

JM BUSHA QUARTERLY BULLETIN

VOLUME 4: December 2015



2015 MARKET REVIEW AND 2016 OUTLOOK

BYRAN TALJAARD / PORTFOLIO MANAGER

Interest rates rise as EM currencies crumble...

JSE TOP 10 EQUITY BUYS 2015			
Share	Spot (c)	Target Price	YTD%
1 Mediclinic	11900	13481	+21%
2 Santam	18950	27837	-12%
3 Datacentrix	472	447	+35%
4 Old Mutual	4145	4290	+19%
5 Nedbank	18861	30319	-24%
6 Anglo	6899	25961	-68%
7 Steinhoff	7901	7126	+33%
8 Illovo	1600	2893	-35%
9 Liberty	11518	14419	+6%
10 Life Healthcare	3507	2893	-18%

A big theme from 2015 was the continued decline in commodities. Iron ore declined more than 50% over the year, largely as a result of a supply glut out of China. Brent Crude declined over 40% in the year on the back of over supply given the sharp increase in production from US shale gas, continued production from Saudi Arabia and the expectation of Iran exporting oil as a result of the recent nuclear agreement.

The decline in commodity prices had a large impact on commodity currencies which were further hampered by general USD strength. Brazil's Real declined the most (-40%) and Brazilian bonds were cut to junk status. In a story close to home, the Brazilian President replaced the fiscally conservative finance minister

The Brazilian Real's decline was closely followed by the SA Rand which declined c.25% over the year. The ZAR recovered somewhat after the shock replacement of Finance Minister Nene and the subsequent appointment of former Finance Minister Pravin Gordhan. The decline in Platinum prices has also had a negative impact on the ZAR as these exports are important for our terms of trade and contribute to the current account deficit

Other commodity currencies also declined over the year, down on average between -10 and -20% to the USD.
(continued on page 2).

JM BUSHA PERFORMANCE (3 Years)		
Fund Name	Return (%)	Benchmark (%)
Cash Plus	6.24%	5.90%
Bond Plus	6.24%	8.65%
Real Return	8.17%	11.20%
Absolute All Class	11.42%	13.46%
Absolute Aggressive	10.01%	13.21%
Diversified Equity	15.36%	20.12%
Afro Fund	8.17%	11.20%

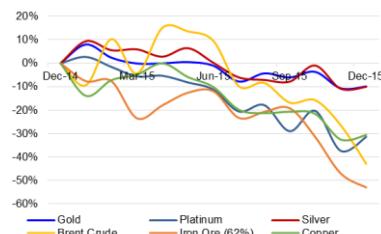


Chart: Selected commodity returns (Log-scale, Dec '14 = 0)

Source: Bloomberg

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

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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	50693.76	1.85%	Montauk Holdings Ltd	1050	268.4%	Lonmin PLC	1810	-95.4%
JSE Resources	25394.35	-39.44%	Brait SE	16100	113.9%	Aveng Ltd	215	-87.0%
JSE Financials	15235.33	-2.60%	Curro Holdings Ltd	5752	104.8%	ArcelorMittal South Africa Ltd	425	-83.0%
JSE Industrials	71755.07	15.08%	Fortress Income Fund Ltd	3370	98.8%	Kumba Iron Ore Ltd	3654	-82.8%
Namibia (NSX)	868.44	-20.83%	Cashbuild Ltd	29750	82.7%	Anglo American PLC	6489	-68.0%
Zambia (LUSE)	5700	-5.33%	PSG Group Ltd	21400	75.0%	Allied Electronics Corp Ltd	550	-67.1%
Zimbabwe (ZSE)	114.85	-29.35%	Afrimatin Ltd	2880	73.7%	Impala Platinum Holdings Ltd	2567	-67.0%
Dow Jones	17425.03	-2.23%	Advtech Ltd	1453	71.5%	African Rainbow Minerals Ltd	4250	-63.5%
S&P 500	2043.94	-0.73%	Mondi PLC	29757	62.8%	Murray & Roberts Holdings Ltd	802	-62.4%
Nasdaq	5007.412	5.73%	Mondi Ltd	29576	62.8%	Allied Electronics Corp Ltd	559	-62.1%
FTSE 100	6242.32	-4.93%	Capitec Bank Holdings Ltd	53000	58.4%	Assore Ltd	6200	-58.5%
German DAX	10743.01	10.02%	New Europe Property Investments PLC/Fund	17650	56.0%	Exxaro Resources Ltd	4250	-57.4%
French CAC	4677.14	9.99%	Transaction Capital Ltd	1237	55.8%	Coronation Fund Managers Ltd	5190	-54.1%
Nikkei 225	19033.71	9.07%	Capital & Counties Properties PLC	9988	55.3%	Invicta Holdings Ltd	4454	-50.3%
Shanghai	3572.876	12.86%	SABMiller PLC	92779	55.0%	Grindrod Ltd	1075	-49.6%
Hang Seng	21882.15	-6.89%						
ASX	3461.01	-1.71%						
Bond Yields	Spot	%Change	Currencies	Spot	%Change	Commodities	Spot	%Change
SAGB 2 Year	8.54	1.65%	R/\$	15.47	33.69%	Gold (\$/oz)	1061.1	-10.4%
SAGB 5 Year	9.43	1.87%	R/\$	16.82	20.15%	Platinum (\$/oz)	891.55	-26.2%
SAGB 10 Year	9.76	1.80%	€/\$	0.92	11.42%	Palladium(\$/oz)	562.98	-29.4%
SAGB 30 Year	10.40	1.73%	¥/\$	120.22	0.37%	Silver (\$/oz)	13.85	-11.9%
US 10 Y	2.27	0.10%	Pula	11.22	17.96%	Brent Crude (\$/Barrel)	37.28	-35.0%
US 30 Y	3.02	0.27%	Kenya	102.3	12.91%	Copper (\$/ton)	213.5	-24.4%
UK 10 Y	1.97	0.21%	Kwacha	11	72.26%	Aluminum (\$/ton)	1507	-18.7%
German 10 Year	0.63	0.09%	Naira	199.3	8.64%	Iron Ore (\$/ton)	43.4	-37.4%

