



INSIGHT

Investment perspectives from the Harvard House Group

THE FOREIGN PERSPECTIVE

... through the eyes of foreigners...

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Harvard House Investment Management

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Ad break...

Can Harvard House compete?

Unit Trust Rank	2 year	3 year	5 year	7 year	# Funds
General Equity	17	5	13	17	± 170
Flexible income	3	2	2	6	± 80

A real life story



Investment Insights

Author: Patrick Cairns | 21 May 2014 00:05

SA's least volatile equity unit trusts

Looking for the best risk-adjusted return.

Can Harvard House compete?

A real life story

South Africa equity general funds Sharpe ratio to 30 April 2014

Fund	Sharpe ratio	3-yr standard deviation	3-yr annualised return	TER
Mazi Capital MET Equity Fund	1.89	8.64	22.72%	0.98%
PSG Equity Fund	1.73	9.27	22.33%	1.76%
Sasfin MET Equity Fund	1.71	8.94	21.55%	1.54%
Foord Equity Fund	1.68	10.19	23.48%	1.86%
Harvard House MET Equity Fund	1.67	9.60	22.40%	1.47%
Imara MET Equity Fund	1.55	9.27	20.60%	1.73%
Ashburton Multi-Manager Equity Fund	1.52	8.53	19.12%	1.56%
Stewart Macro MET Equity FoF	1.51	9.19	20.08%	2.49%
Stanlib Equity Fund	1.49	9.52	20.45%	1.25%
Aylett Equity Prescient Fund	1.44	8.13	17.76%	1.77%

“Some would argue that these were really South Africa's ten best-managed equity unit trusts over the last three years, and not the ten that appear on the first list that ranks them only by performance. **By generating strong returns without attracting high levels of volatility, these fund managers have ultimately given investors the best balance between risk and reward.**”

The scenario

 Why Medi-Clinic declined by 4% when Jaideep Khana's wife twisted her ankle ?

Offshore investors

Who are they?

-  They own 27% of SA shares
-  They constitute 45% of trade
-  They buy when locals are selling and sell when locals are buying
-  Operate macro and sectoral trends
-  Make decisions based on global comparatives

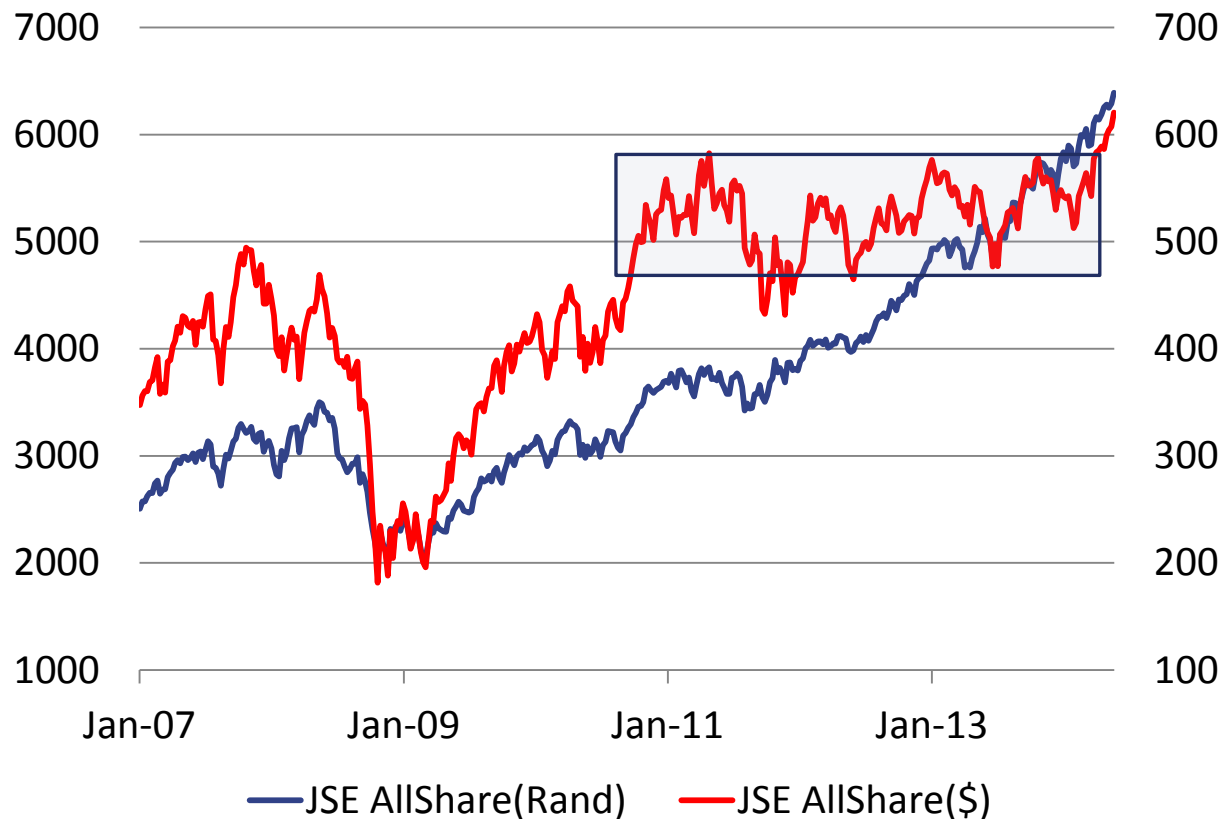
The average offshore investor

GEM fund manager (20 that really count)

