JM BUSHA
Investment Group

Quarterly Bulletin
Q2 - 2019

Absolutely Positive Performance

"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	58204	10.4% ↑	Impala Platinum Holdings Ltd	6975	90.2% ↑	Rebosis Property Fund Ltd	63	-76.6% ↓
JSE RESOURCES	47954	16.8% ↑	Kumba Iron Ore Ltd	49938	76.4% ↑	Omnia Holdings Ltd	3522	-58.3% ↓
JSE FINANCIALS	16993	3.7% ↑	Sibanye Gold Ltd	1676	67.3% ↑	Delta Property Fund Ltd	200	-55.6% ↓
JSE INDUSTRIALS	71742	12.7% ↑	Anglo American Platinum Ltd	83693	55.6% ↑	Montauk Holdings Ltd	3600	-55.0% ↓
NAMIBIA (NSX)	1377	5.3% ↑	Gold Fields Ltd	7675	55.6% ↑	Capital & Regional PLC	260	-53.1% ↓
ZAMBIA (LUSE)	4565	-13.0% ↓	Allied Electronics Corp Ltd	2655	47.5% ↑	Trustco Group Holdings Ltd	834	-47.1% ↓
ZIMBABWE (ZSE)	184	26.8% ↑	Telkom SA SOC Ltd	9219	45.7% ↑	Massmart Holdings Ltd	6220	-39.9% ↓
DOW JONES	26600	14.0% ↑	AngloGold Ashanti Ltd	25401	39.8% ↑	Brait SE	1850	-38.3% ↓
S&P 500	2942	17.3% ↑	Royal Bafokeng Platinum Ltd	3460	39.1% ↑	EOH Holdings Ltd	1957	-36.5% ↓
NASDAQ	8006	20.7% ↑	Cartrack Holdings Ltd	1975	38.1% ↑	Intu Properties PLC	1349	-36.2% ↓
FTSE 100	7426	10.4% ↑	Northam Platinum Ltd	5900	36.4% ↑	Sappi Ltd	5489	-32.8% ↓
GERMAN DAX	12399	17.4% ↑	African Rainbow Minerals Ltd	18217	28.0% ↑	Netcare Ltd	1798	-32.0% ↓
FRENCH CAC	5539	17.1% ↑	Cie Financiere Richemont SA	11954	27.6% ↑	KAP Industrial Holdings Ltd	559	-31.1% ↓
NIKKEI 225	21276	6.3% ↑	DataTec Ltd	3476	27.0% ↑	Invicta Holdings Ltd	2413	-30.7% ↓
SHANGHAI	2979	19.4% ↑	Assore Ltd	36678	26.5% ↑	ArcelorMittal South Africa Ltd	241	-28.9% ↓
HANG SENG	3791	9.9% ↑						
AUSSIE ALL ORDS	6699	17.3% ↑						
Bond Yields	**Spot**	**BPS Change**	**Currencies**	**Spot**	**% Change**	**Commodities**	**Spot**	**% Change**
SAGB 2 Year	6.33	-0.67 ↑	R / $	14.09	1.8% ↑	Gold ($/oz)	1410	9.9% ↑
SAGB 10 year	8.09	-0.79 ↑	R / €	16.02	2.6% ↑	Platinum ($/oz)	835	4.9% ↑
SAGB 30 Year	9.67	-0.24 ↑	€ / $	1.1373	0.8% ↑	Palladium ($/oz)	1538	21.9% ↑
US 10 Y	2.01	-0.68 ↑	$ / ¥	107.85	1.7% ↑	Silver ($/oz)	15	-1.2% ↓
US 30 Y	2.53	-0.49 ↑	Pula	10.66	0.5% ↑	Brent Crude ($/barrel)	67	23.7% ↑
UK 10 Year	0.83	-0.44 ↑	Kenya	102.30	-0.5% ↓	Copper ($/ton)	5982	0.6% ↑
German 10 Year	-0.33	-0.57 ↑	Kwacha	12.85	-8.2% ↓	Aluminium ($/ton)	1782	-2.2% ↓
			Naira	360.24	0.6% ↑	Iron Ore ($/ton)	109	48.5% ↑

Source: Bloomberg.

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JM BUSHA FUND RETURNS	
Fund	**5 year Return**
Cash Plus	7.88%
Bond Plus	9.30%
Real Return	6.30%
Absolute All Class	6.62%
Absolute Aggressive	6.49%
Diversified Equity	3.57%
*Afro Fund	6.30%

*same as real return

Investment Market Review and Outlook.

By Cleopatra Mtembu and Farai Mapfinya

Market Review

The JSE All Share index continued its first quarter rally, extending gains in the second quarter by another 3.92% on a total return basis. The market has all but recouped losses from the last calendar year in the first half alone. Most sectors were broadly up with the exception of the industrial support services and short term insurance which shed 2.99% and 0.40% respectively. Gold shares were the best performers returning total return of 29.60% in 1Q19, and now up 46.59% YTD. Platinum shares remain the best performers with a return of 63.88% YTD.

Of the main indices, financials led the gains rising 7.02%, with all its subsectors bar short term insurance returning positive. Industrial stocks also had a decent return gaining a modest 4.45% despite the decline in industrial support services. Despite the rally in gold, resources returned a meagre 2.60%, reflecting the relative weight insignificance in the resources basket.

Over the quarter, the JSE All Share re-rated marginally to a 17.7x price to earnings (PE) on the 30th of June 2019 from 17.2x as at 31 March 2019. The underlying drivers of the market gains has clearly been the modest earnings recovery. Resources shares re-rated from 14.26x to 14.61x PE despite the sharp rise in price for gold shares. Financial valuations bared moved an inch, trading at a 10.5x PE multiple from 10.3x at the close of last quarter. Meanwhile, industrial shares bucked the trend de-rating from 21.5x to 21.3x PE. Industrial companies reported broadly weak earnings. The de-rating is a clear indication of investors pricing in higher forward earnings than was reported. From a price to book P/B perspective, financials remain the cheapest at 1.59x P/B, marginal re-rating from 1.55x in Q1. Resources are at 1.84x from 1.80x P/B while industrials remain elevated at 2.60x barely moving the 2.57x P/B at the close of the previous quarter.

Valuations favour financials and resources. We still like financial shares, particularly banks over industrials and resources. The weakness in retail shares has still not closed the valuation differential from last quarter just yet, but we continue keeping a close eye on that gap to pick opportunities which may emerge.

The Economy: Review and Outlook.

By Simbarashe Chimanzi.

2nd Quarter 2019 South Africa Economics Review

The second quarter of the year began with increased confidence around the success of US- China trade negotiations with US officials indicating that it had extensive talks on a range of issues including forced technology transfer. The positive sentiment did not last for long as President Trump imposed a 5% tariff on Mexican goods, a move that made Beijing uneasy. Mr Trump then went after India, declassifying it as a developing nation and therefore removing an exception to export 2000 products duty free to the US. Beijing indicated that they were ready to restrict exports of rare earth metals, (a critical element in US defence force artillery). China accounts for 70% of global production and will definitely have the last laugh.

On the commodities front, May was a weak month for Brent losing by about 12% to record its weakest level in 6 months. OPEC and Russia however confirmed that they would manage their inventories to avoid a surplus. There has been a general shift from risky assets shown by the strong gold price up 10% YTD at US$1409.6/Oz. Platinum after reaching dizzy heights had a negative quarterly return of 2%.

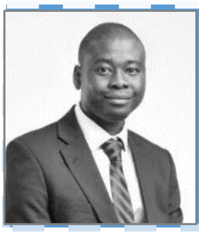
Without a doubt, the biggest event of the quarter was the May 8 South African national elections. The ANC won 57.5% of the vote nationally. Judging from how equity and fixed income markets reacted , it was seen as very positive despite ANC's national majority being reduced to below 60% for the first time ever. It was however better than the 53.9% it had in the local government elections.

