Audio track: Participant 3

R = researcher
P = participant

R: So thank you very much for letting… well for taking the time to do this interview.

P: Okay.

R: So there is just two sections. The first one is going to look at global and local economic financial and political conditions.

P: Yes.

R: And how it influence your investment decisions. And then we are going to look at it from more of an internal perspective as well.

P: Okay.

R: So my first question to you is, what sort of global and local factors do you think influence the way in which you make your decisions?

P: So it… You can't separate socio-political macro issues and variables from pure fundamental factors that should drive returns, mostly because the companies when investing, the instrument we look at, the extent to which we see value and the extent to which we are able to create value for our clients is in fine tune with the environment within which they operate.

R: Yes.

P: So the two are intricately linked. You know, you cannot just look at the one in isolation of the other one.

R: Hm, hm.

P: Ja.

R: Okay. So when you look at these factors, how do they then influence the way in which you make your decisions?

P: So I process here is, we start off with the top ones or the macros. We try and understand what is happening from a big picture point of view.

R: Yes.

P: Yes, so to speak. And then try and have a sense of what the implications may be for some of the fundamentals that we spend a lot of time to understand.

R: Yes.

P: And, therefore, the companies or the instruments that we invest in.

R: Hm, hm.

P: So it is starting off with a clear understanding of the state of the world, as is. Both from a political point of view, both from a socio-macro point of view.

R: Okay.

P: Wherefore, for example, we will look at things like growth, both domestically and globally. Interest rates, where we are in the cycle.

R: Yes.

P: Inflation. And then say: *Given that macro environment, what does it mean for the assets that we look to invest in.*

R: Okay.

P: Ja.

R: So I know obviously you just said now that you can't distinguish, or you can't look at them in isolation.

P: Hm, hm.

R: But if you had to pick one factor that you think tends to, or has been within your years of work…

P: Yes?

R: … you know a predominant factor, which factor would you say that is?

P: So over the long term fundamentals, if you are focussed on fundamentals it has proven to be a worthwhile exercise.

R: Hm?

P: Yes, largely because those, given the various research efforts that we put in, it tends to be the key driver of our creation. However, there are times when the big picture start for us, so to speak, and tends to dominate.

R: Yes?

P: And, in particular, 2017 for us here domestically, has been one of those years where, if you look at some of the changes within cabinet, that has an implication to a policy. And policies have implications for the companies within the various sectors where they are operating in. So, we look at mining charter for the mining stocks, for example.

R: Yes.

P: We look at the changes within the treasury from a finance minister point of view, and what that means from a fixed income, from a currency point of view. And also just politically, the uncertainty that comes with that.

R: Hm, hm.

P: That does have an impact in terms of the companies that we look at. But, broadly speaking… I mean over the longer term, you do need to default back into fundamentals because those actually count. And what I mean by that is, given the market environment which impacts on all the companies that we focus on, there will always be losers and winners.

R: Yes.

P: And the differentiation is always around how the best companies respond to the market environment.

R: Hm.

P: And that is tied therefore to the fundamentals of that company, which we try to understand and to understand the strategy, and then what intend doing in order to grow and go forward.

R: Hm, hm.

P: Ja.

R: So what recent events do you think that had happened, either in South Africa or abroad that has impacted your investment decisions in your space?

P: So over the last… well, I think since 2008, opposed to the global financial crises…

R: Yes?

P: … what has become very clear is that there is big thematic macro events and themes that have tended to dominate the investment outlook. And this largely because, if you look at the global financial crises, I mean that had such an impact, a profound impact on the functioning of the financial services industry.

R: Yes.

P: Or just a global financial system, as we have known it, so it almost became a business unusual type scenario, where markets, financial markets and the pricing of financial assets got driven, not by fundamentals but by the actions of the authorities.

R: Hm, hm.

P: And those actions were aimed at trying to redress some of the fallout that came about with the global financial crises.

R: Yes.

P: So, in my mind, I mean over the last ten years it sort of categorises this that that stayed within the financial markets where in a way fundamentals have mattered, but to a lot lesser extend than this micro variables.

R: Hm, hm.

P: And then also we have had things like elections where the outcomes, especially in the big developed world where there has been a shift towards either too left or too right, from a mainstream point of view.

R: Yes.

P: Where in a lot of places, especially in the US, and especially also in a part of Europe, where the mainstream has been rejected and people wanting more sort of leftist or nationalist type sort of policies.

R: Hm.

P: And hence you will see the emergence of, Trump is on the outer right…

R: Hm, hm.

P: … and then also in front and other places you have seen there is a sort of a things like BREXIT for example last year.

R: Yes.

P: Where people are trying to reclaim sort of their national sovereignty. Which is: *What could you and I do to help maybe the reversal of the global integration?* But it is too early to call it. But, nevertheless, we have seen those radical trends coming through.

R: Hm.

P: Now which clearly has not made it easy from the financial markets point of view.

R: Ja.

P: Ja.

R: Okay. So then basically it's, just correct me if I'm wrong, but just to recap that point, so what you would say is that, what is most important is the… it's not the fundamentals but rather the ......

P: Ja, so over the last while, especially the last ten years or so, post GFC[?], you know you have needed to actually understand the bigger trends, like the global macro point of view and most of those fundamentals. So, to put it differently, the response that the authorities put in place to try and correct the fallout from the GFC was a pandemonium[?] of liquidity… just printing money.

R: Hm.

P: And then clearly that was unprecedented, and that had the influence of inflating asset prices.

R: Hm.

P: So in that environment it was not really the fundamentals that drove asset prices, but it was more the macro response out of the GFC. So if you had ignored that macro sort of phenomenon and just focussed solely on the fundamentals you would have merged quite a lot of the other sort of returns, and that would have come through.

R: Hm, hm.

P: But clearly, maybe going a bit deeper, is that that response created other problems that I think we will have to deal with a lot later on.

R: Okay.

P: But we are not there yet. Ja.

R: Okay. So what is your opinion of South Africa's current economic, financial and political conditions?

P: So, economically, I think we are punting above our weight. The economy is operating sub-par.

R: Hm.

P: In other words, beyond or below it's productive capacity.

R: Hm, hm.

P: And you can see that in the growth numbers that we are printing. So running, if we are lucky at this, then maybe at .5 or .8, ideally there will be growth.

R: Hm, hm.

P: If you go back to .8 this year, then we are looking to anything between 1½ to maybe 2% growth. So, clearly, you know this phenomenon has been in place since just post 2010.

R: Hm.

P: So our best years were leading up to 2010 with the World Cup and everything else.

R: Yes.

P: And post-then you know we have had this as a sub-part type response.

R: Hm, hm.

P: And it's underperforming in an environmental way, instead of nice[?] population, or a positive population grow.

R: Hm, hm.

P: So which means that the economy's ability to absorb an entrance into the labour force is becoming curtailed.

R: Hm, hm.

P: And that creates other problems in the form of social ills, and that we will see later. The most evidence one being unemployment, especially amongst our young people who are then supposed to be your most productive part of the population in the labour force.

R: Yes.

P: So, economically, we are not in a good space. And then the challenges are plenty. But, in a nutshell, it boils down to creating and enabling an environment where you can have investment and then we will grow.

R: Yes.

P: Yes, that is on the one hand. And then on the other hand a big stumbling block remains our education system, where people are still educated to go and look for a job and have someone employ them, as opposed to being self-employed and creating something. And sometimes someone .... to pay for. #9.55.09

R: Hm.

P: So until such time as we have something… you know somewhat of an entrepreneurial type skills set, where we have people trying to create jobs, as opposed to queuing up to get jobs, nothing will have that challenge. Financially, funnily enough, my view is South Africa is in… you know is one of the lucky places where we do not have a shortage of capital…

R: Hm?

P: … but we have a misallocation of capital problem.

R: Hm, hm.

P: So we have plenty of resources. We are not a poor nation, financially, but the way we allocate our resources, financial resources, that is very poor.

R: Hm.

P: And in that largely lies also quite frankly the poor policy and the implementation thereof. And you can see it with corruption, which is rampant, both in the private sector and in the public sector. But actually capital is not the problem, but the people are misspending it and misusing it.

R: Hm, hm.

P: So if you had to channel that properly into more productive areas where, if you look at government for example, where the spending is in the right areas where it is money well spent, money well managed and controlled, you know you could have a much better outcome. But on paper we are not a poor nation. We don't need to borrow a lot. We don't need to raise taxes a lot. But we misspend a lot. And that is the biggest problem.

R: Hm, hm.

P: And then… What is the last part?

R: Politically.

P: Politically? Right. So interestingly, I mean as we are sitting here we have got the ANC conference coming up in a few days' time. It is a big event. So it is one of those macro events that will have an impact on financial markets, but it is not the fundamental issue.

R: Hm.

P: You know?

R: Hm.

P: So then there the question is: *Who is the next president of the ruling party?* And then, by default: *Who is then the next president of the country?* And then the next question becomes: *So what are we going to do differently, you know to solve or growth?* For example, and try and stimulate the growth and tackle some of the social problems that we face.

R: Yes.

P: From an unemployment point of view, and corruption, and all of the other things.

R: Yes.

P: So that also is another hurdle that we need to overcome. And until there is some certainty as to who is coming through, you will see this volatility in the financial markets, the uncertainty from an investment point of view where corporates do not want to invest because they are not sure who is coming in, and whoever is coming in what their policies are.

R: Hm, hm.

P: And so we need that to come through, and for that to have stability and confidence and hopefully have reinvestment going forward.

R: Hm. So then if you had to then, looking at your processes, and how you make your decisions with investments…

P: Ja?

R: … if you had to then rank economic, financial and political, and I know it might be a bit difficult…

P: Ja?

R: … from, (you know) like directly affects you, to indirectly affects you, how would you rank them? Those three?

P: So it is economic, financial and political?

R: Yes.

P: Look I think the political one is very high, because that is the tone.

R: Hm?

P: So without the right policies, without the right people in the right places doing the right things, we are unlikely to get a political and economical viable growth.

R: Hm, hm.

P: Okay?

R: Yes.

P: Similarly, without the right people politically, doing the right things and, from a financial point of view, even though we have the financial muscle that can quickly erode. So if you look things like the downgrades, for example.

R: Hm.

P: It is a function of rating agencies not having the confidence that we can sustain some of the financial numbers that we have. Because, number one, we spend too much in the wrong areas, where money just gets lost and unaccounted for. There is no accountability also from a political point of view.

R: Hm.

P: So A, in my mind, I would say being the political science sets the tone.

R: Hm, hm.

P: And we need to watch that carefully and then B, in tune with what the thinking is politically. And to then see how that translates into better growth and better financial conditions.

R: Hm. Okay! Cool! So you've basically also answered the second point to that.

P: Okay.

R: By obviously highlighting that, you know, it's the political one that somewhat sets the tone.

P: Ja.

R: So, moving on now to just specifically focussing on your investment decision making, as well as from an internal perspective and personal perspective, the first thing that I would like to ask you is, how you make your investment decisions. And in what sort of processes you follow.

P: Okay.

R: So you know when I replay this, I could literally draw a diagram on: *This is…*

P: Ja.

R: *… the process for Participant 1.*

P: Ja. So in the equity's process, which is what I am accountable for, there are three things we look for before we can buy and instrument into our clients' assets.

The first one is valuation. So we need to understand what is the value of this asset, relative to it's history, relative to other assets within the investment universe. Right? And in that process we need to understand what has driven returns in the past.

And, using eye judgment, I experienced, and understanding the industry and the company, what is the likelihood of that company either doing better or worse, going forward?

R:	Hm, hm.

P:	Okay?

R:	Hm.

P:	So once we've made those assessments and we have a sense of where that is, where, compared to what the stock is trading in the market, and if we think there is value in the market, comparing… Well, if we think it is better in the stock, compared to where it is trading in the market, then we will buy.

R:	Hm, hm.

P:	But if we think that, based on our work and our process, which is looking at valuation relative to the past, and relative to where we think it could be, compared to it's peers, if we think that it is trading a lot higher that where valuation A is, then you will not own it. Right?

R:	Hm.

P:	Right? So that is the first element which is valuation, which is also linked to the current in the fundamental value of the company. But in that assessment of fundamentals, we also need to understand the environment of within which it operates.

R:	Hm, hm.

P:	And this is where the macro side comes in, where, for example, it doesn't make… it will make sense if, when looking forward, we come up with an assessment that say: *This company is going to grow at 18%,* for example.

R: Hm, hm.

P: But actually, if you look at the index that appears they are not growing at that level. You know the economy has to grow at that level, so we need to just see that there is something wrong. So it becomes almost like a self check.

R: Hm, hm.

P: So the macro cycles helps to puts perspective into what we are seeing from the markets. So we try not to too… you know have sort of like tunnel vision when looking at those instruments, by making sure we understand the environment within which they operate. So the second aspect becomes what we call: *Non financial aspects of the qualities score.*

R: Yes.

P: So there, again, you know we are looking at the softer side of the company. So we will look at the industry, where is it positioned? So is it a market leader? Or is it a market laggard[?]?

R: Hm.

P: Are they a price setter? Or do they just follow?

R: Hm.

P: Do they have better margins and better brands, compared to their peers? And where do they rank from a market share point of view?

R: Hm.

P: We look at things like surveys. You know industry surveys. And do they participate? If they do that, where do they rank? From either a *best-company-to-work-for* point of view, or even from a brand awareness point of view, from a considered perspective.

R: Hm.

P: Then we look at the stewardship[?] within the companies. So the quota of management.

R: Hm.

P: How long have they been in the business? How do they incentivise? Do they have a good track record of delivering for shareholders?

R: Hm, hm.

P: We look at their share price. We look at the quality of earnings. The quality of both earnings and the margins. And then we look at the governance. The board composition. Does it comply with KING[? KING 3?]

R: Hm.

P: Do you have a majority non-executive, independent directors on the board? Is the diversity not only from a gender perspective, but also from a skills perspective?

R: Yes.

P: Do you have a the right people on the board who understand the industry? Who understand the company, and therefore can hold management to account? And then, lastly, we look at things like environmental impact.

R: Yes.

P: You know, is this a company that treats it's environment well? So they don't pollute water that affects communities. You know they don't just rip and pillage, and just leave all sort behind.

R: Hm.

P: But that they actually do care for the environment, and have a controlled programme to rehabilitate the environment, the land and everything else that they work with.

R: Hm.

P: And then we assign a score to that. And then, lastly, but not the least, we look at thematic. So by thematic, it is almost like a *catch-all* phrase.

R: Hm.

P: So having understood the valuation which is largely bottom-up, and fundamentally driven. Having looked at the quality and both elements are typically heavily weighted to what is an internal programme in the company, we then look at a third element which is thematic.

Here we take a step back and say: *Based on our knowledge of the industry and the landscape, what is it that is out there? That is emerging?* Maybe not about to happen immediately, but if it were to happen it could even be a positive or a negative for this company.

R: Hm.

P: So there things like regulations actually count a lot, because regulations you know… if you look at the last 20 years plus, there is actually a growing trend towards more regulations than less.

R: Hm, hm.

P: Right? So it could well be the charters, it could well be the acts, or anything that can either help the company by giving it a competitive advantage, but typically regulations tends to, you know, sort of hold things back.

R: Hm.

P: Where it's aim is to level the playing field.

R: Yes.

P: And then maybe create better competition. But also regulations has to be *pro* the consumer. Which, by it's definition, is not always good for the company.

R: Hm, hm.

P: We are trying to understand that environment, that landscape, and say: *What else is out there, that if it is going to happen would actually either help investment?* Things are actually being taken away from our investment thesis.

R: Hm, hm.

P: Right? So those three elements are what we focus on, on a day to day basis in terms of understanding this company that we invest in.

R: Hm. Cool. So… You have answered some of these question already.

P: Oh, okay.

R: But, just for the sake of this research, I'm just going to ask, so… okay, you've highlighted what factors you base your investment decisions on.

P: Sure.

R: The three phases, you could say. So I want to know, to what extent is it? Is it extreme? Or is it not that extreme? I'm assuming it is extreme. Do market conditions influence your investment decisions? Just purely market conditions on their own?

P: No, because we are long time investors.

R: Hm?

P: We give ourselves three to five years for investment thesis[?] to come through.

R: Hm, hm.

P: So market conditions that only play at the fact that, purely from a sentiment point of view, but that they don't really influence our investment thesis.

R: Hm, hm.

P: So, if you like a stock and we think that there is better value which is not so reflected in the share price…

R: Yes?

P: … then we will buy it. But if the market conditions are such that, let say maybe, you know, there isn't much confidence and things are falling…

R: Hm, hm.

P: … we will own some, but not the full extent of what we are going to own.

R: Hm, hm.

P: But, largely, because we realise that we could be early and it could take a while for our thesis to come through.

R: Hm.

P: So we would want to have better entry points before actually buying, but we will still buy. So we will not delay our view and wait for the perfect time, because you can never time the market.

R: Yes.

P: Right? So we always say it's not timing the market that matters, but it is timing the market with matters.

R: Hm, hm.

P: So we will invest in that holding then, but we will not open the taps completely.

R: Okay.

P: You know? So we will stake out our pegs and we will make sure that we gain better entry points, which clearly if we get it by the right level, it just means that if you are right, then the upside is also a bit better.

R: Hm.

P: Similarly, if the market is running. You know let's say it's a bull market, there is a lot of exuberance out there, people are feeling good and happy, and there is a lot of confidence and the market is running… And we have a stock that we would want to sell… Right?

R: Hm, hm.

P: The chances are we will not sell everything at once, but we will stake our sale just to make sure that we capture the best possible price on time.

R: Hm.

P: We eventually will be out, but we will not sit and say: *Okay, fine the market is very alive, so we will sell some.*

R: Hm.

P: And try and take advantage of that sort of exuberance. You know?

R: Alright. Okay. So what sort of research do you do before you from your decisions? When I say *research, I* mean like, do you look and see maybe what you favour, and then contradiction[?] information to that? You know? Do you look at different perspectives? Or is it out there?

P: So we grow up on research.

R: Hm.

P: Hence, I don't rely now on people's research, because it just adds to the confusion and the noise.

R: Hm.

P: So do my research looking at the financials, looking at industry reports. Looking at anything and everything I can get which is hopefully as objective as possible.

R: Yes?

P: And then try and form a view, once I've done my researches by[?] the process, ...

R: Hm.

P: .. which is valuation and .... temperamatic[?] #23:41:3

R: Hm?

P: And then we present that to the team and get a debate going as to when and what .... other people to tell me what they think. They can test my views and *vice versa*. And I implement. And once there is a position in the portfolio then I can look and talk to our people and see what they are thinking.

R: Hm, hm.

P: And I double check… you know, maybe my own thinking. But if I've done a good enough job, I should not be swayed from I thought we were buying to say: *I actually want to sell.*

R: Hm.

P: Right. It should either be corroborating my initial view, or where there are differences… right? From other people, when there is contrary view, then I need to go and test that and hopefully prove it wrong.

R: Hm.

P: I will still be correct there, but if I have tested it and I have actually proved myself wrong, then I will come back and change my view.

R: Hm.

P: Ja, so in that way you try not to be too much influenced by other people.

R: Hm, hm.

P: So you want to hear different views, because it's useful. And it's useful because then you can take those contra views and go and test them yourself.

R: Hm, hm.

P: And either sort of dispel them, because: I *am sticking to my guns…* Or: *Actually you know that guy was on to something. I think it make sense here.*

And actually it is fundamental and I think I will change my view. But once you change your view, it is your view that you are changing.

R: Hm.

P: You are not just being influenced by someone else. And this is largely because also there are a lot of people out there that have different views. Right?

R: Hm, hm.

P: So you can flip-flop every day. And then also, given the fact that we are long term investors, you don't want to buy and selling during very trading hour.

R: Hm, hm.

P: Ja.

R: So to what extent then are your opinions, you know your personal views and your experiences that you have had over the years of working …

P: Ja?

R: … prevalent when you are making your investment decisions?

P: No, they are always there. It's hard to shut them off. They do count. But that is why we talk to other people in the team.

R: Hm, hm.

P: Just to make sure that where there are biases, you know at least you can almost self correct in a way.

R: Hm.

P: And then if there are biases, I mean you do find with experience you get to limit your things. And then you become sceptical of repeating the same mistakes.

R: Hm, hm.

P: So if you've made an investment decision and it is proven to be wrong, it can get difficult to have the confidence to go back in again, because of you have been bitten by it.

R: Hm, hm.

P: So you would rather want to do something else.

R: Hm, hm.

P: But by having other people around you, that is a lot easier, because they don't have that worries[?] you have.

R: Hm.

P: So they look at things differently. And they can point out different things that perhaps you are missing.

R: Hm, hm.

P: And then being blindsided by it. And then, if you are professional enough and you have that self correcting mechanism, you can go back and say: *Actually I think that person is right.*

R: Hm.

P: And take that into account as opposed to: *You know what? This is a bad company, I remember from 10 years ago…* And you just carry that with you because you can miss opportunities.

R: Hm.

P: Ja.

R: So speaking of biases, now that you have mentioned it …

P: Ja?

R: How do you become like aware of your biases? I know sometimes people are not aware, and it is only actually when it is pointed out.

P: Ja.

R: So…

_P_: Look, it is tricky. But then that is why it helps to have other people around you.

R: Hm.

_P_: Right? People who can… I mean the one might point it out as a bias, but they will point out where maybe your logic is falling short.

R: Okay.

_P_: And then that may be because of a prior bias that you are carrying with you. Right?

R: Hm, hm.

_P_: So working in a team actually helps to prevent that.

R: Yes.

_P_: Where you do not want prior experiences, good or bad, to have a significant influence on your decision making right now.

R: Hm.

_P_: So, for example, you do not want to invest in a company that you did 10 years ago and actually went well for you, thinking that that is going to continue to do well in the same way going forward. Right? And by being part of a team those guys can ask: *Why do you think it's going to do well going forward?*

R: Hm.

_P_: And the answer cannot just be: *Well, because it has done well in the past.* You should be able to justify it, using our process, and in the process of justifying the investment thesis, if you are mature enough you could have that self correcting, sort of to invest: *Actually there is anchoring[?] here.*

R: Hm.

P: You are holding on to your prior winners, hoping that they will do the same going forward. You are not looking at it from the point of a fresh perspective.

R: Hm, hm.

P: You need to do that, and then you can hopefully self correct.

R: Okay.

P: Ja.

R: So just quickly back to your opinions, experience and personal views, if you had to rank them as well in terms of importance…

P: Ja?

R: … from most to least in your own personal capacity…

P: Ja?

R: … what would you say?

P: No I think experience counts, hey.

R: Hm.

P: Ja experience counts. So it's experience and?

R: And your personal opinions.

P: Ja?

R: And then your personal views.

P: Ja I think experience counts for a lot, to the extent that I think it influences the other two.

R: Hm.

P: Just because you've got a point of reference, reference is your opinion, and which is why I'm saying you need to be mature enough to be able to say: *Actually this opinion is based the work that I've done.*

R: Hm, hm.

P: *And it just so happens that in my experience it almost stacks up.*

R: Hm, hm.

P: As opposed to putting experience ahead and say: *Actually in my experience it is how it works, and that is going to work the same way, going forward.*

R: Hm.

P: Because then you are likely to hit a pothole.

R: Hm, hm.

P: In a way your experience just blinds you. You are creating that bias yourself.

R: Hm, hm.

P: Ja.

R: Okay. So, my next question. Have you ever made any… like decisions that resulted in losses?

P: All the time. It is part of what you do.

R: Ja, and how do you deal with the aftermath of the loss?

P: And it's actually… it's a good thing in a bizarre kind of way. And I must say this because for me it's not whether there is good or bad decisions, because you are going to make those. Right? But … and hopefully you will make more good decisions than bad decisions.

R: Hm, hm.

P: But the big issue is how you recover once you've made a bad decision.

R: That was my next question, yes! *[chuckles]*

P: Because how you recover then determines whether they can be good or bad decisions, going forward.

R: Hm, hm.

P: And it requires a lot of tenacity.

R: Hm, hm.

P: And it requires a lot of self introspection.

R: Hm, hm.

P: And then you need to have the confidence to can stand up again and then want to do it. Right?

R: Hm, hm.

P: And, in a way, it is good to have made bad decisions, because it just grounds you as an investment professional.

R: Hm.

P: You know? You can very easily be deluded into a sort of a *star type mentality.*

R: Hm, hm.

P: If you have too many quick successes.

R: Hm.

P: But you do need that one that just sobers you up.

R: Hm, hm.

P: And hopefully it is not big enough to can create a big dent, which is not irreparable.

R: Hm, hm.

P: But you do need a few of those set backs, just to bring a little bit of humility into you as a person, as an investment professional.

R: Oh, okay.

P: Ja.

R: Okay. So what sort of… What would you say has been the most complex situation when you have had to make a decision? Maybe you can give me a scenario where it was just… Where it was a challenge, because of all of the complexities that were happening around you?

P: So I think recently… I mean if you go back to the earlier part of the conversation when I'm saying you know we've had all of this macro events, political events and, at the same time, we've got fundamentals that we are looking at…

R: Yes?

P: …so, ordinarily, financial markets are supposed to reflect what is happening in the economy.

R: Hm, hm.

P: And we price it accordingly. Right?

R: Hm.

P: So the economy is growing. We want the markets to be growing because it means there are more earnings and we can grow from the company's point of view.

R: Hm, hm.

P: But in South Africa in particular that has not been the case, and then you have had a situation where, if you look at the companies we invest in, the stocks that we invest in, purely based on fundamentals, they do not make sense. Right?

R: Hm.

P: Given what we are seeing from a political point of view. But, by the same token, the political side of things creates so much uncertainty that people put money into stocks.

R: Hm.

P: And the currency, because it provide them with some shelter. Right?

R: Hm, hm.

P: But, you know if you walk around, you talk to people in business, you talk to employees, you talk to anyone, they will tell you it is tough times.

R: Yes.

P: But then you read the headlines, it says it's an all time high.

R: Hm.

P: So it just creates that big dislocation where it just doesn't make sense.

R: Hm.

P: Yes, to be putting money into the financial markets in a time when there is political uncertainty, there is policy uncertainty. We are facing a downgrade. You know, you mentioned it. And then investing in that environment has been the most difficult because the markets are not being driven by fundamentals.

They are just being driven by what is happening elsewhere, be it in the emerging markets, be it what is happening with the Dollar, with Trump. Whatever you name it. So it is almost like you must as well just follow the head.

R: Hm.

P: Just be *in there…* Because you just do not know.

R: Hm.

P: And then… Then you have other situations where, like now, this conference this weekend, the outcome is not clear.

R: Hm, hm.

P: So how do you go into that conference with an investment portfolio, if you are not sure what is going to happen the next day? Right?

R: Yes.

P: Not that it is ever certain, but I think more now than ever before.

R: Hm, hm.

P: It is so uncertain, and it is not just Cyril *versus* … and that is it. It could be anyone. Right?

R: Hm, hm.

P: And even if it is whoever, what are they going to do afterwards? You know from a policy point of view that could affect the companies that you invest in.

R: Hm, hm.

P: But then you have no option of not… you know of pulling out and say: *Okay I'm going to sit with cash for the next 5 days and wait,* and then only buy later. You have to invest that.

R: Hm.

P: But, at the same time, there is no conviction in investment thesis, because there is this big lull now where you are just not sure what is going to happen. And the outcome could be anything.

R: Hm.

P: It could literally be anything. You cannot even take a guess at what the outcome is going to be, and say: *Okay I'm going to do it this way or the other way…* You just hope for the best essentially. Ja.

R: Hm, hm. So are you aware, like every day when you wake up in the morning…

P: Hm.

R: … and stuff, and when you get to work and you know: *Maybe things are just happening in your personal life…*

P: Ja?

R: Are you aware of your emotions? Like… and how it could potentially influence or change your judgment when it comes to making investment decisions? Or do you know how to manage these? And if so, how do you do it?

P: So… Ja this is pretty much the most important question. In my space, one of the things that I have had to learn very quickly is to separate everything else in my life *versus* the professional side of it.

R: Hm.

P: So when I come to work, by the time I come to through the gate, then everything else is way behind me, to the point where I will not even call home through the day.

R: Hm, hm.

P: I don't even call my wife. And lately it has been so bad that I don't even listen to the radio. I don't want to listen to the news. I read the paper, just from the company, you know from a results point of view.

R: Hm, hm.

P: And when I leave, I don't take anything home to read.

R: Yes?

P: You know?

R: Hm.

P: I don't take reports… I don't do work at home. Weekends, I don't even come close to work.

R: *[chuckles]*

P: That is how far I live also. I make sure that there is no temptation.

R: Ja.

P: And I think that balances it, and I think that separation is key.

R: Yes.

P: Because if you meddle it, then you could have other factors that can influence your… either your professional side or your personal side.

R: Hm, hm.

P: So consciously, I have had to make that decision, and I draw that line, to say: *Okay, when I am at work I worry as much as possible about what is happening in the office. But as soon as I get in my car in the evening and I leave the gate, then that is done. And whatever happens elsewhere, I cannot control it. It is beyond my control. I have done my best for the day.*

R: Hm.

P: And that is that. When I get home, I will not even ask: *How was your day?* Because I don't want to be asked how was my day. You know?

R: Hm.

P: We will talk about anything else. The kids… whatever. And that is that.

R: Hm.

P: Ja. The same when it's holiday time, off I go.

R: And that is it?

P: I switch off. *Do not call me if the world ends, because I will probably find that out some way or the other…*

R: *[chuckles]*

P: *If you call me, there is not much I can do for you…*

R: Yes.

P: *And I am too far away…* Or whatever the case is. And it is as simple as that.

R: No, I think that is very good that you have obviously managed to separate work and home. But I guess that comes with time and experience?

P: Ja, it comes with time and experience. But otherwise you just worry.

R: Yes.

P: Ja, for the sake of worrying. And then, most often, even if I tell you what is going to happen tomorrow, it turns out I cannot do much about it.

R: Yes.

P: Ja, so what is the point of worrying? You know? And, sadly, in South Africa recently, over the last 18, 24 months there is just negativity.

R: Hm, hm.

P: You listen to the radio, they thrive on negativity. The worse thing is the news.

R: Yes.

P: Everything is like just… you know? So, by the time you come to work, you've heard like three bulletins and, literally, by the time you have heard all of that you are really stressed!

R: Ja. *[chuckles]*

P: You know… and who needs that?

R: Yes. Hm.

P: Who needs that when you still have a long day ahead of yourself. Ja.

R: Okay. So now my last question to you.

P: Hm?

R: That is, so in the equity space… Right?

P: Hm, hm.

R: What would you define as rational investment decision making? And then irrational investment decision making? Now this question has to be obviously be from a subjective perspective.

P: Ja. So rational, in my mind, is where you can show a process that you follow to get to that decision.

R: Okay.

P: Irrespective of the outcome. So you could have gotten the outcome wrong, but at least you can show a detailed thorough process which is transparent, which is repeatable, and say: *This is how I make my decisions. These are the steps that I followed.* And: *This is the conclusion I got to.*

R: Hm, hm.

P: It may be wrong or right, but at least you can display. Right?

R: Hm.

P: Irrational is when either you did not have the process, or you have it and you don't follow it.

R: Hm.

P: And you are just acting you know in between this, reacting most of the time.

R: Oh, okay.

P: And you are chasing the market. So you wanted to buy something because it's down. So you hesitated, and then it turn and it runs and so you want to buy it.

R: Hm.

P: So you are just chasing the market. Similarly, when it turns and it falls down and you want to sell instead of buying… you know?

R: Hm.

P: Yes, so it is all of those sort of inexplicable sort of actions that are not backed by a solid process.

R: Hm.

P: Ja.

R: Okay. Thank you very much.

P: Cool.

...[End of recording]...

—o0o---

Audio track: PARTICIPANT 4

R = researcher
P = participant

R: Thank you so much for agreeing to do this interview with me. I do appreciate it. So the first questions that I'm going to be asking you is just going to be related to the global and local economical, political and financial conditions that are prevalent.

Then the second part of the question will then be looking more at your investment decision-making process, understanding that you focus on retail and industrials. So we can just look at it from a that perspective as well.

P: Okay.

R: So the first question I have for you is, what sort of local and global factors do you think influence the way in which you make your investment decisions?

P: So we mainly invest on the JSE in South Africa. Our market is, what I would call *an open market*, whereby it is then influenced by both local events and global events.

So if I were to speak locally first, the political decisions or the political landscape in South Africa will affect our investment decisions, and the key reason for that is because the politicians will set policy and are responsible for job creation, housing, etcetera, etcetera, which is spent on infrastructure, power, utilities, water… all these things drive employment. Employment drives growth, which drives income. That will then drive consumer spending. And consumer spending will drive company earnings.

R: Hm, hm.

P: So that is why the political decisions are very relevant. Economic decisions are also very relevant, because of a similar thing and will fire the economic growth in the country, the GDP, affect the growth of the companies that we invest in.

R: Hm, hm.

P: Globally. The global factors that will affect us will be factors like BREXIT, because many of our companies invest abroad, and they are companies that have invested or have earnings or revenue, and you can be affected by that.

The US elections, like electing Donald Trump and the policies he sets will have implications on South Africa because. Well, simplistically speaking, it will affect the Dollar, the Dollar will affect the Rand. It affect commodity prices and it will affect the oil prices. That will then feed into our companies direct.

R: Hm, hm.

P: So all those factors then will influence what happens in South African companies, and that will manifest itself as to share prices on the JSE.

R: Hm, hm. So then it's safe to say then the same thing will apply specifically to your retail and industrials as well?

P: Yes.

R: Or is there a bit of a …

P: So the retails stocks will be… Retail stocks are mainly affected by consumer disposal income.

R: Yes.

P: Which is directly driven from matters like job creation, grants, etcetera.

R: Hm, hm.

P: The industrial companies are a mix of both. They are affected by consumer spent, by also by business to business spent.

R: Yes.

P: So a business can do well without a consumer doing well.

R: Hm, hm.

P: And it could drive industrial companies' earning as well. So, yes, but differently.

R: Okay. So when you look at these different factors locally and globally, which ones do you think are most important to you and your area of specialisation?

P: There is not one area that is more important.

R: Yes?

P: I think they are all most important. But what becomes relevant is what is more topical at that point in time.

R: Yes?

P: And what implications that would have on us.

R: Hm, hm.

P: So, if I were to give you an example, if… this is just a simple example.

R: Hm, hm.

P: If there is corruption at Eskom, which is a SIE[?], and it causes load shedding and blackouts.

R: Hm, hm.

P: Shopping centres might not have electricity.

R: Hm, hm.

P: Therefore retail stores. who operate mainly in shopping centres, might not operate.

R: Hm, hm.

P: They will lose sales. If they lose sales their profits go down, and that will impact or affect valuation of the price you see on the stock market or in the JSE.

R: Hm, hm.

P: Okay? But that might or might not happen, so hence my earlier comment that there is no one factor that affects it. It's just a factor is happening at that point in time that are affected.

R: Hm, hm.

P: For example, if we get an unfavourable outcome at the ANC elective conference… I don't know what *unfavourable* is. Let's say it causes the Rand to weaken against the Dollar….

R: Hm, hm.

P: … that will affect all the companies they are involved in, importing into South Africa, because the cost of sales will increase.

R: Hm, hm.

P: And their profits will decrease. So there is not one factor that is more important than another factor. It is just what are the factors that are happening at that point in time, and that will affect the valuations and stock prices.

R: Okay. So what is your opinion of South Africa's current economic, financial and political conditions?

P: In terms of our economic conditions, we are growing at below potential growth. We are an emerging market country. We are, our GDP growth is less than 1% by the end of 2017. It should be towards trend growth, which is higher than 3% GDP growth per annum, based on our economy. It is not happening.

A lot of this is due to what is happening in the political front, such as corruption, instability. You know all that sort of stuff. So the political landscape in South Africa, which is very well publicized at the moment as to what has happened in the last few years, has affected and stagnated our economic growth which has affected the private sector growth and the public sector growth.

R: Hm, hm.

P: In terms of the financial aspects, it all feeds through because it is lack job creation, lack of company spends, lack of growth, and it will affect our financial wellbeing of both companies and individuals in the country.

R: Okay. So I think you have already taken through this, but just to make sure, I wanted to ask you then how do these conditions directly and indirectly affect your investment decisions? But I think you have obviously explained that in the first question, when you were talking about what local and global factors influence your investment decisions.

P: Well I can elaborate on that.

R: Okay?

P: Sure. How it affects our investment decisions is, we, as fund managers… Okay I'm on the equity side so we are… we will make investment decisions into company shares which are listed on the JSE.

R: Yes?

P: We will take a view as to what we think the economic growth will be for the next 12 months, 24 months, 36 months… 60 months. Okay?

R: Hm, hm.

P: And our view will be based on what our view of the political landscape is, what the economical landscape is and whether the country can growth to potential. And our view on the economic growth of the country will be then help us make decisions as to what our view of the individual companies that we invest in and how they could grow.

R: Okay.

P: So, for example, if GDP is growing at 1% per annum, it is very difficult within… In the absence of local companies expanding abroad, it is very difficult for companies in South Africa to grow their revenue by 20% when the country, itself, is growing at 1%.

R: Hm, hm?

P: So, therefore, we will have a muted view of the sales growth of the companies we operate in… if that was our view on the economic and political situation.

R: Okay.

P: But if it changes, then that means we have taken a view on information that is too pessimistic.

R: Hm, hm.

P: And then the stock prices might start running, and then we have to revise our view.

R: Okay.

P: So we constantly are revisiting our view as to: *How do things look now? How do we think things will play out?* And that will then inform our investment decisions as to which companies will benefit the most? Which companies will benefit the least? And do we want to buy into the companies that benefit the most? And sell the companies that benefit the least…

R: Hm, hm.

P: …from our views.

R: Okay. So if I had to ask you to possibly rank economic, financial and political conditions in terms of importance to you and what you do on a daily basis, would you be able to do to that for me? Or…

P: What is… So that there is no misunderstanding, what is your view on the financial conditions?

R: Sorry?

P: What is… What do you mean by the *financial conditions* in the country?

R: Okay. I mean, let's say *our financial environment,* like our economic environment and our political environment? I understand that these are all intertwined?

P: Ja.

R: But in the theory sometimes you are able to separate them and then bring them together you know. So, just to understand specifically to your area of expertise, I want to understand maybe the importance of these factors?

P: Okay. Yes. So, because they are interrelated, I would think… I would… It is not easy to bank.

R: Yes.

P: So let us just stop there. But if I were to rank it, I would think that the political factors would be the most important.

R: Hm, hm.

P: Because they set policy on tax, the tax rates. Okay? Which ultimately affects individuals and companies .... income. And companies' earnings. Okay?

R: Hm, hm.

P: Those factors then drive consumer's spending and then those factors will then drive company earnings.

R: Hm, hm.

P: And profits. And share prices, etcetera. If the political environment is strong. Okay?

R: Hm.

P: Then the economic environment might still be weak because there has been a global recession, or just a general recession, which all countries go through. But it would not be an own goal[?]. Okay? And then we will be able to, as a country, get out of that cyclical recession, if that is the case.

R: Hm, hm.

P: And, once you are out of that cyclical downturn, given that the political landscape is strong and solid, you attract a lot of foreign investments.

R: Hm.

P: Because foreigners would want to invest in your country. Local businesses have a confluence to spend. There will be more jobs that are created, so that will create economic growth of the country on infrastructure spent. You know? All that type of stuff.

So the political environment, and the importance of that key in my view because it will drive the confidence of the country and it will drive and give confidence to spend and grow in the country.

R: Hm, hm.

P: The economic environment… The inverse is also true. If you have a poor political environment...

R: Hm, hm.

P: Or a poor political landscape, okay? It is unlikely that your country will grow to potential. So, despite the rest of the world being in this global uptake, your country, because of it's political misfortunes of mishandlings, would grow below potential.

A case in point is Zimbabwe. I mean when the whole world was growing at a fantastic growth rate, including South Africa. Okay? From about 2003 until about 2007, Zimbabwe didn't.

R: Hm, hm.

P: And that was because of their political environment.

R: Hm, hm.

P: So that is why I say the political environment will be key, because it will give investors confidence. Secondly, I would say the economic and financial really go hand in hand.

R: Yes.

P: That will be second because we are concerned about the economics of the country, and that does affect our views and inform our decisions.

R: Hm, hm.

P: But, ja, I think it is very important, but I think the political environment is most important, and I used the real life example of Zimbabwe. Another example is Venezuela. And another country is Brazil. You know we have seen the examples before.

R: Hm, hm. Precisely. Okay? So that brings us to the second phase of the questions. So I hope… I am assuming you obviously have a process as to how you make your decisions. Or how you select certain stocks that you think should be within your portfolio, and so forth? So could you maybe take me through that process? Like, to the point where it could even be… like done in a diagram form? Like, you know, each phase of that process if you don't mind?

P: In terms of stocks selection?

R: Okay.

P: So we at… Oh, well okay, we, at our company…

R: [Amusement]

P: We have a very detailed stock selection process.

R: Hm. Hm.

P: Primarily because we are fundamental relative value investors.

R: Okay.

P: If we value a retail company, as an example… Let's use Mr Price as an example.

<u>R</u>: Hm, hm.

P: I would start… If you don't mind the company?

<u>R</u>: Hm, hm.

P: I would start reading annual reports for the last ten or more years.

<u>R</u>: Hm, hm.

P: I will go ten or more years back, and I will start reading the annual reports. I might not read every page of the report, but I will definitely read the Chairperson's report. I will definitely read the CEO's report. I will try to understand the business. I will look at the financials. I will see what the drivers are.

<u>R</u>: Hm, hm.

P: Overlay that, with what I know, or from our cross references to what was happening in those years… We take ten years back to around 2006, 2007, when it was the top of the market, because then the market collapsed after that. Okay?

<u>R</u>: Okay.

P: Now I will overlay that with what is happening in the world and in South Africa at the time, and then I will do that for 2008. I will keep reading, reading, reading. I will do read research reports. I will be reading some industry information. I will interrogate the financials. So that process is me obtaining and understanding of the company.

<u>R</u>: Hm, hm.

P: Of it's business model.

<u>R</u>: Hm, hm.

P: Of it's competitive landscape. Of where it fits in the environment.

R: Hm, hm.

P: So I used Mr Price as an example. The keys token there was that it transformed the business from a factory shop type business, mainly credit, capturing in early 2000 and something.

R: Hm, hm.

P: To currently, which is mainly a cash business aimed at what they call *fashion value.* Or what you may know was *disposal fashion* where you buy fashionable clothing cheaply.

R: Hm, hm.

P: So you can wear the latest fashion, but it will only last you for a short period of time, because the garment will not last for a long period.

R: Hm, hm.

P: Then you compare that to other companies, like a Woolworths, who say they offer quality clothing.

R: Hm.

P: But it will be higher priced.

R: Hm, hm.

P: So you've got to then try and figure out in your mind: *Does one win over the other? Can they both exist in the same economy? Are the target markets different? If so, can they both exist?*

R: Hm, hm.

P: *Is the target both the same?* One will win over the other.

R: Hm, hm.

P: And then you've got to figure out in an emerging economy like South Africa: *Do customers need credit to make clothing purchases?* You've got to figure that out in your mind: *How important is that or not?*

R: Hm, hm.

P: Then you've got to look at the strength of the management teams by reading all these reports and seeing the decisions that they make. How they allocated capital in the past. For example, how when they allocated capital in the past, have they gone out and opened a whole lot of new stores?

Big stores in shopping centres that might or might not be profitable? You know? Where they don't get their required foot .... It's an expensive exercise putting a shop in place, ... to fit it out. Get the merchandise for it, and supply it.

You know if they made those decisions to invest in shopping centres that wouldn't deliver the required returns, then you don't think of them very favourably because they are wasting shareholder money.

R: Hm, hm.

P: You know you would have wanted to them to have thought out the process, and not grabbed ever opportunity.

R: Hm, hm.

P: Despite common knowledge being that when retailers grow they open new stores. But you have got to be very selective.

R: Yes.

P: Then you have got to understand what happens behind the scenes, and that comes from actually doing visits. Behind the scenes meaning: *How does their supply chain work? How do their systems work?* You have got to do visits to their factories. To their distribution centres. Look at their supply chain.

I have been, and I have seen all this in the past. I know how the flow of goods work. Where did they get their product from? They get it from Far East, mainly China. They've used agents in the past to help them import product, and now they are trying to cut out those agents to maximise their margins.

I know that Mr Price watch their costs very closely. And a simple example of how they watch their costs is, they sell product in Cape Town. Right?

R: Hm, hm.

P: They sell product in the whole of South Africa, as we know. Their goods come from China into Durban harbour. They offload in Durban harbour, send it to the DC which is in Durban.

R: Hm, hm.

P: Now they need to get those goods to Cape Town. They have figured out the cheapest way for them to get goods from Durban to Cape Town is Cape Town grow fruit.

R: Hm, hm.

P: They send their fruit to Durban by ship. And the ships go back empty. So Mr Price has got an agreement with those fruit ships to put their clothing on that ship at a fraction of the price than what it would have been with road transport.

R: Yes.

P: Then these are the sort of things that you figure out from chatting to management, visiting the company, looking at their stores, from monitoring what goes into their stores and what doesn't.

R: Hm, hm.

P: How long you have to wait in queues. How is the service level. Then when you are comfortable with that, then you start building the financials. You start putting financials in place.

R: Hm.

P: How they manage their capital. How have they managed their costs. What does the return look like? The returns being returned, operating as a returning equity. Is there a lot of like *funnies* in the accounts? *Funnies* being a lot of once off costs. A lot of restructures that will make you wary.

R: Hm.

P: Do they issue shares often? You don't want a company that issue shares often, because that means weakens your position.

R: Hm, hm.

P: So you've got to look at all those sort of things. You build a financial model. Your financial model basically will now tell the story in numbers about how this company operates.

Then with the information based on the political landscape in South Africa, and economic environment, you then take your view… and also chatting to management and looking at the target market, you then take a view as to how you think their sales, costs to sales, expenses will play out over the next five years.

R: Hm, hm.

P: Then we model this, and we then discount it back and we get a price per share.

R: Hm, hm.

P: We then compare that price per share. Let's say that price per share is 200 per share, is what we think the company is worth.

R: Okay.

P: Now if the company is trading at R150 on the stock exchange, everybody would want to buy this share, because it's worth R200 but I can buy it for R150.

R: Sure. You think it's undervalued?

P: Yes, therefore I want to buy it, because it is undervalued.

R: Hm, hm.

P: Then the opposite is true. If it's trading at R150 per share, but we think it is only worth R120 per share, then we are unlikely to want to buy it.

R: Hm, hm.

P: Because we think it will not sell.

R: Yes.

P: And that is how we make our stock assessment[?].

R: Okay. So just a few follow up questions on that. So I take it that then within the process that you've just explained to me now, that is also… that also then include the external research that you do prior to actually formalising a decision?

P: External research being that we visit the company.

R: And?

P: And look at their operating distribution centre and that.

R: Exactly.

P: Yes.

R: And then you take all of those perspective into ...[intervenes]

P: All of those… all of those you take into account.

R: Yes.

P: And also we look at what their competitors are doing.

R: Hm, hm.

P: Okay? So if I think of an example, if all their competitors are expanding overseas and Mr Price is not, we will first try and figure out: *Okay why are the competitors doing it? Is it a good decision or not?*

R: Yes?

P: *And in which countries are they going into?* Now if the competitors are going into, let's say countries like the UK…

R: Hm, hm.

P: … which we will see, does it mean that Mr Price has been left behind? Or does it mean that they are smart?

R: Hm, hm.

P: But you don't know the answer up front. And you are still asking the questions: *What has made the competitors to go overseas? Do they want to expand their operations and grow their revenue?*

R: Hm, hm.

P: *Do they want to have a hedge[?] against their .... because they think that the country is going to down the drain and the Rand is going to weaken? Are they able to compete in the UK?*

R: Hm, hm.

P: And: *Will Mr Price's business model do well in the UK?* Then you've got to think about all that and put it together. And, in my view, Mr Price has taken a decision not to go to the UK, and I think it's a good decision. Why? The UK market is extremely competitive. Their seasons are different. Our Summer is their Winter, their Winter is our Summer.

R: Hm, hm.

P: It's not going to be easy to operate and divide the manager's attention. So, despite some competitors going to the UK, and Mr Price not going to the UK, actually makes people to like them a bit more.

R: Hm.

P: Because they have been wise and been clever. Smart as an investment and a manager team.

R: Okay.

P: So yes there is a lot of information that goes into our decisions.

R: Hm.

P: And we are always questioning things.

R: Of course.

P: So then is there any… I would assume so, I mean we are human at the end of the day, but there is any personal views? And, you know, your own personal experience? Or does your own opinions and judgment go into these decisions as well?

R: Yes they are. So you meet management.

P: Hm.

R: And then you take a view of them.

P: Yes.

R: And the view could range from some CEO's are very charming.

P: Hm.

R: And after meeting them and speaking to them, you want to buy the stocks straight away.

P: Hm, hm.

R: Some CEO's are very arrogant. After meeting them you don't want to buy their stock.

P: Hm, hm.

R: Ja.

P: Some CEO's are sort of, for lack of a better term, *neutral.*

R: Hm, hm.

P: Or they are almost neutral in the sense that they… they are not charming, they are not arrogant, but maybe they are introvert type people.

R: Hm.

P: And they are uncomfortable having this conversation with you.

R: Hm.

P: So you don't get that warm, fuzzy feeling. And then you've got to take all these views into account and think about whether you think they are the right person for that job.

R: Hm, hm.

P: Because that will then drive the culture in the organisation, that will drive then the earnings, etcetera, etcetera.

R: Hm, hm.

P: So a lot of personal factors do come into it and you've got to almost try and hold yourself back…

R: Hm, hm.

P: …from those biases, and you do it by constantly testing your due[?]. And then also listening to the other side of the coin. Like, if you like the company, unlike someone who doesn't like the company.

R: Hm.

P: And then find out why someone doesn't like it.

R: Hm, hm.

P: It's not smart to only, if you like the company, speak only to people who like the company because then you are never going to know what is happening on the other side. So our personal biases do come in it a lot.

R: Hm.

P: And it has developed from things like, if the company has done well in the past... you think they will always do well. But it doesn't happen that way. Because if you think they've don't badly in the past, you think they will always do badly. It doesn't happen that way either.

So you would like the CEO's that have good performance in the past, and you less like the CEO's less that have done not so good in the past. You know?

R: Hm, hm.

P: So to answer your question, yes, our personal biases do come in, and we try to limit it.

R: Okay.

P: You try to be as a independent as possible.

R: As possible. I understand.

P: Yes.

R: So speaking of personal biases, I mean I have to ask. You know, you wake up in the morning and you are feeling so great, and you come to work. And then... Or you feeling really good. You know? And you come to work, and then whatever decisions you make that day could be influenced by your emotions.

So, I guess my question to you then is, are you aware of your emotions? And then, how do you control those and separate that from focussing on your investment decisions?

P: So our personal emotions will not affect our investment decisions.

R: Hm.?

P: Because our investment decision are based on a process, and it takes more than one day.

R: Okay.

P: It’s quite rigorous research.

R: Yes.

P: We document our reasons for liking things, for not liking things.

R: Yes.

P: We also do what we… Oh I forgot to mention it earlier, is what we do is a quality assessment of the company.

R: Okay?

P: We look at the industry of the company. Is it a good industry? We look at the competitive landscape. How do they fare there? We look at the quality of the financial statements over the years.

R: Hm.

P: And all these decisions help form our point of view so one day when I’m feeling good or bad is not going to influence my decisions.

R: Okay.

P: And me, personally, sometimes if I’m feeling excited about something, I’m feeling excited about a company and I want to buy the stock, I actually hold myself back.

R: Hm?

P: And I say to myself: *Let me rather sleep on this.* If I miss an opportunity I miss an opportunity because I don’t want to rush into making decisions, based on emotions.

R: Hm.

P: I would rather make a decision based on facts, on a well thought out process.

R: Yes.

P: And I mean our processes are very diligent, detailed, and there is a lot of iterations that go into it before we make investment decisions, or decide to sell stocks, ja.

R: Yes.

P: One day me feeling good or feeling bad is not going to affect my investment decisions.

R: Hm. Well I guess also you know, just being able to control that, that comes with experience?

P: It does. Yes it does, because in my early days, before I did this I was a trader on the stock market.

R: Yes?

P: And sometimes you just want to… you are excited, and you want to buy, and you get caught up in the hype. The stocks are running up and you want to buy because this can go on forever, and then the stocks falling and you want to sell it because you think it will go down forever…

R: Yes.

P: It doesn't happen like that. Stock markets work like this. Up, down. Up, down.

R: Hm, hm.

P: So the trick is you've got to try and catch it when it is down. And ride it when it is up.

R: Up, ja.

P: You know?

R: Ja.

P: You can't always get it right. But you've got to try to get it right more times than wrong.

R: Hm, hm. Okay. So my next question to you then is, have you ever made like any decisions that resulted in losses? And, if so, how did you deal with the aftermath of something that you would consider a loss? Or… you know, thinking a stock is valued at something and then later on you find out that it is not.

P: Are you talking about my current role or my career?

R: Let's talk about your current role?

P: So, yes, you make a decision based on a process.

R: Hm, hm.

P: And your decision doesn't materialise because your view is based on your view of the future.

R: Hm, hm.

P: And you take a view that the stock market, or that view might not play out in the next six months, three… or one day, a month, three months, six months, twelve months.

R: Hm, hm.

P: It might not play… Or even 15 months, as an example. Okay?

R: Hm, hm.

P: So an example of mistakes that I've made is… Do you want me to mention company names? Or?

R: It's up to you.

P: We took a decision, so we liked Woolworths, as an a company.

R: Hm, hm.

P: Why do we like them? They had good things in their food space. They had reasonably good things in their clothing space in South Africa. Okay, the clothing was average. But their food was really good. Their food business.

R: Yes.

P: They did good stuff with a food business in Australia. Then Woolworths made a decision to buy a business in Australia called David Jones.

R: Hm, hm.

P: A very, very big acquisition. To contextualise it, Woolworth South Africa bought a business as big as a Truworths, or as big as a Foschini business in South Africa, and that business, David Jones, is Australian based. We were neutral to it, to negative, when we heard about the acquisition.

R: Hm, hm.

P: Because we thought that the company had overpaid. We spoke to a lot of sales analysts, stock brokers, because they went over to see the business there. They came back very positive with what Woolworths could do and turn around that business

R: Hm.

P: We were still not convinced, so we decided to go over ourselves

R: Hm, hm.

P: We went over with Woolworths' management team to Australia. We visited their stores. We looked at the opportunities. We looked at how we thought Woolworths can turn that business around.

R: Hm, hm.

P: And we came back from that trip, quite confident that Woolworths can turn that business in Australia around.

R: Hm, hm.

P: What happened was, the Australian economy slowed, which we had not factored into our numbers. Okay?

R: Hm, hm.

P: The consumer was under pressure. A lot of internationals that had gone into the market and that increased the level of competition, The internationals being Exxaro, H Williams[?], etcetera. And they made this… And then Woolworths had underestimated the timeframes with which they could turn this business around. Okay?

<u>R</u>: Hm.

P: So they were talking of turnaround within three to five years. Maybe it's not, maybe it's seven to nine years. You know? And they had, Woolworths overestimated how soon new systems could be put into the business in Australia and how quickly they will be able to get to grips with the stock management system.

They overestimated how they could take a product from South Africa, prime level, like your Woolworths prime level, your RE, that is one of their brands….

<u>R</u>: Hm.

P: … and put that in the Australian stores and they would sell well, because they sold well in South Africa.

<u>R</u>: Hm.

P: And it did not take off in Australia.

<u>R</u>: Hm, hm.

P: So we had bought into the story. We had bought into the view, because we thought that this was possible and within three to five years type of break. It turned out that it didn't realise that way. The Australian economy slowed. There was competition. The prime level didn't take off. It took longer to implement the systems. So our investment case didn't play out.

<u>R</u>: Hm, hm.

P: And in the end the stock has slowed off quite a bit.

<u>R</u>: Hm, hm.

P: So we were then faced with a view of: *Okay, now what do we do? Do we cut our position [possession?] at the bottom now, when the stock market is already pricing in that these things are not going to happen? Or do we rather ride it out?*

R: Yes?

P: So we revisited our view, and, based on our revised view, we felt that the market now wasn't giving Woolworths credit for turning that business around in Australia. So if they did turn it around, then there was upside to the share price from where it was.

R: Yes.

P: So we really lost money because that hadn't come off. So we decided to stay in the stock, because now it is upside from these levels.

R: Hm.

P: There has been examples where we revisited our view and we cut our position. Like Mr Price is one. We liked Mr Price before. They did well… they did well… then they got their fashion wrong.

R: Hm.

P: Stock prices start to sell off. We then cut our position because we felt that they would get their fashion wrong again.

R: Hm.

P: And they did get their fashion wrong again.

R: Yes?

P: And they got their fashion wrong again for more than once.

R: Hm.

P: And it was right by cutting our position, and then we thought things have improved, and we then bought back, and now the stock is now run up. So there are times where we make… So we often make the wrong decisions.

R: Hm.

P: But key is to then revaluate without being biased.

R: Hm.

P: How do you… how do you… what decision to do you take then? And try to keep your biases out, is what will make a decision ultimately turn in your favour or not.

R: Hm, hm.

P: So we constantly do these assessment.

R: Hm, hm. So I just have to ask you… I mean this is not part of my questions, but I'm just… it's just for interest's sake. Like throughout your professional career, have you ever then some how to deal with the last… but you know some sort of bias interfered and then that obviously resulted in it being more detrimental? Or is it just …

P: Ja. So I would… Not that at …[Inaudible-36:37;0] but I was trading in one of my previous jobs.

R: Yes.

P: It was in 2008 and the mining stocks had just come out of the super cycle[?] in commodities where China was just buying commodities from the rest of the world. South Africa being one of the beneficiaries as well.

R: Hm.

P: Like Anglo American as an example, it was trading at like R500 a share.

R: Hm, hm.

P: And at that point the whole… I had just come back from London, living in London, and the guys there were very, very bullish, very optimistic about the super cycle commodities and that it will just go on. And… etcetera, etcetera.

R: Hm.

P: And I was trading, I bought shares in Anglo American, because I thought that these mining shares are going to keep on going up.

R: Hm, hm.

P: And in 2007 there was a home loans crises in the US, which resulted in the credit crunching. In 2008 there was bank failure. In 2008 He-man[?] Brothers failed. Sterns[?] had failed and many other companies had to be bailed out.

R: Hm, hm.

P: That then caused the credit crunch and the global financial crises. Okay.

R: Hm.

P: These mining stocks of Anglo American they went from R500 a share to like R300 a share.

R: Hm.

P: Okay? And then they got to about R300 a share… I don't remember the exactly level it was at, but I remember the then CEO decided not to pay out a dividend for Anglo American. And that was like an unheard of thing in the company, such a company, in a company like Anglo American's life.

R: Hm, hm.

P: And then the share price fell further. And when it fell further, I was still investing in stock.

R: Hm.

P: But then I thought: *A huge company like this, it will never go further down. Never will go further down…*

R: Hm.

P: And it did. It did go further down. And eventually I cut my position. And it did go down further.

R: Yes.

P: So… ja… these things happen.

R: They do.

P: And one of the biases that I had faced at that point of time was that was a blue chip quality company that would not go very much lower, and it did.

R: Hm.

P: And that's why in my current position, ...

R: *[chuckles]*

P: .... wed face a similar situation where Steinhoff, which is the latest sort of corporate scandal in South Africa ...

