fm

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TOP PRIVATE BANKS & WEALTH MANAGERS

All the ***winners***

pg 8


pps
FOR PROFESSIONALS
SINCE 1941
WEALTH ADVISORY

Buying good shares in bad times

MARC HASENFUSS
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I WAS FAIRLY HAPPY FOR A TIME. The recent market ructions pushed quite a few quality shares I had been coveting to levels I thought well worthy of consideration.

But these have now dropped further, making me a little more nervous about committing to building a long-term holding.

Then again, who am I to carp about the equity markets? Some of my dearest pals recently dabbled in the crypto currency market(s) ... presumably after persistent nagging by their offspring that ignoring bitcoin and ethereum would mean retiring poor.

To be fair, bitcoin – which peaked at almost $68,000 in early November last year – might have looked tempting at under $30,000 around six weeks ago. But as I write the flagship cryptocurrency was looking like breaking down under $20,000.

During market routs I follow a familiar habit. I start with buying Remgro (and more recently British American Tobacco), and then typically get a little adventurous after that ... seeking out the many small caps that have buckled badly.

This time it was a bit different, perhaps because I – as noted in my FM column – have some uncharacteristically high-risk positions in Premier Fishing & Brands, Choppies Enterprises, Kore Potash and, most recently, DRA Global (where there have been fun and games in the boardroom).

Then there's the spectre of higher interest rates, and my wife's blind spot when I try explaining our asset to liabilities ratio.

So I've stayed mostly on the sidelines, even clearing long-held positions. The most satisfying was emptying out my rewarding position in broadcast group eMedia after the last day to register for the sumptuous dividend, and then putting the bulk of the proceeds into the bond. I set aside a sliver to snap up some shares in vulnerably priced (but decently yielding) fund managers Ninety One, Coronation and Sygnia.

I've always been told to buy good businesses in bad times (rather then vice versa). To supplement these holdings I have rounded up a few shares in storage property specialist Stor-Age to enhance the dividend attributes.

My gut tells me there are more ructions to come, and probably for a prolonged period. I don't particularly enjoy an equity-lite regime, but being on the right side of interest-rate calculations might provide some solace in the interim.

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ARENA HOLDINGS

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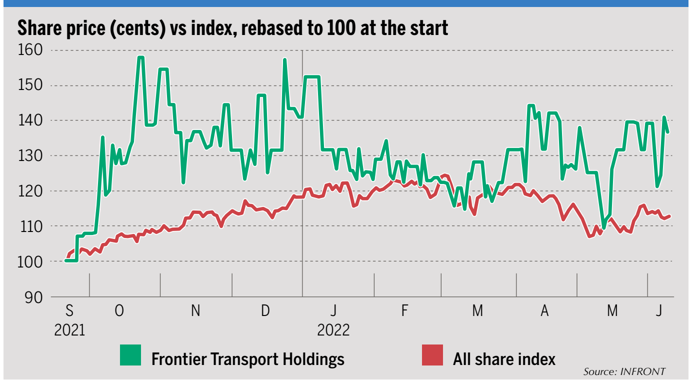
iM contents

PICK of the MONTH

Share:	FRONTIER
JSE share code:	FTH
Share price:	470c
Average volume traded:	320,000 (monthly)

FRONTIER TRANSPORT HOLDINGS VS FTSE-JSE ALL SHARE INDEX



Frontier Transport Holdings is the transport subsidiary of Hosken Consolidated Investments (HCI). HCI controls 75% of Frontier, so the liquidity and tradability of the stock are problematic.

Many IM readers will be unfamiliar with Frontier. However, if you live in Cape Town, it has a local angle – Frontier owns and operates the Golden Arrow bus service and operates the MyCiTi bus network for the City of Cape Town. Its wheeled assets are ubiquitous in the metro.

The company is barely covered by the market, but Frontier's attractions include its tight operating structure and ability to pay shareholders, especially HCI, wads of dividends. Its current dividend yield is 10.4% on a p:e of 5.5 times.

A public transport business may not sound a particularly enticing investment proposal.

There are many tales of sabotage, attacks and violence against public transport, whether road or rail, from vested interests. Frontier has had some incidences but has mostly navigated the terrain with fortitude.

IM readers may also groan at the soaring price of diesel and wonder how costs are affected, given that it has a fleet of nearly 1,000 buses and Covid has affected passenger numbers.

According to recent year-end results, Frontier's revenue increased 26.8% and profit before tax rose 29% to R256.7m. Headline earnings per share increased 29.6% to 90.75c and a total dividend of 52c was paid.

Much of this increase came from rising passenger numbers and better utilisation of a trimmed fleet. As fuel costs rose for individuals, the cost dynamic of driving your own personal vehicle to work or taking reliable public transport starts to sway decisions. With people returning to the office, passenger numbers have increased and Frontier reported an impressive 62% rise in multi-journey ticket revenues.

Frontier gets a subsidy from the government for its Golden Arrow service and is on a payment formula from the City of Cape Town for operating MyCiTi. The former business is risk free for Frontier as the ultimate owner pays all the costs, and it gets a fee to run the service. Revenue in the period was R141m – a rise of 8% year on year.

During the pandemic passenger numbers slumped on the Golden Arrow service, which provides the bulk of revenues and profitability. As post-Covid normality has returned, work and leisure passenger numbers have increased, with passenger numbers now back to pre-pandemic levels.

In the past year Frontier has carried the same number of passengers as 2019 but used 5% less of its fleet. Price increases have also been implemented – 7% in December 2021 and another 8% in March 2022. This has offset some of the 34% rise in its diesel cost in the reporting period. Higher passenger numbers and better fleet optimisation and utilisation also helped to offset the higher fuel costs.

IM speculates that Frontier could have increased its overall profitability by a further 19% if diesel costs had been a constant, given the rise in passenger numbers. If and when diesel prices fall, Frontier will not trim fare prices, so there should be some lagged benefit as twice-yearly price increases are instead

> With people returning to the office, passenger numbers have increased

implemented at the lower end of its operating formula. Profitability could rise materially on a lower diesel price.

The key for Frontier in the years ahead will be migrating from diesel to electric buses. Importing an electric vehicle chassis from China and adding a locally produced body cost R4.5m a bus. Frontier intends to acquire five buses a month – 60 a year – and to replace its entire fleet within 15 years.

The cost of running an electric bus per kilometre is 60% less than a diesel bus, with far less maintenance as only the brakes and tyres need to be changed, unlike a diesel bus that rattles itself to repair.

Frontier also plans to install solar power at its various depots to charge the electric fleet, supplementing solar power with Eskom electricity at night, which is usually not a load-shedding period. This will remove the company's reliance on grid electricity and lower its overall operating cost per kilometre.

It has also it undertaken some complementary acquisitions within the tyres and transport sector to reduce its reliance on government subsidies. More deals should follow.

The key aspects to Frontier as an investment proposition are the migration towards an electric fleet, cutting running costs and providing a reliable public transport network in a for-profit scenario. With a captive market and long-term fleet operation relationships, a continuation of Frontier's optimisation, solid cash generation and ability to grow earnings and dividends seems assured.

The business may not be glamorous or high growth, but sometimes consistency and a fat dividend can be just as attractive to portfolios. IM, cognisant of the illiquid nature of Frontier, places a buy on the stock with a target of 625c. ●

Anthony Clark

Other companies analysed in this issue: Finbond, Barloworld, Altron, Pepkor, Industrials Reit, Oceana
See Pages 28-33 for these share analyses

TRADE of the MONTH

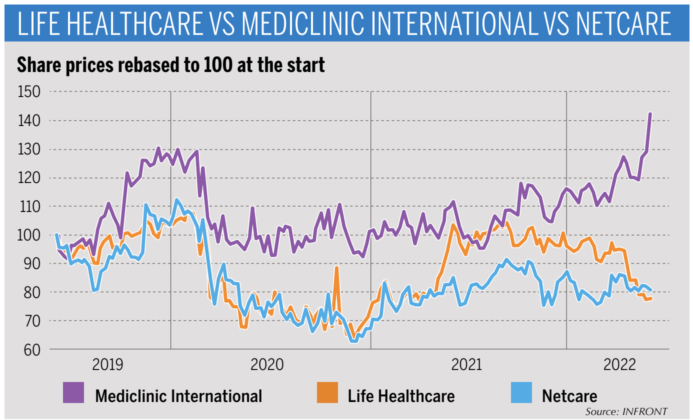
Private hospital groups seem to be in vogue. The unsolicited bid by Remgro and, bizarrely, logistics behemoth Mediterranean Shipping Co to take Mediclinic private on May 26 attests to this. Remgro already owns a 44.6% stake in the London-based Mediclinic.

Looking at Mediclinic's two smaller competitors, Netcare and Life Healthcare, divergent returns have been the story here. Netcare lost investors 3.17% over the past 12 months, whereas Life Healthcare's performance was far worse at a loss of 27.4% (these losses include dividend payouts).

In terms of valuations, Netcare is clearly the more expensive investment at a historic earnings multiple of 22.4 and a forward multiple of 16.5. Life Healthcare, on the other hand, trades at a multiple of 16.8 and a forward multiple of 13.1, meaning analysts expect a profit upswing of about 22% over the next year. The upside for Netcare is about 26% in profit growth.

Both Netcare and Life Healthcare have a chequered history in venturing overseas, unlike Mediclinic (which has made its presence felt in Switzerland and the United Arab Emirates). Netcare burnt its fingers a decade ago in the UK, while Life Healthcare sold off its Polish Scanmed unit last year.

What makes Netcare stand out is the company's embrace of digital technology to increase efficiency in patient care. Netcare has invested heavily in its CareOn digitalisation project, both in rands and through board oversight. The company aims to roll out this project to a further 20 hospitals by end-September, after implementing it at a single hospital last year. Integrating this software with its emergency and primary care (Medicross) units will improve efficiencies and lead to better patient care outcomes. Duplicity and paperwork are the enemies of any efficient system. (Government, take note.)



Looking at each company's remaining businesses, Netcare also stands out with its sharper focus on SA. The company continues to invest in new hospitals, opening the 427-bed Netcare Alberton hospital in April and the 36-bed Netcare Akeso mental health hospital in Richards Bay. Patient throughflow at the Alberton facility was satisfactory, according to Netcare's interim results report.

Life Healthcare, on the other hand, has opted to invest in its European imaging division and to enter the same market locally. Imaging has contributed 30% to Life's revenue and 32% to its earnings before interest, tax, depreciation and amortisation (ebitda) for the six months to end-March. It had 150 MRI scanners, 55 PET-CT scanners and 11 radiopharmacy cyclotron sites in Europe and the UK at end-March.

Locally, Life Healthcare bought an imaging business that operates in five of its hospitals for R203m in February. It also announced a joint venture with Midrand-based Axim, a supplier of diagnostic imaging equipment, to build SA's first dual cyclotron facility in Gauteng. It should be up and running by 2024. According to the International Atomic Energy Agency, cyclotrons are used to create medical radioactive isotopes on site.

Thus, there is a clear divergence in strategy between Netcare and Life Healthcare.

Netcare is positioning itself in the acute hospitalisation and primary care space through a digital offering to patients.

Life Healthcare is expanding in the diagnostic imaging field, with increased investments in this space abroad and locally. It is now also, through its offshore businesses, to be regarded as a rand hedge, with almost a third of revenue derived from abroad.

What does bode ill for Life Healthcare is its venture into pharmacological product development. As Aspen has shown in years gone by, developing drugs is a capital-hungry venture. Why would a company offering physical health-care treatment through hospital beds and imaging want to dabble in drugs? And to top it off, clinical trials for one of the Alzheimer's drugs, Aduhelm, aren't going well. US medical authorities had to reimburse participants who paid to partake in the trial.

Looking at each company's debt, Netcare brought its total debt down to R6.76bn at end-March from R8.47bn a year prior. Life Healthcare cut its debt to R12.07bn at end-March from R13.05bn a year earlier, mainly thanks to the rand strengthening against the pound. Life Healthcare has R3.95bn of debt maturing next year, and the company told analysts at its interim results presentation that it will seek to refinance a part of this through an issue of rand-denominated bonds.

This leaves Netcare with a net debt to ebitda ratio of 1.7 at end-March, an improvement from two a year earlier. Life Healthcare, on the other hand, saw some slippage with its net debt to normalised ebitda ratio worsening to 2.03 at end-March, from 1.82 a year earlier. With interest rates around the world on the up, Netcare's prudence in decreasing debt may stand shareholders in good stead.

IM's prescription at this delicate juncture would be a long position on Netcare and a short on Life Healthcare. ●

Jaco Visser

123RF — BEERKOFF

ANTHONY CLARK

York and Renergen look tasty

For different reasons, these timber and energy companies are tempting

Traditionally the SA winter is a quiet affair for the JSE because much of the daily lead is often directed by the northern hemisphere, which is now starting its summer break.

So, the usual "Sell in May, go away, and come back on St Leger's Day" might be the trend for the coming months. The J202 small cap index has been drifting lower since the start of May.

That old saying, unbelievably, didn't originate on Wall Street. Its roots go back to London's financial district when aristocrats, bankers and merchants would sell all their stocks in May, escape the city heat for the summer, then return just in time for the annual St Leger Stakes – one of the UK's renowned horse races. In 2022, St Leger's Day is September 10.

At the time of writing, year to date the JSE small cap index has outperformed its main rivals, rising 2.2% vs a decline of 3.7% and 6.2% respectively in the JSE mid cap and all share indices.

This is different from the booming small-cap market of 2021, but the segment continues to deliver some satisfactory results as well as a smattering of special situations. I highlight two of my favourites.

York Timbers, trading at 250c, has had a torrid 2022. The stock is down 35% as factions of the recalcitrant board railed against change and an unprotected strike overshadowed improved interim results where headline earnings per share rose 47% to 18.59c.

The FY2022 results will not be pretty, but the base from FY2021 of 43c a share was a sharp Covid recovery from a FY2019 loss of 70c a share.

