



ALUWANI
CAPITAL PARTNERS

BCI GLOBAL INVESTMENT MANAGER CONFERENCE

COULD / WOULD SOUTH AFRICA DEFAULT ON ITS DEBT?

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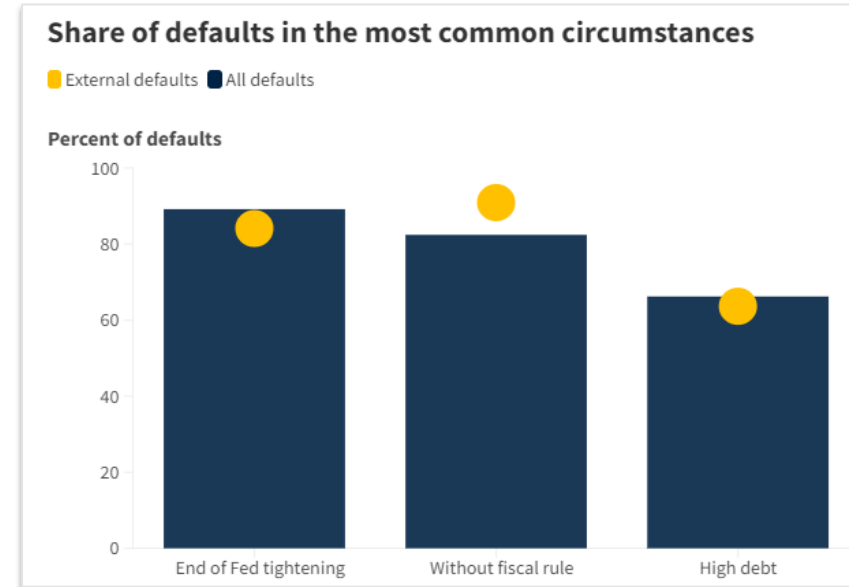


Finding a better way



CURRENT BACKDROP

- There have been 42 sovereign bond defaults since 1997, 21 of which took place since 2010
- The number of EM's in debt distress is the largest since 2000



Source: Brookings, World Bank, Moodys, Asonuma & Trebesch (2016), Erce, Mallucci, Picarelli (2022)

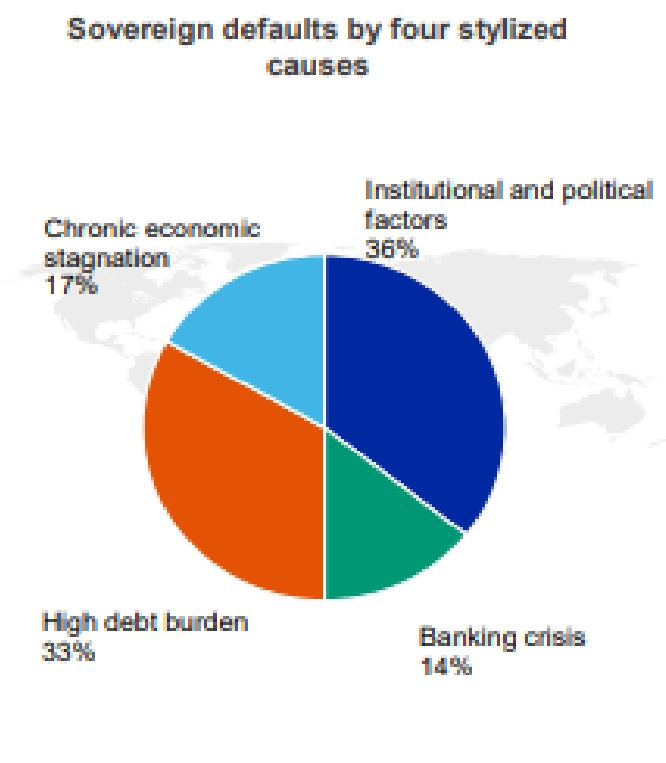


WHY DO SOVEREIGNS DEFAULT?

