



Iza Wealth

OUR

Quarterly Report

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Market Insights

Global Market Overview – 1st Quarter 2019

The new year has brought with it a new wave of optimism, with equities and credit rallying strongly across the world. The sell-off in equities and credit in the final quarter of last year was caused predominantly by concerns about the potential for an escalation in the trade war between the US and China, fears that higher interest rates could hurt the US economy and broader worries about a slowdown in global growth.

After almost 10 years of US economic growth, it's increasingly likely that we could see a US recession in the next few years. There's a strong possibility that the recent yield curve inversion could be the leading indicator that the US economy will move into recession in the next 1–2 years, although there are strong parallels to the 'false' inversion in 1998, when the Fed was able to step in and normalise the yield curve, thus delaying the start of the next recession by almost 3 years. Given that equity market valuations don't seem to be in bubble territory, there is an increasing possibility that equity investors could still see decent double-digit returns over the next 1–3 years. So, rather than rushing to put cash under the mattress, this is probably a timely reminder to reassess asset allocations and ensure that investable assets that are needed to fund lifestyle commitments over the next 1–3 years are not invested in volatile equities, but for assets where you have a longer time horizon, this is probably not the time to panic.

On interest rates, there is some reason for optimism. Despite the recovery in markets, commentary from key Fed officials suggests that the US central bank is considering changing the way it responds to inflation. The brief version of the argument is this: with inflation having averaged below 2% p.a. for most of the last decade, it should now be allowed to run above 2% for a while so that inflation averages 2% over an as-yet unspecified period of time. The current approach would result in the "punch bowl" being taken away from the party as soon as inflation picks up above the 2% target.

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For the recovery in markets to continue the weakness in global growth will also have to recede, extending what has already been a very long economic expansion by historical standards. On this front, the data in the first quarter was mixed. The weakness in the global economy has been most stark in the manufacturing and export sectors. The Chinese authorities are now stimulating domestic demand with a package of tax cuts, infrastructure investment and measures designed to support bank private credit growth. This should lead to a stabilisation in Chinese growth.

The UK economy is being supported by a strong labour market, with unemployment at 3.9% and wages rising by 3.4% y/y for January. Inventories have also contributed positively to growth over the last few quarters. This combination has kept growth in positive territory despite weak consumer confidence and a contraction in business investment, both caused by Brexit-related uncertainty. Due to the Brexit uncertainty and the mixed economic data, the Bank of England kept interest rate increases on hold throughout the quarter, despite the rising wage pressures.

World stock market returns in local currency

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1Q 2019
UK FTSE 100 -28.3%	MSCI Asia ex Japan 67.2%	MSCI Asia ex Japan 15.6%	US S&P 500 2.1%	Japan TOPIX 20.9%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE 100 19.1%	MSCI Asia ex Japan 35.9%	US S&P 500 -4.4%	US S&P 500 13.6%
US S&P 500 -37.0%	MSCI EM 62.8%	US S&P 500 15.1%	UK FTSE 100 -2.2%	MSCI Europe ex UK 20.0%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 31.0%	UK FTSE 100 -8.7%	MSCI Europe ex UK 12.6%
Japan TOPIX -40.6%	MSCI Europe ex UK 29.0%	MSCI EM 14.4%	MSCI Europe ex UK -12.1%	MSCI Asia ex Japan 19.7%	MSCI Europe ex UK 24.2%	MSCI Asia ex Japan 7.7%	US S&P 500 1.4%	MSCI EM 10.1%	Japan TOPIX 22.2%	MSCI EM -9.7%	MSCI Asia ex Japan 11.6%
MSCI Europe ex UK -42.7%	UK FTSE 100 27.3%	UK FTSE 100 12.6%	MSCI EM -12.5%	MSCI EM 17.4%	UK FTSE 100 18.7%	MSCI Europe ex UK 7.4%	UK FTSE 100 -1.3%	MSCI Asia ex Japan 6.4%	US S&P 500 21.8%	MSCI Europe ex UK -10.6%	MSCI EM 9.9%
MSCI EM -45.7%	US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -14.6%	US S&P 500 16.0%	MSCI Asia ex Japan 6.2%	MSCI EM 5.6%	MSCI Asia ex Japan -5.3%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI Asia ex Japan -12.0%	UK FTSE 100 9.5%
MSCI Asia ex Japan -47.7%	Japan TOPIX 7.6%	Japan TOPIX 1.0%	Japan TOPIX -17.0%	UK FTSE 100 10.0%	MSCI EM 3.8%	UK FTSE 100 0.7%	MSCI EM -5.4%	Japan TOPIX 0.3%	UK FTSE 100 11.9%	Japan TOPIX -16.0%	Japan TOPIX 7.7%

