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Asset Management

Taking Stock

Spring 2020

Investing for a
world of change

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Contents

Welcome to Taking Stock 01

The Biden bounce 05
Jeremy Gardiner

Finding growth beyond the big tech FAANG stocks 09
Clyde Rossouw and Duane Cable

Looking through the US election 15
Philip Saunders

Can foreigners be lured back into our bond market? 20
Peter Kent and Malcolm Charles

The future of work 27
Sahil Mahtani and Marc Abrahams

Not all active managers are equal 33
Sangeeth Sewnath

What's next from Ninety One Investment Platform's tech team? 39
Daryll Welsh and Scott Carr

welcome

> When last did we as human beings have an original economic or financial thought?

Sangeeth Sewnath
Deputy Managing Director

This question struck me after reading the book "The Price of Peace: Money, Democracy, and the Life of John Maynard Keynes" by Zachary Carter. Keynes lived through two world wars and the Great Depression, and dared to be original. His ideas revolutionised economic theory and shaped generations of economists, central bankers and policymakers. Even today, as the world grapples with the pandemic-induced recession, many governments are still following Keynes' policy of aiming to spend their way out of economic trouble.

> Many governments are still following Keynes' policy of aiming to spend their way out of economic trouble.

Keynes also famously said: "Ideas shape the course of history." So back to the question I posed at the outset. Can we still claim to have original ideas? And if so, do we at Ninety One bring original thinking into how we serve you? I have given this a lot of consideration and truly believe that there are great examples of original thinking in our business. Ninety One's leading insights on living annuities have reshaped how advisors invest and plan for their clients' retirement. Another example is the contribution of Clyde Rossouw and his team, who were pioneers of the Quality thesis on offshore investing in South Africa. We have spent countless hours discussing with our clients the philosophical purity and portfolio differences that set them apart, which their long-term performance bears out. In this edition, you can read more about where they're finding growth opportunities in global equities.

For me, Keynes will serve as a personal challenge to make sure that the ideas we bring to you truly do make a difference in how we manage your money.

There are great examples of original thinking in our business

Another interesting aspect of the book was that it ended with a very unnerving reminder that historically, major change and victory for democracy and equality came at the end of a gun. Is South Africa at the end of a gun? Even if we're not staring into the barrel of a gun, we're most certainly on a knife's edge. Will Cyril Ramaphosa's Economic Reconstruction and Recovery Plan signify the start of meaningful positive change or will we yet again be hamstrung by our government's seeming inability to implement reforms? Will SA equities make a comeback? Will foreign investors be lured back into our bond market? Peter Kent and Malcolm Charles, who manage the Ninety One Diversified Income Fund, explore what could move the needle in terms of attracting foreigners back into our market again.

As if the challenges we face weren't enough, the IMF expects our economy to contract by 7% this year. Over the last quarter, the world started to appreciate the severity of the economic crisis and came to realise that this is one of the worst health crises in history. The IMF is forecasting a 5% contraction globally in 2020, the deepest global recession since World War II.

> We believe there are still significant opportunities for active managers to allocate capital to companies to make money, both in South Africa and globally.

Nonetheless, we believe there are still significant opportunities for active managers to allocate capital to companies to make money, both in South Africa and globally. Given the increased focus by the media on active versus passive management, we have included a comprehensive analysis of the SA market in this quarter's Taking Stock newsletter, with interesting findings. While we're unashamedly active, the key to success is not to sit on the fence. A manager with an index plus or minus strategy will find it increasingly difficult to differentiate itself in this competitive industry.

Third quarter returns were more muted after the big swings of the first two quarters. The FTSE/JSE All Share Index returned 0.7%, largely on the back of gold and platinum counters as well as some of the banks and retailers benefiting from the easing of the lockdown. The SA bond market was up 1.5% as a far more hawkish than expected South African Reserve Bank kept the repo rate unchanged for the quarter. Foreigners continued to sell bonds despite the yields on the long end being very attractive. Finally, property continued its slide with no reprieve, declining by more than 15% over the quarter.

What did this mean for industry flows? As could be expected, flows into growth assets remained very muted; the big winner continued to be the fixed income space, particularly those funds with a skew towards high duration assets. There was also continued interest in offshore assets.

Meanwhile, the debate around prescribed assets continues. We don't believe prescription is a sensible solution for the problem that government wants to solve, which is to find a funding mechanism for infrastructure investment. However, we are taking this issue seriously and are engaging with government, industry bodies and the regulators.

> We don't believe prescription is a sensible solution.

As we near the end of 2020, I would like to thank you again for sharing in a big year for Ninety One. We know our listing and rebranding had an impact on you, given that you had to take the time to explain the changes to your clients. We really appreciate your contribution and want to assure you that we are doing our utmost to continue building on our name recognition.

Despite the challenges we face, let's try to end 2020 on a positive note. Over recent months I've driven through many parts of our beautiful country, so do take time out to appreciate everything South Africa has to offer and enjoy a sho't left this festive season.

As always, thank you for your support.

Sangeeth Sewnath
Deputy Managing Director

The Biden bounce

The fast view

- The US election is over, and markets seem pleased with the result.
- Biden will deliver the stimulus as soon as he can, but with the split in the House of Representatives and the Senate, the quantum will be less than it would have been with a "blue wave".
- Additional stimulus will help, plus with Biden at the helm of the US, "risk on" is likely to be more prevalent than "risk off", which is good news.
- A vicious resurgence of COVID-19, particularly in the UK, Europe and the US, with the accompanying lockdowns, has been causing markets anxiety. Fortunately, we should start seeing multiple vaccines becoming available soon.

Jeremy Gardiner

The US election is over, and markets seem pleased with the result. There's an element of surprise to this, as most analysts in the run-up to the election seemed to err towards a Trump victory being better for markets. Whilst the market reaction might have surprised some, there was no surprise in the result. For once, everyone – the polls, the bookies, the editorials – all called Biden to beat Trump before the election, and overwhelmingly so. If anything, The Republicans did better than most were expecting, although Trump doesn't seem to see it that way.

For emerging markets like South Africa, we have reason to celebrate. The Trump presidency was volatile, and emerging markets get punished during periods of volatility. Whilst world markets will always have a level of volatility, it won't be deliberately created under Biden. Additional stimulus will help, plus with Biden at the helm of the US, "risk on" is likely to be more prevalent than "risk off", which is good news.

> "Risk on" is likely to be more prevalent than "risk off", which is good news.

Of course, Trump is still president for two more months, so anything is possible. He's likely to remain litigious, but it is unlikely that the Republicans will stand firmly behind him in his war. They were expecting to lose the presidency, so the result isn't a surprise to them. In fact, they received more votes than expected, successfully preventing the predicted "blue wave". It'll be interesting to see just how far Trump pushes the legal challenge. If he wants another crack at the White House in 2024 (which apparently he does), it would make a lot more sense for him to leave with a graceful "I'll be back…!"

The Congress is potentially going to be split (a Democratic House of Representatives and a Republican Senate). This could actually be beneficial, as it will dilute some of the potential "market-unfriendly" tax increases promised by Biden, and corporate curtailment that had markets previously worried.

Allow me a final comment on the election. While daughters-in-law don't have much influence in presidential decision-making, the fact that Joe Biden's son Hunter is married to a South African, means that at the very least he will know where we are!

> It'll be interesting to see just how far Trump pushes the legal challenge.

So, with the US election over, markets can now turn their focus to the other three things that have hiked volatility over the past months.

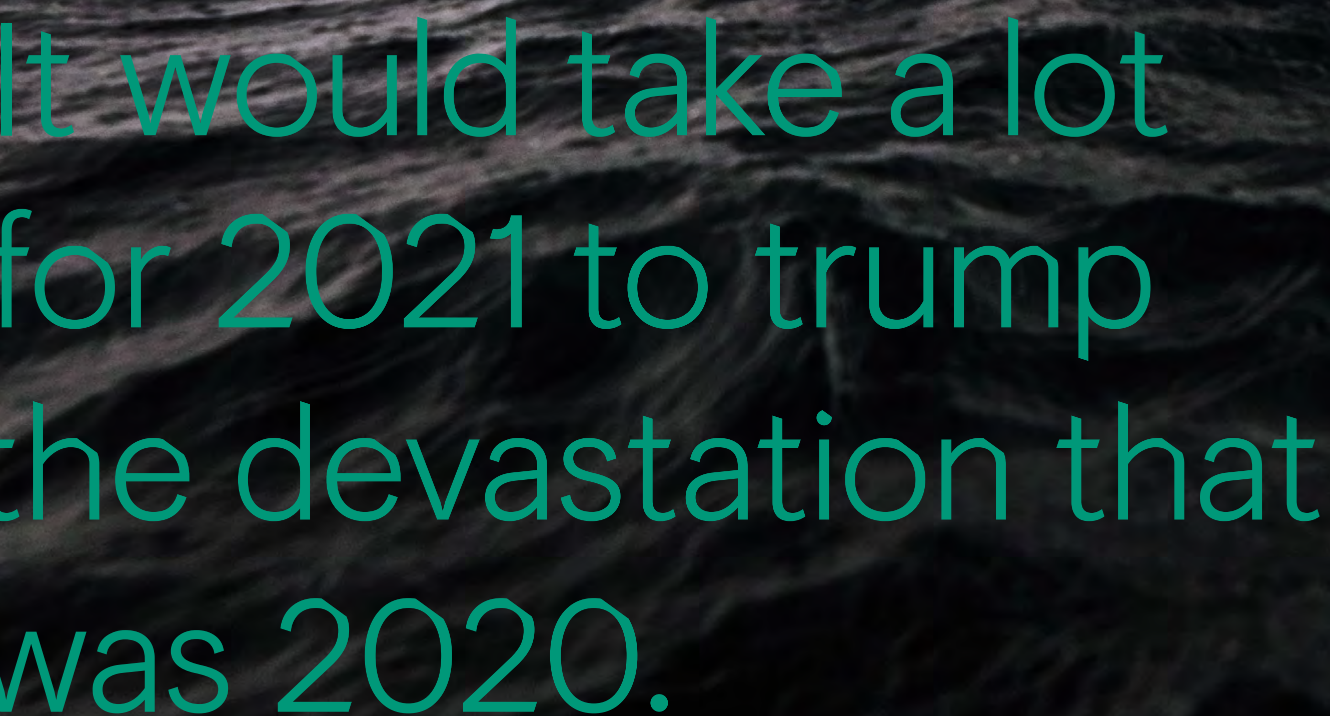
The first is US stimulus. Both parties have been debating this for months. Rumoured to be in the region of $2 trillion, it was on and off, with Trump finally offering it as a "carrot" that he would deliver if he won. Biden will deliver the stimulus as soon as he can, but with the split in the House of Representatives and the Senate, the quantum will be less than it would have been with a "blue wave". We can expect it only in January, and that will bring some New Year cheer.

