Newsletter | November 2021

Capricorn Asset Management
a member of **Capricorn Group**

Holiday Operating Hours

Our office will close at 14:00 on 24 & 31 December 2021.

Should you wish to make deposits or withdrawals on your investment portfolio on the above mentioned dates, please ensure your instruction is submitted by 11:00 in order to ensure timely processing of your instruction. You may submit your instruction via Capricorn Online or Bank Windhoek Internet Banking platform.

If you have not yet registered for Capricorn Online please contact our sales team at 061 299 1950 or cam.service@capricorn.com.na

Being Connectors of Positive Change

The CAM staff have initiated various activities through the year to support our communities. By truly being Connectors of Positive change and actively becoming #Changemakers they have made a real impact.

Movember Awareness

November kicks off a worldwide movement, when ordinary men take on the brave task of growing a moustache for charity in a bid to raise awareness about men's health issues, specifically regarding cancer.

The CAM guys came together at Parted Barbershop for hot towel shaves in the spirit of Movember and as connectors of positive change CAM pledged to match the costs of all shaves as a donation to the Namibian Cancer Association.

The day of the event saw lots of comradery amongst the men as they all gathered together in anticipation to witness each other's shaving transformations. Some of the guys had never been seen without beards before so one can only imagine this was quite a sight to see. As each guy came out from their shave they were greeted with jovial celebration and laughs as a result of their Benjamin Button like transformations.

At the end of the day Movember is supposed to be a fun experience however, the true focus should always be to create support, positive discussions and awareness regarding men's health issues. So, if you have taken the challenge of growing your Mo or would just like to support the cause, then please don't forget your fellow Bro and use your majestic moustache as a conversation starter to spread awareness and empower yourself to be a connector of positive change.

Baby Haven Orphanage

Last year one of the chosen charities of the CAM staff's Impact Fund was Baby Haven, an orphanage located in Grysblok, Katutura. Due to their dire need for support, CAM staff decided to devote their 2021 Impact Fund focus on them once again. CAM as a business also provided additional support to this CSR initiative in the spirit of the festive season to give a gift on behalf of our clients to those in need. Some of our clients also jumped to the cause and donated much needed materials.

Baby Haven has a total of 14 children between the ages of 6 months and 16 years old and they are taken care of by their faithful caretaker Lulu. CAM has pledged to not only help clean up the orphanage by doing much needed renovations such as repainting and constructing new rooms for the children as well as build them a vegetable garden and repair their jungle gym.

The cleanup started on the 5th of November with follow-up visits every Friday for the month of November, where the CAM staff did morning and afternoon shifts to clean up the yard, paint and construct the rooms, garden and jungle gym, some volunteers even devoted entire days and after hours to the cause. The children also assisted and, in the process, learned some valuable gardening and painting skills.

CAM hopes that the impact of their efforts truly results in positive change and that the revitalized orphanage encourages its children to strive for greatness in both their personal and academic lives and that they can also be inspired to one day become connectors of positive change.

Should you wish to become involved in any of our projects, or donate items to be distributed via the staff's Impact Fund, you may contact us at cam.info@capricorn.com.na or 061 - 299 1917.

Enhanced EFT Services - Nampay

As of the end of June 2021 we, Capricorn Asset Management, switched over to the new Enhanced EFT (E-EFT) Services as introduced and required by Nampay for payments to authorized commercial banks for amounts less than N$5 million. As the system was implemented, some growing pains was experienced by Nampay which impacted some of our clients. We will however continue to ensure that the impact on our clients are minimal with an overall smooth transition.

The new E-EFT also brings along with it some new benefits, such as payments even quicker than the normal 24 hours time frame (within designated CAM cut-off times) and an increase in the debit order limit from N$500 000 to N$1 million.

We will continue to ensure our controls are in place and will continue supporting the function as well as providing recommendations for further enhancements, adding value and delivering a pleasant client experience throughout.

Hedging against currency risk

When we talk about investment risks, there are many different risks to consider, specifically in a Namibian context. There is credit risk, which is the risk that the instrument you invested in becomes completely worthless due to the issuer going belly-up. There is inflation risk, which is the risk that the purchasing power of your investment will erode over time. Then there is counterparty risk, which is the danger that the institution you choose to handle or facilitate your investment has lost your money because of fraudulent practices.

We could spend a lot of time discussing each of these prominent investment risks, but for now, let' focus on another very relevant risk to Namibian investors namely **exchange rate risk**. The Namibia Dollar is pegged to the SA Rand, which means we need to be mindful of country risk of SA and hence the volatility of the Rand.

So, what exactly does exchange rate risk mean for Namibian investors? It means your investment value may decrease due to our currency losing value relative to other currencies. Simply put, when your investment's value is measured in Namibia Dollars, and the Namibia Dollar weakens, e.g., against the US Dollar, then you have become poorer compared to an investor in the USA. And while you may not feel poorer immediately, over time, the weaker value of our local currency will indeed pass on to you through higher import prices and higher inflation. Exchange rate risk can happen gradually, or drastically as has been the case in Zimbabwe in the recent past.

In Namibia, we have been experiencing the gradual weakening of our currency against all the major currencies in the world for several years now. For example, over the last 10 years, the Namibia Dollar has weakened by 6.3% per annum against the US Dollar and by almost 5% a year against the Euro and British Pound.

Now, a 5% reduction a year may not sound like much, but over 10 years, it means a cumulative deterioration of 40% which means we in Namibia are 40% poorer than developed countries. Furthermore, the expectation is that the SA Rand will continue to weaken by between 5% and 6% in the coming year against these currencies. So, although this has been a gradual process for us, our investments' values over time have become significantly less than that of the rest of the world.

