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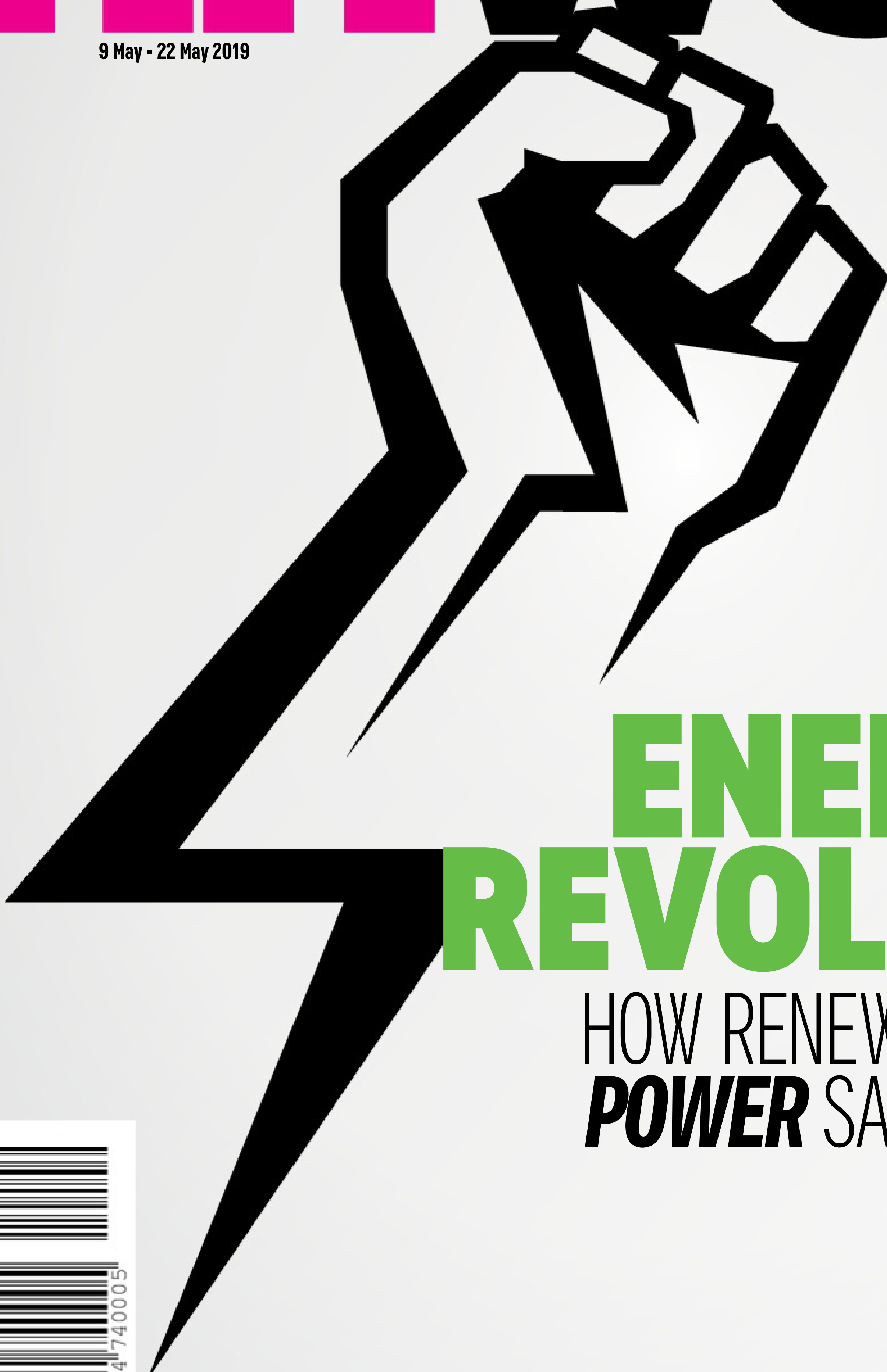

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DAWIE DE JONGH was Professor at the Centre for Business Mathematics & Informatics at North-West University until 2015.

HANLIE STEYNBERG is a scientific programmer, database specialist, systems designer and validator.

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from the editor

ANNELI GROENEWALD

We may start fidgeting when waiting in a queue. We may glare at each other (or let's admit it – more than glare) when the sluggish driver in front of us sneaks over a traffic light and we have to wait for green again. And we may sigh audibly when the official behind the counter says the system is down and we have to return the next day – yet again – to have a document renewed.

But in truth, South Africans are extremely patient. For almost a decade we waited to see a change in leadership within the ANC – a change that we thought would instantly address what has become blatant corruption in the country's top structures.

Not so much. Change is slow, we've learned. Yes, there have been signs of change. A handful of individuals implicated in corruption have resigned, or have been asked to go on leave. Or simply to go home. And the Zondo Commission of Inquiry has certainly brought about a change in sentiment: More and more people feel it's become safe to talk about dodgy promises, deals and transactions that happened in broad daylight over the last years.

But have we seen decisive action in dealing with high-level corruption? Have we seen a large-scale attempt to remove implicated individuals from positions of power? Even on ministerial level? Don't expect action until after the elections, commentators keep saying. Clarity on the ruling party's approach to land reform? Wait until after the elections, we've heard. A recovery in investor confidence and the long-awaited return of meaningful economic growth? Only after the elections, the analysts say.

In fact, on 14 February 2018, when former President Jacob Zuma resigned in the dark hours of the night, with President Cyril Ramaphosa taking over soon after, South Africans' new wait started: For national elections on 8 May 2019.

Now the elections have come. During the week that this edition of *finweek* finds its way onto shelves, South Africans will cast their votes.

There are no more excuses left for the ruling party – or the leaders of the ANC (and other political parties, for that matter). South Africans who have patiently waited until "after the elections" will be excused for expecting to see the decisive and visible action that they've been waiting for (for years).

But will we see any change in the months and years to come?

Here's to hoping the next five (or ten) years don't go to waste as well. ■

contents

By Johan Fourie

ECONOMY

How do we create sustained prosperity?

Escaping poverty is extremely difficult. The one solution that will enable prosperity for all is innovation. But it has to be a very particular kind of innovation.

Every year I ask the second-year students in my global economic history course to write down the reasons why people are poor. They usually write down a long list of things: poor access to quality education, corruption by leaders, exploitation by companies.

I then ask them to write down, on a separate paper, the reasons why people are rich.

I always find it fascinating that the answers to what is essentially the same question is almost never the inverse of the other. People are rich, they say, because they were born into wealth, or worked hard, or are lucky.

For most of history almost all humans were poor. Entropy is the natural state of the universe. It is incredibly difficult to sustainably escape poverty, which is why humans could not do it for thousands of years. Only in the last two centuries have we somehow done the unthinkable and become remarkably affluent. The right question isn't 'why are people poor?' as the simple answer is 'that is our natural state of being'.

The most difficult question, one that should occupy the minds of the sharpest in our society, is: How do we create sustained prosperity?

There is one answer most economists would agree on: innovation. Innovative new technologies and systems allow firms to produce new and better things that improve consumers' lives. They make workers more productive (raising their salaries) while raising profits (and benefitting shareholders) which allow for reinvestment and expansion. The richest countries are not the ones with the most labour, land or resources, but the ones who are the most innovative.

But innovation is a fuzzy concept, as not all innovations are created equal. In a new book, *The Prosperity Paradox,* Clayton Christenson, Efosa Ojomo and Karen Dillon argue that there are three types of innovation: sustaining innovation, efficiency innovation and market-creating innovation. Sustaining innovation improves existing solutions on the market, like a new version of the Toyota Corolla or iPhone. These products typically include new features but are mainly aimed at existing customers. Efficiency innovation focuses on production. In short, doing more with less: The number of farmers has declined over the last century while the amount of food they have produced has increased substantially.

For most of history almost all humans were poor. Entropy is the natural state of the universe. It is incredibly difficult to sustainably escape poverty.

The authors argue, however, that while both of these types are good for economies by keeping them competitive, vibrant and freeing up resources, they are not at the heart of what propels higher growth. This, they argue, can only come from market-creating innovations: Creating new markets that serve people for whom either no products existed or existing products were neither affordable nor accessible for various reasons.

Instead of a new car model, think of the shift from horses to cars. Market-creating innovations democratise previously exclusive products and services.

In the 1980s, many experts would have laughed at the idea that the mobile phone would be revolutionary in Africa. Then expensive and cumbersome, it had limited use aside from luxury cars or military personnel. Yet, in the last three decades, the mobile phone has transformed the lives of millions of Africans. It employed thousands of people in sales, marketing and technical jobs, and has generated massive returns for local shareholders. MTN, the largest operator in Africa, had revenues of R134bn in 2018 (slightly above the GDP of Rwanda).

Market-creating innovations also strengthen the fabric of society. Many might say that the fruits of innovation can only trickle down if a society has good institutions, i.e. rule of law, a corruption-free government and democracy. But the authors suggest that the causality works the other way, from innovation to institutions.

"Billions of dollars are invested annually by many organisations to help poor countries improve their institutions. Institutions are pushed onto these countries with the best of intentions, but could there be a reason why so many 'pushed' institutions in emerging economies end up being ineffective, or, worse, corrupt? We cannot fix problems with the law, systems, and institutions by simply adding another law, system, or institution," they say.

"Effective institutions are not just about rules and regulations. Ultimately, institutions are about culture – how people in a region solve problems and make progress. At their core, institutions reflect what people value. And that, it turns out, has to be homegrown. Innovation can play a critical role in this process."

What might the new market-creating innovations of the future be? In an appendix, the authors list things like portable washing machines in India, affordable drugs in Nigeria, mattresses in Cambodia, waste-to-energy recycling in Ghana, and electric cars in Mexico. If I could add my two cents: Renewable energies, particularly solar panels, can empower millions of 'non-consumers', as the authors coin those who desire goods they cannot yet afford. Africa is endowed with tremendous natural resources of which the most important may be sunlight. As the efficiency of solar panels in converting sunlight into electricity continues to improve, we are moving closer to power generators for each home, car or even mobile phone.

Even the poorest of the poor can develop market-creating innovations. But, argue Christenson, Ojomo and Dillon, the focus must be on what makes people rich. "Enduring prosperity for many countries will not come from fixing poverty. It will come from investing in innovations that create new markets within these countries." ■

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Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

in brief

>> SOEs: Getting Transnet back on track *p.8*

EDITORIAL & SALES

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"NEW GUIDANCE WILL BE ISSUED AT A FUTURE DATE."

– **Boeing** announced that it has scrapped its previously issued earnings guidance for 2019 (the official prediction of its own near-future profit and loss) and said it will replace it with a new one at a future date owing to the absence of the 737 MAX airplane crash impacts in the original guidance. Regulatory authorities across the world grounded the 737 MAX aircraft after two fatal crashes (Lion Air Flight 510 and Ethiopian Airlines Flight 302) of the model within a period of five months that saw a total loss of 346 lives. No specific date has been given, "due to the uncertainty of the timing and conditions surrounding return to service of the 737 MAX fleet", the aerospace company said.

"I REALLY, TO THIS DAY, DO NOT KNOW WHAT ANYONE WOULD GAIN BY THE NATIONALISATION OF THE RESERVE BANK."

– **Former President Thabo Mbeki** put the rhetorical question to visitors to the ANC's campaigning pavilion at the Rand Easter Show in Johannesburg, as quoted in *Business Day*. Mbeki defended the independence of the central bank while canvassing for the ruling party ahead of this month's national elections – which he has not done since being ousted as president in 2008. Mbeki questioned whether taking the bank into public ownership would include "with compensation", meaning the state would have to buy out the bank's private shareholders – a move he finds pointless as the government would have to "divert money which we need to build schools and clinics and so on to buy out these shareholders".

"CORPORATES WILL START TO SPEND MONEY ONCE PEOPLE START SPENDING MORE."

– **Wayne McCurrie of FNB Wealth and Investment** on falling consumer spending and flat earnings in the retail sector in an article in *Business Day*. McCurrie says a change in consumer sentiment could boost prospects for retailers and trigger an economic recovery. The Bureau for Economic Research (BER) and FNB, however, reported a five-point decrease to two in SA's consumer confidence index in the first quarter of 2019 due to factors such as stage 4 load shedding, prolonged strikes, a weaker exchange rate, and a sharp increase in fuel prices. "For the first time in just more than a year, consumers do not expect South Africa's economic prospects to improve over the next 12 months," said FNB/BER in a statement.

Photo: Shutterstock

THE GOOD

Fatalities on South African roads during 2019's Easter weekend decreased by 40% compared to the previous year, according to transport minister Blade Nzimande in an interview with the national broadcaster. Nzimande said that over a period of four days, from 18 to 21 April 2019, there were 80 crashes in which deaths occurred, indicating a decrease of 40% as compared to the same period in 2018. Last year over a period of 12 days, from 29 March to 9 April, 510 road fatalities occurred, reported Wheels24. In the interview with the SABC Nzimande attributed the decrease to the department's introduction of a new Evidential Breathalyser Alcohol Test (EBAT) system that provides immediate and accurate information on a driver's intoxication levels, as well as the increased visibility of law enforcement officers.

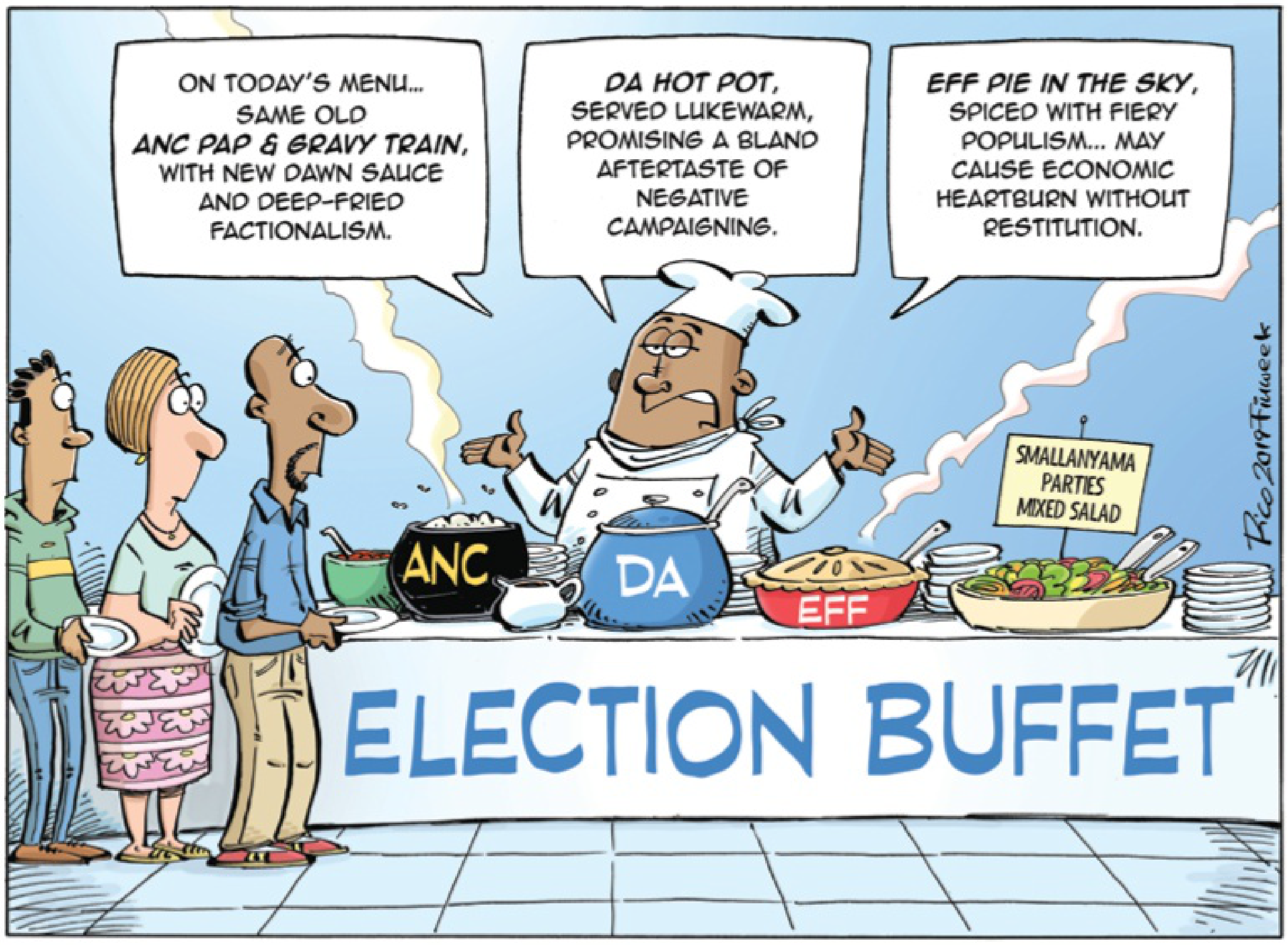
THE BAD

On 1 May, the price of fuel increased by 54c a litre for 93 and 95 octane petrol, while diesel climbed by 1c a litre. The department of energy attributed the price hikes to a weakening rand/dollar exchange rate and rising international oil prices. The increase is the fourth since the beginning of the year amid falling consumer confidence. A weak rand, which raises the price of imported goods, including oil, combined with higher oil prices meant there would be no relief for motorists anytime soon, said analysts who also warned that the rising price of Brent crude oil and the weaker exchange rate will lead to further fuel price increases in coming months, reported *Business Day*.

THE UGLY

The cost of damage to various parts of KwaZulu-Natal following week-long heavy rains and flooding is estimated at over R1bn, reported News24. In an update to the media, the province's premier Willies Mchunu said, "the estimated damage currently stands at R1.1bn with the eThekwini municipal area's damage alone estimated at over R685m. Railways, roads, houses full of furniture and personal possessions were damaged and at places destroyed entirely." So far, a total of 1 469 people have been reported displaced, while the death toll has reached 70.

DOUBLE TAKE BY RICO



THE WIESE FACTOR

17.8%

Chairman of Shoprite Christo Wiese's voting interest in the retailer is to be effectively reduced by 24.5 percentage points to 17.8%. In an announcement to investors, Shoprite said it is buying back about 305.6m deferred shares (with special voting rights) that are held by Wiese to "simplify its voting structure". The deferred shares control 32.3% of the retailer's voting rights and are held by Wiese's Thibault Square company. Upon buying back the shares, Shoprite intends to cancel them and issue new shares worth about R3.3bn that will go to Wiese. The deal will boost the voting interest of minority shareholders from about 60% to more than 80%, which Reuters reports as "substantially curbing Wiese's influence in the company he helped turn into an African powerhouse".

UBER'S IPO

$91.5bn

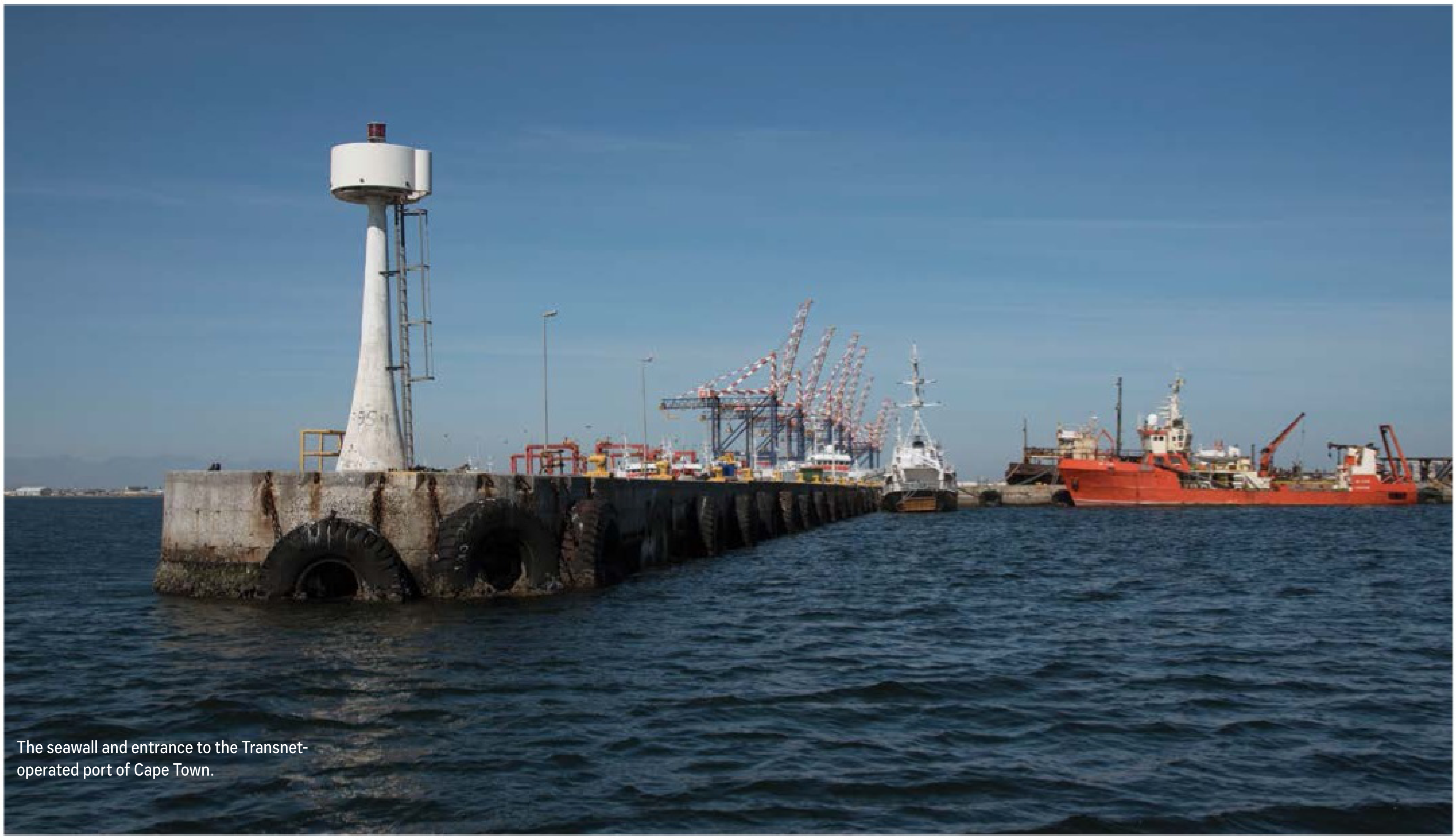
Ride-hailing company Uber is targeting a market valuation of up to $91.5bn (about R1.3tr) after listing on the New York Stock Exchange on 9 May in what is being dubbed Silicon Valley's biggest IPO since Facebook. Uber has set a target price range of $44 to $50 per share that it is pitching to investors ahead of its IPO, in which it will sell 180m shares to raise up to $9bn, reported *Financial Times*. The valuation Uber is seeking is $28.5bn less than the initial valuation it was told it could fetch by investment bankers – a revision made following the poor stock performance of its rival company Lyft, which had its IPO in March.

