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SUMMARY OF THE INVESTMENT SEMINAR

"Years of wealth destruction under Zuma meant South Africa missed out on the global economic upturn and the benefits that come with it in terms of trade and job creation"

Magnus Heystek
Brenthurst Wealth

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SA QUO VADIS?

YOUR MONEY, YOUR BUSINESS, YOUR PROPERTY

TRADE WARS, LAND EXPROPRIATION, LOW GROWTH: WHERE TO FROM HERE? MAGNUS HEYSTEK, MAGDA WIERCYKA AND JEAN-PIERRE VERSTER DISCUSS THE CURRENT STATE OF PLAY, SA'S FUTURE OUTLOOK AND WHAT INVESTORS CAN DO TO SAFEGUARD WEALTH.

While returns from equity markets have been good, there are headwinds to growth across the globe. These were the words of **GLYN OWEN, INVESTMENT DIRECTOR AT MOMENTUM GLOBAL INVESTMENT MANAGEMENT IN THE UK**, spoken at the final instalment of the Brenthurst/Moneyweb SA Quo Vadis? seminar series in Cape Town on Thursday (June21).

Owen, presenting a global view, said 2017 was "the most benign period I could recall, with hardly a downward tick" for developed and emerging markets.

But current volatility and uncertainty raise questions about where to from here.

While there are a number of geopolitical risks, he said markets are currently affected by threats of trade wars, which he believes will ultimately be avoided.

On monetary policy, "for the first time in 10 years we are looking at interest rate increases and tightening of monetary policy," he said.

In the US, the previous peak in interest rates was 5%, and while the Fed is increasing rates, they are still low and likely to be 2.5% by the end of 2018 and peak at 3.5% around 2020.

US bonds, giving a return for the first time in a decade, are "the ultimate safe haven asset," he said. Momentum is buying them for the first time since the financial crisis.

Countries that have borrowed in dollars, have a high degree of external debt, and significant current account and fiscal deficits are starting to feel pain. The worst 10 currencies over the last three months are all emerging market currencies, with the rand being the fourth worst.

While it was no surprise that Argentina, Brazil, India, Turkey and South Africa, among others, had high external debt and financing needs as a percentage of GDP, Owen said it was not all bad news, as these levels were not as bad as a few years ago.

He said signs of a sustained increase in growth across the global economy were encouraging for markets, and good economic conditions lead to good growth in company earnings.

One of the headwinds to growth is demographics. China's working population is expected to decrease and Japan's population is falling by a million people a year, meaning that if Japan grows at 1%, that should be considered a good return, Owen said.

While economies are growing, investors should expect slower growth than before.

China will struggle to produce the growth rates of the last few years. "There is also too much debt about, with debt as a percentage of GDP having gone up globally," he said. This is significantly so in China.

Corporate earnings have been strong and P/E ratios have moved up since the crisis, but came down a bit over the last 18 months and are in reasonable value territory now, Owen said. He expects companies to continue to produce reasonable returns over the next five years or so, and believes equities in his portfolios are what will yield growth.

THE SPEAKERS:

- **MAGNUS HEYSTEK** Investment Strategist and Director of Brenthurst
- **MAGDA WIERZYCKA** CEO of the Sygnia Group
- **RALPH MATHEKGA** Leading Political Analyst and author of "When Zuma Goes"
- **JEAN-PIERRE VERSTER** Equity Portfolio Manager of Fairtree Capital
- **GLYN OWEN** Investment Director at Momentum Global Investment (London)
- **RYK VAN NIEKERK** Editor of Moneyweb

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RALPH MATHEKGA


MAGDA WIERZYCKA


GLYN OWEN


MAGNUS HEYSTEK


JEAN-PIERRE VERSTER


RYK VAN NIEKERK

*"President Ramaphosa heralds a new dawn. It's now up to corporate South Africa to adopt good governance, transparency andmorality as our core business principles. **Without that, there will be no growth.**"*

MAGDA WIERZYCKA

*"Ramaphosa's **'new dawn'** remains a distant dream with many pitfalls."*

RALPH MATHEKGA

*"The international investor's perspective on the new SA: **actions speak louder than words.**"*

GLYN OWEN

SOUTH AFRICA FAILS TO KEEP UP WITH GLOBAL TRENDS

MAGNUS HEYSTEK, DIRECTOR OF BRENTHURST WEALTH MANAGEMENT, said 10 years of wealth destruction under former president Jacob Zuma meant South Africa was one of very few countries that has not recovered, and that it missed a global economic upturn and the benefits that come with it in terms of trade and job creation.

Heystek said there has been no growth in wealth per capita, while in other emerging markets it has increased. South Africans' purchasing power parity – our wealth in international terms – is dropping significantly, he said.

