1st Quarter 2019

Investment Report

Zimnat ASSET MANAGEMENT
associated with Sanlam group

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1.0 EXECUTIVE SUMMARY

Global & Regional Outlook

- Global GDP growth for 2019 revised to 2.5% from 2.7%. The first quarter of the year is expected to perform poorly with weakness in Chinese trade due to the impact of US tariffs.
- South Africa GDP growth expected to be 1.2% in 2019 by IMF and inflation at 5%. Elections to be done on 8 May 2019.
- Easing trade tensions supported rising metal prices in January and February.

Domestic Economy

- According to the African Development Bank (AfDb), the economy is projected to grow by 4.2% in 2019 and 4.4% in 2020. The IMF pegged GDP growth at negative 5.2% for 2019.
- Annual inflation for March 2019 was at 66.8%.
- The RBZ declared Real Time Gross Settlement (RTGS) as the local currency.
- Since inception the USD/RTGS rate has since tumbled further with the interbank rate as at 1 April 2019 being USD1: RTGS3.01. The interbank rate has fallen 20%.
- Government recorded improved revenue performance on the back of the IMTT and excise duty from fuel

Investment Markets

- Average money market rates are at 3.81% p.a. for 1 month deposits. Rates remain significantly below the inflation rate
- Since the MPS announcement, the stock market has been on a gradual decline. As at 29 March 2019, The ZSE All Share Index had lost 16.81% year to date.

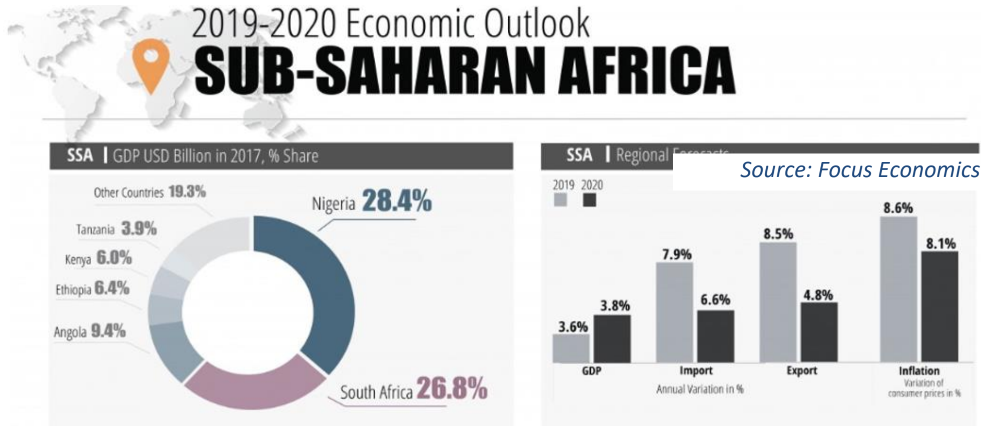
ZAM Strategy

- ZAM's strategy therefore remains focused on value preservation through consolidating our positions in defensive stocks
- ZAM has developed a pipeline of property development opportunities

