24 March 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

GOP pulls its crucial healthcare bill vote

KEY MESSAGES:

GOP pulls the healthcare bill vote as it anticipated lack of votes. It drew much of markets attention as investors viewed it keenly as a key for reflation trade.

USD fell for a second week, Yen also appeared sensitive to bill headlines. GBP gained 1.4% over the week closing at $1.25.

Global stocks saw a sell off with S&P 500 closing at lower levels from last week. 10-year treasuries yielded 2.40%.

WTI Crude settled at $47.97 a barrel, trimming the weekly loss to 1.7%. Bullion gained 1.4% closing at $1,247.90 per ounce.

Market developments during the week

Markets were keenly looking at the outcome of the vote on their health-care bill, which was postponed to Friday as GOP were not sure whether they had enough support to pass the measure. Later on Friday, it was revealed that Republicans scrapped the vote as a growing number of Republicans declared they opposed the latest version just a day after President Donald Trump demanded a do-or-die vote on the long time GOP priority with Speaker Paul Ryan, stating that they are going to be living with Obamacare for the foreseeable future. The healthcare reform was seen as vital to Trump's economic agenda, as he would not be able to deliver "massive tax cuts" without scrapping Obamacare. Markets have already anticipated aggressive fiscal stimulus by the Trump Administration. The cancellation casts doubt on President Trump's ability to deliver on his ambitious agenda, including taxes and infrastructure, which was earlier considered a formality, with Republican control of the White House and both the chambers of Congress.

On the economic front, orders for US durable goods increased more than forecast in February, a sign companies are confident about the outlook for the economy. Bookings for good rose 1.7%, after a 2.3% advance the prior month that was larger than previously estimated, Commerce Department data showed Friday. A sixth straight gain in orders for durable goods underscores rising demand that will help to broaden economic growth. Shipments of capital goods excluding aircraft and military hardware, used in calculating gross domestic product, rose 1% in February.

USD was falling again this week, as Fed speakers dominated the agenda. After Fed's cautious outlook was revealed, when it kept its forecasts of about 2% growth in the first 3 years of Trump's presidency, little changed from their December estimates. The Fed also kept unaltered, their expectation for three interest-rate increases in 2017 and three next year. It appears that the central bank officials aren't prejudging whether Trump can deliver on a plan to revitalize the US economy with shock therapy: deregulation, infrastructure spending, retooled trade agreements and tax reductions intended to raise growth to 3 %or more.

Currencies

USD churned in a tight range. The Bloomberg Dollar Index lost 0.1% as it heads for a weekly slide of 0.7%. The measure Thursday eked out a gain to snap a 6-day losing streak.

Yen remained the most sensitive major currency to bill headlines as it halted its longest rally since 2011 closing 1.4% lower this week at 111.1 JPY per USD.

GBP gained this week, while closing at slightly lower levels and saw longs squaring on BOE's Vlieghe inflation remarks paring its weekly gain to 1.4% at $1.25.

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The euro added 0.9% this week to close at $1.08.

The Mexican peso has rallied about 9% versus the dollar this year, setting up for the best first quarter performance in more than two decades.

With falling crude prices and currencies of most commodity producers tumbling, ruble headed for its fourth month of gains. The currency strengthened on Friday, even after a surprise decision by Russian policy makers to lower the benchmark rate by a quarter point as the appeal of borrowing in dollars and investing in higher-yielding ruble assets endured. Russian assets have been swept up by a surge in demand for emerging-market stocks and bonds since the Federal Reserve laid out a relatively dovish outlook for interest-rate increases in its meeting last week. Analysts at Credit Suisse Group AG including Nimrod Mevorach estimate that foreigners have bought about US$1 billion of ruble bonds so far this month. The ruble advanced 0.5% to 57.2075, after the Bank of Russia's decision, its second day of gains. The yield on government 10-year bonds was down two basis points at 7.98%, near the lowest level in half a year.

Equities

US stocks broadly closed at lower levels compared to last week with a sell off seen in global equities. US stock funds suffered their largest redemptions, prior to Donald Trump's healthcare bill vote, with $9bn of withdrawals in the week to March 22, its highest since the Brexit vote in June. Banks sank 3.8% in the week, though losses were limited Friday after Donald Trump suggested to the Washington Post that he will turn his attention to tax reform.

European stocks fell for the third time in four days, moving further away from a 15-month high they reached just a week ago. The Stoxx Europe 600 Index lost 0.2%. Most industry groups declined, with insurance companies and energy shares falling the most. Deutsche Bank strategists opined investors should sell German stocks, as they rank as the most expensive among major European indexes, afflicted by high price-to-book ratios and low dividend yields compared with peers. Deutsche Bank also recommended avoiding French stocks. The strategists favor the U.K., their largest overweight recommendation, as its stock market is a defensive beneficiary from further GBP weakness.

