Zimnat | ASSET MANAGEMENT

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ZIMNAT ASSET MANAGEMENT

4TH Quarter 2017 Investment Report

"If you are bearish or bullish for long enough, you'll eventually be right." – Unknown

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1.0 EXECUTIVE SUMMARY

Global & Regional Outlook

- The World Bank's January 2018 report forecasts global economic growth to strengthen to 3.1%
- **US Economy:** GDP growth rate is expected to remain between the 2% to 3% range.
- **Chinese Economy:** GDP is forecast to rise by 6.8% in 2017 and 6.4% in 2018.
- **Sub-Saharan Africa:** Growth in Sub-Sahara is forecast to pick up to 3.2% in 2018 from 2.45% in 2017 on the back of stronger commodity prices and implementation of reforms.

Domestic Economy

- **World Banks** projects a 2.8% and 0.9% growth in 2017 and 2018 respectively against government forecast of 3.7% and 4.5%.
- Agriculture expected to grow by 10.5% in 2018 on back of expanded Command Agriculture Program.
- Annual inflation remains on the rise at 2.97% in November 2017.

Investment Market Outlook

Equities

- ZSE Industrial Index closed 2017 with an annual gain of 130%.
- Cautious approach to our equity trades given the over valuation of prices on the stock market.

Money Market

- High interest rate spread.
- Average deposit rates at 2.4%

Bonds

- Private bond activity remains subdued given inflation expectations. Declining money market rates may force investors into bonds, as they search for higher yields.

Alternative Investments

- Given the overvalued stock market and low returns on the money market, alternative investments have become more attractive in terms of value preservation and provision of above inflation returns

ZAM Strategy

- Maintaining exposure to Defensive Equities.
- Identify alternative investment opportunities.
- Minimum exposure to the money market

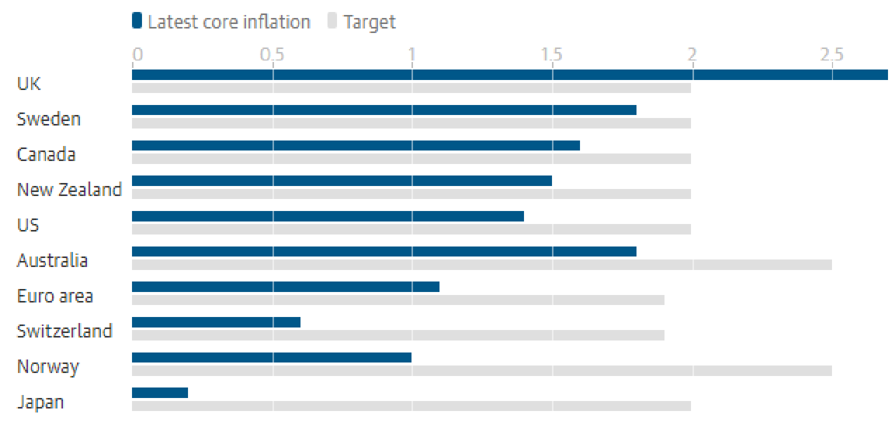
2.0 GLOBAL ECONOMY

- **Global economy** - The World Bank forecasts 2018 growth at 3.1% after a stronger than expected 2017.
- Emerging economies grew faster than the prior year thanks to trade but also to stimulative policies. Slightly higher inflation could have some central banks tighten policy somewhat in 2018, although that’s unlikely to be enough to prevent a repeat of 2017’s solid growth performance.
- Geopolitical risks like tensions in the Middle East and Korean Peninsula, terrorism, climate change, poverty, inequality and forced migration bode ill for the health of global economy in 2018.
- **US Economy:** Business investment sprung back to life in 2017 thanks to the stabilization of the energy sector and improved confidence amidst a buoyant global economy.
- The Dow Jones Industrial Index and the S & P 500 hit multiple all-time-highs in the fourth quarter of 2017, gaining 10% and 6% respectively. Another year of above-potential growth is expected in 2018 thanks in part to the proposed US tax cuts.
- Growth is forecast at 2.3% for 2017 and 2.5% in 2018.
- **Chinese Economy:** Credit is still growing faster than GDP, despite the government’s official commitment to controlling financial system risks, and tighter restrictions on real estate and non-bank lending.
- GDP is forecast at 6.8% for 2017 and 6.4% in 2018. However, an unexpected slowdown in real estate markets or lower private sector confidence and spending could cause borrowing conditions to tighten abruptly.
- In this downturn scenario, GDP growth would decline to 4% in 2018.
- **Commodities:** Oil prices continued to climb as signs that the global oil glut is finally easing are boosting investor sentiment. Moreover, the expected extension of the oil deal between key OPEC members and Russia well into 2018 is supporting the view that the oil market will remain tight in 2018.
- Nevertheless, sentiment could quickly change course if shale oil producers in the United States are able to further expand production, and participants in the OPEC oil agreement deviate from their quotas to benefit from higher crude prices and address their battered fiscal positions.

