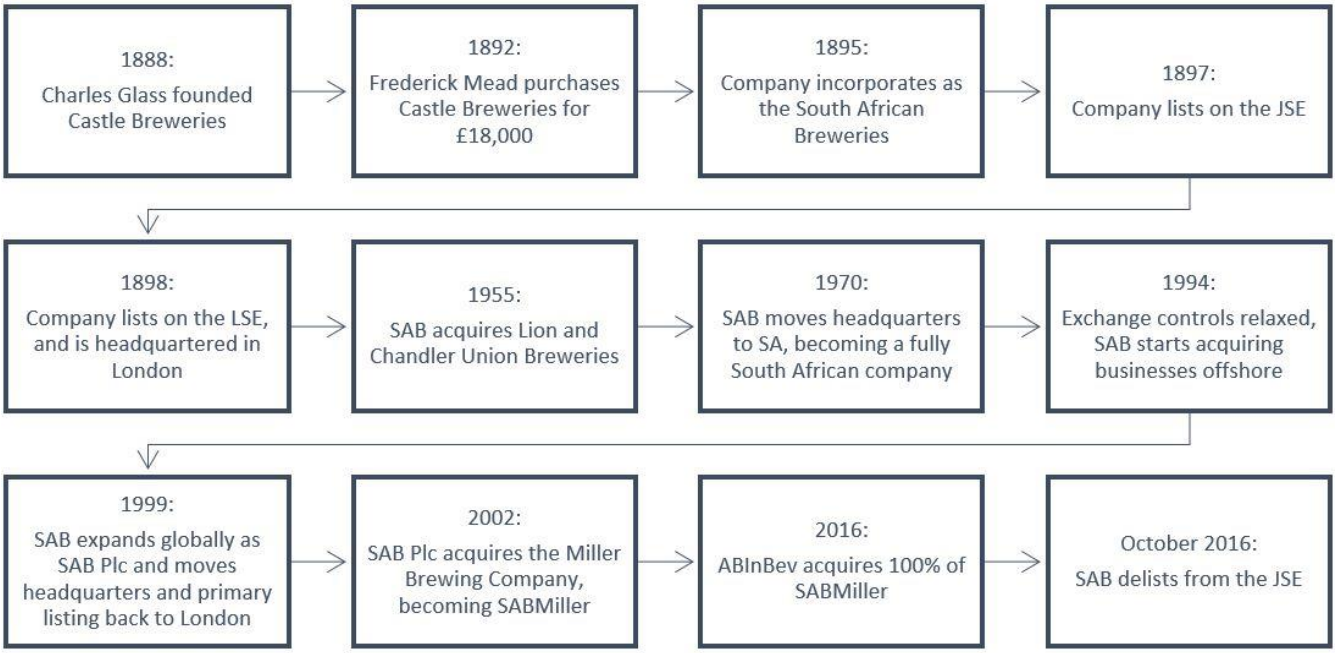
So long old friend...

Recently, South African investors have had to say goodbye to a familiar face. An old friend if you will. Not the type that comes and goes. Rather, one of those stable, consistently dependable fellows, that have just kind of always been there. Having been listed on the JSE for over 100 years, it was as much a staple in grandma's share portfolio as it was in dad's refrigerator. Arguably, it was the most recognisable of South Africa's globetrotting multi-nationals, the bluest of the blue-chips, a testament to our industrial development as a nation – and maybe also of our insatiable demand for beer. The 3rd of October stands as the first day in over a century that South African Breweries is not available on tap to investors. Let's have a look at how this iconic South African brand has treated investors over the years.