Asian equities rose for the 10th time in 11 days, shrugging off US declines. The MSCI Asia Pacific Index rose 0.3%, extending a rebound that has retraced about half of Wednesday's 1.3 % loss. Japan's Topix Index and Australia's benchmark gauge added at least 0.8% respectively. Hong Kong's Hang Seng Index climbed 0.1%. Banking and consumer stocks led the advance as earnings season continued in Hong Kong.

Bonds

The yield on 10-year Treasury notes fell to 2.40% compared to 2.50% since our last note. We timely predicted this fall in yields.

European bonds shrugged off stronger-than-expected purchasing managers' data out of Germany and France. French 10-year yields dropped four basis points to 1.001%.

The yield on bund benchmarks fell two basis points to 0.41%.

Commodities

Crude is set for its third weekly drop this month, as OPEC and its market allies prepare to review cuts, while rising US inventories indicated the measures aren't working yet. US crude production expanded for a fifth week to 9.13 million barrels a day last week, the longest run of gains since January 2016, according to Energy Information Administration data. Nationwide stockpiles increased by 4.95 million to 533.1 million barrels in the week ended March 17.

West Texas Intermediate rose 27 cents Friday to settle at $47.97 a barrel, trimming the weekly loss to 1.7%. Futures rose 0.8% in New York, trimming the weekly loss to 1.5%.

Bullish bets on West Texas Intermediate crude prices fell by a record amount in the week ending March 14, with wagers on further price falls doubling. Bets on rising WTI crude during the report week were

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reduced by the most on record in data going back to 2006, the US Commodity Futures Trading Commission announced Friday. The cuts came as prices tumbled below $50 a barrel for the first time this year, and anxious executives discussed rising US rig counts at an industry meeting in Houston. During the week ended March 14, hedge funds decreased their net-long position, or the difference between bets on a price increase and wagers on a decline, by 23% to 288,774, the largest decline on record and the lowest level since December. WTI tumbled 10% during the period. Longs fell 8.9% to the lowest level since early January, and shorts doubled from the prior week to the highest since November. Speculators' net-long wagers on Brent crude, the international benchmark traded in London, tumbled by 66,683 to 405,986, data from ICE Futures Europe showed. It was the biggest decline since November. There's still hope OPEC will continue its efforts to reduce the global glut.

The drop in oil prices comes at the worst possible time for drillers, with banks due to start annual credit-line reviews in the coming month. Slide in oil prices could deter lenders from opening up credit. Between the end of 2015 and October, when credit lines were last reassessed, the average borrowing base for US explorers fell 16%, according to data compiled by Bloomberg.

Representatives from five OPEC and non-OPEC members are to gathering for a meeting of the Joint Ministerial Monitoring Committee in Kuwait this weekend to oversee oil production cuts. While OPEC won't formally decide until May whether to prolong a production-cut deal

OPEC's supply cuts are providing a windfall for producers of heavy crude from western Canada and the Gulf of Mexico. Prices for Western Canadian Select and Mars grades have strengthened relative to benchmark West Texas Intermediate since OPEC began implementing its reductions this year. These gains have held even after WTI sank below $50 a barrel earlier this month amid rising US output. Western Canadian Select was $12.70 per barrel below West Texas Intermediate Wednesday, according to data compiled by Bloomberg, the narrowest discount since June. Mars reached a $1.45 discount this week, the tightest since February 2016.

Gold rose considerably this week taking its weekly gain to 1.4% closing at $1,247.9. We were able to participate in this gain with recently increased bullion holdings.

Copper slumped 1.8% amid signs supplies are returning. Disruptions caused the metal to surge last month to the highest level since 2015.

Iron ore futures in China posted an unprecedented weekly loss; the most-active contract in Singapore is lower for a sixth day; and spot prices had the biggest slump since November.

Major economies:

Euroarea

The euro remained mainly at last week's levels. It rallied during the week on positive PMI figures across the euro zone. IHS Markit's Purchasing Managers' Index for the euro area rose to 56.7 in March, the highest level in almost six years, and well ahead of economist expectations for 55.8. Hiring picked up in both manufacturing and services, while inflationary pressures increased. In Germany, the composite PMI rose to 57 for the month, while there was also good news for the French economy where a similar gauge jumped to 57.6.

Markets continue to predict as to when ECB will move, following last week's comments from Ewald Nowotny, from the European Central Bank's Governing Council, who said that "the ECB will decide at a later time whether to raise interest rates before or after ending its bond purchase program". This was perceived as increasing the likelihood of seeing at least one interest rate hike, or signals of one coming at the beginning of 2018, towards the end of the year. His comments raise questions about the ECB's own guidance, reiterated only a week ago, that rates will stay at the current level, or even fall, until well after the ECB's €2.3 trillion ($2.48 trillion) bond-purchase program ends.

