Trendline

Third quarter 2021

Overview

- The **global developed equity market**, represented by the MSCI World Index, sold off some 4% in **USD** in September giving up all gains earned in July and August. This ended seven consecutive months of gains from this index. While coming in flat at -0.01%, this developed market fared substantially better than the overall emerging market (MSCI Emerging Market Index) which retracted -8.1% over the quarter amid significant Chinese headwinds and inflation concerns.
- The September downturn and sell-off in all three of these equity markets can largely be attributed to the more hawkish stance of central banks and their concerns of deepening inflation, sluggish economic recovery, and tightening Chinese regulation.
- Severe cash-flow concerns at China's second largest property developer, Evergrande, triggered global liquidity concerns and raised questions about the health of the Chinese economy.
- **China's** decision to further curb their gaming sector added to investor uncertainty, especially after the alarming ramifications of their EdTech regulation changes.
- The **local equity market**, as represented by the Capped Swix Index outperformed both developed and emerging markets in base currencies over the quarter, returned +3.2%.
- This performance was primarily driven by strong Financials (+12.7%) and Listed Property (+5.9%). Local banks reported relatively robust balance sheets and stronger than expected earnings.
- Industrials were the largest detractor (-4.3%) from local equity market performance over the quarter as investors tried to digest the impact of Chinese regulations.

- Resources declined -3.8% over the quarter, driven by the sell-off in iron-ore counters as China cut steel production forecasts, while platinum, palladium and copper counters hurt on the back of subdued vehicle production amid electronic chip shortages.
- The **local property market** continued its recovery up +5.9% over the quarter. The outlook for local property remains volatile amid the uncertain shift in demand as we enter the post-pandemic era.
- Local markets were still recovering from the July unrest that took place following the arrest of former president Jacob Zuma.
- The increase in US reported Covid cases along with weaker-than-expected US retail sales and deteriorating consumer sentiment has added to market jitters.
- **Global inflation** signals persisted as elevated levels of consumer spending continue to collide with supply shortages across the world. It is likely that inflation will abate to some extent in 2022, as we expect supply-side disruptions to be resolved.
- **Nagging inflation** concerns have pushed bond yields up and re-ignited concerns that central banks may raise interest rates and moderate monetary stimulus sooner than previously forecasted.
- **UK's** relatively significant increase in monthly inflation of +0.9%, whilst large, is likely to be temporary, due to base effect.
- The local bond market (ALBI) delivered +0.4% for the quarter lagging local cash (STEFI) +0.9%, as increased bond yields pulled longer duration bond prices down.

Investment market returns as at September 2021

Investment market returns (%)	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity Market	3.19	16.92	30.34	6.49	5.02	5.56	10.61
Local Property Market	5.94	26.39	54.43	-6.77	-5.64	-0.34	5.46
Local Cash	0.95	2.80	3.80	5.77	6.43	6.53	6.21
Local Bond Market	0.37	5.38	12.46	9.08	8.51	8.18	8.27
Offshore Developed Market USD	-0.01	13.04	28.82	13.14	13.74	10.50	12.68
Offshore Emerging Market USD	-8.09	-1.25	18.20	8.58	9.23	5.62	6.08
Offshore World Bond Market USD	-1.24	-5.93	-3.33	3.73	1.35	1.74	1.06
USD / ZAR exchange rate	5.46	2.67	-10.58	2.06	1.67	4.21	6.65

All returns greater than 1 year are annualised. All returns are gross of fees.

My Will. My estate. My way!

Covid has resulted in many of us considering our mortal existence far more seriously, and has caused many people concern about what to do with the money and assets which they have accumulated over their lifetime - their Estate.

Each one of us has the opportunity to - without too much fuss, and in most cases for free - draw up a Will, which will leave instructions about what we would like to happen to our Estate.

Trisca Hattingh, from GTC's Fiduciary Services, confirms that the benefits of having a valid Will are primarily two-fold, stating that the person who is making the Will "... exercises their right to decide who should inherit their property when they die, and secondly, they stipulate who will be the executor and administrator of their estate."

