QUARTERLY REVIEW – Q4 2019

While South African investors were faced with a challenging local macroeconomic environment in 2019, our problems were largely overshadowed by the US-China trade dispute that lingered throughout the year as well as global central bank action and the impact of both of these on global risk appetite. In a nutshell, central bankers did their best to stimulate global growth which ultimately drove asset prices higher. In the end, the returns in 2019 look a far cry better than those experienced in 2018, with risk assets topping the leader board.

A summary of asset class performance for December, fourth quarter and the full year are shown in the table and chart below. The standout performers in this last quarter were Mid-Cap Resources that bolstered SA equity returns in particular. The JSE All Share led the asset class returns in Q4, rising 4.6% and rebounding a respectful 3.3% in the last month alone. The rand was a significant benefactor of the global risk-on appetite close to year end, after the agreed trade truce mid-December.

SA ASSET RETURNS	Index	Dec	Q4	2019
SA Equity (JSE Alsi)	8 661	3.3%	4.6%	12.0%
SA Bonds		1.9%	1.7%	10.3%
SA Cash		0.6%	1.7%	7.3%
SA Property		-2.1%	0.6%	1.9%
GLOBAL RETURNS (Rand)	**Index**	**Dec**	**Q4**	**2019**
Global Equity		-1.2%	0.5%	23.7%
Global Bonds		-4.2%	-7.8%	3.0%
Global Property		-3.4%	-6.6%	20.4%
CURRENCY	**Price**	**Dec**	**Q4**	**2019**
Rand/USD	14.00	4.7%	8.1%	2.6%
Rand/GBP	18.56	1.9%	0.0%	-1.5%
Rand/Euro	15.70	2.9%	5.1%	4.9%

KEY SA INDICES	Index	Dec	Q4	2019
SWIX	12 037	3.7%	4.8%	9.3%
Large Caps (Top 40)	50 816	3.6%	4.5%	12.5%
Mid Caps	77 532	4.7%	12.9%	15.6%
Small Caps	45 963	0.2%	0.8%	-3.9%
KEY SA INDICES	**Index**	**Dec**	**Q4**	**2019**
Resources	28 317	7.0%	13.8%	28.5%
Industrials	75 034	2.3%	0.0%	9.1%
Financials	39 354	0.7%	2.8%	0.6%
KEY COMMODITIES	**Price $**	**Dec**	**Q4**	**2019**
Brent Oil	66.00	10.3%	14.7%	19.0%
Gold	1 517	3.6%	3.0%	18.3%
Platinum	967	7.9%	9.5%	21.5%

Five Year Asset Class Returns Matrix

2015	2016	2017	2018	2019	Q4 2019
GLOBAL PROPERTY 35.5%	SA BONDS 15.5%	SA EQUITY 21.0%	GLOBAL BONDS 14.9%	GLOBAL EQUITY 23.7%	US $ / RAND 8.1%
GLOBAL EQUITY 30.9%	US $ / RAND 12.6%	SA PROPERTY 17.2%	GLOBAL PROPERTY 9.6%	GLOBAL PROPERTY 20.4%	SA EQUITY 4.6%
GLOBAL BONDS 30.4%	SA PROPERTY 10.2%	GLOBAL EQUITY 12.4%	SA BONDS 7.7%	SA EQUITY 12.0%	SA CASH 1.7%
US $ / RAND 25.2%	SA CASH 7.4%	US $ / RAND 10.6%	SA CASH 7.3%	SA BONDS 10.3%	SA BONDS 1.7%
SA PROPERTY 7.9%	SA EQUITY 2.6%	SA BONDS 10.2%	GLOBAL EQUITY 5.6%	SA CASH 7.3%	SA PROPERTY 0.6%
SA CASH 6.5%	GLOBAL EQUITY -3.9%	SA CASH 7.5%	SA EQUITY -8.5%	GLOBAL BONDS 3.0%	GLOBAL EQUITY 0.5%
SA EQUITY 5.3%	GLOBAL PROPERTY -8.0%	GLOBAL PROPERTY 4.2%	US $ / RAND -13.5%	US $ / RAND 2.6%	GLOBAL PROPERTY -6.6%
SA BONDS -3.9%	GLOBAL BONDS -9.4%	GLOBAL BONDS -3.4%	SA PROPERTY -25.3%	SA PROPERTY 1.9%	GLOBAL BONDS -7.8%

2019 KEY MARKET DRIVERS

South African investment performances continue to be shaped by the global risk appetite and its fluctuations in response to both geopolitical and macroeconomic factors. These can be summarised in three major drivers, of which no doubt have been discussed ad nauseum in previous quarterly reviews.

1. US-China trade dispute de-escalates at year end

- In 2019, US protectionism—and Chinese retaliation—escalated substantially. Both the direct impact of tariffs and the larger impact of uncertainty on business investment became increasingly evident. As pressure mounted throughout the year, US and Chinese negotiators finally signalled in mid-December that they were ready to ink a "phase one" trade deal early in 2020.

