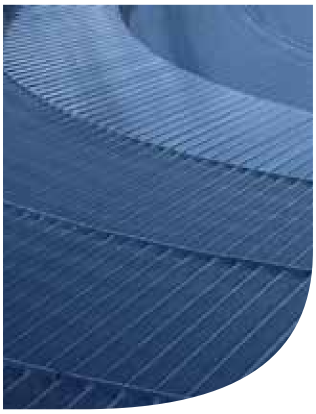
SOUTH AFRICAN OPPORTUNITIES AFTER THE POLITICAL WHIRLWIND

MIRABAUD 1819 Asset Management



NEVILLE SHAW, PORTFOLIO MANAGER ON MIRABAUD ASSET MANAGEMENT'S GLOBAL EMERGING MARKETS EQUITY TEAM VISITED SOUTH AFRICA IN MARCH THIS YEAR AS PART OF AN ONGOING PROGRAMME OF COMPANY VISITS THAT THE TEAM MAKES TO ASSESS INVESTMENT IDEAS.

QUICK TAKEAWAYS

- A new future for South Africa after a decade of political and economic mismanagement
- The new government understands the importance of attracting investment into mining, manufacturing and tourism
- Economic growth ahead of expectations with growth forecasts in 2018 and 2019 higher
- Companies we visited are cautiously optimistic about the future
- Despite the combination of tailwinds and headwinds, good fundamental opportunities still exist

1 A RECAP OF THE RECENT POLITICAL LANDSCAPE

The focus of my trip was to gauge sentiment on-the-ground following a three-month whirlwind in South African politics. To recap, Cyril Ramaphosa won the ANC party congress elections last December in a contest between the ex-wife of Jacob Zuma, who was the South African President at the time – a win that was seen as a positive development by market participants. However, this was overshadowed when Jacob Zuma made it clear he would not vacate his position until 2019, when his full term was scheduled to end. Within weeks of the ANC elections, public sentiment shifted away from Zuma, and he subsequently resigned from office in February 2018, paving the way for Cyril Ramaphosa to become the next president of South Africa.

This change in the political landscape was seen as a broadly positive development in a country that had languished economically for the past nine years. Well respected former ministers were brought back to key positions in finance and public enterprises, and some of the more controversial figures under the Zuma era were either removed or took smaller positions.

2 MOMENTUM CONTINUES

To underscore this positive momentum, last quarter's GDP number was recently released, exceeding expectations. This drove local markets and the rand higher. GDP growth was up 1.5% year on year and 3.1% quarter on quarter, leading many economists to raise their growth forecasts for 2018 and 2019. With leading indicators showing positive dynamics year-to-date, and with a pickup in consumer and business sentiment from their near historic lows, the direction of travel for the macro indicators should continue to improve, or at least remain stable.

3 CAUTIOUSLY OPTIMISTIC

During the trip, we met with the top management across some of South Africa's largest listed companies, along with economists and analysts. The mood is cautiously optimistic in recognition that a decade of political and economic mismanagement cannot be fixed overnight. Other challenges also lie ahead. For example, in late February, the Economic Freedom Fighters political party leader recently proposed a controversial "land expropriation without compensation" motion, which was tabled before parliament. Although the motion has attracted significant support, it still requires constitutional review. However, many will point to the similar bill passed by Mugabe in Zimbabwe with economic consequences that are now well known to many.

EXPERIENCED INVESTMENT TEAM

NEVILLE SHAW, CFA
GLOBAL EMERGING MARKETS EQUITY PORTFOLIO MANAGER

Neville joined Mirabaud Asset Management in 2012 after four years at Baring Asset Management as an analyst and investment manager covering multiple sectors in Emerging Europe, Middle East and Africa. Prior to Barings, Neville worked at Goldman Sachs covering Frontier Markets. Neville started his career as an equity research analyst in Johannesburg, South Africa.

4 A POSITIVE EXAMPLE OF ACTIVE CHANGE

The new government understands the importance of attracting investment into mining, manufacturing and tourism, along with sensible property rights. One good example is the mining industry, which has experienced years of decline following a flawed 'mining charter' that diluted existing equity holders. Our conversations with mining representatives last week reflected a level of confidence in the current government. By some estimates, the existing mining industry has a pent-up capex pipeline – almost double what has been spent in recent years – ready to deploy should the investment climate improve with an acceptable mining charter. This is just the domestic potential without attracting any foreign direct investment; and the multiplier effect of such spending on employment and growth can be significant.

5 FUNDAMENTALS ARE STILL KEY

In summary, the speed at which Cyril Ramaphosa managed to take power and the initial steps taken by him and his new cabinet, with the exception of the land reform issue, have surprised many and bode well for the country. However, significant progress is still required to unlock South Africa's true potential. As Emerging Market investors, we have experienced similar situations previously, most recently in Brazil and India where reformists have come into power that succeed in securing early wins, but over time, struggle to push through larger reforms that deliver meaningful change. Furthermore, many of these markets, such as Brazil two years ago, rise very quickly once a reformist enters power, pricing in positive change before it occurs. Taking Brazil as an example, the reform agenda has been disappointing and the economy faces structural issues. Against this backdrop, the stock market has continued its steady upward climb since 2016.

Whether South Africa will follow suite or carve its own path remains to be seen. In the meantime, we remain upbeat and overweight. Although valuations for many companies are high, we continue to see opportunities in select companies and sectors. These opportunities can only be uncovered through extensive, bottom-up research and a focus on understanding factors such as quality of management and the strength of a company's governance practices by conducting on-the-ground meetings.