Investec
Wealth & Investment

Global Investment View

QUARTER 1 - 2017

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Out of the Ordinary®

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Wealth & Investment

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A Trumponomic world

While we remain of the view that taking risk will be rewarded over our forecast period (18 months), modest anticipated absolute returns and a dramatically changing global political landscape makes significantly increased stock market volatility inevitable.

> Our "neutral" positioning leaves us able to take advantage of the opportunities that may arise.

By John Haynes

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Commentary by:

John Haynes
John is Head of Research at Investec Wealth & Investment UK, and leads the research team. He is Chairman of the Global Investment Strategy Group and the Asset Allocation Committee and is a member of the Stock Sector Committee. A graduate of Cambridge University and a CFA Charterholder, John has worked for Investec since 2001.

Special contribution by

Paul McKeaveney
Paul is a Senior Portfolio Manager and Chairman of the SA Asset Allocation Committee. He has a degree in Mathematics from the University of Stellenbosch and a First Class Honours degree in Financial Analysis and Portfolio Management from the University of Cape Town. He is a CFA Charterholder. Paul has been with Investec Wealth & Investment as a portfolio manager since 2010, managing equity and multi-asset portfolios. Prior to joining Investec, he was with JP Morgan in London and Ireland.

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A summary of our key thoughts

- Global economic data flow has been very positive and the prospects look good for further improvement as US consumer confidence has initially responded well to the election of Donald Trump as President. The new administration's tax policies are clearly designed to spur both consumer and business spending. Large scale fiscal stimulus in the US would also be positive for the world economy and global corporate profits over the next 18 months.

- Since Trump's election victory, markets have also responded well to the prospect of a "regime change" in the global economic policy mix. It is encouraging that investors are comfortable with rising bond yields in the context of rising growth, since it suggests that they are also comfortable with a more imminent normalisation of policy interest rates and withdrawal of extraordinary monetary support.

- However, the transition to a new regime in the US also presents other material new risks, most obviously if hostile campaign rhetoric translates into action in the sphere of global trade. The aggressive stance taken with Mexico over NAFTA does not bode well for future interactions with China – this is a key investment risk if it's mishandled.

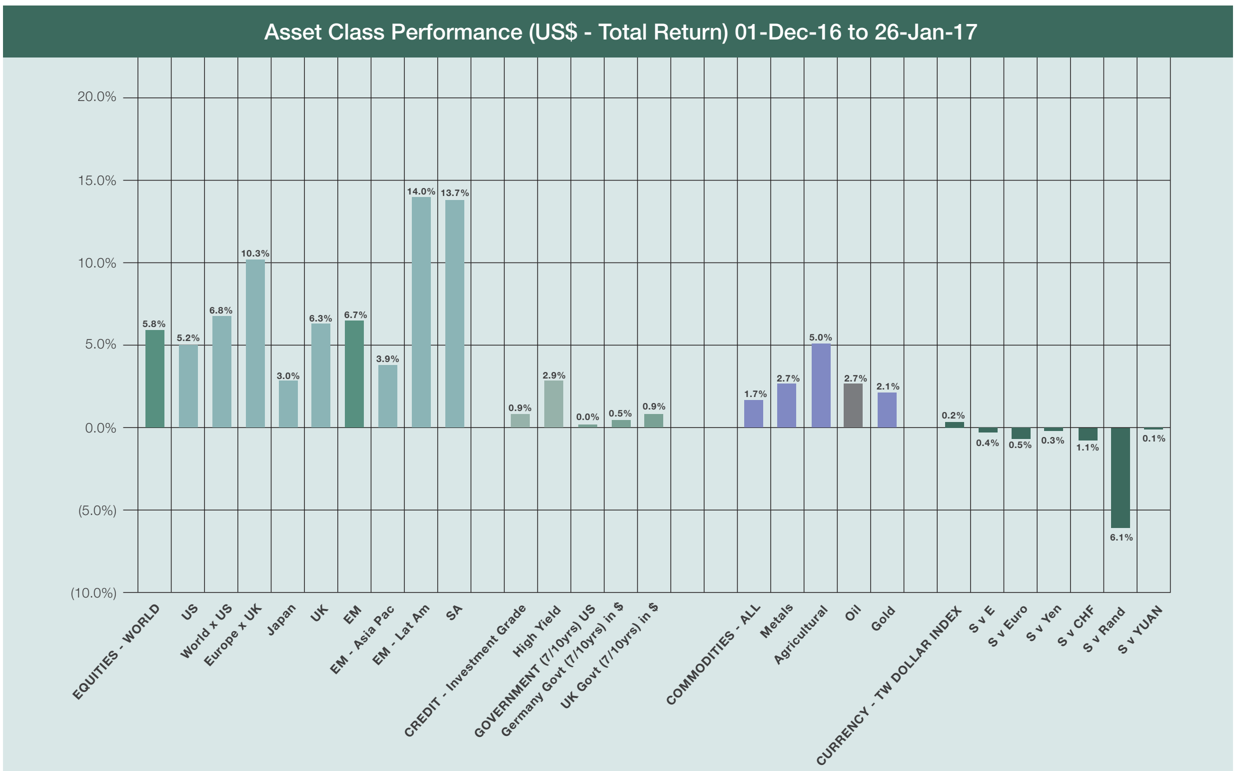
- The dramatic nature of the change in the US's policy direction, the volatility of President Trump, the fragility of investor and business confidence in both the global economic recovery and the post-crisis financial system and valuations of risk assets (which are in the "fair value" range rather than cheap) together imply an asymmetric nature to the investment risk/reward equation. In other words, the "upside" case is more probable, but the "downside" case would be more severe.

- In short, we see improved potential returns from risk assets as a result of better growth prospects, but we do not see a justification for a reduction in the "risk premium" that investors will require to persuade them to make investments. Hence our risk positioning is "neutral".

