Absolutely Positive Performance

Quarterly Bulletin 2017 Q1

"How creditworthy is SA?"

"***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.

JM BUSHA Investment Group

Market Performance Summary

Equity Indices	Spot	%Change	JSE Top Gainers	Spot(c)	%Change	JSE Top Losers	Spot (c)	%Change
JSE All Share	52056	2.77%	Trencor Ltd	3872	39.6%	Lonmin	1979	-23.7%
JSE Resources	32323	0.66%	Murray and Roberts	1521	33.7%	JSE Ltd	12350	-20.8%
JSE Financials	14583	-3.28%	Exxaro	12250	31.7%	Netcare	2452	-19.5%
JSE Industrials	68354	6.33%	Adcock Ingram Holdings	5963	29.0%	Alexander Forbes	619	-12.0%
Namibia (NSX)	131	-2.12%	Kumba Iron Ore	21542	27.6%	Tradehold	1850	-12.0%
Zambia (LUSE)	4414	5.21%	Northam Platinum	5753	26.9%	Net 1 UEPS Technologies	18300	-11.7%
Zimbabwe (ZSE)			Hudaco Industries	13700	26.4%	Consolidated Infracstructure	2293	-10.2%
Dow Jones	20663	4.56%	Astral Foods	14319	21.4%	Assore	27120	-9.9%
S&P 500	2363	5.53%	Brimstone Investments	1475	20.0%	Caxton and CTP Publishers	1330	-9.8%
Nasdaq	5912	9.82%	KAP Industrial	852	19.5%	Massmart	14983	-9.1%
FTSE 100	7323	2.52%	RCL Foods	1544	18.1%	Novus Holdings	940	-9.0%
German DAX	12313	7.25%	PPC Ltd	689	17.7%	Group Five LTD	2301	-9.0%
French CAC	5123	5.35%	Richemont SA	10705	16.8%	Invicta Holdings	6400	-8.3%
Nikkei 225	18909	-1.07%	Advetech	1909	16.5%	Barclays Group Africa	15195	-8.2%
Shanghai	3223	3.83%	Anglo American Platinum	34502	16.4%	Steinhoff International	6983	-8.1%
Hang Seng	24112	9.60%						
ASX	3973	3.02%						
Bond Yields	**Spot**	**%Change**	**Currencies**	**Spot**	**%Change**	**Commodities**	**Spot**	**%Change**
SAGB 2 Year	7.57	-0.36%	R/$	13.41	-2.38%	Gold ($/oz)	1249.2	8.9%
SAGB 5 Year	7.89	-0.39%	R/€	14.3	-1.03%	Platinum ($/oz)	950.35	5.2%
SAGB 10 Year	8.84	-0.07%	$/€	1.07	1.28%	Palladium($/oz)	798.77	17.3%
SAGB 30 Year	9.70	-0.08%	¥/$	111.39	-4.76%	Silver ($/oz)	18.27	14.7%
US 10 Y	2.39	-0.05%	Pula	10.41	-2.65%	Brent Crude ($/Barrel)	52.83	7.0%
US 30 Y	3.01	-0.06%	Kenya	102.98	0.46%	Copper ($/ton)	5837.5	5.4%
UK 10 Y	1.14	-0.10%	Kwacha	9.67	-2.74%	Alluminuim ($/ton)	1962.5	15.9%
German 10 Year	0.33	-0.12%	Naira	314.29	-0.33%	Iron Ore ($/ton)	80.39	1.9%

Source: Bloomberg

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Top 10 JSE Equity Buys 2017

Share Code	Entry Price	Target Price
TKG	74	82
EXX	91	127
FSR	54	59
OML	35	43
BIL	223	260
SOL	407	450
BAW	118	118
BVT	180	182
IPL	185	192
INL	91	111

Price in SA Rands

JM BUSHA FUND RETURNS

Fund	5 year Return
Cash Plus	6.63%
Bond Plus	7.83%
Real Return	7.45%
Absolute All Class	10.00%
Absolute Aggressive	9.07%
Diversified Equity	12.52%
Communities Fund	8.84%
*Afro Fund	8.28%

*same as real return

Portfolio Manager, Byran Taljaard, shares a presentation on credit rating downgrades.