When activists took a stake of nearly 20% in mid-2021, York ran from 190c to a high of 410c on the expectation that the glacial pace of change at the company would be hastened. With a NAV of 964c a share and a decade of underperformance, the potential is clearly there.

In early June, York announced the retirement of its octogenarian chair. I understand his exit will lead to a much-improved sense of change management and despite the stock's weakness, I maintain the belief that activists will unlock value, restructure and deliver on a decade of missed opportunity that has bedevilled York Timbers.

Another private investor favourite made news in early June. Alternative energy stock Renergen announced it has secured material debt funding to enable it to undertake its Virginia Phase 2 (VP2) project, estimated to cost R12bn-R15bn.

The funding of VP2 has played on the market for some time, given the project's scale.

I have detailed in past notes that about 35% of the cost of VP2 has been secured from equity funding from Ivanhoe Mines of up to $250m and a R1bn investment in Renergen's liquefied natural gas (LNG) subsidiary Tetra 4 by the Central Energy Fund.

Renergen has now secured more than its needs via a $500m loan from the US International Development Finance Corp, as well as letters of intent worth $700m in senior debt from multiple financial institutions. VP2 is fully funded, and the market should now rest easier.

Virginia Phase 1 (VP1), smaller than VP2, should see the taps turn on commercial operation of helium and LNG within the next month, after a period of extended testing. The market will then be able to see Renergen as an operating rather than developmental asset.

In a January IM article, I predicted that Renergen would broaden its shareholder base and listing representation with a US Nasdaq listing.

I continue to believe this will happen and speculate that US investors will have access to Renergen by the end of 2022. It will not only broaden participation but bring a league of investors with a depth of understanding of alternative energy investment.

Year to date Renergen has risen 23.4% and at the time of writing was trading at R40.83.

With VP2 funding now secured, the taps due to turn on at VP1, demand for cleaner, low-carbon alternative fuels increasing (Renergen will be producing 800t of LNG a day by 2025/2026) and Russia restricting the export of helium as retaliation against sanctions, the global tightness of helium supply enhances the attractions of Renergen. I maintain my "buy" recommendation and my long-stated target of R60 a share. ●

123RF — JUST2SHUTTER

HOW MUCH IS ENOUGH?

Wealth managers' quest is for real returns as their clients fear the erosion of wealth and longevity of their capital, writes **Colin Anthony**

Erosion of wealth and concerns about whether clients' capital will have the longevity to provide for their living years are listed by 11 of the 13 wealth managers and private banks that participated in this year's survey.

PSG Wealth is the Top Wealth Manager of the Year: Large Institutions for the fourth consecutive year and dominates this year's awards with three archetype awards: lump-sum investor, retiree and young professional. That shows that it is pulling ahead of its competitors, which are all banks with wealth management divisions.

Centric Wealth Advisory similarly dominates this year's rankings among the smaller wealth manager players, taking top honours as Top Wealth Manager of the Year: Boutiques as well as the coveted People's Choice: Wealth Manager Award, determined solely by client satisfaction ratings. It also wins the top entrepreneur archetype award and is ranked second in the young professional and third in the retiree archetypes awards.

Efficient Wealth, making its debut in our survey, wins the executive archetype award.

Nedbank Wealth Management SA wins the Top Wealth Manager Award: Wealthy Families, which recognises wealth managers who cater to the top end of the wealth spectrum with a typical family office service for those with complex business interests spanning multiple jurisdictions. For this award, rankings are based solely on judges' scores for the firms' responses to a case study, while the other five archetypes are determined purely by client rankings.

Investec Private Bank wins both the Top Private Bank of the Year Award and the People's Choice for Top Private Bank.

Wealth preservation

Wealth managers are focusing primarily on preserving the purchasing power of their clients' investments. Certainly, clients have other concerns. These include political risk domestically and a global economy whose Covid recovery has hit numerous obstacles including supply chain disruptions, Russia's invasion of Ukraine and fast-rising inflation.

But it is the latter that is sparking client consternation over preserving their wealth, not only in their lifetimes but for the next generation. It's about "preserving the purchasing power of their investments", says Charles McAllister, executive director of Centric Wealth.

Clients have experienced a new wave of volatility in 2022, says Ruan Bye of Mosaic Family Office. "With the onset of war in Eastern Europe, extremely high levels of inflation and the perceived slowdown in tech earnings, they need constant reassurances that their investment strategy will produce the required long-term investment returns."

Those factors are all the more difficult to contend with because the economy is struggling to recover from the devastation caused by Covid, while network infrastructure such as our energy and transport systems remain dysfunctional, blocking all chances of a swift recovery.

Clients have had to get used to living in a vastly different world, says PSG Konsult CEO Dan Hugo. "They've been faced with previously unheard-of uncertainties. Previous solutions typically applied to financial concerns were no longer found to carry the same degree of certainty in relation to longer-term planning and solutions."

BDO Wealth Advisers COO Ricardo Teixeira says the longevity of capital and having enough money for their living years are "the predominant concerns across a broad cross-section of our clients".

Editor:
Colin Anthony
Research manager:
Heidi Dietzsch
Lead analyst:
Everton Muberekwa

TOP WEALTH MANAGER: LARGE INSTITUTIONS

Institution	Rank	Weighted score (out of 10)
PSG Wealth	1	7.73
Standard Bank Wealth & Investment	2	7.19
Nedbank Private Wealth (Includes Nedbank Financial Planning)	3	7.17
RMB Private Bank	4	7.05
FNB Private Wealth	5	7.00

TOP PRIVATE BANK

Institution	Rank	Weighted score (out of 10)
Investec Private Bank	1	5.94
RMB Private Bank	2	5.58
Standard Bank Private Bank	3	5.53
FNB Private Wealth	4	5.51
Nedbank Private Wealth	5	5.46

He adds: "Families are beginning to live with ageing parents and are witnessing first-hand the impact of their parents running out of money and relying on their children to fund their living."

Johan Gouws, Sasfin's head of advice, says a major concern for clients is low economic growth and what it means in the context of the rising cost of living. "Clients are thus looking for sources of real returns that will assist them in maintaining their standard of living in the long run." Because of political uncertainty, clients continue to look for more diversified investments outside SA, he says.

Finding sources of real return in such a difficult economic environment to ensure "one runs out of life before one run out of money", as Teixera puts it, is the primary challenge of the investment houses. He says developing and maintaining a financial plan to ensure that happens is not only about the investment yield, tax structuring and insurance management.

"A large aspect of a successful financial plan is helping the family change entrenched money behaviours and habits that erode wealth and increase the risk of running out of money or not being able to live the life you want." He sees changing behaviours as part of the value BDO provides to clients.

On more specific concerns, Gouws says the pandemic has made clients realise they need to have their estate planning in place as well as the necessary life, disability and dread disease insurance cover.

Carrick Wealth operations director Rashay Makan says clients are also querying whether their wealth is sufficient to meet their desired lifestyles while they are fit and healthy.

"Will their wealth allow them access to first-class medical treatment and medical facilities if they get ill and when they are older and frail? Will there be wealth left over to pass to their children to live a life with less financial stress? Uncertainty has become an overriding factor with respect to clients and their wealth."

Centric's McAllister says an important part of addressing such issues lies in helping clients identify "how much is enough" and implementing strategies and structures to achieve the lifestyle goals and facilitate the transfer of intergenerational wealth. "Once clients are able to visualise their current lifestyle requirements, it opens conversations around discretionary funds, aspirational funds and leaving legacies."

Numerous wealth managers mentioned increasing client communication as another aspect of dealing with client concerns. "Client webinars have seen record attendance," says Nedbank Wealth Management's Francois Moller. PSG's Hugo says keeping clients informed and managing client expectations "is always critical during any crisis and period of vast uncertainty".

Then there's the politics ...
In tandem with the challenges posed by the factors discussed above is SA's unique set of political complexities, with the environment becoming increasingly volatile the closer we get to the ANC's elective conference in December, and with the 2024 national elections looming.

Political risk is "a major consideration and one that clients need to take seriously", says Carrick's Makan. Asked if it was lower or higher than last year, he said: "It's always the same – high. Unfortunately, what we are experiencing in SA really does seem like the analogy of frogs boiling slowly in a pot."

While most participating firms said political risk was higher this year than last, some did see improvements. One is Efficient Wealth's Alé le Roux. "The ruling party continues to nudge itself in the correct direction to foster an environment that is conducive to economic growth, capital attraction and market certainty."

Other gains include arresting the growth in the civil service wage bill, privatising SAA and "drawing a line in the sand against wasteful expenditure and on poor-performing state-owned enterprises [SOEs]. Now there is also talk about privatising Transnet and portions of Eskom."

Centric's McAllister also believes the local political risk is "slightly better" this year. "Last year there were a large number of unknowns, specifically about government debt and SOEs. We have, once again, benefited from factors beyond our control, predominately commodity prices. Combine this with a more efficient revenue service, and revenue collection has increased more than originally projected – bringing our debt-to-GDP levels down to the 70% region."

> Political risk is a major consideration and one that clients need to take seriously

He says global political risks, however, "have increased dramatically, not only from the war in Ukraine but also political interference such as China's crackdown on tech and Covid restrictions in Asia restricting supply chains".

But those who see the political glass being half-full are outnumbered, with numerous wealth managers identifying infighting between factions within the ANC as a serious risk.

Sasfin's Gouws says: "Political concerns are worse as the ANC continues to lose power and a stronger divide exists between factions in the party. The internal focus of the ANC is causing the governing

TOP WEALTH MANAGER: BOUTIQUES

Institution	Rank	Weighted score (out of 10)
Centric Wealth Advisory	1	7.97
Sasfin Wealth	2	7.71
Brenthurst Wealth Management	3	7.67
Efficient Wealth	4	7.65
Salvo Capital	5	7.60

TOP RELATIONSHIP MANAGER OF THE YEAR

BRIAN BUTCHART OF BRENTHURST WEALTH MANAGEMENT is the 2021 Top Relationship Manager of the Year. He is responsible for asset allocation and compliance at the firm and has been in the financial services industry since 1998. He previously worked at Citadel and Magnus Heystek International.

It was a clean sweep for Brenthurst, as two of its other mangers, Sonia du Plessis and Renee Eager, were voted into second and third places respectively.

To determine the rankings for this award, which was introduced in 2019 to recognise individual excellence, Intellidex uses a combined qualitative-quantitative assessment.

Clients participating in this year's survey have been extremely complimentary about their relationship managers, valuing them not only for investment advice but also for the guidance they offer, particularly when uncertainty hits the markets. Many clients stay with a particular firm due to the trust they've placed in their relationship manager.

Top Relationship Manager of the Year

1. Brian Butchart — Brenthurst Wealth Management
2. Sonia du Plessis — Brenthurst Wealth Management
3. Renee Eager — Brenthurst Wealth Management

party to drop the ball on key policies to the detriment of the local economy and it runs the risk of having to make populist decisions to keep its support base." He emphasises that political uncertainty and other socioeconomic problems are a great concern for clients.

Mosaic's Bye says: "The political spectrum is more divided than ever, resulting in a definite increase in political risk, both locally and internationally." He notes the positive impact of rand strength, positive GDP and the commodities boom, but says sentiment is down due to the high unemployment rate, the civil unrest last July and "ongoing negative media reports relating to corruption".

> The ANC needs to stabilise its leadership structure, provide clarity on key policies and root out corruption

Reforms and corruption

Asked what the government needed to do to boost local and international investment, there was no shortage of responses, but most were remarkably similar. The measures to get SA onto a sustainable growth path are well known to everyone, even the government, yet it appears incapable of delivering.

The most commonly cited measures are to accelerate structural reforms – particularly renewing efforts to stabilise the energy supply and end load-shedding, to slash red tape and to improve the ease of doing business.

Efficient Wealth's Le Roux's task list for the government touches on a range of other important issues: "They should bring about structural reforms in fiscal policy and labour policy while eradicating corruption to ultimately improve the ease of doing business in SA. Considering fiscal policy, this includes getting rid of nonperforming assets and SOEs; it also includes a further reduction in the civil service wage bill. But mostly it includes effective spending on education and health care to improve key metrics in life expectancy, maths, science and literacy.

"Considering labour policy, this includes getting rid of policies that deter the employment of the best possible candidate and to favour the employment of accountable leaders in all levels of government and society. It also includes making it easier to hire and fire employees in SA to reduce the barrier to entry."

An internal cleanup by the governing party is another necessity, says Sasfin's Gouws. "The ANC needs to stabilise its leadership structure, provide clarity on key policies and root out corruption in government to create more confidence in SA as an attractive investment destination for foreign and local investors. Investing in infrastructure and accelerating energy-related initiatives will be key to solving the biggest stumbling blocks for local economic growth and to address the unemployment crisis, which is causing potential social unrest concerns."

Ultimately, the government needs to pursue an important goal: "Faith needs to be restored," says Carrick's Makan. "The government needs to restore trust in the system to really make a meaningful impact."

THE WEALTH INDUSTRY IN NUMBERS

Category	2021	Number of Firms
Total assets under management	R43 612 481 011.99	**13**
Assets under advisement	R43 658 424 302.53	**13**
Size of loan book	R43 393 772 175.60	**5**
Growth in revenue	12.53%	**14**
Number of clients across all services offerings	80 321	**14**
Number of employees in SA	486	**14**
Number of employees in rest of the world	54	**9**

* AUM relates to WIM units; assets in the private banking units are reported under AUA.
All other items combine both private banks and wealth management units
Figures reflect the firms that participated in the survey

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PSG Wealth

METHODOLOGY

The Top Private Banks & Wealth Managers survey is researched and prepared by Intellidex, a specialist financial services research house. This is the 11th anniversary of the survey, which we develop every year to ensure that it best reflects the dynamics of the wealth management and private banking industries and that we are delivering a product that meets the needs of clients who make use of such firms.

