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INVESTMENT REVIEW

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Contents

Isle of Man Budget Commentary 2018-19

"With modest increases in tax allowances, the Government's revenue growth is entirely dependent on the growth rate of the Manx economy..."

By David Long

As featured in the March edition of *Portfolio* (Isle of Man)

Treasury Minister Alf Cannan delivered his 2018 budget yesterday, which was approved by Tynwald by 20 votes to 4 after a six-hour debate.

Revenue for the year is projected to exceed the 2017-18 budget by £24 million (2.3%), giving the Treasury a welcome boost and enabling the Minister to both increase funding for public services by £13.8mn and to increase Child Benefit by 3.3%, while at the same time increasing the personal income tax allowance by £750, to £13,250.

There is little change in strategy with the Treasury aiming to restrain the expenditure increases to roughly 1.25% per annum below revenue growth over the medium term in order to reduce the structural deficit, which has stayed relatively unchanged at 8.9%, but is forecast to fall to just 2.2% of operating income by 2022-23.

With modest increases in tax allowances, the Government's revenue growth is entirely dependent on the growth rate of the Manx economy, and in particular, the total level of employment and consumption. Unfortunately, the Treasury do not publish GDP forecasts. Indeed, the latest release in October covered the period 2015-16 and showed the first annual fall in national income for 32 years, with GDP down by 1.5% and, more worryingly, GNP down by a massive 4.0%.

Given the improved revenue forecasts for the year, we can assume that the economic backdrop has improved somewhat over the last two years and the growth in employment is particularly notable. However, Government revenue is projected to increase by only 1.5% in 2018-19, before accelerating to 2.4% in 2019-20, 3.3% in 2020-21, and finally to 2.5% in 2021-22. This suggests that the Treasury is not expecting the Manx economy to return to its longer-term trend growth rates of 4-5% any time soon.

Lacklustre growth would be particularly concerning if the recent pick-up in inflation is sustained for any length of time. Inflation in 2017 reached 4.1%, although this eased modestly in January to 3.8%. Against this backdrop, modest increases in public sector spending (circa 2% for Health and Social Care) will not feel like increases, and public sector pay increases of 1% this year, and 2% thereafter, will increasingly feel like real terms cuts that may quickly become politically unacceptable.

Therein is the tight rope that the Minister must walk. Total Government spending is projected to be £12,667 for every man, woman and child on the Isle of Man. This is an extraordinary figure, equivalent to £50,668 for the average family of four. Perhaps even more remarkably, 30% of this total is spent on the state pension and public sector pensions. This is roughly equivalent to the total amount spent on Health and Education combined. It is difficult to imagine that expenditure at these levels is sustainable without the high levels of growth we have become used to, but which now appear elusive. In this context, a significant proportion of the revenue boost reflects increased receipts from National Insurance contributions; should high levels of employment continue, this will raise revenue and support the budgeted expenditure.

In response, the Treasury has sensibly boosted its capital spending programme significantly; more than doubling the budgeted spend in 2018-19 to £117 million- with £428 million budgeted over the next five years. This is a significant increase, and would provide a welcome boost to the economy if the programme can be delivered successfully. However, the Treasury's own analysis suggests that the actual figure is likely to be around £62 million this year, rising modestly thereafter to reach circa £320 million over the five years.

In summary, the Treasury Minister has succeeded in delivering a budget that has been broadly welcomed by MHKs whilst remaining prudent and on track to reduce the structural deficit over five years. The real challenge is how to boost growth upon which the current strategy depends. Increasing capital spending will help, as will growth initiatives such as the Enterprise Development Fund, yet the Treasury must hope that the general improvement in global growth will boost growth rates in the Isle of Man to ease the pressure on Government finances.

Key features of the 2018-19 Isle of Man Budget include:

- Personal income tax allowance increased by £750 to £13,250
- Child Benefit to rise by 3.3%
- £13.8 million additional departmental funding
- £117 million capital spending rising to £428 million over five years
- Continuation of 1% cap on the budget for Government staff pay awards for 2018/19, rising to 2% from 2019/20 allocated on the basis of need
- The introduction of new pension freedoms
- Pension triviality limit increased to £100,000
- Basic state pension to rise by 3%
- A range of other benefits to increase by 3.3%
- A top up of £1 million for the Brexit Fund, for the continued negotiations arising from the UK's departure from the EU
- The benefit in kind incentive to encourage cycling to work to be extended to include electric bikes

Global Update: The State of the Nation Address

By Graham Fisher

The all-encompassing, comprehensive, people-pleasing State of the Nation Address has been given and Capital International SA's Graham Fisher weighs in on it what it all means:

In his maiden State of the Nation's Address (SONA) on 16th February 2018, newly-appointed President, Cyril Ramaphosa, gave a broad overview of the strengths and weaknesses of the economy, emphasising that a "new dawn is upon us".

This SONA needs to be viewed in the context of the recent changes in the ANC (African National Congress) and government. Cyril Ramaphosa, who was already Deputy President of South Africa, was elected President of the ANC on 18th December 2017. Following this, increasing pressure was placed on President Zuma to resign- past pressures had left him unmoved, which led to the ANC recalling him on 13th February.

When he still refused to resign, the ANC called for a motion of no confidence on 15th February. Not wanting to be subjected to this humiliation, and claiming to always do things in the best interests on the party, he finally resigned. Ramaphosa was immediately sworn in as the new President on the 15th and delivered his first SONA on the 16th.

In an address that lasted around 90 minutes, Ramaphosa initially recalled some of the progress that the government had made since the election of South Africa's first democratic government in 1994. He quickly emphasised a return to ethical behaviour and leadership that was inspired and first demonstrated by Nelson Mandela. He indicated that additional economic measures were necessary to increase growth, break the cycle of poverty, and educate our children.

Throughout the day after Zuma's resignation, the JSE (Johannesburg Stock Exchange) rallied by 5%. Ramaphosa rightly pointed out that this was an "early indication that investor confidence is on the rise".

The list of topics that Ramaphosa mentioned as critical to achieve a turnaround in the economy and to address imbalances included the following, some of which have already commenced:

- A need to create drivers for economic recovery
- Tough decisions to be made regarding fiscal deficit
- Unemployment to be addressed via a job summit in coming months
- The need for infrastructure to be maintained and improved
- Foreign investment to be encouraged
- The Manufacturing sector to be expanded with localised programmes
- The development of new industrial hubs
- Ongoing support from government for previously disadvantaged professionals across industry

"Ramaphosa was immediately sworn in as the new President on the 15th..."

- Youth unemployment to be specifically addressed with internships and other inclusive programmes
- Healthcare to be improved with a national health insurance starting in April
- Aiming to double the amount of jobs provided by tourism
- Small and medium-sized enterprises to be boosted by a higher percentage of local procurement being allocated to them
- The need for a 'digital revolution' in IT and telecommunications
- The introduction of a national minimum wage in May
- Higher education to be free for lower-wage earners; to start in 2018 (defined as annual earnings of under R350,000)
- The start of a campaign against cancer, similar to the aids programme
- Taking tougher action against crime in order restore community trust and safety
- The land distribution programme to be accelerated to increase production, which will include expropriation without compensation

However, this last point could have highly negative connotations for local and foreign landowners, and in spite of Ramaphosa's assurances that he will not permit land grabs, it appears that this policy will need more clarification to allay fears in response.

In particular, Ramaphosa placed particular emphasis on areas that need extra special attention:

1. Corruption: Ramaphosa stated, "2018 will turn the tide on corruption," This includes the commission of enquiry into state capture, as well as a commission of enquiry into tax administration and In the case of bribes, they will plan to deal with both the giver and receiver.
2. State owned enterprises: These are to be stabilised and strengthened; only boards with expertise and integrity are to be tolerated. No board members will be involved in the procurement role of these enterprises, and there will be a review of the size and configuration of government departments.
3. Cabinet Reshuffle: Allied to the above, a Cabinet reshuffle is expected in due course, after a consultation has taken place and sufficient evidence on errant ministers has been gathered.
4. Mining: Mining has been one of the stalwart industries in the South African economy for decades. It has also been one of the largest employers of unskilled and semi-skilled workers, with a huge multiplier effect; one labourer could support many family members

   In recent years, there has been controversy and court action surrounding mining rights under the incumbent Minister. In addition, a new controversial Mining Charter is in the pipeline, and the Chamber of Mines currently has a court action pending to stop the implementation of the Charter.

   This uncertainty has resulted in the delay or cancellation of surrounding projects and the potential of any investments from foreign investors. The court action has now been suspended pending Ramaphosa's promise that negotiations will take place with all interested parties.

   Going forward, fair legislation and policy certainty would have a major positive impact on the industry, including providing stability.

"The many points made and the plans to be implemented will all require funding..."

5. Agriculture: Agriculture has been another of the main pillars of the South African economy for many years. Although there has just been a record maize crop, the lack of rain has unfortunately led to some provinces declared as national disaster areas, most notably, the Western Cape.

   The agricultural sector is also a major employer, and improvements could have a major impact on employment with a positive knock-on effect more widely.

Conclusion

This was certainly the best State of the Nation Address that we have seen for many years: it was well thought-out, comprehensive, and efficiently delivered.

However, we have heard numerous speeches and promises in recent years that have come to naught, resulting in widespread scepticism amongst listeners. The many points made and the plans to be implemented will all require funding; Ramaphosa indicated that there are some tough decisions to come. It should be expected that some of these stand out noticeably in the Budget on 21st Feb 2018- Financial resources are limited, and good management will be essential.

What is encouraging, however, is that significant action has already been taken since Ramaphosa was elected ANC president in December. Zuma was recalled relatively quickly, the Hawks have taken action on the Gupta's, and negotiation on the Mining Charter is imminent. This augurs well for more action soon!

The South African Budget

By Graham Fisher

Graham Fisher evaluates the maiden South African budget of Malusi Gigaba, Minister of Finance, and the first under the presidency of Cyril Ramaphosa:

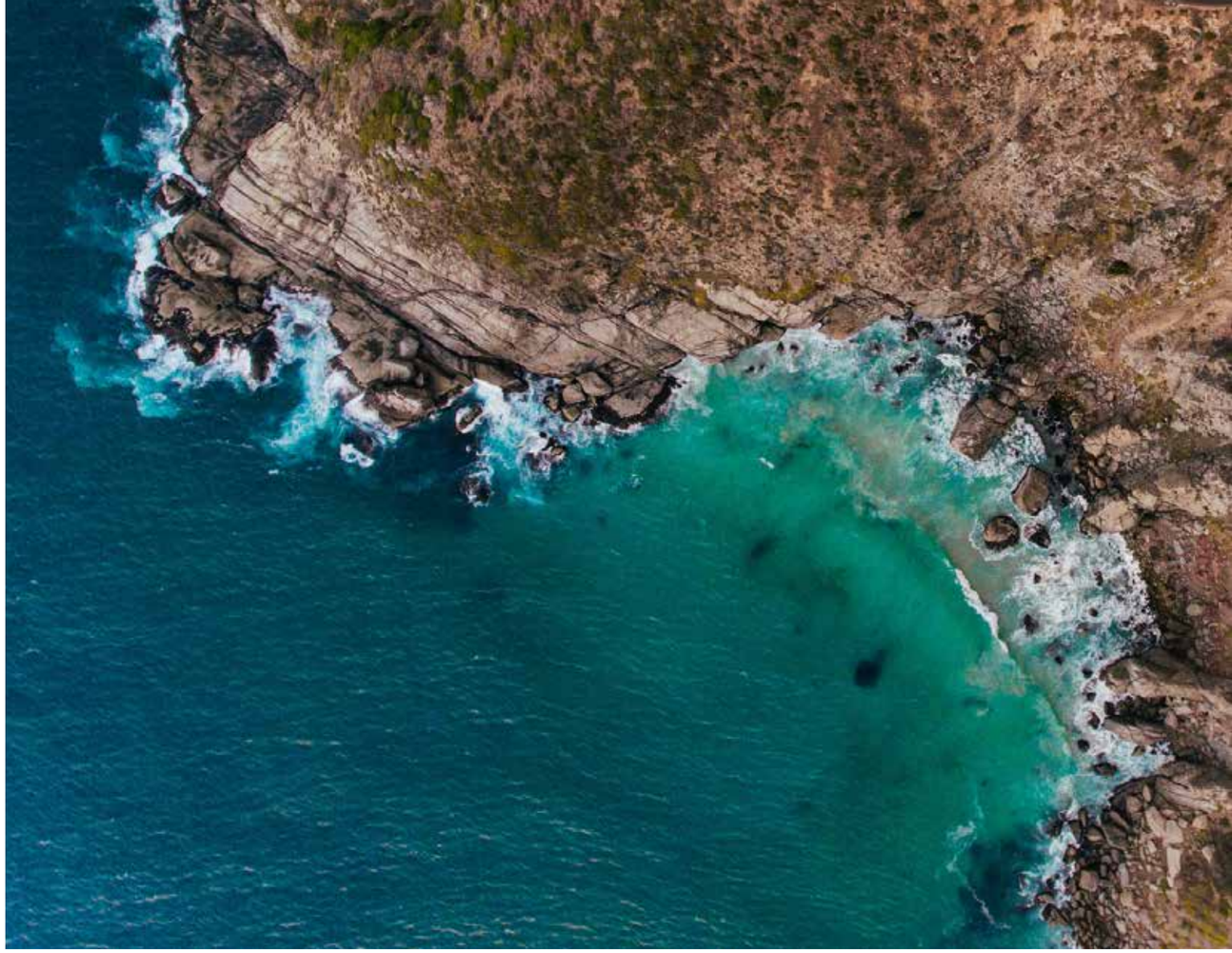
This is the maiden budget of Malusi Gigaba, Minister of Finance, and the first under the presidency of Cyril Ramaphosa. With a deficit of over R50 billion highlighted in the mini-budget in October 2017, this was always going to be a tough budget to compile. Ongoing poor management by the Zuma administration over many years has left state-owned organisations in quite a shambles, especially with the example of Eskom that faces a liquidity crisis.

