FEBRUARY 2018 UPDATE

PROUD WINNERS OF RAGING BULL AND MORNINGSTAR AWARDS FOR 2017

South African inflation, as measured by the year-on-year change in the Consumer Price Index, for January 2018 was 4.4% (down from 4.7% at the end of December 2017). This was less than the IRESS Consensus Forecast of 4.5% and is within the South African Reserve Bank's target range of between 3% and 6% per annum (p.a.) for a tenth consecutive month. Since 2013 inflation has averaged 5.6% p.a. The three largest components of the Consumer Price Index are: Housing and Utilities (23%), Food and Non-Alcoholic Beverages (18%) and Transport (15%). As of January 2017, the CPI basket and weightings have been adjusted with notable increases in Food and Non-Alcoholic Beverages and a decrease in Transport.

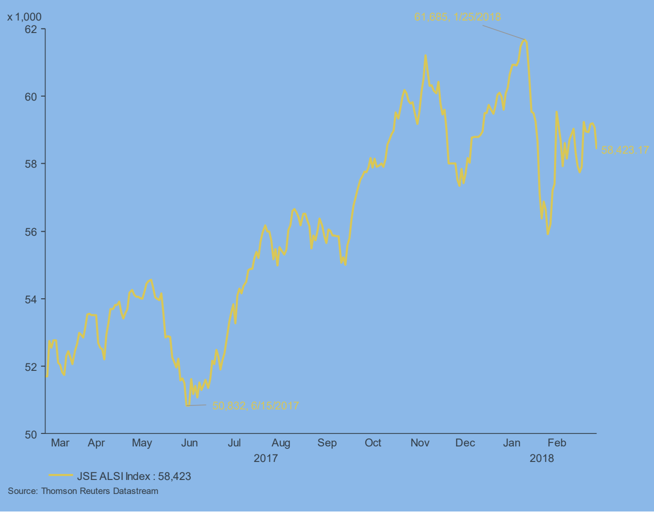
As there was no Meeting of the South African Reserve Bank's Monetary Policy Committee (MPC) during February the Repurchase Rate was unchanged at 6.75% p.a. Since 1994 the Repurchase Rate has averaged 8.9% p.a. Over the last five years, however, the Repurchase Rate has averaged a significantly lower 6.1% p.a. The next meeting of the MPC is scheduled for the 26th to the 28th of March 2018.

The real Repurchase Rate, arrived at by subtracting the current inflation rate from the current Repurchase Rate, was at 2.4% p.a. at the end of February 2018 (higher than the rate at the end of January 2018). This remains below its historical average of 3.1% p.a.; implying that South African monetary policy remains accommodative.

EQUITIES

During February 2018 South African equities in rand terms, as measured by the FTSE JSE All Share Index (excluding dividends (the JSE)), were down 2.0%.

JSE 1 Year



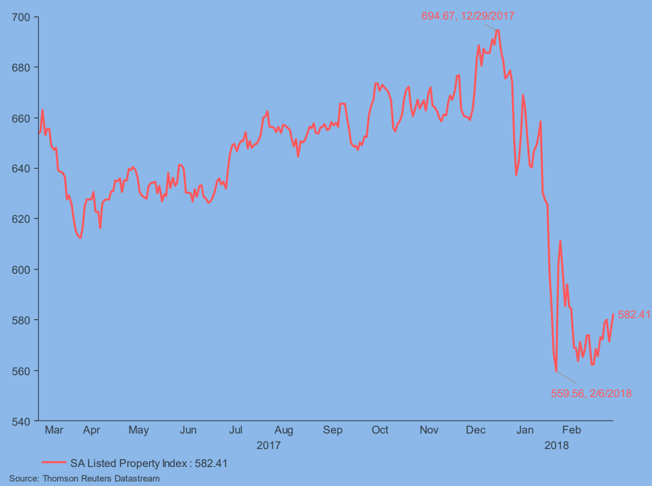
As at the end of February 2018 the JSE's PE (price to earnings) ratio, at 19.3, was significantly above its historical average of 15.3. The JSE's 12-month trailing dividend yield, at 2.9% p.a., was marginally above its historical average of 2.7% p.a. Its 12-month trailing earnings yield, at 5.2% p.a., is significantly below its historical average of 6.8% p.a.

