JM BUSHA QUARTERLY BULLETIN

VOLUME 3: September *2015*

EQUITY MARKET REVIEW

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

Valuations remain elevated as US Fed holds cards to its chest.

JSE TOP 10 EQUITY BUYS 2015			
Share	Spot (c)	Target Price	YTD%
1 Mediclinic	11043	13481	12%
2 Santam	22600	27837	5%
3 Datacentrix	468	447	34%
4 Old Mutual	3963	4290	14%
5 Nedbank	21970	30319	-12%
6 Anglo	11560	25961	-46%
7 Steinhoff	8490	7126	43%
8 Illovo	1634	2893	-33%
9 Liberty	12625	14419	3%
10 Life Healthcare	3561	2893	-17%

JM BUSHA PERFORMANCE (3 Years)		
Fund Name	Return (%)	Benchmark (%)
Cash Plus	6.10%	5.90%
Bond Plus	9.30%	8.65%
Real Return	11.59%	11.20%
Absolute All Class	15.46%	13.46%
Absolute Aggressive	13.61%	13.21%
Diversified Equity	21.26%	20.12%
Afro Fund	11.59%	11.20%

For the latest market insights tune in to 'Business Tonight' on CNBC Africa, DSTV Channel 410, every Monday at 19:00HRS C.A.T, And join Joseph Busha discussing all developments in the financial markets or follow us on Twitter @jmbusha

The US federal reserve kept rates unchanged in September, a move widely unanticipated by the markets.
The bank cautioned that it would monitor global developments before hiking rates with the markets now expecting this will only happen in the first quarter of 2016. China devalued its currency in August and said it would rely more on supply and demand to determine the currency's daily government-set fixing to the greenback.The country faces a key test of its progress towards embracing market driven economic policy as the International Monetary Fund considers whether to include the Chinese yuan as a reserve currency for global central banks later this year. China still manages the exchange rate and has foreign exchange control limits in place**.**

On the local front, the South African reserve bank also kept rates unchanged after inflation remained within the bank's limits but cautioning that they expect inflation to breach the upper target of 6% in 2016. SA's 2nd quarter GDP came in negative and expectations are for a decline in the 3rd quarter, implying a technical recession for the country. The rand had a bumpy ride, ending the quarter at R13.85, its weakest level ever.
The JSE All Share index shed 2.13% during the quarter. The quarter was marked by high levels of volatility and mixed performances across the sectors. Resource stocks continued to underperform on the back of weak commodity prices driven by the slowdown in the Chinese economy. The sector lost 16.7% during the quarter. Industrials were the best performers with a total return of 1.6%, while financials declined by 2.9% for the quarter. On a 12 months rolling, returns remain dispersed across the sectors. While industrials, the best performing sector, gave a return of 17.7%, resources declined 36.4% over the same period, a relative under-performance of 54.2% to financials. Meanwhile, financials gained 15.3% on a total return basis for the same period.

While market prices have come off, the valuations have remained elevated on the back of poor earnings especially amongst resource counters. The JSE All share index is trading near an all-time high price to earnings (PE) ratio of 25.9x and price to book value of 2.3x. Resources are the most expensive on a historical earnings basis at 36.5x trailing earnings but the valuation is undemanding relative to the market on price to book basis at 1.2x. *(to page 2)*

Research Team

Chief Investment Officer
Joseph Busha, BSc, BSc. Hons, MSc, MPhil

Economic Research
Limakatso Lehobo, BCom, MCom

Investment Research
Farai Mapfinya, BSc, BCom (Hons)
Patrick Serere, Bcom
Viean Jugwanth, B.Bus. Sci
Byran Taljaard, BSc (Hons), MSc
Simbarashe Chimanzi, BCom
Paul Nheera, BSc (Act.Sci)
Sthabiso Mkwanazi, BCom

Contact Details
Tel: + 27 11 325 2027/8
Fax: + 27 11 325 2047
invest@jmbusha.com
www.jmbusha.com