In order for the deficit to be covered or significantly reduced, the Minister has had to go beyond the normal bracket creep and "sin" taxes in order to balance the books. The highlights, in the order of tax revenue raised, include:

- **An Increase in VAT from 14% to 15%:** This is the first increase in 25 years and not a popular move on the part of the ANC Government. However, Ramaphosa had already mentally prepared the way for such a move in his State of the Nation (SONA) address on 16th. The increase, which becomes effective from 1st April 2018, will raise the bulk of the revenue required; being an estimated R22.9 billion. This measure is probably the fairest way to spread tax across the whole population, especially when considering that necessities like maize and bread have a zero VAT rating.

"Ongoing poor management by the Zuma administration over many years has left state-owned organisations in quite a shambles..."

- **Small Adjustment in Tax Brackets:** These adjustments, together with normal "bracket creep" due to inflation, should bring in around R6.8 billion. Only the lower three brackets have been adjusted, leaving most of the burden to be borne by earners of over R410, 000 per annum.
- **Tax on Petrol raised by 52 Cents per Litre:** Again, this is an annual occurrence and one that spreads the burden over a broader front. The tax has been split as to 22 cents for the general fuel levy and 30 cents for the Road Accident Fund. This increase, together with increases in tobacco and alcohol taxes, should raise R2.5 billion.
- **Excise Duty on the Import of Luxuries Increased from 5% and 7%, to 7% and 9%:** This should raise R1 billion. After increasing VAT, the Minister must be seen to be taxing the rich as well – also good for gaining votes!
- **Estate duty:** Estate duty has been increased from 20% to 25% for estates valued at over R30 million. This is the first increase in estate duty in many years and the revenue generated is estimated to be only R150 million. However, this is a political move whereby the government is seen to be taxing the rich.
- The introduction of a **carbon tax** is expected in January 2019.
- The **spending surprise** in the Budget is the controversial fee-free higher education promised by Zuma. As this is a huge expenditure item (R57 billion) and funds are limited, the benefit will be phased in over several years. Expenditure for 2018 will be around R12.4 billion.
- On the **Macro-economic** front, the Government's GDP estimates have been revised upwards. GDP for 2017 has been increased to 0.1% from 0.7%. Growth for 2018 is estimated at 1.5%, and for 2019, 1.8%. The current account deficit is expected to come down to 2.3%, compared with the 4.4% it was in 2015. Inflation should remain below 5.5% in the time up to 2020.



The government owns 195, 000 properties, and these will be assessed with a view to disposal or more efficient utilisation. There is obviously scope to privatise some state owned enterprises that would raise much needed finance. The reduction in cabinet posts and scaling down of Government departments should achieve significant savings in the medium term. Optimists are also hoping to recover billions from the Gupta state capture saga.

Conclusion

The problems within South Africa cannot be solved by budgeting alone, but rather by tackling the underlying problems; many of which Ramaphosa addressed in his recent State of the Nation address.

Undoubtedly, many problems can be solved in the context of a growing economy, and this should be a top priority for government. Seen in the context of years of excesses spending and poor financial management, this Budget can be viewed as a step in the right direction.

Oil: The Black Gold

By Matthew Seaward

The price of oil is often discussed in generic terms, however, it is important to realise that there are many types of oil; ranging from Brent light sweet to Arabian heavy. This, in conjunction with the assets location and delivery type, gives oil its intrinsic value. Due to this, a benchmark price is typically used - Brent Crude and West Texas Intermediate being the pre-eminent global benchmarks. Oil consumption is synonymous with global trade and industry and is resultantly used as a key economic indicator due to this perceived price linkage. Given changing dynamics in the global demand and supply picture, is this trend set to continue?

It is sometimes difficult to derive the complete reasons behind the price moves of oil since it represents a financial asset as much as an industrial good. One micro-economic theory in the field of commodities is 'mean reversion'. This specific theory puts forward that high prices will increase supply due to new market entrants. This puts downward pressure on prices, forcing the market to return to equilibrium. Conversely, if prices are relatively low, some producers will not be able to enter the market, which in consequence reduces supply. This theory has a lot of grounding to it from academic research- a 2015 Reuters article hinting at the ability of US shale producers to adjust production according to prevailing market conditions appears to hold true today, and the emergence of the US as a significant marginal producer may hinder significant increases in the oil price from current levels.

With unconventional resources such as shale oil having a much smaller implementation cycle, this has enabled ever-shortening response times to changes in supply and demand. Technology has also allowed producers to cut their cost of production over the year; something that Saudi Arabia seemingly miscalculated when it tried to put US shale producers under pressure by maintaining production levels despite this rapidly growing supply source.

The US Energy Information Administration (EIA) forecasts that annual US production will increase from 9.33 million barrels per day in 2017, to 10.6m b/d in 2018, and to 11.2m b/d in 2019. This is staggering when compared to the 2008 production levels of approximately 5m b/d. An increase to over 10m b/d would see the US exceed its previous highest annual production figures set in the 1970's, and leapfrog over Saudi Arabia and Russia to become the world's largest producer.

One feature of the oil market that is uncommon is precautionary demand, which reflects the expectations and concerns about the future need for oil. In addition to normal usage, oil is considered a national strategic resource with countries building up significant stockpiles as a result. This tends to lead to prices responding rather quickly to any announcements regarding inventory scarcity. One theory suggests that these inventories act as a buffer to price movements, almost like cash on the balance sheet. If such theory holds true then higher inventories should lead to lower volatility in the prices of oil.

"... oil is considered a national strategic resource with countries building up significant stockpiles as a result."

Although OPEC is still the price-setter and market leader in optimising profits, the US in the future will exert more control over the marketplace, especially when it invests further in its exporting capabilities after the lifting of a long-standing export ban. Given these structural changes in the oil market, we have taken a house view that $70 a barrel represents a price ceiling in the short-term. However, major oil companies have been experiencing rising profitability after many years of cost cutting and are able to comfortably prosper at the prevailing price with further capital discipline.

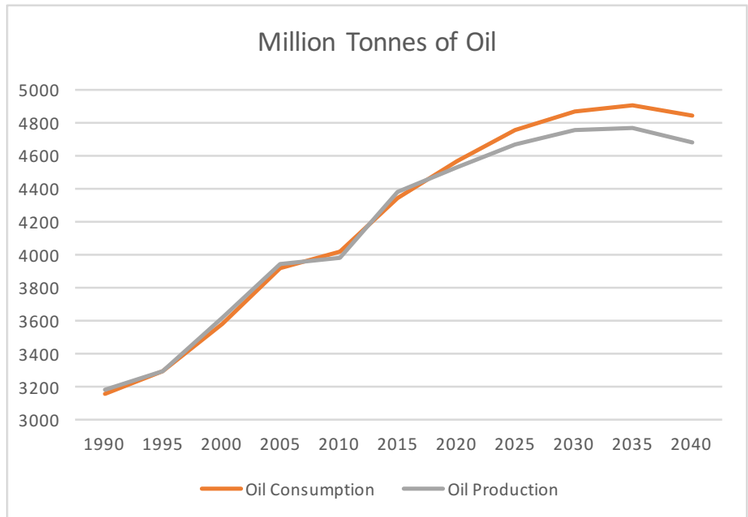
The graph below has been compiled using data from the recent BP Energy Outlook. It represents the expected consumption and production of oil historically and over the next 20 years. Expectations are that an extra 9m barrels will be needed daily in 2040, even with the rise of electric vehicles.

While oil demand is predicted to decline in OECD countries, non-OECD countries are expected to increase consumption of oil by around 40% over the next 20 years. However, although consumption is expected to rise, its share of the global energy mix is expected to fall from around 32% to 27% by 2040. Over the next 20 years, the energy market as a whole is expected to become increasingly competitive with oil, gas, coal and non-fossil, all making up approximately one-quarter of the market each by the end of this period.

By 2040, it is expected that 30% of passenger cars will be electric-powered, as well as traditional combustion engines also becoming considerably more energy-efficient. In the EU, cars are likely to be 70% more efficient than they were in 2000.

However, these efficiency gains will be offset by a substantial increase in the number of vehicles in developing countries, as well as an increase in commerce globally; with both trucking and air passenger travel expected to be particularly strong. Even if the adoption of electric cars were much more aggressive than in this scenario, investment in new oil assets would still be necessary with a limited impact on total oil demand.

Increasing prosperity globally will lead to a growth in energy demand. Therefore, whilst in the very long-term oil will no longer be as relevant as it currently is, in the short-term it remains an absolutely vital resource.



SOURCE: BP ENERGY OUTLOOK

After a sequence of 400+ days without a 5% pullback in US equity markets, the streak abruptly ended at the start of February with a bout of significant market turbulence. After a very strong start to the year for equity markets, the end of January produced some jitters as bonds yields began to rise, with the benchmark 10-year US treasury yield climbing from 2.4% to 2.7% during January. This was prompted by market participants revising upwards their projections for US interest rates and inflation expectations, with hopes for a 'goldilocks' period – continued strong growth and benign inflation - seemingly dashed.

Q1 2018 Recent Market Volatility

By Richard Batty

The catalyst for the subsequent February sell-off in equity markets appeared to be a stronger-than-anticipated jobs report in the US in which average hourly earnings grew 0.3% in January and 2.9% year-on-year. The Dow Jones subsequently fell 665 points (approximately -2.5%) on the day. There was further pain the next day with global markets continuing their steep declines. At one point during the trading period, the Dow Jones was briefly down by an astonishing 1600 points (around -6.25%). This was the largest intra-day points fall on record and a full 500 points more than the second largest sell-off on record. It should be noted that, in percentage terms, the end-of-day decline of 1,175 points (-4.6%) was significantly less than experienced historically e.g. the height of the financial crisis, however, it was the largest pullback since 2011. The rapidity of the fall was the most surprising aspect, with a plunge of around 800 points occurring in less than 20 minutes before a limited bounce-back took place. In this regard, it was not a typical 'flash crash' due to the very weak nature of the rebound. The next trading day was typified by wild swings in markets between positive and negative territory as the market attempted to establish an equilibrium.

"After a very strong start to the year for equity markets, the end of January produced some jitters as bonds yields began to rise..."

What caused these gyrations in the markets? Given the serene rise in global equities for the last few years, a popular investment strategy for betting against turbulence in markets, called 'short volatility', had attracted large inflows, prompted by an increasingly complacent market. According to Bloomberg, the two largest exchange traded products that wager on low volatility took in a record $1.7bn in January. Estimates of how much is tied to the strategy overall vary, but some estimates put it as high as $2 trillion. As fear gripped the markets and volatility spiked, a number of these products were effectively wiped out. Outflows from other systematic strategies also exacerbated the sell-off as traders scrambled to unwind positions.

The prevalence of algorithmic trading in the markets was also blamed for exacerbating the sell-off. According to some estimates, around 60% of daily trading is derived from programmes that automatically buy/sell shares based on specific factors and/or mathematical models. Whilst the evidence that these strategies increase volatility is not conclusive, the seemingly indiscriminate selling that occurred in a short space of time displayed the hallmarks of non-human trading behaviour.

Going forward, investors may need to accept that the structure of the market has evolved and that significant spikes in volatility are likely to occur when markets are gripped by periods of fear.

However, for longer-term, fundamentally driven investors such as ourselves, the recent pullback represents a healthy correction. Whilst we are reluctant to dismiss the possibility of further turbulence in the markets, the declines witnessed so far offset only a fraction of the gains seen over the last few years. Equity valuations have retreated to levels that are more comfortable and our view of a robust global economy remains unchanged.

"The prevalence of algorithmic trading in the markets was also blamed for exacerbating the sell-off. "

The Aerospace & Defence Sector

By Paul Martinez

The aerospace and defence sector, which has long been a popular sector among investors, is now reaching a critical point. For the last five years, the Standard & Poor's Aerospace & Defence index has delivered an average annual total shareholder return of 31% (at time of writing), comfortably outperforming the S&P 500's total return of 15.6%.

However, these returns have come less from exceptional performance and more from higher future expectations. With investors pricing in steady increases in earnings and cash flows, such expectations have accounted for approximately two-thirds of the sector's returns in the last few years, and have resulted in record-high valuations. Between 2018 and 2021, investors expect aerospace and defence companies to double their growth rate, and to continue expanding their margins equally.

