

Prepare to be Disrupted

What do retail shops, checkout cashiers and logistics companies have in common? They are all in industries busy being disrupted by Amazon.

“Disruption” is not just a new buzzword, but an essential feature of a growing range of industry leaders across the globe today. In Amazon’s case, their business platform has reached the scale where it can almost achieve anything in terms of reworking how business is done. For the retail shop, they are under threat given the massive shift to online shopping in developed markets, which has led to pressure on retail commercial property as one casualty. For the cashier, Amazon’s new ‘Go’ service – a technology enabled, cashier-free convenience store, means that a large number of cashiers are facing a declining job pool. For logistics, the extension of Amazon’s huge global product distribution footprint means that they are setting their sights on an Uber-like takeover of the logistics industry. No one is safe from Amazon it seems.

They are also not the only disruptors making paradigm shifts in the way business is done. Tesla has put the entire, 130-year-old motor industry on the back foot in the short space of a few years by making it cool to go electric. In addition to this, the move to driverless cars has the potential to disrupt insurance – because technology and driverless cars should ultimately reduce the need for car insurance through fewer accidents. It doesn’t end there – motor mechanics are next on the hit list; Tesla’s electric engines have just 20 or so moving parts, so the need for a significant car mechanic profession will be at risk as the electric car rises.

Facebook continues to disrupt media and advertising, while Google silently develops its Artificial Intelligence engine to start mining the world’s information which sits for free on its servers. The waves of disruption will keep coming.

Innovation and disruption are not new. What is new is the speed and breadth at which it is taking place, and the fact that businesses are not staying inside their traditional circle of competence. The scale of businesses like Amazon and Google, and the new technologies available to a new player like Tesla, means that you can’t afford to be complacent in the way you do business.

This has far reaching implications for investors. Firstly, the disrupters have made it quite difficult for investors to know exactly what any one particular industry will look like in future. The time span required for an investment thesis to play out has become measurably shorter, and the range of outcomes immeasurably wider. Who’s to know what a car company is worth today, if people do not drive cars tomorrow? Secondly, for those investors who have taken comfort in valuing known quantities and making investment decisions within a relatively stable, known environment, they are now needing to go where they are less comfortable – by buying the likes of what used to be an Online book seller, or a Chinese internet company which just may be the bedrock of that economy 10 years hence.

So traditional investors are needing to take larger positions, in companies they know less about, across industries which are likely to change materially over a shorter space of time. Hardly the recipe for a sound investment decision. Don’t be surprised if your old school favourite value investor starts to accumulate Facebook, Google or Amazon in your portfolio. Is this the New Value? Or perhaps the New Economy has finally arrived, just 20 years later than expected.

What we see in practice is asset managers hedging their bets by buying these big ‘platform’ businesses, on the premise that there is optionality on the upside given the unknown potential of the platform. And if the platform businesses miss the next big thing, they can simply buy the new disrupter given their huge cash stores. Sounds like the return of the conglomerates! Just this time, they are generally hooked together through a single platform, making it a very difficult proposition to compete with. The one risk that is increasing, is the fact that the big players will inevitably start to disrupt each other – creative destruction hard at work.

Disrupted industry also has implications for our families – children in particular. On what career path do you encourage your children, knowing that the skills they build in the near term may be obsolete by the time they enter the workforce? Current examples of disruptees include the legal profession, various areas of the medical profession, even our own investment industry.

The potential for investment returns has not gone away. All that is required is a keener sense of what is changing, and a willingness to adapt. For some investment managers, they may well be disrupted. For others who can adapt, they may well survive.

MAY INVESTMENT 2017 REVIEW

31 May 2017

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol ¹	10yr Vol ¹
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LOCAL MARKET INDICES

FTSE/JSE All Share Index (ALSI)	ZAR	6.0%	7.1%	2.2%	5.6%	13.4%	9.6%	10.3%	15.1%
FTSE/JSE SA Listed Property	ZAR	0.7%	2.0%	3.7%	14.3%	15.2%	13.9%	14.4%	15.2%
SA All Bond Index (ALBI)	ZAR	2.9%	5.0%	13.4%	7.8%	7.5%	8.3%	7.9%	7.5%
SA Cash Index (SteFI)	ZAR	1.9%	3.1%	7.6%	6.9%	6.3%	7.3%	0.3%	0.6%
Balanced Benchmark ²	ZAR	4.7%	5.7%	2.3%	7.9%	13.2%	10.2%	6.3%	6.3%
SA Inflation (1 month lag)	ZAR	1.8%	2.4%	5.4%	5.4%	5.6%	6.2%	1.4%	1.4%

GLOBAL MARKET INDICES

Global Equity (MSCI World)	USD	4.7%	10.2%	16.4%	5.7%	12.4%	3.8%	10.0%	16.5%
Emerging Markets Equity (MSCI EM)	USD	7.9%	17.3%	27.4%	1.6%	4.5%	2.3%	14.5%	23.4%
Global Bonds (Barclays Global Bond Index)	USD	2.8%	4.5%	0.8%	-0.1%	0.9%	3.7%	4.6%	5.9%
Global Cash	USD	0.2%	0.4%	0.8%	0.4%	0.3%	0.9%	0.1%	0.4%

