Absolutely Positive Performance

Quarterly Bulletin 2017 Q3

"Global economy moves forward"

"***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.

Market Performance Summary (YTD)								
Equity Indices	**Spot**	**%Change**	**JSE Top Gainers**	**Spot(c)**	**%Change**	**JSE Top Losers**	**Spot (c)**	**%Change**
JSE All Share	55580	9.70% ↑	Greenbay Properties Ltd	238	49.7% ↑	Arcelormittal SA ltd	460	-60.0% ↓
JSE Resources	35015	9.10% ↑	Naspers	292000	45.0% ↑	Consolidated Infracstructure	1233	-48.6% ↓
JSE Financials	15018	0.20% ↑	Allied Electronics Corp	1250	44.5% ↑	Lonmin	1254	-46.6% ↓
JSE Industrials	75729	17.80% ↑	Sirius Real Estate	1119	41.7% ↑	EOH Holdings	16364	-41.5% ↓
Namibia (NSX)	1128	-5.60% ↓	Murray and Roberts	1600	38.9% ↑	Sun International Ltd	5124	-41.1% ↓
Zambia (LUSE)	4974	18.50% ↑	Kumba Iron Ore	22041	38.6% ↑	Brait SE	5350	-38.1% ↓
Zimbabwe (ZSE)	291	↑	Exxaro Resources	12285	37.3% ↑	Novus Holdings	653	-34.0% ↓
Dow Jones	22405	13.40% ↑	Clicks Group Ltd	15803	36.8% ↑	Rhodes Food Group	1830	-32.1% ↓
S&P 500	2519	12.50% ↑	Cie Financiere Richemont	12290	35.4% ↑	Ocean Group Ltd	8233	-31.4% ↓
Nasdaq	6496	20.70% ↑	Goldfields Ltd	5898	35.3% ↑	Lewis Group	3000	-28.9% ↓
FTSE 100	7373	3.20% ↑	Trencor Ltd	3800	33.3% ↑	Clover Industries	1350	-28.8% ↓
German DAX	12829	11.70% ↑	Astral Foods	17208	33.1% ↑	Impala Platinum	3100	-27.5% ↓
French CAC	5330	9.60% ↑	Glencore PLC	6198	32.8% ↑	Invicta Holdings	5000	-27.2% ↓
Nikkei 225	20356	6.50% ↑	Anglo American Platinum	34500	30.5% ↑	Pionner Foods Group	11275	-26.8% ↓
Shanghai	3349	7.90% ↑	Mondi PLC	36281	30.2% ↑	Tsogo Sun	2026	-26.6% ↓
Hang Seng	27554	25.20% ↑						
ASX	4050	4.60% ↑						
Bond Yields	**Spot**	**%Change**	**Currencies**	**Spot**	**%Change**	**Commodities**	**Spot**	**%Change**
SAGB 2 Year	6.95	-0.98% ↓	R/$	13.56	-1.30% ↓	Gold ($/oz)	1280	11.5% ↑
SAGB 5 Year	7.49	-0.79% ↓	R/€	16.02	10.80% ↑	Platinum ($/oz)	912.05	1.0% ↑
SAGB 10 Year	8.55	-0.36% ↓	$/€	1.18	12.30% ↑	Palladium($/oz)	937	37.6% ↑
SAGB 30 Year	9.73	0.11% ↑	¥/$	112.51	-3.80% ↓	Silver ($/oz)	16.66	4.6% ↑
US 10 Y	2.33	-0.11% ↓	Pula	10.3	-3.60% ↓	Brent Crude ($/Barrel)	57.54	1.3% ↑
US 30 Y	2.86	0.21% ↑	Kenya	103.15	0.60% ↑	Copper ($/ton)	6481	17.0% ↑
UK 10 Y	1.36	0.12% ↑	Kwacha	9.75	-1.90% ↓	Alluminuim ($/ton)	2102	24.2% ↑
German 10 Year	0.46	0.25% ↑	Naira	358.99	13.90% ↑	Iron Ore ($/ton)	62.05	-16.8% ↓