Format
The survey still has two main prongs: a questionnaire completed by participating firms and a comprehensive online client survey. Intellidex judges allocate points to the firms in certain categories but client rankings generally contribute the most to the overall scores.

The questions we ask clients are wide-ranging and are designed to assess the different strengths and weaknesses of the private banks and wealth managers. The main areas of focus, though, are on satisfaction levels with products and services as well as with investment returns, whether clients believe they are getting value for money and whether clients would recommend their service providers to others.

We also ask questions relating to why clients use private banks and wealth managers and whether their specific needs are being met.

Clients add comments on aspects not covered by our multiple-choice format of questions. Here we receive some valuable insights that are used to inform the judging process.

In 2020 we revised the format, reintroducing the case study concept. All firms respond to one case study while those that participate in the top end of the spectrum, the internationally wealthy family archetype, were asked to respond to another case study specific to that archetype.

This year 8,669 people participated in the client survey, slightly down from last year's record of 9,817 participants.

Judging
In terms of the overall judging, we understand that firms have different areas of focus. Thus, in our minds, the individual archetype winners are at least as important as the overall awards.

If a firm is the best in the industry in its specific area of focus and does not pretend to be all things to all people, it deserves recognition for that area of excellence. If a firm does not compete in a particular market segment, we do not penalise it for not having an offering for that archetype.

The award for the top individual relationship manager, introduced in 2019, is chosen from nominations and motivations from clients.

The judges this year were Intellidex awards research manager Heidi Dietzsch, senior banks analyst Nolwandle Mthombeni and project editor Colin Anthony.

Awards
There are two overall awards, one for big firms that are part of a larger financial institution and a separate one for boutique operators. We also award the top firm in each archetype.

The full list of awards are:
Top Wealth Manager of the Year: Large financial institutions category
Top Wealth Manager of the Year: Boutique firms category
Archetype awards: This year we have tweaked the archetypes following industry feedback. They are: lump-sum investor; young professional; entrepreneur; executive; retiree; and wealthy family.
People's Choice Award: Determined solely by client rankings, this has two categories — one for wealth management services and one for private banking services.
Top Private Bank: This award is determined by the client survey, based solely on transactional and lending services.
Top Individual Relationship Manager: An award for the top relationship manager, based on client nominations and the motivation they provide.

The table below summarises the mix of methodologies used to score firms for the awards:

MIX OF METHODOLOGIES USED TO SCORE FIRMS FOR THE AWARDS

		Methodology mix		
	Award name	Clients votes	Judges' subjective assessments	Peer ratings
1	**Top Wealth Manager of the Year:** Large Financial Institutions	✓	✓	
2	**Top Wealth Manager of the Year:** Boutique Firms	✓	✓	
3	**Lump-sum investor**	✓		✓
4	**Young professional**	✓		✓
5	**Entrepreneur**	✓		✓
6	**Executive**	✓		✓
7	**Retiree**	✓		✓
8	**Wealthy family**		✓	
9	**People's Choice Awards (one for private banks and one for wealth managers)**	✓		
10	**Top Private Bank**	✓		
11	**Top Individual Relationship Manager**	✓		

PEOPLE'S CHOICE AWARDS

How clients rate their wealth managers and private banks

THE PEOPLE'S CHOICE AWARD is selected purely by clients of wealth managers and private banks through a comprehensive online questionnaire.

This year 8,669 people participated in the client survey, slightly down from last year's record of 9,817 participants. The large number of clients who participate enhances the credibility of the survey findings.

We ask clients all about their service providers, and their rankings — across a range of questions determining satisfaction levels in numerous categories — are extremely important to the participating firms. The process forms an integral part of the overall survey. Responses to certain questions are drawn out to determine the People's Choice winner, while other responses feed into the judging process for many of the other awards.

The questions that feed directly into the rankings for this award relate to:

- The quality of service and advice;
- The likelihood of recommending the firm;
- Perceptions of value for money;
- The extent to which advice meets individual needs; and
- The firm's scope to improve offerings.

Clients add comments about aspects not covered by our multiple-choice format of questions. Here we receive some valuable insights, which are used to inform the judging process.

Centric Wealth Advisory wins this year's People's Choice for Wealth Managers award for the second year running. It is an impressive achievement, considering that it is a young, small firm — it has been operating for only five years.

"Clients and client value are at the centre of everything we do, and we are exceptionally vocal about issues in the industry that do not provide clients with optimal outcomes," says co-founder Charles McAllister.

"The results of this core client service are our high client retentions — we have been able to maintain client relationships across generations — as well as the fact that all our new business is from word of mouth."

Sasfin Wealth takes second place, followed by BDO Wealth Advisers.

Once again, Investec Private Bank takes the People's Choice Award for Top Private Bank. The firm always generates exceptionally high client ratings. Nedbank Private Wealth climbs from fourth place last year to take second place, with Standard Bank Private Banking third.

All those who completed the online client questionnaire for the People's Choice awards are entered into a random draw to win R10,000 in cash, to be deposited into their private bank or wealth management account. CONGRATULATIONS to our R10,000 cash winner: Sybrand van Vuuren**, a client of Standard Bank Wealth & Investment.**

PEOPLE'S CHOICE: WEALTH MANAGER

Institution	Rank	Weighted score (out of 10)
Centric Wealth Advisory	1	9.44
Sasfin Wealth	2	9.25
BDO Wealth Advisers	3	9.24
Brenthurst Wealth Management	4	9.03
PSG Wealth	5	8.89
Efficient Wealth	6	8.79

PEOPLE'S CHOICE: PRIVATE BANKING

Institution	Rank	Weighted score (out of 10)
Investec Private Bank	1	7.24
Nedbank Private Wealth	2	6.94
Standard Bank Private Bank	3	6.40
RMB Private Bank	4	6.19
FNB Private Wealth	5	6.08
Absa Private Bank	6	5.28

Winners per archetype

WE PRESENT SIX CLIENT ARCHETYPES and assess how the firms cater to each. The archetypes cover the spectrum of client market segments and many wealth managers use them in their own market segmentation of clients.

Winners for the first five archetypes are determined through two processes. First, in the client survey, certain questions are designed to elicit specific information about their service provider's capabilities in each archetype. Second, we ask the firms themselves to rank their peers in each archetype. The two sets of rankings feed into the final score.

For the internationally wealth family, the rankings are based solely on judges' scores for the firms' responses to a case study.

LUMP-SUM INVESTOR

This archetype is typically a retiree or person who has received a large amount of capital to invest

Institution	Rank	Weighted score (out of 10)
PSG Wealth	**1**	7.92
Salvo Capital	**2**	7.72
Centric Wealth Advisory	**3**	7.68
Efficient Wealth	**4**	7.30
Brenthurst Wealth Management	**5**	6.91

EXECUTIVE

A successful career executive often with complicated investment needs requiring financial engineering skills as well as investment advice

Institution	Rank	Weighted score (out of 10)
Efficient Wealth	**1**	7.87
PSG Wealth	**2**	7.43
Salvo Capital	**3**	7.27
Sasfin Wealth	**4**	7.26
Standard Bank Wealth & Investment	**5**	7.17

YOUNG PROFESSIONAL

Typically starting a career with a long-term investment horizon

Institution	Rank	Weighted score (out of 10)
PSG Wealth	**1**	7.89
Centric Wealth Advisory	**2**	7.86
Standard Bank Wealth & Investment	**3**	7.63
BDO Wealth Advisers	**4**	7.48
Efficient Wealth	**5**	7.44

RETIREE

Typically with a living annuity, may also have lump sum to invest

Institution	Rank	Weighted score (out of 10)
PSG Wealth	**1**	7.30
Sasfin Wealth	**2**	7.29
Centric Wealth Advisory	**3**	7.21
Efficient Wealth	**4**	6.79
Salvo Capital	**5**	6.77

ENTREPRENEUR

A person involved in one or more successful business ventures who needs a range of services related to investments and business-related services

Institution	Rank	Weighted score (out of 10)
Centric Wealth Advisory	**1**	7.57
PSG Wealth	**2**	7.56
Efficient Wealth	**3**	7.26
Brenthurst Wealth Management	**4**	6.94
Standard Bank Wealth & Investment	**5**	6.62

WEALTHY FAMILY

Immensely wealthy families usually with complex business interests requiring a full family office with international services

Institution	Rank	Weighted score (out of 10)
Nedbank Wealth Management SA	**1**	8.60
Standard Bank Wealth & Investment	**2**	8.27
PSG Wealth	**3**	8.20
Mosaic Family Office	**4**	8.17
Sasfin Wealth	**5**	7.70

How they fare

intellidex Top Private Banks & Wealth Managers South Africa 2022

BDO WEALTH ADVISERS

Archetype	Score (out of 10)
Lump-sum investor	6.44
Young professional	7.48
Entrepreneur	N/A
Executive	N/A
Retiree	6.50
Wealthy family	6.83

Overall
A maiden participant in our survey, BDO Wealth Advisers' third-placed ranking in the People's Choice award reflects high levels of satisfaction by clients. It provides a full range of wealth advisory and financial planning services to individuals, family groups and trustees.

BDO has four offices across SA and is connected to BDO's global network of audit, tax and advisory specialists across 162 countries. At the forefront of its approach to assisting clients in achieving their goals is the development of strong, personal relationships and the firm boasts many longstanding client relationships that span more than 30 years. The firm addresses a wide range of planning issues and options such as tax, risk management, investment returns, keeping pace with inflation and estate planning.

The firm introduced trust administration to its offering in 2019 to help trustees maintain valid and compliant trusts. It now provides a comprehensive trust administration service which includes governance of the trust deed, accounting and tax compliance to both inter vivos and testamentary trusts. The BDO Trust Portal is a central and secure database of all trust-related documentation and information that provides trustees with online access to a library of resolution templates, agreements and documents.

The Financial Planning Institute of Southern Africa named BDO Wealth Advisers as the FPI Approved Professional Practice of the Year in 2020 and a finalist 2021.

BRENTHURST WEALTH MANAGEMENT

Archetype	Score (out of 10)
Lump-sum investor	6.91
Young professional	7.15
Entrepreneur	6.94
Executive	7.16
Retiree	6.61
Wealthy family	N/A

Overall
Ranked third in the Top Wealth Manager award for boutiques, Brenthurst Wealth Management is a dynamic firm that consistently reviews and looks to expand its services and solutions to ensure improvement and accessibility.

Brenthurst's services include investment, retirement, estate, tax and risk planning. Its professional advisory team includes advisers who are CFP professionals or in mentorship programmes studying towards their CFP accreditation, two legal advisers and two financial advisers studying towards their CFA qualification. It has eight offices in SA and its first international office was established in Mauritius in 2018, offering investment opportunities to clients as well as assisting with residency, setting up company trusts, registration and administration.

In formulating financial plans for its clients, Brenthurst adheres to an integrated holistic approach, ensuring that the various constituent parts complement each other to achieve an optimum result. For the past 15 years Brenthurst has consistently emphasised the need for clients to externalise as much of their wealth offshore as is appropriate for their specific circumstances. The firm is now receiving far more enquiries from executives and entrepreneurs who require far more bespoke offshore wealth management services and solutions.

The Brenthurst app was launched at the beginning of the year and is available on all Apple and Android phones and tablets, enabling clients to interact with the company from their mobile devices. Another technological innovation is the augmentation of the financial planning process by the introduction of a psychometric profiling tool offered by Finametrica, allowing financial planners to establish scientifically the risk tolerance of a client in terms of how emotionally comfortable a client is with taking financial risk.

CARRICK WEALTH

Archetype	Score (out of 10)
Lump-sum investor	6.16
Young professional	6.22
Entrepreneur	6.39
Executive	6.07
Retiree	5.95
Wealthy family	7.50

Overall
Carrick Wealth offers a comprehensive range of financial solutions based on an understanding of clients' individual needs and circumstances with each client assigned a dedicated private wealth manager, client relationship manager and servicing consultant.

All investment structures are put through external due diligence to ensure clients are protected in both the short and long term. It caters to clients across the spectrum but the majority of its clients are executives, followed by lump-sum investors and retirees.

New client onboarding and existing client servicing is backed by a robust operational team inclusive of compliance, administration and technical support.

Carrick is constantly innovating to keep pace with clients' local and offshore investment needs, supported by international offices and experienced teams that can assist across platforms – from wealth and fiduciary services to offshore property and alternative investments. The firm has four offices in SA and five offices outside the country. It foots the bill for annual training and development for its wealth managers, totalling R25,000 per adviser. In addition, Carrick provides a Departure Enrichment Agreement for advisers that entails a "book buy-back" scheme aimed at creating a long-term annuity model for Carrick.

The client-facing Carrick Concierge launched in 2017 has undergone a series of enhancements. Clients can view their global investment portfolio integrated in one place and there is a secure vault with encryption for document storage so paperwork such as wills can be stored safely. Clients can interact with their Carrick representatives in real time through an integrated communication system. Exposure to real-time market data enables clients to not only see the information in their portfolio but to see how that information corresponds to what is taking place in the market.

CENTRIC WEALTH ADVISORY

Archetype	Score (out of 10)
Lump-sum investor	7.68
Young professional	7.86
Entrepreneur	7.57
Executive	N/A
Retiree	7.21
Wealthy family	N/A

Overall

Only five years old, Cape Town-based Centric Wealth Advisory is proving a formidable player in the wealth management industry, winning two of the major awards this year: the Top Wealth Manager: Boutiques Award and the People's Choice: Wealth Manager Award, with the latter determined solely by client satisfaction ratings.

It also wins the Entrepreneur archetype award and is ranked second in the Young Professional and third in the Retiree archetypes awards.

Since inception, Centric has set itself up as an association of lifestyle-based financial planners, allowing for a pooling of knowledge, expertise and resources with other industry leaders.

