



INSIGHT

Investment perspectives from the Harvard House Group

4½ REASONS TO BE OPTIMISTIC

But 2017 is not without risks

Michael Porter

Harvard House Investment Management

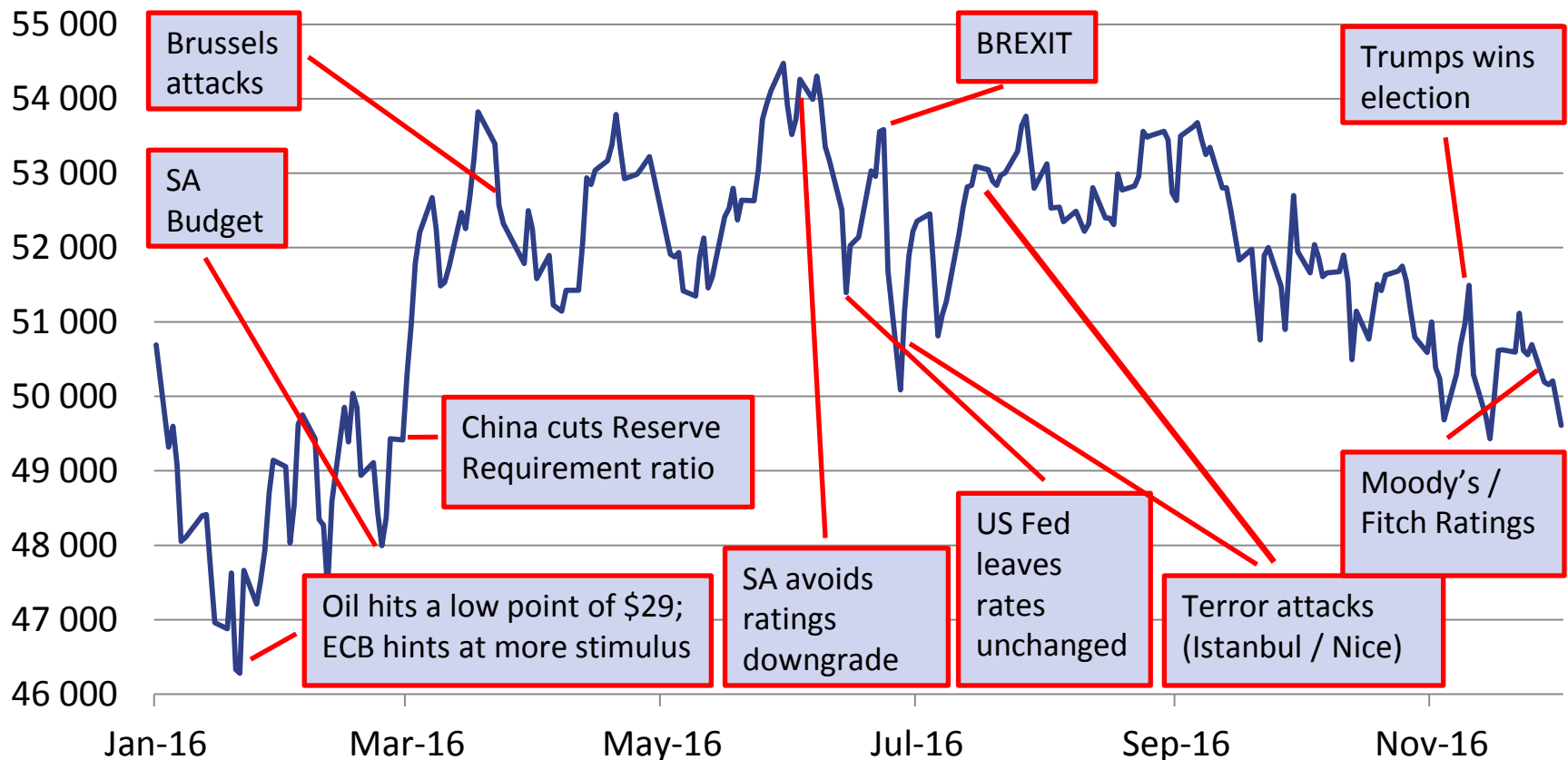
November 2016



2016 – The Chinese year of the monkey








Politics has dominated the headlines

JSE All Share Index



Our report card

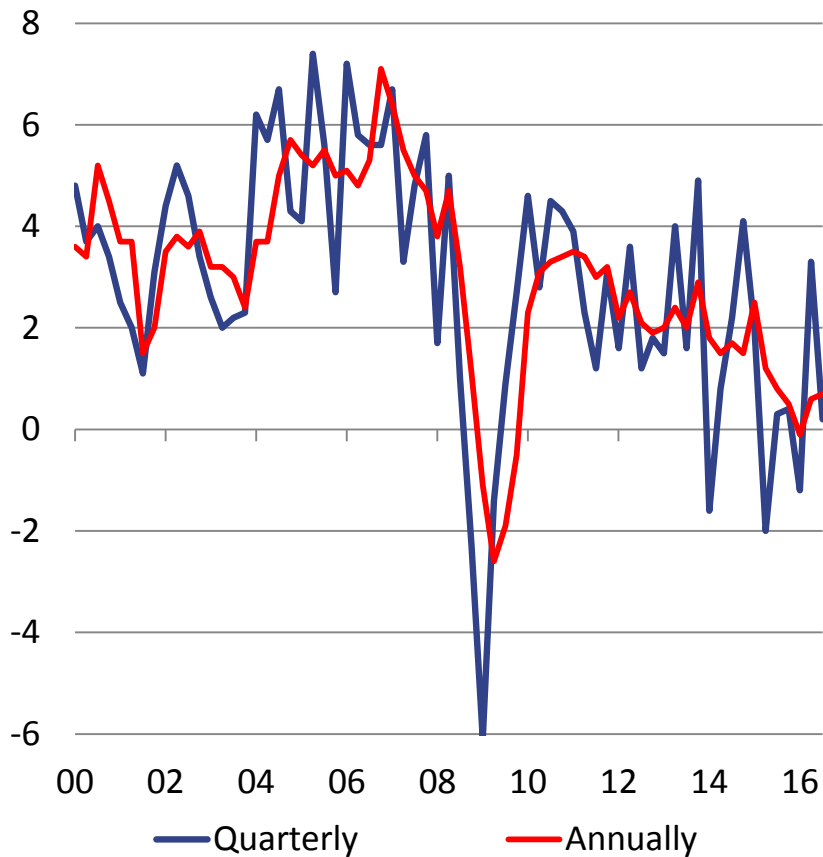
Our predictions for 2016 – did we get it right?