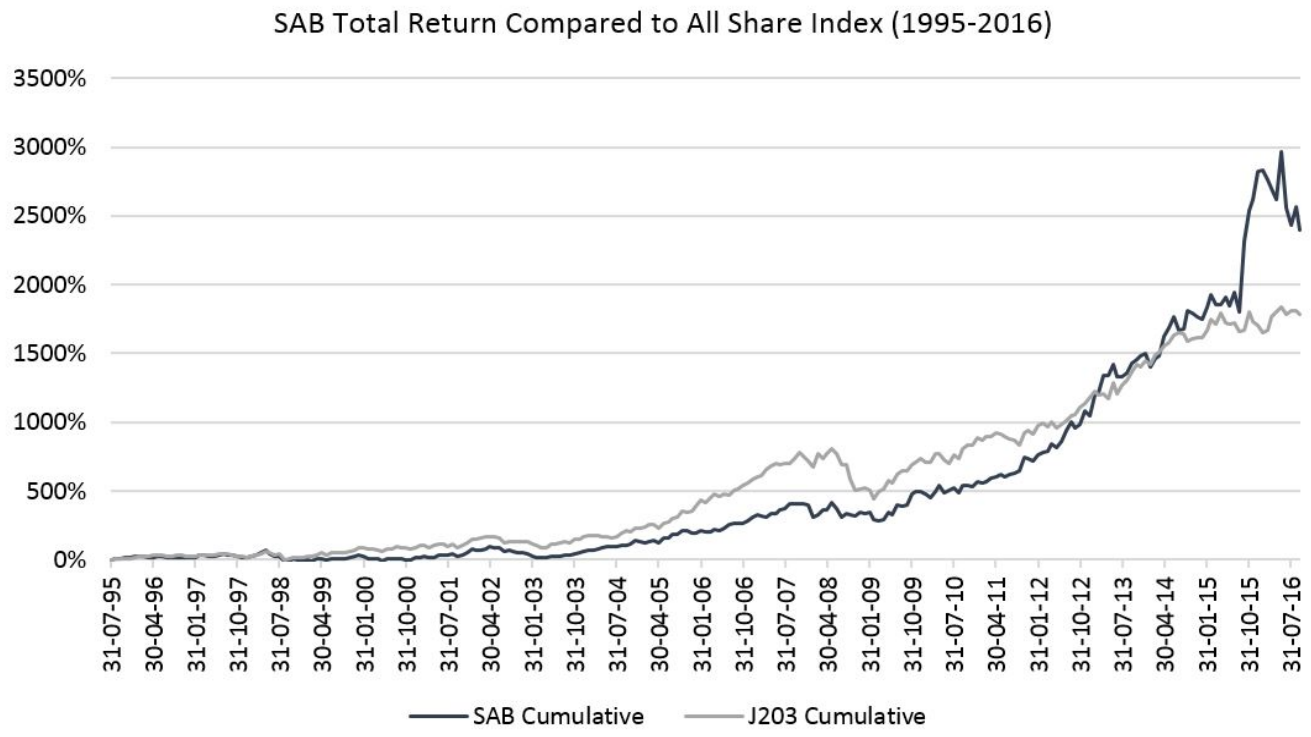
The precursor to what we know today as the South African Breweries started in the late 1880's with several brewers competing for market share to rehydrate Johannesburg's rather overindulgent miners in the pioneering days of the gold rush. Englishman Charles Glass named his brew - Castle, and branded it with the two-turreted fortification that it is still known for today. In 1892, another brewer, Frederick Mead of Pietermaritzburg, envious of the growth in the Witwatersrand compared to Natal, offered Glass and Co £18,000 for an outright purchase of his brewery. Mead incorporated the business in 1895 and listed it on the newly formed Johannesburg Stock Exchange two years later. Interestingly, SAB was the first industrial company to list on the JSE. By the time of its delisting last month, SAB was the second oldest share on the exchange. Telling perhaps of South Africa's shift from a resource and industrial based economy to one primarily driven by services, the only older share on the JSE is a gold miner – DRDGOLD. The company also listed on the London Stock Exchange the next year.

SAB enjoyed robust growth all the way to the 50's, when the industry was shaken by government imposed tax hikes on beer sales. With consumer demand switching to spirits, SAB set its sights on struggling rivals Ohlssons Cape Breweries and Chandlers Union Breweries for acquisition. The combined mega-brewer (at least locally), with 90% share of the South African market, became formally known as the South African Breweries. This was just the first in a long line of successful acquisitions and mergers that would see SAB move its primary listing to London, take-over the American brewer Millers and become the second largest international brewer before its outright purchase by ABInBev . See below timeline of events:

