



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“ My advice remains:
Offshore investing has
become more crucial than
ever to protect your
global wealth. ”

FOR MORE INFO CONTACT US
www.brenthurstwealth.co.za

Speak to a financial
adviser who can help
navigate the intricacies
and financial implications
of retrenchment.

JHB (HQ)	+27 (0) 11 799 8100
JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
CLAREMONT	+27 (0) 21 418 1236
STELLENBOSCH	+27 (0) 21 882 8706
MAURITIUS	+ 230 5843 5215

INVEST OFFSHORE OR DIE!

EVEN ROCKSTAR FUND MANAGER GIVES UP ON SA

By Magnus Heystek, Investment Strategist & Director, Brenthurst Wealth Management

READERS of our newsletters will almost certainly be aware (and have benefited from this, hopefully) that I have been recommending offshore investments long before it became fashionable. As early as 2011, after I returned from an investment conference in the USA, I started recommending offshore investment into fast-growing sectors such as technology and biotechnology on other websites and generally on any medium I could find.

Initially this recommendation was influenced by the desire to expose our investors to sectors of the world economy that one could not get exposure to via SA assets. But since 2015 this advice was increasingly based on the rapidly deteriorating macro-economic backdrop caused by rampant theft, corruption and economic mismanagement during the regime of Jacob Zuma and most leaders in the ANC.

This trend has not been turned around and has in fact accelerated, based on latest data coming out from various sectors in the economy. And this was well-before the gut-wrenching economic numbers coming out post the advent of the Covid-19 pandemic. SA was one of only three countries going into the Covid-19 pandemic with negative GDP-numbers in the previous year. The others were Mexico and Columbia.

My recommendations to increase offshore exposure did not endear me with traditional SA-based asset managers and insurance companies. In fact, I endured a great deal of criticism for my views, some unprintable.

Most asset managers kept on trying to stem the tide by assuring investors that the short-term underperformance will soon turn around and that it is not a good time to cut and run. But it is very hard to argue against the facts after ten years of under-performance, but most local asset managers still seem to try.

In September of last year, for instance, PSG tried to convince local investors that mid-and small cap shares on the JSE offered “tremendous long-term value”. This week they came out saying basically the same. Certain more gullible finance websites lapped this up, as they seem to have done for many years.

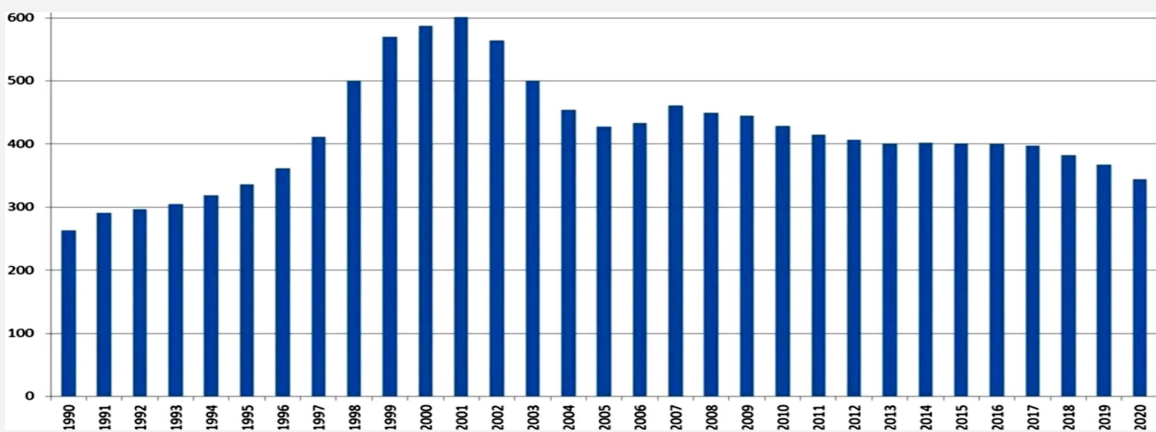
By and large the message from the large asset managers was as follows: (a) there is no relationship between the JSE and the economy and (b) the JSE offers enough offshore exposure so that investors are well protected. I heard this often and from so many sources that I almost believed it myself, until I started delving a little deeper into the numbers.

BREAKING RANKS

However, one prominent fund manager who seemingly has broken ranks is Thys du Toit, one of the founders of investment giant Coronation and still a non-executive director of Old Mutual. He now runs an offshore fund called Rootstock Investments. “If you don’t go offshore, you are dead, he said recently.”

He was a speaker on an investment webinar recently and was quoted as follows by Patrick Cairns, South Africa editor at Citywire.

