

# Melville Douglas STANLIB High Alpha Fund

Minimum Disclosure Document as at 30 September 2017

## Investment Objectives

The High Alpha Fund is a high-conviction, actively managed, South African listed securities fund. The fund comprises a concentrated portfolio of high quality, superior South African listed businesses hand-picked on fundamental principles. The objectives of this fund are to generate capital growth over the long term, with income generation as a secondary objective. Performance is further enhanced by exploiting short-term market pricing anomalies.

## Investment Philosophy

At the heart of the Melville Douglas's investment philosophy is the preservation of the capital entrusted to us while delivering superior risk adjusted investment returns. We achieve this by focusing on our proprietary investment philosophy and process, which hinge on achieving balance, focusing on the long term, and basing our investment decisions primarily on fundamental research. In all our investments we strive to achieve balance between investment returns and the risk associated with those returns, between capital growth and cash generation, and a balance between compound and cyclical price performers.

## Portfolio Facts

|                       |  |
|-----------------------|--|
| Portfolio Size        | R67.62 million   |
| Sector Classification | South African - Equity - General                                   |
| Income Distribution   | Net revenue is declared on a daily basis and distributed annually. |
| Income Declaration    | 31 December  |
| Benchmark             | FTSE/JSE All Share Index   |

|             | Class A          | Class B1     |
|-------------|------------------|--------------|
| Launch Date | 28 February 2011 | 01 July 2015 |

| Minimum Investment    | Class A  | Class B1 |
|-----------------------|----------|----------|
| Lump Sum              | R 10 000 | R 10 000 |
| Debit Order Per Month | R 1000   | R 1000   |

\* Please refer to page 2 under "Statutory Disclosure and General Terms & Conditions"

|                                     | Class A       | Class B1      |
|-------------------------------------|---------------|---------------|
| ISIN NO.                            | ZAE00154340   | ZAE000207155  |
| JSE Code                            | MDHFA         | MDSB1         |
| Total Expense Ratio                 | 2.43%         | 1.42%         |
| Maximum Portfolio Charges           |               |               |
| Upfront Charge: Manager             | 0.00%         | 0.00%         |
| Upfront Charge: Intermediary        | 0.00% - 3.00% | 0.00% - 3.00% |
| Total Service Charge                | 1.50%         | 1.20%         |
| Service Charge Intermediary Portion | 0.50%         | 0.00%         |

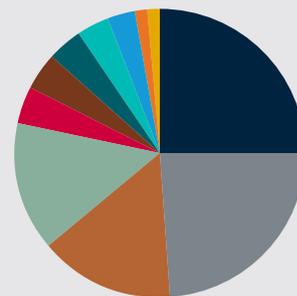
Portfolio charges above are quoted exclusive of VAT

## Cumulative Performance Since Inception



## Sector Allocation

|                             |        |
|-----------------------------|--------|
| Domestic Consumer Services  | 25.13% |
| Domestic Financials         | 23.83% |
| Domestic Basic Materials    | 15.07% |
| Domestic Consumer Goods     | 14.40% |
| Domestic Technology         | 4.30%  |
| Domestic Health Care        | 4.17%  |
| Domestic Industrials        | 3.66%  |
| Foreign Equity Unit Trusts  | 3.65%  |
| Domestic Equity Unit Trusts | 3.18%  |
| Domestic Telecommunications | 1.43%  |
| Domestic Current Account    | 1.18%  |



## Performance (%)

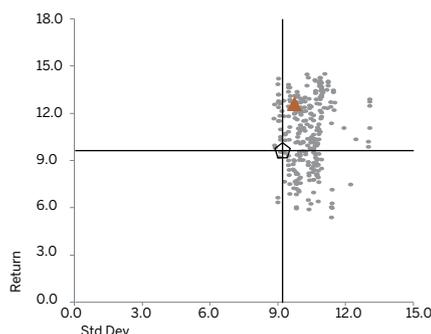
|                                       | 1 year  | 3 years | 5 years | 10 years | Since Inception |
|---------------------------------------|---------|---------|---------|----------|-----------------|
| Class A                               | 3.50    | 6.26    | 12.62   | N/A      | 13.78           |
| Class B                               | 3.71    | N/A     | N/A     | N/A      | N/A             |
| Sector                                | 4.30    | 4.76    | 10.29   | 8.11     | 10.20           |
| Benchmark                             | 10.22   | 7.17    | 12.52   | 9.54     | 12.14           |
| Rank (Class A)                        | 100/164 | 36/128  | 17/98   | N/A      | 5/82            |
| Lowest Return Over 12 rolling months  |         |         |         |          | -6.88           |
| Highest Return Over 12 rolling months |         |         |         |          | 31.08           |

