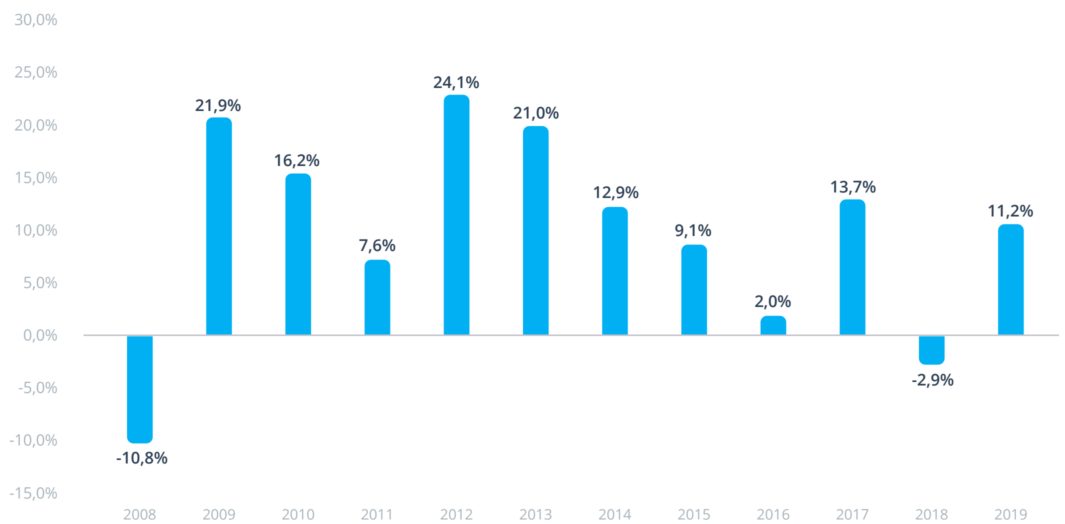
Equities performed strongly in 2019, with both local and international markets delivering strong inflation-beating returns. This was the main driver behind the outperformance of our higher equity portfolios in 2019, and reversed the underperformance of the preceding year. SA Equity returns have tracked sideways over the past 5 years, delivering inflation-like returns, which has led to the similar returns across our high and low equity portfolios over 3 and 5 years.

Whilst the ride has been smooth and steady in our defensive portfolio, as it should be, the 3- and 5-year numbers mask the much more volatile ride of our high equity portfolio over this period. This is evident in the annual returns in Figure 13 below.

Inflation ended the year at 4%, which means that the High Equity portfolio delivered a real return of 7.2%. In fact, all 10X portfolios delivered returns in excess of, or in line with, their long-term targets. However, one-year returns are good only for measuring, not for judging; investors should not be overly focused on short-term returns, be they good or bad.

Despite the inflation-like returns over the past 5 years, all 10X portfolios are delivering strong real returns over the longer term, with High Equity beating inflation by 6.1% over 10 years.

Figure 13: 10X High Equity annual performance



Source: 10X Investments

10X Performance relative to competitors

How do our portfolios measure up against the competition in the South African retirement fund industry? To find out, we regularly compare the performance of the 10X High Equity portfolio (held by more than 85% of 10X fund members) against the median return delivered by the large retirement fund managers, as published monthly in the Alexander Forbes Global Manager Watch Best Investment View Survey.

10X's goal is to beat the median fund manager's return over time, net of fees. To quantify the impact of our lower fees, we reduce the median fund manager return by 1% pa. This is a reasonable (and conservative) estimate, especially for small- and medium-sized funds, many of which pay total fees well above 2% pa (versus the average 10X fee of well less than 1% pa).

The table below shows that the 10X High Equity Fund has beaten the median manager by more than 1.5% since inception after adjusting for our lower fees. The last 12 months has seen the High Equity portfolio delivering outperformance of 0.7%.

While one-year returns need to be measured, they provide little insight. The benefit of our low cost, index-tracking portfolio becomes more apparent over longer time periods. Over 10 years, the 10X High Equity portfolio has outperformed the median return by an estimated 1.6% pa, net of fees.

The power of compounding this seemingly small advantage can, over an average working life of 40 years, deliver up to 60% more money at retirement, and up to 150% more by the end of an investment lifetime (factoring in the post-retirement investment period).

