INVESTMENT REPORT

March 2023 • ISSUE 511

YOUR PARTNER IN
WEALTH CREATION

MILESTONE AHEAD FOR BRENTHURST WEALTH

By Magnus Heystek, Director & Investment Strategist Brenthurst Wealth

Brenthurst Wealth will celebrate its 20th anniversary next year. It's been quite a journey from when we first started in a small office in Fourways to becoming one of the largest independent wealth managers in South Africa, with 23 highly qualified financial advisors, most of whom hold the Certified Financial Planner® designation, and other various qualifications.

Moreover, we have a total of 70 staff members located nationwide, all of whom play a vital role in providing the best advice and managing the portfolios of our ever-growing client base, primarily in the high net worth category.

With the opening of a new office in George later this year, we will have nine offices in South Africa and an international office in Mauritius, while the rest of the country is serviced by satellite offices.

We are grateful to have a loyal client base, and it is rewarding to see that some of our very first clients continue to trust Brenthurst Wealth to manage their family's wealth. In some cases, this wealth has been passed down to the family's second and third generations.

During the first eight years, we primarily recommended local investments, which generally performed well. In fact, the Johannesburg Stock Exchange was one of the best-performing stock markets globally between 2003-2008.

At that time, inflation-beating returns could easily be achieved without the need to explore investments abroad. This was thanks to the commodities boom sparked by China's entry into the World Trade Organization in 2002, leading to increased demand and prices for commodities, of which South Africa is a significant supplier. Consequently, this led to a massive economic expansion for South Africa during this period. The stock market and residential property market boomed, and the rand strengthened, reaching as low as R6.50 to the US dollar.

IN THIS ISSUE

We are proud of our independence, credibility and proven track record, testament to our high growth and client retention rate.

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
PAARL (VAL DE VIE)	+27 (0) 21 100 3901
MAURITIUS	+ 230 5843 5215

DEEP RECESSION

The Great Financial Crisis (GFC) brought an end to the economic boom, and the world, including South Africa, entered into a deep and prolonged recession. Around 2012-2013, our research indicated a sharp increase in the value of the technology, biotechnology, and healthcare sectors, primarily in the United States.

During that time, I personally visited leading tech companies such as Google, Amazon, Facebook and Microsoft in the US, and returned to SA determined to offer our clients access to these sectors. However, we could not find any local funds that offered the necessary exposure. Therefore, we negotiated with Fidelity and Franklin Templeton to include their funds on the MWI platform in Guernsey, enabling us access to future growth.

We started offering our clients exposure to these funds long before it became a popular choice. Our initial advice to investors to invest some of their funds offshore was purely based on a diversification strategy, providing exposure that was not available in South Africa. This strategy proved to be hugely successful as the returns on these funds were double or even triple those we earned on SA-only funds.

However, in 2015, our recommendation took on a more serious tone as we began to notice the damage the Zuma administration was inflicting on corporate governance, SA's key institutions, and the general economic growth rate. This negative trend led to successive downgrades of SA's credit rating by large global credit ratings agencies, which we predicted would ultimately lead to a downgrade to junk status, and which eventually transpired.

Local asset managers tried to (and still do) downplay the effects of negative developments with an array of reassuring statements. The sad reality is that SA started its downward drift at around this time, which has now accelerated into an almost economic death spiral.

The performance of the local stock market – and hence your investments in these markets – has been sideways, at best, since 2014, and very few equity and balanced funds have beaten inflation, post fees and costs. Offshore returns have been double and treble compared to local returns. At the same time, cheap and risk-free enhanced income funds have generated returns of around 7-9%, year after year.

We have been using these funds, such as the MI-Plan Enhanced Income Fund, with great success, and the fund manager recently won a Raging Bull Award for the best risk-adjusted performance over 5 years. It also happens to be the largest single fund in the local market, with more than R1bn invested in the fund.

