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IN THIS ISSUE

THE BATTLE OF THE EQUITY FUNDS: A 10-YEAR TALE

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OF THE 15 TOP-PERFORMING FUNDS OVER THE PAST 10 YEARS, 10 ARE GLOBAL EQUITY FUNDS.

The 'bullish vs bearish debate' is one that is as old as time, as is the local vs off-shore conversation. At any given point in time, you will find punters on either side of the equation – bulls vs bears, and local vs offshore. It is for this reason that, depending on whom you turn to for investment advice, you will find different responses, varying portfolio constructions and asset allocations that depict different market sentiments.

It is not new news that if an investor looks to beat inflation and grow capital over the long term, their portfolio should predominantly be exposed to equities as an asset class. Even more important than getting exposure to equities, is where you get this exposure. Local or offshore?

Hindsight is always perfect, and you can be forgiven if you batted for Team Bears over the last 12 - 18 months, given that markets were down, on average, by almost 25%. However, markets are ever-changing and forward-looking, and the doom and gloom picture quickly changed. You might find a few '2022 bears' sitting on the fence right now, given the start to the 2023 year which markets experienced globally.

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Since October 2022, the S&P 500 recovered by almost 16%, and YTD (year-to-date) the index is up by more than 8%.

Yet, this will not be enough to put the 'bullish vs bearish' discussion to bed. And to be quite frank, even if markets double these returns over the next quarter or year or whatever period you look at, you will still find punters on either side. Some individuals are more risk-averse than others.

At the end of it all, it does not really matter whether you hold a bullish or bearish view of the markets, or whether you anticipate what the Fed's next move might be. Why? Because it will have zero effect on where markets go and, as a matter of fact, you might be 100% wrong 100% of the time.

Investors and market pundits across the board warned that 2023 might make 2022 look like a walk in the park. Red lights flashed all over the screens, US inflation was still high, tech companies are laying off employees quicker than SA appoints ministers, some of the biggest companies in the US are missing earnings targets, and the list goes on. Yet here we are. Markets on both local and global fronts have recovered extremely well. And although we might not be out of the woods yet, it just goes to show that markets do not care what you or anyone of us thinks.

As mentioned, I recently read an article that indicated that of the 15 top-performing funds over the past 10 years, 10 are ***global*** equity funds, ***four*** are South African resource funds, and only ***one*** is a local equity portfolio. The four resource funds have been the only local funds to deliver returns close to par with the global equity funds. Remember, these numbers were ***after*** we experienced a major tailwind during Covid in our local resource sector and went through a big market correction on global fronts, especially in the US. Still, global equities came out on top.

****Just to mention*** – if it wasn't for load shedding and railway issues brought on by SA's incapable government, this picture would have looked different. Coal mines, specifically, miss out on eye-watering exports due to a lack of various infrastructures. This was the case during Covid when resource prices soared to record highs, yet SA was unable to get all their mining materials to the harbours due to a lack of railway infrastructure.

Nevertheless, it is evident that for your ZAR portfolio to have grown over the last decade, you needed offshore equity exposure, otherwise you would have been left behind. There are two reasons for this:

1. **Offshore assets, as an investment, performed better, and**
2. **The exchange rate would have slaughtered your portfolio, should you not have been hedged.**

The average annualised return for ***SA Equity Resources*** was roughly 13% over the last 10 years. For the ***global equity class***, this number was 13.50%. By stark contrast, the number for ***local equities*** is 8%.