2.0 GLOBAL ECONOMY

- **Global economy:** In response to continued weakness in global trade and signs of softening in most sectors, Oxford Economics revised downwards global GDP growth for 2019 to 2.5% from 2.7% in February 2019. The IMF in its April 2019 World Economic Outlook report projects a decline for 70% of the global economy in 2019, whilst projecting a growth of 3.3% growth for the global economy. The first half of the year is expected to perform poorly whilst the second half is expected to pick up in response to support by significant policy accommodation by major economies.
- Long-term yields have declined across advanced economies reflecting a deterioration in growth prospects that triggered a more dovish stance by major central banks. The share of bonds yielding negative interest rates increased to its highest level since October 2009. These bonds are mostly concentrated in Europe and Japan.
- **US Economy:** Personal spending fell in December 2018 amid market volatility and a government shutdown. This lead to a soft first quarter in 2019. However, business sentiment remained solid outside the manufacturing sector, the labour market was robust. The Federal Reserve dropped its tightening bias in January 2019 in reaction to political risks, slower global growth and, subdued inflation. In part, the weakness in price growth reflects better productivity last year, which is helping shield companies from rising wage pressures.
- **UK Economy:** A weak housing market, slumping autos production and declining investment all suggest that nearly three years of uncertainty over Brexit is causing the UK economy to stagnate. The British Chamber of Commerce said a survey of 7,000 businesses indicates that economic growth nearly ground to a halt in the first quarter of 2019. The Bank of England estimates that the British economy is already 2% smaller than it would have been if voters chose to remain in the European Union. The UK's economic outlook is materially dependent on how the country leaves the EU. A benign transitional exit would likely see an acceleration in UK activity growing to 1.8% in 2019. Conversely an abrupt exit will most likely deliver a sharp supply side shock and potential recession.
- **China's** economy, despite challenges such as trade tensions, is expected to see its GDP growth of 6.3%. Even if there is a shortfall in exports due to trade tensions, this can easily be made up through a measured dose of fiscal stimulus, thus allowing domestic investment to make up for the shortfall in the external sector. The government has stepped up its efforts on the fiscal front already and in 2019 China will probably have a moderate current account deficit.
- **Sub-Sahara Africa**: According to the IMF World Economic Outlook for April 2019, growth is expected to be at 3.5% this year and 3.7% in 2020. The projection is 0.3 percentage point and 0.2 percentage point lower for 2019 and 2020, respectively, than in the October 2018 WEO, reflecting downward revisions for Angola and Nigeria with the softening of oil prices.
- **South Africa**- IMF projects GDP growth of 1.2% in 2019 and 1.5% in 2020 with concerns around policy uncertainty after the May 2019 elections.Rolling blackouts in the last weeks of Q1 2019 highlighted Eskom's shortcomings. The state-owned power utility's struggling finances were one of the highlights

in this year's budget, presented on 20 February 2019.Inflation for 2019 is projected at 5%. South Africa's recovery will hinge on Cyril Ramaphosa's last-ditch economic reforms and the mandate for his African National Congress on 8 May.



Source: Focus Economics

- **Commodities:** Easing trade tensions supported rising metal prices in January and February. Copper and Nickel closed the quarter up by 8.2% and 22.6% respectively, while Platinum was up 6.8%.
- Agriculture prices declined on prospects of rising production.
- **Oil:** prices were up 27% for the first quarter of 2019 following production cuts by OPEC. Saudi Arabia announced that its oil output in March and April would be lower than what was agreed in December. Venezuela's oil output contracted further following power outages in March.

3.0 LOCAL ECONOMIC ACTIVITY

- **GDP growth** for 2018 was estimated at 3.5% with growth driven mainly by agriculture. However, The IMF projected a negative real growth of -5.2% for 2019 following introduction of the local currency. Inflation and foreign currency shortages will continue to weaken demand and strain production in the short term.
- **Broad Money supply** was at $10.09billon as at 31 December 2018 despite a tampering off in the rate of growth in money supply tampered in Q4-2018
- Claims on central government increased by RTGS 750 million in Q4 2018. This was due to the governments continued funding of budget deficit through domestic debt in the form treasury bills and RBZ overdrafts.
- **Monetary Policy Highlights:** The RBZ on the 20th of February 2019, made a bold decision to unpeg the RTGS currency from the US dollar after a prolonged outcry from the business community especially exporters.
- A market driven forex allocation mechanism, is in our opinion, the best means to restore competitiveness to the country's exporters and reduces the appetite for imported goods.
- The proposed new exporter forex retention requirements fell short of market expectations. Small-scale miners delivered 66% of gold to Fidelity Printers and Refiners in 2018. The reduction of their retention levels from 70% to 55%, may prove costly in terms of gold production for this year.
- The 30 day "use it or lose it rule", only applies to exporter FCAs and was reintroduced to provide liquidity to the auction system.
- The main shortfall in the 2019 Monetary Policy Statement, in our opinion, was its failure to protect national savings against inflation. Whilst foreign investors had their funds ringfenced and protected by the RBZ, no protections were availed to local fixed income investors.

