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WEEKLY REPORT

OVERBERG MARKET REPORT

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Global Report

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Five Key Steps for Women to Secure Their Financial Future

Material gender-specific differences do exist when it comes to accruing wealth and the ultimate financial outcome of investments. It is critical for women to be aware of these differences to empower themselves and take control of their finances. This article highlights five important ways in which women can achieve superior financial outcomes for their future.

1. Start as early as possible to leverage the effects of compound growth: There are some unique challenges that women face when it comes to wealth creation. South Africa still has a median gender pay gap of between 23% - 35%, exceeding the global average of 20%. In addition to inequality in earnings, many women may elect to leave the workforce in favour of childcare for several years. These two material factors combined serve to reduce a woman's lifetime earnings very significantly. Data from the World Economic Forum shows that upon retirement, women have 30%-40% less wealth than men.

Yet on average, a woman's life expectancy is four years longer than men in South Africa. From a self-sufficiency perspective, it can therefore be a far more challenging financial exercise for women to both maintain their standard of living in retirement, whilst also ensuring longevity of funds for the duration of their lifetime. The most effective method for women to reduce this major disparity is to leverage the effects of compound growth to their advantage. This is the principle of accruing growth upon growth, leading to exponential earnings over a long-term time horizon. It is therefore more critical for women to start investing as early as possible. The later you start, the greater the proportion of your income will need to be contributed to achieve a necessary or desired financial goal. This principle holds true after retirement too. The later you can delay drawing an income from your investments, the longer you allow the effects of compound growth to accumulate, increasing your capital sum.

2. Don't be deterred by stereotypes – women are in fact better investors than men: Women appear to have a higher propensity to save than men, which implies a more diligent and disciplined approach to their finances. But research shows that women are still less inclined to invest their money, a phenomenon referred to as the "investment gap." Women may therefore tend to have far too high a proportion, or even all, of their funds held in savings accounts or low-risk investments like money-market funds. Such vehicles are very unlikely to achieve above-inflation returns in the long term, meaning that the purchasing power of their money is being eroded over time.

This is primarily due to intrinsic gender-specific behavioural biases. The field of behavioural finance shows that because of cognitive and emotional biases, individuals do not always behave rationally. These biases manifest differently in men and women and within this context, their approach to investing.

Firstly, studies have shown that women tend to be less risk tolerant than men, with risk tolerance being the degree of uncertainty an investor is willing to bear. But women also tend to be more responsive to facts and take a more considered approach to decision-making. Notably, when women are armed with the requisite knowledge and facts around investment risk, this differential towards risk appetite tends towards zero and women become just as willing to embrace risk as men. The provision of appropriate financial advice is therefore central to this process.

But when women do invest, their investment returns outperform men's on a risk-adjusted basis. From 2011 to 2020, Fidelity, one of the biggest asset managers in the world, conducted an analysis of over 5 million customer accounts. Their results showed that women's investments outperformed men's by 0.4% per annum over the period. This becomes a significant factor over the long term, again given the impact of compound growth. Fidelity's research results are further supported by studies within the South African context. A local study (Willows and West, 2015) showed that generally, women outperformed men on a risk-adjusted basis and this differential was even more significant for women aged 60 and above.

These results are again owing to behavioural biases. Women tend to be less prone to the overconfidence bias, which can cause greater reactivity to short-term events, leading to another investing bias – that of overtrading. Overtrading has proven to have an adverse effect on investment returns over the long term. This is due to both mistimed trades (mainly a higher inclination to sell when a particular stock or the market is down, thereby realising a capital loss) and the increased costs associated with more frequent trades. Research shows that men can perform up to 56% more investment switches per year than women.

So contrary perhaps to prevailing beliefs, women have been shown to be less emotional than men in the context of making investment decisions. Women tend to take a longer-term view with a greater focus being placed on the realisation of a financial goal, as opposed to chasing short-term performance.

3. Ensure an appropriate asset allocation for your investment horizon: There's always going to be a trade-off between risk and potential returns. Diversification is the most effective method by which to mitigate the overall risk of your portfolio and is the investing equivalent of "not putting all your eggs in one basket." In simple terms, this is classified as allocating funds across asset classes, being (from lowest to highest risk); cash, money-market, bonds, and equities. The asset allocation decision in portfolio construction is one of the primary determinants of potential future returns.

Given that women may tend to be more risk-averse, it's important to bear in mind that an investment period of five years or longer is considered a long-term investment horizon. The volatility of equities is effectively smoothed over time, and it is these growth assets that have proven to provide superior returns over the long term. Saving towards retirement may have an investment horizon of up to 40 years, there is a high capacity to take on risk over such a long timeframe. But even at retirement, the investment term may still be 20-25 years. If the objective is to maintain risk at a moderate level, this would equate to a balanced portfolio, which generally has approx. 65% allocation towards equities. This equity exposure is crucial in aiming to achieve above-inflation returns and extend the longevity of your capital base.

