FCA AFRICA EQUITY MODEL PORTFOLIO UPDATE

Q2 and YTD 2017

Frontline CAPITAL ADVISORS ...innovation

Narrative

Could groggy VIX be the calm before the storm?

Despite all the geo political, regulatory, economic and financial uncertainties, Wall Street's fear gauge as measured by the VIX continues to wallow in record low territory. We believe this could be due to a number of factors including tighter regulatory environment post the 2008 financial crisis and the incessant injection of capital onto the market by Central Banks as has been characterized by a low interest regime that propelled traditional asset classes including both stocks and bonds northward without regard for valuation levels. However, recent data as measured by the VIX points to the fact that for the first time post BREXIT, some level of volatility is returning onto the market. During the final trading days of the quarter, equities and treasuries headed for losses causing a "Pavlovian" reaction in investors who reacted with a rush to the hedges and in the process biding up option prices signaling investors' desire for protection. It appears the moment of truth investors seemed to ignore is fast approaching and the question unanswered "is whether current valuation levels are justified and is the market ready for a correction"?

As we posited in our previous narrative that major markets could be returning to an inflationary regime amidst economic recovery, recent data reaffirms that point especially as the US 10 year treasury trades close to the psychological 3 per cent mark in addition to the US FED continuing to maintain its data independent hawkish tone. In the US, Q1 economic growth was boosted by an upward revision whilst statements from the ECB suggest economic recovery is gaining strength with inflation close to its target. Key risk in the UK remains high especially if Britain's withdrawal from the EU results in a fragmentation of cross border financial services including asset management functions thereby reducing the economies of scale and scope that are currently achieved by pooling of funds and their management.

Despite the low VIX and hawkish nature of the FED, major indices ended the quarter in "green" with the DJI S&P and NASDAQ recording 3.32, 2.57 and 3.87 per cent respectively. From a USD perspective, EU markets appeared to end the quarter stronger on the back of a steady economic recovery and also with the successful election of Emmanuel Macron as the French President, His election signals a major shift from the populist and protectionist wave of recent election and a stronger EU coalition. Consequently, the CAC, DAX, IBEX and FTSEMIB were up 6.7, 6.8, 6.51 and 7.17 per cent respectively. In Asia, major markets including the Nikkei and Hang Seng were up ending Q2 at 4.96 and 6.36 respectively. However in China, concerns about corporate governance issues and tighter regulations continue to drag the market as shorts dominate trading. The inclusion of China A shares in MSCI emerging market index however presents upside risk. Commodities are yet to experience a broad recovery with the Bloomberg commodity index down 3.22 per cent on a QTD basis and -5.6 per cent on a year to date basis. With a positive global growth outlook and suppliers of major commodities curtailing supply, emerging economies seem to be in play, consequently major commodity exporting countries lead the Bloomberg index with the Venezuelan and Nigerian markets up 177.42 and 26 per cent respectively on a QTD basis.

African Market Update

The quarterly performance for the markets we follow in Africa, in local currencies were as follows: Ghana up 5.34%; Nigeria up 29.7%; Mauritius up 9.8%; Kenya up 17.17%; Morocco up 5.6% and Egypt up 3.09%. On a year to date basis our portfolio was up 16.61% in dollars versus a positive return of 9.06% for the S&P Africa Frontier index and 1.18% for the S&P Africa 40 index.

Portfolio Performance

The Financial Consumer Staple, Material and ICT sectors contributed heavily to performance of the portfolio in the period under review aided by stocks such as Access, Dangote Sugar, Dangote Cement, and Safaricom. The Nigerian and Kenyan market aided overall market performance in the period under review primarily because of their valuation levels.

Narrative (cont.)

Strong Performance for African Markets

Stable currencies helped by the prospect of a broad recovery in commodity prices and global growth pushed the markets we follow northward. The Nigerian market in Q2 is off to the races as investors increase their exposure in a market that has been underpriced due to disruptions in oil production and lower CPO prices. Key risk remain as Kenya goes to the polls whilst in South Africa the country continues to waddle in recession amidst political uncertainties. Sustained recovery in the EU bodes well for tourism inclined nations such as Mauritius and Morocco with their markets up in USD terms 12.1 and 9.69 per cent respectively for Q2. In the absence of strong growth, FX volatility will continue to be an issue especially as the USD FED continues with its hawkish agenda.

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. This phenomenon will be the catalyst for sustained economic prosperity.

Near-Term Outlook

In the next few quarters, the markets will be dictated by the current US administrations ability or inability to push key reforms including tax, healthcare and infrastructure spending. North Korea will continue to be a thorn in the side of current geo politics and the ability of major stakeholders to neutralize the situation without military confrontation will be key. Higher commodity prices will drive investments and growth in emerging and frontier economies however a stronger dollar and Euro presents downside risk 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. As global economic growth slowly recovers, we believe sustainability will remain the operative word ,as such, fund managers and investors will shift towards more socially responsible and sustainable investments leading to a a consequential growth in that asset class.

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, this undoubtedly should support various asset classes across this rich culturally diverse region.