PSG Wealth

Weekly Investment Update

27 July 2016

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Reinet's NAV grows by 6% in three months - pg. 3

Market moves

Performace: 19/07/2016 to 25/07/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	0.47
Ind/Financials TR ZAR	2.61
Ind/Industrials TR ZAR	3.35
Financials&Indl 30 TR ZAR	1.13
Ind/Basic Materials TR ZAR	-3.67
Gold Mining TR ZAR	-3.86
SA Listed Property TR ZAR	2.23
Beassa ALBI TR ZAR	0.49
Commodities	
Oil Price Brent Crude PR	-4.77
LBMA Platinum AM PR USD	-1.20
Gold London AM Fixing PR USD	-0.84

The week ahead

Domestic

28 Unemployment rate

29 Private sector credit

International

28 EA: Business confidence

29 UK: BoE consumer credit

Macro

US

The Markit Flash US Services PMI came in at 50.9 in July, down from 51.4 in the previous month. It is the lowest reading since February, due to a slower increase in new business and muted cost inflation. In contrast, new orders and employment picked up and business sentiment recovered to the highest level so far this year, suggesting a stronger expansion in coming months.

Hong Kong

Hong Kong reported a HKD 45.6 billion trade deficit in June, 0.4% lower than a HKD 45.7 billion gap a year earlier. Exports shrank 1%, falling for the 14th straight month while imports declined 0.9%, the least since February 2015.

Oil

Oil prices continued to fall on Tuesday as concerns about oversupply weighed. US crude was down 1.1% to a three-month low of $42.68 a barrel around 13h30. Meanwhile, Brent crude declined 1% to $44.39 a barrel, hitting the lowest level since early May.

Markets*

Best performer

For the week was PPC with a return of 18%. Afrox was second with a 14% return for the week.

Worst performer

Lonmin was the worst performer for the week with a loss of 11%. Followed by Astral Foods with a 9% drop for the same period.

Sectors

The best performing sector for the week was the food and drug retailers sector with a return of 6.6% for the week. The mining sector was the worst performing sector for the week with a 5.4% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

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Macro note

Revised growth outlook of 0% no surprise

Market commentators were not surprised when the South African Reserve Bank (SARB) revised the country's growth outlook to 0% for this year.

SARB Governor Lesetja Kganyago announced late last week that growth is subdued and that the repo rate would remain unchanged at 7%. Kganyago emphasised that the domestic economic growth outlook remains extremely challenging following the contraction in the gross domestic product (GDP) in the first quarter of 2016.

"Although this is anticipated to have been the low point of the cycle, the recovery is expected to be weak," he added.

Growth rates of 1.1% and 1.5% are now forecast for the next two years, down from 1.3% and 1.7% previously. SARB's estimate of potential output has also been revised down marginally to 1.4% in 2017, rising to 1.7% in 2018. According to Kganyago, this growth outlook is corroborated by the persistent negative trend in SARB's leading indicator of economic activity. He said business confidence remains low with the RMB/BER business confidence indicator falling to its lowest level since 2009 in the second quarter of 2016.

Kganyago said recent economic data suggests that positive growth was recorded in the second quarter, with the mining and manufacturing sectors expected to add positively to growth.

SA GDP growth rate

Source: Trading Economics

Bottom line

One needs to remember that most economic data sets, reports on what happened in the past - its inappropriate to make investment decisions on historic results alone. However, high interest rates reduce the liquidity in the financial system; it will reduce the ability of businesses to invest in new production facilities and reduces consumers' ability to increase their expenditure - both are not conducive for healthy economic growth. Remember that all economies in capitalist societies have an inherent tendency to grow, and one should rather look for these growth opportunities.

Although inflation in South Africa may be high, relative to inflation targets, it is not so high in absolute terms. Interest rates are also not too high in absolute terms. Business confidence could improve very easily if interest rates remain within the current range. SARB's estimate of 1.4% for 2017 and 1.7% for 2018 may be impossible if current conditions do not persist.

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Market note

Reinet's NAV grows by 6% in three months

The net asset value (NAV) of Reinet Investments, a holding company headed by Johann Rupert, whose primary investment is British American Tobacco (BAT), grew with 6% in three months.

In a management statement for the first quarter ending 30 June 2016 Reinet announced their NAV of €5 221 million at 31 March 2016, increased by €294 million or 6%, to €5 515 million at the end of June this year.

This valuation reflects the fund's shareholding in BAT, its other investments and cash resources, together with other assets and liabilities. Assets and liabilities have been revalued to their estimated fair values as at 30 June 2016. Dividends received from BAT during the period amounted to €89 million. Commitments totaling €205 million in respect of new and existing investments were made during the period, including €179 million (£139 million) in Pension Insurance Corporation Group Limited.

This was partly offset by a decrease in the estimated fair value of certain investments due to a weaker GBP/EUR exchange rate. The impact of Brexit led to an increase in equity volatility and a severe weakening of the pound. However, this volatility benefitted the share price of BAT.

"BAT's London share price increased by 18% over the period from £40.90 to £48.425 at 30 June 2016 with most the stock's appreciation occurring in the days following the UK-referendum," the statement notes.

Reinet's increase in NAV

NAV per share at 30 June 2016
€28.15
R45.90

Net asset value up with
6%

NAV at 30 June 2016
€ 5 515m

NAV at 30 June 2016
R89 928m

Reinet's largest holdings
BAT = 71.6% of NAV
PensCorp = 17.8% of NAV

New Commitments
- **€179m in PensCorp**
- **€18m in Snow Phipps III, L.P.**
- **€4m in United States land development and mortgages**
- **€4m in Selecta Biosciences Inc.**

Source: Reinet management statement for 30 June 2016

Previous publications

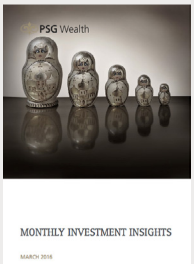
Daily

Published on a daily basis

Weekly

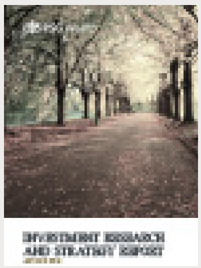
13 July
6 July
29 June
22 June
15 June
8 June
1 June
25 May
18 May
11 May
4 May
26 April
20 April
12 April
5 April
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



July 2016
June 2016
May 2016
April 2016
March 2016
Feb 2016
Dec 2015
Nov 2015
Oct 2015
Sept 2015
Aug 2015
July 2015
June 2015
May 2015

Quarterly



Autumn 2016
Summer 2015
Spring 2015