Skyblue Fund Feedback

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Dissecting February 2020

After the mid-month pull back experienced in January, the start of February saw markets begin to recover, as fears around spreading of the Coronavirus (COVID-19) subsided slightly, and investors looked past the negative impact this created. This view was short lived however, as reported cases outside of China (especially in Italy) suddenly increased at an alarming rate. This elicited panic selling, making the last week of February one of the worst weeks for equity indices since the global financial crisis.

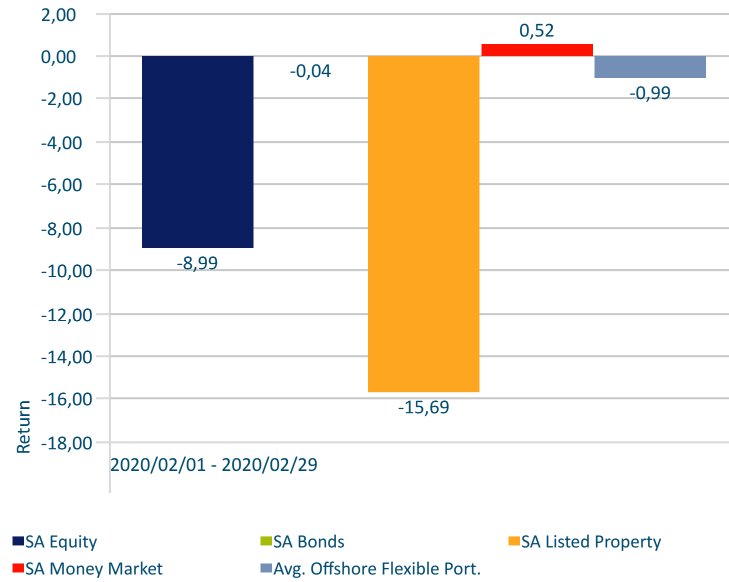
Had it not been for the global fears and risk aversion that resulted from the above, South Africa was well positioned to see some upside throughout February and going into March. We were coming off a recent rate cut, the rand was arguably cheap at over R15.50 to the US Dollar (considering our attractive real yield on offer), and Finance Minister Tito Mboweni had announced a much better National Budget than many had expected. With a general expectation of significant increases in taxes and levies, as well as muted attempts to reduce expenditures, the resulting budget of consumer-friendly tax changes and a focus on initiatives to reduce government expenditures was a pleasant surprise. Some of the highlights from the budget include:

- The budget deficit is expected to be 6.8% of GDP (2021), while Debt/GDP comes in at 65.6%.
- Aiming to reduce the state wage bill by R160bn (approx. 3% of GDP), total expenditure reduction targeted at R261bn.
- Above inflation adjustment to personal income tax brackets, no change in value added tax (VAT).
- No increase in dividend withholding tax or capital gains tax, while transfer duties for property purchases were reduced.
- Tax free savings contribution limit increases to R36 000 pa, medical tax credits increase from R310 to R319 per month.
- 25c increase in fuel levies, with Sin Tax increases of 74c for box of 20 cigarettes, 61c per litre of sparkling wine, 14c per litre of unfortified wine, 8c per 340ml can of beer

As many times before however, positive surprises locally (and luckily also negative surprises) were completely outweighed by global sentiment and the risk-off environment. Consequently local asset classes suffered over the month. Volatility and panic seem to have been picking up pace since the February month end, as investors and market participants try to make sense of what has been occurring. The US Fed announced an emergency cut of 50bps in the first few days of March, the first emergency cut since 2008, taking the benchmark range to between 1% and 1.25%. The cut came as a response to the rapidly spreading Coronavirus, as the impact on economics and growth became apparent. The reaction was, however, completely the opposite of what was intended, as the sudden change in view by the Fed caused the market to question US economic health and consequently saw markets tumble even further.

Asset Class Returns - February

Currency: South African Rand



Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
SA Equity	-5,71	3,15	2,21	9,91
SA Bonds	8,91	9,07	7,25	8,74
SA Property	-19,09	-10,35	-4,76	8,04
STeFI Composite ZAR	7,24	7,32	7,21	6,51
(ASISA) Global MA Flexible	14,39	10,17	8,47	11,70

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

In the second week of March, we also saw a major shock on the oil market, as Saudi Arabia launched a price war with Russia. This occurred after Russia refused to go along with supply cuts suggested by Saudi Arabia, feeling that they are leaving the market open for US oil producers. This effectively led to Russia ditching the alliance and talking towards increased production, with Saudi Arabia retaliating by reducing prices to preferred customers by between \$4-\$7 per barrel, and planning increased production, in order to gain market share. With global demand for oil already muted due to the economic impact of the Coronavirus outbreak, especially out of China (the largest oil importer), the price war added "oil" (fuel) to the fire and saw oil crashing around 30% overnight, putting the cost of oil at around \$30 per barrel. This was the biggest one-day drop since 1991 and put prices back to levels last seen in 2003. This move could likely prompt some deflation concerns going forward, and possibly give support to further loosening of monetary policy.