Specialising in multijurisdiction wealth management, Centric offers investment, retirement, risk, succession and fiduciary planning. Its strategies are client-centred, allowing for the establishment of long-term, trusted and professional relationships with each client. The firm has been able to maintain client relationships across generations and clients often appoint Centric as executors or trustees of their trusts. All new business comes from referrals.

There has been a strong increase in "invoice only" mandates from clients to the extent where Centric charges a fee for its time and while this has always been an offering, the firm finds that wealthier individuals with existing portfolios elsewhere are approaching it for a general overview or estate plan.

Centric continues to provide virtual and physical meetings but finds that the majority of its clients prefer to engage personally.

EFFICIENT WEALTH

Archetype	Score (out of 10)
Lump-sum investor	7.30
Young professional	7.44
Entrepreneur	7.26
Executive	7.87
Retiree	6.79
Wealthy family	7.30

Overall

Making its debut in this survey, Efficient Wealth put in a strong performance, winning the Executive Archetype Award and ranking fourth in the Top Wealth Manager: Boutiques Award.

With 33 offices around the country, the firm provides a wide range of personal and business financial services and value-added benefits via its own internal resources and in partnership with specialist financial services providers.

Its established platform of specialists across the entire wealth management value chain consists of a multimanagement investment team, private share portfolio managers who specialise in the management of domestic and offshore share portfolios, health specialists, short-term insurance specialists, employee benefit specialists, economists and fiduciary specialists. All the firm's financial advisers have access to these specialists.

An integrated CRM and client reporting system is being developed that will allow all stakeholders easy access to all relevant information about a client's wealth. The wealth manager will have a bird's-eye view of the client's total financial welfare, while clients will have a 360° view of all relevant financial products and solutions affecting the growth, protection or transfer of wealth across platforms and product/service providers.

The Covid-19 pandemic has changed the way the firm interacts with clients, moving away from exclusively personal interaction to a hybrid model where client interaction takes place not only in person but also over digital and other electronic platforms.

> In formulating financial plans for its clients, Brenthurst adheres to an integrated holistic approach

FNB PRIVATE WEALTH & RMB PRIVATE BANK

Archetype	Score FNB	(out of 10) RMB
Lump-sum investor	6.18	N/A
Young professional	7.42	6.81
Entrepreneur	6.10	6.17
Executive	6.22	6.38
Retiree	6.08	5.99
Wealthy family	7.30	7.30

Overall

RMB Private Bank and FNB Private Wealth provide a powerful range of services to wealth management and private banking clients.

The group boasts a track record of more than 180 years of providing clients with financial advice, offering both local and global wealth solutions. Current innovations include the provision of private advisers to gain an understanding of clients' balance sheets, considering their financial, business and long-term generational wealth requirements and come up with appropriate solutions.

A private banking offering has been designed for the spouses or life partners of the group's private banking clients. This ensures that clients' significant others can also enjoy the same private banking experience at a reduced fee. The group also caters for the children of private banking clients by offering a smart solution that enables young people to gain confidence in dealing with money, while teaching them financial responsibility. The FNBy Account is a fully transactional account with no monthly fees that is linked to a parent account.

The retiree value proposition focuses on the needs of retired financially independent individuals and includes preferential benefits across estate administration, investments and transactional accounts. Retired clients enjoy a reduced fee of 50% or no monthly account fee based on their investment balance.

GINSBURG AND SELBY PRIVATE WEALTH

Archetype	Score (out of 10)
Lump-sum investor	N/A
Young professional	N/A
Entrepreneur	N/A
Executive	N/A
Retiree	N/A
Wealthy family	7.57

Overall

Cape Town-based Ginsburg and Selby Private Wealth has a small and dedicated team of experienced investment professionals who focus exclusively on investment management for high-net-worth individuals, families, public benefit organisations and trusts.

As such, it competes only in the Wealthy Family archetype of this survey, a category judged on responses to a case study.

The firm develops portfolios by applying active management to enhance returns and reduce risk after costs. The objective is to achieve real returns above inflation for clients at lower than market risk over the long term.

Long-term holding positions are encouraged while market volatility is embraced as it creates the opportunity for active managers to efficiently employ their skills-set. The firm does not invest in exotic investments or structured products. Client capital is allocated to investments only where business principals personally have exposure.

All clients have a tailored investment strategy that takes into account their investment objectives and propensity for risk.

MOSAIC FAMILY OFFICE

Archetype	Score (out of 10)
Lump-sum investor	N/A
Young professional	N/A
Entrepreneur	N/A
Executive	N/A
Retiree	N/A
Wealthy family	8.17

Overall

This year Mosaic Family Office took fourth place in the Wealthy Family award category – the only category in which it competes.

The Johannesburg-based firm is a leading provider of family office services and takes both a holistic and multidisciplinary approach to create solutions for family office clients to protect their wealth for current and future generations.

Services include investment management, estate planning, property administration, tax, foreign exchange and philanthropy.

Mosaic's clients may own multiple trusts, companies and investment portfolios across many jurisdictions. The Mosaic Portal consolidates all this information, making it accessible 24/7 on a single platform via desktop and mobile.

Recent improvements allow for documents and information to be available earlier in the reporting cycle and the group has upgraded the portal's online investment reporting capabilities. The firm also handles administration tasks for clients.

123RF — OLIVIER26

NEDBANK WEALTH MANAGEMENT SA

Archetype	Score (out of 10)
Lump-sum investor	6.12
Young professional	6.48
Entrepreneur	6.18
Executive	6.57
Retiree	6.48
Wealthy family	8.60

Overall
Nedbank Wealth Management SA put in a strong performance in this year's survey, winning the coveted Wealthy Family archetype award and ranking third in the Top Wealth Manager: Large Institutions award.

Nedbank has been investing in ways to connect clients to expertise, insights and educational topics through a series of educational videos housed both on a dedicated YouTube channel and accessible from its revamped online share trading website. It publishes thought leadership content and provides clients with regular market updates. Numerous webinars have been held to stay connected to clients, putting them in touch with expertise about themes that interest them, with popular topics being good governance and the development of SMEs.

Nedbank's award-winning app enables clients to bank locally and internationally, view both local and international investments, trade shares and receive live market updates as well as stay in touch with their wealth manager for advice.

Its services include private banking, investments, stockbroking and philanthropy. Its value proposition "Connected Wealth" considers clients' needs in a connected and holistic way. How this approach is communicated to clients has recently been refined, making it more accessible.

PSG WEALTH

Archetype	Score (out of 10)
Lump-sum investor	7.92
Young professional	7.89
Entrepreneur	7.56
Executive	7.43
Retiree	7.30
Wealthy family	8.20

Overall
PSG Wealth walks off with numerous accolades this year and has retained its title as the Top Wealth Manager of the Year: Large Institutions, which it won in the past three years.

It also wins three archetype awards: lump sum investor, retiree and young professional.

The firm offers a vast range of services and has 263 wealth and insure advisory offices across the country as well as eight offices globally.

PSG has recently enhanced its internal system to facilitate more efficient and effective reviews of its client affairs. Its CRM system myPractice allows PSG to build a lifetime history of advice and reviews for each client. Linked to most processes is its digital acceptance methodology, enabling advisers to get documentation approved even when they cannot see clients personally.

PSG has also launched a new public-facing website as it identified the need for a fresher, brighter and more modern look. The search functionality on the website has been enhanced to make it easier for clients to contact a specific adviser and users can now search according to the services offered by advisers in a specific geographical area.

SALVO CAPITAL

Archetype	Score (out of 10)
Lump-sum investor	7.72
Young professional	N/A
Entrepreneur	N/A
Executive	7.27
Retiree	6.77
Wealthy family	N/A

Overall
Salvo Capital is a boutique financial services provider that was established in 2004 in Bloemfontein, growing into one of the largest wealth managers in the Free State.

Its services include investments, tax and estate planning and it was this year's runner-up in the Lump-Sum Investor archetype award.

The firm's advisers have strong relationships with their clients as each client is serviced within a "family office" approach. This includes a highly specialised needs analysis and while one adviser looks after the relationship, multiple specialists are used to provide the most suitable advice to satisfy client requirements.

The firm has implemented processes to communicate with clients more efficiently, sending out a monthly newsletter that discusses market developments, performance reviews of the funds it manages as well as positioning in the funds. Salvo's service offering has also expanded to include specialised fiduciary services for clients seeking to set up trading or investment vehicles in offshore jurisdictions.

SASFIN WEALTH

Archetype	Score (out of 10)
Lump-sum investor	6.09
Young professional	N/A
Entrepreneur	N/A
Executive	7.26
Retiree	7.29
Wealthy family	7.70

Overall
Sasfin Wealth is runner-up in both the main Top Wealth Manager: Boutiques award and the highly competitive People's

Choice: Wealth Managers. It also ranked second in the Retiree archetype award.

The firm has been providing wealth management solutions to private clients, families and institutions for more than 130 years and has six offices in SA. It is part of the Sasfin Group which was listed in 1987.

Recent innovations include a greater focus on recognising behavioural risk as part of the advice process. Given increased volatility, a greater risk exists that clients could make emotionally driven decisions that could cause them to lose out on growth in the long run. During the investment strategy formulation interactions with clients, education is done understanding potential behavioural risks.

As remote working and the greater adoption of technology has led to more clients being comfortable with digital servicing solutions, Sasfin has enhanced the functionality on its website, allowing for greater self-service capabilities.

The firm has also allocated additional resources to its fiduciary services function as the impact of Covid-19 on clients together with the increased focus on offshore investing has resulted in a greater need for these services.

STANDARD BANK WEALTH & INVESTMENT

Archetype	Score	(out of 10) Private Bank
Lump-sum investor	6.83	6.30
Young professional	7.63	5.24
Entrepreneur	6.62	5.66
Executive	7.17	5.63
Retiree	6.36	4.55
Wealthy family	8.27	N/A

"Its My360 app that has modernised and strengthened its relationships with clients

Overall

Having dominated the awards in the early years of this survey, Standard Bank Wealth & Investment remains in second position in the Top Wealth Manager: Large Institutions, which it last won in 2018.

Standard Bank Private Bank ranks third in the Top Private Bank award, from second place last year.

Standard W&I also takes second place in the Wealthy Family archetype award, but despite being a strong all-rounder in that it caters fully to all client segments, it was not competitive in any of the other archetypes while client ratings for the People's Choice award were relatively lower than previous years.

The bank's investment philosophy is based on a goals-driven approach that requires a tailor-made solution for each client, which is developed through an extensive cash flow analysis, helping it to understand a client's unique spending requirements in both the present and the future.

Standard W&I provides a digitally-enabled wealth management experience through its My360 app that has modernised and strengthened its relationships with clients. The app is continually enhanced to provide clients and their wealth manager with an aggregated view of their holistic portfolio in all asset classes. In this way, My360 provides a shared platform through which the client and their relationship team can have meaningful engagements.

Standard Bank Family Office has crafted a collection of insights and broadcast them in 23 pre-recorded sessions to its clients in all jurisdictions in which it operates. The aim of The Phenomenal Families series was to address the key issues affecting family offices and family enterprises in today's environment and to create a library of thought leadership content to help families preserve and grow their wealth.

WARWICK LUCAS

A close look at commodities

Investors must understand the differences between commodities and how they relate to each other and to other asset classes

I have an odd habit for an old stockbroker – I like reading academic finance studies. In particular, on the JSE, I watch the work of Prof Paul van Rensburg of the University of Cape Town, who has written many papers probing (attacking) the efficient market hypothesis as it pertains to the JSE.

Though the hypothesis has been around for ages, its mathematical manifestation (the capital asset pricing model) seems to be violated when using the all share index as a single market proxy. It shouldn't be a surprise – the fortunes of mining companies depend on mineral prices that are established from international political and economic events, often mostly divorced from aspects of the SA economy.

So returns on mining shares and industrial shares will be influenced at times by different underlying factors. At the end of a 1997 study, Van Rensburg and Kevin Slaney showed that the returns of the JSE are far better represented with a two-factor model using proxies of industrial and resources shares.

Reading further, a paper by Harry Kat and Roel Oomen focused on the return properties of a variety of commodities in an international context. Unlike equities and bonds, commodity futures are positively correlated with unexpected inflation, a result we would intuitively expect, given the "hard" nature of commodities.

Within commodities there are big differences between energy, metals and "softs", but the conclusion was that a balanced commodities portfolio adds worthwhile diversification to investment portfolios. The negative relationship with stocks and bonds, and positive correlation with inflation, make for a great portfolio diversifier, but not all commodities are equally good inflation hedges.

There isn't such a thing as the "average commodity". To make a well-informed investment in commodities and to be able to construct sensible portfolios, investors must understand the differences between various commodities and how they relate to each other and to other asset classes.

In terms of mutual dependence, returns show low dependence between groups, but high levels of dependence within. For example, there might be a low correlation between copper and gas, for example, and a high correlation between, say, gas and crude oil. This implies that diversification across commodity groups maximises portfolio risk diversity. (My interpretation is that this may help explain the relatively "otherwise" behaviour of SA equities. The suggestion is that the correlation would be mostly quite different to those of other equity markets – making SA equities good global portfolio diversifiers!)

Commodity correlations with equities can vary over different parts of the business cycle, particularly in relation to energy and metals. At the end of economic expansions, correlations for energy increase and for metals, decrease. At the start of recession, correlations with energy are lower and those for metals are significantly higher. The reasons aren't probed in the paper, but one could posit supply/demand issues.

When equities are volatile, commodities and bonds often correlate together, but when commodities are volatile, this is not the case. When commodity markets are volatile, equity correlation increases in metals and decreases in energy. The upshot? Not all commodities are equal when it comes to diversifying, nor do they all work in the same way at the same time. Energy is a good diversifier in recessions.

Investors seek to maintain purchasing power (beat inflation) which makes commodities' relationship to inflation relevant. Whereas stocks and bonds tend to discount future cash flows, commodity prices do not and it follows that the relationship between commodity returns and inflation is quite different. In strong economic growth, upward pressure is applied to commodities, producer and consumer prices and interest rates. Then these high prices reduce the growth potential of company profits (that is, many equities) by squeezing margins and reducing the present value of future cash flows. So stocks and bonds will drop and commodities will keep going.