Source: Bloomberg

Research Team

Chief Investment Officer

Joseph Makamba Busha

Investment Research

Patrick Serere
Simbarashe Chimanzi
Cleopatra Mtembu
Charné Adams

Contact Details

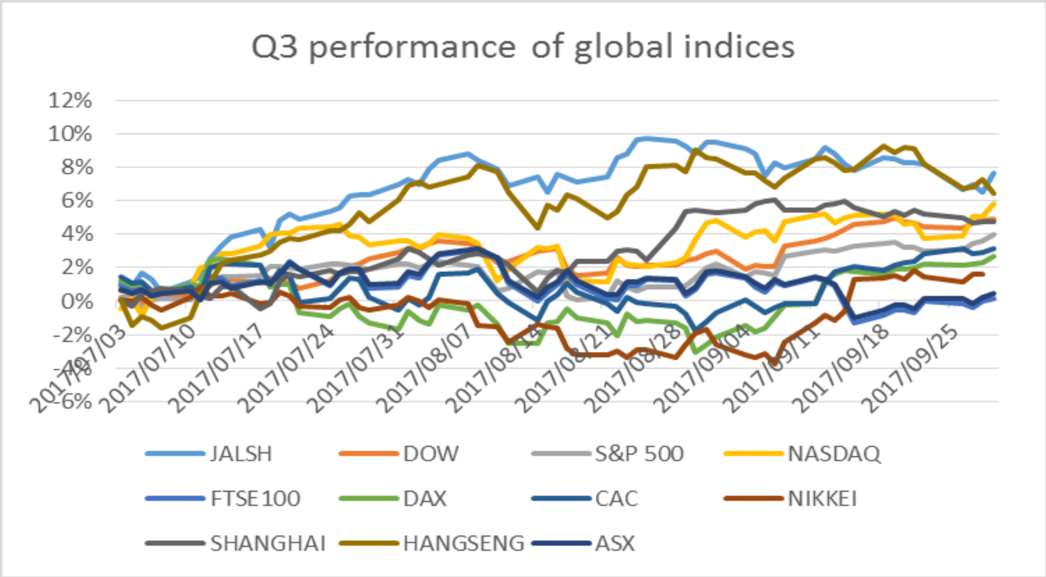
Tel: +0027 11 325-2027/8
Fax: +0027 11 325-2047
invest@jmbusha.com
www.jmbusha.com

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	6.86%
Bond Plus	6.85%
Real Return	7.17%
Absolute All Class	9.05%
Absolute Aggressive	8.40%
Diversified Equity	11.01%
Communities Fund	8.94%
*Afro Fund	7.17%
*same as real return	

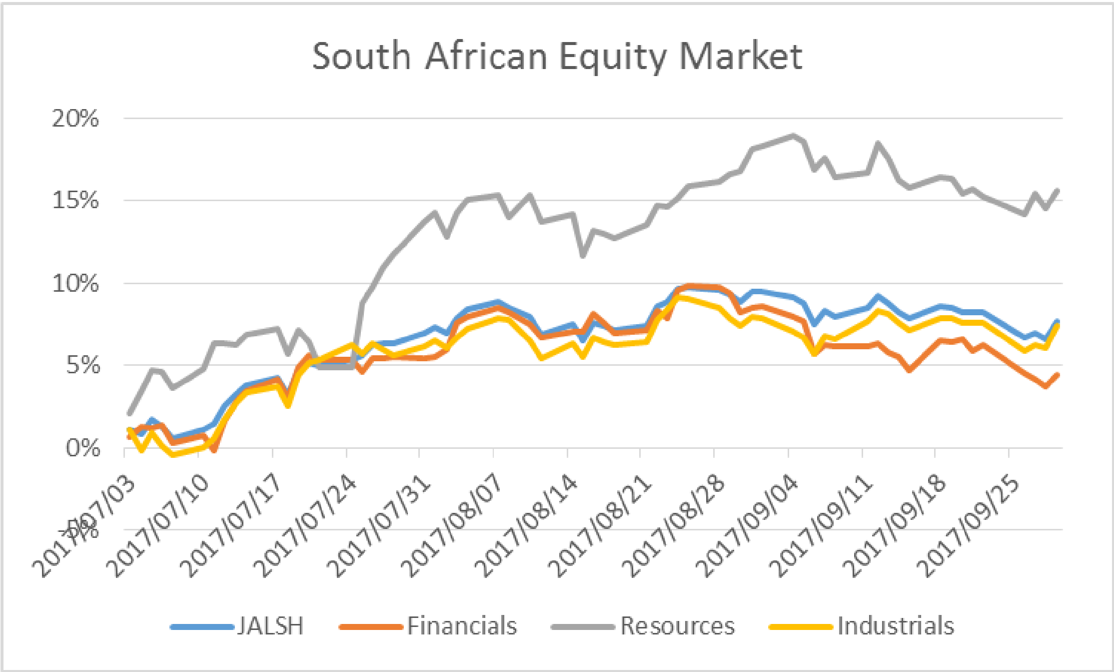
Investment Analyst, Simba Chimanzi, breaks down the market performance.

Global equities delivered strong returns during the third quarter as improving growth conditions continue to drive demand for risk assets. Despite geopolitical tensions (US , North Korea , Spain) and markets have been broadly supportive and resilient.



Source: Bloomberg

The JSE had its best quarterly performance for the year during Q3 with a strong return of 7.40% as compared to 2.77% in Q1 and -0.85% in Q2.Resources were the best performers with a return of 8.31% supported by strong commodity prices as well as positive data coming from China. We continue to see improvement in free cash flow yields especially with the diversified miners and these will support resource share prices going forward. Industrials were 7.39% in the green with Naspers being the backbone of that performance. The media and entertainment company is up 45% for the year and no one has total conviction on when the rally will halt. The industrial index also benefited from the weaker rand, with a lot of rand hedges dominating the index. Financials recovered from a dismal Q2 to gain a modest 3.79%.Despite irresistible valuations and relatively solid fundamentals, the sector has remained flat for the year as the shaky political landscape and risk of further ratings downgrades continue to form a ceiling on the performance of financial shares.

