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GLOBAL ECONOMICS: HOW IS THE WORLD FARING?

Michael Porter

In many respects, 2020 has been a long year. But at the same time, it's hard to believe that we are now in the last quarter of the year, Spring is in the air, and the word "Christmas" is coming up more and more in conversation. We have been living with the Covid-19 virus for more than seven months, and the wheel of emotion has gone full circle – from fear and panic to indifference and everywhere in-between. Only time will tell whether the lockdowns and economic suicide were necessary or the greatest over-reaction in living memory. But what is clear is that seven months further on, it is far from "business as usual." Having reacted with consistency and solidarity early on in the Crisis, countries are now charting their own paths as each try to limit the impact for its own citizens.

In the April issue of Intuition, when the Crisis was still unfolding, we showed a table of expected GDP growth rates around the world. The numbers were dire. 2020 was expected to be the sharpest contraction in living memory, but followed by an equally sharp recovery in 2021. That data has been reproduced in the table below, along with the most recent forecasts for global and regional GDP growth. Encouragingly, it appears that the contraction in 2020 might be less severe than initially feared. Forecasts for all regions (except for the UK and SA) have improved, although the recovery in 2021 has been tempered as well.

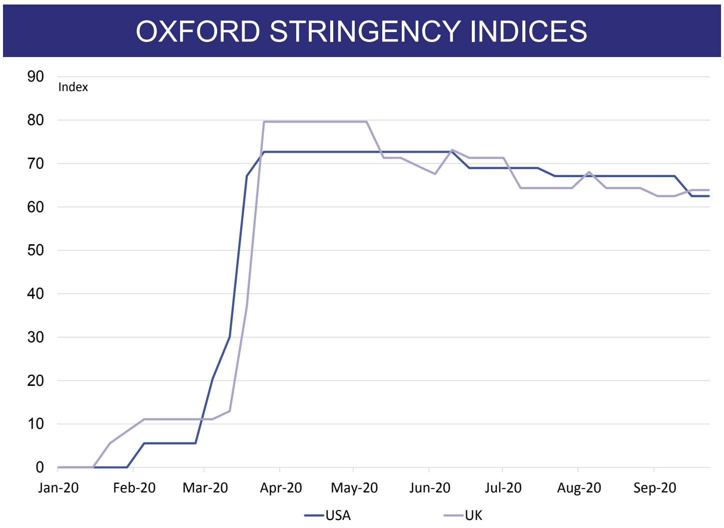
With these statistics in mind, the rest of this article will take a deeper dive into some interesting statistics from the UK and US.

Global GDP Growth Forecasts (%)

	Forecasts as of April 2020			Current Forecasts	
Region	2019A	2020F	2021F	2020F	2021F
Global	2.6	-4.7	6.0	-4.0	5.3
US	2.3	-7.7	6.2	-4.2	2.6
UK	1.4	-8.0	8.0	-8.9	7.5
Europe	1.2	-7.1	6.7	-6.4	6.1
China	6.1	1.3	8.5	2.5	8.6
SA	0.1	-7.0	5.1	-7.5	4.4

Oxford Stringency Indices

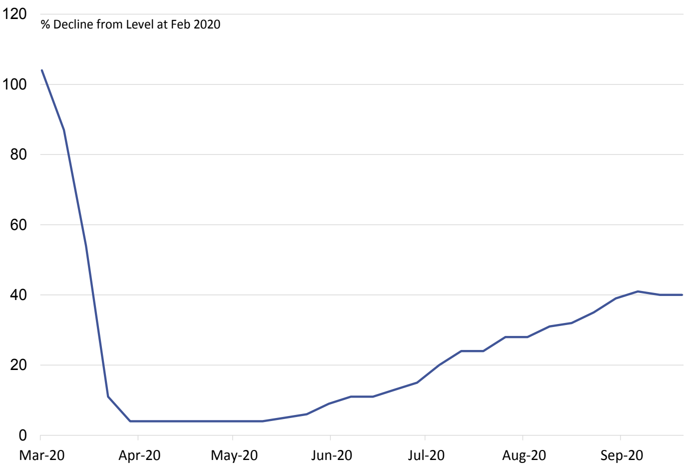
Let us start with an update on Oxford University's stringency indices for the US and UK. Despite the impression that life is returning to normal, these indices show that restrictions on daily activity remain firmly in place. In fact, what is remarkable is the degree to which the indices have not changed, despite both countries moving to relax restrictions. This is because of regional flare ups in cases, which is forcing stricter regional restrictions, as well as ongoing pressure to work from home, and the lack of international travel. Whilst cases have fallen dramatically in both countries, the onset of winter in the northern hemisphere remains a risk to a further wave of infections and restrictions.



UK Tube Traffic

The above data is reinforced by data for the London Underground. The London Transport authority has published data showing the level of passenger traffic on the "Tube", with a reference point of 100% (assumed to be a normal level) at end February before the mayhem began. At the weakest point, passenger numbers were down 96%, but there has been a gradual improvement over the past 3 months. Now passenger levels are down "just" 60%. This highlights the stickiness of work-from-home policies, and the reluctance of workers to head back to the office. The same trend is evident for air passengers. The volume of passengers travelling through Heathrow Airport fell 97% in April. That has now recovered to a decline of just over 80% over the same period last year. Britons are still reluctant to travel given the inconsistent and unpredictable quarantine regulations applied by the UK Government.

