What about your business insurance?

As a business owner, incomplete work is bad for your business — so is getting partial business insurance. Switch to MiWay and enjoy comprehensive business insurance that lets you do business your way.

0860 64 64 64

miway.co.za/business-insurance

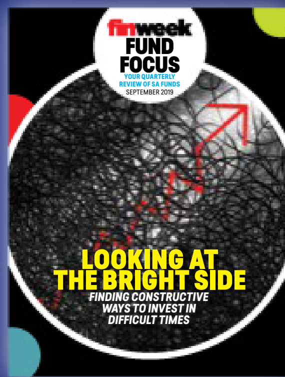
MiWay is a licensed Short-term Insurer and Financial Services Provider (FSP. 33970). Ts & Cs apply.

MiWay .co.za

MIW/92156/E

INVESTMENT
HOW TO TRADE IN **OFFSHORE SHARES**

FUND FOCUS
CONSTRUCTIVE INVESTING IN DIFFICULT TIMES



CAREERS
YOUR RIGHTS DURING **RETRENCHMENT**

ENGLISH EDITION

fin24 FIND US AT: fin24.com/finweek

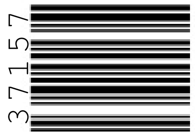
finweek

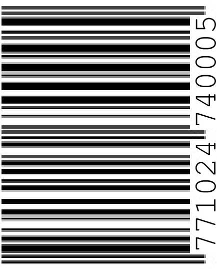
12 September - 25 September 2019

EVERY TWO WEEKS

TECH STOCKS
HOW TO MAKE A SAVVY INVESTMENT

SHARE VIEWS ON: Facebook // Apple // Amazon // Netflix // Google





SA: R30.20 (incl. VAT)
NAMIBIA: N$30.20

GLOBAL ADVENTURE FOR **STILL BAY'S FAMOUS FYNBOS GIN**

FORMULA 1 2018 ROLEX BRITISH GRAND PRIX

FORMULA 1 2018 ROLEX AUSTRALIAN GRAND PRIX

FORMULA 1 2018 SINGAPORE AIRLINES SINGAPORE GRAND PRIX

FORMULA 1®

The world of Rolex is filled with stories of perpetual excellence. Since 1950, Formula 1® has grown to become motor sport's ultimate achievement around the world. The series now spans 21 circuits on five continents, from Monaco to Melbourne, representing the most demanding test for the sport's top drivers. Wherever Formula 1® goes next, it will continue to push the limits of technology and speed. This is a story of perpetual excellence, the story of Rolex.

#Perpetual

THE F1 LOGO, FORMULA 1, F1, GRAND PRIX AND RELATED MARKS ARE TRADEMARKS OF FORMULA ONE LICENSING BV, A FORMULA 1 COMPANY. ALL RIGHTS RESERVED.

FORMULA 1 EYETIME GROSSER PREIS VON ÖSTERREICH 2018

FORMULA 1 2018 ETIHAD AIRWAYS ABU DHABI GRAND PRIX

OYSTER PERPETUAL COSMOGRAPH DAYTONA

from the editor

ANNELI GROENEWALD

On a normal news day, StatsSA data on a 3.1% recovery in GDP over the second quarter (Q2) would have made the headlines.

But nothing appears to be normal at the moment.

Here in Johannesburg, the arrival of spring looked and smelled quite different to other years as smoke billowed out of buildings in the CBD following deadly protests. Violence and lawlessness, and dare we say hatred, ruled the streets and the front pages of daily newspapers.

It indeed feels wrong to celebrate anything at all currently, least of all a number that very few people in the country could probably relate to at the moment. After all, while the recovery was quite a bit higher than the roughly 2.5% that many polls anticipated, a number of commentators pointed to the fact that the recovery was off a low base – following a contraction of 3.1% in the first quarter.

In a note released by NKC Economics, Elize Kruger called the Q2 figure a "moderate recovery", and said 2019 would "still be the worst year since the recession following the global financial crisis in 2009".

"The country's current growth outlook is woefully inadequate to address South Africa's challenges of unemployment, poverty, and inequality. The South African economy urgently needs a conducive environment for the private sector to flourish, of which a prerequisite will have to be policy certainty. While this remains elusive, the economy will continue to struggle, muddling along on a road to nowhere – a scenario that South Africa can ill afford," said Kruger.

Many have said that finance minister Tito Mboweni's recently released plan to get the economy back on track was a good start to actively tackling the problems facing the economy. But the paper was released (with a request for comment from the public) before it was presented to Cabinet. The unions, specifically Cosatu, are upset about the paper and the processes followed in releasing it. Cosatu have called for Mboweni to recall it.

"The document is trying to exploit our economic crisis by pursuing a right-wing agenda that was defeated in several ANC conferences," News24 quoted Cosatu deputy general secretary Solly Phetoe as saying.

It's become a bit of a refrain in South Africa – as soon as one brave heart offers solutions, ten more stand ready to shoot it down. I guess that's called politics.

But the danger is that politicians will continue with politics while our cities burn.

We've got enough politicians in South Africa. If we want to move forward as an economy and a country, what we'll need is leaders. ■

contents

Opinion

6 The rules that keep millions poor

In brief

8 News in numbers
10 Monetising sunshine
12 Seriti's bid for South32's coal not set in stone
13 The golden thread between DRDGold and Sibanye-Stillwater

Marketplace

14 **Fund in Focus:** Consistent returns from diversification
16 **Killer Trade:** Assore, Imperial Holdings
18 **House View:** Bidvest, Exxaro Resources
19 **Invest DIY:** When to cash in on cash
20 **Technical Study:** Gold and platinum flourishing
32 **Personal Finance:** Sure you can't save more?
33 **Invest DIY:** When the going gets tough
34 **Simon Says:** ADvTECH, Grindrod, Italtile, Massmart, Murray & Roberts, Naspers, Shoprite, Woolworths

Fund Focus

21 **Looking at the bright side:** Finding constructive ways to invest in difficult times

Cover

36 How savvy are tech stocks?
41 Tips for trading in offshore shares

On the money

42 **Spotlight:** The art of keeping central banking above politics
44 **Entrepreneur:** The local gin that stirred international interest
46 **Motoring:** Volvo's refreshed XC90 ups the sophistication
48 **Careers:** Your rights during retrenchment
49 Crossword and quiz
50 Piker

EDITORIAL & SALES

Editor Anneli Groenewald **Managing Editor** Jana Jacobs **Journalists and Contributors** Justin Brown, Simon Brown, Lucas de Lange, Johan Fourie, Moxima Gama, Marcia Klein, Glenneis Kriel, Schalk Louw, David McKay, Timothy Rangongo, Peet Serfontein, Melusi Tshabalala, Amanda Visser, Glenda Williams **Sub-Editor** Katrien Smit **Editorial Assistant** Thato Marolen **Layout Artists** David Kyslinger, Beku Mbotoli **Advertising** Paul Goddard 082 650 9231/paul@fivetwelve.co.za Clive Kotze 082 335 4957/clive@mediamatic.co.za 082 882 7375 **Sales Executive** Tanya Finch 082 961 9429/tanya@fivetwelve.co.za **Publisher** Sandra Ladas sandra.ladas@newmedia.co.za **General Manager** Dev Naidoo **Production** Angela Silver angela.silver@newmedia.co.za

Published by New Media, a division of Media24 (Pty) Ltd Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001 **Postal Address:** PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmedia.co.za
Printed by **Novus Print Solutions** and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek** Overseas Subscribers: **+27 21 405 1905/7**

ENQUIRIES

SUBSCRIBERS
087-353-1305
subs@finweek.co.za

Fax
0864-575-918

SHOPS
0861-888-989
assistance@onthedot.co.za

Share your thoughts with us on:

@finweek finweek finweekmagazine

FINWEEK SUBSCRIBES TO THE SOUTH AFRICAN PRESS CODE WHICH COMMITS US TO JOURNALISM THAT IS TRUE, ACCURATE, FAIR AND BALANCED.
IF YOU THINK WE ARE NOT COMPLYING WITH THE CODE, CONTACT THE PRESS OMBUDSMAN AT 011-484-3612 OR ombudsman@presscouncil.org.za
© FINWEEK 2011 ALL RIGHTS RESERVED. TO INQUIRE ABOUT PERMISSION TO REPRODUCE MATERIAL CALL OUR ARCHIVE AT 021-406-3232.

KINGJAMES 47848

See this spot?

This spot in Africa could hold a cure for the common cold, an answer to water scarcity or a new mode of transport. Then there's 30 million square kilometres more. For over a century Sanlam has seen the potential in Africa, knowing all the greatness it holds. It's why we have and always will be deeply rooted in this continent and why we've invested in 33 countries and counting, more than any other insurer. As the biggest non-banking financial services group in Africa, we'll proudly continue building a better continent for others to inherit.

Sanlam is a Licensed Financial Services Provider.

Insurance | Financial Planning | Retirement | Investments | Wealth

By Johan Fourie

ECONOMY

The rules that keep millions poor

People with access to property rights, the rule of law and who can participate freely in a market economy are most likely to prosper. However, many South Africans still don't have access to our country's inclusive institutions.

Much of the focus on poverty alleviation in South Africa is, understandably, on the post-apartheid era. But sometimes it is worth taking a long-term view.

One of the most important contributions of the last two decades to the literature on economic growth is that institutions matter. Social scientists have, of course, posited for a long time that the freedom associated with democracy, property rights, rule of law and a free press is critical to the success of a market society. But these ideas could only relatively recently be tested empirically, with the uncovering of new data sources and development of new methods.

Daron Acemoglu, Simon Johnson and James Robinson in *Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution* say it was the type of institutions established by Europeans when they colonised large parts of the world that explains whether countries today are rich or poor.

In places where Europeans could settle – places without malaria, for example – they established inclusive institutions, like property rights and the free market.

In places not amenable to European settlement, like most of Africa, they set up extractive institutions, rules that benefitted only a small elite. Today's income distribution across the world, they argue, reflects these colonial institutions.

In a new paper, Dieter von Fintel and I apply this theory to the eastern half of SA over the last two centuries. Our result? Things are far more complicated than the binary world of extractive versus inclusive institutions.

When the first Europeans migrated into SA's interior in the 19th century, they didn't enter territories in a stable Malthusian equilibrium. Disrupted by resource constraints at the beginning of the 19th century, the Bantu-speaking groups that inhabited this region had just entered a period of intense warfare, decimating much of the country, which made it easier for the Voortrekkers to migrate into. The Mfecane wars locked survivors mostly into the high-rainfall, but rugged and inhospitable regions of the country.

> If we are serious about addressing poverty, the extractive institutions of the former homelands should be priority number one.

The areas that the Voortrekkers settled in combined with the land these settlers later annexed through various Land Acts became known as 'white areas'. These areas developed as a result of the 'inclusive' institutions established to benefit whites. Natural resources like diamonds, gold and access to temporary migrant black labour from across southern Africa, helped. But it was ultimately the freedom to vote and own property, the rule of law and a market economy – the exclusive use of the inclusive institutions – that allowed white South Africans to prosper.

The rugged regions that black South Africans first inhabited or were pushed into, were designated black homelands (apart from Basutoland and Swaziland, which became independent countries). These regions were too small to accommodate the massive forced relocation that occurred through much of the 20th century, and also suffered internally from poor, extractive institutions: economic and political rights that favoured chiefs or headmen. Black South Africans were thus exposed to extractive institutions in both 'white regions' and homelands.

That changed in 1994 when democracy expanded the 'inclusive' institutions of white regions to include black South Africans. Anyone in SA could own land, vote, and be treated equally by the law, with one exception: those living in former homelands. Here the former extractive institutions favouring the chiefs prevailed and, in some cases, actually worsened. In his new book, *Getting it Right: A new economy for South Africa*, University of the Free State economics professor Philippe Burger argues that in many cases, these institutions became even more extractive: "legislation passed by the ANC government [has] strengthened the powers of traditional chiefs and continues to undermine the tenure rights of the population."

Black South Africans have thus seen a great divergence in their living standards in the last few decades: Those with access to good institutions, as Acemoglu, Johnson and Robinson predicted, have seen their living standards improve; those residing in regions with extractive institutions have remained poor.

The one difference between their study and ours is that SA has one mitigating factor that has reduced this divergence: open borders. South Africans can now choose where they want to live and many have voted with their feet: Migration to the cities is now the best way to escape poverty in SA.

But migration can only do so much. If we are serious about addressing poverty, the extractive institutions of the former homelands should be priority number one. This is recognised by the recent *Report on Presidential Advisory Panel on Land Reform and Agriculture.* They spell out, for example, concerns about the Ingonyama Trust Act of 1994, which vests ownership of 2.8m hectares of KwaZulu-Natal in the hands of a sole trustee, the Zulu king. The report recommends that the Ingonyama Trust Act be repealed: "This Act has perpetuated the existence of KwaZulu-Natal as a homeland within a unitary state 25 years into a new democratic order."

The key, though, is to replace these extractive institutions with inclusive ones. This seems to not be the plan, unfortunately: "Government should immediately assume responsibility and custodianship of the Trust land and administer it on behalf of its citizens." Although the idea is to grant secure tenure rights, tenure is not the same as ownership.

The lesson from history is that people with access to inclusive institutions – property rights, the rule of law, democracy, free participation in a market economy – are the ones most likely to prosper. It's time to give those rights to more than a third of South Africans 25 years after the rest of us have been able to benefit from it. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

When you invest in Africa, **you weave new possibilities.**

Standard Bank calls Africa home and drives her growth combining a strong African presence with global capabilities. As a trusted, strategic partner, our Corporate and Investment Banking team will connect you to Africa's opportunities. That's what makes us **your partner for growth.**

standardbank.com/CIBinsights

Corporate and Investment Banking

Standard Bank Moving Forward™

Also trading as Stanbic Bank

Authorised financial services and registered credit provider (NCRCP15).
The Standard Bank of South Africa Limited (Reg. No. 1962/000738/06). Moving Forward is a trademark of The Standard Bank of South Africa Limited. SBSA GMS-10816 08/19

in brief

>> **Trend:** Making money from sunshine *p.10*
>> **Mining:** South32 chooses Seriti, but it's not a done deal yet *p.12*
>> The catch to DRDGold's 'new chapter' *p.13*

"PARLIAMENT IS ON THE BRINK OF WRECKING ANY DEAL THAT WE MIGHT BE ABLE TO STRIKE."

– **Prime Minister of the UK, Boris Johnson,** sounding off at critics after losing a crucial vote in the British parliament. British lawmakers rose up against Johnson, moving to prevent him from taking the country out of the EU without a formal agreement, reported *The New York Times.* Johnson's proposal was defeated in the House of Commons by 328 to 301 votes. Members of parliament will now vote for a delay of the Brexit bill. According to BBC.com, if Johnson is forced to request an extension of the current Brexit deadline of 31 October, he will then be forced to call a general election.

Boris Johnson
Prime Minister of the UK

Photos: Gallo/Getty Images

"NOT INVESTING IN HEALTH IS THE VERY DEFINITION OF A FALSE ECONOMY."

Gro Harlem Brundtland
Former Prime Minister of Norway

– **First female Prime Minister of Norway and medical doctor, Gro Harlem Brundtland,** explaining why SA's National Health Insurance Bill (NHI) has the potential to turn the country into a leader on Universal Health Coverage (UHC) on the continent, in a speech made during an Elders delegation to the country. The Elders is an international NGO founded by Nelson Mandela, comprising elder statesmen, peace activists, and human rights advocates like Brundtland, Ban Ki-Moon and Graça Machel. The NGO said that inasmuch as the bill is perceived as unaffordable (especially viewed against the backdrop of significant economic challenges faced by SA), economic returns to investing in health will be greater than the outlay of public spending.

"Enough is enough."

– **The government of Nigeria** in a tweet following an outbreak of violent attacks on foreign African nationals in and around Johannesburg. The Nigerian government tweeted that "Nigeria will take definitive measures to ensure safety and protection of her citizens". More than 50 mainly foreign-owned shops and business premises, cars and properties were either torched or looted, reported Fin24. The attacks came ahead of the start of the African edition of the World Economic Forum in Cape Town.

SALES SURPRISE

80%

Against a tough economic backdrop, sales at Ellipse Waterfall, JSE-listed Attacq's first high-rise residential development within Waterfall City, have smashed market expectations. Over 80% of phase one, comprising two elliptical towers of 272 apartments, has already sold. Sales-to-date total R550m and there's a waiting list for the final two towers. While a penthouse is priced at R12m, the bulk of Ellipse's units are between R1.5m and R3m. The R1.25bn four-tower project, developed in partnership with residential specialist Tricolt, broke ground in August. Developed in three phases, phase one will be ready for occupation in mid-2021. Tower three occupation follows nine months later, with occupation of the final tower expected in Q1 of 2023.

LANDMARK FINE

$572m

US Judge Thad Balkman made a landmark ruling that pharmaceutical giant Johnson & Johnson (J&J) must pay $572m for contributing to an opioid-addiction crisis in the state of Oklahoma, reported *The Economist.* Balkman found J&J guilty of creating a "temporary public nuisance" by contributing to the opioid epidemic with its aggressive marketing of the painkillers, which have claimed the lives of some 6 000 Oklahomans since 2000. He ordered J&J to pay the $572m towards a plan to abate the crisis. It was the first time a drug maker had stood trial for its part in creating America's ongoing opioid-addiction crisis; others have so far elected to settle rather than face a courtroom. J&J is appealing the judgment.

DOUBLE TAKE BY RICO

THE GOOD

The South African economy expanded at a surprisingly strong annualised rate of 3.1% in Q2 of 2019, following a decrease of 3.1% in Q1 of 2019, according to StatsSA. The surge is between 600 and 700 basis points higher than the 2.5% expansion in economic growth expected by 13 economists polled by Bloomberg and 2.4% by those polled by Reuters. StatsSA attributed the expansion mainly to the mining and quarrying industry, which grew by 14.4%, contributing 1% to GDP growth, while the finance, real estate and business services industry increased by 4.1% and contributed 0.9% to GDP. Nominal GDP is now estimated at R1.26tr, up by R60bn from Q1 2019.

THE BAD

SA's largest short-term insurer, Santam, says claims arising from natural disasters and climate change have become hard to predict, making profits more volatile, reported *Business Day*. "The impact of climate change on domestic insurers has been observed as extreme weather patterns have increased the potential for liability claims, costing both insurers and clients more," according to the Reserve Bank's latest *Financial Stability Review.* The insurer said weather-related claims had pushed its payouts up 8% to R9.7bn in its results for the six months ended 30 June 2019, squeezing its underwriting margin just as it had started to recover from the large payouts related to the 2017 Knysna fires and other natural disasters, like the floods in Durban and Gauteng, which altogether came to about R2bn.

THE UGLY

Parliament's standing committee on public accounts (Scopa) recently conducted site visits to Eskom's Medupi and Kusile coal-fired power stations, which are both years behind schedule in development and tens of billions of rand over budget. Scopa found that the power stations "were doomed from the very start and were a breeding ground for corruption," reported *Business Day*. Medupi, which originally had a capital cost of R79bn, is now expected to cost R146bn, while Kusile's capital costs are expected to have grown from R81bn to R161bn, according to Eskom. Fin24 reported that energy expert Chris Yelland had slammed the figures as "outdated and incorrect", putting the combined costs to complete the two stations at closer to R450bn.

NEW CAR SALES DECLINE

-5.1%

New car sales in South Africa saw a 5.1% year-on-year decline for the month of August, to 45 537 units from 47 997 units in August 2018. Passenger car sales declined by 7.6%, down to 29 075 units from 31 456 for the same period last year. VW's Polo and Polo Vivo and Renault's Kwid were August's top-three selling passenger vehicles, while in the growing light commercial vehicle segment the Toyota Hilux, Nissan NP200 and Ford Ranger took the top three sales spots.

Photo: Shutterstock

By Glenneis Kriel

Monetising sunshine

The Sun Exchange is an online platform that allows anyone anywhere in the world to buy solar panels and then lease them to schools and businesses in emerging markets.

In 2014, after realising the futility of solar power investments in a country where the sun rarely shines, Abe Cambridge left his home country, England, to work as a solar financial adviser in Cape Town. Here he was struck by the absence of solar panels in the city.

"I could not understand why there was such a poor adoption of solar technology in a country where you had to wear sunglasses most of the time, electricity prices were increased by 10% to 14% each year and solar energy produced up to four times lower carbon emissions than coal," he says.

The reasons became more apparent as he became familiar with SA's energy environment: "In the absence of subsidies, government incentives and funding solutions, there wasn't much motivation for people to adopt this capital-intensive technology. Also, electricity is traditionally seen as a running cost, not an operation you wanted to diversify into."

He came up with a solution while sending money to England via cryptocurrency: Instead of businesses carrying the costs of solar power installations, outsiders could buy solar panels down to the level of a single solar cell, which could be micro-leased to businesses at a rate which reduces their energy costs.

The decentralised payment network of bitcoin could be used for transactions as it allows small payments with practically zero transaction costs.

"Cryptocurrency is a great vehicle to move money, as it involves lower costs and is much faster than working through banks. It only becomes risky due to volatility when you hold it for speculation," Cambridge says. "The peer-to-peer cryptocurrency technology was invented for applications like this. This is the perfect use."

Cambridge then launched the fintech company The Sun Exchange. At the time, he was working full time as an energy adviser and further developed the idea in his spare time, with assistance from the Microsoft Bizspark programme in Salt River. In November 2015, he raised $25 000 through crowdfunding, reaching 150% of his target in 25 days. This he used to build the prototype of www.thesunexchange.com. By March 2016, he launched The Sun Exchange's first pilot project – a 15kW solar energy system in Stellenbosch.

The innovation drew a lot of international attention, opening various avenues for investment funding, bringing the company's total value to over $5m today.

"I carefully selected investors to ensure we share the same values. The whole idea behind The Sun Exchange is to connect the world with the sun and to enable sustainable development. We, for example, won't get involved in solar projects associated with factory farming or petroleum production," he explains.

The solution is appealing on multiple levels, says Cambridge; it yields a 10% to 14% internal rate of return, and represents a way to invest in environmentally friendly solutions with social and economic impacts.

Abe Cambridge
Founder of
The Sun Exchange

Photo: Glenneis Kriel

"The whole idea behind The Sun Exchange is to connect the world with the sun and to enable sustainable development."

Schools represent the majority of the ten solar projects The Sun Exchange has enabled so far.

For the energy consumer it eliminates the need to buy a whole solar power system, choose a service provider, or to oversee installation and maintenance. "There also isn't the risk that you might move before reaping the full benefit of the installation," he says.

The minimum unit cost per energy cell is R50. Participants buy cells for projects by credit card, bank transfer or with bitcoin and receive their monthly payments in either rand or bitcoin.

