Skyblue Fund Feedback

LinkedIn Skyblue Fund Managers (Pty) Ltd

Facebook Skyblue Fund Managers

Website www.skybluefm.com

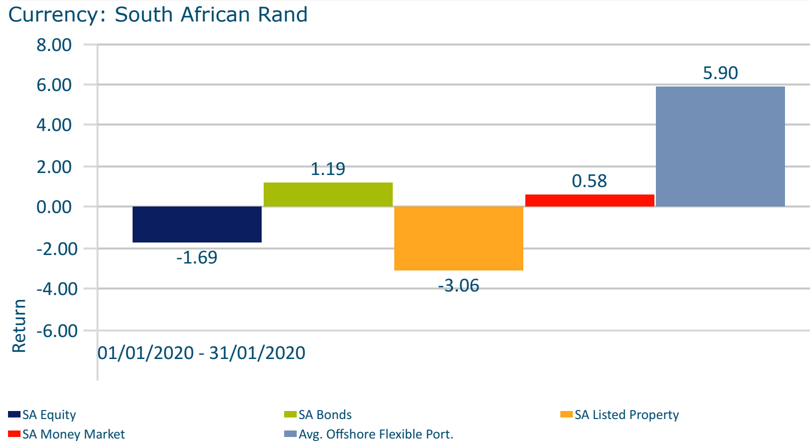
Dissecting January 2020

January was a busier start to the year than normal. Markets started quite positively for the month, but global fears around the spreading of the Coronavirus out of China had a significant impact on global sentiment and market returns as the month progressed. Emerging markets suffered worst from the sentiment turn, whilst the South African situation was exacerbated by our own local issues, principal of which were a further downward revision of economic growth forecasts, and more frequent load shedding becoming the new normal.

A brief snapshot on the effect of the Coronavirus seems appropriate: Wuhan, the city where the outbreak originated, is one of the key areas in China for production and manufacturing. Wuhan is China's fifth largest city, with around 11 million people. In an attempt to limit the outbreak from spreading, China has placed significant restrictions on Wuhan, (with mainland China also affected) with the city effectively on lockdown. Fears around the impact of this on the Chinese economy and the effect on commodity demand has seen travel, luxury retail, and commodity stocks fall sharply on the news. We have especially felt this on the local equity index (JSE), since South Africa has relatively large exposure to China, and especially in the resources counters.

The All Share Index encouragingly moved from a level of 57 000 at the start of the new year, to just past 59 0000 on the 17th of January. The news of the virus started circulating on the 20th, after which the index remained on a downward trend, ending the month at approximately 56 000, thus delivering a negative return of 1.69% for the All Share Index for the month. SA Properties suffered even more in January, on the back of various headwinds, posting a discouragingly negative return of 3.06% as some of the larger counters hit new 12-month lows, the most noteworthy of these being Growthpoint and Redefine. SA Bonds showed some resilience through all the negative sentiment, supported by an interest rate cut, returning 1.19%, while cash delivered 0.58%. The clear winner for the month was anything held offshore, which was helped by a large return pick-up through exchange rate movements. The Rand moved from just over R14 to just over R15 to the US Dollar throughout January, boosting the returns for the average global flexible portfolio to 5.37% for the month.

Asset Class Returns - January



Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
SA Equity	7.14	5.33	4.99	10.99
SA Bonds	8.48	9.35	6.66	8.96
SA Property	-9.50	-5.23	-0.84	10.52
STeFI Composite ZAR	7.27	7.35	7.20	6.52
(ASISA) Global MA Flexible	24.74	10.29	9.58	11.91

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

Economic data released in January was drowned out by the unexpected interest rate cut by the SARB. The MPC voted unanimously to trim the repo by 25bps, down to 6.25%, while markets expected the rates to remain flat. This came off lower inflation for 2019 (4.1%), and lower forecasts for both 2020 (4.7%) and 2021 (4.6%). According to the SARB, they are seeing two 25bps cuts for the year. Private sector credit growth slowed further to 6.14% for December. Retail sales, boosted by a strong uptake in Black Friday spending, rose 2.6% year-on year for November. This was the strongest rise in retail activity since April. Production data was less positive however, as both Mining and Manufacturing took a significant dip, showing year on year growth of -3.6% and -3.1% respectively - concerning numbers that do not bode well.