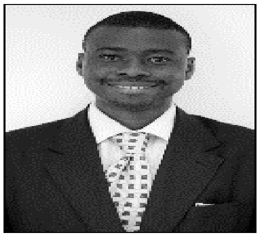


Source: Bloomberg

Investment Outlook

Market confidence spurred by global economic growth and investor confidence were the main highlights in Q3 shrugging off geopolitical tensions and other negative narratives. Domestically, politics remains a key issue for investment markets as we head into Q4.The political landscape in South Africa has been under a heavy dark cloud over the past 24 months. As the ANC elective conference approaches, we believe that the reaction from investment markets will be of a binary nature, positive for Mr. Cyril Ramaphosa and negative for anyone else.Mr Ramaphosa's business acumen and invested interests in Industry makes him a market favorite. If it is to go his way, we expect underperforming sectors i.e. retailers and banks to be buoyed by the outcome.

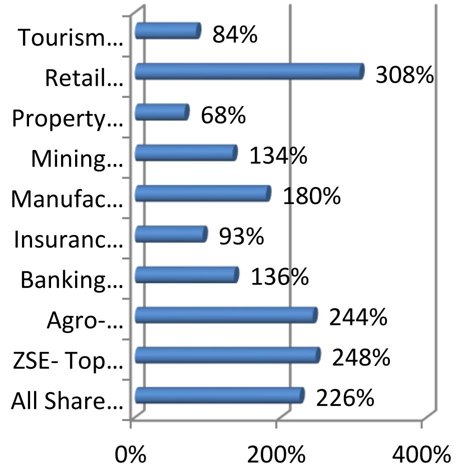
The elective conference is not the only hurdle come December. There is the little matter of the rating agencies that will be on our shores. Investment expenditure in the short term is expected to be soft if not regress as government continues to battle increasing debt and a widening deficit. The agencies will definitely be paying attention when minister Gigaba delivers his medium term budget in Q4.Any political rhetoric can be catastrophic to SA's economy.

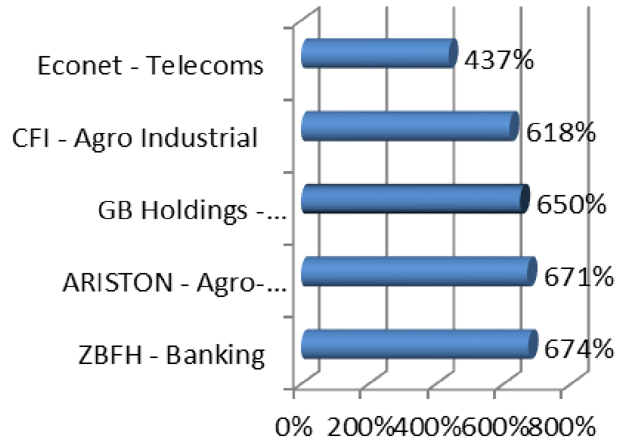


Investment Analyst, Patrick Serere, gives us an update on the Zimbabwe Stock Exchange.

In developed markets a Bull Run on the stock market is an indication of an expected positive economic out turn however on the ZSE it has proved to be the reverse. Zimbabwe is currently experiencing acute foreign currency shortages emanating from a high import bill, illicit outflows and reduced exports resulting in the central bank putting measures to ration the scarce resources on a priority basis. Inflation on the other hand, which rose to 0.76 percent last month, is projected to close the year 2018 at levels between 10 and 99 percent according to the, the Parliament Budget Office. Such high levels will breach the generally accepted inflation rate of 2 percent and Sadc's benchmark of 7 percent. Although the projected rise in inflation is valuable in terms of reduction in the real value of domestic debt, it reduces the value of savings and bank balances in RTGS dollars thus bringing back old memories of hyperinflation. This will further strain all efforts to build public confidence in the banking system.

Despite such a negative outlook the equities market has been rampaging ahead breaking records in many sessions. Currently the industrial index is at an all-time high of 517 points up +226% YTD.Due to a scarcity of investment alternatives the stampede `on the capital markets is expected to continue as interest rates remain capped to stimulate industry and agricultural output.





This year so far Government experienced a budget deficit of $535 million in the first half of the year, it was however understated given the pronouncement in the Annual Budget Review that government accumulated $1.07 billion worth of supplier's and service provider's arrears to a number of domestic creditors who delivered goods and services to various line Ministries and Departments. Therefore the arrears may have accumulated beyond the $1.5 billion mark by the end of August. This budget deficit is being financed through the issuance of Treasury Bills that have the effect had the effect of sucking out hard currency liquidity in the market. The implied Old Mutual exchange rate currently puts a whooping premium of 520% on the equivalent price on the JSE. That being the case it is clear that the country is headed for 2-digit inflation by end of year 2018 the major factors driving the upward trend in inflation include foreign shortages to import raw materials that lead to high premiums being charged on hard currency.

