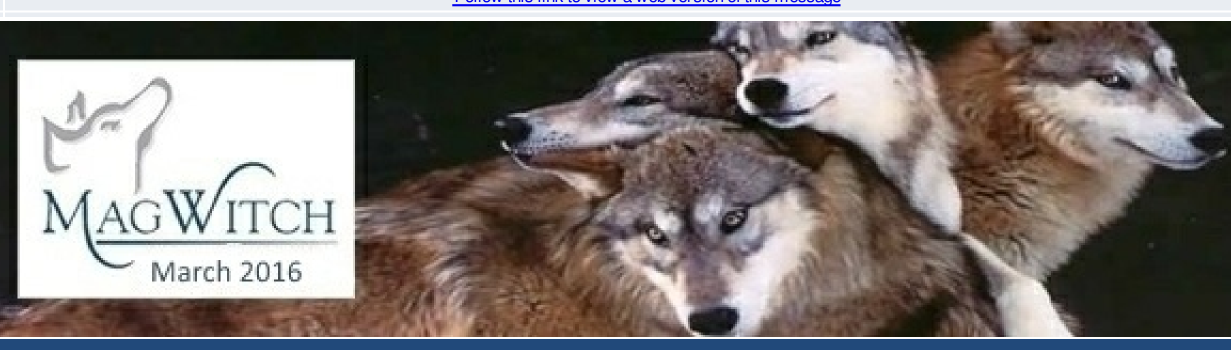


Dear

March 2016 may well be remembered as the month where the collective will of the people of South Africa managed to enforce change. Secondly in our democracy the judiciary is independent and that the government needs to govern in terms of the Constitution. It was a month where politics dominated the press to such an extent that other notable economic events received very little coverage. The most positive aspect to arise is that Government is now forced to hold themselves accountable and report to the people who elected them. The huge pressure on all political leaders going forward can only be good for the country and the economy.

The biggest financial event locally was the announcement of another interest rate hike of 0.25%. In the minutes of the Monetary Policy Committee meeting it is clear that the decision to hike interest rates was not unanimous as there is serious concern that economic growth is going to be stifled due to higher costs of financing. At the very least the interest rate hike is great news for those investors with positive cash balances.

The concerns around inflation are genuinely justified as CPI exceeded all expectations coming in at 7%. The drought is now impacting the consumer via higher food prices with a very large increase in the price of vegetables. We had enjoyed some relief at the petrol pumps over the past year. Lower fuel prices won't have the same benefit on CPI going forward as the price of oil has started to rise. Inflation is expected to now remain above the inflation targeting range (3% - 6%) for the next 2 years.

The stock market had a very good month with the JSE All Share Index finishing the month up 6%. Globally market sentiment improved towards emerging market investments again as the US Fed gave indication that they wouldn't be too aggressive in hiking their interest rates. A lot of the larger JSE listed companies report earnings in March and there were some mixed results. For the most part earnings exceeded expectations and this gave a further boost to the beleaguered share prices.

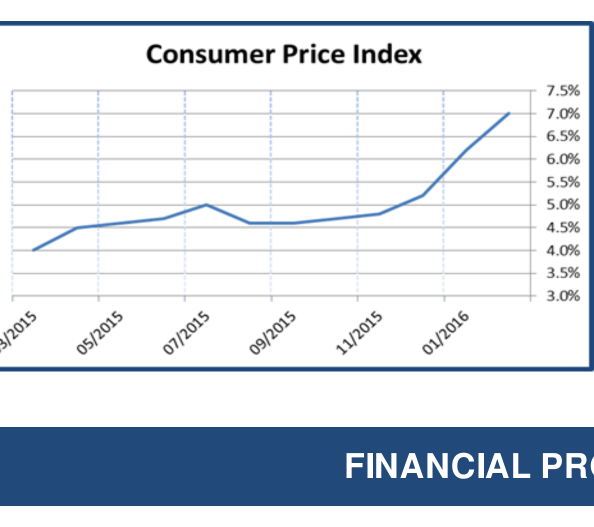
The Rand performed well in the month as funds flowed back into emerging markets. The interest rate hike had a positive effect on the Rand. Global investors looking for yield have purchased our bonds and money market instruments.

