JM BUSHA QUARTERLY BULLETIN

VOLUME 2: June *2015*

EQUITY MARKET REVIEW

***FARAI MAPFINYA** | HEAD OF EQUITIES*

Sustained market rating in a declining price environment

JSE Top 10 Equity Buys 2015				
	Share	Entry Price	Target Price	YtD
1	Mediclinic	10065	13481	1.8%
2	Santam	21500	27837	0.3%
3	Datacentrix	350	447	27.7%
4	Old Mutual	3470	4290	12.5%
5	Nedbank	24900	30319	-1.1%
6	Anglo	21533	25961	-17.2%
7	Steinhoff	5940	7126	30.3%
8	Illovo	2450	2893	-39.8%
9	Liberty	12269	14419	18.6%
10	Life Healthcare	2450	2893	-12.0%

JM BUSHA PERFORMANCE (3 Years)		
Fund Name	Return (%)	Benchmark (%)
Cash Plus	6.18%	5.65%
Bond Plus	6.68%	6.64%
Real Return	10.19%	9.77%
Absolute All Class	14.44%	10.82%
Absolute Aggressive	12.63%	13.21%
Diversified Equity	20.39%	13.65%
Afro Fund	10.19%	9.77%

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Equity markets both locally and globally pulled back over the quarter on the back of a number of key developments in the global financial markets. Chief among them was an indication by the US Federal Reserve that an upward interest rate cycle was imminent, a deadlock on the Greek Debt crisis which is still yet to be resolved, broadly weak commodity prices which has continued to unravel since the tail-end of the 4th quarter of 2014 and a generally expensive market at all-time highs from a valuation perspective.

The JSE All Share index shed 0.9% in the quarter driven largely by continued losses in the resources sector and pressure on financial shares on the back of the interest rate outlook. The resources index declined by 4.6% while financials pulled back by 4.3% on total return basis. Industrial shares bucked the weak trend and closed the quarter up by 1.1%, this on the back of a continually deteriorating Rand which gave support to the global industrial rand hedge shares. The underlying valuations across sectors have not changed materially on a relative basis to warrant significant changes to our portfolio positioning.

The overall market trades on a price to earnings ratio (PE) of 19.4x and price to book ratio (PB) of 2.2x, a marginal derating from the end of last quarter. Resources are still the most expensive on at 51.2x PE, on the back of decimated earnings, despite the continued pull back in prices. Industrials remained largely flat at 21.6x PE and 3.6x price to book, while financials reversed the strong first quarter rerating and derated in the second quarter to a PE of 13.6x and price to book of 1.8x.

The quarter was fairly benign on the results front with most majors having either a June or December year end, meaning a lot of the earnings results happen in the 1st and 3rd quarters of the calendar year. Be that as it may, the trading outlook remains tough and we caution that earnings disappointments are likely to remain a key risk in outlook for equity prices.

Markets are forward looking and long term in nature and we believe that diversification and time in the market will reap rewards for patient investors despite market cycles and fluctuations.

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Market Performance Summary – Year to date

