Absolutely Positive Performance

Quarterly Bulletin 2016 Q1

"Volatile Times"

"***When the first primitive man decided to use a bone for a club instead of eating its marrow, that was an investment***"

-Anonymous-

Invest wisely.

Lesotho ● Namibia ● South Africa ● Swaziland ● Zambia● Zimbabwe

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	52250.28	3.07%	Harmony Gold	5303	239.9%	Net 1 UEPS Technologies	13450	-34.7%
JSE Resources	28611.8	12.67%	Assore	16100	159.3%	Capital and Counties	7000	-31.7%
JSE Financials	15866.13	4.14%	Sibanye	5664	147.9%	Metair Investments	1980	-27.0%
JSE Industrials	70820.72	-1.30%	ARM	9503	118.7%	Sun International	6870	-26.3%
Namibia (NSX)	987.55	13.72%	Amplats	36188	95.3%	Curro Holdings	4345	-24.8%
Zambia (LUSE)	5534.39	-3.49%	Kumba Iron Ore	7954	93.1%	Adcorp	1500	-23.6%
Zimbabwe (ZSE)	97.98	-14.69%	AngloGold Ashanti	20450	92.5%	Shroeder Europe RE	2300	-23.3%
Dow Jones	17685.09	1.49%	Implats	4700	87.7%	Afrimat	2300	-22.0%
S&P 500	2059.74	0.77%	Anglo American PLC	11552	67.4%	PPC Ltd	1220	-20.8%
Nasdaq	4869.85	-2.75%	Pan African Resources	292	66.9%	Finbond Ltd	320	-20.3%
FTSE 100	6174.9	-1.08%	Exxaro	7927	63.5%	Grand Parade Investments	366	-19.9%
German DAX	9965.51	-7.24%	Northarm Platinum	4257	59.4%	Balwin Properties	700	-19.7%
French CAC	4385	-5.43%	Murray and Roberts	1330	57.5%	Trust Co Group	350	-18.6%
Nikkei 225	16758.67	-9.17%	Lonmin	3177	53.6%	Choppies Enterprises	560	-17.0%
Shanghai	3003.92	-15.12%	Royal Bafokeng	3900	43.6%	Spur	3079	-16.0%
Hang Seng	20776.7	-5.19%						
ASX	3395.19	-1.42%						
Bond Yields	**Spot**	**%Change**	**Currencies**	**Spot**	**%Change**	**Commodities**	**Spot**	**%Change**
SAGB 2 Year	8.00	-0.54%	R/$	14.76	-4.53%	Gold ($/oz)	1232.75	16.2%
SAGB 5 Year	8.67	-0.76%	R/€	16.80	-0.12%	Platinum ($/oz)	975.70	9.4%
SAGB 10 Year	9.10	-0.66%	€/$	0.88	-4.59%	Palladium($/oz)	564.08	0.2%
SAGB 30 Year	9.88	-0.42%	$/¥	112.57	-6.36%	Silver ($/oz)	15.44	11.5%
US 10 Y	1.77	-0.50%	Pula	10.84	-3.42%	Brent Crude ($/Barrel)	39.60	6.2%
US 30 Y	2.61	-0.41%	Kenya	101.43	-0.85%	Copper ($/ton)	218.30	2.3%
UK 10 Y	1.97	0.56%	Kwacha	10.95	-0.45%	Alluminuim ($/ton)	1477.50	-2.0%
German 10 Year	0.15	-0.48%	Naira	199.05	-0.13%	Iron Ore ($/ton)	53.75	23.4%

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Top 10 JSE Equity Buys 2016

	Share Code	Entry Price	Target Price
1	TSH	23	35
2	IPL	121	180
3	INL	103	129
4	SLM	58	70
5	FSR	42	51
6	OML	38	46
7	CPI	481	565
8	NED	187	211
9	MDC	121	135
10	BGA	144	160