Why we remain neutral

Global economic growth estimates are rising

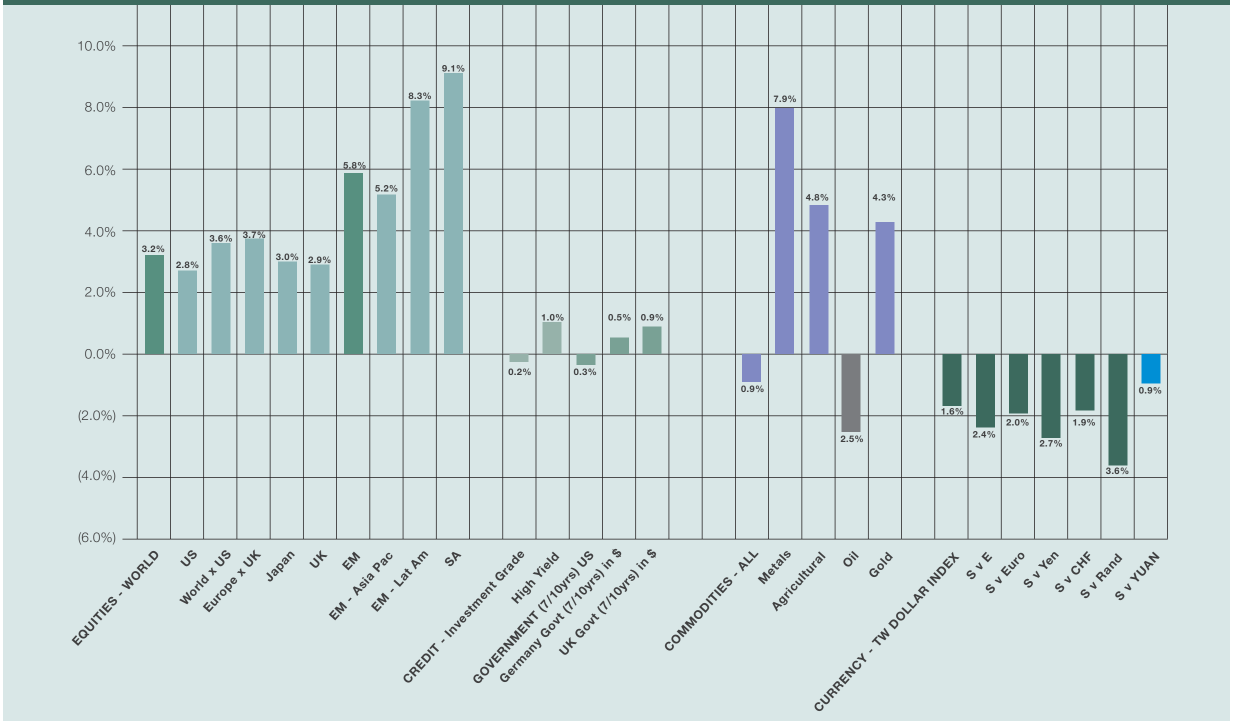
In developed markets, employment, wage growth and consumer confidence have been on improving trends, particularly in the US. Europe has remained resilient, with central bankers limiting the after-effects of the Brexit vote to the UK alone. Loan growth has also improved, as both the demand for, and the supply of, credit has increased. Emerging markets have been underpinned by a soft landing in China, more positive trends in commodity prices and the benefit of substantial currency devaluations relative to the US dollar over the previous 18 months. The net result has been that forecasts for global economic growth have begun to rise. Consensus estimates of an acceleration from around 3% global growth in 2016 to 3.5% in 2017 and 2018 look very achievable.



Source: Investec Wealth & Investment

> The Trump Presidency is likely to want to deliver as many positive initiatives as possible as quickly as possible.

Asset Class Performance (US$ - Total Return) Year to 26-Jan-17



Source: Investec Wealth & Investment

Trumponomics is pro-growth

Donald Trump's victory is likely to accelerate growth in US because:

- A highly consumer and business-friendly policy agenda is likely to take hold, in the form of deregulation, tax cuts and spending increases.
- Republican control of both Houses of Congress breaks the legislative logjam and makes implementation highly likely.
- The benefits of Trumponomics are likely to be "front end loaded": the Trump Presidency is likely to want to deliver as many positive initiatives as possible as quickly as possible.

Trump's policies provide a welcome fiscal policy lead

The world is ready for fiscal stimulus. The IMF has echoed the messages given by the Federal Reserve and the ECB that they can do no more, through monetary policy alone, to support growth. Government spending (an end to austerity) is required to consolidate the gains made since the financial crisis. The US electorate has implicitly and explicitly endorsed this view. This will provide encouragement for the political parties endorsing a long-overdue policy change in this direction in Europe. A positive global fiscal impulse could materially increase consumer and corporate risk appetites.

This should also be a boost for global growth

If the Trump recipe for generating a promised acceleration in growth is borrowing and stimulus rather than tariffs and protectionism, faster US growth should add to global growth, rather than come at its expense.

> If the growth acceleration is perceived to be unbalanced in favour of the US, then so called "hot money" will flow into the US.

There has been little disruption so far to fixed income or currency markets

The scale of the potential fiscal stimulus in the US and the sense that it may be echoed (albeit on a lesser scale) in Europe has already had a very large impact on bond markets. So far however, bond yields have simply reversed the "deflation fear premium" that had become built into prices in the second half of 2015 and the first half of 2016. This has not disturbed business sentiment or equity prices, as investors see better earnings prospects more than offsetting a rise in the discount rate. Futures markets confirm that investors are discounting further increases in both policy and medium-term rates. The consensus view on the US Treasury yield curve in 12 months' time, with which we broadly agree, has the US Fed funds rate at 1.25% (currently 0.75%), 10 year yields at 2.75% to 3% (currently 2.5%) and 30 year yields at 3% to 3.25% (currently 3.1%). On the currency side, if the growth acceleration is perceived to be unbalanced in favour of the US, then so called "hot money" will flow into the US, strengthening the US dollar and tightening monetary conditions elsewhere. This is the channel by which Trumponomics puts material pressure on the world to follow suit in becoming more stimulative. In the near-term the signs are good that a deflationary flight to the US dollar is not in progress, but, like the fixed income curves in the US and Europe, this is a key "canary in the coal mine".

