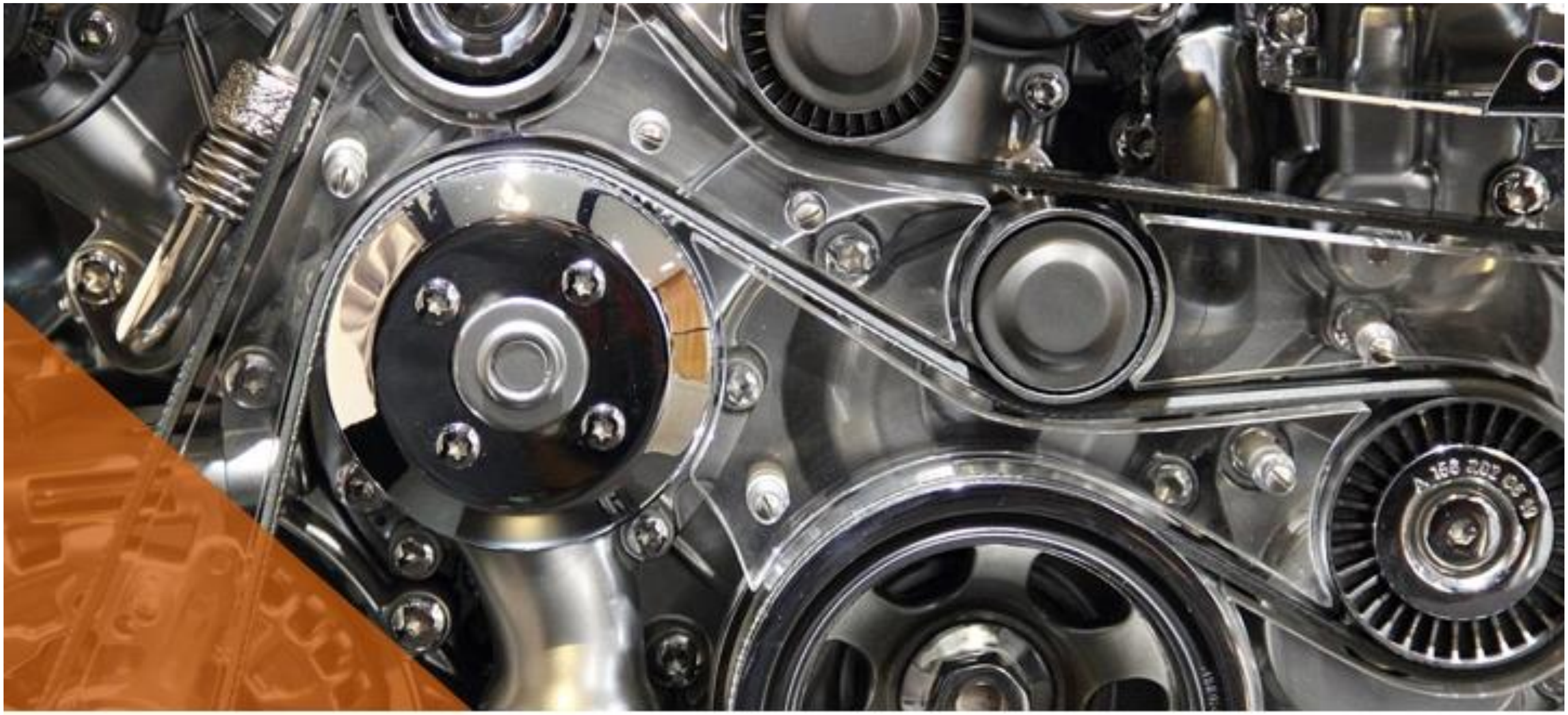

Economic Review

Zimnat Asset Management

4th Quarter 2018

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1.0 EXECUTIVE SUMMARY

Global & Regional Outlook

- The World Bank forecasts global growth to be at 2.9% as trade tensions between the US and other trading partners start to impact economic activity.
- US Economy growth expected to remain strong with growth pegged at 3.1% for the year.
- The final quarter was tough for oil, with prices dropping due to a slowdown in global economic activity.
- Weak performance from precious and base metals in the fourth quarter.