Equity Indices	Spot	%Change	JSE Top Gainers	Spot(c)	%Change	JSE Top Losers	Spot (c)	%Change
JSE All Share	51249.64	2.91%	Montauk Holdings	880	208.8%	Aveng ltd	615	-64.7%
JSE Resources	38091.52	9.09%	Cashbuild Ltd	31284	90.5%	Arcelor Mittal	1235	-53.2%
JSE Financials	16443.37	5.12%	Net 1 UEPS	22005	63.0%	Aquarius Platinum	130	-52.4%
JSE Industrials	65667.5	5.29%	Trust Co	420	55.6%	Kumba Iron Ore	12722	-47.0%
Namibia (NSX)	1091.249	1.30%	Brait SE	12039	53.0%	Assore	8855	-40.8%
Zambia (LUSE)	5849.68	-4.44%	PSG Group Ltd	19399	51.9%	Murray and Roberts	1266	-40.5%
Zimbabwe (ZSE)	145.45	-10.65%	EOH Holdings	16273	49.9%	Grindrod	1355	-39.5%
Dow Jones	17683.58	-0.78%	Mondi Ltd	26801	42.0%	Lonmin	2020	-36.1%
S&P 500	2068	0.48%	Mondi PLC	26537	40.0%	African Rainbow Mineral	7812	-34.4%
Nasdaq	499.94	5.40%	Fortress Income Fund	2425	38.4%	Illovo Sugar	1610	-34.3%
FTSE 100	6522	-0.67%	Peregrine Holding	3186	37.3%	PPC Holdings	1853	-32.6%
German DAX	10903.09	11.20%	Capitec Bank Holding	45626	34.2%	Impala Platinum Holdings	5107	-32.6%
French CAC	4710.97	10.26%	Hudaco Industries	12907	33.2%	Coronation Fund Manager	8059	-30.0%
Nikkei 225	20376.59	16.77%	Advetech ltd	1120	28.7%	Allied Electronics Corp ltd	1175	-28.8%
Shanghai	3727.12	15.22%	Cap and Counties prop	8480	28.5%	Harmony Gold	1580	-26.9%
Hang Seng	24975.31	5.80%						
ASX	5581.4	3.15%						
Bond Yields	**Spot**	**%Change**	**Currencies**	**Spot**	**%Change**	**Commodities**	**Spot**	**%Change**
SAGB 2 Year	6.69	0.06%	R/$	12.51	8.12%	Gold ($/oz)	1163.8	-1.7%
SAGB 5 Year	7.66	0.23%	R/€	13.81	-1.28%	Platinum ($/oz)	1037.48	-14.1%
SAGB 10 Year	8.20	0.24%	€/$	1.1037	-8.77%	Palladium($/oz)	656.93	-17.6%
SAGB 30 Year	8.88	0.21%	$/¥	121.35	1.31%	Silver ($/oz)	15.3932	-2.0%
US 10 Y	2.24	-0.05%	Pula	10.0482	5.60%	Brent Crude ($/Barrel)	57.81	0.8%
US 30 Y	3.01	-0.02%	Kenya	100.6	11.16%	Copper ($/ton)	2.52	-3.7%
UK 10 Y	1.90	0.15%	Kwacha	7.56	18.39%	Alluminuim ($/ton)	1632.5	-11.0%
German 10 Year	0.68	0.20%	Naira	199.02	8.49%	Iron Ore ($/ton)	53.3	-23.6%

Introducing the tax free savings account.

CLARENCE BOTHA | HEAD OF RISKCOM

Clarence Botha, takes us through the salient features of the recently introduced tax free savings account.

On the 1st of March 2015, the National Treasury introduced the tax free savings account (TSA). Its dual purpose is to encourage additional savings and reduce the reliance of South Africans on debt.

The main features of the TSA are:

- Investors can invest in collective investment schemes (unit trusts, ETF's), deposits or retail savings bonds.
- Returns on investments including dividends, rental receipts, interest and capital gains are accrued free of tax.
- Investments can be up to R30,000 per annum up to a life-time maximum of R500,000.
- TSA's are flexible with investors being able to save through regular contributions or via lump sums.
- Funds can be withdrawn at any time without any penalties (some exceptions apply to where the underlying investment in the TSA is a fixed deposit).

At first glance the TSA seems like a no-brainer for any investor, however, the following needs to be borne in mind before signing up for a TSA:

- TSA's can only be used for new investments – older savings cannot be transferred as a lump sum into the TSA but can be phased in at R30,000 per annum. Any sale of existing investments into the TSA will attract capital gains tax (CGT).
- Investors need to be careful not to exceed the annual investment limit as tax penalties on additional contributions are punitive.
- All contributions to the TSA are made from post-tax income, so when considering retirement planning investors need to compare the tax savings in the TSA with tax savings available through retirement funds and/or RA's which are made from pre-tax contributions. The extent of the tax advantages will differ between investors and suitable advice should be sought to maximize the benefits available.
- At present, South African tax payers (under the age of 65) already have an annual tax-free allowance on interest of R23,500 and R30,000 on CGT which reduces their individual exposure to investment taxes without the need for a special investment account which may attract additional fees. We will wait to see if these concessions are maintained or phased out by SARS in light of the new TSA dispensation.
- The limits apply to lifetime contributions, so once a withdrawal is made it cannot be added back to the TSA at a later time.

