Q1 and YTD 2017

Frontline CAPITAL ADVISORS ...innovation

PERFORMANCE NARRATIVE

Reflationary trade and the return of the "Animal Spirits".

After almost a decade of falling prices in a deflationary environment, a number of major economies including USA, Britain and some EU members are beginning to witness the return of rising prices albeit at a gradual pace. The current phenomenon has not gone unnoticed as central banks around the world are beginning to hike interest rates whilst others have signaled winding down their stimulus and asset purchase program in the near term. Consequently, the 10 year US treasury yield traded close to a high of 2.62 per cent during the last month of Q1 before losing momentum on account of heightened geopolitical concerns in North Korea, and Syria. In the UK, the Brexit conundrum and rising oil prices is pushing inflation closer to BOEs target, whilst in the US, the FED adopted its second rate hike in three months with China following suit raising its short term interest rate. With investors and market participants highly optimistic on global growth and wages especially as the IMF forecasts accelerated economic growth (3.5 per cent) in 2017, one would rightly assume that after a decade of lackluster performance global markets will be transitioning into a "goldilocks economy". However, geopolitical tension with North Korea, Syria and USA are indeed putting markets on edge as the rhetoric on nuclear war could redefine the next reporting quarters.

Despite the UK bringing Brexit to life officially, major indices including S&P, Dow and Nasdaq hit all time new highs during the period under review signaling the return of the animal spirits especially as POTUS Donald Trump tones down on his protection and isolationism rhetoric that won him the white house. Since moving into the White House, he appears to have softened his stance on Nato, Nafta and China. Consequently, markets ended the quarter in the green as the Dow, Ftse 100 and S&P index recorded 5.18, 5.53 and 6.06 per cent respectively whilst in Asia, the Hang Sang index returned 9.89 per cent. Treasuries on the other hand have returned a meagre 1.76 per cent as market participants realign inflationary expectations. In Europe, officials have taken a big step to ensure the stability of the financial system as talks regarding the bailout of major Italian banks progress. Consequently, the Euro Stoxx 50 rose 6.96 per cent in the period under review.

A number of global events including the resurgence of global growth especially from China and OPECs plan to cut supply will provide support for commodities prices and commodity producing economies. In what many will term the paradox of the quarter, Russia with all of its uncertainties and troubles in the past seems to be providing a safe haven for foreign investors via its debt market as demand for Russian bonds by foreign investors increase amidst rising oil prices and geopolitical tensions and the prospect of economic recovery. Furthermore, leading indices in the period under review are from emerging commodity producing economies with the Venezuela, Ukrainian and Argentinian index up 38.35, 31.06 and 23.95 per cent.

African Market Update

The quarterly performance for the markets we follow in Africa, in local currencies were as follows: Ghana up 10.41%; Nigeria down (5.05)%; Mauritius up 6.45%; Kenya down (2.12)%; Morocco down (2.27)% and Egypt up 5.26%.

Portfolio Performance

The Model Portfolio's performance for the quarter was hurt by the decline in energy, consumer staples and telecom whilst the financial, and health care sector contributed positively to performance. The best performing stocks were Access, GCB, Stanchart and EGH whilst the bottom performing stocks detracting from performance were EABL, NB, Forte and Safaricom. The Nigerian and Kenyan market dragged overall market performance in the period under review primarily because of structural policies putting a downside risk to growth.

Mixed Performance in the African Market

On a USD and local currency return basis, the markets we follow recorded mixed performances. The Ghanaian market lead the pack as the country's economic growth is anticipated to recover with a growth margin of 6.3 per cent on account of rising oil production and structural policy shift. Foreign exchange issues and oil production risk continue to drag the Nigerian market whist Mauritius's better than expected GDP growth forecast on account of a rebound in the manufacturing and construction sector pushes the index higher. Egypt's successful capital raising event via bilateral and multilateral partners helps consolidate the gains from the recent past. In East Africa, the Kenyan economy although robust, continues to slow amidst poor weather conditions and sluggish private sector growth. With expectations of multiple rate hike by the Fed, African governments will find it more difficult to raise capital in the Eurobond market as the yield premium demanded by investors will undoubtedly be higher.

Narrative (cont.)

OPECs decision to curtail supply of crude would offer some reprieve to oil producers albeit in the short term because we believe US shale producers will rump up production as prices start to inch upwards thus increasing supply of the commodity and in the process providing a price ceiling .

Frontline Long-term Strategy

Frontline's long term strategy in managing our portfolios remains unchanged and is based on the premise that the long term investment picture for Africa's emerging stock markets is bright. The "Africa Rising" narrative continues to be bullish and we continue to believe that there is value within certain sectors and amongst specific companies, thus following a dedicated, prudent and disciplined approach to investing and building a portfolio will be beneficial over the long term. We also believe that in future growth on the continent will come from more diverse sources including but not limited to fiscal stimulus, structural policy shift, increased investments and agriculture and that will be the catalyst for sustained economic prosperity.

Near-Term Outlook

In the next few quarters the markets will be dictated by US tax reforms, Brexit, North Korea, inflation and its concomitant effect on key rates. We believe more developed markets will follow the path of US and China with regard to increasing rates albeit gradually. Higher commodity prices will drive investments and growth in emerging and frontier economies however a stronger dollar could rattle their cages as investors rebalance their portfolio to higher yielding US denominated assets. Debt repayment will be closely monitored as majority of debt in emerging and frontier market are priced in the greenback. Nonetheless, the IMFs recent decision to raise its outlook for global growth driven by postelection surge in confidence in the United States, better prospects in large emerging markets and an uptick in global trade will undoubtedly support securities across various asset classes and geographical boundaries .

In the sub region, with increased investments in infrastructure we believe African GDP will rise above pre-crises level and this will support both equity and debt markets. We remain committed to our long term bullish view on the African Market especially as the continent continues to house the youngest demography and also as the political environment continues to improve with every passing general election. African leaders are also making the conscious effort to diversify their economy and mechanizing agriculture in order to add value to primary commodities and in the process increasing employment. Indeed, it is encouraging to witness African leaders join forces to ensure that industrialization drives the continent economic transformation. We believe this will undoubtedly create new opportunities for job creation and economic prosperity. The World bank forecasts a pick up in sub-Saharan economic growth this year on account of better commodity prices and improved global conditions.