fm
investors MONTHLY
JUNE 2021
Available to Financial Mail readers on the last Thursday of the month, and on www.businesslive.co.za/investing/investors-monthly/

TOP PRIVATE BANKS AND WEALTH MANAGERS

Earning their stripes

Family, friends and the Elderly Month #RADAinspire

Show love and kindness by reconnecting with others

rada
your place of renewal

SnapScan

TO DONATE PLEASE VISIT
RADA.co.za/donate

FOLLOW US
@RADAhealing

SA needs a black-owned investment champion

MARC HASENFUSS
email Marc on hasenfussm@fm.co.za

ALMOST JULY. PAST THE halfway mark for the year ... and so very different to the anguished weeks investors were enduring in the same period in 2020.

Pick a share – any share – and you'll probably be booting yourself for not buying when the local market was having its Covid lockdown breakdown.

There are still some shares that have not recuperated properly – perhaps because the pandemic widened structural faults that had already been formed. Still, there are counters that, for me, stand out. I'm thinking of the food sector, where I have been mulling nibbling on AVI, RCL and Libstar. Then again, political ineptitude and the regular bouts of political extremism curb my enthusiasm for SA Inc. Maybe I should rather save up for a small stake in fishing group Oceana, which I am sure will earn the bulk of its keep from angling in global waters within the next 10 years.

As readers would have noticed, this is our annual "Top Private Banks & Wealth Managers Survey". Once again, our redoubtable partner Intellidex has come up with authoritative research from every conceivable angle. My hearty congratulations to all the winners. It seems like this is becoming an increasingly competitive space, which is really great for clients.

Speaking (broadly) of banks, I have been watching the scenes playing out around the formation of YWBN Mutual Bank, an exercise that entails raising a not insubstantial R5bn to create a black-owned and -managed bank. For me, there is simply not enough nitty-gritty financial information to make a sound investment decision with.

At face value, there might be a disconnect between the capital raised (for a 55% stake) and the sweat capital invested by the founders (for retaining a hefty 45% stake).

Building a bank – even a small, niche one – is no easy task. Older readers will remember the late 1990s when the JSE enjoyed a boom in technology and financial services companies. Not too many of those banks or variations on banks remain on the JSE today. (Capitec, of course, was the great success story.)

A large black-owned and -managed bank would be a fantastic entity to build. My wish for SA is for a large black-owned investment entity that can take monthly debit orders to build capital to invest diversely across the JSE. We need a champion investment company that can be a true vehicle for ferrying the nation's savings – and, with that, everybody's hopes and aspirations. Maybe when I retire I can get cracking on this idea. It certainly seems no-one else is ... ●

fm
financialmail.co.za
Printed by Paarl Media Gauteng

Distributed with the Financial Mail on the last Thursday of every month except December and January

Arena Holdings CEO: Andrew Gill

Head: Advertising Sales Eben Gewers

Editor: Marc Hasenfuss

Advertising sales:
Tel: 011 280 5462
E-mail: gewerse@arena.africa
Cris Stock
Tel: 082 902 3338
e-mail: cris@ad-link.co.za
Mike Armstrong
Tel: 083 654 5535
e-mail: mike@worldmedia.co.za

Editorial inquiries:
Tel: 011 280 5808
e-mail: investorsmonthly@bdlive.co.za

ARENA HOLDINGS

Contributors: Anthony Clark, Stephen Cranston, The Finance Ghost, Marc Hasenfuss, Warwick Lucas, Joan Muller, Shawn Stockigt

iM contents

JUNE 2021

Cover: VUYO SINGISWA

Regulars & Comment

Opening Bell

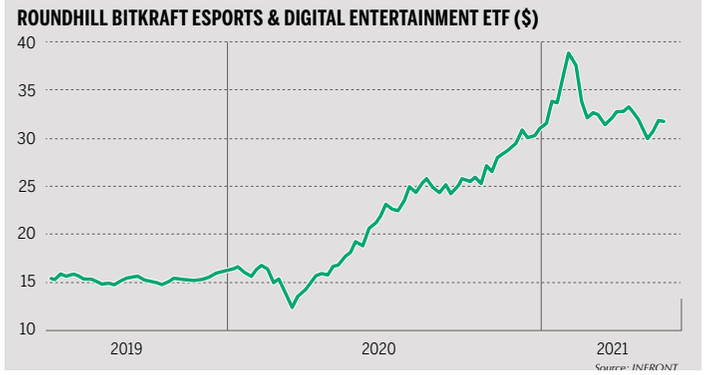
Analysis

Features

PICK of the MONTH

Share:	GAMING BASKET
JSE share code:	HERO, NERD & ESPO
Share price:	HERO: $32.98; NERD: $32.25; ESPO: $70.01
Average volume traded:	243 000, 32 500, 100 000

NERD



Investing offshore requires you to assess two hurdles: the rand and the asset on the other side. It's like choosing which airline to fly and choosing your destination. That isn't easy, which is why travel agents exist.

In the investment world, those travel agents are the exchange traded fund (ETF) providers. Instead of having to plan your entire investment yourself, they help you with a basket of underlying assets along a specific theme. You need to choose the theme, but they do the rest.

This pick of the month is from an SA perspective, assuming you would be sending your rands offshore and looking for a solid international wealth creation opportunity. In other words, this is viewed through the lens of rand pricing of international assets.

There's a technical argument to split the currency and the asset decisions. In most cases, I would agree. Global shares move in response to their own fundamentals. Nobody overseas is trading them based on their rand price!

However, the rand and the pricing of offshore assets usually mitigate each other. In a risk-off trade, assets drop but the rand weakens and erodes our buying power, so our collective ability to "buy the dip" is limited.

This time, it's different. The rand is strong and seems to be strengthening further, while interesting US assets have been sold off heavily. It's an opportunity that is difficult to ignore.

The gaming and e-sports industry has blossomed during the pandemic. Your avatar can't catch Covid from another player in a virtual world. As our lives have become increasingly digital, so too have our hobbies and recreational activities.

This industry stands to benefit from several themes, ranging from increased broadband access to growing consumer discretionary spending. Even urbanisation plays a role, as people living in built-up areas turn to digital entertainment as a form of escapism.

So, the investment equivalent of a travel agent makes sense in this space. There are a multitude of businesses in this industry and taking the time to analyse all of them probably isn't worth the effort unless you have significant sums to invest. Through a single investment into a suitable ETF, broad thematic exposure is achieved at a low cost.

> As our lives have become increasingly digital, so too have our hobbies

As an indication of how complex this industry is, the players range from hardware suppliers (like Nvidia) to game developers (like Electronic Arts). If this industry doesn't appeal to you, then I have bad news if you have an SA retirement fund – chances are that your money is invested in Naspers with look-through to Tencent, a gaming giant.

The trade of the year was Sea Ltd, up 700% since the start of 2020. Sea operates in Southeast Asia, a region with nearly double the population of the US and high levels of GDP growth. Sea is the developer of *Free Fire*, the most downloaded mobile game worldwide in 2020. Sea also operates an e-commerce platform and a digital payments platform. On a revenue multiple of nearly 25 times, Sea isn't cheap, but the growth path is clear.

The industry stalwarts are still growing as well. In Microsoft's latest quarterly earnings, Xbox content and services grew 34%, a rate beaten only by Dynamics 365 and Azure as Microsoft's cloud offerings. Nintendo's sales for the year ended March 2021 were up more than 34% and operating profits were up nearly 82%.

Investors can choose from three global ETFs that track this industry.

The VanEck Vectors Video Gaming & eSports ETF ($ESPO) has Nvidia, Sea, Tencent, Advanced Micro Devices and Nintendo as its five largest holdings. Geographically, the US is the largest exposure (39%), with Japan and China each at nearly 20%.

The Roundhill Bitkraft eSports & Digital Entertainment ETF ($NERD) has Modern Times Group, Activision Blizzard, Corsair Gaming, Tencent and DouYu International Holdings as its top five. US exposure is 29% and there is a strong slant towards China (19%) relative to Japan (9%).

The Global X Video Games & eSports ETF ($HERO) holds Nvidia, Sea, NetEase, Electronic Arts and Activision Blizzard as its top five. US exposure is 29%, with Japan at 25% and China at 13%.

Since the start of 2020, $NERD is up 93%. $HERO is just behind at 92% and $ESPO is lagging at 83%. All of these are spectacular 18-month returns and they remain appealing over the next decade.

If you're looking to send your rands on holiday, booking a gaming and e-sports holiday with your financial travel agent may be a sensible strategy.

In this case, the ETFs are just as exciting as stock picking would be. ●

The Finance Ghost

Other companies analysed in this issue: Pepkor, Lewis Group, Astoria, Spar Group, Massmart, Dipula Income Fund
See Pages 26-31 for these share analyses

TRADE of the MONTH

People's reluctance to eat out still harms the fast-food sector

IM has held consistent views about two stalwarts of the quick service restaurant (QSR) and casual dining segment, Famous Brands and Spur Corp.

In August 2020, IM discussed going long on Famous Brands and short on Spur. Subsequently Famous Brands rose 31% and Spur 23%.

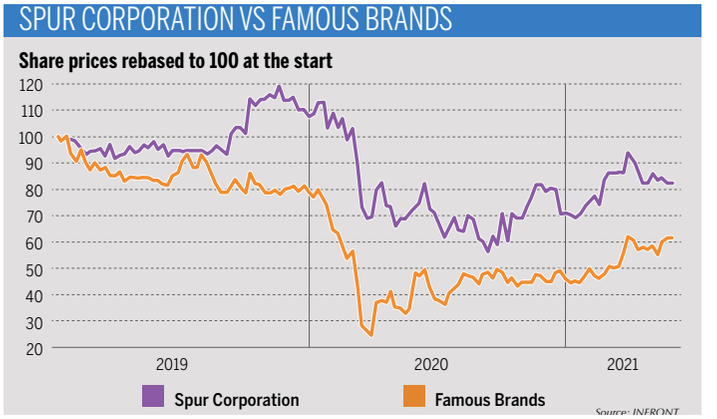
With more than 10 months having passed and much of the Covid impact having washed through the system, we revisit the trade and affirm that call.

IM has had a view that if we had to be in fast food we would prefer to be in Famous Brands. But on a portfolio basis, we are unsure whether we even want to be in the segment at present. There remain challenges, and in our judgment normal revenue and earnings seem at least another 12 months away.

Recent feedback from Famous Brands about the 2021 financial year confirms much of the sector's narrative that recovery from the despair of 2020 and from the lockdowns and the curtailment of service has occurred. But not all is equal.

Consumers' usual preference to eat in the traditional sit-down venues favours Spur over take-out-orientated Famous Brands.

But at present people remain reluctant to make the leap of faith and are not returning in droves to eat out. Take-away meals and deliveries continue to dominate.



The rise in QSR sales, deliveries, consumer collections and dark kitchens clearly demonstrates that the fast-food market will continue to face challenges until Covid is bought under control.

Adaptation to current consumer trends mean that menus have been trimmed to pare costs and make preparation simpler and more cost effective. Inflation and menu pricing are rising; Famous Brands comments that there will be a price increase of about 7% in its menu this year, compared with 3%-4% last year. Spur is opening drive-through outlets, something it has never had in its arsenal, and is adapting outlets to cope with the surge in delivery orders.

Famous Brands, aware of the challenges of casual eat-out dining, has exited both restaurant chain Gourmet Burger Kitchen in the UK and tashas.

It is focusing its efforts on its leading brands of take-out chains such as Debonairs, Steers and Fishaways.

> With ongoing social distancing and capacity rules, sit-down brands remain at a significant disadvantage to take-out outlets

Its sit-down portfolio consists mainly of Mugg & Bean and Wimpy.

With ongoing social distancing and capacity rules, sit-down brands remain at a significant disadvantage to take-out outlets. Thus, IM continues to prefer Famous Brands over Spur.

Famous Brands has commented that while the percentage increase in sit-down customers has risen, consumers continue to prefer delivery from an outlet, take-aways from inside the outlet and drive-throughs.

These preferences, all allied to ongoing Covid-related concerns, continue to favour the Famous Brands outlets above the predominantly sit-down network of Spur.

The fast-food segment remains tough.

Famous Brands reported a 35% fall in revenue in 2021 to R5bn and a halving in operating profit margin. Operating profits fell 79% to R193m, and headline EPS declined 121% to a loss per share of 86c.

Some of this was due to the write-downs and last impairments of the disastrous UK acquisition in 2016 of Gourmet Burger Kitchen for R2.1bn, primarily with debt.

This deal was an utter disaster and cost shareholders dearly. It was the main reason for the slump in the Famous Brands share price.

Recent results show the debacle has been dealt with, though a slab of the debt associated with the deal remains.

However, Famous Brands remains highly cash generative and a renegotiation of its lending terms has given it ample breathing space. It is unlikely that the whispered-about 2020 rights issue to alleviate the debt, now standing at R1.37bn, will be needed.

That scenario has been enough, with the Gourmet Burger Kitchen clean-up, to polish the Famous Brands share price in the past months. In the year to date Famous Brands continues to outperform Spur, rising 21.5% versus Spur's 17.3%.

SA is now in the third wave of Covid and the government has tightened the curfew rules. This will have an impact on the second-half results of the sector. The lockdown regulations have been extended to July 15.

This brings IM back to the question: do we even want to be in fast foods right now?

The answer remains a robust no.

However, from a trade perspective, going long on Famous Brands and short on Spur still stands. IM likes both businesses for the longer term. When Covid is a memory and eating out and full venue capacity become the norm, IM should favour Spur. Global trends show people are desperate to escape their home confines and be sociable again.

SA lags many economies in gaining control of the pandemic and in the rolling out of the Covid vaccine. In the face of this IM remains reticent about being in the fast food sector.

It is the fear of the unknowns of the future that haunts consumers and therefore influences our investment prognosis. ●

Anthony Clark

ANTHONY CLARK

Ducking 'n diving is bad form

It's a joy to see the better class of CEOs give updates and answer questions at online AGMs

As an old-fashioned analyst, I'm far happier with bits of paper and files full of press cuttings, hand-written notes and corporate reports than I am with these cloud-based databases.

Similarly, I prefer face-to-face meetings with corporate management during results presentations or AGMs.

You can engage directly and get a much better feel of what is behind an answer to a question when you look a CEO in the eye.

Body language or an unintentional quip gained alongside chats with other board members are invaluable.

