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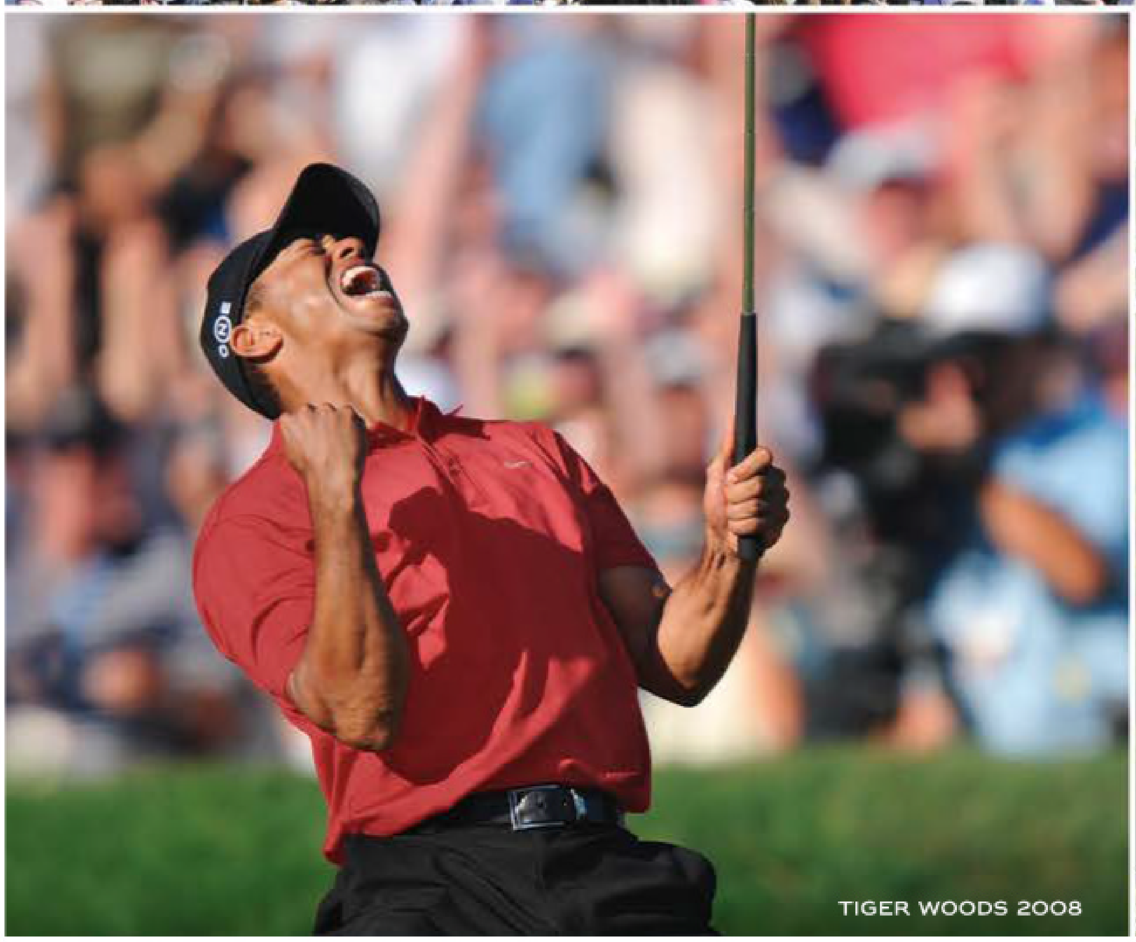

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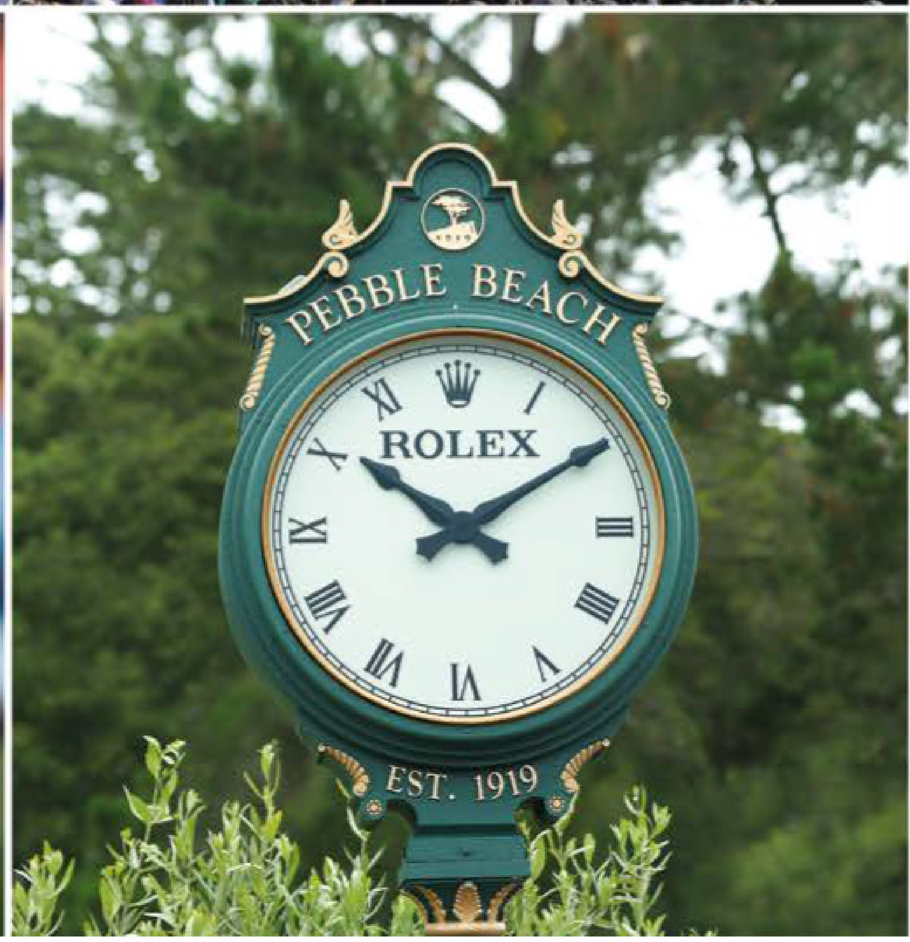

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from the editor

ANNELI GROENEWALD

"Global growth has continued to weaken and momentum remains fragile," said David Malpass, president of the World Bank Group, in its June edition on global economic prospects. "Downside risks to growth predominate, including rising trade barriers, a build-up of [illegible] debt, and deeper-than-expected slowdowns in several major economies," he said.

Over the last months, many commentators have used these factors to argue that a global recession might be on the horizon. But while the World Bank has downgraded its forecast for global growth in 2019 by 0.3 percentage points, to 2.6%, it expects growth to gradually rise again towards 2.8% in 2021.

Adrian Cooper, CEO of Oxford Economics, also doesn't expect a recession. Speaking at a recent event in Johannesburg, he noted that we're currently seeing a "pretty modest" slowdown in global GDP growth which is, of course, nowhere near the global financial crisis, when it slumped to -1.741%, according to World Bank data.

So what's happening? Pointing to the unprecedented levels of unemployment in the advanced world, currently at record lows, Cooper said global growth in fact "had to slow down". (The US is currently equalling its longest expansionary period in modern history.) Another important factor in China, he said, is tighter management of credit in that country, which has impacted growth there. But he stressed that the impact should not be exaggerated. In the US, he said, business investment has slowed, "but remains healthy", and there's still "lots of momentum to avoid a recession".

Cooper said that the trade war is currently limited to a bilateral one between the US and China. The impact was therefore also limited. Currently the impact on US GDP growth (forecast by the World Bank to come in at 1.7% for 2019) was 0.1 percentage points, expected to increase to a quarter of a percentage point by 2020, said Cooper. Importantly, trade diversion is happening, he said. "We're not seeing trade destruction."

But he warned that the real danger was an escalation to a multilateral trade war. Then the impact on US GDP growth could be as high as 2 percentage points, and 2.6 percentage points in China. The impact on global growth would also edge towards 2 percentage points. Now that would be painful to absorb for any country, not the least a small, open economy at the tip of Africa, already struggling to generate growth. ■

contents

By Johan Fourie

ECONOMY

Why South Africans are emigrating – and what to do about it

Yes, many South Africans are leaving the country. But emigration is not only a South African phenomenon. It's a fairly normal global trend and South Africa can benefit from it.

talent is at the heart of the knowledge economy. People that live in places attractive to talented migrants, like Silicon Valley, see their incomes increase much faster than places with a brain drain. It is for this reason that the emigration of talented South Africans should concern those who care about the country's future.

Emigration is a South African reality. The choice of destination country, even just as a thought experiment, is the topic of many a dinner conversation – I suspect also for many a reader of this magazine.

News media seems to confirm that more and more South Africans are leaving. FNB's Estate Agents Survey for the first quarter of 2019 shows that emigration-driven property sales now account for 14.2% of all sales, up from 10% in the last quarter of 2018. Global market research group New World Wealth estimates that around 300 high-net-worth individuals (those with a net worth above $1m) emigrated from South Africa every year for the last decade.

The reasons seem obvious: five years of poor economic growth; concerns about safety and security; rhetoric about land redistribution and a change to the constitution; and public and private sector corruption that has left the country on the brink of financial ruin. There are probably many more push factors.

But this is not the full story.

Migration is always about factors in both the origin and destination country. As a recent article in *The Economist* made clear, there is one significant pull factor that is drawing South Africans to places like the UK, Australia, Canada and the US: "most of the rich world is enjoying a jobs boom of unprecedented scope".

In the US, the unemployment rate is at the lowest in half a century. In the UK and Europe unemployment rates are now lower than they were in 2005, before the financial crisis.

Fears of artificial intelligence and the Fourth Industrial Revolution seem overblown, at least for now. Yes, mid-skilled jobs are indeed disappearing, but they are replaced by more high-skilled jobs and, surprisingly, more (low-end) service sector jobs (that are better paid than before). One example: Within the next seven years, there will be more at-home carers than secretaries in the US.

Low unemployment rates mean that firms have to find alternative ways to find employees. As *The Economist* notes, tight labour markets "lead firms to fish for employees in neglected pools, including among ex-convicts, and to boost training amid skills shortages".

There is an easier alternative: recruit the best talent from across the world, including South Africa.

When looking at rates of emigration for other countries, it seems to confirm that not only domestic issues cause emigration. Yes, South Africans are emigrating, but so too are talented individuals from countries like India and China with much higher economic growth rates and improving living standards.

We also tend to forget that, because of our past, very few South Africans had the ability to emigrate before 1994. The rise in emigration rates since 1994 should thus, at least in part, be seen as a normalisation of our migration rates.

Here's William Kerr of the Harvard Business School in a recent NBER Working Paper: "A steady rate of approximately 3% of the world's population has lived outside of its country of birth since the 1960s."

There are, however, important differences by skill level. "Those with college degrees are roughly three times more likely to migrate than those with only a secondary level of education."

Let's assume that 4m South Africans have some form of tertiary education (it was 3.6m in the 2011 census). That would mean that, considering the global average, at least 360 000 talented South Africans should live abroad.

There are probably significantly more South Africans living abroad, but the number of South Africans with some form of tertiary education (obtained in South Africa) is probably not very far off this number.

In short, the exodus may simply be a normalisation of our artificially low historical migration rates.

The good news is that higher levels of mobility create opportunities for South Africa too. Nine of the top ten universities in Africa are in South Africa. We lead the continent on research and innovation.

As a consequence, more than 70 000 international students study here annually, of which almost 5 000 are PhD students. Most of them are from other African countries.

More of this immigration should be encouraged by, for example, offering successful PhD graduates the opportunity to apply for permanent residency or citizenship. We spend a lot of resources to equip these students, yet many of them are forced to return to their home country because our immigration laws deny them the opportunity to make a difference here.

Mobility is a natural consequence of the world we live in. It is shaped by both push and pull factors.

Of course we must decry the things that push South Africans to leave, and hope that the new president can redirect our economy back to the optimism of high economic growth and budget surpluses of the 2000s.

But we, too, can benefit from a more mobile world. South Africa has many attractive features that could either reverse the trend of South Africans leaving, or could attract a new pool of talented Africans to our shores. ■

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Photo: Shutterstock

in brief

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>> **Mining:** Sibanye-Stillwater finally takes over Lonmin *p.12*

EDITORIAL & SALES

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"HE HAS REALISED THAT IN RAMAPHOSA HE HAS SOMEONE HE CAN TORMENT QUITE WELL."

— Lukhona Mnguni, political analyst, in a comment to Bloomberg on secretary general of the ANC, Ace Magashule's, statement at a news conference that "the National Executive Committee lekgotla agreed to expand the mandate of the South African Reserve Bank [Sarb] beyond just price stability to include growth and employment". Magashule's call for quantitative easing for developmental purposes (one of the resolutions agreed to at the last ANC elective conference) rattled investors and shook the rand. It reached a new 2019 low after breaching the R15/$ exchange rate (the weakest level since September 2018), according to Reuters. Analysts and policymakers further told Bloomberg that embattled former president Jacob Zuma's allies, of which Magashule is known to be one, have taken the opportunity to make mischief (aimed at weakening current President Cyril Ramaphosa's administration and efforts to jumpstart the ailing economy) irrespective of the economic threat it poses. Ramaphosa issued a statement reaffirming the Sarb's mandate as protecting the value of the currency in the interest of balanced and sustainable economic growth.

"THE HANGOVER THAT'S FOLLOWED THE UK'S ORIGINAL EXIT DATE IS PROVING STRONGER THAN ANTICIPATED."

— Chief economist at KPMG UK, Yael Selfin, told the BBC the UK's economy is likely to experience more subdued growth for the rest of 2019 as Brexit uncertainty prevails. Selfin's comment follows the Office for National Statistics' announcement of a 0.4% contraction in the UK economy in April 2019 (the weakest monthly growth figures in three years), led by a fall of 24% in vehicle production as car manufacturers shut down plants to minimise Brexit's disruption.

"WITH ITS DEVOTION TO REMOVING FRICTION FROM EVERY PART OF THE CUSTOMER EXPERIENCE, AMAZON HAS CHANGED WHAT CONSUMERS EXPECT FROM BRANDS."

— David Roth, CEO of The Store at WPP, said it's doubtful that anyone predicted that Amazon would sell so much online, transforming retail — and other categories — in just a couple of decades. Roth was remarking on Amazon surpassing Apple and Google to reach the top rank in the BrandZ Top 100 Most Valuable Global Brands in the 2019 report. Over the past decade, Amazon increased its brand value by 1 382%, exceeding the growth rate of all competitors, according to the report.

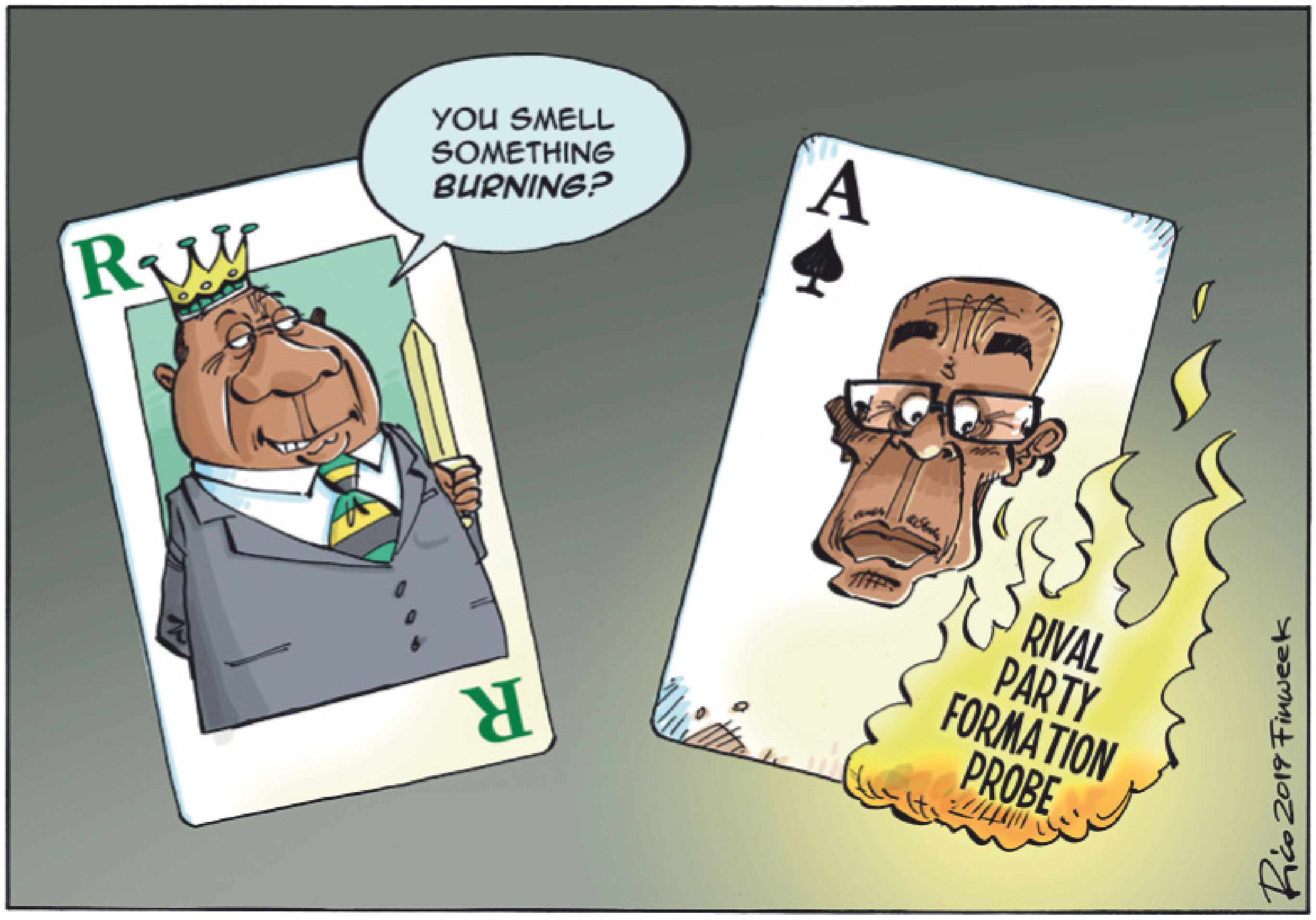
Photo: davidroth.com

WIDENING DEFICIT

2.9%

SA's current account deficit widened to 2.9% of GDP in the first quarter of 2019, from a 2.2% shortfall in the fourth quarter of 2018, according to data from the Sarb. To add to this, the revelation that GDP contracted 3.2% in the first quarter from the previous one, according to data from Stats SA, "spells doom and gloom," said André Cilliers, director at TreasuryOne, in an interview with Moneyweb. Cilliers said vital statistics were heading in the wrong direction and had the potential of translating into less incomes, which will lead to lower retail sales, VAT and income for the state coffers.

DOUBLE TAKE BY RICO



THE GOOD

The South African Property Index (SAPY) is making a recovery after a 20.5% decline that started in January 2018. *Business Day* reported that investor appetite for rand-hedged property stocks is currently picking up, "with some shares notching up price gains of 4% to 8%". Renewed rand weakness is cited as being among contributing factors which have resulted in the SAPY regaining 5% of its losses back since the end of May – although the index is still down 30% from its December 2017 peak of 695 points.

THE BAD

After more than 100 years of being the leading global gold producer, SA has been overtaken by Ghana as the African continent's largest producer of gold. Ghana is benefitting from lower-cost mines, friendlier policies and new development projects versus SA's shrinking output as operators fend off high costs, regular strikes and the geological challenges of tapping the world's deepest mines, reported Bloomberg. It said local industry stalwarts AngloGold Ashanti and Gold Fields are shifting their focus to other countries – including Ghana – where deposits are cheaper and easier to mine.

THE UGLY

Tongaat Hulett suspended trade in its shares on the JSE and London Stock Exchange. The share has fallen 42% since it said in April that its 2018 financial results would have to be restated, reported Reuters. "Owing to the board's concern that there is insufficient information in the market to enable investors to make informed decisions, the board has voluntarily approached the JSE with a request for a suspension of the listing of the company's securities," Tongaat said in a statement. The sugar producer earlier said its 2018 results could face a potential hit of up to R4.5bn.

By Glenneis Kriel

Holistic solution for urban management

Streetlights out? A dodgy car in the neighbourhood? This local company created a platform that helps people to report incidents. And it helps service providers to respond proactively.

