KGORI CAPITAL

INVEST WITH PRIDE

KGORI INSIGHTS

Quarter ended March 2020

2020 | Botswana's leading citizen-owned and run Asset Management firm

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"In the business world, the rear-view mirror is always clearer than the windshield."

– Warren Buffet

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PRESENTING OUR 2020 Q1 KGORI CAPITAL INSIGHTS

Dear Colleagues, Clients, and Friends of Kgori Capital,

I hope our 2020 first quarter Insights find you in good spirits and taking care during this unprecedented and challenging time as countries the world over are grappling to protect their citizens in the face of the Coronavirus (COVID-19) pandemic.

As Kgori Capital, we continue to do our best to work through this period and to continue to deliver to our stakeholders with PRIDE. In this spirit, I am pleased to share this Q1 issue with you of our Kgori Insights, a platform dedicated to sharing key thoughts and information, while keeping our readers up to date with the latest developments regarding our local and global markets.

For the first quarter of 2020, we cemented our commitment to introducing new solutions and platforms designed to add value to our customers. To this effect, we launched the Kgori Secure Services, an online transaction platform that is the first of its kind in Botswana. The service is a secure web-based solution that allows Kgori Capital Unit Trust investors to transact online. Now, more than ever before, digital platforms are paramount to enabling continued operations and functionality for our clients, and we are pleased to have launched this well before it became a true necessity.

In addition, we also received very exciting news as the Directorate of Public Prosecutions ("DPP") withdrew charges related to the ongoing NPF case against Kgori Capital Directors, Ms. Sharifa Noor and Mr. Alphonse Ndzinge. The charges against both were subsequently formally withdrawn by a Judge Order on 24th March 2020. This, to the Kgori Capital family, means that we look forward to our future with renewed hope, ambition and focus to serve our clients with PRIDE, putting this matter to bed and well behind us. The future ahead is our priority, and to this we remain as committed as ever.

As a business and as a team, we join the rest of the world in keeping a close eye on all the developments since the outbreak of COVID-19 in December 2019. The impact of the pandemic cannot be understated, both locally and internationally. In this issue, we explore in depth the economic impact of the pandemic, leveraging our economic insights to unpack what the future may hold.

As we navigate through these challenging times, Kgori Capital remains a proudly Botswana business cognisant of our role in the development of Botswana and her people. We are also steadfast in playing a meaningful role in transforming our industry, now and well into the future. **Now is very much a time for unity – together we can beat COVID-19 and together we can build an even more resilient Botswana, in terms of our people, our markets and our story.**

Thank you for taking the time to peruse this issue, and we look forward to sharing more in 2020. Please stay safe and stay well.

Best,

Kennedy Melamu
Chairman

CONTENTS

Quarter ended March
2020

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

Building investment solutions for the real development needs of our country

"It should now be our intention to try to retrieve what we can of our past. We should write our own history books to prove that we did have a past, and that it was a past that was just as worth writing and learning about as any other. We must do this for the simple reason that a nation without a past is a lost nation, and a people without a past is a people without a soul."

- Sir Seretse Khama, speech at the University of Botswana, Lesotho and Swaziland, 15 May 1970

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01

MARKET INSIGHTS: GLOBAL MARKET REVIEW

Alphonse Ndzinge
Managing Director

Alphonse Ndzinge
Managing Director

MARKET INSIGHTS: GLOBAL MARKET REVIEW

- **Global Equities were incredibly volatile during the period and closed the quarter down 21.3%;**
- **Around the world, both monetary and budgetary policymakers launched aggressive measures; and**
- **Uncertainties prevail as long as the COVID-19 contagion has not reached a peak in major countries.**

MARKET REVIEW

The first quarter of 2020 was completely engulfed with the impact of the COVID-19 outbreak and its subsequent spread. The economic effects of stifled global business supply chains, canceled events and travel plans, and an endangered workforce were not lost on the financial world and global capital markets.

In local currency terms, Global Equities were incredibly volatile during the period and closed the quarter down 21.3%, the most since the Global Financial Crisis (GFC). MSCI Developed Markets and MSCI Emerging Markets were down 21.0% and 23.6% respectively.

South African assets and the Rand were hit harder by the global sell-off than most emerging markets. This was due to the already-fragile state of the economy. However, Pula weakness from the Rand sell-off helped to cushion the decline of international asset prices.

The price of Brent crude oil was hammered by both expectations of slowing demand and the start of a price war between OPEC and Russia, in which Russia refused to agree with OPEC's demands to lower its production targets to prevent oversupply. The oil price plummeted by 65.6% during the quarter, starting at approximately US$67 per barrel and then hitting a low of under US$25 per barrel before rebounding to end March at around US$34 per barrel.