At the same time, we have been allocating clients' money to the MI-Plan IP Global Opportunity Fund which, again, substantially outperformed the returns of local equity and balanced funds. MI-Plan is a small boutique wealth management company and has been voted the best asset management company twice in SA at the Raging Bull Awards.

The general investing public tends to be swayed by the size and marketing clout of large asset managers, but it is well known in the industry that the smaller funds tend to outperform the large, oversized funds that spend a lot of money on advertising to influence investors.

WE SPEND A GREAT DEAL OF TIME ANALYSING THESE SMALLER FUNDS AND THEN PARTNERING WITH THEM TO BUILD OUR LOCAL AND GLOBAL PORTFOLIOS.

At the same time, we accelerated our advice for people to move money offshore since 2015, when the Offshore Investment Allowance was increased to R10 million per person per year. This is over and above the R1m Single Discretionary Allowance.

This did not go down well with the local asset management industry – and it still does not – but Brenthurst Wealth is independent, and we do not have the pressure of being forced into placing money where the fees are the highest. In the tied-agency investment industry, this is very much a reality. Step outside of the house view – which tends to be the funds with the highest management fees plus performance fees – and your position is under threat.

For a brief period – almost two years, or so – we sold a large portion of our shares to a large institutional shareholder who, soon thereafter, tried to impose their house view on us. This impacted our independence, so we quickly reversed that transaction, much to our relief. We absolutely thrive on being independent and not taking orders from some head office.

TAKING MONEY OFFSHORE

A great number of our clients have come onboard with our recommendation to take money offshore. However, there are still those investors who are reluctant to take the leap, based on (in our view) unfounded fears and fear of the unknown.

There are many ways to increase the offshore exposure in personal portfolios linked to SA, such as provident funds, preservation funds and even living annuities. This can be done, at no cost, by making internal changes, and we urge you to discuss this with your dedicated wealth manager.

However, we urge those investors who have not yet globalised at least a portion of their wealth, to do so.

Several events in the past few weeks and months have prompted us to make this urgent recommendation. The economy, already growing by only around 1% per year over the past 10 years, has plunged into a recession in the 4th quarter of last year. Unemployment is now at around 40% of the general population and 65% for people under the age of 35. SA has been placed on the global grey list of countries – the only G20 country on this list, joining other countries such as Yemen, Syria, Cuba and Venezuela.

Again, the reaction from the media and the local investment industry was that there is no need to worry, it's all OK, and nothing will change. This is self-serving rubbish, and we disagree.

The same was said around the time when SA was downgraded to junk status in 2016. But ever since then, capital has been flowing out of SA at an enormous rate. Over the past 5 years, more than R500 billion has been withdrawn from the JSE equity and bond markets. This partly explains the decline of the ZAR/US$ exchange rate from R11,50 in December 2017, when Cyril Ramaphosa took control of the ANC, to levels around R18,70 earlier this month. This is a massive decline and impacts everything we import and pay for in US dollars, including petrol, diesel, computers, international flights and medical equipment, to name just a few.

People without any offshore assets have become extremely poor over the past 5 to 10 years.

On average, residential property prices are down by about 30-40% in real terms, and listed properties – the companies that own malls such as Sandton City, Fourways Mall, Menlyn Centre, etc. – have lost between 40-90% of their value! In some parts of the country, the residential property market has ceased to exist. There simply are no buyers! On the other hand, the Western Cape is experiencing a mini boom as people join the great semigration to the Cape.

For a long period, various media were living in denial of what was happening in SA. Our views, and mine in particular, were attacked on many forums. I was called "cynical", "stupid" and "not well-informed" by 'sunshine economists' who have been promoting a different narrative.

Barely six months ago, Old Mutual wrote a report on SA's golden economic prospects, forecasting growth of 2,5% and up per annum. Half a year later and we are in a recession.

The large companies are under pressure to hide the reality, trying to appease their ever-increasing disgruntled investors.

