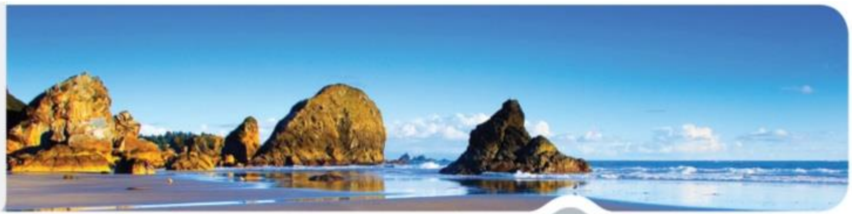
PRIVATECLIENT HOLDINGS



Perspectives | Monthly Market Review

October 2020

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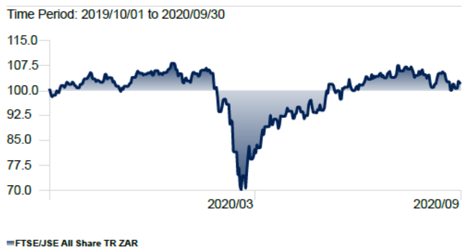
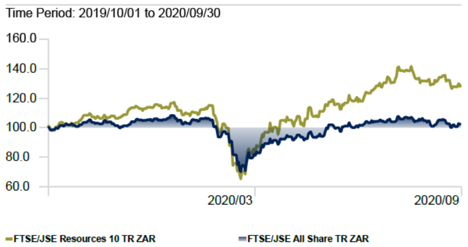
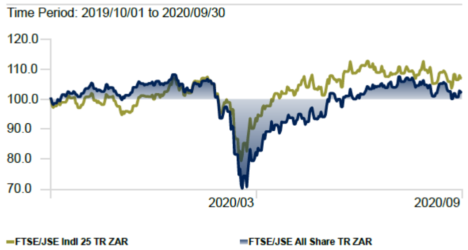
All Share



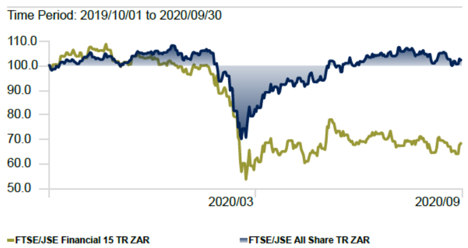
Resources



Industrials



Financials



Index	Value	Sept (%)	YTD (%)
All Share	54,265	▼ 1.6%	▼ 2.5%
S&P 500	3,363	▼ 3.8%	▲ 5.6%
FTSE 100	5,866	▼ 1.5%	▼ 20.2%
Rand/USD	16.68	▼ 1.5%	▲ 19.3%
Rand/GBP	21.56	▼ 4.9%	▲ 16.4%
Gold ($)	1,888	▼ 4.1%	▲ 24.2%
Plat ($)	901	▼ 3.7%	▼ 7.2%
Brent ($)	41	▼ 9.6%	▼ 38.0%

Market Report

Poor market data released in September and JSE dips for second consecutive month

South Africa moved to lockdown level 1 on 21 September, but many observers are concerned that the move to open up the economy is too little too late. South Africa's GDP for the second quarter of 2020, the period during which the country was in hard lockdown, fell by just over 16% quarter-on-quarter, giving an annualised growth rate of -51%. The latest contraction comes on the back of three successive quarters of contraction and an average growth rate of well below 1% over the past five years. Nearly all industries experienced a massive drop in output during the second quarter, with construction the hardest hit, shrinking by 76%. Although, still very grim, the SA economy did not shrink by just over half. The -51% reported by Stats SA is annualised and assumes the quarters losses of -16% will continue downward for another 3 quarters.

