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ASSET AND FUND MANAGERS
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NEWSLETTER JUNE 2017

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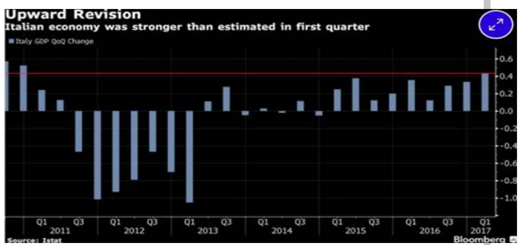
France's legislative elections: President Emmanuel Macron's political rise has been given another boost after his centrist parliamentary coalition claimed a landslide 350 out of 577 seats in France's lower house, cementing a legislative majority that will easily allow him to pass his reform program. This was formed by his own young party, La République En Marche, in alliance with the Democratic Movement. Together, these two parties secured 49.1 per cent of the vote in the second round of the French parliamentary election - equating to 60.7 per cent of the seats in the National Assembly.

Paris Agreement COP 21: In June 2017, global leaders vowed to press ahead with the Paris climate accord after Donald Trump pulled the world's biggest economy out of the pact. Trump argued that he would seek a better deal because the 2015 agreement was not fair to the U.S, which will now join Syria and Nicaragua as the only nations not participating in it. Moreover, Bloomberg founder and CEO, Michael Bloomberg, has offered to make up the $15 million in funding that the United Nations stands to lose from U.S. President Donald Trump's decision to pull out of the Paris Climate Agreement.

Germany: Business confidence, logging its fifth consecutive increase, jumped to the highest since 1991 this month, underpinning optimism by the Bundesbank that the upswing in Europe's largest economy is set to continue. With domestic demand supported by a buoyant labor market, risks to growth stem almost exclusively from global forces. Growth was the fastest in a year in the three months through March, bolstered by an unexpected pickup in manufacturing, which bodes well for investment. Earlier this month, Germany's central bank raised its economic outlook through 2019, arguing that increasing employment, consumer spending and construction would ensure an ongoing solid underlying pace of expansion.

Italy: As Italy moves toward possible early elections, a surprise acceleration in economic growth and a preliminary deal on the rescue of the country's third-biggest bank provided the government with some much-needed good news. First-quarter expansion was revised up to the fastest in six years, according to a report published by end of June 2017, with a boost from inventories and solid consumer spending. While investment and net trade proved a drag, and Italy is still lagging its European peers, the news lifted hopes for the health of the economy. However, it still has ground to recover before reaching its pre-crisis level.



The Fed hiked interest rates for the second time this year, in a widely expected move that reflects the central bank's confidence in the U.S. economy. At the conclusion of their two-day meeting on 14th of June 2017, the Federal Reserve's Open Market Committee raised their benchmark interest rate by 25 basis points to a range of 1% to 1.25%, which was explained by a moderate but solid job gains on average since the beginning of the year, and a decline in unemployment. The Fed has equally been pressing ahead with plans to normalize monetary policy, betting that the ongoing strength of the labor market would ultimately prevail over the recent weakness in inflation *(aiming at an inflation goal of 2%)*.

By end of June 2017, the International Monetary Fund cut its outlook for the U.S. economy, removing assumptions of President Donald Trump's plans to cut taxes and boost infrastructure spending to spur growth, by reducing its forecast for U.S. growth this year to 2.1 percent, from 2.3 percent in the fund's April update to its world economic outlook. The Washington-based fund also cut its projection for U.S. growth next year to 2.1 percent, from 2.5 percent in April. This downgrade was a result of US facing problems ranging from an ageing population to low productivity growth, and with a labour market already at full employment.

South Africa: The South African economy fell into a recession for the first time since 2009 after it contracted for a second straight quarter in the first three months of the year as all bar two industries shrank. As per the Statistics South Africa report, Gross domestic product receded an annualized 0.7 percent in the first quarter from a contraction of 0.3 percent in the previous three months. While rains are helping Africa's most-industrialized economy recover from a 2015 drought that was the worst since records started more than a century earlier, political uncertainty has hampered implementing reforms aimed at boosting growth. Mid June, Moody's downgraded the five largest South African banks and 10 South African regional and local governments along with three development finance institutions.