2. Global Central Bank action brings hope that a recession is off the table

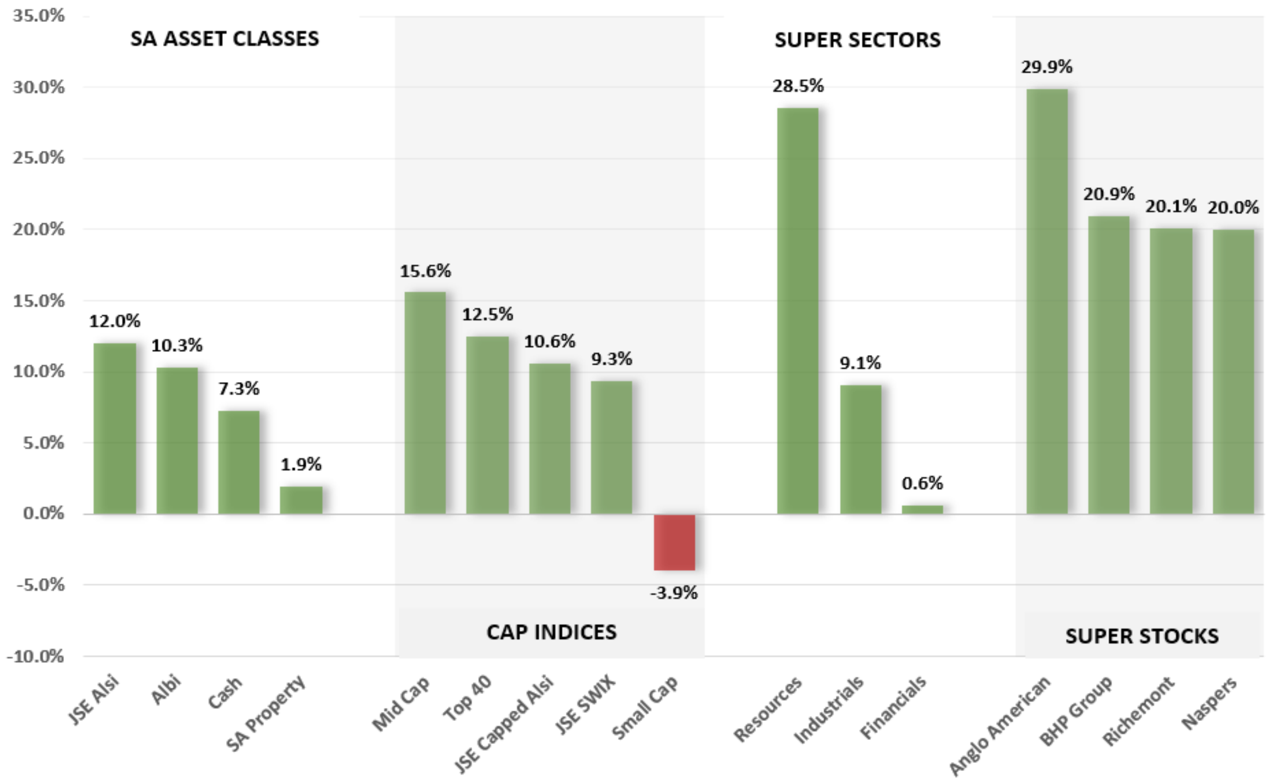
- Global industrial production and trade had reached a crucial inflection point in 2018 and continued to slow in 2019 with significant weakness in motor vehicle manufacturing.
- Purchasers Manufacturing Indices became one of the most closely watched economic releases across the globe in 2019 as investors and policymakers alike looked for signs of further weakness.
- In order to avoid the looming slowdown and recession (particularly after the US yield curve remained inverted for most of Q2 and Q3), central bankers did their best to rejuvenate growth and extend the already long economic recovery post GFC.
- The Federal Reserve completed its U-turn on monetary policy and unwound three of the four rate hikes from 2018 with the last rate cut coming end of October.
- The European Central Bank (ECB) took rates further into negative territory in September 2019 with the first rate cut since 2016, bringing the deposit facility rate to -50 basis points (bps).
- Both the Fed and the ECB also resumed asset purchases in 2019—the Fed for technical reasons and the ECB for stimulus.
- The People's Bank of China (PBoC) continued to add liquidity to the banking system on the margin, cutting reserve requirements but keeping benchmark rates largely unchanged. Interestingly the PBOC cut their reserve requirement by 50bps only a few hours into the 2020 New Year, a move that will unleash about $115 billion in liquidity. This cut has already provided a jolt to Chinese markets to start the 2020 year on the front foot.
- Although possibly too early to tell, we did begin to see encouraging signs of improvement in the macro data that was released in December, particularly out of the Asian markets, Japan and China.

3. The domestic economy suffers stagnation and lethargic change, but the wheel continues to turn

- South Africa's economy has stagnated over the last decade much like Japan's "Lost Decade" in the 1990s. However, the factors that got us into this flatline phase, a debt crisis and falling inflation are somewhat different to Japan's stock market and real estate bubble. Our structural decline is the result of a loss in productivity largely in response to mismanagement, corruption and ballooning debt at the highest levels.
- South Africa's annual GDP growth rate has languished below 2% over the last five years, well below any sort of level required to service our growing debt obligations or support our growing population.
- Although it is hard to picture the path of recovery given the debt trap that the country finds itself facing, a few policy reforms at the end of 2019 did prompt a slight pickup in business confidence. New management structures and teams being strategically placed at some of the country's biggest SoEs and pivotal government departments is a first step in righting the wrongs of this "Lost Decade".

2019 PERFORMANCE

2019 TOTAL RETURNS



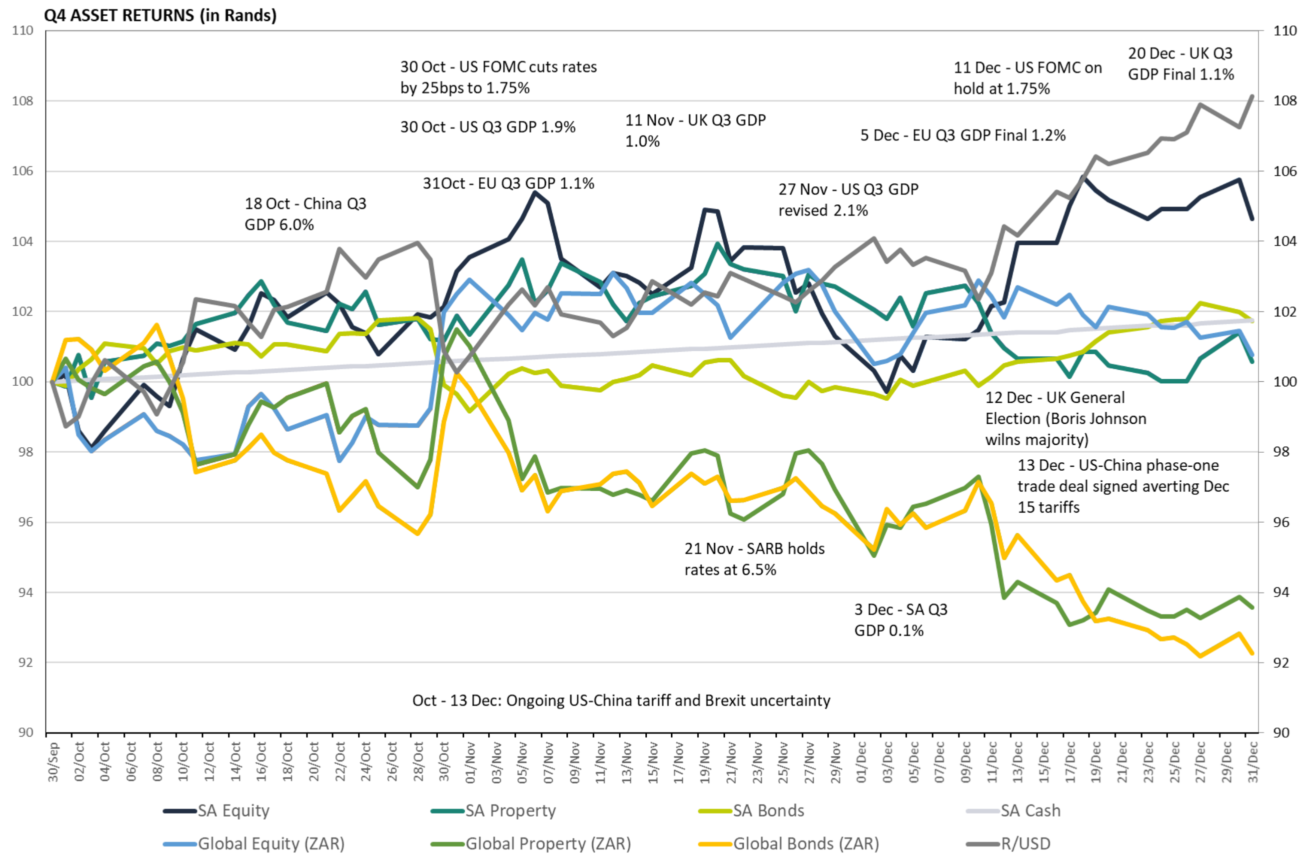
Top 10 Sectors (%)	2019
Industrial Metals	56.9%
Mining	44.3%
Tobacco	36.2%
Equity Investment Instruments	26.6%
Beverages	24.1%
Automobiles	23.7%
Media	20.8%
Personal Goods	20.1%
Real Estate Investment Services	15.0%
Electronic & Electrical Equipment	9.8%

