

CONSIDER THIS



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CORONAVIRUS CRISIS: **WHAT INVESTORS CAN** **DO – AND NOT DO**

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Book Review: Factfulness: A way to help us cope with the Coronavirus?

Clare Lindeque, Head of Quantitative Analysis, looks at how "Factfulness" can help us to cope better with our everyday concerns, and those existential unknowns, by attempting to arm ourselves with the correct facts. There is room for optimism that in today's confusing world of misinformation we can overcome our innate tendency to overburden ourselves with negative beliefs.

We'd love to hear your thoughts on the new format of our *Consider this* magazine. For this reason we ask that you please take a few moments to complete a short survey consisting of only 5 questions. To start the survey, please click on the "Survey" button below.

SURVEY



Benard Fick
CHIEF EXECUTIVE

The Q2 2020 edition of *Consider this* is being released in the most extraordinary of times. At the time of writing, the end of April 2020, South Africa remains in a state of disaster with a hard “lockdown” and extensive physical distancing to slow the spread of the COVID-19 disease. We are not alone in these efforts: across the world other countries have taken similar steps. A positive development is that some countries are

now beginning to lift some restrictions, as they pass their points of peak infection. Indeed, New Zealand have just announced that they believe they have “eliminated” the virus after weeks of severe lockdowns. New daily infections in that country are now down to single digits.

In South Africa we will shortly begin the gradual re-opening of our economy as we move to Level 4 of our crisis response, and hopefully lower levels will follow in short

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order – our economy desperately needs that.

Portfolio and market performance

Over the past few weeks we have written extensively about or recorded some of our thoughts on the crisis, its impact on the global and local economy, and particularly the effect it has had on the price of various financial instruments that we hold or can purchase on behalf of our client portfolios. Please *visit www.prudential.co.za/insights* where you can view or read these at your leisure. In this edition of the magazine we have included several articles addressing our portfolio positioning and how investors can help themselves during the market sell-off.

Rather than repeating the observations by my colleagues, I'd like to make a few general observations about financial markets and recent conditions.

- 1.** Investment markets are forward-looking. The price you pay for an asset today should reflect the present value, at a suitable discount rate, of the long-term stream of cash flow you expect to receive from your investment. For example, buying

shares in a company entitles you to the future profits that business will earn, which are either reinvested in the business or distributed to shareholders as dividends. In “normal” times, markets broadly get this right and asset prices tend to follow the intrinsic value of the underlying businesses. However, in crisis events, market participants frequently shorten their time horizons, opting to sell their shares immediately in anticipation of a coming collapse in company profits. In doing so, the market inevitably suggests (through the resulting crash in share prices from panicked selling) that any short-term profit reduction will become a permanent feature and by implication that profits will never recover.

Over the past few months we have seen this happen in nearly every single share price on the JSE. We would suggest this has been a drastic reaction, and the market has been oversold. Certainly, some companies will be permanently damaged by the COVID-19 crisis and economic shutdown. But the majority will survive, and those are the companies

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we are seeking to buy or buy more of, at bargain prices.

2. Following on from the prior point: share prices will begin rising well before economic growth recovers and profits return. I am not suggesting the JSE All Share Index low of 37,963 points on 19 March 2020 will be the “bottom” during this COVID crisis. We simply have no way of knowing that with certainty. It is certainly plausible that share prices could take a further tumble. However, our level of conviction about future returns does increase along with our time horizon. Put differently, the odds increase in our favour as our investment holding period increases, and economic fundamentals impact companies’ share price performance more than short-term emotions of often-irrational investors.

3. Starting valuations matter. A lot. South African assets, including many SA equities and bonds, were already attractively priced before the crisis. Throughout 2019 the valuations of these assets were reflecting investor concerns about sluggish economic growth, a concern we shared but felt

we were adequately compensated for by the prices being offered. (None reflected any news about a novel Coronavirus that would begin infecting people in the Wuhan province of China, and then the world, a few months later). Across those Prudential portfolios aiming to deliver moderate to high levels of long-term real returns, we therefore held overweight positions in SA equity, certain global equity markets and South African and emerging market debt. The outbreak of the COVID-19 crisis of course pushed these asset prices down significantly. In our assessment, this has shifted the prospective returns from certain quality assets even further in our favour, notwithstanding the short-term negative performance that our investors (clients and staff alike) will observe from their most recent investor statements.

4. Looking back over the 2020 year-to-date performance of investment portfolios, the worst thing an investor could have done was to de-risk her or his portfolio in the midst of the market correction. While portfolios are still significantly

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down from their highs, they have already delivered a very significant rebound from mid-March lows, as can be seen from the performances of a sample of Prudential's most popular funds in the accompanying table. This reflects the portfolios' net-of-fee performance for the 12 months to 28 April 2020. It further shows the returns for the period

from each portfolio's highest unit-price level during the last year, as well as the performance from each portfolio's lowest unit-price level, i.e. the performance that has already been recovered from the March low points.

As can be seen, these portfolios have all delivered substantial negative

Prudential 12-month fund performance

Prudential fund	12-month return (net of all fees)	Date of highest fund unit price	Change in fund unit price from 12-month HIGH point	Date of lowest fund unit-price	Change in fund unit price from 12-month LOW point
Prudential Balanced Fund	-11.8%	17 Feb 2020	-13.3%	23 Mar 2020	23.6%
Prudential Dividend Maximiser Fund	-12.9%	20 Jan 2020	-15.0%	23 Mar 2020	29.6%
Prudential Enhanced SA Property Tracker Fund	-48.8%	25 Jul 2019	-50.2%	23 Mar 2020	15.0%
Prudential Enhanced Income Fund	1.0%	27 Feb 2020	-4.5%	24 Mar 2020	1.8%
Prudential Equity Fund	-17.4%	03 May 2019	-18.0%	23 Mar 2020	29.9%
Prudential Global Balanced Feeder Fund	16.2%	21 Apr 2020	-1.7%	24 Mar 2020	25.8%
Prudential Global Equity Feeder Fund	14.1%	21 Apr 2020	-1.1%	24 Mar 2020	32.3%
Prudential Global Inflation Plus Feeder Fund	22.1%	21 Apr 2020	-2.0%	16 May 2019	25.2%
Prudential Income Fund	5.4%	04 Mar 2020	-1.6%	29 Apr 2019	5.4%
Prudential Inflation Plus Fund	-10.4%	20 Jan 2020	-11.6%	24 Mar 2020	17.2%
Prudential SA Equity Fund	-25.7%	03 May 2019	-26.4%	23 Mar 2020	32.7%

Performance over 12 months from 29 April 2019 to 28 April 2020

SOURCE: Morningstar

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returns from their 12-month highest unit-price levels (and indeed over the full 12-month period to 28 April 2020). However, in every case, the portfolios have delivered significant positive performance from their respective lowest unit-price levels. While the funds have not yet recovered all their recent losses, as is clear from the negative 12-month performance shown in the table, investors that sold out of these funds during the market collapse, and especially those moving funds to cash, would not have benefited from the subsequent performance recovery.

The current short-term rebound in returns may well not be permanent. As stated earlier, we have no ability to predict very short-term returns, and it is possible that further pullbacks may occur over coming weeks and months. There are undoubtedly significant challenges ahead. However, investors trying to time these volatile markets are likely going to miss short bouts of recoveries, and in doing so might crystallise a loss on paper, into a permanent loss of capital. A much better strategy is to simply remain

invested during this period of extreme volatility, and stick with a long-term, patient investment strategy.

Giving in times of need, and meeting our obligations

Turning to more community-focused matters, I am pleased to report that in these times of extraordinary need, Prudential has made a donation to the Solidarity Fund to help those unable to provide for their families during the lockdown, and particularly to finance the acquisition of Personal Protective Equipment for our healthcare workers. Many staff have also donated portions of their salaries, recognising the privilege we have to be able to work and earn a living in the current conditions.

Prudential continues to meet all our financial obligations, in full and on time, through this lockdown period. This includes paying all office rentals, taxes, insurance premiums (including for staff insurance and medical aid benefits) and suppliers. In doing so we will reduce the crisis-related pressure on those firms and people that rely on our payments and allow others

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to avail themselves of the various COVID-related relief schemes that are available.

Business continuity

Finally, as you know from our previous communications, Prudential has been operating smoothly during lockdown, continuing to ensure the active management and security of our clients' assets. Prudential staff are all operating at full productivity. Every one of our employees can work from home using remote technology, and a large proportion are doing so with only a small core team of essential workers working from our head-office and our separate disaster recovery office.

Our clients' investment portfolios remain front-of-mind, and robust investment team debates take place daily.

In uncertain times like these we wish to engage with our clients even more than normal, so please reach out to us if you have any questions or require any assistance with respect to your investment portfolios.

Please remain safe and healthy and know that *"this too shall pass"*.



Bernard joined Prudential in 2008 as Head of Institutional Business and was appointed as Chief Executive Officer in 2010. With more than 27 years of industry experience, Bernard previously worked at Alexander Forbes in a range of leadership roles, including Managing Director of the Namibian business as well as Head of the Asset Consulting Division. Bernard holds a Bachelor of Commerce degree in Maths and Actuarial Science from Stellenbosch University and is a Fellow of the Institute and Faculty of Actuaries and the Actuarial Society of SA.



TABLE TALK

PIETER HUGO
CHIEF CLIENT AND
DISTRIBUTION OFFICER

KEY TAKE-AWAYS

- Following the Coronavirus market crash, investors need to avoid any impulsive selling or buying, acting out of fear or greed.
- Some portfolio rebalancing may be necessary to account for the large market moves.
- A financial adviser can help with rebalancing and identifying both new opportunities and risks to avoid

Q I'm worried about the Coronavirus market sell-off and its impact on my investments. What can I do to protect my portfolio and help it recover?