MAJOR INDICES BASED TO RANDS

FTSE/JSE All Share Index (ALSI)	ZAR	6.0%	7.1%	2.2%	5.6%	13.4%	9.6%	10.3%	15.1%
Global Equity (MSCI World)	ZAR	5.6%	6.3%	-2.4%	13.8%	22.6%	10.5%	13.3%	13.8%
Emerging Markets Equity (MSCI EM)	ZAR	8.7%	13.1%	6.8%	9.3%	14.0%	8.8%	12.0%	15.7%
SA All Bond Index (ALBI)	ZAR	2.9%	5.0%	13.4%	7.8%	7.5%	8.3%	7.9%	7.5%
Global Bonds (Barclays Global Bond Index)	ZAR	3.7%	0.8%	-15.5%	7.5%	10.0%	10.3%	11.9%	14.6%

COMMODITIES

Gold (US Dollars)	USD	-0.3%	7.2%	3.5%	-0.2%	-4.3%	6.6%	16.8%	19.3%
Gold (Rands)	ZAR	-1.6%	1.2%	-15.0%	6.6%	3.9%	13.2%	18.5%	21.7%

CURRENCIES (positive return = Rand weakening)

Rand / Dollar	ZAR	0.3%	-4.2%	-16.2%	7.6%	9.0%	6.3%	13.5%	16.5%
Rand / GBP Pound	ZAR	4.2%	0.0%	-25.6%	-1.5%	5.2%	1.9%	14.2%	15.3%
Rand / Euro	ZAR	6.3%	2.0%	-15.5%	0.9%	6.9%	4.4%	12.9%	13.8%

LOCAL UNIT TRUST SECTORS

SA Equity - General	ZAR	3.2%	4.3%	0.2%	3.8%	10.6%	7.8%	8.8%	12.3%
SA Multi Asset - Flexible	ZAR	2.9%	4.0%	1.0%	5.4%	10.3%	8.1%	6.0%	7.4%
SA Multi Asset - High Equity	ZAR	3.2%	4.3%	0.5%	5.8%	10.2%	7.9%	5.8%	7.1%
SA Multi Asset - Low equity	ZAR	2.6%	3.7%	3.0%	6.6%	8.8%	7.8%	3.3%	3.6%
SA Real Estate - General	ZAR	0.7%	2.4%	2.3%	13.1%	14.4%	12.5%	12.5%	13.3%
Global Equity - General	ZAR	6.0%	6.0%	-4.5%	11.6%	19.4%	7.9%	14.1%	13.9%
Global Multi Asset - Flexible	ZAR	5.3%	3.6%	-8.2%	9.5%	15.3%	8.0%	12.7%	11.9%
Global Multi Asset - High equity	ZAR	5.6%	3.9%	-6.7%	10.7%	16.8%	9.3%	12.8%	12.1%
Global Real Estate - General	ZAR	1.4%	0.6%	-17.6%	9.3%	15.3%	6.0%	13.3%	17.6%

OFFSHORE UNIT TRUST SECTORS

Global Equity - General	USD	5.1%	9.9%	13.9%	3.7%	9.6%	1.4%	10.1%	16.3%
Global Multi Asset - Flexible	USD	4.4%	7.4%	9.5%	1.7%	5.7%	1.6%	7.5%	11.1%
Global Multi Asset - High equity	USD	4.8%	7.8%	11.2%	2.9%	7.1%	2.8%	7.8%	12.4%
Global Real Estate - General	USD	0.6%	4.3%	-1.7%	1.5%	5.8%	-0.4%	11.1%	21.5%

MAY INVESTMENT 2017 REVIEW

31 May 2017

Spot Rates

	31-May-17	5-Jun-17	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
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CURRENCIES

Rand/US\$	Rand	12.7	13.4	14.7	7.7	7.3	4.4
Rand/GBP	Rand	16.4	16.8	21.2	12.3	14.3	7.2
Rand/EUR	Rand	14.3	14.3	16.8	10.2	9.7	NA
Rand/Aus \$	Rand	9.5	10.2	11.3	7.9	5.9	3.5

RATES

Libor 6m \$	US\$	1.4	1.4	0.9	0.7	5.3	5.9
Repo Rate	Rand	7.0	7.0	7.0	5.5	9.0	NA
Prime	Rand	10.5	10.5	10.5	9.0	12.5	20.3
All Bond Index Yield	Rand	9.1	9.4	9.5	8.1	NA	NA

COMMODITIES

Gold (\$/oz)	US\$	1,280.7	1,247.3	1,234.3	1,663.8	660.2	348.0
Palladium	US\$	841.0	798.0	569.0	651.0	352.0	146.5
Platinum	US\$	950.0	940.0	976.0	1,640.0	1,241.0	373.5
Oil (Brent Crude) \$	US\$	49.2	52.6	40.0	123.4	67.1	18.6

INFLATION

SA Inflation	%	NA	6.1	6.3	6.0	5.8	9.4
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data provided by Profile Data Analytics, Reuters and Datastream