Bottom 10 Sectors (%)	2019
Household Goods	-51.2%
Industrial Engineering	-49.1%
Oil & Gas Producers	-45.4%
Fixed Line Telecommunications	-42.7%
Chemicals	-25.6%
Travel & Leisure	-23.8%
General Retailers	-18.4%
Construction & Materials	-13.4%
Pharmaceuticals and Biotech	-12.3%
Industrial Transportation	-11.5%

Top 10 Shares (%)	2019
Impala Platinum Holdings	291.3%
Sibanye Gold	258.2%
Northam Platinum	185.8%
Anglo American Platinum	148.8%
Harmony Gold Mining Co	103.2%
Royal Bafokeng Platinum	99.5%
Gold Fields	96.4%
AngloGold Ashanti	75.0%
Cartrack Holdings	70.5%
Kumba Iron Ore	65.1%

Bottom 10 Shares (%)	2019
Rebosis Property Fund	-88.1%
Delta Property Fund	-80.3%
Intu Properties	-70.4%
ArcelorMittal South Africa	-64.9%
Ascendis Health	-63.5%
Trustco Group Holdings	-61.3%
EOH Holdings	-59.3%
PPC	-57.6%
Brait	-53.7%
Montauk Holdings	-52.5%

Q4 – TIMELINE OF KEY EVENTS AND A SUMMARY OF THE DRIVERS THAT DROVE THE MONTHLY MOVES



October - Central bank action spurs "risk-on" sentiment, equities rally

- Despite headlines being dominated by global political uncertainty and the rising risk of recession, markets held up well, posting strong and broad-based gains across the JSE. Key drivers included:
  - US Fed Reserve cut rates for a third time this year propelling appetite for riskier Emerging Market assets given the relative attractiveness of the yield carry differential
  - A formal US impeachment enquiry gathers momentum
  - UK PM Boris Johnson finally gets a Brexit deal passed through Parliament after several attempts, calls for an early election (December 12th) in order to secure a majority
  - SA newsflow pervasively negative around Finance Minister, Tito Mboweni's MTBPS (Mini-Budget)
  - Mboweni cuts SA's GDP growth rate to 0.5% from the 1.5% forecast in February, warns tax collection is 4% off target and national debt levels expected to worsen (debt-to-GDP ratio at 70%). Servicing this debt becomes all the more painful and puts our credit rating reviews in stark reality.
- Stock specific drivers included:
  - Prosus suffers poor appetite for its new EuroNext-SA dual listing
  - Anheuser-Busch plunges 15% after releasing disappointing Q3 earnings and cut in dividends

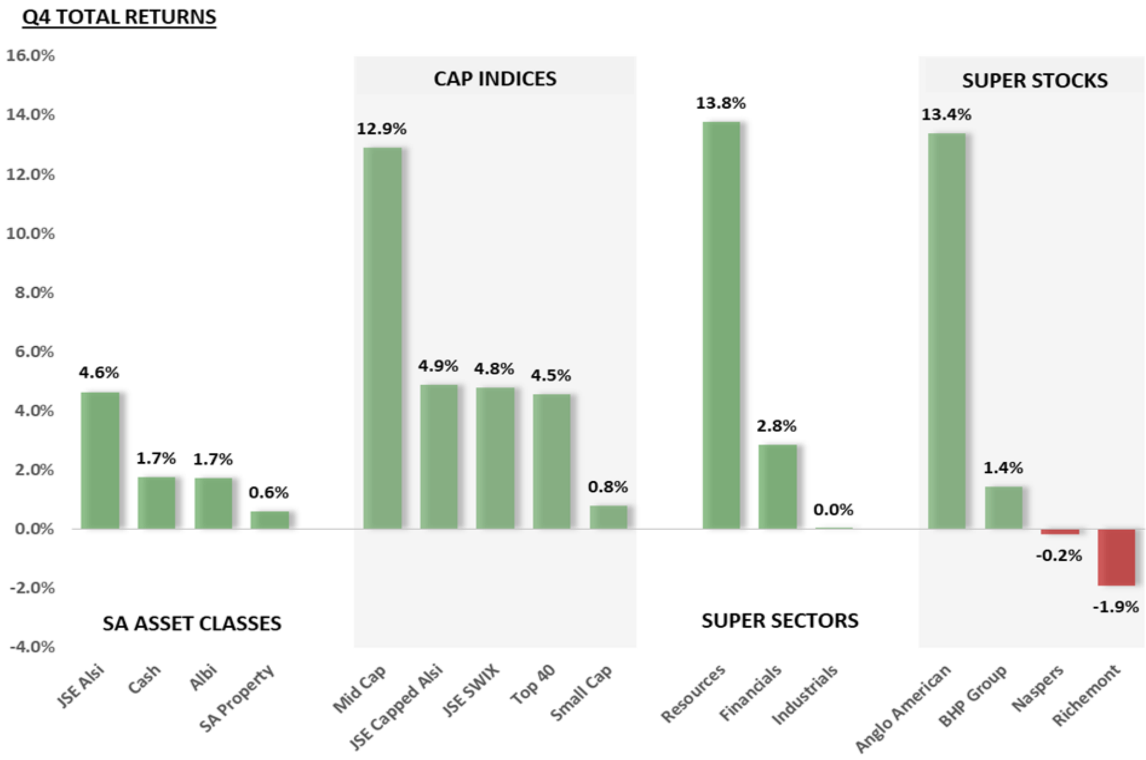
November – Almost all asset classes slump on the ongoing trade dispute and Fed messaging

- Markets were not as forgiving in November and most assets classes, including safe-haven investments (US treasuries, gold, etc) fell with exception of an unconvincing rebound in SA bonds post Finance Minister Mboweni's shock MTBPS. The reasons for the selloff included:
  - Global risk sentiment soured as tensions re-ignited between the US and Chinese trade negotiators

- US Fed minutes indicated the October cut likely to be the last for 2019 thus disappointing investors
- S&P cuts SAs credit rating outlook to negative, citing anaemic economic growth and rising fiscal deficits

December – All assets breathe a sigh of relief on trade negotiations finality ensuring a smooth year end

- Almost all asset classes found second gear in December, however when translated into rands, global asset classes fell due to the translation effect of a surging rand (weaker dollar) into year end. The rand closed out the year at R14/$, despite the challenges that were starkly laid out in the October budget policy statement and largely due to the weakening in the typical safe-haven greenback USD.
- Herewith the main factors at play in December:
    - Finally agreement between US-China to reduce tariffs and delay duties scheduled for December 15th
    - US Fed releases a more "favourable" economic outlook for 2020
    - UK finds closure with strong Conservative Party majority, paves the way for clearer Brexit path
    - Both Japan and China release encouraging reports, the BoJ says "the economy had taken a turn for the better"
    - France posts better than expected GDP growth figures
    - President Ramaphosa takes an encouraging first step in SoE reform – places SAA into business rescue.
    - SA business confidence ticks higher and inflation drops to a nine year low