Around the world, both monetary and budgetary policymakers launched aggressive measures to avoid a credit crisis in addition to the ongoing humanitarian crisis to protect labour markets and support a demand-driven recovery. Policymakers turned to a 'whatever it takes' approach. For instance, the US Federal Reserve not only implemented its GFC playbook, but also took a chapter from the European Central Bank by preparing to become both the lender of last resort for the economy as well as the buyer of last resort in bond markets. Initially, global bonds rose sharply in response to falling interest rates and expectations of further rate cuts. Citi World Government Bond Index closed the quarter up 2.0%

MARKET PERFORMANCE TO 31 MARCH 2020 (LOCAL CURRENCY)

Market	3 months (%)	12 months (%)
Global		
MSCI World	-21.27%	-10.78%
MSCI World (Dev mkts only)	-20.95%	-9.88%
MSCI Emerging mkts	-23.59%	-17.42%
MSCI Dev. Ex US & Canada	-22.76%	-13.95%
Citi World Government Bond Index	2.00%	6.17%
South Africa		
SWIX	-23.25%	-20.84%
ALSI	-21.36%	-18.33%
CAPI	-22.83%	-20.05%
ALBI	-8.72%	-2.99%
Americas		
Dow Jones	-22.73%	-13.38%
S&P 500	-19.60%	-6.99%
NASDAQ	-13.91%	0.78%
Mex IPC	-20.45%	-17.90%
IBOVESPA	-36.86%	-23.47%
Europe		
Eurostoxx	-25.26%	-13.90%
Stoxx Europe 600	-22.52%	-12.62%
DAX	-25.01%	-13.80%
FTSE 100	-24.04%	-18.69%
CAC 40	-26.15%	-15.04%
SMI	-11.01%	1.80%
INEX 35	-28.60%	-23.60%
Asia		
NIKKEI	-19.29%	-8.92%
Shanghai Shenzen CSI300	-10.02%	-2.66%
Shanghai Stock Exchange Composite	-9.83%	-8.84%
HANG SENG	-16.12%	-15.98%

- Source: Bloomberg

MARKET OUTLOOK

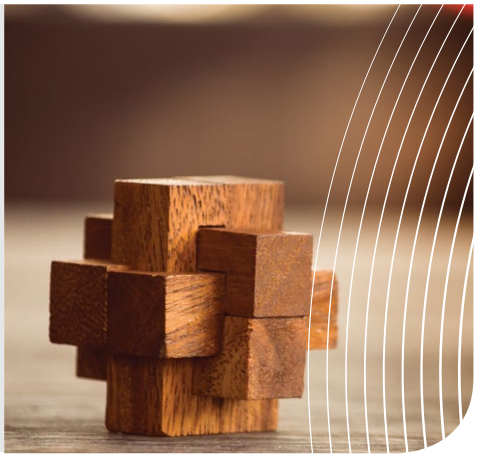
The outlook for the global economy has deteriorated significantly during the last month, given the ongoing severity and reach of the COVID-19 pandemic.

A severe downturn is already evident across all developed countries. A gradual stabilisation and recovery are only expected in the second half of the year. Notably, there are already early signals of a recovery building in China.

We expect to see a reduction in market volatility from April, compared to the extreme levels seen in March, in response to significant fiscal and monetary stimulus. That said, uncertainties prevail as long as the COVID-19 contagion has not reached a peak in major countries. Given the nature of this shock and the fact that there is no historical precedent, economic growth forecasts remain highly fluid and are subject to significant downside risks. They will mostly depend on the actual depth and duration of the economic downturn. There is no doubt that the containment and social distancing measures implemented will have a huge and negative impact on macroeconomic fundamentals.

Composite PMIs	2018												2019												2020		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Japan	52.8	52.2	51.3	53.1	51.7	52.1	51.8	52.0	50.7	52.5	52.4	52.0	50.9	50.7	50.4	50.8	50.7	50.8	50.6	51.9	51.5	49.1	49.8	48.6	50.1	47.0	36.2
Germany	59.0	57.6	55.1	54.6	53.4	54.8	55.0	55.6	55.0	53.4	52.3	51.6	52.1	52.8	51.4	52.2	52.6	52.6	50.9	51.7	48.5	48.9	49.4	50.2	51.2	50.7	35.0
France	59.6	57.3	56.3	56.9	54.2	55.0	54.4	54.9	54.0	54.1	54.2	48.7	48.2	50.4	48.9	50.1	51.2	52.7	51.9	52.9	50.8	52.6	52.1	52.0	51.1	52.0	28.9
Eurozone	58.8	57.1	55.2	55.1	54.1	54.9	54.3	54.5	54.1	53.1	52.7	51.1	51.0	51.9	51.6	51.5	51.8	52.2	51.5	51.9	50.1	50.6	50.6	50.9	51.3	51.6	28.9
China (Caixin)	53.7	53.3	51.8	52.3	52.3	53.0	52.3	52.0	52.1	50.5	51.9	52.2	50.9	50.7	52.9	52.7	51.5	50.6	50.9	51.6	51.9	52.0	53.2	52.6	51.9	27.5	46.7
US	53.8	55.8	54.2	54.9	56.6	56.2	55.7	54.7	53.9	54.9	54.7	54.4	54.4	55.5	54.6	53.0	50.9	51.5	52.6	50.7	51.0	50.9	52.0	52.7	53.3	49.6	40.9