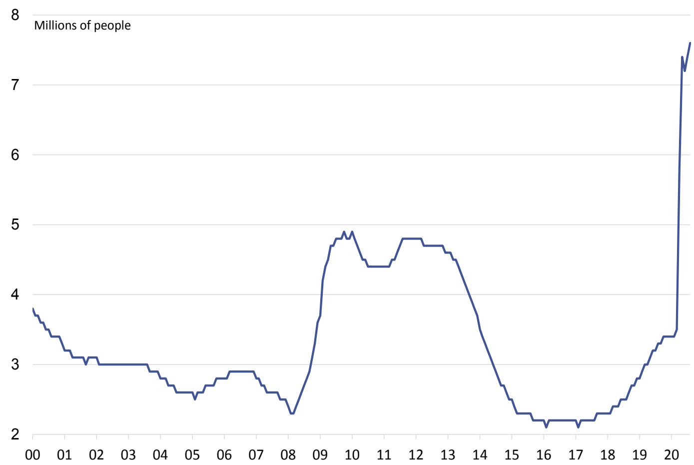
LONDON UNDERGROUND PASSENGER TRAFFIC



UK Unemployment Rate

The official UK unemployment rate has remained virtually unchanged over this crisis. Having peaked at 8.5% in 2012, the rate fell to 3.8% late last year and currently sits at 3.9%. how can this be, given the economic carnage? At the onset of the Crisis, the UK was quick to introduce a furlough scheme to try and delay any job losses, in the hope that the economy would recover and hence permanent job losses would be unnecessary. Consequently, the UK Government has been contributing to private sector salaries for the past 6 months. This scheme ends in October, and so far, the government is resisting pressure to extend it. In our opinion, the number of people filing for unemployment benefits provides a more accurate picture of the real state of UK unemployment. The number of claimants was already rising prior to this Crisis, probably a consequence of Brexit uncertainty. Now it sits at over 7 million people. We should not be surprised when the UK unemployment rate heads sharply higher.

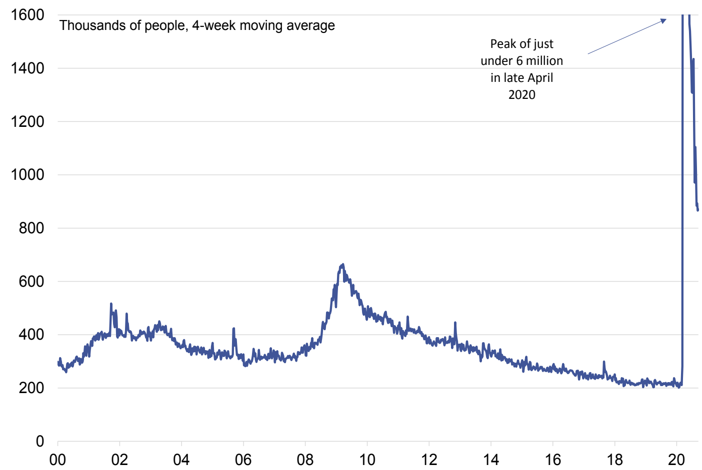
UK CLAIMS FOR UNEMPLOYMENT BENEFITS



US Unemployment Rate

Given the far more flexible labour market in the US, it is unsurprising that their statistics show a far wilder trend than those in Europe. Having fallen steadily to a low point of 3.5% in February, the unemployment rate rose at an unprecedented rate to 14.7% just 2 months later. But the US labour market has defied all the bearish expectations. The official rate is now back at "just" 8.4%, and the number of people claiming unemployment benefit for the first time has also fallen considerably. Prior to the Crisis, those filing for benefits was about 220,000 per week (4-week average). At the peak of the Crisis, that number soared to 6 million per week, but the number has since dropped back below 1 million. Like Europe, the US Government was also quick to increase benefits in an attempt to cushion the blow, so it will be interesting to see at what level this stabilizes, especially as some of the relief programmes now draw to an end.

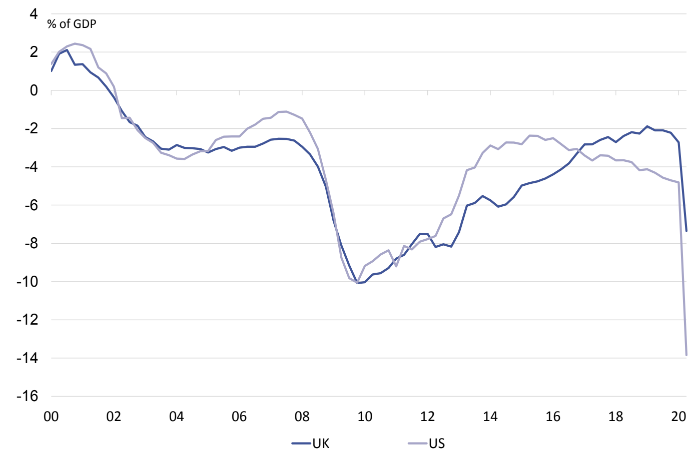
US CLAIMS FOR UNEMPLOYMENT BENEFITS



Government Spending

Government spending (and by implication, debt) ballooned in the wake of the Global Financial Crisis as governments pumped cash into their economies to soften the recession. That prompted ten years of "austerity" as successive governments were forced to reduce spending in an effort to reign in unsustainable deficits. All that hard work has now been undone, as spending reached unprecedented levels in response to Covid-19. The chart shows data to the end of June 2020, and these trends will surely get worse before they get better. The UK is back to a deficit last seen in late 2012. Meanwhile, the US deficit has actually been deteriorating for a few years – a consequence of President Trump's tax cuts. But Covid-19 spending has taken the deficit to new levels. Where to from here? We are sure these trends will get worse before they get better, and to correct either spending has to be cut aggressively, or taxes must rise. Neither is desirable.

