



Dear Investor,

The first day of September traditionally marks the beginning of spring in South Africa. The longer days, and earlier start to the daylight triggers birds to start singing in the early morning. On the Highveld the two we hear earliest seem to be the **Karoo Thrush (this month's "View of the Month" picture)** and the Cape Robin-chat. Enjoy the beauty and joys that spring bring!

Unfortunately our country and economy has not entered the spring season and the main events from August 2019 can be classified as the good, bad and ugly.

### **The good**

National treasury released a document for public comment titled [\*\*\*Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa\*\*\*](#). Some of the comments surrounding this consultation paper includes not mincing words, incendiary, succinctly, evidence based, executable, well researched and very realistic.

This paper is a detailed examination of the structural reforms that can reverse the downward trend in South Africa's growth potential and competitiveness. **Weak growth over the last six years is a function of both cyclical and structural factors, although structural factors have dominated**, including sharply declining competitiveness, which saw South Africa's position in the Global Competitiveness rankings fall from 44<sup>th</sup> to 67<sup>th</sup> between 2007 and 2018.

**Short-term interventions could add on average 0.8% to GDP during years 1 to 3 and create 142,000 jobs over that period:**

- Tourism, via boosting visitor numbers by changing the visa regime and relaunching the SAPS tourism safety programme;
- Agricultural growth through better marketing and exports; and
- Telecoms reforms such as the release of additional broadband spectrum.

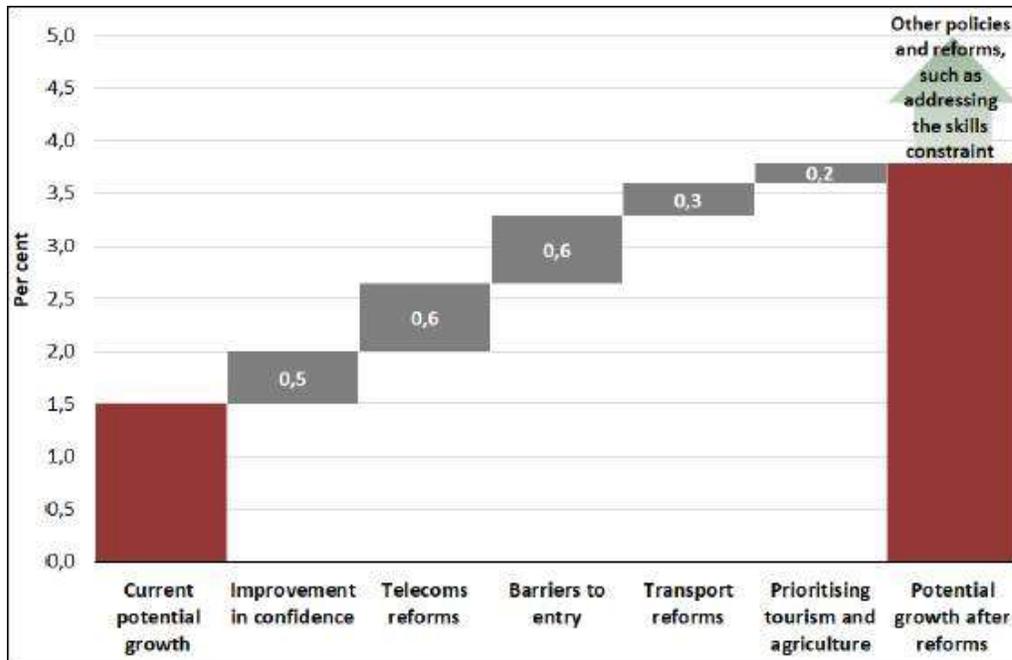
**Medium-term interventions could add on average 1.8% to GDP during years 1 to 6 and create 929,000 jobs over that period:**

- Policy reforms in the telecommunications sector
- Improving public transport driven by local government level and third-party access to the rail network and transport regulations
- Lowering barriers to entry and promoting small business growth
- Agricultural sector development by providing access to finance and insurance, contract farming, extension services, and access to export markets to smallholder farmers

**Long-term interventions could add on average 2.3% to GDP during years 1 to 10 and create over a million jobs over that period:**

- Trade promotion for agriculture
- Renegotiating bilateral trade agreements
- Improving quality and access to infrastructure
- Greater participation in regional and global value chains

The graph below indicates the estimated impact of reforms on potential growth. **The emphasis on "potential" as with so many other good ideas the success of this paper is dependent on implementation.** The ANC led government's track record is notoriously bad when it comes to implementing.