In its current form, TSA's provide a welcome addition to the South African investor's toolkit providing a simple and flexible vehicle to benefit from tax concessions on investment returns. However, we see a missed opportunity by the National Treasury in not allowing pre-tax contributions into the TSA as well as the tax benefits seemly being a replacement of the current investment tax concessions (which will gradually be phased out over time). We also hope that the annual and lifetime limits will be indexed to keep up with inflation over time. Perhaps the biggest opportunity is that parents may open and contribute to a TSA for their children (the R30,000 annual limit applies to each family member) which would make an excellent investment for their future education.

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The Lowdown on Greece.

TAAHIR JOOSUB | TRADER

***Taahir Joosub** gives us a quick primer on the eurozone crisis and ramifications thereof..*

The Greek government debt crisis started in late 2009 and it has surely been a long and treacherous journey towards addressing the structural weaknesses in their economy and re-developing confidence amongst its lenders. Along the way, Greece became one of the largest governments in history to default on its sovereign debt in 2012, twice.

More recently, Greece also became the first developed country to fail to make an IMF loan repayment. Cash strapped? Yes indeed! Currently, the markets have been plagued with concern over the outcomes of any negotiations between Greece and its creditors. Reason being, failure to reach a compromise could lead to an exit from the EU and perhaps create a precedent for other peripheral European countries to follow suit.

The Greeks have been adamant in displaying their distaste with the proposed austerity measures and the lenders have reciprocated with an even firmer stance. We continuously see negotiations going back and forth, with no signs of progress.

Clearly both parties stand to lose in this showdown, therefore it is only reasonable to expect some compromise in this standoff triggered by structural weakness in the economy and a lack of confidence among lenders. Failure to which, we could witness the end of the Eurozone currency as we have known it.

Revisiting Mediclinic's investment case

BY **VIEAN JUGWANTH** and **TAAHIR JOOSUB**

Viean Jugwanth and Taahir Joosub revisit the investment case of one of our top stock picks for the year, MEDICLINIC.

Mediclinic – The fundamentals

Mediclinic International reported a solid set of results in May 2015, with strong growth in patient numbers across all operating platforms.

Mediclinic Middle East was the leading division in terms of revenue growth, and saw the acquisition of a hospital site in Dubai, as well as further plans to increase capital expenditure with the likes of the Mediclinic Parkview Hospital set to be completed this year. The Hirslanden operations in Switzerland also posted solid growth in revenue, supported by the opening of new practices and wards, with the acquisition of two hospitals in Switzerland set to contribute to sustaining progress in the region. Mediclinic Southern Africa was somewhat of the laggard with 10% growth in revenue, due to weaker economic and operational conditions in the region. However, the commissioning of Mediclinic Midstream, which saw 176 new beds being introduced into operations, indicated that there was still significant progress in South Africa's private healthcare sector.

Despite the solid performance, various issues and opportunities lay forth that need to be addressed. Operations in Switzerland are expected to sustain performance with the aging population supporting the demand of services offered by the company, with this demand serviced by the expansion of operations and acquisition of further assets in the region. The one caveat though, is the rebalancing of the Swiss Franc, which may lead to weaker economic growth in line with lower demand for Swiss exports. The volatility across Europe also poses substantial risk, which could see various reforms and policy implications adversely affecting certain industries.

The Middle East, amidst political instability and weaker oil prices, is still viewed as an opportunity as healthcare reforms and a growing population increases the demand bracket of private healthcare. This demand is set to be serviced by new hospitals that are expected to open over the next 3 years. In South Africa, high unemployment rates, inadequate infrastructure, electricity generation capacity and the volatility of the rand continue to negatively impact the South African economy. On the regulatory front, the South African Competition Commission has commenced with a market inquiry into the private healthcare sector in South Africa, while there was also the publication of new draft legislation relating to the standards applicable to health establishments, as well as regulations relating to the licensing of hospital facilities. Mediclinic has taken an active position in terms of these processes, with a positive outcome likely to strengthen the company's position in the country.