R: Hm.

P: .. we have been[?] monitoring Steinhoff for a while. And we are currently… We had previously liked the stock. So we had a big position in it. And we have done very well off that position.

R: Hm.

P: But then the company started… How can I say? Their returns, their equity, return of operating asses are declining, they started making acquisitions and paying massive premiums … so we stopped liking what the company was doing and how the management were operating.

R: Hm.

P: And this is despite the share price having gone up.

R: Hm, hm.

P: So because of our previous experiences, knowing that share prices don't stay up there forever, we started to cut our position. We cut our position and in early December 2017, it came out that there are accounting irregularities in Steinhoff. The share price plummeting.

R: Hm.

P: Like it was down 60% in days.

R: Hm.

P: We had a small residual position in the stock when that news came out. And, based on previous experiences and knowing not to be biased, we decided to sell the remaining position down to zero.

R: Hm.

P: And then that stock fell even further, like 40% the next day, 40% the day after that.

R: Yes.

P: And that saved us.

R: Hm.

P: So our experiences from like 2007, 2008, has now put us in a position to make the right decisions, unemotionally, in 2017, ten years later.

R: Oh, okay.

P: So it all helps in the end.

R: Hm, hm. Have you by an chance, you know, made a very difficult decision because there was so many complexities associated whether within the external, or even internal environment?

P: We are constantly making difficult decisions.

R: Hm.

P: Because we are trying to take a view in the future, and I don't even know what is going to happen in the next hour!

R: [amusement] Yes.

P: I'm going to try and take a view as to what I think the company will do in the next 12 months, 24 days, six months…

R: Hm.

P: Five years. So one of the difficult decisions was actually cutting our Steinhoff position.

R: Hm, hm.

P: Which I have explained, that share was… most people, many people… there was two camps. People either loved it, or hated it. But forever reason, their stock had done really well over a long time riser.

R: Hm.

P: And a difficult decision was to exit our position when some people talked that there was still lots of money to be made there.

R: Hm, hm.

P: And we… I wouldn't say we went against it, because there was people that didn't like it as well, but it wasn't an easy decision to make.

R: Hm.

P: Because we simply list it on the Frankfurt stock exchange. There was a lot of positivity around what the business could do and we were just not convinced then. It was a difficult decision but we cut the position.

R: Hm.

P: Why it was so difficult was because by the time we decided to cut the position, it stopped… it actually started coming down. They started falling.

R: Hm.

P: The stock, the share price. And, at that point, people were like: *Well this stock is offering value, it's time to buy, because it's going to go up from these levels.*

R: Hm.

P: And the decision we made was; *No it's actually going to go down further.*

R: Hm.

P: But that was like already in the middle of 2017.

R: Oh.

P: And it was a difficult decision to make, but we made it.

R: And you benefited.

P: And it turns out to be the right one

R: Ja. Okay. So my last question to you now is, consider… well we've spoken about your years of experience and your field of expertise, what would you then define as rational investment decision-making and irrational investment decision-making?

P: So rational decision-making is when you follow a process and you are true to your process. So, as an example, as you assess a company. Assess the sector. See what it's competitors are doing, you see what this company does have, what drives this company's performance. You assess the strength of the management team. And you go through many processes. You build a financial model

I mean you cannot accurately forecast the future. But what the financial mode will do, it gives you a sense for how they have been allocating the capital. For any *funnies* on their balance sheets. How they have utilised their shares. Are they issuing too much shares? It gives you a feel. And it gives you knowledge about the company.

R: Hm.

P: So you go through this process. You try to eliminate your biases. You overlay what is happening in the South African economy, the global economy. Can this company now make money? Or is that area of the market overtraded? You know? So you go through these process. You ponder it, and you think about it. You chat to people.

R: Yes.

P: And you from a view. That is rational decision-making.

R: Yes.

P: And if it turns out that your view is wrong, you assess why it is wrong.

R: Hm.

P: And if it is valid, you cut your position.

R: Hm.

P: Because it didn't play out the way you interpreted the facts. Okay?

R: Hm.

P: So you have come to the wrong conclusion for whatever reason.

R: Hm.

P: So then you have to exit that position.

R: Hm, hm.

P: That is rational decision-making for investing and for existing your investments. Irrational decision-making is, if a stock sells off, and you decide to buy it because it is sold off, because you think it will go up again.

R: Hm, hm.

P: You are not basing them on research, you are basing it on share price movements.

R: Hm, hm.

P: Now an example is Steinhoff. Some sold off. People were: *Oh, well it sold at 60%, it's got to be time to buy. If I wanted to buy when they were 60% higher, surely I can buy it now at 60% cheaper. I'm getting a bargain.*

R: Hm.

P: That is irrational decision-making, because there was an accounting irregularities, but that bought on the hope that the share prices would then go up. But what happened then, it dropped a further 40%. The next day, the day after, it dropped another 40%.

R: Hm.

P: So we are only gauging irrational decision-making where you would buy a share because it is sold off.

R: Hm.

P: Or you will sell a share because it has gone up.

R: Hm.

P: So to repeat that, irrational is when you make a decision based on share price movements.

R: Hm.

P: Rational is when you do the underlying research of what you think the business can deliver in terms of profits.

R: Okay. Thank you so much.

P: Okay.

R: Thank you.

...[End of recording]...

—o0o---

Audio track: [Participant 5]

R = researcher ***P*** = participant

R: So I'm not going to mention your name, anyone's name. Not going to mention (you know) the company's name and if you do mention anyone's name then we'll just have to use a pseudonym for my research.

P: Okay.

R: Cool, so thank you firstly for doing this, I do appreciate it. Uhm so there's just two set of questions. As you saw my research is just basically about heuristics and biases associated with investment decision making and I'm just trying to get (you know) different views to understand the process and then ultimately compare reality to theory and then draw conclusions from them. So the first set of questions I'm looking at local and global economic political and financial conditions and then the second part looks more at your investment decision making process.

P: Okay.

R: Cool, so my first question to you is and you can speak for as long as you want and there's no timeframe.

P: Sure.

R: So what global and local factors influence the way in which you make your investment decisions?

P: What global and local factors?

R: Hm.

P: Okay, so I guess, I'm not sure if you know my background and what I do but for what I do, I definitely look at the instruments that I retrieve. I look ... so if I'm about to do something, if I'm about to make an investment decision I'm forced to look at how ... because we work in a global world and South Africa forms part of that, I have to look at what had happened before I do what I do and after I do what I do.

So for example, we find ourselves ahead of the United States and behind Asia for example. So if I come in to make an investment decision the first thing that I do because I'm behind China and Asia, I look at this is how the global part affects my decision. I look at what Asia has done in terms of what I need to do, so how did things happen in Asia or how are things ... just before I start because they were ahead of me maybe. I look at them. I then look at the US but they will be previous stuff.

So think of a clock. It will be the US overnight, it will be me, then it will be Asia. So I'm in the middle of Asia. What have they used overnight, what's Asia currently doing and what do I need to do.

R: Okay.

P: So because we are in a globe I use their information to sort of guide my stuff, and we're an emerging market and some of them are global markets. So there are things that I obviously tweak, otherwise it's basically what happened before is what's happening now and therefore what do I need to do.

In terms of the specific factors, so it's things like currencies. I look at what currencies, sector, stock sector performances so if you have a market with a 100 stocks in it, they divide it into sectors. I want to check which sectors did well and why. Which sector did worse and why and then I will then take that information and use it to almost link my kind of dealings for the day.

R: Okay.

P: I don't know if I can give you an example. We have a stock in SA for example called Naspers. It trades ... it sort of tracks other tax stocks. It's about 20% of our market. This is my last point by the way.

R: No, it's fine.

P: So usually what happens is there's the Asian tax stocks that do something, then there's us and then there's the US tax stocks. If you check what all the other people did, Naspers is likely to do what they did as well. So if I'm trying to sell something I want to sell as quick as possible if I know that it's going to tank, because the others tank and if I want to buy something, I want to let it tank and then I'll buy it at the bottom. That's an example of what I've just gone on about.

R: Okay, well you've basically also answered the second part of that question, so it's fine. So which of these factors then do you think are most important, that you've mentioned to me? I know that everything is interrelated in the markets and stuff but if you could selectively just (you know) point out which factors are most important and why. That would be great.

P: Politics is generally the big swinger, so of these factors ... so whatever governments are doing on a macro level because markets tend to respond to what's happening outside of markets sometimes, unless it's a unique market driven rally, but there's usually external factors.

So another example outside of politics would be macro-economic data, like things like inflation, things like GDP growth, interest rates, fiscal and monetary policies and maybe to a small extent imports and export data. So it's macro-economic data, when you get to see what economies are doing. So if an economy is shrinking that's going to tell you something about the companies that operate in that economy right, and we trade in on the companies.

So we like to see what the big brother is doing in order to ... obviously analysts actually look at just the companies, but thank God we have people like strategists.

R: Yeah.

P: Who look at the broader picture as well and how do we marry those two views. So it's usually macro-economic data, political data, economic ... macro is economic ja.

R: Okay, so what recent events (you know) in our local and global economy have happened that have possibly influenced the way in which you made your investment decisions.

P: Recently, you want a specific number because a lot happens every day.

R: Well let's say big things that have not only affected let's say you specifically, but the world as a whole.

P: Okay.

R: Those ... that kind of level.

P: Okay, affecting the whole world.

R: Yeah, recent events including yourself obviously.

P: Okay, cool. I'll start globally. In the States we've got these new tax reforms that President Trump is trying to push through. He's been talking about them even in his rally to becoming president. These are being voted on and these are being spoken about. The idea there is to boost the individual's capacity to spend in the States and when we, or they, are all spending, inflation comes up, growth comes up, and the economy is revived again. So if he then succeeds in reducing taxes, I keep on saying "we" as if I'm there.

But Americans all of a sudden have more in their pocket to spend and the economy can grow and we all know as much as we try not to admit it but when America is healthy, I mean the economy that is, everyone almost becomes healthy because they are a big buyer of whatever we do here.

So for example, we'll dig up gold here but they'll be the biggest buyer of that gold, so when they're doing well, they'll buy more from us and we'll be exporting more and everyone sort of wins when they win kind of thing. So that's from a big point. If he can get these tax reforms sorted out, America will start bouncing and everything will then start bouncing.

If I move to Asia, that economy has been stagnant, there's not much happening there. They are trying to boost it with money. They are trying to pump money into the system, but not much is helping. But generally we don't trust that data that they print. So they will tell you that China grew at 6% and you have no way of proving that it didn't or not and sometimes they tell you ahead of time that we expect to grow at 6.3 and that's exactly how much they will grow by.

So those numbers have always been dodgy to some extent, so we rely on our own numbers where Asia is concerned, so we don't listen to what they say they did. We look at what we did with them in terms of trading and as trading partners, importing and exporting to them.

As I said though initially they've been stagnant. There hasn't been ... they're very commodity driven as well so the minute the price of what you sell goes down you're not getting as much as you used to, but it still costs you the same amount to dig up or to make what you selling, but the market ...

I mean if you look at oil for example. At some point it was 110 US Dollars per barrel and now its trading around 50 or 60. It's halved in revenue terms, but getting it onto a shelf hasn't changed, so you can imagine what an oil dependent nation or how much it suffers when such happens.

So as I said those guys are stagnant and they need a recovery in commodity prices in order to do what they do best.

Europe is a known, I mean it's just been stagnant for even longer. I don't want to go there and then locally, in terms of events, we current as we speak, the guys sitting at Nasrec trying to choose the next president for the current majority party who will then be mine and yours as president from a country perspective, don't have to be part of the ANC to ... for him to be a president. That's one of the major events. I mean they are ... it's become a two horse race according to commentary. There's a market friendly outcome and there's a non-market friendly outcome. I won't mention names, but should things go the market friendly way, we expecting the Rand to rally, we expecting ... some people have even said we are going to 12 or 11 to a dollar, but should things go the other way, we're going to see 14 and 15 and those things sort of affect how we trade, particularly with bonds and how rating agencies view us.

So if we say well 'Sina was corrupt and now she's gone, but now Sina's friend comes in we're probably going to be in the same kind of thing' and so there's that view, but another person who knows nothing about Sina comes in, we're more excited about that. That's what markets tend to do. They trade ahead of themselves and then when things don't happen the way they do, they try to reverse that. So we're manoeuvring around those. That's from a local perspective, the big event.

Just two days or rather last week was the Steinhoff issue with accounting irregularities from senior management, that affected us a lot. It's a massive contributor to our benchmarks, what we get measured against by our clients was almost damaged because of what the management did, therefore we went and matched. So those are the two locally, Steinhoff and politics.

R: Okay, so I wanted to ask you now which of these factors you consider most important and why, but I mean you did explain earlier that (you know) the political condition is something that is quite important, so in this case would that be the same?

P: Ja, politics, as you will notice I mean US, I said Trump, he's not ... I didn't say Janice Yellen who's the head of the Federal Reserve, because we can almost predict it. There are things in the market that can tell you what will happen. So there's economists that will project something, they will do a survey of 20 economists and this is what they think will happen and therefore the instruments we trade will try and price in that expectation and most of the time its met.

For example, we thought yesterday she was going to raise, or went into yesterday thinking that she will raise interest rates by 25 basis points and that's exactly what she did so there was no change to ... we just carried on because that was ... but had she not done that, then we would have had to trade either reverse to our expectations or not. Whereas with politics, it's anything goes. It can swing either way and even when you think you are ... you've got it, you may still have to make changes to your view. So politics are extremely important.

R: Okay, so what is your opinion of South Africa's current economic financial and political environment, your opinion?

P: Financial I think we're in a bit of a fix, we owe a lot of people, I'm talking investors internally and externally. We had the Minister of Finance saying he's going to need about 40 billion to cover a gap, a deficit in the tax revenue because they didn't collect enough tax in the previous year and most of that is a result of (you know) we found ourselves in a very stagnant and non-growing environment.

We're no longer printing 4, 5, 6% GDP growth. We're stuck around the 2 level per annum. In fact some people have gone and said if we do above 1 it will be magic. Now when there's that kind of environment, your confidence in people ... if you think of your own balance sheet for example and how you think of your own money that you used to get paid, that hasn't increased in general. I'm talking in general now, I'm not talking about you personally.

Generally, that hasn't increased for individuals as fast as the costs have increased. So talking about individuals, if you think medical aid, cars, petrol, all those things, those things you've got about 8-15% increase, whereas on your take home and your businesses, you got 3-6% increases. So effectively we're getting poorer as individuals, because our rate of cash is not catching up to our rate of expenses.

Now that's happening with businesses as well. Now the minute you and I are not growing as much as we do, we're not going to buy as much from the shops as we used to go buy, so that means the shops aren't growing as much and when the shops are not growing as much, that means the government is not collecting as much tax from the shop. So it becomes a ripple effect and we find ourselves in that now and we need a massive boost to turn that and half the time, usually we always look to the government Reserve Bank. 'Please cut interest rates so that individuals can be free and not have these bonds and cars tying up their cash, so that they can start spending and then businesses can grow'.

So economically, I think to get back to the question, it's tough, both individuals, both corporates are in the same boat and that means then government can't do as much, particularly from what they are collecting. What government can do though is reduce what they're spending, so if you can't touch the revenue line then you've got to touch the cost line.

But we all know how politically unfriendly that is. If you start saying 'well, I'm going to cut all municipal workers, I'm going to cut the wage bill by 20%', that means you're going to make people stay at home, but not work, but if you do that then someone's going to say 'well, this ANC government is now not employing us, is not creating the jobs that it said, you won't get the vote in 2019'. Some will look for the alternative, so that's not the most popular way. To try and cut expenses from the government is not the popular way to go.

So the best thing to do is to try and go knock on doors and say 'listen, you haven't been paying your electricity bill and the municipality has been trying to collect that, I'm going to take you to lawyers', just to at least achieve that. Get your revenue line going without messing too much with your expense line. That's economically.

Politically, as I said there's ... I think I can mention names here because I mean the market is expecting Cyril Ramaphosa to come in, but the market is too small. The market doesn't vote. The market talks a lot, but it doesn't vote and it's a small segment of what we're looking at, the voter thing, voter population.

Whereas the rural base which is bigger, is looking for someone else, someone they can relate it, someone they think that we can trust and that's where the bulk of the bills are coming from so we're going to see, I mean, this time ... in three days' time on Monday, we will know who's the ANC president and therefore who's likely to stand in the president elections. It's exciting times.

I think whatever ... because South Africa is so robust, like we won't become a Zimbabwe, no matter what happens. That's probably not a good example to make, but we won't fall apart like 'oh my god, like we can't do anything in South Africa'. Rating agencies might look at it that way initially but we have strong institutions, we have strong banks, we have strong courts, courts of law, we are in my mind the gateway to Africa, like you won't start in Namibia if you want to do something in Africa. You'll probably start in SA because the institutions are well set up.

R: So based on what you do, you're a dealer.

P: Ja.

R: So based on what you do, if you had to rank these three (you know) from most important to least important, understanding that they are interrelated and if you not able to that's fine, but if you could then how would you rank them: political, economic and financial?

P: Alright, okay, cool. From a dealing perspective, I'll probably, ja this is a tough one because they are interrelated but I have to now put importance to one versus another. *Uhm*, so dealing is very now, it's what's happening right now, whereas analysis is I know what's happening now, but what am I looking at in the end. So those guys are more long term.

Dealing in my space it's what's happening right now and I think what affects things right now is more the economic part, so where did inflation go, where did that happen and therefore what did that do and I need to trade in and out immediately, or I'll wait for tomorrow. I don't ... in fact, after I've dealt and I've gotten my prize, that's how I get measured. Tomorrow is a new day, like we forget what I did yesterday, whereas for the analyst, he's stuck with that was his entry price. He has a target price of getting out of the stock, so he looks more long term. He has to look at financial implications of that. So I'd say economic, political and then financial.

R: Okay, so the other two questions have been answered as well so I don't want to raise anything so moving onto the second line of questions now. Can you please then just describe your dealing, investments (you know) decision making process, so when you get an instruction and then the outcome of that?

P: Okay, alright. So we sit as an investment team three times a week and we make decisions on the companies that we cover. The easiest way to think of this is a [*chuckles*] we get measured against a benchmark, okay so we start off with a benchmark. We say 'alright if my client wants me to be the benchmark, let me have a look at that benchmark'. So you could think of it as I invest in the whole benchmark upfront.

Then I say in this benchmark to beat it, I want to reduce some exposures to what I hold and I want to increase some. I want to reduce the ones that I think would do well, I don't want to hold exactly the same as the benchmark, so that when the benchmark is tanking, I'll tank less because I'll hold less of what the benchmark holds and I want to be more ... and the minute I do that then I have money left. So I'll sell down, I have money left, I want to buy the things that I think will do that so that when the benchmark does well I have more of what is doing well in the benchmark so I do even better kind of thing.

So that takes time and we bash ideas and we debate and we think no, you can't be right there or whatever it is, but the minute we come to a decision that decision then has to be implemented. So investment committee accept and decides we don't like this one, we like that one. They then take that decision and say dealing go and sell this for us, and buy this for us.

Thank God I'm part of that decision-making otherwise I'll just be sitting there buying and selling, not knowing what's happening. But because I'm part of the decision making and the debates, it then makes sense what the team wants to do and what I want to do, it's part of the value chain.

So from the time that I receive the instruction, we call it an order, I receive an order. So we'll make an example of they want to buy iPhone, let's use buy iPhone. I need to go to the market and look at who is selling iPhone because I want to buy iPhone. We've got a list of brokers who are sitting there with, they're doing a whole lot of things, so I'll pick up the phone, there's a system called Bloomberg that shows me what everyone is doing.

So I look at all the sellers of iPhone and I'll call two, three of them and say, 'hey what's up, I see that on Bloomberg you are out as a seller of iPhones, what's happening, who are you selling it for, how long are you ... how big are you, what sort of prices are looking at?'. He doesn't know I want to buy. I won't even say 'I see that you selling', I'll say 'I see that you busy with iPhones', buying or selling whatever it is. Ja, ja, I've been buying, I've been selling this, I've been doing this, but I'm largely on the selling because that's what I saw and then I ask for prices, what's the best, I'll call another guy, another guy.

Once I've seen or once I've heard what they're doing, I'll then like anyone, because an iPhone is an iPhone is an iPhone in the market, I want to go to the guy that's selling it at the least amount, so I can buy it at the lowest price right, because it's an iPhone whether I buy it elsewhere. It's not like Chinese, American and Europe. It's a stock, it's in the market.

R: Hm.

P: That requires having good relationships with brokers because they can then rip you off, but the good thing is that because they also want your business as much as you want the iPhone, they try to ... in fact I think the sad thing now that we seeing is guys who are willing to just throw things at you so that they can get the business and they can get the commission and we as dealers have to balance that and will try to rip people off and get good prices at the expense of ... I mean someone can die after you buy it .. not die, but I mean you can kill a business by saying 'well I'm not willing to pay this much, I'll pay this much' and they'll say yes so that you can bring the business and they can get commission, but you'll know ethically that you've just ripped someone off, so we want to balance those.

So it hits my desk, I go to the market, I see whose selling it and I'll buy it at the lowest price. If I'm selling something I'll go to the guys that are buying that thing and I'll chat to them and I'll try to sell it at the guy that is willing to pay the highest price and then once that's done, I then get measured, because then the day will end right.

My thing is very now and then. I can finish a trade right now, or I can work it over the day because I don't know what will happen. Remember there's news coming out every now and again. If I can buy something now, and then something falls off and then it's price comes down and then I wish I didn't buy that thing because now it's off. I should have bought later, so sometimes you drag an order, sometimes you do it immediately. It's not like you go buy an apple or whatever. If you sent to buy 10 apples, you buy two now and wait, maybe the price of apples will go down and then you buy another two, something like that. But once I've bought at the end of the day I then get measured on your final price *versus* the price of what everyone else who was buying apples that day, what did they pay and what did you pay.

R: So then I guess from that then I'll just take that (you know) the most important thing that you base your investment decisions on then is price because you obviously trading on markets.

P: Yes, price by far.

R: You don't need anything else. Okay, so maybe you can answer, you can say on a large scale or short scale I don't want to probe for answers, but so like to what extent then do current market conditions influence your investment decision making?

P: To a large extent all the time. Like I can't ignore what's happening at any point in time. Being here for example and having this interview, no, no, no, I'm trying to highlight what it is that I see like headlines of what's happening all the time because a headline affects prices and some don't. Some it's an initial movement but then the price comes back again, so we not like expected to be computers and watch the whole thing the whole day, because some things reverse within minutes, but ja, it's extremely important.

Current market conditions are extremely important. The most current for that matter. We are seen as the first ones to catch it and I always send out stuff to our investment team because they don't have the newsfeed that I have.

R: Okay then basically the news that you look at on a daily basis would then be your form of research?

P: They inform a lot of my decisions. I don't go dig up much, but they do play a big part in how I do my job, as best I can.

R: So then the research aspect of your job, so you won't actively go out and seek research, is it more of what comes to you, or what comes to your attention?

P: So the research part of my job is how I can do what I do better as opposed to if something comes to me let me go dig up more information. There are analysts to do that. They are paid to dig through the information. I'm more the noise and the initial impact, what's going on, where were we when it happened.

So if you think of an accident scene, I need to be the first guy on the scene. Once I'm there I pick up the people, then we drop them off at the hospital, then it's nurses and they actually dig up, is the heart okay, are there any fractures. I don't have to ... I just need to get the person to the hospital and so dealing is the accident scene kind of person. You want to be there first and therefore make what is it, quick, agile, the most effective decision without much information.

Sometimes you can be so wrong, but that's the nature of the job. You want to be more right than wrong and sometimes we all get in that .... we will miss it, because we don't have enough time to process things like an analyst does, and a portfolio manager, etc.

R: Okay, I understand. So then to what extent then are your own personal views, opinions, judgements and experience involved in what you do on a daily basis.

P: That is like ... it's a good ... I like that question because we always talk about it as dealers. Like to what extent our personal biases and the way we think, how do they affect our jobs. So for example, I'm a very logical person, this is the personal side I will come back to the job, I like understand okay what are we doing, how did we get there, how we going to get ourselves out of it. That's me as a person. I don't just do things and make decisions.

My job on the other hand there's no time to be Malibongwe I have to be a dealer. Malibongwe and the dealer are complete ... on the job you need to ... when the price is down 5%, you need to make a call that is it going down further, or is it done .... units going to go up. If you think it's going to go up, so you want to buy now that it's down 5, but you don't have enough information. Whereas Malibongwe the personal side would want more information but we can't make decisions, we need to know what had happened. So it does affect a lot of us.

I have to switch roles in a way when I get into the desk and I need to think and sometimes I forget to take off the dealing hat and I go home and I said, no we need to do this now, and the people at home are like no, no, no hold on we need to do that. So it's an interesting dynamic.

Some guys are exactly the same across, but I don't know a dealer who is logical and procedure who does well because you miss out. Whereas individually you have to balance, you can't be a dealer in a family environment or in a relationship. You can't do that. It will just ... so our biases have to be managed but they do affect how we do things.

R: Ja, but that must be hard though. This is not one of my questions, but that must be hard though, the fact that you have to ... you're naturally, you just one way, and then your nature of your job is somewhat the complete opposite.

P: Ja, look it's ... because you walk in and you're excited about what's about to happen, the minute you park your car and you're about to come up the stairs, it's on for you. You can't wait to go see what's happening in the market and who's doing what and whatever, but the minute you take it off, as I said some people forget to take that cap off, but when you take if off again, the faces are different (you know) you see your wife or your girlfriend, you no longer what's happening in the market. You're like, 'hello sweetheart, how did your day go?'. Already you've switched to a process kind of person.

Whereas when you're walking up the stairs here you don't want to be asking how people are. You want to, 'let's get going', you can go find out how people are later kind of thing. It's a nice balance. You can sort of play with it. It sort of works itself out.

R: So it also comes with experience then. So in the beginning wasn't it a bit like ...

P: Ja, you're right. In the beginning I was like 'this cannot work like' ... surely we need to understand first before we trade and they like no, you need to trade first and make sure that you trade right. How we're going to trade right if we don't have information, we can't afford to wait for information otherwise we lose out. The home front is like this woman, make a decision now, like why must go think about, like let me sleep on it, no, no, no there's no sleeping on it, the market's going to close. We need the price.

R: Now, ja.

P: It's exciting times and I think with experience like you say, I think that's a fair point. Experience does help you navigate the two.

R: So then I have to ask then between these then, between your experience and your opinions and judgements, which one is most important in the dealing world and why?

P: Experience by far. Experience by far. There's something in dealing that I was trying to explain.

Okay, I'll give you my own example. I was trained by someone to deal. When I started dealing I said how do you know that you're a good ... I asked my then boss, how do you know that you're a good dealer? She gave me an answer, I don't remember that answer. That's how vague it was.

Of course there are metrics that measure us and whatever, and this is the time you got the order, this is our price, this is what everyone ... those are technical things. I'm talking about being good like you know that you good at what you do. She gave me an answer I don't remember it. She said over time you'll also get to see how you become good.

Now I've been trading for a while. There's something about trading that when you look at the market, you just know that this is not the right time to buy. No textbook can tell you this. No Master's Degree thesis can tell you this. You almost have to be dealing for long enough. The world calls it a gut feeling, but you know inside of you that this is not the right price. This price is not right, it will turn. Sometimes I get an order for example, to buy something and I see where it's trading and I'm like, I'm not buying this thing. I'm going to buy it at the close, in the end. People are crazy right now. There's no way this thing should be trading here. It will ... the price will change to what I want it to be and I wait. Now who tells me that? How do

I know that kind of stuff? That's just experience that's having traded for long enough, particularly if you trade the whole market then you understand okay, if the Rand is here, a Rand hedge stock cannot be here for example.

If I come in here and Asia is firing, the US had been firing over here, I'm here and Asia is already firing, I'm likely to fire, unless I have domestic issues. So if I want to do any ... if I want to sell things, I don't want to sell when I get here. I want to fire first so that prices are all pushed up and then I'll sell in the end, because now everything is pushed up. You have to have done this for long enough to have that kind of reasoning and then to tie things with each other.

Banks are doing this okay, golds are doing this, gold is more than insurance kind of trade when people are sceptical, they like going into risk of risk things, they'll do that. It's not textbook stuff. It's experience stuff. So to come back to your question, experience very important and then of course normal, just knowing how to link things. Don't go now compare your own stuff that has nothing to do with it.

R: Okay, so have you ever made a decision, an investment decision and it wasn't the right decision, and the outcome of it wasn't so great and if so, then how did you manage the aftermath of that let me say loss.

P: Hm. That's a difficult one because when we make the decision on the dealing side at least, we always believe that it's the best for that time, otherwise we won't make it. But after some time, let's say at the end of the day you can realise that maybe that wasn't such a good ... I'm talking about a job, I mean there are other examples that we have made, but you want to know investment decisions?

R: Hm.

P: It's difficult for a dealer because we justify what we do all the time, so I bought this thing at this price because this was the information I had at the time and therefore it was the best at that time, right. But obviously, then we can just walk around saying we always make right decisions. That's not on. We then get measured in the day, so to come back to the question, yes, I have made decisions that weren't good, even with the limited information I had and the way that I got myself or what was the question? How did I manage to?

R: Ja, how did you deal with the aftermath?

P: Oh, the aftermath, okay. So as long as you can explain your reasoning to your portfolio ... because you're accountable to your portfolio manager right. Portfolio manager is going to ask so what was our price in this thing, great. What was the price of everyone who traded it? This is the value weighted average price on the day, and where did the stock close. So he'll ask why did you trade at that price?

You'll be like well, the reason I traded at this price is because at this time, this is what my thinking process was. If you can show that you followed a reasonable enough process which came to your decision, even when it was wrong, you get some comfort and understanding from the portfolio manager. The issue is you don't want to have too many of those decisions that are going south in the end.

So you want to have more good decisions, because the portfolio manager knows that you don't have enough information. He knows that, but you want to make sure that its more right decisions than wrongs.

Unravelling myself is the second part of the question, you go to the PM and you explain to him why you got it wrong and then you just have to make it up because there's a number that keeps ticking at the end of the year, that says okay, well this is how much money you've made us, this is how much you've lost us, you need to net those off and become positive. So it's not as strict as 'oh my God it was wrong, my life is over'. Tomorrow you can make it up, if you trade tomorrow, I can wipe out my losses from yesterday.

R: Okay.

P: Because it tallies up and at the end we get rated. It's like a cape yard.

R: Hm, okay, that's nice. So have you ever traded under (you know) or when conditions or situation was highly complex. I don't know if anything sticks out where it was quite possibly one of the most difficult decisions that you made.

P: Yeah, Steinhoff.

R: Is it? So why, and how?

P: I didn't even go to lunch day. We had a lunch with .... it was so ... because you didn't know, you had to ... so this news has broken, right. You know that ... your mind was everywhere when this news broke and I remember sending it to the guys at around 4 a.m. because it came around, the thing came out at 12 midnight and I woke up at 4 and I sent it to the team.

So we knew that that morning was going to be tough, particularly from a trading environment, because people are saying 'oh my God it's going to go down to zero', so everyone is selling Steinhoff, and you're thinking, 'no, but it can't go down to zero, it owns other businesses that are worth something, so then at least the market should know that you can't drop this thing to zero'.

I'm just explaining the complexity of the trading mind. But no, people are pushing it towards zero. Ja, but, do I then go down with it, will it bounce back, and if it bounces back when will it bounce back, what if it carries on going down all the way and I haven't sold because I'm thinking it's going to bounce back. It was terrible. I mean the stock went from ... the whole week, the stock would do minus 60%, come back up 40%, that's a 100% move. It's minus 60 plus 40 and you need to be trading at all these levels right and you just don't know.

You look very clever if you do it at the right time, like you'll be like oh my God this guy is so smart, but it's chance half the time. You don't know what will happen next. Now the stock is still R8 but it had gone up to R16, that's double the price. Do you realise how big these numbers are. If something is R8 and then it's R16 tomorrow, that's 100% move, so you could but it here, sell it here and you made 100% of your money, but then it's going to come back here again and then it's going to go down to R4. Like how do you ... where, what is the value of this thing?

It's very difficult and I have - so to answer your question, I have traded in very tough conditions and Steinhoff was the most recent. Other stuff, I mean we don't get massive moves like we did. This was a ... I was chatting to Pat about, to someone about it, he was saying this is history. One day you'll say I remember trading a stock, I mean it was so volatile. Of course, we always say 10 years from now I'll even spice it up, oh you know the screens went crazy, I'll dramatise the whole thing, but no it can get tough.

I don't know if there was a second part to the question, have I traded on? What was the full question again just to make sure?

R: Ja, I said if you've ever traded on a very complex or difficult situation and then why and how, and you just explained that to me now, so great.

P: I have traded ... and it still gives me ... just thinking about it, what happened? We ended up looking good in the end, which was good, sold R18 or something like that. Look, it was a loss, because we had bought at a higher level, but I mean to have sold at R18 and it's trading at R8, you're looking good.

R: Of course.

P: You could have sold at R8 and lose that R10, but then there's a debt side to it, which is ... Let's not get into that.

R: Okay, are you aware of your emotions on a given day and if so, like your emotions, let's say you wake up and you feeling really good, really excited or you just feeling very down and out, how do you then manage that and separate that from (you know) making your decisions? Does it affect it in any way?

P: It's very difficult. What helps me right, so before a trade I have private checks in my mind. So when a trade hits my screen, someone said go buy this, go sell this, I have checks in my mind. That's what helps me in terms of my emotions, so I try not to think of it, this is going to sound philosophical, but you'll see why I need to do this.

Uhm we manage money for pension funds, for municipalities, for so many people and when you have that client in mind, I take it even further, I think of a minor, I think of an orphan, I think of a retired widow, I think of ... what I'm doing here is I'm trying to make sure that those people get the best value for the money that I'm managing for them. Well, that we are managing for them.

So whether I'm down, whether I'm excited, whether I'm whatever, I need to make sure that the widow, the orphan, the minor, the municipality always gets the right price. So if you have those checks in your mind, they almost park your feelings even though sometimes feelings try to overtake that but put ... some traders I know have it on their computer, but the minute an order comes it flashes up, people's faces pop up like a child and a widow and a minor, that kind of stuff.

That's what we got to deal with here. Not what has Sina just done, Patrick has just irritated me and I don't have money, and you just see those faces and you like, park, let's do it, so I use it to manage my feelings so that they don't affect what I need to do.

R: So my last question now for you is, so the question is would you consider a rational, an irrational investment decision making in your field of expertise, but now obviously considering that you're a dealer, can you tell me what a rational dealer is, and what an irrational dealer is?

P: In my space that's rather ... ja, okay so that will depend on, I'll probably have to answer that in two separate parts. There are people who make day decisions right. They're called day traders, they can buy something at 9 and sell it at 5 and make money or lose money and that's it right. Now there's very little rationality required. You just need to need to make sure you come in at the right price, you get it at the right price.

People in my position, yes, we all trading, like with those day guys, but I've got a bigger mandate. I've got a portfolio to consider. I've got a long term investment view that we've debated as a team to consider.

So I'm not trying to make money on the day, I'm trying to make sure that the minute we enter this stock, it will then carry us, it will fulfil our expected view of what it's supposed to do into the future.

Now rationality is more required there, like you need to be thinking much more, not as oh my goodness, I need to get out now, because I can't get ... sometimes I can't get out of a position for a year, just so the client doesn't see, but you buying and you selling, what are you doing, like you said you a long term investor, why are you doing this stuff. Rationality is much more required in our space, versus day traders, that's why I had to separate. It's very difficult in a day trader's life to say what's rational or not, because they're trying to make money on the day.

A rational dealer in my space is one who considers the long term effects of what they're doing. At the back of their mind, with the idea that I still need to be in the best position for today, because you competing with day traders, you also a trader on that day, but it's more holistic. Irrational is just trying to do what day traders do in a non-day trader example.

You can't do that. It's not like when you buy something you're not going to sell it again, so you need to make sure that you buy properly. These guys can even fix trades during the day. They can think oh, that was wrong, let me sell it now, buy again and it's a whole day, I mean they got 8 hours to do this. I don't have 8 hours. I do have 8 hours, but I can't come in and out of the stock. If I'm buying I'm buying. If I'm selling I'm selling. I'm not trying to make money on the spot.

R: Okay, well that's it.

...[End of recording]...

—o0o---

Audio track: Participant 6

R = researcher
P: = participant

R: So firstly thank you so much for agreeing to do this interview with me.

P: Hm-m.

R: I really do appreciate it. I'm going to be asking you two sets of questions: So the first ones look at the local and global financial economic and political conditions and then obviously how those affect your investment decision-making, and then the last section I'm going to be looking at then is your investment decision-making process from a more (you know) personal and internal perspective.

P: Hm-m.

R: I don't know if you just want to remind me which sector you mainly look at it?

P: So the industrials, so ranging from tobacco, telecommunications and media, health care, casino, hotels.

R: Oh wow, okay. So bearing that in mind, I'm sure you can obviously then just give me answers.

P: Sure.

R: Relating to what you ...

P: The sectors.

R: Ja, okay so my first question to you is what global and local factors (you know) would influence your investment decision-making?

P: So in terms of when we choose the companies to invest in, the global factors would mainly be macro. I suppose the macro factors will be growth, which will translate into inflation and interest rates and then range back to the currency.

So for a lot of our companies that are globally invested you'd find that maybe 70% of the earnings rely on the Euro, the Dollar or the Pound, so it would be relating the South African Rand to that and also where the best growth is (you know) is it a European growth, or are we finding better growth in the emerging markets, and would overlay that with political stability and (you know) country stability.

R: Okay, so just a follow up to that, do you maybe just want to take me through maybe how (you know) the global and local factors then (you know) influence your investment decision-making, like for example when we speak about growth (you know) which industries and how and so forth.

P: So usually in a low growth environment we would stay clear of cyclicals. So ja, so I cover mainly very defensive companies but let's say casinos for instance in a low growth environment would turn to the late cycle play and you would have more defensive companies like hospitals, people have to (you know) go to hospital regardless and they intend to be able to deliver above inflationary growth even in subdued macro environments.

But that said, when there is no increase in employment where you have a drag on unemployment, people tend not to sign up for medical aid schemes and that might affect the volumes, but it would work out better than casinos.

So to make an example, in the last probably three years, when the economy has been in a slump, we've been able to get (you know) 6-10% earnings growth from the hospital sector, *versus* minus 20% growth from the casinos because they've got no price and power. So if people are not sitting at the slot machines, and you've got utilities and wages increasing by 7, it means your profits actually reversing.

In terms of the global considerations, in the UK for instance, where we've had BREXIT, we found that all of our UK stocks were slashed quite a bit and the Pound has weakened so in terms of translation effect we found that there's been a drag on the South African names. Most affected have been possibly the banking sector, less so has been (you know) again, the defences. That translation effect has impacted (you know) the ability of a company to get good returns.

R: Okay and then you will then base your decisions after that on the returns that a company can give?

P: Ja.

R: Okay, cool. So my next question then to you is when you look at these factors, which ones (you know) for you in your area of expertise and specialisation are most important, which are the ones that you will look out for actively on a day-to-day basis?

P: Probably it will be the currency, because growth takes time and because I have a defensive sectors, they tend to hold up, but the currency immediately affects the next (you know) reporting season even for like my media sector, is exposed to the Hong Kong Dollar. So on a day-to-day basis if I look at the Rand and the Rand is strong, I'm almost rest assured that the company is down and on a day where there's Rand weakness, it tends to go up because of the Dollar, UK Dollar and US Dollar linkage back to South Africa. So ja, currency would be probably the single most important factor.

The pharma sector tends to also be affected by noises, especially in the UK - in the US, sorry. So when Trump says something about tax, Trump makes changes on Obamacare, the pharmaceutical sectors tend to be sensitive and that is because pharma prices in the US are quite high and it remains the single biggest market for any global pharma.

R: Okay, so there's a lot that's been happening (you know) in South Africa and also in the world in general, so I just wanted to know from you specifically which recent events (you know) had an impact. I know you did mention BREXIT for example, and (you know) Trump and stuff like that, so I don't know if those are the main two or if there are maybe any other ones as well?

P: So today we sitting and waiting for CR17 or NDZ right?

R: Yes.

P: And that has had a big influence especially on the domestic names, so because South African policy, or government policy has been so stagnant and there is no decisions that are getting made, either from the Telco's White Paper, or the National Health Care Insurance. We kind of need a direction and for that to happen we need (you know) the government to be stable and to do the things to try and (you know) boost up growth that they said they're going to do.

So today is very important, also from investor sentiment, there is a preference for CR ahead of NDZ, so if CR does win for instance we would expecting the domestic stocks to do very well and if NDZ wins, we would expect to kind of risk off, which would mean the rand hedges would do better. So we've seen the Rand strengthening (you know) since last week and people are really positioning themself for the CR17 win and we're hoping that is in place we'll have some directives and (you know) it affects everything.

It affects (you know) Eskom we need to see what will happen, we need to resolve the liquidity in Eskom and as much as (you know) it's not a equity listed if there's issues that Eskom and if we don't have electricity then it means all the manufacturing companies would probably feel the pressure and also the property sector and generally how people view SA and there'll probably be a dent yet again to our growth.

So it's ja, the ANC conference was probably the single most important factor for us these last few days.

<u>R</u>: Okay, so you answered my follow up question to you, obviously explaining why it's so important, so thanks for that. So I want to know now what is your current (you know) opinion of South Africa's economic, political and financial conditions?

P: *Uhm* so I'm an eternal optimist, so uhm so in terms of political, I hope things will level up and will sort itself out. I think in terms of our economic, I tend to be a bit gloomy, mainly because I think all of our problems source from the inability of the South African economy to create jobs. So no matter how good your proposals are, when you've only got 7 million people in your tax base, I don't think it's enough to resolve any problems.

So it is nice to compare (you know) free health system in comparative to the UK, but in reality UK has got a 5% unemployment, and you are sitting on a 30 or 40% dependent on who you believe and I don't think it is sustainable, and everything you need to do basically has to resolve (you know) that.

So getting less people on grants, more people working, is key and where I become more gloomy is I'm not sure if the South African labour force is as productive as maybe the countries that we compete with. Do we have the same work ethic as the Chinese? Are we able to compete (you know) effectively or do we have the same case of the clothing industry, where the Chinese basically overtook us? Can we keep our motor industry? Can we keep our poultry industry?

So (you know) I get a bit disheartened because we're working against all these global (you know), we're competing in a global sphere and even the things we should be good at - like agriculture, for some reason we are not the best, so I don't know why we don't own (you know) the agriculture export market because we have very fertile land.

So that is what worries me the most about the economy and I suppose second to that is the lack of transformation and my issue with that is at some point there is going to be resistant, (you know) people are going to be patient only for a certain while and then the minute you start hearing the rhetoric of economic transformation, is because people have become impatient and that might result in instability of the whole country that could have been avoided if certain things were done faster than the pace they've done it at.

At the same time I don't know if I was government how I could have transformed the economy quickly, and then I suppose financially, my issue becomes without the growth we need, it filters through to our balance sheet, so because people are not working, we've got a social welfare budget that is way too big.

We've got government being the biggest employer, so his wage bill is way too big. So he's not able to really invest in infrastructure and things that are supposed to be creating jobs. So it's almost like we're spinning wheels and just standing in one place, and we're not able to plan ahead because we've got such immediate and temporary needs and that kind of budget as well that is not progrowth, is preventing us from getting better rates. So our debt is increasing and the interest rates we're going to get on debt, is even (you know) running ahead of itself and when organisations like Transnet and Eskom, who the final backer is government, also start to struggle, it means (you know) our ratings and in turn our interest rate starts getting affected.

So the downgrades I think we've seen recently as a result of slow growth and maybe political instability are costing (you know) financially. So I probably see the financial state remaining the same to (you know) maybe slightly improving between now and 2019, but I don't see government being able to deliver a 3% growth rate which is what we need to be happy and beyond that, I have no idea of how he delivers on employment.

R: So then if you could (you know) look at these in terms of (you know) from most to least important in your space. I know that obviously they're all intertwined and one will definitely affect the other and so forth but if you could (you know) possibly separate them and say which one is most important to you, and what you do?

P: What would I do? So I think, it's hard to separate them, I think most important would be policies that ensure increased employment. So if there was a way (you know) we could cut unemployment to 10% overnight, I think that would be positive for the market. You would have more people with healthcare, more people would spend so it will boost the economy definitely and there will be less dependence on government so that would be the answer of most important.

R: Okay, and (you know) my last question, well second last question to you which I think these two are obviously intertwined is (you know) understanding then how these political economic and financial conditions then affect you specifically directly and indirectly and the space that you're in.

P: *Uhm* so directly is I suppose when the economy is like this, I worry about the growth of my pension fund. I'm planning on retiring soon so when the market does this and you know longer have the growth to kind of spur the market on by (you know) 10% or 13% per annum, then it only means that I might not be able to retire (you know) with the financial stability I had envisioned. So from a long term perspective it does concern me.

But also from immediate when interest rates are increasing, it obviously means the cost of debt is higher for individuals, and primary to me would be the cost of my bond and any sort of rise in that obviously erodes cash flow and in turn it means I'm saving less, I'm going to retire at 65 like everybody else. So it's that that concerns me and I think and then when the markets are low, salary increases are less, bonuses are less, so from a financial standing now and in the future I think that the impact is big.

On the positive side, I think strained balance sheets and income states give us time to reassess our expenditure so we tend to be more prudent which is not always a bad otherwise you spiral into this consumption all the time, so the last few years has given I think everybody time to clean up their balance sheets (you know) try to clear up, because banks are throwing less money at people and (you know) we have to be more prudent. So that's how it affected me.

Politically, I think in the long term I worry if - so I don't believe in the narrative that we're just going to collapse, we're going to be another Congo, (you know) I don't believe in that narrative - but assuming it is true, it also then means that when planning for your future, you need some sort of hard currency if you are to maintain the lifestyle you've become accustomed to, so it would mean overseas education for kids, and ja, so it only gets more problematic and I think it only makes the gap bigger between the poorer and the have's and the have's not, and ja, it's not a South Africa that I visualised.

R: So now moving onto your investment decision-making, could you maybe take me through your process (you know).

P: Okay, so let's say - let me say I had to invest in this current economy because we've been gloomy, so let's say this current economy I needed to make an investment on into a casino.

My first thing would be to understand the macro, so I would analyse who gambles, who does it appeal to, what do people do when they're not gambling, so who competes with the R1 you need to spend on gambling and then I would analyse the regulation around gambling. So the payout percentages, the taxes and the levies that they have to pay so that would give me kind of an idea of the top line and then I would look at company specifics, so the cost, how are they structured, what are the assets that they need to invest, which would finally give me the profits that they make.

So once I have an idea of that, I would then forecast depending on the macro overlay. So typically, casinos would grow (you know) 0.5 times what GDP grows, and I would make those assumptions but you also find is depending on where we are in the cycle and how old the casinos are, what we've seen in the last few years is actually a decline, so when we've got circular changes in the industry I would usually look at international comparisons to see if we can learn from it, whether I'm looking at Vegas which might not be comparable because the Vegas gambler is a tourist and in South Africa it's the domestic local and they are driven by Chinese and Asians mainly in Vegas and we don't really have that.

So I'd find a domestic market as similar to SA as possible, let's say Australia for instance, and you would see in Australia that the casino industry is much older than ours and then over time, because (you know) they've just become less attractive so people below the age of 35 actually do not gamble.

So in terms of thinking about the long term growth in the industry, I would have to adjust those growth, long term growth numbers, so it's not realistic to us it grows by 5% every year, because it's an older people thing, it's entrepreneurs, it's property developers that make the real money, so those are the guys who drop 200 000 per night (you know) on a gambling table. So when they are poor, casinos are poorer, which is why it's a very late cycle thing.

So the guy who develops an office park, when he makes 2 million, it's high risk people. It's high risk kind of games so it has a persona that it attracts, so those people don't mind (you know) dropping 200 000, whereas when the economy is strained and people are prudent, that is not how they spend their money, so that would be - and then once I have my sort of ideas of the industry of some global comparisons that I can relate to, understanding the strategy, I would then interview management.

R: Hm-hm

P: In doing that, so I'm trying to see how well management understands their business. I'm trying to see if I agree with their stated strategy, their growth strategy, so if they want to grow into a Lattham[?], am I really comfortable? If they want to grow into Singapore, am I comfortable about that, because it also means there is less dividend that is coming back to the shareholders and they are investing assets and investing overseas and my returns might only come in 20 years' time and what is the risk in those markets that they are investing in, the success rates (you know)?

I would also meet with the regulators, so in Gauteng I'd go see the Gauteng Gambling Board, get a sense of what is government's thinking about casinos. So he issued 40 licenses, is he still happy with 40 licenses or is he going to issue more licenses that might take market share away from them?

Government is continuously looking for more money, so if the tax rate or levy he'd agreed to was 17%, is he going to keep it at 17% or is he looking at increasing it to 20?

So just trying to assess and also you get a global perspective where you look at globally where are the tax rates and is South Africa too low, is it too high, can government probably look for more money? And it's easy, I mean it's 40 casinos and it's easy to tax them.

So I'd be looking at things like that and then just also aside from the group management, I would also visit site and get an anecdotal evidence and kind of the idiosyncrasies of the industry that might not be obvious to me, so if I get to a casino when I speak to the manager, he might tell me that staff at the moment don't have a right to say they don't want to work in a smoking zone, but one of these days the unions might decide (you know) actually staff should have a right not to work in a smoking zone and that would be problematic, because 80% of their revenue comes from the smoking area. Gambling and smoking kind of goes together.

So it would be those idiosyncrasies like looking at where are people sitting, and then you'd realise everyone sits in that smoking room, getting an understanding that the hotels don't really make money, so they give them to the VIP (you know) overnight. So it's more about an offering, an additional offering for your big gamblers as opposed to occupancies and getting money and just those kind of things.

So just looking around and getting an idea of a badly designed casino or overcapitalised for the type of market. So you might find you are in the East and from the macro study I've done, the East has got less money than the North, but you've built a property that is much higher than let's say (you know) 'I want a casino in the North' and why have you done that, because you've basically taken capital for a lower return and I would have rather have you built a prefab and get people in there and have me make my money.

So it's that that you get a sense of and even if you get out of Gauteng, just understanding that a casino in a certain area in the Free State, might be very reliant on the mining sectors so when that mine closes, I'm almost rest assured that that casino won't survive. So it's understanding geographically, those (you know) because it's a very domestic industry.

So understanding domestically what drives per each property and overlaying that with common sense and coming to a valuation and sometimes even if the industry is in a decline. There is times when the market has overdone it and you think that this point, I still think there's value so the market is priced on all the negatives and I think there'll be upside going forward and I suppose our job is to try and focus the future. So it's calling the future, it's saying well (you know) this is what we've priced but in 2020 I think there will be a pick up. I'm holding for five years which is what I'm trying to do.

R: Okay, so to what extent do current market conditions influence your investment decision-making?

P: Very much, because you tend to watch the market and ja, it will influence the sentiments of each asset class so equities will also be influenced.

R: Okay, so then what other factors would you base your investment decisions on despite current market?

P: Outside of the current market?

R: If there are any.

P: I think our investment decisions are also overlayed by human behaviour and human error so in - outside the economy it's the macros and the financials, you tend to have a human factor where you are biased towards certain things so you like certain managements and you prefer (you know) the style of one manager to another or when you speak to one manager he's more charismatic and he gets his point across so I think there is a lot of human behaviour that overlays any sort of numbers.

R: So I think you've explained, (you know) when you were explaining your investment decision-making process, you were also then explaining the research that goes into it by (you know) interviewing management, going and viewing sites and stuff like that, so is that part of your research and that's pretty much.

P: Ja, so we - in here, we've got a three process. So we've got the valuation, we've got quality and you've got the matics[?]. So quality is talking to corporate governance, those kind of things. So in companies that don't have good corporate governance, not enough independent directors, that kind of thing, we'll tend to score them low and some things are out of their control so if you're in a highly regulated industry and maybe negatively regulated, environmental impacts, let's say the mining industry, we'd tend to rank them very low and then the valuation speaks to the numbers. So once we've done the industry and we've put in the numbers, what do the numbers say and then theme goes to the macro, so do we think we in a low growth environment so we like defensive stocks, are we in high growth, so we like retailers.

R: Okay, so in your opinion well maybe let me rather say to them, to what extent are your opinions, your views and your own experience (you know) involved in your investment decision-making processes.

P: It's probably all of it. It's probably (you know) 100%, so you would – ja, I mean you've got the team that pushes back but unfortunately because valuation and an investment is almost it's an art, once you have a certain gut feel usually geared towards that and your peers are there to kind of make you take a step back and look at it differently, so they do (you know) influence your decision but I think in any call I make perhaps they are like 10% and then 90% would be me because I would have spent most time with the management with the industry and I would have a better (you know) sense and the 10% would also - when I rely on them because I think my judgment is clouded.

R: So then between these two, opinions, judgements and experience, which one do you think is most important?

P: Probably judgement because I think experience goes a certain but it also makes you miss the step changes, or circular changes. So you need, you always need to revisit and re-interrogate your own thinking.

R: Okay, so have you ever made an investment decision that (you know) didn't go in your favour and kind of resulted in losses and if so, how did you then (you know) deal with the aftermath of that?

P: I made lots of those. I have, I have. The difficulty is so you call a stock, let's say you say buy it's at R100 and then it goes down 40%, it's sitting at 60 so now it offers more value, so the difficulty is always do you cut your losses or do you stick to your guns?

So for instance I called one of the hospital stocks a buy because there was good value, it went down, and it went down further and at some point I had to cut my losses. So it's always very difficult locking in your losses because whilst you still hold it and it's going down it's only a potential loss, but once you've bought it at 100 and you are selling at 90, you've locked in that loss, so it's an actual loss and you get uneasy because is there anything new, is there realistically anything that you've missed, or do you still expect the share to cut again?

So the hospital stock was probably my most recent error where I had missed a downward trend in the volumes and I just always assumed hospital volumes grow by 2% because people are sick and then the funders came in and they started managing the claims and then we started seeing negative numbers for the first time ever.

R: What!

P: And I just wasn't ready for that, and because internationally everywhere governments are under strain - we've actually seen a lot of that (you know) management, so in the UK the waiting list are increasing so government is trying to defer and (you know) turn away as many people as possible and because it's such a high fixed cost business, when your volumes are down your margins get hit.

So I've had to go revisit, so I didn't - I mean the first instant is people are sick, so at some point they're going to go back to hospitals, but I had to review at what price do hospitals have, (you know) the power they had over the funders that they used to have in kind of the last decade. Ja, so it's an industry influx and (you know) so I've had to see whether the multiples we've attached to them are sustainable in the future or should I have been assuming a lower return profile because the industry is changing. Yet to be seen if I'm right.

R: So (you know) obviously I understand there's always a lot of complexities involved in what you do, but is there anything (you know) specific to you, despite to what you've just told me now where the conditions were so complex that (you know) actually trying to come up with a final decision and how you dealt with that. Is there anything that you can think of?

P: So anything that is most complex in the investment?

R: Ja, or maybe even just one of your own experiences where it was like oh man there's so many loopholes and there's so many gaps.

P: So I think it's always easy if you can imagine something (you know). What I found most challenging in our industry is I can't imagine, so the internet sets that. It's beyond me that people want to wake up every day and post every moment of their lives on social media and I would have never visualised how big e-commerce is, I would have never visualised the internet, and it keeps on surprising me and because the growth rates are so high, it makes me uneasy because I just (you know) you've got this maximum hours in a day, how these companies still able to maximise and they just keep on doing better, they keep on growing at 30% and they have been for the last 10 years.

So I get uneasy because I don't know what is it that's growing. In reality, because it's harder when you analyse things that don't naturally appeal to you. So I'm not a gamer for instance, so it's hard for me to visual somebody spending 3 hours watching the screen. I never played PlayStation, I've never owned it, so those things are hardest for me to visualise and they make me most uneasy because it means even if they turn because I've never known what is growing them.

I would never know (you know) the opposite, so when culturally you can't understand something, you tend to be naive and your investments are perhaps (you know) not great and for a long time - I mean even Warren Buffet didn't want to invest in internet, and I understood why - because it's simplicity, if you don't understand it, don't touch it.

But if you haven't been in the internet sector, you've almost missed a whole age and who would have thought we would be walking around our cellphones, and fixed lines would become a thing of the past. If somebody told you that 20 years ago, you'd have never believed them.

<u>R</u>: Never!

P: And now even telco's are becoming things of the past. It's about the services inside your phone as opposed to your actually gadget, or the internet, or (you know) so how do they turn around and make sure that they don't remain in the old age like fixed lines. How do they catch up? So when the person who makes the most money on your phone is not MTN but it's Facebook, there is a problem. So it's those things that I find most challenging.

<u>R</u>: Okay, so second last question I have for you is so let's say you wake up one morning and you either feeling great or you're not feeling so great, (you know) are you aware of your emotions and are you able to separate these then from making an investment decisions? Because I mean it's hard, we human beings at the end of the day.

P: No, I usually just ask my boss. So I'm very, I can panic, and then I do rely on my team for kind of them to overlay it. So when I feel - so if there's a news flash and the news are big and I haven't factored it in and the share price is already down 15% before I sell, I'd usually just put my (you know) lay my opinions out there and say in reality I actually don't know what to do. I am feeling (you know) maybe management lied to me, or I feel they didn't tell, and I had asked the question, so - and I'm angry either because I lied to the management and I feel let down, so instead of just shorting the whole position just because of this one event, I would usually rely on my colleagues.

But ja, it is a - you do sometimes just wake up and you're just irritated at the management and you're like 'let me just sort[?] this stuff', but then you need somebody else who sits outside to manage and make sure that it always goes back to our process, (you know) you check the quality valuation, the pneumatics[?], has anything really changed?

<u>R</u>: Okay, so (you know) in the space that you're in, you said you do, what is it mainly defence investing.

P: Defensive, ja.

R: Defensive, okay, so when you look at that and over your years of experience, what would you then consider a rational and then an irrational investment decision-maker?

P: Rational and irrational. So probably I think if you chase short term gains, it's always going to be irrational, so the market moves up and down for various reasons and we can get clouded on, today it's up tomorrow it's down. So what I found works better is probably (you know) 18 months or longer investment horizons whereas I'm not a day trader, but there are people who make money out of day-trading - it's just not something that I can do.

So I find that irrational and ja, so they wake up in the morning and they see whether global markets closed, they make a call on the SA and they take positions according to that. They are right, but for me the transaction cost of doing that and just moving just because another market moved and there's no real, for me, is irrational.

R: Okay, and then rational?

P: Rational is fundamental research, so when you understand the industry and you take long term bets on the industry, on the management, which is what we do. So it's also active management but fundamental management, and then you find houses that do passive management, so they just buy the index because they believe that we are unable to pick the winners and the losers, else we are bringing them back in that style. So I believe an active fundamental research with long term bias.

R: Well, okay that's it. Thank you so much.

P: Cool.

---o0o---

..[end of recording]..

Audio track: Participant 7

R = researcher ***P*** = participant

R: Well firstly, thank you very much for letting me do this interview, I really do appreciate it. So there's just two like[?] parts to this interview: the first one is just looking at local and global economic, political and financial conditions and then obviously how that influences your investment decision-making; and then the second part of the interview will then just be focusing specifically on investment decision-making from a more internal perspective, okay.

So my first question to you then is, you know, what sort local and global factors influence your investment decision-making?

P: Well obviously the macro-economic environment as well as whatever is happening politically is big drivers with regards to what happens, well, influences our local market.

R: Hm.

