



## CMEFS WEEKLY INVESTMENT NEWS

3 July 2020

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

| Fund                | Last week Thursday | This week Thursday |
|---------------------|--------------------|--------------------|
| ALSI                | -4.62%             | -5.77%             |
| CMEFS Flexible Fund | -0.49%             | -0.49%             |

I spoke in last week's newsletter about the fact that as much as we might acknowledge that we need to get our economy back on track again, and not only get it back on track but get it back on track at a growth rate significantly higher than what we achieved in the last 10 years or so, to do this, we need energy, otherwise known as electricity.

I also highlighted that whilst the economy is shrinking, with the first quarter's growth rate clocking in at a magnificent -2%, we are being asked by Eskom to reduce our demand for power.

Now bear in mind that when we talk of a negative growth rate of -2% in the first quarter which ended on the 31<sup>st</sup> March, we are not factoring in the effect of the lockdown starting on the 26<sup>th</sup> March, thus losing only 3 working days in March.

That is to say, even without the lockdown, we would have come in at a growth rate of -2%.

Then, of course, we had the lockdown, and remain in lockdown, albeit at level 3, so it is most certainly not a case of "all systems go" at present.

In fact, far from it.

And yet we are being asked to reduce our demand for electricity to avoid the risk of entering into forced load-shedding once again.

Now as if this were not problem-enough in itself, it seems that Eskom has recently won a number of their applications against Nersa (National Energy Regulator of South Africa) regarding increasing tariffs into the future **OVER AND ABOVE** those already agreed upon.

Should they win all their applications, which now seems highly likely, the bottom line is that tariffs in such an event will increase sharply, again **OVER AND ABOVE** those already agreed upon, by more than **50%** over whatever period is finally agreed upon between Eskom and the Regulator.

Now that is a whopping increase, and I have little doubt in my mind that not only will individual retail consumers drastically cut back on their use of electricity thus negating the effect of the increase, but it is also going to result in energy-intensive producers relocating their factories elsewhere to cut their costs of production to remain globally competitive.

This, of course, will also lead to further job losses and a reduction in gross domestic product, and we are desperate to increase both of these if we are to have any chance at all of digging our way out of the hole we now find ourselves in.

One way out of this is for the government to allow independent power producers to fire up and start selling directly to end-users right away.

I do not doubt that they will be able to under-cut Eskom given their new proposed pricing structure.

However, should the government do this, less and less revenue will find its way to Eskom resulting in the government having to make good on the guarantees they have put in place in so far as Eskom's ballooning debt is concerned.

And frankly, the government just does not have the money to do this.

It is already in way over its head and no matter how you look at it, the starting point of any economic recovery is to ensure that there is sufficient energy in place to fuel the growth needed.

Further to this, and moving away from the energy issue, the next thing the government has to do is root out corruption.

In this regard, I was very distressed to read recently that the SIU (Special Investigating Unit) is currently investigating certain corrupt activities, with an intention to illegally benefit from the R500bn Covid-19 relief fund, as this certainly does not auger well in so far as the fight against rooting out corrupt activities are concerned.

It seems despite all of the very best efforts made to date, the scourge of corruption continues unabated.

And unpunished.

I have yet to see those found guilty of corruption being sent to prison (at the very least) in droves, as they should be.

When corruption reaches a certain tipping point in the affairs of any country, the trajectory of that country from that point on is downward.

And I say again as I have said many times in the past, the fight against corruption begins with you and me.

We first need to ensure that we are not ourselves corrupt and only then can we look beyond ourselves to ensure that others are not corrupt.

We need to develop a 0% tolerance as a nation to corruption.

But I fear this is not to be as I also read this week that the ANC has confirmed that its national executive committee resolved to reinstate two Limpopo officials implicated in the VBS Mutual Bank saga.

They include former Vhembe executive mayor Florence Radzilani and Danny Msiza.

Radzilani was named in the Great Bank Heist report as having allegedly received R300,000 as a Christmas gift from the bank's directors after her municipality deposited money.

The Hawks said that 20 municipalities deposited nearly R3.5 billion with VBS against provisions in the Municipal Finance Management Act.

Despite all this, ANC secretary-general Ace Magashule said that the NEC decided to reinstate the pair, saying:- (emphasis my own)

*"The report noted that it is now close to two years since the two comrades stepped aside from their positions as provincial deputy chair and provincial treasurer respectively. The national executive committee took a decision to reinstate these two comrades immediately."*

And this is just two days ago.