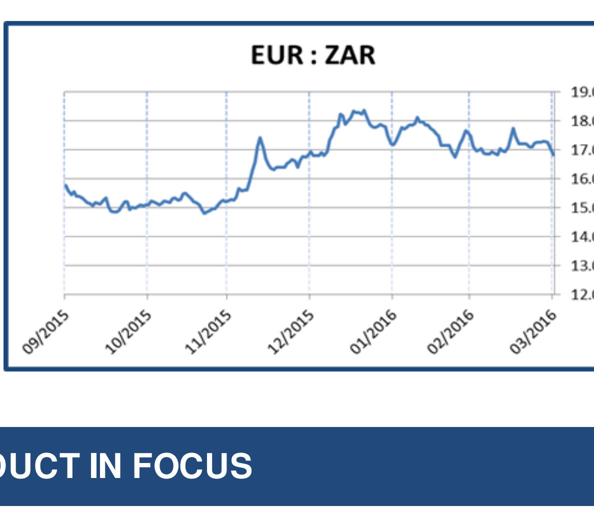
The biggest benefit for the Rand however came through right at the end of the month. The Constitutional Court made their ruling in the case against the President and ordered that he "must pay back the money". They found that he had "failed to uphold, defend and respect the Constitution" after he had failed to obey the orders of the Public Protector. The Rand improved overnight to its best level in the last 4 months reaching levels that were last seen before "Nenegate".

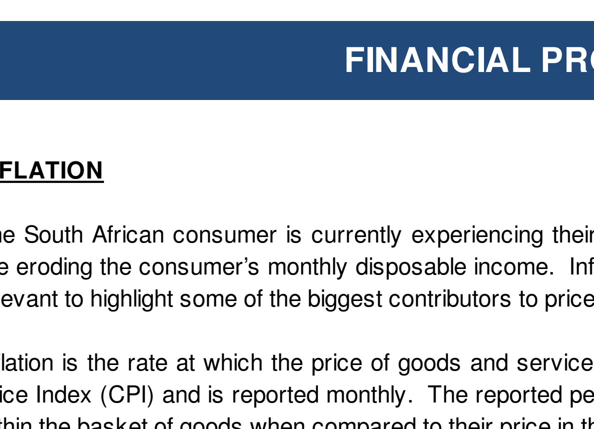
It may take some time but we feel that the country and the Government are starting to move in the right direction. The effect of the ruling cannot be underestimated and given that the decision was unanimous the judgement will be a boost for the country.

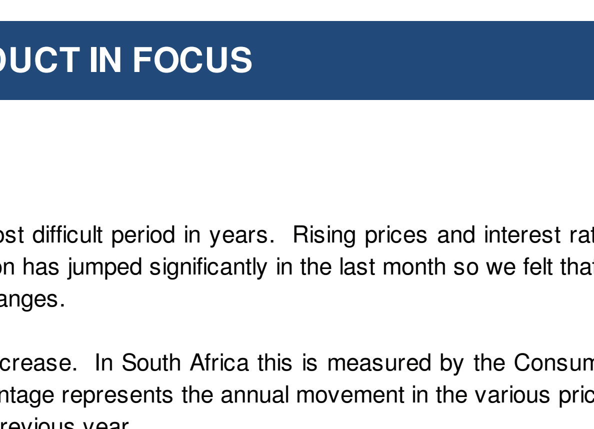
Magwitch Securities

MARKET INFORMATION









FINANCIAL PRODUCT IN FOCUS

INFLATION

The South African consumer is currently experiencing their most difficult period in years. Rising prices and interest rates are eroding the consumer's monthly disposable income. Inflation has jumped significantly in the last month so we felt that is relevant to highlight some of the biggest contributors to price changes.

Inflation is the rate at which the price of goods and services increase. In South Africa this is measured by the Consumer Price Index (CPI) and is reported monthly. The reported percentage represents the annual movement in the various prices within the basket of goods when compared to their price in the previous year.

Inflation has the effect of eroding the purchasing power of money. If the cost of goods increase it means that the same amount of money would be able to buy less goods in the future.

Inflation is unfortunately a necessary evil within economic policies. An economy does need a level of inflation to promote growth and to also provide a buffer against negative economic movements (ie recessions). Developed countries can sustain a lower level of inflation as their economy is more mature with greater consistency. The emerging markets tend to have higher inflation and interest rates as they have a lot more capacity for economic growth. In South Africa the Reserve Bank utilises inflation targeting as the monetary policy in order to keep the economy on an even keel. The inflation range that they target is between 3% and 6%.