(Double tap the icon below)

Investment Analyst, Charné Adams, shares her insights on the Resources sector.

The trend of strong performance in the resources sector in 2016 continued into the beginning of 2017 until uncertainty around the policies of newly-elected US president, Donald Trump, contributed to the sector ending the first quarter relatively flat. Over the period, the dollar trended weaker relative to the rand (prior to local political turmoil) and Chinese metal stockpiles increased. In addition, following a year of operational and financial improvements, some miners, particularly in the platinum sector, released disappointing results, putting downward pressure on those share prices.

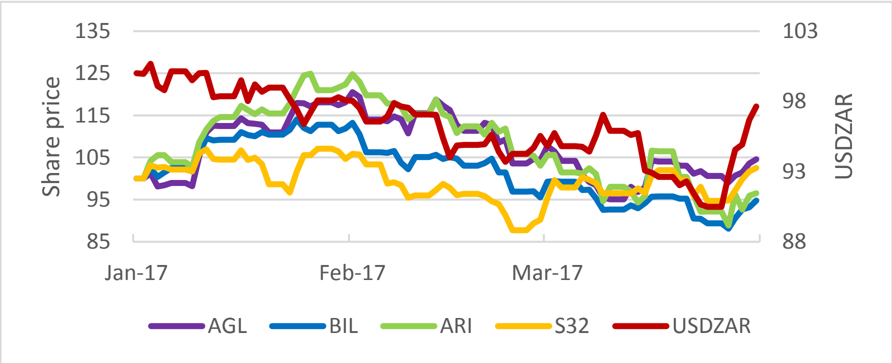


Chart: US dollar and selected resource share returns (Jan '17 rebased = 100)
Source: Bloomberg

Trump

Resources, particularly industrial metals, were driven by speculation that Donald Trump would implement a change in fiscal policy that would result in improved economic growth and increased infrastructure spending and thus an increase in demand for these metals. While this trend continued into 2017 initially, it soon reversed as doubts set in around whether Trump would actually implement the changes described in his campaign as well as the impact and timing thereof.

The outcome of the passing of the Healthcare Bill was watched closely by the market. The bill was opposed by members of Trump's own party, resulting in reduced confidence around whether Trump will be able to deliver on his future pro-business reforms without the party opposing his decisions. Additional uncertainty grew as it became evident that the Republican Party was split regarding the implementation of tax reform as opposed to tax cuts. Tax reform results in a revenue-neutral outcome as deductions and the like are limited in order to fund tax cuts. In this instance, it would mean instituting a border-adjustment tax, a more revenue-neutral stance but one that would affect the poor and middle class through higher prices of imported goods. An outright tax cut, however, need not outline a means of funding the loss of tax revenue. A likeness between current proposed policies and the 1986 tax reform has been pointed out. However, that was revenue-neutral and government debt to GDP was closer to 40% compared to today's 100%.

Sentiment has become negative as the market now also expects that the planned infrastructure spend and global growth might not come to fruition as soon as initially hoped by the market. Resource shares fell as lower growth expectations imply lower demand for commodities. In addition, the dollar weakened relative to the rand as it was sold off due to the perceived lack of growth. This also put downward pressure on the resource shares as a stronger rand results in lower revenue for companies.

China

As a whole China appears to have had a positive quarter – a potential trade war between the US and China has been averted so far, the manufacturing PMI has increased and the growth rate stabilised. However, factors remain which threaten growth going forward, including monetary policy tightening and an overvalued currency contributing to a decline in exports. Lowering interest rates could maintain growth but this creates the risk of further inflating the real estate bubble and investors disinvesting from China. A decrease in Chinese growth, still a significant driver of commodity demand, would impact industrial metals negatively.

Strong performance was seen in the steel price at the end of 2016 as a result of supply constraints, declining stockpiles and government stimulus. The movement in prices was, however, ahead of fundamentals. Subsequently, prices of steel and input commodities such as iron ore have fallen as it became apparent that despite growth prospects, demand would not be enough to consume increasing supply as China continued to increase steel production and stockpiles grew.