A At Prudential we know that investors are concerned about their portfolio values following the sharp market downturn in March, and we fully understand the anxiety this has caused. While you may be feeling helpless about the situation, there are certainly steps you can take – and importantly also not take – to help increase the potential for your portfolio to recover.

As human beings we are wired to protect ourselves and run away from the pain. However, as investors that might not always be the best choice. Therefore, you should resist panicking and selling your holdings while they are at very low valuations in order to protect your portfolio. History has taught us that this is exactly the point where investors inflict the most damage on their own portfolios – which is the last thing you'd want to do to yourself. If you do sell, you lock

in your losses and lose any chance of benefiting from a potential rebound. Patience is a key attribute in making the best of any recovery.

For example, during the March sell-off, the South African equity market lost over 35% of its value compared to the beginning of the year, but then recovered by some 27% from this bottom in the following four weeks up to 15 April. Had you sold during the bottom in March, your portfolio would have experienced a permanent capital loss and you would have missed out on this recovery, as well as any further gains that could follow.

You should also resist acting out of greed and buying up any “cheap” assets without careful analysis. Although we have certainly seen many high-quality assets driven down to bargain basement prices, many others have become more risky due to the dire economic conditions the country is

TABLE TALK

facing. It takes expertise to know if the price of an asset is compensating you for the risk involved – an asset may be cheap for a very good reason. So be sure to do your homework before deciding to buy.

What else can you do proactively to protect and help your portfolio recover?

If you're unsure about what to do, or feel the urge to make large changes to your portfolio, it could be a good idea to consult a financial adviser. Research informs us that investors' emotions can overpower their rational thinking during times of financial stress. Taking a rational and realistic approach to investing is essential. One of the biggest advantages that a good financial advisor brings is to help you navigate through tough market conditions like we're facing now, without making irrational changes to your portfolio that you're likely to regret later.

You should make sure you're invested with reputable investment managers with successful, long-term track records who have sufficient expertise and

infrastructure to continue managing your money through multiple crises like the present. Your chosen managers must have sufficient depth of resources to continue to operate smoothly and safeguard client funds, no matter what the conditions. Business continuity is critical.

For retired investors, if you are drawing an income, try to temporarily reduce your withdrawals as much as possible, as you don't want to have to sell your assets at depressed levels. The government is working on measures to allow those with living annuities extra flexibility to change their withdrawals temporarily to cope during these difficult conditions.

If you are investing on your own, you should ensure that your portfolio remains appropriately diversified and positioned to achieve your investment goals. By investing in multi-asset funds, you enable the investment manager to make both asset allocation and stock selection decisions on your behalf. There have been large swings in market values, in both absolute and relative terms, so your funds' holdings will

TABLE TALK

likely need to be rebalanced across asset classes, both local and offshore. At the same time there are numerous excellent valuation opportunities on both the asset class and individual security levels that your investment manager can take advantage of on your behalf.

So in conclusion, we fully understand that you are concerned about your investment portfolio as a result of the Coronavirus market sell-off. But there are steps that you can take to help ensure it has the best chances of recovery going forward. Be patient and proactive, and consult a financial

adviser to see if you are correctly positioned given your investment goals. At Prudential we are actively managing our client portfolios to include high-quality assets at very attractive valuations that we believe will mitigate risk, allow client portfolios to recover and help our clients meet and beat their investment goals over time. You can find articles and videos detailing what Prudential has been doing at www.prudential.co.za/insights. ■

Pieter joined Prudential in 2105 as Managing Director of Prudential Unit Trusts and Head of Retail Business. In November 2019 he was appointed as Chief Client and Distribution Officer. He has 21 years of industry experience, having previously worked at another large investment manager in various senior roles. Pieter holds a B.Comm degree in Mathematics and is a qualified actuary (holding a fellowship with the Institute of Actuaries in the UK and the Actuarial Society of South Africa). He also completed a General Management Program at Harvard Business School.



CORONAVIRUS

Prudential: Exploiting opportunities and avoiding risks



Sandile Malinga
PORTFOLIO MANAGER

KEY TAKE-AWAYS

- SA equities and nominal bonds are priced to deliver very attractive real returns over the next three to five years, and we have been adding these assets to client portfolios where appropriate.
- SA cash and offshore assets have become less appealing, as prospective returns have declined in recent weeks, mainly due to interest rate cuts and rand depreciation.

At Prudential we are cautiously optimistic that with patience, time and astute active portfolio management, investor portfolios can recover their values, enabling clients to meet their investment goals over time. We have been positioning our client portfolios both to benefit from the exceptionally low valuations now available, and to avoid the assets that have become more risky. Active portfolio management has been key, as the large and rapid market moves during the global sell-off have changed prospective investment returns significantly. Following is an overview of some of the noteworthy adjustments we have made in recent weeks.

SA equities and bonds offering exceptional prospective returns

Regarding SA equities, our analysis shows that, as of 15 April, the FTSE/JSE Capped SWIX Index) was priced to deliver a prospective real return of around 10.6% p.a. over the next three to five years, far higher than the 6.5% p.a. historic average. We have been adding exposure to companies with strong balance sheets, steady cash flows and defensive-quality earnings that

we believe can successfully weather the economic downturn. In the sell-off we saw opportunities to buy some of South Africa's top blue-chip companies at excellent valuations. On the other hand, there are also companies that are trading very cheaply for a reason – because their risk has increased sharply.

“...10-year nominal bonds should deliver a real return of approximately 5.4% p.a. over the next three to five years, more than double the 2.5% p.a. historic average”

SA government bonds are also offering an excellent opportunity to capture exceptional returns following their sell-off. Based on our analysis as of 15 April, 10-year nominal bonds should deliver a real return of approximately 5.4% p.a. over the next three to five years, more than double the 2.5% p.a. historic average. We have been taking advantage of this by adding SA bonds to our portfolios wherever possible. Although more volatility is likely, we would not expect to see significant further weakness from these valuation levels, and we believe

current bond yields largely reflect the risks involved.

SA cash and offshore investments less attractive

In contrast to SA equities and bonds, however, SA cash investments have become much less attractive following the South African Reserve Bank's 2.00% reduction in interest rates: SA cash is now offering an estimated real return of only 0.2% p.a. going forward, barely above inflation. For investors who have been holding high levels of cash because of its outperformance of SA equities in the last three years, this positioning is now much riskier. Not only will its future returns be lower in absolute terms, but it is also much less likely to beat returns from SA equities. Holding more cash than absolutely necessary will considerably reduce the chances of a full portfolio recovery the longer it is held.

Investors should also be cautious about increasing their offshore exposure going forward. The potential future returns from global assets have become less attractive relative to local assets due to both the depreciation of the rand, and because developed market

asset valuations are more expensive than those in South Africa. The rand has lost about 25% of its value and is currently undervalued, making it likely more to appreciate over time. This would detract from future offshore returns.

Additionally, our analysis shows that global equities, as measured by the MSCI All Country World Index, are priced to deliver a real return of around 6.0% p.a. over the next three to five years, very close to their 5.9% p.a. historic average. So they are not cheap on an absolute basis (having been valued somewhat expensively before the Coronavirus downturn), nor are they cheap relative to SA equities, which potentially offer a substantial 4.6% p.a. more going forward. At Prudential we have been taking advantage of this by selling some of our offshore equity holdings to buy up better-valued SA equities and SA nominal bonds, at the same time buying cheap rands with expensive US dollars.

