Skyblue Fund Feedback

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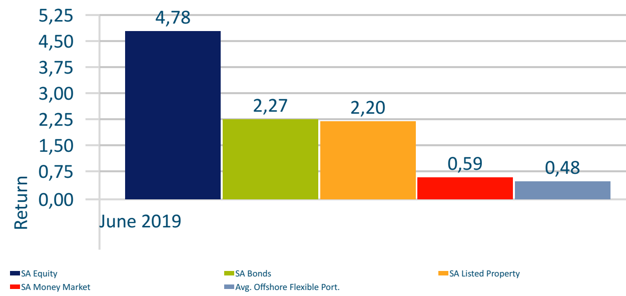
Dissecting June 2019

June was a rewarding month for local investors, as markets recovered well from the slump experienced in May. A hint of optimism returned, as central banks shifted in their monetary policy stance towards a more supportive/accommodative tone, and comments of a potential trade deal between US and China resurfaced. This was especially beneficial for Emerging Markets, as can be seen from the performance in the local asset classes. SA Equities were the best performer, adding 4.78% for the month. Stock market returns were primarily driven by commodity and basic material counters, as market-heavyweights Anglo American and BHP Group delivered returns in excess of 10% for the month. Bond markets returned 2.27%, followed by local property with 2.2%. In the offshore market, strong performance figures were posted across major stock exchanges, while global bonds and global property also posted positive contributions. These returns were for most parts offset by the stronger local currency however, as the Rand strengthened approximately 3.5% vs the US Dollar throughout the month, reducing the returns from the average global flexible portfolio in June to 0.48%.

Asset Class Returns



Economic data released throughout the month of June included GDP data for Q1 of 2019, showing a 3.2% contraction (as discussed in last month's Food for Thought). Retail sales, Manufacturing, as well as credit extension and money supply displayed positive figures however. The year-on year number for retail sales growth posted 2.4% for April, comfortably beating market expectations of 1.2%. Manufacturing production posted a surprise jump of 4.6% year-on-year (for April 2019), while market expectation was for a rise of only 1.3%. The 4.6% growth figure is the largest year-on-year expansion since June 2016. Private Sector Credit extension remained at encouraging levels for the month of May, albeit slightly lower than June, as it moved from 7.95% to 7.66%. This is also some of the highest figures we have seen since early 2016. The inflation rate moved up slightly towards 4.5% in May, back at the mid-point of the SARB target band. There was no MPC meeting in June, but pressure is clearly building for the Reserve Bank to cut rates. The outcome from the next meeting and the tone from Governor Lesetja Kganyago will thus be very interesting to watch.

Some Food for Thought

We recently completed a trip to London to attend two Investment events, hosted by leading asset managers, as well as to conduct some update meetings with other London-based managers. At these events we were provided with some interesting perspectives on where we are now and to whence we may well be heading, and thought it appropriate to share some key ideas/points with you for this month's Food for Thought.

Some of the general comments made in terms of the global economy included the following:

- De-globalisation will require companies that are globally diversified to decided where to invest capital, where best to expand operations, and with whom to partner, to meet and access the challenges ahead.
- Senior management of major companies are nervous as to the immediate future, given the differing spats and the slowing economic activity. So they are adding to their balance sheet rather than investing in infrastructure (seems RSA is not alone!)
- Share buybacks have abounded and supported markets, but these are not real growth and must end at some point.
- Private equity is the area getting the most asset allocation, and is now seen as being excessive.
- The world is in a period of accelerating disruption, especially in retail, consumer goods and energy.
- Markets are now dominated by uncertainty.
- Quantitative easing was designed to provide support to solvency, but has become normalised policy providing liquidity.
- Today's children need to be learners, capable of the three R's – reading, writing and arithmetic, to be able to get ahead. A challenge for South Africa.
- The international community has no interest in SA. China have not been, and will not be ,interventionist – so we have no-one to act as a facilitator to resolve our problems.
- Flows into Fixed interest assets are at their highest ever.
- ESG investing is seeing significant growth.

With regards to the major economic players, some of the main points were as follow:

USA

- Their economy is slowing faster than expected, with some managers reporting that sales are ''falling off a cliff''.
- The trade wars are all about strategic shifts that mostly go under the radar.
- The ''abnormality'' of the last 10 years looks set to continue for the near future.
- High predictability shares, which have been in favour, are no longer a safe haven, and the returns from these are likely to be lower going forward.
- Low certainty stocks, despite their inherent risks, are now seemingly becoming a focus.