But Covid changed all that. The nuances of meetings have been replaced by one-dimensional online meetings.

Understandably for public and individual safety, gatherings have become unfashionable despite much of the economy easing out of ongoing Covid fatigue.

Pretty much every corporate result or AGM since March 2020 has been via an online platform. This may negate Covid concerns, but much is lost from using remote technology to engage with analysts, investors and shareholders.

Many CEOs I talk to long for the day when results presentations and AGMs can be held in real life.

Starting into a screen at myriad usually muted and hidden participants on an MS Teams or Zoom meeting is simply not the same as watching and reacting to a physical audience.

I await the day when we analysts can again glare at management, waiting for our chance to ask tetchy questions in an open forum.

Many listed corporates have used online results webinars and AGMs to mitigate against such questioning. They want to control the narrative and censor any "untoward" questioning.

In a physical meeting, you stick up your hand and ask your question and management is put on the spot to reply. They can't deflect or hide.

On an online forum, where corporates or their flunkies control whose questions get read out (or not), it becomes an exercise in control.

Social media is a great leveller and a powerful tool for bringing miscreants to task if a webinar or AGM is too controlled or scripted.

Great webinars see CEOs willingly give detailed and lengthy presentations and show that they are happy to take every question thrown at them.

The recent AdvTech results as well as the AGM I participated in were refreshing, transparent affairs. CEO Roy Douglas answered questions about results for an hour.

> At some corporates, it's pot luck if your written questions are even read out

Similarly, at the Combined Motor Holdings AGM I logged into, CEO Jebb McIntosh gave a detailed, off-the-cuff update and happily responded to any and all questions.

Contrast that with Famous Brands. Its recent results presentation, from a challenging trading period for the business, lasted exactly an hour – to the second. Six questions were allowed in the online Q&A time slot. In a physical results meeting, that kind of restriction would not be tolerated.

At some corporates, it's pot luck if your written questions are even read out. More than likely, they are cropped and sanitised to spare management from having to openly respond to prickly questions.

The PSG Group and Zeder Investments results and Q&A session were just that: managed and redacted.

A recent JSE AGM "oversight" saw this analyst's pointed questions not even put to management, despite stated protocols being followed to submit written questions.

Online webinars and AGMs have become flooded with Jik; bleached and sanitised, often to fit a corporate narrative. In a physical meeting such behaviour would not stand, but in cyberspace it's commonplace.

The JSE should mandate that once it is safe to do so, corporate meetings should return to a physical form with the option of access via a live webinar feed. ●

WEALTH, POLITICAL RISK AND HAPPINESS

SA's wealth managers excel in areas they can control, and most portfolios were already defensively positioned before the Covid crisis hit, writes **Colin Anthony**

It's good to have you around during a crisis, is the message emanating from clients of wealth managers and private banks as the country emerges from the Covid-induced economic devastation of 2020.

This is the 10th anniversary of the Intellidex-Investors Monthly "Top Private Banks & Wealth Managers" survey, and, despite the market turmoil, the firms that cater for the wealthy continue to receive exceptionally high ratings from clients on a wide range of categories that are interrogated through the client survey.

This year a record 9,817 people participated, which presents a credible picture of how they believe their wealth is being managed. That's impressive, given that there's so much to keep SA wealth managers awake at night.

Regulatory changes are as regular as the ocean's waves and these managers have to stay abreast of rapid technological advancements to remain competitive. Then, of course, this country enjoys its own special brand of economic risk, where parts of the governing party work hard to get the economy onto an investor-enticing growth track while other parts of it seem determined to derail it all. And though the fiscal purse is empty and our sovereign debt is north of R4.3-trillion, still our politicians find money to steal from somewhere, government tenders being a juicy target.

intellidex Top Private Banks & Wealth Managers

Editor: Colin Anthony
Research manager: Heidi Dietzsch
Lead analyst: Phibion Makuwerere

Apart from the concerns over technology, those issues are outside the direct control of wealth managers. Another thing outside their control is, of course, the appearance of a virus that sweeps across earth, forcing entire economies to shut down.

But whatever bits and pieces of that particular crisis they could control they did. And they could do so precisely because they had been fretting over their firms' technological capabilities.

This year's survey interrogated the participating firms about how they reacted to the crisis. What impressed us is that most firms had already established or had been developing their digital capabilities well before Covid hit in the first quarter of last year.

This helped tremendously, they say, in dealing with the unprecedented issues that the lockdown threw at them.

Most of those technological developments were instituted to improve client communication, something that became more critical during the lockdown. And almost every firm mentions how it increased the number of its webinars and other online client engagements. Expert speakers, both in-house and external to cover specialist areas, briefed clients on the markets and provided guidance on their investments.

Much of that guidance entailed reassurance, because most portfolios were already defensively positioned before the pandemic – given SA's ailing economy – though some portfolios had to be adapted.

Within such an environment, PSG Wealth is the Top Wealth Manager of the Year: Large Institutions, and Private Client Holdings is the Top Wealth Manager of the Year: Boutiques.

Investec Private Bank retains its crown as the Top Private Bank of the Year, followed by Standard Bank Private Bank and RMB Private Bank.

PSG Wealth is starting to make the overall wealth manager's award its own, winning it for the third consecutive year. It has been a strong performer throughout the years we have been conducting the survey. It is also the only wealth manager competing in the "large institutions" category that is not affiliated to a bank.

Dan Hugo, CEO: distribution, attributes PSG's success to strong intergenerational client relationships, with strong technological and other support for advisers. "Our advisers typically service their clients from cradle to grave, and through proper

TOP WEALTH MANAGER: LARGE INSTITUTIONS

Institution	Rank	Weighted score (out of 10)
PSG Wealth	1	8.64
Standard Bank Wealth and Investment	2	8.47
RMB Private Bank	3	8.07
FNB Private Wealth	4	7.96
Nedbank Wealth Management SA	5	7.93

TOP PRIVATE BANK

Institution	Rank	Weighted score (out of 10)
Investec Private Bank	1	8.08
Standard Bank Private Bank	2	7.77
RMB Private Bank	3	7.42
Nedbank Wealth Management SA	4	7.26
FNB Private Wealth	5	7.21
Absa Private Bank	6	6.88

succession planning those relationships stay intact." Hugo says the support services provided by PSG in marketing, compliance, HR, IT and risk management free up advisers to allocate their time to client service.

PSG Wealth's response to the lockdown is impressive — though it typifies the response of most wealth managers. "Keeping clients informed and managing expectations are always key during any crisis," says Hugo. "Therefore ongoing, focused client communication became even more important.

"Throughout the year we launched various new client communications and implemented a number of digital ways of engaging clients. The Covid weekly newsletter drew a very high readership; in fact, it had the greatest number of opens on PSG e-mailed communication ever.

"Financial plans continued to be formally reviewed at least annually, with many clients and advisers agreeing on more frequent reviews. Having a long-term view remains as important as ever, while short-term needs are met through appropriate investments that are less volatile," Hugo says.

In the coveted People's Choice awards, which are determined solely by client rankings, Centric Wealth Advisory wins as the top wealth manager, with Investec Private Bank taking the top private banking award.

Centric also wins the award for Top Wealth Manager for Lump-Sum Investors.

The firm's two awards are particularly impressive because this is such a young business — it has been operating for only four years.

Its two senior executives, Charles McAllister and Gené Scott, however, together bring more than 40 years' experience to the firm, and its clients clearly appreciate the service and investment guidance.

McAllister outlines a novel structure the firm introduced from the outset — setting itself up as an association of lifestyle-based financial planners. Essentially it is a hub of a network of providers that offer local and offshore trustee, fiduciary and investment management services. "This association has allowed us to pool our knowledge, expertise and resources with [those of] other industry leaders," he says.

Covid issues aside, McAllister says the primary concern of clients is "preserving their wealth, not only in their lifetime but for the next generation". His firm addresses this by helping clients identify "how much is enough", implementing strategies to achieve lifestyle goals and putting structures in place to facilitate the transfer of intergenerational wealth. "Once clients are able to visualise their lifestyle requirements, it opens conversations about discretionary funds, aspirational funds and the leaving of legacies."

While SA's wealth managers excel in areas they can control, it's the areas outside their control that really have them fretting. And if there's one issue that haunts their dreams at night, it is political risk, especially when the words "wealth tax" have surfaced somewhere or other.

McAllister believes the political risk to investments has intensified over the past year.

"The local economy is struggling to generate growth and is quickly approaching a debt-to-GDP ratio of 100%. State-owned enterprises are essentially bankrupt, which will apply more pressure on government's already stretched finances. All this leads to political risks as there are very few options available to the government to address these revenue shortfalls, and taxing current wealth is an 'easy' solution with little impact on the voter base."

Globally, McAllister says, political risk is slightly reduced as former US President Donald Trump is no longer driving an aggressive agenda with China. But the latter "is still 'flexing' its might, especially through regulation in the tech space, which could have a dramatic impact on clients' investments".

Outside of SA's dire fiscal situation, most wealth managers feel the political risk has eased somewhat over the past year. Brenthurst Wealth Management's Brian Butchart believes President Cyril Ramaphosa has strengthened his position within the ANC "by seemingly isolating Ace Magashule", while the president's evidence before the Zondo commission as head of the party "has, to a certain extent, displayed a willingness for the ANC to admit its past mistakes". The court cases against former President Jacob Zuma, too, signal "that the ruling party is prepared for the law to take its course".

Butchart is not the rose-tinted type, though, and there is much that still concerns him in the political space, including "destructive policies" which might sour investment sentiment towards the country. But he does find cause for optimism in what we can call one of the virus's unintended consequences. "The Covid lockdown has removed radical political leaders such as [EFF leader] Julius Malema from the spotlight. This has minimised the impact of radical anti-capitalism and antibusiness crusades and has improved the image of SA as an investment destination, with signs of new inflows of capital into the JSE equity and bond markets, though sporadically."

Clients, too, are conveying that they feel political risk has eased. Hugo says PSG's advisers all report that client concerns over political risk have tempered since last year. "Generally, there was a focus on the president's leadership during the Covid pandemic."

Gradidge-Mahura Investments chief operating officer Cyril Chetty says the pandemic will continue to worry clients until the vaccine rollout globally is complete. "Clients were also worried about the potential for a wealth tax to be introduced given the country's precarious fiscal position."

Chetty says, however, that

TOP WEALTH MANAGER: BOUTIQUES

Institution	Rank	Weighted score (out of 10)
Private Client Holdings	1	8.47
Gradidge-Mahura Investments	2	8.37
Brenthurst Wealth Management	3	8.27
Sasfin Wealth	4	8.25
Centric Wealth Advisory	5	8.09

TOP RELATIONSHIP MANAGER OF THE YEAR

VIRATH JUGGAI OF GRADIDGE-MAHURA INVESTMENTS is the 2021 Top Relationship Manager of the Year.

Centric Wealth Advisory's Charles McAllister is second and Brian Butchart of Brenthurst Wealth Management third.

This award, introduced in 2019 to recognise individual excellence, has been widely welcomed by the industry. Intellidex uses a combined qualitative-quantitative assessment to determine the rankings.

With almost 10,000 clients having participated in this year's client survey, determining the rankings is no easy task, as many are extremely complimentary about their relationship managers. They value them highly for investment advice and for the guidance and "emotional management" they offer, particularly during turbulent market periods. Many clients

state explicitly their relationship manager is the reason they stay with a particular firm.

Juggai's clients praise him highly. "Virath has shown real empathy during the pandemic," says one client. "I lost my job and he proactively helped me manage my investment through it all. He has gone beyond being a service provider."

Another says: "Virath has an exceptional manner in explaining my portfolio in detail and has provided sound guidance during the turbulent markets of the past seven years. His friendliness, professionalism and careful attention have made Gradidge-Mahura Investments my trusted choice."

Top Relationship Manager of the Year

1. Virath Juggai — Gradidge-Mahura Investments
2. Charles McAllister — Centric Wealth Advisory
3. Brian Butchart — Brenthurst Wealth Management

this concern has dissipated post the budget speech. But concerns remain about expropriation without compensation, Eskom, rapidly rising administered prices and potential political fallout in the governing party.

"The continuing infighting in the governing party is concerning us. The economic destruction brought about by Covid needs an undistracted and coherent leadership response and we are not getting that as the president keeps taking friendly fire.

"This presents a significant challenge to business and consumer confidence. The economy will not grow in an environment lacking confidence."

Mosaic Family Office chief financial officer Ruan Bye is concerned that the political risk and the stretched government balance sheet could spill over into "aggressive" tax increases which "could materially affect valuations of underlying investments and after-tax cash returns of clients".

Given the nature of the political rhetoric in SA, a push for "aggressive" taxation could easily transform into calls for a wealth tax, something that Private Client Holdings director Andrew Ratcliffe lists first when asked about the main concerns of clients.

Others include political instability, exchange control, prescribed assets, Situs (the location of an asset for taxation), expropriation without compensation and long-term economic decay of the economy, accelerated by Covid.

RMB Private Bank CEO Eric Enslin outlines what needs to be done to increase investor confidence.

"The political uncertainty will improve only if policy reform and implementation are actively demonstrated. Unfortunately, while we are facing political issues locally, we find ourselves having to deal with a global pandemic, one which requires prioritisation. Investor confidence is up, but not on the local market front. Fiscal pressure, the threat of downgrades and the lack of clarity when it comes to policies such as land reform continue to weigh on confidence."

When all is said and done, the wealth managers need to focus on client needs. Standard Bank Wealth & Investment high net worth clients head Sanah Gumede says: "We maintain our position in guiding our clients through these unpredictable times and encourage them to avoid panic-driven decision-making, as this could result in the crystallisation of investment portfolio losses. We believe markets will recover in due course (it is still, however, a matter of when) and history has shown that extreme depressed market events never last in perpetuity."

Gumede says client demand has increased for structured products due to the enhanced yield and capital protection dynamics underpinning theme. "We continue to adopt an individual, client-centric advice approach to assess all of our clients' personal circumstances relative to their current portfolio holdings. We then proceed to make well thought-out, unemotional and research-informed recommendations that are specific to each individual."