REVAMP FOR JOBURG INNER CITY

R20bn

The City of Johannesburg accepted bids worth R20bn from property developers to convert 500 dilapidated buildings across the city, which is struggling with a neglect of buildings and a housing backlog, into affordable accommodation, reported *Business Day.* Listed property companies did not form part of the 171 bids received for the first phase. Craig Smith, head of research at Anchor Stockbrokers, is quoted as attributing this to their reluctance to undertake redevelopment risk in the inner city. Propertuity, the company at the forefront of developing the popular Maboneng Precinct into residential and commercial spaces, recently filed for liquidation that saw 18 of its buildings auctioned off for a total of R109.5m – substantially less than its initial supposed value, according to *City Press*. Material underperformance in terms of property sales was cited as among Propertuity's challenges, reported *Moneyweb*.

By David McKay



The seawall and entrance to the Transnet-operated port of Cape Town.

Photo: Gallo/Getty Images

Getting rid of the rot in Transnet

The tentacles of state capture spread far and wide within the state-owned transport and logistics company, Transnet. But new management is resolute about cleaning house.

Until now the extent of state capture at the government-owned transport and logistics company, Transnet, has largely gone under the radar. It's a fact not lost on its acting CEO, Tau Morwe, a veteran of the organisation, having worked across its various businesses for more than 17 years.

"When we met with lenders recently, they wanted to know from us how bad things were at Eskom," he said in a background media briefing last month. The suggestion is that no matter what may be revealed during Transnet chairman Popo Molefe's appearance before the Zondo Commission of Inquiry, it can't be worse than the litany of corruption uncovered at the power utility.

Yet state capture is as much a phenomenon at Transnet as at Eskom. Former Transnet executives and managers of various stripes are facing a multitude of allegations in which they accepted hundreds of millions of rands in kickbacks, according to a report by *City Press*. Both Morwe and Molefe, appointed atop Transnet by President Cyril Ramaphosa in an effort to set the organisation to rights, are expected to give evidence at the Zondo commission.

High on the agenda may be the Transnet dossier called 'Tainted Deals and Kickbacks'. According to *City Press*, it shows that over R8bn in bribes were paid in ten lucrative contracts between 2012 and 2017. There were also allegations that R92.6bn was laundered through Gupta-owned Homix from Transnet's telecommunications service deal with Neotel. The rot extended its influence to junior Transnet staffers who suddenly bore income some R350 000 higher than a year before. They bought luxury cars and houses. For cash.

The Transnet dossier called 'Tainted Deals and Kickbacks' allegedly shows that over
R8bn
in bribes were paid in ten lucrative contracts between 2012 and 2017.

Morwe won't speculate on the extent of the fraud and corruption at Transnet, but he doesn't know whether a qualification placed on the firm's 2018 financial results last year will be removed this year. Probably not, given fresh instances of state capture that are being identified and quantified on an ongoing basis.

Some things are clear, though: "We do want to get the money back," said Morwe. "We will make every effort to do this and that's what we have on the table at the moment."

In the meantime, Transnet's executive committee, which is almost entirely comprised of managers occupying acting positions, is working to win back the trust of its clients, employees and – critically importantly – lenders, especially

Former Transnet executives and managers of various stripes are facing a multitude of allegations in which they accepted hundreds of millions of rands in kickbacks.

as the trust of society at large is unlikely to be regained anytime soon.

In pursuit of this, Morwe's mandate is to look at structural issues within Transnet in an effort to nurse itself back to financial health; a kind of self-help apparently beyond Eskom. This involves scrutiny of its systems, controls and business practices. For instance, when a customer approaches the organisation looking for business, there seems to be no communication between Transnet Port Authority and Transnet Freight Rail (TFR) on how services ought to be supplied.

"In November, we brought in customers for a meeting with the board and management," said Morwe. "Clients were brutally frank about the company's performance."

The bottom line is the customer. And if the customer believes Transnet is meeting its targets, "... we feel as if the organisation is at least adding value to the economy", said Morwe.

In this context, TFR, which accounts for half of Transnet's total earnings, has been identified as a particular problem area. One thing that will change is how Transnet allocates capital to TFR such that it is reconsidering expansion plans that once committed it to expanding its coal line to 91m tons a year (Mt/y) – an important element in its Market Demand Strategy (MDS).

Mohammed Mahomedy, acting Transnet CFO, said the thinking behind the company's MDS was "... not appropriate anymore".

The MDS was adopted by former CEO Brian Molefe in 2012 following then President Jacob Zuma's State of the Nation address which sought to place Transnet at the centre of the government's drive to boost future economic growth and job creation, largely through infrastructure development.

Through the MDS, Transnet targeted capital expenditure of R300bn over a seven-year period in an attempt to create up to 220 000 new job opportunities. As part of this strategy, the 580km coal line from Mpumalanga to Richards Bay Coal Terminal in KwaZulu-Natal was to be expanded to 91Mt/y from then levels of 68.5Mt/y.

Mahomedy said that while there was a business case for MDS at the time, the ramp-up in commodity demand that was expected to resume (following a correction in minerals and metals pricing that lasted until 2016) did not materialise. "There was no longer any need for it," said Mahomedy. "We need a programme that is more responsive."

He added that Transnet had to focus its capital

Tau Morwe
Acting CEO of Transnet

Mohammed Mahomedy
Acting chief financial officer of Transnet

spending plans on catching up on a backlog while expanding where it could in a more sensible manner.

"About 70% of Transnet's volume density is on 1 500km of track, but we have some 30 000km so we don't need to be spending billions where there is no volume density," Mahomedy said.

The coal line delivered 72.9Mt in 2018, according to a Richards Bay Coal Terminal presentation in January. This was below the 75.6Mt delivered in the 2017 financial year which represented the highest tonnage railed in at least nine years.

What this means for SA's coal industry is that funds may be in short supply to see through planned expansions that still pass muster with the company's credit committee, and to catch up on backlogs.

Brian Monakali, acting head of Transnet Freight Rail, acknowledged backlogs existed and that all avenues of funding would be addressed to bridge any shortfalls in funding. "There is a backlog in capital requirements," he said.

"Take for example the Waterberg coal line. All these projects will need significant funds. The 120km Waterberg line requires R20bn and we have not kept up with the maintenance backlog. We are looking at private sector funding and all other options such as development finance institutions. It is a serious backlog," he said.

How money is spent in Transnet is the defining, critical factor to its restoration. The way Morwe describes it, the organisation is "... taking back control of the treasury".

Said Morwe: "The board is providing oversight, but it is not making decisions over procurement; that is for management. The delegation of authority has changed significantly. Capital investment only exists through mandated committees and not through individuals.

"The root cause of state capture is that the individual has authority; a situation in which 'I recommend it and the transaction executed on that basis'." That now has gone.

The company is busy with the recruitment process so that by June it should be able to fill its non-executive director positions with executive director positions being filled in tandem. "By August we should see movement in announcements in this regard," he said.

As for Morwe, he doesn't intend to be a full-timer at Transnet once the executive committee transforms into a permanently staffed committee. "I came out of retirement for this," he said. He has turned 63, a year older than the mandatory retirement age at Transnet. In any event, "I'm not looking for a job," he said. ■

editorial@finweek.co.za

Photos: Supplied | Transnet report

market place

FUND IN FOCUS: TRUFFLE SCI GENERAL EQUITY FUND

By Timothy Rangongo

A sharp eye for finding value

A fund that expects its investment decisions to bear fruit over a three- to five-year period.

FUND INFORMATION:

Benchmark:	FTSE/JSE Capped Shareholder Weighted Index (J433)
Fund managers:	Iain Power and Saul Miller
Fund classification:	South African – Equity – General
Total investment charge:	1.87%
Fund size:	R617.5m
Minimum lump sum / subsequent investment:	R10 000/R500
Contact details:	011 325 0030/simone@truffle.co.za

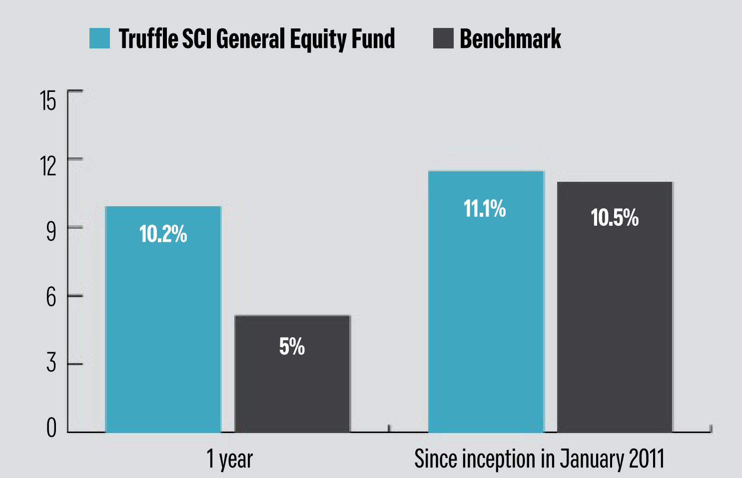
TOP 10 HOLDINGS AS AT 31 MARCH 2019:

1	Naspers*	17%
2	Anglo American	7.7%
3	Sasol	6.9%
4	FirstRand	4.8%
5	Impala Platinum	4.5%
6	British American Tobacco	4.4%
7	Old Mutual	3.1%
8	Anheuser-Busch InBev	3%
9	Standard Bank	2.5%
10	Bid Corp	2.2%
	TOTAL	**56.1%**

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 March 2019:



Fund manager insights:

Truffle's SCI General Equity Fund is for investors who are looking for market exposure to general equities with the objective of achieving positive real returns over time.

The fund's primary objective is augmenting capital appreciation through investments in equities across all sectors of the JSE.

The fund's overweight positions in many of the cheaper industrial and commodity-based rand hedges have been paying off, generating significant outperformance.

"The fund's overweight position in platinum did particularly well after a significant improvement in the basket price of the platinum group metals (PGMs) over the last year manifested in significant earnings," says the fund's managers.

Risk management and limiting position size in each holding and sector is also critical in providing its investors with a sustainable and reliable investment return. As a boutique investment manager, the fund says it complements this investment approach with efficient implementation and competitive fees.

"We calculate the intrinsic value of companies based on their normalised fundamentals which should be borne out over a business cycle. We expect our investment decisions to bear fruit over a three- to five-year period."

If a share remains below intrinsic value and the view on the company has not changed, Truffle continues to hold it – even if for a number of years.

Sasol is one such stock the fund has been holding since inception in January 2011, from which it expects a rise in price as Sasol's investment in the Lake Charles Chemical Project (LCCP), which "the market continues to put very little value on", comes online and starts generating cash.

"We think Sasol will rise towards its intrinsic value as the market sees evidence of its improving returns and free cash flow yields" post-LCCP completion.

Though still significantly invested in resources, it's been reducing its position in resources such as Anglo and Northam, after recent share price rises. Investors who are able to withstand such short-term equity market volatility in pursuit of long-term real returns are thus best suited for this fund.

Why *finweek* would consider adding it:

The boutique asset manager has a highly experienced team, with its five senior fund managers having a median experience of over 20 years between them. The fund has managed an annualised performance of 10.2% for the past year.

With a track record of consistently outperforming its benchmark, the fund is ranked in the top decile of its category, since its inception in 2011. Truffle is also owner-managed and invests its own assets alongside those of its clients and therefore has aligned interests. ■

editorial@finweek.co.za

By Moxima Gama

NETCARE

A breakout is pending

Netcare Limited is South Africa's second-biggest private hospital group. Netcare's share price surged rapidly after 2009 – at the time impetus steepened at every resistance trendline breakout. Investor sentiment was the most bullish in 2013 when both its South African and UK operations grew in their respective local currencies.

Demand in private healthcare as well as bed numbers in South Africa were on a rise and growth projects in their South African hospital division were going through a "strong expansionary phase".

52-week range:	R22.40 - R31.13
Price/earnings ratio:	48.54
1-year total return:	-18.55%
Market capitalisation:	R34.75bn
Earnings per share:	0.49
Dividend yield:	4.06%
Average volume over 30 days:	4 008 473

SOURCE: IRESS

Outlook: Netcare started to pull back in 2015 when market conditions in South Africa and the UK placed immense pressure on its ability to grow. In the financial year that ended September 2014, Netcare reported a 31% drop in full-year profits. Last year, Netcare announced its exit from the UK market. Netcare gradually lost its gains within its primary bull trend from a high at 4 375c/share to current levels at 2 045c/share.

Netcare's results for the year to 31 March is due on 13 May, after this edition of *finweek* had gone to print.

On the charts: Netcare is teetering on the support trendline of a long-term bull trend. It has been correcting in the form of a bear channel. Its trading range is now narrowing as it holds above its support trendline and encounters major resistance from the upper slope of the bear channel – a sign that a breakout in either direction is imminent.

Go long: If Netcare holds firmly above its support trendline and the three-month relative-strength index (RSI) breaches the upper slope of its symmetrical triangle, a move through the upper slope of the bear channel on the price chart should follow. A positive breakout would be confirmed above 2 580c/share. Netcare would then recover its previous losses through 3 115c/share – towards 3 685c/share.

Go short: A negative breakout of the primary bull trend would be confirmed below 2 045c/share. The bear channel would extend to either the 1 620c/share support level or the lower slope. ■

SOURCE: MetaStock Pro (Reuters)

VODACOM

Bias still bearish

Vodacom Group, majority-owned by British-based Vodafone, has seen a steady uptrend in its share price since 2009. This trend steepened in 2017 – reaching an all-time high at 18 700c/share.

52-week range:	R109.4 - R160.29
Price/earnings ratio:	13.68
1-year total return:	-21.15%
Market capitalisation:	R212.7bn
Earnings per share:	8.63
Dividend yield:	6.95%
Average volume over 30 days:	1 725 755

SOURCE: IRESS

Outlook: Vodacom has retraced since testing a new high at 18 700c/share, with investors responding to disappointing performance in data revenue. The share price has pulled back even further after announcing a surprise slowdown in its South African service in January this year. In its results for the third quarter to end December, Vodacom reported a decrease in revenue of 0.9% to R13.9bn, though group revenue was up by 1.5% to R23bn.

On the charts: Vodacom has broken out of its long-term bull trend and is trading in the form of a falling wedge pattern.

Go short: Vodacom is teetering on key support at 11 190c/share. If both the three-week and three-month RSI remain bearish, key support could give in. And if the lower slope of the wedge fails to curb a sell-off, expect a sharp fall to 8 900c/share – and possibly towards 7 900c/share.

Go long: A buying opportunity would only be presented once Vodacom trades through the upper slope of the wedge – which would be at any level above 12 155c/share. Thereafter, a move to 14 115c/share could follow. Above that level Vodacom should extend its gains to 16 030c/share. It would only return to its previous bull trend above 17 235c/share. ■

SOURCE: MetaStock Pro (Reuters)

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Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 12 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

CORONATION

BUY SELL HOLD

By Simon Brown

Plenty of upside left

Late last year, when Coronation* was in the low 4 000c-region, I suggested it was offering great value, with a historic dividend yield of some 10%. There certainly was a risk that earnings could slip, but even if they fell by 20%, it was still offering a yield of 8%.

The share has run hard since then and was approaching 6 000c at the time of writing. Many are asking if it's time to sell, and I think not.

The yield is still some 7.5% and assets under management (AUM) for the quarter ending March will likely be around R570bn. But here is the real kicker: With our local market up some 13% so far in 2019, their profits will also be higher for the quarter.

With our local market up some 13% so far in 2019, their profits will also be higher for the quarter.

Basically, asset managers charge fees on AUM and if markets rise, the value of the AUM, and hence fees, will rise as well. If they can then also get performance fees that means even more extra profits.

At the level of 6 000c to 6 500c per share, the stock may hit some short-term resistance, but I still think it has plenty upside once it breaks through that resistance. ■

The writer owns shares in Coronation.

Last trade ideas

BUY	Platinum	*18 April issue*
BUY	ADvTech	*4 April issue*
BUY	Barloworld	*21 March issue*
BUY	Anglo American	*7 March issue*

REDEFINE PROPERTIES

BUY SELL CAUTION

By Moxima Gama

Keeping up with the trend

Redefine Properties is a real estate investment trust (Reit) that derives rental income from investments in office, retail and industrial properties; distributions from listed security investments, and distributions from investment in associates and joint ventures.

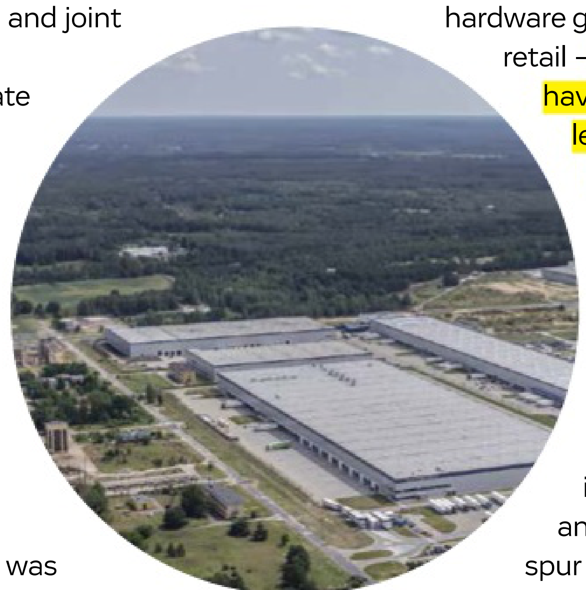
Last year the real estate sector lost more than R120bn of its value due to constrained economic conditions, as well as a sell-off of shares in the Resilient group and its related companies, which affected the entire property index.

Overall, vacancy of Redefine's local portfolio was flat last year at 4.5%, compared with 4.6% in the previous financial year.

Redefine forecast dividend growth of between 4% to 5% for the financial year – on par with consumer inflation.

Currently teetering on the support trendline of its long-term bull trend, Redefine is pointing away from commencing a new bear trend, should it give in any further.

Though analysts believe Redefine has made good strides in keeping up with the trend – even securing new tenants like hardware group Leroy Merlin in retail – the share price would have to recover at current levels to retain its primary bull trend.



One of Redefine's Polish industrial assets in Bydgoszcz, northern Poland.

How to trade it:
A reversal above 1 075c/share would mean Redefine has bounced on the support trendline of its primary bull trend and such a move could spur further buying towards 1 270c/share.

Failing which, continued downside through 935c/share would mean Redefine has breached its major support trendline, and another sell-off could then see the share price drop to 805c/share. ■

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Last trade ideas

CAUTION	Remgro	*18 April issue*
WAIT	EOH	*4 April issue*
BUY	Woolworths	*21 March issue*
BUY	Northam Platinum	*7 March issue*

Photos: Archive | Shutterstock

By Simon Brown

SHARES

How to catch a falling knife

When a stock's price has experienced a downturn, buying it in the hope that it picks up again is tempting. It's a strategy that can pay off, but knowing when to enter requires precision. Otherwise your portfolio could suffer.