China

- Still middle income, but this class is growing.
- The trade wars are giving them an opportunity to flex their economic potential.
- Authorities are aggressively countering the problems of the last decade.
- Onshore China is opening up – it's retail driven and presenting opportunity for active managers.
- However, this will be a prolonged plodding cycle, so portfolios should have more counters across more sectors.
- Only 2% of Chinese assets (across all classes) are foreign owned – so the opportunities are real.
- Lots of innovative spending on Research and Development – but still reliant on lots of upstream tech from USA.
- The development of their capital markets needs to be sped up.

Europe

- There has been major outflows from equity markets into fixed interest, yet both asset classes were negative last year
- This push for yield has seen major risk taken in the corporate debt space
- Europe is now a Momentum market, whose trend is currently down – this implies ''the month following'' maintains the trend

And if it had to be summed up, in one word, the overriding take out from all the speakers, that word is DISRUPTION. Times they are a changing, and the world is expected to be a much different place within a decade.

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Skyblue BCI Solar Flexible Fund of Funds

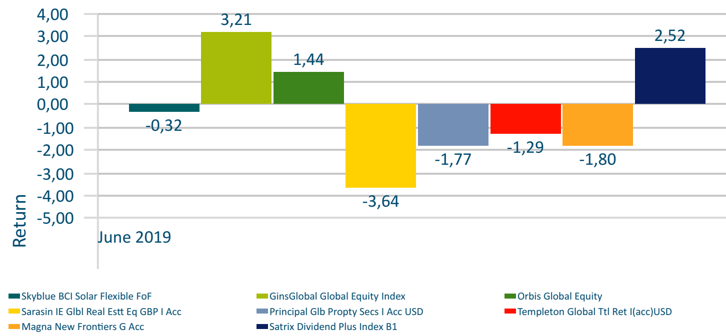
Global Multi Asset Flexible Allocation - More than 85% offshore

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

Never a dull moment in markets. Part of the compelling reason for becoming a fiduciary guardian of investors' hard earned savings is the action that comes along with the job description – and this month had lots of action. The G20 meeting saw many positive developments amongst the big global super powers, which resulted in global sentiment turning to risk-on, much against expectations. What is evident is that value stocks are yet again out of favour, with momentum being the driver of big swings, whilst the local currency managed to gain ground against the herd mentality. History has shown time and again that markets have the ability to outwit even the most experienced participants.

Solar delivered a negative return for the month of 0.32%, slightly behind the sector average. This was predominantly driven by lacklustre returns from all the property managers and specific equity managers. Sarasin IE Global Real Estate was the biggest contributor to the lagging returns posting -3.64% for the month. On a positive note, GinsGlobal Equity Index added 3.21% for the month, emphasising our point about momentum driven markets.