"About 90% of our platform users don't cash out their bitcoin but use the returns to expand their portfolio by buying more cells for other projects," he says.

The solar energy consumers are charged on their kWh usage at a discount to the grid, which amounts to about 15% to 50% of the Eskom rate, depending on size and location. The first users found The Sun Exchange with the launch of the crowdfunding process, with word of mouth doing the rest. The company now has nearly 8 000 registered platform users on its database from 139 countries.

The future

Cambridge initially handled all the administration and payments via spreadsheets in Excel, but over time recruited staff to develop an operating platform. "Developing a scalable user-friendly operating system was one of my biggest challenges because of the novelty of the concept. It took almost three years to get the platform to where it is today. On our platform users can see in real-time how projects are performing and, once registered, they can buy into new projects with a mere click of a button," he says.

Staff recruitment was another challenge.

"I was so flooded with work while developing the business on my own that it was hard to identify the talent needed to grow the business, never mind finding the right fit."

Today the company employs 14 people.

Cambridge is focusing on expanding the footprint of the company into the rest of Africa. To achieve this, he is raising funds by listing The Sun Exchange on Uprise.Africa, allowing people to buy shares in the company.

A recent partnership with the UN Framework Convention on Climate Change will also result in platform users not only making money from leasing they solar cells, but also from selling their carbon offsets. ■

editorial@finweek.co.za

INVESTING IN YOUR LEGACY?

There's no better return on investment than a lasting legacy, because whenever you pay it forward, African Bank will return it...

with 13.33%*, SA's best investment rate.

60 Month Fixed Deposit

Invest today at www.**africanbank**.co.za

Terms and conditions apply. Full terms and conditions are available on www.africanbank.co.za. *Nominal Annual Compounding Annually (NACA) Interest Rate. **Simple interest on expiry. The interest rate is valid as at 16 April 2019 and is subject to change. Rates were correct at time of print. Actual payout could differ due to the number of days in a month and interest rate at the start day of the investment. African Bank Limited is an authorised financial services and registered credit provider. NCR Reg No: NCRCP7638. Reg No: 2014/176899/06.

INVESTMENTS / MyWORLD / LOANS / INSURANCE

African Bank

We are **you**

By David McKay

Seriti's bid for South32's coal not yet set in stone

Although Seriti Resources has emerged as the preferred bidder for South32's coal assets, it's not quite a done deal. There's the question of agreeing on an upfront fee and winning Eskom's support.

After more than 18 months of bidding, Seriti Resources has emerged as South32's chosen one: The company that has the right to buy control of its 28m tonnes (Mt) a month in SA coal production, of which half is sold to Eskom.

More than 50 companies bid for the assets, collectively known as South African Energy Coal (SAEC).

In the end, it boiled down to two: Sibambene Coal, backed by Swiss commodities trader Mercuria; and Seriti, a black-owned consortium headed by the former Minerals Council of South Africa president Mike Teke via his Masimong Group; Thebe Investment Group is also a shareholder, among others.

Teke is cautious about the process. Seriti has been chosen as the preferred bidder; it is not yet the de facto owner, he says. So in the next 12 months, his company has to conclude and finance the purchase of the asset, which involves not only paying an upfront fee – still to be agreed with South32 – but also winning the support of Eskom.

Eskom has a seat at the table because it is the counter-party of coal sales agreements over domestic coal SAEC produces. A change in SAEC's ownership requires Eskom's signature.

The transaction also needs the support of the department of minerals and energy and the Competition Commission, both of which should be forthcoming if Eskom agrees, making the state-owned power company the kingmaker.

Teke's conservatism aside, there's little to suggest Seriti will stumble from here. That's because in selecting Seriti, South32 has massively de-risked Eskom's coal procurement.

But what does this mean?

In 2017 and 2018, Seriti bought (for just over R3bn) the Eskom-dedicated coal mines of Anglo American – worth about 21Mt per year in production – and the New Largo coal project, earmarked to supply Eskom's Kusile power station.

New Largo's development is crucial. As a result, the interests of Seriti and Eskom are already closely aligned, even before Seriti's purchase of SAEC.

Mike Teke
Chairman of the Masimong Group

Including supply of coal to Eskom by another company, Exxaro Resources, roughly 72% of Eskom's

120Mt

per year coal burn will be in the hands of two companies.

Mike Fraser
Chief operating officer of South32's African division

With so much in common, Seriti is also perfectly positioned to negotiate the best possible deal with Eskom on existing SAEC contracts, especially a coal supply agreement from SAEC's Wolvekrans Middelburg Complex (WMC) to Eskom's Duvha power station.

This contract is loss-making; grievously so, reading between the lines. Renegotiating this contract with Eskom is a far easier task for Seriti than it might be for another company, because of the existing business ties between Eskom and Seriti.

Another, broader, consideration is the impact Seriti's ownership will have on the footprint of Eskom's coal procurement.

Including supply of coal to Eskom by another company, Exxaro Resources, roughly 72% of Eskom's total 120Mt per year coal burn will be in the hands of two companies. This may seem like the complete opposite of what's intended by broad-based economic empowerment, but in these economically straitened times, it's exactly what Eskom (and the country) needs.

Mike Fraser, chief operating officer of South32's African division, believes it's important that Eskom's coal supply is more concentrated. The 17% increase in primary energy costs of the state-owned firm's 2018/19 financial year was partly down to its previous policy of sourcing coal from as many different suppliers as it could manage.

This was done in the interests of broad-based empowerment, but it's meant that more coal is being supplied via haulage truck, which is more expensive.

"Eskom needs to get coal off the road and on to the conveyor," he says, referring to the fixed-cost coal mine model Eskom used in the past where coal mines were built next door to power stations which all but removed transport costs.

"This would certainly change the trajectory of Eskom's coal costs," said Fraser.

Eskom said at its year-end presentation that double-digit coal costs were likely for the current financial year. ■

editorial@finweek.co.za

Photo: Gallo/Getty Images | Shutterstock

18+

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

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

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

By David McKay

The golden thread between DRDGold and Sibanye-Stillwater

At DRDGold's recent results presentation, CEO Niël Pretorius explained that the miner's purchase of Sibanye-Stillwater's assets puts it in a position to 'start dominating' its space. However, there is a slight catch...

The improvement in the rand value of gold has given wings to all South African gold shares, including Sibanye-Stillwater. The company's share price is up 132% on a 12-month basis. This despite it also producing platinum group metals (PGMs), which have more to do with industrial demand than issues driving gold – such as global trade tensions and safe-haven investment.

Take DRDGold, for instance, which has matched Sibanye-Stillwater's share price performance exactly, up 132% at the time of writing.

So when the firm's chief financial officer, Riaan Davel, spoke at DRDGold's annual results presentation at the beginning of September (for the year ended 30 June) of having built a platform for a new 'Roodepoort Rocket', it was easy to see the cause of his enthusiasm, especially as the gold price hike has been more pronounced after June.

DRDGold has matched Sibanye-Stillwater's share price performance exactly, up **132%** at the time of writing.

A reference to the Roodepoort Rocket summons the marketing verve of the recently passed Mark Wellesley-Wood, the former CEO of DRDGold's forerunner, Durban Roodepoort Deep. During the early noughties, Wellesley-Wood popularised the notion that Durban Roodepoort Deep was the 'go-to' stock when the gold price appreciated.

And there was a class of investor, drawn from the US retail market, that loved the sound of Wellesley-Wood's patter.

Underbought because of its high operational risk, Durban Roodepoort Deep's mines printed money in a gold bull run. Does, therefore, Davel think this phenomenon is back?

Yes, and no.

The results were conspicuous for the maiden contribution of Far West Gold Recoveries (FWGR), surface gold assets (dumps or slimes) that DRDGold bought from Sibanye-Stillwater in 2018. The FWGR assets are there to replace the volatile gold leverage aspect of the firm's former appeal and provide a more predictable pathway to earnings growth. In this way, shares in DRDGold might not lurch on small volumes, as it sometimes does.

Ironically, however, DRDGold can't entirely break from gold price leverage.

This is demonstrated in its 2019 financial year-end numbers. A R261m cash outflow in the first half was replaced by a R248m inflow in the second as a runaway gold price took hold.

"Welcome to the first chapter," said DRDGold CEO Niël Pretorius at the firm's presentation. "After 130 years, this is a new chapter," he said of the Roodepoort Rocket's historic place in SA's gold industry.

He added DRDGold was ideally placed to "start dominating" in its space, saying that the purchase of the Sibanye-Stillwater assets would allow it to achieve this.

But here's the catch. DRDGold bought these dumps using 38% of its shares as well as giving Sibanye-Stillwater a two-year option to take its stake to 51%.

"There's about 12 months left for us to exercise the option," confirms James Wellsted, head of investor relations for Sibanye-Stillwater.

Asked if the company would consider doing that, he said: "We already consolidated DRDGold's numbers into our accounts, so we've already made that assumption."

He added that "it's a question of how we do it".

One option is to buy the surface gold deposits of Mine Waste Solutions (MWS). This is one of the assets AngloGold Ashanti has put up for sale along with Mponeng, a large mine on the West Rand. Mponeng neighbours Sibanye-Stillwater's Driefontein and speculation is that Neal Froneman, CEO of Sibanye-Stillwater, is best-placed to buy it.

It might be, however, that buying MWS using DRDGold as the vehicle represents better business for Froneman. Wellsted makes the point that MWS resembles something of the missing piece in the surface gold mining puzzle.

"The West Rand Tailings project we planned years ago was to consolidate the tailings surface services of the region, including AngloGold's," he said. "It makes perfect sense to put it into one vehicle."

This would have significant ramifications for DRDGold minority shareholders, as they would become. The 'first chapter' of which Pretorius recently spoke might be an accidental reference not to a new page for DRDGold, but a new book, only authored by Sibanye-Stillwater. ■

editorial@finweek.co.za

Niël Pretorius
CEO of DRDGold

AngloGold Ashanti's Mponeng gold mine

Photos: Gallo/Getty Images

market place

>> **Killer Trade:** Assore, Imperial Holdings *p.16*
>> **House View:** Bidvest, Exxaro Resources *p.18*
>> **Invest DIY:** Sometimes, cash really is king *p.19*
>> **Technical Study:** Gold and platinum on the run *p.20*
>> **Investment:** The basics of how to save more *p.32*
>> **Invest DIY:** How to make money when you can't see a trend *p.33*
>> **Simon Says:** ADvTECH, Grindrod, Massmart, Murray & Roberts, Naspers, Italtile, Shoprite, Woolworths *p.34*

FUND IN FOCUS: CENTAUR BCI FLEXIBLE FUND **By Timothy Rangongo**

Consistent returns from diversification

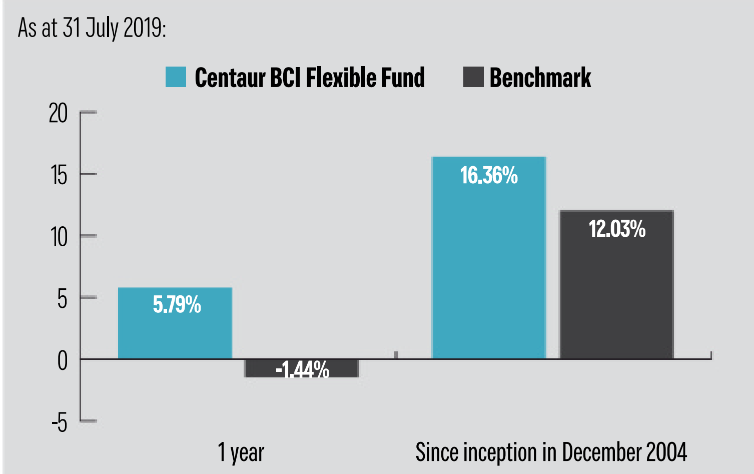
The Centaur BCI Flexible Fund invests in a mix of shares, bonds, property, cash and international investments. It utilises asset allocation and stock picking to try and outperform its benchmark with lower risk.

FUND INFORMATION:	
Benchmark:	FTSE/JSE Capped Shareholder Weighted Index (60%), MSCI World Index (20%), STeFI Index (20%). Calculated over a two-year rolling period.
Fund manager:	Roger Williams
Fund classification:	SA – Multi Asset – Flexible
Total investment charge:	1.71% (as at 30 June 2019)
Fund size:	R3.17bn
Minimum lump sum/ subsequent investment:	None/none
Contact details:	021 685 2408/admin@centaur.co.za

TOP 10 HOLDINGS AS AT 31 JULY 2019:		
1	Woolworths	5.3%
2	Coronation Strategic Income	5.2%
3	Sibanye	4.4%
4	MMI Holdings	4.1%
5	EXOR	4%
6	Sberbank of Russia	3.5%
7	British American Tobacco	3.5%
8	HP Inc	3.1%
9	Naspers*	3%
10	African Rainbow Minerals	2.9%
	TOTAL	**39%**

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

PERFORMANCE (ANNUALISED AFTER FEES)



Fund manager insights:

Multi-asset funds like Centaur's BCI Flexible Fund allow for the use of asset allocation techniques to take advantage of market volatility, approaching each investment on its risk-reward offering.

"We place particular emphasis on investing in companies that have strong competitive advantages, generate high-quality earnings, and are run by efficient capital allocators, on an attractive valuation," says fund manager and chief investment officer at Centaur Asset Management, Roger Williams.

With most, if not all, asset classes under strain, investing in the right one at the right time is proving to be challenging for investors. Centaur has managed to make the most out of having no restrictions on investments across asset classes, allocating, for example, 49% of investment capital towards domestic equity, 5% in domestic bonds and 23% towards offshore (as at 31 July).

The fund's 4.1% holding in EXOR, the controlling shareholder in Ferrari, is one such strategic allocation made at the right time.

"EXOR is one of the best-performing European investment trusts over the last decade run by an exceptional capital allocator in John Elkann," asserts Williams.

"Imagine identifying Berkshire Hathaway in 1978 and buying it at a 35% discount to the sum of the parts. This is what we think we have got in EXOR. We have held it for over three years and it has doubled over the period."

Centaur realised an annualised return of 5.3% over this three-year period, 1.2% above the benchmark.

Locally, the fund did away with its entire holding in Old Mutual to facilitate an investment in MMI Holdings, SA's third-largest insurer. "Our investment is premised on a 40% discount to enterprise value and a turnaround under the leadership of Hillie Meyer," explains Williams. MMI now makes up the fund's fourth-largest holding at 4.1%.

Why *finweek* would consider adding it:

SA is facing the worst profit environment that Williams says he's "ever seen," and this requires particularly strict discipline to be maintained when assessing investments. The fund has demonstrated such discipline in its performance, beating it's benchmark by 7.2 percentage points over one year.

The Centaur BCI Flexible Fund is ideal for an investor who wants equity returns but cannot stomach the extreme downturns of a bear market. The fund has historically delivered superior returns to the All Share Index but with much lower volatility. The fund has bagged the Best Flexible Allocation Fund Morningstar Award in 2018 and 2017, and was presented with a Raging Bull Award for Best South African Multi-Asset Flexible Fund (risk adjusted) for the five years to December 2017. ■

editorial@finweek.co.za

DON'T FALL FOUL OF THE LAW!

The Occupational Health and Safety Act aims to provide for the health and safety of persons at work and for the health and safety of persons in connection with the activities of persons at work and to establish an advisory council for occupational health and safety.

The Occupational Health and Safety Act applies to all employers and workers, but not to:

- Mines, mining areas or mining works (as defined in the Minerals Act);
- Load line ships, fishing boats, sealing boats, whaling boats (as defined in the Merchant Shipping Act) and floating cranes – whether in or out of water – and people in or on these areas or vessels.

By law companies are expected to adhere to South African standards and regulations. The framework for these standards is set in the Occupational Health and Safety Act of 1993. Having an effective and accurate Occupational Health and Safety System in place allows you to be on top of safety within your working environment and have control of your contractors.

New Media publishes full versions of the *Occupational Health & Safety Act and Regulations* to enable South African businesses to comply with the law.

IF YOU EMPLOY FIVE OR MORE PERSONS AT YOUR WORKPLACE, ENSURE THAT YOU HAVE A COPY OF THIS BOOK AVAILABLE AT ALL TIMES!

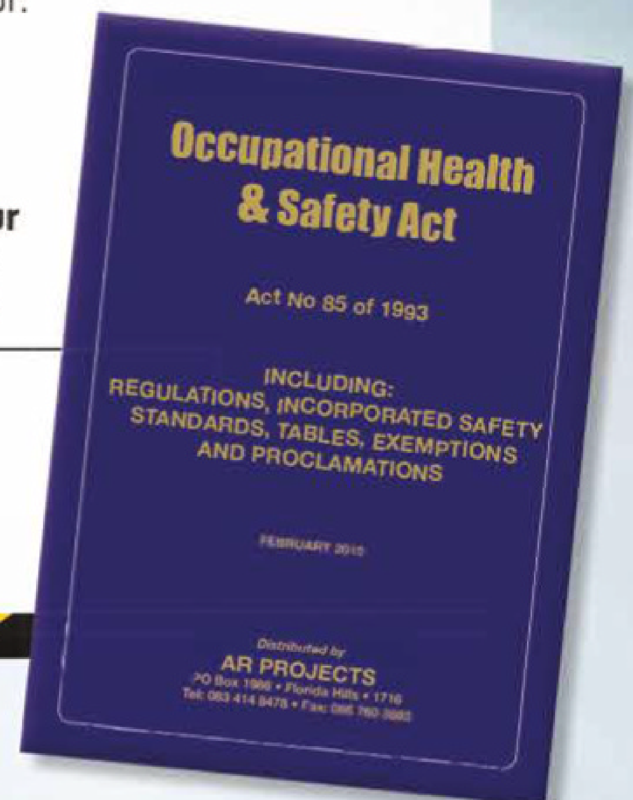
If you want to easily comply with all health and safety laws, prevent accidents before they happen, get your employees to always wear their PPE and avoid unnecessary expensive consultant fees, then you should be using New Media's Occupational Health & Safety Act and Regulations to assist you.

Don't waste any more time – place your order today at R199.95 per copy inclusive of VAT and delivery!

Or you could order more than one copy at the discounted rates of:

5 + copies = R849.75 inclusive of VAT and delivery
10 + copies = R1 599.50 inclusive of VAT and delivery

If you order 10 or more copies we can personalise them with **your company details on the outside front cover at no extra cost!** This is a perfect corporate gift for your clients or alternatively an exceptionally useful publication for your HR department.



To place your order today or for more information, contact Natalie Da Silva on 011 877 6281 or Natalie.dasilva@newmedia.co.za.

By Moxima Gama

ASSORE

Losing investor interest

Mining holding company Assore's share price peaked in 2014 when it tested an all-time high at 46 245c/share, but lost ground when global metal prices dropped. Trading at prior all-time lows, Assore began to look attractive, and because the world had produced 8.6% less manganese in 2016 than in 2015, the commodity price spiked between July and December of 2016.

Solid results for the year to end-June 2018 saw Assore further recovering most of its losses to 43 000c/share.

Outlook: Improved trading and "generally stronger pricing for its product" continues to boost the company's profits, and the company said in a trading statement that it expected headline earnings for the year to 30 June 2019 to have increased by between 20% and 28%. Results were due on 5 September, after this issue of *finweek* went to print.

52-week range:	R272.37 - R404.92
Price/earnings ratio:	5.52
1-year total return:	10.99%
Market capitalisation:	R41.88bn
Earnings per share:	R54.36
Dividend yield:	7.33%
Average volume over 30 days:	38 516

SOURCE: IRESS

On the charts: Assore's share price recently breached the support trendline of its three-year bull trend. It has formed two lower tops since recovering in 2016 (refer to the blue arrows) – with the first falling top peaking at 43 000c/share and the second at 40 495c/share.

Go short: Assore is currently a few points from key support at 25 245c/share, and below that level a negative breakout (sell signal) would be confirmed – potentially triggering further downside to 18 500c/share.

Go long: Firm support retained at 25 245c/share would be a positive sign. However, Assore would have to trade towards 40 495c/share to resume its bull trend and negate the sequence of falling tops. A new bull phase would only commence above 46 245c/share. ■

SOURCE: MetaStock Pro (Reuters)

IMPERIAL HOLDINGS

A recovery or false alert?

Ranked among the top 30 global logistics providers, Imperial is also a vehicle importer. As a result, it is greatly impacted by rand volatility against major currencies when it comes to the pricing of new vehicles and therefore competitiveness, including profitability of its vehicle import business.

Outlook: At the end of August, the group reported an increase of 6%, to R49.7bn, in revenue for the year to 30 June, weighed down by once-off trading costs and expenses associated with business rationalisation and restrictions in South Africa and abroad. Operating profit of continuing operations was down 9% to R5.2bn.

On the charts: Imperial is trading in its primary bull trend; therefore, current downside could be a mere correction. Having bounced on its major support trendline again (black bold trendline dated back to 2009), Imperial has recovered through the resistance trendline (blue dashed trendline) of its steeper downtrend formed within the correction.

52-week range:	R41.82 - R78.62
Price/earnings ratio:	12.15
1-year total return:	-25.91%
Market capitalisation:	R10.17bn
Earnings per share:	R4.16
Dividend yield:	4.48%
Average volume over 30 days:	1 590 400

SOURCE: IRESS

Go long: A positive breakout of the steeper downtrend, reinforced by the three-week relative-strength index (3W RSI) escaping its own bear trend (a bullish move), was confirmed above 5 100c/share. Imperial could recover further to the major resistance trendline (blue bold trendline) of its corrective trend. Trading through that trendline, and confirming a positive breakout above 6 195c/share (a buy signal), would mark the end of the correction – and the primary bull trend would be resumed towards 7 560c/share.

Go short: A reversal below the resistance trendline or below 6 195c/share would extend the correction trend. Imperial would end its primary bull trend by trading through the bold black trendline or below 4 180c/share. A negative breakout would be confirmed below 3 155c/share, and such a move could trigger a sell-off to 2 175c/share. ■

SOURCE: MetaStock Pro (Reuters)

editorial@finweek.co.za

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

THE FUTURE IS HERE

It's been said that the best way to predict the future is to create it. The CTICC offers the ideal platform to do just that. Every aspect of the centre's offering has been considered – from the more than 140 000m² of flexible space across two state-of-the-art buildings to world-class technology, delicious cuisine, and service-driven staff. Turn your knowledge and vision into potential with events that shape your future at the CTICC.

CTICC

Call +27 21 410 5000, email sales@cticc.co.za or visit www.cticc.co.za and connect to possibilities.

we are a green conscious convention centre

Experience Extraordinary

Cape Town International Convention Centre

EXXARO RESOURCES

BUY SELL HOLD

By Simon Brown

A quality coal producer

Exxaro Resources' results for the six months to 30 June saw revenue down 2%, while headline earnings per share (HEPS) was up 42%. The dividend of 864c was an increase of 334c – and we're not even talking the special dividend. But what really strikes me about this stock is that it is sitting on a historic price-to-earnings ratio (P/E) of around four times. In other words, the market is pretty much saying that the company will only be around for four years. This is not even close to being right.