Our prediction	Outcome	Report Card
Do not expect strong returns. Adjust expectations lower.	YTD: JSE All Share Index: +0.6%	
Stock picking will be important		
- Datatec	YTD: -12%	
- Investec Australia	YTD: +9%	
- Mr Price	YTD: -21%	
- Nedbank / Standard Bank	YTD: +27% / +38%	
- Sanlam	YTD: +5%	
Investment income will be more important than ever	JSE Price Return: -2% JSE Income Return: +2.6%	

Taking stock

GDP growth and profit growth are both weak For now

SA GDP Growth



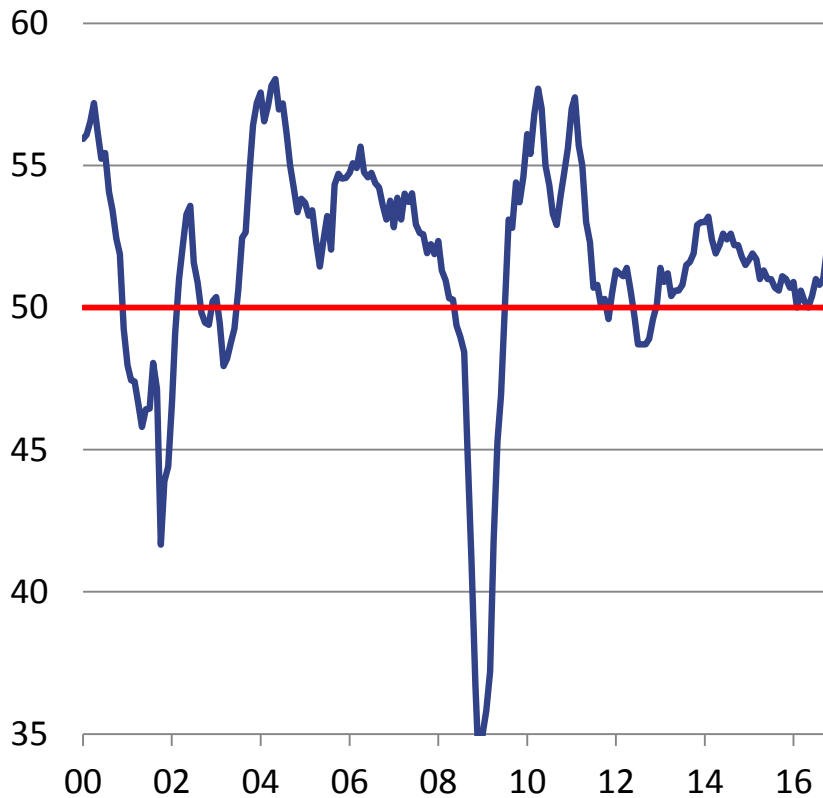
JSE Earnings Growth



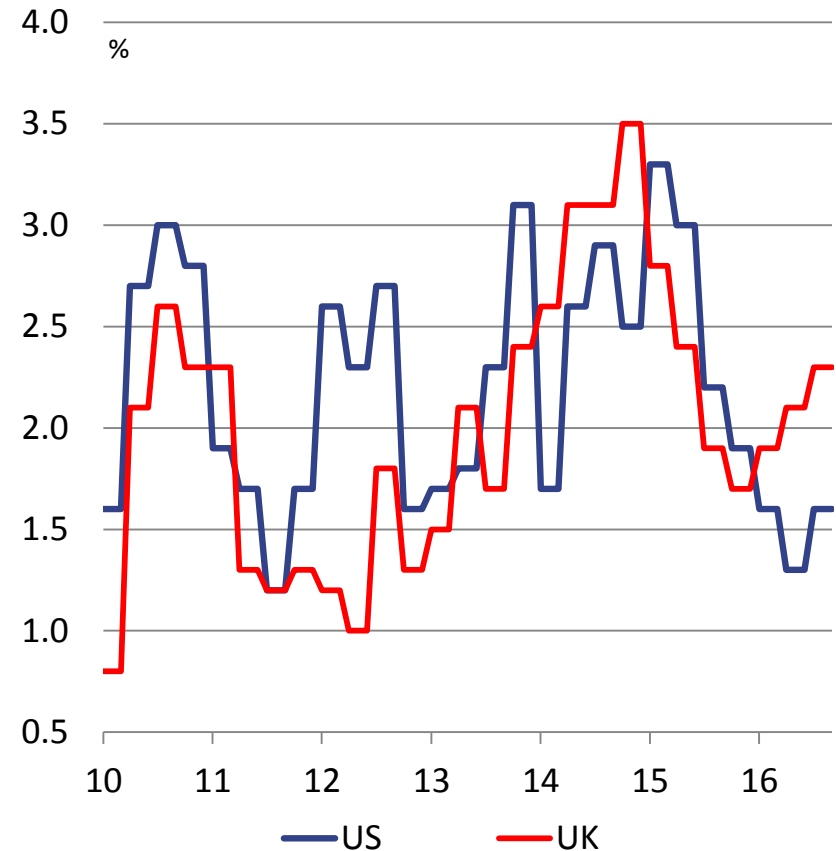
#1: Global tailwind

Trump may actually be a blessing in disguise

Global Manufacturing Index



