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OPINION

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COLLECTIVE INSIGHT

THIS IS HOW THE
**PERCEPTION ON
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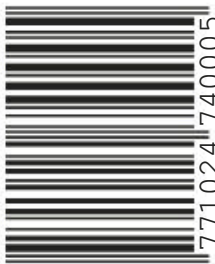
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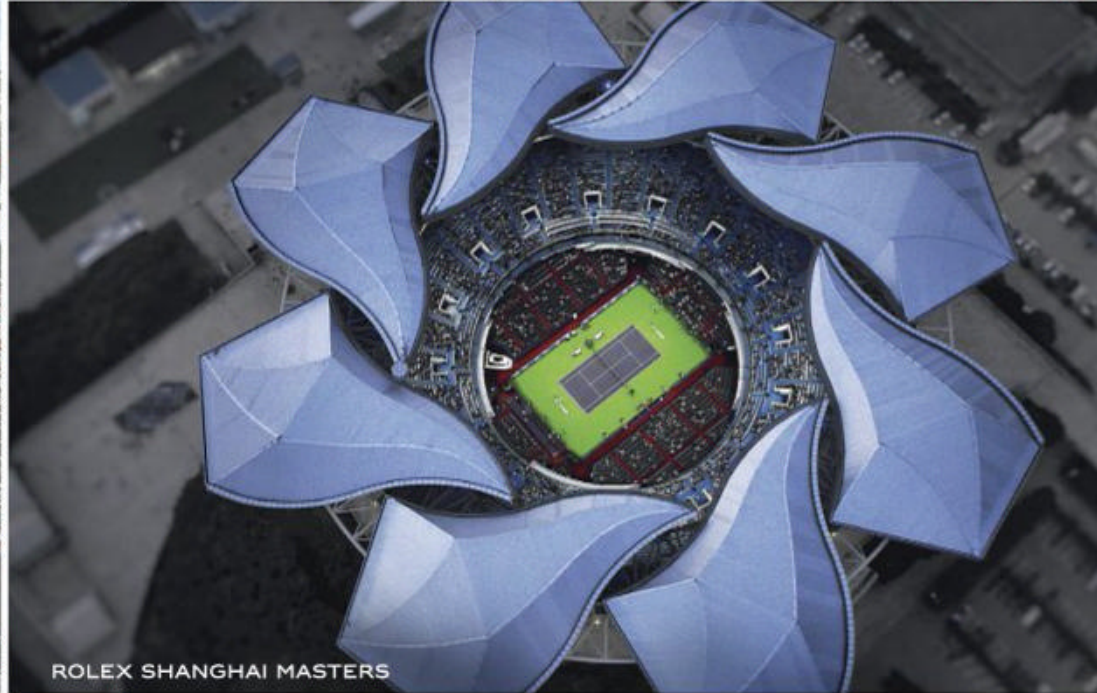
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from the editor

JACO VISSER



The Post Office's recent attempt to drag itself out of obscurity back into being relative, will dumbfound even its die-hard supporters. To recap: The Post Office (where you wait up to three weeks for a letter to arrive in Johannesburg from Cape Town) sued Postnet and the industry organisation representing couriers. The Post Office, in its quixotic self-conviction, wants to enforce one or other outdated and anti-competitive law giving it the sole right to deliver parcels weighing less than 1kg. Thus, if this piece of legislative antiquity is enforced, we will in a hypothetical environment be waiting months (if you take increased volumes through postal distribution centres into account) for the delivery of anything from urgent legal documentation to our takeaway orders.

This line of reasoning by the Post Office is endemic of failed public enterprises and government service delivery in South Africa. Consumers and taxpayers turned to private postal services when the quality of the Post Office's logistics failed more than two decades ago. They also turned to private security companies when protection by the police failed. The same happened in education where there are even listed providers of private education as parents, disillusioned by the government's ability to deliver quality education, want a better future for their kids. The list goes on: private healthcare services, private refuse removal, and so on.

As the Post Office charges the windmill of competition with swords shimmering, the question creeps into my mind: How could it have turned out better for this relic from the past? The Post Office will try to claim victory in that it distributes social grants again but remember they have done this in the past and then lost out to the private sector. With its enormous footprint across the country and reaching into rural areas, the Post Office should have been a catalyst for economic development. With the explosion in online sales last year, the Post Office, through its courier service, should have capitalised on the situation and rolled out micro delivery in neighbourhoods through contracting people who want to work. Rather, they went into lockdown overwhelmed by labour problems.

This current attempt by the Post Office, smacks of trying to remain relative as the world passes by. Stabilising this institution and getting with the times is crucial unless the Post Office will remain as a point for grant payments and licence renewal. ■

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TECHNOLOGY

The future of books

Have e-books displaced their printed peers yet and to what extent has Covid-19 affected the book industry?

I love books. My mother was a librarian, my father a teacher, and I was fortunate to grow up in a house of books. But the book is threatened – or so some say. Only a decade ago, the end of the book was predicted to be imminent, threatened by the arrival of the Kindle and other e-readers. Yet here we are, in the third decade of the 21st century, still mostly consuming books very much like those that Johannes Gutenberg first printed more than five centuries ago.

Why, I ask Jeremy Borraine, publishing director of Jonathan Ball Publishers, has e-books not displaced printed ones yet? And is that likely to change in the next decade or two?

"I guess there are two reasons why books have not disappeared. Readers still like to own books. On display, books tell a story of who we are. And because we spend hours each day on our screens, it is a relief to take a break from them with a paperback.

I should mention, however, that when it comes to popular fiction, certainly in the UK and US, the e-book has captured up to 50% of sales."

Commonwealth Writers' Prize-winning author Tsitsi

Dangarembga agrees that books are unlikely to disappear from our lives. In fact, just the opposite. "Stories are enduring. We consume stories in many different forms and these forms endure, even if the technology changes.

"I think that as the Fourth Industrial Revolution brings more forced leisure, or rather lack of meaningful activity – lack of meaningful activity itself not being a good thing – people will compensate by consuming more narrative, including reading more books. This will be to fill in time and to find meaning in a world where the meaning given to life by life-supporting work decreases."

Life has certainly taken on new meaning during a pandemic. I ask Borraine to what extent Covid-19 has affected the book industry, both in the supply of new manuscripts, publication of new books, and the demand for books from the consumer. Has there been a shift in the preferences of both authors and consumers, for example?

"2020 was a tough year for publishers in South Africa, but not cataclysmic. Reading is a solitary pursuit, and readers continued to buy books. The publication of some titles was delayed to this year, but I think for the most part publishers stuck to their schedules. Naturally, the lack of book launches and festivals hampered efforts to raise awareness of new books, but this will come right in time.

"The response of authors was mixed: some got stuck in during lockdown and worked miracles, others found it more difficult. In terms of consumers, there has been a swing to lighter fare, escapism, armchair travel. The demand for books on the depressing state of our politics has dropped, although *Man's Search for Meaning* by

Viktor Frankl has been doing a brisk trade as we experience a shared existential crisis."

"Crisis" is certainly a word frequently whispered in SA publishing houses. I put Borraine on the spot: Do books still make money? There has been some consolidation in the publishing industry in the last few years in SA. Is that a sign that profits are shrinking, or that there are enormous economies of scale that fewer but larger publishers can exploit?

"Books still make money, but it isn't easy in a market like SA which has always been small and has seen little growth in the economy. Book publishing is a very old industry of course, and consolidation has taken place, but the model still allows for new entrants who are able to spot a trend or an author."

I ask Dangarembga, whose latest book, *This Mournable Body*, was shortlisted for the 2020 Booker Prize, whether she is optimistic that, as several African economies return to high rates of economic growth, lifting incomes, more Africans will be eager to consume books. "Yes, with more purchasing power on the continent, there are more purchases of books. But by and large, the

African book market is still small. Money is made in the textbook market. From that point of view, it will take a structural shift to make the African book market viable without extra-continental sales of local authors."

Borraine sees green shoots emerging: "What is encouraging is the growth in demand for local black authors over the past five to ten years, and this will continue. Our very own Lazy Makoti has replaced the likes of Jamie Oliver. The bestseller list will contain an even larger number of local black authors. But it is also true that as the world shrinks, global bestsellers will continue to shine."

Innovation is likely to come not only from local authors but also, increasingly, from start-ups. Exciting local publishers, like Hlomu Publishing, may be able to tap into new markets that established publishers find difficult to enter. And new products like the Remarkable 2, a tablet that feels like exactly like paper and allows one to make notes,

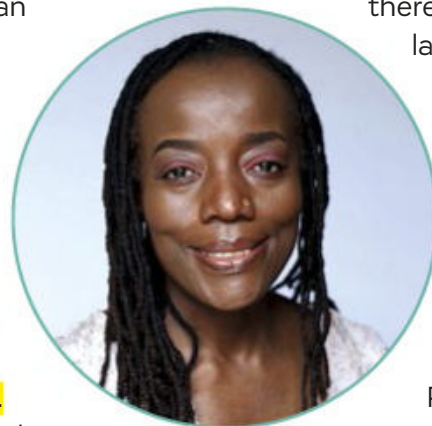
may soon become a major threat for the textbook market.

But books are more than just collections of information. They become part of our identity.

Just as libraries define societies, so the books in our homes define who we are – and what we aspire to. That is why the book is unlikely to disappear. Instead, it is likely to become more accessible, more personal, and more meaningful in future, creating new opportunities for authors, publishers and innovators alike. ■

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Johan Fourie is professor of economics at Stellenbosch University and author of *Our Long Walk to Economic Freedom* (Tafelberg, 2021).



Tsitsi Dangarembga
Commonwealth Writers' Prize-winning author

"Books still make money, but it isn't easy in a market like SA ... Book publishing is a very old industry of course, but the model still allows for new entrants who are able to spot a trend or an author."



AGRICULTURE

Ncora, an example of what farming in SA could look like

The recent investment in a dilapidated former-Transkei irrigation scheme should be a topic during land-reform debates.

Deep in the rural Eastern Cape, on the banks of the Tsomo River, lies the town of Ncora, home to one of many irrigation schemes in the province that has suffered from years of under-investment after the fall of apartheid in 1994.

Ncora's land is so fertile and blessed with vast water resources that it could easily be South Africa's breadbasket. However, the area is unlikely to become one of our country's main sources of food unless a serious effort is made to attract private investors to steer it towards its full potential.

In the ongoing debate about land reform, places like Ncora rarely feature in the discussion despite possessing the ability to bring poor rural communities into the mainstream of agricultural production. These places represent a wasted opportunity akin to the commercial farms that are bought by government from white farmers and transferred to black farmers only for the farms to end up being unproductive under the new owners.

During its heyday in the 1970s and 1980s, when Ncora was part of the Transkei homeland, it was a strong contributor to food production in our country. The Ncora Irrigation Scheme boasted a dairy farm, which spanned over 3 500ha of irrigated land. In the 1980s, Ncora utilised modern agricultural methods to produce between 15 000 and 20 000 litres of milk and 3 000 pockets of cabbages daily.

The scheme, like many in the Eastern Cape, fell apart after 1994 because of neglect and underinvestment by the ANC government. The reason the scheme worked before is that then Transkei ruler Kaiser Daliwonga Matanzima, backed by the National Party government, invested money and skills to ensure that Ncora produced food. Matanzima brought in a firm of Johannesburg-based consultants, called Loxton Venn and Associates, to run the project. Amongst its ranks, the firm employed former Zimbabwean professionals, with a background in farming and agricultural extension, who lived on site in Ncora to run the project.

According to the Department of Agriculture, Forestry, and Fisheries, Ncora is part of 50 000ha of land that is under irrigation in the former homelands. In the rest of the country, there are about 1.6m ha under irrigation, mainly benefitting white farmers.

I was in Ncora recently and I felt nostalgic seeing abandoned houses and buildings that were once occupied by staff from Loxton Venn and Associates. These buildings gave a window into the past of a once-thriving farming community. There is still a big board that greets you when you enter the irrigation scheme, which reads the estate was managed by "Interscience Transkei Pty Ltd on behalf of

Transkei Department of Agriculture & Forestry and Loxton Venn and Associates".

I was surprised to see that the board has survived all these years, possibly indicating that the leaders running our country have never set foot in the area. There was massive investment into the irrigation estate, which is supplied with water from the Ncora Dam, a very imposing structure that is underutilised. It was disheartening to see the dam overflowing and the water running to the sea despite many nearby towns suffering from water shortages due to drought and lack of investment in water storage infrastructure. The R220m that the government invested in 2016 to supply water to 97 villages is not enough.

The potential is so huge at Ncora that the Eastern Cape government, under the leadership of Premier Oscar Mabuyane, is beginning to show interest in it. The dairy farming has been revived and is even matching levels last seen in the 1980s. A big part of this revival has been driven by a black-owned agribusiness group, Amadlelo Agri, which is run by former Old Mutual executive Simphiwe Somdyala.

The company operates two state-of-the-art dairies at Ncora that produce more than 15 000 litres of milk daily. By next year, Amadlelo projects to increase production to 20 000 litres a day. There is still room in the estate to accommodate up to four more dairies. This will require additional private investors like Amadlelo to come to the party to make this projection a reality.

There is also a further 2 000ha of land that could be used for agriculture. I believe a place like Ncora deserves an investment vehicle dedicated to promoting and attracting investment to the area.

This investment vehicle could be used to fully exploit Ncora's potential. This company could also be used to revive and manage irrigation schemes that the government is unable to operate. What Amadlelo has shown, is that it is possible for black people to participate in agriculture at the highest level provided investment is made into infrastructure, skills and market development.

The government also needs to pay close attention to farms that end up failing after they have been transferred to black farmers. Addressing this problem also deserves to be given prominence in the land reform debate as it could pose a risk to SA's food security in the future if once-productive farms end up laying fallow due to a lack of investment capital, market access, and inexperience. ■

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Andile Ntingi is the founder of GetBiz.



What Amadlelo has shown, is that it is possible for black people to participate in agriculture at the highest level provided investment is made into infrastructure, skills and market development.

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in brief

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- >> **Should investors be wary of the so-called supercycle?** p.11

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“THE RISKS TO THE ECONOMY OF REPEATING PAST MISTAKES ARE NOW CLEAR AND WELL KNOWN.”

– **Busi Mavuso, CEO of Business Leadership South Africa (BLSA)**, warned against hard curfews and shutdowns amid a looming third wave of Covid-19 infections in the country. In a weekly newsletter, she lamented how certain segments of the economy (especially the tourism, hospitality, alcohol and tobacco industries) have suffered unbearable costs, running into billions of rand, because of stringent restrictions. She called for “sense to prevail as we consider policies to limit the impact of the third wave” and said businesses have invested to be able to operate safely.



“Market sell-offs are a good time for people to buy into tech.”

– **Salman Baig, multi-asset investment manager at Swiss fund manager Unigestion**, told *The Wall Street Journal* that for many investors, market sell-offs are an opportunity to buy securities that have been expensive and “get a bit of a discount”. Baig made his comments on 14 May, when he discussed US stocks chipping away at losses after suffering their worst three-day decline since late October last year. The newspaper reported emerging signs that inflation may be picking up faster than expected, putting investors on edge and pressuring shares in the priciest corners of the market. In a sign of optimism, technology stocks, among the biggest decliners in the market selloff earlier, rose in mid-May.

“I DO NOT FEAR EXPULSION.”

– **Ace Magashule, the ANC’s suspended secretary-general**, said he does not fear being expelled from the ruling party for taking it to court in a bid to reverse his temporary removal from office. Magashule, one of President Cyril Ramaphosa’s main rivals within the party, was suspended over corruption charges. In a letter, Magashule tried to retaliate by suspending Ramaphosa, claiming that he had the authority to do so as secretary-general and later failed to comply with an injunction that he apologises. He told *City Press* that he had exhausted internal processes of the ANC and had now resorted to the courts.

THE GOOD

In a bid to support the government in its race to conclude SA's last phase of its vaccine rollout by February 2022, listed pharmacy retailer Dis-Chem has been allocated the Pfizer-BioNTech vaccine because it can keep the doses at the required ultra-low temperatures, according to the health ministry. Clicks announced that it had received approval from the health ministry to offer vaccinations at 47 sites nationally, with a further 520 sites awaiting approval for registration, at the time of publication. The administrative cost of the vaccine at the pharmacies has been set at R70 a shot.

THE BAD

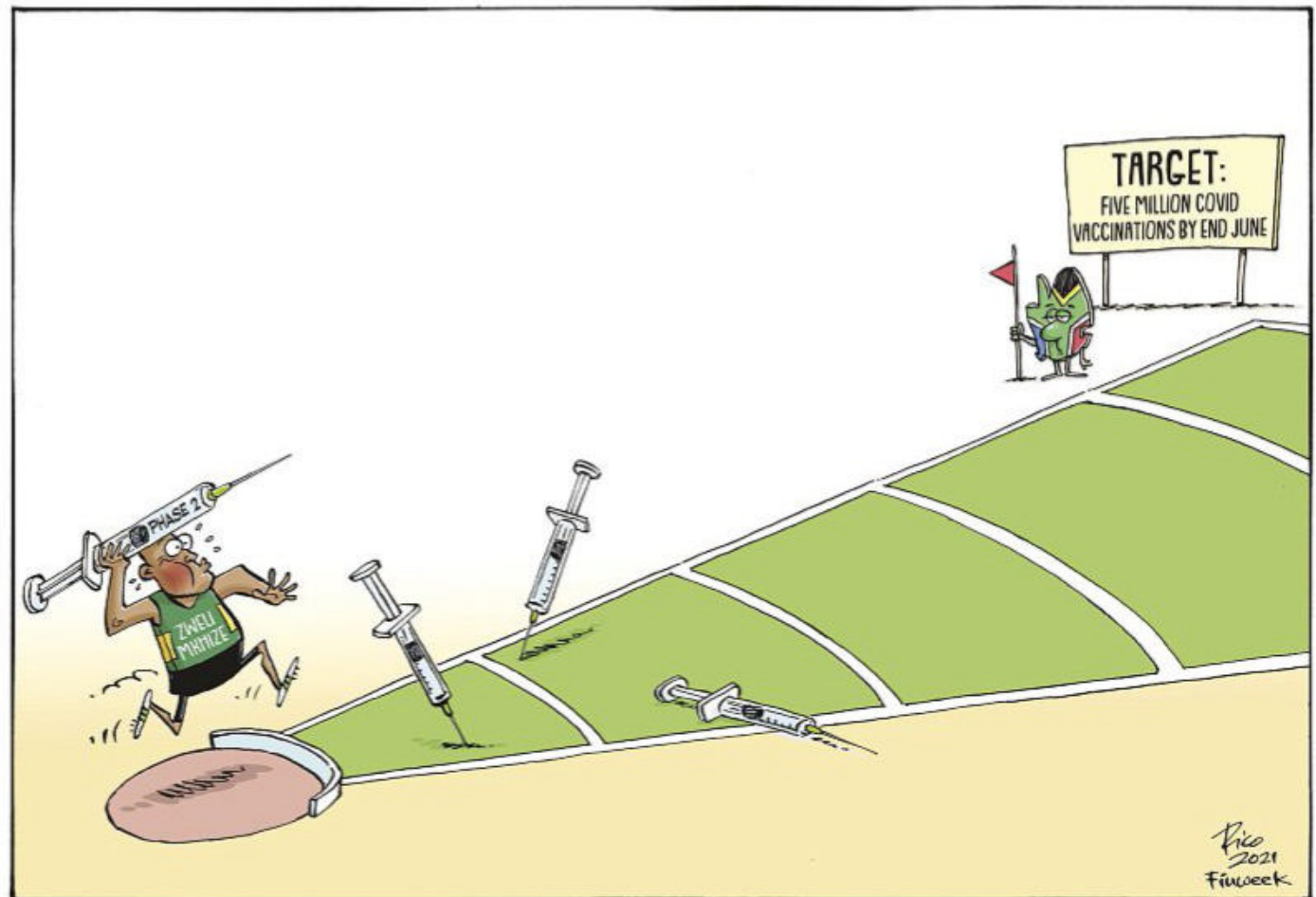
The SA Post Office has launched a court action against PostNet and the SA Express Parcel Association over the right to be the only operator that can deliver packages weighing 1kg and less. If the court rules in the Post Office's favour, the impact on courier companies and e-commerce business could be disastrous, according to courier DPO South Africa's MD, Peter Harvey. He argued that government should work hard on improving the state of the Post Office and then allow it to compete against the private sector based on service and price, rather than relying on anti-competitive regulations to secure its future.

THE UGLY

Tensions escalated between Hamas and Israel in mid-May. Hamas fired rockets at Israeli cities, while Israel retaliated by bombing the source of the rockets in Gaza. The two sides continued to trade fire despite international calls to bring the fighting to an end, at the time of publication. Israel's military said it had begun ground operations against Hamas in Gaza, escalating its offensive against the group. Israel and Hamas have fought three wars since the latter seized control of the Gaza Strip in 2007. The area witnessed several escalations since the spring of 2018 that have almost developed into full-blown conflict.