Sure, coal is on the back foot as an energy source, and bad news from Eskom continues to stream into our lives. But coal is not going away any time soon. Furthermore, Exxaro is a quality coal producer with long life-of-mine assets.

The issue here is: What will trigger buyers to start arriving in large enough quantities to start a higher rerating for this share? I think it will be some good news from Eskom, most likely in the form of some sort of resolution on the massive debt burden.

When we're feeling safer about Eskom, Exxaro will likely benefit. ■

Exxaro Resources' results for the six months to 30 June saw revenue down 2%, while headline earnings per share was up

42%.

Last trade ideas

- BUY — Metair, *29 August issue*
- WAIT — ETFPLT, *15 August issue*
- SELL — Kumba Iron Ore, *25 July issue*
- BUY — Capital Appreciation, *4 July issue*

BIDVEST

BUY SELL HOLD

By Moxima Gama

Finding key support

At the beginning of September, Bidvest's share price soared by a wholesome 4% after announcing a 3.5% rise to R6.7bn in its trading profit for the year to end-June. It said the rise in trading profit was mainly due to higher bulk and liquid commodity volumes through South African ports.

"Bidvest delivered a credible result in a market characterised by weak economic growth as well as significant business and fiscal uncertainty and volatility," the group said in its results. "Exceptional cost and capital discipline as well as improved margins were highlights against the volatile trading backdrop."

Headline earnings per share (HEPS) was up by 9.8%. Bidvest also declared a final gross dividend of 318c/share, bringing the total dividend for the year to 600c/share (a 7.9% increase from the prior comparative period).

The group said it would continue to "strategically invest to generate sustainable profits for the long term, while remaining cognisant of suitable timing for embarking on large-scale investments".

How to trade it:
Bidvest has been trading in a volatile triangle (within its primary bull trend) over the past 18 months and eventually breached the lower slope of the pattern during August.

It has since retained firm support at 17 200c/share and it has now surged on the back of its promising results. However, in order to recover back into the triangle, Bidvest would have to trade above 18 700c/share. To end this triangular consolidation, Bidvest would have to trade through 21 760c/share. Thereafter, it could return to its all-time high at 25 550c/share.

Alternatively, refrain from going long if Bidvest should reverse below 18 700c/share and trade through 17 200c/share. Support at 14 650c/share may well be retested. ■

editorial@finweek.co.za

Last trade ideas

- STAY SHORT — Sasol, *29 August issue*
- BUY — Blue Label Telecoms, *15 August issue*
- STAY LONG — EOH Holdings, *25 July issue*
- STAY SHORT — Life Healthcare, *4 July issue*

Photos: Archive

By Simon Brown

FINANCIAL MANAGEMENT

When to cash in on cash

Storing a cash pile under your bed isn't a good idea, but having cash available for uncertain times or expensive occurrences is essential. After all, markets *do* crash and unexpected life events *can* happen.

An old saying that I certainly have used in many different articles I've written over the years, is that cash is king.

But one scenario where it truly is king, is when we look at the correlation between cash and other assets.

I track a number of local and offshore indices and currencies and one of the things that I track is the cash rate. Cash steadily (and boringly) moves higher every day while all the others bounce around like crazy.

Correlation is a mostly ignored but important concept in investing. It's not that we want correlated assets. In fact, we largely want uncorrelated assets.

Correlation is a relationship between two different things. As an example, we can look at the relationship between the price movement of different assets or stocks. The formula for correlation results in an answer of between -1 and +1. Zero, right in the middle, means that there is no relationship between the price moves (they move totally independently of each other). A result of +1 means they move pretty much in lockstep and -1 would mean they move inversely to one another.

In a diverse portfolio you want lots of stocks that have low levels of correlation so that when some are doing poorly others can be doing well.

Of course, stocks are themselves fairly highly correlated. Think of a market crash. During a market crash, everything goes down. But this is why a diverse portfolio will include some financial stocks, miners, retailers, offshore, local and so on. The different sectors all have different drivers, so will respond differently to different data.

Then we can add other assets to further diversify a portfolio with, say, bonds and property, which typically have a lower or even negative correlation with stocks.

But this lack of correlation breaks down when markets crash and everything tends to move weaker as investors sell whatever they can to avoid losses and to generate cash.

So, then, we're back to cash.

Cash is the most uncorrelated asset against the others. It moves to its own beat, steadily increasing every day regardless of what happens around it. Cash does not go down. Your one rand can't be less than one rand due to a crash. The only thing that can reduce, is the spending power of that rand due to inflation.

At worst, cash earns nothing if kept under your bed. But if put into an interest-bearing account, it earns interest and increases in value. That said, the increase in value, thanks to the interest earned, may not exceed the decrease in purchasing power if the interest rate is below the inflation rate. If that happens, then your spending power is going backwards.

But, certainly, cash holds its value when markets crash. And that's why you'll often hear the phrase of "moving into cash", because people are concerned about a market crash – or even just a correction. If timed right, moving into cash just ahead of a crash will protect the value of what you own. But getting the timing right is an almost impossible game.

This is why short-term financial requirements such as a large deposit, purchase, wedding budget or an emergency fund need to be in cash. That is: 100% in cash.

Cash is also needed in retirement. The theory is that you can draw down on your equity portfolio. But what if the market crashes just as you need to draw down some money? Then suddenly all carefully made plans go out the window. A retiree should, ideally, rather have a couple of years of living expenses in cash to protect them against adverse market conditions.

Even youngsters should have some cash handy for the unexpected so that, if something goes wrong, you don't have to sell assets, but can dip into the cash pile – a cash pile that carries the singular risk that you may spend it. ■

editorial@finweek.co.za

If timed right, moving into cash just ahead of a crash will protect the value of what you own. But getting the timing right is an almost impossible game.

Photo: Shutterstock

By Lucas de Lange

JSE

Gold and platinum flourishing

...but the vast majority of stocks are in a painful bear market.

Gold shares are once again fashionable on the JSE with Harmony, whose risky marginal mines are highly sensitive to changes in the gold price, being head and shoulders above the rest of the market on the list of the strongest shares. It is also understandable that analysts will have positive predictions on where the yellow metal is heading, which usually happens when gold is running.

Uncertainty will again play its usual major role as gold (as has been the case for many centuries) is regarded as a safe haven, and there is currently a healthy, fundamental demand for the yellow metal. For example, the London-based Metals Focus is predicting that the demand in India will this year increase by 7%, while it will improve by about 3% in China. Combined, these two countries represent the biggest market for gold jewellery. There are also indications that the Chinese government will continue to build its gold reserves after they reached a record level of 1 864.3 tonnes earlier this year.

The local gold companies are also benefitting from the weakening of the rand. AngloGold Ashanti, in particular, is making good money from the gold bull market as the hedging component of its production is relatively small. So it can sell the majority of its gold at current prices.

The big question, of course, is how sustainable the current strength of the gold price is. Authoritative market analysts such as Morgan Stanley are saying that the current bull market could reach a price of $1 900 to $2 000 an ounce (at the time of writing it was $1 525).

However, veterans in the gold mining industry, such as Nick Holland, CEO of Gold Fields, are circumspect when it comes to predicting the gold price. He has apparently experienced once too often how wrong predictions about the price can be. It has often happened in the past that when the gold price appears to be at its most promising, it suddenly swings around and bites you. It is also interesting that Gold Fields, in contrast to AngloGold Ashanti, is trying to play it safe by hedging a considerable portion of its production.

That this could have an effect on market players' views is apparent from the fact that Gold Fields' share price increased by about 80% during the past three months, while AngloGold Ashanti pleased its shareholders with 113%.

Since the establishment of the JSE in 1887, more fortunes have been made and lost with gold shares than in any other sector.

As shown in the table of the strongest shares, the platinum groups are still performing very well. Implats is still in the lead, followed by Northam, which has increased rapidly. Some leading analysts believe that Northam's moment has arrived. Within a week, it has shot up by about 33% to levels comparable to its historic high of around R80, reached in March 2008.

As for the rest of the market, the picture remains bleak. Pioneer Foods is the strongest of the industrial shares, but this is due to PepsiCo's takeover bid at a substantial premium to its recent market price. The market is being peppered by negative reports on iconic shares such as Sasol, Discovery and Shoprite, which appear in virtually every important portfolio of pension funds and other major investors. These shares have dropped considerably. Sasol is sitting at 25% below its 200-day exponential moving average (EMA), while Discovery is 19% down and Shoprite 32% weaker.

Just how negative the investment climate is – excluding the few precious metal companies – became apparent during a presentation by Charles de Kock, a senior analyst at Coronation.

One of his premises is that SA's downgrading by Moody's is inevitable and that the market has already started discounting that, among others, through long-term interest rates.

Among the shares whose prices have broken through their 200-day EMAs, there isn't a single one that can be regarded as interesting. This is apparently a reflection of the poor market conditions. ■

editorial@finweek.co.za

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

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
INTU PROPERTIES PLC	-58.46
MASSMART	-41.27
BRAIT	-36.21
ASPEN	-35.04
SHOPRITE	-32.45
MERAFE	-31
HAMMERSON	-28.04
SAPPI	-28.03
TRUWORTHS	-26.13
SUN INTERNATIONAL	-25.89
SASOL	-25.49
MAS REAL ESTATE	-24.62
PPC	-23.57
RCL	-23.06
MPACT	-23.02
NETCARE	-22.27
KAP	-21.31
NAMPAK	-19.34
DISCOVERY	-18.88
LIBSTAR	-18.24
SOUTH32	-17.9
OLD MUTUAL	-17.72
TIGER BRANDS	-17.02
WBHO	-16.68
REDEFINE	-16.21
MR PRICE	-15.26
PSG	-14.93
SUPERGROUP	-14.63
GLENCORE	-14.5
HYPROP	-14.42
PICK N PAY	-14.25
DIS-CHEM	-13.08
RMI HOLDINGS	-11.98
EXXARO	-11.87
TFG	-11.8
NEDBANK	-10.88
BARLOWORLD	-10.87
JSE	-10.66
AVI	-10.63
ASSORE	-10.08
ASTRAL	-9.85
CORONATION	-9.68
REMGRO	-9.6
INVESTEC PLC	-9.47
EMIRA	-8.75
BIDVEST	-8.69
SPAR	-8.68
RMB HOLDINGS	-8.44
PEPKOR HOLDINGS	-8.2
CAPITEC	-7.83
MONDI PLC	-7.1
QUILTER	-6.82
LIFE HEALTHCARE	-6.7
RHODES	-6.67

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
FIRSTRAND	-6.57
MMI HOLDINGS	-6.27
ABSA GROUP	-6.04
ANGLO AMERICAN	-5.96
SANTAM	-5.83
RAUBEX	-5.83
VUKILE	-5.31
GROWTHPOINT	-5.28
STANDARD BANK	-4.96
OCEANA	-4.66
VODACOM	-4.3
SANLAM	-4.2
BAT	-3.81
KUMBA IRON ORE	-2.12
VIVO	-1.45
MEDICLINIC	-1

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
HARMONY	76.68
ANGLOGOLD ASHANTI	59.58
IMPLATS	48.39
GOLD FIELDS	41.49
PAN AFRICAN RES	40.37
NORTHAM	40.24
SIBANYE-STILLWATER	39.04
AMPLATS	31
PIONEER FOODS	19.13
ROYAL BAFOKENG PLAT	18
AB INBEV	13.84
TRANSACTION CAPITAL	13.04
SIRIUS	11.76
BIDCORP	9.66
WOOLWORTHS	8.73
THARISA	6.88
RICHEMONT	6.47
NEPI ROCKCASTLE	6.33
REINET	6.14
NASPERS N	4.49
EQUITES	4.45
ARM	4.09
TELKOM	2.91
CLICKS	2.58
RESILIENT	2.19
MTN	2.16
LIBERTY HOLDINGS	2.11
BHP	0.62

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
RESILIENT	2.19
MTN	2.16
LIBERTY HOLDINGS	2.11
BHP	0.62

*Based on the 100 largest market caps.

Photo: mediclinic.com

finweek FUND FOCUS

YOUR QUARTERLY REVIEW OF SA FUNDS

SEPTEMBER 2019

FINDING CONSTRUCTIVE WAYS TO INVEST IN DIFFICULT TIMES

By Leon Kok

OVERVIEW

Constructive approaches to investing in dizzy times

Investors are anxious. International markets are unpredictable. Here at home, we have our own economic woes to contend with. However, there is a case to be made for looking to the brighter side.

A very recent leader in *The Economist* poignantly pointed to the mood of the current state of international markets, reflecting a host of emotions, biases and cold-eyed calculations.

The dominant mood today, it said, as has been much of the past decade, is not complacency, but anxiety. And it's deepening by the day. The safe-haven dollar is up against many other currencies; gold is at a six-year high; copper is down to a three-year low; in Switzerland negative yields extend all the way to 50-year bonds; and in the US the yield curve has inverted.

Much of this seemingly points to a global recession, the publication said. Angst is evident everywhere. And in SA, of course, we have our self-imposed economic crisis.

But there is a compelling case to look to the brighter and more constructive side too. In this edition, head of manager research at PSG Wealth, Henko Roos, rails against being panicky, irrational, and reckless. Plenty of research, he says, shows that the biggest destroyer of investment value is investor behaviour, and not market movements.

"Underperformance viewed in isolation should never be the sole basis for a disinvestment decision. Understanding the drivers of performance is significantly more important, as this empowers a portfolio manager to make strategic choices with confidence."

Roos makes a profound call for investor patience, pointing also to the components and processes that his investment house deploys in maximising its long-term performance.

This view is largely shared by Pieter Hugo, managing director of Prudential Unit Trusts, who says in retirement, for instance, volatility shouldn't be your major dilemma. Rather, one should concentrate on the risk of *running out of money.* And staying exposed to appropriate levels of equity and listed property can make a world of difference.

Raging Bull portfolio winner, Errol Shear, a veteran in successfully managing absolute return portfolios, submits that times of uncertainty are invariably an excellent time to launch a first-rate portfolio.

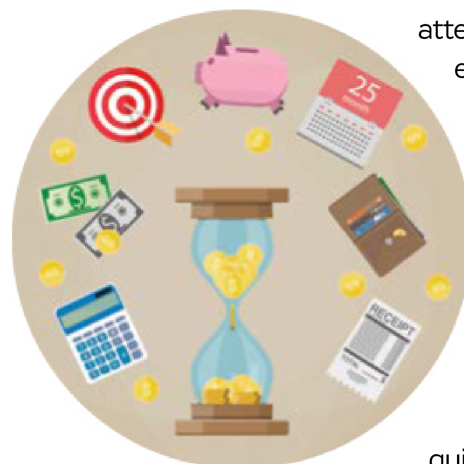


Photo: Shutterstock

As always, markets eventually turn, and in SA there is huge potential, he says. "We are coming off a low base; the demographic and potential for increased consumer demand lend themselves to considerable economic growth; and SA has always delivered good returns over the long term."

Investec Asset Management's Jeremy Gardiner presents insightful views on what to expect internationally, both negative and positive. Significantly, while acknowledging that Donald Trump's irrationality and impulsivity drive markets crazy, he doesn't discount the US President attempting to artificially stimulate the US economy (and therefore the global economy) in his quest to be re-elected. This, Gardiner believes, would be very positive for emerging markets, including SA.

The maximisation of offshore exposure is indeed a critical component in the agendas of most high-net-worth South African individual investors, and Coronation investment specialist Christo Lineveldt points to several admirable guidelines to ensure that you get it right.

For example, he says, while you may be tempted to fleetingly increase or decrease your international holdings for reasons such as sentiment, it can end up being extremely counter-productive. He emphasises that offshore investing is a long-term strategic decision that should be premised with diversification and optimisation.

Fleetingly increasing or decreasing your international holdings for reasons such as sentiment, can end up being extremely counter-productive.

In your planning be clear about investing in a single-asset-class fund (such as a global equity fund) or a multi-asset class fund (such as a balanced fund, which is diversified across different global asset classes), he says. And the best way of dealing with ill-conceived timing attempts is exposure to balanced funds where professional portfolio managers delve into the merits of each asset class and astutely manage allocation on a continuous basis.

PPS Investments' senior investment executive, Hayley Brown, reminds us that tax planning is the art of arranging your affairs in ways that postpone or avoid taxes. By employing effective tax planning strategies, you'll have more money to save and invest or more money to spend. Or both. Your choice! ■

Leon Kok is an independent writer on public policy and investment markets.

CONTENTS

23 Q&A Betting on a Cinderella story

24 Coronation Investing offshore is about why, not when

25 PPS Investments Smart ways to invest tax-free

26 Prudential The risk of de-risking

28 Investec Asset Management Trade wars: the new normal?

29 PSG Manager selection: approach performance figures with caution

30 Sasfin A fund suited for both troubled times and long-term growth

31 Last Word One of the world's best investment destinations

By Leon Kok

GLOBAL MARKETS

Finding Cinderella stories

Coronation investment analyst Humaira Survé shares some insights into the fund manager's offshore views.

It would be naïve to believe that what global investors have become accustomed to during the past decade will continue indefinitely. But equally, as Franklin Templeton's head of equities, Stephen Dover, has pointed out, opportunities are beginning to emerge in many unloved areas of global equity markets. Some previously overlooked countries or asset classes may lead to a Cinderella story.

We spoke to Coronation investment analyst Humaira Survé on her investment house's global positioning and offshore fund offerings.

Would you consider global stocks as too expensive at present?

No, not necessarily. The current S&P 500 forward price-to-earnings ratio (P/E) is little more than 17 and marginally lower than 18 in the first quarter of 2018. Well below are the All Country World Index at 15, euro area at 13, Japan at 12 and emerging markets at 11.

What are the potential risks at the moment?

Earnings disappointments, increased interest rate expectations, and the US market seemingly more elevated than Europe. In addition, we are concerned about government bond prices worldwide. Credit spreads are back to all-time lows, and listed property has bifurcated between the much-loved logistics and data centre properties and the relatively unloved retail sector due to e-commerce concerns.

Many investors, for instance, are not prepared for concurrent price corrections in US treasuries and other asset classes and may be exposed to unintended risks.

Humaira Survé
Investment analyst at Coronation

What are your mainstream equity-orientated global fund offerings?

First are our two multi-asset funds, notably Global Capital Plus and Global Managed; and second, our equity-only products comprising the Global Opportunities Equity, Global Equity Select, and Global Emerging Markets.

The Global Capital Plus Fund's main features?

It's a low-risk global balanced fund that aims to achieve modest long-term capital growth and is managed to protect capital over any 12-month period. It may not hold more than 50% in growth assets, which include equities, listed property and commodities, excluding gold. At end-June almost half the portfolio was in cash at 44.2%. Other assets comprised equity 30.4%, fixed income 14% and property 7.3%.

And it's performance?

The annualised return in US dollars is 4% since inception, 1.6% over five years, and 3.5% over one year. It's outperformed its benchmark over these three time periods. Rand returns have benefitted from US-dollar strength over these time periods.

What about the Global Managed Fund?

It's a growth-oriented global balanced fund that is more aggressive than the Global Capital Plus Fund, in that it may hold up to 85% in growth assets. The average level is generally around 70% to 75%, though at end-June equities stood at only 59% of the portfolio with a further 7% in property. It has returned 6% per year (in dollars) since inception and 6.9% over three years.

Coronation's equity-only global funds?

Global Opportunities Equity Fund is a diversified fund of funds and comprises eight to ten underlying managers who we consider to be among the best in the world. The objective is to outperform the MSCI All Country World Index over any five-year period. It's an ideal fund for investors who prefer to own just one global equity fund.

Global Equity Select and Global Emerging Markets are more concentrated; stock selection is performed in-house, and the funds represent our highest conviction views in global and emerging markets respectively.

What sort of horizons should investors be looking to?

The portfolio is fully invested in equities and, as such, time horizons of ten years or more are ideal. It's not suitable as a single investment for investors who need to preserve their capital over five years or less and/or require an income from it; they'd be better served in our global balanced funds.

What distinguishes the Global Equity Select Fund?

Exposure to global equities with a developed market bias. However, it may also hold a maximum 30% emerging market exposure. The underlying aim is to give investors exposure to the best opportunities across the globe, with the principal aim of outperforming the MSCI All Country World Index over the long term.

Current exposure by region is US 57.4%, Europe 27.1%, Asia 9.2%, SA 3.9%, and Japan 1.8%. The biggest sectoral holdings are tech platforms, staples and healthcare. Among the top ten holdings are Charter Communications, British American Tobacco (BAT), Alphabet, Blackstone, Altice, Facebook, Airbus, Philip Morris, Anheuser-Busch and Citigroup.

The fund has returned 11.2% over three years and 22.2% year-to-date. These returns are also in dollars.

The Global Emerging Markets Flexible Fund, of course, is a favourite among more brazen investors.

Indeed. It has generated a 9.7% annualised return since inception, 12.7% on ten years, 5.8% on five years, 9.4% on three years, 9.1% on one year, and 23.3% this year alone. These figures are in rand. Among its top ten holdings are Naspers* (SA); BAT (UK); 58.com, Ping An Insurance, AIA Group, Alibaba, Wuliangye Yibin and New Oriental Education & Tech (China); HDFC (India); and Magnit (Russia).

Any other under-appreciated companies?

Perhaps important is HDFC, India's largest private sector mortgage lender which has been around since 1977. India, of course, provides a huge market opportunity. Key drivers are that two-thirds of the population are below the age of 35, family sizes are getting smaller, incomes are rising, and only one-third of the population resides in cities. Rising incomes and lower interest rates have increased property affordability. ■

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

All fund information quoted is as at 31 July 2019. For more detailed information about each fund, download their respective comprehensive fact sheets from coronation.com.

By Christo Lineveldt

INVESTMENT STRATEGY

Investing offshore is about why, not when

Moving your money abroad shouldn't be a reaction to what is happening locally; it should be a long-term strategic decision to diversify your portfolio.

In this article, I want to provide guidance on choosing the most appropriate vehicle for investing offshore for long-term investors who have discretionary savings (money not within a retirement fund) and want to increase their offshore allocation within their overall portfolio.

To be clear, investing offshore is not about timing. Investors may be tempted to increase or decrease international holdings for temporary reasons such as current sentiment, specific currency expectations or recent returns. But investing offshore is a long-term strategic decision that should be made with diversification and optimisation in mind.

It's about where you plan to spend your savings in the future

Knowing where you plan to spend your savings, will put investors on the right track to making the right decisions when investing their discretionary savings offshore (see infographic).