In 2009, Tiaan Janse van Rensburg and his colleagues found themselves jobless after the converged technology company they worked for closed down. To make ends meet, he, Rudi Kruger and Denver Knoetzen started Technology House Solutions, a company that specialises in converged technology and the development of service and urban management software.

"The initial idea was to create software that would smoothen incident management since the divisions in a company that report incidents are often not the same as the ones responsible for fixing the situation," Janse van Rensburg says.

By 2011, however, they realised the need for a more holistic solution, and started a new division, called Solution House Software. By 2014 they launched a platform that combined incident reporting and service delivery data from different companies to allow these companies to address service management issues more strategically.

"Things do not happen in silos. When, for example, a street lamp is out, it not only causes discomfort because people will have to sit in the dark while waiting for a bus. The risk of crime, such as theft, is also higher. By joining data, entities responsible for fixing the light as well as those responsible for safety are notified of the hazard so that they can take steps to reduce the associated risks."

The solution

Participants are able to log incidents (including anything from crime, crime prevention, municipal services, by-laws, emergencies, traffic problems to car accidents, management of estates and facilities management) with their smartphones via the TakeAction app or an SMS. The incident is then routed to the relevant service provider, depending on the incident type and location of the incident.

Machine learning in turn is used to make sense of all the generated data to inform users of weaknesses. Janse van Rensburg explains that a security company might use the information to increase visibility in a region at a specific time should they recognise a definite crime pattern.

Areas where access control is being used may use the data when they scan licences or vehicle number plates to alert them of, for example, stolen vehicles entering the area.

Business model

The software is focused mainly on service providers. Users pay a monthly fee to use the software and have a choice of which information they want to share with whom.

Getting start-up capital was one of their greatest challenges, since venture capital was hard to come by at the time. The founders cashed in their pensions to fund the start-up. "We definitely would have grown faster if we had more capital, but I am glad things turned out the way they did since funding usually comes at a high cost," Janse van Rensburg says.

Tiaan Janse van Rensburg
Director of Solution House Software

The company has expanded its footprint to the UK, where the British government, along with other private companies, is using the system to monitor and manage incidents in certain urban areas.

With the business being born during the recession, the partners are highly sensitive to overheads and still operate from mobile offices. Since the majority of their target market is private entities, such as shopping malls, security estates, schools, universities, improvement districts, armed response teams and urban districts, most of their initial marketing was done through cold calling.

"It was hard and tiresome work, with a conversion rate of fewer than one client for every 20 rejections. Our first client was a new guarding company, Myertal Security," Janse van Rensburg says. "Today, the advantages of the system are much more apparent, so more entities are signing up because they want to be part of a group of users that are already using the system."

The company has expanded its footprint to the UK, where the British government, along with other private companies, is using the system to monitor and manage incidents in certain urban areas.

"We have talked to various government entities about the system in South Africa, but they have not yet invested in it in spite of being genuinely impressed with what we have been able to achieve. I guess the British market might be more open to new digital solutions, or there might be less red tape involved with these types of transactions," Janse van Rensburg says.

Plans for the future

The business is in the process of registering its intellectual property in the Netherlands too. From there the plan is to expand their footprint into Europe and the rest of the world.

"South Africa is a really robust environment to test new technologies such as these since it confronts you with all kinds of challenges, such as poor computer skills, patchy internet connectivity and low bandwidth, that might not be problems in First-World countries. The market here is nevertheless limited, so we need to look for opportunities in other countries," he says.

Janse van Rensburg hopes the solution will become an urban and service management tool similar to what Amazon has become for shopping: "The idea with our incident report system is to move towards a system that links people and IoT [internet of things] devices with data that allows overall better management of cities: A world where the internet of things actually works for us." ■

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CTICC

By David McKay

A deal signed in platinum

It has been a stretched-out and difficult process, but Sibanye-Stillwater has successfully taken over Lonmin. Ben Magara, the last CEO of Lonmin, spoke to David McKay about the deal.

Corporate deaths are rarely spectacular. Rather, the lawyers move in and with a swish of the pen life moves on.

So it was with Lonmin this month: 20 years after its creation as a focused mining company the office chairs were stacked, and someone turned the lights off.

It had taken more than a year to conclude its all-share merger with Sibanye-Stillwater – more than might really be necessary, but as ever with Lonmin, events rarely run smoothly.

CEO Ben Magara's role in the Lonmin story began six years ago to the month, just under a year after the Marikana atrocity in which 34 protesting miners were shot dead by security forces. Ten miners had been killed in the week prior, largely a function of inter-union rivalry.

Commenting in an interview with *finweek* at Melrose Arch, in the same hotel room where he met Neal Froneman, Sibanye-Stillwater's CEO, Magara laments the way the Marikana event became a story of political collusion.

Current President Cyril Ramaphosa, then non-executive director of Lonmin, asked for "concomitant action" against protest action by members of the Association of Mineworkers & Construction Union (Amcu) that he interpreted as "dastardly" and "criminal".

"From 9 to 16 August [2012], ten people died at the hands of the strikers," says Magara. "That element seemed to get forgotten," he says, referring to the justified global condemnation of Marikana following the police shootings. "Marikana then moved quickly. It moved to a political issue."

The reality is that it was a consequence of union tension and, before that, the fact that employees and communities had been left behind. Hostel-style housing and then the well-intentioned but ultimately wayward policy of living-out allowances created the conditions for social upheaval.

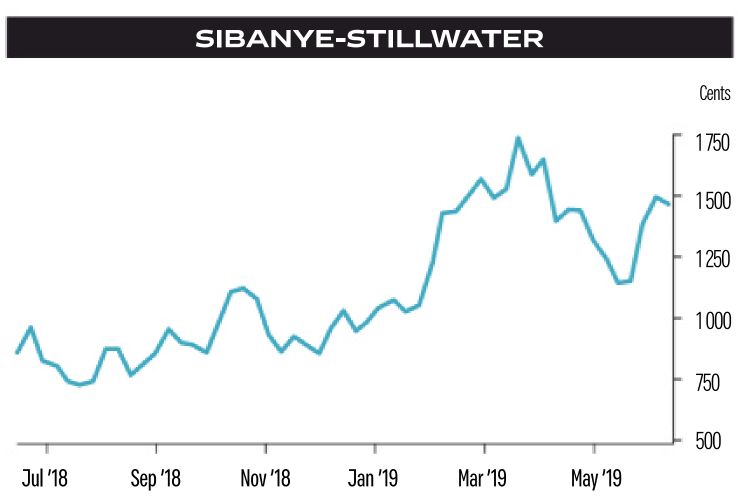
The romantic notion is that after Marikana, Lonmin was cursed. Certainly, its name would always be connected with the events of August 2012, but that's not the reason it closed its doors forever earlier in June. "For me, it's got nothing to do with Marikana, it's simply because the PGM [platinum group metal] price has not recovered and Lonmin is such a leveraged business," says Magara.

Magara had previously been in the Anglo American fold, helping to run its coal division where he was CEO, and at Anglo American Platinum. Anglo always stood as a big brother behind its subsidiary companies, but Lonmin had no such insurance and was horribly exposed to the failing platinum price.

In geography and commodity Lonmin was, in Magara's phrasing: "A one-trick pony". The

Ben Magara
Last CEO of Lonmin

Neal Froneman
CEO of Sibanye-Stillwater



SIBANYE-STILLWATER	
52-week range:	R6.82 - R18.04
Price/earnings ratio:	-
1-year total return:	72.77%
Market capitalisation:	R40.93bn
Loss per share:	R0.01
Dividend yield:	-
Average volume over 30 days:	11 218 950
	SOURCE: IRESS

company had twice tapped shareholders for major funds and by 2012 patience was at an ebb should there be another. It was sink or swim.

For four years, Lonmin attempted to pull its levers in the hope that the platinum price would revive. In July 2013, as Magara walked through Lonmin's doors for the first time, platinum was trading at around $1 360 per ounce. Two years later, just as Lonmin began to run out of operational options, platinum was around $1 000/oz. And as someone closed the office door for the last time this month, the platinum price was barely above $800/oz.

Sibanye-Stillwater had already kicked the tyres at Lonmin even before it bid for Stillwater Mining in December 2016 – but with the operational levers failing to win the stability Magara wanted at Lonmin, it was time to act.

The way he describes it, the company sought a partner for about half of its downstream processing capacity, a move that would shore up the balance sheet but also force Froneman's hand. It was also important that if Lonmin was going to transact with a buy-out partner, it should be before the market got wind of the possible alternative of a rights issue, which would depress Lonmin's value.

"Instead of saying we would wait for Sibanye until they were ready, we decided we would go straight to operational review, because once there is genuine interest from those who wanted to buy our downstream [processing/refining capacity], Sibanye would have to jump, and they did," says Magara.

He describes the negotiating relationship with Froneman as a good one. Quite what Amcu president Joseph Mathunjwa would make of the transaction was another matter. Mathunjwa and Froneman are cut from the same cloth: both tend to think in absolute goals.

Magara says Mathunjwa's reaction was to think the merger was "white monopoly capital". He wanted to know if Magara would play a role in the merged company – he doesn't – and if there were any other black business participating in the deal (there weren't). "I could sense from the way Froneman and Mathunjwa were talking that they were not perhaps on the same page," says Magara.

That relationship is still in the crucible. ■

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Photo: Gallo/Getty Images

A new era?

Now that Sibanye-Stillwater's takeover of Lonmin is complete, what does the future hold?

Although Lonmin takes its leave after 20 years of trade, its origins are, in fact, much older – and equally colourful.

Founded in 1909 as the London and Rhodesia Mining and Land Company, or Lonrho, the company was rarely out of the news. This was especially the case in the 1970s when – as a sanctions-buster throughout the period of Rhodesian Prime Minister Ian Smith's Unilateral Declaration of Independence – it drew the criticism of then UK Prime Minister Edward Heath, who labelled Lonrho "the ugly face of capitalism".

Empire-builders such as Tiny Rowland – who led the company for just over 20 years from 1962 – did nothing to dispel the notion. Lonrho was a high-flying corporate in search of conglomerate status. It, for example, fought for control of Harrods, the UK's Knightsbridge department store; it also bought Ashanti Goldfields in Ghana; and when not capturing the headlines on the business pages, it was owning them following the takeover of the UK's *Observer* newspaper.

It's fitting, therefore, that what's left of the company should be gobbled up by Sibanye-Stillwater's Neal Froneman, whose deal hunger and craving for multi-jurisdictional, blue-chip status is not unlike the ambition of the late Rowland. At the current juncture, however, Lonmin is perhaps the last deal Froneman's shareholders can tolerate; at least for a while. As for Lonmin, analysts think the merger represents a lifeline for its shareholders.

"We believe Lonmin is not viable on a standalone basis unless it is replicated and that any attempt to recapitalise it should have been properly planned and embarked on months ago, and not as a knee-jerk reaction to higher PGM prices," said Nedbank analysts Leon Esterhuizen and Arnold van Graan in a report dated 4 June.

"We therefore see the deal as a good lifeline for Lonmin shareholders."

For Sibanye-Stillwater, Lonmin brings with it some $71m in cash, which will help deleverage the Sibanye-Stillwater balance sheet following three years of intense deal activity.

While production from Lonmin is unlikely to increase, especially as Sibanye-Stillwater focuses on capital conservatism, Lonmin will also provide the cash flow and security for Sibanye-Stillwater to tackle its gold division, recently emerging from a five-month strike and an announcement earlier in June that it was cutting 3 500 staff.

"Deleveraging the balance sheet seems to be a top priority for Sibanye's management at this stage; we believe this comes on the back of pressure from concerned bankers and shareholders," said the Nedbank analysts.

"The marginal nature of Lonmin's assets also adds further PGM price leverage that will likely be well-received by those bullish on the PGM market," they said.

"These assets should, therefore, become a significant boon if PGM prices rise further." ■

market place

GLODIV

BUY **SELL** **HOLD**

By Simon Brown

Add some protection

CoreShares S&P Global Dividend ETF is the perfect hedge against the trade wars that US President Donald Trump keeps ratcheting up against China.

The reason I like this ETF for surviving trade wars is two-fold. Firstly, the dividend part of its name is not about paying great dividends. Rather, it uses dividends as a quality filter. So, for example, for US stocks to be included they have to have a 25-year track record of paying dividends.

That means very few tech companies are included in this ETF as most have not even been listed for that long. It also means that we end up with a high (18%) weighting of boring, but stable, consumer staples. Trade wars or not: We're still going to brush our teeth.

> Any market sell-off will see tech stocks under real pressure as they've flown higher. This ETF only holds **5%** tech, and therefore adds another layer of protection.

This lower tech holding also helps because the rally of the last decade has largely been tech-driven, with the Nasdaq outperforming the broader S&P 500 by a wide margin. So, any market sell-off will see tech stocks under real pressure as they've flown higher. This ETF only holds 5% tech, and therefore adds another layer of protection. ■

Last trade ideas

HOLD Afrimat
6 June issue

SELL Steinhoff
23 May issue

HOLD Coronation
9 May issue

BUY Platinum
18 April issue

CURRO HOLDINGS

BUY **SELL** **STAY SHORT**

By Moxima Gama

Still in bear territory

Curro Holdings remains a well-managed company. It recently announced plans to grow to just short of 200 schools by 2022 – almost double the number it had in 2015 – with *Business Day* reporting that the company planned to invest R1.6bn in the business during 2019. This would include R220m into the building of campuses, and a further R200m into acquisitions, the paper reported.

While the company appears to be well-positioned for growth, it's share price has been on a gradual downward slope since 2015, when the share price peaked. The share breached its major support trendline in March 2018 and confirmed a negative breakout of its long-term bull trend in October of that year.

Investors were rewarded with a maiden dividend of 12c/share this year, but many believe that the amount is relatively modest, considering strong results from Curro. For the year to end-December, it reported an increase of 23% in headline earnings per share from 49c to 60.1c.

How to trade it: Continued downside below 2 250c/share would extend its current bear trend towards 1 795c/share. If selling continues, support at 1 025c/share may well be tested.

Alternatively, Curro would have to trade above 4 000c/share to return to its previous bull trend and through the 4 375c/share resistance level to abandon its bear trend. ■

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Last trade ideas

STAY LONG Telkom
6 June issue

CAUTION AB InBev
23 May issue

CAUTION Redefine Properties
9 May issue

CAUTION Remgro
18 April issue

Photos: Gallo/Getty Images

By Moxima Gama

BRAIT SE

Is there hope?

Brait SE, partly owned by billionaire Christo Wiese, is a holding company with interests in Virgin Active, Premier FMCG and Iceland Foods, among others. Following a number of acquisitions in the UK, Brait's fortunes unravelled quickly when Britain's decision to exit the EU in 2016 negatively impacted the UK economy and its currency. Matters worsened after the Steinhoff debacle, with all companies linked to Wiese at the time, slumping. Wiese stepped down as non-executive chairperson of Brait last year.

52-week range:	R16.26 - R43.90
Price/earnings ratio:	-
1-year total return:	-53.49%
Market capitalisation:	R9.23bn
Loss per share:	R12.35
Dividend yield:	-
Average volume over 30 days:	866 168

SOURCE: IRESS

BRAIT SE

SOURCE: MetaStock Pro (Reuters)

Outlook: Brait has reversed all its gains from a high at R174/share and is currently testing 2011 lows. The company expects net asset value per share for the year to end-March to be down by between 23.4% and 27%, to between R40.75/share and R42.75/share due to the ongoing challenging environment. Results are due on 18 June.

On the charts: Brait is trading at very discounted levels and could start regaining some upside momentum.

Go long: With both the three-week and three-month relative strength index (RSI) bouncing from extremely oversold positions, Brait could attract a few buyers. However, it would have to trade above R22.10/share to escape its current steep bear trend, formed within its longer-term bear trend. Such a move could trigger a recovery to either the R28/share resistance level or the resistance trendline of its bear trend – where long positions would have to be revised. Otherwise, a positive breakout of the bear trend would be confirmed above R28/share – increase long positions above that level – and upside to the R33.15/share mark could then follow.

Go short: Refrain from going long if resistance is encountered at R22.10/share. Support breached at R16.40/share could see Brait topple further to either the R11.80/share or R8.75/share prior lows. ■

NASPERS

New bull phase likely

Naspers* has maintained its long-term bull trend which commenced in 2014. As upside momentum continued, concerns that Tencent was the primary driver of this impetus eventually triggered a two-year correction from an all-time high at R4 017.10/share in 2017. Naspers' share price fell to the support trendline of its long-term bull trend – in the form of a bear channel. In August last year, Tencent announced its first profit drop in years, linked to regulatory issues in China. Naspers tanked around 10% on the back of the news, but managed to bounce on its major support trendline.

52-week range:	R2290.95 - R3750.01
Price/earnings ratio:	27.50
1-year total return:	6.69%
Market capitalisation:	R1.52tr
Earnings per share:	8.45
Dividend yield:	0.19%
Average volume over 30 days:	1 202 140

SOURCE: IRESS

NASPERS

SOURCE: MetaStock Pro (Reuters)

Outlook: In February this year, MultiChoice was spun off from Naspers to unlock investor value. Subsequently, Naspers announced plans to list its technology investing unit (NewCo) in Amsterdam.

On the charts: Having recovered most of its losses, Naspers has abandoned its bear channel – a move that could see it test new highs in the medium to long term.

Go long: Naspers confirmed a positive breakout above R3 090/share in March and pulled back from an overextended three-week RSI position, also completing a return move (a common reversal after a breakout). Further upside above R3 052.15/share would present another good buying opportunity, with potential gains to the R4 017.10/share all-time high. Positions may have to be revised at that level. Otherwise, trading through that level should prompt further gains to the R4 508.55/share targeted mark.

Go short: A reversal below R3 090/share could see Naspers slip back to the support trendline of its primary bull trend, which would end below R2 290.85/share. Also, if Naspers fails to trade above its all-time high, it could consolidate within a huge range band between R4 017.10 and R2 290.85/share. ■

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*finweek *is a publication of Media24, a subsidiary of Naspers.*

Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

By Simon Brown

STOCKS

Think you're buying at a discount?

Investors are always keen to buy shares at a discount to fair value, but determining that fair value is not straightforward.

Discounts. Who doesn't love them? Especially when it's real. This holds for investors as well: We always want to buy a stock at a discount to the fair valuation. The challenge, of course, is determining what a fair valuation truly is.

We may think it's a specific price, but we could be wrong. Or the market could move against us, meaning we could have got it even cheaper. But there is one instance where we can determine whether there is a discount, and that's when it comes to holding companies that trade on the JSE. Obviously, their main business is holding other companies, and if those companies are listed, it becomes very easy to determine a discount.

The key lesson here is that you need to understand the valuation methodology a holding company is using and make sure you are happy with it.

Let's start by using PSG as an example. The group owns a number of listed stocks and provides a live sum of the parts (SOTP) on its website, so we know what the 'value' of the PSG share is. But, one thing you'll notice with holding companies is that, in most cases, they trade at a discount to their holdings. This is to be expected for a few reasons. Firstly, the holding company incurs costs, which need to be deducted from the SOTP. There may also be a capital gains tax (CGT) payment due. Sure, PSG, for instance, could just unbundle its listed holdings to shareholders with no tax issues for the group, but if an asset has to be sold first (most likely if it is not listed), then there would be CGT to pay and this is then also included in the discount.

Photo: Shutterstock

We also have to watch out for director valuations of unlisted assets. Truthfully, they're hard to value, as is any company. And so, what we really need is a detailed explanation of how they arrive at the valuation.

Brait serves as a good example of a company that is fairly open about how it values its various assets. This means shareholders are left to decide whether they agree with the methodology or not. We can also look to other similar companies listed on a stock exchange (locally or globally) to get an idea of whether Brait's valuation is fair or not.

What would bother me very much is if directors kept changing the methodology of their valuation. Brait recently did make some changes but backed these changes up with reasons. Also, importantly, as a rule they don't regularly change their methodology.

What we also sometimes see is that one asset dominates the valuation, as is currently the case with Zeder, which focuses on agribusiness. Zeder's main asset is a holding in Pioneer Foods and, frankly, the market is pretty much ignoring its other assets. This is partly due to the fact that Pioneer is Zeder's only listed asset and so offers a clear price point. But another reason is that Zeder's other assets are relatively small compared to the total value of Zeder.

Let's consider African Rainbow Capital, whose main asset is Rain – an unlisted start-up. This makes it very difficult to value. Here investors need to not only simply agree with the valuation methodology being used, but also with the prospects of a start-up. African Rainbow Capital also has a fairly hefty fee structure that definitely accounts for a portion of the discount as not all profits will flow to shareholders.

