Perspective
Investment Management

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To our Investors

Thank You and Summary

Our business exists *because of* you, and therefore *for* you – our investors. You enable us to pursue our vision and purpose authentically. We will never ever forget this. Thank you for investing with Perspective alongside our families, our friends and us.

We are excited about the positioning of our portfolios, the investment opportunities we have acquired during the past 2 years and the ones we see unfolding in the markets. It inspires us that Perspective has attracted like-minded contrarian, long-term investors and other top quality stakeholders.

South Africa

Consumer and business confidence hit rock bottom in 2018 for valid and understandable reasons, inevitably followed in 2019 by the economy. Over the past 6 years, the stock market is flat in Rand terms and declined in US Dollar terms, the property market is down, unemployment is up, uncertainty is high, the currency is weak, the gold price is low and even our national sports teams seem to be losing more than they're winning. [*If for some reason you really feel like it, please insert many more negatives here*]. Our nation's collective mood is somber.

I am probably not telling you anything that you don't know already. However, in the midst of all of this doom and gloom, at Perspective we see increasingly clear evidence of the blowing winds of *positive* change.

We evaluate a country in much the same way we think of an individual company or household. Senior leadership always sets core values, principles and discipline. Healthy businesses have leaders who value integrity and seek out personal accountability for their decisions, actions and outcomes. Weak companies have leaders who compromise and sacrifice anything and anyone for their personal gain. Weak leaders are also the first to blame others and jump ship when the going gets tough, to avoid scrutiny and being held to account.

These three entities – country, business and household - are linked. So goes the boss of bosses so goes the rest, sooner or later. With Zuma at the top for 9 long years allowed free reign to set the country's moral compass, should it be a surprise to witness the corporate disasters at Steinhoff, Tongaat and others, environmental and social disasters in the mining, water and sanitation industries, or the increased risk of escalating levels of non-compliance by individuals with the rule of law? We think not.

The time to have been most concerned about South African assets was 10 years ago, when Zuma was first tapped to run the show. The challenges we are dealing with today are the result of those years-ago decisions and actions. The good news is we seem to have started dealing with our challenges. At Perspective we see an unfolding opportunity in the midst of chaos.

We keep a watchful eye on companies and countries that have fallen from grace. There is usually a significant delay – measured in years - between when the winds of positive change start blowing and the full extent of their impacts. One of the most fascinating things about the public investment markets is the prices of many such recovering assets often lag readily observable improvements in their fundamentals and prospects. Market participants appear to take too long to swing between confidence and the lack thereof. That old song comes to my mind "How the hell can we believe you?" Fair enough, but therein always awaits the best long-term investment opportunities.

When President Cyril Ramaphosa was first designated South Africa's new 'CEO', in late 2017, there was a strong relief rally in the markets that quickly faltered as the harsh reality of our situation set in. Every move he makes is criticised heavily by armchair 'experts'. Few people can claim to truly understand or respect the complexity of the many stakeholder relationships he is grappling with. And yet, for the first time in decades, South Africa has a President and most of his top executive who is in the first instance not afraid to give us an accurate assessment of our current reality. This is good, because fixing any problem can only ever start by seeing and acknowledging it.

Please pause here for a brief moment. Allow me to state clearly we acknowledge many significant uncertainties and risks, for example not having clarity on land & mining rights and the poor condition of our state owned enterprises and local government. Most puzzling is the depleted state of our public education, policing and healthcare, with the biggest negative impact being on the poorest people in our country. The conspiracy theorist in me wants to think this is a deliberate ploy by the current ruling party to starve its voters of education, health, safety and jobs and make them reliant on state social grants and media manipulation – thereby ensuring their own being in power forever. A key question must therefore be whether or not Ramaphosa is truly an agent of positive long-term change, or nothing more than a cleverly disguised pacifier with which to attempt to stop our remaining hard-working taxpayers and scale entrepreneurs from emigrating while the corruption and looting continues unabated.