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	50088.86	1.15%	Montauk Holdings Ltd	1101	286.3%	Lonmin PLC	667	-78.9%
JSE Resources	31641.03	-24.26%	PSG Group Ltd	24600	92.6%	Aveng Ltd	400	-77.0%
JSE Financials	15853.9	2.27%	Brait SE	14946	91.5%	Kumba Iron Ore Ltd	8043	-66.5%
JSE Industrials	67168.54	8.36%	Fortress Income Fund I	3301	88.4%	ArcelorMittal South Africa	1048	-60.3%
Namibia (NSX)	960.69	-8.04%	Cashbuild Ltd	29998	82.7%	Allied Electronics Corp Ltd	701	-58.0%
Zambia (LUSE)	5800.24	-5.24%	Trustco Group Holding:	470	74.1%	Allied Electronics Corp Ltd	770	-53.3%
Zimbabwe (ZSE)	131.93	-18.85%	Net 1 UEPS Technologi	23100	71.1%	Murray & Roberts Holding	1027	-51.7%
Dow Jones	16284.7	-6.95%	Capitec Bank Holdings	57480	69.1%	Harmony Gold Mining Co I	1045	-51.6%
S&P 500	1920.03	-4.98%	Mondi Ltd	29340	55.5%	African Rainbow Minerals	6209	-47.8%
Nasdaq	499.94	5.40%	Mondi PLC	29242	54.3%	Nampak Ltd	2413	-44.7%
FTSE 100	6061.61	-5.54%	Advtech Ltd	1255	44.3%	Royal Bafokeng Platinum I	2950	-44.0%
German DAX	9660.44	1.98%	Pioneer Foods Ltd	20407	42.7%	Coronation Fund Manager	6845	-40.6%
French CAC	4455.29	8.37%	Steinhoff Internationa	8411	41.6%	Anglo American PLC	12972	-39.8%
Nikkei 225	17388.15	-0.12%	Resilient Property Incc	11789	41.3%	Impala Platinum Holdings	4593	-39.4%
Shanghai	3052.782	-8.89%	EOH Holdings Ltd	15285	40.8%	Exxaro Resources Ltd	6316	-39.0%
Hang Seng	20846.3	-12.12%						
ASX	3335.92	-3.65%						

Bond Yields	Spot	%Change	Currencies	Spot	%Change	Commodities	Spot	%Change
SAGB 2 Year	7.23	0.35%	R/$	13.85	20.00%	Gold ($/oz)	1115.09	-6.2%
SAGB 5 Year	8.07	0.51%	R/€	15.48	10.79%	Platinum ($/oz)	907.25	-24.5%
SAGB 10 Year	8.44	0.48%	€/$	0.8947	8.29%	Palladium($/oz)	652.7	-17.9%
SAGB 30 Year	9.08	0.41%	$/¥	119.88	0.12%	Silver ($/oz)	14.52	-7.8%
US 10 Y	2.04	-0.13%	Pula	10.55	10.50%	Brent Crude ($/Barrel)	48.37	-14.3%
US 30 Y	2.85	0.10%	Kenya	104.81	15.81%	Copper ($/ton)	234.1	-17.0%
UK 10 Y	1.76	0.00%	Kwacha	12.05	88.58%	Alluminuim ($/ton)	1548.75	-15.5%
German 10 Year	0.68	0.14%	Naira	199.26	8.88%	Iron Ore ($/ton)	56.35	-20.3%

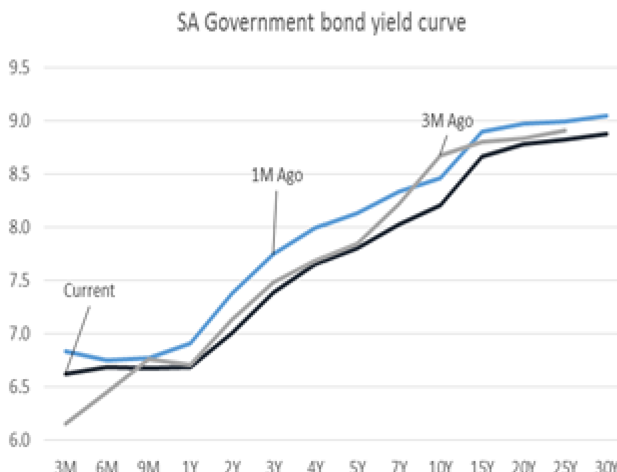
A VOLATILE BUT POSITIVE QUARTER FOR BONDS

BYRAN TALJAARD | PORTFOLIO MANAGER

Byran Taljaard, *walks us through the Fixed Income market.*

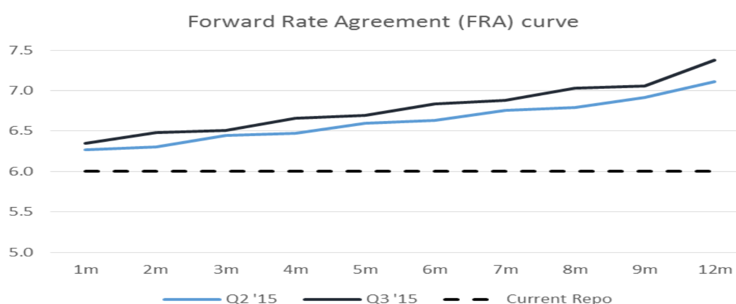
Equities and bonds had another volatile quarter, driven by expectations on Fed policy and fears of a slowdown in China coupled with the devaluation of the RMB. The All-Share ended the quarter down 2.1%, but had recovered from a low of -8.0% towards the end of August.