Some Food for Thought

This month's Food For Thought covers a brief view on the use and extent of Monetary Policy and stimulus in the global market. Central bank Monetary Policy has never been more pronounced and important for investors than it is today. From the traditional benchmark interest rate setting to the more recent Quantitative Easing (QE). In short, QE is essentially the central bank buying assets (mostly bonds and Mortgage Backed Securities) in the open market, thereby injecting credit/liquidity into the financial system. The initial goal was to support the housing market post Global Financial Crisis (GFC) and make borrowing cheaper to support economic growth. Unfortunately h owever, the majority of this liquidity has not found its way to the "real economy" as initially intended, and instead inflated financial asset values – made its way into the financial markets.

Since 2008, when QE was first introduced, the US Federal Reserve Bank (FED) has purchased roughly $4.4 trillion of assets in three different rounds of QE. This is important to take note of because first of all, it is a tremendous amount of liquidity that essentially made money "cheap", and secondly, now that the financial markets have grown accustom to this liquidity (and it is priced in as the new norm), any attempt from the FED to reduce the stimulus results in financial market stress and consequently a sell-off. Last year the FED attempted to "normalise" their balance sheet (end QE and return to normal operation), but the bond market responded by inverting th e yield curve and in essence forced the FED to cut the benchmark interest rate three times and start "Not-QE 4".

In October 2019, the FED announced they will be buying T-bills (Short term) instead of Long term securities and participate in the repo market to "ensure the supply of reserves". The FED insists that this is not another round of QE (QE4) and that this is only for Commercial bank reserves management. Be that as it may, the FED is expanding (not just reinvesting principle amounts of the securities they already own) their Balance sheet while extracting assets from the system, which sure sounds a lot like QE…

In conclusion, the FED is trying to patch a leaking bucket. As soon as they try to reduce the amount of water below the cracks (balance sheet normalisation) markets react adversely. What do they stand to do? Could it be to merely keep on filling the bucket for as long as they can, kicking the can further down the road? One thing is for sure, nothing lasts forever, and it will be interesting to see who remains standing when the FED finally has no more water to fill the bucket…

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

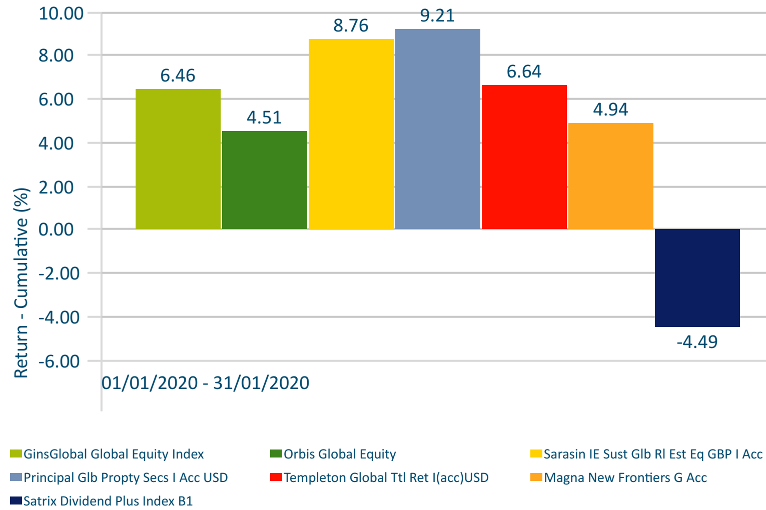
The first month of the year turned out to be memorable for local investors with offshore exposure, who experienced stellar returns predominantly driven by currency weakness. One can only assume that foreign investors, looking to invest in South Africa, are pricing in the downgrade possibility, which, combined with a global risk off scenario on the back of the Coronavirus and the unknown effects of the rapidly spreading infections, has really caught Rand bulls off guard. Admittedly these days a Rand bull it seems is hard to find, as talking down the Rand is all the rage as the herd heads for the hills. This pain is, for the most, self-inflicted, as the Government avoid making the choices needed to escape a downgrade. One should note that the local currency sold of alongside other emerging market currencies, as did our market as most assets in emerging markets also sold off – compounding the bleak scenario.