Exhibit 1

The causes of sovereign defaults over 1997-2020 can be grouped into four categories

<p>1. Chronic economic stagnation</p> <p>Chronic economic stagnation, a weak fiscal position and domestic vulnerabilities combined with large external shocks and loss of investor confidence and culminated in a sovereign default</p> <p>Russia (98), Ukraine (98-00), Argentina (01), Grenada (04, 13), Venezuela (17), Suriname (20)</p>
<p>3. High debt burden</p> <p>Persistent external and fiscal imbalances built up to an unsustainably high debt burden. Slow buildup of debt and a deterioration in debt affordability eventually resulted in a sovereign default</p> <p>Pakistan (99), Moldova (02), Dominica (03), Seychelles (08), Jamaica (10, 13), St. Kitts and Nevis (11), Greece (12), Belize (06, 12, 17), Barbados (18), Lebanon (20)</p>



<p>2. Institutional and political factors</p> <p>Civil conflict or institutional weaknesses, such as unsustainable fiscal policies, mismanagement of contingent liabilities and administrative delays caused sovereign defaults</p> <p>Mongolia (97), Venezuela (98), Turkey (99), Côte d'Ivoire (00, 11), Cameroon (04), St. Kitts and Nevis (13), Argentina (14, 19), Ukraine (15), Mozambique (16, 17), Republic of Congo (17), Ecuador (08, 20)</p>
<p>4. Banking crisis</p> <p>Systemic banking crises and capital outflows contributed to a large and sudden buildup of public debt and eventually triggered a government default</p> <p>Ecuador (99), Uruguay (03), Nicaragua (03, 08), Dominican Republic (05), Cyprus (13)</p>

Source: Moody's Investors Service



EVALUATING DEBT SUSTAINABILITY

- Default risk rises as debt burden rises, but a high debt burden is neither a necessary nor a sufficient condition for default
- $\Delta d_t = -pb_t + ((r_t - g_t) / (1 + g_t)) * d_{t-1}$
- Foreign currency exposure
- Contingent liabilities



COULD SOUTH AFRICA DEFAULT?

UBS EM fiscal vulnerability scorecard

	Public debt (% GDP)	10y change in debt/GDP	2024e Primary balance/GDP (a)	'Breakeven' primary balance/GDP (b)	Primary balance gap (a-b)	G-R	FX share in public debt	Saving rate (% of GDP)	Average term to maturity (years)	CAPB 2024-2023
Russia	22	7	-2.3	-0.8	-1.5	3.7	4	28.1	7.5	1.0
Czech Republic	44	5	-1.2	-1.8	0.6	4.4	0	29.3	2.9	1.9
Turkey	32	5	-0.8	-10.3	9.6	51.9	52	14.6	5.5	2.6
Indonesia	39	12	-0.1	-0.8	0.7	2.4	35	29.1	8.3	0.0
Poland	52	1	-2.9	-2.3	-0.6	4.8	23	20.5	4.9	0.8
Chile	41	24	-1.2	-1.9	0.7	4.8	36	19.9	9.8	1.6
Korea	56	15	-1.0	-1.4	0.4	2.7	1	34.5	10.4	0.4
Peru	34	10	-0.2	-0.2	0.0	0.7	50	19.8	13.6	0.3
India	82	13	-2.9	-2.9	0.0	3.8	0	30.1	10.9	0.6
Philippines	58	18	-1.8	-2.3	0.5	4.4	32	21.1	6.3	0.8
China	87	46	-5.8	-3.7	-2.1	4.5	0	43.5	7.4	0.0
Thailand	63	20	-1.5	-2.0	0.5	3.4	1	24.3	7.9	0.2
Mexico	55	4	-0.7	1.3	-2.0	-2.5	16	21.9	8.2	-2.3
Malaysia	67	10	-1.8	-2.4	0.6	3.9	2	27.3	8.8	0.5
Hungary	66	-10	-0.7	-1.9	1.3	3.2	20	22.5	5.8	1.9
Colombia	55	5	1.7	0.8	0.9	1.5	40	11.8	10.6	1.9
South Africa	76	31	-0.8	0.9	-1.8	-1.3	10	13.8	11.2	0.4
Brazil	90	19	-0.2	0.6	-0.8	-0.8	4	15.8	5.6	1.3
US	127	22	-4.3	-1.7	-2.7	1.4	0	16.4	5.9	1.4
Italy	143	8	0.0	-1.1	1.1	0.8	4	23.0	6.9	1.2