That typifies the response of most wealth managers to the uncertain and dynamic market environment. They advise clients to remain calm and assess whether portfolios need to be adapted while they guide clients through these turbulent times. But the important message to them is: don't panic. ●

THE WEALTH INDUSTRY IN NUMBERS

	2021
Total assets under management ('R)*	515 276 921 239
Assets under advisement ('R)	439 636 200 597
Size of loan book ('R)	200 847 191 070
Growth in revenue (simple average)	28%
Number of clients across all service offerings	967 212
Number of employees in SA	3 519
Number of employees in rest of the world	1 021
Number of offices in SA	327
Number of offices in rest of the world	35

* AUM relates to WIM units; assets in the private banking units are reported under AUA.
All other items combine both private banks and wealth management units
Figures reflect the 15 firms that participated in the survey

METHODOLOGY

intellidex
Top Private Banks & Wealth Managers

The Top Private Banks & Wealth Managers survey is researched and prepared by Intellidex, a specialist financial services research house. This is the 10th anniversary of the survey, which we develop every year to ensure that it best reflects the dynamics of the wealth management industry and that we are delivering a product that meets the needs of clients who make use of such firms.

Revised format

This year we revised the format, reintroducing the case study concept. All firms were required to respond to one case study while those that participate in the top end of the spectrum, the internationally wealthy family archetype, were asked to respond to another case study specific to that archetype.

The survey still has two main prongs: a questionnaire completed by participating firms and a comprehensive online client survey. Intellidex judges allocate points to the firms in certain categories but client rankings generally contribute most to the overall scores. The questions we ask clients are wide-ranging and designed to assess the various strengths and weaknesses of the private banks and wealth managers.

The main areas of focus, though, are on satisfaction levels with products and services as well as with investment returns, whether clients believe they are getting value for money and whether they would recommend their service providers to others.

We also ask questions relating to why clients use private banks and wealth managers and whether their specific needs are being met.

Clients add comments about aspects not covered by our multiple-choice format of questions. Here we receive some valuable insights that are used to inform the judging process.

This year 9,817 people participated in the client survey — a new record and a dramatic increase on last year's 5,612 participants.

Judging

In terms of the overall judging, we understand firms have different areas of focus. Thus, in our minds, the individual archetype winners — passive lump-sum investor, young professional, successful entrepreneur, wealthy executive and internationally wealthy family — are at least as important as the overall awards. If a firm is the best in the industry in its specific area of focus and does not pretend to be all things to all people, it deserves recognition for that area of excellence. If a firm does not compete in a particular market segment, we do not penalise it for not having an offering for that archetype.

The award for the top individual relationship manager, introduced in 2019, is chosen from nominations and motivations from clients.

The judges this year were Intellidex market research manager Heidi Dietzsch, head of strategy research Dr Graunt Kruger, senior banks analyst Nolwandle Mthombeni and project co-ordinator Colin Anthony.

Awards

There are two overall awards, one for big firms that are part of a larger financial institution and a separate one for boutique operators. We also award the top firm in each archetype. The full list of awards are:

Top Wealth Manager of the Year: Large financial institutions category
Top Wealth Manager of the Year: Boutique firms category
Archetype awards:
Passive lump-sum investor
Young professional
Successful entrepreneur
Wealthy executive
Internationally wealthy family

People's Choice Award: Determined solely by client rankings, this has two categories, one for wealth management services and one for private banking services.
Top Banking Services Firm: This award is determined by the client survey, based solely on transactional and lending services.
Top Individual Relationship Manager: An award for the top relationship manager, based on client nominations and the motivation they provide.

The table below summarises the mix of methodologies used to score firms for the awards.

Intellidex is always keen to widen the survey to include more institutions. We are interested in firms that straddle the gap between wealth manager and financial adviser. We would like to include firms that meet these two criteria:

1. Exclusivity in client selection such that clients on average have investible assets of more than R3m.
2. Advice on total assets of at least R50m.

Such firms, however, will be included only if they ask to be. Intellidex includes larger firms by default. We reserve the right to determine eligibility at our sole discretion.

For details visit www.intellidex.co.za

MIX OF METHODOLOGIES USED TO SCORE FIRMS FOR THE AWARDS

	Award name	Methodology mix: Clients votes	Methodology mix: Judges' subjective assessments
1	**Top Wealth Manager of the Year:** Large Financial Institutions	✓	✓
2	**Top Wealth Manager of the Year:** Boutique Firms	✓	✓
3	**Passive lump-sum investor**	✓	
4	**Young professional**	✓	
5	**Successful entrepreneur**	✓	
6	**Wealthy executive**	✓	
7	**Internationally wealthy family**		✓
8	**People's Choice Awards (one for private banks and one for wealth managers)**	✓	
9	**Top Banking Services Firm**	✓	
10	**Top Individual Relationship Manager**	✓	

PEOPLE'S CHOICE AWARDS

intellidex Top Private Banks & Wealth Managers

How clients rate their wealth managers and private banks

THE PEOPLE'S CHOICE AWARD IS selected purely by clients of wealth managers and private banks through a comprehensive online questionnaire.

This year 9,817 people participated in the client survey – a new record and a dramatic increase on last year's 5,612 participants. The large number of clients who participate enhances the credibility of the survey findings.

We ask clients all about their service providers, and their rankings – across a range of questions determining satisfaction levels in numerous categories – are extremely important to the participating firms. The process forms an integral part of the overall survey. Responses to certain questions help determine the People's Choice winner, while other responses feed into the judging process for many of the other awards.

The questions that feed directly into the rankings for this award relate to the following:

- Quality of service and advice;
- Likelihood of recommending the firm;
- Perceptions of value for money;
- Extent to which advice meets individual needs; and
- Scope to improve offerings.

Clients add comments about aspects not covered by our multiple-choice questions. Here we receive some valuable insights that are used to inform the judging process.

Centric Wealth Advisory wins this year's People's Choice for Wealth Managers award, an impressive achievement considering it is a young, small firm – it has been operating for only four years. This is also its first year of participating in the survey.

Clearly its client base is well looked after, but the firm goes further than that, priding itself on advocating for clients. "We are exceptionally vocal about issues in the industry which do not provide clients with optimal outcomes," says co-founder Charles McAllister.

Private Client Holdings takes second place, followed by last year's winner, Gradidge-Mahura Investments.

Investec Private Bank again takes the People's Choice award for Top Private Bank. The firm always generates exceptionally high client ratings.

Standard Bank Private Bank shoots up from fifth last year to take second place, and RMB Private Bank comes in third.

All those who completed the online client questionnaire for the People's Choice awards are entered into a random draw to win R10,000 in cash to be deposited into their private bank or wealth management account. CONGRATULATIONS to our R10,000 cash winner: George Hattingh from Pretoria East, a client of Absa Private Bank.

PEOPLE'S CHOICE: WEALTH MANAGER

Institution	Rank	Weighted score (out of 10)
Centric Wealth Advisory	1	9.41
Private Client Holdings	2	9.38
Gradidge-Mahura Investments	3	9.25
Brenthurst Wealth Management	4	9.13
Sasfin Wealth	5	8.90
NFB Private Wealth Management	6	8.88

PEOPLE'S CHOICE: PRIVATE BANKING

Institution	Rank	Weighted score (out of 10)
Investec Private Bank	1	7.86
Standard Bank Private Bank	2	7.33
RMB Private Bank	3	7.07
Nedbank Wealth Management SA	4	6.97
FNB Private Wealth	5	6.68
Absa Private Bank	6	6.32

Winners per archetype

WE PRESENT FIVE CLIENT ARCHETYPES to wealth managers and assess how they cater to each. The archetypes cover the spectrum of client market segments and many wealth managers use them in their own market segmentation of clients.

Winners for the first four archetypes are determined through two processes. First, in the client survey, certain questions are designed to elicit specific information about their service provider's capabilities in each archetype. Second, we ask the firms themselves to rank their peers in each archetype. The two sets of rankings feed into the final score.

For the internationally wealthy family, the rankings are based solely on judges' scores for the firms' responses to a case study.

Picture: 123RF — STRELOK

LUMP-SUM INVESTOR

This archetype is typically a retiree or person who has received a large amount of capital to invest.

Institution	Rank	Weighted score (out of 10)
Centric Wealth Advisory	1	6.89
Gradidge-Mahura Investments	2	6.70
Private Client Holdings	3	6.59
NFB Private Wealth Management	4	6.55
Brenthurst Wealth Management	5	6.47

YOUNG PROFESSIONAL

Typically starting a career with a long-term investment horizon.

Institution	Rank	Weighted score (out of 10)
Private Client Holdings	1	7.02
Gradidge-Mahura Investments	2	6.95
Centric Wealth Advisory	3	6.89
Standard Bank Wealth and Investment	4	6.73
PSG Wealth	5	6.64

SUCCESSFUL ENTREPRENEUR

A person involved in one or more successful business ventures who needs a range of services related to investments and business-related services.

Institution	Rank	Weighted score (out of 10)
Standard Bank Wealth and Investment	1	7.27
Gradidge-Mahura Investments	2	7.25
Private Client Holdings	3	7.02
Centric Wealth Advisory	4	6.89
PSG Wealth	5	6.64

WEALTHY EXECUTIVE

A successful career executive often with complicated investment needs requiring financial engineering skills as well as investment advice.

Institution	Rank	Weighted score (out of 10)
Standard Bank Wealth and Investment	1	7.60
Gradidge-Mahura Investments	2	7.35
RMB Private Bank	3	6.77
Brenthurst Wealth Management	4	6.68
PSG Wealth	5	6.58

INTERNATIONALLY WEALTHY FAMILY

Immensely wealthy families usually with complex business interests requiring a full family office with international services.

Institution	Rank	Weighted score (out of 10)
Stonehage Fleming	1	9.3
Mosaic Family Office	2	9.1
PSG Wealth	3	9.0
Nedbank Wealth Management SA	4	8.9
Sasfin Wealth	5	8.7

How they fare

intellidex Top Private Banks & Wealth Managers

ABSA WEALTH & INVESTMENT MANAGEMENT

Archetype	Score	(out of 10)
Lump-sum investor	5.40	
Young professional	5.03	
Successful entrepreneur	5.03	
Wealthy executive	5.20	
Internationally wealthy family	8.40	

Overall

A core strength of Absa Wealth Management is the suite of offerings that complement its wealth advisory services and wealth banking for individuals, families and businesses.

The wealth management offering is provided to high and ultra-high net worth and family office clients in collaboration with wealth managers and financial advisers. It uses a combination of in-house developed best-of-breed products and open architecture solutions to provide holistic bespoke advice.

Its portfolio management and stockbroking services are competitive and comprehensive, with clients able to trade on 27 international exchanges. It offers access to exchange traded funds listed in US markets, an extremely useful facility for investors looking to invest in the world's largest tech companies or niche areas of the US market, such as health care or utilities.

The group also offers structured investment and hedging strategies; a forex service with 34 currency pairs and exchange control applications; succession planning; and philanthropy.

Wealth managers are supported by teams of specialists who work collaboratively with appointed auditors and tax practitioners to jointly formulate client-appropriate investment strategies.

On the IT front the bank has been busy, designing virtual channels to serve clients and accelerating implementation of a system that will employ robotics to serve simpler queries and have a continuous feedback loop to improve offerings and service to clients.

BRENTHURST WEALTH MANAGEMENT

Archetype	Score	(out of 10)
Lump-sum investor	6.47	
Young professional	6.47	
Successful entrepreneur	6.47	
Wealthy executive	6.68	
Internationally wealthy family	-	

Overall

An emphasis on client support combined with a strong media presence have served this firm well. It has expanded over the past few years within SA and to Mauritius, where it offers services that include establishing and administering offshore companies and trusts, international property services and tax advisory.

Brenthurst Wealth Management adapts to meet the personal financial needs of clients and educate them about ever-changing global market conditions.

Responding to the heightened need for information since the outbreak of Covid, Brenthurst took to hosting regular webinars, inviting guest speakers who are leaders in the financial industry to present on a wide range of topics to their clients. It also amplified the presence of its financial advisers on social and traditional media platforms.

As part of Brenthurst's undertaking to offer clients global financial planning across geographies and currencies, it partners with global financial services providers.

It also offers a personal share portfolio solution alongside online share trading.

CARRICK WEALTH

Archetype	Score	(out of 10)
Lump-sum investor	5.56	
Young professional	5.29	
Successful entrepreneur	5.29	
Wealthy executive	5.89	
Internationally wealthy family	7.50	

Overall

Carrick Wealth caters to all market segments with the bulk of clients in the wealthy executive and lump-sum archetypes. Its portfolio consists of long-term insurance, retail pension benefits and participatory interests in collective investment schemes.

In response to client demand during Covid, the firm has strengthened its property, fiduciary and philanthropy divisions and also strategically invested in technology to continue seamless operations and communications.

It enhanced its concierge client portal, a cloud-based system, to incorporate various advanced features including the integration of data in one place and a secure vault with encryption for document storage so that paperwork like wills, personal assets and valuations are stored safely. This investment in digital technology has ensured that advisers and clients are able to see portfolios and are on the same page even when the consultation is conducted remotely.

CENTRIC WEALTH ADVISORY

Archetype	Score	(out of 10)
Lump-sum investor	6.89	
Young professional	6.89	
Successful entrepreneur	6.89	
Wealthy executive	6.40	
Internationally wealthy family	-	

Overall

Centric Wealth Advisory wins this year's People's Choice for Wealth Managers award and is the top-ranked firm in the lump-sum investor category. This is an incredible achievement considering it is a young, small firm and this is the first year it is participating in this survey.

Centric is a bespoke lifestyle financial planning advisory firm that specialises in multijurisdiction wealth management. The bulk of clients are in the lump sum, young professional and successful entrepreneur archetypes.

Though it's been operating for only four years, its executives bring a wealth of industry experience and the firm has positioned itself at the hub of a network of providers that offer local and offshore trustee, fiduciary and investment management services.

FNB PRIVATE WEALTH & RMB PRIVATE BANK

Archetype	Score FNB	(out of 10) RMB
Lump-sum investor	5.70	5.65
Young professional	6.16	5.59
Successful entrepreneur	5.80	5.21
Wealthy executive	6.41	6.77
Internationally wealthy family	7.50	7.50

Overall

RMB and FNB present a powerful offering to wealth and private banking clients across all archetypes.

The group strives to be at the cutting edge of technological innovation and has increased its investments in technology and data platforms to improve the client experience during the pandemic and to enhance security. Here it has also paid attention to financial fraud, offering insights into the latest modus operandi of fraudsters and guidance on what recourses are available should clients suspect their accounts have been compromised.

