THE BUSINESS UPDATE

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WHY MANAGER DIVERSIFICATION IS KEY

No individual manager will perform well all the time. It is widely accepted that portfolios should be diversified across securities, asset classes and geographies to include as many uncorrelated sources of returns as possible and to minimise the impact of short-term volatility of any of these factors.
Manager-specific risk is probably the most unappreciated diversifiable risk that investors face. It is a good idea to provide investors with an additional layer of diversification by combining asset managers with different but complementary investment strategies.

But why not simply invest in the top-performing manager? The simple answer is that the top-performing manager is highly unlikely to be the best performer all the time. The asset manager ranking table clearly shows just how volatile and unpredictable the relative returns of asset managers are over the short term. Each colour represents one of the largest asset managers in South Africa, while each column represents the relative ranking of the managers in each calendar year.

Rank	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13	Dec 14	Dec 15	Dec 16
1	Manager A	Manager D	Manager K	Manager A	Manager L	Manager B	Manager D	Manager D	Manager A
2	Manager B	Manager B	Manager B	Manager L	Manager K	Manager A	Manager H	Manager A	Manager I
3	Manager C	Manager G	Manager L	Manager M	Manager C	Manager C	Manager E	Manager J	Manager C
4	Manager D	Manager I	Manager C	Manager K	Manager B	Manager L	Manager B	Manager L	Manager H
5	Manager E	Manager F	Manager I	Manager C	Manager H	Manager D	Manager C	Manager B	Manager N
6	Manager F	Manager E	Manager J	Manager H	Manager D	Manager M	Manager N	Manager C	Manager B
7	Manager G	Manager J	Manager D	Manager B	Manager I	Manager H	Manager I	Manager E	Manager E
8	Manager H	Manager C	Manager E	Manager I	Manager E	Manager K	Manager L	Manager N	Manager J
9	Manager I	Manager K	Manager M	Manager D	Manager J	Manager I	Manager J	Manager K	Manager D
10	Manager J	Manager A	Manager H	Manager E	Manager A	Manager J	Manager A	Manager I	Manager L
11	Manager K	Manager H	Manager A	Manager J	Manager M	Manager E	Manager K	Manager H	Manager K
12			Manager F			Manager N	Manager M		

From the random distribution of colours, it is evident that it is indeed impossible to predict with any confidence which manager will be the top performer over the next 12-month period purely based on performance over the most recent 12-month period. An investor that allocated capital to Manager A based on its strong performance in 2008 would have been disappointed by poor relative performance between 2009 and 2014. If the investor capitulated in 2011 and switched out of the strategy in search of better returns, the investor would have missed out on the strong performance delivered by Manager A during that year. It does not matter when the investor made the initial investment (whether it is 2008, 2011 or 2013), the pattern repeats itself. Part of the reason for this variability is that investment strategies perform differently in different market and economic environments. Each asset manager has a unique approach to investing that gives rise to manager specific risk. An asset manager's investment strategy does not only determine how an investment idea pertaining to a security or asset class level is evaluated (e.g. focusing on earnings growth, quality of management, providing sufficient margin of safety etc.), but also determines the weight it could carry in the portfolio (extent to which the manager is willing to allocate to the idea).
Thus, different asset managers could have very different views of or positions in the same investment with the same information at hand. It is better not to try to time the market by switching between different investment strategies. The focus should rather be on combining managers that give us exposure to different sources of returns, ensuring our portfolios are not overly exposed to a particular view.

UBS Wealth Survey – by Mathew Vincent, Sunday Times & Financial Times – London

The Union Bank of Switzerland recently surveyed 2800 Dollar millionaires and asked them what stressed them out. The outcome was different between countries and age groups. In Italy it was the domestic youth unemployment, Singapore noted the risk of trade barriers, in Hong Kong the social tensions added to the stress and Japan worries about the ageing population.
Many of the people surveyed felt that they were living through the most uncertain times ever, for varied reasons, yet most remain supremely confident.

Union Bank of Switzerland

Surprisingly, 75% globally still see cash as a safe option even though it will be eroded by inflation. 7 out of 10 say that short term volatility distracts them from long term asset allocation.