The other issue worrying markets is that Brexit is back. It's attracting less attention than previously because there's a lot more going on at the moment, but there's no doubt that a no-deal Brexit would cause some level of shock, particularly in the UK. The deadline was mid-October. Apparently, the problem is fishing rights – the French want to fish in British waters, and the Brits are saying no. However, a no-deal Brexit suits no one, so expect them hopefully to cobble something together fairly soon.

> A no-deal Brexit would cause some level of shock, particularly in the UK.

And finally, a vicious resurgence of COVID-19, particularly in the UK, Europe and the US, with the accompanying lockdowns, has been causing markets anxiety. If there is a silver lining, it is that the lockdowns should bring some reduction in the numbers. Most importantly, multiple vaccines should start becoming available soon. We saw the market reaction to the Pfizer vaccine, and now Moderna. Expect these announcements to come through at least two a month going forward, which should make everyone feel better.

So, a fair amount for markets to look forward to as we head into the new year. Whilst one can't necessarily predict a better year, it would take a lot for 2021 to trump the devastation that was 2020.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Finding growth beyond the big tech FAANG stocks

The fast view

- In our view, bottom-up stock selection can mitigate elevated levels of volatility, specifically by investing in high-quality businesses with robust business models that can withstand a changing political and economic landscape.
- The big tech FAANG stocks may face increased regulation. As discerning stock pickers, we choose to focus on structural growth opportunities at reasonable valuations.
- Digital payments and cloud computing are some of the exciting structural trends in which we have invested.
- Global equity remains a key driver of asset class returns for our flagship Quality SA multi-asset funds, namely the Ninety One Cautious Managed and Ninety One Opportunity Funds.

Clyde Rossouw
Co-Head of Quality

Duane Cable
Head of SA Quality

Investors have faced ongoing volatility in 2020. Besides the market shocks due to the pandemic and subsequent economic lockdowns, uncertainty around the outcome of the US election has also meant a bumpy ride for investors more recently. Looking beyond the US election, we have reached a difficult point in the market and economic cycle where the absence of new liquidity stimulus has focused attention on profits over the near term and their recovery path. We have remained focused on maintaining a valuation discipline, investing for resilient growth and trying to avoid undiscounted regulatory risk. The unpredictability of markets has taught us not to worry so much about who wins on the political front because you might get the stock market's reaction wrong, even if you accurately forecast the outcome. So for us, it is important to ensure that any investment in a business is based on strong fundamentals, and not an attempt to lock in potential benefits associated with a binary outcome such as the US election.

A brave new world – some of the leaders and laggards that have emerged

We have witnessed a huge diversion in fortunes within the global equity market this year. The gap between the winners and losers is widening.

On the one hand, we have seen euphoria as markets have bid up the share prices of thematic stocks like Zoom and Tesla. The former has certainly become a household name for corporates. Despite the prominence of Zoom, we believe Microsoft Teams is a better product. It is tied into a Microsoft ecosystem, making its competitive advantage stronger. Zoom will find it difficult to maintain or grow its $132bn market valuation.

Tesla produces desirable vehicles based on the foundation of proprietary environmentally-friendly battery technology. Markets have valued the environmental, social and governance (ESG) sustainability characteristics of the business advantage highly but focused far less on the financial fundamentals. By valuing Tesla at $364bn, investors have signalled that the business is worth more than the entire global listed automobile sector!

We have embraced digitally advantaged businesses as we believe investors need to think carefully about what has changed structurally. It is important to consider which companies will be able to recover and exceed levels of profitability that existed before the fallout from the COVID-19 crisis. In simple terms, any business without a digital platform that is also exposed to fragile or shrinking markets is going to find it extremely difficult to recover from weak price levels.

On the other hand, the lagging sectors in the markets make sense to us. This is especially relevant when thinking about cheap assets in unloved sectors. It is hard to see how the world moves back to linear television in a world of digital streaming. Can we conceive how we move back to a fully paid/subscription-only-based print media model, having embraced free online editorial content and social media? In our view, it is important to stay with those businesses that have strong competitive advantages and a distinct growth path.

Some of the most challenged business models can be found in real estate. Land will always have value, but the wealth destruction caused by the plunge in listed property stocks globally, suggests that highly leveraged models need to change; office space will need to be reconfigured and retail channels will have to diversify. The insolvency of Intu properties, owner of several large malls and centres in the UK, epitomises this point.

Big tech has been a massive outperformer this year

Technology shares both in China and the US have delivered spectacular returns in 2020. Apple, which has a market capitalisation of close to $2 trillion, is up almost 58% since the beginning of the year, while Amazon, with a market capitalisation of $1.6 trillion, has seen its share price surge more than 70% (as at the end of September 2020). In this environment, there is a huge requirement for topline growth, and analogies have been drawn to the year 2000, when technology outperformance over wider indices was last so stark.

Many of the big tech companies have encountered increasing scrutiny, with Facebook, Amazon, Apple and Google all facing questions in front of the US congress over the course of the northern hemisphere summer. A point of focus was their increasing dominance over their respective value chains, and the harm potentially anti-competitive practices could have on the consumers these companies serve. As global equity managers, we closely follow the fortunes of these so-called FAANG stocks – Facebook, Amazon, Apple, Netflix and Alphabet (Google). After all, these are some of the most profitable businesses in the world. We do not think these shares offer bubble-like valuations in aggregate but would caution investors to look for clues to factors which will either limit their growth or challenge their profitability.

> We closely follow the fortunes of these so-called FAANG stocks – Facebook, Amazon, Apple, Netflix and Alphabet (Google).

However, we choose to focus on structural sustainable growth opportunities at reasonable valuations. It is interesting to note that the FAANG stocks account for one-fifth of the entire S&P 500 Index, but as discerning stock pickers, we have found many other compelling investments within the global equity universe. In these cases, we can underwrite business models with less risk.

Structural growth at a reasonable price – not growth at any price

We envisage an increasingly difficult regulatory environment for a number of these supersized tech businesses. Instead, we have allocated the Ninety One Global Franchise portfolio's tech exposure to capitalise on some of the most exciting structural trends to develop within the sector over the past decade. Most notably, the rise of digital payments and cloud computing, which we access via our positions in companies such as Microsoft, Visa, Intuit and Autodesk. Microsoft and Visa have both already managed the regulatory onslaught and have refined their business models.

Figure 1: Ninety One Global Franchise Fund – top ten holdings

Name	Weight
Visa (Visa)	8.6%
Microsoft (Windows 10, Office365, Skype, Xbox One, Surface)	6.7%
Moody's (Moody's Investors Service, Moody's Analytics)	6.2%
Verisign (.com, .net)	4.9%
Booking (Booking.com, Kayak.com, Rentalcars.com)	4.5%
Roche Holding (Rituxan, Avastin, Herceptin)	4.3%
ASML (EUV lithography, DUV lithography)	4.3%
Nestlé (Gerber, Nescafé, Maggi, Nespresso, Purina)	4.2%
Intuit (QuickBooks, TurboTax, ProConnect)	3.7%
Johnson & Johnson (Sudafed, Listerine, Calpol, Clean & Clear)	3.6%
A concentrated portfolio	**51.0%**

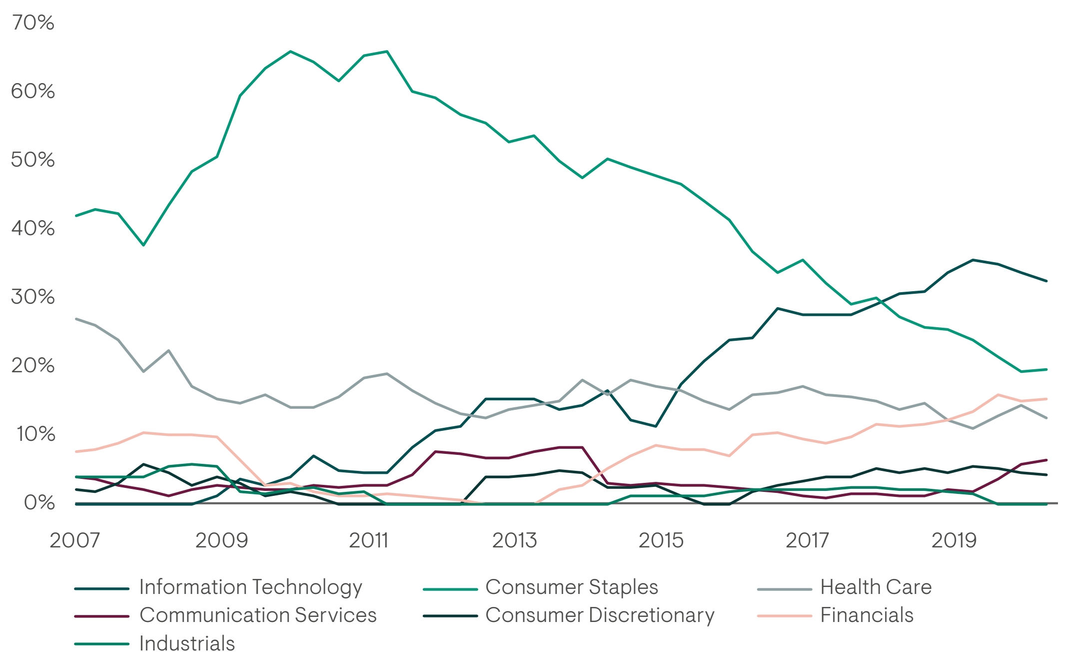
This is not a buy, sell or hold recommendation for any particular security. The portfolio may change significantly over a short period of time. Source: FactSet, 30 September 2020.