1. Do your future plans include spending in a foreign currency?

Investors whose future goals include living abroad, paying for a child's education, or visiting family overseas, can consider investing in a hard currency denominated and foreign-domiciled international fund that only holds international assets. These funds are managed to maximise returns in hard currency terms.

Investors have the option to invest in a single-asset class fund (such as a global equity fund) or a multi-asset class fund (such as a balanced fund, which is diversified across the different global asset classes). The risk of investing in a single-asset class fund is that investors may be tempted to switch out at the wrong time for emotional reasons, such as selling out of a particular asset class when it is at its lowest. We believe the best way to deal with ill-conceived timing attempts is by investing in a balanced fund where the professional investment manager weighs up the merits of each asset class in a combined portfolio on the investor's behalf and then actively manages the allocations on a continuous basis.

However, not all multi-asset class funds are the same. Different funds meet the needs of different investors. Coronation therefore offers two international balanced funds, the growth-oriented Coronation Global Managed Fund and its lower-risk sibling, Coronation Global Capital Plus.

Investing in a hard currency denominated international fund will require investors to use some or all of their annual discretionary foreign allowance of R1m. South African investors can also apply to Sars for an additional foreign investment allowance of R10m per year.

Given that the above funds require a minimum investment of $15 000 (roughly R230 000 at current rates), investors can choose to invest a smaller amount, starting at R500 via monthly debit order, in the equivalent rand-denominated feeder fund that still gives you all the benefits of international exposure but enables you to build up capital in rand terms first before you eventually invest it in a hard currency denominated international fund.

2. Do you expect the majority of your future expenses to be local?

Investors living in SA and expecting the majority of their future expenses to be local, may still want their savings to benefit from offshore exposure.

Apart from gaining access to a wider investment opportunity set, an allocation to international assets will result in a portfolio that will be more resilient in times of poor local market performance and rand weakness. Investors should also consider the composition of their spending baskets as many of the goods and services consumed are largely priced in foreign currencies, such as fuel, some foods and healthcare. Inputs of these items are either commodities with prices set in global markets, or they are heavily reliant on imported content. Investing offshore can help protect your money against any weakness in the rand and subsequent local price increases of these goods in the future.

Investors intending to remain in SA, but who don't know what portion of their discretionary savings should be offshore, can consider investing in a rand-denominated worldwide flexible multi-asset fund such as Coronation Optimum Growth. This fund manages international exposure on their behalf without constraints, while still aiming to provide long-term growth for their investment in local currency terms.

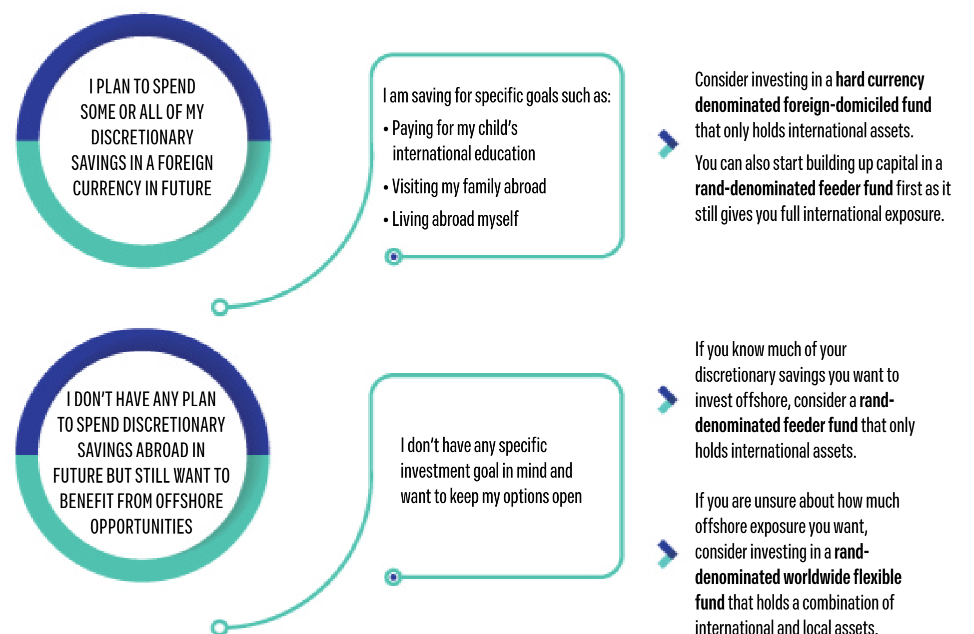
Alternatively, if investors know what portion of their discretionary savings they want to invest offshore, they can also consider a rand-denominated feeder fund that only holds international assets. Again, a balanced international fund may meet the needs of most investors.

International diversification can add significant value to an investor's long-term investment outcome and should be regarded as a crucial tool in the quest to build a robust portfolio. ■

Christo Lineveldt is an investment specialist at Coronation Fund Managers.

The information contained in this article is not based on the individual financial needs of any specific investor. For more detail about the funds mentioned, download their comprehensive fact sheets from coronation.com or speak to your financial adviser.

WHERE DO YOU PLAN TO SPEND YOUR DISCRETIONARY MONEY IN FUTURE?



SOURCE: Coronation Fund Managers

By Hayley Brown

TAX-FREE INVESTMENTS

Smart ways to invest tax-free

By design, tax-free investments are intended to encourage South Africans to save. Understanding how to utilise this type of investment vehicle can provide a multitude of benefits.

Tax-free investments were launched in 2015 as part of a government initiative to stimulate the dismal savings levels in South Africa. Four years later – has the uptake of tax-free investments aligned to their well-intentioned purpose?

Tax-free investments in a nutshell

Key characteristics:

- Tax-free growth – you don't pay income tax, dividends tax or capital gains tax on the returns. (But tax on foreign distributions may apply outside of the tax-free investment account [TFIA].)
- You can contribute up to R33 000 per tax year for each individual across one or more TFIA(s). Breaching the contribution limit leads to a 40% tax penalty on the excess funds.
- Tax-free investments can be transferred without affecting your annual limit.
- You can contribute up to a maximum of R500 000 during your lifetime.
- You'll have unrestricted access to your investment at any time. Keep in mind that any withdrawals cannot be replenished, and unused limits fall away.
- There are no initial fees, exit penalties or administration fees.

Research conducted by PPS Investments shows that around 87% of financial advisers recommend tax-free investments to clients. It appears that investors are typically using tax-free investments as part of their overall financial planning strategy. An encouraging finding is that the majority are using a tax-free investment as a vehicle to save towards their retirement. The second most common goal in this category is investing for their children, while another 25% are investing towards other goals, such as a house or a holiday.

The most popular option among financial advisers is to recommend that clients invest in equity or multi-asset high equity unit trust funds, which correlates to the savings goal of retirement. Gaining offshore exposure through tax-free investments also seems to have gained traction in the market.

A way to build wealth

Like discretionary investments, tax-free investments are not required to adhere to Regulation 28. This allows investors to invest in unit trusts that invest offshore, as well as have a high exposure to growth assets. This can be used as a tax-efficient way of mitigating the restrictions of Regulation 28 within your retirement annuity.

Family limits

South Africans of all ages are eligible to invest tax-free. For many, one of the disadvantages of tax-free investing is the annual limit of R33 000 per individual per tax year. One way to maximise the allowance is to look at the approach from a consolidated view, in that a family of four could invest up to R2m (4 x R500 000) during their lifetime, or R132 000 for the year. But it is important to weigh up the cost benefit of utilising your child's tax-free allowance during the years when they are not liable to pay tax. Once breached, your child will not be able to replenish their lifetime contribution limit.

Best poised over the long term

While tax-free vehicles offer tax benefits over any time horizon, the net result over the longer term ensures that you gain from the compounding effect and more time in the market. A further tax benefit can be derived by using your tax-free investment to supplement your income once retired. Withdrawals from your tax-free investment are not taxed and thus can lower your overall tax burden when combined with your living annuity income.

A financial adviser is best placed to provide you with appropriate advice customised to your unique needs and offer tax-free investment options that will augment your overall financial portfolio. ■

Hayley Brown is executive: business development at PPS Investments.

IT'S NEVER TOO LATE TO FOLLOW YOUR PASSION.

Retirement is about choices. Where you'll go, what you'll do, and how you'll do it. But first you need to be in a position to make those choices and our retirement solutions offer you that opportunity. Secure your future – because it's never too late to invest in yourself and make your passion a reality.

Contact us on 0860 468 777 (0860 INV PPS)
or clientservices@ppsinvestments.co.za, or visit pps.co.za/invest

PPS is an authorised FSP.

pps FOR PROFESSIONALS SINCE 1941

INVESTMENTS

By Pieter Hugo

RETIREMENT SAVINGS

The risk of de-risking

When you retire, it shouldn't be volatility that concerns you, but the possibility of outliving your money. Being too conservative with your investment as you approach this chapter may prove detrimental.

The sad truth in South Africa is that many people face a high risk of running out of money in retirement. However, what most people don't realise is that, ironically, what is increasing their risk of running out of money in retirement is their fear of losing money – which is driving them to invest more conservatively when they reach retirement.

I want to illustrate the true costs of investing conservatively after you retire. The premise of this strategy is to de-risk your portfolio at (or even before) retirement, in order to avoid any big losses. Investors choose less volatile fixed-income assets (such as cash and bonds) as they move into retirement in order to minimise volatility or their risk of capital loss over the short term.

One of the major drawbacks of this approach is that it limits your investment's growth potential *exactly at the time* when your retirement capital is typically at its highest-ever value. By design, at retirement clients are choosing what they believe are low-risk assets (cash and bonds); but these assets will not provide them with sufficient inflation-beating returns throughout their retirement.

Over the past 40 years, bonds and cash have historically delivered real returns of 2.9% and 2% respectively per year. Meanwhile, equities have outperformed inflation by 7.2% per year over the same period. Combining these assets in a typical "balanced" portfolio of around 25% in fixed income and 75% in equities and property have generally produced a real return of around 5% per year.

For investors who haven't saved enough for retirement, these potentially higher returns, plus the extra years spent in growth assets, can both play a crucial role in extending the longevity of their retirement income. This is particularly important these days given people's longer lifespans, where you can easily spend 30-plus years in retirement.

To illustrate this point, the graph shows the length of time your money would last if, when you retire at age 60, you de-risked your investment by moving from a typical balanced portfolio earning a real 5% per annum to a cash portfolio earning a real 2% per annum, compared to remaining invested in a balanced fund throughout your life.

We can see that your investment value of around R10m at age 60 lasts to age 79 as you withdraw an income while earning only a real 2% return (shown by the light grey area). However, by continuing to earn a 5% real return (depicted by the darker grey-green area), you build up much more value in your retirement pot over the years, and it lasts to age 90, or 11 years longer, while still drawing the same income. Put differently, staying exposed to appropriate levels of equity and listed property can dramatically reduce the probability of you outliving your money.

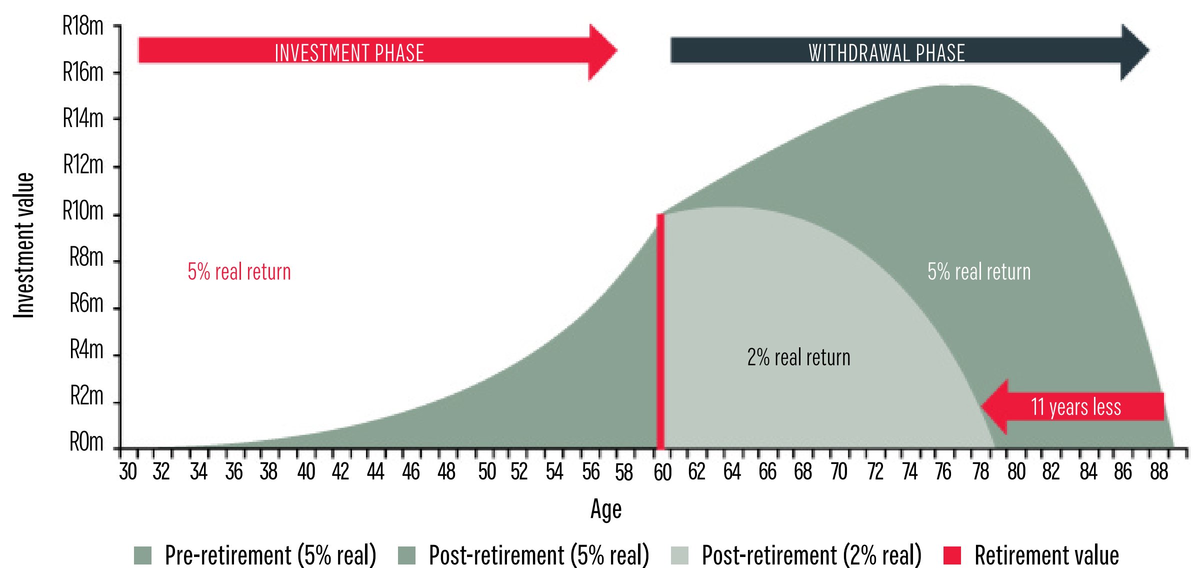
In conclusion, if you've saved enough to retire comfortably and you're more concerned about reducing volatility, then a conservative approach might be a viable option for you. However, if you haven't saved enough and are worried about outliving your retirement savings, you should seriously consider holding more growth assets to help build that retirement pot further into your retired years.

Of course, you should expect to experience more ups and downs in your investment value, and your reactions to this need to be managed carefully, hopefully with the help of a financial adviser.

However, if you save some of the higher returns from good months to make up for the lower returns from bad months, this prudent approach could go a long way towards overcoming the fear of volatility. Remember, when you retire it shouldn't be the problem of volatility that you're trying to solve, but rather the risk of running out of money. ■

Pieter Hugo is the managing director of Prudential Unit Trusts.

THE REAL COST OF DE-RISKING AT RETIREMENT



SOURCE: Prudential Investment Managers

15% allocation / 6.8% income / 68% replacement ratio

Staying exposed to appropriate levels of equity and listed property can dramatically reduce the probability of you outliving your money.

24861

THE POWER OF CONSISTENCY: OFF$HORE

INTRODUCING OUR NEW RANGE OF GLOBAL DOLLAR FUNDS:

- Prudential **Global Balanced Fund**
- Prudential **Global Inflation Plus Fund**
- Prudential **Global Equity Fund**
- Prudential **Global Bond Fund**

Speak to your Financial Adviser for more information or visit **prudential.co.za**

Consistency is the only currency that matters.™

The Prudential Global Funds ICAV is an approved investment vehicle in terms of CISCA. The distributor is Prudential Portfolio Managers Unit Trusts Ltd (Registration number: 1999/0524/06), an approved CISCA management company (#29). Fund's supplement is available free of charge from the ICAV or at www.prudential.co.za. Collective Investment Schemes Portfolios are generally medium-to-long-term investments. Past performance is not necessarily a guide to future investment performance. The Fund's prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses and is traded at the ruling forward price of the day. The Fund may borrow up to 10% of the Fund's value, and it may also lend up to 50% of the scrip (proof of ownership of an investment instrument) that it holds to earn additional income. Fund prices are published daily on the distributors website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and withholding tax.

By Jeremy Gardiner

GLOBAL ECONOMY

Trade wars: the new normal?

As President Trump gears up for re-election in 2020, it seems that the world is in for more tariffs-by-tweet. After all, trade wars appear to be part of his strategy to stimulate the US economy and remain in the Oval Office.

The International Monetary Fund (IMF) warned recently that the main risk factors to the global economy currently are that further US-China tariffs, US auto tariffs, or a no-deal Brexit could sap confidence, investment and global growth. It warned that these trade wars needed to end urgently in order to boost confidence, investment and growth.

It means, therefore, that your financial fate over the next couple of years lies largely in the hands of two people: UK Prime Minister Boris Johnson and US President Donald Trump.

A no-deal Brexit would be an event in global financial markets which would scare foreign investors and result in emerging markets, including South Africa, being punished. The UK and Europe are significant trading partners of ours; the UK is responsible for approximately a third of our foreign direct investment inflows.

Johnson does not have an easy road ahead. After taking office in July, he faced having to do in three months what Theresa May couldn't achieve in three years. Although committed to leaving on 31 October – without a deal if necessary – Johnson realises this route carries significant risk and could be 'bumpy'. Ideally, he'd like to reach an agreement with the EU, but, given that the previous deal failed repeatedly in parliament, he needs a new, improved deal. However, the Europeans told May months ago that it's not up for renegotiation, and they're sticking to that.

So, Johnson finds himself leading a government committed to a 'no-deal' exit, should the Europeans refuse to negotiate a new deal (which they may well do). He is up against a parliament vehemently opposed to a 'no-deal' Brexit, and the Tories have a parliamentary majority of one. This is likely to result in decision-making paralysis, followed quite possibly by a vote of no confidence and fresh UK elections. Many commentators say this is why Johnson requested the British monarch to suspend parliament over five crucial weeks in the run-up to 31 October.

Johnson will obviously be hoping for a stronger mandate, but anything, including a Labour/Lib Dem coalition victory, however unlikely, is possible.

Brexit aside, I believe we're going to have to get used to tariff wars, because that's how Trump fights. The Mexicans are safe (for now), India is under pressure, and Europe, particularly the automobile industry, is next.

Just as markets were enjoying a pause in the conflict over the past month, Trump completely disregarding the ongoing efforts of his negotiators, implemented more tariffs, by tweet. Investors panicked – again! – and world markets, including emerging markets (and SA), suffered.

I've written elsewhere before that Trump has a strategy, and that analysts believe that he is deliberately stoking global tensions in order to get the Chinese to stimulate more and the US Federal Reserve (Fed) to cut more. Then, when he eventually does a deal with the Chinese, the US economy and stock markets will crescendo, peaking just in time for the US elections. The result? A booming economy should ensure his re-election next year. Apparently, that's how the US works. A strong economy equals almost certain re-election for an incumbent president. It seems the economy is all that counts, all other negativity is just 'noise'.

A booming economy should ensure his re-election next year. Apparently, that's how the US works.

I've been told that this theory gives too much credit to Trump; that he is irrational and acts impulsively with little thought of the consequences. If that is the case, we better hold on tight because there's a very real chance that the global economy is going into recession.

The risk to his strategy is that the Chinese understand how much he needs a strong economy for re-election and may well play hardball in order to try and strike a better deal with a Democrat president.

Also, Jerome Powell, chair of the Fed, is not yielding to Trump's pressure to accelerate rate cuts, infuriating Trump and unsettling markets.

I'm pretty sure his strategy is to get re-elected. If that is the case, and he manages to artificially stimulate the US economy (and therefore also the global economy), the result will be a 'risk-on' environment, which would be very positive for emerging markets, including SA.

And my goodness, at the moment we need every bit of help we can get. ■

Jeremy Gardiner is a director at Investec Asset Management.

Boris Johnson
Prime Minister of the UK

Donald Trump
President of the US

Jerome Powell
Chairman of the US Federal Reserve

Photos: Gallo/Getty Images

By Henko Roos

PORTFOLIO MANAGEMENT

Manager selection: approach performance figures with caution

When fund managers underperform, investors can be quick to disinvest. However, it's important to remember that long-term results don't come without short-term periods of underperformance.

Plenty of research shows that the biggest destroyer of investment value is investor behaviour, and not market movements. Despite this, investors still tend to look at past performance when selecting fund managers – everyone likes a strong track record.

In the same sense that investors chase the latest 'top-performing' managers, they tend to get rid of managers quickly when they underperform. PSG Wealth are multi-managers who follow a robust and disciplined process when it comes to manager selection. Our track record proves that we are skilled at this.

Underperformance viewed in isolation should never be the sole basis for a disinvestment decision. Like markets, a manager's performance loosely follows cycles.

In our experience, skilled managers can deliver long-term results, but this does not come without short-term periods of underperformance. A key principle of the split-funding philosophy on which the PSG Wealth multi-managed solution funds are based, is that even the most skilled fund managers will go through periods of underperformance.

The drivers of outperformance can also drive underperformance

If you want to outperform standard benchmarks over the long run, you must hold positions that are different from the benchmark. Doing so inevitably creates tracking error (i.e. potential divergence from benchmark returns), which means that short-term underperformance will occur.

Detailed research conducted by Baird Advisor Services (a 100-year-old US-based financial services firm) highlights that virtually all top-performing fund managers underperform their benchmark and peers at some point in their careers. They looked at over 1 500 mutual funds with a ten-year track record, then narrowed that list to 600 that outperformed their respective benchmarks by one percentage point or more, on an annualised basis over the ten-year period, and only included those that outperformed and exhibited less volatility than the benchmark index.

They asked what percentage of these managers underperformed their benchmark over any three-year period within the ten years. All the top managers dropped below their peer group average at least once. Compared to their peers, there were many 12-month periods when these top managers disappointed investors.

Research also shows that most high-performance managers can, and do, make up lost ground and add excess returns following periods of weakness. Thus, rather than leaving top-performing managers during difficult times, the evidence suggests it pays to be patient. The longer an investor can wait, the better, as managers' chances of beating their benchmarks increase with longer holding periods.

Local experience echoes US findings

We undertook our own research on the domestic market looking at the last 10-, 15- and 20-year periods, based on a similar approach to that of the Baird study, but adapted for the local environment. We also consider various rolling return periods. Across various time periods, our research identified similar trends to what was found by Baird in the US mutual fund industry.

Performance is only part of a much bigger picture

Like all our investment decisions, our views on manager performance cycles are based on extensive research, combined with hard-earned experience. Past performance is only part of the story – as professionals who analyse investment managers, we know that understanding the drivers of performance can be even more important, as this empowers us to make strategic choices with more confidence. In the same sense that we do not base initial manager selection on past performance, when monitoring our underlying managers, we do not use short-term underperformance as the basis for disinvesting from a fund.

We use quantitative performance monitoring mainly as an early indicator of a potential problem within a manager's greater investment philosophy or process, but not as the sole basis for disinvestment decisions. Our quantitative performance monitoring process states that if there is underperformance over all periods between 1 and 12 months, then the portfolio is flagged and placed on the quantitative review screen (risk radar). This process kicks off an in-depth review, while new flows to the fund are placed on hold.

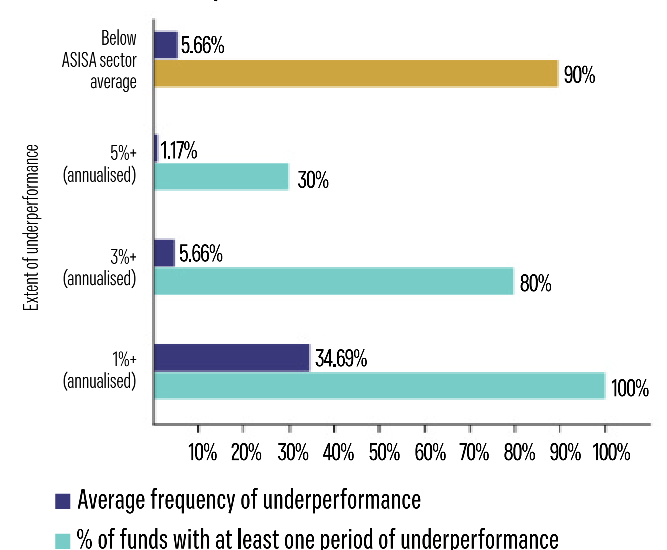
Underperformance viewed in isolation should never be the sole basis for a disinvestment decision.