The next key event of the quarter was Ramaphosa's cabinet announcement which came later than expected causing jitters through the market and the rand weakening. However, looking at the cabinet, we believe there were no big disappointing deployments and we were impressed by the gender diversification and the deployment of youth in key ministries (Ronald Lamola - Minister of Justice and Correctional Services).

June in SA came with the cold but relief from an economic perspective as major central banks indicated they were ready to provide support for global growth in the form of lower interest rates. US Federal Reserve (Fed) Chair Jerome Powell proposed that the most appropriate path forward was for lower US interest rates.

Commodities had a strong run in June providing support to diversified miners, gold up 8%, palladium 16% and Iron Ore up 11%.The policy shift by the major central banks also assisted emerging market currencies with the Rand by 3.4% in June. Inflation has been steady for a year now around the 4.4%-4.5% range well below the upper target band of 6%.With regard to local economic data, Retail sales grew by 2.4 % YoY and was well above expectations as did manufacturing production +4.6% YoY.

Going forward, we expect President Ramaphosa to slowly continue his restructuring and anti-corruption process, which is encouraging for SA Inc. and investor confidence. We expect the SARB to decrease interest rates this year.



SADC: Zimbabwe Stock Exchange

Impact Of Currency Woes

By Patrick Serere

Top Traded ZSE Stock Returns

Figure 1 – Year to date performance

		Price		ZWD	USD
Stocks	**Sector**	**30/06/2019**	**31/12/2018**	**YTD**	**YTD**
Cassava	Technology	173.45	143.11	21.2%	-85.74%
Delta	Beverages	340.12	272.91	24.6%	-85.34%
Econet	Telecom	183.5	142.75	28.5%	-84.88%
Innscor	Manufacturing	260.32	185	40.7%	-83.45%
Padenga	Agro-Industrial	219	85	157.6%	-69.69%
OkZim	Retail	50	28.52	75.3%	-79.37%
Seedco Int	Agro-Industrial	220	172	27.9%	-84.95%
Seedco	Agro-Industrial	178	207.79	-14.3%	-89.92%
Simbisa	Retail	124.75	72.56	71.9%	-79.77%
Natfoods	Agro-Industrial	723	710.45	1.8%	-88.03%
Industrial Index	Index	647.8	487.1	33.0%	-84.35%
Mining Index	Index	255.3	227.7	12.1%	-86.81%
Top 10 Index	Index	183.8	145	26.8%	-85.09%
RTGS/USD	Currency	8.5	1	750.0%	

Source: ZSE, JMBUSHA.

The Zimbabwe Central Bank is set to turn on the printing press to support the formalisation of the local currency, the Zimbabwean Dollar. The infamous local unit returned after the Government dumped the multi-currency system which had been in place for 10 years.

The bank will soon print ZW$1.5 billion (inclusive of notes and coins) for initial circulation to grow money supply. According to RBZ statistics for March 2019, broad money supply (M3) was at $10.63 billion, up 2.29% from February, 38.14% from

March 2018 and 6.1% from December 2018. The annual growth has been primarily driven by demand deposits, which have grown by 49.52%. The ZW$1.5 billion is derived from the Central Bank opinion that paper money in the economy should be between 10 and 20 percent of M3.

The dumping of the multi-currency regime has seen rates tumbling on the parallel market to 8.5-9x from 13x.This comes as the recent sizeable interest rate hike to 50% per annum suggests that the government is taking up a more aggressive stance towards liquidity management.

The Zimbabwe Stock Exchange lost 16.1% in 1 week from the announcement of the new ZimDollar but remains 33.1% up YTD. The imposition of the 90-day vesting period for dual listed shares is expected to noticeably depress market activity, having seen rising trade in the Old Mutual share as foreign investors exited the market while speculators exploited exchange rate arbitrages. The other dual listed stocks affected include NMB, PPC, Hwange, Amalgamated Regional Trading, CAFCA, SeedCo International and Meikles Limited.

The interest rate hike to 50% per annum is also expected to dampen trading activity as the government looks to mop up excess liquidity. Despite the new policies the market is expected to continue making gains with the real interest rates still negative. (Official inflation at 98%).

Naspers Unbundling & Listing in Amsterdam.

Analysis and Valuation
Why Now?

By Justice Ndou.

In February 2019, the second biggest JSE listed company by market capitalization Naspers finalised the unbundling of its Video entertainment division Multichoice which contributed just over 18% on the group’s revenue in 2018, a far cry from its over 56% contribution to the group’s revenue 10 years ago. This was followed by the announcement in March of the group’s intention to form a new company Prosus N.V. (formerly referred to as NewCo), comprising the internet interests outside of South Africa and including investments in Ecommerce. Prosus N.V. will then be listed on Euronext Amsterdam.

The listing will have a secondary, inward listing on the JSE in South Africa and is expected to be around 75% owned by Naspers with a free float of some 25%. The remaining businesses will be directly owned by Naspers.

The news were received well by the market which came as a no surprise considering that since the exponential growth of Tencent , the dominant market perception is that Naspers shares have been perpetually trading at a discount to its Tencent stake at market value.

But how true is this perception? If we were to assume that all the other businesses are worth nothing or rather are liabilities using the fact that Tencent contribution to the trading profit in the financial year ending 31 March 2019 was just over 119% and all the other businesses reduced the trading profit by over 19% and that Tencent share price is trading at a fair value then the argument of under-pricing would hold ground (figure 2.)

Figure 2. Naspers Stake in Tencent at Market Value as of 28 June 2019

Scenario A. Tencent makes up 100% of Naspers and all the other businesses are worth nothing

HKD 3 357 082 738 800.00	**Tencent Market Cap.**
HKD 1 047 409 814 505.60	**Naspers stake in Tencet (HKD)**
ZAR 1 885 337 666 110.08	**Naspers stake in Tencent (ZAR)**
ZAR 4 297.99	**Naspers stake per share in Tencent(ZAR)**
ZAR 3 419.52	**Naspers share price**
-20.44%	**Assumed discount**

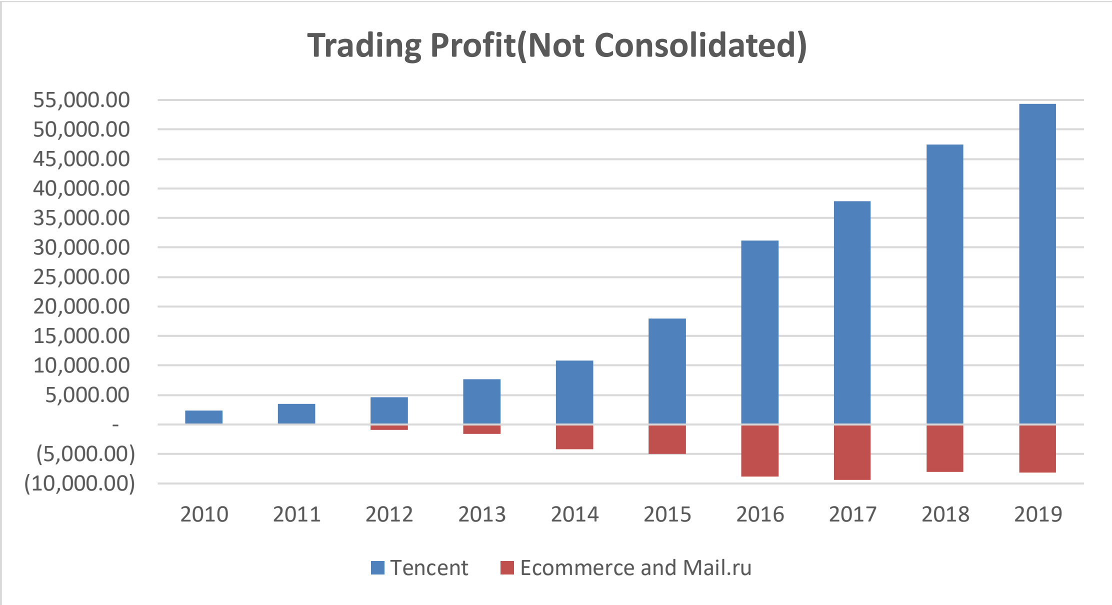
Scenario B. Tencent makes up 119% of Naspers and all the other businesses are liabilities reducing the value of Naspers by 19%

HKD 3 357 082 738 800.00	**Tencent Market Cap**
HKD 1 047 409 814 505.60	**Naspers stake in Tencet (HKD)**
ZAR 1 885 337 666 110.08	**Naspers stake in Tencent (ZAR)**
ZAR 4 297.99	**Naspers stake per share in Tencent(ZAR)**
-ZAR 816.62	**Assumed losses of other businesses**
ZAR 3 419.52	**Naspers share price**
-1.78%	**Assumed discount**

Source: JM BUSHA, Bloomberg.