Another interesting position that we hold is in ASML. While this business shares some characteristics with mega-cap tech names in the US (supernormal earnings growth in the coming years versus the broad economy), there are important differences. We have a great deal of conviction in the revenue drivers underpinning that earnings growth. ASML's revenue growth will be driven by a significant product development cycle that is underway (the adoption of EUV lithography within the semiconductor industry). Another differentiating factor is that ASML is in a natural monopoly position, underpinned by technological dominance. This is quite different to some of the platforms and offerings which rely on consumer preferences and tastes.

Besides structural growth drivers in the technology space, we own what we call "counter-correlated businesses" that have also benefited from the drive towards home entertainment and remote working, sparked by COVID-19. Online gaming company, EA Sports, is one such company we own, whose business fundamentals have improved since the onset of the pandemic.

Financial data and software company, FactSet is another good example. Asset management businesses have directed a lot of expenditure towards technology – not just Zoom and video-conferencing facilities – but to data providers such as FactSet. The need for people to work from home with easy access to data, means more licences are sold, increasing the revenue of such companies.

Figure 2: Ninety One Global Franchise Fund – sector breakdown since inception



Source: Ninety One and FactSet, 30 September 2020.

Our exposure to the information technology sector has grown over time due to the structural growth trends on offer, but we retain a material holding in more defensive areas of the market.

While our exposure to the information technology sector has grown over time due to the structural growth trends on offer, we retain a material holding in more defensive areas of the market. We recognise the need to have balance in our equity portfolios. Factors such as the COVID-19 environment, economic slowdown and government policy action make very little difference to the fundamentals of these companies. Nestlé is one such a portfolio holding. Essentially, it is a recession-proof business, with strong consumer brands and an extensive distribution network. Roche is another good example. People who are on chronic medication need it – irrespective of economic circumstances. So, those business are attractive diversifiers in our Global Franchise portfolio.

In conclusion, we see technology shares providing a key role in our Quality portfolios going forward. However, we are mindful of risks and seek balance through other equity holdings, and where appropriate, further diversification in our multi-asset portfolios.

Looking through the US election

The fast view

- We believe the dynamics of the unfolding recovery, together with ongoing monetary and fiscal policy support, are far more important considerations than the US election.
- As the recovery gains traction, we can continue to expect bonds to sell off as longer-term yields rise.
- We are at a point in the cycle that should continue to favour equities over other growth assets.
- A softer dollar should help to drive emerging market currencies and assets. This is predicated on a continued decline in real US interest rates as the Federal Reserve keeps rates locked down and inflation rebounds.

Philip Saunders
Co-Head of Global
Multi-Asset Growth

Looking through the election, as we did in 2016, again seems to have been the right decision. In any event, the result was a constructive one for markets. The “blue wave” failed to materialise. The erratic Mr Trump was not re-elected and is likely to have been replaced by a centrist Democrat who, provided the Republicans retain one seat in the Senate in the Georgia run-off, will be obliged to pursue a bipartisan tack at least until the mid-term elections and possibly beyond, holding in check the left wing members of his party. The level of the turnout and the narrowness of the result indicate that the latter were the real losers of the election. History suggests that markets tend to like gridlock in the US.

But the influence of political results is often exaggerated and inversely correlated with the amount of media attention. We believe the dynamics of the unfolding recovery, together with continuing monetary and fiscal policy support, are far more important considerations than the election. After all, it is fundamentals, not politics, that drive markets. On this front, despite the spike in cases across both Europe and the United States, and the media attention it has generated, economies continue to recover. Somewhat ironically, China – the source of the pandemic in the first place – has enjoyed the strongest recovery. Asia more broadly has followed a similar path. Indeed, the level of the Chinese credit impulse as a percentage of GDP is similar to that which drove global recoveries in 2012 and 2016. The improving cyclical environment has been reflected in positive forward corporate earnings revisions.

Figure 1: China’s credit impulse (as a percentage of GDP)

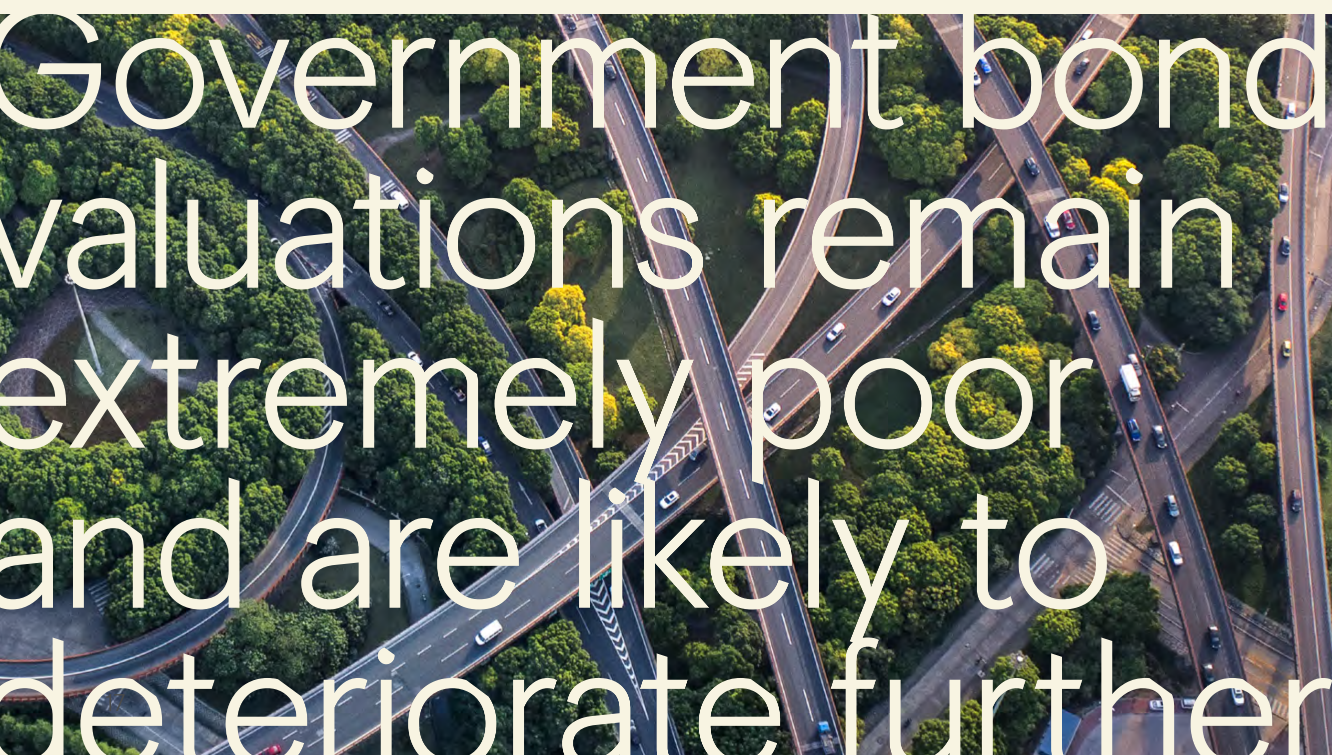
Source: Bloomberg Economics China Credit Impulse, as at 30 September 2020.

Another reason for "looking through the election" was the risk of an upside surprise in the form of a vaccine. As if on cue, pharmaceutical giant Pfizer's recent announcement of a COVID-19 vaccine is potentially a game changer. At 90%, its efficacy rate in trials is unusually high by vaccine standards. This and similar vaccines in the pipeline, should greatly increase investor confidence in the possibility of a return to a much more normal economic environment over the course of 2021 and a sustained recovery. True, it will be a while before vaccines are generally available, so we could be in for a bumpy ride in the northern hemisphere winter in terms of COVID-19 cases and hospitalisations, but markets are likely to continue to look through shorter-term negatives.

Steeper yield curves

As the recovery gains traction, we can continue to expect bonds to sell off as longer-term yields rise. Sure, central banks will continue to run low or zero interest rate policies, which will pin down the short ends of yield curves, but yield curves are not particularly steep currently and have scope to rise further. Government bond valuations remain extremely poor and are likely to deteriorate further as inflation rises sharply over the course of the next 12 months. The impact of base effects is already becoming evident despite the deflationary effects of the pandemic.

In this context, the US Federal Reserve's shift last year towards a more symmetrical policy in respect of its inflation target, implies that the central bank actively wants inflation to overshoot its 2% target. Although there is scope for credit spreads to narrow further in investment-grade and high-yield debt, rising long-term interest rates could easily offset the benefit of higher carry.



Rotation, rotation, rotation

In our view, the recent steepening of yield curves serves to confirm an important inflection point in equity markets, which have been characterised by an extraordinary divergence between large cap growth and cyclical value stocks. Sure, equity markets have recovered from the trough in late March but the rally has been very narrow as investors treated the FAANG stocks – Facebook, Amazon, Apple, Netflix and Alphabet (Google) – as a safe haven, given their continued discomfort with COVID-19-related uncertainties. The prospect of a more broad-based recovery signalled by steepening yield curves has marked the beginning of a rotation away from the stocks that had formerly led the market recovery into the cyclical laggards. Market breadth – lacking hitherto – is now set to broaden as confidence in the recovery builds. Beaten-up financials and industrials look set to benefit, as should markets outside the United States, which have performed poorly.

