Skyblue Fund Feedback

Dissecting July 2019

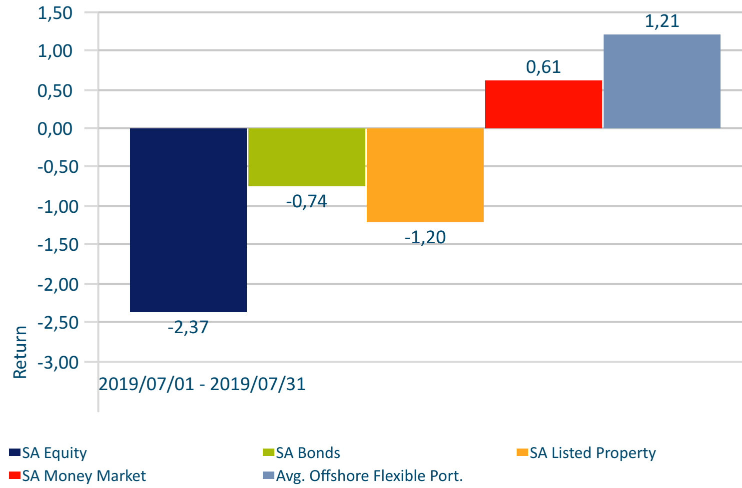
LinkedIn Skyblue Fund Managers (Pty) Ltd
Facebook Skyblue Fund Managers
Website www.skybluefm.com

The Rand started the month on a stronger path, but towards month end moved sharply weaker as further bailout plans for Eskom were announced. The situation was exacerbated by Moody's comments hereon, which caused ratings downgrade concerns, and Fitch adjusting their SA outlook to Negative. Furthermore, continued internal conflict within the ruling party of South Africa is causing an unnecessary distraction from urgently required attention to growth and economic initiatives. Offshore economics kept the Rand from further weakness, luckily, as the US Fed met market expectations of a 25bps cut to 2.25%. The cut was received with disappointment however, as two of the FOMC members voted for no cut and the tone of the announcement seemed more hawkish than anticipated. Market participants clearly wanted/expected more.

On the economic front, matters did not go much better, as the local unemployment rate came in at an all time high of 29% for Q2 2019, moving up from 27.6% in the previous quarter. The main areas of gains in employment were in trade, services, and construction industries, while private households, transport, and mining all recorded large declines. Some of the more frequent economic figures provide relief at least - retail sales figures outperformed expectations with a 2.2% rise year-on-year, inflation remained unchanged at the 4.5% midpoint of the SARB target band, and the MPC decided to cut interest rates by 25bps to move the repo rate to 6.50%.

With all of these factors in play, July was a volatile month for local investors, with South Africa in the end being the loser. SA Equity took a 2.37% dip over the month, as large cap Industrials and Resources joined the local focussed counters in losses. Financials were the worst hit however, as the big four banks lost between 5% and 10%. South African Bonds lost 0.74%, as bad news from internal political and economic factors took hold. Property also suffered, as the positive news of the interest rate cut was unable to outweigh the aforementioned headwinds. Lastly, with the relatively strong performance from US and UK markets supporting global markets, combined with the weaker local currency, the average offshore flexible portfolio offered local investors a return of 1.21% as the best asset class for the month.

Asset Class Returns - July



Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
SA Equity	2,19	5,63	5,15	12,12
SA Bonds	8,06	8,81	8,21	8,80
SA Property	0,08	-3,70	4,99	12,02
STeFI Composite ZAR	7,33	7,43	7,11	6,54
(ASISA) Global MA Flexible	9,00	6,08	8,06	11,08

*Annualised return is the weighted average compound growth rate over the period measured.

Some Food for Thought

We recently held our bi-monthly ICM meeting, and thought an update on some of our concerns, as also areas of opportunity, would be appropriate.