The bank has harnessed machine learning and AI to proactively identify and block fraudulent transactions.

The group has designed a private banking offering for spouses or life partners of private banking clients, where they enjoy the same private banking experience at a reduced fee. Its FNBy account for children of private banking clients enables them to gain confidence in dealing with money, while teaching them financial responsibility – with no monthly fees.

GRADRIDGE-MAHURA INVESTMENTS

Archetype	Score	(out of 10)
Lump-sum investor	6.70	
Young professional	6.95	
Successful entrepreneur	7.25	
Wealthy executive	7.35	
Internationally wealthy family	-	

Overall

Founded in 2008, Gradidge-Mahura Investments is highly competitive in the wealth space with a strong record in the years that it has participated in this survey.

In a reflection of its all-round strength, this year it ranks second in every archetype except internationally wealthy family, a segment it does not operate in.

The firm offers the full range of financial planning services and prides itself on promoting transformation. While it has widened its initial focus of servicing the black middle class, it remains committed to creating a model of black excellence in the advice industry and attracting highly skilled black advisers to the market. It strives to achieve this through its continued investment in young black professional graduates. In terms of its fee structure, it believes it is contributing to the professionalisation of the market "by creating a template for other advisers who wish to join the industry without having to resort to sales-based tactics to survive and grow".

The firm does not charge upfront fees for retirement annuities and endowment investments, which it says has cost it significant revenue "but has stood us well during Covid. We can cancel clients' recurring investments knowing that they will not incur penalties and we are not incurring commission clawbacks."

MOSAIC FAMILY OFFICE

Archetype	Score	(out of 10)
Lump-sum investor	-	
Young professional	-	
Successful entrepreneur	-	
Wealthy executive	-	
Internationally wealthy family	9.10	

Overall

An impressive debut in our survey this year from this family office specialist firm, scooping second place in the internationally wealthy family category. Mosaic competes only in this category, a

segment in which, over the 10 years of running this survey, Intellidex has been extremely impressed with the quality of the family office offerings of participating firms.

It's far smaller than its competitors in this segment, so Mosaic's strategy is a special focus on structured products (capital protection, yield enhancement, participation and leverage products) to help navigate the complex financial challenges that internationally wealthy families must navigate.

The firm sees its role as corporatising wealth into local and global inheritance structures and the ongoing administration of these structures in a safe and tax-efficient manner, to allow for the growth and multigenerational transfer of wealth.

NEDBANK WEALTH MANAGEMENT SA

Archetype	Score	(out of 10)
Lump-sum investor	5.70	
Young professional	6.06	
Successful entrepreneur	6.14	
Wealthy executive	5.75	
Internationally wealthy family	8.90	

Overall

Nedbank is a formidable presence in the SA wealth market with a history of nearly 200 years of servicing clients. It caters well to all archetypes and clients have direct access to local and international technical specialists who offer tailored expertise in wealth advisory.

The firm's strategy is "connected wealth", which it says encapsulates the integrated nature of how we all make financial decisions. "They are never made in isolation and are the outcome of how we see life, our experiences and our relationship with money, and the consequences of previous choices."

The connectivity theme extends into technology and Nedbank has invested in digital capabilities that it says integrate and enable the concept of connected wealth from a wealth advisory and business efficiency perspective. Its integrated platforms provide the benefits of local investment integration and consolidation, efficiency, ease of access and a connected view of banking and investing internationally.

NFB PRIVATE WEALTH MANAGEMENT

Archetype	Score	(out of 10)
Lump-sum investor	6.55	
Young professional	6.43	
Successful entrepreneur	6.27	
Wealthy executive	5.88	
Internationally wealthy family	-	

Overall

NFB Private Wealth Management has been providing clients with independent financial advice and a broad suite of products since 1985. It prides itself on simplifying the complexity of wealth management for clients.

The firm's constant investment in digital-based tools focused on client communication and engagement strategy served it well during the lockdown – which in turn spurred an acceleration in technological enhancements – so business processes were not unduly disrupted. Despite the challenges posed by Covid, the organisation grew its client and asset base; total assets under management are at R14.5bn, compared with R13bn a year ago.

NFB is also about to go live with its new online client portal which is designed to facilitate compliance and antifraud procedures. It will plug into home affairs, banks, the SA Revenue Service and international crime databases, reducing the need for paper-based processes.

The firm is proud of its staff employment record, with most of its advisory team being home-grown. The administrative team has an average of 13 years' service. This translates into strong service and relationships with clients. NFB also supports the Association for Investment SA's future independent financial adviser programme, and graduates from three and four years ago are now moving into adviser and client-facing roles.

PRIVATE CLIENT HOLDINGS

Archetype	Score	(out of 10)
Lump-sum investor	6.59	
Young professional	7.02	
Successful entrepreneur	7.02	
Wealthy executive	6.40	
Internationally wealthy family	8.60	

Overall

With a stellar performance in this year's survey, Private Client Holdings (PCH) takes the coveted award for Top Wealth Manager of the Year: Boutiques. It is also rated the best wealth manager for young professionals.

The firm came second in the wealth manager for boutiques award in 2019 but did not participate in last year's survey. This year it also takes second place in the People's Choice award for boutiques. Clearly the firm is succeeding with its focus on "nurturing wealth" for clients – all the awards are highly influenced by client ratings.

Director Andrew Ratcliffe says client relationships are based on trust, mutual respect, expert knowledge and a genuine interest in their wellbeing. "It's a successful working philosophy."

Catering for all archetypes, PCH offers a comprehensive range of services and expertise through six divisions: wealth management, portfolio management, financial services, fiduciary services, cash management and risk management.

Through its earlier investments in technology, it was able to respond swiftly to disruptions caused by the pandemic, ensuring that clients remained connected and informed. PCH has also

focused on growing its information systems team to drive innovation through technology.

PSG WEALTH

Archetype	Score	(out of 10)
Lump-sum investor	6.41	
Young professional	6.64	
Successful entrepreneur	6.64	
Wealthy executive	6.58	
Internationally wealthy family	9.00	

Overall

PSG Wealth is the Top Wealth Manager of the Year: Large Institutions – an achievement that stands out because it is the only "nonbank" company that competes in this category.

Still, PSG is a formidable player in the financial services space, and the wealth unit, which caters to all client segments, uses the company-wide resources well, with an internal referral system between specialist fields. "We are witnessing many positive results from the previous year's renewed focus on referrals between our wealth advisers, fiduciary advisers, stockbrokers and short-term insurance advisers, making sure that every client has access to a full range of specialists to construct a holistic personalised financial plan," says Dan Hugo, CEO: distribution.

In response to the chaos caused by Covid, PSG rolled out a webinar series for clients incorporating industry experts and PSG executives to address burning issues.

The firm engages with "best-of-breed" local and international partners and thought leaders to ensure "continuous evolution in the area of financial advice" and to stay ahead of evolving client needs.

SASFIN WEALTH

Archetype	Score	(out of 10)
Lump-sum investor	6.34	
Young professional	5.55	
Successful entrepreneur	5.55	
Wealthy executive	8.70	
Internationally wealthy family	8.70	

Overall

Sasfin Wealth caters to the full spectrum of client archetypes and through subsidiaries also offers stockbroking and asset management services, complemented by Sasfin Bank, which focuses on entrepreneurs.

Listed in 1987 through Sasfin Holdings, it works hard to keep evolving to meet the rapid changes of clients and regulators. Apart from additions to local and offshore model portfolios and pooled solutions, Sasfin has introduced an international private market offering that provides clients with access to alternative assets traditionally considered exclusive due to high investment minimums.

It is also building an impact investing boutique business, where achieving social outcomes is at the forefront of investment objectives. With an impact fund manager, it is developing an impact fund that targets the development, structuring and management of innovative impact solutions across the Southern African Development Community. The focus, says Johan Gouws, who heads up Sasfin's wealth advisory, will be on investments in economically sustainable businesses that are simultaneously driving inclusive growth.

On the technology front, a new artificial intelligence solution is being rolled out and the firm believes its "seamless integration" of innovation, technology and multiregional competencies helped it respond nimbly to the disruptions caused by Covid, enabling 7% revenue growth in the past year.

STANDARD BANK WEALTH & INVESTMENT

Archetype	Score	(out of 10)
Lump-sum investor	6.42	
Young professional	6.73	
Successful entrepreneur	7.27	
Wealthy executive	7.60	
Internationally wealthy family	8.40	

Overall

Standard Bank Wealth & Investment (W&I) is the top wealth manager for successful entrepreneurs and wealthy executives. The group presents a powerful Africa-wide offering that has seen it win the overall wealth management award multiple times over the years; this year it finishes second in both the top wealth manager and top private bank categories.

At the core of its approach is its "wealth quotient" proposition, designed to identify unique client requirements that cater for every stage of life for all members of the family, from cradle to grave. This ensures that children as young as 10 foster a strong relationship with money and learn how to grow wealth.

That is complemented by its "challenger" sales philosophy to

> "At the core of its approach is its 'wealth quotient' proposition, designed to identify unique client requirements that cater for every stage of life for all members of the family, from cradle to grave

GRADIDGE MAHURA
INVESTMENTS

South Africa's Award Winning FPI Approved Professional Practice™

This accreditation is awarded to Financial Planning Practices that meet the requirements set by the Financial Planning Institute of Southern Africa and gives clients peace of mind that they are dealing with a professional practice that is adhering to the highest financial planning standards.

In 2018, at the Top Private Banks and Wealth Manager Awards run by Intellidex and the Financial Mail Investor's Monthly, Gradidge-Mahura Investments (GMI) won the coveted Overall Top Wealth Manager Award, the Top Wealth Management firm for Lump Sum Investors, the Top Wealth Manager for Young Professionals and the People's Choice Award. GMI also won the People's Choice Award in 2017 and 2020.

GMI earned the Masthead FAIS compliant seal every year since it was introduced in 2015. This is an indication that the practice is run within the requirements of the relevant laws. A practice needs a minimum of 85% for every audit in the year to earn the seal.

INDEPENDENT • PROFESSIONAL • CONFIDENTIAL

Gradidge-Mahura Investments offers a comprehensive analysis-driven financial planning service for individuals and corporates.

Individuals
We offer a full financial planning service, which entails conducting a financial needs analysis and developing a bespoke financial plan. This includes Estate Planning, Investment Planning, Retirement Planning and Risk Planning (Life, Dread Disease, Disability, Medical Aid and *Short-term Insurance).

Corporates
We set up Employee Benefit Schemes which include Group Umbrella Pension/Provident Funds, Retirement Annuities, Life Cover, Medical Aid and Disability Cover. We also provide analysis and advice in Business Assurance, *Short-Term Insurance, Cash Management, Investments, Pension Fund Member Engagement, Retirement Benefit Counselling and Financial Education.

Clients benefit from our BBBEE level 2 rating.

Johannesburg 28 Fricker Road, Illovo
T 010 448 2200 F 086 212 6459 E info@gminvestments.co.za

Cape Town G4, The Courtyard Office Park, Esplanade Road, Century City, Cape Town

Top Private Banks & Wealth Managers Survey:
- Top Wealth Manager: 2018
- People's Choice as Top Wealth Manager: 2017, 2018 & 2020
- Top Wealth Manager for Lump-sum Investors: 2018
- Top Wealth Manager for Young Professionals: 2018

intellidex
Researching Capital Markets & Financial Services

FPI Approved Professional Practice™

www.gminvestments.co.za

Gradidge-Mahura Investments (Pty) Ltd Reg. No. (2008/015332/07) / FSP No. 36327
*Gradidge-Mahura Asset Protection (Pty) Ltd Reg. No. (2016/399951/07) / FSP No. 48616
**Gradidge-Mahura Asset Management (Pty) Ltd Reg. No. (2019/161429/07) / FSP No. 50549

provide clients with solutions that are unique to their immediate personal and family wealth needs.

Through this, relationship and wealth managers become a platform to clients, reaching far beyond banking, investment and lending offerings.

As wide-ranging and comprehensive as Standard Bank W&I's wealth offering is, what has impressed us over the years is its attention to detail to each element, while also bringing in emotional and psychological guidance.

It always strives to find out what matters most to clients "by understanding the dreams, goals and wealth ambitions they have for themselves and their families".

STONEHAGE FLEMING

Archetype	Score	(out of 10)
Lump-sum investor	-	
Young professional	-	
Successful entrepreneur	-	
Wealthy executive	-	
Internationally wealthy family	9.30	

Overall

Stonehage Fleming is the Top Wealth Manager for Internationally Wealthy Families. This year the award was judged solely on responses to a case study presented to the firms that participate in this highly competitive segment of the market. Stonehage's submission stood out for the extent of its expertise, globally and locally, in each area raised in the case study, enabling a comprehensive response to every issue.

Its expertise extends beyond its impressive family office offering – the firm caters to all archetypes, but because its clients don't participate in the online survey, it was precluded from competing in the overall wealth award or in the other archetypes.

Recognising the growing importance of sustainable investing, Stonehage launched a Global Sustainable Equity Fund in November 2020, replicating the equity component of the Stonehage Fleming Global Sustainable Investment Portfolios. It is also "blending" structural growth themes such as sustainability, health-care technology and China's economic growth into conventional investment management.

> This year the award was judged solely on responses to a case study

Changes that do damage

We need to know the financial implications of firms' climate-related issues, writes **Cuma Dube**


Picture: 123RF — ALPHASPIRIT

The tone from the G7 Summit in Cornwall, UK, this month suggests we should expect an emphasis on accelerating the global transition toward decarbonisation and increased pressure on financial markets to improve climate-related financial disclosures.

The G7 presidency, held by the UK, has made climate change one of its priorities and announced an agreement to mandate climate reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It will now aim for an international agreement among the G20 countries in time for COP26 in November.

Climate-related financial disclosures have come into focus because they seek to provide insight into how organisations identify, evaluate and manage climate-related risks and opportunities. Climate change has implications for an organisation's business, strategy and financial planning based on the actual and potential climate-related risks and opportunities.

For the investor, climate-related financial disclosures support informed investment decision-making and engagement with companies on the resilience of their strategies and capital spending to the transition to a lower-carbon economy. Climate risk is investment risk, and companies should disclose how their businesses will be compatible with a lower-carbon economy.

The TCFD was established in 2015 by the Financial Stability Board to develop a framework for the consistent disclosure of climate-related financial risk disclosures. The TCFD recommends four overarching thematic areas that represent the core elements of how companies do business: governance, strategy, risk management and metrics and targets.