Source: FactSet, MSCI, JP Morgan

The first quarter ended with equities, credit and government bonds up for the year to date, buoyed by more dovish central banks and hopes for a truce on trade between the US and China. Easier monetary policy and less disruptive trade policies should continue to support markets. However, given the lengthy duration of this economic expansion cycle; the uncertainty over whether manufacturing, exports and business investment intentions will recover and whether a squeeze on profits could lead to corporate cost cutting, a more balanced approach to portfolio asset allocation makes more sense than has been the case for most of the last decade.

Global Events

Brexit

With Brexit dealings becoming ever more urgent, we would be remiss not to highlight the effects that the move by Britain to exit the EU common market has had on the regional economy, as well as what possible effects we could see after an agreement is finally reached.

Many large Global companies have decided to move (in part or in total) their headquarters from London, this has resulted in several thousand jobs flowing out of the largest financial hub in the world. A few notable moves include:

- HSBC moving 1000 Jobs to Paris.
- Lloyd's of London moving 100+ Jobs to Brussels.
- UBS moving up to 100 Jobs to Frankfurt.

Financial Exchanges have also had to scramble to ensure that their services will run smoothly on both sides of the channel. The 5 largest banks that serve the region have had to move \$857bn in balance sheet assets to Frankfurt in order to get EU approval to continue operations in the region. CME group has opted to move its short-term finance market, which handles approximately \$228bn a day, to Amsterdam.

The Pound has also suffered over the term. Since the original vote to leave the EU, the GBP has depreciated over 10%, driving up the price of imports and hence pushing up local inflation in Britain. This past quarter though, the pound has been making a recovery, but the final BREXIT decision will be the deciding factor over whether this recovery will continue.

GBP/USD since the day of the Brexit vote.



While no one can be certain of the exact outcome of the whole Brexit ordeal, there are numerous studies that analyse the possible effects on the world economy. Below is an extract from a paper titled 'Brexit: Everyone loses, but Britain loses the most.' It shows the estimates the effect on several economic aggregates of both The EU and Britain under a few possible scenarios pertaining to the post Brexit EU-Britain relationship. In summary it says it all in the title **the UK will lose economically**.

Table 2 Impact of Brexit on macroeconomic aggregates in 2020
(percent change relative to initial levels)

Item	Soft (Norway case)		Hard (WTO case)	
	EU-27	UK	EU-27	UK
GDP				
Nontariff barriers	-0.10	-0.82	-0.18	-1.47
Foreign direct investment	-0.06	-0.41	-0.12	-0.83
Tariffs			-0.06	-0.39
Total	-0.16	-1.23	-0.35	-2.53
Private consumption (change in billions of dollars)				
Nontariff barriers	-15.616	-18.950	-29.016	-34.741
Foreign direct investment	-10.585	-11.915	-20.309	-23.485
Tariffs			-9.908	-6.527
Total	-26.178	-30.818	-57.977	-62.701
Wages				
Nontariff barriers	-0.12	-0.97	-0.22	-1.75
Foreign direct investment	-0.05	-0.29	-0.09	-0.63
Tariffs			-0.10	-0.88
Total	-0.17	-1.26	-0.39	-2.83
Capital remuneration				
Nontariff barriers	-0.14	-0.98	-0.24	-1.76
Foreign direct investment	-0.07	-0.61	-0.13	-1.11
Tariffs			-0.11	-0.93
Total	-0.21	-1.59	-0.43	-3.34
Aggregate exports				
Nontariff barriers	-1.47	-7.63	-2.52	-12.86
Foreign direct investment	-0.07	0.08	-0.13	0.15
Tariffs			-1.48	-7.98
Total	-1.54	-7.54	-3.48	-16.94
Aggregate imports				
Nontariff barriers	-1.68	-6.23	-2.87	-10.55
Foreign direct investment	-0.01	-0.22	-0.02	-0.37
Tariffs			-1.66	-6.63
Total	-1.69	-6.44	-3.82	-14.42
Consumer price Index				
Nontariff barriers	-0.08	0.31	-0.16	0.57
Foreign direct investment	0.02	0.02	0.04	0.08
Tariffs			-0.12	0.89
Total	-0.06	0.33	-0.20	1.14

