

October-2019

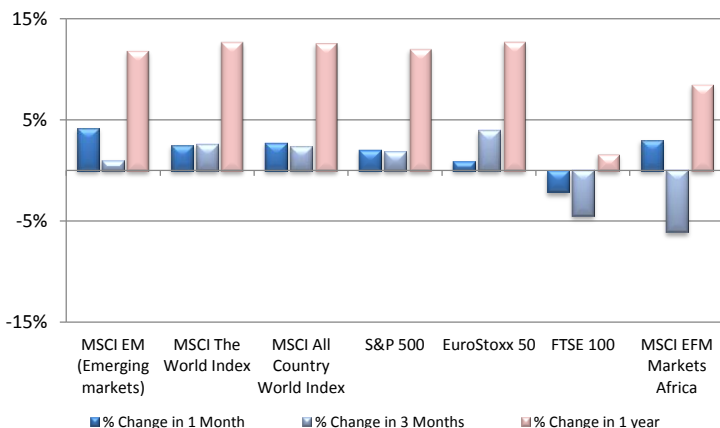
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**Foreign Equity Indices**

31/10/2019	Current Value (USD)	% Change in				
		Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
MSCI EM (Emerging markets)	491.61	4.2%	1.0%	11.9%	7.4%	2.9%
MSCI The World Index	6,526.90	2.5%	2.6%	12.7%	11.9%	7.6%
MSCI All Country World Index	266.21	2.7%	2.4%	12.6%	11.3%	7.1%
S&P 500	3,037.56	2.0%	1.9%	12.0%	12.6%	8.5%
EuroStoxx 50	3,604.41	1.0%	4.0%	12.7%	5.7%	3.0%
FTSE 100	7,248.38	-2.2%	-4.5%	1.7%	1.4%	2.1%
MSCI EFM Markets Africa	1,048.84	3.0%	-6.1%	8.5%	0.2%	-2.9%

\* annualised

Performance



All the major foreign equity indices, except the FTSE 100 registered positive returns over the month under review.

The **MSCI World** gained 2.5%, closely followed by the **MSCI ACWI** which returned +2.7% during October. **MSCI Emerging Markets** grew by 4.2%.

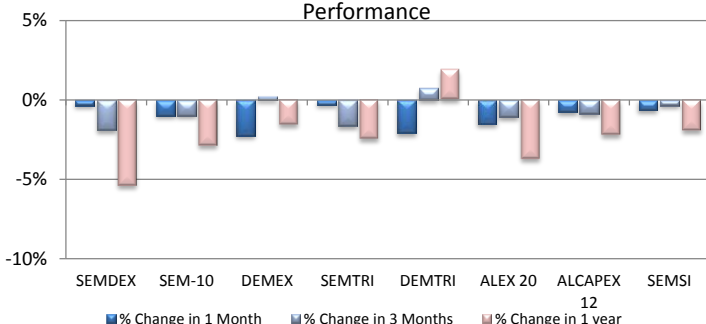
The recent updates regarding efforts to finalise the partial trade bargain between the US and China resulted in a lift in most global stock markets. The US stock markets also benefitted from the announcement of strong earnings by S&P 500 companies as well as from the third consecutive cut in interest rates. The **S&P 500** reached a **record high** at end-October, closing above the record set in July 2019.

The **EuroStoxx 50** rose by 1.0% this October. The **FTSE 100** dropped by 2.2%, mainly due the announced delay in Brexit that has affected banking shares.

