INVESTMENT REPORT

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BRENTHURST

THE HOME OF WEALTH

THE POWER OF INDEPENDENT ADVICE

IN THIS ISSUE

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THIS CHART SHOULD SCARE YOU!

HOW THE DEATH OF AN INDUSTRY IS FELT BY EVERYONE.

By Magnus Heystek - Investment Strategist

I started my career in financial journalism in January 1980. The gold price had just hit a record $850 an ounce, the rand was trading at $1,35 and Johannesburg was literally the City of Gold.

At that time South Africa was the largest producer of gold in the world (more than 1 000 tonnes per annum), as well as platinum and other precious metals. We were truly the center of the mining universe and our politicians of the era couldn't stop reminding the outside world how important we were to them.

The JSE gold board had more than 30 gold mining companies listed and then there were the mining holding companies, such as Anglo, Gencor, Rand Mines, JCI and many other smaller ones.

The financial and investment community at that time literally lived from gold fix to fix, in those years still relayed to the waiting world from London via telex message, which came spattering out into the hands of the copy boys whose sole task it was to tear a strip of paper with the either the good or bad news and run like the wind to whomever was paying his salary. There was no internet or SMS's, that would come much much later. And as Baron de Rothschilds proved during the Napoleonic Wars, being first with vital information made the difference between huge profits and losses.

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The Johannesburg Central Business District was booming. Head offices, restaurants, bars, clubs and even massage parlours were scattered in and around the precincts of the head offices of some of the most powerful mining companies in the world.

As a financial journalist one also witnessed and experienced first-hand, some of the excesses, today unthinkable, which was part and parcel of the lifestyle enjoyed by a relatively small group of businessmen, financiers and miners, who were making enormous amounts of money.

THE PARTY STARTS ON THE BUS

One example that comes to mind was the "party bus" imported by a company called Darling & Hodges, a supplier of mining equipment to the gold and platinum industry. This bus, fully imported from the UK with huge fanfare, was in fact a one large and very well-stocked pub on wheels, with a long counter running down the one side of the bus, which was ended off with a room-sized bedroom at the back-end of the bus, which served many purposes, just in case the chairman got a little "tired and emotional", or in some cases, needed some female company on a jaunt to either Sun City or the Wild Coast Sun.

Another example was a well-known PR practitioner who booked out a whole massage parlour for the afternoon to entertain all the senior financial editors in the Johannesburg area. Regrettably I was the junior in the office and had to cover for the editor who went to a "press conference" that lasted well into the night. I'm certain that not for a minute was I fooling one Ton Vosloo, then editor of Beeld, when he kept on asking for the financial editor of his newspaper. Vosloo, retired last month after a career spanning 60 years in journalism, ending up as chairman of both Sanlam and Naspers.

ALL GOOD THINGS COME TO AN END

It's my view that 1980 also signaled the end of Johannesburg, and hence South Africa, as being the center of the global gold and mining universe. What followed thereafter was a long and slow decline, first in the price of gold and other precious metals, which lasted for more than 22 years before the cycle ended in 2002. And then, following on that, the mergers, consolidation and eventually the flight of, amongst others Anglo American, out of SA, instead, seeking a listing in London. By the time gold had roared back to new highs at around $1 900 per ounce in 2011, the South African gold industry had virtually disintegrated and there was very little to benefit.

TODAY, A MERE GENERATION LATER, THE LOCAL GOLD INDEX CONSISTS OF ONLY FOUR COMPANIES. THE JSE INDEX TODAY IS ABOUT HALF OF WHAT IT WAS 20 YEARS AGO. SOUTH AFRICA HAS ALSO DROPPED DOWN THE LIST OF GOLD PRODUCING COUNTRIES TO NUMBER 7 AND AT LAST COUNT WE HAVE BEEN OVERTAKEN BY PERU, OF ALL PLACES, THAT PRODUCES MORE GOLD THAN SA.