DOUBLE TAKE

BY RICO



RUNNING, RUNNING, RAND

R13.96/\$

The rand broke the R14 per dollar level and rallied to R13.96 on Monday, 10 May – its strongest since early January 2020, after Moody's kept SA's credit rating unchanged at Ba2 negative. In addition, weaker than expected US jobs data kept the dollar under pressure. The rand's relatively higher yield has helped it benefit from a low US interest rate regime and made it the best performing emerging-market currency so far this year. Andre Cilliers, currency strategist at TreasuryONE, told Reuters that "the expectation is for the rand to test lower, but the fact that R14.05 has held a couple of times leads us to believe that going lower could be a tough slog".

CHINA'S POPULATION GROWTH SLOWS

1.4bn

China's government said births dropped for a fourth consecutive year in 2020 and that the overall rate of population growth slowed to a near halt, with the total number of people edging up to 1.41bn. Results of the once-a-decade census presents China and its president, Xi Jinping, with a stark choice: Unwind state controls on family planning and immigration or stick with the policies and risk declining economic growth, according to *The Wall Street Journal*. Stagnating population growth translates into fewer younger people to generate economic power as rising numbers of elderly represent a net drain on finances. Nearly 20% of China's citizens are older than 60.

VEHICLE EXPORT EARNINGS DROP

-12.9%

The impact of Covid-19 saw total export earnings of new vehicles and components in 2020 decline by 12.9% to R175.7bn (2019: R201.7bn), according to the Automotive Industry Export Council. Vehicle exports slumped 29.9% dropping by 115 804 units to 271 288 units in 2020 from 387 092 vehicles exported in 2019. The export value declined by R26.8bn from R148bn in 2019 to R121.2bn in 2020. Component exports increased to a record R54.5bn in 2020 (2019: R53.7bn) with catalytic converter exports (R25.98bn) the main driver. The automotive industry's contribution to GDP stood at 4.9% last year, down from 6.4% in 2019.

DEBT-STRAPPED SOUTH AFRICANS

53%

DebtBusters' Debt Index for the first quarter of the year shows that the number of South Africans seeking help to manage their debt rose sharply, with many consumers having to borrow to compensate for a lack of increase in real income. Benay Sager, chief operating officer of DebtBusters, says real incomes have shrunk by 17% in the past five years, while unsecured debt are, on average, 53% higher than in 2016. Despite the grim numbers, the positive news was that more consumers proactively seeks help, and there has been a 56% annual increase in the number of clients successfully completing debt counselling since 2016.

By David McKay

MINING

When local governments fail mining companies

Aspirations of employment in some of SA's poorest regions are fuelling local discontent. Take Prieska, for example.

Prieska is a small town of 20 000 people on the banks of the Orange River in the Northern Cape province. Iscor, the former steelmaker, used to operate there, but mining was last seriously seen in the place more than a generation ago.

Today, it is agriculture that helps sustain the local economy. Lately, however, Prieska has become a hotspot – literally, it would seem – for several privately-backed solar energy projects and some high profile ones by French energy firm, Total, as well as Australian firm, Orion Minerals as part of its plans to breathe new life into the old Iscor copper-and-zinc mine, which is exciting investors again.

The fresh interest, however, has brought frustration to people in Prieska.

According to **Orion CEO Errol Smart**, the Prieska community has become accustomed to seeing high activity when solar projects are under construction, employing a thousand people or more. But as the work is project-based, it is short-lived, and often so specialised that employment opportunities are scarce. The maintenance crews left behind number only a handful of souls.

Seen, therefore, from the perspective of the Prieska community, investors and employment opportunities come and go at dizzying speeds with no apparent benefit to it. "There are no skills or a mini-economy," says Smart of the local area. "We are trying to build it, but it will take time."

In the meantime, Orion Minerals is finalising a finance package for its A\$432m (R4.7bn) Prieska copper-zinc mine that will bring about some regional economic benefit, but only in about two years. Recent demonstrations by the Prieska community have not helped the company's efforts.

Earlier this month, Orion was forced to apply for an urgent interdict from the Northern Cape High Court after community members turned up at the firm's property gates before moving on to the town, blockading roads, burning tyres and the like. Certain members, provoked into action by an aspirant service provider that lost out on one of Orion's tenders, attempted to intimidate the local authorities into pressing investors like Orion into providing more jobs.

Smart thinks scenes like this may become a widespread event in other impoverished regions in the North West and Mpumalanga where mining exists. "The industry will see this kind of effect



Errol Smart
CEO of Orion Minerals

Certain members, provoked into action by an aspirant service provider that lost out on one of Orion's tenders, attempted to intimidate the local authorities into pressing investors like Orion into providing more jobs.



July Ndlovu
CEO of Thungela Resources

intermittently for the next six months right up until local elections take place in October," Smart said. Demands include 50% host community employment and 30% host contractors in the firm's Prieska copper-zinc project, he said.

The Minerals Council has called on government to step up its security, but the truth is, local municipalities are underresourced. There is not much the police can do when they number as few as ten against a crowd of hundreds, especially as the police also live among the community.

"It is a difficult situation because the disadvantaged community is struggling after years of poor delivery by the government," says Smart.

Alex Khumalo, head of social performance and community development at the Minerals Council, says there is no doubt that mining towns need to have diversification in place.

"We're the only industry that can establish a town by digging a hole," he says. Community rumblings, however, will continue whilst government under-delivers and integrated development plans that are "neither integrated nor development" fail to deliver.

"It starts with strengthening local government which is where the mandate lies but the vast majority of them are struggling to collect [rates] from the people. So, municipalities depend on government grants." Therefore, policing is so underresourced.

He points to efforts at Lephalale, a hub for the coal sector, where a "just transition" from coal to a broad-based economy is underway, partly by dint of Anglo American which recently unveiled plans to demerge its Anglo Coal division into Thungela Resources. Anglo says that in creating a separately-listed company, capital can be efficiently and expeditiously allocated to mine extension, providing jobs for longer, whilst it also focuses on regional economic development.

July Ndlovu, CEO of Thungela Resources, says this was a key reason why it does not make sense for Anglo to sell or just close the mines as some would have it. "We haven't comprehended how many people have lost their jobs in this [Covid-19] pandemic," he says.

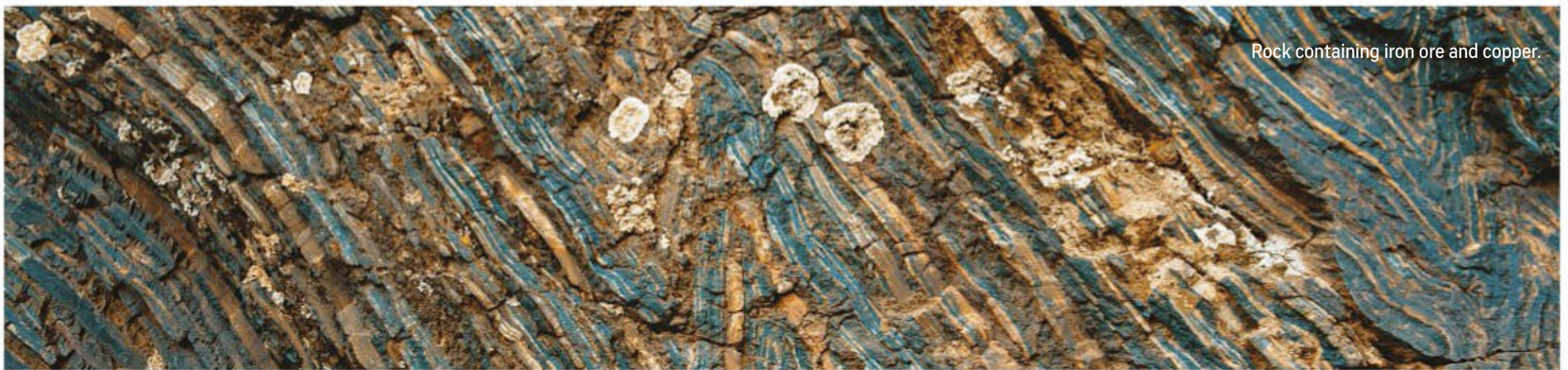
"People resort to crime; people resort to all sorts of demands. It's out of absolute desperation. And that's why I think people who say just close the mines... you need to go into those communities and see what people are prepared to do just to make a living. Then you realise the responsibility we have got is enormous." ■

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MINING

Constrained supply dynamics underpin the metal-price surge

Should investors heed Neal Froneman's cautiousness on the current metals supercycle?



Rock containing iron ore and copper.

Neal Froneman, CEO of Sibanye-Stillwater, is not one for curbing his enthusiasm. He did, however, briefly pause during a recent webinar convened by asset manager Ninety One on the prospects of a metals supercycle to warn against "overoptimism".

Although Froneman seems convinced by the trajectory of platinum group metal (PGM) prices, his caution is nonetheless an indication that people aren't sure if recent metal price surges are sustainable.

It's best to read the small print when it comes to labels like "supercycle". Ninety One portfolio manager, Hannes van den Berg, pointed out that whilst PGMs have recovered from cyclical lows of five or six years ago, the same couldn't be said for, say, lithium. A relatively obscure mineral until recent battery technology propelled it to the forefront of the metals cycle, lithium is still in the first blush of a major price appreciation.

At the time of writing, the forces behind the metals fever were iron ore and copper, the latter having sustained new ten-year highs of about \$10 000 per tonne. Iron ore, which is used in the manufacture of steel, was recently at \$220 per tonne, or 44% higher year-to-date and 162% higher year-on-year. Just to put this price gain into perspective, Kumba Iron Ore's average realised iron ore price in its 2020 financial year was \$115/t on which it paid a R17.8bn dividend.

Citing Oversea-China Banking Corporation, Bloomberg News said the iron ore price could test \$250/t in the next 12 to 18 months. Given Kumba's unit cost last year was \$34/t, that's an incredible operating margin, hence

its all-time share price high last week, valuing the firm at R230bn.

So, what of the metals supercycle: What's driving it and can it be believed? Consensus is that adoption of decarbonisation, especially in public policy, is providing the long-term momentum, assisted by fiscal stimulus and the global vaccination programme. Unlike normal recessionary cycles, the Covid-19 pandemic's imminent demise has unleashed an immediate burst of jocund conviction.

The metals supercycle, however, is also a question of supply. Having overspent on market share in the last up-cycle, mining firms have been reticent to spend on resource renewal, preferring instead modest brownfield extensions and putting spare cash into the hands of investors in a bid to restore faith in the listed mining industry.

Whilst China's economy continues to grow – steel production is expected to thrive notwithstanding its current high levels – it's the paucity of supply that stands out in the current cycle. "Given the fundamental backdrop, and low inventories, we see a risk that the red metal (copper) may spike to \$13 000/t," said Bank of America Research (BoA) in a recent report.

Following deficits in 2021 and 2022, it expects a rebalancing of the copper market in 2023 and 2024, before "renewed shortfalls and another draw on inventories kick in from 2025", the bank said. This is about the time Orion Minerals' R5bn Prieska Copper-Zinc

Project kicks into gear. "I wouldn't be doing this if I weren't bullish on the price," said Orion's CEO, Errol Smart. "But nothing can step into copper's place."

Citing Freeport-McMoRan, one of the world's largest copper producers, Goldman Sachs said novel supply in the form of a new mine could take five to ten years to materialise. "Beyond the few projects coming online in the near term, the supply response appears more uncertain," it said.

Yet the supercycle is neither synchronous, as its catch-all name would suggest, or linear. Lithium prices may have gained 50% this year but there is a degree of idled production waiting to be reintroduced to the market.

Longer term, lithium – like copper and other base metals including zinc and nickel – have a limited supply side response written into them. But its price could remain capped, says BoA adding that "acknowledging a combined 'probable' capacity of 350 000t by 2025, lithium may end up being a market that is growing exponentially in size but prices could end up being more constrained".

Froneman's warning of overoptimism may be best exercised selectively it would appear. However, global head of thematic investing for Blackrock, Evy Hambro, had this to say: "One of the things that drives commodities to their peak is financial demand, rather than physical demand. We're seeing a global greening of the world that's going to be very commodity intensive, and that trend is likely to last decades." ■

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Neal Froneman
CEO of Sibanye-Stillwater

Iron ore, which is used in the manufacture of steel, was recently at \$220 per tonne.

market place

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FUND IN FOCUS: SATRIX 40 ETF

By Timothy Rangongo

South Africa’s first and favourite ETF

The Satrix 40 ETF tracks the FTSE/JSE Top 40 Index and pays a quarterly dividend to holders.

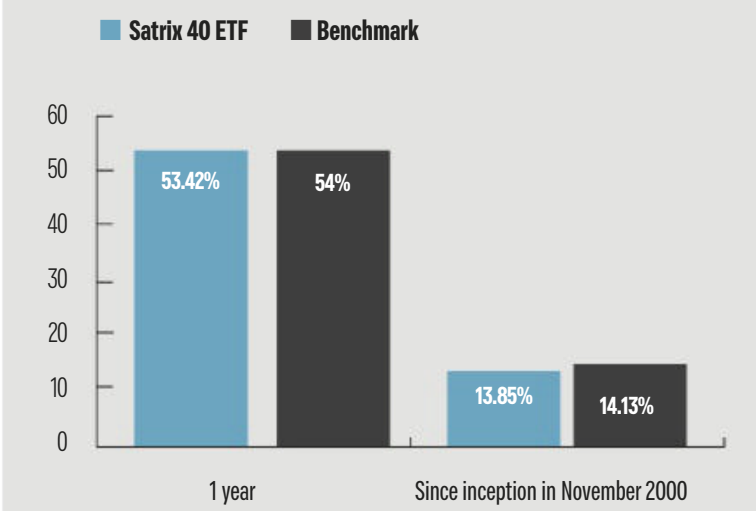
FUND INFORMATION	
Benchmark:	FTSE/JSE Top 40 Index
Fund managers:	Satrix investment team
Fund classification:	South African - Equity - Large Cap
Total investment charge:	0.12%
Fund size:	R10bn
Minimum lump sum/ subsequent investment:	R10 000/R500 per month
Contact details:	0860 111 401/unittrusts@satrix.co.za

TOP 10 HOLDINGS AS AT 31 MARCH 2021:		
1	Naspers*	20.38%
2	BHP Group	12.34%
3	Richemont	9.92%
4	Anglo American	9.8%
5	FirstRand	3.46%
6	Impala Platinum	2.91%
7	Sibanye-Stillwater	2.57%
8	Mondi	2.51%
9	Standard Bank	2.19%
10	MTN	2.13%
	TOTAL	68.21%

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 31 March 2021:



Fund manager insights:

South Africa’s very first ETF, the Satrix 40, has been tracking the FTSE/JSE Top 40 Index since 2000. The investment team actively seek out attractively valued locally-listed shares that could offer strong long-term growth. The biggest market crisis the fund has faced since its inception was surprisingly not the Covid-19 recession, but the global financial crisis, when it lost 39.74% as at February 2009, according to Satrix CEO, Helena Conradie. She tells *finweek* this coincided with the resources sector reaching its previous peak in June 2008 and losing more than half its value by February 2009. “Markets did subsequently recover, as they inevitably do, but investing requires investors to be patient to realise the higher long-term returns available from riskier asset classes like equities.”

The fund weathered the Covid-19 recession and delivered a return of 53.44% (to the end of March 2021) for the previous 12 months, which is in response to a general recovery in markets across the world following the sell-off in March 2020, and a very strong resources sector. The fund’s highest annual return over the last 10 years was 53.42%, which was achieved in March 2021, following the strong recovery in global equity markets after the Covid-19 crash of 2020. The deepest decline of 16.26% occurred a year prior in March 2020, because of the Covid-19 crash. Conradie reiterates that this highlights the volatile nature of equities and why patience is required to achieve a long-term return premium. The top-performing shares over the last 12 months were Sasol (+473%), Impala Platinum (+284%), Northam Platinum (+270%) and Sibanye-Stillwater (+204%), all resources stocks.

Although the resources sector has the riskiest profile relative to their broad financial and industrial peers, Conradie says the fund’s exposure to this sector over the last few years has served investors well, as commodities (priced in dollars) have rallied in conjunction with a weakening currency and has significantly outperformed financial and industrial stocks. The fund also pays out, on a quarterly basis, all dividends received from companies comprising the index, after costs. Several companies have paid dividends in the first quarter of 2021, such as Anglo American, BHP Group, Sibanye Stillwater and Impala Platinum. **The current annual dividend yield for the fund is 2.48%**, according to Conradie, who adds that dividends are expected for the next quarter from Standard Bank, Mondi, Capitec, Sanlam and Shoprite, among others.

Why finweek would consider adding it:

Exposure to the domestic equity market provides investors with exposure to local economic growth. Investors are faced with the problem of opportunity costs when considering the local equity market versus investing offshore but should be aware that investing offshore is subject to an additional risk, namely that of the currency. The fund proved to continue being the favourite ETF among SA investors for the fourth year running, scooping the People’s Choice Award at the South African Tracker Funds Awards. ■

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WHAT IS AVAXHOME?

AVAXHOME-

the biggest Internet portal,
providing you various content:
brand new books, trending movies,
fresh magazines, hot games,
recent software, latest music releases.

Unlimited satisfaction one low price

Cheap constant access to piping hot media

Protect your downloadings from Big brother

Safer, than torrent-trackers

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All languages

Brand new content

One site



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AvaxHome - Your End Place

We have everything for all of your needs. Just open <https://avxlive.icu>

RAUBEX

BUY

SELL

WAIT

By Simon Brown

Tenders boost construction sector

The construction sector had a lost decade with many of its listed entities entering business rescue – never to return. This is because very little construction work took place in South Africa after the 2010 World Cup boom. Those companies left are benefiting from renewed tender activity. Raubex CEO, Rudolf Fourie, said that he sees more tenders issued now than at any stage in his 30-year career.

Raubex's recent financial results showed a strong second half with headline earnings per share (HEPS) at 110c compared with a loss in the first half. As activity picks up, Raubex could easily reach HEPS of 300c for the 2022 financial year, maybe even 350c. The reason for this is that in the roads sector, they are last on site to pour the bitumen.

The main challenges are skills and capacity after a decade of low work levels, but Raubex is confident that they have managed this and are well positioned to increase capacity. At current price levels just below 3 000c per share the forward price-to-earnings ratio is averaging at around ten times, which is not cheap. But remember, when this sector moves it will most likely become expensive before the infrastructure-building cycle ends. ■



Last trade ideas

- BUY** Revego
14 May issue
- BUY** Balwin Properties
23 April issue
- BUY** ADvTECH
9 April issue
- BUY** Renergen
18 March issue

FAMOUS BRANDS

BUY

SELL

HOLD

By Moxima Gama

Investors not deterred by loss

Famous Brands, a holding company and one of Africa's largest quick-service and casual dining restaurant franchisors, is expecting a full-year loss due to a huge absence in foot traffic because of the Covid-19 restrictions and the intermittent bans on the sale of alcohol. In addition, the company admitted their poor investment decision of Gourmet Burger Kitchen in the UK in 2016.

The restaurant chain is anticipating HEPS to plummet by up to 97%. Though the group said it resumed trading straight after the easing of restrictions in both SA and the UK, its supply chain division, which consists of manufacturing and logistics, was hit the hardest by the trading constraints.

The group impaired their Gourmet Burger Kitchen restaurant business in the UK and Ireland in full at R1.3bn, net of tax, after the business was placed into administration in October last year in accordance with the UK's insolvency legislation. Famous Brands is still waiting for the finalisation of the administration process which is handled by the administrator.

However, when looking at the charts, investor sentiment seems unbothered. In fact, it is bullish. Famous Brands' share price has traded out of its four-year bear trend – even confirming a positive breakout above 5 500c/share – meaning we should be buying the share.

How to trade it:

Famous Brands' share price has pulled back recently because the three-week relative strength index (3W RSI) was overbought. With support held firmly at 5 500c/share and the 3W RSI retaining its own bull trend, it seems Famous Brands is set to gradually recover its four-year losses. Go long at any level above 5 500c/share as the next resistance at 7 500c/share could be tested. One could increase long positions above that level because gains could extend further to 9 000c/share. Alternatively, a reversal towards 4 880c/share could see the share price fall to the support trendline of its current uptrend. A negative breakout would be confirmed below 4 020c/share. ■

editorial@finweek.co.za



Last trade ideas

- BUY** Sasol
14 May issue
- CAUTION** Prosus
23 April issue
- CAUTION** Sappi
9 April issue
- BUY** African Rainbow Minerals
18 March issue

With support held firmly at 5 500c/share and the 3W RSI retaining its own bull trend, it seems Famous Brands is set to gradually recover its four-year losses.



CURRO

Bear trend finally put to rest

Established in 1998, Curro is the largest private education provider in southern Africa. Curro develops, acquires and manages independent schools for learners. In 2019, Curro provided education to 42 000 learners in 175 schools in South Africa and Namibia.