- **The Intermediated Money Transfer Tax (IMTT)** popularly referred to as the 2% tax racked in RTGS 193.25 million for the first two months of the year. The tax, which industry say is regressive, is part of widening of the tax base by Treasury to meet government's growing needs.
- **Fiscal Performance**: Mid-January saw the price of diesel and petrol increase from $1.38 per liter and $1.43 per liter respectively to $3.11 and $3.31. The increase in excise on fuel contributed significantly to governments revenue. For the year to 28 February 2019, total tax revenue was 17% above budget at $1.065billion mainly driven by the IMTT tax and fuel excise duty.
- The government recorded a surplus before capital payments in January and February 2019. However, the sustainability of the surplus remains questionable as fuel consumption declined following the prices increases and there were wage adjustments for civil servants effective 1 April 2019 ranging from 13-29%. Total expenditure for first two months of the year were 8% within budget at $906.5million.

Monthly Fiscal Performance - 2019

	Jan-19	Feb-19	Change		Weight
	($ mln)	**($ mln)**	**($ mln)**	**(%)**	**(%)**
Total Revenue	**468.19**	**597.08**	**128.89**	**27.53%**	**100.00%**
Taxes on Income	107.66	141.36	33.7	31.30%	23.68%
Customs Duties	22.85	20.69	-2.16	-9.45%	3.47%
Total Excise Duties	96.99	227.96	130.97	135.03%	38.18%
Excise on Beer	**8.54**	**8.67**	**0.13**	**1.52%**	**1.45%**
Excise on Fuel	**68.57**	**205.41**	**136.84**	**199.56%**	**34.40%**
VAT	120.09	87.72	-32.37	-26.95%	14.69%
IMT Tax	98.52	94.73	-3.79	-3.85%	15.87%
Total Expenditure	**385.16**	**521.32**	**136.16**	**35.35%**	**87.31%**
Recurrent Expenditure	385.04	444.8	59.76	15.52%	74.50%
Employment Costs	281.94	285.58	3.64	1.29%	47.83%
Capital Expenditure	0.12	76.52	76.4	61609.68%	12.82%
Monthly Surplus/(Deficit)	**102.41**	**85.4**	**-17.01**	**-16.61%**	**14.30%**

- **Trade deficit:** Zimbabwe's trade deficit narrowed 78% month on month to reach $44.2 million in January 2019 compared to $198 million recorded in December 2018 although there was a decline in the trade levels (Month-on-month Dec-2018/ Jan-2019) after imports and exports fell by 41% and 21% respectively.
- The government reviewed the producer price for maize to ZWL$726/t from $390 in an effort to align to the import parity prices in the region. There is still need to import grain upwards of 400,000t according to preliminary Round Crop and Livestock Assessment.
- **Inflation:** official March year on year inflation was at 66.8%. With money supply growing much faster than production output, prices are expected to increase steadily. Since inception the USD/RTGS rate has tumbled from USD1: RTGS2.5 to USD1: RTGS3.01 as at 1 April 2019. The interbank rate has fallen 20% within the first month, fundamentals show it chasing the average parallel market rate of USD1: RTGS4.
- IMF is projecting inflation to remain in double digits at the close of the year at 40.1%. The balance on the current account is projected at -3% this year and -4.6% in 2020.