Starting with some of the macro variables - South Africa is in very tough position concerning economic growth, with the fiscal burden growing, unemployment moving in the wrong direction, and a continued drag from socio-economic and geopolitical issues. We, as an Emerging Market, are highly influenced by global economic health, which is currently looking relatively poor. Luckily, with low inflationary pressures both locally and globally, there is continued scope for loose/accommodative monetary policy globally, which should support both local and global growth. Our own GDP is also coming from a very low base, but the weak consumer environment and low confidence continues to detract. We therefore do not see growth surprising much to the upside of forecasts of around 1%. With no significant inflation drivers, continued pressure from the market for interest rate cuts finally resulted in the Monetary Policy Committee acting. With producers and retailers continuing to lack pricing power, the oil price being deflationary, and a continued lower for longer focus from the SARB, we expect inflation to hover around the 4% range. The MPC will likely remain cautious on the impact of any currency blowouts and the consequence of a ratings downgrade, so significant further rate cuts in the short term are unlikely, although another 25bp cut is not off the table.

Our asset class base case is shaped on our views of the above mentioned macro variables, from which we are relatively positive on equity, resources, fixed income, and property over the coming few months as they stand to benefit from the interest rate and inflation environment. We are cautious on offshore markets, inflation linked bonds, and some of the offshore focussed property counters listing locally. There are many opportunities within the local equity space where we are seeing companies with resilient sales figures, improved earnings, strong cash flow generation, and strong balance sheets. These companies have engaged in wide-scale cost cutting, and are closing or moving away from unprofitable segments. The earnings upside is thus very attractive and, at current valuations, offers attractive investment opportunities. The same applies to the listed property space, although there are various risks and the sector is definitely not a screaming buy. Most of these views are growth dependent, to which end we are looking for a pickup in consumer activity to support the investment case. In regard to fixed income, SA continues to offer highly attractive yields on income instruments for yield-seeking investors, and any weakness in the local currency improves the margin of safety for global investors. For offshore markets we are concerned with the valuations and geopolitical plays that are going on, while many of the major economic players are in growth slowdown stages. These markets offer diversification over the short term but remain extremely volatile as investors react to daily headlines, tweets, and any rumour regarding Fed moves.

So in summary - on a strategic level we are currently still favouring local risky assets based on their valuations, with positive tactical views on the assets mentioned above. We remain wary of the risks however, and monitor these as we go along.

Skyblue Fund Managers (Pty) Ltd.
7th Floor, Letterstedt House, Cnr Main and Campground Roads, Newlands, Cape Town, 7700
P.O. Box 44911, Claremont, South Africa, 7735
Tel: +2721 657 4999 | Fax: +2721 657 4988
www.skybluefm.com

Source: Morningstar Direct

Skyblue BCI Solar Flexible Fund of Funds

Global Multi Asset Flexible Allocation - More than 85% offshore

Proxy Benchmark: 60% MSCI World; 30% Barclays Global Bond Index; 10% US Cash

Fund Commentary

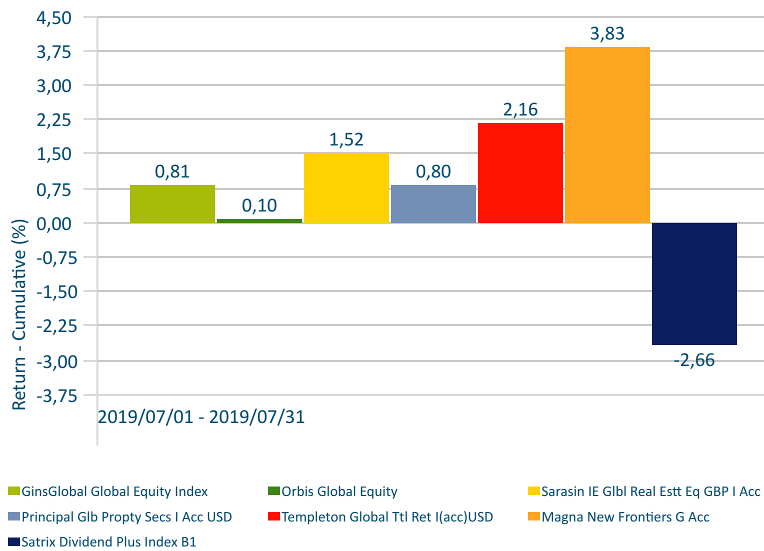
The start of the second half of the year brought another round of uncertainty. Just as it seemed we might be turning the corner with lower interest rates and an amicable trade outcome between the two dominant world economies, matters took another turn for the worse. The current uncertainty is largely driven by what appears to be no outcome from trade talks and both the US and China upping their threats and counter actions. The biggest concern however is future economic growth, as the world economy is in one of the longest business cycle expansions, and market participants are getting more and more concerned about the timing of the end of this cycle.