Inflation has now climbed up above this band and is expected to continue to increase during 2016. Whilst there are many drivers and explanations that affect inflation we felt that we would address just a few of them that are currently impacting South Africans.

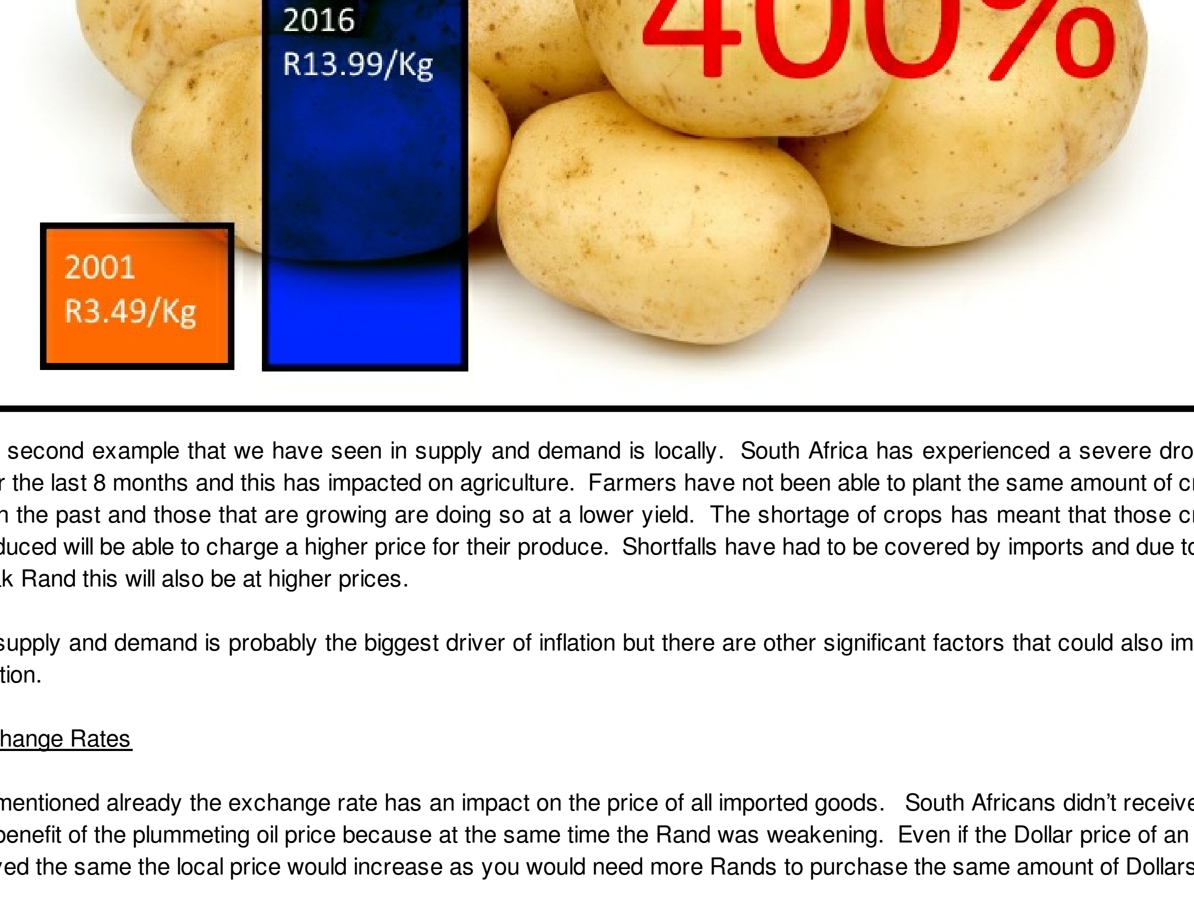
Supply & Demand

General economic theory states that prices are determined by supply and demand. When there is excess supply prices should decrease as those sellers are forced to offer discount to move their full supply. Conversely when demand exceeds supply the prices will go up as the purchase will go to the highest buyer.

We have seen two recent examples of supply and demand.

The one that has benefited the consumer over the past 18 months is the reduced oil price. Oil price has come down as a direct result of excess supply. The US historically has been the largest importers of oil and as a direct result the world's largest oil customer. By increasing their investments into shale gas and fracking they managed to increase their domestic supply and thus have been buying less oil from areas like the Middle East. The oil producing members of OPEC have thus had to make a choice whether to reduce the amount of oil that they were extracting or to reduce their prices. The reduction of production wasn't viable as the oil producers would have lost market share.