The SA sovereign yield curve also experienced high volatility this quarter, but ended largely where it began. The yield on the benchmark R186 was as high as 8.6% and finished the quarter at 8.44%, but has since declined to below 8.2%. The majority of the yield curve movements have been due to the uncertainty around when the Fed would increase interest rates. This is apparent from the parallel shifts in the yield curve. A number of market participants had expected September of this year, but have since increased their estimates of the time until the first rate increase to the beginning of 2016 (with the earliest estimate at Dec 2015). The Fed itself has become divided on the time until the first rate increase, having initially guided the market to a September 2015 rise.



Market expects a 25bps increase in the repo rate

Interestingly, the short end of the SA yield curve remains above 6.5% indicating expectations of an increase in the Repo rate over the next few months. This view is consistent with the FRA curve which indicates a rate increase of roughly 25bps and 50bps, at the next meeting and beginning of 2016, respectively.



Valuations remain elevated as US Fed holds cards to its chest (continued)

(from page 1) Industrials remain expansive and have been so for a protracted period mainly driven by heavyweight rand hedge global companies. Financials share are the most attractive on a risk adjusted basis at 12.9x PE and 1.7x price to book. Financials are currently our favoured sector with more preference for banks over insurance and other financial services counters.

We continue to identify companies that we believe are undervalued or mispriced and invest with a focussed and disciplined long term view of the market.

INSURING AFRICA's PROGRESS

BY **VIEAN JUGWANTH and SIMBA CHIMANZI**

Viean Jugwanth and Simba Chimanzi identify the Insurance opportunities and challenges on the continent

Africa is gearing itself towards a brighter future as it takes decisive steps to demolish long held stereotypes of it as 'the dark continent'

Through Africa's journey to prosperity, new opportunities are being created for insurers. Returns on investment and insurance margins in the rest of Africa are perceived to be higher than in developed markets or South Africa for that matter. As local insurers such as Discovery, Sanlam and MMI recently reported subdued results locally, the focus must now turn onto opportunities throughout the rest of Africa. GDP growth rates in the 5-7% range are predicted in many parts of the continent for the foreseeable future and much of this growth is being shaped by global trends that are affecting African economies and shaping the insurance landscape. These trends include urbanisation and infrastructure; climate change and resource scarcity; technological breakthroughs; politics and religion; and inflation.

Urbanisation and Infrastructure- African countries are urbanising at an average rate of 4% per annum. It is estimated that the urban population in Africa will increase to 56% by 2050, making it the most rapidly urbanising region in the world. Access to healthcare will become an increasing necessity along with housing and urban infrastructure, resulting in an increase in insurable assets. The increase in spending power by the growing middle class will also have a direct impact on demand for insurance and savings products. Partnerships with mobile phone operators and affinity arrangements such as bancassurance could help speed up the distribution of insurance products to these new entrants. Cover could also be provided for performance bonds issued to enterprises exporting capital goods and services. Insurers with strong balance sheets could make use of opportunities to underwrite project finance facilities against events of default, breach of contract, or transfer risk.

Climate change and resource scarcity- Africa's agriculture industry is beginning to change with African governments increasing their investments in the sector and with world food production needing to rise 40% over the next 30 years. The continent has about 733 million hectares of arable land accounting for 27.4% of the world's total. The continued industrialisation of agriculture will create greater opportunities for insurers to provide crop and agriculture cover to commercial farmers, as Africa's current agricultural output of $300 billion is expected to increase to $500 billion by 2020. Africa's continued dependence on natural resources will present both opportunities and challenges for insurers and investors across the continent with the risk needing to be offset by the potential rewards of investment.

Technological breakthroughs- Technology is set to be one of the strongest game changers across many sectors and not least affected will be the design of future insurance products. Insurance customers are becoming more open to the use of telematics devices if they help to provide lower premiums and more tailored insurance solutions. Telematics can also provide a wealth of data to insurers on the risk that they underwrite in order to price appropriately. The future growth of insurers will be highly dependent on their ability to customise previously generic insurance products and engage on a more personal level with policyholders.

Politics and religion- Sub-Saharan Africa continued to record the largest number of downgrades by ratings agencies in 2014, as economic and political risks increased. The perceived difficulty of doing business in Africa is a key challenge that the continent must overcome in order to encourage greater levels of investment. Many countries also have economic empowerment, indigenisation, and local content or partnership conditions for foreign direct investment. These rules may be very restrictive, as in Zimbabwe, or simply complex to navigate, such as in South Africa. In addition, conventional insurance is forbidden in Islam, and Takaful, which is compliant with Sharia law, is therefore an important component of insurance that must be addressed in Muslim countries.

Inflation- Inflation erodes the value of insurance policies, thereby making them less attractive. Although inflation has declined significantly in Africa in recent decades, it is still higher than in most regions in the world, with 10% p.a. in 16 African countries over the last decade. The insurance sectors in countries like Egypt, Nigeria and Ghana may have strong growth prospects, but for that to be realised, more prudent fiscal and monetary policies must be implemented to reduce the effects of inflation so that long-term savings are encouraged.