WTO = World Trade Organization

Note: Shaded cells denote losses.

Source: Latorre, Olekseyuk, and Yonazawa (2018).

At the time of writing BREXIT negotiations have entered a new phase of cooperation between the two major UK political party leaders. Also, the EU team seem to be making the right kind of noises that might allow for a more common-sense result to a very complex problem.

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US-China Trade Wars.

The US and China have been at odds since March 2018, when US president Donald Trump signed a memorandum stating three things:

- He would file a WTO case against China over licencing practices.
- He would restrict investment in key Chinese technology sectors.
- He will impose tariffs on a multitude of Chinese products.

This was followed up the next day by the US imposing a 25% tariff on Steel imports and a 10% tariff on aluminium imports. The tensions between these two largest global economies further deteriorated throughout 2018, with both countries imposing country specific tariffs on imports from the other.

This quarter has seen leaders of the two economies meet for multiple trade talks, but with no real results as of yet. The mood does however seem to be more accommodative by both parties. Trade talks continue into the next quarter with the whole world watching and hoping for a pragmatic resolution.

Oil Price

The Brent crude-oil price at time of writing was 69.26 USD per barrel, a sharp +26.18% rise for the quarter. This increase has hit consumers the hardest, as cost increases have been passed along. The rise was largely predicted as it rallied from very low oil prices experienced in Dec 2018. The increase is largely due to efforts from OPEC to limit production, as well as large amounts of tainted Shale gas reserves in the US.

