BALONDOLOZI MODEL ABSOLUTE RETURN FUND
July 31, 2018

BALONDOLOZI Investment Services

FACT SHEET

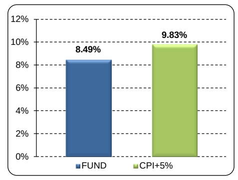
Fund Description

This is an Asset Allocation Fund that blends strategies employed in the Balondolozi Money Market, Bonds, and Active Equity Funds. The Fund is Reg.28 compliant.

Fund Objectives

To outperform CPI (inflation) plus 5% over a rolling 3 year period. The equity benchmark is the FTSE JSE CAPI 40 Index, the bond benchmark is the All Bond Index (ALBI), the property benchmark is the South Africa Listed Property Index (SAPY), the international benchmark is 60% the MSCI World Index in Rands and 40% the Overnight US Libor Rate Index in Rands, and the cash benchmark is STeFi Call.

Investment Performance



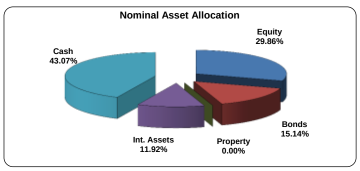
	Fund	Benchmark	Alpha
Cumulative Performance			
1 month	0.62%	0.42%	0.20%
3 months	3.57%	1.89%	1.68%
6 months	4.85%	5.15%	-0.31%
YTD	5.89%	5.98%	-0.08%
1 year	9.50%	9.21%	0.29%
3 years	7.77%	9.66%	-1.90%
Calendar Year Performance			
2015	6.28%	11.60%	-5.32%
2016	5.23%	11.91%	-6.68%
2017	11.98%	8.93%	3.05%

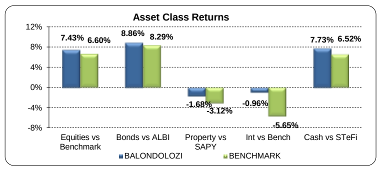
	Equities	Capi 40	Bonds	ALBI	Property	SAPY	Int. Assets	Int. Benmk	Cash	STeFi
1 month	-0.33%	0.99%	2.18%	2.42%	0.00%	-0.50%	-1.67%	-0.62%	0.82%	0.55%
3 months	2.21%	-0.68%	2.89%	-0.76%	0.00%	-9.62%	3.55%	8.99%	1.89%	1.60%
6 months	0.91%	-0.27%	5.78%	4.54%	-8.70%	-12.92%	4.12%	5.14%	4.49%	3.22%
YTD	1.95%	0.29%	6.87%	6.48%	-19.09%	-21.55%	5.54%	4.20%	5.66%	3.83%
1 year	10.59%	8.08%	10.99%	11.18%	-9.47%	-13.35%	4.14%	-1.19%	9.25%	6.67%
3 years	5.65%	5.75%	7.87%	8.25%					8.02%	6.82%
2015	9.41%	6.16%	-0.64%	-3.93%					6.73%	5.60%
2016	-1.33%	2.87%	14.39%	15.45%					9.83%	7.28%
2017	16.47%	18.54%	9.37%	10.22%	20.30%	17.15%	-1.64%	-9.91%	5.78%	6.86%

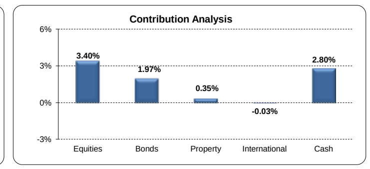
Inception: 1-Oct-2014

Inflation figures lagged by 1 month.

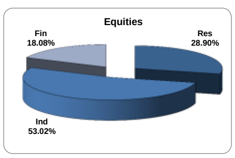
Fund Analysis

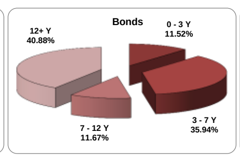


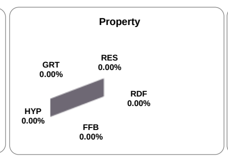


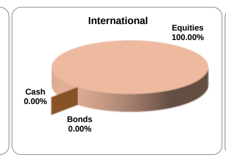


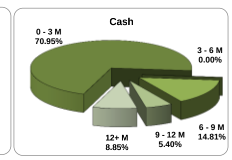
Sector Analysis











Investment Risk Measures

	Fund	Benchmark	ALSI	ALBI	SAPY	International
Return	8.49%	9.83%	6.60%	8.29%	-3.12%	-5.65%
Sharpe Ratio	0.32	2.08	0.01	0.20		
Sortino Ratio	0.72	N/A	0.01	0.30		
Max Drawdown	-2.65%	-0.27%	-4.34%	-6.67%	-9.91%	-12.86%
Drawdowns	13	1	16	15	8	16

Tracking Error

Equities	3.96%	
Bonds		2.75%
Property		
International		

Benchmark Comparisons

	Fund	Benchmark
Money Market Duration	78.43	90.00
Bond Duration	6.21	7.31
Banks	11.02%	11.02%
Chemicals	0.00%	0.00%
Consumer Goods	0.00%	0.00%
Diversified Reits	0.00%	0.00%
Equity Investment Instruments	0.00%	0.00%
Forestry & Paper	6.98%	6.98%
General Industrials	5.00%	5.00%
Health Care	0.00%	0.00%
Insurance	4.03%	4.03%
Investment Services	0.00%	0.00%
Media	14.85%	14.85%
Mining	0.00%	0.00%
Pharmaceuticals	1.63%	1.63%
Real Estate	0.00%	0.00%
Retailers	0.00%	0.00%
Telecommunications	5.18%	5.18%

Fund Comment

Lingering trade war concerns continue to weigh on markets at the start of the third quarter as escalating trade tensions remain the theme for July.