## Top Holdings (%)

|  |        |
|--|--------|
| Naspers Ltd (N Shares)                                 | 13.39% |
| BHP Billiton Plc                                       | 7.41%  |
| British American Tobacco Plc                           | 5.01%  |
| Firstrand Ltd  | 4.09%  |
| Santam Ltd   | 3.80%  |
| Standard Bank Group Ltd                                | 3.73%  |
| Melville Douglas Select Fund Ltd Global Equity Class X | 3.65%  |
| EOH Holdings Ltd                                       | 3.21%  |
| DB X-Trackers Msc World Index                          | 3.18%  |
| MONDI Plc  | 2.95%  |

## Risk Reward

Time Period: 2012/10/01 to 2017/09/30



Source: Morningstar Direct

## Portfolio Risk and Term

Conservative Moderate **Aggressive**

## Income Distribution

| Fund Class | Paid in the last 12 months | Paid during 2016 | 2016 payments as a % of year end price |
|------------|----------------------------|------------------|--|
| Class A    | 2.64 cpu                   | 1.58cpu          | 0.75%                                  |
| Class B1   | 3.21 cpu                   | 3.18 cpu         | 0.85%                                  |

# Melville Douglas STANLIB High Alpha Fund

Minimum Disclosure Document as at 30 September 2017

## Franchise

Since 1983 Melville Douglas has been delivering superior investment returns across a number of asset classes. As a global boutique investment management company within the Standard Bank Group, we are uniquely positioned to offer domestic and offshore investment solutions. What truly sets Melville Douglas apart is our experienced investment team and our approach to investing – driven by balance, a long-term view and a commitment to fundamental research – which informs our investment decisions across the board.

## Total Expense Ratio, Transaction Costs & Total Investment Charge

**Total Expense Ratio (TER):** This shows the charges, levies and fees relating to the management of the portfolio and is expressed as a percentage of the average net asset value of the portfolio, calculated over a rolling three years (where applicable and annualised to the most recently completed quarter. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

**Transaction Costs (TC):** The percentage of the value of the fund as costs relating to the buying and selling of the Fund's underlying assets. Transaction costs are a necessary cost in administering the Fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Fund, investment decisions of the investment manager and the TER.

**Total Investment Charges (TIC):** The percentage of the value of the Fund incurred as costs, relating to the investment of the Fund. As fund returns are reported after deducting all fees and expenses, these costs (the TER & TC) should not be deducted from the fund returns. It is the sum of the TC & TER.

## TER and Transaction Costs Breakdown

| Fund Class | 12 month TER | 36 month TER | 36 month TC | 36 month TIC |
|------------|--------------|--------------|-------------|--------------|
| Class A    | 1.84         | 2.43         | 0.25        | 2.68         |
| Class B1   | 1.42         | 1.42         | 0.25        | 1.67         |

### TER + TC = TIC

Where a transaction cost is not readily available, a reasonable best estimate has been used. Estimated transaction costs may include bond, money market and fx costs (where applicable)

## Portfolio Manager

### Michael Laws

Michael is the Managing Director of Melville Douglas. He has been involved in investment since 1998. He holds a BCom and is a Chartered Financial Analyst.

### Greg Wood

Greg has been a research analyst and portfolio manager at Melville Douglas since 2006. Greg holds a Business Science Degree from Rhodes University and is a Chartered Financial Analyst.

## Fund Features

The fund is a pure equity portfolio, with the objective of delivering returns in excess of the FTSE/JSE All Share over time.