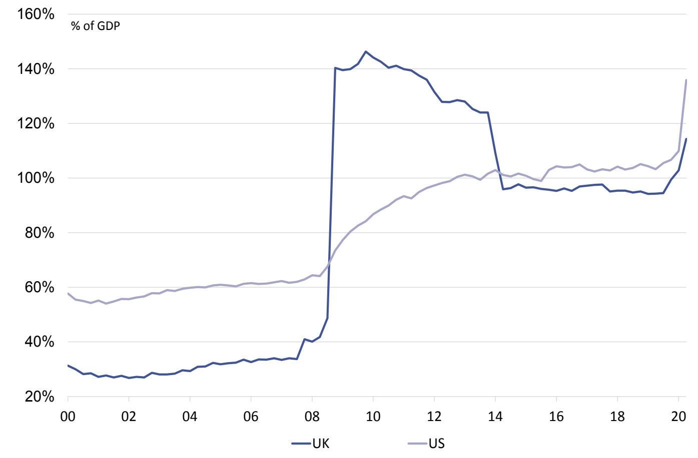
BUDGET DEFICITS



Debt Levels

The natural consequence of the above chart is that total government debt is ballooning. It does not matter whether one looks at the balance sheets of the various central banks, or whether one looks at debt as a percentage of GDP, the metrics are at, or near, record highs. Similar to the comment above, years of hard work from the UK to reign in debt have been undone in a heartbeat. Across the Atlantic, debt levels have never declined, but they were stable, until 4 months ago. Now their rate has soared to almost 140%, and it will head much higher before it stabilizes. Japan leads the race in this regard with a ratio of 237% - but it's not necessarily a race you want to be winning. Rightly so, investors are asking how this debt will ever be repaid. In our opinion, there are only 2 options: never repay it, just roll it over; or reduce its value through higher inflation. Given the quantum, it is also in Government's interests to keep interest rates as low as possible for as long as possible.

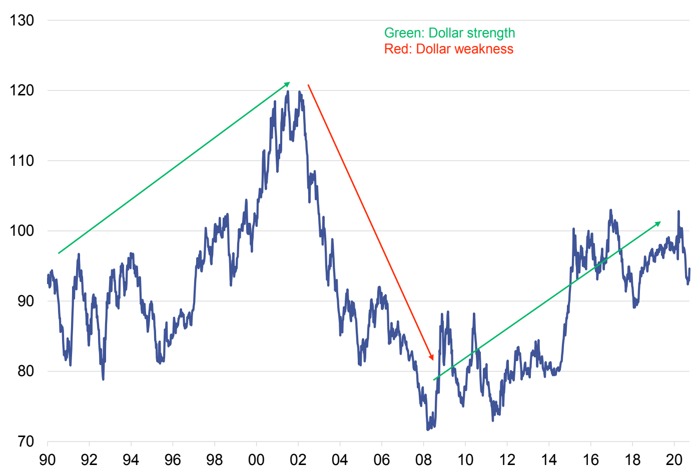
DEBT AS % OF GDP



Dollar Index

The next chart takes a step back to look at the longer-term trend of the US Dollar – given its role as the world's reserve currency. The Dollar enjoyed a period of unprecedented strength in the late 1990s, driven by rapid GDP growth and the first tech boom. That lasted until late 2001. Thereafter, the US's War on Terror (after the 9/11 attacks) saw the Dollar weaken steadily. It has enjoyed a rally in the decade post the GFC – thanks to its safe-haven status, and the fact that the US was the only country to normalise interest rates over this period. So, holding Dollars became far more attractive relative to other currencies. In the past 6 weeks, the Dollar has come under pressure – in part due to the Government's aggressive foreign policy, but also as the Federal Reserve has changed its policy with regard to inflation and interest rates. If it persists, a weaker Dollar is good news for commodity prices and emerging markets.

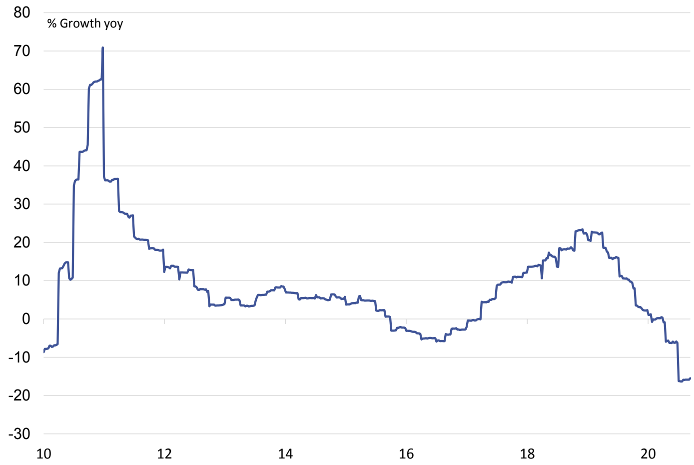
US DOLLAR INDEX



Earnings Growth

How has the macro environment translated into earnings growth for listed companies? It will come as no surprise that profit levels are declining, but what is a surprise is the quantum thereof. Furthermore, it's a tale of two worlds. The UK market (measured by the FTSE 100 index) is one of the worst-performing global markets this year – down by over 20% at the time of writing. As we have commented before, the composition of the Index (it is dominated by resources and financials) makes its earnings volatile. At present, earnings have contracted by 86%. But the flipside is that earnings are forecast to recover by 650% over the next 12 months off this extremely depressed base. In the US, earnings have declined by a far more modest 15% - far less severe than forecasts made in April or May. Furthermore, earnings are forecast to recover quickly into 2021, with growth of 13% over the next 12 months. Nonetheless, that will still imply that earnings for the Index as a whole are lower than the start of 2020 – which suggests that investors should be cautious to not get ahead of themselves.