During February 2018, developed market equities in US dollar terms, as measured by the MSCI World Index (excluding dividends), were down 4.3% and were up 15.2% for the year to the same date. Emerging market equities, as measured by the MSCI Emerging Markets Index (excluding dividends), were down 4.7% over the month of February 2018, and over the twelve months to the end of January were up 27.6%. Note that the MSCI World Index is a developed markets index. The MSCI All Countries World Index (not specifically discussed in this Newsletter) includes both developed and emerging markets.

PROPERTY

South African listed property, as measured by the FTSE JSE Listed Property Index (excluding dividends), was down by 10.2% during February 2018 and in the twelve months leading to the end of February 2018 was down by 12.2%; largely on the back of the Resilient group of companies. As at the end of February 2018 its PE ratio, at 12.3, was well below its historical average of 15.7. Its dividend yield, at 7.2% p.a., is above its historical average of 6.8% p.a.

South African Listed Property 1 Year



CURRENCIES

The South African rand closed February 2018 at 11.80 to the US dollar, 16.26 to the British pound, 14.40 to the European euro and 9.16 to the Australian dollar. The rand has appreciated around 10% against the US dollar over the past year, and is flat against the British pound over the same period. The US dollar closed December 2017 at 1.38 against the British pound and 1.22 against the European euro.

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OUTLOOK

Over the longer-term the market anticipates a South African inflation rate of 5.9% p.a., indicating a meaningful acceleration in the current inflation rate but no breach of the upper limit of the Reserve Bank's target range. This is lower than the equivalent number for longer-term breakeven inflation at the end of January 2018. The market, therefore, anticipates less inflationary pressure now than it did a month ago.

South African Forward Rate Agreements indicate that the market anticipates interest rate decrease of 0.50% over the next six months with an implied probability of 50% and prices the probability of a decrease in rates of 1.00% over the next twelve months at 32%.

Assuming the South African Reserve Bank wished to adopt a more restrictive monetary policy stance and expressed such a position through targeting a real Repurchase Rate of 2.0% p.a., interest rates would be at around 6.5% p.a. over the longer term or roughly where they are at present.

Given that the JSE's PE ratio is significantly higher than its historical average it is inferred that South African equities, in general, remain overvalued (expensive).

Forward Exchange Contracts indicate exchange rates of 12.38, 17.34 and 15.56 in a year's time for the US dollar, British pound and European euro respectively against the South African rand. Forward Exchange Contracts for the US dollar indicate exchange rates of 1.40 to the British pound and 1.26 to the European euro.

CONCLUSION

Global equity markets sold off heavily in the last week of January and into the first ten or so days of February this year. However, since then there has been some stability with certain equity markets (like the Nasdaq 100) setting new record highs. This despite the US President threatening to impose trade tariffs on US steel imports. The JSE All Share Index has behaved similarly even though the rand broke decisively below 12 to the US dollar in the second week of February.

South African equity market stability clearly hasn't translated into local listed property counters where the performance of the Resilient stable has dragged the index down very nearly 20% year-to-date. And whilst this is desperately uncomfortable, given that the Resilient group of companies accounted for 40% of the FTSE JSE Property Yield Index at one point, it does mean that, at an index level, dividend yields and PE ratios are at their most attractive levels in quite some time. The NFB AM Investment Committee elected to increase local property exposure for the NFB Ci Cautious Fund of Funds by increasing the allocation to the Sesfikile Property Fund during February. A similar trade was not executed for the NFB Ci Balanced Fund of Funds given that its exposure was already close to 10%.

Ramaphoria appears to be fading, as evidenced by the rand's inability to break any further below around 11.80 to the US dollar, but there are still some very encouraging moves from the country's top table including the decision by the ANC to withdraw the motion to nationalise the South African Reserve Bank (which in any event would have cost National Treasury some R20bn it doesn't have), the recent Cabinet appointments and the reconstitution of the Eskom board. It's easy to be critical, given the length of time Zuma was able to run the country down with impunity, but the amount of progress made in just the first six or eight weeks of Ramaphos's presidency of the ANC has been remarkable.

PORTFOLIO MANAGER VISITS

Over the past quarter the following Portfolios received 6-monthly qualitative due diligence assessments as part of NFB AM's ongoing due diligence process.

Month	Manager/s and or Representative/s Name/s	Portfolio/s Name/s
January	Christopher Rogerson	ABSA Property Equity Fund
	Nshalati Hlungwane	Allan Gray Balanced, Equity and Stable Funds
	Trevor Lee	Ashburton Inflation Index ETF
	Rudiger Naumann and Siobhan Simpson	Investec Worldwide Flexible Fund