The key lesson here is that you need to understand the valuation methodology a holding company is using and make sure you are happy with it. Also ensure that you are always buying at a discount which, ideally, should be at least 15% of the value of the underlying assets.

And finally, be careful. Just because there is a discount to the assets held doesn't mean you're guaranteed a profit. Valuations could be stretched, or profits could fall. Or there could simply be a good old-fashioned market sell-off, which will result in falling prices. ■

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By Schalk Louw

FUNDAMENTALS

Winners often don't go hand in hand

Whether you are looking at shares, markets or funds, make sure that you don't pair those that have the same characteristics.

Often two things appear to go hand in hand. Let's use cycling teams in the Tour de France (TdF) as an example. Peter Sagan and Mark Cavendish's goals for this year's TdF and their riding styles go hand in hand. Yet pairing them as a team wouldn't make sense at all. Pairing either someone like Geraint Thomas, Tom Dumoulin or Adam Yates with a rider like Sagan would make more sense. Both riders will be aiming to wear at least one of the winners' colours (either the green or yellow jersey), but would probably end up doing so at different stages in the race.

Investments in shares are based on the same principle. It can be analysed in detail down to individual share level, but I'd like to discuss the wider application of this principle in relation to different markets.

I have lost count of the number of times I have been told how amazingly well US stock markets have performed over the last two years, and how we should have invested everything we had in them.

If we had access to 2019's newspapers in 2014, I would have said "YES!". But that's just because we *now* know that the US (MSCI USA Index) has grown by 16.2% annually in rand-terms over the last five years (up to 31 May 2019).

It was one of the best-performing markets, and outperformed the FTSE/JSE All Share Index by about 11 percentage points per year. South Africa, with its mediocre 5.4% growth per year, couldn't even manage to outperform its own money market rate over the same five-year period.

Photo: Shutterstock

So, I completely understand investor frustration at the moment, and why they're tempted to find salvation in offshore markets.

The secret, however, lies in evaluating the TdF in its entirety in order to make an informed decision. Why? Well, if you compare these two markets over a 20-year period as opposed to shifts over a five-year period, a completely different picture emerges.

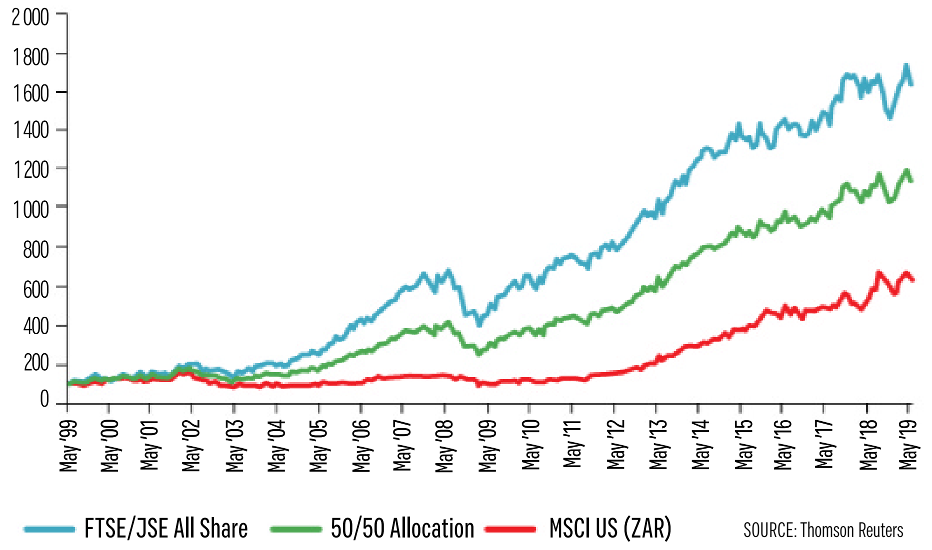
The FTSE/JSE All Share Index has grown by 15% per year over the last 20 years (up to 31 May 2019) compared to the US's 9.7% (in rand terms).

Investors seem to forget that the US delivered no growth in rand terms between May 1999 and May 2009. It actually experienced negative growth. I'll let you dwell on that for a moment. Ten years' worth of negative growth!

But before investors interpret this message as pro-SA and anti-US: Remember that I said that you should pair different winners whose characteristics do not go hand in hand?

When analysing the MSCI South African (SA) Index's correlation with well-known markets such as the MSCI USA, Britain, Europe, China and even main indices like the MSCI All Country World Index (ACWI) and the regular MSCI World Index over the last three years, you will find that investing only in countries like SA and China (MSCI Indices), would be like pairing Sagan and Cavendish in the Tour de France.

FTSE/JSE ALL SHARE INDEX VERSUS MSCI USA INDEX (IN RAND) AND 50/50 ALLOCATIONS TO BOTH



SOURCE: Thomson Reuters

Both of these markets have fallen on tough times this past year. SA delivered -11.5% growth in dollar terms, and China -18.4%. These two indices also happen to have the highest correlation (a fancy way of saying they go hand in hand).

Yet South Africa has the lowest correlation with the US. If you had invested 50% of your capital in SA and 50% in the US 20 years ago, SA would have been responsible for your portfolio's performance in the first ten years while the US suffered, and the US would have been responsible for good performance over the last ten years while SA suffered.

However, I would rather recommend a pairing between SA and the MSCI World Index, as I am a little worried about the US's current valuation levels. SA also has a low correlation with the MSCI World Index, and although the index consists of 54% in US shares, it will provide investors with the reassurance of added diversification.

Take note of the difference between the MSCI World Index and the MSCI All Country World Index: the regular MSCI World Index consists only of developed markets (such as the US, Western Europe, Japan, Canada, etc.), while the MSCI ACWI includes both developed and developing markets.

I also want to warn investors to be very careful when selecting last year's winners, whether you're looking at shares, markets or funds. Rather shift your focus towards winners that don't go hand in hand. ■

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By Maarten Mittner

GLOBAL ECONOMY

Emerging markets feel the heat as 'Fortress US' gains traction

US President Donald Trump's attempts to boost his country's economy have been seemingly ad hoc. And this is creating a world with new realities.

The established world order of globalisation and free trade is under immense pressure as US President Donald Trump continues to build a "Fortress US" behind a wall of higher tariffs, the long-term consequences of which are yet to be felt.

Already, some US sectors are feeling the pinch of rising tariffs, resulting in uncompetitive industries. Layoffs have occurred in the electronics sector, among others.

Many countries have experienced higher domestic prices in reaction to rising tariffs, which is inflationary, leading to stricter monetary policies. But the US has been in a potentially deflationary spiral for some time, as inflation remains subdued and economic growth robust. But can it last, especially given that the bond market continues to price in lower economic growth, even a recession, in safe-haven trade? How much more of these headwinds can emerging markets take?

Equity markets dropped sharply in May, with huge outflows recorded among emerging market funds, notably from China. Higher tariff barriers are historically negative for exporters, and will affect China, the EU and Mexico. The benchmark MSCI Emerging Markets is flat for the year so far, while the MSCI World Index has gained 10%, mainly on the back of a firmer Wall Street up to now.

As emerging markets continue to reel, the JSE has not been spared, with most gains since the beginning of the year wiped out in volatile trade. Only resources are bucking the trend. The SA economy's tepid performance is even worse than that of other emerging market economies. Brazil, Mexico and Turkey have all fallen into negative GDP territory.

As emerging markets continue to reel, the JSE has not been spared, with most gains since the beginning of the year wiped out in volatile trade. Only resources are bucking the trend.

It seems unlikely that Trump intends to replace the established world order with something completely new. His actions are seemingly ad hoc, meaning that selected tariffs are hiked in order to correct perceived imbalances of the past. Once these have been completed, trade could resume a settled path amid the new realities.

Equity markets have up to now been optimistic, with risk-on trade boosted at every turn where trade tensions have lessened. This drove global equity markets to new heights in the first half of 2019. But the tech spat with Huawei and the threat to Mexican car exporters have created new tensions, leading to question if it can be resolved at all.

It is a high-risk game. Trump's $16bn in subsidies to American farmers could prove to be inadequate or futile. And lower economic growth in the US can become a reality after the first quarter's unexpected strong showing. The positive impact of tax cuts has probably played itself out.

Bond markets remain pessimistic, with yields on the US ten-year hitting an inverse two-year low of 2.1% in May in continued risk-off trade. Optimism that the US Federal Reserve had matters firmly in hand, and was ahead of the curve, has faded.

The focus has shifted to Trump's new preferred weapon to boost the US economy – lowering interest rates, with Fed chair Jerome Powell now ready to lower rates to negate the effects of a global trade war. This remarkable turnaround will raise questions about the credibility of the Fed's policy stances.

The bond market has been sceptical throughout, but equity markets have shown more faith in Powell's strategy. That may change. With a US presidential election looming next year, Trump is unlikely to reduce the pressure on the Fed to cut rates. Lower rates may bring the necessary fillip to the US economy, and lead to a rebound in equity markets. But what if the US paints itself into a corner when even lower rates eventually lead to stalled growth as global trade reduces?

Global trade may be revived at that point, but the short-term environment remains tough for emerging markets and the like. The pressure is on China to continue its stimulation policies. It has been criticised for retaliating against the US with counter-measures in trade. The EU has taken a more sober path of reason and dialogue. But in the end the EU could also be hit hard with further trade tensions. German bund yields are now at an all-time negative low.

The world is fraught with danger at the moment. But it might just be that once the dust has settled, risk-on trade will be revived. Equity markets are hoping for that to happen.

Long-term scenarios still indicate ongoing resilience for emerging markets. BlackRock, the world's biggest asset manager, has reiterated its view that China is set to be the world's largest economy in a decade, overtaking the US. Even India is set to surpass the US a few decades later.

Trump's actions may be the last throw of the dice to keep the US ahead of the race, which may not be successful over the longer term, as the limits of lower rates hit the wall. Whatever the consequences, the US is sure to remain an important part of the world order, albeit not at the top.

The big prize remains a lessening in trade tensions and a resumption of globalised world trade without undue tensions. So that risk-on can be resuscitated, with emerging markets benefitting. ■

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Photo: Shutterstock

By Simon Brown

PORTFOLIO MANAGEMENT

Make sure there's method to the madness

Do you have a method for buying and selling shares? Or to monitor shares? Having a solid investment process in place is essential if you want to enjoy repeated success.

I've been doing a lot of swimming lately, including a number of open water competitions such as the Midmar Mile. The training was initially easy, probably because I didn't know what I was getting into. Then it got really hard when I actually started competing. I would kick off too fast, struggle to keep my stroke going, breathe poorly, and before long I'd begin to flounder, eventually finishing (but not comfortably).

Then, suddenly, at my last competition, I knocked almost 25% off my mile time and it was a total breeze. What happened? I was focusing on the process, not the outcome. I was no longer swimming to beat a time or the person in front of me. I was swimming to swim well. I was focusing on my stroke, my breathing and sighting the next buoy. Before I knew it, I was past the last buoy and onto the last 200m in a smashing new time.

Trading and investing work in exactly the same way. You can't control the outcome, but you can control the process. And if you have a solid process to focus on, more often than not you'll get the desired positive outcome.

So, what is your process? How do you filter stocks that you might want to buy? How do you research those stocks and come to a decision to either buy, move on or add it to a watch list? If you do buy, then what? How do you decide to exit the stock? What's your review process for stocks in your portfolio and on the watch list? How do you review your process?

The point of having a solid process is about more than just focusing on what you can control. It also provides you with a structure you can utilise repeatedly. So, if you have a set process that is finding more winners than losers, you know you can replicate it. If your process is random, you won't have this ability to replicate, and any winners you do find might as well simply be down to luck.

Now sure, sometimes something will come at you from left field, like fraud, Trump tweets, or just poor analysis on your part. But even when this happens, you'll be able to revisit your process and see if it's possible to tighten it to prevent it from happening again; or it can help you determine whether it's just a natural part of the risk of investing.

The problem, of course, is that the process you decide on could be anything. You could use Graham and Dobbs' classic value investing, or you could go for growth stocks at reasonable prices as per Buffett and Fisher. You might decide that dividends are hugely important, or rather focus on cash flows or debt. The problem is that you can become overwhelmed by all the options while you try and find that 'perfect' process. But there isn't a perfect process – just aim for one that is robust.

I'll also add that 'simple' nearly always wins the day. As humans, we're trained to believe that complexity is always better but, in truth, it seldom is. A simple process with a few rules will generally keep you safe from horrific stocks and will give you a decent chance of catching a few real winners.

Then, another very important point: While a ten-bagger is great, there is no chance that every stock will be one. They'll come along every so often and boost your portfolio size, but what you need to do in-between the ten-baggers is keep afloat and not lose all your money or your enthusiasm.

And, lastly: When you are reviewing your process, make sure you also take a look at your adherence to that process, not just the results it achieves. In other words, do you have a strong process, and do you stick to it? If you can answer yes to both, you'll make money over time. ■

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Photo: Shutterstock

The problem is that you can become overwhelmed by all the options while you try and find that 'perfect' process. But there isn't a perfect process – just aim for one that is robust.

finweek

FUND FOCUS

YOUR QUARTERLY REVIEW OF SA FUNDS

JUNE 2019

BEATING *THE ODDS*

By Leon Kok

INVESTMENT

Beating the odds

Uncertainty still reigns locally and globally. Therefore, investors have to be innovative when looking for investment opportunities.

Domestic equities may be considered to offer great value and the potential for the strongest rerating, but most portfolio managers appear to be opting for restraint – a theme that became evident in discussions with analysts this quarter.

Locally, it remains unclear whether President Cyril Ramphosa's new government will usher in bolder stage-two reforms.

There's concern about the dangers of further structural weakening of the economy, fear of additional fiscal deterioration resulting from higher expenditure pressures, and apprehension of the supportive role of global markets. The trade war between the US and China is not helping with considerable outflows from emerging market (EM) bonds and equities.

Allan Gray senior executive, Vuyo Nogantshi, reminded me again that "diversification is the only free lunch in finance". He warned about over-concentration in SA's relatively small equities market, with the top ten shares on the JSE making up 50% to 60% of the index. In contrast, the top ten shares in one of the world's major indices, the S&P 500, makes up just over 20% of the index.

Credit to participants in this supplement – they've come up with tangible remedies to this dilemma. Raging Bull winner, Philip Bradford, for instance, tells us how his Sasfin BCI Flexible Income Fund swept the decks during the past three years, beating most general equity funds. It returned an average 12.06% a year compared with an annualised average of 8% to 9% over five years to December 2018 by the top-five general equity funds.

Gareth Bern, head of fixed income at Prudential Investment Managers, suggests that several of SA's state-owned enterprises (SOEs) offer incredible alpha opportunity in spite of the entire sector perceived to be uninvestable. SOE debt represents 7% of the All Bond Index (ALBI) with government explicitly guaranteeing almost half of the nearly R300bn outstanding listed debt. However, Bern doesn't invest in Eskom's unguaranteed debt and avoids anything tainted by state capture allegations.

In this edition, considerable attention is given to offshore investing, including the diversification benefits, reduced EM and currency risk, and maintenance of 'hard currency' spending power.

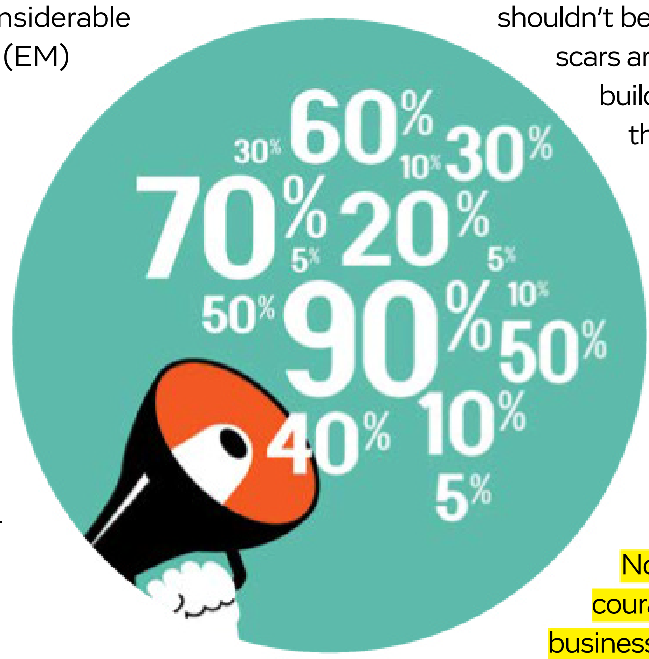


Photo: Shutterstock

Investec Asset Management's deputy managing director, Sangeeth Sewnath, advises that offshore investments must be considered holistically, together with local investments. One of the reasons being that the exchange rate is uncertain and volatile, and when measured over shorter-term horizons, it can give a skewed view from a local investor's perspective.

Offshore equities and the rand tend to move in opposite directions, he says. In 'good' times, offshore equity markets are likely to perform well, bonds will be the losers, and the rand would strengthen (resulting in a currency loss on the offshore portfolio). The opposite holds in 'tough times'.

Allan Gray portfolio manager, Nick Ndiritu, believes that strong value can be found in 'frontier markets', and they shouldn't be ignored. He concedes that battlefield scars are inevitable as companies diligently build their competitive positioning through the up and downs.

Yet a company like MTN is thriving despite regulatory issues. Standard Bank's footprint in 20 African markets is unrivalled. Nestlé has operated in Nigeria for almost 60 years and last year grew earnings by 28%. Its five-year average return on equity is an astounding 65%.

Investors in frontier markets, Ndiritu says, should have patience and courage to be contrarian and chase those businesses with a competitive edge, and that are trading at a discount to estimated intrinsic value.

Consider the fact that, according to the IMD Business School in Switzerland, some seven decades ago Singapore, Hong Kong, the UAE and Qatar were all frontier markets. Today, Singapore is the most competitive market in the world, followed by Hong Kong in second place, UAE in fifth, and Qatar in tenth.

Makes me think of John Templeton, who founded the first global mutual fund in the world in 1954 and became the joke of the American investment community because he saw fit to invest in 'tinny' Japanese companies such as Toyota, Nissan, Mitsubishi and Hitachi. Today, Templeton's assets under management total $753.2bn, with the Global Mutual Fund alone now managing $16.4bn.

Structuring a retirement annuity is central to one's retirement saving. Coronation's Christo Lineveldt provides some excellent tips, and discusses one of their flagship funds which has generated an 11.9% annualised after-fees return during the past 18 years. R1m invested in 2001 would be worth R3.9m now.

Happy investing. ■

CONTENTS

INVESTING IN AFRICA

There *is* value on the continent

While many South African companies have experienced setbacks in Africa, many others are great examples of how growth can be achieved north of our borders.

South African industry leaders are struggling with the well-known challenges of doing business in Africa. From Nigeria to Uganda, the regulatory challenges faced by MTN resemble a cruel game of whack-a-mole: as soon as you fix one, another appears. Africa's leading retailer, Shoprite, reported its largest earnings decline in over a decade, citing currency devaluation in Angola as the cause. And Liberty Holdings is looking to sell down loss-making African operations in asset management and health.

In addition, newer entrants are scaling back. South African property companies Attacq and Hyprop are looking to exit or pare down a joint venture that owns shopping malls in Ghana, Zambia and Nigeria. Most of their tenants are South African retailers who have scaled back their Africa expansion plans and are unlikely to renew their leases. Not to mention retailer Woolworths and fashion house Truworths exiting Nigeria in previous years, due to high rental costs, supply chain challenges and import restrictions.

According to Nick Ndiritu, portfolio manager at Allan Gray, the challenges of operating in Africa aren't new or exceptional.

"Multiple global companies have steadily built thriving businesses in countries across the continent: Unilever, Nestlé, MTN, Shoprite and Standard Bank; and then there are countless others that didn't survive," he says. "The thing that differentiates winners in frontier markets – from Lagos to Hanoi – is the openness and willingness to adapt business models and products to fit constrained household budgets and appeal to the familiar, yet aspirational, ways of life."

South African success stories

Ndiritu says that battlefield scars are inevitable as companies diligently build their competitive positioning through the ups and downs.

MTN's operations in Nigeria are thriving despite all the regulatory issues. At the end of 2018, revenues grew by 17%, with an 11% increase in their subscriber base to 58m, and their ebitda (earnings before interest, taxes, depreciations and amortisation) margin expanded by 4.5 percentage points (pp) to 43.5%, excluding once-off regulatory payments. Shoprite remains a formidable competitor in Africa's retail landscape despite short-term macroeconomic challenges in Angola and Nigeria.