Returns - Underlying Holdings



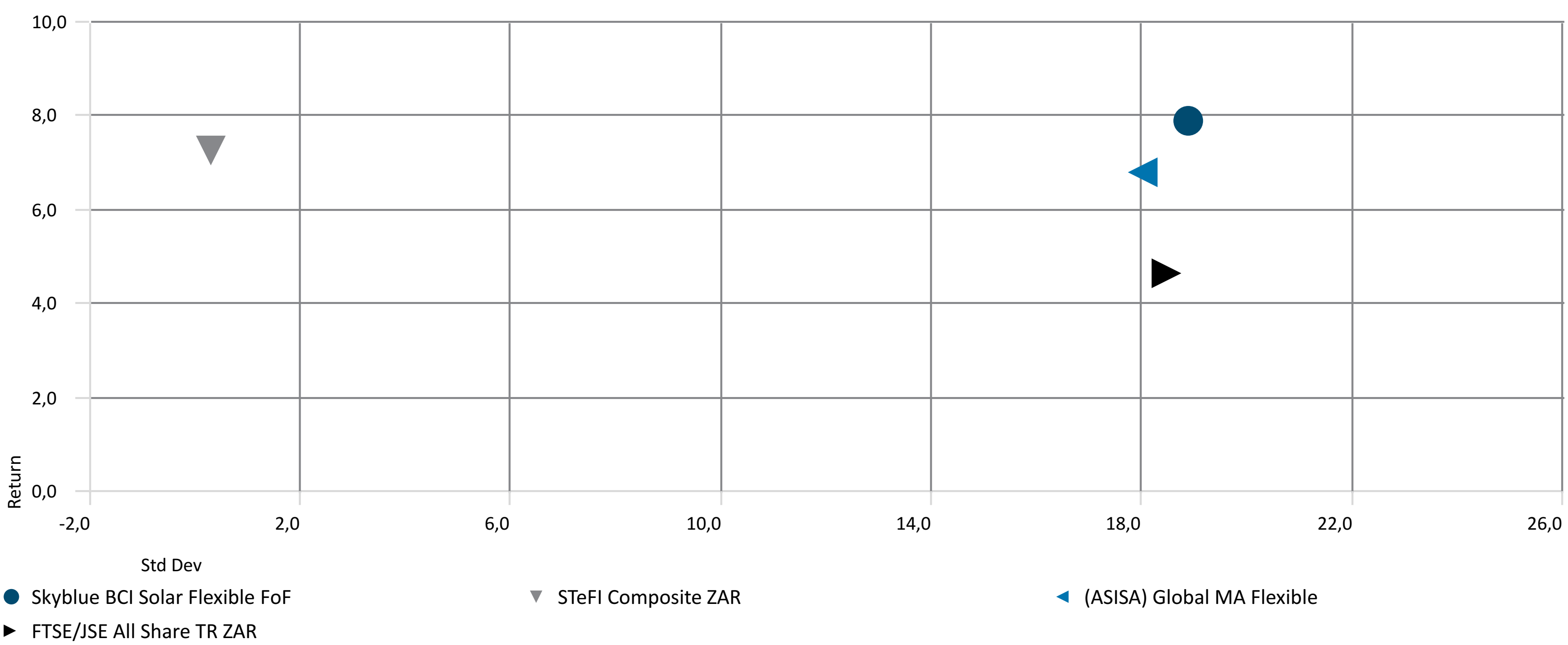
Some of the US Dollar exposure in the fund was sold out at R 14.85 and reinvested into local high yielding shares. If the pro risk sentiment stays in place this should bode well for emerging market currencies and asset prices. Given the skittish moves in the market we are not overly overweight any asset class and will be patiently awaiting clearer direction/indicators in the coming months.

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%							
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 2019/06/30



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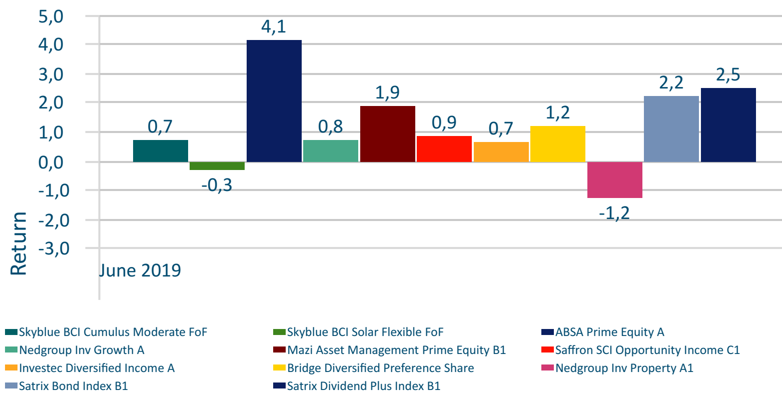
Skyblue BCI Cumulus Moderate Fund of Funds

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

Benchmark: Cash (SteFi) + 3%

June joyfully jelled for investors who experienced a return of positive performance from the asset classes, as mentioned in "Dissecting June 2019". Unfortunately many local managers were not positioned to participate significantly in the equity and property run. Among the property counters, the largest contributions were from NEPI Rockcastle and Fortress A, while Intu Properties lost more than 20% over the month, and smaller weighted Rebosis Property lost close to 30% of its value! Returns in the equity market were driven by Basic Material counters, primarily BHP and Anglo American, as well as the heavyweight Industrials, Naspers and Richemont. From a Total Return perspective, the best performance came from gold and platinum counters, with names like AngloGold, Harmony Gold, Sibanye, Royal Bafikeng Platinum, and Impala Platinum all posting returns in excess of 20% for the month. There was however, a very long tail of relatively muted or negative returns, as the top ten performers contributed approximately 92% of the market return. Although this is exactly the reason why we diversify between managers and styles, we do sometimes experience periods of either overlapping outperformance or overlapping underperformance among the different styles or exposures, as we saw in June.