Prices in SA Rands

JM BUSHA FUND RETURNS

Fund Name	3 Years
Cash Plus	6.48%
Bond Plus	4.16%
Real Return	5.60%
Absolute AllClass	8.38%
Absolute Aggressive	7.95%
Diversified Equity	7.35%
Communities Fund	8.12%
Global Investor	N/A
Afro Fund	5.6%*

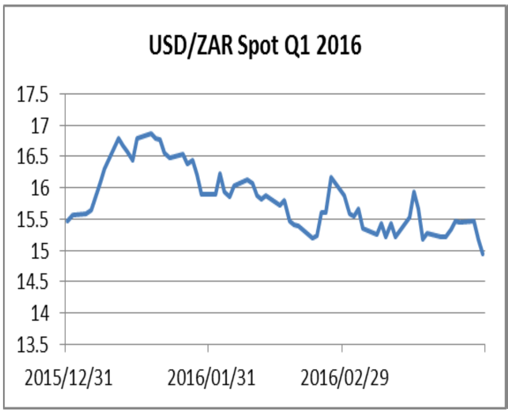
* Same as Real Return

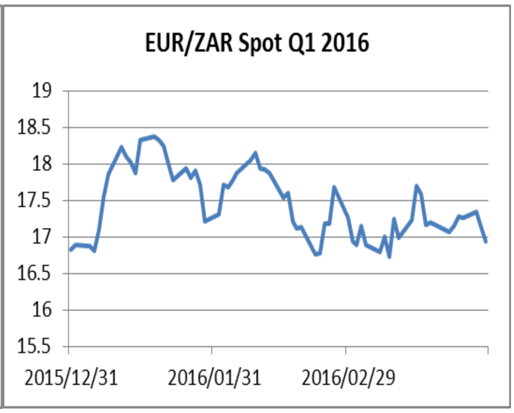
Chief Investment Officer, Ashraf Mohamed gives us a view from the top.

The first quarter of 2016 is best described as a volatile time in both financial markets and the South African political landscape. Despite all the political arm wrestling, it was the wild swings in the financial markets that drew investors' attention. Commodity stocks rallied strongly from lows last seen more than a decade ago, with Anglo American, Kumba Iron Ore, African Rainbow and Anglo Platinum all more than doubling in value from the December and January lows.

The South African economy remains fragile and with rising unemployment and increasing interest rates, we are certainly edging closer to a recession. Despite the Finance Minister believing that the overall economy will stave off a recession, many sectors will experience recession-like conditions, putting pressure on profit margins and earnings. In our view the economy will start bottoming out in the third quarter of 2016, making it an optimal time to start investing new projects and infrastructure.

The Rand remains subject to the vagaries of global markets and the occasional political utterance. While the focus has been on the possibility of a ratings downgrade in June, other factors such as government and trade deficits need to be considered. Should we manage to keep both deficits under control and within expectations, we believe the currency can rally further against the US Dollar. A stronger Rand will help to bring inflation lower and remove the possibility of further rate hikes. We remain confident that the economy will ride through the current slowdown and begin to recover towards the end of 2016.

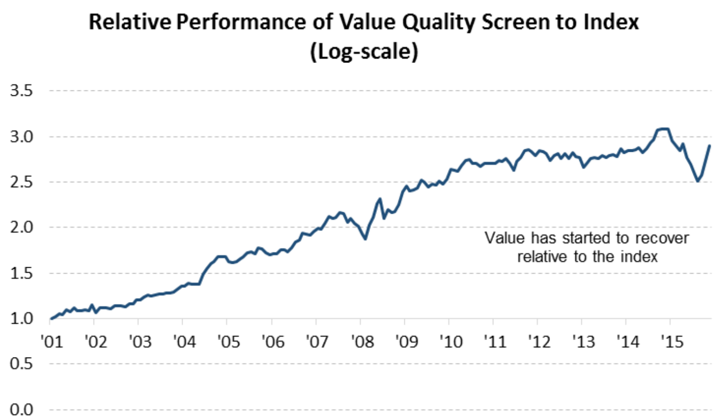




Portfolio Manager, Byran Taljaard walks us through the markets from a quantitative view.