-  Covers 17 countries (>1,000 companies)
-  Gets in and out of shares quickly (a day!!!)
-  Invests in themes
-  Trades in baskets
-  Owns big %'s of SA investments
-  SA is 8% of the index - Underweight or overweight
-  Concerned about returns in dollars

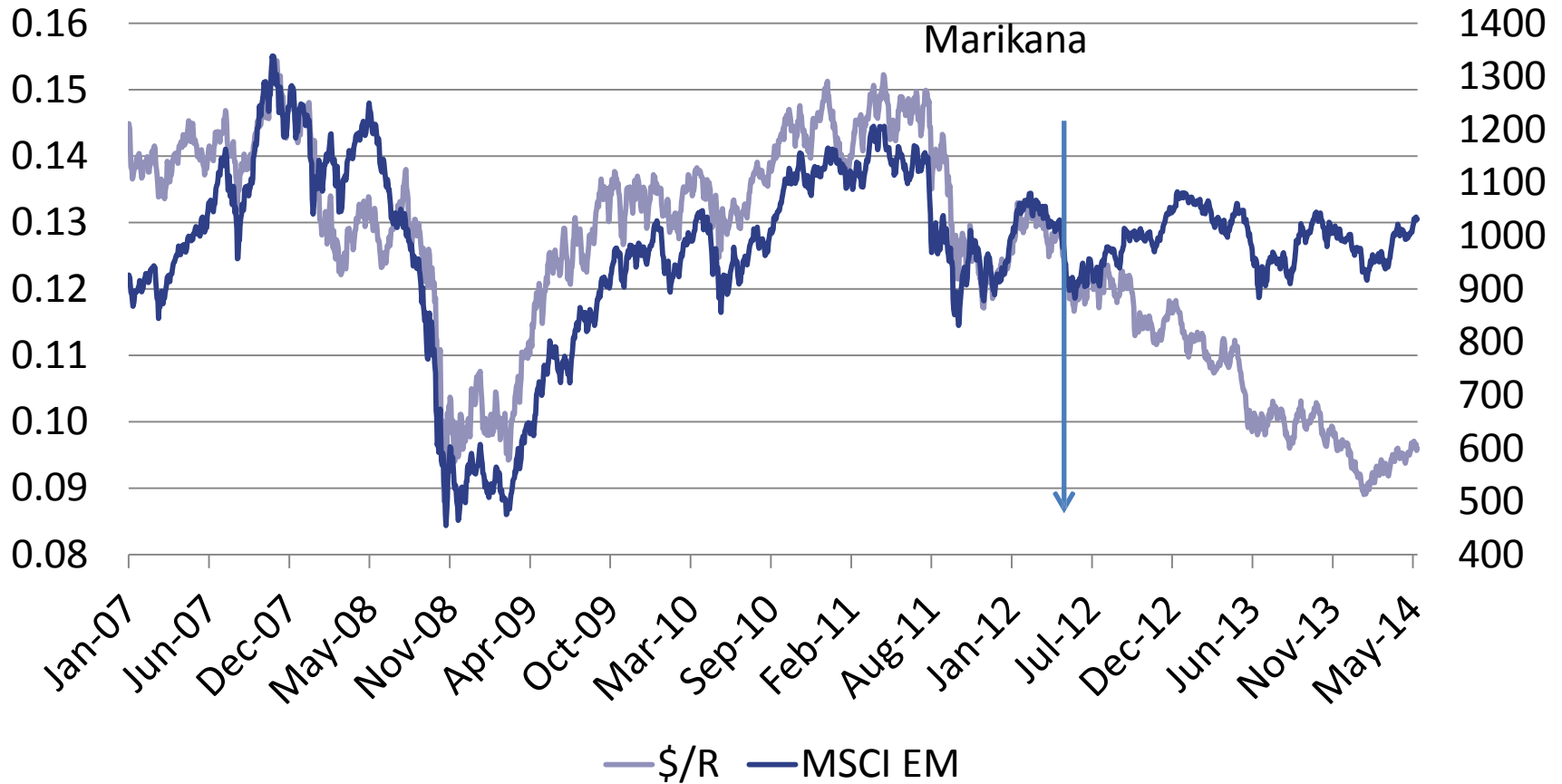
R vs \$ Performance

JSE Total return index

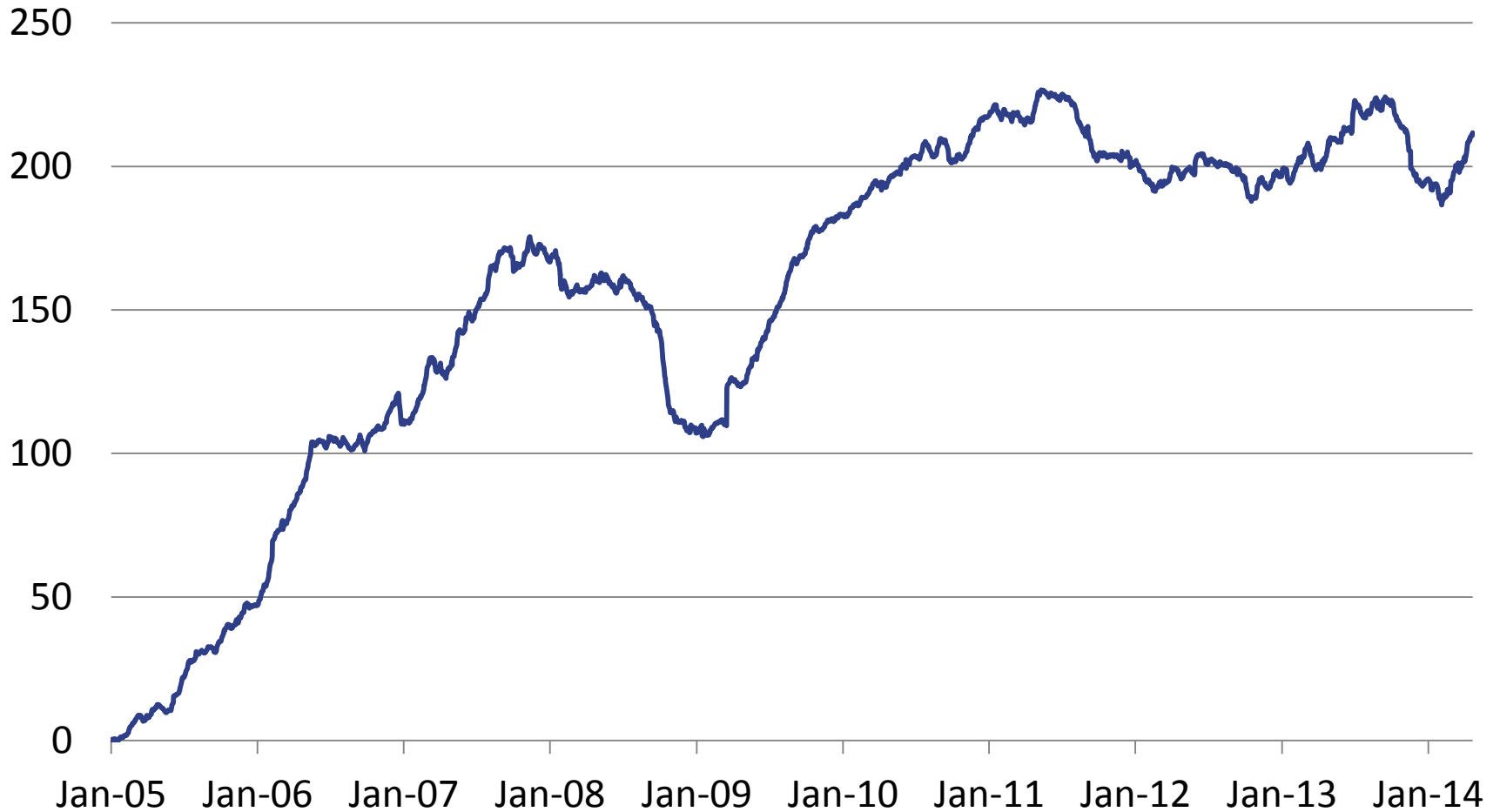


JSE All Share performance		
	Rand	US\$
2008	-25%	-44%
2009	35%	65%
2010	19%	32%
2011	5%	-16%
2012	27%	21%
2013	21%	-3%
2014 (ytd)	9%	13%

Rand vs MSCI Emerging market

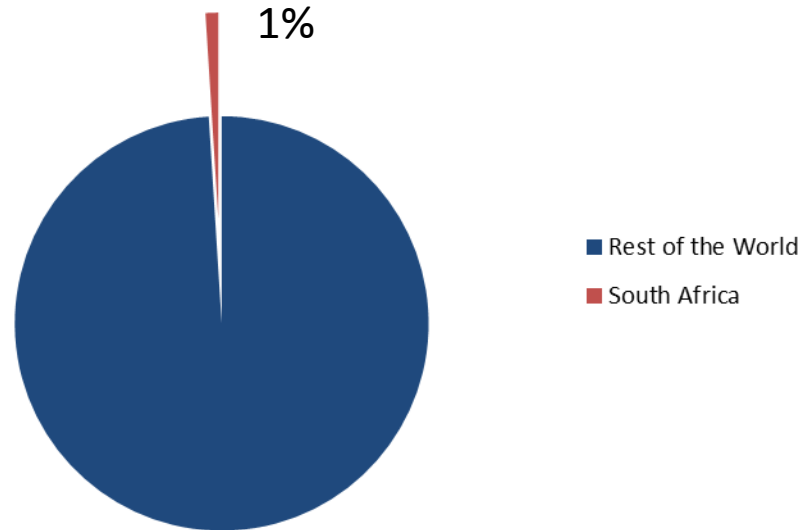


Cumulative Net Foreign Equity Purchases



SA in context

 South Africa as % of global market cap