Manufacturing, a sector which employs a large part of the South African workforce, shrank by nearly 75% during this period. It is therefore not surprising that the country shed many jobs in the 2nd Quarter – 2.2 million people lost their livelihoods, according to the latest Quarterly Labour Force Survey released by Stats SA on 29 September. Somewhat confusingly, the official unemployment rate showed a significant decrease of 6.8% to 23.3% in the second quarter. This is the lowest rate recorded since 2009. Important to note, however, is that the official rate does not include discouraged workers, those who are able to work but not actively looking for work. There was a significant increase in the number of people in this category, as many jobseekers lost hope of finding employment during the pandemic-related lockdown. The expanded unemployment rate, which does take account of these workers, increased by 2.3% to 42%. As the government has progressively removed restrictions on economic activity and with the initial wave of COVID-19 infections seemingly under control, hopes are that subsequent data releases will show that many of those jobs have been regained in the last two quarters of the year.

While global central banks have pumped liquidity in recent months, the SARB was more cautious. The SARB left the repo rate unchanged at its latest Monetary Policy Committee (MPC) meeting on the 17 September. There was a sharp drop in inflation expectations in the third quarter. This was partly helped by decreasing energy prices and slower food price inflation, as the agricultural sector has benefited from favourable weather conditions. Since the primary mandate of the SARB is inflation-targeting, and not economic growth, its reticence to adjust the interest rate is justified. The SARB has also opted to halt its purchases of government securities in the secondary market, confirming its clear intention not to use its balance sheet to fund the national budget deficit.

There have nonetheless been some positive data points, indicating that the economy is benefiting from the relaxation of lockdown measures. Following a robust increase in August, the Absa Purchasing Managers' Index (PMI) ticked up further to 58.3 index points in September. The shift to a lower lockdown level mid-month likely drove the further improvement in business conditions in the local manufacturing sector. However, as cautioned in August, the fact that the level of the PMI is now above pre-pandemic levels does not directly translate to official manufacturing activity being back to pre-pandemic levels. Due to the month-on-month comparison asked for in the PMI questionnaire, the high level merely means that conditions continue to improve (with more respondents reporting an increase in output for example instead of no change or a decline compared to the previous month). This can still be entirely consistent with the level of output remaining well below that recorded prior to the lockdown. Notable in this measure, especially given the shocking unemployment figures that have just been released, is that the job-shedding rate eased to a six-month low as some firms increased hiring as new orders picked up. Business confidence increased to -23 in the third quarter of 2020, after hitting a 35-year low of -33 in the preceding quarter. The biggest improvements were seen in the financial outlook of households and the purchases of durable goods.

The South African market fell along with global markets in September (Capped SWIX -1.1%), retreating towards a double-digit Year-To-Date drop (-9.8%). In a reversal of the trend seen earlier in the year, it was the SA Inc counters that performed best, up over 4% for the month, with particularly strong contributions from banks (+8.6%) and retailers (+11%). Capitec was the best performing stock out of the top 100 on the JSE (+24.2%) as its 1H20 results feedback pointed to a strong recovery in its second quarter and the addition of 800,000 new clients, and Shoprite (+23.7%), which was able to grow turnover by 6.4% Year-on-Year despite the pandemic. The stalwarts from the first part of the year, gold miners and Naspers/Prosus, had their second consecutive negative monthly contribution. Gold miners fell 11% in September as the US dollar price of gold dropped by 4.2% for the month. The rand ended the month 1.1% stronger against the US dollar despite the dollar strengthening against most currency pairs, diverging from the fortunes of its EM peers which were generally weaker in September (Turkish lira -4.8%, Russian rouble -4.7%, Brazilian real -2.0%).

US equities lead global markets down

Historically, September has been the worst month for US equities (with October a close second), and September 2020 was no exception in a tumultuous month which saw a wave of selling and the main US equity benchmarks recording their first monthly losses since the start of the recovery in late March. Concerns over Covid cases resurging in the coming US fall and winter, Europe already battling the start of a second wave of infections, and conflicting signals around a possible coronavirus relief bill in the US weighed on sentiment. Democrats unveiled a $2.2trn pandemic relief package but, following the death of long-serving Supreme Court Justice Ruth Bader Ginsburg and US President Donald Trump’s vow to replace her before the election, prospects of Democrats and Republicans agreeing on stimulus measures have diminished significantly. In addition, political uncertainties surrounding what is likely to be a very acrimonious US Presidential Election in November were exacerbated by a disastrous first presidential debate between Trump and his Democratic challenger Joe Biden and Trump declining to categorically state that he will accept the election result if he loses.