### **The bad**

Investors are aware of the Naspers corporate action in September where a **Capitalisation Issue (CI)** transaction will be used to form a new global consumer internet group called Prosus, which will dual list on the JSE and the Euronext stock exchange in Amsterdam. The CI presents SA shareholders with two options:

1. Receive 0.36986 new Naspers Limited shares in addition to every existing Naspers Limited share held
2. Receive 1 Prosus share in addition to every existing Naspers Limited share held

**We recommend our clients to select option 2** as it will ensure they receive a dual listed Rand hedge share (Prosus) in addition to every NPN share they already own, which we think in a South African context is critical. We're also hoping that option 2 will reduce the discount Naspers is currently trading to its Net Asset Value (NAV). Lastly, we suspect that an unintended consequence of option 1 is that Naspers will become a holding company of a new holding company which could even see an increase in NAV.

**The bad thing about our recommendation is that it will trigger a taxable event.** The CI is a two-step process where shareholders will first receive one Naspers M-share for every Naspers N-share they hold by way of a capitalisation award. The second step is when each Naspers M-share is swapped for one share in the new Prosus shares. The cost to shareholders of the M-share is zero, because they would not pay for it. But the price of the M-share that shareholders are deemed to be selling straightaway to buy their Prosus shares would be equal to the market price that investors are willing to pay for Prosus shares when the market in Amsterdam opens for trading.

**The selling of the M-shares in order to purchase the Prosus shares (i.e. step 2 of the CI) is what will trigger the capital gain and subsequent Capital Gains Tax (CGT).** It is important to remember CGT is not a separate tax in SA but forms part of income tax. For natural persons the capital gain inclusion rate is 40%, with relief of an annual exclusion of R40,000.

**Yes, it's bad but it is also not the end of the world:**

- Shareholders would have had to pay CGT on the gains in Naspers at some point in time, this has just been accelerated
- By selecting to receive more Naspers shares (option 1) and therefore not triggering CGT, the shareholder is just kicking the CGT can down the road
- Investors can offset this Naspers capital gain against capital losses in for example Steinhoff or one of the other Top40 shares that's already halved this year
- Shareholders can sell more Naspers shares to cover the CGT liability
- Pension wrappers (RAs, Pension and Provident funds and Preservations) do not trigger tax events and it might be worth investigating hosting your Naspers shares in a personal share portfolio (PSP) within these wrappers

### **The ugly**

The controversial National Health Insurance (NHI) Bill was recently published after it was tabled in parliament in August. It is the first piece of enabling legislation for the government's ambitious plans for implementing universal health coverage by 2026.

Even though it reeks of socialism, NHI is a noble concept and much needed in a country with inequalities like South Africa. It is designed to pool funds to provide access to quality affordable personal health services for all South Africans based on their health needs, irrespective of their socio-economic status.

**The reason why it is ugly is because this initiative will be experimenting with real lives and if unsuccessful will be like a Life Esidimeni on steroids.** Society is willing to experiment with many things but with the lives of your family and kids? This one is going to take a lot of convincing!

Other arguments against NHI (quoted from a News24 article):

- **Government's ability to fund NHI** – which will have mammoth costs – and fears that the taxpayer will be further burdened
- To run NHI, **another state-owned entity will need to be created**. Given the revelations of grand-scale looting at state-owned enterprises like Eskom, the fear is that NHI will be another opportunity for robber barons to make off with public money as their loot at the expense of ordinary South Africans
- The Hospital Association of SA (Hasa) said the implementation of **NHI could lead to 132,000 job losses**. There is also the notion that specialists and other medical personnel might leave for greener shores where NHI will not cramp their style
- **Existing problems in public healthcare should first be fixed** and the service expanded before an ambitious project to achieve universal healthcare is implemented
- NHI will hurt the private health sector and medical aid schemes and that this will have a **further impact on the South African economy as a whole**
- **It is an attack on personal freedom and individual liberty in this country**. Watch this brilliant video of our running buddy Paul Theron where he argues this point <https://youtu.be/8eZOgiEYnsY>

### Leaderex 2019

Leaderex is Africa's largest gathering of business leaders, professionals and entrepreneurs. **The JSE has asked Vista Wealth to present again at this prestigious event**. Please come and support our portfolio manager Henk Lindeque as he presents on Retail Portfolio Management:

**Date:** 4 September 2019

**Time:** 14:00

**Venue:** Sandton Convention Centre

### Joke of the month

As there were no good quotes with regards to our Good, Bad and Ugly theme this month, we've opted for a joke of the month:

**Good:** Your wife's not talking to you.

**Bad:** She wants a divorce.

**Ugly:** She's a lawyer.

### Fuel prices

The Department of Energy has published the fuel price changes that will become effective tomorrow 3 September 2019, **with both petrol and diesel seeing a jump!** Petrol prices, for both grades, will increase by 11 cents per litre. Diesel, meanwhile, will go up by 26 cents per litre. The department cited a weak rand over the review period, which undermined the positive movement in international petroleum prices.

### The markets

**The red block in the table below shows the market stats for August 2019.** In short, it was a negative month across all sectors for the SA stock market, with the **JSE All Share Total Return index** ↓ -2.4% for the month (↓ -2.8% for the last 12 months). The **Financial sector** was the hardest hit ↓ -3.8% with the **Listed Property sector** short on its heels ↓ -3.6% for the month. The **Industrial sector** was negative ↓ -3.1% and the Resource sector the least down ↓ -0.9% for the month. No sectors were positive this month.

## Market summary for the month of August 2019

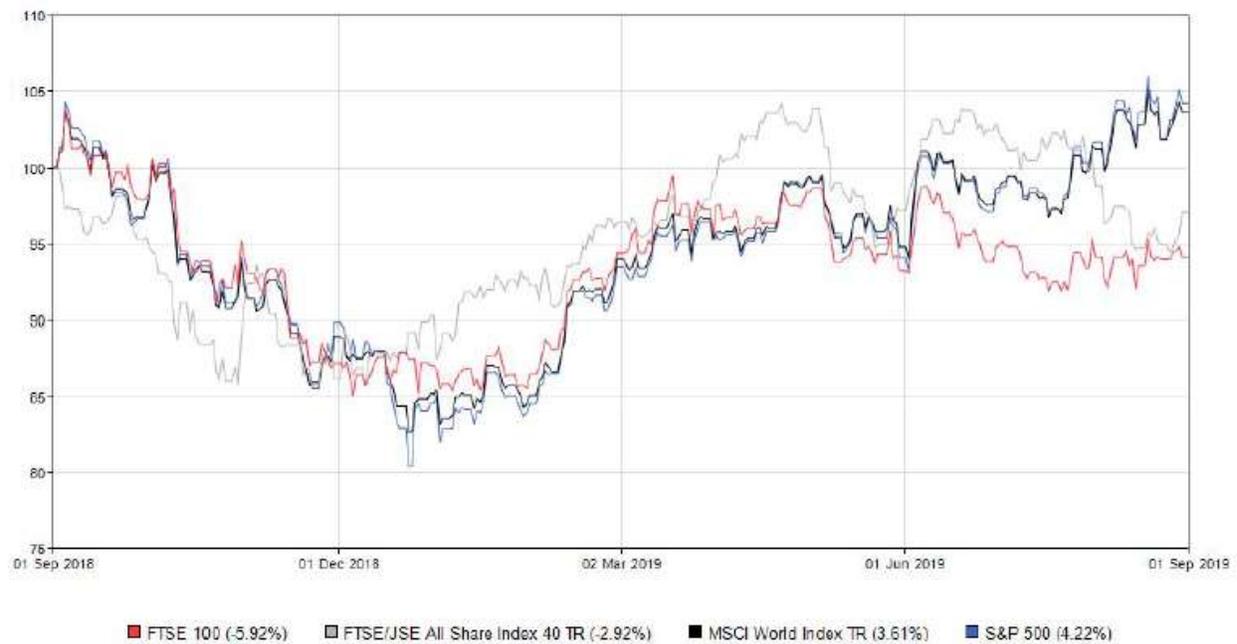
	Close price at 30/08/2019	Weekly % change	Month to date	Year to date	Last 12 months
<b>FTSE/JSE indices</b>					
All-Share Index	55 259.57	2.3%	-2.7%	4.8%	-6.0%
All-Share Index Total Return	8 261.21	2.4%	-2.4%	6.9%	-2.8%