"In addition, Standard Bank's footprint in 20 African markets is unrivalled. Their Rest of Africa business is lucrative, earning a 24% return on equity (RoE), and is now contributing a meaningful 29% to group earnings."

He adds that South African corporates have also dispelled doubts that new market entrants can't crack the challenging business environment in Nigeria, by citing the example of SABMiller, which, prior to its merger with Anheuser-Busch InBev, entered Nigeria's beer market in 2009 and later invested $100m to build a brewery in the city of Onitsha.

"It championed regional brands which resonated with the traditions and culture of the local communities. This strategy also avoided fierce nationwide competition with dominant Heineken and Diageo."

SABMiller also specifically addressed affordability, focusing on the number of minutes worked to earn a core beer. The company considers a beer to be affordable at 30 minutes, but the majority of the population in Nigeria is in the low- to mid-income range, where an individual needs to work for 72 to 140 minutes to earn a beer.

"Cheaper pricing expanded their reach into the value-conscious segment. The results have been impressive, with SABMiller having garnered a 22% share of Nigeria's beer market."

Establishing a competitive edge

Ndiritu says that painting the Africa narrative with broad brushes also obscures the role of competition.

"There will always be winners and losers. Successful market leaders are honing their strategies and ability to compete effectively despite the well-known challenges."

Nestlé has operated in Nigeria for close to 60 years. Its competitive edge has come from building a distribution chain that delivers products to over 300 000 points of sale across a country renowned for poor infrastructure. Modern retailing formats (e.g. supermarkets) account for less than 2% of Nestlé's sales.

"Nearly 80% of their raw materials are sourced locally, providing some relief from import restrictions and currency fluctuations. In addition, through the ups and downs, they have invested in building local products."

In 2018 Nestlé grew earnings by 28% and expanded ebitda margins by 150 basis points to 27%, the highest on record over the last two decades. Nestlé's five-year average RoE is an astounding 65%, and this during a period of significant macroeconomic challenges in Nigeria.

Be patient

What does this mean for investors looking to enter frontier markets?

"As institutional investors in Africa's frontier capital markets over the past decade, we have wrestled with uncertainty driven by macroeconomic factors, and had to contend with periods of illiquidity in currency markets. However, we believe frontier African markets are well-suited to a patient investment approach."

He says that the most critical driver of long-term investment returns is finding great businesses with a competitive edge that are trading at a discount to Allan Gray's estimate of intrinsic value.

"Asset prices tend to be heavily discounted when sentiment is negative during periods of uncertainty, presenting an attractive buying opportunity for long-term investors. Having the patience and courage to follow this contrarian approach often yields attractive long-term returns," concludes Ndiritu. ■

Photos: Gallo/Getty Images

By Gareth Bern

STATE-OWNED ENTERPRISES

SOEs: emergency or alpha opportunity?

Yes, state-owned enterprises can offer attractive returns. But it's important to handpick them, and to ensure that returns will compensate for any additional risk.

Given the steady stream of bad news regarding the financial state of South Africa's state-owned enterprises (SOEs), it's understandable that investors might be inclined to consider the entire SOE sector as simply uninvestable.

However, as valuation-based investors, at Prudential we are always looking for opportunities to add alpha to our clients' portfolios, and these often occur when there is extreme investor sentiment at play, as with SOEs currently. In fact, our analysis of SOE debt shows that while there certainly are risks, there are also opportunities available to earn attractive risk-adjusted returns.

Considering the risks of SOE exposure

Can you actually avoid exposure to SOEs altogether? It isn't easy. SOE debt represents 7% of the All Bond Index (ALBI), and you will have indirect exposure if you hold government bonds or bank shares, among others.

The government explicitly guarantees almost half of the nearly R300bn in outstanding listed SOE debt (primarily accounted for by Eskom and Sanral), while at the end of 2018 banks had 10% of their equity exposed to SOEs on average. Banks also package SOE exposure within debt instruments (credit-linked notes) which they issue, giving investors exposure to both the risk of the bank and the underlying SOE.

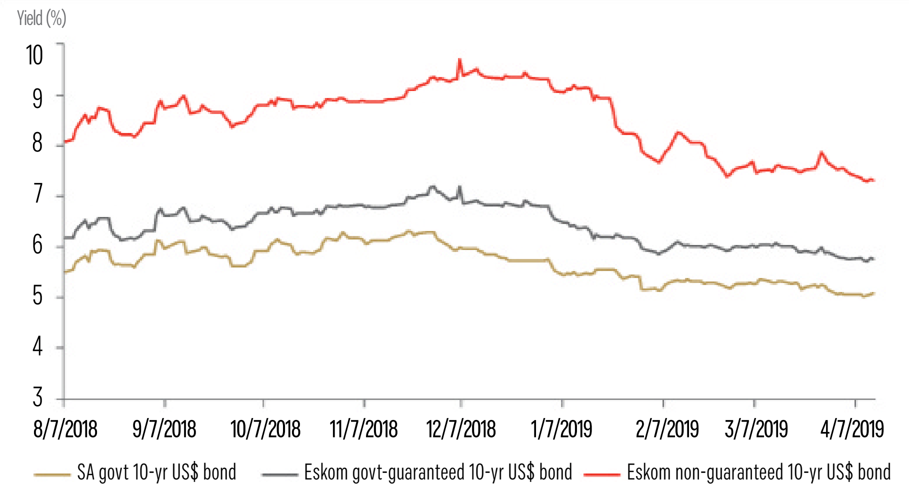
Can you actually avoid exposure to SOEs altogether? It isn't easy. SOE debt represents 7% of the All Bond Index (ALBI), and you will have indirect exposure if you hold government bonds or bank shares, among others.

So how do you identify the risks? Prudential's credit analysts make a detailed assessment of the stand-alone default risk of the relevant SOE, and then estimate what level of support might be inferred from the government. This ranges from an explicit guarantee to none whatsoever, and is based on the entity's importance to the country's economy and what impact a default could have on public services, employment or other institutions. Investors also must appraise how potential government support could change over the course of their investment. Another guide is government's previous actions when an SOE has been in trouble.

In South Africa we have examples as to how the state has looked to address underperforming SOEs – changing boards, providing technical and financial support and providing government guarantees where required.

For example, at the Land Bank, after suffering the effects of executive fraud and qualified audit reports, the government as shareholder took steps to strengthen the board and supported its funding initiatives by providing government guarantees on its debt. All of these culminated in the Land Bank eventually regaining access to capital markets in recent years without the need for government's debt guarantees. The support and changes initiated by the government have been so successful that the Land Bank has been able to extend the maturity of its funding in a manner which simply was not possible previously.

HIGHER ESKOM BOND YIELDS REFLECT HIGHER INVESTOR RISK



SOURCE: Supplied/Bloomberg as at 12 April 2019

Prudential's approach to investing in SOEs

Prudential's risk assessment determines the final compensation (yield) we require *over and above government debt.* Government yields act as a baseline. This additional return is made up of two components: extra compensation for the lack of liquidity (liquidity risk) and the additional default risk (or credit risk) one assumes.

This difference is best illustrated by observing the returns available on Eskom US-dollar debt. The graph shows the additional compensation for investing in both guaranteed and non-guaranteed Eskom instruments as of mid-April 2019. For an investor in the guaranteed debt, the additional return above that of the SA government (approximately 0.7%, or 5.8% vs 5.1%) is compensation for the liquidity risk – it is more difficult and therefore more costly to trade than government debt. The debt is explicitly guaranteed, so there is no additional credit risk assumed. Eskom's unguaranteed debt, meanwhile, at 7.3%, offers extra compensation over and above this as investors are assuming some additional risk of default – they need to make an assessment as to this risk, as well as the compensation they are willing to receive for assuming it.

For those SOEs we consider to have not adequately addressed prevalent governance concerns, we have chosen not to invest in any new issues. These issuers would include Transnet, Denel, ACSA, Umgeni Water and Sanral. The latter remains in an uncertain financial state as the e-tolling saga remains unresolved. We do think there have been significant changes implemented at Eskom and are prepared to consider further investments – but only in its fully government-guaranteed debt instruments. We prefer to hold a diversified portfolio of exposures and, as such, Prudential funds have holdings in a number of names within the sector, including the Industrial Development Corporation; the Development Bank of Southern Africa; Eskom (government-guaranteed only); Land Bank; and the Trans-Caledon Tunnel Authority, among others. This reflects our view that the SOE sector, despite the recent headlines, can offer investors some attractive risk-adjusted returns with the application of careful analysis. ■

Gareth Bern is head of fixed income at Prudential Investment Managers.

By Sangeeth Sewnath

OFFSHORE INVESTING

Consider your portfolio holistically when investing offshore

Perceptions of currency movements can be misleading. When investing offshore, a longer-term view is therefore crucial.

While most investors understand the compelling reasons for investing offshore, which include diversification benefits, reduced emerging market and currency risk, and maintenance of 'hard' currency spending power, they tend to lose sight of the fact that offshore is only one component of their overall portfolio.

Therefore, their offshore investments must be considered holistically, together with their local investments.

The currency effect

Studies have shown that when considering the historical returns of foreign investments, the impact of the exchange rate is uncertain and volatile, and that when measured over shorter time horizons, the exchange rate can have a significant impact on the investment return and, as I'll illustrate below, the risk in rands. By simply looking at offshore investments in a dollar context, the overall picture – and accordingly the appropriate portfolio construction strategy – is skewed from a South African investor's perspective.

Figure 1, a simple risk return scatterplot, illustrates this point. If you compare the dollar returns and standard deviation over ten years of a money market portfolio versus a bond, multi-asset and equity portfolio, the chart demonstrates the expected traditional banana curve (efficient frontier), with the money market portfolio in the lower left corner (lowest return at lowest risk or volatility) and the equity portfolio in the top right corner (highest return but with the concomitant highest volatility).

Next, compare these same four portfolios in rands rather than dollars **(Figure 2)**, and the traditional efficient frontier is thrown off with an unexpected clustering. What the chart illustrates is that over ten years the bond and money market portfolios deliver the lowest returns as you would expect but, counterintuitively, they do so at higher volatility than the multi-asset and equity portfolios!

This illustrates that the simple conversion from rands to dollars can add in the region of 16% volatility to your portfolio. So, when it comes to offshore investment, as important to the offshore asset class decision is the risk in taking your money offshore (i.e. the currency decision). And the evidence further suggests that your risk reduces when you're invested in an equity or multi-asset fund offshore, as your portfolio would benefit from the diversification effect.

Investors unfortunately have this notion that they should park their money offshore in something they perceive to be low risk, like a dollar-denominated money market fund. However, historically this has proven to be both riskier and less rewarding.

The performance of the rand is a key consideration

The rationale is actually very simple; offshore equities and the rand tend to move in opposite directions. In 'good' times, offshore equity markets are likely to perform well, bonds will be the losers and the rand would strengthen (resulting in a currency loss on the offshore portfolio). The opposite also holds: In 'tough' times, equities perform poorly, offshore bonds gain and the rand tends to weaken (resulting in a currency gain on the offshore portfolio). In summary, rand depreciation adds to the offshore return calculated in rands, and rand appreciation detracts from the overall return.

We believe that when investing in international assets, investors need to take a longer-term view and look past the shorter-term movements of the currency. Furthermore, South Africans investing offshore should look to global equities or high-equity global multi-asset solutions with long-term track records that have proven their mettle through investment cycles, such as the Investec Global Franchise Fund and the Investec Global Strategic Managed Fund respectively.

As always, we recommend that investors seek independent financial advice when choosing the most appropriate funds and investment vehicles for their needs. ■

Sangeeth Sewnath is deputy managing director at Investec Asset Management.

FIGURE 1: USD AND STANDARD DEVIATION OVER TEN YEARS

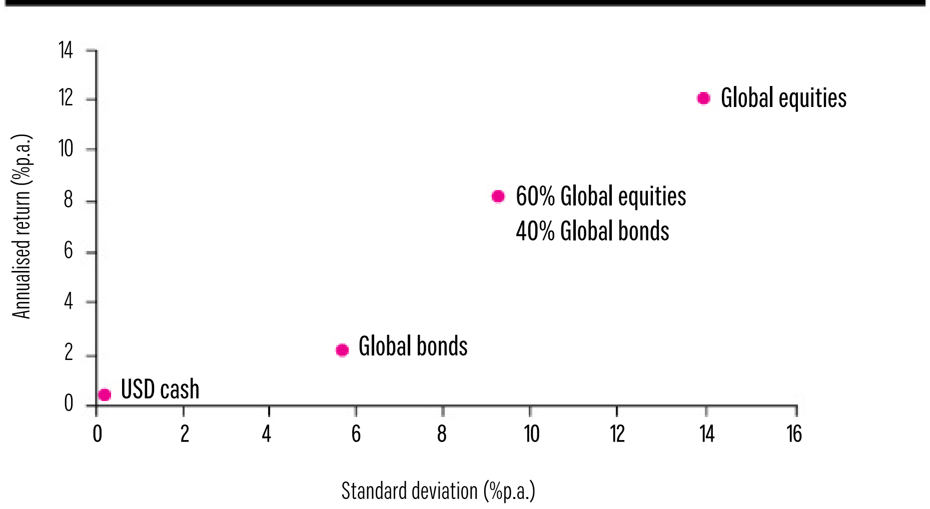
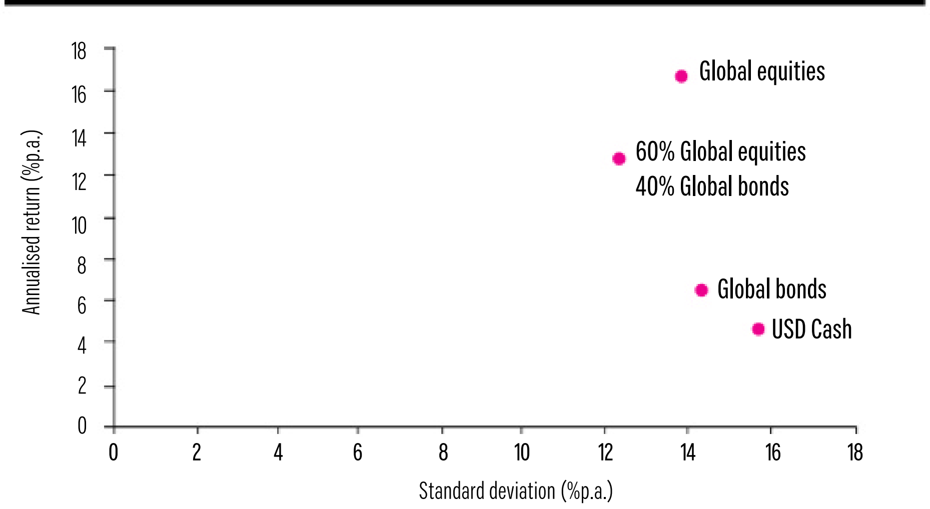


FIGURE 2: RAND RETURNS AND STANDARD DEVIATION OVER TEN YEARS



SOURCE: Morningstar and Investec Asset Management calculations. As represented by ICE BofAML USD Overnight Offer TR USD; FTSE WGBI USD; 60% MSCI ACWI, 40% WGBI; and MSCI ACWI NR USD respectively over ten years to 31.03.19.

By Leon Kok

LOCAL GROWTH

Why South Africa should be front of mind

Despite the domestic challenges we face, Old Mutual Investment Group's chief economist, Johann Els, believes the average investor should be overweight SA in a balanced portfolio.

SA has hobbled along in a pitifully low-growth/no-growth condition during the past decade, hasn't meaningfully participated in a strong global economy, and has been seriously hampered by political and policy uncertainty.

Old Mutual Investment Group chief economist Johann Els talks about the prospects of breaking out of this gridlock.

What are SA's economic and investment prospects for the next five years?
Much better than the past five years. It's fair to expect an average 2% to 3% growth annually in the next two to three years and possibly even better on a five-year view.

Your base case?
A supportive global economy, the positive election outcome, a stronger pro-Ramaphosa Cabinet and a commitment by government to introduce significant changes. Add to that inflation is expected to remain low into 2020; interest rates are likely to remain unchanged; and a more stable rand over the next two years that could surprise on the upside in the short term.

Johann Els
Chief economist at Old Mutual Investment Group

Surely domestic political uncertainty and instability remain major headwinds?
They can be, but I do believe that the recent election should stabilise confidence. Besides, there has been progress on various fronts during the past 15 months, transparency has improved, and there seems to be a renewed willingness to deal with corruption and the like. Healthy democracy and a strong judiciary have been major bulwarks.

As the Stellenbosch University Bureau of Economic Research confidence survey has shown – particularly the "political constraint" question posed to businesses – there is a strong correlation between economic growth and confidence. For example, between 2002 and 2010, growth was at its strongest with little concern about politics. And between 2010 and now, it has been the exact opposite. But yes, we have a long way to go to get back to where we were in, say, 2005.

Given your aforementioned assessment then, one has to assume that you're confident that meaningful change is in the offing?
Correct. I believe that the new administration can be expected to be more responsible in its policies and will focus on building confidence to get growth going. However, it is faced with a long 'to do' list, ranging from decisive action on Eskom to addressing investor-damaging statements and policies such as prescribed assets, Reserve Bank independence, and land expropriation.

Also requiring serious attention are government gross debt and the budget balance. The former, currently around 57% of GDP, is at its highest since 1960, while the latter has been completely out of control since the financial crisis. Current interest payments on debt alone now amount to R202bn a year! A big part of the expenditure is the public sector wages bill which, together with debt-servicing costs and social grants, now constitutes 60% of government spending. This is unsustainable.

Your projected inflation metric?
Recent price pressures have been deflationary in a weak economy and interest rates for the most part will remain unchanged in the foreseeable future. The average inflation rate this year will be about 4.4%.

SA's real GDP is currently pretty dismal relative to emerging markets, advanced economies and the world at large. Your comments?
You are right. We missed out completely on the global economic recovery following the 2008/09 crisis because of mismanagement domestically. We've had two technical recessions in the past four years and could even be setting ourselves for yet another this year, given the economy's decline by 3.2% during the first quarter.

Your position on the rand?
With the US not hiking interest rates anymore and the dollar weakening, that should be good for emerging economies and for the rand. Coupled with sound domestic policy playing out, my forecast of the R/$ rate at the end of this year is R13.20 and at the end of next year R13.75. But I wouldn't be surprised if we see something close to R12.00 in the short term.

Do you think that the global economy will be supportive of corrective policies domestically?
Yes. Global growth is slowing, but the overall mix is better. Quarterly annualised growth rose from around 2.1% in late 2015 to well over 3% last year, and has dipped to about 2.8% since then. We are looking to slower growth in the US; a weaker US dollar this year will be good for emerging markets and SA; the eurozone is slower but should gradually improve; and China remains stimulated with Germany linked to it in terms of export growth. A dark horse remains a full-scale trade war or whether there'll be some sort of agreement. I expect the oil price to be $65 at year-end and $70 at the end of next year.

Your response to those wishing to take most of their assets offshore?
I think it would be unwise. I'm certainly overweight SA on a three- to five-year horizon. Returns will be better. I prefer SA government bonds in the short term over equities, but the environment should gradually improve for local equities as reforms – and thus growth – unfolds.

Ideally, the average investor should be overweight SA (or underweight global exposure) in a balanced portfolio on, say, a three- to a five-year view. Naturally, it should be appropriately diversified. In the short term I believe bonds will outperform, given the lower inflation, the Reserve Bank not significantly cutting interest rates, the positive news around politics, and investment agency ratings being on hold. ■

By Christo Lineveldt

RETIREMENT SAVINGS

The choices investors will face at retirement

There are a number of crucial things to consider when it comes to structuring a retirement savings portfolio. Key is ensuring that you select a conservative income rate early in retirement.

Investors are likely to save towards their retirement nest egg over multiple decades. Therefore, by the time they retire it may well be the single biggest asset on their balance sheet. What investors end up doing with this pot of money is one of the most critical financial decisions of their lives, as their decisions will determine their lifestyle for the next 25 to 30 years.

Whether or not investors decide to take a portion of their retirement savings in cash, the balance of their investment must be used to purchase an annuity that will pay them a retirement income for the rest of their life.

Retirement savers currently have two main options from which to draw their post-retirement income: a living (market-linked) annuity or a guaranteed (life) annuity underwritten by a life insurance company. Both products have their own set of advantages and limitations. One of the biggest differences is that, in the case of a guaranteed annuity, your income is guaranteed for life, while a living annuity offers no income guarantee but greater flexibility and the potential for capital growth.

Many investors choose to transfer their retirement savings to a living annuity (as opposed to a guaranteed annuity), as it comes with various advantages. However, choosing the living annuity as your retirement income vehicle comes with the most challenging of investor needs: balancing the needs of today (drawing an income) with those of the future (achieving long-term growth).

