overberg asset management WEEKLY REPORT

OVERBERG MARKET REPORT

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Global Report

Kate Munitz

Women Move the Needle

Globally, the number of female investors is increasing. Statistics show that over two thirds of women are now investing in addition to their retirement planning, a significant increase from just half in 2018.

If women were to invest at the same rate as men, it would reshape the investment landscape by trillions. So, whilst historically women's wealth has been disproportionately affected since pre-industrial revolution, women hold incredible power in moving the needle (and we do not mean knitting).

The Brain and the Boardroom: Neuroscience findings reveal that in general women exhibit significantly healthier activity in their prefrontal cortex, known as the "executive function of the brain" essential for judgment, planning, and empathy. This might explain why companies with diverse boardrooms often see better stock performance. Over and above stock growth a higher proportion of women in executive and leadership roles also correlates with higher company credit ratings.

Despite the evidence promoting higher gender inclusion at the boardroom table, female gains on S&P 500 board seats slowed in 2022; however, roughly a third of total seats are still currently held by women, which is more than ever before. This is an impressive figure to consider, ±$12 trillion of investable capital and voting rights on a single stock exchange are influenced by women and their unique biases.

Challenges in South Africa: While global trends do eventually wash up on our shores, in South Africa, only 17.5% of total board seats are held by women. It is a figure that reads impossibly low but according to Deloitte's 'Women in the Boardroom' global study this puts South Africa in ninth place, out of 40 different countries used in the data set. Africa does have the highest proportion of female entrepreneurs globally, but making sure these companies get funded remains a challenge.

Finding an investment account that suits your needs is equally challenging. Apart from the conventional options of bank and pension accounts, women often find themselves unsure of where to invest their hard-earned money. The number of investment account offerings in South Africa falls short in comparison to even some of our neighbouring African countries. The most significant advancement has been the introduction of a tax-free savings account (TFSA), with a maximum annual contribution limit of R36,000.

According to various reports first-world country investors tend to allocate a significant portion of their investment portfolios to global investments for diversification purposes. For example, European high-net-worth individuals invest close to 40% of their net worth offshore. Global diversification is not easy to come by in South Africa - Regulation 28 of the Pension Funds Act sets limits on global allocations and SARS and SARB limit annual transfer of funds through Single Discretionary Allowance (SDA) and Approval for International Transfer (AIT). These factors contribute to our findings that South Africans (men and women) tend to hold substantially less than 40% of their net worth offshore, which presents substantial currency overexposure and risk.

Rethinking global investment: Our findings indicate that women living in South Africa rarely invest outside of employment-related shares and pensions, fixed-term cash accounts and property. Women frequently express frustration with the limited investment choices available within their pension schemes and lack of knowledge on how to begin investing beyond their homes and employment-related schemes.

Established in 2001, Overberg Asset Management has been managing offshore discretionary portfolios. The firm has remained a boutique asset management firm whilst building up a very impressive track record for over twenty two years. The dedication and passion of our team ensures long and successful relationships with each of our clients.

Warren Buffet once said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." Echoing Warren Buffet's philosophy, our investment committee (consisting of six well qualified members including chartered accountants, MBAs, and a CFA charter-holder) thoroughly research each investment from multiple sources, ensuring meticulous research for every investment decision. Overberg Asset Management offers our investors a unique opportunity to invest in London Stock Exchange (LSE) listed investment companies, as an example.

During the pandemic, Overberg Asset Management expanded its services to include Wealth Management, focusing on holistic financial planning. Our approach encompasses tax, estate planning, and more, offering investors with a comprehensive financial roadmap.

Taxes are often the most convoluted part to investing but are a pivotal part of planning to ensure you are paying as little tax that is legally allowed. One of our team will introduce you to tax planning and explain exactly what constitutes acceptable forms of tax planning. It is important to note that tax legislation changes regularly and as a result, you should review your financial plan at least every five years. Various factors can have significant tax implications that may potentially erode the gains you have achieved on paper. Advisors frequently recommend conventional pension and endowment schemes to assist in tax planning, however, a comprehensive understanding of your unique circumstances and objectives might necessitate more intricate structuring. Often as important as tax planning, asset protection and streamlined reporting should be incorporated in strategies for growing multi-generational family wealth.