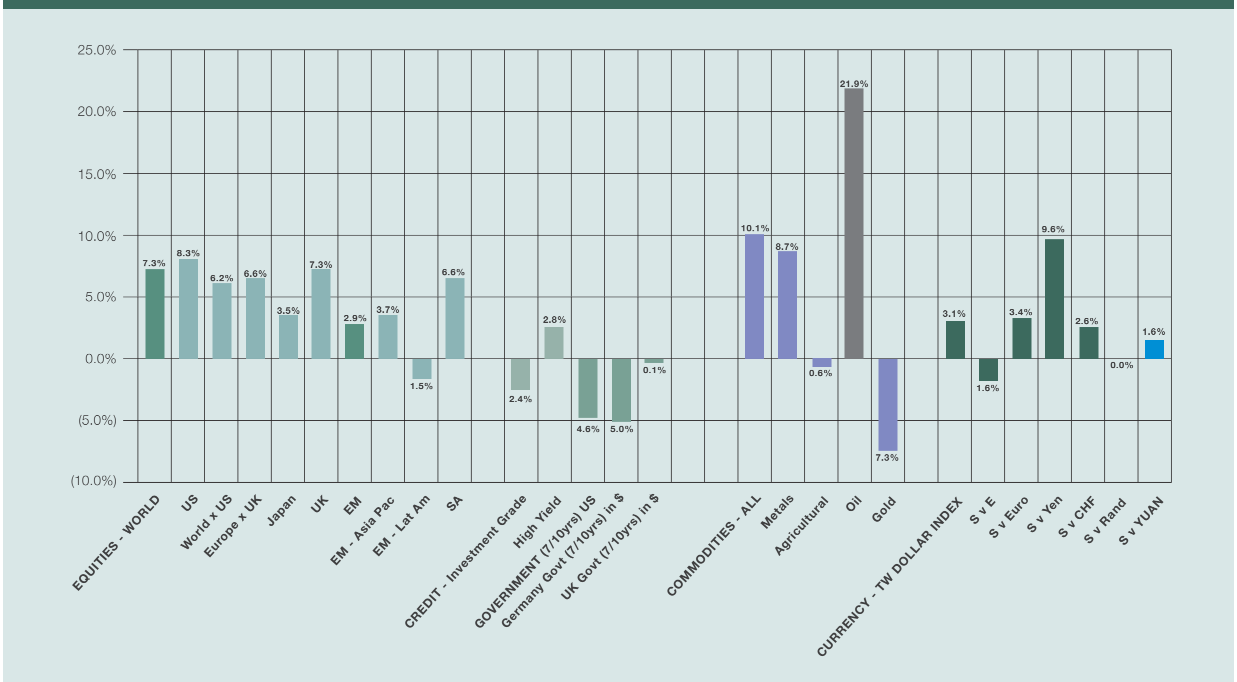
> America first policy moves.

The above paints a positive picture for global corporate earnings and risk asset prices. However, we stop short of taking more than a "neutral" stance, for a number of reasons.

The signs are ominous that President Trump may choose populism over pragmatism in his approach to global trade. Trade wars could result, with severe consequences.

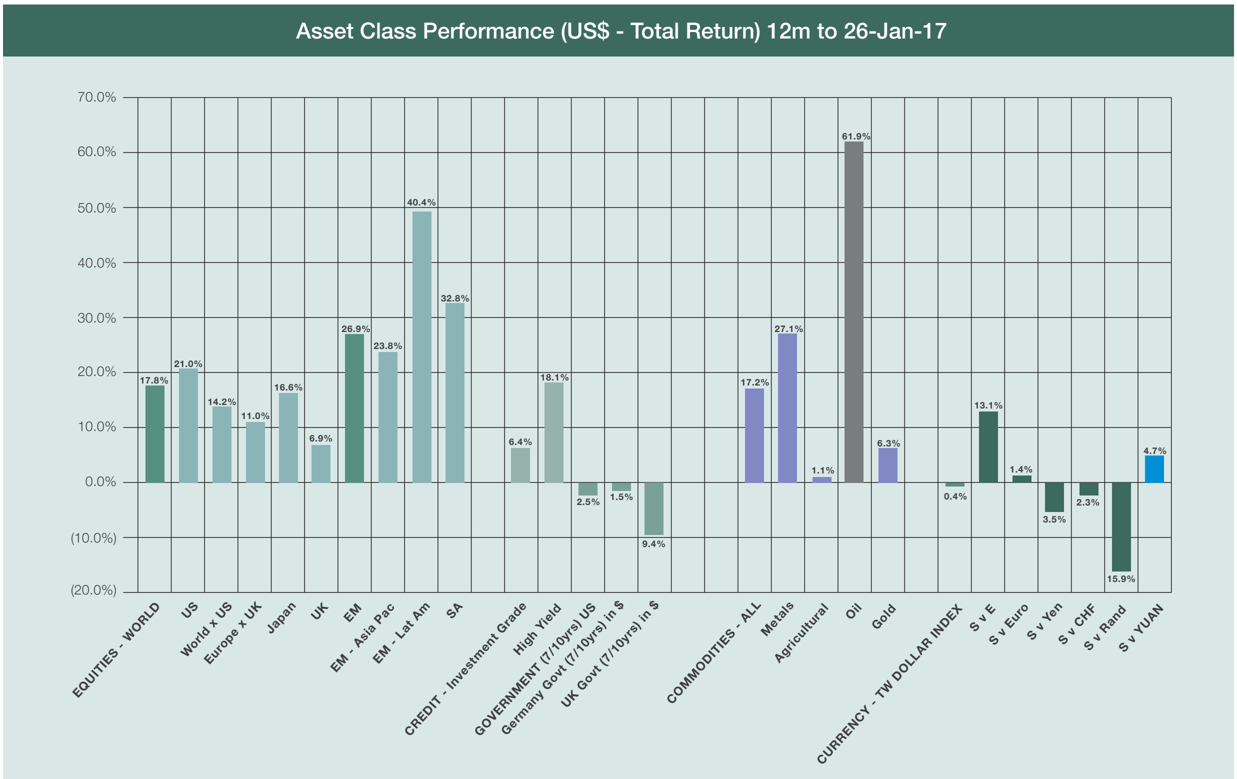
We must expect headline-grabbing "America First" policy moves - withdrawing from the Trans-Pacific Partnership is already a given. However, his relationship with China will be a litmus test. His rhetoric on the campaign trail will necessitate some action but he must know that nominating China as a "currency manipulator" when China has been keeping the value of its currency high, not depressing it, is a high-risk strategy. Reassurance will be required to build trust with the Chinese and others. From an investment perspective, long-term damage here could more than offset any short-term boost from domestic reflation.