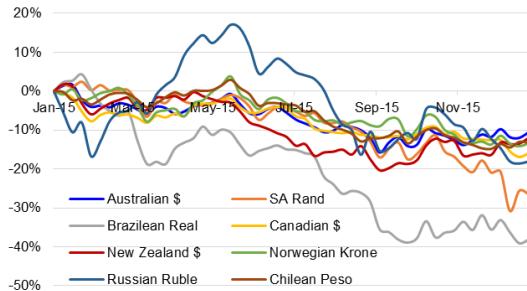


Chart: Commodity currency returns (Log-scale, Dec '14 = 0)

Source: Bloomberg

ZAR weakness and general EM weakness

Although USD strength specifically contributed to the decline, in general, the ZAR declined sharply against most of its peers over the year. Specific factors to SA including:

- Concerns over fiscal prudence,
- The growing fiscal and current account deficits,
- Worries over a potential downgrade to junk status which would see SA bonds fall out of the universe of a majority of international bond funds and indices, and
- The impact of rising US interest rates on Emerging Markets in general, led to weakness in the ZAR throughout the year.

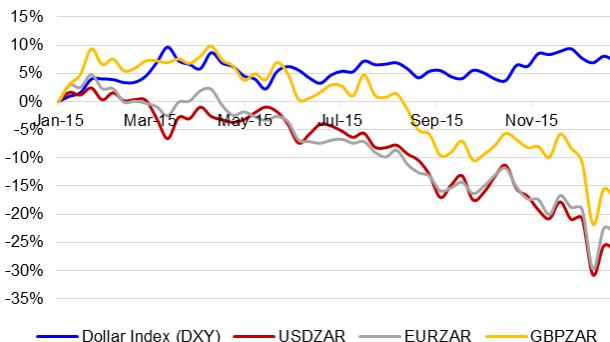


Chart: ZAR weakness against major peers (Log-scale, Dec '14 = 0)

Source: Bloomberg

The sense is that EM's have benefitted the most from the zero interest rate policy employed by the US Fed. "Cheap money" fueled share prices in EM's and most EM's were offered favourable yields on new bond issuance. As US interest rates normalise these gains may reverse and EM equity markets are expected to bear the brunt. This is likely to add to the prevailing volatility in equity markets into 2016.



Chart: Emerging Market equity performance (Log-scale, USD, Dec '14 = 0)
Source: Bloomberg

Interest rates start rising...

The SARB has already begun with its increasing interest rate cycle in 2014. The governor has expressed the SARB's view that the increasing rate cycle is likely to be slow, however, given the rapid decline in the ZAR, increased maize prices and the impact of the drought in SA (which will see SA import maize in 2016), there is likely to be pressure on inflation.