The ECB's Governing Council holds its next policy-setting meeting on April 27. Markets, however, don't see a move until at least June, where it is expected to upgrade its

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assessment of the risks to recovery and expected to announce another reduction in bond purchases until September.

The communique from the meeting of the Group of 20 in Baden-Baden, Germany omitted warnings about protectionism whereas what was repeated was the pledge to overhaul bank-capital rules, with the statement urging the Basel Committee on Banking Supervision to finalize the Basel III reforms. The document didn't include a new time frame. European regulators have been waiting months for President Donald Trump to install new faces at the four institutions that represent the US on the Basel Committee, led by the Federal Reserve. Germany wants to ink a deal on new measures to stop banks gaming capital rules during its presidency of the G-20, whose focal point is a summit in July. But no breakthrough is possible until the US negotiating team is formed. Germany increased the odds of a deal this week, when regulators said they're ready to accept an output floor, a blunt check on banks' use of their own statistical models to measure asset risk that could drive up their capital requirements.

On Brexit front, leaders from European Union countries, except the UK, meet Saturday on the 60th anniversary of the bloc's founding Treaty of Rome to discuss the way forward after Brexit. Also there was a statement by Commission President Jean-Claude Juncker that the UK will have to pay a bill of about £50 billion ($62 billion) when it leaves the European Union, as Britain prepares to trigger the start of Brexit negotiations. Juncker's statement is the clearest indication from the commission of the size of the bill, and is in line with an estimate cited by Austrian Chancellor Christian Kern last month. The size of Britain's exit bill will be among the first, and most contentious topics for discussion, with British ministers indicating they do not believe the U.K. is liable for such a large sum.

On election front, the looming risk of Le Pen's victory appears to have settled down further following the first Presidential debate in France. Elabe Pollster, an independent poll provider, suggests that the inexperienced Macron was the most convincing of all the five candidates. The overall sentiment in the eurozone is improving now that politics related risks start to fade, and the euro approaches this year's highs as a result. Markets unwound hedges against French election risk following the debate, with yields on short-dated German notes rising to the highest level in six weeks to minus 0.75%.

China

Shadow banks in China are feeling the squeeze, as interbank rates climb across the board. The People's Bank of China injected hundreds of billions of yuan into the financial system to help ease the liquidity drought as some smaller lenders failed to make debt payments. The problems in the repo market, which has seen the overnight rate climb to 3.28%, (higher than the yield on five-year Chinese government bonds), may need a bigger fix than PBOC liquidity injections.

On further update regarding debt market, China's riskiest corporate borrowers are raising an unprecedented amount of debt overseas, leaving global investors to shoulder more credit risks after onshore defaults quadrupled in 2016. Junk-rated firms, most of which are property developers, have sold US$6.1 billion bonds since Dec. 31, a record quarter, data compiled by Bloomberg show. In contrast, such borrowers have slashed fundraising at home as the central bank pushes up borrowing costs and regulators curb real estate financing. Onshore yuan note offerings by companies with local ratings of AA, considered junk in China, fell this quarter to the least since 2011 at 31.3 billion yuan ($4.54 billion).

Canada

USD/CAD ended the week at levels comparable to the start of the week, after the volatility appeared to have settled down. Broad USD weakness has meant that the loonie has been resilient to this week's falls in crude oil prices. Loonie also rallied after the best wholesale sales monthly release in 13 years and retail sales data showed consumer spending improving in Canada. Wholesale sales jumped an impressive 3.3% in January.

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UK

GBP was on a decline by the end of the week but still remains at higher levels at 1.25 compared to last week close when it was 1.24. This week's decline triggered as it keeps trading on BOE's tone. Comments from Gertjan Vlieghe, member of the Bank of England's Monetary Policy Committee, that higher inflation does not mean higher interest rates, unless it is accompanied by evidence of wage growth drove sterling lower. A similar tone was struck by his colleague Ben Broadbent, who declared earlier this week that he is not seeing any material pressure on wage growth.

Regarding Brexit update, a spokeswoman for UK Prime Minister Theresa May announced that she would indeed follow through on her long-stated plan to trigger Article 50 on March 29th. GBP showed little reaction. While markets appear to be nervous of the upcoming activation of the Article 50, data shows that sterling is only seeing a muted reaction to negative information (such as the possibility of another Scottish referendum), whereas it is reacting well to positive information.

Goldman Sachs Group Inc. and Morgan Stanley have revealed that they are planning to move staff and operations from London to elsewhere in the EU as Prime Minister Theresa May prepares to trigger Britain's exit from the bloc. Away from finance, car maker BMW said it's reviewing its factories in the UK, noting that it has flexibility to shift production elsewhere. Consultancy firm Mercer said in a report that the hospitality industry is most at risk from Brexit.

