STERLING TIMES

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STERLING
PRIVATE WEALTH

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Introduction by the Managing Director

Graydon Morris

Dear valued clients and friends

It's hard to believe that I am writing this introduction to our final newsletter of 2025. It seems like just yesterday that I was sitting at my desk doing the same for the December 2024 edition. Much has happened this past year. Not many would've guessed the Rand to be trading under R17.00 / USD at this point. The Rand started the year at R18.88 / USD…who would've thought!?

In addition, many thought that the year started with global equity valuations elevated. They would've been smiling quietly to themselves in early April 2025 as markets collapsed largely due to US tariff announcements. The recovery was swift, and markets around the world are very much in the green, in particular Emerging Markets, to which many of our client portfolios are overweight. As a result, most investors have been presented with very strong real returns above inflation, notwithstanding the Rand strength detailed earlier.

It has been a busy year for us at Sterling. Most notably, our colleague and co-director of many years, Joubert Strydom, retired at the end of September. Joubert had a stellar career and had worked with me for 27 years. We wish him and Eunice, his wife, a wonderful retirement. They deserve it.

Our colleague in Cape Town, Cullen Wright, qualified with his CFP. We are very proud of Cullen's hard work and resultant qualifications.

During the year, Sterling received the very prestigious 1st place award for The People's Choice Wealth Manager of the Year in the annual Krutham Survey. Sterling also received a very commendable 2nd place Wealth Manager Award for the category of Wealthy Family Providers.
Our multi-manager, multi-asset global fund, the Sterling Global Flexible Fund, enjoyed its 2nd birthday and is developing a solid track record.

Our model portfolios turned 13 and each model's performance is comfortably above the peer group for its sector since inception. We thank our colleagues, James Guimaraens and Lisa Kaplan, for their time on the investment committees for these funds and models.

We have included a few interesting articles and pieces for your reading pleasure in this Sterling Times edition. Firstly, we have presented a piece by our Operations Director, Tian Nienaber, on Intergenerational Wealth Transfer in South Africa. Tian is a young CA(SA) who joined us earlier this year and is adding tremendous value to our business.

We then include an article by an old friend, Sean Peche, of Ranmore, detailing the risks of adopting a simple indexed approach to equity investing. Our co-founder, Lesley Hohne, also contributes a thoughtful piece about looking after your financial fortress. And Ansonette Neethling, an Analyst at Merchant West Investments, shares a very insightful note on safe havens and correlations.

We finish off with some thoughts from Jo Wiggins around behavioral investing.

In closing, we must thank our wonderful clients for their support and friendship over many years. It is a great privilege and honour in our business to serve so many amazing clients and families, in attending to wealth management needs that are so important and emotive. We are thankful every day for the trust that is given to us in fulfilling our roles. We never take it for granted.

This year we have once again donated to the vital work done by Food Forward. FoodForward SA connects a world of excess to a world of need by recovering quality edible surplus food from the consumer goods supply chain and distributing it to underserved communities. www.foodforwardsa.org

In addition, we have also donated to World Wildlife Fund SA supporting the extensive work they do. WWF works to look after our natural resources — oceans, land and wildlife — so we can continue to benefit from food, water and a healthy climate. www.wwf.org.za

We wish you all a blessed festive season with time spent with family and friends that is special and memorable.

Best wishes,

Graydon Morris
Managing Director
Sterling Private Wealth

Passing the Baton:
The Curious Case of Intergenerational Wealth in South Africa

Tian Nienaber, Sterling Private Wealth Operations Director

In the unfolding story of South African families and their fortunes, one chapter is being rewritten with some urgency: intergenerational wealth passing. At first glance, it might seem like a worldwide, trendy fairy tale; wealthy parents planning their legacies and heirs preparing to inherit, but in South Africa, and almost like a land "far, far away", as with most things, context adds complexity and colour.

These wealth creation stories are autobiographies of people who ran and hustled their way through volatile markets, political shifts, and entrepreneurial uncertainty, and now they are entering a new phase. The baton must be passed, not simply handed over, but passed with great intention.