**Local Equity Indices**

31/10/2019	Current Value (MUR)	% Change in				
		Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
SEMDEX	2,118.84	-0.4%	-1.9%	-5.4%	5.5%	-0.1%
SEM-10	417.54	-1.0%	-1.0%	-2.9%	6.7%	0.8%
DEMEX	231.32	-2.3%	0.2%	-1.6%	5.3%	2.6%
SEMTRI	7,985.90	-0.3%	-1.6%	-2.5%	8.7%	2.9%
DEMTRI	331.38	-2.1%	0.7%	1.9%	8.9%	5.9%
ALEX 20	1,089.00	-1.5%	-1.1%	-3.7%	6.2%	0.5%
ALCAPEX 12	1,547.00	-0.8%	-0.9%	-2.2%	5.5%	1.4%
SEMSI	121.34	-0.6%	-0.4%	-1.9%	NA	NA

Performance



On the domestic side, the local equity indices all fell and ended the month in red.

The **SEMDEX** and **SEMTRI** shed 0.4% and 0.3% respectively. The **SEM-10** fell by 1.0%.

The secondary markets followed a similar trend. The **DEMEX** and the **DEMTRI** lost 2.3% and 2.1% respectively.

**Mauritius ranks 13th out of 190 countries in the World Bank's Ease of Doing Business Report 2020** (published on the 24th October 2019). This recognition by the World Bank reaffirms the competitiveness of Mauritius as a jurisdiction conducive to do business whilst consolidating investor's trust. (Source: Economic Development Board)

**Results of the Mauritian 2019 General Elections**

Following the National Assembly elections held on the 7th November 2019, the outgoing Prime Minister and his coalition, L'Alliance Morisien (consisting of the Mouvement Socialiste Militant of Pravind Jugnauth and the Movement Liberator of Ivan Collendavelloo) won the majority of seats.

The 62 seats (60 in Mauritius and 2 in Rodrigues) have been attributed as follows:

- 38 to L'Alliance Morisien
- 14 to the L'Alliance Nationale (Consisting of the Labour Party and the Parti Mauricien Social Democrate)
- 8 to the Mouvement Militant Mauricien
- 2 to the OPR (Organisation du Peuple Rodriguais)

**Best loser system**

During his press conference on the 9th November, the Electoral Commissioner announced the names of the 8 additional Members of Parliament, as calculated by the Best Loser System.

4 were from L'Alliance Morisien, 3 from L'Alliance Nationale and 1 from the Mouvement Militant Mauricien.

Commodities 31/10/2019	% Change in					
	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months	Last 3 Years *	Last 5 Years *
Gold	1,514.80	2.4%	5.4%	25.0%	6.0%	5.3%
Oil	60.23	1.4%	-7.6%	-20.2%	7.6%	-6.8%
Sugar	12.48	4.7%	2.2%	-5.4%	-16.7%	-4.9%

**Gold price** gained 2.5% over the last month as the uncertainty surrounding a US-China trade deal boosted its safe-haven appeal.

**Brent crude oil price** experienced an increase of 1.4% thanks to the advances in the US-China trade resolution and the support from Saudi Arabia's plan to launch a public offering of Aramco IPO.

The **sugar price** rose by 4.7% during October.

31/10/2019	Weighted Average:	T-Bill Yield
91-Day		2.40%
182-Day		2.51%
364-Day		2.63%
31/10/2019		
Repo Rate		3.35%
Deposit Rate *		1.61%

\*Weighted Average Deposit Rate of Banks for the previous month

Foreign Indices 31/10/2019	Current Value (USD)	Last Month	Last 3 Months	Last 12 Months
S&P Global Property	540.46	2.7%	6.1%	21.2%
S&P Listed Private Equity	346.47	2.1%	5.1%	23.4%
S&P Global Infrastructure	5,585.78	1.5%	4.1%	16.1%
S&P Africa Sovereign Bond	788.95	0.9%	2.8%	14.8%
S&P 500 Bond Index	487.46	0.6%	2.9%	14.5%
S&P International CBI	135.04	2.8%	2.4%	8.4%
Barclays Global Aggregate Bond	512.59	0.7%	1.7%	8.9%

Currencies 31/10/2019	In MUR		% Change in			
	Current Value	Past Month	Last Month	Last 3 Months	Last 12 Months	Last 3 Years *
GBP	46.65	44.58	4.6%	6.9%	6.3%	2.3%
USD	36.25	36.45	-0.6%	0.4%	4.5%	0.3%
EUR	40.28	39.65	1.6%	0.6%	2.9%	0.9%

The **pound** appreciated by 4.6% relative to the MUR during October. This was mainly due to the recent favorable developments regarding Brexit and the announcement of general elections in the UK.

