

OLD MUTUAL MULTI-MANAGERS
MARKET MATTERS

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THE HOW, WHEN, WHERE AND WHY OF WARREN



IZAK ODENDAAL

OLD MUTUAL WEALTH
CHIEF INVESTMENT STRATEGIST

The end of an era approaches. Warren Buffet, probably the greatest ever investor, will be retiring at the end of this year. He is certainly the world's richest investor, with a net worth around \$160 billion, after already giving away much of his fortune. He has been at the helm of Berkshire Hathaway for 60 years, turning it into one of the most valuable companies in the world. Apart from his unparalleled business acumen, his folksy Midwestern demeanour, modest lifestyle, and endless supply of wisdom endeared him to millions around the globe. Known to many as the Oracle of Omaha, referring to his Nebraska hometown, he is something of a cross between a corporate titan, philosopher, storyteller and rockstar. Some 40 000 people flocked to Berkshire Hathaway's annual shareholder meeting to hear him speak.

Much has been written about his life and work, not just over the past week but in dozens of books and thousands of articles over the years. There is nothing new this newsletter can say about Buffet, but at a time of tremendous global uncertainty, there are a few key take-outs from Buffet's incredible career: the how, when, where and why.

ONE AND ONLY

There are two important caveats upfront, however. Firstly, there is, and can only be one Warren Buffet, a uniquely gifted and determined individual. Buffet was born in 1930, the son of a US Congressman from Nebraska. As a child he displayed a strong entrepreneurial spirit, getting involved in various small business ventures around the neighbourhood and working part-time jobs. He started investing when still a teenager and his high school yearbook noted that he "likes math; a future stockbroker". He filed his first tax return at 14! The other reason why his success won't be repeated is because he started his career at a particular moment in history, when markets were much more inefficient, and information was scarce. The entire investment industry has professionalised



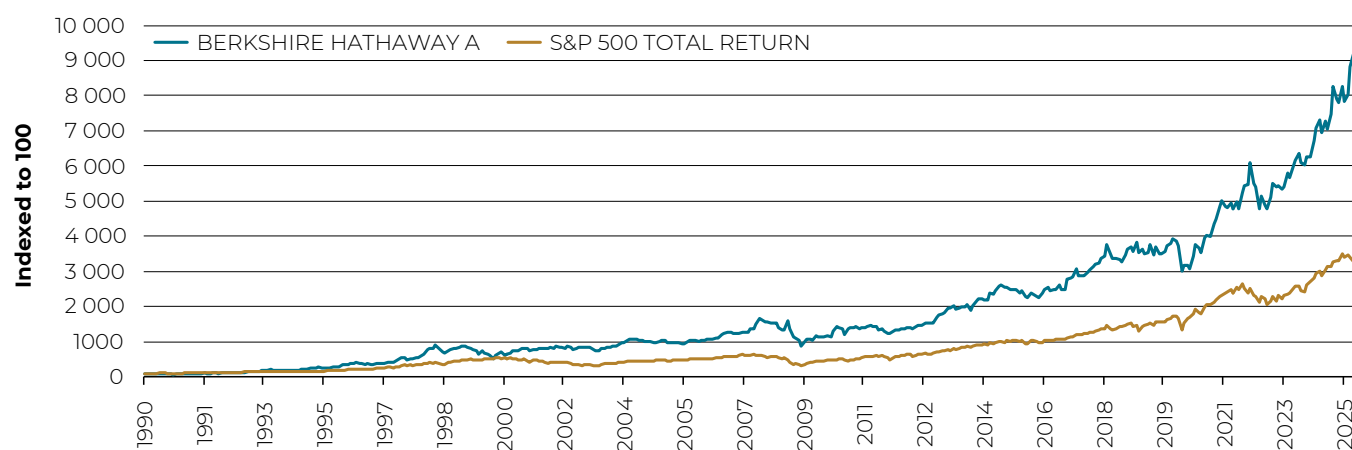
and expanded over the years and is hyper-competitive today. Information has become abundant, but attention is scarce. His own investment approach has been analysed to the nth degree and copied. The way companies are run has also changed, with a far greater emphasis on shareholder returns from the 1970s onwards.

The second caveat is that, though he started out as a portfolio manager, he cannot be compared with the fund managers whose names you will see on fact sheets today. His success was turbocharged when he acquired Berkshire Hathaway, a struggling textile manufacturer, in 1965 and turned it into a holding company for his investments. It is not a fund, in other words, and unlike a typical fund manager that faces liquidity, size and other mandate constraints, Berkshire

enjoys tremendous flexibility (note that none of this should be construed as a recommendation to purchase or sell its shares – past performance is not a guarantee of future performance).