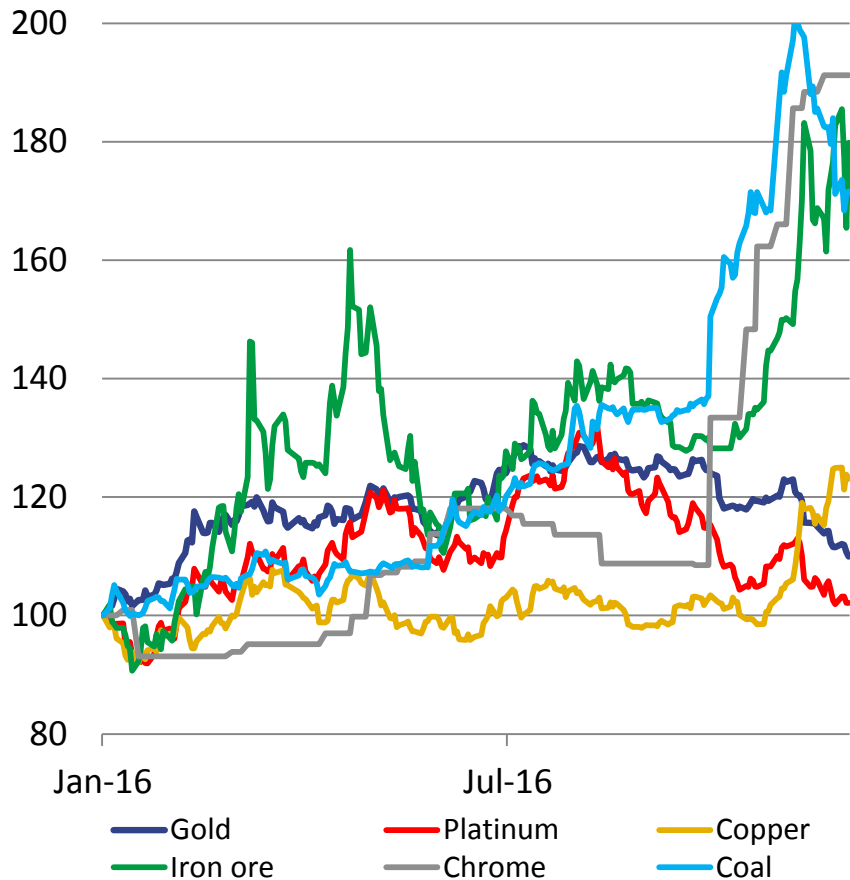
US / UK GDP Growth



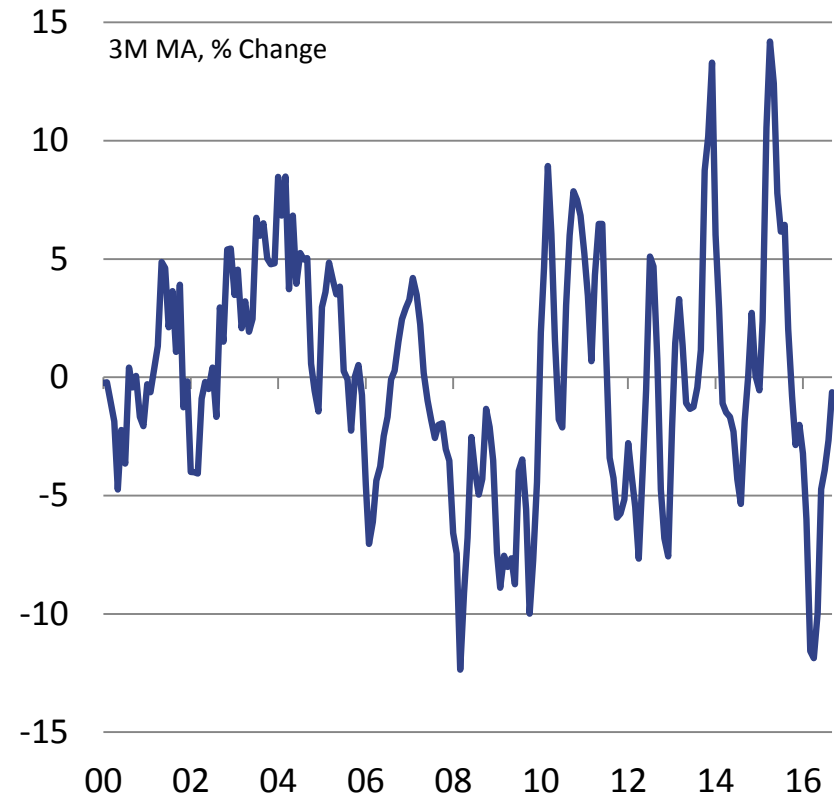
#2: Commodity revival

Higher prices are fuelling volume growth

US Dollar vs Commodity Prices



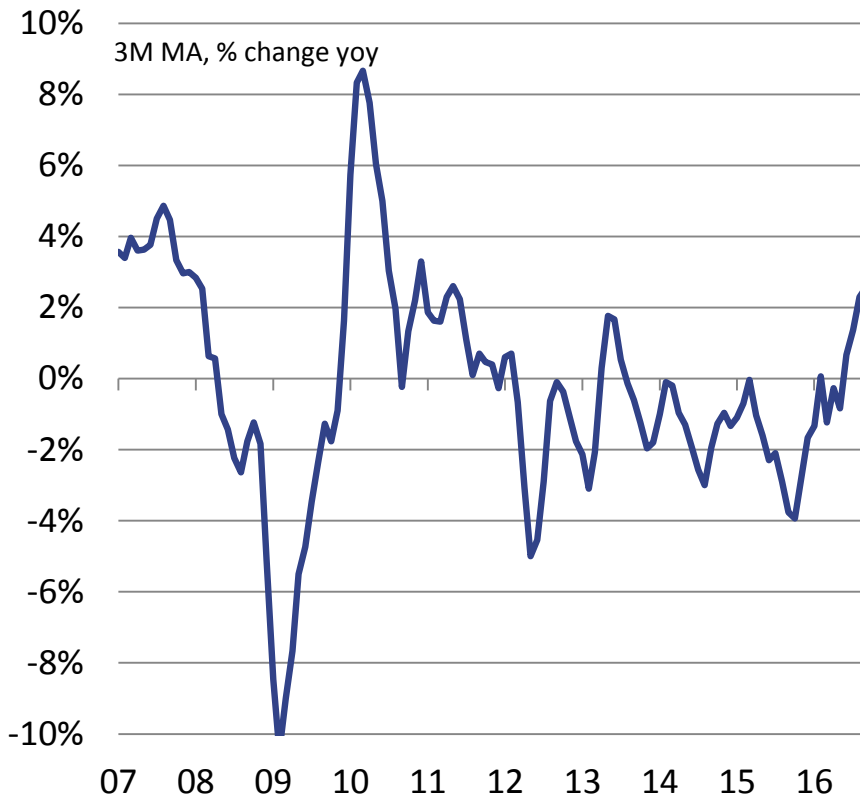
SA Mining Production



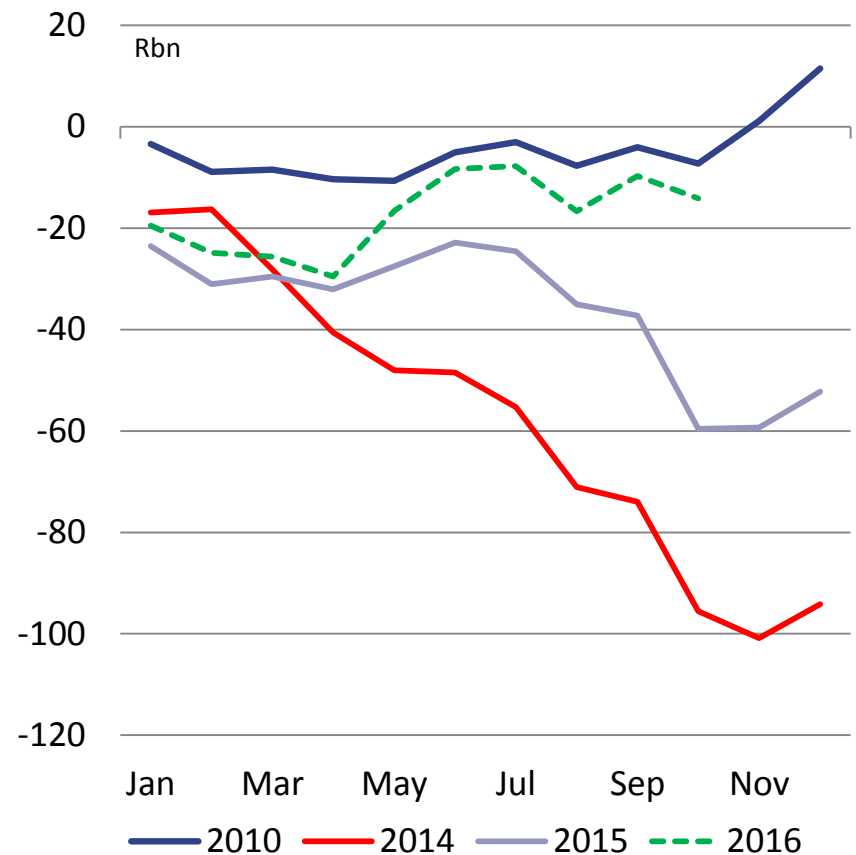
#3: A little self-help (and luck)