Our landscape is painted with both opportunity and uncertainty, a true rainbow nation. Unlike markets with multi-generational financial systems in place, South African families often represent first-generation wealth. That means there isn't always a family office, a trust company on speed dial, or a structured succession plan. There's plenty of hustle and clever thinking, but also a quiet worry: will the next generation grow it, or blow it?

That quiet worry tends to kick off the usual drill: ready, set... prepare both hearts and bank accounts. Parents worry: Will my children value what this took to build? Will they understand capital growth, compound interest, and liquidity? In many cases, heirs inherit assets before they inherit wisdom. And in a complex, rapidly changing South African landscape, wisdom isn't optional, it's essential.

But here's the optimistic twister: with good planning, these hurdles can be managed. Wills are updated. Trusts are revisited. Asset structures are realigned. And, crucially, family conversations should be held before they're forced by grief, sadness, or crisis.

Building on that, families are increasingly seeing technology as an ally. Artificial Intelligence models now allow parents and families to test succession plans across different scenarios, from market crashes to tax shocks. Money can be taught by educating heirs with simulations far more powerful than lectures ever were.

This leads us to a deeper question: what's left to our children? The real deal, however, is what's left through them, the legacy. Families are waking up to the idea that wealth isn't only personal; it's also about the people around you. Funding philanthropic trusts, giving to local entrepreneurs, and backing green energy are no longer side projects, they are becoming the epicentre of how families express their values across generations.

Maybe the goal isn't just to preserve wealth, but to amplify its purpose. As South African families stand at this pivotal crossroads, the challenge is clear: to transform wealth from a mere inheritance into a living, breathing force for good.

In a country as vibrant and complex as South Africa, this is more than financial planning, it's a profound act of hope for the future.

The dangers of following the global benchmark.

Sean Peche,
Fund Manager Ranmore

“Just buy the index - it’s low cost and most active managers can’t beat it”.

Sounds like simplistic “first-level thinking” to any fan of Howard Marks (like me).

In his great book, "The Most Important Thing", he says successful investors should rather practice “second-level thinking”.

In other words, think deeper than the rank and file.

So, applying his technique to the notion of Index investing, you might want to answer questions like:

That strategy has worked historically, but what drove that success?
Are those factors in place today, or has there been a change?
Which index, market-cap-weighted or equal-weighted?
How will I know when I'm wrong?
Will I have the emotional strength at the time to correct any error?
Is now the right time?

But why do I need to answer those questions, the S&P has returned 10% per annum over the long-term?

Ah, more first-level thinking...

Second-level thinkers know that's not true if you'd bought when valuations were similar to today's.

But to answer your question, because clients will be less excited about you saving them 0.5% a year on fees if you're exposing their portfolio to the risk of a 50% drawdown (if Japan is any guide).

In early 1989, Japan’s 45% weighting in the MSCI World index was the largest of any region as easy credit-fuelled speculative borrowing to invest in equities and real estate.

A global investor would have done well to ignore the benchmark weighting back then; over the next four years, the MSCI Japan index halved.

But imagine trying to explain that decision to clients.

Go with the flow?

They would surely have succumbed to recency bias and pointed to the market rising 500% rise over the prior five years – an annualised 42%.

Or they might have pointed out that business students around the world (like me) were studying Japanese corporate practices - evidence that Japan was a winning nation which would keep winning.

Whereas all that a value driven sceptic had to offer was that valuations stood at 50x earnings, driven by a sense of euphoria.

The rest is history and today Japan's weighting is only 5.4% in the World index.

By contrast, today US equities comprise an overwhelming 72% weighting of that same benchmark. And once again we have lofty valuations and a sense of euphoria.

Coming around again

So could it be wise to once again ignore the benchmark when allocating your investments? We think so and that's why the Ranmore Global Equity Fund has only 20% exposed to select US equities.

You might argue that the index isn't trading at 50x accounting earnings like Japan in 1989.

Except, given the high capex spend underway, the Mag 7 is currently trading at 58x free cash flow (FCF).

Those seven companies have a collective market cap of $22tn and generated $385bn FCF (our preferred measure) over the past year, far lower than net income of $568bn.