Stonehage & Fleming, a family office, indicated that 71% of the wealthy families that they manage have said that capital preservation for the next generation was their main concern.

THIS AND THAT

- **SA property investors find value in 25 countries:** The South African listed property sector has seen a dramatic shift offshore with about 46% of its value in overseas markets. The largest portion of offshore exposure by market capitalization was in eastern Europe coming in at 15.9%. The south African listed property sector is now worth about R500bn and is exposed to 25 countries. About 54.3% of all property listed on the JSE are based in SA.
- **Mauritians are the wealthiest individuals in Africa** with an average wealth of $25 700 per person, followed by South Africans with $11 300 per person, per the latest Africa Wealth Report. People in Zimbabwe count as the poorest with $200 per person, while the country was also last on the list of total wealth of $3bn.
- **No more Stuttafords and Nine West.** Fashion brands Mango and River Island, plus all Nine West standalone stores will soon be no more. And local department store Stuttafords already announced that they will be closing down their last remaining store in Canal Walk by August.
- **Mediclinic** had eight hospitals among the SA's top 20 hospitals on the Discovery Health hospital survey. This made it the top-ranking service provider centered on quality of care from doctors and nurses, patient's overall experience, and hospital conditions.
- **Total CSI expenditure in SA** was estimated to be worth R8.6 billion in 2016. Education received the most support (48% of total CSI spend in 2016), followed by community development (15%) and health (9%).
- **Top 10 JSE CEO's take home average pay R24.6m per annum,** a report by PricewaterhouseCoopers revealed. CFO's walk away with an average of R13.8m, executive directors of these companies earned R7.7m. These top 10 companies account for 60% (R8.4trn) of the JSE's market capitalization.
- **Upbeat retail sales surprise market.** Retail sales for May were better than market expectations. Sales increased 0.9%, compared to the 0.2% expected for the month. The highest annual growth was reported for food, beverages and tobacco at specialized stores which was up 14.5%. Pharmaceuticals, medical goods, cosmetics and toiletries grew 5.7% and other retailers grew by 3.2%.
- **LG in numbers: 77 000** employees in **125** locations worldwide. **47.9 billion** US dollars in global sales in 2016. **4** Washing machines sold per minute.
- **Transnet National Ports Authority** reports that the number of people boarding cruise ships in SA more than tripled from 78 587 in 2007-08 to 278 421 in 2016-17. In contrast StatsSA survey released in March this year showed a decline in domestic tourism with day trips decreasing from 47.3m in 2014 to 44m in 2015.

10 WEALTHIEST CITIES IN AFRICA

Carin Smith – fin24

Four South African cities are among the top 10 wealthiest in Africa in terms of "total wealth held", per a review by AfrAsia Bank and New World Wealth.
For the purposes of the report, "total wealth" refers to the private wealth held by all the individuals living in each city. It includes all their assets - property, cash, equities, business interests - less any liabilities. Government funds are excluded from the figures used.

Johannesburg came out top of the list with total wealth held in the city of $245bn. The city is home to 18 200 so-called high-net worth individuals (HNWIs) - in other words those with wealth of $1m (about R13m) or more. The city also has 970 so-called multi-millionaires - those individuals with wealth of $10m (about R130m) or more and two billionaires with wealth of $1bn (about R13bn) or more. Major sectors in the city include financial services, professional services (law firms), construction, telecoms and basic materials.

Cairo in Egypt, with total wealth held in the city of $140bn is in second place. It is home to 8 900 millionaires, 480 multi-millionaires and 5 billionaires. Major sectors in the city include real estate and construction, financial services and basic materials.

Third on the list is **Cape Town** with total wealth held in the city of $135bn. It is home to 8 200 millionaires, 440 multi-millionaires and 2 billionaires.
Major sectors in the city include real estate, financial services (fund management), retail and tourism.
The report found that Cape Town is also a second home hotspot for the wealthy with over 1 500 multi-millionaires living in the city during peak holiday months. Many of these individuals are from outside South Africa.

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