OLDMUTUAL

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Dear Clients and Consultants

THE OIL PRICE CRASH AND SASOL LTD

The share price of Sasol Limited (Sasol), an international integrated chemicals and energy company, closed at R52.72 on Wednesday 11 March. This marks the lowest level in the company's share price since January 2001, and represents a share price decline of 82.6% year-to-date. At the time of writing, the Sasol share price currently finds itself below R30 per share.

Figure 1: Sasol Ltd closing share price history from 1 January 2001 to 11 March 2020

While Sasol's share price has been in decline since October 2018, there are a number of factors that have contributed to the most recent rapid decline and extraordinary market movements.

What has caused the recent share price moves?

<u>Existing global concerns, a Russia-Saudi Arabia standoff and an oil price crash</u>

Global equity markets have experienced a sharp downturn in the last few weeks in reaction to the continuing uncertainty surrounding the spread of the 2019 novel Coronavirus (COVID-19). The global pandemic is expected to have a negative impact on global economic growth, with central banks having already started to cut interest rates in an attempt to support the global economy and ward off any potential global recession. The Coronavirus has already negatively impacted global supply chains and, of particular relevance to Sasol, oil demand.

At their meeting over the weekend, the market had anticipated that OPEC+ (which is a group of 24 oil-producing nations, made up of all 14 OPEC member states and 10 non-OPEC members, including Russia) would reach an agreement to cut oil production in order support oil demand and global growth. To the market's surprise, no agreement was reached, with Russia refusing to make any cuts to production. In reaction to Russia's refusal, Saudi Arabia announced its intention to engage in a price war, offering immediate discounts to its benchmark price for oil and increasing production into an already oversupplied market.

The result of these actions saw a dramatic drop in the price of oil. The closing spot price of Brent Crude dropped from $45 per barrel on Friday to $34 per barrel on Monday, and currently remains at these low levels. An oil price at these low levels not only has a negative impact on oil-producing nations, but also on those energy companies that produce oil and gas at different costs of production. These companies include US shale gas producers and Sasol, who are highly indebted and sensitive to lower oil prices.

Sasol-specific issues

Given that Sasol's earnings are directly impacted by moves in the oil price, a fall in the oil price obviously places strain on the company. However, this fall has been exacerbated by a number of other factors relevant to Sasol. In particular, the levels of debt that the company has accumulated with the construction of the Lake Charles Chemicals Project (LCCP) in the US, which has been subject to numerous delays and cost overruns in the last few years. This increased debt burden has made Sasol more sensitive to changes in the prevailing oil price, particularly as LCCP has not yet ramped up and started to contribute positively to cash flows.

On 5 March 2020, Sasol's corporate credit rating was downgraded to junk by Moody's, with its outlook changed from 'stable' to 'negative'. Moody's decision to downgrade Sasol was based on the higher levels of financial leverage in the company that they expect to remain elevated over the next two years, as well as ESG concerns around governance failures and inadequate project oversight leading to escalated costs on LCCP, and the increased costs involved for Sasol to comply with environmental regulations.

With oil prices at their current levels, there is an increased risk that Sasol will breach their debt covenants, which are next assessed at the end of June 2020. The share price reaction of the last few days reflects the increased likelihood that Sasol may require a rights issue to raise capital and reduce a portion of its debt. Sasol were due to host a call with investors on Tuesday 10 March to discuss their credit rating downgrades, but this has since been rescheduled to Tuesday 17 March. In the interim, Sasol have revealed that while they did have hedges in place to protect against adverse market movements in the Rand/Dollar exchange rate and ethane, they did not have hedges in place on their oil price exposure.

What was our Sasol exposure?

Diversification is one of the key cornerstones of Old Mutual Multi-Managers investment philosophy, and acts as a key component of our risk management process. Diversifying our funds across asset classes and asset managers ensures that risk events related to a single stock exposure will have a reduced impact on portfolio performance. While our South African equity building block did have a slight overweight position in Sasol, the total fund exposure to Sasol was not significant.

Our investment portfolios' exposure to Sasol as at the end of February 2020 is detailed in the table below:

Fund	Fund Exposure at 29 February 2020
Old Mutual Multi-Managers Money Market Fund	0.00%
Old Mutual Multi-Managers Inflation Plus 1-3% Strategy	0.18%
Old Mutual Multi-Managers Inflation Plus 3-5% Strategy	0.90%
Old Mutual Multi-Managers Inflation Plus 5-7% Strategy	1.25%
Old Mutual Multi-Managers Max 28 Fund	1.40%
Old Mutual Multi-Managers Defensive Balanced Fund	0.53%
Old Mutual Multi-Managers Managed Fund	1.54%
Old Mutual Multi-Managers Conservative Tracker Fund	0.17%
Old Mutual Multi-Managers Moderate Tracker Fund	0.70%
Old Mutual Multi-Managers Balanced Tracker Fund	0.89%

Where to from here?

Market developments around the global reaction to the spread of the Coronavirus, the level of the oil price and Sasol remain very fluid issues. Every hour it feels as though we are faced with new developments that have the potential to move markets. Levels of uncertainty are high, and there are many calls for calm heads amid this uncertainty.

In the last few days, we have actively engaged with our asset managers that hold Sasol positions and have asked them for their updated views on their holdings. Many managers have opted not to sell out of their positions amid this uncertainty, but equally have chosen not to add to these existing positions. Some of our managers have taken the opportunity to de risk their portfolios, and have sold some of their Sasol positions, but have not sold out of these positions entirely.

A consensus viewpoint from our managers at this juncture is that the outlook for both equity markets and the oil market are extremely volatile and uncertain at present, with things subject to change at a moment's notice. It remains unclear for how long the low oil price will persist or how much capital Sasol would need to raise in the event of a rights issue. We gain comfort from the fact that our appointed asset managers follow long-term fundamental investment processes and have a deep understanding of both the risks and opportunities faced by the companies they invest in. We believe that they are best placed to make informed investment decisions on these companies on our clients' behalf.

In times of extreme market moves, like those we are currently experiencing, it remains vitally important for us as long-term investors to stick to our proven investment philosophy and process. Diversification across asset classes, asset managers and underlying instruments in those portfolios aids in mitigating the risk that a single position could negatively impact the portfolios, and having a valuation-driven approach allows us to take advantage of those opportunities that present themselves in times such as these.

Please do not hesitate to contact us should you have any questions in this regard.

Kind Regards

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