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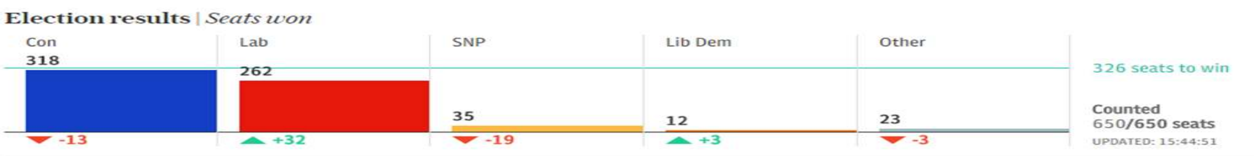
Mauritius: On the 8th of June 2017, the Finance Minister presented the 2017-18 Budget *(Rising to the Challenge of our Ambitions)* amidst challenges around investment, growth and employment. The main issues addressed by the budget include achieving higher growth, increasing investment in infrastructure, improving quality of life, building a new social paradigm and consolidating macroeconomic fundamentals. The budget measures and incentives in support of the export industry, including tax reduction from 15 percent to 3 percent on profits derived from exportation of goods, should contribute to reverse the recent decline in export sector earnings in an attempt to improve the widening trade deficit. However, this fiscal incentive should also be accompanied by measures to raise productivity. This is also a step towards harmonization of taxation for domestic exporters and global business companies (GBC1).

Other key corporate tax measures include incentives in terms of accelerated capital allowances and double deduction for qualifying research and development expenditure, 8-year income tax holiday for innovation-driven companies of pharmaceutical and high-tech product manufacturers. The negative income tax for low-income employees that has been accompanied by a new solidarity levy of 5 percent for high-income earners is a step towards mitigating income inequality.

UK snap election: Prime Minister Theresa May's move to call a surprise election to shore up her thin parliamentary majority going into Brexit negotiations has backfired spectacularly. With 649 of 650 constituencies counted, her Conservative Party dropped 12 seats—and lost its majority in the House of Commons on the 8th of June 2017 elections. The Conservatives flipped just five Labour seats; Jeremy Corbyn's party outperformed expectations, winning 27 Tory-held constituencies. May's intention to form a government with the help of Northern Ireland's pro-Brexit Democratic Unionist Party has subsequently materialized, in exchange of an extra £1bn to be spent on Northern Ireland budget over the next couple of years.



Brexit negotiations: British negotiators have capitulated to key European demands for a phased approach to Brexit talks, agreeing to park discussions on free trade until they have thrashed out the cost of the multibillion-euro UK divorce settlement. Putting a brave face on a concession that may further strengthen the tactical dominance of the EU, the Brexit secretary, David Davis, insisted his initial retreat remained consistent with long-term government strategy.

Private Equity in Eastern Africa

Private equity (PE) firms raised $1.1 billion for East African investments between 2015 and 2016, a 41 per cent increase on the amount raised in the preceding seven years. A sector survey shows that the 16 Africa focused funds have already deployed $600 million from these funds, with Kenya getting the lion's share at $483.5 million. The amount coming to the region, however, remains only a small percentage of the global and African totals, at 0.6 and 0.06 per cent respectively. It is worth noting that there is an increased focus by PE funds on East Africa because unlike the downturn in commodities and currency devaluation prevailing in southern Africa, East African countries do not have exposure to commodities and their currencies have experienced less devaluation.

Market Analysis

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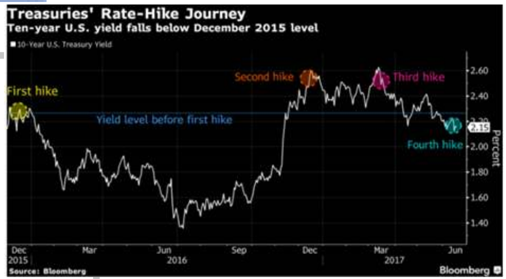
Interest Rates/Bond markets