We continue to strategically favour Chinese and Asian equities, where valuations remain attractive and secular growth prospects strong. Small and mid-cap stocks should also benefit.

Investors seeking a "safe haven"

A softer dollar...

A softer dollar should help to drive emerging market currencies and assets. This is predicated on a continued decline in real US interest rates as the Federal Reserve keeps rates locked down and inflation rebounds. We continue to favour the renminbi and Asian currencies more generally where more orthodox monetary policies are set to prevail, but pressure should also ease on the emerging market "carry" currencies as liquidity headwinds abate.

...and a harder renminbi

The shortage of diversifying defensive assets remains a challenge. Gold is a hold – as confidence in a continuing recovery builds and support for safe-haven assets declines. Conversely, higher US inflation and a weaker dollar remain supportive factors. However, the renminbi remains our preferred defensive asset as monetary policy settings in China continue to diverge from those being pursued by Western central banks. Although classified by the investment industry as an emerging currency, China is a strong creditor nation pursuing policies that are consistent with a hard currency.

In conclusion

We are at a point in the cycle that should continue to favour equities over other growth assets. Within equities, our allocations have been progressively pivoting to more cyclical markets and sectors for some time in the expectation of new leadership emerging. Recent price action seems to be confirming this and our conviction continues to rise. We will continue to run historically low exposure to bonds on both cyclical and strategic grounds.

Can foreigners be lured back into our bond market?

The fast view

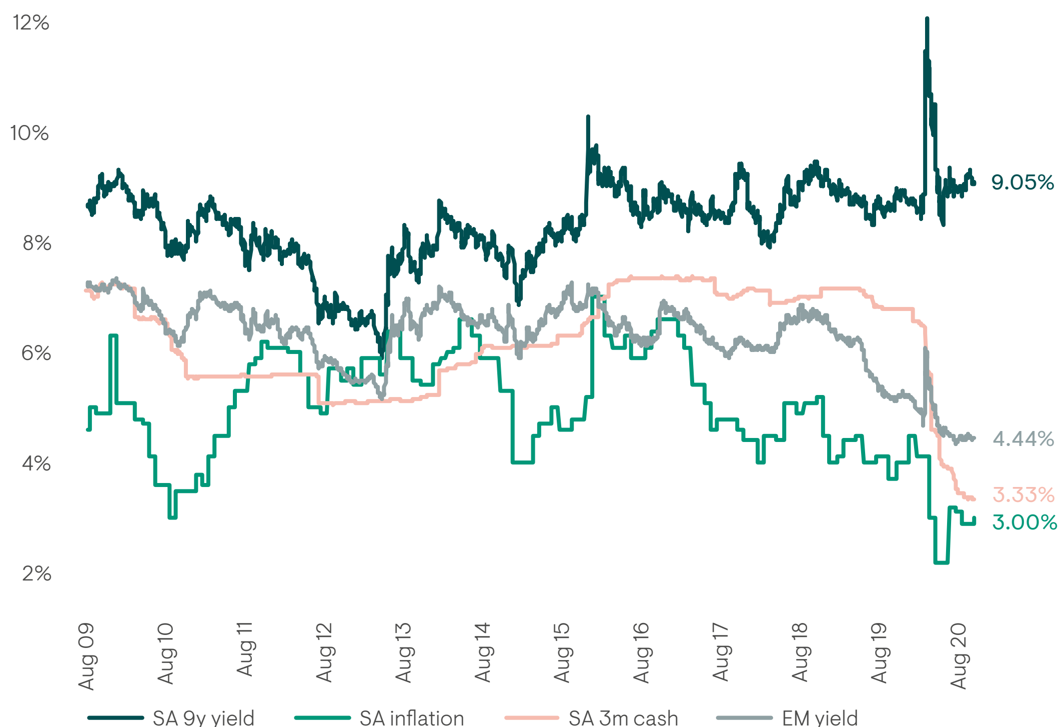
- Inflation and cash rates have retreated in South Africa, which is very supportive for our bond market.
- Despite high real SA bond rates, foreign ownership is back at 2012 levels.
- October's Medium-Term Budget Policy Statement was reasonable. If government can curb public sector wage growth and maintain fiscal discipline, we could see foreign inflows, with a capital uplift for SA bonds.
- A more favourable global backdrop should also help to attract foreign investment into our bond market.
- The Ninety One Diversified Income Fund is positioned to participate in any bond market rally, while the fund's offshore allocation serves as a risk mitigator.

Peter Kent
Co-Head of SA & Africa
Fixed Income

Malcolm Charles
Portfolio Manager
Fixed Income

So far, 2020 has set some interesting new records. The pandemic-induced global stock market crash in March this year was the fastest plunge in history. This was swiftly followed by the S&P 500 Index's record-high close on 18 August, which officially ended the shortest bear market in history.[1] Our markets also set some records of their own. SA bonds lost nearly 10% in March – the worst month ever. COVID-19 economic shocks and the country losing its investment-grade credit rating resulted in the nine-year bond reaching an eye-watering intra-day high of 13.25% in March. Liquidity constraints and a dysfunctional market saw the South African Reserve Bank (SARB) buying bonds to help stabilise the market. Fortunately, SA bond market yields are now back at pre-pandemic levels. But has the market returned to normal? We don't believe this is the case, as shown in Figure 1.

Figure 1: What a year it has been



Source: Bloomberg and Ninety One as at 28 October 2020.

SA bond market yields are now back at pre-pandemic levels.

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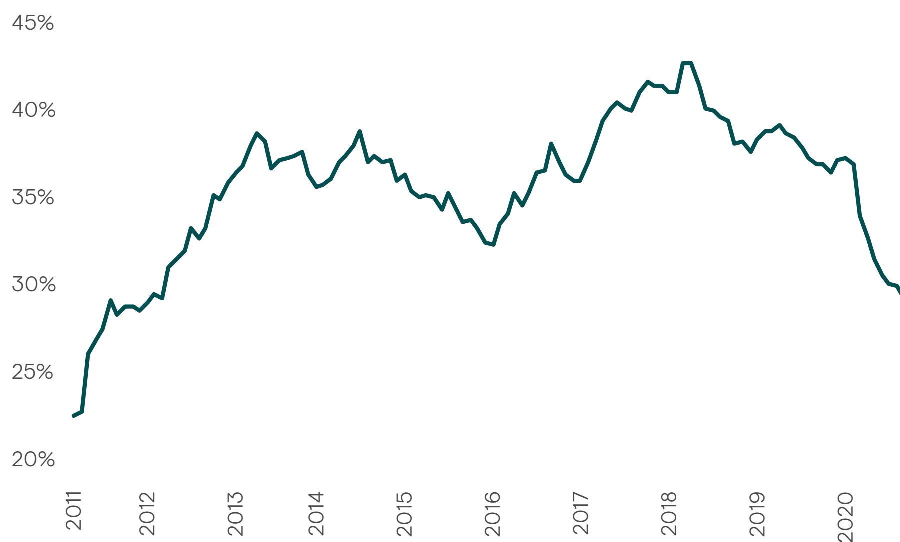
1 "Say goodbye to the shortest bear market in history", Reuters, 18 August 2020.

With inflation being firmly under control for some time already, and hovering around 3%, the SARB has had plenty of room to cut interest rates. The repo rate was 6.5% coming into the year, but after a series of cuts is down to 3.5%. The positive inflation picture and aggressive rate cuts would normally have given rise to much lower bond yields (when bond yields decline it means their prices increase). But despite these favourable factors, SA bond yields have remained stubbornly high, reflecting fiscal concerns. The grey line in Figure 1 shows the bond yields of our emerging market (EM) peers, and the dark green line, the yield on the nine-year SA government bond. The gap between South Africa's bond yields versus those of comparable EM peers, known as the yield spread, has never been as wide as it is now. Essentially, South African bonds have never before traded at such a large discount to their EM peers.

South Africa's higher yields (and deeper discount) should place it further up the queue to attract foreign capital than a lot of its EM peers. But over the last year, there has been a serious lack of foreign interest in our bond market. Foreign ownership of SA government bonds has declined to 2012 levels, and is sitting at approximately 29% (as at the end of October), as shown in Figure 2.

Figure 2: Foreign holdings of SA government bonds, the lowest in eight years



Source: National Treasury, as at 30 October 2020.

South African bonds have never before traded at such a large discount to their EM peers.

Why has foreign interest waned?

- **Chinese bonds gaining weight**
  China's bond market has attracted billions of dollars of inflows following its inclusion in worldwide bond indices, the Bloomberg Barclays Global Aggregate Bond Index – starting in April 2019; the FTSE Russell World Government Bond Index (WGBI) – starting in October 2021; and the JP Morgan GBI EM Global Diversified Index (GBI-EM GD) – starting in February 2020. South Africa's bond weighting in emerging market indices such as the GBI-EM GD has been diluted as China's weighting has steadily increased over time. This has been a headwind for our market over the last six months. However, the impact on our bond market has started to become less pronounced as China is nearing the end of its inclusion phase in the GBI-EM GD.

- **Forced foreign selling**

  When South Africa lost its investment-grade credit rating in March, it resulted in the country's exclusion from the WGBI. This meant that many large foreign funds could no longer hold our bonds and were forced sellers. South Africa experienced an outflow from the bond market of over R70bn between March and May of this year.

- **SA's fiscal situation**

  The fiscal deterioration in South Africa has been a big concern for investors who want to see concrete steps from government to stabilise public debt. The last three years have been very disappointing for investors, as the government has been long on promises but short on detail. While good plans are valued, all eyes are on implementation.

