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invest with the times

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Strong growth in the New Year

2016 is set to be prosperous year for Ecsponent. Not only did we announce higher profit earnings per share at the end of last year, but also increased the number of Group susidiaries in the last six months.

The sustained growth will strengthen our market capitalisation (which determines the value of the company) considerably over the next few years, benefitting investors.

The Group also fulfilled its mandate to acquire private equity investments with high gross profits, high barriers to entry, quality intellectual property and that could operate outside the South African borders.

This is exactly the reason why Ecsponent recently initiated negotiations to acquire the major shareholding in Return on Innovation (ROI) which is a technology driven media monitoring company providing clients with state of the art media monitoring, early phase trend detection and guidance in respect of brand management.

At the heart of the ROI monitoring system is ultra-high speed digitisation of multimedia matching algorithms with certain key words. This covers all international media which allows clients to respond appropriately and timeously to current opportunities and threats.

Further acquisitions included the purchase of the majority stake in Clade Investment Management (Clade), an innovative asset management company operating in South Africa, with a Financial Services Board category 2 and 2A investment licence.

Euné Engelbreght - Chief Executive Officer

Clade will offer a comprehensive range of alternative hybrid investment solutions for global and African investors.

It has received a mandate to manage funds of R500 million and negotiations are ongoing to access a network of more than a hundred financial advisors to market products to retail and institutional clients.

This year, we want to continue to strengthen the relationship with you as an investor. We look forward to contributing to your financial success in 2016.

Best regards,
Euné

What can we expect in 2016?

Will 2016 be a year "lost" for South Africa on the economic front? Are we becoming a second Brazil with junk credit rating status or is there still hope for our economy?

The global economy faces three main obstacles in 2016:

- Slower growth in China
- Lower commodity prices and
- rate increases by the US Federal Reserve Bank

Along with countries like Turkey and Brazil, South Africa is widely considered to be particularly exposed to a strong dollar and weak global growth.

South Africa's Credit Ratings

The international credit rating is concerning and analysts forecast South Africa's credit ratings will deteriorate further in 2016. This will damage our economic status, making it more expensive to raise money internationally.

Last month, ratings agency Moody's changed its outlook on

South Africa's sovereign credit rating from stable to negative. They pointed out that our economic growth is likely to remain low for the forseeable future. Fitch cut the country's grade to BBB-, the lowest investment assessment level, while S&P lowered the outlook on its equivalent rating from stable to negative.

These downgrades were driven mainly by slowing gross domestic product growth, which made us more vulnerable to capital outflows, rand depreciation, and rising budget and current account deficits. Not to mention the impact of the uncertainty about the Finance Minister. All three rating agencies said they could lower South Africa's rating, should growth remain "persistently weak" and the business and investment climate deteriorate further.

The International Monetary Fund (IMF) also lowered its growth outlook for South Africa, indicating that the economy would expand by only 1.3% this year, compared to 1.4% last year.

Slowing economic growth was partly due to the five-month platinum sector strike, other labour unrest and weak demand in general, both locally and globally.

How it affects us

The IMF said South Africa should focus on removing infrastructure bottlenecks in the power sector. Additionally we need serious reforms in education, labour and product markets to raise competitiveness and productivity, while also improving service delivery.

It is too early to see how government's structural reform plans will stimulate economic growth, especially seeing that the global influences have become more significant.

The producers' side of the economy – mining and manufacturing in particular – remains under pressure, while the private sector investment growth rate has been slowing down continually against a backdrop of weak business confidence. The longer this concerning situation persists, the more the employment environment will deteriorate, with further job losses already expected in sectors like agriculture, mining and manufacturing.

Interest Rates

Analysts expect that the Reserve Bank's inflation target of 3-6% will be breached twice in 2016 resulting in a worsening long term inflation rate and likely interest rate hikes.

The US Federal Reserve's announcement of a 0.25% rate increase in December is also bad news for South Africa. This will mean the South African Reserve Bank will have to increase the repo rate to prevent investment funds from flowing out of South Africa. This step will increase the prime leanding rate making credit card debt, overdrafts and home loans more expensive.

What can we look forward to in 2016?

The alternative energy industry like solar power generation will continue to grow and great investment opportunities are expected in the sector. Companies are expected to eliminate red tape and it is possible that the quarterly reporting of companies listed on the JSE can be abolished.

Despite the negativity, countries like Ethiopia, India, Democratic Republic of Congo and China continue to grow at 5% per annum. There are still good growth prospects in many countries and positive growth is predicted for South Africa. Ideally, the growth rate will reach 2% rather than the 1.3% growth predicted by the IMF.

How will this affect your investment at Ecsponent?

It is clear that much hinges on economic growth over the medium term. At Ecsponent your risk is diversified by investing across a range of South African industries as well as intercontinentally to minimise your risk exposure through listed preferential shares. Investors earn a fixed growth or income rate which is not affected by fluctuations on the JSE or lack of growth in a particular sector. Class C also makes provision for a fixed rate of return linked to the prime rate.

This means that if the repo rate increases or decreases, the prime rate will react and investors' income will be affected accordingly. In this way the investor can keep pace with the changing interest rates.

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