Latest tourism figures indicated that fewer and fewer people can afford to travel, car sales are at a fraction of what was forecast 10 years ago, and the rand 10 years ago was R6.84.

Not all of South Africa's economic woes could be ascribed to Zuma, Heystek said, as there were contributing factors like the downturn in the commodity cycle.

But he – and Pravin Gordhan, in his former position as finance minister – could be blamed for South Africa's credit rating, the acceleration of "out of control" government wages, government debt as a percentage of GDP and negative foreign direct investment (FDI).

LAND EXPROPRIATION AN INVESTMENT DETERRENT

Heystek said land expropriation, if handled badly, could lead to a further acceleration in the decline of FDI.

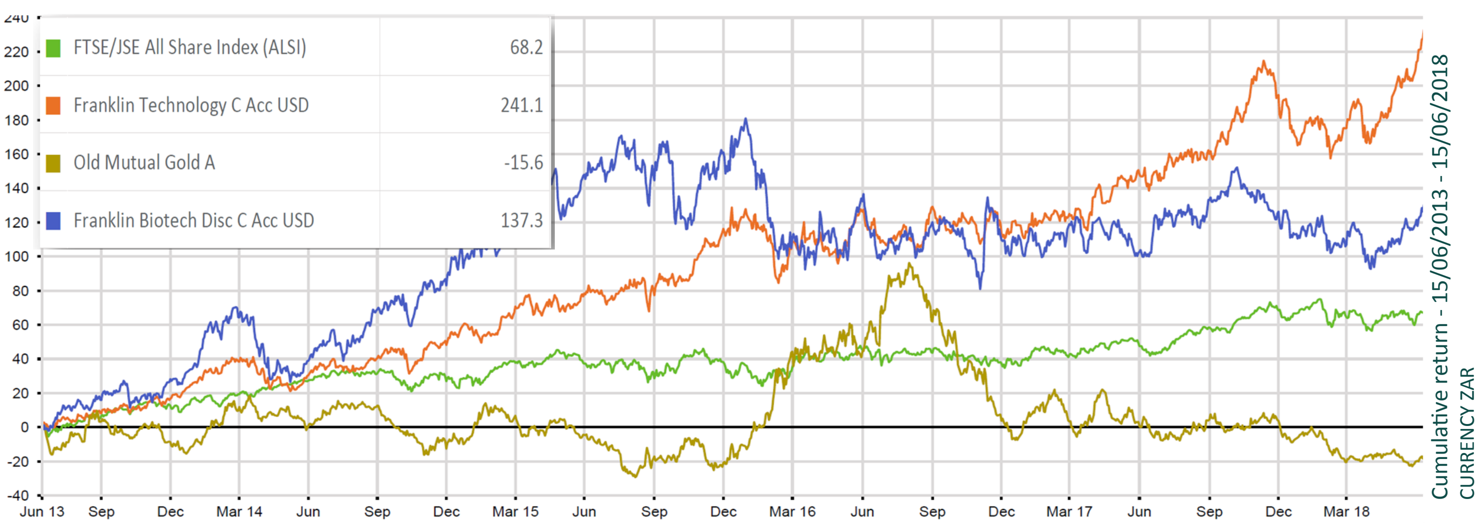
On other measures, like debt servicing costs and the world competitive index, South Africa is being overtaken by countries like Mauritius, Rwanda and Morocco, he said.

The effect of all of these issues on wealth is a collapse or stagnation in the property market, with the average property price around 2005 levels.

Looking at relative investment returns – over three, five, seven and 10 years – South Africa was stone or second to last, he said. The average pension fund has not beaten inflation over three years. While South Africa still quotes the gold price – "the least important economic indicator" – biotech and tech investors offshore have created great wealth, and most average investors in South Africa have missed out on that growth, he said.

"We are chugging along while the rest of world is creating value for investors."

TECHNOLOGY IS THE NEW PRECIOUS METALL



THE LONG-TERM EFFECTS OF STATE CAPTURE

SYGNIA CEO MAGDA WIERZYCKA, commenting on the political environment, said that 18 months ago, state capture and Gupta leaks weren't part of the lexicon in South Africa, but now this information is out, and state-owned enterprise (SOE) are compromised.

The involvement of international companies like McKinsey, SAP, Bank of Baroda, HSBC and KPMG has also been exposed.

According to Wierzycka, an SAP director told her "this is their standard way of doing business in most emerging markets", while one of the big four banks was involved in beneficial structured transactions involving Transnet and Eskom.

SA'S RECOVERY "WILL TAKE MUCH LONGER THAN MOST OF US WILL LIKE TO BELIEVE," SHE SAID.

"We cannot be too impatient. I think Cyril [Ramaphosa] is moving incredibly quickly given the constraints he is under."

