Weekly Investment Update

16 November 2016

PSG Wealth

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Market moves

Performance: 04/11/2016 to 10/11/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	2.50
Ind/Financials TR ZAR	0.13
Ind/Industrials TR ZAR	0.91
Financials&Indl 30 TR ZAR	0.66
Ind/Basic Materials TR ZAR	8.99
Gold Mining TR ZAR	-5.06
SA Listed Property TR ZAR	-2.23
Beassa ALBI TR ZAR	-2.64
Commodities	
Oil Price Brent Crude PR	-1.10
LBMA Platinum AM PR USD	0.91
Gold London AM Fixing PR USD	-0.94

The week ahead

Domestic

23 Nov — Core inflation rate

23 Nov — Inflation rate

International

17 Nov — UK: Retail sales

17 Nov — EA: Monetary policy meeting

Macro

United States

US government debt prices continued to fall on Monday with the yield on the 10-year US Treasury touching 2.2%, the highest since January. The bond selloff intensified after Trump's victory last week, amid rising expectations that a fiscal boost and tax cuts under Trump's presidency will raise inflation and make the Fed tighten faster than expected. The 30-year US Treasury yield reached 3%, also the highest since January.

Cyprus

Moody's upgraded its outlook for Cyprus' sovereign credit rating to positive from stable and affirmed the country's long-term foreign credit rating at B1.

Russia

The Russian economy shrank by 0.4% yoy in the third quarter of 2016, following 0.6% fall in the previous period. It was the smallest contraction in seven quarters. Russia remains stuck in recession, led by low oil prices, and sanctions over Ukraine that closed access to capital markets.

Markets*

Best performer

For the week was Kumba Iron Ore with a return of 27%. Glencore was second with a 22% return for the same period.

Worst performer

Harmony Gold was the worst performer for the week with a loss of 16%. Followed by Massmart with a 14% drop for the week.

Sectors

The best performing sector for the week was industrial metals with a return of 14.7% for the week. The sector representing non-life insurance was the worst performing sector for the week with an 8.2% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

Macro note

S&P predicts hard Brexit and fresh downgrade for UK

Britain is in store for a hard Brexit that will hit the UK economy and lay bare the deep divisions in British society, a leading ratings' agency has warned.

In a bleak assessment of the UK's prospects following the EU referendum, S&P Global Ratings said Britain was a diminishing global economic power on the verge of losing the ability to freely export goods and services to the EU. S&P said the UK was at risk of a further downgrade, following its unusual decision to slash the rating by two notches from the top AAA rating to AA, following the 23 June referendum.

Moritz Kraemer, S&P chief sovereign credit officer, said: "Far from healing festering wounds, as was then Prime Minister David Cameron's intention, the referendum has deepened and laid bare the schisms in British society. Most of the economic impact will hit Britain itself. The second-round effect on the world economy is likely to be more limited, as the UK economy accounts for a small and shrinking share of global GDP."

The agency cited data from the IMF, which suggested the UK's share of the world economy will shrink from about 5% in 1980 to just over 3% in 2020. Kraemer said: "It is hard to fathom how a rather hard Brexit can be avoided unless both sides become much more flexible than they appear today."

S&P was the last of the three main ratings agencies to strip the UK of its prestigious triple-A rating. Moody's and Fitch delivered the blow in 2013.

United Kingdom credit rating

Agency	Rating	Outlook	Date
Fitch	AA	negative	28 Jun 2016
S&P	AA	negative	27 Jun 2016
Moody's	Aa1	negative	24 Jun 2016
DBRS	AAA	stable	18 Jul 2014

Source: Trading Economics

Bottom line

The PSG Wealth global solutions do not make use of funds that invest exclusively in any specific region, but use funds with a total global footprint in order to maximize the advantages of diversification.

The different fund managers have the freedom to change their regional exposure to minimise the regional specific risks. They will, however, maintain their exposure to those selected regional companies that are immune to these macro risks and still offer exceptional value.

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Market note

Middle East operations weigh on Mediclinic

Mediclinic produced results below expectations, as a tough regulatory environment in the Middle East weighed on its earnings. The results from Southern Africa and Switzerland were in line with expectations.

Mediclinic International released their interim results which showed that the EBITDA margin fell to 17.1% compared to 19.7% last year. Further a 26% decrease in half-year earnings per share was recorded. Reasons behind its declining earnings include the issue of shares to acquire Al Noor and an increasingly tough regulatory environment in the Middle-East.

