

WHEN THE DUST SETTLES – FOUR THEMES FOR 2018

I always find the December-holiday braai scene to be a good gauge of what is on everyone's minds. At the many that I attended over the break, there were four clear and recurrent themes which I believe have set the scene for the start of 2018.



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1. THE ANC ELECTION


After a nerve-wracking build up to the ANC elective conference in December, the country breathed a collective sigh of relief with Cyril Ramaphosa's victory. Although the optimism was tempered somewhat by the compromised nature of a number of top appointments, a number of positive steps have been taken in the past few weeks. These include credible appointments at our deeply troubled state-owned enterprises and some proactive moves by the Asset Forfeiture Unit. Encouragingly, the balance of power appears to be shifting fairly quickly and strategically away from Zuma and his cronies.

Sadly, after a decade of corruption and neglect, the institutional capacity and financial position of the state means the recovery will be difficult and there is very little wriggle room. Fortunately the base is so low, that simple actions can make a material difference - especially to confidence.

We all owe a debt of gratitude to both the independent media and brave members of civil society who have played a significant role in both exposing wrongdoing and championing good governance. My wish is that as the honeymoon period of CR17 subsides, the positive energy that has forced the change so far is channelled towards sustainable growth and inclusive nation building.

2. STEINHOFF

In early December news of irregularities at Steinhoff and the sudden departure of CEO Markus Jooste broke, triggering a precipitous decline in share price and enormous destruction in value for millions of investors. It was a stark and shocking reminder to us all that corruption is not limited to the state.



What is extraordinary is the number of experts who were seemingly misled including investors, auditors, banks, directors, rating agencies and employees. Right up until November, many executives (including the CFO and Chairman) who were significant shareholders added to their investments. A number of our Best of Breed™ managers had exposure to Steinhoff and these funds have been negatively impacted. It is likely a number of parties will litigate against Steinhoff and its auditors and, while the nature of this is uncertain, we will be sure to act in the best interests of our clients.

At the time of writing there have been frustratingly few meaningful updates other than the company dealing with liquidity issues. I assure investors that as the facts emerge, we will continue to communicate on developments as well as reflect carefully on what went wrong and what lessons can be learnt.

3. BITCOIN

I openly acknowledge that I do not fully understand the Bitcoin phenomenon. However, because I am asked regularly, I will offer a few thoughts.

Firstly, while some proponents argue that it offers a store of value to allow future transactional capability (like a normal currency), the volatility and uncertainty around the regulation seems, for the foreseeable future at least, to render this argument void. Others argue for its decentralised efficiency, robustness and lack of costs, but the reality as I see it features delays, friction costs, inefficient exchanges, hacking and numerous rule changes and copycats. Even experts I respect have not been able to convince me of a true user-case other than money laundering, exchange control and tax avoidance (which, to be fair are all big markets).

Until I learn more and am convinced otherwise, my view is that Bitcoin offers no income and is extremely difficult if not impossible to value. Buying Bitcoin is not an investment – it's speculation. My advice is, just as at a casino; only participate with money you can afford to lose. And remember, just like a casino, while the winners shout the loudest, the house always wins.

4. WATER CRISIS

Cape Town's worsening water crisis - and the likelihood that the city will reach Day Zero is terrifying. As with all good crises, the finger-pointing is rife, but the truth is that consumers, industry, provincial and national government should all shoulder some of the blame for the poor planning and insufficient activity that has brought us to this point.

Now we need to unite and become a part of the solution. This is likely to be multi-faceted with new sources of supply coming from a combination of households, government and entrepreneurial technology. While these efforts are underway, they are unlikely to be enough to avoid Day Zero unless we all reduce demand, become as educated as possible and commit to doing everything we can to contribute.

SO WHAT CAN WE LEARN FROM THIS?

Apart from being scary and potentially controversial, these braai-side conversation themes show how unpredictable things are - especially when it comes to politics, investments, technology and the environment. They also highlight how often the experts get it wrong and the impact of emotions such as fear and greed. Finally, they show us the influence of social media (think Viceroy, Bitcoin billionaires and #guptaleaks), which is likely to grow throughout 2018.

As we wait to see how these themes will develop I want to thank you for entrusting us with your savings and assure you we are committed to doing everything in our power to help you achieve your investment goals.

Wishing all our investors a prosperous and successful 2018.

Nic Andrew

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