Solar outperformed both the sector and its own benchmark by adding 1.42% for the month. The best underlying performer was Magna New Frontiers, which appreciated by 3.83%. The worst performer was Satrix Dividend Plus Index, getting caught in the local market sell off.

The fund is now more diversified and less focused on developed market equities. Although the local High Dividend Equity exposure detracted during July it does add emerging market exposure and reduces the volatility by decreasing the correlation. We have always advocated staying away from short term noise, but currently the noise is deafening and getting louder, with Geopolitics being at the centre of the action. Managing money based on Geopolitical or Political outcomes is difficult and fraught with danger, which is why we prefer to be risk neutral by lessening the correlation, thereby in essence safeguarding the portfolio against most outcomes.

Solar has performed relatively well over the past few periods, navigating through significant market and currency volatility, but we remain slightly behind the stated benchmark. We are sticking to are strategy through these periods however, as we aim to diversify our exposure, participate in the upside, and protect on the downside. We also remain cautious of overreacting to noise, with there being an abundance of in the markets, and taking unnecessary losses.

Underlying Holdings Return - July



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	8,99	19,29	47,43	171,60
(ASISA) Global MA Flexible (Sector)	9,00	19,36	47,30	186,02
Stefi + 5% (Benchmark)	12,69	43,50	79,90	206,94

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	8,99	6,06	8,07	10,51
(ASISA) Global MA Flexible (Sector)	9,00	6,08	8,06	11,08
Stefi + 5% (Benchmark)	12,69	12,80	12,46	11,87

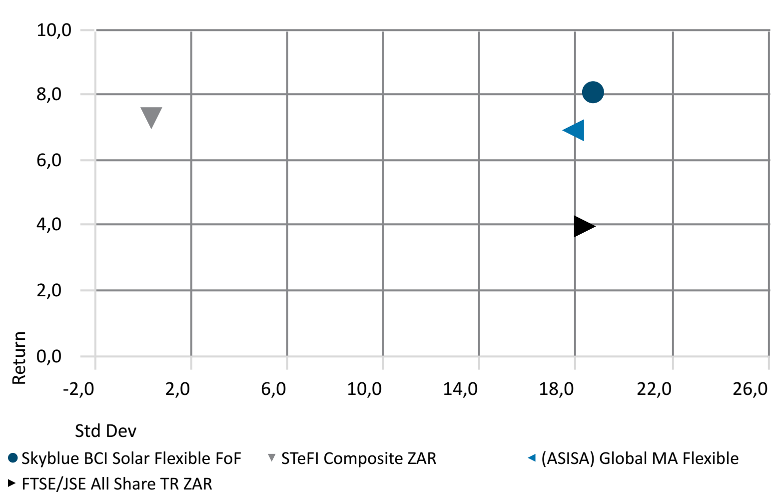
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Solar Flexible FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	-1,90%	7,08%	2,75%	2,13%	-1,80%	-0,32%	1,42%						
2018	-0,06%	-5,20%	-0,37%	6,68%	1,01%	5,68%	-1,44%	10,03%	-2,60%	-1,49%	-5,27%	-0,41%	5,51%
2017	-0,61%	-0,14%	2,84%	0,78%	-0,60%	0,02%	2,10%	-1,31%	4,82%	5,60%	-2,87%	-7,81%	2,14%
2016	1,52%	0,44%	-6,88%	-2,94%	10,81%	-7,14%	-1,87%	4,04%	-4,78%	-1,20%	3,13%	0,22%	-5,88%
2015	0,61%	2,81%	0,04%	2,33%	1,63%	-0,72%	3,17%	2,98%	3,34%	1,43%	4,18%	7,12%	32,80%
2014	-0,52%	2,77%	1,51%	1,09%	1,17%	1,42%	0,76%	-1,07%	-0,47%	-0,85%	1,71%	0,73%	8,49%
2013	5,14%	-1,61%	1,05%	-1,94%	7,81%	-6,23%	3,45%	1,08%	3,61%	2,88%	-0,78%	2,93%	17,94%
2012	4,95%	1,59%	-0,23%	1,41%	-2,56%	-0,16%	1,81%	2,50%	1,43%	3,34%	1,54%	0,90%	17,61%
2011	-0,32%	-0,94%	0,57%	1,65%	-0,04%	-2,42%	-1,17%	-2,57%	-0,91%	6,07%	0,60%	-1,03%	-0,78%
2010	-1,74%	0,52%	4,67%	0,62%	-3,96%	-0,66%	3,38%	-2,53%	4,90%	2,95%	0,39%	2,04%	10,64%
2009	1,54%	-4,36%	3,58%	2,58%	4,89%	-1,82%	5,79%	3,92%	0,57%	3,42%	0,98%	2,18%	25,39%
2008	-3,03%	2,54%	-0,74%	0,89%	1,76%	-1,44%	-4,34%	1,73%	-5,88%	-7,37%	0,06%	0,47%	-14,82%
2007											-2,01%	-1,22%	

