OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot September 2021

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index on 15 Sep: 61,453 • All-Share YTD return: 4.67% • Market PE ratio: 14.43 • USD /ZAR currently at R14.61/$, • South Africa 10Y Government Bond yield: Current 8.900% (Data: Bloomberg; Sharenet ; www.tradingeconomics.com)	• A hint of positive news for the South African economy is that the Bureau for Economic Research (BER) forecasts it to recover to pre-Covid levels by mid-2022. This is a year earlier than expected by PwC and the National Treasury. • Local government elections have been thrown a curveball when the ANC failed to register candidates in more than 90 municipalities before the IEC's deadline. • Ripples of risk are spreading across the globe as the Evergrande story unfolds. Evergrande is a Chinese real estate developer with more liabilities than any other property developer in the world, coming in at approx. $300 billion (Bloomberg). It accounts for a staggering 16% of outstanding notes in China's high-yield dollar bond market.

Private Equity

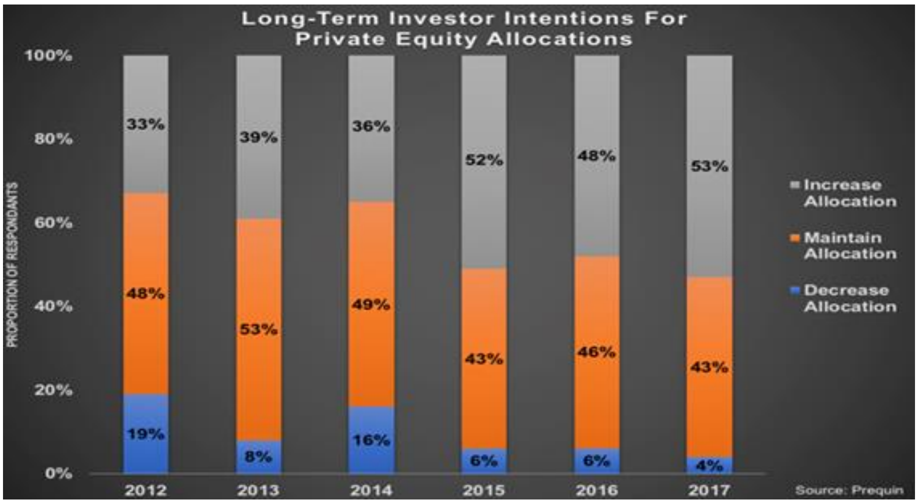
Private equity is an asset class that has been gaining in popularity internationally, and forms part of a greater suite of assets called 'Alternatives'. Alternatives refer to those assets outside of the normal equities, bonds and property classes, and include asset classes like venture capital, hedge funds, private & commodity debt, etc.

Private equity is exactly what the name describes, implying that it provides privately traded ownership of an unlisted company. So, it functions similar to a normal share, except that the direct ownership instrument is not traded on a formal exchange. It normally comes in the form of a fund containing a few direct private equity investments, where the managers of the product buy a share of the unlisted companies in the belief that they can increase the value of the company through their input.

Not all investors like to invest in private equity due to some of the risks involved with it. It firstly does not offer the liquidity of a normal share, and you may therefore have to part with your funds for a protracted period of time until the invested business interest is sold to another party. Secondly, it suffers from what is called 'stale pricing', because you cannot transact on it every day and the valuations are often reported by the private equity managers themselves. Lastly, it represents an investment into a company that is not yet listed on an exchange, therefore often behaving like a fledgling small-cap company. Economic risks lastly have a strong impact on these investments because their business models & products may not be fully developed and/or known by the market.

So, who buys it and why buy private equity? Private equity is popular among high-net-worth individuals and some institutional investors who believe in its potential for high returns. For some, the stale pricing is a bonus as they believe it removes a part of the emotional noise of the listed markets that makes it appear more volatile than the underlying companies really are. Cambridge Associates reported that US private equity delivered returns of 10.48% p.a. over the 20 years to mid- 2020, while the Russell 2000 Index for small caps and the S&P500 averaged 6.69% and 5.91% respectively. The sentiment in this month's graph is therefore completely understandable.

GRAPH OF THE MONTH: Sentiment towards PE



Source: [Does Private Equity Deserve More Scrutiny? (awealthofcommonsense.com)]

Click to view Current Available Investments from 14% p/a

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