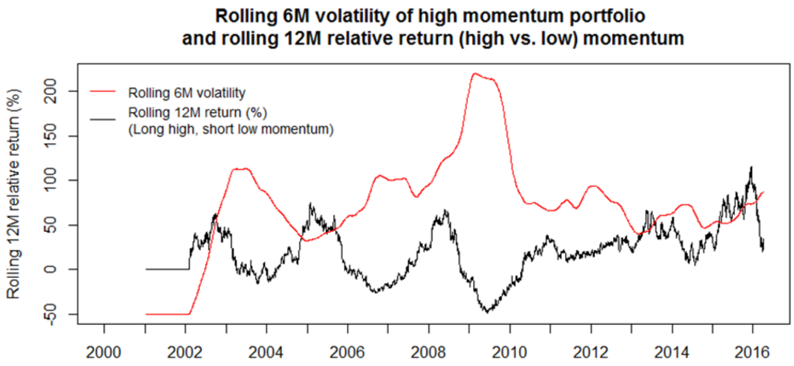
We have been advocating the view that times are changing in the markets. Since 2011, the financial markets have been driven by cheap money which has fueled a momentum driven equity market. This had placed value as a strategy under immense pressure. However, in light of potential rate hikes in the US over the next 12-18 months, value has become more and more important.

This is arguably what we have seen over the last few months with the surge in commodity stocks in particular, but also generally in terms of stocks which were undervalued in other sectors (such as Imperial, banks, etc.). At JM BUSHA we use a value and quality screen to highlight quality companies which are potentially undervalued.

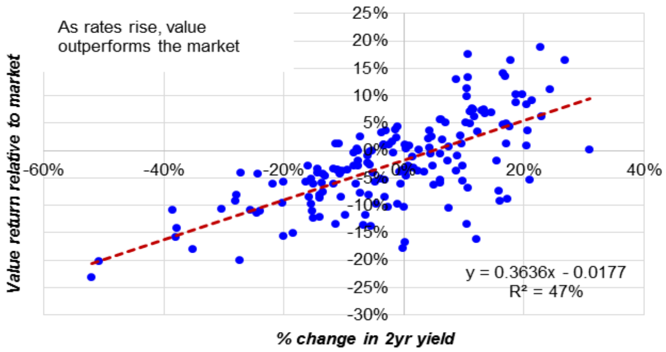


We highlight the long-term performance above of this screen. Although the strategy has outperformed the index over the long-term, it had come under pressure in 2014 underperforming the index significantly. However, since the end of 2015 it has recovered dramatically, in line with the general recovery in value stocks. (Note: the resulting portfolio only has 7 resource counters out of the 25 stocks in the portfolio)

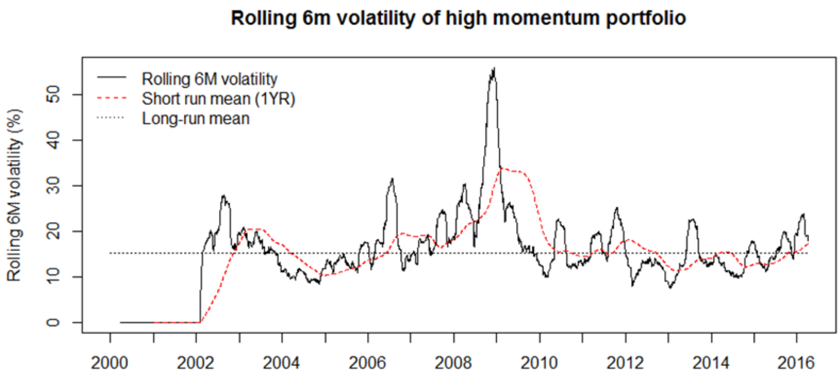
This recovery has been detrimental to the prevailing (and until recently successful) momentum strategy. As highlighted in the chart below, stocks with low momentum (i.e. value stocks) have significantly outperformed stocks with high momentum.