This process will aim to uncover if the underperformance is due to a view that, although justified, has been unsuccessful, or whether the underperformance is due to a radical view that is unlikely to be realised. Alternatively, further reviews could highlight potential threats to our initial assessment of the fund manager, and it is these more fundamental concerns that would ultimately trigger a disinvestment decision.

We want to reduce the risk of underperformance by obtaining a full understanding of the story behind the numbers. We apply the same effort to manager selection, ongoing manager evaluation – and yes – disinvestment decisions too. ■

Henko Roos is head of manager research at PSG Wealth.

FREQUENCY ANALYSIS OF TOP-PERFORMING SA EQUITY FUNDS OVER 15 YEARS, ENDING 31 MAY 2019, ROLLING THREE YEARS



SOURCE: Morningstar Direct, PSG Wealth

By Leon Kok

OUTLOOK

A fund suitable for both troubled times and long-term capital growth

Errol Shear, who manages the Sasfin BCI Stable Fund, talks to Leon Kok about the fund against the investment backdrop we are currently facing, both locally and globally, and why the fund is good for building a solid, long-term capital base.

Attend any serious strategic meeting these days and chances are that the conversation will soon turn to wealth survival in a slowing global economy, deteriorating domestic situation and choppy markets. The international stock market retreat in recent weeks hasn't helped either.

Indeed, if these issues translate to sleepless nights on your part, you can do considerably worse than look to Errol Shear's Sasfin BCI Stable Fund.

He believes that it's particularly suited for those close to retirement or already in retirement and wishing to build a solid, long-term capital base.

Up with the best in the country, the BCI Stable Fund is a cautiously managed portfolio aimed at consistently beating inflation, generating an annualised 4% real return over any three-year period, and not losing any money over any 12-month period.

Shear has notched up more than 30 years of industry experience and is the winner of several Raging Bull awards.

His investment philosophy is centred on 'pragmatic value', which he describes as identifying and choosing good, quality securities at the right prices. "It's precisely in times of market uncertainty that fundamental values appear, and for the patient investor it's often a good starting point in building a sound portfolio."

The fund's mechanism is simple, he points out. "There are no complex structures which cost money, and the starting point is a core of low-risk income-producing assets, which at this point constitute more than half the portfolio".

The fund has returned an annualised 6.8% in the three years that he has managed it, which significantly exceeds the JSE All Share Index (Alsi) comparable figure of around 3.9%.

Its equity component is limited to a maximum 40% and is currently only 17% in domestic equities. "The domestic equity market is simply too risky at present, and that's where one seriously wouldn't want to be overweight," Shear explains.

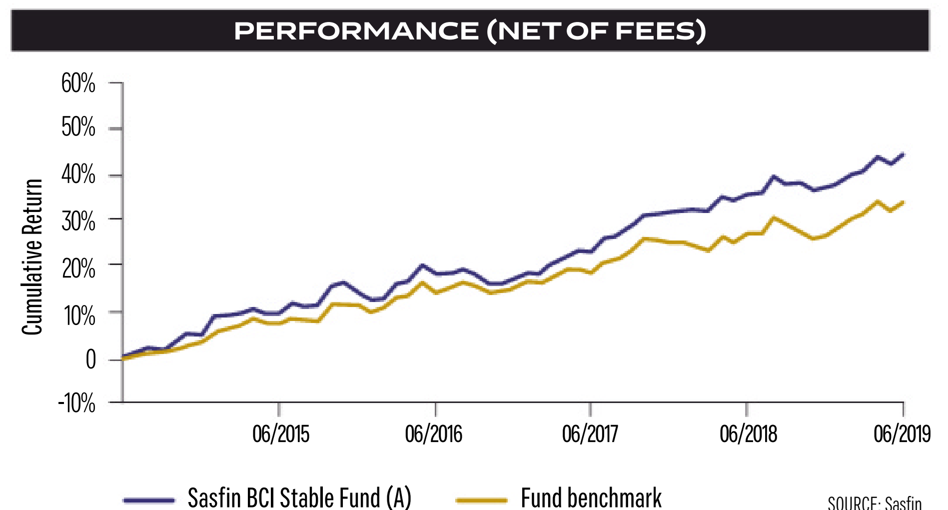
His top stocks include the likes of AVI, Standard Bank and Remgro; all large caps, liquid and unburdened by excruciating debt. The average dividend yield is 3.9%, ahead of the Alsi's approximate 3.5%.

Although the fund is permitted 30% exposure to offshore counters, in its equity component Shear is currently wary of international markets. Relatively disconcerting, he says, is the slowdown in international economic growth coupled with associated issues such as international trade wars, Brexit and a rise in political tension.

He is committed to generating income for his clients with a current running yield of just over 6% net of charges, but not at the expense of exposure to tainted assets. He vehemently avoids the likes of Eskom, Denel and the municipalities.

On the flipside, Shear is complimentary towards Reserve Bank monetary policy, which he says is well-directed and has kept inflation under control. "It's the one institution that deserves considerable credit. Our inflation rate is anchored at 4.5%, and one can comfortably get real yields 4% above that from quality fixed-interest assets."

PERFORMANCE (NET OF FEES)



Errol Shear
Fund manager at Sasfin Asset Managers

Photo: Supplied

On the international fixed-interest side, in contrast, he points critically to more than $15tr in bonds now yielding negatively. And anyone invested in cash in euros, yen or Swiss franc pays the bank for the pleasure of letting the bank have their money.

Both German and Japanese ten-years bond yields, for instance, have been negative for some time, and during the past month the yield on 30-year US government bonds fell below 2% for the first time as investors were spooked by the inverse yield curve. In the past this has often signalled possible recession.

Germany's problem is that it's a major exporter and has been hurt by slowing world economic growth and the trade war, particularly for its motor manufacturers.

Shear is wary of domestic listed property. "We have many magnificent shopping centres and office buildings in SA, but at present there are just too many vacancies and 'for sale' signs for comfort. Average property share prices are down by more than 30% over the past two years, coupled with continued volatility. I'm very discerning in what I buy."

The fund may include unlisted forward currency, interest rate and exchange rate swap transactions.

With all the negative hype, Shear warns against being overly disenchanted and negative. "As always, markets will eventually turn; there is huge potential in the country; we are coming off a low base; the demographics and potential for increased consumer demand lend themselves to considerable economic growth; and SA has always delivered good returns over the long term."

Among government's priorities, he believes, should be to robustly deal with Eskom and other troubled state-owned enterprises, boost tourism, and rid the system of cumbersome red tape, such as limits on immigration of skilled professional people and artisans. In fact, he considers it reprehensible that for many months Massmart was unable to appoint a top-rate chief executive from abroad because of red tape. ■

By Leon Kok

SOUTHEAST ASIA

One of the world's best investment destinations

Although not without risk, Southeast Asia provides exciting investment opportunities and great returns.

One can so easily get bogged down by poor investment prospects locally that you completely overlook major hotspots elsewhere in the world. I personally admit guilt on this one.

A year ago, I visited several Southeast Asian countries and was astounded with developments there, and sadly turned my back on them when I returned home. It was one of several visits to that part of the world in recent decades.

It was no surprise to me, however, that Southeast Asia is currently considered one of the world's best investment destinations. In a recent survey by the Asian Financial Forum, for instance, it eclipsed China as the region most likely to produce the best investment returns, as ongoing tensions between Washington and Beijing put a chill on the world's second-largest economy.

About 39% of respondents viewed Southeast Asia as having the best investment returns, while 35% voted for China and 16% for the US. CEOs across the region were surveyed on where they want to put their money in the next 12 months. For two years Vietnam came out on top.

The number of listed companies in Asian emerging markets has grown by **206%** over the last 20 years versus 36% in developed countries.

One reason given is that companies are seeking new bases for manufacturing outside China, said Victor Fung Kwok-king, chairman of the multibillion-dollar Hong Kong-listed Fung Group. "We really need to think twice before finishing products in China and attaching the 'Made in China' label, which will have major duty problems in the US."

Annual foreign direct investment flow into the Association of Southeast Asian Nations (Asean), which comprise ten countries in Southeast Asia, is currently around $140bn. Three member states, notably Vietnam, Indonesia and Singapore, account for 72% of this inflow. Consider SA, in contrast, where foreign investors have sold $4.8bn in equities and bonds alone this year!

Prospective annual economic growth rates in the Pacific region comprise Lao 7%, Cambodia 6.9%, Philippines 6.6%, Vietnam 6.5%, Indonesia 5.3%, Malaysia 4.6%, Thailand 3.7% and Singapore 2.7%. Bilateral trade between China and Asean economies was $232.4bn in the first five months of this year, an increase of 18.9% on last year. In 2018 it hit a record $514bn.

Major boosters currently are the growing influence of technology in financial services, a better regulatory environment, and increased cross-border initiatives. Singapore is by far the leader in capital-raising, market penetration and degree of sophistication. Rapid urbanisation is also creating opportunity for growth and development, as are upgraded transportation systems in congested cities such as Jakarta, Kuala Lumpur, Manila, Singapore and Bangkok.

The number of listed companies in Asian emerging markets has grown by 206% over the last 20 years versus 36% in developed countries.

Photo: Shutterstock

A wide range of mutual funds (unit trusts) provides exposure to that part of the world, with these funds being managed by some of the biggest global investment names such as Franklin Templeton, Fidelity International, Schroders, Invesco, Wells Fargo and T Row Price.

Perhaps best known in SA is the Templeton Asean Fund, managed out of Singapore, which boasted a 28.75% US dollar return during the past year, ahead of the MSCI Asean Index at 25.84%. Its prime figure is Mark Mobius, who in 1987 launched the world's first mutual fund dedicated to emerging markets. He has long been a close friend of SA.

Templeton has consistently adhered to a bottom-up stock selection process and strict value discipline throughout its history, enduring many different market cycles and offering investors a truly global perspective.

Fidelity International, established in 1969 as the international arm of Fidelity Investments, has total assets under management amounting to $325bn across the globe, and enjoys a close relationship in SA via Ashburton.

Two well-liked funds in its line-up are the Fidelity Emerging Asia Fund and the Fidelity Asia Fund. The first focuses strongly on less developed countries and also holds net assets directly in China. Its five-year annualised return is 14.1% in euros and 16.1% in the year-to-date.

The second, with a more than 50% equity presence in China and Hong Kong has boasted a 71% cumulative performance during the past five years and 12.8% year-to-date.

Another interesting fund is the Schroder Singapore Trust, which was launched 12 years ago and has generated an annualised 8.2% since inception. It aims to achieve long-term capital growth primarily through investment in companies in Singapore, but has a broadly diversified portfolio with no specific industry or sectoral emphasis.

Health note

I don't wish to give the impression that Southeast Asian funds are without risk. Risks include currency fluctuations, economic instability and political developments. They may also experience greater volatility than funds that are more broadly diversified geographically.

Smaller company stocks furthermore have historically had more price volatility than large company stocks, particularly over the short term.

Most experienced global investors have between 5% and 8% invested in the region, with the aggressive investors having up to 10%. It's indeed extremely important that there is some degree of capital preservation, because volatile markets can wipe out investment values.

Also important to consider is that the region is dominated by China and the trade war with the US is having an effect and weighing on sentiment. In addition, Asia is sensitive to rising interest rates in the US, as many Asian countries and companies have US dollar-denominated debt. ■

By Schalk Louw

PERSONAL FINANCE

Sure you can't save more?

Given the current economic environment, it is simply too difficult to save more, right? But your future retired self will thank you for every extra cent that you manage to put away. And the first steps to increased savings are basic.

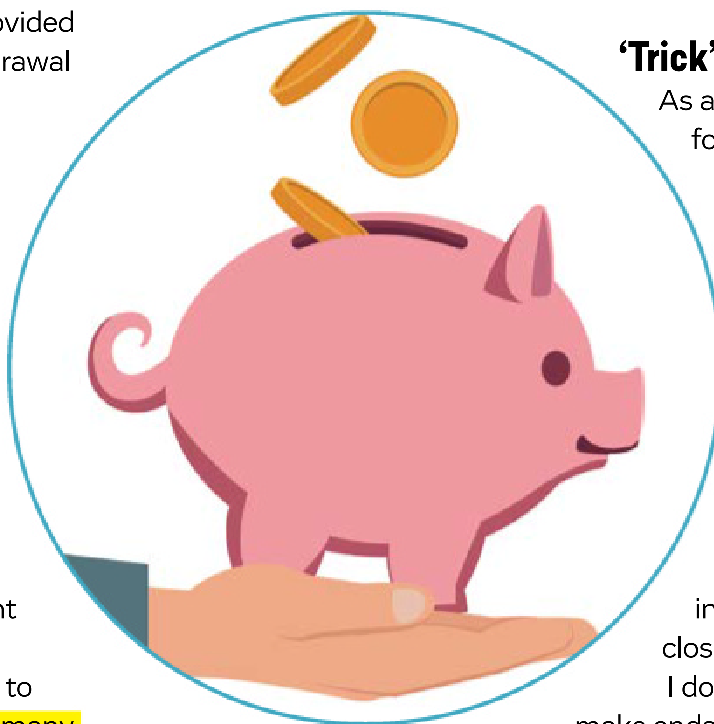
We find ourselves in a market that hasn't shown any real growth over the past five years. Even the most optimistic investors are now starting to panic, especially those who have already retired. With the cost of living rising rapidly, many pensioners are forced to increase their withdrawal rates to well above the recommended levels, in an environment that just hasn't provided sufficient growth to sustain such high withdrawal rates these past few years.

Aside from feedback from the retirees I work with daily, enough research has been done over the years to determine what retirees would have done differently, had they been given the opportunity to start over. It will come as no surprise that most of them claimed that, given a second chance, they would have saved more and would have obtained proper advice well before retirement.

Despite these observations, however, I still get the impression that the South African public does not realise how important it is to save as much as possible prior to retirement – not even given the opportunity to learn from the mistakes of others. I hear too many excuses about how the cost of living doesn't allow people to save a single cent. I do agree that these costs are on the rise, but it doesn't really help that many of these people are also living well above their means.

My message in this edition is aimed at those individuals who are currently living above their means, even though they won't like to admit it. It's one of the biggest reasons why South Africans are struggling to save.

The maximum allowable government pension grant currently is R1 780 per month if you are older than 60 years or R1 800 if you are aged 75 or older. I often ask this question: Will that be enough to cover your expenses and cost of living? If so, you have nothing to worry about. The rest of us, however, have no choice but to find a way to save as much as we can. Here are a few pointers to help you save when times are tough.



Control your expenses

Many individuals who find it difficult to make ends meet with their current income take on extra work to earn an additional income. Interestingly enough, though, these individuals still struggle to save, even with a higher income.

The key is to check exactly what you are spending your money on. Do this by drafting a strict budget to monitor your expenses. Once you know what you're spending your money on, you can control your expenses.

You need to buy cheaper and smarter. If you cannot afford a particular satellite TV package, downgrade or cancel your subscription. Also, avoid any additional debts that may obstruct your road to financial freedom.

'Trick' yourself into saving

As a child, I had a piggy bank and every day I forced myself to empty the change pocket of my wallet into my piggy bank. What made this savings strategy so successful was the fact that even though it wasn't much, I didn't spend it. I "tricked" myself into thinking that I had less money in my pocket, and therefore had less to spend.

The modern "piggy bank" can take on the form of an investment vehicle, such as a fixed deposit, unit trust or an endowment. Set up a debit order to withdraw money from your bank account into this investment every month (and as close to pay day as you can).

I do understand that if you're finding it tough to make ends meet with your current income, investing money you don't really have won't solve a thing, but the point is that if you have less money in your "pocket", you will be forced to spend less.

You can deduct up to

27.5%

(up to a maximum of R350 000) of the greater of your taxable income or remuneration per year by saving in a retirement product.

Claim your taxes

So many people make the mistake of overlooking the tax benefits offered by some products. Make sure that if you invest in a retirement product such as a retirement annuity, you include those certificates with your tax submissions every year. You can deduct up to 27.5% (up to a maximum of R350 000) of the greater of your taxable income or remuneration per year by saving in a retirement product. Also, use any tax returns paid back to you to contribute to your savings, whether it comes from your retirement annuity or unpaid medical claims.

I am well aware of the fact that it isn't easy to save under current conditions, but I also know that most people won't be able to survive comfortably with an income of only R1 780 per month. Learn from the mistakes of those who came before you. Don't give away your power by living above your means. Ensure a more comfortable and financially sound retirement by challenging yourself to save as much as possible. ■

editorial@finweek.co.za

Schalk Louw is a portfolio manager at PSG Wealth.

Photo: Shutterstock

By Simon Brown

TRADING

When the going gets tough...

In the absence of clear long-term trends, derivative traders are especially experiencing difficulty under current market conditions. But if you can make it during tough times, you'll flourish when the bull is back.

I've had a number of people commenting recently about how the markets have become impossible to trade for derivative traders – mostly equity contract for difference (CFD) traders. Oddly, there have been two different and opposing views.

The first group is worried that, with the markets going nowhere, how does one make money? The second grouping is concerned that increased volatility and bad news from companies make it far too risky.

The "going nowhere" argument is misplaced. Sure, the Top40 is sitting at levels we last saw in 2015, and so far in 2019 the index is up only 3.4% at the time of writing (excluding dividends). But this misses the point. At one stage this year the Top40 was up over 11% for the year and is down some 3% over the last 12 months. So, we're seeing lots of movement that should be profitable for derivative traders.

The Top40 is sitting at levels we last saw in 2015, and so far in 2019 the index is up only **3.4%** at the time of writing (excluding dividends).

The second issue is that the increased volatility is making it harder to trade. I agree with the concept – more volatility *is* actually hard to trade.

Sure, traders need movement in order to profit, but movement that is orderly and not too extreme is always better. However, while we've had a fair bit of volatility this year, it's not anywhere near the crazy levels we have seen before, for example in 2008/09. And, of course, volatility is a factor of what one is trading.

The real issue has been an absence of clear longer-term trends, which for me personally as a trend-based trader has made life very difficult. But I solve that issue by dropping my time frames.

If the daily chart is showing no trends, I move to an hourly, or even 15-minute chart. The thing is, there is always a trend. And the job of a trader is to find it. In my case, I'm finding the first 30 minutes of the index futures (08:30 – 09:00) very profitable and have settled into just trading that period.

That said, I am fortunate that I am able to trade the shorter intra-day time frames. For those with a job, that is not an option as you'll not be able to focus on either and will end up losing money and your job.

But there is perhaps a bigger issue here. I think part of the issue is that bull market trading is easy. Everything is going up, so you buy something, gear it with a derivative and you make money.

The current market is more testing, but traders who can make money now will be printing money when the bull returns.

However, the reality is that trading is hard, and we need to learn real skills to be successful. The adverts make it seem like Fica regulation is the only challenge.

But the reality is that trading is a multi-skilled endeavour that requires serious mental, risk management and emotional skills. It's not just fancy technical analysis and, boom, you're off to the races with bags of profits.

Novice traders also generally fall into the trap of trading geared equities and as such take on massive single-event risk. But one nasty trading update, or another ethane cracker plant delay, and suddenly your trade is well under water.

My advice to newbie traders is to ignore equities (especially geared equities), unless you have been successfully trading them ungeared for at least a couple of years.

Rather focus on indices. They are significantly less volatile, have much less single-event risk and you can trade the ALMI (mini ALSI contract) at R1 a point – meaning you only need R10 000 to start your trading journey. Even a worst-case scenario will likely see you lose no more than R1 000 in a trade that goes horridly wrong. Yes, it will be a large percentage of your portfolio, but it is unlikely to ruin you. ■

editorial@finweek.co.za

The current market is more testing, but traders who can make money now will be printing money when the bull returns.

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.

SHOPRITE

Not a great year

Shoprite's* results for the year ending 30 June is a story with many parts, some very bleak. The second half locally was good, with 9.4% growth (4.9% for the full year shows how rough the first half's self-inflicted challenges were) and the trading margin was back at 5.5%, even with just under 10 000 product prices still in deflation over the last year. But the rest of Africa lost R265m after, for example, a profit of R1.6bn for the 2016 financial year. This is due to hyperinflation in Angola and weak currencies in their other markets. Debt also spiked as they try and resolve debt that is linked to the US dollar – and that's hurting. So, apart from one bright spot (local supermarkets in the second half), it was a horrible year for Shoprite. I continue to hold my shares, and am buying more as the price weakens – but not aggressively, because nobody knows how low the price can go. The reality for me is that Shoprite remains the continent's premier low- and mid-LSM food retailer and people will always be eating.

GRINDROD

Good for cash flow

After having disposed of its shipping business, which left Grindrod with the port terminals and banking as main operations, the company's half-year results had a lot of moving parts. What is of interest to me is their ability to pay the dividend on their preference share, GNDP. This preference pays 88% of prime and, even more interesting is that it is cumulative, so if they skip a dividend, it just gets added to the next payment and the rate goes up to 100% of prime. On a dividend yield of just over 11%, this is a great investment for those looking for cash flow.

MASSMART

Not buying just yet

Massmart's interim results for the 26 weeks ending 30 June were bleak. But, I have to say, not as bad as I had expected after the horror trading update. The real issues are Game and Dion Wired, while Builders and Masscash are doing well. The new Walmart CEO is now in place and he has a huge task ahead of him. But, if consumer pressure has bottomed (not a certainty, but equally not as big an 'if' as many think), then he'll have an easier path to profits off a very low base. The bigger question is whether an outsider really is the best bet? Different markets are very different and many a successful CEO has found a new geographic market a lot harder than expected. I'll be keeping an eye on future results but have no interest in buying just yet.

On a dividend yield of just over 11%, this is a great investment for those looking for cash flow.

ITALTILE

Doing well in tough times

Italtile's results for the year ending 30 June show it's not easy in retail in South Africa, but profits are possible: Their turnover was up 15% and headline earnings per share (HEPS) increased by 7%. Hardly 'knock-it-out-the-park' numbers, but good enough for a 50c special dividend on top of the normal 41c. The company is no doubt picking up market share on the back of aggressive pricing, which is possible due to the vertically integrated nature of the business. They import as well as manufacture products that they then sell via company owned stores. This gives them lots of power to manage pricing to their advantage. They're also benefitting in part from a tough economy that sees people unable to upgrade their homes due to costs – as well as current valuations which mean that many bonds are currently under water. As a result, some families will then rather spend on renovating a part of their house; maybe just a new paint job or perhaps even a completely new bathroom. But they caution, as always, that it does remain very tough. On a price-to-earnings ratio (P/E) of 13 times and dividend yield (excluding special dividend) of just over 3%, the stock is fairly priced... as long as they continue to produce the numbers.