Resources Index	25 547.60	4.8%	-0.9%	11.2%	5.6%
Industrials Index	76 323.86	1.3%	-3.1%	8.5%	-7.9%
Financials Index	37 875.69	1.9%	-3.8%	-8.3%	-13.3%
Top 40 Index	49 320.23	2.2%	-2.9%	5.6%	-6.3%
Shareholder Weighted Index	20 181.67	2.5%	-2.5%	4.0%	-4.7%
Capped Shareholder Weighted Index	21 751.66	2.8%	-2.7%	0.7%	-6.8%
SA Listed Property Index	1 860.38	-0.8%	-3.6%	1.0%	-4.3%
SA Volatility Index	17.68	-7.5%	8.1%	-18.9%	5.1%
<b>Interest-bearing indices</b>					
JSE Assa All Bond Index (Albi)	682.98	0.4%	1.0%	7.9%	11.5%
SteFI Composite Index	430.73	0.1%	0.6%	4.8%	7.3%
JSE Assa SA Government ILB Index	702.51	0.0%	-0.7%	2.9%	3.7%
<b>Interest rates</b>					
Prime rate	10.00%			-2.4%	0.0%
Repo rate	6.50%			-3.7%	0.0%
<b>Commodities (in US dollars)</b>					
Gold price	1 520.34	-0.4%	6.3%	18.7%	26.3%
Platinum price	930.75	8.7%	6.6%	17.3%	17.1%
Oil price	58.93	-0.3%	-8.4%	8.2%	-24.1%
<b>Global indices (in base currency)</b>					
Dow Jones (US)	26 403.28	3.0%	-1.7%	13.2%	1.6%
S&P 500 (US)	2 926.46	2.8%	-1.8%	16.7%	0.9%
FTSE (UK)	3 953.02	1.4%	-4.4%	7.6%	-4.6%
Hang Seng (Hong Kong)	25 724.73	-1.7%	-7.4%	0.9%	-8.7%
Shanghai	2 886.24	-0.4%	-1.6%	15.7%	5.4%
Nikkei (Japan)	20 704.37	0.0%	-3.8%	3.4%	-9.5%
Cac 40 (France)	5 480.48	2.9%	-0.7%	15.8%	0.0%
Dax (Germany)	1 114.63	2.7%	-1.9%	12.5%	-6.7%
MSCI Emerging	984.33	1.1%	-5.1%	1.9%	-6.9%
MSCI Developed	2 138.52	2.1%	-2.2%	13.5%	-2.0%
US Volatility Index	18.98	13.8%	36.2%	-25.3%	40.3%
<b>Exchange rates</b>					
Rand/US dollar	15.19	-0.4%	5.9%	5.8%	3.2%
Rand/euro	16.69	-1.8%	5.1%	1.4%	-2.8%
Rand/pound	18.46	-1.5%	5.9%	0.7%	-3.6%
Dollar/euro	1.10	-1.4%	-0.8%	-4.2%	-5.8%
<b>Inflation indicator</b>					
CPI					4.0%