Solar added 5.52% in January. The best performing underlying holding was Principal Global Property Fund, which returned 9.66%. On the losing end was the Satrix Dividend Plus, giving back 4.49% on the back of the emerging market sell off and the possible South African Downgrade.

We do live in interesting times. Developed market central banks seem hellbent on keeping loose monetary policy in place. Ironically, this liquidity is not ending up in emerging market assets but rather in developed market bonds it would seem. As an example Austrian banks are charging customers interest to take their money. Add to this wealth taxes and other costs and the ordinary man in Austria is roughly 5% out of pocket every year when ''saving''. However, investors appear not willing to take risk outside of the developed world - which is probably also why the US equity market stays on lofty valuation levels regardless. Investors should remember that this scenario can last for a long time - markets can stay irrational for longer than one can stay rational. BUT you do not want to be the last one standing at the punchbowl. When the herd changes direction, the exit gate narrows very fast. Be careful…

Underlying Holdings Return - January

Currency: South African Rand



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	18.27	25.81	55.34	162.75
(ASISA) Global MA Flexible (Sector)	24.74	34.11	58.01	208.01
Stefi + 5% (Benchmark)	12.63	43.16	80.66	206.20

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	18.27	7.96	9.21	10.14
(ASISA) Global MA Flexible (Sector)	24.74	10.29	9.58	11.91
Stefi + 5% (Benchmark)	12.63	12.71	12.56	11.84

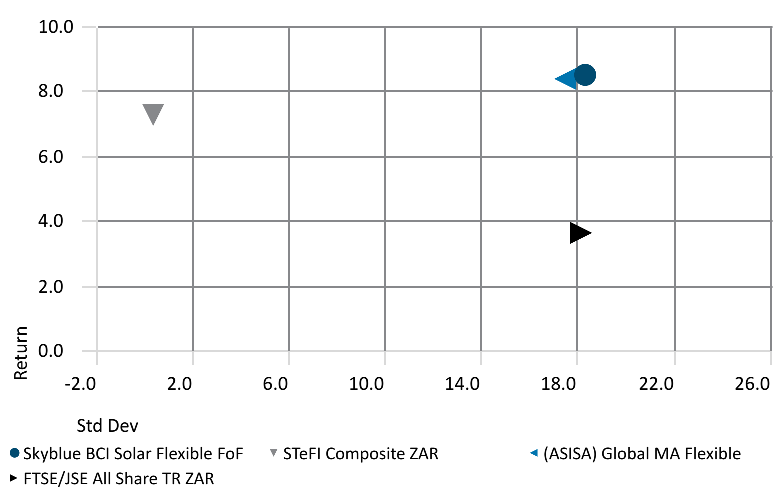
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Solar Flexible FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	5.52%												
2019	-1.90%	7.08%	2.75%	2.13%	-1.80%	-0.32%	1.42%	1.34%	2.01%	1.09%	-2.04%	-1.86%	9.94%
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: 01/05/2015 to 31/01/2020



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 Cumulus Moderate Fund of Funds