Domestic Economy

- World Bank reports place the country's 2018 GDP forecast at 3.7%.
- GDP rebased, 2018 is forecast to grow by 6.3% to $25billion.
- Cumulative trade deficit between February and October 2018 worsened to US$1.97billion compared to US$1.56billion in the same period last year.
- Y-o-y increase in domestic credit of 47% as at October 2018 from $8.4 billion to $12.4billion.
- Y-o-y inflation of 42 % as at December 2018.
- Separation of FCA balances from local RTGS dollars.
- Introduction of 2% Intermediary Money Transfer Tax
- Increase in fuel prices

Investment Markets

- Money market deposit rates remained flat during the 4th quarter of 2018 at an average of 3.6%p.a.
- Deposit and lending rates remained largely unchanged in the first nine months of 2018.
- Increased interest in the RBZ Savings bond by investors in search of higher fixed income returns in light of inflation.
- ZSE Index recorded a fresh post dollarization high on the 11th of October at 699.89points representing a year to date gain as at that date of 110%. The ZSE Industrial Index closed the year at 487.13 points, and with a 46.28% gain.

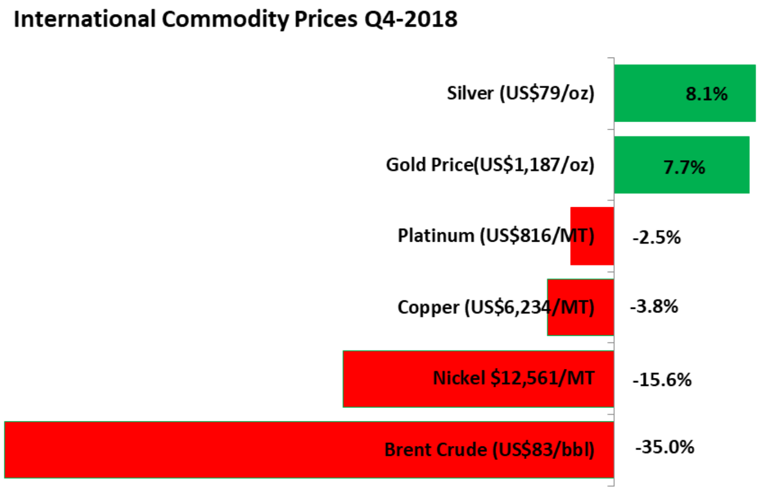
ZAM Strategy

- 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:** The World Bank has projected a global economic growth of 2.9% for 2019, down from the previously forecasted 3%. International trade and manufacturing activity have softened, trade tensions remain elevated and some large emerging markets have succumbed to financial market pressures. Ongoing trade wars between the US and China, Italy's fight with the European Union, skittish stock markets and intermittent capital flight from developing nations tell a foreboding story of regression of the global economy.
- **US Economy** continues to exhibit healthy performance as growth figures for the full year 2018 are expected to be around of 3.1%. Job growth continues and inflation has been brought under control running around the Fed's target level of 2%. There do however remain a few concerns, with monthly indicators of investment spending beginning to weaken and housing construction falling. Foreign economic conditions are a worry with European growth slowing sharply and China struggling to contain the impact of US tariffs.
- Sustained growth past June 2019 will surpass the 1991-2001 expansion and becomes the longest economic expansion since 1857. Strong growth for the US will also be good for workers in countries that produce goods and services for sale the US.
- In December, the Fed raised interest rates for the 4th time in the year by a quarter percentage point to 2.5% signalling that its tightening cycle was coming to an end in the face of financial market volatility and slowing global growth.
- **UK Economy-** According to Bloomberg Economics, growth for the UK is predicted to be 1.3% in 2018 and 1.6% in 2019. Brexit's impact on the UK economy is likely to have more to do with decisions made before March 29 2019 (when the UK is scheduled to leave the EU) on the economic integration between the UK and the EU.
- **Chinese economic** outlook is far more positive with a projected GDP of 6.3% for 2019 - although this would be the lowest figure since 1989. There are concerns that the impact of the trade conflict with the US will likely slow growth to 6.1% by the end of 2019. Economic deceleration and trade risks have prompted policymakers to adopt a looser fiscal stance.
- There has been speculation that government might unveil a "comprehensive stimulus initiative" to underpin growth and shrink the pile of debt accumulated by Chinese families, businesses and governments. If deleveraging threatens to weaken 2019 growth one can expect the government to ease up on the balance sheet cleansing and spend enough to ensure the economy grows by at the very least 6%.
- **Sub Saharan Africa:** Growth in the region is estimated at 2.7% in 2018 while growth in 2019 is expected to rise to 3.4% and 3.7% in 2020-21 as reduced policy uncertainty helps support a cyclical rebound in these economies. In Nigeria, both oil and non-oil economies improved due to fewer pipeline disruptions and stronger agricultural and services-sector output respectively. South Africa's short lived recession came to an end on the back of improved agricultural yields and a firmed up industrial output which helped lift the country out of the doldrums.
- However, risks to the outlook waver on the downside and include unexpectedly sharp decline in commodity prices, tightening of global financial conditions and escalating trade tensions between major economies. Domestic risks pertain to fiscal slippage, political uncertainty, domestic conflicts and adverse weather conditions.