The market is full of colourful phrases. One example is 'dead cat bounce' – when a stock price collapses and then briefly bounces before collapsing again. Another is 'trying to catch falling knives'. This is when we frantically buy the same collapsing stock in the hope that we are buying at the bottom. Usually, however, we get it wrong and lose our fingers in the process.

I've been reminded of these phrases recently as my inbox fills with questions about some of our fallen angels, with readers specifically asking whether it is time to buy them. I've also been reminded of a comment from a friend who now runs IG Australia. This friend of mine is always full of insightful ideas that aren't (but should be) market phrases. One of my favourites is that a ten-bagger first needs to be a one-bagger before it goes on to become a ten-bagger. We should therefore be patient.

A ten-bagger is a stock that goes up tenfold, or by 1 000%, and is one of the holy grails of investing as they're fairly infrequent occurrences. But, in the pursuit of these ten-baggers, investors often buy far too soon and instead of catching the bottom of the collapse they end up buying into a falling stock. Such a mistake can be deeply painful to your portfolio. Think Aspen. At R300 per share, and again at R240, many suggested it looked like great value. At R140 the experts were certain it was great value. Yet, now it's at around R100 after hitting R70 when the results were released in March. Trying to catch that collapse would have been very costly.

My friend's idea is to wait for the stock to first double in value – the first 'bag' – before buying. If it truly is going to the moon and going to be a ten-bagger (or more), waiting for the first doubling of the share price will significantly reduce risk. A recent example has been Kumba Iron Ore. When the resource stocks were being aggressively sold off, I suggested waiting for them to eventually double in value before buying. With Kumba at a low of around R25, that meant an entry of some R50. With the share now above R430 that waiting certainly paid off for the patient investor. But many others tried entering on the way down at R300, R200 or R100 and now have reduced profits as a result of poor entries. Trying to catch a falling knife (and missing) means either you'll give up and exit at a loss or, when it does turn, you'll have that much higher entry.

> A ten-bagger is a stock that goes up tenfold, or by
> 1000%,
> and is one of the holy grails of investing as they're fairly infrequent occurrences.

One concern many have about waiting for the first 'bagger' before entering is that you reduce your potential upside. Yes, of course you do. Buying Kumba at R25 would have returned a much better profit than waiting for the R50-entry. Yes, your profit is less. But markets are about managing risk. And trying to catch that knife almost certainly means you would have been buying on the way down as you are trying to catch the bottom and losing money all the time, until eventually it turned. So truthfully, waiting for the R50-entry would likely have made better profits than trying to catch the knife at the bottom and repeatedly missing.

Looking at the current market, there are a lot of fallen angels that I am being asked about, with share prices down by way more than just 50%. We have some darlings that have lost more than 70% in value, and in some cases even 90%. Everybody keeps asking when these shares are ready for buying. The answer is easy: Use my friend's advice and wait for the share to double in price off the lows. Then you have an entry with momentum that probably won't be a dead cat, nor will your fingers be in danger. ■

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> If it truly is going to the moon and going to be a ten-bagger (or more), waiting for the first doubling of the share price will significantly reduce risk.

Photo: Shutterstock

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.

ALLIED ELECTRONICS

Exception to the rule

Yes, turnarounds are usually slow and often fail. But an exception to the rule is Allied Electronics Corporation, with headline earnings per share (HEPS) from continuing operations expected to be 43% to 56% higher. Seldom have I seen such a swift and profitable reversal of a company's fortunes. I eagerly await results in May.

MTN

The option of Jumia

Jumia had a strong listing on the NYSE, with the share more than doubling in value and MTN's 31.2% stake now worth almost $1bn at the time of writing. MTN has stated it will continue to hold the position – and selling such a large stake would not be a simple process. But the stake certainly gives MTN options.

TELCOS

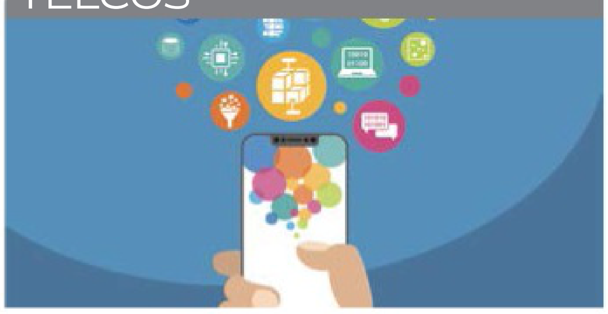

Photo: Shutterstock

Data WILL fall

Both MTN and Vodacom have come under the spotlight at the Competition Commission for their pricing of local mobile data, especially compared to their data prices in other markets. The two telcos have explained their reasons, but few are buying the excuses. The risk is that if they don't lower prices quickly and markedly, we may see the Competition Commission or Icasa step in to legislate the issue, as was the case with other extreme costs charged by the telcos, such as call termination rates. This dovetails into two concerns. Legislative risk; and data as a utility that, while enjoying great growth right now, is under severe long-term pricing pressure.

UBER

No profits?

Uber has just announced a fairly late-stage initial public offering (IPO). They'll raise $9bn for a total market cap of around $90bn. The key point for me is a line in their IPO filing document that states they "may not achieve profitability". Call me old-fashioned but I like businesses that have a plan to make a profit. The problem for Uber is that every ride loses them money. The longer-term plan has always been autonomous cars, removing the cost of drivers. But this is a long way off. Ford's CEO recently stated that he remained confident that autonomous cars will happen, but they're a lot further off than initially expected – a monstrous hole in the business model for Uber and Lyft. These two listings really are more about giving the early investors an easy exit rather than about new investors making profits. The share prices may rally but, ultimately, until we get autonomous cars, they'll likely remain loss-making. The wait will be measured in decades rather than years. Will investors patiently wait for decades while funding the losses? I suspect not.

Uber wil raise

$9bn

for a total market cap of around $90bn.

SHOPRITE

The vote on voting shares

Shoprite* has announced a proposed deal for the non-economic, but voting, shares held by Christo Wiese. The shares give him a 32.3% vote without any profits. But, coupled with his normal shareholding, it gives him control of the group. In March, it was announced he wanted to sell these special voting shares and I wondered what value they really had. Sure, they offer negative control on their own, but without any share in the profits, how does one value them? Well, the Shoprite board has decided that they are worth some 20m new Shoprite shares, worth over R3bn and about 4% of the current market cap of the stock. As a shareholder, I think that is exceedingly generous. I agree that getting rid of these voting shares is a good thing, but my sense is that this really is a buyer's market with no significant other offers to buy. These voting shares also have terms and conditions that could render them void if Wiese's stake drops below 10%, further reducing value. I'll be voting against the offer.

PICK N PAY

It's either or

Pick n Pay presented strong results, with HEPS for the 53 weeks to 3 March up 18.8% on the back of like-for-like turnover, which was up 4.8%. This was with deflation of 0.3%. They no doubt gained some market share, most likely from Shoprite, who suffered from distribution centre and IT disruptions. Pick n Pay's operating margin improved to 2.4% from 2.3% – the target is 3%. I switched out of Pick n Pay into Shoprite about 15 years ago and have written here that maybe it's time to do another switch, this time out of Shoprite. But looking at relative performance, and taking these latest results into account, my view is that Pick n Pay is now on par with Shoprite, with the latter slightly more expensive after weak 2018 results. But Shoprite still has a far superior operating margin. If one believes, as I do, that the self-imposed Shoprite issues won't be repeated, then it is a toss-up as to which of the companies to own. So, I'll stay with Shoprite.

EOH

Hard work ahead

The EOH results for the six months to end-January were about as bad as expected, with new management writing down everything in an attempt to get a low base to work with. Revenue and costs were largely flat – for a company that has a history of +30% growth. The new EOH now needs to grow without acquisition and that's going to be hard. Both the results and many EOH investors trumpeted the share price discount to net asset value (NAV), with NAV sitting at some 2 500c a share. The share was around 1 000c when results were released. However, that NAV includes goodwill of just over R3.1bn. I never like goodwill on a balance sheet, and I would suggest EOH doesn't have much goodwill in the market right now. Removing that leaves NAV per share at some 800c. The share itself has more than doubled after the results but challenges remain, and I am not excited about the near-term prospects here. That said, traders should already be long after the share price doubled.

PURPLE GROUP

Finding traffic

Although still loss-making, Purple Group's (owners of Easy Equities) results for the six months to 28 February showed a marked improvement. The Easy Equities loss before tax was flat while GT247 (the trading division) profits were up over five-fold. Emperor Assets also improved but still brought in a small loss. Overall an encouraging set of numbers, with cash on hand a solid R82m. If they can continue to grow the Easy Equities user base and revenue while managing costs, they remain on track to become profitable in the next few years. Curiously, they no longer mention their number of users. This may be strategic or because the number is stalling. Either way, I like consistency in stats. A strong bull market will help their position as it'll bring in more investors and higher spend. But to be a serious profit generator, Easy Equities needs a large number of clients. The challenge remains continuing to find these new investors.

GRAND PARADE

Life after fast food adventures

Recent dealings in Grand Parade suggest founder and chairman Hassen Adams may have thrown in the towel as he sold around two-thirds of his shares to Value Capital Partners Proprietary, which now owns 20.88% of the shares, making them the largest shareholder. Adams and Value Capital have been at odds recently. The latter is trying to unlock value in a stock trading below its NAV and squandering money on fast food adventures, with ice-cream and doughnuts now being abandoned. The question is how easy (or difficult) it will be to turn the business around. Burger King requires a lot of capital over the next few years as they roll out new stores. The share price is up almost 20% in the last month and has almost doubled since the lows of July 2018. With NAV around 450c there should still be some decent upside here. But this is not without risks. NAV may be reduced, and turnarounds are most often hard and slow.

A2X

Still waiting for trading activity

Looking at the market stats as supplied by A2X, the new exchange traded a total value of almost R110m during March. Not bad, but still really tiny. By comparison, the JSE trades some R15bn per day. The A2X is definitely gaining listings, but thus far it's not getting the trading activity.

Overall an encouraging set of numbers, with cash on hand a solid R82m.

WESCOAL

Not the right time, yet

Lost production at Wescoal's Vanggatfontein mine (following a violent, unprotected strike) could be as much as 20% in this financial year. The mine is responsible for about half of Wescoal's production, and this could take as much as 15% off the HEPS for the current financial year. This is fairly significant. But Wescoal's stock is extremely cheap on a price-to-earnings ratio (P/E) of under 3 times – and a dividend yield of over 5% – and the Sens announcement didn't move the share price at all. Wescoal is probably the best quality and cheapest miner on the JSE. But, for a number of reasons, the market is not buying. Junior miners are totally out of favour, even more so than small- and mid-cap stocks. Furthermore, mining coal raises all sorts of concerns around Eskom. One day this stock will be a great buy. But not yet.

OCEANA

Don't hide the bad news

The Oceana trading statement for the six months to the end of March is a lesson in smoke and mirrors. The second paragraph mentions that profit before taxation will be up by between 26% and 30%. However, towards the last paragraph, it mentions that HEPS will be off 18% to 22%. The reason given is changes to the US tax rate that boosted profits last year but won't have the same impact this year. That is reasonable, but why the seeming attempt to almost hide this fact? ■

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**The writer owns shares in Shoprite.*

Photo: Archive

By Lucas de Lange

JSE

Wall Street is thriving, but…

The S&P 500 is heavily overvalued, which makes share prices vulnerable.

It is to a large extent the strength of resource shares that have underpinned the JSE's uptrend since the beginning of the year.

As is apparent from the accompanying table of the strongest shares among the top 100 shares by market cap, 60% of the top ten are mining shares. The platinum groups are still leading the rest.

Global growth is key to the welfare of mining shares, so it's important to look at the international trends. While Wall Street, the world's leading market, is reaching new highs, it is notable that there's talk of a pending recession in the US.

The authoritative *The Wall Street Journal* states that its indicators, which have been reliable since 1972, show that the probability is more than 60% that the recession will strike within the next six to 18 months. This point of view is supported by a survey of economists by the newspaper. Most of them believe that there's growing risk.

The International Monetary Fund is also predicting that 2019 and 2020 will be characterised by declining growth rates in developed economies. A slowdown will negatively impact commodity prices. From a cyclical point of view, the current upswing, which according to the National Bureau for Economic Research (NBER) began in June 2009, should have come to an end.

At the same time, Wall Street's overvaluation is a cause for concern. For example, the S&P 500 index currently has a price-to-earnings multiple (P/E) of 22.2, which historically translates into an overvaluation of 48% above what is regarded as fair value (15).

Optimists, however, believe that although a correction is quite possible in the foreseeable future, there is nothing concrete on the horizon – such as higher interest rates, inflation or a crisis – which could lead to a bear market. They refer in particular to the excellent quarterly figures that the heavies have been producing. More than three-quarters of the some 130 companies in the S&P 500 index that have thus far released their results, have performed better than analysts' predictions.

Then there is the phenomenon that some US manufacturers have – through new technology – reduced their production costs to a level that's comparable to China's.

The expression "One man's meat is another man's poison" can always be applied to capitalism. As is now happening in the case of Clicks, which wants to open a record number of 41 new stores in its current financial year. It wants to jump on an opportunity that exists because sought-after premises are becoming available, often because other businesses have suffered on the back of the weak economy.

It's CEO, Vikesh Ramsunder, says he wants to focus on opening branches in areas where people aged 60 and older reside. They often visit pharmacies and represent the fastest-growing consumer market in South Africa.

Clicks' share price increased by just over 1 000% over the past ten years. It also enjoys a high rating with a P/E of about 31.

Another share that has suddenly enjoyed buying interest of late is Mediclinic. Since mid-April, its price improved by 16% after it had dropped by 75% since July 2016 owing to problems regarding its foreign investments.

Among the weakest shares, Tongaat is the most prominent. Over the past four years it has dropped by about 87% on the JSE. It has a mountain of debt and it has to revise its financial results. Its latest trading update indicates that its earnings for the year to March have declined by about 250%. It's interesting that PSG Group, through its subsidiary PSG Asset Management, has increased its shareholding in Tongaat to close on 11%. PSG's food interests are housed in Zeder. Maybe there's something on the horizon.

Among the shares that have broken through, Spar, Richemont and Super Group look the most interesting. ■

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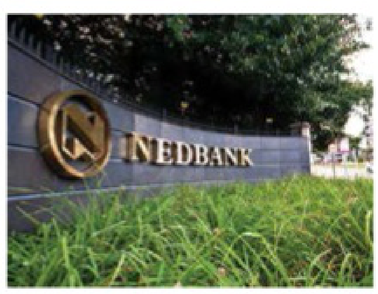
Lucas de Lange is a former editor of *finweek* and an author of two books on investment.

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY
IMPLATS	50.74
TELKOM	31.38
AMPLATS	30.54
KUMBA IRON ORE	27.45
NORTHAM	27.21
DISTELL	26.02
LONMIN	24.77
ARM	23.69
CAPITEC	19.14
ROYAL BAFOKENG PLAT	18.63
NASPERS N	17.63
SIBANYE-STILLWATER	14.41
EXXARO	13.52
GOLD FIELDS	12.82
ASSORE	12.74
ANGLO AMERICAN	11.67
CORONATION	11.55
MTN GROUP	10.84
BHP	10.35
QUILTER	10.18
THARISA	10.17
FORTRESS A	10.04
ANGLO GOLD ASHANTI	9.93
PSG	9.46
BIDVEST	9.22
SANTAM	8.14
TFG	7.77
AB INBEV	6.74
BIDCORP	6.51
SASOL	5.99
RMB HOLDINGS	5.92
STANDARD BANK	5.84
CLICKS	5.19
SIRIUS	5.16
TSOGO SUN	3.68
FIRST RAND	3.65
ADCOCK INGRAM	3.56
MMI HOLDINGS	3.18
MPACT	2.89
EQUITES	2.68
BARLOWORLD	2.51
SUPER GROUP	2.25
PEPKOR	1.82
VUKILE	0.86
RICHEMONT	0.84
INVESTEC PLC	0.73
GLENCORE	0.48
SPAR	0.24
REINET	0.23
SANLAM	0.21
NEDBANK	0.14



WEAKEST SHARES*

COMPANY	% BELOW 200-DAY
TONGAAT	-59.31
STEINHOFF	-52.3
ASPEN	-35.99
INTU PROPERTIES PLC	-28.51
FORTRESS B	-27.36
BRAIT	-25.83
NAMPAK	-24.08
HYPROP	-17.97
HAMMERSON	-17.2
WBHO	-15.37
RCL	-14.56
TIGER BRANDS	-13.07
SUN INTERNATIONAL	-12.62
SAPPI	-9.94
ASTRAL	-9.91
JSE	-9.82
GRINDROD	-9.23
MASSMART	-9.04
RESILIENT	-8.82
MEDICLINIC	-7.79
SA CORPORATE	-6.91
KAP	-6.71
TRUWORTHS	-6.67
PIONEER FOODS	-6.55
DISCOVERY	-6.43
WOOLWORTHS	-6.18
MONDI LTD	-6.12
NETCARE	-6.08
BAT	-5.93
MONDI PLC	-5.78
AVI	-5.48
SHOPRITE	-5.42
SOUTH32	-5.19
OLD MUTUAL	-5.18
VODACOM	-5.17
NEPI ROCKCASTLE	-4.7
MR PRICE	-4.11
LIBERTY HOLDINGS	-3.92
RMI HOLDINGS	-3.65
REMGRO	-2.14
ABSA GROUP	-1.84
DIS-CHEM	-1.72
REDEFINE	-1.58
HARMONY	-1.44
VIVO	-1.26
PICK N PAY	-1.21
RHODES	-0.68
LIFE HEALTHCARE	-0.15
GROWTHPOINT	-0.08

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY
SUPER GROUP	2.25
PEPKOR	1.82
RICHEMONT	0.84
INVESTEC PLC	0.73
SPAR	0.24

**Based on the 100 largest market caps.*

Photo: Archive

finweek

COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

MAY 2019

Inside

THE MULTIPLIER EFFECT OF OUR INVESTMENTS

By Monika Kraushaar

INTRODUCTION

More than just returns

The mindset of the investment world is changing. It's no longer just the profits of your investments that will matter, but also how they change the world that we live in.

Over time, there has been a growing shift in public markets – first to dispersed equity ownership and common shareholder rights in the early 20th century, followed by a focus on profit maximisation as shareholder value creation became more important in the late 20th century.

Fast-forward to today, and the focus is shifting again – with the spotlight on sustainability and impact considerations. This can be seen in both public and private markets, as the recognition grows that investing cannot happen in isolation, and that the impact of investing has more far-reaching effects than what many may think.

Enter the investment multiplier effect. This effect considers that investment spending in the public or private capital markets has a more than proportionate positive impact on the general economy – including the creation of jobs, boosting income, creating growth, socio-economic enhancement and economic development.

The concept seems quite simple, really. But are we actually seeing and experiencing this in South Africa? And is it limited to certain asset classes and investments, or across the board?

You can be forgiven if impact investments such as infrastructure, sustainable investment funds, and jobs funds spring to mind as those being most aligned with this multiplier effect. These are the obvious ones. And can make a noteworthy difference (provided that opportunities exist). However, the impact and effect spans across the asset classes, although there may be some that have a greater impact than others, and we also need to consider the economic opportunities of these different asset classes. Furthermore, we need to contemplate whether our financial markets are still doing what we hoped they would in terms of actually facilitating economic growth.

Incidentally, if we consider the SA equity market, we note that a large portion of the companies listed on the JSE derive their revenue globally. More specifically, around 60% of the JSE Top40 companies' index earnings are derived offshore. What does this mean for the multiplier effect?

It means that an investment in the local stock market is partially a global investment. This in turn means that not all the money is being put to work in SA, in support of job creation and economic growth. Now, I am not implying that investors should, as a result, refrain from investing in the local stock market and seek other local-only options. Why I am raising it is to bring up the question of whether alternative investment options, that do have a higher multiplier effect, abound for investors?

Are there sufficient investment opportunities? How many of these arise – and then fail? And what are the implications of those that fail on the number of retrenchments (and which counters the jobs created in those that do succeed)?

The difficulty comes in the measurement of this effect, and the ability to quantify the number of jobs created, the bottom-line impact on economic growth and GDP contribution and the overall impact on economic development. If those can be fully quantified, and be available, critical mass in investor interest can be reached, which in turn can result in funding for investment opportunities. This in turn can greatly impact positively on job creation and economic growth and development. Simply – the investment multiplier effect.

We can deem the investment multiplier effect as extremely important on its potential impact on the future of finance, and the authors in this edition of CI have provided some deep insights into this.