Equity markets spent much of September on the back foot, with little offsetting assistance from government bonds. Hard asset safe havens such as gold also fell back. For once, it was US equities that led global indices lower, owing to a sharp reversal in the fortunes of Technology leaders. The MSCI World declined by 3.45%, while Emerging Markets fared better than developed peers, as the MSCI EM dipped 1.6%, with Asian auto manufacturers and semiconductor companies performing particularly well for the EM index. Brent crude oil fell 9.6% in September, making the S&P 500 Energy sector the worst performer for September (-14.5% for the month) as Persian Gulf exporters started to discount their crude prices as the end of the busy US summer driving season contributed to lacklustre oil demand. In many respects this was a welcome unwinding of speculative buying that had been accelerating during August.

Nonetheless, tech valuations remain elevated, and some investors wonder whether there is much upside left, and whether it is not time to take profits. Moreover, while there is not much that the political parties agree on, tech seems to be a target for both sides as well as being one of the most contentious issues in the Sino-US tensions. Higher taxation rates and stricter regulations are likely irrespective of the election outcome. Most investors expect, and profess to prefer, a Biden victory because he will return to a more diplomatic style of leadership. However, there are also risks associated with potential Democratic policies that will lead to a redistribution of wealth through taxation. Both candidates will continue to espouse an aggressive stance towards China, if only because a strong majority of voters say they have an unfavourable opinion of China. Although a Biden victory would suggest a more dignified approach to diplomacy, there is no reason to believe that a Democrat-controlled White House and Congress would go soft on China. If anything, they are even more exercised about issues such as human rights and corporate governance. Expect Biden to corral traditional economic allies (such as Europe and Japan) to present a united front towards the Chinese.

The US dollar strengthened against most major currencies in September, particularly the British pound (-3.4%) as the UK embarked on what appears to be another round of acrimonious talks over the final terms of its exit from the European Union (EU). The UK’s threat to rewrite some previously agreed terms of its divorce accord had the EU threatening legal action just months before the UK’s transitionary agreement with the EU runs out at the end of the year. Covid and Brexit continue to vie for top billing in the UK, with the latter gaining more column inches as we edge closer to the final departure date with no sign of a deal in sight. The “level playing field” of state aid remains a key sticking point.

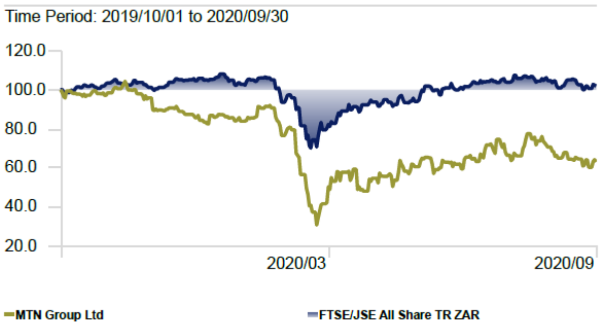
The pound, as in the past, has been the main victim of the uncertainty, which at least helped to shield sterling portfolios from greater falls owing to holdings in overseas assets as well as the predominantly non-sterling base of FTSE 100 company profits. Investors still appear willing to “buy the dips”, steadfast in their belief that both governments and central banks have no alternative but to continue with their supportive policies. For the present, large fiscal deficits are sustainable in an environment of low interest rates and depressed bond yields, a situation that central banks appear willing to perpetuate. The IMF’s latest forecast sees the global economy shrinking by 4.9% in 2020, followed by a recovery of 5.4% in 2021. Markets are increasingly driven in the short term by the ebb and flow of news on the development of a Covid vaccine. Expectations for one being widely available continue to centre on the first half of 2021. Any slippage in the timetable would be of concern.