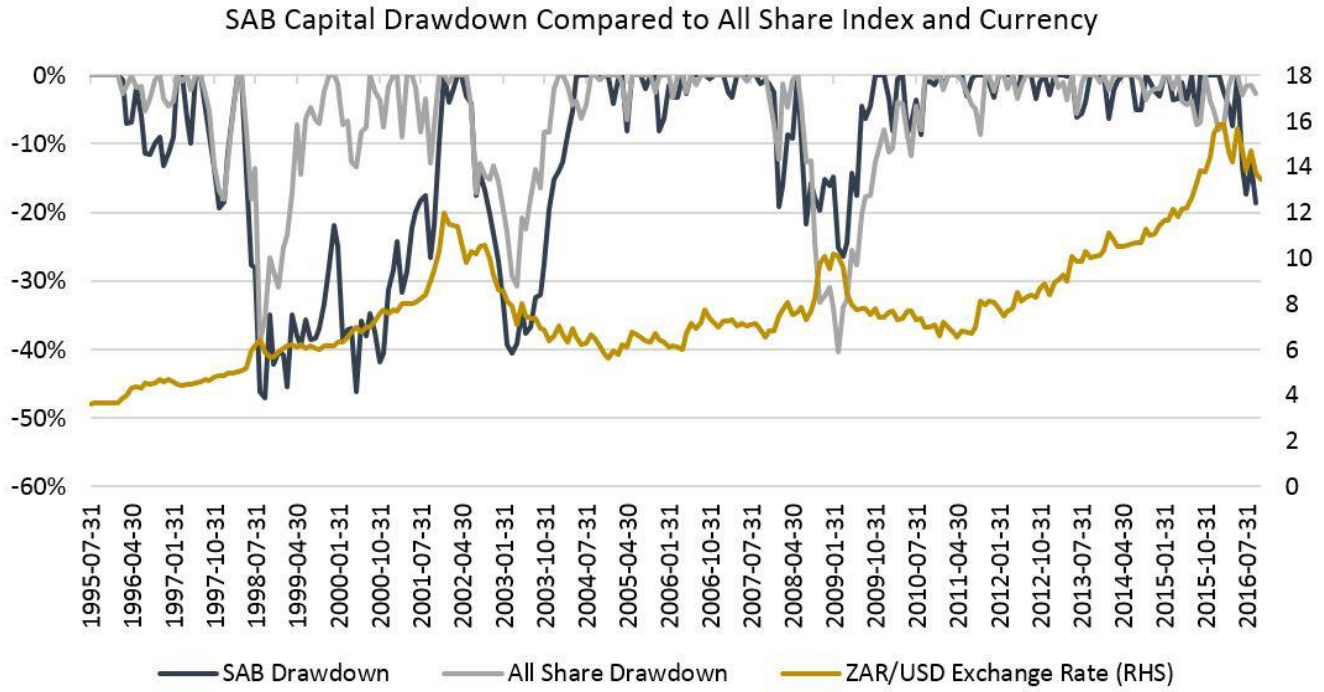


Of course, since its listing on the JSE in the late 19th century, the SAB has had shareholders to please. Although accurate historical data is hard to come by, shareholders have been handsomely rewarded for holding on to SAB. The brewery Frederick Mead bought for £18,000 in 1892 was worth almost R1.3trillion (£73billion) before delisting last month. This equates to a comfortable 13% share price growth per annum over twelve decades. Better yet, had you bought a share for 45c in 1965 (which is as far back as our share price data goes) and held onto it until ABInBev bought it back from you, you would have seen about 16% growth per annum. To put this into perspective, R1 invested in SAB shares in 1965, would have grown to R1760 today, excluding dividends. Thanks to the power of compounding, a R1 investment around the time of Mr. Glass, would have survived two Boer Wars, two World Wars, the Great Depression, the Cold War, South African democracy, the chance of a Trump presidency and still have grown to over R4million today, excluding dividends.

Furthermore, it being the stable and dependable fellow it was, the company always paid a dividend (at least since the early 1980's). Compound the dividend income over this period, and total shareholder return is much higher. The below graph illustrates the total investor return (capital + dividends) against the JSE All Share Index over the past 20 years. SAB returned 16.56% per annum, dividends included, against the JSE's 15%. As seen below, while lagging the index in the early 2000's during the bull market in resource stocks, it caught up to and surpassed the index in the early 2010's as investor demand shifted to what are considered safer, quality shares. The run in 2015 was because of the ABInBev take over gaining momentum.



Additionally, the past twenty years have seen SAB change in character from having a largely South African investor and revenue base, to a global player based in London (1999) on an international shopping spree to acquire offshore brands. By 2003, after the Miller acquisition, 75% of revenues came from outside of South Africa. Consequently, by this time, the share price also became subject to the whims of the currency markets. The graph below shows capital drawdown (a risk measure defined as a capital decline from the highest peak set previously) of the SAB share price compared to the local equity market during the prevailing currency regime of the day. Broadly, SAB's exposure to emerging markets in the late 90's saw it underperform the All Share index because of the Asian crisis, with the share price only recovering as the Rand hit 12 to the dollar in the early 2000's. This was followed by another deep drawdown following the tech bubble burst, and the subsequent turmoil in equity markets. After acquiring Millers, SAB became much more diversified internationally such that the share price reacted much more defensively through the global financial crisis in 2008. As the share evolved into a Rand-hedge stock (a share with large offshore revenue generation much like British American Tobacco, Richemont and Naspers), sustained Rand depreciation from 2011 through 2015 was a boon to the share price, whereas recent Rand strength have seen the share lose out to resource and mid/small cap stocks propping up the All Share index.



Overall, the delisting of this South African favourite leaves a gaping hole in the index. At the end of August, SAB contributed about 11.5% to the market capitalisation of the All Share index, second only to Naspers. After SAB delisted, Naspers' proportion was pushed up to almost 16% of the index, and 20% of the Top40 (from 14% and 16.5% before, respectively). Sure, SAB itself exists much as it did before as a subsidiary of a global behemoth. Sure, you can have exposure to Charles Glass's Castle. But somehow, the feeling isn't quite the same, at least from an investors' point of view. ABInBev is not part of the All Share index due to its local shareholding being too small. There are also no South African executives on the board in Brussels (ABInBev's hometown). Somehow, it just feels a little less, well South African. And for that we say cheers old friend, thanks for the memories, we've had a good ride.