Rest assured that we continue to seek to manage risks as well as exploiting opportunities presented by the shifting landscape in global markets, especially as uncertainty about the medium-term outlook remains high. Active and disciplined risk management is critical in the environment. This is in line with the Kgori Capital philosophy and investment approach, one which clients continue to trust and rely upon, as backed by experience, insight and expertise, and firmly buttressed by our **PRIDE** Values.



It is true that not all heroes wear capes, but now we know for certain that most wear masks. Kgori Capital celebrates the many essential services and front-line staff fighting each day to keep our Nation safe.

Re a leboga!

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02

MARKET INSIGHTS: LOCAL COMMENTARY - EQUITY

Tshegofatso Tlhong
Portfolio Manager

Tshegofatso Tlhong
Portfolio Manager

MARKET INSIGHTS: LOCAL COMMENTARY - EQUITY

- **The current situation that is facing the global economy and financial markets is unprecedented;**
- **In efforts to combat the recessionary impact of the extreme social distancing, several interventions have been announced on the monetary and fiscal policy fronts; and**
- **Our bottom up model estimates imply a double-digit contraction for DCI earnings in 2020 before a recovery in 2021.**

MARKET REVIEW

The Domestic Companies Index (DCI) started the year on a positive note, advancing 0.6% for the quarter on a total return basis. This contrasted with all other global markets that ended the quarter with significant losses on the back of Covid-19 recessionary fears. On a total return basis, the largest gainers for the quarter were Letshego with a 19.7% return, and Letlole La Rona (LLR) returning 7.8%.

Sefalana kicked off earnings season with a good set of interim results. Revenues and earnings per share (EPS) grew by 11.4% and 13.4% respectively as margin management and cost control initiatives bore fruit. On the other hand, CA Sales' EPS for the full year period increased by 22.5% on the back of continued organic growth.

In other consumer related sector developments, Sechaba's full year EPS was 1.9% lower despite a 21.0% increase in overall volumes and improved operational performance. The disconnect was due to a once-off levy refund received in FY2018. Furthermore, the Group made changes to its Board and structure; notably, Mr. Thabo Mathews was appointed as substantive Managing Director.

On the property front, LLR's EPS reduced by 13.4% due to cash drag as proceeds from the sale of the Group's hospitality properties are yet to be fully deployed. FAR Properties reported flat EPS for the interim period despite a 5.7% increase in operating profit as the number of shares in issue increased. Also, RDCP full year earnings increased by 3.6%, in line with rental revenue growth.

In the banking industry, First National Bank Botswana (FNBB) registered EPS growth of 12.5% for the interim period.

The performance was underpinned by a 10.0% growth in non-interest income and the Bank's ability to attract cheaper transactional deposits which reduced the cost of funding. Barclays Bank of Botswana Limited officially changed its name to Absa Bank Botswana Limited. The Bank's EPS increased by 14.5% on the back of broad-based improvements across key areas. BancABC's EPS was 5.0% lower than the previous period as the net interest margin compressed and non-interest income was lower than the previous period. StanChart reviewed results showed a 133.0% growth in full year EPS to 18.62t on the back of expanding net interest margins. Both BancABC and StanChart continue on their transformation journeys.

Likewise, Letshego Holdings Limited Group released reviewed full year results that showed a 41.1% increase in EPS for the period. This performance was driven by a 53.2% reduction in impairments and a reduction in the Group's effective tax rate. During the first quarter, the Group made several executive appointments, including the appointment of Mr. Andrew Fening Okai as Group CEO. The BIHL Group's EPS for the full year increased by 17.0% to P1.58 driven by 169.0% increase in share of profits of Associates and Joint Ventures (JVs).

On the contrary, Cresta's full year EPS declined 17.3% due to the inclusion of depreciation and finance expense post the acquisition of 5 properties from LLR. Engen reported flat full year EPS as volume growth was negated by above inflation cost growth. The Company's liquidity position improved significantly, as National petroleum slate under-recoveries owed to Engen by the Government were paid in full.

Property counters dominated corporate actions for the quarter. Some key highlights for the period include PrimeTime entering into an agreement to acquire Lot 14076 Lobatse from Time Projects with the intention to develop a shopping centre thereon. The estimated contract price for the development is P106.2mn, with a guaranteed net return of 8.0% in the first year of operation. The Company engaged in funding roadshows to raise funds through a rights issue and a debt issuance.