Historically, a weakening US dollar and prospects for a recovery in global trade have been positive for Emerging Markets on a relative basis, and there have been tentative signs of this beginning to happen again. Even so, it will take more concrete evidence that the world is moving decisively beyond Covid to provide a real boost. The announcement of a widely available vaccine could be the catalyst. China continues to provide the rest of the world with a potential template for recovery, and reported that industrial profits in the country had risen 19.6% from a year earlier. Even if we should treat some of the official data from China with a degree of scepticism, it suggests that the recovery is on track, helped on, as in the West, by fiscal and monetary stimulus. At its mid-September meeting the US Federal Reserve (Fed) left benchmark rates on hold, as expected, and indicated it anticipates the interest rate to remain at nearly zero at least through 2023.

Company Results

MTN Group Ltd. – Half year results for the period ending June 2020

Earnings per share	R6.71
Historical PE	5.7
EPS growth	176.1%
Turnover growth	17.1%
ROE	18.4%
Debt/Equity	167.8%
NAV per share	R54.68
Dividend yield	6.7%
Share price	R52.83



Nature of Business

MTN Group Ltd. engages in the provision of network information technology services. It offers broadband and Internet products and services and converged fixed or mobile products and services. The firm serves local, national and international telecommunications industries. The company was founded in 1994 and is headquartered in Roodepoort, South Africa.

Latest Results

MTN delivered strong results for the period against the backdrop of difficult trading conditions, exacerbated by the unprecedented socio and macroeconomic challenges caused by the COVID-19 pandemic. With service revenue growth of 9.4% and EBITDA growth of 10.9%, the group's EBITDA margin improved by 1.2% to 43.1% as the group efficiency programme continued to bear fruit. Group leverage remained stable at a group net debt to EBITDA ratio of 1.1x. The holding company (holdco) leverage ratio increased to 2.7x from 2.2x at December 2019, impacted by the weaker rand and lower upstreaming from operating companies. MTN reinvested R10.1 billion in building up their networks, focusing on capacity and resilience as COVID-19 lockdown constraints impacted network rollout.

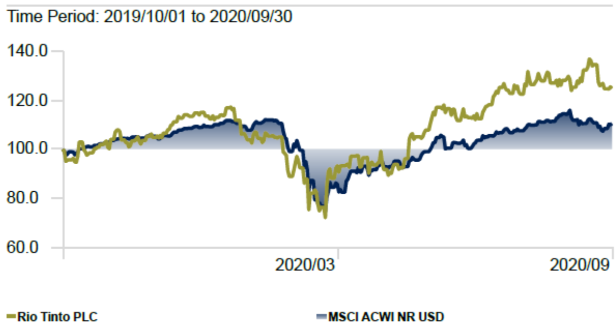
Among the larger opcos, MTN Ghana delivered another strong performance in H1, while MTN Nigeria achieved continued solid growth in a challenging environment. MTN South Africa reported a pleasing turnaround in its underlying consumer and enterprise business units as well as an expansion in EBITDA margin. Commercial momentum continued and added 10.6 million subscribers to reach a total base of 261.5 million and reached a significant milestone in surpassing the 100 million mark of active data users. MTN's balance sheet and liquidity remain resilient despite the challenging environment and was supported by strong operating free cash flows, which increased by 117.8%.

Dividend

Given the significant uncertainties in the operating environment brought about by COVID-19 MTN's board have resolved not to declare an interim dividend for 2020. Should conditions warrant a final dividend, this would be no more than 390c per share, aligned to the current dividend policy.

Rio Tinto Plc. – Half year results for the period ending June 2020

Earnings per share	**£4.34**
Historical PE	**12.9**
EPS growth	**-13.54%**
Turnover growth	**-4%**
ROE	**18.2%**
Debt/Equity	**36%**
NAV per share	**£19.76**
Dividend yield	**6.3%**
Share price	**£45.49**



Nature of Business

Rio Tinto Plc engages in the exploration, mining, and processing of mineral resources. It operates through the following business segments: Iron Ore, Aluminium, Copper and Diamonds, Energy and Minerals, and Other Operations. The Iron Ore segment supplies global seaborne iron ore trade. The Aluminium segment produces bauxite, alumina and primary aluminium. The Copper and Diamonds segment offers gold, silver, molybdenum and other by-products. The Energy and Minerals includes businesses with products such as uranium, borates, salt and titanium dioxide feedstock together with coal operations. The Other Operations segment covers the curtailed Gove alumina refinery and Rio Tinto Marine operations. Rio Tinto was founded in 1873 and is headquartered in London, the United Kingdom.