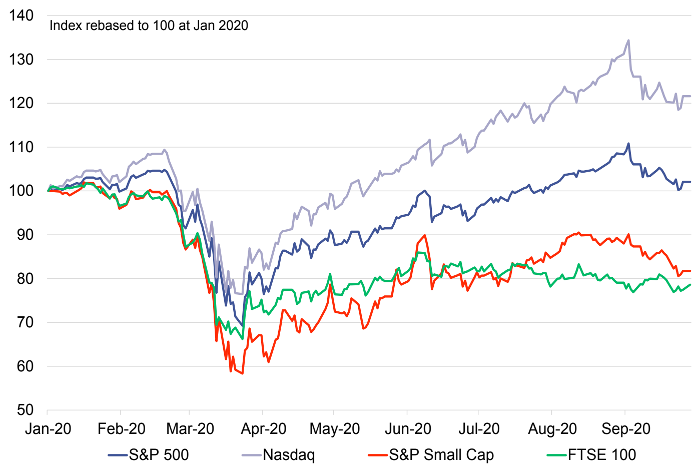
S&P 500 EARNINGS GROWTH



Market Performance

Declining earnings are not typically conducive to strong equity markets. As we all know, share prices rise over the long term because profits (and dividends rise), which makes the company more valuable. But markets also move on expectations, and expectations have gyrated wildly this year. A cursory read of the financial press would like you to believe that global markets are strong – its just our local JSE that's stuck in the doldrums. That is not really the truth. Investors have been blinded by the meteoric rise in large technology shares – at the expense of almost everything else. As the chart shows, the Nasdaq Index (a proxy for tech companies) has gained over 20% - even after the recent pullback, whilst the broader S&P is only up 2%. However, the S&P Small Cap Index is down 18% - a better reflection of what's really happening on the ground. Like we mentioned above, the FTSE 100 in the UK is down 21%, the worst performing of the major developed markets. Apart from technology, offshore markets are having just as tough a year as the JSE.

SELECTED MARKET PERFORMANCE



Forward PE Ratios

To finish off this section, we will turn our focus to valuations. In essence, this is a combination of the above two charts – given that valuations are determined by prices and earnings. Instead of looking at historic valuations, which are hard to interpret in times of huge economic volatility, we have chosen instead to focus on forward p/e ratios – a combination of forward-looking forecasts relative to current prices. These capture both the change in current prices and the change in future expectations. In the case of both the FTSE 100 and the S&P 500, valuations are at record highs – which seems hard to justify given the economic suffering on the ground. Whilst these suggest that markets are pricing in a recovery, they are also reflective of the Law of Unintended Consequences. With interest rates at record lows (and likely to stay there), investors are forced into alternative assets, especially equities. Nonetheless, excessive valuations always make the market vulnerable to bouts of volatility and the imminent US election is likely to provide just that.

FOREIGN INDICES: FORWARD PE RATIO

BARRICK GOLD: ALL THAT GLITTERS

Roy Lamb

We last wrote about Barrick Gold in December 2019 when the world at that stage held a fair amount of risk from a China/USA geo-political perspective, and yet here we are in the midst of another crisis but on a scale that surpasses that of merely two global heavyweights.

The extent of Covid-19 has seen governments globally doing all they can to stimulate their economies. This has ultimately led to interest rates being cut and the currency printing presses working overtime to try and stimulate growth.

Which turns our attention to gold as a potential safe-haven against the excessive build-up of debt. As we discussed in our previous article, we generally prefer investing in the diversified mining companies rather than single commodity miners and especially the precious metals miners due to the highly cyclical nature of their business.

Nonetheless, the merger of Barrick and Randgold which took place in September 2018 seems to be delivering on its original objectives and coupled with exposure to the gold sector outside of South Africa and the continued fragility within the conventional currency sphere, it makes Barrick Gold a company in which are comfortable to invest.

The latest results for the half year to June 2020 showed that the quarterly dividend has more than doubled since the announcement of the merger. The latest quarterly dividend is $0.08, a 14% increase on the previous quarter (US dividends are generally paid quarterly) and this versus a payment of $0.04 in the first quarter in 2019.

The company stated that it still remains on track to achieve its annual production within the guided range that it gave at the start of the year, despite the impact of the Covid-19 pandemic. An issue which we have spoken about on numerous occasions and one that the market has become much more focused on during the current economic climate is that of debt and the ability of a company to reign this in and whether they have the ability to actually reduce it. This is exactly what Barrick is doing, with the net debt figure of $1.4 billion showing a decrease of 25%. A combination of higher metals prices together with merger synergies and selling off non-core assets have all helped bring the debt to a highly acceptable level for a mining operator.

From an operational point of view the numbers were also impressive and together with a realized gold price of $1 725/oz and $2.79/lb for silver (versus the actual cost of production for gold being $716/oz and for silver $1.55/lb) saw the free cash flow increase 19% quarter on quarter and ultimately earnings increase 16%. This improving cash flow outlook is the reason for the rise in the quarterly dividend. The annualized yield for the company is still a nominal 1.1% but this looks set to continue to increase as the balance sheet strengthens.