Wage growth remains subdued

Inflation targets worldwide

The difference between actual and target inflation around the world

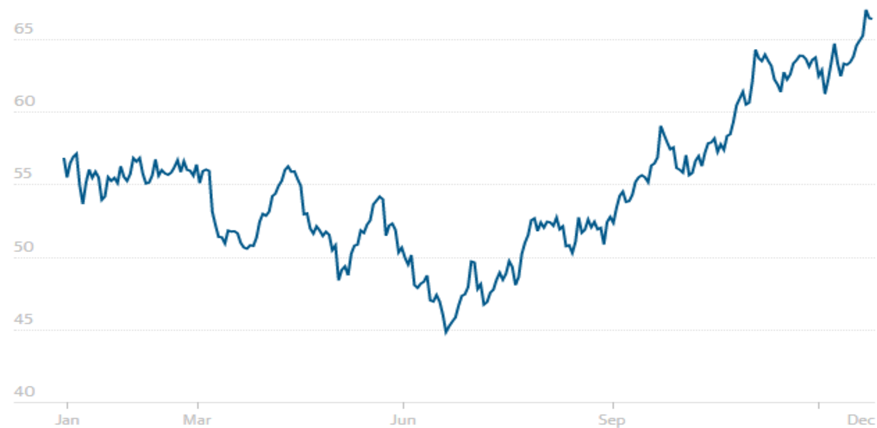


Guardian graphic | Source: Goldman Sachs (using GS core PCE forecast)