Latest Results

Rio Tinto possesses the best-in-class balance sheet and cash return potential out of the diversified. RIO's dividend yield screens very attractively vs the wider equity market. Of the diversified miners, RIO has the highest exposure to iron ore and with prices for iron ore expected to remain above $100/t over 2020/21, this provides the underpin to a strong earnings growth outlook. Valuation metrics for RIO screen cheap (at spot commodity prices ~ 10% FCF yield) and its return profile is very attractive vs other cyclical sectors. RIO (like BHP, and the miners in general) are still enjoying a strong earnings and dividend upgrade cycle; consensus estimates are behind and will still need to be revised significantly higher. RIO's c.8% dividend yield looks very attractive/undervalued – a re-rating to ~5% levels for 2021/22E would imply significant upside to RIO (in excess of 50%). We continue to see supportive policy in China. Similar to what we saw in both 2008 and 2016, the ultra-stimulative fiscal and monetary policy was the strong catalyst for miner outperformance (which we have already seen the start of since the March pandemic lows).

RIO have been agile and adapted their way of working, to deliver another resilient performance while navigating the new and ongoing challenges of dealing with COVID-19. Despite the challenging backdrop, the company generated underlying EBITDA of $9.6 billion, with a margin of 47%, driven by strong and stable operations, with all assets continuing to operate throughout the first half of the year. The miners world-class portfolio of high-quality assets and strong balance sheet consistently serve well in all market conditions and particularly in turbulent times. This, together with managements disciplined capital allocation, underpins their ability to sustain production, increase investment in the business, pay taxes and royalties to governments and continue delivering superior returns to shareholders.

Dividend

RIO's board have declared an interim dividend of $2.5 billion, with interim pay-out ratio at 53% of first half underlying earnings which is equivalent to 155 US cents per share - 3% higher than 2019 first half.

Snippets

Private Client Financial Services – helping clients achieve exceptional business success

The team at PCF have a broad and deep competence in terms of knowledge, skill and experience in dealing with family businesses and owner-managed businesses.

For many businesses routine administration is a grudge job that often drops to the bottom of the to-do list. Well-maintained books make the difference between a business that is a success and one that is not. This is why Private Client Financial offers a comprehensive range of accounting, tax, business advisory and secretarial services to individuals, partnerships, trusts, closed corporations and companies. Given the ever-changing legislation and its increasing complexity, the team at PCF make sure that they have all the relevant current knowledge on all tax legislation and departmental practices and continuously engage with the South African Revenue Service (SARS) to make sure clients affairs are kept in order.

Private Client Financial strives to provide a specialist solution to every client's individual financial needs by building a bespoke financial plan with quantifiable goals. Clients are offered a comprehensive range of services and expertise to manage and grow their wealth — all under one roof.

PCF services include:

- Tax Planning
- Accounting Services
- Payroll Administration
- Xero Accounting Software Specialists – Gold Partners
- Monthly Bookkeeping, VAT, PAYE, UIF, SDL
- Financial Statements and Independent Reviews
- Business Valuations and Management Advisory Services
- Corporate Benefits Solutions
- Auditing

Contact Jeremy Burman on jeremy@privateclient.co.za for more information.