SA All Share constituents

 Top 15 shares = 68%


 Top 25 shares = 77%

	Share	Weight	Cumulative	
1	BHPBILL	11.7	11.7	
2	COMPAGNIE RICHEMONT	9.0	20.7	
3	SAB	8.1	28.8	
4	NASPERS -N	7.6	36.4	
5	ANGLO	6.0	42.4	
6	MTN GROUP	5.8	48.2	
7	SASOL	4.8	53.0	
8	BRITISH AM TOBACCO	2.7	55.7	
9	OLD MUTUAL PLC	2.5	58.2	
10	STANBANK	2.3	60.5	
11	SANLAM	1.6	62.1	
12	FIRSTRAND	1.5	63.7	
13	STEINHOFF	1.5	65.2	
14	REMGRO	1.5	66.7	
15	ASPEN	1.3	67.9	Top 15 shares = 68%
16	ANGLOGOLD ASHANTI	1.2	69.1	
17	BIDVEST	1.1	70.2	
18	MONDIPLC	1.1	71.3	
19	SHOPRITE	1.0	72.3	
20	IMPALA PLATINUM	1.0	73.3	
21	WOOLIES	0.8	74.0	
22	INVESTEC PLC	0.8	74.8	
23	TIGERBRANDS	0.7	75.5	
24	GROWTHPOINT	0.7	76.2	
25	B-AFRICA	0.7	76.8	Top 25 shares = 77%