P: I think from a fixed income perspective, I am hoping I am allowed to say .... "

R: Yes, ja. *[chuckles]*

P: Your macro environment both globally and locally are both big drivers, what happens globally filters through to what happens locally and ...

R: Hm.

P: ... and has got a significant, or can have a significant impact for example if the US decides to normalise interest rates, it means that foreigners rather go to the US instead of investing here and that in turn has an impact on what happens here, so it's quite a big .. *uhm* what's the word...

R: Impact.

P: ... impact from, from global macro-economics into our market and the last two or three years domestic politics have played a significant role as well ...

R: Hm-hm.

P: ... influencing investor confidence, our ability or SA's ability to investment locally and that sentiment drives local growth in turn influences how we investment.

R: Okay, so do you maybe wanna take me through maybe like an example just so I can understand how these global and local factors, (you know) directly influence your investment decision-making.

P: So I think I have briefly touched on that now previously already, if you look at the US market for example, when they announced a couple a years ago that they are going to start tapering their stimulus, that .. it's known as 'taper tantrum' and global investors start pulling out of emerging markets because they said, okay now the US is going to start hiking interest rates, so higher US rates then mean it's more attractive for investors to invest there than in risky EM assets...

R: Hm.

P: ...and that had a significant impact on our local market because a lot of foreigners started withdrawing cash from local markets which means high interests rates here, a weaker currency and gradually as it turned out that this pace of normalisation is going to be slower than what the guys anticipated, that sort of unwound again...

R: Hm.

P: ... and which have a reserve impact, so again it's, it's lower US rates meaning lower SA rates, a stronger currency, more flows into our market. So there is quite a significant correlation between the two markets.

R: Okay. So what recent events do you think, you know that have happened? When I say recent, you know 2016 / 2017 that has (you know) influenced your investment decision-making?

P: Well, locally the politics have been quite a significant risk for us.

R: Hm-hm.

P: If you go back two years to December 2015 when the President decided to hire Nhlanhla Nene as...

R: Finance Minister.

P: ... finance minister, it had a very significant impact on our market - your saw bond deals[?] shooting skywards and that reversed when he announced that Pravin was going to take over from - who was the other guy, I can't even remember, it was so quick.

R: Ja. *[chuckles]* Oh ja, the weekend special guy!

P: Ja, the weekend special guy, but since then the local politics have significantly impacted our market and there has always been this risk that, is he go fire the finance minister again, is Zuma going to get repealed - there's so many ifs, ifs, ifs. So there has also been this negative or almost, ja, it's a negative risk, so things that could happen - a lot of it didn't happen...

R: Hm

P: ...but you're always scared is going to happen? What is the next bomb that's going to go off? So you tend to be under wait[?] or under a wait[?] duration or short duration and I'm sure in the equity space the guys tended to be favouring stuff that or asset investments that are correlated with the rand, so that there is a rand hedge, because you always worried this thing, what's the next bomb that's going to go off and because a lot of that hasn't panned out, it's negatively impacted investments because foreigners keep on coming back.

I said now that the US policy normalisation has been slower than anticipated, foreigners coming back into our market which has been supportive of local market, but we are so scared of what is the next local bomb that's going to go off, you're underweight[?], you're not participating in all this coming back.

So I would say that the local political environment has been quite a ...

R: Challenge.

P: ...challenge ja.

R: Hm. Okay. So *[chuckles]* sorry, I always laugh whenever I ask this question but what is your opinion (you know) then of our economic conditions, our political conditions and our financial positions: Your own opinion, just your own view?

P: So the economic position - you're talking about the current country basically?

R: Mmhm.

P: So I think we are in a bad state, if you look our fiscal, our fiscus, our balance sheet doesn't look good, local economic growth has been deteriorating and continuous to do. So that's definitely a detractor and I that continues. Something that has been positive is the fact CPI has been surprising to the[?] downside...

R: Hm-hm

P: ...which is a little supportive because it helps growth come back. But with growth being low, the fiscus not looking good it's - we made a, well, someone made an analogy the other day saying that no matter what happens, if you are on this aircraft carrier that's going one-way because of the fiscus, and moving onto politics, now even if Cyril Ramaphosa gets elected as President, which is supposed to be a very market positive, all the businesses seem to like that idea - he is not going to able to turn this aircraft carrier around immediately.

So we're still in this trajectory which is not great, low growth, bad fiscus and you don't see that changing very quickly. Politics now is, it's a bomb waiting to go off almost. This conference that is happening at the moment -I see they're busy counting now. Either way, so it's very binary, it's either going to be Cyril Ramaphosa or...

R: Auntie Zet *(sic)* *[chuckles]*

P: Ja, Auntie Z .... But I think it doesn't matter what happens, is going to be, the markets is going to react aggressively towards that and then probably reverse a lot of that again. I mean if Cyril wins it's going to be contested more than likely, so it's just going to be drawn out thing of remaining uncertainty. So I think political uncertainty is still a big issue for us.

R: Hm-hm.

P: And I think financially both those factors will influence what happens in the local financial markets, so I can't really expand on it too much either way.

R: Hm. Yes .. yes, of course I understand. So then if I had to ask you then to place (you know) these factors in terms of importance in our field, then it would be safe to say that it's political first and then economic and financial or somewhat simultaneous.

P: Ja. I think the political environment is what's driving everything at the moment...

R: Hm.

P: ... and once that settles down, people will start looking through to the macro and financial backdrop again, especially going into the February budget...

R: Hm-hm.

P: ... that's going to be the next main event..

R: Hm.

P: ... that people focus on, which is in turn is going to lead to ratings moves, etcetera.

R: Hm. Okay. So when you look at these economic financial and political conditions, I know that you've (you know) you've touched on it, but if I had to just ask you to highlight them how these directly and indirectly affect you, could you take me through that?

P: Well, everything is going to, well, it's a direct and the indirect I suppose, and sjoe, it's difficult to put into words now, but - so if you look at the politics, the outcome of this elective conference is going to influence market sentiment, it's not going influence anything tangible yet, because as I said, this is a aircraft carrier that's going one-way and you're not going to turn it around, but it influences sentiments. So people are going to say, Oh no this is just more of the same or maybe something can change.

R: Hm. .

P: And that sentiment then indirectly influences the market because it's going to determine what is the future path of interest rates, are we going to be able to turn the ship around or not? And if yes, market will start pricing more positively.

R: Hm.

P: And you will get lower bond rates and a stronger currency. If you look at the economics again, it's going to be indirect impact because whatever .. so we've already got this bad picture that was painted in MTBPS. The budget in February is going to say is, 'are we going to be able to do something about it or not?' ...

R: Hm-hm

P: ... which is then going to um, influence what the rating agencies view us as. And that internally leads to level of bonds rates. So where is the country going to and do we get a downgrade by Moody's, yes or no; if we do get a downgrade by Moody's, we fall out of the weak "B" and that then indirectly again influences what happens locally, because foreigners might start selling aggressively as they unwind those positions.

The question then becomes is, is there someone willing to take that supplier pull-out and the answer to that will then determine how bad the sell-off(?) becomes. So everything touches, so you can't really focus on one specific - every effort[?] it's almost like a domino effect...

R: Hm..

P: ... and things will just fall .... *[chuckles]* they do.

R: Okay, so then do you maybe want to take me through your fixed income process (you know) as how you go about making your decisions? I know that obviously different asset class has different processes and stuff like that, so maybe you could just take me through yours.

P: Okay, so the fixed income process we look at two things simultaneously: You would look at a top-down macro-economic view, so you would firstly start of by what is the global economic .. how a macro-economic environment looks like; and how that impacts the local macro-economic environment.

Depending on that you might say okay, if you look at a stack-up model where you say US[?] interest rates or here are our inflation differential is here, this is some currency risk premium and it gives you an idea of what fair value for example the tenure[?] local bond rate is. You would then look at where are we currently trading...

R: Hm-hm

P: ...and formulate a view: Can we get to this fair value over the next six months or not and what needs to happen in order to get there and what are the risks and this is now where the politics, the rating and all that comes.

So you've got a fair value based on what is happening globally, but you've got these local issues that are risks and looking at those two combined, you would come up with a view, are we investing towards this fair value, so do I need to sell or buy whatever and um are there any short-terms opportunities. So that's looking at it from the top-down macro-economic.

Then you also look at a bottom-up approach. So where are we relative to history, so a more quantitative view. Relative to history, given the current environment. So you're joining the two, but where are we at the moment and do we see a pattern? Is something mean[?] reverting? What is the shape the yield curve look like, relative to history in the current environment?

So it's a more quantitative backward looking measure *versus* a more macro .. fundamental macro-economic thing. And the two processes would then come together and we would end up with our portfolio view.

R: Hm-hm. Okay, thank you so much. Sorry, in that you've also then answered obviously what you base your investment decisions on because[?] you went into detail which is exactly what I want.

So my next question then to you is (you know) considering that you're looking at these two different views, your bottom-up and your top-down, to what extent then are market conditions prevalent or effective in these two approaches?

P: Well, market conditions change all the time, so you need to review all of that all the time in the market ...

R: Okay.

P: ... what is my current drives? What are my current risks? So market conditions will determine your risks as well.

R: Hm-hm.

P: But I think in both approaches you need to have clear view of what does the market look like at the moment? Where are going to? What's changing? What is the same as what it was previously or are we in a completely different environment that actually noone knows what is going on.

R: Hm-hm.

P: So ja. market conditions do have a significant play it I would .... it kind of skews[?] your view a bit. And also for example, if the local political environment is very uncertain like it is at moment, you tend to have a negative bias because I mean we're here, we're in it and so sometimes the current environment can negatively affect your decision-making which is not normal. *[chuckles]*

R: *[chuckles]* Well, we are human so ...

P: Ja.

R: So then in this process then what sort of research do you like? How do attain this information? What do you look at? Or[?] do you speak to people? Do you go ....?

P: Ja. so there is a sell-side[?] research involved.

R: Okay.

P: Obviously as I said, global markets especially the US and Europe as well to certain extent, has quite a significant impact on what happens domestically and we don't have a global presence, so you are very reliant on sell-side research from that perspective.

R: Okay.

P: So you are reliant on the guy sitting in New York to give you an update of what is happening in the US, what are the macro-economic drivers there currently and then you translate that into how does it impact things locally.

R: Okay.

P: So there is a large or big chuck of this stuff is coming from sell-side research, so someone presenting their views and ideas and you would not just look at one analyst that's obviously collating information from various people.

R: Hm.

P: And then you throw all that together in a pot and you assimilate that internally and you come up with your own view. I have given all this information, what do you think is happening globally and then you translate that into how does it impact the local ....?

So there is big chunk of foreign or external research but also then a lot of internal work going into assimilating that into something that applies to us. And the quantitative stuff is mostly done internally.

R: Okay. So (you know) earlier on we were speaking about currently market conditions and you were saying how sometimes it influences your judgments negatively and so forth. So then when .. so like when it to comes to looking at your opinions, you judgements and your personal view and your experience as well, how prevalent is this in your investment decision-making?

P: I don't know, it's difficult to comment on it ...

R: Okay.

P: .. because as I say, because we are in the country, your local negativity ...

R: Hm.

P: You're the one driving home and seeing 'oh this pothole, still not been fixed' and ...

R: Ja. *[chuckles]*

P: . And that impacts you psyche[?], so you're negative to the country, you're negative of what is happening here and that, because we're human, tends to translate into investments as well. If you were to talk to foreigner for example, they would say 'no, but it's not .. your economics look good, this looks good that looks good' ....

R: Hm.

P: And you as a local don't generally see that because you've got this negative bias overhanging it. So it's got, it's got a big impact. Sometimes you do need to step back and ...

R: Okay.

P: ... say okay, ignoring all of this noise and my own local negativity almost, what does things look like - and that's difficult to do because you're already in this bad space.

R: Hmm

P: So I would say it does have a big impact and it's difficult to break those apart.

R: Hm-hm

P: Maybe something else which I haven't mentioned yet is peer rankings as well. So one tend to look at how you're comparing to other local managers and how you're positioned against them because it's, it's a race for who does the best, because unfortunately .... investor looks at that as well and not just are you getting to what they .. the target that they set you. And that is something that one also tends or sometimes a trap that one falls into.

R: Hm-hm.

P: Because instead of just purely looking what I need to do to beat my benchmark, is what do I need to do to beat my benchmark and my peers?

R: Hm. Okay.

P: No one .. it becomes difficult to manage that sometimes.

R: Okay. So then in your, in your many years of experience, and expertise, which one would you say is most important between personal views, judgements and experience - or is it just a mixture of all three?

P: I think it is a combination of all three, because although judgement and experience is probably going to, or should be more important than just our own personal view. Because your personal view is going to be heavily impacted by how you feel about things and that's not always a clear picture because you might have driven through that pothole this morning and now you're just angry with everybody and the government and that clouds your personal view or it impacts your personal view, so you should almost be stripping that out...

R: Okay.

P: ...as much as possible and look at, historically what has happened and how has things impacted the market and apply judgement to that, saying 'are we in the same environment? Is this something that I can apply past experience to, or it is something completely new that I need to go back to the drawing board with?

R: Okay. So I have to ask (you know) since we're talking about this. So are you aware of your emotions on a given day? So let's say like you wake up and you're feeling like really good or you're just not feeling great at all? Are you aware of that and then are you able to then separate that from your investment decisions every day and stuff like that or, how do you cope with that let me say?

Because I mean look, we are human, so like you said (you know) if you hit that pothole you're gonna be like "oh my god" and then it ruins your day, but obviously being an investment and being in an investment space, do you believe that (you know) everyone has their coping mechanism to separate the two?

P: I think your emotions do influence the way you behave, but you need to be able to strip that apart. I mean, you and I work together fairly frequently and I am sure you would be able to pick that 'no, Ron's not in a good space today ...

R: Today ja *[chuckles]*

P: .. because I am irritated, or well, the short answer is always ...

R: *[chuckles]* What short answer?

P: ... just don't bother me ...

R: Ja.

P: .. but you've still got a job to do.

R: Hm.

P: And you've got a responsibility to do that, regardless of how you feel and you need to be able to strip that out. So you might be less friendly while doing it, but you still need to objectively look at what you're doing and why you're doing it and apply proper rationale to that.

R: Okay. So then that obviously then comes with experience, I am sure, over the years you've learnt that, okay, to separate 'I am feeling like this, but this is the reality' - or has it just always been in your nature? I wouldn't be surprised if you've always been like this, seeing that you so calm and relaxed in my personal opinion, but ja. *[chuckles]*

P: *[chuckles]* I don't know. I think it depends on, to a certain extent, I think experience does teach you how to strip the two, but it's also going to be part of the type of person you are - are you able to strip out your emotions and get on with your work or ...

R: Ja. *[chuckles]*

P: ... I think it's going to be very much a personal thing, I can't really comment on that.

R: Okay. So now my next question to you is have you ever made an investment decision that didn't end well? Let's say it resulted in losses or something and how did you then cope with the aftermath of that?

P: I think one often does that, it's .. in the end noone knows what the future is going to hold in and you come up with a certain view, or certain expectations and you trade accordingly and sometimes it doesn't work out. Then, well, you need to put proper stop[?] losses in place and you need to be able to strip the emotions out of it, and say okay I've made a decision, it was wrong, how do I pick up the pieces and go on?

R: Hm. Okay.

P: Otherwise you're gonna to make yourself crazy.

R: *[chuckles]* Ja. Sorry I didn't mean to laugh at that - but ja, I agree, and ja you have to, you just have to get on with it, hey.

So my second last question to you actually, ja, second last question is: Have you ever made an investment decision under conditions that were so complex like it even possibly even drove you a bit (you know) insane for a bit? Do you maybe wanna make me through that, like through an example or is it always complex and?

P: I think it's always complex because as I say you don't know what the future holds. If you knew what was gonna happen, everybody would .. investing would be easy and everybody would be millionaires.

R: Ja.

P: So unfortunately it doesn't work that way, so I think every decision that you make is stressful. There is always a - it's the same process always and I can't ...

So obviously there is certain environments in which the uncertainly and the stress increases. This December for example, is a prime example of that and in large[?] case of extreme uncertainly you wanna go into something as neutral as possible so that you don't get blown out, because - like this MEC[?] thing is a flip of coin almost. You don't wanna get blown out either way.

So in those cases you take a more conservative approach. Other times you've got more confidence and you would take bigger positions. But I think every environment is uncertain, it's stressful, I wouldn't say there's one or a certain type that's easier or more ...

R: Difficult.

P: ... difficult to do.

R: Okay. So then my last question to you is: Considering what you've learnt over the years and (you know) where you are and currently in your career, what would you then consider a rational and irrational investment decision-maker?

P: Are any of us really rational? *[chuckles]*

R: Well .. *[chuckles]* A lot of you think you are! *[chuckles]* I'm not going to judge and say whether you are or you aren't, but it would just be nice (you know) to hear from your point of view.

P: So I think an irrational investor would be someone that just goes all out all the time and so you're not risk cognisant...

R: Okay.

P: ...so you just '*gooi*' everything into one pot and hope for the best. That's not acting rationally, because we're investing people's retirement money if you think about it.

R: Hm.

P: So you need to take a conservative approach. You need to take a lot of small positions in order to – and, because some of those trades you will get right, some of it get wrong..

R: Hm.

P: ... and hopefully the sum[?] of those will contribute and or add alpha[?].

R: Hm.

P: That's in my view a rational approach. If you take a lot small bets, given what you know and be risk cognisant. If you just throw everything into one pot and hope for the best, that's not acting rationally. Because even if you are 99.9% certain of something going to happen, it is not guaranteed.

R: Hmm.

P: Hm.

R: So rather just be cognisant, and like you said, conservative when it comes to your decisions. Cool, well that's it from me, thank you so much.

...[End of recording]...

—o0o---

Audio track: Participant 8

R = researcher ***P:*** = participant

R: Firstly, thank you for letting me do this interview, I do appreciate it.

P: Alright.

R: So there is this basically two parts to my interview, the first one is going to be looking at global and local economic political and financial conditions; and then the second part looking at your investment decision-making process (you know) more internally.

P: Okay.

R: Okay? So the first question I have for you is what, what global and local factors influence the way in which you make your decisions?

P: Macro economic factors mostly, so primarily things like currencies; direcction in which they move; commodity prices, GP figures; rates; global interest rates. That's[?] mostly on my side, the volatility, the overall volatility and risk sentiment.

On the local side, local side it's more political factors, whether or not that feeds back into a risk on or risk of environment; how it is congruent or correlated with other EMs - so you have a DM *versus* EM decision, and then with ME[?] and you have a look what SA is doing relative to that, to assess that. We ... I typically just look at relative currencies.

R: Hm.

P: So for instance looking at the ZAR *versus* the devish[?] Euro; or the ZAR *versus* the Roebel[?]; the ZAR *versus* the President Rehal[?] …

R: Hm.

P: The, but those things change over time, so just because something was an explanatory variable or a useful metric juristic[?], doesn't necessarily mean that those juristics exist through time ...

R: Hm.

P: .. So you really need to constantly make sure that those .. because for instance you may have a coup in Turkey, so now you have got very much Turkish specific risk, so the Turkish currency is no longer a proxy for what EM as a whole is doing ....

R: Hmmm.

P: .. so now you need to look at some other currencies and make sure – maybe then look at a Polish Zloty[?] or one of the other currencies.

Currencies is a useful proxy, but they in and of itself can also have some baggage associated with it, *uhm* .. ja.

R: Okay.

P: Alright.

R: Alright, so do you maybe want to give a scenario of, maybe like a full scenario of like how they will then influence your investment decisions? Like maybe you'll take a specific decision and then given one of these factors, you will change?

P: Yes, so all of these things are noisy variables, so it is not hard and fast. The same variable at the same level does not always lead to the same decision.

R: Okay.

P: It depends on what other variables are doing.

R: Hm-hm.

P: So for instance you might take a view that the Rand was going to .... *versus* the US Ddollar. Imbedded in that is the decision that - alright, you make the decision the ZAR is going to weaken against the US dollar, for whatever reason - maybe some political thing. Maybe you think Malusi is not going to fix the budget or whatever the case may be. So embedded in that decision is that the Rand would therefore also weaken against the Euro, because the Euro and the Dollar is correlated.

R: Hm-hm.

P: Now, you can do that and then you can decide, *alright well, I am going to go and buy BTI* for instance or I *am going to buy Mondi* or one of these stocks whose price is set overseas and it actually, when the ZAR weakens the stocks definitely go up. So you might decide to do that, you may decide to over-weight that.

However, in the same scenario you may say *alright well, the Rand is going to weaken,* but hang on, I have got BREXIT fears, so BREXIT is going to happen, so I am thinking that maybe the Dollar is going .. maybe the Rand is going to weaken not so much, because of anything happening in SA, it's going to happen because the Dollar is going stronger; so then I don't necessarily want to buy BTI and Mondi, I might wanna buy something else, maybe I wanna some .. maybe I wanna buy Old Mutual or, (you know), some - so it is the macro variable, but a different looking thing happening.

R: Hmm.

P: In that context it's .. you can't necessarily do investments in an "if then" scenario analysis ...

R: Hm-hm.

P: So you can't say I *preserve this, therefore I do this.* There are ways, broadly speaking you can do certain things, so if you've got a risk of .. currency is fleeing South Africa and the EM as a whole, then perhaps you want more in Rand edge stocks …

R: Hm-hm?

P: But you may also, and if currency is coming in, then you may want to go into domestic stocks. So right now for instance, what we did with the current conference, Ramaphosa is perceived to be bullish for the market. NDZ, not too much NDZ, rather the rest of the NDZ slate, was perceived as negative for the market.

R: Hm.

P: So now you have two aspects: You can look at your portfolio and you can look at your portfolio relative to the Rand and you can look at your portfolio relative to the market as a whole.

The one is the so-called ZAR beta that[?] calculate; and the other one is a SWIX[?] beta. Now, it's very simple models, so now you say alright, maybe if .. like we did try it now, and we don't know which one is going to be picked, so we want to be neutral, so but we can't hold all the stocks facing the benchmark, so we may want to try to be neutral ZAR beta and neutral SWIX beta at the same time.

R: Hmm.

P: So that may mean maybe selling some resource stocks to lower the beta and maybe buying or selling some offshore stocks to neutralize the ZAR beta and you position your fund like that and hope for the best, (you know) so that's - but you are never going to do it perfectly, so ja, that is more or less how those .... play out.

R: Okay, so then what recent local and global events have had a direct influence on your investment decision-making? When I say recent, maybe 2016, 2017?

P: Hmm, okay, 2016, 2017, I forget when Brexit happened, whether that was '15 or '16, or '17, Brexit was material. Trump presidency. Local, the whole firing of Nene started the whole terrible thing there …

R: *[Chuckles]*

P: … that while unravelling there, which cascaded into the various downgrades, and all those things influenced it.

Uhm .. what else? Some of the ECB and US rate decisions, there was – ENUM[? *Yenum?*] had a surprise hike December last year or something. ECB I think was more or less fine.

R: Hmm.

P: *Uhm* .. these days what happened on China, was there any China shocks? Not that I can recall immediately. There was some .. no, that was fine. There was the whole Chinese Congress Party conference, but that went without a hitch, so that's fine.

R: Hmm.

P: North Korea was less of an issue, I mean that caused some flight to quality and some normal systematic responses, but that didn't really influence us really.

R: Hmm.

P: I would say from our perspective local factors impacted us recently more than global factors.

R: Okay.

P: That's not usually the case for South Africa. And usually South Africa is substantially more impacted by things that happen globally. Like a strong dollar feeds through to commodity prices which has impact, a direct impact for South African and that has been the case prior to last year or whatnot. Recently it is more a case of the domestic political situation overshadowing everything.

R: Hmm.

P: Hopefully that, okay, well, it won't come to an end, it's – actually depending on what happens now. If it is Ramaphosa winning .. well, it's a binary thing. I suspect the market might rally substantially on the back of nothing really, because he is not a magician ...

R: *[slight chuckle]*

P: ... . just Ramaphosa, and it depends on what happens to the rest of the slate in the ANC.

R: Hmm.

P: I don't think we are going to be able to avert the downgrade, not with our president making all kinds of nonsense on free education, etcetera, without Treasury even knowing about it. So, no, a further downgrade is probably on the cards which would probably result in us leaving the league[?] there, which would result in some .... and some other adjustments.

R: Hm.

P: *Uhm* ja, that's more or less it.

R: Hmm, okay, so now, I mean, this is filtering a bit now to my next question. What is your opinion of South Africa's current global, I mean South Africa's current economic, political and financial conditions?

P: It's not good. It certainly has been better in the past. We do have significant challenges ahead of us. The primary problem as far as I can see is pretty much the unemployment rate. Alight, you have a government that wants to do a lot of things, but they, by virtue of the fact that they don't have the money, they really can't do it.

R: Hm.

P: So that leaves them with either a need to borrow more or not implementing it. Now, our government also seems to be very poor at capital allocation in that they fund projects. They where, even though the projects themselves may have a merit, the way in which they implement it or the people that are implementing it, are either not skilled enough to do it or too corrupt, or - I don't know what the issue is, but they're not doing it effectively, so a lots of money goes to waste.

Here, and the private sector is to blame as much as the public sector, it's not one or the other. Poor corporate governance throughout. It's not insurmountable and it can clearly be fixed, but I don't know whether there is the political will to fix it. We don't hold people accountable for their actions or a lack thereof, and as long as that doesn't happen, it's not going to fix itself. People are not incentivised to fix things, because they don't fear repercussions.

R: Hm, so then how do these factors then directly and indirectly affect your investment decisions?

P: Right now, because it is all political and politics by its nature is very chaotic. It doesn't, it's not like I can say alright, while if Ramaphosa wins, then these stocks are going to do well, you know, it's difficult. So you wants things to go for safer stocks or stable stocks where you have got more visibility on what the earnings is going to do in the future ...

R: Hm-hm.

P: .. and then you invest accordingly. So we typically go for quality companies where there is certainty on earnings and that sort of thing. That is one of the reasons for instance where we .. why we had much[?] less[?] Steinhoff as a benchmark, (you know) because we didn't feel comfortable with what management was saying ....

R: Hmm.

P: .. At a certain level – ja. And ja, so these macro economic factors and the political factors, making this[?] very difficult. You can't just say *alright, well, interest rates are this and in a normal interest rate cycle this is now going to happen to interest rates and we should invest in these stocks*, because you literally have to cater for the possibility that tomorrow you might have a different finance minister. That may .. so all of those things create uncertainty.

Markets don't really care who is in charge and who is controlling it. All they want is they want to predict how the government is going to react. So if you've got a government, any government, it is absolutely critical that they just adhere to whatever policy they have.

R: Hmm.

P That is all markets want. And in the latter years the ANC wasn't clear what their policy actually is. They said they were clear, but markets didn't believe them, because they came out with different things all along and saying *'alright, now we are going to do this; no, we're going to do this, no, we're* *not going to do this'* and so – then you confuse the market and the market says like *oh, well, I don't know what the hell you are going to do* - just think about something, say you are going to do that and then do that.

R: Hm.

P: So and I think that's where the frustration was with post business the public sector and because of a poor policy implementation and poor policy communication, you have various services not operating as they should. Even at the municipal level you may find that people are not fixing roads or doing XYZ because they don't know whether they are going to have job tomorrow or whether somebody else is going to take over, they all .. whether[?] someone else is going to get the tender or what is happening, (you know).

R: Hm.

P So uncertainty is just not good. Any unique, ja, that's the .. that's ....

R: So then what I'm taking from this then, between economic, financial and political conditions is that, well, what's coming across to me is that for you it's the political one that is the most important, because it somewhat sets the tone?

P Well, it sets the tone for the others, but that does not mean that we don't have - even if you take away the politics, that's why I say that even Ramaphosa isn't a magician, the fact of the matter is that because of that politics for the past two to five years I could argue, we are now on a very real fiscal and economic situation that needs addressing. So even if you have fixed the political situation now, great. Now at least you have a fighting chance, but you still need to do some tough, make some tough decisions that's not necessarily political where you kind of to address fiscal issues.

It's very difficult. I can't sit - if they were to do give me the job right now, I wouldn't know where to start. You don't really have money to do, to say free tertiary education, yet you must do something ....

R: Ja.

P: You don’t have the money to expand social grants, yet you must do something. You want to stop crime, but, (you know) all these things cost money and you need to do all these sort of things and the problem is that because of bad politics, a lot of institutions that could actually add value in all of this, had been decimated over the years. …

R: Hmm …

P: So you had a very real attack on, like the police, you know the way they were restructured. SARS, the way SARS was restructured. Even SABC and other parastatals – those things, all those institutions are less effective than they were 5 years ago. Alright. So in order to fix it, you first need to fix those institutions and time is not on our side, okay. So it is problematic.

R: Okay. So moving on to the second phase of the questions. Do you want to take me through your investment decision in the process, like (you know) what you look at? How you then come to the final decision?

P: Alright, well, on my side it starts with the portfolio, alright. So I first look at what I have in my portfolio, alright and ascertain in what positions they are. I look at things in a very quantitative perspective ...

R: Okay.

P: So I project what each position is contributing to the overall tracking error of the fund.

R: Hm-hm.

P: So then immediately I look at .. the overall tracking error of the fund could be like 2% or 3% or whatever the tracking error will be and then I say *Oh, hang on, 10% of my tracking error*. So 10% of 3% which is like 30 bips[?] is coming from .. I don't know, Aspen. So then I go to the Aspen analyst and I’m like *Listen Tsido[?], how are you? What do you think of this position? Are you happy? Do you like it?*

And then if I .. okay, so I start from the risk side. I’m just looking from our current positions, I’m not necessarily in the team to introduce new positions. I don't necessarily tell Patrick *Do this, this, this.*

R: Hm-hm.

P: Then you read the news and you say *Oh hang on, pharmaceuticals are doing X Y Z*. You go back to the analyst *Have you seen this news? Are they[?] still happy with the position? 10% of our tracking error is coming from this position, are you happy with that? Do you want to reduce the position?* That sort of thing. Chat with the BM.

My job is mostly to make people aware of the risks.

R: Okay.

P: I don't release the risks, so it's not like compliance, the stuff that you guys do. It's where you have mandates that says the levels could be X Y Z. My job is to highlight that *This amount of risk is coming from this position and are you therefore happy that the potential alpha you can generate from this position, outweighs the potential downside that is possible from this position*.

R: Hm. Okay. So then it's safe to say that you base your investment decisions then on quantitative measures, as you've just mentioned tracking error, alpha, etcetera?

P: Hm.

R: Okay. So then to what extent in your own opinion do you think current market conditions influence (you know) investment decision-making on your side?

P: Well, market conditions always impacts your .. the decision-making, so it's not just current market conditions, it's the market conditions on a daily basis. Even a lack of volatility or a lack of interesting things happening in market conditions, still impacts your current decision-making.

R: Hm-hm.

P: So the way we look at the stocks, it's a bottom line[?] approach, so market conditions .. because, when we're looking at the stocks themselves, the analysts typically value the stocks in isolation. That's not what I do. I look at collections of stocks relative to markets and I would change a position more based on what happens in the market than what an analyst does.

I wouldn't necessarily change it, but I would highlight .... to Alton[?] or whoever, that *Hang on, these things are correlated to the Bond deals and ER[?] billing, that the Bond deals are coming in and therefore the stocks would behave X Y Z.* And then he says *Alright, be that as it may*, he still believes there's value in stock or he believes that he could play it off by longing Truworths and shorting Foshini for instance.

R: Hm.

P: So ja, so current market conditions obviously have a bit[?] of an impact. The market conditions always have an impact on your decision-making process. The decisions that you make when the markets are volatile and all over the place and nobody knows what's going on because we .. because of political reasons or because of other redowngrade[?] reasons or whatever, those decisions are different than the decisions you would take when market conditions are all behaving textbook. You've got interest rates and a nice interest rate cycle. You've got sales, growth and a nice[?] sales growth cycle, you just, you know, work around those cycles.

R: Hm-hm. So I understand that then the analysts in your team (you know) they do extensive research. So what sort of research do you do if you're doing research on your end?

P: Hm, I actually just look at random .. randomness ....

R: Okay.

P: .. itself. So I look at models, do model volatility; looking at the ways in which you can decom.. .. I do quantitative .... level research ...

R: Okay.

P: So it's mostly pertaining to decomposition of tracking error, risk measures. And then I do some operational kind of research as in to how to best construct these models within databases or whatever the case might be.

R: Okay. So I understand that you're very focussed on quantitative measures, but to what extent then are your opinions, your personal .. your views and your experience associated with your investment decision-making? If there actually are, if there need to be, or ...?

P: All people are biased[?]. You always have an inherent bias. The problem I .. if I have a fault with[?] these things, it is probably that I model the stocks being more random than what they probably really are ...

R: Okay.

P: So in my world stocks are random variables.

R: Hm-hm.

P: I don't really predict whether or not a stock is going up or down, that's not my job; I just model the volatility how these stocks move. So they .. I'm less tied to any position. I am tied to the benchmark, however, because the mandate is .. so therefore we have a lot of Naspers[?] in the funds but that's because the benchmark has a lot of Naspers units.

R: Hm.

P: So that I suppose is my bias. The problem is that, okay, so I know it is, but you have to pick points[?] somewhere along the line, is that the models themselves are not necessarily stationary. So a model that describes something now, doesn't mean that that model will describe the same thing on the line[?] tomorrow.

You have the problem of one history, alright. So even when you design products and do all these kind of things, it's easy to create a product that seems to be .. where you backtest to[?] outperform the markets. But unless you do it properly out of sample or whatnot, you have this one history.

So for instance, right, you've got a CPI Plus whatever benchmark and you wanna see what asset losses, what asset loss mix would have given you a decent chance of outperforming this CPI over time. And then he[?] comes and says *Oh you know what, you want the X amount of blinkers and you want X amount of property*.

And it's like yes, obviously because property gave you so much growth over the last time that it just dominates and you have a low volatility. And inflation bonds also. That doesn't mean that these counters will do so going forward. And .... if you ran the models until 2017, it would have said *Alright, you need a lot of property and a lot of linkers*, and if you did that, you would define and perform in 2017 because linkers .... probably[?] actually sold off, okay, alright, as they would have.

There is really no indication that any model – any model that describes stocks, whether it's a bottom line qualitative model or a quantitative model, whether any of these models really have significant predictive power.

R: Hm .

P: So in a sense what the analysts do, is narrative construction. So the analyst can tell you how a stock behaves and how a stock should behave, but it can't tell you how stock is going to behave – because there's always additional variables and additional things that you cannot account for.

So predicting performance is impossible. It is inherently impossible, here .. I don't think anybody can on a statistically-minded measure predict which stocks are going to outperform and which are underperform.

Now with Cansing[?] as a manager's favour is that you reliably capture these statistics you need decades' worth of returns to prove that there is[?] skill or even .. up until that point you can actually only say that you don't know. You've got betas and zero and low .... squares. It's very difficult .... and those things all lead to the advance of Basset[?] funds.

R: Hm.

P: Okay, so globally passive[?] funds, lots of people are investing in it. In SA what we find is that the active managers can still outperform the bassets. The reason for it is we don't really have cheap bassets; our Basset funds are very expensive compared to the global Basset funds and also there – if you know or two about the South African stock market, even though I do believe that it is really, really, really difficult to predict future performance, you can kind'a *(sic)* get it right ...

R: Okay.

P: .. because the market is so one-sided, there are a lot of managers that actually do manage to outperform their benchmarks fairly reliably. That will change, as the market breath[?] increases and as the Updic .. Up............ passives increase. I suppose that will lead to (I mean) the beta active managers remaining, so maybe you'll always have some of the actives outperforming.

R: Okay. So I think it's a very interesting interviewing you because obviously what you do is very (you know) numbers-focussed, very .. quite intensive and (I mean) the other analysts and (you know) other people tend to also then involve their gut feeling and (you know) their experience and stuff.

So then considering that, are you aware of your emotions and on a given day, at least you wake up feeling really good or just not great and do they then (you know) impact the way in which you make your investment decisions? And if they do, then how manage to like separate your emotions from your investment decisions?

P: Hm. I'm not very emotional when it comes to investing – (I mean) I get emotional in traffic ....

R: *[chuckles]*

P: That's where I typically blow my top or whatever. I shout at the IT[?], that sort of thing ...

R: *[chuckles]*

P: That's where .. the brunt in the office, the people that take the brunt of my annoyance is probably the ITpeople, ..., I get annoyed with that[? *them?*].

The investments with – because it is numbers driven, it's difficult to become too overly emotional on it. I don't specifically love certain stocks and hate[?] other stocks. No, that's not entirely true. There are some stocks that I probably wouldn't put[?] in even if they scream properly, mostly construction companies. (You know) it's probably not necessarily based on emotions, rather it's based on history – I had a bad experience with them and that sort of thing.

R: Hm.

P: So if anything, I'm probably negatively biased towards most stocks. Because I look at it from a volatility variable perspective. The more volatility is observed in the stock, the less likely I'm inclined to put it in.

R: Hm

P: So I prefer no volatility stocks, but that doesn't mean low volatilities .. low volatility stocks aren't necessarily not risky. (I mean) prior to the latest debacle, Steinhoff wasn't that volatile' (I mean) it wasn't a non-volatile stock, but it wasn't as volatile as it is now. So it's not a perfect projector.

I pretty much would buy in – if the analyst likes the stock, I typically don't have an opinion one way or the other. If the analyst is recommending a certain stock, I would probably say *Alright, well, putting the stock in is going to change the tracking error this way; this stock is correlating with these stocks, are we happy on doubling up risk or taking this position?*

And sometimes the analyst doesn't believe me that it's correlating with this. Take gold stocks for instance. Gold stocks are funny. Statistically they're correlated to nothing, including the gold price. So if you know the gold price is going to change in this direction, you don't necessarily know if – if you know the gold price is going to go up on any given day, you don't necessarily know that the gold stock will go up because it also depends on the Rand.

R: Hmmmm

P: So you could .. you need to – so the Rand gold price maybe is a little bit better, but still not perfectly. It's got a significant beta, in other words statistically significant, but it's not .. it's a very low beta – like zero-point-zero-something, alright? So it's .. even on that you don't know and so I don't .. listen[?] by its very nature it's impossible to say that emotions are not impacting your decisions.

R: Hmm

P: You could feel very pessimistic and what have you, and decide *Alright, well, I mostly feel like cash* and then the next day you could be more optimistic and you could say *Alright, maybe I want to go into a more volatile asset .... maybe that[?] will have more equity.*

R: Hmm. Okay. So have you ever built a model that wasn't a hundred percent – well, let me say didn't result in the kind of favourable result that people wanted, like so .. let me call it a loss so to speak, and if you have, then how did you deal with the aftermath of that?

P: So my models they don't really work like that.

R: Okay.

P: So if they understate risk .. so when I publish results on whatnots, there's always confidence intervals[?] and all those kind of things here[?] ...

R: Okay.

P: So if it falls outside, it's almost to be expected ...

R: Okay.

P: .. (you know), some things like a 95% confidence interval or something else happen. So for instance we do tracking error, alright. So now our tracking error will be various ways in which you can predict it and then we run a 2% tracking error. Now very simplistically 2% tracking error means that 66% of the time you are[?] in 2%[?] of the benchmark, either positive or negative.

R: Hm.

P: So we had a situation where we were 4, 5, 6% away from the benchmark and the question was *'well, how do you get a 2% tracking error?'* .. it's like it's possible. There's essentially a 33% chance that it could be anything ...

R: Hm. Okay.

P: You know? Anything more than 2%. So that's one out of three.

R: Hmm

P: It's not as - So, I have .. hm .. (I mean) did the model fail? In the eyes of the people that were relying on the model, probably.

R: Okay.

P: In my eyes, not necessarily, because there's confidence intervals into it and it's a case of .. you .. I probably didn't explain the model's limitations prior to people relying on it or whatnot. So I'm .. I didn't feel too bad.

It's a case of you could easily explain it afterwards and it's really just a risk tool in any case. It's unlikely that even if you had said .... your tracking error is 2 but it could be as much as 6, whether that would have significantly impacted that position? I don't know. Whether it would have reduced the size of the draw-down? Also unlikely.

R: Hm . Okay.

P: So to put things – and I mean, tracking error is very, very blunt instrument and (I mean) .. okay, so I explained to you that 2% tracking error means that 2% of the time you .. ag, 66% of the time you're within 2% of the benchmark. But there's very important assumptions that go into that, for instance, it implies that you can only use tracking error as a measure if the alpha distribution is a normal distribution ...

R: Hmm.

P: So hypothetically, alright, I have a benchmark …

R: Hm-hm.

P: … that gives me, it's an equity benchmark, it's all over the show, alright?

R: Hm.

P: For whatever reason I find is perfect, I've got this thing down to a tee, I've written the derivatives and the contracts and things in such a way that my fund always gives 2% more than the benchmark.

R: Hm.

P: So the benchmark goes like this, my fund goes like this, and it's exactly 2% different, okay. So what's the tracking error? The tracking error on that is zero, because the one minus the other it gives you a straight line or zero. The zero .. the 2% there is uniform .. it's not even uniformly distributed, it's a constant of two. The standard deviation of a constant is zero.

R: Hm.

P: So that fund in a sense has a zero percent [0%] tracking error, even though it's generating 2% alpha.

R: Okay.

P: So when your fund is not necessarily performing that way, it means the alpha distribution is a normal[?], so now you've immediately encountered what the problem with the model is, you've made normality assumptions that there wasn't normality.

R: Hm.

P: And that's not necessarily something that's in your control, which brings you back to the original point that I believe that these things behave random and random things are very, very, very difficult to model. You can try your best, but a random thing is going to not obey the rules that you impose on it based on your model.

R: Hm. Okay, so then have you ever had to, (you know) do your quantitative analysis when the conditions were like not on your side in any way, shape or form, ... the factors let me say, where it was just very complex and it was a bit of a struggle, (you know) for lack of a better word?

P: No, I suppose, *ja*, not models really, more a reports or whatever …

R: Okay …

P: … could become very restrictive on time, so they may want a report on X, Y, Z or whatnot, and that there could be time pressures associated with it.

R: Okay.

P: With models, the models usually don't work like that, it's not a case of you need to do something right now and work, it's - *ja*, my job isn't like that.

R: Hm.

P: So when it's against you, the only thing that really works against me is if there is not enough time or if there's data constraints or whatnot.

R: Okay.

P: So then I stop[? *start?*] making assumptions, like[?] approximations and[?] things.

R: Hmm.

P: Most of the time you can get away with it, where[?] you're doing some .. make some assumptions, some juristics of the thing that you're reporting on, especially if it's a new client pitch there is some, and it's like tomorrow, (you know) you can probably do some simple analysis.

R: Hm. Okay. So then my last question then to you is, (you know) considering what you do, your field of expertise and (you know) your years of experience, what would you then consider in your own opinion a rational *versus* an irrational investment decision-maker?

P: Ja, you see I don't necessarily think - I've never met an investment professional that was irrational.

R: Okay.

P: I've encountered people that I would say I would disagree with their arguments, I would even strongly disagree with their arguments, but I wouldn't say that their arguments are irrational. It depends on the framework.

R: Okay.

P: So within their framework their decision is obviously rational. Why? Because they come to certain sets of conclusions, but now in some instances they .. you can then ask them *Alright well, why do you want to do this?* because something seems irrational in my framework if you do this, and then you find out, oh, it's because he makes that assumption.

Well, if you make th<u>a</u>t assumption, sure, then everything makes sense, so let's challenge this assumption then.

<u>R</u>: Hmm. Okay. Ja.

P: So that's why I am not a fan of that phrasing "irrational" ...

<u>R</u>: Okay.

P: .. 'this is irrational'. Some applies to any discussion, whether it's in investments or a discussion on politics.

<u>R</u>: Hmm.

P: You can't say *oh, I support Cyril therefore I am rational,* you support him .... say it's being irrational. No. You're both rational; you both have your reasons for choosing something .... Irrational implies that there's <u>no</u> reason.

<u>R</u>: Hmm.

P: Okay. I believe there's always a reason, it might be a silly reason, it might be a reason that you, (you know) I mean` you could say well, I *vote for NSZ, because I believe the letter "N" is lucky*, you know …

<u>R</u>: *[Chuckles]*

P: … so *'Okay, why do you believe that is lucky?'* 'No, I *knew a girl named Nicole and she was just so lucky .... be her name or because …'* you know? So (I mean) you … *[chuckles]* it's a stupid example …

<u>R</u>: *[chuckles]* No, no, I get it though.

P: *[chuckles]* Ja. Right. So where .. the closest you get to irrational decisions, and I suspect that maybe also how you wanted to phrase him[?], is if you do a decision where you can't necessarily articulate your reasons for taking it ....

R: Okay.

P: .. and then guys typically say *No, I just felt it in my gut'* or whatnot.

R: Hmm.

P: There is a time and a place for decisions like that. Sometimes you .. sometimes in investments you get a thing called "analysis paralysis".

R: Hm-hm..

P: Alright, so you can analyse something this way and that and then at the end of the day .. sometimes you just really have to make a call.

R: Hmm.

P: And then, *joe!*, I still wouldn't necessarily say that's an irrational decision, it's perhaps just a decision that was not as thoroughly thought through and analysed, or you perhaps don't have all the variables and you just guess, which brings[?] it back to the point of, (you know) if you guess - because these things are random - you might be right!

R: Hm. Okay, well, that's all from me, thank you so much.

P: Thank you.

...[End of recording]...

---o0o---

Audio track: Participant 9

R = researcher
P = participant

R: Sorry, maybe you can just take me through (you know) briefly what you do on a daily basis or ...?

P: Okay, so I am a consultant to Standard Bank. I consult to the risk function .. risk credit function. I am a mining technical person. So what I do is I look at all the mining-related loans and indebtedness of Standard Bank, and look at from a technical point of view at the risks that the cash flow might not be enough to .. effectively enough to pay off the structures that are in place.

R: Hm-hm. Okay. So *[chuckles]* So then what sort of global and local (you know) factors then influence your decisions?

P: Okay. So, because – so I look at it on many levels. Because I'm looking from a mining point of view, it's obviously from the .. the global side is the actual commodity – where is the commodity price going? Or where could it go down to? Which is quite important .. more important for credit.

R: Hm-hm.

P: We didn't seem[?] – what we look at from a credit risk point of view as opposed to what you'll see perhaps in the equity world, is that we are often looking at worst case scenarios.

R: Okay.

P: We're looking at what can go wrong that they won't be able to pay off their debt? We're not looking at the upside and how much money it can make and what's the optimistic case – we are actually looking at what can go wrong and assessing the risks that .. in[?] what can go wrong?

So in that way we look at, on a global side is obviously commodity prices, because that's your revenue line and you .... your revenue line collapse; and for specific companies it might be an exchange rate as well that goes with that.

We'll also look at the global supply and demand dynamics of a commodity: Will a commodity be over-supplied, like what's happening in platinum at the moment; or under-supply like's happening in palladium. And those are key factors.

The other one obviously we look at is from a social economic point of view and where the trends are with that from a global point of view and then that obviously comes down to a community level often with a project.

R: Hm-hm.

P: But when you're looking at from a global point of view what are the trends for example and missions and how that will influence materially[?].

R: Okay.

P: Okay.

R: So then when you look at all of these factors, which one would you say in your experience has been the most important?

P: Well, commodity price. Commodity price. And how you determine commodity price, depends on what you want to get out of it. What we look at from a credit point of view is that you look at where can the price possibly go down to? And what we've determined, what we use as a guideline is the cost of production.

So, and if it takes, let's say you're producing gold, to make this quite simple, and the average – what we look at is the cash cost to produce gold. So in the worst case scenario how much you've got to pay your employees; how much you've gotto pay your electricity; how much you've gotto pay your smelting cost or your refining costs – all those cash costs, as though you would have to pay them to survive. And then you stack all the companies together and you pick a point on that curve and say 'look, those ones will probably always survive' in which case that is the lowest point that we would expect a commodity to go to.

So commodity price is very important, but it's based on cost of production.

R: So in your opinion what sort of recent local and global events that have happened, that have maybe influenced your decisions when it comes to the mining and credit?

P: Well, I mean what we've seen over the last two, three years is the collapse in commodity prices in 2015. Prior to that there was a huge amount of debt being taken on by mining companies, particularly the big mining companies, because you could borrow money very cheaply. So if you want to build a mine, you .. it would be better to go to the debt market rather than the equity market because it's so much cheaper to borrow money.

The collapse in pricing meant that us on the debt side said 'Can you repay your debts?'. So what we've seen over the last two years, the biggest influence, is that the collapse in pricing has seen a reevaluation of the ability of players, big and small, to repay their debt. In 2016 and the early part of 2017 was about restructuring the balance sheets to pay us back, and to give us the comfort that we can repay it back.

R: Okay. So did that make your decisions a bit more difficult then in when choosing people whom to give ...[indistinct – *intervenes*]

P: Ja, it does. It does. And what you try to do is that it then tests your reasons of why you actually put the money into or lent the money to people.

R: Hm.

P: So again, if[?] you look at it different from an equity point of view – an equity investment can be almost an anonymous investment. Ours are very much in – like going to your bank manager and you – because you hate your bank manager about your house loan – you don't do it and, it's not done on a sort of blank basis. There is criteria, but obviously dealing with your bank manager is quite important. And that's the same throughout credit, the credit side to it.

So we are – it tests all your relationships and all the reasons that you put things together on it. I think it - it is public, so .. that Standard Bank didn't have substantial write[?] downs during the latest collapse in commodity prices. So we've been very thrilled with our processes that we've gone through, to make sure we had the right clients. To make sure that we price things correctly. To make sure that the clients could pay back their money, pay back the loans, I think, or their debt .. their interest on the loans .... with that.

R: *[chuckles]* Yes. So what is your view on South Africa's current political, economic and financial conditions?

P: Okay, so roughly 80% of our work is South Africa, so, and all those factors I just talked to, in a global sense are very applicable to South Africa.

And what has been disappointing about South Africa, from a mining point of view, is that because of the big mining companies in the world, whether it be HP Billiton; Rio Tinto; Newmont; Barrick – the names that are now largely have left South Africa and the reason for that is that mining is .. for the big guys, a lot of capital needs to be spent building a mine and the return on capital is usually over a long period of time – 20 years.

A mine you want to build and get your return over 20 years to[?] with that. Now in order for you to have 20 years of returns, you've gotto have a pretty stable political and economic environment. So you don't want your mining laws changed every year. You want certainty of your environment that you're working in. You don't want to be giving away returns that are allocated to your capital that's spent. So you don't want people riding on the back of your capital with it. Unfortunately South Africa has that at the moment.

In fact you can see that a lot of Africa has that and it comes out in many different ways. If you look at exploration, how much money is going to be spent on exploration? You might have heard that we've got the biggest resources of gold in the world in South Africa? The most amount of gold in the ground. But the amount of money on exploration and projects, I think we are number 25 in the world. Nicaragua has more money spent on projects and development than South Africa.

Because people are not willing to commit exploration just on projects when you don't know whether you'll actually own the project. That is where we sit.

And if you look at the budgets for projects and exploration around the world, Africa as a whole and all its great resources, the budgets are less than Australia; less than Canada; two-and-a-half times smaller than South America, and it's a reflection of this social economic environment.

Because the people that spend money, creating jobs, creating the mines and the spinoffs that go with that, are the big mining companies. And if you look at bland[?] leadership, for virtually any sector, whether it be computers, phones, anything, you'll find world leaders sitting in South Africa – you don't in mining, yet you think mining and commodities is a core function of South Africa. But that's because they've been chased away.

R: Hm. So what I'm taking from this then is that it's these political and socio-economic factors that then have a direct bearing on your ability to make decisions then within say the mining sector?

P: Not our ability to make decisions, is that they're not here, so we can't lend money to them.

R: Hmmm. I understand.

P: So what you're then left with is that your pot[?] of people that you can lend money to, are your smaller producers, therefore more risk involved for us because ...[indistinct – *voice fades*]. But the reason the big guys aren't here is because it's a risky environment anyway. So you've got riskier clients in a riskier environment. And that is – and ja, it's tough for us.

R: Hm, I can imagine. It sounds .. so it's very tough.

[laughter]

R: Can you maybe take me through your decision-making process?

P: I don't – I only advise.

R: Okay.

P: I only advise, I don't make the decisions on it, because there's a lot of ratios and financial and governance and stuff like that that I don't cover – I'm only a technical person. But I'll tell you what I go through from a technical point of view.

R: Yes, please.

P: And remember one thing when you're looking at any mining operation is the resources and the reserves. Resources is what you possibly have in the ground; reserves is what you know you can mine and on what grade. And economically as well. And legally and socially and environmentally. So there's quite a few conditions to meet[?] from what .. as a reserve into a reserve.

And in many ways that's where South Africa or Africa's issues are – to convert what we know is phenomenal resources into reserves. So that's the first thing I look at, is that is the project or the mine – does it actually have reserves that have gone through all the legal environmental social as well as mining portions[?].

So once you know what you've got, is that .. my next thing is to look at is at what price will they mine it at? What returns will they generate for it?

The next thing I look at is, even though the company says that's what they'll do – can they actually do it? So .. Lonmin for example, have delivered many plans to the industry of how they're going to do it. Not always, and sometimes you've got to go through checks to see whether they actually can deliver on those things. So the first ones are, you can do it all on paper.

The next one is making judgments and that's where I think you wanted to ask as well – how do you, where is the differential between a piece of paper and what you can look at and where does the judgment come in? So that is then where judgments starts to come through.

R: Okay.

P: What role will management have in the running of a mine? Will they deliver the tonnage out of the ground? Are they good miners? Have they planned properly? Do they put enough resources into whether mine planning or engineering planning side to it? Have they – ...[indistinct – *voice fades*]

<u>R</u>: No worry.

P: The other one I was going to say about management ... Ja, the other ones is that is – when they're building a mine, have they built a mine before? Have they commissioned a mine and have they run a mine? There's three sides to it. I mean you can imagine that with so many things happening at the moment, is that you've got a lot of people wanting to own mines who've never run a mine. And that obviously ...[indistinct – *voice fades*]

<u>R</u>: Hm. Doesn't.

P: It doesn't work for us.

<u>R</u>: Okay. *[chuckles]*

P: .... very good ...[indistinct – *voice fades*].
And then another one is that when the mine runs into trouble, I've got to be able to assess of what will they do in that – what flexibility have they got to cut production; cut costs; cut capital spending; shut the mine down if need be – what have they got? And all those are some things that I look at when I report ...[indistinct – *voice fades*]

<u>R</u>: Okay. So I've got about two questions now ...

P: Okay.

<u>R</u>: .. just based on your previous statement. So then what sort of research do you do in order to come (you know) to come up with these ....

P: Ja, ja. So all this – I'm very old, which does help.

<u>R</u>: Oh. *[chuckles]*

P: I've been through quite a lot with it. So a lot of it's on my previous experience and – because I'm looking at a lot, so therefore I'm writing a lot on these things. So you get trends that happening. So I am a member of .. as well as I'm a member of the Institute of Mining Metallurgy, so there's lots of technical papers there and I'll often refer to those when looking at projects.

Mining – so, this is a general statement about mining in Africa. Most mining deposits up to a depth of call it 300 metres, are known in Africa – unless they're covered by sand or covered by mud, which means in desert or in the Congo. But we know virtually everything. So very few things are coming through your door that's new.

R: Hm-hm.

P: So often it's just a revamp of old stuff with – look, it might be new technology, so therefore we'll investigate the new technology. New management – we just look at what are they going to do different in new management side to it.

So very rarely are we pushing the boundaries of state[?] changes.

R: So then my question to you that then is, I mean (you know) you spoke about your experience and (you know) ...

P: Ja.

R: .. you obviously previously also mentioned judgments. So then my question is to what extent then are your personal views, your judgments and your experience in a prominent ....

P: Ja, very good question, it's a very good question. I try to make it as little about my personal judgments as possible.

R: Hm.

P: Transparency and accountability are absolutely key to it. So, ja, you can easily get trapped in a personal viewpoint with a personal agenda.

R: Hm.

P: Luckily sitting on the credit side, it is a much more conservative viewpoint. So we're certainly would not doing views outlandish or stuff like that. Ja, you've got to be very careful. So what I do, I distribute a lot of stuff to people within the bank, saying what's happening in the industry, how I interpret in the industry – and we've got open dialogue of how things should be done. I think it's very important to do.

And it's a great question to ask because too often – and you see it when you watch the news or you read the news, that a lot of people have personal agendas with it and I'm very wary of that side to it and trying to make sure that I don't get trapped in that .. this is a personal crusade with it.

R: So you've just clarified that you are very aware then of (you know) your personal judgments and your personal views, but what I take in - and please correct me if I'm wrong – maybe for you, what's most beneficial between these three would then be the experience (you know)?

P: Ja, and look, there's another technical advisor within the bank as well and he sits on the business side. So he go and gets the business while I check the business. And it's not a – and it's very important in that relationship as well to be also reflecting the views of the bank, to understand. So therefore again that's our double-check of things. He's our expert on of[?] rock mining gold underground – my expertise is more open pits and big volume movement thing.

So we've both got a little expertise even though we know about the other sides to it, and we'll often – I make sure that my views are double-checked before I say anything ...[indistinct – *voice fades*].

R: Hm. So (you know) we're human and (I mean) sometimes you wake up and you're feeling really great or, you know you wake up and you're not feeling great ....

P: Ja.

R: .. and that could somewhat set the tone or your behaviour throughout the day, so I guess my question to you is have you been able to then separate your personal emotions from your work?

P: *Uhm* .. because you've got to do things transparently and with the method so that it's not just your overlay. So yes, experiences things, but you've got to write down 'In my experience this is what it was. But this is the resources, this is the reserves and the reserves have got 5 years life. We're lending them for 5 years'. That's not good enough, that's easy, that's the easy stuff now[?]. But however, you could say 'But within the resources there could be another 10 years' and then you write down all the reasons for it.

I don't think .. we don't make decisions on a day-to-day basis. So no, I wouldn't say having a bad day ...

R: *[chuckles]*

P: .. makes a side[?] difference to it. And the way that we publish things and discuss things, no, I don't think me having a bad day is that significant.

R: Okay. Well, that's good to know. *[chuckles]* So my next question then to you is have you ever made a decision or have you ever been in a situation where (you know) the conditions that surrounded it was so complex that it was very difficult to come up with something or ....

P: Ja, okay. So, one of the platinum mines was going through a very tough time and they stated that they wanted to .. that they were engaging with the unions and that they were engaging with the Department of Mineral Resources and they were all management and union and DMR were standing at the shaft head and they were talking to the workers and they were going to get productivity out of that.

R: Hm.

P: And, now it's not for me. It wasn't – it sounded very nice, but I wasn't sure whether they would actually deliver. Because what sounds quite good doesn't – in my experience - until it actually translates into action, you just don't know.

R: Hm-hm.

P: So what we did was - much to the annoyance of the company, was demand .. and this is the beauty of lending money to companies – if your bank manager tell you 'I want to come and check on your house' - we wanted to do our check of someone .. a real expert on whether they're doing the right thing or not. The expert then said 'No, they're[?] not gonna make a difference'.

So to your question is that sometimes there are other[?] things that are – that I .. I don't have to make a 5050 call. That's the key. And when I do have .. do have to .. going along those lines, then there is usually a system in place that can actually guide your decision for you.

R: Hm-hm. So (I mean) I understand that (you know), in life we all make wrong decisions as well sometimes ...

P: Ja, ja.

R: So my question to you then is have you ever been part of a wrong decision? And how did you deal with the aftermath of the consequences of that?