The biggest constraint is job creation, and Zuma's greatest crime was to destroy basic education, "condemning another generation of youth to unemployment [while], at the same time, we are facing forces of the fourth industrial revolution."

South Africa has emerged out of state capture at a difficult time as central banks globally take out the free money they had been throwing into the system, she said.

While the world had "an unprecedented period of growth," South Africa did not participate.

SA MUST CHANGE ITS NARRATIVE

Magda Wierzycka said stumbling blocks for foreign investors include the mining charter and land appropriation, and as much as the resource sector is a sunset industry, it's an employer of manual labour. Acceptance of the 'once empowered, always empowered' concept was "a very positive sign that government recognises the realities facing South Africa."

Land reform, however, was problematic. Wierzycka said the ANC never gave any thought to what it meant and is only now starting to put frameworks in place.

South Africa needs foreign investment to create jobs and generate growth, she said, adding that South Africa was the only emerging market last year "to attract negative foreign investment". **Getting investment will be difficult, and South Africa needs to change the narrative, stop talking about state capture and the Guptas, and start talking about the positives.**

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THE SPEAKERS:

➲ MAGDA WIERZYCKA

Magda Wierzycka, CFP serves as the Chief Executive Officer of Sygnia Limited, the Chief Executive Officer at Sygnia Collective Investments RF and Sygnia Asset Management. She has been an Executive Director at Sygnia Limited since September 17, 2007. Previously she served as Chief Executive Officer of African Harvest Ltd. since 2003. She is an actuary with extensive experience in the field of investments. Prior to joining African Harvest she was a Director and Head of Institutional Business at Coronation Fund Managers for six years. Prior to joining Coronation, she worked as an Investments Product Development Actuary at Southern Life and was Regional Head of Investment Consulting and Director at Alexander Forbes. She is a Certified Financial Planner®. She holds Bachelor of Business Science (Actuarial), PhDip(Actuarial), FFA, FASSA.

➲ RALPH MATHEKGA

Ralph Mathekga holds a Masters in Political Science from Wits University. He is curently studying towards a PhD in Political Science with the New School for Social Research. He also holds a certificate in Project Appraisal and Risk Analysis. Ralph worked as a Political Researcher with the Institute for Democracy in South Africa (Idasa), has been a part of the team that drafted South Africa's Self Assessment Report as part of the African Peer Review Mechanism (APRM), has worked at Economic Development Growth and Equity (EDGE) , as well as a Lecturer at University of Western Cape. He has also worked at National Treasury (Ministry of Finance) in the Budget Office. He is the author of the book 'When Zuma Goes'.

➲ GLYN OWEN

Glyn Owen is Investment Director and a member of the Investment Strategy Group. He manages many of the relationships with key partners and clients. He has over forty years of investment experience, nearly all of which has been in the City of London. He was one of the founders of Momentum's international investment business in London in 1998, prior to which Glyn was Head of the International Division at Deutsche Morgan Grenfell, where he was responsible for international investments for non-UK institutions.

➲ JEAN-PIERRE VERSTER

Jean-Pierre Verster, B.Com (Tuks), Hons B.Compt (UNISA) ,CA(SA), CFA, CAIA, BCompt (Hons), is an Equity Portfolio Manager at Fairtree Capital. He joined the company in 2016. Prior to this, he was an Analyst at 36ONE Asset Management. He served as a Portfolio Manager at Melville Douglas Investment Management and also served as its Equity Analyst. He has been an Independent and Non-Executive Director of Capitec Bank Limited since March 2015. He fulfilled various roles in the Standard Bank Group, including as a credit and corporate research analyst in its Global Markets Research division, where he analyzed companies' financial position from a credit perspective. Mr. Verster commenced his career in 2005 as a financial manager in the insurance services environment and in 2006 he gained experience as an internal auditor in the retail banking environment.

➲ MAGNUS HEYSTEK

Magnus Heystek is a director of Brenthurst Wealth Management and is in charge of investment strategies and research as well as client communication. Magnus is the author of several books on investments and retirement planning including 'Making Money Made Simple' (co-authored with Noel Whittaker), The World of Money', 'Don't Say You Haven't Been Warned', 'Retirement: The Amazing and Scary Truth' (co-authored with Bruce Cameron) and numerous other books. Magnus presents "Geldsake met Moneyweb" on RSG every Friday afternoon at 18h00 as well as weekly shows on Pretoria FM. Magnus became the Business and Investment Editor of The Star in 1986. He was founder of The Star Investors Club, which he ran for ten years until 1998. He wrote his popular column Money Matters in The Star and other newspapers for more than fourteen years. Magnus initiated the first phone-in programme on personal finance on Radio 702, which he ran for 11 years. He has frequently appeared on local television including the 52-part series, 'The World of Money', which was based on the book with the same title.