Risk-Reward

Time Period: 2015/05/01 to 2019/07/31



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Source: Morningstar Direct

Skyblue BCI Cumulus Moderate Fund of Funds

South Africa Multi Asset High Equity Allocation - 0% - 75% South African Equities

Benchmark: Cash (SteFi) + 3%

Fund Commentary

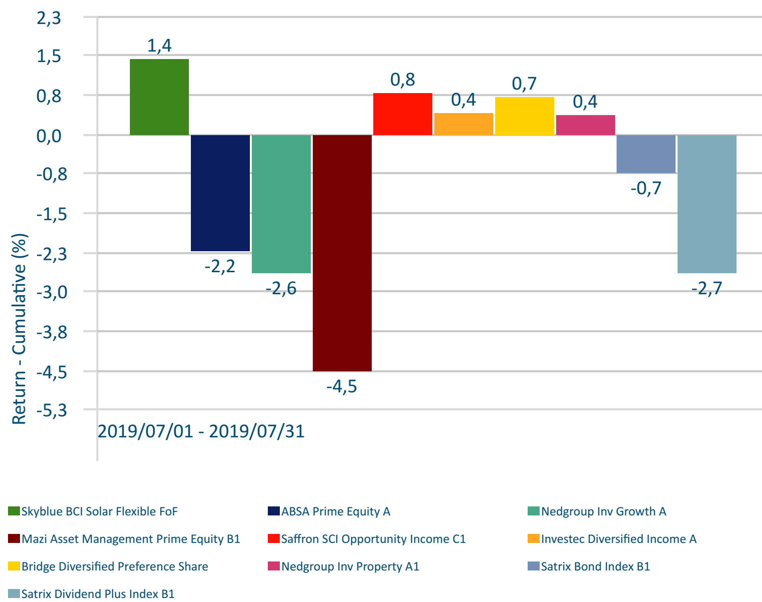
With all the volatility experienced across asset classes, local multi asset funds were negatively affected by valuation adjustments experienced in equities and listed property. Our income holdings held up throughout the month, with diversified exposures to floating rate notes, credit, and shorter duration high yield instruments working in your favour. The offshore exposure also added significantly for the month, due to the sharp currency depreciation toward month end.

The negative factors however outweighed the positive, and Cumulus declined in value by 0.93% for the month of July, slightly more than the peer group average of negative 0.78%. Our income, property, and offshore managers outperformed their respective sectors and made significant contributions to performance, however, the widespread losses across equity styles and exposures pulled down the performance from all our underlying equity managers, and subsequently pulled down the fund performance. The best performing underlying was Skyblue BCI Solar Flexible fund, posting a return of 1.4%, while the worst performing fund for the month was Mazi Prime Equity fund.