P: I'm quite lucky in the way that I came to the bank .. back to the bank – I've been here before, this is my second time at Standard Bank.

R: Hm-hm.

P: I came through the bank[?] in the downturn – 2015 that's when I came back. So we were making, we've made very few investments as in new loans, but new big loans to the bank. So the wrong decisions that we've made, have been to tighten our loans rather than giving out loans. So maybe we should have given more to somebody with that. But that is just conservatism in the market.

Thus far, touch wood, we haven't .. and .. now, I'm trying to think what we've got wrong, of[?] the big ones. *[pause]* The ones in the public that you know – Lonmin, that's going well. Shaft Sinkers, which is .. look, I go to India every year for that to have a look at their operations there; that's going okay.

You see what happens in a bank is that, and – so you lend the money, so you can imagine lending the money to you for your house, the first hint that you might not pay, you get put on a .. on sort of like a watch list; and then there's a non-performing loans list; then there's business rescue.

So there's many – or, it's not corporate rescue .. .. [VS __?] and so we try to put in as many filters as possible, so therefore we can pick up things immediately. And because I came when things were going down, usually a lot of the bad ones were already on the watch list and the non-performing loan list and there, and then business rescue. So I don't think we've had one go down into it since. So that's fine. That's been fine ... [indistinct – *voice fades*]. Sorry about that.

R: No-no, no, it's not, it's not a problem at all. You've been very lucky. *[chuckles]*

P: I am .. I did, coming into it, I was a lot more positive on, like the price of the iron-ore which stayed at little higher price. So, and I would have been quite happy to have lent to a lot more of the iron-ore producers, but that decision I didn't have to get involved in that one. And the reason I got it wrong was because I didn't see the China would spent .. would give so much money to Brazil and developed the supply out of Brazil, I didn't think they would do that and I thought Brazil would fade away a little bit and the supply .... more.

So I'm certainly not saying I get everything right, but I just think I was .. when I arrived back at the bank, it was just at the right time I think.

R: Okay. So then my last question to you now is in your space – you said you're a technical advisor, right?

P: Hm.

R: What would you consider then a rational and irrational technical advisor?

P: You have, and it doesn't matter[?] whether it's an advisor, technical advisor or not, but you have people that fall in love with companies or CEOs or .. and ideas, and that's what you've gotta be very careful of, is that you've gotto .. you start to champion a cause and actually you shouldn't be. Everything's supposed to be rational, everything's supposed to .. you should be able to be really transparent and ja, the thing that I noticed coming into it was that there was to many people in love with things.

R: Hmmm. Okay.

P: Okay, and – and it is easy. It is easy to do it and some CEOs can overwhelm you with their charisma ....

R: Yes.

P: .. and we're seeing it with other things inside here. So, my number one is that you've gotto be a aware if you're falling in love with something.

R: Yes. Okay. So I guess and that also goes back to the question of how you know you have to be able to separate your emotions and your personal judgments?

P: Ja, I think so. I think so. And that's not to say you can't have beliefs ...

R: Hm.

P: .. and that you can't make .. that you can't champion a cause, that's not to say you can't. But you've got to be careful of not crossing that line as that you've .. that you've crossed it because of .. because of something that's just emotional as opposed to logical.

R: Hmm. Yes. Absolutely.

P: What's the other bit to your question?

R: No-no-no, that .....

P: There was other .....

R: .. that's it from my side, you've answer everything.

P: Alright. Okay.

R: So thank you so much, I really do appreciate it.

P: Okay. No problem. No problem. Okay.

...[End of recording]...

—o0o---

Audio Track: Participant 10

R = researcher
P = participant

R: So thank you for agreeing to do this interview. As I've said to you before, the first question is looking at global and local economic financial and political conditions and then the second questions are just related to investment decision making. So my first question is to you is what local and global factors influence your investment decision making?

P: Because we normally look at a top down approach. So we'd look we'd look at the GD performance of the jurisdiction that we invest in and look at the sub-sectors for example in South Africa, you're highly exposed in mining. So you'd look at how is that particular sector you want to invest in performing? And if it's performing well and then you'd make a decision then people pockets within that particular sector then you go at company level. And so globally, political stability, the thing that we look at and country risk ………. We'd focus on country risk, which is a sub-set of political risk and yeah…

R: So then how does that political risk and you said country risk – how do these things then directly influence your investment decisions?

P: Because political risk includes policies that governments make about all of them, direct, the direction that the country will take in the near time because the main focus of investment ………. is basically coming up with the expectation of what's going to happen in the future. So if you have part or a government that is susceptible to making policies that would not align to your investment decision, then you would try to analyse that and see whether they fit in with your investment thesis or not. If not, then it will increase your political risk.

For example, just an example, in Zimbabwe a lot of people are now wanting this in Zimbabwe because of the change in government because they think they can work with the government based on what these guys have been saying that they will reduce the threshold of indigenisation policy from 51% to substantially lower than that. So those are the things that you look at.

R: So then, well, considering that you basically mentioned, one old fact, money was going to be ………. which factors will be most important but you have explained that and you have elaborated on that. So thank you. So what recent global and local events have influenced your investment decision? *[Chuckles].*

P: You said global and local?

R: And local, yeah.

P: Locally, I think – locally just key performance and economic performance and obviously that certain pockets within economy that would influence a decision that ……….. spill over to every other sector, your Steinhoff for example. So right now, after the Steinhoff bombshell you have seen ………. and other companies that have nothing to do with Steinhoff. But they are in the same sector of Steinhoff and another example will be your regulations.

I think last year, just as another example, there was an adoption of this HQLA, which is highly quality liquid assets to banks. So banks are now ………. supposed to buy liquid corporate bonds. So now you see banks buying your growth on all the triple 'A' rated instruments. So what that does is to increase the demand for those bonds, which compresses the spreads ……… and it influences decision making and our pricing of those instruments.

So that's on a local level so it's ………. because the changes in regulations that would change your supply and demand dynamics and unforeseen factors like the Steinhoff for example.

On the global level that all this interest rate stuff whatever the US does on their interest rate level definitely affects what we do and on our money meetings you would go through what is happening in Japan, Bank of Japan and China and the UK or in the ECP, what is the ECP doing because whatever because we deal in the global market, whatever happens in those markets would affect the demand of South African bonds and demand of South African bonds changes ....

R: Okay. So I understand that obviously a lot of things are inter-related and as you said there's different pockets that will influence investment decision making. Can I firstly ask you to clarify when you say different pockets, like what's in these pockets or what makes these pockets come about?

P: Okay, for example I, let me speak to property for example. You'll have property companies and then within property company you have companies that would be exposed to offices like Emira. You have growth .... is everything offices, industrial and retail because they can afford to do that, they're big enough. And you have property companies like your Fortress[?] that are purely – that are slanted towards industrial. So the structure of all these sub-sectors is different. So when you buy into a property company you need to understand whether the condition favour offices, retail or industrial.

For example, in this kind of market because in industrial you have long leases even though they have low profitability compared to other sectors, they have long leases. They're considered as defensive. So people would rather park their cash in industrials than these ones that are much more riskier.

So it was what we do when you say we pick in pockets within the sector itself, which one is more defensive to actually guard against using hard .... cash. But on the outside if the economy is booming you'd go for the riskier ones because you're much more guaranteed that they'll make some money.

R: Okay. So then would you then say risk is one of the most important factors that you look at?

P: Risk is in credit basically this is what the difference between OPD's and credit. Credit, we look at the risk and these guys look at the reward.

R: [Chuckles]. Okay.

P: So their reasoning is like what am I going to get out of this? Our is that what will I lose by investing in this company? So our job is just risk ....

R: So what is your opinion of South Africa's current political, economic and financial environment?

P: I think political environment is blown out of proportion.

R: [Chuckles]. Okay, what do you mean by that?

P: I think obviously, there are risks but risks are the sentiments around that has been blown out of proportion. People have been exaggerating the risk. It is there but I think people have been exaggerating risk but because if you speak to for example, to people who invest because we're exposed in South Africa and that exposure of, like ourselves, so that is really minimal. If you speak to people who invest in different markets, not South Africa, they're not as negative as we are towards our own country. So this is when you notice that maybe we're just too hard on ourselves because ....

R: *[Chuckles].*

P: There is Brazil; there are countries which are far – much worse than we are. But these people still want to invest in those countries. So I think the risk, it is there and it is increasing but we are exaggerating.

R: And then economic and financial?

P: Economic and financial, it's been increasing because of we're not performing economically because economically, there are different schools of thoughts. People think we need to grow the economy and so that we can generate jobs and there are people who think that we need to generate jobs and that will propel the economic growth.

So those different schools of thoughts are – I witness and incorporate and also in politics because you have Cosatu within this one and then within the .... in South Africa who .... which is why I think today, ... is a statement that is not all good that you have Ramaphosa as the new president because his policies might not actually get implemented because of those different schools of thoughts.

So in South Africa we've, I think traditionally we've always had people who are divergent in terms of what's – the direction of the country needs to go and it was easier under Mbeki because everyone was like .. even if ..– or everyone was behind him. Even if they didn't agree with him but they would work harder to actually implement whatever he thought that needed to be done.

Right now, it's very fragmented, everyone has his own ideas, if the ECP .... thinks we need to this for .... things we need to do. Even within government, you have the Minister of Finance saying this and then you get the Minister of Economic Development tells then something totally different. So right now, it's just that I think the government is direction .. directionless.

R: Exactly...

P: Yeah, which is one of the biggest problems.

R: And then obviously these things then filter into your financial and economic factors and stuff like that.

P: You can't make a decision when there is that much uncertainty. At least you need to know – even if you disagree with it, you need to know that this the economic policy and this is what the government is going to do. Right now it's, I think .... and people are even saying corporates are affording cash .... they're not investing. And some of these because I look at property companies, some of these property companies now are going to Eastern Europe to Australia to buy properties there and based on, listed on the JSE.

But the investments now, they're taking their investments outside the country. I was chatting to Pravin .... last week and they are saying that they want 50% of the investment to be outside the country. So they want – right now, it's 2018 .... So they're planning to take 30% of their balance sheet outside the country. That is a huge risk. So – and I can't blame them because of the uncertainty in terms of policy direction and the economic direction in the country. But it, it actually – I don't think it helps our GP growth; it actually worsens it. So that it has a ripple effect on our down-side GDP growth ....

R: Actually, I didn't know that. That's quite a lot though, 30%.

P: It's a lot. Our growth point is like over a 100 billion balance sheet. So if 30% of that 100 billion is going to go off shore in the next five to ten years, that's a lot. That's just one company.

R: So you know you, you've highlighted then the next two points where I wanted to understand how these directly and indirectly affect your investment decisions and then also, just which of these factors are most important and why. But you know by you giving me examples and stuff you've kind of taken me on a journey that explains those. So we'll move onto the second point or second part of this interview. So can you maybe take me through your investment decision making process?

P: .... for example, when I know that there is going to be a growth point bond ban, you would do your credit research and when you do a credit research you look at the instruments and the specifics of the instruments first that is being offered. Then the security because I'm going to explain this on like, from credit perspective..........

R: Yeah, please. No, absolutely that's your focus.

P: Yeah.

R: That's where your area of special...

P: My focus – so you'd look at the specific of the credit itself and the security is their over collateralisation on the credit itself which means as a credit enhancement it will affect how you press .... the credit itself and you look at management. Who's in charge of the company and also their track record? What's their qualification and where – are there any failures in their career or whatever?

Like right now Marcus Jooste for example, if you see Marcus Jooste being a CEO or a CFO of any other company you would think twice before you invest in that company *[chuckles]*. So and you look at the board, just the compliance of the company to regulations. Are they properly structured in terms of your Company's Act and your king three .... best practice .... If they are not, is there, what are the reasons behind that? And then after that to do a peer comparison.

You look at similar companies how they are they performing and including the size and then you'll drill into the financials itself. Is this company even performing? And specifically, I place more emphasis on cash flow. Can this company generate cash and pay me back?

So you have companies that rely on debts, but when you look at the Income Statement, they always show profitability and when I look at the cash flow, the company is not generating cash from its own operations. So it still pays dividends to its shareholders but is this company generating cash from, if you're selling, whatever cell phones, are you actually making money from selling cell phones? That's one of the most important things to me because if you can't make money from your core business then that should be a red light, which is exactly what happened to *[chuckles].*

So – and then after that we have our internal rating methodology. Then I, you know in our internal rating methodology we have selected certain ratios that we deem very important and those differ from sector to sector. A banking credit rating methodology will be different for a property company for example. We look at those and we score them and then allocate a rating to each company.

So that's one and then you would look at your exposure currently before investing. Am I heavily exposed to this company because also in your portfolio you want to introduce some diversification and how much am I exposed to this company already or its associated companies?

And then if you have any exposure to the company, even if you think that it's a poor investment, for purposes of diversification, increasing your total risk and the portfolio, you decided, "No, I'm not going to ...." And yeah, and then you take it to Credit Committee, you present to Credit Committee, this is what I think because I think he deserves .... also price .... it's the one thing that I forgot to say. You need to price the credits. Both pointers .... come with a five year bond. You need to price that.

How you price it – you – how much risk am I getting exposed to? And how much am I willing to get compensated for, for the risk that I'm taking? And then you price that.

R: Okay. So my next question then is what factors do you base your investment decisions on? But what I've just taken from what you've said is that it's mainly looking at the financial statements, your exposure and then as well as pricing. Is that right?

P: Look at pricing, yeah.

R: Okay. So then to what extent do – would you say in your opinion do market conditions influence your investment decision making?

P: Like very high. Like, market conditions because if you manage money you cannot afford to stay un-invested. So you still have to invest the cash anyway whether you are in a situation where South Africa is like Zimbabwe.

Let's take it to the extreme. But if you're managing someone's money you need to invest that money otherwise you're not going to be generating returns on cash .... So in .... conditions .... conditions locally they affect the decision in that you need to then be very meticulous in who you put your cash to.

When situations for example are hard, we, internally we have a document called our Credit Philosophy that guides us across the business sector where you invest in. So now this means if you have a Zimbabwe situation, take it to the extreme, you would look at defensive companies. So companies that will guarantee you that you are not going to lose your money.

So you can even go .... and explain that to your clients if you're not you know beating the benchmark and say, "Look, this is the current condition" and then you've decided to preserve capital rather than go for the returns.

So now when the economy is booming for example, it's growing at a rate of 5% GDP, you would be willing to take much more risk and then go to riskier companies, go to riskier sectors, riskier industries and – but you cannot afford to take so much risk if the economic condition is bad. So it guides us along the way ....

R: So you spoke briefly about the research that you do. So I just wanted to understand then, what sort of internal, what sort of external research do you do? Does that also involve speaking to other people, opinions or is it purely just like theory based on what the market is saying?

P: First, I think the purpose of my research is they are financial statements and then I'd look for industry research from sale side guys .... like your banks would normally supply you with research, what they think is happening on the SOE industry as a whole or on the property industry as a whole. But personally, I don't take one bank's opinion. I will just – I just keep reading and generate my own opinion.

R: Okay.

P: So sometimes I don't even go back because I've just been reading consistently on things so I have all these ideas. And I will also speak to equity analysts or equity analysts when financials .... because we covered the same sectors. So I would go and speak to him, what is your opinion about this and yea. But most of it then I would – and I also speak to management because management normally comes up to .... don't come here and then I go to them, interview management and get a sense of, like a closer sense of where they think the company is going, the strategy because the strategy is very important, the strategy.

And then how they're going to execute the strategy .... So you might have a beautiful strategy and have no idea how to actually implement the strategy. So speaking to management definitely helps you get a sense of that and yeah and then I'll do my analysis from the financials then.

R: So I mean you mentioned now that you make your own opinions based on what you've read. So I want to know then to what extent are your opinions, your personal views and your experience prevalent when making investment decisions?

P: I try not to punish companies by what I cannot prove.

R: Okay.

P: So if for example, there is a word in the market that, “No, Eskom is going to fall over in two years’ time.” I won’t make decision on that. I try to prove they – you know popular view based on my own research. Then if there is the popular view that you know Eskom is going to fall over because of one, two, three and I go and test that myself because I have those financials and what do I think?

Then when I go to Credit Committee I can tell them, “Look, there is a popular view that Eskom is going to fall over but I don't think so based on one, two, three” and give them my reasons. Yeah, so that’s – and I do use the popular view but I don’t use it as my investment thesis. But I do consider it.

R: Okay. So it’s purely just based on you know, what fact, what’s out there and...?

P: Yeah.

R: So then now between these factors, your opinions, personal views and experience, which one would you say in your field of expertise is most common or most important or...?

P: Can you – can you repeat that?

R: Okay. So between opinions, experience and personal views, in your field of expertise, which one would you say is most important or most common?

P: Experience?

R: Opinions?

P: Opinions.

R: Personal views?

P: And personal views. My personal?

R: Hmm.

P: I think I will say my personal views.

R: Okay.

P: Yeah, but sometimes when you go to Credit Committee you can come out with a better view because you'd find someone else on the Committee who will say, "But have you considered one, two, three?" And they will convince you and you will see when you come out of that, "No, I should have considered this" and then you can eventually even change the decision you're making, your decision.

But experience – I don't take experience like I do very - experience but I – strategy to me is very important because you have smaller companies who have brilliant strategies but with no great experience. And if I buy into the strategies and my own analysis of where I think the sector or the industry is going, I'd be very impressed with that company. For example, I meant .... companies, wanted to make an example.

R: Yeah, sure.

P: Better companies from the UK, what is their name? They are in property space but they only supply property to MHS which is this health scheme in the UK. So their client is a government. Their leases are very long between 15 and 20 years.

So when you look at that, take it in the context of South Africa, if your client is government, people view it as negative. But government has never defaulted and but it's just the perception that people have that look, you are exposed to government, therefore you have government risk within but government does not default on their rentals.

So I think as long as I see the strategy, why these guys are in this sector and what is their thought process ....and yeah. So I will say my personal opinions matter most.

R: Okay. So I'm just going to jump two questions. I'll come back to them. Are you aware of like your emotions on a given day? So let's say you wake up and you're just feeling great or you're not feeling so great, are you aware of that and if so, then how do you manage to separate your emotions from interfering with your investment decisions? Because it's hard, you know, we're human like your emotions can definitely dictate your behaviour you know but as an investment decision maker, how do you then separate them? If you do, if you don't. [Chuckles].

P: I think it's even heightened and then remember to operate .... your emotions. You can't run away from that because sometimes you, like a great conviction that you think this is the best company .... but someone comes up to you, "But look at the CEO. He was accused of one, two, three, blah, blah, blah, blah, blah." But if you come to the person but the person was acquitted based on these two things.

Now if I'm just going to be honest you find yourself in a South Africa context defending things that you are pre-disposed to against someone else from a different – because we come from different cultures and that people would just generally have a negative opinion based on their ideology or pre-dispositions. Some people will say, "No, I don't like banks because they're capitalist" for example.

Someone will say, "No, I don't like government because they always perform badly." But now what is your job? Your job is to make sure that you don't lose the money. Price the risk correctly. So your job is not to give me your opinion. Your job is to say, "Okay, this is the risk in Transnet." And then this is how much I'll price Transnet at and then – or I wouldn't even invest in Transnet because of one, two, three.

So now, you find people saying, "You know, Siyabonga Gama and what-not" and I those are an economic sabotage because by not investing in Eskom or Transnet you're actually creating the problem you saying you're trying to avoid. So but that's an ideological argument that I don't think would ever – unless you have people who are aligned ideologically in the team but you ....

R: It's very interesting. I like that. So have you ever made an investment decision that didn't really go your way and resulted in losses and if so, how did you deal with the aftermath of that?

P: Not yet, hey.

R: Oh, wow. Lucky you.

P: No, look, with equities you make decisions that go against you all the time. But with us and risk and credit risk, you just need to preserve the cash. That's all you need to do and you need to guard against default and make sure that you get your money back and if I can think of the problem child, it would be your Diamond Corp, your Steinhoff and your Edcon and Able[?].

I've never been in that but in my previous life .... I've made mistakes. But I don't think it was like mistakes based on an investment decision but it was a mistake based on just mistakes. You think you're putting a one and you put a five so and you lose some money for someone in the process.

But in my experience doing credit, I don't think any of the sectors that I've covered, main problem child is Emira. I also cover and since I cover property, Emira, I think last year their share price tanked by 30% because they re-valued downwards their property assets. But that did not result in them defaulting on their debt. So even though it hurt equity analysts it did not hurt me because I still received my money back, yeah. So I wouldn't say that...

R: That happened and I guess it's also, just the nature of what you do relative to other investors. *[Chuckles].* So my second last question then to you is have you ever made an investment decision under conditions that were so complex like it took a lot *[chuckles]* every day?

P: Every day.

R: Okay. So what sort of factors then create such complexities?

P: That's a difficult question.

R: Is it?

P: Yeah.

R: Okay.

P: It's sometimes because companies keep frequently issuing debts all the time. You know what to expect from Credit Committee .... this is what I need to prepare. This is what these guys are going to say. But you are not motivated to even do the credit properly because you can sort of anticipate what you're going to get and you think it's wrong by the way because if you didn't think it was wrong you wouldn't even take the credit to them. So for example, if government guaranteed debt in South Africa, it's like buying a government bond, which is listed on the JSE, R186s for example.

Now when you have to buy a Denel Paper, government guaranteed, I know Denel has its own problems, management strategy and performance. This is government guaranteed as basically government debt and on top of that you're also getting a spread over what government would have given you. So which means these guys are willing to pay much more return for actually buying a bond.

But now you have to argue about the management, but now like .... this government if you guys don't mind to go and buy R186s, which are government bonds, so why do you have a problem buying a government guaranteed ....?

So it's one of those things that people look at the entity. I do understand because if something is guaranteed, if for example, you have a debt but your – but you bought your car under your dad's name, why would a bank look at your credit-worthiness instead of your dad's credit-worthiness? Because you are not responsible for servicing this debt as the government but it's just that the government is raising it on your behalf.

So I think it becomes very tense when you are in the SOE space because I think people are overly harsh or they're not even willing to listen sometimes. So it becomes as if you're trying to defend, trying to defend governments.

R: *[Chuckles].* Yeah. So then my last question to you just to wrap up the interview...

P: Did I answer this question properly?

R: Yes. Yes, you did. You absolutely did. So my last question then now is when you look at your years of experience and where you are currently, what would you then consider in your own personal opinion a rational and an irrational credit investment decision maker?

P: I think with the progress of industry as a whole I think there was a time when credit investors relied heavy on rating agencies. Okay, it's triple 'A' .... Steinhoff was double 'A' fast ....

R: Look what happened? *[Chuckles].*

P: Look at what happened and there's the long history of companies that fell off and they were highly rated, long term capital, the Union Brothers[?]. So now, right now, you still find, which I think is very irrational, you still find people who would say, "No, look this is a very good company. It's Discovery. It's rated triple 'A' and on a national scale ...." It's very irrational to me because the whole market has moved away from reliance on external credit rating agencies, which is why you have credit analysts.

Why do you have credit analysts if you're still going to rely on a credit rating agency? To me, it seriously does not make sense. So I will be happy when the whole industry and credit investors move away from reliance of credit rating agencies and make independent credit decision. They can use them to say, "Look I think this company is riskier than these guys are saying" but look at what exactly makes them think they should be rated highly and then tally that with your own opinion instead of just relying purely on these rating agencies.

And our clients are not helping because they would put on their mandates it needs to be rated by an external rating agency and it needs to be rated a triple 'A' but these are the very same people who failed you before. You've lost money because of these rating agencies. But then why do you put in your mandates that these – we should rely on those rating agencies? I think that's a totally irrational decision and it's a huge debate that I think the whole market needs to have.

R: So just to clarify, irrational investment decision making for you is purely relying on your credit ratings?

P: Yeah.

R: And then rational investment decision making is then obviously taking an independent approach you know obviously considering different factors and so forth and then basing it on that?

P: 100%.

R: Thank you very much.

...[End of recording]...

—o0o---

Audio track: Participant 11

R = researcher ***P*** = participant

R: Firstly I want to say thank you for doing this interview. I really do appreciate it.

P: Pleasure.

R: So there are just two sets of questions.

P: Yes?

R: The first one is looking more to external factors. So it's your economic, financial and political, local and global conditions. And then the second line of questions basically looks at your investment decision-making from a more internal prospective.

P: Okay.

R: Okay? So the first question is you know considering what you do, what sort of global and local factors impact your investment decision-making?

P: I think your global… obviously the current President of America, I think he had a massive impact.

R: Hm, hm.

P: I think the world is changing how we are trading ...

R: Hm, hm.

P: .. and our trading partners. And there could be a third world war with North Korea and America.

R: Hm.

P: And then, ja, locally, I mean it's like the whole political thing. Currently that is a big influence for us.

R: Hm, hm.

P: I mean that has been driving our market for the last three, four years.

R: Hm, hm.

P: We have passed fundamentals.

R: Hm.

P: And… Ja… A lot of the stuff is now being driven by what our current President has or has not done or said or …. Ja…

R: Hm, hm.

P: So it's an interesting market. It's not what it was 10, 15 years ago. I think 10, 15 years ago everyone had an answer ...

R: Hm.

P: .. and you know there was a trend. You sort of knew what was going up or come down again. But that's not the case now. It's very different.

R: Hm, hm.

P: Bitcoin.

R: Hm, hm.

P: So there is a lot of… A lot of things are changing now. *[chuckles]*

R: Ja. Okay. So then do you maybe want to give me like a situation or a scenario to explain how these local and global factors then influence your decision-making? Give me something that happened. And then the outcome… Or…

P: Ja. So you go and fire the finance minister with no reason ...

R: Hm, hm.

P: .. and you come to work the next morning and bond deals were sold off a 100 points, 150 to 200 points. The Rand has lost it's value, 2, 3, 4%. I mean it's not something you see every day.

R: Hm, hm.

P: Steinhoff, for instance, what we've had now. And ABEL *[?]*.

R: Hm, hm.

P: So those are also things we didn't… I mean we didn't have defaults previously. So I mean in the morning we came in with ABEL and was this man disposed off and now you have to chat to your clients. And what do you do? And now you have to revalue instruments. And you don't actually know how to do it, because you've actually never dealt with something like this before.

R: Hm, hm.

P: Ja, so… And then, what do you do? Do you trade on this? Do you now panic and you try and get out of your positions? Or do you *maar* sit through it and wait until the market stabilises?

R: Hm, hm.

P: Because you actually, when you come in in the morning and something like that has happened you can't actually trade.

R: Hm.

P: You try and trade with your counterparties but the prices… (you know) the market's unstable. So you maybe think that is where the Armenent[?] 6[?] trades, but they're like: *No, no we are all 50 points higher.* And you are like: *I can't do that!*

R: Hm, hm.

P: *It makes no logical sense to me.*

R: Hm, hm. So then, just out of curiosity, just because you are mentioning that …

P: Hm?

R: So you trade on a daily basis? Or … ?

P: So…

R: Or ...?

P: Well, obviously for cash-flows we will trade on a daily basis.

R: Hm.

P: But for the funds and the views and something we sometimes go for days without trading, if the market is quite stable.

R: Hm, hm.

P: If the market is sort of ranged around[?] the trades within a certain range, that's a nice time to actually Alpha[?] because you can, especially with the liquid government bonds, you can buy at a high level and then when it's maybe lower, 10 or in the afternoon, it's maybe 10 points slower you can sell out and then you make a nice little profit for the funds.

R: Hm.

P: We've got auctions, normal inline[?] auctions on a Tuesday. And then we've got inflation[?] online auctions on a Friday.

R: Ja?

P: So sometimes we decide to take part, and sometimes not. We've got coupons that we have to reinvest. So if there are coupons on any of these bonds, we have to buy to reinvest. And with the reweights[?], and as the government issues more of the longer dating bonds, that is in the ORBE[?], your ORBE actually becomes longer. You modified duration, your ORBE. So, by default, because that is your benchmark you are also a first buyer.

R: Oh, okay.

P: But, ja. Okay? Often it is… or if we see value. If the market is pricing in, they are definitely going to hike rates at the next MPC.

R: Hm.

P: So you know what is a *forward rate?*

R: Hm.

P: A forward rate agreement.

R: Yes.

P: So the market is getting ahead of themselves and we think there is no way that they are going to hike, *but let's receive it at this high rate because if they don't hike we are receiving at this high rate…*

R: Hm, hm.

P: So we are making some money. And with swaps and… ja.

R: Yes?

P: So, ja, not every day, on cash flows we do. But, ja, we mostly participate on the on-line legal auctions on Tuesdays and Fridays, and then you also have the credit issues.

R: Hm, hm.

P: So the credit guys will come to the market, and we will participate in those as well, if you think it will add value.

R: Okay.

P: Yes.

R: So my next question now to you is, so you know considering that you said you focus on bonds. Right? Within the fixed income space? So when you look at global and local factors, which of these then have the biggest impact on your decision-making? Like in terms of once you are trading on the market and so forth? Which ones have you seen within your experience that have impacted?

P: Ja.

<u>R</u>: Yes?

P: Within the last few years it's been more local.

<u>R</u>: Yes.

P: But you can also have… I think because it's been such a flat rate cycle in the USA, not much has happened there.

<u>R</u>: Hm, hm.

P: But, ja, the more those guys hike rates that would have an impact on our local market.

<u>R</u>: Hm.

P: So, ja, I think in the recent times it's more been domestic issues that have caused the potential that if we get downgraded now we fall under the WGBI index.

<u>R</u>: Hm.

P: That means that all the foreigners that have been buying our bonds will have to be forced sellers because they don't need to invest in a certain percentage of it anymore. That could also have quite a big impact. And I think, because the foreign market they have been buying our bonds for the last few years. So that has maybe also sheltered us to a certain extend.

<u>R</u>: Yes.

P: It could have been much worse I think.

<u>R</u>: Hm. Okay.

P: But, based on what has happened here, I could have been much worse if it hasn't been for … ja…

R: Okay.

P: … for them buying our bonds.

R: Ja. Sjoe! So ...

P: If that makes any sense?

R: No, no of course. Absolutely.

P: So as they say: *It's as clear as mud!*

R: It is, it is definitely clear. So my next question, which you have already answered…

P: Hm.?

R: …but I will just lead you know, it was to ask: *What recent global and local events have affected your investment decision-making?* But I mean you've highlighted Bitcoin, Steinhoff…

P: Yes.

R: Trump. The Trump scene ...

P: The Trump policy… that definitely now… the whole… I mean because we were positioned completely wrong for the whole NSC.

R: Yes.

P: We did not see the outcome that happened.

R: Yes.

P: We thought it would be an NDZ[?]. We didn't see Cyril. And I think now the market has sort of got hold of these results as well. They think this man has got magic hands, and he is going to fix everything and it's a happy place.

R: Hm, hm.

P: And that is not the case.

R: Ja.

P: And I think up and coming risk events would be the budget.

R: Hm, hm.

P: In February and I think that would also sort of make the rating agencies decision more pronounced… whatever comes out of that budget.

R: Hm, hm.

P: We will then know whether we get downgraded or not.

R: Or not?

P: Ja.

R: Okay. So… let me try and structure this in such a way. Which factors are most important? I mean you've mentioned rating agencies quite a bit.

P: Hm, hm.

R: So like those kinds of factors. If you could just name the factors that influence your bonds and stuff the most?

P: At this point in time?

R: Yes. Yes at this point in time.

P: I think at this point it would definitely be the country's fiscal… the fiscal outcome of the budget.

R: Hm, hm.

P: How they actually are going to pay for everything they want to. The education. The SOE's[?] are all troubled. We are all very worried about Eskom.

R: Hm, hm.

P: Because if they default it's massive for the country.

R: Yes.

P: Then the rating agency has just now, with Moody's if they downgrade us, we actually fall out of this WGBI index.

R: Hm.

P: And it's a big index that all the international guys… that is why they have been buying our bonds up to now.

R: Hm.

P: So if they start selling, that would have a massive affect on some of our bonds, the Rand will go back to 15 most probably…

R: Hm, hm.

P: Yes, to 15, 16. So I think those would be our biggest… our biggest… Ja, and then also what comes out of Steinhoff, because we did support Steinhoff. So, ja, I would love to know, as fixed income investors, what the outcome there will be.

R: Hm, hm.

P: And, ja, just whatever Trump decides to do this year. Whenever he decides to save this year. If he decides to blow up North Korea. That can have a massive impact on all of us. *[chuckles]*

R: Hm, hm.

P: Ja. So…

R: Okay. So what is your opinion of South Africa's current economic, financial and political conditions?

P: *[sighs]* Okay.

R: Your opinion?

P: My opinion?

R: Yes.

P: Okay, I think we've become less investor-friendly.

R: Hm.

P: There is lots of…. But it was a slow and gradual process. And I think if we don't address that and don't have investment, I mean that is going to impact everything else.

R: Hm, hm.

P: So I think if we can address that. And I think maybe Saul[?] was the right person to do that, because he has got more a business mind. He understands how these things work.

R: Hm.

P: I don't know if our current President quite understood that you know foreigners bring a lot of money into the country. And if you don't have that then you are in trouble. We need foreign investment.

R: Yes.

P: Ja, I hope they can address governance.

R: Hm.

P: And of course, ja, Steinhoff is quite disappointing.

R: Hm, hm.

P: And I know there is mumblings about Aspen now as well.

R: Hm, hm.

P: So… ja… Maybe we are just sort of doubting the whole accounting profession.

R: Hm, hm.

P: And… Ja. So hopefully that is something they can address the issues as well as the governance.

R: Hm, hm.

P: Then, ja, we will have to wait and see what they do with budget. Maybe there are surprises. Maybe they can do some cost cutting.

R: Hm, hm.

P: I think if they, for me as a taxpayer, if they can just use my money better.

R: Hm.

P: You know? Build schools. Educate people. Get people off the social grants system. Get everyone to work.

R: Hm, hm.

P: I think that will be a good thing. So let's see.

R: Let's see. I agree!

P: You agree?

R: Ja, of course. Absolutely. So now I want to ask you…

P: Yes?

R: … so between the financial, economic and political conditions, considering your investment decision-making, which of these factors would be most important? And why?

P: I think the economic factor.

R: Hm.?

P: Ja, because that basically drives fixed income.

R: Yes.

P: Or the economic levers for supplying demand. But also politics.

R: Hm, hm.

P: I mean, this is new for us, because we've never actually… Well there was pre-94, but I didn't work then. So…

R: Okay.

P: Ja apparently it was much worse then.

R: Hm.

P: Inflation was much worse. Ja. So I definitely think political as well. So the economics and the political ....

R: So those two would then go hand in hand?

P: Ja. Ja.

R: Okay.

P: Ja, like I've said, especially now the politics. It shouldn't influence as much as it is currently.

R: Hm.

P: But, ja.

R: Ja. Okay. So the fact is that… well, this is just basically my assumption, based on what you've said to me.

P: Hm.

R: So you can just correct me if I'm wrong.

P: Yes?

R: But my assumption then is that it's economic factors that have a direct bearing on your bonds?

P: Yes.

R: And your fixed income space. And then your indirect ones then is political because it sets some sort of tone?

P: Yes.

R: Or whatever then ...

P: Yes, and that can then also influence some of the economic levers.

R: Yes.

P: Ja.

R: Okay. Perfect. So, now moving on to the second line of questions.

P: Okay.

R: This is just looking at your investment decision-making. And I think the perfect way to start this, is for you to please take me through your investment decision-making process.

P: Okay. So we have a meeting every morning.

R: Hm, hm.

P: And then we just go through the brief, what bonds and down rate currency and all those things, and if we can identify maybe like an investment opportunity, and swaps, or in currency.

R: Yes.

P: Linkers[?] or wherever. And then we will discuss any issuance for the day.

R: Hm, hm.

P: So if we know of Eskom coming with a credit link note, or Development Bank or Nedbank has a new six year floating rate instrument, or whatever.

R: Hm.

P: And then we will have a discussion. Sometimes before that meeting, if it's a new issuance as well, the credit team will set up an App, where they go through all the fundamentals of the company and the analysis, and sort of come to a conclusion as to a rating.

R: Hm, hm.

P: And you know what would be a good bid to put in.

R: Hm, hm.

P: Where we see value. Ja, and then we will just discuss if we had any in flows on the day, any new bedding[?] funds. Yes, if there is auctions on the day then Norman and Nicole are going to bid. And then often during the day, if the market is quite volatile, then it will just be a scream over there: *Okay let's do this, let's buy this.* And then we have Nomkheti[?] in the meetings as well.

R: Hm, hm.

P: So if there is anything worthwhile there… sometimes you get the brokers, they will have lists of… so that is the second level, so the paper was issued and now someone is selling it, so they offer it to you. So we will have those lists.

R: Hm, hm.

P: And then we might buy some of that, if we see value there.

R: Hm, hm.

P: Ja.

R: Okay. So it's pretty much just meeting, having discussions and then taking things as they come.

P: Ja, ja. It is almost taking things as they come.

R: Ja. Hm, hm.

P: So it's not a… Okay, we sit and then we take a view, and then we buy something, and then we now leave it.

R: Hm.

P: I think equity is more like that.

R: Hm. Yes.

P: Where we are pretty much *on the day…* Like in the morning we might have said: *Buy.*

R: Hm.

P: But if something has happened in the market, and bonds are 15 points weaker or 15 points stronger in the afternoon, then we might sell.

R: Hm, hm.

P: So it's like a whole thing, ja.

R: Okay. That is very interesting.

P: It is. That is what I like about fixed income.

R: Yes?

P: So often, you know, with Jaco and them it is like: *Ja, you know this equity… they might sell… But you know fixed income is like ......*

R: You guys are like on the ball?

P: But I think it's also because you know your returns are so much less. And the guys are so close to each other that you have to keep on pushing, pushing, pushing to just get the excess return.

R: Hm, hm.

P: Whereas in the equity space… ja …

R: It's a bit more… They long term investors.

P: Ja.

R: Hm.

P: Ja, and I think they've got… I mean Jaco also does derivatives and things.

R: Hm.

P: But there is a lot more that you can do in the fixed income space.

<u>R</u>: Yes.

P: You can swap fix and floating. You can do linkers. You can do swaps. You can do swap shins[?]. There is so many like different things you can do to actually add Alpha.

<u>R</u>: Hm, hm.

P: So we are pretty much the whole day …

<u>R</u>: Oh.

P: … we are on the go and… ja.

<u>R</u>: Until the market closes?

[amused reaction]

P: Yes! And that is why this political thing is a problem ....

<u>R</u>: Yes.

P: .. because now the market is not stable. In the good old days you would for weeks have the Arm@@ 6[?] trading ex<u>a</u>ctly at the same level ....

<u>R</u>: Hm, hm.

P: .. the currency was stable. And now it's very, very different.

<u>R</u>: Oh okay.

P: Yes. So…

<u>R</u>: So then would you say then back when things were still (you know) very stable, then was your, were your days less hectic in terms of what you ...

P: Ja. Ja, it was.

<u>R</u>: Okay. Because everything was somewhat predicable and they weren't just switched ......

P: Ja, ja. So you often would be in something - Ja, maybe so then you wouldn't have traded as aggressively.

R: Hm, hm.

P: And you sort of were buying whole positions and… But now (you know) we thought we were clever, going into December slightly underweight ...

R: Hm.

P: .. and (you know) then Cyril became the new leader of the ANC, so actually we should have been neutral …

R: Hm, hm.

P: … to be prudent, but… you know?

R: ....

P: You also don’t know .... if we all had the answers, we wouldn’t be sitting here ...

R: No.

P: .... live on an island and lose[?] lots of money.

[laughter]

R: Exactly. I agree with that. So… ja, you’ve also answered then the question of (you know) what you base your investment decisions on, because you’ve said, like you guys are as and when things happen…

P: Yes.

R: … so whatever is happening you reacting ...

P: Yes, yes.

R: .. and that is pretty much it.

P: And Nomkheti is on top of things.

R: Yes, yes.

P: So that’s why she is in every meeting. And then… We will have the quarterly - I’m sure you are aware of those?

R: Yes.

P: .. with the asset allocation ones. That is more where you decide if you want to go overweight - equity, fixed income, with in-balance funds ....

R: Hm.

P: But, ja, we pretty much every day we discuss whatever is going on then, ja, then we act.

R: Okay. So what sort of research then do you do, if you do any? That… you know what sort of research do you do? I mean you've highlighted that. You've got the macro analyst that is also there in the meetings.

P: Hm, hm.

R: You guys see what is happening around in the news and stuff.

P: Yes.

R: So is that the form of research that you do? Or ...?

P: Ja, we've got that. And then we've got our… the guys you trade with, your brokers.

R: Hm.

P: So they will send out all snippets and reports and you will read that.

R: Hm.

P: Ja, ag, (you know) and then sometimes it's just a general market view.

R: Yes.

P: Nobody sees value in the long end of the inflation curve. So then there is a sort of *herd mentality.* Everybody does the same thing in those scenarios.

R: Hm.

P: But, ja, it's mostly broker reports. Reading stuff, the financial newspapers and whatever…

R: Hm, hm.

P: We've got Reuters and Bloomberg… Ja.

R: Hm, hm. Okay. So now I'm going to be looking more towards you, as an individual.

P: Oh, okay….

R: Yes. Okay, so to what extent are your experiences, your opinions and your personal views prevalent in your investment decision-making?

P: I definitely do think it helps being in this. The more you work with the stuff, the more you see, not a pattern….

R: Hm, hm.

P: … but you can sort of read before an auction what is going to happen.

R: Hm.

P: Or if a certain person who says something about, like now with the Cyril views, we know it's overdone.

R: Hm, hm.

P: And that is just with experience, working with this for a really long time. So we know at some point bonds have to sell off again. There is no way that it can be as good as this is now.

R: Hm, hm.

P: Ja, I think that is just at some point, you know, common sense.

R: Hm, hm.

P: And, ja, just… But like I've said with a lot of it, it's not as it was 10, 15 years ago.

R: Hm.

P: There are also lots of things where you will come in, in the morning and you just like: *I cannot understand why bonds are rallying?* You have looked at every single news article there is. So, ja, you still have that as well.

R: Hm.

P: You never have all the answers.

R: Hm.

P: So I think even Conrad will tell you that. There are often days where he also doesn't have the answers.

R: Ja, and you don't really know what to do.

P: Ja.

R: Okay.

P: And obviously the longer you work with the stuff you learn how to value stuff as well, which is a good learning experience. The income, all the valuations, and things like that.

R: Okay. So what I'm taking away from that, and correct me if I'm wrong, which is my next question I was going to ask, which of these are the most important. So what it sounds like is experience that be considered the most important…

P: Definitely.

R: …over your own opinion or your personal views?

P: Yes.

R: Okay, because ......

P: And I think those things sort of also come with the experience.

R: Hm.

P: For me, definitely.

R: Hm.

P: in fixed income, and that is why I say if you actually started at the bottom with the groundwork you learn how to value the stuff.

R: Yes.

P: The dynamic of the instruments. What is it doing. What it is doing…

R: Hm.

P: Ja.

R: Okay. So have you ever made any investment decisions that resulted in losses? And, if you have, how did you deal with that? How do you deal with that as an individual?

P: Ja, I think I'm more of a… and I think that's why Conrad is there to fixed income because he takes these things in his stride.

R: Hm.

P: I will most probably shoot myself.

R: Oh, okay. *[chuckles]*

P: I was short over December, and I would have fallen in such a depression. But I also think because this is more a longer term… it's not like at a bank when you run a trading desk and lost money, and you've lost money. And you pack your box, and it's over for you.

R: Hm, hm.

P: You sort of hope that *Okay next month we can make that back.*

R: Hm, hm.

P: Ja, so I have, and I do, I think I take it more personally than Conrad does. It bugs me.

R: Hm.

P: Because I think: *The poor investor…* I know Jackie with Steinhoff now, because that was her call to buy.

R: Aw…

P: So I think she felt bad as well. So I don't know if that is also a woman-thing *versus* a guy-thing?

R: Hm.

P: I don't know. We maybe… we maybe take it, you know, internalise it more. I don't know.

R: Possibly.

P: But, ja, I mean there is no witch-hunt in the team.

R: Hm, hm.

P: If someone makes a bad call, it is what it is.

R: It is what it is?

P: Ja. And we *maar* move on from there.

R: Ja.

P: To Alpha.

R: Ja. Yes.

P: Yes, the next time.

R: So then when… after that situation has happened and obviously, it's like you've just explained you know? You take it the way you take it,. So now let's say a similar situation arises, how do you then deal with that, considering what has just happened?

P: I think better. The more it happens…

R: Ja?

P: … the more, and that is why I say Conrad has been doing this forever…

R: Hm, hm.

P: … and he has the unfortunate job to go to the client. I think that is the worse is to go to the client and do your little dance, in front of your client. You know?

R: Hm.

P: Sometimes they are not as understanding as the rest of the team is.

R: Yes.

P: Ja… And I mean you could lose funds because of it.

R: Hm, hm.

P: Which could have a financial impact on a company. But, ja, you think… it gets better.

R: Ja of course.

P: And because you also, you know you can diversify within the fund as well.

R: Hm.

P: So you try and do a lot of that. So if you lose on one you trade, and you always make on another.

R: Hm.

P: So you try and… you know…

R: Level out the playing field?

P: Ja you level out the playing field. Exactly. So…

R: Okay.

P: But, ja, like I've said, you have times where it goes spectacular. I mean we had a brilliant time two, three years ago.

R: Hm, hm.

P: We were at the top of the rankings in the bond funds place. And… ja… You can't always be number one.

<u>R</u>: Ja.

P: I suppose that also tests the team you know?

<u>R</u>: Hm, hm.

P: Can you still work together when everything is not so rosie.

<u>R</u>: Hm. So I guess ....

P: We could actually deal with that.

<u>R</u>: So I guess it does help obviously having a team around you?

P: Yes. And I think a team that has worked well together for a long time.

<u>R</u>: Hm.

P: I think that. And I think that is what the equity guys have been struggling with now, because they don't get any funds.

<u>R</u>: Yes.

P: They haven't performed. That is the frustrating thing if you are in that position as a team.

<u>R</u>: Hm.

P: That is the true test.

<u>R</u>: Yes.

P: You will see how resigns, and who doesn't…

<u>R</u>: Yes. And who doesn't. But I mean it's the same in life.

P: Ja.

<u>R</u>: Just a little bit off the topic….

P: Ja.

R: … but that is what they say. They say a true test of your character is not when things are perfect.

P: Exactly!

R: It's actually when it's the opposite.

P: That is true. You know it's great, you get funds in. You are top of the rankings in all your products, while working as a team. Ja, and then sometimes it builds character to actually be at the bottom.

R: Hm, hm.

P: And to work your way up again. So… Ja.

R: Okay. So my next question to you is, and you have answered this actually. But you know just for the sake of my research I will ask this question again.

P: Okay.

R: I mean it does happen when you have conversations with people and you have questions. Sometimes things are answered. So the question basically looks at making decisions under complex situations. But, as you have explained recently, there has been a lot of complexity, considering all of the different factors that are happening in the domestic environment. I mean I'm also going to ask which factors, and, as you have stated, political which then infiltrate into economic.

P: Hm.

R: So what I'm saying then correctives is that sufficient for that? Or is there anything you would like to add? Or recap?

P: Ja, I think it complex… you know, you must… you have your plan what you sit and do…

R: Hm.

P: …when you decide to trade and all the levers you look at.

R: Hm, hm.

P: And I think you must just be consistent in your process.

R: Hm.

P: You must always just look at the same stuff. Don't like today go: *Oh now I'm panicking so let's look at this…* you know?

R: Yes.

P: Just stick to your guns. And you've got your list and you've ticked them all. And… so that is also why sometimes you know you lose money for three, four months consecutively but you are sticking to your guns because you know eventually the market turns, and it has to turn.

R: Hm, hm.

P: Ja… But, ja, like I've said with the economics, ja it's difficult!

R: Of course.

P: We were painting doom and gloom and now it looks like we might not get downgraded after all.

R: Hm, hm.

P: So, ja.

R: Sure.

P: And ja, then a lot of people got it wrong.

R: Hm, hm.

P: And not even only us. It's the guys in the market and ......

R: Of course, we all are just working off what we think could be, but…

P: Yes. Yes.

R: … ja, we will just have to wait and see.

P: Ja, exactly.

R: So then my next question to you is, so on any given day, are you aware of your emotions? You personal emotions? And does that then influence your investment decision-making? And, if it does not, then how do you control that? Because we are humans. Sometimes you wake up and you are not great.

P: Yes.

R: And you know things are happening. And… you know? Sometimes you might come to work and that might affect you.

P: Yes.

R: So what I'm asking is, are you aware of that? And then how do you then separate your emotions from your work?

P: Ja, I think also, the longer you work in this industry…

R: Yes?

P: … the longer you work with men…

R: Hm.?

P: I have just realised that! You go to the bathroom, you have your little tantrum…. Or your whatever…

R: Hm.

P: … and then you *maar* try and be as professional as you can at your desk.

R: Hm. Yes.

P: Even if you are not having a *lekker* day. You know? You are not feeling it.

R: Yes.

P: Or you had a fight with your boyfriend or your husband, or your dog has just died, or… ja…

R: Hm, hm. You just have to pull yourself together.

P: Ja you just have to pull yourself together and that's… ja, just… I think it's just how the industry looks. I think you see all the other… It's… I think it's mostly strong woman…

R: Hm, hm. Yes.

P: You know?

R: Ja.

P: Ja, working in this industry. Not strong, but ja, you know? I think even Nomkheti some days… just like…. Ghrrr… But, ja she goes and she has a smoke and she comes back….

R: Ja, and that's it!

P: Yes. Ja, so you try and you try to control that.

R: Yes.

P: It's now always easy. But, ja.

R: But you try. I mean that's good though, because ......

P: And it comes with age, hey.

R: Hm, hm.

P: When I was younger I was a lot more… You know? You get upset with people and slam the phone down. You know?

R: Hm, hm.

P: And as you get older you just realise: *Okay!*

R: There is no time for this.

P: Yes.

R: Well, that's good then, because the thing is, if you are aware of that, and you obviously try to control for it, then it doesn't influence how you then do you business or your work…

P: Ja.

R: …for the day? Or whatever.

P: Yes. But I think ......

R: So at least you assessed that correct.

P: Ja I think most definitely, I mean when I was younger…

R: Hm…

P: … yes, you will see with age that is sort of something that… because even Monica was saying the other day she is like me. She is impatient.

R: Hm.

P: Because I'm quite an… you know, I've got quite a… yes, stuff needs to perfect. If stuff it not perfect, I get upset.

R: I know.

P: I have now learned that: *You know what? Sometimes you just have to step back…*

R: Yes.

P: And… Ja.

R: Okay.

P: And also understand that the other person might also not be having a great day. You know?

R: Yes.

P: Might also have personal issues.

R: Exactly.

P: Yes. So you need to sort of try and still yourself and have a bit of compassion and humanity and… Ja.

R: Okay. That is very interesting. I must say I do like that.

P: That is a woman's view of things. I don't know what the boys are saying?

R: Ja.

P: But, ja, you have to, hey.

R: Ja. You do. I think in any situation in life you just needs to know ....

P: Exactly! And that is where the little bit of… you know just a little bit of showing empathy for your colleagues and just be nice. Or greeting them.

R: Hm, hm.

P: Or: *How are you doing? How was your weekend?* You know?

R: Yes.

P: Where I find some guys in this industry is like…

R: That is all that they are doing?

P: They come in, in the morning, they don't even greet you. They are just busy with the work.

R: Hm, hm.

P: And I'm like: *Really!*

R: And you never really know what a person is going through?

P: Exactly!

R: You know?

P: Exactly. So you must always think that that person can also have serious issues.

R: Yes.

P: Ja.

R: It’s not about you and work?

P: Exactly. Exactly.

R: It’s like you have said, it’s about that balance. So now, considering what I've asked you about these external, local and global factors, and I've asked you a few question about how you deal with things, which… Would you say external or internal factors have the greatest influence on your investment decision-making?

P: Internal factors as in?

R: Like your experience. How you feel. How you do your research. How you work as a team *versus* what is actually happening out there. How the market is reacting.

P: I think it’s a combination of both.

R: Okay.

P: So you sometimes have all your stuff and you’ve done your research, and… and then Trump blows up North Korea! And then it’s like: *Okay….*

R: Ja.

P: But, ja, you need to have done all your homework first.

R: Yes.

P: And then try and deal with the external factors as best you can.

R: Okay.

P: Sometimes there is just really nothing that you can do about it.

R: Yes, that you can do about it. Okay.

P: I think that is always sometimes that you must realise that there is really nothing you can do about it. It’s an external factor.

R: Yes.

P: You've done your bit internally.

R: Yes.

P: So. Ja…

R: Okay. So my last question to you is, considering your years of experience and what you do in your field of expertise, what would you consider a rational and then an irrational investment decision-maker?

P: Okay.

R: I'm just going to put it out there.

P: Okay so I, I think an irrational one is one who panics.

R: Yes.

P: When something happens unexpected external thing happens and you panic. You know that this is a really risky asset.

R: Yes.

P: But you still go and buy it. You still invest in it.

R: Hm, hm.

P: Ignoring mandates.

R: Hm.

P: So knowing that this client is specific and say: *This is what you combine,* and you still go and try and get it into fund in some sneaky way.

R: Hm.

P: Sometimes you need to be realistic about Alpha as well. You know?

R: Yes.

P: Some funds, because of the mandate, that is the Alpha you are going to generate. So don't get so excited by: *Oh, you know I can put like another 100 points of performance in here.* And then it all blows up in three months, and the poor pensioner has nothing.

R: Hm, hm.

P: Because you were chasing performance fees.

R: Hm, hm.

P: Ja, I think a rational one is one where you… It's like where there are processes in place.

R: Hm.

P: You know what levers to look at.

R: Hm, hm.

P: When you feel comfortable when trading when those levers reach a certain point, whatever trigger point.

R: Ja. Okay.

P: So it's a balance between risk and reward. And.. .ja, I think like we've seen with Steinhoff now what happens when you become hungry, you are going to do really stupid things. And impacts other people. It's the problem, because you are working with pensioners' money. So you can't just go and, you know… trade, based on your own ego.

R: Hm, hm.

P: Or… ja. I think there is a lot of people where ego takes over.

P: They actually forget what they are doing.

R: Yes. Okay. Well, that is the end of the interview.

…[End of recording]…

—o0o---

Audio track: Participant 12

R = researcher
P = participant

R: So firstly, thank you for letting me do this interview.

P: Pleasure.

R: Basically…. The research I'm doing is basically on heuristics and biases associated with investment decision-making. The first set of questions that I have to ask relate to global and local conditions in the economic financial political space, because, you know we operate within space so you can't just discard that. And then I'm going to be looking more to your invest decision-making process from here, you know personal perspective.

P: Hm.

R: So my first question to you is, considering your line of expertise, what sort of local and global financial, economic and political factors influence your investment decision-making?

P: Obviously global financial conditions are important to us.

R: Hm, hm.

P: Macro economic conditions like global growth, fixed income, so global inter shakes[?], how that is looking is extremely important. And certainly has a domestic impact because investing really is a world of relatives.

So if there is a very low return to be had in a certain part of the world for a very… for a given set of risks, a relatively high return for has a different set of risks but relative to the risk is, if that was the case, then it affects how, you know whether that economy South Africa could attract, attracts capital or not.

R: Hm, hm.

P: So inflows and outflows into and outside of South Africa, I mean all of our investments are Rand based for the large majority ....

R: Hm, hm.

P: .. but they are impacted by those inflows and outflows. And those inflows and outflows affect our local interests rates.

R: Hm.

P: It affects local equidity[? *equity?*] of which is an important factor that we consider.

R: Hm.

P: It doesn't necessarily directly affects a credit but indirectly affects credits because, again, that relative world, if you can't get a very good return on Government bonds or, let's say, bank deposits, perhaps you would want to up your risk appetite and look towards lending to a corporate.

R: Hm.

P: So first of all it affects the kind of flows that might be attracted into our credit market, which is our niche. And, secondly it affects the price of those investments.

R: Hm. Okay. So my next question is then how these obviously influence your investment decision-making, which you have answered for me right now. But I don't know if you maybe just want to add to it? If you want to recap? Or if you are fine with your answer… I'm happy, but it's up to you?

P: I think I will add one more thing. Sentiment.

R: Hm, hm.

P: Globally, definitely, that is a factor.

R: Hm, hm.

P: Often there is, there are inflows and outflows that do not, are not necessarily correlated with fundamentals at any one point in time.

R: Hm.

P: Maybe South Africa is a good example of that, where our fundamentals have actually been deteriorating, quite badly.

R: Hm, hm.

P: To the point that we are on the precipice of our investment grade, country, from all three rating agencies who rate us....

R: Hm.

P: .. and yet we still manage to attract immense amounts of capital flows.

R: Hm.

P: And that is driven by other factors that are not related to the fundamentals of South Africa. It relates to very low interest rates available in Europe and the United States.

R: Hm, hm.

P: So sentiment is almost a separate driving factor from fundamentals sometimes.

R: Okay.

P: And obviously we need to be aware of what the sentiment is at any one point in time. So that is one of the factors we would take into account on a very high level. And our domestic factors. Of course… I don't know if you want to know about domestic factors?

R: Yes.

P: But we have to look at what the local macro economic cycle looks like. And that is affected by a number of things. Interest rates is one. The lower the interest rates, the more advantageous the business conditions in general.

R: Ja.

P: And then politics. Of course we have been very thematic in the last two years or so.

R: Hm, hm.

P: That is having the effect of generically impacting the investment scenario.

R: Hm.

P: It makes it a lot more difficult to… it adds a lot of uncertainty which is generally a negative thing for investors, equity investors and debt[?] investors.

R: Hm.

P: So that's been a massive factors. It's something we discuss literally daily.

R: Hm.

P: I think that's about it, at a high level.

R: Hm.

P: Obviously we would also, within whatever is happening in the economy, we would look… because we are investing in credit, the credit can be to anyone of many companies that are practising in different sectors.

R: Hm, hm.

P: So we would go in deeper to have a look at what is happening in those particular sectors for a given set of economic conditions.

R: Hm, hm.

P: What is happening regulatory-wise. What are specific factors that are causing trends. Either good or bad trends in any particular environment. So at a domestic level that is basically at a very high level that we would look at.

R: Okay. So… I was going to ask then which of these factors are most important between your local and global, understanding that obviously that we operate within a globalise economy. But, you know? In your experience and in your expertise, what choice would you say?

P: I think it depends on your time horizon…

R: Hm?

P: … personally. Perhaps it's a bias on it's own? But my believe is that fundamentals is not getting away from fundamentals… over time.

R: Hm, hm.

P: So given a long time period, the fundamentals should all square back to what the situation is. And how, (you know) for example, if you mismanage your economy and your politics, as we have been doing here in South Africa, for a while you shouldn't be able to attract as much as capital as we have.

R: Hm, hm.

P: Your currency should depreciate, because that is your report card on how you are running your economy, etcetera. And that should be a case over time.

R: Hm.

P: So the fundamentals I think are up high[?] in the long run on a global level ...

R: Hm.

P: .. and on a domestic level, but if your time horizon is short, I think sentiment is… and politics and that, are sort of more short term orientated things, are actually the driving forces in-between.

R: Hm, hm. Okay.

P: If that makes sense?

R: Yes, yes. No, no, that made perfect sense. Thank you.

P: Okay.

R: So what recent global and local events have influenced your investment decision-making?

P: Well… I think from a credit perspective it's probably more… obviously it's not immense, but it's a situation…

R: Okay?

P: Let's call it that.

R: Hm, hm.

P: As credit investors we have the opportunity to invest in a universe of credit investments.

R: Okay.

P: And one of those is State owned enterprises.