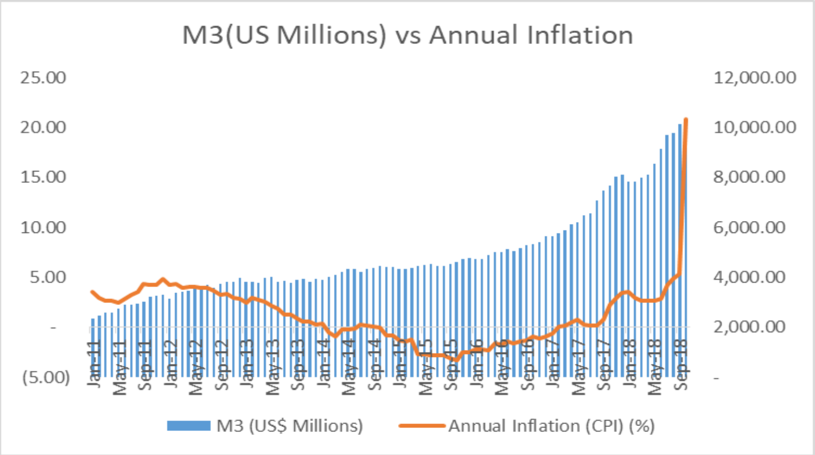
- **Gold** price performance fell below market expectations in the just ended year. At the start of Q4 2018, gold price fell below the US$$1200-per-ounce mark and spent a significant amount of time circling that range. Geopolitical concerns, consistent interest rate hikes and a rallying US dollar have kept prices down throughout the year.
- **Oil:** crude oil price action continues to be driven by supply and demand data while investors await the outcome from the OPEC summit for directional cues as a production cut agreement will likely boost the price of crude oil in the broad market. It has been a tough final quarter for oil as prices continued to decline on worries of global economic slowdown which would mean low demand for crude oil owing to lack of demand and concerns of over supply due to an increase in crude oil by major producers.



3.0 LOCAL ECONOMIC ACTIVITY

- **GDP growth:** According to the World Bank, a much more optimistic outlook is on the cards for Zimbabwe with a projected GDP growth of 3.7%, which is higher than the growth projection of 3.1% pronounced in the 2019 National Budget. While this remains above the Sub-Saharan growth rate of 3.4% it is still much lower than the 7% growth rate required to grow the economy in order to meet its 2030 growth target.
- Mining and agriculture continue to be the key sectors with 2018 growth projections of 26% and 12.4% respectively. The mining sector is forecast to grow from US$3 billion to a US$12billion sector by 2023 through interventions across minerals designated to drive short to medium term growth. The sector also recorded growth in output from diamonds to lithium, granite, coal and platinum group metals.
- **Money supply:** broad money supply as at 31 October 2018 was at US$10.6 billion representing a year to year growth of 31%. Significant increases occurred in the months of May and June 2018 as the country prepared for elections.
- **Claims on central government** increased by US$3billion from the second half of year till October 2018 representing an approx. increase of 52%. This was due to the governments continued funding of budget deficit through domestic debt in the form treasury bills and RBZ overdrafts.
- Indications are that government has $2.2billion worth of treasury bill maturities in 2019 which if not restructured will place a huge burden on the finances and increase money supply growth and resultantly inflation. The effectiveness of the nine member forex allocation committee is yet to be assessed but initial sentiments are that it is heavily skewed towards government.
- **Trade deficit:** cumulative trade deficit between February and November 2018 worsened to US$2.13billion compared to US$1.3billion in the same period last year. According to ZIMSTAT, figures show that cumulative export receipts in the same period reached US$3.68billion while imports amount to US$5.81billion. This translated to a year on year worsening change of 63%. The large cumulative deficit is due to unbudgeted expenditures involving employment costs, support to agriculture, increased fuel consumption and some capital expenditure.