- **A decline in global risk appetite**

  The COVID-19 crisis sparked a wave of global market risk reduction, with investors seeking refuge in "safe-haven" and liquid assets such as developed market (DM) government bonds. Global risk sentiment has improved in recent months. However, second wave COVID-19 outbreaks, and uncertainty over the US election and the magnitude of fiscal stimulus measures, have resulted in some investors adopting a more cautious approach.

> The government has been long on promises but short on detail.

Two key factors that will help attract foreign flows into our market

1 Curbing public wage growth and maintaining fiscal discipline

South Africa has been spending beyond its means for several years. The COVID-19 shocks to our economy exacerbated our precarious fiscal situation. Government's massive revenue shortfall – expected to be more than R300bn lower than originally projected – should not be seen as a temporary situation. Instead, it points to an impairment of the tax base, which will take years to recover. That is why the measures spelt out in the Medium-Term Budget Policy Statement (MTBPS) to control expenditure are so important.

Four months into the COVID-19 crisis, Finance Minister Tito Mboweni announced very ambitious spending cuts. If these cuts were implemented, the June Supplementary Budget projected that South African government debt-to-GDP would stabilise at 87.4% of GDP in 2023/24. However, in the MTBPS, overall spending cuts are now around R100bn less than was announced in June. The peak in the debt-to-GDP ratio has been pushed out to 95.3% of GDP in 2025/26. While the slippage on expenditure plans is not ideal, the spending mix is a lot better.

The MTBPS reprioritised non-wage spending to improve service delivery, while making provision for even deeper cuts in the wage bill. In the current fiscal year, public sector wages will account for close to 60% of all taxes collected. Therefore, approximately 2.5% of the population will consume 60% of all taxes collected. It is widely recognised that the public sector wage bill is unsustainable and that is where government needs to cut. The MTBPS attempts to be realistic about the spending cuts that can be achieved while holding a tough line on wages. With that combination, we think the October mini budget is reasonable. So, it's all about wages. If government can contain public sector wage growth, we may see some capital uplift in the bond market as investor sentiment improves.

2 A reasonable global environment

The US dollar has weakened steadily over the last few months, largely due to the US Federal Reserve's (the Fed's) monetary policy measures, which include very low interest rates and bond buying to aid the US economy. A weaker dollar benefits EMs as it bolsters their currencies, supports commodity prices and promotes a more favourable environment for investing in these countries' assets. The Fed is committed to keeping short-term borrowing costs near zero for the foreseeable future, even if unemployment falls sharply, which usually signals higher inflation. Lower interest rates for longer should remain a drag on the dollar. Besides the weaker dollar, low interest rates in DMs are a global tailwind for EMs such as South Africa. The euro area and Japan have gone a step further than the Fed, allowing interest rates to fall below zero. So, South Africa, with its high real interest rates, low inflation and stronger rand, has a window of opportunity to attract foreign capital flows into the bond market.

The Fed, which should expand its bond-buying programme towards the end of the year, has called for further fiscal stimulus measures to prop up US growth. The Republicans and Democrats failed to reach an agreement on fiscal easing before the election. Markets would like to see substantial fiscal measures soon. But a divided US government means that the magnitude and timing of the fiscal package will likely remain uncertain in the near term. A large fiscal boost would provide much-needed support to the US economy, and in turn, the global economy and markets – including EM countries. A Biden presidency should also see more stability on the geopolitical front.

How we are positioning the Ninety One Diversified Income Fund

Against a backdrop of intense market volatility, we've had a strong emphasis on protecting the capital of our investors this year and have managed to deliver returns that are comfortably above inflation and cash (12 months to end September).

Exposure to offshore assets plays an integral part as a risk mitigator in our portfolio. During the height of the market meltdown (March and April of this year), our offshore exposure helped to bolster portfolio returns when the domestic market was under severe pressure. Of course, our level of exposure varies materially depending on market conditions, our currency outlook and other potential risk factors. While our offshore exposure was as a high as 10% during the first quarter, we are currently sitting between 3 and 5%. We expect the rand to be resilient in the near term, given the weak US dollar, an improved global risk appetite and South Africa's favourable terms of trade.

The portfolio is slightly underweight credit. Institutions are not issuing much paper, plus there is huge demand, so credit is actually quite expensive. However, we are still finding some attractive opportunities and have maintained a decent allocation to credit in the portfolio.

> We expect the rand to be resilient in the near term.

With cash rates at record lows, government bonds are offering the best yields. Investors can earn in excess of 9% on a ten-year government bond, which is very attractive.[2] A combination of government bonds with some foreign exchange exposure to mitigate the risks, allows our investors to earn a decent yield in the portfolio. We have a reasonable allocation to inflation-linked bonds, which also helps us to manage risk in the portfolio. If the government manages to contain its wage bill and we see some concrete progress on the path to structural reforms, SA bonds could enjoy a capital uplift.

Listed property is very volatile, and we remain underweight the sector. We think there is some upside potential, but sharp daily swings mean we have to carefully manage our exposure to listed property.

We have a balance of exposures to provide some protection against the multitude of risks locally and globally. This investment strategy has worked well for us during periods where we have experienced bond market volatility or rand weakness.

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2 As at 11 November 2020.

The future of work

The fast view

- The concept of an office as a place requiring the physical presence of labour has been slowly eroded by the globalisation of services.
- Three factors have been driving this trend: online freelancing platforms, machine translation services and communications infrastructure – which are all well established. Despite these changes, the current workplace has been slow to imagine a different reality.
- COVID-19, however, has suddenly shown just what is possible in terms of remote work. By working remotely, space becomes compressed, and borders fade — what starts in New York arrives in Dallas and ends in Johannesburg.
- The implications for white-collar workers, commercial real estate and the digitisation of services are profound.
- We are witnessing a major socio-technological paradigm shift – within a decade our current world of work could look unrecognisable.

Sahil Mahtani
Strategist

Marc Abrahams
Head of Multi-Asset Quantitative Analysis, Risk and Portfolio Construction

The COVID-19 tailwind

Fantasising about the obliteration of office life is not new, yet according to the Bureau of Labour Statistics, as recently as September last year, just 4% of people in the United States mainly worked from home.[1] COVID-19 has been a sufficiently large shock to overcome longstanding behavioural and technological barriers to working from anywhere, and it has become a consensus view that the pandemic will prompt many companies to reassess geographic footprints, normalise flexible working arrangements and shift commuting patterns. Markets are anticipating this will hit commercial real estate particularly hard. But that is just the thin end of the wedge. Domestic or regional telecommuting may well become international telecommuting.

The globalisation of services is being hastened by COVID-19, propelling businesses, countries and society at large to evolve in ways that would have happened much more gradually over time. Services employment, which has often been excluded from international labour market competition, will now be increasingly subject to this global transition. The squeeze on white-collar wages in advanced economies will likely become more pronounced. Countries that are ill-equipped to prepare their workers for this new world of work will face a higher risk premium. Meanwhile, the globalisation and automation of service-sector jobs will put pressure on urban property values as it becomes possible to work collaboratively in more places. Finally, the companies that underpin this new digital economy will be well rewarded. As with all major socio-technological shifts, the impact will play out over many years.

> The pandemic will prompt many companies to reassess geographic footprints, normalise flexible working arrangements and shift commuting patterns.

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1 Bureau of Labour Statistics, September 24, 2019. Workers worked more than 3 days a week exclusively at home.

Services are globalising

Unlike goods, people cannot be easily packed into a container and shipped around the world. However, three factors are now making it easier to trade services across borders:

1. **Online freelancing platforms are assisting in matching labour.** The last few years has seen the rise of online freelancing platforms such as Upwork, Freelancer, Fiverr, and PeoplePerHour. In China, the largest platform is ZBJ.com, with 16 million people registered. Online freelancing platforms are different from local gig economy platforms like Uber, Deliveroo and Taskrabbit, which mediate onsite, in-person services for a set price. Online freelancing platforms like Upwork usually feature expertise or higher task complexity. As such, they are a source of direct competition to traditional white-collar labour.

   A 2017 study of four platforms from the iLabour Project at Oxford found that 24% of online workers are in India, followed by Bangladesh (16%), United States (12%), Pakistan (8%), the Philippines (6%) and the United Kingdom (6%).[2] By lowering the cost of hiring foreign service workers, freelance platforms are allowing firms and individuals to take advantage of international wage differences. Nevertheless, the presence of the United States and United Kingdom on the list of top online workers suggests that some high-wage countries may also be able to gain headway in the international services trade. While early adopters of the online freelancing platforms were mostly individuals and SMEs, large firms have begun to use these platforms in substantial ways.

2. **Translation software is enabling a broader labour pool.** The fact that international service jobs have typically been intermediated in English has led to work being disproportionately concentrated in English-speaking developing countries like India and the Philippines. Yet translation software is now widely available and good enough to involve cross-language work, as anyone using Google Translate will attest. Another interesting example is DiDi Mobility Japan, a joint venture between Didi Chuxing and SoftBank Corp, which uses Microsoft translation to help foreign visitors communicate with drivers. So, while translation software still has shortcomings, it works well for most business transactions that are fairly straightforward.

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2 Lehdonvirta, V., “Where are online workers located? The international division of digital gig work,” Oxford Internet Institute, July 11, 2017.

3 **Improved communications technology reduces the significance of physical distance.** COVID-19 may well bring forward more investment in augmented reality (AR), virtual reality, and holographic telepresence. These are technologies that, powered by sophisticated smartphone cameras and ultra-realistic computer graphics, allow us to step into a digital world that replicates our offline world faithfully. Augmented reality in the form of remote surgery has been around since the 1970s when NASA scientists began to tackle the issue of performing operations on injured astronauts. But not until recently has it been possible to collaborate virtually and straightforwardly on complex tasks like surgeries. This allows patients to get the best expertise available despite being treated by local doctors on site. For instance, Proximie has been used since 2016 by doctors in Beirut to assist surgeons operating in the Gaza strip. During COVID-19, Proximie technology was used by NHS trusts to connect self-isolating healthcare clinicians to support those on the front line.[3] The diffusion of this technology across different professions could be transformative.