Source: PortfolioMetrix, Bloomberg

Q4 Sector and Stock Performances

- During the quarter, Mid Cap Resources surged with **precious metal stocks** (gold and platinum) posting quite remarkable gains, some in excess of 50% for the three-month period. These stocks were steady favourites throughout the year, Implats posting an incredible 290% return in 2019, Sibanye 258% and heavyweight Angloplats 149%! The gains have been mouth-watering within this Super Sector and investors caught without Resource names in 2019 would have suffered relative to benchmarks.
- Demand and supply dynamics drove most of the activity. For over a decade the supply of these PGM metals has believed to be tight although difficult to quantify above ground stockpiles. Forecasts indicate possible deficits in the equilibrium, with Palladium appearing to be the most scarce of all. With Eskom load shedding, as well as the pacification of the US-Chinese trade dispute, the supply – demand dynamics could continue to support a favourable PGM environment.
- **Sector rotation** into the Resource names meant money was pulled from the more SA domestic sectors such as Retailers, Construction and Banks, a key feature of 2019 and for obvious reasons related to the poor SA macroeconomic environment.
- **Aspen Pharmacare** recovered some of its earlier year declines on news of debt progress with several sales of non-core assets.
- **Telkom** shares slumped following news that Cell C agreed to an extended roaming deal with rival MTN Group as well as grappling with organizational and operational inefficiencies linked to fixed voice and data services.

Top 10 Sectors (%)	Q4
Pharmaceuticals and Biotech	30.9%
Chemicals	19.6%
Health Care Equipment & Services	15.6%
Mining	13.4%
Forestry & Paper	12.8%
General Financial	10.4%
Tobacco	9.8%
Industrial Metals	9.7%
Support Services	7.4%
Food & Drug Retailers	7.1%

Bottom 10 Sectors (%)	Q4
Fixed Line Telecommunications	-49.9%
Beverages	-14.8%
Household Goods	-14.4%
Industrial Engineering	-10.3%
Mobile Telecommunications	-10.3%
Construction & Materials	-6.7%
Travel & Leisure	-5.9%
Personal Goods	-1.9%
Nonlife Insurance	-1.3%
Media	-1.2%

Top 10 Shares (%)	Q4
Sibanye Gold	71.1%
Impala Platinum Holdings	50.6%
Northam Platinum	48.7%
Astral Foods	47.7%
Capital & Regional	45.3%
Anglo American Platinum	43.2%
Aspen Pharmacare Holdings	38.7%
Delta Property Fund	36.6%
Omnia Holdings	35.5%
Royal Bafokeng Platinum	27.2%

Bottom 10 Shares (%)	Q4
Ascendis Health	-64.2%
Telkom SA SOC	-49.9%
ArcelorMittal South Africa	-44.4%
Trustco Group Holdings	-41.3%
PPC	-37.7%
Nampak	-28.0%
Intu Properties	-24.4%
Murray & Roberts Holdings	-15.6%
Fortress REIT	-15.4%
City Lodge Hotels	-15.3%

Source: PortfolioMetrix, Bloomberg

GLOBAL MARKETS AND COMMODITY PRICES

1. *Global Equity Markets and risk appetite are supported by central bank liquidity extending the global economic cycle*

WORLD INDICES IN LOCAL CURRENCY	Dec	Q4	2019
MSCI All Country World (DM+EM) ($)	3.5%	9.0%	27.2%
MSCI World Index (Developed) ($)	3.0%	8.7%	28.4%
MSCI Emerging Markets ($)	7.3%	11.7%	18.6%
MSCI South Africa ($)	9.7%	13.4%	10.8%
Europe - EuroStoxx 600 (€)	2.1%	6.2%	27.7%
Europe - EuroStoxx 50 (€)	1.2%	5.2%	29.3%
US - Dow Jones Indust 30 ($)	1.9%	6.7%	25.3%
US - NASDAQ ($)	3.6%	12.5%	36.7%
US - S&P 500 ($)	3.0%	9.1%	31.5%
UK - FTSE 100 (£)	2.8%	2.7%	17.2%
French - CAC 40 (€)	1.3%	5.5%	30.5%
Germany - DAX 30 (€)	0.1%	6.6%	25.5%
Hong Kong - Hang Seng (HK$)	7.0%	8.4%	13.0%
Japan - Nikkei 225 (JPY)	1.7%	8.9%	20.7%
China - Shanghai SE Composite (yuan)	6.2%	5.0%	25.3%

Source: PortfolioMetrix, Bloomberg

2. *Emerging Markets and Commodity prices benefit from de-escalation of the US-China trade war as well as an easing US Federal Reserve (carry trade)*

KEY COMMODITIES	Price $	Dec	Q4	2019
Brent Oil	66.00	10.3%	14.7%	19.0%
West Texas Oil	61.06	10.7%	14.5%	25.6%
Gold	1 517	3.6%	3.0%	18.3%
Platinum	967	7.9%	9.5%	21.5%
Palladium	1 946	5.6%	16.1%	54.2%
Copper	6 149	5.2%	8.0%	3.4%
Iron Ore 62%	85.97	2.6%	-7.5%	21.8%

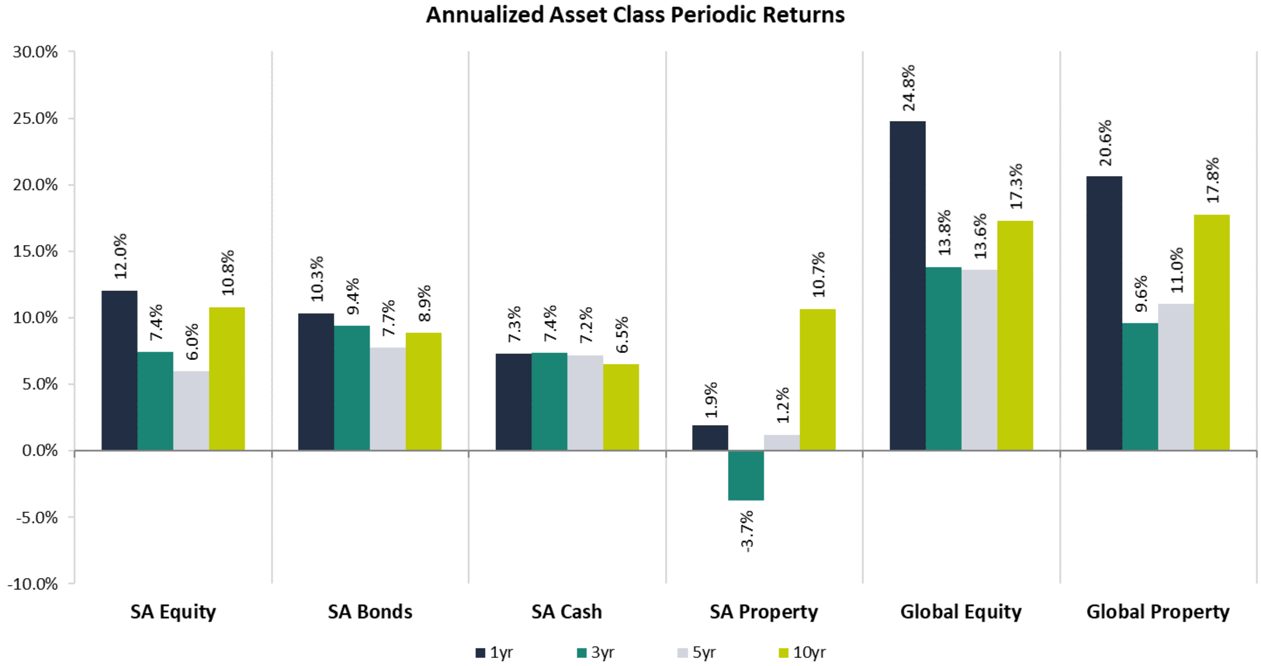
EMERGING MARKETS ($)	Dec	Q4	2019
MSCI Emerging Markets	7.3%	11.7%	18.6%
MSCI South Africa	9.7%	13.4%	10.8%
MSCI Brazil	12.3%	14.2%	26.3%
MSCI China	8.4%	14.8%	23.7%
MSCI India	1.8%	5.2%	7.6%
MSCI Russia	8.4%	17.1%	52.6%
MSCI Turkey	2.0%	0.1%	10.5%

