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Dear

June 2016 was a month where all focus was on the United Kingdom and their surprise decision to leave the European Union, more commonly known as "Brexit". Prior to the referendum many market participants anticipated that the United Kingdom would remain within the Union. The surprise exit resulted in a large amount of panic as investors had to reassess their financial positioning. The exit decision doesn't appear to make much economic sense but what market politicians failed to take into account was that many British people were voting for personal reasons and not for economic ones. It would appear that the fear of "open borders" was the biggest driver behind the exit with many canny politicians playing to the British sense of patriotism.

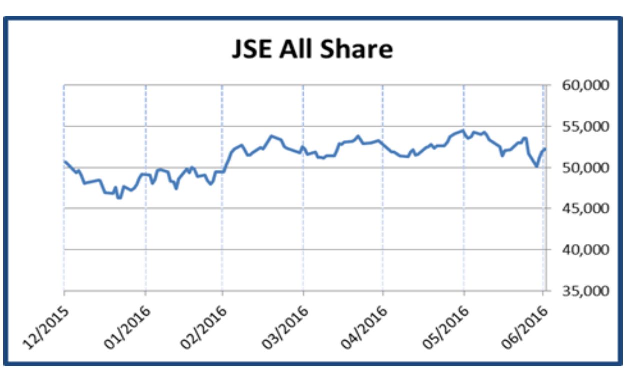
Locally we have also had an eventful month. The big concern of a ratings downgrade was avoided for the time being. Slow economic growth remains a concern and could impact the decision of the rating at the next review towards the end of this year.

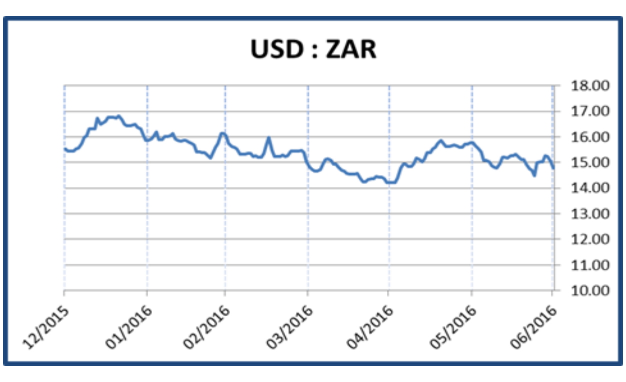
GDP growth in the first quarter was negative due the effect of the drought on the agricultural sector and as a result of the large oversupply in commodities globally which caused the mining sector to contract even further. South Africa is now at serious risk of entering a recession which is defined as being two successive quarters of negative growth. There hasn't been any positive economic news in the second quarter to indicate growth on the first quarters' figures. Economists are predicting very low growth figures but the numbers have surprised to the downside before. During the month the rand ended slightly stronger as a result of weakness in the dollar, pound and the euro, we also saw a slight improvement in commodity process.

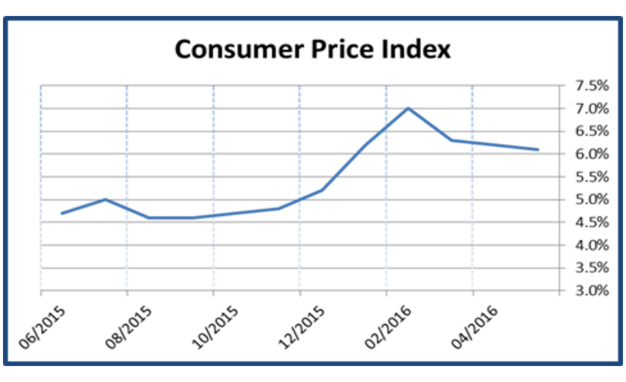
We would hope that all major role players in South Africa are reading a similar script and working towards a common goal which is to improve the economy and productivity of the country. Unfortunately recent political developments in Tshwane highlight that more often than not the leaders are driven by their own agendas. The municipal election in August is a huge event and is going to give a clearer indication of the way forward for the country.