The higher expectations can be attributed partly to an anticipated increase in defence spending and expectations for lower corporate tax rates. Nevertheless, these factors alone will not deliver the anticipated level of performance improvement. To meet (let alone exceed) these great expectations, companies will need to accelerate profitable growth. The necessity to deliver shareholder value through improved operational performance and increased earnings will place pressure on these companies to change the way they have deployed cash in recent years.

For some time now, the sector has opted to return capital to shareholders via share buybacks and dividends, rather than to increase capital investment in research and development. In other words, the industry has been spending more on gratifying shareholders than investing for future growth. This capital deployment strategy seems sensible in the context of a challenging and uncertain defence environment. Over the past few years, there has been a dearth of significant new projects, especially from the UK and US, and few such projects are on the horizon. Military budgets have been under pressure, and it remains unclear how quickly, or how dramatically, that might change in the face of continuing fiscal constraints. Given the evolving global threat environment and subsequent shift in spending priorities, a degree of paralysis has set in.

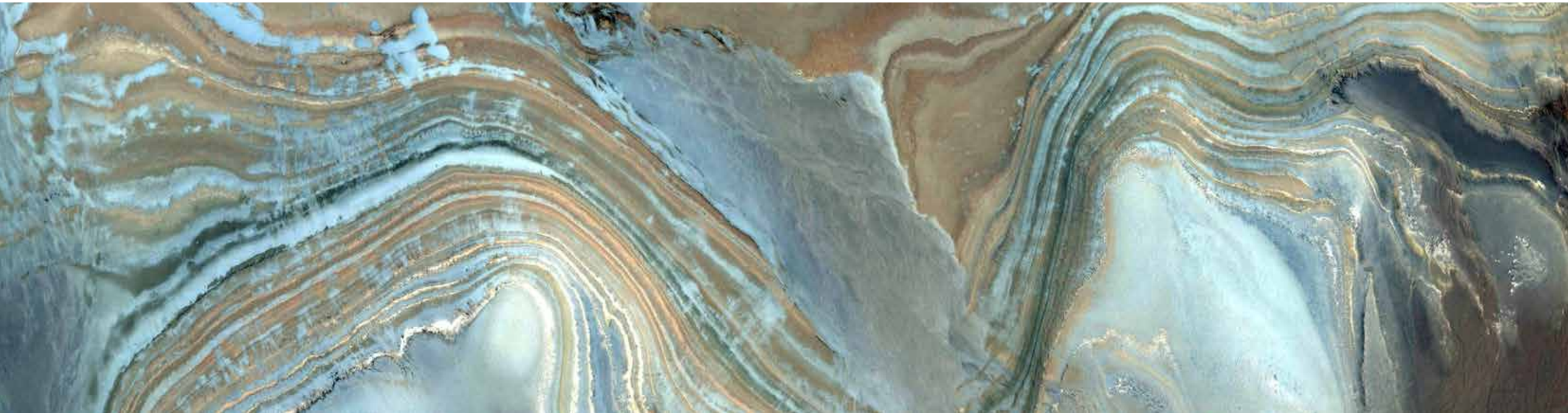
As one may expect, aerospace and defence companies have been taking a conservative approach due to the current backdrop, possibly jeopardising the growth and innovation needed for the military to maintain a technological advantage going forward. Yet the recently passed corporate tax cuts in the US could present the sector with an opportunity to change this, by increasing investment in growth and innovation.

"As one may expect, aerospace and defence companies have been taking a conservative approach due to the current backdrop..."

Given the expectations of investors, companies are likely to fall short if they remain risk-averse. The legacy industrial base faces disruption both from commercial technology entrants that can innovate more rapidly, and from a gradual erosion of the technological edge that the West has historically enjoyed.

Client expectations are also changing. In the past, defence departments typically funded research and development, specifying the weaponry needed, and working closely with contractors on developing product specifications. Today they are seeking partners (be they legacy players or non-traditional entrants) that can invest in new technology solutions, and deliver them faster and cheaper.

The resulting pressures mean that companies will have to change how they use their capital and how they develop new products. Instead of relying on annual planning cycles to create financial forecasts, the industry will have to adopt a more rigorous approach to evaluating and making strategic



investment choices that yield long-term value. Companies in the sector will also have to avoid relying on overvalued acquisitions to compensate for the lack of organic innovation and growth.

The sector will probably have to generate demand for new requirements by becoming more innovative in developing technology solutions, although working this way involves accepting uncertainty-usually by taking risks. Even though commercial companies do this routinely, it represents a different mind-set for many defence companies. Some adaption to this new paradigm has taken place. Rather than waiting for governments to fund programmes, many companies have embraced uncertainty by self-investing in new systems, upgrading older ones, or investing indirectly through ventures. At the same time, new privately funded entrants are making major inroads.

"Profits have been at record-levels, whilst load factors have also been high."

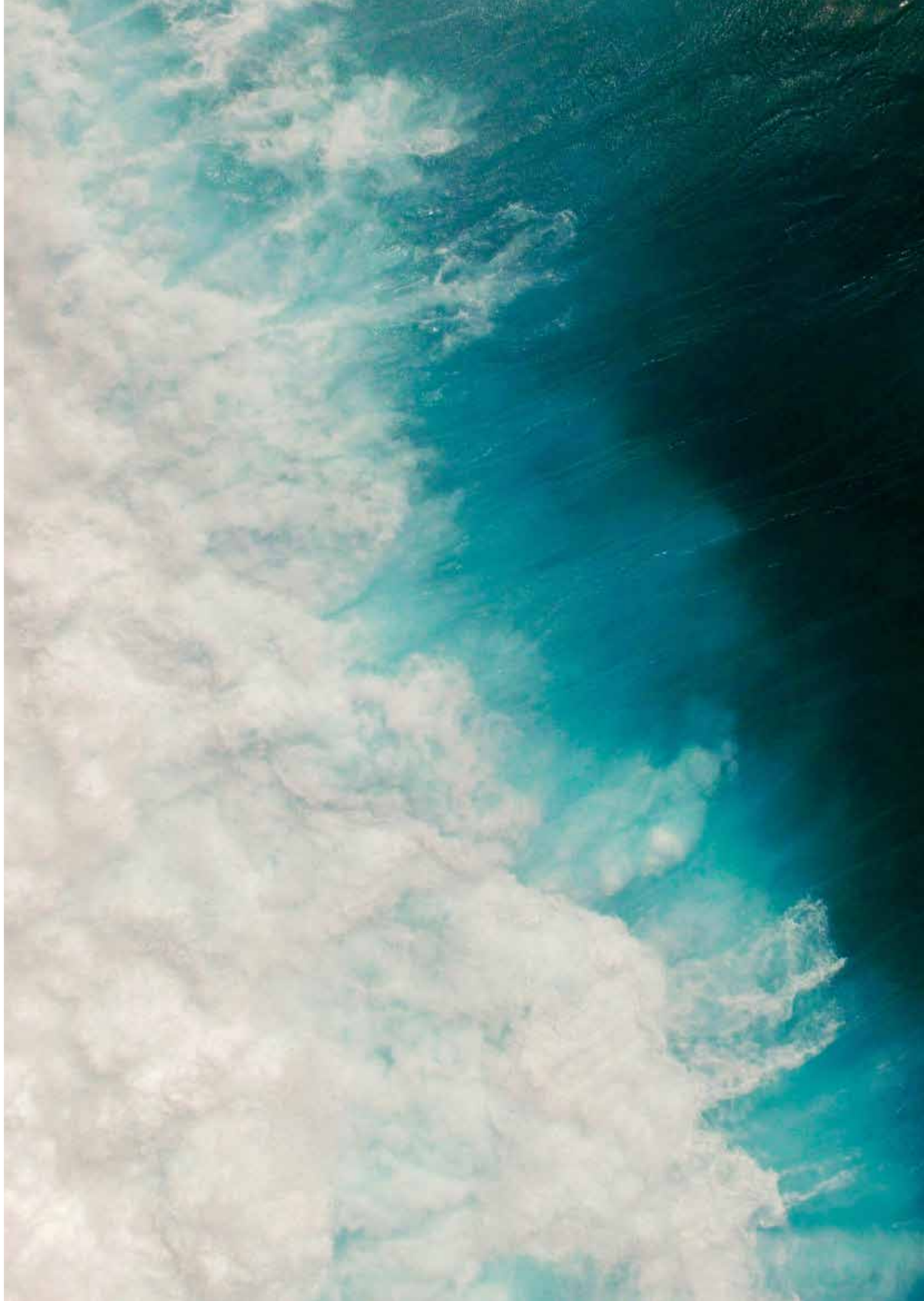
Concerning commercial aviation, the airline industry has had a 'turbulent' past. Effected by uncontrollable external costs and regular swings in traffic demand, it has struggled at times to achieve even modest profitability. Over the past three years, however, almost every facet of the industry has excelled. Profits have been at record-levels, whilst load factors have also been high. 2017 had been an excellent year for the industry with airline profitability and traffic growth. Helped by globally synchronised growth, with historically low fuel prices and interest rates, airlines have been able to lower fares, and in the process, have added extra stimulus to passenger traffic growth. Although the main components of this growth may be at risk in what is a highly price-sensitive market, current conditions remain supportive at present.

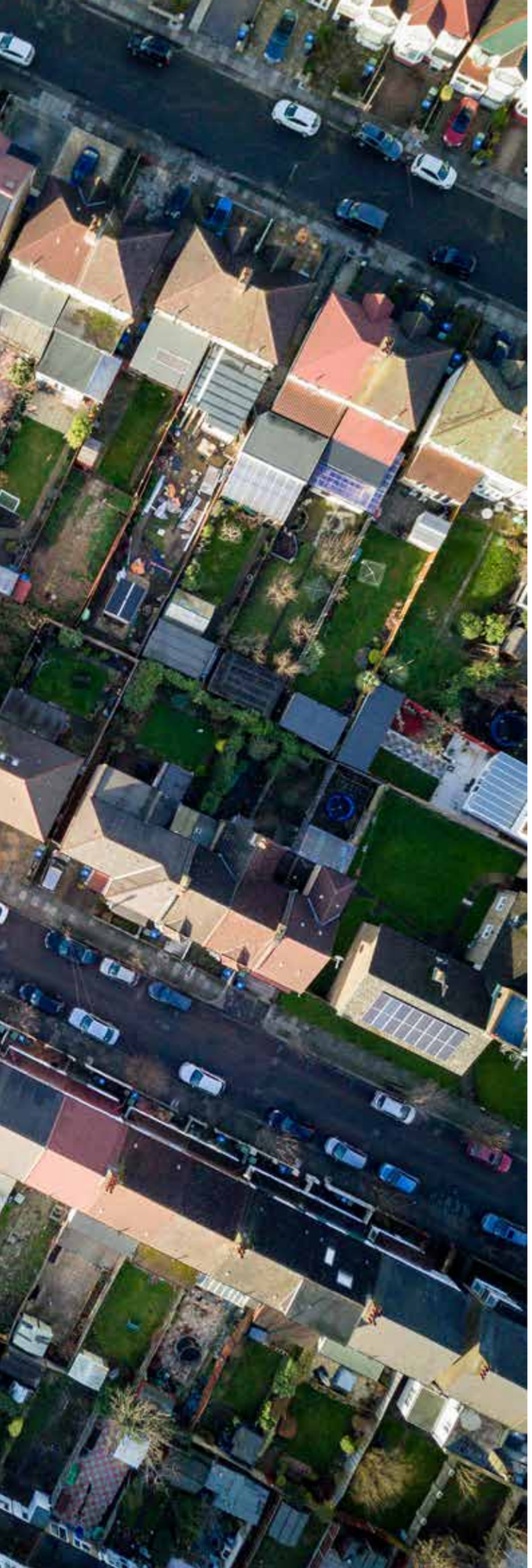
Boeing recently provided a twenty-year forecast for the global economy, travel trends, and the resulting demands for aircraft. The main takeaways from this were:

- World economic growth is projected to average a robust 2.8% per year. This signals a 4% average annual growth in airline passengers, a 4.2% growth in cargo, and a 4.7% growth in passenger traffic.
- The world's airlines will need 41,030 aeroplanes over the next twenty years, valued at $6.1 trillion. Just under half of these will be replacements, and more will eventually be needed to handle increasing demand.
- Half of all air traffic growth will be in the Asia-Pacific region.
- The market for aircraft sales is large, but the projected market for aviation services is bigger ($8.5 trillion over twenty years). Boeing has created a Global Services division two years ago to grab a bigger share of this market.
- For this year, Boeing projects higher than average growth in the world's economies, being 3.2%, and in passenger air traffic. Being 6.0%.

According to Boeing, the world's airlines carried an estimated 4.3 billion passengers last year, and they expect that to increase to in excess of 9 billion travellers within the next twenty years. Boeing is endeavouring to stay on top of this, with the first 737 MAX 9 and the first 787-10 Dreamliner due to be delivered this year.

Production of Boeing's 777X wide-body plane began last October, in readiness for deliveries in 2020. Only last month, the first 737 MAX 7 was rolled out at Boeing's Renton plant. The company's order backlog stands at 5,864 aircrafts, valued at $421 billion, which represents enough work to keep production lines ticking over for the next seven years. However, sales of Boeing's biggest passenger jet, the 747, are expected to be so low that the figures are no longer broken out as a separate category in its reporting. Going forward, the 747 is being marketed primarily as a cargo freighter, as shown recently by UPS's decision to order fourteen more of the 747-8 freighters.