Lesser fiscal vulnerability

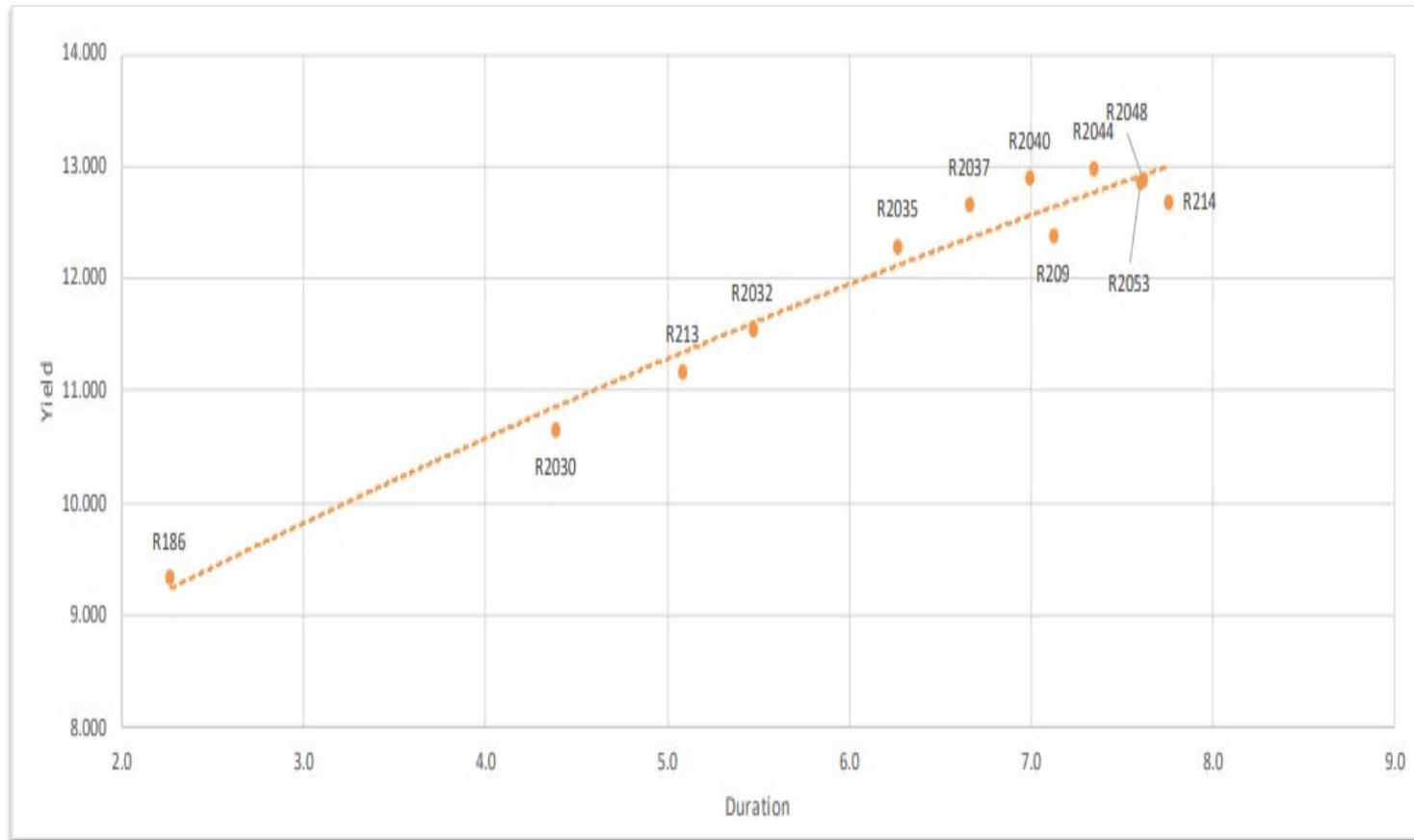


Greater fiscal vulnerability

Source: ALUWANI Capital Partners, UBS



SOUTH AFRICA'S COST OF DEBT IS EXCESSIVE



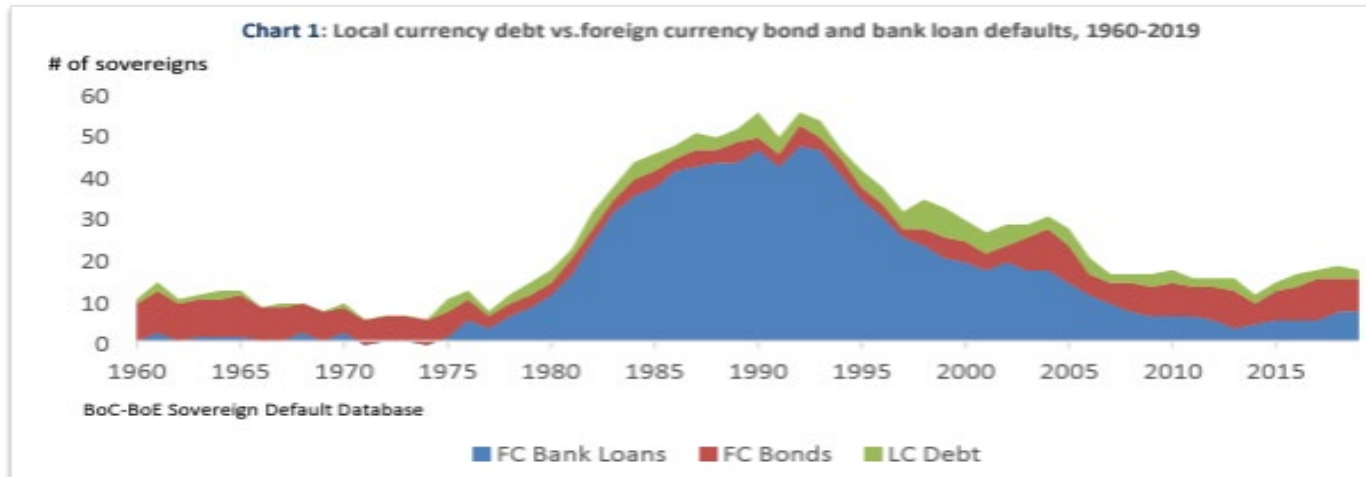
- The yield curve is very steep
- The debt maturity profile is very long
- Debt service as % of revenue = 20%
- S.A. borrows nearly R2bn each day

Source: ALUWANI Capital Partners



WOULD SOUTH AFRICA DEFAULT?

- They can just print money?
 - Risk of an inflation crisis (de facto default)
 - Risk of a currency crisis
 - Inflation target & Inflation-linked Bonds?
- They can raise taxes?
 - The amount would need to be significant
 - Laffer curve and decline in GDP growth



Source: Bank of England



SCENARIOS

WHAT NEEDS TO BE DONE TO AVOID DEFAULT?

- Increase real GDP growth & GDP per Capita
- Structural reforms – more productive spending
- Decrease the cost of borrowing
- Shorten the maturity profile of the debt
- Keep hard currency debt low as a % of total debt
- Run a balanced primary deficit
- Have a strong fiscal rule in place.

CONSEQUENCES & WARNING SIGNS

- Tolerate higher inflation to deflate the debt burden (default by stealth)
- Increased money supply / currency debasement
- Replace foreign borrowing with domestic borrowing
- Shorter debt maturities = refinance risk
- Prescribed assets
- Restructuring – creditor participation in debt restructuring has averaged 95% since 1997 (Moody's)
- Exchange old bonds for new ones of lower value.