Source: PortfolioMetrix, Bloomberg

LONGER PERIOD ASSET RETURNS

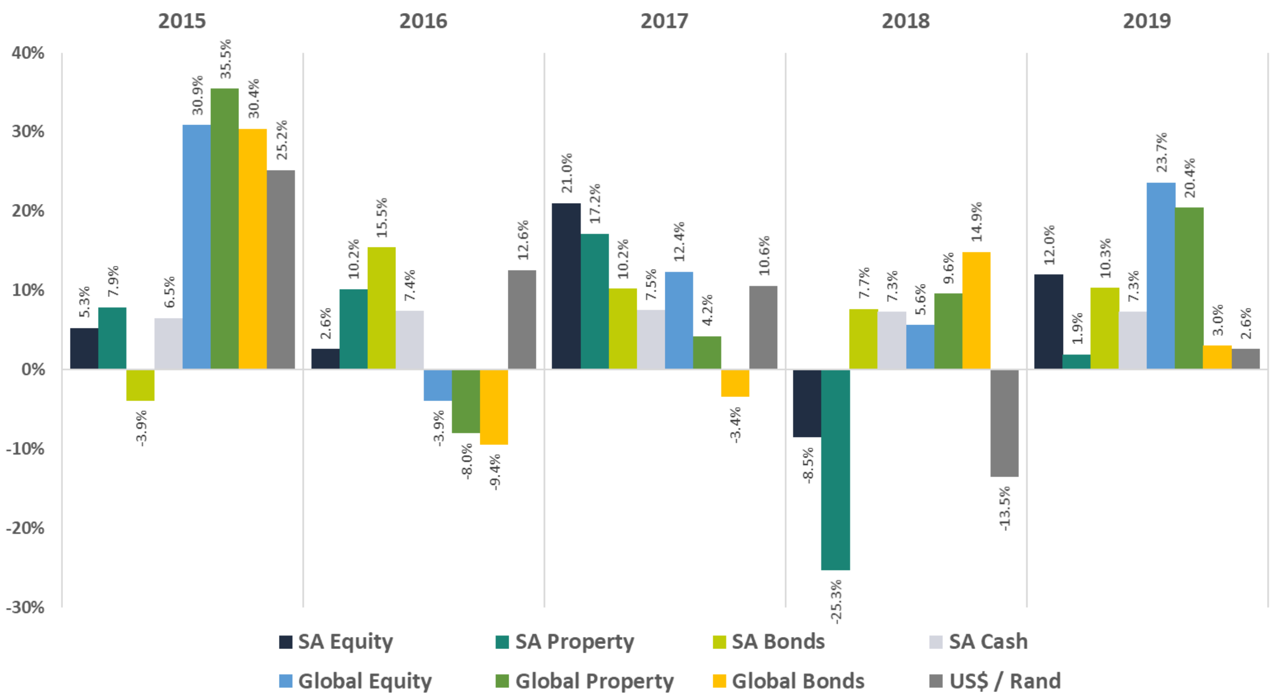
Over the last five years SA risk assets have disappointingly failed to beat both cash and bond returns whilst global asset classes have been the great diversifier. SA bonds have been the consistent yielding asset, although this past one year has been a standout performance.

SA risk assets have disappointed over the past five years relative to history



Source: PortfolioMetrix, Bloomberg

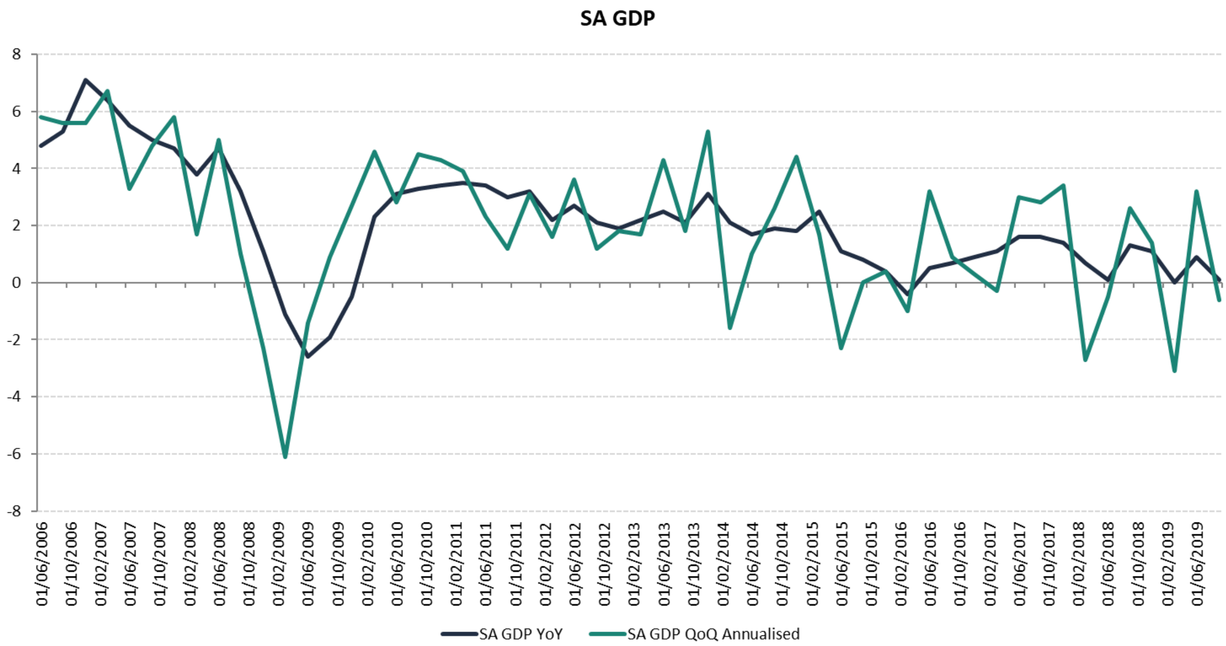
"Balanced Fund" returns have been relatively strong in 2019