The Chancellor's Spring Statement: 2018

By Richard Batty

In keeping with the new mini-budget format, the UK Chancellor, Philip Hammond, delivered his first Spring Statement to Parliament of 2018, which was noticeably bereft of any significant policy announcements. However, recent forecasts by the Office for Budget Responsibility (OBR) enabled him to adopt a relatively upbeat tone on the UK economy, using the phrases "our best days lie ahead of us" and "this is a turning point" to describe the outlook.

With modest improvements in public finances, the Government is keen to portray an economy with positive momentum. Moreover, with crucial Brexit negotiations looming, the potential for an increase in spending would afford the Government some room for manoeuvre, especially given ongoing concerns about overstretched public services.

Whilst an outright end to austerity looks unlikely, the Chancellor did suggest that an increase in public spending and investment would be possible if the public finances maintained their current course.

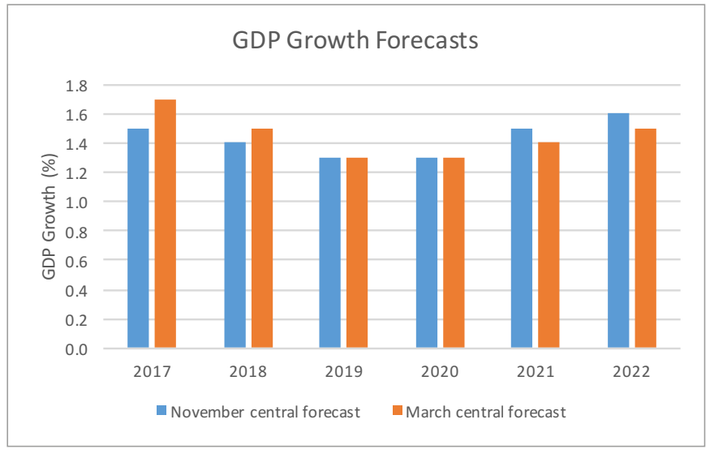
"With modest improvements in public finances, the Government is keen to portray an economy with positive momentum."

GDP Growth

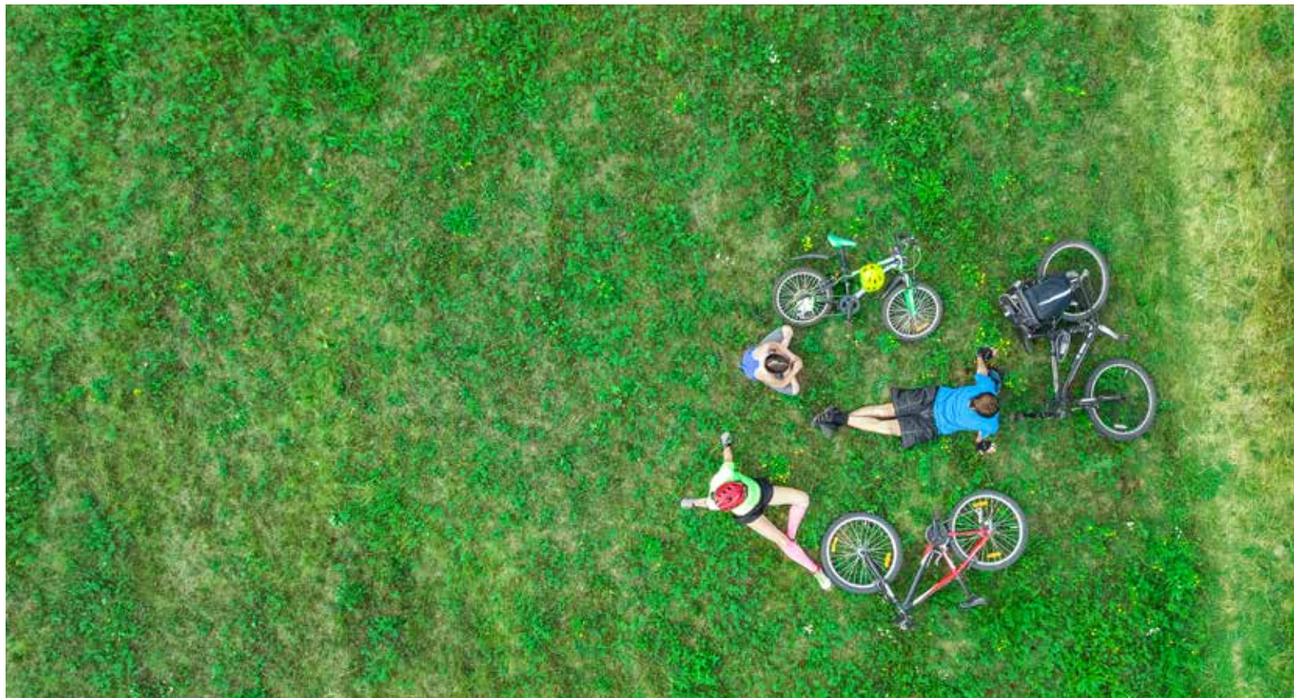
The Chancellor confirmed that growth for 2017 had been 1.7%, higher than the 1.5% that was predicted in the autumn budget. There was a subsequent revision to the 2018 GDP growth forecast, put from 1.4% to 1.5%.

Forecasts for 2019 and 2020 remained unchanged. However, slightly weaker growth forecasts thereafter point to a subdued medium-term outlook, with GDP growth forecast to average 1.4% over the 5-year horizon. Despite a pick-up in productivity growth during the second half of 2017, the OBR stuck to its view that this was a cyclical occurrence rather than a structural improvement in the productivity picture.

The productivity puzzle remains one of the principal factors behind the UK's below-trend growth. These growth figures, if accurate, places the UK near the bottom of the growth forecasts for the G7 group of developed nations over the next few years. It should be noted that these forecasts are somewhat pessimistic when viewed against the consensus, and even the Bank of England's own forecasts.



SOURCE: CAPITAL INVESTMENT MANAGEMENT TEAM



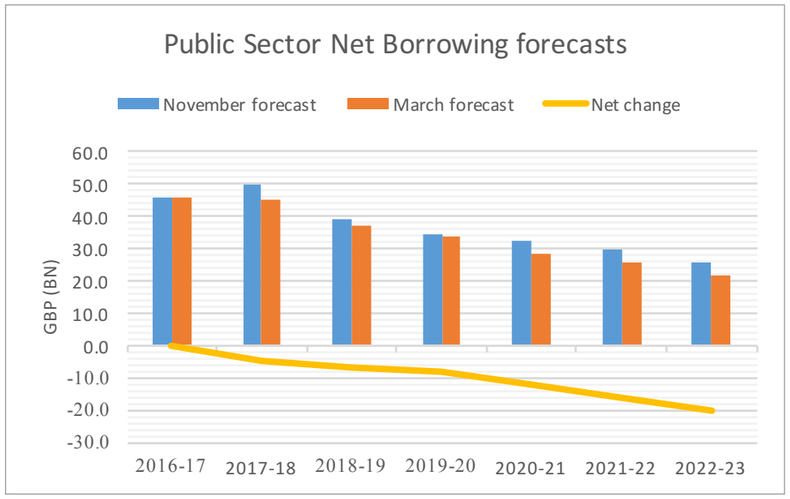
Borrowing

Projections for net borrowing are to continue to fall over the forecast period. Whilst borrowing continues to rise in absolute terms, it is forecast to fall as a percentage of gross domestic product. However, meaningful falls in the debt-to-GDP ratio are not anticipated to occur until 2019-20.

One interesting aspect of the lower borrowing forecasts is the potential reduction in gilt issuance.

According to Capital Economics, gilt issuance is set to be £16bn lower in 2018/19, and £42bn over the forecast period. Whilst this reduction in expected borrowing amounts to less than 3% of outstanding gilts, it should equate to a significant shrinkage in supply over the next few years.

The Government has also announced a slight change in the composition of new debt issuance, with fewer index-linked gilts going forward – 21% of new issuance vs. 25% in 2017/18.



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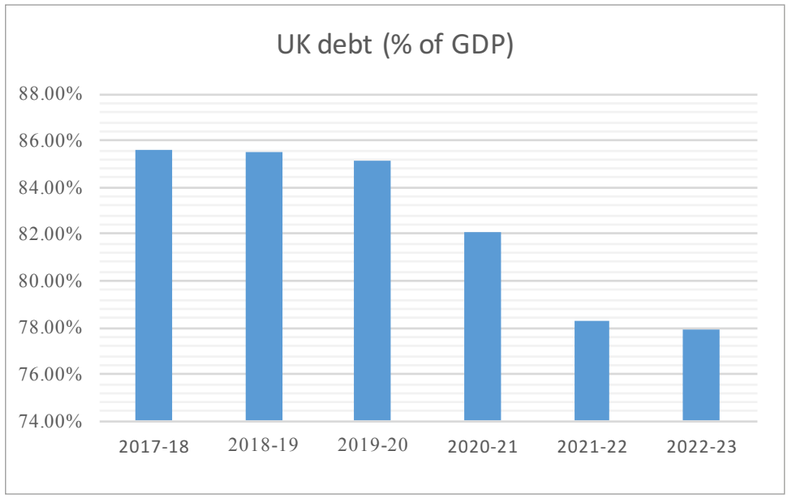


SOURCE: CAPITAL INVESTMENT MANAGEMENT TEAM

"One interesting aspect of the lower borrowing forecasts is the potential reduction in gilt issuance."

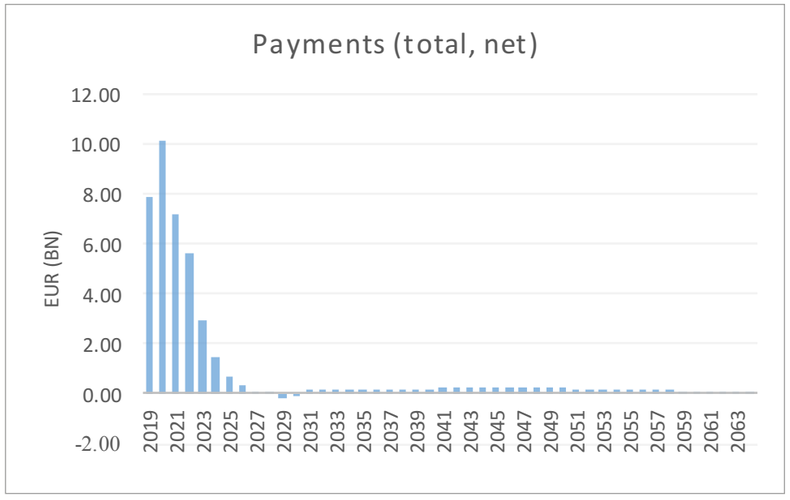
Inflation and Wages

The OBR predicts that inflation will fall to 2% by the end of the year. If correct, this will help to ease pressure on squeezed households by generating positive real wage growth (wage growth outstripping inflation). The Chancellor has said that he expects real wage growth to be positive from the first quarter of 2018/19, and steady thereafter.

Brexit Forecasts

The OBR currently estimates that the Brexit 'divorce bill' will be a whopping £37.1bn. Most of the payments are due to occur by 2024, however, forecasts provided by the OBR (see chart below) highlight the fact that smaller payments will be required until at least 2064 (primarily pension payments).

These estimates are conditional on a number of factors including exchange rate assumptions, and do not make attempts to interpret what sort of Brexit deal will materialise, meaning that any assumptions are for an average Brexit impact. In terms of preparing for Brexit, Hammond informed that £1.5bn had been allocated to departments thus far.



SOURCE: CAPITAL INVESTMENT MANAGEMENT TEAM

Q1 2018
Fixed Interest and Central Bank Update

By Richard Batty

The US Federal Reserve continued with its 'normalisation' of monetary policy during the quarter with an interest rate rise of 0.25% in March; the sixth 0.25% hike since the end of 2015. The Fed upgraded its forecasts for economic growth, and projected a lower unemployment rate through 2020, as well as forecasting that inflation would exceed its long-term inflation target of 2% in 2020 on a temporary basis.

"If these forecasts are accurate, interest rates in the US will be over 3% by the end of 2020."

As a result, it raised its forecasts for the future path of interest rates. In Jerome Powell's first conference since taking over the Chair of the Federal Reserve, he avoided sending out an overtly hawkish signal about interest rate policy, sticking to prior forecasts of a further two rate rises this year.

However, the Fed did raise its projections from two rate hikes to three next year, and a total of eight between the start of 2018 and the end of 2020. If these forecasts are accurate, interest rates in the US will be over 3% by the end of 2020. This is where the Fed estimates the 'neutral rate of interest' to be at present; meaning neither expansionary nor contractionary.

Other central banks across the globe are now following the Fed's lead in tightening monetary policy. Both the European Central Bank (ECB) and the Bank of Japan (BoJ) have become more optimistic on their respective economies in recent months without an explicit change in future policy.