Sterling shrugged off the initial shock in financial markets as reports of a terror attack outside Westminster Parliament in London hit the headlines in which 4 people died and at least 40 more were injured. UK Prime Minister Theresa May described the attack as "sick and depraved" while London Mayor Sadiq Khan vowed Britain's capital city would not "be cowed by terrorists". The FTSE 100 ended the session around 0.7% lower on the day, but losses were largely seen as unrelated to the devastating attacks. Instead, they were a reflection of a selling spree that had gripped Wall Street earlier in the week, stemming from lingering doubts around US President Donald Trump's economic policies.

GBP also briefly jumped through technical resistance levels as UK retail sales rebounded in February rising 1.4% after a 0.5% slide seen in January, the Office for National Statistics said Thursday.

Optimism among British factories surged to a 22-year high in March, as exports rebounded, a survey showed on Tuesday, adding to signs manufacturing has benefited from sterling's fall after the Brexit vote. The Confederation of British Industry's monthly balance of output expectations in the coming three months rose to +36 from +33 in February. The survey also showed export orders growing at the fastest pace since December 2013. However, the total order book balance held steady at +8 in March, which may suggest a slightly weaker influx of domestic orders given the large improvement in exports.

A key release this week was inflation report, which revealed inflation in the UK was 2.3% in the year through February, ahead of both economists' estimates and the Bank of England's 2% target. The pound climbed to $1.2462 after the data were released. The rate is up from just 0.3% a year ago, reflecting sterling's 17 %drop since the Brexit vote in June, as well as an increase in oil prices. Core inflation rose to 2%, the fastest since mid-2014, the Office for National Statistics said on Tuesday. The BOE has said it will tolerate inflation overshooting its 2% goal as it provides support to the economy, though that stance could be tested if it starts to push up domestic price pressures. Input costs at factories jumped an annual 19.1% in February, while producer prices rose 3.7%, the most in five years. Increases in the cost of food and fuel helped push UK inflation to its highest level since September 2013, raising concerns over a squeeze in living standards.

Safety First asset allocation update

Enthusiasm for President Trump's proposed tax and healthcare reforms, together with his intention to invest in the country's infrastructure had seen investors chase the S&P 500 and DOW indices higher. However, from a skeptical perspective, the new US President has not yet succeeded in passing any legislation and in some ways, so far, it is a case of "style over substance". And with the latest

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pull back of the healthcare bill from voting, investors are now doubting the influence of President Trump to implement his pro-growth policies.

Further Article 50 is being activated on 29th March 2017, not long, and not one person knows for certain what the impact will be upon the UK and global economies, which in turn means vulnerability to our clients' investment.

Mindful that Safety First is about the cautious stewardship of capital, it was felt that profits should be protected on a number of investments in the portfolios, most prominently in the equity space. We also reduced risk to the emerging market equities. Country positions initiated on President Trump's election in November, when investors overreacted and sold indiscriminately, were disposed of. Exchange traded funds giving broad Mexico and Philippine equity market exposures were liquidated and useful profits protected. We now hold around 52 -60% of our vulnerable clients' money in our bespoke safety first portfolios in cash. All sales proceeds now sit on deposit awaiting a suitable re-investment opportunity.

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24 March 2017

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Please see FTIM Safety First portfolio performance on the next page

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Frenkel Topping Investment Management's ("FTIM's") Safety First performance

	2016 Performance	2017 Performance	Volatility* 04/01/16
FTIM Safety First 2	1.53%	0.17%	2.13%
FTIM Safety First 3	3.26%	0.57%	2.46%
FTIM Safety First 4	4.38%	0.80%	3.35%
FTIM Safety First 5	5.63%	1.42%	3.67%
FTIM Safety First 6	10.10%	2.61%	5.27%

Date: 24 March 2017
Source: FTIM / FE Analytics

Safety First Portfolio strategies were launched on 29/04/16. All figures are on a bid - bid, total return basis and are quoted net of underlying fund charges, our DFM fee of 0.6% including VAT and a platform fee of 0.2%. Advice charges would depend on the charges made by your independent financial adviser. The deduction of these charges would reduce the performance shown. Actual Past Performance Data is from 29/4/16 only as the models only launched on this date and therefore 5-year performance data is not available and 12-month performance figures are not able to be shown. Pre - launch performance from 4/1/16 – 29/4/16 is Simulated Past Performance. The figures represent performance of a model portfolio; individual account performance may differ if your account does not follow the model. Past performance is not a reliable indicator of future performance. Investment values can go down as well as up and may be affected by exchange rate variations.

*Volatility is a measure of the movement in the price of an asset around its average return. The higher the volatility the more risk involved in the investment.