R: Yes.

P: And the situation in State owned enterprises is Eskom. You know? Transnet, and others, as being one where the governance at those enterprises has not been what… It has not been acceptable.

R: Hm.

P: So where we might otherwise invest, because pricing is making sense, and because… you know relative to the risk, we actually have not in many instances. And an example of that is Eskom ...

R: Hm, hm.

P: .. where the pricing you can receive on an Eskom bond, which is Government guaranteed. So effectively Government risk is 120, 130 basis points above the Government itself. So on the face of it, that is a fabulous deal for anybody, for all of our clients.

So why would we not invest in that? Then there are two reasons. One is the price has the potential to deteriorate even further. In other words, we have the potential to lose our client's capital, despite how attractive it looks right now.

R: Hm, hm.

P: And, secondly, because governance is poor and do we want to… you know? And it's a debate, do we want to finance something like that…

R: Hm.

P: …where, clearly there are problems that are not being addressed?

R: Hm, hm.

P: There are very serious ones with national consequences. You know?

R: Hm, hm.

P: So that is probably a good example on a situation where a factor has affected our… directly affected our decision-making.

R: Hm, hm. You know I'm actually happy that you mention *directly.* So what has indirectly then affected your decision-making could you say?

P: Indirectly affected our decision-making… I, I am not sure this is answering your question or not…

R: Okay?

P: ... but I have not always been on the asset management side, on the buy side…

R: Hm, hm.

P: So it's been an eye-opening to be in an asset manager....

R: Hm, hm?

P: ... and the way it works is that we are benchmarked against peers.

R: Hm, hm.

P: So we have very little incentive to be too different from our peers.

R: Hm.

P: And sometimes, indirectly, what our peers are invested in, affects our appetite to invest in something. It really should not, but it's an interesting thing that I've noticed in asset managers. When you benchmark like that, and when it's a peer benchmarking situation… or just benchmarks themselves…

R: Hm, hm.

P: … by the way. I've noticed on the equity side, just as an outsider, that sometimes the benchmark forces your hand in terms of … (you know) if you thought that Naspers was a really rubbish company and you are underweight in that particular counterpart, then maybe it was a fabulous research and fantastic… and maybe you were right in your decision…

R: Hm, hm.

P: … but if you are underweighted and that particular share are performing, you would be getting hammered in relative bases and all your customers would be questioning your ability.

R: Hm, hm.

P: So I think benchmarking… I don't know if I'm answering the question?

R: No, you are absolutely.

P: Or if you have something else in mind?

R: No, no, no, absolutely.

P: But benchmarking is a very interesting thing, because… Here is another one. I will not give you the name…

R: Hm.

P: … but recently there has been a very poor performing share on the JSE.

R: Hm, hm.

P: It's been very controversial, and in the newspapers. And it's a terrible situation.

R: Okay.

P: We've recently bought that share. We have sold it.

R: Hm, hm.

P: The price dropped, and we recently bought that share again, despite the fact that we know that terrible things are happening there.

R: Hm.

P: And the point is, we want to try and get back to where the benchmark is weighted for that particular share.

R: Hm. Okay.

P: Do you know what I'm saying?

R: Yes.

P: Even though we don't agree that it's a good company, it's rubbish, it's terrible, the price could go to zero, we still bought it because we don't want to be away from benchmark now on that particular share.

R: Hm.

P: So maybe an example on the fixed, on credit, what I do. It is… today I made the remark earlier on an investment where we would… it was proposed that we lent to a particular property company.

R: Hm.

P: And nobody else in the debt capital market has lent to this property company. So the comment was made: *Should we be sticking our necks out?* And being away from what our peers are doing in a material sense here?

R: Hm, hm.

P: You know?

R: Hm.

P: Because if it goes wrong in this company we are going to be the only guys that look like the idiots that are holding this particular paper.

R: Hm, hm.

P: Because the paper itself, the company itself is a little bit contentious as well.

R: Hm. Okay.

P: And there is a little bit of a debate around whether they are creditworthy or not.

R: Hm, hm.

P: So that comment was made. So that is an indirect thing to say: *Well, what are our peers doing?*

R: Yes, I understand.

P: And: *What is our benchmark doing?*

R: Hm, hm.

P: So I would say that is indirect influence on our decisions.

R: Okay. So in your own opinion, what would you say, or what do you think of South Africa's current political, economic and financial state?

P: I would pay money to see the answers there! Current, political… Sjoe! Obviously politically … confusing.

R: Hm.

P: At the end of last year I would have said to you: *Disaster!*

R: Hm.

P: Probably right now, better, but confusing.

R: Hm, hm.

P: So I think from an investor perspective, politically still… it is still not ticking the boxes for an investor. It is still not giving me certainty about the future.

R: Hm, hm.

P: And that is what an investor wants. I want to know what I can rely on. I want to be able to rely on certain things in the future. I want to be able to rely on certain expectation. And I think that is still not there. We could get there quite quickly. And obviously we are all hoping for some stabilisation and some encouraging signs coming out of there. But I don't think we are there as yet… today as the facts stand.

R: Hm.

P: Better, but still confusing. So that is what I would say is political. And I think because of the political side, the investing side or the economic side also hangs a little bit on that uncertainty. You know businessmen like investors … businessmen are really just investors. You know?

R: Hm.

P: They wake up every morning and their company is investing in people, in resources to generate a return. They are actually doing the same thing as we are.

R: Hm.

P: Likewise, if they don't have certainty they are not going to feel that they can invest. And you will know that an economy relies on that.

R: Hm, hm.

P: Having said that, we have had quite a high time of it… last year and sort of the second half of 2016.

R: Hm.

P: So probably, if you looked at hide[?] figures you would also see a stabilisation if not an improvement there. So I think that is our expectations right now. But it's almost like you were coming off a low base.

R: Hm, hm.

P: So, (you know) we've had a drought, we had a serious drought and we had that, combined with a whole bunch of serious political issues and confidence issues in the country last year. So if we can get some political stability, we could probably be stable, if not slightly improving.

R: Hm.

P: Ja, this here. Anything else?

R: No.

P: With macro economics and politics, right?

R: Hm. That's it. So between these two, which one would you say is most important? And why?

P: Right now politics.

R: Okay?

P: Because their weight… you know I've just described how important certainty is.

R: Hm.

P: And normally politicians don't matter that much.

R: Hm. That is the truth.

P: To be honest…

R: Yes.

P: Because if they just kind of get out of the way of the economy… that's my belief anyway, businessmen will do what businessmen will do.

R: Hm.

P: And they will try and make money if they could see an opportunity to do so.

R: Hm.

P: You know? So unfortunately I think politics are probably the driving factor. I mean if the politics stays the way it's is now, I suppose stability, hopefully, is what we get as an outcome.

R: Hm, hm.

P: But if the right things start to happen obviously there is a whole bunch of pent up… pent up. There is a whole bunch of consumers that will be extremely relieved and maybe spent a little bit more freely.

R: Hm, hm.

P: And also with a little more confidence and then you have businesses that invest with a little more confidence and a little bit more freely. So … so unfortunately I think it's politics.

R: Okay. So, now moving on to the second part which looks more to investment decision-making. I think the best way to start with this question is maybe for you to please take me through your investment decision-making process?

P: Okay. So we obviously look at the big picture, so we've got focuses that are specialised in macro economic stuff.

R: Hm.

P: We're also part of the perific *[sic]* .... team, so we would fit into what the fixed income portfolios are trying to achieve ....

R: Hm.

P: Because credits is only a lever that gets pulled and Conrad, as the portfolio manager, can turn that on and off, as he sees opportunity within his portfolios. So he has got a whole bunch of other levers that he can pull on the interest rates' side. So he has a lot of options and creditors. One of those.

R: Hm.

P: So he makes that decision. Once he, Conrad establish things in the appetite for credits, and generally there is a quite a large appetite for credit, then we would face a universe of credit investment opportunities.

<u>R</u>: Hm.

P: Unfortunately in our space it doesn't really work the way equities work.

<u>R</u>: Yes.

P: You don't just get to say: *Oh, we like such and such a company, let's go and buy their stocks or their bonds…*

<u>R</u>: Hm.

P: We almost have to wait for an opportunity. Somebody needs to offer it. There is no liquidity in a secondary market, liquidity in corporate credit.

So we have to wait until someone offers us an opportunity to invest in such and such credit, which makes it quite different and unique from equity investing.

We don't just get to say: *Oh that is our favourite,* and we go and choose that. We almost need to choose from the opportunities who is presented to us at any point in time.

<u>R</u>: Hm.

P: And those might be… it might be a long list or a short list. So that is the first thing. So that is how the opportunities actually originate. And then, once we do get an opportunity for company X, then we go about doing fundamental analysis on that.

<u>R</u>: Yes.

P: You know taking into account the macro economy. How that impacts the particular sector that it is in. What the particular performance of this company has been better to it's peers, over time.

<u>R</u>: Hm.

P: What the particular management team is. What their strategy is.

R: Yes.

P: So it's hard factors like their financial performance and their financial position.

R: Hm.

P: We as investors are particularly interested in how much debt there is. You know, is there too much debt? Is it at a sustainable level of debt in a company. And then the softer factors is quality factors like the quality of the strategy. Whether there is some kind of a competitive advantage.

R: Hm.

P: You know obviously the stronger the competitor advantage, the more we like it because we see it is as more defensive. The quality of the management team. Stability of the management team over time, etcetera.

R: Hm, hm.

P: So we will look at those kind of factors. Then, again, it's a relative game we will compare to the, first of all, the other credit opportunities we have at that moment in time. And, secondly, we will compare that particular risk compared to it's peers in a sector and then price, relative to those peers.

R: Hm. Yes.

P: We will compare that to the price that we are being offered and if it makes sense, we will invest.

R: Hm. Okay. So I mean you have mentioned to me, as you were busy speaking about your, explaining your process and what goes into it, the research aspect. Do you want to maybe just take it a little bit further on that?

P: Sure. I mean that's very much an individual… don't know what you want to know specifically about the research?

R: Ja, it is what kind of research then do you do? Or… you know?

P: Ja, so the analyst would largely be responsible for that, I mean an analyst that would be digging into the details of a particular company or sector.

R: Hm.

P: So they would first of all start with the annual report of the company through time. We look at it. We don't look at any one point in that time. We want to look over a period of time because what we are very interested in is the trends.

R: Hm, hm.

P: The trends in particular. We are looking for size and stability and/or instability.

R: Hm, hm.

P: Volatility. Obvious as debtor *versus We don't like volatility.*

R: Hm.

P: We don't like that very much. That is financial performance. So that is one of the resources that analysts might be looking at. Then they might look at rating agency reports and what they have written about the company and their understanding of the company, and consider how that is different or the same to what we think.

R: Hm, hm.

P: Sometimes it's different. Sometimes it's the same.

R: Hm.

P: We will take equity inputs as well. So, first of all, if we have an equity analyst that covers that same name we will consult that person.

R: Hm.

P: Because often the equity guys, the tend to monitor fewer names so they have a lot of detail available. And lot of… especially our guys have covered the same companies through time.

R: Hm, hm.

P: So even if you are looking at a particular name for the first time, you can almost rely on the inputs of that person, because they might have covered it for five years and they have the history and the context of what you are looking at.

R: Okay.

P: Then of course there is industry research. So digging out all the comparative financials of our competitors. You know? Understanding what the differences are. And why they are like that. And some companies might be highly geared in the sector. Some might be lowly geared, and to understand what the… why that is different and whether it is appropriate or not.

R: Hm.

P: What else in research? And how much detail do you want? Does that make sense?

R: Ja, no, that makes perfect sense. I understand.

P: Yes, so equity prices and all that, that is an input for us, as credit analysts because there is a lot of information that is discounted into every price, especially on the larger counters because there is often a very big field of other asset managers, other researchers, other analysts, etcetera. They are researching and pricing up those particular investments.

R: Hm, hm.

P: So we think that the equity price does have a lot of information available.

R: Okay.

P: So we use that as one of the markers.

R: Cool. So now my next question… I'm going a bit more like… you know? From just you, as an individual and you as an investment decision-maker. I just want to understand to what extent your opinion, you know your personal views and your experience influence your investment decision-making?

P: Oh absolutely they must, because your… if I've experienced a default. You know? In our field, and experiencing somebody who can't pay you back, that is horrible. It's a horrible experience. It involves lots of lawyers, and it's just a terrible drawn out, soul straining experience to go through it.

R: Hm.

P: So if you've experienced, especially when you are accountable for it, a default… that sort of almost scars you. Or it becomes imprinted on your mind for the future.

R: Hm.

P: So you might become biased against particular types of companies.

R: Hm, hm.

P: You know, in my own experience, I'm having difficulty in construction right now.

R: Hm.

P: It's a horrible, horrible process. I don't want to be investing in constructions. We are. We are doing the best we can to recover what we can for our clients. But it's a dire, dire situation. And it's horrible. And, honestly, if somebody bring me a construction company to invest in tomorrow, I'm just going to die! Even, you know I'm going to have a hard time being impartial and impartially assessing this thing from scratch.

R: Hm, hm.

P: Even if it was the most marvellous construction company on earth, I am still going to have that tainted feeling that the whole sector is risky, which is sometimes true and sometimes not. So I mean that the nature of the bias. Right?

R: Yes.

P: And it might not be true. And yet me, because I'm human, and that I have that tainted view. Another is probably micro lending.

R: Hm.

P: (You know) probably every asset manager in the country has a bias against that, because of what happened with African Bank.

R: Hm.

P: Because of how intensive and how people aged through that processes. And it was a long hard process as well. It was like 18 months of negativity.

R: Hm.

P: So you are forever associate anything to do with anything that looks similar to African Bank…

R: Hm.

P: … with that horrible in your life… So… So definitely biased. And then another kind of bias that comes in, and I think this is the one I alluded to, is that and it comes from your own culture and your own upbringing.

R: Hm?

P: In a country like South Africa where there isn't one culture. Right.

R: Hm, hm.

P: In Germany or… A lot of European countries, you can say: *Well, the culture is, you know, there might be slight differences but ultimately there is the same culture.* But in South Africa it's multi… very multi cultural.

R: Hm.

P: And obviously we have a history and a past. And it hasn't been that well integrated in the past.

R: Hm.

P: And even now 25 years later, it isn't that well integrated. And that is just… you know, for a lot of reasons but some of these things just take time to work through the system. Your generation is our hope for being better integrated. And probably in a hundred years' time you wouldn't notice the history.

R: Yes.

P: But right now history is very noticeable.

R: Hm.

P: And very much so in investing.

R: Hm, hm.

P: (you know) it's still very, because investors… you rely on your own experience what you've done in the past, what has worked in the past.

R: Hm, hm.

P: So you tend to think: *That is what I'm going to lean on… that is going to work in the future.*

R: Yes.

P: And (you know) we are used to a certain… a certain… I don't know how to put it? It's that kind of way of thinking.

R: Hm.

P: I don't know how to put it? Because it's a… Let me think of an example rather…

R: Hm… Whether your experience is.

P: It's, it's, you build your understanding based on your experience.

R: Hm?

P: Here is a really good example. SA Taxi Finance. Okay?

R: Yes.

P: So I am a White female… I have actually ridden in a taxi, believe it or not! It was in Kenya.

R: *[chuckles]* Yes.

P: I hailed it down myself, and everything…

R: Yes.

P: But I have not grown up having to live in that scenario. Okay?

R: Hm.

P: But I understand that. Obviously.

R: Hm.

P: It's the life blood actually of South African economy. If taxis didn't exist we would have a very, very different economy.

R: Hm, hm.

P: And towards the end of last year we were presented with the opportunity to invest in a company called SA Taxi Finance, and their business is to lend money to taxi owners who often just have one taxi. Some of them have multiple taxis and repay it out of the funds that they receive for the trip that they do.

R: Hm.

P: And this company… (you know) in my mind I had to sort of really think about it. (You know) if I, myself, were to go and lend to something like that, I would not understand how to lend to that situation.

R: Hm, hm.

P: Because I would say: *Well, this guy is a small business.* And like: *How am I going to find him?* And: *Does he even have an address?* So there is a whole bunch of biases that come into… like: I *could not even lend to a taxi owner.*

R: Hm.

P: And it's a cultural sort of background understanding there…

R: Hmmm

P: I can't even understand what that risk looks like.

R: Hm, hm.

P: I don't know what his ability is to pay me back. Because, for all I know, he could pay me by cheque and off he disappears with the taxi, and then I go: *Whoops! Nee!* However, there is a company that is in taxi finance that has a track record of successfully doing this.

R: Hm.

P: And I had to get my head around the fact that I don't know how to do it. But they seem to know how to do it, because they are proving with their results that they know something that I don't know.

R: Hm, hm.

P: So that is an investment bias thing that I have had to face to say: *Well okay…* So I am definitely biased, because… I don't know. I see taxis as risky. Lending to a taxi owner as very risky.

R: Hm, hm.

P: Like I wouldn't do it directly.

R: Hm, hm.

P: But maybe I can do it indirectly, on the trust and understanding that somebody else understands that risk and knows how to operate in that market.

R: Yes.

P: That is… I don’t know? Do you know what I’m saying?

R: Yes. No it’s a cultural thing.

P: Culturally it’s really hard to understand.

R: Of course. I mean if you have not experienced that then it’s …

P: Well, like I don’t know any taxi owners.

R: Ja.

P: Well, I don’t know… Well, I actually do! One sits right next to me, by the way.

R: Oh, cool.

P: Ja.

R: Okay.

P: Ja, did you know that?

R: No, I didn’t!

P: No, he is a dark horse, but he owns two taxis.

R: Oh, wow!

P: Yes.

R: That’s great.

P: So technically I do know. But I don’t think most taxi owners are like Sten[?].

R: No, of course.

P: That is their day jobs. I think they are the actual guys that drive their taxis.

R: Yes.

P: Most of them… So that is one example of bias.

R: Hm, hm.

P: Another example of bias… And I think I've been able to get over that bias, because I've… you know I've been able to take that leap of: *Okay, I will trust this other person, and I understand what they are doing.*

R: Hm.

P: And also I have been able to do what investors do, which is rely on a track record.

R: Yes.

P: That is very much part of our investment thesis.

R: Okay.

P: And another case where I don't know if I am being biased… or not… is lending to construction companies. Smaller ones.

R: Hm.

P: Now I have a construction bias in the first place.

R: Yes.

P: But now these are unknown, unlisted construction companies. So in my mind, again, I'm just saying: *Well, that's risky.* You have to be that to… First of all, because I'm biased because I have no direct experience. Because my experience, even in large listed ones is quite negative.

R: Hm, hm.

P: So I don't know if that is a bias that I will be able to get over. I don't know if it is a bias? Or maybe… maybe it's not a bias? I don't know.

R: Ja.

P: But when I was talking to my sister about it, she asked me that question.

R: Hm, hm.

P: *Jackie, are you sure? It's not just you that cannot get your mind around lending to small construction companies?*

R: Hm, hm.

P: And I did consider her, and my answer to her was: *Lee, I did consider it,* because I did consider my own bias in it. But my answer to my sister was that: *I thought it was genuinely risky…*

R: Hm. And that is it.

P: There you go. So there are two examples of bias. Any other kinds? There must be tons. Must be… but….

R: Ja, anything else that you want to speak about… Any other biases? That is fine. But…

P: I think there will naturally be.

R: Yes.

P: (You know), just based on your own experience.

R: Yes.

P: (You know) I saw it many times when I worked in the investment bank as well. You could see, one guy had a bad experience with a particular company or a particular director of a company, and it would forever taint that…. And I do that as well.

R: Hm.

P: My experience with people will follow them around. So I will be biased against something that they are involved in, because I know that that guy was involved in something else and I didn't have a good experience there.

R: Yes.

P: And, by the way, the other way round. You can be biased in a positive way.

R: Yes. Yes.

P: To say: *Well, I like this management team. I think they are amazing people, let's invest in their company.* In the meantime it's because you like them, that then you sort of ignoring or washing over risks that may be you should be aware of.

R: Yes.

P: Do you know what I mean?

R: Yes.

P: So bias works both ways. Right?

R: Absolutely. But I mean, look we are human and I guess that is just what comes with it.

P: For me, I try to be aware of it.

R: Yes,

P: Although, almost by definition you can't be aware of it, but it's almost an unconscious thing a lot of the time.

R: Hm.

P: But, for me, to try and improve as an investor, I try to be aware of it and ask myself that.

R: Yes. Well, actually that was my next question. I was going to ask it if you know or are you aware of your emotions on a given day, considering that we are humans? Some days you are okay, and some days you are not. And if you are able to separate that?

P: It is really hard.

R: Absolutely.

P: Because sometimes you are just grumpy. Or sometimes you are just grumpy about a particular deal.

R: Hm.

P: Or even the way that the deal was presented or the fact that you have been rushed.

R: Hm, hm.

P: If I feel rushed I know that is definitely… definitely something that gets me in a little bit of a flutter, because I'm a little bit of a perfectionist and I like to do, I think about quality and I want to do a good quality job.

R: Yes.

P: So if I'm rushed and I can't do the quality job, then I sometimes feel less enthusiastic about any particular investment. So rushing is the thing that I do not like.

R: Hm, hm.

P: What was the question?

R: Ja. Well, I mean you've answered it, but I was just basically asking you if you are able to separate your emotions?

P: It's really hard though because, ja, sometimes you don't realise why you not keen on something.

R: Ja.

P: It's… it is something that sometimes I become aware of it.

R: Hm.

P: And I try to be objective and… you know on the emotion side it always helps if you leave it for the next day.

R: Yes.

P: You know especially if you are not being rushed.

R: Yes.

P: You know? *Let me sleep on it.*

R: Yes.

P: Which I try to do. I hardly ever make my mind up quickly.

R: Hm.

P: I make my mind up slowly.

R: Yes.

P: So I think that helps to get emotion out of it. But, like I say, if there is negativity around particular people that are involved in the deal, or whatever, maybe in any amount of time you give it, it will not get over that.

R: Yes.

P: It will not solve that.

R: Of course.

P: Does that make sense?

R: Yes that makes sense. So I have about three more questions for you.

P: Okay.

R: My next question is, have you ever made an investment decision that resulted in losses? As you would say in your world, *defaulted?*

P: Yes?

R: Then how do you deal with the aftermath of that?

P: So, yes, I've got a very pertinent one.

R: Okay?

P: It’s not a realised loss, but it is an effective[?] loss.

R: Hm.

P: I was the analyst on Steinhoff. I’m not on the equity side, but on the debt side.

R: Hm.

P: So, on the back of my research and my recommendation we made significant investments. The amount was not my decision, but the support of the credit was a lot to do with me.

R: Hm.

P: I supported it.

R: Hm, hm.

P: And I am the principal analyst, so I'm responsible for it.

R: Hm.

P: So that has resulted in… not a realised loss, but a re-pricing of the bonds that we invested, and it has resulted in a 3 or 4% capital loss at this point in time…

R: Hm.

P: … to our investors. Through time I don't think we will lose money. Or that is my hope anyway.

R: Hm, hm.

P: But my investment thesis has to play out now.

R: Yes.

P: And it will be really tested. So what is my reaction? What has been my reaction to that? It has been to say: *Well, I don't have control over the fact that this event has occurred.*

R: Hm.

P: You know somebody has committed a fraud. The first… my first reaction has been to take responsibility for it.

R: Hm.

P: It's my responsibility. I supported it. I'm the analyst. So I was part of the decision, and in hindsight maybe it was not the right decision. Okay?

R: Hm, hm.

P: So that is the first thing. The second thing is to do everything I can to recover as much as I can for our clients.

R: Hm, hm.

P: So the decision is made. But what can I... What action can I take today that might improve either the outcome of it, or the information that is available to make better decisions relating to an outcome.

R: Hm.

P: So that has been my reaction to it, to just say: *Well, I cannot do anything about it…* (You know) after my initial panic and depression and avoidance and grumpiness, I'm now at the place where… well… that took a few days to get over that. But you know to say: *Well, I want to do the best I can to make the best outcome…* Okay?

R: Hm.

P: That is, given that I have limited control, but I don't have no control.

R: Hm, hm.

P: So everything that is in my control I have got to do, including talking to other investors. Talking to Steinhoff's debt sponsor which is Standard Bank. I have directly spoken to Steinhoff. We have also sent a letter to the chairman of Steinhoff, asking some particular questions. We have not received response from that, but we will… you know given the circumstances, we were not seriously expecting one.

R: Hm.

P: I have consulted widely with friends in the industry and in banking as to what they… in terms of the information gathering, what they know about it?

R: Hm, hm.

P: What kind of conversations they are having in there? What the exposures are and to ascertain what the scenario looks like? Etcetera.

R: Hm.

P: And then of course internally communicating. First of all.

R: Yes.

P: And communicating to the extent possible with our clients, to say: *This is what is going on… This is the information we have. This is our interpretation of it.*

R: Hm.

P: I think that is the best we can do.

R: Yes.

P: Short of going and graffiti Marcus Jooste's house. And do not put that in your thesis!

R: *[chuckles]*

P: Or you can. If you need a humorist moment, you can put that in.

R: Absolutely.

P: Sort of going and graffiti Mr XXX's ….

R: … house?

P: … his house…

R: *[chuckles]*

P: Ja. So sort of that, that in total has been my response. My internal response to myself has been to.. I've been working on awareness.

R: Yes?

P: So being aware of what emotions are going on inside. You know that initial panic. Denial. *Ja… but everybody else was investing in it…*

R: Hm.

P: You know, that kind of response? Being aware of that.

R: Hm.

P: And making it… maturing that a little bit. It's first of all getting to a calm place.

R: Yes.

P: Because I can make decisions and a better analysis and assessment to the scenario if I'm calm.

R: Yes.

P: And I can respond better to clients if I'm calm. So I've worked on that inside of me as well.

R: Hm, hm.

P: Because it has not been an easy process.

R: Of course.

P: It's not easy giving bad news, telling clients, especially on their fixed income side. Clients don't expect to lose their capital.

R: Hm, hm.

P: So it's… you know? No matter how much you warn them about the risks upfront, they do not expect to lose capital because that is supposed to, by definition, be safe investments.

R: Yes.

P: You know with equity, client expect a bit of volatility. I think it's a little bit different on fixed income. So it's a big shock when something goes wrong.

R: Yes. Yes.

P: Even if it works out okay in the end it's still a big shock and people can get nervous.

R: Yes. Of course. Of course.

P: Okay. I gave a long response there, but… ja…

R: No, but that is good. That is very good. I like that, you giving me detail and I do appreciate that. I see ......

P: I don't know how anybody else does it?

R: Yes.

P: This is how I do it.

R: Ja, this is all about you. Here we don't need to know what our peers are doing. It's all about you, and what… you know?

P: Ja.

R: What you want to do. So, my second last question now to you is, have you ever made investment decisions under complex situations? And, if so, how do you deal with it? What factors affected it?

P: Well, all the time, hey.

R: All the time?

P: In debt it is quite … You know sometimes it's complicated.

R: Hm?

P: Because the nature of the transactions is complicated.

R: Yes.

P: Well, first of all, I separate it into two categories of complicated. One category is that it is complicated because it's a distress scenario. So I've mentioned that we've got some construction exposure.

R: Hm, hm.

P: And there is a particular construction company that we are involved in, and is in extreme distress. It cannot really repay our debt. And we are working out, along with all the other debt providers, to say: *Well how can we make this company sustainable? How can we give it time to recover?*

R: Hm, hm.

P: So that is complex.

R: Okay.

P: Because it involves multiple parties, and there are a lot of negotiations and legal stuff and stuff to do with the JSE and all that kind of stuff…

R: Hm.

P: … so complexity there is that nobody has really experienced that before and, therefore, there is no playbook. You have to just make what you think is the best decision at the time, and how to try to deal with that, or any complexity for that matter, is to consult widely.

R: Yes.

P: The more complicated the deal, the more people's opinions I will ask. And the more eyeballs I would like to be on what I'm doing .. just to check that I'm not believing my own bullshit.

R: Yes.

P: Because you do believe your own bullshit.

R: Of course.

P: Don't say bullshit…

R: No, no.

P: We can say bullshit?

R: No, of course.

P: There you go!

<u>R</u>: You the first person to say that! *[chuckles]*

P: You do. You do believe your own rubbish. You convince yourself, and in your head. And somehow *you are right!*

<u>R</u>: Hm.

P: And so the more complex it is, the … and these are new deals and distress deals the more people's input you want because you want to challenge your own assumptions. You want to challenge your own thinking and not rattle around in your own head.

<u>R</u>: Hm .. Hm ... Yes.

P: So there, on the new deals' side the complexity comes in, because of the, often the legal structure.

<u>R</u>: Hm.

P: And we often take security. And we put legal clauses into certain types of debt, and that restricts the behaviour of a particular company or structure that we are lending to. And in that case again, I am particularly - I always used to say to Jason, I'm particularly uncomfortable because I don't like legal structures. I just don't trust them so I tend to, again maybe it's the bias, do what is, what has worked before. What is tried and tested.

<u>R</u>: Yes.

P: I almost try and avoid things that are untested …

<u>R</u>: Hm.

P: …because there are risks that I don't know, I don't know about.

<u>R</u>: Yes.

P: Do you know what I mean?

<u>R</u>: Yes.

P: Whereas if you go the tried and tested route, and do things that are similar to what we have done and have worked in the past, so I try to stay there and I try to simplify as much as I can.

R: Hm, hm.

P: But, again, if it is not complex, and that is where I really miss Jason, because he was okay with complexity …

R: Hm.

P: I consult widely.

R: Yes.

P: Get as much input as you can, especially and sometimes external, in our case legal, input.

R: Hm.

P: You know?

R: Okay.

P: Yes, from external legal. In fact, on one particular investment that we are looking at now, I've actually asked the people who we consider in investing in, that I need some help. Equitable and on the side.

R: Hm. Hm.

P: And: *Can I have that?* So if allowed, I will try and ask for it.

R: Yes.

P: But we don’t also get it. (You know) we are a limited number of people with a limited number of skill sets between us.

R: Hm.

P: So sometimes it’s not that easy.

R: Of course.

P: If in doubt, I apply the common sense test.

R: Yes.

P: *Does it pass common sense test?*

R: Yes.

P: If it doesn't make common sense, then…

R: Yes. Okay.

P: If in doubt, common sense…

R: Yes if in doubt, common sense.

P: Or ask Mamakethi[?]. She has got lots of common sense.

R: Ja. She does. So I wanted to ask now, Considering your line of expertise currently in the credit space…

P: Ja.

R: … and your experience and stuff, what would you consider then a rational and an irrational investment decision-maker? Specific to your expertise?

P: In credit?

R: Yes.

P: Phew… What would the… The investment makers themselves? The characteristics of the investment decision?

R: Ja. Or what do you think ......

P: Or the actual investment?

R: No, the characteristics of the investment decision-maker?

P: Phew… Obviously irrational is someone who has basing his or her investment decision on incomplete or bad quality research.

R: Hm, hm.

P: Also an irrational decision-maker would be someone who has no experience in a particular type of investment.

R: Hm.

P: Or investing in a particular sector or field. And doesn't have access to someone who has got that experience.

R: Hm.

P: You know especially… I mean you can perhaps no experience in something, but either make a small investment, so there is limited downside. That is a rational approach to investing in something you are not experienced in. But, just going naked in large size, would, to me, seem irrational.

R: Hm.

P: Also being too overweight in any particular counter party.

R: Hm.

P: That is relatively irrational, especially in our particular way to invest, is to invest on a very diverse line basis.

R: Hm.

P: So, in other words, if we do make a mistake or a misjudgment there are customers not overly exposed to anyone particular judgment. So if somebody wanted to invest 10% of a fund in something that, to me would seem possible rational.

R: Hm.

P: (You know) investing for something based on the return as opposed to the risk, not consider the risk, again it is that benchmark thing. I've got a benchmark. And we are tempted all the time.

R: Hm.

P: Yes, with investments that meet our benchmark because in one particular fund it is really hard to meet that benchmark.

R:	Hm.

P:	There is a dearth of investments to make that actually meets that benchmark, in the first place. Not to mention meets the quality requirements that we have.

R:	Yes.

P:	So there is the temptation that is going: *Oh well, I've got nothing else to invest, so let's invest in this…*

R:	Hm.

P:	So in credit in particular there is that temptation that I've just described to you how…

R:	Hm.

P:	We don't get to pick and choose. We are almost like: *What is on offer is what we can choose from.*

R:	Yes.

P:	And sometimes we have to choose nothing, which is really hard because it means choosing to miss your benchmark.

R:	Hm.

P:	Yes, for the sake of risk.

R:	Yes.

P:	You know? To say: *That is too risky for the clients. I don't care if it meets my benchmark it's just too risky. It is not structured in a way that is comfortable for us.*

R:	Yes.

P:	So I would say doing that is irrational.

R:	Hm.

P: And we do that all the time. I mean we make that decision all the time where we walk away.

R: Hm, hm.

P: Yes, from transactions that don't meet our other requirements, even though they do meet our benchmark requirements. What makes a rational investor? I guess a very aware one.

R: Yes.

P: And one that has good self awareness in the first place. Somebody that has good strategy. And have a very good connection to that strategy. This is something we debate all the time, is: *What is our investment philosophy?*

R: Yes.

P: *Where is our line* in other words…

R: Hm, hm.

P: And: *What will we invest in? Why do we invest in it? What is quality to us? What is acceptable risk to us?*

R: Hm.

P: And: *Where is that line?* So rational would be, first of all knowing what the answers to those questions are.

R: Yes.

P: And, secondly, referring to the road map, with every investment that you make. And: *Am I still sticking to what I have said originally?*

R: Yes.

P: Because I made that original philosophy in a very non-emotional kind of way. I did it… I took my time. I thought about it. So I put it together in a rational sort of way originally.

R: Hm.

P: And then, when there is emotion on the table, *can I measure it against that?* Because that is non-emotional.

R: Hm.

P: And does it… you know can you be disciplined enough to do that all the time?

R: Yes.

P: I don't know if I'm explaining this badly?

R: No, no, you are explaining it perfectly.

P: On the tape? You will go: *What is she saying?*

R: *[chuckles]*

P: That, for me, and having sort of a road map, thing, when things do get panicky… or not even panicky, when sometimes things get panicky. Sometimes things are exuberant!

R: Yes.

P: You know? You get two different market conditions.

R: Yes.

P: Either the market is in the doldrums or the market is this irrational exuberant stage. You know?

R: Hm.

P: And what you original decided on helps you to see through all of that stuff.

R: Yes.

P: And still make a relatively rational decision. But it involves a rational investor actually referring back to his original plan of what is he trying to do.

R: Yes. Yes.

P: And, through time, through all market conditions, etcetera. That is really rational to me.

R: Right.

P: I hope that helps?

R: No, that is absolutely perfect. And that is actually my last question. Let me just quickly save this as *Participant X…*

P: Participant X?

R: Yes.

...[End of recording]...

—o0o---

Audio track: Participant 13

R = researcher ***P:*** = participant

<u>R</u>: So firstly, thank you so much for agreeing do this interview, I really do appreciate it.

P: Pleasure.

<u>R</u>: So basically the proceedings of this interview are gonna be as follows: I'm gonna be asking you about local and global financial, economic and political conditions, because (you know) we understand that obviously we operate within the market and we can't discard these factors; and then the second lining of these questions will then be based on your investment decision-making processes.

P: Okay.

<u>R</u>: Cool. So my first question to you is what global and local factors influence the way in which you make your investment decisions?

P: I mean tons .. I mean (I mean) we look at everything from currency to inflation to growth, commodity pricing, it's a multitude .. a multi-factor of .. of factors and issues.

<u>R</u>: Hm-hm. And then, so then how do these factors influence your decision, maybe like give an example of currencies high or low – you know? That kind of stuff and then what sort of impact or how does it then influence your investment decisions?

P: .... let me not[?] say .. it does have an impact, for example if you .. say take a currency for example, so if you're seeing that for example a currency in a particular country is not[?] necessarily going to be weak in the long term, we will withhold our investments, or we will[? *would?*] incorporate the weakness of that currency into our financial models.

So it means whenever money .... or whatever return you're expecting, you would increase that by the currency .. the currency effect. <u>If</u>

they were so severe to the point where it will severely impact your investment case[?], you would choose not to invest in that sector[?] or company based on the currency fluctuations and movements.

R: Hm-hm. So will it then be safe to say in your space you deal with Africa ...

P: Ja. [?]

R: And excluding South Africa? Would you then say that currency is the most important factor for your investment decision-making?

P: I would say, ja, (I mean) due to the fact that we run and I think equity fund that is listed in Rand and obviously investing in local currencies, but obviously (you know) you have the Dollar effect because the Dollar is always the reserve currency or the best[? *base?*] currency, but we have a translacent[?] effect because obviously where we .. our fund is listed in Rand, so the currencies is probably the most important, ja, investment factor of decision-making.

R: Okay. So what sort of recent global and local events in your opinion have influenced your investment decision-making?

P: So global you would say for example the, if I take the example of the US, in the US since Trump got elected and his economic policies have meant for example that we're expecting a depreciation of the US Dollar, He wants to make it weak to make US products and exports more competitive.

Based on that is that when he[?] makes the US Dollar weak, the relationship that currency, the US Dollar has gained with the emerging market currencies and emerging markets.

So .... went, if the US Dollar is weak, that then[?] means that our currencies or emerging markets who[?] frontier upping[?] currencies, should appreciate, so it will be artificially stronger because the US Dollar were made artificially weaker, which means that obviously it benefits us from an foreign[?] investment point of view and (you know) the fact that if the US has a weaker .. (I mean) there is a relationship also with emerging markets, that even though it’s beneficial for the currency, for growth it’s weaker. So when the US Dollar is weaker, emerging markets are stronger as well.

So that means that if the emerging markets are stronger, it means that the return profile for emerging markets should be good, which will mean that it should deliver stronger returns going forward and then that means that (you know) you would .. it confirms our bias[?] or confirms our investment case that we want to really get in emerging markets or specifically Africa from our point of view and we would look .. would see that it’s positive.

<u>R</u>: Okay. And then any local factors? Local factors like in South Africa that maybe influenced your investment decisions?

P: (I mean) we don’t invest directly into African stocks but obviously the fact that (you know) as allocated some of them are .. our client bases are African.

<u>R</u>: Hm.

P: So what happens in South Africa from a .... point of view and a political point of view is important because our investors have to be comfortable to continue investing and they have to feel that they’re in a position to make ... allocating decisions and obviously then you get an economic or policy requirement[*environment?*] which is uncertain or volatile, then they are unlikely to allocate .. not unlikely, in that case to allocate to an Africa fund for example.

So even though it doesn’t impress[?] us on an investment level or on a company basis .... basis, it does have an impact on us as a fund and[?] as a business socalled environment.

<u>R</u>: Hm-hm. Okay, well, thank you for that. So just in your opinion, what would you consider South Africa’s .. what is your opinion rather of South Africa’s current economic, financial and political conditions?

P: Sorry, you said Economic?

<u>R</u>: Financial and political.

P: And political?

R: Yes.

P: Okay. If I start off with economics, so I think economically[?] South Africa's position is improving but still weak. (You know) we have inflation trending lower but you also have .... a period, so it's almost like *[chuckles]* flat inflation variant[?]. So low inflation and low growth, which is weak and not positive and obviously does[?] affect like for example unemployment .... you have a weak growth environment, unemployment also weak and unemployment costs rising.

And then obviously with the weak growth environment, it affects ability of a corporate to grow earnings, ability of corporate to sell their products, so it has a negative effect. So I think South Africa has been in a downward economic environment or economic spiral. It is improving.

We are doing[? *seeing?*] some right shoots[?], but obviously based on commodity pricing and the fact that we have[?] commodity exporters, the commodity pricing going up, it means that our current account .. we have a higher current account enclosed[?] and (you know) we trade some from a current account deficit, if we could narrow that to potentially that current account surplus.

R: Hm-hm.

P: So obviously that's important and the fact that inflation is also trending downwards, has been important. The Reserve Bank has an inflation targeting policy or the inflation targeting[?] mandate. So the fact that the inflation is going down[?] means that we likely to see the interest rates come down and again which is better for consumers.

So, like I said, it has been weak, the economic environment has been weak, but it looks like it's getting better, especially from the fact that with the weaker Dollar it is better for South Africa.

R: Hm-hm.

P: From a financial point of view – what do you mean "financial"? Because (you know) I thought I'd .. whatever I discuss in economics ....

R: Is financial, yes. Absolutely, I do agree, they are intertwined.

P: Ja.

R: So (I mean) from that you can obviously interrelate your economic and financial – so then we're now moving on to political conditions, what are your opinions of South Africa's current economic conditions[?]?

P: So political conditions and power[?], as you stated, has been ...., it is very poor. (You know) you have the political environment that's very uncertain, being very low directional or very weak direction to business, the corporate sector, the businesses. It was very ...., you need .. (you know) the political environment has been .... (you know) haphazard, random decision-making .... has been done to the detriment of the country or its population and business.

R: Hm.

P: Obviously .... with the recent election of Ramaphosa as the ANC president, it obviously looks better from that point of view, that he's coming on a no_corruption ethos and focussing on .... capitalist and socialist part. He's gonna like he will take steps that will improve the political framework, improve decision-making within the ruling political party and obviously get the country back on the front foot.

However, in saying that, the decision-making .. the higher decision-making .. the .... party within the ANC is quite conflicted[?], so I don't know if he'll get to the point where that aspect you have to say it's .. it's just a wait and see approach.

If I look broader in the political environment, we are seeing an improvement or a more robust political environment .... the opposition .... political parties are feeling, getting tractioned[?], so they're getting a bigger voice. They're also winning more hearts and votes and .... - we saw that in the local government elections ...

R: Hmm

P: So I think the stronger opposition is very good in any country, any democracy, because they always act as a watchdog to the ruling party.

So I think that's a quite interesting development, and as well as that the different .. some of the catchphrases that the opposition has been leading on, you can see that .. you've seen the ANC copying it to retain the populace[?] vote or retain some sort of populism. That's also very interesting.

And from – interesting and also scary in that sense because populist measures are never beneficial in the long term. So again[?] they take action or they introduce policies that are populist in nature, but when .. both on the short term but obviously[?] detrimental in the long term to the country.

So it's quite an interesting political environment .... and obviously the fact that we have a very mixed or very – not mixed, a very split ruling political party, you have to take wait and see approach to see how, what unfolds from that sense[?].

R: Hm. So (you know) I understand that obviously you work in Africa. So when we look at your economic and financial and then your political conditions, how do these two separate factors – I'm putting economic and financial together to remain within context ...

P: Ja.

R: So how do then these two factors directly and indirectly affect your investment or influence your investment decision-making?

P: I would say economically .. economic point of view .... also .. is also .... public[?] currency coming, but it's probably the most important factor because you need - (I mean) it's possible to have a very good .... environment where the company operates well in a dysfunctional environment, but it's very rare and you need a good economic environment or a positive economic environment for businesses to flourish.

R: Hm

P: For us that's essential, (you know) you look for countries that have either strong or improving economic environment, but have a strong economic base or improving economic base that have decision-makers that are taking the right measures to improve the economy, to grow the economy, to make it more inclusive, to make it diverse as well in terms of sources of revenue and expenditure. So, I think it's most important.

Politics[?] is also very important, but I would say economics have the right to politics and I say that because (you know) you have countries where you have a very poor political environment. You see that in .. take .... South America .... South Africa. If you look at South America - very poor political environment, but businesses .... of them are still flourishing.

Even Zimbabwe for example, very poor politically-wise, but businesses was still .. up and to a point, were still able to operate.

R: Hm.

P: Even in South Africa, (you know) when we had .. I dunno, last year we probably had probably the worst political environment ever, yet businesses were still operating.

So I think if we .... president, (I mean) like for example President Trump was elected in the US, probably the most unpopular president, noone expected it, pretty much hated all over the world, yet people still want to invest in America because the economic environment is still strong and stable[?].

R: Hm.

P: So for me politics is important, but it's not .. it doesn't authorise the economic framework[?]. So if the economic framework is still good and you have let's say a weaker political environment, I'd .. we'd still invest .... the political[?] environment ...., but if you have a very weak political environment and yet the .... are strong, (you know) you're not going to

.... because the economics it's very weak from that perspective. It doesn't mean that indeed the businesses, the local environment and[?] the business underlying it, will also not perform.

When you get a strong political and strong economic environment, that is where .... natural, we will invest and we'll remain invested for the long term and .... a weak political economic .... environment, then we won't invest at all.

R: Hm-hm. So my next set of questions, which you've just answered, so thank you very much for that ...

P: .... *[chuckles]*

R: *[chuckles]* So basically I was just going to ask which of these factors then are most important and why? But as you explained, and I just want to clarify for the sake of my research: In your space specifically, the most important is your economic factors and you did elaborate as to why those are most important to you.

P: Ja.

R: Okay, great. And now we're going to move on to the second phase here of questions and this is focussing now on your investment decision-making specifically, so more from an internal perspective. Right? And I think that in order for us to commence with this line of questions, the most important .. or the perfect question to start with is for you to please take me through your investment decision-making process?

P: *[sighs]* Okay, I mean it's .. I'll just make it as short as possible, but essentially what we do is, (you know) we are along[?] on the equity fund, so what we do is obviously invest in equity and because .... not only we engage in those hedging type policies or hedging[?] type ... we don't use any[?] type instruments ... so we take .... direction with no hedging strategies in the portfolio.

.... investment decision-making process, so we essentially are a bottom-up fundamental .. we take a bottom-up .. we take a bottom-up financial approach.

R: Hm.

P: .... friend, my colleague, ... we are both .. we both .... names and equity analysists, so (you know) we derive .. we formulate investment ideas and how we formulate that is essentially we use, we have our universe[?] and in our universe we use screening tools to define our universe and narrow it down to a specific number of obviously opportunities, ... opportunity sets. We look at different measures. We will look at schemes[?], we look at sectors.

We find businesses that we like that are growing, that are catering to .. that has that ...., that has delivered products that are in sufficient demand. That has good management teams. That are also good investors

And certainly we also look at RAE[?], ... investment capital of the .. (you know) make sure that the management teams where we have invested are also good investors, because they have to deliver on their investment and (you know) we get a return from that.

R: Hm.

P: We look at businesses that are able to deliver strong returns in the long term. Because we are in Africa and the liquidity is quite low, we take an[?] approach and we partner with these[?] business. So we like investments, management teams that have a strong track record investing and in operating businesses, and operating successfully.

You know that are operating in grey markets, stable markets; markets that are either very[?] low penetrated or .. .. has a latent[?] demand, and are still growing. Management teams that are able to .. have been able to operate in crises because all their products are fine[?].

R: Hm.

P: I think Africa is quite volatile as an objective target, so you need management teams that are quick on their feet, very creative, and can adapt,

So, essentially, ja, so we use our universe screen opportunities. From those opportunities we .... to see, you know you look at .... driver, you look at the businesses, look at the .... they are in and then you find the best companies within that universe. And essentially we build up a portfolio that where we are investing, we want the best ideas portfolio so that the portfolio holds 30 to 35 stocks, ... ideas ..

And we obviously wait[?] for stocks best based on our conviction[?] levels. So high conviction .. you know high positions, large positions, with low reflection[?], relatively low position and the like. So, ja, I mean that is essentially our investment process.

You know, in terms of, ja and probably trying to find the best ideas, obviously outside the universe. We travel on the continent, so seeing the opportunities, seeing the businesses that are flourishing. That is one way of generating investment ideas.

Another way we obviously get research from .... that's part of it. So we get some and derive some of our ideas from that. And company that we meet in our travels, and one that comes through, IPO's as well. We will look at those for good ideas.

R: Hm, hm. Okay. Thank you so much for that. So .. now I just want to ask you, what sort of research do you do relative to you making any investment decisions?

P: I mean the research is, because we obviously we invest in stocks. We do not have like a long term review, research team to invest in a company. .... equity model where we've got X amount of years to invest. So it would be .. obviously we operate in a poor[?] environment so our research (you know) is done accordingly. So what we do it, we're starting doing our own research in the company.

R: Yes?

P: So, looking at the historical, we look at the financials, go to the annual reports. Look at the historical performance, and then what we do is, based on that, we have an idea and look at the sector as well, we do sector research and then, based on that, we formulate an idea or an impression on how we expect the company to perform or how we think they can perform. We chat to management. We ideally want to meet with management before we make an investment.

R: Hm, hm.

P: But obviously because we live in Africa, and the corporates are in different countries and sometimes it can be very difficult to meet with then, but we, as the bare minimum, engage in a conference call. But, like I have said, ideally we would go and meet them before we invest.

And then we try and find out if there are any .... research that can supplement our own internal research. We also build models, financial models in terms of building respectable[?] return to see what the value of the company is.

So, obviously, we would like to, because of bottom-up fundamental[?] ... bottom-up approach, and we're fundamentalists, we like to invest in companies where the, where the trading price is below .... the-the - sorry, I just confused myself!

R: Don't worry.

P: .... the intrinsic value of the company is higher than the current trading price.

R: Hm, hm.

P: So where we feel .... get a decent return, and at that we are looking at 20% return in an investment, in a 18 month to two year period[?], ... and we like to invest for three years. And, ja, we do our research that way. We build the models.

Then, after that, we usually, because we have a .... model, whoever comes up with the investment idea will share it with the others, so we actually get idea from both parties, from both myself and my colleague.

R: Hm-hm.

P: So we acquire it. We work with a border equity teams, so we also bounce our ideas off them as well. As an equity team, especially where some of those stocks are in the same sector that our .. let's say in-house specialist covers. And .. ja .. that summarises that, sort of the research process in a nutshell.

R: *[chuckles]* Sorry I am just laughing because *in a nutshell.*

P: [indistinct] *[chuckles]*

R: Okay. Are you done with that? Can I move on to the next question?

P: Done.

R: Okay.

P: No, I am done.

R: So I just want to understand, (you know) listening to how you have spoken about the local and global factors, listening to your investment decision-making process and your research ..

P: Ja.

R: .. *in a nutshell*, then I just need to .. just to understand a little bit better, To what extent would you say market conditions influence your investment decision-making?

P: Well, market conditions are important, and it has definitely a significant impact. I mean .. so we obviously like to think long term position, I mean you take a long term outlook, and we .. or a medium to long term outlook .... investment ....

So, for example, if you're investing in a weak market condition .... the investment that you make .. .. you make an investment and .. could be negatively affected. So it's not that your .... idea was wrong, your investment idea was wrong, it is just that it is negatively affected at that time. So you could see some weak performance based on that.

So we generally try to invest in market conditions that are trending up as well. Or if it's a weak, for example, market condition, and because we do take the long term approach, we wait to time it.

So, for example, if we want to exit a stock, we will exit it in a very strong market condition, or .... market condition because then you get the best price, ... the price up. But, obviously, you would not sell stock in a weak market condition.

R: Hm.

P: *Vice versa*, you ideally want to buy in a weak market condition because it means that you get your price in lower, as opposed to if you want to buy a position, you wouldn't buy it at a peak market price, for example, because you are investing at the top, meaning your expected return, it is going to be quite low. So your entry and exit points are very important, and that, the market vision[?] plays an important role in that.

<u>R</u>: Hm, hm. Okay.

P: Ja.

<u>R</u>: So have you ever made any investment decisions, maybe you can give me an example? And, (you know) just also elaborate on what sort of factors influenced it, where you have had to make a decision but under, like extremely complexity? Or where the conditions were (you know) highly complex?

P: *Uhm phew* .. I mean I was in Zimbabwe .... We made investments in Zimbabwe where the market[?] condition is severe. I mean you have a case where inflation was spiralling .. I mean they went through deflation to the point where (you know) you had negative inflation numbers.

So a deflationary environment; economic growth was very, very weak, (you know) I think it was below 1%. So from that point, (you know) the .... was very weak; market conditions were also very weak; the performance of the market was also very poor. There was no money, the currency[?] flying around ..

<u>R</u>: Hmm.

P: So it was very .. ja, there was a lot of factors that made it very difficult to make a pure[?] investment decision, but, ja, you still had to operate in that environment, and you still needed to decide whether for example you want to .. we had to make a decision whether we wanted to hold our investments in Zimbabwe, or we wanted to, for example, exit or wanted to trim[?].

<u>R</u>: Hm.

P: So, in that sense, we, our base set[?] scenario .. our basis came, or our decisions in that sense was to trim our position in Zimbabwe and make it a small .... portfolio.

In that sense to take profits, because the growing[?] and the market conditions were unfair[?] and were deteriorating to the point where it would affect the underlying businesses we invest in, until it gets to a point where, for example, the businesses or the companies that we invested in was so cheap that (you know) people who did the valuation of the price were basically priced such that the company was going bust.

We looked at businesses .... had healthy cash levels; management teams .... very good, very flexible, operated in (you know) Zimbabwe for example, operated through hyper-inflation. So they've been through this kind of volatile or un............ economic environment of market conditions.

So they had experience in this. So we did not exit completely, but we decreased our investment to minimise the downside risk to the portfolio.

R: Okay. So now have you ever made any investment decisions that resulted in losses? And, if so ......

P: *[chuckles]* Oh, all the time.

R: *[chuckles]* Okay. So then how do you manage for these? (you know) In your professional capacity?

P: I mean you're stuck[?]. So one thing when you ... when you do take position or you do make a decision and you see it goes negatively, so you make a loss in your investment, the one thing you always go back to, you get a second opinion.

So, for us, luckily we had .... models, I can .. if I make a decision I can go to Mishner[?] and ask my colleague, and ask her to have a look, what does she .. get her opinion on it. We also have border[?] equity team – get their opinion on it.

Then what you also do is, (you know) you also go back and look at the work that you did to make that investment decision. So *Has anything changed fundamentally in your assumption?*

R: Hmm

P: In the business case, and the business environment, ... environment, maybe economically, you go back and test your assumptions. So you go back and test everything again.

R: Hm-hm.

P: And you run through that. And it might be, maybe in a .... or short term weakness, because let us say there was some negative noise in the market, negative noise in the sector that affected the stock, so it was not due to anything in the business case, it was just market noise - so that's .... – you have to dissect all those things.

As I have said, has something changes fundamentally, or if it is just market noise, is this short term? Or could this be a long term factor? So you look at all those factors, and then you come up and you make a decision.

You look at all those and you make a decision like, whether you hold, do you compute[?] and hold your position? Whether if it's something has changed dramatically or significantly, whether you want to exit, because maybe your .... case is exit, changed completely.

Or whether it has actually acts as an opportunity for you to buy some more at a lower price, and you average .. your you lower down your average price. So you .. those are the three decisions that you'll need to make as a portfolio manager.

R: Okay. I love how honest you were with how ......

P: *[chuckles]* Oh, okay. (I mean) anyone who said any else would be lying, so

R: *[chuckles]* Oh, okay, I will take your word for it!

P: It is the nature of the beast, hey.

R: Yes, it is the nature of the beast. So now, when you look at your own personal opinions, your experience and your personal views, to what extent are these prevalent when you are making your investment decisions?

P: What .. what factors? Sorry?

R: Sorry, your opinions, your experience and your personal views?

P: Oh, I would say highly important. I would say like your experience counts for a lot, because you make .. you can make decisions or make .. ja, you can make decisions based on inexperience, and make it therefore adverse decisions.

So, for example, if you .... on the .... and you make a decision and you make an investment, and, for example, your stock price was down and you panic, and you sell. But (you know) did you do all .. did you go back and do all the stuff I mentioned earlier? Did you go back, check your business case? Check the investment thesis[?]? Did you go back, did you get an opinion? Did you chat to management? You know? You have got to look at all those things, and that comes with experience.

Sometimes also markets downturns, for example. So if you're experiencing your first market downturn, you will panic and think that it's never gonna end. But (you know) based on your .. and basically it's inexperienced, but (you know) once you're more experienced you realise .. you can start to see the kind of when it is gonna be a long-term market downturn, whether it's a short-term and you're better able to make that assessment, based on experience, so, and also how you react to stocks and .... how do you react[?] to invest it, experience I think is definitely key in that regard. And getting the opinion of someone else that is also very key.

We investors, or .... we can fall in love[?] with our positions of[?] our stock and sometimes it .... helps to either get an independent view, or a second .. (you know) from yourself, or to even go away, distance yourself from the stock and look at it in a pure, cold light of day .. almost like to pour cold water on yourself, to look at it with a fresh approach or a fresh eyes.

And a fresh pair of eyes never hurts. So I think it's .. ja, I think it's .... important.

R: Okay. So what I am taking from that, and please correct me if I am wrong. If you had to see which it will .. if you have to decide which of these factors are most important, your opinions, your experience and your personal views, what I am getting is that, for you experience is the one that tends to be the most important?

P: I would agree, ja. I will say that, because personal view[?] you can be wrong, for example. We always[?] can be wrong. I mean you can, as a investor can invest in a position and think it's the greatest thing since sliced bread, but you might omit something and you, just from your .... opinion that's wrong. (You know) we, just sometimes it is ..

R: Hm.

P: .. and - so that's why I think .. I would, I would say experience in getting an independent view is super important.

R: Okay. So now, we're nearing the end now of the questions.

P: Okay?

R: So my second last question to you is, (you know) we're human, and sometimes we let our emotions get the best of us ..

P: Ja.

R: .. but the question that I want to pose to you is then, on a daily basis you wake up, either you're feeling really good or (you know) you are just not feeling great at all. Are you aware of your personal emotions on any given day? And, if you are, then how do you manage or how do you manage to separate the two from your investment decisions, and how you're feeling?

P: Hmm .. I mean .. a-huh! .... people are .... ahuh!

[amused reaction]

P: I will give[?] you an example where .... how they're feeling on a particular day, (you know) either they apologise, they come into the office. So they're .... or excited or they are just .. not. You know? Or the other side.

R: Hmm .

P: So ja, you definitely feel that way. How (I mean) I think also the lack of experience .... not allow and that affects your investment decisions is experience

R: Hm.

P: I think let me spell[?] out in the industry, (you know) when you, for example, your stock .. when your investment positions are doing badly, then you are just nega... .. you're just depressed, you know? And you take it home. You are depressed. You just cannot do anything.

With experience you learn not to allow that to terribly[?] excite[?] a lot. And then to come into work, and again still want to look for the best position and still work, and still wanting to find new ideas, and still wanna come in and look at it independently.

How you allow that not to also affect your investment decisions, making that .. at the bottom end is there, we've got a fiduciary duty, so I will try to manage it in the most .. in the best professional manner.

R: Hm.

P: So we can't allow our own (you know) we're humans, but we can't .. we shouldn't allow our personal or emotional sort of feelings to override our professionalism and how .. ja, approach and behold to introduce[?].

So I would say (you know) professionalism counts for a lot. I think that in that (you know) in that sense that, even when you, for example, like a position or in .. a business work, management team, you've also got to be professional and look at the investments clearly and independently. Always.

R: Okay. So, now my last question to you is ..

P: Okay?

R: So in your line of expertise and (you know) over your years of experience, considering where you are currently in your professional career, to what ex.. .. What would you .. Okay, let me pose this question - ja, let me just be as simple as possible. How would you then define a rational investment decision-maker, and then an irrational investment decision-maker?

P: Hmh! *[pause]* An irrational decision-maker is someone who chops and changes his mind regarding an investment, constantly. So someone who is just moved by the market like .... emotions. His emotions or his .. ja I could .... it by the performance of his position, of his stock, and that affects his investment thinking, and affects his strategy. That's an irrational investor. Someone who buys the stock, for example on one day, and then maybe it's down 2% the next day and then sells it. That is an irrational investor.

R: Hm.

P: A rational investor is one that gathers facts and then bases his opinion on the available information in front of him. And that is a rational investor.

