Skyblue Fund Feedback

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Dissecting March 2020

The COVID-19 coronavirus pandemic is causing havoc in global markets as concerns grow over the economic impact of national lockdowns. It will have a real impact on companies and countries, including South Africa. To compound this situation the oil price fell (some good news for SA), and South African Govt debt was finally downgraded to sub investment grade (discussed in this month's Food for Thought).

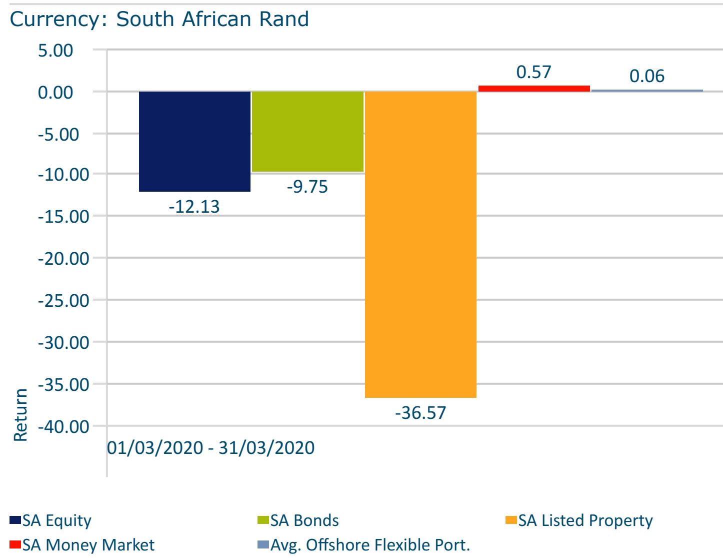
In March, South Africa fell into its second recession in two years. South Africa's budget deficit also ballooned to 6.8% of GDP, the widest gap since the end of apartheid. On the 23rd of March the president ordered a 21-day nationwide lockdown for South Africa, one of the most drastic measures yet on the African continent, to tackle the spread of the coronavirus. The number of recorded cases in the country is the highest in Africa, close to 800 cases at the end of March. The JSE capped its worst quarter since September 1998, as the local bourse dropped 26.6% in the first quarter of 2020. Most of South Africa's major industry sectors ended in the red, excluding technology (+11.9%) and defensives, which included Gold (+4.6%) and Tobacco (+2.3%), as markets priced in a global recession.

As mentioned, a major shock on the oil market occured, as Saudi Arabia launched a price war with Russia. The global demand for oil was already muted due to the economic impact of the coronavirus (COVID-19) outbreak, especially from China, the largest oil importer, so this price war added "oil" 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. Although it has had a negative impact on Sasol, it is generally positive for an economy such as South Africa's, that is a net-importer of oil. The price of petrol fell by R1.88 on 1 April 2020, despite a weaker South African rand. This should support subdued inflation which in turn will support lower interest rates.

It is important to know and understand that governments and central banks all over the globe are taking extraordinary measures to support their economies during these challenging times. Action by governments and central banks have generally been swift and decisive. Central banks certainly understand the gravity of the situation and the response is more aggressive than that taken during the Global Financial Crises of 2008. The US Federal Reserve stated bluntly that it will do "whatever it takes" to support the economy, as it announced unlimited bond buying (quantitative easing).

Source: Naviga Solutions & Efficient Private Clients

Asset Class Returns - March



Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
SA Equity	-18.42	-2.07	-0.13	7.67
SA Bonds	-2.99	5.27	5.18	7.40
SA Property	-47.91	-23.00	-13.49	2.81
STeFI Composite ZAR	7.21	7.31	7.22	6.51
(ASISA) Global MA Flexible	10.45	9.05	8.03	11.89

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

Food For Thought

The South African economy and SA investors were battered from all sides in this first quarter of 2020. On Friday 27 March the international rating agency Moody's downgraded South Africa's long term foreign and local currency debt ratings to 'Ba1' from 'Baa3' and maintained their negative outlook, thereby taking South Africa's credit ratings by Moody's to one notch below investment grade. According to Moody's, the following are key drivers behind the downgrade:

- Structurally very weak growth and constrained capacity to stimulate the economy.
- Inexorable rise in government debt over the medium term.