Not only do we build financial solutions for our clients, but we also have regular in-person meetings, and provide quarterly portfolio statements, and investment strategy reports. Our client-centric and bespoke step-by-step approach is something investors take great value from and enjoy.

Interestingly, many women express that having a Wealth Manager would increase their confidence about their financial future. Overberg Asset Management provides both wealth management and asset management services and advice, providing clients with all the information and assistance they need. Offering both services under one roof reduces investment fees and consolidates administration, saving clients' money and time.

Conclusion: In today's complex financial landscape, having a trusted and experienced Wealth Manager is crucial. South African women have shown incredible resilience, and now is the time to leverage that strength for financial success. Whether you need financial empowerment, guidance in making investment decisions; or searching for a company with a team of Wealth Managers that proudly includes professional and qualified women, Overberg Asset Management is here to support you. Start your journey with us.

Kate Munitz has been with Overberg Asset Management since 2019 and has recently been appointed as the Regional Manager of its Cape Town office. We are delighted to have had three highly qualified and experienced private Wealth Managers join in the past several months. Overberg Asset Management looks to continue its growth trajectory.

Local Report

Gielie Fourie

Are Defensive Shares Defensive?

INTRODUCTION: Are defensive shares really defensive? Defensive shares are those that tend to provide stable earnings and returns, even during an economic decline or a recession. Shares of companies in the consumer staples, tobacco, alcohol, utilities, and healthcare sectors are common examples of defensive stocks. This is the theory, but the reality is that the map is not the territory. The map is useful, but when the terrain differs from the map, trust the terrain. Defensive stocks, also known as noncyclical stocks, are not highly correlated with the business cycle.

Defensive stocks tend to perform better than the broader market during recessions. However, during an expansion phase, they tend to perform below the broader market. That is attributable to their low betas, a measure of market-related risk. Defensive stocks typically have betas of less than 1. To illustrate beta, consider a stock with a beta of 0.5. If the market drops 2% in a week, then we would expect the stock to lose only about 1%. On the other hand, a 2% price gain in the market for one week leads to an expected increase of just 1% for a defensive stock with a beta of 0.5.

Food producers (people need to eat every day) have performed as poorly as many of the other defensive sectors. Tiger Brands leads the decline, with shares down 42% over the last five years. Shares of AVI and RCL Foods are down 37% and 33% respectively over the same period. Tongaat Hulett shares are 95% lower over the last five years.

The two large private healthcare providers, Life Healthcare and Netcare, are down 19% and 52% respectively over the last five years. Both have seen their share prices unable to recover to pre-pandemic levels. The top performer on the market in this sector was Mediclinic International, which was taken private by a consortium led by its major shareholder, Remgro.