Equities returned 0,15% (FTSE/JSE SWIX 40); nominal bonds delivered 2,42% (ALBI); inflation linked bonds returned 0,26% (CILI) and cash returned 0,53% as indicated by the STeFi Call Index in Jul 2018. Within equities; the financial services sector delivered 6,56% (FINI 15), the industrial sector -2,22% (INDI 25) and the resources sector -1,4% (RESI 20).

During the same period; the yield for the R186 (benchmark bond) fell by -26 basis points to end the month at 8,58% whilst the historic price to earnings (P/E) ratio for the FTSE/JSE SWIX Top 40 drifted higher by +0,11 points to close at 20,35. Concurrently, the near term volatilities ticked down by -0,38% (SAVI) to 16,79% whilst medium-term break-evens tightened by -0,3% to 5,3%. Yields for 12-month negotiable certificates of deposits fell by -5,8 bps to close the month at 7,98%. Foreigners bought assets worth R1,7 billion as markets rallied during the month of Jul 2018.

Overall, the fund delivered 0.64% for the month. Equities returned -0.33%; Cash returned 0.82%; Bonds returned 2.18% and international assets delivered -1.67%. Over-weights in counters BTI & SAP contributed significantly to the alpha for June as markets were happy with BTI's half year results. Whilst over weights in AGL and BVT detracted alpha, further gains were eroded as DSY share price rose and the fund held an underweight position in the stock. AGL saw its share price decline as they announced that the Minas Rio pipeline will not be in use as it required some maintenance and as a result shareholders can expect an estimated decline of US$300-400 million from EBITDA. In line with poor economic sentiment for South Africa, BVT fell accordingly. On the fixed interest front, the returns for bonds were lower than the benchmark due to the rally in the yields when the fund had a short position versus the benchmark. Cash outperformed due to a long duration stance, whereby yield pickup instruments were bought. International assets were negative as the rand strengthen for the second half of the month.

After registering a value of 4,4% in May 2018, headline inflation for Jun 2018 was 4,6% (consensus 4,8%). On the same note, the price for brent crude oil fell by -6,54%, to end the month at $74,06 per barrel and the Rand appreciated against the Dollar by 3,33% to close at R13,28 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) declined by -1,9 index points to reach 47,9 in Jun 2018.

On the global front, US dollar traded sideways as the Fed Chair Powell reiterated that the Fed will continue to raise rates steadily. Trade wars between the US and China seem to continue but, thankfully, has calmed down between the US and EU following the agreement reached between US President Donald Trump and the European Union to negotiate on trade. On the economic side of things, initial jobless claims rose by 3,000 during the week ending on 30 June to reach 231,000 however these numbers remained near multi-decade lows. US inflation indicators suggest increased price pressures with headline CPI continually printing above the 2% level at 2.8%. Demand pull inflation seems to be accelerating as non-farm payroll numbers for June were higher than market expectations (213000 vs 915 000). Wage growth in June was 2018's strongest so far at 4.89% with the official unemployment rate at an 18-year low. Finally, US economic growth accelerated to an annual rate of 4.1% during the second quarter, compared with a revised 2.2% in the first quarter. Euro area's economic momentum gained steam in June. Euro-zone PMI rose from 54.1 in May to 54.8 in June; ending the indicator's downward fall since January 2018 and signalling expanding business activity. Eurozone growth reflected a solid 2.5% year-on-year growth aligned with June expectations. Mixed economic data came from China, while China's GDP growth in the second quarter and fixed asset investment in June matched forecasts at 6.5% and 6% respectively. June retail sales beat expectations by 0.2% at 9% and industrial production printed 6% for the month missing expectations of 6.5%.

Locally the market largely took its cues from global events and concerns over the health of the local economy continued. The central bank announced that the main lending rate, the repo-rate, was unchanged at 6.5% but risks to inflation were rising and the outlook for economic growth had worsened. The South African Reserve Bank downgraded growth forecast for 2018 from 1.7% to 1.2%. Boosting sentiment, however, was the important outcome from the BRICS meeting, where China pledged to inject nearly $15bn into South Africa's economy, spread across the parastatals as well as various infrastructure projects. On the economic side, manufacturing grew 2.3% year-on-year in May, ahead of expectations by 0.6%. Despite improved manufacturing output, sentiment remains poor hinting at slow growth going forward. Headline consumer inflation quickened, although less than expected, to 4.6% year-on-year in June from 4.4% in May.

Given this backdrop, valuations still suggest that equities are stretched whilst models suggest that bonds are fairly priced. Thus, the fund will maintain its defensive stance in equities and bonds. The fund decreased bonds exposure to 15%. Since credit spreads are widening, the fund will look to maintain exposure in high quality names to benefit from the yield pick-up whilst minimising the risk of widening spreads noticed in lower rated credits. Going forward, the managers will not hesitate to take short term opportunities offered by the volatility in the markets.

Fees

0.20%: R0-R250m

0.15%: R250-R500m

0.10%: +R500m