

## Dissecting October 2020

### Markets

It seems that the 2020 whirlwind is showing no signs of abating, as October continued the rollercoaster ride of many months. Many countries, especially in Europe, went back into lockdown, US citizens were getting ready to vote (while the rest of the world held their breath), the UK moved closer to a “hard” Brexit as Prime Minister Johnson baulks at concluding any deal, and Europe is facing increasing recession risks.

Markets fell on the back of these developments and uncertainties, as well as disappointing earnings reports from some of the large tech shares (which have been market darlings for the year thus far). Significant drawdowns were experienced in the US, UK, and Europe (especially Germany and France), despite strong GDP growth rebounds published for the third quarter. Asian markets performed slightly better, with Japan being down less than 1%, and China rising slightly.

The local market also had another tough month, with equities, property, and the average offshore flexible portfolio all losing significant ground. Contributing to the negative returns from offshore investments was the currency effect of the Rand, as it strengthened throughout the month to finish up by around 3% against the US Dollar. Bonds had a slightly positive month, supported by stable inflation figures for September and attractive real yields.

### US Elections

At time of writing, the final US election results are being tallied, and it remains too early to call. While the two candidates clearly don't see eye to eye and there are significant differences in their presidential ways, there are also some similarities that can be drawn in their preferences and policies. This includes support of accommodative monetary (and fiscal to some extent) policy and increased capital expenditures, preference for a weaker US Dollar, and a tougher stance towards China, albeit that Biden will do this in a much more diplomatic manner.

Either way, with the potential for contested elections, a divided house, and the uncertainty of whether markets would prefer a change in status quo or not, it is best not to bet the house as volatility and market noise will likely persist.

### Medium Term Budget Policy Statement (MTBPS)

Finance Minister Tito Mboweni presented the MTBPS towards the end of October, painting a worsening picture of government finances, but again coupled with some optimistic plans. Key highlights included:

- Tax increases have generated less revenue than expected (becoming less effective), raising the possibility of an increase in personal income tax, and potentially even another VAT rate increase.
- Cost cutting will occur at a slower rate than expected. The economy cannot afford an excessively sharp fiscal consolidation.
- Focus on shifting from consumption to capital expenditure spending (borrow for expenditure on capital assets rather than consumption), again reflecting the need to cut governments' wage bill. A wage freeze has been proposed for the next three years.
- Treasury expects zero-based budgeting to be implemented by 2023.
- Weakened SOE balance sheets continue to put the budget at risk, with an additional R10.5 billion allocated to SAA
- There seems to be a growing focus on electricity generation, Eskom, and breaking up the SOE into its three proposed divisions
- Prescribed assets remain an unlikely funding method

Another important announcement from the MTBPS was the agreement of compulsory annuitisation of retirement benefits from provident funds and provident preservation funds starting 1 March 2021. Under this agreement, workers will have to buy a compulsory annuity with two thirds of their benefit. Contributions made prior to the implementation date will still be accessible as a lump sum, and the change does not apply to members over 55 years. Furthermore, government has initiated a review process of Regulation 28, to allow retirement funds greater access to investments in infrastructure.

### Asset Class Returns - October

Currency: South African Rand



### Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
SA Equity	-5,77	-1,26	2,23	8,67
SA Bonds	4,87	8,49	7,48	7,61
SA Property	-51,57	-26,51	-14,73	0,74
STeFI Composite ZAR	5,94	6,84	7,06	6,41
(ASISA) Global MA Flexible	8,26	6,35	7,21	12,73

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

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# Skyblue BCI Solar Flexible Fund of Funds