However the market is biased towards Scenario A which is ignorant of the other businesses (Ecommerce including Mail.ru) which collectively have failed to be profitable for the past 10 years (Figure 3.)

Figure 3. Naspers Trading Profit (2010-2019)



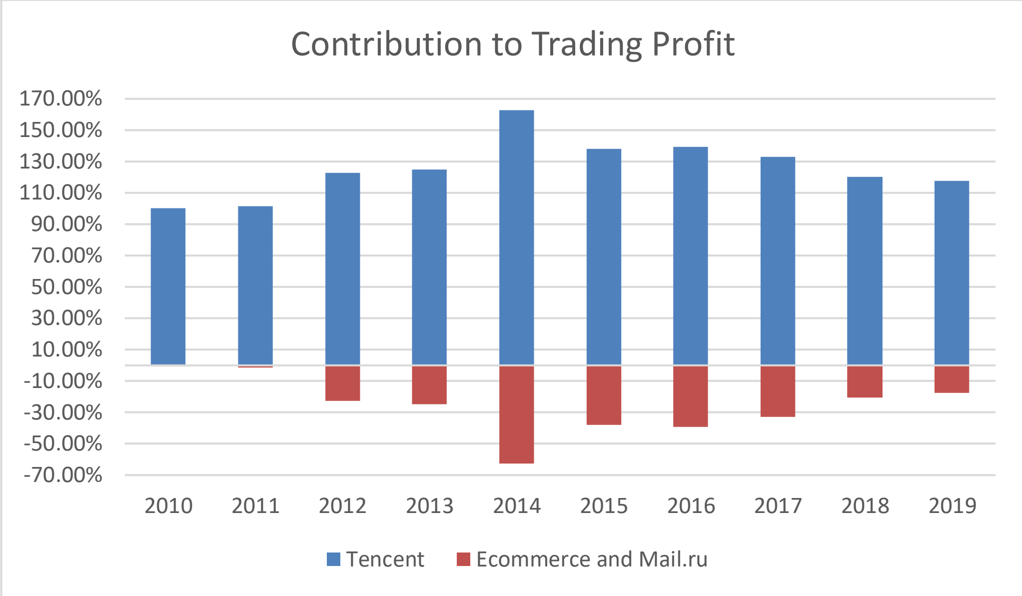
Source: JM BUSHA, Bloomberg.

A more unbiased approach using the same simple logic would be Scenario B which takes into effect the negative impact of losses from E-commerce. But the prevailing argument from most investors is that Scenario A is justifiable considering that the losses from E-commerce have been slowing down albeit the slowing down in trading profit from Tencent.

The projection is that the losses from E-commerce will eventually narrow down to zero with the Classifieds business cited as evidence of this possibility.

The Classifieds business eventually had a trading profit in 2019 and since it makes up over 22% of the E-commerce revenue, it is likely to have a substantial impact on this segment. Yes, the losses from E-commerce are slowing down but the growth in trading profit from Tencent is slowing down as well.

Figure 4. Naspers Trading Profit (2010-2019)



Source: JM BUSHA, Bloomberg.

The question remains, why now? The answer is not so clear-cut since until recently Naspers held strongly against investors calls to unbundle Tencent in order to narrow down the perceived "discount". With the E-commerce business which has been seen as a drag on the group's profit reducing losses in 2019, this segment is slowly becoming more attractive and marketable to investors who have neglected this business for too long and see Naspers value only through Tencent which still contributes virtually all the trading profit and about 78% of the group's Revenue. With the group investing about $3.1 Billion in E-commerce, the strategy to diversify and reduce Tencent's dominance is proof of Management's confidence that the segment will eventually turn around and may be the catalyst for future growth.

Also, after the unbundling of Multichoice, Naspers now generates most of its revenue outside of South Africa and with a market capitalisation of close to R1.5 Trillion. It can be argued that the company has become too big for South Africa and poses a concentration risk for the South African savings industry. Portfolio diversification is increasingly becoming difficult as having an underweight or overweight position guarantees a default underperformance or over performance as the JSE All Share Index is dominated by Naspers which has a weight of close to 25% and a near perfect positive correlation.

In conclusion, the rationale of unbundling Naspers international assets makes sense and with the Euronext Amsterdam listing promising to attract more investors to trade in the share, the true value of the group might be realised. Whether the perceived '''discount'' might be just a perception heavily relies on the fate of the E-commerce segment.

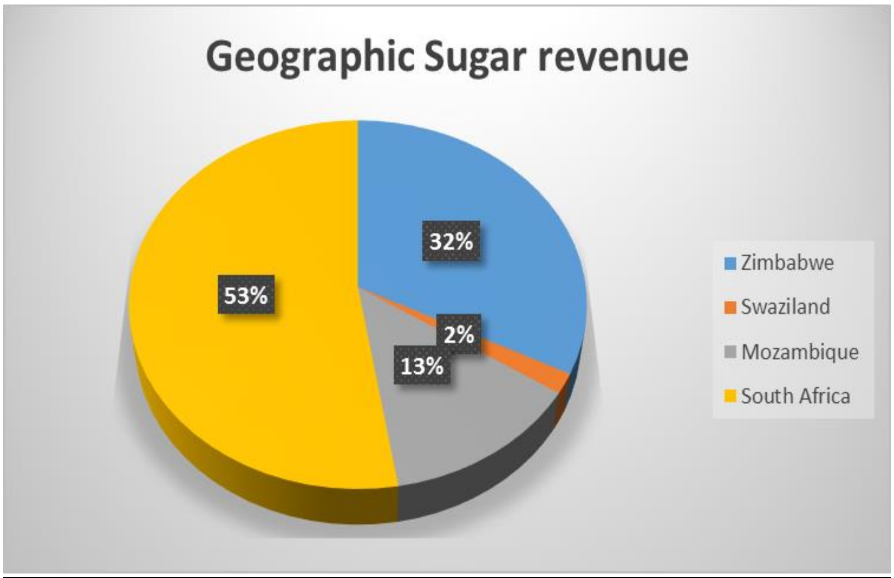
With Tencent growth showing a slowdown, Naspers future growth is increasingly speculative. Europe might be more stable than South Africa but it is not Utopia and with Brexit threating the regional economy, a bull market may be looming. Most importantly in recent history, South African companies have failed to live up to their promises in Europe, we can only hope that Naspers won't be yet another Steinhoff.