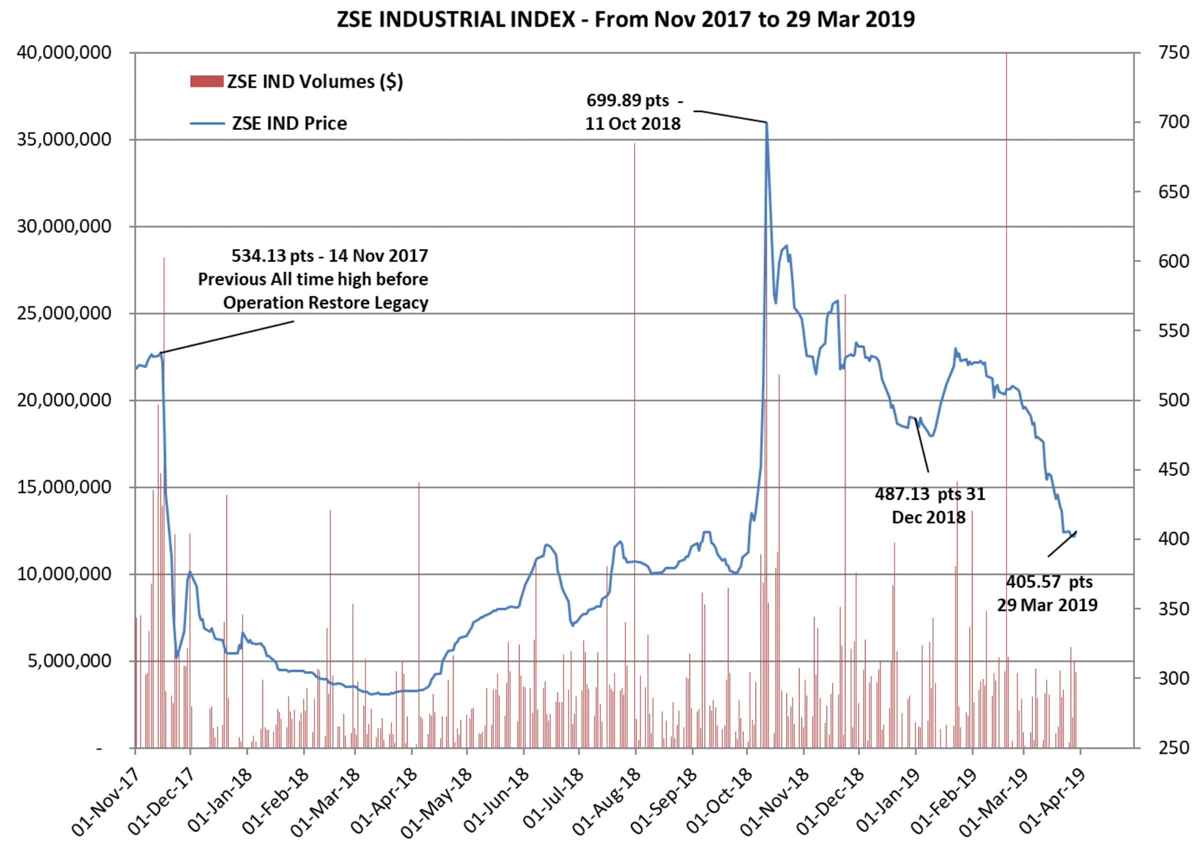
4.0 INVESTMENT MARKETS

4.1 Fixed income Investments

- As at March 2019, average money market rates were at 3.81% p.a. for 1 month deposits. Rates remain significantly below the inflation rate (59.36% as at February 2019). The cap on lending rates of 12% pa by the Central Bank has a huge bearing on the maximum rate that banks can take deposits. Investors are thus naturally preferring to invest in the RBZ Savings bond which is equally liquid and offers a slightly higher rate of 7%p.a.
- Considering the increased inflationary pressure, a correction of fundamentals in this market is imminent with the Treasury Bill Auction system expected to improve price discovery going forward.
- **The Bond Market** - Private bond activity remains subdued as liquidity continues to be mopped up by the government through Treasury Bill (TB) issuances and the issue of RBZ savings bonds. The Treasury bill issuances by the government will now be done via an auction system and this may improve price discovery within the bond market, whilst assisting in mopping up excess liquidity through offering attractive returns for investors.
- Prescribed asset threshold for pension funds was increased to 20% with a compliance date of 31 December 2019. Going forward, the prescribed asset status will only be conferred to government related projects only.