To ensure that investors can sustainably draw a certain level of income throughout their retirement years requires them to invest in an appropriately constructed portfolio and then to select a conservative income rate early in retirement. Drawing too high an income at the start of retirement and/or expecting too high an investment rate of return is as dangerous as investing too conservatively or too aggressively.

Once their living annuity plan is in action, they should carefully moderate the amount of retirement income they draw in response to the performance of their underlying investment. By applying a few spending rules with the assistance of an independent financial adviser, such as dynamically adjusting their income drawdown rate in response to returns, retirees can ensure capital preservation; in other words, first earn the returns before spending them.

Making the most of your living annuity

Investors early in retirement should seek funds that allow at least 50% of the portfolio to be invested in growth assets. But your living annuity's underlying investment fund also needs a strong focus on risk and reducing the likelihood of potential negative returns over shorter time periods – this is important because you will be drawing a regular income from the fund.

Coronation Capital Plus, our flagship living annuity portfolio, is designed and managed specifically for retired investors who need to draw an income from their investment over multiple decades. Capital Plus invests in a reasonable amount of growth assets – typically ranging between 40% and 70% of the portfolio – to achieve returns ahead of inflation. However, given that investors also need to be drawing a regular income from the fund, Capital Plus has a strong focus on risk and potential negative returns over shorter time periods.

Over its history, the fund has achieved a positive rolling 18-month return

95%

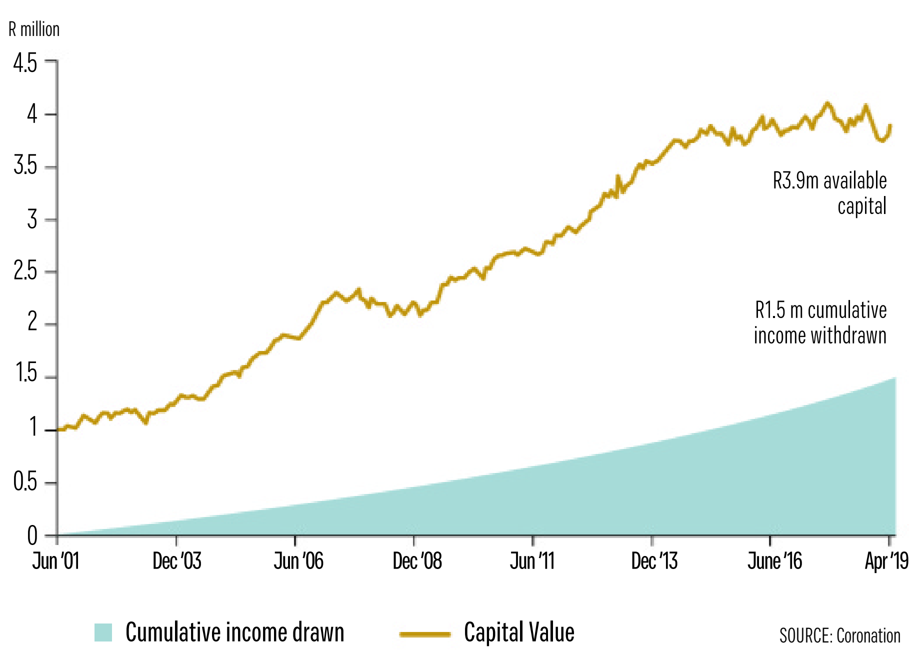
of the time (with the only negative rolling 18-month return period coinciding with the financial crisis of 2008).

Since inception in 2001, this approach has worked well, with Capital Plus having produced a nominal after-fees return of 11.9% per annum (or 6% per annum in real terms) as at end-April 2019. Over its history, the fund has also achieved a positive rolling 18-month return 95% of the time (with the only negative rolling 18-month return period coinciding with the financial crisis of 2008).

The graph below demonstrates how, in the fullness of time, the benefit of having reasonable exposure to growth assets becomes clear for income-drawing investors. Let us assume you retired in July 2001 when the Coronation Capital Plus Fund was launched and invested R1m worth of retirement savings into the fund through your living annuity. If you started to draw 5% per year and allowed your annual income to increase in line with inflation of roughly 6% per year, you would have withdrawn a cumulative R1.5m over the almost 18-year period as income – an amount that is greater than your initial investment amount of R1m. However, by investing in Capital Plus, your initial investment would have grown to more than R3.9m. ■

Christo Lineveldt is an investment specialist at Coronation.

CORONATION CAPITAL PLUS FUND PERFORMANCE*



**For detailed fund performance information of Coronation Capital Plus, please refer to the minimum disclosure documents on www.coronation.com.*

By Leon Kok

FIXED-INTEREST INVESTMENTS

Where you should invest is a 'no-brainer'

Although global equities have done incredibly well during the past decade, this is unlikely to remain so indefinitely. And there are great high-yield, lower-risk investment options here at home.

Chat to the average South African high-net-worth and/or retiree investor these days and you're likely to find him or her pretty skittish about their investments. The reasons are well-documented.

They're nervous about domestic and international equities, property and even fixed-interest instruments.

No need, however, to be overly despondent. An excellent opportunity for many is provided by Philip Bradford's Sasfin BCI Flexible Income Fund, which returned an average 12.06% a year for the past three years, compared with 7.94% of its 59 peers over the same period.

In December it won the Raging Bull Award for the best South African interest-bearing fund on straight performance over three years and was rated the best South African multi-asset income fund on straight performance over the same period.

Compare this to the top-five SA general equity funds, which returned an annualised average of 8% to 9% over five years to December 2018 (negative in real terms). Several funds in this category dished up negative returns in nominal terms over the same period.

The Sasfin Flexible Fund was launched in July 2015 and currently has R1.15bn under management.

It's focused on providing investors with a high level of income, while preserving capital. It does this by investing in high-yielding asset classes, such as different types of bonds (government, corporate and inflation-linked), and other lower-risk income assets.

It's suitable for the conservative investor seeking a high-yield, lower-risk investment that provides a regular income.

Bradford, a chartered financial analyst (CFA) charterholder, and a past president of the CFA Society of SA, joined Sasfin in 2014 and is currently its chief investment officer (CIO).

Bradford's cutting edge over his peers is that as group CIO he is well-focused on all asset classes, and actively manages the interest rate and credit risk in his fund. Typically, it has approximately half the duration of the All Bond Index. And he doesn't invest in property or equity.

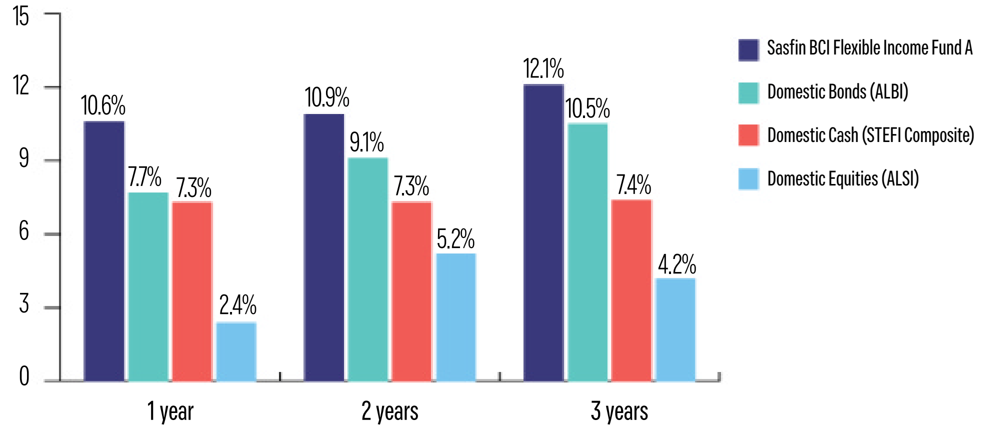
Other attributes are that he is backed by an experienced and agile team; the fund boasts considerable flexibility; it's focused 100% on rand-denominated returns; and it's one of the few teams that invests in fixed-rate bonds. Most of its competitors invest in floating rate bonds.

Currently, the fund is 50% invested in fixed-rate investments, 50% in floating rate investments and cash, with corporate exposure (such as investments in banks and insurance companies) comprising 65%. This amounts to a pretty secure portfolio.

"What you're relying on is institutions that you're lending money to being around in 20 years' time", says Bradford. "Therefore, we are very cautious when selecting investments for the Sasfin BCI Flexible Income Fund.

"We also have some exposure to safe, government-guaranteed bonds, and I am confident that these will be adequately serviced for many years to come."

SASFIN BCI FLEXIBLE INCOME FUND PERFORMANCE*



*As at end-May 2019; returns are net of fees.

SOURCE: Morningstar

Unlike 10 or 15 years ago, yields of around 11% are currently possible from some of the longer-dated bonds and are extremely attractive, he points out. "What's particularly significant in the broader picture is that today bonds are giving you up to four percentage points more than in the past when interest rates were significantly higher.

"In fact, the entire global interest rate environment is a lot lower than a decade or two ago. Before the financial crisis you got 6% in the UK in cash, and in the US about 5%. However, today those same rates are between 0% and 2%. And, going forward, you're likely to see continued lower rates in those markets," he says.

"That makes interest rates in SA very attractive at present (especially to foreigners). We are a lot riskier than prior to the financial crisis, given the amount of debt that we have taken on, but our yields are also much higher."

"Before the financial crisis you got 6% in the UK in cash, and in the US about 5%. However, today those same rates are between 0% and 2%."

Bradford concedes that global equities, especially in the US, have done incredibly well during the past decade, but believes it highly unlikely that this will remain indefinitely. "We are unlikely to see double-digit returns again from global equities for the next five to ten years.

"Which brings us back to fixed-interest investments in SA with yields of up to 11% locally and with inflation currently at 4.5%, this is an excellent real return with a very high degree of certainty. It's a no-brainer where you should be investing, particularly in a pension fund".

A further sweetener, says Bradford, is that SA is "very well-placed" relative to its emerging market peers. "Our bond yields have largely priced in a downgrade which therefore creates an opportunity for investors.

"In fact, it's a crazy situation across the board analogous to a horse race, where you're offered the same or better odds on the favourite as the outsider. In other words, at the moment I'm able to generate very high returns from lower-risk investments, with a high degree of certainty and much lower capital risk," he says.

"And where investments that provide certainty of cash flows and certainty of capital are generating the kinds of returns you'd normally get out of equities, again, it's a no-brainer where you should be investing. In fact, this is a fantastic opportunity for investors looking for high returns and/or are risk averse". ■

By Leon Kok

FLEXIBLE FUNDS

Guarding against long, hard winters

Now that we are settling into a post-election environment in South Africa, there are some important investment decisions to make, and flexible funds are worth exploring.

Now that the election in SA is behind us and we've been assured of a more business-friendly environment and the addressing of serious blights such as state capture and corruption, it's arguably time to get back to serious investment planning again.

However, as I've warned previously, the need remains for the average high-net-worth investor to have between 30% and 50% offshore exposure, irrespective. Reasons are well-documented locally and include that from time to time growth elsewhere may be stronger than here; the benefit of exposure to prominent international stocks and opportunities not available in SA; and Regulation 28's 30% limit of offshore exposure on pension funds may possibly be too constraining for many.

Moderate-risk categories worth exploring, I believe, are quality offshore multi-asset (MA) flexible funds, traditional offshore MA funds, or both, with high levels of capital growth as their prime objective. The flexible funds are particularly suitable for investors wishing to avoid complex asset allocation decisions between equities, cash and bonds in global markets. Most are available inexpensively in rand terms.

Naturally, the asset managers that you choose are key to your success. As the accompanying box partly shows, there are several top operators in SA ranging from BlackRock to Coronation, Investec, Marriott and PSG.

Among the top outperformers during the past five years have been Northstar Global Flexible Fund with an annualised 22.46% return, ABSA Global MA Fund of Funds (FoF) on 22.3%, and Marriott International Growth FoF 21.3%.

Northstar is managed with a bias towards global equities due to the superior long-term returns from this asset class. If prospective returns from equities are unattractive, exposure to other asset classes such as real estate, bonds or cash are increased. Some 65% of its exposure is to the US, followed by the UK at about 18%.

The ABSA Global MA FoF is actually a low-equity global multi-asset FoF partnered with prominent UK asset manager, Schroders. London-based, the latter is spread across 41 offices in 27 countries and is responsible for the research and analysis to ensure exposure to the best available opportunities globally.

The R872m Marriott Worldwide FoF is associated with Old Mutual and operates out of Ireland and the Isle of Man. It's designed to maximise income growth as well as capital growth and has a high exposure to equities.

Its smaller R247m associate, Marriott International Growth FoF, is also heavily weighted to equities with exposure to the US 49%, UK 22% and Europe 21%. The registered name in SA is the Marriott First World Equity Feeder Fund.

TOP FLEXIBLE FUNDS IN SA

PROMINENT FUNDS	ONE YEAR ANNUALISED	THREE YEARS ANNUALISED	FIVE YEARS ANNUALISED
WORLDWIDE MULTI-ASSET FLEXIBLE			
Northstar Global Flexible	13.48%	5.04%	22.46%
Coronation Optimum Growth Flexible	16.72%	5.32%	17.64%
Marriott WW Flexible	7.6%	2.43%	17.56%
GLOBAL MULTI-ASSET FLEXIBLE			
Marriott International Growth FoF	10.32%	4.38%	21.30%
Bridge Global Managed Growth FoF A	8.49%	3.03%	19.65%
Nedgroup Investments Global Flexible FoF	10.51%	1.56%	15.78%
GLOBAL ASSET HIGH EQUITY			
Nedgroup Investments Core Global FoF	10.6%	2.2%	15.75%
Coronation Global Managed	4.89%	9.52%	15.21%
Investec Global Strategic Managed FoF	5.06%	10.66%	12.63%
Momentum International Balanced FoF	9.9%	(0.28%)	12.08%
GLOBAL ASSET LOW EQUITY			
ABSA Global Multi-Asset FoF	7.90%	8.23%	22.3%
Coronation Global Capital Plus FoF	7.83%	2.91%	17.57%
PSG Wealth Global Preserver	8.90%	3.89%	17.34%
Prudential Global Inflation FoF	8.42%	1.37%	13.68%

SOURCE: Stanlib weekly performance figures, May 2019

However, as I've warned previously, the need remains for the average high-net-worth investor to have between 30% and 50% offshore exposure, irrespective.

I've always respected Coronation's suite of offshore funds, which generally perform well across the board. These include the Optimum Plus Flexible Fund with an annualised 17.64% on five years, the Global Capital Plus 17.5%, and the Global Managed 15.2%.

Another well-designed FoF in the lower-middle risk range is PSG's Wealth Global Preserver FoF which has produced an annualised 17.3% return on five years. It's designed to provide relative capital stability and maximise returns through income portfolios by investing in a diversified range of global high-income and interest-bearing funds.

These include equal exposure of about 19% each to the Investec Global MA Income Fund, PIMCO GIS Strategic Income Fund, Schroder ISF Global MA Income Fund, BlackRock Global MA Income Fund, and Fidelity Global MA Income Fund. All these incidentally are about as good as you'll get in the global income fund space. ■

By Simon Brown

Simon's stock tips

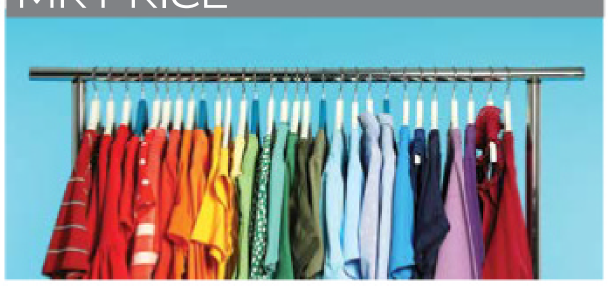
Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column he provides insight into recent market developments.

STEFANUTTI STOCKS

Waiting on the economy

Horrific results for the year to 28 February from Stefanutti Stocks as the construction sector continues to suffer a slow death. The group is actually cash-generative and holds cash of R880m, down from R915m. Revenue was off only 5% but diluted headline earnings per share (HEPS) swung from a profit of 61.29c to a loss of 70.12c. Furthermore, current liabilities exceed its current assets by R301m, which simply means the group could go under anytime soon. That said, Stefanutti has survived thus far, and I have added the stock to my watch list for when we start to see real economic recovery in SA. The country is going to be short of quality large-scale construction companies and if Stefanutti survives, it'll start making record profits. But I stress: watch list – not buying. They could still go broke. And any economic recovery looks a while off.

MR PRICE



Going backwards

Mr Price results for the 52 weeks to 30 March 2019 show a quality operation struggling. Diluted HEPS was up 6.2% on the back of an increase of 4.4% in retail sales. Same-store revenue was up only 1.6%, but with product inflation coming in at 5.1% it means they went backwards. What I do appreciate is the comment about the "withdrawal of financial support to the Australia operations". This adventure has not been a success and they're exiting sooner rather than later. I have previously written about large bets going horribly wrong, but if management insists on trying its hand at offshore expansion, at least admit to the error and exit sooner rather than later.

FAMOUS BRANDS

A sign of management confidence, but...

Famous Brands'* results for the year to end-February show that things are improving in its UK division. Yet, it's still losing money. Signature brands are now struggling, and margins are being squeezed. The second half of the financial year was tougher than the first. Management does say that trading since the February year-end is improving, albeit slowly. What was noteworthy was the reinstatement of the dividend, even if modest at 100c. After the initial takeover of Gourmet Burger Kitchen in the UK, dividends were suspended in order to pay off the debt quicker. Management had previously stated that when the "short- to medium-term gross-debt-to-ebitda (earnings before interest, tax, depreciation and amortisation) ratio" was under two times, they'd bring back the dividend. It hit 1.97 times in these results. So, while the theory is that the dividend shows management confidence, the risk is that they backed themselves into a corner with the promises.

LIFE HEALTHCARE

A sector bound to hurt

Regular readers will know of my dislike for medical stocks due to regulatory pressure on pricing. Life Healthcare is again suffering, and again with its Polish operations. The initial operation was significantly written down shortly after the 2015 financial year acquisition and now the Polish government (the main customer of the Polish operations) is again looking to squeeze the price that Life Healthcare can charge. This plays directly into two of my themes: large deals and the medical sector. I like neither and both are hurting here.

RENERGEN

Small, but interesting

Renergen's share price has been moving higher. The company has now concluded a secondary listing on the Australian Stock Exchange (ASX) raising AU$10m. Recent results for the year to end-February show a very small business operating in renewable energy with very little revenue and lots of corporate activity (selling assets, listing on the ASX...). But it raised money to develop helium and liquefied natural gas and this is very interesting. Helium is a finite resource and a strategic reserve in the US. Furthermore, supplies are running low, with US-listed Party City reporting shortages impacting their revenue (less helium balloons being sold). But as the price of helium rises (up 135% over the last year) more supply could come on line. Helium is a byproduct of mining other minerals, and Renergen remains some way from producing any. Of course, small resource stocks are extremely high risk. But maybe worth some more digging?

Photos: mrpricegroup.com | Lifehealthcare.co.za

ECONOMY

SA Inc's recovery still pending

The GDP data for the first quarter of 2019 was a horrendous number, coming in at -3.2%. This was in large part due to load shedding and consumers being under pressure. Adding to these woes was the agriculture sector's contraction of some 13.2%. Agriculture is often a lumpy number that can be impacted by late or low planting and drought. But spin it however you want, it's a horrific number that means we'll struggle to get GDP above 1% for 2019 – and that's if we assume no (or very little) load shedding for the rest of the year. So, while I have been waiting for the SA Inc recovery, it's not going to get going with any verve this year, unless we see some significant improvements in the economy. But, frankly, in the short term I can't see what that would be. That said, investing is about individual stock-picking, and quality and offshore earnings will remain the focus for now.

PEMBURY

Ouch!

The Pembury initial public offering was a disaster of a listing. Starting at 100c just over two years ago the company was suspended for some seven months and now trades at 6c on a renewed mountain of bad news. The chief financial officer has quit, monies from the sale of Mellow Oaks Property were spent by the group instead of being handed over to the property vendor and then they defaulted on the loan for the monies. Then they issued a Sens responding to *Carte Blanche* requesting an interview with the CEO. This was all announced in a three-day period and indicates the level of troubles they have. I never liked the business and if you're left holding any of the shares, sell them while you can.

