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Newsflash

A buying opportunity is arguably at hand on the JSE

Market Comment

- It is easy to paint a bleak picture of our stock market, with all the political and economic woes our country is going through.
- But one can also build a fairly good case that a buying opportunity is in fact in the offing.
- So many shares have taken serious beatings over the last nine months or so.
- In particular, the global bull market remains firmly intact. Company earnings are improving nicely in the US, Europe, Japan, China and many other countries (not ours yet).
- The MSCI China Index, which comprises 27% of the MSCI Emerging Markets Index, is +23.7% in dollars so far in 2017.
- The Chinese, Japanese, European and US economies are making good progress.
- This is helping a recovery in some of the commodity prices that had also taken a beating, for example the iron ore price has bounced about +20% from its recent low, thanks to firm indicators on the Chinese economy, including steel production.
- Coal and copper prices have turned up too, while the oil price rose over +7% last week.
- The falling dollar is helping this. It is down -8.2% against the euro in 2017, having fallen over -2.2% in the past two weeks.
- Interest rates may have bottomed offshore, but they remain extremely low, as does inflation, implying that there is no urgency to raise rates.
- Meanwhile, our stock market has recently taken a knock (see chart below), taking it back to where it was in July 2014, three years ago. It recently fell from 54,400 to 51,000.

Many of our shares have had serious corrections. Two of the worst are Arcelor Mittal, which is -54% this year and Sun International -37%, but there are plenty others.

Because of the recent sharp fall in commodity prices, our JSE Resources Index fell -20% from its high in January. It has recovered a bit, but is still down -17%.

Take Anglo American. Its share price soared by +R200 last year, but is down -R100 this year.

Sasol is back near its lows for the year, down some -24% from last June.

The JSE Mid-Cap Index is -15% since last August, while the JSE Small-Cap Index is -10.5% since its record high in March.
Some of the technical analysts or chartists are saying the JSE is heavily oversold, sentiment is extremely negative/bleak/pessimistic...AND our STANLIB Economist, Kevin Lings, has changed his view on interest rates and now expects a cut in rates by the end of the year.

A cut in interest rates has historically been very positive for industrial shares on the JSE, particularly SA Inc. shares, i.e. companies doing most of their business in SA.

So, all-in-all, this looks like a good time to be accumulating JSE shares, not lightening. Of course, it is always very difficult to go against the grain and buy amidst so much pessimism, but that's historically the best time to do so.

Moreover, the rand has lately fallen by -4% against the strong euro and by over -5% against the resurgent pound.

So although the rand is still up +4.3% against the dollar so far in 2017, it is in fact down -1.8% against the pound and -3.2% against the euro. Some technical analysts are saying the rand remains overextended/overbought versus the dollar, i.e. vulnerable to a pull-back.

Should the rand weaken from here, this should boost the rand-hedge shares on the JSE, so the potential exists for a very good rally if a few things fall into place. Some say 13.10 is a key level for the rand (currently 13.08).

Of course a weaker rand will also boost the values of offshore holdings, including our rand-based international funds.

The STANLIB Global Equity Feeder Fund is +9.4% in rand terms so far this year, well ahead of the benchmark MSCI World Index's +5.9%, thanks to the overweight in IT shares.

The STANLIB European Equity Feeder Fund is +9.3% in rand terms so far in 2017. Both funds are managed by Columbia Threadneedle in London.

In the latest 3 months to end June, the ALSI did -0.4% (+3.4% in the 6 months), with Naspers +9.9% in the quarter (+26.6% in the 6 months). Mining was -9.3%, Industrials +2.2%, General Retailers -11%, Financial & Industrials +1.5%, Banks +0.9% and SA Listed Property +0.9% (+2.3% in the 6 months).

The All Bond Index returned +1.5% in the quarter, to be +4% in 2017. Cash did +1.85% in the quarter, to be +3.7% in 2017.

The Dow Jones Euro Stoxx 50 Index did +6.5% in USD in the quarter (+15.4% in 2017), beating the S&P 500's +3.1% (+9.3% in 2017) and the MSCI World Free Index's +4.2% (+11%).

The MSCI Emerging Markets Index did +6.4% in USD in the quarter (+18.6% in 2017).

Other Commentators

US Market Analyst, Elaine Garzarelli

With the US Congress breaking for the summer holidays in August, the US stock market has been hurt lately by the slow progress on policy initiatives. This has caused some temporary uncertainty, which investors don’t like.