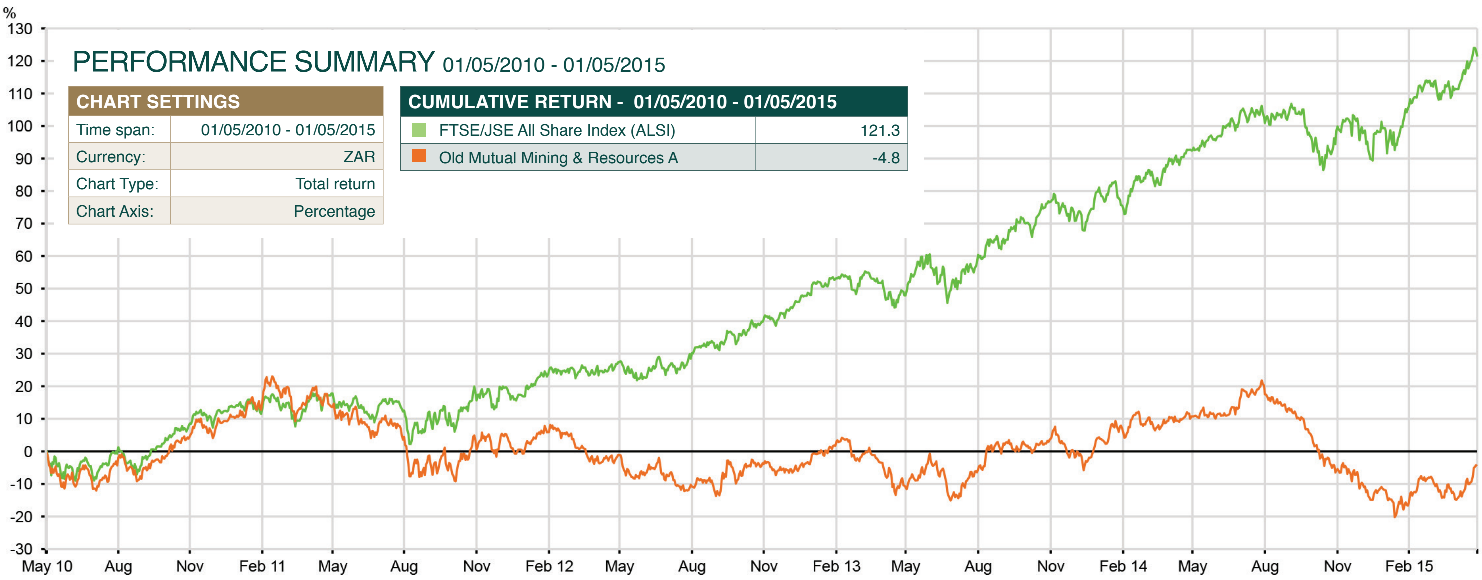
Sadly, many old-school investors held on to their belief that the gold price and hence that South African mining and commodity shares will arise, Lazarus-like from the grave and once-again start producing super-profits and ever-rising dividends. There are also, sadly, some local fund managers who also still hold this view but have seen the investment returns of the funds they manage being obliterated by the death-convulsions of an industry that does not have much longer to live, particularly our gold mining industry.

In the investment world your investment returns are not always influenced by the investments you make but by the ones you avoid. Avoiding the gold and commodity sectors in SA over the past five years has been a very good decision. It has been clear to me for some time that we are witnessing the home straight for the SA gold mining industry. This has been the result of a combination of factors including rising labour costs, frequent strikes, electricity (costs as well as uncertainty of supply), the uncertainty about ownership of mineral rights, affirmative action and as well as BEE-codes. However, one needs to add that local mining grades have been falling as well, in addition to sharply higher costs to get the remaining gold out of the ground.

The only people really making any money out of gold mining are the executives who are paying themselves obscene amounts of money for being in charge of a dying industry.

THIS CHART SHOULD SCARE YOU!

AN END OF A GOLDEN ERA



01/05/2010 - 01/05/2015 POWERED BY DATA FROM FE 2015

The chart compares the five year returns of the Old Mutual and Mining and Resources Fund with the JSE All share index over five years. Despite a very nice uptick of more than 11% over the past month, the fund has not produced any returns for investors who have hung around for five years or so. (I picked the OM fund as a matter of convenience. All the other gold and commodity funds tell similar tales of woe.)

This has been wealth destruction on an industrial scale. Its impact is more widely felt than just the ups and downs of quoted shares or the values of investment funds. The full scale effect of the waning mining industry is being felt in many areas of South Africa, including job creation, tax revenue collections, new foreign direct investments and even in the decay of former mining towns, scattered around the Witwatersrand.

As I've said in the heading: it's a chart that scares me as it should scare you. It highlights how quickly things that might appear to be of a permanent nature can change. It also scares me how little government seems able to do about it. It appears to me that there is very little long-term planning being done to consider how a replacement needs to be found for the mining industry.

In a certain sense the graph also warns about the dramatic effects of how rapidly things collapse.