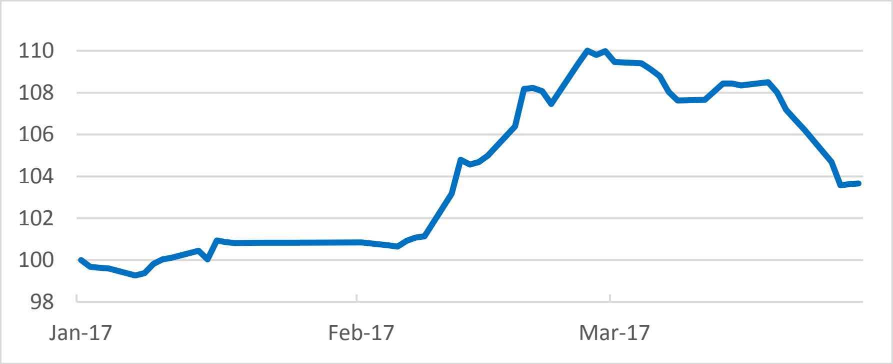
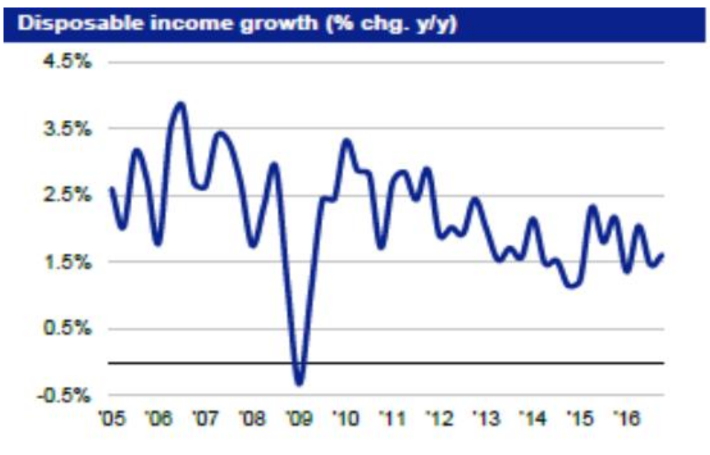


Chart: Chinese Steel Price Index (Jan '17 rebased = 100)
Source: Bloomberg

Although we are in the process of reducing our position in resources, we do still see value in selected miners. Companies such as Anglo American and BHP Billiton have significant exposure to iron ore and, hence, the steel market. The oversupply in the market is disconcerting, however, we are cognisant of this and maintain our focus on fundamentals while not putting too much focus on political noise, thus enabling us to identify any opportunities that the current volatile environment might produce.

Investment Analyst, Cleopatra Mtembu walks us through SA retailers.

The apparel industry has faced a number of challenges which have led to industry underperformance being compromised. The challenges include entry of international brands into local markets such as H&M, Cotton-on and ZARA and the introduction of new credit approval regulations in 2015. Disposable income and discretionary spending has been under pressure and this will persist given the weakening economic fundamentals. The rand has gone through a lot of volatility and its depreciation is amongst the challenges retailers have to deal with.

