INVESTMENT REPORT

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BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

Brenthurst is focused on delivering quality and appropriate independent advice that will deliver the best outcome for its clients.

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THREATS TO YOUR RETIREMENT CAPITAL

– A DECADE OF UNDERPERFORMANCE FOR THE JSE

By Magnus Heystek, Investment Strategist and Director, Brenthurst Wealth

LONG-STANDING clients of Brenthurst Wealth are well aware that our preferred asset class, especially as far as long-term investments are concerned, has for a considerable period of time, been offshore equities.

More than ten years ago our research revealed that offshore markets were performing substantially better than the local market. This was in the period between 2010 and 2015, even before local political and structural issues started to negatively influence our market performance.

Since 2016 to date, the factors resulting in underperformance were due to political uncertainty, structural decline, implosion of local infrastructure, wholesale looting, theft and corruption in almost all spheres of government. In addition, the collapse and bankruptcy of all State-Owned Enterprises (SOE's) and the majority of municipalities in the country not under DA rule, added to this economic decay.

Over this entire period (2009—2021) the USA and most of the developed world were going through a phenomenal growth phase, driven mainly by the listing of virtually hundreds of fast-growing and innovative companies, such as Facebook, Tesla and countless others.

There was no other way for local investors to obtain direct exposure to these companies other than remitting their money offshore and investing in funds and instruments which gave our clients exposure to these sectors, including technology, biotechnology, healthcare and demographic funds.

Brenthurst also negotiated with our global offshore partner, **Momentum Wealth International,** to add some of these funds to their platform so as to access these fast-growing sectors and industries.

And finally, we launched our own BRENTHURST GLOBAL BALANCED FUND in conjunction with Momentum International Investments in London. This fund is now a R1bn fund, exclusive to Brenthurst Wealth clients, and has delivered excellent returns over time, beating the large brand name funds over the past decade.

It was, and remains particularly important to understand the thinking behind the construction of the funds we recommend to our clients. We have direct access to the very experienced Glyn Owen, well respected Investment Director at Momentum Global Investment Management, and his team, who run this fund.

The larger funds do not allow us this insight into their thinking and strategies.

It was particularly difficult to convince die-hard South African investors in the early years to abandon their trusted brand name investment portfolios in favour of unknown names. However, once the offshore returns started outperforming local funds, it became easier.

Initially our offshore strategy was not well received by the local investment community. We often (and still do) take fairly vicious and unsubstantiated criticism from the media for recommending offshore investments. It would seem that mainstream media have deeply entrenched, vested interests in promoting local investments.

We do not work for large asset management companies. We work for our clients, and our asset allocation decisions are researched and backtested.

Many retail clients do not fully understand the profoundly incestuous relationship between the media and the large asset managers. SA's media is heavily reliant on the advertising support provided by the large asset managers. It is very rare for the local media to criticize the performance of the large local funds.

BUT IN THE END, IT IS RESULTS THAT MATTER.
Over the past 10, 5 and 3 years offshore investments have substantially outperformed local market.

Below please find a comparison of the Allan Gray Equity Fund (SA's biggest equity fund) to returns earned by three global indices, the Nasdaq, S&P500 and also the Morgan Stanley Capital World Index (MSCI World).

SEE HOW R10 000 GROWS

	3 YEARS		5 YEARS		I0 YEARS	
FUND	% GROWTH	RAND VALUE	% GROWTH	RAND VALUE	% GROWTH	RAND VALUE
Allan Gray Equity Fund	3,52%	R 11,206.00	4,94%	R 12,478.00	10,65%	R 24,869.00
MSCI World Index Fund	16,09%	R 16,470.00	16,42%	R 19,881.00	21,64%	R 59,646.00
S&P 500 Index	18,07%	R 18,080.00	19,13%	R 22,090.00	25,43%	R 76,838.00
NASDAQ-100 (NDX)	29,91%	R 22,536.00	28,91%	R 32,742.00	32,31%	R 132,863.00

This is probably the first time that you will have seen this comparison, as the local media simply refuses to publish these comparative returns for fear of upsetting their advertisers.

THE DIFFERENCE IN WEALTH CREATION BETWEEN LOCAL AND OFFSHORE INVESTMENTS HAS NOT BEEN MARGINAL, IT HAS BEEN MASSIVE, AND IN MANY CASES AS FAR AS OUR CLIENTS ARE CONCERNED, LIFE-ALTERING.

We frequently receive emails from clients thanking us for almost forcing them to take money offshore to protect their wealth.

The truth of the matter is that the JSE has been one of the worst-performing stock markets in the world. It has suffered a decline of almost 50% in listed entities, from above 600 to current levels around 320, while the rest of the world, particularly US and Chinese markets, has raised new capital worth trillions of dollars over the past 5 years.

Foreign investors have sold down more than R650bn from their holdings on the JSE since 2015. Either the foreign asset managers are short-sighted or they are seeing better investment alternatives elsewhere in the world. Meanwhile, local funds managers keep telling the investing public (via the media and other platforms) how cheap and attractive the JSE is.

In February 2018 fund manager Zaine Wilson from Old Mutual made the brave forecast that the JSE would be one of the best-performing markets in the world in the following 5 years. And he is not alone. Earlier this year, due to the favourable base effect of the rand dropping to R19,35 a year before, as well as the unexpected surge in the price of commodity producers, the JSE was briefly one of the best-performing markets in the world.