- Exports were driven mainly by tobacco and gold which recorded significant increases during the year. Tobacco output for the 2017/18 season hit a record high of 252.5million kgs surpassing the country's peak production of 236million kgs in 2000. Gold deliveries to Fidelity reached 33.2 tonnes for the year, earning forex worth $1.07billion.
- With regards to imports, on a cumulative basis, diesel fuel topped the list of imports with US$730.46million followed by unleaded petrol which amounted to US$326.75million. The bakery industry experienced wheat shortages towards the end of October 2018 in which government had to intervene and import 30 000 tonnes of wheat to cover for the shortage.
- Government's new controversial policy of levying duties in foreign currency for luxury goods such as motor vehicles, may translate to either a decrease in demand for such goods (which contributes to lowering the trade deficit) because of the higher costs of importing them or may translate to an increase in foreign currency receipts for government, if the demand for the imported luxury goods remain unchanged.
- **Inflation**: With money supply growing much faster than production output, prices are expected to increase steadily. Annual inflation rose to 42.09% in December 2018 mainly driven by food and non-alcoholic beverages inflation which was at 52.68%. Transport services, spares and accessories as well as pharmaceutical products also increased drastically.



3.1 National Budget - The Budget which was presented in November 2019 built on both the Transitional Stabilisation Plan (TSP) and the Post-Election Monetary Policy Statement (MPS) and its main thrust was fiscal consolidation and the deregulation of the foreign currency market.

- Some measures in the budget include; containing the budget deficit to single digit levels, abandoning incurring extra budgetary expenditure through treasury bills, reducing recourse to Central bank lending and the privatisation of parastatals. There still remains concern over the enormous wage bill which takes up approx. 93% of revenues.
- The 2% tax measure, named the Intermediary Money Transfer Tax, was announced in October 2018, which was aimed at helping to reduce the deficit has been met with criticism as it has passed on the burden to the consumer and ordinary citizen. Government expects to raise approx. US$1.5 billion annually through these collections. However, an adverse effect of this has led to the increasing inflation levels as businesses and service providers increased their prices in order to adjust for the impact of the tax measure.
- The key risks that may arise from the proposed interventions include increased volatility in the foreign currency market, a decline in economic activity due to the increased taxation and contractionary fiscal policy and a possible pullback on these reforms from a political front.
- From our perspective, the monthly budget deficit and money supply growth statistics, going forward, will give us a clear indication of where the country is going i.e. whether the Minister of Finance is winning or losing the battle.

- We strongly believe that controlling the money supply growth and mopping up the excess RTGS liquidity, is critical for the stabilisation of the currency markets, inflation and the overall economy. The deregulation of the foreign currency market must continue, as this will strengthen the country's exporter base, increase US dollar liquidity within the banking/private sector and stabilise prices (inflation).

3.2 **SI 10 OF 2019** effected the increase in Fuel prices on the 13th of January 2019 from \$1.32 to \$3.11 per litre for diesel and from \$1.41 to \$3.31per litre for petrol. The increase in excise duty from the January increase is on top of the increase that came into effect on 1 December of 6.5cents and 7cents per litre on petrol and diesels respectively. Whilst the increase in prices is intended to reduce any arbitrage opportunities in this industry, it will have a significant impact on household incomes which are already being constrained by the 2% tax.

- Fuel is a significant cost driver for most companies especially in the manufacturing sector and the increase is likely to result in a cost push inflation. However, the extent to which this cost will be passed to the consumer is likely to be minimal as the disposable income is now reduced resulting in depressed margins for businesses.
- On the other hand, the increased tax from excise duty will augment government revenues enabling them to reduce their deficit. Further, if the money supply is kept tight, there is likely to be a reallocation of forex to other sectors accruing to reduced demand for fuel by consumers.

3.3 **Economic Outlook**

- Market expectations after the removal of comingling of US dollars and RTGS dollars have been generally negative and have resulted in increased panic amongst economic agents on the back of confusion around currency regime.
- We therefore anticipate a general decline in domestic demand under the tighter fiscal policy regime. We believe that if Government implements currency reforms 90% of the country's current economic challenges (e.g. foreign currency, fuel shortages, inflation, business competitiveness, etc.) will be resolved.