Photos: Archive | Italtile.co.za

MURRAY & ROBERTS

Move away from construction is paying off

With the Aton takeover now undergoing an appeal process, the Murray & Roberts interim results were solid, with HEPS up 10% at 101c. Directors had placed the fair value at over 2 000c, but I am not so convinced; on current earnings they're trading on a P/E of some 12 times, which I think is fair. That said, they did trumpet their order book, which increased to R46.8bn, with R14.4bn being near term. But I am always deeply sceptical of order books; lots can go wrong with orders being cancelled or proving to be loss-making. But the move into oil and gas and away from traditional construction is certainly paying off.

ADvTECH

ADvTECH's Crawford Preparatory in Sandton

Still a solid sector

ADvTECH* and Stadio's interim results for the six months to end-June, coupled with Curro's numbers for the same period, show that the trend we've been seeing in education continues. Tertiary numbers are doing great, and this is likely to continue as not all students are able to attend government universities. Furthermore, these listed education stocks offer a wider, and often more practical, range of tertiary degrees. However, schools remain largely flat due to a consumer squeeze and many students are dropping out to attend cheaper schools or because their parents are leaving SA. I still prefer ADvTECH on a valuation basis, and they've held up well – even as the share price has been falling. But I remain comfortable with the thesis around investing in education stocks.

NASPERS

What to expect with Amsterdam listing

The Naspers** Amsterdam listing of non-SA assets has been approved and will happen on 11 September. Holders at the close on 10 September will either receive one Prosus (JSE code will be PRX) for every Naspers (default option) or, if you requested, you'll get more Naspers shares. I expect this to be very positive for both shares and, by proxy, the indices Naspers has a large weighting in. The current Naspers discount to its Tencent holding is around 40% and we should see at least half of that closing, resulting in a move of some 4% in the Top40, albeit not in one day but more likely over a few days. Prosus will also go into all the same indices as Naspers and then be adjusted, if required, three days later.

They're also starting to roll out food in Australia but, having learnt their lesson, they won't just drop the South African process into Australia.

WOOLWORTHS

Worst looks to be over

Woolworths* results for the year ending 30 June also had many different moving parts. Locally, food did very well, as is the norm. But this time clothing also returned to profit, and both divisions showed a better second half to the year compared to the first half. The big issue here is of course David Jones, which has now been written down by some 50% of the original purchase price. And while David Jones is improving, it still remains a horrible deal. If they'd just stayed in SA, the results would have been markedly better. That said, David Jones does seem to have survived the worst and CEO Ian Moir is relocating to Australia to overcome the final hurdle, which mostly includes completing the revamp of their Elizabeth Street store. They're also starting to roll out food in Australia but, having learnt their lesson, they won't just drop the South African process into Australia. Rather, they'll test the market and find what works for the Australian consumer. Overall, the worst does seem behind them. Now they face a long road to former glory. ■

editorial@finweek.co.za

*The writer owns shares in Shoprite, Woolworths and ADvTECH.
** finweek is a publication of Media24, a subsidiary of Naspers.

Photos: ADvTECH financial results | Archive

HOW SAVVY ARE *TECH STOCKS?*

Many tech stocks were originally considered high risk, but over the years they have found favour among investors – and form a sizeable portion of many South African offshore investment portfolios. However, at present investment paranoia around the direction of dominant tech giants has taken hold. *finweek* takes a look at the current landscape and where value can be found beyond the usual suspects.

By Marcia Klein

Photos: Shutterstock | www.coronation.com | www.stonehagefleming.com

On top of Brexit, trade wars and ominous inverted yield curves, uncertainty over the direction of the world's most popular tech stocks is adding fuel to the paranoia that is permeating global markets – and taking hold among South African investors.

Tech stocks, led by the so-called FAANGs (Facebook, Amazon, Apple, Netflix and Google parent Alphabet), have dominated the investment landscape in the past few decades and account for almost 20% of the value of the S&P 500. As is the case with Naspers* on the JSE, the price movements of these few companies pretty much dictate the index's ups and downs.

Nasdaq.com pointed out that "their outsized impact" has hurt the index over the last year, "with Facebook the only FAANG component in the green over the last 52 weeks, up 3.3%". But that was at the time – share prices have moved since then.

In fact, by the end of August, its increase over the year was barely more than 1%. The poor share performances across the tech board largely reflect a massive sell-off in the second half of 2018.

Against other broader indices, the dominance of the tech giants is a bit less obvious. There is a broader view that the tech giants "are all-conquering and dominate investment markets", says Coronation Fund Managers' head of global developed markets research, Neil Padoa. But he points out that the original FANGs (Facebook, Amazon, Netflix, Google) comprise only 4.5% of the MSCI All Country World Index, a widely used benchmark of the global equity universe. "If one includes Microsoft and Apple, the grouping still comprises less than 9% of the MSCI ACWI."

However, he agrees that only a few have outperformed the S&P 500 over the last year – Microsoft (comfortably) and Facebook (only marginally).

Investment paranoia centred on these performances and exacerbated by political and economic risks has seen many commentators, including *The Wall Street Journal,* question whether "the FAANG trade is losing its bite".

But there are, equally, many saying that now is a perfect buying opportunity given the recent downward pressure on these shares and considering their outlook and competitive edge as household names and, as such, integral parts of our daily lives.

For many South African investors FAANGs have been very important springboards and make up a sizeable proportion of their offshore investment portfolios and, certainly over the medium and longer term, the main reasons for growth in the value of their investments, even if the last year has been tough. Many of these stocks were originally considered extremely high-risk investments based on expectations and hype rather than fundamentals. Over the years, these investments have become increasingly transparent and easier to value.

Gerrit Smit
Partner at Stonehage Fleming; head of equity management and fund manager at Global Best Ideas Equities

Neil Padoa
Head of global developed markets research at Coronation Fund Managers

Becoming mainstream

The evolution of tech stocks has made them far more investible, says Gerrit Smit, Stonehage Fleming partner, head of equity management and fund manager of Global Best Ideas Equities.

Tech investment has moved on since the turn of the century when investors started climbing into internet, blue-sky and, in some cases, tech-bubble stocks, with many investment decisions being based on expectations and hope rather than in profitable companies, he says.

Most of the tech companies had no free cash flow and the majority had poor balance sheets.

"That has turned 180 degrees – they have developed into daily-life businesses that are very profitable and strong cash generators. Some are even good dividend payers and almost all, apart from Netflix, have exceptionally strong balance sheets."

Many have become big businesses that stretch beyond technology, becoming "modern-world companies with consistent profitable growth rather than expectations".

Smit says many investors struggle to form the conviction that these companies can continue to deliver on a profitable basis. There are exceptions, but for the most part "one can now value these companies on free cash flow, and not necessarily on earnings. And my view is that they are attractively valued."

He points out that in the case of Google, it has three growth pillars – the search engine, android and YouTube, each of which can be in business on its own.

"Each one is a classic business and I would be happy to own any of them. The free cash flow in Google is fantastic."

Even a company like Accenture, historically a consulting firm, has evolved into the tech space, deriving most of its work from tech consulting and moving its clients into the cloud.

Minding the risk

Careful stock picking remains crucial as the tech universe is broad. The imminent IPO of WeWork, which lets out office space in buildings owned by the CEO, among other things, and which claims to be a tech company, is one of many examples of companies asking for, and in many cases attracting, significant investor funding. But, according to publications such as Forbes and Bloomberg, it shows concerning similarities with the kind of companies that were listing in the previous tech bubble.

"We will be steering well clear of the WeWork IPO where community adjusted ebitda [earnings before interest, tax, depreciation and amortisation] – a term it has coined as a measure of profitability – is a closer approximation to revenue than profits, in our view," says Padoa. But not all IPOs should be tarnished with the same brush.

Padoa says investors need to assess each business on its own merits rather than buying themes or fads, or even the FAANG acronyms for that matter, as within the broad spectrum of tech stocks there is "tremendous value in some stocks, and little value in others".

Disruptors

Investors are also mindful of rapid change in the tech landscape, and the risk of disruption. While they hope to find and invest in the disruptors, they are equally aware that a new technology or trend can kill the prospects of companies in which they hold stakes.

Padoa says there is "a deep and broad range of tech-enabled businesses which are innovating at a rate rarely seen in our lifetimes. Some of these disruptors are targeting huge addressable markets with more efficient business models that undermine the economics of stale, slow, incumbent firms. Fundamental research can uncover ripe opportunities here."

Padoa says when it comes to disruptors, dominant tech firms that are already established with strong market positions, like Alphabet, Amazon and Microsoft, are by no means immune from competition, but "the scale of resources they have on hand is staggering".

They have intellectual capital, and as leading technology businesses they tend to attract the lion's share of tech talent which creates a competitive advantage. They also have financial capital. "Both Alphabet and Microsoft have over $100bn of cash on their balance sheets, while generating annual free cash flow approaching $40bn for Microsoft and $30bn for Alphabet. This provides tremendous financial flexibility to invest in or acquire new businesses."

Photos: Shutterstock

There are also early stage disruptors, "which are rapidly gaining market share and are immune to disruption at this stage of their life-cycle.

"The key for investors here is to sift through the hype and avoid committing capital to businesses where lofty growth or unrealistically high profitability is baked into current share prices."

Disruption comes in many forms. Padoa says these include food delivery and ride sharing, payments, data analytics, software, video gaming and cloud computing.

The reality is that few, if any, industries are immune to innovation or the risk from technological disruption, Padoa says.

"Leading businesses will use this change to increase market share and strengthen their competitive positions. Lagging businesses will suffer. Deep fundamental research ... will help navigate these cross-currents and find opportunity."

Investor concerns

"In tech we are spoilt for choice," says Smit. "There are many exceptional companies and we don't have to take on too much risk, certainly in businesses that are predominantly software. In hardware there is more risk of technology becoming saturated or obsolete, a fate which has hit BlackBerry and Nokia."

Some investors feel the same about Apple, where iPhone technology is not advancing substantially and prices are high, although Smit says it has an outstanding software business, and its services are increasing as a percentage of revenue.

Similarly, there is some concern about Netflix. Smit says Netflix has been very good in terms of exploiting streaming businesses, but has expanded on debt, is not a cash generator and has a terrible balance sheet, although its growth has clearly been strong.

"The challenge it can face is that the streaming business has no competitive edge," he says, adding that Uber has the same issue. Netflix relies on content providers, which is why it is doing its own content. But there is competition developing in the content space as consolidation takes place among film companies, content providers and streaming companies. Disney's deal with Fox, for example, gives it control over franchises like X-Men and streaming companies like Hulu.

Smit says Uber is "an outstanding example of what technology can bring to the man in the street", but says he

fears for the business model. "It is just a platform, it has no competitive edge and there is no barrier to entry," he says, adding that in cities like London there are already a handful of others competing for the same business. One offered drivers a better commission than Uber and had attracted 20 000 drivers on launch.

In future, customers will likely all have an app that will shop among ride-hailing apps and bring the best-priced or quickest option to their door, no matter the provider.

Another concern is the rapid growth in driverless car technology which may disrupt the industry significantly.

Among the biggest concerns for investors is regulation, as countries seek to control anti-competitive companies and industries, and make sure they collect tax from companies operating in their jurisdictions – something Amazon, Apple, Google and Facebook have discovered as they face increased scrutiny and proposed regulation from the US to the UK and Europe.

"This does worry me," says Smit. "Regulators have a difficult task balancing the regulation of something which is very effective and free, like Google, but may be anti-competitive."

Looking further afield

These concerns may be one reason to diversify tech investments. Another is, for investors that are brave or stupid enough, to find the next big growth stocks.

Stonehage's major investments include the well-known companies like Visa, PayPal, Accenture, Microsoft and Alphabet, but it is very aware of and keeps a close eye on disruptors and niche investment opportunities.

While Stonehage rates PayPal "a fantastic business", it is not extending its faith in **Elon Musk, a PayPal founder,** to Tesla. "We are not shareholders and don't plan to be," Smit says. "It has no free cash flow and is a cash-hungry business in a capital-hungry industry, not able to deliver dividends and free cash flow."

Among Stonehage's top holdings is animal drug company Zoetis, which plays in a field of limited competition and has a good organic growth outlook in a rapidly growing market.

There are other opportunities to invest in disruptive companies in biotech, such as Intuitive Surgical, the manufacturer of the Da Vinci surgery robot (South Africa has two of its 500 robots), which has exceptional cash flow and where recurring revenue is 70% of the business. Other

Elon Musk
CEO of Tesla and founder of PayPal

Photo: Gallo/Getty Images

> **"Outside of the obvious there is tremendous opportunity for investors with the resources to understand and evaluate these businesses."**

companies to watch include Illumina, a research and technology business doing DNA analysis and gene sequencing, or Align Technologies, a dentistry company that is making mouthpieces with 3D printing, says Smit.

While most tech investment is focused on the US, South African investors with exposure to Naspers, and its exposure to Tencent, know well that there are high-growth opportunities elsewhere.

China is a massive force in tech with companies such as Alibaba and Tencent, says Smit.

The US has clearly been the most innovative market to incubate tech businesses, so it has been right to focus there, says Padoa. "However, we often see dynamics that have played out in the US in other markets, but at a much earlier stage."

In China, tech businesses have scaled and in some cases leap-frogged their US counterparts, he says. "I think most investors are familiar with the giants Tencent and Alibaba. But smaller businesses like 58.com (the leading online classifieds business in China) and 51jobs (the leading white-collar job portal in China) can be even more attractive.

"In India, makemytrip (the leading Indian online travel agent) and Info Edge (leading jobs and real estate portals, with investments in other areas too) are interesting opportunities," Padoa says.

In Latin America, MercadoLibre is the dominant ecommerce business with a leading payment platform, much like PayPal; while in Russia, Yandex is the leading search engine portal which also owns a portfolio of other internet businesses in ecommerce and ride sharing, Padoa says.

According to Padoa, Europe and Japan have less well-known but dynamic tech companies, such as online food delivery platform Delivery Hero; virtual monopoly producer of semiconductor lithography machines ASML; and ecommerce marketplace Mercari.

"Outside of the obvious there is tremendous opportunity for investors with the resources to understand and evaluate these businesses," Padoa says.

"We all want to invest for growth," says Smit. "We remain very interested in applying tech for better healthcare," he adds, although he steers away from pharmaceuticals, where the challenge is running out of patent on which fortunes have been spent. ■

editorial@finweek.co.za

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

How have the FAANGs done?

Facebook

According to Nasdaq.com, Facebook is trading with a median price-to-earnings ratio (P/E) of 22.6 in 2019, the lowest median for the company since its 2012 IPO. CCN Markets said Facebook's share price "suffered a devastating 2018 amidst controversies that led to a mass investor exodus", but that it had weathered the storm, and it could be on the verge of a rally.

Amazon

Amazon's forward P/E of 73 sounds expensive, says Nasdaq.com, but it's the lowest since 2009/10. Forbes said that since the bull market began in March 2009, Amazon shares have risen 2 902% and that 53 analysts currently rate the stock a buy, two have holds and there are zero sells.

Apple

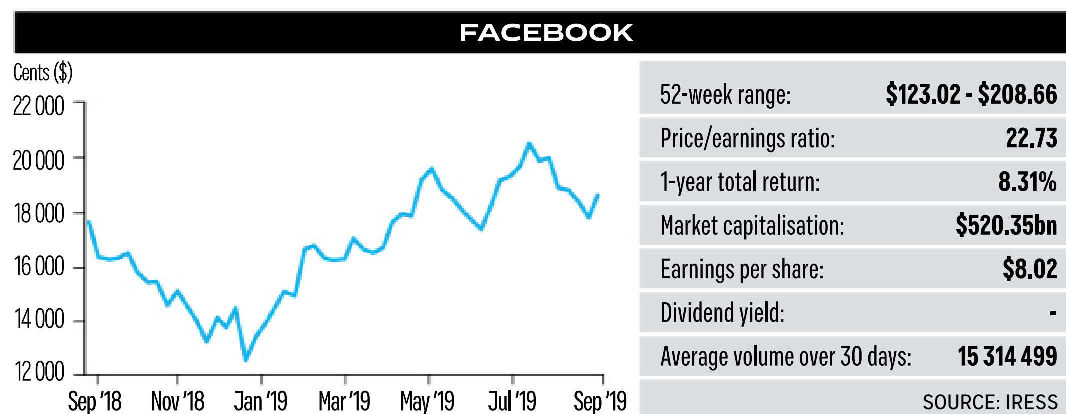
At a forward P/E of 17, Apple remains the cheapest of the FAANGs. Seeking Alpha said Apple's price has been "bouncing around the past year as a mix of its changing fundamentals and trade conflict turmoil between the US and China have held it down". However, it said that its rapidly diversifying revenue streams and competitive advantages will continue to give it growth.

Netflix

Netflix has the highest P/E and the worst balance sheet of the FAANGs. Forbes said recently that the share price has declined after it missed subscriber expectations for the second quarter, and that it was "hard to ignore all the red flags in Netflix's fundamentals and valuation" as its revenue and subscriber growth was slowing, it had negative free cash flow and was spending heavily on original content.

Alphabet (Google)

Nasdaq.com says sales are still expected to jump 20.2% in 2019, continuing its streak of 20% revenue growth. Seeking Alpha says that Alphabet is a solid grower of revenues and earnings and that it is slowing down current growth in order to invest in future growth. It said its shares are "materially undervalued" at present. ■

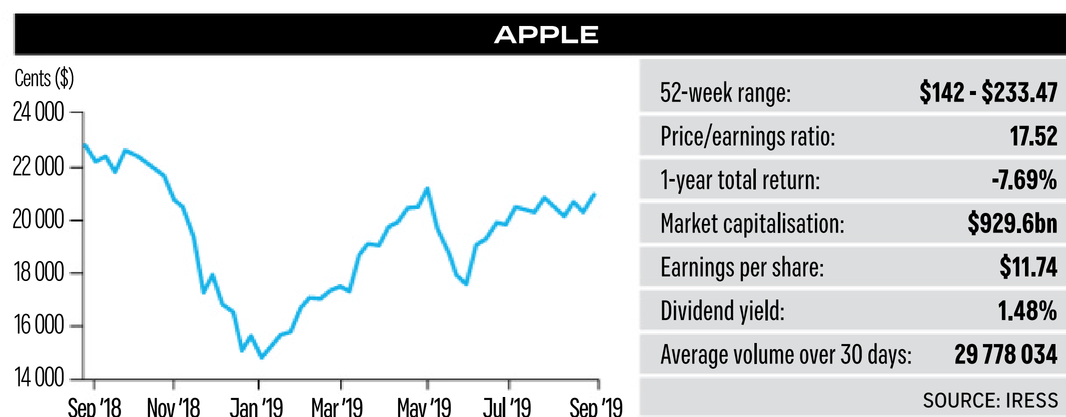


52-week range:	$123.02 - $208.66
Price/earnings ratio:	22.73
1-year total return:	8.31%
Market capitalisation:	$520.35bn
Earnings per share:	$8.02
Dividend yield:	-
Average volume over 30 days:	15 314 499

SOURCE: IRESS

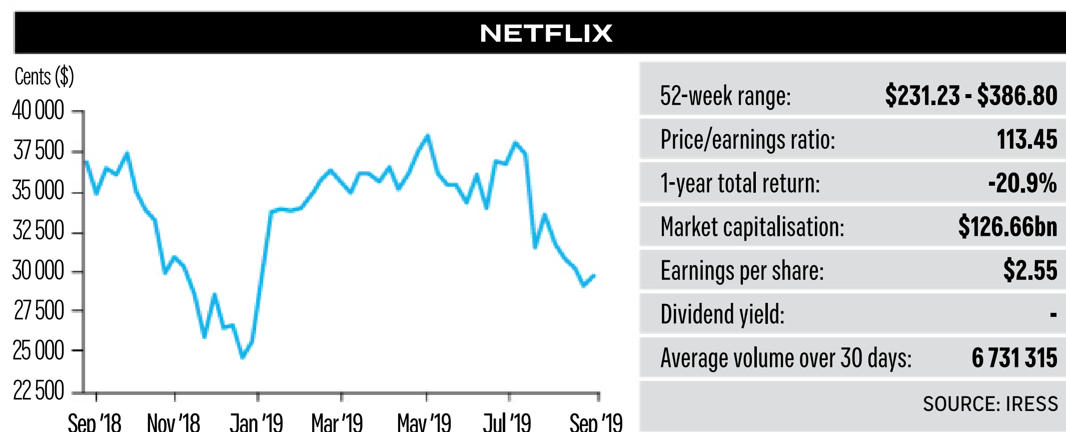
52-week range:	$1307 - $2050.50
Price/earnings ratio:	74.27
1-year total return:	-11.89%
Market capitalisation:	$885.36bn
Earnings per share:	$24.10
Dividend yield:	-
Average volume over 30 days:	3 660 319

SOURCE: IRESS



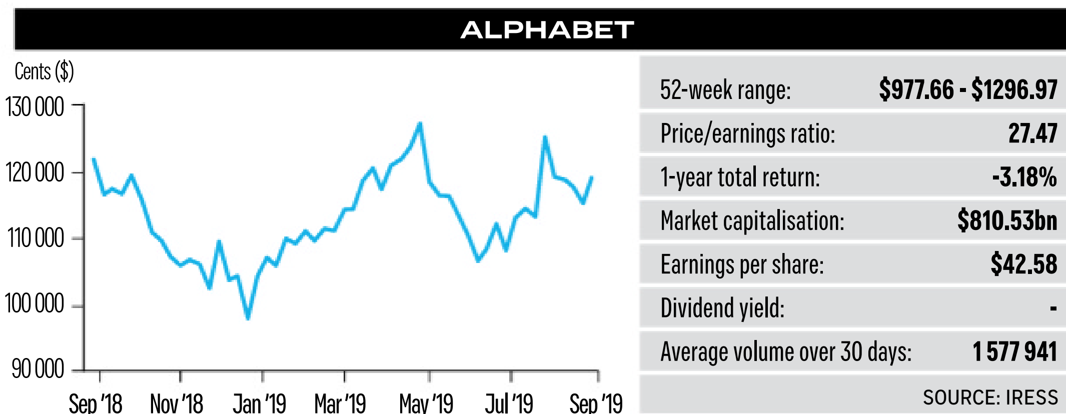
52-week range:	$142 - $233.47
Price/earnings ratio:	17.52
1-year total return:	-7.69%
Market capitalisation:	$929.6bn
Earnings per share:	$11.74
Dividend yield:	1.48%
Average volume over 30 days:	29 778 034

SOURCE: IRESS



52-week range:	$231.23 - $386.80
Price/earnings ratio:	113.45
1-year total return:	-20.9%
Market capitalisation:	$126.66bn
Earnings per share:	$2.55
Dividend yield:	-
Average volume over 30 days:	6 731 315

SOURCE: IRESS



52-week range:	$977.66 - $1296.97
Price/earnings ratio:	27.47
1-year total return:	-3.18%
Market capitalisation:	$810.53bn
Earnings per share:	$42.58
Dividend yield:	-
Average volume over 30 days:	1 577 941

SOURCE: IRESS

By Peet Serfontein

Tips for trading in offshore shares

Want to buy offshore shares, but not sure how to go about it? From finding a registered broker, to determining your risk appetite, here are some of the key steps to follow.