This immediately led to a rash of articles and pronouncements about the future growth of the JSE. However, barely three months later and with the base effect largely out of the system, the JSE is once again one of the worst markets in both the developed and emerging market spaces.

Large asset managers are experiencing a massive outflow of capital, either into cash or bonds or into offshore assets. They also have no further offshore capacity to offer their clients via endowments, living annuities and direct investments. This is due to a Reserve Bank ruling that local asset managers may only invest 30% of their capital abroad.

In effect, the large asset managers cannot go out and promote offshore investments to the investing public—they simply have no stock, so to speak. Instead, their entire marketing efforts and campaigns are aimed at one thing alone: keeping the assets under their control, irrespective of the recent returns. The industry hardly ever compares performance figures between local and offshore investments, as we do from time to time.

As you can see for yourself, offshore equity returns have been double, treble and in some cases quadruple the returns earned on the local market. Even if you had invested your capital offshore on March 20 last year, with the rand trading at its weakest levels ever, you still would have managed to beat the local market.

RETURNS SINCE 20 MARCH 2020

FUND	RAND VALUE	% GROWTH
Baillie Gifford Long Term Global Growth Fund	R 20,881.00	104%
Franklin U.S. Opportunities Fund	R 18,349.00	83%
Allan Gray Equity Fund	R 16,370.00	63%
Fund Smith Equity	R 15,640.00	56%
Ninety One Property Equity Fund	R 15,469.00	54%

OVER THE PAST 10 YEARS INVESTORS WITHOUT ADEQUATE OFFSHORE EXPOSURE HAVE SEEN A DRAMATIC DECLINE IN THEIR GLOBAL PURCHASING POWER.

We remain adamant that local investors still do not have enough offshore exposure, despite claims by the large asset managers.

RETURNS SINCE 1 JANUARY 2020 TO 27 AUGUST 2021

FUND	RAND VALUE	% GROWTH
Baillie Gifford Long Term Global Growth Fund	R 22,451.00	114%
Franklin U.S. Opportunities Fund	R 17,663.00	76%
Allan Gray Equity Fund	R 15,411.00	54%
Fund Smith Equity	R 11,515.00	51%
Ninety One Property Equity Fund	R 7,902.00	-21%

REGULATION 28 OF THE PENSION FUNDS ACT:
HOW YOUR RETIREMENT FUND HAS BEEN GUTTED

REG28 OF THE PENSION FUNDS ACT HAS FURTHER EXACERBATED THE DISMAL OUTCOMES FOR LOCAL INVESTORS OVER THE PAST 10 YEARS.

Before 2011 investors in a wide range of retirement funding investments had total freedom to invest their contributions in any asset classes available to investors on the local market. Many investors chose a 100% offshore allocation in their retirement annuities (RA's) and preservation funds, either pension or provident funds. They have earned fantastic returns over the past 10 years.

However, in 2011 Reg28 of the Pension Funds Act was adjusted, limiting offshore exposure to a maximum of 30% of total portfolio value. There were other adjustments, but they are irrelevant here.

As a consequence of this limitation and the weak performance of the JSE versus global markets since 2010, the performance of SA's pension, provident and RA funds over the past 10 years has been particularly poor.

BASED ON OUR RESEARCH, THE AVERAGE PENSION FUND IN SA HAS NOT BEATEN THE INFLATION RATE OVER THE PAST 8 YEARS, ONCE ALL COSTS AND FEES ARE APPLIED.

Very few SA investors are aware of this as the asset management industry keeps a lid on this issue.

We therefore urge all investors older than 55 with money in any RA's, pension or provident funds, to seriously consider maturing their investments, withdraw all available cash and transfer the balance of the capital to a living annuity.

Speak to an advisor at any of our offices to get advice in this regard. Although you will never get this advice from the investment company holding your capital, we strongly advocate you make this move asap.

PERSONAL EXPERIENCE:

I personally had two smallish RA's with two of SA's large life insurance companies. Year after year I looked on aghast at how badly these funds were performing, barely more than 2-3% per annum. Five years ago I cashed out these two RA's and combined them into a living annuity. The transfer value was about R420 000. Since then I have withdrawn more than R200 000, and due to some excellent fund selections, the current value today is well above R650 000. **I repeat: Anyone older than 55, with money in one of these products, needs to cash them out soonest, have the cash paid to them and the balance transferred to a living annuity.**

RAID ON PENSION FUNDS?

It remains my personal view that the ANC government will, at some stage, try and launch an attack, in one way or another, on the estimated R2trillion invested in SA's private retirement funds.

For some years now government has indicated that pension funds will be subject to prescribed assets, a form of taxation, as pension funds will be forced to invest in certain higher risk asset classes such as government bonds and infrastructure. Recently Treasury announced several draconian measures which are just the first signs of further attacks on retirements funds, in our opinion.

Investors with money in RA's and other retirement funds will now have to leave their money behind (the so-called 3 year rule) when they emigrate. Soon thereafter, in early August, Treasury announced a further plan to impose an "exit tax" on these funds. And finally, on 15th August 2021, government published a Green Paper, a forerunner to a White Paper, which eventually, over a period of time becomes law. This Green Paper suggested a national retirement scheme to be run by the government, which effectively nationalises retirement funding.

This was a bombshell announcement as it was released without prior consultation with Nedlac partners and also, so it is claimed, without approval by the cabinet. Among the radical proposals was compulsory membership for all salary earners to a defined benefit fund.

Investors with capital locked up in one of more retirement products need to strongly consider whether they should access their capital sooner, rather than later, in order to improve the long-term returns.