Oil bubbles up

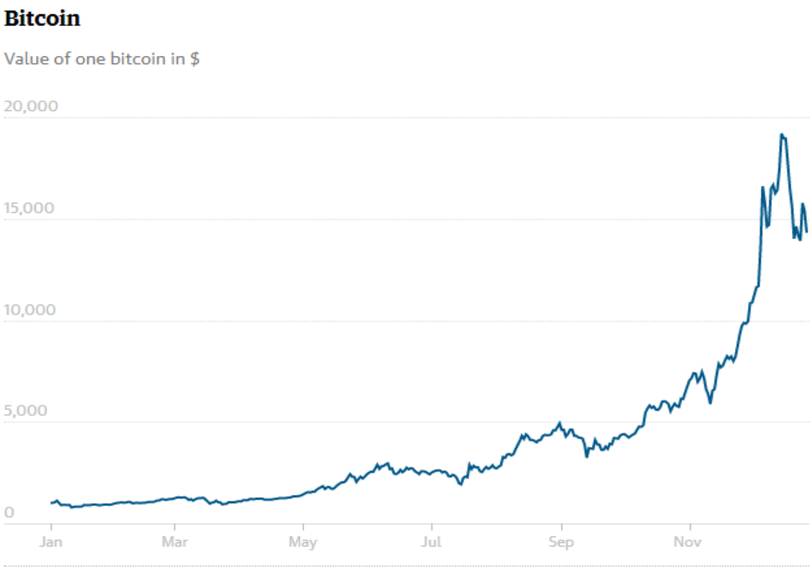
Brent crude

$ per barrel



Guardian graphic | Source: Thomson Reuters

- China continues to lead developments in the base metal markets. Large infrastructure projects and a still vibrant housing market in China are supporting demand for a wide range of base metals. Stricter environmental regulations and the closure of some mines are tightening supply.
- **Sub-Saharan Africa**: Economic growth is estimated to have strengthened from 1.3% in 2016 to 2.4% in 2017, as an uptick in mining output along with a recovery in the agricultural sector boosted economic activity. GDP growth was stable in non-resource intensive countries, supported by domestic demand.
- Looking ahead, Sub-Saharan Africa is projected to see a steady pickup in activity, as commodity prices stabilize and domestic demand gradually gains ground, helped by slowing inflation and monetary policy easing. The World Bank forecasts growth of 3.2% in 2018.
- **Bitcoin Mania:** Even though there are fears of a coming crash, 2017 will go down as the year of the cryptocurrency. Bitcoin's rise has been meteoric, beginning 2017 valued at about $1,000 and reaching almost $20,000 by the middle of December 2017. There were wild swings on the way, with the currency losing more than a quarter of its value in a single day in December 2017, before staging a recovery.



3.0 DOMESTIC ECONOMY

3.1 GROWTH FORECASTS

- **GDP growth** The World Bank forecasts that 2017 growth was 2.8% and will decline to 0.9% in 2018. These forecasts are more conservative than the government's view that output was forecasted to have grown by 3.8% in 2017 and will grow by 4.5% in 2018 premised by government charting a new way forward with economic and investment recovery measures mandated towards the "New Economic Order".
- **Agriculture** was expected to grow by 14.6% in 2017, on the back of government coordinated interventions in tandem with the private sector. The "Command Agriculture" program, widely regarded as a success in 2016/17, is set to expand to include soya beans and livestock production to sustain growth of the sector. Preparations for the 2018 season have begun with government pledging to allocate 9% of the total budget for 2018 to agriculture, an increase from 7% in 2017. Government expects the agricultural sector to grow by 10.7% in 2018 and drop further down to 8.1% in 2019. This conservative forecast is premised on lower rainfall expectations as well as lower deliveries from livestock. Climate change, as well, is threatening agricultural productivity and exacerbating some of Zimbabwe's key agricultural challenges: low soil fertility, reliance on rain-fed systems, poorly functioning markets, and farmers' limited access to credit, knowledge and best practices.
- **Maize:** The Food and Agricultural Organization of the United Nations forecasted maize production in 2017 at an above-average level of 2.1 million tonnes, higher than the drought-reduced output of 2016. The large year-on-year increase is reflective of an expansion in plantings (estimated at about 1.9 million hectares compared to 1.2 million in 2016) and an upturn in yields, instigated by good rains and extensive input support program. Although most of these increases would originate from the communal farming sector, large-scale farms are also expected to contribute to the steep production gains as they were

supported by the Government's Command Agriculture Scheme. Total cereal production in 2017 is forecast at 2.5 million tonnes, with a significant increase in sorghum production also contributing to this year's improved performance.

- **Wheat**: Projected winter wheat production in 2017 came to 160 000 tons, and is expected to increase to 200 000 tons in 2018. There has been a noticeable surge in private sector participation which has complemented the Command Agriculture scheme and thus government has targeted to produce 350 000 tons within the next three years to guarantee sufficient domestic supply and alleviate reliance on imports.
- **Tobacco:** the 2017 selling season has been deemed successful with sales clocking 200.7mln kgs as at 31 October 2017 generating US$590.4mln. In total tobacco exports have since generated US$827mln from 166.6mln kgs exported mainly to South Africa and China. It is currently being exported at a price of $4.96/kg compared to $5.57/kg in the same period last year

