BALONDOLOZI MODEL BOND FUND
October 31, 2017

BALONDOLOZI Investment Services

FACT SHEET

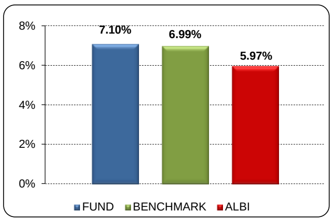
Fund Description

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.

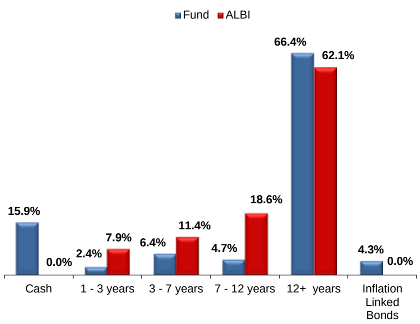
Investment Performance



	Fund	Benchmark	ALBI	Alpha
Cumulative Performance				
1 month	-1.80%	-2.21%	-2.30%	0.42%
3 months	0.28%	0.04%	-0.20%	0.24%
6 months	2.21%	1.80%	1.32%	0.41%
YTD	6.71%	6.07%	5.34%	0.63%
1 year	6.50%	6.04%	5.04%	0.47%
3 years	7.90%	6.61%	5.61%	1.29%
Calendar Year Performance				
2014	8.18%	11.15%	10.15%	-2.97%
2015	-0.80%	-2.93%	-3.93%	2.12%
2016	17.53%	16.45%	15.45%	1.08%

Inception: 1-May-2013

Fund Sector Breakdown



Investment Risk Measures

	Fund	ALBI
Return	7.10%	5.97%
Sharpe Ratio	0.14	-0.01
Sortino Ratio	0.24	-0.01
Max Drawdown	-4.49%	-6.67%
Drawdowns	22	22

Benchmark Comparisons

	Fund	ALBI
Bond Duration	6.44	6.93
% in RSA stock	67%	94%
Yield	9.45	9.47
Sector Allocation		
Cash	15.85%	0.00%
1 - 3 years	2.44%	7.85%
3 - 7 years	6.37%	11.45%
7 - 12 years	4.66%	18.58%
12+ years	66.41%	62.12%
Inflation Linked Bonds	4.26%	0.00%

Fund Comment

In October, the torrid MTBPS led to a sell-off in bonds and sharp outflows of foreign capital whilst equities benefited from the depreciating rand. Global markets were mixed on the balance of risks between developments on the stimulus U.S. tax reforms and the shift in global monetary policy environment.

Nominal government bonds returned -2.35% (GOVI); vanilla credit bonds delivered -2.17% (OTHI); inflation linked bonds returned -0.6% (CILI) and cash returned 0.57% as indicated by the STeFi Call Index in Oct 2017. Overall, the ALBI (All Bond Composite Index) returned -2.3% for the month. During the same period; the yield for the R186 (benchmark bond) rose by +54 basis points to end the month at 9.09%. Concurrently, the R186/R204 spread ticked up by +10 basis points to 170 bps whilst medium-term break-evens widened by +0.39% to 5.91%. Foreigners sold bonds worth -R10.6 billion as yields sold-off during the month of Oct 2017.

Overall, the fund delivered -1.80% for the month. The returns were higher than the benchmark due to the uptick in the yields when the fund had a short position versus the benchmark.

After registering a value of 4.8% in Aug 2017, headline inflation for Sep 2017 was 5.1% (consensus 5%). On the same note, the price for brent crude oil rose by 6.66%, to end the month at $61.37 per barrel and the Rand depreciated against the Dollar by -4.19% to close at R14.13 per dollar. The seasonally adjusted Kagiso Purchasing Managers' Index (PMI) nudged up by 0.9 index points to reach 44.9 in Sep 2017.

Data from the US and the Euro zone signalled a positive global growth environment. Despite hurricanes, US economy expanded as reflected in the third quarter GDP first estimate printing at 3% QoQ annualized growth. Meanwhile, the YoY consumer inflation rate came in higher than a previous figure of 1.9% to print at 2.2% (the first figure above the Fed inflation target of 2% in five months). The unemployment rate remained at 4.2%. US retail sales rebounded from a negative territory of -0.2% to 1.6% MoM. Manufacturing and services PMIs also remained at expansionary levels. Developments on tax reforms and the speculations on the next Fed chair also gained momentum and fuelled expectations of a shift to expansionary fiscal policy and tightening on the monetary policy front. In the Eurozone, the third quarter first GDP estimate printed at 0.5% QoQ as expected, meanwhile manufacturing PMIs recorded a strong figure of 58.1. Despite the stable growth figures from Euro-zone, the ECB announced a gradual reduction in QE asset purchases; the still dovish ECB increases the economic stimulus in line with the loose Japan monetary policy.UK economic growth numbers also pointed to a stronger global economy with CPI YoY and GDP QoQ figures printing at 3% and 0.4% respectively. On the same note, China PPI YoY figure came out at 6.9% beating estimates of 6.3%. The upward trend in oil prices resulting from optimism that OPEC and its allies will extend output cuts also puts upward pressure on global inflation.

Locally; core inflation remained below the reserve bank upper target band printing at 4.6%.Contrary to a stable core CPI, PPI printed at 5.2% from 4.2% in July, and CPI YoY also came at 5.1% beating estimates of 5%. The trade balance surprised to the downside coming in below consensus at R4bn (Consensus: R10bn), and below the previous month at R5.9bn. Manufacturing data showed marginal improvement increasing from -1.4% to 1.5% YoY, the monthly budget data also showed a sharp rebound printing at -R3.5bn. However, the latest MTBPS suggest that this might not be sustainable. Meanwhile the unemployment rate remaining at the highs of 27.7% reflects that structural issues persist and that the economy remains under a low growth trap despite improved global growth prospects. The rand closed the month lower against the dollar following a medium term budget release which reflected fiscal slippage. The rand selloff receded after having touched R14.3575 to close the month at around R14.13 to the dollar.

Given this backdrop, momentum indicators suggest that the interest rates have both downside and upside risks while valuations indicate that long term bonds are slightly undervalued. Current global and local economics suggest higher interest rates environment, hence the fund adopted a short position in bonds due to the upside risks in yields within the current political environment. 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

0.30% : R0 - R250m
0.25% : R250m - R500m
0.20% : +R500m