Go further and deduct stock-based compensation - a real cost to shareholders - that number rises to 77x FCF.

Beyond tech

And it's not just the tech giants. Even mainstream giants like Walmart and Costco are trading at 63x and 53x trailing free cash flow.

At a time of extreme valuations, it often pays to think deeper than convention and be decisive – just like back in 1989 in Japan - because valuation is only one of the risks facing US equities.

Recent bankruptcies of First Brands and Tricolor appear to show weaknesses in private credit lending, with J.P. Morgan CEO Jamie Dimon recently warning of more 'cockroaches' that might come out from under the floorboards.

Evening in America

All this is set against a rather grim social and political backdrop in the US, starting with a government which remains shutdown, undoubtedly affecting economic activity.

The rising levels of authoritarianism and intertwining of business and government taking place in America, together with dwindling central bank independence, has historically demanded valuation discounts around the world in places such as Russia, Turkey and China.

We'd also argue that the deployment of National Guard troops and ICE agent activity in cities around the US equates to martial law which has historically warranted discounts in countries, as we saw last year in South Korea.

Irrational exuberance returns

At the same time as there are many signs of speculative euphoria including some 900 leveraged (and, we'd argue, dangerous) ETFs, accounting for 1/3 of new issues.

The adoption of One Day to Expiry options has exploded and currently account for more than half of all S&P500 option activity.

Now some may argue Buffett-like that you should never bet against the US - and that been the right decision for the past century.

But things change. Going back a further 90 years from 1989 Japan, the UK was the largest market in the world with a 24% weighting. Today that number is 3.5%. I'm sure back then there were some investors saying 'never bet against the UK.'

What happens when?

No one knows what the eventual catalyst will be that will burst this bubble, nor when it will burst.

But history has repeatedly shown us that the odds of generating attractive real returns over the medium to long term are not on your side when you pay high valuations.

The US's 'tomahawk turmoil' has perhaps led to acceptance by global politicians that the rest of the world can no longer rely on America.

Maybe it's time for global investors to do the same.

Empires fall for many reasons, but one of the surest ways to ruin is by letting the enemy inside the city walls. For this reason, fortresses are built to protect the people from unfriendly forces outside.

Your Financial Fortress

Lesley Hohne, Director & Wealth Manager Sterling Private Wealth

While it may not be visible, your family's hard-earned wealth is under constant attack from forces wishing to reduce or destroy it. Your capital can take only two paths: (1) it can increase like a widening and deepening river (true wealth), or (2) it can run out, leaving you dependent on the help of others.

A plan and a guide (that's us!) will provide most of the protection you need, but we want you to understand how to keep the enemy out. You've worked too hard for your money to have it needlessly destroyed.

Keeping The Enemy Out

Human nature means that anything new and exciting will bring about the fear of missing out (FOMO). It's how we are wired. During your lifetime, you'll see many of what appear to be attractive investment opportunities. However, within each one of these opportunities, danger may lie.

How can you spot the danger? If it's exciting and seems too good to be true, it likely is. While some new shiny opportunities do turn out well, most don't. Why risk it? Even if you do your homework, don't rush into it and seek opinions from others. It frequently turns out badly.

The biggest risk to your financial fortress is permanent loss of capital. It's the one risk that is almost impossible to recover from. This is why it's so important not to risk permanent loss without securing the family fortress first.

In the heat of the moment, the thought of significant gains may be exciting, but your priority at all times should be to protect the family financial fortress. Never let anything breach its walls.

Unfortunately, we have seen many clients succumb to a temptation that has harmed them financially. These show up as new fads, complicated investment structures, and sometimes outright scams. The desire to attain quick wealth is universal, don't think you are immune to its temptations.

It may work out as hoped, but is it worth risking the family financial fortress? Think very carefully before you open the fortress doors to the Idea Peddlers.

Remember What Has Always Worked

Fads, scams, and opaque schemes should always be compared to the strategies which have always worked. Investing in the great companies of the world (the global stock market) has proven to work very successfully and delivered true wealth to those disciplined and patient enough to enjoy its compounding capabilities.