The **US Dollar** weakened by 0.6% relative to the MUR after the Federal Reserve further cut interest rates.

The **Euro** gained 1.6% relative to the MUR on the announcement that the Eurozone economy grew by 0.2% during the third quarter of 2019.

### Article: IFRS 16 (Leases) and its implications for investors

International Financial Reporting Standard (IFRS) 16 (Leases) was issued in January 2016. It makes significant changes to the way in which leasing transactions are reported in the financial statements of lessees. It is to be noted that it came into effect on 01 January 2019 and that many Mauritian companies are now adopting IFRS 16.

A lease is an agreement whereby the lessor (the legal owner of an asset) conveys to the lessee (the user of the asset) the right to use an asset for an agreed period of time in return for a payment or series of payments.



Leasing is an important and widely used financing solution. Many companies lease assets including cars, offices, power plants, ships, aircraft and technology. Leasing provides flexibility to businesses by enabling them to use and access assets without purchasing them. All companies using rentals or leasing as part of their business models have therefore been affected by the new standard.

The approach of IFRS 16's predecessor, IAS 17 was to distinguish between two types of lease.

Leases that transfer substantially all the risks and rewards of ownership of an asset were classified as **finance leases**. In the balance sheet, the lessee will recognize the asset and the liability for the lease, while in the statement of profit and loss, the lessee will recognize the interest cost and the depreciation of the leased asset.

All other leases were classified as **operating leases**. In such a case, there is only an operating lease expense, which appears in the statement of profit and loss.

The above lease classification set out in IAS 17 was **highly subjective**. As a result, the lease classification selected could on its own determine whether leased assets and liabilities are left out of the lessee's financial statements or not.

#### It was for this reason that IFRS 16 was introduced.

IFRS 16 replaces and substantially carries forward the accounting requirements in IAS 17. The aim is to increase comparability. The lessors' accounting requirements mostly remains unchanged.

IFRS 16 introduces a single lessee accounting model. With a very few exceptions, IFRS 16 now removes the distinction between an operating lease and a finance lease in the financial statements of lessees. Lessees will now recognise a right of use asset and an associated liability at the inception of the lease.

The switch to IFRS 16 can have a far-reaching impact on lessees' business processes, systems and controls. Lessees now require more in-house data around their leases to meet the new reporting requirements. The cost to implement and comply with the new standard could also be significant for lessees .

**Impact of IFRS 16 for Companies**

There is no longer a distinction between finance leases and operating leases. All leases will be treated as finance leases, with the exception of short-term leases (1 month or less) and low value leases.

IFRS 16 is likely to affect commonly used financial ratios and performance metrics such as gearing, current ratio, asset turnover, interest cover, EBITDA, EBIT, operating profit, net income, EPS, ROCE, ROE and operating cash flows. Loan covenants, credit ratings and borrowing costs could furthermore be impacted.

The new accounting treatment will amongst others, lead to:

- An increase in leased assets,
- An increase in net debt and gearing,
- Removal of operating lease payments, resulting in a higher EBITDA,
- A lower net profit, especially at the start of the lease, given higher depreciation and finance costs,
- A lower return on capital employed.

IFRS 16 will henceforth facilitate better comparison between companies using leases. Investors are nonetheless recommended to carefully assess the potential impacts of IFRS 16 on the financial statements of the companies before investing in them, more especially where operating leases were previously being highly used by the entities.