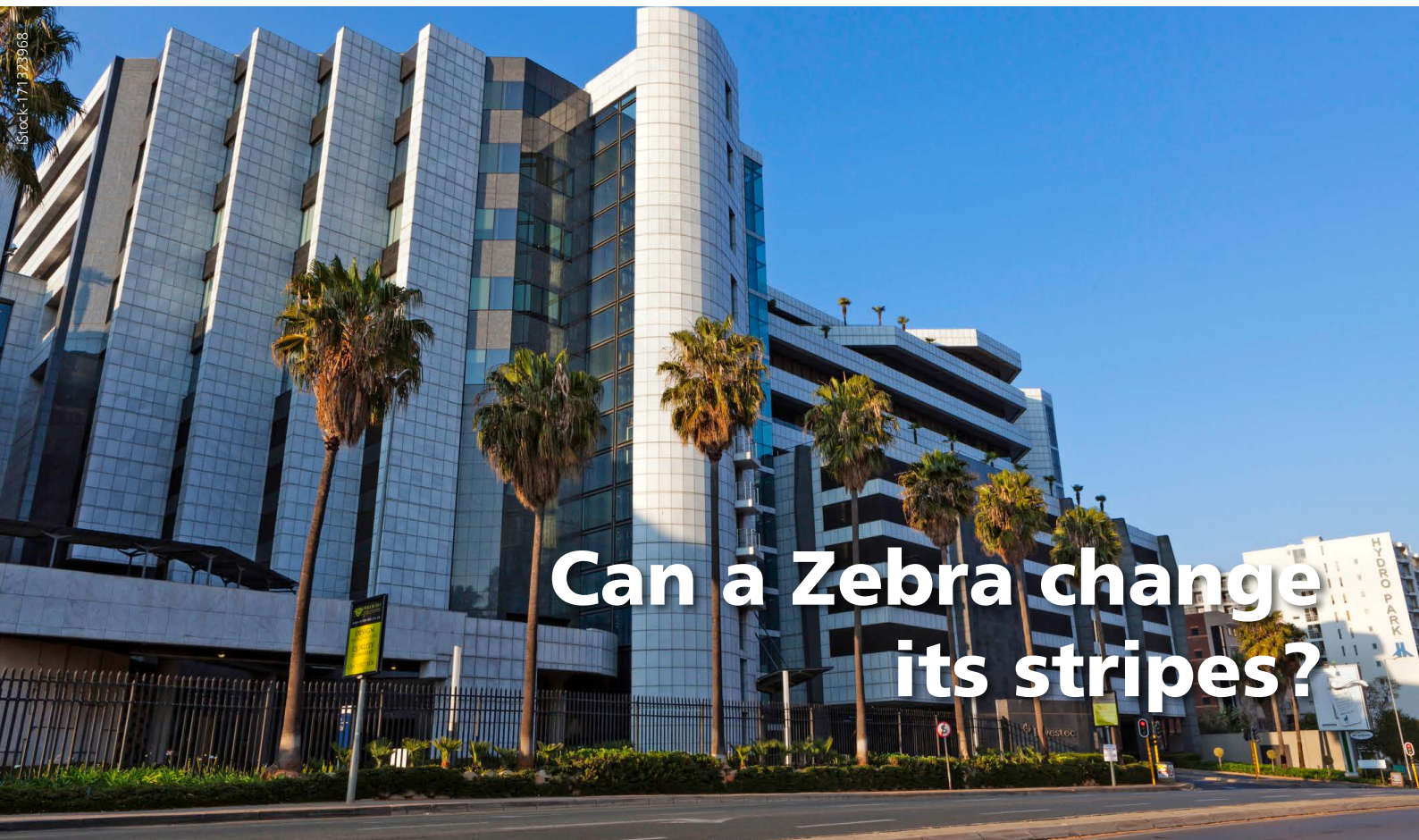
Finally, due to the sharp cuts in interest rates around the world to help stimulate economic growth,

global bonds and cash have become even more unattractive. Real yields have moved even deeper into negative territory in the major markets like Europe, Japan and the UK, and now even US real yields are hovering near 0%.

In conclusion, with such a wide variety of assets offering excellent prospective real returns from their current levels, the chances are very good that investor portfolios will be able to deliver above-

average performances compared to their history. SA equities are priced to deliver real returns of over 10%, and nominal bonds and ILBs more than double their long-term average real returns. SA cash, meanwhile, is no longer able to deliver meaningful inflation-beating returns like it has during the past three years. Astute active management with careful diversification should go a long way to helping our clients meet and beat their investment goals over time. ■

With 12 years' experience, Sandile joined our fixed interest team in November 2013 and later joined the multi-asset team in 2018. He is a joint-Portfolio Manager of several Prudential unit trusts, including the Balanced and Inflation Plus funds, as well as the Money Market, Income and High Interest funds. He holds a BSc in Mathematical Statistics and Actuarial Science and is a Student member of the Faculty of Actuaries.



Can a Zebra change its stripes?



Stefan Swanepoel
EQUITY ANALYST



KEY TAKE-AWAYS

- We believe the separate listing of Investec's asset management business will have several benefits for both the group's banking and investment management operations, and consequently for investors.
- While we have already seen a rating improvement in Ninety One, a re-rating of the other existing operations will likely take some time to materialise given the many issues that have dogged them in the past.

After vowing for decades that this would never happen, Investec has finally relinquished control of its asset management business (now called Ninety One), which was listed on the JSE on 16 March. With the bank still reeling from the Global Financial Crisis (GFC), a series of poor decisions, and now the Covid-19 pandemic, this is a welcome relief. While we agree that it does not alter the business overnight, we think that a series of benefits stemming from the listing will change the stripes on this particular zebra.

A greater focus on returns

The first of these benefits is management's ability to have a greater focus on returns. Historically as corporate banking empires were built, the foremost business driver was earnings growth, and this has been true for Investec as well. There was seldom a consideration for the returns that would be earned on incremental new business, much less an acknowledgement that banking returns might well be further suppressed under the improvements in the Basel regulatory regime imposed after the GFC. Today these capital requirements

are increasingly onerous, with banks often being forced to hold multiples of what has been initially invested to compensate for the equity risk. As a result, you can easily end up with a bank earning sub-par returns, justifying sub-par valuations.

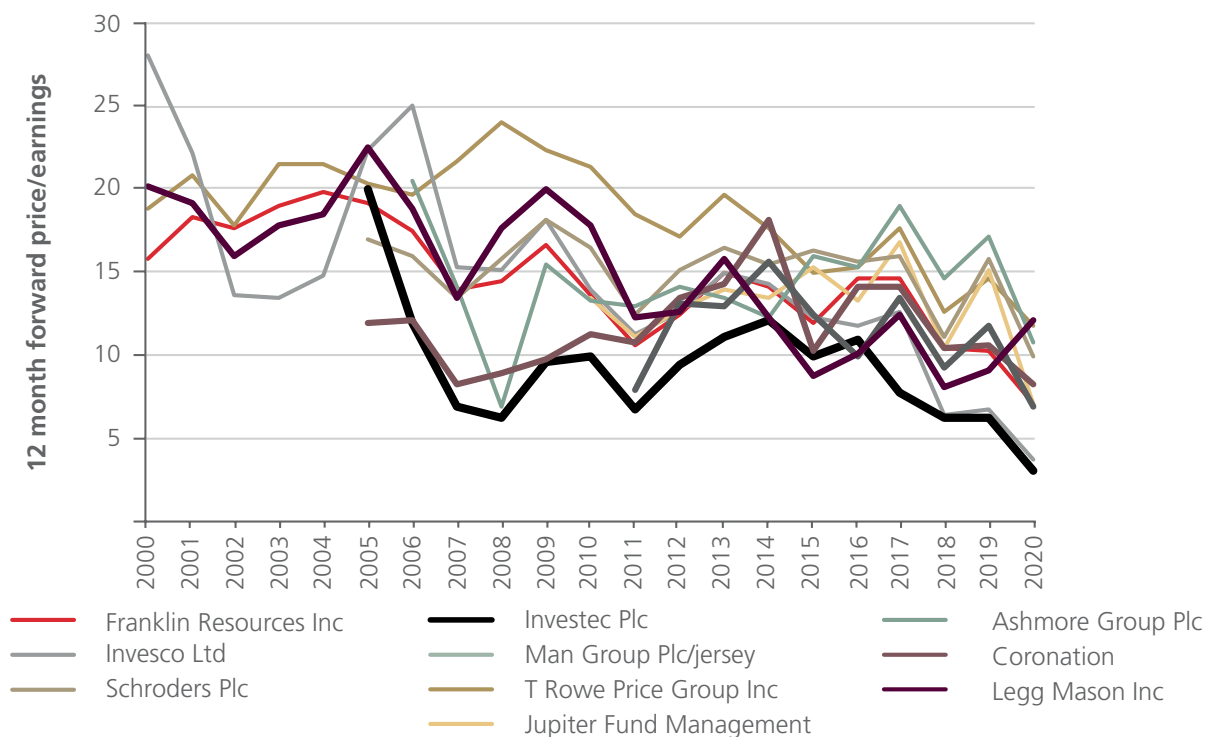
Possibly higher equity valuation

The second benefit is the ability of Ninety One to capitalise on the stronger equity valuations of the asset management companies in the wider group, particularly in the UK and Europe. These companies are on average rated at around a 10x one-year forward price/earnings (P/E) multiple. This compares with Investec Group trading at low-single digits on a one-year forward basis. As shown in Graph 1, Investec has been valued consistently at or near the bottom of its peer group since the GFC in 2007-2008.

Improved management focus

The third benefit is the focus that separation will bring to the management teams. The bank's management in particular will have to justify its own existence, independent of any potential tailwinds from the

Graph 1: Investec rated poorly versus peers



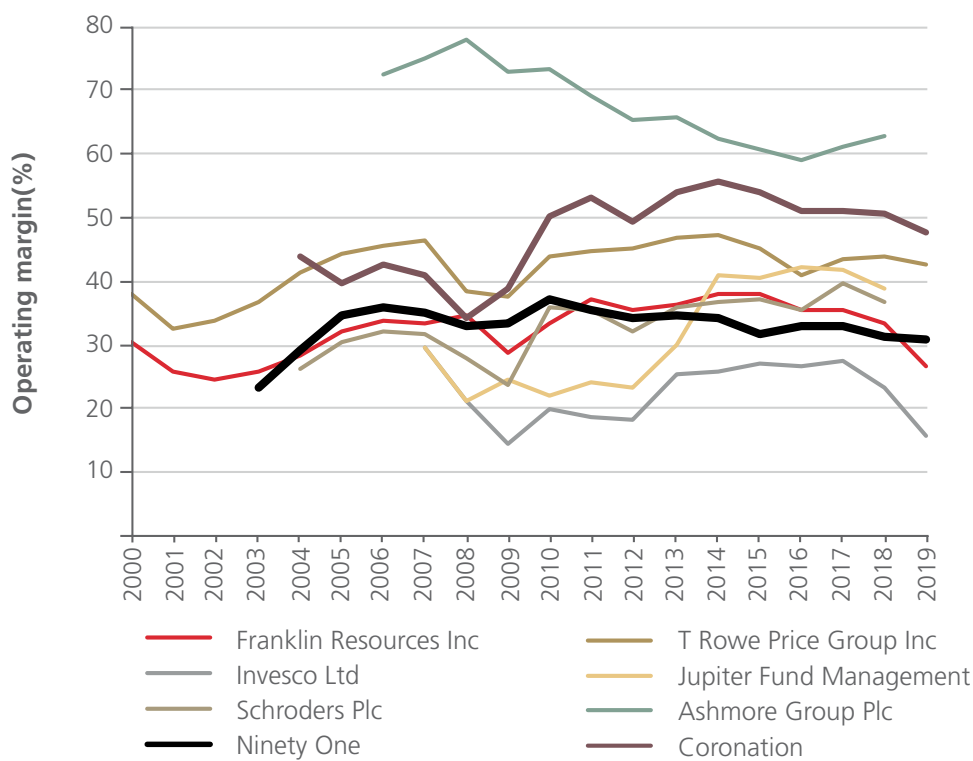
SOURCE: Bloomberg

asset management operations. The bank will have to focus on generating profitable new business that will improve its return on equity. The asset management business, meanwhile, will have the benefit of a dedicated board with relevant experience, as opposed to being a smaller part of a bank.