Global Multi Asset Flexible Allocation - More than 85% offshore

Benchmark: (ASISA) Worldwide Multi-Asset Flexible Sector Average

## Fund Commentary

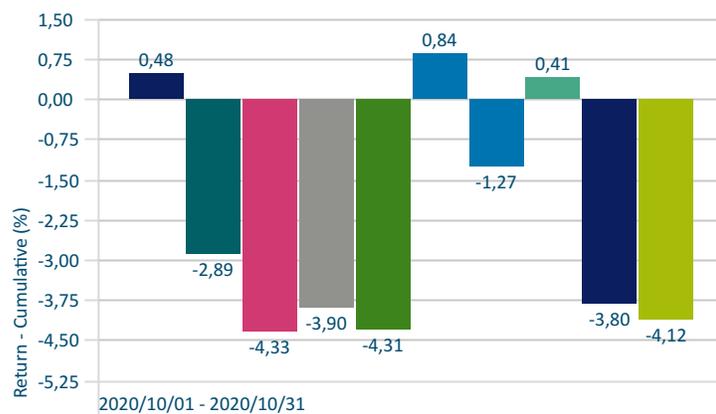
The second wave of COVID19 infection sweeping across the developed world, combined with the pending US election, concerned investors around the globe. Risky assets sold off, either due to the uncertainty and/or market participants banking some profits achieved during the recovery from the initial COVID19 shock. Parts of the globe are going into a second phase of lockdown, which will pose difficult questions to companies still trying to restructure after the initial lockdowns. Global technology shares bucked this trend and continued to add healthy gains to already lofty valuations.

Solar gave away 3.77% on the back of this market uncertainty, as also Rand strength. Local fixed income funds held up well, but all of the offshore holdings gave up returns.

Changes to holdings are being made in November. Our asset allocation views are still the same so we are merely moving the furniture around so to speak. A reminder that Rand strength will hamper returns by the mere nature of the fund, so it is worth remembering that the fund has a 5 year time horizon and is not for investors looking for shorter term returns. In such an instance a local balanced fund will be a better option.

## Underlying Holdings Return - October

Currency: South African Rand



- BCI Best Blend Flexible Income F
- Select BCI Blended Equity Strategy B
- BCI Fundsmith Equity FF B
- BlueAlpha BCI Global Equity C
- Satrix MSCI World Equity Index FF A3
- Anchor BCI Global Technology C
- Coronation Global Em Mkts Flex [ZAR] P
- Anchor BCI Global Technology C
- Vunani BCI Global Macro C
- Reitway BCI Global Property Feeder D

## Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	22,24	32,07	58,25	188,02
(ASISA) Global MA Flexible (Sector)	8,26	20,28	41,69	231,42

## Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Solar Flexible FoF	22,24	9,71	9,61	11,16
(ASISA) Global MA Flexible (Sector)	8,26	6,35	7,21	12,73

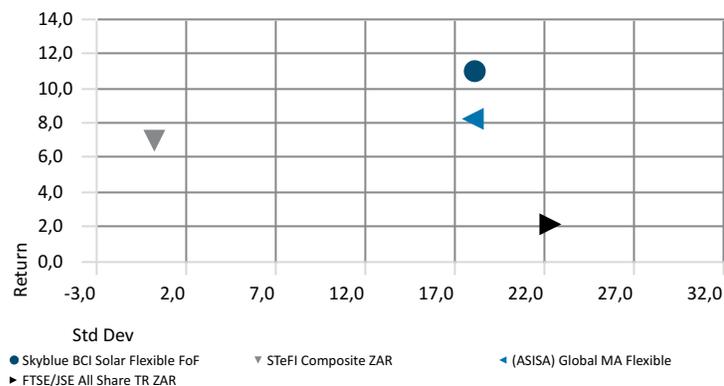
\*Annualised return is the weighted average compound growth rate over the period measured.

## 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%	10,88%	1,06%	0,88%	3,99%	3,75%	-2,17%	-3,77%			
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 2020/10/31



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# Skyblue BCI Cumulus Moderate Fund of Funds



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

Benchmark: (ASISA) South Africa Multi-Asset High Equity Sector Average

## Fund Commentary

As discussed in the Market Overview, October delivered another month of negative returns from most asset classes. SA Bonds and Cash were the only local asset classes with positive returns, and even these were sub 1%, while any positive returns one could have seen in some areas of offshore asset classes would have been offset by the currency effect from the Rand appreciation. The strengthening currency was also felt through losses in the Rand Hedge counters on the local bourse.

