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Investing in SA: Focus on the opportunity, not the negativity

South Africa has slipped into its second recession in two years and, along with markets globally, is currently reeling from the potential impact of the COVID-19 coronavirus. But Granate Asset Management believes long-term investors have reason to cheer.

Speaking at the fund manager's first roadshow event in Johannesburg today, Investment Analyst and Fund Manager Paul Bosman noted that Granate believes now is 'planting season'. "We can't discount that South Africa faces very real structural challenges after a decade of deep-rooted corruption and the looting of state coffers. The poor state of SOEs, a struggling economy and escalating emigration all attest to this," he said.

"But we should also not discount that we are seeing progress."

Reforms are taking place, but also take time

Bosman highlighted changes in government, SOE management, the appointment of a new NPA Head and the allocation of R1.8 billion to the Department of Justice in the 2020 Budget as key examples. "Undertakings to acquire additional electricity from independent power producers and allowing municipalities to procure power from the private sector are also encouraging."

Amid these positive changes, Bosman stresses that reform takes time – which is where the opportunity arises.

"Local securities are not pricing in much in the form of growth", Bosman says. "Good companies are trading at low multiples, and government bonds are offering high real yields. If the environment improves – even only moderately – investors could be well rewarded.

"In this environment, it could be very detrimental to long-term returns not to own South African securities. If you believe there's a 50% chance of improvement, should you not at least allocate 50% of your portfolio to high-quality local assets? Remember, the base is your hurdle, and a lower hurdle improves odds."

A supportive business environment

The asset manager cites its own experience as a positive case study. "While it is a commonly held belief that South Africa is more hostile than accommodative for business, we have experienced quite the opposite," Bosman says. In the process of establishing itself, it has received far more tailwinds than headwinds, including:

- Assistance and funding from RMI Investment Managers, which partners with local asset managers as a strategic shareholder. It currently has stakes in 12 independent

- boutique managers and owns 30% of Granate;
- Assistance from Wesgro with operational space at InvestSA Western Cape. As the official tourism, trade and investment promotion agency for Cape Town and the Western Cape, Wesgro provides support to businesses looking to invest or expand their operations in the province;
- Professional and thorough interactions with the Financial Sector Conduct Authority; and
- Early support from several large institutions in South Africa.

“RMI Investment Managers is very excited about our partnership with Granate,” said CEO Alida de Swardt. “We actively seek out the best investment talent in South Africa and aim to be a supportive, non-interfering, long-term shareholder. We believe that Granate is poised to prosper and grow into an enduring and proudly South African investment management firm.”

Wesgro shares similar sentiments. “Wesgro welcomes Granate’s investment in the economy of the Western Cape and their positive message to invest in South Africa,” said James Milne, Head of Investment Promotion. “It is clear that the local economy is experiencing numerous headwinds both locally and internationally, but it is important to heed Paul's message: there are green shoots appearing, and now may be one of the best times to consider investing.”

Positive long-term prospects

While it is likely to require time and patience, Granate believes that investors who stay the course may well find the wait worthwhile. It also intends to play its own role in bringing positive change, by focusing on its number of clients instead of the size of assets under its management (thereby ensuring true client focus) and offering a discounted fee to Public Benefit Organisations.

“In times of extreme pessimism, it may be harder to spot the available opportunities. But for those who do, there’s more room to harness their potential,” Bosman concludes. “We are planting trees, which will bear fruits for clients in years to come. We are not uprooting.”

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