The latest data (as at 2020/03/09 20:00) around the Coronavirus indicates 114 078 cases, with 4004 deaths, and 62 834 people recovered. These figures point to a recovery/discharged ratio of 94% for finalised cases. Outside of China, the largest affected countries are Italy, South Korea, and Iran. Italy is a major concern, not only due to its very high rate of daily infections, but also the high rate of connectivity in Europe and thus the high risk of spreading. While the new COVID-19 is significantly more infectious than SARS (as comparison), the fatality ratio is significantly less. The fatality ratio increases in older individuals, which is a concern for countries with an aging population and older demographic.

Although these factors will have an impact on the short to medium term earnings and growth of investments and economies, one should be careful not to over-react. The combination of fears around Coronavirus (COVID-19) and the oil-shock through the implosion of OPEC, together with already stretched global valuations, has seen investors react in haste, and likely overly so. The opportunities presented in these environments, where markets are sold down up to 20% in a week, could provide significant upside for long-term investors, as the payoff profile becomes asymmetric: higher probability of large upside than large further downside. Whether the upside comes in the form of a V shape (quick recovery), or a U shape (prolonged recovery), remains to be seen and will likely be data dependent.

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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

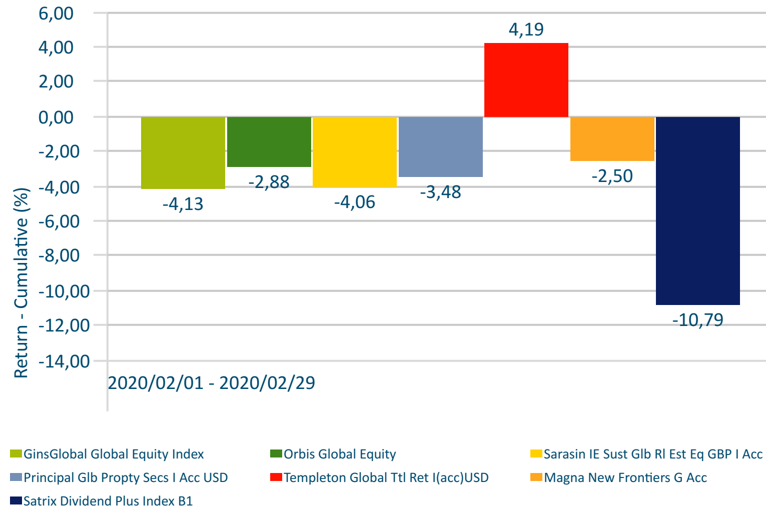
Given the dire and sometimes chaotic backdrop that played out in February, Solar managed to escape almost unscathed. Although most of the risky assets sold off, on the back of heightened uncertainty and a clear shift in risk sentiment, the Rand's sell-off against major currencies hedged the fund's return.

Solar delivered an almost flat - 0.07%, outperforming the fund category and our internal benchmark. The best underlying holding was Franklin Templeton Global Total return, adding 4.19% in Rand terms, while Satrix Divi Plus Index Fund was the worst performer with -10.79%.

Given the heightened uncertainty surrounding the COVID19 outbreak and oil market shenanigans, we have reviewed all the holdings within the fund and will be implementing significant changes during March. The main focus is to increase liquidity so as to enable moves as and when needed. We will communicate these changes as and when they occur. In times like these it is important to stay diversified. Stick to your plan and remember your investment timeframe!!

