

Quarterly Commentary

September 2018

Howard Marks of Oaktree Capital:

"Fear of looking wrong: Not only should the lonely and uncomfortable position be tolerated, it should be celebrated."

and

"A hugely profitable investment that doesn't begin with discomfort is usually an oxymoron."

In the last quarter:

- The JSE All Share declined 2.17% – and has posted a modest 4.42% over the past year, dividends included.
- The Rand declined by 3.02% against the USD as South Africa entered a technical recession.
- As we have been predicting, interest rates in the US rose, and the US Dollar is continuing its uptrend and strengthened 0.73% against other major currencies, such as the Euro, the Japanese Yen and the British Pound.
- Lesetja Kganyago, Governor of the South African Reserve Bank (SARB), announced that the repo rate will remain unchanged at 6.5% - a unanimous decision by the Monetary Policy Committee. The prime interest rate remained at 10%.
- Aspen Pharmaceuticals saw a 33.53% drop, another market darling of the bull market coming back to earth.
- MTN – plunged. One of the most widely held shares in the market has now lost 67% over the last four years, with more challenges emanating out of Nigeria. Fortunately, we have minimal exposure.

Global Emerging Markets (GEM)



No strict definition of an Emerging Market exists. In the 1970s, the term “less developed countries”, or LDC’s was commonplace, and measured, objectively or subjectively, a country’s economic status relative to developed countries, like the United States, Japan and Western European countries. The idea was that an LDC was supposed to provide greater potential for profit but at the same time, include greater risk. This is no longer the case with the introduction of the term, “emerging market” in 1981. The idea behind the name is that emerging economies are in a transitional phase, whereby a country exhibits increasing economic freedom, a more important role in global markets and significant increases in cooperation with multilateral organizations. The four largest emerging economies are the BRIC (Brazil, Russia, India and China) countries.

We feel that right now, Global Emerging Markets (GEM) are one of the best investments you can make. Investors are fleeing GEM at the moment – in their droves. And when investors start throwing away exceptional companies with strong balance sheets, trading at very good discounts, and which operate in high growth regions, we want to buy/own them. And that is how you will eventually make money in the stock market - by buying wonderful opportunities offering future income streams at an excellent price - not by chasing the most expensive and popular shares that most investors are piling into.

We are going to spend the rest of the year encouraging most clients (those clients needing an income to live upon will be treated with extreme caution) to invest a portion of their capital in Global Emerging Markets. It is not going to be easy. It is human nature to avoid investing in regions that are shunned by the markets.

We intend to achieve this by:

1. Only investing 5-10% of your capital initially and gradually increasing that to 25% over 12 months.
2. Alternatively, phasing in a monthly amount equal to 25% of your capital over a period of 12 months.

By increasing exposure to GEM *steadily*, we accomplish the following:

- We reduce risk and volatility; a phase-in may be referred to as a series of scheduled switches. The main purpose of a phase-in is to reduce the impact of market volatility. Simply, a phase-in will average out the 'buy' price of unit/shares in a particular unit trust, which in turn, will reduce the impact of market ups and downs.



Coronation Global Emerging Markets Fund

For purposes of this report we are going to concentrate on the investment opportunity available to the majority of our clients on the Allan Gray platform - the *Coronation Global Emerging Markets Fund*. This fund aims to give investors access to the best opportunities in emerging equity markets. The fund actively seeks out undervalued shares to maximise long-term growth.

Cheap Enough?



Source: Bloomberg

The stock markets of developing countries are cheap on a relative basis following a prolonged bear market. The forward Price-to-Earnings ratio - a measure of how much one pays per unit of earnings – for emerging markets is currently 11.2. This is very attractive. Chinese equities are trading at a multiple of just over 13, compared to the alarming 25 on the eve of the financial crisis.