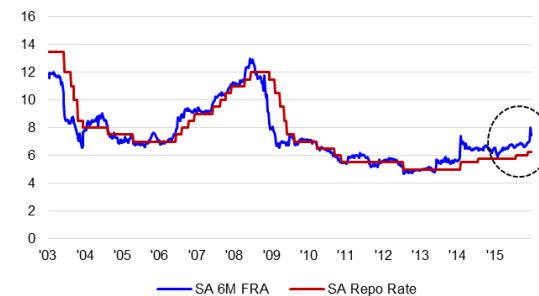


Chart: SA 6M Forward Rate Agreement (FRA) and Repo Rate
Source: Bloomberg

Higher inflation expectations and US Fed rate increases going into 2016 are likely to test the belief of slower interest rate increases in this cycle. The 6 month Forward Rate Agreement (FRA) in SA is now over 100bps above the prevailing repo rate indicating large increases in the repo rate in 2016.

"The governor has expressed the SARB's view that the increasing rate cycle is likely to be slow"

Flat, but volatile, equity markets

SA equity market actually had a rather flat year, although punctuated by heightened volatility. Bonds, however, fared poorly returning slightly negative returns. In all, most SA asset classes returned, at best, cash returns.

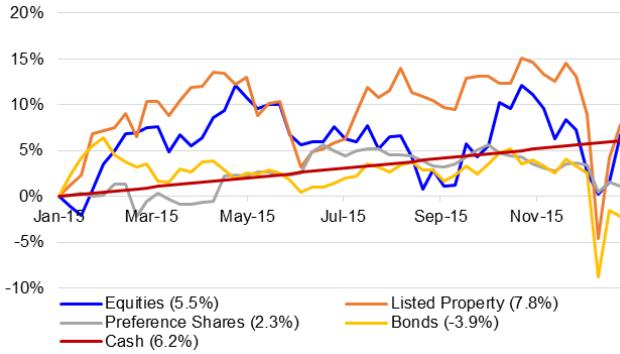


Chart: SA asset class 2015 returns
Source: Bloomberg

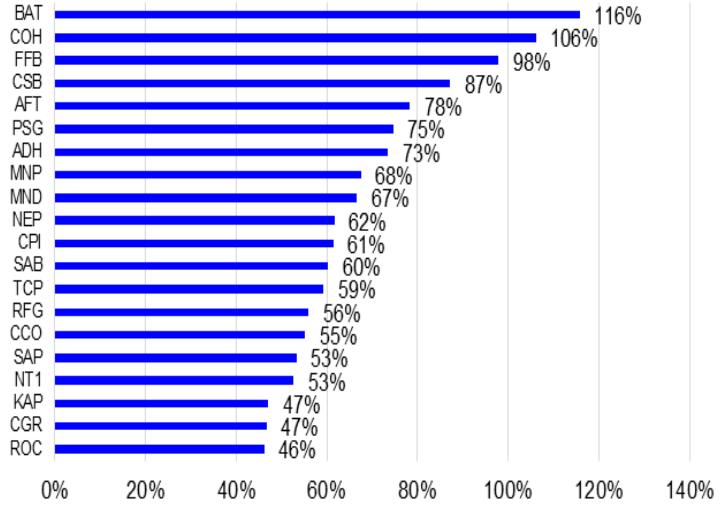


Chart: SA equities top 20 performers for 2015
Source: Bloomberg

Given the decline in commodity prices, resource counters recorded significantly negative returns for the year. Small and Mid-cap stocks also recorded negative returns. The All-Share posted near-cash returns for the year, although helped once again by industrials which significantly outperformed the market in general

SAB returned 60%, mostly on the back of the AB InBev merger. Mondi (MND, MNP) continued its strong gains through the year, while offshore property counters (NEP, CCO and ROC) also featured strongly.

Resource counters fill the ranks of the bottom 20 performers for the year. LON and Kio performed the worst with returns of -95% and -83%, respectively. Other notable mentions are CML and MUR

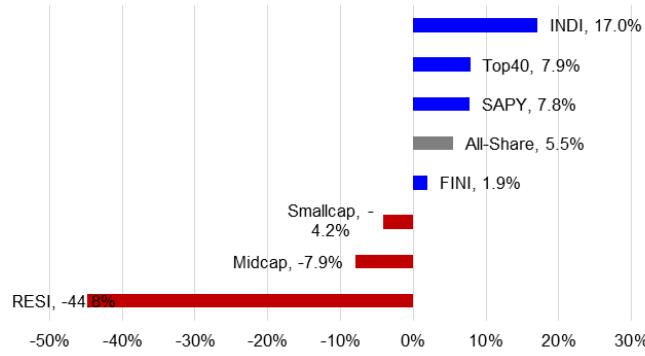


Chart: SA asset class 2015 returns
Source: Bloomberg

The top stock performers for 2015 consisted of mostly industrial counters. Brait (BAT) led the pack with a return of 116%. The company sold its stake in Pep Stores to Steinhoff (SNH), buying stakes in New Look and Virgin Active.