Share price history

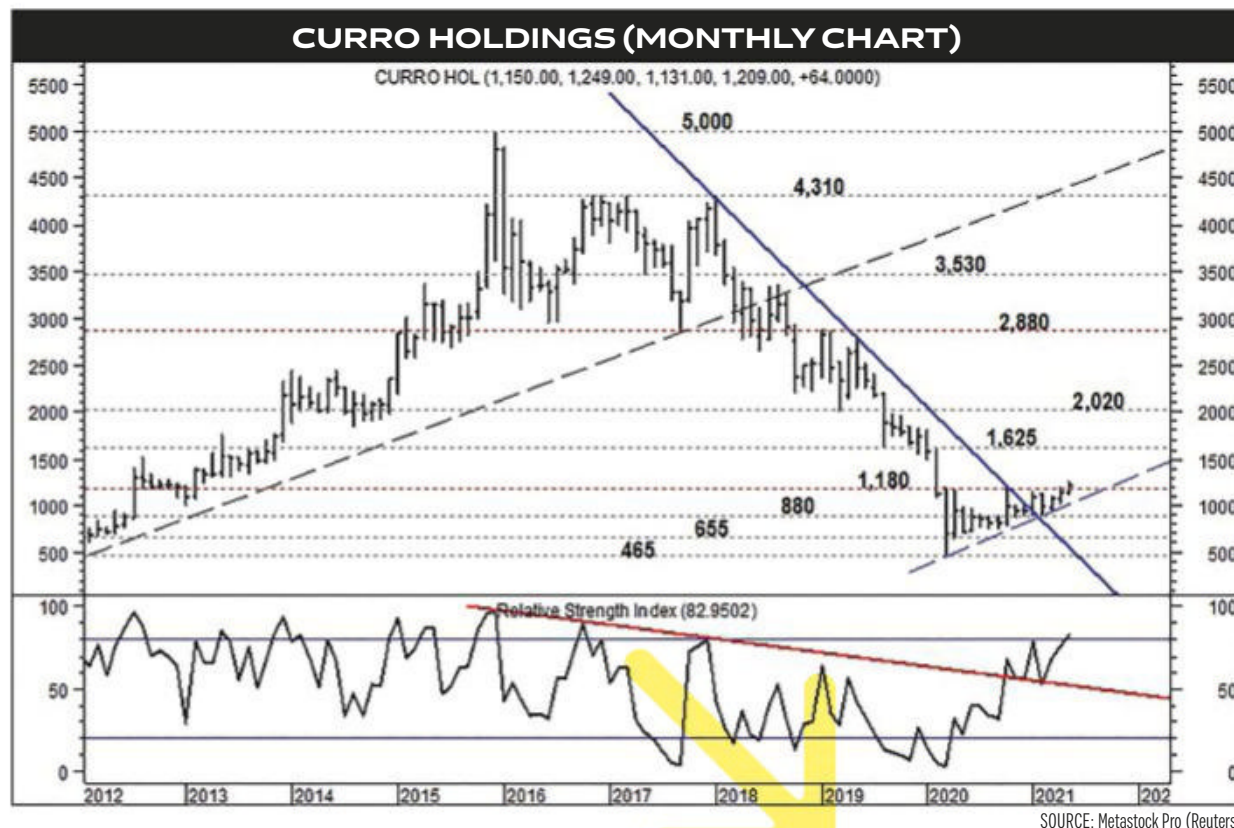
Since listing on the JSE in June 2011, when the share price was trading at 550c/share, Curro was a darling among retail investors. As parents grew more frustrated with the under-resourced and over-crowded public schools, demand for private schools was on the rise. This saw Curro's share price test an all-time high at 5 000c/share before losing ground in 2015. The reason for the pullback seemed baseless, considering the popularity and confidence that surrounded the company, but at the time Curro's price-to-earnings ratio (P/E) was around an expensive 140 times, which potentially triggered a deceleration in buying momentum. The failed takeover of its rival ADvTECH could have further dented investor sentiment. The share price tanked even more following the unbundling of its higher education business, Stadio, into a separately listed entity in October 2017.

Current outlook

Fears related to the Covid-19 pandemic saw Curro plummet through its initial listing price at 550c/share – an all-time low was tested at 465c/share. Curro's credit loss (a debt that a company is unable to collect) swelled to a whopping R146m last year because families could not to pay for tuition – which is partially the reason why the group decided to withhold its dividend. After Curro announced their intention to launch a massive R1.5bn rights issues last year, its share price spiked by approximately 125% within its long-term bear trend. Curro plans to use the funds raised to acquire rivals that are struggling from the Covid-19 economic meltdown and to pay down its debt. An extended sideways movement between 655c/share and 1 180c/share in the share price indicated that investors were cautiously optimistic.

On the charts

Though it traded sideways for almost a year, Curro's share price formed rising bottoms – establishing an uptrend that eventually defied the resistance trendline of its three-year bear trend. In February, Curro reported record student



SOURCE: Metastock Pro (Reuters)



52-week range:	R7.18-R12.49
Price/earnings ratio:	32.3
1-year total return:	47.9%
Market capitalisation:	R6.92bn
Earnings per share:	R0.36
Dividend yield:	0%
Average volume over 30 days:	442 121

SOURCE: Bloomberg

enrolments – pupil intake rose 9% to 66 153. The company also reported a revenue increase of 5% to R3.09bn for its 2020 financial year. Curro estimates that its revenue for 2020 could have been R300m higher were it not for the impact of the Covid-19 pandemic. In its recent acquisition, Curro purchased HeronBridge College in Fourways, Johannesburg, positioning itself in one of the fastest growing residential areas in SA. The deal is subject to regulatory approval.

What to anticipate

Trading through the resistance trendline of its bear trend indicates a bullish change in sentiment. If this sentiment should persist, Curro could gradually recover all its losses towards its all-time high – making the share a good buy and hold for the long-term. Otherwise, the sideways pattern between 655c/share and 1 180c/share will extend until either level is eventually breached. If the three-week relative

strength index (3W RSI) remains bullish, anticipate a bullish break.

How to trade it

Go long: A positive breakout of the three-year bear trend would be confirmed above 1 180c/share (ensure that a bullish weekly candle forms above that level before initiating a long position). Such a move could prompt further upside to 1 625c/share. Investors could increase long positions above that level as gains could extend further to the next resistance at 2 020c/share.

Go short: Strong resistance encountered at 1 180c/share could see the share price fall to the support trendline of its current uptrend (blue dashed trendline). A negative breakout would be indicated below 880c/share – go short – as sellers could drag the share price to next support at 655c/share. ■

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Moxima Gama is an independent stock market analyst at The Money Hub.

ANALYSIS

Uncertainty impacts local banking stocks

The jury is out on whether shares in South African lenders are a good bet in the current economic climate.

Even though banking stocks have seen gains of around 60% since their eight-year low in May 2020 – with some analysts predicting that their share prices could rally even further – the market does not appear to be particularly bullish about them.

Many reasons present themselves for this, not least of which is continued uncertainty, sluggish economic growth and political volatility in South Africa.

Local banks were hard hit by the Covid-19-induced lockdowns because of debt payment holidays and increased bad debt provisions which had a negative impact on headline earnings and knocked their share prices. Standard Bank, the largest lender in the country in terms of total assets, lost nearly a quarter of its value last year. FirstRand and Absa were down nearly 20%. Capitec, SA's third largest bank, suffered a big sell-off during the year but managed to recover sufficiently to end the year where it had started. Investec lost 38%.

Compared with other sectors, the financial sector – which includes banks, financial services companies and insurance companies – was the laggard in terms of a recovery and rose “just” 25% compared with resources stocks' gains of 55% and the industrial sector which added 35% between May 2020 and April 2021.

The price-to-book ratio and the return on equity in percentage terms provides a mixed picture in terms of valuations for financials. By March 2021, the price-to-book ratios had all improved by between 30% and 60% relative to the lows of March and April 2020. However, they remain below the levels seen at the end of 2019. Return on equity, however, has declined by roughly 50% across the board, except for Investec.

This is perhaps no surprise given the current operating environment. The SA economy was already in recession even before the pandemic. A national lockdown resulted in GDP contracting by 7% in 2020 accompanied by record-high unemployment and poor consumer and business confidence. Load shedding, political volatility, a slower than expected vaccine rollout and the threat of a third wave of Covid-19 infections, continue to pose risks to the economy.

Bank-specific risks include concerns around elevated credit impairment provisioning – in other words, provisions for bad debt as customers struggle to repay loans. Between 2019 and 2020 most banks increased their provisions for credit impairments. Capitec provided for credit impairments at five times the rate of its peers. Although Capitec had

the highest percentage of non-performing loans last year (clients that were behind on their repayments) compared with its peers, it remains one of the better capitalised banks with a low cost-to-income ratio.

Although most banks have taken what appears to be more than adequate provisions, it is uncertain whether they have under or over catered for these provisions. It also remains to be seen whether investors will reward those that have made adequate provisions – by pushing up their share prices once their actual impairment figures are released.

Other risks facing banks include the materially lower endowment effects and lower levels of transactional activity and credit origination. Although banks have largely provided for elevated levels of credit impairment, they have been slower to write off non-performing loans.

According to Reserve Bank data, the ratio of debt to disposable income spiked from around 72% to 74% before the outbreak of Covid-19 and hit 85% during the pandemic. It has subsequently declined to around 76%. Of interest is the fact that the cost of servicing this debt decreased from 10% of disposable income to 8% due to interest rate cuts in 2020. Lower interest rates means that even though SA consumers have more debt now, this debt is costing them less than it did before the rate cuts.

While lower interest rates encourage bank clients to increase their borrowings, it also means that banks see a decline in their net interest rate margins. It appears, however, that we are at the bottom of the interest rate cycle. As soon as interest rates are increased, mortgage bond rates will be re-priced.

Last April the Reserve Bank's Prudential Authority advised that it did not expect banks to make dividend payments or pay bonuses to its executives given that they needed to prioritise capital conservation. In February 2021, the Prudential Authority gave the go-ahead for banks to cautiously start paying dividends on ordinary shares and to start paying their executives cash bonuses again.

The guidance includes a list of factors banks must consider before parting with cash including the adequacy of their current and projected capital and profitability levels; internal capital targets and risk appetite; and the current and potential risks of the pandemic. While Absa and Nedbank chose not to pay a dividend, FirstRand has declared one.

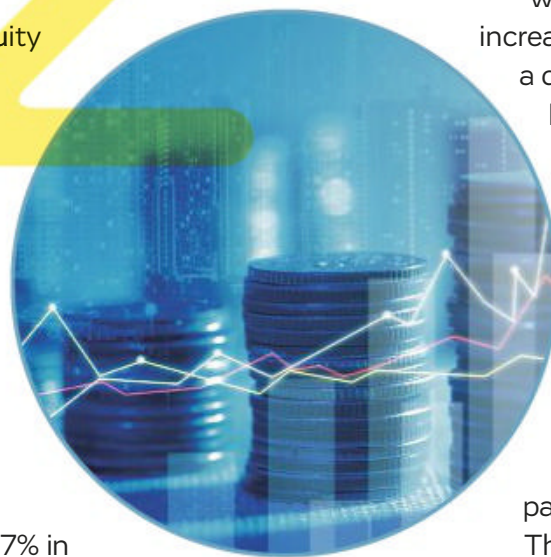
Given the multitude of risks facing banks in a challenging macroeconomic environment, the market's attitude to banking stocks is perhaps, not surprising. ■

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Paul Marais is the managing director of NFB Asset Management.

Mosa Manqindi is a portfolio manager research analyst at NFB Asset Management.

By March 2021, the price-to-book ratios had all improved by between 30% and 60% relative to the lows of March and April 2020.



ANALYSIS

Why you need to understand a payout policy

The Covid-19 pandemic had a dismal effect on dividend payments. Look into a company's dividend policy before you invest.

Over the last year we have seen dividend payments becoming erratic as many listed companies cut their payouts or cancelled them. Some, such as banks, were initially prevented from paying dividends by the Reserve Bank's Prudential Authority (also see story on pg.15). This restriction was subsequently lifted.

Dividends are an important part of a share's return and for some investors they are used to cover general living expenses in retirement. It is important for investors to understand the dividend policy of the company or sector they invest in, in order to have some insight into the risks of dividends and insights on how the company is performing.

Firstly, we have real estate investment trusts (Reits). These are property companies listed on the stock exchange that meet the bourse's Reit requirements. One benefit of having Reit status is that these companies do not pay income tax if they return 75% of their distributable earnings as dividends to shareholders.

These payouts are taxed as income in the hands of the shareholder.

Many investors have considered Reit payouts as fairly safe. However, 2020 showed them that nothing is certain. Redefine, a Reit, suspended their dividend entirely as they didn't meet the legal requirement of the solvency and liquidity test, for example. Initially, I didn't think this excuse would pass muster, but it seems that the solvency and liquidity test supersedes the Reit payout requirements. Subsequently, Redefine didn't declare or pay any dividend. This was a shock to most Reit investors I spoke to, but ultimately the survival of the company is more important than a single dividend payment.

It is also important to note that while Reit dividends are taxed as income, all other dividends are taxed at a fixed withholding rate of 20%.

Aside from the Reits, dividend

payments are fully at the discretion of a company's board of directors. What we typically see is that the board will have a dividend policy whereby they will pay a set percentage of each year's headline earnings per share (HEPS) as a dividend. This is called the dividend cover ratio. For example, say a board may have a dividend cover ratio of three times, then a third of HEPS will be paid as a dividend.

It gives certainty in terms of how much of the profit will be paid to shareholders. Sure, the HEPS will fluctuate but a quality company will see the HEPS increase over time and hence shareholders can expect a similar increase in dividends.

The dividend cover ratio will likely change over time. A startup company may initially pay no dividend as profits are retained to invest in the business which ensures growth. As the company grows and matures, it will start with a dividend cover ratio of say five times, thus paying 20% of its HEPS. As the company grows even more, that cover ratio will reduce as more of the profit gets paid out as a dividend.

Then there is the concept of a progressive dividend policy where a company increases its dividend each year by a set percentage regardless of the rise or fall of its HEPS. The issue here is: what happens in a year where the HEPS grows less than the proposed percentage increase in dividends – or worse, what happens when the HEPS drops? We have seen a few large cap stocks try this on the local stock exchange, but in the end they always abandon the idea when earnings growth slows or turns negative.

At the end of the day, dividends are great, until a pandemic arrives. Knowing the dividend policy of a company remains crucial as the trend of payouts and adjustments to the dividend cover ratio show whether it is maturing or failing. It also helps an investor to understand potential future dividends. ■

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At the end of the day, dividends are great, until a pandemic arrives.

finweek COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM
LEADING PROFESSIONALS

MAY 2021

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**RISK:
WHAT IT
MEANS
TO INVESTORS**



**PLEASE SEND ANY
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Different perspectives on risk

Risk is an important, albeit complicated, part of the investment process.

The future never turns out quite how we expect (or hope!) that it will. Events occur which lead us to feel like we are not achieving the progress that we expected to make. This experience is also a fundamental part of investing. Our portfolio values either fall, or grow more slowly than we hope they will, as our investment ideas do not play out in the way that we expected. This edition of *Collective Insight* is all about how both ordinary people and investment managers view and manage this problem.

In this edition we have grouped the contributions around the perspectives on risk from these two groups of people. What is interesting is that when you compare them you might think you were talking to inhabitants of two totally different planets! This is partly due to the very specialised and formal nature of investment managers' training, but it is particularly important that both groups understand each other's language. Otherwise, investors are not going to get the investment solutions that they require. If this gap persists then the self-defeating behaviour of disappointed investors (as pointed out in some of these contributions) will continue to happen – to the detriment of everyone.

In our first investor-focused article, Fran Troskie tries to simplify the significant amount of jargon in the investor-risk area. She uses the example of buying a car to highlight the important differences between the concepts of risk appetite, risk capacity, risk tolerance and required risk – which must all be addressed when talking about this topic in a financial advice context.

Paul Nixon's article builds on this by highlighting the challenges of assessing risk tolerance on a consistent basis. He reports the results of a recent study which shows how varied different advisers were assessing hypothetical clients' risk preferences – particularly their risk tolerance.

Gareth van Deventer uses his experience as a financial planner to critically evaluate the use of questionnaires to assess clients' risk preferences. While these can be easily misused, he argues that

they can give an advisor significant insight into their client and their attitudes towards risk and investment solutions.

Kim Rassou and Hannes Viljoen review the problems associated with investors' attempts to avoid risk. Kim highlights the current inability of low-risk assets classes to generate real returns while Hannes reports on the negative cumulative effects of going for safety in times of crisis.

The final article in this section focuses on the experience of risk from the perspective of people in South Africa who are struggling to survive financially. Jolly Mokorosi recounts the gap between her training and understanding of the formal theory of risk and the risks experienced by the helper who works in her house.

Moving to the investment management perspective on risk, Bhekinkosi Khuzwayo provides a concise introduction to some of the most widely used technical definitions of risk. Starting with variance and its limitation he moves to commonly used measures which focus on the loss of capital, including Value at Risk (VaR).

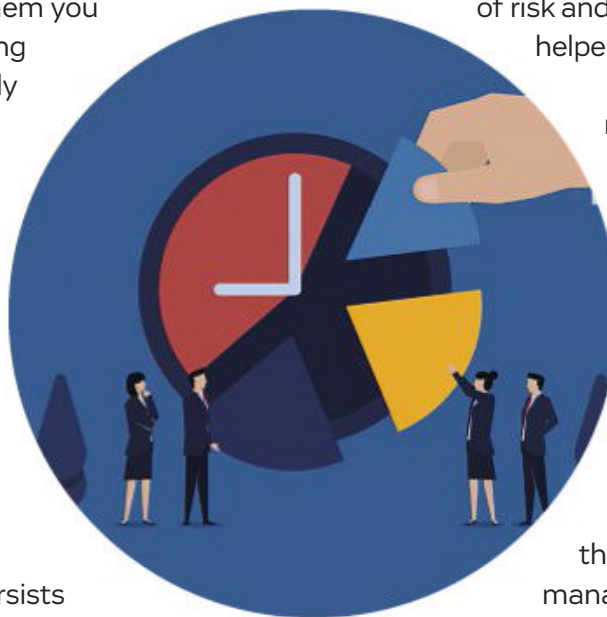
Ian Macleod emphasises the human side of investment management by pointing out the role of narratives in terms of making decisions (and dealing with risk). This qualitative approach is attractive to humans (we like stories, after all) but brings with it the potential for biases and other perceptual problems.

Douglas Davids brings attention to the relevance of environmental, social and governance (ESG) factors when considering risk from an investment perspective – viewing risk as the variation of returns is not sufficient. The challenges of doing this effectively and the use of third-party ratings are critically reviewed.

Narayan Vyas presents a review of the importance of an investment manager having a very clear mandate from an investor as to the types and levels of risk that the manager needs to operate within. He argues that this clarity is vital to minimise the potential for disappointment on both sides of the table.

Finally, the convenor of the editorial board, Anne Cabot-Alletzhauser, has curated a summary of perspectives on the future of risk management.

We wish to thank all the other people who made submissions to this edition.



In conclusion, the dichotomy in perspective of risk between investors and the investment industry highlighted here has serious implications for the effective operations of the industry.

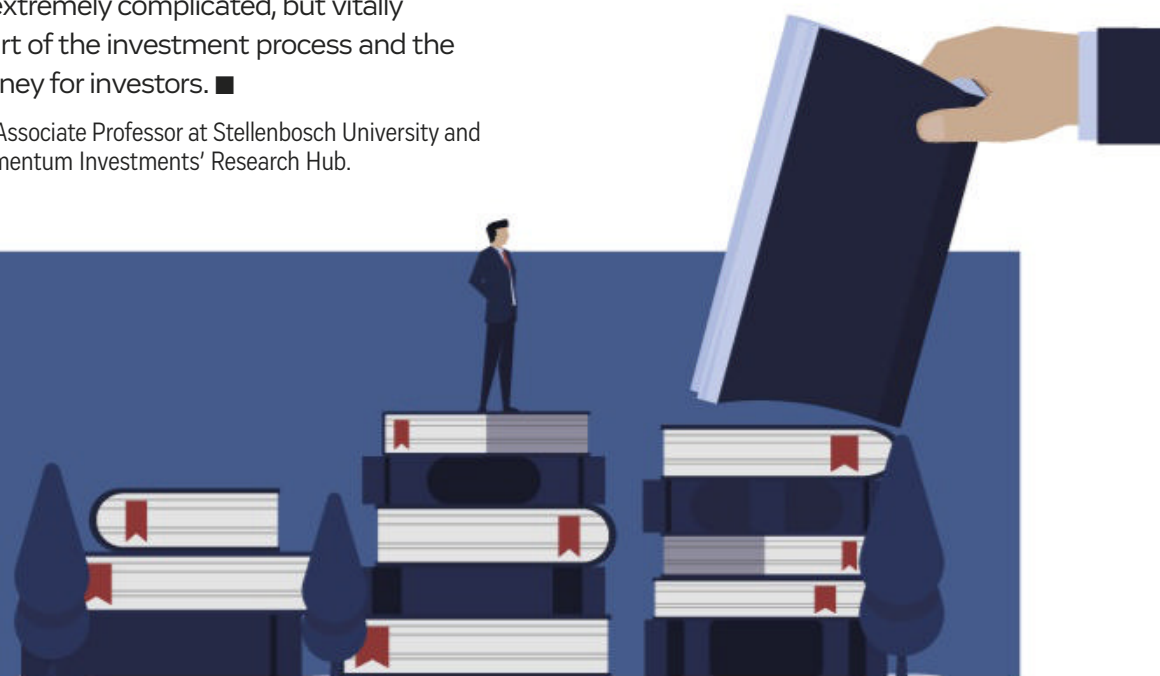
Their contributions all had merit, but due to space constraints and the desire to make it accessible to non-investment management professionals we could not accommodate them all.