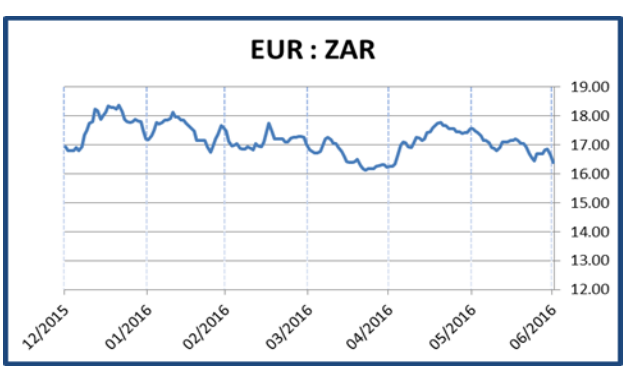
Magwitch Securities

MARKET INFORMATION









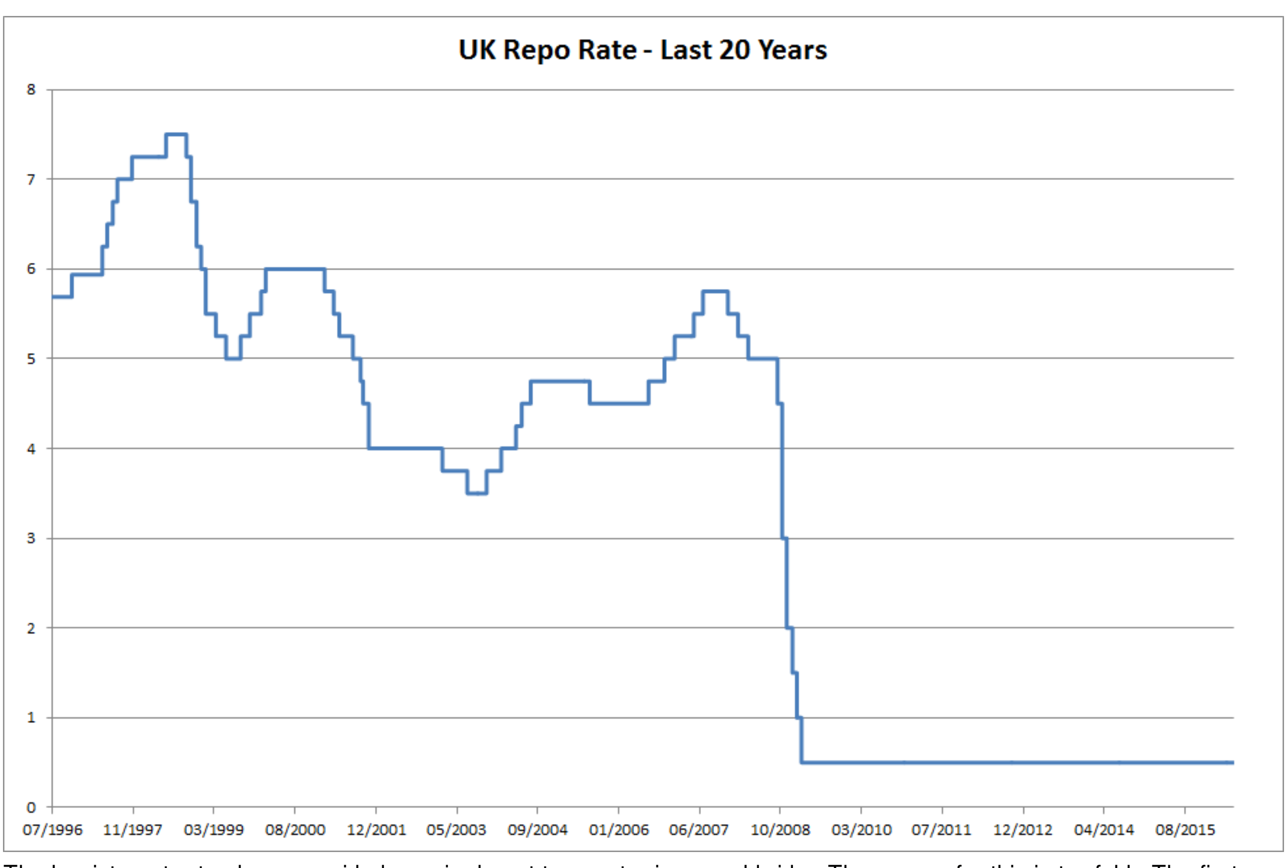
FINANCIAL VIEW

THE POSSIBILITY OF A PROPERTY BUBBLE

The surprise result of the "Brexit" referendum has raised the probable likelihood of a massive economic shake up in Europe and the United Kingdom - specifically in and around London. Many large multi-national companies had based their European offices in London as it has long been established as one of the major financial centres in the world. Since 1945 manufacturing in the UK has been shrinking, during this time the services sector has increase its share of GDP from 44% to 85% currently. As a result bankers, accountants, lawyers, stockbrokers, architects and software developers have claimed an ever increasing share of the pie. With the split from Europe and as a result of restricted movement of labour, companies servicing this sector may either move their operations or open up additional offices in mainland Europe. These moves could have a huge impact on the prices of property within London.

London property prices are amongst the highest in the world and in this month's article we look at what has driven these prices up, and highlight the risks that many property investors face. Following the Global Financial Crisis the world has been in uncharted economic territory. Due to the deep recession in 2008 many Governments introduced policies to stimulate growth The main form of stimulus was the purchase of toxic debt and by keeping interest rates artificially low thereby giving companies and individuals access to cheap financing.

Plotting the official Repo Rate of the Bank of England over the last 20 years clearly demonstrates the fact that we are in a period of artificially low interest rates.