4.2 Equities

- **Stock market performance:** The stock market was very weak in the 1st quarter with significant losses on the blue chip counters. The ZSE top 10 index declined by 20.97% with foreign investors being net sellers during the period. As at 29 March 2019, The ZSE All Share Index and the Industrial Index had lost 16.81% and 16.74% respectively. Market capitalization as at 29 March 2019 was $16.084 billion.
- Weakness continues to weigh on the market in the aftermath of the monetary policy statement and as results start to trickle in for the December 2018 reported date which saw the likes of Simbisa, Axia, Edgars, Truworths and Old Mutual reporting fair performances despite the currency uncertainties in the reported periods.



- **SI33 of 2019** introduced the RTGS as legal tender and this is now the reporting currency effective 22 February 2019. The exchange rate between the USD and the RTGS dollar was however fixed at 1:1 for the period up to the effective date, consistent with the rate mandated by the RBZ at the time it issued the bond notes. The separation of FCA Nostro and FCA local in October 2018 implied a difference in purchasing power of the two. Financial statements being presented by companies for results for the period ending 31 December 2018 have complied with SI33 of 2019. Auditors have thus been issuing an adverse opinion on the statements due to the departure from International Accounting Standard 21
- **Old Mutual Zimbabwe**: performance was underpinned by growth in all business units due to new business acquisitions, client retention, growth in the loan book and funds under management. The group managed to open the Eastgate market along with aggressive investments in hospitality related infrastructure.
- **Edgars:** a positive overall outcome from Edgars considering the significant drop in sales in the group's typically strong last quarter of the year. The microfinance unit continued on its growth trajectory. Another point to commend is the clearing of all foreign obligations. Moving forward, foreign currency shortages will remain posing challenges to raw material procurement.
- **Simbisa**: the group released decent results for the first half of 2019 despite operating in an inflationary environment. Due to the lack of foreign currency, Simbisa switched to a dual pricing regime to defend value and raise foreign currency for select inputs. Resultantly, group revenue was up 44% year on year to $143mln. Profit after tax improved by 108% year on year to $16.5mln.
- **Axia:** robust results from the group with revenue up 74% year on year to $234mln. Sourcing of foreign currency to procure inventory remains a priority as its business units require a significant amount of foreign currency to operate. Regional operations continue to provide mixed results with the trading environment in the region proving difficult.
- **Equities outlook and strategy:** The volatility experienced on the stock market in the final quarter of 2018 followed continued in the first quarter of 2019. Our overall long-term strategy remains focused on value preservation through consolidating our positions in defensive stocks. In selecting our equity holding we will continue prioritizing companies with a strong cash flow generating capacity, robust and resilient business models in light of the foreign currency shortages, and a solid governance track record and structures. Valuations remain a key focus for our research team in the new RTGS environment to determine the price with which we buy and exit the stocks.

4.3 Alternative Investments

- Funding for the Bulawayo Student Accomodation was almost complete by end of the 1st quarter and construction is now in full swing.
- We continue to explore investment opportunities that will preserve value in real terms. The projects are at various stages of implementation and potential investors will be approached when the projects are ready for funding.

4.4 Asset Allocation

- Overall focus remains on value preservation and liquidity managament for funds. Client engagement is even more crucial to ensure we that investment strategies being employed continue to be relevant to the fund in this volatile operating environment.