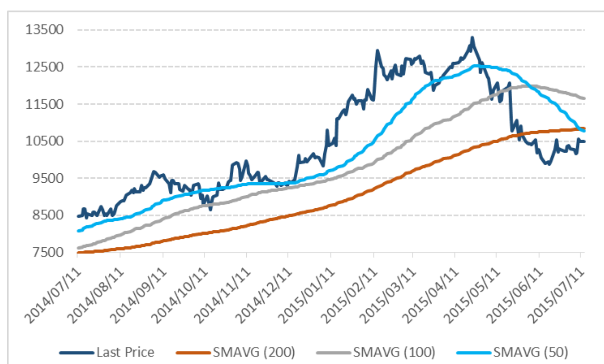
While new acquisitions and expansion poses significant risks amidst global financial uncertainty, Mediclinic has succeeded in attaining a position in the UK market with the acquisition of a 29.9% shareholding in Spire Healthcare Group Plc. Spire Healthcare is one of the UK's largest private hospital providers with 39 hospitals and 13 clinics across England, Wales and Scotland. The company offers a range of integrated surgical, medical and diagnostic services to over 260,000 in-patients and day-case patients per year across the United Kingdom, funded through private medical insurance, self-payment and National Health Service referrals.

The acquisition is expected to benefit Mediclinic as Spire is well positioned in the UK healthcare market, with strong long term growth opportunity. The company has a well invested and scalable platform with the capacity to increase volumes as well as a proven history, presenting Mediclinic with a strong foundation moving forward. As healthcare reforms and various vitality programmes are being implemented across the UK, there will be more opportunities of synergistic relationships for Mediclinic to explore.

Overall, Mediclinic is positioned in a defensive long-term industry, as demand is relatively unaffected by the volatility of economic cycles. The demand for private healthcare is likely to continue to grow due to population growth, ageing population, technological advancement, the burden of disease and pressure on governments' resources to provide healthcare services on demand. Mediclinic also has an extensive property portfolio in prime real estate areas that provides valuable operational flexibility and a strong asset underpin to its business as well as presence in diverse geographies mitigating country-specific risk. With healthy business operations and earnings potential, we value Mediclinic at R134.81 using an Excess Returns Model, and rate it as a strong BUY.

Mediclinic - Technical viewpoint

MDC traded at an all-time high of R133.00 on the 23rd of April 2015. Thereafter, the stock was sold off and retraced roughly 25% from its peak over the previous 2 months. MDC is currently trading below its 50, 100, 200 moving day averages and from the illustration below, it seems as though it has broken the steep short term upward trend initiated in early 2014 (bearish). Currently the stock is testing a key psychological support level. If this support level fails, expectations are for MDC to test a prior resistance level around R90.



Technical indicators such as the Relative Strength Index (RSI 14) and a Stochastic Oscillator suggest that the stock is currently oversold. In addition, a MACD analysis further suggests a short term buying opportunity around its current trading price of R100. A bullish engulfing candle has recently developed on the announcement of the intent to purchase a 29.9% stake in British healthcare group, Spire. Purely from a technical viewpoint, all of the above considerations point towards a potential short term buying opportunity, with the intent of capitalising on any bounce off the R100 support level. It would be critical to see a sustained upturn developing in order to develop a high conviction technical trade.

SADC: Agricultural production deficits poses food security risks.

LIMAKATSO LEHOBO | ECONOMIC RESEARCH ANALYST

Limakatso Lehobo *takes us through the food security prospects of the SADC region and its economic consequences.*

Waning agricultural production of basic foods like maize is putting pressure on prices and growth. The wholesale price of maize increased by 30% from the beginning of the year in particular countries like Namibia which are in deficit. Other countries that carried over surpluses from the previous season are still cushioned from higher prices.

During the 2014-2015 growing season which ended in the first quarter, some countries started the season a bit late. As per World Food Programme, Eastern Zambia, Northern Zimbabwe, Northeast Mozambique, Malawi, eastern South Africa and Madagascar all experienced deficits in rainfall which rather delayed sowing. To the contrary, floods in some parts of Madagascar, Mozambique, Malawi and Zimbabwe that occurred between December last year and February 2015 adversely affected infrastructure, damaged crops and killed livestock. Southern Angola, north eastern Namibia and western Botswana experienced early and relatively high rainfall. Tanzania had good early rainfall and a timely start to the season although it experienced dryness in the north. In aggregate, Food and Agriculture Association (FAO) forecasts maize production in the Southern African region to be lower by 26% in 2015 relative to 2014. This is drop is partially attributed to drop in maize production in South Africa, which is the main sub-regional exporter. Malawi and Zambia, which are the second and third biggest producers respectively in the sub-region also expect lower production. Countries such as Lesotho, Swaziland and Namibia which are always in production deficit and depend on South African grain imports bear the brunt of price increases.

