A changing investment landscape

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New sets of drivers for economic growth need to be found, said Finance Minister Pravin Gordhan at the *Business Day/Financial Mail* Investment Summit, brought to you by Sasfin Wealth, last week. He added that although South Africa was not in the worst shape possible in a global context, increased risks including low growth continued to make their presence felt.

The challenge in the next couple of months is how to avoid a ratings downgrade. "Notwithstanding the political noise, we need to create a positive debate around investment," he said, adding that South Africa has more going for it than against it.

In order to stick to deficit and debt targets, he said Treasury was committed to retaining and sustaining fiscal credibility, even though lower growth put pressure on the budget. Other areas he said government was committed to include protecting social services, building consumer confidence in order to attract greater investment and increasing certainty around regulatory requirements and policy certainty.

Investment in the real economy will be what ultimately grows growth and job creation and will inspire hope in the youth. Gordhan revealed that government will be announcing a new youth development/engagement programme which will provide disadvantaged young people with an opportunity to obtain work experience for a year. He urged the private sector to take an active role in alleviating unemployment.

Not only does our economic model need to demonstrate that we are inclusive, he said, but in order to capitalise on opportunities we need a well-trained young work force.

Keynote presenter, David Shapiro, deputy chairman of Sasfin Securities, said technological advancements illuminate new realities and offer attractive investment opportunities. In the face of lacklustre global growth and an uninspiring outlook for commodity prices, he said technology was starting to reflect in company results. Facebook, Amazon, Alphabet and Tencent, for example, are all reporting growing revenues and profits. "These companies will continue to prosper despite concerns around issues such as Brexit and US interest rate hikes," he argued.

A panel discussion on the role of technology in investing agreed that while there is little doubt that technology has a role to play in investing – and most panellists were excited about its future potential - robo advisors won't yet replace human advisors who understandably feel threatened by the concept. With younger investors demanding an intuitive, easily accessed portfolio, robo advisors could, however, be the next iteration. In the meantime, online trading platforms such as Sanlam iTrade help investors make informed decisions while online trading courses are a good introduction to the world of equity trading. In the same vein, a virtual trading account is a good way to learn about share trading.

The debate between local versus global was also heated, particularly in terms of property and bond and hedging markets. Local property offers attractive initial yields and better organic growth prospects and over a 10-year period, South African property has outperformed global property and delivered excess returns.

On the downside, however, South African property is expensive. In the commercial space, local growth forecasts are subdued. Retail space is expected to outperform demand while demand for office space is reduced and warehousing space is under-utilised. Offshore property investments should form part of any property portfolio. Going forward, a low interest rate environment will favour global property.

As far as the bond and hedging markets are concerned, the local bond market is well developed and if properly managed, offers a good investment. But increasingly the investment industry is becoming diversified. The hedge fund industry in South Africa is still in its infancy, with South Africa managing just R70 billion collectively. In spite of the fact that hedge funds are expensive and fees are high, local hedge fund managers have done well with the average long short manager locally beating global long short managers. Hedge fund managers face a fine balancing act between leveraging and gearing, which is why investors should choose hedge fund managers with robust processes and methodology. The benefit of including hedge funds in a diversified portfolio is that they can enhance risk adjusted returns positively.

Despite government assurances regarding the potential of infrastructure investment positively impacting the economy, there is little evidence of tangible action on infrastructure projects. Policy uncertainty, competing priorities and a lack of political will are all hampering investment in this area. It's a classic chicken and egg situation: in order to invest in infrastructure development the economy needs to be doing better, and for the economy to be doing better it requires more investment. However, there are opportunities for the private sector to invest in infrastructure if it is prepared to deal with red tape, as well as policy and regulatory uncertainty.

There has long been debate around the issue of passive versus active investing. The reality is that there are pitfalls to both. Within the active space, managers charge large fees – and often several layers of fees – and with management incentives linked to short termism, savers are often worse off. Added to this, the probability of under-performing after fees is strong.

Passive investing or indexation, on the other hand, is not a panacea to curing all investment ills. A passive strategy, by its very nature, guarantees investors underperform the index. However boring it may be, the probability of underperformance is removed.

Passive, said Prescient Investment Management's Herman Steyn, almost always wins because alpha (active investing) is a zero sums game. Active management only pays off for managers in the top third of the universe. He argued that as risk premia investing becomes more mainstream it will bridge the gap between pure passive and pure active.

There is life beyond active and passive investing, however, a life that requires a risk mind-set rather than a returns mind-set. The reality is that the majority of fund managers can't beat the market. Going forward, the industry needs to lower costs and manage risks better.

Wrapping up the summit, Peter Bruce, Editor-in-Chief of Business Day and Financial Mail, said we needed to change – not destroy – capitalism. To avoid being trapped in short-termism, businesses need to stop the quarterly earnings forecast as meeting short-term goals was at the expense of long term value, he said. Business needs to stop waiting for government to take the lead and to think out of the box to alleviate poverty and fund infrastructure.

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