Photo: Shutterstock

STANDARD BANK

Modest gains

Standard Bank has started its process of branch closures. A total of 104 branches are set to close. This will leave Standard Bank with around 525 branches while the other large banks have over 600 each. I expect we will see some of the other large banks closing branches too as they try to cut costs and move clients to more economic online channels. This naturally helps with the cost base, albeit many branches being closed are rural and thus cheaper to run in terms of staffing and rentals. Importantly, while Standard Bank is going ahead with the closures in one fell swoop, the benefit to the bottom line will be modest as other costs rise and profits remain stuck in low, single-digit growth. That all said, the large banks are currently cheaply priced. But with GDP growth struggling for now, dividends are how you are going to make most of your returns rather than through increases in stock prices.

With GDP growth struggling for now, dividends are how you are going to make most of your returns rather than through increases in stock prices.

SHOPRITE

Shareholder power

Shoprite* has announced that shareholders representing 15% of shares, excluding those held by Christo Wiese, have objected to the proposed deal to bail Wiese out by buying his non-economic yet high-voting shares. This 15% was the threshold for the board to withdraw the proposal, so they have done so. The deal would have cost shareholders over R3bn. While I could see the benefit for Wiese, there was zero benefit for existing shareholders and I for one am glad that the deal has been cancelled. Hopefully this is the last of it.

The deal would have cost shareholders over

R3bn.

While I could see the benefit for Wiese, there was zero benefit for existing shareholders.

OMNIA

Trust lost

The sudden exit of Omnia chairman (and previous CEO) Rod Humphris has further spooked the stock. He was a board member for 20 years. The unexpected announcement of a R2bn rights offer (after promising in April that it would not be necessary) has already shocked the market. Now Omnia will be undertaking this issue without Humphris. The share currently trades down at 2006 price levels. I expect more weakness ahead, especially seeing as we don't as yet have pricing details for the rights issue and the company has lost the market's trust. ■

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**The writer owns shares in Famous Brands and Shoprite.*

By Peet Serfontein

OUTLOOK

A-Z of Alphabet's share price

Google's holding company, Alphabet, is under pressure after rumours of a competition investigation by US authorities. However, this is not necessarily bad news for its share price.

Alphabet Inc., which is listed on the Nasdaq, is the holding company of, among others, Google, which in turn owns internet products such as Google Ads, Android, Chrome, Google Maps, Google Play and YouTube.

Very early this month, Alphabet came under fire after rumours that the US department of justice (DOJ) would institute anti-competitive investigations into Google.

Incidentally, it would also appear as if the DOJ is going to extend its investigation to other shares that form part of the so-called "FAANG" shares (Facebook, Apple, Amazon, Netflix and Google).

Speculation regarding the outcome of these competition investigations has led to a sharp drop in the share prices of these companies.

One should, however, keep in mind that should any of these companies be found guilty of breaking any of the competition laws and then being fined, they can easily pay these fines.

However, when investors become worried about a possible reduction in turnover growth, things become problematic.

Google's business practices were also investigated by US authorities in 2013, but it was decided at the time to end the investigation as these practices could "probably" be justified as being innovations to its products. At the time, Google made voluntary changes to its business practices.

Where is Alphabet's share price heading?

Alphabet is currently trading at a price-to-earnings multiple (P/E) of 25.3. However, the one-year estimated P/E is 20.8, which implies that analysts are expecting increased earnings. The current average earnings per share is $11.11.

Downside momentum remains evident in the price action and supports the current bear trend. See the bottom panel of the graph with the black line and downward pointing red arrow. This technical indicator is the Coppock curve of the share and indicates momentum.

The first sign that this downward momentum is beginning to slow down and forming a trough will be an indication to invest in the share.

Should the downward momentum continue, Alphabet could easily reach a level of $1 000/share. At this level, the share will be trading at the lower end of the two standard deviations, which will then increase the probability that the share will undergo a correction. Therefore: A price close to this level indicates a fair buying point. (The standard deviation is determined statistically and indicates how the price of a share varies or is spread around an average. The general rule is that prices will, over time, trend towards the average price. In the case of Alphabet, this average is currently around $1 135.)

The general rule is that prices will, over time, trend towards the average price. In the case of Alphabet, this average is currently around

$1135.

But should you buy?

Alphabet's medium-term trend is moving towards bear territory, so we can expect that the speculation surrounding the outcome of the competition investigation will continue to hang like a dark cloud over the share. So be careful.

At the moment the share is close to a support level of around $1 020. Furthermore, the share is currently close to being overbought and it seems to be a good entry level. But first wait for more technical confirmation. One of these is that the downward momentum should disappear and that the trend should change to bullish. But hasty climbers have sudden falls.

Should the price break through the $1 000-level, it could spell major problems for the share. It has happened before that shares move through three standard deviations. Remember that $1 000 is just the second standard deviation.

The opposite can also happen and it could consolidate between $1 000 and $1 100. The trading strategy is to buy as close to the support level of $1 000 as possible and increase positions when the share breaks through the resistance level of $1 100. Momentum should therefore support the bull trend.

Another resistance trendline will be above $1 135 (the average) and a breakout through the upward potential to $1 250 then seems possible. At these levels the price will, however, already be close to overbought levels and a possible correction could follow. This will then serve as an indication to take profits.

However, should the price drop to below the support level of $1 000, it could easily fall to $975 and even $900. Then you should stay away until the share once again shows signs of a bull trend. ■

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Peet Serfontein is a director of Phoenix Investment Analytics.

Photo: Shutterstock

ALPHABET SHARE PRICE MOVEMENT

52-week range:	$977.66 - $1 296.97
Price/earnings ratio:	25.76
1-year total return:	-6.29%
Market capitalisation:	$747.47bn
Earnings per share:	$41.70
Dividend yield:	-
Average volume over 30 days:	2 025 305

SOURCE: IRESS

4½ THREATS TO SOUTH AFRICA's ECONOMY

Now that we are finally past the 8 May election, all eyes are firmly on the path forward. But a number of local and global threats could hinder our economic recovery.

By Lloyd Gedye

Peter Takaendesa
Portfolio manager at
Mergence Investment Managers

Global stock markets lost $2tr in the month of May, as the growing trade war between the US and China continues to rock business confidence. At the same time the US threatened to apply tariffs on goods originating from Mexico, but later decided against it. For now.

South Africa, with its open economy and volatile currency, is a deer in the headlights. Still staring down the barrel of further ratings downgrades, the country recently reported a 3.2% contraction in its GDP for the first quarter of 2019 – the worst contraction since 2009, following the 2008 global financial crisis.

After the release of the first-quarter GDP numbers, the rand slipped by as much as 2% at one stage.

It has since recovered somewhat.

South Africa appears to be getting its house in order, says Mergence Investment Managers portfolio manager Peter Takaendesa. But only just in time to find the global environment deteriorating.

"The country has begun the turnaround," argues Takaendesa. "It's in motion, but the headwinds are strong."

The ANC has added to the turmoil, with contradictory statements about whether it has or has not resolved to expand the Reserve Bank's mandate to include job creation and is considering quantitative easing to deal with government debt.

It's a nervy time for investors. But which risks to the local economy should really be front-of-mind?

Photos: Shutterstock | Archive

Photo: Shutterstock

THREAT ONE: TRUMP'S TRADE WARS

US President Donald Trump has declared the word "tariff" a beautiful word. After the month of May, many investors around the world probably see things in a very different light. During May, Trump raised tariffs from 10% to 25% on $200bn of Chinese goods imported to the US.

This brings the total of Chinese goods subjected to 25% trade tariffs to $250bn.

The remaining $300bn in Chinese goods imported into the US is currently the subject of a proposed 10% tariff. Goldman Sachs suggested in an investor note released on 2 June that there is a 60% chance of this 10% tariff realising, up from a 40% chance previously.

The Chinese have responded tit for tat. In mid-May, after the trade talks broke down, China announced tariffs that would affect 5 140 US products, worth $60bn. Of this number, 2 493 products were subjected to tariffs of 25%, with tariffs of between 5% and 20% on the rest.

China has a remaining $10bn of US imports to levy tariffs against, according to Reuters, but has threatened that it could limit the export of rare earth metals to the US and has suggested the creation of a blacklist of "unreliable foreign companies".

The Chinese have alleged that the US has a never-ending and ever-changing stack of demands. US officials have denied this, blaming China for the stall in trade talks.

Either way, the trade dispute has rocked global markets.

Donald Trump
US President

Jesús Seade
Mexico's deputy foreign minister for North America

Economists are claiming that Trump is impossible to forecast and that it is now clear that the market has been far too optimistic about the trade war being resolved.

Global markets enjoyed a considerable rise in major indices in 2019 up until May, mainly due to an overall view that a trade deal between the US and China would be reached, says Michael Porter from Unum Capital.

"In the last two months the trade tensions between the US and China have escalated and as a result markets are well off their highs," he says. At the time of writing, "the S&P, All Share and UK FTSE 100 are still up 9.48%, 6.38% and 6.55% year-to-date respectively".

Porter says this is still "positive", but well off the highs. "The risk currently is that, should these trade tensions continue or escalate, the risk to the downside is a very much real risk to global markets," he says.

Trump appears keen to double down and in May also threatened to open up a trade war with Mexico. He threatened the country with a 5% tariff on all goods imported from Mexico into the US, if it doesn't address US migrations concerns. He has since decided against it, but warned that tariffs remained a possibility.

Mexico exports 80% of its goods to the US, according to Reuters, and is a major agricultural supplier to the US. Any tariffs could therefore potentially increase food prices in the US. Mexico also exports cars, toys and cellphones to its northern neighbour.

Mexico's deputy foreign minister for North America, Jesús Seade, told Reuters that, in the case of tariffs, the most logical response would be an "eye for an eye", but suggested that a trade war with the US was "the last thing" Mexico wants.

The Trump-related uncertainty created in global markets acts as a dampener to growth, says Porter. He describes the trade war as a "lose-lose situation for global markets".

"Remember that [Trump] is up for US elections next year, so this can still continue for some time."

Emerging markets are sure to suffer the most as a result of these global trade wars, and South Africa, with an open economy, is no different, says Takaendesa. "When elephants fight the grass gets hurt."

Ashburton Investments fund manager Nico Els agrees, adding that there is nothing that the South African government, for example, can do to buffer itself against the fallout of the trade war.

"There are lots of concerns about the trade wars," says Els. "Fears of a global recession are piling higher and higher every day."

Developments around Brexit and the US/Iran conflict in the Middle East are adding to the turmoil, explains Els.

He says this is not good news for the South African economy, which needs a stable global environment to prosper.

South Africa will feel the impact in rand volatility, according to Takaendesa.

One place where South Africans will experience the direct impact is at the fuel pumps. Takaendesa explains that the dollar-oil price normally decreases when the global economy is suffering. However, the fuel price in South Africa usually goes up during periods of tough global conditions as the impact of a weaker rand tends to be more significant than the decrease in global oil prices.

Porter says trade wars definitely have a negative impact on an emerging market's currency.

Higher fuel prices in SA will likely also result in a rise in inflation locally due to the knock-on effects on logistics and food prices, he says.

"The consumer will come under more pressure; this will impact the country's growth, which already saw a shocker contraction in the first quarter of the year," says Porter, warning that "two negative quarters will put us under a technical recession."

The retail industry will suffer as the consumer will spend less, he says, while insurers and asset managers – who invest heavily in the markets – will also be negatively impacted.

Takaendesa expects the local impact of a prolonged trade war to be concentrated in the exporting sectors of the economy, as well as "autos and mining". This is especially true if the trade barriers "combine with weaker growth in our trading partners".

He says that all sectors of the equity market will be affected if the trade wars result in a material slowdown in global growth. However, cyclical sectors will suffer more than the defensive sectors.

Photos: Gallo/Getty Images

"The consumer will come under more pressure; this will impact the country's growth, which already saw a shocker contraction in the first quarter of the year."

THREAT TWO: ESKOM'S DEBT

The South African Reserve Bank's (Sarb's) financial stability review released at the tail-end of May flagged government's deteriorating finances and exposure to fragile state-owned enterprises (SOEs) debt as a key risk to the country's financial sector.

It stated that this risk is one of the "main potential determinants" of further ratings downgrades and suggested that the chance of the risk around SOE debt materialising within the next 12 months is high. (Also see 'threat four'.)

The Sarb is forecasting that the state's contingent liabilities will increase from R879.6bn to R1.02tr by 2020/2021. Eskom currently accounts for R529.4bn in government guarantees.

In May, Sarb governor Lesetja Kganyago publically flagged the effect that an Eskom default would have on the economy.

The International Monetary Fund (IMF), which recently visited South Africa, has warned that the country's public finances would deteriorate further in the absence of bold decisions to reform the economy.

Ana Lucia Coronel, who headed the IMF team visiting South Africa, said the country's fiscal deficit was set to get worse, with SOEs requiring further support.

"Weak finances and operations of public enterprises, particularly Eskom, represent a major downside risk to growth and the fiscus. Without fundamental reforms in Eskom's finances and operations, continued budget transfers or assumption of its debts by the government will not resolve the company's issues," said Coronel.

"Winter is coming," says Porter about Eskom, which is soon to be leaderless since Phakamani Hadebe's resignation in late May. "I don't see how Eskom will be in a better state in the next couple of months." On the contrary, he says, South Africa is likely to consume more electricity during winter and "Eskom will have a real struggle to meet demand".

"As a result [Eskom] will probably need to borrow more. This in effect gives the assumption that the government will need to bail them out more."

He points out that in the last budget there was already an undertaking to pump a R23bn bailout into Eskom.

"If the Eskom funding issues can be resolved, the risk of load shedding and blackouts will be less," says Takaendesa, adding that maintenance backlogs also need to be addressed.

Els calls Eskom "the elephant in the room".

"We don't understand how big the problem is – how big the maintenance backlog is. There are just so many uncertainties," he says. "Government has to fix Eskom, both operationally and fiscally."

He calls the state's current exposure to SOE debt a "debt trap".

"If you have to raise debt to pay off debt, it means you spend less on capital infrastructure," says Els.

Phakamani Hadebe
CEO of Eskom

Ace Magashule
ANC secretary general

THREAT THREE: LOW BUSINESS CONFIDENCE

The RMB/BER Business Confidence Index sank to "worrying lows" in the first quarter of 2019, declining by a further three points to 28. This is the lowest level since the second quarter of 2017, when it reached 27 index points, RMB/BER said in statement earlier this year.

"Striking in the first-quarter results is how broad-based the weakness in activity has become," it said.

The index can vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100 extreme confidence. It combines five sectoral indices for manufacturers, building contractors, retailers, wholesalers and new vehicle dealers, compiled from surveys conducted with executives in these sectors.

South Africa has suffered from a lack of growth over the last five years and a lack of productivity; getting GDP growth back to 3% or higher should be government's first priority, says Els.

"We have a new president. He has a plan. He has all the tools. It's all about the implementation," says Els. "If you create policy certainty, then business confidence will follow."

Greater policy certainty is especially needed when it comes to land rights and to the Mining Charter, he says. But South Africa also has work to do in terms of the ease of doing business in the country and getting this right is crucial.

Steps towards a friendlier business environment could, for example, include lower data costs, lower port charges and improving competition in all sectors of the economy, says Els.

Over the last decade, South Africa has slipped 48 places in the World Bank's *Doing Business* index. It's currently ranked 82 out of 190 countries.

Takaendesa links the current lag in economic growth directly to low levels of business confidence.

But he also points to the positive steps taken under President Cyril Ramaphosa since he took over from Jacob Zuma. Takaendesa argues that the uncertainty over the Mining Charter and renewable energy policies have been addressed, that boards and executives at SOEs have been changed and a new Cabinet has been appointed.

He reckons that there is already far more policy certainty under Ramaphosa than under former president Zuma. Noise about renewables and the Mining Charter have already eased in the media.

Rising fraud and corruption in both the public and private sectors has also contributed to the state of the local economy, says Porter.

"It's now up to the new presidency office and Cabinet to curb this and implement a new era," he says.

At the same time, there have been increased cases of alleged fraud and irregular accounting related to JSE-listed companies such as transpired at Steinhoff.

Issues of accounting irregularities have also been flagged at a number of other JSE-listed companies. This also dampens investor confidence and needs to be addressed, according to Porter.

Ramaphosa's Cabinet is a "mixed bag"; the market was happy about some appointments and less so about others, says Porter.

"All eyes will now be on them to see how they implement the policies and regain confidence from the people, investors and overall markets."

He argues that the Cabinet's success in mitigating risks to the economy is going to depend on how it implements policy and whether its actions instil confidence in the business sector. Through their actions, the new Cabinet will have to erode the uncertainty that dominates the land issue and land grabs, says Porter.

ANC secretary general Ace Magashule's statement in early June that the party would seek to expand the Sarb's mandate and was considering the use of quantitative easing to deal with government debt, acted against business confidence – even if he was contradicted by a statement from the head of the ANC's Economic Transformation Committee, Enoch Godongwana, hours later.

THREAT FOUR: FURTHER RATINGS DOWNGRADE

The threat of a further ratings downgrade from Moody's is "an important and real risk to our local economy", says Porter.

In May, Moody's warned of a further credit rating downgrade for South Africa (and pointed to Eskom as the main source of this risk). Moody's is the last ratings agency to hold South Africa above investment grade.

"Moody's is yet to downgrade us to a sub-investment grade," Porter says. Should that happen, "we will see massive outflows of bonds and cash out of markets".

A ratings downgrade will also hinder new investments into the country, dampening growth and giving rise to even higher unemployment and a weaker rand, he adds.

A decision on our credit rating will depend on how the South African economy shapes up in the second half of 2019, says Takaendesa. "If the second half shows improvement, there will be no risk of a further ratings downgrade."

Apart from Eskom-related liabilities, another factor that could impact on our credit rating is the SA Revenue Service's struggle to collect the tax income that Treasury budgeted for, says Porter.

"South Africa's debt levels are currently in line with Baa3 peers," says Porter. "However, without a policy response to strong spending pressures, weakening tax performance and slow nominal growth, South Africa's debt burden will increase to over 70% of GDP by fiscal year 2023, a trend that contrasts with Baa3-rated peers."

The IMF warns countries to keep their debt-to-GDP ratios under 70%, says Els. At 55.7%, South Africa isn't there yet, but it will move closer to that mark over the next two to three years, thereby representing an ever-greater threat to the fiscus.

Els argues that South Africa needs to grow its economy out of this debt trap and feels that the threat of further ratings downgrades might be overplayed.

"It's not a deal breaker," says Els. "As long as government is disciplined." ■

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"Without a policy response to strong spending pressures, weakening tax performance and slow nominal growth, SA's debt burden will increase to over

70%

of GDP by fiscal year 2023."

The (almost) tamed threat: Brexit

After three years of uncertainty, Brexit is still on the table in the UK. And still not resolved. As things stand, the UK will leave Europe on 31 October this year, with or without a deal.

One person who is very keen for Brexit to take place is US President Donald Trump, who dangled a big trade deal carrot via Twitter, urging the UK to free itself from the "shackles". He promised Britain a "phenomenal" post-Brexit trade deal.

Mergence Investment Managers portfolio manager Peter Takaendesa thinks that while there is a chance that the decision to exit the European Union could be reversed, it will most likely be pushed through in some form.

But what does it mean for South Africa?

Ashburton Investments fund manager Nico Els says the real test of Brexit's impact on South Africa will be its impact on Europe, and not the UK. "Europe is a big portion of our exports," he says.

Brexit will present less and less of a risk going forward, according to Takaendesa. He argues that the market has already priced in the disruptions that separation is likely to cause.

Therefore, while "the market is discouraged by the whole situation", the business world has already mitigated the risks.

"It would have to be very messy if it was going to have a big impact," adds Takaendesa. ■

Photos: Gallo/Getty Images

SPOTLIGHT

By Anneli Groenewald

It pays to find solutions

An economy in tatters. But executive vice president of Sage Africa and the Middle East says his company has been enjoying healthy growth locally as they help companies reach better efficiencies.

JSE-listed company Sage has close historical links with South Africa, having acquired the South African Softline in 2003, a company that included VIP Payroll and Pastel, and was founded locally by Ivan Epstein and Steven Cohen.

Sage in South Africa now falls under the company's Africa and the Middle East region, headed by executive vice president, Pieter Bensch. But the historical link is still seen on many payslips in South Africa today, where payroll documentation managed on Sage's products may still carry the Sage Pastel or Sage VIP logos. This is because Pastel remains a strong brand within South Africa, says Bensch. Therefore the gradual change to Sage Pastel locally, with Pastel to eventually fall away.

Sage's Africa and the Middle East region includes East Africa, primarily focused on Kenya and Tanzania; West Africa, mostly Nigeria and Ghana; and the Middle East, mainly the seven emirates of the UAE, as well as Saudi Arabia. Bensch says there is a strong focus on growth in these countries.

