



KGORI CAPITAL

INVEST WITH PRIDE

KGORI INSIGHTS



2018



Botswana's leading citizen owned
and run Asset Management firm

INVEST WITH PRIDE





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2018

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Committed to Botswana,
Her People and Her Growth

Kgori at a glance:

- Botswana's leading citizen owned and run Asset Management firm
- Botswana based investment management firm with global reach
- Employer of choice
- Sole business is Asset Management
- Unrivalled team skills
- Employee-owned and client-focused

The Kgori Brand:

- Invest with Pride – for Botswana
- Always on the lookout – Awareness
- Grounded, trustworthy
- Always learning... Growing



01

BUSINESS INSIGHTS

Alphonse Ndzinge
Managing Director



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ALPHONSE NDZINGE
Managing Director

BUSINESS INSIGHTS

The Kgori Brand.



Invest with Pride
– for Botswana



Always on the lookout –
Awareness



Grounded, trustworthy



Always learning...
Growing

Welcome to the Kgori Capital Insights edition for the Quarter ended 30 June 2018! We look forward to sharing some key updates and insights with you in this edition, courtesy of the Kgori capital team.

This was a very busy quarter, indeed, beginning with the inauguration of our fifth President of the Republic of Botswana, His Excellency Mokgweetsi Eric Keabetswe Masisi, on April 1 2018. The new administration was well received by the market, anchored by a renewed commitment to partnering with the private

sector to ensure more Botswana have an opportunity to set up industries that empower themselves and, in turn, create much needed employment.

Local capital market activity showed a pick-up in domestic economic activity, underpinned by a recovery in mining

output after a disappointing end to last year. Inflation has remained sticky at 3.1% for June 2018, printing close to the floor of Bank of Botswana's objective range since early 2015. Local stocks returned a lacklustre -0.1% (on a total return basis), while bonds delivered 1.2% for the three months to June 30 2018.

Turning to offshore markets, after a blistering end to 2017, the global economy moderately decelerated in the first half of this year. That slowdown made for a challenging environment for risk assets, intensifying market sensitivity to news on trade tensions and political uncertainty. And as much of that deceleration seems to have been concentrated in the Euro area, it was a backdrop supportive of the US Dollar, by far the most pronounced theme of the quarter. The greenback surged 8.6% stronger against the Pula. Emerging Market currencies had a somewhat devastating quarter, highlighting current account vulnerabilities and US Dollar strength pushing investors to liquidate emerging market positions. Geopolitical events added to monetary policy in a few regions. The Pula appreciated 6.7% versus the Rand.

Closer to home for the Kgori Capital team, this is indeed a big year. The old adage that time really does feel like it moves much faster than it used to feels very true. It is hard to believe that Kgori Capital is turning 6 years old this September. From our humble beginnings as a small but passionate business established by a team of leading Botswana investment professionals in 2012, we have grown to a leading home-grown Asset Management firm, serving Botswana and Botswana. We continue to grow our passion and commitment to becoming a significant participant in the Botswana investment management industry, for we believe Botswana business can and should

set the proverbial bar ever higher. This is what we strive to do ourselves.

In pursuit of this, our biggest highlight this past quarter was the finalisation of our Unit Trust product roll-out. Our innovative retail solutions are just one part of a broader strategic effort to thrive and secure a competitive advantage by adjusting to client demands for fully-serviced solutions. Our focus is on deploying advanced tools to deliver a more outcome-based perspective on risk and performance.

Kgori Capital remains a strong, stable business. Today, we are as passionate

as ever about Botswana's growth and the development of her economy and her people as we were when we started our business. Kgori Capital is a home-grown Asset Management Company that has always strived to make an enduring difference. Our conviction remains that, indeed, a 100% citizen owned and run Asset Manager can serve the likes of the biggest local funds, as well as anyone else in the world. So as I said before, we constantly work to raise the bar.

With that, I also wish to thank you for your continued support, for this journey is one we believe we are on together, and we would not be the business we are today were it not for the support of our many stakeholders, partners and clients. I trust that you will find valuable and informative articles in our latest edition of Kgori Capital Insights, and hope you enjoy this update on our business and indeed from our business.