Asset Class Performance (US$ - Total Return) 07-Nov-16 to 26-Jan-17



Source: Investec Wealth & Investment

> We expect a challenging period as reflationary forces gain ascendancy.



Source: Investec Wealth & Investment

A regime change is also underway in financial markets

We have seen a 35-year bond bull market, with recent investor behaviour reminiscent of that in the equity market at its peaks in the tech boom of 2000. We expect that yields will be anchored at the short end by monetary policy and that the longer end will not rise to damaging levels, so while we are likely to see greater volatility, this should not bring an end to the growth cycle.

A further danger is that with safe-haven bond yields having recently been driven to multi-century lows, related assets have become mispriced as yield hungry, risk-intolerant investors have been inevitably squeezed out of their natural homes into equity risk in search of income.

The test of how much trouble has been stored up for the future by this phenomenon is upon us

We expect a challenging period as reflationary forces gain ascendancy. This should ultimately be a good thing for equities but there is a real possibility that both equity markets and fixed income markets fall together if bond yields move up more quickly and reach higher levels than investors are comfortable with. How much trouble, depends upon on the following:

- The degree to which assets have become mispriced relative to fundamental value
- Whether the transition to the new fixed income "regime" is quick and the transition relatively easy; drawn out and volatile; or destructive in such a way that reveals systemic weakness.

Policy divergence and the dollar

The US's economic cycle is already ahead of that elsewhere. President Trump is one of many critics of the current Fed stance, which is not just a low-interest policy, but also to explicitly accept the risk of being "behind the curve". Over the coming months, pressure will increase on the Fed to raise rates both from economic data and also from the political arena. If there has been no improvement in external economic conditions, this will lead to upward pressure on the dollar. If the dollar moves too much, it will become a headwind for global growth, as it puts pressure on the many dollar borrowers, many of whom are in emerging markets.

> If there has been no improvement in external economic conditions, this will lead to upward pressure on the dollar.

Donald Trump is not Ronald Reagan

Parallels have been drawn between Reagan and Trump, however both the message and the environment are very different. In 1981, Reagan inherited an economy with very favourable post-baby boom demographics (an expanding young labour force), with an unemployment rate of just under 9% (5% today), 12% inflation (2% today) and 10-year Treasury bond yields of over 12% (2.5% today). The outcome of aggressive fiscal stimulus in an economy close to full employment, combined with immigration controls is not easy to predict, but conventional economic theory would suggest that both imports (good) and inflation (bad) may rise faster than current consensus suggests.

Equities are not cheap, but their valuation is reasonable in the circumstances.

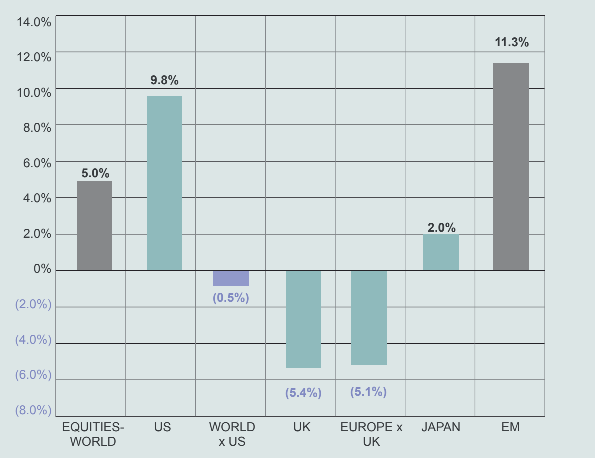
To put this in context, there is no single "right" valuation metric for equities.

- Measures that take medium-term bonds into account and assume growth in earnings that is in line with long-term averages currently signal that global equity markets are not expensive and indeed, excluding the US, they are good value. The objection to this method is that margins are high (true in the US, not true elsewhere) or growth will be lower than historic experience.
- Those measures that cyclically adjust (normalise) earnings on a simple arithmetic average basis (Shiller) show the US as expensive. The main objection to this as a suitable measure is that it doesn't take historical context into account and hence ascribes too great a weight to the Global Financial Crisis in the calculation of "normal". Note too that Europe and emerging markets remain cheap even on these measures.
- Nominal dividend yields on shares are low, but not relative to inflation (real).
- Only valuations relative to asset value are unambiguously elevated.

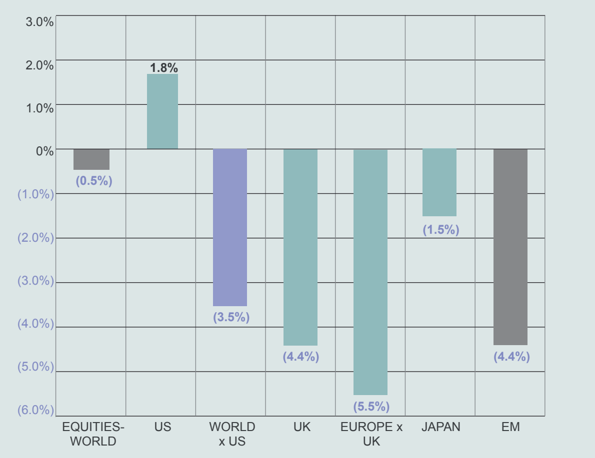
In summary, risk assets are not available at bargain basement prices, but using reasonable assumptions of earnings growth, inflation and bond yields, they are not expensive either, particularly outside the US. To put it another way, substantially lower share prices in general would only be justified by lower earnings expectations, higher inflation (without higher earnings) and / or materially higher bond yields.