However, South Africa contributes 90% of the region's revenue. Here, Sage has 500 clients on its enterprise management products – medium-sized and large companies with customers including the likes of Cape Union Mart and Mr Price. The South African market is in the top five in terms of Sage Enterprise Management revenues for Sage, says Bensch.

Yet, he says, there is still huge potential for growth. "We aim to grow this division by 30% per year – in South Africa alone." Adding that, "our ambition is to continue to grow at 30%, or more, indefinitely".

"For Enterprise Management in the rest of the region, in Kenya, West Africa, the Middle East… triple-digit growth. 200%," says Bensch.

Pieter Bensch
Executive vice president of Sage Africa and the Middle East

The differentiator

Sage's biggest differentiator, says Bensch, is its SaaS (software-as-a-service) financial and payroll solutions which allow for rapid deployment and make enterprise-class technology accessible to businesses of all sizes.

Another differentiator is its independent software vendor (ISV) and partner community. By calling on the skills and experience of these independent business partners, Sage can provide tailor-made products to different clients, as those business partners come with specific skills and products for specific client demands.

"We don't try to do all the implementation ourselves. The majority of implementations is indirect, with a business partner."

It is "an advantage that our competitors don't have", he explains. "We're 1 400 employees in South Africa, but the local Sage 'economy' is another 4 000 – counting in all our business partners."

Capitalising on strengths

Sage provides services within three broad sectors. The first is small businesses with zero to ten users. "Small and medium businesses, plumbers and the like," explains Bensch. "And there we have more than 210 000 customers – not users – in South Africa. That's a lot."

The next level of focus is on medium businesses and, lastly, large businesses.

Bensch says in terms of enterprise management, Sage is "really strong" when it comes to providing services and solutions in distribution, manufacturing, agriculture and services. At the same time, he sees agriculture and distribution as two sectors in South Africa that are really ripe for a data-driven revolution. "When you look at what some of the big distribution … and warehouses in South

Africa do with the Internet of Things... And we've got an open platform. We can integrate with them."

Gaining traction in agriculture in South Africa is one sector that "we've missed. Until now," says Bensch, adding that they do already have "most of the agriculture sector on Sage's payroll products".

Now Sage is hoping to start generating customers within the agriculture sector that could benefit from products that they've developed elsewhere.

"It doesn't have to be mega farmers. Sage Enterprise Management can work for a farmer with 20 employees. When you look at the wine sector, you'll find 100 farmers falling into that category."

To gain traction in the local agrisector, one of their business partners in the Middle East, Aritmos, has expanded its office in South Africa.

Aritmos, a Spanish company, developed software for the Abu Dhabi-headquartered agribusiness Al Dahra. Al Dahra has operations in 20 countries, and Aritmos developed and adapted software that helped Al Dahra to streamline it's farming, processing and supply chain management systems.

Growing when the economy isn't

According to Bensch, Sage in South Africa managed to largely escape economic pressures over the last two years. "We're still growing at double digits in South Africa," he says. Over the last year, Sage has, in fact, noticed growth picking up, and he says that is because it is focused on "solution selling".

"We're not selling in isolation. You're selling a solution to the customer."

But Sage has noticed a slowdown in growth in small businesses – "one-man and two-man businesses".

"Let me give you an example. If our telecentre phones a one-man organisation, that owner says: 'I'm busy splitting my budget at the moment... Will I buy a generator, or should I buy software?'

"So, that's tight. But we continue to grow there."

Medium and large enterprises will, however, continue to seek ways to become more efficient, he says.

"If you can get more efficiency in your business, you can save on costs, and you can continue to grow. That's where we are getting traction."

His biggest challenge in South Africa, therefore, isn't lack of growth, but rather a shortage of the right skills that Sage needs locally; specifically development and implementation skills.

Some of Sage's products are developed in South Africa, and Bensch says the company experiences a shortage of skills locally when looking for developers. "And the skill to implement. Our business partners are looking for skills... We're looking for skills..." ■

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Anneli Groenewald interviewed Pieter Bensch at Sage's Enterprise Management Partner Summit in Dubai and attended the event as a guest of Sage.

Photos: Supplied

Pieter and his wife, Alison, after completing a leg of this year's Joburg2C cycling race.

Getting to know Pieter Bensch

Best business advice you ever received?

A senior mentor that I had very long ago told me that I should focus on listening, and the answers will come. Listen to your customer. You've got two ears and one mouth. Listen twice as much. That's what I tell sales people.

Your advice to South African business leaders?

The South African culture is such that we can push through anything. It takes a lot to force a South African out of business. So: How can we use that to our advantage, and to grow business?

Businesses that want to grow should invest smartly. Automate your business. Create a foundation that will allow you to grow. And it's not just relevant in tech – your foundation is in the entire process of your business. Many businesses have grown without having processes in place. When you reach a certain level of growth, it becomes difficult. Then the wheels come off.

Also: Service. Service. Service.

Tell us about your management style?

Open and consultative. I don't see myself in an office. I want to be able to go and talk to people. People must be able to come and talk to me. My job is to solve people's problems and to remove obstacles in their way.

What differentiates a good business leader from the rest?

That's a loaded question! I think a good business leader focuses on customer service. Service first. If you deliver a good service, you'll have that customer for life. And once you've got that in place, you can start charging a premium for your service.

What do you read?

I read business books and autobiographies. Steve Jobs. The most recent one was the book on Amazon's Jeff Bezos. I think we can learn a lot from people who started small businesses and managed to grow them into big ones.

So you read to learn, not to relax?

Yes. If I want to relax, I cycle. [Bensch recently completed the Joburg2C race, covering 900km in 9 days. And it's not the first time.]

What is your favourite holiday destination?

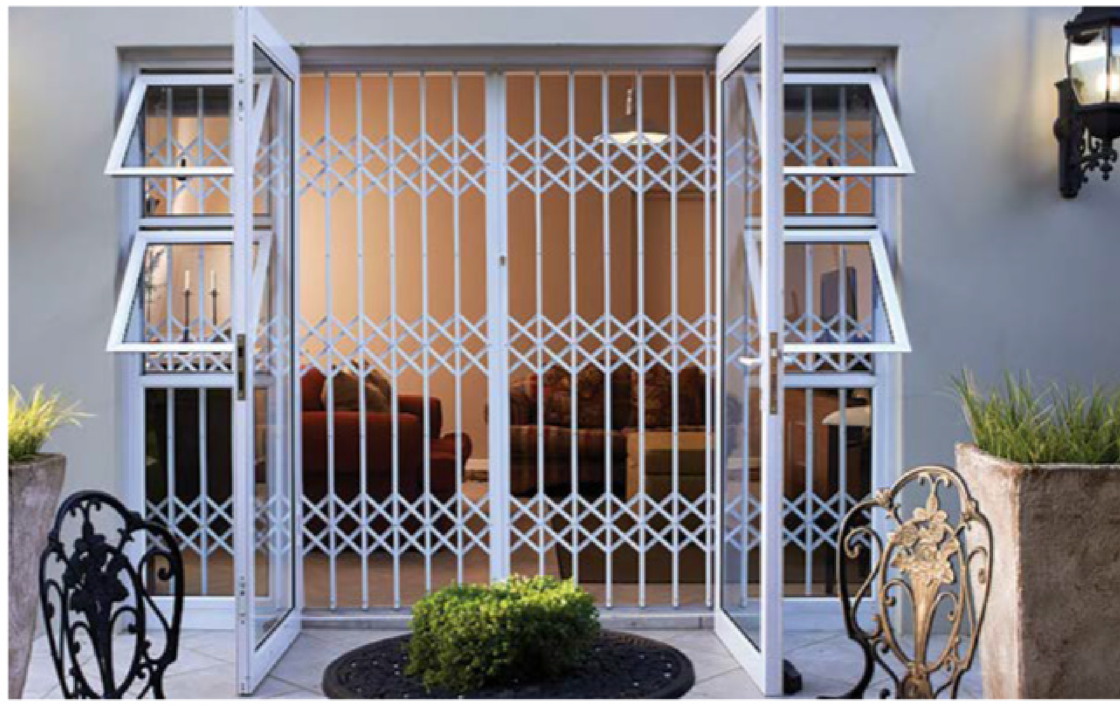
We always try to visit new destinations. Our country is enormous. There are so many places to see. We still haven't seen it all yet. It's difficult to choose between the ocean and the bushveld. It's a toss-up between Paternoster and the Okavango Delta. ■

By Glenneis Kriel

Making the world a safer place

Durban-based security group Trellidor Holdings uses franchising to expand its sales footprint across the globe.

Peter Rawson is the marketing director of Trellidor.



Q&A

Trellidor Holdings made headlines this year after supplying the London Underground with what the British standards body labelled the "most secure retractable gates in the world". The group's marketing director, Peter Rawson, spoke to *finweek* about the group's transformation from a small, family owned business in Durban to an international franchise listed on the JSE.

How did Trellidor start?

Leon Pallace started L&L Metal Finishing in 1976 and designed a trellis-style security gate, called the Trellidor, in the 1980s based on the retractable gates that were used in American lifts. Pallace passed away in a car accident, after which the company was sold to four individual businessmen in 1986. They sold their shares to an investment company in 2002. Trellidor Holdings was listed on the JSE in 2015, comprising the Trellicor (Pty) Ltd and Trellidor Innovations (Pty) Ltd businesses.

When did you get involved with Trellidor?

I have been with Trellidor since 1997, when the group only had four branches and a handful of distributors across the country.

How has the group grown since then?

Trellidor has over 70 outlets throughout South Africa alone, along with an export division giving us presence in 24 African countries as well as the UK, Sweden, Australia, Israel and various countries in the Indian Ocean. We directly employ 330 people and another 500-plus through our franchisees.

How did you accomplish this growth?

Trellidor adopted a franchisee model in the 1990s as route to market, which allowed us to expand our footprint in South Africa and internationally without this having a huge impact on business operations or structures. Besides expanding our manufacturing operations, the shift merely required good management of franchise owners, which is not that hard as they have a vested interest in the success of the business.

Tell us more about the franchisees.

Many of the initial franchise owners used to be employed by Trellidor. There are many success stories of families who, over time, bought into the business. Over the past few years, we have received a growing number of enquiries from expats, especially those living in Europe, Australia and the US, due to escalating security problems.

How do you determine the price of the franchise?

Most of our market is in the mid- to top-end range, with many people in this segment holding on to their money due to the poor economy and challenging environment.

Photos: Supplied | www.trellidor.co.za

The price is market related, based on location and historical sales, income performance and future potential. Franchisees, nevertheless, negotiate franchise sales based on a willing seller, willing buyer principle. Trellidor approves the new buyer. While we do not interfere with these business sales, new owners still have to comply with our business practices and agreement terms.

How do the franchisees make money?

They buy the security barriers at a generous discounted price from Trellidor.

What are the challenges with having this type of business model?

You need to find the right partners, which can be especially challenging if you are operating in outlying areas or in other countries where people speak other languages, such as French or Portuguese.

Another danger is underperforming franchises. Our close relationship with the franchisees, however, allows us to spot these quickly. We generally offer business support to struggling franchises, because poor performance not only has a negative impact on our business performance, but may also damage the brand. The franchises are generally sold if they cannot be turned around, which is usually in the best interest of both parties. Fortunately, we have had very few sales of this nature.

How has the company's product range expanded since it was started?

Where we initially only offered a retractable security gate, we now offer eight different household and business solutions for doors, windows, patios and safe rooms in various sizes, colours and material. We have invested substantially in product development to create solutions that offer protection, while also being aesthetically pleasing.

What is the market like for security barriers and how do you differentiate yourself from competition?

There is a growing demand for safety solutions due to rising conflict in South Africa, Africa and in different parts of the world.

The major difference between us and our competitors is that we offer tested customised solutions and not a "do-it-yourself" product that can be bought over the counter.

What is one of your biggest challenges in the market?

It is very easy to enter the market with a sub-standard and cheap product. The high quality of our security gates has led to Trellidor becoming a household name in South Africa, with many people mistakenly referring to any security gate as a Trellidor. We invest a lot of time and money in consumer awareness campaigns to address this issue. The bottom line is that when you buy a cheap product, you get what you pay for. If it does not say Trellidor, it is not a Trellidor.

Last year, revenue fell by 4% to R286m. Why?

We are pleased with the group's performance, as we have been able to meet our sales targets in spite of the current tight economic conditions. Trellidor specifically managed to maintain prior growth by growing sales internationally by 9% thanks to, among others, the installation of the newly developed and certified product for stations in the London Underground.

Tell us more about the London Underground deal.

Negotiations with the London Underground started in 2002 already, but various companies were involved and there were a few hiccups along the way. The approved Trellidor Trojan 3 EMESC T3000 steel security gates were the third version of the product and took 18 months and R3m to develop.

The gates, which are over 3.6 metres

in some cases and weigh about 50kg per square metre, have been designed to be easily opened and shut by people who are not that strong, and has a unique emergency locking system, designed by Trellidor engineers.

What is the business outlook for this year?

We will most probably see more of the same during this financial year, with the market hopefully picking up by next year if investor confidence improves.

Most of our market is in the mid- to top-end range, with many people in this segment holding on to their money due to the poor economy and challenging environment.

Market conditions in West and East Africa are, nevertheless, looking promising and we expect further traction from the Underground project in the UK. The gates have been installed in five train stations and we hope they will also be installed in the remaining seven Underground stations that are part of the initial batch.

We have also implemented various strategies to streamline and enhance production efficiencies.

Can you give some examples?

Instead of the finished product, we now export product components that can be assembled at selected export destinations. This has lowered transport costs, as you can send more product per load, as well as tariffs in some countries, since you are creating new job opportunities. The practice also impacts lead time to market.

What are your plans for the future?

In July 2016, Trellidor Holdings purchased the majority stake in the Taylor Blinds & Shutters operation. Taylor Blinds & Shutters is a major manufacturer and distributor of custom-made blinds and security shutters as well as an importer and distributor of cornicing and skirting products.

The group will look for further acquisitions of this nature and others, while growing existing operations through geographical expansion. We are always looking for new markets and product development opportunities. ■

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By Timothy Rangongo

A tribute to **cabernet**

This year marks the centenary celebration of Stellenbosch's Alto Wine Estate – the winery that set out to produce the finest, full-bodied reds.

2019 marks 100 years of winemaking for the award-winning Alto Wine Estate. Established in 1919 on a Stellenbosch farm, the estate is spread across an elevated perch on a shoulder of the Helderberg mountain, which comprises some slopes that rise as high as 500m above sea level. Alto's commercial history goes as far back as the early 1920s, when it was among SA's first wine exporters.

Alto set out to *only* craft full-bodied red wines, a business decision that is evidently still paying off a hundred years later. The very first product offering by inaugural winemaker Manie Malan, the 'Alto Rouge' has, over the years, been well-preserved. Among the standouts from the collection is the Alto Rouge 2012 vintage – an easy-going red blend with cabernet sauvignon, cabernet franc, shiraz, merlot and petit verdot cultivars.

The estate's present-day and second-generation winemaker, Bertho van der Westhuizen, says cabernet (their main cultivar) does so well in the region (dubbed the golden triangle region for having produced iconic wines) that they and fellow cabernet producers formed the Stellenbosch Cabernet Collective. Ernie Els Wines and Kleine Zalze are among its members.

"The Stellenbosch Cabernet Collective is an interesting organisation, which is starting to gain traction now and is lifting off," remarks Van der Westhuizen.

"We're going to focus a lot on quality, tasting each other's wines and learning from each other, and really put cabernet on top — and we [Alto] are very fortunate to have 93 hectares on which we could plant and produce really good-quality cabernet."

Alto's deep and rich Cabernet Sauvignon 2015, the year of some of SA's best vintages, is one such top offering from the century-old winery. It scooped the Grand Gold medal at the 2015 Concours Mondial de Bruxelles and went on to bag another gold at the 26th annual Veritas Awards in 2016. It's effortlessly palatable with an unmissable pleasant bouquet of cedar wood.

Another delectable tributary bottle to the estate's previous winemakers, the 'Alto M.P.H.S.', named after Manie (1919-1959), Piet (1959-1983), Hempies (1983-2000) and Schalk (2000-2015), is testament to the said good-quality cabernet. It is no wonder mature cheeses feature among recommended pairings for this matured wine, which offers a perfectly struck balance of cabernet sauvignon and franc.

The Alto Rouge 2012 red blend currently retails from R1 555 (it's a three-litre, limited bottle), while the Cabernet Sauvignon 2015 goes for R250 a (standard) bottle, and the M.P.H.S. for a worthwhile R1 025 (also for a standard bottle). ■

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BUSINESS STRATEGY

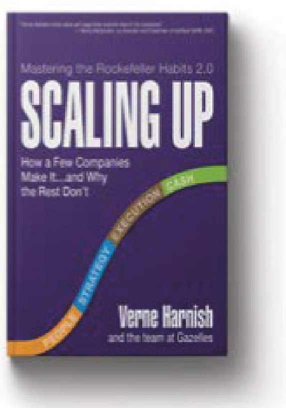
Why do so few reach the top?

'Overnight success' doesn't, in fact, happen overnight. Scaling a business successfully takes years – and a very careful strategy. And few businesses truly get this right.

"Scaling up is like climbing Mount Everest – when you climb Everest or Kilimanjaro you prepare yourself. You know that there are rules you need to follow; there's a base camp and you plan how you're going to get there. It is the same for the organisation. There's a set of habits and routines that will make the climb easier."

This is according to psychologist and business coach Fredeline Elie, who represented Verne Harnish's book *Scaling Up: How a few companies make it...why the rest don't,* at the latest We Read For You (WRFY) event hosted by USB Executive Development (USB-ED) and *finweek* in Johannesburg recently.

In the book, Harnish, founder and CEO of global executive company Gazelles, focuses on the four major areas every company must get right: people, strategy, execution of that strategy and cash. Strategy books often spend little time on the execution of strategy. This book really provides a technical how-to manual.



According to Harnish, millions of people start new ventures. Yet, he found that of those that survive, 96% remain so-called 'mice'. Only a lucky few become gazelles before eventually reaching maturity.

Businesses lose their potential to scale, because business owners don't follow a proper strategy.

The book identifies two 'gazelles', Apple and Starbucks and discusses how they scaled.

"Starbucks launched in 1971 and took the first 20 years – which is interesting because one would think you need to start scaling quickly – to perfect its business model," said Elie. "By its 25th anniversary it reached 1 000 stores and ventured outside the US." Now they have over 18 000 stores in 62 countries and have more than 150 000 employees.

"They took their time, and this is why it is a sustainable business model," said Elie. "To paraphrase Steve Jobs: 'I am always amazed that an overnight success takes a hell of a long time'."

A really important point made in the book is that the founder of a business should eventually become the 'dumbest in the room'. "You have to surround yourself with the right people. That frees you up to undertake market-facing activities instead of running the operations of the business," explained Elie.

Else, she said, you risk thinking you've got all the answers – in the process silencing others in the organisation. Often, the owner then becomes the last person to know what's going on. The best leaders have the right questions and turn to employees to mine the answers – this is also how you empower people, added Elie.

Scaling a business from a handful of employees to something significant can be achieved via three growth deliverables:

1. Reduce the time it takes to manage the business by 80%;
2. Refocus the senior team on market-facing activities;
3. Realign everyone else to drive execution and results. "There are predictable evolutions and revolutions as an organisation grows, which are dictated by increasing employees, customers, product lines, locations etc.," said Elie.

Handling company growth successfully requires three things:

1. An increasing number of capable leaders (you can't do it by yourself, especially when scaling);
2. Scalable systems and infrastructure;
3. The ability to navigate certain market dynamics.

According to the book, in order to overcome barriers during the scaling phase, four fundamentals should be followed.

"You have to enlist your core values in leading people. What you're planning to do must matter to enough customers and differentiate you from competition. You must implement a handful of priorities, review quantitative and qualitative data and develop a meeting rhythm to keep your hand on the pulse of the business and manage your cash – don't run out of it," said Elie.

Formulating the right questions is, according to Harnish and his team, of vital importance as wrong questions will lead to wrong solutions:

1. Scaling up people: Are all your stakeholders happy and engaged in the business and would you rehire all of them again? Review all stakeholder relationships, including everyone who has an impact on your business. If you find gaps, you have to implement changes.

2. Scaling up your strategy: Can you state your strategy short and simply? Is it driving sustainable growth in revenue and gross margins? Articulating a strong and clear strategy, which is supported by a strong core culture that can deliver on a brand promise, is the key for any company wanting to scale.