We begin this edition with a piece by Maitse Motsoane from Prescient, who explores the different capital structures, and the implications for people who want to invest in the economic growth potential of a country. Heather Jackson from Ashburton unpacks, then reflects on the evolution of sustainable investing and barriers to its progress, and furthermore provides examples of the real impact that this has had in countries where sustainable investing has been given an opportunity to bring about the multiplier effect.

PLEASE SEND ANY FEEDBACK AND SUGGESTIONS TO CABOTA@AFORBES.CO.ZA.

An important angle to consider in the private equity markets and how this impacts the multiplier effect is made by Tanya van Lill from SAVCA, where the consideration around job creation in small businesses forms the focus. While there are many failed start-ups, there are also numerous success stories that have contributed positively to job creation, with the help of private investment.

The ultimate challenge, though, is how to identify exactly what sort of multiplier impact is being made by any investment. The industry still has some way to go with this endeavour but Angelique Kalam cogently sets out the issues and shows how we can start tackling this requirement.

One area where there has been a significant amount of multiplier impact research in SA is in providing community-based long-term care. Alison Benzimra illustrates how a redeployment of pension fund assets to addressing some of the critical issues of an ageing population in SA may well turn out to be a better application of investing given the total lack of long-term care solutions for the continent.

Similarly Gerald Gondo, from RisCura, highlights that economic development in Africa absolutely demands an adequate infrastructure to facilitate growth. Investors who see growth as a first priority would be remiss in not seeing the necessity for infrastructure investing. His article helps investors appreciate the qualitative difference between getting in early into these types of investments vs. investing in more mature projects.

John Green of Investec, by contrast, explores three themes that help to shape the multiplier effect in any situation, whereby a solution is identified that can help to address a problem, mass support is garnered which creates mass adoption, making solutions scalable, which is then followed in close succession by funding. He addresses these themes through the example of decarbonisation and helps show how this can become a mainstream investment priority.

> **Going into the future we will begin to see a world where we can't just think of return as what ends up in our pockets, but also how that investment has impacted – for better or worse – the economy as a whole.**

In our final article, we switch gears. In truth, though, the discussion presented by Soria Hay of Bravura simply highlights that it may well be that with some goals, in this case transformation, we will have to constantly rethink what model will give us the most optimal multiplier impact. If B-BBEE is now being thought of as a failed model for transformation, then perhaps a different model, in this case one where we promote black industrialists, could turn this around. Perhaps this sort of leadership would be better at ensuring not just that goods or services get produced, but that they provide a far better representation of what is needed by the broader SA consumer.

All of these investment examples show how the whole mindset of investing is evolving. Sixty years ago it might well have been enough for investors to simply seek the highest return. Then, when Modern Portfolio Theory emerged in the late 1950s and 1960s, we came to understand that returns had to be adjusted by the risks that were taken to achieve them.

Going into the future we will begin to see a world where we can't just think of return as what ends up in our pockets, but also how that investment has impacted – for better or worse – the economy as a whole, inclusive of employment creation, environmental impact, and the meeting of social imperatives. ■

Monika Kraushaar is a senior consultant at RisCura.

By Maitse Motsoane

INVESTMENT

Which asset classes have the biggest impact on job creation?

Bond and equity markets (public or private) are important for employment creation. The growth in gross fixed capital formation is the fuel that keeps the economic engine running.

Robust economic growth is imperative for sustainable employment creation. And over the years, there's been ample academic literature that proves the existence of a positive relationship between capital formation and economic growth. But which asset class has the biggest impact on job creation?

Ultimately, the answer to this question is two-fold. One needs to address the question of optimal capital structure, and how efficiently corporations deploy capital within an economy.

Broadly speaking, companies have two choices when it comes to the financing of investment projects. They can either borrow money or use shareholder capital. The different sources of financing have their advantages and disadvantages.

The challenge here would be to find an optimal mix of debt and equity in order to minimise overall cost of capital. This would lower the hurdle rate of return required from investment initiatives for them to be attractive and, by extension, allow companies to take on more investment projects which will benefit economic growth.

Looking into the characteristics of the different sources of financing, debt offers the lowest cost of capital due to the tax deductibility of interest payments. However, this comes with contractual obligations to make periodic payments to service the debt. This means that too much leverage increases the financial risk to shareholders and the return they require when providing equity capital. On the other hand, equity financing is expensive. On a relative basis, an equity investment is way riskier than an investment in debt securities. As such, shareholders require a return that fully reflects the riskiness of the investment. Therefore, companies seeking financing for new projects need to find the optimal point at which the marginal benefit of debt equals the marginal cost.

Naturally, optimal capital structures will differ across business models and industries. For example, companies in highly cyclical sectors might want to steer away from having too much leverage, while those in more defensive sectors – with more stable cash flows – would probably have more capacity to service debt through the cycle. However, even with an optimal mix of debt and equity financing, for an investment to have lasting impact on economic growth and employment creation, management needs to allocate capital efficiently – by channelling resources to projects that will maximise value for all stakeholders. Absent which, things like write-offs and impairments of assets might come to the fore in the future, as projects fail to deliver returns higher than the weighted-average cost of capital. This would most likely result in job losses.

Private equity's net asset value has grown more than sevenfold since 2002, twice as fast as global public equities.

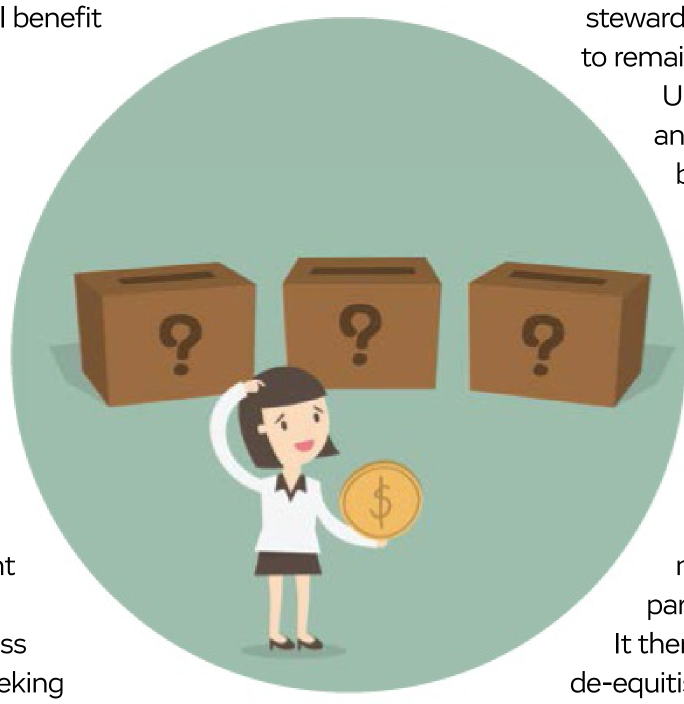


Photo: Shutterstock

Having said that, there has been an interesting development in terms of companies' preferences when it comes to different sources of capital. Over the past couple of decades, alternative sources of funding such as private equity have been going mainstream – with growth companies having demonstrated the ability to attract significant sums of capital before flotation of their stock on public equity markets.

According to McKinsey, private equity's net asset value has grown more than sevenfold since 2002, twice as fast as global public equities. Moreover, the number of listed companies in the US has almost halved since 1996 – a trend that's prevalent across most developed economies. This implies that the significant growth in assets under the stewardship of private equity funds has allowed companies to remain private.

Understandably, going to initial public offering (IPO) and the subsequent maintenance of a listing can be quite costly and onerous from a compliance standpoint – resulting in costs outweighing the benefits of a listing. A study done by Schroders suggests that the burdensome nature of maintaining a public listing has led to not only a reduction in the number of listed entities, but also an increase in the average age of companies going to IPO.

These developments have important implications for ordinary savers. Public stock markets facilitate the person on the street's participation in growth of the corporate sector. It therefore becomes quite evident – with the de-equitisation trend becoming more strident – that ordinary savers will miss out on the exponential growth realised in earlier stages of companies' life cycle. This will have an adverse impact on the agenda that pushes for inclusive growth – deepening the problem of income inequality in the process.

However, even with its shortcomings, private equity funding does have its benefits. Private equity investments are generally long term in nature – with the average holding period of an investment ranging anywhere from seven to ten years. While it might not necessarily be the cheapest funding option available for companies (due to the illiquidity for which

Companies in highly cyclical sectors might want to steer away from having too much leverage, while those in more defensive sectors – with more stable cash flows – would probably have more capacity to service debt through the cycle.

investors require compensation), the capital is very patient. It therefore rids companies' management of the pressure to hit analysts' short-term earnings estimates as seen in the listed equity space, affording them breathing room while they execute their longer-term strategic objectives. This, in our opinion, is the most important benefit of private funding markets. It allows companies' management to embark on long-term investment initiatives that will have lasting benefits for all stakeholders.

Taken together, private funding markets appear to be faring much better at promoting efficient allocation of capital as opposed to their public counterparts. Given the benefits of the asset class and the de-equitisation trend in general, it is imperative for regulators to lighten the barriers of gaining exposure to the asset class. For example, Regulation 28 imposes a limit of only 10% exposure to private equity in pension funds. This clearly lowers the return expectations for ordinary savers.

In conclusion, it is our firm belief that both the bond and equity markets (public or private) are important for employment creation. These are the conduits through which resources are channelled from savers to entities seeking funding for investment initiatives. Public markets provide cheaper capital as there is no illiquidity premium built into investors' return expectations, which lowers overall cost of capital, while private markets facilitate efficient allocation of capital.

Cash or commercial paper, on the other hand, is generally used to finance short-term needs. While it is an important building block in the capital structure of almost every corporation, its most appropriate use is for funding working capital as opposed to investments. It is prudent for companies to use long-term funding when undertaking long-term investment projects.

For this reason, we believe cash as an asset class (or short-term funding) has the least impact on employment creation. Growth in gross fixed capital formation is the fuel that keeps the economic engine running, and the wheels of growth turning, ultimately leading to job creation. ■

Maitse Motsoane is a portfolio manager at Prescient Investment Management.

By Heather Jackson

SUSTAINABLE INVESTING

Déjà vu and looking forward

What kind of society do we want to retire to, and can we have better agency in determining this?

"You cannot be successful, nor even call yourself successful, in a society that fails."
-Feike Sijbesma, CEO of DSM, quoted in 2012.

For the past 20 years the GlobeScan Sustainability Leaders Survey has monitored and shared insights about how we can tackle the world's biggest sustainability challenges. The focus is on what business can contribute and in the South African context this would encompass cultivating a more inclusive and job-creating path. In 2018, it covered 729 entities across the corporate and NGO sectors in 70 countries.

South Africa has more than its fair share of challenges, perhaps most acutely captured for the 40% of people between 15 and 64 years who are not employed, or in education or training (NEETs).

Internationally many corporates have realised that they are part of a stakeholder network across employees, customers, shareholders and the broader operating environment, and are being held to account to integrate sustainability into business models. It is disappointing, then, to see that Africa accounts for just 6% of respondents in this survey. And there is no mention of any SA corporate leaders. The leaders encompass the likes of Unilever, IKEA, Patagonia, Greenpeace, and WWF.

In the 1990s, post the Truth and Reconciliation Commission, I recall being involved in a task team that explored introducing a "restitution bond". This was one of a few initiatives that recognised the need for nation-building efforts across business and society to be tangible and far-sighted – seeking a kind of atonement – and beginning to build a social compact.

Then too, there was an organisation called BusinessMap, formed in the early 1990s by white South Africans who recognised the deep divides in our emerging democracy and sought to provide a bridge for our business community to engage with emerging black power bases in government and beyond.

These all fizzled out and sadly, in the rush to shift offshore, business has seemed to acquiesce to government demands all too easily. The mining sector epitomises this with a wretched cycle of government interference translating into yet more jobs lost and disinvestment by mining companies.

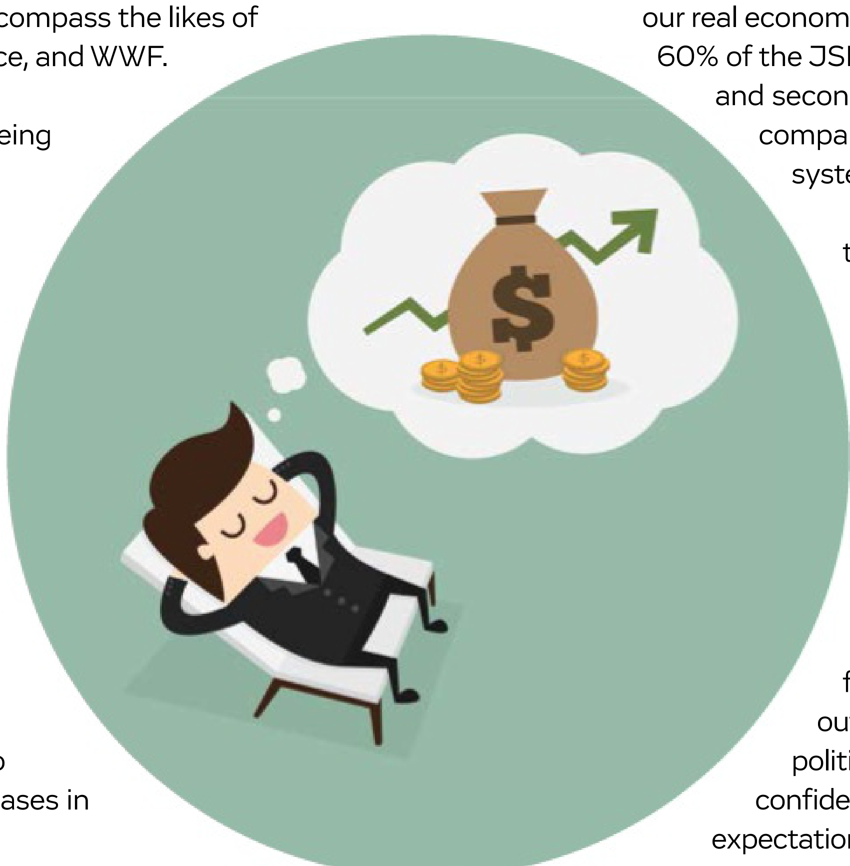
South Africa has lacked business leaders with the kind of vision and moral clout we need to fight for an environment that fosters inclusive growth. It seemed to take Nenegate to shock the business community into collective action and it showed a promising level of effectiveness, but much more of this galvanising spirit is needed if we are to travel the high road once promised.

Feike Sijbesma
CEO of DSM

Fast-forward to today. What does our financial and investment sector look like? And how do we take stock of the way our socio-economy has evolved and the contribution we can make to grow our economy in a sustainable and more inclusive manner? Put simply: What kind of society do we want to retire to, and can we have better agency in determining this?

Some interesting starting points. We know that investment portfolios are typically skewed heavily toward listed equity, with listed bonds, property and cash making up the balance. Despite Regulation 28 enabling at least 35% of allocations toward private markets (such as private debt and equity), our research shows that investors allocate only about 2% of their assets to alternatives. This is well below international norms of 10% to 20%.

Add to this a further two overlooked factors, and South African portfolios are relatively underexposed to our real economy. First, according to several studies, over 60% of the JSE's Top40 derives its revenue offshore; and second, in the debt market, more than 80% of companies fund themselves through the banking system (private markets).



This means that pension and other funds that only access the listed bond market for credit exposure are limiting diversification benefits to just 20% of SA Inc's debt needs. It is evident that our collective savings exposure to the real economy is highly constrained. Some of this is no doubt due to legacy legislation, but Regulation 28 now allows up to 35% exposure to real assets.

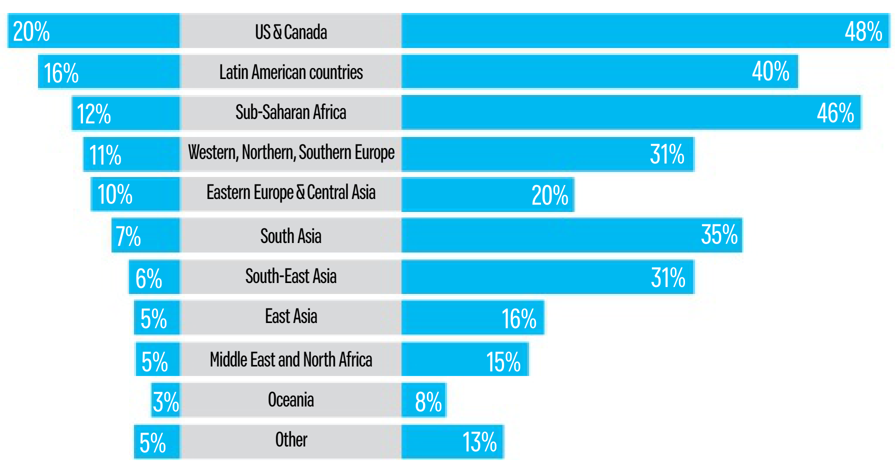
Given the challenging environment investors face, we are well-versed in factors such as a constrained economic outlook, sluggish stock market performance, political uncertainty and lack of business confidence that put a lid on our investment expectations. However, this would seem an opportune time to explore alternative sources of return, such as those found in the real economy in infrastructure and private equity and debt. This offers potentially positive inflation-linked opportunities for diversification benefits in asset classes that are relatively uncorrelated and still provide attractive valuations compared with traditional (and dominant) asset classes.

SA is unfortunately also a laggard in the swiftly

It seemed to take Nenegate to shock the business community into collective action and it showed a promising level of effectiveness, but much more of this galvanising spirit is needed.

GEOGRAPHIC ALLOCATION OF ASSETS UNDER MANAGEMENT OF IMPACT FUNDS

Left side: % of AUM: n = 226; total AUM = $228.1bn
Right side: % of respondents with any allocation to each geography: n=229; respondents may allocate to multiple geographies



Note: Other includes investments with a global focus.

SOURCE: GIIN

growing impact investing world. In the latest 2018 Global Impact Investing Network's (GIIN) survey of 229 impact funds they reported on $228bn under management. The graph shows that sub-Saharan Africa receives a relatively large share of this (12%) from mostly international impact investors. They found that the market is diverse with the top sectors of investment including financial services (19%), energy (14%), microfinance (9%), and housing (8%). Overwhelmingly, impact investors also reported performance in line with both financial and impact expectations.

In SA, given the regulatory requirement to consider more sustainable investing and development prerogatives we as investors face, we urgently need to develop our impact investing capabilities and fund offerings to help convert many of our challenges into opportunities for investment – in much the way that Capitec and Transaction Capital in the financial and transport industries, respectively, have done.

Our first job-creation fund, underpinned by a guarantee from National Treasury, has now created over 10 000 permanent and decent jobs while generating consistent benchmark-beating returns. We have recently created a second, larger fund, but we need many more such impact funds to be both demanded and created by our financial industry.

As South Africans we commonly acknowledge that we face political, social and environmental challenges. But we could also take a closer look at business challenges. We could ask where the vision is – then and now – that recognises the role that business could have in believing and building towards inclusive growth.

Instead of collectively hedging business against SA risk – some would argue this is quite rational, albeit self-fulfilling – how different could it be if more businesses genuinely committed to work in partnership to deliver the sustainable growth we are capable of? The SME Fund and collaboration with the Jobs Fund are hopefully some good examples of how this could be done. But this needs to become a more systemic and planned force that business drives in the interests of generating scale and broad stakeholder value.

Regulation 28 for pension funds also encourages funds to invest for long-term sustainable outcomes, which if embraced positively, could extinguish the prescribed asset menace.

According to Roger Urwin, one of the leading voices on sustainable investing, the central tenet for any investment fund policy requires an evaluation of investment values and investment beliefs. "Values distinguish the investment mission and goals of a fund; beliefs distinguish the investment strategy," he is quoted as saying in *Perspectives: Sustainable Investing Principles and Practice.*

Articulating these values and beliefs within a sound governance framework gives agency to pension fund owners to expressly determine how their investments are made. Current pension fund laws make it a requirement to address and incorporate the principle of sustainable investing and explicitly require the consideration of environmental, social and governance factors (ESG). The real question then is: Are fund contributors receiving appropriate advice and products to spend their money for a better future to retire to?

Our first job-creation fund, underpinned by a guarantee from National Treasury, has now created over

10 000

permanent and decent jobs while generating consistent benchmark-beating returns.

SA has much positive going for it; not least a strong financial and banking sector, an independent Reserve Bank, and a healthy regulatory and legal environment for business to operate in. But perhaps most importantly, we are a relatively sophisticated emerging market with the unique combination of having highly developed world-class infrastructure within an opportunity set of emerging market challenges to solve.

Our fiscal constraints preclude government solutions at scale, which means that we need institutional investors and we need to create a broader offering of real economy assets such as infrastructure to invest in. Our aim should be to invest for a future based on a vision of where we want to retire to. And then work on how to get there with all stakeholders. ■

Heather Jackson is head of impact investing at Ashburton Investments and the chair of the responsible investing committee at Asisa.