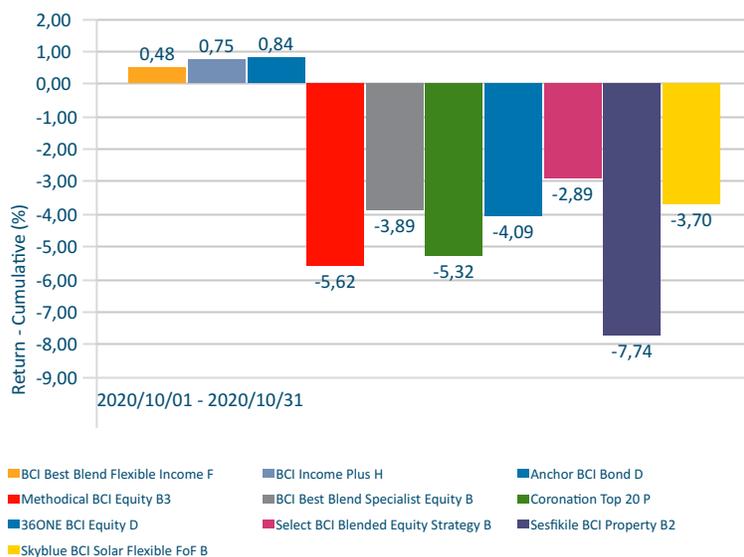
Cumulus, while providing some capital protection, was unable to escape all of the losses and ended the month 2.75% lower. Year to date, the fund is still outperforming the benchmark comfortably.

Our income managers kept their stable return profiles intact for the month, being the only funds to post a small positive return. The local property market took another tumble, with our underlying property manager following suit. The property exposure, however, remains a very small position of less than 2% in the funds.

Global indicators are still showing a positive trend, despite all the short-term noise and uncertainties. Furthermore, with continued accommodative policy, the development of COVID-19 vaccines, and recovery from lockdown measures, we continue to see value in pro-growth assets over the medium term, while being cautious of any disruptions.

## Underlying Holdings Return - October

Currency: South African Rand



## Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-1,48	-4,69	8,70	96,52
(ASISA) South African MA High Equity (Benchmark)	-2,78	0,46	12,70	98,91

## Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Cumulus Moderate FoF	-1,48	-1,59	1,68	6,99
(ASISA) South African MA High Equity (Benchmark)	-2,78	0,15	2,42	7,12

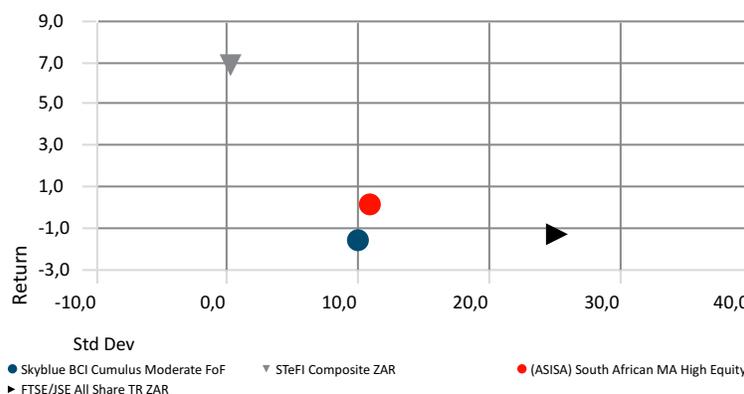
\*Annualised return is the weighted average compound growth rate over the period measured.

## 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%	9,71%	0,70%	3,11%	3,17%	1,61%	-1,82%	-2,75%			
2019	1,93%	1,22%	1,14%	2,16%	-2,32%	0,70%	-0,93%	-2,92%	1,53%	0,62%	-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%	0,78%	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: 2017/11/01 to 2020/10/31



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# Skyblue BCI Kimberlite Cautious Fund of Funds



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

Benchmark: (ASISA) South Africa Multi-Asset Low Equity Sector Average

## Fund Commentary

As discussed in the Market Overview, October delivered another month of negative returns from most asset classes. SA Bonds and Cash were the only local asset classes with positive returns, and even these were sub 1%, while any positive returns one could have seen in some areas of offshore asset classes would have been offset by the currency effect from the Rand appreciation. The strengthening currency was also felt through losses in the Rand Hedge counters on the local bourse.