The negative outlook reflects the risk that economic growth will be even weaker than forecast and the country's debt burden will rise even faster and further than currently expected, weakening debt affordability and, potentially, access to funding. In its response to the downgrade the National Treasury commented that the decision by Moody's could not have come at a worse time and that the sovereign downgrade will further add to the prevailing financial market stress.

The sovereign downgrade will further see South Africa being excluded from the FTSE World Government Bond Index (WGBI) and the government bond market will experience further capital outflows as fund managers with investment grade mandates will be forced to sell South African government bonds. Non-residents currently hold approximately 37% (R800 billion) of the total domestic government bonds and the number is expected to substantially decline with the combined impact of COVID-19 and the downgrade.

We however believe everything is not lost for South African bond investors, and indeed that an attractive investment opportunity exists. Prior to the Moody's decision on Friday the 27th of March 2020, but after the indiscriminate sell-off of February/ March 2020, the status quo, across many investment managers, including ourselves, was that SA Nominal Bonds have already discounted a sub-investment-grade status, with yields being much higher than Government Bonds issued by worse off junk status governments. For much of 2018 and 2019 foreign investors have been net sellers of SA Bonds as well as SA Equities, suggesting that it is not only the buy and sell decisions of local investors, but also those of foreign investors, that were already pricing in the likely junk-status.

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Source: Morningstar Direct

Food For Thought Continued

SA Government Bonds makes up < 1% of the World Government Bond Index, so overall are not that material in the Index, suggesting that many off-benchmark bets are unlikely to be significant and may already have been closed. In this low return global investing backdrop, characterised by a very intense search for yield, High Yield Debt Indices, or Sub-Investment Grade Debt Indices, remain a very popular capital allocation destination globally. This suggests that moving out of an Investment Grade Debt Index into a Sub-Investment Grade Debt Index is not at all synonymous with moving from an index with healthy buyers, to an index with non-existent buyers and only sellers. The latter, i.e. the sub-investment-grade-debt-indices, are well supported by the current global monetary policy backdrop of Zero to Negative interest rates. A down-grade therefore does not automatically translate to a complete sell-off by foreign investors. Some of it can be offset by capital flows into High Yield Debt Indices / Sub-Investment Grade Debt Indices. Post downgrade announcements, it has been the norm, except in the event of a systemic crisis like the EuroZone Debt Crisis, that “junked bonds” gradually recover with yields compressing back to normalised levels.

For countries like South Africa, where over 90% of the Government Debt is issued in local currency terms, the risk that Government would struggle to service its debt is usually a very low probability tail risk event, because Government has unlimited capacity to increase money supply in domestic currency terms in order to service its debt. This suggests that a downgrade to junk status, especially for local currency issued debt, is not the same as a government defaulting on its debt. To the contrary, many governments that are downgraded to junk status, and where much of the debt was issued in local currency terms, have never defaulted on their bond servicing obligations, suggesting that the risk of capital loss does not quite increase meaningfully to dangerous levels.

SA Nominal Bonds are trading at a very attractive prospective real return range of **CPI+8% to CPI+9%**, after the indiscriminate sell-off of January/February 2020. Prospective real returns in the range of **CPI+8% to CPI+9%** are a once in a generation

Source: Boutique Investment Partners

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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

As is evident from the commentary in this month's feedback, March was a month from hell. South African investors were attacked from all sides - Covid-19, Oil Crash, Ratings Downgrades – which saw the country theoretically go into recession. As was to be expected local assets were sold down aggressively, with global assets not faring much better as they grappled with the same issues in most instances.

These events required a relook at the portfolio which resulted in drastic changes for the better of our investors. Liquidity in the fund was increased, and our underlying manager average fee was lowered. Most of our more illiquid direct offshore exposure was sold out in favour of locally managed offshore funds, to ensure not being caught without the ability to liquidate any of these funds, given the uncertain times. Given our relationship with Boutique Collective Investments preferential fees for the newly elected managers have been secured on your behalf. Although the fee reduction might look small, in times like these every bit helps. Communication so as to familiarise you with the new managers as per the fund returns table will be sent in due course.