This happens at a time Southern African countries attempt to boost agriculture in order to enhance growth and job creation. As at June 2015, Tanzania started Farmer Market Consumer program which is supported by Bill and Melinda Gates in order to help establish banana and sweet potato production. Disease and pests continue to limit banana production to a mere 9% of its potential production in Tanzania.

In addition, the government has initiated a USD 50 million project in order to construct silos to store grains and rice harvests. In general, Tanzania has been able to produce in surplus in the past three years; however, it is faced with low storage capacity.

In Zimbabwe, agriculture's contribution to economic growth has been adversely affected by low capitalisation. The government has given Agricultural Bank of Zimbabwe US$ 30 million in order to support farming. This is mainly meant to address the capitalisation challenge which has hindered higher productivity of the sector. So far production of several commodities has declined significantly when compared to the 2000 figures. For instance production of maize has declined by 79%, wheat by 90%, soya beans by 66%, citrus by 50%, fresh produce by 61%, dairy by 59%, beef by 67%, coffee by 92% and tea by 40% from 2000 to the present. Besides increasing access to agricultural funding, Zimbabwe needs to address land policies, harmonise policies between ministries and clarify the indigenisation policy such that it ceases to be one of the major deterrents of foreign investment into the sector.

The government of Zambia in partnership with Food and Agriculture Organisation (FAO) launched a rice project called "strengthening rice seed production and enhancing extension services to increase rice production in Zambia". This two year project seeks to address constraints to rice production. These include inadequate availability of quality seed, outdated production technologies, poor agronomy practices and uncoordinated markets at farmers' level. Indeed a lot still needs to be done to harness Zambia's agricultural production. It is of essence that the government rethinks its perpetual prioritisation of investment in copper mining and neglecting commercial agriculture. Although 75 million hectares of the land in Zambia (58%) is suitable for agricultural production, only 14% is cultivated. As reported by Agriculture Minister in May, Zambia might experience a decline in maize production by 27% due to lack of rain. On a positive note, production of commodities such as pineapples, soya beans and potatoes is increasing.

"Production challenges include inadequate availability of quality seed, outdated production technologies, poor agronomic practices and uncoordinated markets at farmers' level."

Zambia along with other countries in the region could learn from Mauritius which prioritised agriculture at the helm of food price increases. Although the country produces commodities such as sugar cane, tea and tobacco at a commercial scale it also sought to boost food production for local consumption in order to ensure food security and to shield itself from imported food inflation. At present, Mauritius produces 100% of the fresh vegetables consumed locally and 60% of the potatoes.

With the conclusion of Economic Partnership Agreement (EPA) between European Union (EU) and Southern Africa Development Community (SADC) EPA states, Swaziland can continue to sell sugar on duty-free and quota-free basis to the EU. Sugar production accounts for approximately 60% of agricultural output and 35% wage employment. However, Swaziland, in the same manner as Lesotho is struggling to encourage farmers to opt for drought resistance crops.

Counterparty risk in the Zimbabwean Banking Sector

PATRICK SERERE | INVESTMENT ANALYST

Patrick Serere *takes us through issues relating to counterparty risk in the Zimbabwean Banking Sector.*

Zimbabwe has experienced over 20 cases of bank failures since 1980. At their peak in 2002, there were 40 players in the banking sector largely due to reforms adopted in the 1990s that saw the entry of more banks into the sector.

In 1998, United Merchant Bank was the first major bank to collapse followed by Universal Merchant Bank two years later. The whirlwind came around 2003/04 when 10 banking institutions were placed under curatorship, 2 were placed under liquidation, and one discount house was closed. Intermarket Holdings was the first victim among banking institutions as some of its units were placed under curatorship. The crisis also saw Royal, Barbican and Trust being bundled up to give birth to Zimbabwe Allied Banking Group (ZABG) in 2005.

