Taylor & Francis
Online

Financial Analysts Journal ›
Volume 42, 1986 - Issue 4

44 Views | 85 CrossRef citations to date | 3 Altmetric

Research Articles

Financial Implications of South African Divestment

Blake R. Grossman & William F. Sharpe

Pages 15-29 | Published online: 31 Dec 2018

Cite this article https://doi.org/10.2469/faj.v42.n4.15

CFA Institute members: sign in to access the Financial Analysts Journal.

Sample our Tourism, Hospitality and Events Journals
>> Sign in here to start your access to the latest two volumes for 14 days

Citations Metrics Reprints & Permissions Read this article Share

Click to increase image size

by Blake R. Grossman and William F. Sharpe

Financial Implications of South African Divestment

The minimum financial costs associated with divesting a portfolio of stocks of companies doing business in South Africa include both direct and indirect costs of buying and selling securities plus effects on risk and expected return. The magnitude of these costs depends materially on the divestment strategy chosen. Divesting only the stocks of companies not complying with the Sullivan Principles results in the exclusion of a relatively small portion of an investment universe and has little effect on portfolio characteristics and returns. A complete divestment policy—selling all South Africa-related stocks—has more meaningful consequences.

The divested South Africa-free (SAF) universe consists of companies whose market capitalizations are significantly smaller than those of the total universe. The SAF universe is also relatively underweighted in technological capital goods and consumer growth stocks and overweighted in finance and utility stocks.

Analysis of a representative divestment strategy based on buying and holding a value-weighted portfolio of all the SAF stocks in the NYSE suggests that initial transaction costs for a $1 billion portfolio can be as low as 0.41 per cent of the overall portfolio value (assuming trades are not liquidity or information-motivated). Reinvestment of dividends and investment of additional funds after divestment should not substantially exceed those associated with an undivested portfolio.

Historical returns since 1959 indicate, further, that the SAF portfolio, diluted with Treasury bills to bring its risk in line with the NYSE, would have outperformed the NYSE by 0.187 per cent annually. Analysis of the factors contributing to the SAF portfolio's returns indicates that the exclusion of South Africa-related stocks hurt portfolio performance, on average, while the small stock bias of the SAF strategy greatly increased portfolio return.

IN REACTION TO the apartheid policies of the South African government, a number of public and private retirement funds have decided to divest their portfolios of stocks of companies that do business in that country. Many more are actively considering such a policy. Such a choice cannot, of course, be made lightly. Both benefits and costs must be carefully weighed.

Evaluation of the benefits involves complex political and social aspects. Most investors share with the U.S. government the goals of abolition of apartheid and improvement of the status of blacks in South Africa; there is disagreement,

Blake Grossman is a portfolio manager at Wells Fargo Investment Advisors. William Sharpe is Timken Professor of Finance, Stanford University, and a consultant to Wells Fargo Investment Advisors.

The authors thank Leslie Durschinger of Wells Fargo for providing much of the transaction costs analysis. Support from the Stanford Program in Finance is gratefully acknowledged.

The CFA Institute is collaborating with JSTOR to digitize, preserve, and extend access to *Financial Analysts Journal*
www.jstor.org

Log in via your institution

Access through your institution

Log in to Taylor & Francis Online

Log in

Restore content access

Restore content access for purchases made as guest

Purchase options *

Save for later

PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed

EUR 48.00

Add to cart

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

EUR 136.00

Add to cart

* Local tax will be added as applicable



Related Research

People also read | Recommended articles | Cited by 85

ESG and financial performance: aggregated evidence from more than 2000 empirical studies

Gunnar Friede et al.
Journal of Sustainable Finance & Investment
Published online: 15 Dec 2015

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

Sign me up

Copyright © 2026 Informa UK Limited Privacy policy

Cookies Terms & conditions Accessibility

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG