A(nother) South African Research Road Trip

Perspectives: December 14th, 2022

Over the years Mikael and I have established a valuable routine to travel together by car. We go to great lengths to visit in person with and learn from as many as possible of our fellow fund investors, our executive network, our other stakeholders, the businesses we own, and other businesses in which we are interested - be they listed or unlisted. Our research road trips take us far from the beaten tracks, so that we are exposed to not only pretty shiny things but also ugly realities, not only big cities but also small rural towns. These research road trips always produce a surprising number of new things well worth learning and thinking about.

Spending this many hours confined together in such a tiny space with nowhere to hide is also of great value to us. Driving from Bloemfontein to Cape Town in a day is like a non-stop 12-hour debriefing on a wide range of topics. If at the end of these road trips we can still tolerate and appreciate one another's company and opinions we know we are in a solid place as the co-founders and co-managers of Perspective and our funds. It is critically important for the two of us to critically and honestly self-assess this on a regular basis.

Bad news is best served upfront and cold. **The deterioration of much of South Africa's infrastructure outside of the Western Cape is clearly apparent.** The main highways are in reasonable condition, but the volume of heavy load-bearing trucks is incredible. The plethora of logistics company brands on the backs of these trucks reflects the impact of the deliberate and wanton destruction of our national railway capabilities. In turn, the increased heavy traffic necessitates increased road repair works. Rolling electricity blackouts and water shortages are daily realities, and there is almost no such thing as a credible police presence nor apparent traffic laws and law enforcement. A notable negative experience on this road trip was being pulled over by traffic officers in broad daylight for an *attempted* extortion on the N1 between Johannesburg and Bloemfontein. We also saw a number of overturned trucks

- coincidentally all carrying beer - being brazenly looted by people driving in from the nearby towns. We can only presume these trucks had been deliberately forced off the road by bandits.

We now respectfully submit a different, and positive, perspective: The ironic upshot to all of this has been an ongoing transfer of economic value from the (untrustworthy and unreliable) state sector to the (trustworthy and dependable) private sector. Inefficient and corrupt public policing means there is huge demand for private security and security equipment. Unreliable electricity supply means there is huge demand for alternatives and back-up equipment and solutions. Reduced railway capacity means there is huge demand for the transportation of goods and people using road infrastructure, which in turn means increased demand for specialized transport vehicles, diesel fuel & related logistics, roadside food and beverage services, vehicle maintenance, tyres and spare parts, road repair and its inputs such as aggregates, asphalt, and bitumen. **In other words, the demise of the state sector has been a massive opportunity for the private sector.** This trend looks unlikely to reverse in the near term. In fact, as the state-owned enterprises continue failing outright, the private sector may be presented with further significant opportunities to partake in partial or even full-scale privatisations. In a bizarre sort of way, the current SA government is in so many respects rapidly shrinking due to having slaughtered, cooked, and consumed just about its entire gaggle of golden geese.

On the positive side, and in stark contrast, the Western Cape is clearly booming. It must be acknowledged that a different political party governs the Western Cape than the one running the rest of the country, and at least operates with an apparent semblance of governance credibility. In every direction heading out of Cape Town, including even the West Coast Road, what was previously sleepy small towns have all expanded significantly. Medium sized towns such as George and perhaps even Hermanus look destined to become cities in due course. The sheer scale of the capital investments in the agricultural sector alone is astounding. Entrepreneurial folk from all over the rest of the country and the rest of the world have headed to the Western Cape and brought their money, business ideas and spirit to this region. The combination of the covid pandemic and increased internet speed and reliability means that people in many industries can and will increasingly work from anywhere.

Our overriding takeaway from this latest research road trip is that we were again deeply impressed by the continued resilience, adaptability, and creativity of so many South Africans across society and South African businesses, and their dogged pursuit of new opportunities. This, despite incredible hardship and ongoing serious challenges and concerns not of their own design and doing. We can only hope for and imagine what might happen one day in the future when our country finally gets a form of credible, authentic leadership that its true citizens so richly deserve.

Our work continues…

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