“Earlier this year market information service TimBukOne noted that the number of listed companies on the JSE has fallen 40% since its peak. In 2001, there were 601 stocks listed on the local exchange. That has fallen to 344.” Du Toit believes that this has profound implications for asset managers.



Source: TimBukOne

‘The asset management industry is only as strong as the investment universe,’ he said during an event hosted by The Collaborative Exchange. ‘And the South African investment universe, particularly from and equity point of view, has shrunk tremendously.’

He made the point that, excluding Naspers, the total market capitalisation of the remaining stocks on the JSE is less than \$1tn. That is smaller than any one of the three largest companies in the US- Microsoft, Amazon or Alphabet.

OPPORTUNITY SET

‘We now have so few investment opportunities that the fund manager that is only going to look at domestic equities, I believe, is dead,’ said Du Toit. ‘Unless you build capacity to be able to manage money internationally, you are going to have a difficult job.’

This is, however, hardly a simple proposition, for two reasons. The first is that a growing number of international asset managers, with global experience and reach, are establishing a presence in South Africa. The second is the rise of passive investing.

‘You need to compete with these international names,’ said Du Toit. ‘And to beat them you have to do something unique. A guy like Dawid Krige with his China fund is the route to go for a smaller business. He has found himself a niche where he is the expert.’

Krige is the founder of Cederberg Capital, which specialises in Greater Chinese equities.

‘Indexation is another big issue,’ said Du Toit. ‘I think there is a big place for that. And if you want to charge the fees that all of us are charging, then you need to be able to add value. If you can’t add value, you are dead.’

COMPLIANCE BURDEN

Du Toit believes that the reduction in the number of listed companies in South Africa has a lot to do with increased regulation.

‘We don’t have new listings any more because the red tape that you are caught up in when you sit on the board of listed companies is enormous,’ said Du Toit. ‘So people don’t want to be listed any more because instead of being involved in strategic planning you are caught up in red tape.’

This burden of compliance is also a substantial challenge to the asset management industry. Guy Toms, the co-founder of Prescient Investment Management, noted that when they launched the business in 1998 all they required was a one-page certificate from the South African Reserve Bank.

‘That was it. There was no such thing as a compliance officer,’ Toms said. ‘But what we have seen in the last 20 years is a huge increase in regulation and compliance. We now employ four compliance officers and two lawyers. The amount of regulation and compliance is daunting, and I can see that this trend will continue.’

He expects that regulation of asset managers will increasingly align with that of banks.

‘The banks are exceptionally well regulated and I think there will be a big push to regulate asset managers as well,’ said Toms. ‘If you look at some of these big international funds, they have excessive leverage and don’t have to hold capital against that, whereas banks do.’

‘I think it will become a much more rigid environment to work in,’ he added. ‘We won’t have the flexibility that we have been used to.’, he said.

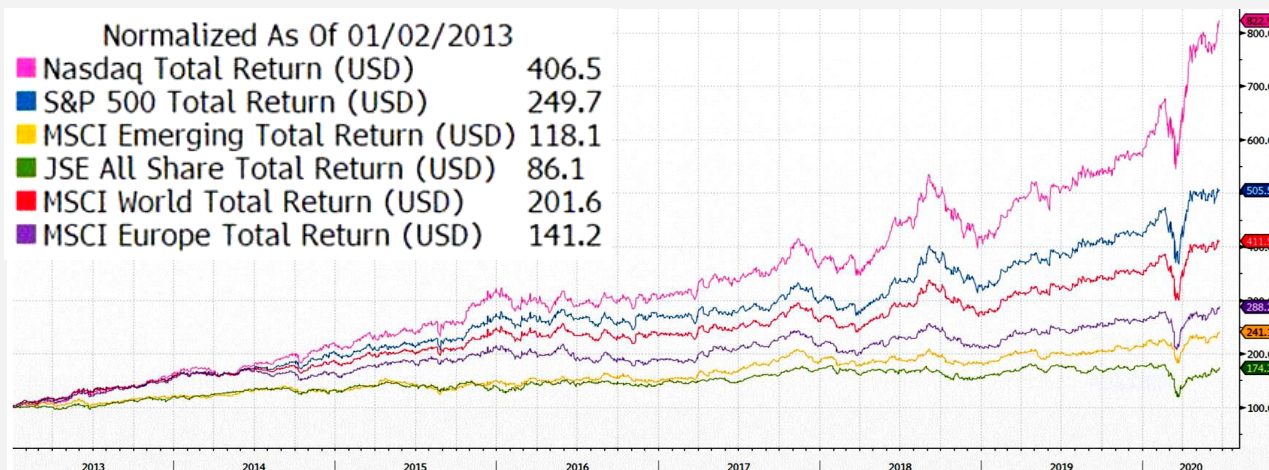
HARD TO IGNORE THE FACTS

This the closest a former institutional asset manager has come to admitting that South African investors too, who don't invest offshore in ever-increasing numbers, are also "dead". As I have been trying to warn over the last nine years or so.