Some domestic constraints are lifting

SA Electricity Production



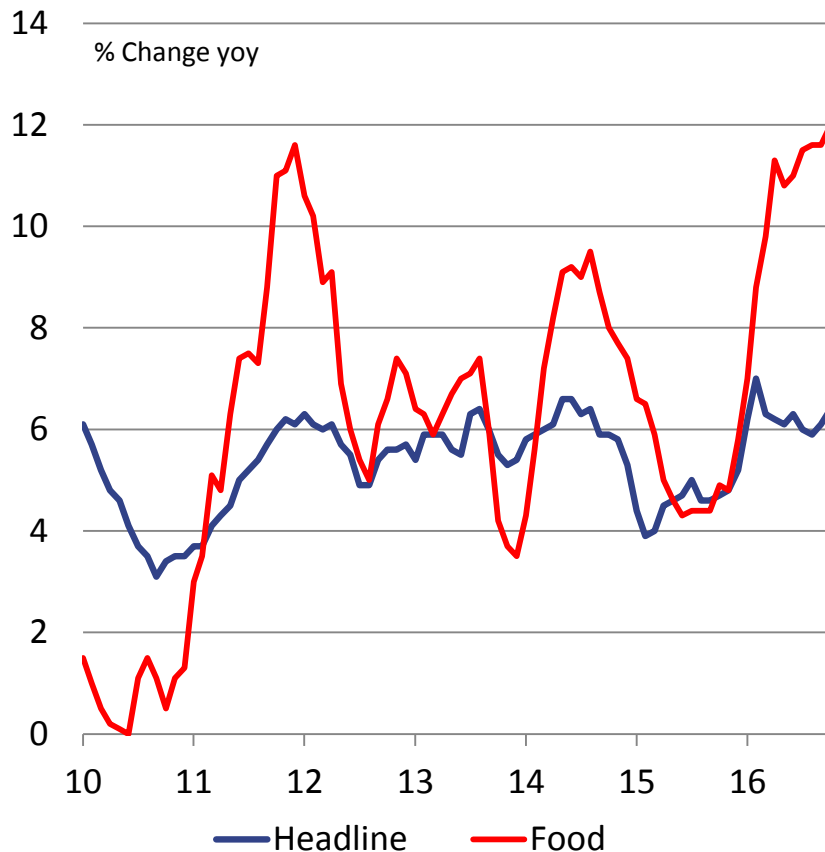
SA Trade Balance



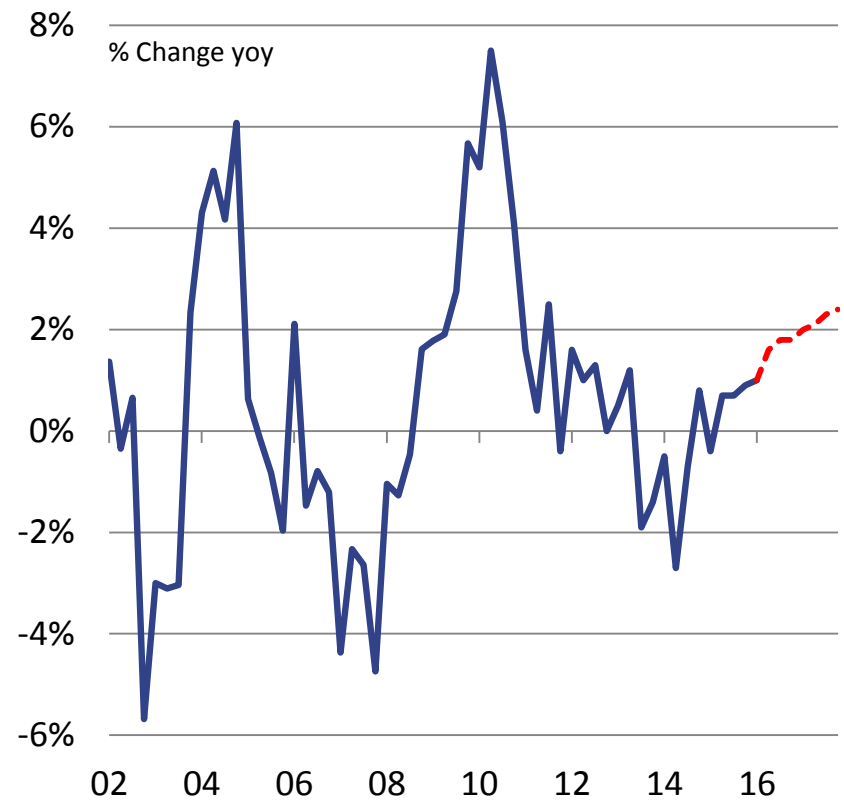
#4: Lower inflation

Moderating food prices should help to contain inflation

SA Inflation



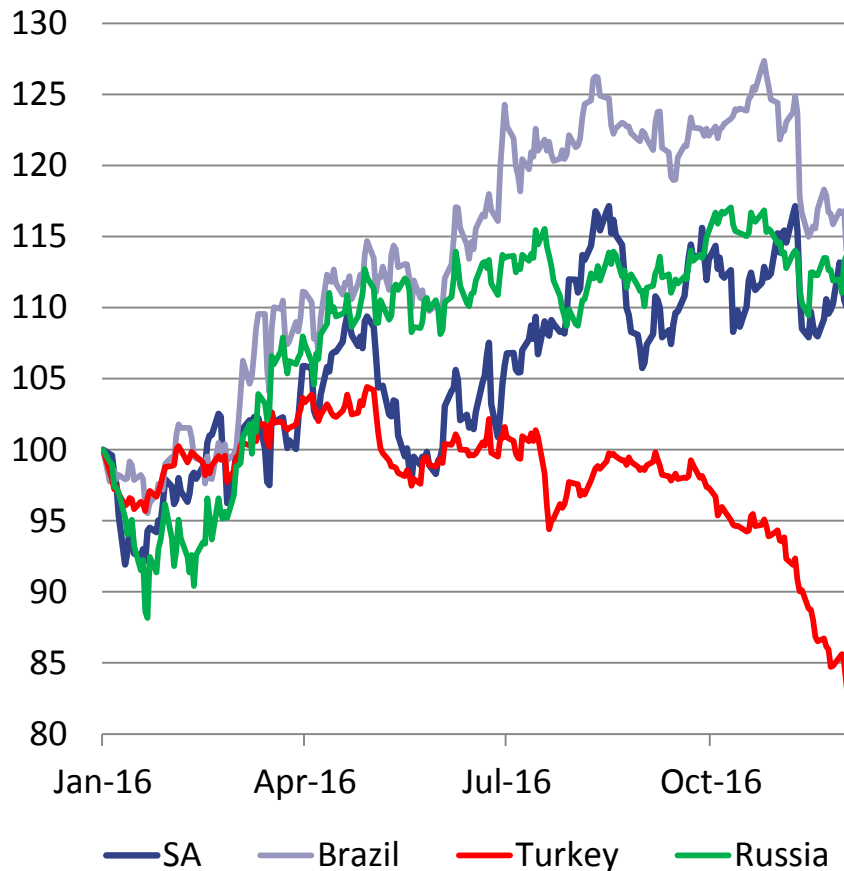
Real Wage Growth



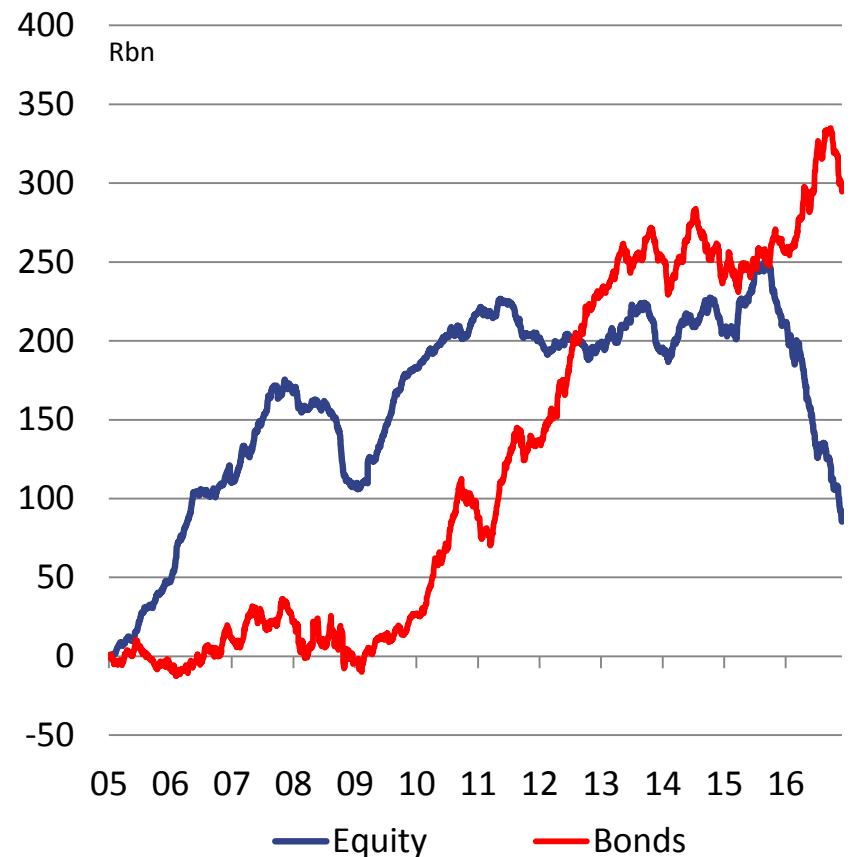
#4½ : Foreign Activity

Foreign activity can be a double edged sword

EM Currencies vs US Dollar



Foreign Activity on JSE



The Rand

There are risks in both directions

Pro's

Further Strength

- Political improvement
- Higher commodity prices / exports
- Emerging markets become attractive again – foreign investment