Country	Population (millions)	GDP Per Capita ($)	No of Insurers	Industry and Competition	Opportunities
South Africa	53.14	12 722	Over 150	Developed, High	Growing middle class, established insurance market, high risk awareness due to crime etc.
Kenya	45.55	3 138	49	Developed, High	Strong financial system, innovation in services (M-PESA, Airtel Money)
Mauritius	1.25	17 888	19	Developed, Moderate	Business friendly environment, solid economic policy, tax incentives, mandatory car insurance
Angola	22.14	8 186	15	Underdeveloped, Low	Difficult economic climate due to oil prices and policies. However, potential in certain insurance segments (accident, car, travel, disease, commodities)
Nigeria	178.52	6 082	59	Underdeveloped, High	Need for sizeable insurance policies (e.g. multinational assets), specialized skills, capital investment, implementation of compulsory insurance (third-party car; employers' liability; health care professional)
Ghana	26.44	4 173	47	Underdeveloped, High	Growing middle class, retail segment, micro-insurance for the informal sector, funeral cover
Morocco	33.49	7 666	17	Developed, Low	Macroeconomic stability, well developed banking sector (bancassurance), car and accident insurance most popular, prospects in property and life, Takaful
Tunisia	11.12	11 380	25	Developed, Low	Modernization of regulatory framework to international standards, commercial and exports, Takaful

Kenya and Morocco have proven that insurance companies can succeed in this region, and major insurers' from South Africa have identified them as targets for expansion. Two key targets further afield are Ghana and Nigeria. Both these countries' insurance markets are still highly underdeveloped, and given that both economies have strong growth prospects, South African insurers have jumped for the opportunity to establish a first-mover advantage in these markets. Africa has one of the fastest-growing insurance industries in the world and therefore presents an opportunity for investors. Over the short term, the non-life segment should continue to dominate, but the rising middle class will certainly present more opportunities in the life segment over the long term.

SADC: MOZAMBIQUE's ECONOMIC GROWTH STILL RESILIENT

LIMAKATSO LEHOBO | ECONOMIC RESEARCH ANALYST

Limakatso Lehobo *takes us through one of SADC's fastest growing and resilient economy.*

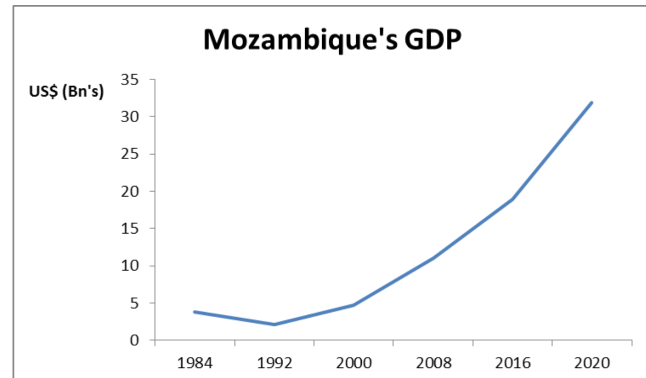
Mozambique is becoming one of the key players in the natural resources, attracting high levels of foreign direct investment (FDI). According to IEA Mozambique is an emerging large energy producer that is projected to be one of the leading energy producers in Africa along players such as Angola, Nigeria and South Africa. Mozambique boasts one of the largest hydropower plants (Cahora Bassa Cam) in Africa and still has potential to build another 5000 MW of hydropower

Between 2012 and 2014 the country's FDI averaged 34.3% of GDP. Despite a 21% drop in FDI into the country in 2014 , which the central bank explains to be partially due to adverse financial conditions of major investors, major projects already initiated requiring lesser investment and constraints in the coal sector, FDI is forecasted to soar. The IMF projects inflows directed specifically at the Liquefied Natural Gas (LNG) industry to increase to the tune of USD 20 billion in the next few years**.**

According to the National Statistics Institute, GDP growth in Mozambique was 6.7% in first quarter and dropped to 5.9% in the second quarter. Agriculture contributed 6.7% despite sustaining significant damage resulting from several floods in the first quarter. The sector also remains largely untapped with about 30 million hectares of arable land unutilized. The government has signed an agreement with China on technical training in agriculture in order to boost sector performance. Mining expanded by 17.9% while construction grew by 13.1%. Economic growth is anticipated to decline in the fourth quarter but follow an upward trajectory in 2016. As per IMF, "over the medium term, Mozambique is expected to remain one of the most dynamic economies in the continent, with rates of growth that could average 8% over the period 2016-19".

In the light of challenging economic environment which has seen the World Bank readjustment its estimates on economic growth in Africa to 3.7% from earlier projections of 4.6%, Mozambique's economic growth is also anticipated to slow down from previous average growth levels of 7%. The slowdown will emanate from among other reasons weak Metical, slowdown in China and recent political developments.