Early on, it purchased insurance companies that generated cash to finance further acquisitions. Insurance companies collect monthly premiums, creating a steady “float” of cash (as Buffet called it) that could be used for acquisitions. Some of these were whole companies, and some were stakes in listed or unlisted firms. The net result is that, over the decades, Berkshire comfortably outperformed the S&P 500. However, there were periods of short-term underperformance. Even the most successful strategies will struggle at times, so this is an important reminder to stick to the plan.

CHART 1: NO CONTEST: BERKSHIRE VERSUS THE MARKET



Source: LSEG Datastream

THE HOW: PRICE IS WHAT YOU PAY, VALUE IS WHAT YOU GET

Buffet is a follower of Benjamin Graham, the so-called father of value investing, and worked for Graham's investment partnership for a while. Graham popularised the idea that investors should analyse the companies they were about to invest in, to understand the financials, operations and future prospects. When a company's share price falls below its assessed intrinsic value, investors would have a margin of safety to purchase the share. This stands in contrast to the more speculative approach of buying shares in the belief that recent positive price momentum will continue. Graham started his career in the 1930s, in the wake of the 1929 crash that wiped out the speculators but offered fantastic opportunities for value investors. All of this seems obvious now but was quite revolutionary at the time and laid the foundation for financial analysis as a profession.

Buffet's approach evolved. Initially he looked for cheap value shares or “cigar butt” companies, so called because investors had thrown them away, believing them to be worthless, but there was still a puff left. Over time, he shifted his focus towards the quality of the company, arguing that a good company at a reasonable price is a better purchase than a bad company at a massive discount, as long as the former has margin of safety. Notably, he bought a stake in Apple in 2016 when it was already one of the biggest companies in the world and no one's idea of a “value” stock. It has been the most successful purchase in terms of the dollar amount of wealth created for Berkshire.

What has been consistent throughout, however, is that Buffet bought into companies, whether they were listed or unlisted, and whether his ownership was partial or total.

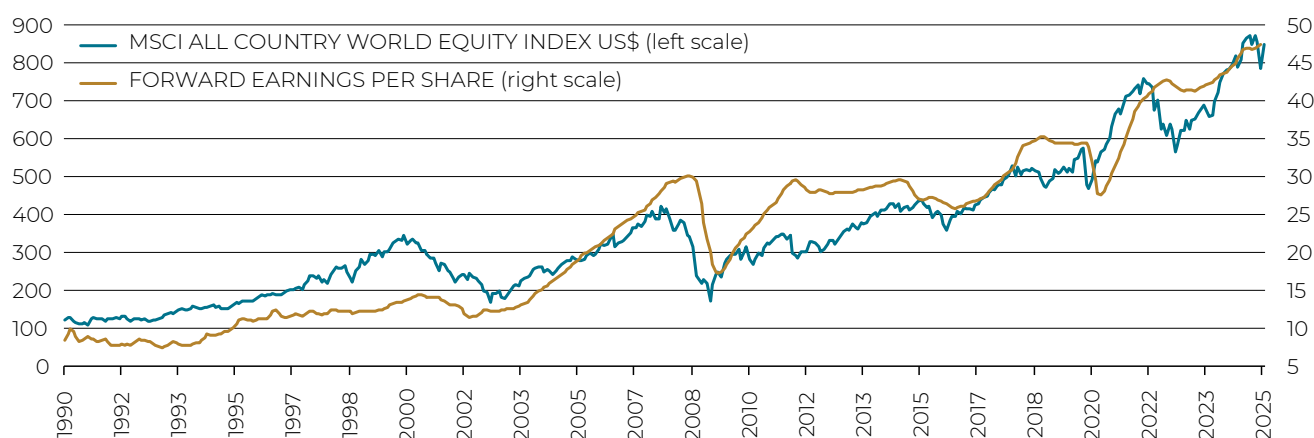
He viewed these investments as businesses, not as financial instruments.

This approach might seem old fashioned to many investors these days, since modern finance often views equity investing through the lens of factors and correlations to the market and to one another, and less as businesses. Stock picking is increasingly seen as an unnecessary cost, since anyone can get the market return by buying cheap index funds. Buffet himself regularly encourages people to buy low-cost index funds and avoid the fancy stuff.

Nonetheless, at a time of great volatility and uncertainty on global markets, it is useful to remind ourselves that equity investing is still fundamentally about owning a slice of a company that entitles you to a share of its profits. It is the underlying profits that generate the wealth for the investor over time, though investors often obsess over short-term price movements. This is true whether you own shares directly, through funds or in an ETF.

As Graham famously put it: “in the short term the market is a voting machine, but in the long term it is a weighing machine.” Share prices are moved by sentiment in the short term, but over the long term, share prices follow earnings.

CHART 2: PRICE FOLLOWS EARNINGS



Source: LSEG Datastream

Sometimes share prices will be too high relative to future profit expectations, and sometimes too low. It is in these periods of mispricing where opportunities for stock picking and asset allocation lie.