Underlying Holdings Return - February

Currency: South African Rand



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	10,36	25,89	50,98	161,19
(ASISA) Global MA Flexible (Sector)	14,39	33,73	50,21	202,33
Stefi + 5% (Benchmark)	12,61	43,11	80,76	206,15

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	10,36	7,97	8,59	10,08
(ASISA) Global MA Flexible (Sector)	14,39	10,17	8,47	11,70
Stefi + 5% (Benchmark)	12,61	12,69	12,56	11,84

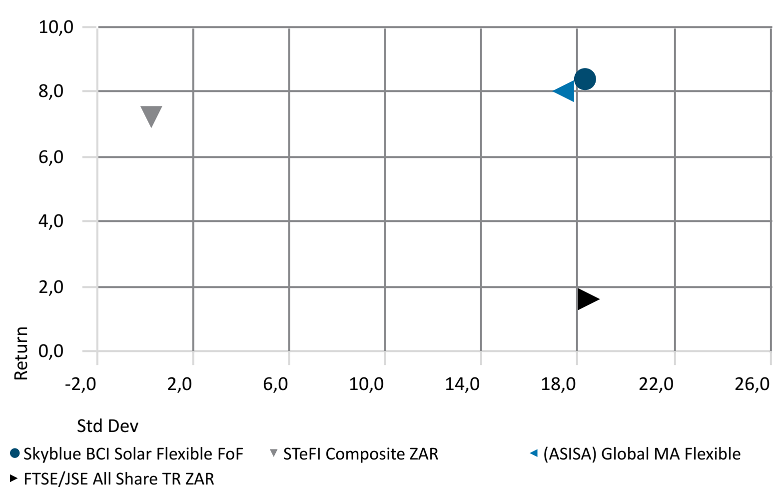
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Solar Flexible FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	5,52%	-0,07%											
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: 2015/05/01 to 2020/02/29



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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

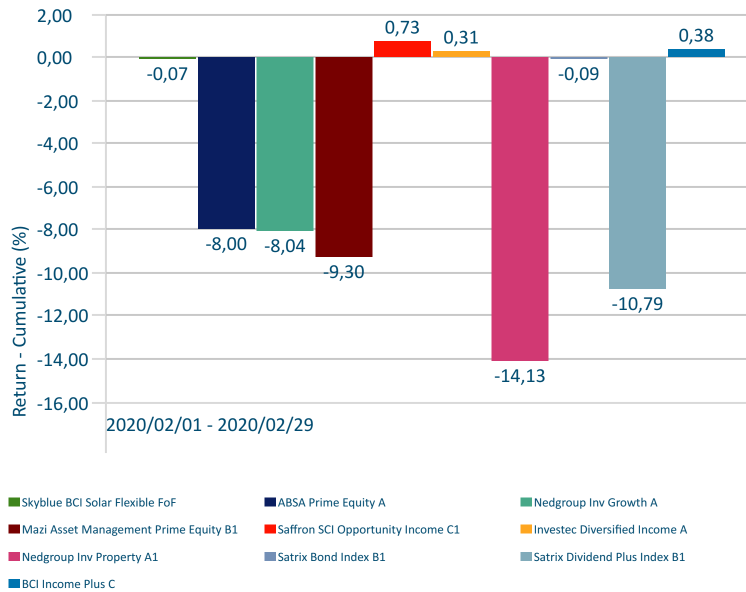
With all the panic and chaos in financial markets, there was almost no place to hide in February (cash being the exception). As discussed in the Dissecting February 2020 section, asset classes suffered for the month, with South African equities retreating 9%, and SA listed property losing 15.7%. The weakening of the Rand was also unable to mitigate the losses from offshore markets, leaving the average global flexible portfolio with -1% for the month.

Considering this, Cumulus managed to protect some of the downside, returning negative 2.48% for the month. While many of the underlying managers struggled, the combination of diversification within assets classes and some asset allocation changes were the primary drivers for limiting the losses.

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. We are therefore currently more cautiously neutral than our Strategic long-term models suggest in our positioning, based on the various global risks, as well as the struggling/muted local economy. Our previous aim to increase the offshore exposure is still on hold, with the increased exposure in income holdings. While we have not made binary changes based on the Coronavirus fears, our cautious stance is based on the combination of this with an already vulnerable global economy and valuations. The opportunities are still present however, as further stimulus and a containment of the spreading COVID-19 could see a strong recovery after the large losses across global indices.

As mentioned in the previous month's commentary, we are in process of restructuring the funds and reviewing the underlyings. As a first step in this process we sold out of some of the underlying equity funds, including Mazi AM Prime Equity and Nedgroup Growth, parking the money in broad All Share index and income exposure. Changes are continuing and will be finalized in March, with more detailed information to be provided in next month's feedback document.