## Financial Indicators as at 31 August 2019:

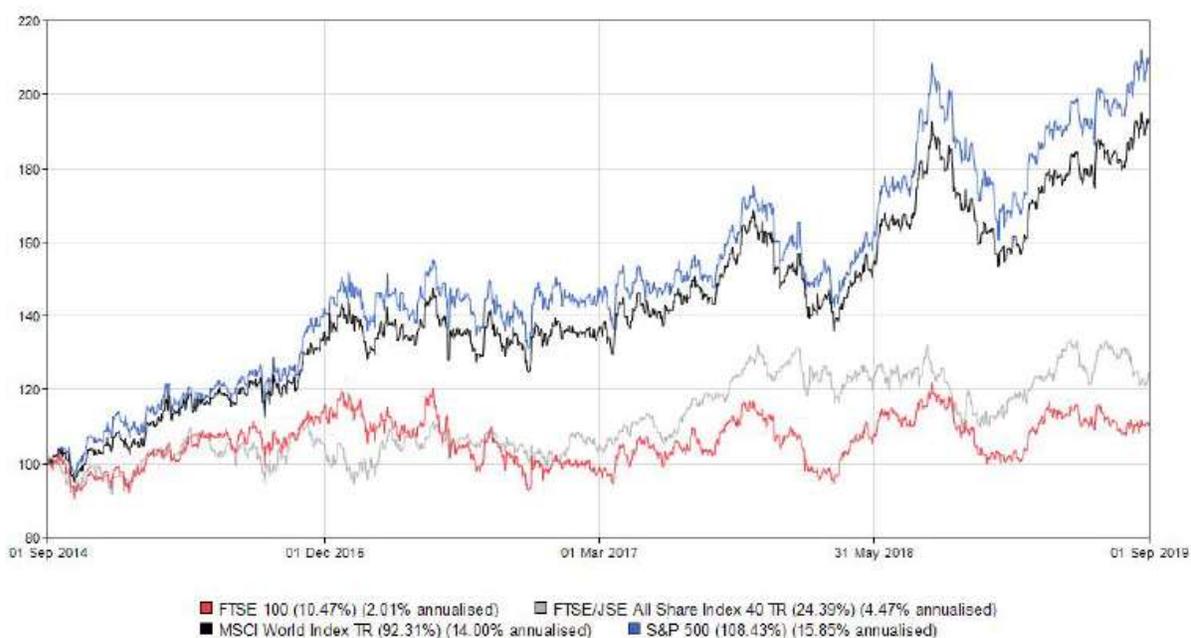
### Global indices:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE 100	-1.33	0.92	-5.92	1.96	0.65	10.47	2.02	118.16	8.13	6652.62	12.66
FTSE/JSE All Share Index 40 TR	-3.68	-0.12	-2.92	16.45	5.22	24.39	4.47	193.31	11.38	1941.29	13.30
MSCI World Index TR	2.13	9.31	3.61	37.01	11.09	92.31	14.00	365.13	16.65	129742.74	15.96
S&P 500	2.63	10.78	4.22	39.18	11.67	108.43	15.85	465.41	18.95	2703.74	13.90

### Global indices – 1 Year:



## Global indices – 5 years



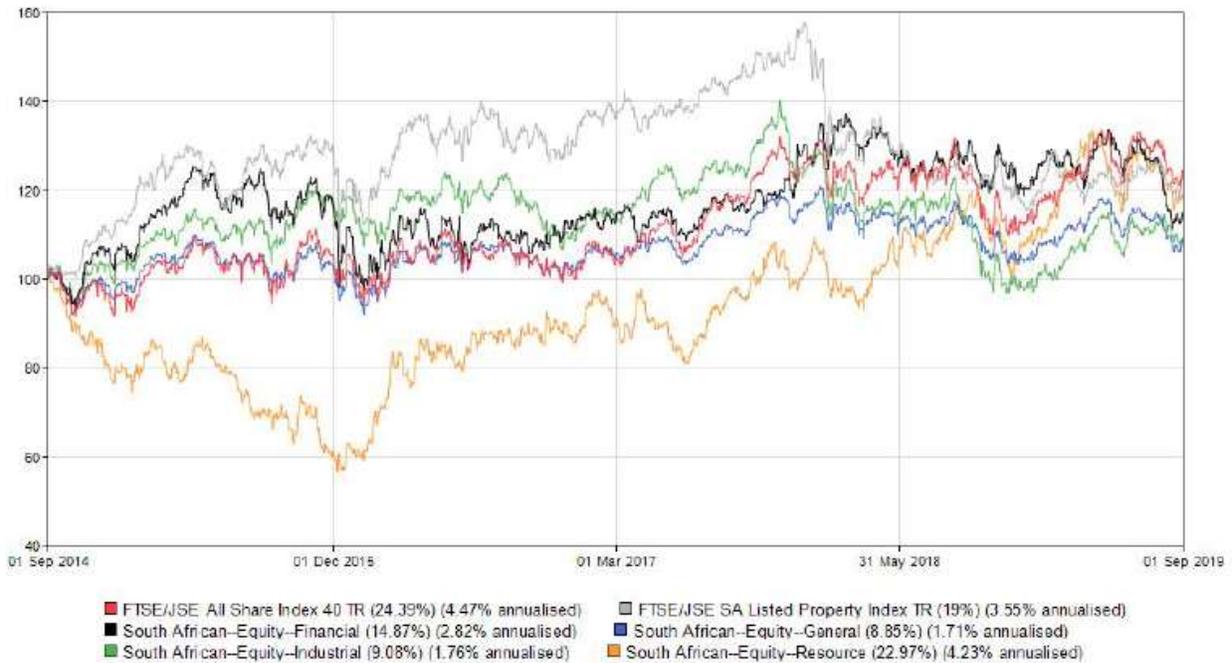
## JSE Sectors:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE/JSE All Share Index 40 TR	-3.68	-0.12	-2.92	16.45	5.22	24.39	4.47	193.31	11.38	1941.29	13.30
FTSE/JSE SA Listed Property Index TR	-3.68	-2.63	-5.52	-8.33	-2.86	19.00	3.55	194.64	11.43	885.58	16.42
South African–Equity–Financial	-3.92	-9.29	-11.66	6.23	2.04	14.87	2.82	180.62	10.89	1238.56	12.59
South African–Equity–General	-2.28	-2.02	-6.30	2.32	0.77	8.85	1.71	132.55	8.82	11582.58	15.46
South African–Equity–Industrial	-4.71	1.87	-8.33	-10.64	-3.69	9.08	1.76	222.43	12.45	5781.33	16.09
South African–Equity–Resource	2.21	4.62	6.32	42.42	12.53	22.97	4.23	77.24	5.90	7335.24	13.90