History is rhyming a little bit differently, as we have soaring inflation coupled with supply-side problems. This, in commodity terms, looks similar in appearance to economic growth. I have used "commodity" throughout – most of this it is also true of commodity producers, which means those resources shares on the JSE remain highly relevant. ●

"Energy is a good diversifier in recessions

Lucas is CEO at Galileo Securities
Twitter @warwicklucas

Don't bite just yet

Inflation is hurting post-pandemic restaurant demand more than travel, so investors need to tread carefully in this space for now, writes **The Finance Ghost**

123RF — DAVIZRO

If you can find a Zoom shareholder who is willing to talk about the trauma of the past 18 months, that haggard investor will acknowledge that most consumers have tried hard to go back to their normal, pre-pandemic lives.

Despite what the Zoom share price tried to tell us during the pandemic, nobody thinks that being locked up at home and experiencing everything online is the best way to live.

Consumers are spending on experiences, with travel and social gatherings high on the list. Delta Air Lines reported its highest bookings in history in March, as people finally felt confident enough to book holidays for the northern hemisphere summer.

Leaving aside ongoing travel restrictions in Asia, people are out and about again and restaurant owners are celebrating the return of consumer demand. The question is: will it remain strong enough to counter the significant inflationary pressures being felt by the industry?

According to research by Advertising Week Europe that Bloomberg reported on in May 2022, 69% of UK consumers plan to save money through fewer trips to restaurants. About 60% plan to reduce spending on clothing. Only 46% said they would cut back on travel. In Maslow's lesser-known Hierarchy of Wants, inflation looks set to hurt restaurant demand before it affects travel.

This is logical if you remember that travel requires a much wealthier consumer than restaurants do. Everyone in a developed market can afford a hamburger. Not everyone can afford to hop over the ocean for breakfast in Paris. Wealthier consumers are held back by Covid restrictions, not by affordability (even in a time of inflation).

Speaking of inflation, restaurant owners seem to constantly run the gauntlet for survival. Just as demand has returned, inflation has picked up in input costs for these businesses. Energy costs sit front and centre here, particularly for European businesses that run on gas.

> We need to look abroad to the US market, where everything is supersized

In SA, the cost of energy seems to be less of a problem than the availability of energy. There's nothing like load-shedding on a Friday night to destroy the already-challenging economics of a restaurant.

This has put a damper on the recovery in this sector. There was an opportunity for businesses to adapt during the pandemic and implement digital channels as a differentiator. When it comes to widespread inflation and consumer pressures, there's only so much that can be done.

Despite all this, Famous Brands recently released results for the year ended February 2022 and the trajectory of the recovery is clear to see. Revenue increased from R4.7bn to R6.5bn, which was enough to return the group to an operating profit. Headline earnings per share (HEPS) from continuing operations was 356c a share.

There's even a dividend of 200c a share, which sends a clear message about the confidence management has in the sector. A meaty dividend also confirms that the balance sheet has stabilised after such a tough period, with net debt to earnings before interest, tax, depreciation and amortisation improving from 3.04 times to a far more palatable 1.32 times.

It's worth looking one level deeper at Famous Brands, as the recovery looks different in the "Signature Brands" vs the "Leading Brands" segments – the full-service restaurants vs the quick-service restaurants. The restaurants that suffered the most in Covid were those that depend on dinners that are lubricated with wine. Alcohol bans and curfews were a disaster.

The takeaway burger joints did OK in the end, as people could use delivery services to bring some calorific happiness to the household. Leading Brands revenue was up 58% in this period and Signature Brands was up a whopping 91%, reflecting the relative base effect.

In FY2020, Famous

Brands' HEPS was 417c, 17% higher than the latest result. There's still a road to recovery ahead. The share price was trading at about R62.70 at time of writing, well below the R80 a share seen at the start of 2020. Interestingly, the share price briefly reached that "full recovery" level in January 2020, before dropping more than 18% in the recent bear market.

The latest Spur results are for the six months to December 2021, so the timing isn't directly comparable to Famous Brands. It does help that the company reported restaurant sales growth both year on year and vs the preceding six months. Those growth rates were 28.3% and 18% respectively. Spur group's revenue increased 40.3% year on year and HEPS was 119.3% higher at 70.10c a share. A dividend of 49c a share was declared, a payout ratio of 70% vs 55% at Famous Brands.

In the six months ended December 2019, headline earnings was 125.81c a share. This was 80% higher than the latest result, so Spur took a much harder knock from the pandemic than Famous Brands. Trading at about R19.50 at the time of writing, the share price would need to increase by nearly 30% to return to the levels seen at the start of 2020. Much like Famous Brands, the share price briefly reached that level at the start of 2022, before dropping nearly 22% this year.

With the SA consumer under a great deal of pressure from fuel costs and basic food inflation, investors need to tread carefully in this space. The share price recovery earlier this year to pre-pandemic levels was clearly premature, as confirmed by price action in subsequent months. Just based on earnings, and especially given the inflationary environment we are in with rising yields, there's no justification for Spur and Famous Brands to be trading at pre-pandemic levels.

The five years leading up to the pandemic weren't appealing either, with Spur having lost 15% of its value over that period and Famous Brands having shed more than 30% of its value based on a disastrous foray into the UK market.

With neither of these companies making a compelling investment case, there is another JSE-listed company that you may find interesting. Bidcorp is a global food service business, with exposure to hotels and office catering in addition to restaurants. In a trading update in May, the company noted a record third quarter and strong performance in all markets outside Asia.

Bidcorp says operating leverage (the opportunity to expand margins through revenue growth off a partially fixed cost base) has been offset by cost-push inflation. As a logistics business with wholesale margins (much like Famous Brands), Bidcorp and is exposed to supply chain disruptions, higher energy costs and wage demands of warehouse workers and drivers. Unlike Famous Brands, Bidcorp doesn't earn franchise fees from restaurants or profit from selling branded restaurant sauces in the supermarkets.

Bidcorp's share price is down 4.4% since the start of the pandemic and has lost 2% this year. This puts the performance far ahead of Famous Brands and Spur. Still, it hasn't been a happy place for investors to put their money.

In the search for interesting investments in this sector, we need to look abroad to the US market, where everything is supersized. There's no shortage of restaurant brands to choose from, representing everything from takeaway tacos through to premium coffee and sit-down steakhouses.

Since the beginning of 2020, performances have varied considerably. The top performer is Chipotle Mexican Grill, up more than 53% in that period. Restaurant Brands International, owner of Burger King among other brands, has lost more than 20% in that period.

Looking at the five years before the pandemic tells a different story. Chipotle was the laggard with a compound annual growth rate (CAGR) of just 4.4%. Domino's was great over that period, achieving a CAGR of 24.9%. Wendy's with 19.9% and McDonald's with 16.2% both deserve a mention.

Any of these companies would've been a better choice than the JSE-listed players. Americans are unbeatable at creating and exporting great consumer brands. The restaurant industry is no exception, with the golden arches of McDonald's and the smiling face of Colonel Sanders recognisable across the world.

Clearly, investing in this sector on the global market has been more rewarding than investing locally. The more difficult analysis is around whether any exposure to this sector is advisable in this environment.

We've seen substantial sell-offs in the sector and the leading companies haven't been spared. Chipotle and Domino's have both lost a third of their value since the peaks in 2021. Apart from a general cooling off in valuation multiples, something smells off in the fridge.

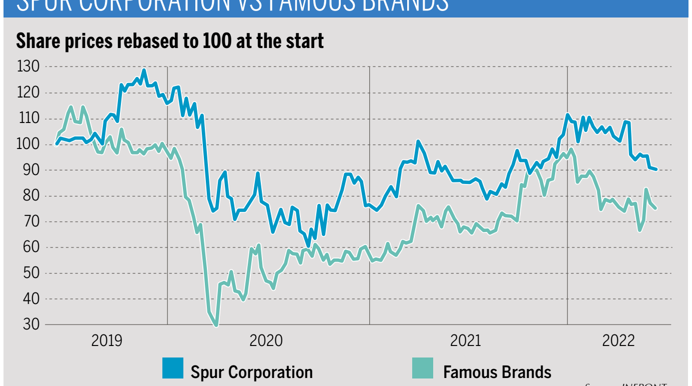
In the US in particular, staff wages are a major pressure point. Starbucks may refer to its employees as "partners" in an attempt to make them feel like they are part of the wealth-creating class, but we know that the situation on the ground is different. Starbucks is dealing with the threat of staff forming a labour union. There's an entire website dedicated to "educating" staff about the unions, reminiscent of Sibanye's recent labour dispute. You would be forgiven for forgetting that you're reading about a business in the US.

When combined with energy costs and inflation in food input costs (in the latest earnings call, Domino's noted double-digit increases in food), margins are under pressure in these businesses. In the first half of this fiscal year, margins at Starbucks have compressed by more than 200 basis points.

At Chipotle, prices have been raised by about 10% and margins have still gone in the wrong direction. Restaurant operating margin is down from 22.3% to 20.7%, attributed to higher wages and food costs.

With inflation still raging, consumers will cut down somewhere. Restaurants seem like a soft target. Having survived the pandemic, these businesses are now facing significant margin compression. Overall, it probably makes the most sense to let the dust settle before investing in this sector.

SPUR CORPORATION VS FAMOUS BRANDS



Extracting value

Junior miners — rather than exploration companies — are best placed to exploit SA's mineral wealth, writes **David McKay**

Simple gravity separation to produce rare earth concentrate at Rainbow Rare Earths' Gakara Project in Burundi, East Africa.

The government's ambition to have the country comprise roughly 5% of world minerals exploration spend is a forlorn hope, according to mining industry experts.

How, they say, is it possible to entertain this lofty ambition when the government takes years to grant a prospecting licence? Only 90 days are needed for Botswana to grant a similar licence.

That's why Botswana is feted for its emergent copper belt. It has attracted nearly $800m in new foreign investment, while a few clicks south of the border, in the Northern Cape, huge tracts of prospective land remain untouched by modern geological study. Only a handful of companies plan to prospect virgin ground. One is Southern Palladium, a platinum group metals (PGMs) company working in North West. Canada's Platinum Group Metals, a firm that wants to build a palladium mine in Limpopo, is another.

That's the bad news. The good news is there are some companies working on "fresh" mineral projects. In fact, SA's grassroots mining sector has been quietly growing, encouraged by the recovery in metal and mineral prices since 2015. It's important to recognise, however, that these are not exploration firms but junior miners – companies with near cash options on previously mined ground.

"A lot of people complain about there being no exploration in SA, but I'm not sure why we need to do it because there are so many old ore bodies lying around with access development that can just be mined," says Jan Nelson, CEO of Big Tree Copper. "You can do it clever and you can do it short term," he says.

Big Tree Copper is producing about 100t a month of copper cathode – the most basic of copper products – from rock tailings at Nababeep, situated in the far west of the Northern Cape. The plan is to list the company on AltX in October once its reverse-takeover by another copper junior with adjacent, and larger, resources called SHiP is complete. SHiP's backer is Shirley Hayes, a self-styled mining entrepreneur with no corporate stripes but with shovel-loads of enterprise.

> "The US government can see the value of our project, but Cape Town [asset managers] cannot"

Hayes will be executive chair of the combined company, to be renamed Copper360, while Nelson will be its CEO. It aims to raise R200m-R300m through the IPO to finance production growth to 6,000t a year of copper cathode. It's worth noting that Coronation has already ploughed a sum into Big Tree Copper on the proviso Nelson list it and pay a 30% post-tax dividend.

The investment premise behind Copper360 is unusual for SA, says Nelson, formerly CEO of Pan African Resources and a Harmony Gold executive. "Junior miners try to emulate big mining company models. There's a big pre-feasibility study, and then a big feasibility study, and R100m later, you're still not sure whether the study says you can or not.

"We're not saying be like cowboys and don't derisk, we're saying: 'Why don't you derisk in a different way?'"

In his view, SA's junior miners appear to make every attempt to deter institutional investors. "If I ask you to invest in our company and it gives you a 500% return, but in three years the company is done and doesn't exist more, would you take that? I would," says Nelson. And so would Coronation, it seems.

"Junior mining companies try to exist forever and hopefully break even. I think that's why the institutions turn away," says Nelson. "So, if you don't come with a different proposition, you will hear the same music all the time."

That's fine for brownfields developers with relatively low capital ramp-ups such as Copper360. But exploration firms, due to the nature of their capital demands, have to demonstrate that the years of investment are mirrored by years of returns. For that, local money managers won't run a bet on a hole in the ground, says Stefano Marani, CEO of Renergen, which is drilling the plains of Virginia in the Free State for helium.

"We haven't received a single cent from SA. We got all our money from the US. The US government can see the value of our project, but Cape Town [asset managers] cannot," Marani said at the Junior Indaba conference in Joburg in June.

Investment support for Renergen's exploration also came from Robert Friedland, one of the few mining entrepreneurs to attempt a mine build from scratch in SA. Friedland recently took a 4.35% stake in Renergen with an option to go to 25%.

His company, Ivanhoe Mines, is building Platreef, a $500m-$600m project in the northern limb of the Bushveld Complex, about 10km from Mokopane. It's expected to produce about 590,000oz of PGMs, as well as nickel and copper byproducts, based on an updated feasibility study completed in February.

The shares trade in Toronto, however. He didn't take a local listing; in fact, many junior and exploration companies operating in SA don't. Johan Odendaal, MD of Southern Palladium, which took a secondary inward listing on the JSE on June 9, said Reserve Bank pressure was perhaps the only reason to list.

George Bennett, a veteran mining development entrepreneur, has listed three companies in his life, none of them in SA. Asked why, he simply declines to comment. "Let's leave it at that," he says. Still, Bennett's latest company – Rainbow Rare Earths – is another of the junior miners investors might want to take notice of.