An irrational investor is someone who just acts on .... on emotions, purely are driven by emotions, whereas the rational investor is someone who .. Ja, because our opinions move positions or stock, but once you've got facts (you know) your opinion, the facts dictates a person where, and you know at least .... basing your opinion on facts as opposed to emotions.

R: Hm. So where would you say you are? I am just joking .. . I am just joking! *[chuckles]*

P: [laughs]

R: That is the end of interview.

P: [laughs]

R: Thank you so, so much. I really do appreciate it.

P: No problem.

...[End of recording]...

—o0o---

Audio track: Participant 14

R = researcher
P = participant

R: First of all, thank you very much for doing this.

P: No, thank you.

R: So I want to try and keep all of my, you know sample members as anonymous as possible. So if you are mentioning anyone's name or any company name or so I will just use pseudonyms when transcribing these interviews.

P: Okay.

R: Ja. Okay? So I've got two sets of questions. The first one is just basically going to be looking at global and local factors, economic and financial and political factors, obviously because we operate within the global and local world and you cannot seclude that.

Then the second line of questions is then just basically going to be around your investment decision-making, or just your decision-making in the field that you are in.

P: Okay.

R: Cool.

P: I have got that.

R: Okay. Your first set of questions are, what sort of local and global factors influence your decision-making on a daily basis?

P: So typically… so I represent obviously two distinctly different areas of the business.

R: Hm, hm.

P: One being pricing, and the other one being structured products. So on the structured product there are international factors that are important, as interest rates.

R: Hm.

P: And then obviously when you look at interest rates, you look at the perception of creditworthiness.

R: Hm, hm.

P: You know? In our country. So that is important. Political instability obviously affects interest rates directly.

R: Hm, hm.

P: Also then local inflation.

R: Hm, hm.

P: Offshore inflation becomes very important as well. And offshore swap rates, or interest rate differentials, ...

R: Hm, hm.

P: .. that become very important when we work more on the hard currency side of things.

R: Okay.

P: So to keep it very basic… I don't know how much detail you want me to go into?

R: As much as you want.

P: But, ja, those kind of things are very important.

R: Hm, hm.

P: You know, mostly how politics affect interest rates locally. And economic activity.

R: Hm, hm.

P: So I think those things are crucially important.

R: Hm, hm.

P: And our approach, that is the one leg of the business that I am supporting.

R: Okay. So are you able to then tell me which of these factors have proven to be most important for your decision-making?

P: Sure. Look so I think there are a few factors which have taken dominated headlines in the past year specifically.

R: Yes.

P: You know, so politics being a major one of them. I think political uncertainty in the ANC has been a huge headache. And that has certainly influenced I think the way investors perceive South Africa ....

R: Hm, hm.

P: ... and perceive the stability of the country, firstly. And then, also interest rates and then that obviously affects currency.

R: Hm, hm.

P: And so certainly locally what happens in the political forefront of South Africa (you know) that has been important. And everything really leading up to the ANC national conference.

R: Hm, hm.

P: So now you find things… I would like to say *normalising…* but I think we all took some bets as to what will happen to the currency ....

R: Hm.

P: .. and I think it has surprised many of us, the Cyril Ramaphosa win has certainly changed dynamics much more than we thought it would.

R: Hm, hm.

P: Ja. Ja, you will typically find that politics…

R: Hm.

P: … especially in South Africa, and especially the role it's playing .. has played, and defining not only economic…

R: Hm, hm.

P: … not only the local economy but perceptions towards it.

R: Hm, hm.

P: That has certainly been, I would say, the most important factor that we had to consider.

R: Hm, hm.

P: I guess indirectly it has influenced… ja … policy decision-making. You know?

R: Hm, hm.

P: And then to sum it up, I think what has happened in the political forefront has certainly been very challenging, the most important factor.

R: Hm, hm.

P: Ja.

R: Okay. So what sort of recent… I mean I know you did touch on it, (you know) the ANC and the political front currently in South Africa.

P: Ja.

R: But what sort of recent events in both the local and global economy has influenced your decision-making?

P: Except the economy? Look, I mean… so I accept the politics you mean?

R: Ja.

P: And so, so the ....

R: Ja you did speak on that.

P: So I think the politics is not only globally, locally defining.

R: Ja?

P: But also globally defining.

R: Ja.

P: You've seen markets rally to a large extent. You have seen debt increased worldwide.

R: Yes.

P: You have seen this continued kind of infrastructure spend.

R: Hm, hm.

P: And you've also, while you've locally seen politics come to the forefront, you've also seen this globally through Trump. You know?

R: Hm, hm.

P: And so there I think it has been… it's been a global factor more than just the local one.

R: Okay.

P: Ja.

R: So then between those global and local, which has been more impact? I would assume local because we are obviously in South Africa. But, depending on…

P: Depending on which side of the business you play…

R: Hm.

P: You know so Momentum is being part of the broader MMI Group.

R: Hm, hm.

P: And certainly we've got exposure to both. So globally, we certainly take punches from uncertainty. Political uncertainty. And then locally as well. So to make a call, I think most of my weight sits on the local side.

R: Okay.

P: And so I would definitely say the local political uncertainty has certainly been the most important factor. You know?

R: Okay. So what is your opinion on South Africa's economic financial and then political conditions?

P: Phew… A tough question, hey!

R: *[chuckles]*

P: Look, I think there is always hope. Right?

R: Hm, hm.

P: And without going into a personal opinion on it, right?

R: Hm, hm.

P: I think the kind of return of confidence that we've seen in only kind of a month or two, after the ANC National Conference just showed us that there is certainly hope. You know?

R: Hm.

P: And I've always said, right? And that is that if the ANC can get their house into order, I mean there is so much good we can do.

R: Hm, hm.

P: And so we've seen that happen in the past, in the past month…

R: Hm, hm.

P: And I think that will continue. The fact that we've seen FDI come into the country. And we've seen some form of confidence return back into the country.

R: Hm, hm.

P: Certainly that underpins that.

R: Hm, hm. Okay. So do you maybe just want to take me through how these economic financial and political factors influence your decision-making directly and indirectly?

P: Ja so… So most of these external macro economic kind of forces plays our hand and the decision-making processes. And that normally manifests itself in either inflation or interest rates, or a move in currency. Those are fairly correlated to each other.

R: Hm, hm.

P: And so I must say I think a combination of interest rates, what is happening with the currency, what is happing with swap rates at least in my world, (you know) those are very important.

R: Hm, hm.

P: Would you just repeat your second part of the question?

R: I was going to say which of these directly and indirectly affect your decision-making?

P: So, so directly those… Look, indirectly I think you start moving away from the economy.

R: Yes.

P: Ja, so indirectly you start looking at: *What effect does this political uncertainty have on people in South Africa?* Right?

R: Hm, hm.

P: And influences spending cycles[?].

R: Hm, hm.

P: It influences the wealth of the people.

R: Hm, hm.

P: It influences poverty. It influences unemployment.

R: Yes.

P: You know? So indirectly, because ultimately at the very core of it, we invest money for people. Right?

R: Hm, hm.

P: At the very basic level. And so as people prosper, as correct kind of national policy gets implemented, you will find that people have more and more assets to invest.

R: Hm, hm.

P: So indirectly you've got these political factors playing a much greater role on the participants in this global economy, being the people who are employed. You know?

R: Hm, hm.

P: And even people who are unemployed.

R: Yes.

P: And so, indirectly, I feel that manifests itself in that way.

R: Okay. So then, if I had to ask you to state which of these factors are the most important, would you be able to like rank them? Your political, financial and economical factors in your specific space, which… how would you rank them? If you are able to?

P: Okay. So I think at the top level you've got to look currently, which is dominating headlines. And I think, to a lesser extent the politics are doing it now. Certainly the runup to last year was very important.

R: Hm.

P: But now that we've seen some resolution as to who the next presidential candidate might be, I think that has fallen a little bit off the radar. I think how that manifests in local policy decision-making would take the forefront.

R: Hm, hm.

P: I still think being part of a global economy, we feel pressure and we get dominated by what happen to the global economy, so that I have to say is second.

R: Okay.

P: We take direction from that strongly. You know?

R: Hm, hm.

P: Policymaking internationally, internally.

R: Hm, hm.

P: And then, thirdly, local economics the way it currently stands.

R: Okay.

P: Ja.

R: So now I will be moving on to the second line of questions, and this is specifically for new decision-making. And, (you know) just to kick us off, can you please take me through your investment? Or your decision-making process? Like the different steps that you follow?

P: Wow! So, because I represent kind of two legs…

R: Okay?

P: Right? So pricing you know… Pricing is always… so I am, I guess what you would want to call, I represented the Momentum dealing desk, (you know) where we structure deals on a case-by-case basis and so when you look at that specifically I think the decision-making process, which might not align with what you are doing right now… I hope it does…

R: Hm, hm.

P: But (you know) it is basically about retaining key clients. At retaining loyal supporters of Momentum.

R: Hm, hm.

P: It is about seeing opportunity from the outside world; it is from creating opportunity from people who don't support us at the moment.

R: Okay.

P: And then it is also kind of aligning ourselves with our global, or our Momentum philosophy.

R: Hm, hm.

P: So we, on the pricing side of things, we always look at those things ...

R: Okay.

P: .. on the structure part of things, where I also add that up, things are slightly different. You know?

R: Hm, hm.

P: But I think the most important thing is how we align ourselves with the Momentum strategy, which is problems-based[?] investing. Okay?

R: Hm, hm.

P: And so that obviously takes the forefront. But then, ultimately, I guess each and everything we do and each and every decision… unfortunately, because this world, right? It is so fluid and it changes the .. it is really dynamic, you know?

R: Hm.

P: So I think what makes this interesting and challenging and what gives you a lot of job satisfaction, is unfortunately I think… things are just too fluid.

R: Hm, hm.

P: (You know) things change every day (you know), and so I think it’s very important to have a set of rules which apply. Each and every case we find has it because I represent more of a kind of bespoke investor.

R: Hm.

P: And these investors are looking for something different, in saying: *Well, (you know) I can get this anywhere else… What can you give me which is different?*

R: Yes.

P: You know? So I represent that. And so there is no kind of… there is no second place kind of rule book, or decision-making kind of philosophy or process that you can follow as things… things fluctuate (you know) on a day-to-day to basis.

R: Okay.

P: So, ja difficult to answer that ...

R: Alright.

P: Especially in my line of work.

R: Hm, hm.

P: But we always align ourselves to the client. We align ourselves to do what is best in the client’s eyes. And we align ourselves to the kind of philosophy and what we represent from a client’s centric perspective … Momentum-wise.

R: Okay. So then what sort of research do you do? Like on your own? Prior to coming to your decisions and your different… and your pricing and your bespoken… Or your bespoke resolve?

P: So I think, luckily for me, part of my hobby and what I like to do is to read.

R: Hm, hm.

P: And so it is very interesting, so I do a lot of reading, Financial Mail, scour the internet. Because you will also find that in this kind of bespoke base that I represent, you've got other factors which normally do not play a role. Like crypto currencies. You know?

R: Hm, hm.

P: And so you really need to have… your knowledge set really needs to be very well diversified to be in this role because you are putting things in place for people which are typically non-standard.

R: Okay.

P: Right? So I do a lot of reading and not just necessarily on the economy.

R: Hm, hm.

P: And so (you know) that is typically the reading that I would go through. About the economy. What is going on. Hot topics. Developing things on, let's say, crypto currencies, or Fintech.

R: Hm, hm.

P: You know things that might, like we would like to call it *move the needle.* Things that might bring in assets in the short term. And you've got to pull all these various levers.

R: Hm, hm.

P: Yes, that is to make sure that we get the desired outcome for the client.

R: Okay. So I'm just going to jump around here a bit, because I like the way that it is flowing. So I mean you have mentioned this to me before, but just for the sake of the research I'm just going to repeat this question.

P: Okay.

R: To what extent do current market conditions influence your decision-making?

P: Ja. So look currently… the markets keep on developing. Are you saying current local? Or current global? Or a combination of both?

R: A combination of both in your case.

P: So in my case (you know) the way it manifests itself in interest rates, so like you have mentioned earlier, and I did like that, and how it directly does that. So how it directly manifests itself and the way the interest rates move, and what has happened to the currency.

R: Hm.

P: What is kind of the latest policy… Ja, what is policy saying about interest rates, inflation… you know?

R: Hm.

P: So directly I feel that it affects our business directly. Indirectly those direct factors has an influence, an indirect influence in the way it affects people, because ultimately we deal with people.

R: Hm, hm.

P: And so it influences whether somebody has got a job. How did they feel about their financial wholeness. How do they feel about investing money?

R: Hm, hm.

P: And so it has got a both direct and indirect effect. Direct more about things that you can measure. The inflation rate. Those things that you can measure. And indirectly about things which are not always very easy to quantify. You know?

R: Hm, hm.

P: But it is the perception towards policy-making. It is whether people feel empowered to invest. Whether people has got trust in the financial industry. Whether people trust what we do with their hard earned money.

<u>R</u>: Hm, hm. So have you made a decision where conditions that surrounded you at the time were very complex?

P: Ja. Ja, ja, absolutely. You know you will find that more and more where things you… that is why I think the decision-making process, as you have questions before, is so difficult.

<u>R</u>: Hm.

P: Because of the factors at play, sometimes it's too complex to really ascertain exactly what it is.

<u>R</u>: Hm.

P: Sometimes it is because you've got a lack of information. A lack of clarity. A lack of transparency from the people that you deal with, you know?

<u>R</u>: Hm.

P: And in our kind of world a lack of transparency is sometimes the way we kind of operate where people keep cards close to their chests.

<u>R</u>: Hm, hm.

P: So in my world a lot of things we do is unfortunately not always clear-cut.

<u>R</u>: Yes.

P: So I think you try the decision you end up making in the end, and I know this is going to sound bad, but it is really a gut feel. And that gut feel gets the … What I mean by that is very important as well, as it comes with experience.

<u>R</u>: Yes.

P: It comes with research. It comes to… you know it is underpinned by: *How we've done this before.*

<u>R</u>: Hm, hm.

P: And so, because many of these things change so quickly, it is do difficult. And many of the things you make a decision on, and you've got a forecast thing into the future, and those things are never clear, (you know) they are never clear. I know of nobody who will tell you what the Rand is going to do this afternoon.

R: Yes.

P: I'm sorry, nobody put their head on a block.

R: Hm.

P: And so we work in this environment, especially in South Africa where things can change in an instant.

R: Yes!

P: You know? And so really there is no rule book that you can follow.

R: Hm.

P: And also I think hindsight is perfect, but then you don't have that available.

R: Hm.

P: And then you've just got to trust that you are making the right decisions.

R: Hm, hm.

P: And, hopefully, your experience, integrity… (you know) just the way you've don't this before, you have got to rely on that. And decisions. Yes, you have got to make a decision sometimes uncomfortably quick. That is just part and parcel of what we do. Right?

R: Yes.

P: So there is just many times… there is just no other sources to draw information from.

R: Hm, hm.

P: And I think if you … It's like… to give you an example, I think when the Steinhoff thing happened, many people - you had many people commenting on it, afterwards, saying: *You know, it was so easy. Everybody would have spotted it.*

R: Hm. Yes.

P: But the truth is when you were in that instance and you had to make that choice I don't think it was so easy, (you know) to pick up that there was some irregularities.

R: Yes.

P: In hindsight it is easy, looking at the financial statements and looking at that saying: *Well, there is something wrong here…* So it changes your frame of mind.

R: Hm, hm.

P: But I don't think things are as clear-cut as that in our industry. Unfortunately, it is not. So many times the rules … the rules always apply, but the guidelines and how you must strategically set everything apart … how it is set out in the textbooks, in an industry like the financial industry, it just simply does not always apply, there is just not always that much time.

R: Hm, hm.

P: *It is now. I have got to make a decision within five minutes.* And there is no time to consult anyone. There's no time to, you know you must trust what you are doing is right.

R: Hm.

P: As long as you are guided by the right principles.

R: Yes.

P: You know, and we stand for clients' implicitly[?]. ....

R: Hm-hm.

P: In our case (you know) I always just ask myself: *What is best for the client?* And then we work from there.

R: Okay. So, I mean now that you have mentioned the whole thing of gut feel and experience and stuff, one of my questions actually was to what extent are your opinions, your experience and your personal views prevalent to your decision-making process?

P: Phew… I think a lot. Really. You try and surround yourself with clever people. People who you can trust.

R: Hm.

P: People whose opinions you value, you know?

R: Hm.

P: And that will guide your decision-making when you need to make a decision. And you need to make a decision quickly.

R: Yes.

P: You know? And so it is about… It is about also the value system that you personally endorse. And also the value and the culture of the company that you work in. And so a combination of both of those will guide your decision-making. But a lot of it is personal, right?

R: Hm.

P: And a lot of it is personal. If it is underpinned by the right principles. And in that a personal value set is important. But also how you deploy and where you deploy this personal value set of yours. Do you deploy it in a, as I would like to think, in an ethical company like ourselves. You know?

R: Hm, hm.

P: Then I think more often than not, that plus a combination of the people that you surround yourself with, more often than not you are going to make the right decision, but it is not always as clear-cut as that. So, sometimes, ja we make the wrong decision.

R: Yes.

P: I think the important thing is to always know why you made a decision. So I can always know why I made one.

R: Hm.

P: And even if I - to tell you the truth, the other night I heard I'm being … I am being investigated for something at the moment. Something small, but the point is - you know what the important thing is? You must always know why you made a decision.

R: Hm, hm.

P: You must always be able to validate it. And you must always be able to have an opinion on why you made it. And always stand by it.

R: Hm, hm.

P: You know? And more often than not, you will find that that is the right kind of set of rules to do it.

R: Hm, hm.

P: You must have conviction as to why you did it.

R: Okay.

P: And I can always give you… I can always, with conviction, tell you: *This is why I made this decision…*

R: Hm, hm.

P: Whether it is right or wrong. And sometimes it is wrong. But I will stand by it. I have conviction in why I made this decision.

R: Hm. Because at the time it made sense.

P: Yes. At the time these are the variables I had to play with.

R: Hm, hm.

P: (You know) that is what I took into account. And I made the decision.

R: Hm, hm. Okay.

P: Yes. You know?

R: So, just very quickly. Between opinions, experience and personal views, which one would you say is the most important in your field? In your space?

P: I think experience is important.

R: Okay.

P: You know? Seeing it all before. I think people… Sometimes people would say: *Oh, it hasn't happened in so long…* And I'm not bold, but having seen a lot of things the financial and the industry has got the ability to surprise you.

R: Hm, hm.

P: If you asked a month ago: *Would the currency go below 12,* people would think you are crazy.

R: Yes.

P: And I would say: *Wel,l why not?* Some of the younger people. And I would say: *Well why not?* And they would say: *Why? It would not make sense because this would mean such a move, and the financial kind of analysis is telling you this?* And I would say: *Well, you are missing the bigger picture. Experience tells me, that perception that global investors have got, that counts for a lot.*

R: Hm.

P: You know?

R: Hm, hm.

P: And so experience adds a lot of value. It really does. And getting different opinions. I think an important thing is to be challenged.

R: Hm, hm.

P: You know? You want your colleagues to challenge you.

R: Yes.

P: And that is what I like. People often disagree with me. I think it's gorgeous. People should always disagree with each other.

R: Hm, hm.

P: You can do that in a way that isn't deconstructive.

R: Yes.

P: But for me, and the people that work for me, I always tell them: *Have an opinion, even if it's wrong; even if you disagree with me. You can tell me why*, and if it's solid it's great. Ja.

R: Okay. So I mean you did mention before how sometimes you've made the wrong decisions, but I want to know if you've ever made decisions that resulted in losses? And then how you dealt with that? The aftermath of the loss?

P: Ja. I mean those, unfortunately (you know) we make decisions that sometimes don't bring … Ja … well … (I mean) it results in losses.

R: Yes.

P: And I think it does tie in with what I've said before. Many of those decisions, you make decisions with a lack of clarity and a lack of information, and that certainly contributes. But the important thing is to take ownership of something.

R: Hm, hm.

P: Okay? So I will take ownership of it.

R: Hm.

P: I will sit in front of the people asking me why this decision was wrong. And I will take ownership of it. You know?

R: Hm.

P: And I will defend my position, even if it is wrong.

R: Hm.

P: And the most important thing is to… sometimes it is difficult because sometimes the loss has already translated. It's not a paper loss.

R: Hm.

P: So it's a loss that has materialised.

R: Okay.

P: But you've got to take ownership of that. You know?

R: Hm.

P: You have to take ownership of the fact that: I *have made this decision.*

R: Hm, hm.

P: And then you have got to stand by why you did it.

R: Hm, hm.

P: And you've got to be able to defend why this is the decision you made.

R: Okay.

P: And then what is important is to learn from it. I know it is easy to say that. But you go home, and you analyse the thing in hindsight. You know?

R: Hm.

P: And you learn from it. So I learned… You just learn from it…

R: Yes.

P: And you get a different, an extra tool in your set of tools that you can deploy when the pressure is on.

R: Yes.

P: And so, as long as you can take a lesson from that.

R: Hm.

P: Next time you know you will approach things maybe slightly different. You ask slightly different questions. You try and remove yourself from the box completely.

R: Hm, hm.

P: You know? You just take a step back and look for things. You look at things slightly different. Maybe involve somebody else. So, as long as you learn from it, that is value.

R: Yes.

P: Right?

R: Hm.

P: Everybody… the truth is everybody is going to make a mistake.

R: Of course.

P: It's how you handle it.

R: Hm, that is important.

P: So by assigning blame… I mean there are ineffective ways of dealing with the problem. I am always of the opinion: *I will take ownership of it.* Any day I will take ownership of the problem.

R: Yes.

P: Even if I do get into trouble for it. Take ownership of it, because you made that decision.

R: Yes.

P: You know? That is the most important thing, and then you learn from it. And next time you do it better.

<u>R</u>: That is very admirable. Lots of people will take ownership for the mistakes that they make. So… And I guess it is also something that comes with experience?

P: Ja.

<u>R</u>: I am sure over time you've learned how to handle these things?

P: No, well exactly.

<u>R</u>: Hm.

P: And it really does come down to learning ad refining your trade.

<u>R</u>: Yes.

P: And refining your decision-making processes.

<u>R</u>: Yes.

P: And the only way whichever get to the final better, your decision-making process, or how you approach problems, by making mistakes.

<u>R</u>: Hm.

P: Yes, unfortunately. And so that guides you in a large way. You know?

<u>R</u>: Hm, hm.

P: To make a mistake. Hopefully though, and not often, but, ja, sometimes it does relate into some losses.

<u>R</u>: Hm.

P: There is a bottom line here, you are going to make decisions which are going to be brilliant.

<u>R</u>: Yes.

P: And then you've got to make ones which…

R: Which are not so brilliant.

P: … no, when you look back you think: *I could have done this differently…* But then you learn from it.

R: Yes. Okay. So we are nearing the end now.

P: No problem.

R: I've just got two more questions for you. So, we are human. We wake up in the morning, some days you are feeling good, some days you are not. So I just wanted to know if you are aware of your emotions on any given day? And then how you manage to separate that from your decision-making?

P: Ja, emotions play a large role.

R: Hm.

P: And I think your kind of character set, you know? Your strengths influences that as well. I am an emotional person, so my emotions does, unfortunately, cloud some of my decision-making. I am aware of that. (You know) it is not always easy to manage.

R: Hm, hm.

P: And, look, sometimes emotion does give you an edge. If you are aware of it.

R: Hm, hm.

P: You cannot remove emotion from a process entirely.

R: Hm, hm.

P: You cannot. Emotions still guides us because, as you've said, we are all human.

R: Hm, hm.

P: I try and separate getting emotionally involved, because we do, unfortunately, deal with angry people, many, many times. You know?

R: Hm, hm.

P: And so, yes it is difficult to separate emotions from it, but we must try our best. An emotional can give us an edge. You know?

R: Hm, hm.

P: Because it makes us human.

R: Hm, hm.

P: We know who we are. We are not machines.

R: Yes.

P: So we are bound to make mistakes. And emotion I felt does give me an edge many, many times. But also, you must try and not let it cloud your emotions… cloud your judgment.

R: Yes.

P: So when I wake up in the morning and I don't feel great… ja, I mean look sometimes, I'm sorry to say, you pretend.

R: Yes.

P: You must get through the day.

R: Hm, hm.

P: And you must try and hide and also suppress your emotions, to a large degree. But it could be because it cannot rule your decision-making process.

R: Hm, hm.

P: Most certainly it is part of it, but it cannot rule… You cannot be emotionally involved in something.

R: Hm.

P: And I know it is difficult sometimes. But that is dangerous if emotions is the guiding principle. It is very, very, very dangerous. You know?

R: Hm, hm.

P: So you try and let it play just enough of a part to be a benefit…

R: Hm, hm.

P: … most of the time…

R: Okay. So my last question for you then is, over your years of experience and in the space that you are currently operate in, what would you then define as a rational decision-maker, and an irrational decision-maker?

P: Rational. Looking at the opportunities set.

R: Hm.

P: (You know) taking into account most of the variables in play. And have a good frame of reference for (you know) the guiding principles. Very important. That is a rational decision-maker, (you know) somebody who can collect all the information and in such a short time as possible to make a decision that will lead to a desirable and successful outcome.

R: Hm, hm.

P: Somebody who is irrational, whose emotions cloud their judgment, they let… they make decisions purely based on assuming.

R: Hm, hm.

P: And also assumptions. And I think many times they try and go it alone. So be part of an effective team, that is effective… to be part of a productive kind of cohesive unit which you surround yourself with.

R: Hm, hm.

P: I mean that is rational. Irrational… ja, (I mean) you can just see irrational people by the way they approach things.

R: Yes.

P: It's a combination of quite a few things. I think or I feel there is no clear communication, there is no team work, there is not taking into account… And also something which you must remember is logic.

R: Hm.

P: Logic sounds very common sense. It sounds like something that is very easy. I found many people lack that.

R: Hm.

P: And so a proper way to judge a problem. And to remove yourself from it. Right?

R: Hm.

P: You've got to try and remove yourself from the a situation and look at it from an outside in perspective.

R: Hm, hm.

P: And so that for me is rational.

R: Okay. Thank you, that is the end of our interview.

P: Okay.

R: Thank you so much.

P: I hope I have added some value?

R: Absolutely!

P: And thank you for the opportunity.

R: No thank you for your time.

P: No, no, not a problem at all.

...[End of recording]...

—o0o---

Audio track: Participant 15

R = researcher
P = participant

R: So firstly, thank you.

P: Yes.

R: Thank you for agreeing to do this research. I'm very excited.

P: Hm, hm.

R: Before we get started you maybe just want to give me a bit of background as to what you do?

P: Yes. So I work in the investment section, more on the retail side.

R: Hm, hm.

P: So I'm sales of that.

R: Hm, hm.

P: Where I am involved in supporting our consultants on the outside.

R: Hm.

P: From a technical and product perspective.

R: Hm.

P: Specifically focussing on our international platform.

R: Hm, hm.

P: So accordingly with the international platform with Momentum, where clients can invest their monies offshore.

R: Hm, hm.

P: And that is what I support them on. So I'm sort of a product specialist in a sense… if I can call it that way?

R: Okay.

P: So if there are investors interested in terms of product related or process services I will support them on that.

R: Okay.

P: Ja.

R: Cool. So the first set of questions now is going to be looking at the local and global environment in terms of economic, financial and political factors ...

P: Hm, hm.

R: .. and I think it is important, because we operate within this environment.

P: Ja.

R: So we can't discard these conditions.

P: Yes. Ja.

R: And then the second line of questions then just basically look at your decision making on a daily basis.

P: Okay.

R: So my first question is, what sort of local and global factors influence your decision making?

P: For me, as a person? Or as an investor?

R: As an investor?

P: As an investor?

R: In your space, yes.

P: Ja I think, it probably depends on what is happening in the various economies out there. So in one economy things might look better than in another economy.

R: Hm, hm.

P: It is just depending on the cycle that it is going through.

R: Hm.

P: So I think where I'm involved in, where I see what people usually do when they decide on where they would like to invest, I think it's purely just what is happening in a specific market.

R: Hm, hm.

P: So I think the market is really very important for them. And, based, if they are comfortable with what is going to be happening there.

R: Hm, hm.

P: So I think what we are seeing in the last few years, I think there was definitely an upscale in terms of the US economy.

R: Hm, hm.

P: So I think definitely that was a big plus for people, so they want to get exposure to that.

R: Hm, hm.

P: Lately it seems there might be different things coming out. Obviously we all know what is happening in the US. There are things changing. Certain tax reforms are coming through. But I think people are struggling to all understand what is happening, and I think that is affecting them a bit, especially in the last few days if one looks at the markets. The markets have gone down a bit.

R: Hm.

P: So I'm not too sure what is happening there. But obviously I think that influences us as well. And I think we can say the same thing for South Africa.

R: Hm.

P: I'm not sure what is going to happen at the end of the year. Whether Ramaphosa is coming through. I think he is very strong. What is happening in Davos at the moment - I think the people like what he is saying. I think a lot of the people would say, yes it's one thing saying something, but it's another thing executing it.

R: Hm.

P: But I'm more of a positive person and I am just of the opinion if one person can cause what has been caused, I'm quite sure another person can do the opposite and fix it. And that is only my opinion, I don't know… I think one has to be a little more positive and upbeat.

R: Hm, hm.

P: And I think there is still very much potential in South Africa… personally, for me. That is the way that I would see it. And I think people just sometimes get caught up a little bit in the negativity which I think is unnecessary.

R: Hm, hm.

P: See the bigger picture. And I think there is very much potential. One needs to really try and get to that.

R: Okay.

P: Ja.

R: Thank you.

P: I hope that answers your question?

R: No, no, that absolutely does. Yes.

P: Ja?

R: So you've said you focus more on offshore side?

P: Correct.

R: So then it will be safe to assume that it is the global factors that influence your decision making?

P: Ja, definitely so.

R: Okay.

P: So price definitely… We are more global focussed, so we are not really… we do not invest our clients at all in the South African market, at all.

R: Okay.

P: So it's all purely offshore based. Correct.

R: Okay.

P: Ja.

R: So then what recent events in the global economy have influenced your decisions? I know you mentioned (you know) Trump's presidency.

P: Ja, ja.

R: I don't know if there has been anything else?

P: Ja, I think it's a… I think the last year has been a very interesting year. So we saw what happened in the UK with the BREXIT.

R: Hm, hm.

P: Some other countries… I can't… I think the other most recent one… Was it in… Was it Switzerland? Or Luxemburg? I can't remember exactly which one it was…

R: Hm.

P: … so it seems like people are moving, for some reason I think they are voting, or something is happening what is actually the unexpected and people would think: *Yes the outcome is going to be this,* but then the opposite happens.

R: Hm.

P: I think it is the same as what happened in the US with Trump as well. Everybody would have assumed that it would be a Clinton win, but it didn't happen.

<u>R</u>: Yes.

P: So it is the opposite. So I think it's very difficult to try and explain why, but I think people are probably getting to a point where I think they feel whatever is happening at the moment is not working for them and then maybe going the opposite. But I don't think they really understand what they do if they do go for the opposite.

<u>R</u>: Hm, hm.

P: And I think they don't really understand the consequences of that. So… It seems like it's a very populist type of movement and people trying to do that.

<u>R</u>: Hm, hm.

P: Ja, I think it's quite a phenomenon in a way. And I think it's difficult for anybody to try and explain that.

<u>R</u>: Yes. Okay. So what is your opinion… now purely your opinion of South Africa's economic, financial and political conditions?

P: Ja, look, I think we are in a tough space at the moment.

<u>R</u>: Hm, hm.

P: I think that everything that has been happening, where we are, a lot of the corruption that is going on. There is downgrading. So that all play a big factor. And what is interesting though is with the Rand that is strengthening in the last couple of weeks or so. So, to me that is a big positive.

<u>R</u>: Hm.

P: I think a lot of people think: *Yes, is this going to be maintainable?* That is the question mark. I still think maybe it will not stay where it is currently. Also it might depreciate a little bit more. But I don't think it will go to the levels where it has been.

I just really think with key people, just taking the right actions, and making the right decisions, I think it can really turn around and I think there I big positives about it.

It is just attracting the investors back into the country, making sure that they know the money that they are putting in here, did not… you know it's going to be worth their while. As I have said before, I like to see the positive side of it, rather than the negative side.

I think a lot of people would say: *Yes it is a different person that is going to be at the steer of things, but will it change things really?* And I do believe it can. I really do believe that it can change things.

R: Yes.

P: And from what I, I like what I am seeing. There are definitely positive changes. To me it is somebody that actually understands the economy and the markets a bit more better. It is a business person. So he understand the economics behind everything, you know? And I think that is positive for me. I do like that.

R: Okay.

P: Ja.

R: So I just want to tell you about this question a little bit.

P: Yes?

R: To what you do ....

P: Okay.

R: Yes, in the offshore space ....

P: Ja?

R: How would you say the global economic financial and political factors directly and indirectly influence your decision-making?

P: Ja. Phew! That is a tough question. Directly and indirectly?

R: Yes.

P: Look directly, obviously what is happening in the markets would have an impact on the returns for clients. I think that is a direct consequence. One can probably not always try and counter for that in any way. You can try and diversify as far as possible, and you can try and do that.

But I think there is always a possibility of something that is happening that might have an impact. And I think that is the importance of actually diversify your assets, rather than just going into one certain asset or class that you want to go for. So I think that is the importance behind it.

R: Yes.

P: Yes, because you can never… you can have an indication of what is happening in the markets, yes. So we know, well one can see, but there is always the potential of something that might come up. And I think you can probably try and look forward in a way, and try and mitigate for certain things. But I do not think you can do it in full. That is my opinion.

R: Okay.

P: And.. ja… indirectly. Ja, that is a tough one, to be honest. Indirectly, for me… There are probably two ways of how you are going to be looking at it. Maybe I have the wrong way of answering it and you can stop me if you want.

So indirectly, I think what is happening out in the markets, yes that has a direct impact. But I think indirectly is how you mitigate that with clients. And how you try and…

Look the financial advisors are out there. So they are the ones who actually giving the advice. And that is very important for them to actually understand the clients that we are dealing with, what their actual needs are. And the risk that they wanted to take, you know?

I think you need to bring that into the process. So, to me, the financial planning process, for me, it is something that is very important. I think that has changed in the last few years.

I think there were lots of things that were happening out there that people were not too happy with the financial advisors and all that. But, to me, that process I think is changing.

R: Okay.

P: A lot of reforms are coming through the regulator. So… and to me that is positive. I think it needs good regulation. And we need people out there that know what they are doing in terms of giving advice to their clients.

R: Yes.

P: So, to me that is an indirect consequence, because whatever happens there is based on the decisions that they are making, what is happening in here for us as a business.

So I think it is just time to get an overall view and understanding your clients correctly. And I think even so more important for us to actually understand that. And when I say *us,* meaning us as a company.

Further making sure what their needs are. And making sure that there are certain products available for them to actually do this. And make sure that they can cater for those needs of the clients.

R: Hm, hm. So if I had to ask you to rank the economic political and financial conditions in your space…

P: Yes?

R: … would you be able to tell me from.. you know, which one is most important? Or most impactful[?] and least important.

P: Ja, look I think the main… the main economies are most probably the ones that always has an impact. So from the offshore side it would obviously be… It is always the US, the UK, Germany, Japan, China.

R: Yes.

P: So… And I think they all go through cycles. So I think one might be doing good and the other one not that good. And then it just changes as they go through the cycles.

So I think, from a China perspective, it seems they are on a little bit more of an upbeat. It seems that they are getting on to things again. So I think it is difficult to rank them, personally, for me.

R: Okay?

P: To me that is the major economies, and I think they all play a role.

R: Yes.

P: I think when you look at other economies, I think they all do play a role as well. I think as you go down the list there are probably ones that become less important.

R: Okay.

P: I would say that. And I think they are probably would depend on what is happening in the major economies. So, obviously, if there is a certain need for something and it is something that they have got, yes then I do think that that would change.

R: Yes.

P: But that is the basics of it. But, ja… For me to put it out, and I think to list one as more important as the other? Ja, one can probably do that, and one can take a view, but I think they all play a role collectively.

R: Yes.

P: That is in my opinion. That is how I would say it.

R: Okay. So then moving on to the second phase of questions, which looks now at your decision making.

P: Yes?

R: And just, you know, to get us off, maybe you can just start off by telling me your decision-making process? If you have one?

P: Decision-making process in terms of?

R: Like the different stages that you go through before you make your final decision?

P: Final decision in terms of when we… I am just trying to understand what you want ......

R: Ja. Oh, sorry…

P: …in terms of a process perspective?

R: Ja.

P: Or do you want to ....

R: Ja, so basically the decision as to where you are going to be investing?

P: Okay.

R: Yes.

P: Okay. Ja, so I think what would happen is this. Obviously we would have an investment committee.

R: Yes.

P: Okay, so the investment committee…. I think I am going to talk about… I think what is going to be the easiest is if I talk about in-house solutions?

R: Okay?

P: Okay, let's talk about that. I think that is probably the best way of looking at it because, for one reason because I think I can show you a little bit more about the process.

R: Sure.

P: But also, going externally, there is a little bit of a process as well.

R: Okay.

P: And maybe I can talk about both of that. So, internally, where I look at our in-house solutions. Obviously there are certain solutions that the guys will put forward. There is a committee that would actually look after that.

They will take a certain view on how we are going to do this. So it is specifically for me on our offshore funds, it's a multi-asset, multi-strategy, sort of solution that they have got, looking at a cautious or a managed, balanced, or growth. So there are three sections of them.

Then, based on that, they will decide who they would… which underlying fund managers they would use for these specific funds. They would start with due diligence done on that, which I think is really important.

They need to also buy in into what these fund managers actually are really doing. And I think it is actually really important. They need to understand the history. They need to understand where they are going, and like the philosophy that they have got on that.

I think, based on that, once that has been done… It is a whole due diligence process, which I think is really very important, because you want to understand where you are going with that and obviously you want to build the fund, based on those decisions.

R: Yes.

P: So I think the really important thing about that is thought, is this, you do not just do them at the beginning, then it is done and then you move on.

R: Yes.

P: So what they is this. They do meet with them on a quarterly basis. They still interview them, to see if there are any changes. Any changes in their views. If there are changes, and they are not comfortable with that, they will rather move them out and get somebody else in.

R: Yes.

P: Which I think is really important. It is a building block. And I just like that approach. To me it is just… if you put our in-house solution out there, you want to put something in there that is quite sustainable in a way.

So I think this multi-strategy, multi-asset type of investments… I think there is quite a need for that. So I think on our side they would call it *an outcome based sort of solution*.

R: Hm-hm.

P: And I just like the idea of it, because you know where you are going. And the workings that they are doing behind it is to actually get to that goal. .... or CPI Plus, whatever percentage you are looking at. And to me, there is control over that.

Because you have got input in the whole process. You can decide. You can do due diligence on the fund managers - the whole process. You are interviewing them. If you are not comfortable with what they are doing anymore, you can actually move them out and replace it with someone else. I am just more comfortable with that process.

I think if you look externally, I mean a fund manager is a fund manager as a whole. If they have got a fund available, it is a fund that is there. Yes, clients can still buy into those funds, but you don't really have control over what you want to do there. So I think what you would do is, at least, from a platform perspective, you will still do certain due diligence, which I think is important. So you need to do that. And we do do that.

But, what's lacking here is, is not what you have with inhouse solutions where you can actually go and meet with the fund managers on a quarterly basis, talk to them, ask questions. You do not have that luxury actually and I think that is where it becomes tough.

R: Ja.

P: I think that is why they're probably moving towards more an outcome based solution type of thing.

But I think it is difficult to convince the market actually to buy in to this, and it is a mindset. I think people got so much more .. through the years, they just got so accustomed to these things. I think that is something that they always want to do. And always something that they want to invest in.

I think it is… and I can see that, it was really hard for us in the beginning to actually try and convince the people in terms of our in-house solutions.

R: Hm-hm.

P: But as soon as they actually understand the concept, then they start looking at it differently. And I think that is where the big difference is between the two.

So inhouse .... you should look at external fund managers, you do have some level of control, but not fully.

R: Hm.

P: But if you look at our in-house solutions, we do have full control over what we want to do there.

R: Okay. So what sort of research do you do in your space before coming to a decision?

P: Ja, so obviously there is research done, and that needs to be done.

R: Yes.

P: Physically me, I will not be the actual person doing the research.

R: Okay?

P: But there is a team doing it.

R: Okay.

P: So if I look again, I will split it up in the two different ways. So in-house, yes. There are the guys who would look at the various, or they will decide on a decision on a view that they would want to take, and how they want to build a specific fund. And they will look for fund managers that will fulfil that.

R: Okay.

P: And they will do all the necessary research in that. So that is for them to do that. So I am not really involved in the research myself.

R: Okay.

P: But there is a team actually doing it. And what they do, I would assume, they would look for somebody that will fit in with the view that they want to take and what they want to achieve with the a specific fund. And they will need to feel comfortable with that, and I think if they are comfortable with that, they will move along.

I think it is important that they… If they are not comfortable with that then they will walk away from it and they would rather get somebody else, and I think that is really important.

I think that says a lot for somebody to actually take that decision and say: *Look this is not going to fit into our strategy or view that we want to achieve, we would rather look and get somebody else.*

I think that is really important in your research, because if you… when you stand for something, and if you stand for something and you want to achieve something, you've got a specific view, you need to make sure that whatever it is that you've got that it fits in with your strategy.

I think it is your right to do that. I mean if it is your fund that you are setting up and you want underlying fund managers to fit into that… I mean you can make the decisions? Can you not?

R: Yes. Absolutely

P: Yes.

R: Okay. Just for the sake of the research…

P: Yes?

R: I just want to repeat this question.

P: Yes?

R: Now please correct me if I am wrong…

P: Ja?

R: You did mention how the market is… whatever it is that is happening in the market is very important to your decisions.

P: Yes.

R: So I would, therefore, say that the extent to which these market conditions influence your decisions are very high?

P: Yes, I think it would be. Definitely. So… but I think that is the thing of a fund that is probably more multi-strategy, multi-asset type of fund.

R: Okay?

P: I think at least you are trying to cater for various scenarios.

R: Yes.

P: And I think if something happens you can actually switch quite effectively and efficiently… quickly. And I think that is how you try and cater for these. So, yes, there are certain things that might happen that you might not always expect. I think that is always a possibility. I mean anything can happen.

R: Yes.

P: So… But, ja, I think it is just… I don't know if that answers your question?

R: Ja, it does.

P: I am trying to think of something else…

R: No, no, that is perfect.

P: Ja, ja?

R: It does answer my question. So have you made any decisions whereby the conditions that serves this decision were, you know, highly complex?

P: Sorry. Repeat that again?

R: So have you made any decisions where the conditions that surrounded you at the time when you are making your decisions, were highly complex?

P: Ja. Look we would definitely… We would have been at stage like that. As I have said, it just depends on what is happening out in the market. And the conditions out there. So there are things that would happen. For example, BREXIT. Something like that.

R: Ja.

P: So, yes. That is definitely something that would impact. And I think we need to act quickly and see how we could counter for that, and see what you are going to do.

R: Yes.

P: So, ja, again I… This is a different… a total different philosophy in terms of the multi-asset, multi-strategy type of investing.

R: Yes.

P: And I think so more reason for actually investing in those type of funds, because when there is any bad[?] in any of the economies or markets, I think the impact will be less.

R: Yes.

P: And I think that is the reason for it, because you diversify much more when you would normally.

R: Okay. So then… I mean you have just highlighted that as well, that, you know when such complexities arise it is a matter of making a decision as quickly as possible too?

P: Ja, I think you will have to. I mean hopefully we have built it in such a way that it might not impact too much. But I mean there might be instances where you would have to.

R: Yes.

P: And I mean it is not something that you can leave for two, three days or a week. You need to take a decision and take a stance and execute accordingly.

R: Yes.

P: Ja, you have to do that, because the longer you take, it might have a bigger impact.

R: Yes.

P: So I think it is quite crucial for you to understand that, and understand the decision that you are making that that is the right decision. And I think, ja, that is where we are.

R: So speaking of right decisions…

P: Yes?

R: …have you ever made a wrong decision that resulted in possible losses?

P: Ja, look ....

R: And, if so, how do you deal with that?

P: Ja look that happens.

R: Yes?

P: You cannot be one hundred percent right all the time.

R: Of course.

P: No that is impossible.

R: Of course.

P: So there might be a decision that you have made that is probably not the right one. And whatever that is, it just depends on what it is. There could be a little bit of a delay, reaction, in terms of the decision that you've made. And maybe it is something that is going to pull through later.

So, again, I just think if you are convinced and convicted[?] in your view and your strategy that you have taken and although there are impacts at the moment that might seem to be the wrong decision.

If you have convinced them of your view, then you just need to set it out. I think that is really important. I do not think you should go and start and changing your views or any of your actions, because it is not happening at the moment. Or markets are probably trying to force you in taking a different view or decision. So I am not too sure if that is one hundred percent correct?

R: Hm, hm.

P: So, yes, I think you are going to take some decisions sometime that is not one hundred percent correct. But you need to look at your long term view. And a long term view, if you believe and you are convinced, then that is what you are going to do.

R: Yes.

P: And, for example, maybe even funds that we have started. In the beginning it was quite tough though, because these funds had a quite big total expense ratio. And that is always difficult when you start something new.

R: Yes.

P: But it is people that keep on hammering and saying: *No. These funds are too expensive… They are too expensive… They are too expensive.* But, over the years, these funds became less expensive.

R: Hm, hm.

P: As they were rolling along, achieving what they are supposed to achieve and all of that. So to me it is a long term strategy sort of thing. Obviously I think there might be short term market movements that might have an impact. But I think hopefully it should be less than what the long term view would be.

R: Okay.

P: Ja.

R: So in your space what would you say, or how would you say these influence your decisions, your opinions, your experience and your personal views?

P: So my personal views and experience on influencing decision-making?

R: Yes? In your space?

P: In my space?

R: Yes?

P: If you say *in my space* specifically, in my job that I am doing?

R: Yes.

P: Ja. Okay. Personal experience. Look… sjoe! I have been with the company for quite a while.

R: Yes?

P: So I have been with them for twelve years so I think you get a little more accustomed to what the culture is, and what they are trying to achieve and where they are going.

R: Okay.

P: Obviously within a company I think there are always changes. So I think that can impact you as a person, personally. But I think as you move along in your career I think you get accustomed to these things.

So I think when it happens the first time you are not too sure of what is happening, where to go, what to do. But I think, as you move along you sort of understand the dynamics behind what is happening, and that should not impact you, from a personal perspective on decisions that you are making.

R: Okay.

P: Yes, so I think that is really important. I do not think you should take emotional decisions. You need to take the emotion out of it. So I think that is very important. Because taking emotional decisions, I think it is the wrong decision to take.

R: Yes.

P: You need to take the decision that is the right decision in terms of the business and not the emotional one. So that is for me, more from a personal side… What is the other one that you have mentioned?

R: And so I said, opinions, experience and personal views.

P: Okay.

R: Ja.

P: Ja, okay, so I think that is probably taking the personal experience and the opinion maybe together?

R: Yes.

P: In a way… What was the middle one? Sorry I just need to ......

R: Your views?

P: My views?

R: Yes.

P: Ja. So, ja I think as well. So as you go along I think you do change your views in a way as you get more accustomed to things.

R: Yes.

P: Which I think is general, because I think that might be for anybody. It does not matter what kind of job you are doing.

R: Yes.

P: I think as you are moving along, ticking the years off in your career, I think you get more accustomed to certain things and getting more comfortable with certain things. And which I think is for the good.

R: Yes.

P: Definitely. Because something might happen now, and in my personal view… let's say twelve years ago, something must have happened, what is happening now, the chances are that I probably would take a different decision now than what I would have twelve years ago.

R: Hm, hm.

P: Because I think twelve years ago you were probably not than experienced.

R: Yes.

P: And you probably do take different views. Maybe not big differences, but I think some of the views might be different to what you had before. I think that does change over time.

R: Okay. So what I am getting from that then is that it is experience that counts the most when it comes to your opinions, your views, that ......

P: Oh, yes, I think so. Definitely. To me experience is… there might be people that might not agree, but to me experience I think is very important because experience gives you exposure to stuff that has happened and you might get an idea.

Once you have gone through that experience, and as you go along, something might come along now and again. And you just might feel more comfortable with it. I think experience does count for that, definitely.

R: Okay.

P: Ja.

R: So I mean we are nearing the end now of the interview.

P: Okay.

R: You mentioned emotions. And I am actually really happy that you mentioned that, because it is one of my questions.

P: yes?

R: And you know emotions, it's human nature.

P: Ja.

R: There is nothing we can do about that. Sometimes you wake up and you are really good and really happy, and other times you are not.

P: Ja. Ja.

R: So I just wanted to find out from you if you are aware of your emotions on any given day?

P: Yes.

R: And then how you manage to successfully separate that from your decision making?

P: Ja. No, definitely. So to me, I am not too sure about other people, but for me, personally, I am very in tune in terms of emotions, just not only for myself but for other work colleagues. Or I might have been outside of the work as well.

R: Okay.

P: Emotional intelligence… I think that is quite important. I just think that helps to understand dynamics a little bit more and better. So, for me as a person, I think I am tuned in with that. I can immediately pick up if there is something going.. or something is not right with a colleague that I am working with, or whatever. I think that is really important to understand, and also to be open about that as well.

R: Absolutely.

P: Because I think some colleagues might not be open about that, when you do talk to them about that. And I think as you go along and you work on a working relationship, I think they will open up eventually.

R: Yes.

P: Which I think is a good thing to do, because you need to separate your emotions from decision that you are making, because sometimes if you just are making a decision based on an emotion that is maybe the incorrect emotion that you are experiencing, then you might take the wrong decision in terms of business.

I think that is really important to understand where you are standing with your emotions. I think if you are in tune with your emotions, and you understand that, then you need… or you know how to distinguish between that. I think that helps to actually make the right decisions.

R: Yes.

P: So you need that.

R: Okay. So my last question.

P: Yes.

R: Just to wrap up the interview then.

P: Ja?

R: What would you, in your opinion and your personal views and your experience, then say a rational and an irrational decision maker is?

P: Sjoe! Okay. I think a rational decision maker is probably somebody that takes into account all aspects. So you are not making a decision based on the fly, based on one piece of information that you have received. Or based on just one specific event. You need to take everything into account.

R: Yes.

P: So it is a more informed decision, I would say. Whereas irrational… ja, look, you might have cases where irrational might be the right decision! Let us not move away from that. I think it is possible.

R: Hm, hm. *[chuckles]*

P: But I think being rational and working for everything, I think you might get to the same outcome.

R: Okay.

P: Where I think you have got chances of getting to a right outcome more, your percentage of doing that gets higher. So irrational, I think sometimes, yes you will get it right. But I think you need to go and compare it to each other, I think being a more rational decision maker rather than an irrational decision-maker, I think the rational decision person would eventually get more right than the irrational one.

R: Okay.

P: That is my opinion.

R: Okay. I really like that.

P: Ja?

R: That is a very different view, and I am happy because that is going to bring a bit diversity.

P: Ja.

R: You know, into my research. So that is great.

P: Ja.

R: But thank you very much for your time.

P: Okay.

R: I really, really do appreciate it.

P: You are welcome.

R: Thank you.

P: Ja. Thank you.

R: Thanks

P: Ja, I hope that it goes well. And all the best with that.

R: Thank you.

...[End of recording]...

—o0o---

Audio track: Participant 16

R = researcher
P = participant

R: So before we start anything, I just want to say thank you very much for giving me this opportunity.

P: Pleasure.

R: I really do appreciate it.

P: You are welcome.

R: And you know before we get into the questions, you maybe want to take me through what you do? Just a bit of background?

P: Sure. Personal background? Or company?

R: Company background.

P: Okay, the company background, at the moment I am currently responsible for investment marketing.

R: Yes?

P: Investment marketing really covers a couple of investment teams. The first one platforms. So we do a local investment platform. So an admin. platform, which is Momentum Wealth.

R: Hm, hm.

P: We have also got an offshore platform. That means it is Momentum International.

R: Okay.

P: We have got an investment manager, which is Outcome Based Investing, a Multi-Manager, which I am sure you are familiar with? We have got a couple of single asset management strategies.

R: Okay.

P: Along the lines of listed property funds, synthetic portfolios… What am I missing? A fixed income capabilities, etcetera. And then we've got global asset manager, based in the UK, running global multi-management portfolios.

We have got a securities business. Stock broking. Momentum Securities. And a structured products arm that builds structured products. So I am responsible for marketing all of those portfolios.

R: Oh, okay.

P: We are a team of about four of five of us, which is that we have adding one more employee at the beginning of January. And between us we do everything from technical marketing, classical... standing up at conferences… sitting in on deals with financial advisors and clients on occasion. Hm… ja… brochure ware[?], absolutely everything to do with marketing related.

R: Hm. Cool!

P: So that is currently the responsibilities. So I hope that is in line with your expectation?

R: Yes. Yes, yes, absolutely!

P: Okay.

R: So you said Momentum Wealth? Is that Paul Kantor? Mark? Or ......

P: Paul Kantor is one of our financial advisors, who supports Momentum Wealth[?] ja.

R: Cool.

P: So he is one of our largest… How do you know Paul?

R: I have been investing with him since I was 21.

P: Oh, okay!

R: Ja. So…

P: Ja Paul Kantor is a name that is often used in building[?].

R: Oh, okay.

P: Ja, so he is a little bit independent. He is… but he is a Momentum financial planner, so ultimately he represents our best expression in[?] financial advice.

R: Ja. Cool!

P: .... You have got a happy relationship with Paul?

R: Yes. Yes, I do. I do. *[chuckles]* It has been great. Okay, cool. So the first set of questions that I am going to be asking you just basically look at local and global factors ...

P: Yip.

R: .. understanding that we operate within this environment, and we can't discard that.

P: Okay.

R: And then the second one will then be looking more at your decision-making from an investment perspective, and, (you know) all of these difference platforms that you look at as well ...

P: Okay.

R: .. and just… ja, more from an internal personal viewpoint.

P: Alright.

R: Cool.

P: It sounds good.

R: So the first question I have for you is, what sort of local and global factors influence your decision-making?

P: Economic type of factors?

R: You tell me?

P: Ja. So, so I can imagine the biggest ones are probably the economic filter. So then starting with the economic filter. Local and global. I think a very topical conversation and one that rages in my own head…

R: Yes?

P: … is a little bit about the prospects of the country. You know the GEP[?] growth. The Rand/Dollar is a good expression of prospects. We often spend a lot of time considering, and myself included, economic cycle, use of guarantees.

So there is all sorts of factors that play into a decision tree[?]. For us, we spend a lot of time thinking about outcomes. So we have started adopting, and when I say *we,* myself, personally, as well, started adopting a segmenting approach. So very often we are segmenting our own goals, ambitions, aspirations for investments, be it retirement, funding your child's education, purchasing a home, etcetera, and we are increasingly matching that with an outcome based philosophy.

R: Okay.

P: So it is always a C-count[?] plus portfolio. Whether it is local or international. I think, as many South Africans, the past couple of years we have been very pessimistic on the country, influenced by headlines, the weak Rand. And offshore conversation is absolutely raging.

So it has always been a… I suppose as a young person, it has always been a case of paying down debts as quickly as possible. And then, whatever is left over, allocating between local and offshore. Perhaps an overweight on offshore, given how I suppose depressed as a country psyche should[?] have been.

R: Hm. Okay.

P: So I do not know whether you want me to home in on any of those?

R: Ja. Sure. Go for it.

P: I mean personally… Personally I have a strong preference for share portfolios. .... securities business, the level of engagement that securities requires, happens to align well with my own passion, and I just enjoy securities.

So spending a lot of time analysing companies, markets, local and offshore. And also building up a share portfolio, which I manage, I would say, very actively. That is on a daily basis.

R: Oh, okay.

P: So that is mainly my savings IQ[?] which might be a little bit different from others. Ja, so direct listed equities.

R: Oh, okay.

P: Predominately.

R: Cool. So then in that space there, do you invest more in local, or global …

P: Stock markets?

R: Ja?

P: A little bit of both. I think the natural progression is, you start out with the local buyers, (you know) it's names that you can relate to, easily accessible, and I suppose what happens is, you have got a fairly small market.

R: Hm, hm.

P: But with the rise of an offshore theme, and some of the exciting companies abroad, sectors that you just can't access locally…

R: Yes?

P: Yes, things like Teslas[?] and Apples and technology, and even PharmaCare, have slowly caused me to cast my eye abroad. And increasingly my portfolio is adding international counters to it. But still prominently South African.

R: Okay.

P: It has became a decent .... exposure by the JSE. So, ja, look, it is probably not the most exciting portfolio, there's no ....

R: ....

P: There's no real diamonds in there. It's all the big names that are our household names ....

R: Okay.

P: .. are most of .

R: Hm. Interesting. So what sort of recent global and local events have influenced your decision-making as of late?

P: Ja, so look over the last, let's say 18 months, it has been almost a schizophrenic world ....

R: ....

P: We have had no shortage of things going on. It probably dates back to, I would say pre-BREXIT. BREXIT was a big one. Trump was a big one. Local politics has been huge, unfortunately for the wrong reasons, until late.

Some things, like a Nene, Pravin Gordhan - everything that sort of rocks markets… The Rand. Financials. All of those have been key events where you sort of pause and reflect on a portfolio. And those each one those negative events, has you question whether offshore is perhaps a smarter route.

R: Yes.

P: More recently. So since December, there seems to be an absolute euphoria that's captured the market, myself included, where South Africa's (you know) back risk on; Government yields were down. The Rand's strong. SA Inc companies are booming and .... reenergised a bit.

So, unfortunately, like most investors' psychology, your emotional response is always the exact wrong one! You know? So when things are really bad, I think you, you … when the news headlines in South Africa are particularly bad, you're sort of biased towards offshore, you think that it's the beginning of the end, things are only going to get worse. You cannot see the light at the end of the tunnel. And so you shift money offshore. And as it spins - as it has with the ANC electoral conference, now all of a sudden, we just cannot get enough of South Africa!

R: *[chuckles]*

P: So the Rand is booming. JSE is booming. Banks, financials, even insurers, such as this building, it's in a particularly good place at the moment.

R: Okay.

P: It's our gain. I think it is a … I almost want to say it is overdone ...

R: Okay.

P: .. that is another point of reflection, I suppose.

R: Hm-hm. So I just want to continue on that point, because my next question then was, (you know) to ask about your opinion of South Africa's current local economic, financial and political state. But I mean now that you have mentioned (you know) what the view is, what is your personal view then of that?

Do you agree that (you know) our financial economy and economic economy is booming? And politically we are becoming more stable? Or do you have, (you know) .....

P: Look, I think it is a difficult one to answer. I would imagine, so from a personal perspective?

R: Yes?

P: Maybe not a Momentum perspective?

R: Yes.

P: I think that politically we are in a lot better place. No question about that, than this time last year. So I think the new leadership is a great move.

Personally, I have got a lot of faith in it. And I think the market, as markets do, they are running a little bit ahead, so those prices are in advance...

R: Yes.

P: … giving us the benefit of the doubt that new leadership will bring great change. Early signs are encouraging. You know? Things like an Eskom board. It is a particularly encouraging.

Then a Zuma coming to an end. I think that is potentially a good one. Dismissing state capture. Trying to get a little bit of fiscal discipline in the system. All very good things.