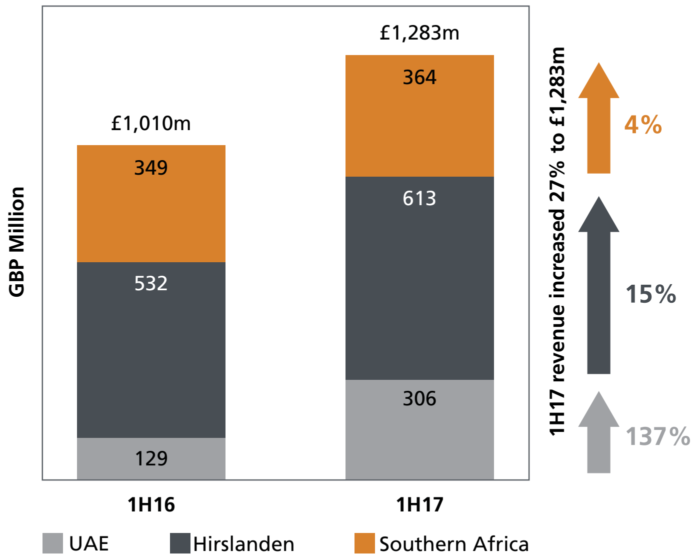
In October last year, Mediclinic acquired Al Noor for around £1.4 billion (R23 billion) – doubling its presence in the Middle-East and diversifying further outside of South Africa. In July big amendments were made to Abu Dhabi's health insurance programme called Thiqa by the health authority – stipulating that patients will pay more for healthcare at private facilities, in a bid to promote the use of state hospitals. Thiqa cardholders will now pay 20% of the cost of treatment at private hospitals – previously the plan fully covered the cost of all procedures at private healthcare facilities.

Furthermore, the Thiqa plan will only cover 50% of the cost if patients seek medical services outside Abu Dhabi (including Dubai and the Northern Emirates). In cases where specialised services and treatments are unavailable at healthcare facilities within the emirate of Abu Dhabi, however, the Thiqa plan will cover 100% of the treatment cost.

As a result of the regulatory changes, Mediclinic's CEO Danie Meintjes says the group has seen a significant reduction in Thiqa patient volumes since the amendment to the state's health plan. Mediclinic's Middle East operations – which includes five hospitals and 27 clinics with 687 beds – saw Thiqa outpatient volumes as a percentage of total patients fall to 14.7% from 21.6%. And inpatient Thiqa volumes as a percentage of total patients fell to 12.3% from 19.9%.

The introduction of the Thiqa co-payment has further impacted the group's near-term expectations for Thiqa revenues. Assuming current Thiqa volumes persist, the group expects an additional impact to full year revenues of around AED150m, leading to an overall decline in the Middle East revenues.

Mediclinic International result highlights



*UAE includes Al Noor results.

Source: Mediclinic International 2016/17 interim results presentation

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Previous publications

Daily

16 November 2016

Weekly

09 Nov	10 Aug	25 May	16 Mar
02 Nov	02 Aug	18 May	09 Mar
26 Oct	27 Jul	11 May	01 Mar
12 Oct	13 Jul	04 May	23 Feb
05 Oct	06 Jul	26 Apr	11 Dec
28 Sep	29 Jun	20 Apr	20 Nov
14 Sep	22 Jun	12 Apr	16 Nov
07 Sep	15 Jun	05 Apr	
31 Aug	08 Jun	30 Mar	
17 Aug	01 Jun	23 Mar	

Monthly

Oct	2016	Nov	2015
Sep	2016	Oct	2015
Aug	2016	Sep	2015
Jul	2016	Aug	2015
Jun	2016	July	2015
May	2016	Jun	2015
Apr	2016	May	2015
Mar	2016		
Feb	2016		
Dec	2015		

Quarterly

Spring	2016
Winter	2016
Autumn	2016
Summer	2015
Spring	2015

Special Reports

- US election
- Market PE's
- Domestic local government elections
- Brexit vote
- Cash vs Long-term instruments
- S&P June 2016 rating decision explained
- Fed Dec 2015 interest rate hike
- Impact of political moves on investments
- FoF fees small compared to actual gains
- SARB hikes rates
- Weak PMI support foreign diversification