### JSE Sectors – 1 Year:



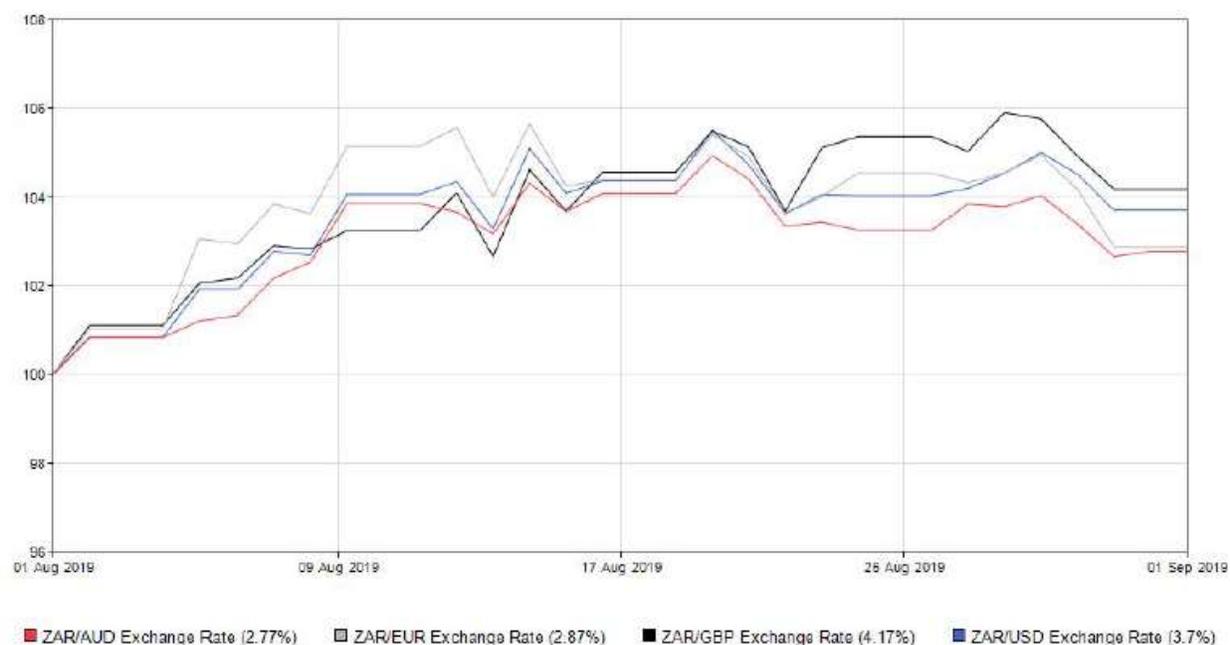
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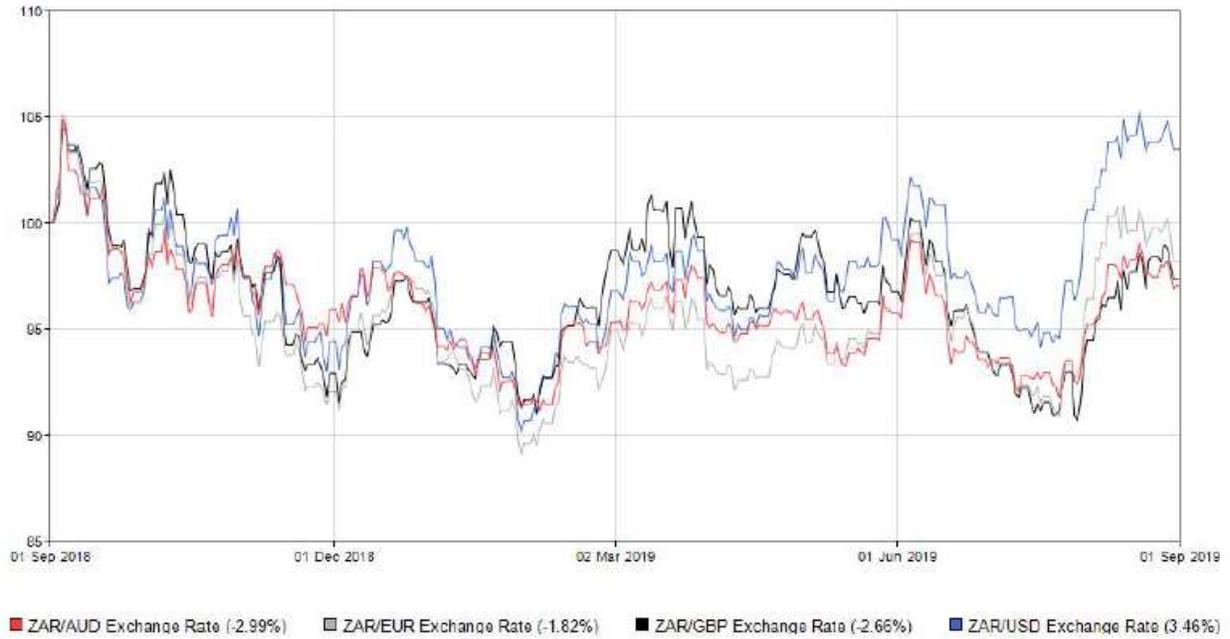
**Currencies (Positive indicates ZAR has weakened for the period, vice versa):**