Currently, Berkshire has a record cash pile on its balance sheet, some \$350 billion. Buffet and his team are in no hurry

to deploy this and are seemingly waiting for opportunities to emerge. It is indicative of a pricey US market. The S&P 500 trades at 20x forward earnings while unlisted companies also have elevated valuations given the abundance of private equity money floating around.

THE WHEN: AS LONG AS POSSIBLE

In his 1988 letter to shareholders, he noted that “when we own portions of outstanding businesses with outstanding managements, our favourite holding period is forever.” This is one of his most famous quotes. Of course, he does not mean literally forever. Berkshire has disposed of many acquisitions over the years, including ones that performed badly. After all, the industry dynamics do change over time, and Buffet has also made mistakes here and there. Everyone does.

But the belief in holding on to a good investment, being patient, and letting it compound is core to Buffet's success. While he is clearly an expert analyst of businesses and benefited from the Berkshire's financial muscle (and his own reputation and network) to make attractive acquisitions, his real secret is arguably the patience to let investments compound. Albert Einstein never called compound growth the eighth wonder of the world, but he might as well have.

For instance, Berkshire took a 7% stake in Coca-Cola in 1988 that it still holds, as with the share in American Express it bought in 1991. In the 2023 annual shareholder letter, he referred to it as “our own Rip Van Winkle slumber that has now lasted well over two decades. Both companies again rewarded our inaction last year by increasing their earnings and dividends. Indeed, our share of AMEX earnings in 2023 considerably exceeded the \$1.3 billion cost of our long-ago purchase.”

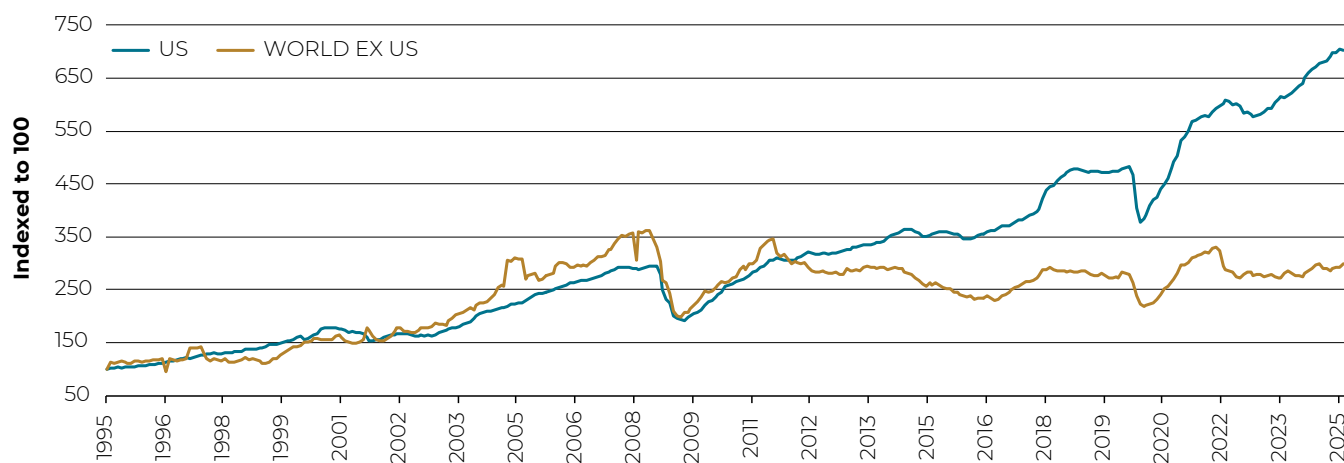
THE WHERE: BORN IN THE USA

In his 2021 annual shareholder letter, Buffet wrote that despite “some severe interruptions, our country’s economic progress has been breathtaking. Our unwavering conclusion: Never bet against America.”

He noted that nowhere on earth has there ever been a better place for “unleashing human potential” like the US. He’s not wrong. The world has never seen a better machine

for wealth creation than the American economy, though of course it has a dark side too (and Buffet has frequently spoken out against inequality). He once noted that the luckiest day in his life was the day he was born, since he was born American, a white American male to be precise, as he has highlighted. This gave him opportunities available to less than 2% of the world’s population.

CHART 3: AMERICAN EXCEPTIONALISM: EARNINGS PER SHARE \$



Source: LSEG Datastream

Most of Berkshire’s investments have been in American companies, and this continues to this day. American companies tend to be more shareholder-friendly, and it shows in terms of long-term profitability.

Of course, big questions are being asked about the US, its political economy, and its place in the world, which President Donald Trump is determined to remake. The past two weeks have given investors optimism that Trump will sign trade deals and step back from the extreme tariffs he announced on April 2nd. This is positive but does little to shore up faith in the notion that has prevailed for 80 years that the US is

the bedrock of the global economy and financial system and a source of stability and predictable policies.