China has become one of Mozambique's significant trading partners. Trade between the two countries recorded USD 587 million with China selling goods worth USD 447 million and buying goods worth USD 140 million in the first quarter. In the recent deliberations between Mozambican government and China representation, the Chinese ambassador indicated that they would like bilateral trade between the two countries to reach USD 5 billion by 2018. Bilateral trade between Mozambique and China totalled USD 3.62 billion in 2014 with Mozambique exporting USD 1.65 billion worth of products and importing USD 1.96 billion. Mozambique's economic performance is therefore expected to be adversely affected by China's decline in imports. However, Mozambique is not as vulnerable as South Africa and Zambia. According to International Trade Centre (ITC), South Africa exported 73% (USD 4. billion) of its global iron ore exports to China in 2014 which implies the impact of slowdown in china will be more substantial. As at Q1 2015, South Africa only exported USD 882 million worth of iron ore relative to USD 1.58 billion exported in the same period in 2014.



Source:IMF World Economic Outlook (WEO)

"over the medium term, Mozambique is expected to remain one of the most dynamic economies in the continent, with rates of growth that could average 8% over the period 2016-19".

The current political landscape does not augur well for the much needed investment in other sectors of the Mozambique economy. Attacks against motorcade of Afonso Dhlakama, leader of former rebel movement RENAMO could spark unrest if not handled sensitively. As it stands, ruling party is of the opinion that the incidences were simulated by Dhlakama himself. On a positive note Dhlakama is willing to resume talks with government after walking out of them in August. This brings hope that the political risk will be minimised

Although the economy is resilient on the growth front, there is much need to translate this into development as the Human Development Index of Mozambique remains dismal at 0.393, ranking 178 out 187 countries. Public debt and current account deficit are also unsettling and need close monitoring and management.

THE ZAMBEZI WATER CRISIS

PATRICK SERERE | INVESTMENT ANALYST

***Patrick Serere** takes us through issues relating to the Zambezi water crisis and its Impact on Power Generation.*

In the 2014-2015 hydrological year Lake Kariba received significantly lower water inflows compared to last year and the long term mean inflows. This coupled with high generation at the Kariba complex, has resulted in the lake level continuing to decline currently less than 1.05% below the lake level for the same time in 2014.

The Zambezi River Authority (ZRA) has done an analysis of the situation and it has determined that continuing at current levels of power generation would result in the lake falling below the minimum drawdown-level before the onset of the rainy season (by November 2015), with a possible shut down of the Station for 2 months. Current simulation by ZRA determine that the remaining allocation and recommended level of generation of each utility going forward is 305MW for Kariba North (Zambia) against an installed capacity of 1080MW and 475MW for Kariba South (Zimbabwe) against a total installed capacity 750MW

Impact on Zimbabwe

The combined electricity generation at the country's power stations has plummeted to 984 megawatts against daily demand of 2 000MW, resulting in increased load-shedding and unscheduled power supply disruptions countrywide. Most suburbs are going for almost 18 hours without electricity in Harare, forcing residents to resort to alternative energy sources such as solar, LP gas and wood, while others use generators. Industry has also been badly hit by the power outages, leading to lost production time and reduced capacity utilisation. With another drought forecast in 2016 the power crisis is only expected to improve in 2018 when new power stations being built come into operation. Unfortunately the country has for years failed to invest and generate enough electricity to meet its needs and does not does not have the money to plug the shortfall with imports. The industrial index has so far lost 18.64% and the mining index has lost 64.92% and with the drastic loss in power generation industrials and mining counters can only be expected to continue losing value.

Impact on Zambia

Zambia is facing the most severe electricity shortages of the economy's recent history. Power outages can last for as long as 8 hours a day, sometimes with two 8 hour shifts occurring within a 24 hour period. This is taking its toll on industrial activities and family life in homes. The effects of economic collapse are starting to show, with drops in productivity, production and widespread job losses. The Energy Regulation Board (ERB) in Zambia reports that demand for power has grown to around 1,300Mw while generation capacity has remained fairly stagnant over the past 30 years.

Zambia's state-owned utility, Zesco Ltd., has already asked mining companies including Glencore Plc and Vedanta Resources Plc to curb power demand by 30%, reducing output from an industry that makes up about 12% of the economy. Not to mention that copper prices have fallen 18% in London since January this year.

Investors are starting to abandon Zambian assets, once a favoured bet because of the nation's stable political environment and average economic growth of 6.8% a year in the past decade. The kwacha has plunged 45% against the dollar this year, while the government sold its third global bond in July at a yield of 9.38%, the most ever for an African issuer in the Eurobond market.

Source:Zimeye

"The combined electricity generation at the country's power stations has plummeted to 984 megawatts against daily demand of 2 000MW, resulting in increased load-shedding and unscheduled power supply disruptions countrywide".