In sum, the price you pay for a stream of company earnings in developing countries, like Brazil, India, Russia, and China (our BRIC countries) are much lower than in the developed world – and very much lower than in America. It is no secret then, that emerging markets are favoured by “value” investors – investors seeking discounts on solid stocks that have low P/E ratios. GMO, a fund-management company with a fanatical devotion to value, is overweight emerging markets and has absolutely no American equities in their discretionary portfolio. We are in exactly the same position at SecureWealth.

However, there is no law that says cheap stocks cannot become cheaper. But generally, good things eventually happen to cheap assets.

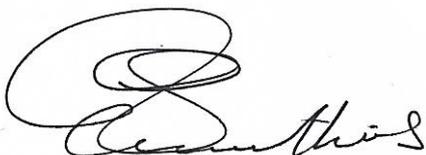
South Africa is an Emerging Market, and if and when Emerging Markets become popular with international investors, and a rising tide lifted all boats, having exposure to a global emerging markets fund will offset and even enhance your portfolio if the Rand strengthened.

We took advantage of a weak Rand this past three months and brought monies back to South Africa. Especially for those clients living off their capital and income.

In the attached addendum, please find a pie-chart of the top ten holdings in the ***Coronation Global Emerging Markets fund***. And a brief description of each company.

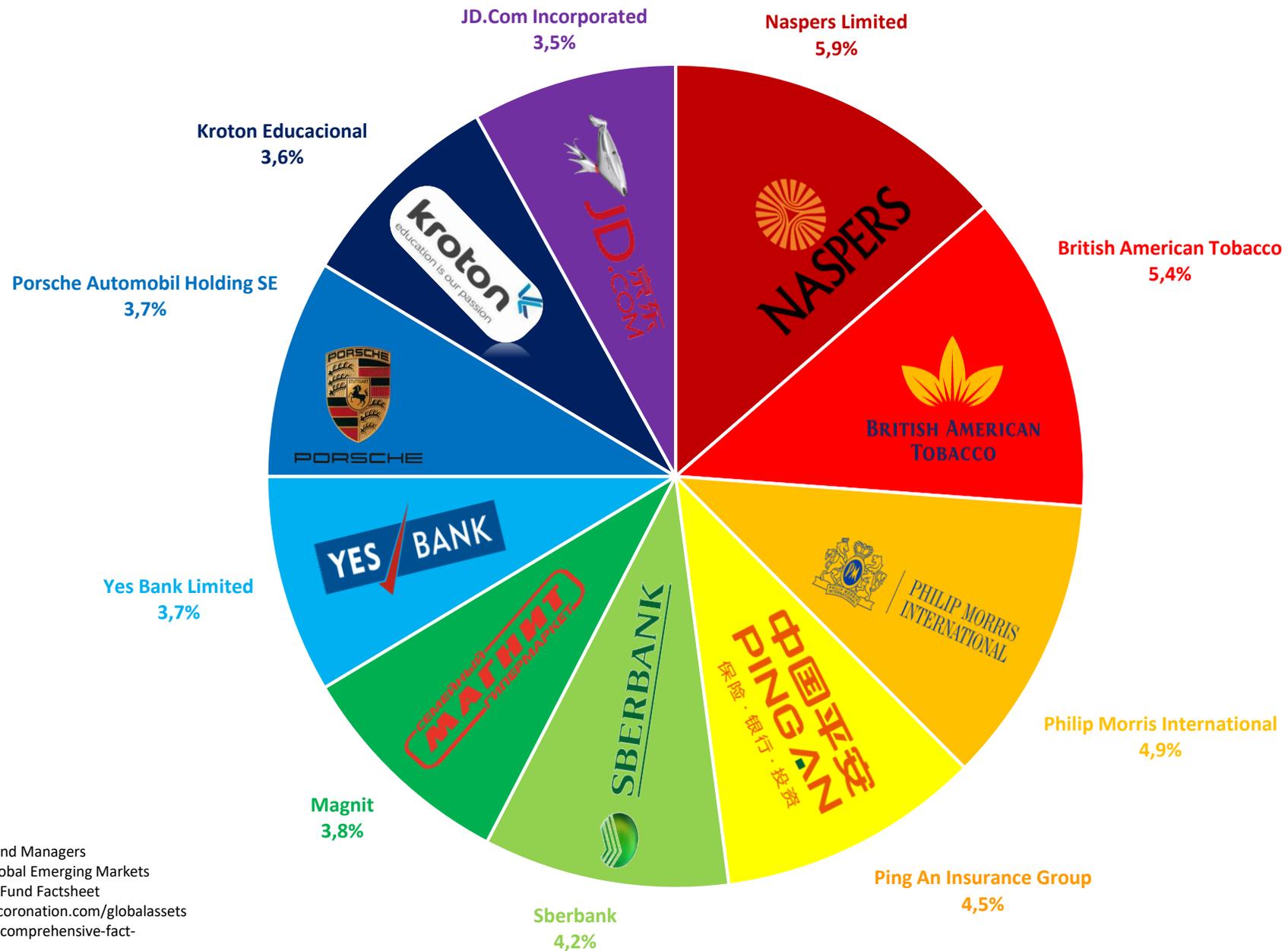
We would like to thank each and every one of you for your continued support in incredibly volatile markets.

