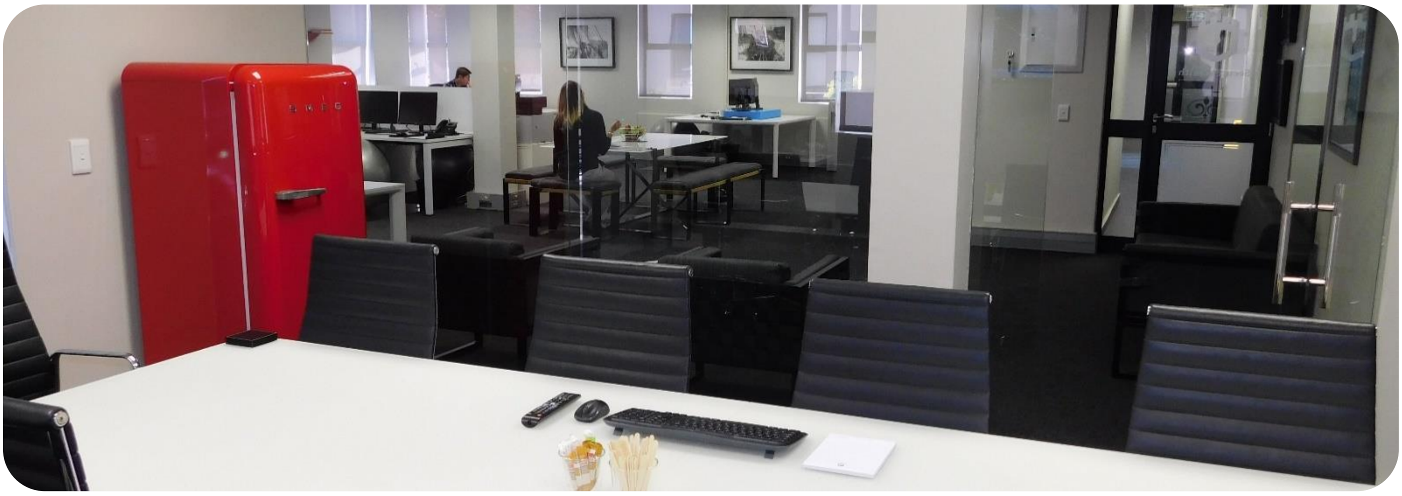

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Quarterly Commentary June 2018

"Patience is bitter, but its fruit is sweet" – Aristotle

In the last quarter:

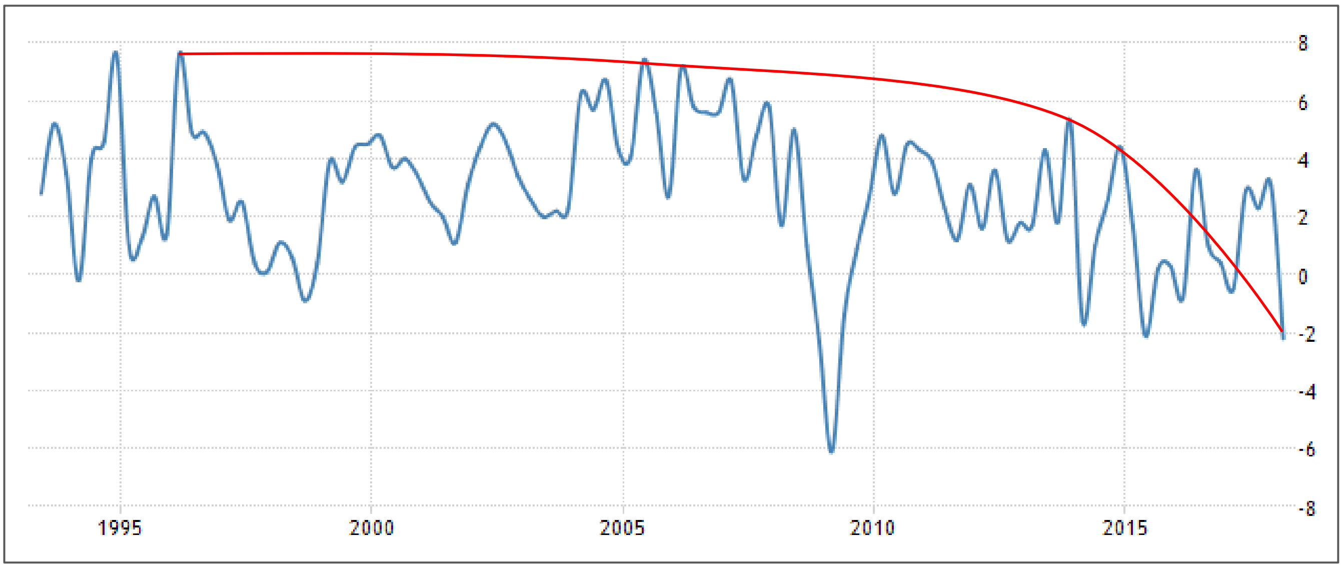
- The JSE All Share rose 2.56% – and has posted a modest 4.98% per annum over the past three years, dividends included. If you strip out Naspers, the JSE has only returned 1.5% over the same three years.
- The Rand lost 14.59% against the USD as Emerging Markets currencies sold off. The Argentinian Peso fell 30%, the Brazilian Real 14%, the Turkish Lira 14%, the Hungarian Forint 10%, the Polish Zloty 9% and the Czech Koruna 8%.
- The US Dollar, written off by many analysts earlier in the year, rose 5% against a basket of other major currencies, including the Euro, the Japanese Yen and the British Pound.
- The Allan Gray Global Optimal Fund of Funds – a low risk offshore strategy and our largest holding recovered 10.70%.
- The cautious Allan Gray Stable Fund – our largest local holding yielded a 5.01% return. It is now one of the best performing funds in the Allan Gray suite of funds. It has outperformed the more aggressive Allan Gray Equity and Balanced Funds over 1 and 3 years and is marginally behind these funds over 5 years.
- The Coronation Global Capital Plus Fund, the fund we were most concerned about at the end of the last quarter soared 19.64%.

- The Franklin Templeton USD accounts softened in line with weaker equity markets – specifically Emerging Markets.
- The Investec Private Share portfolios rose mainly due to the weaker Rand.
- The STANLIB Property Income Fund – which we use as a proxy for the listed property market in South Africa, the best performing asset class over 10-15 years, is now down -15.02% over 1 year and -0.82% over 3 years. Barely outperforming inflation over 5 years!

South Africa

The South African economy ***shrank*** a seasonally adjusted annualized 2.2% quarter-on-quarter in the first three months of 2018, reversing from a 3.1% growth in the previous period which was the highest in 1 and a half years. It compares with market expectations of a 0.5% decline. It is the biggest contraction since the first quarter of 2009 as production declined mostly for field crops, horticultural products, platinum group metals, iron ore and steel.