LLR also entered into an agreement to buy a portfolio of 6 industrial properties from Western Industrial Estate, a company wholly owned by Botswana Development Corporation (BDC). This was for the consideration of P174.4mn and an initial net yield of 9%. The acquisition will increase the Company's gross lettable area by 34,104m2.

Moreover, RDCP acquired Tribal Lot 14154 in Tlokweng for the sum of P4.3mn. The plot is 1.1ha in size and will be re-developed by the Company. The Company additionally issued P52.15mn worth of bonds under its P500mn Medium Term Note Programme; this represents 69.5% of the P75mn intended raise.

Another key highlight was Choppies' appointment of Mazars as auditors to the Company and its subsidiaries, following the resignation of PWC. It is anticipated that the 2019 Annual Financial Statements will be completed and released by 30 June 2020. Additionally, the Group released a circular to update shareholders on several pending issues. Key takeaways were as follows:

- The CEO's employment contract has been reviewed and salary cut by 43.0%;
- A Group CFO has been appointed and a Deputy CEO identified;
- CDC, a 100% subsidiary of the Group in Botswana, instituted liquidation proceedings against Payless, who owes CDC P121mn and previously signed a P111mn acknowledgement of debt;
- Lenders agreed to hold off making demand for immediate payment of P680mn of debt following various instances of default and breach of covenants. This agreement was made on the provision that the Group made an immediate reduction in the loan capital outstanding and sold non-performing businesses, particularly those in South Africa within an agreed time frame.
    - Choppies has exited the Mozambique and Tanzanian markets. In Kenya, operations have been scaled down to 2 stores and efforts are being made to sell equipment to local operators and/or existing landlords to clear some of the outstanding liabilities;
    - The sale of the Group's South African subsidiaries to Kind Investments has been concluded; and
    - The Group repaid P150mn worth of debt; P100mn of which was from a shareholders' loan granted to the Group by the founding shareholders.

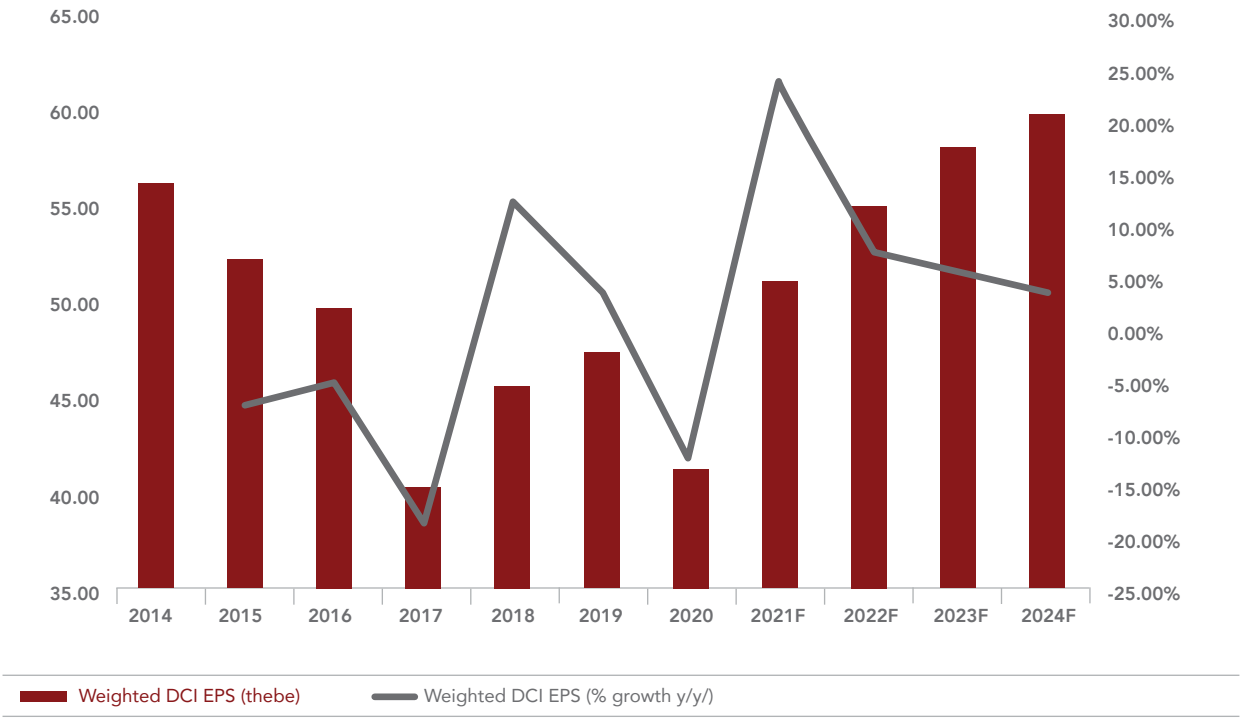
In mining, Minergy issued 38.9mn new shares, representing a debt to equity conversion by one of the Company's creditors. The shares were issued at a price of P0.99 per share.