This strategy may seem boring to many in a world of instant gratification and new promises of easy wealth. Good, we say. Your family's financial future is serious business and something that you consistently work on over many decades. If you're after excitement, find a dangerous hobby.

If it's wealth and security you're after, make sure you're benefiting from investing in human progress and innovation (the global stock market), which marches on slowly but steadily.

Life-changing returns are there to be had for the disciplined and patient investor. Why risk the fortress on an unproven long shot?

We'll Stand Guard!

On Safe Havens:
It's Gold & Bonds, right?

Ansonette Neethling, Analyst
Merchant West Investments

That is often the first thought when investors ask: what will protect my capital during a market downturn? To really answer that, we first need to understand what a safe-haven asset is. The key lies in correlation – how one asset moves in relation to another. Any asset that is imperfectly correlated to another asset, or a portfolio, offers diversification benefits as this reduces the overall risk of the portfolio. Diversifiers do not have the exact same reaction to changing market conditions as the rest of the portfolio. The extent to which this reaction is different, is illustrated in the correlation (ranging from -1 to just below +1).

When perfect negative correlation (-1) exists, this asset is defined as a portfolio hedge. Its reaction to changing conditions is exactly the opposite of the rest of the portfolio. A good example of a hedge is an offsetting futures contract to an existing exposure within a portfolio.

Finally, a safe haven is an asset that is uncorrelated or negatively correlated to a portfolio. But very specifically: during times of market downturn. This means that the overall correlation of the asset can be close to zero, or even positive. Simply put, we are looking for assets that do not fall when the rest of the market does, or even move in the opposite direction when market conditions change.

Where hedges and diversifiers are included in portfolios to protect investors from normal risks, safe havens protect investors from market decay.

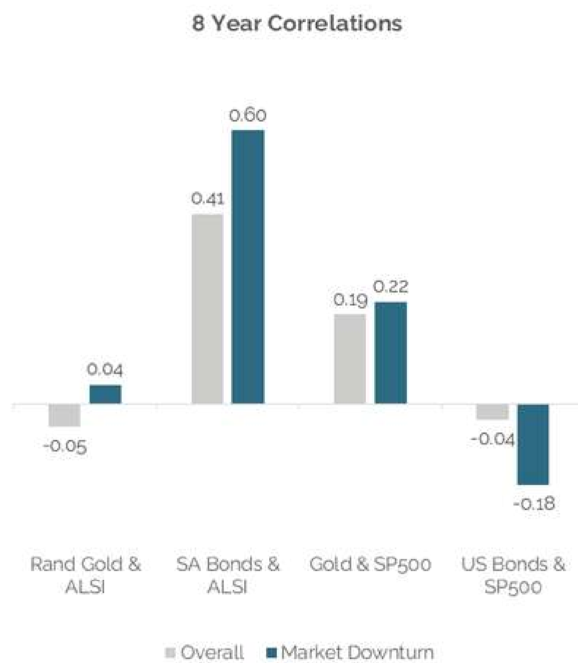
Analysing traditional safe havens

Gold and bonds have long been a famous flight to safety when there is uncertainty or downturn in the market. However, there are lessons to be learned from how the respective assets behaved historically.

First, when measuring whether an asset is a potential safe haven, the correlation of the asset to the portfolio does not necessarily have to be equal to zero or negative under normal market conditions. Hence, the focus lies on the correlation when the market is in downturn (darker shaded bars).

The graphs below clearly illustrate that correlations can change when there is uncertainty in the market. Asset correlations often increase during times of market downturn as there is risk spill-over in the macro factors causing the downturn.

Therefore, diversification often fails when investors need it most. Assets generally perceived as safe havens can be deceiving when simply measuring the overall correlations.



***Source**: Bloomberg, MWI.*

Second, it depends on the broader market. In the United States, measuring correlations to the S&P 500 Index, bonds appear to be a good safe haven and gold does not. US Bonds have long been a trusted flight to safety for both local and foreign investors, hence the negative correlation to equity. The recent political sentiment and weakening of the US dollar might threaten this. It would be interesting to closely monitor shorter-term correlations. The low positive correlation between gold and the S&P 500 Index emphasises that although gold is a good store of value, there are some overlapping macro factors that might indicate it is not the best safe haven.