02

MARKET INSIGHTS: OFFSHORE COMMENTARY

Alphonse Ndzingo
Managing Director



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ALPHONSE NDZINGE
Managing Director

**MARKET INSIGHTS:
OFFSHORE
COMMENTARY**

*Global markets trend is renewed divergence of



*Expect global GDP growth to accelerate in



*Near-term prospect for the global economy looks promising

The current consensus forecast is 3.3% global GDP growth this year and 3.1% next. Momentum should be evenly balanced between developed and emerging economies: consensus forecast growth this year of 2.4% in developed markets and 4.9% in emerging markets.

In local currency terms, the MSCI Country World Index rose 68bps in Q2, recovering a bit of the 84bps decline in Q1. Earnings estimates for developed markets were stable throughout the quarter as Emerging Markets sold off significantly (down 7.8%). The US Dollar continued to strengthen in June, leading DXY US Dollar Index up 2.5% on a year-to-date basis. On the other hand,

the Euro fell more than 5% in Q2, ending the quarter at the 1.17 level against the US Dollar. The Japanese Yen also weakened against the US dollar in Q2 ending June at 111 against the US Dollar – a yearly low.

A big trend for global markets is the renewed divergence of US and Eurozone monetary policy: the Federal Reserve is

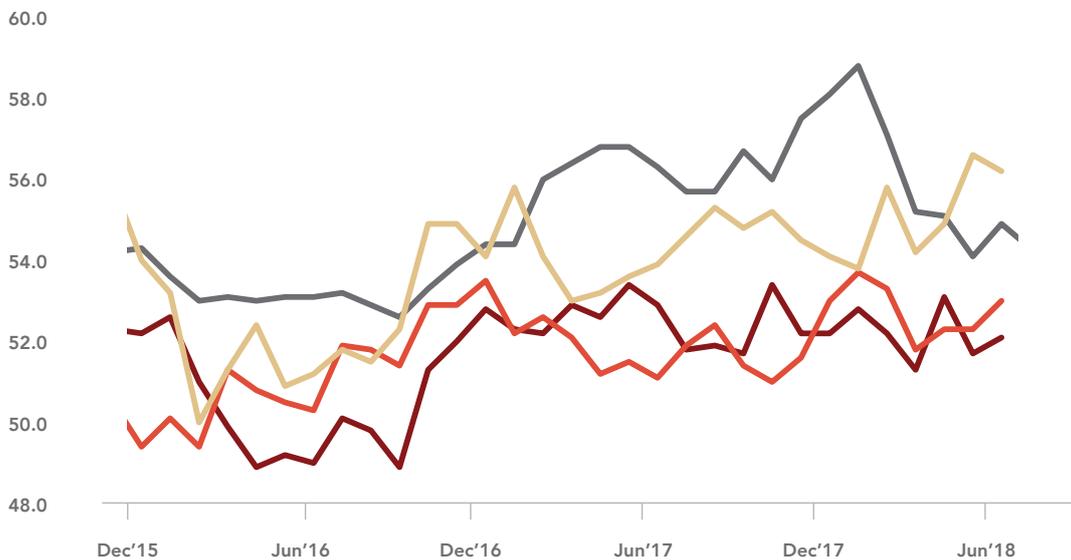
tightening policy to avert any inflation risks while the European Central Bank has shifted in a dovish direction. The spread between 10-year US and German yields has reached its widest level in almost 30 years, and the Euro has been pressured.

Oil prices rocketed to a four-year high in June, and hit the USD 80 per barrel mark after US President, Trump, withdrew from the Iran nuclear agreement. The rise reflects continuing strong demand – with China and India’s growth engines needing increasing fuel and supply-side constraints.

That deceleration in global growth seems to be ending. Cyclical indicators are consistent with a turning point in momentum. So we expect global GDP growth to accelerate in H2, having slowed in H1. The current consensus forecast is 3.3% global GDP growth this year and 3.1% next. Momentum

should be evenly balanced between developed and emerging economies: consensus forecast growth this year of 2.4% in developed markets and 4.9% in emerging markets.