How does the outlook for the rest of the year look for the company considering such global uncertainty? Barrick have maintained their full year production guidance of 4.6-5.0 million ounces of gold and 440 – 500 million pounds of copper, and cash costs for each commodity being $650-700/oz and $1.50-1.80/lb respectively. With the gold price hovering around $1900/oz and copper at $3/lb one can see that Barrick is highly cash generative even if commodity prices do weaken off their current levels, thus there is a large margin of safety. The biggest risk is that strong cash flows prompt the company to go on an acquisition spree – always a risk with miners who have cash burning a hole in their pockets. But management have given no hint that they are contemplating this option.

CLOROX: SQUEAKY CLEAN

Roy Lamb

This American consumer goods company is one that has managed to benefit from the Covid-19 pandemic not only from the lockdown during the pandemic itself but also because a number of its products should continue to remain an integral part of daily use in both households and other institutions into the for seeable future.

Let's look at the sectors which make up the Clorox portfolio:

- Health & Wellness (41% of sales) – Cleaning 30%, vitamins, minerals and supplements 4%, and professional products 7%
- Household (27%) – Bags, wraps and containers 12%, grilling 8% and cat litter 7%
- Lifestyle (17%) – Food products 9%, water filtration 4% and natural personal care 4%
- International (15%) – the same products as above to markets outside of the US, including Africa, Asia, Australia, Europe, New Zealand, South America

Looking at the dominance of the products in their respective fields is key. Over 80% of their global portfolio are from number one and number two share brands with the products being in nine out ten US homes.

The latest set of quarterly (Q4 2020 and full year 2020) results saw sales rise +24% and gross margins expanding to 46.8% as the company benefitted from higher volume leverage. The significant strength in these numbers was driven by the Health & Wellness division which saw sales growth of +33% (includes disinfecting and cleaning products) but that is not to say the other divisions were poor by any means; Household sales +17%, Lifestyle sales +16% and International sales +24%.

Sales for 2020 rose +8% whilst earnings per share rose +16% versus 2019. The outlook for sales in the 2021 year is estimated to be flat to low single digits higher with flat earnings per share.

Dividend distributions have grown consistently over the past 21 years, with the current yield roughly 2.2%. The low yield is largely the result of the share price performance - year to date it is up 55%. They announced a 5% increase in the dividend in May 2020 on top of a 10% increase in May 2019.

The company has a strong track record of delivering good free cash flow and for 2020 this metric improved by 64% versus 2019. They have also raised their internal annual goal of 11% to 13% of free cash flow to sales. Cost savings is always in focus and for Clorox it is no exception. 2020 saw margin improvement of 1.75%. Cash flows are used for 4 strategic initiatives: business growth (mergers and acquisitions), supporting the dividend, managing the debt levels (gearing) and repurchasing shares.

Long term demand for the shifting consumer preferences which have been brought about by Covid-19, specifically the disinfecting / cleaning product range, partly explains the lofty price earnings ratio of 32.5x which is about a 20% premium to the other household and personal care counters. The rally that the share has had in 2020 so far is also something to be aware of but their track record of delivering shareholder returns and exposure to a very defensive part of the economy will keep it on our radar to be bought on any pull backs.

CONSTELLATION BRANDS: THE STARS ARE ALIGNING

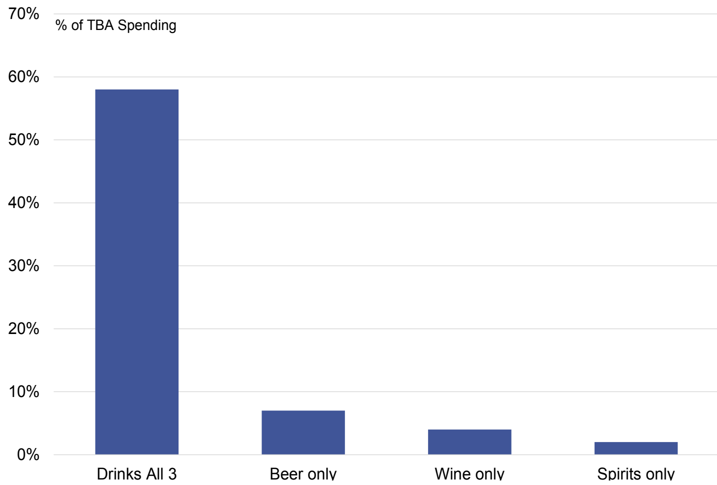
Nick Rogers

Constellation Brands has grown, mostly via acquisitions, from a small wine producer in upstate New York to a Fortune 500 Company with wine, beer & spirits operations across the US (97% of sales) as well as Mexico, New Zealand and Italy. Its Corona Brand is, ironically, the current number one most loved and largest imported beer brand in the US. Competitors include Heineken & AB Inbev in the beer industry whilst the likes of Diageo, Pernod Ricard & Campari compete in wine and spirits.

In 2013, Constellation Brands acquired the distribution rights for Corona, Modelo and several other Mexican beer brands – an important strategic move with the US Hispanic population (of drinking age) expected to increase from 36 million (in 2016) to 46 million (by 2025). This demographic dividend is thanks to the strong brand loyalty that exists within this beer-loving community. Constellation Brands beat Johnson and Johnson to become 2019's top "Large (over $5.5bn sales) US Brand Growth Leader" thanks to its beer category growth driven by Modelo and Corona. Despite "Lockdowns" causing a 75% drop in bar & restaurant sales, the 20% sales spike at convenience stores and supermarkets saw overall beer consumption rise 7% and market share gains in its top 5 markets of California, Texas, New York, Illinois and Florida.