"How did you go bankrupt? Two ways. Gradually, then suddenly" – Ernest Hemingway, The Sun Also Rises

This coming wave of globalisation of services labour will have an enormous impact on markets and society. In a sense, as the Hemingway quote suggests, change will initially be slow, but then be subject to a series of irreversible tipping points that will result in the bankruptcy of older working arrangements. Formal services employment is likely to change substantially over the coming decade.

Key market impacts

Likelihood that white-collar wages grow more slowly

Downward pressure on urban property prices

Premium for platforms that support telecommuting

3 "The technology allowing self-isolating NHS staff to support the front line," Med-Tech, April 15, 2020.

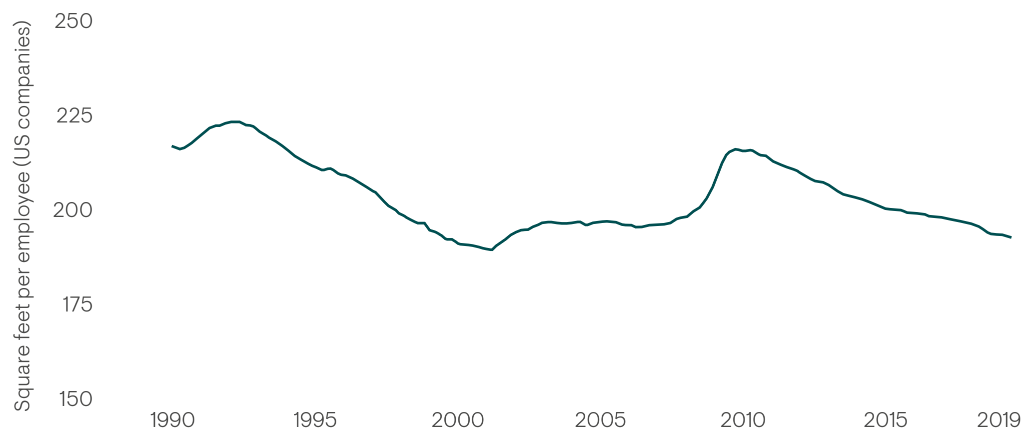
Three important shifts that market observers should consider

First, pressure on white-collar wages in advanced economies is likely to stay and even accelerate, keeping real wages low for many years to come. This will lead to domestic political pressure for societies that cannot adapt, scrambling risk premia for countries hitherto considered to be politically steady. Economically, think of this as a "China shock" but for the much larger services sector. The "China shock" refers to the jobs displacement that occurred when Chinese workers were introduced en masse into the global tradable goods sector. The resulting economic decimation of places like the midwestern US directly led to swing votes for Donald Trump's election in 2016. The episode demonstrated that the US labour market was not as homogenous or as flexible as many had thought. Displaced workers in the most exposed regions often dropped out of the workforce rather than finding new, let alone better jobs. The globalisation of services will be like the "China shock" but on a larger scale. Services now make up around 80% of British, Swedish and US output, and around 70% of German, Italian and Japanese output, implying a much larger hit to employment if these new communications technologies take off.

Pressure on white-collar wages in advanced economies is likely to stay and even accelerate, keeping real wages low for many years to come.

Second, there is clearly going to be downward pressure on urbanisation and commercial real estate as it becomes possible to work collaboratively in more places and as firms try to save costs. James Gorman, the chief executive of Morgan Stanley, has already declared that his bank would have "much less real estate" in the future.[4] It does not take much imagination to see that the COVID-19 shock might catalyse substantial efficiencies. After all, workspace occupancy studies have consistently found that desks are in use on average just 60% through the core working day.[5]

Figure 1: Shrinking space requirements



Source: Adrian Ponsen, CoStar Group.

4 Schatzker, E., "Morgan Stanley CEO sees a future for the bank with 'much less real estate'," Bloomberg, April 16, 2020.

5 Defined as occupied, or temporarily unoccupied, while the occupier is elsewhere in the building. Harris, R., Bedford, M., Gillen, N., Jack, F., Rees, S., Whitehead, C., "Office occupancy: Density and utilisation," British Council for Offices, February 2018.

Finally, as employers build the infrastructure to make telecommuting seamless, the companies that become the backbone of this new services trade – the commercial platforms, the data platforms, and the technical tools – will deserve a premium. We know that extraordinary events like COVID-19 have typically marked a turning point for many successful businesses. The outbreak of SARS in 2002 was a turning point for Jack Ma at Alibaba, who began to push for its online e-commerce platform Taobao. Similarly, Richard Liu at JD began to move his business online at the time. We also know that technologies often require several strands to come together before widespread diffusion. While e-commerce sowed its seeds during SARS, it did not take off until 3G and smartphones arrived in 2007. Today, advanced economies have for years been on the cusp of adopting a number of new technologies in cloud computing, enterprise software, and 5G-enabled devices – they may be about to enter a new era.

Conclusion

This coming wave of globalisation of services labour, for which COVID-19 is providing a particularly large tailwind, will have an enormous impact on markets and society. Even if just one of the three shifts we envisage materialises, it would be transformative. Put them together, and they amount to a paradigm shift. Though it might not yet be time to swap suits for the surf completely, within a decade our current world of work could look unrecognisable.

This is an edited extract from the Ninety One Investment Institute's "The digital economy and the future of work", part of "The Great Shutdown" series. Visit www.ninetyone.com/the-digital-economy-and-the-future-of-work to read the full paper.

> Though it might not yet be time to swap suits for the surf completely, within a decade our current world of work could look unrecognisable.

Not all active managers are equal

The fast view

— The vast majority of investors' assets are managed by a small number of managers, which therefore represent the bulk of "experienced performance" for clients. With this in mind, we examined asset-weighted ASISA[1] performance data.

— The largest three active managers, Coronation, Allan Gray and Ninety One, account for over 30% of all unit trust assets and 55% of assets in the Multi-Asset High Equity ("MAHE") sector.

— We compared the performance of the MAHE funds managed by these three managers to those managed by the top three passive managers, again based on asset size, but also with a longer than two-year track record. (These three passive managers account for 6% of assets in the Multi-Asset High Equity sector.) We used the Willis Towers Watson balanced benchmark,[2] which is a challenging benchmark with high offshore and equity weightings, calculated by an independent consultant.

— The active group outperformed the benchmark by 1.8% (annualised) over rolling three and five years to the end of September 2020. In contrast, the passives underperformed by 1%,[3] creating a 2.8% differential. For an investor, that's the difference between your money multiplying 21 times versus 12 times, over 20 years.

Sangeeth Sewnath
Deputy Managing Director

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1 The Association for Savings and Investment South Africa (ASISA).

2 42% Capped SWIX, 13% ALBI and 5% IGOV, 5% STeFI, 5% ALPI, 26% MSCI ACWI, 4% JP Morgan Global Gov Bond, 3% FTSE EPRA/NAREIT Developed Index.

3 Past performance figures should not be taken as a guide to the future. Source: Morningstar. Returns to 30 September 2020, on a bid-to-bid basis with gross income reinvested, in South African rands. Performance shown is net of highest management fees (A class). The benchmark is the Capped SWIX and prior to that, the SWIX, and prior to that, the FFBM (ALSI half weighted Resources).

As an active, risk-aware investment firm, we believe that active returns deliver significant value to investors. However, it is clear that not all active managers are equal, nor are all strategies directly comparable.

The MAHE sector has a large number of funds that employ various strategies – active, passive, smart beta and a blend. To isolate performance as experienced by the average client, we selected the largest managers' largest MAHE funds – both active and passive. This enabled us to compare performance as representatively as possible. A great proportion of investors' assets are in a small number of trusted active managers' hands, namely Coronation, Allan Gray and Ninety One. We have analysed these managers' performance against both a challenging, independently calculated benchmark and against counterpart passive providers, and have compelling evidence of the persistent value of active management.

Simplistic analyses of returns ignore risk. In a highly concentrated and occasionally inefficient market such as ours, the value of active management comes to the fore during times of market stress. For example, market performance in the wake of the pandemic has largely been driven by just two shares, Prosus and Naspers. Together they constitute more than a third of the market, and respectively returned around 29% and 46% for the year to date.[4] Without their contribution, the year-to-date return from the market as a whole falls dramatically. The difference between including and excluding just these two shares is more than 16%, as can be seen in Figure 1.