Listed in London, the company is hoping to extract the rare earth minerals neodymium and praseodymium, collectively known as NdPr. NdPr are source elements required for the manufacture of magnets supplied to hi-tech weaponry as well as wind turbine generation and, more recently, electric vehicles (EVs).

As with Nelson's proposed Copper360, Rainbow Rare Earths' "deposits" are above ground, held in waste residue stacks in Phalaborwa near where petrochemical company Sasol used to produce phosphoric acid. In making the acid, gypsum residues were created, says Bennett. Extracting the rare earths is not mining but a chemical process.

The assets ended up in the hands of Bosveld Phosphates. It was the beneficiary of a Competition Commission ruling about 10 years ago, which asked Sasol to dispatch certain businesses in industries where it held unfair market dominance. Unfortunately, Bosveld wasn't able to develop the assets, partly owing to the collapse of the phosphate market.

Rainbow Rare Earths did a deal with Bosveld as it recognised EV demand would catalyse NdPr markets. And it has. Prices for the minerals – which aren't "rare" but difficult to extract – are 80% higher this year.

Why this tangent on arcane gypsum stack provenance? Well, it's an indication of how SA's junior mining sector is placed to exploit the country's extraordinary mineral legacy. Provenance is also pretty important to buyers of NdPr, it turns out. China controls about 80% of rare earth production and 95% of the downstreaming process, even magnet production. That's an important geopolitical risk for the US and European economies, hence the Biden administration's public pledge to mine allies for minerals for US utilities to conduct the processing.

Despite the minerals price hike, shares in Rainbow Rare Earths are only 5% higher in the past 12 months. Compare this to the 205% gain in shares of American Rare Earths, another NdPr wannabe, but listed in Australia.

Primary hard rock extraction of rare earths can take $600m to $1bn in investment, but the chemical processes required to liberate NdPr that exist in "cracked" form in the gypsum implies a lower capital bill for Rainbow Rare Earths' Phalaborwa project.

Bennett won't speculate on the capital outlay required. "I've learnt not to put numbers out in the market," he says. But he thinks they'll be about two years between the firm's imminent feasibility study to production. "Normally that process could take five to 10 years."

According to Sprott Equity Research, an offshoot of the global investment manager, Rainbow Rare Earths is in the pound seats. "Stepping back, we believe that Rainbow is the best risk-adjusted return profile of any NdPr developer due to location, infrastructure in place, the already treated nature of the mineralisation and Rainbow's plant-building management team," it says.

The granddaddy of SA's new mineral plays, however, is Orion Minerals. Listed in Australia, with a secondary inward listing on the JSE, the company is refurbishing copper and zinc assets in the Northern Cape that were previously mined by steelmaker Iscor before its demerger.

At the time of writing, Orion shares were voluntarily halted ahead of a capital raising. This is likely to relate to Orion's announcement in January that it would to rescope its initial R5bn Prieska copper-zinc project, lowering production but accelerating the project at half the initial capital cost.

While investors like Orion's project, they want less risk. Under the accelerated production scenario, the Prieska copper-zinc project represents a 22% uplift in attributable value to Orion shareholders, equal to 99c a share, according to Simon Hudson-Peacock, an analyst for S2 Research.

He has a target price on Orion shares – down about 32% in the past 12 months – of R1.16 a share, which compares to a current price of 26c.

Finbond

How changes in Illinois law hit Finbond

Finbond Group, which owns the majority stake in Finbond Mutual Bank in SA and various payday loan outfits in the US, Canada, Mexico and Panama, faced strong headwinds in 2021. Though the company's full-year loss shrank, it continues to struggle to get the North American unit back in the black.

The company, based in Pretoria, was hit by regulatory changes in Illinois after the state legislature capped annual interest and fees on payday loans at 36%. According to Finbond, its operations in Illinois were responsible for 40% of the US unit's revenue and 26.9% of total group revenue in the 2021 fiscal year. Illinois's general assembly said in the preamble to the new legislation that "in 2020, nearly half of Illinois payday loan borrowers earn less than $30,000 per year, and the average annual percentage rate of a payday loan is 297%".

So the legislature stepped in to curb usury rates in its territory. With families in the state paying $500m a year in "consumer instalment, payday and title loan fees", it is no wonder that Finbond expanded in the region. The company changed its offering to consumers after the implementation of the new legislation in March last year.

The dramatic cap on interest rates and fees hit its North American unit hard. Though the value of loans granted in North America rose 30.1% to R3.59bn, revenue (derived from the result of interest received and paid) slumped 38% to R713.6m, according to the company's annual financial statements for the year to end-February.

Coupled with a lag in revenue recognition due to the increased uptake of a new 24-month product – where revenue is recognised over a longer period – the North American unit posted a loss for the year to end-February.

The US government's stimulus package – in which it posted cash cheques to citizens to alleviate the negative impact on consumer spending at the height of the pandemic – also played its part in Finbond's North American woes. Citing a US report, Finbond says transaction values fell by as much as 60% at one stage. The stimulus effort by the government has, however, had a positive impact on consumers' credit scores.

"The good news, at least for the time being, is that consumer credit quality is still quite strong, as there was no significant increase in write-offs in any of the consumer lending categories," says a statement accompanying Finbond's results. This is also apparent in the company's "strike rate" when collecting payday loan payments. It reported an improvement in the strike rate of 2 percentage points to 101% in the year through end-February.

Its SA unit's average collection rate is 88% on loans with an average size of R1,881 with a maturity of 2.8 months. "The loan portfolio turns over about four times a year," it said. Domestically, Finbond's SA unit increased loans granted by 16.6% to R1.43bn during the reporting period.

Finbond's results also act as a reminder of the different economic realities facing Americans and South Africans. As seen, the collection rates differ quite a lot. And the SA unit rejected between 71% and 91% of loan requests for periods between 12 and 24 months.

In a bid to return to profitability, Finbond continued closing branches and shrinking its staff complement. Between 2019 and 2022, Finbond reduced its footprint from 675 branches to 592 and cut employee numbers from 2,153 to 2,051.

Through these and other measures, the company slashed its operating expenses by almost 13% to R1.33bn in the 2022 financial year, after a 7.7% reduction from R1.65bn the previous year. The company also reduced its loan impairments during the pandemic: in 2019 net impairments stood at 24.1% and for the year through end-February it dropped to 14.5%.

Finbond's funding costs may eat into its profitability. The company reduced the value of fixed and notice deposits (which averaged R360,560 at an average interest rate of 9% for an average term of 25.9 months) by 26% to R803m at end-February. On the flipside, it increased the value of commercial paper issued to the market by 35% to R1.98bn (with an average investment size of R1.24m over 60 months at an interest rate of 10.5%).

This switch from cheaper to more expensive funding boggles the mind. Capitec, a much larger competitor, did the opposite when it started out. With more and more US states likely to cap the amount of interest and fees charged on payday loans, through a limit called the annual percentage rate, it stands to reason that a lender such as Finbond should seek the cheapest source of funding. ●

Jaco Visser

> Finbond's results also act as a reminder of the different economic realities facing Americans and South Africans

FINBOND GROUP

It is a holding company which controls local Finbond Mutual Bank and various payday loan outfits in North America

Financial year-end: **February**
Final results: **May 2023**

RECOMMENDATION

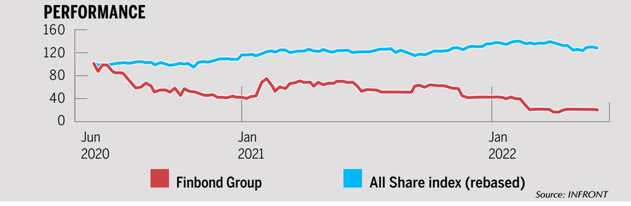
Sell | Hold | Buy

RISK

Low | Medium | High

Market cap	R445m
Forward PE	–
Current price	**49c**
1-year high	164c
1-year low	36c
Key indicators (FY22)	
Heps	-17.9c
Div/share	–
PE ratio	-2.74
Total revenue (6mth)	R1.64bn
Attributable revenue	-R244m
Total assets	R4.6bn
Equity	R1bn

Target price: 49c **Upside: 0%**



Barloworld

Barloworld suffers from Russia exposure

Barloworld's share price has been a torrid underperformer of late and, at the time of writing, has underperformed the JSE all share index by an uncomfortable margin year to date. On face of it, using most valuation metrics, the share now appears cheap.

So why is the share price reflecting so much negative sentiment towards this JSE stalwart, and is this perception warranted?

Listed on the JSE in 1941, Barloworld (affectionately know as Barlows) has a rich 120-year history in SA. It was founded in 1902 as a trader in woollen blankets and coats. The company has diversified over the years by becoming a seller of industrial equipment and a producer of cement, paint, food, IT and even – at one point – TV sets. This diversification meant that it once dominated many sectors of the SA economy.

After conquering SA, it expanded, mainly through acquisitions, into other African countries as well as globally. This expansion included countries such as the UK, with Barlows even listing on the London Stock Exchange in 1969, then into the US and a host of other countries.

In 1994 the company, then known as Barlow Rand, started a more than decade-long process of unbundling noncore and underperforming operations to become a more focused and streamlined business. It rebranded first as Barlow Ltd and then in 2000 as Barloworld.

Today, the group is structured into two primary areas of focus. The first is industrial equipment and services (known as Equipment Southern Africa and Equipment Eurasia, partnering with brands such as Caterpillar). The second is consumer industries, trading under Ingrain, Africa's largest producer of unmodified and modified starch and glucose and related products.

The group has also partnered with strong brands such as Avis and Budget in the car rental and leasing space. The car rental and fleet business is now considered as an "asset held for sale", with management indicating that the group is considering options which could lead to an outright sale or even an unbundling to shareholders and a potential separate listing (Avis was previously listed on the JSE). The timing for this is good as this business unit has recovered substantially and has returned to pre-Covid levels on an operating profit basis, meaning better leverage for a higher valuation for the group and some upside for shareholders.

With Barloworld's strong exposure to the mining and construction sector as well as oil and gas as part of its diversified offering, why has the market taken a disliking to the group as reflected in its dismal share price performance?

The answer may lie in the fact that Barloworld holds, through Vostochnaya Technica UK, dealership rights to distribute Caterpillar equipment and other original equipment manufacturer equipment in Russia. The group used to generate about 20% of its revenue from its Russian operations.

> Barloworld has stated it does not plan to exit Russia

BARLOWORLD

It is an iconic SA-based industrial conglomerate that distributes international brands as well as providing rental, fleet management, product support and logistics services

Financial year-end: **September**
Final results: **November**

RECOMMENDATION

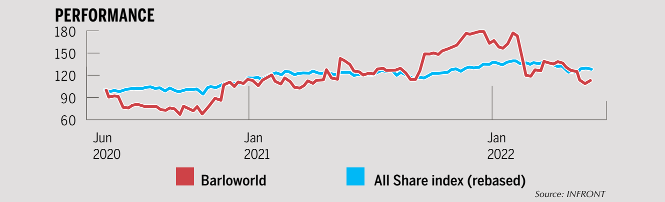
Sell | Hold | Buy

RISK

Low | Medium | High

Market cap	R18.2bn
Forward PE	7.3
Current price	**R94.92**
1-year high	R154.99
1-year low	R84.60
Key indicators (6mnth)	
Heps	447c
Div/share	447c
PE ratio	8
Total revenue	R18.4bn
Attributable revenue	-R62m
Total assets	R48bn
Equity	R18.1bn

Target price: R114 **Upside: +20%**



Barloworld's Russian business has suffered as sanctions imposed on its customers have resulted in product sale restrictions, which, together with supply chain disruptions, have made life for its customers in this region very challenging and resulted in cancellation of orders.

Add to fallen sales a high fixed cost component, which is the nature of this type of business, and you can see why the shine has been taken off the group for now. With no clear resolution to the Russia/Ukraine war in sight, it's unlikely the Russian business will contribute any profit over the next year or so.

Despite the pressure on the Russian operations, Barloworld has, for now, stated it does not plan to exit Russia. The Russian business was impaired by just over R1bn in the group's latest set of financials for the first half of 2022 (which ended in March). Time will tell if this impairment is sufficient.

Is the share price now appropriately discounting all this negativity and will Barloworld's other businesses have enough fire power to offset the drag from the Russian business?

Despite the negative Russian sentiment weighing heavily on the share price, there are some positives, such as the SA and Mongolian equipment businesses continuing to benefit from a commodity cycle which, for now, is holding up.

On top of this, the starch and glucose business showed strong volume growth in its latest set of interim results and this performance is expected to continue, especially in sectors which were previously affected by Covid restrictions, such as the alcoholic beverage sector. Another positive for shareholders is the potential windfall from a disposal of the car rental and fleet business.

So even if you heavily discount the overhang of negativity brought on by its Russian exposure, the current valuation for Barlows may now just be offering an opportunity for long-term investors prepared to invest through economic cycles. ●

Shawn Stockigt

Altron

Ready to cash in on renewed spending

Since 2017, technology services company Altron has been on a mission to revamp and simplify its business, reduce its debt and become capital light, with the goal of improving shareholder returns.

This has been done by offloading noncore assets and, towards the end of 2020, unbundling to shareholders its investment in Bytes Technology Group. Bytes is listed on the London Stock Exchange with a dual listing on the local bourse.

In current market conditions the unbundling of Bytes has proved to be particularly rewarding for those shareholders who chose to remain directly invested in Bytes shares (shareholders received one Bytes share for every two Altron shares held). Despite the current Bytes share price being off the highs achieved during 2021, it is still comfortably above the original price offered at the time of the unbundling.

Bytes previously contributed a large portion of Altron's revenue and earnings before interest, tax, depreciation and amortisation, and the unbundling effectively means that Altron is now very much focused on SA, with the bulk of its revenue coming from its local operations. Of the R7.9bn revenue (from continuing operations) reported in its latest full-year results, about R7.3bn was generated in the SA geographic region.