South African GDP Growth Rate



Source: TradingEconomics.com

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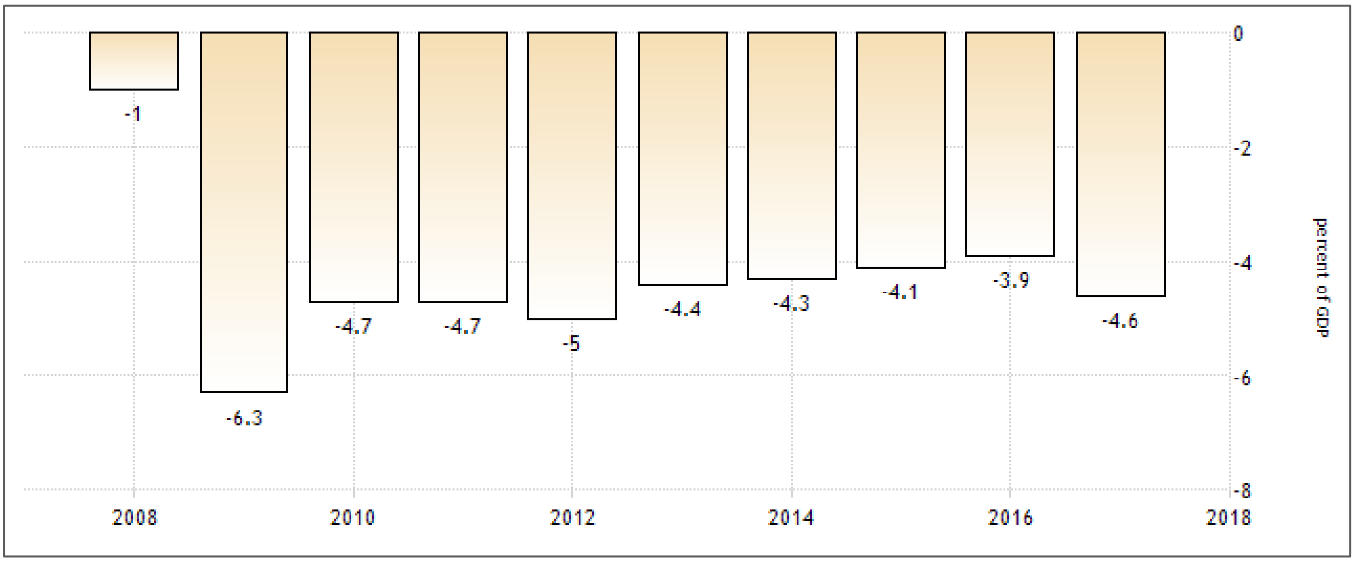
We desperately want to be positive about South Africa, but when a negative print like this arrives, it severely tests one's capacity to be continuously optimistic. As stewards of your capital, we cannot base our investment decisions on patriotism, promises or hope - only the latest evidence at our disposal!

Foreign investors sold a net USD5 billion of South African bonds in the first 6 months of the year. Never in our history have foreigners sold our debt so aggressively. Even during the crisis in 2009.

Economic growth is the only permanent solution to our unemployment predicament. And with latest negative GDP print of -2.2%, how are we going to confront our unemployment crisis? If you study the graph above, our growth peaked in 1996 and the trajectory **(red line)** of our GDP growth is clearly downward.

And if one throws in our rising budget deficit – it is simply alarming. The latest print is -4.80%.

South Africa Government Budget



Source: TradingEconomics.com

As a South African, these statistics warrant and justify persevering with an extremely cautious approach.