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

Benchmark: Cash (SteFi) + 3%

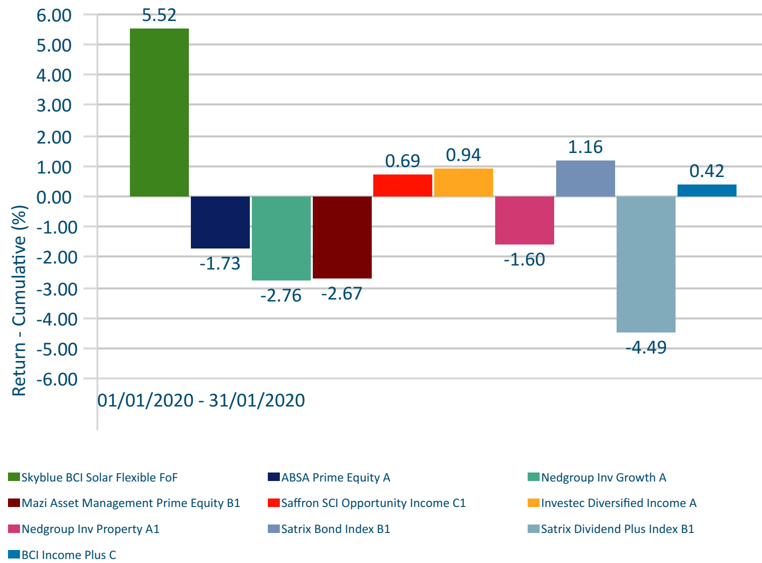
Fund Commentary

Cumulus held up well in a very negative market environment, only giving up 0,44% of its value for the month. The best underlying fund was Skyblue BCI Solar Flexible Fund, which added a strong 5.5%, as a result of a significant return pick-up from the Rand depreciation. The fixed income managers delivered stable returns, whilst the bond index exposure through Satrix Bond Index added 1.2%. The property and equity managers suffered from the prevailing negative sentiment and weak local performance, with the worst return coming from the Nedgroup Inv Growth fund, which gave back 2.8% of its value.

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. Tactically our allocations remain overweight to high yielding fixed income instruments, albeit primarily in shorter duration instruments, where there are still very attractive risk-adjusted returns available. We remain cognisant of credit risk however, and therefore focus on high quality exposures and well-diversified portfolios within the short-term income space. Our exposure to the longer duration bonds remains in place, based on the high level of real yields available, low inflationary pressures, and continued pressure on the Reserve Bank to cut interest rates. However, this exposure is diversified across the maturity buckets, and not concentrated around the 7+ year duration government bond exposure one gets through the All Bond Index. With a struggling local economy, various global concerns, and a cautious stance on the fiscal position, we are slightly more optimistic on global prospects than the local environment. However, with the Rand trading at the R15/USD level as we write, we are cautious of taking money offshore at a rate that is elevated on short-term noise. We are looking for opportunities to increase the offshore exposure, but will keep the designated allocation in our short-term income exposures until then.

As a result of this view, there will be some changes in the fund allocations. Local equity ("SA Inc") exposure will be reduced slightly in favour of income exposure. We will also be making some changes to the underlying fund allocations, and will discuss the changes in next month's feedback document.

Underlying Holdings Return - January



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	1.45	3.73	18.00	113.90
(ASISA) South African MA High Equity (Sector)	8.52	15.00	25.13	126.58
Stefi + 3% (Benchmark)	10.48	35.14	64.10	152.65

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	1.45	1.23	3.37	7.90
(ASISA) South African MA High Equity (Sector)	8.52	4.77	4.59	8.52
Stefi + 3% (Benchmark)	10.49	10.57	10.42	9.71

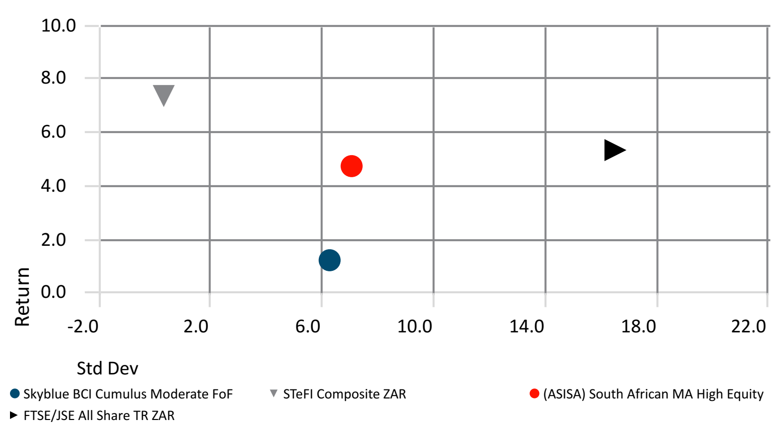
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Cumulus Moderate FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	-0.44%												
2019	1.93%	1.22%	1.14%	2.16%	-2.32%	0.70%	-0.93%	-2.92%	0.62%	1.53%	-0.75%	1.57%	3.86%
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: 01/02/2017 to 31/01/2020



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 I Fax: +2721 657 4988
www.skybluefm.com