Following our bi-monthly Investment Committee Meeting in July, there are a few changes being implemented at a tactical level within the funds. Our Strategic Asset Allocation models are still pointing to a risk on allocation environment, with valuations in the equity market favouring those over bond markets at current levels, taking into consideration a relatively stable current inflation environment. As mentioned in our Food For Thought document however, we also have a relatively positive view on high yielding income instruments, based on their attractive real yield, and the prospect of potential further interest rate cuts. The fund positioning is tilted towards equities, with a relatively high exposure to high-yield cash and fixed income. We also maintain a slightly overweight position in listed property and neutral exposure to offshore markets.

Performance has been mediocre for the past few periods - it seems that every time prospects look brighter investors are hit by another negative binary or external event. We are holding to our strategy through these periods however, as we aim to diversify our exposure, participate in the upside, and protect on the downside. We also remain cautious of overreacting to noise, an abundance of which abounds in the markets at present, and taking unnecessary losses.

Underlying Holdings Return - July



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-0,72	7,40	22,38	127,79
(ASISA) South African MA High Equity (Sector)	2,33	10,48	24,69	132,75
Stefi + 3% (Benchmark)	10,54	35,46	63,41	153,26

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-0,72	2,41	4,12	8,58
(ASISA) South African MA High Equity (Sector)	2,33	3,38	4,51	8,82
Stefi + 3% (Benchmark)	10,55	10,65	10,32	9,74

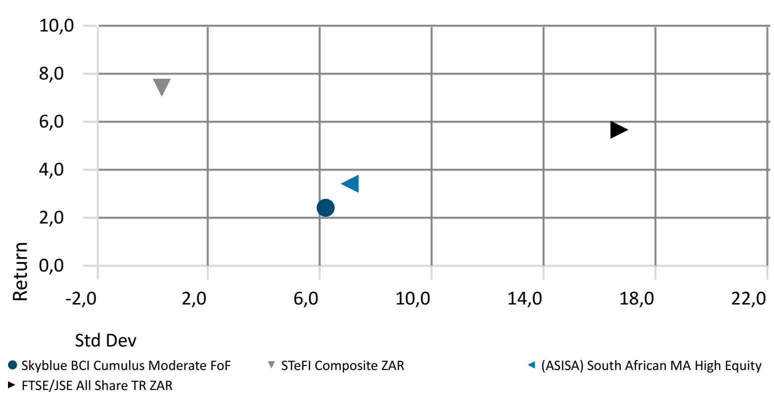
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Cumulus Moderate FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	1,93%	1,22%	1,14%	2,16%	-2,32%	0,70%	-0,93%						
2018	0,32%	-0,62%	-1,78%	2,90%	-1,12%	1,27%	0,33%	3,55%	-2,67%	-3,28%	-2,73%	0,78%	-3,25%
2017	1,50%	-0,74%	1,53%	1,05%	0,06%	-2,42%	2,82%	0,64%	0,34%	3,48%	-0,51%	-2,45%	5,24%
2016	-1,36%	0,35%	1,78%	0,84%	2,87%	-2,07%	0,38%	1,41%	-0,69%	-1,55%	1,58%	0,82%	4,31%
2015	1,62%	2,23%	0,44%	1,48%	-0,46%	-0,56%	0,86%	-0,35%	0,22%	2,58%	-0,12%	0,94%	9,19%
2014	-0,26%	1,52%	1,46%	1,40%	0,84%	1,29%	0,47%	-0,99%	0,39%	-0,25%	1,32%	1,12%	8,59%
2013	5,39%	-0,30%	2,00%	-0,36%	6,83%	-3,87%	2,79%	1,47%	3,08%	2,05%	-0,52%	2,36%	22,51%
2012	2,87%	0,71%	0,45%	0,93%	-1,25%	0,65%	1,94%	2,87%	0,64%	2,47%	2,23%	1,01%	16,58%
2011	0,45%	0,19%	-0,22%	0,54%	1,07%	-1,03%	-0,52%	0,19%	0,34%	3,95%	0,79%	0,19%	6,05%
2010	0,28%	1,39%	1,56%	0,83%	-1,44%	-0,12%	1,74%	-0,33%	1,78%	1,26%	0,25%	1,25%	8,75%
2009	1,03%	-1,81%	2,41%	1,20%	1,22%	-0,46%	3,63%	2,00%	0,05%	2,63%	-0,32%	1,26%	13,48%
2008	-1,28%	2,27%	0,01%	0,22%	0,52%	-1,02%	-1,36%	2,04%	-1,54%	-2,51%	1,04%	0,22%	-1,50%
2007											-0,75%	-0,92%	