But investors ARE voting with their feet and money and are heading for the hills. This week Coronation acknowledged this as much when it admitted money is pouring out of its funds. Its asset base has declined from around R640 billion in 2016 to around R570 billion this year. The same goes for Allan Gray, Sanlam, Old Mutual and other large companies.

MEDIA WAKING UP

SA'S MEDIA SEEMS TO HAVE SUDDENLY WOKEN UP TO THE REAL TROUBLE SA IS IN. Last week, well-known commentator, Max du Preez, did a 180° turn-around in his view and in a hard-hitting article in Vrye Weekblad said: "There is no light at the end of the tunnel." His colleague, Jacques Pauw, basically said the same, as did Claire Bisseker, economics editor of the Financial Mail who wrote: "It might be too late to escape the death spiral." On the same front page of the Business Day (March 15, 2023), MTN CEO, Ralph Mupita, warned about SA becoming a failed state. And so I could continue.

OFFSHORE STRATEGY

These are the many things we consider when we recommend long-term investment strategies for our clients and their families. We are not always right and sometimes an offshore strategy can be risky in the short term, as it was for a few months last year when the rand strengthened and offshore markets declined simultaneously.

However, we think it's a small price to pay for building an offshore portfolio as far as possible away from the economic destruction of the ANC.

To make matters worse, the current whispering in political circles is that the ANC will go into a coalition with the EFF if its support drops below 50% in next year's general election. In such a scenario, Julius Malema will get the job as the country's deputy president, with certain key portfolios being allocated to the EFF.

Helen Zille, federal chair of the Democratic Alliance, last week warned that such a possibility is real, as did columnist, Justice Malala, of the Business Day (March 15). "And then the looting will start all over again," Zille said at a BizNews Investment Conference in the Drakensberg.

The EFF has for long been threatening that the offshore allowance will be scrapped, should they come into power.

It is against this background that we offer our investment advice and construct investment portfolios for our clients. Increasingly, we have to take into consideration that our clients and their children might emigrate. Then it makes no sense to build a local investment portfolio which could be exposed to a rapidly declining currency, under certain circumstances.

We have expanded our offshore offering and we now also offer trust management services for certain clients via our new company, Brent Consulta, in Mauritius. We strongly recommend that investors with substantial offshore portfolios ($1m or more) consider moving their money into a trust which, over time, has many advantages. Please contact your wealth manager for more information regarding this new service we offer to our global clients.

BRENTHURST
ACQUIRES MAJOR INTEREST IN MAURITIAN TRUST COMPANY

Mauritius has become a major destination for South Africans either relocating and retiring or wanting to set up global company and trust structures for new business ventures or for housing existing global assets.

MAURITIUS MAY JUST BE THE BEST CHOICE FOR ASTUTE INVESTORS LOOKING FOR OPPORTUNITY AND A DIVERSIFICATION STRATEGY AWAY FROM THE RISKS AND STRUGGLES OF THE SOUTH AFRICAN MARKET

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR 8 OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY READ >> BRENTHURST INVESTMENT PLANNERS

THIS IS THE SIXTH TIME THAT WE HAVE BEEN LISTED AMONGST THE TOP FIVE COMPANIES IN SOUTH AFRICA, OF WHICH WE WERE ADJUDICATED THE TOP BOUTIQUE WEALTH MANAGER IN 2020 AND 2017.

Johannesburg	+27 (0) 11 799 8100	**Claremont**	+27 (0) 21 100 3901
Sandton	+27 (0) 10 035 1391	**Bellville**	+27 (0) 21 914 9646
Pretoria	+27 (0) 12 347 8240	**Stellenbosch**	+27 (0) 21 882 8706
Cape Town Waterfront	+27 (0) 21 418 1236	**Val de Vie Estate**	+27 (0) 21 100 3901
		Mauritius	00 230 5843 5215

BRENTHURST SATELLITE OFFICES:
GARDEN ROUTE | KWAZULU-NATAL | FREE STATE | MPUMALANGA | NORTH WEST