Sincere Regards,

A handwritten signature in black ink, appearing to read "Mike Carruthers". The signature is fluid and cursive, with a large initial "M" and "C".

Mike Carruthers

Addendum: Coronation Global Emerging Markets Fund Top 10 Holdings



Source:
 Coronation Fund Managers
 Coronation Global Emerging Markets
 Flexible [ZAR] Fund Factsheet
<https://www.coronation.com/globalassets/asset-library/comprehensive-fact->

Naspers Limited - A South African based multinational internet and media group, offering services in over 130 countries. Naspers has stakes in multiple companies, including the one of the largest technology companies in the world, Tencent, and others such as DStv, Luno, @mail.ru, mnet, SuperSport, Takealot and Media24.

British American Tobacco - The largest publicly traded tobacco company in the world, based out of London and having a market-leading position in over 50 countries around the world.

Philip Morris International - The owner of the Marlboro brand, and the second largest tobacco and cigarette company in the world. Based out of the US, this multinational corporation sells products in over 180 countries world-wide.

Ping An Insurance Group - Also known as Ping An of China, this top 50 Chinese holding conglomerate deals primarily with insurance, banking, and financial services. "Ping An" translates to "Safe and Well"

Sberbank - This state-owned Russian banking and financial services giant has operations in several European and post-Soviet countries and is currently the largest bank in Russia. It is headquartered in Moscow.

Magnit - Magnit is Russia's largest food and cosmetic retailer, operating through a chain of hypermarkets, supermarkets and smaller stores across Russia. As of March 2016, the firm had over 13 thousand stores in 2400 locations and to this day, boasts significant growth figures.

Yes Bank Limited - Yes Bank is India's fourth largest private sector bank and operates mainly as a corporate bank, with retail banking and asset management as subsidiary functions.

Porsche Automobil Holding SE - this German holding company was created in 2007 by renaming the original Porsche company and has investments in the automotive industry, most notably majority voting rights in Volkswagen AG, who owns Volkswagen, Audi, Seat, Bentley, Bugatti, Lamborghini, Porsche AG and Ducati.

Kroton Educacional - Kroton Educacional is the largest private education company in the world and was founded in 1966. Based out of Brazil, it has offered educational services in all segments for 45 years, from preschool to higher and professional post-graduate education.

JD.Com Incorporated - Also known as Jingdong, JD.Com is one of the two massive business to customers online retailers in China by revenue and transaction volume. It is a Fortune Global 500 Company and rivals Alibaba's Tmall.

Note: The percentages illustrated below the stock name are their proportion in the Coronation Global Emerging Markets Fund.