

## CITYWIRE RESPONSE TO QUESTIONS ABOUT STANLIB MOVING TO SYSTEMATIC ONLY

Key question:

**(1) As a result of Stanlib's change from fundamental equity analysis to systematic investing for its SA equity, what is the future of systematic investing relative to fundamental equity analysis?**

The shift from fundamental equity analysis to systematic investing, as demonstrated by Stanlib's decision, reflects an evolving trend in the investment industry. While it does not imply that fundamental equity analysis is obsolete, it suggests that systematic investing is gaining prominence and is seen as a competitive and attractive option.

The future of systematic investing relative to fundamental equity analysis is likely to depend on several factors. Here are some key considerations:

**Performance:** If systematic strategies continue to outperform or provide consistent risk-adjusted returns over the long term, it may lead to a broader adoption and acceptance of such approaches.

**Cost Efficiency:** Systematic investing has the advantage of being machine-based, resulting in lower costs than traditional fundamental analysis, which often requires extensive human resources and research. The potential for lower costs may make systematic strategies more appealing, especially in a competitive market environment where cost-consciousness is crucial.

**Market Conditions:** The success and future of systematic investing relative to fundamental equity analysis could be influenced by market conditions. If market dynamics favour systematic strategies, such as high liquidity, increased data availability, and market inefficiencies that can be exploited through systematic models, it may contribute to the continued growth and adoption of systematic investing.

**Investor Demand:** Investor preferences and demand play a significant role in shaping the future of investment approaches. If investors increasingly prioritize systematic strategies due to their perceived benefits, such as consistency, transparency, and the ability to capture broader market trends, it could drive the demand for such approaches and potentially lead to a shift away from traditional fundamental equity analysis.

**(2) What is Methodical's reaction to the news of Stanlib's change from fundamental equity analysis to systematic investing for its SA equity?**

We welcome Stanlib's decision to embrace systematic investing for its SA equity offering. It is an encouraging development for the systematic investment community in South Africa. While the local investment industry has traditionally been value-oriented, we believe systematic investing brings unique advantages and has proven its worth globally.

Stanlib's transition reinforces the growing recognition of the benefits offered by systematic strategies. We view this move as a validation of our approach and a testament to the potential of systematic investing to deliver competitive and attractive outcomes for investors.

Methodical has been one of the pioneers of systematic equity management in South Africa, our Methodical BCI Equity Fund which is systematic, has a track record of outperformance spanning back more than 7 years, and we believe we can do even better in the global and hedge fund space.

We have witnessed the gradual acceptance and adoption of systematic investing in South Africa. While we acknowledge that some investors may still prefer the narrative-driven approach of fundamental analysis, we firmly believe that systematic investing provides a systematic, disciplined, and repeatable process that can deliver consistent results over the long term.

Stanlib's decision further demonstrates the evolving nature of the investment industry and the increasing demand for innovative approaches. We are confident that systematic investing will continue gaining traction in South Africa as investors recognize its advantages, such as cost efficiency, objectivity, and the potential for superior risk-adjusted returns.

### **(3) What does Stanlib's change from fundamental equity analysis to systematic investing mean for the South African investment industry?**

Stanlib's change from fundamental equity analysis to systematic investing carries significant implications for the South African investment industry. Here are some key points to consider:

**Increased Acceptance of Systematic Investing:** Stanlib's shift signals a growing acceptance of systematic investing within the South African investment industry. By adopting a systematic approach, Stanlib recognises the potential benefits and competitive advantages of systematic strategies. This move could prompt other market participants to explore or consider incorporating systematic approaches into their investment processes.

**Diversification of Investment Approaches:** The industry's predominant focus on fundamental equity analysis has been challenged by Stanlib's transition. This shift introduces a more diversified range of investment approaches and philosophies, broadening the available options for investors. It encourages market participants to explore systematic strategies, which rely on data-driven models and quantitative techniques to make investment decisions.

