APRIL 2016

PROSPERITY

IN THIS CLIENT **NEWSLETTER**

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PRIVATE CLIENT SECURITIES

OLD MUTUAL WEALTH

With the wild ups and downs of markets in the first quarter still fresh in our memory, there was some respite in April. Central banks in all developed economies continue to hold steady on accommodative monetary policy and great care is being taken not to disrupt any momentum, however small, that is building in terms of economic recovery. The US dollar has also retraced some of its strength and this could support foreign earnings growth for many US multi-nationals despite tepid demand growth. Commodity prices have also stabilised and in some cases, such as oil, have shown improvement. Whether the price recovery in commodities is sustained depends mostly on whether enough supply has been taken out of the market.

Markets have again posted broad gains in April, however the earnings results for many companies continue to disappoint. Earnings growth in 2016 is likely to remain under pressure, but the lowering of expectations may lead to positive results (relative to expectations) as the year progresses. Investors will be well-served to remain invested in companies with defensive and high-quality earnings. Growth opportunities remain scarce, but there are companies that are very compelling in this regard. **Our local and global equity portfolios comprise a good balance between companies with high-quality, defensive earnings and companies offering very significant growth opportunities.**

In April Queen Elizabeth II celebrated her 90th birthday. The Queen began her reign in 1952 and during her 64 years on the throne, we have seen 12 US presidents! Her reign is a true testament to staying power. As long-term investors we know that true wealth is created by staying committed to our investment strategy over the long haul and not being swayed or distracted by fads and market noise.

ECONOMIC AND MARKET OVERVIEW

The US Federal Reserve held interest rates unchanged in April as the US economy grew by 0.5% quarter-on-quarter, down from 1.4% in the fourth quarter. Net trade subtracted 0.3% from Gross Domestic Product during the quarter.

The European Central Bank also kept policy unchanged in April, saying that its stimulus measures appeared to be working. The Eurozone economy grew 0.6% quarter-on- quarter in the first three months of 2016 up from, 0.3% in the previous period and ahead of market expectations. The Eurozone economy has now finally surpassed its previous peak – eight years later.

The Bank of Japan surprised the market by not announcing further stimulus, saying it would rather wait to assess the impact of the previous round of easing, despite once again having to admit that the 2% inflation target will be reached later than previously thought.

Data released on the local economy during April paints a mixed picture, with a number of silver linings. While consumer inflation declined to 6.3% year-on-year in March from 7% in February as expected, food inflation remains a concern. Consumer confidence rebounded somewhat in the first quarter, but remains low. The FNB/BER Consumer Confidence Index plunged last year, averaging -9.2 index points in 2015 compared to an already-low average of -0.6 in 2014. In the first quarter, the index increased to -9 from -14, but remains lower than during the 2008 recession. The long-term average for the index is 5.

The improvement in tourism continues, with StatsSA announcing last week that tourism arrivals rose from 1 133 411 in February 2015 to 1 285 698 in February 2016, a 13.4% increase. Another positive was that the trade balance swung into a R2.9 billion surplus in March, after a R1.2 billion deficit in February. This month, the BER/Barclays Purchasing Managers' Index (PMI) reached its highest level since August 2013. The seasonally adjusted PMI increased to 54.9 index points from 50.5 in March, with an index level of 50 separating growth from contraction.

Developed markets outperformed emerging markets in April, with the MSCI World Index gaining 1.38% (US$) while the MSCI Emerging Markets Index ended the month marginally higher (0.4% in US$). The US' S&P500 (0.3% in US$) and the UK's FTSE 100 (1.08% in £) ended the month in positive territory. In Asian markets, the Nikkei 225 was 0.6% lower and the Hang Seng was 1.4% higher during the month. Locally, the ALSI gained 1.7% in April, boosted by a 13.5% return from the Resources sector. Financials (-0.3%) and Industrials (-0.9%) both ended the month lower.

LOCAL EQUITIES

BIDVEST

Bidvest Group Ltd.will list its food business, to be called Bidcorp, with a net book value of the transferring assets of R2.8 billion on the Johannesburg Stock Exchange on 30 May as part of a split of the business. Separating the foodservice division from the industrials units will provide greater focus and enable management to identify opportunities both locally and abroad. The division, Bidvest's biggest and one that contributes over half of the company's sales of R200 billion, supplies pubs, restaurants and hotels in Europe, South America and Asia. Bidvest, a company involved in businesses from shipping to selling household mops, has said in the past that the food business should be separated because its value was not reflected in the company's share price. The unbundling will result in shareholders holding a direct interest in Bidcorp rather than holding that interest through Bidvest. The last day to trade in the current Bidvest shares on the JSE will be 27 May. Shareholders would "indicatively" receive one Bidcorp share for every Bidvest share held at the close of business on 3 June. The new company would be listed in the food retailers and wholesalers sector of the JSE's main board.

STEINHOFF

Steinhoff International Holdings plans to sell €1 billion (US$1.1 billion) of bonds that can be converted into equity to repay existing debt and fund share repurchases. The bonds, maturing in October 2023, will be marketed with a coupon of 0.50% to 1.25%. The conversion price is expected to be set within a range of 40% - 45% of the average Frankfurt and Johannesburg share prices between the start of the offering and its issuance. This move takes advantage of low prevailing interest rates and investor appetite for corporate debt and will reduce financing costs for the holding company.