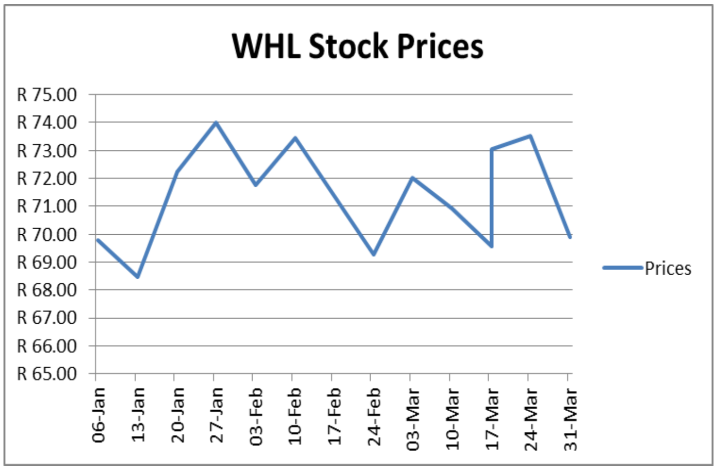


Source: Bloomberg

Fashion Retailers

Woolworths

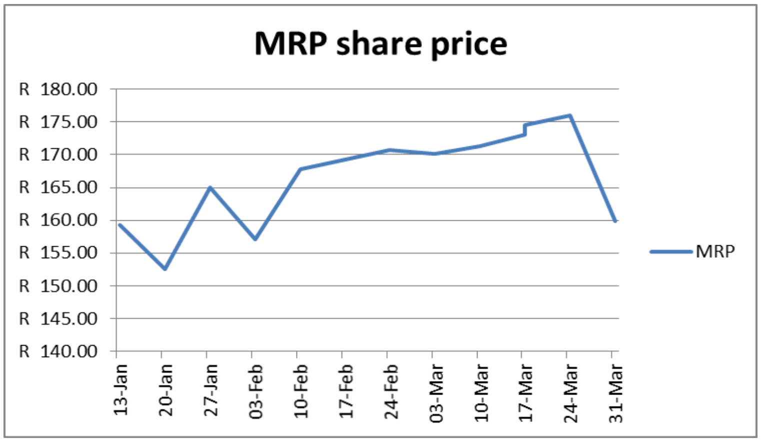
Given the overall deteriorating macro economy and a competitive retail industry in both South Africa and Australia this resulted in a limited top-line growth for Woolworths. The giant retailer reported its interim results with Clothing segment sales growth of 3.5% and l-f-l sales of 1.2% and net new space 2.9%, Woolworths food sales increased by 9.5% with comparable sales growth up 5.6% and 7.9% net new space and with David Jones sales up 4% and Country Road sales down 0.9%. However, we remain positive, we still see an encouraging 20% upside potential to Woolworths current share price. We thus recommend an outperform rating on valuation grounds.



Source: Google Finance

Mr Price Group

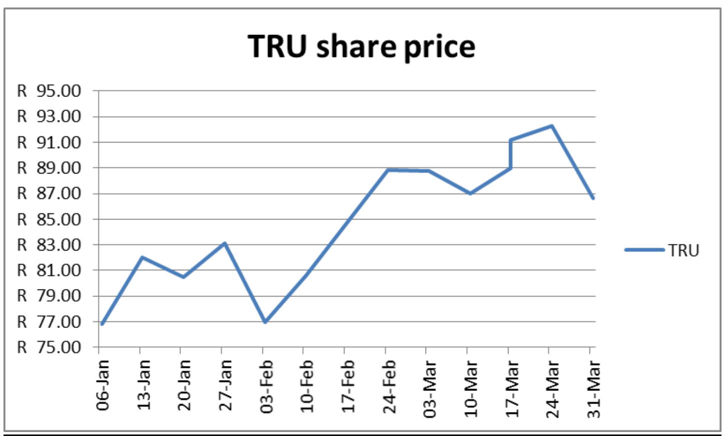
Mr Price Group(MRP) has been struggling at the back of tough economic growth, the consumers being under pressure and competitive pressure from the entrance of the international retailers such as H&M. H&M which has proved to be a strong competitor to most listed retailers and has the potential to aggressively gain market share, has affected particularly Mr Price Group as its retail sale prices are more or less the on the same level. H&M has better fashion and durable garments as compared to (MRP) .Mr Price Group released a disappointing quarterly update 3Q17, with its top-line growth down by 0.5%, The slight positive is that December sales growth have improved by 3.9%, this improvement emanates from Mr Price and Miladys sales growth. This however may not be enough to support the FY17 HEPS growth, with that being said we underweight Mr Price group. Below is a show of the vitality of the Group's share price.



Source: Google Finance

Truworths Group

Truworths Group reported its half year 2017 results with a decline of 9.4% in adjusted diluted HEPS. This was due to the pressure from the flat sales growth of the group's South African segment, the headlines earnings per share were decreased as a result of the strong cost growth performance that increased by 5% in South Africa. The international segment of the group experienced reduced foreign revenues and profits due to pound weakness, tough trading conditions in the UK, this is the results of Office retail sales decreasing by 1% and its L-F-L also decreased by 1% on the, the e-commerce (which makes up 27% of the sales) performance increased by 20% however that offset the store sales decrease of 7%. A positive that can be drawn from this set of results from the group is the dividend of R2.70 (same as 1H16) that will be maintained. We believe that the diluted HEPS growth will remain supressed due to likely sales pressure remaining in SA and negative impacts from Office. We recommend an underweight.