MARKET OUTLOOK

As we look back, for most of 2019, we highlighted that the local equity market was cheap relative to historic valution levels.

Structural issues that had constrained market participation had unravelled and sentiment was less negative. However, a positive catalyst was required to turn price momentum positive. As the market anticipated a positive catalyst, we experienced the outbreak of the COVID-19 pandemic. We have since seen several countries globally go into lockdown, and by extension partial economic shut-down. Locally, discretionary spending has been completely halted. For now, our bottom up model estimates imply a 13% contraction for listed company earnings in 2020 before a recovery into 2021.

CHART 1: DOMESTIC COMPANY INDEX - EARNINGS PER SHARE (MARKET CAP WEIGHTED)



- Source: Kgori Capital Analysis, BSE

02

In efforts to combat the recessionary impact of the 'Extreme Social Distancing', several interventions have been announced on the monetary and fiscal policy fronts. On the monetary policy front, the Bank of Botswana (BoB) has taken a liquidity easing position with interventions being:

- The tenor of the Repo facility with the Bank has been extended from an overnight facility to a 92-day facility. The cost of the facility has also been reduced to the Bank Rate from Bank Rate +6 percentage points. The collateral pool for facilities has also been expanded to include listed corporate bonds.
- Additionally, BoB will exercise regulatory forbearance in the assessment of non-performing loans (NPLs) and determination of expected credit losses.

During this period, we expect the banking sector to remain adequately liquid and a spike in the cost of funding should be averted. This should encourage banks to keep extending facilities at current market rates as margins will be maintained. Additionally, there is room for restructuring of loans to allow for repayment holidays of up to 6 months to ease the burden on qualifying households without negatively impacting the banking sector impairment ratios and Non-Performing Loans (NPLs). These measures provide some temporary reprieve for households and safeguard the profitability of the banking sector. However, to jump-start the economy, discretionary household spending will need a boost post the lifting of the State of Emergency and this can only be achieved with an interest rate cuts which increases disposable income in the economy.

On the fiscal policy front, the focus is on the preservation of jobs. To this end, the Wage Subsidy is the main tool. The proposed subsidy is 50.0% of the basic salary of citizen employees up to a maximum of P2,500. It is evident that the aim is to provide for essentials such as food. As a result, companies will not be allowed to retrench any staff for the duration of the State of Emergency, unless the Company ceases operation. Unfortunately, the informal sector is excluded from this intervention as the Company must be registered for tax to qualify. In addressing the informal sector challenge, social support services will have to step in to cater for this segment of the population. The fast-moving consumer goods sector stands to benefit the most from this.

Telecommunications is another sector that is set to benefit as the 'lockdown' necessitates working from home as the demand for Internet, both fixed and mobile, increase exponentially. We expect voice traffic to also invariably pick up as well as the average revenue per user as a result of this.

We are in the early containment phase of the viral outbreak locally and it is not clear how our infection curve will progress. An economic stimulus package is still being constructed by the fiscus. However, given the 21.8% reduction in budgeted fiscal revenues the scope of the package may be limited as government balances the need for spending with fiscal prudence. A rise in unemployment and negative wage growth is expected in the near-term due to pressure on corporates and the postponement of the second phase of the civil service salary increment.

Looking ahead, the self-imposed economic shut-down will have a lasting impact on the economy as the shape and pace of recovery will wholly depend on how long the shut-down lasts both locally and internationally. The situation is fluid but what we do know is that we expect to see some level of permanent destruction in economic activity going forward.

Moreover, how we do business and function as a society will forever be impacted by this unprecedented black swan event. We anticipate that many will have very colourful stories to tell future generations once this is all over as we all work to make the best of the circumstances around us and any opportunities that may emerge in this very fluid time.

As we continue to keep a close eye on the developments, we remind all friends, families, colleagues and stakeholders to remain calm and be safe. Together, we can beat COVID-19.