Risk-Reward

Time Period: 2016/08/01 to 2019/07/31



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Source: Morningstar Direct

Skyblue BCI Kimberlite Cautious Fund of Funds

South Africa Multi Asset Low Equity Allocation - 0% - 40% South African Equities

Benchmark: Cash (SteFi) + 1%

Fund Commentary

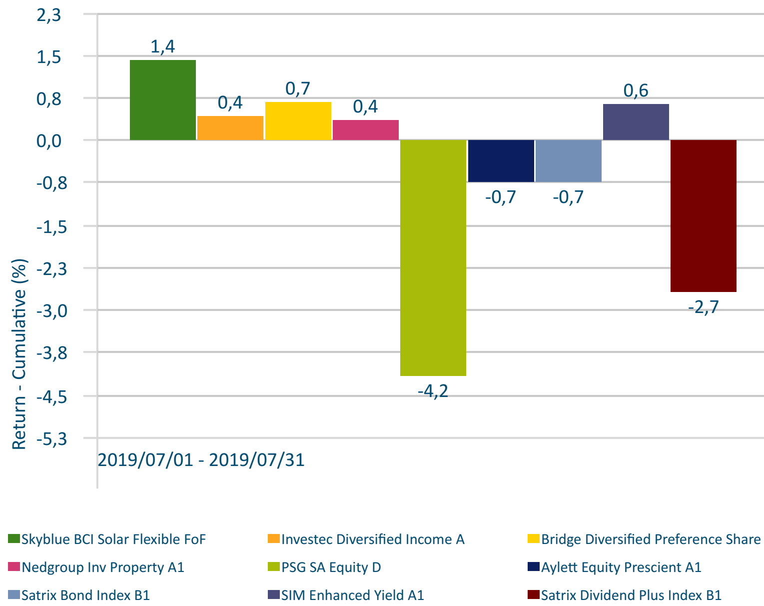
With all the volatility experienced across asset classes, local multi asset funds were negatively affected by valuation adjustments experienced in equities and property. Our income holdings held up throughout the month, with diversified exposures to floating rate notes, credit, and shorter duration high yield instruments working in your favour. The offshore exposure also added significantly for the month, due to the sharp currency depreciation toward month end.

The negative factors however outweighed the positive, and Kimberlite declined in value by 0.31% for the month of July, slightly more than the peer group average of negative 0.13%. Our income, property, and offshore managers outperformed their respective sectors and made significant contributions to performance, however, the widespread losses across equity styles and exposures pulled down the performance from all our underlying equity managers, and subsequently pulled down the fund performance. The best performing underlying was Skyblue BCI Solar Flexible fund, posting a return of 1.4%, while the worst performing fund for the month was PSG SA Equity fund.

Following our bi-monthly Investment Committee Meeting in July, there are a few changes being implemented at a tactical level within the funds. Our Strategic Asset Allocation models are still pointing to a risk on allocation environment, with valuations in the equity market favouring those over bond markets at current levels, taking into consideration a relatively stable current inflation environment. As mentioned in our Food For Thought document however, we also have a relatively positive view on high yielding income instruments, based on their attractive real yield, and the prospect of potential further interest rate cuts. The fund positioning is tilted towards equities, with a relatively high exposure to high-yield cash and fixed income. We also maintain neutral exposure to property and a small overweight to offshore markets.