On the Revenue collection side, there is positive news with the Zimbabwe Revenue Authority gross collections for the third quarter up 19% above target boosted mainly by higher collections in Value Added Tax, individual tax, excise duty and company tax.

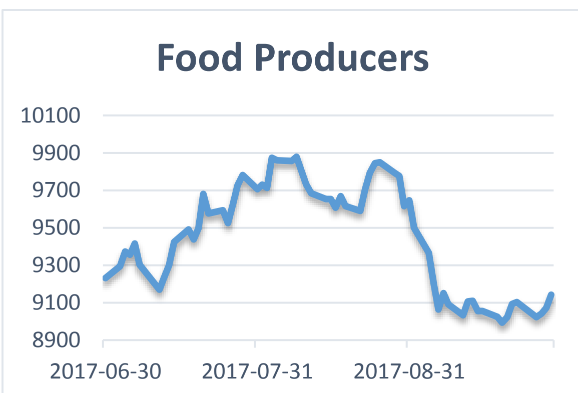
According to a performance update, gross collections were $1.03 billion above the target of $863.56 million and 13.3% above the same period in 2016.

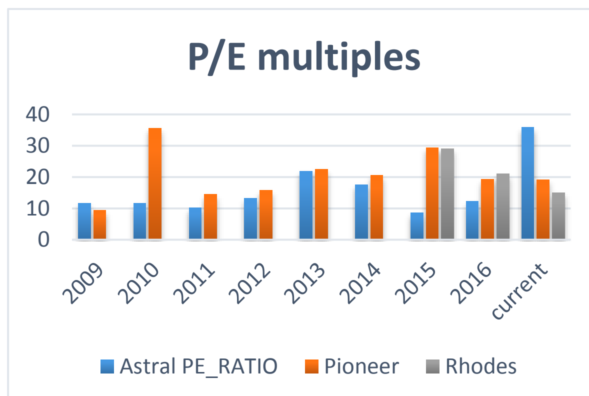
In the period, the major revenue heads performed well, surpassing set targets. The most outstanding being Company tax 30%, VAT on imports 23.77%, Net Customs duty 16.26%, Withholding tax on contracts 64.67%. However, Mining Royalties were 24.35% below the set target because of fluctuating mineral prices on the international market and foreign currency constraints that are negatively affecting production. Individual tax contributed $194.15 million, 1.54% ahead of target but down 4.84% from $204.03 million in 2016.This revenue head continues to be adversely affected by retrenchments, salary cuts and inconsistent salary payments by companies in the private sector and others in the public sector that rely on Government subvention.

Despite this positive outturn on the revenue side, outlook on the budget deficit remains negative and continued printing of money through TB issuances will result in an escalating demand for listed equities and real estate in Zimbabwe as a safe haven strategy.

Investment Analyst, Cleopatra Mtembu shares her insights on SA food producers.

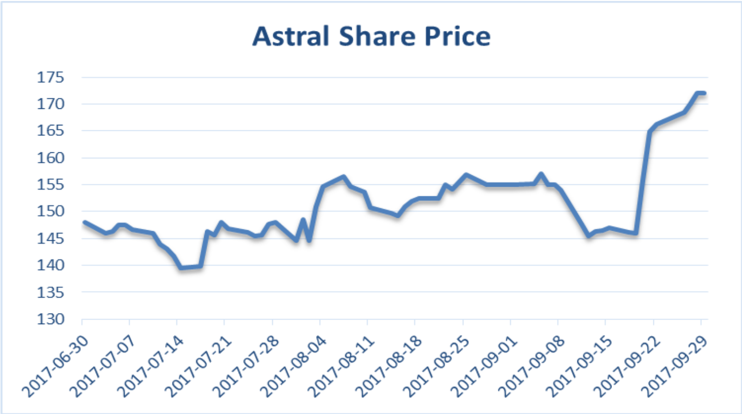
The JSE listed food producers have the lowest P/E multiples relative to its global peers within the branded consumer stocks. Reuter's polls has forecasts the country's GDP to be at its lowest two-year. There may be prospects of a further credit downgrade in the case that "The emerging policy framework becomes even less predictable or has shifted in a way likely to undermine economic or fiscal strength." Said moody, this will be largely determined by the ANC"s upcoming elective conference. Given all the risks in South Africa and the low growth forecasts the food sector does not offer much value currently. Consensus however believe there might be opportunities within the sector, notably Rhodes foods, Astral Foods and that Pioneer foods is pricey currently.