Tongaat Hulett: Not So Sweet

By Cleopatra Mtembu

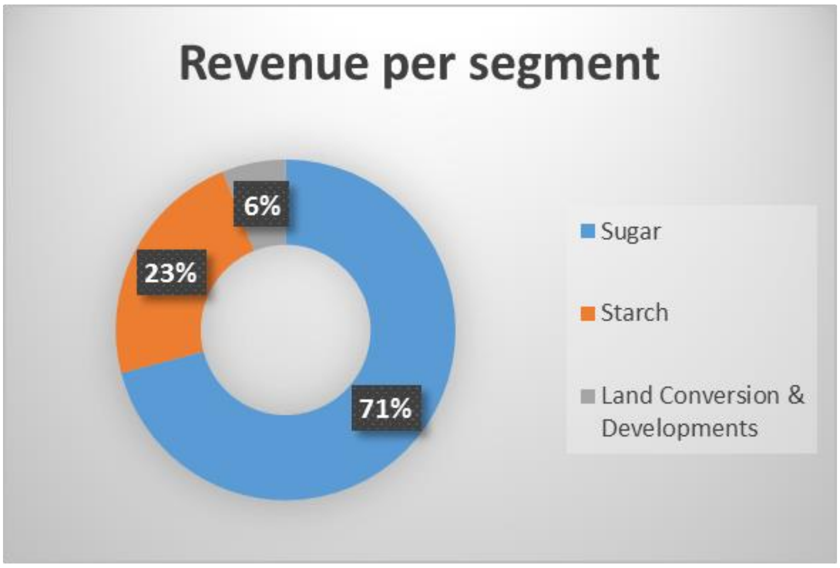
Tongaat Hulett is a 117 year old business, established in 1892 following a merger between two sugar producers in Tongaat, KZN. Its core business include producing starch and glucose, to which it is the largest producer in South Africa of the two products. The group has is also a property manager through Tongaat Hulett Developments. They build and maintain commercial, residential and industrial properties/resorts. The company also have branches in Mozambique, Zimbabwe and Swaziland. Majority of its revenue is from sugar segment as seen below.

Figure 5. Tongaat geographic revenue



Source: JM BUSHA, Bloomberg.

Figure 6. Tongaat revenue per segment

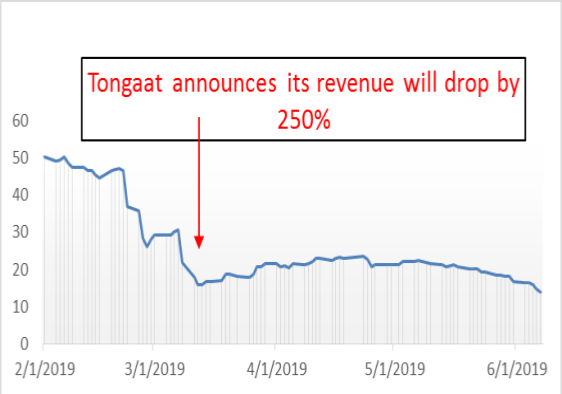


Source: JM BUSHA, Bloomberg.

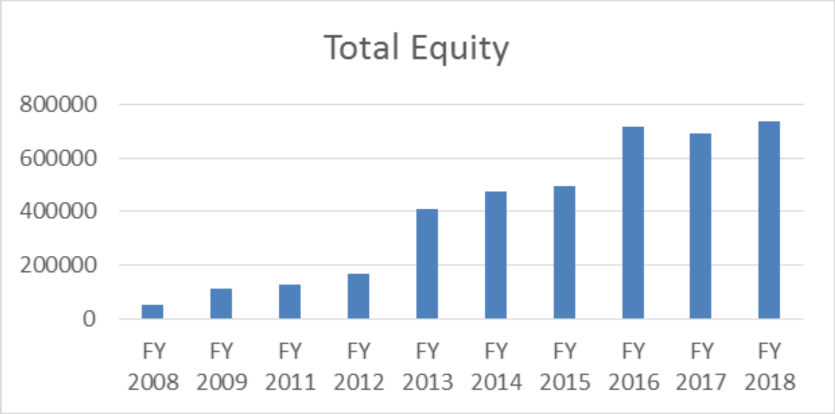
Accounting irregularities

In the quarter as at June 2019 Tongaat Hulett revealed that its equity for the 2018 financial results has been overstated by between R3.5 billion to R4.5 billion. As of the 10th of June when the company was suspended form the JSE, due to these revelations, the company's market cap was at R2.2bn while in its 2018 integrated financial results the consolidated total equity was reported to be at R12 bn. In February the company reported that its earnings will decline by as much as 250% compared to the R617 million it earned in 2018. Tongaat attributed this expected decline in revenue on sugar production which had increased while local sales remained under pressure due to excess sugar which was brought into the country before a price increase and as seen above sugar makes up 71% of the company's revenue.

Figure(s) 7 & 8. Market reaction to news-flow



Figure(s) 9. Tongaat book value.



In the above graph we see an upsurge in 2016, of the equity numbers as reported in Tongaat Hulett's financial reports. This was a 44% increase in equity relative to the previous year, to which may raise questions about how far back has the books been cooked.

Governance

Former Tongaat Hulett CEO Peter Staude, who was CEO of the company since 2002, received a total pay package of more than R13.5 million in 2018, and R20 million in the previous year - which included a R6.6 million cash bonus. The former CFO of the group since 2003, Murray Munro's annual salary was raised to R5.20m in 2018, as compared to R4.88m he received in 2017. This was based upon inflated results. It also since sent retrenchment letters to over 5,000 employees. Its share price was trading at R13.21 as of at its suspension, down from R53.17 at the start of the year and that's 24.67% down.

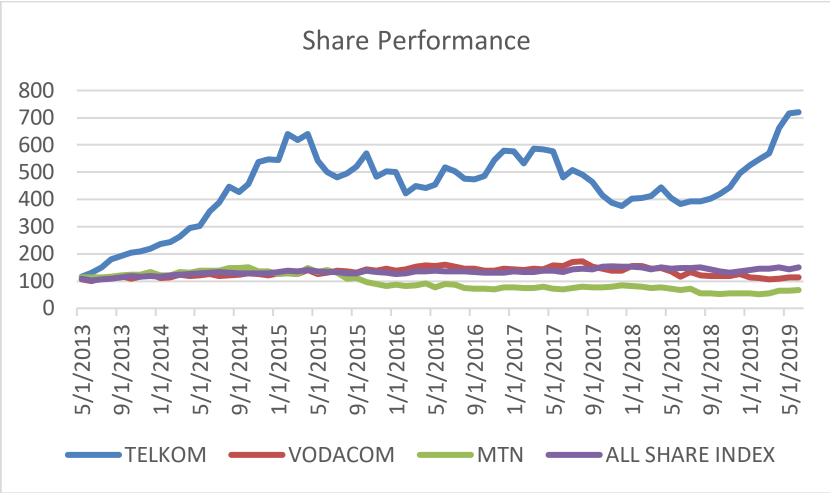
South Africa Telecoms:

Separating The Wheat From The Chaff.

By Simbarashe Chimanzi.

In late March 2013, Telkom (TKG), one of SA's big 3 telecommunications company announced that Sipho Maseko, would be taking over as group CEO as of the beginning of the next month. The former Vodacom (VOD) SA MD had an unenviable task of resurrecting the telco from deep ruins languishing at R15 a share from dizzy heights of R183 less than a decade before. One of the critical components of Mr Maseko and his team's turnaround strategy was cost control whilst nursing a limping fixed line business and investing in mobile and data.

