



AUGUST 2016

PROSPERITY

IN THIS CLIENT **NEWSLETTER**

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PRIVATE CLIENT
SECURITIES



OLDMUTUAL
WEALTH

The past month was a see-saw of emotions. The positives from the peaceful local elections and the endearing performances of our athletes at the Olympics was followed by the dismay at the renewed politicking and the stark divide between doing what is in the interest of South Africa versus doing what is in our own interest. South Africa's credibility with the ratings agencies and investors has again been damaged and has prompted public calls for political stability by Business Leadership South Africa and The CEO Initiative -

"The Minister of Finance and the broader team at National Treasury have worked tirelessly in the interest of the country and we strongly condemn the manner in which they are being attacked and their efforts threatened. A continuation of political uncertainty would be disastrous for the future of our economy, especially given its fragile state at the moment."

Our local equity portfolios have been positioned for rand weakness even before the recent politics-induced weakness. This is not because we are negative about the country, but because we are prudent and recognise that companies that are purely focused on South Africa currently face too many uncertainties in a poor growth environment. Most of the largest SA corporates have already spread their wings into foreign markets and, in our opinion, the best of these are represented in our portfolios.

Our client portfolios are always appropriately diversified, but not so much as to dilute any opportunity for real growth. Diversification is not just about the number of companies you own, but also about the industries and geographies to which you have exposure through the companies you own. Owning fewer companies does not mean that you are not appropriately diversified.

"Diversification may preserve wealth, but concentration builds wealth." – Warren Buffet

ECONOMIC AND MARKET OVERVIEW

At the annual gathering of central bankers in Jackson Hole, Wyoming, the Federal Reserve Chair noted that the case for another US interest rate increase had strengthened, but she still expects rate rises over time to be very gradual. The Fed's most recent set of forecasts showed an expectation that the Fed Funds Rate will be around 3% in 2018. But the Fed has really found it difficult to pull the trigger on the next rate hike. The most recent employment numbers were disappointing and, along with soft gross domestic product growth in the first half, should give the Fed plenty reason to be cautious on hiking rates too soon.

Politics came to the fore in August, both positively and negatively. On the positive side, the 2016 local government election was notable for a number of reasons. Firstly, the election was largely free and peaceful, and once again generally well managed by the Independent Electoral Commission. Secondly, voters have clearly shown themselves prepared to hold politicians accountable, especially in the metro areas. This strengthens South Africa's democratic credentials and bodes well for longer-term governance. Thirdly, all parties involved accepted the outcome of the polls. Lastly, while local governments do not usually influence macroeconomic policy, it is notable that the two biggest parties both favour fairly conservative economic policies. The parties with a radical economic agenda failed to make big inroads, showing that the risk of a major shift to populist policies seems limited.

On the negative side, fears that Finance Minister Pravin Gordhan would be arrested and removed from his post saw the rand give back its gains from the first half of the month, while interest rate-sensitive assets sold off sharply. At the very least, it highlighted significant divisions within Cabinet, which does not bode well for policy making, specifically the reforms that the ratings agencies have identified as necessary to lift the economic growth rate and sustain our investment grade rating. Renewed political uncertainty also threatens to further dent confidence in the economy just as the data seemed to be pointing to an upturn.

LOCAL EQUITIES



MONDI

Mondi Ltd, a packaging manufacturer for products from coffee beans to industrial chemicals, released interim results and reported a 25% rise in profit for the six months to end-June. Revenue fell 4% to €3.3-billion, primarily due to currency effects and disposals completed in 2015. Excluding these effects, revenue grew 1%. An interim dividend of 18.81 euro cents per share was declared, representing a 31% y-o-y increase.

While revenue in the SA division fell 8% to €290-million, underlying profit grew 42% to €98-million. In the results statement, the company highlighted that higher domestic wood costs and inflationary increases contributed to higher variable costs in rand terms, partially offset by higher energy sales. Mondi generates electricity from biomass and by-products of their production processes. Where internal demand lags production, they sell surplus energy and also generate revenue from the sale of green energy credits. Mondi also recorded a significant fair value gain on forestry assets in SA.