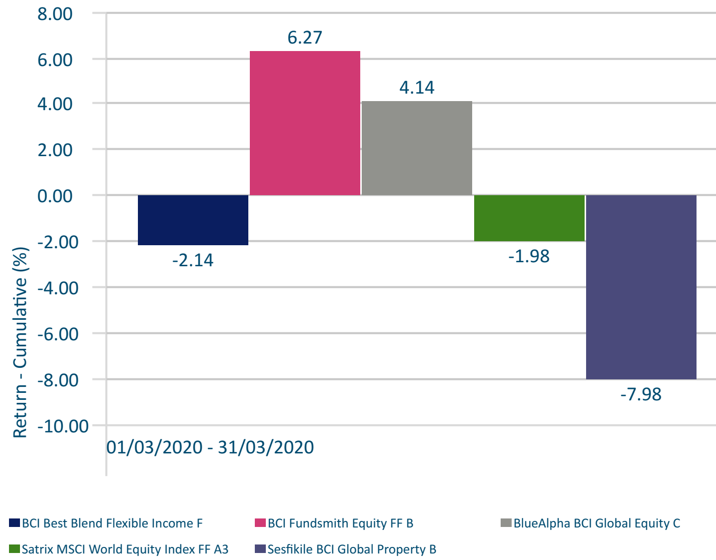
Given these changes Solar managed to evade some of the downside experienced by other global managers (in US Dollar terms.) In Rand terms, given the sell-off, Solar **added** 5.02% for the month, bringing the return over the last year to north of 12%.

Portfolio management at these times require a calm head and staying true to your investment philosophy. This ensures that you do not react to short term noise, but rather consider the longer-term impact of this event and the potential opportunities they present. Given the significantly increased volatility (with large swings to both the down- and upside), we believe it appropriate to retain a well-balanced allocation across the investment styles and asset classes. Although the value of the portfolios has been affected by the current downturn, it is imperative to remember that no losses have been realised. It is only when you sell out of the market or make switches that you lock in a loss.

We continuously assess the economic impact on the portfolios and make the necessary changes when appropriate. We are not changing our process or philosophy given recent market events, but we are increasing our monitoring frequency and we are thinking ahead as to what the next changes and tilts should be given the data available. The role as an investor, although a daunting task, is to not panic. Your capital is invested with fund managers who have a long-term track record of managing capital with great success, including previous periods of market downturns. The portfolios are well diversified across asset classes and geographies, which ensures that your capital is not as volatile as the market.

Underlying Holdings Return - March

Currency: South African Rand



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	12.80	28.55	58.49	162.06
(ASISA) Global MA Flexible (Sector)	10.45	29.68	47.13	207.48
Stefi + 5% (Benchmark)	12.58	43.05	80.87	206.08

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	12.80	8.73	9.64	10.11
(ASISA) Global MA Flexible (Sector)	10.45	9.05	8.03	11.89
Stefi + 5% (Benchmark)	12.58	12.67	12.58	11.83

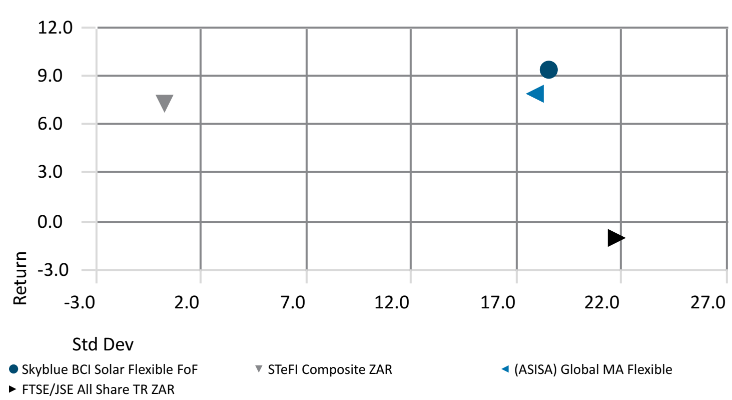
*Annualised return is the weighted average compound growth rate over the period measured.

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%	5.02%										
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 31/03/2020



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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

As is evident from the commentary in this month's feedback, March was a month from hell. South African investors were attacked from all sides - Covid-19, Oil Crash, Ratings Downgrades – which saw the country theoretically go into recession. With local equities posting -12.1%, local bonds returning -9.8%, and local property crashing 37%, there was no hiding in local assets. On the Offshore front, the Rand weakness was barely extensive enough to offset the large losses experienced in global assets.