Figure 10 – Share price performance

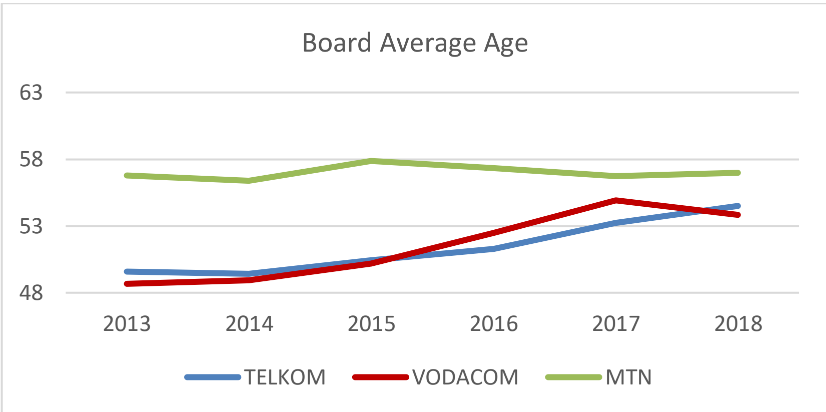


Source: Bloomberg, JM BUSHA

Since 2013, TKG's share performance has obliterated that of its fellow peers and that of the market alike. We do acknowledge that Telkom is coming from a significantly lower base as compared to its peers and therefore look at the underlying fundamentals of the 3 telco's during that period. We have looked at some key metrics on **governance, du Pont analysis, liquidity, asset expansion and valuation.**

Governance

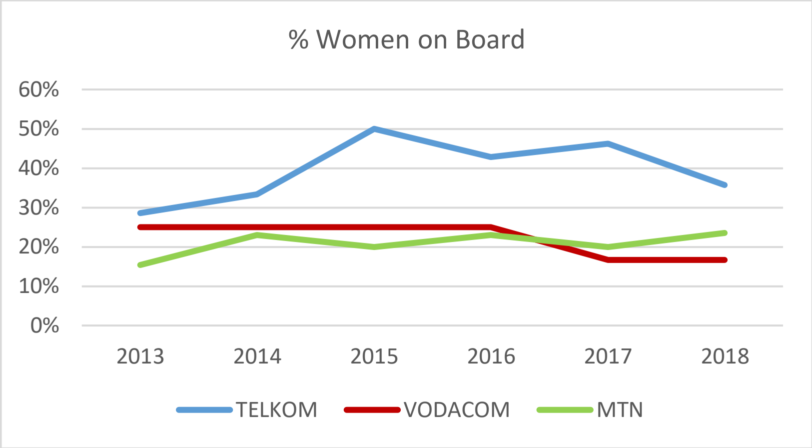
Figure 11 – Board Average Age



Source: Company Financials, JM BUSHA

Telco's just like any tech related industry is continuously evolving and highly innovative. A younger board that can easily absorb and understand these rapid changes is more suited to this type of industry. TKG and VOD have similar board age profiles with MTN having a relatively significant higher average age.

Figure 12 – Women representation.



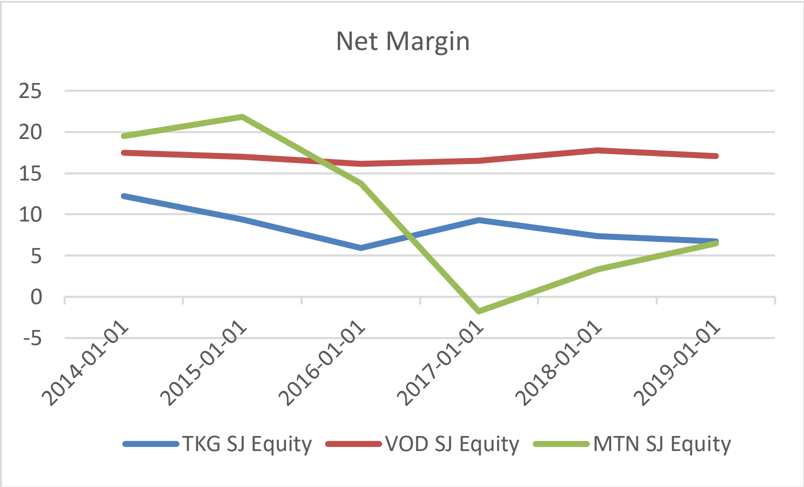
Source: Company Financials, JM BUSHA

There is no empirical evidence that links women board representation to company performance but we believe that a more diverse board enables cross pollination of ideas towards problem solving. TKG has been exceptional with regard to diversity on its board reaching women representation of 50% in 2015 which is significantly above the JSE average of under 25%.VOD is found wanting when it comes to diversity with a current women representation of under 20%.

Du Pont Analysis

The Du Pont analysis is important in assessing the component parts of a company's shareholders return. We therefore breakdown the financial activities that are contributing the most to operational efficiency of the 3 companies.

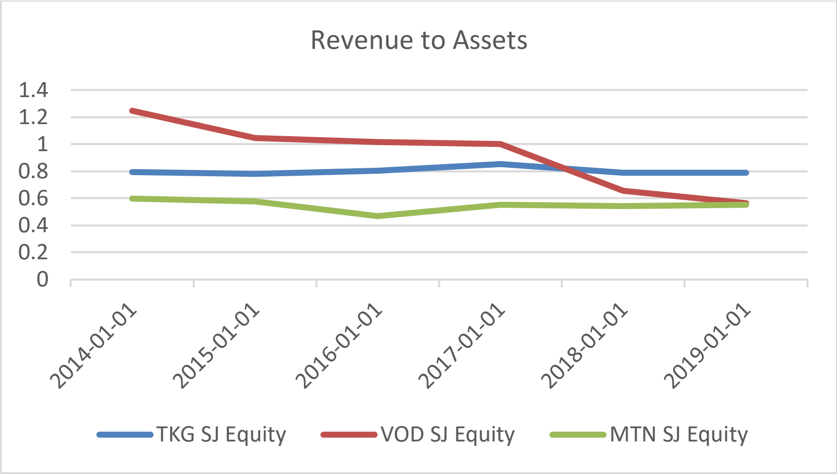
Figure 13 – Industry Net Margins



Source: Bloomberg, JM BUSHA

From a net margin perspective, VOD has been very stable above 15% over the last 6 years highlighting the stability and efficiency of its business model. MTN has unsurprisingly been very volatile given the difficult path it has had to manoeuvre through amidst pressure from regulators on the continent. It is on its recovery path but we don’t expect it to recover to its 2014 levels anytime soon.

Figure 14 – Revenue to assets



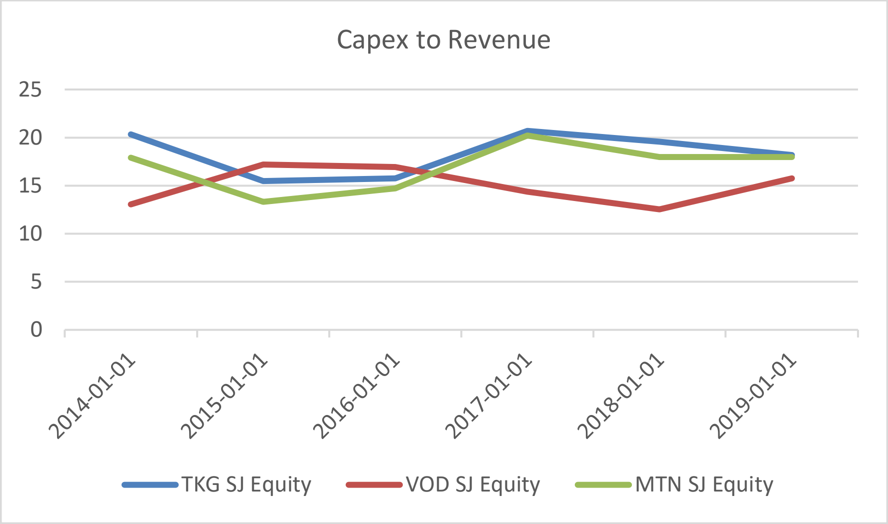
Source: Bloomberg, JM BUSHA

Another efficiency measure is revenue to assets. Both MTN and TKG have similar stable profiles indicating the commensurate nature of top line generated from assets. VOD has suffered a significant decline owing to its “overpriced” acquisition of east African telco, SAFARICOM. The additional assets have failed to generate additional revenue, which is a red flag when we look at operational efficiency.