In conclusion, the dichotomy in perspective of risk between investors and the investment industry highlighted in these two groups of articles has serious implications for the effective operations of the industry. Effective risk profiling is going to be difficult to achieve if this gap continues while investment managers run the risk of disappointing their clients if they do not fully understand their emotional perspectives on risk. There are some signs of progress though. Investment managers are realising that treating risk

as variability in returns (or some flavour thereof) is no longer sufficient. They are beginning to see that they need to start including an understanding of investor behaviour and sustainability in their measurement and management of risk. There is more work to be done though. Investment managers still need to appreciate their industry's role in system change if we are going to address the real risks that face society in the future.

We hope that you enjoy this bumper edition covering an extremely complicated, but vitally important part of the investment process and the resulting journey for investors. ■

Evan Gilbert is Associate Professor at Stellenbosch University and strategist at Momentum Investments' Research Hub.



A CONCISE HISTORY OF THE THEORY OF RISK

Compiled by Ron Surz, president of PPCA Inc

Investment consulting has a long history that has been marked by innovations occurring about every ten years. It is incredible that Modern Portfolio Theory is about 70 years old. It has stood the tests of time and is currently embraced by many investment professionals. It was developed further as the years went by.

1952:	1964:	1986:	1991:	2013:
<p>Modern Portfolio Theory – Dr Harry Markowitz</p> <p>Markowitz won a Nobel prize in 1990 for educating investors on the magic of diversification and the existence of an “Efficient Frontier” that maps portfolios that earn the highest expected return for a given level of risk. This breakthrough began to be utilised in the 1970s, and became mainstream 20 years later, demonstrating our natural resistance to change.</p>	<p>Capital Asset Pricing Model – Dr William F. Sharpe</p> <p>Sharpe extended the work of Markowitz by introducing a model that holds that everyone should want to hold the most diversified portfolio because it provides the highest return-to-risk ratio, called the “Sharpe Ratio.” Sharpe shared the Nobel prize in 1990.</p>	<p>Modern Investment Theory – Dr Robert A. Haugen</p> <p>Haugen is the father of factor-based investing. A prolific writer, Haugen wrote hundreds of articles and books on identifying investment factors that produce alphas, or superior returns. These factors include fundamentals like yield and capitalisation, and classifications like industry sector and style.</p>	<p>Post-Modern Portfolio Theory – Dr Frank Sortino</p> <p>Risk in post-modern portfolio theory is the possibility that you will not achieve your objectives. Success, this theory holds, is not beating an index, but rather achieving your investment goals. Objective-based investing was born, which is measured by the Sortino Ratio.</p>	<p>Rising Equity Glide Path in Retirement – Dr Wade Pfau and Michael Kitces</p> <p>The most recent innovation is about investing for retirees. Pfau and Kitces have conducted extensive research on optimal investing in retirement and concluded that it is best to begin retirement cautiously with no more than 30% in risky equities and bonds, and to gradually increase risk through time.</p>



INVESTING

A risky business

Do we really understand what risk means to investors? And do investors themselves really know?

Risk appetite, risk tolerance, risk capacity, risk required. What on earth do all these terms mean, both to investors and to financial advisers? Or has the jargon become so over-used that it simply confuses even seasoned investors?

Misperceptions about what risk means are common, and they are in fact downright dangerous. They are — excuse the obvious old-school reference — risky business (except that Tom Cruise doesn't feature).

A comparative scenario can aid our understanding.

Let's suppose 45-year-old Katy is looking at buying a car. She visits a dealership and takes a Ferrari for a spin. Katy's appetite is for the red-hot Ferrari. Not only would this be "tolerable" to Katy, but it would also be a dream come true. The dealer's preference is to sell her the Ferrari, but he has little idea that Katy is a terrible driver and a speed demon. Katy's driving skills call for an old-school sedan, preferably one that can't go faster than 80km/h. This is her capacity. Katy, however, often drives long distances, so a vehicle that can only hit 80km/h on the freeway . . . well, it would simply not be practical. She requires a car that can reach at least 120km/h.

A scrupulous dealer would take all these factors into account, as well as Katy's financial situation, and importantly, her insurance. If the car is Katy's risk, then her insurance could be one form of risk-mitigation. And when it comes to risk, just as when it comes to buying a car, it is crucial to note that it is not only a person's financial circumstances that determine their risk tolerance, risk capacity and/or risk required. There are several factors, including the psychology of the person (Katy is a speed demon), the risk-mitigating mechanism (insurance) available, and externalities (such as Katy's job).

In a perfect world, an individual's tolerance for risk, their capacity for risk and their required risk would dovetail. In investment, we call these three things their risk profile. But in the clearly imperfect world we live in, this is seldom the case. There is usually a compromise. A risk-averse investor (tolerance) may need to take on more risk (requirement) to achieve their desired level of return or may be unable to afford (capacity) the level of risk that they feel they could stomach (tolerance).

In a world where interest rates are at record lows, and traditional safe-haven assets are yielding low returns, investors have sought yield from riskier asset classes. These may include hedge funds, alternative investments, unlisted property, and stock markets (developed and emerging). Understanding the associated risk-return profile is essential.

Retirees, who have faced a double-whammy from the low interest rate environment and from Covid-19-induced market volatility, need to pay particular attention to their risk profile. Here, the time they have until retirement, is likely to play a role too. A younger retiree is likely to have a higher capacity for risk, as they may be able to "wait out" market downturns. Their pension fund investment may have a higher allocation to traditionally more risky assets. A wealthier or more fortunate individual may have alternative sources of income, which could be regarded as akin to the insurance in the car example. They may have both a higher capacity and greater tolerance for risk, as they are not solely reliant on their pensions for income. A pensioner who has a higher level of desired income may need to take on (require) more risk than they are inherently comfortable with, provided they have the capacity to withstand a temporary or permanent loss of capital. There is some trade-off necessary between their risk-tolerance and risk-requirement.

Our example was highly simplified, but it is a useful way to get around intimidating jargon surrounding risk. When it comes to financial discussions, risks are sometimes seen as "bad". In the process of buying the car, Katy's personality, her financial circumstances, and her job requirements all helped to determine her risk profile. None of these elements are good or bad, they are just part of the process to consider. Similarly, risk is part of the investment consideration.

When it comes to investing, especially for retirement, individuals are likely to need assistance getting to grips with the jargon and with their own risk profiles. This may require intentional education campaigns, or individual one-to-one discussions, depending on the level of sophistication of the investor and the scale of the investment. Advisers and trustees need to see it as their fiduciary duty to help investors reach the necessary understanding. ■

Fran Troskie is an investment research analyst at RisCura.



Retirees, who have faced a double-whammy from the low interest rate environment and from Covid-19-induced market volatility, need to pay particular attention to their risk-profile.

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INVESTMENT

Noise, financial advice, and Snow White's eighth dwarf, Risky

More work is needed to determine the key constituents of a risk profile and how they are measured.

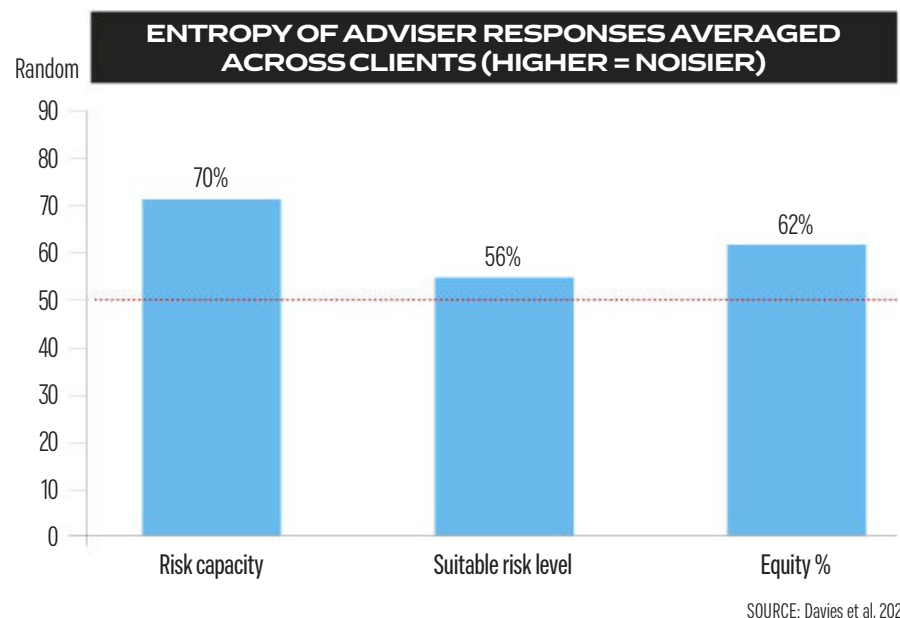
Life and financial planning would be much easier if we each carried a label around that summed us up as neatly as Snow White's famed seven-person entourage. Measuring a "risk profile" for an investor in a financial planning context has been something that has proved equally challenging and leaves much to be desired in terms of the quality of our financial advice as a result.

For the purposes of this discussion, we consider an investor's risk profile as two sides of a coin. "Heads" relates to the person's characteristics and "tails" to their desired outcome or investment goal. **The level of investment risk required to reach their desired investment goal (the "tail") is critical, but it remains an essentially quantitative exercise that is outsourced to investment professionals. The devil from an advice perspective is the "heads" side of the coin.**

Section 8 of the FAIS General Code of Conduct was recently updated to provide much-needed guidance with specific reference to the obligations in respect of determining the client's "risk profile". The constituents of this profile are, firstly, the client's ability to bear financial loss (what may be defined as risk capacity); and then secondly, his or her ability to understand the risk/s associated with the financial transaction. These both relate to their ability to take risk. While providing a good start, there is another key dimension missing, according to Greg B Davies of Oxford Risk. He points out that the willingness to assume risk or risk tolerance must also be included using an appropriately designed psychometric assessment that reveals a person's relatively stable long-term attitude towards risk. Happy and Grumpy earned their names because they possessed character traits that manifested in these observable behaviour patterns over time. Risk tolerance is less obvious, unfortunately, and so the inconsistent measurement and interpretation is a source of much variance in client advice outcomes.

The latest buzzword in behavioural sciences is "noise". Noise is the enemy of consistency. Biases are also problematic, but noise is more challenging to deal with in that the variation is more random and not nearly as predictable. This problem is precisely what was investigated in the South African investment advice context in a recently conducted landmark study, "Under the Microscope, Noise and Investment Advice". Its research question was: were clients with the same objectively defined investment needs getting similar investment advice; and if not, why not?

With access to a large group of financial advisers the analysis of the results of an in-depth case study-based survey were nothing short of disconcerting. By setting up six hypothetical clients and keeping certain relevant dimensions the same save for varying a single critical



variable (their risk tolerance and risk capacity) it was possible to see how much these variables influenced adviser assessments.

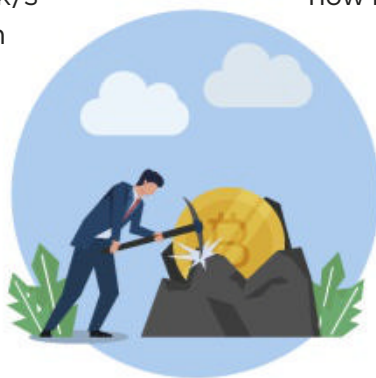
The extent of "noise" was measured via an entropy analysis, and the results (see graph) showed that the adviser judgements of the clients were much closer to being randomly different than being consistent even when all survey respondents had the same client information.

There were three key findings of the study. First, the greatest source of variability was in the assessment of risk capacity. Second, even when provided with client risk tolerance on a scale of one to seven there was limited consensus on how this translated to a suitable risk recommendation. Four of the six clients received recommendations from "very low risk" to "very high risk". Finally, and unsurprisingly, the resultant asset allocation proposals are similarly scattershot. Recommended equity weights for two clients ranged all the way from 0% to 100%.

Coming back to Snow White and her seven friends, the self-proclaimed leader, Doc, is famously quoted as saying, "Ah, yes, what are you and who are you doing here?" Although generally rational and self-organized, Doc often got a little muddled mid-sentence and as a financial advice industry we appear to have followed suit. The desired alternative to "noise" is consistency. This is achieved by having and consistently applying a valid and reliable process. Unfortunately, it seems that we cannot agree on what the key constituents of a risk profile are and, more importantly, how they are measured. Without

this consistency what hope do we have in terms of helping our clients differentiate their heads from their tails? More work by the industry is needed in this space. ■

Paul Nixon is the head of behavioural finance for Momentum Investments.



Biases are also problematic, but noise is more challenging to deal with in that the variation is more random and not nearly as predictable.



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INVESTMENT

Gauging your client's risk profile

Risk profiling should be undertaken similarly to building a friendship, and no questionnaire can ever substitute a personal conversation.

my first exposure to a risk profile questionnaire was 20 years ago, when as a young and naïve financial adviser, I was required to ensure that I completed one for every client I met.

I recall spending quite some time on the risk profile questionnaire with a client, as the company I worked for at the time placed a heavy reliance on this document. I even recall having to "assist" clients with answering some of the questions as these did not resonate with them and they had no idea which "option" to choose, almost as if they were afraid of giving the wrong answer.

Of course, my assistance nullified the exercise and instead of an objective client-centric view of their risk profile, it ironically became a "group answer" and hence somewhat flawed.

A numeric score was allocated which determined the risk profile that best matched the client and off we went with the investment selection.

I was particularly intrigued by the following question in our mandatory risk profiler:

Please select the answer that most appropriately reflects your level of comfort with regards to the following scenario.

If you invested R 100 000, what is the maximum amount you are prepared to let the investment drop before you become uncomfortable:

- a) R 10 000
- b) R 20 000
- c) R 30 000
- d) Any fall

It was a hypothetical question that most clients had no problem answering, yet when crunch time came with regards to their actual investment performance, or lack thereof, their actions were entirely different to their answer provided.

I recall one occasion when a senior adviser suggested that we refer to this question to rationalise the R30 000 fall in the value of a client's portfolio, after all "that is what the client indicated!"

Of course, this suggestion only fuelled the fire. Our client was deeply concerned about the R30 000 drop in his portfolio. Clearly his answer provided on the risk profiler did not align to his reaction when the "hypothetical" situation suddenly became real. The risk profiler had missed the mark and added no evident value in the process.

It was this experience that changed my view on risk profiling. Risk profiling is more than just a piece of paper with an arbitrary point system that determines investment risk tolerance, it is more about getting to know the person and less about the scorecard.

Do not get me wrong, determining your clients' understanding and tolerance of risk is a vital component in the financial advisory process, it is just the methodology that requires greater substance.

Never did I refer to any client risk profiler to help me manage my clients' investment expectations or rationalise any advice given. This "scorecard methodology" offered no material value in the scheme of things.

In essence it failed to capture the client's risk tolerance properly and could not be used retrospectively to provide any comfort to the client. "Don't worry about being R30 000 down, your risk profiler said it was OK!"

Only over time do you truly develop a deeper understanding of your client's risk tolerance, personality and other interesting habits and nuances.

Herein, I believe, lies the answer to a good risk profiler process, how in one initial client meeting are you able to get to know your client personally to ensure that you can do your job effectively.

Before consulting with any client, investment advisers already know what investments are appropriate to match desired time horizons and investment objectives. Tax implications, risk and return expectations, death and estate duty implications as well as liquidity and volatility of investments, are all second nature to us.

What we don't know are the hopes, dreams, fears, aspirations, and expectations of the client we are about to meet. Each client is as unique as a fingerprint and getting to know them personally is the mark of a good adviser and starting point of a great long-term friendship. Yes, a friendship. Risk profiling should be undertaken similarly to building a friendship.

No risk profile questionnaire scorecard can ever substitute a personal client conversation to gain a deeper understanding of the person.

The risk profile process must provide beneficial insight as to how your client views life, relationships, and their money. Managing money is easy, managing client expectations is trickier.

When it comes to risk profiling, here are a few conversations that I like to initiate with my clients before I decide how to best manage their money:

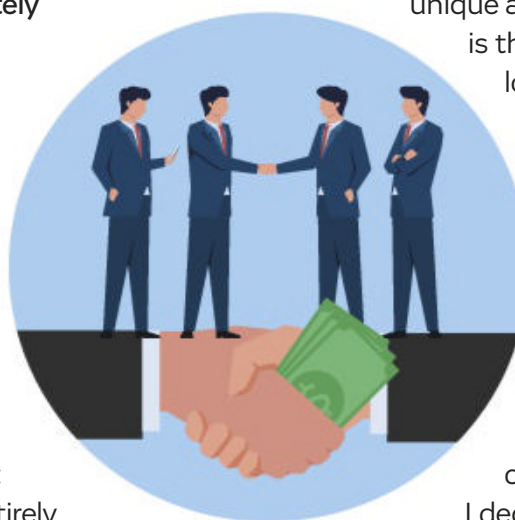
1. Their investment experiences
2. Their personal financial circumstances
3. Their understanding of an investment product
4. Who they "follow" when it comes to financial matters
5. How long they've been investing
6. Their understanding of asset classes and how these behave
7. Their first investments
8. The value of money

Comfortable conversations with clients about their investment expectations, experiences, knowledge, and objectives deliver greater client risk insights than any arbitrary risk questionnaire's scorecards.

The success of a good risk profiling process is truly measured in tough times when investments tumble. It is in these times that you should already know your client personally and not still be "getting to" know them.

A solid risk profiling process enables you and your client to navigate the bad times and celebrate the good times together, when your approach to risk profiling is all about the person and less about the scorecard. ■

Gareth van Deventer is the head of advice at OUTvest.



You get
what you

P R E S E R V E

INVESTMENT

contesting views: de-risking the narrative and the risk of not taking risk



Hannes Viljoen

LET'S SAY 'PROBABILITY'

Risk profiling of clients was created for the right reason. Aligning a client's portfolio to their personality and character, thereby improving the probability that they will stick to their investment plan is a noble concept. Has it worked? Has it improved client outcomes? What if we changed the language from "risk-based advice" to "probability-based advice"?

To increase the probability of achieving investment goals, there are options. Investors can increase monthly savings; save for longer or adjust their goal expectation. Alternatively, clients can accept (and importantly with help, endure) a larger possibility of a drawdown over the short term in return for higher expected returns over the long term.

The principle is to co-create a portfolio and investment strategy that the client is comfortable with. Studies have shown the probability of a client sticking with a strategy is much higher if they have constructed and created it rather than if been told what to do. This is important because changing a strategy at the wrong time can be hazardous.

Paul Nixon, head of behavioural finance at Momentum Investments, illustrated this through studying investor behaviour during the recent market crash in March 2020. Referring to switches analysed on the Momentum Wealth Platform in 2020 he reports that: "The market crashes in March and switching increases by nearly 300% The average amount per switch was approximately R150 000 By May, the average value per switch destroyed increases to 8.9%. By August, the average value per switch destroyed had increased to 19.44% or R19 440 lost per R100 000 switch." Most investors that switched will never make up this lost ground.

A good doctor is one that has the knowledge to diagnose a patient and explain the diagnosis in plain language so that the patient understands the diagnoses. A great doctor is one that also can get the patient to follow the prescribed treatment. **Wealth management and advisory service providers should not be rewarded for investment performance but rather for investor performance.** Viewing risk as probability can significantly help investors and clients achieve this outcome. ■

Hannes Viljoen is head of investments at Kudala Wealth.



Kim Rassou

NOT TAKING RISK IS RISKY

Mark Zuckerberg said that the biggest risk is not taking any risk ... "In a world that is changing quickly, the only strategy that is guaranteed to fail is not taking risks."

In 2020, South Africans suffered two severe plagues: the arrival of Covid-19 and the human, social and economic devastation which followed. Sadly, retirement savers were hit the hardest as the market crash in March was compounded by the decimation of the interest rate. In the first quarter of 2021, SA equities fell almost 40%. This was mirrored offshore, with the S&P 500 dropping 18% in US dollars.