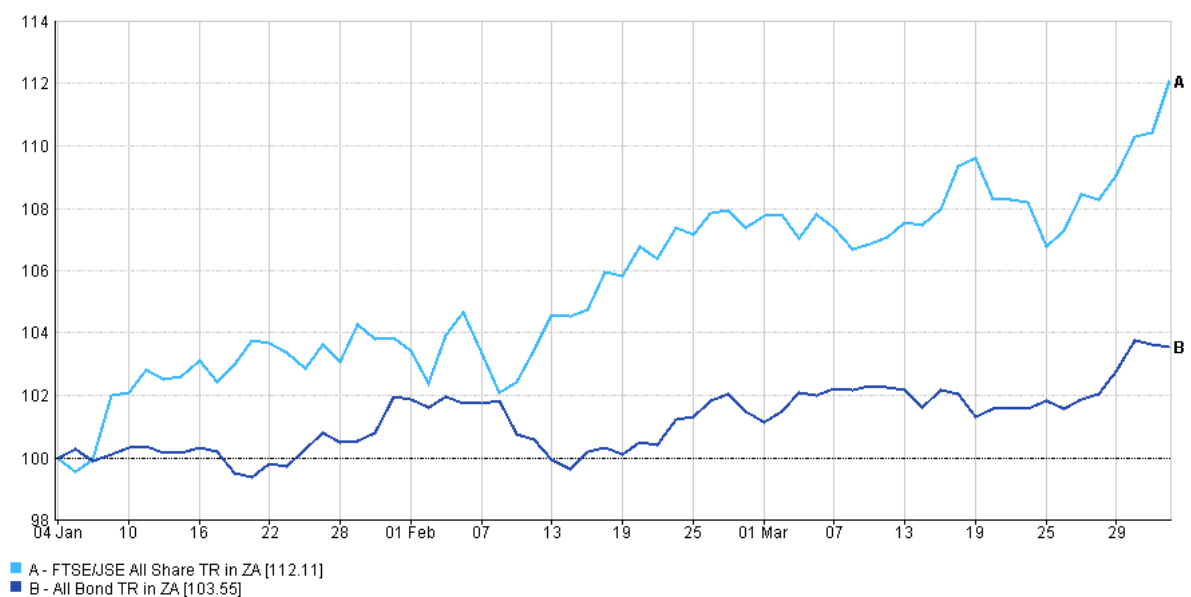


SA Market Overview - 1st Quarter 2019

South Africans will probably remember March mostly for the 10 consecutive days of power cuts implemented by Eskom, pessimism peaked halfway through that period when Public Enterprises Minister Pravin Gordhan, suggested that staff were still getting to the bottom of the issues Eskom was facing and how long it would take to resolve them. Stocks most exposed to the South African consumer bore the brunt of this pessimism.

The FSTE/JSE ALSI has staged a strong recovery following the heavy equity selloff (-5.3%) in the previous quarter. YTD local equities are up 7.97% after initially starting the year on the back foot. The recovery comes in the face of serious headwinds as the political and economic climates in South Africa remain uncertain and risky to long term investors. South African bond index (ALBI) remains volatile but returned +3.76% for the quarter, this increase in returns may persist over the next quarter following the decision by Moody's to not issue a rating change. The listed property index started the quarter positively on the back of high forward yield projections, building to a peak return during the quarter of +9.6%, this positivity was short lived however, as the market confidence swung back, ending the quarter +1.45%.

The Equity and Bond indices for the Quarter



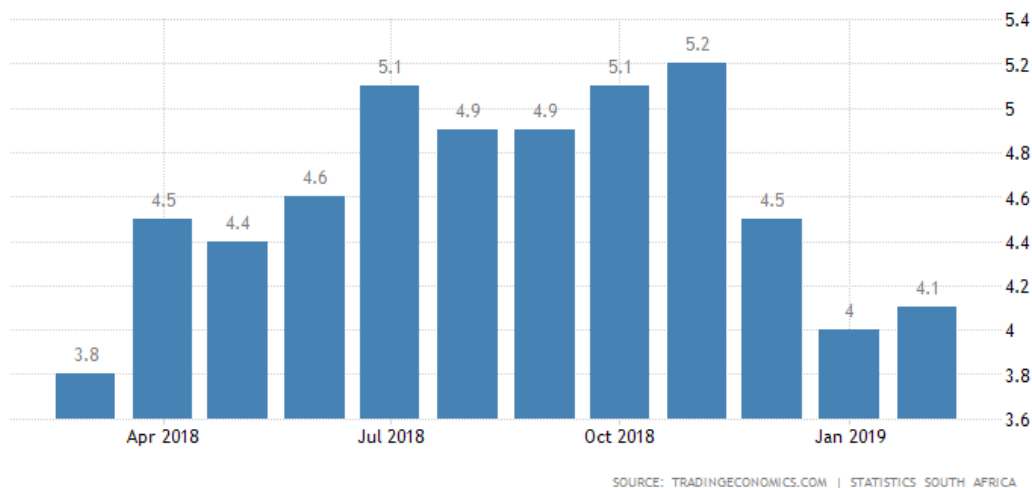
04/01/2019 - 03/04/2019 Data from FE 2019

Source: FE Analytics / ProfileData

Inflation

Year on year inflation increased slightly from 4% in January to 4.1% in Feb, matching analyst expectations. The rise was mostly driven by sharp increases in the price of transport, due to the rally in the oil price, however prices slowed for housing and food.

Core inflation, which excludes the cost of food, fuel and energy remained unchanged at 4.4%, much in line with market expectations. The 12-month inflation rate is expected to remain fairly steady at 4.7% for the first quarter of 2019, with the similar estimate holding for a 12-month period. The longer-term inflation estimate is projected at 4.8% in 2020 according to Trading Economics.