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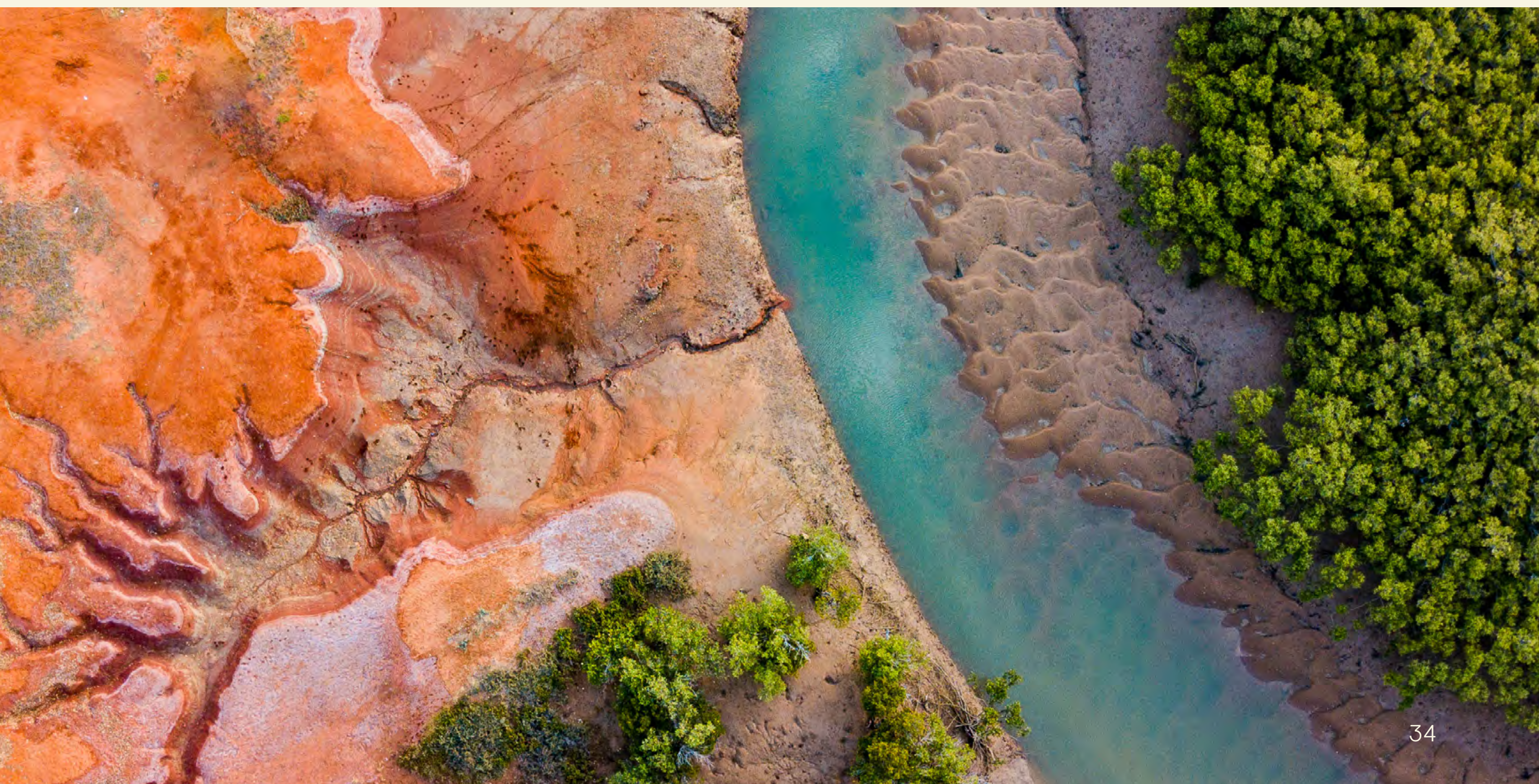
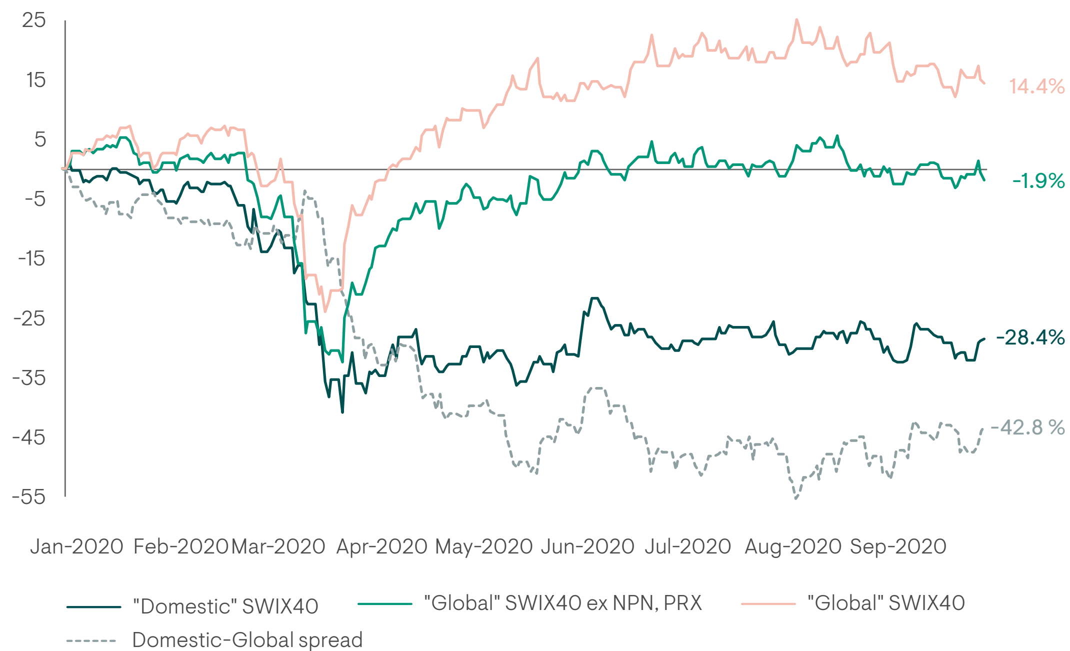
4 Year to date to September 2020.



From a portfolio management perspective, the concentration of these shares in the “Global” SWIX40 Index makes it very difficult to beat the index when they are rising strongly, and consequently flatters passive performance. This effectively penalises intelligent risk management, which down-weights shares as their valuations become more and more stretched. Nevertheless, skilled active managers have added value in excess of the benchmark over this period, without taking on irresponsible levels of risk. To do this is not impossible, but demands conviction, both as an investor and as a manager, over the medium to long term.

Figure 1: A small number of shares can make an outsize difference



Source: Investec Securities

In the current environment, a small number of large shares have outperformed dramatically. However, they can reverse direction quickly and punish investors who have unwittingly exposed themselves to such a situation. Combined with the potential value add an experienced financial advisor can deliver, active managers can and do improve risk-adjusted returns dramatically.

In the current environment, a small number of large shares have outperformed dramatically.

Take the case of a 40-year old, saving for retirement at 65, 25 years from now. In such a case, an additional 2% per annum results in the investor having twice as much income at retirement. And from the above figures shown for the MAHE funds, this is achievable.

Not only is this outcome possible, it is best executed by taking advantage of independent financial advice.

This is because there are two crucial decisions investors face.

1 Choosing the correct risk profile

Investors who are saving for retirement are usually unduly cautious, investing in low risk (low equity) portfolios. By taking professional advice, they would be matched to the correct, higher risk profile. In doing so, they can potentially double their replacement ratio (A). Financial coaching reduces not only the risk of incorrect profile selection upfront, but the risk of locking in losses by switching to cash during a crash. An independent financial advisor can help you avoid the behavioural mistakes and select the non-obvious opportunities (B).

A. What is a replacement ratio?

Your replacement ratio is the percentage of your final monthly income you will enjoy as an actual post-retirement income, based on how much you have saved. If you have saved enough for an annuity that provides you R75 000 relative to a final salary of R100 000, then you have a replacement ratio of 75%. High ratios are therefore a very good thing.

B. Inefficiency in emerging markets

"Chinese investors have generally failed to pick the top-performing actively managed funds in the country, even though more than 85 per cent of them outperformed their passive rivals net of fees over 12 months and three years, according to Morningstar. The data provider's most recent China Active/Passive Barometer, which measures the performance of onshore, China-domiciled active funds against their passive counterparts, shows that "investors have generally failed to choose above-average, active stock-heavy funds". The findings reflect risk aversion among investors, amid economic uncertainty and geopolitical tensions, but they also illustrate how hard it is for investors to choose outperforming active managers, especially in uncertain times."
- The Economist, 14 August 2020.

2 Choosing the right funds

Analysing Morningstar's performance data net of fees reveals that simply equal weighting investments between the largest three active managers' balanced portfolios (the Ninety One Opportunity Fund, Allan Gray Balanced Fund and Coronation Balanced Plus Fund), delivered 1.8% over rolling three and five years in excess of the aggressive Towers Watson balanced benchmark. This stands in contrast to allocating equally to the top three passive providers' multi-asset funds (the Nedgroup Investments Core Diversified Fund, 10X High Equity Index Fund and Satrix Balanced Index Fund), which delivered -0.99% net of fees behind the same balanced benchmark over rolling three years and -1.08% over rolling five years.[5] The impact of this additional return from the combination of financial advice and active management is considerable.

> The impact of this additional return from the combination of financial advice and active management is considerable.

This positive outcome for active managers is also evidenced in the Equity funds category. The leading tracked index in South Africa is the Capped SWIX Index. The rolling three-year average annualised return (to end September 2020) of the Ninety One SA Equity Fund, Allan Gray SA Equity Fund and Coronation Top 20 Fund is 2.16%, versus that of the largest three passive equity-only funds, the Satrix ALSI Index Fund, Old Mutual Rafi 40 Index Fund and Sygnia SWIX Index Fund, which delivered an average annualised return of -0.15%. Similarly, over rolling five years, the active group returned 1.85% per annum with the passive group returning -0.42% per annum. Looking even further back, the ten-year returns are 1.52% per annum and -1.36% per annum for the active and passive groups respectively.[6]

When to re-evaluate your strategy

Our research clearly demonstrates that while, on average, active managers will underperform a benchmark after fees, a select number have generated significant outperformance – and that the market has rewarded this outperformance with substantial investment. This outperformance will make a meaningful difference to those invested in these actively managed funds. It is evident that with more than half of the assets invested in the MAHE sector having been exposed to this active outperformance, it was not that difficult a decision.

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5 Past performance figures should not be taken as a guide to the future.
Source: Morningstar. Returns to 30 September 2020, on a bid-to-bid basis with gross income reinvested, in South African rands. Performance shown is net of highest management fees as per the share class indicated.

6 Past performance figures should not be taken as a guide to the future.
Source: Morningstar. Returns to 30 September 2020, on a bid-to-bid basis with gross income reinvested, in South African rands. Performance shown is net of highest management fees (A class).

The market has rewarded this outperformance with substantial investment.

What's next from Ninety One Investment Platform's tech team?