Asset Expansion

In order for telco operators to keep up with the demands of technological innovation, they have inadvertently have to invest in asset expansion, be it spectrum assets or masts and towers. Asset expansion is crucial for telcos as they aim to remain relevant in this fast paced industry.

Figure 15 – Capex intensity.

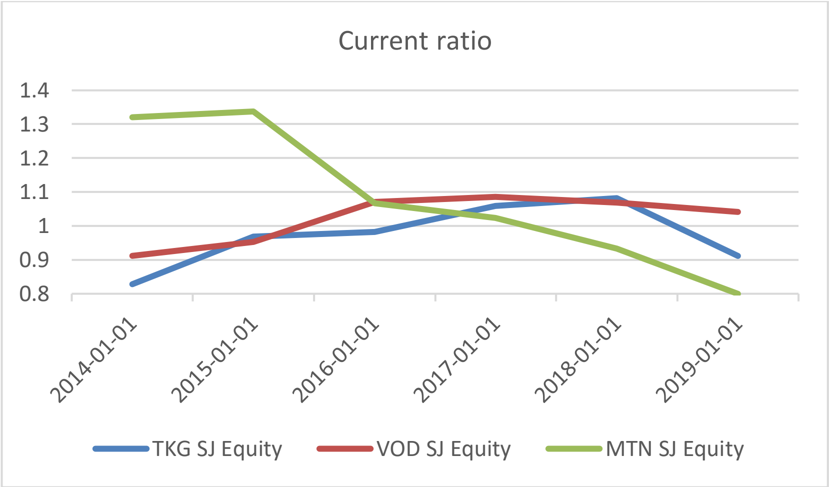


Source: Bloomberg, JM BUSHA

The capex cycles differ from company to company. From the above graph, we can see that the cycles for TKG and MTN are similar and that of VOD is different. As we move towards auction of the long delayed broadband spectrum (according to the President and minister of communication), we expect the capex cycles to be more inline.

Liquidity

Figure 16 – Current ratio.

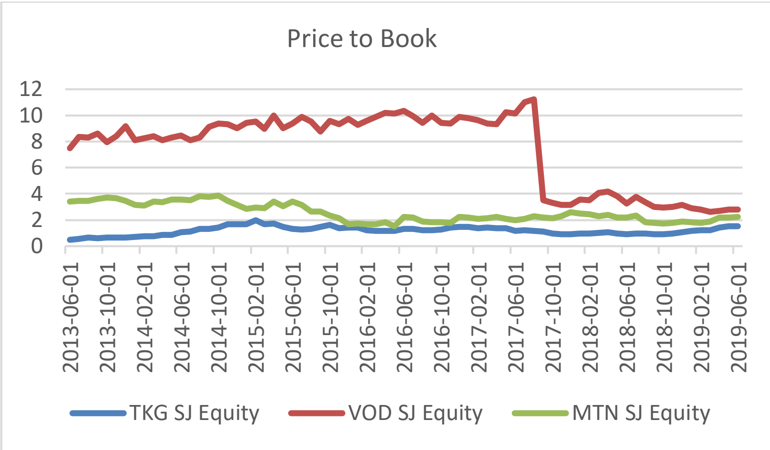


Source: Bloomberg, JM BUSHA

Despite which industry a company falls in, its liquidity position is very important. The current ratio assesses the ability of a company to settle its short term liabilities using its current (liquid) assets. A value greater than 1 is a good indication of this ability and the inverse holds true. VOD is the best placed telco with reference to liquidity. MTN's continuous weakening in its liquidity position is a worrying sign considering its highs of 1.3 just 5 years ago to its current level at 0.8.

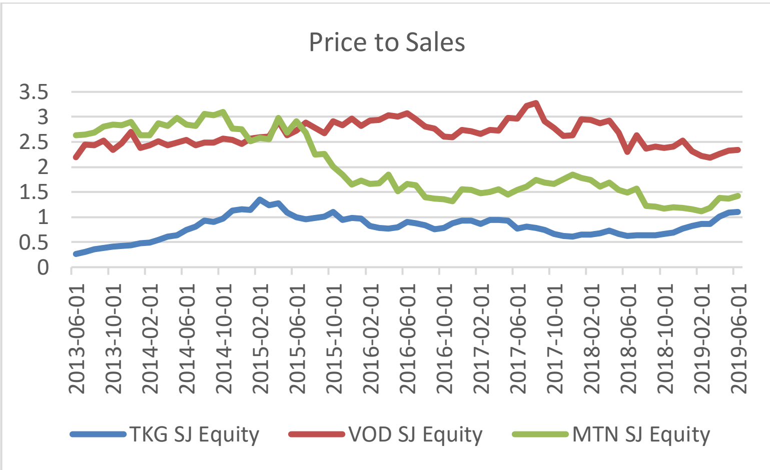
Valuation

Figure 17 – price to book



Source: Bloomberg, JM BUSHA

Figure 18 – Price to Sales



Source: Bloomberg, JM BUSHA

From a valuation perspective, VOD has been and remains the most expensive one despite the SAFARICOM acquisition that significantly increased the NAV of the business. Despite its rally over the past 6 years, TKG still remains the cheapest of all the telcos.

Conclusion

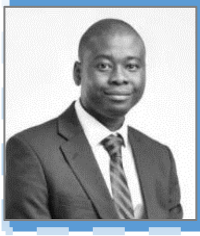
The above analysis is an overview to identify that fundamental qualities of SA listed telecommunication companies. The metrics used are not exhaustive but do give a strong and comparable indication of how the companies fare against each other. Below is a scorecard illustrating the results of the above analysis. 3 points are awarded to the strongest company per metric and 1 point to the weakest.

Figure 19 – Comparative Scoring

Criteria	TKG	VOD	MTN
Board Average Age	2	3	1
% Women on Board	3	1	2
Net Margin	2	3	2
Revenue to Assets	3	2	1
Capex to Revenue	3	1	2
Current Ratio	2	3	1
Price to Book	3	1	2
Price to Sales	3	1	2
TOTAL SCORE(24)	**21**	**15**	**13**

Source: JM BUSHA

Fundamentally , considering the metrics we have analysed, Telkom has been by far the best placed amongst the telcos with a score of 88%, followed by Vodacom at 63% and lastly MTN at 54%.This not only justifies its share performance over the last 6 years but it also amplifies the fact share performance is ultimately driven by underlying fundamentals.



SADC: Major Metals Outlook

By Patrick Serere

We reviews some of the key metals mined in the SADC region and how they have a bearing on economic performance.

Nickel

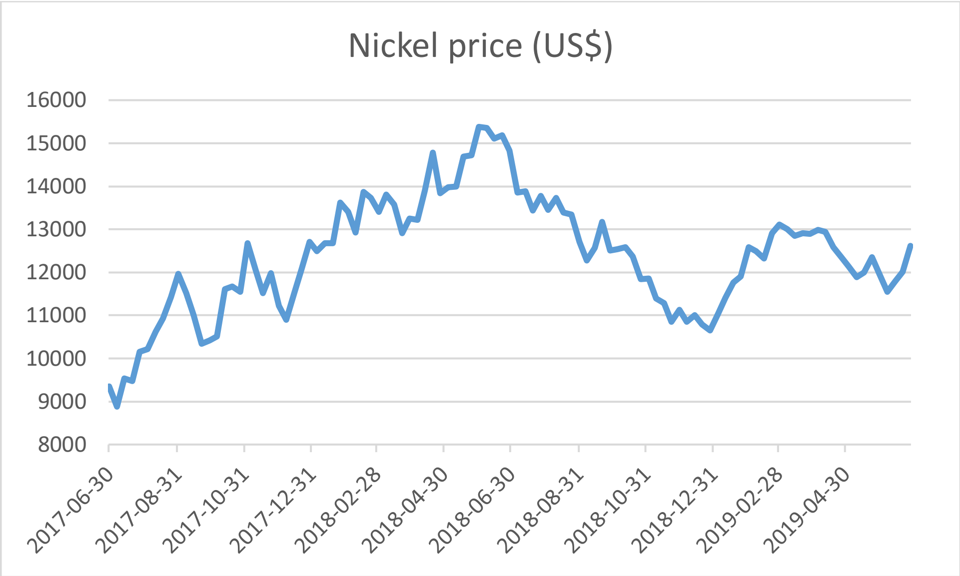
Mined in Angola, South Africa, Zimbabwe, and Zambia.