Interestingly enough the breakeven cost of fracking is far higher than the costs associated with traditional oil wells. The OPEC members are now content to keep oil prices low and produce less income as they feel that in time the fracking wells will need to be closed, at which point the US once again becomes their biggest customer.



The second example that we have seen in supply and demand is locally. South Africa has experienced a severe drought over the last 8 months and this has impacted on agriculture. Farmers have not been able to plant the same amount of crops as in the past and those that are growing are doing so at a lower yield. The shortage of crops has meant that those crops produced will be able to charge a higher price for their produce. Shortfalls have had to be covered by imports and due to the weak Rand this will also be at higher prices.

So supply and demand is probably the biggest driver of inflation but there are other significant factors that could also impact inflation.

Exchange Rates

As mentioned already the exchange rate has an impact on the price of all imported goods. South Africans didn't receive the full benefit of the plummeting oil price because at the same time the Rand was weakening. Even if the Dollar price of an item stayed the same the local price would increase as you would need more Rands to purchase the same amount of Dollars.

The current drought unfortunately coincided with the Rand reaching record lows. The negative sentiment around South Africa and other emerging markets could not have come at a worse time for South African consumers. It therefore remains imperative that South African policy makers do all that they can to improve the perception of foreign investors.

Monetary Supply

Most governments control their monetary supply and can print additional amounts of money if required. We always see new notes and coins in circulation but for the most part these are replacements of old, recalled notes and coins. If a government prints more than they recall they increase the money in supply. Normally this would reduce the value of the currency as there are more units in circulation.

The European Union is currently at risk of deflation and in order to boost inflation they have started to print additional currency. The anticipated weakening of the Euro should have an added benefit of boosting growth. We are however currently in an abnormal economic environment - when the US were doing their Quantitative Easing (which was in effect increasing monetary supply) the Dollar hit record highs. This anomaly was as a result of investors that were intent on reducing risk by moving their investment to developed markets and in turn creating demand for the currency of the developed markets. It is difficult to foresee what will happen down the line when interest rates normalise. Inflation may become a problem in these developed markets.

Cost Price Push

A lot of companies and industries are able to push their prices on to the consumer as their products and services are deemed a necessity. If these companies look to maintain static margins their selling prices will increase by a similar percentage as their costs. They are thus able to push any cost increases that they incur on to the consumer.

In many instances this cost price push becomes a never ending circle. If we take salaries as an example - Companies often increase salaries annually to keep pace with inflation. This then means that this salary increase then needs to be passed on to the consumers. This increases prices, causing inflation, which is then used as a basis for salary increases the following year.

Inflation on Investments

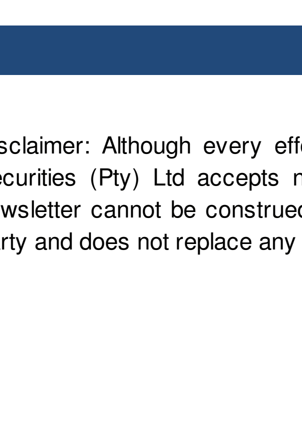
As inflation reduces the value of money over time it is always important to keep inflation in mind when reviewing investments. Even though we are in a rising interest rate cycle the interest rates are still low. In the current environment the after tax returns on interest received are lower than inflation and ultimately the low risk investments are reducing wealth. In other words you are going backwards.

We feel that investors have to take an appropriate level of risk to grow their wealth and protect themselves against inflation.

Equities offer the best form of protection against inflation but they do come with unpredictable returns and short term risk. In the markets they say that diversification is the only free lunch and investors with a lower capacity for risk could look at multi asset funds. The multi asset funds will have a mix of equities, bonds, property and cash, the investment would normally be split between local and foreign with a maximum of 25 % off shore holdings, the multi asset funds have different risk profiles and included:
Low Equity Multi-Asset Funds – which may hold up to 40% in local and global equities;
Medium Equity Multi-Asset Funds – which may hold up to 60% in local and global equities; and
High Equity Multi-Asset Funds – which may hold up to 75% in local and global equities.

Please contact Magwitch to determine an appropriate, inflation beating strategy for your investments.

ABOUT MAGWITCH



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