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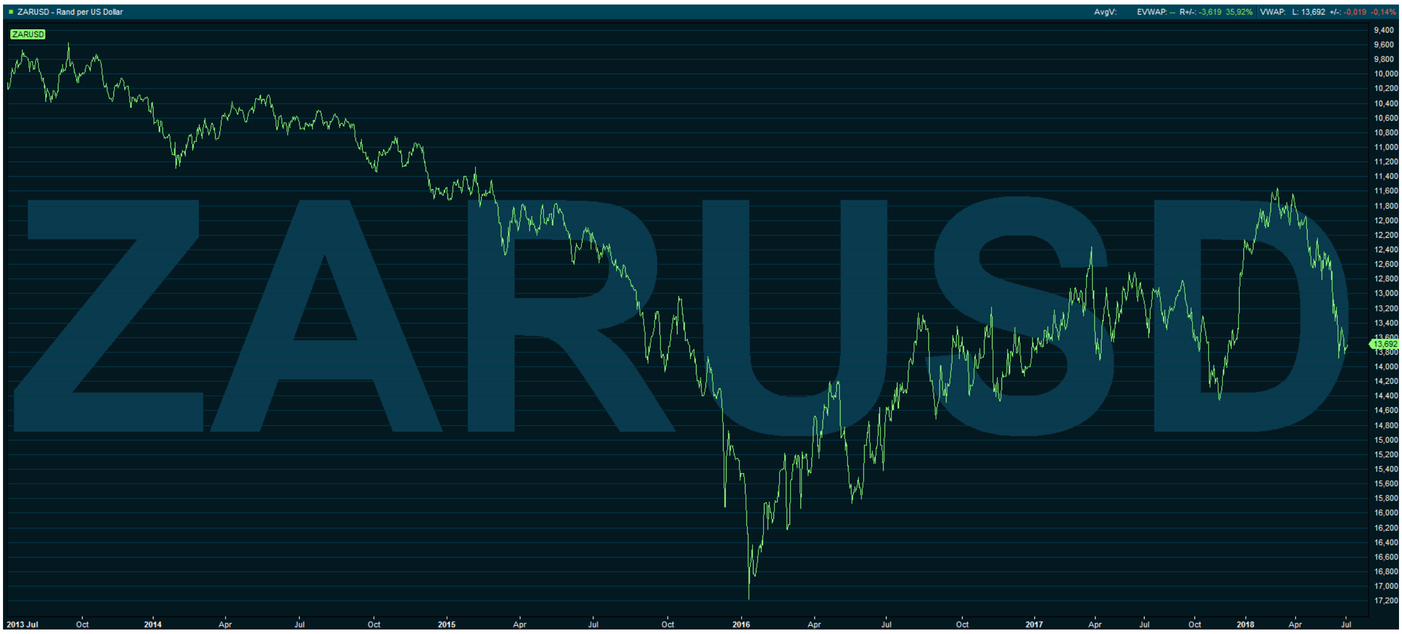
Allan Gray Platform

We have opted to present a chart of the USDZAR exchange rate versus charts of the Allan Gray funds we are invested in. The volatility is tangible – and it is creating anxiety and nervousness. The chart clearly shows that all the gains generated by the Cyril Ramaphosa victory have been erased. We recently took advantage of the weaker Rand and brought some money back to South Africa and invested in the Allan Gray Money Market – specifically for those clients needing a monthly income to live upon. The decision was three-fold:

1. Cash or Money Market produces a "guaranteed" return every month with yields just shy of 8% per annum.
2. It smoothes out the volatility on the investment account.
3. It reduces risk on the portfolio.

USDZAR Exchange Rate



Source: Infront

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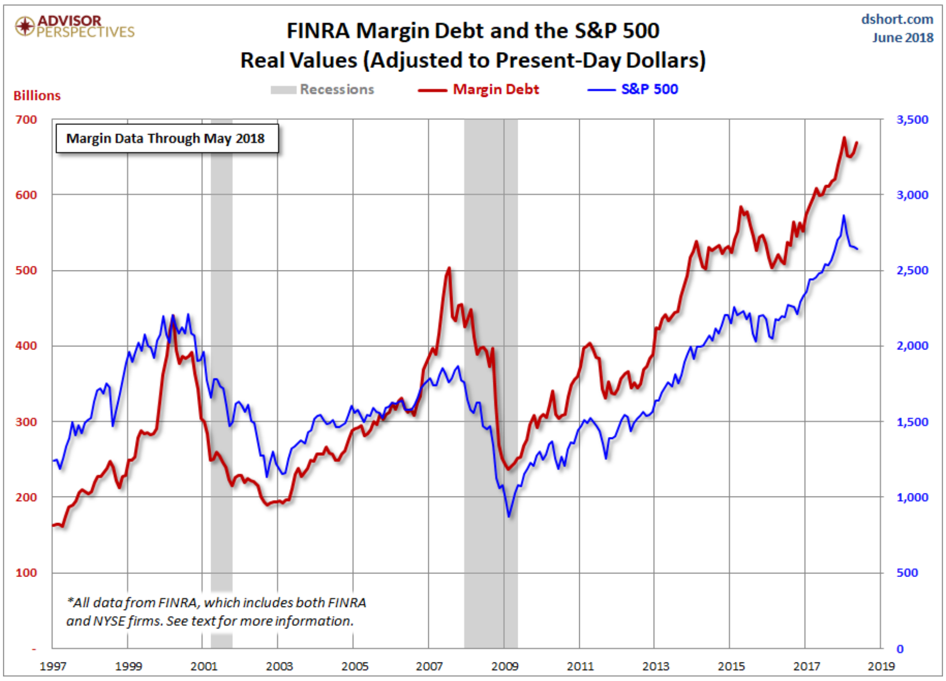
One of the many concerns confronting global markets are the pending **TRADE WARS** between America and its trading partners, specifically China. The uncertainty is having a negative effect on all emerging markets and their currencies. Emerging market currencies, specifically the Rand, tend to outperform other currencies when investors perceive low levels of risk. However, unless these trade wars are resolved absolute soonest, distrust and fear will continue to strangle the Rand.