Nickel has more fundamental positives than negatives. For nickel, although a weak stainless steel market is compounding broader macro/ geopolitical risk-off sentiment, we believe there are still more fundamental positives than negatives for the nickel market.

Some of the positives include still-strong growth in Chinese EV sales of 28% year on year in April, despite a reduction in government subsidies; the resumption of environmental inspections in China that may disrupt production in the short term; and exchange stocks remaining on a downtrend. In addition, the Q1 reporting season has revealed generally lower year-on-year production by many nickel miners (Nornickel -0.4%, Glencore -10%, Vale -6.1%, BHP -9%, South32 -12.1%, Eramet -5.4%, Lundin -18.1%, among others), with cumulative production among these seven down 11,600 tonnes versus Q1 2018.

And Vale has lowered its 2019 guidance by 28,000 tonnes relative to our previous reference point. These positive fundamentals are helping to support the downside for nickel prices during this soft patch by attracting bargain hunting, and laying the foundation for a recovery in prices when risk-appetite recovers.

Figure 20 – Nickel Price Graph



Source: JM BUSHA, Bloomberg.

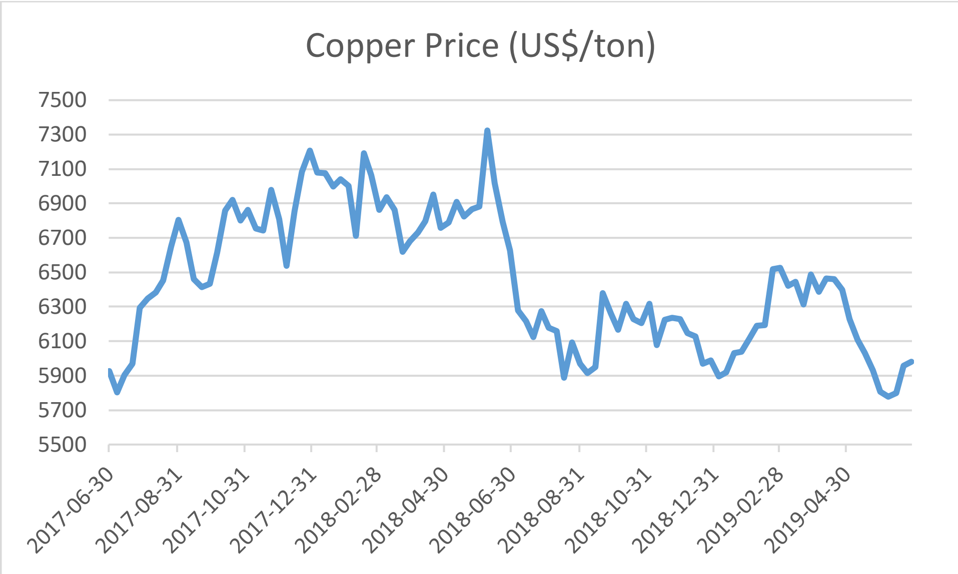
Copper

Mined in Angola, DRC, South Africa, Zambia and Zimbabwe.

Bearish risks dominate short-term view. We have a bearish short-term view on copper prices due to the absence of tightening in the fundamental picture (evident in weak premiums) and the deterioration in the forward fundamental picture (due to US-China trade tensions and perceptions of softer economic growth in China). This could translate into speculative selling until a recovery. Regarding Chinese copper demand indicators, although the home appliance sector (15% of domestic copper demand) has been solid, expanding by 12.5% year on year in January-April, the transport sector (9% of Chinese copper demand) continued to deteriorate.

Automobile production has contracted by 11.8% in the year to date amid a global automotive recession. However, we expect a re-acceleration in Chinese copper consumption in H2 2019 stemming from stronger demand from the power sector (52% of Chinese domestic demand). We estimate Chinese real refined copper demand growth at 3% and 4% in Q3 and Q4, respectively. This should underpin a strong rebound in copper prices in H2.

Figure 21. Copper Price Graph



Source: JM BUSHA, Bloomberg.

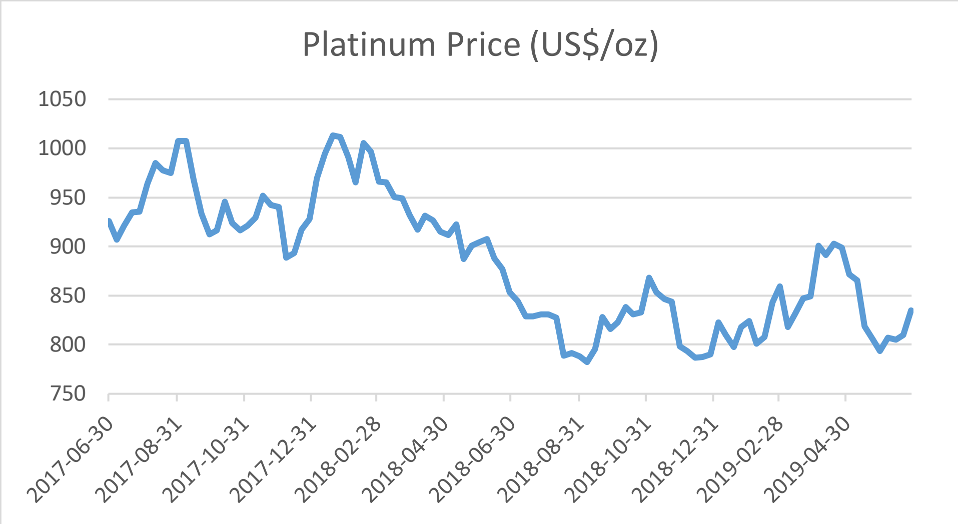
Platinum and PGM

Mined in South Africa and Zimbabwe

The platinum market is expected to remain in surplus this year, despite flat primary supplies and potential for some modest demand growth. Auto-catalyst consumption will stabilise and then begin to rise in due course, as stricter heavy duty vehicle emissions legislation is enforced in China and then India. The outlook for industrial applications is also positive, with demand set to remain close to 2018 levels.

However, the prospects for the jewellery sector are lacklustre, while investment demand could fall if prices improve and investors react as they have done in the palladium market.

Figure 22. Platinum Price Graph

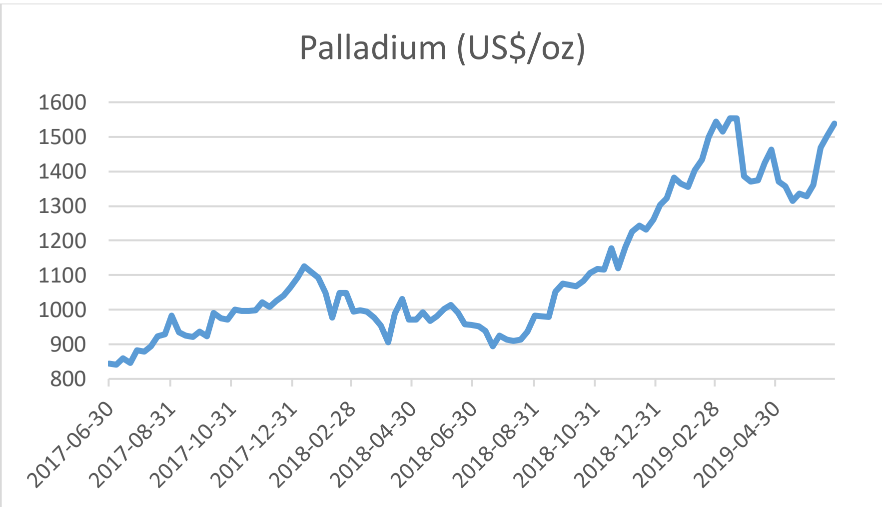


Source: JM BUSHA, Bloomberg.