Source: PortfolioMetrix, Bloomberg

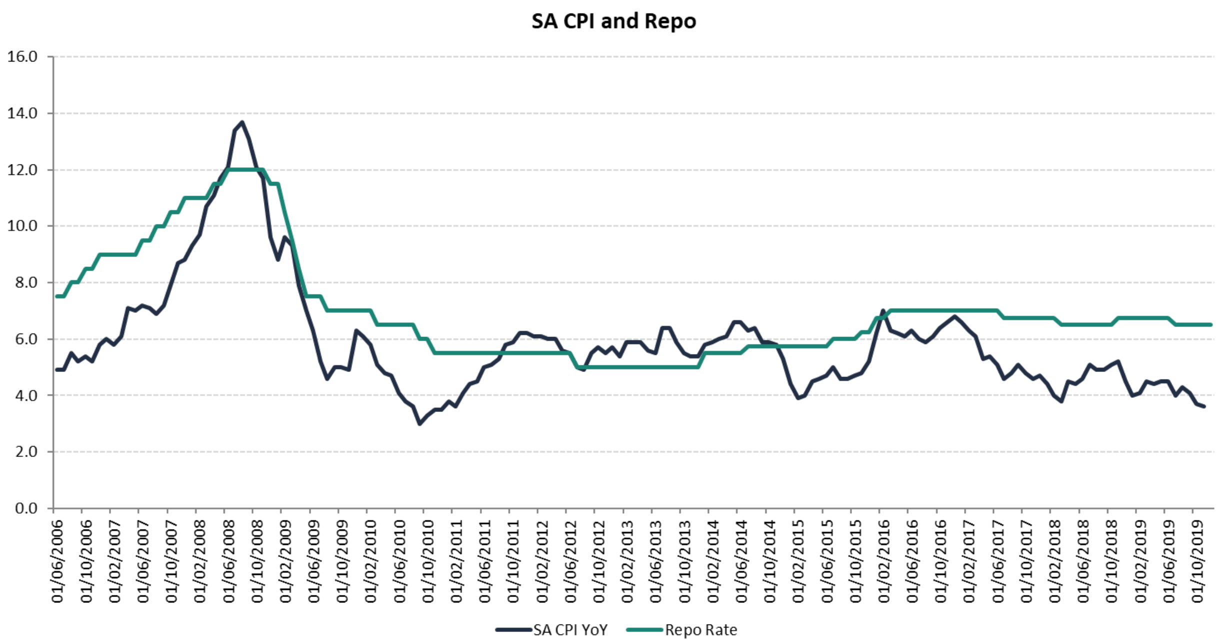
THE SA MACROECONOMIC ENVIRONMENT

The SA economy contracted an annualized 0.6% in Q3



Source: PortfolioMetrix, Bloomberg

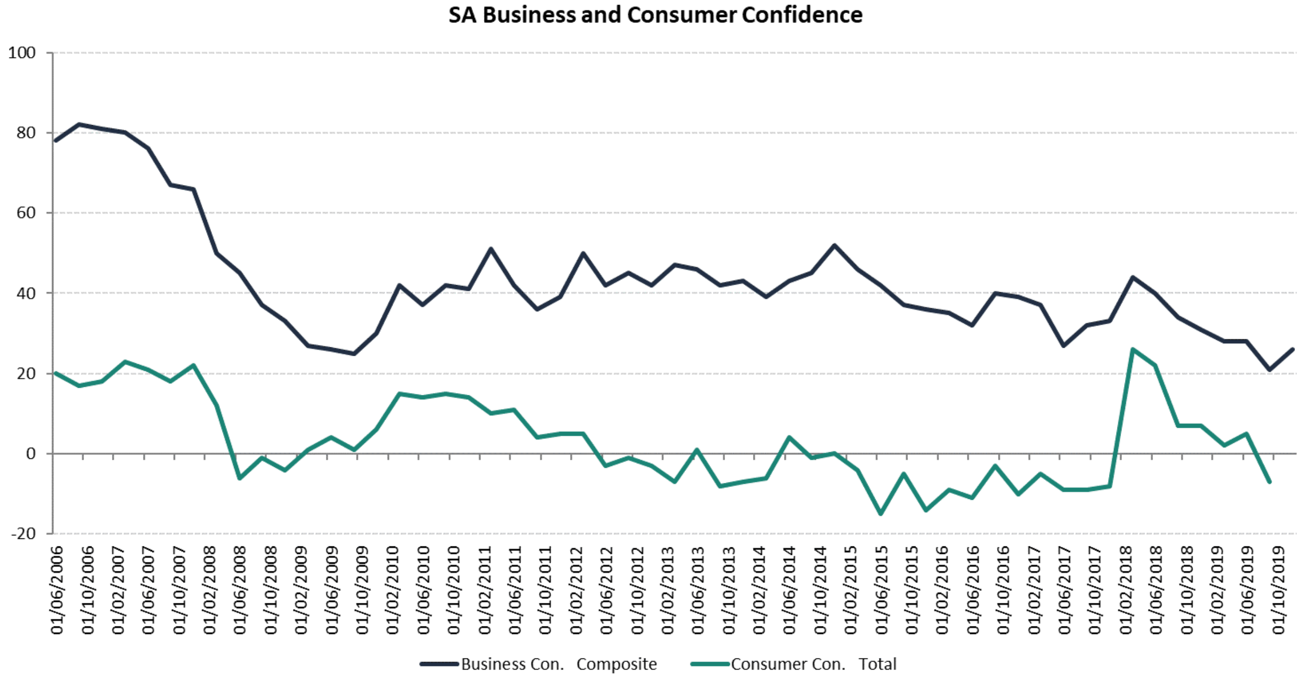
Inflation falls to a 9 year low at 3.6% in November