4.0 INVESTMENT MARKETS

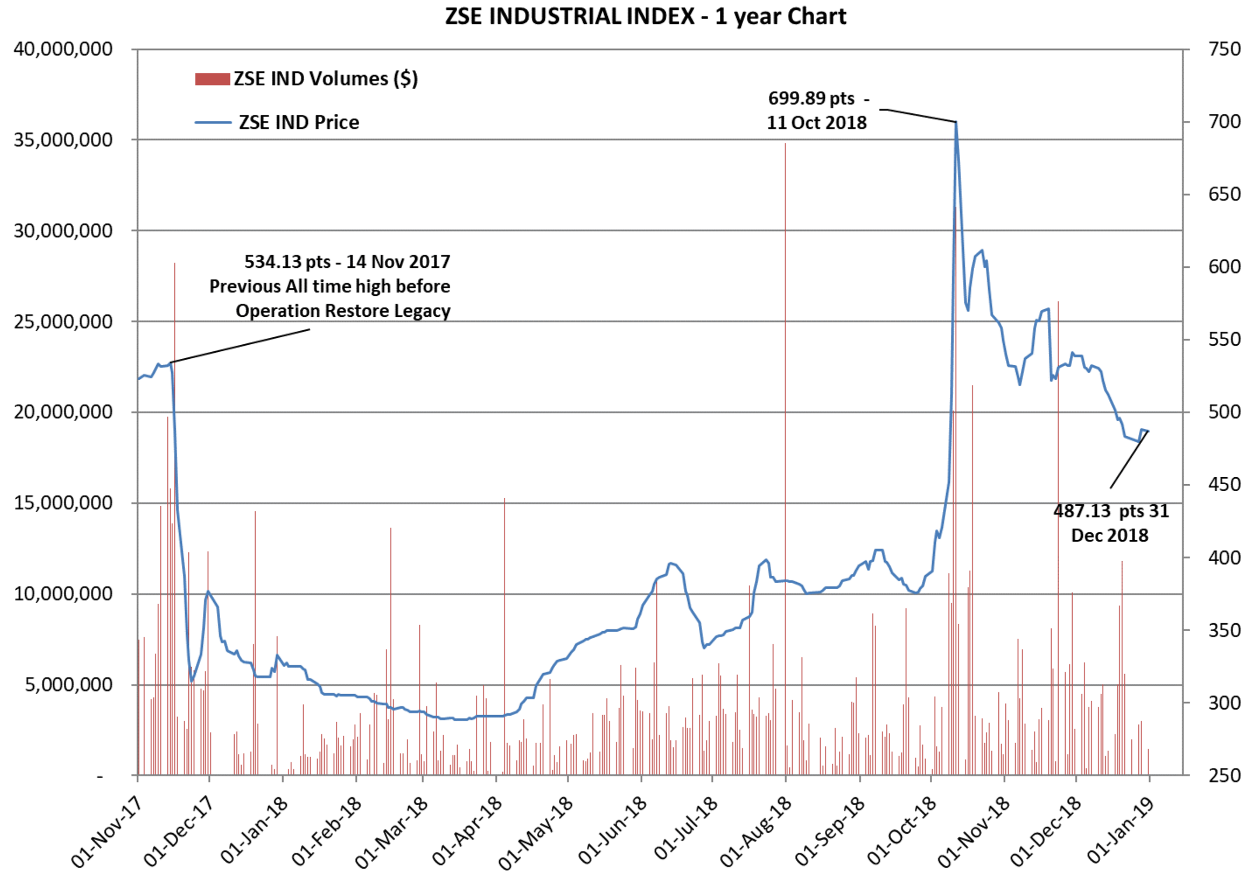
4.1 Fixed income Investments

- Money market deposit rates remained flat during the 4th quarter of 2018 at an average of 3.6%p.a for 1month deposits. Although the rates are significantly below the inflation rate (31% as at November 2018), the cap on lending rates of 12% by the Central Bank has a huge bearing on the maximum rate that banks can take deposits at. Investors are thus preferring to invest in the RBZ Savings bond which is equally liquid and offers a slightly higher rate of 7%p.a. Weighted commercial bank lending rates for individuals and corporates averaged 9% and 7% respectively.
- In light of the increased inflationary pressure a correction of fundamentals in this market is imminent with the Treasury Bill Auction system expected to improve price discovery from February 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. As at 30 October 2018, the RBZ had raised \$2.1 billion from the issue of savings bonds.
- In light of the resurgence of inflation, the attractiveness of plain vanilla bonds has diminished and focus is being shifted to more sophisticated financial instruments.
- 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 December 2019 and with effect from 1 January 2019, the prescribed asset status will only be conferred to government related projects only.