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
ZAR/AUD Exchange Rate	2.77	1.32	-2.99	-7.38	-2.53	2.88	0.57	55.19	4.50	1182.48	5.39
ZAR/EUR Exchange Rate	2.87	2.56	-1.82	2.56	0.85	19.54	3.64	49.95	4.14	1297.45	6.71
ZAR/GBP Exchange Rate	4.17	0.61	-2.86	-4.14	-1.40	4.95	0.97	46.36	3.89	977.50	5.02
ZAR/USD Exchange Rate	3.70	4.30	3.46	4.36	1.44	42.85	7.41	93.05	6.81	2017.07	6.49

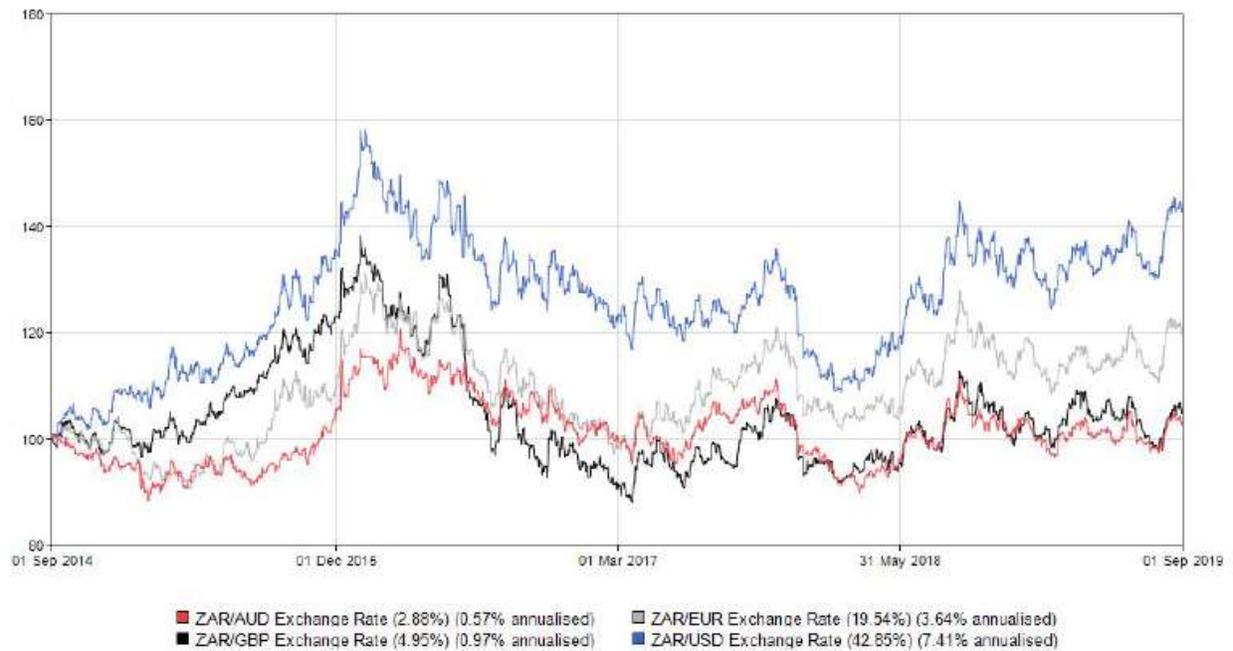
**Currencies – 1 Month (Above 100 indicates ZAR has weakened for the period, vice versa):**



**Currencies – 1 Year (Above 100 indicates ZAR has weakened for the period, vice versa):**



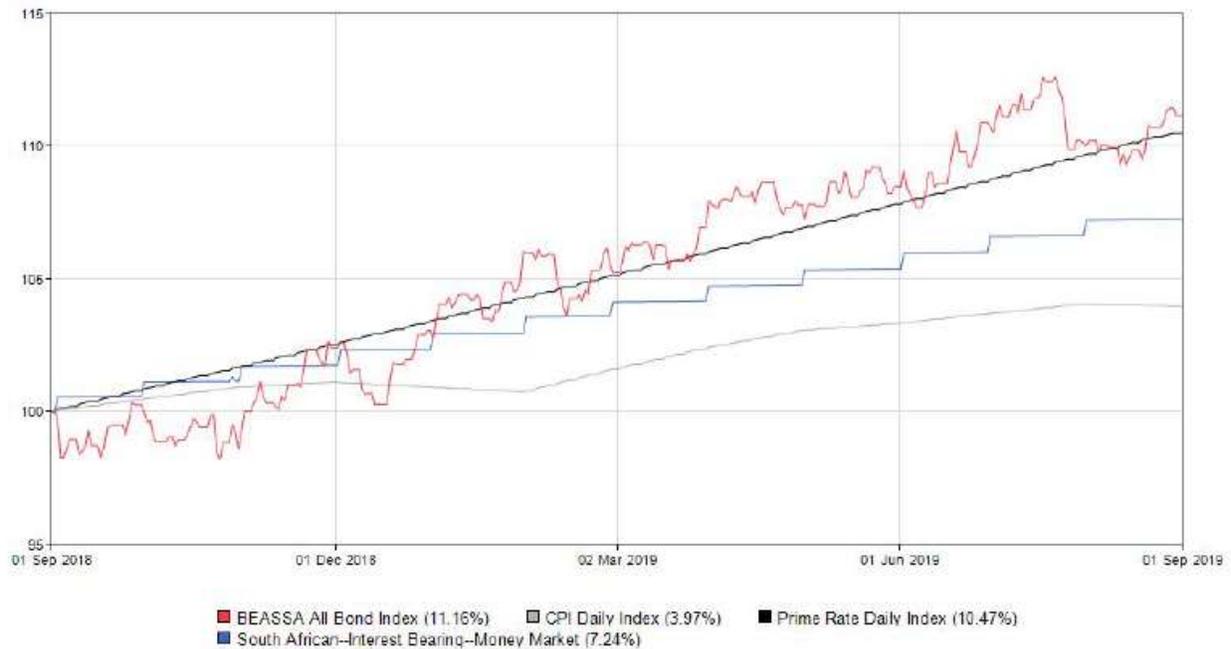
**Currencies – 5 Years (Above 100 indicates ZAR has weakened for the period, vice versa):**



## Interest Rates:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
BEASSA All Bond Index	1.04	2.48	11.16	31.87	9.68	46.72	7.83	132.26	8.81	545.63	10.41
CPI Daily Index	-0.09	0.62	3.97	14.25	4.55	26.61	4.84	64.10	5.09	7728.35	9.20
Prime Rate Daily Index	0.71	2.46	10.47	31.57	9.60	55.38	9.23	144.94	9.39	1021.90	12.28
South African-Interest Bearing-Money Market	0.03	1.77	7.24	23.41	7.28	39.76	6.94	84.50	6.33	554.55	8.79

## Interest Rates – 1 Year:



Independent data provided by 

Regards,

### Vista Wealth Management

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