Source: Google Finance

Conclusion

The consumer has been under pressure given the high inflation rate, deteriorating economic conditions, discretionary income also coming under pressure and the recent downgrading of the country's economy by rating agencies, Standard and Poor and Moody, due to political instability will also affect the consumer in the longer term as it will lead to higher interest rates, making it tougher for consumers. On the retailers' side, they are experiencing tight competition with the entry of international retailers into the South African market. Therefore we believe majority of the Apparel retailers are expensive and one should take caution in buying them, however Woolworths is a good buy for us.

Economic Research Analyst, Limakatso Lehobo gives her view on the impact of climate change.

The dark cloud of possible downgrade still hangs over South Africa. The uncertain policy environment coupled with a string of questionable decisions by the political leadership is in no way helping to build the necessary confidence with investors and rating agencies.

The prevailing uncertainty that Gordhan might be replaced as finance minister as well as the recall of Gordhan from the International Investor road show by president Zuma, where he and team had to be updating investors on policy changes and allay their concerns further reflects the governance dilemma in South Africa which very well undermines attractiveness of SA to international investors.

The unceasing corruption scandals are also adding doubts on the country's business environment. The first quarter has been marred with scandalous squandering of public funds from corrupt South African Social Security Agency (SASSA) employees who have defrauded the agency of R5.5 million, to Eskom's acting CEO, Matshela Koko case in which his stepdaughter's company has been awarded contracts to the tune of R1 billion; and unending corruption saga at South African Airways (SAA) which reported a projected loss of R3.5 billion for 2016/17 and despite an investment of R21 million into internal corruption and fraud investigations over the past three years has not yielded any fruit. While the government has decided to reduce spending by R10 billion in 2017/18 and attempt to ensure quality spending and curb corruption this will not be challenging but its practicality is questionable given the display of lack of political will by political leadership so far.

At the moment South Africa needs as much cash flow as possible to increase economic activity hence increase economic growth. Anaemic growth is one of the key concerns of rating agencies. Economic growth has been low after dismal performance in the mining and manufacturing sectors, causing GDP to contract in the fourth quarter of 2016. South Africa grew by a meagre 0.3% in 2016. Mining production increased to 1.3% year-on-year in January from a 3.1% decline in December. Higher production is attributed to continued increase in iron ore (7.3% from 7.7%) and manganese ore (20% from 8.9% in December 2016). Chromium ore and copper saw increase in production of 12.3% and 37.8% respectively. The drawdown on the increase emanated from a deceleration in the production of nickel, coal and other non-metallic minerals. Slowing Chinese construction activity in 2017 is expected to dampen demand and price of steel iron as well as iron ore and metallurgical coal. While demand for gold might rise as investors opt for it as a safe haven due to geopolitical risk aversion instigated by the unorthodox policies of Trump presidency and uncertainty surrounding terms of Brexit.

Manufacturing increased 0.8 year-on-year in January following a 2% drop in December. Prospects of improvement in manufacturing are positive with the special economic zones (SEZ) attracting Chinese investors. Chinese company, Yangtze Optics Africa Cable, has recently invested R150 million at the Dube Trade Port where it will manufacture fibre optic cables. Dube focuses on attracting light manufacturing investments like electronics, fashion and agricultural research. Another SEZ in the pipeline, Musina-Makhado, has attracted a R40 billion investment from a consortium of Chinese investors led by Hong Kong Mining Exchange (Shenzen Hoimor Resources Holdings). When operational, the plant which will mainly focus on energy and metallurgical industrial projects such as high quality steel production for local and international market is expected to create 21000 direct jobs in the Limpopo area. While the government through the ministry of trade and industry is embarking on such initiatives which are critical to job creation thus addressing challenge of structural unemployment, there is a need to address limitations to reindustrialization. China as one of the investors has indicated that their concerns include security and crime coupled with xenophobic attacks, high unemployment rate, power shortages, insufficient infrastructure development and railway capacity as well as the volatile Rand which has depicted a weak trend.