The lack of immediate negative ramifications from the Brexit vote has bred some complacency in the UK and has emboldened anti-euro political parties in continental Europe.

Global Equity Performance (US$ - Total Return) Year to 01 Dec 2016

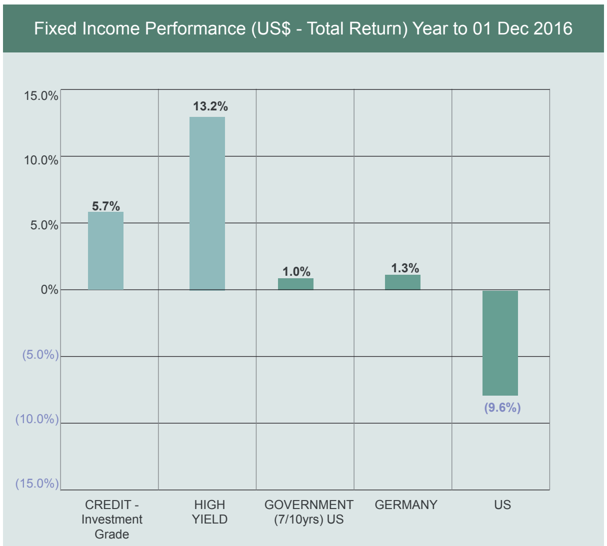


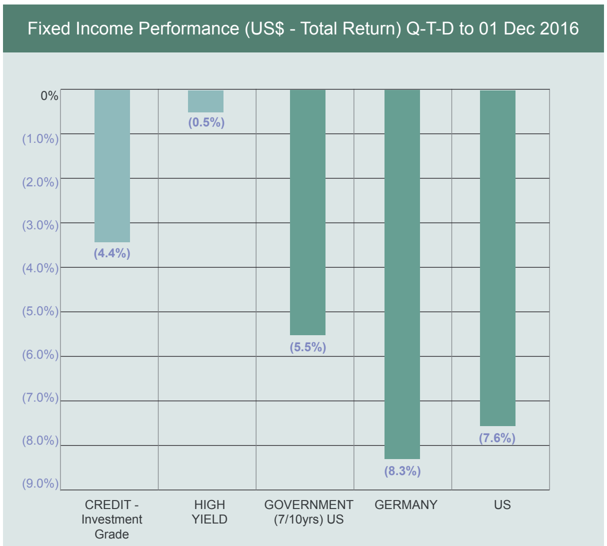
Global Equity Performance (US$ - Total Return) Q-T-D to 01 Dec 2016



Source: Bloomberg
Equities: Note American dollar Investors have seen NO RETURNS AT ALL from international equity investment this year. Negative returns from Europe have more than offset gains from EM and Japan. Much of the negative impact has happened in Q4 (since Trump), when all markets other than the US are down in dollar terms.

Equities are not cheap, but their valuation is reasonable in the circumstances.





Source: Bloomberg
The more “equity like” the fixed income, the better the performance – with High Yield doing better than equities YTD, rebounding from their energy-related depressed prices at the turn of the year. Medium dated treasuries are still marginally higher YTD, even after the post-Trump sell-off, captured in the QTD returns.

So what are some of the icebergs and icicles that could upset our outlook?

Europe – political risks remain high

The lack of immediate negative ramifications from the Brexit vote has bred some complacency in the UK and has emboldened anti-euro political parties in continental Europe. The recent referendum in Italy and the French Presidential election could both lead to anti-euro parties gaining power. Specifically:

- Dutch elections will see a swing to nationalist parties and policies, with the euro being part of the agenda. Dutch politics are very consensus based, however, making it hard to envision a mandate for decisive action.
- The Italian government still stands, but elections are highly likely this year – which could see the anti-Euro Five Star movement gain ground. Financial markets are unlikely to be disturbed to any great degree. Recent legal rulings make coalition government most likely. Furthermore, in the main, Italians are “pro euro” and the Italian constitution makes it very difficult for a government to action a withdrawal.
- The French elections at the end of April and early May are a greater risk. Marine Le Pen is benefiting from a similar upsurge in populist/nationalist support that underpinned the Brexit vote and Donald Trump’s victory. She will almost certainly make the second round of the vote and has long had a promise to take France out of the euro as part of her platform. Unlike Brexit, removing France from the euro would be an existential threat to the Eurozone itself, so this election fight could be very uncomfortable for financial markets to watch. The selection of François Fillon as the Presidential candidate for the Republicans is seen by many as having stolen Marine Le Pen’s thunder, however, commentators and polls have been wrong too many times recently for investors to take the outcome for granted.
- German presidential elections are due in October (date to be finalised).
- European banks: Has the problem been solved or not? Our view is that European banks are, by and large, “fixed”. Share prices and lending data support this view, but not everyone agrees.

> Dutch elections will see a swing to nationalist parties and policies, with the euro being part of the agenda.

A shift in the geopolitical pack ice

- China gains: Although in the cross-hairs of Donald Trump’s industrial policy, politically, China may be a net beneficiary of his trade position. Many Asian countries will be driven to closer ties with China as a counterweight to a less friendly US. Hectoring and short-term commercial hard-headedness contrasts poorly with dynastic vision and the offer of trade and investment (the “new silk road”). With the US having vacated its position at the hub of the Trans Pacific Pact (designed to exclude China), this leaves a conspicuous opportunity.
- Russian rapprochement: Financial markets will be relieved that Russia can be at least temporarily removed from the list of potential near-term disruptions.

Unlike Brexit, removing France from the euro would be an existential threat to the Eurozone itself.

"Unstable Presidential Personality Disorder"

A benign interpretation of the possibilities from a Trump Presidency depends upon him being a very different President from his Presidential candidate persona. If that proves to be the case, he may sustain a sudden outbreak of unity in the Republican Party (many of whose members did not support "candidate Trump") and achieve his stated (ostensibly attractive) economic objectives.