Merger possibilities

The fourth benefit is the new potential for mergers and acquisitions.

As a separately listed entity in an industry that has seen quite a bit of activity recently, we think Ninety One’s attractive new client cash flow generation and solid investment performance could complement a struggling business in need of further scale. The listing will also allow staff access to further incentivisation in the form of shares. Management (of both the bank and the asset manager) has provided the market with an undertaking that it will not issue

Graph 2: Ninety One's operating margin has proved robust

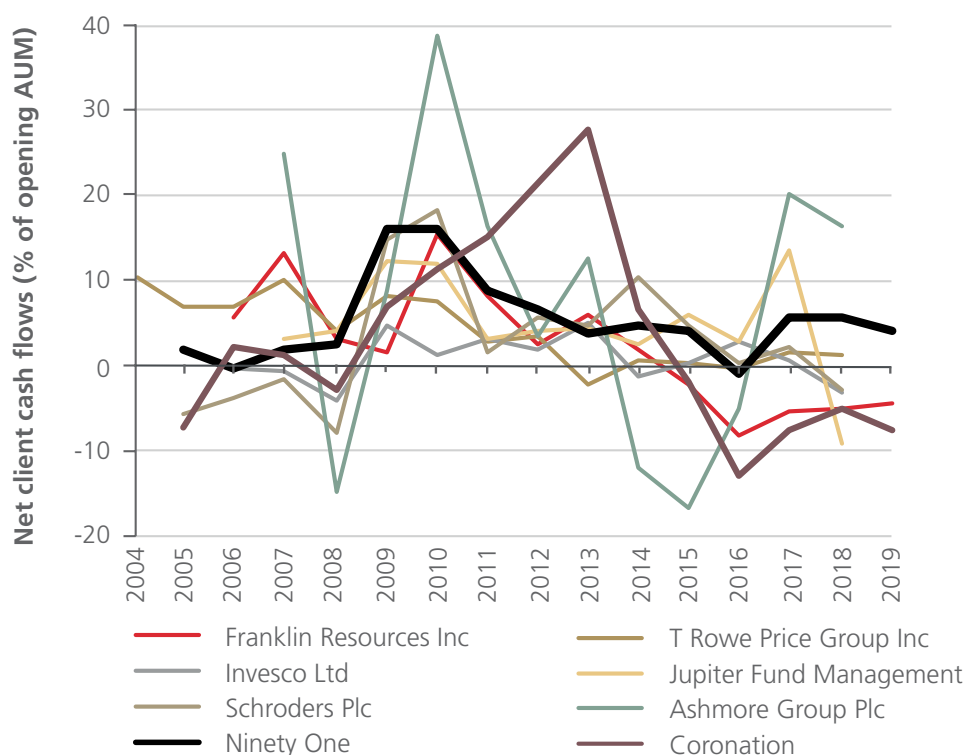
SOURCE: Bloomberg

shares to employees without buying the underlying in the market. This is a further important change in the group that will protect shareholder value. For a change, shareholder and management incentives are better aligned.

Investec's asset management business is world class. Although it will not generate the best margins in the financial services industry (as those are reserved for hedge funds or

specialist asset managers), at around 30% these are still robust, as Graph 2 illustrates. With a global footprint spread across both developed and developing economies, Ninety One is better positioned to generate strong growth in net client cash flows (NCCF). While the possibility always exists for these to go backwards, on a through-the-cycle basis the new business generation should remain better than that generated by the market on average. Graph 3 highlights

Graph 3: Ninety One positioned to deliver above-average NCCF



SOURCE: Bloomberg

how, as of the end of 2019, Ninety One had been experiencing positive NCCF, faring better than most of its listed competitors.

What about dividends?

What remains a bit of a mystery is where Ninety One's dividend payout ratio will be set. Management has guided the market to a dividend/earnings ratio of around 50% as an ordinary dividend. On the face of it, this seems low, but it will also pay out

a special dividend. While we assume the special dividend to be an annual occurrence, we are left wondering why they have not just provided a broader range of guidance for ordinary dividends (with no special dividend)? There is, however, precedent for this structure in the form of the Jupiter Group in the UK, and admittedly it will give management some flexibility. In our view the capital requirements of the group will be minimal going forward. Given its shareholding,

management would be incentivised to maintain a healthy pay-out ratio in line with industry peers.

Sale of 25% shareholding delayed

Management remains strong owners of the business with an existing holding of approximately 20% and a stated interest to increase this by another 10% or so in the near future. Given the volatility in markets during the listing process, Investec Bank took the correct decision to delay the sell down of its 25% stake to a later date. Management put in a bid to increase its stake by 4.8% during the intended sell down, but will now become a natural buyer in the market.

“Management remains strong owners of the business with an existing holding of approximately 20% and a stated interest to increase this by another 10% or so in the near future”

Similar to what we saw with the listing of Quilter by Old Mutual, it could take some time for the shares to switch into the hands of foreign buyers and achieve a re-rating. We do not expect this to happen quickly, especially given the very volatile markets.

Improving the bank's capital allocation

While everyone is focusing on the asset management business, we are not forgetting about the bank. With renewed focus, optimisation opportunities and greater motivation (in the form of revised executive incentivisation), it could all aid in catapulting the business to success. In order to execute on this plan, the bank needs to address issues relating to the sub-optimal allocation of capital and an overextended cost base.

For example, the bank should attend to the disposal of businesses where the Basel capital requirements are too onerous and the returns earned too low. Private equity operations and principle investments in South Africa are one such opportunity. While the time is not right for an IPO, management could find trade buyers

for some of the assets, or alternatively spin these off into separately managed third-party backed funds. This will free up capital that is presently held at multiples of the equity investments that could then be switched into lending activities that offer greater returns on equity, or alternatively returned to shareholders.

Despite having performed a substantial clean-up post Kensington (its foray into sub-prime lending), Investec needs to do more with its balance sheet relating to the last of its poor co-investments (the disastrous Tianhe Chemicals, for example). We also think that Investec will not take such large equity stakes in future transactions given the changes made to the executive remuneration and the attention placed on returns from underlying investments.

Within the UK, Investec will hopefully continue to grow its UK bank in terms of both asset and client numbers, particularly in the high-net worth space. It has spent quite a lot of money over the last few years to set up the infrastructure needed to grow the private bank. Now it is in the position to attract new clients without the need

to incur any substantial incremental costs. This will allow the business that is presently loss-making to break even and become marginally profitable over the next two years. As its return on equity (ROE) is currently inclusive of the losses, any improvements will drop to the bottom line quite quickly.

The bank has also had a clear focus on costs. This has been one of the few areas where we have already seen decent evidence of Investec's determination, with group costs steadily reducing over time and management planning further reductions in due course. Management should be able to achieve its cost-to-income targets with a ratio of below 65%, down from around 67.3% in the first half of its 2020 financial year.

Investec Bank has indicated it plans to implement a dividend policy of between 30-50% after the transaction. It is sufficiently well capitalised to support decent levels of asset growth. Added to this is the benefit that can come from selling down its remaining 25% stake in Ninety One, as well as any capital release following the sale of its private equity portfolios. This

could result in a bank that would have more capital than it would be able to grow into, and hence the potential for additional dividends. We remain optimistic on this matter, but it is not included in our base case, which we think is attractive on a standalone basis.

The unbundling has also been accompanied by a change of the guard within Investec. The influence that the founders had on the business ought not to be underestimated. The change has allowed the younger generation to step up and try prove their own worth. We think this change in leadership is a good thing, as the younger team is closer to some of the issues and cares more about market perception.

Impact of the COVID-19 pandemic

The impact of COVID-19 on the respective businesses remains uncertain at this point, given that we are still in midst of the pandemic. In the instance of Ninety One, it will probably result in lower levels of assets under management (AUM) as market values have dropped sharply and investor risk aversion has led to a flight to quality.

This may result in outflows and could decrease margins.

For Investec Bank, the impact is broader as activity levels decline in new loan generation, but trading and certain transactional volumes (such as credit card spending) appear to be holding up in the sector. Any concerns would mainly relate to higher levels of loan impairments. For the most part, the lockdowns will accelerate the demise of any business already under strain. If a loan is up-to-date prior to the onset of the virus but subsequently falls into arrears, the banking regulators globally will ring-fence these assets and allow banks to deal with them separately. This will create some scope for the banks to manage through the crisis. We believe that for the most part banks, including Investec, have been conservative in their lending practices and are well capitalised. Equally, they have sufficient liquidity and experience to deal with this dynamic situation. Should the need arise, we believe that governments will step in with additional aid to assist industries adversely impacted by the virus and temporarily unable to repay their loans.