Palladium.

The deficit in the palladium market looks set to widen dramatically in 2019, with stricter emissions legislation forecast to stimulate double-digit rises in palladium demand from European and Chinese automakers. Although recoveries from auto-catalyst scrap should rise again, the rate of growth in secondary supplies is likely to be lower than in 2018, while primary shipments are expected to be flat. With remaining ETF holdings having fallen to 730,000 oz at the end of last year, these funds no longer hold enough metal to bridge the gap between industrial demand and supplies.

Figure 23. Palladium Price Graph.

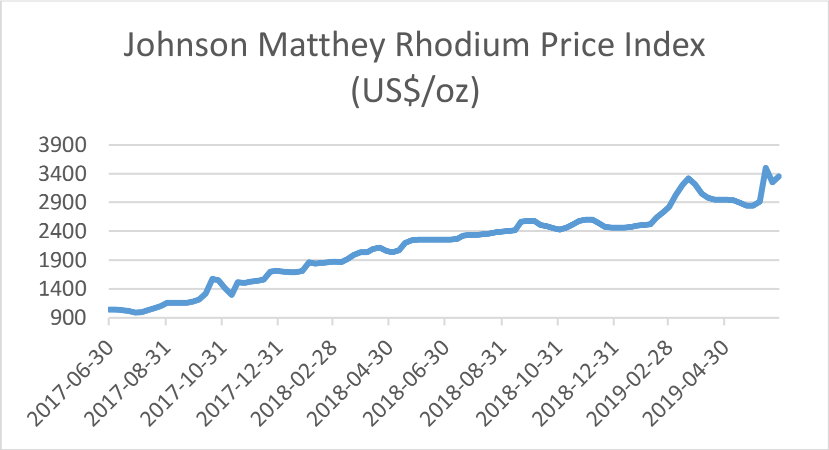


Source: JM BUSHA, Bloomberg.

Rhodium.

Consumption of rhodium in auto-catalysts is forecast to see strong growth in 2019, as car companies increase PGM loadings in response to tighter emissions legislation and more stringent in-use testing. This should outweigh thrifting in the glass industry, leaving industrial demand up on last year and close to record levels. Primary supplies are expected to be flat, but there will be further growth in recycling, which could leave the market in surplus for another year.

Figure 24. Rhodium Price Graph



Source: JM BUSHA, Bloomberg, Johnson Matthey.

Performance Review: Periods Ending 31 May 2019

	FUNDS' PRODUCT RANGE			
	ABSOLUTE RETURNS FUNDS			
Fund	**JM BUSHA Cash Plus**	**JM BUSHA Real Return Fund**	**JM BUSHA Absolute All Class**	**JM BUSHA Absolute Aggressive**
Fund Description	Actively managed cash fund. Invested in 0-12 months quality paper. Highly liquid fund.	Unit trust medium-risk balanced multi-class fund suitable for both private & institutional clients. Min R1000 monthly	Multi-asset class fund managed on the core-satellite style. Capital preserved. Invests in equities/cash/bonds	Multi-asset class fund managed on the core-satellite style. Capital preserved. Invests in equities/cash/bonds
Fund Objectives	Outperform Short-term Fixed Interest (STeFi) by 0.5%pa	Outperform Inflation (CPI) plus 4% pa	Outperform Inflation (CPI) plus 5% pa	Outperform Inflation (CPI) plus 6% pa
Fund Benchmark	STeFi	Inflation +4% pa	Inflation + 5% pa	Inflation + 6% pa
Asset Class Allocation	100% Cash	16.98% Cash, 44.69% Bonds, 38.33% Equities	18.14% Cash, 39.48% Bonds, 42.38% Equities	20.31% Cash, 29.09% Bonds, 51.60% Equities
Fund Performance	**Fund** (Benchmark)	**Fund** (Benchmark)	**Fund** (Benchmark)	**Fund** (Benchmark)
- 1 Year	**8.88%** (7.27%)	**6.11%** (9.03%)	**7.11%** (10.08%)	**5.41%** (11.21%)
- 3 Years	**8.53%** (7.42%)	**7.86%** (9.07%)	**7.03%** (10.12%)	**7.08%** (11.16%)
- 5 Years	**7.85%** (7.05%)	**6.07%** (9.27%)	**6.55%** (10.32%)	**6.36%** (11.37%)
- 7 Years	**7.28%** (6.56%)	**8.18%** (9.57%)	**9.70%** (10.62%)	**8.96%** (11.67%)
-Inception	**7.88%** (7.31%)	**9.62%** (9.88%)	**11.18%** (10.60%)	**8.69%** (12.20%)
Volatility/Risk	**0.49%** (0.46%)	**6.25%** (1.52%)	**6.65%** (1.55%)	**7.21%** (1.55%)
Sharpe Ratio	**1.09 (**0.00)	**0.74** (3.26)	**0.93** (3.65)	**0.52** (0.00)
Sortino Ratio	**0.84** (0.00)	**1.37** (0.00)	**1.51**(0.00)	**0.92** (0.00)
Start Date	2 Feb 2004	1 Oct 2006	1 August 2003	6 July 2007
Fund Size	ZAR**72.310** million	ZAR**115.626** million	ZAR**201.170** million	ZAR**1.544** billion

	FUNDS' PRODUCT RANGE			
	RELATIVE RETURN FUNDS			
Fund	**JM BUSHA Bond Plus**	**JM BUSHA Risk Averse**	**JM BUSHA Diversified Equity**	
Fund Description	Actively managed bond fund performance relative to the All Bond Index (ALBI).	A multi-asset class fund structured to give positive returns annually regardless of markets conditions	This is an equity fund that invests in globally diversified stocks with distinct income streams	
Fund Objectives	Outperform All Bond Index by 1% pa	Outperform cash by 1% pa, 2-year rolling	To outperform the JSE SWIX by 3% pa	
Fund Benchmark	ALBI	Cash (STeFI Index) + 1% pa	FTSE/JSE All Share Index	
Fund Allocation	5.11% Cash, 94.89% Bonds	63.19% Cash, 36.58% Bonds, 0.23% Equities	2.76%Cash, 97.24% Equities	
Fund Performance	**Fund** (Benchmark)	**Fund** (Benchmark)	**Fund** (Benchmark)	
- 1 Year	**9.36%** (7.67%)	**9.55%** (7.27%)	**1.50%** (0.82%)	
- 3 Years	**11.38%** (10.47%)	**8.85%** (7.42%)	**3.84%** (2.76%)	
- 5 Years	**9.02%** (8.30%)	**6.83%** (7.05%)	**3.64%** (5.32%)	
- 7 Years	**8.54%** (7.95%)	**8.13%** (6.55%)	**10.31%** (10.83%)	
-Inception	**8.41%** (8.21%)	**8.84%** (6.43%)	**9.83%** (10.52%)	
Volatility/Risk	**6.18%** (7.12%)	**3.63%** (0.24%)	**11.42%** (10.84%)	
Sharpe Ratio	**0.56** (0.46)	**1.08** (0.00)	**0.43** (0.52)	
Sortino Ratio	**0.93** (0.77)	**0.00** (0.00)	**0.90** (0.95)	
Start Date	31 Dec 2004	1 July 2010	29 March 2011	
Fund Size	ZAR**1.021** billion	**ZAR370.205** million	ZAR**183.474** million	

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