Source: PortfolioMetrix, Bloomberg

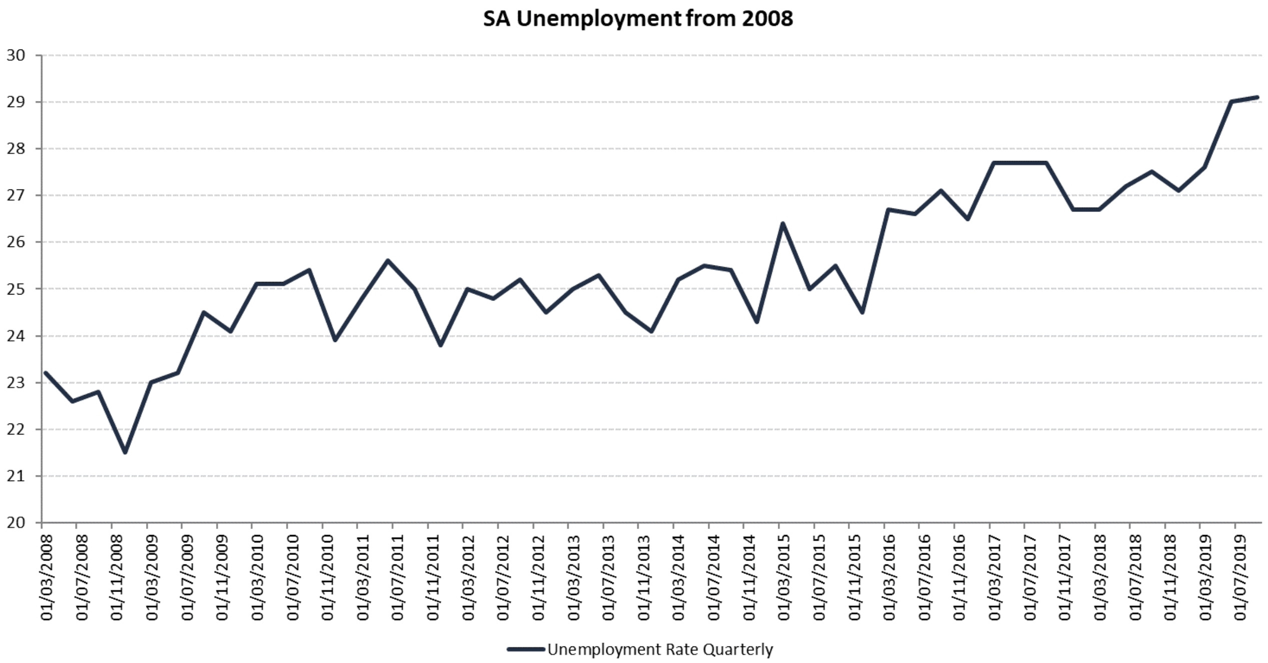
Business confidence bottoms and inches higher as export volumes and private sector borrowing rise

Consumer confidence continued to slump after its post Ramaphoria peak in early 2018



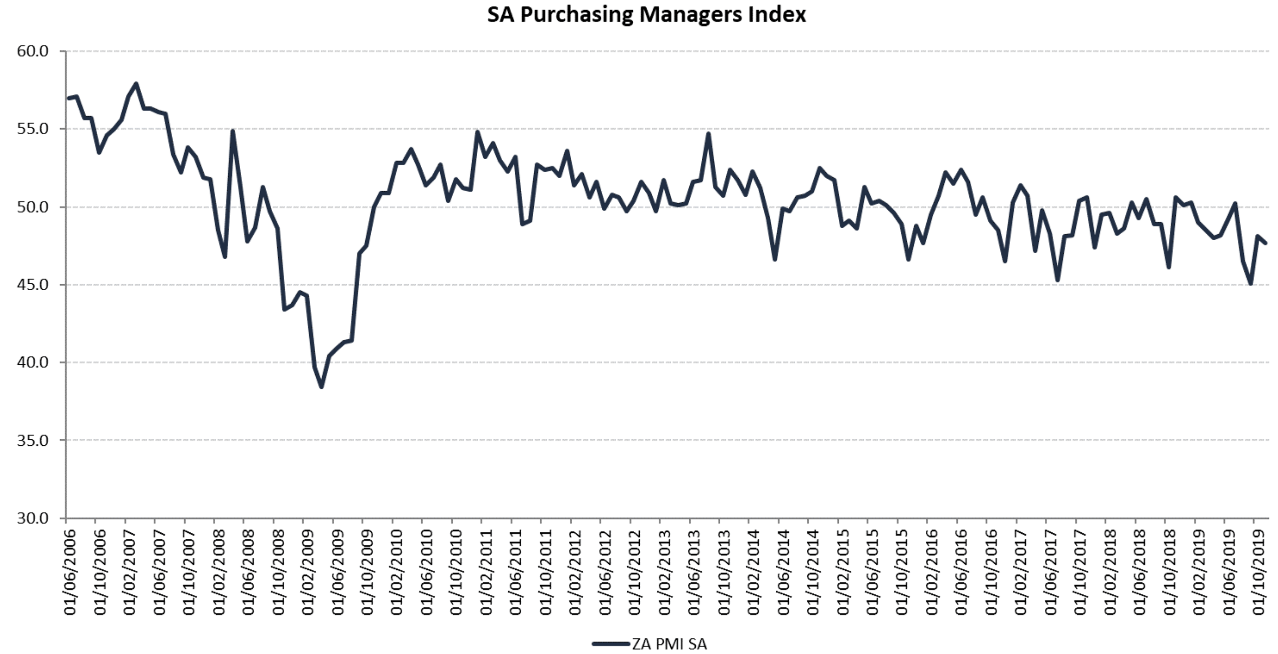
Source: PortfolioMetrix, Bloomberg

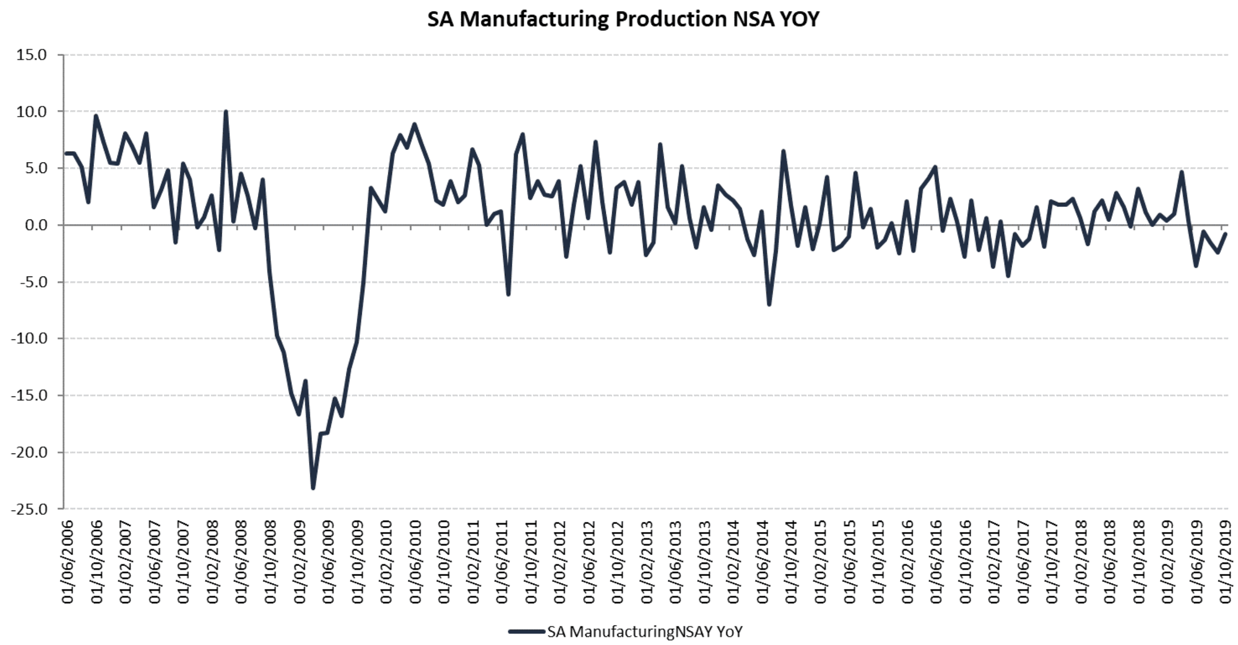
SA unemployment has never looked this bad and rises further in Q4