Cons




Renewed Weakness

- Political deterioration
- Strong US growth – higher US interest rates – continued foreign withdrawal

Our view: stable to slightly stronger, unfortunately, with heightened volatility

Risks

Unfortunately, its unlikely to be all plain-sailing

-  Politics, politics and more politics
-  US Interest Rate Policy.
-  SA Government Finances – the pressure on a downgrade still remains.



Putting the market in context

A few distortions make the market look more expensive than it really is

Unadjusted Index

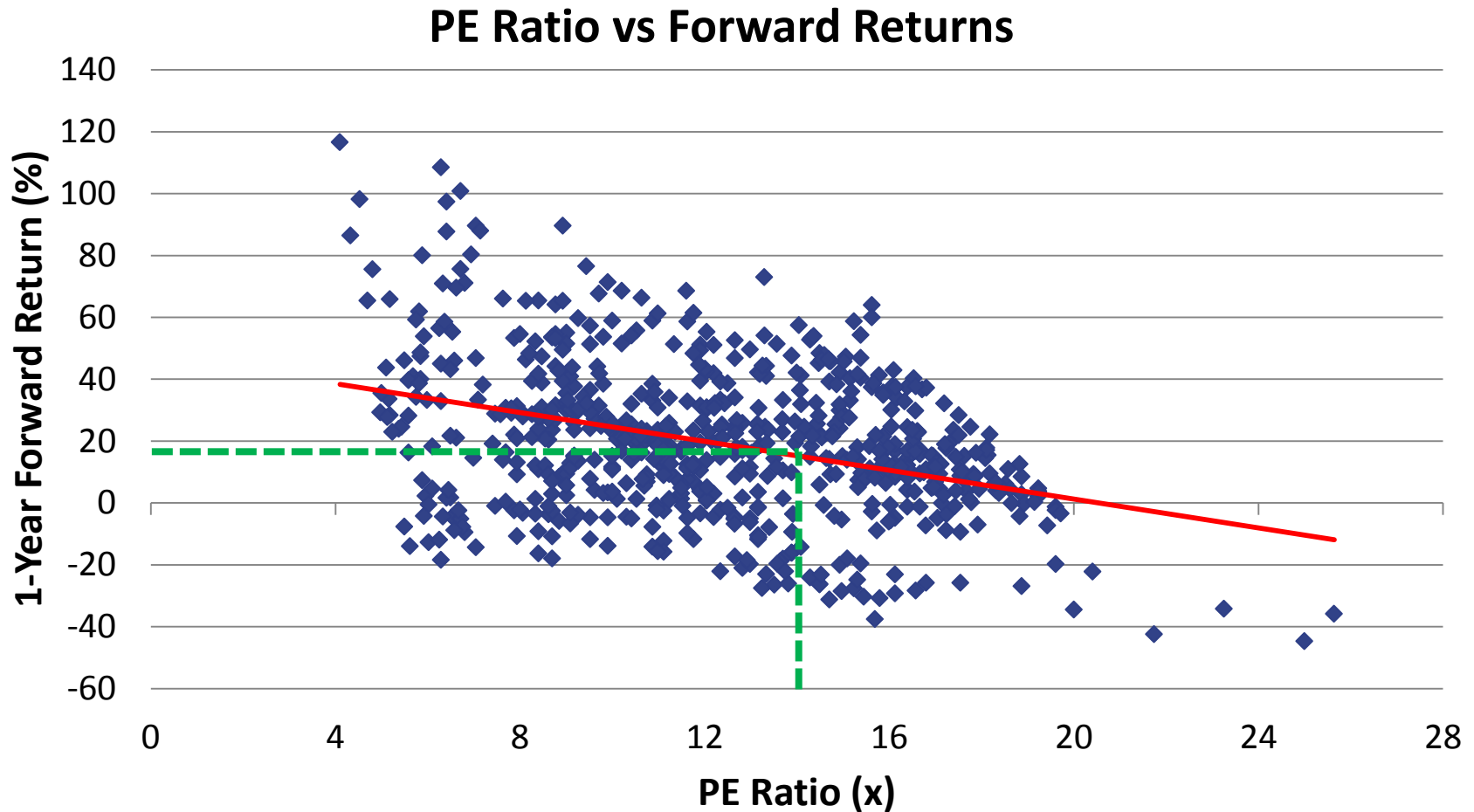
Name	Weight (%)	P/E Ratio	Comment
Top 40 Index	100.0%	26.8	