## Risk

General market risks such as:

- » Unfavourable market movements
- » Volatility
- » Economic and political risk
- » Company Risk.

Where foreign securities are included in the portfolio there may be additional risks, such as potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, tax risks, settlement risks, and potential limitations on the availability of market information.

## Statutory Disclosure and General terms & Conditions

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments (Rf) Pty Ltd (the Manager).

Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies. The Manager carries full responsibility for this third party portfolio. This portfolio is valued on a daily basis at 15h00\*. Investments and repurchases will receive the price of the same day if received prior to 15h00.

The Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as operating costs expressed as a percentage of the daily average value of the portfolio calculated over a period of usually a financial year. Typical expenses which are deducted from a portfolio include service charges, taxes, trustee fees and audit fees.

Additional information about this product, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge, and from the website: [www.stanlib.com](http://www.stanlib.com). The prices of unit trust funds are calculated and published on each working day. These prices are available on the Manager's website and in the South African printed news media.

The performance is calculated for the portfolio, as well as that the individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.

The manager does not provide any guarantee either with respect to the capital or the return of a portfolio.

\*Prior to 8 August 2016, this portfolio was valued on a daily basis at 15h30.

## Contact Details

### Melville Douglas Investment Management (Pty) Ltd

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An authorised financial services provider

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STANLIB Collective Investments (RF) Pty Limited Reg. No. 1969/003468/07

Trustees: Standard Chartered Bank, 4 Sandown Valley Crescent, Sandton, 2196  
Tel: 011 217 6600

**Compliance No:**

**Publishing Date:** 25 October 2017

## Quarterly Comment

The quarter was a strong one for equity. The JSE more than recovered from the June quarter's rout which followed the cabinet "reshuffle". Over the quarter, the fund underperformed the market, mainly because it was underweight basic materials (though the holdings did very well) and Naspers, and had some poor performers in IT and an overweight position in healthcare. Our Billiton and Anglo American holdings delivered a return of 22% and 42% respectively. Naspers, Anheuser-Busch, Richemont and the banking exposures through Firstrand and Standard Bank all contributed positively to the absolute performance. The holding in EOH was down 24% for the quarter. We have had numerous meetings, both internal and with management. At this stage, we believe the company is offering good value.

The year has been remarkably good to investors. That is thanks to the favourable global backdrop: strong economic growth, accommodative central banks, sustained recovery in corporate earnings and continued low interest rates. South Africa has had astonishing challenges, mainly political, but because markets had already adjusted for the deterioration last year, returns have been satisfactory, even if they have not kept up with other emerging markets, which have been the star performers so far this year. The economy should be performing much better in this global environment, and even though Q2 GDP growth rebounded from recession, it was narrowly based (agricultural recovery mainly) and the transmission from strong global demand to domestic demand is not working because household and business confidence have been badly undermined. Globally, the central bank debate has moved on from "whatever it takes" determination to create growth, to worrying about the emergence of inflation and the need for a gradual change in policy to avoid disruptive changes later. This means the world will be different in 2018, and there may be higher volatility as the impact of central bank action becomes less certain. At home, South Africa's governance challenges have become all too clear, among them the financial weakness of state-owned enterprises, which now threatens the sovereign credit rating. The latest bailout of the national airline is obviously damaging, but in the short run it is the only answer, given the threat that default would pose. The presentation of the Medium Term Budget in October will be important for what it reveals regarding government's commitment to fiscal stability and plans to return floundering state-owned entities to financial viability, but the challenges are substantial: tax revenues are under severe pressure. Late in the year there are the challenges of the ANC's elective conference and scheduled reviews from credit rating agencies. The fact that the domestic economy should by now be responding very healthily to the strong global environment, but remains stuck, is purely down to the impact of politics on interest rates and confidence. The Reserve Bank is forced to keep real interest rates high to maintain stability. Household and corporate finances are in a healthy state and the banking system could easily fund a cyclical upswing, but demand will stay weak until confidence returns, which requires a sensible political outcome. The rest of the year and 2018 may prove somewhat more volatile than 2017 so far. Valuation and diversification are paramount.