Climate-related disclosures needn't necessarily be compiled separately.

They can be included in the integrated annual report but a scenario analysis (of how strategies might change to address potential climate-related risks and opportunities) for a 1.5°C and a 2°C scenario (these relate to temperature growth above pre-industrial levels) is included.

Global corporate climate disclosures at present fall short of what is needed to mitigate the impacts of climate change and associated financial risks. All the while, investors are becoming increasingly aware of the potential financial risk that climate change poses. In the Netherlands, Shell was ordered by a civil court to cut its CO^2 emissions by 45% by 2030 compared to 2019 levels.

Tighter regulations aimed at addressing climate change threaten at least half of the value of coal, oilfield, and gas reserves. Total wrote off $7bn of its Canadian oil sands assets in July of 2019.

The transition to a low-carbon economy, and limiting global warming to under 2°C of pre-industrial levels, could mean leaving about 80% of known coal reserves, 33% of oil reserves and nearly half of all gas reserves in the ground, putting $4-trillion in equity and $1.27-trillion in debt at risk from the transition and physical impacts of climate change. To put this into perspective, it took only $250bn in losses to cause the 2008/2009 financial crisis.

Physical risks can be event-driven (acute) or result from longer-term changes (chronic) in climate patterns.

These shifts in climate patterns may, and are resulting in, direct damage to assets or indirect impacts from supply chain disruptions.

In the agricultural sector, water quality and availability affected by climate change have profound implications, with reductions estimated between 15% and 50% in agricultural productivity in Southern Africa, according to a study led by Charles Nhemachena and a long list of people with all sorts of designations before and after their names.

Hoteliers must contend with extreme weather events that cause damage to assets and business interruption, for example changing weather patterns, which often result in higher operational costs.

This means hotel groups need to be smarter about which regions they are investing in and about their exposure to the physical risks of climate change in their growth strategies. Investors need to see that companies have reviewed their portfolios and have considered where and when to invest or disinvest to limit their exposure to the physical risks of climate change.

But perhaps the most exposed industry to such risks is the insurance industry because it would probably have to pay for much of these impacts.

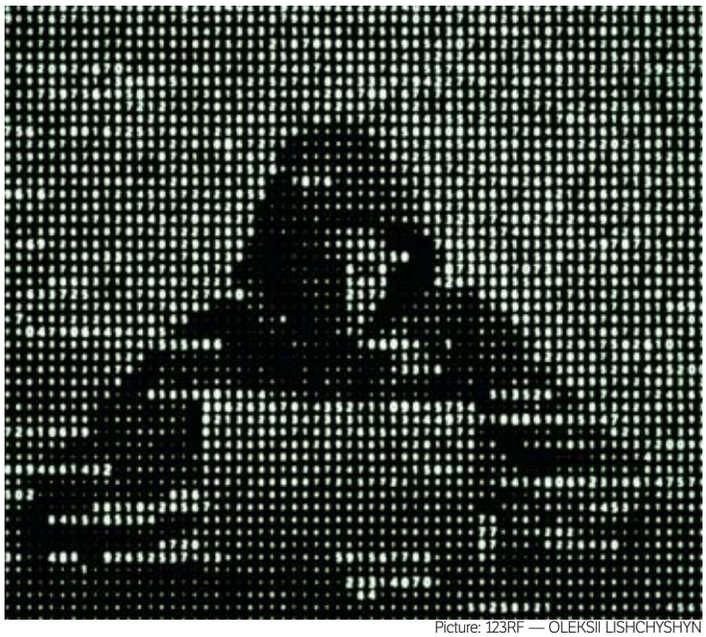
Incomplete information about risks leads to the mispricing of assets and the misallocation of capital and threatens the stability of the financial markets. We need to know the financial implications of climate-related issues to any organisation's business, particularly how climate-related issues inform investment, lending and insurance underwriting decisions, both over the medium and long term.

It's important for our shared future and – I can't stress this enough – for our money. ●

Dube is Sustainability Consultant & ESG Analyst at The ESG Guy

Investing in a safe bet

Cybercrime is another risk investors should think about, writes **Angelique Ardé**



Picture: 123RF — OLEKSII LISHCHYSHYN

A cyberattack is every investor's worst nightmare. The attack is personal yet your attacker is anonymous. You rarely know how the breach occurred or how much of your personal information your attacker has. When you suffer a financial loss, you are likely to be held liable for it.

Experts says that most cyberattacks rely on some form of social engineering. This is why your antivirus software alone is not adequate protection against cybercriminals.

Hennie Ferreira, CEO of cybersecurity company Cybadev, says social engineering was used in the deployment of one of the worst viruses yet created. Stuxnet, which is believed to have been created by the US and Israel to attack a nuclear processing facility in Iran, made its way onto the computers of its targets via unbranded USB sticks left lying around at he site of the attack.

"People inserted them into their devices to check what was on them or to get the sticks back to the owners. The virus spread from there.

"Unfortunately, there is no antivirus software that can prevent someone from sticking a USB drive into their computer, or one that can keep you from clicking on the wrong link [and unwittingly installing a virus]. It's not possible to stop these threats in any way other than by making people aware.

"Major attacks originate in social engineering," he says.

Jason Jordaan, a forensic analyst and MD of DFIR-LABS.com, says social engineering is "still the most common attack vector".

He says that while people have wised up to the risks associated with downloading files or opening attachments from unknown sources, some ransomware groups still send attachments in the form of PDF documents.

"Many organisations that get hit have very decent security. But a lot of this comes down to user behaviour."

In May, the Small Business Development Agency fell victim to a ransomware attack. It did not respond to questions relating to the number of data subjects exposed as a result of the breach, or whether data subjects and the information regulator had been notified.

Globally, ransomware attacks last year increased by 485% compared to the previous year, according to Bitdefender's "2020 Consumer Threat Landscape Report".

Jordaan says ransomware attacks have evolved over the past 18 months to include an element of extortion.

"They not only get into your system, but also copy data off your system and then encrypt it. If you don't pay the ransom, they threaten to release it in the public domain, taking things to the level of extortion. I've investigated a couple such cases," he says.

Security is not a product or a service, Jordaan says. "It's a capability – something you have to constantly be working on to keep abreast of the risks."

> "Many organisations that get hit have very decent security. But a lot of this comes down to user behaviour

Ferreira says individuals and small enterprises tend to have weak cybersecurity compared to big corporates, which have the budget to cover their cyber-risks. This makes individuals and small businesses soft targets. Small businesses are particularly "juicy" targets, he says, because they have more data than individuals.

Furthermore, he says, enterprise-grade antivirus software on the market is aimed at corporates and is therefore unaffordable for individuals and small businesses.

Cybadev aims to fill this gap in the market. The company, which was launched earlier this year, offers "next-generation" antivirus software, a virtual private network and monthly training for R195 per month per user.

Ferreira says traditional antivirus software is "very ineffective" in warding off the most common attacks.

He says next-generation antivirus software is a step up from traditional antivirus software, which relies on "signature detection".

Signature detection takes a file and runs it through an algorithm and makes a fingerprint of the file, which produces a unique signature of the file. Signatures are then stored in a database of known threats. As a file comes on to your computer, it is run through the same algorithm and database to see if it's a virus or not. If it's a virus it will be quarantined or deleted, he says.

"This used to be effective when there were not as many threats around, but now there

are billions of active threats – about 300-million new threats are found every day. That becomes a problem for antivirus software, because these databases become so big that they are not feasible. That's why one of the biggest complaints with antivirus software is that the moment you install it on your computer, it slows right down. It has to hash all the files and compare all the signatures in insanely large databases to figure out whether they are viruses or not."

Ferreira says there have been some improvements in the way databases are structured, "but it's not sustainable to solve malware".

"The other problem is you assume the threat on your computer has already been discovered. But if it hasn't been detected and placed on the database as a known virus, then your database is useless.

"To make it even more complicated, if you take a normal computer virus and go into the code of that virus, and add one space or one character, it completely changes the signature. So you can bypass signature detection very easily," he says.

Next-generation antivirus software relies on behavioural heuristics – the behaviour of programs – to detect viruses, and is "managed", Ferreira says. This means it's not a product that is merely bought and installed. "Someone has to sit in a data centre and use their expertise to discern when a threat is legitimate and when it's not.

"If it's not properly managed it will constrain your computer. Over time, the artificial intelligence and algorithms will get smarter."

Ferreira says companies that build next-generation software don't manage it themselves. They sell it to large companies with their own teams of cybersecurity experts, who manage it internally.

"What we have done is set up our own security to manage on behalf of small businesses and individuals. I think that's a first in SA. I don't know of any other players that offer real next-generation antivirus software to individuals and small businesses."

But no matter how good your antivirus software is, it alone covers very few of the threats out there, he says. What users need is ongoing awareness training.

The training that Cybadev provides to its customers is only 10 minutes a month, comprising a short video covering a particular threat, such as how to identify a phishing e-mail or how to secure your phone. It's followed by a quiz to test the participant's comprehension and the business owner sees who in their organisation did the training.

Jordaan agrees that more education and training of users are desperately needed. We all use phones and computers, which have become critical to our lives, yet we have not been taught how to keep them secure, he says.

"We've been trained to understand and appreciate risk in the physical world, but we've never received that training to appreciate risk in the virtual world. So people don't understand why they mustn't reuse their password, for example."

He concedes it's not always easy to discern a safe site from a dodgy one. Some providers have tried to address this, he says. When you go to a website, some antivirus products scan the site before it loads, because websites are a known attack vector.

But Jordaan challenges the inference by Ferreira that all traditional antivirus software is redundant.

Most products do the job, he says. Software does sometimes fail – either the threats have evolved beyond the capability of the software or the software has vulnerabilities. But it's also true that people buy antivirus products and then fail to do regular updates.

He also points out that not all antivirus software is viciously expensive. There are open-source products such as Security Onion which are free and "pretty damn decent", he says.

Jordaan says that no vendor will tell you this, but if you're running Microsoft Windows as your operating system, one of the best antivirus products on the market at the moment is Microsoft Defender.

Picture: 123RF — JAN MIKŠ

"You don't pay for it when it's part of your operating system. That platform has all the resources of the Microsoft Corporation behind it. It's not perfect, because there's no such thing."

On the subject of a managed solution, Jordaan says managed security service providers are a prominent development in the industry.

"Think of it as armed response for your house – you need some kind of security professional that's available 24/7 to monitor everything.

"When we refer to managed services, there are many levels. There are managed services where it's not actually live-managed. You might get a log file once a day or once a week. You've got to look at who is doing the analysis. Then you go right the way through to security operations centres ... where you have teams of trained analysts doing this kind of work. But that service isn't cheap.

"I can't get 24-hour armed response for my house for R195 a month."

Antivirus software is like a condom, Jordaan says. It's not 100% effective, but it's better than nothing.

"There are different types and a lot of the time it comes down to how you set it up. Security is only as good as your constant vigilance."

Mark Heyink, an attorney who specialises in laws governing information security, says good cybersecurity is about technology, process and people. "Technology is your software and systems; documented process establishes the rules of 'how to use' technology, and must be used to ensure people do the right things. While all are important, unless people know what their responsibilities are, the security is significantly weakened."

Pepkor

Hold on to quality and a strong balance sheet

Sometimes in investing you just get lucky! (Or, the more lessons you've learnt in the market, the luckier you get.)

Last August IM wrote a piece on Pepkor after the share price had fallen about 42%; we concluded that "buying good-quality counters at knock-down prices, providing that structural issues within the business haven't caused the fall in share price, has proved to be a rewarding investment strategy. Pepkor's sound business model should ensure that it not only survives the current crisis but gains market share in the medium term."

Well, the share price has rewarded investors by doubling since then.

The recent set of results for the interim period ended March 31 2021 justifies the share price performance, with strong headline earnings of 68.8c a share from continuing operations (growth of about 50.6%) and a sound balance sheet with improved cash flow, which helped reduce net debt by R8bn to R6.1bn. This reduction in debt will lessen financial risk, and the fall in the finance charge will also help boost earnings.

For the record, the interest component of the company's net finance charge fell about 53% to R326m compared to the first-half 2020 results. Pepkor's net debt/ebitda (earnings before interest, tax, depreciation and amortisation) and interest coverage ratios are well within the funding covenants.

When you consider that the comparable period (for the interim results ended March 2020) was largely unaffected by Covid, you get a sense of just how well the business did during the current period.

While many businesses have been merely trying to survive, let alone achieve any revenue growth during the pandemic, Pepkor was able to grow revenue by 8.1% to R36.5bn for the period. IM needs to point out that revenue would have been up 9.9% if you adjusted for the impact of curtailed credit granting. The group opened 108 new stores across its various brands during the period.

This growth comes despite consumers' wallets being under pressure. Cash sales grew 10.7% (likely boosted by social grants), while credit sales were down about 3.8%.

According to data provided in its recent results presentation, Pepkor has consistently grown its market share in the clothing, footwear and homeware sector since 2017. It is now 16.2% larger than it was in 2017, while the market has shrunk by about 3.1% in that time. In effect this means Pepkor has actively taken market share from its competitors.

Operating profit of R4.59bn was an 18.5% increase over the comparable period and was achieved due to effective cost control and a reduction in debtor costs during the period. Operating profit expanded across all of the group's divisions.

Despite the strong cash generated and the reduction of debt, no dividend was declared for the interim period on the back of management's strategy to strengthen the balance sheet. Dividends are expected to resume at the end of the current financial year.

The sale of the building materials division (which is treated as a discontinued operation in its financials) for just over R1bn to Cashbuild, which would have gone to further reducing Pepkor's debt, has hit a snag – the Competition Commission recently recommended that the transaction be prohibited. It is now up to both parties to put up convincing arguments to get the Competition Commission to change this recommendation and rule in favour of the deal.

After the strong run in the share price since August last year, there might be a temptation to bank some of those gains. Though there may be some headwinds, such as a reduction in the government's social grants programme, management highlighted in the results presentation that like-for-like sales across the group's brands for April and May this year were comfortably outperforming the same periods of 2019 (2019 levels are used to illustrate pre-Covid conditions). This is happening as Pepkor continues to benefit from consumer trends such as shopping closer to home, and a more value-orientated casualwear focus.