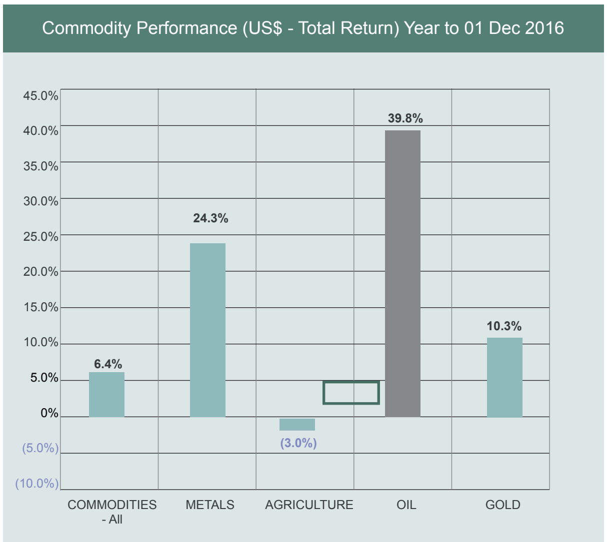
The early signs are not encouraging. Volatility and unpredictability would ultimately alienate a large part of his party, the US's trading partners and military allies. President Trump seems inclined to respond to every slight, and engage in government to government dialogue via social media and with disproportionate verbal broadsides.

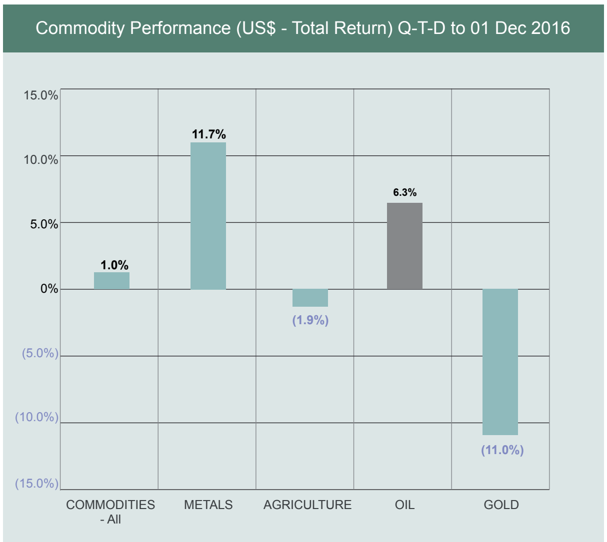
The first "rallying point" for a backlash could be the requirement for congressional approval to raise the debt ceiling in March 2017. This is an issue that has previously energised the Tea Party Republicans. Democrats could choose to make a stand against the "socially unfair" policy mix proposed by President Trump (just as Republicans made a stand against the profligacy of Obamacare).

Emerging markets and commodity prices

External advisers remain concerned that commodity prices remain a risk, since a large proportion of the world's growth comes from economies that are dependent upon them. Their fear is that oversupply conditions will reverse the recent rebound and will lead to a rerun of the deflationary fears that overshadowed the first half of 2016.

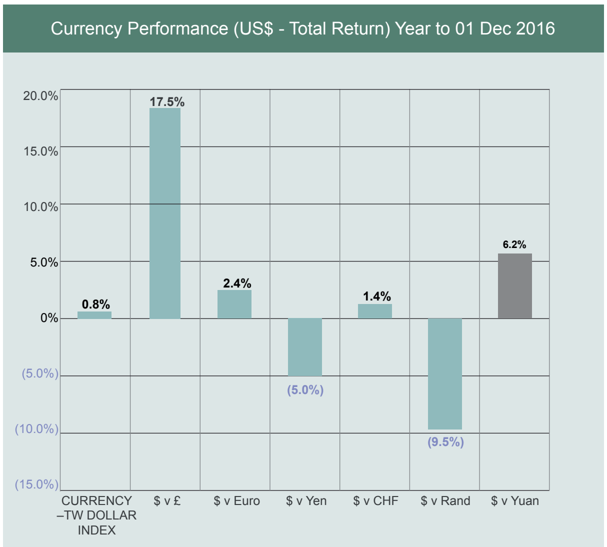
Unstable Presidential Personality Disorder.

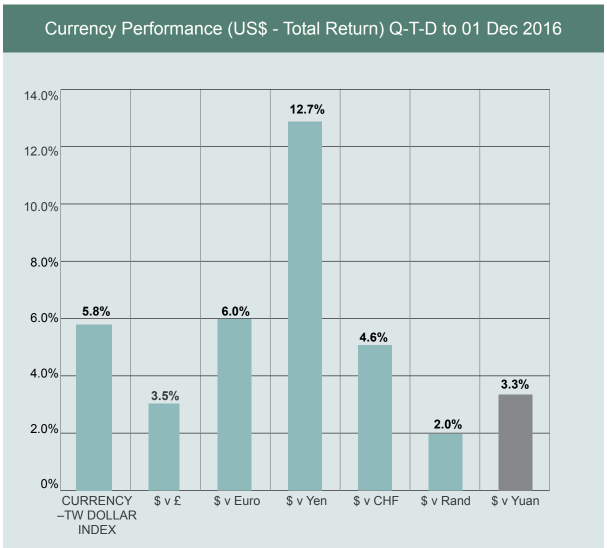




Source: Bloomberg
After last-years "bust", culminating around year end, industrial commodity performance (including Oil) has been strong throughout the year as supply side issues have been addressed (oil) and demand-side concerns (China) have receded. Gold has worked as a deflation insurance policy and has sold off since Trumps election win – as successful reflation has become materially more likely on the back of promised substantial fiscal stimulus.

Donald Trump has pushed the UK from the back of the queue to the front in negotiating a bilateral deal with the US.





Source: Bloomberg
Currencies – Year to date, the dollar is mixed, little changed on a Trade-Weighted basis YTD. Since Trump, the tendency is to dollar strength - a possible risk factor if exended too far too fast.

Lastly, a few elaborations and other points ...

Is there a case for gold?

Gold provides a hedge (similar to US Treasuries) against three current dangers, namely:

a. Trade wars.
b. Currency wars in general.
c. Buying gold is a way for Chinese people to convert their currency out of yuan without going through a bank (note that China has recently restricted gold imports).