Underlying Holdings Return - February



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-2,25	1,91	12,57	105,73
(ASISA) South African MA High Equity (Sector)	0,81	10,44	16,77	114,47
Stefi + 3% (Benchmark)	10,46	35,09	64,19	152,59

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-2,25	0,63	2,39	7,48
(ASISA) South African MA High Equity (Sector)	0,81	3,37	3,15	7,93
Stefi + 3% (Benchmark)	10,44	10,54	10,42	9,71

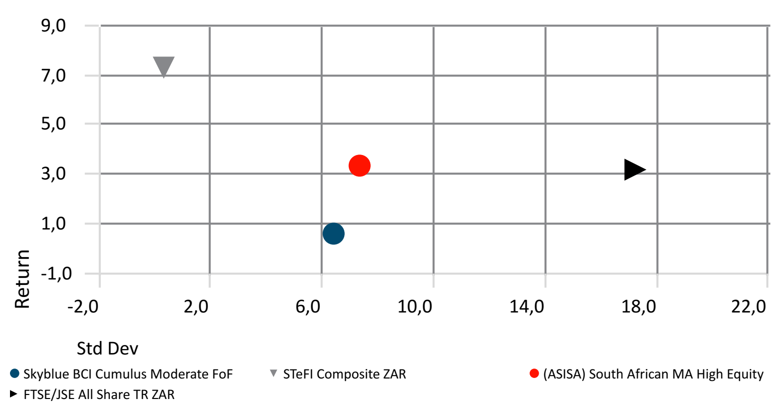
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Cumulus Moderate FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	-0,44%	-2,48%											
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: 2017/03/01 to 2020/02/29



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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

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Considering this, Kimberlite managed to protect some of the downside, returning negative 1.87% for the month. While many of the underlying managers struggled, the combination of diversification within assets classes and some asset allocation changes were the primary drivers for limiting the losses.

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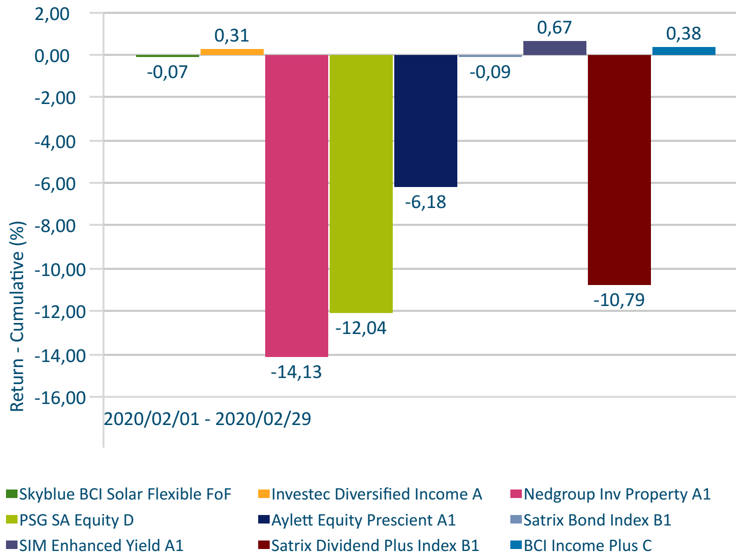


Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-2,81	1,71	12,73	80,87
(ASISA) South African MA Low Equity (Sector)	4,39	16,85	28,01	108,26
Stefi + 1% (Benchmark)	8,31	27,37	48,85	107,62

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-2,81	0,57	2,42	6,10
(ASISA) South African MA Low Equity (Sector)	4,38	5,33	5,06	7,61
Stefi + 1% (Benchmark)	8,29	8,40	8,28	7,58

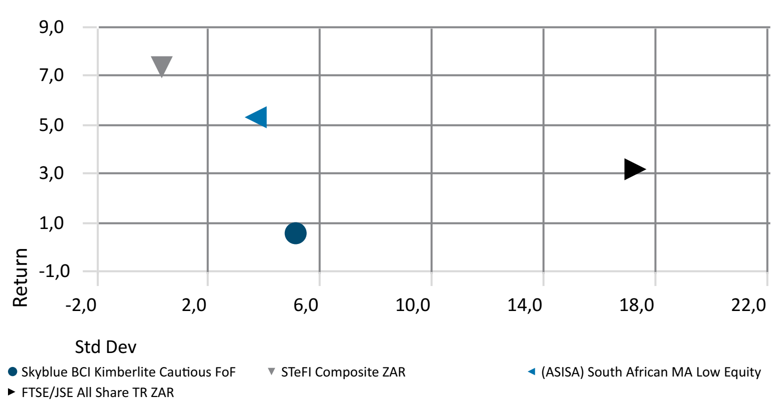
*Annualised return is the weighted average compound growth rate over the period measured.

Skyblue BCI Kimberlite Cautious FoF - Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	0,42%	-1,87%											
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: 2017/03/01 to 2020/02/29



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