With the current reported interim headline earnings already exceeding what the group achieved at the bottom line for the full 2020 financial year, management now believes that group headline earnings could exceed what it achieved in 2019.

Headline earnings will receive the additional benefit of a lower interest charge due to curtailed debt levels, as well as savings on rental expenses due to the group acquiring some properties it currently leases from Steinhoff.

On this short-term view, the current earnings multiple will therefore unwind into the upper teens – meaning that though at the current share price the counter is not the proverbial "dripping roast", Pepkor is a comfortable HOLD in IM's opinion, due to its quality cash-generating abilities and focused strategy on strengthening the balance sheet. ●

Shawn Stockigt

The writer holds shares in Pepkor Holdings

PEPKOR HOLDINGS

It is a fashion retail conglomerate anchored by its well-known Pep Stores brand. The group, which also owns the Ackermans chain, is focused mainly on value-for-money offerings

Financial year-end: **September**
Final results: **November**

RECOMMENDATION

Sell | Hold | Buy

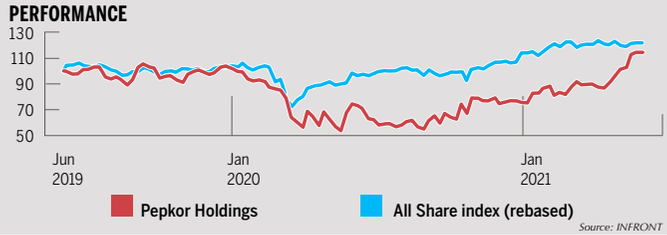
RISK

Low | Medium | High

Market cap	R74bn
Forward PE	-
Current price	**R20.09**
1-year high	R20.69
1-year low	953c
Key indicators (21 interim)	
Heps	69c
Div/share	-
PE ratio	23.2
Total revenue	R36.5bn
Attributable revenue	R2.4bn
Total assets	R100bn
Equity	R55bn

Target price: R22.00 **Upside: 10%**

PERFORMANCE



Source: INFRONT

Lewis Group

Sitting pretty, and worth a punt

It was not so long ago that Lewis was as unpopular as a furniture retailer can ever be, what with the National Credit Regulator breathing – unjustifiably, as it happened – down the group's neck.

Lewis emerged from that little skirmish with its honour intact, but the market has been slow to reassess the group's prospects.

As sentiment was starting to find some traction, Covid sent its shares tumbling. In mid-2020, Lewis shares were down at around R12.

Brave punters who scooped up the shares between May and October last year are now sitting pretty.

The latest financials will show that over the past year Lewis has proved its resilient operating model despite the first two months of the 2021 financial year being hit hard by lockdowns and trading restrictions. Covid restrictions, management noted, contributed to the business losing about R360m in sales and R250m in lost collections.

Still, Lewis reported a solid set of results for the year ended March 2021, with merchandise sales recovering strongly after its stores reopened from the hard lockdown in June 2020.

The company trades out of 807 stores across its various brands – a small increase from 794 stores in the previous year – and sales across its three sectors (furniture, appliances and audiovisual) have proved to be quite defensive during the pandemic.

The past financial year was one of two tales, with the first half seeing merchandise sales decline by 4.9%. Once lockdown restrictions eased, however, sales recovered by 17% in the second half, delivering praiseworthy growth for the full year of 6.7%.

Similar to that seen in Pepkor's recent results release, growth was driven largely by cash sales, which were up 25.9% compared to credit sales, which declined 7.9%. The percentage of cash sales moved to more than 50% of total merchandise sales, compared to 43.1% reported for the 2020 financial year.

Assisting sales growth was the high level of availability of stock (the group strategically did not cancel orders when the country first went into lockdown), as well as the introduction of new product ranges despite pandemic-linked challenges in supply chains.

Operating profit rocketed 174% on the comparable period, benefiting from a reduced debtor cost and strong cost management. The operating margin improved markedly to 17.7% from 6.9% the prior year. Diluted headline EPS came in at 604c a share, up 139% on the prior year. Considering that the group reported only 236.3c a share at the interim period, this metric gives investors a good indication of how strong the second half was.

> Last year, torrid markets proved to be the perfect buying opportunity for long-term investors

LEWIS GROUP

It is primarily a furniture and home appliance retailer through its eponymous brand as well as Best Home & Electric, Beares and United Furniture outlets. The group is the last 'pure' furniture retailer listed on the JSE

Financial year-end: **March**
Final results: **May**

RECOMMENDATION

Sell — Hold — Buy

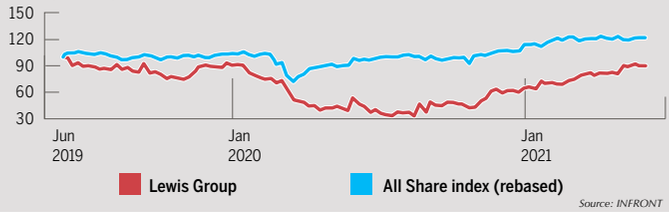
RISK

Low — Medium — High

Market cap	R2.4bn
Forward PE	-
Current price	**R32.80**
1-year high	R36.90
1-year low	R12.01
Key indicators (FY21)	
Heps	616c
Div/share	328c
PE ratio	5
Total revenue	R36.5bn
Attributable revenue	R6.7bn
Total assets	R6.8bn
Equity	R4.9bn

Target price: R38.00 **Upside: 15%**

PERFORMANCE



Source: INFRONT

An improvement in collection rates in the second half added to the quality of the debtors' book, and the level of "satisfactory" paid customers increased to 74.4% from 70.5% the previous year; it is also up strongly from the 68.5% reported in 2017.

Last year, torrid markets proved to be the perfect buying opportunity for long-term investors. In September 2020, IM wrote: "The healthy cash position on its balance sheet, together with a hefty fall in the share price year to date, does make Lewis an interesting proposition for investors."

Since then, the share price has nearly doubled and the company added value to shareholders by declaring 328c a share in dividends and buying back shares.

Despite the strong share price gains and the "easy" money having been made, the company's financial position remains solid, with gearing of only 7.4% (including lease liabilities under accounting standard IFRS 16).

Though trading conditions remain challenging, management stated in its results release at the end of May that "the sales momentum reported for the second half of the 2021 financial year has continued into the new year".

Underpinning management's confidence in the business and the share price is the continued share buyback programme. Since 2017, the company has repurchased 17.31-million shares at an average price of R27.38 a share. Since listing on the JSE in 2004 at R28 a share, Lewis has bought back 29% of its shares in issue.

The business would in all likelihood have benefited from an increase in the government grant programme and there may be some risk as this support falls away.

The company does, however, trade on attractive multiples across most valuation methods, including a historical dividend yield of close to 10%.

IM reckons the stock is still worth accumulating with a longer-term view. ●

Shawn Stockigt

The writer holds shares in Lewis Group

Astoria

Strictly for those with an ultra-long-term view

ASTORIA INVESTMENTS

It is a revamped investment company. Initially the portfolio comprised widely diversified offshore holdings, but recent corporate action has seen a distinct domestic flavour with a retail bent

Financial year-end: **December**
Final results: **March**

RECOMMENDATION

Sell — Hold — Buy

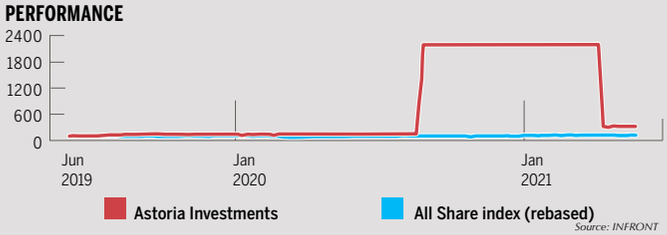
RISK

Low — Medium — High

Market cap	R236m
Forward PE	-
Current price	**415c**
1-year high	R12.59
1-year low	45c
Key indicators (FY20)	
Heps	N/A
Div/share	N/A
PE ratio	N/A
Total revenue	N/A
Attributable revenue	N/A
Total assets	R389m
Equity	R388m

Target price: 430c **Upside:** **3.5%**

PERFORMANCE



Source: INFRONT

The Astoria that is currently listed on the JSE is a far cry from the Astoria that was listed by Anchor Group as an offshore investment vehicle. It was perfectly pitched for investors petrified at the plunging rand when the company listed on the JSE in October 2015.

The dual JSE- and Stock Exchange of Mauritius-listed vehicle held a pool of R1.8bn of raised capital – predominantly to invest in offshore equities.

Its day in the sun was short as the rand reversed course, sharply affecting Astoria's underlying NAV.

That widening discount – coupled to the offshore tax structure – drew the attention of RECM & Calibre (RAC), run by well-known value investors Piet Viljoen and Jan van Niekerk, in mid-2018.

A long-running tussle ensued for control of Astoria as Anchor was getting fat management fees from the vehicle. The saga for RAC to acquire Astoria dragged on for nearly two years, but in early 2020 RAC gained control.

Anchor forfeited its management fee for a sizable sum, and many of the Astoria assets were sold and the proceeds returned to shareholders.

RAC acquired the listed vehicle and its residual cash and assets, which were worth 260c a share.

Astoria was completely overhauled in a complex deal whereby most of RAC's assets – most notably Outdoor Investment Holdings (OIH), JB Private Equity (soon to be a proxy for Afrimat), ISA Carstens, Trans Hex and Vehicle Care Group – would be injected into Astoria.

RAC would end up only keeping its main asset, the lucrative alternative gaming assets of Goldrush.

Today, Astoria trades at 415c, offering a discount of 39% on its last stated NAV of 679c a share (based on assets worth R388m).

Pigeonholing Astoria is difficult. Its collection of assets has no real thematic cohesion aside from management's view that each has significant value and their growth over time will materially increase the NAV of Astoria.

The main benefit to RAC is the tax structure of the duel-listed vehicle. It avoids capital gains tax and is in a lower corporate tax jurisdiction.

Key investments inside Astoria are small, but all have intriguing growth vectors.

The largest is a 33% stake in OIH worth R113m.

OIH is a niche hunting supplies and outdoor camping wholesaler.

One asset within OIH is another niche business, Family Pet Centre. These are large destination pet stores offering a variety of products and services. There are three stores in Gauteng, with the opportunity to expand into other large provinces to take the potential to 15 to 20 outlets.

Hunting, camping and pets are high-growth and defensive retail concepts that did well during the pandemic.

The lack of international travel resulted in more domestic outdoor leisure activities and travel, aiding another OIH asset, Safari Outdoor.

The lockdown and work-from-home norm brought an increase in pet ownership, a trend seen in many economies. That leads to increased demand for pet food and related products.

In-store footprint, ultimate revenue and profit growth within OIH look solid.

The second-largest asset is JSE-listed materials business Afrimat.

RAC sold its stake in Unicorn Capital Partners in late 2020 and took shares in Afrimat for its stake. Afrimat has risen in value by more than a third to R85m. IM sees this asset as being the RAC liquid "piggy bank", should it ever need to raise funds quickly for a transaction.

The third-largest asset is diamond miner Trans Hex, valued at R54m. This business has been heavily restructured and Covid hit the segment hard. The asset has been a bugbear of RAC shareholders for years due to its under-performance. But management believes it can return to profitability and lead to a valuation uplift.

Within the remaining assets, aside from cross-holdings in RAC preference shares and treasury functions, IM sees the 49.9% stake in Vehicle Care Group, worth R38m, as intriguing.

Its primary business is funding to second-hand car dealers. It also offers passenger cars on a long-term leasing format to consumers. A finance and insurance arm also provides services to clients. The business is innovative and targets a niche but growing segment.

IM must question if this company, as a micro cap with a market value of R246m, is one for an investor's portfolio. An inability to raise fresh capital due to the large discount hamstrings this minnow.

Clearly there are some really exciting and interesting niche businesses within Astoria.

However, IM believes potential investors must have an ultra-long-term view to consider buying Astoria.

Much of the determination will be from a belief in Viljoen and Van Niekerk's ability not just to increase NAV, but to somehow unlock value. That, though, may be beyond the average investor's timeline. ●

Anthony Clark

Spar Group

Feeling the pain in the middle class squeeze

The attraction of grocery retail is simple: people need to eat. A lucky few eat Norwegian salmon, most eat more mundane fare ... but everyone needs to eat.

The lower end of the market can be defensive, as government grants act as the underpin that keeps the shops busy. The upper end of the market has more than enough money for luxury foods, so businesses such as Woolworths and Checkers still do well in a tougher economy.

The middle class is where the squeeze happens. Woolworths doesn't feel this pain, but Spar certainly does.

Grocery retail contributes about 53% of the total SA retail market in a normal year, according to Stats SA data. In 2020, that percentage moved to 56%, as many other retail categories bore the brunt of extensive trading restrictions.

Importantly, grocery retailers weren't immune from these. Alcohol restrictions had a significant impact on Spar, in which the Tops format is key to success. Cigarette restrictions had an impact that seems to be sticky, with retailers lamenting the fact that a portion of sales has been lost to the illegal market forever.

From 2016 to 2019, the grocery market grew about 5% per year on a nominal basis. Real growth is slightly positive, in line with our national GDP. Population growth of about 1.5% per year is a useful driver of growth in this market, as are trends like urbanisation as consumers move from spaza shop environments into lower-LSM malls.

The defensive nature of grocery retail came through in the 2020 numbers. It grew 1.3% on a nominal basis (negative real growth) while the overall SA retail market shrank a nominal –4.2%. A recovery in 2021 has been slow, with the first two months of the year growing just 0.7% for grocery retail while overall retail continued to struggle, shrinking –1.6%.

Retail data provider Nielsen reckons that SA is the second-most price-sensitive country in the world. This means that grocers fight a cold war on pricing strategies and customer value propositions.

Leading retailers compete across the LSM spectrum, driving strategies like private-label penetration and supply chain efficiencies.

Recently, on-demand delivery became a key competitive focus, with apps such as Sixty60, Bottles and Dash proliferating on smartphones.

Spar serves a guild of franchisees that don't have the benefit of a co-ordinated response in tough times. There is no centralised Spar online shopping experience. There is technically a conflict of interest in efficiency gains at the centre, with Spar as the wholesaler looking to improve its own margins, which means gains may not necessarily be passed on to franchisees.