In our view, at the current valuation multiples, the bad news is largely priced into the shares.

While we do think that a zebra can change its stripes, given the perennial issues that have plagued the business in the past, we also believe it will take some time as the market will adopt a wait-and-see approach. We do not expect earnings to blow the lights out, but rather a steady improvement in

return-on-equity measures into the target range of 12-16% for the banks, and reasonable growth for Ninety One. However, we have already seen a rating improvement as Ninety One finally gets the better rating that it deserves. This shows that not only can a zebra change its stripes, it can also be rewarded for daring to change them. ■

With 15 years' experience, Stefan joined Prudential as an Equity Analyst focusing on the banking sector, as well as select property, specialised finance and insurance companies. His qualifications include B.Com Accounting (cum laude) and B.Com Accounting Hons.

$$(1.00)^{365} = 1.00$$
$$(1.01)^{365} = 37.8$$

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Investing in a deglobalised world



Lynn Bolin
HEAD OF COMMUNICATIONS



KEY TAKE-AWAYS

- Although the global flow of information has improved in the dozen years since the Global Financial Crisis, the rise of political nationalism, trade protectionism and local sourcing has led to a slowdown in the pattern of globalisation seen since the 1970s. Growth has been disrupted.
- It is debatable whether this trend will continue or merely take a different form of globalisation (such as being focused more in the IT sector), but there will surely be winners and losers over the medium term.
- Countries with large internal markets, low production costs and adaptable economic systems are likely to do well, while those with small, open economies could come under stress. Large, global companies may see their costs rise as they are forced to shift production back home.

It has been well documented and commented upon that, since the Global Financial Crisis (GFC) of 2008, the globe has experienced a slowdown in cross-border goods trade and financial flows, as well as capital markets integration. This trend has been termed “deglobalisation”, as it is a reversal of major factors that have historically been a major engine of growth since the 1970s when the West re-opened its markets to China. This has been compounded by pressure for “political deglobalisation” in the form of rising populism, local sourcing, protectionism and increasing objections to immigration in many developed markets - manifesting, for example, in the 2016 election of President Trump in the US, Brexit in the UK, the US-China trade war and the Russia-Saudi Arabia spat over oil production.

Most recently, the unprecedented national economic lockdowns, bans on international travel and resulting curbs in trade used in the fight against the spread of COVID-19 represent further serious challenges to globalisation. In their competition for scarce virus-fighting materials and

uncoordinated approaches to dealing with the pandemic, many governments around the world have demonstrated some degree of nationalism while foregoing cooperation with others. Supply chains have been disrupted, supply curtailed and workers laid off, highlighting the consequences of a less globalised world. And while we know these are temporary measures, now that precedents have been set it could be easier for these measures to be implemented again in future.

The deglobalisation debate

As one cause of this backlash against globalisation (aggravated by the unprecedently slow recovery from the GFC), experts point to the failure of governments to help spread its benefits wider over the past few decades. Emerging markets (and China in particular) have experienced substantial improvements in their living standards, helping accelerate the expansion of their middle classes as manufacturing jobs shifted to their shores. Equally, in developed markets large multinational companies and their (generally wealthy) shareholders and executives benefited from rising revenues and profit margins, as did the

well-educated thanks to the creation of more highly skilled jobs. And while the middle- and disadvantaged classes did benefit from cheaper goods, critically, they suffered from the loss of millions of manufacturing and other lower-skilled jobs overseas, as well as long-term disinflationary pressure on their wages, which have not risen in real terms for well over a decade.

Contrary to this trend, however, the flow of information around the world has actually accelerated since the GFC, facilitated by ever-advancing technology. Think, for example, of how South Africans can now buy from Alibaba online, or transact in bitcoin. Our societies, markets and economies are now closely interlinked all over the world, thanks in good part to this information flow, and many believe these connections cannot be reversed, just as the advance of technology cannot be stopped. Free societies will not tolerate the blocking of the internet, for example, or a reversal of the choice consumers enjoy among so many platforms. In fact, many observers say that future progress in global integration will largely be IT-led, and that the fiercest competition

will be in this sector (witness the US government's ban on ZTE and Huawei and its corruption fine on Ericsson, or the EU's antitrust probe into Amazon and fine of Qualcomm for anti-competitive microchip pricing). So in this sense, globalisation marches on.

There is also debate over whether deglobalisation is a permanent and inexorable path, merely a temporary disruption (or correction), or if we are perhaps in an evolutionary period that will result in a new form of globalisation. Whatever the case may be, as long-term investors we need to consider this trend in our strategic investment thinking. How is this impacting our investments ideas? Who are likely to be the biggest winners and losers from deglobalisation? And what should individual investors do?

Investor considerations: Possible winners

In terms of countries or regions, we would look East for the most winners. Many analysts contend that Southeast Asia will receive the most new investment as a result of the US-China trade war. Some US

multinationals are already moving their supply chains from China to other cheap destinations to Southeast Asian countries, as well as Mexico and India, creating more jobs and economic growth. In the 2019 Agility Emerging Markets Logistics Index, Indonesia, Malaysia, Vietnam, Thailand and the Philippines all performed strongly (according to a survey from Trade Intelligence magazine, October 2019).

Smaller frontier markets could also accelerate their development by taking advantage of the opportunity to supplant Chinese suppliers. Should they be able to invest wisely and quickly enough, Bangladesh, Vietnam, Sri Lanka, Kuwait and Morocco, among others, could possibly step at least partly into the gap over the medium term. At a company level, new gaps in competition created by trading bans could be favourable for agile companies. For example, Samsung and Ericsson would have greater chances of doing more business with the US government and its contractors now that Huawei and ZTE have been banned from that lucrative trade.

Going forward, Asia (and the Chinese economy in particular) is likely to play an increasingly important role in global economic and financial cycles as it further opens up and its consumers have greater buying power. According to the American Enterprise Institute, between 2014-2018 China committed to investments of more than US\$1 trillion in about 1,700 projects across 130 nations. More than half of this was related to its well-known Belt and Road Initiative, with a focus on infrastructure. However, China is equally focused on creating a broader, integrated market based on Chinese digital standards (in June 2019 the Philippines partnered with Huawei for the rollout of its 5G telecoms network, for example). Chinese companies have also been moving up the value chain and accelerating their investments in the Southeast Asian region, India, Russia and Africa in recent years. Meanwhile, its investments in the US and Europe have slowed. Additionally, China has been opening trade in the renminbi and lifting foreign ownership restrictions on financial companies. Could a new form of globalisation be China-led, with the

Chinese government and companies overtaking the US as the largest global investor?

Other beneficiaries of deglobalisation are likely to be countries with big consumer bases that are largely self-sufficient and do not depend on exports, like the US, China and India. In this same vein, companies that have strong domestic revenue bases should also gain ground on their more international competitors.

Will the US and Europe benefit from having jobs repatriated? Although more local jobs will be created, companies will certainly try to substitute humans with the latest AI-driven technology, robots and other cheaper alternatives. Also, with more trade barriers and less competition and efficiency in manufacturing, developed market consumers are likely to have to pay more for both imported and locally made goods. In both these cases, those with lower skills and salaries would be the biggest losers. Governments will need to support re-training programs to minimise the extent to which such workers are locked out of the labour market in the short term, although

over the longer term there has been no real evidence that the implementation of technology produces permanent reductions in employment, despite the many fears that this will be the case.

From an investor's perspective, a more divided world could create more opportunities for investment diversification. Just as globalisation has driven a stronger correlation between countries' financial markets and economic growth cycles over the past four decades, a disrupted world could lead to more diverging cycles in different countries. This could materialise even among emerging markets, giving South Africans greater prospects for more highly diversified portfolios.

Investor considerations: Possible losers

Conversely, the losers from deglobalisation would be countries with smaller, more open economies that depend on exports and external financing – mainly emerging markets such as South Africa (although SA relies on limited quantities of offshore debt), African countries in general, and many Latin American economies.

In the shorter term, these countries will have to hone their negotiating skills to secure favourable trade terms with a variety of trade partners. At the same time, should the European Union (EU) be forced to take sides with the US over China in a trade war, EU countries (and especially Germany) would also be hit hard, given that China is its largest supplier of foreign goods and second-largest export destination. Note that very few countries followed the US in its ban of Huawei and ZTE in 2019 – not even the UK.

Equally, large multinational companies forced to move their supply chains to more expensive locations, or even back to their home market, would likely suffer from lower profit margins. Not only have they benefited from especially low labour and input costs, but also from advantages like favourable tax treatment and less regulation and red tape. If these advantages were to disappear, investors may require a shift in mindset, as it has been these companies (particularly the technology giants) that have experienced the fastest growth in the globalisation wave and investors have relied upon most for strong returns.

From the broadest perspective, it is the likely negative growth implications of deglobalisation for the world in aggregate that investors should probably be most concerned about. Economic theory and history are very clear in demonstrating that trade is growth-enhancing (a global win-win); while as we saw from the 1930s, protectionism and beggar-thy-neighbour policies have the opposite effect. Mainstream economists forecast slower global growth if protectionist-type policies are widely implemented and this would, all other things remaining the same, likely result in lower corporate profit growth and lower equity returns over time. Slower economic growth, in turn, could lead to lower inflation and therefore lower prevailing interest rates as well.

Asia may offer best investment opportunities

So how does this sum up? Should the deglobalisation trend continue in a similar form as we have seen in the past few years, South African investors looking for the best returns may need to re-think their traditional Western focus and consider gradually reducing some of their exposure to the US and EU, while diversifying

into more emerging markets and companies in Asia. Here they could find winning corporates that adapt quickly and successfully to changing trading conditions and governments that help to facilitate this. There could also be more opportunities for diversification in the de-syncing of market cycles, and in an opening Chinese market.

