19th July 2017

Dear Client

We have pleasure in enclosing your latest quarterly investment review.

For many years international markets battled the after effects of the global financial crisis while South Africa enjoyed healthier economic growth fueled by a sustained boom in commodity prices. Over the last few years the tables have started to turn and we now see a strong US economy and a European economy rising from the ashes.

US authorities now believe their economy to be at full employment. This means that wage inflation is returning and the fears of deflation are over. This allows for "normalization" of interest rates, to a level estimated at 3% over the next few years. Such an environment is generally good news for equities but is likely to be bad news for bonds, and residential property, in markets whose valuations have been stretched by sustained low interest rates. Equity valuations should also be viewed relative to strong corporate earnings and it is important to note that more companies are exceeding market expectations than disappointing them. If earnings are growing, we are willing to accept higher price earnings ratios in our investment criteria.

Europe seems to be following this path, with many commentators and fund managers seeing better value in this region than the US. The UK continues its challenging path towards Brexit, with yet another set of surprising election results resulting in a hung parliament. Coupled with the fact that international markets offer exposure to game changing technology companies, and global heavyweight corporations that simply are not available in South Africa, we continue to advocate offshore exposure in client portfolios where not all capital is required for income generation purposes.

In SA we cannot escape the negative impact of political issues at present, and the latest data shows our economy contracting 0.7% in the first quarter of 2017. The JSE all share index returned 1.5% from 31 May 2015 (52,810) to 31 May 2017 (53,563). If one strips out Naspers and SAB the figures for the market are worse - barely a positive return, in nominal terms, for 3 years.

Our funds have out-performed the overall market, but the growth is lower than previous years given the environment in which we find ourselves. Rational companies are reacting to uncertainty by delaying investment or focusing on offshore expansion. Fortunately many of our top 40 companies listed on the Johannesburg Stock Exchange earn a majority of their revenues offshore and thus an investment in these companies does create a natural hedge against the performance of the South African economy. Sectors such as retail seem particularly vulnerable to low consumer confidence and disposable income, exacerbated by badly timed increases in the tax burden of the middle class.

Listed property continues to provide reliable income to many of our clients. We believe that the days of income distributions increasing by 10% or more per annum are a thing of the past for the next few years, but our analysis indicates that a well balanced portfolio can still deliver income growth in line with inflation. We currently favour logistics, storage and dynamic offshore property companies.

We continue to advocate the use of appropriate tax wrappers to manage the income and capital gain taxes on your underlying investments, both offshore and onshore.

We are proud to announce the launch of our second listed property fund, the Plexus Wealth BCI Flexible Property Income Fund. The mandate of this fund is to maximize income for our clients while also ensuring that this income will rise with inflation. The existing Plexus Wealth BCI Property Fund by contrast weights both yield and growth prospects in the listed property sector.

Kind Regards

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