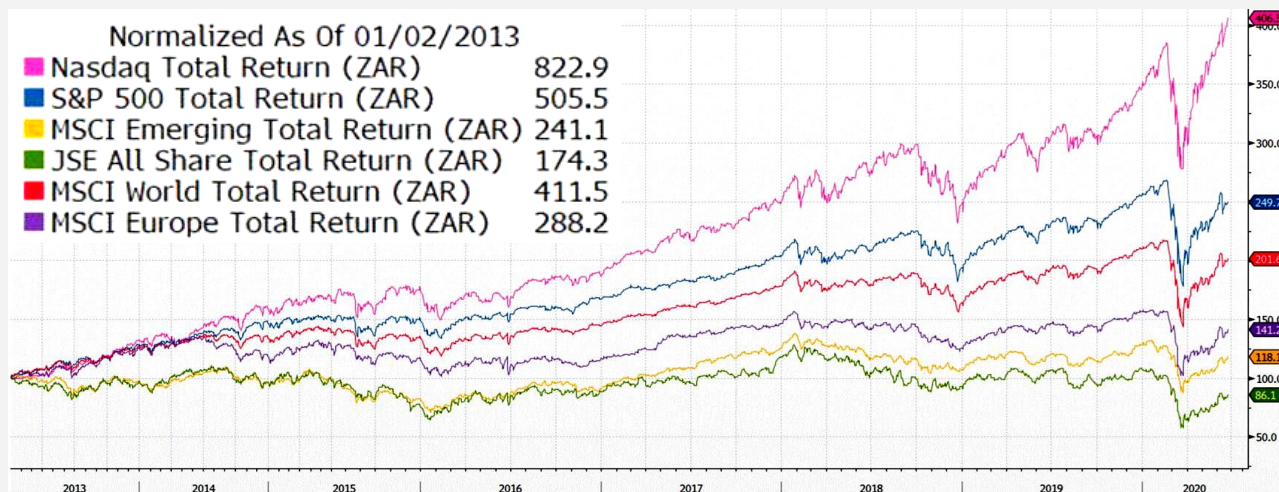
Have a look at the following two charts which the friendly people at Counterpoint Asset Management have prepared for me: the performance of the JSE since 2013 to date, in both USD and in rands.

The message is clear: The JSE has not made you much money and in dollar terms has actually made you poorer, despite the large exposure to Naspers/Prosus. Take out these two companies and the wealth-destruction has been horrendous.

7 LEAN YEARS IN USD:



7 LEAN YEARS IN ZAR:



Counterpoints also tracks an index which excludes the foreign earnings of companies.

Based on this calculation, an index of companies that earns no money offshore has lost 58% in USD terms over the same period. In short, the JSE has been kept afloat by the massive increase in value of Naspers/Prosus and a handful of rand hedges. For the rest, it's been a profits bloodbath.

NEDGROUP RAINMAKER ALSO THROWING IN THE TOWEL

Another fund house that seems to have caved in is Nedgroup fund managers who, last week announced that its former star-performing fund Rainmaker, after a long drought in terms of returns, has also applied to change its mandate to now include up to 30% in offshore assets. For years Rainmaker’s fund managers stuck to the story-line that local assets provide enough diversification for local investors.

And to cap it all, Bruce Whitfield, popular presenter of The Money Show on Radio 702/Cape Talk wrote a long and wailing column in the Financial Mail about the poor returns he has been earning on his Reg 28-restricted retirement fund. He doesn’t mention names but his show has been sponsored by the Old Mutual Group for many years.

If his money was in the Old Mutual Investors fund (its biggest unit trust) he would have reason to complain. The returns year to date is -16,19%, average returns over 3 years is -4,96% and over 5 years it’s been -2,95% p.a.

I would suggest many investors who stick to their embedded financial advisors linked to these brand-named companies, would have similar experiences.

The last decade has been a torrid period for investors in the local market and they have, in dollar terms over a decade (and even in rands over a five year period) become progressively poorer.