Photos: Shutterstock | Gallo/Getty Images

By Tanya van Lill

SMEs

How private equity investments can boost job growth

Research shows that only a fraction of SMEs really have the potential to create substantial growth, and therefore jobs. But partner such businesses with the right skills from private investors, and you create an engine for growth.

Job creation is the mantra in South Africa currently. Moody's is the most recent international observer to single out unemployment as a key challenge, stemming from slow growth, particularly among young people. The ratings agency warned again that deep inequalities contribute to tensions that feed into political risk and hamper the progress of reforms that would unlock economic potential.

The World Bank, in a working paper by Ruchira Kumar, singles out small and medium-sized enterprises (SMEs) as the flywheel inside the engine of job creation in developing markets such as South Africa. The challenge, however, is that the SME sector is heterogeneous. A large percentage of SMEs is small, and comprises of tiny workshops, service providers and craftsman enterprises. These small enterprises are essentially reluctant entrepreneurs who do not have access to wage income and are often in survival mode.

Only a small fraction of SMEs – about 5% to 10% – have the potential to grow and become more productive if their constraints are eased, according to the World Bank. However, these "high-growth" or "transformational" SMEs or gazelles account for a significant percentage of job creation in developing countries; as much as 25% of SME employment, and 40% to 45% of new employment, according to a 2015 report by the International Labour Organization.

A five-year study by Global Entrepreneurship Monitor found that while high-growth SMEs only accounted for 4% of jobs, they generated 38% of all jobs. The questions for SA is: How do we identify the high-growth gazelles and support them with the funding appropriate to their sector, business model and stage of development while unblocking constraints to growth (be it access to new markets or technological barriers)?

One of the answers is through the private equity and venture capital industry. While there are many different types of private equity investments – from large multibillion-rand deals through to small-scale backing of start-ups – these investments work by injecting skills and capital into companies, the two things that make survival possible.

In 2017, R31.3bn was invested by the industry, bringing the total that the industry manages to about R165bn, according to the Southern African Venture Capital and Private Equity Association's (SAVCA's) 2018 industry survey. This is only a fraction – less than 1% – of the almost R4tr of third-party assets invested in SA according to the latest industry figures from the Association for Savings and Investment South Africa (Asisa).

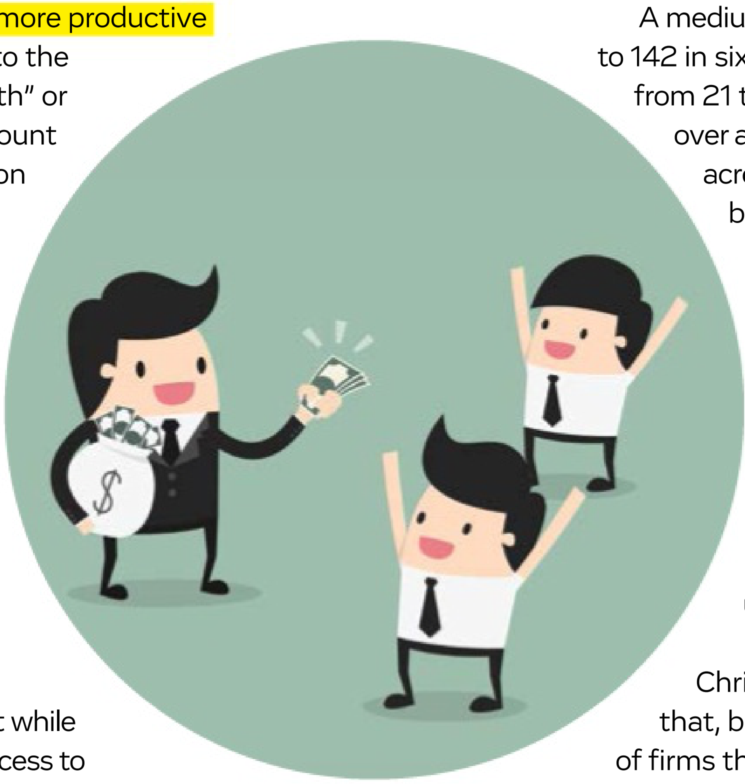
It's estimated that roughly 5 000 to 7 000 net new firms enter the local market annually.

However, the multiplier effects can be measured in both turnover and job creation.

In 2018, SAVCA launched awards to recognise companies that thrived after having received private equity and venture capital investment. Across the nine finalists, over 65 000 jobs were created.

That figure is skewed towards two big companies which created the bulk of the jobs over the long term, but in relative terms the jobs impact on smaller businesses is also profound. One company grew its staff complement from 200 (at the time of its private equity investment in 2016) to 602 employees two years later. That's growth of 200%.

A medium-sized company grew its employees from 110 to 142 in six years, while a small company's employees grew from 21 to 25 in less than a year. That's 20% job growth over a short period. If the same could be repeated across small businesses, the overall impact could be material, especially in a country like SA with a sizeable unemployment rate.



Figures released last year by the Small Business Institute (SBI) show that there are approximately 250 000 small, medium and micro enterprises (SMMEs) in SA. Let's assume that each of those 250 000 businesses are able to employ just one extra person this year. That would immediately put a small, but meaningful dent, in the unemployment rate.

It's true that SMMEs suffer high failure rates. Chris Darroll, head of research for the SBI, says that, based on data from 2007 to date, "the number of firms that enter [the market] roughly tally to [the] same that exit".

But despite the statistic that roughly 90% of small businesses fail within the first two years, when one calculates firm entry and exit, we are slightly above neutral, with a marginal increase of new firms entering the market each year. It's estimated that roughly 5 000 to 7 000 net new firms enter the local market annually. It's important to note that these are firms that have a

Photos: Shutterstock

payroll; they are therefore formal businesses, comprised of employees who formally make contributions to the fiscus through pay-as-you-earn tax.

The question that remains is whether private equity and venture capital is suited to the entire ecosystem or just parts of it.

Private equity and venture capital investment is not the only solution. It does, however, form part of a broader ecosystem that caters for permanent capital players. Beyond the provision of capital injection, private equity and venture capital fund managers provide 'sweat capital', which includes implementing fit and proper financial reporting standards, identifying market opportunities or inefficiencies that the entrepreneur may or may not be aware of, and ultimately grow the business and unlock the value.

This ensures that by the time long-term, permanent capital providers invest, the business generally has a more stable and secure management structure that enables it to function independently.

SAVCA, as an industry body, has published numerous case studies on the positive impact private equity and venture capital investment has had on investee companies. Yet we recognise the importance of quantifying the level of impact made by private investment. We have commissioned research group Intellidex to conduct an impact study of investee companies who received private equity or venture capital funding. The research will focus on financial as well as non-financial data points to assess the impact of private equity investment compared to other forms of investment capital.

While the measurement of impact globally has traditionally been guided by measurement metrics developed by organisations such as the Global Impact Investment Network (GIIN), SAVCA's impact barometer will focus on key issues directly linked to SA, including the impact on employment, the impact on black economic empowerment, governance, innovation, market access, environmental impact, and the impact on financial performance.

The local financial sector does not operate in a vacuum. The current struggling economy does present a challenging economic environment for the business sector. Intellidex analyst Peter Attard Montalto has cut his GDP growth forecast for 2019 from 1.2% to 1.0% citing risk of load shedding by Eskom. With these projected growth figures, a significant growth in employment is unlikely.

Like any other sector, small businesses need wider economic growth to flourish. Without growth almost all interventions will only be impacting at the margin.

Let's come back to the World Bank's research on gazelles. While only 10% of SMEs in the country have the potential to grow and be more productive when constraints are eased, they account for 40% to 45% of new employment. Private investment possesses the skills – from governance, to access to networks and new markets, to enhanced BEE ratings – to be an important cog in this engine of growth. ■

Tanya van Lill is CEO of SAVCA.

By Angelique Kalam

MEASUREMENT FRAMEWORKS

Metrics and the multiplier effect of impact investing

Identifying tangible criteria to measure and report on the impact of an investment will provide transparency and can promote stronger investment processes.

There is growing interest in impact investments by institutional investors who wish to invest profitably, but at the same time align their investments with their values. Furthermore, we are seeing an increase in the number of frameworks used to measure and report on the impact of investments, which provide investors with more options and opportunities to create more robust processes.

But with this comes a further challenge: These frameworks tend to differ in their approaches and methodologies, and, at the end of the day, investors must still decide how they measure and report on their impact investments.

Two of the most commonly cited challenges in measuring impact include subjectivity and a lack of a universal or standard reporting framework.

■ Subjectivity: The argument around who decides what constitutes impact can become a bit blurred – some say it's "in the eye of the beholder". There is some truth in this, if you consider that our view of the world is mainly driven by our personal biases, beliefs and values. Therefore, it's unlikely that we'll all agree, all of the time, on how impactful an investment is. In developed countries, for example, access to transport infrastructure is considered a given, so not requiring investment for impact. But in emerging market countries like SA, a lack of access

Unfortunately, there's also been an increase in 'impact washing', whereby investors are lured by clever marketing used to camouflage the underlying impact, or rather, the lack thereof.

to transport infrastructure is a reality – particularly in rural areas, where lack of adequate roads to support communities inhibit access to peri-urban and urban areas, making it difficult for these communities to achieve sustainable economic growth.

■ A lack of standardised reporting frameworks: It can be argued that there is no standardised framework that will address all the needs of every investor when it comes to measuring and reporting on the impact of their investments. That said, investors must determine their needs and can adapt one or more of the existing frameworks to their process. During the past ten years, there has been a profusion of new reporting frameworks, which adds to the confusion.

Many investors have adopted the United Nations' Sustainable Development Goals (SDGs) as a guideline framework (see sidebar). The SDGs cover 17 goals, which comprise a call for action by both developed and developing countries to end poverty, improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

In April 2019, the International Finance Corporation (IFC) launched its Operating Principles for Impact Management (see table). The aim of these nine principles is to "contribute to measurable positive social, economic, or environmental impact, alongside financial returns". The principles go beyond asset selection that aligns investment portfolios with impact goals (such as SDGs), to requiring impact considerations to be integrated into investment decisions throughout the investment lifecycle.

Can metrics provide insight into impact?

There is a place for frameworks and metrics which can enhance and promote stronger investment processes, as well as offer greater transparency for clients investing in impact funds.

Some insights from our experience over the past 24 years include:

■ In addition to earning appropriate risk-adjusted returns, investors require compensation in the form of tangible social or developmental outcomes.

■ Although measuring impact can be highly subjective, this aspect can be minimised by identifying tangible criteria to be used for measuring and reporting on impact. For example, metrics for an affordable housing investment could include the number of homes built, jobs created, and the type of "green" building materials or technology used in the construction. It is possible to align impact and developmental objectives with concrete outcomes that

THE IFC'S OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

Strategic intent	Origination & Structuring	Portfolio management	Impact at exit
1. Define strategic impact objective(s) consistent with the investment strategy. 2. Manage strategic impact and financial returns at portfolio level.	3. Establish the investor's contribution to the achievement of impact. 4. Assess the expected impact of each investment, based on a systematic approach. 5. Assess, address, monitor, and manage the potential risks of negative effects of each investment.	6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.	7. Conduct exits, considering the effect on sustained impact. 8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

INDEPENDENT VERIFICATION

9. Publicly disclose alignment with the principles and provide regular independent verification of the extent of alignment.

Source: IFC

are measurable and do not compromise financial returns when they are identified upfront.

■ Not all types of impact are created equal. Different investments have varying degrees of on-the-ground impact. Holding a listed parastatal bond, for example, has a lower impact than providing low-income housing. Impact investments can be categorised into "high, medium or low" impact, for example:

• **High impact:** infrastructure project finance (water & transport infrastructure, etc.), access to finance for the previously "unbanked", social infrastructure (healthcare, education, etc.)

• **Medium impact:** access to affordable rental housing.

• **Low impact:** environmentally-screened ethical investments.

■ Sectors that facilitate the most diverse impact include those that address SA's infrastructure backlog and those that historically had a lower deployment of capital. Most of these sectors are aligned with government's National Development Plan (NDP) goals and contribute to the economic and social development of SA, which, in turn, promotes and stimulates job creation. Some examples of these sectors include infrastructure projects like transport, water, healthcare, education and tourism, while others are affordable housing, B-BBEE housing, SMME finance, and agriculture.

Impact versus risk and return

Contrary to popular belief, South African pension funds have a long history of investing for impact and, in turn, support national development through a diversified pool of investments. There are many examples, such as the Futuregrowth Infrastructure & Development Bond Fund (IBF), with a long-standing track record that prove how the growth in such impact funds has contributed to positive growth in the sector.

Unfortunately, there's also been an increase in "impact washing", whereby investors are lured by clever marketing used to camouflage the underlying impact, or rather, the lack thereof. Pension funds must critically assess these investments based on sound investment principles. Firstly, they need to define their social and developmental mandate, their objectives and the impact outcomes they always want to achieve, and never compromise on achieving sustainable risk-adjusted returns for their underlying beneficiaries.

Defining appropriate objectives and metrics upfront, and monitoring the progress over time, will go a long way to ensure the desired impact is achieved. ■

Angelique Kalam is the manager of sustainable investment practices at Futuregrowth Asset Management.

A case study: Local taxi industry buys stake in SA Taxi

SA Taxi*, founded in 1996, has 1 098 employees and a national customer base. Futuregrowth provided financing to SA Taxi Finance Solutions, a subsidiary of the listed Transaction Capital, where funding is provided to small business owners starting and expanding taxi operations. When determining the criteria to measure the impact of this transaction we considered the direct (primary) impact on consumers as well as the indirect (secondary) impact.

IMPACT INDICATORS:

Job creation: Over the last decade, SA Taxi has provided more than R21bn in loans to the taxi industry, helping to facilitate the financing of small businesses and contributing to the creation of about 130 000 direct and 220 000 indirect jobs.

Facilitating transport infrastructure: The R50bn-a-year local taxi industry is central to more than 40% of South Africans for whom public transport is a non-discretionary daily spend. The taxi industry has a much deeper route penetration than other traditional public transport services such as buses and trains, and serves as a feeder to these nodes.

Providing access to finance: SA Taxi utilises an innovative credit scoring technology to assess credit risk. If not for them, the industry would remain largely unbanked.

Supporting BEE finance & transformation: Through the transaction, Futuregrowth, acting on behalf of its client funds, partnered with SA Taxi and Standard Bank to finance the acquisition by the South African National Taxi Council (Santaco) of a 25%-stake in SA Taxi. Upon settlement of the outstanding debt, Santaco will enjoy unencumbered share ownership of SA Taxi, which has consistently declared sound dividends over the past years. ■

**Adapted from a previous case study written by Luzuko Nomjana, an investment analyst at Futuregrowth Asset Management.*

The United Nations' 17 Sustainable Development Goals are:

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships for the goals

By Gerald Gondo

INFRASTRUCTURE BENCHMARK

Closing Africa's infrastructure gap

Investment into infrastructure on the African continent is often perceived as high-risk, and the responsibility of governments. Understanding the different types of infrastructure investment, could change these perceptions.

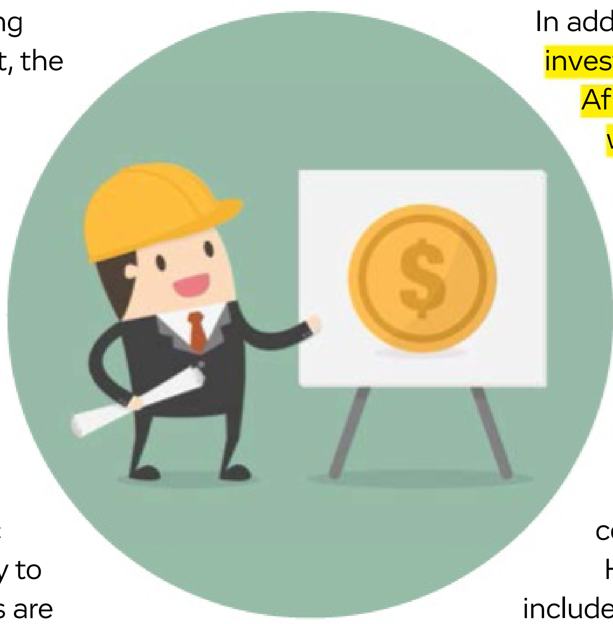
According to the World Bank, closing Africa's infrastructure quantity and quality gap has the potential to increase GDP per capita by as much as 2.6% per annum. Infrastructure development allows for the delivery of goods and services that promote prosperity, growth and contribute to quality of life for Africa's burgeoning populace.

Historically, governments have borne the responsibility for infrastructure development as it is typically considered a "public good". However, in most African states, governments are struggling to keep up with the level of development required and alternative sources of funding are needed. Institutional investors are increasingly seen as natural funding partners given their long-dated liabilities that seek inflation-linked assets.

Most institutional investors are relatively risk-averse and may not have investment mandates allowing for investing in unlisted instruments.

But not all infrastructure assets offer the virtues of inflation hedging. It is important for investors to understand the different categories of infrastructure, as well as the life stages of their development, as these result in different cash flow risk profiles. There are two main types of infrastructure investment – greenfield and brownfield.

Greenfield infrastructure refers to the creation and construction of a new asset. For investors, inherent risks of these projects include construction risk, performance risk and off-taker risk. The creation of the asset primarily involves funding the project, with risk of the project not reaching a stage of being commercialised. At this stage of development, the infrastructure asset would not manifest any inflation-hedging features.



Brownfield infrastructure investment refers to existing and ready-to-operate infrastructure assets. These assets can potentially generate revenues. Given that the infrastructure now exists and is in use, the risks of investing into this project are substantially less than a greenfield project. Because many infrastructure assets have monopolistic features (e.g. a toll road that all road users must utilise to access a specific town), cash generation for such assets is easy to model. Brownfield infrastructure investments are also often scalable; by enhancing the facilities, greater output can be produced and therefore greater cash flows.

These features allow for the cash flows emanating from brownfield infrastructure investments to be modelled to escalate or be linked to inflation, and the cash flows can be used to match long-dated liabilities driven by the long-dated nature of the operating capacity of most infrastructure assets.

With an understanding of the fundamental merits of the asset class, prudential institutional investment requirements might preclude them from taking up exposure to a single asset (e.g. one toll road) and they could invest in a diversified portfolio of infrastructure assets. This can be achieved by investing in a fund, where the fund is able to give investors diversified exposure to the asset class. However, most infrastructure investments are classified as unlisted investments.

Additional routes to investments would be to expose their capital to listed public equity investment opportunities that provide the investor with exposure to infrastructure assets, such as Umeme, Uganda's main electricity distribution company, listed on the Uganda Securities Exchange and cross-listed on the Nairobi Securities Exchange. Umeme operates a 20-year electricity distribution concession, which was effective from 1 March 2005, from the government of Uganda.

Institutional investor exposure to infrastructure has historically been via fixed income, where long-term investors have invested in infrastructure or project bonds and where these fixed income securities are underpinned by the cash flows of a ring-fenced infrastructure project(s).

Most institutional investors are relatively risk-averse and may not have investment mandates allowing for investing in unlisted instruments. Thus, for long-term savings to be channelled towards African infrastructure assets, the investment mandates (inclusive of the regulatory thresholds) would need to be revised to accommodate investments in unlisted instruments, including infrastructure assets.

In addition to revised mandates, institutional investors would benefit from the creation of an African infrastructure performance benchmark which would improve their ability to allocate and evaluate investment opportunities, monitor the performance of their infrastructure investments against the benchmark, thus increasing the investability of infrastructure.

RisCura has partnered with Africa Investor to launch Africa's first infrastructure performance benchmark, which should facilitate increased investment into African infrastructure. The index allows investors to assess likely returns if they are considering investing in this asset class.

Historical returns to be measured by the benchmark include a default risk. There is generally a perception that African infrastructure may be riskier with lower returns, however, traditionally infrastructure on the continent has a low reported default risk; therefore there is a difference in the real risk versus perceived risk in the asset class in an African context which investors need to be aware of. In time, the index should contribute towards closing Africa's infrastructure gap and help boost economies across the continent. ■

Gerald Gondo is business development executive at RisCura.