> Spar serves a guild of franchisees that don't have the benefit of a co-ordinated response in tough times

SPAR GROUP

It acts as a centralised distribution and wholesale business, servicing more than 2 400 stores in southern Africa. The group also holds investments in Ireland, South-West England, Poland and Switzerland

Financial year-end: **September**
Final results: **March**

RECOMMENDATION

Sell — Hold — Buy

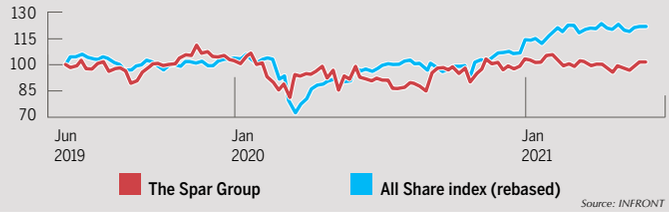
RISK

Low — Medium — High

Market cap	R36.5bn
Forward PE	14.4x
Current price	**R187**
1-year high	R213
1-year low	R161
Key indicators (21 interim)	
Heps	R6.21
Div/share (interim)	R2.80
PE ratio	14.8x
Total revenue	R64.24bn
Attributable revenue	R1.9bn
Total assets	R50.5bn
Equity	R7.6bn

Target price: R200 **Upside: +7%**

PERFORMANCE



Source: INFRONT

Spar plays the convenience retail game and focuses on locations outside large malls. The deli offer is a standard competitive advantage. Each franchisee can procure from any supplier, so store owners can tweak the range to suit the local customers.

There are clearly advantages to this approach. The disadvantages became more apparent in economic downturns, with Spar's interim results to March 2021 telling a story of a company that is losing market share at home.

The SA core grocery business grew just 0.3%. Critically, this excludes the impact of the liquor bans. The combined result with Tops is a –0.2% decline, a poor result saved only by a powerful performance in Build it, up 26.2%, in line with the DIY theme we are seeing play out in other companies.

With Build It and the SBuys pharmacy business included, Spar SA managed 3.1% top-line growth over this period. That's a concern for the company, as any market share losses in grocery are difficult to recover.

Spar has been focusing its attention overseas. Double-digit growth across the offshore footprint (Ireland/England, Switzerland and Poland) took group revenue growth to 7.5%, a far more acceptable result.

With the European businesses saving the day, Spar grew operating profit 28.1% and its dividend by 40%. Gross profit margin and operating margin increased. It all looked good, except SA still contributes nearly two-thirds of revenue and Spar's eye has been taken off the ball in a competitive market.

Investors should watch the SA core grocery number carefully. With decent prospects for growth in earnings and the dividend, there may be some upside in Spar.

The share price history suggests that Spar may be more suitable for traders than those looking for shares they can buy and forget about. The second-half dividend is historically much higher than the interim dividend, but investors would have to be patient until December to receive it. ●

The Finance Ghost

Massmart

The bright pink elephant in the room

MASSMART HOLDINGS

It operates a variety of wholesale and retail store formats, with particular focus on categories including general merchandise, liquor, home improvement and wholesale food

Financial year-end: **December**
Final results: **June**

RECOMMENDATION

Sell — Hold — Buy

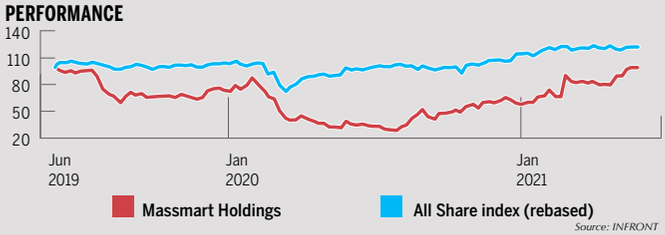
RISK

Low — Medium — High

Market cap	R14.8bn
Forward PE	N/A
Current price	**R68.00**
1-year high	R71.40
1-year low	R18.80
Key indicators (FY20)	
Heps	-426c
Div/share	Nil
PE ratio	N/A
Total revenue	R86.76bn
Attributable revenue	-R1.74bn
Total assets	R40.7bn
Equity	R2.9bn

Target price: R70 **Upside: +3%**

PERFORMANCE



Source: INFRONT

Massmart is proof that investment success is a function of company performance and entry price. There are challenges around every corner for CEO Mitchell Slape and his team, yet Massmart is trading at levels last seen in mid-2019.

Year to date, Massmart is up about 60%. There's been a great deal of momentum around this stock and those who bought in the past year must feel like they just won a TV at Game. Can this continue?

The last sales update covered the 19-week period ended May 9 2021. Year-on-year comparability is limited, as the base is full of panic buying and weirdness when you could buy TV accessories but not a TV, or certain appliances but not a treadmill.

Some balance to this equation is brought by the liquor ban we had in January, which Massmart estimates to have had a R770m impact. In other words, there's trouble in both reporting periods.

The sales growth of 10.1% in SA is difficult to interpret but seems reasonable overall. The stores in Africa are flat on a constant currency basis, which is more concerning.

Though the management team has made progress in simplifying the group and getting the businesses to collaborate, Massmart is still sitting on a couple of crown jewels and a rotten egg or two.

The shiniest jewel is Builders, which reported a spectacular growth rate of 39.4%. There are base effects for sure, but the DIY theme has played out in numerous JSE-listed companies. There's no doubt that remote working encouraged people to improve their homes.

We can't be sure where the remote working shift will settle, but we can reasonably assume that some degree of flexibility will apply. That's good news for the DIY and home improvement industry, though this growth rate clearly isn't sustainable.

Builders contributed R4.9bn of the R30.5bn group sales over this period, which is 16% of the total. In FY20, the DIY business achieved an impressive trading profit margin of 7.4% despite all the operational challenges last year.

The other jewel in the crown is Makro, reported as part of Massmart Wholesale along with some underperforming Cash & Carry businesses. Massmart Wholesale contributed 55% of group sales in FY20 and ran at a trading profit margin of just 2%. Makro achieved sales growth in the latest reported period of 16.6% but Cash & Carry saw sales decline slightly year on year.

Cash & Carry needs a turnaround. The division contributed R6.7bn of revenue in this period, or 22% of the group total. That's bigger than Builders but certainly doesn't come with the profitability to match.

Having identified one problem area, let's deal with another before we get to the bright pink elephant in the room.

Massmart is trying to sell its biggest headache, Cambridge and Rhino. The segment made a trading loss of –R364m from revenue of R8.3bn last year. That's a horrible performance before you even consider the working capital costs of nearly R1bn in net assets in the division. It's not getting any prettier either, with the trading update noting an 8.4% decrease in sales.

Other retailers seem to be biting, though Massmart shareholders shouldn't expect a great price here. Frankly, just giving it away would create value.

The pink elephant, in case you didn't work it out, is Game. The format has struggled for relevance in a world where a great deal of general merchandise shopping has moved online. The foray into food was disastrous and was perhaps the nail in the coffin for the previous management team.

With Builders and Makro as the key underpins in Massmart and with Cambridge up for sale, Game is where the group will either return to glory or linger in pain. Massmart has blamed low foot count in malls for Game's performance this year, down –3.3% in sales. Though there is some truth to these exogenous factors, the group would do well to apportion more blame internally.

At R67.65 per share and with a market cap of R14.8bn, Massmart is on a trading profit multiple of 12.6 times and there's a lot of pain below the trading profit line. If you missed out on Massmart in the past year, it probably wouldn't be sensible to try make up for it at these prices. There's a lot for the group to sort out to see meaningful share price growth from here and interim results will give investors an idea of progress being made. ●

The Finance Ghost

The writer holds shares in Massmart

> The shiniest jewel is Builders, which reported a spectacular growth rate of 39.4% ... remote working encouraged people to improve their homes

Dipula Income Fund

Put this counter on your shopping list

Investors looking to share in the spoils of the retail rebound don't necessarily have to stash their cash in the retailers themselves. If you're wary of concentration risk and you're after a high and growing dividend stream, perhaps it's time to consider a punt on the landlord instead of the tenant.

Granted, the share prices of several JSE-listed mall owners have already rallied strongly since November, but most are still trading below pre-Covid levels — and at sizable discounts to NAV.

The investment case for convenience shopping centres — smaller neighbourhood centres of between 5,000m² and 25,000m² that cater to basic needs — seems compelling, and more so for those in township and rural areas that serve lower-income shoppers.

Those have by all accounts emerged in better shape from lockdown trading restrictions than their fancier urban counterparts with restaurants, cinemas and the like.

Dipula Income Fund — whose R9bn portfolio includes 100 malls across SA, mostly smaller convenience centres — has been a major beneficiary of this trend. About 65% of Dipula's income comes from retail centres in places like Hammanskraal in Tshwane, Tembisa on the East Rand, KwaDesi in the Eastern Cape and Umzimkhulu in KwaZulu-Natal. The rest of its assets are split between offices, industrial and residential.

Dipula surprised the market this month by reporting a healthy 8.5% rise in distributable earnings for the six months to end-February. That's impressive considering that most property stocks reported an average 15%-30% drop in income for their latest reporting periods. The counter's better-than-expected performance enabled management to resume dividend payments, which were put on hold last year when the pandemic hit. This year's interim payout of 59.02c for A shares and 45.10c for B shares represent a 7.7% and 6% increase on the same period in 2019.

Dipula is one of just a handful of real estate investment trusts (Reits) that have maintained a 100% payout ratio — most have reduced it to between 75% and 85% of distributable profit to help shore up stretched balance sheets. In fact, Dipula has strengthened its balance sheet noticeably by bringing the loan-to-value ratio down by 11% to 35.7%.

CEO Izak Petersen tells IM that the pandemic has boosted demand for space in convenience centres, especially those that cater to lower-income shoppers, which have proved particularly resilient during the pandemic. "Most retailers are now chasing market share in this market segment where they can operate smaller-format stores and achieve higher trading densities [sales per square metre]," he says.

> Covid has boosted demand for space in convenience centres, especially those that cater to lower-income shoppers

Petersen refers to aggressive growth by a number of independent retailers — "bread and butter" tenants such as grocers OBC Chicken, Roots Butchery, Econofoods and Kitkat Cash & Carry. He says national retailers also continue to expand their exposure to township economies, including Shoprite, Boxer and Pick n Pay, as well as Mr Price via recently acquired Power Fashion. Truworths also plans to enter the lower-LSM market with its Primark brand.

Petersen believes Dipula's competitive advantage is that it's a long-term, pure SA play: "Our story has stayed consistent. Other Reits have gone offshore or ventured into more exotic sectors. We have no intention to do that. We are sticking to our knitting as we understand our business and our markets really well."

However, Petersen concedes that Dipula's dual share structure is a factor that may be impeding the company's liquidity and share price performance. Though both the A and B shares have more than doubled year to date, the A shares are trading at a discount to NAV of more than 20% while the B shares' discount sits at nearly 70%. "The share price is not reflective of the company's intrinsic value. I think the capital structure is holding back the company's full potential," says Petersen. "Clearly, our shares are a screaming buy at these levels."

Management is looking at ways to resolve the capital structure issue, but Petersen points out that at least 75% of Dipula shareholders need to vote in favour of converting to a single share. So it won't happen overnight.

While the B shares are trading at a larger discount to NAV and an attractive dividend yield of about 22%, analysts believe the A shares are the more predictable choice. As Naeem Tilly, head of research at Sesfikile Capital, points out: "We prefer the A share over the B share given its preferential right to dividends, solid earnings cover of about 1.6 times and attractive distributable income yield of about 15%." ●

Joan Muller

DIPULA INCOME FUND

The SA Reit owns a diversified portfolio of properties worth R9bn spread across all nine provinces, of which the majority are located in Gauteng

Financial year-end: **August**
Final results: **November/December**

RECOMMENDATION

Sell — Hold — Buy

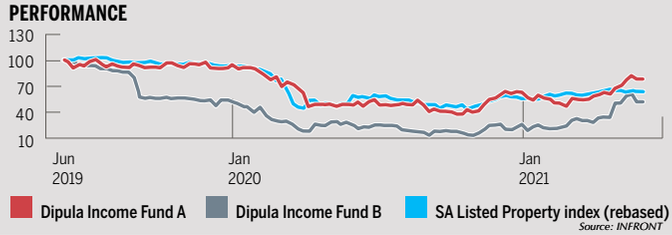
RISK

Low — Medium — High

Market cap (A & B combined)	R3.175bn
Forward dividend yield	15% (A); 22% (B)
Current price	**864c (A); 360c (B)**
1-year high	950c (A); 425c (B)
1-year low	381c (A); 90c (B)
Key indicators (HY21)	
Heps	60.01c
Div/share	59.02c (A); 45.10c (B)
PE ratio	N/A
Total revenue	R678m
Attributable revenue	R309m
Total assets	R9bn
Equity	-

Target price: R10,00 (A shares); R4.50 (B shares) **Upside: 15%; 25%**

PERFORMANCE



Source: INFRONT

WARWICK LUCAS

Digging for diamonds

Small-cap quality will outperform large-cap quality, small junk will beat large junk

Most equity market aficionados appreciate that small-cap stocks are more locked into a local economy and the economic cycle than your average blue-chip stock. So, with economies recovering post-Covid and SA's prospects improving from "bad" to "less bad", are small caps an opportunity?

The focus of many financial researchers over the past half-century has been to torture "factors" until they confess, so rendering the efficient market hypothesis invalid. I expect that in the long term they will render equity markets efficient as a result of their efforts, but for now markets remain profitably messy.

Factors are numerically specified (and should be persistent) drivers of risk and return. The most common equity style factors are: quality, size, value (low p:es win), momentum (recent share returns, like six or 12 months, win), dividend yield and volatility.

With regard to size, it has long been the belief among finance researchers and private players that small-cap shares tend to beat out large-cap blue chips, even after adjusting for their inherent riskiness. Small caps have often been the happy hunting grounds of eclectics and individual investors. All seemed wonderful for the eclectics and individuals when in 1982 financial researcher Rolf Banz produced evidence that returns on small companies indeed thrashed those of big blue chips. Apparently, sensible wasn't sensible. Almost immediately, however, the effect started to disappear, and small caps produced poor risk-adjusted returns for years thereafter.

The academic challenges against a small-cap premium were (and are) a long laundry list. Many researchers concluded that small caps weren't significant, producing small extra return of marginal statistical significance. Others argued that the size effect disappeared after its original discovery in the early 1980s, because an explosion of small-cap-based funds and indices exploited the effect.