Corporate Cash Manager Rates

FUND	BALANCE	RATE
CALL ACCOUNT	0.00 – 9 999.99	3.15
	10 000 – 24 999.99	3.15
	25 000 – 49 999.99	3.15
	50 000 – 99 999.99	3.15
	100 000 – 249 999.99	3.15
CALL MONEY FUND: *Individuals*	250 000 – 999 999.99	4.17
	1 000 000 – 9 999 999.99	4.17
	10 000 000 upwards	4.17
CALL MONEY FUND: *Non-Individuals*	250 000 – 999 999.99	3.97
	1 000 000 – 9 999 999.99	3.97
	10 000 000 upwards	3.97

Dividends Payable

Dividends in LDT order

Company	Decl	LDT	Pay	Amt	Curr
Assupol Holdings Ltd. (ASSUPOL)	22-Sep	09-Oct	12-Oct	55	ZARc
Capricorn Group Ltd. (CAP GROUP)	17-Sep	09-Oct	30-Oct	20	NADc
AVI Ltd. (A-V-I)	07-Sep	13-Oct	19-Oct	250	ZARc
AVI Ltd. (A-V-I-A2X)	07-Sep	13-Oct	19-Oct	250	ZARc
Exchange Traded Funds (CORESP500)	08-Oct	13-Oct	19-Oct	30.78	ZARc
Exchange Traded Funds (CSPROP)	08-Oct	13-Oct	19-Oct	4.1	ZARc
Exchange Traded Funds (CTOP50)	08-Oct	13-Oct	19-Oct	17.94	ZARc
Exchange Traded Funds (DIVTRX)	08-Oct	13-Oct	19-Oct	17.31	ZARc
Exchange Traded Funds (COREGPROP)	08-Oct	13-Oct	19-Oct	45.66	ZARc
Investec Property Fund Ltd. (INVPROP)	23-Sep	13-Oct	19-Oct	39.05	ZARc
Exchange Traded Funds (PREFTRAX)	08-Oct	13-Oct	19-Oct	27.98	ZARc
Exchange Traded Funds (SMART)	08-Oct	13-Oct	19-Oct	19.88	ZARc
Trellidor Holdings Ltd. (TRELLIDOR)	22-Sep	13-Oct	19-Oct	8	ZARc
Vukile Property Fund Ltd. (VUKILE)	23-Sep	13-Oct	19-Oct	48.19	ZARc
Vukile Property Fund Ltd. (VUKILE-NSX)	23-Sep	13-Oct	19-Oct	48.19	ZARc
Bowler Metcalf Ltd. (BOWCALF)	08-Sep	20-Oct	26-Oct	29.5	ZARc
Fairvest Property Holdings Ltd. (FAIRVEST)	23-Sep	20-Oct	26-Oct	9.88	ZARc
Fairvest Property Holdings Ltd. (FAIRVEST-A2X)	23-Sep	20-Oct	26-Oct	9.88	ZARc
Heriot REIT Ltd. (HERIOT)	30-Sep	20-Oct	26-Oct	43.45	ZARc
Investec Bank Ltd. (IBRPREF1)	30-Sep	20-Oct	26-Oct	999.71	ZARc
Prosus N.V. (PROSUS)	29-Jun	20-Oct	17-Nov	11	EURc
TeleMasters Holdings Ltd. (TELEMASTR)	30-Sep	20-Oct	26-Oct	1.6	ZARc
Paratus Namibia Holdings Ltd. (PARATUS NM)	25-Sep	23-Oct	13-Nov	10	NADc
PSG Konsult Ltd. (PSG KST-NSX)	08-Oct	27-Oct	02-Nov	8	ZARc
PSG Konsult Ltd. (PSG KST)	08-Oct	27-Oct	02-Nov	8	ZARc
Newpark REIT Ltd. (NEWPARK)	07-Oct	27-Oct	02-Nov	19.63	ZARc
Putprop Ltd. (PUTPROP)	04-Sep	27-Oct	02-Nov	5.75	ZARc
RCL Foods Ltd. (RCL)	31-Aug	27-Oct	02-Nov	10	ZARc
Trencor Ltd. (TRENCOR)	05-Oct	27-Oct	02-Nov	160	ZARc

Directors: GAJ Alexander BCom Hons (FAPM) (Tax) CA (SA) LLM / AS Ratcliffe BCom (HDip Tax) Professional Accountant (SA) CFP
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