We expect this to continue as rates start to rise and fixed income starts to "compete" with equities for allocation. We highlight below that as short rates rise, value as a strategy outperforms the general market.



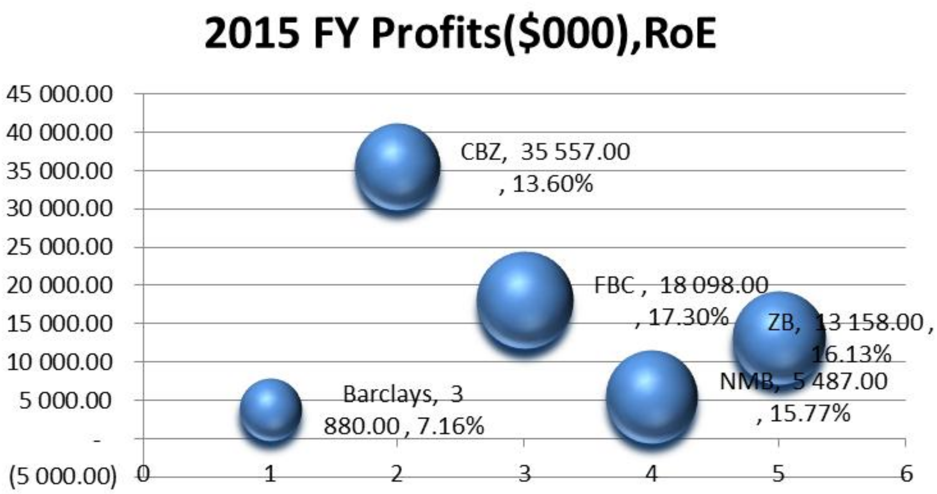
Furthermore, we are entering a heightened volatility environment – an environment that benefits value rather than momentum strategies. The chart below shows the 6 month volatility of the highest momentum stocks and clearly highlights the increasing volatility.



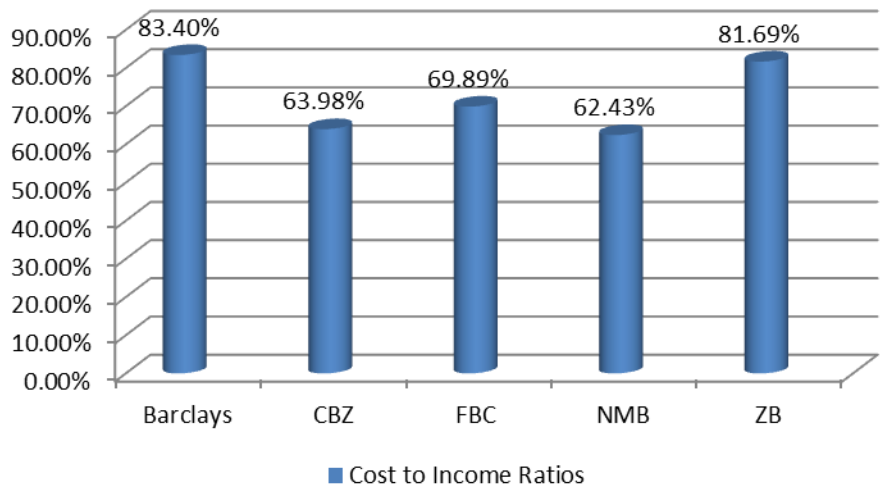
Investment Analyst, Patrick Serere walks us through the Zimbabwean banking sector performance.

Economic difficulties have deepened. The El Nino-induced drought has hit the economy hard. Lower commodity prices and the appreciation of the U.S. dollar have compounded difficulties. The deflationary environment has remained with year on year inflation for March 2016 at -2.22%. This is a reflection of tight liquidity conditions, and waning aggregate demand. Zimbabwe's economic growth was estimated at 1.5% for 2015 and economic growth prospects remain vulnerable to a downturn in international commodity prices, and limited capital inflows into the country. Zimbabwe has also been affected by events abroad, primarily the tightening of the U.S monetary policy and the economic slowdown in China and decreasing commodity prices.