The ECB is expected to revisit its communication stance as 2018 progresses, preparing the markets for an eventual end to its monetary stimulus programme. ECB President Mario Draghi has also come under pressure from a number of ECB officials to start raising interest rates in mid-2019. Meanwhile, despite the Bank of Japan's official line that there has been no change in policy, the BoJ reduced its purchases of government bonds in January, prompting speculation that the central bank was scaling back its monetary stimulus programme. These fears proved unfounded but highlighted how sensitive the market is to any signal of tightening monetary conditions.

The Bank of England kept rates on hold at its latest meeting. However, there were two dissenting voices from the nine-strong Monetary Policy Committee, voting for an immediate hike and setting the stage for an interest rate rise at the May meeting. MPC member Gertjan Vlieghe went further, and suggested that the outlook warranted one or two 0.25% hikes per year over the next three years. He also added the caveat that there was "significant uncertainty about the path of rates", and this forecast would be dependent on how the economy evolved.

China named its new Governor of the People's Bank of China in March. Yi Gang had been a Deputy Governor since 2008, and is the first new central bank Chief in fifteen years. The US-educated former economist is widely viewed as a reformer, and is therefore expected to continue with further financial market reform measures. The Chinese government has recently approved measures to combine its banking and insurance regulators, with some of their policymaking responsibilities ceded to the central bank.

The yield on the US ten-year Treasury bond rose steadily from around 2.4% at the beginning of the year, to a peak of around 2.9% in mid-February. It then traded between 2.8% and 2.9% until the end of the quarter when it dipped back under 2.8% after the recent turbulence in the equity markets.

The UK ten-year Gilt yield moved in the same way, starting the year at 1.2% and rising to over 1.6% by mid-February, before falling back again to finish the quarter at 1.4%. These end-of-quarter declines in yields suggests that bond investors are less worried about inflationary pressures feeding through than before.

After years of gorging on corporate debt almost indiscriminately, investors have become more disciplined when it comes to new issuance. According to Bloomberg, sales volume for new investment-grade corporate debt is at its lowest level so far this year since 2014. The market value of investment-grade debt has more than doubled over the last ten years as companies used the favourable conditions to issue cheap debt.

However, recent net outflows from bonds and a reduction in appetite has resulted in average yields at their highest in around six years. Despite a tough quarter for corporate bonds, there are no significant signs of stress in these markets at present.

"After years of gorging on corporate debt almost indiscriminately, investors have become more disciplined when it comes to new issuance."

Q1 2018 Global Markets Update

By Richard Batty

Following a strong rally in global equities during December 2017 and January 2018, the markets experienced a significant downturn in February as investors reassessed their outlook for the global economy.

In a period where riskier assets achieved returns far above their historical averages underpinned by factor such as strong global growth, low inflation, accommodative monetary policy, stretched equity valuations and a degree of complacency, the market was left looking vulnerable to a correction (which duly arrived). Whilst the correction, in itself, was unsurprising, the nature and speed of the declines were concerning, possibly exacerbated by the present structure of the markets. According to market commentators, this was the fourth fastest decline into correction territory from an all-time high for the Dow Jones index.

This pick-up in volatility and sharp moves lower in equities signals a distinct shift in market psychology going forward. However, notwithstanding the recent turbulence in markets, global economic fundamentals remain strong and the threat of recession remains low.

The UK market was one of the worst performers during the quarter, falling 8%. The UK market has generally fallen out of favour with global investors and the composition of the index has been detrimental to performance. The absence of large information technology companies in the UK and the dominance of 'old-world' industries such as financials, miners and energy companies in the blue-chip index has led to some of this underperformance versus peers.

The relative strength of sterling was also a drag on performance during the quarter. Cautious optimism regarding Brexit negotiations and an expected interest rate rise in May were the main factors driving this. Given the danger of a disorderly break from the EU seemingly diminishing, UK companies are starting to look cheap versus US and European peers.

However, one sector in the UK is clearly struggling: retailers. A raft of companies went into administration during the quarter, including Toys"R"Us and Maplin. Whilst mismanagement and a failure to adapt to an increasingly online world have visibly played a part in their downfall, UK households are still feeling the squeeze. Continued strong employment figures and positive real wage growth should help to alleviate this going forward.

US stocks were the best performers of the developed markets during the quarter, but ended the period in slightly negative territory. With the boost to US earnings derived from the recent tax reforms fully priced in, companies will need to meet lofty analyst expectations for the upcoming earnings season. According to Factset, the estimated earnings growth rate for the S&P 500 is 17.2%. If met, this will mark the highest earnings growth since Q1 2011's 19.5%, and represents a significant upward revision from the 11.3% figure estimated in December.

Despite elevated valuations, US equities remain supported by this strong earnings momentum and continued fiscal stimulus measures. Whilst the overall backdrop for US companies remains positive, the recent trade tariffs imposed on Chinese imports will have a detrimental impact according to several large US retailers including Wal-Mart and Nike, which have warned that American households would suffer due to higher prices across a range of consumer products and household goods.

The US is putting particular pressure on China in its desire to reduce the enormous trade deficit it has with the Chinese ($375bn last year). The US has also accused the Chinese of intellectual property theft and recently blocked a takeover of US chipmaker Qualcomm on national security grounds. China has yet to take significant retaliatory steps but if it were to then US exporters would likely suffer. The industries most vulnerable to this would be aircraft makers, soy bean producers and carmakers. Technology stocks experienced some weakness at the end of the quarter. Facebook sold off heavily after a backlash over the data harvesting of its users. This has brought into question the business models of other big technology firms in which the collection of data is central (targeted digital advertising, for example).

Japanese markets suffered during the quarter, with the Nikkei 225 index ending the period down by 7%. Portfolio managers have generally been running overweight Japanese equity positions due to strong corporate earnings and relatively low valuations. After strong returns last year, this has rendered Japanese equities vulnerable to profit taking/ portfolio rebalancing and this has been in evidence this quarter, with persistent net selling by foreign investors. In addition, a strengthening yen on safe-haven demand, combined with the threat of trade wars, has put Japanese exporters under pressure. Sentiment has also deteriorated on the back of a cronyism scandal involving Prime Minister Shinzo Abe, weakening his position and putting in doubt his economic reform programme dubbed 'Abenomics'.

The Euro Stoxx 50 index, comprising the major Eurozone blue-chip names, also exhibited significant weakness during the quarter (down by approximately 6%). European stocks are particularly sensitive to global trade growth, and fears of trade wars and even 'peak globalisation' have taken their toll.

The worst performing of the major Eurozone markets was the German Dax (down by 6.7% on the quarter) whilst the less export-focused French CAC 40 index fell by less than 2.9%. Whilst trade wars remain a clear and present danger to Eurozone growth, a fully blown trade war remains a low probability event. Furthermore, the EU did secure an exemption from recent US tariffs on steel and aluminium. However, this may be a case of President Trump focussing on China first before turning his attention to other trading blocs.

Tech stock woes and trade war fears also weighed heavily on emerging markets. The tech sector is the largest component in emerging market indices and these stocks took their lead from US tech names to finish weakly on the quarter. Debt concerns have also surfaced this year. As the US continues its 'normalisation' of monetary policy, questions have been raised as to whether or not the emerging world's debt pile is sustainable, especially that of China. Despite this, political risk has lessened, and growth remains as strong as it has been since the financial crisis.

Real Estate Investment Trusts

By Jacques de Villiers

Real Estate Investment Trusts (REITs) provide investors with exposure to property assets without the need to invest directly. The REIT itself owns and manages property on behalf of shareholders. A REIT operates in most respects just like any other UK publicly traded company. However, there are a number of criteria that must be met in order to qualify as a REIT.

There are restrictions imposed by the REIT regime pertaining to shareholding limits, the minimum number of shareholders and the maximum stakes a single shareholder can hold. A significant part of the REIT's activity must relate to its property rental business, for example, passive rental income; also known as 'qualifying property rental businesses'.

Companies that obtain REIT status are exempt from corporation tax on emanating profits or gains. In return, however, they must distribute at least 90% of their taxable income to shareholders, where it is taxed as property rental income, rather than as dividends.

The regime also sets out the parameters for the minimum number of properties a REIT must hold, as well as concentration risk avoidance measures to ensure that the REIT value is not all centred on one property alone.

One of the issues with traditional open-ended property funds is that in stressed markets there is often a large pickup in redemption requests. If the fund does not have enough liquidity to meet these requests, it can result in forced sales, fund suspension, or even dissolution/liquidation. Since these occurrences are unpredictable in nature, open-ended funds can never fully invest all their cash, as they have to anticipate a certain level of redemption at all times. This is referred to as the 'cash drag' and can hamper performance.

Therefore, as REITs are closed-ended, they do not have this issue, with the share price subject to the forces of supply and demand. This is not to say that the closed-ended structure better protects shareholders, but it simply affords consistent liquidity. A shareholder may have to accept a price much lower than the published net asset value of the REIT if they wanted to sell in a tough market.

As a result of these attractive features, REITs have become popular with investors seeking an attractive level of income and exposure to property without the liquidity risk which is typically associated with property investing. As the sector has evolved and expanded, there is now a multitude of different REITs for investors to choose from, and the type of properties they own often distinguishes them. To name and briefly cover some of these different types:

- Self-Storage REITs

  Self-storage REITs have shown lucrative growth potential, especially in Europe and the UK, where competitiveness in the market has not yet peaked.

  In recent years, the storage business has re-invented itself. Gone are the days of non-descript rows of garage-like facilities, which have now been replaced with eye-catching buildings in prominent locations that provide a clean, secure and convenient way to store things.

  Home-movers and renovators often utilise self-storage facilities to manage the transition between properties, and people often use them to store bulky seasonal items too. The self-storage sector is a beneficiary of demographic change. For example, the majority of customers are over the age of 35; suggesting that an aging population is good for business.

  In addition, rising trends in divorce rates are also beneficial in this area, as those falling into this category have been shown as more than twice as likely to use self-storage as a single person. Customer attributes such as these result in a largely recession-proof business.

- Warehouse REITs

  Growth in online sales and the promise of shorter delivery times means that businesses need to have more distribution centres within a short distance of homes and workplaces.

  However, high costs of development, planning constraints and lender caution have resulted in a shortfall in warehouse availability, and a corresponding rise in average rents.

- Industrial REITs and Infrastructure REITs

  Numerous REITs focus on factory spaces and other industrial facilities. There are even some REITs focusing on data centres, which is generally referred to as 'cloud storage'. Data in the 'cloud' still has to be stored on another server, not just your own.

  Data companies can provide 'on-ramps' to leading public cloud platforms via secure, high-performance interconnection services. More traditional infrastructure REITs provide the financing for a range of 'big ticket' projects such as hospitals, toll roads, and renewable energy transmission- just to name a few. These provide investors with exposure to real assets, offering stable and inflation-linked cash flows.

"As the sector has evolved and expanded, there is now a multitude of different REITs for investors to choose from..."

CAPITAL
INTERNATIONAL GROUP

NEWSLETTER

First Quarter 2018

Platform | Investment | Treasury

Capital Culture

'Pride and Personal Responsibility'

By Greg Ellison

February has been a month of rapid visible change for our staff at the CIG IOM HQ. Every morning we have come in to new additions to our refurbished surroundings in the offices in line with our refreshing rebrand. As the finishing touches around the offices were settled into place, Greg delivered his monthly staff update:

'I had some fantastic feedback about the company this week from a recruitment agency on the Isle of Man. They had just sent another of their candidates for a job interview with us for the HR role that we're advertising at the moment. As usual they speak to the candidate after their meeting and they were blown away with our business, the people they met, the energy and the feel of the place.

The recruitment agency that provided this feedback were finding more and more of their candidates that they had sent to us were coming up with the same conclusions. So they took it on themselves to let me know that they think our reputation in the market is becoming brilliant, and their candidates are all coming back to them desperately wanting to work for us.

It was kind of them to take the time to tell us this. But more importantly, it says so much about what we're creating here at Capital. It made me feel immensely proud of what we stand for as a Group, and the business we are becoming.

So I wanted to talk to you today about pride. We can all think about times where we have felt proud of people... Children, brothers, sisters, friends...

I remember my daughter, Lily, winning the 'Star of Stars' at the annual prize-giving at her school. They highlighted her kindness, enthusiasm and how, above all others in her year, she was demonstrating the values that the school stood for. She was about 7 or 8 years old at the time and when they read her name out as the winner her face lit up with pure, unbridled joy.

It could have been quite embarrassing sitting in the audience with all the other parents with tears running down my face! But I didn't care, because I felt like the proudest man in the world.

So what does pride mean? What is it all about?

According to the first point of call, Wikipedia:

- A feeling of deep pleasure or satisfaction derived from one's own achievements or the achievements of one's close associates;
- A 'group of lions forming a social unit'... but that's not what I'm talking about today!

I'm sure you can think of times where you've been proud of yourself: where you've worked really hard to achieve something; or where you've come through adversity; when it's been tough and you've gritted your teeth and got through; whether at work, or school or college, or at home.

When I hear people talk about our business in such glowing terms as the recruitment consultant it makes me really proud.

I felt very proud yesterday when I heard Doug Hornby and Nick Kohne present to the Group Board about their plans for our new on-boarding platform. Beyond setting the general direction for them so they knew what I wanted them to achieve, I haven't been directly involved in their work for a few weeks. But what they demonstrated yesterday was that they had had dug really deep, gone into masses of complexity and detail, and created a plan which was exactly in-line with what I had asked them to do- and they were there pitching for several-hundred-thousand pounds of investment to build what they had designed!