USD/ZAR exchange rate

The ZAR depreciated by 2.43% during the quarter. According to the analysts at Trading Economics, the Rand performed closely in line with estimates, trading at an average of R14.11 where the estimate was R14.25. The USD/ZAR exchange rate is estimated to increase to 14.84 over a twelve-month period. Is this one view or a consensus view?



SA Events.

The following have materially impacted the markets over the past quarter and or are expected to have a real impact in the near term.

Annual Budget Speech.

With a lot of pressure on local markets and a general election looming, all eyes were on Finance minister Tito Mboweni during his inaugural budget speech.

The speech undoubtedly took place at a challenging time, both economically and politically, with speculation over whether the upcoming election would influence his decision to reduce government expenditure to reach the previously stated goal of stabilising government debt by 2023/24.

The speech made it very clear that the newly appointed minister takes the issues seriously. He announced reducing the government wage bill significantly (by R27 billion over 3 years). It was disappointing to see Eskom receive an annual bailout of R23 billion for the next three fiscal years, these cash injections will however come with stringent conditions as well as similar constraints on other SOE's.

The overall numbers still leave a lot to be desired. The main budget deficit forecast for the fiscal year 2019/20 has worsened from 4.4% at the Medium-Term Budget in October 2018 to 4.7% for the full year. Forecasted gross Debt to GDP has worsened to 58.9% from 58.5% for the year 2021/22. Most of this can be ascribed to the R69 billion bailouts of Eskom.

General election date announced.

Election fever has hit South Africa with voters going to the polls on 8 May. The ANC are clear favourites to win, despite numerous high-level inquiries currently implicating several of its top leadership. The real question is what level of support will the Ramaphosa led Party get from a disgruntled electorate. Leading political analysts suggest anything below 58% will not be seen as favourable for his political and economic agenda.

The EFF have gained popularity from young less affluent and disenfranchised voters, despite not actually implementing any policy. The EFF do claim to have lit the match that eventually set the Zuma presidency alight something the DA might like to dispute.

The DA seems to be happy with their place in the SA political climate, stating that they are not focussed on winning the National election, but are instead focussing on reducing the ANC majority to below 55% and taking control of several key provincial governments.

A +60% Ramaphosa ANC win in the general election could well be a catalyst to get much needed Foreign Fixed Direct Investment flowing again and to lift Local Business confidence, the two most important constituents to ignite real job creation.

Moody's rating review.

Moody's opted not to release a review of South Africa's debt rating on Friday 29 March as initially expected by the markets. They provided neither a reason for this decision, nor a date for the next review. They have another diarized opportunity to review in November 2019.

While this decision by Moody's doesn't convey much information, it does benefit South Africa in the short term. With our government bonds still being labelled as investment-grade, many institutional investors are still allowed to hold and buy them, thus South Africa has avoided a possible major outflow of institutional money. The delay also gives the government more time to get their ducks in a row by implementing strategies that are both pro-growth and confidence-inspiring.

Post quarter end Moody's published a South African research piece that was much more positive than most local analysts' views. The Rand strengthened 2% on the back of this news.

Eskom.

Failed State-Owned Enterprises and especially ESKOM are possibly the biggest problems plaguing the South African investment landscape. The large-scale mismanagement of the state-owned entity has recently literally left South Africans in the dark once again. Coal shortages, unplanned maintenance and a cyclone in Mozambique triggered rolling Level 4 power cuts lasting over a week in March.

The effect of Eskom's problems doesn't stop there. With total debt quoted at a staggering R419 billion and estimated to increase to R550 billion if the coal shortages persist, debt at Eskom is already unsustainable, as the R26.5bn cash from operations they generate is only roughly half of the amount the company needs just to service the annual interest payments of R45bn. Now you understand the need for the R23bn p.a. bailout mentioned in the budget.

In the annual State of the Nation Address, President Cyril Ramaphosa stated that the rescue plan for Eskom would result in it being split into three separate state-owned entities, but whether this plan will work remains to be seen. Eskom in the meantime has socio-political issues to deal with on the labour front, with estimates that they are overstaffed by a 30%. ANC political alliance partners COSATU will not be happy if those jobs are lost. The ANC have kicked that can down the road beyond the May elections.