Yet it is also possible that advancing technology and more liberal approaches could eventually win the day in the West, and deglobalisation could be reversed. This latter development would depend on governments

implementing more progressive and generous policies helping those located in disadvantaged regions and working in uncompetitive industries to adapt successfully to such a rapidly changing world. This would undoubtedly take time and money to be achieved, and in the meantime the East is almost certain to continue its rise. Whatever the case, China and other Asian countries will necessarily demand more investor attention in the coming years. ■

Lynn has been Head of Communications since June 2013, when she joined Prudential. She has over 20 years' experience writing about investing and global financial markets. She holds a Masters' degree in Public Affairs from Princeton's Woodrow Wilson School, a BA in Economics (magna cum laude) from Kalamazoo College, Michigan, and a higher education certificate from the Ecole Nationale d'Administration, Paris, France.



Building up the future of early childhood development



Israel Mqingwana
HEAD OF HUMAN CAPITAL

KEY TAKE-AWAYS

- Early childhood development (ECD) plays a crucial role in the formative years of a child's life, and it's imperative that they have an environment that supports their emotional and physical development.
- Many township-based ECD centres require government financial support to survive, but can't meet certain criteria to qualify for funding. The South African Education Project (SAEP) is helping over 100 centres in Philippi to qualify with the government.
- Prudential is partnering with SAEP to help three ECD centres currently upgrade their infrastructure to becoming eligible for government funding.

Social upliftment has always been at the heart of Prudential's corporate culture, from the various community outreach programmes that our staff are involved in, to the social development initiatives that our company has supported over the years. We're immensely proud of the work that we've done in the Corporate Social Investment (CSI) space, and we're equally excited about the projects that we're currently involved in and the benefit that we believe these will bring to the communities in which they take place.

In recent years we've narrowed our focus to support initiatives aimed at improving the educational needs of children within previously disadvantaged communities, specifically programmes that specialise in Early Childhood Development (ECD). ECD plays a crucial role in the formative years of a child's life, and it's imperative that they find themselves in an environment that supports their cognitive, social, emotional and physical development. This, understandably, can be a challenge within communities where ECD centres (i.e. places where toddlers and pre-school children can go

during the day while their guardians are away at work) lack the necessary infrastructure, training and support to provide children with the age-appropriate stimulation and learning needed to advance their development.

Many township-based ECD centres require the financial support of the government to overcome these difficulties. However, in order to qualify for a government subsidy, each ECD centre must first meet certain criteria in areas such as: infrastructure, financial management, curriculum and teacher training. This in itself presents a challenge as many of these centres lack access to these skills and the funding to meet infrastructural requirements. It is here where our current flagship CSI partner, the South African Education Project (SAEP), has stepped in to play a crucial role in helping these centres receive the support that they need.

SAEP is a Public Benefit Organisation (PBO) that has been doing fantastic work within the township of Philippi for the past 26 years. The organisation focuses on providing educational programmes across all schooling levels

(from pre-school all the way to high school). However, it is arguably in the ECD space where they have made the most impact.

In 2017 SAEP was contracted by the Department of Social Development (DSD) to audit roughly 138 informal ECD centres in the Philippi area, with the goal of helping each centre meet the requirements needed for government registration. Just one year later SAEP had managed to help 16 ECD centres to successfully register with the DSD. This is an impressive number given the stringent (but necessary) requirements that each centre is required to meet and the costs associated with meeting these requirements. Lack of funding is understandably one of the biggest hurdles that SAEP has to overcome, which is why corporate funding plays such a pivotal role in their ability to make a meaningful impact within the communities in which they work.

In 2019 Prudential partnered with SAEP to help three ECD centres in the Philippi township (Luntu, Thandolwethu and Sithembele) meet the requirements outlined by the DSD. The needs of each centre varied, from requiring a

complete building overhaul (as in the case of Sithembele), to fixing minor issues such as electrical rewiring (as in the case of Thandolwethu). In addition, each centre also required staff to receive training on a range of ECD principles, including effective ECD management, daily lesson planning, as well as emotional and cognitive development for young children.

SAEP managed to make quick work of what would have ordinarily been a slow and cumbersome process. At the time of writing, SAEP had successfully coordinated the refurbishment of Luntu and Thandolwethu, with the plans to rebuild Sithembele in the process of municipal approval. The current lockdown has understandably delayed certain projects, and it's unclear as to when Sithembele will be completed. This, however, has not stopped SAEP's work within the community, they have merely redirected their focus to where the need has become more pressing.

The economic impact that the Coronavirus has had on the more vulnerable sections of society has been devastating. The majority of employed people within Philippi



work in the informal sector, and are unable to earn an income while under lockdown. This has placed additional strain on an already economically-fragile community, making it difficult to provide basic essentials such as food. SAEP has stepped in to help reduce the impact on ECD centres by providing them with food parcels and supplementary meals for children (an initiative that Prudential supports and has helped fund). Each food parcel, which costs just R340, is sourced by a

local supplier and designed to feed a family of four for a month.

While there is still much work that needs to be done to help uplift previously disadvantaged communities, we believe that by supporting organisations such as SAEP we will collectively be able to make a meaningful impact within the areas of society that need it most. For more information about SAEP, the projects that they are involved in, and how you might be able to help, please visit www.saep.org. ■

Israel joined Prudential in 2018 as Head of Human Capital. He is responsible for attracting new talent, developing Prudential's staff and fostering a professional and supportive corporate culture. Prior to joining Prudential, Israel worked in a variety of human resources and organisational development roles for some of the country's leading multinationals, such as Unilever and SAB Miller. He also held executive roles at RCL Foods, SC Johnson and more recently Sodica Consulting. Israel holds a B.A. (Honours) degree in Industrial Psychology and Industrial Sociology from Rhodes University.



What the rainforest teaches us about risk management



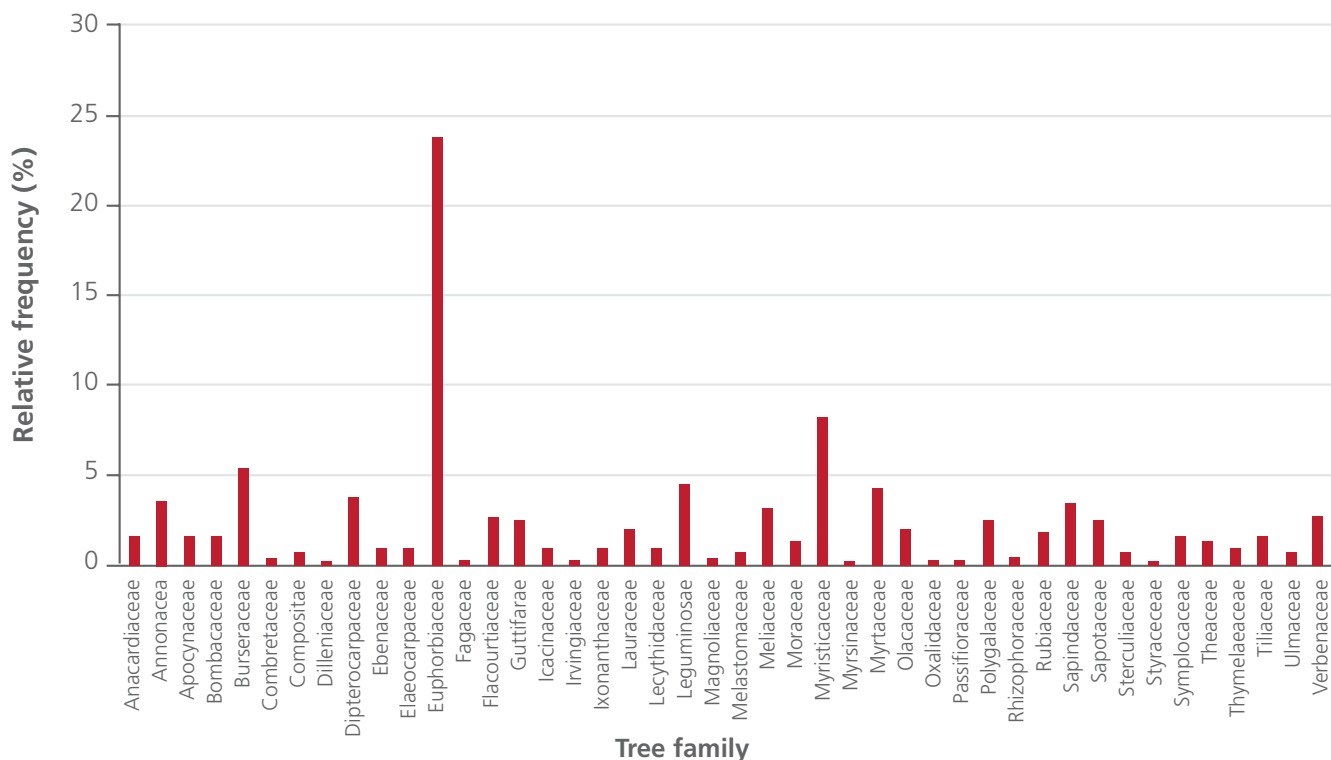
Aadil Omar
HEAD OF EQUITY RESEARCH

KEY TAKE-AWAYS

- Like the world's rainforests, where a few tree species thrive but many dwindle, SA stock market returns exhibit high degrees of concentration. Over time, only a handful of stocks account for the majority of returns.
- Consequently, successful investors need to have exposure to some of these top-performing stocks, while also avoiding the many that underperform, by being able to distinguish the winners from the losers over the long term.