CHART 1:



- Japan Composite PMI
- Eurozone Composite PMI
- Caixin China Composite PMI
- US Composite PMI

• Source: Bloomberg

Notably, escalating trade tensions pose risks to global growth and inflation. Uncertainty over trade could dent investment as US monetary tightening puts financial pressure on emerging economies. The direct effects of the tariffs imposed by the US on its trading partners, and their retaliations, scale to reasonably small units of global GDP. Even if one assumes a further escalation in coming months, these direct effects are unlikely to be meaningful enough to generate a significant cut in growth forecast. But indirect effects could be significant.

The recovery in business investment from its slowdown in 2015-16 is still tentative, especially in emerging markets. Uncertainty over trading relationships, or the viability of specific investments in supply chains, could have a chilling effect on business spending globally. At present, it is genuinely unclear what the effect would be. Previous spikes in uncertainty this decade have been accompanied by meaningful shocks to financial conditions or sectors, which we judge to have been the more dominant driver of slower investment.

What this means is that the near-term prospect for the global economy looks promising, with continued above-trend growth likely over the coming year. But risks are building. They stem from isolated US policy action. Fiscal expansion is pushing US policy rate expectations ever higher relative to the rest of the world, risking financial tightening in some emerging markets. And escalating trade tensions pose downside risks to business investment.

03

MARKET INSIGHTS: LOCAL COMMENTARY - EQUITY

Tshegofatso Tlhong
Portfolio Manager



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**TSHEGOFATSO
TLHONG**
Portfolio Manager

**MARKET INSIGHTS:
LOCAL
COMMENTARY- EQUITY**

*Increase in household final consumption



*Cautiously optimistic going into the second half of the year

*We are in the tail-end of the downturn in the domestic equity market

The Domestic equity market remained subdued for the quarter, declining 2.3% and 0.1% on a price and total return basis respectively. Market activity was characterised by large block trades in NAP, CA Sales and Letshego.

PrimeTime released interim results, reporting an 18% increase in rental income compared to the previous period. This performance was driven by the inclusion of Centro Kabulonga mall in Lusaka, as well as improved performance of the Pilane Crossing centre. The company has a healthy development pipeline and is expected to complete 3 projects within the 2018 calendar year. NAP also reported interim results, showing that rental income for the period grew 15.7% despite no changes to the property portfolio. Escalations and a reduction in vacancies drove performance. Distributable income increased by 9.3% to 12.25t per linked unit.

Choppies' interim results showed a welcome turnaround in the South African unit, which showed a profit for the period. Group profitability increased 21.8%. Expansion plans continue; 33 new retail sites were added, increasing total retail space by 17% and adding Mozambique and Namibia into the Choppies regional footprint. Another turnaround story was Furnmart, reporting a 164% growth in PAT for the interim period. The closure of the loss making Zambian operation boosted performance. Management's focus has been on turning around non-performing stores, as well as steady expansion in South Africa.

Wilderness Holding's financial year end showed a 14% reduction in operating profit primarily due to higher depreciation costs; this was a result of increased investment in new camps and refurbishment of existing locations. This investment is expected to yield positive occupancy and room rate results once complete. On the other hand, Chobe Holdings' year end operating profit increased 13.8% as occupancies improved and a positive contribution from the aircraft maintenance business. During the year, the company acquired a lodge and three farms on the Northern border of the Central Kalahari Game Reserve.

BTCL results for the year showed an 8% decline in PAT as administrative expenses grew and the effective tax rate increased. Expense growth was driven by a once-off provision for future staff incentive pay, as well as the payment of the last years' incentive pay. This double hit is not expected to recur.

On the corporate actions front, LLR appointed Chikuni Shenjere-Mutsiwa as its CEO, effective May 2018. Barclays Bank of Botswana announced that it will change its name to Absa Bank Botswana following the Barclays PLC and Barclays Africa sell-down.

The Q1 2018 GDP figures point to a 6.5% increase in household final consumption despite the continued pressure in formal sector employment. These consumption growth numbers paint a positive picture of underlying household demand. The potential

review of liquor trading hours, as well as the excise duty charged on locally produced beer, is potentially positive for Sechaba. Despite the positive developments in the consumer sector, we still, however, have our reservations on the sector.