Altrons now operates under three main segments: own platforms (businesses under this segment include Netstar, Altron FinTech and Altron HealthTech); digital transformation (business units include Altron Karabina, Altron Security and Altron Systems Integration); and managed services (Altron Managed Solutions and Altron Nexus).

Altron recently released its year-end results, enabling investors to get a picture of how the group is performing without Bytes. This has been a challenging operating environment for the company, with Covid-related supply chain constraints leading to component shortages as well as customers reducing capex and therefore demand for the services Altron provides.

Despite these challenges, the group performed relatively well compared with its 2021 year, with revenue from continuing operations growing 6% to R7.9bn and operating income up strongly to R498m.

Though good growth could have been expected from the pandemic lows, the 2022 financial year operating profit is also up about 9% when compared to the pre-Covid 2020 year-end operating income. The numbers are even more impressive when you add back one-offs such as share-based payments (a net R30m as a result of the Bytes UK unbundling) and restructuring costs (R24m severance costs) and calculate a "normalised" operating income.

Generally, by removing these nonrecurring factors that influenced operating profit, investors can get an understanding of what the true operating profit is from the normal day-to-day operations and therefore get a better understanding what to expect from the remaining business.

Under Altron's three trading segments, the own platforms sector performed relatively well on the comparable 2021 year-end, with business units such as Netstar even managing consistent subscriber growth despite the pandemic. The digital transformation business and managed services units underperformed compared with 2021 – the former despite the positive turnaround of Altron Karabina, the latter mainly as a result of Altron Nexus experiencing challenges as a result of its exposure to business in the public sector.

Altron's business unit Altron Arrow, which was up for sale, performed relatively well, and as no buyer could be found it will no longer be considered as "held for sale", with a decision now made to keep the business.

The balance sheet was strengthened by a reduction in debt from the proceeds from the Bytes demerger in December 2020. Though gross debt increased for the 2022 financial year when compared with 2021, the current gross debt is considerably lower than the gross debt pre-Covid, meaning the group goes into a higher interest rate environment in a far stronger position and has capacity should any juicy potential acquisitions arise.

In the short to medium term the group will have to navigate the challenges brought on by continued supply chain pressures and component shortages (which put pressure on prices), an overhang from the pandemic. However, this will ease over time and in the meantime there are still opportunities to rationalise the business via further offloading of noncore assets – such as selling the banking business unit housed within Altron Managed Solutions.

Altron is now well on its way of becoming capital light and most of the businesses that remain in the fold are scalable. Demand in the ICT sector should become robust now that clients, who put capital expenditure in this area on hold during the pandemic, have to spend to catch up in a digital landscape that is constantly advancing. Altron is now well positioned to benefit from this. ●

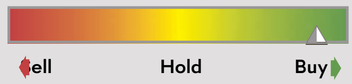
Shawn Stockigt

ALTRON

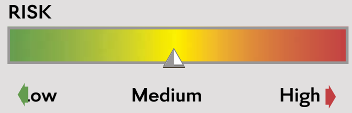
It is a technology hub that has developed out of the old electronics conglomerate — Allied Electronics Corporation — started by the Venter family in the 1960s

Financial year-end: **February**
Final results: **May**

RECOMMENDATION



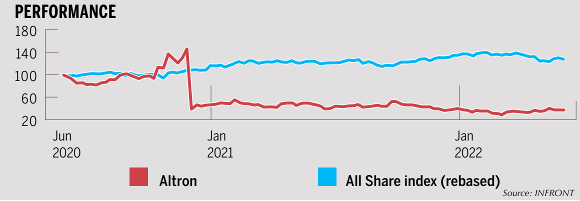
RISK



Market cap	R3.3bn
Forward PE	4.4
Current price	**894c**
1-year high	R12.55
1-year low	670c
Key indicators (FY22)	
Heps	51c
Div/share	30c
PE ratio	16.5
Total revenue	R7.9bn
Attributable revenue	-R95m
Total assets	R9.4bn
Equity	R4.35bn

Target price: R10.75 **Upside: +20%**

PERFORMANCE



Pepkor

More vanilla than bubbly

Pepkor has a strong reputation on the local market. But with a share price return of just 2% since the start of 2019, that reputation hasn't been earned by making recent investors wealthy.

Among local clothing retailers, Pepkor has been the strongest fish trying to swim upstream in this economy. Since the start of 2019, TFG is down 16%, Mr Price is down 20% and Truworths has lost nearly 40% of its value. Woolworths has been carried by its grocery business, with the share price down about 3% over this period.

There are no winners here. Only different degrees of losers.

Steinhoff still holds just over 50% in Pepkor. An important recent development is that Pepkor has recovered all its exposure related to a financial guarantee that had been provided on behalf of a management investment company that had invested in Steinhoff shares. The implementation of the Steinhoff global settlement put this issue to bed and all related claims and litigation were settled. Having previously provided in full for the guarantee, this R429m recovery equated to a benefit of 12c a share in the six months to March 2022. This is a material number when headline earnings per share (HEPS) for the period were 91.5c.

Looking to the operational performance, Pepkor's revenue for that interim period grew 3.7% (after adjusting for the disposal of John Craig) and operating profit increased 10.1% on a normalised basis (excluding the Steinhoff settlement). Normalised HEPS increased 12.1% to 79.9c. There are no fireworks here.

Pepkor is dealing with the same supply chain issues that are causing difficulties for everyone in the retail sector. Cash generated from operations fell 19% year on year despite operating profit increasing 17.6%.

Cash sales account for 93% of group sales, higher than Mr Price at 86.1% and significantly higher than TFG at 79.9%. This is important for risk management but it arguably has a downside in a time of consumer pressure.

Pepkor carries a provision in Tenacity (the clothing and general merchandise book) of 21% of the book, slightly higher than TFG's provision of 19%. With a gross profit margin of 35.3%, this makes credit sales earnings accretive for Pepkor. In other words, credit can be an enabler of growth at a time when consumers are struggling. Within reason, this is a good strategy. Left unmanaged, it can become a disaster.

It's worth noting that Pepkor's Capfin book has a provision of 18%. JD Group's provision dropped from 40% to 33%. JD Group's credit sales are 12% of that division, as this is core to a furniture model.

Moving on, Pepkor's clothing and general merchandise segment contributed 65.7% of group revenue and 81.8% of normalised operating profit, so this is the most important part of the business. Revenue increased 4.9% and operating profit 6.1%.

JD Group, which has brands such as Bradlows and Incredible Connection, increased sales 8.8% and operating profit 64.6%. The Building Co (Buco, which Pepkor was blocked from selling to Cashbuild by the Competition Commission) recorded a drop in sales of 1.6% and a jump in operating profit of 26.4% thanks to rationalisation efforts. The fintech segment (Flash and Capfin) reported a drop in revenue based on a change in accounting classification, and a 17% increase in operating profit to R393m, which makes this segment more profitable than JD Group or Buco (R344m and R220m respectively).

With a solid (if uninspiring) performance in the local market, Pepkor is venturing into Latin America in pursuit of growth. Most SA retailers prefer losing money in Australia or the UK instead.

There are sensible reasons why Latin America makes far more sense than either of those choices, especially when Pepkor has structured a deal to buy only 87% of Brazil's Grupo Avenida, leaving the rest in the hands of the founders and management team. This is a relatively small deal at less than 4% of Pepkor's market cap at the time of the transaction.

The acquisition was completed in February 2022 and Pepkor is happy with performance thus far.

Pepkor's share price is down more than 7% this year. It only pays a final dividend, based on a policy of three times dividend cover. If we double normalised interim HEPS and apply that cover, the full-year dividend would be about 53c a share. That's only a yield of 2.6%, which doesn't make Pepkor compelling in this environment. ●

The Finance Ghost

> Credit can be an enabler of growth at a time when consumers are struggling. Within reason, this is a good strategy

PEPKOR HOLDINGS

It has the largest retail store footprint in Southern Africa. The majority of the brands operate in the discount and value market segment

Financial year-end: **September**
Interim results: **March**

RECOMMENDATION

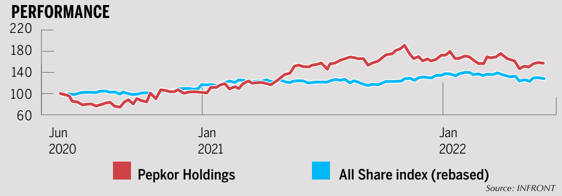
Sell Hold Buy

RISK

Low Medium High

Market cap	R75.2bn
Forward PE	13.2x
Current price	**R20.28**
1-year high	R27.59
1-year low	R18.72
Key indicators (22 interim)	
Normalised Heps	79.9c
Div/share	Nil
LTM PE ratio	13.84x
Total revenue	R42bn
Attributable revenue	R3.33bn
Total assets	R109.4bn
Equity	R28bn

Target price: R21.30 **Upside: +5%**



Industrials Reit

Why the UK MLI sector is a good place to be

It's no accident that Industrials Reit emerged as one of the JSE's top-performing property stocks in 2021. The UK-focused counter, which has its primary listing on the LSE, delivered a total return of more than 60% last year after making impressive headway in transforming its portfolio over the past few years.

Under its previous guise as Stenprop, it owned a rather curious mixed bag of assets. However, the company is now well on its way to becoming a major player in the UK purpose-built multilet industrial (MLI) space – essentially, large business parks that offer multiple warehouse units of about 350m². Industrials Reit has a diverse base of about 1,500 tenants, most of them small or medium enterprises and including a growing tally of manufacturers that have brought their operations on-shore following Brexit.

Year to date the share price has come under pressure, in line with a dip in global real estate investment trust indices fuelled by concern over higher inflation and waning consumer spending.

Current share price weakness aside, is there still some longer-term upside? It certainly seems so, given the solid set of results released by Industrials Reit earlier this month for the year to end-March.

The company achieved like-for-like rental growth of 4.4% and like-for-like valuation growth of 20.8% across its MLI portfolio, resulting in a total accounting return for the year of a hefty 25%. CEO Paul Arenson says despite economic and geopolitical uncertainty, the strong fundamentals of the UK MLI sector should enable management to continue to achieve its targets of 4%-5% a year rental growth and 10%-plus annual total accounting return over the next few years.

He also plans to continue bulking up the portfolio and is targeting annual acquisitions of £125m (R2.44bn) over the next four years.

European investment bank Berenberg's equity research team recently confirmed a "buy" recommendation on Industrials Reit. Berenberg says despite concerns around inflationary pressures and dampened consumer sentiment, demand for MLI space in the UK remains strong. The equity note reads: "We believe Industrials Reit continues to demonstrate strong acquisition and asset management capabilities, and is well placed to capitalise on structural growth in occupier demand as it nears its target of becoming a 100%-focused MLI operator."

> Industrial assets will likely also prove defensive in the higher inflation environment, given that they require lower capital expenditure than offices and shopping centres

INDUSTRIALS REIT

The real estate investment trust (Reit) owns and operates a portfolio of 104 multi-let industrial properties across the UK spanning 7,000,000ft²

Financial year-end: **March**
Final results: **June**

RECOMMENDATION

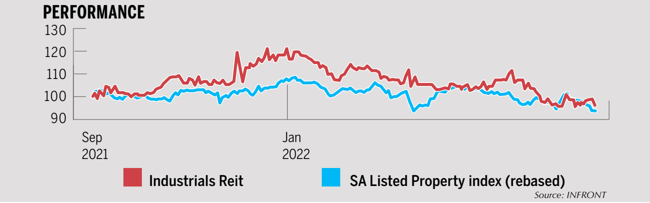
Sell — Hold — **Buy**

RISK

Low — Medium — High

Market cap	R10.7bn
Forward dividend yield	4%
Current price	**R34.00**
1-year high	R44.00
1-year low	R28.51
Key indicators (FY21)	
Heps	143c (R)
Div/share	138.26c (R)
PE ratio	25.1
Total revenue	£107.5m
Attributable revenue	£32.8m
Total assets	£685.8m
Equity	£521m

Target price: R42.00 **Upside: 23%**



Brendon Hubbard, portfolio manager at Joburg-based ClucasGray, says the economic drivers that buoyed demand for MLI space in the UK last year, specifically among SMEs, remain intact. He cites global supply chain disruptions following the pandemic, and more recently the Russian-Ukraine war, which have prompted many companies and suppliers of goods to increase stock levels.

Then there's the added complexity of Brexit-related supply chain delays at newly re-established borders. Says Hubbard: "This has benefited UK industrial-focused property companies as tenants need to hold larger inventories, which requires more space."

Industrial assets will likely also prove defensive in the higher inflation environment, given that they require lower capital expenditure than offices and shopping centres. The latter are usually expensive to modernise and upgrade. As Hubbard points out: "Industrial assets typically only require a lick of paint as location is more important than appearance."

> Industrial assets typically only require a lick of paint as location is more important than appearance

Industrials Reit is currently trading at a premium to NAV of about 10% vs the SA listed property sector's average 20% discount. So the stock isn't cheap. However, if demand for MLI space, coupled with limited supply and rising building costs, continues to translate into higher rentals, the company's property values and NAV will also rise, which in turn should support further share price growth.

In addition, the company is expected to enter several UK and European real estate indices later this year, which will mandate more index funds to buy the counter. ●

Joan Muller

Oceana

This could be the catch of the season

IM cannot review Oceana Group without acknowledging the soap opera at the company over the past nine months. This caused the share price to slide 23% to a low of 4,781c by March.

The delay in the FY2021 results to September, due to the investigation of a whistleblower's claims regarding US fishmeal subsidiary Daybrook, morphed into a wider probe.

In February 2022 the CFO was suspended. Then, as preliminary results kept being delayed, weeks later the CEO resigned. The company secretary left in March.