The dollar has been weaker, removing a potential headwind to company revenue growth and providing a support for earnings growth.

For the first time since the financial crisis, all US banks passed their annual stress tests, enabling them to lift dividends and increase share buybacks. This is positive for the economy and for financial conditions.

Recent share buybacks announced included JP Morgan’s $19.4bn, Citigroup’s $15.6bn and Morgan Stanley’s $5bn.

Garza’s quants model remains bullish at 71%. She remains unhedged and recommends buying into weakness.

With earnings growth expected to be double-digit for the quarter, Garza believes the S&P 500 can rise 20-50% above fair value as things currently stand.

Garza expects second quarter GDP growth in the US to rebound to 3.3% and to average between 2.5% and 3% in the 2nd half of 2017.
Global growth is improving, judging by the OECD global leading indicator, which rose in April and will likely rise in May and June too. It covers 33 countries and incorporates 244 economic indicators.

It has been on an uptrend recently, a good indication of the global recovery underway.

**BCA Research**

- Their 3rd quarter outlook is titled “Aging Bull”.
- They expect global growth to remain strong over the next 12 months, but to slow in the second half of 2018, potentially setting the stage for a recession in 2019.
- Investors should overweight equities and corporate bonds, but be ready to cut back exposure in a year’s time.
- Remain overweight developed market equities relative to emerging market equities. Favour the euro area and Japan over the US in local-currency terms.
- Cyclical shares should outperform defensives over the next 12 months.
- Oil shares will move from being laggards (-13.6% so far in 2017) to leaders as oil prices rebound. Financials should also do well.
- In the Emerging Market universe, Chinese shares listed in HK have significant upside potential.
- The selloff in the dollar is overdone. The broad trade-weighted dollar should appreciate by 10% before peaking in mid-2018. The yen and euro should depreciate against the dollar.
- Oil should rally over the coming months as global inventories decline. Gold will continue to struggle, before exploding higher towards the end of this decade.

**Paul Hansen**

Director: Retail Investing
1. **SA trade balance recorded another substantial surplus in May 2017 of R9.5bn.** This is SA’s fourth consecutive monthly trade surplus and the welcome positive from a credit ratings perspective.

2. **SA petrol price to fall by 69c/l with effect from Wed, 5 July 2017.** This will help to pull inflation below 5%. It also increases the chance that the Reserve Bank will cut rates before year-end.

3. **German business confidence at a record high in June.** There is usually a strong link between confidence and growth in Europe.

4. **Interest rate cutting cycle in Uganda likely to continue as inflation moderates further.**

5. **Kenya GDP Q1 2017 slows.**

6. **Improving prospects for the Ghanaian economy.**

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1. **In May 2017, South Africa’s trade balance recorded another surplus of R9.5 billion.** This compares with a revised surplus of R4.97 billion in April 2017. The market was expecting a trade surplus of around R9.3 billion for the month, although the trade data is extremely difficult to forecast accurately on a month-by-month basis, especially since the data is not seasonally adjusted and prone to revisions. **South Africa has recorded a trade surplus in eight of the last twelve months and in each of the past four months. An impressive turnaround!**

   During May exports rose by a fairly substantial R13.98 billion (+15.4%m/m), while imports were up by +R9.46 billion (+11.0%m/m). The sharp increase in exports was relatively broad based including vehicles (+R1.6 billion), base metals (+R1.6 billion), vegetable products (+R1.8 billion) and chemicals (+R1.4 billion). Over the past year, exports have achieved a much improved average annual growth rate of 6.0%. This improved export performance partly reflects the benefit of higher commodity prices, a more stable supply of electricity and less labour market unrest.

   While imports rose fairly substantially in May (+11.0%m/m), the average annual growth in imports over the past twelve months is -0.5%. This moderation in import demand appears to reflect a combination of factors, including weak domestic demand, more specifically a lack of domestic fixed investment activity by the private sector. **Unsurprisingly, South Africa’s tax collection of import duties remains well behind budget, and is expected to disappoint further during the current fiscal year.**

   Year-to-date the Rand has gained 5.4% against the US Dollar, although as recently as 24 March 2017 it was up 10.1% year-to-date. The Rand continues to be broadly supported by the massive turnaround in the trade account – from an average monthly deficit of more than R8 billion to a monthly average surplus of R3 billion – as well as the ongoing global search with yield. It also appears that foreign investors are paying very little attention to the underlying economic fundamentals in most emerging economies – including low economic growth, credit rating downgrades, rising debt levels, and political upheaval.

