

Question 3

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Abstract

Comparison of the SWIX and ALSI.

1. Introduction

This question presents an analysis of the return profiles of the SWIX (J403) and the ALSI (J203). I begin by simply plotting the cumulative returns of both funds with all sectors and market caps. I then break down both indexes by sector and market caps. I then provide insights into the volatility of both indexes subject to high a low volatility periods of the USD/ZAR exchange rate. Lastly, I present the cumulative return profiles of both indexes subject to different constraints on the capping. This report provides evidence that the methodology used for the J203 (ALSI) provides higher returns and is influenced less by exchange rate volatility.

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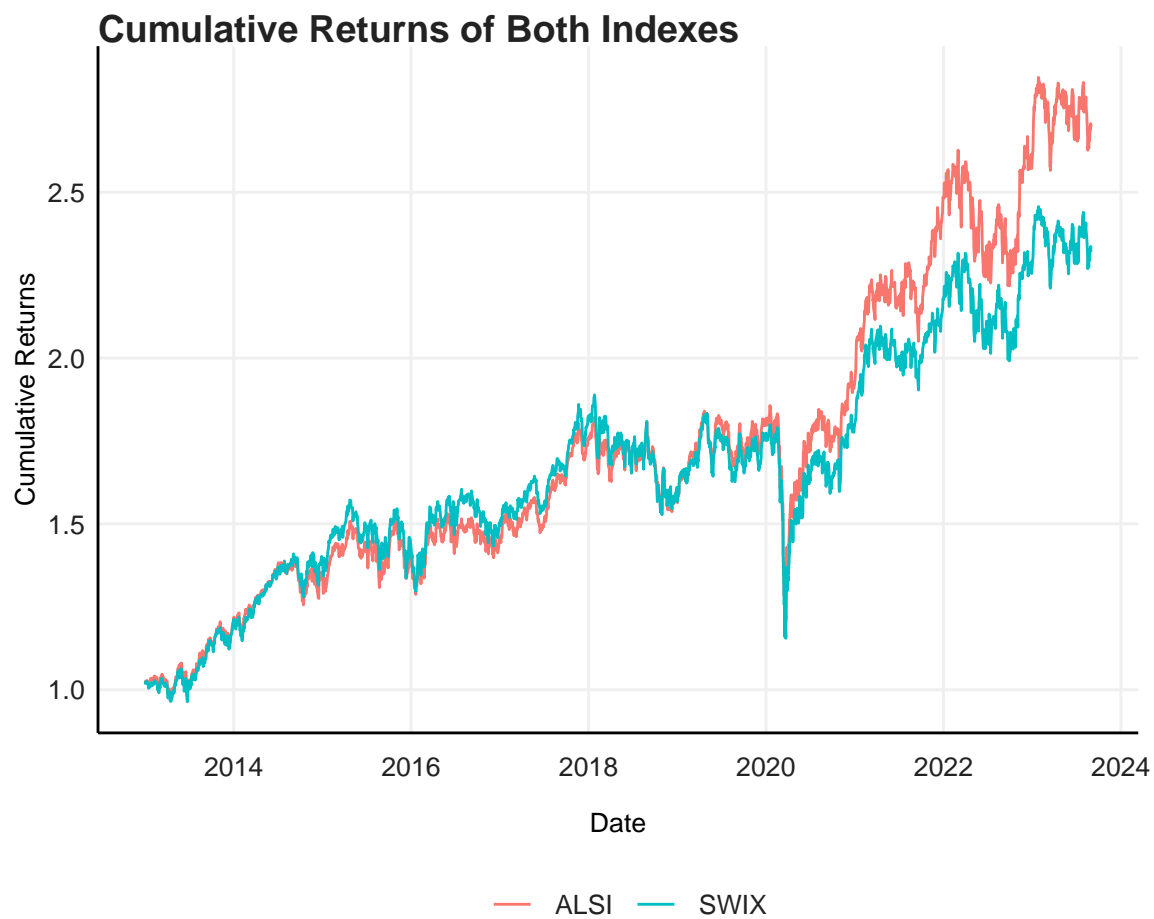
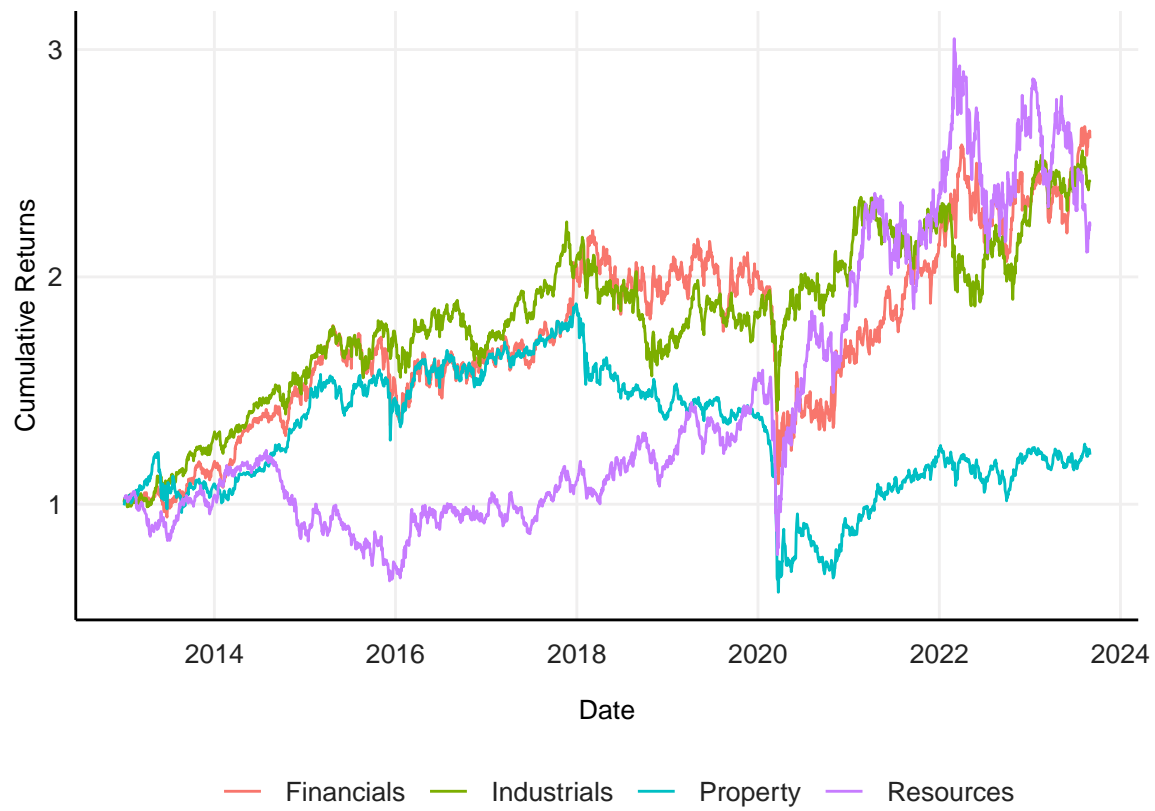