Last week there was a report from global consulting firm A.T. Kearney on how senior management around the globe rate various countries in terms of foreign direct investment (FDI). (See 2015 FDI Confidence Index at www. atkearny.com). In short, this study evaluates the top 25 countries in terms of foreign direct investment confidence. For the previous three years SA was highly ranked at no 11 (2012), no 15 (2013) and no 13 in 2014 respectively. Last year, mainly due to the mining unrest and prolonged strikes at platinum mines, South Africa simply vanished off the list. Gone! Kaput!

What is particularly worrying is the very strong correlation between such rankings and future FDI. The developed world is looking better all the time but more worrying is that not one country in the Middle East and North Africa (MENA) and Sub-Saharan Africa make the rankings this year. The country needs FDI now more than ever, but we are not getting it, and it would be appear as if at every turn we are making life as difficult as possible for potential foreign investors to come and set up shop in SA.

Without meaningful foreign direct investments our relative chart (SA versus the world) could well end up looking like the chart enclosed. Do the communists running our trade and industry department realize this, or is foreign investment a remnant of our colonial past?

UPCOMING SEMINARS
CHALLENGES FACING SOUTH AFRICA

We would like to invite all our clients to attend any of our upcoming countrywide seminars, which will be hosted in conjunction with **STANLIB.** Kindly note that booking is essential to secure your seating.

Presenters: **KEVIN LINGS** *Chief Economist* **STANLIB**
MAGNUS HEYSTEK *Investment Strategist* **BENTHURST WEALTH**

PRETORIA SEMINAR: 26 MAY 2015

TIME: 16:00 to 17:45
VENUE: Villa Sterne Boutique Hotel, 212 Johann Rissik Drive, Waterkloof Ridge, PTA
RSVP: +27 12 347 8240 or magda@brenthurstwealth.co.za

JOHANNESBURG SEMINAR: 27 MAY 2015

TIME: 16:00 to 17:45
VENUE: Stanlib JHB Office: 17 Melrose Boulevard,. Melrose Arch, JHB
RSVP: +27 11 799 8100 or erna@brenthurstwealth.co.za

CAPE TOWN SEMINAR: 01 JUNE 2015

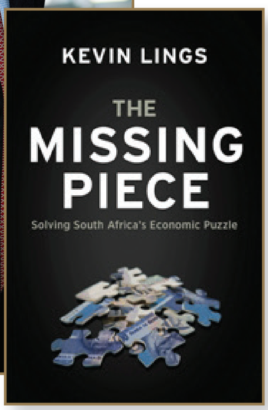
TIME: 16:00 - 17:45
VENUE: Stanlib Office: Liberty Life, The Estuary Century Boulevard Century City
RSVP: +27 21 914 9646 or ronelle@brenthurstwealth.co.za

KEVIN LINGS
Chief Economist
STANLIB

KEVIN LINGS has been the chief economist at STANLIB for the past 13 years and has analysed the South African economy for the past 25 years.

As a core member of the STANLIB investment team, his economic research and assessments directly inform the company's asset investment strategy.

He also provides input into the Asset Allocation processes, Fixed Income, Property and various Equity Franchises. Prior to joining STANLIB in 2001 as an Economics Analyst, Mr Lings was a member of JP Morgan's macroeconomic research team, where he provided economic research and analysis to the broader asset management industry in South Africa.



Mr Lings is a widely sought-after media commentator and has had a number of journal articles published internationally, as well as locally. He is also a past winner of the Old Mutual Applied Mathematics competition.

The Missing Piece
Solving South Africa's Economic Puzzle

'The Missing Piece is an important contribution to the debate on how best to address the structural problems that have plagued the South African economy. Kevin Lings not only documents the many social and economic achievements of the post-apartheid government, but identifies the key areas in which the country has not performed adequately and suggests some potential solutions.'

DR SIBUSISO SIBISI, CEO, Council for Scientific and Industrial Research

BRENTHURST WEALTH
CERTIFIED FINANCIAL PLANNERS:

Brenthurst Wealth Management (PTY) Ltd is a registered financial services provider and is a fully-fledged financial and investment services company with offices in Johannesburg, Pretoria and Cape Town.

All our Financial Planners are CFP® Professionals and members of the Financial Planning Institute of Southern Africa. They are highly qualified to give advice on all investment matters.

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"THE FINE ART OF MANAGING INVESTMENTS REQUIRES CONSISTENCY, PATIENCE AND THE CRITICAL ABILITY TO PERCEIVE A LONG-TERM APPROACH TO THE CREATION OF WEALTH AND MOST IMPORTANTLY, THE POWER OF GOOD SOUND INVESTMENT ADVICE."

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