SA earnings from All Share Members

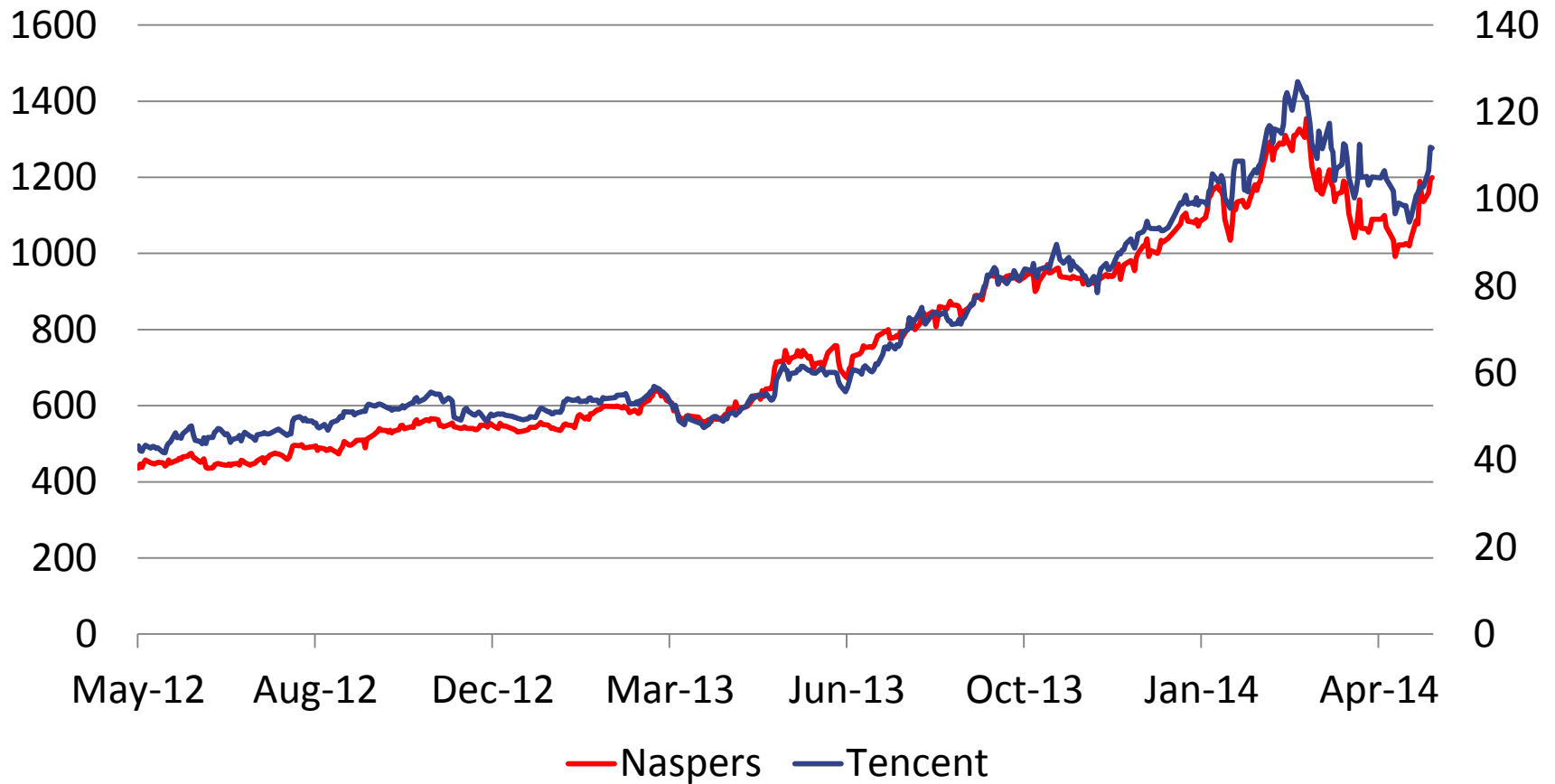
 SA is an emerging market proxy

 Only 21% SA earnings by market cap

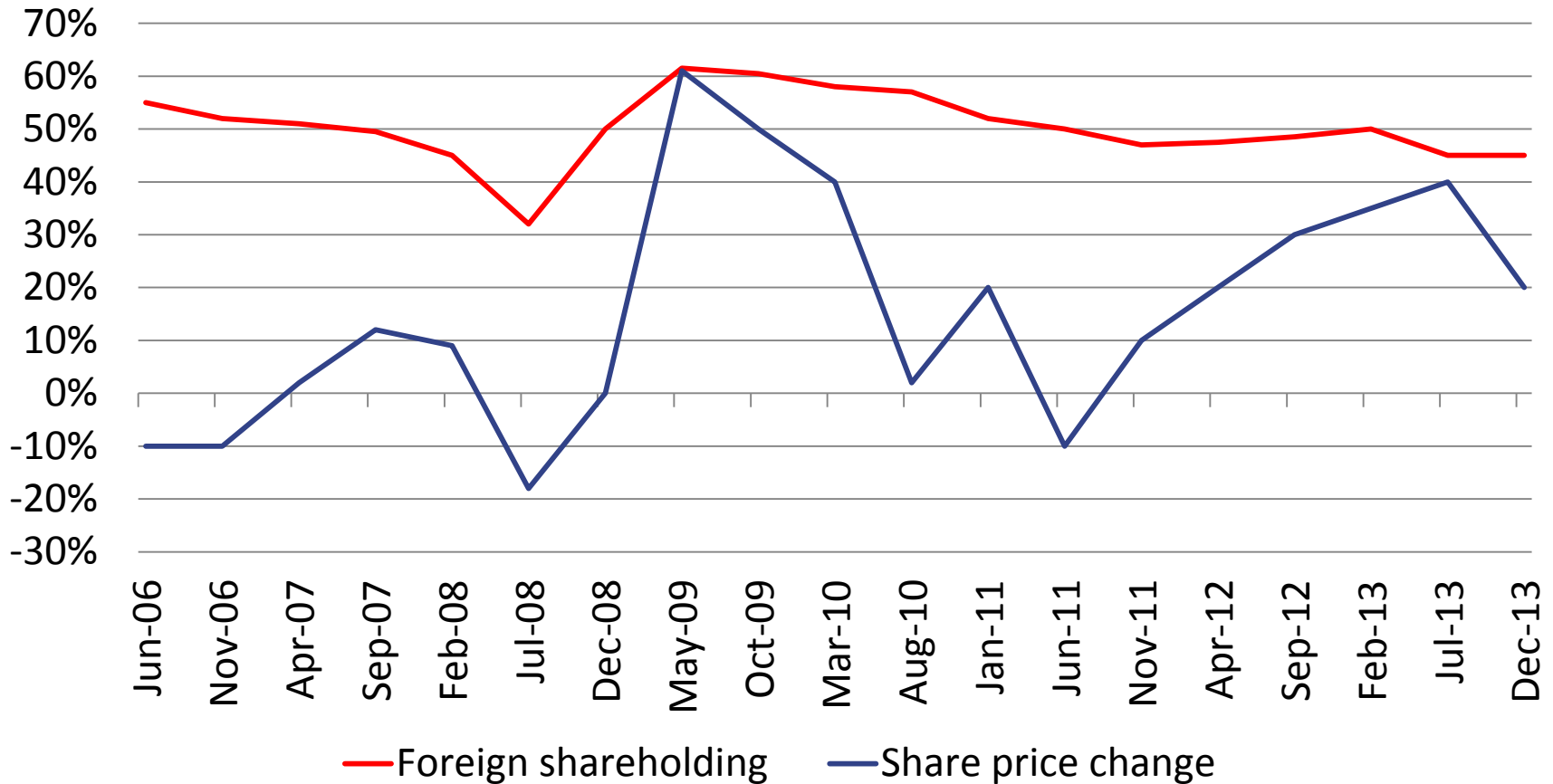
 *But, as a “local” can’t ignore “foreign”*

Share	Mkt cap JSE Rbn	% SA earnings	Driver of earnings
BAT	1 092	2%	EM
SABMiller	832	25%	EM
BHP Billiton	707	10%	EM
Richemont	567	1%	EM
Naspers	491	30%	EM
Anglo	382	15%	EM
MTN	369	25%	EM
Sasol	344	25%	Global
Standard Bank	189	80%	SA
Firststrand	176	90%	SA
Vodacom	174	78%	SA
Old Mutual	159	45%	Global
Kumba	148	0%	EM
Amplats	119	0%	GM
Aspen	116	30%	Global
Market cap Top 15	5866		
Market cap All Share	8873		
Top 15/All Share	66%		
Weighted SA earnings		21%	

Example 1: Have to follow global internet



Example 2: Aspen ... foreigners drive the share



Example 3: Famous Brands



Starbucks



Yum!