   **In conclusion, South Africa’s trade balance has generally improved over the past year, helped by a combination of slowing import growth and a pick-up in exports. Higher international commodity prices have provided welcome relief to South Africa’s balance of payments in 2016 and early 2017. Unfortunately, the slowdown in import growth largely reflects the weakness in the South African economy, rather than an improvement in import substitution. This overall trend is expected to continue during 2017, which should help to contain South Africa’s current account deficit, reducing the pressure on the Rand exchange rate. The improved current account deficit is one of the few positives highlighted by credit rating agencies in recent months.**
2. **The Department of Energy announced that the petrol price for 95 and 93 ULP will decrease by 68c/l and 69c/l respectively from Wednesday, 5 July 2017.** The latest announcement means that the price of 95 Octane (ULP, Gauteng) will now cost R12.86 per litre. The price of diesel will decrease by 60c/l (0.05% and 0.005% sulphur), while the price of paraffin will fall by 76c/l (retail price), and gas by 91c/kg.

Once the decrease in the petrol price comes into effect on 5 July 2017, the price will be R1.53/l (-10.6%) below the record high of R14.39 during April 2014 and 48c/l below the price a year ago.

During the latest fuel price review period, from 2 June 2017 to 29 June 2017, the average Rand/US Dollar exchange rate was stronger at R18.27 compared to R13.26 during the previous month. The strengthening of the Rand against the US Dollar during the month decreased the Basic Fuels Price of petrol by almost 15c/l. More importantly, the oil price moved noticeably lower during the month, subtracting an average of 52c/l from the fuel price.

**The petrol price decline in July 2017 will reduce the monthly consumer inflation rate by a massive 0.3 percentage points (based on the new CPI weights).** This outcome is obviously encouraging and welcome news for consumers, but it is also good news from a monetary policy perspective. Last month, SA consumer inflation remained inside the Reserve Bank’s target range at 5.4%y/y, and is expected to move below 5% over the next two months, remaining inside the target until at least the end of 2018. This should encourage the Reserve Bank to cut interest rates before the end of 2017 and possibly again in early 2018, especially given the weakness in the domestic economy. In deciding to cut rates the Reserve Bank will be mindful of the vulnerability of the Rand exchange rate to changes in global investor sentiment towards emerging market economies.

3. Recently, we have been highlighting the link between confidence (both business and household) and economic performance. In South Africa, the declining business and consumer confidence has obviously undermined the growth prospects for the country. In contrast, the high level of consumer and business confidence in the United States has been encouraging, although there is increasing evidence to suggest that the lack of policy progress by President Trump is now starting to undermine confidence/growth forecasts.

Fortunately, confidence levels in Europe are a lot more compelling. **In particular, the IFO business confidence index in Germany rose to its highest level ever in June 2017 at 115.1 index points.** This is up from 114.6 in May 2017 and a recent low of 105.8 in February 2016. The IFO business climate survey assesses confidence in a range of economic sectors including manufacturing, construction, and retail. **Unsurprisingly, there is a very strong link between German business confidence and industrial production as well as between business confidence and German GDP growth.** All of this suggests that the economic performance in Germany could improve further in the months ahead, especially if wage growth starts to accelerate. An improvement in German economic growth tends to uplift the rest of the region, especially northern Europe. This together with the emergence of more political unity in the core of the Euro-area following crucial elections in France, Netherlands and Austria, could see Europe start to lead growth in the developed world.

4. **Inflation in Uganda decelerated to 6.4%y/y in June from 7.2%y/y in May 2017.** The deceleration in the headline inflation rate can be mainly attributed to food inflation which slowed from 23.1%y/y to 18.1%y/y, which was led by a sharp drop of vegetable prices from 15.5%y/y to 9.6%y/y. The drop in the vegetable (and fruit) inflation rate can be explained by the recent improved rainfalls which were preceded by a severe drought.