At this juncture, we need to redefine what a safe asset means. Is cash safe? Those who had a large portion of savings in cash in a money market account may have felt smug, but these collective smirks were wiped off when the Reserve Bank slashed interest rates by three percentage points. Money market funds now offer 5% per year, which barely covers the rise in inflation.

Talk about a risk-free but also return-free asset class.

Overseas it is much worse – banks are now charging clients to hold their money resulting in negative returns. "At least," I hear you say, "rand depreciation will ensure that an offshore investment provides me with a 4% to 5% return per year" – except that the rand has appreciated by 46% against the dollar over the past year. "Oh," you may think, "gold should be a safe haven asset" – except that it has delivered poor returns in the past year. Gold has also had to fight off some stiff competition, with contenders like Bitcoin usurping its position.

Some portfolio managers made the costly decision to switch into cash in March last year and missed the massive recovery of 60% in SA equity returns – close to 70% in dollar terms. Others ran for the hills and took money offshore at an inopportune time, for instance when the rand was at its weakest.

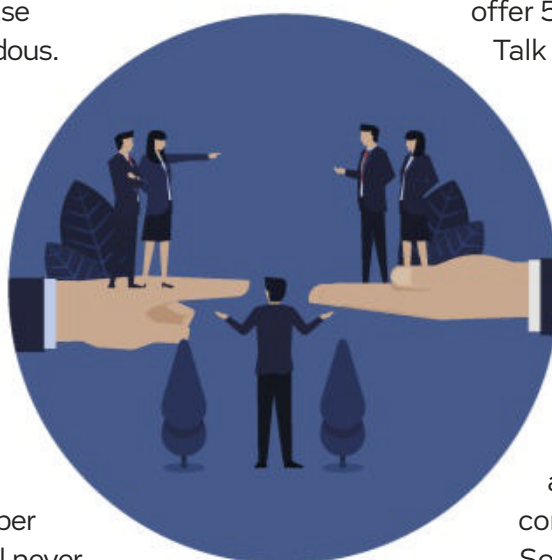
In my view, the definition of risk as a capital loss needs to be reappraised. The risk now is where one's savings do not yield sufficient real returns to retire comfortably. Having too much money under the mattress can lead you to end up with back pain. Ouch! ■

Kim Rassou is a portfolio manager at Old Mutual Wealth.

Money market funds now offer

5%

per year, which barely covers the rise in inflation. Talk about a risk-free but also return-free asset class.





INVESTMENT

My helper schooled me

We should reassess how we view risk in terms of our own academic matrices and what risk means to the members of the retirement funds we serve.

more than two decades into our democracy and it appears that the savings culture for the bulk of South Africans defies academic ideals for a nation of our size and income. There has been no shortage of ideas and initiatives to change the narrative, but poverty persists with nearly half of adult South Africans living in poverty before the Covid-19 pandemic struck. This reality continues to undermine our greatest efforts to move the needle that would see South Africa leap into true emerging market and middle-income country status.

Having studied economics and later specialising in matters related to retirement funds, their members and consumer financial education, I thought of myself to be well-versed in these issues. However, I soon uncovered the gaps in my understanding, and it was ultimately my helper, Nomsa, who schooled me. In many of my earlier conversations with her regarding budgeting and savings I had failed to account for what constitutes risks and in particular investment risk for her.

I soon realised that the traditional risk matrices I tried to apply simply cannot and do not account for the questions that plague Nomsa's mind above anything else:

- What if my children and I are kicked out of our home because my husband no longer sees me as fit to be his wife?
- What does it mean for my children if I die and they become homeless?
- Will my children finish school and find decent jobs?
- Do I even dare to dream of them attaining a tertiary education?
- What will become of my parents if all their children predecease them?

One needs only glance at the Child Poverty in South Africa report, released by Statistics SA, to see what keeps Nomsa up at night (see sidebar).

As I reflect on these statistics, I quickly realise that all of this means that whilst my ideal for Nomsa is to have a savings account with a buffer for a rainy day; basic medical aid and some sort of long-term savings; however,

through her eyes there is little value in these funds languishing in a long-term investment account or insuring her health when the most important questions that plague her mind remain woefully unanswered. This has made me seriously reassess what I view as risk in the context of her demographic, which is one that makes up the majority of South Africans.

What I perceive should be Nomsa's great risks are entirely trumped by the fundamentals of Maslow's hierarchy of needs: a theory that emphasises how humans intrinsically partake in behavioural motivation will supersede academic logic on most days. Risk therefore means something far more fundamental to her. Nomsa and I decided that the real risk management was to address the concerns around her basic needs. We put a plan in place to secure Nomsa's long-term requirements for shelter and considered her need for short-term immediate savings and the potential for the generation of additional income from these properties.

Those of us who work in the financial world, whether trustees or financial services advisers, genuinely need to reassess how we tend to rigidly view risk in terms of our own academic matrices and reassess what risk truly means to the members of the retirement funds we serve, whilst balancing the complex needs of the future with those of the present. We don't need to go far at all to find these views out, we just need to listen to those who support many of us in our very homes. ■

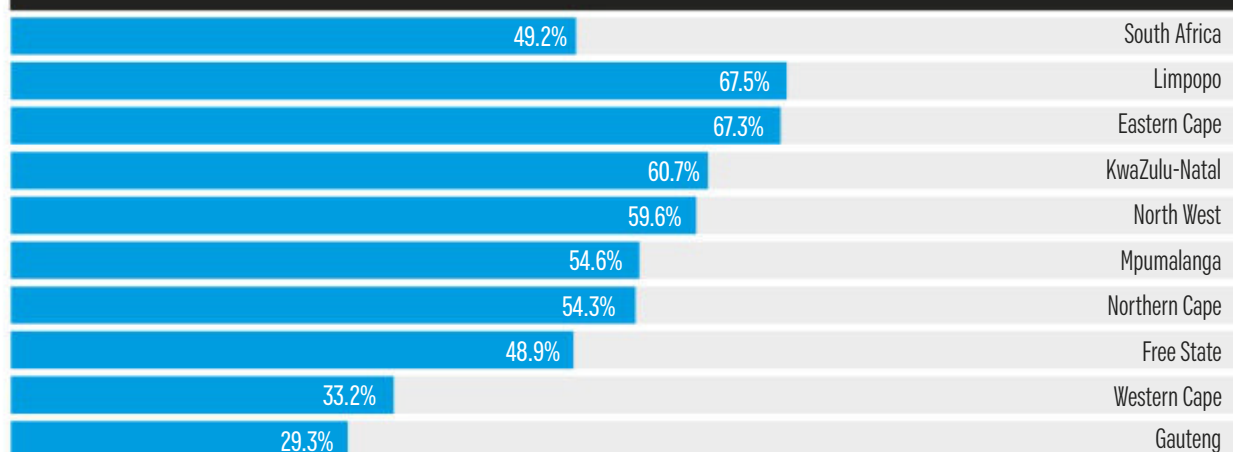
Jolly Mokorosi is an Independent Trustee and professional principal officer.

CHILD POVERTY IN SOUTH AFRICA

The findings in Stats SA's latest Child Poverty report are frightening:

- More than six out of ten children (62.1%) are identified as multidimensionally poor.
- Child poverty in South Africa is multi-sectoral, with the majority of children (0-17 years) suffering from multiple deprivations simultaneously.
- Black African children (68.3%) show the highest percentage of multidimensional poverty as compared to their peers from other population groups.
- Multidimensional poverty is highly prevalent amongst double orphans (77.3%) and paternal orphans (75%) as opposed to non-orphans and maternal orphans.
- More than twice as many children living in rural areas (88.4%) face multidimensional poverty compared to children in urban areas (41.3%). The highest multidimensional poverty rates are found among children residing in Limpopo (82.8%) and the Eastern Cape (78.7%). Gauteng and the Western Cape, on the other hand, are best off with respectively 33.6% and 37.1% of children being multidimensionally poor.
- Those living in non-metropolitan municipalities (73.7%) indicate much higher multidimensional poverty rates than children in metropolitan municipalities (39.6%). ■

ADULTS LIVING IN POVERTY



SOURCE: Men, women, and children: Findings of the Living Conditions Survey 2014/15



MEASUREMENT

Ditching two old assumptions that could benefit investors

Volatility has been accepted as a measure of risk, but it has some shortcomings.

In his book *The Most Important Thing – Uncommon Sense for the Thoughtful Investor*, Howard Marks argues that investing is all about making decisions today about the future. Unfortunately, nobody has perfect foresight of the future. Therefore, the investment decisions we make today carry the risk that the future may not pan out as expected. Since investing is essentially a process of balancing expected risk and expected returns; proper estimation of risk is therefore just as important as estimating returns for anyone wanting to harvest returns in financial markets. The critical question is therefore: Is there a universally accepted measure of risk?

In trying to find a universal quantifiable risk measure, academic theory has settled on volatility as the basis for modern portfolio theory, introduced by Harry Markowitz in 1952. This is a statistical measure that measures how far asset returns deviate from their average. While volatility has been accepted as a measure of risk in both the academic and investment worlds, it has some serious shortcomings. In this article, we point out the flaws in two of its main assumptions: Asset returns follow a normal distribution; and unexpected gains are as risky as unexpected losses.

Assumption 1: Asset returns follow a normal distribution

It has been argued extensively in literature that the realised asset returns do not follow a normal distribution, as assumed in the volatility calculation. The FTSE/JSE All Share Index is more negatively skewed (-0.57) than a normal distribution, for example.

Many scholars have argued that, because of negative skewness inherent in equity returns, any model that measures risk using standard deviation underestimates the probability of adverse negative outcomes.

The actual experience in markets supports this argument as even in recent history, adverse tail events have happened more frequently than implied by the normal distribution.

The most recent examples include: the

RISKS AND MEASURES		
Risk	Measure	Brief description
1 Permanent erosion of capital (market risk)	Value-at-Risk (VaR)	Risk of loss in a given time during an extreme tail event
	Conditional Value-at-Risk (CVaR)	Expected loss in a given time during an extreme tail event
	Omega ratio	Probability weighted ratio of gains vs. losses for a threshold return target
2 Permanent erosion of buying power (inflation) and shortfall relative to investment goals	Expected shortfall	Expected shortfall in a given time relative to a threshold investment goal
	Probability of shortfall	Probability of shortfall in a given time relative to a threshold investment goal
	Omega ratio	Probability weighted ratio of gains vs. losses for a threshold return target
3 Underperformance of a benchmark	Tracking error	Risk of benchmark underperformance due to active management decisions taken by the manager
	Active share	Probability of benchmark underperformance due to active management decisions taken by the manager
	Omega ratio	Probability weighted ratio of gains vs. losses for a threshold return target

SOURCE: Lima Mbeu Investment Managers

2008-2009 global financial crisis, the 2011 European debt crisis, the 2013 US Federal Reserve-related taper tantrum, and 2020's Covid-19-induced market selloff.

With all these tail events, risk models only using volatility as the risk measure would have underestimated the probability of them occurring and the magnitude of the losses.

Assumption 2: Unexpected gains are as risky as unexpected losses

Renowned investor Howard Marks argues that "risk is – first and foremost – the likelihood of losing money". Essentially investors are not worried about making abnormally large profits, but rather they worry about losing money. Volatility, however, treats both unusually large profits and losses as being equally bad or unwanted. Clearly, this is not sensible and we need a risk measure that differentiates between the 'good' upside potential and the 'bad' downside potential for losses.

In 1959 Markowitz acknowledged that investors are more concerned about downside risk than overall volatility and introduced semi-variance as a better measure of risk than overall volatility. This highlights the importance and insight of differentiating the bad downside potential for losses from the good potential for upside profit when

measuring risk.

The problem with finding a universally best measure of risk for all investors is that investors are faced with different risks pertaining to their needs. The table shows some of the pertinent risks that investors could be faced with and the measures that can be used to measure those risks.

While the measures are useful, investors should still use them with caution as they are typically measured using historical data. Howard Marks points out that risk measures calculated using historical data neglect other potential events that are not found in the historical data set. However, these events may prove to be more likely than is implied in the risk calculation in the future.

In conclusion, while there are better ways of measuring risk that address the shortcomings of the volatility measure, the list is extensive. Therefore, it is challenging to find one measure that encompasses all types of risks investors are exposed to. It is more important to first understand an investor's objectives and risk tolerance and thereafter use a measure or a combination of measures that best address the risks of particular concern. ■

Bhekinkosi Khuzwayo and **Teboho Tsotetsi** are co-founders and portfolio managers at Lima Mbeu Investment Managers.



INVESTING

How do we tell the story of risk?

The new science on narrative has important implications for client risk profiling; it may be time to rethink it.

Our little mammalian brains are fantastically evolved to deal with risk. That's how every one of your and my ancestors survived long enough for us to be here. But they didn't manage risk numerically. As hunter gatherers, nobody knew the chances of being eaten by a lion. However, we know there is risk and find ways to act in the face of it. We comprehend risk as narrative.

There is no shortage of examples showing how poorly we perceive risks and probabilities, as these are commonly presented. Let's consider just one for now. Richard Thaler, a behavioural economist and Nobel winner, has an example that shows our dubious ability to deal with risk-return.

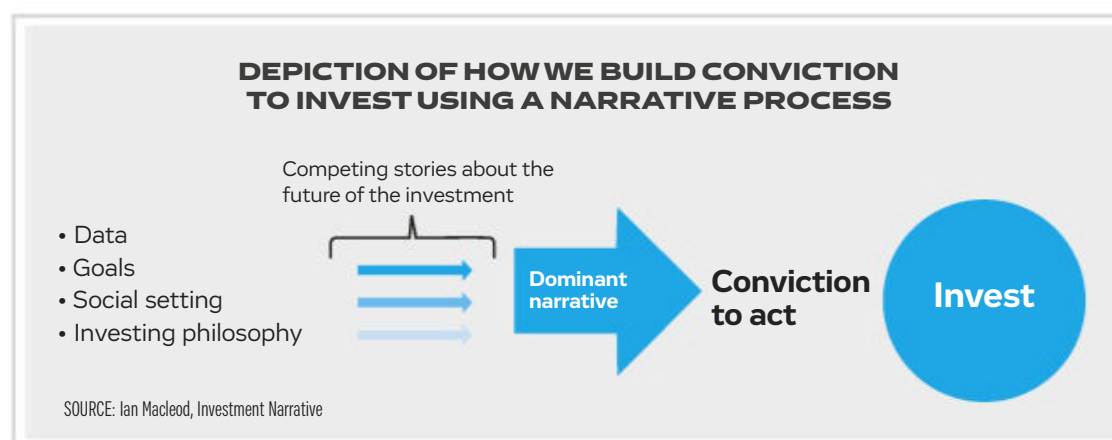
Thaler asked university students to imagine they had just won \$30 and were then offered the chance to win or lose \$9 depending on the result of a coin flip (a 50-50 gamble), or just to keep the \$30. Fully 70% of participants said they would take the risk. Then, Thaler put the game to participants differently. He offered the choice between a guaranteed \$30 or a shot at either \$21 or \$39 depending on the outcome of a coin flip. This time just 42% were willing to have a flutter. This showed inconsistency. Irrationality. Misunderstanding. An investing robot would have responded the same way in each setting.

Thaler explains the result as an example of the "house money" phenomenon. The broader principle is that we are deeply susceptible to the way in which risk is put to us. A word here, a number there can manipulate us.

That outlines a problem. How do we better acknowledge our blind spots and weakness at reliable decision-making around risk? Part of the solution lies in the wisdom captured by "conviction narrative theory," or CNT, established and advanced by David Tuckett, a psychoanalyst and head of the University College London Centre for the Study of Decision-Making Uncertainty. Based primarily on his interviews with more than 50 major hedge fund managers, including George Soros, Tuckett and his colleagues have mapped the process that investors undertake when allocating capital or keeping it where they've put it. Inherent in this is the narrative approach to dealing with risk.

The research team's keys premise is that "the value of a financial asset is partly a function of the stories it lends itself to". We may argue we are buying into free cash flow in the future. At least that is the starting point for many approaches to valuation.

Continuing to assume a strategy of seeking out future earnings, sure, we put down those expected cash flows as numbers in discounted cash flows and the like. **But it is through storytelling that we conjure up those estimates and, just as importantly, through storytelling that we progress from those numbers and calculations to the**



conviction to pull the trigger and invest.

The table summarises the process. First, we ought to acknowledge the context. When making an investment decision, we have access to data – simultaneously too much and too little data. We are goal-directed. Social setting also matters. Are we discussing pension options with a spouse or debating a capital allocation with our investment team? Typically, we'll also have an investing philosophy, or a guiding narrative. Fascinatingly, Tuckett's work shows that we use narrative regardless of philosophy. Even the most ardent quants justify and explain their investing with a story.

We proceed to share stories. Be it in our own heads or with other people, we propose reasoned hypotheses about the future. We say things like, "The market hasn't factored in X, but they will when Y happens, and then we'll be in pound seats with our patented technology and the price of oil". Our weaker premises (ideally) get shot down, while the robust parts of the story get adopted and added to.

In practice, what does this mean for asset managers? Fortunately, good asset managers tend also to be good narrators. They frequently have the technical know-how and interpersonal skill to convey meaningfully what it means for a particular investor to take various investing actions. Conviction narrative theory offers tools to get even better.

The new science on narrative has important implications for client risk profiling. Consider CNT's contextual element of social setting. Specifically, what are the power, knowledge and motivation dynamics between client and asset manager? On data, what numbers are presented and in what form? How many narratives are explored and what do they look like?

Given the power of story, novel insights on how it works and the very human struggle to perceive risk appropriately, there is a strong case to rethink risk profiling. ■

Ian Macleod is the narrative consultant to the GIBS Centre for African Management and Markets and the founder of Investment Narrative.



The broader principle is that we are deeply susceptible to the way in which risk is put to us. A word here, a number there can manipulate us.



INVESTMENT

Why ESG matters

Pension fund trustees should, as part of their fiduciary duties, understand the risk involved in outsourcing the measurement of environmental, social and governance factors.

Environmental, social and governance (ESG) is a selective selection process through which investors analyse companies and base their investment decisions on assessing how these companies consider ESG factors, alongside financial factors, when making business decisions. Environmental measures address the way an organisation responds to issues such as climate change, greenhouse gas emissions, water conservation and the sustainable use of natural resources. Social benchmarks focus on business relationships and how the company meets the challenges on issues such as data privacy, health and safety, stakeholder interests, employee treatment and diversity. Governance criteria refer to how businesses deal with transparency in their communications and financial reporting, company incentives and key performance indicators.

Why does ESG matter?

The number of corporate failures of late has given rise to a growing realisation of the reputational and financial impact if ESG issues are handled insufficiently. ESG matters because it gives investors the tools to build plans that reflect their investment principles. Using ESG practices companies are being held accountable for their actions and are encouraged to be better corporate citizens.

While there is often a debate attached to ESG investing regarding its potentially negative effects on investor returns, this misconception does not accurately reflect the benefits of socially responsible investing. ESG practices can provide investors with significant opportunities in growing areas such as clean energy and new technologies.

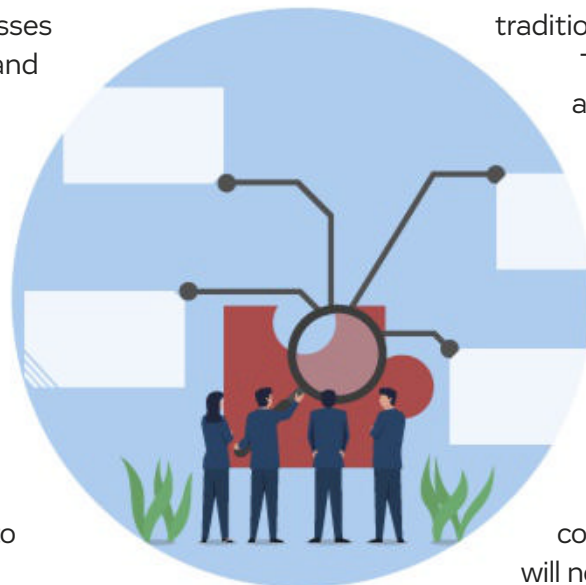
Despite differing views on ESG investing, at the end of the day all these views are grounded in recognising the links in the relationship between a company's business model, the economy, the environment and society. Understanding how those changes will play out, and which companies will thrive, is an important part of any long-term investment strategy. This does not necessarily mean that an investor is placing ethics ahead of sound financial decisions; it's about adding an additional risk management tool to the investment process.

Managing ESG investment risk

An ESG investment strategy aims to uncover investment risks and opportunities. There is growing evidence that savers in general, and younger savers in particular, want to know that their money is invested in a way that has a positive social and environmental impact. Pension funds are required by law to set out their policy on how they take account

of financially material factors, including ESG considerations, in their investment decision-making. Some trustees may be tempted to see this as a tick box exercise. Trustees need to be mindful that they may be called upon to demonstrate how they are taking ESG factors seriously.