They got the green light because the pitch was clear, they knew what they were doing, they had analysed all the detail and now they just needed the funds to get on with it. They have the confidence of the Group Board and the shareholders, and it made me so proud of the work they have been doing with their teams.

I'm proud of what you all delivered in 2017. We took on a heavy workload and we set our expectations high! We worked together to achieve many outstanding things last year. It wasn't easy, but we saw it through- both here in the IOM, and in South Africa.

Most importantly, we did it (for the most part) with smiles on our faces, with good energies in the office, with fun along the way and without ever taking ourselves too seriously.

So, to me, that's what pride is all about.

What about personal responsibility? This is about being accountable for things within our own control. I believe that we're all responsible for our results in life. In other words, the stage we're at in our lives, in our work, in our relationships, in everything, is caused by the decisions we've made and the actions that we've taken. We are the architects of our outcomes! We are not an extra in our own lives; we play the leading role.

Not everyone in the world shares this belief, of course. Occasionally I might come across people, possibly at work, who totally believe in responsibility for results... when things are going well. They hit their targets because they did this and this and this. Those same people at times then have a totally different view of the world when something hasn't worked. It's the product, the system, the customers, their team, the weather, whatever else they can come up with!

Well it can't work both ways; when you're responsible for your results, you can rightly take the praise when you're winning, but you've also got to take responsibility when you're losing. That's when we learn- when we're honest with ourselves.

Therefore, personal responsibility is about showing ownership. It's the opposite of blame.

I sent an article to the directors and managers earlier this week about the US Navy Seals and their view on leadership. The Navy Seals are like our Marines or SAS. The ultimate, mostly highly trained soldiers in the USA. It set out 8 principles that are demanded to be a Navy Seal. These are tested all the way through the recruitment process in order to make sure the people that make the mark can be counted on to hold these principles true.

No. 1 is Extreme Ownership: This means taking responsibility when things go wrong, and putting it right so it doesn't happen again. If you're leading people into battle, it's pretty important that you take ownership of the situation because it creates trust among the team. Trust is important when you rely on your team members to keep you alive!

No. 8 is interesting - Decentralised Command: Making sure the Seals know what is expected of them, then letting them get on with it with confidence that they'll do what is right and to the best of their ability. Like when Doug, Nick and their teams got to grips with the on-boarding project.

So, why am I talking about pride and personal responsibility?

Because these are two characteristics that I want to promote. Behaviours that I want to see every day from us all at Capital International Group. We focus a lot on our values of innovation, integrity and excellence. And these behaviours are how we achieve that excellence.

I want to put this into context. When you work with people you have a contract with them. The company gives me money and in exchange I am expected to do x, y and z. You make a deal, and it's a lot easier to keep your side of the deal if you believe in what you're doing and if you're proud of who you work for; If you're proud of who you're working with and clear on why you're in business.

We have a deal – yes there's the stuff written down in our employment contracts – but it's much more than that. I see our deal as this: We'll invest heavily in you, in your development, in your career, in your reward, in your benefits and in giving you a great working environment.

Your side of the deal is to do your best to serve our clients brilliantly; to keep your promises that you make to your colleagues; to help people in the office you work in and to help our colleagues in our other offices; to take responsibility both when it's going well and when it's not; and, to show real ownership and pride in the company, in the people you work with, and in our offices.

We've invested a huge amount of money in our business here in the IOM and we're about to do the same in SA and I want you to show real pride and responsibility.

So if you spill a drink, clear it up and make it right.

If someone needs a hand, help them.

Keep the promises you make to clients and to each other.

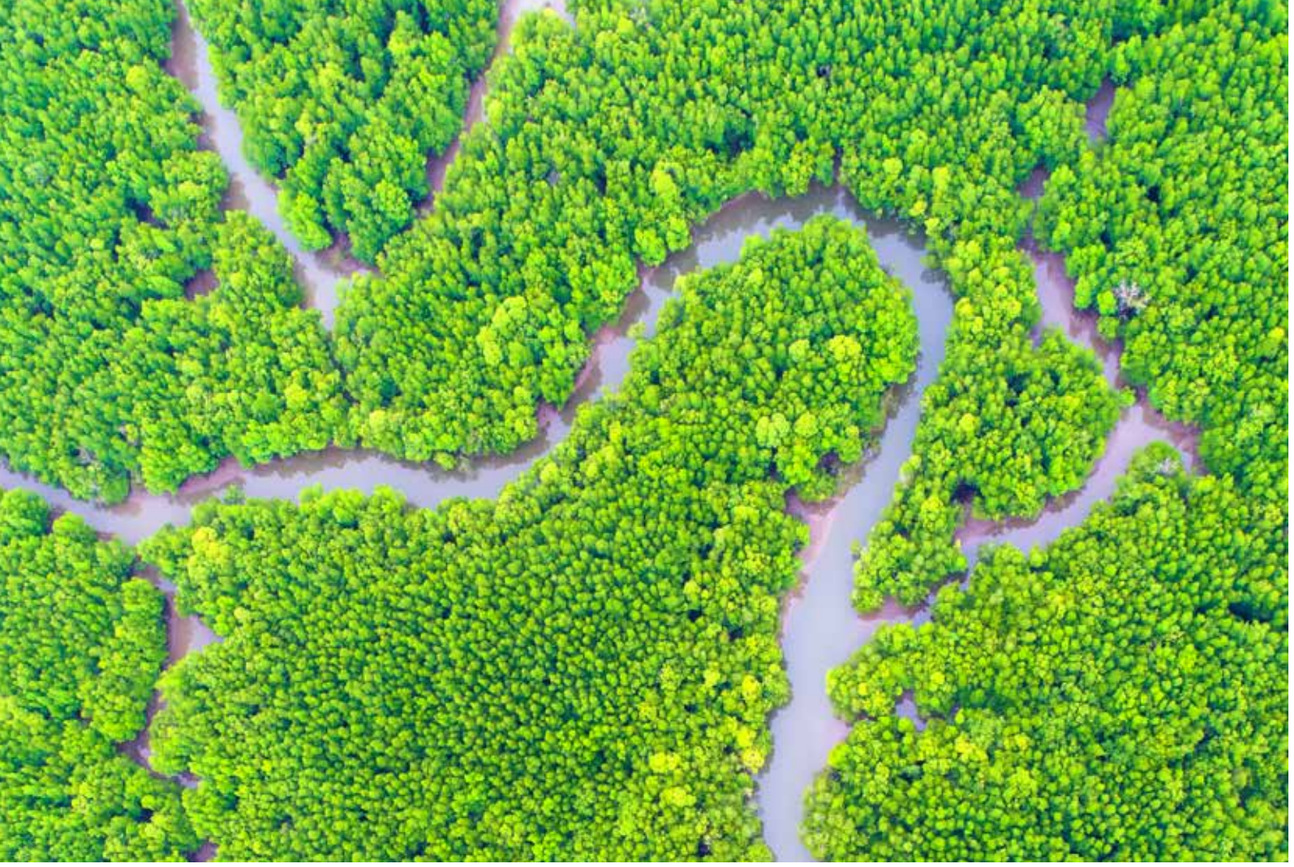
Can you imagine how much more we'd get done if you went to a meeting and every single commitment that people had previously made had been done as promised?

Help your colleagues. Give them your time to help them, to show them how to do something, to support them if they're having a tough day or they've got some challenges at home.

Deal in truth, get to the details, find the answers, and do it without blame. It creates trust and a much healthier environment for us all to be working in.

When I talk about culture, I describe it as "the way it is around here". The examples I've described about pride and personal responsibility are the way I want it to be around here: Great people, well looked after, in a great environment, with high standards demonstrated all the time by all in the team.'

"You make a deal, and it's a lot easier to keep your side of the deal if you believe in what you're doing..."



National Pizza Day

On Friday 9th February, the IOM Social Committee organised for us to join in with the celebrations of 'National Pizza Day!'

At lunchtime, the amazing *Just Pizza and Pasta* promptly delivered us a selection of over twenty delicious pizzas for our staff to enjoy. We would like to thank them hugely for their fabulous service!

International Women's Day

Mamta Paradise

On Thursday 8th March, the annual 'International Women's Day' was celebrated around the world.

Our HR Manager, Mamta Paradise, wrote to the Group, "I personally feel very lucky to work for an organisation that treats women and men as equals and also supports and encourages development for women in the workplace.

As a working mum, I feel extremely grateful to be supported by Capital to follow my career ambitions as well as support my family. Thank you Capital and all the Capital International Women for all that you do!"

We were proud to receive such positive feedback from Mamta, who joined the company in November 2017. We join her in celebrating powerful and inspiring women, and would like to extend our own appreciation to all the Capital International women!

The Coffee Machine

After much anticipation, the sparkling new 'posh' coffee machine was ready for use in January! To celebrate the installation, Mannvend kindly provided us with complimentary breakfast snacks, whilst Noa's Bake House provided us with pastries to complement our wonderful coffees and hot chocolates.

Thanks so much to Mannvend and their wonderful staff, who now make daily visits to maintain the machine, as well as to and Noa's for their wonderful hospitality.

Now we await the installation of the third floor coffee machine, as well as the finalisations of all new office refurbishments in line with our brand's recently refreshed look and feel.

Keep an eye out in our next Group News to see the fabulous changes!

Celebrating Our People

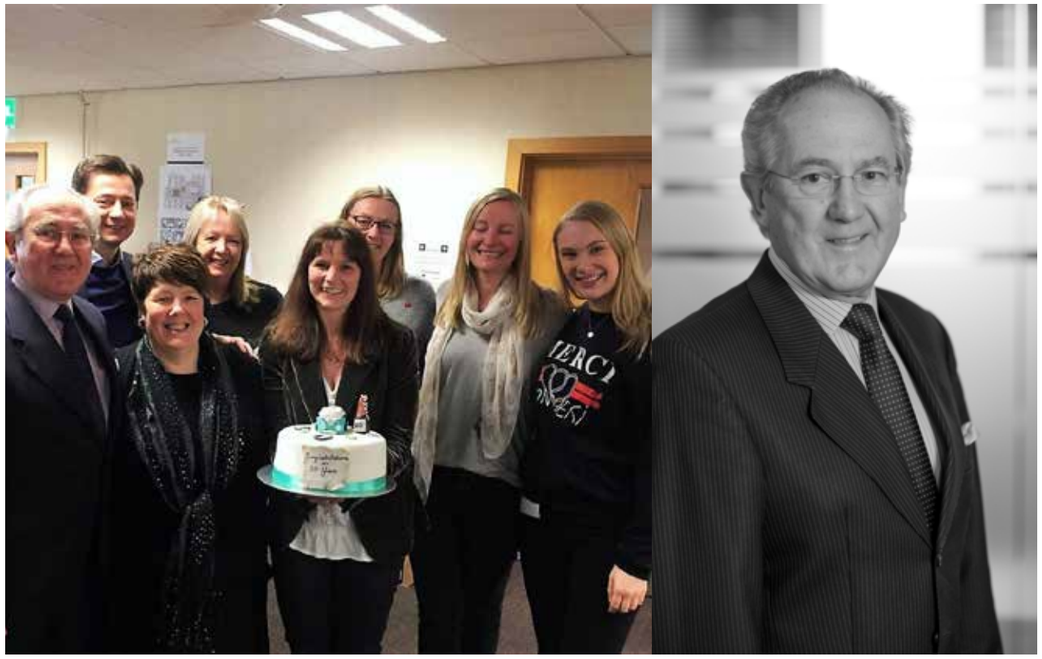
Chief Operations Officer Kirsten Gorry Celebrates 20 Years of Service

By Peter Long

On the 5th January Capital International Group staff gathered around Kirsten's desk on the 3rd Floor of Capital House where Greg Ellison, the Group CEO, and Founder, Peter Long, were waiting to present Kirsten with her award for a magnificent 20 years of service to the Group. A telecommunications link to the Group's Office in Cape Town ensured that all our South African staff were also able to view the proceedings.

'Just at that point Kirsten realised that all the attention seemed to be focused on her, and she froze with shock. It was a wonderful moment and very moving as Greg presented Kirsten with her Award for 20 years' service. He then called upon myself to pay tribute to Kirsten.

Kirsten Gorry



Peter Long

I said, "This is a truly wonderful occasion for us because Kirsten epitomises everything that is good about the Capital International Group. She is a lady of the highest moral principles and **Integrity.** Throughout her 20 years of loyal service she has been instrumental in developing, delivering and managing the Investment, Administration and Custodial services of the Group, where continuous **Innovation** and **Excellence** are of paramount importance. Her work, often resulting from feedback from her team, has led to significant increases in operating efficiency throughout the Group."

I would like to quote from a letter that our Chairman Anthony wrote to the Financial Supervision Commission in June 2009, upon Kirsten's appointment as Chief Operating Officer and Director of Capital International Limited. In this he wrote:-

"... Kirsten has an enviable track record of proven experience, knowledge and professional industry expertise. The three core values of the Capital International Group are Integrity, Innovation and Excellence. Kirsten epitomises all three of these values in everything that she does both professionally and privately. She has been a huge asset to Capital International since the day she joined in 1997, and her influence and importance to the Group continues to grow today."