Trisca cautions that should a person fail to leave a valid Will, their estate (after all estate debts have been paid), will be awarded to their heirs as determined by an Act of Parliament, namely the **Intestate Succession Act No 81 of 1987**. Heirs are next-of-kin and their inheritance might not have been the planning of the deceased, who would otherwise have been at liberty to nominate whomever they like to inherit their discretionary assets.

An example of such an outcome in terms of the Intestate Succession Act which Trisca sites when she is drawing up Wills, is when (in this example) a young woman dies without a husband or children and her single mother, who raised her alone, now has to equally share the daughter's estate with the father, who has been absent all of the daughter's life. A valid Will, nominating the mother as the sole beneficiary would have had a very different result, and been in line with the daughter's choice.

Similarly, according to Trisca, when a person dies without leaving a valid Will in which they state who the executor should be, the Master of the High Court, after discussion with the heirs and next-of-kin, will appoint whom they deem to be a suitable administrator of the estate.

The process of calling for this nominations for this administration is time-consuming and the next-of-kin often don't agree on who should be appointed, leading to dissension and conflict within the family, and the inevitable delay in the administration process.

The nomination as executor, either within a Will or as part of Intestate Succession, comes with qualification requirements and Trisca cautions "Although you may nominate an executor, only the Master of the High Court may appoint an executor to an estate. The Master is not allowed to appoint a person who is incapacitated from being an executor of the estate, or someone who has not complied with the provisions of the Act."

Trisca adds "It often happens that a next-of-kin or friend of the deceased is nominated as executor in a Will, despite the fact that they have none of the required estate administration training or experience. This role requires specialised knowledge and specific legal training. The executor must be able to lodge the necessary security with the Master for the proper fulfillment of their duties, or be in a position to have this requirement waived."

Trisca's advice, based on her years of experience, regarding the attributes of a suitable executor, include:

Preferable attributes of an executor would include:

- A sound knowledge of the legal and accounting (financial) procedures in the estate administration process.
- Knowledge of the Master's standard operating procedures for estate administration.
- A working knowledge of the Law of Succession and the Administration of Estates Act.
- Knowledgeable appointment of an attorney or legal professional, such as a trust company such as GTC, based on their experience in the administration of estates.
- A person who is able to obtain security for the administering of an estate in terms of Section 23 of the Administration of Estates Act. Although it is common practice for a person writing their Will (testator) to exempt the nominated executor from furnishing security, there are instances where the Master may still call for this security to be included.

Trisca's experience is that private individuals are often not in a position to furnish this security, resulting in the Master refusing to appoint the nominated person.

As to characteristics that Trisca recommends one avoids:

- A sole executor with no experience in the administration of estates, including family members, friends, and business associates.
- An attorney or accountant with no experience in estates, as their lack of knowledge and practical experience in the administration of estates, often delays, and may even obstruct the administration process.

Trisca can be contacted on 083 415 7847 or thattingh@gtc.co.za. To download our Will information booklet, visit **www.gtc.click/Will-brochure**. Click **here** to schedule a no-obligation consultation with Trisca.

Gary Mockler, our CEO notes:

"As stated by Trisca in her opening paragraph, the last 18 months has exposed all of GTC's financial advisors and many of our clients to others' untimely deaths. Notwithstanding our constant reminding, the number of clients, friends, and even staff who have died without a valid Will causes us all continued angst and complications, which could so easily be avoided through the construction of a simple Will."