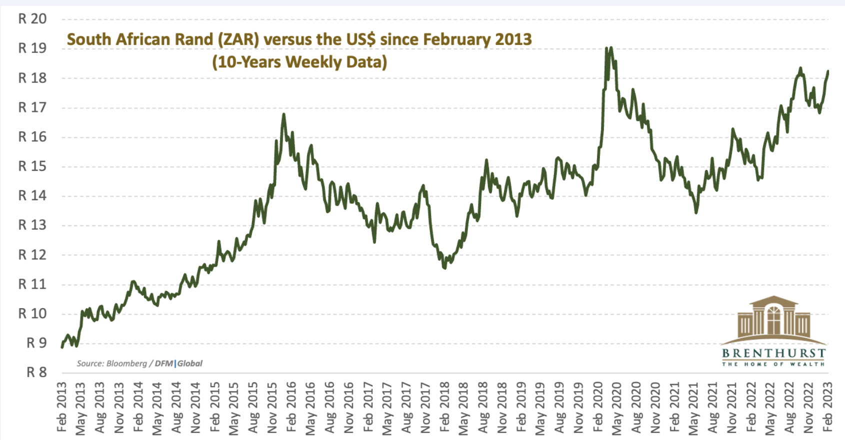
Several factors lead to the outperformance of global equities compared to local stocks. Yes, loose monetary policies, especially the US, was one of them, but there is more to it than just that.

On local fronts we are faced with structural economic issues, not limited to:

- **loadshedding,**
- **unemployment of roughly 35%,**
- **red tape putting the brakes on private companies,**
- **socialist state: 29 million people receive grants, whilst only 7.4 million pay taxes, and**
- **lack of infrastructure and service delivery from the state.**

Furthermore, if it wasn't for the fact that SA exported most of its locally mined resources, this sector would have also swallowed investors.

HERE IS A CLOSER LOOK AT WHAT THE RAND/DOLLAR DID OVER THE LAST DECADE:



YOUR RANDS HAVE LOST VALUE BY MORE THAN 103% IN 10 YEARS.

In February 2013, you would have paid R8.80 for a dollar, and today you pay more than R18.

Therefore, if your capital was invested mostly in South African equity funds, you would have fallen way behind and become exceptionally poor in global terms.

THIS IS, HOWEVER, AVOIDABLE BY ALLOCATING YOUR LONG-TERM CAPITAL TO THE RIGHT FUNDS AND GLOBAL EQUITIES.

BELOW IS A TABLE INDICATING THE MONETARY RETURNS YOU WOULD HAVE ACHIEVED BY INVESTING R10 000 IN THESE GLOBAL EQUITY FUNDS 10 YEARS AGO:

	10-Year Annualised Return	Terminal Value – 10 years
Fundsmith Equity Fund	**21%**	**R67 275.00**
Ranmore Global Equity Fund	**16.50%**	**R46 053.14**
Ninety One Global Franchise Fund	**17.25%**	**R49 105.32**
Franklin US Opportunities Fund	**19.51%**	**R59 435.03**
Fidelity Global Healthcare Fund	**18.43%**	**R54 277.18**

The portfolio protected and grew the capital with above-inflation returns and kept the capital in line with currency depreciation. Therefore, the risk was, in fact, to not take on any risk and remain in either cash or predominantly local funds.

EVEN IN DOLLAR TERMS, THESE FUNDS OUTPERFORMED MOST OF THE LOCAL FUNDS OVER 10 YEARS.

	10-Year Annualised Return	Terminal Value – 10 years
Fundsmith Equity Fund	**13%**	**R33 408.81**
Ranmore Global Equity Fund	**8.54%**	**R22 693.33**
Ninety One Global Franchise Fund	**9.14%**	**R23 979.47**
Franklin US Opportunities Fund	**11.25%**	**R29 040.24**
Fidelity Global Healthcare Fund	**10.24%**	**R26 508.92**

Not a single fund took an overweight stance to a certain sector or industry such as tech, biotech etc., except for the Fidelity Healthcare Fund, which is a sector-specific fund. These funds invest in companies on a global scale across all sectors and industries.

If you were a South African investor, the only local funds that would have protected and grown your wealth would predominantly have had to be exposed to the resource sector, which in itself is a very high-risk approach to take, as these companies are extremely volatile, for various reasons. Global equity funds are where the money was made, and whether this will transpire in the coming 10 years, only time will tell.

Discuss your approach to investment selection with an experienced, qualified advisor to make the best decision suited to your circumstances and risk profile.

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