The size effect seemed to concentrate among only the smallest micro-caps (smaller than $5m), which are impossible to trade. All of the returns from size related to the "January effect". That might be a trading case, but it's certainly not an investment one. When using nonmarket-cap measures of size (sales, headcount, asset base, and so on) the small-cap effect disappeared entirely. Many argued that returns to size is a proxy for a liquidity (or illiquidity) effect. The size is weak in international equity markets.

> "The academic challenges against a small-cap premium were (and are) a long laundry list

Those seven points would seem to leave the idea of buying small caps dead in the water.

However, everything needs to have a price, so how should that be determined for small caps? How will small caps treat their capital providers – good, bad or indifferently? Many "fans" arrive at that philosophically – intuitively you would think that small caps would have a higher cost of capital, which would result in a lower rating, but also higher returns. My philosophical reply is that I would tend to view the small-caps space as a "transit lounge" – from acorn to oak tree, but also from fine tree to firewood. Simply put, there might be some diamonds in the space, but there will also be rubbish.

I was taken by Clifford Asness's paper seeking to resolve the problem of pricing for size. He noted that small caps loaded strongly and consistently negatively on many "quality" factors.

The quality factor is generically a screen for stocks that have healthy balance sheets, sensible debt levels, robust profitability, positive growth prospects and consistently growing earnings. This perhaps is a place to quote Warren Buffett's mentor, Benjamin Graham. Graham insisted that good buys should be inexpensive, but he also did not endorse rubbish. Graham said investors should demand from a company "a sufficiently strong financial position and the potential that its earnings will at least be maintained over the years". Such companies, he said, show resilience by falling less in a downturn and recovering quicker than others.

Asness's finding was that when you sort across size classes for quality, a size premium re-emerges. Small-cap quality will outperform large-cap quality, small junk will beat large junk, and this applies to most international markets. He didn't include the JSE, but it seems to be a sensible result – if you want to play in small-cap shares, be sure to buy decent earnings. Who knew? ●

Lucas is chief investment officer at Galileo Asset Managers
Twitter @warwicklucas

How to make a small fortune

STEPHEN CRANSTON

Small-cap funds make up just R5.8bn of investment into unit trusts. And many investors will regret not investing more.

The average return over the 12 months to March 2021 was 56.3%.

There was an unusual net inflow of R101m into the sector during the March quarter as some investors got wind of these spectacular numbers.

But these funds have given just 0.4% annually over three years and 0.9% over five years.

It is hardly an opaque, speculative universe.

Momentum Metropolitan and Liberty are there. Large businesses such as Aspen Pharmacare, Woolworths, Mr Price and Sappi are all included in these funds – though all of them bounce in and out of the top 40.

There is more risk, but don't let that put you off adding one of these funds to your portfolio.

Coronation's Alistair Lea says investors who invest in small-cap funds are those who wish to benefit from the potential growth in medium-sized and small companies. They must also want to diversify their investments to include specific exposure to companies outside the top 40.

They need to accept the inherent volatility in investing in less liquid shares, as there are fewer shares trading freely in the market, which can restrict trading and amplify price movement.

And in general they should treat a small-cap fund as one of several funds in an investment portfolio.

After all, the universe includes household names – and not just chicken producers. Until recently Implats and AngloGold Ashanti were available to these funds; Nedbank recently fell into the mid-cap space.

Picture: 123RF — IQONCEPT

Such funds are primarily about getting exposure to SA industrials.

There is little of the speculative rubbish which cluttered the JSE in 1987 and 1998. There are dependable industrial businesses such as Cashbuild and Italtile, and most of the retailers, such as TFG and Massmart, form part of the universe.

One of the ironies is that smaller managers have not set up small-cap funds. With their small size they only make economic sense if they are embedded in the large managers' investment teams and provide research which the mainstream portfolios can use.

> Investors who invest in small-cap funds are those who wish to benefit from the potential growth in medium-sized and small companies

The largest funds are run by Ninety One and Abax, a large R90bn manager.

And Sanlam Investment Management (SIM), Old Mutual Investment Group and Coronation all have funds.

SIM's Vanessa van Vuuren says that in the 10 years to March 2020, small-cap returns lagged the top mid- and small-cap funds by 3% a year.

But, she adds: "Despite the recent rebound, there remain many mispriced and undervalued shares that we expect to grow into tomorrow's large caps."

SIM SMALL CAP FUND

	Return %	Rank
6 months	39.31	2 of 13
1 year	70.07	3 of 13
3 years*	6.05	3 of 13
5 years*	2.05	5 of 12
7 years*	3.34	6 of 12

*annualised return

Fund size (Rm): 349
Total expense ratio (TER): 1.79%

Source: ProfileData Fund Analytics

This fund has remained true to the principles of small caps, thanks to its relatively small size of R380m.

For example, its largest share Renergen (10% of fund) has a market cap of about R2.5bn. But co-fund manager Vanessa van Vuuren believes it is among the most exciting long-term investments she has seen. It may not be profitable today, but it has natural gas resources and helium resources, a rare and inert gas with medical and industrial application. The fund has held these shares for five years at an average entry point of R10 a share, and over the past 12 months it has leapt to R21.40.

The fund is also a holder in the last remaining contractors, Raubex (4.3%) and WBHO (3%). Co-fund manager San Naidoo says there are green shoots in the infrastructure cycle, particularly on roads, and the last men standing have a strong chance of winning a large slice of the contracts.

WBHO is still marked down by investors for its unsuccessful foray into Australia, but the SA business remains solid, says Naidoo. And the fund picked up more Raubex shares when it fell below R17 last year – it has since almost doubled to R32.

The fund's signature investments include Blue Label Telecom (4.8% of fund) and Curro (3.3%). Blue Label, Van Vuuren argues, is still perceived as little more than a proxy for Cell C, as it owns 45% of the network operator. But it has already written that down to zero. The core Blue Label distribution has a long history of cash generation.

> The JSE is a fantastic business as it is essentially a regulated monopoly which generates high returns on capital

Curro continues to grow even after a compound annual growth rate of pupils of 35% over the past nine years. It is still operating on 69% of school capacity, with the average age of campuses just five years. Van Vuuren believes the failings of the state sector will continue to drive demand.

Where it can, the fund follows the house view. It is by no means run as a silo. It can own shares which have fallen out of the top 40 index and can hold on to them even when they get promoted. So when resources were less popular, it picked up Sibanye-Stillwater (4.2% of fund) and Northam Platinum (5.9%).

Naidoo says Sanlam remains positive on the platinum group metals and in spite of the massive run they still see these shares as special situations. Northam has an excellent production profile, and Sibanye has the best exposure to palladium. ●

CORONATION SMALLER COMPANIES FUND

	Return %	Rank
6 months	35.64	3 of 13
1 year	79.42	1 of 13
3 years*	9.88	1 of 13
5 years*	8.95	1 of 12
7 years*	6.32	1 of 12

*annualised return

Fund size (Rm): 196
Total expense ratio (TER): 1.21%

Source: ProfileData Fund Analytics

In spite of the power of Coronation brand, this is the smallest of the actively managed small-cap unit trusts, though with strong performance it has grown from R110m to R130m. It is now the best performer over one, three and five years.

Fund manager Alistair Lea says it is remarkable how well many shares have recovered after the Covid-driven drawdown in March 2020. For example, Mpact, a packaging business spun out of Mondi, used its cash to buy back 15% of its shares at depressed levels. Cashbuild has benefited from the demand for building materials and is using its strong balance sheet to buy its competitor The Building Company, if the authorities permit it.

Lea says his style is to rotate out of shares that have limited upside to those with more potential, but not rotating out of good-quality shares into bad ones. In the March quarter, for example, there were new positions in the JSE Ltd, Zeder Investments and RMB Holdings, which unbundled its interest in FirstRand and is now focused on property.

Lea argues that the JSE is a fantastic business as it is essentially a regulated monopoly which generates high returns on capital, and it benefits from volatile markets. Zeder, PSG's agricultural focused investment trust, is in wind-up mode, Lea says, with an intrinsic value of R4 compared with a share price of about R2.60.

And the fund has been selling Bytes and Implats. Bytes is a powerful reseller of software, mainly in the UK, but it has reached an eye-watering p:e of 28. Implats has performed well for the fund, but platinum prices are now well above normal and Lea prefers to reinvest in lower heartbeat situations.

The fund's largest holdings include mid-caps such as RMI (3.8% of the fund), PSG (4.6%) and Nedbank (4%) – a rare opportunity for these funds to buy into a large commercial bank. Other larger shares include Spar (the largest position at 5.7%) and Distell (4.3%).

Smaller shares include AdvTech (4.6%), Metair (4.7%) and WBHO (3.8%). ●

The fund is more defensive as it has a bulwark of large-cap shares it accumulated before they entered the top 40; Naspers (12% of the fund, including Prosus today) was too small to qualify for the top 40 when the shares were originally bought.

British American Tobacco, or BAT, (about 5% of the fund) was bought when it was already big but not in the top 40.

But for the other 83% of the fund it looks similar to the rest of the sector. It is managed by Anthony Sedgwick at Abax; he also manages the sister Rainmaker Fund, so many of the views and themes overlap.

He says 15% of the fund is made up of attractively priced platinum producers: there is a chunky 9.4% position in Royal Bafokeng Platinum and 5.2% in Northam.

There is a further 15% in defensive value, through RMI, Santam and BAT, and 14% in niche financials such as PSG Konsult and Coronation.

The two largest slices both have 19% of the fund: domestic consumer, led by AVI and Italtile; and domestic industrial with

NEDGROUP INVESTMENTS ENTREPRENEUR FUND

	Return %	Rank
6 months	21.29	13 of 13
1 year	37.88	13 of 13
3 years*	-0.86	13 of 13
5 years*	0.93	8 of 12
7 years*	3.41	5 of 12

*annualised return

Fund size (Rm): 1 550
Total expense ratio (TER): 1.76%

Source: ProfileData Fund Analytics

Reunert, KAP Industrial and Hudaco.

Sedgwick says that in spite of the recent rebound in share prices, many domestic shares are still undervalued.

Santam (5.3%) has been the most disappointing performer in the fund given the ongoing uncertainty over business interruption claims, and the extent to which Santam needs to settle. But he says it has made substantial provisions already, and there will be certainty after the Supreme Court of Appeal hearing in September on what claims are valid.

RMI has also been a disappointing share, even though none of its underlying businesses – Discovery, Momentum and Outsurance – has the same issues.

But platinum has been a strong contributor, with platinum prices up 30% in the first quarter.

Abax at least sees some signs of an improvement in the domestic economy, which is why the portfolio isn't dominated by rand hedges as it has been in the past. ●

NINETY ONE EMERGING COMPANIES FUND

	Return %	Rank
6 months	29.26	10 of 13
1 year	64.43	7 of 13
3 years*	4.14	9 of 13
5 years*	-1.13	12 of 12
7 years*	-0.04	12 of 12

*annualised return

Fund size (Rm): 2 497
Total expense ratio (TER): 1.75%

Source: ProfileData Fund Analytics

This fund was once the largest fund in SA under the legendary Rhett Hammond, and it remains one of the largest funds in the sector with R2.3bn under management.

The fund has gone through several iterations, including a strong bias towards resources shares, when there was still a large universe of these shares available.

The fund is now affiliated to the Value pillar at Ninety One and is run by Andrew Joannou.

It is quite actively managed; for example, just in the first three months it acquired Netcare (its only hospital share), RMI, PPC and ArcelorMittal, and sold Momentum Metropolitan, Curro, Truworths, Adcorp and Textainer. It now has just three precious metals shares, which make up barely 5% of the fund – Pallinghurst, Pan African Resources and Royal Bafokeng Platinum.

The fund has a few unusual holdings, given its size. Hudaco is the largest share (5.9%), and it also has a large holding in Remgro (4.4%).

It has a 3% holding in its former parent, Investec, and like most of its peers it has grabbed the opportunity to buy into Nedbank (4.3%), which should be back in the large caps within 12 months. Financials now make up 20% of the fund.

Emerging Companies also owns sector favourites such as Cashbuild (5.7%) and Italtile (5.6%). Joannou says even in this economic climate these companies are both achieving at least 20% growth – the fashion for home improvement during lockdown did no harm.

The fund has a chunky 4.3% in Metair, which Joannou believes will benefit from the demand for new components on the back of Ford's planned investment in SA.

Joannou says that as a larger emerging companies fund it finds it hard to jump into a share early, and therefore a long-term value approach suits it. ●

For years this was run by Warren Jervis as a separate boutique. Now under Kaya Nodada, it is fully integrated into the MacroSolutions team, which incorporates the former Old Mutual Equities.

> The fund has a few unusual holdings. Hudaco is the largest share (5.9%), and it also has a large holding in Remgro (4.4%)

OLD MUTUAL MID & SMALL CAP FUND

	Return %	Rank
6 months	31.54	6 of 13
1 year	58.74	9 of 13
3 years*	3.95	10 of 13
5 years*	0.87	9 of 12
7 years*	1.55	8 of 12

*annualised return

Fund size (Rm): 741
Total expense ratio (TER): 1.76%

Source: ProfileData Fund Analytics

Nodada says the fund has benefited from four consecutive positive quarters in global and SA markets. The cyclical counters in the portfolio such as Motus, Reunert (4% of the fund) and Raubex prospered, though defensive shares such as RFG (previously Rhodes Food Group) lagged. But almost all company results surprised on the upside. Some did this through capital restructuring and disposals, such as Massmart (3.6%) and Omnia.

And platinum continued to provide some of the best returns; Old Mutual focused on Royal Bafokeng Platinum and Implats (4.7%).

Nodada says the construction-based holdings have been one of the differentiators in the fund. It holds contractors Raubex (4.5%) and WBHO (3.7%), as well as Afrimat (4.5%), an important supplier to the industry. He says the team has built on the holding in Italtile it inherited from Jervis and it now makes up 5.7% of the fund.

Dis-Chem is another retailer held in this fund, though not in many of its peer funds. The fund also holds a longtime Old Mutual favourite TFG (4.3%).

Taxi financier Transaction Capital (3.7%) is the largest financial in the fund. The largest rand hedge after Implats is Reinet, in which its portfolio is almost equally divided between British American Tobacco and the Pension Corp in the UK.

Nodada says the team is examining whether to start investing in hospital groups. They have the balance sheets to get through the third wave of Covid, but such a traumatic event could hit investor sentiment and reduce share prices. ●

Fund data supplied by ProfileData Fund Analytics