Adjusted Index

Name	Weight (%)	P/E Ratio	Comment
Naspers	16.7%	40.2	Sum of the parts / NAV valuation
Anglogold	1.2%	98.5	PE falls to 10x as earnings recover in '17
BHP Billiton	9.7%	70.9	PE falls to 18x as earnings recover in '17
Impala	0.5%	374.2	PE falls to 25x as earnings recover in '17
Adjusted Top 40 Index	71.9%	14.0	Mainly financial and industrial shares

Implications for local investors

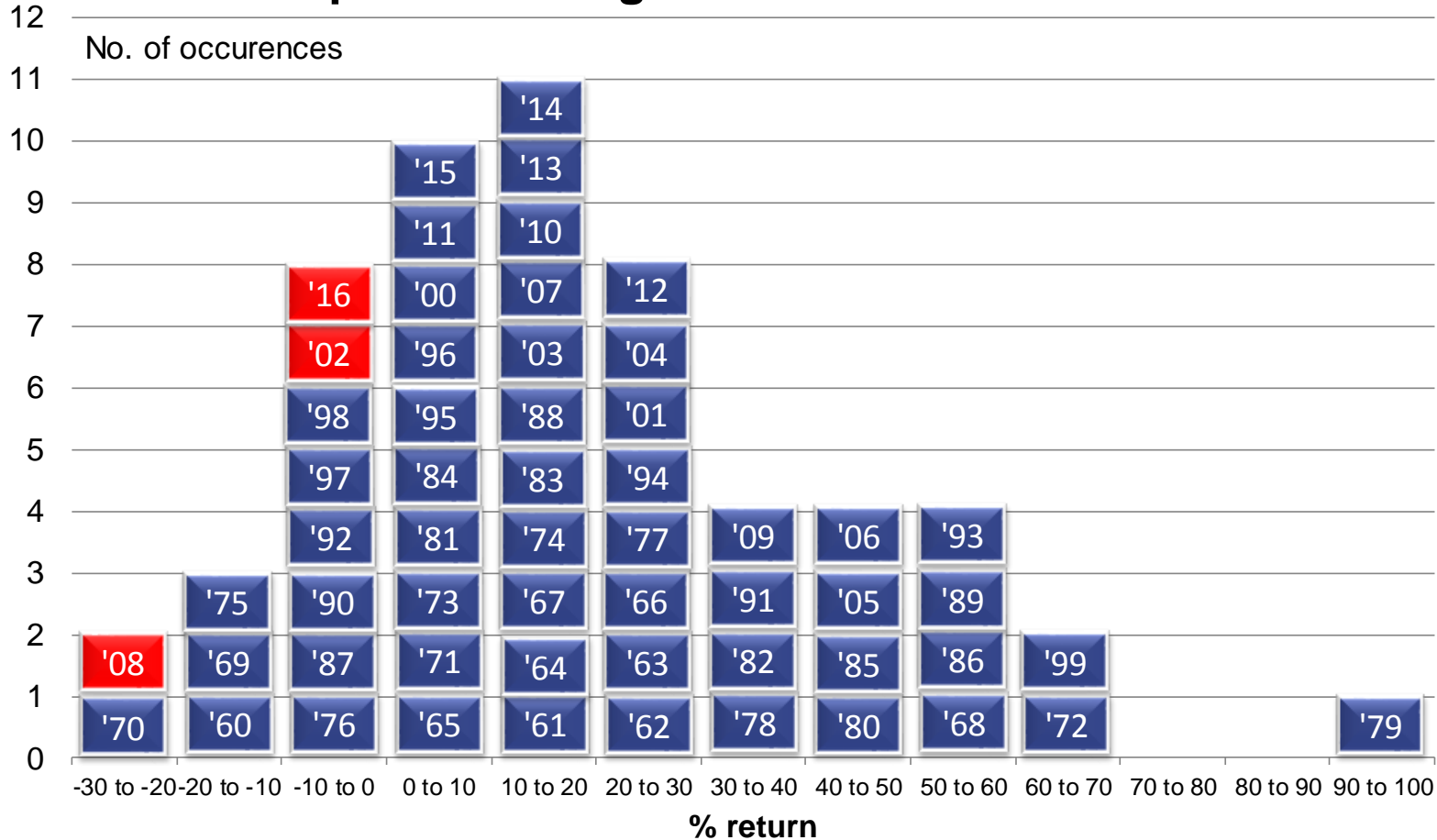
Valuations are too high and growth is too weak to expect stellar returns