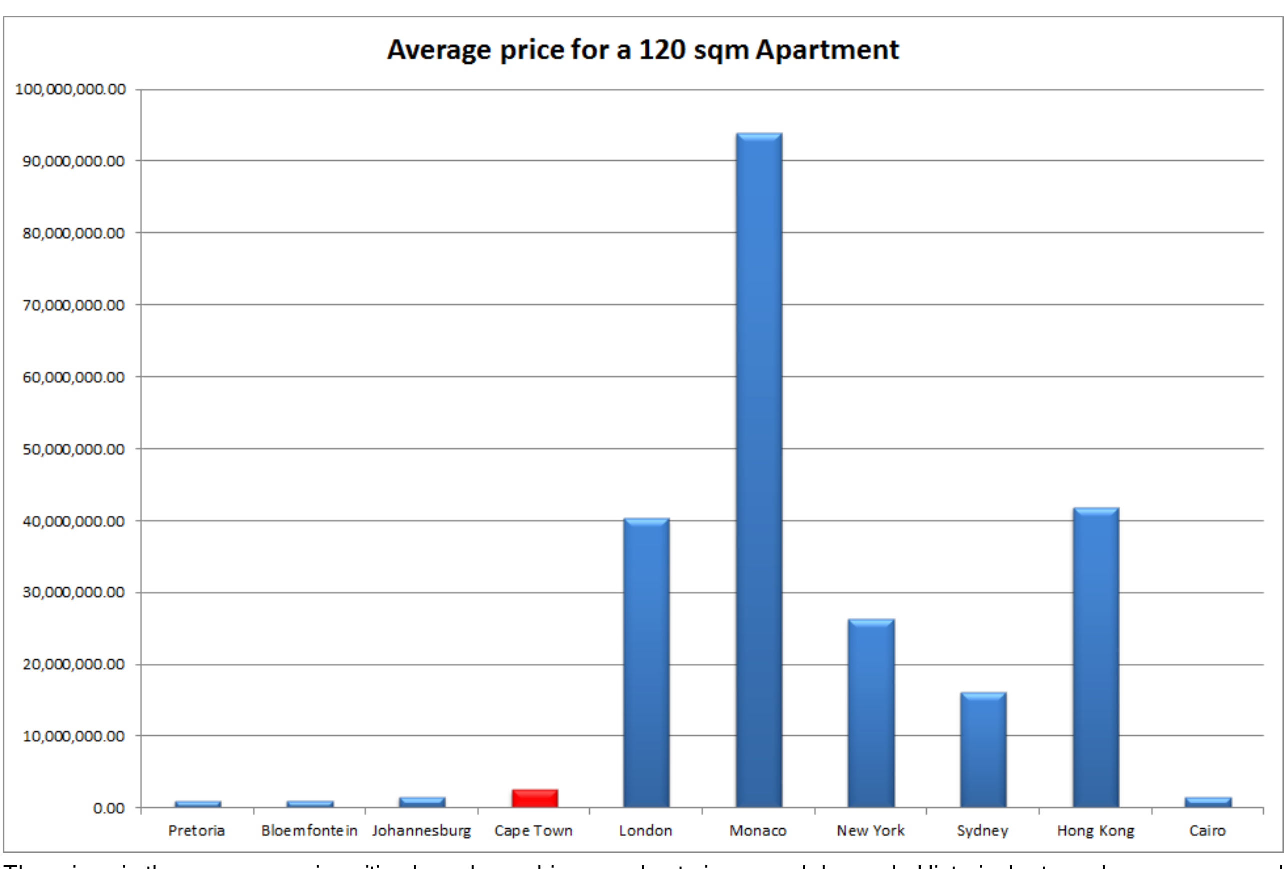


The low interest rates have provided a major boost to asset prices worldwide. The reason for this is twofold. The first one is that investors earn very little return for cash investments and thus have been forced to move up the risk curve to earn a return, driving prices of shares and property up in the process. The second reason for the large growth in asset prices is because investors have access to very cheap financing.

Investors are able to borrow money at a very low interest rate with reduced monthly repayments. . The availability of easy money has encouraged a large number of new investors into these markets.

Property, like any other commodity, is subject to microeconomic factors and the price is often driven by supply and demand. When demand exceeds supply the average property price will increase. South Africa has had poor property price growth since the market crash yet some cities have experienced a greater demand than others.

As one can see Cape Town is significantly more expensive than the rest of South Africa. Locally Cape Town may appear to be expensive but this is insignificant when compared to the rest of the world.



The prices in the very expensive cities have been driven up due to increased demand. Historical returns have encouraged new investors to enter the market. Many of the cities are geographically constrained which means they are unable to expand like South African cities have. Johannesburg is a great example of how a city can expand when unconstrained. These days Johannesburg is connected to Pretoria in the North; Springs in the East; Vereeniging in the South; and Randfontein in the West. The continued urban sprawl we are experiencing locally is making the greater Johannesburg one of the largest metropolitans in the world when measured by geographical footprint.

London property prices have more than quadrupled in the last ten years earning many investors a great return. The issue is that who is holding the property and more importantly who is paying for the financing of the property and the effect it will have on property prices if interest rates return to normal levels.

An investor purchasing a 120 square metre apartment in London would pay in the region of R40m. If they had to finance the purchase with a 20 year mortgage bond they would pay around R170k per month to settle capital and interest. The problem these investors have is that if interest rates were to normalise to the long term average of about 5% the investor is suddenly paying an addition R100k a month to settle the increased interest burden.

It is our expectation that if interest rates are hiked in the developed world many of the property markets will lose value as the owners are forced to sell to avoid the cash flow burden. Although we have political uncertainty and carry other risks, in comparison property in South Africa remains an area where great value can be found.

ABOUT MAGWITCH

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