3.2 ECONOMIC ACTIVITY

- **Money supply:** Broad money supply grew by 48% from $5.4billion in November 2016 to $8billion in November 2017 mainly driven by a 59% and 52% increase in transferable deposits and negotiable certificates of deposits, respectively. Despite an increase in bond notes and coins in the last half of the year ($329mllion as at November 2017), physical cash remains a challenge and the RBZ continues to promote a "cash-lite" society encouraging the use of digital banking platforms and use of plastic money.
- **Credit:** Total bank lending grew by 44.3% from $7.5billion in November 2016 to $10.63billion in November 2017. This was mainly driven by a 70% year on year increase in net credit to government from $3.6billion in to $6.3billion reflecting fiscus reliance on the banking sector to fund the budget deficit. During the same period credit to the private sector only grew by 7% from $3.5billion to $3.7billion.
- **Inflation outlook**: Developments have reversed from previous experiences of deflation to onset of rising prices. Month on month inflation began to rise from September 2017 registering at 0.4% increasing to 1.5% in October and settling in November at 0.7%. Speculation deriving from the mismatch between electronic balances and available foreign currency has led to inflationary pressures driving prices upwards. The emergence of foreign exchange rate premiums on the black market stemming from foreign currency shortages further exacerbates the mismatches that will continue to drive inflation up. Although black market premiums significantly reduce over the festive season there remains a pricing mismatch particularly within the retail sector that continues to see prices driving upwards.
- **Balance of Payments:** In 2017, government projects said total exports will reach $3.9 billion, because of strong performances in tobacco, PGMs and nickel among others, while imports are expected to increase to $5.4 billion because a surge in the imports of intermediate goods required in the productive sectors. However, the mining sector, despite being number one contributor to foreign exchange earnings, its contribution to the fiscus remain low, accounting for a meagre 2.2% of total revenues in 2016. Tax revenue performance during the first half of the year 2017 was 1.4% above Budget estimates and by year end, government expects revenues to rebound to $3.7 billion, in line with the National Budget projections.
- **Foreign Direct Investment:** The proposed amendment of the Indigenization Law through the Finance Bill with effect from April 2018 will maintain the 51/49 Indigenization threshold on diamonds and platinum only, whilst opening other sectors of the economy to any investor regardless of nationality, will in our opinion, translate to a gradual increase in foreign direct investment which is crucial for long-term sustainable growth in Zimbabwe.
- The zero tolerance approach to corruption by the new President, will surely reduce leakages from the fiscus, boost investor confidence and tourist arrivals. Reducing corruption also reduces the cost of doing business in Zimbabwe, thereby restoring the country's competitiveness as a credible investment destination on the global stage.

- Furthermore, the new government's commitment to strengthen its re-engagement with the international community and honoring its bilateral obligations is likely to result in increased international support.

3.3 ECONOMIC OUTLOOK

- With the major shift in political environment, the general sentiment is that the country will become more open to global investors and production is expected to gradually improve over time. A cause for concern is that inflation continues to rise, whilst household incomes remain unchanged. The entry of foreign competition in the country's industrial sectors, poses a huge threat to local companies who have limited capital and technology to compete.
- Overall, we are adopting a cautiously optimistic approach and we caution investors and stakeholders to have realistic expectations with regards to the new Government, as they have to claw out of decades of economic meltdown, a culture of corruption, and isolationism.