DISCOVERY

In its trading statement, Discovery Limited said full-year profit would be in the range of flat to up to 5% higher than last year following increased investment in new initiatives, including plans to expand into the banking sector. Normalised HEPS, excluding one-off items, for the full year is expected to increase in the range of 0% – 5%, to between 672 cents and 705 cents. Apart from its initiative to set up a bank, Discovery's investments during the period included taking on the Bankmed medical scheme contract, and increased costs arising from growth in Ping An Health and other International Partner Markets. Discovery launched its behaviour tracking and rewards programme in Japan last month, teaming up with life insurer Sumitomo Life Insurance Co and telecommunications and Internet company SoftBank Group Corp.



WOOLWORTHS

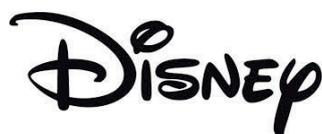
Woolworths Holdings Ltd. reported full-year profit that beat analyst estimates after food and clothing sales rose, as the South African retailer benefited from a more resilient higher-earning customer base. Diluted headline earnings per share, which exclude one-time items, rose 8.9% to R4.53 and sales rose 16% to R72.1-billion. It is interesting to note that food sales now account for less than 40% of revenue - all of it in SA. The food segment represents a growth opportunity for Woolworths in Australasia. Woolworths raised its dividend by 27% to R3.13 per share. In the results statement, the company commented that its mid-to-upper income customers are resilient and its combined group presence continues to present it with opportunities to grow market share and drive profitability in both sub-Saharan Africa and Australasia. However, management have cautioned that the South African customer continues to be under pressure, and the Australian trading environment continues to be tough.

GLOBAL EQUITIES



ACCENTURE

Accenture announced the expansion of its incident response capabilities and global services through FusionX, part of Accenture Security. Known for its fundamentally differentiated approach to intelligence-based, cyber-attack simulation services, FusionX has built upon its vast understanding of adversaries and their breadth of technical experience, to develop a holistic incident response solution that addresses client preparedness, through threat identification and eradication. With more businesses and institutions moving online and using cloud-based services, the threat of cyber-attacks is very real and this service could, in time, contribute significantly to Accenture's bottom line.



DISNEY/VERIZON

Continuing efforts to provide more ways to buy and watch Disney, Pixar, Marvel and Star Wars movies, Disney Movies Anywhere announced the addition of Fios by Verizon, the first multichannel video programming distributor to join its cloud-based digital movie service platform. Fios by Verizon customers in the US are now able to seamlessly connect their digital movie collections across the Disney Movies Anywhere ecosystem and watch them from a wide array of mobile devices, as well as purchase directly from Fios by Verizon on supported Disney Movies Anywhere platforms.



NESTLÉ

Swiss food giant Nestlé turned 150 years old this year. Nestlé has factories in 85 countries and sales in 189 countries around the world and 335 000 employees. The company posted first-half sales growth that came in below expectations but reiterated its full-year guidance amid a pledge to boost margins and underlying earnings per share in constant currencies. Revenue rose by 3.5% on an organic basis in the first half to 43.2-billion Swiss francs (US\$45.02-billion). Organic growth was strongest in the Americas region, up 4.7%, though deflationary pressures weighed on pricing in North America and with pet care growing in the double digits in most Latin American markets. The company also confirmed its outlook for the year of organic growth in line with last year's 4.25%. It has a long-term target of 5% to 6% sales growth. Nestlé expects pricing, which reached historically low levels in the first half, to recover somewhat in the coming months.



NEWMONT MINING

Newmont Mining's CEO, Gary Goldberg, has stated that the company is likely to review its dividend policy at the end of the year and may double its Q3 pay-out to US\$0.05/share if gold prices stay high. Newmont has nearly halved its net debt over the past three years to US\$2.7-billion, and Goldberg believes the company will reach its internal debt targets two years ahead of schedule.

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