Increasing the adoption of sustainable investing principles and exposure to offshore investment markets

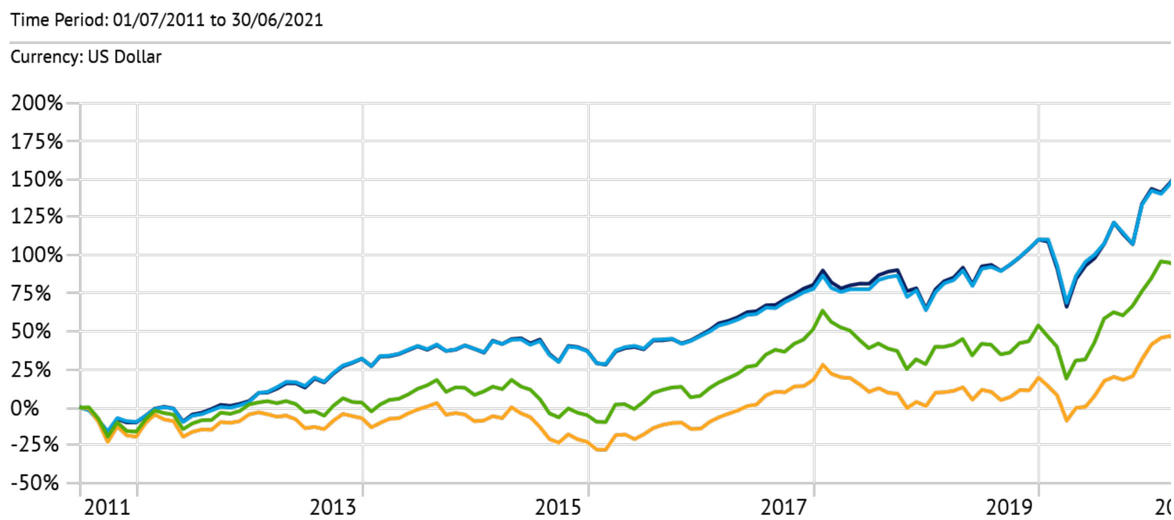
GTC's investment governance framework enforces regular reviews of its investment offering against performance delivered, as well as optimising its positioning in the light of new investment ideas. A recent review identified the opportunity to enhance the adoption of sustainable investment standards, commonly described under the collective phrase of Environmental, Social & Governance (ESG) principles (which we covered in the last Trendline), whilst simultaneously increasing allocation to international investment markets.

ESG

ESG investing refers to investing that is based on the evaluation of an investment's sensitivity to environmental, social and governance risks. The rationale behind this is to promote investments in businesses that generate sustainable inflation-beating returns over the long term while positively impacting society and the environment in which the business operates. While GTC's pursuit of enhancing our client's overall financial outcomes has meant that these principles have been deployed for some time, recent research has identified practical ways of achieving this to a greater degree within our offshore investments.

Offshore ESG investing has proven to be highly effective, particularly in the emerging market space. The emerging market ESG index has outperformed the traditional emerging market index in 12 of the 14 calendar years since its inception. In contrast, the developed market ESG index has essentially tracked its parent index over the past decade. This has provided investors with the opportunity to earn favourable market returns whilst still participating in ESG based investing, as is clearly visible in the chart below.

10 Year investment growth (%)



Above returns are gross of fees and USD denominated.