4.0 INVESTMENT MARKETS

4.1 Money Market Investments

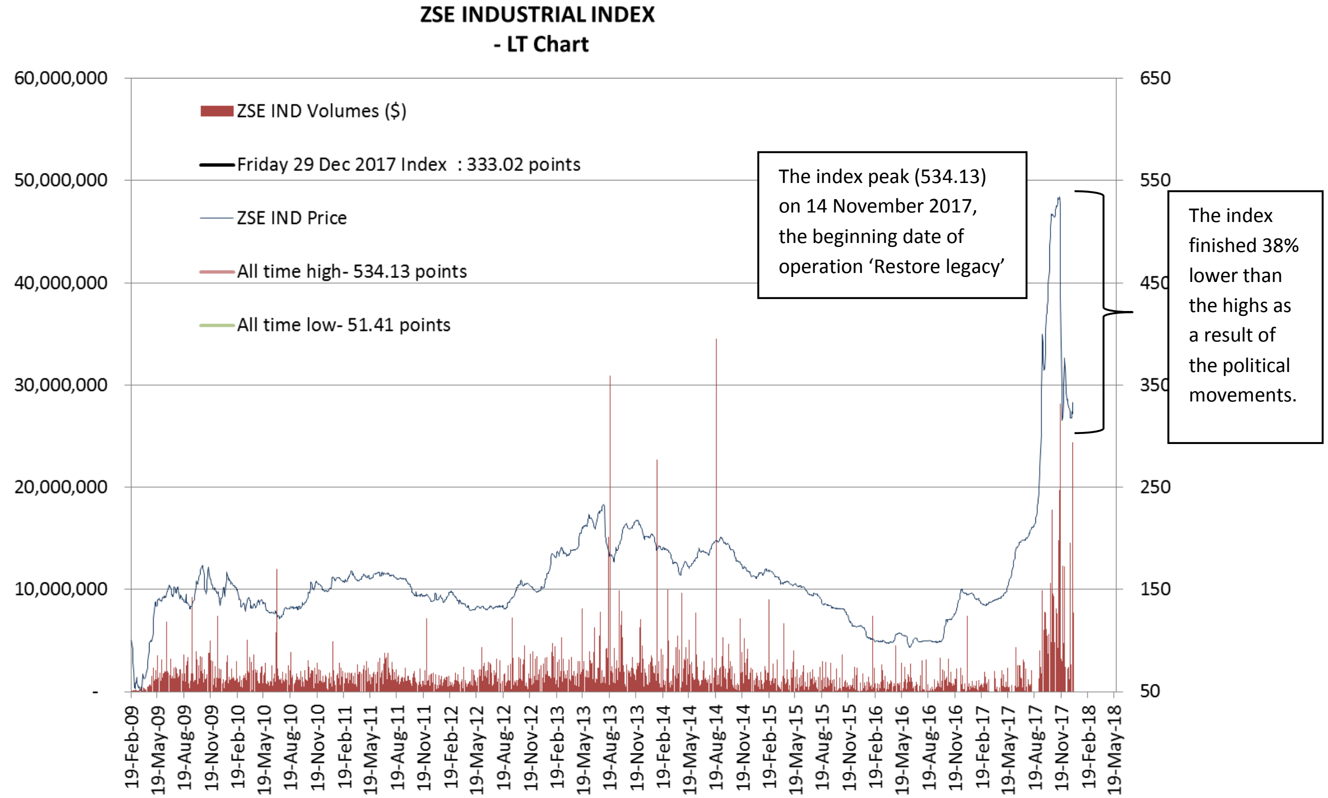
- As at 30 September 2017, the average maximum effective lending rate was 12.52%, against an average deposit rate of 2.14% in the sector. We do not expect any material change in the rates in the immediate future.
- According to the RBZ, the high interest rate spread was reflective of high credit risk premiums, operational inefficiencies at some banks, and lack of critical mass at some banks to cover high operating costs. Risk aversion by banks in an effort to manage their non-performing loans continues as witnessed by the low loans to deposit ratio of 49.01% as well as an increase in productive loans which accounted for 70.02% of the industry loan book as at 30 September 2017.

4.2 The Bond Market – The depressed interest rates on money market investments could hypothetically make the yields on the bond market more attractive for those investors looking to participate in the fixed income market. However, the lack of inflation indexed bonds in light of the resurgence of inflation, dampens the attractiveness of these bonds.

4.3 Equities

- **Stock Market Performance:** The Bull Run on the stock market continued till the 14th of November with an all-time high of 534.13 points which represented a year to date gain as at that date of 270%.
- However, the sudden turn of events in the political arena on the back of operation Restore Legacy, resulted in a 60% loss for the remainder of the 2017, bringing the year end gains to 130.4%.
- The ZSE Mining index gained 143.4% for the year on the back of gains in Rio Zim.
- Overall, 53 companies gained value in the year 2017, 2 remained unchanged (Getbucks and Fidelity Life Assurance Ltd), and 3 declined in value (RTG, Turnall and Edgars). The ZSE market capitalization was at $9.3 billion as at year end.