4.2 Equities

- **Stock Market Performance**: The ZSE Industrial Index recorded a fresh post dollarization high on the 11th of October at 699.89points representing a year to date gain as at that date of 110% as the market sought to catch up with rising black-market rates following the announcement of separation of nostro dollars and RTGS balances. The market then went into free fall for the rest of the year losing the gains that were recorded earlier in the year. The ZSE Industrial Index closed the year at 487.13 points, and with a 46.28% gain. The market capitalization was $17.3billion as at 31 December 2018.



- **Econet Wireless Zimbabwe** posted an impressive set of results for the HY ended 31 August 2018 driven by significant growth in the financial technology segment. The shareholders approved the demerger from the mobile network operations of the financial technology business (Cassava SmartTech) and the subsequent listing of the business on the ZSE on 18 October 2018. The separate listing has been done in a bid to unlock value for shareholders evidenced by Cassava SmartTech becoming the third largest company by way of market cap on the ZSE. A decision on the conversion to equity of debentures that were issued as part of the company's rights offer in March 2017 is yet to be made.
- **Hippo Valley Estates Limited** posted a decent set of interim results despite inflationary pressures fueled by forex shortages and speculative pricing activities by suppliers of production inputs. Revenue was up by 29% to $93.2million whilst profit for the period was 25% up on last year at $7million. The Tugwi Mukosi dam will provide irrigation water security and focus will be on maximizing sugar production through yield improvement initiatives and new sugarcane development projects.

- **OK Zimbabwe Ltd** recorded a 23% revenue growth in the six months to 30 September to $330.1million and a profit after tax of $8.4million. Post reporting period, there was erratic supply of basic goods, above level of buying by customers following various monetary policy announcements and price adjustments of most goods and this will have a bearing on the yearend results.
- **Delta** – Despite a decent set of results in the first half of its reporting year, there were serious product shortages during the final quarter of the year which is a peak period for the business. Management attempted to source its own foreign currency by exclusively selling its products in hard currency but the decision was not actioned following a pledge by the Central Bank to assist the company in sourcing its forex requirements. We continue to monitor availability of the product but the disruptions are likely to impact full year results negatively.
- **Mining Companies** such as RioZim, Falgold bemoaned the inability of gold producers to fully access foreign currency that they generate as this has resulted in critical operating supplies not being bought and disruption in normal operations. Constant engagement with the authorities saw the retention levels for gold miners being increased to 55% from the previous 30% in early November.
- Bindura Nickel Corporation Ltd advised shareholders that its ultimate holding company ASA Resource Group entered into a Sale and Purchase Agreement with a third party in relation to the 74.73% shareholding in BNC. The third party is a UK based nickel company with complementary interests in Southern Africa. The Smeltor Restart Project is still 83% complete and remains on hold pending an improvement in the nickel market fundamentals.
- **Equities outlook and strategy** – The volatility experienced on the stock market in the final quarter of the year calls for an acute understanding of the technical aspects and dynamics of the stock market
- The extent to which fuel increases from SI10 of 2019 impact a business will depend on the proportion of fuel costs that the business entails and the price elasticity of the goods sold. Consumer related stocks are likely to be the first to be hit as consumers adjust to the new price tag of living in Zimbabwe and are likely to prioritise their incomes on basic goods.
- Mining companies will also be impacted by the fuel increase but are likely to be cushioned to some extent by the increase in their foreign currency retention levels.
- 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 prioritising companies with a strong cash flow generating capacity, robust and resilient business models in light of the foreign currency shortages, and a solid governance trackrecord and structures.

4.3 Alternative Investments

- 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

- Given the uncertainties on the money market front, our overall asset allocations will remain slightly in favour of equities in the short term. Where the equities market gets too over heated, we will not hesitate to take profits and invest those profits in short term high yielding bonds, whilst waiting for new opportunities. As and when our property development opportunities become available for investment, we therefore will switch clients interested on each project out of equities or fixed income assets, into the development properties.