Source: PortfolioMetrix, Bloomberg

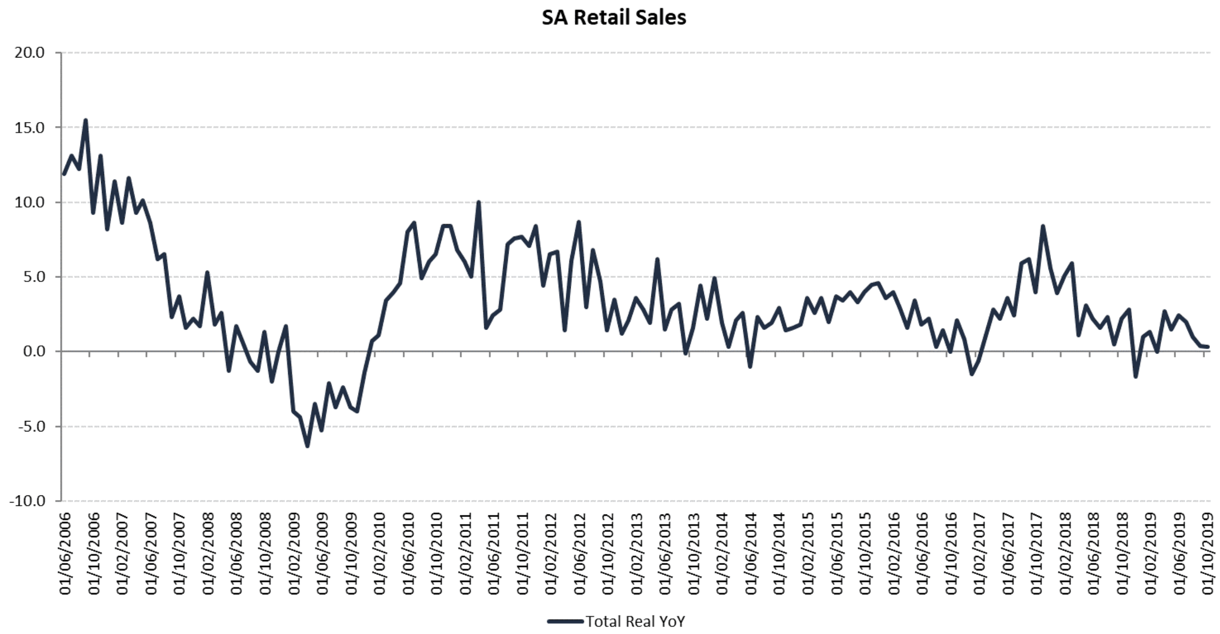
SA PMI and Manufacturing remain in contraction





Source: PortfolioMetrix, Bloomberg

Retail sales weak but stabilise at year end



Source: PortfolioMetrix, Bloomberg

LOOKING AHEAD – It's not all doom and gloom

Domestically, 2019 was a year where the bad news far outstripped the good news. And bad headlines sell more newspapers and garner greater interest than the good news story. Not even our government or Finance Minister could finesse the gloomy picture that he presented in the MTBPS in October.

Consequently, SA's GDP growth rate found itself in negative territory often during the year. The contraction of 0.6% in GDP in Q3 was more recently followed by reports of weak manufacturing and mining data, sagging retail sales, pedestrian new vehicle sales as well as low consumer and business confidence. These late trends suggest that SA will struggle to even reach the Mini Budget forecasts of 0.5% GDP growth for 2019. This does not even factor in the impact of Eskom's load-shedding that shrouded the pre-Christmas period. Nonetheless economists do forecast a pickup in activity in 2020, albeit lacklustre and less than the SARBs estimates of circa 1.5% that it communicated in the February budget.

Growth at these low levels is widely recognised as inadequate if SA is to successfully meet the overarching challenges of unemployment, inequality, fiscal drag and the looming debt crisis that our government finds itself in. Policymakers are stuck between a rock and a hard place and borrowing repetitively to finance consumption expenditure can only make SA poorer in the long run. The good news is that inflation has declined to well within the target range of 3-6 percent which provides the MPC with the firepower to cut SA interest rates and follow in many of our global trading partners dovish paths.

A slightly more stable and stronger rand at year end, although highly dependent on the demand for the dollar and global risk appetite, is also welcome relief for importers and possibly a petrol price cut in the coming month. December rains have also been positive for several regions in SA, which is promising for agricultural output.

As for the global outlook, the de-escalation of the US-China trade war will go a long way in improving investor sentiment. Global macro indicators, which have steadied in recent weeks, confirm that the economic outlook is not as disastrous as some investors had feared a couple months back. This was certainly the message from the latest BoAML survey, which showed portfolio managers distinctly less gloomy about the global economy and adding to their equity holdings. Subsequently equity markets are trading close to peaks and bond markets have sold off, with the share of negative-yielding debt looking a little less scary.

Given that global capital spending had come to a standstill in 2019, it stands to reason that we may even see pent-up demand in capital spending and a catch-up in industrial activity on the resolution of the tariff debacle. Whilst nobody knows exactly what a truce ultimately looks like, the idea behind a stable Chinese renminbi policy, a compromise of tech IP, plus a commitment to buy certain US agriculture goods would be constructive. If all else, an agreement in principle lifts some of the malaise seen in 2019.

The recession talk from a few months back has faded. The resilience of the US economy has been a source of comfort for many investors. Consumer demand and employment appear to be holding up rather well. The buoyancy of the labour market is particularly important, as it will continue to support consumer spending and the services sector.

So, in summary, the worst of the global downturn seems to be over, for now. Leading indicators have stabilized and global demand is expected to improve in 2020, especially in light of the ceasefire. Global growth is forecast around 3.3%, although downside risks still exist. Growth in Sub-Saharan Africa is expected to average about 3.5% in 2020. Nonetheless, SA's domestic economic outlook for 2020 remains a tough and sombre one, with pedestrian growth prospects. It would be amiss to believe that everything looks rosy, however, with the small steps made in addressing management in the highest echelons, change is inevitable. Eskom remains the thorn in the country's side and is the single biggest risk to downgrade. Given where the country sits, and arguably can't get too much worse, we believe the future is brighter although patience becomes a virtue.

A word to the wise

That said, South Africa continues to face idiosyncratic challenges and it makes sense to prepare for a tough environment in 2020 and possibly beyond by keeping a balanced and diversified view. In the absence of growth and policy certainty, don't forget about yield. The importance of dividends is highlighted particularly in low total return environments. Furthermore the global thirst for yield pick-up has become ever more challenging in the fixed income space with global fixed income yields at multi-year lows (almost a third of sovereign bonds in issuance are in negative yield territory). SA asset classes are yield outliers with SA bonds reflecting one of the highest yield opportunities in the Emerging Market space – both in nominal and real yield terms. This gives some confidence that there is already a decent margin of safety to an ultimate credit rating downgrade.