This morning we saw the nuclear deal is admitted as being unaffordable by Cyril Ramaphosa, which is a great… a great financial decision. But, more than those sort of noises that win supporters, we actually need to start seeing something coming through.

So you have got a government deficit somewhere in the region of, let us call it: *R50 – R51 billion income this year,* which tells you immediately we are living beyond our means. That does not change with a few political comments.

So, although it certainly has started well, we have not really seen any hard evidence of change yet. So if we were not to follow through, I think the repercussions could be particularly poor on South Africa.

The Rand now is up, let's call it 15% since December. Clearly, that sort of progress has not been made in a matter of, let's say six … five, six weeks. So I do feel that we were overly pessimistic, going in to the December conference, and now we are overly optimistic.

I do think that we need a lot more fiscal discipline. We have got a national budget coming up, which is going to be a particularly tough one, and I am not quite sure what could be said to salvage the situation.

I would like to think the grading agencies will give us the benefit of the doubt and pause. I am not expecting a downgrade. I would have told you something different six weeks ago.

R: Ja!

P: But, at the same time, I think our current debt profile as a country, is going to keep us, at the very best, moving sideways for some time. So investors' sentiment changes quickly. Unfortunately, that is so. But what is probably worth mentioning, is the real economy.

R: Hm, hm.

P: So, although politically things are getting a lot better, investors' sentiment changed, and we are seeing the recoil of flows. Global equity flows are coming back, which is largely resulting in the favourable yield moves and the currency.

The reality is that the real economy does not change overnight. So we are hiring, firing, government investment, this very fractured relationship between government and business.

I think that does take some time to repair all the damage that has been done in the last two, three years. Things seems to be moving in the right direction, but it is still early days.

R: Yes.

P: At least in my opinion.

R: Okay. So then how do these factors influence your… directly and indirectly, influence your decision-making?

P: Yes, I think as human beings we are all… We are all a little bit biased when it comes to investments. You know if you cast your mind back to 2007, 2008… Even though you knew equity markets were cheap, you knew the world was not coming to the end. It is so difficult to override your emotions, and still buy shares, for example and refrain from disinvesting.

R: Hm, hm.

P: So I think the flip side, (you know) perhaps things are not as bad as in 2008, but it has been a situation where you second guess a lot of investment decisions, in the run up to December. Local counters, insurers, banks, very out of favour.

So, ja, I think a lot of that has changed. I think it is a lot easier now to invest in SA Inc type companies. So somebody reliant on the SA consumer. And I think… Ja, it's getting easier on the JSE. So now, also as a group, us human beings we love an equity market rally.

So a lot of people are a lot more encouraged with each new high that the market reaches. I think it becomes a little easier for people to invest, rightly or wrongly. Perhaps wrongly?

And the only one that <u>really</u> makes me uncomfortable at the moment is Crypto Currencies, which I am sure Francois covered? He is a Crypto fanatic.

<u>R</u>: Yes, he did.

P: Ja, that is one that I just absolutely have to pass on. I think it is a terrible idea, and it's often given .... badly.

<u>R</u>: *[chuckles]*

P: So that is the one exception to jumping on the bandwagon.

<u>R</u>: *[chuckles]* Okay! So which, when you look at your economic, financial and political factors, which would you say in your space, in your field specifically, are most important? Like, if you could… well, let's say rank them? You know, from most to least important, how would you go about that?

P: Look, I think all of them are related. So it is difficult to segment them. It almost becomes a self-fuelling ecosystem. So politics, I think, plays very nicely into the psychology of investors. Sort of the way you experience flows.

So a happy consumer and an optimistic consumer is a great thing for us. I think, unashamedly the single most important thing is the economic factors. So things like growth rates, interest rates, debt servicing by consumers, it has a huge effect.

We have gone through a period of absolute compression, (you know) customers are over-indebted, South Africa in particular; hiring and firing, so then just unemployment in general is a problem for South Africa.

And although we do service the upper end of the market, so our client base typically is a high nett worth, affluent and upper middle market, the reality is that those people are also being pinched.

So low growth and high interests rates, and to fend off high inflation rates, that has really hurt us. So I think it has been a particularly painful time… not just for Momentum, but I suppose insurers and the economy in general.

An economy that looks very different. An economy that is generating jobs, growing favourably, a strong Rand, also self-fuelling, is an ideal state of affairs for us. And, hopefully, we are moving a little bit into that space, after an economic drought in South Africa.

So we have had a hard time since, I would say, since about 2011. Hopefully that is now about to change. Politics, economics… What was the third one?

R: Financial, which is obviously inter related to economics.

P: Ja. So financial in the context of inter trades, and… and…

R: The availability of ......

P: … the availability of money?

R: Yes. All of that.

P: Ja, so look, that is… that is very related to economics for us.

R: Ja.

P: So a wealthy consumer, low levels of debts, low interest rates, high property prices, are all things that create a perfect scenery for our business. Ja, so I think that is about it, and stock market. I suppose people, whether they withdraw or not, and whether they're wealthy on paper, certainly makes for a happier consumer than one that spends.

R: Exactly!

P: Yes.

R: So now we move on to the second phase of my questions. And I think the first question which is just perfect to set us on this second line of questions is, maybe you can take me through your investment decision-making process? Or you decision-making process, like the different phases?

P: Purchasing?

R: Yes.

P: Okay. So my personal… my personal ones. I do not know how early you want to start in the decision-making process? Once I make the decision to invest?

R: No. This is the whole thing ......

P: Okay, even prior to that?

R: Ja. Up to making that decision?

P: *Sjoe*, it's changed a bit now that I got married.

R: *[chuckles]*

P: So I suppose my current household. We are both income earners, which maybe differs house to house. In our world what we try to do is, we're obviously young so we are trying to fund a few things. Many of them are long term, things like retirement; potentially a family one day. And some of them are very short term. Things like holidays.

We are absolutely fanatics in terms of not taking on debt. So we hate debts, and that is probably the beginning of investment decisions. So we always pay off debt first. It is just a personal characteristic.

R: That is a good one.

P: Regardless of interest rate. It is not always a good one, but it is just a personal preference of ours, as a household. We are also avid savers.

R: Okay.

P: So a large portion of our earnings currently goes into savings. It differs by psychology. So if my wife is just buy .. buy make-up, more conservative person. So she tends to save a dedicated amount every month, moving into something that is quite stable, like I would say, like a multi-asset, moderately risky unit trust, local and offshore.

The logic there I suppose on the offshore side is not only a pessimistic view on the Rand, but also the reality is, we do not take for granted that we live in South Africa, always. It is nice to have an offshore nest egg[?]. So we're hoping that builds up over the years.

Mine is very different. Mine, I as a hobby I run a share portfolio. I love the risking that sort of comes with it. I love the hours put in, and I currently are sitting in on our securities business on the research side. So I spend a lot of time, as a hobby, managing my own share portfolio. Most of it goes directly onto the JSE.

From a decision-making perspective, I suppose there you are constantly battling your psychology, there's a couple of counters that you are just absolutely infatuated with. And there is those unloved ones which you're stomaching losses, but that have an investing case that you believe in. I judge that based on evaluation on a bit of research, so whether the prospects of the company are good, current valuation, and then how it balances out the entire portfolio.

So what I have found in certain instances, that you get a lot of concentration risks in a particularly the sector. And, as good as an investment case as it is, and nobody has a crystal ball, so I do believe in diversification as much as anyone, even though it is a pretty concentrated portfolio.

R: Hm, hm.

P: So constantly looking out for new type of companies… Been burnt once or twice; pleased to say that most of them work out, not all of them. I can say at least half work out in my favour.

Then I just, I suppose over a periods of, let's call it two, three years, unintentionally, but over a period of two, three years I run through feet[??].

R: Okay?

P: So there are a couple of years where resources feel particularly attractive. Retailers, industrials, financials, whatever the case is. So it does go overweight in certain sectors.

R: Okay.

P: That is usually nothing more than a personal feel of the market. Like I say, I'm not rocket scientist. It does work out more often than not, but that is not a guarantee that you'll beat it.

R: Hm, hm.

P: Ja, so I think that is it really.

R: Okay.

P: I am not really one for unit trusts, no particular reason other than I just enjoy running my own portfolio.

R: Okay.

P: Ja.

R: So you spoke a bit about the research that you do, or that you actually do research prior to making your decisions. So can you maybe take me through what kind of research you do?

P: Ja, so I am a bit of a cheat.

R: Okay? *[chuckles]*

P: In that we have got a team of researchers who sit in Momentum securities. So we have got a dedicated research desk, which cover … I do not want to say the whole of the market, but I would say a good 60%, 70% of the market.

Research there is very comprehensive. So it is everything from management calls to running through the financials. We do get third party research that we buy, and we interrogate third party research.

So all of that then feeds into company reports we tend to have, depending on the counter. And we do updates on company reports every quarter, every six months. I am privy to those reports.

So on any given weekend, usually it sees me wake with a cup of coffee and read through company reports. I usually have a list of, I call it *20 companies which are on my immediate watch list.* Many of those are obviously old. I am very up to date on their news. And what tends to happen is, I have got a shortlist of potentials ...

R: Okay.

P: .. which I probably spend, I don't know, anywhere between 3 and 6 months, getting to know the counter. Very often it falls off the list and isn't really something, other than a passing interest. And sometimes they graduate into the portfolio.

R: Hm, hm.

P: I am obsessed with reading. So I probably read anywhere between 100 and 300 pages a week, whether that is financial literature, magazines, newspapers, research reports. So it really is maybe a little bit more serious than a hobby.

R: Okay.

P: Also my job though.

[laughter]

P: Ja, so that sort of feeds the process. And I also do a lot of TV, stocks specifics. So I would say once a week… sometimes twice a week. And the evening shows on TV talking about stocks, which also forces my hand to do a little bit more research on counters.

R: Oh, that is nice.

P: And I think all of that leads to investment decisions.

R: Oh, okay.

P: So you usually get a bit of a gut feel that works like an opportunity. And I follow that, provided it meets the investment criteria.

R: Yes.

P: But I do cheat.

R: Okay.

P: Ja, so I give a nice valuation of companies. I do not actually troll through all the financials.

R: Hm… Well…

P: I need to be honest.

R: You are using your resources…

P: Sometimes I do that.

R: …that are available to you. So…

P: Ja, absolutely.

R: Ja. So now, to what extend then would you say market conditions influence your decisions?

P: I want to say not at all. You know all of us investment guys like to believe we are a Warren Buffett.

R: Yes.

P: That we operate in a bubble. We are completely insulated from outside opinions. Outside sentiment. The outside world…. To make a great investment decision! We all know the theory, and why that tends to work out over time.

R: Hm, hm.

P: But the reality is… if I am honest… we are definitely influenced. So I think, as a human being, it is unavoidable to get sucked into sentiment. And you live in those second guess decision. You know?

Like I have said, on the southern African Rand. You could not find a person to buy the South African Rand or South African stock over the last two years, if you tried.

Now, all of a sudden, flavour of the month … everyone is excited, and I suppose I am too. So we are definitely influenced. It is everything from … I don't know? Casual conversations with friends, colleagues, family…

From news headlines to …. Ja, I suppose those are the primary ones. Now, all of a sudden, and I mean I do not know if you troll the internet? But you will see a lot of positive statements on South Africa.

R: Exactly.

P: And very little negative.

R: Yes.

P: And, again, it goes back to what has really changed in six months? The prospects have, but nothing in the real economy has changed that quickly.

R: Ja, it is.

P: Except for the Rand.

R: Ja, I think it is just perception and opinion that are driving that.

P: Ja. So I do not think we operate outside of influence. No. Myself included.

R: Okay.

P: I don't know if that is the answer?

R: No. I, I, ja…

P: I will not influence my answer!

R: Ja. Exactly! *[chuckles]* So have you ever made a decision whereby the conditions that surrounded that decision was highly complex and, you know, if you have then what sort of factors influence that complexity?

P: Hm… So I would say that most of them are very complex decisions. You can always, for example, invest in stocks. You can always just grab a PE ratio and take it on, on the face of it. But very often that is misleading.

So I have had some… look I always do… I try to do a deep dive. Like I say, I do not go through the financials in detail. I go through the financials, so just a quick income statement, balance sheet and a few of the popular ratios. None of them are calculated by myself.

However, very often, that lets you down. You know? So even if you do believe the investment case is sound. For a sector company you believe the management is good. Everything works out from a theoretical sense, you still have the odd Steinhoff (you know).

R: Hm, hm.

P: So would it have been to my benefit? And just taken a deeper dive into the financials? Absolutely. But we only know that in hindsight. So it is a situation terribly complex. Did I comprehend the complexity before getting in? Definitely not.

So I suppose it depends on your definition of complexity. I'll probably would go a little bit deeper than most would do ...

R: Okay?

P: .. into investigation, but there are occasions where I wish I went further. Not that I was a big holder of Steinhoff by the way.

R: Oh, okay. *[chuckles]*

P: But I did have Steinhoff ....

R: Yes. I don't know how many emails I have had to send with just, (you know) with a portion of a specific find[?] held ....

P: Ah it's terrible ....

R: Okay.

P: .... Steinhoff and performance and, ag, it's been crazy.

P: And it's always a loaded question …

R: Yes.

P: … .... that comes from a journalist, and you think to yourself: *What are they going to do with that?*

R: Exactly.

P: And perhaps, even worse than journalists ....

R: Ja, and then you like: *Do they really understand the impacts is also…* but we are assuring them.

P: Was Animonni[?] a holder?

R: Yes.

P: Yes, yes, of the debt. Actually I remember a Conrad note … Conrad commented. Okay.

R: Yes. So interesting times. *[chuckles]*

P: Ja.

R: So my next question to you is, have you ever made a decision that resulted in losses?

P: Ja.

R: Or like wrong decisions? And then, how do you then deal with the aftermath of that loss?

P: Ja, so look, this is the behavioural economics 101. Cutting losses. I suppose … so I have definitely made bad investment calls. So not all of them work out the way you plan. What tends to happen is, (you know) traders are supposed to cut their first losses the biggest. It is always very difficult.

R: Yes.

P: So what tends to happen is, you make a decision based on information. I will give a good example. Maybe MediClinic. You buy into the business. It is expanding. It is growing. Revenue streams are great. The demographics of the regions they're moving into make sense. Everything seems to work out on paper.

And, all of a sudden, you get a surprise. Something like copayments on Abu Dhabi's client base. And then the investment case changes. Now what tends to happen is, let us say I think in the case of MediClinic the stock sheds 20% of its value and then you start thinking to yourself: (you know) *Was that a bad decision? Is it time to disinvest? Should I lock in my losses?* Or: *Should I wait it out?* It is very tempting to lock .. to cancel the position and simply (you know) take the burn.

It is equally tempting to hold out for better news. Even though perhaps it is psychological? Because nothing does change. At least you are not reasonably expecting something to change. So very often I hold positions longer than I should, I suppose like many people who trade.

And, on occasion I even double-down[?]. So if it was cheap at a certain level, sometimes it just dips without a new piece of information and you start doubling down[? *doubt?*]. You start investing more into the counter.

And, as it dips further and further down, so you increase your position to a point where psychologically you start thinking: *Is there potentially news that I am unaware of?* And that also becomes a, I suppose, a branch in the decision tree. You cancel a position or[?] to trim back.

Ja, so I suppose it depends. Counter by counter, how it works. I do not feel the same way about unit trusts. Unit trusts by nature aren't the same as a concentrated position, so I don't .... unit trust. I suppose it reflects the market, cheaper the market. If you are willing to pay a Rand for a unit, you should be willing to pay 50 cents for a unit.

I think it also is influenced by affordability. I mean so very often you take your entire cash portion, invest it in the market and even if it does go down and it looks like a bargain, unfortunately you have to wait for your cash to top up, and for that salary. Ja.

R: Okay.

P: I hope that answers the question? Probably not.

R: No, no, it does. *[chuckles]*

P: Okay.

R: It does. So when you're making your decisions, right, to what extent are your opinions, your personal views and your experience prevalent within that?

P: Okay, so opinions are probably everything. If that's the departure point. So, like I say, I have got a shortlist of counters, which is largely based on opinion.

In addition to having counter opinions, I have got an asset allocation opinion, so I sit on our Asset Allocation Committee, and get[?] a lot of influence in terms of geography sectors, insurance cycles. Those sort of things. I like to think it is mine, but the reality is, I am probably borrowing some of those views from our economists, for example. That then shapes an opinion. It forms my shortlist. And, as a consequence, I build up my portfolio.

In terms of experience I would say, a little bit. And the only reason I am saying that is not because I am more experienced now than I was previously. I find the way our investors changed …

R: Okay.

P: I probably started my share portfolio when I was about 13 years old. And if I look back today on what my share portfolio was then, it's worlds apart. It was a share portfolio that was formed based on products that I knew, companies that I could relate to. Household names.

And as you grow[?] yourself more into the world, I suppose your spectrum of investments expands. Instead of concentrating on perhaps the big banks that you obviously flow towards knowing the brands, to (you know) potentially more below the radar investments.

R: Hm…

P: Ja, so I think that is it.

R: Okay.

P: And then obviously offshore as well. I think as you get more engrossed in investing, so your opportunities set widens to local and offshore, where beginners either buy an index, I would imagine. Or perhaps just some recognisable names.

R: Okay. So what I am taking from that then is that your opinions are the most important between all three - personal view, experience and…

P: Yes.

R: Okay.

P: Yes. Whether I will admit or not….

R: *[chuckles]*

P: Ja, look, I would like to think that we're quite mechanical ...

R: Yes.

P: .. in how we arrive at an answer. But, at the end of the day, it is an opinion I suppose that shapes the view.

R: Precisely.

P: Ja.

R: So now, I am just going a little bit deeper. So we're human, right? And emotions are part of human nature. And there might be some days where you are really feeling good, and then there might be other days when you're

R: not feeling so great. So, are you aware of your emotions on a given day? And ....

P: Absolutely.

<u>R</u>: So then how do you manage that successfully, separated from your decisions?

P: So I find myself a creature … because I… I suppose[?] because of the frequency with which we will try our best[?], I am acutely aware of the way I am changing.

<u>R</u>: Yes?

P: So, for example, one day I could be very opportunistic. Be keen on investing, in my opinion, or sorry, by my measure a decent amount of money. And the next day in a different mood, I could trim that back.

But because it is quite mechanical and it is numbers, I often reflect on: *Why the difference? Why have I changed my opinion? Is it the right thing to do? Am I getting caught in a bit of an emotion in terms of doing it?* So I almost interrogate my own emotions quite a lot when I invest.

<u>R</u>: Hm, hm.

P: I have also picked up on a bit of a habit that I love it when the market chases! Because things get cheap. So my emotions are almost changed in that I often keep cash aside, just waiting for a crash.

<u>R</u>: Hm, hm.

P: Now, historically, emotionally, in market crashes we see your paper money disappear and it is traumatising, whereas I suppose my psychology is completely changed. I suppose that sort of change happens only when you are very cognisant to your emotions. And how it affects your decision-making.

<u>R</u>: Hm, hm.

P: So I think it is … I think it has changed and I think I am acutely aware.

R: Hm.

P: But, again… I know. It is just a perception.

R: *[chuckles]* Okay. So my last question for you then is, (you know) considering your space and your experience and everything you have learned, what would you then consider in your specific field a rational *versus* an irrational decision-maker?

P: I think a rational decision-maker is somebody who has a clear objective, who goes through a very … I don't want say dogmatic, but a process to arrive at a decision. Somebody who is able to elevate themselves from a day-to-day decision, or point of departure, and to sort of see the big picture.

R: Hm, hm.

P: We spoke a little bit earlier about an outcome. You know if your outcome is to double your money over five years, a week in when the stock market crashes, you should not be influenced to disinvest. It just does damage. So somebody who can almost separate the emotion from the journey, I suppose is the most rational.

The most irrational for me is exactly the opposite. Somebody who is very skittish. Relies on day-to-day moves. Watches it daily and allows that to influence the behaviour. That's irrational. Or perhaps equally irrational is somebody who does not know themselves.

I separated my wife from my portfolio earlier. It is not that we have got different propensities for risk. It is just, I suppose hers, as a person, is more conservative. (You know) she is happier with more conservative, and I am more aggressive in my approach, and my psychology.

So I think you have got to also start by really understanding who you are. It does not help if she goes aggressive and I go conservative, because both of us will ultimately just be frustrated.

R: Hm.

P: So I think a lot of investors do not spend time coming to terms with who they are ...

R: Hm.

P: .. and what they are comfortable to do. And, ultimately, regardless of whether it's the right or the wrong investment decision. If it is not in line with your personality and your psychology, I think you're constantly going to have that conflict, which creates strain. And perhaps that is irrational behaviour.

R: Okay.

P: Ja? Is that it for an answer?

R: Yes. Yes it is.

P: Okay. Perfect.

R: I like that.

P: Okay.

R: I am also trying to diversify my sample…

P: Ja?

R: As, (you know) most investors do with their portfolios.

P: Sure.

R: I am very happy with that. Ja, so that is it. Thank you so much for that.

P: You are most welcome.

-

...[End of recording]...

—o0o---

Audio track: Participant 17

R = researcher
P = participant

R: Right? So just before I start with the questions and stuff, maybe you just want to give me a brief background as to what you do?

P: Okay. Wonderful. So the firstly, my name is Giel[?]. I have been at Momentum for eight years. Quite a bit of it with the company .... with becoming an investments .... as well.

R: Hm, hm.

P: And, subsequent to that from an education perspective, I have also, pursuant to this event, as the .... designation which .... I have. And my role at Momentum started with a product development focus where we ran the structural .... TT. All that for a period of 2 years. And I then expanded my role into, is still within the product[?] development and team framework, heading up the retail solution design team, and discretionary solutions.

R: Hm, hm.

P: And now I head up investment distribution within 221 retail. And that is really my story… Let us call it *claim to fame!*

R: Cool! So my first set of questions deal with the local and global economic, financial and political factors, because you operate within that environment.

P: Ja.

R: We cannot hid from that. And then the second one that looks more at your decision-making from a personal perspective.

P: Okay.

R: Okay? So my first question is, what sort of local and global factors influence your decisions?

P: So the… being an investment person, I am going to give you my sort of educated answer, and then I will give you my sort of, the answer that comes from the heart sometimes.

R: Okay?

P: Which I think is important.

R: Yes.

P: There are biases in each individual, and those contribute to the way that you think about your decision-making process. And with the power of the human mind, and what you see, what is tangible to you, that always influences the way that you think about certain things.

So, for me, if I just look at it from a technical perspective, and the influence on the local and international markets, what typically goes into it is a macro-economic view of the world. That macro-economic view is informed by publications, by the news, by other internal publications that are available to us.

In addition to that, I think what I specifically view and love and am passionate about is the investment landscape. So even in my own personal time my magazine preferences are generally financial publications. My bedtime reading is business novels, and typically factual content.

My dad is a financial advisor. So typically our conversations was driven… and perhaps I must extend that - my wife is also in the industry. She is .... equity portfolio analyst.

Okay. So our conversation revolves around : *What is happening locally?* And in the local context and in the shorter term, I want to say the short term for the last five to six years, the biggest factors what one considers is the political state of affairs in South Africa.

Those political state of affairs in South Africa are very represented by the day to day realities of what we face with GDP growth, with unemployment rates, with the lack of education, it is topical at the moment, being an effective base for everyone to be able to use.

R: Yes.

P: And that contributes to the way that the economy grows. Fine? So a big part of who we are and how we invest in the local market is influenced by sentiment… in my view.

R: Yes.

P: And that sentiment is driven by what see in the political arena. And that battle, that daily battle definitely contributes to it. But, again, taking into the technical foundation one has to step away from that because sentiment can only last so long in the market, and the market reacts to that and quick recovers from that.

R: Hm, hm.

P: And if you look at the way the local market is characterised by our main players, and here I am just referring to the top 40, as an example. The majority of this company derives their investment performances and returns through for foreign markets in any case.

R: Hm, hm.

P: A lot of them are and do list on foreign exchanges and that naturally gives one both comfort on how they invest in those. And you will find, despite tough local conditions and volatile local conditions, the impact of that is not often felt in the equity market. Okay?

R: Okay.

P: So that is an important sort of way of thinking about the local market and view. In terms of the international markets, because it is so wide, the spectrum is so wide, the touch points that one needs to have and because of how big the investment universe is really, so I will take you down to solutions.

You get mutual funds. You get shares. You get so many different access points into the investment universe. One needs to consider, in my view, the sort of reality is that those markets face, I mean here in South Africa.

The way that they can contribute to what the world is going through right now. And I think the world is going through different facets with quite high rate of terrorism that is taking place. We have got the rise of what I deem to be *an economic shifting concept in the form of crypto currencies.*

R: Hm.

P: And, naturally, those particular errands[? *areas?*] and aspects contribute to the way that you think about the way the globe is changing, and changing rapidly.

The biggest facets in the international market that are and have and will continue to be topical in my view for the next ten years is the rise of the emerging market communities and here I am specifically referring to China and India.

R: Yes.

P: With the population growth rate with what they are in those respective environments, with good leadership at the top. Here again I bring in a bit of that political perspective, you can certainly see that the contribution that those two economies have, they have really quickly recovered.

R: Hm.

P: But they say you are competing here with the super power, that is the States, the combination of them certainly getting close and exponentially increasing numbers over the years, one should consider investing, and the fundamentals of investing are definitely evidence.

So that is a stable political environment. Good economic growth. GDP growth. Low unemployment rates. Inflation under control. So those are the warning signals that one used to look at when determining how to invest offshore.

I think the international landscape is often one that is not touched by South African consumer. I, myself, for one do invest in offshore markets. It is because of what is unknown to us. Right?

R: Yes.

P: So, ja, they are operating in a different jurisdiction. Often to get your money offshore, if it is Rands in. Now I earn a salary in South Africa, and therefore I am a Rand investor, and it becomes quite difficult to understand the different mechanisms available to you, to take your money offshore.

Now sitting in the business that I do sit in, those are the opportunities available to me. So, again, being close to is, my history, my product development experience herein, it is quite close to hopefully to be able to consider.

R: Okay.

P: That is really a sort of a birds eye view. I mean we can talk about this for hours and hours in terms of what it is that… well what I would consider investing between local assets and offshore assets.

If you go to the detail asset classes, and what it is that one considers in different times, I suppose, just for the purposes of the concession, I am a firm believer that Dallasfication[?] is the cornerstone of investments.

R: Hm.

P: So to be able to get access to both of them, which is available to us in South Africa, as investors, me specifically, and to be able to understand what drives the different factors in those regions that you want to potentially invest in, it is critical to the success that you would like to unlock.

One needs to also be mindful of the fact that some of these can be seen, or some of the decisions that you can make can be seen as bets, as opposed to really founded concepts in relation to investments and in view of that particular investment category.

R: Okay. So what recent events in the global and local environments have influenced your decisions?

P: Okay… so… Okay, I mean in the local context, and this is not necessarily as recent as what I am sure my colleagues have also shared with you.

R: Hm?

P: Last year was a big year for us. Right?

R: Okay.

P: In the South African context. Jacob Zuma lasted through too many trials and tribulations that he faced, and came out stronger for it, which also demonstrates his political strength in the environment.

R: Hm.

P: But, having said that, the good news that came out at the end of the year or at least what business tends to see, is that Cyril Ramaphosa with his background and his close ties with business is critical for the success of South Africa, going forward. I think the ANC as a ruling party is also at a place where this was going to be a sort of *do or die situation* for them. Right?

R: Hm, hm.

P: So that certainly contributed to my decision-making process in the last year, up to a point at which the Rand volatility was something that I did take advantage of. Okay?

R: Okay.

P: So a lot of my assets were weighted to offshore assets, and lesser to locals. My local portfolio was discretionary investment with a leading asset manager.

The diversification that I get, which I spoke about earlier, is in relation to companies in the top ten companies that I know I can get beneficial value outside of South Africa.

So, for me, yes it is a Rand in, Rand out investment so that I can get tax benefits attached to it as well, because understanding your tax circumstances is also critical, especially at the stage that I am in. My life cycle.

R: Hm, hm.

P: And it gives me that. In terms of the international view, I am a firm believer in understanding a couple of concepts. Those couple of concepts is: *What am I intending to achieve with that Rand that I put in?*

R: Hm, hm.

P: Over what duration do I want to elect that investment to stay in place without having to tap into it for personal circumstances, whether it be an emergency maybe. An then the third requirement that I have is really to understand the return profile of that investment.

Because, whilst understanding the journey and managing for personal emergency circumstances that may or may not happen, as well as understanding the risk budget that I have, to be able to spend that Rand, that is what contributes to my decision to invest.

Investing offshore naturally comes with delays in terms of getting your money back, etcetera. So that does play a role. But, again, because of how big that landscape is, the opportunity scene is just as big.

R: Yes.

P: So when you consider that opportunity set and in relation to sort of that economic one on one context, and that is, let's understand the geo-political environment, like we have been discussing up until now, let us also understand what it is that they trying to… what I am trying to do in that particular region.

R: Okay.

P: Yes, as it relates to growth, etcetera. I think it is pivotal, but when you look at the States, and that is where I have got a lot of my investment at the moment in terms of… and the equity counters in that market.

Companies, such as Apple, and you hear this phrase about Blue Chip, I always say *thanks[?],* but (I mean) it is not always the case. We know that safe investments, and closer to home, African Bank with its debacle

P: was a very good example of what was perceived to be a safe investment, contributing to quite a bit downfall of a leading banking partner.

The same can be said for Blue Chip companies. We have seen this massive accounting issues, and if you ask the one question: *What has really informed my decision-making over the last couple of months in relation to those particular economies?*

I mean you look at what has happened with the Gupta's and what they have done and the fact that a lot of the accounting firms, big firms, like Deloitte's and so on are taking strain with their audit requirements, which is in a super regulated environment, like the one we are operating in at the moment. That also starts to beg certain questions as to how safe any investment is.

<u>R</u>: Yes.

P: And again, being here, I am a risk taker. I have to be. That is what you do to try and grade and secure your retirement plan. It is those early debts and early investments that allow you to have the retirement that you are looking for. Each of us have different requirements.

<u>R</u>: Hm, hm.

P: And that is certainly played a role in the way that I invested in the last year as well. As a last consideration I mentioned earlier what is tangible[?] and what is known to you is what you typically take comfort in.

I suppose what is the fickle nature of the human mind. You trust what you see, what you hold, what you experience. I will use as an example of an investment, Apple. It is a great product in demand. Apple and then iPhone, and I have always had the opportunity to upgrade to the latest one, which is a great thing.

<u>R</u>: Yes.

P: To experience the product, to experience the way that the ethos of the company and the way that they run their companies, even in their product…

It is a quality product. Quality is important, as we know with goods, such as a phone.

When you start to see the benefit that you get out of that, and you see other goods getting the same or derive to get the same benefit out of that same product, that becomes something that you put your trust in.

So that, for me, is another critical point in determining how you invest in those different markets. And those different markets with the opportunity sector that they present also I think are critical points to just consider.

R: Yes.

P: But the knowledge levels to be able to do that I think is something that we need to focus on, as individuals. All of us. It is not a sort of appeal statement.

I think it is each individuals that wants to place investments in these markets, they need to understand the fundamentals, what drives it, understand the volatility of the market that you are operating in and volatility can be measured in many things.

Volatility can be measured in your success probability. Volatility could be measured in standard deviation, which is worth looking at, in the market.

However there are other facets that you consider for your own personal circumstances and for me those are different to a person that is aged 60 years old. For me it is also different because I have got an investment background. So that is important to take into account too.

R: Okay. So what I like is that… I have like follow up questions, but you touched on that as we go along.

P: Yes.

R: So we kind of shooting through here. So my next question is, what is your opinion of South Africa's current economic and financial and political space? Your own opinion?

P: Yes. Okay, so my personal opinion… and I am actually going to start with a different perspective to answer that question.

R: Okay.

P: Then I will specifically answer it.

R: Okay.

P: So I have been relatively fortunate to, with work and in my own personal life. Be able to travel the world quite extensively.

R: Hm.?

P: And at every juncture, irrespective of when I left to be able to go either on a holiday or a business trip, and upon returning, despite the circumstances, as I have said, at where I left it, I still feel that it is the greatest country in the world. And it may sound like a sort of very passionate statement, but it is actually an informed statement, and that is because of what this country gives you.

R: Okay?

P: I have been fortunate enough to study at great schools. I have also been fortunate enough to add on to my tertiary education. I have been fortunate enough to be able to work for a great company.

I… what I believe in is that you have got a starting point, and that is the day that you are born. And you have got an end point. What you do during those two points is what really defines you and the legacy that you leave.

If I look at how steeped South Africa is in history with many different challenges and moments… and we have tons. I mean we can talk about those also for a long period of time. This is one of those moments I think in South Africa history that we look back and say: *It was a good decision that was made…*

Here I am specifically referring to the National Electoral decisions that were taking place in December of 2017. And, again, talking about it really and the impact that a person has, like a Cyril Ramaphosa has.

Here I am specifically talking about the environment that he can bring in with the people that he surrounds himself with, which will definitely contribute to the growth of South Africa. I have no doubt about that. That is just a reflection on the political state of affairs.

If I look at the financial environment and it's a strange concept to think that we see ourselves as an emerging market, but, benchmarked against other emerging markets, we really are forward thinking and we have access to vehicles and instruments that very few emerging markets, other developed markets have access to.

R: Hm, hm. Okay.

P: And the depth of that and the way that it is regulated with, an example being, the JSE and its stock control measures. Having a look at how the FSB is continuously trying to drive consumer engagement with financial products.

If you then start to consider just the border association for services and investments in South Africa, where we are a part of and having an exposure to that, in a way that we think about problems.

Having a look at our presence in Davos, and how the important the world looks at this little spec that is in the Southern corner of the continent., it demonstrates the fact that our financial position is a firm one but It is definitely vulnerable, and vulnerable to the extent of which we have seen the impact of downgrades.

But downgrades as a result of, again, what I firmly believe is sentiment to a political event that we were going to have an eventually and that eventually was the outcome of last year', the positive outcome, being what it is now. That demonstrates the strength of the people and the impact that they have on also getting the right decisions to be made.

R: Hm, hm.

P: So, all in all, my views are definitely of optimism, in all facets of South Africa, it is not only just in the financial context from the political arena. It even talks to the environment beyond that.

I think we will have a better place for education. Yes it is taking long, post-democracy, and one would have expected that we would add a lot more of development in those areas.

Public transport. So, from an infrastructure perspective, there is a lot that needs to be done still, but the developments, the direction of the movement is in a positive way.

Then there are definitely areas of significant improvement that we need to have, and those areas of improvement are around matters like corruption.

Everything about what we have seen in the last year with the Gupta's, the State owned enterprises. So, again, I am hopeful and optimistic, but there are still a lot of work still to be done.

R: Okay. So I understand that obviously your political, economic and financial spheres are all interrelated.

P: Yes.

R: But, you know, considering everything that we have spoke about, if you are able to rank these relative to your field, and your decision-making, how would you rank them from most to least important? If possible?

P: Ja it is a very difficult question.

R: Yes.

P: Because I think much of our concession has revolved around it, but if you look at… if you look at the impact that one person has had in deteriorating the currency…

R: Yes?

P: … that is the financial impact. But it is completely due to that one individual. If you listen to what has happened to something as basic as the fuel price, and the impact that it has had on the masses in South Africa in the form of price inflation and food.

R: Yes.

P: Yes, it is very difficult to divorce the two concepts. So if I look at a shorter sighted view, I would say that the political environment is probably ranked as the most important as having an impact on the financial environment.

R: Hm, hm.

P: But in the longer term and with a sustainable practice and with dedication by our leaders in the environment, both in the private and public sector, I think the two can work together to achieve what we need to improve the environments.

What we say and what we do in the political environment, just because we are South Africa, where we come from, has an impact on the financial environment. That goes without saying.

But, as soon as leaders in both those and, I have to admit having seen some of the latest developments, and again referring to Davos and just listening to the input that our representatives have had at the conferences there, I can see that the support that the private sector will give to the public sector is going to be of critical importance, but of value.

Similarly, the return that will be derived out of political stability and what I am referring to here is not firing the finance minister, as an example, a solid finance minister. That will definitely also contribute to the private sector deriving beneficial value out of what our public sector does.

So, ja… So, to rank them, at this particular point in time, as I have said, I think the political environment is the most critical. We need stability there. We are definitely advanced in the private sector.

We have got a great competition going with the banking environment. We have got a great competition going with the insurance sector and investment industry, and here including the asset managers.

We have good regulation working for us in terms of trying to achieve transparency, whether it is related to costs or whether it is related to the complexity of our products and services, and with the continuous development of our people, good education systems, there is no reason why we cannot take it further.

So… again, at the moment, the political environment is probably the most important and the rest will follow in that particular order.

R: Okay. So now we are going to move on to our second set of questions. And I think the best way to kick this off is maybe for you to just describe your decision-making process to me, like the different status that you go to, prior to making the ultimate decision.

P: Yes.

R: Okay?

P: Okay, so I… It is, my thought process in relation to investing is actually quite a simple one.

R: Okay?

P: And I think in the simplicity is where I find the balance that I look for, and I think it is a good way to look at investing in general.

R: Okay?

P: And that is, we all go through client lifecycle.

R: Yes.

P: And we must think of ourselves as clients too, despite maybe having the technical acumen of being an investment person, the lifecycle for me is the same lifecycle as a person who is not a technical person.

That is where we were born one day. We need to educate ourselves. We need to be able to get married, if that is what you want to do. And you need to fulfil all your dreams and your aspirations as you go through life. You want to retire one day, and leave your legacy. That is really quite a simple recipe.

What I mean is, it is very difficult to argue with that at different points in one's lifecycle. Now the timing is different across different people, and it is related to their personal circumstances, what they are faced with, what they are not faced with.

The means to be able to get to those different milestones in their lives And certain areas get more focus and certain areas get less focus. And that, again, is defined by what it is that you achieve in your personal circumstances.

Now, for me I get, being in a relatively fortunate position, the least of my worried were taken care of by my folks. So, to be able to educate myself, that was something I did not necessarily had to take into account.

R: Hm, hm.

P: That put me in a position whereby I was self-sufficient when I started working. Okay. So starting to work, what was my next milestone? My next milestone was to be able to get married and be able to get through that financial journey.

Now, what did I put in place to get to that point? That was namely that my wife, my now wife… for a period of 12 years before we got married we had specific plans as to when that was going to happen. So I knew what my term to maturities were for when the day is that I am going to get married. So that is one piece of the puzzle.

So now that I am understanding the lifecycle, what are the factors that I consider, as I have said earlier, it commence the term to the investment maturity that I need to be able to take into account… what is my risk budget at that point?

Being young I can afford to take a bit more risk. But is that risk is going to deteriorate? Or is it going to detract from me being able to achieve that outcome? If so, to what extend am I comfortable with that? And that is another factor to consider.

Then, being in a position to be able to consider both local and offshore assets to get there, different vehicles to get there, like a Euro trust, like a share portfolio… which of those am I going to focus on? Is it going to be a combination of those, just so that I can try and bring in the diversification, the benefit that I am looking for to be able to get to that outcome. Right?

R: Okay.

P: That is the second, the second process that I go through. So using that as an example, yes I have got two years to the day that I get married. I know that I need R100 000 at that particular point in time. What is that R100 000 supposed to cater for?

It is supposed to cater for serving food to our guests, making sure that we have our invitation cards being sent out. All of the things that go with getting married. And therefore, to be able to get to that R100 000 that I need at that particular point in time, if I have got a return budget of, let's call it CPI, for a fixed mandate.

R: Yes?

P: Yes, to be able to get to my R100 000 I must start to invest today, in a lump sum form because that is the… and you have got those options available to you as well. If a lump sum is not affordable to you, then adding a recurring investment, because I do have a cash fund working.

Now how will that allow me to get to that outcome? And perhaps I need to then move that specific requirement out. Now I am getting married, having dated my wife for a long period of time before I got married, I knew my relationship was at that risk.

R: *[chuckles]*

P: I got to think that my relationship as at that risk. Right? So if that meant that I needed to extend that particular requirement by 6 months, because of my affordability at the time value, point of zero, then: *Am I comfortable to do that, and can that open engagement I have with my wife?*

Now let us play that particularly out. Yes, it is okay. Six months added on to my investment term, let us do the calculation again. Now we are looking good. Okay, this is the opportune vehicle for me to do it. But I do not just leave it there? Obviously you need to monitor any investment on an ongoing basis. That is also linked to your financial planning process.

It is common for financial advisors to, and it is actually regulated that for such investments they need to have an ongoing review with their clients. And as investment people, naturally we can try and do that ourselves.

Using a different example. Now we are married. What is my next aspiration? I have got my dream car that I want to buy. Okay my dream car costs X amount, and we go through that same aspiration. But because this is a dream or an aspiration of want, and here, again, a simple concept of Maslow's hierarchy of needs comes into play. Right?

R: Yes.

P: So this is a want. I mean I can live without it, but because we are human beings we also want to see that what we are doing, working, we get a sense of accomplishment to that. And for me this particular car was one of those mechanisms. Right.

R: Yes.

P: So you would reiterate that, or you go through, you do the exercise with your, with the calculation again. You look at your budget, but now I have got somebody else that I need to take care of.

R: Hm, hm.

P: This is a *what. What else did I need in place?* Because if somebody asks, this is going to be a debt obligation for me. So, because it is a debt obligation for me, and I got the right means in place, for my wife, I could have a debt obligation.

Right? So that then talks to life cover. Okay, but I have got life cover in place, so this is now actually not something I need to be concerned about. Again I should put that in place first. Right?

It might not be necessary to cover the debt obligation for this particular tangible object, but rather to make sure that I leave my legacy, should I die. And that eventuality is not known to us.

Dying is something that… all we know is we are going to die some day. We can die at the age of 35. We can die at the age of 40… whatever the case may be. You need to make sure that you have got your policies in place. Okay?

So that is… we sort our life cover, but now my affordability is less. Yes my dream car will now have to wait, but I saw a new car. What am I comfortable to do then? What am I very comfortable to pursue? Okay?

R: Yes.

P: Now I have considered life cover. I have considered the investment that I have got in place. That investment has now seen its maturity date, I need to still be able to save for my retirement. Okay, now I am starting to think about the whole holistic view.

My holistic view is missing another aspect. It is missing medical expense cover. And now you start putting all of this together. You have got your budget at the start of the month. You have a look at how this cash flow is now expensed over a period of time. This is what you are left with. Okay?

R: Hm, hm.

P: And now I need medical aid. I can afford it. Let us put that in place. Okay? Now what I am left with, am I going to be able to get, and here I am not only thinking of my dream car, but a car that is going to be able to get me from A to B.

R: Yes.

P: What next? And that is when you work with your budget. Okay, perhaps, I am expensing[?] myself. I do like a good representative, I spend a lot of money on a wine. Perhaps I should cut back on that? And then you can see how the process really follows. And for each of those my recipe stays the same.

R: Okay.

P: I do not see my recipe changing. My risk budget does change over years. I need to be able to tackle those, because as you develop yourself your requirements become more. But your requirements become more in relation to the legacy you want to leave as well. And, therefore, your risk budget changes in accordance to that.

From a time perspective, each requirement through that client lifecycle that I have referred to earlier, that also will change, and that is because it is dependent on what that particular point in the lifecycle or acquisition is that you want to achieve.

R: Hm, hm. Okay.

P: Ja.

R: So when you look at your decision-making process then, have you ever made one under conditions that were highly complex?

P: In a type of condition?

R: Yes.

P: Okay, so it can be political. It can be personal. It can be … Oh, okay.

R: Yes.

P: So from an investment perspective, there are a couple of things that have worked in my favour. One of those is, and it is personal circumstances that I have shared for the purpose of this exercise, but my brother is mentally handicap and mentally disabled.

R: Sorry to hear that.

_P_: So my wife and I made a deliberate decision to stay at home with my folks so that my brother has that sense of comfort that the day that they pass on should not be before him, or before any of us, that there is always going to be care for him. And that is where that deliberate decision came from.

So one of the biggest obligations that people today face is that one big exercise of purchasing a house and building, or whatever the case may be. Or move into a nice apartment. Or whatever the case is, as I have said, maybe.

And, without having that obligation, my financial circumstances and my decision-making in relation to the investments that I have made, have always been of a long term nature, and I would not necessarily have to tap into those investments.

If I had to pick one, that one would have been early in my career where I was looking to travel overseas with my folks. And the one thing that my dad, being a financial advisor, taught me early in my working career is that you need to be selfsufficient. So naturally I wanted to pay for that trip myself/

However, I had a shortfall. Now my discretionary investment that I refer to, had built itself up quite nicely. The short fall was not going to deplete that fully, nor was that money earmarked for anything other than a future plan, may be the day .... – and as I have said, it was not earmarked for something specific. So that was available to me, and that's why I tapped into it. So it was just because of the circumstance – family is travelling, I wanted to be part of that trip, a sporting event is something I appreciate, and I tapped into my investment.

R: Hm. Okay. So have you ever made a decision that resulted in… a wrong decision basically, and then it impacted and it could have had potential losses and stuff? And, if you have, what, how do you deal with the aftermath of that?

_P_: Ja. So, I had some gains that I was comfortable to play around with. And there was a trading company, or there is a trading company, called IG, and a colleague of mine was… Well, I mean he was doing about the same with technical acumen on trading contracts for difference. CAT's.

R: Hm, hm.

P: And, as you know, that has a binary outcome to it, on how this particular trading mechanism worked, and it is that you enter into trade at some point in the day and you close out that position at the end of day, either with a gain or with a loss.

Now as you build up winning positions, obviously like a roulette table, and that is exactly what it was, you start having to post additional margin. The more margin you position for that same acumen[?], being a binary outcome, the more you stand to lose. Okay?

R: Hm.

P: So for each transaction you put on, and that have been really good for me. I was up significantly and by then it was a R10 000 investment, and, as I have said, I was just playing around to understand the system, etcetera.

R: Yes.

P: I ended up walking away from that particular investment with R5 000, so half my money…

R: Oh, okay.

P: And it was a good to understand the contracts for different posting margins, understanding the market. Volatility on a daily basis, and that is something that you have in your control. That is why long term investing is such a good concept.

R: Hm, hm.

P: And the effect of compounding[?] is probably one of the best things that young people, like myself, with this example, can do. And that is keep your money invested for as long as you can and make sure that it is always a good sound investment strategy, on something like this which is a pure bet[?].

R: Okay. So now, so you have spoken about local and global factors, and then we looked more towards your investment decisions and stuff.

P: Yes.

R: To what extent then would you say your opinions, your personal views, and your experience are prevalent when making those decisions?

P: Perhaps just rephrase the question for me? Because what I am trying to understand in that question is, are you referring to a hitrate[?] in relation to my decision ...

R: Hm, hm.

P: .. or are you referring to conviction in my decision?

R: Conviction.

P: Okay. So again, what I do believe in is that in this particular environment being investments, that a sound academic background and a sound decision-making process in leaning into that investment decision, and once you have placed that investment decision, is of critical nature. That, for me, relates to what is going to be the successful outcome that you want to achieve.

R: Okay.

P: And also your conviction with that particular outcome. And to get to the point at which you have that academic acumen, I do not only think it is academics either. I also think it is real world experience. And you get your real world experience only by being in the workplace or by being in the environment and trying to do certain things.

You have learning experiences that are positive and you have learning experiences that are negative. And some of those learning experiences that are negative is not because you do not necessarily have the academic powers to be able to get to that and to stand by your conviction to continue with that particular part.

But it sometimes, as a result of, and we did talk about it a bit earlier, sentiment that is completely outside of your control. So do I trust myself 100% when I make an invest decision, and understand what it is earmarked for and to see the benefit of that? Yes. Always.

Where does that conviction come from? As I have said, it is because I trust myself and because I built up two things. Experience to be able to deal with financial markets, and also understanding the financial markets, and also having the academic background to be able to deal with it.

Conviction does not necessarily translate into hit rates[?], which is where my question came from. And sometimes you are going to win them, and sometimes you are not going to. It does not ever deflate from my conviction that decision, and I always stay on the path.

R: Okay. So then would, if you had to choose between your opinions, your own personal views, and then your experience, which one of these had the biggest impact? Or played the biggest role?

P: It is not one, and I cannot single out one. I will tell why.

R: Okay?

P: As I have said earlier, I source my information from a number of places.

R: Yes.

P: I understand the economic environment that I am operating in with a decision in that particular market. And that is not sourced from my own intellect, that is sourced from good sure information that is available to me.

In addition to that, being able to make a decision is also informed by my own pricing models, my own spreadsheets that I have done with the knowledge that I have built up. So to be able to choose between the two is not possible.

But what I do believe is that the contribution of the resources that are at my disposal as well as my consumption of those resources, in relation to the knowledge that we all have, is what contributes to the eventuality or outcome.

R: Okay. So now I have to ask this question, because you know what, we are human.

P: Ja.

R: And emotions are a part of human nature. So are you aware of your emotions on a given day? I mean, sometimes you wake up in the morning feeling good. Other days you are not feeling so great. And, if you are aware of them, how do you the successfully manage to separate that from your decisions?

P: Yes. So this is a great concept of EQ testing. So, to be able to deal and control your emotions, it is probably one of the hardest arts in any job. It does not matter… Well I am saying *job*, I should actually say in any business line. Because it does not necessarily relate to the job.

But… so let me answer both those questions first of all. So now I will give you the rationale behind it. Am I aware of my emotions at all times? The answer is no.

Examples of those are when you are on the road and when the guy in front of you does something ridiculous, you are not in control of your emotions because the first thing, your adrenalin starts to pump and you want to react.

R: Yes.

P: And no matter what you tell me, each person has that. How they deal with it in different circumstances, that is a different story.

R: Yes.

P: I would say, yes you get the emotional bursts, and that emotional burst can be one of anger, one of frustration, one of empathy. An example of that, more recently, is on social media yesterday, I had a look at this exercise of… I can't remember where it was? But it is one of the Asian countries, and they grouped together a bunch of dogs and they slaughtered them.

R: Oh, no.

P: Now being a bit of an… I don't think of myself as an activist for animal welfare, but at least caring enough for that, actually my first reaction was one of anger. But translating that - and I read a beautiful book in December by Arun Ghandi - he is Mahatma Ghandi's grandson.

And Arun Ghandi talks to the 11 lessons that he learned: *As advised by my Grandfather.* One of those lessons is how to channel your emotions into positive thoughts or into positive energy.

R: Okay.

P: Because you can see your emotions as a sign of weakness. Anger, to everyone seems like a sign of weakness. But what you do with that anger, how you translate that into something is important. Now keeping with this example of the doubt: *Am I going to do something about it? If so, what is that?* Right?

R: Hm, hm.

P: And if the answer to that question is: I *am not going to do something about it,* that is also okay. But dealing with the emotions, moving away from that emotion is the most important thing.

R: Yes.

P: Moving back to, a little bit more of self-investment conversation, just keeping it within the theme of what we are discussion here, there are days whereby you see volatility in the market, like you have not seen for a long period of time.

You get protracted performances that are untoward. The JSE has seen a bull market for… I do not even know how long now. It is an extended period, and you start to deal with those emotions: *Jeez! I am missing out big time!* That is an emotion. Right?

R: Hm, hm.

P: And why I am saying that is an emotion is the fact that we are human beings, we want to acquire more, achieve more, and in today's time I think that is also sort of linked to more and often a materialistic nature than of anything other than that. There are still a lot of good things that one can do. And Bill Gates is a good example of that.

Dealing with the emotion in this context is a lot more different to dealing with emotions that are truly of a human nature. Right?

R: Hm, hm.

P: Because here we can divorce it. Here is something that is on a system more green[? *grand?*] scheme. You look at that performance, and you feel frustrated because you are missing out, *versus* on where your pet dies. The difference in those circumstances are very different in the way that you also treat them.

So it also talks to the fact that when we are human beings we are, and I think you made the point? We are vulnerable. That is what makes us human beings. Right?

My success personally in dealing with emotions is being able to realise quickly enough[?], and being able to do something about that emotion. That emotion can be related to any of these circumstances.

But being able to move beyond that is a peace of mind thing. I think that sounds simple. *Uuh* I've used breathing techniques to help me when I get frustrated or angry or have an emotion that I'm not in control over and I use the opportunity to just reconnect my thoughts.

R: Hm, hm.

P: And in there, that moment of what can be perceived as a lapse in concentration in a meeting, for argument's sake, despite the other persons' perceptions, my own reality is I am trying to just make sure that my emotions stay in check by controlling my emotions, I am just making sure that my reaction to what was said or what I have experienced, is one that does not necessarily deflate concession, making it one that can be more emotional or one that raises my emotions basically. And that is my… that is the way that I treat it.

R: Okay. So my last question now for you is, then in your line of investments and your decisions that you make on a daily basis, what would you then consider a rational *versus* an irrational decision-maker?

P: It is tough question. So I'm going to use an example again, because I think it is a nice way to draw parallels with the line of question.

R: Okay.

P: If I look at my current leader in this business, there have been points, and, again, it is an example, there has been a point at which where we have been making a critical decision that can affect the investment business at large. In that meeting, you can imagine, it is high stakes meeting.

We have got ten business representatives there, five of which have a different view. Now for us to be able to achieve what we need to, it needs to be a collective wisdom, sharing the same ideology. And, like many other instances, we need to be in a position whereby the majority voted in favour of the decision.

Now what I think relates to and in keeping with this concept, and idea, what allows a person to be rational *versus* what allows a person to be irrational in moments like those. And that is why I am using a job that applies in any other situation, is a couple of things.

The first one being the facts with the situation and how you understand and deal with the facts. Okay? Because what makes a person rational is being able to consume information that is at hand, and to be able to make an informed decision about that information. Those sort of facts are very important. Right?

R: Hm, hm.

P: The second thing is to be able to divorce emotions from making a decision. Yes, you may have your own opinion. You have chatted to your other colleagues today, and they have very different answers to the questions that you have asked.

There is no right or wrong answer in a lot of situations… there is not a right or wrong answer. It is a combination of wisdom. Right? So that is the second point.

Then the third one, and I think this is the most important one, is to be able to collect the combination of the first two, to be able to digest the wisdom and the perceptions and deal with what other people are gauging you on, and then to be able to make that informed decision yourself, and put that on the table.

R: Yes.

P: With trust and faith you have been able to put that on the same, onto the table, and that is also a very important one, because you can in a lot of situation doubt yourself.

You asked the question about conviction earlier. That conviction comes from the first two points. And that is why this, for me, is the interlinked process that allows you to be able to differentiate between those that makes rational decisions *versus* those that do not make rational decisions.

I think what relates to irrationality is the fact that often people go, in the absence of knowing, and try and use instinct or their gut feeling, and that could also lead to right answers, but that is, in it’s very from – especially in the business that we operate in, where it is supposed to be more of an exact science. And that vulnerability can lead to irrationality.

What also can lead to irrationality is being able to take the emotions of the concession into account, and only using those to try and perform with your view, just because you either want to prove that you are better than someone else. That you want to… you just have a different view, for the sake of having a different view, which often happens.

Then, as a last consideration, for irrationality, not necessarily having the knowledge. And I think those definitely contribute to the difference between a person who is rational *versus* irrational.

To bring it back to my leader, for example, ad this is where I personally have taken a learning, is that in a lot of our engagements, both at a strategic implementation level, or at execution level is out of place whereby… and perhaps it is his position as well, but he listens carefully to every single view.

He does not interfere. Does not ask any questions. Listens to everything that anyone is saying. Digest the information. Listens very carefully to what it is that is conflicting, if there is a conflict at the table.

Then at the point that he does open his mouth, it is because of the fact that he is now got an informed view of what the issue is, and that issue generally is always people problems not necessarily a problem with the way they have been thinking about the situation.

<u>R</u>: Hm, hm.

P: And he gets to place where by his experience and his rationality and his background allows us to move collectively beyond that particular comment. Right?

<u>R</u>: Hm.

P: To do that I think takes tremendous success. I think he also carries authority as a key factor. Now what makes a person authoritative? And why do people give respect to leaders? And not managers or age debate? It is the fact that those individuals take out the emotions from the concession. They allow the person or the individuals that have the disagreements to see the light that they are trying to portray. And then they take them on the journey, as opposed to making it: *You will do it, and it is just because I have said so…*

<u>R</u>: Ja.

P: And that, for me also is a very close thing because rationality and irrationality, that people in the business place are able to control and control effectively.

R: Well, that is the end of that. Thank you so much for your time.

P: Wonderful! Thank you.

...[End of recording]...

—o0o---

Audio track: Participant 18

R = researcher
P = participant

R: So firstly, thank you very much. I do appreciate you taking the time on a Friday to be interviewed.

P: It's a pleasure.

R: So the first set of questions that I have is going to be looking at local and global financial economic and political conditions, understanding that we operate in this environment and we cannot discard that. And then my second set of questions is then going to be looking more at your investment decision-making on a daily basis.

P: Okay.

R: Okay?

P: Good.

R: So my first question to you now is, what sort of local and global factors influence your decision-making?

P: So for me, I think because I'm coming from a planning background, I have got a good holistic view of how my thinking works perhaps making better choices.

R: Hm.?

P: Is that what you sort of focussing on?

R: Yes.

P: So, because I come from a planning background, my cue has always been that you've got to diversity your investments decisions, whichever way you go in. So to give you a typical example. If I going to invest in a unit trust as I did when I was a fresh newbie in the working world…

R: Okay?

P: … I would typically go into a balanced type of fund. You know something that is well diversified. I don't want to really get involved in decision-making processes.

R: Yes.

P: So that is what I would have went into. However I did burn my fingers before, so I think you learn from what you… what didn't work.

R: Yes.

P: So I invested before '08. Ja, then it was in the money market. My dad said: *Here is money for you… You go and invest that.*

R: Hm

P: *You go and investment, I have been investing for you since you were born. You are in investments, go and take this money.* I invested it in '07. Lost 40% in '08. And then it is: *Oh shit!* That is how investments work, you know?

R: Hm, hm.

P: So I think because of that learning curve, you learn through your mistakes and you learn through what you know, and you learn through academically..

R: Hm, hm.

P: And then putting it into practice. Since then my philosophy has always: *Let us try* local, offshore… that's always been the case.

R: Hm, hm.

P: I think also now and making investment decisions, so to give you a real life example, if I'm buying a house and the house is valued at, call it, 2, 3 million Rand, whatever the case is, I will then choose my portfolio accordingly and I will not then purchase any additional property based shares, because then I know I will be exposed.

R: Hm-hm.

P: So my investment thinking is really in terms of asset occasions where my .... differs, is fine .... and where I fill find the best opportunity. So it is more risk management than anything else.

R: Okay. But it is… so then is that then more focussed on the local… so on South Africa? Or abroad? Or a combination of both?

P: Both.

R: Okay?

P: So my views also, again, is that your consumer goods that we may be buying, spending money every day, it is all Rand based. However we purchase TVs, and fridges, and anything… I think machinery-wise is foreign and those are all dark[?] based purchases that you are making.

So that is why, as a normal, middle class consumer to upper class consumer, you have to diversify local and international because your consumer goods, definitely that you are using today is actually offshore stuff. However your normal day-to-day expenditures are in Rands.

R: Yes.

P: So it is a mixture of everything.

R: Okay.

P: Ja.

R: So have there been any recent, and when I say *recent*, you know like two years…

P: Yes?

R: … or less, any recent events in the global and local market that could have potentially influenced your decisions?

P: Not necessarily so.

R: Okay?

P: And I will tell you why. Again, my view is also long term based. It is not the short term. So I think if you are going talk about short term, the last two years maybe, then I would say, you know what I would not allocate my portfolio to say: *In the next two years offshore is going to be working greatly.* I will leave that to the asset managers.