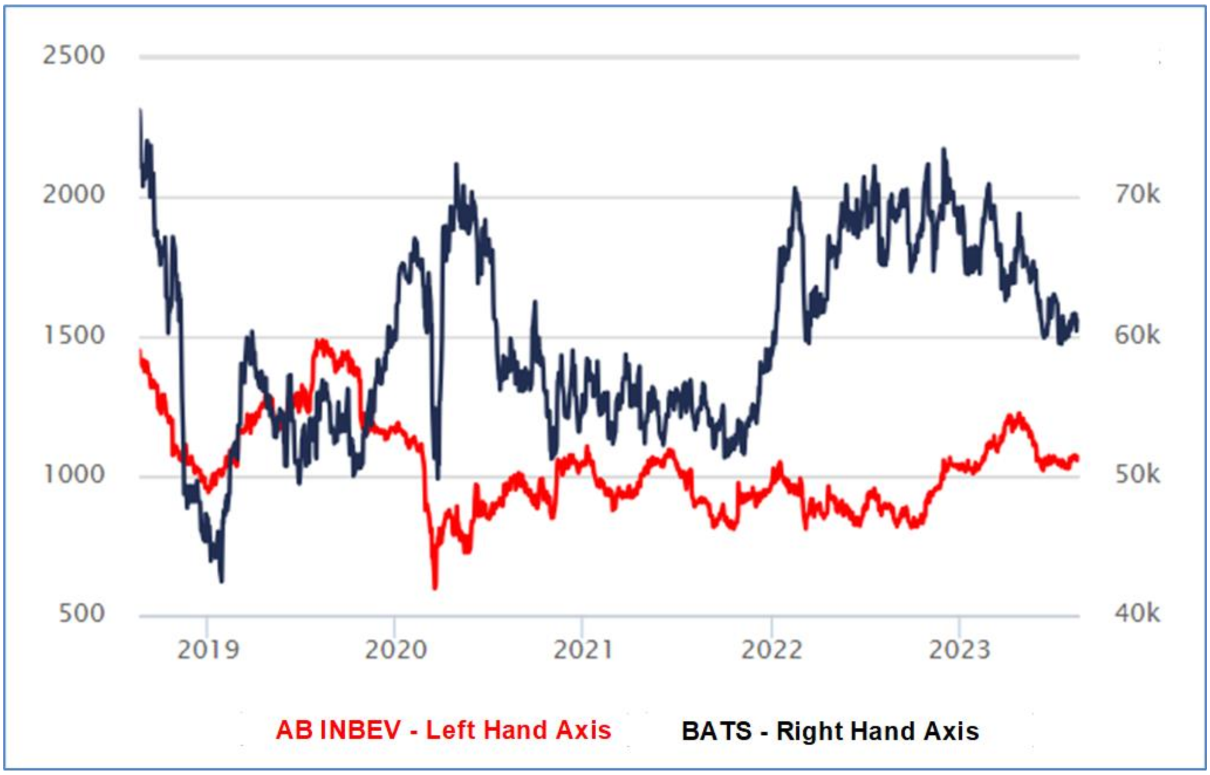
Pharmaceutical providers Adcock Ingram and Aspen Pharmacare have not fared much better. Their share prices are down 20% and 33% respectively over five years. Ascendis Health is down 94% over the last five years. Often, casino (or ‘gaming’) stocks are lumped into the ‘sin stock’ category. Tsogo Sun and Sun International’s share prices are down 40% and 38% respectively over the last five years.

“Sin stocks”, tobacco and alcohol, have fared poorly. Shares of brewing giant AB InBev are down 27% over five years. In US dollar terms, shares are down 44% over five years. AB InBev shares on the JSE have nearly halved since the peak it achieved post its listing on the JSE in January 2016, following the takeover of SABMiller. British American Tobacco (BATS) shares are down 20% over the past five years, as the group's core business continues to struggle as the worldwide shift to vaping and 'next generation products' continues. As with AB InBev, in US dollar terms (and in British pounds), BAT's performance is twice as bad as it has been on the JSE (a decline of 41%). Admittedly these stocks are always in the sights of activist groups aspiring to clamp down on smoking and drinking.

Cyclical shares are expected to maintain their earnings growth edge over defensive stocks into late 2024. According to Bloomberg Intelligence earnings remain a threat for defensive shares but it has not deterred investors so far. The market expects far better earnings from sin stocks like BATS and AB InBev. Despite respectable earnings, the share prices did not follow earnings over the past five years. The diluted headline earnings per share (HEPS) of BATS increased by 94% from R34.43 in 2018 to R66.75 in 2022, while the share price dropped by 19.89%. Over the same period AB InBev's diluted HEPS increased by 111% from R28.30 to R59.74, while its price dropped by R27.14%. See the graph below. In defence of BATS, its dividend yield is around 8% per year but AB InBev has a low dividend yield of around 1% per year.

BOTTOM LINE: Are defensive shares really defensive? The graph below tracks the performance of two defensive stocks, AB InBev, and British American Tobacco over the last five years relative to the JSE All Share index. Both stocks are regarded as "blue chips", but they have underperformed, despite the rand being 30% weaker against the US dollar over the last five years. 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 last five years:
- AB InBev's share price lost 27.14% of its value, BATS lost 19.89%.
- The JSE All Share index gained 27.79%



Source: Moneyweb. Bloomberg.

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