However, five years down the line, the Reserve Bank of Zimbabwe backtracked on its earlier decision when it demerged ZABG issuing licenses again to Trust Bank and Royal Bank. The two banks quickly set up structures and commenced operations though it was short lived. Royal Bank voluntarily surrendered its operating license on 27 July 2012 while that of Trust Bank was cancelled by the Central Bank seventeen months later. Renaissance Merchant Bank also took centre stage in 2011 when it was placed under curatorship. The major shareholder NSSA took up an 84% stake in the bank for a consideration of $24 million and in turn rebranded the institution to Capital Bank which collapsed a months later.

We are now in 2015 and history is repeating itself. The New Year started on a bad note with Interfin which was under curatorship for four years being liquidated. The bank was placed under curatorship in 2010 after it was deamed technically insolvent with a negative core capital of $92.9 million. Less than a fortnight down the line Allied Bank collapsed and handed over its license. Kingdom Bank (which was taken over by Mauritian AfraAsia Group) succumbed to the toxic economic environment and handed over its license. As we write at least one bank is in intensive care with liquidation the most likely conclusion. This distressing image puts pressure on depositors and investors alike, to reassess their counterparty risk so as to mitigate potential future negative exposure in their investment portfolios.

So what are the leading indicators of Zimbabwe bank failures?

The major causes of bank failures in Zimbabwe mirror the experience of other nations, emanating from both macroeconomic factors and institution-specific deficiencies. The banking institutions that have failed in our market have faced serious challenges that ranged from chronic liquidity problems, deep-rooted risk management paucities and weak corporate governance structures.

Failed banks often took undue risks and engaged in over-trading. Further, the pressure from increased competition also led to the narrowing of margins and hence reduced profitability against a background of increasing credit defaults. Our experience of bank failures points largely to the failure by boards and senior management to put in place strong risk management practices which are commensurate with the size and complexity of their operations. Failure to implement strong risk management practices is compounded by rapid expansion in operations in the absence of appropriate policies and controls.

Weak governance structures characterized by a lack of robust policies ,processes and failure to enforce compliance is a common characteristic of failed banks. This is often the case in owner-managed institutions, where owner managers often exert overbearing influence in the day to day operations of the banks, without due consideration for best practice standards of risk management.

Non-performing loans have been the significant contributor to the failure of banking institutions. In particular, we have noted the abuse of loans and advances by related parties (particularly directors, shareholders, political leaders) which has resulted in huge levels of non-performing insider loans leading to bank failures. Banks have also recently been affected by the challenge of information asymmetry arising from the lack of a dedicated credit reference bureau to serve the needs of banking institutions.

Inadequate capitalisation of banking institutions limits the ability of banks to absorb unforeseen losses. Such banks are unable to weather the shocks of unexpected losses when they occur.

Regulatory arbitrage, often through the abuse of group structures, is another cause of bank failures in our economy. In pursuit of higher profits, some banks engaged in non-banking activities, often very speculative in nature resulting in excessive risk exposure. These transactions are often conducted through group structures so as to avoid regulatory scrutiny. In most instances, management have inadequate skills and expertise to exercise the appropriate oversight of these products

All of these elements have the combined effect of exposing banks to excessive risk of failure reflected in inability to meet payment obligations.

Counterparty Risk Management Policy for Depositors & Investors

To the depositor or investor operating in the Zimbabwean financial system it is important to implement a robust clear policy to manage and monitor counterparty risk and it should, at the very least, address the following items:

- Eligible counterparties for treasury transactions, plus acceptance criteria for new counterparties and eligible instruments and transactions (which can be credit standing dependent).
- Term and duration of transactions (which can be credit standing dependent).
- Variable maximum credit exposure limits based on credit standing.
- Exposure measurement - how is counterparty risk identified and quantified?
- Responsibility and accountability - at what level/who should have ultimate responsibility for managing the counterparty risk.
- Decision making to provide an overall framework for decision making by staff, including treatment of breaches etc.
- Key Performance Indicators (KPIs) - Selection of KPIs to measure and monitor performance.
- Continuous improvement - What procedures are required to keep the policy up to date?

Taking the time to set up an effective counterparty risk management process will certainly serve any investors and depositor well and avoid otherwise certain significant losses that can be avoided.

IN THE SPOTLIGHT: Q & A with Sipho Maseko, Chief Executive Officer of Telkom Holdings Limited.