The decline in the price of these precious metals is expected to dampen export receipts, a development that will likely have an undermining effect on domestic liquidity conditions and economic growth prospects at large.



Despite all these challenges the banking sector has achieved a herculean task of improving aggregate banking sector profit after tax by 62% to US$128 million rising from US$79 million recorded in 2014.The transfer of non-performing loans – NPL's to a special purpose vehicle (ZAMCO) created by the Reserve Bank of Zimbabwe to absorb the bad debts, coupled with an aggressive cost cutting drive and huge interest margins averaging 65% has seen 15 Banks recording positive earnings in the full year to December 2015. However the traditional big banks Barclays Bank and Standard Chartered Bank only gathered less than 4% combined contribution to total sector profitability. CABS, CBZ bank and Stanbic bank accounted for 61% of sector profitability.



Figures from the central bank show that Zamco acquired bad loans amounting to US$357 million in 2015 easing pressure on most financial institution's plagued by bad debts. The financial institutions receive settlement in Treasury Bills that have ignited a nascent debt trading market with secondary market sovereign yields trading between 15% -20% for durations less than 2 years .The intervention of Zamco came as NPL's hit a peak of 20% in 2014 from as low as 5% at the introduction of the multicurrency regime in 2009.The post multicurrency period has seen eight banks going under largely due to corporate governance failures and high NPL's. While this strengthened the balance sheets of commercial banks, the reality is much of the debt is on companies which are technically insolvent; companies like CSC and Cottco.Government is taking over debt which is going to be a liability to the State. There is general concern over how Government had been issuing out treasury bills over the last two years when they do not have capacity to pay. A budget deficit of $1 billion in 2014 and $1.5 billion in 2015 is mainly being financed by debt through Treasury Bills. Currently it is not clear how much treasury stock is outstanding. What is clear though is that this is a new emerging concern that can potentially gridlock the financial system and threaten banking sector profitability.

Economic Research Analyst, Limakatso Lehobo describes the impact of SA political woes on the economy.

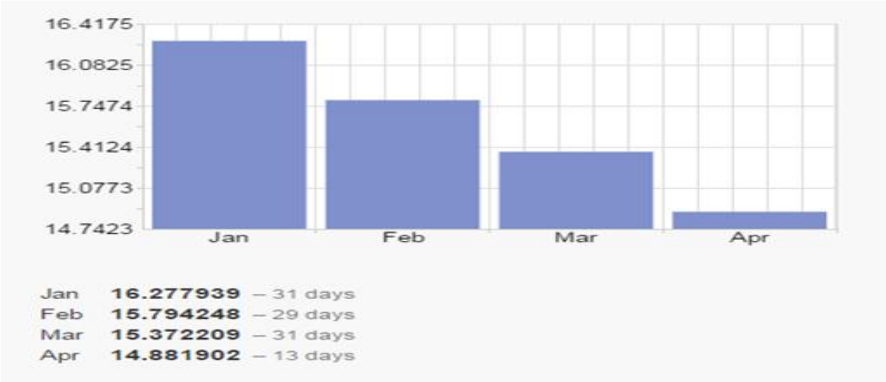
The South African economy has been rather volatile in the first quarter. A lot of internal issues emanating from weak political and economic governance have been central to the outcomes. Whilst the matter of the finance minister was settled, investor unease still prevails over general decision making by President Zuma as well as the appointment of Head of National Treasury considering Lungisa Fuzile's contract expires next month.

Dampened investor confidence has seen South African held funds move offshore. According to Investec, 60% of funds held in domestic market were shifted offshore from January to March as opposed to 40% in the last quarter of 2015. Nonetheless, low interest rates in the international markets might ultimately deter long-term investment offshore as political and economic governance challenges in South Africa that pose as risks subside.

Other concerns of investors include fiscal outlook and slow economic growth. Nonetheless, investor confidence improved to 80.1 in February from 80.0 in January and recovered further in March rising to 81.2. This is presumably at the back of the Constitutional court finding President Zuma guilty of failing to uphold the Constitution by not complying with Thuli Madonsela's office of remedial regarding payment for the upgrades in Nkandla. The ruling proved the independence of the courts and existence of the rule of law in South Africa which augurs well for investor confidence.