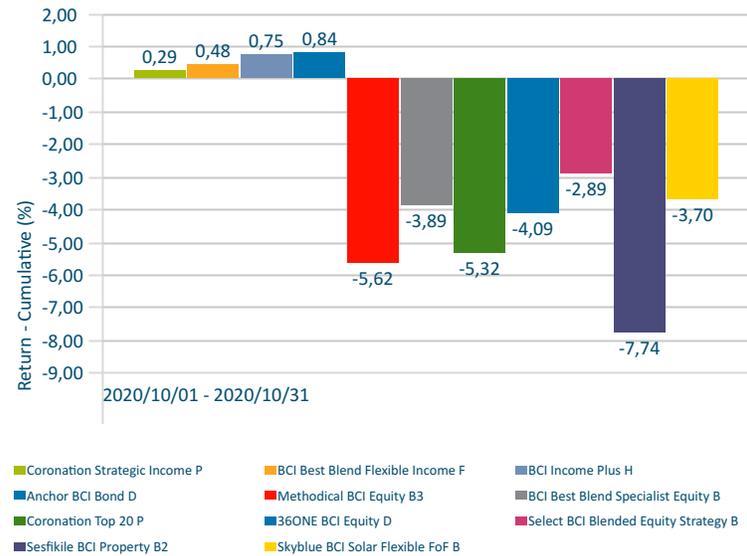
Kimberlite, while providing some capital protection, was unable to escape all of the losses and ended the month 1.04% lower against the benchmark of -1.24%. Year to date, the fund is still outperforming the benchmark comfortably.

Our income managers kept their stable return profiles intact for the month, being the only funds to post a small positive return. The local property market took another tumble, with our underlying property manager following suit. The property exposure, however, remains a very small position of less than 2% in the funds.

Global indicators are still showing a positive trend, despite all the short-term noise and uncertainties. Furthermore, with continued accommodative policy, the development of COVID-19 vaccines, and recovery from lockdown measures, we continue to see value in pro-growth assets over the medium term, while being cautious of any disruptions.

## Underlying Holdings Return - October

Currency: South African Rand



## Calendar Year Returns - Cumulative (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	1,14	-1,39	13,20	76,46
(ASISA) South African MA Low Equity (Benchmark)	0,66	9,53	23,73	97,25

## Calendar Year Returns - Annualised (%)

	1 Year	3 Year	5 Year	10 year
Skyblue BCI Kimberlite Cautious FoF	1,14	-0,47	2,51	5,84
(ASISA) South African MA Low Equity (Benchmark)	0,66	3,08	4,35	7,03

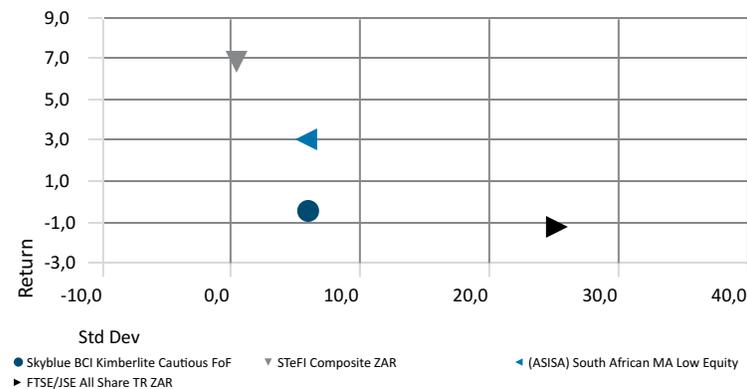
\*Annualised return is the weighted average compound growth rate over the period measured.

## 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%	4,08%	0,90%	1,41%	1,63%	1,35%	-0,93%	-1,04%			
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: 2017/11/01 to 2020/10/31



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THE ART OF INVESTING

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Source: Morningstar Direct