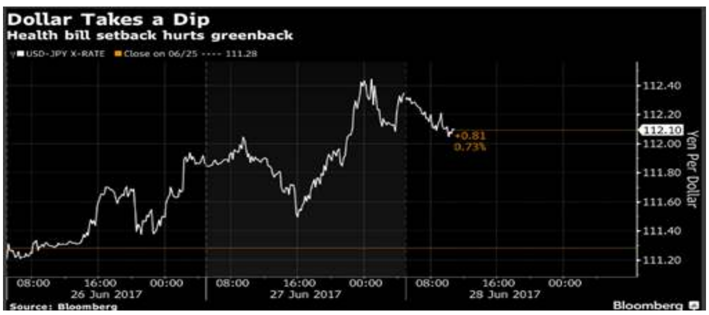
- Following the Fed's decision to raise interest rates on the 14th of June 2017, the 10-year yield ended at 2.15 percent, after touching the lowest levels of 2017 as weaker-than-forecast inflation data stoked speculation that the Fed was erring with its tightening plans.
- Long-term Treasury bond yields fell on 26th of June 2017, with the 30-year bond yield hitting 2.682 percent, its lowest level since Nov. 9. The benchmark 10-year note yield, meanwhile, reached 2.121 percent, its lowest point since June 14.
- The 10-year UK gilt yield rose 7bp to 1.16 per cent, while the two-year rose 3bp to close at 0.29 per cent.
- The yield for the 2-year German government bond rose 6.3 basis points to -0.584%, the highest in a year whilst its 10-year government bond yield rose to a seven-week high. The spread between the German TMBMKDE-10Y, +0.00% and U.S. 10-year government bonds narrowed to 1.83%, or 183 basis points, the tightest since November .

Country	10 yrs yield %
DEU	0.47%
USA	2.31%
FR	0.82%
ITA	2.16%
ESP	1.54%
UK	1.26%
CNH	3.58%

Source Bloomberg

Stock Markets

- The Nasdaq Composite COMP, -2.05% tumbled 2.1% in afternoon trade on 29th of June 2017. Before that, the index closed below its 50-day for just two sessions, namely Dec. 1 and Dec. 2, 2016 before rallying back above it to resume its uptrend. In fact, the U.S. stocks tumbled with the S&P 500 and Dow industrials logging their worst one-day declines since May as the technology sector resumed its selloff, overshadowing advances in financials.
- The dollar dropped against all of its Group-of-10 peers as voting on the U.S. health-care bill was delayed, reinforcing doubts about the government's ability to enact policy changes. The greenback also came under pressure as ECB President Mario Draghi's positive assessment on the inflation outlook sent the euro to a 10-month high, while comments from Federal Reserve Chair Janet Yellen provided scant support.
- A popular gauge of volatility on Wall Street surged by the most since mid-May, on 29th of June 2017, as the stock market in afternoon trade suffered sharp losses in the technology sector XLK, -2.17%. The CBOE Volatility Index VIX, +38.48% was up about 22% at 12.22, putting it on track for its largest daily surge since May 17, when it climbed more than 46%.
- European stocks on 28th of June 2017 closed a topsy-turvy session at a two-month low, with the euro pulled lower intraday while the pound leapt as investors reassessed policy stances at both the European Central Bank and the Bank of England. The Stoxx Europe 600 SXXP, -1.34% closed down less than 1 point at 385.82, but that still represented the lowest close since April 21.
- The FTSE 100 had been trading lower during the session but was hurt further as the pound GBPUSD, +0.1076% popped up above $1.2900 for the first time since the U.K.'s general election earlier this month resulted in a hung parliament.



Indices	31/12/2016	30/06/2017	YtD
CAC 40	4 862	5,121	5.3%
DAX	11 481	12,325	7.4%
EUROSTOXX 50	3 291	3,442	4.6%
FTSE	7 143	7,313	2.4%
S&P500	2 239	2,423	8.2%
NASDAQ Comp	5 383	6,140	14.1%
NIKKEI 225	19 114	20,033	4.8%

Source Bloomberg

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Commodities market

- Brent crude futures formed a death cross on the 12th of June 2017 when the 50-day moving average fell below the 200-day line. The crossover is typically perceived as a loss of short-term momentum and last occurred in the second half of 2014, when prices collapsed due to oversupply amid surging U.S. shale oil production.
- By end of June 2017, US energy stocks rose as Brent crude settled 1.4 per cent higher at $47.31 a barrel, its highest for more than a week. US West Texas Intermediate was up 1.1 per cent in late trade at $44.72.
- Gold prices held steady on 30 June 2017, supported by a plunging dollar and declining stocks but hawkish comments from major central banks suggesting a shift toward tighter monetary policies kept the bullion shy of major gains. It is worth noting that gold slid 1.7 percent in June in its first monthly decline this year, but gained over 8 percent so far in 2017.