Conclusion

An analysis carried out by McKinsey & Co. revealed that "Annual electricity demand growth is generally higher than GDP growth, with ratios typically between 1.2:1 and 2.3:1. Therefore, if GDP grows 1 percent a year, electricity demand (excluding residential demand) would grow between 1.2 percent and 2.3 percent, or an average of 1.66 percent." This underlines the urgency of investing in power generation if Zambia and Zimbabwe is to sustain the 5%+ GDP growth per annum required to uplift the millions of its citizen out of poverty .

IN THE SPOTLIGHT: Q & A with Sharon Steyn Liberty Holdings Limited.

LIBERTY HOLDING FIRM IN THE MARKET

Viean Jugwanth | Investment Analyst

The insurance sector is highly saturated in South Africa, and coupled with pressing economic challenges, local insurers will need to review their strategic outlook and identify key opportunities. JM BUSHA Investment Analyst, Viean Jugwanth, speaks to Liberty Holdings Head of Investor Relations, Sharon Steyn (Pictured right), on the outlook and prospects of the business going forward.

Viean Jugwanth : Liberty has achieved great success with many of its offerings but as the market gets highly saturated, what does the company see as its next opportunity in terms of product mix and related financial services?

Sharon Steyn: Retail SA is responsible for the development, marketing, distribution, servicing and administration of retail insurance and retail investment products in support of financial advice provided to South African customers. Over the last four years, we focused on and successfully addressed the customer retention issues that became evident in 2009. This was followed by a re-invigoration of sales and distribution practices, re-establishing Liberty's reputation as the leading product innovator in the South African market and positioning us once again as the top provider to the mid to affluent market. We enhanced distribution management capabilities in Retail SA, giving us the ability to manage a diverse range of advisory distribution channels and to direct sales of products vital to support our customers' long-term funding needs alongside their risk needs.

Our 2020 strategic objectives are to become the No. 1 provider in South Africa to the mass-affluent consumer segment

During 2015 our objectives are;

- To implement and align the Individual Arrangements operating model towards achieving the group's strategy 2020.
- Continue preparing the business to adapt to required regulatory themes.
- Develop and launch further innovative investment and insurance products.

Continue to develop a multi-channel distribution capability to broaden distribution reach utilising digital solutions where appropriate

The South African operating environment continued to be challenging in 2104 due to slow economic growth, pressure on consumer disposable income, and the rapidly changing regulatory environment. Despite this, Retail SA delivered positive financial and operational results and continued to gain market share. Recognising that employees are an important part of sustainable business growth, Retail SA continues to invest in the development and empowerment of its employees. The core Retail SA business introduced new innovation and enhanced customer solutions which resulted in improved customer satisfaction metrics

Viean Jugwanth : The rest of Africa business is expected to be a major driver of growth and profitability, but despite the significant increase in new business volumes, profitability has been subdued. Is the performance in this cluster expected to improve and what changes does management plan on implementing to optimize performance?

Sharon Steyn: Liberty Africa Insurance is responsible for developing and expanding the group's long- and short-term insurance presence across sub-Saharan Africa. Liberty Africa Insurance currently has a presence in seven countries outside of South Africa, namely Botswana, Kenya, Namibia, Swaziland, Tanzania, Uganda and Zambia, with six life insurance licences and two short-term insurance licences.

Highlights for 2014;

- Opened a life insurance business in Zambia
- Liberty Online was implemented in three countries and enhanced business integration in East Africa
- A new short-term administration system was implemented in Kenya
- New products launched
  - Retail Funeral, Simple Life, Critical Illness and Personal Accident products
  - Platinum Life product
- Re-branded CfC Life as Liberty Life in Kenya
- New strategic partnerships established to enhance Liberty's distribution in-country

Investment Builder: A recurring contribution investment plan with loyalty bonuses. The plan is aimed at all market segments.

- Strengthened teams to build leadership and technical competencies

From an insurance perspective, Liberty's business model for growth in sub-Saharan Africa primarily focuses on institutional business, and simple, affordable products requiring little or no advice, with a bias to products providing education, funeral and health protection for individuals. These products are designed and marketed for local conditions using a combination of local expertise and networks, supported by specialist skills and group competencies provided out of Johannesburg. In Kenya, Liberty sells more complex traditional individual life and pension products to address both the needs of consumers, and take advantage of the prevailing market opportunities

A significant portion of the existing life and short-term insurance market in sub-Saharan Africa is centered on employers acquiring these products on behalf of their employees at a wholesale level, or as part of a group scheme. Employers are seeking end-to-end solutions leading to opportunities to complement Liberty's health products, through the addition of risk, investment and pension product sets. Increasingly, individuals are being accessed through group arrangements, and this will be a key growth strategy going forward

Viean Jugwanth : **Various other insurance companies have identified Africa, India and South Asia as presenting opportunities for acquisitive growth. How does Liberty view this in light of a strategy that is driven by acquisitions and what are the measures to sustain a competitive advantage amid market saturation, especially considering entry from global firms?**

Sharon Steyn : As Liberty Africa Insurance's product sets are largely standardised, the ability to scale systems, processes and other competencies also represent significant operational efficiency advantages. Distribution into the various insurance markets is primarily through large brokers, bancassurance, affinity partnerships and, in selected markets, an agency force. Liberty's plans to expand into West Africa are ongoing. Retail markets in West Africa offer opportunities for additional risk and investment

products.