Performance has been mediocre for the past few periods - it seems that every time prospects look brighter investors are hit by another negative binary or external event. We are holding to our strategy through these periods however, as we aim to diversify our exposure, participate in the upside, and protect on the downside. We also remain cautious of overreacting to noise, an abundance of which abounds in the markets at present, and taking unnecessary losses.

Underlying Holdings Return - July



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-1,71	8,12	19,18	96,48
(ASISA) South African MA Low Equity (Sector)	5,13	16,00	32,42	116,19
Stefi + 1% (Benchmark)	8,40	27,73	48,15	108,18

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-1,71	2,64	3,57	6,99
(ASISA) South African MA Low Equity (Sector)	5,13	5,08	5,78	8,02
Stefi + 1% (Benchmark)	8,41	8,51	8,18	7,61

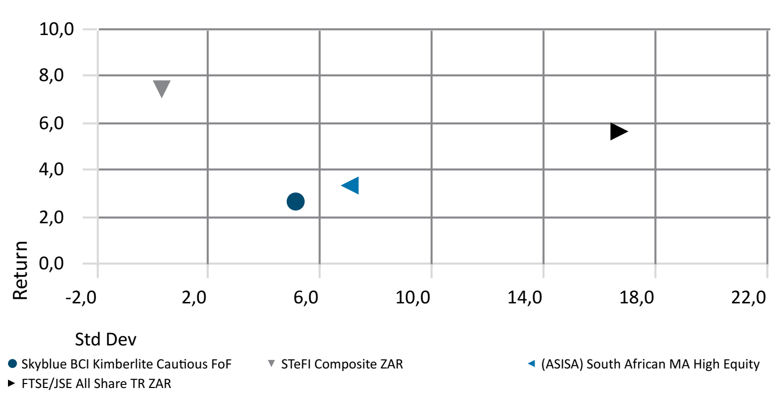
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Kimberlite Cautious FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	1,50%	-0,10%	0,38%	1,49%	-1,42%	-0,20%	-0,31%						
2018	0,63%	0,01%	-1,03%	2,04%	-0,72%	0,82%	0,46%	2,98%	-1,82%	-1,47%	-2,78%	0,17%	-0,85%
2017	0,93%	-0,20%	1,15%	0,46%	-0,27%	-1,30%	1,96%	0,45%	0,99%	2,37%	-0,57%	-1,12%	4,86%
2016	-0,61%	0,49%	1,74%	0,99%	1,84%	-0,99%	0,61%	1,10%	-0,14%	-0,94%	1,73%	0,89%	6,85%
2015	0,78%	1,26%	0,01%	1,10%	-0,27%	-0,68%	0,71%	-0,64%	-0,07%	2,08%	-0,24%	0,98%	5,11%
2014	0,34%	0,15%	1,18%	1,33%	0,48%	1,12%	0,43%	-0,80%	-0,23%	-0,64%	1,02%	1,42%	5,94%
2013	3,70%	0,64%	1,96%	1,05%	1,89%	-1,47%	1,06%	-0,05%	2,03%	1,09%	-0,13%	1,74%	14,28%
2012	1,51%	0,55%	0,87%	0,66%	-0,14%	0,72%	1,76%	2,42%	0,04%	1,28%	1,81%	1,10%	13,31%
2011	0,33%	0,09%	0,01%	1,13%	0,95%	-0,56%	-0,21%	0,62%	1,34%	2,24%	1,14%	0,18%	7,49%
2010	1,10%	1,26%	1,15%	0,77%	-1,55%	0,28%	2,00%	-0,29%	1,91%	0,88%	0,21%	1,11%	9,15%
2009	0,91%	-1,30%	2,50%	1,33%	0,83%	-0,68%	2,99%	0,93%	-0,41%	2,34%	-0,75%	1,08%	10,11%
2008	0,22%	1,81%	0,72%	-0,47%	0,32%	-0,31%	0,57%	2,02%	-0,38%	-1,50%	1,82%	0,18%	5,05%
2007											-0,21%	-0,26%	

Risk-Reward

Time Period: 2016/08/01 to 2019/07/31



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