Graph 1: Dominance of tree families in the forest of Kuala Keniam

42.1% of the individual trees belonged to just 4 families of trees



SOURCE: Tree Species Diversity and Forest Stand Structure of Pahang National Park, Malaysia (Mohd Nazip Suratman, 2012)

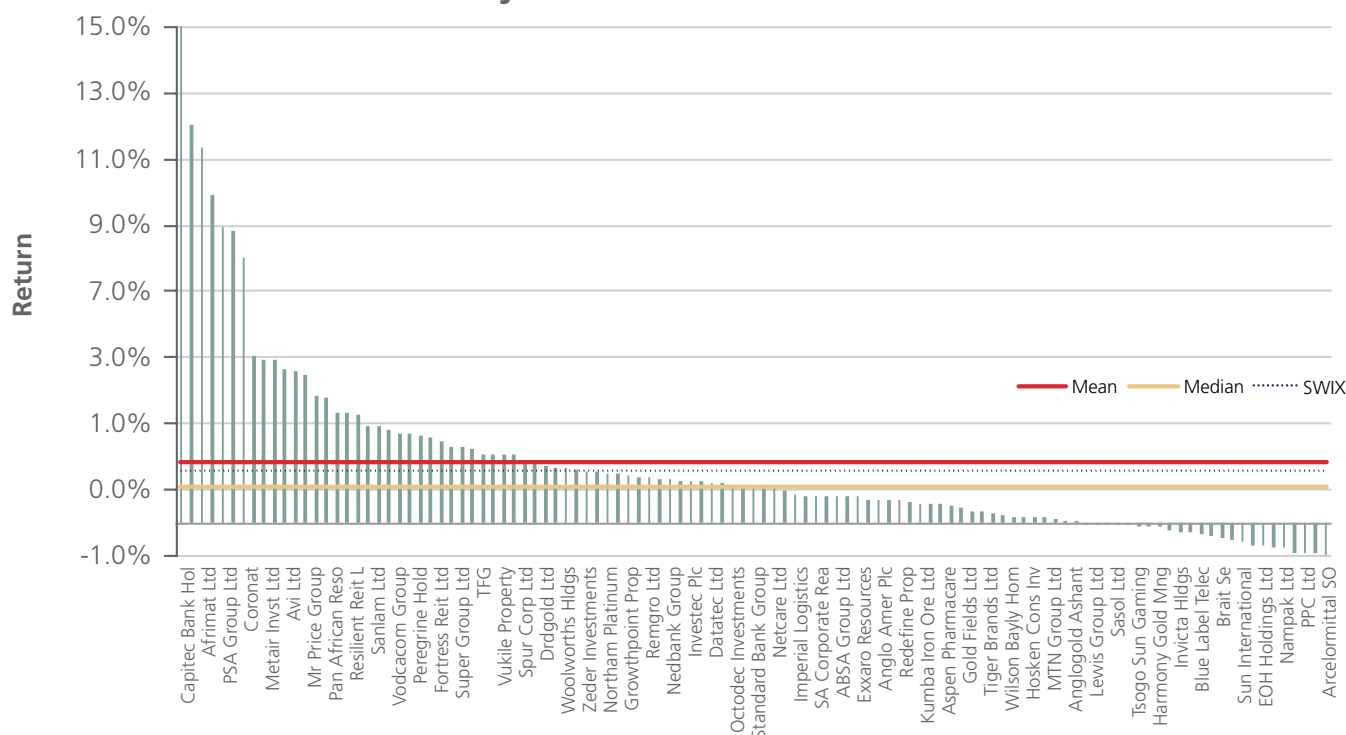
The Amazon rainforest is the most biologically diverse place on earth. Of all known species in the world, 1 in 10 are found in the Amazon basin. But of the thousands of tree species that dwell in the rainforest, only a few dozen seem to rule the jungle – these special plants have become colloquially known as “hyperdominant” trees.

Researchers mapping more than 16,000 tree species in Amazonia unexpectedly discovered that only 227 species, or 1.4% , made up nearly half of the 400

billion trees estimated to live there. In other words, there is significant concentration of biomass in favour of the hyperdominant trees at the expense of the rest. This theme of concentration is manifested across numerous forests, swamps, deserts and aquascapes.

In another study illustrated in Graph 1, in the Malaysian rainforest of Kuala Keniam, 42.1% of the individual trees included in the study belonged to just four families of trees.

Graph 2: SA stock market returns show high concentration
10 years ended 29 Feb 2020



SOURCE: Iress, Bloomberg

Financial markets also manifest high degrees of concentration

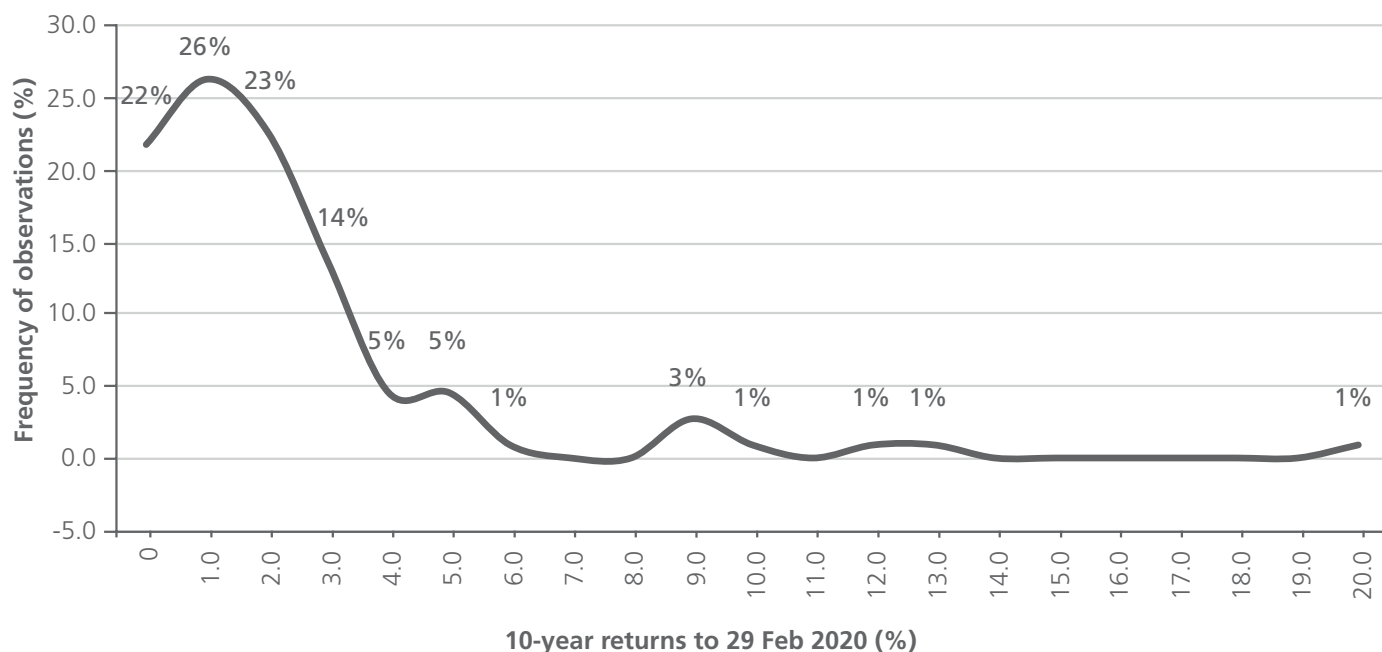
Although intriguing as a discovery, concentration is manifest across several natural and socioeconomic domains. Stock markets and returns attributable to individual stocks are quite pronounced in displaying high concentration, and the South African market epitomises this concentration well.

Despite overall anemic market returns over the past decade (especially the

past five years), individual stock returns in the SA equity market have been widely dispersed. Graph 2 shows how only a handful of stocks have contributed the most returns since February 2010. Looking at the 111 stocks for which we have 10-year price return data reveals interesting (if not surprising) observations.

- The cumulative mean (average) return for the universe is 182%, while the median (the middle most number, in this case the return of

**Graph 3: Distribution of SA stock returns:
Only a few with strong performance**



SOURCE: Iress, Bloomberg

the 56th stock in the universe when ranking from highest to lowest) is a significant 72% lower at 109%. This shows that there are a large number of poorly performing stocks driving down the median compared to the average. Alternatively put, there are relatively few strong-performing stocks bringing up the average return compared to the median.

- Only 35 of the 111 stocks (about 32%) have a return above the average of 182%.

- The four best-performing stocks, or 3.6% of the universe accounted for a quarter of the total return. The top 11 best-performing stocks (10% of the portfolio) accounted for a staggering 43% of the total return.

This result is shown as a return distribution in Graph 3, where we can see that there are dozens of poorly performing stocks to the left of the distribution curve, and these are offset by a handful of stellar performers to the right. The latter is called the “fat tail” of the distribution.

It's probably safe to conclude not all returns can be viewed equally. These observations are not uncommon, and seem to hold over shorter time periods as well – we've tested both three- and five-year SA equity returns, and the overall concentration remains apparent. It is noteworthy that the concentration of stock returns across equity markets is indeed a global phenomenon (see, for example the academic study "Do Global Stocks Outperform US Treasury Bills?" by Bessembinder, Chen, Choi and Wei, 2019).