The fast view

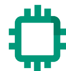
- Investment administration is a complex and technology-reliant business, demanding long term financial and operational commitment.
- Technology by itself will not set us apart as your provider of choice – it is a vital, minimum requirement. What matters is how it powers the relationships we enjoy with you, the value it adds to your clients, and the ability to save time for you.
- Ongoing communication with you has been crucial in delivering dynamic solutions aligned with your needs and best practices.
- An important driver of efficiency in our business is automation – a trend that will become even more pronounced in the future.
- Relevant, powerful tools are crucial to delivering answers and insights that meet clients' needs precisely and efficiently.
- Looking ahead, we believe that integration between third-party software suppliers will be a key priority as advisors look to consume best-of-breed technology for different aspects of the advice process.

Daryll Welsh
Head of Product

Scott Carr
Head of Client Digital Experience

Investment administration is a complex business, which demands interaction with multiple, sophisticated counterparties in a highly regulated landscape that is constantly evolving. Our business partners – you, the advisor, and our clients, also have ever-changing needs which we are eager to meet. Ongoing communication with you has been crucial in delivering dynamic solutions aligned with your needs and best practices. We are fortunate to work together with sophisticated and well-informed business partners who continually motivate us to deliver a best-of-breed client experience.

Our philosophy



Technology – an integral part of our service offering

In this environment, technology is key to our efficiency, the security of your assets and keeping costs down for everyone. While it doesn't solve every problem, it enables us to continually enhance our service offering, helping ensure better financial outcomes without increasing costs. It also assists our clients, assuring compliance with regulations at every step of the investment process. Spending less time on repetitive tasks, means you have more time applying your skills to things you enjoy.

A strong focus on automation

A key driver of efficiency in our business is automation – a trend that will become even more pronounced in the future. Reducing the burden of paper and digitising the investment process is ingrained in our DNA. Every ounce of benefit derived from enablers such as robotic process automation, straight-through processing and real-time identity verification translates directly into shorter processing times, later cutoffs, and a better user experience. It helps us to free our people's time, so that they can spend more time serving you, and less time troubleshooting.

Powerful tools delivering key insights

Part of our offering is a suite of tools covering market data analysis and reporting, as well as financial calculators and outcomes modelling. Some tools we build ourselves, while others we develop by partnering with best-in-class technology providers. This model allows us to combine our own collective wealth of financial planning expertise with other advances in data science and analytics, helping to create high-quality investment plans for clients.

A good example of our philosophy in practice

Prior to 2019, the Financial Intelligence Centre Act, or “FICA” as we have all come to know it, prescribed the way in which accountable institutions needed to verify the identity of people or companies with whom they wished to do business. This involved obtaining copies of identity documents, bank statements, proofs of address and often many other documents in a process that was onerous and time-consuming for everyone.

The FIC Amendment Act introduced a wholesale change to this legislation and along with it, added requirements to perform even more rigorous evaluation of prospective clients, which was called the risk-based approach.

In this change, we saw opportunity. By 2019, several technology tools had evolved to the point where it had become possible, if put together correctly, to independently verify a person’s identity and banking profile purely through digital interaction.

So, we put these tools together and created a brand-new onboarding process that did away with the need to supply copious amounts of documents to prove identity. By connecting directly to the Department of Home Affairs’ database and to the banking ecosystem, we can verify the client’s identity in real time and check that the bank account supplied does belong to the identity provided. The result has been a massive reduction in time and effort – 70% of our new investors are “FICA’d” in real time, on the screen with an accompanying certificate to help you satisfy your regulatory obligations.

70%

of our new investors are “FICA’d” in real time.

Optimising

1

Staying ahead of the curve

Technology evolves rapidly and we need to continually embrace new tools and practices well in advance of obvious needs. This is because the benefits of new technology are not always immediately apparent. For example, when we introduced digital approval in 2015, we could not have foreseen just how powerful a force it would be in 2020. As we all retreated to our homes due to the pandemic, moving paper back and forth between people became challenging. Thanks to a tenfold increase in the use of our digital approval technology, advisors could continue with the submission of client instructions in a seamless manner.

How we optimise technology at Ninety One

2

Integrating best-of-breed technology across the advice spectrum

While a lot of progress has been made on the technology front over the last couple of years, much of what has been delivered has been to lay the groundwork for what is to come down the line. Looking ahead, we believe that integration between third-party software suppliers will be a key priority as advisors look to consume best-of-breed technology for different aspects of the advice process. Using one supplier for client reporting, another for customer relationship management and a third for data aggregation, will all become possible as data sharing becomes widespread. We believe that platforms are the nerve centre of this, and only those platform businesses with an open mindset and a willingness to interconnect, will be the ones that ultimately survive.

technology

In conclusion

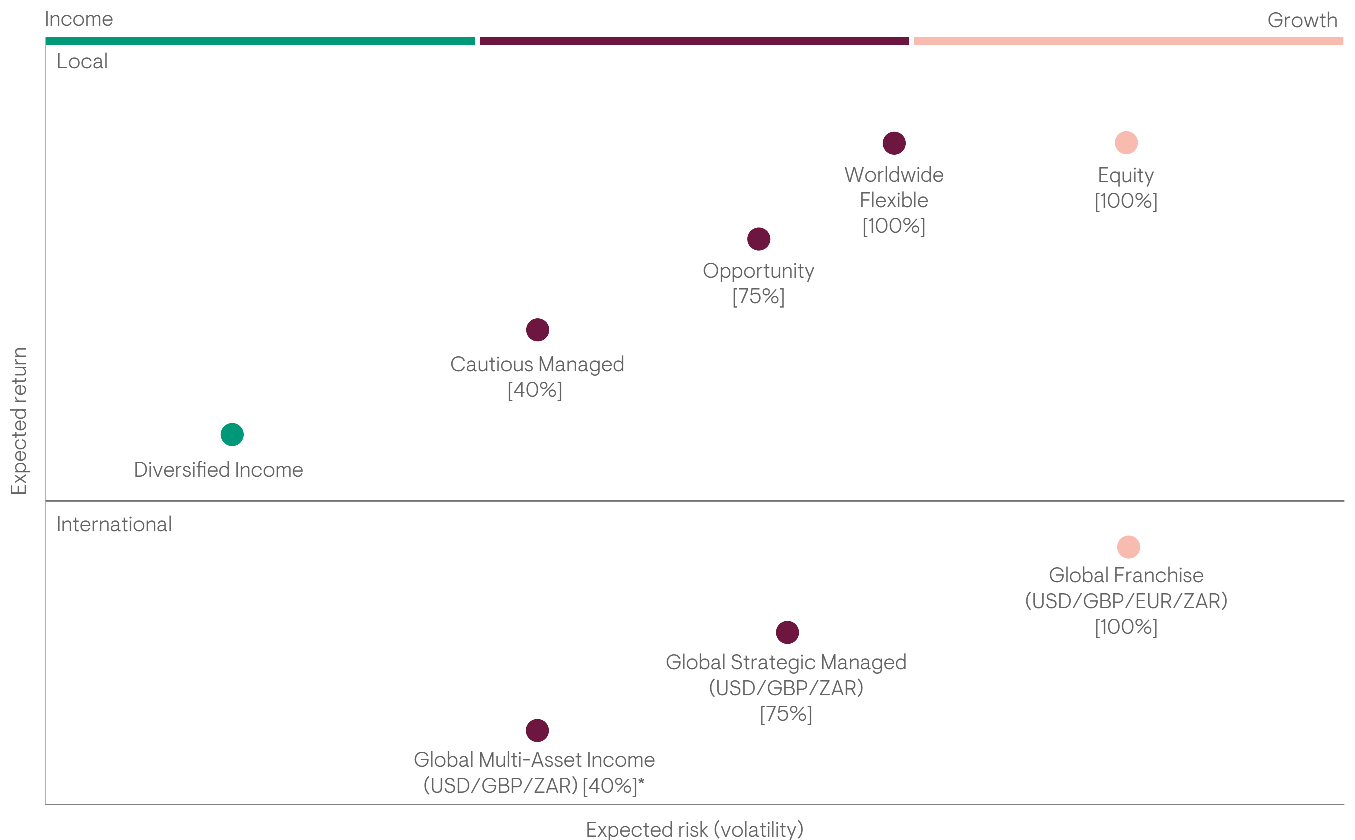
While it is expensive and resource intensive, technology forms an integral part of everything that we do at Ninety One. Technology by itself will not set us apart as your provider of choice – it is a vital, minimum requirement. What matters is how it powers the relationships we enjoy with you, the value it adds to your clients, and the ability to save time for you. In short:

- Ongoing technology enhancements enable us to spend more time and energy on our people and their relationships with you, helping our mutual businesses thrive. To maximise this impact requires that we maintain an open dialogue, sharing our needs and frustrations. We look forward to continued communication and feedback from you.
- These initiatives are aimed at helping you to be better at what you do best, rather than wasting precious time to get the basics done. We understand the importance of being in front of clients, rather than in front of a screen. Your business was built on personal meetings and handshakes, not on reports and emails.

Fully harnessing the power of technology is key to our business and our client relationships. It helps us both to be better at doing the things we do best. And we like to think that every day we are getting better at helping you help your clients, thanks to your valuable input.

Your business was built on personal meetings and handshakes, not on reports and emails.

Ninety One core fund range



Note: [ ] indicates maximum in equities. *As an internal limit, the Fund will normally invest no more than 40% of its value in the shares of companies. The Global Multi-Asset Income, Global Strategic Managed and Global Franchise Funds are available as ZAR feeders. The Global Strategic Managed and Global Franchise Funds are available in hedged GBP classes.

Because our offshore reach is your investment power

Investing for a world of change

As a trusted global investment partner for almost three decades, and now SA's largest investment manager with offices and expertise around the world, our offshore reach is your investment power.

ninetyone.com/offshore

Ninety One SA (Pty) Ltd is an authorised financial services provider.

Previously Investec Asset Management

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