- **Earnings:** Delta performed satisfactorily considering the environment with no additional clarification on their Coca Cola bottling arrangement.
- BNC performance continues to improve driven by reductions in overall mining costs. Their smelter project is stagnating due to viability decisions resulting from a low nickel price.
- Powerspeed's performance continues to improve. Growth in volumes and revenue drove profitability higher despite challenges in importing goods.
- OK Zim witnessed an increase in its bottom line mainly driven by increased revenues in its half year due to upward inflationary price movements as well as a slight increase in margins.
- **Outlook**: Overall the operating environment remains tough, with challenges stemming from declining disposable incomes, increased difficulties in importing goods due to foreign currency shortages as well as a general lack of competitiveness of companies when compared to regional peers.
- Whilst the change in the government is positive, it is too early to tell the impact that this will have on the economy. Valuations remain high and are no doubt providing for a foreign exchange premium.



- **Given the low interest rates and rising inflation, we believe that investors may be forced back on the stock market, despite the relatively high valuations, in search of above inflation returns.**

5.0 STRATEGY

5.1 Core Investment Objectives

i. **Capital Preservation** – This implies achieving an annual return for our clients that is at least above inflation.

ii. **To beat the investment markets benchmarks** – This is to achieve investment returns including dividend income in excess of the ZSE Industrial Index or the prevailing money market yields.

iii. **To maximize investment opportunities for our clients across all asset classes.**

5.2 Equities Strategy

- Given the anticipated elevated risks in the banking sector, our strategy is to maintain client overall asset allocations in defensive stocks. We look for three key characteristics when selecting companies to invest on the stock market, namely, (1) Cash Generating Capacity, (2) Strong Governance Structure, and (3) Resilient Business Models with Sustainable Growth Prospects.
- We use a combination of fundamental and technical analysis in our company research and also meet the relevant management of the companies that we plan on investing in prior to purchasing their stock.

5.3 Alternative Investments

- ZAM currently has a robust pipeline of potential alternative investments which are at different stages of review, and will be communicated to clients when they pass our due diligence process.

5.4 Money Market Strategy

- Our focus on the money market counterparties we deal with will be on their liquidity profiles to ensure that they have capacity to hold treasury bills on their balances sheets without affecting their ability to meet withdrawals. We will however limit our exposure to the banking sector in light of the external payments gridlock and increased Government exposure through TBs.

5.5 Prescribed Asset and Bond Strategy

- Our core objective is to ensure that all our clients comply with IPEC and Government prescribed asset requirements. To this end, we will continue purchasing prescribed assets to ensure that our pension and insurance clients are compliant. Our target prescribed asset ratio is 15% and this will provide the fund with a margin of safety above the required 10%. For all new prescribed asset or bond issuances, our policy is to undertake a comprehensive review of the bond assessing all the key features of the bond such as the, nature of the business, sinking fund, guarantees, cash flow ring-fencing, to name a few.

5.6 Asset Allocation

- Our asset allocation remains biased towards equities, given the rising inflation levels against declining sub-inflation money market returns. We will remain focused on building a high quality alternative investment pipeline that will also serve as a hedge against inflation as well as further diversifying client portfolios and investment returns.

6.0 PERFORMANCE RANKINGS

Performance Survey as at 31 December 2017 for Discretionary Balanced Portfolios

ASSET MANAGER	Invesci	Imara	Zimnat	Smartvest	Datvest	Platinum	OMIG	ABC	Atria	Alpha	Purpose	ZSE Industrial Index
Q1 2017	-2.04%	-2.54%	1.61%	-0.73%	-0.25%	2.20%	-2.20%	1.36%	2.59%	1.81%	0.81%	-3.85%
Position Q1	9	11	4	8	7	2	10	5	1	3	6	
Q2 2017	34.49%	28.13%	22.79%	20.37%	29.75%	22.02%	26.34%	18.40%	17.80%	10.31%	5.70%	41.03%
Position Q2	1	3	5	7	2	6	4	8	9	10	11	
Q3 2017	102.02%	84.02%	55.74%	78.46%	88.90%	66.45%	74.49%	59.83%	67.08%	33.26%	40.88%	113.50%
Position Q3	1	3	9	4	2	7	5	8	6	11	10	
Q4 2017	-28.30%	-18.27%	-5.05%	-15.16%	-26.16%	-14.03%	-19.05%	-16.06%	-22.34%	-8.06%	-33.24%	-20.40%
Position Q4	10	6	1	4	9	3	7	5	8	2	11	
Full year 2017	90.83%	87.81%	84.57%	80.92%	80.53%	78.45%	74.53%	61.01%	56.81%	37.60%	-6.72%	130.42%
Year 2017 Position	1	2	3	4	5	6	7	8	9	10	11	
Closing Value as at 31 Dec 2017 US$ Millions	$57.45M	$231.21M	$47.29M	$6.85M	$156.46M	$4.71M	$206.22M	$115.91M	$5.25M	$9.8M	$2.3M	

