INVESTMENT REPORT

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BRENTHURST
THE HOME OF WEALTH

THE POWER OF INDEPENDENT ADVICE

By Magnus Heystek, Director and Investment Strategist

TO ALL CLIENTS AND FRIENDS OF BRENTHURST WEALTH

The marketing slogan of our company is **The Power of Independent Advice**. Many people would think that is just a glib advertising gimmick that doesn't mean anything. In our company and especially one that operates in the investment industry this means everything to us.

The investment industry is packed with vested interest, often to the detriment of the ordinary investor, who then suffers from poor performance as a result thereof.

Many of our older investors will remember the often iniquitous practices of the investment industry, particularly the assurance companies, who sold hugely expensive investment products to an unsuspecting public. These products were also very complicated and difficult to understand and the outcome was more often than not a poor one for the investor.

The investment industry today is far more transparent as far as costs and fees are concerned (a good thing), but there are still some very subtle practices which smacks of self-interest rather than doing what is best for the client.

Let me give you one of many examples. As you know we at Brenthurst have been advocating that investors increasingly invest their money offshore in order to increase their returns and reduce their risk. We started advocating this in 2012, well before it became fashionable, but this view was based on our own independent research on the macro-economic trends.

The massive investment industry with their equally massive advertising budget continued until recently to convince investors not to move their money offshore. I recall the advertising campaign of one of our investment giants, which was called Local is Lekker.

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"If you have not been exposed to offshore assets your personal wealth has declined substantially over the past ten years."

Magnus Heystek
Brenthurst Wealth

FOR MORE INFO CONTACT US
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BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 AND RUNNER-UP IN 2018 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

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Well, local isn't so lekker anymore and anyone who hasn't moved a substantial portion of their investment into offshore funds, either directly or indirectly, has suffered a massive reduction in their purchasing power. Any client or investor who has attended our SA Quo Vadis seminars over the past three years will know that I have been warning about the financial tsunami coming the way of investors in South Africa who do not have any offshore protection.

These views have been enunciated over many years and on many additional platforms including commentary on RSG and other radio stations and also on Moneyweb.

This strategy, however, was roundly condemned by our mainstream economists who derided these views as "cynical" and "negative". I have learnt to ignore the commentary of our mainstream economists as they are mostly compromised by virtue of their employment with one of the large banks and assurance companies. The tsunami is now evident in many spheres of our financial lives.

The JSE (See graphs and tables enclosed) is now the worst performing stock exchange when compared to the major regions of the world, including its peers in the emerging market index.

This trend now stretches beyond 7 years and soon it will be over a 10 year period. This is a massive destruction of personal wealth for the ordinary SA investor who is experiencing increasing difficulty affording dollar-based expenses, which includes medical treatment, technology, motor cars and even overseas travels. The rand over this time has declined from below R7.00 in 2012 to current levels around R14,23 to the US dollar and R18.54 to the pound.

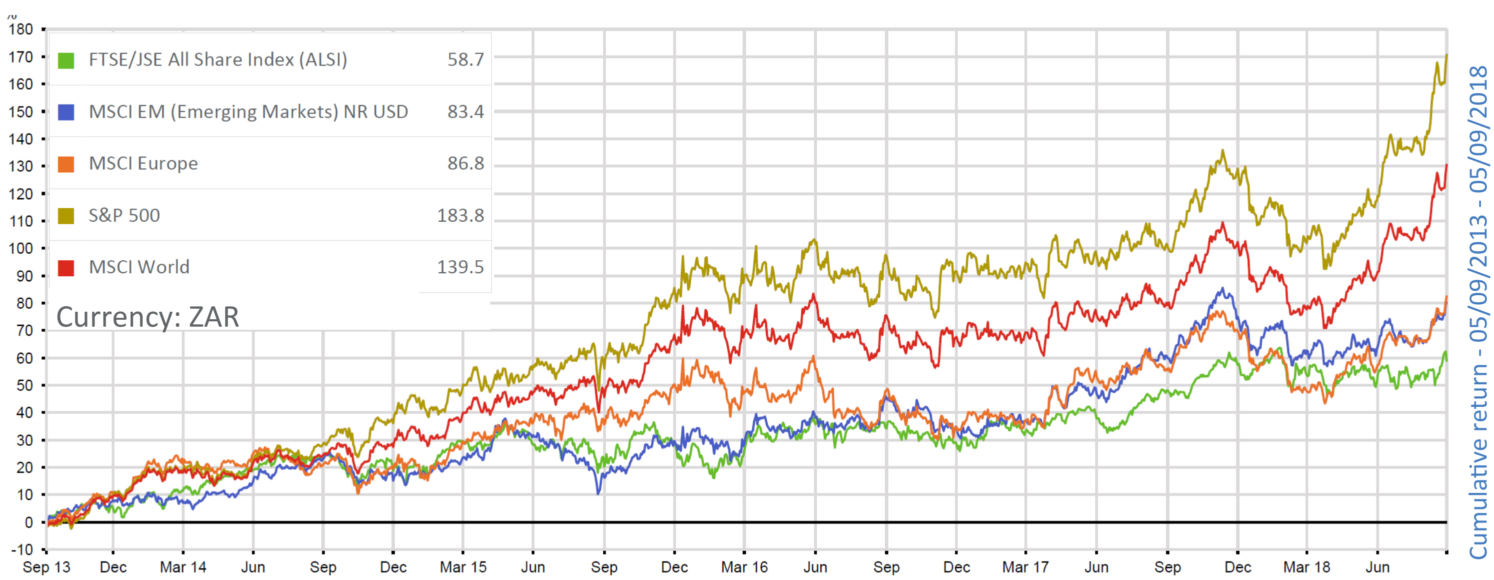
The other symptoms of the financial tsunami includes residential property prices which have not risen in real terms for over 13 years now, and the declining profitability of small to medium sized businesses.