At this point a celebration cake was brought in, adorned with flaming candles, whereupon Kirsten responded by thanking everyone for their support, hard work and friendship, to thunderous applause from the floor.'

Darren Turns 21!

On Friday 9th March, all our IOM staff swarmed into the IT department to sing 'Happy Birthday' around the desk of Darren McDonald for his 21st birthday!

As an avid supporter of Glasgow Rangers, we presented Darren with a delicious chocolate cake designed as the shirt of his favourite team. As well as this, he received a personalised Rangers shirt and an Amazon voucher.

Darren is a third- year student at University College Isle of Man, where he is studying a BSc in Computer Science. He has been working part-time in our IT Department since September 2015, supporting with the Helpdesk function.

Events

Snow And ICE

In February, whilst the IOM was dusted with snow, Craig Dalton and Antony Kelsey, of Business Development, managed to get off the Island to represent the Group at the ICE 2018 Conference in London.

They were based at the Isle of Man e-gaming stand, as pictured below:

Events - South Africa

Business Growth in South Africa: A Travel Blog

Our Head of Business Development, Antony Kelsey, has not long returned from his latest trip to South Africa and to our Capital International Group (CIG) office in Cape Town. Below he shares his thoughts and insights from his time there:

THE BEAST FROM THE EAST!

As a regular business traveller, the novelty of flying to faraway destinations and staying in numerous hotels wore off a long time ago! However, I have to say, departing the UK on Monday 26th February was a little more appealing than usual as I knew the infamous "Beast from the East" was about to hit the British Isles- and I was on the way to a warm 25 degrees in sunny Cape Town! The snow did try its hardest to prevent me enjoying a couple of weeks in the sun as it came down at Gatwick hard in the evening, but this only caused us a 1 hour de-icing delay so I escaped just in time!

GROWTH AND OUR OFFSHORE PLATFORM

I try to travel out to see our staff and clients in South Africa three times a year, which works out at about every four months. The pace of change and growth for our Cape Town office has been substantial; this time last year, we had less than 10 permanent staff there, but we now have over 20 - with plans to increase this headcount further in the coming year.

What is the source of this growth?

Well, for me, it is being driven by a number of factors:

1. The political instability that has presided over the Zuma reign. This has resulted in many South Africans, from the affluent to the super rich, building an offshore 'nest egg'.
2. Our compelling open-architecture platform that allows intermediaries and their clients to consolidate their offshore investments in a one simple to use location.
3. The fact that our business headquarters is located in the Isle of Man, rather than in South Africa, is something that many offshore clients perceive as a key benefit.
4. Our regulated presence in Cape Town provides great local support, both in terms of on-boarding, and in terms of understanding the challenges of doing offshore business from South Africa.

Aside from meeting all our new colleagues, the increased headcount in the office was immediately obvious to me as there is no longer space for me to have my own desk- I had to hot-desk in meeting rooms whenever I had time to check emails, and do work on my IPad!

ACQUISITION

Due to the hot-desk scenario, it was a brilliant news to hear during the Board meeting we had whilst I was there, that there are plans to double the size of the existing office space!

Also within that Board meeting, I was able to hear how the integration of the business we bought in September 2017 was well on track. The company in question was called 'AngloRand Capital (Pty) Ltd'; a company whom were already using Capital International SA for dealing in offshore collectives. The rationale behind this successful acquisition was four-fold:

1. To build a direct relationship with the clients of AngloRand Capital (Pty) Ltd in South Africa;
2. To attain the potential to grow income streams further by consolidating other revenue lines into Capital International Group;
3. To acquire the market leading platform technology which underpinned the business of AngloRand Capital (Pty) Ltd;
4. To add further geographical diversification to the earnings and talent pool of the Group.

In addition to the progress made integrating AngloRand Capital (Pty) Ltd into the wider Capital International Group, the Board also approved the name change to 'CILSA Solutions (Pty) Ltd'.

In doing so, the Board confirmed that the corporate identity would be aligned with the new CIG branding, which was launched in late 2017. This branding is currently in the process of being rolled out across the entire Group.

SPREADING THE WORD

After the Board meeting it was time for me to hit the road again, this time with David Noon, the Commercial Director in our South African office. We visited Port Elizabeth, Durban, and Johannesburg, having arranged roadshows in

order to spread the news of our growth, rebrand, acquisition, as well as to reinforce our compelling proposition to a mixture of new and existing intermediary relationships.

I always enjoy presentations, and it really helped to have a colleague like David alongside me, who is equally passionate about what we are building in South Africa!

It was also particularly exciting that when in Johannesburg we are able to announce our plans to open an office there later in the year. We informed them that we are actively recruiting for someone located in Johannesburg to lead business development and relationship activity for that region, and to service Mauritius.

There was just enough time before I flew home to interview three promising candidates for the new Johannesburg position- so watch this space before I return to South Africa in June 2018!

COMING HOME

Three planes later and I was back to the Isle of Man, exhausted but looking forward to family time over the weekend, and hoping that March in the Isle of Man might herald the start of spring...

From the misty picture above, taken on my return in Peel, I guess that the answer is sadly 'not quite yet!'- But I like to think that the sheep in the background are a positive sign!

The Cape Town Cycle Tour 2018

by Kim McCracken

A calm breeze, moderate temperatures, superb organisation, and a huge turnout of cyclists full of enthusiasm were all key ingredients contributing toward the successful and memorable Cape Town Cycle Tour ('The Argus') on Sunday 11th March.

The Tour sees just over 30,000 cyclists take off on a 109km journey around the Cape Peninsula, which offers some of the most spectacular scenery in the world.

The Capital International Group was markedly represented with a team of seven riders all sporting the Groups bright and newly branded kit. All our riders finished safely, and were welcomed by a mix of staff, family, friends and clients in our Group Hospitality area at the finish line- with a very well deserved ice-cold beverage and a bite to eat!

The day was an opportunity for all to enjoy the spectacular weather and soak up the buzzing atmosphere, both during and after the race.

As the business' footprint continues to grow in Cape Town and South Africa, we will look to strengthen our brand and profile through various events, together with digital marketing efforts which aim to support the 'on the ground' sales team and ever-growing staff compliment.

"The Tour sees just over 30,000 cyclists take off on a 109km journey around the Cape Peninsula..."

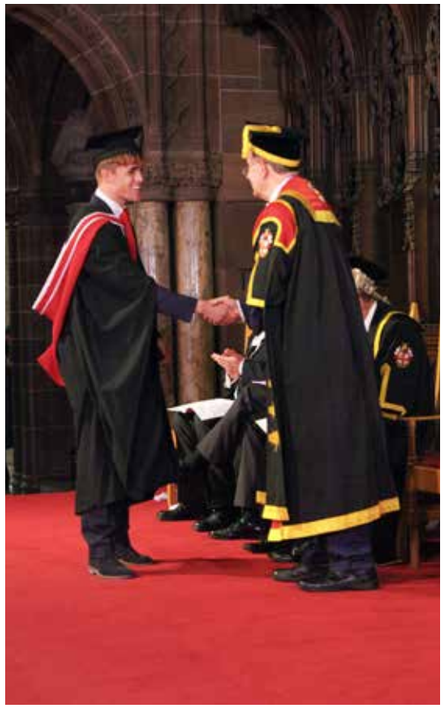
A Celebration with Our Clients

As our business in Cape Town, South Africa continues to grow in leaps and bounds, it is our stakeholder relationships, which have proven most valuable throughout our time in South Africa, and have been the driving force behind our growing footprint.

On Wednesday 14th March, we celebrated these key relationships with a coming together of many of our IFA's and other partner businesses, over a great selection of choice cheeses, canapés and wines at Mutual House in Bishops Court.

Fortuitous to have had the founding members present, with Peter and Heather Long visiting from the Isle of Man, our Chairman, Anthony Long, took the opportunity to provide insights into the passage the founding members have walked, and thank the various stakeholders for their ongoing support.

It is an exciting time for the business in South Africa, and we have every confidence that the team will continue to grow our footprint, strengthen and build relationships and enhance the Capital International Group brand.



Getting to Know Our People

Rory's Post-Graduate Experience

Rory Dearden has completed his first year working for the Capital International Group after graduating from the University of Chester. We thought we would catch up with him to find out about his first year of work!

What did you choose to study at University? Did you have any specific career in mind?

I studied a Business degree at the University of Chester and received First Class Honours. I originally chose the course due to its variety of content in terms of how many aspects of business I could gain a knowledge in, which would leave me with not only insight into different areas, but open doors to plenty of career options within business after three years of study.

When I graduated, I had gained a wide knowledge of business by studying modules including: Marketing; Accountancy; International Consumer Culture and Strategic Management. I chose to write my dissertation on the effects of unethical behaviour in regards to customer perception and loyalty, with a critical analysis referencing the Volkswagen emission crisis.

In addition to the academic study, I spent my four summers at home gaining work experience at CSP's, and I believe this really helped me to secure my role at Capital and know what kind of area I wanted to go into within the business. I would really recommend to any students to spend their summers doing the same.

All this prepared me to graduate with a clearer idea of which direction to take next.

What attracted you to the Capital International Group, and how did you come to be employed by them?

After graduating, I spent time looking for a job that offered variety in its role, as well as exposure to a fast-paced, ever-changing, exciting business environment. When Capital International Group then advertised for a University Graduate to work in the Dealing team, this met the criteria I had created for myself.

On applying, I was invited to attend an interview. After that, I was fortunate enough to be offered the job to start in December 2016. From my first points of contact with the Group, it was made very clear to me that hard work would be rewarded, which appealed to me as I had a proven track record of hard work.

Additionally, the company's active promotion of personal self-development was appealing as I wanted to work for a company that invest in and nurture their staff, as I am interested in furthering my knowledge, qualifications and stepping up as I gain experience in the role.

Since joining, I have learnt more about my colleagues and the steps they took to establish their careers. I have now chosen to begin sitting examinations with CISI and am currently studying for my Introduction to Securities exams. The initial examination process is applicable to many fields of work, and doing this will allow me the option to specialise further down the line in areas of personal interest, such as Wealth Management.

What does a typical day consist of in your role as a Dealing Administrator?

For me, no two days are ever the same as different days present different challenges. I would usually start a day working with the Equity Dealers to assess the reconciliations from the previous day's trading. Then, I may move on to aiding the Settlements team with the final processes required to fully execute a client's trade.

Dependant on staff numbers, I may also work on the opening of the US Stock Exchange, executing trading orders in the live market.

Throughout the year, my knowledge of the dealing environment has improved greatly through getting to know the industry as well as I can and observing the increase volume in trades concerning cryptocurrencies. This has continually expanded my interest in the factors affecting the rise and fall in price of equities.

You have recently been appointed Chairman of the Social and Charity Committee. How did this come about, and what does the role entail?

The Social and Charity Committee are responsible for the organising of events, in line with a yearly budget, for all the staff. I took on this role as I believe that to initiate positive change and refresh the culture, it is important to be actively involved in the process.

Since becoming Chairman, we have led a fundraising day to raise awareness and aid research for the charity, Crohn's and Colitis UK. This was a great experience where we managed to raise over £270. The staff were all so brilliant in supporting the cause, which assures me that we can make positive change throughout the next year.

In addition, we were able to arrange the annual Christmas party awards and nominations, which was an enjoyable experience that made me feel closer to the people of the Group rather than just in my own department, which is one of the Committee's wider aims. We most recently arranged a Christmas Jumper day designed to support the Save the Children charity, which raised over £100.

We have now designed the social calendar for 2018 to meet the preferable wants and needs of our range of employees. Our plans include the organisation of a variety of events including celebrating International Pizza Day, hosting a summer BBQ to cater for staff and their families, and getting the Group involved as teams in local sporting and charity events such as the Viking Long Boat Races.

I feel positive, from getting off to a great start at the end of 2017, that we will be able to meet the wants and needs of our staff successfully.

What has been the hardest aspect about working at Capital International Group?

Trying to avoid being part of the daily breakfast pilgrimage to Mr B's.

What have you learned about the world of full-time employment after your first year in the Financial Services industry?

Over the year, I have experienced first-hand the vast active changes that have contributed to changing a company's culture and brand, which have all helped create a greater working environment. All the changes appear to have motivated the Group as a whole and made us feel united in our wider goals.

The most important thing I have learned, which is often overlooked in some organisations, is the importance of office culture. If departments lack a cultural cohesiveness, then any cross-departmental tasks are at risk of becoming unnecessarily harder to achieve, which may affect the company's performance further down the line.

The Group's recent initiatives, such as the "Culture Club", were designed to improve and maintain a positive culture in the workplace. This process was organised to involve as many company employees as possible, and we all took part in discussions such as idea seminars held by Dom and Alex Long in their summer internship projects. Additionally, the recently launched rebrand of the Group image and website has created refreshed and modernised environment within the office.

"For me, no two days are ever the same as different days present different challenges. "

Taking a Time Out With: Lauren Ormesher - Customer Services Department

How long have you worked at Capital International Group? What is your favourite memory over that time?

I have been working here for three and a half years, since I left school. I have really enjoyed meeting and working with my lovely colleagues, and my favourite memory within work has been helping to develop the new set-up of the Customer Services team. It has made me realise how much I have learned and how far I had come in my relatively short time here.