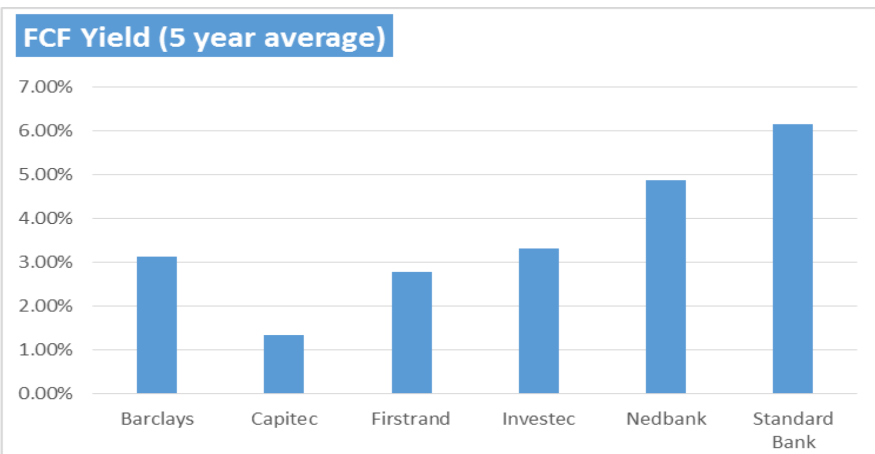
In terms of agriculture, the rains have improved agricultural production. According to Reuters survey South African farmers are set to harvest 84% more maize this year. This is despite the infestation of army worms. National Crop Estimate Committee revised it earlier forecast by 3% to 14.32 million tonnes in maize production which will be second biggest after 1980/81 when the country produced 14.66 million tonnes. White maize accounts for 56% of the yield and the rest is yellow maize. Similarly soybean production is estimated at 1.16 million tonnes which is 57% higher than the previous season.

As at January South Africa registered a trade deficit of R10.81 billion from a R12.41 billion surplus in December. The imports increased by 12.5% as industry players among other products purchased equipment components, base metals, textiles, plastic and rubber and electronics. Poor sales of mineral products, machinery and equipment, vehicles and transport equipment are some of the contributors to a 14% drop in exports. The trade balance will however continue to remain volatile in the second quarter. Current account deficit narrowed to 1.7% of GDP (R76 billion) in the 4th quarter 2016.

Investment Analyst, Simba Chimanzi looks at the free cash flow yield as a valuation metric for banks

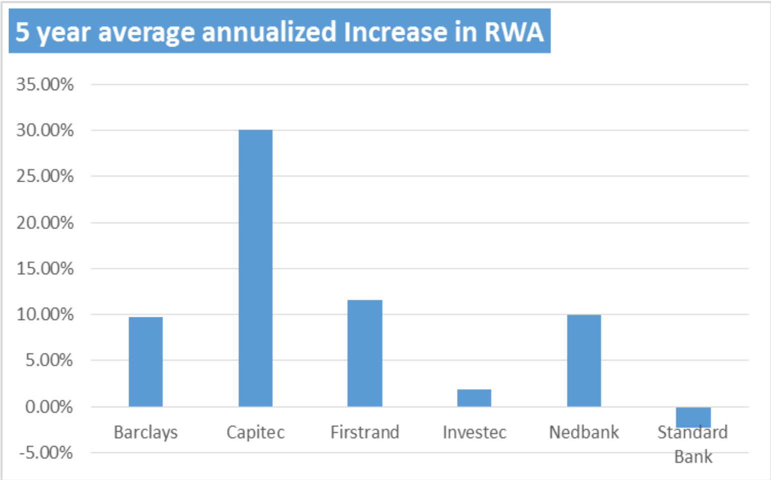
Banks and other financial companies can be particularly challenging to value. Their financial statements are different from those in other industries when it comes to calculating concepts like working capital etc. The most common fundamental indicators looked at are, price to book, price to earnings and dividend yield. The free cash flow (FCF) yield is not widely used in financials despite being one of the most important parameters to measure a company's earnings power by value investors in the long run. The FCF is not subject to estimates of depreciation, amortization and cannot be easily manipulated from an accounting perspective.

A positive FCF yield indicates that a company is generating more cash than is used to run it and therefore can reinvest to grow or support the business during tough periods. The higher the FCF yield implies a company requires less capital and is able to grow without external finance. Over the long term, FCF should give a pretty good picture on the real earnings power of a company.