Many seem to take pleasure in this, but we will all benefit from a prosperous, innovative and open America. Those who bet against America do so at their own peril. However, betting against the US is not the same as reducing your allocation to a sensible level. Over the past decade or so, many global investors became overexposed to the US, driving up the value of the dollar in the process. This can continue reversing.

THE WHY

Finally, the why. Why Buffet became so successful is clearly due to immense determination, ambition, talent and luck. But a multibillionaire who keeps working to the age of 94 clearly also deeply loves what he does. This is an example to all of us, whether our profession is finance or anything else, that we tend to do our jobs better when we find work emotionally and intellectually rewarding, and if there is a purpose to what we do.

Why is also an important question every investor should ask themselves. Many people arrive at a financial adviser's office and ask, "where should I invest?" But it is the why that will ultimately determine the correct investment strategy: Why am I investing this money? What do I want to achieve with it? Hopefully, a deeper understanding of the why will also motivate the investor to stick to the strategy and enjoy long-term success.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	3 712,0	-0,35%	1,53%	0,11%	8,82%
United States	S&P 500	US\$	5 660,0	-0,47%	1,63%	-3,77%	8,55%
Europe	MSCI Europe	US\$	2 308,0	-0,65%	1,05%	15,23%	8,56%
Britain	FTSE 100	US\$	11 381,0	-0,23%	0,50%	11,27%	8,42%
Germany	DAX	US\$	2 265,0	1,30%	3,47%	17,69%	30,62%
Japan	Nikkei 225	US\$	258,0	1,55%	2,41%	1,67%	5,36%
Emerging Markets	MSCI Emerging Markets	US\$	1 138,0	0,44%	2,25%	5,86%	6,95%
Brazil	MSCI Brazil	US\$	1 404,0	1,37%	1,74%	19,29%	-11,59%
China	MSCI China	US\$	72,4	0,49%	2,64%	12,33%	19,60%
India	MSCI India	US\$	1 011,9	-2,52%	-2,71%	-1,19%	3,89%
South Africa	MSCI South Africa	US\$	512,0	0,79%	2,20%	19,07%	25,80%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	91 861,0	-0,51%	0,30%	9,23%	18,47%
All Share	All Share (Total Return)	Rand	17 054,0	-0,46%	0,36%	10,93%	22,61%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	41 600,8	-0,48%	0,20%	10,55%	22,29%
TOP 40/Large Caps	Top 40	Rand	15 475,0	-0,40%	0,21%	13,60%	22,11%
Mid Caps	Mid Cap	Rand	25 965,0	-0,59%	0,94%	3,27%	19,38%
Small Companies	Small Cap	Rand	43 275,0	-0,57%	1,23%	-2,28%	30,42%
Resources	Resource 20	Rand	6 196,8	2,74%	0,29%	37,40%	16,71%
Industrials	Industrial 25	Rand	28 851,0	-0,92%	0,98%	10,82%	23,25%
Financials	Financial 15	Rand	16 046,0	-1,73%	-0,72%	2,19%	29,08%
Listed Property	SA Listed Property	Rand	2 482,3	-1,92%	-0,51%	3,30%	29,63%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government S&P Overall (USD Unhedged)		US\$	76,8	-0,67%	-1,19%	4,01%	3,33%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 122,7	0,51%	0,35%	1,82%	19,06%
Government Bonds	BESA GOVI	Rand	1 106,4	0,50%	0,35%	1,90%	19,11%
Inflation Linked Bonds	BESA CILI	Rand	378,4	-0,16%	-0,05%	0,46%	8,23%
Cash	STEFI Composite	Rand	610,8	0,14%	0,18%	2,71%	8,20%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	63,9	4,27%	4,77%	-14,79%	-23,92%
Gold	Gold Spot	US\$	3 324,0	2,62%	0,54%	27,06%	43,90%
Platinum	Platinum Spot	US\$	995,0	3,65%	2,26%	8,74%	0,51%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	18,21	0,96%	2,16%	3,43%	1,35%
ZAR/Pound	ZAR/GBP	Rand	24,23	0,78%	2,35%	-2,48%	-4,58%
ZAR/Euro	ZAR/EUR	Rand	20,47	1,52%	2,99%	-4,49%	-2,73%
Dollar/Euro	USD/EUR	US\$	1,12	0,89%	1,16%	-7,59%	-3,57%
Dollar/Pound	USD/GBP	US\$	1,33	-0,26%	-0,03%	-6,04%	-6,04%
Dollar/Yen	USD/JPY	US\$	0,01	0,28%	1,60%	-7,54%	-6,51%

Source: I-Net, figures as at 9 May 2025

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