The social events held have also given me so many great memories, and even challenged me in ways I never imagined- this year I have actually signed up with the Group to take part in the Parish Walk, which I never imagined I would do! I really look forward to making new great memories with both my team and the rest of the Group this coming year.

What is your biggest life achievement so far?

Passing my driving test first time! After starting lessons at the ripe age of 17, I finally got round to doing my test last year... at 22.

If you could have dinner with three people- dead or alive- who would they be?

Harry Potter, Voldemort and Dumbledore. I would want to unite the good and evil wizards, and bring harmony to their infamous conflicts through the undeniable appreciation of the chips, cheese and gravy in the Terrace Chippy Diner. Of course, we would be listening to the movie soundtrack on loop in the background.

If you won £1m, what would be the first thing you bought?

A house- it would be amazing to be set up for life and have total stability, never having to worrying about rent or a mortgage. Then, a Golden Retriever called Cheddar.

What career did you aspire to when you were growing up?

A singer – my mum says I have the voice of a thousand angels. Everyone gets dancing when I belt out Cher's 'Believe' at the Saddle.

Who is your biggest inspiration in life?

David Attenborough and the crew from his documentaries. I would love to travel the world with them, listening to stories and facts of nature in his soothing voice, whilst seeing animals up close in their natural habitats. I would especially love the deep sea and the rainforest creatures.

What is your favourite song of all time?

Bewitched- C'est La Vie. I wake up to this song daily- it is my alarm and starts my mornings on an high every time. The Irish jig part especially gets me energised for early starts!

If you could time-travel, where would you go?

I would have loved to walk with the dinosaurs, with the pterodactyls swooping round the skies around us and my hair blowing in the breeze from their tremendous wings. Seeing creatures of that size would be amazing, and seeing the world before humans inhabited it would be fascinating.

"...my favourite memory within work has been helping to develop the new set up of the Customer Services team."

What are people surprised to find out about you?

I once had a modelling contract with Capital for one night only; however, they decided I was best suited to a career in Customer Services.

What is your biggest pet peeve?

People who leave plug sockets switched on with nothing plugged into them!

What is your favourite way to relax in your spare time?

Simple things- Relaxing by eating good food and drinking good wine with good friends on a weekend evening is always my idea of heaven!

Where do you ideally see yourself this time next year?

Ideally, I would still be within my team at CIG and still enjoying my job as much as I do now. I hope that I will be in the process of buying my first house by that time; it would be a great upgrade from the renovated shed in my mums' back garden.

What is the best piece of advice you have ever been given?

'Live in the chaos of life, don't fight it.'

Feature in Portfolio

January 2018

> The Isle of Man should align itself very closely with the UK and seek regulatory equivalence to enable free trade in goods and services.

ISSUE BONDS TO FUND A PENSION RESERVE

With the Public Sector Pension deficit well in excess of £3 billion and the associated annual pension cost now exceeding 10% of total spending, everyone is agreed that something needs to be done – but what?

One solution is to turn to the bond markets. The Isle of Man Government currently has £260 million of bonds in issuance with an AA+ credit rating at an average yield cost of just 2.3%. By comparison the annual rate of inflation in the Isle of Man was 4.1% last year.

This gives the Government a unique opportunity that will perhaps not be seen again in our lifetimes – to borrow on negative real rates and fund a pension reserve that can meet future pension liabilities.

With gross domestic product of £4.5 billion, the Government's current borrowing amounts to just 6% of GDP – one of the lowest in the world. To fund a pension deficit of £3 billion would require increasing borrowing to 72% of GDP over a period of time – a significant shift but entirely feasible and well below UK levels. Over the long term, the effects of inflation and growth will naturally reduce the level of borrowing to a long term sustainable target of 40-50% of GDP.

The resulting pension reserve would, of course, be invested and not spent. Accepting some inevitable short term volatility, long run investment returns are likely to significantly exceed the financing costs. Critically the reserve should be invested to achieve the maximum impact for the Manx economy, including travel links, infrastructure, energy reserves, real estate, education, business incubation, as well as more general investment.

David Long,
CIO,
Capital International

Although managed primarily to deliver investment returns and to cover the pension liability, this also provides a tremendous opportunity to transform and grow the Manx economy.

TAKE ADVANTAGE OF BREXIT OPPORTUNITIES

While BREXIT presents challenges to the Isle of Man, it also presents tremendous opportunities. There is much detail that we don't know, but many things of which we can be fairly certain. Firstly, the UK is realigning its focus to the fastest growing areas of the world. If 'Global Britain' is to be successful, the demand for freeports that enable the efficient import and export of goods, services and intellectual property into and out of the UK will grow very dramatically and the Isle of Man is perfectly positioned to assist.

Secondly, despite all the posturing, it is highly likely that a deal will be reached with the EU that will cover both trade and services. This could be on a regulatory equivalence basis, which would create opportunities that should be highly beneficial to the Isle of Man. While we can currently trade freely in goods, we are effectively excluded from providing many services into the EU including our closest neighbour, the UK. The regulatory equivalence arrangements that used to exist between the IOM and the UK have been dismantled over the decades, such that the IOM is treated as a third country with regard to many services, while at the same time we effectively have to maintain regulatory alignment.

The Isle of Man should align itself very closely with the UK and seek regulatory equivalence to enable free trade in goods and services. Depending on the eventual deal the UK achieves with the EU, this could give the Isle of Man greater access to EU markets than currently.

FINTECH AND DIGITAL CURRENCIES

The Government should recognise and embrace the potential for digital currencies and fintech to transform the world we live in. Whilst not a fan of bitcoin, I am convinced that digital value exchange systems will be one of the most important developments of the next decade; these will cross jurisdictional boundaries and disrupt the very foundations of our monetary and financial systems.

With no independent currency of its own, the Isle of Man is perfectly positioned to be in the vanguard of this monetary revolution. The Government has already provided leadership in this area but bold action is needed in 2018 to adapt the legal and regulatory frameworks and nurture the development of this budding industry, with the aim of making the Isle of Man a world leading fintech centre of excellence.

New Senior Appointments

Anton Wallace: IT Security Manager

Capital International Group are delighted to announce the permanent appointment of Anton Wallace as Information Technology (IT) Security Manager, reporting to Head of IT, Doug Hornby.

Dublin-born Anton spent from 1992 until 1994 as a Video Games Developer, with two published games sold to schools across Europe and America. Anton specialised in creating educational video games, including one for children with diabetes where the focus was on collecting insulin packages instead of stars as rewards during a chase-style game. This was a time of great evolution in web technology and the internet, and Anton's interests were sparked by the security threats that emerged alongside this, such as the virus and cybercrime.

As the web rapidly became far more accessible, interactive, and integral to businesses, Anton foresaw the need for defence specialists against these ever-evolving threats, and made the decision to move into the financial sector. Here, Anton was able to aid companies who, firstly did not anticipate the potentially irreparable risks to their systems through cybercrime, and secondly, knew very little about defending their data against criminal exploitation of these brilliant new technologies using previously unheard of malicious hacking techniques. New exploits were surfacing on an almost daily basis, and they still are!

Defending against exploits is an ever evolving and challenging environment for Anton, and something he consequently finds hugely interesting and rewarding. That there are always new threats on the horizon as technology further develops, Anton's role allows him to constantly learn and pass on his crucial expertise.

Since joining the company in August, Anton has made use of his 26 years of experience working in professional IT environments to focus on meticulously analysing the current security practices and frameworks within the Group, as well as creating an implementation strategy in which to update, develop and maintain the best possible security practices throughout the business. He has also held a multitude of training sessions to Group staff to discuss the importance and relevance of cybersecurity, providing excellent security advice to all departments.

Looking ahead to the coming year, Anton will take an integral role in the ongoing banking project, where he will build robust security measures into all deliverables during each phase of the project.

He has plans to continue growing his knowledge of software systems by taking a number of professional CBT courses online. He will also continue lecturing at schools about IT security to inspire some of the island youth to pursue a career in IT, where there is, as Anton foresaw, a high demand for suitably skilled individuals.

On his appointment at Capital, Anton said, "There are exciting times ahead for all of us at Capital. I look forward to ensuring that our systems are as secure as possible using the latest defences and testing methodologies."

Matheu Marshall: Group Finance Manager

Capital International Group are delighted to announce the appointment of Matheu Marshall as Group Finance Manager, reporting to Head of Finance, Paul Atherton.

After graduating with a First Class BSc (Hons) Degree in Mathematics from Loughborough University in 2012, Matheu completed his ACCA in 2016 with a big four firm on the Isle of Man, whilst being promoted to Assistant Manager in Audit for the firm. Since, he has worked as Finance Supervisor for a global corporate trust, fund and accounting business.

Manx-born Matheu is already playing a vital role in the implementation of the Group strategy from an accountancy and financial perspective. His responsibilities include the monthly review of subsidiary management accounts; the production of monthly-consolidated management accounts; the preparation of tax, VAT and financial resource returns; the preparation of subsidiary and consolidated financial statements; and providing cover for the Treasury department. In addition, he will be acting as a mentor for the Group's two current Trainee Accountants.

Matheu looks forward to utilising and building upon the knowledge and experience gained so far in his career. He expects the biggest challenge in his new role to be gaining a thorough understanding of Capital's structure and operations whilst assisting with the continuous implementation of strategy over the coming year, all of which will result in significant developments and change within the Group.

With his proven analytical mind and logical thought process, Matheu is motivated and excited by the challenges provided within his new role, as well as the opportunities it provides to increase his experience and knowledge within the financial services industry. He is enthusiastic to be part of the fast-paced and evolving environment and team.

Matheu said, "I am delighted to join the business at such a pivotal moment as the company enacts its strategy. I am looking forward to helping Capital build on the strong and foundations it has established since its inception."

Commenting on his appointment, Group Finance and Operations Director, Werner Alberts, said, "We are very pleased that another talented person has joined our fast-growing team. Matheu brings a strong set of skills which will assist our Finance team in providing financial intelligence to the business and achieve our ambitious plans."

Kai Botha: Digital Marketing & Data Manager

A digital strategist by training, Kai Botha has been appointed as Digital Marketing and Data Manager at Capital International Group.

Taking responsibility for growing their digital presence and capabilities, Kai will be interpreting data and analytics, developing brand intelligence and conceptualizing and implementing digital marketing strategies for 2018 and beyond.

Since graduating with a BA (Hons) in Politics, Philosophy and Economics from the University of Stellenbosch in 2011, Kai has acquired a broad spectrum of experience within three core disciplines – tech, analytics and strategy.

Kai has held the roles of Operations Director at a tech start-up, Digital Data Analyst for a Media Data Analytics company, and Senior Digital Strategist at a global media agency.

He also hosted a regular spot on the South African weekly radio media show 'Maggs on Media', hosted by South African media veteran, Jeremy Maggs (The South African equivalent of Chris Tarrant). There, Kai produced and presented the weekly digital news. He also made professional appearances on the televised version, where he would discuss with expertise the secrets of media strategies behind current and popular topics, trends, and TV shows, including *Game of Thrones*.

Kai therefore brings to the role a rounded and well-established understanding and knowledge of the digital world, as well as a proven record of adapting, learning on the go, and sharing his knowledge; reflecting the dynamic and constantly evolving world of 'digital'. He is most looking forward to implementing his gained skill set within the financial services industry.

Born in Johannesburg, South Africa, Kai relocated to the Isle of Man in December 2017. Since joining the Group's Isle of Man HQ on January 2nd, he has been busy creating and implementing a new digital strategy, as well as managing the Group's South Africa brand launch campaign.

In his spare time, Kai has been exploring the island's great outdoors, taking in the views whilst hiking and mountain biking. Kai describes his most notable personal achievement as summiting the highest mountain pass in the world, Thorong La, in the Nepalese Himalayas (which stands at 18,000 feet above sea level). However, this month he has been particularly enjoying hiking on and around our own highest summit, Snaefell, in the recent bouts of snow - many worlds away from the South African sun at this time of year!

Kai joins the Group on the back of a successful website launch and rebrand project led by Head of Marketing and Customer Experience, Kim McCracken and her team in collaboration with Ashgrove Marketing Agency. His expertise will be vital as he takes on a management role in moving into the next stages of the rebranding project whilst enhancing the Group digital capabilities and digital team. He will ensure innovation, the adoption of new digital technologies, and the establishment and maintenance of data excellence.

Kai embraces all the challenges this may entail, and the opportunities they will present for him to continue to learn and grow his career. He is currently enrolled in a number of part time digital courses, and plans to continue to improve his website and digital expertise by studying a part-time Digital Honours degree through Columbia University.

On his appointment, Kai said, "I look forward to the opportunity to take the set of skills in my possession and test them on a completely new market; because digital marketing is a relatively new feature at Capital International Group, I'll be starting on a fresh canvas, which for a digital marketer is very exciting."

Kim McCracken said, "With a passion for all things digital, he not only brings to the team a wealth of experience, but also an in-depth understanding of the increasingly important role data management plays within a holistic marketing strategy.

Fuelled by caffeine and a wicked sense of humour, our latest South African addition is set to help take the Group's brand footprint to new heights!"

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Create tomorrow.
Start today.

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