INVEST WITH PRIDE

03

MARKET INSIGHTS: LOCAL COMMENTARY - FIXED INCOME AND MACRO

Kwabena Antwi
Portfolio Manager

Kwabena Antwi

Portfolio Manager

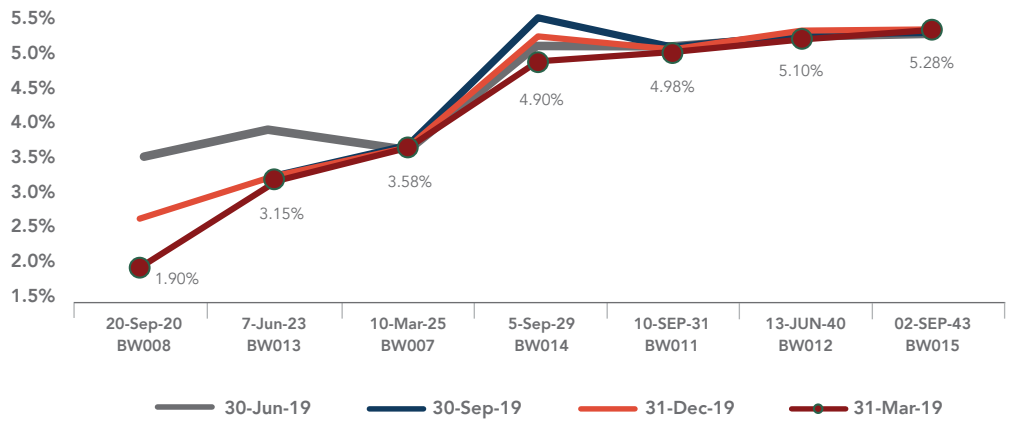
MARKET INSIGHTS: FIXED INCOME AND MACRO

- Local bonds (FABI) bucked the trend of the global market sell-off, returning 1.4% for the quarter.
- We expect inflation to remain below the lower bound of the Bank of Botswana's 3.0%-6.0% objective range with risks balanced.
- We have significantly revised our 2020 GDP growth expectation. We now expect a contraction of 13.1% from an anticipated expansion of 4.0% at the start of the year.

MARKET REVIEW

Local bonds (FABI) bucked the trend of the global market sell-off, returning 1.4% for the quarter. We also saw the Government Bond par yield curve shift downwards on increased demand. The yield on BW008, BW013, BW014, BW011 and BW012 declined by 70bps, 5bps, 28bps, 2bps and 10bps respectively. The yield on the BW007 and BW015 remained unchanged.

CHART 2: GOVERNMENT BOND YIELD CURVE CHANGES

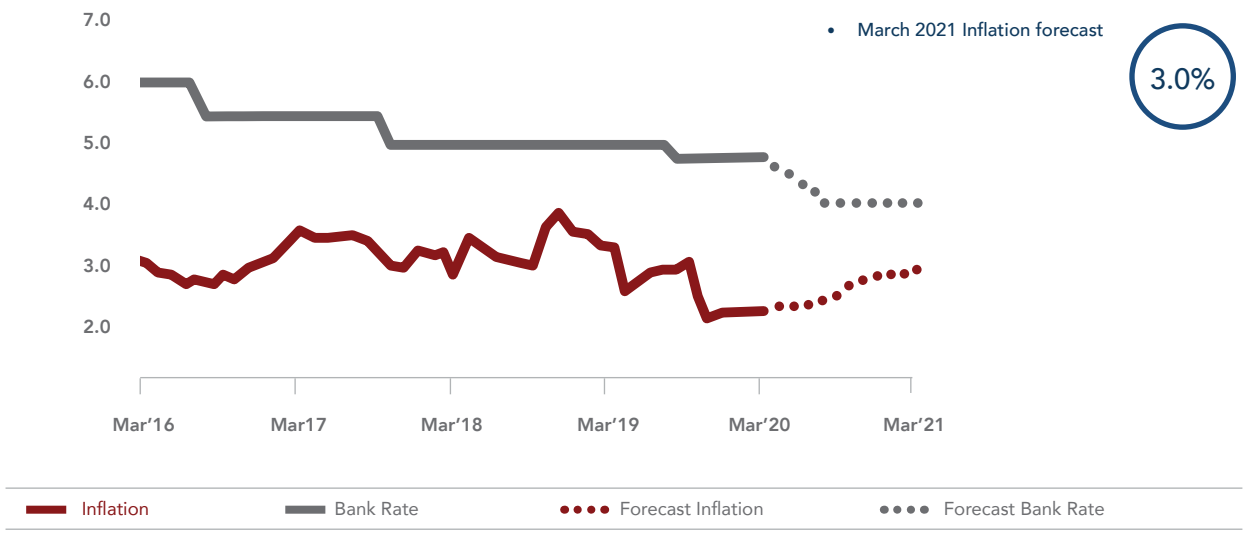


- Source: FABI, Kgori Capital

The February Government Bond and Treasury Bill Auction saw bids of P2,341mn, slightly lower than the P2,480mn of bids received at the last auction in November 2019. Overall, issuance was oversubscribed by P1,041mn. The most demanded instrument was again the BW014 Government Bond; oversubscribed by P556mn.

Inflation remained lacklustre and continued trending below the lower bound of the BoB's 3.0%-6.0% objective range. March inflation came in at 2.2% and remains tepid due to a low housing (1.5%) and transport inflation (0.8%). The lack of administered price increases in the first quarter of 2020 also held back inflation. Inflation, excluding administered prices was 2.7% in March, 0.5% higher than headline inflation.

CHART 3: BOTSWANA CPI (Y/Y %)



- Source: Statistics Botswana, Kgori Analysis

03

The Monetary Policy Committee (MPC) met once during the quarter on 26 February 2020. The MPC left its benchmark interest rate unchanged at 4.75% despite inflation trending below its 3.0%-6.0% objective range. The MPC believes inflation will revert to within its objective range in 2Q20.