Overall, if you have not been exposed to offshore assets your personal wealth has declined substantially over the past ten years and more.

When things happen slowly, it is not noticed. When you sit and watch a glacier you probably will not notice that it is moving, ever so slightly. However, five or even ten years later you will see that it has moved: slowly but relentlessly.

This describes the South African experience and it falls on foreign visitors to point out the relentless backwardation.

SOUTH AFRICA LOSING THE INVESTMENT RACE



SA LOSING THE INVESTMENT RACE

Monthly and annual average returns (%) - dates to 05/09/2018

Instrument	1 month	6 months	1 year	3 years annualised	5 years annualised /*Since launch* annualised*
FTSE/JSE All Share Index (ALSI)	3.1	3.2	7.8	9.3	9.7
MSCI EM (Emerging Markets) NR USD	10.7	15.2	15.9	16.2	13.3
MSCI Europe	12.6	27.4	21.3	11.3	14.0
S&P 500	18.3	39.4	43.5	21.4	24.0
MSCI World	16.2	34.8	35.2	17.6	19.8

HOW REGULATION 28 AFFECTS YOUR INVESTMENTS

This brings me to vested interests and how these interests are used against investors and in favour of the large asset companies. But first I need to explain Regulation 28 of the Pensions Funds Act and how this applies to money in pension funds, retirement annuities as well as pension/provident preservation funds. For many people this investment - apart from their residential home - represents their largest investment.

Regulation 28 imposes a restriction on the amount of money an asset manager or investment advisor can include within these investment products. Currently the limit is 30% and a further 10% if it is invested in Africa after being at 20% offshore for many years. The limitation applies to the overall asset base of the company concerned and not at individual level. That means if an asset management company has an asset base of R100bn for instance, it can repatriate R30bn offshore and R5bn into African assets. The balance must remain invested in South African assets.

This has been a drag on investment performance for many years now, which can be seen in the average return of 5-6% for most pension funds, before costs. In reality therefore, pension fund returns in SA have not beaten inflation over the past 5 years. This fact is not very well known.

However, when an investors reaches the age of 55, it is possible to move money out of pension funds/ RA's and preservation funds into what is known as living annuities. Living annuities (LA's) are income generating investments that are not affected by Regulation 28 and in practice investors can have 100% invested into offshore assets, something we have been advocating for many investors.
Now this is where the vested interest comes in.

At the beginning of the year we took issue with investment company Allan Gray which placed a limit of 25% on the offshore exposure within living annuities. At first it tried to hide behind Reg28 but later admitted that it was an internal ruling. This ruling was to prevent investors moving their existing low-return SA based funds into better performing offshore assets. It was very clear that this was done in order that Allan Gray could sell their offshore capacity to new clients (which meant higher profits) than allow existing clients to sell local assets in order to buy offshore assets. There was no profit in such a move for the company.

January 2018 was also a great time to buy US dollars as the rand was trading below R12 at the time. This is but one example of how vested interests work against the interest of investors.

CONCLUSION:

ALL OUR INVESTMENT ADVISORS IN OUR OFFICES COUNTRYWIDE HAVE BEEN BRIEFED TO INCREASE THE OFFSHORE EXPOSURE TO OUR CLIENTS EVEN MORE. This will mean an extensive analysis of total offshore exposure in order to make these changes. In some cases it might mean that clients with money in discretionary investments will incur a Capital Gains Tax (CGT) which is unavoidable. However, it needs to pointed out that CGT cannot be avoided. All discretionary investments will incur CGT at some point; either when changes are made now or on death. It is far better to pay the CGT and get out of a badly - performing local investment in order to get into a better performing offshore investment, than do nothing at all.

We also urge investors to look at their other investments, not under the control of Brenthurst Wealth, and consider selling in order to get more offshore exposure. We are often asked to comment on local stock market portfolios and are shocked how poorly most have done. Our market is a high risk market and was only the massive increase in the value of Naspers - now making up 20% of the total market capitalization - that has prevented the market from showing even weaker results.

The decade of theft, corruption and socialist policies of the ANC government under Jacob Zuma has done immense damage to the fabric of the South African economy, perhaps irretrievably so. This was even before the announcement of the policy of Expropriation Without Compensation (EWC) in February this year. The SA media and liberal economic commentators have been trying to spin this as a positive development for South Africa. We disagree. **As the respected Wall Street Journal - probably the most influential US business media outlet writes: *" Land expropriation is nothing but theft. Nowhere in the world has this been tried without damaging the economy."***

The damage is already evident in the sharp decline in property prices, consumer and business confidence, retail sales and many other economic indicators. The economy is also now officially in a recession, as measured by two quarters of negative growth in domestic growth.

Growth forecasts - as high as 2,5% (Goldman Sachs) at the beginning of the year - have been slashed to 1% and even lower. This has profound implications for revenue collections which will come under even more pressure. VAT was increased by 1% earlier this year to fill the so called fiscal hole. At current rates of revenue collection the deficit will probably become even bigger, leading to more taxes or loans by government, already at record levels. SA's national debt has in recent days passed the R3 trillion level equal to 55% of GDP. The interest on this debt is now R177 billion per year with every man, woman and child owing R55 693. This is a country speeding headlong into bankruptcy or hyper-inflation, or both.

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