So, by leaving my money in a balanced portfolio, I know my asset location[?] for the asset manager, he may put a little bit more. So it has… Look I am going to be a bit more transparent, that I have made that conscious decision to put a little bit more offshore, because I know I will get my offshore, the goods that I am purchasing offshore.

R: Okay.

P: So that is really where my expenses lie, about my assets and liabilities, and matching those. Okay, I come from very much a planning background. So it is all about that, I think.

I was going to mention that… so, so also where I would find… that is my thinking, it would be my life events. So when I got married .. or before I got married, I started working, and I needed to start saving money for wedding, house, etcetera, and everything that comes with it. And as time got closer and closer to that marriage date and the house purchase, then I started moving assets from growth assets into more conservative money market type instruments.

R: Hm, hm.

P: So my investment decisions are actually based on my life events, and that is going to happen and when I am going to use it, as opposed to saving where I am going to get the most growth out of a US Dollar fund that is based in bio-technology.

R: Okay.

P: That may be a component of the portfolio, however, my whole decision is not based on that. Ja…

R: Okay. So what is your personal opinion of South Africa's political, financial and economic conditions?

P: Sjoe! Look I am not so close to the markets. I used to be very close. But I will tell you my line and what I use in general.

R: Yes?

P: So I have always been pro-South Africa. I think… Ja…You can see it with this T-shirt on.

R: *[chuckles]*

P: Ja, I think from a growth perspective there are lots of opportunities. There is lots of growth areas. The simple things that we need to get right as a country, and as a… I would say as a business, not just as a country…

R: Yes.

P: And if you get a couple of those things right, you will already start to swing the pendulum towards growth areas in South Africa. So politically, obviously, there are big noises in the market with regards to corruption, and driving out corruption.

But it is in the public and the private sector. People can say it is the public sector, it is not. That is actually prevalent in the private sector as well. If you can start with that.

If you can start saying: *Look, government has obviously got to expand with infrastructure. With schooling, education and all of those things…* So that, all of those things, needs to really be corrected.

If you are saving from a budget perspective… If you are saving some of the expenses in terms of your corruption, and you start spending in the right places, then I guess it can start swinging the other way.

So my view of South Africa is, there is lots of potential. It is just getting those ticked boxes correct. I think that part of your question was international?

R: Well it was just the, your political, economic and financial spheres ....

P: Sure.

R: … that might contribute

P: So politically I do not have any other view. I think my view politically is that if there is a… I am optimistic, generally, but when it comes to politics I am not.

R: Hm, hm.

P: That is purely because I know people in different parties, personally. And then corruption is not just something that is just ANC related. It is across the board.

R: Hm, hm.

P: I think the depth of the corruption is where we could differ. So, politically, what makes sense to me is that who I should vote for, is the person I am going to believe in the most. Okay?

R: Hm, hm.

P: And, for me, being in the investment world, in the economics world, for me that is what is going to be driving my decisions.

R: Yes.

P: Okay? So whether you put DA, EFF, ANC, whoever the party is, it is really .... I guess.

R: Hm.

P: But the day to day decisions made in terms of the growth potential for the growth of the economy, I would say it is the .... that is going to drive it.

R: Hm. So what I am taking from that then is, in your space it is the economic environment that has the biggest impact on your decisions?

P: Ja.

R: Or on the outcome of your decisions, as well?

P: Ja. So, having said that, I think when you drive the economy there is a lot to be… There is a lot that goes into it. One of the key things that I always to strike me is: *Why are we not doing this,* is education.

So we can sit here, and, you know, there is… I would say there is a minority that has gone through the process of education, and are appropriately skilled, to allow us to grow as a country.

R: Hm.

P: If you get the education part right, from grass roots to then to the most senior level, high school level, and then potentially in the colleges and technical skills, then upper education skills, all of that is a big part, that we need to grow. And you do not see the growth.

R: Hm!

P: Ja.

R: Okay. So thank you for that.

P: Good.

R: So I am going to be moving on to the second part of the interview now, which is looking more at the investment decision-making, or the decision-making in your field.

So maybe before we even start that, do you want to just take me through your decision-making process? Like the different phases or stages that you go through to come up to the ultimate decisions?

P: Okay, so my personal investments?

R: Yes?

P: Okay. Okay now I follow a very full hands on approach. It is ingrained in me.

R: Hm, hm.

P: So we believe in something… when it comes to financial planning, we believe in something called: *Six step financial planning process.*

R: Okay?

P: So what you typically do, and this is not all six steps, but I will talk you through the ones that I would do, because I would normally do the six steps for a client. However, for myself it is shorter.

R: Okay. Maybe you can actually take me through both?

P: Okay.

R: Or is yours incorporated in the six steps for the client?

P: Yes.

R: Ja, well, let us do that, and then maybe you can say: *This is where I would stop personally, but for the client… .*

P: Ja.

R: Ja.

P: So normally look what you will do, and I am talking for a typical client. What you would do is, you would be talking to client and understand… You know, meet up with him. Collect the data. Gather information from him. Understand as much as possible. So what they talk of is a financial age analysis generally.

R: Okay?

P: That is the term we would call it. But it is really an information gathering point, asking the individual about, yes: *Your age. Your risk profile category.* That is one component. And people always get fixated under those profile categories.

Then part two it, from an understanding perspective is also, as I am saying, the various aspects of it. So you have got this amount of assets. You have got this amount of liabilities.

Then you have these life events coming up, so you get either to save up for a very large event. You are buying your house. You are buying a new car. You have a kid. You are saving for education. You are retiring. There are all sorts of life events.

So all of that is to be taken into account, not just your investment requirements. And all of that actually translates into your investment requirements.

R: Yes.

P: So normally they are your first and second step, and that is gathering the information, analyse the information, and then going back to that individual with a proposal.

So once you have analysed everything, you then say: *Look Mr Client, this is what you need. I am going to propose these sort of solutions.* Again, you sit down with the client. You understand: *Okay, this may work, this may not work…* Understand his ability.

You then come back to the office and then you implement which is then step five of the implementation. And then steps six is actually your review basis. Okay?

R: Okay.

P: So that is the entry into one to six. Okay? So, for myself, what I would do, generally … I don't know if you know? But in general doctors don't look after themselves very well. Right?

R: Hm.

P: Financial advisors, they too… I don't look after my finances really well. So then I would get a colleague of mine and say: *Hey guy, you know, look at my stuff.*

The thing is you become, you support up and you are so emotionally attached to your own finances that you start to make the wrong decisions.

R: Yes.

P: So that is, you have a starting point. What I would do is, again look at my personal circumstances, where I am in my life. Look at exactly what is coming up in the next couple of years.

So I will have a short and also a long term goal, and then maybe an indefinite goal. So, typically, I would say in the next real life example, my kid is going to school next year. I need to have R50 000 in my bank account to pay for the annual fees.

So then I know, for this year at least, I can start saving accordingly for that event. And that investment allocation will then invariably linked with like instruments. So perhaps a money market instrument. Even a bank account that is offering me interest between 5 and 6% per annum. Something along those lines.

Aside from that I will still have my longer term goals. So I am saying in a tax free vehicle, or a retirement fund vehicle, in that event I am choosing a balanced fund that is well diversified. You know local and offshore, and I know no one can touch that money.

Aside from that part then I would then say, okay you know what? If I have got access as opposed to, so your tax free investment only takes 3 000 Bucks a month… well whatever that number is right now.

You made full use of your RA contributions, then, aside from that, you then may have another pocket of discretionary monies. So it depends on how you place the pockets. All of this of what I have explained to you is always in excess of what I have in terms of disposal income. Okay?

R: Hm.

P: So let us see how I go about it. In terms of the pure investment decision-making, like I did with some of my tax free monies, that I would make a… I will make a decision so my sum of money.

I am happy, and I will leave that in a balanced fund, because I am going to leave that as long as it is possible. I want to retire at the age of 50, 60, 65. Whatever that age is. Enough time for me so that I look at my investment horizon, from a generally conservative measure. However, I know that that is a long term investment. So I will leave that in that investment for as long as is possible.

My tax free investment, that is where I have got a bit more flexibility. I can either decide I am going to have it 100% local, or 100% offshore, a 100% money market, 100% equities. Either way. You know? And in a combination of those.

R: Hm, hm.

P: However, I choose a balanced fund, again because I am more conservative. And I choose a balanced offshore fund. So 50/50. so there my intention is that I want more growth in the event that the Rand depreciates.

R: Yes.

P: So my view, because I come again from a planning basis, that I come from the international products' side, we have a belief, and even if you ask some of the economic guys, they believe in a long term depreciation trend in the Rand.

R: Hm, hm.

P: But that comes with interest rate parities and… what is it? What do you call that… Ja, I think it is interest rate parities that determines that rating? So ja, the decision-making is really big on those principles, you know?

It is not necessarily purely asset management and you know where you get the most growth from this particular asset class. It is really about your mind events, my life events. And that will determine how I invest accordingly. So it is almost a risk management approach.

R: Hm. Okay.

P: Ja.

R: So within your work space, what sort of research do you do prior to making an investment decision?

P: In work wise?

R: Ja? Work wise.

P: Okay. That is really an interesting question. Could you just help me to understand this one better?

R: So would you look at it like, you know, certain financial reports, annual reports. Do you speak to different brokers? Do you speak to your research department?

P: Okay.

R: You know?

P: Okay.

R: That kind of stuff?

P: Okay.

R: What sort of aspects, from a research perspective.

P: Sure.

R: Even your own personal reading?

P: Sure.

R: That, you know, infiltrates into that decision.

P: Sure. I think a position that I have made, I am with the product TV[?].

R: Ja?

P: So we design solutions for clients. Right?

R: Yes?

P: I am not the guy that is always there, advising clients anymore. I am not the guy that is taking solutions to the market. However, I design solutions. So, typically, what I would do is get information and, and then… This is one of the reason why I am with Momentum.

R: Okay?

P: Because we believe in clients' interests. Again, now I have been the salesperson. I have been at the front end. I know clients.

R: Okay.

P: I know how they think. I know what they ideally would like. At least that I what I think I know. And I think that is why I was drawn to Momentum.

When I came here the thinking was very different. It was a try and push. Momentum then went to a place of clients centricity[?]. So, even now when I operate, it is almost like: *Okay, let's see. I want to get out this solution…* You know? This is something that we want to get out.

The first thing we do is actually get in touch with some of our consultants. Some of our… some of my excolleagues in the broker space. You know guys that are not in Momentum at all.

This is just because I get an independent view from them, and they will tell me: *Look, there is a need for this type of thing.* You know I get a call: *What is this?* Or: *We have seen this model…* Or whatever the case might be.

R: Okay.

P: And then, from there, we can adduce: *Yes there is a real business case behind it. Let us see if we can put together a solution.* So the first point is to understand: *Is there a need? Yes.* Okay?

The next point is: *Okay, do we have a solution in our stable that can adapt itself to allow for this type of solution?* If it is a *yes* or *no…* Okay. If it is a yes, then we can tweak the product slightly. We go through the whole product development process in that case.

R: Hm, hm.

P: If it is *no,* then we will start from scratch. So to give you a real scenario, we are trying to create a recurring international product. Okay?

R: Hm, hm.

P: We know where… (you know) we know what we can do, and we know what we can't do. The part that we cannot do, the reasons, the goal behind that, so there, that will be tackled by some of our internal guys. Okay?

R: Hm.

P: Yes, to understand what our own capabilities are, and what we may need. And then I would take that same conversation and discuss it with a… I would not say a *partner,* but an associate of Momentum, and say: *Hey guys, this is what we're thinking of doing, how can we enable it? How cannot we…* You know? That sort of thing.

What are the challenges? What should we be thinking of? So just test the thinking, and then take that back to the table and say: *Okay I have got this from independent person or the associate that we bounce our ideas off, and I have got this from the internal side, how can we find a solution with this internally?* That is the most ideal way of thinking about it.

R: Hm, hm.

P: If you do not have the capability then can you ask that associate to conduct that service that we cannot do, and then still got to get to the solution. So that is generally the way I have started to think, in terms of a plan for the product. Okay? That is just the design part.

R: Okay.

P: Then you have got to start thinking about the implementation part. Okay? How do you implement the systems? How are you going to deal with the application forms? Certain conditions? How do you market it?

R: Ja.

P: Ja, almost end to end thinking. You know?

R: Hm. Okay. So ...[intervenes]

P: I hope that answers some of your questions. It is not investment related but I think from my position, it is not directly related… I guess…

R: Okay. No that is perfectly fine.

P: Okay.

R: So my next question to you then is, in your space and the decisions that you make on a daily basis in terms of planning, to what extend are your personal opinions, your personal views, and your experience prevalent?

P: Ja. So it comes with experience. A lot of experience!

R: Yes.

P: What has happened, because I have been in client investing for a lot of years in my career, and that part is normally, when I initially started, that part of it was .. where people know very much about 2nd Respondent .... and then, like I have said, it is the experience part.

R: Hm.

P: Now that I have been here for a fair amount of time at Momentum, I think with Momentum we went through a lot of changes in the last three years. The team that I worked with, and in your interview with Stephen before, we were part of the same team. That team was a team of about five. It is just to give it some context. We were a team of four or five people.

When I joined here, that whole team dissipated within a period of 6 months, and I was sort left the only one standing there. And people were not sure where to go, what to do, and you've got to pick up the ball and make sure that the ship continues. You know?

R: Hm, hm.

P: So having been through that process, being through that experience, and now I sit in a position where I am that person that is now the skilled individual that has the knowledge… Maybe there is maybe one or two of us who has that knowledge.

So now I have become that person that can now says: *Listen guys anything international related with regards to international wrappers[?], the* *international platform, the international funds, basically that is about what I am about to speak to.*

R: Yes.

P: And then to become that, purely because of the experience that I have been through. You know?

R: Hm. So what I am getting from that then is experiences have been the most important factor in your career?

P: The most important factor, yes. So I think… look there is other parts to it, but the experience… And if you can articulate yourself well with other areas, so… I think it is… There is a combination of other areas, which I think you ought to do to have.

R: Yes?

P: The one is, yes the knowledge. The knowledge of whatever you are dealing with. Okay? For me the products. The systems. The funds. Everything. That is the knowledge part.

The other part is actually the relationship management part. So how do I deal with operations like that? How do I deal with the IT guys? How do I deal with the management above? How do I deal with the board guys?

So it is stakeholder management, and relationship management, which is important. And that comes with the communication part. So you have got to know how to communicate with whoever you need to deal with.

So all of that together I think if you have those three factors, that is what makes you the strong individual. So, again, another example of that is that the skills are quite short[?] on the international side and you need to be .... – Jurgens was the other international guy.

So Jurgens is the guy that's the selling part, I'm the guy that's the product and the banking part. However, because of my finance[?] skills, I have gotten .. it's part of my career, I can easily transition across. So it makes you quite versatile if you have got everything. The skills, the knowledge, the communication, the stakeholder management. If you can do all of that, it makes you a very valuable individual, in my mind.

R: Okay.

P: Yes.

R: So have you ever… okay, when you were in the sales side, made an investment decision? And then now, in the product side, you have created a product that was actually not correct. So the decision that you made was the wrong decision? And, you know, it could have resulted in potential losses, so to speak. And, if you have, then how have you dealt with the aftermath of that?

P: Sure. Ja, so you do… I mean it comes with the territory. You create a solution and hope that the solution will be a success. In the event that it is not a success, you need to make a critical business decision.

R: Yes?

P: You have say: *Hey guys, you know what, this is not happening. It is not working out. What do we do? Do we shut it down? Do we close it up? Do we continue with it?* You know?

Did we not market it well enough? So I think you have got to go through an… almost an analysis. You have got to understand what it is that is wrong with it. Is the product wrong? It is not selling well, is it too expensive?

Once you understand those three factors, you can then make a decision, and say: *You know what? Okay. I know we have marketed this product really well.* Or: *We have not marketed that well, but I think it still has been good.* You know? *Maybe we must just park it for a while.* Or: *Let us soft cap it for a while.* Or: *Let us not continue with it.*

I think that decision, it is not about… it is not as massive as I think you make it out to be a problem. I think where that would be very important is in the asset management space, because there you are talking about pure performance.

R: Yes.

P: You know, you have made a wrong call. Typical example is valuates[?] investing. One that comes to mind is Piet Viljoen from RSEM[?]. You know he made the call very valued based, and, yes, he managed it.

As the manager he was told to man it, but it was extreme… extreme value. So there you would see a… you know something that you would say: *No something is wrong? You have got to change the philosophy completely.* You know?

R: Yes.

P: So I think in our world it is not that case. It is not something that you need to change completely. You just need to understand: *Yes it is a product that did not work out. We have capped it now. We learn from that that is not what is successful.*

However, we also learn from the market, there would have been a mark that indicated that: *Yes, we were told that this product will succeed, there is big need for it.* Then we know: *Okay, so there was not really a bit need.* So I think you then learn from that.

R: Hm. Okay. So we are nearly at the end of the interview.

P: Yes. Does that help you?

R: Yes. No, it absolutely does. Absolutely.

P: Okay.

R: So I just have two more questions for you. Now my question is, the second last question is, we are all human and emotions are a part of human nature.

P: Yes.

R: And I think in the investment, as a whole, no matter which part you are in, you have to be able to recognise that and then manage it, and separate it from your decisions.

P: Yes.

R: But not all of us are aware of our emotions at a given time.

P: Yes?

R: So the question I am posing to you now is, are you aware of your emotions on a given day? And, if you are, then how do you manage, or how do you successfully separate these?

P: Sure. Now, like I have told you before, that as an investment person, as an ex-financial planner, I do not manage my money very well, and that is why I always have a sounding board person. Somebody that I trust, and knows that this person goes through a similar due diligence as myself.

R: Okay?

P: So I have colleagues that I would bounce it off, and say: *Look, I am not in a position to actually make the right call. I am thinking of going 100% into…* Into whatever it is. And I would say: *No, but let's .... put that in perspective for me. You have these life goals. You have this risk management policy in mind, so you should be here.*

So I think it is important to be having that kind of conversation with the right person that has a similar thinking than you. That will help guide you back into… You know what, it will help getting the emotion out of the way. And get back into your right mind of thinking.

R: Yes.

P: For me, it is my… one of my managers that does that. And I am aware of when I am in the wrong space. I generally then have to just go to the manager and say: *You know what I am thinking of this. I really want to buy into it, but my emotions are too caught up into it…*

I will admit it: *My emotions are caught up into it, then I cannot see what is right or what is wrong… Can you just help me with something? Just guide me.* And, in that way, I will get the right answer. So I think I am aware. It is just that… You know just getting to somebody that you can trust.

R: Yes.

P: You know? Somebody that you know is going to give you the right path. Or guide you in the way that you would normally think. Ja, you know I think… If I think of what is practically as well, (you know) like from an investment perspective… So I have made a wrong decision before 2008. Going 100% ....

R: Ja?

P: .. and picking[?] resources. You know as a planner and as an investment professional, you will think: *Ja okay…* You are looking for .... Find that it was not my case at the time, and then I learned, because I burned my fingers. So I think you also learn when you are not doing the right thing.

R: Yes.

P: I am also a big fan of behavioural finance. I generally try and read quite a bit on behavioural finance, because it is .... item.

R: Yes.

P: And more and more it is becoming prevalent. Things like the Bitcoins. Or things like those Crypto currencies. Yes I have put some money into it to see if I could make a quick Buck. But I have not sort of… I have not put in a lot in that. I am fully buying into this.

So, for me it is something like Bitcoins. You know it is something that you will be able to finance. And you have got to learn from those things.

So that is why I think, again, if you trust in somebody that knows you, trust in somebody that has a similar due diligence process as you, a risk management process as you, and then that is the right person you need to chat to, and say: *Look, I am struggle with this. Help me out a little bit. What do you think about this?*

R: Okay.

P: Ja.

R: So now my last question to you is, in your investment space, what would you then define as a rational *versus* an irrational decision-maker?

P: So it is straight forward for me.

R: yes?

P: So rational is somebody that follows this steps that are in place, that you have always followed. So, again, I will give you the example. I now having a life event. I am going to get married. I am going to have a child. I know this, and I follow that process.

So far all the life events in my life. The minute that I defer from that, like now, Crypto craze. I know actually that my son is going to school. Do I contribute my normal contributions for his studies, or for his education next year?

Or do I put that into Cryptos? Or do I put it into a normal money market and earning 6% interest per annum. And I am guaranteed that my money is going to come back to me.

So an irrational person would have said: *This is… that thing is growing like hell! I could score from this. I am going to put my money in there.* So that is the irrational person. You defer it away from what you do normally.

R: Yes.

P: Ja.

R: Okay. Thank you. That is the end of research.

P: Okay.

R: Thank you so much?

P: My pleasure.

...[End of recording]...

---o0o---

Audio track: Participant 19

R = researcher
P = participant

R: The first sets of questions basically looks at local and global factors that affects your investment decisions.

P: Yes.

R: And then the second section, or the second part of questions basically looks at your investment decision-making

P: Hm, hm.

R: Okay? Are you ready?

P: Ready.

R: Well, perfect! Thank you for .. first thank you so so much for doing this. I really do appreciate it.

P: Pleasure.

R: So my first question to you is, what sort of global and local factors influence the way in which you make you investment decisions?

P: Local would be the macro environment. The political environment. Views on interest rates, and actually that would also be global. So global would more be, especially for Africa, (you know) it is the commodity prices and the commodity cycle.

R: Okay.

P: The FEDS[?] and where it is, with respect to its quantitative easing[?] that dictates risk on / risk off for emerging and frontier markets.

R: Hm, hm.

P: Ja.

R: So do you maybe want to take me through how these influence your investment decisions?

P: Ja.

R: For example, like the currencies when weak or strong, etcetera? Just that kind of …

P: Ja. If we feel that there is a currency weakness or there is pressure on a currency, we will obviously factor that into our return potential growth for a company that we are investing in.

R: Okay?

P: And where there is an overweight we will sell or buy best on that. So if there is currency pressure, we will probably look for a higher return potential. And if we do not see that, we will down weight our position accordingly.

R: Hm, hm.

P: Yes.

R: And then with the political environment and interests and all of that, is it the same type of notion? Or…

P: Yes. Yes, I mean we always… it is bottom up process, but these things, especially with the political noise to the extent that it changes the outlook for the operating environment. We… you would adjust your portfolio, but if it is just noise, then we usually choose to remain invested through the noise.

So we might have some pressure over the shorter term, but politics are very difficult to predict, so we don't… (you know) you typically will not react to it, unless it is like a military coup, or you have seen a significant deterioration under it's economic environment as a result of politics.

R: Okay.

P: Yes.

R: So which of these factors would you say is most important to your investment decision-making? And why?

P: It would have to be currency, because currency dictates you know the real return that you would earn in a country, because currency pressure will actually take away from your returns.

R: Okay.

P: It would have to be currency risks.

R: Okay. So have there been any recent events in the global and local economy that has had a potential influence on your investment decision-making?

P: So currently, the most recent is the upturn *[sic]* that we are seeing in commodity prices, which has resulted in a more favourable outlook for commodity exporting countries, and so we will probably look to increase our exposure to quality companies within those countries where we feel valuation is still intact.

R: Hm… Okay. So has that been the most, or the main, the main thing for you recently? Or is there anything else that you could maybe think of?

P: I think that is the main one this year, so far.

R: Okay. What is your opinion of South Africa's current economic, political and financial situation or conditions?

P: So here the caveat[?] *............* I mean I don't[?] really invest in South Africa or the South African market. So (I mean) it will be an opinion, but it is a personal opinion, it won't be an investment view.

R: Alright, that is fine.

P: So (I mean) we are seeing an improvement on the politisc, which is obviously playing through in terms of the outlook, so it is investors' sentiment and consumer sentiment.

So I think that there is still a lot of macro headwinds that the country needs to overcome. You know the high unemployment rate, the very high or the high level of indebtedness, corruption or poorly run corporate or parastatals.

So you need to see an improvement on all those funds to see a sustained I think improvement in the operating environment. But I think on the all it is probably a lot more positive this year than it was last year.

R: Hm, hm. And then, if I had to ask you the same question, but for Africa, exSA, what would your opinion there be?

P: So that is very varied. You know it depends on country to country, because you cannot paint it all with one brush.

R: Hm-hm.

P: But at the moment we are quite constructive in Egypt and Nigeria.

R: Okay.

P: Ja.

R: So politically, economically, and financially, how do you find Egypt and Nigeria?

P: All stable right now, just because they have come off at a low base, and they have come through a lot of turmoil with respect to whether it's politics or currency pressures, or macro pressures. So it's actually they are coming off a low base, and therefore we expect to see a recovery which will flow through to the markets.

R: Okay. So if I had to ask you (you know) between economic, financial and political conditions, which one (you know) through your experience and your current position, has had the most impact on your investment decision-making?

P: It is probably economic and financial.

R: And why do you say that?

P: Just because it impacts the underlying companies and their ability to actually grow. And when you are buying companies, you are buying in earning streams and dividend flows, which is dictated by their ability to grow and to sort of .. the environment that they are operating in.

<u>R</u>: Hm. So would it then also be safe to say that it is these economic and political factors that have a… or are the most important in your space? In your field of expertise? As well as having the most impact on it?

P: Ja, I think economic and financial.

<u>R</u>: Perfect.

P: But when you say *financial,* it is the financials are just the underlying companies? Right?

<u>R</u>: Yes.

P: Yes.

<u>R</u>: Okay. So now I am moving on to the second phase of the questions now.

P: Sure.

<u>R</u>: And to kick us off, I hope you are able to kindly take me through your investment decision-making process?

P: Sure. So because we invest across countries, we will always have to take a very strong macro view. So we look for .. we are investing across exchanges, across countries. We focus on liquid companies, so we will screen for liquid large market cap[?] companies.

<u>R</u>: Hm-hm?

P: And then we will look for companies where we like the valuation, where we are comfortable with the ability of management to deliver through the cycle that are operating in industries, that are growing, or are under-penetrated, or under leveraged[?]. And then you always apply a macro overlay.

So if we expect a company to give us Xpercent return, or is just showing a 30% upside, we will apply a macro overlay which will look at currency risks, political risks, the ability to actually monetise the position by being able to repatriate how many and all of that comes into the risk factor, which will dictate either a need for a higher weighting or a lower weighting in that stock.

R: Okay.

P: Yes.

R: And then within the process, what sort of research do you do?

P: So we obviously look at financials. We build our models. We speak to brokers and management teams. We meet with, or we try to talk to regulators and operators locally, as well.

R: Okay.

P: Yes.

R: So, based on that and what we spoke about earlier, when it comes to the local and global conditions, is it then safe to say that market conditions have a large influence on your investment decisions?

P: Hm., when you say *market conditions*, what do you mean?

R: So I say… So for example the markets, to a certain extent, dictate the types of decisions that you make?

P: Sorry? I did not hear that? The what markets?

R: The markets dictate the types of decisions that you make. So whatever is happening in the markets, that would be a huge influence on your investment decisions?

P: It is more what is happening with the macros, as opposed to what is happening on the stock market.

R: Oh. Okay, I see.

P: Yes.

R: Okay.

P: Yes.

R: So just looking at your specific work position, and you know what, what you have been through over the years of experiences, and all of that, I just want to find out if you have ever made an investment decision whereby the conditions that surrounded that decision was highly complex? And, if so, what sort of factors influences the complexity of it?

P: Hm., that is a strange question?

R: *[chuckles]*

P: When you say *complex,* what do you mean?

R: Okay, so like difficult. So it was not… like it was not just a simple decision that had to be made. They were many factors that you had to take into consideration, because there was just a lot happening at the time possibly, that surrounded this specific decision?

P: I think all investment decisions require a lot of thought processes and due diligence, because there is always a lot surrounding it. You have to think about the quality of management. The quality of the financials.

You know, the macro environment that they are operating in. The valuation of the various companies. I think… I cannot think of a situation where something has been significantly more complex.

R: Yes.

P: Which has required to change in the way that you would think about it, you know?

R: Hm. So then maybe just the nature of what you do is complex on it's own, whereby ....

P: Yes. Yes.

R: Ja? So if you ......

P: If you are looking across markets, and across industries and stuff?

<u>R</u>: Yes.

P: Ja.

<u>R</u>: Okay. I understand. So have you ever made a decision that was not really favourable? Or did not have the sort of outcome that you wanted? And could have possibly resulted in some sort of loss? And, if so, how do you manage the aftermath of that?

P: Yes. Because you will always make wrong decisions. It is the nature of investing.

<u>R</u>: Hm, hm.

P: And the way you then have to look at it is, is there any opportunity for you to recoup your capital? And if there is not, you need to find other opportunities which will allow you to regain capital. Or to grow your capital once again.

<u>R</u>: Okay.

P: Yes, so if something has fundamentally changed with the company. If there is fraud that has been committed. If the operating environment has changed so significantly that they are no longer able to operate. And then you call results in, change in your view, and it can result in significant losses from a share price perspective.

<u>R</u>: Hm, hm. And then you, personally, how does that affect you? Or have you been able to (you know) not to take it personally? I mean, because we are human.

P: Yes.

<u>R</u>: And these things do happen.

P: Ja.

<u>R</u>: So how do you then manager that? For example, on a more personal level?

P: I think that you get a lot better over the years. So in the beginning it definitely has a much bigger impact, because now I think you need to… going into it you need to be very structured in the way that you do things.

Make sure you are being quite thorough in your process, and something… (you know) because, well you learn from it as oppose to get stretched out about it, because then you are not going to be able to recover from it.

R: Okay. When it comes to your investment decision-making, to what extent are your opinions, your experience, and your personal views prevalent?

P: I think they will always be prevalent, because you always have views that you form over the years, in terms of industries that you like and management teams that you rate. So I think they always will form part of the decision-making process.

R: Okay.

P: Yes, either directly or indirectly.

R: And then between opinions, experience and personal views, which one, in your opinion, is the most important?

P: I think they are all very similar actually.

R: Okay?

P: Yes.

R: So then you would basically all three?

P: Yes.

R: They have equal weighting in this regard?

P: Hm.

R: Okay. Now my next question to you, which is the second last question, is that we… sometimes you wake up in the morning and you are feeling great. And other days you are not really feeling so great. So are you aware of your emotions on a given day? And, if you are, then how do you separate your personal emotions from your work?

P: Again, I actually do not think your emotions have an impact on your work, because what we are doing is… there is method to it, you know? You have got a set criteria in terms of your investment process, your investment rationale, your spreadsheets.

So I do not think it should have an impact actually, your personal state of mind that you would build or trade on a portfolio. Also, because we take long term views. We are not a trading portfolio.

<u>R</u>: Yes.

P: And so if I would say, I honestly do not think it has an impact.

<u>R</u>: Hm. Well, that is nice to hear. So my last question to you is, in your space what would you then consider a rational *versus* irrational investment decision-maker?

P: Irrational investment decision-maker is someone who is constantly reacting to noise.

<u>R</u>: Hm, hm?

P: And taking very short term views and short term bets. Rational is someone who has a very clear idea of what the process is. The type of investments that they would like to make. Rational people is people that will stick to that process.

<u>R</u>: Okay.

P: Ja.

<u>R</u>: Well, I guess that is that with my research questions. Thank you so much.

P: It is my pleasure.

...[End of recording]...

—o0o---

Audio track: Participant 20

R = researcher ***P*** = participant

R: So, firstly, thank you so much for doing this. I really do appreciate it. So the first set of questions basically is going to look at global and local factors that influence your decision-making, because obviously we operate within those environments, and we cannot discard that. And then the second part of this interview will then be looking at your investment decision-making process.

P: Okay.

R: Okay? So my first question to you now is what sort of global and local factors influence your investment decision-making?

P: A lot… And it varies. And they have changed, pretty much since the global financial crisis. There is a completely new set of factors *versus* prior to the global financial crisis.

So I don't know if that will prove to be a massive line in the saying that one day we will look back in history and say that this was a defining moment, or whether this is just a phase and it's going to disappear and we will revert back to some sense of normalcy. So what do I mean?

R: Okay?

P: So since the global financial crisis, policymakers have tried abnormal things to get themselves out of the hole that they have dug, or that politicians have dug, which is: *There is no growth in the world. There is too much debt. There is too much inequality, and we can't afford to have a recession that we should have had after the global financial crisis, because the implications will be so dire.*

Hence we're sitting with global interventions that are unprecedented. So negative interest rates, that means you .. you buy a government bond and you pay the government for the privilege of doing it! Or you put your money in a bank and you pay the bank. It is mind-blowing.

These quantitative easing programmes, printing of money… these are all front and[?] sentence[?]. So, as much as you wish they were not, because they're hard to analyse, they're not tangible. It's not like growth and inflation that you can analyse and calculated. It is this intangible stuff of all these policies, as part of this blinking experiment.

So a lot of the global factors are: *How long is this going to go on? For how long can they keep it going? What are the implications of all this liquidity and this money for particularly emerging markets?* Because that is where we invest. And so, what does that do to asset prices? Or investment?

So a lot of our time and effort is spent on those factors in the last couple of years, and then you add to that very fluid politics. So your Donald Trumps of the world. Changes in China of bringing people from rural areas to urban areas. The whole Middle East is in a punch-up. But, you know, they have been volatile but it is escalating and it has got worse. There is North Korea. And… so on.

So politics and global… unusual global macro policies are what drives markets for the last couple of years, and for the time being. And so we spend a lot of time analysing that.

R: Okay.

P: Domestically, it is, as I have said, trying to figure out what the impact of this wall of money is having coming to the emerging markets. What it means for our markets. How long it lasts. What is does to the different asset classes.

Rather than your traditional investment analysis, which, as I say, is your economic factors. Your inflation. Your growth… all of that type of thing.

We have had periods of low growth, and low inflation as well as higher growth, high inflation in South Africa over the periods since the global financial crisis, and it has not mattered almost one single iota for our investment markets, that these global forces have dominated.

R: Yes.

P: What has a marginal impact is the South African political situation. The uncertainty and the *ins and outs* and the *to's and fro's* of what these guys are actually going to do? What policies are going to look like? That has caused some volatility within the cycle caused by these global factors. That seems to be abating somewhat.

So you might revert to a situation where we will get a little bit more of a economic cycle domestically, less politics, less political risk premium that you have to deal with, and a sense of normalcy in markets again.

Let us see… But, for now, that is the environment that we have had for a good few years, and it looks likely to persist for a little while longer.

R: Hm! So you have highlighted to me how these then influence your investment decision-making. So I will not to go that question. But another follow up question to you then is, if you are able to… Are you able to tell me which factor has had the largest impact on your investment decision-making? Or has it just been a combination of everything?

P: The largest factor has definitely been global liquidity.

R: Okay.

P: And all the money that has been created in this environment and how that is looking for a home, around the world.

R: Yes.

P: And how, when you are a small open economy, like South Africa, you need to absorb this significant inflow of capital. And that is difficult, because you need markets that work. You need markets that can take this capital in and then reallocate it to invest opportunities, to banks, to on-lend.

Now how do we deal with those inflows.? An anecdotal example. In one year. I think it was 2012 or 2013, we got the highest amount of foreign portfolio flows into our economy, on record. And it was in a year where the macro environment was terrible.

R: Hm.

P: So if you had taken a view on the macro environment as a driver of asset prices, you would have been bearish on most things. Yet, the distortion caused by these flows caused markets to perform and to do well.

So that has been a single most important thing. I mean we are getting inflows in some years that are almost the size of our entire current account deficit.

R: Sjoe!

P: So you have got this current account deficit, and you have got this amount that we traditionally have had to borrow, and pay out for it and go to various lenders around the world to do it. And here we have just been given it. Here… And more… And deal with it.

R: Okay.

P: And that had certain distortions and impact on asset markets that I think we need to be careful to become complacent about it. So, you know, of course the problem comes when the liquidity leaves… if it does.

R: Hm,

P: If you had years of liquidity pouring in, and your deficits have been funded easily, what happens when it is not there? If it is simply not there? And this is the challenge that we have, going forward.

But ja, global equity, by far the biggest investment driver of markets in the last … Sjoe! Since the crisis… seven, eight, nine years ago.

R: Wow! Okay. So what is your opinion of South Africa's current political, economic and financial conditions?

P: Political… Humph! Cautiously hopeful.

R: Hm, hm.

P: I do think that the country needs a strong, functioning, cohesive ANC. That is a good thing for the country, because I do not see an alternative. The alternatives don't make sense, you know? It does not fill one with much optimism.

R: Hm.

P: So, it is imperative that the ruling party sort themselves out, which they seem to be doing. But it is extremely early days and it is not a *fait accompli* at all, if you look at the make-up of it. The factions and the individuals... etcetera.

So, as I have said, cautiously hopeful, but looking for signs of where policies and markets, friendly policies and reforms are hindered or hampered for no good reason other than political bickering and fighting.

Because then we will resort back into the stasis that we have had for the last couple of years, where everyone is jogging for position and fighting for power and resources, so nothing gets done.

So, I am cautiously hopeful, and we have pretty much reached the point where we have to turn it around, otherwise, you know, it is too late. Economics will follow.

So with stable politics and clear policy and a little bit more certainty, the economy will lift. Growth will lift. Citizens will be lifted. We, as part of this whole optimism and getting on to a path of success, we have to address imbalances and inequality in the country. So that has to be a part of the rise in tide, lifting all boats.

R: Yes.

P: Politics, economics? What was the third one?

R: Financial.

P: Financial?

R: Which is somewhat linked to each other.

P: Ja financials is not a problem. This country has got lots of money. Lots of money, that is why we have attracted all sort of people here, trying to steal it.

R: *[chuckles]* Yes!

P: It just has to be allocated properly. So we spent, as a percentage of GDP one of the highest level of expenditure on education in the world, and we have the worst outcomes.

R: Hm, hm.

P: A classical case of just money being waste. And there are lots of examples like that. So as long as we do not do something really stupid and score too many own goals, money is not the problem. It is the… And finance is not the problem. It is the responsible and optimal allocation of that finance.

R: Yes.

P: Which is exactly what Aluwani is trying to do, and it is to redirect the flow of finance to get it into places where it can have maximum benefit.

R: Hm. Okay. So, just based on that, I mean one of my questions was then to ask you which of these factors would you consider most important and why. But I mean you did express the political side and then you said economics will then follow.

So then, can I safely say that it is the politics that seems to be the most important, because it somewhat sets the tone. Or do you have a different view on that?

P: Ja, look the politics are important. It needs to… We need stability and certainty. But it is… that is not Nirvana.

R: Ja.

P: I mean we have had periods of political stability before where we had our same economic challenges.

R: Yes.

P: So, ja, you know it will help, and it is very important. But it needs to lead to the reforms and the interventions that put this economy on the growth path. And so that is going to be very important.

That is hard, hey, because it does take some bold decisions. We need to rebalance the economy. We need to have an economy that is not just one trick pony.

As you dig stuff out the ground, and you sell it to China. That is essentially what we have done for years. Now that is not necessarily there anymore, or it is much prevalent than it was before.

R: Yes.

P: Because China needs less of that stuff. And China themselves have aspirations to move away from a production driven economy to a service driven economy. They are, more and more they want Levi's[?] and iPhones and…. You know? Not platinum and palladium that we have got lots of.

R: Ja.

P: So we need to change the economy. We need innovation. We need reforms. We need new ideas. We need competitiveness. Large effects, which does need a policy environment that is stable/

As I have said, because that leads to investment and the investment will then lead to the growth of new industries, new initiatives… better productivity, increase the level of trend growth in the economy, and you make your way…

R: So between these political, economic and financial factors, can you make take me through… and if you feel you have done this already, you can always just say: *No I have already explained that, please refer to whatever question,* but can you maybe take me through how these then directly and indirectly affect your investment decision-making?

P: Well… So the difficult part is analysing them. So you have got to get information and data. And that is the difficult part.

R: Yes.

P: You know you can sit here, and you can have a thumb such at who is going to be president, or who is going to win this election. Or who is going to be casualty in the next cabinet reshuffle. Or who is going to be in jail next time. That is all… it is not tangible. It is not analysable. So you can have views on that, from an investment perspective, but you cannot be guessing.

R: Yes.

P: And hoping… So you know you have got to get to grips with the situation and do research that allows you to then have some sort of informed view that then translates into an investment decision.

So, if this and this happens… What does it mean for asset markets? And how do they react? So it is just… it is just variables that are different to what we used to. That you trying to assimilate into: *What is the impact going to be on investment markets?* And: *Therefore, what should I invest in order to generate the best performance?*

R: Hm. Okay.

P: Yes.

R: So now, moving on to the second part of this interview, can you take me through your investment decision-making process? If you have a process?

P: Ja, we've got a process.

R: *[chuckles]*

P: Designed by me! First set. Define your investable universe. So you have got to come in and sit down each day with what you can invest in, and that is driven by lots of things. The clients' mandates allow you to do certain things. Legislation allows you to do certain things.

Then you have got capabilities to do certain things, so according to your systems, according to how deep your research capability runs. What you are comfortable with. Which types of things you are comfortable with analysing and investing in. So define your investable universe.

So that will be the same as an equity portfolio manager that sits down and says: *Right. I am going to focus on the top 40 stocks. That is my investment unit.* I *am not going to buy more. I am going to buy the ones* *that I like.* Or: I *am… you know my benchmark has got this many stocks in it. I am going to overweight some and underweight others.*

So to define investable universe, then the research process starts. Each one of those investable opportunities is analysed. So fundamental research. Quantitative research.

All the different types of tools we have available, building models to try and predict how that investment opportunity will pan out. And the research process then generated an output that forecasts a return for this investable opportunity. And a level of risk.

So, you know, two investable opportunities might have the same return. Or the same expected return. But one might be expected to be double as volatile, or double as risky as the other one. Then you are going to choose the one that is less risky for the same return.

So it is getting your risk return profile for all your investable opportunities, and then assessing that and compiling that into a portfolio that looks to maximise the total return or performance, and minimise the risk or the volatility around that performance, to make it as predictable and consistent as possible.

That is very iatrical to our investment process. We are not an asset manager or an investment manager that is very volatile and one month up hugely and then another month we are down. We are much more incremental. We are sort of *Steady Eddy,* if I can put it like that?

R: Hm, hm.

P: Where you look to almost generate good performance every month.

R: Yes.

P: But in small increments *versus* a guy that is up and down, and up and down. You get to the same destination maybe at the end, you have the same return, but the other guy has done it in a much more volatile fashion and a much more unpredictable fashion. We like… or our clients like the predicable and consistent type of culture.

R: Hm, hm.

P: And then, so once you have got your ideas, and you have ranked them and you have got your favourite ones, and your best performing ones, you combine them in the portfolio. And then it is an ongoing thing.

You monitor them. Do they hit your targets where you take them off? So if it is a share you are buying at R100, and you think it can go to R130, when it gets to R130, you reassess your investment outlook, take profits, *Let's take it out*.

R: Yes.

P: Or if it goes to R70, are you *stop loss out?* You know? Admit your view is wrong, carry on. There is a discipline involved to that. Monitoring the different views relative to your expectations for them, being disciplined to take your profits, cut your losses.

R: Yes.

P: And then, once you have taken stuff out the portfolio, you have got to find the next one to come in. So the research is happening on an ongoing view, news flow and, as new factors come in, incorporate those into the research process, reassess what is in the portfolio, all the time and measure the returns risks, attribute that performance, know where it comes from, and then you… you start again!

R: You can say that again.

P: That is the one thing about this, it never ends. You are not… At the end of the year you are not done. You have still got the portfolio and you have still got carry on making the returns.

R: Yes.

P: So it is a big of a never ending treadmill you are on. But there are pauses along the way where you can stop and you can say: *Okay, well, for that period I've done well.* And: *For that period I've mucked it up, but now it is the next period that we sort of focussing on.*

R: Okay. So you mentioned something. Now this is not a question. But you mentioned something about… Well you were basically elaborating on the risk, and how you tried to have less risk, and the highest possible return.

P: Ja.

R: And then you mentioned how you know it is for the best interests of the clients, etcetera.

P: That's right.

R: But now you, from you personally are you more risk averse? Or more risk seeking?

P: I am risk seeking, but I understand my clients' requirements, and I know them well. This comes from knowing your client. Okay? So I try to deliver a return profile or portfolio performance that is consistent with my clients' requirements.

So if it is a client that hates losses, or cannot stomach three months' of underperformance in a row, you have got to tailor make your approach. It does not mean you shouldn't take risks, or you should not be risk seeking…

But you have got to seek out risks that are appropriate for that profile. And that is a little bit of a skill that you have just… that you develop. At times I could take more risks, but if I know the client's mandate is not conducive to that, then I don't.

So, ja. I, or we are active managers. It is our job to take risks. But you do it within the parameters that are clearly specified and our portfolio construction process, or that investment process, by it's nature, is diverse, and it is looking for lots of investment opportunities, not dominance of any one or two.

R: Hm, hm.

P: Where if you get them wrong, you have blown yourself out of the water.

R: Ja.

P: So you've got that sort of safety net, but where we find the opportunities we will take significant risks on them. It is how you combine them into a portfolio that, at total portfolio level the risk is acceptable and mitigated, and delivers on the client's expectations.

R: Ja, I think that is very interesting, because I mean obviously you have to keep the client's best interests at heart. But you being opposite to maybe how conservative the clients may be, but, you know it would be interesting as to see how you find that balance.

P: Okay.

R: But, like you have said, it comes with experience and comes with knowing your clients.

P: Ja. Look, also when I say I am risk seeking, it is in a fixed kind of context, okay?

R: Yes.

P: I am very much a fixed income investor. It is all I have done. It is very different risk to an equity manager, for example.

R: Yes.

P: Or a hedge fund manager, where volatility is much more pronounced.

R: Yes.

P: And performance relative to peers and relative to benchmark is much more disbursed.

R: Hm, hm.

P: I do get a certain amount of comfort and peace from not being completely out of kilter with peers or benchmark. You know?

R: Yes.

P: I have got no desire at this stage of my career to go over board and not being able to sleep because: *You know this peer is 200 base points ahead* *of me for the quarter…* Or something like that, and so there is an element of conservatism in fixed income.

But I am … But you know it is not to say there is no risk and there is no dispersion, but it is not like… If I was an equity portfolio manager and just had Steinhoff as 6% of my portfolio and it has gone to zero, that would be incredibly uncomfortable for me. That is not in my nature. I would take it very personally, and it would impact me largely.

I mean the closes we have come on fixed income is the default of African Bank. And we had… this was the first default in listed debt markets in South Africa… ever.

R: Oh? Wow!

P: And so it was like a bomb went off. And we had a little bit of exposure, not a lot… a little bit where it was not nice, but portfolios were not, you know, decimated by it like they were at some other competitors. But, still, it was a horrible, horrible, horrible time.

R: Yes.

P: And it stretched on and it lasted, and it something… you doubt yourself personally. Clients think you are an idiot, because they have got perfect hindsight.

R: Ja!

P: And a whole host of those types of things. And that is… Ja. So you know, ja I am risk seeking, but within a framework that I can define and that I have built, and that I am very comfortable with and that works, and that I know is not going to end dramatically badly for clients, or myself. So there I do take comfort from that in terms of my own personal view and makeup and personality.

R: Okay. Well back to the script. So to what extend would you say market conditions… so whatever is happening in the market has an influence on your investment decisions? Would you say extreme. Relative. Or not so much.

P: I have alluded to this a little bit. I am not one for making big investment calls, if I haven't done the work and if I am not very comfortable with the analysis.

R: Yes.

P: So the factors that I have described to you in a large part of this interview…

R: Ja?

P: … are not factors that you can analyse in detail.

R: Ja.

P: There is a little bit gut feel and guess work in it. And that has definitely impaired my willingness to take risks. So I am not going to sit there and have a full go in a portfolio, betting that Cyril is going to win the election, or that Nkosazana Dlamini-Zuma is going to win. I mean he has got a casino rather[?].

So I find that in this environment where the main factors have been these intangibles, my natural instinct has been to pull risks in, and rather just admit and say to clients: I *don't know. I don't know who is going to win the election. If I told you I did, I would be lying. And if I positioned the portfolio aggressively for that, I would be guessing.* And some of the clients understand that.

Then some of them are comfortable with that, and they trust me. Others… not so much. Especially the hindsight ones where they say: *What do you mean you didn't… you weren't positioned for Cyril to win? And look at the gains that we have left on the table.*

So ja, when I back myself is when we have done the work properly and in depth, and we have got a well-informed view, then I will take a lot of risk.

This lots of noise and lots of volatility for the sake of it, and it is driven by politics and that, it has not been my best environment, ever. And I have not enjoyed it. I don't feel that I am in control. I don't feel that I have got a good handle on it.

Yes, and so I have tended to pair[?] back risk in portfolios. And it has sometimes over these last few years cost performance *versus* someone who has a different approach.

I am going to have a full go at this, it doesn't matter if I have not done research, or I don't have a well-informed view, I am still going to have a go. And sometimes that comes off and then you look smarter than what you actually are.

R: *[chuckles]* Okay! So there are two things you have mentioned there. So you spoke about gut feel, and then something else that you also spoke about, which I do want to get into was the research aspect.

So when you said you want to have an informed view… So what sort of things do you look at when you do your research? Or what sort of research do you do?

P: Once we have identified those, as I have said those investable opportunities, we have got a good idea of what the factors are that drives those opportunities.

R: Okay.

P: What is going to make them perform well. What is going to make them under perform. So, for example, bonds, the big one is inflation. And then, as I have alluded to, these foreign flows, for example. Your credit rating? Your country's sovereign credit rating?

What they do with short interest rates to a certain extent. So the factors are generally well known. If we are looking at credit, for example, it is, you know, what needs for this entity that I am lending money to, to be able to pay me back my money.

You know what sector are they in? Which part of the economy are they? It is cyclical? Is it defensive? Are they a strong credit? What does their balance sheet look like? So it is researching the factors that are going to drive the performance of these investment opportunities.

R: Yes.

P: So it varied… a lot.

R: Okay.

P: Across the board, but it would be all the obvious ones, the fundamental economic factors…

R: Yes.

P: … and then some of the other more quantitative factors.

R: Yes.

P: But we try to come at it from all angles. So we have got quantitative boffins in the team. We have got just, you know, just top macro people in the team. We have got short term trading types in the team. They are all contributing their effort that informs the ultimate investment team.

R: Okay. So then moving on to your comment about gut feel, and the next few questions have… is somewhat related to that. So the first one is, to what extent are your personal opinions, your experience, and your personal views prevalent whenever you are making decisions?

P: I think…I think it plays quite a big role. The longer you have been around, the more you are experienced, the more you have been involved. It is just natural to think you know more than the next guy. So I have to sometimes stop myself from my view dominating and my opinion and: *Yes I hear what you guys are saying, but… But you are wrong…And so…*

And I am particularly focussed on that, because we have got a diverse team and guys with lots of different opinions, different levels of experiences, different backgrounds, different ways of looking at things. So I do like to listen to a lot of different opinions and it gets used.

It is probably in the nature of… I know you are sort of looking at personalities and behaviours and that. I think… I would be surprised if you found an investment professional or a portfolio manager that didn't believe his own view and back himself.

R: Yes.

P: So a strong and dominant backing of your own ideas and that, but I am determined for that not to be my downfall sometimes. And to try and intersperse that with other people's thoughts and to use those ideas.

<u>R</u>: That is really good, because I mean not everyone is like that. Believe it or not. So, ja, for some people it is quite what their ultimate decision is.

P: Ja.

<u>R</u>: So now, when you look at your opinions, your views, and your experience, between these three factors, which one would you say, to you, would be considered most important?

P: What were the factors? Sorry?

<u>R</u>: Opinions…

P: Yes.

<u>R</u>: Your opinions, your personal views and experience.

P: Ja.

<u>R</u>: Your experience.

P: Look I would go with experience, although I would say, and I have already alluded to that, this is a very unique time. I have never encountered something like it collectively, on a global and domestic front. And some of my experiences I found redundant.

<u>R</u>: Yes?

P: It doesn't work anymore.

<u>R</u>: Ja.

P: So it is important, and it is a factor and I have seen a lot of things, and seen most things. But it doesn't mean that you are going to be on top of every environment and situation.

<u>R</u>: Ja.

P: So I go with experience as the most important out of those three.

R: Hm. Okay. So now moving onto a question that could potentially be a little bit more personal. If you don't want to answer it you don't have to. But, so, we are human.

Sometimes you wake up and you are feeling so good. And then there are day where you wake up and you are not feeling great. So are you, as a person, aware of your emotions on any given day?

You know you can wake up in the morning and say: *Now I am feeling great!* Or: *I am feeling really good?* And you know within that regard are you then able to separate your personal emotions then from your decision-making?

P: I am… I find… I think… I don't know why, I don't know what it is, but when I sit down in the chair in the morning… I don't know if it is the pace and the franticness… or whatever? But I do tend to be able to just leave everything. Okay?

R: Hm.

P: So I zone in and focus. I don't know why. And I am grateful for that, because I would imagine it was quite tough… it would be quite tough to make objective investment decisions if you are sitting there, and you have just had a huge fight with your wife. Or if … I don't know? Or if somebody in your family is very sick. Or you've just won the lottery… Whatever your emotions are…

R: Well you will not come to work if you have won!

P: … in objective decisions.

R: Ja.

P: But not always. I mean we are human.

R: Yes.

P: And there will definitely be days that… I mean: *Jeez I am tired of this… I can't do this anymore…*

R: Ja.

P: But I wouldn't say that it ultimately feeds through to my investment decisions, or influences it in any way. The changes are, if I am in an emotional state of mind that is volatile, either way… good or bad, I would likely just try an withdraw from, from…

R: From that?

P: From work and making investment decisions. Just go home.

R: Yes.

P: I do observe it in the team. This is definitely a factor.

R: Hm, hm.

P: So, if I know of personal things going on, or you can see it sometimes coming through in the quality of work… Or ability to focus. Ja. So it is… it's… ja it's a factor that can be a problem for some.

R: Hm. So I mean, look you said you don't know how you managed to separate work and your emotions or your personal feelings or personal emotions during the day… or whatever. So I just want to clarify that point? That is maybe just something that comes naturally to you? Maybe it is just how you are?

Because I know some people have coping mechanisms, how they tell themselves: *Okay, you know what? When I get there this is what is going happen.* Or: I *will do this.* Or: I *will try not to do that.* You know?

P: Ja.

R: But with you it just seems like it something where you just naturally separate the two?

P: Ja, I don't… I mean I can't put my finger on anything obvious that I do, or intervene, or force myself to do, but when I walk in here I just get into the zone.

R: It must be magic to do that?

P: Ja.

R: Ja. Okay. Cool. Well thank you for that answer, and thank you for your honesty. My next… so I have three more questions left. My next question now is, have you ever made an investment decision that potentially resulted in losses? It was a wrong decision?

If so, how did you deal with the aftermath of that? I know earlier you mentioned, for example, Steinhoff and if you are in a certain position… And also with African Bank. So I don't know? Maybe those same kinds of principles may be applying to this question? Or…

P: I am… Okay, lots of times. Okay? Lots of times. And I don't know? I was always of the view that understanding that you are going to get lots of decisions wrong is the first step to helping you deal with it.

R: Yes.

P: So it shouldn't surprise you when it happens. And it still doesn't make it easy. As I have said, I take them, or I can take them a little bit personally. And it gets to me. And it stresses me out, because, you know, first of all I am trying my absolute best to deliver to the client's expectations.

R: Yes.

P: Second of all… I just want to beat the competitors.

R: Of course!

P: And so, getting decisions wrong have impact in those spheres. But to let it eat away actually, and to let it mess with your mind and to let it depress you or really get you down, I have learned over the years to deal with that a lot better.

So I don't know if it comes with age or experience of what? But it is a little bit of like: *You know this has happened… Did I do that to the best that I could in the situation? And, if so, then it is what it is.* It has happened. It is not going to go away.

I am probably going to get shouted at by some clients. Probably you know you are not going to get a bonus if it is bad enough. Or if it's a … But there is nothing I can do to change it.

R: Ja.

P: So move on. And I can understand why some people would not be able to do that.

R: Ja.

P: And I could not do that… for a long time as well. But I found it weighs you down, hey?

R: Ja.

P: If you react like I used to do, which is taking it very personally. And then I would go home and it would go home with me.

R: Oh, wow!

P: And you know it impacts in other spheres of your life outside of work. And I just felt if I have been through… And you can go through times where you under perform for long periods.

R: Yes.

P: So it is not… It is not a week and then you are back in the saddle, and you have suddenly fixed it. You go through times where for the whole year you under performed.

R: Oh! Sjoe!

P: And if it get to you and it affects you, you can be miserable person.

R: Ja. Of course.

P: Fight with the wife. Shout at the kids.

R: Ja.

P: And I had to work very hard to not let those periods where I have got stuff wrong, no matter what you are doing wrong, drag me down.

R: Yes. Okay.

P: So… Ja… that is that. That is a bit of a challenge. But I mean I am now where it is like, it is what it is. I think it is different if you have done the work. If you have not done the work…

R: Yes.

P: If you have not put in the effort. If you have been lazy or complacent and you make a mistake… But if you have done the best you can and you still make a mistake, I am at the stage where: *Listen that happens!* It happens to every single person, and you know what? That is how it goes.

R: Ja. Okay. So my second last question to you now is, have you ever made an investment decision, and maybe you can take me through an example, where by the conditions that served that decision were highly complex? And then what sort of factors then enhance that complexity?

P: So, yes. The answer to that is yes. But I mean some of the… some of the investment decisions that we need to analyse are fairly complex. Particularly on the credit side.

So if you are lending to a Steinhoff, and you sit down in front of that balance sheet and you have a look at subsidiaries here and flowcharts going in all directions and arrows, and flow of money, and this is what they do there…

I mean I am picking on them, because they are topical at the moment. But you know often there are complex companies to analyse, where you really have got to understand the granularity of the stuff to get a good handle on it.

R: Yes.

P: And if you put the work in and the time, and you end up making the right decision, then you know that that is what it is about then. That is why we do what we do. And it is quite rewarding and quite fulfilling. But you know massive complexity in other areas is not really... it is what it is.

R: Ja.

P: You are investing if fixed income market opportunities. They are there. They are fairly transparent. You have just got to decide which way are they going to go. And so they are not necessarily complex, but still takes a lot of work and intuition and experience to get the direction that they are going to move in, in the market.

R: Okay. So considering everything that we have spoken about, and your current professional position, what would you then consider someone that is a rational investment decision-maker, and then someone that is an irrational investment decision-maker?

P: Sjoe! I have touched on some of the factors. So irrational would be someone who, first of all, does not do the work. Or the analysis. Because then it is guessing.

Irrational would be someone who thinks that they are going to get all their calls right. Or most of them even right. Irrational would be someone who does not objectively review investment in terms of when to take profits. Or when to cut. So you ride it for too long, thinking it will come back.

Irrational is often linked to emotions, I think. So if the emotional mood swings on a personal level or in your… or just your DNA are wild, I think it can come through in irrationality. Bone headedness is irrational.

So just like: I *am right about this. This will happen like this,* and not listening to counter views or not taking a step back and just try and be a bit more objective. If that makes sense to you? Rational would just be the antithesis of all of those.

R: Hm, hm.

P: So someone who is stable. Someone who is not too emotional. Someone who can admit that they were wrong. Someone who doesn't… who is not greedy.

Someone who…you know? So I don't think there is anything very controversial with any of that. So it is more a textbook kind of thing. It is just hard to do those things altogether at the same time.

R: Yes.

P: Or stop yourself from being irrational.

R: Yes.

P: That sometimes is the hard part. Ja.

R: Well, that is it from me. Thank you so much.

P: Cool!

…[End of recording]…

---o0o---