5.0 MARKET PERFORMANCES

INTERNATIONAL STOCK MARKET PERFORMANCE

		LOCAL EXCHANGE RATE TO USD			INDEX IN LOCAL CURRENCY			US DOLLAR CONVERTED		
	Index	31-Dec-18	31-Mar-19	YTD Change	31-Dec-18	31-Mar-19	YTD Change	31-Dec-18	31-Mar-19	YTD Change
Advanced Economies										
United States	Dow Jones Industrial	1.00	1.00	↑ 0.0%	23,327	25,929	↑ 11.2%	23,327	25,929	↑ 11.2%
Britain	FTSE 100	1.27	1.30	↑ 2.3%	6,728	7,279	↑ 8.2%	5,284	5,589	↑ 5.8%
Japan	NIKKEI 225	110.00	110.84	↑ 0.8%	20,015	21,206	↑ 6.0%	182	191	↑ 5.2%
Emerging Economies										
Brazil	Bovespa Index	3.88	3.90	↑ 0.6%	87,887	96,054	↑ 9.3%	22,669	24,621	↑ 8.6%
Russia	MICEX Index	68.94	65.12	↓ -5.5%	2,359	2,497	↑ 5.9%	34	38	↑ 12.1%
India	S&P BSE SENSEX Index	69.44	69.26	↓ -0.3%	36,068	38,673	↑ 7.2%	519	558	↑ 7.5%
China	Shanghai SE Composite	6.87	6.71	↓ -2.3%	2,494	3,091	↑ 23.9%	363	461	↑ 26.9%
South Africa	JSE ALSI	14.38	14.45	↑ 0.5%	52,737	56,463	↑ 7.1%	3,667	3,907	↑ 6.6%
Sub-Sahara Countries										
Zimbabwe	All Share Index	1.00	3.01	↑ 201.2%	146	122	↓ -16.8%	146	40	↓ -72.4%
Zambia	LUSE All Share	11.90	12.13	↑ 2.0%	5,248	5,600	↑ 6.7%	441	462	↑ 4.6%
Botswana	DCI Index	10.52	10.56	↑ 0.4%	7,854	7,886	↑ 0.4%	747	747	↓ 0.0%
Tanzania	All Share	2,294	2,309	↑ 0.6%	2,046	2,060	↑ 0.7%	1	0.89	↑ 0.1%
Nigeria	Nigeria All Share	363.04	358.29	↓ -1.3%	31,431	31,041	↓ -1.2%	87	87	↑ 0.1%
Ghana	GSE Composite	4.85	5.32	↑ 9.5%	2,499	2,417	↓ -3.3%	515	455	↓ -11.7%
Kenya	NSE 20	101.17	100.12	↓ -1.0%	2,834	2,846	↑ 0.4%	28	28	↑ 1.5%
Mauritius	SEMDEX	33.44	33.91	↑ 1.4%	2,219	2,165	↓ -2.4%	66	64	↓ -3.8%

ZSE INDUSTRIAL INDEX - TOP 5 COUNTERS BY MARKET CAPITALIZATION

Name	Sector	Price US cents 31 Mar 2019	Weight- 31 Mar 2019	Market Cap US$ 31 December 2018	Market Cap US$ 31 March 2019	YTD Change in Market Cap
Econet Wireless Zimbabwe Limited	Technology	1.10	18.44%	3,698,050,000	2,849,634,700	-22.94%
Delta Corporation Limited	Beverage	2.25	18.37%	3,802,799,433	2,839,111,436	-25.34%
Cassava SmarTech Zimbabwe Limited	Technology	1.00	16.77%	3,691,571,986	2,590,577,000	-29.82%
Innscor Africa Limited	Industrial Holding	1.31	4.73%	1,001,947,864	730,443,017	-27.10%
British American Tobacco Zimbabwe	Agriculture	30.00	4.01%	680,906,061	619,005,510	-9.09%
Sub-Total			62.31%	12,875,275,344	9,628,771,664	-25.22%
ZSE Market Capitalization				**19,424,406,159**	**16,084,866,459**	-17.19%