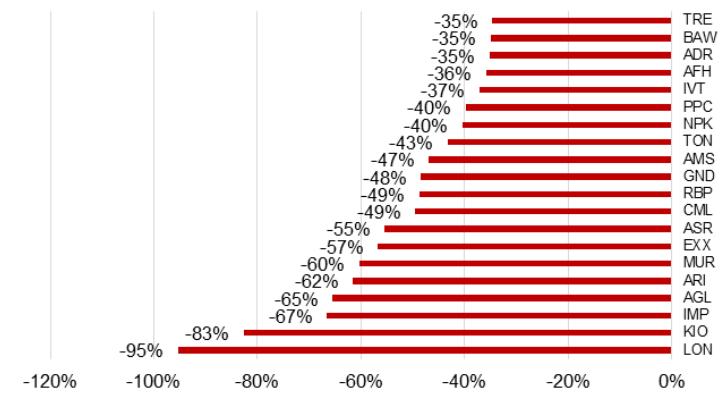


Chart: SA equities bottom 20 performers for 2015
Source: Bloomberg

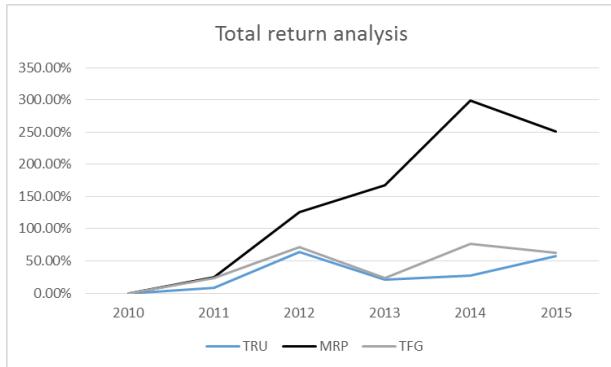


RETAIL PICK OF 2016

BY CLEOPATRA MTEMBU | INVESTMENT ANALYST

Equity Analyst, Cleopatra Mtembu takes a look at Mr Price and SA's retail space.

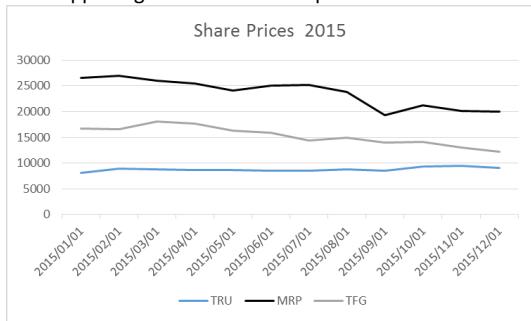
Mr Price Group operates in South Africa, 6 other African countries and 1 country in the Middle East. Has varied product offering that ranges from sportswear, clothing and home décor. The Group has 5 divisions namely Mr Price Apparel, Miladys, Sheet Street, Mr Price sports and Mr Price home and targets customers in the mid to upper LSM.



Source: Bloomberg

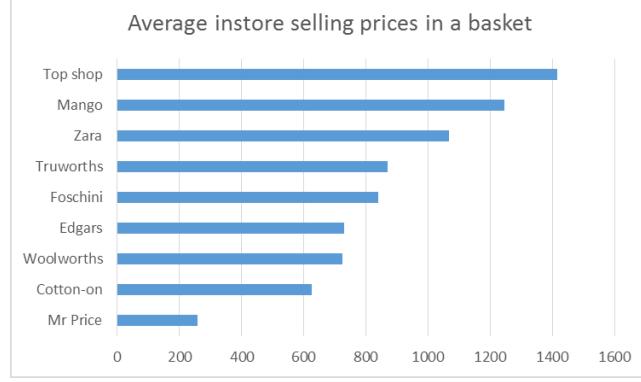
As shown in the graph above Mr Price Group has enjoyed positive gains on total return throughout the years, with a very positive momentum as compared to the other listed apparel retailers i.e. Truworths and Foschini. Both these retailers have had difficult times in growing their total return, this is due to the deteriorating credit environment and high customer indebtedness.

The positive growth trend of Mr Price Group depicts its resilience during tough economic times and how little it gets affected by a deteriorating lending environment and rising levels of consumer indebtedness. We have seen 2015 as one of the toughest economic years with weakening rand, rising interest rates and utility rates going up, that placed pressure on the consumer's disposable income and mainly affects Mr Price's discretionary products, and stores such as Mr Price home, Sheet Street and Mr Price Sport which contributed up to 25% of the sales in 2015 financial year. Mr Price Apparel gives Mr Price Group its resilience attribute as it makes up a



Source: Bloomberg

larger portion of the group.