Expressed more conceptually, we learn that stock returns seem to embed the following characteristics:

- **Market constituent returns are not normally distributed about the mean.** There's a popular narrative in equity market analysis that views stock returns as a linear function of the underlying market return. In other words, a stock's return will move in a fixed fashion relative to the wider overall market return. This fixed measure is called a stock's "beta" and indicates its volatility compared to the market. This framework is referred to as the capital asset pricing

model (CAPM). However, despite widespread use of CAPM in equity analysis, stock returns over long periods of time do not seem to track linearly to market returns – at least not for significantly positive returns. Rather, they fluctuate over time.

- **Return distributions are positively skewed:** Positive skewness in distributions often implies that the mean of the distribution exceeds the median (as in the example of SA stocks), and that the mean can therefore be misleading as an indication of outcomes of more typical observations, by making it appear higher. For example, in a room of 10 people, 9 of whom have no wealth and 1 person is a billionaire, the average would be misleading because it would suggest everyone is worth at least R100 million.

It should also be noted that the distribution of returns model embeds survivorship bias: only those stocks that have survived the full 10 years are included. This likely overstates the mean return, as weaker companies that have gone bankrupt are excluded from the universe.

Equity markets (as measured by indices), and indeed the experience of SA equity investors, have been characterised by a concentration of returns and positive skewness. Looking back at the past 10 years, **as an investor, if your returns were to keep up with the market average (let alone beat it), exposure to the better-performing stocks was essential.** This observation might offer some assistance in explaining the collective underperformance of active managers relative to the market over extended periods of time. At least some fraction of underperforming active managers did not have sufficient exposure to the better-performing stocks.

Can trees teach us anything about stock picking?

In the Amazon rainforest, like many habitats in nature, some species become more prolific while others dwindle toward extinction. The ability to survive in a specific environment is what Charles Darwin referred to as “fitness”. And that’s the operative idea, “in a specific environment”.

Researchers are yet to conclude what makes any tree species hyperdominant. Intriguingly, hardly any of these species

are consistently common across the rainforest. Each usually specialises in certain habitats – one or two types of forest for instance. One possibility is that the hyperdominant species are usually more resistant to disease-causing pathogens and herbivores. The hyperdominant trees effectively reduce their exposure to risk factors, while ordinary flora succumb to them, especially as they evolve over time. They are never quite able to thrive.

In any case, trees teach us that it would be wise to choose the most resilient in a given environment and avoid the least resilient. In other words, expose yourself to the winners while avoiding the losers – it seems pretty obvious.

Only, we can’t easily know what environment (or habitat) we’re likely to encounter, especially over the long term. This complicates the task of trying to choose the winners and avoid the losers.

What the rainforest teaches us about risk management

Hindsight is an intriguing quirk of human perception, often enticing us to believe that the way in which history would unfold was obvious at the time. It was not.

Foresight borders on the impossible in a complex system. And the world we live in engenders far more complexity than we're prone to believe. The idea that one might be so astute as to successfully pick the multi-year winning stocks and have the conviction to hold those winners for the long term is aspirational. It is, however, not something we believe is consistently executable. Despite the innate protest to the contrary, we try reminding ourselves that the world is an utterly surprising place (as is the stock market as a socio-economic manifestation thereof). We have therefore built our investment process keeping this in mind

Many lessons can be drawn from this analogy of hyperdominant species in the Amazon rainforest, but we highlight the risk management system that underlies the thriving forest. The forest makes room for all species with the understanding that some will grow

to be hyperdominant, while most will succumb to changing environmental hostilities. To ensure the forest thrives, it is necessary to be exposed to the potential hyperdominant species while allowing the weakest to be weeded out.

In managing equity portfolios, it is worth bearing the above in mind. Since there are often more stocks that dilute average returns (owing to positive skewness) than there are those that enhance them, managing exposure away from losers is essential. This is impossible with a passive or index-tracking approach.

At Prudential, we are deliberate about risk management; mitigating the impact of losing positions is often our first order of business. To quote an oft-repeated colloquialism of the investment industry, "Avoid the losers and the winners will take care of themselves". ■

With 14 years' investment experience, Aadil joined Prudential in July 2013 as an Equity Analyst. In August 2018 he joined a global equity hedge fund in London, before returning to Prudential in January 2020 as Head of Equity Research and joint-Portfolio Manager of the Prudential Equity Fund. He holds a BCom degree (Hons, cum laude) from the University of Pretoria and a Masters in Finance degree from INSEAD. He is also a CFA charterholder.

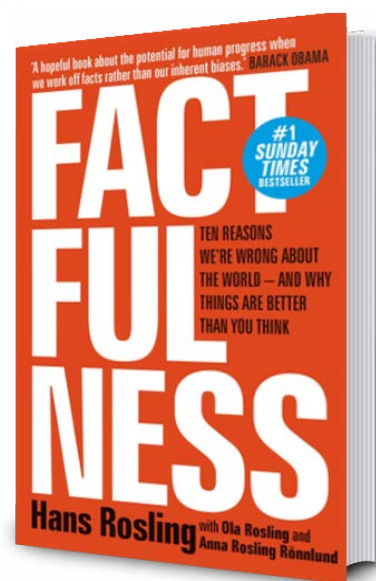
Factfulness: A way to help us cope with the Coronavirus?



Clare Lindeque
Head of Quantitative Analysis

In this time of great uncertainty amid national lockdowns and the dangers presented by the Coronavirus, may I invite you to pause, breathe, and consider adding one powerful stress-reducing habit to your arsenal of self-care practices. This habit is factfulness: the practice of only carrying opinions for which you have strong supporting facts. But not “facts” from a thrice-forwarded Whatsapp message, or a scaremongering Facebook post from Karen down the road!

Enter “Factfulness: Ten Reasons We’re Wrong About the World - and Why Things Are Better Than You Think”, authored by Swedish public health expert Hans Rosling with his son Ola Rosling and daughter-in-law Anna Rosling Rönlund, published in April 2018. The three authors are founders of the Gapminder Foundation, which promotes increased use and understanding of statistics about social and economic development



around the world. You might have seen Hans Rosling’s TED talk, featuring an animated bubble chart to explain the development of countries through history. (If not, look it up online – it’s worth your time.)

This book proves itself to be particularly relevant for today’s readers because, two years ago, the authors added their voice to those of numerous scientists, politicians and other public figures who have, for decades, warned about the danger that a pandemic presents to our health and way of life. They identified a rapidly spreading new disease, specifically a flu-like one

BOOK REVIEW

transferred through airborne droplets, as the first and most dangerous of five risks facing the world. Yes, very similar to the novel Coronavirus!

And while “Factfulness” is indeed partly about what is worthwhile worrying about, it starts with the idea that we are very likely unnecessarily burdening ourselves with overblown negative beliefs. To highlight this, it commences with a series of 13 multiple-choice questions about the state of the world. For example: how many people have some access to electricity – 20%, 50% or 80%? Rosling posed these questions to nearly 12,000 people, and reports that the results suggest massive and widespread ignorance about global development, at all levels of society. The results were even worse than if people had guessed at random.

The authors attribute this systematic ignorance to what they call the “overdramatic worldview”. This is our tendency to think that things are bad, and that they are getting worse. This worldview does not come from facts that we learned in school and are now outdated, or from exposure to fake news, or from media manipulation. It is the product of something that

should be very familiar to investors: the biases and heuristics that our brains evolved to help us to survive and thrive in the environment our distant ancestors faced, surrounded by predators and other dangers.

These biases and instincts are still useful to us; they assist us to live successfully in a fast-moving, information-rich world. It isn't practical for us to have to interrogate every input and analyse every decision in detail – that would be paralysing. But, as in all things, moderation and self-control are required. There are times when we need to put the brakes on our tendency to leap to conclusions based on insufficient data. In many cases there is sufficient data, and it is freely available. An example of the kind of data I'm referring to is the many sources of free statistics collected by global institutions such as the World Health Organisation, the United Nations, and other global agencies. (Check out the Gapminder website for more.)

The remaining chapters of Factfulness identify and describe 10 simple rules of thumb for cultivating a fact-based worldview. The authors' explanation of these heuristics is supported by

BOOK REVIEW

charts, illustrations and an informal and straightforward writing style. It is the tenth rule of thumb, relating to “the urgency instinct”, that is most challenging for us to grapple with in this moment of history. This is the instinct that makes us want to act now in the face of a threat, and the same one that prompts us to buy something we don’t need because it’s on sale TODAY ONLY!

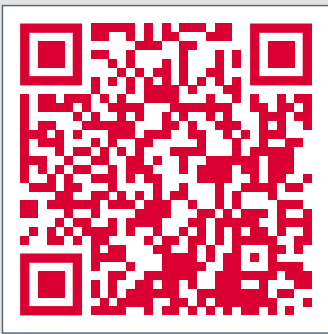
We are surrounded by prompts to panic, and sifting out the true signal from the noise isn’t easy. That said, the chapter about the urgency instinct concludes with a list of the five global risks that we should worry about. These are problems that are likely to occur at some point, and that have the potential to cause massive suffering, either directly - by killing or harming many people, or indirectly

- by arresting human progress for an extended period of time. These risks are the ones that we simply must handle correctly, otherwise nothing else we do will matter. And yes, the first and largest one the authors point to is a global pandemic.

Now more than ever we need a reminder of how to think clearly about the world. Promoting a fact-based worldview, complemented by rigorous efforts to interrogate and counter our own biases, prejudices and assumptions, can be (as Hans Rosling says), an “inspiring and joyful” and “useful and meaningful” way to live, despite the sobering challenges of today. ■

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