Asset Manager Cumulative Returns

ASSET MANAGER	Zimnat	Imara	Platinum	Datvest	Smartvest	OMIG	ABC	Alpha	ZSE Industrial Index
3 Year Rolling Return	115.41%	105.07%	99.80%	95.79%	94.79%	85.89%	79.31%	70.24%	104.57%
Position	1	2	3	4	5	6	7	8	

ASSET MANAGER	Zimnat	Alpha	Platinum	Datvest	Imara	Smartvest	OMIG	ABC	ZSE Industrial Index
4 Year Rolling Return	124.13%	90.77%	90.21%	88.30%	81.58%	79.80%	78.06%	66.96%	64.44%
Position	1	2	3	4	5	6	7	8	

ASSET MANAGER	Zimnat	Imara	Platinum	Datvest	Smartvest	Alpha	OMIG	ABC	ZSE Industrial Index
5 Year Rolling Return	173.01%	137.92%	124.56%	121.05%	116.27%	115.97%	112.14%	104.32%	118.17%
Position	1	2	3	4	5	6	7	8	

Asset Manager Yearly returns 2013-2017

ASSET MANAGER	Imara	Zimnat	Smartvest	Datvest	Platinum	OMIG	ABC	Alpha	ZSE Industrial Index
FY 2017	87.81%	84.57%	80.92%	80.53%	78.45%	74.53%	61.01%	37.60%	130.42%
Position	1	2	3	4	5	6	7	8	
FY 2016	21.15%	19.61%	29.38%	19.39%	25.98%	15.75%	22.28%	16.54%	25.83%
Position	4	5	1	6	2	8	3	7	
FY 2015	-9.54%	-1.89%	-16.78%	-9.16%	-11.12%	-7.98%	-8.84%	6.17%	-29.45%
Position	6	2	8	5	7	3	4	1	
FY 2014	-11.46%	4.05%	-7.70%	-3.92%	-4.80%	-4.26%	-6.88%	11.52%	-19.46%
Position	8	2	7	3	5	4	6	1	
FY 2013	31.03%	21.81%	20.28%	17.39%	18.06%	19.14%	25.54%	13.21%	32.62%
Position	1	3	4	7	6	5	2	8	