A common mistake in the debate about the extent to which trustees and asset managers are required to take account of ESG considerations lies in the failure to recognise the financial risks (and opportunities) inherent in ESG considerations. The tendency is to dismiss ESG as subjective, non-financial concerns. By integrating ESG factors into the investment strategy, pension funds are adding an additional component of risk management over and above the traditional financial risk measurements.



Trustees have a duty to understand what their asset managers are doing to assess ESG risks. While social impact can sometimes be less clear than environmental or governance considerations, they are still highly significant. For example, for investors in tech stocks, socially important issues such as data privacy can be highly material. There is the potential financial impact of regulatory interventions or of users switching to alternative platforms. It is essential that trustees gain an understanding of how investment advisers and asset managers are responding to these actions considering the number of corporate failures. Trustees will need to be sure that ESG claims made by those

managing assets on their behalf are substantiated and are not simply a green 'gloss' on an investment approach largely unaffected by ESG considerations. Where fund managers rely heavily on third party ESG data systems, trustees should understand how those systems are used and what level of oversight is applied. Whilst ESG factors will not always be material to every investment decision, fund managers should be able to explain how and where they think they are material. To the extent that ESG factors are financially material, asset managers should already have been taking these into account in their investment decision-making.

It is essential that trustees monitor the ESG performance of their asset managers and portfolios to ensure that they operate in line with the agreed approach. It should be remembered that trustees are primarily responsible for how the fund's assets are invested. Legally, trustees

are the owners of the assets of the fund. Trustees are required by law to take account of factors which may impact the financial performance of the fund's investments, including ESG factors, when making investment decisions. ESG risks are often long-term, personal and sometimes difficult to measure. The long-term goal of ESG is to identify businesses positioned for long-term sustainable growth. ■

Douglas Davids is an ESG specialist at Fidus Consulting Services.

The number of corporate failures of late has given rise to a growing realisation of the reputational and financial impact if ESG issues are handled insufficiently.

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Analysing for unintended risk

How to achieve better alignment between fund managers and their clients.

Risk has always been a primary consideration for fund managers and their clients. However, what each party has in mind when thinking about risk and how to manage it can be quite divergent. Clear and thorough communication around risk is therefore an integral part of the arrangement between clients and fund managers to align the two perspectives as much as possible.

One of the main determinants of risk from the client's perspective is the investment benchmark. In the case of a typical retail client, this could simply entail making a conscious decision around the desired return over the investment horizon, accompanied by an awareness of the potential variability in returns that will likely occur over that horizon. In the case of an institutional client, the particulars around the type of benchmark (market index, risk-free rate, real return target, etc.) are important as they will inform all criteria around risk tolerance and acceptable limits the manager will be required to abide by as part of the investment management agreement. In both cases, it is imperative for the client to have clear and reasonable expectations around their return objective and the risk that comes with it long before the fund manager comes into the picture. This is often where consultants and advisers play a key role.

From the fund manager's side of the investment management relationship, the many types of risk embedded in portfolios of financial instruments are well-known. A fundamental principle underpinning financial markets is the positive relationship between risk and expected return, meaning that in most cases there are risks that must be accepted to generate anything higher than a risk-free rate of return. These are the risks the manager deems appropriate, and worth being exposed to, that is intended risks. One of the most important functions of risk

management is to detect any unintended risks, those that are a side-effect of portfolio construction, and not expressly considered as part of the investment process.

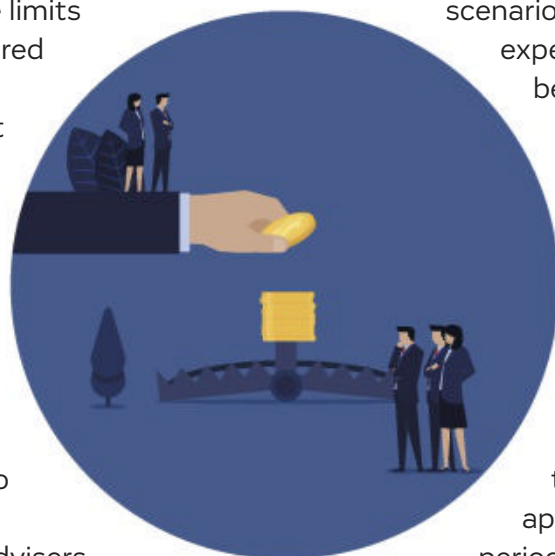
There are various techniques available to detect unintended risks. The most straightforward of these is simply to be aware of what the major contributors to portfolio risk are. In most cases, these should be the instruments that have the most potential to contribute to the portfolio's return. Next, it is important that the sensitivity of the portfolio to various market indices or events is understood. This can be done either by looking at something like the beta coefficient, a metric whose magnitude indicates the portfolio's sensitivity to a particular market index, or through scenario analysis. This entails subjecting the current portfolio to an extreme set of market conditions to get a sense of how the portfolio likely would have behaved. In both beta and scenario analysis, pre-existing expectations of portfolio behaviour can be compared with the results of the analysis and major discrepancies can then be analysed further. There is also much potential insight to be gained in considering style risk. History has shown that any investment approach or style will have periods of underperformance in a full market cycle. The analytics

we now have access to in the realm of risk management have made it possible to isolate style factors and map these to various investment approaches such as value, growth, momentum, or some hybrid of these. With the increasing availability of this data, it is important for managers to understand where they fall in relation to the style factors present in their investment universe and to be aware of whether actual positioning at any given point is consistent with their investment philosophy and what is promised to clients.

One of the most important functions of risk management is to detect any unintended risks, those that are a side-effect of portfolio construction, and not expressly considered as part of the investment process.

The key to fund managers achieving better alignment with their clients lies not only in employing an effective risk management approach, but also in how the outputs of this process are communicated to clients. This is challenging due to the technical nature of many of the concepts involved, and the underlying message can often be lost in the jargon and calculations that are commonplace in the domain of risk management. Regardless of its complexity, all this material is nevertheless geared towards answering the same core question: how best to achieve the risk-adjusted return dictated by the client's needs and circumstances. Maintaining focus on this key point can assist in navigating the complexity and providing common ground on which client and manager can engage. **Ultimately, it is an investor with well-thought-out objectives contracting an investment manager with a rigorous and formalised risk management process that together stand a much better chance of agreeing on the correct set of investment objectives to begin with, and then maximising the probability of reaching them, regardless of the market conditions that ensue.** This is the basis of a mutually beneficial investment management relationship and is the type which all clients, advisers, consultants and fund managers should strive for to contribute to a healthy and robust investment industry. ■

Narayan Vyas is an investment risk analyst at Ninety One.





INVESTMENT

Just when you think you understand risk ...

The way we view risk is changing and investors need to be lifelong learners.

This week I was asked to teach a workshop on “risk” to a group of graduate students in portfolio management. I was probably right to be concerned. I was about to walk into their classroom and blow apart everything that their highly-rated textbook (and lecturer) had been trying to impress on them.

To be fair, Modern Portfolio Theory – the portfolio theory that underpins most conventional asset management practices (and regulator strictures for anyone managing pooled assets) – is not exactly wrong. But it is incomplete. Worse, if we follow its thesis on diversification as the risk mitigator of volatility, we can exacerbate market risk even further. This was the point that international contributors to this edition echoed. These were superb articles, but highly technical. We felt it worth summarizing their key points:

1. Our statistical modelling skills have become more robust – exposing previous errors in simplistic assessments of risk. **Ainsley To**, from Credo Capital, used his submission to highlight some of these problems. He focuses on what is known as “Simpson’s Paradox”. This is when you can get opposite conclusions about data when you look at it as aggregated data compared with when looking at subgroups of the same data. An example he uses is assessing the riskiness of asset classes. Plotting the aggregate inflation-adjusted returns of cash, bonds, and equity markets (across 14 different countries over the period 1900 to 2020) against their risk (volatility) you get exactly what the textbooks suggest: the higher the risk, the higher the return. Compare those returns within each asset class, and the more volatile equities in one country do not necessarily outperform lower volatility equities found in another country. It is the opposite. Such insights can play havoc with your asset allocation decisions.

2. **Dan di Bartolomeo**, CEO of Northfield, a US risk modelling and analysis company, points out that the metrics professionals use vary differently for different assets. We tend to measure risk in equities by volatility or variance from the benchmark. With bonds, credit ratings are the preferred metric. Derivatives require a whole vector of numeric values (the Greeks). And unlisted assets such as real estate or private equity has no widely agreed upon measure of risk. This can be problematic in managing multi-asset portfolios. Dan developed a “Everything Everywhere” multi-asset risk model. It has been evolving over time, but he still finds it difficult for investment specialists in each asset class to relate to a unified measure of risk that they might find counterintuitive. Clearly this space needs watching.

3. **Harindra da Silva** and **David Krider**, team leaders at Analytic Investors, Wells Fargo Asset Management, raise an even more daunting issue: risk drivers change over time. The problem with

modelling risk is that the data only exists for past events and are therefore best suited to managing yesterday’s problems. Responding to novel but unquantifiable risks requires tools that facilitate a combination of manager insight with statistical processes that amplify this insight and expand it across the investment universe.

They developed a process that lets the manager respond to any perceived point of inflection – say a pandemic crisis. By constructing a portfolio of shares that reflects the “winners vs losers” that are likely to emerge from this regime change, calculating their return (minus the contribution from common risk factors to capture only the returns associated to that specific event), then determining the sensitivity or volatility of shares (beta) to this new universe, the investor can now determine how to optimally weight their shares against this new universe. Effectively you now have a cardinal scale instead of a simple binary measure.

The work being done by all these leaders in risk management is worth exploring further.

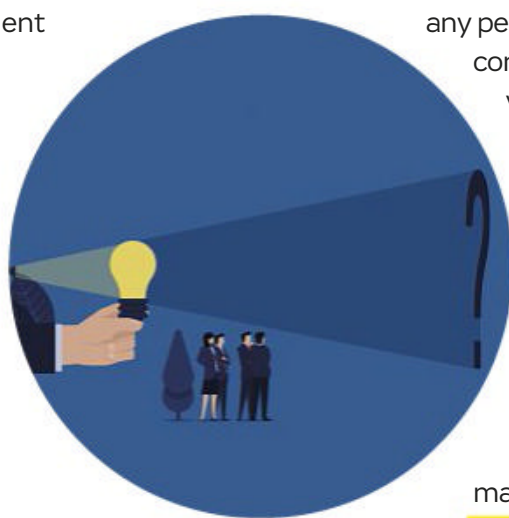
All the stories in this edition of *Collective Insight* are essentially grappling with the same issue: risk is changing – and markets are becoming far more complex in terms of their price drivers than what we’ve experienced over the 70 years since Harry Markowitz developed Modern Portfolio Theory. As Douglas Davids points out in his article in this collection, we now recognise that ESG risks (environmental, social and governance risks) can be a force beyond MPT’s volatility measure that can challenge the whole sustainability of a company. It is for this reason that regulators are starting to insist that we now consider ESG metric in our risk calculations. But it will need to be much more than that because ESG is an after-the-fact measure. As such, we cannot measure what impact it might have on future risks.

That suggests that the next big challenge ahead in the risk management game is the recognition that market systems are themselves at risk. We have already reached a state where the way we conventionally manage risk has had the unfortunate side effect of divorcing the market from much of the economic reality of the countries we live in. By shifting our focus to “systems risk”,

we can achieve what would be in everyone’s best interest: that markets begin to function in the best interests of society.

As Jon Lukomnik and James Hawley point out in their book *Moving Beyond Portfolio Theory*, the next evolution in asset management will involve using risk management in investing to impact and address externalities that affect the environmental, social and financial systems on which the health of our overall portfolio (and society) relies. To be continued ... ■

Anne Cabot-Alletzhauer is the practice director of the Responsible Finance Initiative at the Gordon Institute of Business Science



By shifting our focus to “systems risk”, we can achieve what would be in everyone’s best interest: that markets begin to function in the best interests of society.



Taxing the wealthy may eventually benefit markets

Equity markets have largely ignored tax hikes, but more corporate and income taxes could see a different scenario.

Walthy Americans have predictably reacted negatively to President Joe Biden's plan to increase taxes, notably higher capital gains tax on investment growth.

Biden's proposals are quite extensive compared with previous tax hikes, the last of which was in the early 1990s. It entails effectively doubling the capital gains percentage levied on market gains if income rises above \$1m. The corporate tax rate is also set to climb to 28% from 21%.

This double whammy for the fiscus could potentially squeeze markets. Bitcoin was seemingly already an early casualty, dropping below \$50 000 after hitting a high of \$64 000 on 14 April, before recovering somewhat. Up to now, equity markets have mostly adopted a wait-and-see approach.

Some studies indicate equity markets shrugged off tax hikes in the past. But this time might be different, as both corporate and income taxes are set to rise simultaneously.

There is widespread recognition that individual tax in the US has become far too onerous. Individuals shoulder more than 40% of federal income tax, while corporates on average pay only 7%. Payroll, consumption and property taxes are added burdens for individuals.

For decades, Big Tech companies have benefitted from lower taxes in a globalised world. On revenue of \$275bn in 2020, Apple paid an effective \$10bn in US taxes. Over five years, the company says it paid US taxes of \$45bn. This against a backdrop of a market cap of over \$2tr.

How is it possible for companies to receive these tax advantages?

Simply put, global companies operate in an environment where economic activities in any given country are not taxed in the country where it occurs. Pricing in a country is transferred to a lower tax jurisdiction. Hence the phenomenon of transfer pricing to tax havens, where corporates register their intellectual property.

In addition, most countries have been very eager in the past to welcome multinationals to their shores. To boost job creation and broaden the internal tax base, mostly through consumption taxes. Generous tax deductions are given.

This system of tax avoidance is perfectly legal. The perception is that it is ethically wrong.

Where a company does everything in its power to reduce taxes, often in the way of trading stock, the result is a manipulation of the tax system as a lower valuation of stock will result in lower tax paid. For tax purposes, closing stock is added back to income, while in accounting terms it is deducted to establish cost of sales and profit.

Tax authorities obviously focus on higher valuations

How is it possible for companies to receive these tax advantages?



of closing stock as that would increase income and the payment of higher taxes. Companies want to maximise deductions. This global to-and-fro has become almost a game to many, setting savvy tax advisors up against the tax authorities. The result has been a severely distorted global tax order.

The Organisation for Economic Cooperation and Development (OECD) has for many years focused on transfer pricing through jargon-filled initiatives. The arms-length principle with transactions has now become widely entrenched, which is viewed as a partial success. No longer may multinational companies base pricing on arbitrary decisions at head office. Pricing must now make commercial sense and be justified on a comparable basis.

Tax arbitrage has prevented tax reform in the past. If tax is hiked in one country, other countries inevitably lower their rates to attract investment and those players wanting to escape the higher rate. Studies have indicated that an average corporate rate of 22% can level out most arbitrage tactics. If the US hikes company tax to 28% again, tax havens could again win.

US Treasury Secretary Janet Yellen first mooted the introduction of a global average corporate tax rate of 15%, to which all countries should commit themselves. Then lifted it to 21%. The OECD favours a lower rate of 12.5%.

Implementation will be easier said than done.

The growth in corporate cash levels, partly emanating from tax savings, have boosted equity markets. This has led to stratospheric valuations and enriched the top 10% in the US in ways that would put even the Robber Barons to shame. Very little of the cash has been productively employed in the US, with takeovers the preferred modus operandi.

The roll-out of new digital products and structures cost Big Tech next to nothing. Apart from research and development, which is in any case tax deductible.

Initially, markets are likely to receive a jolt, should the new tax realities sink in.

But over time, a more equitable society could become advantageous to companies, extending to markets as extreme fluctuations in valuations become less widespread. The wider population could benefit more from increased market exposure. This is the route now taken by the Chinese authorities as it seeks to curb excessive wealth creation. The European Union (EU) is already there.

The US could be there soon. ■

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ANALYSIS

Myths vs historical data

Looking at two of the most popular ‘they say’ talks doing the rounds.

I think we have all been part of a conversation where the words, “they say”, popped up. Think about it for a minute ... “They say” that the sequel of a particular film will be better than the original release. Or “they say” that the third wave of Covid-19 will be so much worse than the first two waves. It’s when these “they say” talks start to go around in the investment world, that my interest is piqued. There are two popular “they say” conversations currently doing the rounds. The first one is that the US constitutes 58% of the MSCI All Country World Index and, therefore, if the S&P 500 struggles, the FTSE/JSE All Share Index will also struggle. The second one holds that it doesn’t matter how attractive value shares are, if growth shares collapse, value shares will follow suit.

Everyone will just follow the S&P 500

I want to start by pointing out that I am aware of the fact that historical movement does not guarantee any future movements. This time may very well be different. Therefore I looked at what happened the last time we found ourselves in a similar situation. There are several methods to determine whether a particular share or market is cheap or expensive. The more popular method is the price-to-earnings ratio (P/E). It is calculated by dividing the company’s share price by the earnings per share. A higher P/E, thus, means a more expensive share. The problem with the straight-forward P/E is that it only accounts for the last 12 months’ earnings. It does not really give us a good cyclical view. That is why experts often prefer to use the Shiller P/E, also known as the CAPE ratio. The CAPE ratio is based on the same principle as the P/E but considers the earnings per share over a 10-year period to smooth out the fluctuations in corporate profits that occur during the different times of a business cycle.

Let us return to the S&P 500. When we consider the S&P 500’s historical CAPE, we will see that at more than 38 times, it is currently trading much higher than the average of 24 times since the beginning of 1982. What we’ll also notice, is that the index is now trading at levels last seen at the end of 2000. Why is this important?

Well, consider that the S&P 500 didn’t only contract shortly thereafter, but that it yielded no returns for almost an entire decade.

I would like to focus on the five-year contraction that happened between January 2002 and January 2007. Over this period, investors lost more than 12% of their capital by being invested in the S&P 500. Contrary to what “they” said, investors who were invested in the FTSE/JSE All Share Index during this period didn’t only manage to sidestep the negative capital movements experienced in the world’s largest markets, but they also earned a return of 187%.

I must reiterate the fact that I’m not saying that this will happen again. All that I’m saying is I wouldn’t listen to what “they” say.

Declines affect everyone, the value of it doesn’t matter

This one must be one of my favourites, especially when combined with the opinion that value shares as an investment consideration is long dead.

When we place the MSCI All Country World Value Index relative to the MSCI All Country Growth Index, you will see that the last time this ratio traded below 1.5 times, happened to be at the beginning of 2000.

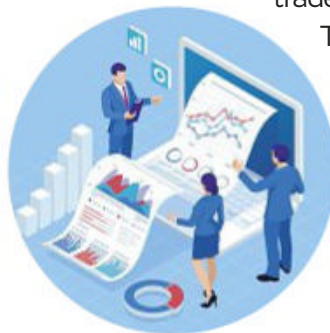
To be exact, it was February 2000.

You will also see that at the turn of the growth cycle, when investors sought salvation in value shares, growth shares (MSCI All Country World Growth Index) declined by more than 35% in US dollar terms in the subsequent five years. Again, as with the S&P 500 and JSE discussed earlier, value shares (MSCI All Country World Value Index) didn’t only manage to sidestep these types of declines but managed to increase by 16% over the five-year period.

I would like to conclude by warning investors that you shouldn’t simply accept that what “they” say is the truth. Do your homework properly and if you’re not comfortable or competent enough to do it yourself, rather consult the experts. Yesterday’s winners may very well turn out to be tomorrow’s losers. ■

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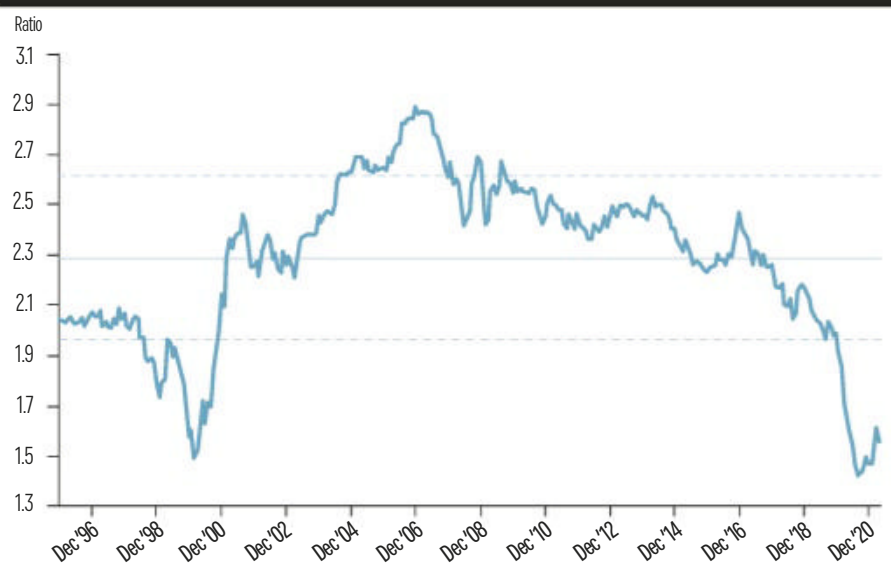


S&P 500 CAPE RATIO



SOURCE: Barclays, Refinitiv Eikon & @SchalkLouw

MSCI ALL COUNTRY WORLD VALUE INDEX RELATIVE TO THE MSCI ALL COUNTRY WORLD GROWTH INDEX



SOURCE: Refinitiv Eikon & @SchalkLouw

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.