The Bank of Uganda has continued with its loosening of monetary policy, by cutting rates to 10% from 11% at its meeting on 19 June. With the continuing lower inflation rate it is likely that further cuts could be in store especially considering that Private Sector Credit Extension has lowered. The Bank expects overall headline inflation to reach the target of 5% in the next twelve months. Whilst we are less optimistic than that, we also feel that inflation will continue its downward trajectory well into 2018.
5. In the first quarter of 2017, the Kenyan GDP grew by 4.7% y/y, down from 5.3% y/y in the same period in 2016. This is the lowest first quarter reading since the rebasing of the GDP measurement. The lower growth rate was due to a contraction in agricultural and a slowdown in financial intermediation.

Agriculture contracted by 1.1% after growing at 0.1% in the previous quarter. This was largely due to the drought that began in 2016. This also affected inflation, which peaked at 11.7% for the month of May 2017 after coming in sharply lower at 9.21%. This is significantly above the central bank’s target of 2.5% – 7.5%. Fortunately there have been some rains recently and this should see price increases starting to moderate. This has led food inflation to slow meaningfully to 15.81% from 21.52%, which fed through to overall inflation. Again all items outside of food were well within the inflation target which shows that the inflationary pressures were transient. On a month-on-month basis the country actually experienced some deflation at -1.2% as food prices declined by -2.74%. The Central Bank of Kenya might look at this favourably and hold off on increasing interest rates.

Private sector credit extension is already weak. Lower credit growth affected the financial sector negatively. This could have been due to the interest rate caps that were instituted in 2016. This saw the financial sector’s growth slow to 5.3% from 8.2% a year earlier.

Although this year might see weaker growth in Kenya, over the long term Kenya’s prospects still look promising. The election spending this year could help boost economic activity in the third quarter. Oil production, albeit still small, could be a major contributor to economic activity as soon as the end of next year. Infrastructure spend is set to continue with the planned highway from Nairobi to Mombasa. Lastly the regional integration in the East African Community is expected to help with easier movements of goods and capital.

6. Ghana's first quarter 2017 GDP expanded by 6.6% y/y, compared to 4.4% y/y in the same period in 2016. On quarter on quarter basis the economy grew by an improved 1.5% q/q compared to 1.1% q/q in the previous quarter. This was largely due to an improvement in the oil sector, which grew by a massive 59% y/y. In contrast, the non-oil sector grew by only 3.9%.

Oil constitutes roughly 8% of the Ghanaian economy.

At a sector level, there was a very welcome improvement in agriculture (+7.6% y/y) driven mainly by better fishing (31.6% y/y). Agriculture comprises around 14.3% of the Ghanaian economy. Mining also grew by an impressive 32.8% y/y. Oil mining and production has improved considerably and has contributed very meaningfully to the overall performance of the economy.

Meanwhile inflation moderated to 12.6% in May 2017, which is significantly down from the peak of 19.2% in March 2016. Inflation is expected to moderate further in the months ahead, and additional cuts in the interest rates are expected from a recent peak of 26%. The current interest rate is 22.5%.

There are some tailwinds helping the Ghanaian economy for 2017, but challenges still persist. For example, even though the budget deficit has narrowed, revenue targets were missed by a significant margin. Overall, we expect the Ghanaian economy to achieve a growth rate of at least 5.5% in

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Kevin Lings, Laura Jones & Kganya Kgare
(STANLIB Economics Team)
Rates

These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

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<thead>
<tr>
<th>STANLIB Money Market Fund</th>
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<td>Nominal:</td>
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<td>Effective:</td>
<td>7.29%</td>
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STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 30 June 2017. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

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<tr>
<th>STANLIB Enhanced Yield Fund</th>
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<tbody>
<tr>
<td>Effective Yield:</td>
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STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 30 June 2017. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the “all-in” NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends and interest. Interest will also be exempt from tax to the extent that investors are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio’s underlying investments will determine the split between dividends and interest.

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<td>Effective Yield:</td>
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<th>STANLIB Flexible Income Fund</th>
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<td>Effective Yield:</td>
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<th>STANLIB Multi-Manager Absolute Income Fund</th>
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<tr>
<td>Effective Yield:</td>
<td>6.28%</td>
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Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. CIS can engage in borrowing and scrip lending. Commission and incentives may be paid and if so, would be included in the overall costs.” The above quoted yield will vary from day to day and is a current yield as at 30 June 2017.

For the STANLIB Extra Income Fund, Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down.
Disclaimer

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