The forensic investigation into Daybrook eventually detailed no fraud or monetary loss, but it did show an obscure $4.4m accounting charge, relating to the acquisition in 2015, that had to be put through. The market felt relieved there was no financial impropriety but many questions remained as to what was going on.

Then auditor PwC quit in May, days before the interim results. The suspended CFO's services were terminated on the same day. Oceana wanted to put an end to events that had shaken the business.

A new CEO, Neville Brink, was hastily appointed ahead of delayed results. Brink, who had managed Oceana's lobster and calamari fishing divisions as well as Blue Continent Products, is a 27-year fishing veteran. Ralph Buddle was appointed as CFO. An Oceana outsider, he brings a wealth of fast-moving consumer goods experience to the role. Both have been welcomed by the market, keen for someone to steady the ship.

Oceana chair Mustaq Brey bravely wrote an opinion piece in Business Day, seeking to clear up the tittle-tattle. From IM's perspective, Brey lifted the fishy whiff that has hung over Oceana, by saying some miscreants had flouted internal policies and had left the company. He insisted that the businesses remains sound.

Operationally, Oceana had a tough FY2021 and a more challenging H1 2022.

FY2021 results saw an 8% drop in revenue to R7.63bn, operating profit fell 1% to R1.2bn and headline earnings per share (HEPS) fell 12% to 550c a share with a 9% cut in dividend to 358c a share.

Much of this decline was from Lucky Star canned fish, due to problems stemming from the civil unrest in 2021 and the inability to fully supply the market. Profit slipped 14%, with Lucky Star usually contributing 50% of revenue and profit. Daybrook also saw a slide of 44% on poor fishing conditions.

Oceana told the market that interim results to March 2022 would be dire, falling between 46% and 56%.

Recent H1 2022 results saw HEPS dive 51% to 126.4c a share, with all divisions slumping: canned fish (-18%), US fishmeal (-38%), fishing (-52%) and cold storage (-47%). Overall operating profit slid 37% to R353m.

This was anticipated by the market and because much of the drama was seen as being in the past, and because interim results highlighted expectations of a much stronger second half, Oceana rallied 5.5% to 5,639c a share at the time of writing.

Not all has been sour for Oceana. In the long-term fishing rights process it did not lose material tonnage but gained 0.5% in hake, with a 2.9% trim in anchovy and a 2.9% improvement in lobster.

OCEANA GROUP

It is a diversified fishing conglomerate with a valuable canned fish brand in Lucky Star as well as sizeable offshore fish oil and fishmeal operations in Louisiana in the US

Financial year-end: **September**
Final results: **November**

RECOMMENDATION

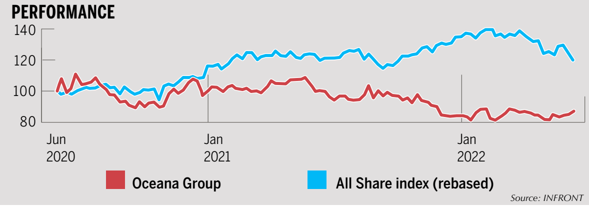
Sell | Hold | Buy

RISK

Low | Medium | High

Market cap	R7.483m
Forward PE	11%
Current price	**R56.39**
1-year high	R71.22
1-year low	R47.81
Key indicators (FY22)	
Heps	550c
Div/share	358c
PE ratio	10.3x
Total revenue	R7.633m
Attributable revenue	R676m
Total assets	R11.336m
Equity	R5.303m

Target price: R72.00 **Upside: 28%**



Both Sea Harvest and I&J saw a 4.3% trim in hake.

The production and supply problems at Lucky Star business have abated and there has been robust growth in sales, with consumers seeing canned fish as an affordable protein meal. Oceana now has the product to supply lost volumes and sales to date, IM believes, have exceeded expectations.

Lucky Star is a strong brand with excellent consumer recognition. Oceana is considering brand extension and launching complementary products to capitalise on that.

Fishing in the US is under way. IM understands that catch rates are well ahead of the previous season. Oil yield has also improved and demand for fishmeal remains strong, especially from the US pet food segment. Daybrook, after two years of disappointing results, could surprise the market on the upside in the second half and into FY2023.

Prospects for global fishing are looking good. The sanctions on Russia have excluded the fifth-biggest white fish exporter and 2.8Mt have been withdrawn from global supply.

Prices of white fish are rising fast, with cod, for example, up 30% since sanctions were imposed. Oceana is enjoying higher export prices and demand for product from new markets, though the rand's recent strength alongside the higher diesel price will take some sheen off sector results.

Strong global demand for fish, a rebound in demand for Lucky Star and a recovering Daybrook will offset some of the soaring diesel price. However, the outlook for fishing stocks and Oceana are far better than the general food producer sector, which has been battered by higher inflationary costs and an inability to fully recover margin squeeze.

With a better second half ahead, Oceana's problems apparently drifting away on the breeze and a low share price, IM believes Oceana could be the "catch of the day" in the fishing sector. We place a buy on the stock at 5,639c with a target of 7,200c. ●
Anthony Clark

Investment trusts have a double edge

These funds are more keenly priced than they have been for several years, writes **Warwick Lucas**

123RF — OLIVIER26

Readers may feel that I have overdone the discussion on London closed-end funds in recent months. The reason I have concentrated on them so much (and probably will for the rest of this year) is that they are a relatively novel asset as far as SA investors are concerned and therefore require a wide introduction.

It's at times like now, when the current (very uncomfortable) state of equity markets prevail, that a double-edged characteristic of investment trusts comes to the fore. During bear markets, they tend to open up discounts to the underlying asset value. The consequences of this are twofold; on the one hand these fund prices tend to fall further than normal indices, but on the other hand, the upside is that the long-term buyer can obtain excellent assets at discounted prices and the funds themselves can grow their relative NAV by buying back their own units.

In some ways, when the converse applies, namely that investment trusts are all at a premium (whether in specific categories or across the board) it can be a contrarian indicator that a market or sector is somewhat overheated. At the moment, given that discounts are typically sitting in the high single digits, the investment trusts are more keenly priced than they have been for several years. Even the green energy sector is sitting on very small premiums — that, in fact, is a bookkeeping issue, as the underlying assets are invariably unlisted and so the NAVs include legacy entry levels.

Just like any other listed company, investment trusts publish periodic results and have a full board of directors that consult on corporate action matters but, like ETFs, regularly publish summary factsheets.

Finsbury

South Africans who have been aware of offshore options for some time will be aware of the niche fund manager Fundsmith, which has a high-conviction "quality style" approach. Less well known in SA is Lindsell Train, a fund manager of similar stripe.

Lindsell Train portfolios are benchmark or index agnostic, and so look different from market indices. The process involves building a concentrated portfolio of quality companies that have strong brands and/or powerful market franchises. Characteristics the firm looks for in its target companies are heritage, predictable earnings (through pricing power and/or intellectual property), low capital intensity and sustainably high returns on capital.

Reflecting these characteristics, preferred stock picks fall into in a select group of sectors, namely consumer branded goods, technology, media and telecoms, financials and pharma.

Once the company has bought, it is very rarely a seller unless it believes the investment thesis has eroded substantially. It likes owning great companies for the long haul and hates the friction from frequent transactions. The object of my interest here is its dividend-generating investment trust, Finsbury.

Finsbury Growth & Income (listed under UK equity income) interim results to March 31 showed NAV growth on a total return basis of -2.2% (aggravated by widening discount) vs +4.7% for the FTSE all share (Alsi) (UK). Over the period, the NAV discount widened from 4.5% to 6.2% — and despite £14.4m (0.7% of share capital) of buybacks in the period and £5.8m (0.3% of share capital) since, the discount has widened to 8.0%.

Lindsell Train fund manager Nick Train acknowledges slow performance for the past 18 months (NAV +6.9% vs a +31.6% rise for FTSE [UK[Alsi) to September 2020, but points to underlying holdings' strong operations. Diageo has done well in the US, Relx has seen growth in data and analytics, there is growing acceptance of the LSE's merger with Refinitiv, and Fever-Tree is now the No 1 tonic brand in the US. Return on capital for most holdings is above 10%, and for the largest holdings mostly above 15%. Since the first half-year end, NAV has closely tracked the FTSE (UK) Alsi.

The investment process I describe above leads to very different sector weightings from the FTSE (UK) Alsi, with a heavy emphasis on trusted consumer goods — Diageo, Mondelez, Unilever and Burberry — and financial services — London Stock Exchange (LSE), Schroders and Hargreaves Lansdown. Portfolio turnover remains low, reflecting the manager's steady long-term approach. The portfolio's historic p:e is a high (for the UK) 25, which Train expects to unwind with strong earnings growth.

Broking firm Numis Securities fairly points to Finsbury's great long-term track record — it has delivered 10-year NAV total pound returns of 215%, vs 102% for the FTSE Alsi. However, three-year NAV total returns of 6.3% vs 15.6% for the index could discomfort those overly concerned with the short term. The novelty of the current inflationary and rising rate environment distracts from the point that its unique investment process should cause performance to deviate from the index, which obviously cuts both ways. The dividend yield of 2.2% might be below the FTSE Alsi (3.3%), but the underlying assets should pump through cash in almost any environment.

Mid Wynd International Investment Trust

In the LSE investment trusts global equity space, Mid Wynd International Investment Trust seems to be doing things differently to its peers. Rather than stock market-labelled specific sectors, the fund builds its portfolio around eight to 10 long-term worldwide trends. These relate to automation, health-care costs, sustainable consumers, building the future, digital banking, scientific equipment, a low-carbon world, screen time and energy transition materials.

The fund then selects high-quality companies it believe can benefit from these trends – those that are strongly positioned in their market, with robust balance sheets and sustainable pricing power. Regardless of what is happening in the global economy in the short term, Mid Wynd believes these companies have the strength and resources to prosper over time. These are good investments only if they have been bought well priced, and if the manager is patient.

The fund was listed in 1981, having evolved from a textiles business (founded in 1797) into an investment holding business and eventually a listed investment trust. It has been managed by the Artemis Global Select team since May 2014, after taking over the mandate from Baillie Gifford. Artemis manages £27bn of assets over numerous mandates.

An important principle at Artemis is for the managers to buy their own funds (eating their own cooking!). The Artemis Global Select team is led by Simon Edelsten and Alex Illingworth. With more than 60 years of investment experience between them, and more than a decade of successfully running Artemis's Global Select (Global Equity) strategy together, the members have the experience to spot good opportunities and the demonstrated ability to generate long term returns.

Artemis believes that regardless of what markets are doing, opportunities for above-average returns are available to active managers. Thus they buy a share believed to be undervalued, and not because of its index status. The approach is that they are benchmark aware, not benchmark driven. The result is "high conviction" portfolios, which can "look and feel" markedly different from mainstream competitors.

Environmental, social, and governance (ESG) principles are considered throughout the investment process. More recently, Mid Wynd exited most of its position in Chinese equities (10% of the portfolio) due to suffocating government regulations and what the fund felt were attacks on shareholders' rights.

Rampant global inflation has made it build larger positions in companies that may thrive in a high-inflation environment (banks, railways and telephone companies) while it sold "online services" positions (PayPal, Adobe and Elastic) and reduced fintech positions.

> "Opportunities for above-average returns are available to active managers

The top 10 holdings are: Alphabet 3%; Microsoft 2.8%; Anthem 2.7%; Thermo Fisher Scientific 2.7%; Singtel 2.6%; Union Pacific 2.5%; Pfizer 2.5%; Norfolk Southern Railway 2.4%; UnitedHealth Group 2.4%; and Amazon 2.3%.

The shape of the portfolio has recently changed due to defensive themes performing better than the more highly valued growth themes. Resources comprise 8% of assets, the screen-time theme (including telecom stocks) 14% and the low-carbon-world theme (including railroads) 5% of assets. Growth themes such as automation shrunk to 12% of assets and online services (including many of the US tech holdings) are now less than 15% of assets – well below index weight.

The fund's commentary on railways and telecoms is intriguing: "Railways (part of the low-carbon-world theme) and telecoms (part of the screen-time theme): over the past year, our search for value for money has led us to increase exposure to more slowly growing companies which we believe have excellent pricing power. These shares have performed well over the past quarter as investors looked for companies that cope well in times of rising costs of raw materials and of labour."

The comment on energy is also interesting – and indeed energy may well be the sector that replaces tech as the primary determinant for whether an asset manager under- or outperforms peers: "The main drag on the performance relative to the index came from having no oil shares. We believe the fossil fuel industry has very poor long-term prospects, so we continue to have no exposure despite the recent short-term jump in the price of oil and gas in Europe". That could be heroic or zeroic!

Capital management is sound. The board operates a "zero discount policy". In terms of this it aims to limit the discount volatility and improve trading liquidity with share buybacks below a 2% discount, and by issuing shares at small premiums. The fund issued new shares at about 2% of share capital for the past three quarters. Unusually among LSE investment trusts at present, shares are trading on a 3% NAV premium.

The fund has grown through issuance, and though the market cap of £487m is considered small by LSE standards, the active use of the zero-discount policy provides good liquidity for investors.

Numis Securities points out that long-term growth themes have been a key component of the fund's strong performance in recent years and it's interesting to see the manager being versatile in its approach and aware of valuations to reposition the portfolio to consider the revised macroeconomic outlook. The ongoing charge of the fund is a reasonable 0.6%, which is expected to scale downwards as the fund continues to grow.

Snippet

The demolition derby in the price of Scottish Mortgage (which we have previously reviewed) continues as its "cutting-edge" themes remain firmly out of favour with the market.

Nevertheless, its current "best idea" odes look interesting – Moderna. Moderna has suffered a 70% fall from its highs, but the fund believes the market is focused solely on the longevity of its Covid vaccine revenues and is missing the broader applications of Moderna's mRNA technology in areas like influenzas, Zika, HIV and even cancer. This platform value is not being recognised, given it trades on five times earnings, and has nearly one-third of its market cap in cash. ●