Table 6: 10X High Equity vs the average Large Manager

Returns for the period ending 31 December 2019				
As at 31 Dec 2019	**10X High Equity (Before Fees)**	**Global Manager Watch Median**	**Global Manager Watch Median (after fees)***	**10X Difference**
1 Year	11.2%	11.6%	10.5%	0.7%
3 Year	7.1%	6.9%	5.8%	1.3%
5 Year	6.4%	6.5%	5.4%	1.0%
7 Year	9.3%	9.3%	8.2%	1.1%
10 Year	11.2%	10.7%	9.6%	1.6%
Since inception (Dec '07)	10.0%	9.5%	8.4%	1.6%

Source: Alexander Forbes Global Manager Watch, Best Investment View; 10X Investments

**assume that 10X provides a 1% fee saving vs the average large manager*

10X Portfolio Tracking

10X's indexed investment strategy aims to deliver the investment type (asset class) performance at low cost. We monitor our investment performance by comparing the 10X portfolio return to the benchmark return (i.e. the asset class return multiplied by its weighting in the portfolio over the period). This difference in performance is called the tracking error. It is our goal to keep the tracking error – positive or negative – as low as possible.

The tracking error has two main sources. Firstly, it relates to trading costs (brokerage), securities tax when buying shares (0.25%), the cost of investing internationally as well as money market and ancillary, trading-related expenses. Secondly, it reflects the time delay in receiving funds (contributions and dividends) and re-investing these funds. This is called the cash drag and represents the opportunity cost of not being fully invested in an asset class (e.g. equity markets). Cash drag can be positive (i.e. improve the return) or negative (reduce the return).

In the graph below, we have broken the tracking error down into trading costs (grey columns) and cash drag (blue columns). The green line shows the net tracking error (trading costs and cash drag combined).

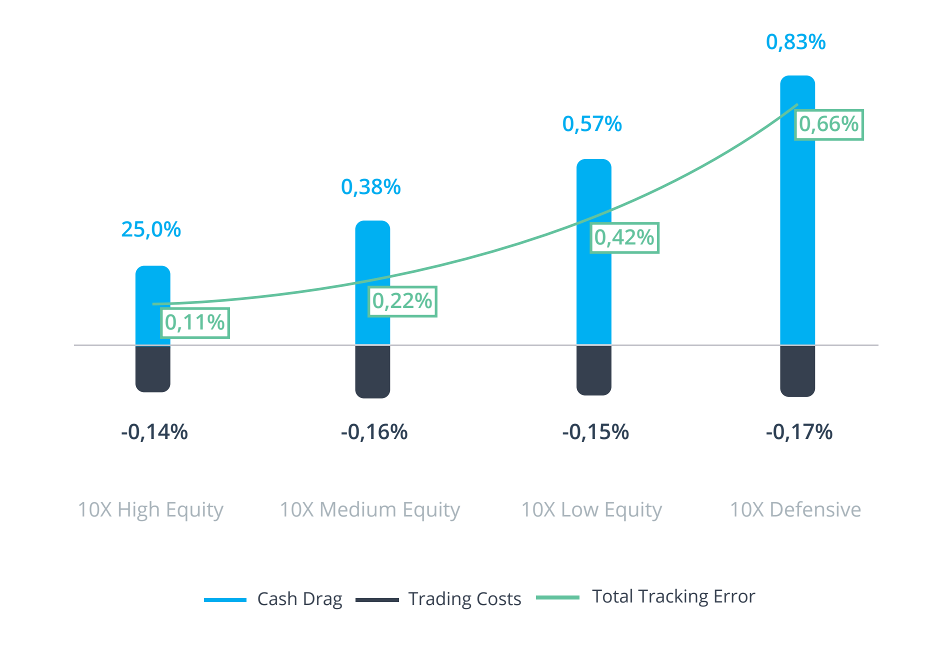


Figure 14: 10X Portfolio tracking error - 2019

Source: 10X Investments

This year, the cash drag was positive across all the portfolios ranging from 0.25% for the 10X High Equity portfolio to 0.83% for the 10X Defensive portfolio. The higher cash drag in the defensive portfolios is due to the fact that most South African money market portfolios (the SA Cash asset class) consistently outperform the STeFI 3-month benchmark. Lower equity portfolios have a higher weighting in SA Cash than higher equity portfolios.

The 10X portfolios' trading costs and other costs for the year ranged from 0.17% for 10X Defensive to 0.14% for 10X High Equity. Our trading costs are typically much lower than that of active funds as indexing is largely a buy and hold strategy. The higher costs in the lower equity portfolios reflect the higher weighting of money market portfolios, compared with higher equity portfolios. As the portfolios become larger the scale tends to reduce trading costs even more. The net tracking error ranged between 0.11% for 10X High Equity to 0.66% for 10X Defensive.

The returns published by 10X in this review (as well as on the fact sheet and in your benefit statement) are net of this tracking error.

10X Investments manages over R13bn in assets for industry-leading clients

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