Brexit and the UK: Things are looking more positive – though this is an evolving story

We had thought that investors were too complacent on the impact of Brexit on the UK. We now feel that expectations of a soft, rather than a hard landing are correct. Our views have changed for three reasons. Firstly, Donald Trump has pushed the UK from the back of the queue to the front in negotiating a bilateral deal with the US. Secondly, the UK's enhanced relationship with the US also gives it good leverage in Europe.

> Emerging markets have weathered their storm and look to be more attractive as a destination for investment.

Lastly, the decision to go for a "hard" Brexit simplifies the process and minimises the potential period of uncertainty. Having said this, the UK remains vulnerable to changes in financial conditions (such as housing) and justifies a high-risk premium.

Emerging markets vs developed markets

Emerging markets have weathered their storm and look to be more attractive as a destination for investment, although China, having receded from the list of top concerns for investors, now once again has the potential to "surprise" negatively. Our view, however, is that, having delivered on its promises to control the dirty flotation of its currency, China may present a cyclical risk. Nonetheless, we feel that the systemic concerns that roiled markets last year will not resurface in our forecast period.

> The election of Trump and the implementation of his policies has introduced an asymmetric trade-off of risk and return.

SA market view and asset allocation – On balance optimistic

By Paul McKeaveney, Chairman of the Asset Allocation Committee, Investec Wealth & Investment SA

After navigating a tricky 2016, we thought it worthwhile to lay out our current thoughts with regards to asset allocation following our most recent asset allocation process. Our positioning is summarised in the grids at the end.

Summary:
We are on balance more optimistic on the outlook for the South African risk assets over the next 12 months because:

- The global growth outlook (which had been improving even before the Trump "boost") has improved
- South African equities are at a better valuation point, but are still not offering outright value
- The rand has been stable to slightly stronger
- This (the stable rand) has led to lower inflation expectations
- Hopefully, this should lead to a change in the direction of the interest rate cycle (or at least to a hold)
- Interest rate sensitive areas of the market and economy should perform well
- Stable to slightly higher commodity prices will help support an earnings recovery from the commodity sector, as well as improve the domestic growth outlook (and hopefully avoid a downgrade).

While it has changed the political situation still remains a major worry for South African risk assets. As noted by John Haynes above, the election of Trump and the implementation of his policies has introduced an asymmetric trade-off of risk and return – the "upside" case has become more probable but the "downside" case will be more severe. Risk indices such as the CBOE Volatility Index (VIX) are at extremely low levels, possibly suggesting a certain amount of investor complacency. In terms of curbing our enthusiasm for domestic interest rate "plays", there is little political risk premium priced into the rand and the bond market.

In summary, we are maintaining our neutral position for South African equities, electing to express our improving view on the domestic outlook through an increased allocation to bonds (funded from cash). Sectoral and equity selection will prove critical to portfolio returns. We currently are not making any large asset allocation tilts in portfolios and have been focusing on reducing risk. Thematically, we continue to favour tilts towards value and South African domestic plays, while also picking up some high quality multinational names where valuations are more palatable. With the rand at our measures of fair value, we would be externalising funds if we need to.

We are maintaining our neutral position for South African equities, electing to express our improving view on the domestic outlook through an increased allocation to bonds.

Equities

We remain neutral equities in portfolios. We look at a number of valuation indicators and we really are split down the middle in terms of indicators that suggest value versus a market that looks overpriced. Naspers continues to play a slightly distorting role in measures such as a simple price earnings ratio, given that it now accounts for 17% of the SWIX and is on a trailing price earnings ratio of 87 times. Investors need to do a little more homework and we think looking at equal-weight index measures and constructing bottom-up estimates makes sense. Consensus earnings at 12% for 2017 and 15% for 2018 look reasonable although we would trim those to make a more prudent estimate of total return for the year. Looking into the crystal ball, we would suggest that equity investors could look for 10% earnings growth plus a dividend yield of 3%, coupled with no rating effect (which is very difficult to forecast over shorter time periods) – this suggests that returns could be in the 10% to 15% range. With the rand at our measures of fair value, we would externalise funds if need be.

> Most investors underweight South Africa and a change in sentiment could see strong inflows into our market.

Fixed income

Our bond market delivered a total return of 15% for 2016, having set a low base in December 2015 on the back of the Nenegate fiasco and after staving off the downgrade that a number of participants were expecting. In a yield-starved world, the high nominal yields that emerging markets offer international investors means that we continued to see strong inflows into the local bond market (R25bn inflow for 2016). At a yield of 8.6%, we are one of the highest yielders globally, behind Turkey and Brazil. We continued to increase our exposure to fixed income through the year. Looking ahead, we still think that there is too much priced into expectations for the Repo rate (two hikes were still priced at the time of writing) and the yield on the 10-year government bond is slightly above current fair value of 8.5%. Plugging all of the above into our calculations, we would suggest a total return of around 10% for a 10 year South African government bond, made up mainly of coupon plus a small capital appreciation.

Property

South African listed property performance used to be strongly linked to the performance of the bond market. The rolling three year beta is 1.4 times. However, with the proliferation of offshore property counters in the universe, that beta has fallen to 0.9 times. So investors have to make a more active decision among offshore property exposure (where currency will play a role but growth opportunities are possibly better) and the domestic property counters (where growth opportunities are more limited and valuations less attractive). Local property still has a beta above 1 to interest rates and, given our optimistic view on the interest rate cycle and our forecast distribution growth over the next few years of between 6% and 12% for the larger counters, we would expect property to outperform bonds and look for total returns in the region of 10-13%.

> We still think preference shares offer an attractive pick-up in yield.

Cash

Cash has been a good diversifier for equity portfolios over the last two years, having returned an annualised 6% versus equities' 4%. Given the risks that investors saw in the bond market, it has played the role of safe harbour for a number of local investors, including ourselves, who have held very high cash and floating rate note allocations. We don't think that we will see hikes in the Repo rate this year and, in fact, may see the start of the reduction cycle – not by a material amount, but hopefully by at least one 25 basis point cut. That means that, depending on the timing of the cut, investors can expect 6% to 8% cash returns depending on the type of cash investment they hold.