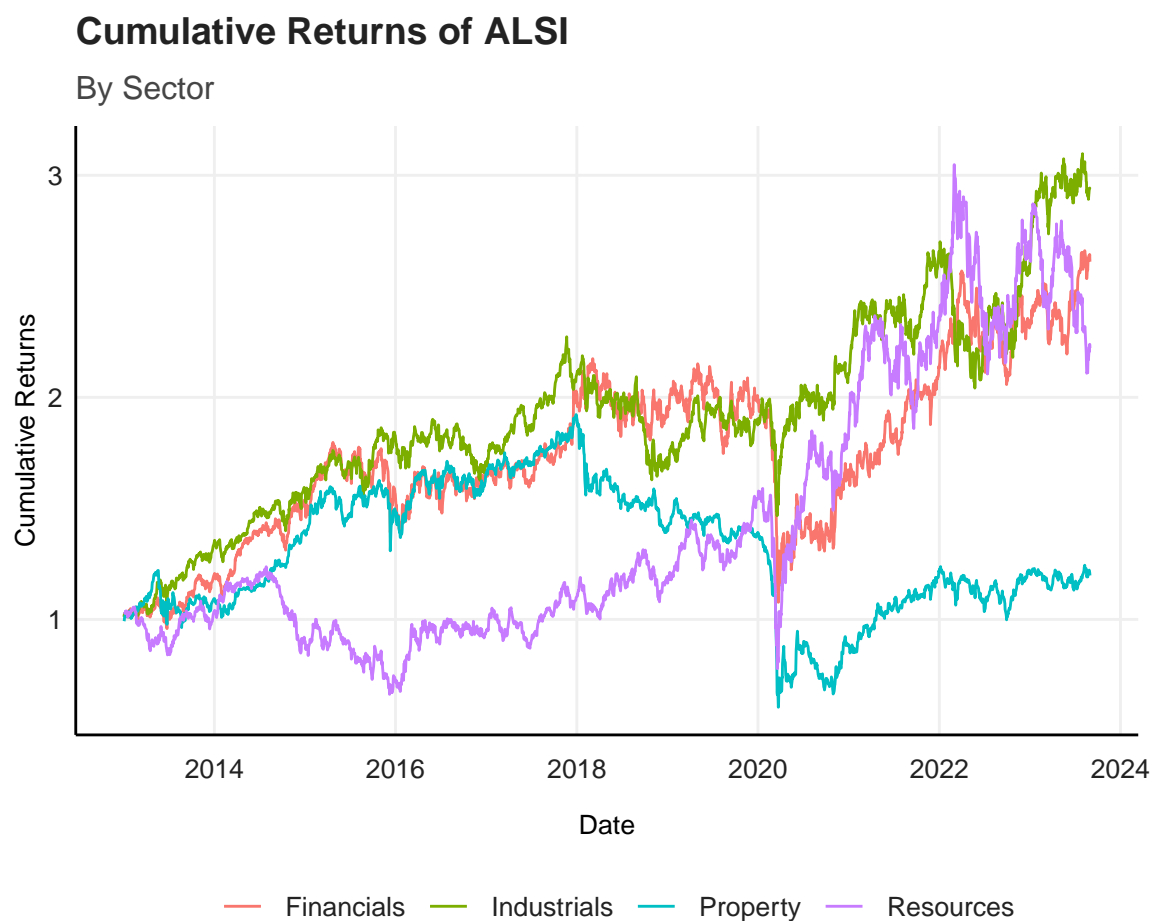
figure above highlights that ALSI has a higher cumulative return than the SWIX

The

Cumulative Returns of SWIX

by Sector





The Figures above show key differences between how the indexes weight stocks in each sector. It appears that the Industrials sector is the largest driver of the higher returns of the ALSI.