ASTRAL



Maize prices impacting margins

Astral's results for the six months ending March saw revenue up 7% but headline earnings per share (HEPS) was off 37%. They did reinstate a dividend of 300c per share, but high input prices for maize erode margins. The stock has run a bit this year but remains well off the almost R350 level from early 2018. For investors it's waiting for local maize prices to move lower to the ideal zone just above R2 000 per tonne. At that point Astral prints money, but I don't see maize falling significantly for this season, so we'll have to wait for the next planting season.

PICK N PAY

Pharmacy deal good for profits

The announcement that Pick n Pay will sell their 25 in-store pharmacies to Clicks makes lots of sense. Pick n Pay have never made its pharmacies work and even with Clicks managing the pharmacies, Pick n Pay will still get the foot traffic and over-the-counter medication sales. Clicks will receive some very slim margins on the pharmacies but will also gain more products moving through their wholesale division, United Pharmaceutical Distributors. Again, not massive margins, but more scale, which will improve profits.

ANGLO AMERICAN

Risk of small holding

Anglo American has shareholder approval to unbundle their coal assets into Thungela Resources, with Anglo shareholders owning Thungela's shares at close of business on 7 June. Anglo shareholders will receive one new Thungela share for every ten Anglo American shares held. **The risk to shareholders is if you hold a decent value of Anglo American, your Thungela Resources holding could be very modest.** For example, 100 Anglo shares are worth about R70 000, but will still only see shareholders receive ten new Thungela Resources. In other words, there is a risk you will receive a small holding that is going to be uneconomical to sell if your stockbroker has minimum trading values in place. There's unfortunately no real solution here except to either sell Anglo ahead of the demerger (which seems like a wrong reason to exit a well-placed commodity stock) or to buy more Thungela shares after listing.

ASCENDIS HEALTH

Debt overhang curing

Ascendis Health has managed to stave off bankruptcy as they agreed to sell their best assets, which include Remedica and some smaller ones, to the lenders in exchange for the €400m debt they hold. This debt was costing the company some R250m every six months, and they were totally bankrupt. Now they have cleared the debt and got some funding for future assets, but they do not have much left with only a few small businesses in South Africa. Essentially, they are starting as a new company and will have to either buy or build some new businesses and it will be an exceedingly long road for both the business and its shareholders.

TFG



Turnover boosted by Jet

TFG published an update of its financials for the fourth quarter and full year ending March. The last quarter saw revenue grow by 6% and with the recently acquired Jet Stores, sales was up by 21%. But the full year includes the hard lockdown period and a R2.7bn impairment for their UK operations. TFG's HEPS is expected to be between 75% and 85% lower, but I do like the business and Jet is a great acquisition for the group. (See story pg.38)

The last quarter saw revenue grow by

6%

and with the recently acquired Jet Stores, sales was up by 21%.

MTN

Strong growth

MTN published a strong update for the quarter ending March. I wrote in February this year that I liked the stock (at around R70) and even though it has run to around R100 per share, it still offers some value. As I've said before, I want to see these telecommunications stocks to be priced like utilities. This even as there is lots of excitement around mobile money banking, where the margins there will be small in an incredibly competitive space. Furthermore, MTN will be repatriating its dividend. The risk here is, as always, country risk which MTN is managing a lot better since the Nigerian debacle back in 2015.

KAAP AGRI

Reaping rewards

Kaap Agri is another stock I have recommended earlier this year and their financial results were solid with fuel sales finally starting to come right. The business now consists of around three quarters retail but is still aimed at farming communities who are benefitting from the boost to soft commodity prices. Like many stocks they were cheap late last year and early this year. Even after running higher, the share price is not yet expensive and I would continue to hold into at least another one or two sets of results.

REVEGO

Listing cancelled

In the 14 May edition, I wrote about Revego, saying I liked the stock and had applied for an allocation during their book build. Well, it seems they could not get enough interest and the listing has been cancelled.

GOLD

As good as gold?

I really thought gold has had its year in 2020 and I expected it to retreat lower in 2021. But continued inflation fears, and generally bullish commodity prices has seen gold back at \$1 850 an ounce and, frankly, looking more likely to move higher than lower. The concern for gold-mining investors is that the miners are not responding. The problem is simple: rand strength has seen the rand-price of gold in 2021 some 10% weaker. I expect the rand to remain strong, so what miners really need is a strong run in the gold price and personally I prefer the platinum group metals for commodity exposure.

NASPERS

To swap or not to swap

Naspers* and Prosus are once again trying to reduce the discount on their share prices to that of their Tencent holding. **This time, Prosus is offering to swap Naspers shares for new Prosus shares. This will increase the free float in Prosus' shares and reduce the weighting of Naspers in local indices.** The latter should have an impact on the discount because the current 20% weighting of Naspers in the FTSE/JSE Top 40 Index means that fund managers are not able to allocate a full weighting to it. Rules on collective investment schemes limit the allocation percentage of a single stock in a portfolio, resulting in funds not being able to be "at weight". And I'm not even speaking about being overweight to the stock. So pretty much every fund is underweight Naspers and as such the discount to net asset value persists stubbornly. That all said, if you give up your Naspers shares for Prosus you will incur a capital gains tax (CGT) event even as you do not actually get any cash to pay it. I'd suggest making sure the CGT gain triggered is under the R40 000 per year threshold or rather keep the Naspers shares.

SAB



Be cautious

The new SAB Zenzele Kabili BEE scheme is listing later this month with many qualifying investors keen to invest after the massive success of the previous scheme. But remember, back then we had SAB Miller being bought for a handsome price by AB InBev, so a word of caution. Returns may well not be as spectacular this time around.

LONG4LIFE

Exit ... or?

Long4Life continues to trade at a deep discount to its net asset value and as such this restricts their deal-making ability. This is because a company do not want to use discounted shares to buy assets, it wants to use shares trading at a premium. Long4Life's CEO, Brian Joffe, has said he would like to do a merger of equals when acquiring new businesses, in other words at a discount. But I don't see how that would play out so either he sells assets and returns cash to shareholders, or he unbundles the larger assets (such as Holdsport). Either way, the idea behind Long4Life has failed and the company will be wound up sooner or later. Those who trust in Joffe's deal-making ability could hold on to see if he can close some of the discount to net asset value, but I have exited as I don't see any realistic chance of that discount shrinking markedly. ■

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



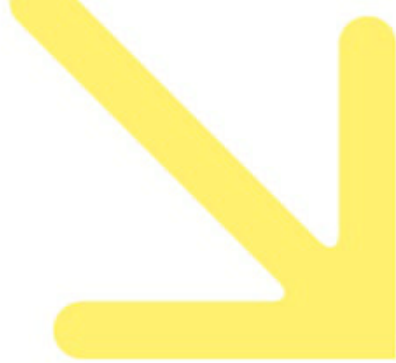
HOW LISTED SAFA WORE THE MA



FASHION RETAILERS MARKET TUMULT

By Timothy Rangongo

A switch from credit to cash sales have supported apparel retailers. Those focusing on the lower end of the market are set to gain in the coming year. »



South Africa's five dominant players in the listed clothing retailer space namely, Pepkor, TFG, Mr Price, Woolworths and Truworths, last had their best trading days on the JSE back in March 2018, when their share prices peaked.

The clothing sector had been marred by weak economic growth, subdued consumer confidence and declining earnings in previous months. According to Overberg Asset Management, the consensus view at the time was that the clothing retail sector would continue to rise over the next three years.

Like many other sectors, clothing retailers found themselves amid unprecedented adversity during the Covid-19 pandemic, with revenues and margins under pressure, but with the exception that some players have weathered the storm better than their counterparts.

TFG

In its financial results for the half-year ended September 2020, TFG reported a headline loss per share of 91c, down 117.1%. Headline earnings per share (HEPS) had come in at 531.2c in the comparable period a year earlier. Group revenue had plunged by 25.3% to R13.9bn and retail turnover was down 26.1% to R12.5bn.

Although the group cannot provide details of which clothing products yielded the highest margins to the market, "clothing, apparel and footwear achieved higher margins than cellphones", according to TFG.

The fall in revenue was attributed to most of the group's 4 083 trading outlets across major trading territories being closed for about eight weeks. Further lockdowns in Australia, the UK and other international markets, continued to adversely impact trading performance well into the second half of 2020. During the period, 63 TFG stores were opened while 183 were permanently closed. Group online turnover contributed 14.4% to retail turnover (R12.5bn) with strong growth for TFG Africa and TFG Australia at 115.8% (in rand) and 66.8% (in Australian dollar) respectively.

Worth noting is that "Foschini bought Jet and that is exactly where the market is moving," says **Casparus Treurnicht, portfolio manager at Gryphon Asset Management**. On 25 September 2020, TFG concluded an agreement to acquire 382 Jet stores from the now defunct Edcon in SA for R333.2m.

"Our fashion offering is guided by design trends as well as our customers' needs and preferences, which we track through various data points. With our recent Jet acquisition, we also strengthened our offering to the value segment in Southern Africa," says TFG.

The group tells *finweek* that for several years, they have also strategically invested in local manufacturing in SA and shifted towards a more equitable split between local sourcing and imports.



Casparus Treurnicht
Portfolio manager at
Gryphon Asset Management



Peter Armitage
CEO of Anchor Capital



Chris Reddy
Portfolio manager and
senior analyst at All
Weather Capital



Michael Mark
CEO of Truworths

As at March 2020, 35% of TFG Africa's clothing procurement was from local sources, according to the company.

Revenue growth will come primarily from growth in the market and the change in clothing retailers' market share, says **Peter Armitage, CEO of Anchor Capital**. He emphasises that pricing is also more important than volumes and clothing prices generally rise at the same pace as inflation.

"In addition to organic growth, these companies acquire other businesses from time to time," he says, cautioning that revenue growth will be challenging over the next few years in a low GDP growth environment.

When looking at the overall retail sector, Treurnicht says it appears that a recovery is already priced in, since the crash of last year. "There might be a little bit of upside left but the way our [SA] consumer disposable income is progressing now; it is going to be very hard for the retailers to reach pre-Covid levels."

Government wages, higher unemployment, weak labour wage growth, increasing utility and living costs, including a strong run by global stock markets are all the reasons why we think a recovery does not have much room left, Treurnicht says.

Curtailed marketing during the pandemic contributed to a 55% drop in the demand for new accounts at TFG. The lack of new accounts and the hard lockdown resulted in credit sales decreasing by 34.7% while the retail net debtors' book of R6.8bn decreased by 9.6% compared with the same period in the previous financial year.

Truworths

Before Covid-19 decimated markets, trading conditions for Truworths in the UK had already been challenging amidst Brexit uncertainty and the closure of stores. Group retail sales for the 26-week period ended 27 December 2020 decreased by 8.5%, when compared with a year earlier, to R9.7bn. Account sales comprised 51% of group retail sales for the period, decreasing by 10.3% and cash sales decreasing by 6.5%, relative to the prior period. HEPS decreased by 7% to 339.3c. Nevertheless, an interim cash dividend of 232c per share was declared, maintaining the dividend cover at 1.5 times.

In addition to seeing value in Pepkor and Woolworths, **Chris Reddy, portfolio manager and senior analyst at All Weather Capital**, says that the firm also sees value in Truworths. Each retailer has different drivers such as stronger store rollouts, better debtor costs and improved cost management, he says.

Reddy points that the consumer has proven to be very resilient across the income groups and there are requests for extending the government Covid-19 grants, adding that retailers have also benefitted from lower rentals and reduced financing costs driven by

lower gearing levels coupled with lower interest rates.

Since the end of the prior reporting period, 40 of Truworthis' stores were closed across all brands. While Truworthis Africa opened five stores, it also closed 26. The closures resulted in a drop in trading space of 1.5%. At the end of the reporting period the group had 896 stores, including 13 concession outlets.

Truworthis trades in several countries across the rest of Africa, which contributes around 3% to 4% of the group's sales in Africa, according to **CEO Michael Mark**. The performance in these countries have been mixed, but he says, overall, "it has not had a material impact on the group's performance".

Truworthis also owns the Office footwear chain operating in the UK, Germany and Ireland through standalone stores, concession outlets, as well as online. The severe lockdown restrictions in these countries significantly impacted the performance of the Office stores, but this was partially mitigated by a strong online performance.

Gross trade receivables in respect of the Truworthis Africa debtors book (relating to the Truworthis, Identity and YDE businesses) were at R5.8bn (down from R6.8bn in 2019), while the number of active accounts decreased by 6% to 2.6m. Active account holders able to purchase were at 85% and overdue balances to gross trade receivables were at 12%, "reflecting signs of improvement in the overall quality of the book since June 2020," according to Mark.

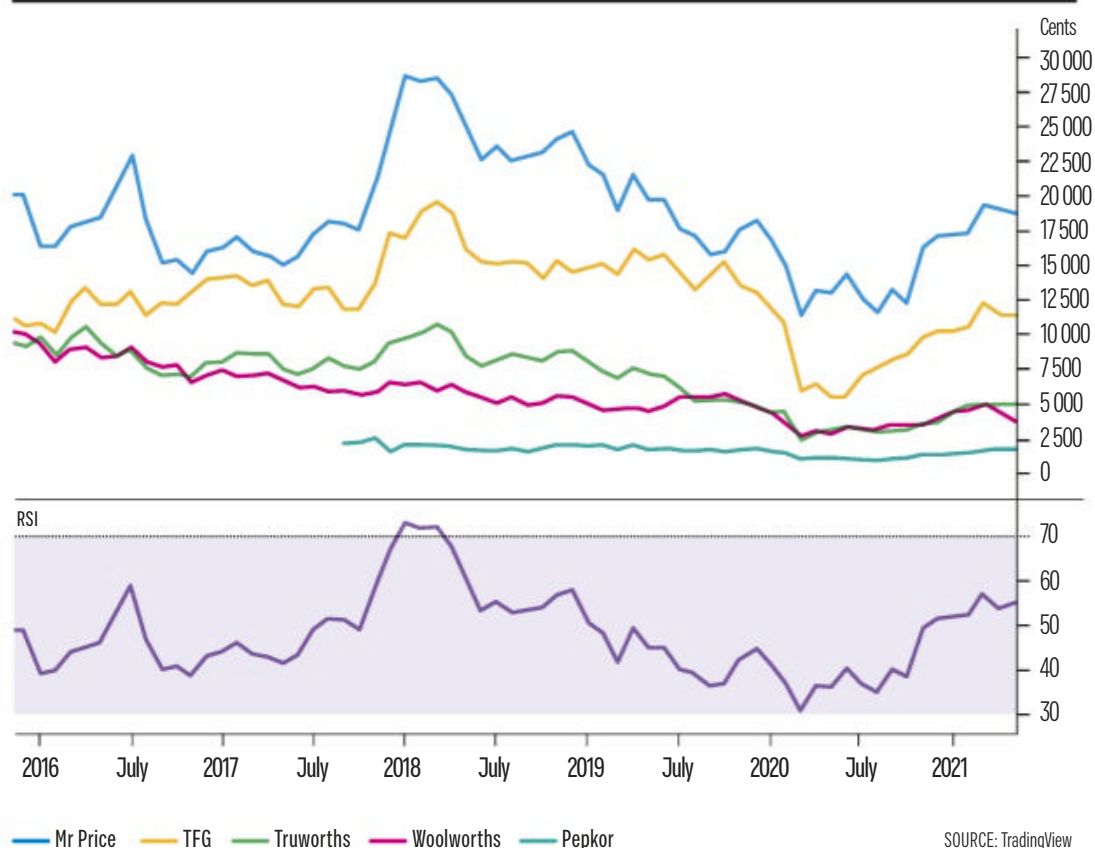
Truworthis operates its own debtors' book with about 2.5m active customers. SA's debtor market has been resilient through Covid-19, according to Mark. "There has been an asymmetrical impact on industries, and customers employed in industries such as tourism, construction, security services and cleaning services were the hardest hit by the pandemic."

This impact was swift and shortly after coming out of lockdown level five, he says, the debtor portfolio started to perform above expectations. According to the most recent TransUnion Consumer Credit Index, the credit health of consumers is improving (index rating of 64 in the first quarter of 2021 compared to 48 in the year prior).

"Throughout the pandemic there has been a sustained demand for new accounts. Truworthis has had record volumes of new account applications, which is evidence of the continued strong demand for our fashion," says Mark.

In a bid to attract young, casual yet fashionable but on a budget, shoppers into Truworthis' stable of high-priced formal and glamorous clothing brands, the company entered the highly competitive budget

PRICE MOVEMENT OF LISTED APPAREL RETAILERS OVER 5 YEARS



clothing market with a new brand to be launched in 15 stores, looking to adapt to changing shopping habits since the emergence of the coronavirus.

Mark told analysts in February that the aspirational value-brand, to be called Primark, "won't be at a low margin. We're an aspirational business and we prefer higher margins."

He explained to *finweek* that **the group does not subscribe to the philosophy of buying market share through lower margins.**

"Instead, we will continue to drive revenue growth in the years ahead through organically growing our existing brand offering and launching new concepts. We will also continue to grow our omni-channel fashion retailing capability and increase our market share of the emerging online shopper base in SA."

Mark says medium-term growth prospects will be supported by the significant improvement in the quality of the debtors' book since most of the adverse impact of the hard lockdown in April 2020 has rolled through the portfolio, together with the quality of new accounts and growth in shoppable accounts.

The group will also continue to look for acquisition opportunities, principally in SA, to complement its existing offering. He says the turnaround of the group's Office brand in the UK remains a key focus and he is "hopeful that the strategies we have implemented over the last year will result in a more streamlined and efficient business".



Woolworths

Woolies (as the company is colloquially known) posted a 5.8% jump in turnover to R39.6bn for the half-year ended 27 December 2020. HEPS also rose, 58.3% to 261.1c. Worth noting, however, is that the stand-out performance was from the food business while fashion, beauty and home (FBH) remained disappointing, with this division's sales declining by 11.2% to R6.4bn over the period.

Trade in the first half of the 2021 book year continued to be impacted by Covid-19, with significantly reduced store footfall, particularly in larger shopping centres and central business district locations. Online FBH sales grew by 118.8%. Net space was reduced by 1.9%, in line with Woolies' focus on improving store operating efficiency.

Contrary to the last decade where growing the footfall and store space was so important, it is more about growing the successful concepts into an existing footprint and making sure that you can substitute physical store sales with online optimally from a cost point of view, says [Jan Meintjies, portfolio manager at Denker Capital](#), on the phenomena.

"Growing digital sales channels effectively will be essential at the higher end – just to defend your market share. If you get that wrong you will go backward," he says.

Woolies' women and menswear sales were down while children's wear grew market share. Home and beauty were the strongest performing groups. Whilst not unique to SA, the pandemic has led to more people working from home with less demand for formalwear.

Woolies say that they have responded to this by shifting their product mix to increase their casualwear offering, and reduce their formalwear offering. The company tells *finweek* that they have launched a stronger athleisure range, which is really resonating with their customers. "We are also improving our value proposition by investing R250m into the prices of key lines and are doing so without compromising on our quality in any way."

A key focus over the period has been the strengthening of the group's balance sheet. Through cash generation and preservation initiatives, and the execution of property sales, Woolies say they have improved their liquidity position and significantly reduced net debt levels in both SA and Australia.

The sale of the David Jones Elizabeth Street property in the second half is set to further strengthen the balance sheet and ensure a more sustainable capital structure of the group's Australian entities.

Most of the debt currently on the clothing retailers'

balance sheets are funding their debtors' books, says Meintjies. "In many instances credit sales are an enabler for sales and these credit models have proven successful over many years, provided you can manage the cost of credit to acceptable levels."

Denker Capital believes that adding debt for acquisitions has proven riskier over the past decade, especially if the debt and the acquisitions are in different currencies. "Woolworths suffered this fate and they had to rely on the sale of property to reduce debt to sustainable levels. So, yes, a sustainable level of matched debt on a retailer's balance sheet can certainly be value accretive," says Meintjies.

Treurnicht mentions Edcon as a prime example of "why any retailer should be careful to gear their balance sheets too hard".

By the end of December 2020, Woolies' closing debtors' book was down 2.2% year-on-year and interest income was lower due to repo rate reductions and lower discretionary spend. The company tells *finweek* that its annualised impairment rate of 4% is, nevertheless, "healthy, and low by industry standards".