Ending this segment with a negatively phrased question leads us straight into the next segment.

Protecting Your Investment

One of the most valuable aspects of a Balanced Fund is that its wide mandate provides an ability to better weather storms by diversifying into other asset classes than just equities and directly into other countries than just South Africa.

In addition, we have access to a number of listed companies on the Johannesburg Stock Exchange with globally diversified operations. We own a number of them already.

It is important for us to have thought about and planned in advance for an identifiable worst-case outcome in South Africa, however unlikely we judge that. If the worst case ever happened, we will not have to spend time being shocked or surprised, figuring out what to do, panicking or freezing. We already know what to do and we will get on with it in order to protect your investment.

South African Assets

Since fund inception, being September 2017, we have invested in a diversified group of robust South African businesses with quality leadership and good long-term growth prospects. Equally importantly, we have paid bargain prices, which means our expected long-term future returns for them are high.

We remain extremely wary of companies making and selling goods and services that South African consumers, corporates and the government don't really need or simply cannot afford at the moment.

We expect the current uncertainty and low point in the economy to continue presenting us with sensible new investment ideas. Even at zero economic growth, the public markets provides access to robust assets with quality leadership. We look forward to acquiring these on a long-term basis – provided their prices reach our buying levels.

Global Assets

There are times in the global markets, such as now, when it becomes rather obvious that assets are overvalued at index-levels and geopolitical risks are higher than normal.

That said, the global markets are vast and there are always opportunities for discerning investors willing to look and able to invest outside the popular consensus. We have already invested in 6 excellent businesses. Our investment team is prioritising a number of new ideas in unloved industries such as agriculture, chemicals, shipping, engineering, logistics, heavy equipment, auto-parts, energy, energy services, cement and silver.

Pulling it together

The equity exposure in our Balanced Fund has increased from 35% in September 2017 to the current 48% (*our mandate allows for a maximum of 75% in equity*).

5% of our fund remains invested in South African government bonds with a further 2% in a quality listed property business. These 2 investments offered good investment value while also enabling us to improve somewhat on the income yields offered by our holdings of cash and money market instruments.

10% of our fund is invested directly offshore (*our mandate allows for a maximum of 30% directly offshore*). This positioning is a result of our researched convictions on global investment opportunities and the Rand / Dollar exchange rate.

Taken together, we remain conservatively positioned. We believe a conservative stance is appropriate for the current investment environment and opportunity set dealt. Our portfolio management strategy remains to get us all safely to a future point in time when our fund will justifiably be more fully invested. We all look forward to that day, but we will get there by continuing to back our own work and following our own process.

Developing Perspective

Perspective is a word-of-mouth business. We aim to provide a quality personal service for all our investors and build respectful, long-term and mutually beneficial relationships. Our 'marketing strategy' therefore consists of growing our network with other like-minded people; one by one.

We routinely engage with people in our investor network to learn more about their industries and areas of expertise. The wider we grow this network the better for all of us. **If you feel that we can learn from and deliver something of value to any of your family members, friends or business associates, please let us know.**

Supporting you at Perspective

Our team in Cape Town currently consists of 6 people. Any of us can help you with anything, but if you have specific questions about the portfolio or investing in general, please e-mail, speak or meet with **Sean**, **Mikael**, **Gavin** or **myself**.

For your specific operational questions – for example debit orders, application forms or valuation statements - please e-mail, speak or meet with **Beryl**, **Gavin** or **Khangelani**. All of our direct e-mail addresses are '*first name*'@perspectiveim.co.za, as per my own e-mail signature below.

If you are ever in Cape Town, please feel free to stop by our offices in De Waterkant for a visit and to meet all of us. You can count on enjoying at least offstreet parking, terrific coffee or tea and warm hospitality. We love hosting our investors at our premises and opportunities to learn more from and about you.

Our work continues…

Daniel

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