

# Melville Douglas STANLIB High Alpha Fund

Minimum Disclosure Document as at 31 December 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	R68.12 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

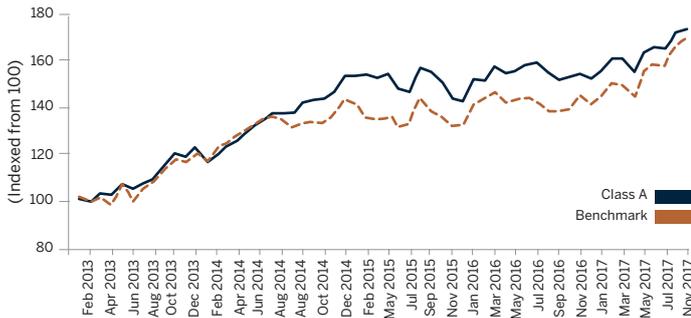
Minimum Investment	Class A	Class B1
Lump Sum	R 10 000	R 10 000
Debit Order Per Month	R 1000	R 1000

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

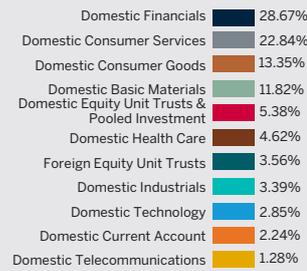
	Class A	Class B1
ISIN NO.	ZAE000154340	ZAE000207155
JSE Code	MDHFA	MDSB1
Total Expense Ratio	2.43%	1.42%
Maximum Portfolio Charges		
Upfront Charge: Manager	0.00%	0.00%
Upfront Charge: Intermediary	0.00% - 3.00%	0.00% - 3.00%
Total Service Charge	1.50%	1.20%
Service Charge Intermediary Portion	0.50%	0.00%

Portfolio charges above are quoted exclusive of VAT

## Cumulative Performance Since Inception



## Sector Allocation



## Performance (%)

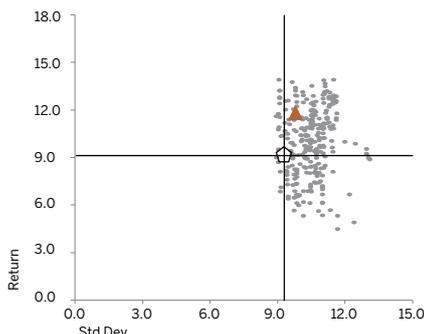
	1 year	3 years	5 years	10 years	Since Inception
Class A	14.66	6.94	12.06	N/A	14.30
Class B	14.87	N/A	N/A	N/A	N/A
Sector	12.50	5.79	9.59	8.67	10.55
Benchmark	20.95	9.27	11.93	10.66	12.84
Rank (Class A)	58/165	43/128	18/103	N/A	6/82
Lowest Return Over 12 rolling months					-6.88
Highest Return Over 12 rolling months					31.08

## Top Holdings (%)

Naspers Limited	13.17%
Billiton Plc	6.99%
Standard Bank	5.46%
Sygnia Itrix Index	5.38%
First Rand Limited	5.36%
British American Tobacco Plc	4.87%
Santam Ltd	3.92%
Melville Douglas Select Fund Ltd Global Equity	3.55%
Coronation Fund Managers Ltd	3.15%
Ascendis Health Ltd	2.87%

## Risk Reward

Time Period: 01-Jan-13 to 31-Dec-17



▲ Melville Douglas STANLIB High Alpha A  
○ (ASISA) South African EQ General

Source: Morningstar Direct

## Portfolio Risk and Term

Conservative	Moderate	<b>Aggressive</b>
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## 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	1.51%

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## 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	2.54	0.24	2.78
Class B1	1.42	1.42	0.24	1.66

### 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

8th Floor West Wing, 30 Baker Street, Rosebank, 2196 PO Box 411184, Craighall, 2024, South Africa

Tel: +27 (0)11 721 7964 Fax: +27 (0)86 202 7235 [www.melvilledouglas.co.za](http://www.melvilledouglas.co.za)

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An authorised financial services provider

## Contact Details

17 Melrose Boulevard, Melrose Arch, Johannesburg, South Africa  
PO Box 202, Melrose Arch, 2076  
Contact Centre 0860 123 003  
[www.stanlib.com](http://www.stanlib.com)

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:** HX3980

**Publishing Date:** 20 January 2018

## Quarterly Comment

The quarter was another strong one for equity. The JSE was up over 7%, boosted at the end by strong performance from financials and other sectors sensitive to domestic SA demand. The portfolio's equity outperformed the market in the quarter, helped by its overweight position in financials but also by some specific retail exposure that were up very strongly. The underweight holding in Naspers continued to be a negative factor on a relative basis, and the fund's IT holdings did poorly. Consumer services, financials, industrials and real estate returned 15%, 19%, 20% and 16% respectively over the quarter. Relative performance was helped by the lack of any exposure to Steinhoff or its related companies. The Steinhoff collapse started with the company delaying the release of its 2017 financials, and then announcing "accounting irregularities" and firing the chief executive. The company has significant liquidity problems and it will be some time before the full story is revealed. It may turn out to be one of the largest corporate failures in SA history. We did not own it because we could not assess too many risks, and because the wider group has a poor governance history in respects we think are particularly important. The rand strengthened over 10% against the US dollar in the quarter, undermining the return from the rand hedges and the tactical position in global equity holdings which did well in dollar terms.

2017 produced high returns for equity investors, both globally and in SA. High returns globally were supported by strong earnings growth, but were also the result of much higher ratings: as the year progressed investors became more convinced that low interest rates were here to stay. 2018 may prove less straightforward globally. Strengthening economic growth and the US's additional fiscal push at a moment of low unemployment may prove to be a combination that tests the limits of the "new normal": the Fed may be forced into more aggressive action sooner than it thinks. In SA, nothing was straightforward at all: because of the politics, markets lurched from one cabinet reshuffle to the next rating downgrade threat and back again, and then had to endure the Steinhoff disaster. In the end, the ANC elective conference outcome (in which Cyril Ramaphosa was elected ANC president and who is therefore the country's president-in-waiting) was taken very kindly by markets even though it was ambiguous as to how much decision-making power rests in the new president's hands. The rand strengthened sharply and the long bond yield fell. Greater policy clarity, specifically on the issue of fiscal sustainability (which president Zuma has done his best to undermine) will emerge over the next quarter. This will be key for the outcome of the next rating review, due from Moody's in March. A more stable political environment will also boost consumer and business confidence; if so, the Reserve Bank has plenty of scope to support a recovery by reducing interest rates. Some SA assets are no longer cheap, but the domestic economy has lagged the world badly, and it now has an opportunity to correct that. The political situation is not fixed, and the global uncertainties will rise as 2018 advances. Investors need to be wary of prices, diligent regarding valuation and be sure that diversification is adequate.