Credit growth recorded in January 2020 was 8.6% year-on-year (y/y) driven by household credit which grew by 14.4%. Business credit growth continued to contract but at a lower rate, registering a 3.3% contraction compared to a 4.9% contraction in December 2019.

Gross Domestic Product (GDP) statistics released indicated that the economy grew 3.0% in 2019, down from the 4.5% growth recorded in 2018. The deceleration in growth was due to the slowdown in Mining, which declined from 7.6% in 2018 to -3.9% in 2019. The 2019 fourth quarter mining production statistics revealed that overall mining production contracted by 7.9% in 2019. Unstable commodity prices resulted in all the minerals registering negative year-on-year growth rates. The main detractor was diamond production which declined by 7.0% y/y on account of initiatives taken in the industry of reducing bulky production in order to align output to the trading conditions in the diamond market. Furthermore, trade statistics indicated a surplus of P0.3bn in January 2020. On a last 12-month rolling (LTM) basis, the trade balance stood at a deficit of P14.6bn. The main driver of the trade deficit is a reduction in the diamond trade which declined by 24.3% on an LTM basis to P31.4bn in January.

There were several unprecedented policy interventions and responses announced to the COVID-19 health crisis. These interventions include providing the fiscal and monetary stimulus to support the economy. The initial intervention put forth was the declaration of a State of Emergency and Extreme Social Distancing to stifle the spread of COVID-19 by the President of the Republic of Botswana, H.E. Dr. Mokgweetsi E. K. Masisi. The minimum duration of the State of Emergency (SoE) was 28 days, beginning on 2 April 2020. The SoE was later extended to 6 months, following endorsement by Parliament on 9 April 2020.

The Central Bank, Bank of Botswana (BoB), then announced capital relief and additional liquidity measures to enable commercial banks to address liquidity challenges during the current market environment and to continue to support economic activity. The minimum capital adequacy requirement was reduced to 12.5% from 15.0%; the cost of borrowing from the Credit Facility was reduced to the Bank Rate from Bank Rate plus 600 bps; repo facilities that were available only on an overnight basis will be offered against eligible securities with outstanding maturities of up to 92 days; and the collateral pool will be extended to include corporate bonds listed and traded on the Botswana Stock Exchange (BSE). These policy measures were effective from 1 April 2020 except for the collateral pool, whose details will be communicated later.

The Ministry of Finance and Economic Development (MFED) also released guidelines for a package of fiscal interventions to mitigate the potential negative impact of the COVID-19 pandemic on the economy of Botswana. MFED was guided by Presidential Directive to seed the Fund by mobilising P2.0bn through transfers from Special Funds and appropriation from the Consolidated Fund. Moreover, additional funding will be mobilised from the private sector and development finance institutions. The interventions are targeted on sectors, firms and households that have suffered the greatest adverse impact from the restrictions imposed to suppress the spread of the virus.