5.0 INTERNATIONAL CURRENCY AND STOCK MARKET PERFORMANCES

International Stock Market Performance

	Index	LOCAL EXCHANGE RATE TO USD 31-Dec-17	30-Jun-18	31-Dec-18	YTD Change	INDEX IN LOCAL CURRENCY 31-Dec-17	30-Jun-18	31-Dec-18	YTD Change	US DOLLAR CONVERTED 31-Dec-17	30-Jun-18	31-Dec-18	YTD Change
Advanced Economies													
United States	Dow Jones Industrial	1.00	1.00	1.00	0.0%	24,719	24,271	23,327	-5.6%	24,719	24,271	23,327	-5.6%
Britain	FTSE 100	0.74	0.86	1.27	71.8%	7,688	7,637	6,728	-12.5%	10,372	8,897	5,284	-49.1%
Japan	NIKKEI 225	112.66	110.68	110.00	-2.4%	22,765	22,305	20,015	-12.1%	202	202	182	-10.0%
Emerging Economies													
Brazil	Bovespa Index	3.31	3.86	3.88	17.0%	76,402	72,763	87,887	15.0%	23,065	18,838	22,669	-1.7%
Russia	MICEX Index	57.64	62.75	68.94	19.6%	2,110	2,296	2,359	11.8%	37	37	34	-6.5%
India	S&P BSE SENSEX Index	63.78	68.44	69.44	8.9%	34,057	35,423	36,068	5.9%	534	518	519	-2.7%
China	Shanghai SE Composite	6.51	6.62	6.87	5.5%	3,307	2,847	2,494	-24.6%	508	430	363	-28.5%
South Africa	JSE ALSI	12.37	13.74	14.38	16.3%	59,505	57,611	52,737	-11.4%	4,811	4,192	3,667	-23.8%
Sub-Sahara Countries													
Zimbabwe	All Share Index	1.00	1.00	1.00	0.0%	100	102	146	46.2%	100	102	146	46.2%
Zambia	LUSE All Share	10.01	10.00	11.90	18.8%	5,328	5,456	5,248	-1.5%	532	546	441	-17.1%
Botswana	DCI Index	9.85	10.44	10.52	6.7%	8,860	8,403	7,854	-11.4%	899	805	747	-17.0%
Tanzania	All Share	2,239	2,270	2,294	2.5%	2,396	2,281	2,046	-14.6%	1.07	1.00	0.89	-16.7%
Nigeria	Nigeria All Share	359.78	358.84	363.04	0.9%	38,243	38,279	31,431	-17.8%	106	107	87	-18.6%
Ghana	GSE Composite	4.53	4.75	4.85	7.2%	2,580	2,879	2,499	-3.1%	569	606	515	-9.6%
Kenya	NSE 20	103.22	100.24	101.17	-2.0%	3,712	3,286	2,834	-23.7%	36	33	28	-22.1%
Mauritius	SEMDEX	33.70	33.67	33.44	-0.8%	2,202	2,245	2,219	0.7%	65	67	66	1.5%

ZSE INDUSTRIAL INDEX - TOP 5 COUNTERS BY MARKET CAPITALIZATION

Name	Sector	Price US cents 31 Dec 2018	Weight- 31 Dec 2018	Market Cap US$ 31 December 2017	Market Cap US$ 31 March 2018	Market Cap US$ 30 June 2018	Market Cap US$ 30 Sept 2018	Market Cap US$ 31 Dec 2018	Q4 Change In Market Cap	YTD Change in Market Cap
Cassava SmarTech Zim	Technology	142.50	13.47%	n/a	n/a	n/a	n/a	3,691,571,986	n/a	n/a
Delta Corporation	Beverage	300.00	13.88%	2,011,858,725	1,996,141,079	2,270,698,209	2,775,993,671	3,802,799,433	36.99%	89.02%
Econet Wireless Zim	Technology	142.25	11.40%	1,516,988,724	1,069,876,258	1,644,735,143	2,047,934,778	3,698,050,000	80.57%	143.78%
Innscor Africa	Industrial Holding	185.00	3.66%	541,593,440	469,441,518	639,080,259	731,151,144	1,001,947,864	37.04%	85.00%
British American Tobacco	Agriculture	3,300.00	2.49%	742,806,612	525,345,637	515,837,925	557,104,959	680,906,061	22.22%	-8.33%
Sub-Total			44.90%	4,813,247,501	4,060,804,491	5,070,351,536	6,112,184,552	12,875,275,344	110.65%	167.50%
ZSE Industrial Market Capitalization				**9,296,489,814**	**8,202,946,379**	**9,657,785,408**	**11,024,278,055**	**18,934,474,439**	71.75%	103.67%