Some readers have asked me about the various ways in which one can invest in offshore shares. Say, for example, that you want to buy some Twitter Inc shares. Twitter is listed on the New York Stock Exchange (NYSE).

One of the first options is to move your money overseas and convert it to foreign currencies. If you want to buy Twitter shares on the NYSE, you will therefore need to convert your South African rand into US dollar.

To convert your rand into dollar and then move it abroad to buy some Twitter shares, you can choose one of the following options:

Option 1: You want to invest up to a maximum of R1m in offshore shares and do not want to repatriate your funds to South Africa. You can use your single discretionary offshore allowance of R1m, which does not require tax clearance from the South African Revenue Service (Sars). Keep in mind that this allowance resets every calendar year, meaning that every year you can use your allowance of R1m.

Option 2: You want to invest more than R1m, and up to R10m in offshore shares and do not want to repatriate your funds to South Africa. You can use an offshore allowance of R10m. You will need to get a tax clearance certificate in respect of your foreign investments from Sars. Keep in mind that this certificate, once issued, is only valid for 12 months.

Option 3: You want to invest without the administrative requirements of applying for tax clearance and you're willing to repatriate your funds when you withdraw your investment. An asset swap account allows you to invest offshore without using your offshore allowance. Such an asset swap account is also available to trusts, companies and partnerships. This option comes with other requirements.

> Many different international brokers are available, but always ensure that the broker you choose is licensed and is a regulated broker.

Who can help me with this?

Any bank, or any other institution with an international payment functionality can assist you with any of the mentioned options. Choose an institution that can seamlessly assist you with the administrative requirements involved when taking your money abroad. Keep an eye on costs.

It might be easier to use a local asset manager to invest in offshore funds on your behalf when investing larger amounts. It might also be less expensive this way.

What next?

Once you've decided on your option and actioned the applicable requirements, you will need to open an account with an international stockbroker. Of course, many different international brokers are available, but always ensure that the broker you choose is licensed and is a regulated broker.

Regulated brokers are registered as members of various regulated financial institutions, such as our domestic FSCA (Financial Sector Conduct Authority).

The reference to such an FSP (Financial Services Provider) will indicate that they are regulated and are bound to abide by rules and regulations. If you are unsure, please contact these authorities to verify the existence of such an FSP.

And again: Always make sure of trading costs as it will be quoted in the foreign currency.

Take note that a minimum deposit amount is required to open such a trading account. The same is applicable with the asset swap account.

Consider the risks

Investing offshore may enhance your returns and reduce risk by diversifying your exposure to a specific currency or country. However, you must understand the risks associated with such a portfolio of offshore shares.

Firstly, you'll need to consider currency risk. A stronger rand can offset any gains on your offshore share portfolio. It is important to move your money out of the country at times of rand strength. The perfect scenario will be to bring your money back to South Africa when the rand is weak and when you have substantial gains on your account. If you are uncomfortable with the volatility in the markets, do not attempt investing offshore.

Remember that South Africa remains an emerging market and is small in comparison to the international markets. Our currency remains volatile.

A long-term view is also required to fully benefit from offshore investing.

It is advisable to approach a tax expert because of the perceived complexity of applying tax and Reserve Bank clearance to offshore investments and the capital gains when disinvesting.

Ready, steady...

The actual trading of offshore shares occurs through an online trading platform whereby you have direct, real-time access to international stock exchanges. Once you're all set up, you're only left to decide what share you will be trading.

Keep in mind that while you can construct your own portfolio of global shares and exchange-traded funds (ETFs), you can also choose to have your portfolio managed by a team of advisers and expert analysts. Most local share brokers can assist you in this regard. ■

editorial@finweek.co.za

Peet Serfontein is a director of Phoenix Investment Analytics.

on the money

>> **Entrepreneur:** Local gin's international adventure *p.44*
>> **Motoring:** More bells and whistles for Volvo's XC90 *p.46*
>> **Careers:** What you need to know about retrenchments *p.48*

SPOTLIGHT

By Justin Brown

The art of keeping central banking above politics

One of the South African Reserve Bank's new deputy governors is practised in the art of economic diplomacy. That could come in handy, given the dark clouds hanging over the local economy.

"Politics does not exist in central banking, because we have obligations," says new deputy governor of the South African Reserve Bank (Sarb) Nomfundo Tshazibana.

She is sitting down with *finweek* at the Sarb's headquarters in Pretoria, and is busy discussing one of her favourite central bankers at the moment, US Federal Reserve chairman Jerome Powell.

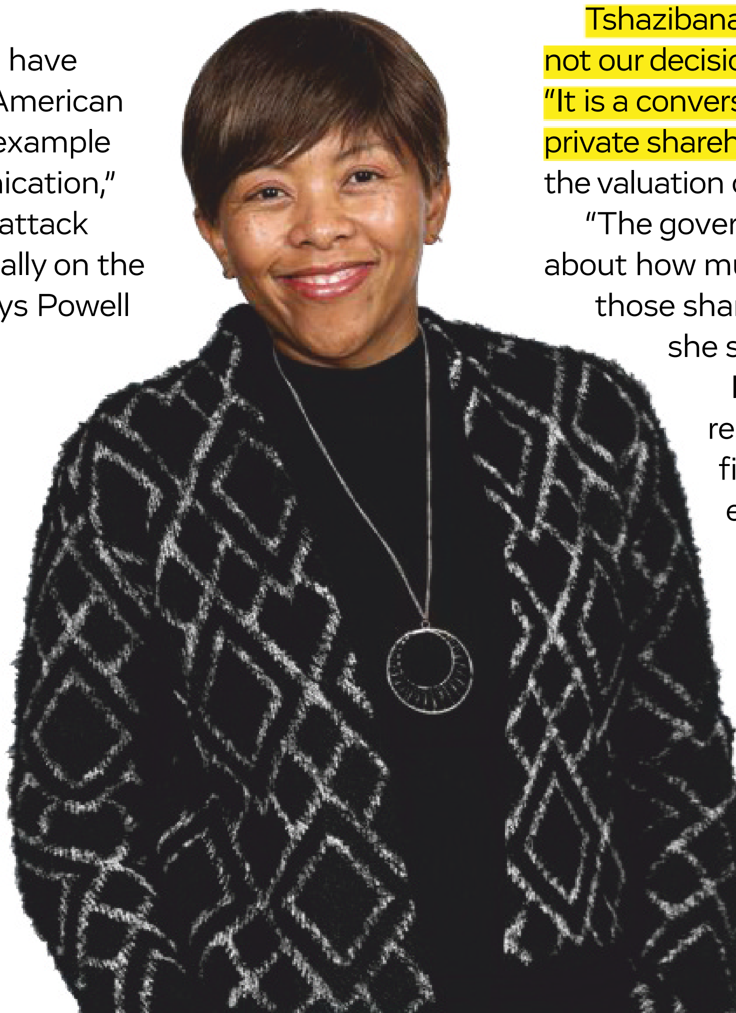
Tshazibana looks up to Powell and Bank of England's Mark Carney because of their ability to communicate with investors and the public.

"[Powell] has done an amazing job in communicating what the Fed is doing… I have enjoyed the way he has interacted with American investors and the press. He sets a great example for all of us around central bank communication," says Tshazibana. Powell has been under attack from US President Donald Trump, especially on the topic of interest rates, but Tshazibana says Powell "was doing his job".

Moving across the pond, she believes that "when one looks at the activist role that central bank governors have had to play in several issues, [Carney] has done a sterling job in terms of getting the UK ready for the possible Brexit.

"If you talk to investors or anyone who has any form of interaction with the UK, they are not worried about the central banking elements. His messaging has always been clear about what works for that central bank."

Nomfundo Tshazibana
Deputy governor of the South African Reserve Bank



Tshazibana and Rashad Cassim's appointments were announced by President Cyril Ramaphosa on 10 July. They replace Sarb veterans Daniel Mminele and Francois Groepe, who left in June and January, respectively. The Sarb's Monetary Policy Committee (MPC), which sets the level of the key repo rate every two months, still has at least two vacancies.

The new appointees are joining at a time when communication at the Sarb has also become crucial, especially as calls for the nationalisation of the institution continues to surface.

Tshazibana is frank. Nationalisation of the Sarb "is not our decision [as Sarb executives]", she stresses. "It is a conversation between the government and the private shareholders. Should it happen – the issue of the valuation of the shares is going to come up.

"The government will have to make this choice about how much it is willing and able to pay because those shareholders will have to be compensated," she says.

In her new role, Tshazibana is responsible for Sarb legal services, financial markets and international economic relations and policy, including dealing with the IMF, the Southern African Development Community, the Bank for International Settlements and the Group of Twenty.

Tshazibana, who wrote her Master's thesis on the benefits of primary education to the economy, worked at the National

"Should it happen [...] government will have to make this choice about how much it is willing and able to pay because those shareholders will have to be compensated."

Energy Regulator of South Africa (Nersa) for three years before joining National Treasury as director responsible for microeconomic policy.

"I looked at market structure issues, price formation in the economy and sectoral developments. I did a lot of work around electricity sector issues."

Over time, she got involved in macroeconomic issues. She also played a part in assessing the economic impact of the Basel II regulations (which set the required reserves financial institutions must hold) when they were introduced locally, and worked with the Treasury tax policy unit in assessing the economic impact of tax proposals, including the carbon tax.

Her final role at Treasury was as deputy director-general in charge of the economic policy and forecasting division where she led the team that developed the economic outlook for the budget.

At the end of 2015, Treasury seconded her to the IMF in Washington DC, where she represented South Africa and 22 other African countries as an alternate executive director. In this role, she says, "the bulk of your job is around economic diplomacy".

"When you are with the country – you need to communicate the views of the IMF. When you are back at the IMF – you need to communicate the views of the country."

The term for an IMF director is three years and she returned to South Africa in February 2018 to serve as the adviser to Sarb Governor Lesetja Kganyago and the other governors.

She was excited over her latest appointment at the Sarb, "but mostly humbled".

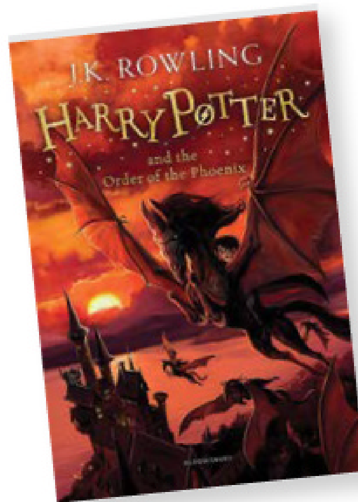
"You have to be humble because there are so many things this bank does and it is such a great institution," she says.

As an economist, Tshazibana says, she was concerned about whether government or Sarb policies had the required impact on development.

"Most people will say that the central bank is fixated on price stability. In very simple terms, we worry about price stability because at a household level what you want is for today's R10 to be able to buy almost as many goods tomorrow." ■

editorial@finweek.co.za

Lesetja Kganyago
Governor of the South African Reserve Bank



"In very simple terms, we worry about price stability because at a household level what you want is for today's R10 to be able to buy almost as many goods tomorrow."

Photos: Supplied | Gallo/Getty Images

Tshazibana off duty

Nomfundo Tshazibana grew up in Wattville and Daveyton near Benoni, Gauteng. After high school she studied at the University of KwaZulu-Natal (UKZN). She originally registered for a BProc but found law wasn't as glamorous as she imagined. A year later she changed to a Bachelor of Commerce with marketing and economics majors.

"The very first job that I got offered was from an advertising agency," Tshazibana says. The agency wanted to enrol her at the AAA School of Advertising in Johannesburg. Instead, she turned down the offer and did an honours degree in economics at UKZN, followed by a Master's degree in economics at the same institution.

Tshazibana started her career as a trainee market researcher at TNS Global in the middle of 1997 and left in 2000. "I resigned my job without having a plan. There was very little work/life balance in market research." Shortly after she joined Nersa, and the rest, as they say, is history.

What do you do to relax?

I spend a lot of time with my two kids – Sam (10) and Lit (8) – including going to movies with them.

What movies do you like to watch?

I have watched every single cartoon that has come up with my children. Otherwise, I'm a fan of medical and legal dramas.

Where do you like to go on holiday?

The bulk of the holidays now – because of the age of my children – entails going to places with theme parks or a beach.

What books do you like to read?

I tend to read fiction books, including fantasy such as the *Harry Potter* series and *The Lord of the Rings*.

What have been your happiest moments in life?

When my kids were born – those were happy moments. I'm also happy that my grandmother is still alive. She lives in a home in Boksburg. ■

Photo: www.harrypotter.bloomsbury.com

By Timothy Rangongo

The local gin that stirred international interest

Inverroche gins are produced with fynbos from the Cape Floral Region and boast a distinctive taste. This unique characteristic, and its popularity, caught the attention of Pernod Ricard – the French beverage maker of Jameson Whiskey and Chivas Regal, among others, and now a majority shareholder in Inverroche.

The craft gin scene in South Africa and across the globe has grown exponentially over the last few years. One proudly South African gin is Inverroche, made from rich and aromatic botanicals – such as fynbos from the Cape Floral Region.

finweek first featured Inverroche in 2014. A lot has changed for the company since. Inverroche's unique sapid taste and burgeoning following across the globe eventually caught the attention of Pernod Ricard, one of the largest producers of distilled beverages in the world; think Jameson Whiskey, Chivas Regal, Martell and G.H. Mumm Champagne. Pernod acquired a majority share in Inverroche, joining forces with the latter's founder and CEO, Lorna Scott.

Scott has worn several hats before Inverroche. From air hostess to sales and marketing manager at a food services corporation (and later operations director for the same company in Scotland). She's even been deputy mayor of the Hessequa Municipality, which covers Still Bay, where Inverroche is produced from the local fynbos.

finweek caught up with Scott following the Pernod announcement.

Lorna Scott
Founder and CEO of Inverroche

Where did the idea for Inverroche gins come from?

As deputy mayor of the Hessequa Municipality, my portfolio included finances as well as economic and sustainable development. One of my objectives was to develop our region as a tourist destination.

I discovered that there are world-renowned archaeological sites close to my home (now, the Inverroche distillery) with traces from hundreds of thousands of years ago, of how man survived on what the ocean and plant life naturally provided. Still Bay is also in the middle of the Cape Floral Region, where the very plants which sustained us millennia ago still flourish.

I had also just established a small vineyard at my farm (the first in the region) with the idea of distilling brandy. It dawned on me that I could combine all these assets and meet both personal and community needs by creating a global spirit brand with ingredients that could tell this story.

How did you get started?

I started experimenting with a small 1.7 litre copper pot still in 2007, christened Mini-Meg, distilling my way through various different fynbos species to develop her recipes.

Distilling is definitely in my blood – even though I never planned to make it a career. My mother used to distil pineapple beer in her pressure cooker! When I discovered the small copper pot still on a trip to Italy, it brought back many fond memories of my mother and I had to take it home.

With the kind assistance of a retired botanist from Still Bay I learned to identify the many edible botanicals in the region. I soon realised that one gin was not going to be enough to showcase the enormous diversity and richness of these unique biomes found nowhere else in the world but here.

And so, the three gins were born, each with its own distinctive taste and colour profile.

How did you secure funding to get Inverroche off the ground?

I initially took out a second mortgage on my home to buy a bigger pot still, called Meg, but since then I have relied on a positive cash flow to drive all expansion and growth. "If you can't pay cash for it, you can't afford it" has always been a guiding principle of mine.

Why gin?

At the beginning, I experimented with many different ideas in which to use fynbos, such as conserves and perfume. But when I recalled the small pot still I had tucked away in my loft, the idea started to take shape.

I personally enjoy gin and used to distil small batches as gifts for friends. I was able to create a spirit that would capture the essence of the region and become the vehicle through which to drive the story of the unique surroundings through the botanicals used.

Gin is the perfect medium as it is made from a flavourless base spirit which is then infused through various processes with other botanicals, such as juniper, which is where the flavour comes from. Using these rich and aromatic edible botanicals from the Cape Floral Region allowed me to experiment with new and unusual ingredients to create uniquely South African spirits.

How did you determine the need for this specific type of craft gin in the market?

When I started on this journey, there were no gins on the market that retained their colour, for example, but it was an unintended consequence of my experiments with recipes and unusual botanicals.

Inverroche produces three gins, each with its own distinctive taste and colour profile. ▶

Q&A:

As luck would have it, I had the good fortune to enlist the palates of friends, relatives and especially a small group of willing local retirees from the Still Bay area who became my sounding board and tasting panels.

There were no benchmarks or statistics as craft gin in South Africa was a non-existent category. I trusted the simple delight of discovery on the faces of my panel of part-time judges and that was enough for me to take that leap of faith and just do it.

Tell us about the very first bottle of gin you sold.

By December 2011, I had perfected the production process and fynbos-infused flavour profiles. We produced one batch of each of the Inverroche fynbos-infused gins, now known as our Fynbos Collection, and decided to enter the market in the new year.

My neighbour, who runs a restaurant, persuaded me to "just do it now" and not to wait for the new year to start marketing my gins. They began sending customers from the restaurant across the road to taste the gin. When the first customers tried the gin, they immediately wanted to buy several bottles.

What are some of the challenges of running a business like a craft gin distillery?

How to support the marketing and brand awareness through distribution and expansion, to ensure the brand story remains true. And finding creative ways to communicate our brand stories through intimate, personal experiences for our consumers.

How tough is competition? What differentiates Inverroche gins from counterparts?

Inverroche pioneered the handcrafted, luxury gin offering by being the first in the world to use fynbos as the leading profile in our gins. The other differentiator is that Inverroche is, and always will be, authentic with a strong sense of place – "made in Stilbaai (Still Bay)". We have remained true to our brand identity and values in terms of sustainability, being female-forward and truly handcrafted.

A bottle of Inverroche passes through 16 pairs of hands during bottling; human hands nurture and harvest our own key fynbos botanicals and we continue to number each bottle by hand. We act local and think global.

How many people do you currently employ?

We currently employ 50 permanent staff, with a strong focus on female upskilling. [Salaries are Inverroche's biggest overhead, as they handcraft their products and use very limited machinery in the production of their spirits.]

What other markets does Inverroche export to?

We currently export to 17 different countries – the US, UK, Australia, Namibia, Botswana, Nigeria, Germany, Austria, Sweden, Switzerland, Belgium, Norway, the Netherlands, Seychelles, Mauritius, Canada and Denmark.

What does Inverroche's new partnership with Pernod Ricard mean for the business?

This acquisition increases Pernod Ricard's presence in the dynamic sub-Saharan Africa spirits market, where gin growth is accelerating exponentially. It comes just months after the group's investment in Jumia, a leading e-commerce player in Africa.

The deal is also significant for the local economy as it demonstrates a vote of confidence in SA's economic prospects and highlights the ability of local female entrepreneurs to create world-class luxury brands that are made in Africa.

Inverroche's long-term goal is to create a global brand and product range that can sit on-shelf anywhere in the world and tell the story of our common origins and connection to our surrounding environment by starting the conversation about what is in the gin and why it matters. Our gins are meant for sharing.

What is the biggest lesson you have learnt thus far?

You have to let go of the day-to-day operations. My strategy up to now has been to employ talented people with expertise in those areas outside my personal circle of competence for key positions as I focus on building the brand. Build confidence and trust with staff and consumers alike by keeping a firm grip on the values and vision.

And the best business advice you've ever received?

Understand every aspect of your business fully and accept that change is inevitable. When things get tough, change the plan, but never the vision.

What has been unexpected since embarking on this journey more than ten years ago?

The value of "word of mouth" and partnerships with like-minded people and organisations, which fully embrace the same values as your own.

How do you stay motivated?

I remain involved and I listen to my consumers by personally hosting select gin schools or tasting experiences.

I keep my finger on the pulse and hardly a day goes by without receiving a message, a WhatsApp, Facebook post or email from people from all over the world who felt compelled to take the time to sit down and send me a message about their discovery or experience of our products – there is no greater reward or motivation to stay the course than this. ■

editorial@finweek.co.za

Photos: Supplied | www.facebook.com/Inverroche

By Glenda Williams

Volvo's refreshed XC90 ups the sophistication

It's got looks, safety, luxury. And now a concierge service and six-seater configuration add to this SUV's allure.

Volvo's brand reinvention efforts, which culminated in the launch of the new-look Volvo XC90, have been paying off. Today, Volvo cars, always among the world's safest, are now also among the most desired luxury vehicles.

When the new-look XC90 debuted locally in 2015, South African motorists demonstrated their approval of the large, luxury SUV in sales numbers, the model immediately becoming the brand's bestseller.

Large, roomy and elegantly kitted out, the sophisticated seven-seater SUV boasted advanced safety credentials and a host of innovative technology.

Rather than mess with that successful recipe and change what is still a contemporary and visually striking vehicle, the Swedish brand has elected to carry through the same styling in the 2020 XC90 and instead add a few more bells and whistles to its flagship model.

Aside from new wheels and 'modernised' grille, not much has changed externally on the refreshed version. The biggest changes are a brand new six-seat configuration and concierge service.

The 2020 XC90 version offers a range of two-litre, four-cylinder petrol and diesel powertrains all coupled to an eight-speed automatic transmission. Four trim options, Momentum, Inscription, R-Design and Excellence, are offered.

finweek spent quality driving time in the seven-seater sporty R-Design model of the range-topping Volvo XC90 T8, a hybrid with a supercharged and turbocharged petrol engine and electric motor.

Cabin sophistication

Scandinavian design flair and attention to detail make for a beautifully crafted machine, both inside and out. Like its 2015 predecessor, the interior epitomises luxury and class.

Modern and elegantly appointed, the cabin is uncluttered and surfaces streamlined. This includes a well-disguised cubby, its smooth lines unbroken by an opening mechanism. That button is located in the centre console. Even the core of the car's control system, the tablet-like touchscreen, nestles in the dashboard.