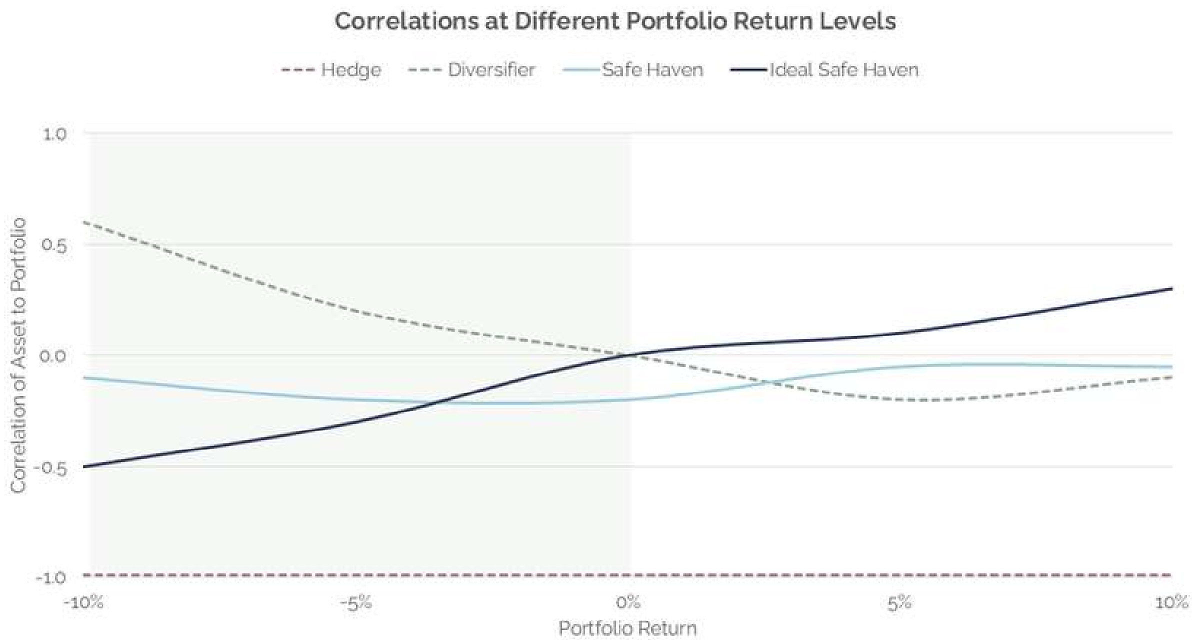
In South Africa, bonds in fact prove not be a safe haven when correlated to the JSE All Share Index. The traditional belief that gold is a safe haven holds. Although bonds generally do exhibit negative correlations to equity, in an emerging market like South Africa, that is often not the case. There is enhanced risk spill over between the asset classes from a foreign investment point of view. When there is negative sentiment around South Africa, it is risk-off for the entire country, not necessarily just one asset class. Gold is interesting. The negative correlation in South Africa is a benefit of exchange rates, more so than the actual correlation to the dollar gold price. The JSE All Share Index has significant exposure to gold miners. The true correlation between the Index and gold spot measured in US dollars is very significant but it can act as a safe haven for local investors as we enjoy the benefit of purchasing gold in rand.

That said, the effectiveness of a safe-haven asset depends on the unique portfolio that an investor is trying to protect. The JSE All Share Index is very broad. A local investor's portfolio might have very high exposure to miners, potentially eroding the low correlation to gold spot. In a portfolio with high exposure to foreign equities, local bonds might act as a good safe haven. A portfolio that is only exposed to traditional asset classes might benefit from adding digital assets. This is a key point: a safe haven does not have to be a risk-free asset. It needs to be an asset with different risk exposures to that of the portfolio it aims to protect. One needs to think beyond the asset and evaluate what the macro factors are that drive the price movements of the assets in a portfolio.

