NORTHSTAR
ASSET MANAGEMENT

Suite 1A
Ground Floor
Madison Place
Alphen Office Park
Constantia Road, 7806
www.northstar.co.za

Postnet Suite 784
Private Bag X16
Constantia, 7848
TEL: +27 21 810 8400
FAX: +27 21 794 2885
admin@northstar.co.za

Northstar Asset Management (Pty) Ltd
Reg. No. 1996/001423/07, VAT No. 4290166646
DIRECTORS: AJ Clayton, MK Seymour, MCA Barbieri, AR De Swardt (Alternate: Andre Rousseau), MC Bertram, RJ Spangenberg

31 March 2020

In Karen Thompson Walker's 'The Age of Miracles' she examines what happens to life when the earth slowly stops moving.

Both nights and days grow longer, clocks lose their efficacy, trees whither and humans get physically ill all while their social bonds are tested.

Walker's version of the earth slowly stopping is less brutal than the one inflicted upon us by COVID-19. Under COVID-19, life has not been allowed to slow down, it's been stopped dead in its tracks, except for one reeling organism – the stock market. Markets have remained open, allowing an expression platform for savers to exhibit openly the depths of their despair and frustration and then let's not forget, their fears. Stock exchanges are now effectively mass public calculators reflecting what companies are worth when disallowed to produce profits. This is not an environment for investors with no backbone, equally so, for those responsible for making investment decisions on life-sustaining capital or savings.

The JSE fell over 35% between the 18th of January and 19th of March, its low point so far in this episode. Subsequently it rallied 16% off these lows, this as we write to you. Even after the bounce, the correction amounts to a 25% fall. Our market, having not participated in the 5-year global equity rally enjoyed by other markets (the JSE is at the same level as it was in June 2014), proved extremely vulnerable, yet again, in the virus crisis. In dollar terms, it was a clear global underperformer, this largely ascribable to the rand that has weakened 24% against the dollar since the equity collapse of 18th January. At the end of December 2019, the ZAR traded at 13.99 to a US$ - we are now touching R18, a collapse of almost 29%. As we pointed out in our communication about the Moody's downgrade, this currency move has resulted in the rand being the most undervalued since 2001 – nothing tepid has occurred during this period!

Against this gloom, we really do see opportunity. In 2019, our favourite offshore stocks had started to become expensive, forcing us to lift cash exposures within our offshore funds. The 2020 market correction now allows us to once again, buy great foreign businesses at below fair prices. Despite the ANC's mismanagement of our economy to the detriment of SA Inc., the majority of locally listed stocks are presently deeply underappreciated by the market. We, at Northstar, are on a real drive to capitalise on this mispricing and to position portfolios into our first choice SA companies. This approach is being applied within our income fund too – our income team is buying assets at basement-level prices.

As we conclude this quarter's commentary, we want to reiterate our response to novel coronavirus with respect to our practical handling of your investments. We see this as a time continuum – 'before it started', 'now that we are in it', and 'how we need to come out of it'! Before COVID-19 happened, we promoted offshore exposure and asset diversification through the use of Northstar's unit trusts – these actions saved our clients a lot of money. Now that we are 'in it', we are actively reviewing all our company valuations, we must be sure that our models adequately reflect the risks and opportunities that companies face due to novel corona. Then lastly, we aim to ‘come out of this’ owning businesses with the highest levels of financial stability that reflect the quality criteria which we look for at Northstar Asset Management.

May this time of lockdown be a period of reflection for you and we sincerely hope that you remain safe and healthy.

Yours sincerely,

Adrian Clayton and the Northstar Team