Forex

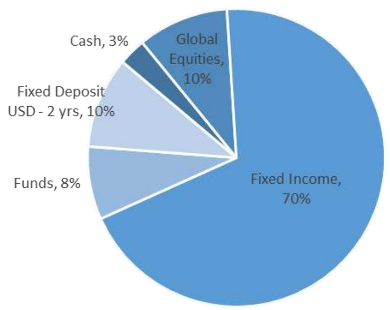
- On 29th of June 2017, the U.S. dollar dropped to a 12-month low against the euro and weakened against the pound on the prospect for shifts in monetary policy at both the European Central Bank and the Bank of England.
- On 28th of June 2017, sterling climbed as high as $1.2972 against the dollar in intraday trade, above where it ended the day before this month's UK general election. It subsequently retreated to $1.2928, still up 0.9 per cent on the day, followed by an intraday high of $1.13008 on the 29th of June 2017, which was its best level since late May.
- On 29th of June 2017, **EUR/USD**, -0.0262% bought $1.1429, trading above $1.14 for the first time in more than a year, and this is the highest level in 12 months.
- The euro had extended its rise against the dollar in early European trade on Tuesday, 27th of June 2017, following comments from president Mario Draghi that were viewed by many as paving the way for a tapering of its stimulus measures. However, senior figures in the ECB were reported to have signalled that markets had misinterpreted Draghi's message triggering a fresh bout of volatility, leading to an immediate fall back below the $1.13 level, only to rally anew and climb to a 52-week high of $1.1390.

CCY	Rate 30-06-17
EUR/USD	1.1426
EUR/CHF	1.0950
EUR/GBP	0.8771
USD/CHF	0.9579
GBP/USD	1.3025
USD/JPY	112.39

Source Bloomberg

Our June portfolio model

- **Investment Objective :** Short, medium, long term growth and preservation of capital.
- **Risk and Profit:** Upon investors profile
- **Client Profile:** Looking among a Conservative, Balanced or Aggressive investment strategy
- **Time Horizon:** 1-3 years, 3-5 years , 5+ years
- **Investment Universe:** EU and US market. Investment in Emerging Market can also be considered upon advise.
- **Asset Class :** The investor's portfolio will be allocated between stocks, bonds, funds, fixed deposit and cash which may vary depending on market conditions/benchmark and rebalancing of the portfolio.
- **Performance :** Expected returns based on market past performances and may not necessarily be repeated. With a forecasted growth of +1.5% for EU and +2.3% for US in 2017, we raised our net expected returns for 2017.



The conservative profile portfolios aim to preserve capital and to minimize the level of risk of the investor.

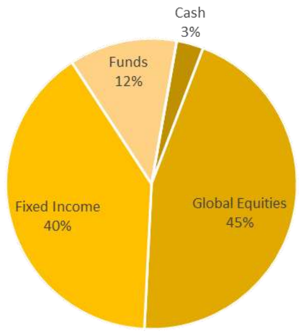
This type of portfolios offers a modest capital growth over the time horizon of the investor.

Expected Net Return : 4.8% p.a

(The expected return was calculated based on past performance and may not necessarily be repeated)

% volatility/draw down of portfolio : 2% on global amount

A maximum of 15% can be allocated as cash.



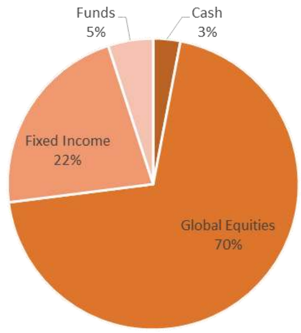
The balanced profile portfolios aim to provide a balance between capital preservation and growth opportunities.

This type of portfolios offers a moderate level of capital growth over the time horizon of the investor while at the same time managing the risk.

Expected Net Return : 6.4% p.a

(The expected return was calculated based on past performance and may not necessarily be repeated)

% volatility/draw down of portfolio : 3% on global amount



The aggressive profile portfolios aim to achieve a higher level of capital growth over the long term while providing a risk control through diversification

This type of portfolios offers a high level of capital growth over the time horizon of the investor while at the same time a high risk profile.

Expected Net Return : 7.3% p.a

(The expected return was calculated based on past performance and may not necessarily be repeated)

% volatility/draw down of portfolio : 4% on global amount

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