Parliament has therefore been engrossed in deliberations to remove President Zuma from office in vain as some of the leading members of the ANC garnered him support that kept him in office. Coupled with this South Africa has been preoccupied with the recent Guptas 'state capture' debates and other dynamics of the relationship between President Zuma and the Guptas including the Russia nuclear deal that are yet to unravel. All these add to the political shenanigans that detracted from economic progress in the first quarter.

Bonds and Rand also showed movement with political developments, although bulk of the move in the latter was mainly attributed to the US accommodative monetary policy. The Rand strengthened in the last month of the first quarter following a weak level of as low as R17.99 at some point in January.



Source: http://www.x-rates.com

Moody's downgraded its SA credit rating Baa2 to negative in December which is the second lowest investment grade while Standard and Poor's rated it one level below Moody's but also with a negative outlook. Moody's cautioned to effect further downgrade if government policy and strategy didn't reverse debt trajectory.

Treasury raised $1.25 billion in 10 year bonds. The South African Reserve Bank (SARB) estimates that the downgrade below investment grade could possibly increase short-term rates by 80 basis points and long-term bond yields by 104 basis points.

Despite internal turmoil and conflicts emanating from the so-called ''rouge unit'' within SARS, the office has managed to collect R1 trillion for the first time in South Africa. This will ease pressure on government debt and partially curb it from reaching 50% of GDP.

The SARB increased repo rate by 50 basis points in January to 6.75% and by a further 25 basis points in March to 7% mainly due to inflationary pressures as well as the volatile Rand. This has increased costs of settling debt such as mortgage therefore placing financial pressure on consumers. Inflation increased to 6.23% in January and 7% in February at the back of higher electricity, food and transport costs. Economic growth remained subdued with manufacturing contracting despite competitive advantage of the week Rand. The World Bank further reduced its projections for 2016 to 0.8% GDP growth. In the same vein, IMF forecasted annual growth to be at a low of 0.6% from 0.7% that was estimated in January 2016 due to policy uncertainty, lower export prices and tight monetary and fiscal policy and treasury cut its forecasts to 0.9% in February. International investors have urged South Africa that one of the key ways to stimulate economic growth is to scrap the unabridged certificate as requirement for visa into the country.

SA economy ends first quarter with a lot of uncertainties in terms of political and economic governance, thus giving an overall bleak outlook for the next quarter.

Investment Analyst, Simba Chimanzi gives us a view on Old Mutual's planned unbundling of Nedbank.

Four months into the job, during his maiden financial presentation, Mr Hemphill gave his much anticipated strategic focus plan. The main theme that caught the markets attention was the planned managed separation of OMLs four business units, (Asset Management, Wealth Management ,Emerging Markets and Nedbank), by the end of 2018.

OML's main argument to unbundle was because of the group's "luke warm" structure as it is neither defined as a pure play emerging markets, insurance or banking player. The modern institutional investor is now looking less favourably on generalized financial services businesses and prefers more niche focused businesses. Another reason to unbundle was the apparent lack of synergies between the clusters and the potential to erase up to R1.6 billion in central head office costs.

Some misinformed parts of the market assumed OML was keen to sell a stake of its shareholding in Nedbank mirroring the plans of Barclays PLC which plans to sell down its stake in Barclays Africa.OML management reiterated that it will not sell any part of its shareholding to a new strategic investor and mentioned that it is looking to keep a 15%-20% strategic shareholding in the bank and distribute NED shares to existing OML shareholders.

When we look at the share registry, 52% of OML is held by offshore investors. Our view is that if Nedbank stake is to be distributed to OML shareholders, this might lead to selling pressure as foreign investors might not find the banking share attractive to hold despite it being very cheap. However, due to the South African exchange regulation, the process of externalising shares to UK or the USA can be long and laborious.