Implications for local investors

Only 3 years in the last sixteen have delivered negative returns

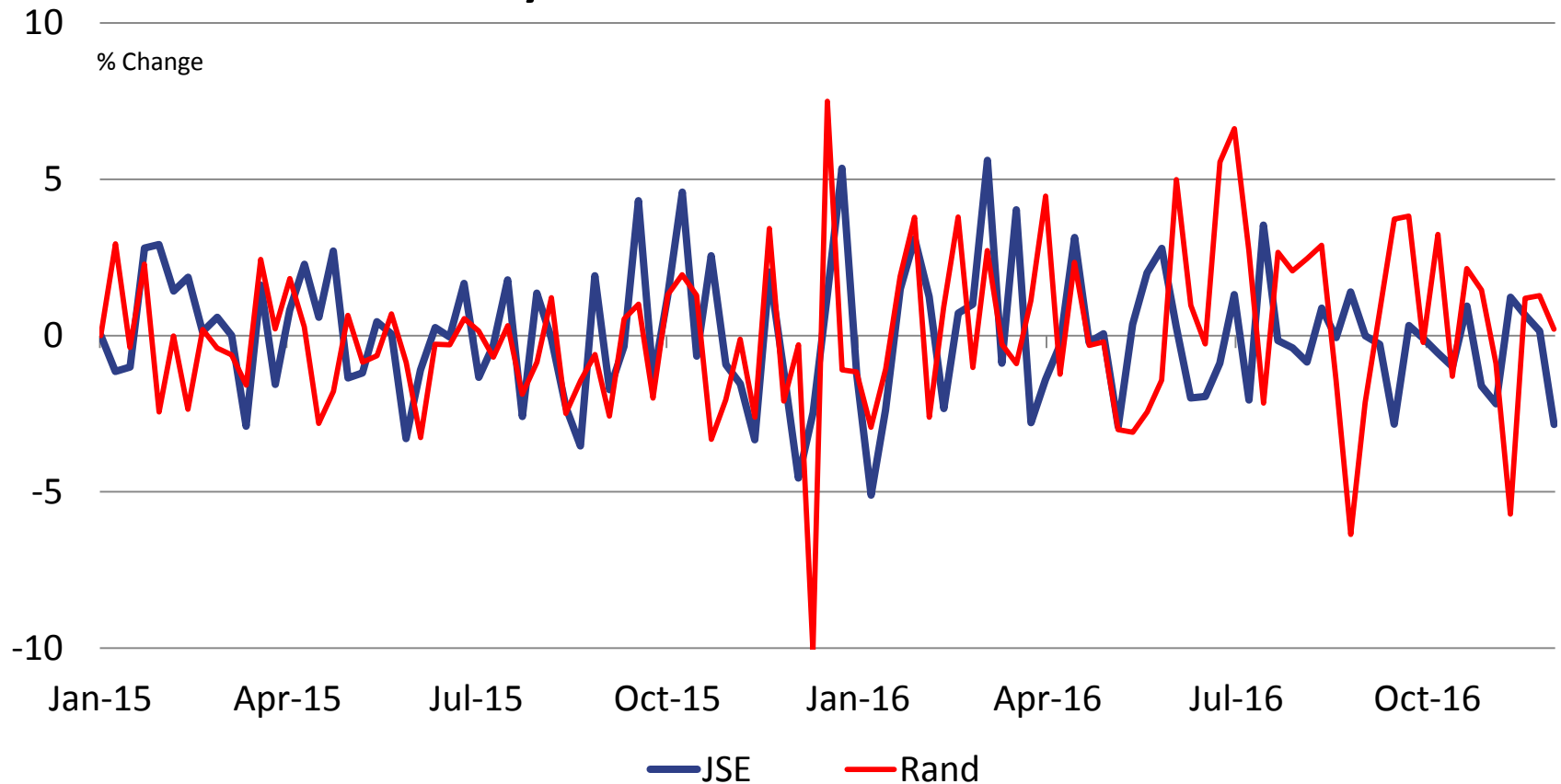
Equities: Histogram of Annual Returns



The Rand

Due to global diversification, the JSE is more sensitive to the Rand than ever

Weekly Movement in Rand & The JSE



Investing in 2017

Investors will still need to be nimble but we expect a broader rally



Markets have derated and we expect a modest acceleration in GDP growth.



A foundation for reasonable returns in 2017 – we expect returns of 10-12%, ahead of inflation.

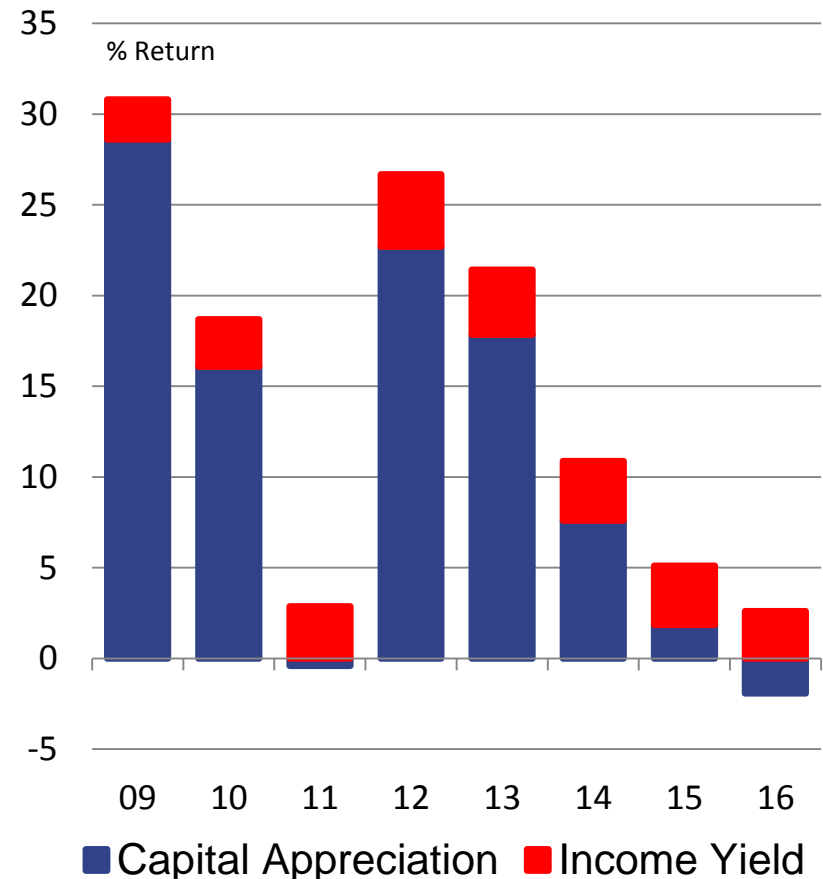


The Rand will continue to have an important bearing on markets.



Whilst capital growth should be stronger, investment income is always critically important.

JSE: Performance Attribution



Stock-picking environment

A few thoughts from the team





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Q & A

Please feel free to ask questions

Thank you for listening