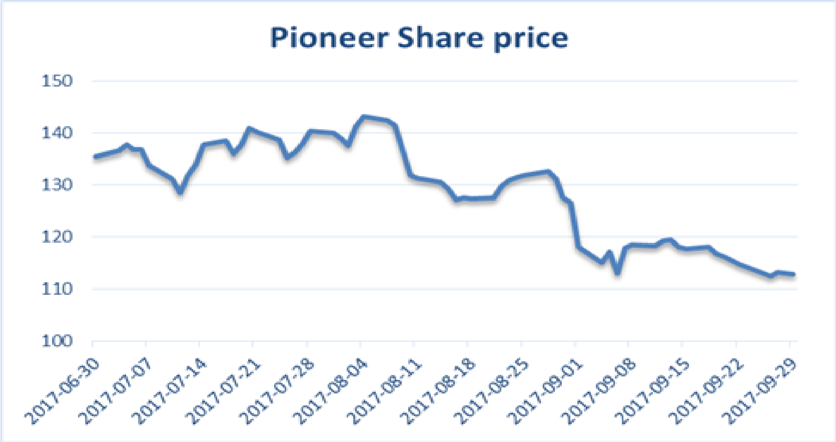
ASTRAL FOODS

Astral foods an integrated poultry business with 8 brands within South Africa including county fair and Goldi and 5 brands outside South African markets inclusive of Meadow Mozambique. Astral's main feeds are yellow maize, white maize and Soya, which have all substantial decrease, in the past year and continue to do so in the current year. This then means that the cost of input for the company decreases therefore decreasing its expenses.



PIONEER FOODS

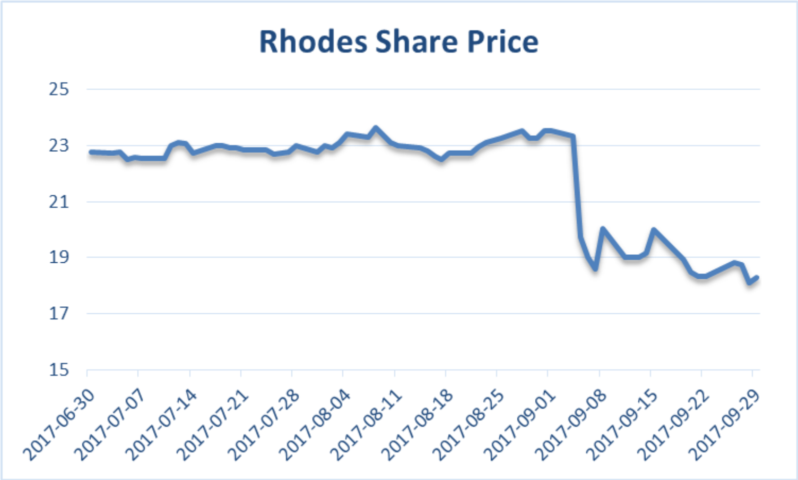
Since the JSE listing inception, the group has invested a substantially on upgrading facilities deploying world-class machinery and relocating production capacity closer to sources of demand. Major areas of investment include the Gauteng Moir's biscuit plant, Gauteng beverage facility producing fruit juice and Pepsi brand beverages, Gauteng cornflakes plant, Gauteng broiler expansion, the creation of carbonated soft drink capacity in the Western Cape and the expansion of Weet-Bix, rice and pasta plants. The share price came under pressure after the retirement announcement by the Chief executive of the group. The group released disappointing trading update for the 1H17, this was mainly due to impact of dried fruits and maize, we saw HEPS of -47% and only 2% increase in revenue. Pioneer foods has lost 25% of its share price thus far this year. It gave up about 10% in both August and September.



BRAND	CATEGORY	POSITION
Sasko	Bread	2
White star	Super maize meal	1
Sasko	Wheaten Flour	2
Liqui-fruit	Long-life fruit juices	1
Ceres	Long-life fruit juices	3
Weet-Bix	Cold breakfast cereals	1
Spekko	Rice	2
NuLaid	Eggs	1

RHODES FOOD

Rhodes food with its main brands which including Rhodes, Bull Brand, Magpie and Squish released trading updates during the last quarter. One of the contributing profit drivers with companies holding international division is currency. The strength of the currency results in the decline in operating profits. Amongst other factors the Volume declines, lower international prices and fruit costs increment due to drought has a further downside impact on Rhodes food international division's performance. Currently 25-30% of Rhodes' pulp and puree is utilised internally, the company has a short-term target to increase this to 50% and longer-term plans to use the majority internally, which should reduce its exposure to this segment meaningfully. There is pricing pressure and reduced demands for pulp and puree products and this has reduced its volumes. With that being said, Rhodes remain the cheapest and Its organic growth in the regional division was 14%, given it has only been on the JSE for +/- 4 years and is relatively small in size, makes it a growth stock.