CHART 2:



■ Household Final Consumption (Pm)
 ■ Household Final Consumption growth (%)

• Source: Statistics Botswana

We are cautiously optimistic going into the second half of the year. Government spending is expected to ramp up going into the election year, with a number of construction and maintenance tenders already gazetted. The business-friendly position of the new political dispensation is also encouraging. This may be the positive catalyst the non-mining economy needs to

grow meaningfully going forward. The Bank of Botswana (BoB) Business Expectations Survey also points to improved sentiment around current and future business conditions.

We are of the view that we are in the tail-end of the downturn in the domestic equity market. Sentiment remains weak, with

retail investor liquidations continuing. That said, fundamentals are making a comeback in terms of driving prices and valuations on a number of counters have become compelling. With strong selling pressure and muted demand on certain counters, this remains a buyers' market.

04

MARKET INSIGHTS: LOCAL COMMENTARY - FIXED INCOME AND MACROECONOMICS

Kwabena Antwi
Investment Analyst



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KWABENA ANTWI
Investment Analyst

**MARKET INSIGHTS:
LOCAL
COMMENTARY
FIXED INCOME AND
MACROECONOMICS**

*Expect inflation to increase to the mid-range of the Bank of Botswana's

**3-6%
objective
range**

*Businesses are optimistic about the future with

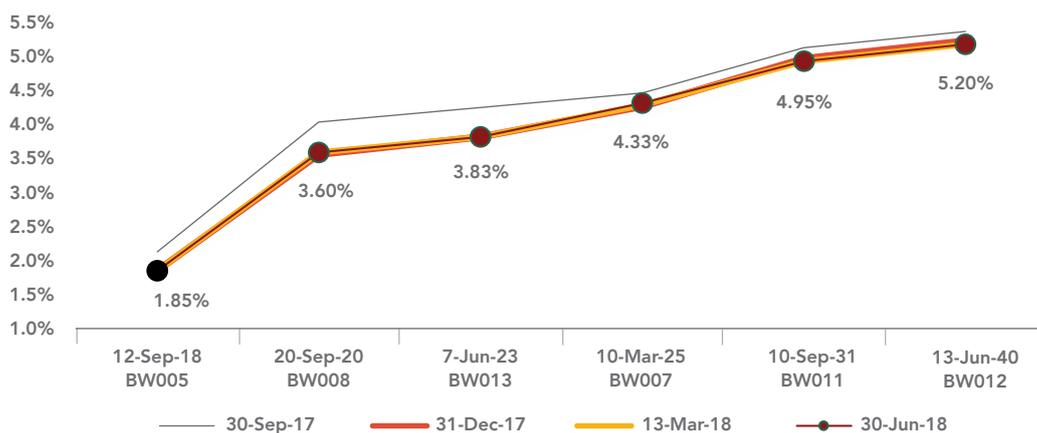
**79%
confident
of trading
conditions**

*2018 to be another year of stable growth with forecast growth of

4.0%

Domestic bond returns were relatively stable as the FABI returned 1.2% for the quarter. The Government bond yield curve remained largely unchanged. The only movement was the BW007 maturing in 2025 which rose by 3bps.

CHART 3: GOVERNMENT BOND YIELD CURVE CHANGES



The June Government Bond and Treasury Bill Auction saw bids of P1,736mn slightly higher than the P1,705mn of bids received in the March auction. The issuance was oversubscribed by P586mn. The most demanded instrument were T-Bills, which were oversubscribed by P250mn.

Inflation continues to stay rooted at the bottom end of the Bank of Botswana’s 3-6% objective range; June inflation was 3.1% y/y. Inflation has declined due to a pullback in food inflation driven by plummeting Bread & Cereals inflation. The main driver of inflation has been increases in administered prices. Excluding administered prices core inflation was at 1.8% in June.

Going forward, we expect inflation to increase to the mid-range of the Bank of Botswana’s 3-6% objective range with risks balanced. The main upside risk relates to increases in administered prices such as water and fuel which may drive inflation

further up. The main risk to the downside emanates from continued tepid domestic demand. We expect the Bank to maintain its current accommodative monetary policy stance in order to support economic growth.