Photo: Shutterstock

By Alison Benzimra

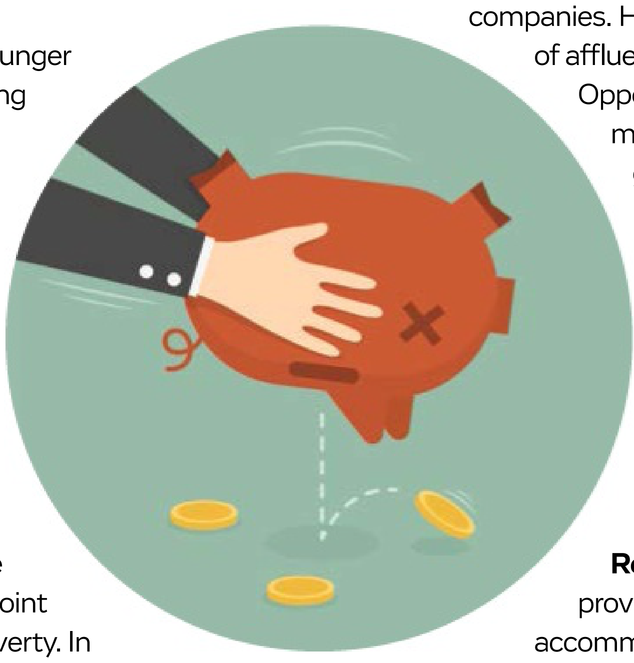
IMPACT INVESTMENT

Solving South Africa's retirement crisis

Ensuring that retirees are adequately taken care of in their later years is not simply a case of increasing one's saving rate pre-pension. It requires a solution that marries retirement savings with an impact investment framework.

The financial services industry bangs on about getting people to save more for retirement. This is fueled by the statistic that only 6% of people will retire comfortably. The financial services industry and media are entranced by this mythical figure, ignoring the reality of the remaining 94% of the population who will become reliant on the state, family and friends.

Encouraging people to save more in their younger years will not solve the retirement crisis. Focusing on increasing retirement savings rates treats a symptom of growing old in South Africa. It does not address the immediate concerns of current retirees and their adult children and family members who carry the responsibility of care for their elders.



South Africa does not have the infrastructure nor established models to deal with long-term care requirements. The Life Esidimeni tragedy highlighted this inadequacy. Policymakers are challenged by the multitude of issues facing South Africa. The section of the population aged 65+ is a minor point in comparison to youth unemployment and poverty. In this context, if the financial services industry is committed to addressing the sustainability of retirement, a broader approach is needed. Simply investing in publicly listed assets won't address the needs of retirees. A solution is needed which marries retirement savings with an impact investment framework where the returns to retirees and their communities would be significantly greater.

The South African Medical Research Council conducted an investment case for community health worker interventions. The 2017 report details how the injection of the added salaries spent in the economy – mainly to poor women – will translate into an amount of R20bn added to the country's GDP over the first three years due to the multiplier effect.

In addition, the better health status of the population and the deaths averted through the interventions, translate into an additional 5m productive life years added to the workforce over ten years. The consequent increase in productivity would add R413bn to the GDP. This report demonstrates the benefit of assessing the impact that investments have on the economy and society, and illustrates the necessity of doing work on the multiplier effect in emerging markets and middle-income countries.

In assessing the potential impact investment opportunities in the ageing sector, the market is segmented into housing, social care, purpose of life and family reciprocity.

Housing

Social challenge: South Africa has no official policy on social housing for older people. The policy which does exist states that no more than 2% of older people can be accommodated by state-subsidised facilities. Government has been overwhelmed by the backlog in demand for social housing and does not view dedicated senior housing as a priority.

Market opportunity: In South Africa, private sector retirement accommodation developments are a booming industry. PSG's 50% stake in Evergreen Lifestyle and Old Mutual's entry into the retirement development market have proved to be sound investments for these companies. However, these developments cater to a handful of affluent, predominantly white older South Africans. Opportunity exists to develop an innovative housing model strategy which addresses the needs of a growing low- to middle-income older demographic.

Social enterprise solutions:

Housing developments which address multiple issues:

- Student accommodation: an acclaimed project in the Netherlands provided student accommodation in nursing homes in exchange for the students' time spent with older residents.
- Pre-schools: intergenerational care centres inside nursing homes bring together seniors and toddlers.

Revenue model: The multi-purpose use of space provides an additional income stream to a retirement accommodation development. In addition, a means test for rental price can be instituted for older residents.

Multiplier effect: Employment opportunities are created in senior homes and pre-schools. Investment in early childhood development programmes and easing of financial and housing constraints experienced by tertiary students. The social inclusion of older residents improves wellbeing and extends healthy life expectancy.

Social care

Social challenge: Older person care and support services are underresourced, have unsecured budgets and struggle with poor financial management and recordkeeping. The impact of such initiatives is therefore suboptimal. Compounding the social care issue, is the increased prevalence of non-communicable diseases. Age is the strongest risk factor related to these conditions. By 2030, non-communicable diseases are projected to be the leading cause of death in South Africa.

Market opportunity: Intervention is needed which manages symptoms of non-communicable diseases and provision of community-based care of a growing ageing population.

Social enterprise solution: Programmes like Taking the Lead focus on leadership development and capacity building in the care sector. The emphasis is on training care workers to encourage older people to be more self-sufficient and prolong the need for long-term care. Senior facilities are therefore able to share care workers between elders.

Revenue model: Care services subsidised by government, residential facility and private users.

Multiplier effect: Women are overrepresented in the care sector, which has a reputation for low pay and status. Leadership development and capacity building within the care profession increases the value of care work. The IMF demonstrates significant evidence of macroeconomic

Photo: Shutterstock

gains of women in employment. Female workers direct their earnings towards their children's healthcare and education. Expanding the provision of care to home-based older people equates to less time that female family members spend caring for elders. Unpaid care work has monetary implications, as it inhibits women's paid work potential.

Purpose of life

Social challenge: Retirees lack a sense of purpose.
Market opportunity: Utilise the skills and knowledge of retirees and channel this expertise into mentoring schemes.
Social enterprise solution: 50 Plus Skills is an online skills community that provides a platform for individuals, aged 50 and over, to connect with and provide their skills, time and services to business, civil society, academic institutions, NPOs and government.
Revenue model: Acts as an agency connecting seniors with potential employers and charges a subscription fee to members.
Multiplier effect: Ensures that older persons can earn for longer, delaying their potential reliance on government grants. Using skills of retired people creates capacity building, which has a multiplier effect on younger generations in the labour market.

Family reciprocity

Social challenge: The sandwich generation is responsible for older family members. Upwardly mobile, economically active family members live in other cities or countries, inhibiting their ability to provide day-to-day support. Straining the situation is increased prevalence of dementia. As dementia progresses, an older person's care requirements increase. This is difficult for family members to comprehend and adequately provide for.
Market opportunity: There is a hidden demand for low-level care, which remains mostly unmet.
Social enterprise solution:
■ Home-based services – care, home maintenance and housekeeping needed for elderly parents.
■ Ancillary services – training, legal and administrative support for economically active family members. Guidance in dementia needs, power of attorney, transitions to requirements of long-term care needs.
Revenue model: Home-based services paid for by sandwich generation. Ancillary services paid for by private user or by corporations aiming to provide employee-friendly environment.
Multiplier effect: Reduction in absenteeism. Providing support to women and ensuring their career and income progression is not interrupted. Guidance in family reciprocity helps avoid detrimental repercussions of sandwich generations' own retirement provision.

As one of the founders of impact investing, Sir Ronald Cohen, said: "It's time to shift from just evaluating risk and return, and add impact into investing calculations."

In the future, investors will have evolved to the point where every investment will be assessed in the context of how much more value can be accessed. For impact investors searching for a comprehensive approach towards creating social value, opportunities exist to simultaneously address the challenges experienced by older South Africans and the broader society. ■

Alison Benzimra is a consultant, researcher and writer at Whealthcare.

By John Green

GOING GREEN

Investing in the face of humanity's greatest challenge

As we battle the very real effects of climate change, it is essential to direct capital to companies that show the greatest potential in coming up with the solutions needed to address sustainability challenges.

Climate change is as old as the planet we call home. It forms part of the natural, slow oscillation of the world's ecological pendulum. While human development has been founded on a period of relatively benign climate conditions since the end of the last Ice Age, it is now widely recognised that industrialisation and rapid population growth have created an economic growth model where human activity has taken over from nature as the primary agent of climate change.

This has pushed the planet beyond its ability to repair and regenerate the ecological systems on which all forms of life depend.

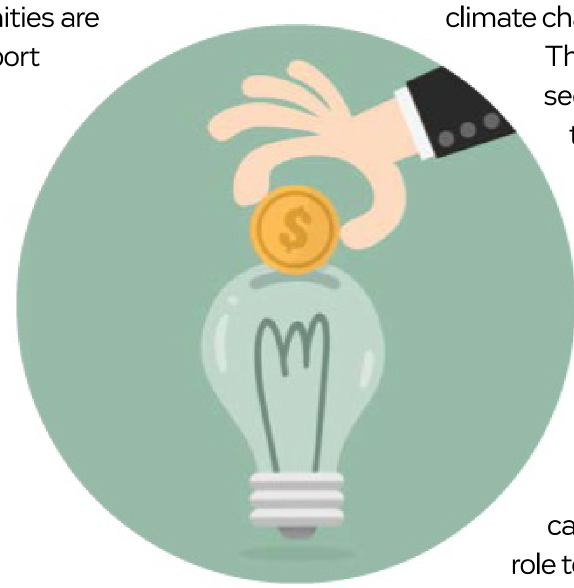
A recognition that we are testing the planet's ecological boundaries is now setting the stage for a historic reorientation of the world's economic growth model towards a new, more sustainable path.

While its genesis may have been in environmental concerns, it is fast evolving into a more holistic approach to sustainable development that incorporates social and governance factors typified by the development of the Sustainable Development Goals set out by the UN in 2015.

Sustainability lies at the heart of successful long-term investing.

As investors, our approach to sustainability must reflect the changes going on in the world in a way that makes us part of the solution, rather than part of the problem.

In addition to divestment and engagement, as allocators of capital we need to ask how we can take positive action and participate in meaningful change. Indeed, investment opportunities are more plentiful and diverse, with government support and policy needing supplementation by private capital – and calling for it – if the volume of necessary investment is to be deployed at the pace required to catalyse change for our planet.



Let's take a practical example to illustrate. The world has embarked on its third energy transition: a relatively rapid shift in favour of low-carbon energy. Solar and wind are set to become the dominant and far more economical power sources as the world electrifies. This suggests that the path to decarbonisation, and the associated energy transition, is ready to be considered for capital allocation by asset owners.

More cost-effective technology has now brought us to a point where solar and wind energy are often cheaper than legacy primary energy sources, notably nuclear power and coal. Increasingly, the near-term economics of these proven technologies support the ecological imperative to push progress towards decarbonisation further, faster. While historically we know that changes in primary energy sources are multi-decade processes, the speed of previous energy transitions has regularly outpaced predictions.

Furthermore, renewable energy adoption has risen to above critical mass. In 2000, solar- and wind-generated power accounted for just 0.2% of the world's electrical power mix, rising to 7% in 2017, according to Bloomberg New Energy Finance. Also, by 2017, renewables accounted for almost two-thirds of net new global electricity capacity, with greatest demand growth coming from Asia. This figure is forecast to reach 100% by 2020.

A further driver is seen in mass transportation, soon likely to be dominated by electric-powered vehicles deriving their energy from renewable sources. Electric vehicle production is on the cusp of a step change in 2019 to 2020, as key auto incumbents move beyond the internal combustion engine, and China claims leadership in this area. Alongside a series of other wins in the fields of renewable energy capacity growth and development, China now produces over 50% of electric vehicles worldwide, and its impact on the transition will be influential.

This means that, following the allocation of public capital and the shaping of policy, the baton is ready to be handed to private capital in allocating the funding needed for a significant shift in trajectory.

Asset owners can make purposeful choices, and through these, a meaningful difference. Just as investment committees have shaped exclusion lists, the time is ripe for considering how to take positive action. In allocating capital to a universe of companies that support the transition to decarbonisation, a double-positive is achieved – not only is capital made available to companies catalysing positive change, but wise allocations also serve as insurance against the unknown implications of climate change in other parts of an investment portfolio.

There are barriers to positive action. No investment sector has yet been defined to capture companies that are benefitting from the world's journey to decarbonising. No logical investment bucket has yet been defined by the consultant community to position this kind of universe in the context of an overall portfolio. No standardised metrics have been defined as a benchmark for measuring impact, with the stance taken that sustainability factors are already woven into the fabric of a conventional equity portfolio.

In conclusion, asset owners, allocators of private capital, business and governments have a significant role to play in positively directing capital to the companies who show the greatest potential in coming up with the solutions needed to address sustainability challenges. Yes, rapid reassessment will be required to address portfolio weightings and focus will be required to build portfolios that effectively capture the structural investment theme.

Yet the first step towards optimising investment portfolios must be to recognise the scale of the challenges ahead, to implement a framework for how current investment portfolios may be affected, and understand the opportunities arising from the fundamental structural changes taking place in our world today that could lead to positive impact for the future. ■

John Green is co-CEO of Investec Asset Management.

Photo: Shutterstock

By Soria Hay

INDUSTRIAL TRANSFORMATION

Black industrialists can transform our economy

Black economic empowerment codes have not lived up to expectations of enabling geniune and sustainable transformation. And without it, South Africa is sure to struggle to achieve meaningful economic growth.

The first broad-based Black Economic Empowerment (B-BBEE) Strategy and Codes were published in 2007. Yet, black economic empowerment policies have not lived up to the expectation of bringing fundamental economic transformation to corporate South Africa.

Although there are a number of B-BBEE success stories, many have resulted in black people acquiring minority equity stakes, with little or no operational control or management input and little influence over the board of directors in the entity.

In light of this, the department of trade and industry (dti) is putting significant effort into its black industrialist incentive programme to achieve what B-BBEE empowerment policies have so far failed to achieve – genuine and sustainable transformation.

The dti's multibillion-rand Black Industrialist Policy was established in 2015, with the stated intention to promote the creation and long-term sustainability of black industrialists, described as black people directly involved in the origination, creation, significant ownership, management and operation of industrial enterprises.

An original target of supporting 100 black industrialists by March 2018 has since grown to support 100 more industrialists over the next two years. To date, R8bn in investment has been leveraged, with jobs created and retained exceeding the 18 000 mark.

The Black Industrialist Policy emphasises entrepreneurial leadership, majority equity shareholding or financial interest, significant influence on strategic direction, and executive participation or managerial control over operational activities.

How is a black industrialist identified and financed?

The dti describes black industrialists as "black South Africans who own and, through significant shareholding, control an enterprise whose products are significantly used, have a considerable impact on decent employment and create broad-based economic opportunities".

As such, black industrialists must be directly involved in the strategic and operational leadership of the operation, have the requisite expertise and a high level of ownership (>50%) and/or exercise control over the business.

The challenge of access to finance is one of the main constraints confronting black entrepreneurs. Lack of equity capital also has an adverse impact on black businesses' cost of debt funding. A contribution to equity capital reduces the risk profile of a black business and thus unlocks funding opportunities for banks to participate in a more meaningful way.

The dti has set aside R1bn to invest seed capital into qualifying black manufacturing enterprises so as to equip them with the necessary equity capital to gain access to the private banking funding sector. The Black Industrialist Scheme (BIS) offers a cost-sharing grant ranging from 30% to 50% to approved entities, up to a maximum of R50m of project costs.

To date, **R8bn** in investment has been leveraged, with jobs created and retained exceeding the 18 000 mark.

Beneficiaries can further apply for concessionary loan finance from the Industrial Development Corporation (IDC), which has earmarked R7.9bn in funding in addition to the original R23bn set aside in 2016. The financial sector, as part of its transformation code, has also committed R100bn over the next five years to support black enterprises and firms within the industrial sector.

How do we ensure success?

It is of critical importance to provide access for more black South Africans into the mainstream economy, and to create job opportunities, new businesses and a wider pool of taxpayers. BIS beneficiaries have highlighted market access and penetration of established industries as a critical challenge.

Limited marketing capacity, high transaction costs and poor market research are factors that hinder access to appropriate networks and market penetration. Besides funding and access to markets, high-end operational and financial management skills are required to manage critical cash flows in the low-margin industrial environment.

The long-term success of the policy will require innovative tailor-made funding solutions that address both the financial position of the entrepreneur and the economic realities of the targeted business to ensure that economic inclusion moves the needle on South Africa's poor economic growth. ■

Soria Hay is head of corporate finance at, and founder of, Bravura, an independent investment banking firm.

By Simon Brown

TRADING

Know your index

Despite having relatively similar market caps, Naspers has a far bigger weighting in the Top40 index than British American Tobacco. Simon Brown explains why this is the case – and why investors should understand it.

I recently wrote about how Naspers* had a weighting in the local Top40 index of 21.55% as at end-December (the latest data I can find), whereas British American Tobacco (BAT) was weighted only 2.07%.

In other words, if you put R100 into a Top40 tracker, 2 155c would go into Naspers and 207c into BAT.

This has caused a flurry of questions from people about how this works, as BAT has a market cap (total value of all listed shares) of some R1.4tr, while Naspers is only slightly larger at R1.6tr.

This is because the JSE uses local shareholder weighting to determine initial weightings for the index.

But let's go back to the beginning of how an index is constructed.

Firstly, one decides on a universe. In the case of the Top40, this is the 40 largest shares on the JSE, but there is a caveat here.

A locally traded stock has to have at least

5%

of its shares held via the JSE.

A locally traded stock has to have at least 5% of its shares held via the JSE. Importantly, it could be a foreigner holding the shares – but they bought them via the JSE.

In the case of Naspers, which currently only trades on the JSE and therefore has 100% of its shares held via the JSE, one can't buy them anywhere else (at the moment).

BAT, on the other hand, also trades on other exchanges. It has more than the required 5% of shares listed on the JSE, but well below 100%. Glencore has a market cap of almost R900bn, but its local JSE-holding is below the 5%-threshold. Hence, while Glencore is a top-ten stock in terms of size, it is not included in the Top40.

Once a stock is above the local JSE-holding threshold, it can be included in the Top40 index, but only the locally held shares are used for its market cap. Therefore, BAT is a tenth of Naspers within the index, rather than being almost the same weighting.

This may seem like an odd idea, but it actually does make sense. Including the full market cap when most of the shares are not locally held would seriously distort the index away from what is actually happening on our market.

The point of an index is to track what is happening to those stocks that actually influence the index. If BAT and Glencore were both included at their full market cap, we'd have stocks driving the index higher or lower but based on offshore trading.

This leads to my next important point: Know your index.

I am a huge fan of passive exchange-traded funds (ETFs) that simply track an index. As the latest S&P Passive vs. Indexation (SPIVA) shows, over three and five years the index beats more than 85% of active fund managers. So, the boring ETF actually does very well when compared to the experts.

But we need to understand how the index is being put together.

For example, in the 4 April edition of *finweek* I wrote about the four different broad offshore ETFs offered on the JSE. Largely they're the same – global ETFs based in US dollars. But there are some significant differences between some of them that will mean different returns and different risks.

That said, don't panic if you don't know everything there is to know about the index underlying your ETF.

As long as you're picking broad-based indices you're going to do just fine with your investments over time. You can also visit the ETF issuer's website to get more details on the underlying index and how it is put together.

But the main lesson is that we need to be careful of the more niche ETFs based on smaller sub-indices, as we need to be very sure that we do understand what goes into the indices. ■

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

Once a stock is above the local JSE-holding threshold, it can be included in the Top40 index, but only the locally held shares are used for its market cap.

Photo: Gallo/Getty Images

By Mariam Isa

WHAT A REVOLUTION IN *SA'S ELECTRICITY LANDSCAPE* CAN DO FOR THE ECONOMY

Load shedding costs the economy billions every year. Regulatory red tape is holding back a potential boom in the market for privately generated renewable energy, which has the potential to not only solve local power shortages, but also to attract substantial investments and create thousands of jobs.

Commercial companies, factories and farms in South Africa are fighting for the right to generate their own electricity to keep operating during the rolling blackouts that are threatening their businesses, delaying expansion plans and in some cases forcing them to cut back.

Small-scale embedded generation (SSEG) systems, mainly solar photovoltaic (PV) installations, have already sprung up across the country as companies take steps to ensure stability of power supply and mitigate the prohibitive cost of electricity prices, which have climbed by nearly 400% in the past decade.

But pent-up demand for many more private renewable projects – which would quickly help to address the power shortages hobbling the economy – are being stymmied by red tape and regulations which are both onerous and outdated. The constraints are unlikely to ease quickly amid conflicting interests within government, the National Energy Regulator of SA (Nersa) and Eskom.

"We're now in a position where we sit watching the unfolding crisis at Eskom and are very aware of the fact that there is a very unclear plan about how that's going to be resolved and who is going to pay for it," says Mike Levington, chair of the Green Economy subcommittee at the South African Photovoltaic Industry Association (SAPVIA).

"What business is starting to say is that 'I now have to take responsibility for my electricity supply'. They are seeing that embedded generation is a way in which they can have some control over the operating cost of their business going forward."

SAPVIA's programme director, Niveshen Govender, says the industry body has identified 880MW of capacity which could immediately come online from SSEG projects which have already been built by the private sector but are standing idle in the face of the regulatory gridlock.