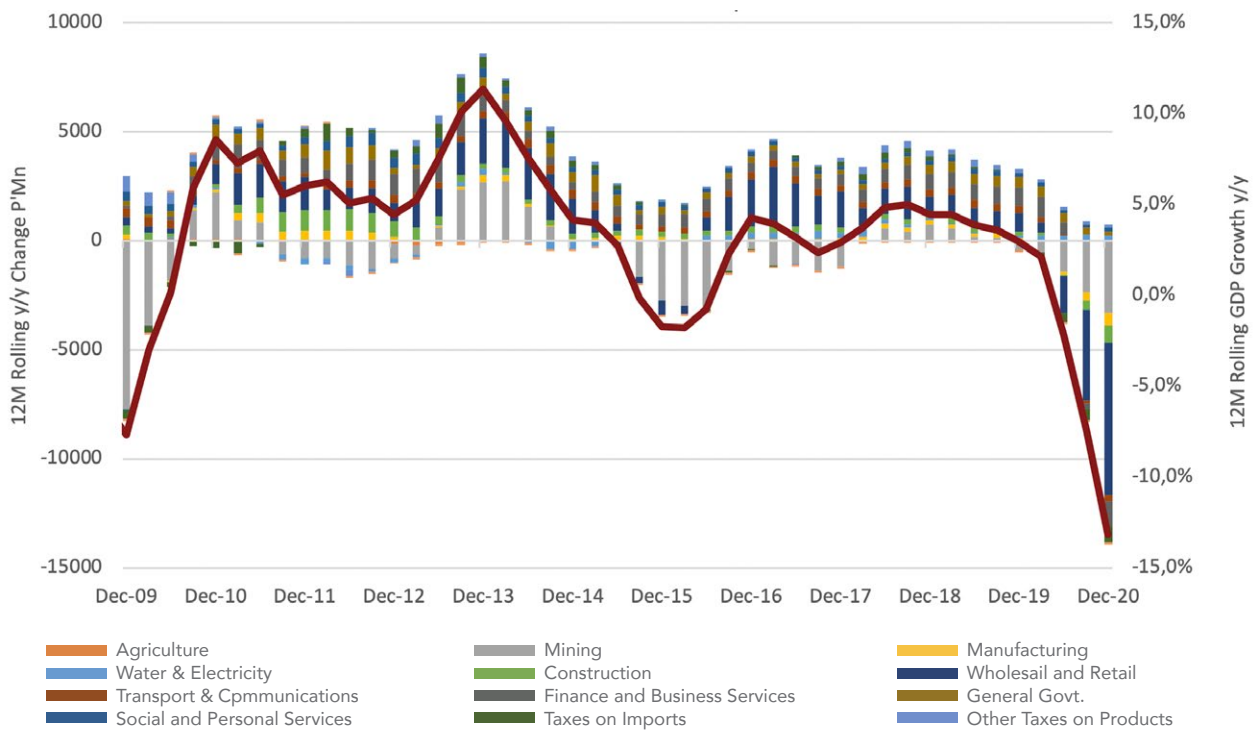
03

MARKET REVIEW

GDP

Making economic forecasts against this backdrop is inevitably fraught with difficulty, both in terms of the near-term damage and the pace of improvement once the pandemic is contained. As we focus on the future, we have significantly revised our 2020 GDP growth expectation. We now expect a contraction of 13.1% from an anticipated expansion of 4.0% at the start of the year. This is in line with Government forecasts. We expect COVID-19 to significantly impact the economy in 2020. The impact will be twofold; the first is Government's interventions to stem the spread of the virus, while the second is the expected decline in global confidence which will impact commodity prices and demand. As a result, we expect Mining and Wholesale & Retail Trading to decline significantly in 2020.

CHART 2: BOTSWANA GDP GROWTH COMPOSITION



- Source: Statistics Botswana, Kgori Analysis

INTEREST RATES

There appears to be consensus amongst policy makers that fiscal interventions that inject money into the local economy, directly in the hands of the firms and households that need it would be more effective than monetary interventions in supporting the post COVID-19 economic recovery. Generalised monetary policies such as benchmark interest rate cuts are viewed to be more useful as a signalling device to support confidence but are unlikely to stimulate spending and aggregate demand. That said, we still expect the BoB to proceed with another set of interest rate cuts within the next 12 months in order to support economic growth. The August 2019 rate cut by the BoB was done to support growth now that the Bank feels expectations of stable and low inflation are well anchored. With economic growth expected to decelerate more in 2020, the prospect of further interest rate cuts has increased. We expect interest cuts of at least 50bps.

INFLATION

Going forward, we expect inflation to remain below the lower bound of the Bank of Botswana's 3.0%-6.0% objective range with risks balanced. The main upside risk relates to further increases in administered prices such as water and electricity. A 22.0% increase in electricity tariffs is already effective from 1 April 2020. Inflationary pressure could also emerge from resurgent food inflation driven by dry weather conditions or supply disruptions brought on by COVID-19 interventions. On the other hand, the main risks to the downside are fuel prices and continued lacklustre domestic demand exasperated by interventions announced by Government to fight the spread of COVID-19. We expect the Bank to maintain its current accommodative monetary policy stance to support economic growth.

"It's not hard to make decisions when you know what your values are."

- Roy Disney

"Your pride for your country should not come after your country becomes great; your country becomes great because of your pride in it."

- Idowu Koyenikan

INVEST WITH PRIDE

04

GETTING TO KNOW THE KGORI CAPITAL ENHANCED CASH FUND

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Our investment philosophy has always served us well at Kgori Capital. More importantly, it has always served our valued clients well. One can expect nothing less from our Enhanced Cash Fund, which applies a diversified income approach to generate a money market portfolio that delivers attractive risk adjusted returns, while maintaining an emphasis on liquidity, high credit quality and capital stability.

The Fund, established in August 2018, permits a minimum investment of P10,000 lump sum, or P1,000 monthly debit order.

When you choose the Kgori Enhanced Cash Fund, we ensure that we invest with PRIDE on your behalf in investment-grade counter parties such as top tier commercial banks and large corporates.

Earn a higher level of income on surplus cash while enjoying the flexibility of a highly liquid investment – it sounds like the perfect **harmony** to us, just as it should be.

We find ourselves distanced during this time, and yet not distant; staying apart, and yet never in heart and never in passion. The Kgori Capital Board, Management and Staff share our heartfelt wishes to all colleagues, clients and stakeholders to stay well and stay safe during this time. Ours has always been a business with a firm resolve to look into the future and to build a better tomorrow. We are stronger together, and together we will rise again.

"The future belongs to those who believe in the beauty of their dreams."

- Eleanor Roosevelt

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