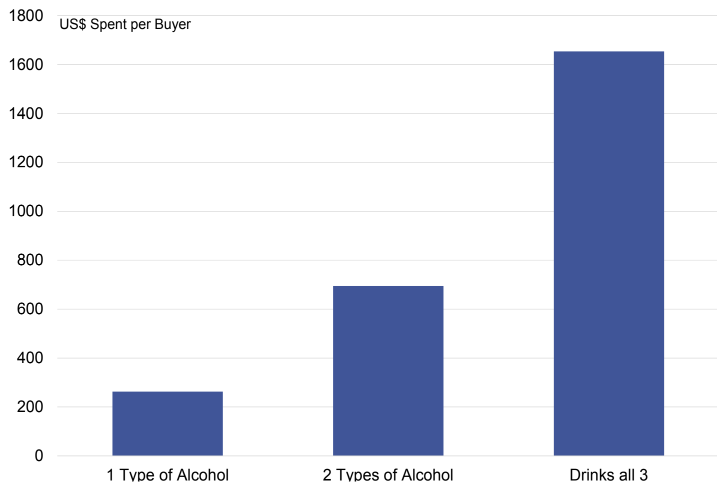
The consumer shift away from beer towards spirits plays into its diversified and defensive product mix. Total Beverage Alcohol Overview (TBA) is a monthly publication providing a holistic view of beer, wine, and spirits consumption in the US market. More than half of TBA Dollar sales come from consumers who drink across all 3 categories, spending almost 2.5 times more than those who drink across 2 categories. Constellation's 2020 Net Sales mix is comprised 67% from beer and 33% from wine and spirits, which plays well into this competitive advantage.

AVERAGE SPEND PER BUYER



More than 50% of TBA sales come from consumers who enjoy drinks across all three categories.

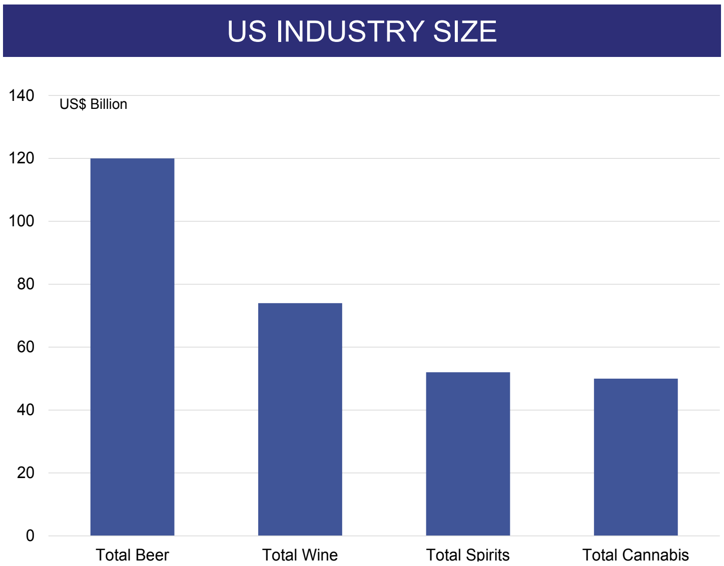
AVERAGE US DOLLAR SPEND PER BUYER



s expected, those who consume across categories also spend more in nominal terms.

Much of the company's success has been due to its ability to identify early-stage consumer trends. For example, it was the first major drinks company to venture into the cannabis industry with a 38% stake into Canopy Growth, which supplies 50% of Canada's medical-marijuana patients. I listened to their CEO present in 2018 and was amazed at the size of the opportunity, estimated at $50 billion in the US alone, only $2 billion smaller than the entire US Spirits industry! This is a long-term trend and despite short term losses, it is very optimistic on this exciting growth opportunity.

Another trend is the move to online shopping, where the company has recently made strategic acquisitions. The CEO backed up their latest investments, Empathy Wines and Booker Vineyard, saying, "E-commerce has



Cannabis has the potential to be as big as the sprits industry.

gained more penetration in terms of total retail sales in the last couple of months than it had in the last 10 years for beverage alcohol. Two-thirds of consumers plan to continue their e-commerce habits in a post-COVID environment so we think that this is very much a bit of an inflection point in terms of consumer behaviour."

Turning to the financials, the 4-year compound average annual growth rate in earnings and dividends per share are 12.9% & 24.7% respectively – very solid given an inflationary environment of under 2%. Thanks to share price movements, the p/e ratio has dropped to 21x, and the yield is now 1.5% - both more attractive than in the past. Like so many other US companies, the reason for the low yield is their preference for share buybacks over cash returns. The company has also engaged in some financial engineering – raising debt to buy back shares – a trend that has become popular in the US recently. We predict that net debt will fall sharply owing to rising cash flows and the sale of some non-core assets, which adds to the investment appeal.

Constellation Brands has comfortably outperformed both Diageo and AB Inbev over the past 12 months and we look forward to the half year results in early October to hear the outlook statement. However, one thing is certain: as the world slowly starts to recover from COVID-19, a vast portion of the US population will raise a glass or two to celebrate the end of 2020!