THE ART OF INVESTING

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

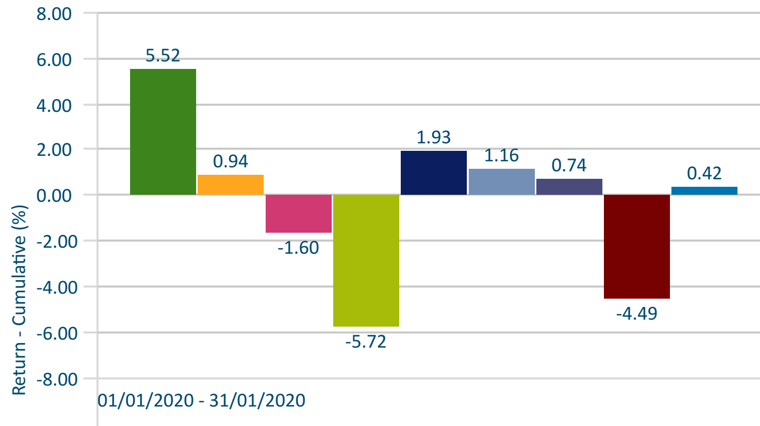
Kimberlite delivered a resilient 0.42% for the month, in a very negative market environment. The best underlying fund was Skyblue BCI Solar Flexible Fund, which added a strong 5.5%, as a result of a significant return pick-up from the Rand depreciation. The fixed income managers delivered stable returns whilst the bond index exposure through Satrix Bond Index added 1.2%. The property and equity managers suffered under negative sentiment and weak local performance, the only exception being Aylett Equity, which returned a very pleasing 1.9% for the month, relative to the benchmark return of -1.7%. The worst performer was PSG SA Equity, retracing 5.7%.

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. Tactically our allocations remain overweight to high yielding fixed income instruments, albeit primarily in shorter duration instruments, where there are still very attractive risk-adjusted returns available. We remain cognisant of credit risk however, and therefore focus on high quality exposures and well-diversified portfolios within the short-term income space. Our exposure to the longer duration bonds remain in place, based on the high level of real yields available, low inflationary pressures, and continued pressure on the Reserve Bank to cut interest rates. However, this exposure is diversified across the maturity buckets, and not concentrated around the 7+ year duration government bond exposure one gets through the All Bond Index. With a struggling local economy, various global concerns, and a cautious stance on the fiscal position, we are slightly more optimistic on global prospects than the local environment. However, with the Rand trading at the R15/USD level as we write, we are cautious of taking money offshore at a rate that is elevated on short-term noise. We are looking for opportunities to increase the offshore exposure, but will keep the designated allocation in our short-term income exposures until then.

As a result of this view, there will be some changes in the fund allocations. Local equity ("SA Inc") exposure will be reduced slightly in favour of income exposure. We will also be making some changes to the underlying fund allocations, and will discuss the changes in next month's feedback document.

Underlying Holdings Return - January

Currency: South African Rand



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-1.07	3.44	16.33	86.63
(ASISA) South African MA Low Equity (Sector)	8.36	19.15	31.93	114.30
Stefi + 1% (Benchmark)	8.34	27.43	48.78	107.67

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-1.07	1.13	3.07	6.44
(ASISA) South African MA Low Equity (Sector)	8.36	6.02	5.70	7.92
Stefi + 1% (Benchmark)	8.34	8.42	8.27	7.58

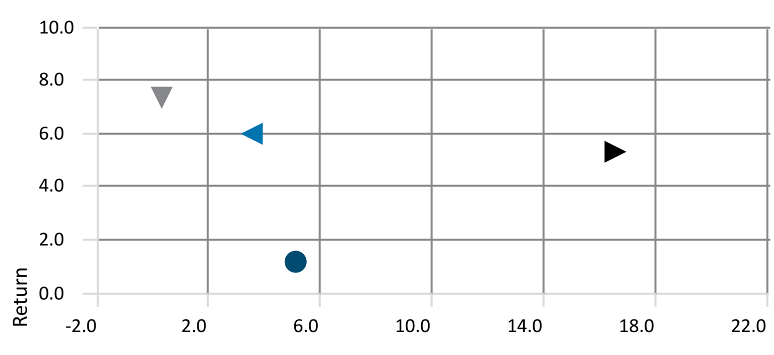
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Kimberlite Cautious FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	0.42%												
2019	1.50%	-0.10%	0.38%	1.49%	-1.42%	-0.20%	-0.31%	-2.53%	0.36%	0.92%	-0.36%	0.34%	0.00%
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: 01/02/2017 to 31/01/2020



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 I Fax: +2721 657 4988
www.skybluefm.com

THE ART OF INVESTING

Source: Morningstar Direct