As an example, during 2014, Liberty Africa Insurance opened a new life insurance business in Zambia. The Zambian insurance market has good growth potential, as Zambia has a population of more than 15 million people, economic growth of 6,9%, and a life insurance penetration of 0,35%. The bancassurance partnership with the Standard Bank Group in Zambia commenced on 1 January 2015, and over the course of 2015 and beyond, the business will expand its distribution reach to include brokers, affinity partners and potentially its own sales agents. Existing relationships with partners in other countries will be leveraged in this regard

Liberty Africa Insurance has invested significant time in understanding where products and processes can be standardized to create economies of scale across countries, reduce risk, and where 'tailor making' is required, to reflect unique customer, market and regulatory needs. Product development is a critical part of Liberty's strategy to grow earnings by enhancing and expanding product lines to support growth across all channels. Liberty has the ability to create differentiated products suited to the various channels and market segments. Key to this is the development of in-country Liberty teams who work with the pricing actuaries to develop relevant products. During 2014, a set of retail products were made available to distribution partners including a funeral plan, a simple life plan, a personal accident plan and critical illness plan. A hospital cash plan and an education plan will be rolled out in 2015 to complete the full retail product set. In addition, a Platinum Life product was launched at the end of 2014 which is targeted at the higher income group as it involves limited underwriting. A new pension product was also launched in Kenya.

Viean Jugwanth : The passive capability has gained traction within Liberty. How does this affect the traditional active management investment proposal?

Sharon Steyn: There is a difference to understand with on-balance sheet products sold by Liberty and managed by LibFin or Liberty Corporate then there is STANLIB that manage off-balance sheet assets.

Investment and savings products examples of on-balance sheet.

Education Builder: A regular contribution pure investment plan with the focus on saving for the cost of an investor's child's education. This plan is aimed at all market segments

GateWay Investment Plan: A unit trust investment platform for single and recurring contribution investments. This is not a life insurance investment.

Liberty Evolve Hybrid: Investment Plan, A single or recurring single contribution plan aimed at the mature and affluent market segments that offers the choice of endowment or unit trust portfolios within a unique 'pay on delivery' charging structure.

STANLIB continues to seek earnings diversification by geography, client type and investment capability, through its direct property and infrastructure franchises. Investor appetite for STANLIB's new capabilities is encouraging. STANLIB's multi-specialist franchise model appoints focused teams in highly specialised and distinct investment specialist areas. Our 13 franchises are supported by strategic shared services which provide administrative services and support. This model offers a centralised platform providing the franchises access to the best in standard processes and technology, allowing them to focus wholly on delivering investment excellence. This model also allows STANLIB to incubate new franchises, which we have successfully done.

In line with the Liberty group strategy to extend the geographical footprint into West Africa, STANLIB acquired an asset management business in Ghana during 2014 and commenced the on-boarding and alignment of this business. In addition, STANLIB launched a branch office in South Sudan and incorporated STANLIB Tanzania. STANLIB continues to explore business opportunities in Nigeria. Going forward, STANLIB will explore opportunities to utilise its existing base and regionalisation as a springboard into new markets.

Viean Jugwanth: South Africa is a challenging environment with many issues that are yet to be resolved. As one of the largest insurer in South Africa, what measures is Liberty implementing to improve performance locally, considering that the Group cannot solely depend on just expanding African operations to cushion the decline in performance locally?

Sharon Steyn: The sustainable growth of the sales and distribution capacity remains integral to the success of the business. During 2014, Retail SA continued to increase its tied agency capacity through its traditional agency and entrepreneur channels. Agency headcount and entrepreneurship headcounts increased by 8,6% to 1 033 and 13,7% to 1 285 respectively. Retail SA remained focused on the attraction, development and retention of quality financial advisers by investing in Liberty's talent acquisition centre and learning channels. The recruitment, development (personal and professional) and recognition of financial advisers together with the alignment of remuneration to strategic goals, remains a key focus point going forward to ensure that the advice provided to Liberty's customers is of the highest quality. Furthermore, as a result of good adviser retention levels, the number of Liberty's experienced advisers is continuously growing. This is due to its holistic, market leading financial adviser value proposition (FAVP). The business also investigated and developed a number of alternative distribution partnerships during the year to enhance its FAVP.