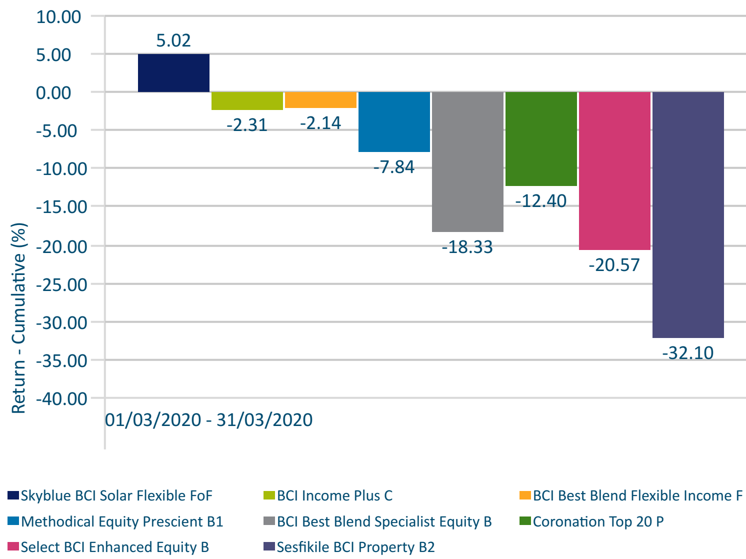
On a relative basis, Cumulus managed to protect some of the downside experienced in the month, but on an absolute basis, given the returns in the market, the fund lost 11.7% for March. Following on from last months commentary regarding the fund restructuring, we have completed the changes by selling out of ABSA Prime Equity, Nedgroup Inv Property, Saffron SCI Opp Income, Investec Diversified Income, and the Satrix funds, with the new allocations being displayed in the return table to the right. Given our relationship with Boutique Collective Investments preferential fees for the newly elected managers have been secured on your behalf. Although the fee reduction might look small, in times like these every bit helps.

Portfolio management at these times require a calm head and staying true to your investment philosophy. This ensures that you do not react to short term noise, but rather consider the longer-term impact of this event and the potential opportunities they present. Given the significantly increased volatility (with large swings to both the down- and upside), we believe it appropriate to retain a well-balanced allocation across the investment styles and asset classes. Although the value of the portfolios has been affected by the current downturn, it is imperative to remember that no losses have been realised. It is only when you sell out of the market or make switches that you lock in a loss.

We continuously assess the economic impact on the portfolios and make the necessary changes when appropriate. We are not changing our process or philosophy given recent market events, but we are increasing our monitoring frequency and we are thinking ahead as to what the next changes and tilts should be given the data available. The role as an investor, although a daunting task, is to not panic. Your capital is invested with fund managers who have a long-term track record of managing capital with great success, including previous periods of market downturns. The portfolios are well diversified across asset classes and geographies, which ensures that your capital is not as volatile as the market.

Underlying Holdings Return - March

Currency: South African Rand



Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-14.69	-11.39	-1.07	78.82
(ASISA) South African MA High Equity (Sector)	-10.43	-2.00	4.70	87.02
Stefi + 3% (Benchmark)	10.43	35.03	64.29	152.53

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-14.66	-3.95	-0.22	5.98
(ASISA) South African MA High Equity (Sector)	-10.41	-0.67	0.92	6.46
Stefi + 3% (Benchmark)	10.41	10.53	10.43	9.70

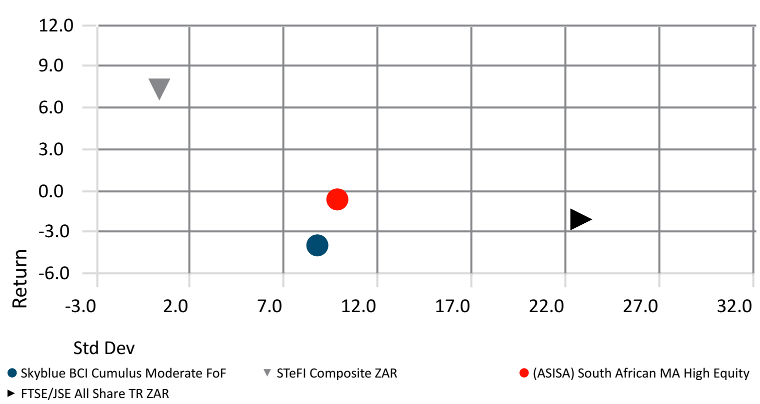
*Annualised return is the weighted average compound growth rate over the period measured.