CONCLUSION

Food producers are the most affected by weather conditions, in the past years South Africa has been going through a drought stricken phase, which resulted in the rise of food prices. The South African consumer has been under immense pressure given the low economic growth, this has largely affected food producers, over and above the lingering drought effects. However there has been a slight weather improvement in the past months of 2017 and as a result maize price fell, with the CPI falling as well to 4.36% and 4.56% in July and August respectively, from 5.01% in the June. The consumer however still remains cash stripped even with decreasing CPI. Due to all these conditions there has been an intense competition amongst food producers. In the case of an improvement for the consumer, that is likely to be followed by a less intense competition.

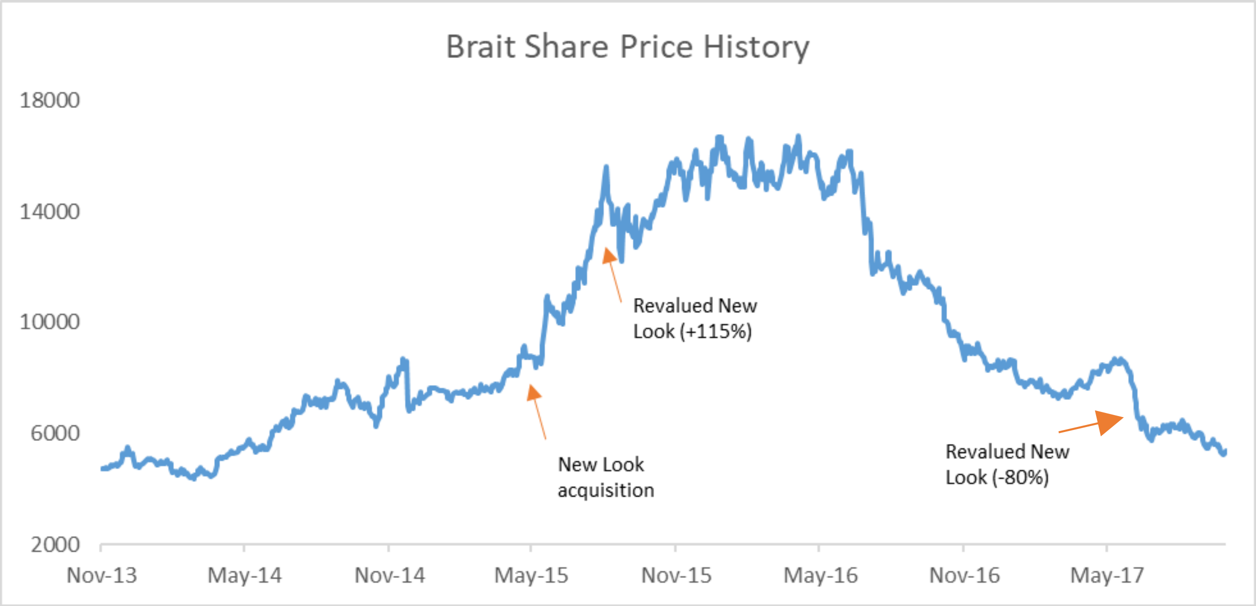
Investment Analyst Charne Adams gives her insights on value destruction through acquisitions

Presidential votes of no confidence, three incidences of firing finance ministers, a volatile and weakening currency, virtually no growth, even a technical recession – the list goes on. The last couple of years in South Africa have felt like a disaster, one distressing event after the other. Residents, opposition political parties, companies and investors alike have felt diminishing enthusiasm about the country. As sentiment has waned, many South African companies have sought offshore exposure, acquiring international companies often at a premium to their intrinsic value. The rationale behind these acquisitions has been that offshore operations provide access to better growth prospects and more favourable business conditions, and therefore better opportunities to increase shareholder value. As we will see, however, this has not always been the case.

Companies acquire other companies to expand into different markets, increase market share in their own markets, realise synergies between businesses, achieve economies of scale and cost efficiencies or realise tax benefits. Often, however, companies tend to destroy value through acquisitions instead of creating it - in many cases by paying too much. The larger the purchase price, the longer it will take to realise the economic benefits of the transaction.

Overpaying is generally a result of a couple of reasons. Management teams get emotionally attached to deals. If the price they are willing to pay is not accepted, they are prone to continue bidding, placing more emphasis on closing the deal than the price paid. Management can also overestimate the value of potential synergistic benefits. Prices tend to offer more value when the target company is private or when purchasing a division of a company. With listed companies, however, the prevailing share price can influence the valuation. A premium above the market price would need to be high enough, or a price below the value would need to be justified, in order for shareholders of the target company to agree to the sale.

We will look at three South African companies who have made international acquisitions in the past few years, Brait, Famous Brands and Woolworths, and attempt to assess what the impact of these acquisitions has been on shareholder value.