In 2015, Retail SA will focus on the delivery of the following key objectives:

- Align the Individual Arrangements operating model towards achieving the group's 2020 strategy and continue to prepare the business to adapt to required regulatory themes
- Ongoing development of the investment business
- Continue to identify operational efficiencies towards further improving the customer experience
- Further expand distribution capability
- Continue to develop innovative offerings in the Life and Protection business
- Further align customer experience and branding
- Continue to invest in the growth and empowerment of staff.

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 Bond Plus Fund

This is a fixed-income product designed and managed to ve produce returns above cash in the long term for investors.

This can be structured as part of an asset-liability solution

Product Description

The JM BUSHA BondPlus Fund is an actively managed fund, which invests in high quality fixed-income instruments. Credit risk is managed through fund allocation, monitoring and continuous assessment of the risk. The fund provides 100% liquidity within the stipulated securities settlement period..

Investment Securities

The fund invests in vanilla and inflation bonds, commercial paper, promissory notes, Bankers Acceptance, Treasury Bills, FRNs, FRAs and swaps and other fixed-income instruments

Investment Strategy

The strategy is based on riding the yield curve and investing the funds relative to the benchmark structure. The fund is risk-managed with duration and other risk factors as drivers. Economic indicators, monetary policy, credit risk and liquidity are important considerations in the investment management process

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

Period	JM BUSHA BOND PLUS	ALBI	Alpha
YTD	3.83%	3.51%	0.32%
2 Years	6.50%	6.41%	0.09%
3 Years	5.50%	5.30%	0.20%
5 Years	7.90%	7.67%	0.23%
Inception	8.20%	8.30%	-0.10%

Product Salient Features

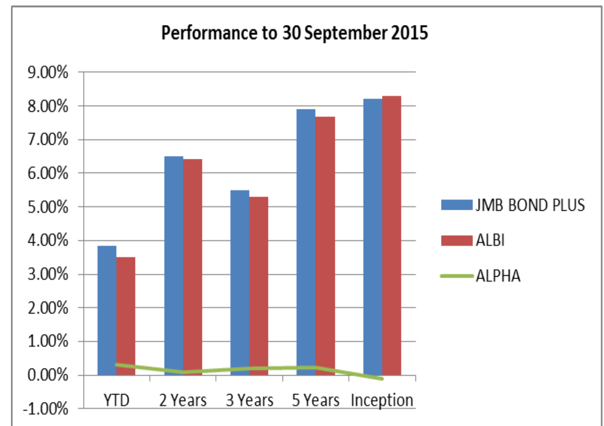
- Fund Benchmark : ALBI
- Target Returns : ALBI + 0.5% pa
- Management Fees :0.20% pa
- Liquidity (T+3) :100.00%
- Start Date :1 January 2005
- Minimum Investment :ZAR10 million
- Fund Size :ZAR876.80 million
- Classification : SA Bonds

Investment Objectives

To out-perform the All Bond Index (ALBI) by 0.50% pa.

Top 10 Security Holdings

No	Code	BondPlus	Albi	No	Code	Bondplus	Albi
1	R 209	7.07%	7.82%	6	R 204	5.80%	7.69%
2	R 208	6.85%	8.19%	7	TN 40	5.30%	0.00%
3	ES 33	6.82%	2.42%	8	R 207	5.38%	8.33%
4	ES 42	5.78%	0.00%	9	TN 27	5.10%	0.00%
5	R 214	5.82%	7.37%	10	IWAY3	3.87%	0.00%
TOTAL		**57.79%**					



To Invest or for more information on our products and services call ***+ 27 861 6000 60*** or email us at: ***invest@jmbusha.com***

SA (Head Office, JHB)
Yolande Mokhantso
28 Bompas Rd
Dunkeld West
2198,
South Africa
Tel. +27 11 325 2027
Fax. +
invest@jmbusha.com

Lesotho
Limakatso Lehobo
Maseru Sun
Office 511
12 Orpen Rd
Maseru
Lesotho

Tel: + 266 22 315 624

limakatso@jmbusha.co.ls

Namibia
Simon Garoeb
24 R. Mugabe Ave
Klein Windhoek,
Windhoek,
Namibia

Tel: + 264 813 130 210

simong@jmbusha.com

Swaziland
Buhle Mhlanga
Unit G5,
Lilunga House
Somhlolo Street
Mbabane
Swaziland

Tel: + 268 404 4553

invest@jmbusha.co.sz

Zambia
Fanny Lukwesa
Chana House
Lechwe Lane
Show Grounds
Lusaka
Zambia

Tel: + 260 211 849 065

fanny@jmbusha.co.zm

Zimbabwe
Patrick Serere
Office no 6, Malvern's
Cnr,
Cnr Selous & 2nd St,
Harare
Zimbabwe

Tel: + 263 864 405 8467

patrick@jmbusha.com

SA (Cape Town)
invest@jmbusha.com

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