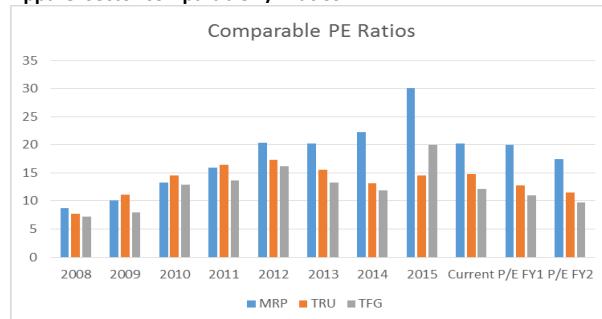


Source: Renaissance Capital

Mr Price group gathers its defensiveness trait from being a cash-based retailer, its varied product offering such as home and sport together with the fact that it has lower prices relative to its counter parts as shown in the graph above. With cheaper prices and a strong brand power, during tough economic times Truworths and Foschini consumers tend to go for Mr Price as a cheaper retailer, when disposable income decreases. However unlisted retailers such as Cotton-on and Edgars are competition, as they have better quality clothing compared to Mr Price and also have cheaper prices compared to Truworths and Foschini.

Conclusion

Apparel sector comparable P/E ratios:



Source: Bloomberg

Mr Price Group's share price has been under pressure in the past few months mainly due to the market's negative sentiment towards its latest weak earnings relative to its high PE ratio. We saw the top line up 13.9% (2014: 15.2%) and HEPS up 21.0% (2014: 22.4%) and dividend per share of 20.3% (2014: 21.1%). However its PE ratio has since come down and looks attractive at this point relative to the market. Mr Price Group Africa is well positioned to continue delivering above average earnings growth, the current weakness on the share price gives a good buying opportunity for long term investors and remains a quality stock.



SA: DOWNWARD SPIRAL

LIMAKATSO LEHOBO | ECONOMIC RESEARCH ANALYST

Limakatso Lehobo takes us through the "ups" and downs of the SA economy.

Oil prices ended the year on a downward trend on the backdrop of excessive supply relative to demand. This is consequent to the decision taken by the Organisation of the Petroleum Exporting Countries (OPEC) to keep production high in order to protect its market share as opposed to reducing production and keeping a balance between supply and demand that would foster favourable prices. Coupled with this was a slowdown in China's economic activity. Continuation of the current levels of production could sustain an oil price decline

The Rand displayed weakness to the US dollar throughout the quarter and suffered a blow when President Jacob Zuma fired Nhlanhla Nene as Minister of Finance and replaced him with David Van Rooyen. After the decision was announced, the Rand dropped to 15.38 against the dollar. It averaged 13.7457 against the dollar in December and reached a high of 15.89 on 12 December

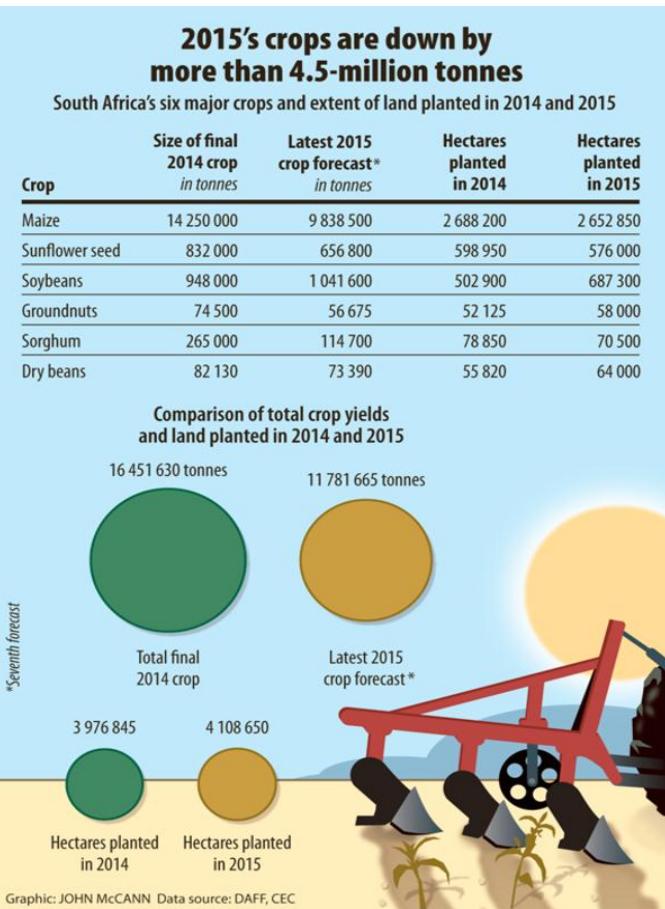
The weak Rand has made SA products attractive in the international market thus improving the trade balance. Exports increased by 10.3% in November (month-on-month) resulting in a trade balance improvement of R1.77 billion surplus in November compared to R21.6 billion deficit in October. On the flipside, importing goods has become very costly which partially explains the 13.5% drop in aggregate imports in November.