31/10/2019	Current Value	% Change in			(Annualised)
		Last Month	Last 3 Months	Last 12 Months	
CPI	116.47	-0.5%	-0.6%	0.4%	2.2%

The above figures represent the CPI as at October 2019. The year-on-year inflation rate for October 2019, as measured by the change in the CPI for October 2019 relative to October 2018 works out to 0.4%. (Source: Statistics Mauritius Website)

**General News**

**Ownership in half of the world's listed equities is highly concentrated.**

According to the OECD[1], there are approximately 41,000 listed companies in the world with a combined market value of more than USD 80 trillion. This is equivalent to the global GDP. More than 50% of this amount is held by institutional investors and the public sector. Almost half of the largest 100 listed companies are listed in the US market. The OECD has moreover noted the widespread concentration of ownership in individual companies. In half of the world's listed companies, the three largest shareholders hold more than 50% of the capital.

[1] <https://www.oecd.org/corporate/who-are-the-owners-of-the-worlds-listed-companies-and-why-should-we-care.htm>

**The European Union (EU) has agreed to give the U.K. three more months to exit the bloc.**

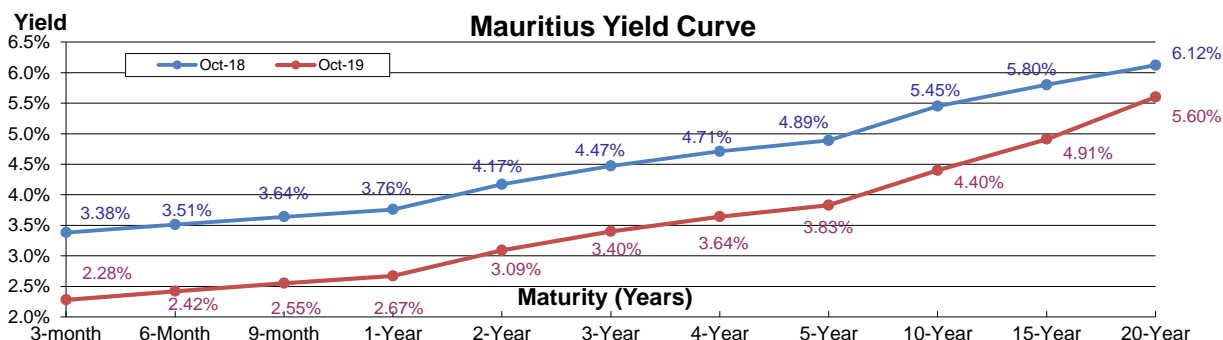
The U.K. will be able to leave the EU at any point before 31 January 2020 provided that its Parliament approves the exit agreement that Prime Minister Boris Johnson concluded with the other 27 EU leaders earlier this month. The original departure date was 31 October 2019. (Source: CNBC)

**On 30 October 2019, the Federal Reserve (FED) cuts interest rates for the third time in 2019.**

As uncertainties from President Trump's trade war and slowing global growth continue to pose risks to the US economy, the main aim of the rate cut is to insulate the US economy against the trade war threats and maintain the economic expansion.

**Brexit having a negative impact on Japanese companies in UK.**

The Japanese companies said they were affected by costs related to the need to build up inventories in anticipation of confusion in logistics and customs arrangements if and when Brexit goes ahead. (Source: The Guardian)



Aon Hewitt has developed an in-house Yield Curve based on average buy-and-sell yields for Government of Mauritius instruments. Key information is obtained from primary dealers. We note that over the last 12 months, local yields on treasury bonds of all maturities have fallen quite significantly. The five-year treasury bond yield stood at 3.83% at end-October 2019, falling by 1.06% compared to the yield at end-October 2018.

**Disclaimer:** Nothing in this document should be considered as being financial advice. Our consultants will be pleased to answer questions on its contents but cannot give individual financial advice.

\* All performance figures in this document have been annualised for 3 and 5 years.

Source: Stock Exchange of Mauritius, Bank of Mauritius, Statistics Mauritius, Axys Stockbrokers, MSCI, Bloomberg, etc.