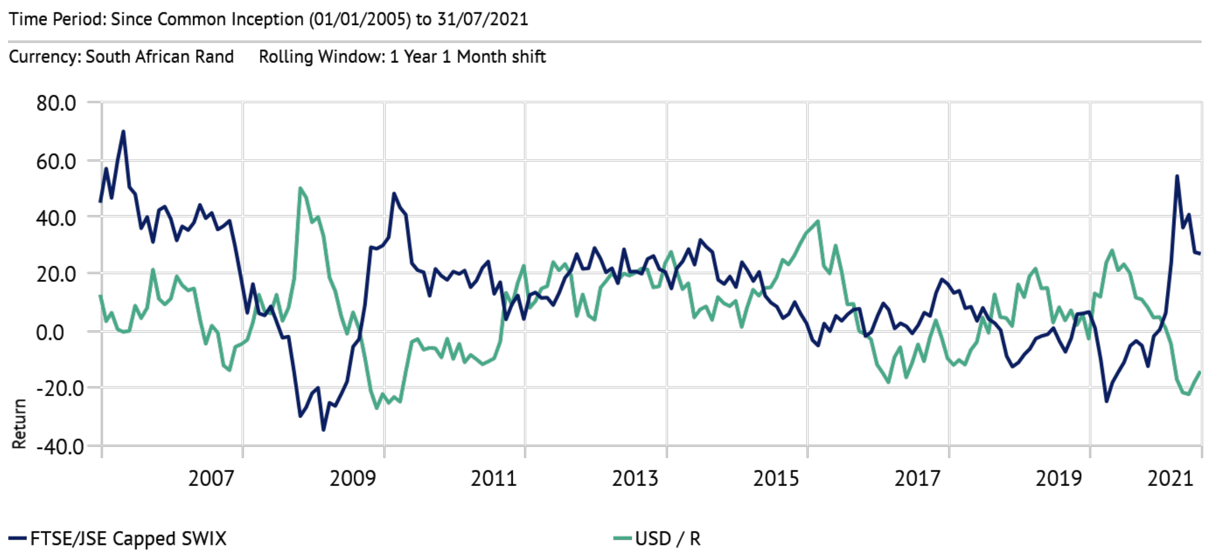
After rigorous research and analysis of the available evidence, GTC concluded that the inclusion of the ESG equivalent index would not only reduce **capital risk** (lower maximum drawdowns) but would have done so with lower volatility (measured by **standard deviation**), resulting in superior risk adjusted return to our clients, (measured by a higher **Sharpe Ratio**) in all GTC solutions under consideration. Perhaps most importantly, the move to the ESG indices internationally will increase the probability of earning an enhanced risk adjusted return over time by materially reducing the risk of being exposed to companies that fail to consider the impact of their operations on society and the environment.

Increased offshore allocation

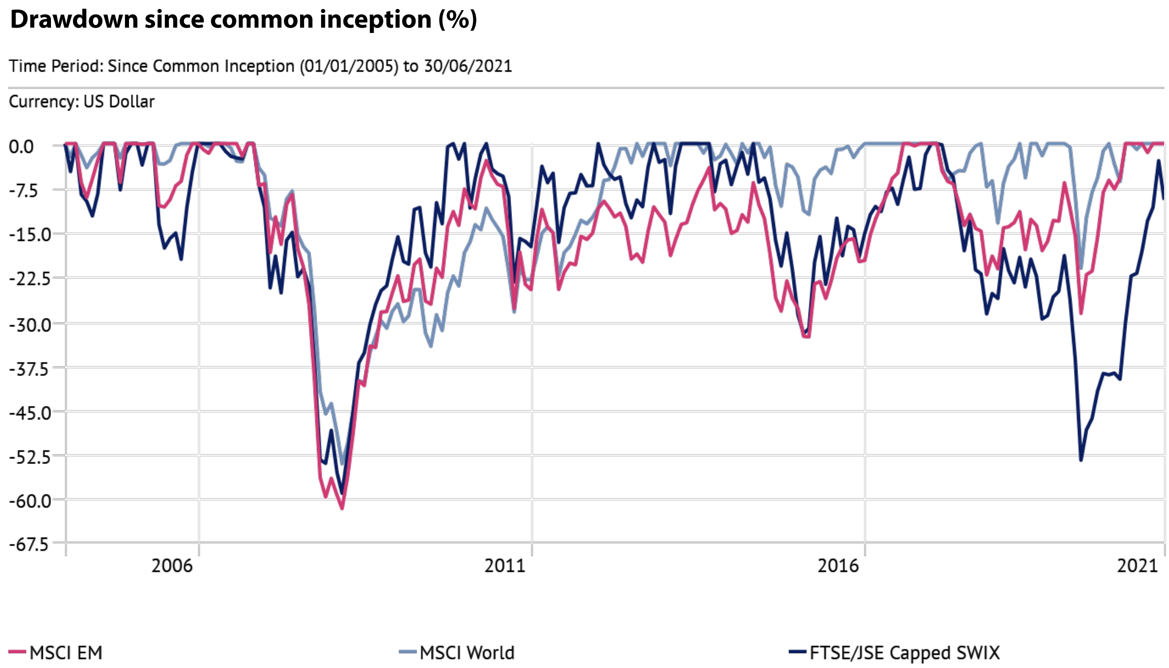
The chart below illustrates the inverse relationship between the local equity market (JSE Capped SWIX in dark blue) and the rand/dollar exchange rate (in green). The orange highlights reflect periods where a negative local equity market return coincides with an increase in the exchange rate. This results in US$ denominated investments benefiting from the currency movement during times of local market turmoil. In other words, offshore investments act as a hedge to a predominantly locally based investment portfolio.