The depreciating Rand added inflationary pressure to the economy. Even gains made from the 34% decline in oil prices in 2015 were countered by the weak Rand. Inflation increased from 4.7% in October to 4.8% in November.

Farmers incurred higher costs of importing agricultural inputs such as fertilizers and agrichemicals due to the unfavourable exchange rate. Drought also contributed to increasing the cost of foods such as maize, which has dire implications for the poor whose spending is concentrated in this category.

The SARB's Monetary Policy Committee (MPC) hiked interest rates by 25 basis points in November, increasing repurchase rate to 6.25%. Prime lending rate rose to 9.75%. SARB hiked interest rates in order to counter the impact severe drought on food prices, weak exchange rate and prospects of rising interest rates in the US. Higher interest rates, which are likely to increase further in 2016, will adversely affect the already significantly indebted South Africans. As at March 2015, National Credit Regulator (NCR) indicated that more than 56% of consumers were struggling to pay off home loans and 58% battled to settle their credit card debt.

"Glencore's Eland Platinum mine retrenched about 818 employees while Anglo American announced plans to cut jobs"



Economic growth continued to be subdued due to gloomy global economic activity and local developments. The ensuing drought had an adverse impact on agricultural production. Weak commodity prices emanating from lower global demand negatively affected the mining sector leading to a closure of mines and job losses. Glencore's Eland Platinum mine retrenched about 818 employees while Anglo American announced plans to cut jobs. Low economic growth also catapulted Rating agencies to downgrade South Africa's credit rating. Fitch Ratings cut South Africa's rating to BBB- on December 4th while Standard and Poor's changed the outlook on its BBB- rating from stable to negative.



ZIM:MORE PAIN ON THE ZSE

PATRICK SERERE | INVESTMENT ANALYST

Patrick Serere takes us through the continued struggles of the Zimbabwean Stock Exchange.

Zimbabwean capital markets ended a gloomy 2015 in the red, annual stock turnover tumbled from US\$452.9 million to \$228.6 million in 2015, the lowest level since dollarisation in 2009. The various indices also collapsed to the lowest levels in 6 years with the All Share index closing at -32.52%, Manufacturing index -22.30%, Mining Index -69.88% and Retail index down -45.81%. Zimbabwe's economy continues to face many fundamental problems that will need to be addressed before any type of economic development can take place.

Against the background of weak domestic demand, tight liquidity conditions and the appreciation of the US dollar against the South African Rand, inflation remains in the negative and is projected to remain low. The real exchange rate overvaluation relative to the South African Rand has caused a serious loss in external competitiveness, as it has made imports cheaper than domestically produced goods and exports more expensive. As a result of increasing demand for imports and dwindling exports, the external sector position continues in deficit, with an estimated current account deficit of US\$ 3.1 billion this year. However the economy continues to be able to finance this gap and at the same time still show growth in bank deposits. In the absence of lines of credit this is a remarkable achievement, though it is not well explained on how this is possible. Below are the 5 year returns on the various ZSE sectors.