Source: JM BUSHA

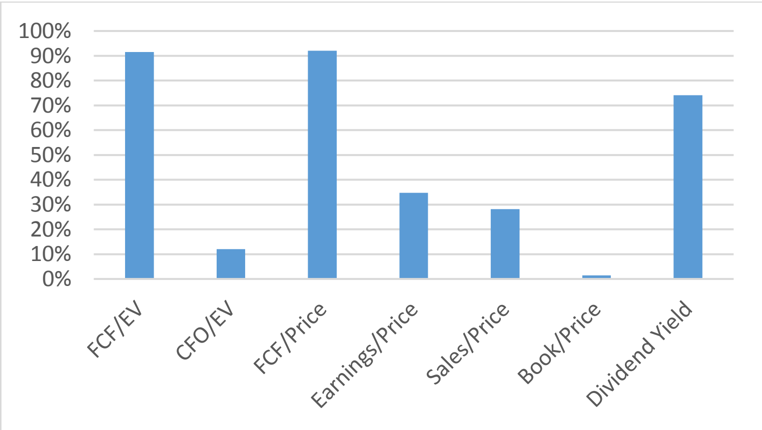
For SA banks the FCF yield is a function of (Net Income-12 %*(Change in Risk weighted assets (RWA))/ (market capitalization). RWAs are computed by adjusting each asset class for risk in order to determine a bank's real world exposure to potential losses. A sharp increase in RWAs implies a higher potential of losses and therefore decreasing the intrinsic cash value.



Source: JM BUSHA

From the graph above, it is evident Standard Bank has been de risking its balance sheet over the past 5 years as seen by an annualized decrease in RWAs.If the economy takes a turn for the worse, Standard Bank will have the least exposure to losses relative to its peers.Capitec on the other hand has the highest exposure to potential losses and therefore the lowest FCF yield. Value Investors looking for long term earnings power of a bank in the long run will opt for Standard Bank as compared to Capitec.

FCF yield vs other fundamental metrics



Source: JM BUSHA

The graph above shows the 10 year performance of different portfolios constructed using 1 particular metric to select stocks on the JSE. The portfolio constructed using the best 15 stocks from a FCF yield perspective is the best performing from a capital appreciation perspective. This indicates the importance of adding the FCF yield as a tool for valuing companies.

Rhoda Maphosa gives us an update on SIP developments

Social Investments remain a key pillar in our continuous effort to creating an equitable society.

We believe that through various tools like education, sports, art and culture we can bring about positive and healthy people for high positive impact across nations.

JM BUSHA Peace Pledge Marathon

The main objective of the marathons is to promote peace and unity, and encourage tolerance and inclusivity through mass participation. Social cohesion and social participation of different ethnic groups, cultures and religions come together to take part in a fun walk/ run to bear witness to their commitment to peace and unity.

At its core, the JM BUSHA 54 Races for Peace and Unity has an extraordinary vision: 54 countries, 54 races, all on Africa month, all for peace and unity. In this, the inaugural year, will take place in Zimbabwe on 25 May 2017 and in Johannesburg on 28 May 2017.

Partnered with City of Johannesburg; Central Gauteng Athletics and Channel Africa, the Johannesburg race of 5km, 21km and the National Peace Pledge Marathon (42km) will be hosted at Rand Stadium.

Sign the JM BUSHA 54 Races for Peace and Unity peace pledge at www.jmbusha54.com/pledge and be the signatory for peace.

JM BUSHA 54 Student Ambassadorship

Student ambassadors will play a massive role in the effort to address leadership vacuum in the continent, as we focus on nurturing the youth to foster responsible citizenship and creating a good society.

Through the student ambassadorship, student ambassadors who will develop solutions to problems in their own countries will be incentivized with prize money of R50 000 for the winning solution.

The competition aims to identify and support the most innovative young mind in 54 countries with the end goal to sign up the brightest minds as JM BUSHA 54 Student Ambassadors.

The Student Ambassadorship will run during the 2017 financial year across universities nationally with the aim of rolling out the program continentally.