NESTLE: NOT JUST ABOUT KIT-KAT

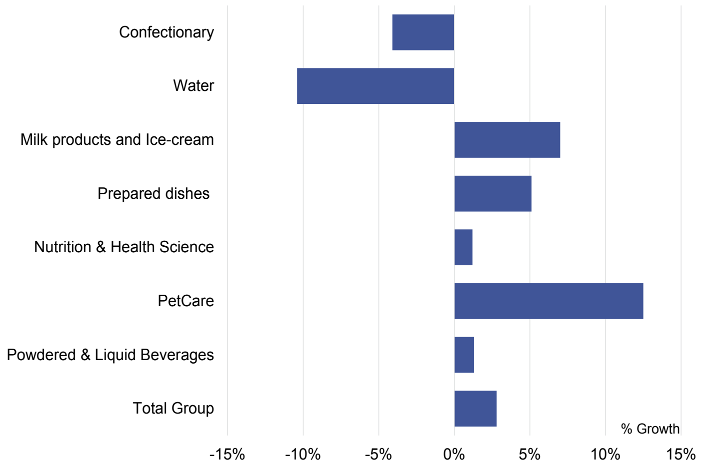
Nick Rogers

Nestlé is the world's largest food and beverage company with over 2,000 brands sold across 187 countries. In 1866, long life milk was invented by the Anglo-Swiss Condensed Milk Company whilst Henri Nestlé developed a breakthrough infant formula a year later. In 1904 Nestlé began selling chocolate for the first time and the 2 companies merged in 1905 to form the Nestlé Group. Its products were a staple for U.S. servicemen in Europe during World War II and since then it has grown via a string of major acquisitions. Its vast range of iconic products include Milo, Kit-Kat, Perrier, Häagen-Dazs, Maggis, and a 23% stake in L'Oréal. These brands resonate strongly with all of us. Above all, its diversified portfolio makes for a very defensive business model during such turbulent times.

Despite divestments having outnumbered acquisitions over the past 18 months, Nestlé will always look to acquire new businesses provided there is a strategic fit around Nutrition, Health, Wellness and/or high growth categories. A great example of the latter was the $7.15 billion Starbucks' Packaged Coffee Business deal in 2018 which bought together the world's most iconic coffee brands including already-owned Nescafe and Nespresso. The global coffee capsule market is expected to grow by $900 million to $5.2 billion in 2023 and Nestlé is extremely well placed to benefit, having launched the first Starbucks capsules last year (double-digit growth YTD) combined with the demand for its Nespresso range as more people work from home. Nestlé is looking to acquire 100% of Aimmune Therapeutics, owner of Palforzia, the first and only drug to be approved by the US FDA to help reduce the frequency and severity of allergic reaction to peanuts in children aged 4-17. With potential revenues of $1 billion per annum, this small acquisition illustrates the quality of management to identify niches in the market for future growth.

Innovation has always been at the heart of Nestlé and

H1 GROWTH BY CATEGORY



Confectionary and water dragged the Group down, but the broad nature of its product range enabled Nestle to report solid overall growth.

the company has the most advanced science and innovation network in the food industry. For example, all packaging will be recyclable by 2025 and the company is on track for its operations to be net-carbon neutral by 2030. This is also significant as global investors seek to invest in sustainable companies. With 56% of the world's population earning $2-10 per day, there is a huge demand for affordable nutrition. At the same time consumers are demanding healthier, more natural food products and shifting towards a plant-based diet (Nestlé has just launched a protein-based vegan burger in September). Investing CHF1.7 billion per year on Research & Development continues to set the company apart from its peers as competition intensifies.

Despite the impact of COVID-19 lockdowns on consumer behavior, Nestlé's half year results remained resilient. After a stronger than expected start to the year as consumers stocked up for lockdowns in March, organic growth moderated, reaching a respectable 2.8%. Operating profit margins reached 17.4% of sales (an increase of 30 basis points) demonstrating the agility and strength of its diversified portfolio. Out of home and impulse purchases (15% of group sales) declined by 60% in April as lockdowns hit and the closure of offices, restaurants and hotels negatively affected sales, but had improved to -34.6% by June. Despite recent improvements, it will take time to recover these sales. The largest growth contributor, helped by the increase in pet adoptions through the crisis, was Purina PetCare (the second-largest pet food company globally and the largest in the United States). The frozen foods category saw strong momentum growth as people increased in-home ready-to-eat convenience food purchases. Being a Global Multi-National, foreign exchange losses reduced sales 7% as the Swiss Franc was seen as a "safe-haven" and raced to a 5-year high in June. More importantly, e-commerce, with growth of almost 50%, now accounts for 12.4% of total sales versus 8.5% in 2019 reinforcing the global move towards online as the world spends more time away from physical retail outlets.

Nestlé is a stalwart in the global consumer sector and whilst the valuation is not cheap at a 24.5x p/e ratio, it is justified by the quality of its global brands. The dividend is an attractive 2.5% and earnings are forecast to grow well above global inflation whilst the company's long-term growth drivers remain firmly intact.