Lastly, safe havens can change over time. Measuring the correlations between asset pairs over different periods (fifteen and eight years in the graphs above) illustrates how dynamic assets and indices are. Correlations are not static. Market conditions change, new assets become available to investors, and the constituents of the index or portfolio can change. When an investor's portfolio changes, it is important to evaluate whether the existing safe havens within that portfolio will continue to protect capital during times of market distress.

Identifying a safe-haven asset in a portfolio

A practical way of evaluating potential safe havens for a unique portfolio, is to measure the correlation of the asset of interest to the rest of the portfolio. This indicates how the return of the asset moves with the return of the overall portfolio. In doing this, investors can identify the role of a specific asset in a portfolio. Demonstrating this with a hypothetical example, the pink dotted line on the chart below illustrates a hedge. The correlation of the asset to the portfolio is equal to -1, regardless of the return of the portfolio. An asset like this will perfectly offset the exposures of the portfolio. The green dotted line can be deceiving – the overall correlation might just be close to zero, or even negative. Analysing the correlation at different levels of return highlights an important phenomenon: correlations often increase when the market (or the rest of the portfolio in this case) goes down. This hypothetical asset will not protect capital during a downturn and is, therefore, simply classified as a diversifier.



Source: *MWI.*

A safe haven is illustrated by the light blue line. This asset exhibits a low-negative correlation to the portfolio at all levels of return. However, the correlation when the portfolio return is positive does not matter. The shaded area on the graph emphasis that when identifying a safe-haven asset, we only need to concern ourselves with periods of negative return as safe havens are needed when investors are mostly concerned about avoiding losses in a downturn. The darker blue line is what I like to call the ideal safe haven. Not only does this asset protect capital by having a negative correlation to the portfolio in a downturn, but the correlation also declines as the return becomes more negative. Simply put, the worse it gets, the better this asset protects capital. As if that is not enough, it also enjoys some of the upside. This is illustrated by the slight positive correlation when the portfolio return is positive.

To conclude

Confirmation bias is when we believe something to be true, and we cling onto it for too long. Assuming that gold and bonds will protect any portfolio under all circumstances is a perfect example of that. I am not saying it cannot be a good safe haven. I am saying we need to understand what makes something a good safe haven to be able to identify it.

The pursuit of safe havens is not about finding the perfect asset, and it is definitely not a one-size-fits-all. It is about understanding the unique risk makeup of the portfolio of assets you are trying to protect in the event of market downturn. The world is changing, markets are dynamic, new assets become available. Perhaps the true safe haven is adaptability.

Behavioural Investing

Joe Wiggins,
Ex CIO Fundhouse UK

What does a difficult decision look like? One where there are lots of moving parts, a constant stream of new information, plenty of emotional stimulus, and nothing to stop us reacting to it all.

This is exactly the type of choice investors have to deal with – with one small addition. We have to make the decision over and over again.

Every interaction we have with financial markets creates a new decision point. We are constantly receiving new 'information' (I use this word loosely) and, implicitly, asking ourselves the question: "Do I need to change my portfolio?"

Whenever we check our portfolio valuation, or even read a financial news article, it is shifting the way we think or feel about our investments. What we do about this will depend on how emotive or compelling whatever we are engaging with is.

Unfortunately, we live in a world where we are increasingly bombarded by 'investment stimulus', and technological progress means that we can act on this immediately. Using one device and a few swipes or clicks, we can read a concerning article, check our declining portfolio valuation, and switch assets, all in the space of sixty seconds.

To have any chance of being a successful long-term investor, we need to make decisions that are consistent, slow, and infrequent.

The problem investors face is twofold:

1. We are naturally disposed to be highly alert to new information, acutely sensitive to short-term risks, and responsive to what our emotions are telling us.
2. Technological and investment-industry developments mean that the environment is increasingly encouraging the exact behaviours that are likely to harm our chances of good long-term outcomes.

From an investment-industry perspective, the focus should never be on whether a piece of investment communication is a 'good article' or whether a rollout of platform technology represents 'positive progress'. Rather, it should be asking: "Is what we are doing likely to help someone make good investment decisions over time?"

Investment decisions are incredibly complex and difficult; it is very hard to achieve good long-term outcomes if we are forced to make them every day.

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