> We still think that there is too much priced into expectations for the Repo rate (two hikes were still priced at the time of writing).

Preference shares

Preference shares were last year's best performing asset class locally. The preference share index was up 19% in total return terms. Heading into 2017, we see the index yielding close to 10% and coupled with valuations that look fair, plus the fact that we have seen some preference share repurchases means that we would expect total returns in the area of 9% to 11% for 2017 for non-taxable investors. For taxable investors, we still think preference shares offer an attractive pick-up in yield. If you compare after tax preference share yields of 8.5% versus cash adjusted for the highest marginal tax rate, which would yield just over 4%, then preference shares are offering more than double what cash is. This obviously comes with a different risk profile, but is attractive nonetheless from a yield perspective.

> We continue to hold our position in gold but have lower conviction than we did last year.

Gold

Gold was a tricky investment proposition in 2016. We had included it into our balanced portfolios ahead of the US and Italian elections, as an insurance holding. Initially it looked as if our insurance would pay off handsomely but as the market digested the implications of a Trump presidency, the markets rallied, bonds sold off and gold reacted to higher real yields by falling in price. Real yields (which are the main driver of the gold price in our opinion) have retraced some of their large post-election move but the outlook for 2017 is uncertain. We continue to hold our position but have lower conviction than we did last year. Fair value, based on the current level of real yields and the dollar, is 5% below current levels.

Offshore versus onshore

Despite the very strong performance from South African assets in 2016, we think that a South African investor should always have a healthy allocation to offshore investments. The percentage allocation for each client will differ, depending on circumstances and one's view on prospective returns for offshore versus SA. Interestingly, if you looked to construct the most efficient portfolio in risk and return terms historically and you had perfect hindsight information, even in an environment when SA equities outperformed offshore by almost 35% with similar risk (2003 – 2016), you should still have had an allocation of 25% to offshore equities to have had the most "efficient" portfolio from a risk and return perspective. The point is that there is no "correct" answer for any investor but we typically hold more than 25% offshore for our unconstrained portfolios and would currently hold the full 25% allowed for our portfolios that have regulatory constraints. With the rand at our short-term target based on our model of currencies, interest rates and commodities, we would be looking to externalise funds where the opportunity arises. Purchasing power parity measures indicate the rand to be more undervalued, but these models can deviate from fair value for considerable periods of time.

> We think alternative investment strategies such as structured products, hedge funds and private equity should play an increasing role in private client portfolios.

Offshore alternative investments

Given the valuation outlook for both global and local equity markets (which are reasonable, but not cheap), and low expected cash and bond returns, we think alternative investment strategies such as structured products, hedge funds and private equity should play an increasing role in private client portfolios. These investments can provide both a non-correlated return and an enhanced return or yield in exchange for less liquidity than that offered by traditional asset classes.

> We think that a South African investor should always have a healthy allocation to offshore investments.

Asset allocation positioning:

The metrics below show our asset allocation positioning for global, domestic and by theme.

Global Asset Allocation	Q1 2017	Q4 2016	Comments
Offshore Equity	N	▼	Modest equity underweight. Increased volatility lies ahead and a cautious stance is warranted.
Offshore Fixed Income	▼	▼	Low expected total returns from these starting yield levels. Still offers some insurance characteristics versus risk assets.
Offshore Cash	▲	▲	Prefer cash to core government bonds. Offers optionality given our equity positioning.

SA Asset Classes	Q1 2017	Q4 2016	Comments
SA Equity	N	N	Outlook for EM and SA recovery look better. SA valuations and earnings expectations reasonable but expected total returns still muted.
SA Fixed Income	N	N	Looking to move to neutral. Optimistic on outlook for Rand and interest rates, which should deliver attractive total returns.
SA Cash	N	▲	Offers good risk-adjusted returns but have been reducing into inflation-linked bonds and physical gold.
SA Listed Property	N	N	Neutral - beta for bonds has fallen but still some concerns around SA specific outlook and valuations in foreign counters. Valuation slightly rich.
Preference Shares	▲	▲	Increasingly attractive yield advantage with possible repurchase underpin.
$/R (+ for ZAR strength)	▼	N	Has reached our short-term target.

Sectoral/Thematic Positioning	Q1 2017	Q4 2016	Comments
Global Plays	▲	▲	Overweight global plays. High quality businesses generally but have been reducing given valuation gap between domestic and interest plays.
Commodities	N	N	Neutral commodity plays, upweight in quality and low beta. Prefer diversified miners versus single commodity producers.
Gold Plays	▼▼	▼▼	Currently do not own any gold producers given poor fundementals. Have introduced physical gold into balanced portfolios.
Interested Rate Plays	▲	▲	Stable ZAR will keep a lid on inflation and will give the MPC room to possibly cut interest rates which is good for equities with high betas to interest rates.
SA Industrials	▼	▼	SA growth to struggle but getting closer to the end - valuations attractive.

▼▼ Underweight ▼ Moderately underweight N Neutral ▲ Moderately overweight ▲▲ Overweight

Members of the Global Investment Strategy Committee

John Haynes
Chairman & Head of Research
United Kingdom

Chris Hills
CIO
United Kingdom

Professor Brian Kantor
CIO
South Africa

Philip Shaw
Chief Economist
Investec PLC

John Wyn-Evans
Head of Strategy
United Kingdom

Oliver Kirkby
Portfolio Manager & Analyst
South Africa

Darren Ruane
Head of Fixed Income
United Kingdom

John Barkhan
Head of International Division
United Kingdom

Nik Kidd
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United Kingdom

Stephen Trowbridge
Senior Investment Director
United Kingdom

Oliver Battersby
Senior Investment Director
United Kingdom

Paul Deuchar
Head of Portfolio Management SA
South Africa

Ryan Friedman
Portfolio Manager &
Head of Multimanager
South Africa

Paul McKeaveney
Portfolio Manager & Chairman SA
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South Africa

Neil Urmson
Wealth Manager
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