Because investment returns are very relative in nature, many investors did not initially experience this "theory of relativity", but kept on being assured by the rand returns which still tended to trend ever higher. But over the 5 year period even this sleight of hand has been exposed, and now investors (who stuck with their local is lekker-advisors) have the gut-wrenching experience that their investments have shown now growth in rands over 5 years, hardly beat the inflation rate over ten years and in USD terms has shown zero growth, and in over seven years have lost on average 7% PER ANNUM in USD terms.

It's almost like checking your bank account one morning only to find that your current account has been hacked and that most of your money has been swiped.

Now an increasing number of investors are starting to realise just how poor their "wealth" has become in global terms. Their residential property(-ies) have lost 25% in real terms in rand terms and almost 50% in USD terms. At the same time, the currency has dropped from below R7 in 2013 to R17-odd today.

For the benefit of Brenthurst’s readers who won't see these tables published elsewhere, here are the numbers (to end June 2020):Source: Moneymate.

LOCAL VERSUS OFFSHORE INVESTMENTS: (IN ZAR)

10YRS	ALSI 9,1% p.a.	MSCI World	17,2% p.a.
5YRS	ALSI 1,6% p.a.	MSCI World	13,7% p.a.
3YRS	ALSI 1,1% p.a	MSCI World	16,1% p.a.
1YR	ALSI -10,8%	MSCI World	21,8% p.a

LOCAL VERSUS OFFSHORE INVESTMENTS : (IN USD)

10YRS	ALSI - ,04%p.a	MSCI World	6,9% p.a.
5YRS	ALSI -6,8%p.a	MSCI World	4,4% p.a.
3YRS	ALSI -9,0% p.a.	MSCI World	4,5% p.a.
1YR	ALSI -30%	MSCI World	-5%

Please note that I am not even comparing the JSE with the rampant Nasdaq or even the more buoyant S&P500. That would really make some people sick.

The bottom line is that the local market, with the exception of Naspers/Prosus and some gold and platinum counters (whose fortunes are determined mostly offshore) has been reflecting the collapse of the SA economy as a result of the ANC's destructive economic policies.

It is foolhardy and bordering on dishonesty to suggest that the local market is "cheap", "undervalued" and the "best investment opportunity" amongst emerging markets, as some local fund managers tend to do at their presentations. My inbox is filled almost daily from investors who have checked the returns on their RA's and preservation funds (both subject to Reg 28, which limits their offshore exposure to 30%). In many cases investors have less in their investments than what they contributed over 7 to 10 years.

Thys du Toit's warning was directed at fund managers, but his message applies equally to ordinary investors who tend to place a degree of trust in the advice they receive from their embedded investment advisors and local investment companies. But that trust is running on empty and I expect a floodgate of redemptions in the near future as people lose faith in this jaded message and head for greener pastures elsewhere.

CONCLUSION:

There are still many thousands of investors who think offshore investing is somehow dangerous and risky, still preferring to retain their local equity exposure. The ANC's destructive economic policies have done enormous damage to the economy and the hopes that the economy will somehow turn around, is rapidly disappearing. There are many ways to get greater offshore exposure within existing investment portfolios. Do not hesitate to contact your dedicated financial advisor, or send an email to invest@brenthurstwealth.co.za to get someone from Brenthurst to contact you and arrange for an appointment.

BRENTHURST SERVICE OFFERING:

INVESTMENT PLANNING
RETIREMENT PLANNING
OFFSHORE INVESTMENTS

WILLS & ESTATE PLANNING
TAX PLANNING
FOREX SERVICES

LIFE / BUSINESS INSURANCE
EMPLOYEE BENEFITS
GLOBAL PROPERTY

BRENTHURST WEALTH RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 AND RUNNER-UP IN 2018 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

JOHANNESBURG	+27 (0) 11 799 8100	PRETORIA	+27 (0) 12 347 8240	CLAREMONT	+27 (0) 21 418 1236	STELLENBOSCH	+27 (0) 21 882 8706
SANDTON	+27 (0) 10 035 1391	CAPE TOWN	+27 (0) 21 418 1236	BELLVILLE	+27 (0) 21 914 9646	MAURITIUS	00 230 5843 5215

Brenthurst Wealth Management is an authorised financial services provider (Reg No: 2004/012998/07) FSP No.7833. This e-mail and any file attachments transmitted with it are intended solely for the addressee(s) and may be legally privileged and/or confidential. If you have received this e-mail in error please destroy it. If you are not the addressee you may not disclose, copy, distribute or take any action based on the contents hereof. Any unauthorised use or disclosure is prohibited and may be unlawful. The view and opinions expressed in this e-mail message may not necessarily be those of the management of Brenthurst Wealth Management (Pty) Limited.