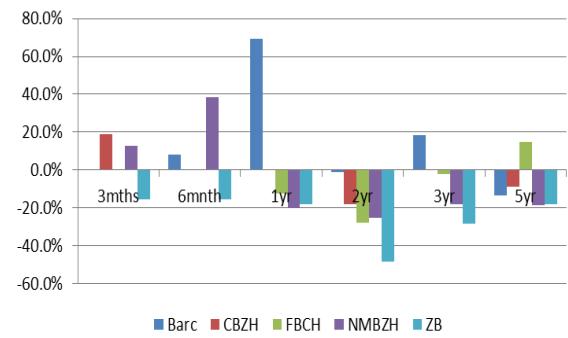


Chart: Zim listed Banking Stocks : Total returns since 2009

Source: ZSE

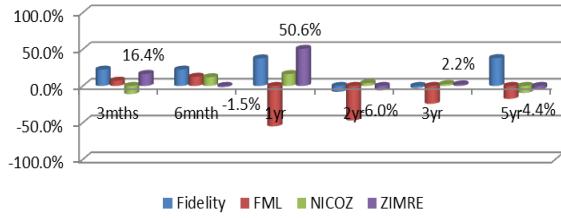


Chart: 5 year Zim listed Insurance Stocks

Source: ZSE

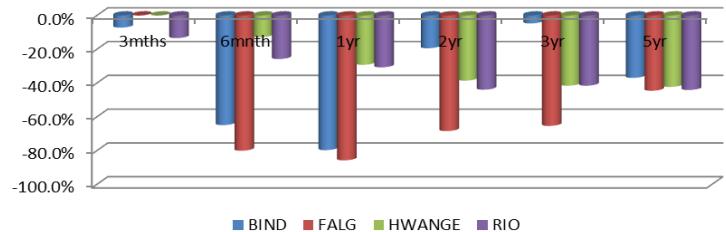


Chart: ZSE listed Mining Stocks 5 Year Returns

Source: ZSE

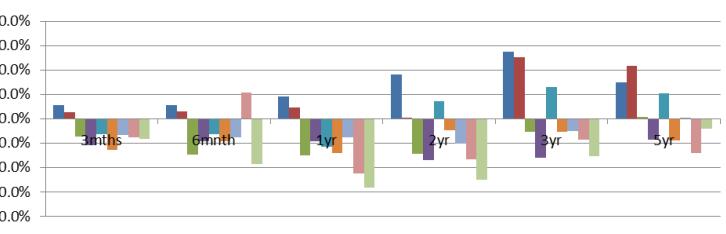


Chart: FMCG Retail Sector 5 year Stock Price Returns

Source: ZSE

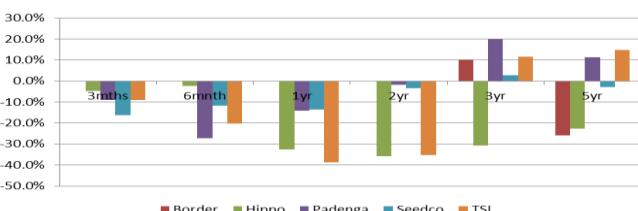


Chart: Agro Industrial 5 year stock Returns to 31/12/2015

Source: ZSE

Outlook

We are bearish on 2016 given the likely El-Nino weather crisis. We expect deflationary pressures to persist. The governments' intent to relax the Indegenization law might improve FDI. Empowerment credits and shareholding rebates to investors have been embedded in the new framework. Chinese deals will improve FDI in the medium but not short term. We expect trading on the ZSE to remain relatively subdued and concentrated in the top 5 big caps. Our view is that the ZSE still carries good long-term growth potential given the economy's prospects of a recovery given appropriate reforms. Nonetheless, we note that the economy remains grossly undercapitalized with most companies still saddled with heavy and expensive borrowings. The market sell-off has resulted in relatively cheap valuations, especially in comparison with regional peers. Given the muddy economic outlook we believe that volatility on the ZSE will likely stay high and only a well-managed core satellite approach will retain value.



PPC , BUILDING AFRICA
SIMBARASHE CHIMANZI | Investment Analyst



The South African cement industry is highly competitive with new entrants coming into the market. Mature players like PPC have to assess their strategic stance and identify important prospects. JM BUSHA Investment Analyst, Simbarashe Chimanzi, speaks to the Head of Investor Relations at PPC, Azola Lowan (Pictured right and centre), on the operational outlook and prospects of the business going forward.

Simba: From an ESG perspective, what is PPCs disclosure score and what steps are you taking to improve the current score.

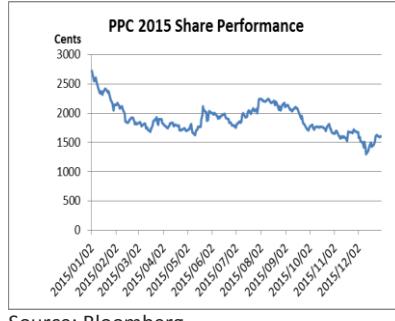
Azola: PPC's ESG score is 53 and PPC is in the Top 100 companies with a good ESG score according to the FTSE ESG rating.

Simba: Pressure from cheaper Pakistani imported cement has been considerably relieved through the implementation of Import tariffs, will the decline in shipping costs offset this pressure relief?

Azola: Yes, the decline in shipping costs does make it easier to import cement however the exchange rate weakness deters import activity.

Simba: What is your pricing strategy to gain market share in Ethiopia considering Dangote's strong market presence?