Analysing the drawdown reflects a key difference between 2009's (green dotted area) relatively equal detraction among the various equity markets compared to the current period's (red dotted area) significantly greater capital loss experience of the local equity market. This degree of under-performance has raised concerns around the increased risk inherent in concentrating in a single equity market and speaks to the value of diversifying internationally.

1 Year rolling returns (%)



Above returns are gross of fees and USD denominated.



Above returns are gross of fees and USD denominated.

South African Regulation 28 limits the offshore allocation in local retirement funds to a maximum of 30% (excluding exposures to the African markets). Our research shows that increasing the offshore allocation to the maximum allowed threshold leads to superior risk and return characteristic for each GTC strategy.

GTC has gradually increased exposure to foreign markets and will continue to do so across all our solutions.

Resulting impact of both changes

Across each GTC strategy, the combined change is expected to meaningfully enhance investment outcomes for our clients. Each strategy not only shows superior risk adjusted returns (higher Sharpe and Information Ratios) but lower overall volatility and risk as evidenced by the reduced Standard Deviation, and Maximum Drawdown statistics.

Do feel free to discuss this technically complex topic with one of our wealth managers or one of our investment analysts. You can request an appointment by sending an email to **wealthmanagement@gtc.co.za.**

Message from our CEO

Not that we are counting, or that big numbers necessarily mean much, but it is - at least in our opinion - a relatively auspicious November this year.

GTC began out of the Grant Thornton Audit Practice in November 1991 and next month we celebrate our **30th anniversary**. There are several of you as clients who will too celebrate 30 years with us, and a significant number of you who are but a few years shy of this milestone.

I know 30 years is represented by a pearl, reflecting purity, honestly and wisdom as Debbie, my wife, told me so earlier this month as we celebrated this same wedding anniversary. Were this to have been in the old days, GTC would have held a social function at this time and I would have looked forward to having a chat to you over a glass of wine.

Thank you all for your continued support.

Last Monday I hosted a picnic for our Johannesburg office staff, at the Wanderers Golf Club (of whom we are the principle sponsor). In many instances it was but a few months shy of two years since I had seen some of these seventy staff in person. Whilst I'm sure we were all excited about the "real" engagement, I surprised myself with how emotional it was to talk face-to-face with my staff.

We have had no shortage of work related engagements during the last nineteen months, including a fairly regular "town hall" meeting with all the staff involved. GTC's elected video conferencing medium has been Microsoft Teams and we have all become increasingly adept at this relatively new form of working.

With most of our staff now double vaccinated, the picnic last week became a realistic undertaking. So too can some form of "the old normal" whereby we undertake our work from our physical offices. Taking our lead from the stance of Business for South Africa (B4SA), which ASISA, and most financial institutions are following, vaccination or negative testing are requirements for staff to be physically in the offices or physically visiting clients and service providers. We do have several staff continuing to work from home or adopting a work-on-demand approach.

Anyhow, while it is still imminently feasible that the year-end holidays (and Matric Rage) may prompt a fourth wave, GTC has begun the routine of a hybrid work-from-home and office rotation principle. I am enormously proud of all GTC staff who have continued high service standards during two years of trying circumstances. I do trust that you have been on the receiving end of these same service standards. If for any reason you don't think so, please contact me directly and I will personally attend to your concerns.

This is the last quarterly review and Trendline for 2021. I sincerely wish that your 2021 was better than 2020, but not as good as 2022 will be...

Gary Mockler
Group Chief Executive Officer

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