Stitched leather dashboard and door panels, soft leather seats, wood and an optional crystal gear knob make up some of the quality materials of its luxe interior.

The generous cabin comes with flexible seating configuration options. Now in play on the back of demand from American and Asian customers is a new six-seat configuration.

The latest incarnation of the XC90 includes two USB ports as standard and telematics unit with P-Sim card slot, and Android Auto has been added to Apple CarPlay released on its predecessor.

This sophisticated Swede boasts an

The Volvo XC90 R-Design T8 Twin Engine in Thunder Grey

TESTED:

Volvo XC90 T8 Geartronic AWD R-Design 7-seater

Engine: 2-litre four-cylinder supercharged and turbocharged petrol and electric motor
Power: 300kW (235kW + 65kw)
Torque: 640 Nm (400Nm + 240Nm)
Transmission: 8-speed automatic FWD + ERAD (electric rear axle drive)
0-100km/h: 5.6 seconds
Top speed: 230km/h
Fuel (claimed combined): 2.1 litres/100km
CO_2 emissions: 49g/km
Fuel tank: 70 litre
Ground clearance: 238mm
Boot capacity: 314 litres expandable to 1 856
Safety: 6 airbags
Warranty/maintenance plan: 5yr/100 000km
Price: R1 291 200 incl. VAT

Photos: Supplied

array of world-class safety and in-car connectivity technologies.

Standard fare on the sporty T8 R-Design includes Intellisafe Assist (includes City Safety with pedestrian, cyclist and large animal detection and front collision warning), lane keeping aid, LED headlights with active high beam, park assist and adaptive cruise control with pilot assist.

Also standard are power driver and passenger seats and a power-operated tailgate, ergonomic leather sports seats and perforated leather-trimmed steering wheel with gearshift paddles.

Newly introduced is Volvo's concierge service, Volvo On Call. This includes an in-car WiFi hotspot accessible to all passengers. Both the human-based concierge service as well as an SOS function for use in the event of an accident are standard fare. Volvo On Call is free for five years.

Volvo On Call will tell you if you have forgotten to lock your car; can check the fuel level; cool or heat your car prior to entry; and also automatically alerts emergency services if the system detects that an accident has occurred.

It was an iPhone rather than a key that testers were provided with on arrival at Cape Town airport.

Armed with a cellphone loaded with this app, tracking down the test car proved straightforward, a five second hooting and flashing of lights bringing the hunt to a speedy close. Location is also displayed on a map, handy when positioning is further afield.

In the driving seat

Powered by a combustion engine and electric motor, the range-topping plug-in hybrid T8 delivers on both power and efficiency for a remarkable 300kW of power and a frugal 2.1 litres/100km. And there's further driving under battery operated power, courtesy of a battery and software upgrade.

It's premium piloting all the way. And for a fair portion of the drive under electric power, it's a silent one. It's not a car you would take to a drag race but there is certainly no lack of grunt, the combination engines producing a spirited and effortless drive.

It's premium piloting all the way. And for a fair portion of the drive under electric power, it's a silent one.

This substantial machine has supremely good road manners. The all-wheel-drive XC90 is planted and its 20-inch wheels and air suspension make for a pliant ride. The sophisticated SUV handles much like a smaller, lower car. It really is a most satisfying driving experience.

With pricing starting at R1 023 700 and climbing to R1 668 500, the refreshed Volvo XC90 is no budget buy. But consider what you get. The XC90 is well-documented as one of the safest vehicles in the world.

Put that together with space, innovative tech, luxury features and premium on-road performance and it makes this top-notch SUV tough to beat. ■

editorial@finweek.co.za

CLIMBING MARKET SHARE

Volvo has been able to grow its local market share from 2.8% four years back to 5.6% last year, despite a struggling local passenger car market.

The brand's reinvention efforts have trickled down to all its models. While the XC60 holds the position of bestseller for the manufacturer, the XC40 – the smallest of Volvo's SUVs – could soon take top position. XC40 sales have been constrained by a lack of stock supplied to SA (around 50 monthly).

But Greg Maruszewski, managing director of Volvo Car South Africa, says sales could easily have been double what they currently are.

Come September, however, the number of XC40s making their way to SA from Ghent, Belgium, is set to grow to an anticipated 80 to 100 units, he tells *finweek*. 2019 marks the last year of supply in SA of the V40, Volvo's small family hatchback.

But making its way to SA shores at the beginning of 2020 is the Volvo S60, the brand's compact luxury sports sedan. ■

By Amanda Visser

Your rights during retrenchment

Unfortunately, retrenchment is a reality that many employees are faced with. Knowing what your rights are – and understanding the legality around the retrenchment process – is extremely important.

The hovering sword of retrenchments, lay-offs or restructuring – call it what you will – can have a paralysing effect on employers and on employees.

Companies must ensure that this traumatic experience is not exacerbated by hiccups, delays, errors or complications with the process and the calculation of severance payments.

The instinct is often to get this painful process over and done with as quickly as possible, says Arlene Leggat, president of the South African Payroll Association (Sapa).

The Labour Relations Act (LRA) sets out the procedures for retrenchments and the Basic Conditions of Employment Act provides guidance on what has to be included when determining the severance package.

A company can only consider retrenchment of one or more employees if its economic, technological, structural or similar requirements justify the need to retrench.

The process

Anastasia Vatalides, head of Werksmans Attorneys labour and employment practice, says the LRA prescribes that the employer must disclose all the relevant information which the employees will require to consult effectively with the employer.

In the case of large-scale retrenchments, the act affords the employer and the employees the option of facilitation through the Commission for Conciliation, Mediation and Arbitration (CCMA).

"The processes, in essence, require the parties to embark on a consultation process with a view to reach consensus on a number of prescribed issues, including whether there is in fact a need to retrench employees," says Vatalides.

This consultation must begin as soon as the company "contemplates" a reduction of staff through retrenchments, says Leggat.

However, in many instances the unions representing employees feel that as soon as the company starts consulting, they are not "contemplating" retrenchments anymore. They believe the company has already made the decision to let people go.

The process does not have to be acrimonious. Rather, it should be about engaging in "a genuinely consultative and transparent manner to find solutions that will work for everyone," says Leggat. "It is possible."

She says employees must be provided with information relating to the reason for the retrenchments, what alternatives were on the table, why they were not chosen, and what the company is offering those employees who will be let go.

This offer includes the severance package, but it can also include upskilling, how and where to look for new employment, assistance with the updating of curriculum vitae's and even how to navigate and use social media.

Nonkululeko Mkwanazi
Senior associate
at Bowmans

The package

Vatalides says the employer is obliged to pay all who have worked at the company for more than a year a severance package based on at least one week's remuneration for each year of completed service.

"If the employer has a practice or policy which requires the employer to pay more than the statutory minimum, or if the employer falls under the jurisdiction of a bargaining council which has prescribed a higher severance package, the employer is bound to pay the higher package," she notes.

"An employer may only decline to pay an employee a severance package if the employee unreasonably refused to accept a reasonable alternative offer of employment with either the current employer or another employer."

Nonkululeko Mkwanazi, senior associate at Bowmans, says when an employee is voluntarily retrenched and signs an agreement waiving their

WHAT HAPPENS TO EMPLOYEE RIGHTS AFTER A CORPORATE TAKEOVER?

The takeover of a going concern triggers Section 197 of the Labour Relations Act. The employees would simply be taken over by the purchaser and their contracts of employment would continue with the new employer as they did with the old employer, according to law firm Bowmans. However, the new employer would be permitted to reduce staff by retrenching them, provided it has a genuine operational requirement to retrench, and only after it has followed a fair retrenchment process.

According to law firm Cliffe Dekker Hofmeyr, it is open to the parties to agree to contract out of the employee protections. The agreements must be in writing, and must be entered into between at least the previous or new employer (or both) and the employees. It is important to know, however, that any attempts to have previous years of service disregarded will be unenforceable. ■

Photo: Supplied

rights to sue the company for unfair dismissal, their retrenchment package should be more attractive.

"In addition to the payment of accrued annual leave pay, notice pay, severance pay and any other contractually guaranteed amounts, the employee should be paid a gratuity. The amount of the gratuity is ultimately a matter for negotiation between the parties," says Mkwanazi.

In order to calculate the value of the severance package, the employer must include the employee's salary or wage, average overtime, shift and standby allowances, as well as travel allowances and commissions. It must also include the employer's contribution to benefit schemes such as death, funeral, retirement and medical aid contributions, says Leggat.

In other words, it must be calculated on cost-to-company and not only the salary, says Mkwanazi.

Companies: Stick to the rules

Vatalides says employers may be tempted to avoid following some or all of the processes prescribed in the LRA.

"However, this is, in our view, short-sighted given that if the employer fails to follow the processes prescribed in the LRA, this could result in the Labour Court or the CCMA reinstating retrenched employees without a loss of earnings. Alternatively, it can award retrenched employees compensation up to 12 months' remuneration each."

Mkwanazi points out that if the retrenchment was based on discriminatory grounds such as race, gender or sexual orientation, then the relief awarded is compensation up to a maximum of 24 months' remuneration – calculated on cost-to-company.

Furthermore, says Vatalides, if a company takes over another business and embarks on a retrenchment process it will bear the onus to prove that the retrenchments are triggered by economic, technological, structural or similar requirements and not the takeover (see box).

If found that employees have been retrenched purely as a consequence of a company having acquired the business as a going concern, those retrenchments could be found to be automatically unfair.

"Automatically unfair dismissals are regarded by the LRA as particularly unacceptable and attract punitive consequences," she says.

Consequently, an employee whose dismissal is found to be automatically unfair is entitled to a maximum of 24 months' remuneration as compensation.

The bottom line, for companies, is to ensure that there is a genuine operational requirement for retrenchments. It is also important for employers to consult in good faith and with an open mind so that employees are given a fair opportunity to consult, adds Mkwanazi. ■

editorial@finweek.co.za

Fancy yourself a general knowledge whizz? Then give our quiz a go! You can complete it online via fin24.com/finweek from 9 September.

1. Which head of state was described as an "unidentified leader" by a White House journalist at this year's G7 summit, sparking backlash on social media?
2. The SABC bought the rights to broadcast Absa Premiership matches (over five years) for:
   - R300m
   - R72m
   - R20m
3. **True or false?** South African retailer Woolworths posted a 2.1% drop in annual earnings.
4. President Cyril Ramaphosa promised to separate Eskom into different units for generation, transmission and distribution. According to the state power firm, how many years could it take to split Eskom into three business units?
5. A draft bill that will amend the Promotion of Access to Information Act, currently under discussion in Parliament, seeks to provide for the access to information on:
   - Benefits to ministers' spouses
   - Private funding of political parties
   - State-funded renewable energy projects
6. **True or false?** Low-cost airline Mango is state-owned.
7. South African authorities impounded an Airbus 220-300 aircraft leased by which African country's national airline?
8. Who is the captain of South Africa's national rugby team?
9. Quentin Tarantino's ninth film, starring Leonardo DiCaprio and Brad Pitt, is called *Once upon a time in ______________*.
10. **True or false?** Scientists have been able to reproduce coral in a lab, which could offer answers to endangered reefs.

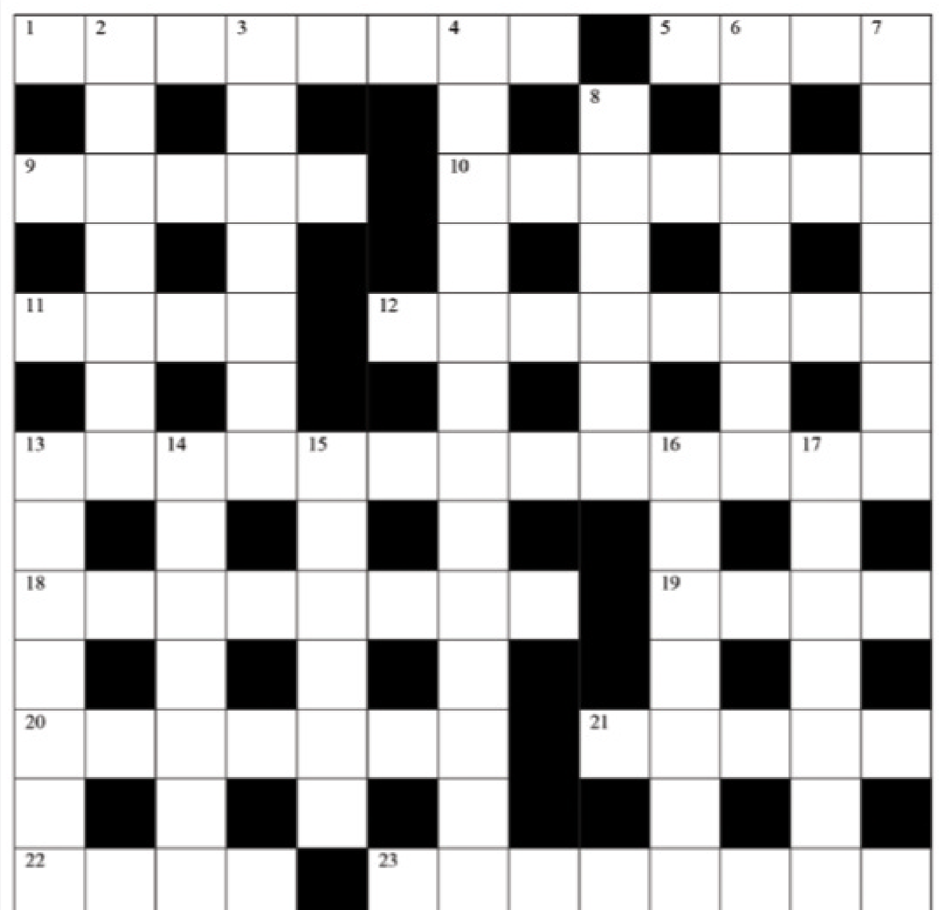
CRYPTIC CROSSWORD NO 739JD

ACROSS

1 Involved dropping down the sleeve (8)
5 Work that's out of print in America (4)
9 Beat metal into place (5)
10 Smoking bacon with lettuce and tomato? (2,1,4)
11 Take off fast as time flies (4)
12 Garment put to one side (8)
13 Underwrite charge a railway makes serving to protect (13)
18 Profile of Arsenal, say (4,4)
19 Arctic region, mostly dry, out of fish (4)
20 Scholarship garland presented to rock singer (7)
21 Unoccupied bed charge (5)
22 It's all there, untouched (4)
23 Vain number one's upset Sally (8)

DOWN

2 Born with deformed limb, Cockney girl's become more subtle (7)
3 Sue hospital department to get tariff adjusted (7)
4 Object to something done at mass meeting (7,6)
6 Master and leading seaman returns in proportion (3,4)
7 Agy lyric (7)
8 A vehicle backed into the house – the language that ensued!
13 Pounds bug the French (7)
14 Dine or run out to get food delivered home (5,2)
15 Cat playing with string (6)
16 Not applicable to one entered in Nova Scotia races (7)
17 Pick up to be involved in an accident (3,4)



Solution to Crossword NO 738JD

ACROSS: 1 Bridegrooms; 9 Revenge; 10 Slush; 11 Hello; 12 Distend; 13 Incite; 15 Jigsaw; 18 Hearths; 20 Salvo; 22 Polar; 23 Big-time; 24 Decolletage

DOWN: 2 Rival; 3 Dine out; 4 Greedy; 5 Oasis; 6 Mousers; 7 Archbishops; 8 Shadow-boxes; 14 Charlie; 16 Insight; 17 Isabel; 19 Torso; 21 Lying

On margin

Why you should take a back seat

This issue's isiZulu word is *ushintshi*. *Ushintshi* is change – the difference between the price/cost and the amount tendered. It is a derivative of the English word 'change'.

Ushintshi is the most difficult part of the trickiest branch of mathematics – taxi maths.

Taxi maths is not for the faint-hearted, and dealing with *ushintshi* is for only the bravest of the brave. You don't sit in front in a taxi if you do not have your story straight. It will not end well for you.

You could be a chartered accountant or have a doctorate in mathematics, but if you are not used to taxi maths, you will cry like a little baby.

You are a Nasa scientist? Good for you, now go sit at the back of the taxi and let Matshidiso deal with *ushintshi*. We don't want to be late for work.

I hear as a way of showing he was still one of the people, even though he was hobnobbing with the likes of Naomi Campbell, that Madiba took a taxi and sat in the front but ended up crying over *ushintshi*.

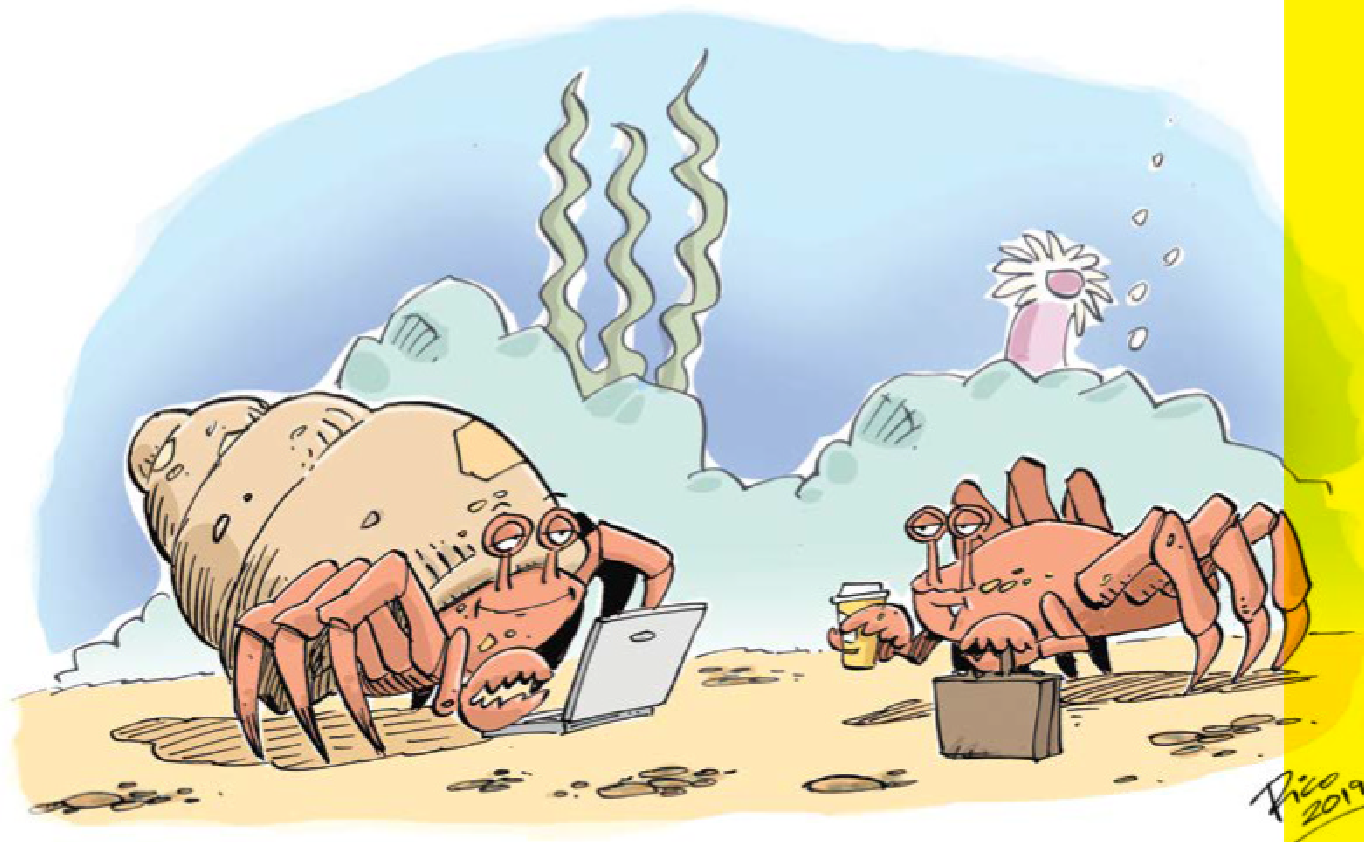
If Grigori Perelman, who solved the Poincaré conjecture, were to come to SA on holiday he would refuse to go anywhere near a taxi or taxi rank; not because he fears for his life, but because he knows his credibility as a mathematician might take a knock it would never recover from.

Ushintshi is no joke. Just writing about it, I shiver. The stakes are so damn high.

Get taxi maths wrong and the taxi might end up offloading all of you in the middle of the freeway.

The only mathematical challenge that comes close is splitting the bill when hanging out with dodgy friends.

– *Melusi's #everydayzulu* by Melusi Tshabalala



"So, how is this *'working from home'* thing working out for you?"

Matho Dladla @DladlaMatho
Imagine living in a country where it's easier for you to get raped than it is for you to find a job.

THE-WIZRD @doubletexts
During my interview today I poured some water into a cup and it overflowed a little bit
"Nervous?" asked the interviewer.
I simply replied, "No I just always give 110%."

Birthday Andy @ItsAndyRyan
I was in a park and a lady loudly called out "Anyone who wants an ice cream come over here." I headed over with several others. She handed out ices to them all then asked me "Who are you?" I realised the rest were all her family. 30 years later I still cringe.

Jonn Elledge @JonnElledge
Which circle of hell did Dante reserve for people who email, get your out of office and then DM instead?

Mr 29Gun Thatso @IamLondonKM
When you begin a journey of revenge, start by digging two graves: one for your enemy, and one for yourself.

OddStats @OddStats
I'm beginning to think the economy is actually a wildly complex machine that is based on any infinite number of variables and factors and that maybe, just maybe, looking at a small handful of industry specific data points isn't a great way to predict the future.

"It's when we start working together that the real healing takes place... it's when we start spilling our sweat, and not our blood."

– David Hume, Scottish philosopher (1711 - 1776)

SUBSCRIBE NOW

FINWEEK IS SOUTH AFRICA'S LEADING INVESTMENT AND FINANCIAL MAGAZINE. WE DELIVER IN-DEPTH REPORTING ON BUSINESS AND THE ECONOMY, EQUIPPING OUR READERS TO MAKE SOUND INVESTMENT AND BUSINESS DECISIONS.

PRINT EDITION

SUBSCRIPTION OPTIONS*:

7 ISSUES (3 MONTHS) = R190
13 ISSUES (6 MONTHS) = R314
25 ISSUES (1 YEAR) = R566

Offer expires on 30 September 2019.
*Includes all postage or delivery costs, South Africa only.

TEL: 087 353 1305
SUBS@FINWEEK.CO.ZA

DIGITAL EDITION

SINGLE ISSUE: R24.16
1 YEAR = R511.89

Offer expires on 30 September 2019.

BUY NOW AT
WWW.ZINIO.COM
WWW.MAGZTER.COM

WWW.ZINIO.COM
WWW.MAGZTER.COM

finweek