The Woolworths brand trades within SA and ten other African countries, on which the group says it is "seeing good growth and are gaining share in the rest of Africa". Whilst there are key categories in which they are looking to grow FBH market share, the group says that their focus is on improving the underlying financial health of the fashion business, by driving more full-priced sales, reducing markdown, and improving their return on sales percentage.

Mr Price

During April 2020, Mr Price estimated that it lost approximately R1.8bn in sales, as all its SA stores were forced to close. Despite this, their cash-based, fashion-value business model enabled a stronger performance, than originally anticipated, which has allowed management to continue its focus on growth opportunities.

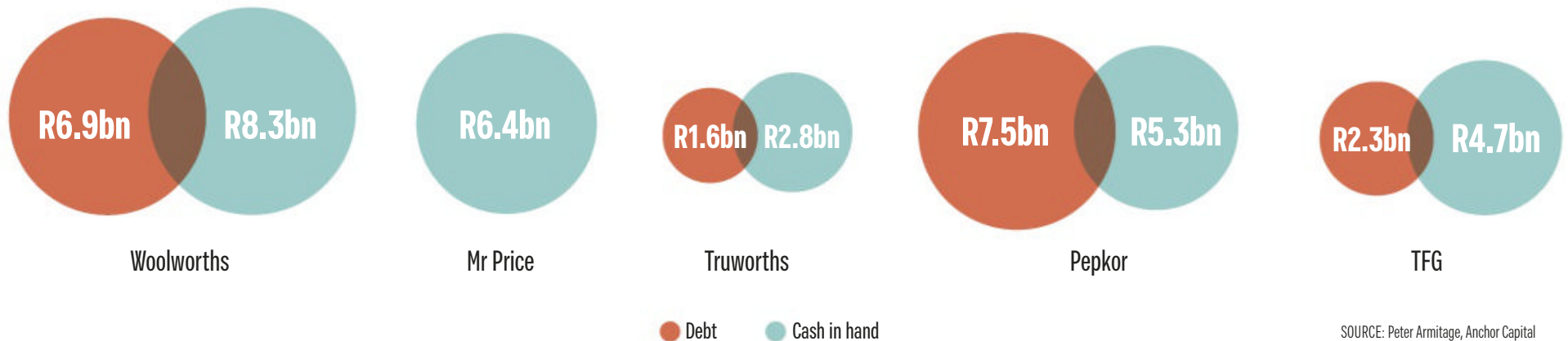
For the 26 weeks ended 26 September 2020, total revenue from continuing operations (excluding discontinued operations in Nigeria) fell 14.4% to R9.2bn with retail sales off 14.8% to R8.6bn. Excluding April 2020, retail sales grew 3.2% (with SA up 3.7%). HEPS decreased by 24.8% to 333.5c. Excluding the April 2020 lockdown, HEPS grew 5.9%. Online sales grew 71.5% and accounts for 2.5% of total sales.

After the lockdown, Mr Price has traded strongly, and its highly cash-generative model has added further liquidity. Cash and cash equivalents increased



Jan Meintjies
Portfolio manager
at Denker Capital

DEBT PROFILES AND CASH POSITIONS OF LISTED SA RETAILERS (AT THE END OF THE LAST REPORTING PERIOD)



35.1% from March 2020 to R6.4bn at the end of September. The group remains debt free and its strong balance sheet supports its appetite for growth, which they pursued with a market defining acquisition of Yuppiechef this year.

Come what may, Mr Price Apparel outperformed the market, gaining market share every month since March 2020. The group will also be launching three new Mr Price Apparel categories this year, namely, mrpBaby, mrpSchoolgear (uniforms) and mrp&co (novelty and gifting). These new high-growth categories are set to provide additional market share growth and extend the group's value offering.

It is no surprise that Mr Price and Woolies remain top picks for Anchor Capital, in terms of valuation and longevity of returns. While most of the listed clothing retailers have strong balance sheets, Mr Price is the only one with no debt and R6.4bn of cash, says Armitage (see table).

Though clothing retailers could either sell their products on cash or credit, Armitage tells *finweek* that there is no reason they should not have debt on their balance sheet and that the argument can be made for a certain level of debt to optimise the capital structure. "If they are selling on credit, it makes sense to be lending customers bank money instead of shareholder money."

Pepkor

Investors were previously able to access Christo Wiese's Pepkor through investment holding company Brait. In 2011, stockbrokerage Barnard Jacobs Mellet remarked that Pepkor was undervalued relative to other SA clothing retailers and was likely to make up a considerable percentage of Brait's net asset value (around 70%).

Pepkor's clothing retail brands comprising Ackermans and Pep stores continued to deliver most of Pepkor's revenue and profit. Despite having lost approximately R5bn in revenue through Covid-19 trading restrictions, the group managed to achieve positive revenue growth for the year ended 30 September 2020.

Group revenue increased by 3.6% to R63.7bn

compared with R61.5bn in the previous year. Debtors' costs increased by 48.3% to R1.7bn because of increased bad loan provisions and bad debts. The clothing and general merchandise segment reported an increase in revenue of 1.4% to R45.6bn for the period.

In any event, Denker Capital believes that unless there is a stronger than expected economic recovery, sales in this segment (cash retailers operating in the value and discount segments) will remain relatively strong.

The asset manager prefers the Mr Price and Pepkor counters for this reason. Meintjies says that the longer-term impact of "work from home" on the higher-end formal and office wear segments remains uncertain, although Truworths could well be the better performer if economic growth in SA surprises to the upside materially.

Pepkor strengthened its balance sheet by reducing net debt by a colossal R6.9bn. Consumer focus on less discretionary and more affordable products and services also resulted in substantial market share gains. Earnings were impacted by the impairment of goodwill and intangible assets of R4.8bn. This contributed to an HEPS drop of 21% to 75.4c.

Due to strong cash flows, some capital raises and sale of assets, Meintjies says, means the balance sheets of most of the clothing retailers are much stronger than what they were 18 months ago. "We do expect all of them to invest material amounts back into stock as demand normalises during 2021. This will reduce cash positions again but will not weaken balance sheets in a material manner."

Reddy regards debt on the balance sheets as an efficient part of the capital structure, "as long as it is not too aggressive. "Given the view that rates are going to be lower for longer, and even if they do rise, we're unlikely to see aggressive rate hikes, it is a cheap form of funding for firms and helps improve the company's return on invested capital."

Pepkor's retail store expansions slowed during the second half of 2020 with the segment's store base expanding by 93 stores to 4 375 stores. ■

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Christo Wiese
Former chairman
of Pepkor
Holdings

Meintjies says the longer-term impact of "work from home" on the higher-end formal and office wear segments remains uncertain.

By Amanda Visser

NFTs: How do they work?

There are a few important considerations regarding this new digital asset class.

The Nifty, or non-fungible token (NFT), is a new digital asset class that has caused a considerable stir in the art, fashion, and music worlds.

Investors with a more traditional approach are fooling themselves if they believe this new asset class is a passing fad, says **Nigel Green, CEO and founder of deVere Group**, an international financial advisory and fin-tech company.

"They may be a novelty at the moment, but it makes sense with the blistering pace of the digitalisation of our world; digital assets will become increasingly valuable."

NFTs are verified through blockchain technology, giving buyers certificates of authenticity and ownership.

They produce unique, non-interchangeable digital tokens, and can be bought and sold like any other asset, however not in a physical form.

Digital artist Mike Winkelmann (Beeple) created quite the stir when he sold his NFT artwork for more than \$69m at a Christie's auction earlier this year.

The band Kings of Leon released their album *When you see yourself* in NFT format earlier this year. They offered three different packages to choose from, one of it consisted of their new album together with lifelong front-row seats for live performances in future.

Suzanne Smit, fiduciary, and tax consultant at Fidelis Vox, says the fact that renowned auction houses such as Christie's and Sotheby's are involved adds value and gravitas to NFTs.

Important considerations

As with any other asset there are tax, fiduciary, and risks to be considered and therefore these assets need to be valued. There are already specialists who value NFTs across the world, says Smit. "In some instances, where the NFT is not digital art, but a label underpinned by an asset, the value could be more easily ascertainable."

For example, it will be fairly easy to determine the value of the Kings of Leon NFT, simply by virtue of the music and entertainment industry with hit lists and top sellers to take into

account. "The actual price paid could exceed it purely for bragging rights."

The buy and sell of an NFT is underpinned by a "smart contract" on blockchain which may include infinite royalties to the artist or seller.

Smit explains that if an NFT is sold by a South African tax resident artist (first party) as part of his trade, royalties received because of a resell from the original buyer (second party) to a new owner (third party) would be regarded as revenue (income) as it is part of the artist's earnings and should be declared as such in the artist's tax return.

The artist will be able to claim deductions for expenses incurred relating to the NFT, such as the valuation costs or legal fees paid for drawing up a smart contract.

"It is always advisable in terms of the recordkeeping requirements in the Tax Administration Act to keep the supporting documents should the South African Revenue Service ever wish to audit the tax affairs of the original seller or buyer," advises Smit.



Mike Winkelmann (Beeple)
Everydays: The first 5000 days sold for over \$69m.

Endless tax scenarios

Smit says the scenarios from a tax perspective "are endless". One scenario is when the transaction is between a South African tax resident seller and South African tax resident buyer.

The tax treatment will depend on whether the selling of art is part of the normal course of the artist's business, whether the buyer is a trader in art or whether he is a collector of art for investment purposes.

"This would determine whether the respective parties will be liable for tax on a revenue or capital basis when receiving the price paid for the NFT and similarly when disposing of the art piece or NFT," says Smit, member of the personal tax work group of the South African Institute of Tax Professionals.

If the painting and selling of art is the artist's trade, then the income received would be revenue in nature. If the original buyer is an art trader and on-sells the NFT for a profit, then that income would be regarded as revenue in nature and should be declared as such.

However, if the original buyer is a collector



Nigel Green
CEO and founder of deVere Group



Suzanne Smit
Fiduciary and tax consultant at Fidelis Vox

“(NFTs) may be a novelty at the moment, but it makes sense with the blistering pace of the digitalisation of our world, digital assets will become increasingly valuable.”

of art with the intention of keeping it as an investment and disposes of it in future, then the proceeds would be regarded as capital in nature. The capital gain should then be declared in the tax return of the buyer.

If the buyer is a tax resident elsewhere and the original seller is a South African tax resident, then the specific domestic tax laws of the respective jurisdictions should be considered, together with the double tax agreement which may be in place, especially with regard to withholding tax on royalties.

The smart contract should determine who is liable for paying the royalties to the original seller and sufficient liquidity provision should be made in order to settle the amount. The smart contract could stipulate that the royalty should be equal to 5% of the selling price within a specific time following the selling of the asset, or the passing of the owner of the NFT.

“The owner should provide sufficient liquidity in his estate to ensure that the royalty liability can in fact be settled and will not leave the estate insolvent because of the inability to meet the requirement stipulated in the smart contract.”

If the digital asset is capital in nature (capital gains tax), the estate should have sufficient liquidity to settle this liability to prevent a sale of other assets or resulting in an insolvent estate.

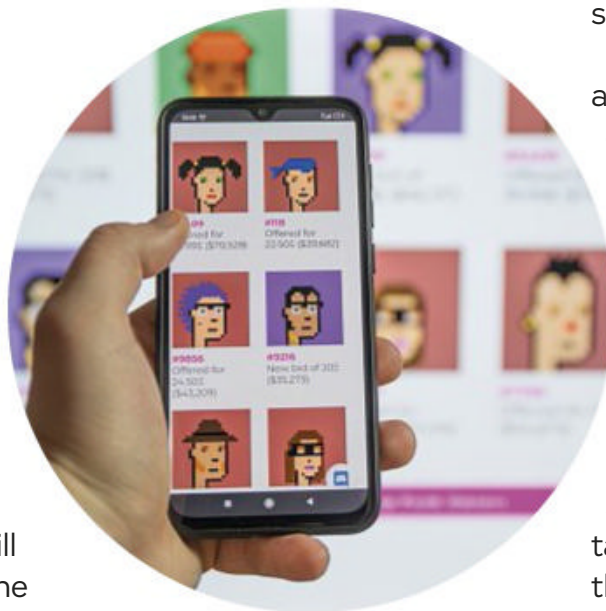
Changing business models

Green says NFTs are “positively changing business models”, especially in the creative industries.

“Artists and musicians can provide enhanced virtual experiences for collectors and buyers, they can prove if their works are counterfeited, and they can include criteria to get royalties every time their works are resold in the future.”

He also refers to the “great wealth transfer”. “According to some estimates \$68tr in wealth is to be passed down from the baby boomers – the wealthiest generation ever – to their children and other heirs over the next couple of decades,” he notes.

Millennials have digital lives, and it would be natural to take digital representations of luxury brands, music and art into their world.



Accessibility

Smit says it is critical that the owner of the NFT makes sure that the future executors or heirs of their estates are not only aware of the NFT, but that they will be able to get access to in the event of the death of the owner.

“Although the existence of digital assets and who should be the ultimate beneficiaries should appear in your will; it is best to keep the details of your digital estate plan in a separate and highly secure document with password managing software or in a digital wallet or exchange.”

With other assets the executor is generally able to contact the financial institution to confirm some information, such as the existence of bank accounts.

Smit notes that the problem with NFTs – ironically also one of their biggest strengths – is that they are decentralised and there is no governing body or directory to request information from.

As blockchain is transparent with a unique code attached to the digital NFT, the safety of the NFT is rather robust. It would take an experienced and super hacker to steal the digital asset. However, it is crucial that your passwords, private keys, and access information is known by you or passed down to your future beneficiaries. ■

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“According to some estimates

\$68tr

in wealth is to be passed down from the baby boomers – the wealthiest generation ever – to their children and other heirs over the next couple of decades.”

Some examples of NFTs that exist today:

- A unique digital artwork. Such as *Forever City*, 432X768 pixels, 17 colours, with bids as high as \$24 700
- A unique sneaker in a limited-run fashion line. A luxury sneaker designed by AI and auctioned for more than \$90 000
- An in-game item. Such as a virtual reality infused bird mask
- An essay. Such as *Scissor Labels* with the highest bid of \$12 500
- A digital collectible. Such as *CryptoPunks* with some bids as high as \$87 000 ■

SOURCE: <https://ethereum.org/en/nft/>

On margin

The warmth of love

This issue's isiZulu word is *uthando*. It means love. Oh, what a beautiful, wonderful and intoxicating thing *uthando* is. We all deserve *uthando*. And guess what, we are about to receive heaps of it. Oh, yeah, it's election season and political party campaigners are about to love us so hard. We are going to be loved to death.

If your life has been void of *uthando*, fear no more – lovers in colourful T-shirts are coming to lurve you, baby. You're gonna have to beat them with a stick to keep them away from you. Please do beat them. "Hey, Solly."

They are gonna hug you (watch out for Covid), serve you, wipe your tears, feed you and do so much more to win you over, you desirable thing, you. And they won't

even expect sex in return. Drop the "se" from sex and just give them the "x". That is their love language.

Okay, I lie about the sex, they're gonna have their way with you, after you give them your "x", and it will be consensual because that "x" is your consent. They all will. You just have to decide which players you want to take it from.

Oh, yeah, *uthando* is in the air. Rejoice.

It really is crazy how political parties and their campaigners turn on the charm while they're campaigning and then turn cold on us once they've used us to get into office. That is not how *uthando* is meant to work. No. You court, and once you've won me over, you continue to treat me well. They are doing it all wrong.

- Melusi's #everydayzulu by Melusi Tshabalala



Fancy yourself a general knowledge whizz? Then give our quiz a go! You can complete it online via fin24.com/finweek from 24 May.

- True or False?** Sasol is listed on both the Johannesburg and London Stock Exchanges.
- By how much did Zimbabwe's gold production fall to 3.98 tonnes in the first quarter of this year?
 - 30%
 - 50%
 - 70%
- True or False?** The 2021 municipal elections in SA will take place on 27 August.
- Steinhoff International, which is still battling to recover from the accounting scandal that cost investors billions of rand, says it will raise about €900m when it lists which discount retailer in Warsaw?
 - HiFi Corp
 - Tekkie Town
 - Pepco
- True or False?** King Misuzulu KaZwelithini is the new Zulu king.
- According to SA's Ombudsman for Banking Services, which bank did consumers complain the most about last year?
- True or False?** Elon Musk said his electric car company Tesla would stop accepting payments in all cryptocurrencies because of concerns about their environmental impact.
- Fill in the missing company name: _____ are the owners of the V&A Waterfront.
- How much is Hyundai planning to invest in the US by 2025 to produce electric vehicles?
- In May 2021, the biggest smartphone brand in China launched in SA. What is the name of this brand?
 - Xiami
 - Oppo
 - Huawei

CRYPTIC CROSSWORD

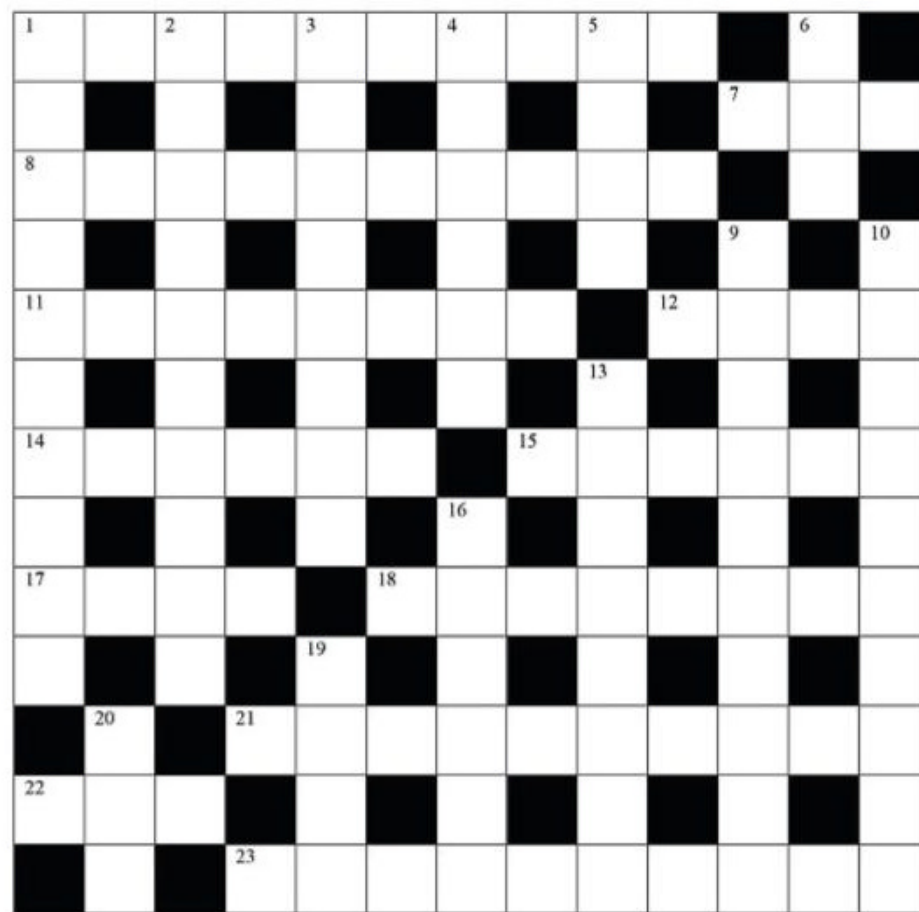
NO 775JD

ACROSS

- Utter failure to get down to business (4,6)
- Timeless argument - Bath, say, or Cheltenham (3)
- It's folly to give an abridged book to Charlie – really a non-starter! (10)
- Figure on Anne, for example, ringing the changes (8)
- Fairy's short adventure (4)
- A 6 – 0 drubbing – inside left has to be a plant (6)
- Do you intend to leave an empty YMCA? (6)
- Nothing English about this river! (4)
- Given the most fitting exclamation by the editor (8)
- Dunce a bit off, say (10)
- Stop Internet executive losing a lot of business (3)
- With it swapped over (8,2)

DOWN

- Fitting notice not far from promontory? (2,3,5)
- Unfortunate having the Frenchmen on board (10)
- Chaotic collapse right inside, near the chest (8)
- Wish cosmetic to come quickly? (4,2)
- 5 & 6** Fickle supremo UK doesn't have post-Brexit (4-3)
- Caution – cowardly character (6-4)
- Fellow student of Harry's at Hogwarts or its headmaster? (6,4)
- A match in the sixth diamond (8)
- Picture of Franco-Briton (6)
- 20 & 19** Fourpence to spend on man in the street (3,4)



Solution to Crossword NO 774JD

ACROSS: 1 Rule of thumb; 9 Imp; 10 Eucalypti; 11 Derby; 13 & 19 Drawing paper; 14 Yellow; 16 Plague; 18 In there; 19 See 13; 20 Knowledge; 21 Sac; 22 A screw loose
DOWN: 2 USP; 3 Every; 4 Facade; 5 Holdall; 6 Mopping up; 7 Tiddlywinks; 8 Single track; 12 Relations; 15 Ocellar; 17 Meadow; 19 Prego; 21 SOS

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