3. Executing your strategy: Are all processes running without drama and driving industry-leading profitability? Organisations with too many priorities end up having no priorities and risk accomplishing nothing of significance.

4. Scaling up cash: Do you have consistent sources of cash to fuel the growth of your business? It is important for the founder to determine how cash can be scaled up. The book therefore says founders should focus on improving the cash conversion cycle of the business.

The key is to find innovating ways to generate sufficient profit and cash flow internally so that you don't have to turn to banks or loan sharks to fuel your growth.

"This book not only addresses the core elements of running a successful business, but also provides specific how-to information about putting these critical ideas into action," concluded Elie. ■

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finweek *is the USB-ED's media partner in its We Read For You series.*

Photo: www.scalingup.com

By Glenda Williams

Driving further … and faster in the BMW i3s

New-generation battery brings increased range and power to this electric vehicle.

At first glance, not much about the BMW i3 has changed. But the latest refreshed version of BMW's pure electric car is more about the larger capacity battery that brings faster and further driving than any eye-popping exterior or interior changes.

Emissions-free mobility has historically come with short range capability and that's been a deterrent for those considering an electric vehicle (EV).

But ongoing battery technology is changing that. Take the latest-generation BMW i3 models and, more particularly, the sportier i3s tested by *finweek.*

It's all about the battery

When the BMW i3 launched here in 2015 with its first-generation battery, the EV had a range of between 130km and 160km. The second-generation battery brought an increase in everyday range to 200km.

Now, with the introduction of the new third-generation battery, the BMW i3s can cover 270km in everyday use in Comfort driving mode and – depending on road and weather conditions, driving style and tyre use – extend to 345km using the Eco Pro or Eco Pro+ mode.

While the size of the battery remains unchanged, this latest high-voltage battery has a capacity of 120Ah (ampere hour) against the first generation's 60Ah and second generation's 94Ah.

More amp hours is much the same as having a larger fuel tank and thus further driving capability. And charging times for these larger-capacity batteries are also quicker. It's just 42 minutes for 80% of total power at quick-charging stations that run on DC power. Connection to the BMW iWallbox achieves an 80% charge in 3.2 hours. Plugging into a conventional household socket requires 15 hours for 80% power.

Connection to the BMW iWallbox achieves an 80% charge in 3.2 hours. Plugging into a conventional household socket requires 15 hours for 80% power.

Few exterior or interior changes

The BMW i3s retains the distinctive i3 shaping and unconventional coach doors as well as its aluminium chassis and passenger cell made of carbon fibre reinforced plastic.

New styling accents, among these black A-pillars and roof lines that complement the trademark black belt running from the bonnet to the car's rear, and tweaked front and rear aprons, bring a wider-looking girth to a car that has historically had a rather lanky appearance.

The i3s also has a sportier impression. It rides on 20-inch rims and wider tyres and a sports suspension lower by 10mm. High-gloss black spats add to the energetic expression.

Quality finished recycled materials, well-laid-out instrumentation and colour display screen feature in the futuristic-looking cockpit. Seats are exceptionally comfy, the cabin is roomy and the coach

TESTED:
BMW i3s

Engine: BMW eDrive electric motor
Power/Torque: 135kW/270Nm
Top speed: 160km/h
0-100km/h: 6.9 secs
Transmission: Single-speed automatic
Battery: High-voltage lithium-ion, 27.2kWh usable power
Range: ± 345km; **Everyday driving:** 270km
CO_2 emissions: 0 g/km
Safety: Front, side and head curtain airbags
Boot capacity: 260 litres expandable to 1 100 litres
Warranty/Service: 5 yr/100 000km motorplan
Battery warranty: 8 yr/100 000km
Price: R716 900 (incl. VAT)

Photos: Supplied

doors make for trouble-free entrance and exit for occupants.

This quirky EV comes with optimised connectivity and all the bells and whistles expected from a premium vehicle. Standard offerings include heated seats, satnav, tyre pressure monitor and rear park distance control. Adaptive LED headlights, wireless charging and wireless hotspot are among the options.

The BMW i3s gear mechanism and power display

Hushed yet dynamic journey

Apart from the barely audible tyre noise and occasional whine of the electric motor, it's a silent ride, as well as a smooth and comfortable one. It's easy to pilot with direct steering and good road feedback.

The rear wheel-drive BMW i3s is powered by a 135kW electric motor and its power is just as mindblowing as it was when I drove the first generation in 2015.

Power delivery from the electric motor is bonkers, and the torque instantaneous. It's a power that is constant and unbroken through acceleration. The seamless delivery of that power is aided by the single-speed automatic gearbox.

It sprints from 0 to 100km in 6.9 seconds, 0.3 seconds quicker than its predecessor, and gets the thumbs-up for cheeky, stress-free overtaking and gap-taking.

Wider tyres, together with a lower sport suspension and battery deep in the floor that aids in a lower centre of gravity, bring a more planted feel to this slender i3s.

There is little need for brake use, courtesy of strong regenerative braking from the motor when decelerating. It's this regenerative braking that adds to the electric fuel pot, and adapting one's driving style to make best use of this doesn't take long.

Electric vehicles are a niche market and the uptake locally has not lit any fires. Nor does the lack of a government incentive that would reduce the cost of EVs and encourage sales.

Higher upfront costs, though, come with lower running costs (see sidebar). Ongoing fuel increases for fossil fuelled cars and the addition of a fuel carbon tax levy gives more weight to the green mobility argument. ■

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OVER 200 000KM OF STAGGERING 'FUEL' EFFICIENCY IN AN EV

"It is possible to go practically anywhere, over any distance, in an i3," says the owner of South Africa's highest-mileage electric vehicle, Shaun Maidment.

Maidment's first-generation BMW i3 reached 200 000km making it the highest-mileage EV in Africa. It's also the 15th highest-mileage BMW i3 globally.

An early adopter of the EV model, Maidment has used his 60Ah BMW i3 as his primary vehicle for local and longer-distance trips.

Bought in 2016 with 3 000km on the clock, this milestone i3 still has its original battery that has only lost 9% of its original capacity, Maidment tells *finweek*.

"Even if I lost 50% of battery capacity, that would still leave 60km, which is more than most people drive in a day," he points out.

"This car has changed my life," says Maidment. "I did cheat in the beginning. I bought the REX version (range extender i3 with a tiny combustion engine that adds 45km to the range) because I was scared like everybody else. But it's not complicated at all; it's ridiculously simple. There are many days when I drive 200km to 300km in a day. You just plan your day slightly differently.

"It's exactly like a cellphone," says Maidment. You keep it charged. "And the car is pretty accurate. It tells you when it is going to run out."

Stopping to 'top up' has never been an issue, even in areas without dedicated EV charging infrastructure, he says.

He even uses the occasional-use charger he got with the car at home. "I plug it into the wall and run it off a normal plug, charging it when I sleep."

And the cost to his electricity bill? "It pushed up my bill by around R700 a month," he says.

But the telling aspect is in the energy cost per kilometre, which Maidment says is between 25c/km and 30c/km. It's an amount that a conventionally fuelled car with a combustion engine cannot compete with. Even a small, extremely fuel-efficient urban runaround generally comes with a fuel cost of around 80c/km.

Maidment is not looking to part with his beloved BMW i3 any time soon and is now aiming to reach the 500 000km milestone. ■

By Amanda Visser

Want to start a business? Beware of self-sabotage

Establishing a business is a huge undertaking. Entrepreneurs need to make sure they don't get in the way of their own success.

As humans we are all guilty of self-sabotage at some stage of our lives. We tend to procrastinate. We have negative self-critical thoughts. We get distracted easily. We tend to be overly perfectionistic.

The same behaviours, and many more, apply to business owners. In the case of small businesses this can have a significant impact on the bottom line and the success of the business.

While entrepreneurs overcome enormous obstacles and achieve great heights in areas that appear impossible, they also make their own lives far more difficult than it needs to be, says Jenny Retief, CEO of Riversands Incubation Hub. The hub is currently home to over 160 small businesses.

Jenny Retief
CEO of Riversands Incubation Hub

The fear

One of the most common self-sabotaging behaviours is not recognising fear, writes Rob Adams, founder of BusinessTown, on his website.

"We need to recognise the innate human fear of failure that may be keeping us from charging into a new business, creating major new products, approaching that huge client prospect or just making that next important sales call."

Written at the top of his daily calendar are the words: "What would I do if I had no fear?"

Adams, who is no stranger to failure, says self-sabotage can be incredibly damaging. Business owners keep themselves busy with activities that are a poor use of their time or, worse, a total waste of their time.

"Or, even worse than that, they may be activities that threaten the very existence of your business." Often entrepreneurs are unaware, or even in denial that they are sabotaging themselves.

In many instances it is just about *not* following the basics, says Retief. "They will put a huge amount of effort into networking and making an initial entrance into a potentially viable client prospect, but then they fail to follow up. They get an invitation to quote, but they do not respond promptly in a professional manner."

Too often entrepreneurs "burn" through their entire start-up capital wanting to get it right. This risk can be contained by taking on smaller chunks.

Rob Adams
Founder of BusinessTown

The plan

Diving into the work without a proper plan is the number-one self-sabotaging behaviour, says Adams.

Entrepreneurs work hard and long hours, doing the same kind of work that they have done in the past without giving much thought to alternative ways of doing the same things. "Or we fail to realise that there are different things we could be doing that might be more important in driving the business ahead."

Retief says using "design sprints" – especially for start-up companies – is very effective. It is a technique that can offer you a "tight and structured way" to describe what you have in mind, getting the prototype in place and testing the prototype with real clients in a way that will give you a meaningful idea of what kind of response you are going to get.

This is different from a survey, she says. In a survey a person might say they would buy your prototype if it was available. But when someone has to put their hand in their pocket, things change.

Her advice is to take the lean start-up approach. Create a minimum viable product that you have not polished to death yet but which meets the core need and that you can go to market with.

"Sometimes you will find that the feature you like most is not the reason why clients buy your product. They may be after some other aspects and you should switch off pouring all your energy into your sexy feature and focus on what clients really want."

Entrepreneurs sometimes "want everything to be perfect before even starting a venture, then lose too much time", warns Retief. Too often entrepreneurs "burn" through their entire start-up capital wanting to get it right. This risk can be contained by taking on smaller chunks and by trying to be as objective as you can to ascertain how you are being accepted by the market. "There is no such thing as zero risk in small businesses, so just start, and respond to issues as they happen," she says.

The curious mind

Retief adds that as businesses grow, it is vitally important for owners to retain their curiosity about their clients. Holding on to that can switch you out of defensive mode into interested mode, "even if your hackles are up because your customer or prospective customer has made a statement that you think is dissing your product or is inaccurate".

Self-sabotaging behaviours:

- Putting off clients and sales-generating work
- Trying to focus on too many things
- Not networking with other entrepreneurs
- Constantly worrying about what can go wrong
- Not pricing your products high enough
- Fooling yourself that you will not burn out
- Setting unrealistic goals

SOURCE: Bob Adams, BusinessTown.com

She says it is hard work to make business owners understand that honest feedback is absolutely precious. Understanding the value of feedback can unlock huge potential.

Another problem is that people are intrinsically polite and kind. "If you can find out why they are not interested in your product you can modify your pitch."

A business owner does not have to agree with the feedback – but you have to listen, rather than become defensive.

Entrepreneurs are passionate by nature. Therefore they tend to jump in mid-conversation to suggest features that may meet the needs of their customers; but without having heard the real need.

"They dilute their ability to close the sale because they used their ammunition along the way and also mildly irritated the client."

Two minds are better than one

Retief says they have found that businesses who have co-founders with complementary skills have higher rates of success than single-person founders.

"You will find that people have the least time for the activity they are least comfortable doing... In an ideal situation you want two heads – a partner or someone with significant skin in the game who has an interest in the things you do not have an interest in."

She says it is important for business owners to recognise that they're not the master of all the tasks. At the same time, entrepreneurs should learn to delegate to someone with the right skills, instead of simply abdicating those tasks.

In short: Identify your weak spots, master them sufficiently to understand it, and then delegate it. ■

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Photo: Supplied | www.businesstown.com

In the mood for some fun trivia? Give our quiz a go! You can complete it online via fin24.com/finweek from 17 June.

1. Which one of the following is not exported by New Zealand?
   - Wool
   - Plastics
   - Wine
2. Which country's national cricket team is also known as the Men in Blue?
3. **True or false?** Marie Curie, the first woman to win a Nobel Prize, was also the first person and only woman to win the award twice.
4. On which date during World War II did the Normandy landings (codenamed Operation Neptune and often referred to as D-Day) take place?
5. In which three countries is the Kgalagadi Transfrontier Park situated?
6. **True or false?** Neil Diamond is yet to be inducted into the Rock and Roll Hall of Fame.
7. In the 'Harry Potter' series of fantasy novels written by British author J.K. Rowling, which prison did Sirius Black escape from?
   - Alcatraz
   - Azkaban
   - Albatross
8. Supply the missing name: Former US President Calvin Coolidge and his wife Grace Coolidge kept a pet raccoon during their stay in the White House. It was named ________________.
9. What is a six-sided polygon called?
10. Who is SA's minister of small business development?

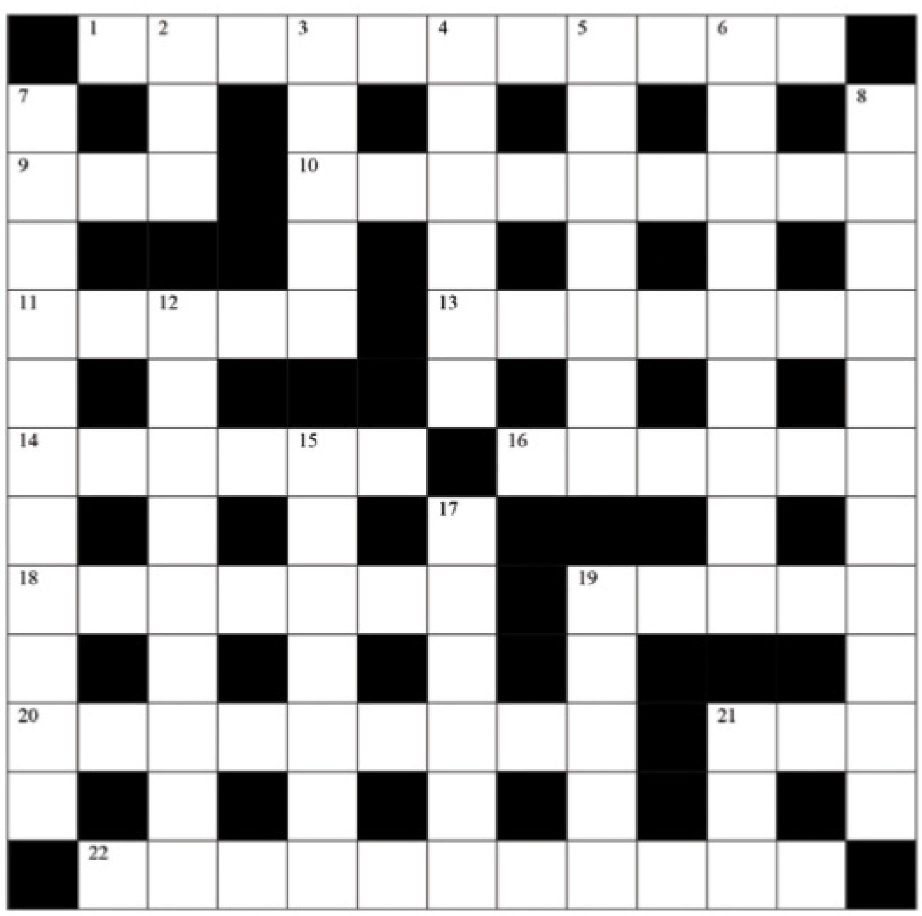
CRYPTIC CROSSWORD NO 734JD

ACROSS

1 Works at give away outlet (7,4)
9 Make up the number (3)
10 Guy to startle the bird (9)
11 Fixed amount of work mixing colours (5)
13 There she was without a husband, a venerated saint (7)
14 Enjoy hearing complete instrumental (6)
16 Skive off introducing new blades (6)
18 For example, old clue can be adapted for "pastoral poem" (7)
19 What Dad's Army eats? (5)
20 Sit with George changing clothes (9)
21 Copy from top to tail (3)
22 Stoned and stony-broke – how disrespectful! (6-5)

DOWN

2 Behave with discretion from the start (3)
3 Setback with Eliot's auditions (5)
4 Criticises the meals on Sunday (6)
5 Seen around bookshop without a licence (7)
6 We resolve to work together with US (9)
7 Arranges legal documents (11)
8 Chimney cleaner sticks his neck out in lotteries (11)
12 Point to piece on old firearm (6-3)
15 UN fella getting involved in university application (7)
17 Lack of sight shown by boss at finance centre (6)
19 Post English recipe for making Italian sauce (5)
21 Excellent service (3)



Solution to Crossword NO 733JD

ACROSS: 1 Back; 3 Appeared; 9 Rapidly; 10 Tacit; 11 Tenant farmer; 13 Unclip; 15 Passed; 17 Go by the norms ; 20 Manna; 21 Pensive; 22 Tiredest; 23 As is

DOWN: 1 Burnt-out; 2 Capon; 4 Payoff; 5 Entertaining; 6 Rackets; 7 Data; 8 Identity card; 12 Odysseys; 14 Crooner; 16 Shapes; 18 Rains; 19 Emit

On margin

Spare a thought for the afterlife

This issue's isiZulu word is *idlozi*. *Idlozi* is an ancestor. *Amadlozi* is the plural of *idlozi*.

Even though Christianity is now the dominant religion in South Africa, *amadlozi* are still an important part of life for a significant portion of the Zulu population. I have questions about this aspect of (after)life:

Does everyone who passes on become *idlozi*? I certainly hope not. I suggest proper vetting.

Is it possible to have *idlozi* with low self-esteem, who thinks your dreams are too big?

What if you were just plain stupid while roaming the earth? Do you immediately gain otherworldly wisdom, or do you become a stupid *idlozi*?

What if your descendants are Model Cs and reach out to you in English? Do you just pretend you're not there?

What if your descendants are reaching out to you about really dumb stuff? Do you care if they want a man with a car?

Is there an *idlozi* app that keeps *amadlozi* updated on what the kids on earth are yapping to them about? Is the app called *iDlozi*?

Do *amadlozi* recognise their descendants through layers of make-up and Brazilian weaves?

What if *idlozi* that loves you the most became *idlozi* because he was killed by apartheid police, but now you're marrying an Afrikaner? Does *idlozi* turn on you, or are *amadlozi* not petty?

PS: With so many black people having abandoned the African ways in favour of 'more modern' approaches, some *amadlozi* are extremely lonely, including those who were abandoned hundreds of years ago. To tackle this problem, I have set up an initiative called Adopt-*Idlozi*.

For a nominal fee, Adopt-*Idlozi* gives white people access to *amadlozi* they can claim as their own.

To mitigate the risk of *idlozi* abuse, I run a strict vetting process and assign people *amadlozi* suited specifically to them. If you get a nyaope *idlozi*, I definitely picked up something about you that says you deserve that kind of *idlozi* in your life.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"It's come to my attention that someone in this room has unfriended me on Facebook."

Verbatim

Jess Dweck @TheDweck
I'm sure Mueller leaving it to people to interpret his careful legal language will be effective in a country that still doesn't know they should vaccinate their kids.

Rupert Koopman @RK_ct
The rand must decide whether it is a currency or a mood.

beth mccoll @imteddybless
How I imagined my mid-20s: in a stable relationship, high-flying career, weekend sailing trips, neckerchiefs. How it really is: I'm in debt and just this week I've been in two arguments online about biscuits.

Conan O'Brien @ConanOBrien
Tough week, just found out my wife and I pronounce "gif" differently.

Cape Flats Princess @JustVee1710
I'm going to die here at home affairs. I might as well apply for a death certificate too.

Boss Man @Chorky_Seane
Cricket Twitter is too quiet

> **Sibongile Mafu** @sboshmafu
> We are here. We are dead inside but we are here.

Kristia van Heerden @kristiavh
My favourite mail this week: My gran passed away recently. Found out from my mom that for the past 13 years she's been contributing R250 towards a funeral policy that paid out R10 000. If she had saved without any interest earned, she could have saved R39 000.

Chase Mitchell @ChaseMit
Little secret about me: my answer to the question "would you like a receipt?" is based on absolutely nothing and changes all the time.

"Criticism may not be agreeable, but it is necessary. It fulfils the same function as pain in the human body. It calls attention to an unhealthy state of things."

– Winston Churchill, former British Prime Minister (1874 - 1965)