GLOBAL EQUITIES

ROCHE

Roche Holding AG reported a 5% increase in first-quarter sales as demand for three breast-cancer medicines from Europe's largest drug maker increased. Sales grew to 12.4 billion Swiss francs (US$12.9 billion). Roche is counting on Esbriet, a lung medicine that went on sale a year ago, and an experimental drug for multiple sclerosis for which it won expedited US regulatory approval last quarter, to drive revenue growth in the years ahead as products such as Lucentis age.

NESTLÉ

Nestlé SA, the world's largest food company, reported better-than-expected first-quarter sales as Nescafe and Nespresso were boosted by marketing to ward off increased competition in coffee. Organic growth, a closely watched measure that cuts out currency movements and acquisition effects increased by 3.9% in the three months ended March 31, beating the 3.6% expected by analysts. Overall sales, which include the effects of currencies and acquisitions, rose to 20.93 billion Swiss francs (US$21.64 billion) from 20.92 billion francs a year earlier. Revenue from powdered and liquid beverages (predominantly the coffee business) rose 6.3%. In terms of 2016 forecasts, Nestlé expects organic revenue growth to be similar to last year's 4.2% and aims to achieve improvements in margins and underlying earnings per share in constant currencies.

JOHNSON & JOHNSON

US drug giant Johnson & Johnson is expanding its business and Research & Development presence in Africa, a key emerging market that the company believes will support sales of its medications over time. This month the company announced the official launch of its global public health strategy at the opening of its companies' on-the-ground global public health operations in Cape Town. Through this global strategy, Johnson & Johnson will mobilise its global public health capabilities and resources behind a unified, multidisciplinary effort to deliver a sustainable, measurable impact against significant public health needs. The initial implementation of the strategy starts with this new site in Africa, and will focus on three core areas: HIV, Tuberculosis (TB), and Maternal, Newborn and Child Health. The company plans to expand its focus areas to address other unmet global health needs and its geographic reach.

GLOBAL PORTFOLIO UPDATE

This month, the Portfolio Managers of the Global Equity Model Portfolio decided to sell out of Bayer and Wells Fargo. The team has had Bayer on watch for a while due to concerns around the business' increasing complexity, lack of focus and poor performance across all of its operating divisions. The decision to exit Wells Fargo comes after the recent revelation that the business had falsified records pertaining to material risk issues in their credit book prior to the 2008 Global Financial Crisis. As a result, the company was fined US$1.2 billion and its management team's integrity is now under scrutiny. Furthermore, we remain cautious about prospects for the global financial sector (ex SA), which we believe is facing severe headwinds.

Following in-depth analysis, Verizon, General Electric and Newmont Mining have been added to the portfolio. These additions are in line with our investment philosophy, which ensures that we invest in high quality companies that are able to deliver solid earnings growth. We believe quality earnings growth warrants a premium rating and would rather invest in a high quality company at a fair price, than invest in a fair quality company at a discount.

VERIZON

Verizon is one of the world's leading telecommunications businesses. It has two main segments: Wireless and Wireline. The Wireless segment provides wireless communications products and services across one of the most extensive and reliable wireless networks in the US and has the largest fourth-generation (4G) Long-Term Evolution (LTE) technology and third-generation (3G) networks of any US wireless service provider. The Wireline segment provides voice, data and video communications products and enhanced services, including broadband video and data, corporate networking solutions, data centre and cloud services, security and managed network services and local and long distance voice services. Verizon is trading at an attractive valuation (12.90 forward PE) and its forward dividend yield (4.40%) is more than double the average in our global portfolio.

GENERAL ELECTRIC

General Electric (GE) is a diversified manufacturer that operates seven separate businesses in its industrial segment: power and water, oil and gas, energy management, aviation, healthcare, transportation, and lighting. The business has transformed itself over the last year by repositioning its portfolio toward its core industrial businesses and shedding underperforming businesses. In 2015, GE aggressively moved to unwind GE Capital, which was a significant but volatile driver of earnings. After successful separation of the consumer-oriented Synchrony and the sale of other commercial lending businesses, GE Capital will remain focused on specialty-finance areas such as aircraft leasing. These remaining finance segments have clear ties to the company's core industrial business, and we believe that a much smaller, better-capitalised GE Capital will add value over the long term. The company is currently trading at a forward PE of 20.60 and a forward dividend yield of 2.96%.

NEWMONT MINING

Newmont Mining Corporation is one of the world's leading gold and copper producers with operations and/or assets in the United States, Australia, New Zealand, Peru, Indonesia and Ghana. Newmont is the only gold producer listed in the S&P 500 Index and was named the mining industry leader by the Dow Jones Sustainability World Index in 2015. Newmont was founded in 1921 and has been publicly traded since 1925. Since 2013, the company has generated US$1.9 billion in non-core asset sales and paid off US$1.7 billion in debt, resulting in a superior credit rating and a net debt to EBITDA ratio of roughly 1.2, among the lowest in the gold sector.

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