**BALONDOLOZI MODEL BOND FUND**
**July 31, 2018**

BALONDOLOZI Investment Services

## FACT SHEET

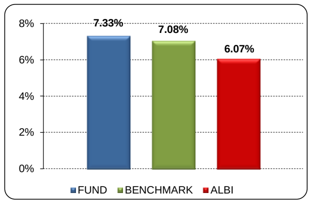
**Fund Description**

This fund aims to out-perform its benchmark, the All Bond Index, by 1% through active and quantitatively managed exposure via RSA stock and investment grade high yield credit bonds. Through the active management of duration which can vary by 2 years relative to the benchmark, alpha generation is achieved. Quantitative techniques such as the use of derivatives are employed to fine tune strategy and hedge risk factors. The fund is Reg.28 compliant.

**Fund Objectives**

The fund seeks to out-perform the All Bond Index by 1% per annum after fees.

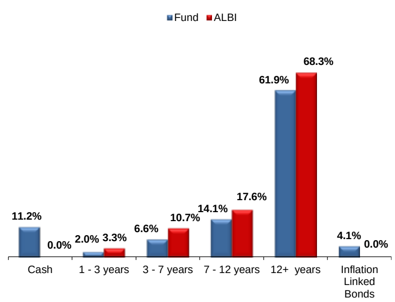
**Investment Performance**




| | Fund | Benchmark | ALBI | Alpha |
|---|---|---|---|---|
| Cumulative Performance | | | | |
| 1 month | 2.41% | 2.54% | 2.42% | -0.13% |
| 3 months | 0.41% | -0.51% | -0.76% | 0.92% |
| 6 months | 5.05% | 4.94% | 4.54% | 0.11% |
| YTD | 6.93% | 6.95% | 6.48% | -0.02% |
| 1 year | 12.42% | 12.18% | 11.18% | 0.24% |
| 3 years | 10.52% | 9.25% | 8.25% | 1.26% |
| Calendar Year Performance | | | | |
| 2015 | -0.80% | -2.93% | -3.93% | 2.12% |
| 2016 | 17.53% | 16.45% | 15.45% | 1.08% |
| 2017 | 11.87% | 11.22% | 10.22% | 0.66% |

Inception: 1-May-2013

**Fund Sector Breakdown**




**Investment Risk Measures**

| | Fund | ALBI |
|---|---|---|
| Return | 7.33% | 6.07% |
| Sharpe Ratio | 0.16 | 0.00 |
| Sortino Ratio | 0.29 | -0.01 |
| Max Drawdown | -4.49% | -6.67% |
| Drawdowns | 26 | 26 |

**Benchmark Comparisons**

| | Fund | ALBI |
|---|---|---|
| Bond Duration | 6.79 | 7.31 |
| % in RSA stock | 70% | 94% |
| Yield | 9.28 | 9.05 |
| **Sector Allocation** | | |
| Cash | 11.22% | 0.00% |
| 1 - 3 years | 2.02% | 3.32% |
| 3 - 7 years | 6.61% | 10.73% |
| 7 - 12 years | 14.11% | 17.63% |
| 12+ years | 61.93% | 68.31% |
| Inflation Linked Bonds | 4.11% | 0.00% |

**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.

Nominal government bonds returned 2.53% (GOVI); vanilla credit bonds delivered 2.1% (OTHI); inflation linked bonds returned 0.26% (CILI) and cash returned 0.53% as indicated by the STeFi Call Index in Jul 2018. Overall, the ALBI (All Bond Composite Index) returned 2.42% for the month. During the same period; the yield for the R186 (benchmark bond) fell by -26 basis points to end the month at 8.58%. Concurrently, the R186/R207 spread ticked down by -12 basis points to 121 bps whilst medium-term break-evens tightened by -0.3% to 5.3%. Foreigners bought bonds worth R7.5 billion as yields rallied during the month of Jul 2018.

Overall, the fund delivered 2.41% for the month. The returns were in line with the benchmark as the fund took a neutral position as bonds showed a bit of value following a market selloff in June and with July being a big coupon 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, economics and valuation indicators suggest that interest rates have upside risks while momentum indicate that bonds have both downside and upside risks. Hence, the fund adopted a short position in bonds towards month end as market rally seem to have fully priced all the positive news related to economic trade and policies and coupon reinvestment. However, the managers will not hesitate to take short term opportunities offered by the volatility in the markets. Since credit spreads are tightening, the fund will continue increasing the weight on high quality names to benefit from the yield pick-up whilst minimising the risk of widening spreads.

**Fees**

0.20%: R0-R250m
0.15%: R250-R500m
0.10%: +R500m