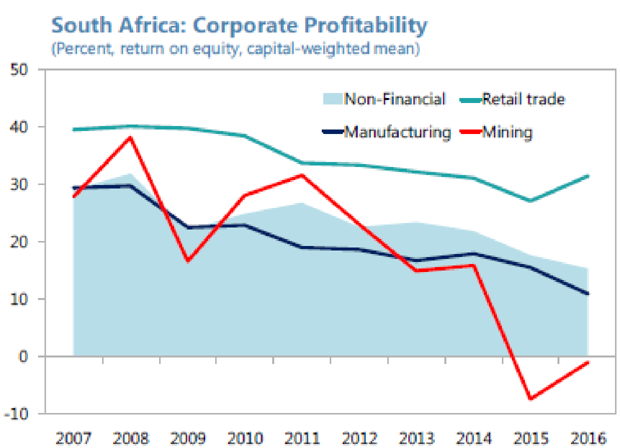
In early 2015, Brait purchased New Look, a clothing retailer in the UK, for £2.5 billion including debt. The new men's line and expected expansion into China and Europe supposedly justified a 115% increase in the carrying value of the investment from R15 to R32 billion. Subsequent results showed the negative impact of Brexit, decreasing UK consumer confidence, clothing price deflation and the misreading of fashion trends. The carrying value was then cut by 80% to R7.1 billion. This resulted in Brait's net asset value falling by 45% from R136.27 to R78.15/share.

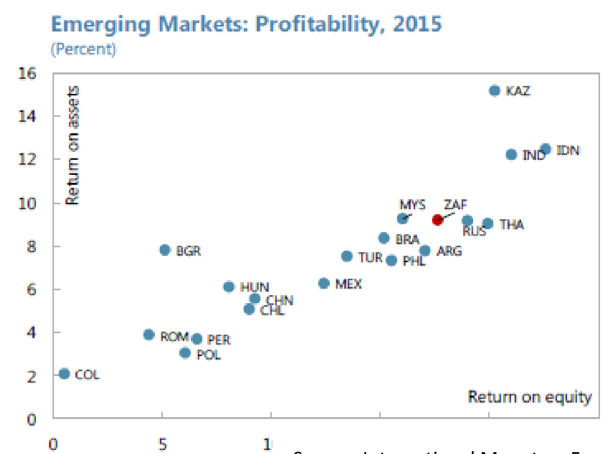
Woolworths acquired David Jones, an Australian clothing retailer, in 2014 for R21.4 billion, a 25% premium to its market capitalisation at the time. Economies of scale were expected to be realised and the combined companies would increase Woolworths' market share to create one of the largest retailers in the southern hemisphere. Management assumed the continuation of long term growth rates and miscalculated the impact of changing weather patterns affecting merchandising, low wage growth and low consumer confidence resulting in aggressive discounting by other retailers. It also became evident that inefficiencies existed in systems and stock movements. Instead of adding the expected A$130 million to profit annually, David Jones is expected to make losses until 2019 as the stores are revamped, systems overhauled and food is added to the offering.

Gourmet Burger Kitchen (GBK) was purchased by Famous Brands for R2.1 billion in 2016. Famous Brands has experience in the UK burger market since acquiring Wimpy UK in 2007. Despite the fact that they have closed 65% of these outlets, they felt that GBK was a good acquisition. Famous Brands lost 12% of its value on the day it released its last trading statement. GBK had made a loss of R16 million for the six months ending August 2017. Apart from the UK burger market being quite saturated, GBK uses a corporate owned model, unlike the franchise model used in South Africa, thus resulting in higher capital expenditure. Management has had to curtail the rollout of new stores due to the hefty expense and low consumer confidence. Putting further pressure on Famous Brands, the acquisition was paid for using debt which has resulted in a net debt to equity of 165% and its interest expense increasing from R8 to R138 million.

Purchase EV/EBITDA multiple	
Brait	9,1
Famous Brands	12,5
Woolworths	11,3

South African listed companies have generally traded at EV/EBITDA multiples between 7 – 10x. Famous Brands and Woolworths acquired their international targets at multiples at a premium to the South African market. While the Brait acquisition appears to be more attractive, looking at the composition of the multiple it is clear that about half of the multiple is relating to debt, which is included in the enterprise value of the company. Although Brait was able to refinance New Look's debt, it is important to note the increase in interest burden which will affect the group's profitability.