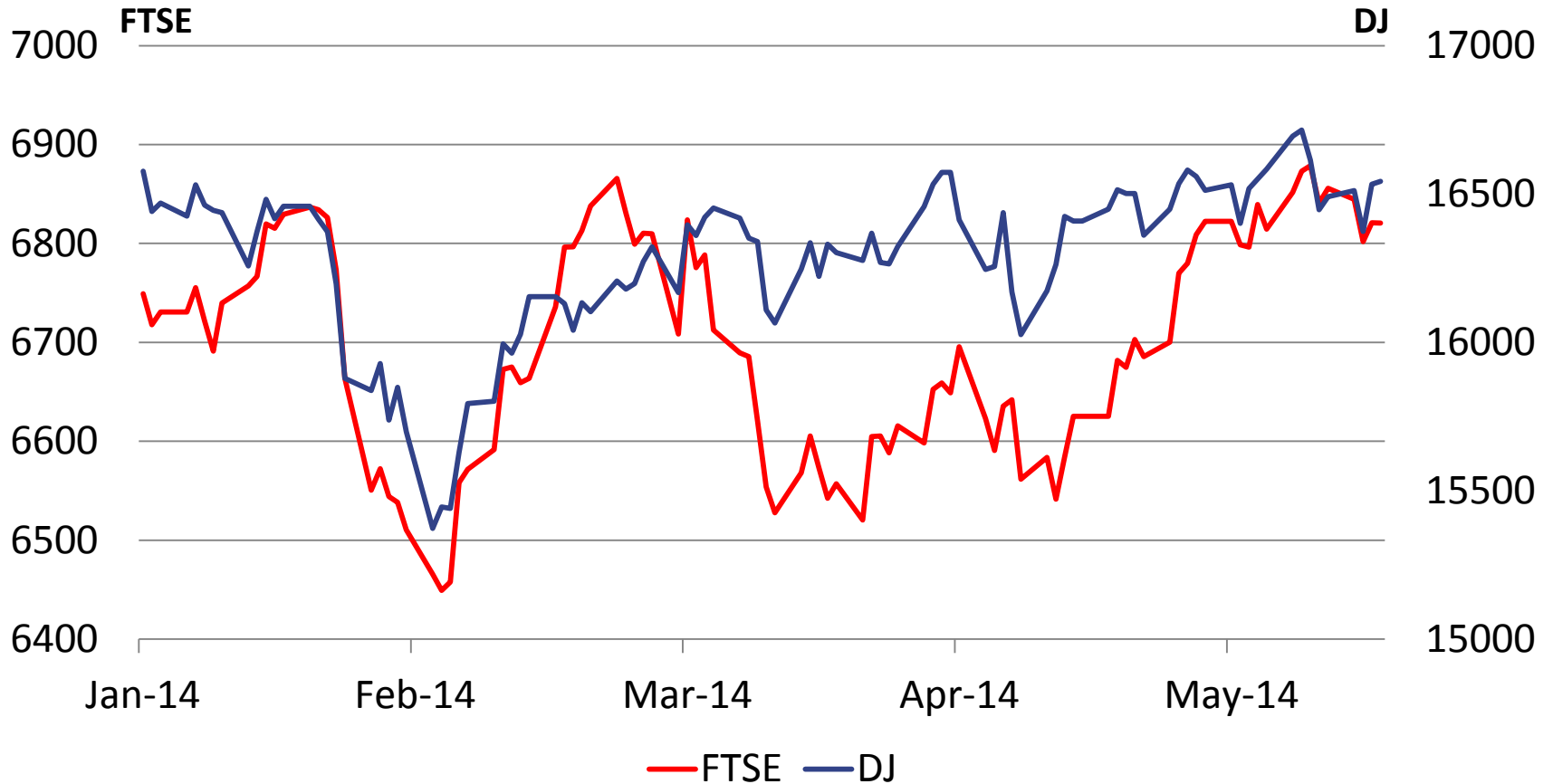
	2014	2015
Bloomin Brands	19.6x	16.4x
Brinker	14.2x	12.7x
Cheesecake Factory	17.4x	15.2x
Darden	16.5x	15.2x
Dine Equity	15.7x	13.6x
Texas Roadhouse	19.6x	17.3x
Arcos Dorados	24.0x	14.7x
Chipotle	30.1x	25.3x
Domino's	23.2x	20.7x
Dunkin' Brands	24.4x	21.4x
Mc Donald's	16.5x	15.2x
Starbucks	25.6x	21.5x
Tim Horton's	17.3x	15.6x
Wendy's	26.0x	21.3x
Yum!	19.3x	16.3x
Sysco	15.8x	13.1x
Average	20.3x	17.2x
Famous Brands	21.0x	18.0x
Spur Corporation	16.0x	13.5x

Turning it around

What is happening in their markets?