We then also need to stop making what can only at best be described as nonsensical decisions (and I am being as polite as I can be here), abandon ideologies and pet projects, and simply decide to "get on with the job".

And yet here we have the cigarette ban firmly in place whilst the alcohol ban has been lifted.

I am not a smoker.

But this decision is crazy from every single perspective one cares to look at it from.

SARS are in desperate need of revenue and are being denied something like R35m **DAILY** whilst the ban remains in place.

This money will, later on, have to be borrowed by the government and repaid by us, the taxpayers, at exorbitant interest rates.

Ample anecdotal evidence shows that this ban has not resulted in the vast majority of smokers cutting back on smoking.

They continue to smoke.

They are however paying a lot more to satisfy their craving.

This results in them having less money to spend on other goods and services against which the government would otherwise have collected VAT, resulting in a further loss to the fiscus.

So even more money will have to be borrowed by the government and paid back by us.

And these goods that would have been bought, but were not bought, meant that our producers needed to produce less than they otherwise would have had to produce, meaning that they needed fewer employees than they otherwise would have needed, resulting in a reduction in the rate of employment.

As most (all?) of these illegal cigarettes are coming in from Zimbabwe, I hear at three times the normal selling price in some instances.

There is therefore a lot of money leaving SA to create really great work opportunities for the Zimbabweans whilst we shed jobs here.

And then have to fund those who are put out of work as a result of the ban, resulting in yet greater borrowings to be repaid at a later stage by us, the taxpayer.

Then, of course, we all know that unlike with alcohol, you CAN smoke and drive, so desperately scarce hospital beds will not be taken up by those injured in traffic accidents as a result of accidents caused by drunk drivers.

Further, domestic violence and abuse are not fueled by smoking (although I do not doubt that the converse is not true as smokers are deprived of their much-needed fix) as is the case with alcohol abuse.

It is in the making of these kinds of nonsensical decisions that one is driven to start losing confidence in the country's leadership.

And if one is to dig oneself out of a hole, the first thing to do is to stop digging, and it does not seem to me that this simple fundamental is quite understood by many in government at this time.

So in brief, to dig ourselves out of the proverbial hole we find ourselves in, we need an abundant, cheap and reliable source of energy, none of which seems to be available at this time or at any time in the foreseeable future..

We need to aggressively root out corruption and adopt a zero % tolerance towards any form of corruption.

Again our leadership seems to be oblivious to this simple fact, given the recent action of the ANC secretary-general Ace Magashule and the starting of the plundering of the Covid-19 relief fund.

We need to trust that our leaders are making good, well-considered decisions before implementing them, and what we see rather are ill-considered decisions being made, based it seems on the pursuit of the satisfying of personal agendas rather than them being made in the best national interest of the country.

And before you become too depressed and ask the last one to leave the country to please make sure they switch off the lights, please note that this kind of behavior now seems to be global in its reach, excluding no countries except perhaps a very few here and there.

America is becoming more and more of a basket case.

The problems being such that in my view even a change in leadership will not be able to address, although it might ameliorate some of them.

Both China and Russia now effectively have “presidents for life” – a serious problem given recent behavior on both of these nations' parts.

The European Union is fighting with itself.

The UK's exit from the European Union could not have been more badly timed.

And Argentina is once again in default of its debt.

It just has not become the problem that it actually is as “negotiations” are “still underway”.

A full 100+ of the top 500 public companies listed on the S&P 500 in the US have not made sufficient profits in the last 10 years to even service the interest on their debt.

These are what are known as “Zombie companies” continue to function by borrowing even more money at close to zero interest rates.

In this last week or so, a full 200+ of these top 500 public companies listed on the S&P 500 have not issued a guidance statement (as they usually would) on what they expect to publish in this quarter's financial statements in so far as earnings and future earnings expectations are concerned.

No prizes for guessing why.

And so it goes.

Like I said, we do not own the rights to messing things up.

However, to address a problem one first has to acknowledge that there is a problem.

And this is what this week's news has been about.

I hope you enjoyed the read.

Until next time then, do take good care of yourselves.

Kind regards, Nine, Charles, and all of us at CMEFS.