31 October 2016

Sector		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol[1]	10yr Vol[1]
LOCAL MARKET INDICES (In Rands)									
FTSE/JSE All Share Index (ALSI)	ZAR	-3.2%	2.2%	-3.4%	6.7%	12.7%	11.2%	10.6%	15.1%
FTSE/JSE SA Listed Property	ZAR	-3.4%	9.4%	2.2%	13.6%	17.4%	16.6%	14.2%	15.6%
SA All Bond Index (ALBI)	ZAR	1.9%	15.8%	7.0%	6.9%	7.6%	8.3%	7.8%	7.5%
SA Cash Index (SteFI)	ZAR	1.9%	6.1%	7.3%	6.5%	6.0%	7.3%	0.2%	0.6%
Balanced Benchmark [2]	ZAR	-2.3%	2.8%	0.4%	8.7%	13.0%	11.3%	6.3%	6.3%
SA Inflation (1 month lag)	ZAR	0.9%	5.5%	6.1%	5.5%	5.6%	6.1%	1.4%	1.4%
GLOBAL MARKET INDICES									
Global Equity (MSCI World)	USD	-1.3%	3.5%	1.2%	3.8%	9.0%	3.9%	11.3%	16.5%
Emerging Markets Equity (MSCI EM)	USD	4.1%	16.3%	9.3%	-2.0%	0.5%	3.5%	16.3%	23.5%
Global Bonds (Barclays Global Bond Index)	USD	-2.7%	6.8%	5.6%	0.8%	0.9%	3.9%	4.3%	5.8%
Global Cash	USD	0.2%	0.4%	0.5%	0.2%	0.3%	1.2%	0.0%	0.5%
MAJOR INDICES BASED TO RANDS									
FTSE/JSE All Share Index (ALSI)	ZAR	-3.2%	2.2%	-3.4%	6.7%	12.7%	11.2%	10.6%	15.1%
Global Equity (MSCI World)	ZAR	-4.0%	-9.9%	-1.2%	14.7%	21.3%	10.3%	13.3%	13.8%
Emerging Markets Equity (MSCI EM)	ZAR	1.2%	1.2%	6.7%	8.2%	11.9%	9.9%	12.4%	15.7%
SA All Bond Index (ALBI)	ZAR	1.9%	15.8%	7.0%	6.9%	7.6%	8.3%	7.8%	7.5%
Global Bonds (Barclays Global Bond Index)	ZAR	-5.4%	-7.1%	3.1%	11.4%	12.3%	10.3%	12.6%	14.6%
COMMODITIES									
Gold (US Dollars)	USD	-4.9%	21.0%	10.6%	-1.5%	-5.9%	7.8%	17.8%	19.3%
Gold (Rands)	ZAR	-7.5%	5.3%	8.0%	8.8%	4.7%	14.5%	19.1%	21.8%
Currencies (positive return = Rand weakening)									
Rand / Dollar	ZAR	-2.8%	-12.3%	-1.8%	10.7%	11.4%	6.3%	14.3%	16.5%
Rand / GBP Pound	ZAR	-10.2%	-27.3%	-22.3%	1.1%	5.4%	1.7%	13.9%	15.1%
Rand / Euro	ZAR	-4.5%	-11.5%	-2.2%	3.0%	6.2%	4.7%	12.9%	13.7%

Spot Rates

31-Oct-16		5-Nov-16	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
Rand/US$	Rand	13.58	13.72	13.82	8.09	7.74	4.54
Rand/GBP	Rand	16.81	17.59	20.93	12.60	14.51	7.08
Rand/EUR	Rand	15.13	15.42	15.46	10.83	9.84	5.39
Rand/Aus $	Rand	10.42	10.51	9.68	7.82	5.79	3.60
Libor 6m $	US$	1.25	1.24	0.53	0.56	5.37	N/a
Prime	Rand	10.50	10.50	9.50	9.00	11.50	19.50
Repo Rate	Rand	7.00	7.00	6.00	5.50	8.00	N/a
All Bond Index Yield	Rand	8.82	8.79	8.54	8.62	10.00	14.03
Gold ($/oz)	US$	1,304.20	1,312.00	1,115.05	1,624.40	598.30	378.40
Palladium	US$	625.00	722.00	661.00	614.00	315.00	118.75
Platinum	US$	1,000.00	1,026.50	906.50	1,525.50	1,140.50	382.50
Oil (Brent Crude) $	US$	46.35	50.00	48.54	105.94	60.76	23.36
SA Inflation	Rand	N/a	6.10	4.60	5.70	5.30	8.40

data provided by Profile Data Analytics and INET BFA