Q4 and YTD 2016

Narrative

Trumponomics and Trumpian Politics. Is the world ready?

Following Donald Trump's victory at the polls, as well as the success of Philippines Rodrigo Duterte and UKs vote to leave the EU, the year 2016 has been characterized as one in which the people have blatantly rejected current social economic models in favor of protectionism, populism and nationalism. As titans of Europe including France, Germany and Italy prepare to go to the polls, the question still remains if the aforementioned theme (protectionism, populism and nationalism) is the new established world order. With some recovery to global inflation outlook especially as the US inches closer to the all important 2% mark, the US set the pace of reversal in ultra-low monetary policy with a 25bps increase in its key policy rate in December. Consequently, the dollar led the charts, rising amongst its peers recording a~3.7 per cent appreciation for the year as represented by the dollar index DXY which measures the greenback against a basket of six major rivals. In Q4 alone, the DXY dollar index rose about 7.1 per cent due to a combination of factors including U.S. President-elect Donald Trump's plan to boost fiscal stimulus and the markets expectation of multiple rate hikes by the Fed.

Despite the global cataclysmic events that ensued during the year including Brexit and the political movements towards protectionism, major markets appeared unscathed as the Dow, Ftse100, S&P and Euro Stoxx 50 ended the quarter in the green recording a price return of 7.94, 3.53, 3.25 and 9.6 per cent respectively. Asian markets however appeared shaken by the rise in US interest rate and the consequential attractiveness of US denominated assets. The Hang Sang index for example dropped by 5.57 per cent. Treasuries also ended up on the wrong side of the rate hike as the Bloomberg Barclays global aggregate treasuries total return index declined 9.269 per cent. As we posited to in our previous narrative, the situation surrounding EU banks could pose a threat to the EU financial system, accordingly, the Italian government bailed Monte dei Paschi out with Moody's effectively downgrading the outlook for Italian banks.

Buoyed by US President-elect, Donald Trump's plan to embark on record stimulus in a bid to create jobs and economic growth, commodities including gold surged to new highs with the Dow index reaching its highest level during the period almost touching the psychological 20 000 point mark. The new US administration's unconventional ways of addressing sensitive foreign policy could increase the appeal of safe haven assets and support commodity producers.

African Market Update

The quarterly performance for the markets we follow in Africa, in local currencies were as follows: Ghana down (4.83)%; Nigeria down (5.15)%; Mauritius down (1.19)%; Kenya down (2.49)%; Morocco up 15.52% and Egypt up 56.63%.

Portfolio Performance

The Model Portfolio's performance for the quarter was hurt by the decline in energy, and health care whilst the ICT sector contributed positively to performance. The best performing stocks were FML, MAROC, PBC, and Attijariwfa, whilst the bottom performing stocks detracting from performance were Quarter National Bank, Forte and ETI. The Nigerian and Egyptian market dragged overall market performance under the period under review primarily because of the decision to devalue their respective currencies.

African Markets Shaken by US Rate Hike

On account of soft commodity prices and the 25 bps rate hike by the US Fed, a number of markets we follow ended the quarter in negative territory. As US inflation inches closer to the psychological 2% mark, we anticipate heightened volatility in emerging markets as foreign investors rebalance their portfolios. The Nigerian and Egyptian markets recorded the heaviest YTD loss amongst the markets we follow due to multiplicity of challenges that led managers of the respective economies to devalue their currency to regain investor confidence. 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. 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.

Narrative (cont.)

Frontline Long-term Strategy

Frontline's long term strategy in managing our portfolios remains unchanged and it 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 growth on the continent will come from more diverse sources in future and that will be the catalyst for sustained economic prosperity.

Near-Term Outlook

In the early part of 2017, uncertainty and volatility may very well be the theme driven by extreme geopolitical events including the uncertainty surrounding BREXIT trajectory, Trumpian Politics and nuclear crisis in North Korea. We anticipate multiple rate hike by the Fed if indeed the current US administration pursues its agenda of record stimulus in order to create jobs and economic growth. Emerging and frontier currencies will come under immense pressure as global investors rebalance their portfolios to take advantage of higher yielding US assets. Nonetheless, emerging and frontier economies will continue to deliver stronger risk adjusted returns. Commodities might very well benefit from the uncertainty and volatility as investors seek safe haven assets. The IMFs forecast of global growth of 3.4 per cent from the prior year of 3.1 reiterates uncertainties surrounding global growth.

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 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.

Holdings

Access Bank PLC	Nigeria	Enterprise Group	Ghana	Jubilee Holdings	Kenya
Attijariwafa	Morocco	Telecom Egypt	Egypt	Kenya Commercial	Kenya
Aryton Drug Manu.	Ghana	Ecobank Transnational	Ghana	Mauritius Chemicals	Mauritius
Banque Marocaine	Morocco	FBN Holdings PLC	Nigeria	Nigerian Brewery	Nigeria
Banque Centrale	Morocco	Fan Milk Ltd.	Ghana	Suez Cement	Egypt
Benso Oil Palm	Ghana	Forte Oil PLC	Nigeria	Swan Insurance	Mauritius
Cal Bank	Ghana	Ghana Commercial Bank	Ghana	Tera Maurical	Mauritius
Commercial International	Ghana	Guinness Ghana Breweries	Ghana	Total Petroleum	Ghana
Dangote Cement	Nigeria	Goil Oil Co.	Ghana	United Bank Africa	Nigeria
Dangote Sugar	Nigeria	Global Telecom	Egypt	United Basalt	Mauritius
East African Brewery	Kenya	HFC Bank	Ghana	Unilever Ghana Ltd	Ghana
Ecobank Ghana	Ghana	EFG Hermes	Egypt	Zenith Bank	Nigeria
Egyptian Int. Pharma	Egypt	Maroc Telecom	Morocco	SIC Insurance	Ghana