We believe there will not be any significant pressure on the price in the short to medium term until OML have finalised the plans to divest its NED stake. We have a fair value of R 216 which represents an upside of 20% as at 16 April 2016 closing price.

Marketing Executive, Tinotenda Buhera takes us through the current social investment programmes.

Influenced by our annual theme “Celebrating the womb”, we have developed an initiative named JM BUSHA WINS. Our mission, vision and strategic intent provide that we empower families and communities – and we believe that through the emancipation of women through a unifying element, sport, we may achieve this and set a solid foundation for an equitable society. The development of JM BUSHA WINS saw the inception of the 1st annual JM BUSHA Women’s Soccer Tournament in March 2016.

The inaugural JM BUSHA Women’s Soccer Tournament was a 2-day tournament held in Alexandra Township with 12 female teams from across Gauteng competing for a grand prize of R15 000. The runners-up received R10 000, with the rest receiving R5 000 each for participation and Individual awards for top performers.

Our mission is to empower and develop women through soccer throughout the SADC region. It is not only our desire to build oneness among regional communities but also promote gender equality through the unifying power of sport.

The massive gap between the male and female game is shown by the stark contrast in funding and sponsorship. Financial assistance and stake holder recognition is essential in developing women’s football. We have aligned ourselves with Blue Birds FC, which assisted in organising the tournament and getting local participation. We hope that our sponsorship will go a long way in promoting female sport and diverting youth’s attention from illicit social behaviour that result in early pregnancies and drug abuse.

“We should strive to encourage equitable communities and discourage elements of our societies such as disparities in socio-economic standards which tend to breed animosity that threatens the very fibre that glues communities together," – Joseph Busha

PRODUCT FOCUS: JM BUSHA Risk Averse 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 and Zambia.

The Group manages both institutional and retail private clients' funds. With total funds under management approximately equal to **ZAR4.66 billion**, JM BUSHA has a traceable track record in managing funds – since 2001.

About the Product: JM BUSHA Risk Averse 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 Risk Averse 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 cash and bonds.

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 the Short Term Fixed Interest Index
("STeFI"). 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. In this portfolio tactical asset allocation and risky assets seek to produce positive alpha in the long term.

Historical Performance

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

Period ending **31 March 2016** (annualised above 1 year.

Period	JM BUSHA Risk Averse	STeFI%	Alpha
6 Months	-0,10%	3,33%	-3,43%
YTD	1,19%	1,68%	-0,49%
1 Year	-0,28%	6,61%	-6,90%
3 Years	5,04%	6,01%	-0,97%
5 Years	8,49%	5,82%	2,67%
Inception	8,84%	5,89%	2,96%
Risk	4,32%	0,16%	4,33%

Product Salient Features

- Fund Benchmark :STeFI
- Target Returns :STeFI + 1% pa
- Management Fees :0.25% pa
- Liquidity (T+7) :100.00%
- Start Date :30 June 2010
- Minimum Investment :ZAR10 million
- Fund Size :ZAR338.110 million
- Classification :Segregate Absolute
  : SA Balanced Mandate

Investment Objectives

To produce positive returns of STeFI +1% pa over 2-year rolling periods.

Commentary & Notes

The USDZAR continued to recover and ended the month below R15/$. The recovery helped bond yields which declined over the month and led to bonds closing the month 2.3% up. Although an element of "risk-on" characterised the month, concern remains over potential US rate hikes over the year. This, together with inflation concerns in South Africa (led by USDZAR weakness) are likely to see further rate hikes by the SARB over the course of the year.

Overall Asset Allocation

Asset Class	Cash	Bonds	Equitie	Derivatives
Weight	31,02%	65,93%	0,00%	3,05%

Top 10 Asset Holdings

No	Share	Weight	No	Share	Weight
1	EMM01	5,81%	6	ABS6	2,75%
2	ABS7	4,49%	7	TN23	2,71%
3	EL28	3,93%	8	R211	2,59%
4	NRA023	3,39%	9	HWAY34	2,55%
5	FRS81	2,88%	10	EL31	2,52%