Dear Client

2016 Over, time to move on.

Good riddance in some ways as returns have been mediocre.

Over the past 12 months, to 30 December 2016, the JSE All Share index was basically flat (from 50,693 to 50,653).

Relative to this, your investments with Plexus Wealth have held up well:

Plexus Wealth BCI Property Fund	6.96%
Plexus Wealth BCI Balanced Fund	4.07%
Plexus Wealth BCI Conservative Fund	4.57%

South African Boutique asset managers (defined as any asset manager which does not have a majority shareholder which is a bank, insurance company or distribution linked entity) continue to out-perform. A recent review (November 2016) of the boutique asset management industry in South Africa by RMI Investment Managers confirmed this.

Although local performance has not been impressive, due to Rand gains (particularly strong trend in second half of 2016), offshore returns, in ZAR, have been equally un-inspiring.

Exchange rates have been volatile – many feared we were heading to R20 to the USD, only to find we are now back to the 13's. We have all read about Brexit, Trump and, more recently, a move further to the right in Italy. International markets have thus also been difficult to call, with the temptation to try and time the market often being punished savagely. But we must remember that inflation is the primary enemy to long term investments, and not short term volatility.

As usual we remain calm, and look at a balanced view. We also look to invest, via competent and experienced fund managers, in sectors and companies that can survive, and even thrive, through all economic cycles. This can sometimes lead to short term underperformance, but history proves that this strategy works in the long term. Important aspects for an investment are company fundamentals, the business case for each investment, critical competitive factors (like barriers to entry) and management track record and integrity.

As the year has drawn to a close, we have seen reason for optimism among the gloom. It is, after all, often the time to buy when such gloom abounds. If all commentators are negative, Plexus Wealth

and presuming they have acted on their sentiments, then it is logical to assume that all the negative sentiment is already in the market. This theory has a certain weight of evidence behind it when we examine the average cash holdings levels of fund managers.

Ratings Agency Standard and Poors downgraded only South Africa's local currency rating to BBB from BBB+ and left the foreign currency rating at BBB- with a negative outlook. We were thus not downgraded to sub-investment grade as many commentators feared. They noted weak economic growth (with political tensions hampering growth-enhancing reforms) and forecast a debt to GDP ratio of 54% by 2019. We were told that the negative outlook could be improved to stable if policy implementation increased business confidence and private sector investment, in turn leading to improved GDP growth numbers. The previous week, Moody's left their ratings unchanged with Fitch assigning a negative outlook and maintaining its BBB- rating. The next review will be conducted during mid-2017 so we have some time to get cracking.

For those that remain nervous of the future in South Africa, our Credo portfolios are becoming well known, and Offshore Listed Property Portfolios are available for diversification. We are also able to structure capital guarantees on your investments to give you peace of mind. It turns out that you don't have to store wads of cash under your mattress to mitigate risk.

The US economy is in good shape, and as they remain the largest economy in the world this is relevant for everyone. The much awaited December rate hike has come through, but perhaps a slow return to interest rate normality must be welcomed. US Employment figures are the best for a generation, and unemployment hit a new low of 4.6%, with the pace of hiring remaining steady. Q3 GDP was above expectations at 3.2%, with consumer confidence, Dallas Fed manufacturing activity and Markit manufacturing PMI all increasing more rapidly than expected. Mortgage applications maintained a medium term strong trend.

Europe will be emotional as it becomes more likely that the EU project will need some re-thinking, and China continues to grow albeit at a slower pace (but at a rate that is still the envy of us in South Africa!)

Overall we think that a lot of the uncertainties facing the market have come to some sort of resolution, and markets hate uncertainty more than actual news. We thus face 2017 with cautious optimism.

Kind Regards
Eric, Connie, James, Don, Amanda and the team at Plexus Wealth