That exceeds the amount provided by Unit 3 of Eskom's Kusile power plant, which was synchronised to the grid on 16 April. Applications to install another 1 000MW of solar PV are gathering dust at Nersa and Govender estimates another 3 000MW to 4 000MW of capacity is also being constrained.

Put into context, Eskom has 46 292MW of installed capacity, which has to be carefully managed and periodically shut down for maintenance to avoid the kind of recurring national blackouts which paralysed Venezuela in March.

Nearly 4 000MW of the total is renewable energy generated by solar and wind farms built through long-term agreements which Eskom struck during its Renewable Energy Independent Power Producers Programme (REIPPP) between 2011 and 2015.

But that programme, which helped to establish SA as a credible and relatively low-risk renewables market for global investors, was halted by Eskom in 2016, a year after it was forced to impose intensive rolling power cuts, or load shedding.

Chris Haw
Director at Aurora Group SOLA Future Energy

The industry body has identified **880MW** of capacity which could immediately come online from SSEG projects which have already been built by the private sector but are standing idle in the face of the regulatory gridlock.

Eskom said it would not buy from renewable projects any longer because it had returned to a surplus operating position and could obtain power more cheaply – while setting in motion plans to build a fleet of nuclear plants which would have bankrupted the fiscus.

That decision quashed a nascent manufacturing industry which had been fostered by mandatory local content requirements in the REIPPP. There was an exodus of foreign companies, plants and installation companies were forced to shut down, and thousands of jobs were shed.

"The renewables industry was left hanging as there were no pipeline projects – it affected the whole value chain," says Viren Gosai, general manager of ARTsolar, a locally owned solar PV manufacturer. "In order to survive we had to retrench most of our staff and then focus on the private sector."

But the tables have turned with the spectacular plunge in the cost of renewable energy over the past few years, which has made solar PV an attractive and viable option for many small- and medium-sized businesses to help keep operating costs in check and ensure secure power supply.

"We've seen a massive spike in demand. We're incredibly busy and are investing in more capital equipment," says Gosai. Other solar PV companies in the country tell a similar story.

"We see a major energy user requesting solar every week," says Chris Haw, director at Aurora Group SOLA Future Energy. "What we are finding is that the initial market started from commercial properties like shopping malls and retail centres and is now starting to move on towards more industrial projects."

Municipalities are alarmed by what business is describing as "grid defection" and many are lobbying the government for the right to either buy electricity from independent producers themselves or to generate their own power to sell directly to their customers.

"Relying on Eskom means relying on an old model which is not sustainable anymore," says Nhlanhla Ngidi, head of energy and electricity for the South African Local Government Association (Salga).

"That is why our position at Salga is that the municipalities must be able to take advantage of the new opportunities to develop their own generation plants, to have their own small-scale embedded generation programmes and also to buy from private producers who have prices which are cheaper than those of Eskom."

There is mounting pressure for SA to move towards a decentralised electricity model adopted by a growing number of countries in which independent

Photos: South Africa Wind Energy Association | www.solafuture.co.za power producers sell their excess capacity into the grid and in some cases 'wheel' it across the network directly to their own customers.

Eskom could charge a "delivery fee" to enable the utility to maintain and operate the network and customers would be able to benefit from more efficient pricing of power and the newest technology.

Plans by government to break Eskom up into three entities dealing with generation, transmission and distribution are seen as a step in that direction, but there is great resistance to the idea, particularly from unions.

Estimates for the extent of existing SSEG capacity vary, with the Council for Scientific and Industrial Research (CSIR) putting it at between 200MW and 300MW in a recent report. Govender thinks the real number is "much larger" and said that SAPVIA had hired a company to investigate.

The problem is that applications for projects larger than 1MW cannot go ahead, because under amendments to Schedule 2 of the Electricity Regulation Act published in November 2017, they must have an allocation within the national Integrated Resource Plan for Electricity (IRP) – which dates back to 2010.

As there is no mention of embedded generation in the IRP, the planned project must get permission from the minister of energy and a full generation licence from Nersa, following the same process as that required from a large Eskom power station.

No licence is required for an installation under 1MW, which would meet the needs of many office buildings, factories and farms. But those projects must still register with Nersa and that process has also stalled.

The department of energy (DOE) recently provided Nersa with updated amendments to Schedule 2, but they must be approved by the regulator ahead of a 30-day public consultation period. When that process is concluded, the new regulations must be signed by the minister of energy – who may be replaced after the 8 May elections.

"We're all waiting for the changes in the legislation and it's really sad that it's taking so long and holding up such a huge part of the industry which could be creating a lot more jobs, and could be encouraging local manufacturing of equipment," Haw says. "There's not enough scale at the moment to justify local manufacturing of equipment."

Shaun Nel, project director at the Energy Intensive Users Group of Southern Africa, says small-scale embedded generation has an important role to play because it would allow more of Eskom's baseload power to be diverted to heavy industry.

"Our view is that the market should be opened up so that people can generate power for themselves and put it into the grid – that'll free up some of the capacity

Economy contracts in Q1 after costly load shedding

South Africa's economy is likely to have contracted sharply in the first quarter of 2019, as severe and unexpected load shedding hit industrial production and weighed heavily on business and consumer confidence, dimming the prospects for a pick-up in investment and employment.

Analysts are predicting that the impact of power shortages on the mining and manufacturing sectors alone would have led to a fall of at least one percentage point in overall economic output in the first quarter, jeopardising expectations that growth will rebound strongly this year after expanding by 0.8% in 2018.

The impact of a slowdown in global growth and labour union strikes are already inescapable, so if power outages kick in again this winter – as looks increasingly possible – the economy may again expand by less than 1% this year, well short of forecasts.

"While the direct immediate impact is clear, I am very concerned about the impact which that will have on firms' willingness to expand capacity even in the medium term. The recent load shedding was a major setback for any expected fixed investment and employment recovery," said Standard Bank economist Elna Moolman.

The Business Confidence Index (BCI), compiled by the Bureau for Economic Research and issued by Rand Merchant Bank, fell to 28 index points in the first quarter of 2019 from 31 in the fourth quarter of 2018 – the same levels seen during the 2009 recession.

During the same period the main BER/FNB index of consumer confidence dropped to two points from seven in the second half of last year, after soaring to a record of 26 during the first quarter, at the height of enthusiasm over President Cyril Ramophosa.

"The shock implementation of stage 4 load shedding by Eskom during February and March no doubt had a very detrimental impact on the South African economy and it is therefore not surprising that consumers are becoming especially concerned about our economic prospects," FNB chief economist Mamello Matikinca-Ngwenya said in a research note.

RMB chief economist Ettienne le Roux said that gross domestic product (GDP) may have shrunk by 1.5% during the first quarter, posing a "significant risk" to his full-year growth forecast of 1.3%. To even reach a target of 1% in 2019, GDP would have to expand at an annualised pace of 2% over the remainder of the year, he warned.

"That seems like a tall order given the global backdrop, financially hamstrung consumers domestically, 'shy' corporates, and the notable risk posed by further power outages," he said.

It is difficult to quantify the actual impact of the load shedding, which in March was pushed to stage 4 for several days, meaning that there were 4 000MW daily reductions in Eskom's current installed capacity of 46 292MW.

Intellidex head of capital markets research Peter Attard Montalto puts the direct cost to the economy at R32bn. This, however, excludes the money which businesses forked out on diesel generators, and the effects of power tripping at substations pressured by the volatility of supply.

The power outages during the first quarter, blamed mainly on the loss of supply from Mozambique after Cyclone Idai, were the most intensive since 2015, the CSIR's Energy Centre said in a research note in April.

But it pointed out that the load shedding would have been much worse without the contribution of the country's utility-scale variable renewable energy fleet, with monthly contributions ranging between 4.9% to 6.0% of power supply.

Without its input, load shedding could have increased from a total of 769GWh during the quarter to 1 126GWh – meaning that stages 5 and 6 could have been invoked, the report said.

Public enterprises minister Pravin Gordhan has said that load shedding this winter, when demand is typically at its peak, will not exceed stage 1, or 1 000MW. But businesses are worried.

A recent three-month outlook for generation availability on Eskom's website highlights a "likely risk scenario" during several weeks in May and June. ■

constraints that Eskom is having. Our only concern is that grid stability remains safe, that we don't have energy flooding in and causing problems."

Some of SA's mining companies have begun installing solar PV to cut their energy costs and meet international carbon disclosure requirements. But Sven Lunsche, vice-president of corporate affairs at Gold Fields, says the miner had revised the scope of a planned 40MW solar PV project at its South Deep gold mine down to 10MW because of changes in regulations around own generation.

The industry needs the new IRP to move forward. The plan was supposed to have been updated every two years, incorporating the latest assumptions for the economy, revised demand forecasts, the status and timing of new capacity coming on to Eskom's grid and the latest generation technology costs.

Several attempts to update the IRP in the past few years collapsed. The latest version, the updated Draft IRP 2019, has been through a public participation process and was submitted to the National Economic Development and Labour Council (Nedlac) for discussion in March.

For the first time the plan incorporates "distributed" or embedded generation and instead of quantifying an allocation for the category between 2019 and 2022, the updated draft says it will be "allocated to the extent of the short-term capacity and energy gap".

Between 2023 and 2030 distributed generation has an annual allocation of 500MW, but with no total given for those years. "This speaks volumes, and indicates that embedded, distributed generation and the customer form a most critical part of the solution to meeting the electricity supply needs of the future," says energy analyst Chris Yelland.

The draft acknowledges that public inputs suggested that the allocation for embedded generation had to be increased, saying the DOE was "inundated" with requests from companies, municipalities and private individuals for deviation from the existing IRP to allow Nersa to approve their

Sven Lunsche
Vice-president of corporate affairs at Gold Fields

Tobias Bischoff-Niemz
Energy analyst and former chief engineer at Eskom

Chris Yelland
Energy analyst

application for a generation licence.

The draft also shows that the generation of coal-fired power is expected to fall sharply between now and 2030 while the contribution of solar PV and wind will increase substantially. Nuclear capacity is also expected to decline.

From Eskom's perspective, allowing customers to put up their own energy supply sources is positive in the short term as it will ease the pressure on its infrastructure and does not require state funding. But in the long term, it poses a threat to the cash-strapped utility's revenues, which are already being eroded by efficiency gains and the exodus of good paying customers.

"Eskom accepts that SSEG is a global trend, and South Africa is no exception. SSEG poses both a threat and an opportunity to traditional utilities," says Andrew Etzinger, Eskom's acting head of generation. "In Eskom's case we have installed a number of such opportunities at our own sites, and are actively tracking and evaluating opportunities."

One of the biggest obstacles to a shift from coal to renewable energy in SA is the perception that it will lead to massive job losses at Eskom and at coal mines. But energy analyst Tobias Bischoff-Niemz, former chief engineer at Eskom, says that there would be 30% more jobs in a fleet of solar PV and windfarms than an energy equivalent coal fleet.

In a recent column, he pointed out that an in-depth study published by the US department of energy showed that the solar PV and wind industries in America employed 475 000 people in 2018 compared with 240 000 in the nuclear and coal sectors combined. "That figure becomes all the more impressive when one considers that wind and solar PV are still supplying only 10% of America's electricity demand, against 60% of nuclear and coal plants."

According to the CSIR, the REIPPP generated 35 000 jobs for South Africans and attracted R201.8bn of investment, a quarter of which was foreign. ■

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Global investment trends shift to renewables

After years of subsidies, the tipping point has been reached and renewable energy has gone mainstream. Technological innovation has pushed costs down to such an extent that the case for shifting away from fossil fuels has become one of both economics and environmental sustainability.

Since 2008 costs for the two most widely used forms of renewable energy – solar PV and onshore wind – have fallen by more than 80% and 50% respectively and the trend is set to continue. The International Renewable Energy Agency says that renewable sources now account for a third of global power capacity and that two-thirds of new generation added globally in 2018 came from renewable sources including hydropower, bio-energy, and geothermal energy.

Funds committed to fossil fuel divestment have reached more than $6tr, the selloff led by the insurance industry with more than half of the total, according to a report from Arabella Advisors. Norway's giant oil fund said in March it would dispose of its investments in 134 companies that explore for oil and gas, worth more than $8bn. In April, Saudi Arabia's Public Investment Fund sold its last investment linked to oil and gas.

SA's financial institutions are falling into line with new protocols from the Organisation for Economic Cooperation and Development and in the last few months Nedbank, Standard Bank, and FirstRand have all pulled out of funding new coal power projects other than those using the latest steam generating technology, which is both more efficient and expensive. ■

Photos: Archives | www.enertragsa.co.za | www.goldfields.com

By Glenda Williams

GRIT'S RISK REM

Real estate investment trust Grit is focusing on multiple asset classes, multiple geographies and hard


The new addition at Victoria Resort & Spa on the north-west coast of Mauritius, one of Grit's assets co-owned with anchor tenant Beachcomber.

While many South African companies have had mixed successes when venturing into Africa, the multi-listed Pan African REIT (real estate investment trust) Grit Real Estate Income Group, is proving that the right recipe will reap rewards.

Robust risk mitigation has been key to Grit's success, which included multiple listings, multiple geographies and multiple asset classes. Key partnerships and multinational tenants further insulate the company from the risks that often face investments in the region.

"The success of our African business has been partnerships," says CEO Bronwyn Corbett.

Corbett was instrumental in forming Delta International, Delta Property Fund's Africa offshoot that listed separately on the JSE as Mara Delta Property Holdings in 2014. In 2017, the company was rebranded to Grit Real Estate Income Group.

Grit remains the only Africa-focused REIT on the JSE, paying dividends in hard currency. That ability to pay dividends in dollars came with its listing on the Mauritius Stock Exchange (SEM) in 2015. Last year Grit also listed on the London Stock Exchange (LSE).

Grit's property portfolio of 25 assets is valued at $796.4m. It is headquartered in Mauritius, with further investments in Botswana, Ghana, Kenya, Morocco, Mozambique and Zambia.


Bronwyn Corbett
CEO and founder member of Grit Real Estate Income Group

Grit has been careful to only forge into stable markets as opposed to high-risk jurisdictions. Margins of safety include security of tenure, ability to get debt in the country and most importantly, ability to move money out of the country.

"We wanted to be multi-geography. We had seen too many real estate businesses being commodity focused in only one or two countries. Then the commodities cycle turned on them," explains Corbett.

Grit views the continent in two parts. Half of its investments goes into investment-grade countries, and the other half into what Corbett terms "growth Africa".

Investment-grade countries like Morocco, Mauritius and Botswana attract a lot of pension fund money, says Corbett. "You won't get super returns but you are going to get that stability, which anchors the portfolio," she explains.

Growth countries, on the other hand, offer higher returns but somewhat more risk. Corbett sites countries like Kenya, Uganda, Mozambique, Ghana and to some extent Zambia.

OVAL RECIPE

currency to ensure success on the African continent.

"We see the ability to work with global tenants in markets like these because they have long-term strategies for these countries," she says.

The REIT also invests in multiple asset classes determined by the economic drivers of the particular markets, like tourism in Mauritius that drew Grit's investment in hospitality.

Hard currency income, which comes with global tenants able to pay in euro or dollar leases, ties together Grit's multi-pronged mantra. Hard currency comprises 93.2% of income, with 92.3% of that coming from multinational tenants. Global tenants include Barclays, Beachcomber, ExxonMobil, Lux Resorts & Hotels, Shoprite and Vodacom.

Many leases are signed out of country with parent companies signing as guarantors, further mitigating Grit's risk. "Whenever you have an international tenant you have recourse to the parent company in the event of default, not the local company," explains chief financial officer Leon van de Moortele.

The company also has political risk insurance through Lloyds that covers dollar liquidity and expropriation of funds.

Mauritian hospitality

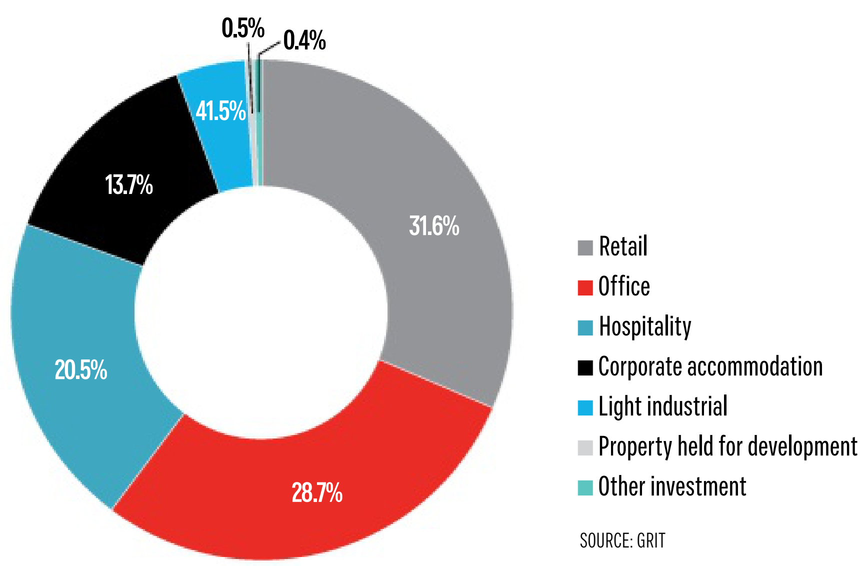
Close on 25% of Grit's investment sits in investment-grade country Mauritius, where it has four hospitality assets and one office asset. The island accounts for around 21% of net property income.

With favourable tax treaties and exchange controls, Mauritius is increasingly considered as a financial services hub, but tourism remains a mainstay. The island, with a population of 1.3m, welcomes 1.4m tourists annually.

Tourism resilience and steady growth drew Grit to acquire three four-star Beachcomber hotels (a co-owned investment with anchor tenant Beachcomber) and one four-star LUX hotel. The hospitality assets come with fully servicing triple net leases with the parent companies of Beachcomber and LUX signing as guarantors. Hotel exposure comprises 21% of Grit's total assets.

The beach area around Mauritius where Grit's hotel assets are, is owned by the Mauritian government. Sixty-year land leases are the norm, says Van de Moortele. "Our minimum requirement to purchase an asset is 30 years."

GRIT'S EXPOSURE BY ASSET CLASS
(as at Dec 2018)



SOURCE: GRIT

There are few beach sites left for new builds. Plenty of focus is therefore on expansion, by creating additional rooms, or on upgrading of rooms.

Grit operates in the four-star/four-star-plus market where year round occupancy is north of 80%. At its Tamassa Resort occupancy last year was around 92%.

Van de Moortele says the hospitality assets are good cash flow generators for Grit. "Our hospitality approach is different to that typically seen in South Africa. We are not looking to take any hotel operational risks from a cash flow perspective. We just want rolling consistent, solid returns. The fact that these are euro-based means we are getting quite a lot of upside."

Rael Colley, real estate analyst at Anchor Stockbrokers, tells *finweek* that Grit's exposure to the hospitality market in Mauritius is appealing. He cites reasons like long lease terms and healthy occupancy rates in Grit's hotels (average of 85% vs. the average in SA of 65%). "The RevPAR (revenue per available room) rate has been strong over the last few years as well.

"Five-star hotels have been struggling of late, however Grit does not have any exposure to this segment of the market," adds Colley.

Grit also owns Barclays House, a modern office building tenanted by Barclays, and located in Ebène Cybercity, a vibrant business hub.

There's plenty of office construction taking place

Leon van de Moortele
Chief financial officer of Grit Real Estate Income Group

Rael Colley
Real estate analyst at Anchor Stockbrokers

Photos: Supplied

Grit in numbers

Portfolio value: $796.4m
Invested in: Mozambique, Mauritius, Morocco, Zambia, Ghana, Kenya, Botswana
Asset classes: office, retail, hospitality, light industrial, corporate accommodation
Occupancy: 96.6% (at 31 Jan 2019)
Valuation yield: 8.6%
Weighted average lease expiry (years, weighted by gross leasable area): 6.5


Tamassa Resort, located 30min from the airport, with 214 rooms. The 21-acre hotel, co-owned with LUX, is valued at $52.2m.

in Ebène but Grit is not planning further office investment. "We don't see our pipeline including offices. We don't think there are enough tenants for that," says Corbett.

Game-changing London listing

Grit's listing on the LSE gives it the ability to attract international investors who are now able to access African markets through a listed structure.

The London listing was a "game-changer", says Van de Moortele. UK institutional investors now comprise around 20% of Grit's stock.

"We invested in Grit because the price was right, the yield was high and the stock was pregnant with opportunity," says London-based Nicholas Hooper, director at London Investment Management. "Our clients have dipped their toes in with an initial $500 000. We like Grit and the approach they have to become the best in class property partner for global companies who have properties in some of the more stable African economies."

The $132.2m of capital raised for the LSE listing was deployed into acquisitions in Ghana and Mozambique. That had a positive impact on net asset value (NAV).