The Monetary Policy Committee (MPC) met once during the quarter, on 19 June. The MPC kept the benchmark rate unchanged at 5.0%, stating that the current state of the economy and the outlook for both domestic and external economic activity suggested that the prevailing monetary policy stance is consistent with maintaining inflation within the Banks 3-6% objective range.

The Bank of Botswana released the results of its Business Expectation Survey for the month of March 2018. The results are encouraging with increases in sentiment around current and future business conditions. 58% of business are positive of current economic conditions, a 14% increase from the 46% recorded in September 2017. Businesses are also optimistic about the future with 79% of businesses confident of trading conditions in the next 12 months, an increase of 15% from September 2017.



December 2017 formal employment statistics were released by Statistics Botswana. The number of people formally employed increased by 1,145 (0.3%) q/q to 410,392. The bulk of employment was added by Government, a total of 860 jobs. Average monthly wages also increased, growing by 2.1% q/q to P6,216.

Grounded, trustworthy.

We expect 2018 to be another year of stable growth; we forecast growth of 4.0% for 2018 following a 4.8% y/y print for the first quarter. Our full year estimate is below the Ministry of Finance and Economic Development’s forecast of 5.3%. The lower growth expectation is on account of more moderate expectations of trade, hotels and restaurants.

Mining is expected to continue its recovery due to resurgence in diamond activity. Diamond demand is largely driven by retail diamond sales in developed markets. Developed market consumers are growing in confidence due to a continued rise in global equity markets, loose monetary policy and US tax reforms. We have seen early signs of this playing out, with Q1 2018

Mining Production Index growing by 12.7% y/y. Diamond production contributed 11.2 percentage points of the growth.

We do not expect the Bank of Botswana to reduce rates further. This is unless inflation continues to trend below its objective range, and this is on account of increases in administered prices.

We have moderately reduced our 2018 year end inflation forecast to 3.7% from 4.2% on account of subdued domestic demand and low food inflation. The key upside risk remains rising administered prices which we expect to increase during the year. Simply put, we do not see any material upside pressures to inflation in the short-to-medium term.





ELIZABETH FERGUSON
Compliance Manager

**BUILDING AN ETHICAL
AND COMPLIANCE
CULTURE**

The importance of ethics in good corporate governance cannot be overemphasised. Ethics is often viewed as the foundation of compliance and aims to ensure that those it regulates behave in a manner that reflects the ethical values of responsibility, accountability and transparency.

Best practice provides that it is the responsibility of top management to implement appropriate governance structures and to provide ethical leadership.

Although this may be true and widely accepted, to truly establish an appropriate ethical culture of compliance, commitment is required from all levels across the

organisation, but how then does an organisation achieve this?

To start with, clearly communicate to employees their compliance responsibilities, encourage ethical behaviour by linking their business objectives with that of compliance and ethics objectives, performance appraisal systems should include an assessment of compliance behaviour.

Employee training should be carried out on a periodic basis with respect to specific regulatory requirements but also

to promote the desired organisational culture, values and beliefs.

Ensure that management is consistent in their messages and actions. The process in which management addresses and resolves issues should be openly communicated and the process applied consistently and in a fair manner. Demonstrating procedural fairness in the office can promote and improve employee trust in management and therefore strengthen commitment to compliance.

Develop Open Lines of Communication: Communication is key, discussions are better than one way directives. Providing employees and stakeholders with a safe

way to report issues is essential for a strong organizational culture. Fear of retaliation is one of the most common reasons that staff refuse to speak up about cases of misconduct.

Many employees exhibit positive compliance and ethics behaviour, however, they are often not shared broadly enough.

By encouraging employees to share ethical principles with one another, leaders can ensure positive behaviours are visible to employees at all levels.

Foster a respectful environment. Employers should work towards creating a workplace environment that encourages managers and employees to take pride in their work and regularly identify with the values that drive the organization as a whole.

Promoting an appropriate compliance culture takes time

and requires an ongoing and effectively planned and implemented change management programme, when all levels of an organisation are party to the change process, the organization, as a whole, will become more inclined to act and work together to build a culture that fosters both compliance and ethics.

Ethical values of responsibility, accountability and transparency.