Investec (Private Share Portfolios)

We are holding ample cash in our Investec Private Share Portfolios. Not because of the lack of opportunities, but because we have several concerns regarding global markets. Not least – **MARGIN DEBT** in America. Below is an update of a chart we have used before illustrating the amount of money investors have borrowed to buy shares in America, one of the most expensive markets in the world.

Margin Debt



Source: Advisor Perspectives

USD650 billion has been borrowed – or in South African terms, R8.9 trillion. That's a lot of tin!

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Buying on margin is basically acquiring a loan to buy shares. These are some of the risks investors are taking on:

1. If markets start falling, the brokerage can force the sale of shares in your account to cover the loans they have lent you.
2. Your shares can be sold without notifying you.
3. Any shares can be sold - even the most valuable ones.
4. The rules can be changed by the brokerage at will, with no notice to the investor.
5. If the sell-off is severe, your entire investment account can be wiped out, and if you had leverage, you will still owe the brokerage money.

A rising tide lifts all boats. The weaker Rand this past quarter has aided our Investec Share portfolios. Stand-out individual performers were GlaxoSmithKline and British Petroleum – both up **GBP** 20%, and Sasol – up **ZAR** 24.7%.

Franklin Templeton (Externalised Mutual Funds/Unit Trusts)

Our USD Franklin Templeton portfolios are under pressure with the rest of Global Markets at time of writing. One of our largest holdings in our USD denominated Franklin Templeton accounts is Japan. The fund is up USD 8.01% year-on-year, but as you can clearly see from the chart below it has fallen hard from its highs in January of this year. We do not see that as a problem – rather an opening to further purchase Japanese companies trading at reasonable valuations relative to the rest of the developed world.

The largest 3 companies in the Japan Fund are:

1. **MITSUBISHI UFJ FINANCIAL GROUP INC** – the 5th largest bank in the world by total assets.
2. **TOYOTA MOTOR CORP** – the world's 5^{th} largest company by revenue.
3. **TOSHIBA CORP** – a world-leading diversified manufacturer, solutions provider and marketer of advanced electronic and electrical products and systems.

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Franklin Japan Fund

Source: Infront

The Japanese market has underperformed over the past 30 years. If you look at the chart below, there is one valuation metric that catches the eye. The P/E ratio of Japanese shares. In terms of that metric shares in Japan are the cheapest they have been in 30 years.

P/E Ratio

Source: Blackrock

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Earlier this year Sean Keyes wrote that Morgan Stanley looked at the forward P/E of the Japanese market relative to the MSCI World Index, which is a basket of the world's biggest companies, and Morgan Stanley found that the Japanese market's valuation is near an all-time low compared to the rest of the world.

Furthermore, Gluskin Sheff's chief economist and strategist, David Rosenberg said late last year "*the one part of the world which looks very good to me right now, a great turnaround story that's under-owned, is Japan. The Nikkei is breaking out, I think even a child could see that the 30-year secular downtrend has been broken over the course of the past couple of months.*"

We are looking to increase exposure to Japan upon weakness. The fund trades at a reasonable Price-to-Earnings of 11.79 and a Price-to-Book of 1.27.

SecureWealth would like to thank all our clients for their patience during an extremely volatile period.

Sincere Regards,

Mike Carruthers