Returns - Underlying Holdings



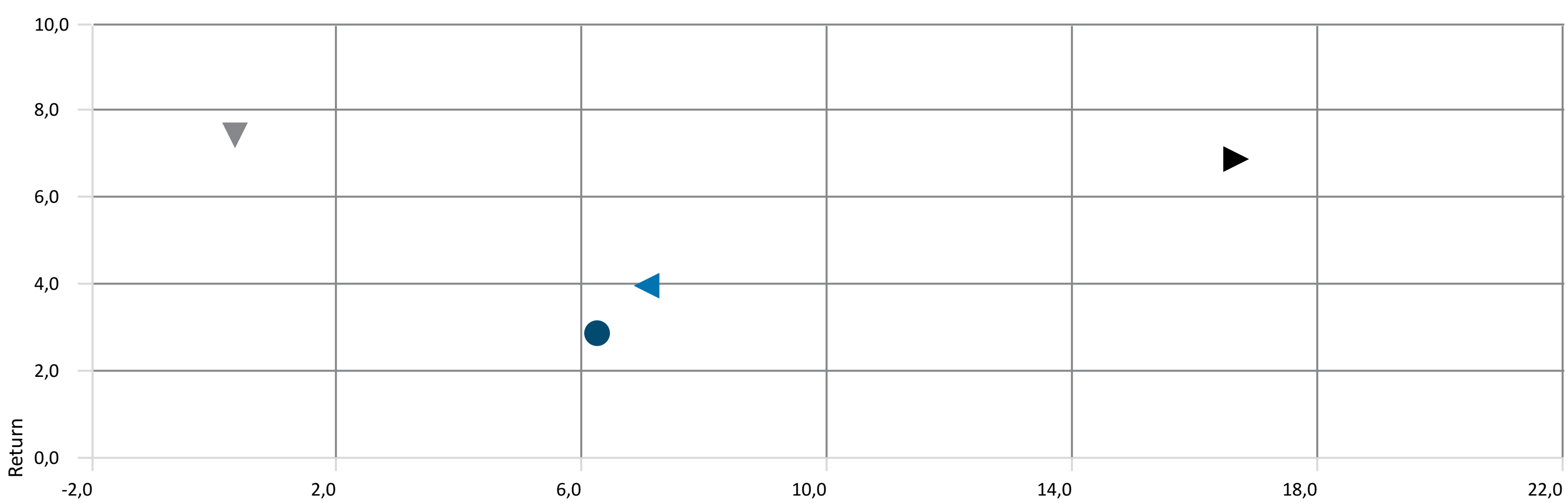
Cumulus returned a positive 0.7% for the month, with the best underlying performance coming from two of our equity managers, namely Absa Prime Equity and Satrix Dividend Plus Index, returning 4.1% and 2.7% respectively. The majority of the other holdings added smaller positive returns, while the laggards were Skyblue BCI Solar Flexible and Nedgroup Inv Property posting negative returns.

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%							
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: 2016/07/01 to 2019/06/30



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THE ART OF INVESTING

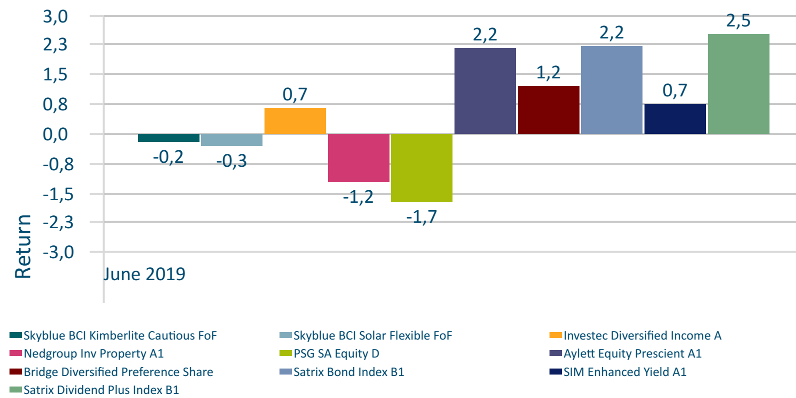
Skyblue BCI Kimberlite Cautious Fund of Funds