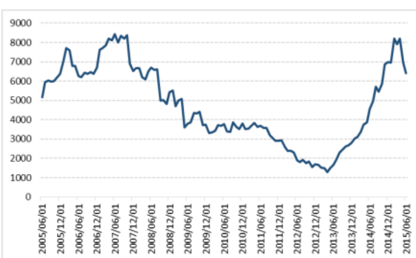
Telkom's prospects discussed.

Simbarashe Chimanzi | Investment Analyst**.**

Telkom's share price surged by 612% from a low R11.93 in May 2013, reaching a new high R85.00 in March 2015, and for the first time in four years managed to declare a dividend to reward shareholders with cash returns. JM BUSHA Investment Analyst, Simbarashe Chimanzi, speaks to Telkom Group Chief Executive Officer, Sipho Maseko (Pictured right), on the outlook and prospects of the business in a competitive Telecoms environment.

Simbarashe Chimanzi: Telkom has seen a remarkable turnaround in fortunes over the last 18 to 24 months, both in its share price and business operational performance. What has been the key difference between the old Telkom you inherited and what it is today?

Sipho Maseko: The turnaround at Telkom has largely been in three parts: the stabilising of revenues; a multi-year cost efficiency programme; and the de-risking of our mobile business. Group net revenue increased 3.1% to R26 billion; our net operating costs are down 5.2% in real terms despite the tough environment, and mobile will break-even this year. We have for the first time since 2011 paid our shareholders a dividend and we wish to continue rewarding them with good returns. This is an ongoing journey and we are gaining traction.



Telkom Share Price Source: Bloomberg

Simbarashe Chimanzi: Fixed voice has been in a perpetual decline, what measures does Telkom have in place to mitigate this, given the challenges faced in the mobile side of the business?

Sipho Maseko: Telkom's voice revenue will remain under pressure due to mobile substitution to fixed line services; and in some cases we are migrating to next generation voice services with lower margins. Having said this, for the first time in 4 years Telkom's consumer voice revenue has shown a steady increase. This was achieved by reducing subscriber churn and improved customer service. We are also offering our services on a converged fixed and mobile offering as opposed to stand-alone products.

Simbarashe Chimanzi: Telkom Mobile is the fourth biggest operator in South Africa. What does de-risking the business as outlined in your strategy entail, given the business remains below scale in terms of subscribers?

Sipho Maseko: De-risking mobile simply meant we had to reduce the opex and cash burden of our mobile business. I am happy to say that we have largely done this by reducing the EBITDA loss by 48.7% in the 2015 financial year to R684 million. This brought us very close to break-even, which we expect to report during the current financial year.

TELKOM CEO: Sipho Maseko. Source: TELKOM LTD

"Telkom's voice revenue will remain under pressure due to mobile substitution to fixed line services; and in some cases we are migrating to next generation voice services with lower margins."

Simbarashe Chimanzi: Where does the recent acquisition of Business Connexion fit with the envisaged overall strategy of the Telkom Group?

Sipho Maseko: We are still awaiting the Competition Tribunal's decision on the BCX transaction, with a hearing expected soon. The deal will help strengthen our core business of connectivity into ICT services.

Expansion into IT will not only enable Telkom to remain relevant in a rapidly converging market by offering convergence IT and Telco products and services and thereby defend existing revenue streams but will also give Telkom access to new revenue streams.

This strategy will counter the continued erosion of fixed-line voice revenue streams. BCX is a leading player in the SA ICT services market with strong capabilities in Managed IT Infrastructure, including Data Centres and Application Services.

The Missing Piece? Image Source: BusinessTech

Simbarashe Chimanzi: The power situation in South Africa has affected many businesses and industries negatively. However, many speculate that it somewhat benefits Telecom operators as this drives up usage during periods of load shedding. Is this a fair assumption to make?

Sipho Maseko: I'm not sure that we can substantiate that statement! The current energy situation can be said to drive various behaviours, not sure if one of them is talking!!

Simba Chimanzi: Telkom has resumed paying cash dividends to shareholders. What is the sustainable dividend pay-out ratio for the business, given the company's capital investment requirements?

Sipho Maseko: Telkom's dividends are considered on an annual basis based on the financial performance of the Group, the operating environment, growth opportunities, as well as debt and cash flow levels.