4. Reduce concentration risk to South Africa with offshore opportunities: For South African investors, diversification across geographies and currencies is another key consideration. The total market value of companies listed on the JSE accounts for approximately 1% of global market capitalisation. Investing in global assets enables investors access to a much vaster investment universe with high-growth potential.

Externalising funds offshore to invest in global instruments will reduce an investor's concentration risk to the South African economy and political uncertainty. Additionally, holding an investment in a hard currency will assist South African investors to protect the purchasing power of their money by serving as an effective hedge against the depreciation of the Rand. Over the past 10 years, the Rand has depreciated by almost 7% against the Dollar per year. Individuals can utilise their R 1 million discretionary allowance or R 10 million foreign investment allowance per calendar year to transfer funds offshore for investment purposes.

Markets have admittedly had a very turbulent few years, firstly with the onset of Covid and then the Russian-Ukrainian conflict. Both anomalous events served to compound the effect of highly elevated global inflation, necessitating one of the swiftest interest rate hiking cycles in decades. But economic indicators point towards a positive outlook and strong market recovery over the next two years for global markets. Many opportunities exist where offshore valuations remain attractively priced, meaning that the shares are trading at a discount to their intrinsic value. If your current holdings are too conservative, or if you are looking to diversify further offshore, significant potential exists for strong upside gains over the next few years.

5. Seek professional advice to ensure a cohesive financial plan: Fidelity's study also revealed that 77% of women would feel more confident about their financial future if they had an advisor to help them. It's clear that the services of a wealth manager play a pivotal role. A professional can provide guidance through the various complexities, gain a comprehensive understanding of your unique circumstances to devise an investment strategy to match your personal situation, risk profile, life stage, and financial goals.

However, one's investment approach shouldn't be viewed in isolation. Tax and estate planning are other essential considerations that will impact one's financial position that falls under the broader ambit of financial planning. A professional can ensure that the financial structure is as tax efficient as possible, otherwise, any potential outperformance in returns may be lost due to unnecessary taxes. The implications of both local and offshore taxes may need to be contemplated. An estate planning exercise is also crucial to ensure your assets will be distributed effectively. Specialised offshore vehicles are available which enable both tax efficiencies and swift succession to heirs.

Local Report

Gielie Fourie

Renergen and Helium

INTRODUCTION: Thanks to Renergen, South Africa joined the global ranks of liquid helium production on 23 January 2023 at its flagship Virginia gas project. Phase one of the project is fully operational. Only eight countries in the world produce this rare and valuable liquid, said Renergen CEO Stefano Marani. Marani is from Standerton. He studied actuarial science and finance at Wits University. He says his best achievement was being appointed an executive director at Morgan Stanley, in London, before the age of 30. He started Renergen in 2012.

Renergen's business model is the exploration and production of helium rich natural gas located on 87,000 hectares of underground compressed natural gas (CNG) reserves near Virginia in the Free State. The project involves a unique technology called the "LNG and Liquid Helium Plant", an innovative technology designed to extract and liquefy natural gas, while simultaneously extracting and purifying helium from the gas stream. Liquid is the most efficient way to move and transport helium.

HELIUM DEMAND: Helium has been described as "the most important resource no one is talking about." While many people think helium is used mainly in party balloons, it is not even the tip of the iceberg. The New York Times wrote: "The global helium shortage is real, but don't blame party balloons." NASA is the single biggest buyer of helium. It is used primarily in rocket propulsion. A helium shortage could also derail numerous technologies we've all become accustomed to, like streaming services, telecommunications (cell phones), electric vehicles, and more. You are reading this report right now because helium, a noble gas, is a key ingredient in computer chip manufacturing and powering the internet. Without helium, some of the biggest companies in the world like Netflix, Google, Facebook, and Amazon might not even exist.

FINDING HELIUM: Renergen has been described as "The R8.00 investment that could be worth R1.7 trillion." CEO, Stefano Marani, believes that the world's biggest helium reserve is in the Free State. He initially set his sights on producing liquefied natural gas (LNG) when he purchased the gas rights for the land in 2012 for a measly R8.00. Helium was not even part of his strategy. Nine years later, in 2021, he discovered an incredibly high concentration of helium, with the highest grades of purity, on the site. He estimated that the reserve of gas could be as large as 9.75 billion cubic metres, valued at roughly R1.7 trillion, bigger than all the known reserves in the US, which is currently the world's largest helium producer. Helium mining becomes financially viable at concentrations as low as 0.1% mixed within natural gas. However, the enormous Virginia reserve stands out with an impressive average helium concentration of 3.4%.

HELIUM PRICE: Helium is measured and priced in mcf (one thousand cubic feet). Over the last 20 years, helium pricing increased at a Compounded Annual Growth Rate (CAGR) of 8%, reaching $375/mcf in late 2022. Today helium is selling for $600 - $650.00 per mcf. The helium market is set to increase by 11% every year through 2037. Now, more than ever, helium is a low-volume, high-value commodity. Yet, there are no helium ETFs and no helium commodity market.