Source: MINERVA BENEFITS CONSULTING

7.0 INTERNATIONAL CURRENCY AND STOCK MARKET PERFORMANCES

International Stock Market Performance -2017

		LOCAL EXCHANGE RATE TO USD					INDEX IN LOCAL CURRENCY					US DOLLAR CONVERTED				
	Index	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	YTD Change	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	YTD Change	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	YTD Change
Advanced Economies																
United States	Dow Jones Industri	1.00	1.00	1.00	1.00	↑ 0.0%	20,663	21,350	22,405	24,719	↑ 25.1%	20,663	21,350	22,405	24,719	↑ 25.1%
Britain	FTSE 100	0.80	0.77	0.75	0.74	↓ -8.8%	7,323	7,313	7,373	7,688	↑ 7.6%	9,145	9,509	9,877	10,372	↑ 18.0%
Japan	NIKKEI 225	111.76	112.10	112.54	112.66	↓ -3.5%	18,909	20,033	20,356	22,765	↑ 19.1%	169	179	181	202	↑ 23.4%
Emerging Economies																
Brazil	Bovespa Index	3.15	3.31	3.17	3.31	↑ 1.8%	63,892	62,900	74,294	76,402	↑ 26.9%	20,294	19,027	23,469	23,065	↑ 24.6%
Russia	MICEX Index	56.19	59.21	57.58	57.64	↓ -5.3%	1,996	1,880	2,077	2,110	↓ -5.5%	36	32	36	37	↓ -0.3%
India	S&P BSE SENSEX In	64.80	64.73	65.29	63.78	↓ -6.1%	29,516	30,922	31,284	34,057	↑ 27.9%	455	478	479	534	↑ 36.2%
China	Shanghai SE Compo	6.89	6.78	6.66	6.51	↓ -6.2%	3,223	3,192	3,349	3,307	↑ 6.6%	468	471	503	508	↑ 13.7%
South Africa	JSE ALSI	13.41	13.06	13.53	12.37	↓ -10.0%	52,056	51,611	55,580	59,505	↑ 17.5%	3,881	3,951	4,109	4,811	↑ 30.5%
Sub-Sahara Countries																
Zimbabwe	Industrial Index	1.00	1.00	1.00	1.00	↑ 0.0%	139	196	418	333	↑ 130.4%	139	196	418	333	↑ 130.4%
Zambia	LUSE All Share	9.66	9.13	9.67	10.01	↑ 0.5%	4,414	4,760	4,974	5,328	↑ 27.0%	457	521	514	532	↑ 26.3%
Botswana	DCI Index	10.42	10.21	10.32	9.85	↓ -8.1%	9,225	9,244	8,930	8,860	↓ -5.8%	886	905	866	899	↑ 2.6%
Tanzania	All Share	2,240	2,236	2,248	2,239	↑ 2.4%	2,315	2,217	2,117	2,396	↑ 12.0%	1.03	0.99	0.94	1	↑ 9.4%
Nigeria	Nigeria All Share	311.74	328.55	356.81	359.78	↑ 17.7%	25,516	33,117	35,440	38,243	↑ 42.3%	82	101	99	106	↑ 20.9%
Ghana	GSE Composite	4.33	4.38	4.37	4.53	↑ 8.8%	1,865	1,965	2,326	2,580	↑ 52.7%	430	448	532	569	↑ 40.4%
Kenya	NSE 20	103.00	103.71	103.23	103.22	↑ 0.3%	3,113	3,607	3,751	3,712	↑ 16.5%	30	35	36	36	↑ 16.1%
Mauritius	SEMDEX	35.27	34.47	34.18	33.70	↓ -6.4%	1,933	2,123	2,230	2,202	↑ 21.8%	55	62	65	65	↑ 0.0%

ZSE INDUSTRIAL INDEX - TOP 5 COUNTERS BY MARKET CAPITALIZATION

Name	Sector	Price US cents 31 Dec 2017	Weight- 31 Dec 2017	Market Cap US$ 31 December 2016	Market Cap US$ 31 March 2017	Market Cap US$ 30 June 2017	Market Cap US$ 30 Sept 2017	Market Cap US$ 31 Dec 2017	Q4-2017 Change in Market Cap	YTD Change in Market Cap
Delta Corporation Limited	Beverage	1.60	22.17%	1,101,798,693	1,071,123,292	1,579,984,753	3,444,615,583	2,011,858,725	-41.59%	82.60%
Econet Wireless Zim	Technology	0.95	16.72%	272,795,532	145,945,610	716,906,658	1,357,305,701	1,516,988,724	11.76%	456.09%
British American Tobacco	Agriculture	36.00	8.19%	314,661,134	315,692,810	371,403,306	624,163,889	742,806,612	19.01%	136.07%
Innscor	Industrial Holding	1.00	5.97%	259,964,851	243,717,048	389,947,277	974,868,192	541,593,440	-44.44%	108.33%
Seedco	Agricultural	2.00	5.31%	236,792,951	224,420,938	330,725,592	681,292,049	481,478,480	-29.33%	103.33%
Sub-Total			58.36%	2,186,013,161	2,000,899,697	3,388,967,587	7,082,245,414	5,294,725,981	-25.24%	142.21%
ZSE Industrial Market Capitalization				**3,893,063,042**	**3,756,448,031**	**5,581,960,129**	**11,685,180,192**	**9,296,489,814**	**-20.44%**	**138.80%**