PRODUCT FOCUS: JM BUSHA ABSOLUTE ALL CLASS FUND

About JM BUSHA Investment Group

JM BUSHA Investment Group (Pty) Limited is a unique, independent, specialist quantitative investment management; investment banking and advisory services company with subsidiary companies in Lesotho, Namibia, Swaziland, South Africa, Zambia and Zimbabwe.

The Group manages both institutional and retail private clients' funds. With total funds under management approximately equal to **ZAR5.63 billion**, JM BUSHA has a traceable track record in managing funds – since 2001.

About the Product: JM BUSHA Absolute AllClass Fund

This is a moderate risk balanced portfolio that seeks real return over three-year rolling periods. The portfolios in this fund are managed on a segregated basis.

Product Description

The JM BUSHA Absolute AllClass Fund is an actively managed fund, which invests in a mix of all asset classes structured to match the returns-risk profile of the benchmark. The fund's risk tolerance is between bonds and aggressive balanced portfolios.

Investment Securities

The fund invests in equities, vanilla and inflation bonds, commercial paper, promissory notes, Bankers Acceptance, Treasury Bills, FRNs, FRAs and swaps and other derivatives instruments.

Investment Strategy

The fund's benchmark is SA core inflation plus 5% pa. Asset allocation is the main driver of returns. The strategy is to return cash as minimum. Equity exposure introduces short- term volatility, which reduces over longer periods. Tactical asset allocation and risky assets seek to produce alpha in the long term.

Table below shows historical returns for the periods indicated, *which are not guaranteed in the future.*

Period ending **30 April 2015** (annualised above 1 year)

Period	JM BUSHA Absolute	CPI+5%	Alpha
6 Months	7.71%	4.40%	3.31%
YTD	7.05%	3.37%	3.68%
1 Year	15.30%	9.23%	6.07%
3 Years	15.79%	10.58%	5.21%
5 Years	14.42%	10.40%	4.02%
7 Years	11.78%	11.09%	0.69%
10 Years	13.07%	11.24%	1.84%
Inception	13.60%	11.05%	2.61%
Risk	6.56%	1.55%	6.73%

Product Salient Features

- Fund Benchmark :Inflation (CPI) + 5% pa
- Target Returns :CPI +5% pa
- Management Fees :0.35% pa
- Liquidity (T+7) :100.00%
- Start Date :31 July 2003
- Minimum Investment :ZAR10 million
- Fund Size :ZAR1.432 billion
- Classification :Segregated Absolute SA Balanced Mandate

Investment Objectives

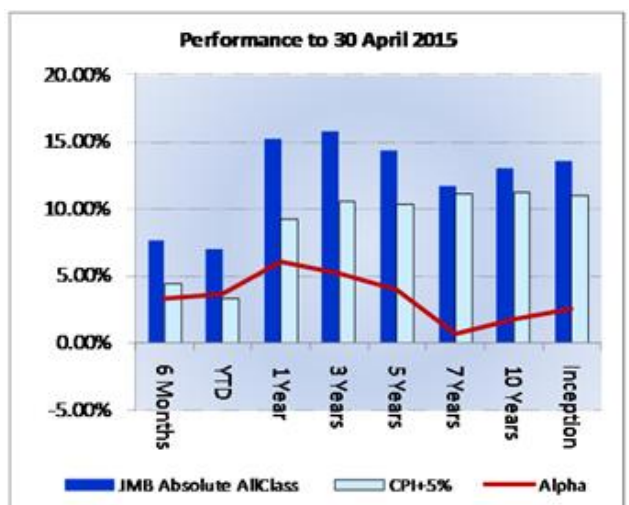
To produce a positive real return of 5% pa.

Overall Asset Allocation

Asset Class	Cash	Bonds	Equities	Derivatives
Weight	2.38%	41.55%	56.06%	1.57%

Top 10 Asset Holdings

No	Share	Weight	No	Share	Weight
1	MTN	3.64%	6	TN17	1.87%
2	TN25	3.04%	7	EL29	1.85%
3	HWAY34	2.98%	8	TN27	1.82%
4	NPN	2.89%	9	ES33	1.40%
5	EL28	2.58%	10	EL30	1.14%



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