Azola: We believe Ethiopia is a strong market with high population and economic growth rates. Moreover, there is considerable construction underway including the construction of hydropower infrastructure, roads, dams and building activity. Therefore, we believe that PPC should do well in this environment



Source: Bloomberg



Simba: Under the Profit Improvement Programme, over half of the 3 year target has already been achieved in 2015 alone, is there room to revise the target upwards within the same period.

Azola: The R212m that was achieved in six months of 2015 was mostly low hanging fruits. At this stage we are comfortable with our current target however it could be adjusted.

Simba: From a portfolio mix perspective, is there any guidance on increasing exposure to non-cement building materials and services?

Azola: Our new strategy focuses on being a provider of materials and solutions into the basic services sector. Therefore, our portfolio mix should over time be more diversified.

"Everyone in the company is looking forward and focusing on how to make PPC competitive, to succeed in this tough environment."-Darryll Castle (CEO, PPC).

Simba: What is your guidance on annualised production at the new CIMERWA plant going into the first half of 2016?

Azola: In September 2015, the plant was producing at ~60% annualised capacity, we have not provided any guidance for 2016.



PPC

PRODUCT FOCUS: JM BUSA CASH PLUS FUND

About JM BUSA Investment Group

JM BUSA 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 **ZAR4.87 billion**, JM BUSA has a traceable track record in managing funds – since 2001.

About the Product: JM BUSA Cash Plus Fund

This is a fixed-income product designed and managed to give secure good returns to investors-Individual and Institutional, which can be structured as part of an asset-liability solution to match clients' requirements.

Product Description

The JM BUSA Cash Plus Fund is an actively managed money market fund, which invests in high quality fixed-income instruments with a credit rating of at least A. Credit risk is managed through fund allocation. The fund provides daily liquidity of about 15%, but 100% liquidity could be provided given the investments' quality and adjustment for rates' movements. Maximum weighted duration is 180 days

Investment Securities

Commercial paper, promissory notes, Bankers Acceptance, Treasury Bills, FRNs, FRAs and swaps and other money market instruments. The maximum tenor of the instruments allowable is 18 months

Investment Strategy

The strategy is based on riding the yield curve and investing the funds relative to the benchmark structure. Economic indicators and monetary policy are important considerations in the investment management process. Liquidity of investment securities is an important factor in our strategy

Period ending **31 December 2015** (annualized above 1 year). Historical returns for the periods indicated, *which are not guaranteed in the future*.

Period	JM BUSA CashPlus	STeFI	Alpha
YTD	6.89%	6.64%	0.43%
1 Year	6.89%	6.64%	0.43%
3 Years	6.32%	5.85%	0.48%
5 Years	6.31%	5.76%	0.56%
7 Years	7.08%	6.40%	0.67%
10 Years	7.87%	7.31%	0.56%
Inception	7.81%	7.35%	0.46%

Product Salient Features

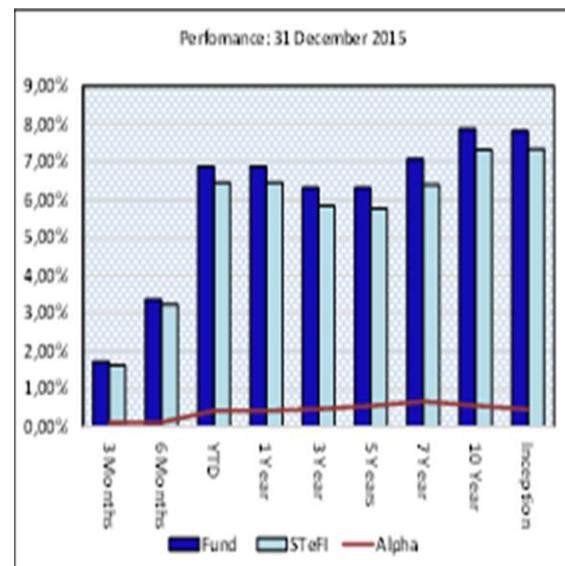
- Fund Benchmark : STeFi
- Target Returns : STeFi+ 0.5% pa
- Management Fees : 0.10% pa
- Daily Liquidity : 15.00%
- Duration : 178 Days
- Minimum Investment : ZAR10 million
- Fund Size : ZAR520.00 million
- Classification : SA Domestic

Investment Objectives

To out-perform the Short Term Fixed Interest Index (SA) (STeFI) by 0.50% pa.

Commentary and Objectives

Surprisingly, cash returned better returns than both equities and bonds over the year. We expect cash returns to increase as a significantly weaker ZAR and local drought conditions drive inflation above the target band. The Fed began its increasing rate cycle in the month, adding further pressure on the SARB to increase the repo rate



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