Creating NAV is high on Corbett's agenda and redevelopment opportunities is a means of achieving that. The redevelopment completion of Anfa Shopping Centre in Morocco will push Grit's occupancy to 99% and will allow Grit to keep its distribution yield while at the same time hold back some cash that can be used for redevelopment opportunities.

Opportunities that are being explored include co-investment with pension funds in Africa, and asset managing the real estate portfolios that many of these pension funds have.

"Redevelopment opportunities and being able to add value to these pension fund portfolios allows us to play the NAV angle," says Corbett.

Grit does much of its own property and asset management in the countries it is invested in. That, together with the need to control its own development pipeline, brought about the creation of Grit's development partner, Gateway Delta. It's an unlisted business, with four shareholders. Grit's stake in Gateway is just under 20%.


Nicholas Hooper
Director at London Investment Management


Garreth Elston
Portfolio manager at Reitway Global

Corbett says Grit won't necessarily be the outtake for all Gateway Delta's assets.

The company will be co-investing with Gateway Delta on the $100m ExxonMobil residential compound project in Maputo, Mozambique. "We want some of that NAV upside," explains Corbett. "The development yield on the Exxon project is 12%."

Investor attraction

The London listing brings with it additional investors and another level of corporate scrutiny. This, says Garreth Elston, portfolio manager at Reitway Global, is always a plus. "Grit has become a comforting investment," he says. "It has done what it set out to do and that includes mitigating a lot of risk."

Colley says the counter offers an attractive US dollar yield (of around 8.5%). "However, liquidity in the stock remains constrained. I think South African investors still struggle to grapple with various country risks that Grit has exposure to. Although to mitigate this, Grit has strong partnerships and relatively sticky tenants which should bode well in the long term."

Grit's loan-to-value (LTV) sits at 43.4%, but it has committed to an even lower LTV of around 35% to 40%.

"We'll be able to get our gearing to 30% should we do another capital raise without impacting our dividend yield," says Corbett, explaining that refinancing measures will drop funding costs.

A refinancing deal in Mozambique will drop Grit's dollar cost of funding by 1% and add $2.5m annually to the kitty.

Grit maintains a target of 3% and 5% dividend growth, and a total annual net shareholder return of 12% in dollars for its full 2019 financial year.

"...[P]rovided, of course, the share price tracks our net asset value," says Corbett. ■

Glenda Williams was a guest of Grit in Mauritius.

Photos: Supplied

By Christine Marincowitz

Unleashing economic prosperity for women

Women's financial literacy is key to economic empowerment and promoting gender equality.

Many women throughout society and the world continue to experience the effects of gender inequality which results in, and from, a lack of financial inclusion and financial literacy. Generally, women earn less, are less likely to have access to credit and as a result are less able to break from the shackles of generational poverty.

These obstacles, and others such as the inequalities highlighted by the #MeToo movement and gender pay gap debate, feed into the broader narrative of gender inequality and the plight of women today. While many initiatives aim to redress this inequality, the reality is that women are less able than men to transcend their circumstances through economic empowerment. So, in this context, how do we correct the gender imbalance and why is it important?

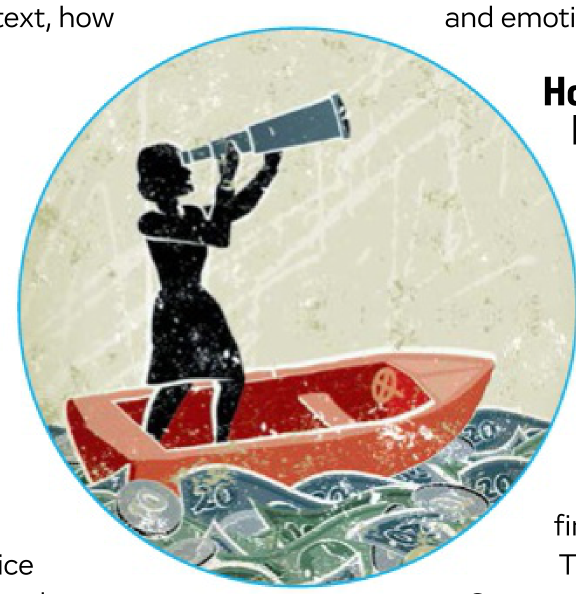


Photo: Gallo/Getty Images

Why does gender inequality remain prevalent?

The Women's Legal Centre points out that gender inequality is ingrained in South African society. Furthermore, black women are especially vulnerable due to the racial and gender impact of poverty and unemployment. In a rural setting, these problems are aggravated.

Inequality often starts at home with the country's high levels of violence against women, which are exacerbated by a complex criminal justice system, despite a strengthened legislative framework. These realities undermine women's ability to empower themselves from the outset – often with lasting consequences.

In addition to these challenges, women own less property and earn approximately 25% less than their male counterparts in the same job. We also see that fewer women are financially literate.

This financial illiteracy results in women being unable to uplift themselves through sound financial decisions. And, as more women are single parents, they pass this lack of understanding on to their children. It makes generational upskilling difficult, which perpetuates the cycle of financial illiteracy.

How financial literacy brings about economic empowerment

A term that has gained much momentum in South Africa is 'economic empowerment'. It refers to tangible and measurable upliftment of society, breaking the shackles of poverty. Empowering women in this way will achieve the same.

Anecdotal experiences link financial literacy to real, measurable economic empowerment, especially for women. These are supported by several studies including the one published in the paper 'Women and Financial Literacy'. This paper asserts empirical research has led G20 leaders to conclude that financial literacy among women and girls will improve their financial empowerment and opportunities. This makes sense because sound financial decisions are impossible without some financial literacy.

While financial literacy means different things to different people, an accepted working definition is: "A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and achieve individual financial well-being."

Financially literate individuals do better at budgeting, saving money and controlling spending. They also tend to plan for retirement, partake in financial markets and saving instruments, while studies have further suggested that such individuals have improved physical and emotional well-being.

How to bring about increased financial literacy

According to The Open Society Initiative for Southern Africa's (Osisa's) Nomsa Daniels, women in the informal sector contribute more financially than is officially recorded but have substantially less access to credit. She adds that one of the main barriers to female entrepreneurial success in the informal and rural setting is having inadequate access to credit and how rectifying this could lead to closing the financial gap and broader women empowerment.

This thinking is aligned with that of the Ecsponent Group, which provides entrepreneurs previously ignored by mainstream banks with niche credit solutions. The group also includes financial literacy as part of its product offering as it believes that providing credit without skills will only succeed to exacerbate the problem. It knows full well the power of unleashing SMEs in Africa and beyond, many of which are run by women.

Conclusions on women's empowerment

There is a need for bold and concerted action on the part of governments, regulators, policymakers and all stakeholders in the financial sector to address the obstacles to meaningful financial literacy among women. The resourcefulness of women and mothers offers a tiny glimpse into the greater economic potential for under-empowered regions if women are truly economically empowered.

Solving the problems goes beyond paying lip-service to equality as a grand ideal. It is an economic imperative that will unlock immense economic prosperity for communities, society and the businesses operating in these regions.

What may seem like simple financial concepts to some can change the lives of others and unleash sustainable economic prosperity. Coupled with fair credit access, the potential is limitless – for society, and the women it will affect most. ■

Christine Marincowitz is head of investor relations at Ecsponent.

By Amanda Visser

How to manage absenteeism

Colleagues and employees are all just human – we fall ill, go on leave, and sometimes have family emergencies that we have to attend to. But what do you do when you suspect deliberate absenteeism?

Companies are social structures. All jobs within those structures are interlinked and interdependent. They are the spokes of a bicycle wheel – when one spoke is missing, it makes the journey more arduous, and even dangerous.

The impact of absenteeism – in all its manifestations – is significant on the bottom line of any business, and those who ignore it, do so at their own peril, says Martin Neethling, head of Sanlam Health. The loss of productivity due to absenteeism, as well as its precursor, presenteeism, is costing companies billions annually. There is no easy way to reduce it, he warns.

Authorised absenteeism is covered in our labour legislation in terms of annual leave, sick leave, paternity and maternity leave. Unauthorised absence, on the other hand, may quickly lead to dismissal.

But what about deliberate absenteeism?

South Africa's labour law recognises that employers can expect an employee to show up for the time they are being paid for, says Helen Wilsenach, partner in the employment and benefits practice at Bowmans. "It recognises that time-related offences may, depending on the facts, give rise to a justification for disciplinary action."

The ultimate sanction is, of course, dismissal. But there are only a few reasons that are recognised as valid grounds for dismissal, including misconduct, and incapacity due to either ill-health or the inherit lack of ability or skill to do the job.

Anli Bezuidenhout, senior associate at Cliffe Dekker Hofmeyr, says it is quite easy to pick up on a pattern – someone takes off one Monday a month, or comes in a bit later on a Friday, or sick leave follows a long weekend.

"With that pattern you can identify your risk and what to address," she says.

The first step is to schedule a general discussion with the employee and to make them aware that you know about their absence from work. Try to find out whether there is anything that you as the employer need to be aware of.

The discussion

"This immediately places the onus on the employee to tell you if there is an illness or anything else you need to be aware of, and to bring that to your attention upfront," states Bezuidenhout.

She says it is important to recognise that employees may have privacy reasons for not sharing information on illnesses with you.

Anli Bezuidenhout
Senior associate at Cliffe Dekker Hofmeyr

"People are not motivated by money alone. It is about relationships, leadership, the position, career development opportunities and recognition."

Jopie de Beer
CEO of the JvR Africa Group

"At least this discussion gives them the opportunity to say that they have been diagnosed or that they are battling with an illness, or the alternative is that they will realise that you are monitoring their absences which may increase their attendance."

Another phenomenon that has been on the increase is presenteeism, where the person is at work, but not performing to expectations.

Jopie de Beer, CEO of the JvR Africa Group, which includes JvR Consulting Psychologists, says presenteeism is one of the most difficult tasks for human resource specialists to deal with.

There are several factors one must consider when presenteeism is observed.

"People are not motivated by money alone. It is about relationships, leadership, the position, career development opportunities and recognition," says De Beer.

It might be that an employee was not appointed in the correct position, or that the person does not have the right qualifications or experience. Another reason could be misplacement, where the person has the right qualifications but the position does not suit them; or the person could feel misled as they were appointed with several promises that remained just that.

Bezuidenhout says it is important to determine the reasons behind absenteeism or presenteeism.

The circumstances at home

When someone is not as engaged as they could be, it can be attributed to depression, chronic illness, exhaustion and even solicitude, says De Beer.

"People just have so much energy and if their personal circumstances are not good, then it is quite possible that they will appear absent because of limited reserves."

Presenteeism can also be attributed to low blood sugar levels because the person left home in the early hours of the morning to be on time, and does not have time or money for breakfast.

"We also have to be alive to the fact that many people in SA come from a home where there has been no role model of what it is to work."

This person feels lost, and not sure what to do next. One has to take account of the physiological, psychological and logistical circumstances of the individual, De Beer remarks.

Some employees are able to do the job, but are just

Photos: Supplied

not doing it, says Bezuidenhout.

This translates to negligence or misconduct and needs to be addressed in terms of warnings and disciplinary steps.

Where an employee, despite their efforts, is unable to do the job because of, for example, anxiety or depression or any other medical reason, the onus is on the employer to accommodate the employee and to assist them to reach their productive level again.

"If that is not possible, it can also get to a point where the person's employment is terminated for incapacity – either because of health reasons or for an inability to do the job," says Bezuidenhout.

Leadership

Presenteeism can also be linked to toxic environments, where leaders are egocentric, unethical and unreliable.

When leaders are perceived as incompetent, or employees start feeling that there is no end to working hours or that their work is never "good enough", presenteeism will manifest itself, says De Beer.

"Before you come to the conclusion that someone is deliberately manipulating the rules and regulations of the company for his one selfish advantage, you have to find the reason behind the conduct," she says.

Manage it

Managers need to keep impeccable records to expose deliberate absenteeism.

"You have to be procedurally and substantially fair if the route is eventually toward the termination of employment," says Lionel van Schalkwyk, chairperson of the South African Reward Association.

There has to be an initial consultation and a joint agreement on how to resolve the issue. It must be clear and everybody must understand what the expected outcomes should be.

When rules are not consistently applied, a culture of absenteeism is quickly created.

If there are inconsistencies, the reason for it should be clearly documented.

Ultimately, says Van Schalkwyk, the aim should be to have motivated and engaged employees who contribute to the organisation.

When managing absenteeism, managers should also keep in mind the work/life balance of employees, and that employees will most likely from time to time have personal obligations that they need to attend to. ■

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Fancy yourself a general knowledge whizz? Then give our quiz a go! You can complete it online via fin24.com/finweek from 6 May.

1. On 25 April 2019, which former South African cricketer was bestowed with the silver National Order of Ikhamanga for his contribution to the sport by President Cyril Ramaphosa?
2. **True or false?** Julian Assange is the founder of Wikipedia.
3. Supply the missing term: A _______________ is a traditional South African fast-food dish that usually consists of curry served in a hollowed-out half-loaf of bread.
4. How many entities does the government intend on splitting Eskom into?
5. Which of the following is not an IEC registered political party in South Africa:
   - Forum for Service Delivery
   - Al Jama-ah
   - National Freedom Front
6. **True or false?** Breaking even means that a business has neither made profit nor loss at the end of its business activity.
7. Name the capital city of the Eastern Cape.
8. What architectural style was the Notre Dame cathedral that recently caught fire in Paris built in?
9. The IMF recently cut its growth forecast for South Africa's economy for 2019 to:
   - 1.2%
   - 1.5%
   - 0.9%
10. Supply the missing term: An _______________ is a sudden violent shaking of the ground, typically causing great destruction, as a result of movements within the earth's crust or volcanic action.
11. **True or false?** South Africa is one of the world's biggest exporters of cocoa beans.

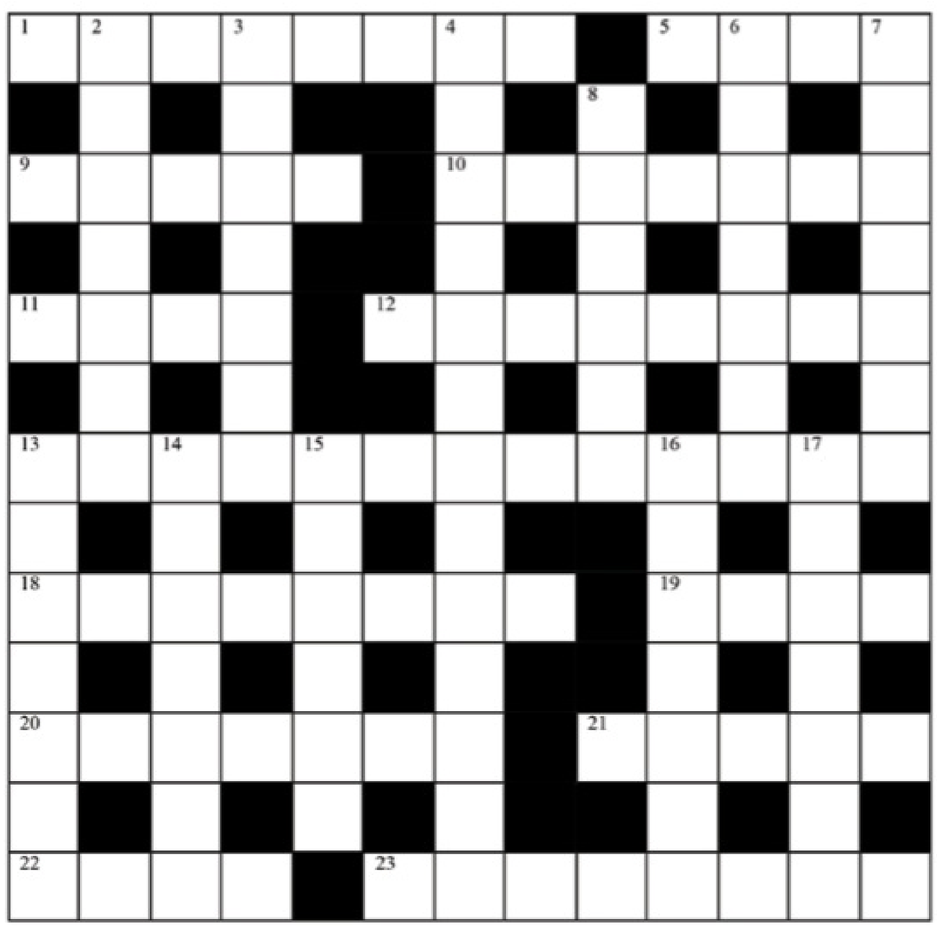
CRYPTIC CROSSWORD NO 731JD

ACROSS

1 Was successful, we hear, the exam being uncomplicated (8)
5 To be old is to be blind, not so! (4)
9 TV series starting to shock the elderly (5)
10 Land in a field (7)
11 Shake up assorted nuts (4)
12 It's difficult, I have to go check (8)
13 Off to the head? (4,4,5)
18 Rubbish a Conservative going round in circles (8)
19 Hour of prayer known to be broadcast (4)
20 Ted open to change on the surface (3,4)
21 Arrest pickpocket's confederate (5)
22 Lady had lost (4)
23 Job's comforter is master of pessimism (8)

DOWN

2 Pioneer convert to lapse (7)
3 1 000 feathers (7)
4 Car logbook? (13)
6 Bone up on "shoulder" (7)
7 Kicks in "Steady on, we need a year off for revamping" (7)
8 Seriously, mate, quit being a detractor (6)
13 Strips down right off, hightails it (7)
14 Violent tilt with one not of the nobility (2,5)
15 Overweight lady's cure (6)
16 Crazy admiral's first to leave nautical snafu (7)
17 Bar one a side match (7)



Solution to Crossword NO 730JD

ACROSS: 1 Half a chance; 9 Outpost; 10 Turbo; 11 Siren; 12 Once-off; 13 Darker; 15 Scones; 18 Aerobic; 20 Rabbi; 22 Arums; 23 Let down; 24 Remembering

DOWN: 2 Altar; 3 Flounce; 4 Cotton; 5 Antic; 6 Cartoon; 7 Tossed salad; 8 Confessions; 14 Reroute; 16 Curator; 17 Schlub; 19 Baste; 21 Brown

On margin

The problem with pests

This issue's Zulu word is *imiyane*. *Imiyane* are mosquitoes. While winter is hell for most of us, its one benefit is that we do not have to deal with *imiyane*. These things were not created by God. It is not possible. They are definitely the creation of his wayward, drunkard twin brother Sipho. Sipho is a problem.

He has the same powers as God, but he is bitter that he didn't create humans, so he is hellbent on making us miserable. This desire to cause us misery is why he created *imiyane*, various other vermin, politics, politicians and Eskom executives. But *imiyane* are his masterpiece. He really enjoys how they wake you from peaceful slumber by creating an ungodly buzzing that makes it feel like you are trying to fall asleep at a superbike rally.

There genuinely are no vermin worse than *imiyane*. I suspect even *imiyane* don't like other *imiyane*. Sipho himself is not safe from them, hence he drinks so much, just to cope.

They even bug the big guy in the sky, so he would really like to smite Sipho.

The family has tried to bring Sipho back into the godly fold, but he would rather just hang out and drink wine, with his cricket ball-tampering friend from Down Under.

Man, I hate *imiyane*. And Sipho. Or do I hate Sipho more for creating *imiyane*? I don't know, but thank goodness winter is around the corner so we don't have to think about Sipho or *imiyane*. Now we just have to pray there will be no load shedding because then we would freeze to death and *imiyane* would seem like a walk in the park.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"Who's idea was it to replace the weekly staff meetings with a WhatsApp group?"

Verbatim

Ronak Gopaldas @RonakGopaldas
Trying to explain the concept of a 'portfolio of careers' and working remotely to my aunts and uncles. Just as I think I'm getting through to them, one uncle responds with "so you freelance?"

Khulani Qoma @KhulaniQoma
"Don't marry/get in a serious relationship with someone unless you'd be proud to have a child exactly like them."

Sophuckingoode @SophieRachael95
A German man just came into the pub and tried to ask for cutlery but ended up saying "I need some food weapons" and I will now be referring to them as nothing else.

John @John_Anyetei
The E in South Africa stands for Equality.

Edward Snowden @Snowden
Images of Ecuador's ambassador inviting the UK's secret police into the embassy to drag a publisher of – like it or not – award-winning journalism out of the building are going to end up in the history books. Assange's critics may cheer, but this is a dark moment for press freedom.

Samir Nazim @BadboyNazim
Boy: I wish girls liked sports
Girl: I like sports
Boy: Oh yeah? Then name the blood type of the Barcelona coach from 2001.

Yiddish Proverbs @YiddishProverbs
Send a fool to the market and a fool he will return.

"Investing should be more like watching paint dry or grass grow. If you want excitement, take $800 and go to Las Vegas."

– Paul Anthony Samuelson, American economist and Nobel Prize in Economics laureate (1915 – 2009)