The load shedding in this past quarter has had a noted impact on the South African economy, with estimates that the country has missed out on R30bn of GDP due to the power cuts Feb and March.

ANNEXURE A

Our historic and current Broad / Regional / Sector Asset Classes Valuations (1 is negative outlook and 5 is positive outlook)

	5Y Ago	3Y Ago	2Y Ago	1 Y Ago	6M Ago	3M Ago	2M Ago	1M Ago	Latest
Global Asset Allocation									
Equities	4	3	4	4	3	4	4	4	4
Real Estate						2	2	2	2
Fixed Income	2	3	2	2	2	2	2	2	2
Cash	1	3	3	3	4	3	3	3	3
Global Equities - Regional									
United States	4	4	4	3	4	4	4	4	4
Euro Area	3	4	4	4	3	3	3	3	3
Japan	4	3	4	4	4	3	3	3	3
Emerging Markets	2	2	2	2	1	1	1	2	2
Canada	2	3	3	3	3	3	3	3	3
Australia	2	2	2	2	2	2	2	2	2
United Kingdom	3	2	2	2	2	2	2	2	2
Global Equities - Sectors									
Financials	2	3	4	3	3	3	3	3	3
Info Tech	3	4	3	3	3	3	3	3	3
Healthcare	4	4	4	4	4	4	4	4	4
Communications Services	3	2	2	3	3	3	3	3	3
Industrials	2	4	4	3	2	2	4	4	4
Consumer Discretionary	2	2	2	2	3	3	3	3	3
Consumer Staples	4	2	2	4	4	4	2	2	2
Energy	4	4	4	3	3	3	4	4	4
Materials	2	3	3	2	2	2	2	2	2
Utilities	3	2	2	2	2	2	2	2	2

Source: BCA Research

ANNEXURE B

Funds' Performance Summary (GBP)

As at 31 March 2019	QTD	YTD	1 Year	3 Years*	5 Years*
IZA Global Stable Portfolio	6.81	6.81	6.32	9.20	9.24
<i>Benchmark (Cautious)</i>	3.38	3.38	2.18	3.80	3.41
IZA Global Balanced Fund	8.64	8.64	7.65	12.61	12.17
<i>Benchmark (Flexible)</i>	6.27	6.27	6.12	8.14	7.80
IZA Global High Growth Portfolio	10.20	10.20	11.96	17.67	17.08
<i>Benchmark (MSCI ACWI)</i>	9.87	9.87	10.12	14.84	12.27

Asset Class Performance (GBP)

As at 31 March 2019	QTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	9.87	9.87	10.12	14.84	12.27
Global Property - FTSE EPRA Nareit DR	12.38	12.38	20.96	11.11	12.93
Global Bond - JPM GBI Global Traded	-0.48	-0.48	6.57	4.28	6.03
Global Cash - ICE LIBOR 1 Month	0.18	0.18	0.65	0.45	0.48
SA Equity - FTSE/JSE All Share	5.27	5.27	-7.09	9.91	5.04
SA Property - FTSE/JSE SA Listed Prop	-1.09	-1.09	-16.58	0.01	4.18
SA Bond - Beassa ALBI	1.21	1.21	-8.49	14.52	6.84
SA Cash - STeFI Call Deposit	-0.93	-0.93	-5.74	11.06	4.92

Asset Class Performance (ZAR)

As at 31 March 2019	QTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	12.70	12.70	24.50	10.42	13.83
Global Property - FTSE EPRA Nareit DR	14.77	14.77	39.86	5.10	14.88
Global Bond - JPM GBI Global Traded	2.08	2.08	20.49	0.27	7.51
Global Cash - ICE LIBOR 1 Month	2.75	2.75	13.79	-3.41	1.88
SA Equity - FTSE/JSE All Share	7.97	7.97	5.04	5.68	6.50
SA Property - FTSE/JSE SA Listed Prop	1.45	1.45	-5.68	-3.84	5.63
SA Bond - Beassa ALBI	3.81	3.81	3.46	10.11	8.33
SA Cash - STeFI Call Deposit	1.62	1.62	6.57	6.78	6.38

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