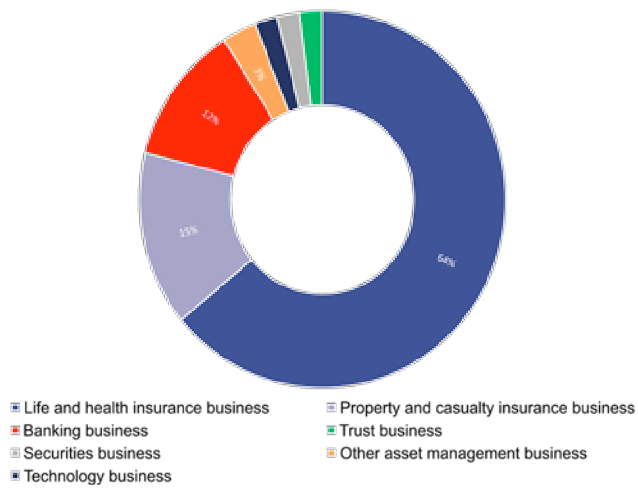
PING AN INSURANCE: HEALTHY GROWTH

Willie Pelser

The average investor in South Africa would probably never have heard of Ping An Insurance (a Chinese company) had it not been for our own Discovery Health entering the health insurance market in China in 2010 when it acquired a stake in Ping An Health. Ping An's business segments and the size thereof is shown in the chart below.

Frequent readers of Intuition will probably have noticed that I do fancy everything technology-orientated, especially when the advantage

PING AN DIVISIONAL REVENUES



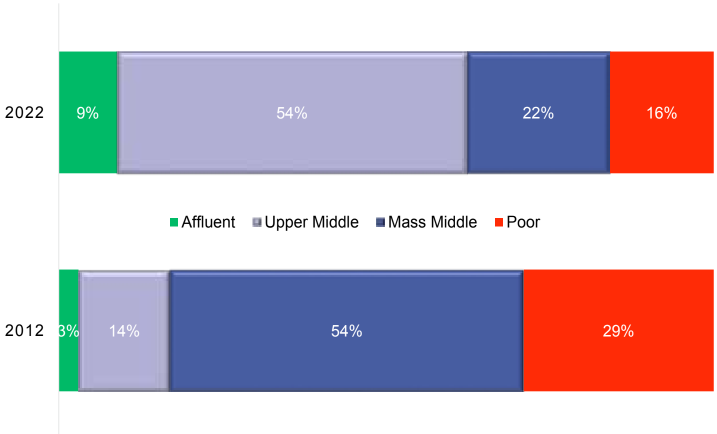
Life and health insurance is the key division, but the Group has diversified into various related industries.

can lead to enhanced revenue and returns and technology is not just a "toy". Ping An has largely gained an edge over its peers in the Chinese financial services sector using technology. It is continually seeking to transform its business under the "finance + technology" and "finance + ecosystem" strategies.

Additionally, blockchain, AI and cloud computing are emerging areas to which Ping An is devoting increasing attention. New ventures cover a broad array of operating activities, from urban development (Smart City Business) to healthcare (HealthKonnect, Good Doctor) to automotive (Autohome) to wealth management and finance (Lufax, OneConnect) to name but a few.

China's middle class has been growing rapidly, from only 19% back in 1980 to 58% by 2017. A study by consulting firm Mckinsey projects that up to 76% of China's urban population will enter the middle-class income bracket by 2022. Given this fact, I believe that China's growing middle class will spur demand for insurance, particularly long-term insurance products that will protect and help plan for their future wealth and health needs - the exact products which Ping An provides. Discovery's strategy to expand into China is paying off as the country's 1.4-billion people grow private health insurance into an industry worth nearly R2-trillion. Discovery reported growth of 42% and 72% in new business and operating profit respectively from Ping An Health in its latest results.

GROWING MIDDLE CLASS



China's middle class is expanding rapidly, freeing up discretionary spending for improved life and health insurance.

In absolute terms, China has the largest insurance gap in the world. Its insurance gap reached some USD76.4 billion in 2018. In addition, average life expectancy has increased from 67 to 76 years, based on World Bank Data. The demand for insurance has already exploded, as people prepare for their golden years, as well as take on protection needed for unexpected deaths, medical and property expenses. Yet coverage is still falling short of what is required. Covid-19 has also brought general health to the forefront. With an insurance penetration rate of around 4% (as compared to the global average rate estimated at 6%), China's insurance market, though the world's second largest, is still in its nascent stage, offering a long runway for future growth.

Ping An has used technology to impressive effects. For the Life & Health (L&H) insurance segment, while it's difficult to gauge the underwriting profitability since the products are very long term (30-50 years) and are heavily dependent on the insurers' own assumptions (mortality, morbidity, and discount rate), one can look at their reported "value of new business" (VNB), which is basically the present value of all future profits from the new products sold by the insurer in one particular year. Based on this metric, a comparison of insurers' VNB growth shows that from 2017 to 2019, Ping An's L&H VNB grew by 6% per annum, which is the highest amongst its peers in China.

Because of this, any short-term pullback in its share price should be considered a buying opportunity to own a quality business with good fundamentals over the long-term.

Given the prevailing circumstances, the speed at which conditions are changing, and guidelines from Government on social distancing, our Insight seminars will be postponed until further notice.

Please RSVP to Clare Mitchell on 033 3302164 or clarem@hhgroup.co.za.

Topic:	**N/A**

Natal Midlands

Date:	N/A
Venue:	Fernhill Hotel Midmar / Tweedie Road (almost opposite entrance to Midmar
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	N/A
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

CONTACT DETAILS:

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HARVARD HOUSE GROUP

	3 Harvard Street, Howick, 3290, South Africa
	P.O. Box 235, Howick, 3290, South Africa
☎	+27 (0) 33 330 2164
	+27 (0) 33 330 2617
@	admin@hhgroup.co.za
W	www.hhgroup.co.za

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