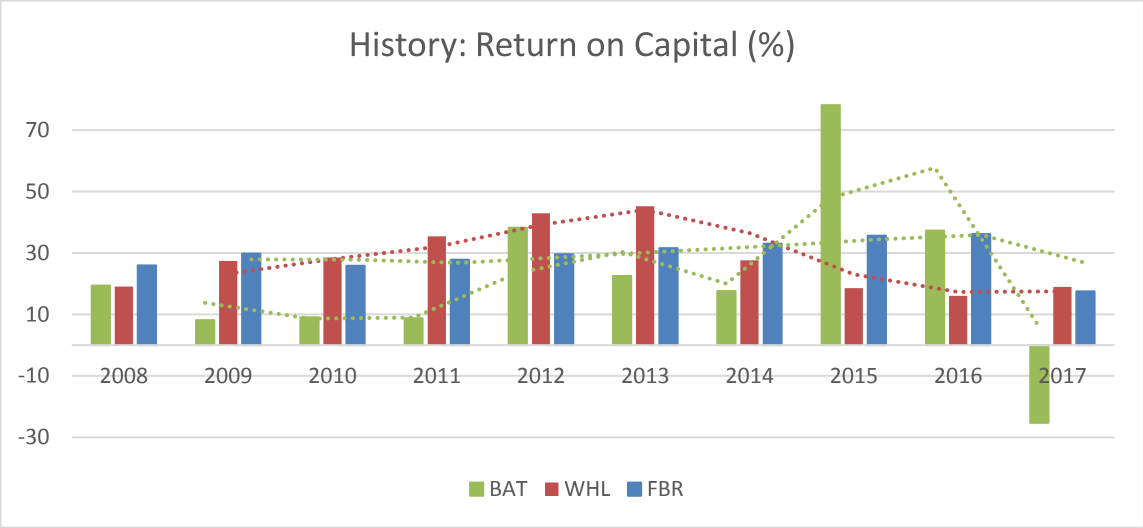
Source: International Monetary Fund

Barring mining, South African companies performed relatively well in the weakening economic environment. Among emerging market countries, South Africa's average return on assets and equity metrics were roughly within the first quartile. Demonstrating that companies have been able to withstand the country's volatility.

FCF Margin	2014	2015	2016	2017
Famous Brands	13,6%	14,3%	9,2%	3,8%
Woolworths	6,6%	4,1%	5,1%	3,6%

NAV/share (R)	2014	2015	2016	2017
Brait	31,95	77,12	136,27	78,15

Famous Brands and Woolworths have had a decrease in profitability following their international acquisitions. This is shown by the decrease in free cash flow margin, which represents how many Rands of free cash flow are generated from each rand of revenue. Brait's decrease in carrying value of New Look, to below its purchase price, has resulted to Brait's NAV returning to levels prior to the acquisition.



To determine whether a company is creating value for shareholders, the return on invested capital (ROIC) the company is achieving needs to be higher than its cost of equity. Looking at ROIC instead of purely earnings per share gives a better indication of value as it takes into account both the income statement and balance sheet. Woolworths and Famous Brands have had a strong history of returns but both have suffered since acquiring their international counterparts. Brait has had a more volatile ROIC history but has achieved a negative return for the first time in 2017 after the decline in carrying value of New Look.

The reason that management teams often don't focus on increasing the companies ROIC is because many have performance hurdles which are more focussed on increasing revenue, earnings or the share price. The pressure from shareholders often leads to companies acquiring others to increase their revenue and earnings even if it is not in the best interest of shareholders in the long run. At the time of the acquisition, Woolworths executives' long term incentive scheme was based on meeting hurdles relating to total shareholder return (share price and dividends), headline earnings per share growth and ROIC. The ROIC portion, however, only had a weighting of 20%. Famous Brands only had a total shareholder return hurdle. Alternative options which could result in an increase in value would include offering cash dividends to shareholders rather than investing in suboptimal investments.

Uncertainty around time lines can make it difficult to determine whether an acquisition is bad or not. However, current evidence relating to operational and share price performance post these acquisitions suggest that none of the deals have worked out well thus far. A combination of factors, including the price paid, operating environment and financing method, have contributed to the loss of shareholder value. It could be argued that some of these are outside of management control but what is evident is that foreign acquisitions were seen as the blanket solution to the challenging local environment, and the grass wasn't always greener. Over time some, or maybe even all, of these deals might prove to be better than they currently look. What is certain, however, is that they have not worked out as well as management expected and led shareholders to believe they would.

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 **ZAR3.489 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.

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 : ZAR165.59 million
- Classification : Segregated SA Equity

Investment Objectives

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

Overall Asset Allocation

Class Sector	Resourc	Industrials	Financials	Cash	Derivatives
Weight	32,85%	42,63%	17,49%	6,75%	0,28%

Top 10 Asset Holdings

No	Share	Weight	No	Share	Weight
1	AGL	4,55%	6	INL	3,25%
2	SAP	4,40%	7	ARI	3,13%
3	IPL	4,36%	8	BAW	3,06%
4	CFR	4,01%	9	KIO	2,93%
5	TKG	3,84%	10	SGL	2,85%

Historical Performance

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

Period ending **30 Sept 2017** (annualised above 1 year)

Period	JM BUSHA Diversified	SWIX	Alpha
3 Months	10.48%	7.03%	3.46%
YTD	7.76%	10.56%	-2.80%
6 Months	1.97%	7.03%	-5.06%
1 Year	6.19%	7.00%	-0.81%
3 Years	3.71%	7.37%	-3.65%
Inception	11.57%	12.94%	-1.37%