"Hold a book and pen – read, write, gain knowledge and you'll be free to dream and work to prosper and become the best of what you can be": Joseph Busha, Founder

JM BUSHA Women IN Sports (WINS)

2017 JM BUSHA WINS in Alexandra attracted over 500 participants as we witnessed our 2nd JM Busha Women's Tournament.

SIP's vision on WIN is centered on establishing a powerful platform for women's football that unites teams and players from the community of nations in the continent. This tournament seeks to revive and develop women's football, not just in Gauteng, but the whole of the Southern African Development Community (SADC) region.

We were honored to host our 'sisters' Young Buffaloes FC from Manzini, Swaziland and Flame Lilly Queens from Harare, Zimbabwe in joining us on our mission to unite Africa through sports.

JM BUSHA Investment Group's involvement in the game is also aimed at not only developing the skills of women on the football pitch, but to produce well-rounded soccer players who are healthy, educated and have affordable access a holistic Financial wellness solution to bridge the gap of creating a fair and equal society. The development of families, communities, nations and regional communities spanning various countries takes center stage in my vision of an equitable society.

Other Social Investment Programs

- Investment Seminar:
    - Investment Seminar was held in February 2017 focusing on finding value in changing times.
- Hear The Legend with JM BUSHA
    - October 2017 - Theme: Nation in transition...
- Doctors Without Borders
- JM BUSHA University Bursary Program
    - Education provides the opportunity to instill values of respect and appreciation of diversity which will eradicate xenophobia and discrimination hence our continuous investment in education.

JM BUSHA Investment Group

PRODUCT FOCUS: JM BUSHA Diversified 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 **ZAR4.17 billion**, JM BUSHA has a traceable track record in managing funds – since 2001.

About the Product: JM BUSHA Diversified Fund

This is a specialist all-equity fund managed to beat targeted JSE Shareholder-Weighted Equity Index (JSE SWIX).

Product Description

The JM BUSHA Diversified Equity Fund is a well-diversified listed equity fund, whose security screening process for inclusion in the portfolio is multi-stage thorough

Investment Securities

The fund invests in listed equities only with a maximum of 5% in cash for strategic asset allocation purposes at any time.

Investment Strategy

The fund's benchmark is JSE/FTSE Swix Index. The strategy is to actively manage the portfolio to out-perform the benchmark by 3% pa on a risk adjusted basis. Risk is managed through diversification and derivative overlays. Diversification is centered on income and geographical spread. The shares invested in must have at least (3) distinct income streams and operate in at least (3) three different geographical regions or countries. This reduces product concentration / market risk and isolates regional or country risk-such as legislation, operating and regulatory costs.

Historical Performance

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

Period ending **31 March 2017** (annualised above 1 year)

Period	JM BUSHA Diversified	SWIX	Alpha
3 Months	5.68%	3.30%	2.38%
YTD	5.68%	3.70%	2.38%
6 Months	4.14%	-0.03%	4.17%
1 Year	6.52%	1.59%	4.93%
3 Years	4.83%	7.08%	-2.25%
Inception	12.22%	12.81%	-0.59%

Product Salient Features

- Fund Benchmark : JSE SWIX
- Target Returns : JSE SWIX +1% pa
- Management Fees : 0.30% pa
- Liquidity (T+7) :100.00%
- Start Date :18 March 2011
- Minimum Investment :ZAR10 million
- Fund Size : ZAR152.208 million
- Classification : Segregated SA Equity

Investment Objectives

To produce a positive alpha of 3% above benchmark over a three-year period.

Commentary & Notes

Equity markets finished the year with sub-cash returns after a difficult second half. Resources in particular struggled. Given the fund's value bias we have been selectively adding to our resource position. This overweight relative to the benchmark has hampered the fund's relative performance. However, we believe the strategy should yield results over a three year time horizon.

Overall Asset Allocation					
Class Sector	Resourc	Industrials	Financials	Cash	Derivatives
Weight	39.36%	41.54%	12.15%	5.00%	1.95%

Top 10 Asset Holdings					
No	**Share**	**Weight**	**No**	**Share**	**Weight**
1	AGL	4.70%	6	TBS	4.00%
2	BIL	4.39%	7	IPL	3.74%
3	EXX	4.21%	8	IMP	3.52%
4	BAW	4.15%	9	KIO	2.94%
5	TKG	4.10%	10	SAP	2.92%