06

GET TO KNOW OUR TEAM: MEET SHEILA MCHARG

SHEILA PALESA
MCHARG
Operations Analyst



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**SHEILA PALESA
MCHARG**
Operations Analyst

Travel works wonders on your perception of life and has a theraputic feel to it.

Full Name:

Sheila Palesa MchHarg

Role:

Operations Analyst

Number of Years with Kgori Capital:

4 Years

HOBBIES: I enjoy swimming and playing tennis - I find that outdoor sports is a great way to keep fit, de-stress and is the perfect excuse to spend quality time with my friends and family away from our busy lives. I am also a lover of the open road so I take alot of trips to discover new places. Travel works wonders on your perception of life and has a theraputic feel to it.

WHAT SHEILA WOULD DO IF SHE WON THE LOTTERY: If I won the lottery, I would probably do a healthy bit of investing and make sure I set aside enough for furthering my studies. Of course, I would take an amazing vacation and travel during holidays, but ultimately, I would keep working. I am certain that I would be bored without a job and frankly, I am too attached to the success of my career.

AN INSPIRATIONAL PERSON, DEAD OR ALIVE, SHEILA WOULD MOST LOVE TO ENGAGE: I would be honored to meet Malala Yousafzai. She is a Pakistani activist for female education who, at the age of 17, became the youngest person to win the Nobel Peace Prize after surviving an assassination attempt by the Taliban. Protests were held the day after her attack, and over 2 million people signed her "Right to Education" campaign's petition, which led to ratification of the first Right to Education Bill in Pakistan. I find her tenacity and drive in implementing her beliefs incredibly inspiring.

07

COMMITTED TO BOTSWANA, HER PEOPLE AND HER GROWTH



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COMMITTED TO BOTSWANA, HER PEOPLE AND HER GROWTH

At Kgori Capital, we are passionate about Botswana’s growth, and the development of her economy and her people. Indeed, we are committed to working, as a private sector institution aligned to Government’s Vision 2036 and NDP 11, to help realise a truly sustainable, prosperous Botswana.



We are 100% Botswana citizen-owned and run, and proudly so:

Kgori Capital is a home-grown Asset Management Company that has always strived to make an enduring difference. We set out to do better for our country, and this determination only grows stronger. It is our conviction that our intrinsic understanding of the lay of the land here in Botswana provides us a distinct advantage over others.

We are grounded by strong Values:

We are patriots and thus take the responsibility that has been bestowed upon us by so many entities extremely seriously. Our brand promise has always been to “Invest with Pride” and we chose the Kori Bustard as our symbol. This great bird spends 70% of its time on foot. Our Kgori icon remains grounded, symbolising a stable, trustworthy and reliable company. The Kori Bustard is however always on the move, always learning and growing. This is what we, as Kgori Capital, are about.

A truly sustainable, prosperous Botswana

We believe Batswana have the skills, depth of talent and potential to play in a global playing field:

We are proud to employ 10 skilled, experienced and passionate members of our team, all of whom are shareholders in our business and all of whom are Batswana; in fact, they are also predominantly women. They are passionate, young individuals. Together, they wield more than 75 years of combined experience. We lead the best Investment team in Botswana, with 3 CFA Charter holders on our investment team; this is almost 15% of the total number in Botswana.

Thus, our team is one of the most qualified, committed and able in the sector. While the trend in the sector has been a high turnover of staff at asset management companies, we at Kgori Capital have seen a steady growth curve. We are a Botswana business that has always aimed high, and we believe we are a testament to the fact that we as Batswana can make our mark and an evident difference in the market.

A truly sustainable, prosperous Botswana

We are focused and determined for a sound future:

We are passionate and committed to becoming a significant participant in the Botswana investment management industry. We have ambitions to grow the firm in terms of Assets Under Management, number of clients, investment products and distribution channels, all the while working to help shape and grow our sector, and our National economy. We will invest significantly in the development of local skills and capabilities to support these growth ambitions, believing that we as Batswana have much to offer and the requisite skills and abilities to truly deliver.

We are passionate about Botswana's growth, and the development of her economy and her people.







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Kgori Capital (Pty) Ltd is an authorised financial services provider.