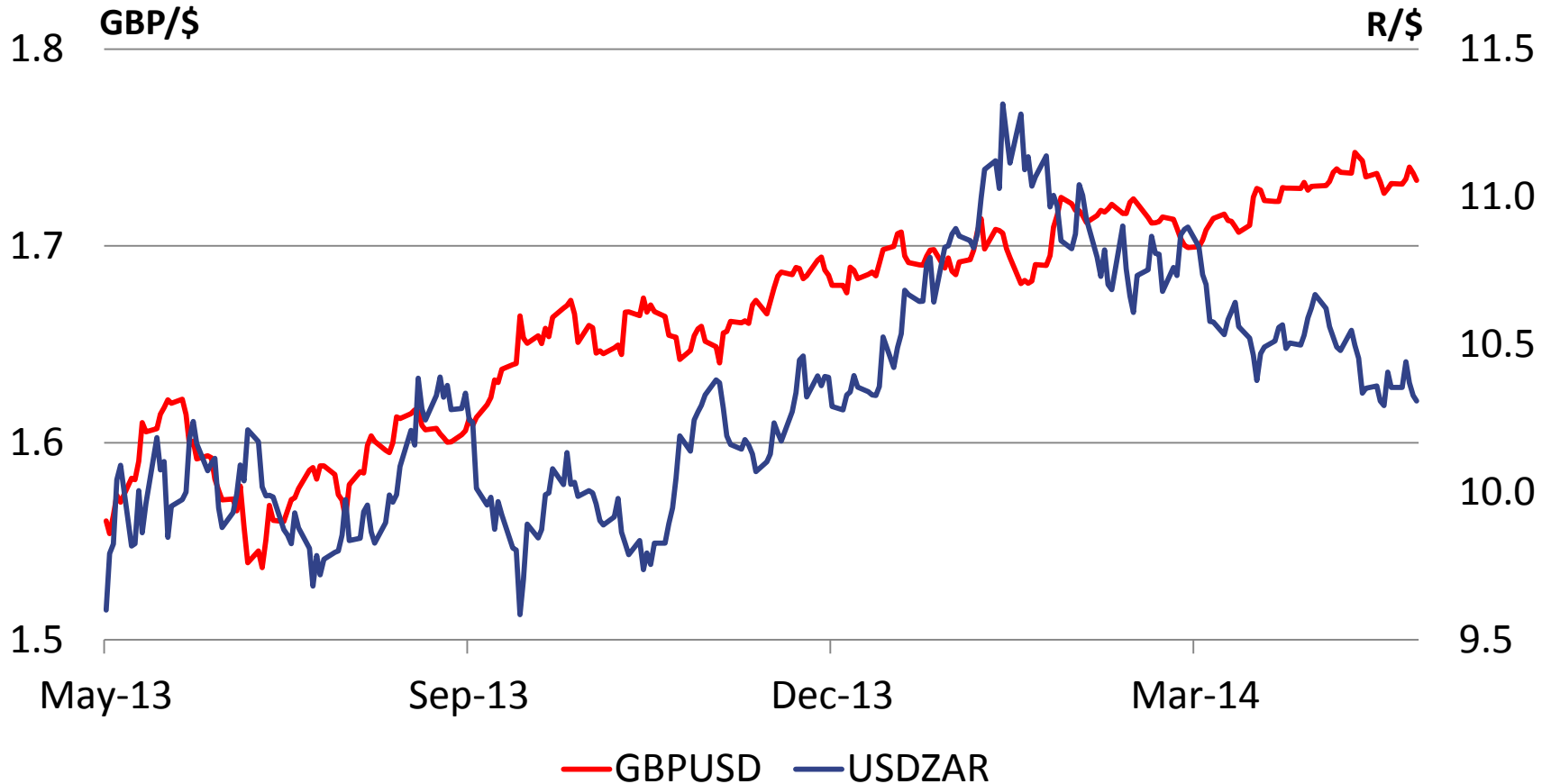


Offshore: no performance as yet ...



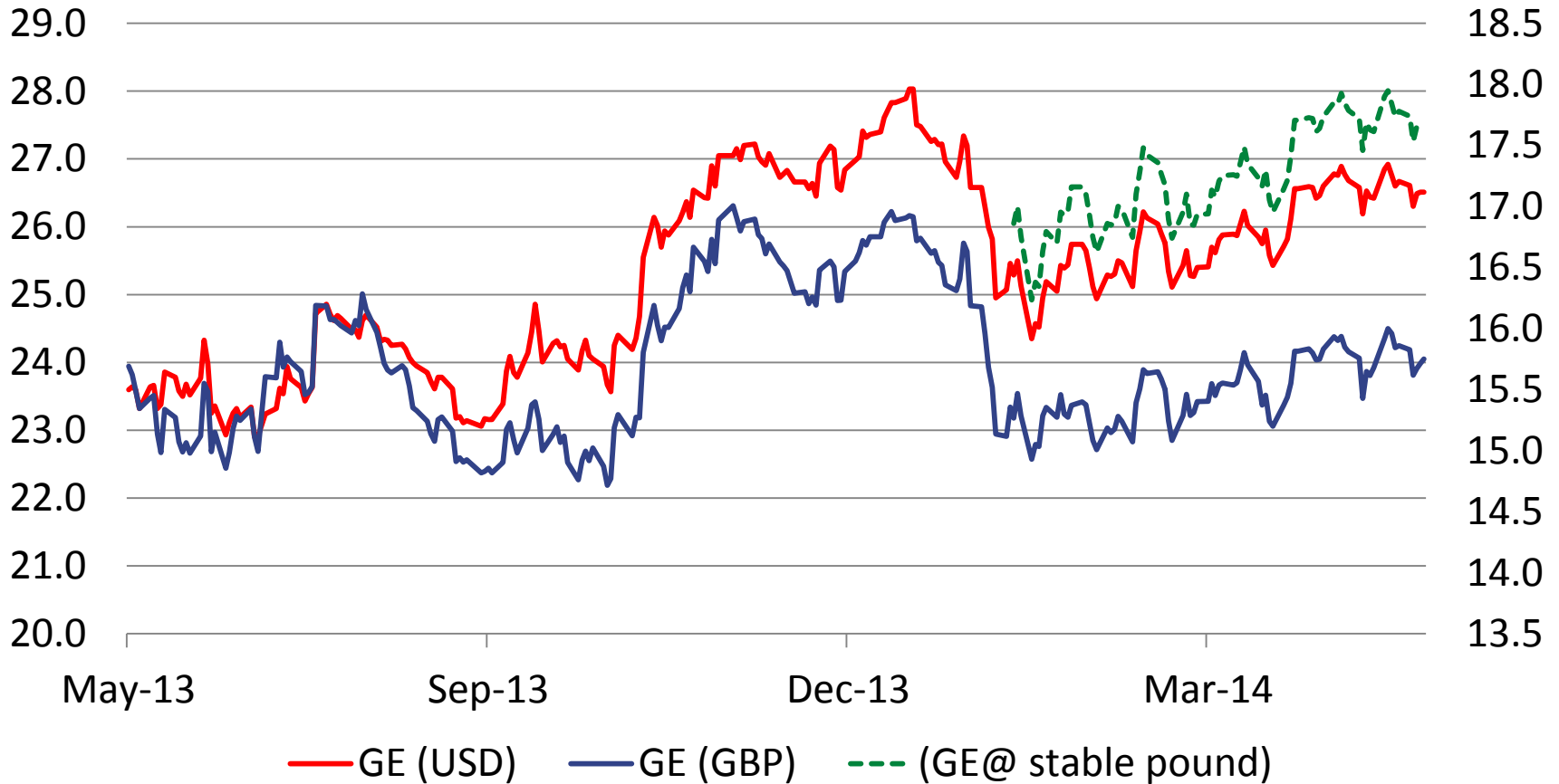
... and currencies having a field day ...

Substantially strong Pound and sudden strength in Rand




The translation effect ...