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

Benchmark: Cash (SteFi) + 1%

June joyfully jelled for investors who experienced a return of positive performance from the asset classes, as mentioned in “Dissecting June 2019”. Unfortunately many local managers were not positioned to participate significantly in the equity and property run. Among the property counters, the largest contributions were from NEPI Rockcastle and Fortress A, while Intu Properties lost more than 20% over the month, and smaller weighted Rebosis Property lost close to 30% of its value! Returns in the equity market were driven by Basic Material counters, primarly BHP and Anglo American, as well as the heavyweight Industrials, Naspers and Richemont. From a Total Return perspective, the best performance came from gold and platinum counters, with names like AngloGold, Harmony Gold, Sibanye, Royal Bafikeng Platinum, and Impala Platinum all posting returns in excess of 20% for the month. There was however a very long tail of relatively muted or negative returns, as the top ten performers contributed approximately 92% of the market return. Although this is exactly the reason why we diversify between managers and styles, we do sometimes experience periods of either overlapping outperformance or overlapping underperformance among the different styles or exposures, as we saw in June.

Returns - Underlying Holdings



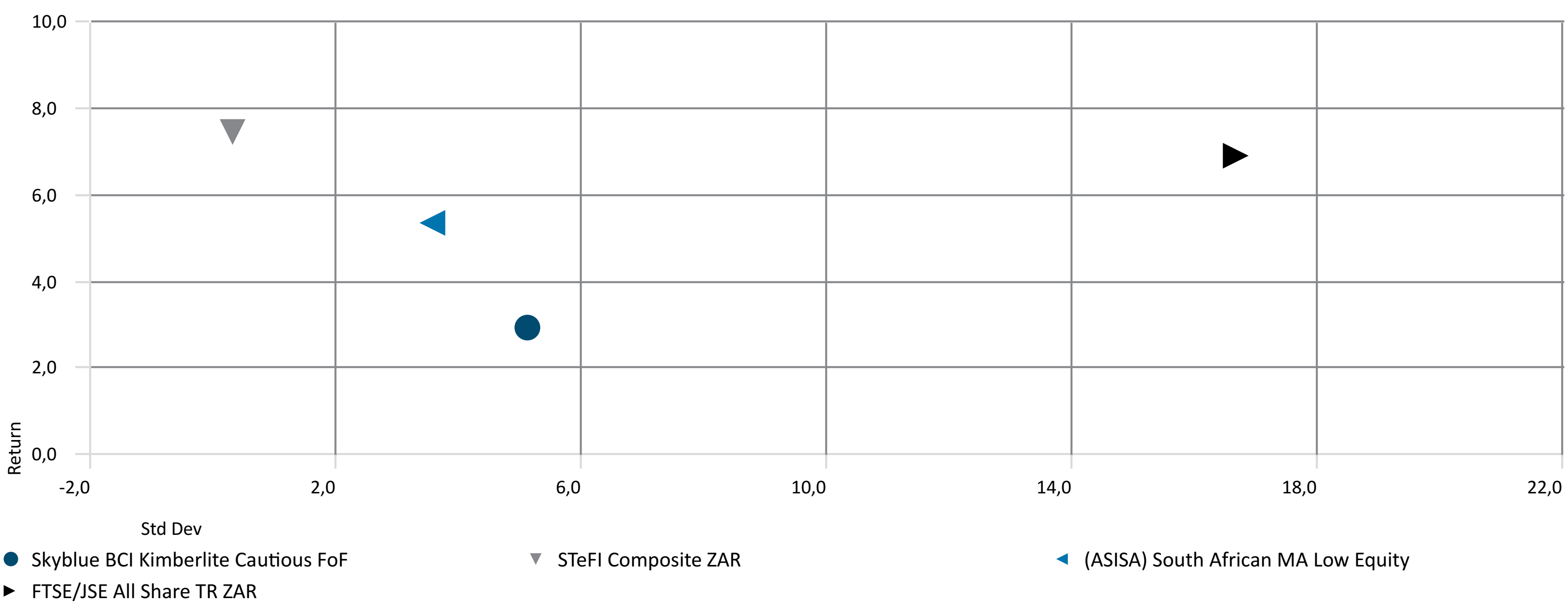
Kimberlite delivered a small negative of 0.2% for the month. The best underlying performance came from two of our equity managers, namely Satrix Dividend Plus Index and Aylett Equity Prescient, returning 2.7% and 2.2% respectively. The majority of the other holdings added smaller positive returns, while the laggards were Skyblue BCI Solar Flexible, PSG SA Equity, and Nedgroup Inv Property posting negative returns.

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%							
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: 2016/07/01 to 2019/06/30



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