**Focus on Data and Technology:** Stanlib's move highlights the increasing importance of data and technology in the investment process. Systematic investing heavily relies on data analysis, algorithmic models, and advanced technologies to identify investment opportunities and manage risk. The industry's recognition of systematic investing suggests a greater emphasis on leveraging data and technology to gain a competitive edge and deliver consistent returns.

**Evolution of Investor Preferences:** Stanlib's decision reflects evolving investor preferences. While some investors may still prefer the narrative-driven and qualitative aspects of fundamental analysis, the shift towards systematic investing suggests a growing demand for more objective, data-based investment strategies. As investors become more familiar with systematic approaches and their potential benefits, it could lead to a shift in preferences and a broader adoption of systematic investing.

**Impact on Talent and Resources:** Stanlib's move may influence the allocation of talent and resources within the industry. As more firms consider or adopt systematic investing, there could be an increased demand for data scientists. This may lead to a shift in skill requirements and the reconfiguration of investment teams to accommodate the needs of systematic strategies.

Stanlib's change from fundamental equity analysis to systematic investing represents a significant development within the South African investment industry. It introduces a new investment paradigm, emphasizes the importance of data and technology, and diversifies the available

approaches for investors. The long-term impact will depend on factors such as performance, investor acceptance, and the ability of systematic strategies to deliver consistent and competitive results.

#### **(4) Is Stanlib's move part of a broader trend where investment firms are moving to systematic investing or not?**

Stanlib's move towards systematic investing can be seen as part of a broader trend in the investment industry. While it's important to consider individual firms' specific circumstances and strategies, there is evidence of increasing interest and adoption of systematic investing globally. Here are some factors that support this trend:

**Global Shift Towards Systematic Investing:** There has been a notable shift towards systematic investing worldwide in recent years. Investment firms are recognizing the potential benefits of systematic strategies, including the ability to capture market trends, exploit inefficiencies, and enhance risk management. This trend is driven by advancements in technology, data availability, and the desire for more systematic and disciplined investment approaches.

**Performance and Market Efficiency:** Systematic strategies have demonstrated competitive performance and risk-adjusted returns in various market conditions. This has attracted the attention of investment firms and investors looking for consistent and repeatable investment approaches. As markets become more efficient and traditional alpha sources diminish, systematic strategies offer the potential to generate returns through quantitative models and data-driven decision-making.

**Cost Efficiency and Scalability:** Systematic investing often leverages automation, quantitative models, and technology, resulting in cost efficiencies compared to traditional active management. By reducing reliance on human resources for investment decisions, firms can manage larger asset bases with relatively lower costs. This scalability makes systematic strategies appealing to investment firms seeking to optimize resources and provide cost-effective solutions to clients.

**Evolving Investor Preferences:** Investors are increasingly seeking transparency, objectivity, and evidence-based approaches to investment. Systematic strategies, which rely on quantitative models and data analysis, align with these preferences by providing a systematic and rules-based framework. Investors are attracted to the ability of systematic approaches to remove biases and emotions from decision-making, leading to more disciplined investment processes.

**Advances in Technology and Data Analytics:** The availability of large datasets, improvements in computing power, and advancements in data analytics have facilitated the growth of systematic investing. Investment firms can leverage these technological developments to build sophisticated models, refine strategies, and enhance risk management capabilities. The increased accessibility of data and technology has further supported the adoption of systematic approaches.

Stanlib's move is indicative of the broader trend toward embracing systematic strategies. The increasing recognition of the benefits offered by systematic investing, combined with advancements in technology and evolving investor preferences, suggests that this trend is likely to continue. However, it's important to note that different firms may adopt systematic approaches to varying degrees based on their investment philosophies, client base, and internal capabilities.

**(5) How much money do you estimate is invested in South African systematic investments?**

Although Systematic investments are gaining traction in SA, the bulk of assets are still managed by traditional fundamental managers; pure systematic investments probably make up less than 10% of the investment universe.

**\*To prove the power of technology, 99% of this response has been created by an AI Language model**