Source: ALUWANI Capital Partners



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Category Description	Advice Non-automated	Intermediary Other
CATEGORY I		
Long-Term Insurance subcategory C	X	X
Shares	X	X
Money market instruments	X	X
Debentures and securitised debt	X	X
Warrants, certificates and other instruments	X	X
Bonds	X	X
Derivative instruments	X	X
Participatory interests in a collective investment scheme	X	X
Long-term Deposits	X	X
Short-term Deposits	X	X
Securities and Instruments	X	X

Category Description	Advice Non-automated	Intermediary Other
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Debentures and securitised debt		X
Warrants, certificates and other instruments		X
Bonds		X
Derivative instruments		X
Participatory interests in one or more collective investment schemes		X
Long-term Deposits		X
Short-term Deposits		X
Securities and Instruments		X



FAIS DISCLOSURE

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Individual	Status
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Lindiwe Teboho Buthelezi	Representative
Lonwabo Dambuza	Key Individual and Representative
Riad Daniels	Representative
Jacqueline Eberle	Representative
Monica Jaglal	Representative
Sibusiso Comfort Mabuza	Key Individual and Representative
Mila Mafanya	Representative
Bafana Patrick Mathidi	Representative
Sabelo Sydney Sibusiso Mbhele	Representative Under Supervision
Mmakgotso Mogoane	Representative
Siduduziwe Mtshali	Representative
Njabulo Ngcobo	Representative
Necessity Ngorima	Representative
Bongani Ngwanya	Representative
Kgothatso Nyabela	Representative
Elton Oliver	Representative
Zahira Osman	Representative
Mishnah Seth	Key Individual and Representative
Christopher Twycross	Representative
Ruaan van Wyk	Representative
Shoaib Ahmed Vayej	Representative
Conrad Wood	Representative

As at date of appointment, the above people all meet the necessary personal character qualities of honesty and integrity as well as the competency requirements relating to experience and minimum qualifications. They receive remuneration in the form of a monthly salary. None of them earn any commission on any products or services sold. ALUWANI accepts responsibility for the activities of these employees performed within the scope of their employment contracts.



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Name: Sibusiso Mabuza

Landline: +27 21 204 3800

Email: sibusiso@aluwani.com

Postal Address: Private Bag 9959, Sandton, 2146

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If you are dissatisfied with the response, you may contact the Ombud for Financial Services, at:

PO Box 74571

Lynwood Ridge

0040

Tel: +27 12 470 9080 or +27 12 762 5000

Website: www.faisombud.co.za

FAIS COMPLIANCE

The appointed Compliance Officer is Mr. Nick Howse of eComply Consultants (Pty) Ltd, a licensed Compliance Practice, CO 744, who is contactable on (021) 671 8162 or email: regulatorycompliance@aluwani.com



FAIS DISCLOSURE

PRODUCT SUPPLIERS

Boutique Collective Investments (RF) (Pty) Ltd

- ALUWANI BCI Money Market Fund
- ALUWANI BCI Enhanced Yield Fund
- ALUWANI BCI Flexible Income Fund
- ALUWANI BCI High Yield Fund
- ALUWANI BCI Balanced Fund
- ALUWANI BCI Top 25 Equity Fund
- ALUWANI BCI Global Balanced Feeder Fund

Registration number: 2003/024082/07

Address:
Catnia Building
Bella Rosa Village
Bella Rosa Street
Bellville
7530

Contact: clientservices@bcis.co.za / +27 (0)21 914 1880

Momentum Metropolitan Life Limited

- ALUWANI Active Bond Fund
- ALUWANI Active Money Market Fund
- ALUWANI Core Equity Fund
- ALUWANI Flexible Income Fund
- ALUWANI Active Inflation-Linked Bond Fund
- ALUWANI Global Multi-Asset Fund
- ALUWANI Optimiser Fund
- ALUWANI Capped SWIX Equity Fund
- ALUWANI Regulation 30 Income Fund

Registration number: 1904/002186/06

Address:
268 West Avenue
Centurion
0157

Contact: +27 12 671 8911



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