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%	-11.72%										
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: 01/04/2017 to 31/03/2020



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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

As is evident from the commentary in this month's feedback, March was a month from hell. South African investors were attacked from all sides - Covid-19, Oil Crash, Ratings Downgrades – which saw the country theoretically go into recession. With local equities posting -12.1%, local bonds returning -9.8%, and local property crashing 37%, there was no hiding in local assets. On the Offshore front, the Rand weakness was barely extensive enough to offset the large losses experienced in global assets.

On a relative basis, Kimberlite managed to protect much of the downside experienced in the month, but on an absolute basis, given the returns in the market, the fund lost 4.55% for March. Following on from last months commentary regarding the fund restructuring, we have completed the changes by selling out of Aylett Equity, Nedgroup Inv Property, SIM Enhanced Yield, Investec Diversified Income, and the Satrix funds, with the new allocations being displayed in the return table to the right. Given our relationship with Boutique Collective Investments preferential fees for the newly elected managers have been secured on your behalf. Although the fee reduction might look small, in times like these every bit helps.

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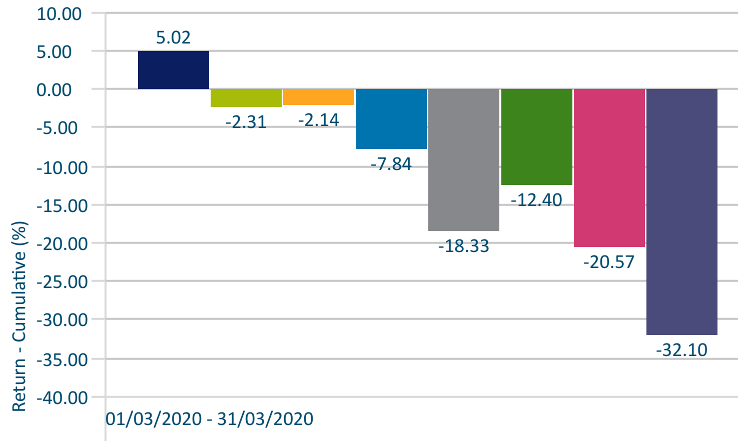
Underlying Holdings Return - March

Currency: South African Rand



- Skyblue BCI Solar Flexible FoF
- BCI Income Plus C
- BCI Best Blend Flexible Income F
- Methodical Equity Prescient B1
- BCI Best Blend Specialist Equity B
- Coronation Top 20 P
- Select BCI Enhanced Equity B
- Sesfikile BCI Property B2

Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-7.58	-4.02	7.60	70.68
(ASISA) South African MA Low Equity (Sector)	-3.10	8.35	19.14	91.68
Stefi + 1% (Benchmark)	8.29	27.32	48.94	107.57

Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	-7.57	-1.36	1.48	5.49
(ASISA) South African MA Low Equity (Sector)	-3.09	2.71	3.56	6.72
Stefi + 1% (Benchmark)	8.27	8.38	8.29	7.58

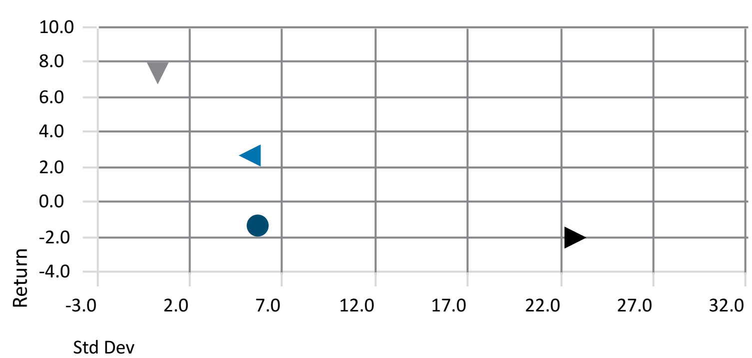
*Annualised return is the weighted average compound growth rate over the period measured.

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%	-4.55%										
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: 01/04/2017 to 31/03/2020



- Skyblue BCI Kimberlite Cautious FoF
- STeFI Composite ZAR
- (ASISA) South African MA Low Equity
- FTSE/JSE All Share TR ZAR

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Source: Morningstar Direct