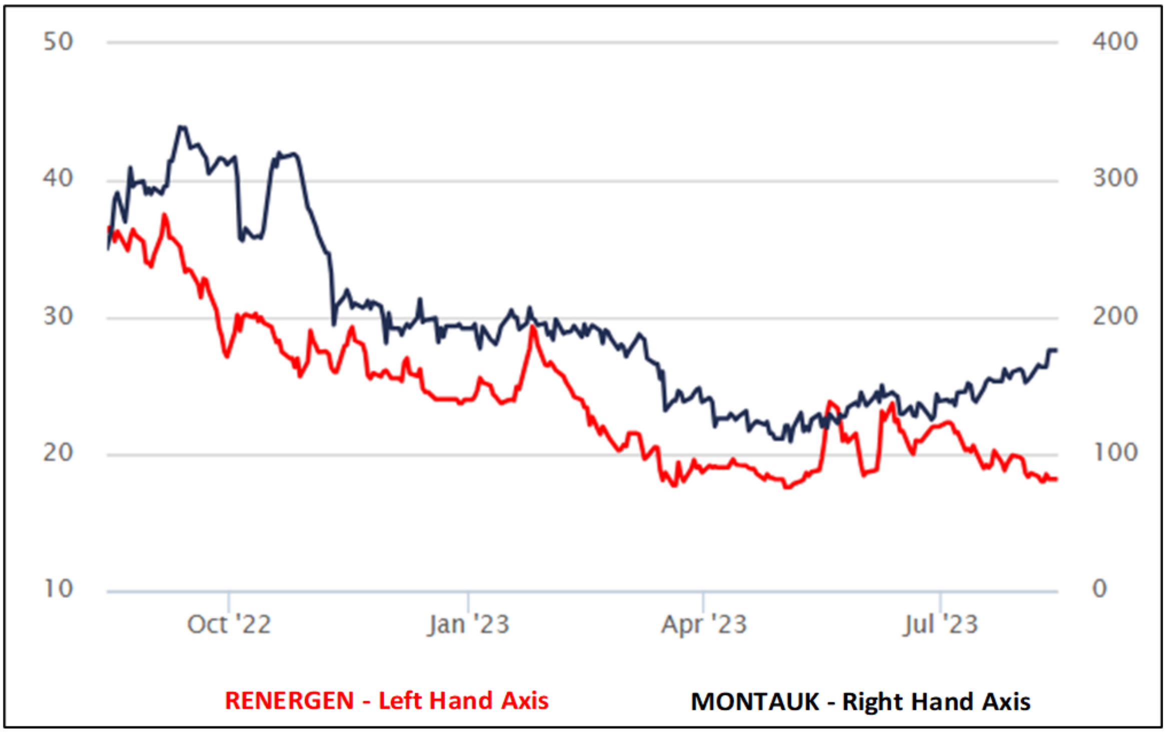
PHASES ONE AND TWO: Phase one of the project was financed by the US government. During the 2023 financial year, Renergen hit several strategic milestones. These include successful due diligence reviews by the Central Energy Fund of SA and two major investors. In June 2023 Renergen received approval from the US Development Finance Corporation for a $500 million debt package and a further $250 million debt facility from Standard Bank SA. These funds are reserved for the construction of Phase two of the project. Far more capital is needed for Renergen to become a formidable force in the global helium industry.

FINANCIALS: In the past Renergen only produced LNG gas with the main customers being glass manufacturer Ardagh (previously Consol) and Italtile. Renergen's plan to start producing liquid helium in July 2022 was delayed. Renergen produced its first liquid helium in January 2023. In Renergen's 2023 financial statements, it reported an impressive 381% year-over-year surge in revenue to R12.69 million. The company cut its net loss figure by more than 20% to –R36.4 million. The loss per share was –19.86 cents. As it is still lossmaking there are no dividends, and the PE Ratio is negative at -93x.

The return on equity (ROE) and the return on assets (ROA) are both negative. Renergen is trading at R18.15 per share. The tangible net asset value per share is R4.13. It has a market capitalisation of R2.7 billion. The cash flow for the year was R40 million negative. The auditor's report confirms that Renergen is considered a going concern.

BOTTOM LINE: We have received enquiries from investors regarding the merits of Renergen as an investment option. We monitor Renergen but have not yet invested in it. Notable shareholders are the PIC (Public Investment Corporation) with 4.55% and a leading Canada miner Ivanhoe Mines with 3.89%. Please use this information as a reference only, rather than as a basis for making investment decisions. To take the emotion out of equity analysis, you are welcome to contact one of our friendly consultants for a free consultation.

- Over the past year Renergen's share price lost 50% of its value.
- Its peer on the JSE, Montauk Renewables, lost 32%.



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