If Pound was “normal” ... say at 1.5, almost 12% better off on GE share



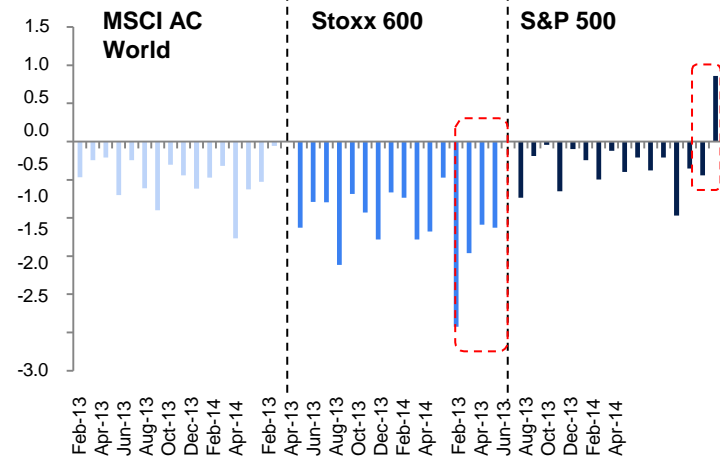
Offshore outlook

 p/e might be high, but consistent with averages

 Earnings are coming through

 Helping to stabilize markets is the fact that US earnings proved to be better than feared (78% beat ratio) and Europe's Stoxx 600 has started to see aggregate earnings upgraded (small) for the first time since Q1'12.

Earnings expectations disappointed in Europe, though they are turning in the US



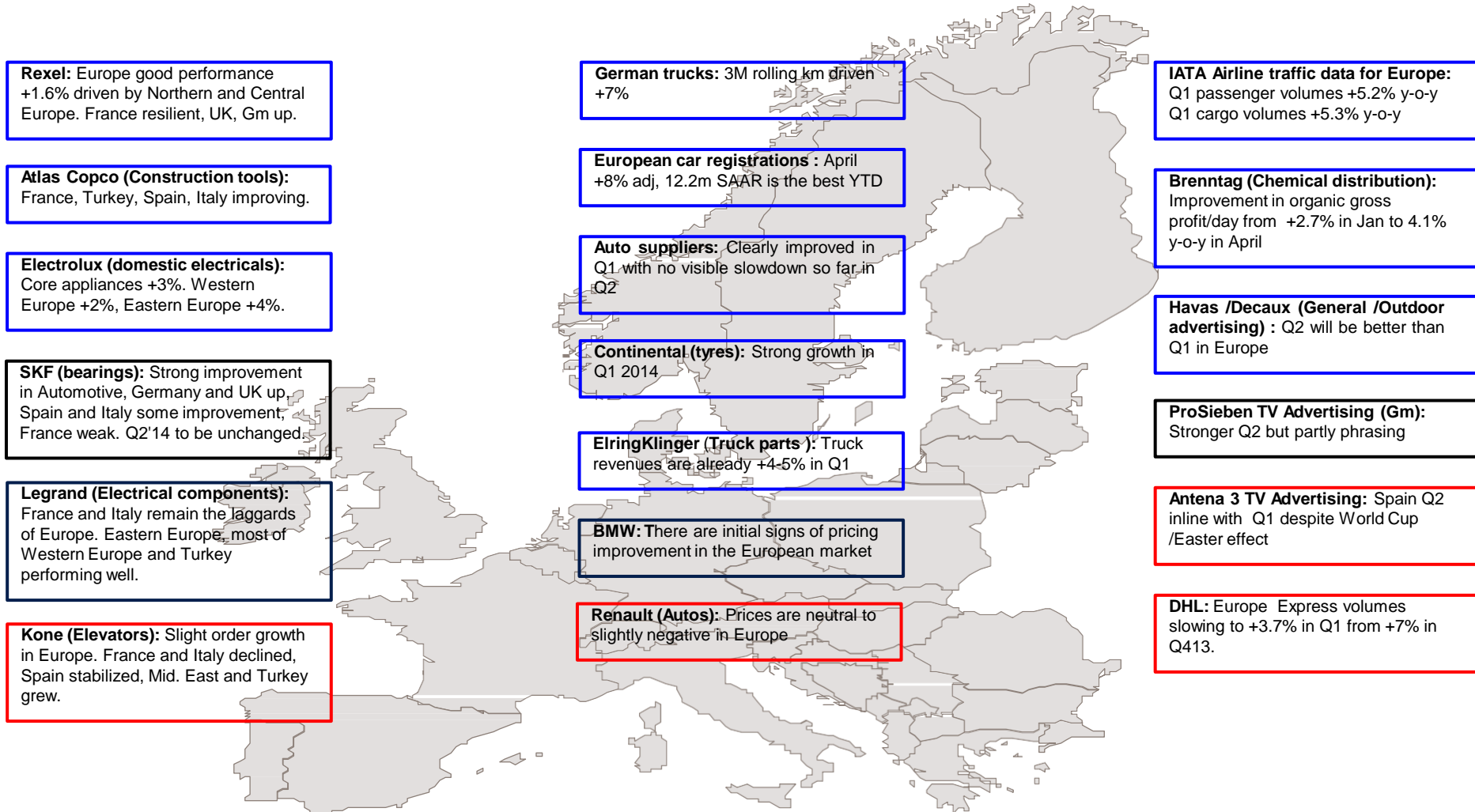
Source: IBES, Deutsche Bank, Datastream

Offshore outlook

Slow but promising

	Macro View
US	General economic stats improving (housing starts&sales, durable goods orders, ISM's higher)
Europe	Europe to surprise positively on stronger credit impulse spurring Eurozone GDP to 1.5%
Japan	Economy to move towards steady 2% nominal GDP growth with inflation turning positive, bond yields increasing & JPY further depreciating.
Asia	GDP to accelerate above expectations on combination of stronger external demand, reforms & higher fiscal spending.

Q1 Outlook statements suggests a slow but steady upturn, despite pockets of weakness



Source: Deutsche Bank



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Q & A

Please feel free to ask questions

Thank you for listening

JULY 2013

