MelvilleDouglas
A Member of Standard Bank Group

Melville Douglas

High Alpha Fund

Fund Review

The fund produced a return of 2.0% for the second quarter of 2019 and a year to date return of 9.1%. Both the measures are behind the All Share index. Most of the underperformance relative to the benchmark can be attributed to the underweight basic materials position and the large underweight position in Naspers relative to the index. The underweight position in Naspers is driven by risk management where Melville Douglas are unlikely to hold much more than a 10% position in any one counter. The fund did not have any exposure to Tongaat Hullet which seem to be facing accounting and balance sheet issues. In addition, the fund had no holding in Sasol which suffered a fall due to further misses on the construction of the ethane cracker. The fund was positively influenced by the overweight position in financial stocks which hada strong performance of the quarter, returning 8.7%.

Market Overview

SA Equity followed on from the strong first quarter in 2019 with a volatile, yet positive outcome, returning 3.9% for the second quarter and bringing the year to date return for the JSE All Share Index to 12.2%. The second quarter had strong returns across all major sectors, but financials were the biggest beneficiary, returning 5.4% as markets began digesting lower interest rates globally. For the calendar year, resources remain the shining beacon, returning 20.7%. The returns over the quarter were very volatile. Markets were buoyed by the continued dovishness from the FED, but the month of May reminded markets that the risks to global growth are still alive and well. The trade tensions between the two global superpowers threaten global growth which is necessary given equity valuations. .

Looking Ahead

In South Africa, local company valuations remain in line with long term averages, but growth remains a key concern. SA GDP for the first quarter came in well below expectations. While lower interest rates could potentially provide some help to consumers and company earnings, more is required to instill business confidence, from a policy certainty perspective and fiscal position.

Quarterly Commentary as at 30 June 2019

Given the strong start to the year, valuations have normalized from the modest valuations at the start of the year. The price we pay for SA equity has become ever more critical given the lack of growth. Although not very expensive, SA equities do not have a large margin of safety and diversification and discipline remain paramount.

The commentary gives the views of the portfolio manager at the time of writing. Any forecasts or commentary included in this document are not guaranteed to occur.