Cumulative Returns of SWIX

By Market Cap





Moving on to index sizes, the figures above show that there is very little difference between index sizes. The returns for small caps of ALSI are slightly higher than for SWIX. Beyond that there is little difference, thus I would argue that the composition within sectors is a larger driver of the differences in returns.

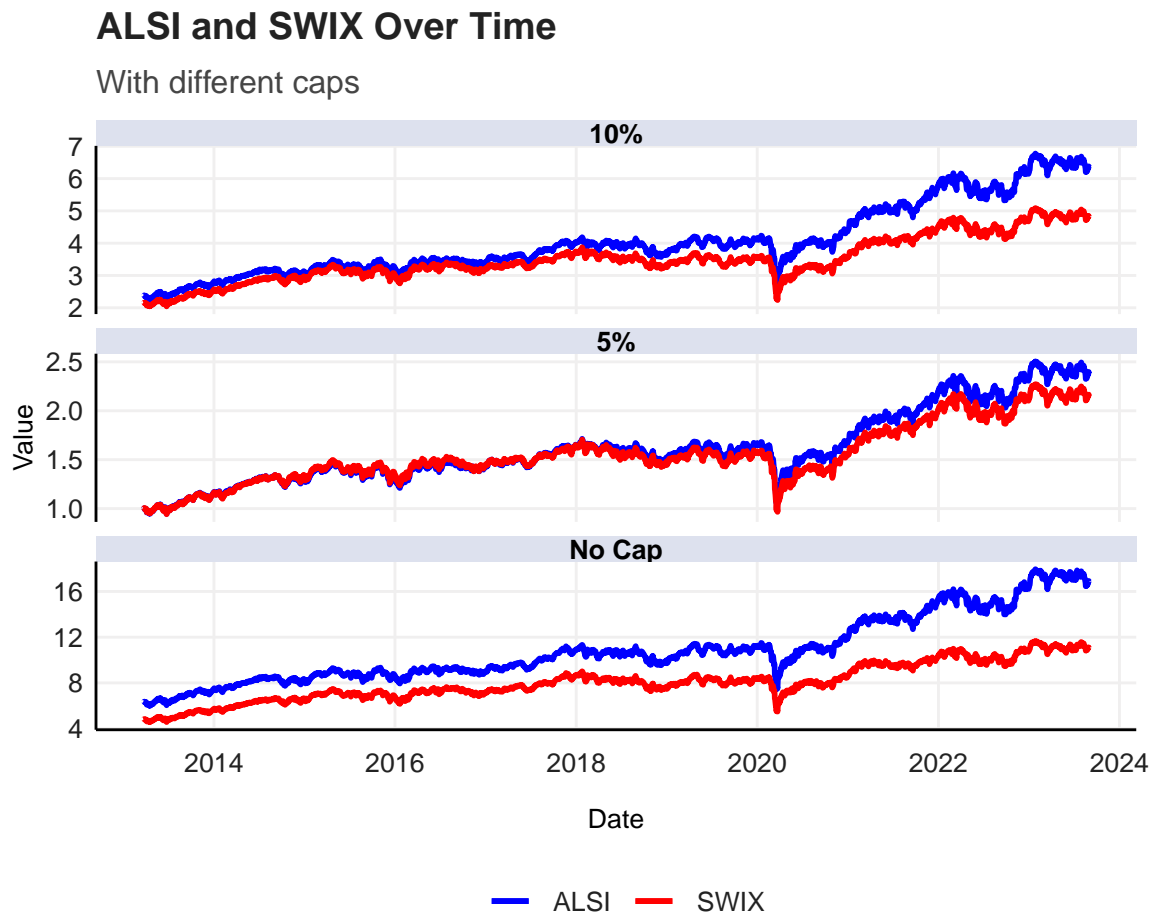
2. Stratification

Index	SD	Full_SD	Period	Ratio
SWIX	0.0427946	0.0352164	High_Vol	1.215188
ALSI	0.0421107	0.0349374	High_Vol	1.205317

Index	SD	Full_SD	Period	Ratio
ALSI	0.0352852	0.0349374	Low_Vol	1.0099538
SWIX	0.0347505	0.0352164	Low_Vol	0.9867711

The table shows that in high volatile periods of the exchange rate both the SWIX and the

ALSI have increased volatility as well but the SWIX is effected more than the ALSI. There is little to no difference during low volatility periods. # Capping



The Figure above shows that the ALSI is more susceptible decreased returns from the imposition of capping but under all three restrictions still outperforms the SWIX.

References