Now the question is: "How do you hedge yourself against this risk?". The answer is straightforward - invest in instruments priced in currencies other than the Namibia Dollar or SA Rand. You as an investor will need to diversify your investment portfolio to include instruments priced in, e.g. US Dollar or any other developed country currency.

And there is a reason why we recommend developed market economies as opposed to emerging market currencies. Because SA, and by implication then Namibia, are part of the emerging markets economies, it defeats the purpose of taking your money away from one emerging market only to invest in another. For most global investors, these emerging market currencies are grouped together and will tend to move in much the same fashion against currencies in the developed markets. Therefore, in order to obtain a proper hedge against a weaker local currency, we advise that you to rather invest in developed countries.

Our range of Capricorn Unit Trusts includes the Capricorn Global High Yield Fund and the Capricorn International Fund which provides you with exposure to the International markets.

Make sure you, as an investor, get proper advice before you make any changes to your investment portfolio. Capricorn Asset Management is always available to discuss foreign investment strategies.

Economic Overview

Rising interest rates, rising inflation, rising Covid-19 (Omicron) cases, rising socio-political tensions. Falling confidence, falling trade due to disruptions, shortages and market volatility. What is one to make of all this?

For one, it is important to keep one's balance and distinguish between noise and fundamentals. There is a saying that "one should sell down to the sleep level". That is to say that, if one's investment plan gives you sleepless nights, then you are too aggressively positioned for your risk profile – one's ability as well as one's willingness to take risk.

It is early days in the looming Omicron saga. It could yet derail many a well-laid plan and with it, snuff out the hoped-for domestic economic recovery of 3%+ growth. However, we sense that there is enough momentum in the global economy to achieve growth of 4% to 5% in 2022. There are several "ifs" and "buts" though. For instance, "if" the current trajectory of lockdowns and travel restrictions are maintained, then it will have a severely negative effect economically, socially and psychologically. "If" not, then not so much.

The markets have already reacted to a certain degree to the combination of two major forces – the prospect of tightening by the Fed and the flare-up of Covid-19 – which, together, make for a positive US dollar environment. This meant that the rand, and with it the Namibian dollar, depreciated by nearly 7% against the dollar for the month of November – even faster than we anticipated.

Therefore, even though global equity markets were generally weak, in Namibian dollar terms it returned 5.5% so far for the month. Over the twelve months to the end of October, offshore equities returned 32%. The currency is probably oversold now, but this tendency for it to depreciate over time, combined with a still strong outlook for global earnings growth, argues for a full exposure offshore.

In the end, the SARB started to raise interest rates in its last meeting of the year. It appears that the normalisation argument won out over most other considerations. This means that money market returns going forward could improve somewhat, but not by much, given that rates already factored in a gradual rise. The 5% to 6% ballpark for expected returns is likely to prevail for the next year or so.

The USD-friendly environment also meant that domestic bond yields rose on the back of souring sentiment towards emerging markets. Over the past two months, the RSA generic ten year Government bond yield rose from 9% to 10%, which would have negatively affected capital values. However, it also means that the yield has become more attractive, compensating for fluctuations in market values. Similarly, Namibian inflation linked bonds' pricing had become more enticing while protecting against the danger of future inflation.

As always, a key factor in lending is to watch counterparty risk. In the wake of the mid-term Budgets of both Namibia and SA, this risk with respect to these Governments, would have declined, because the fiscal trajectories improved. However, yields still rose, which we believe to be more of an EM story than a SA story. Even taking the improved outlook into account, funding requirements will remain large, keeping yields high. We do not foresee a default on domestic debt for the foreseeable future. The Bond Fund returned 12% for the 12 months to October.

Property is still a value play. Fundamentals remain poor in terms of vacancies, low rental escalations and increasing cost pressures, with hikes in electricity and municipal rates and taxes. However, the asset class is still 66% below its peak, even though the Property Fund delivered 63% over the past twelve months. Distributions have started to grow again, lifting the dividend yield to 6.3%.

From the dip in September, domestic equity had a decent run of about 16%, before its most recent wobble due to the Omicron news – much in line with equity markets globally. Valuation remains favourable with a forward price-to-earnings ratio of just under 10 times, still the cheapest it has been in more than 10 years, and a forward dividend yield of 5.3%. The Equity Fund returned 37% for the twelve months to October.

The multi-asset funds returned 6%, 20% and 27% from the Stable- (conservative), Premier- (cautious) and Managed- (moderate) Funds, respectively. We believe that the diversification that these funds provide is still the best way to mitigate risk that might emanate from exposure to a single asset class.

We reiterate our "worry list" from our previous newsletter. The latter also contains outlook statements regarding 2022. The macro risks, or "Grey Rhinos" that we are watching are the following:

- Fiscal policy in Namibia and RSA. Weak revenue, large deficits, wage pressure and interest bills.
- Concentration risk in the Namibian financial system to Government exposure.
- Tightening of FED policy may bring about a more pro-USD environment, which is negative for EM.
- Evergrande-related issues, a cooling Chinese property market, economy and commodity prices.
- Inflation. Oil prices and its impact on fuel and possible second-round effects. Demand destruction.
- A negative pincer effect on corporate margins due to the differential between PPI and CPI inflation.
- A knee-jerk tightening by Central Banks, including SARB and BoN due to cost push inflation.
- Derailment of the recovery by lockdowns due to Covid-19 flare-ups. Namibian economy does not grow.
- Fiscal overkill by the USA. Huge spending plans leading to an overheating economy.
- Such overheating could play out in the residential property markets.
- Climate related regulations make doing business even more difficult and energy scarcer.
- Domestic politics & global geopolitical risk.

Over time, different risks will come to the fore and dominate headlines and then fade again to the background. All the while, we must distinguish between noise and fundamentals and focus on the likely impact on asset values as such, where fundamentals usually win out.