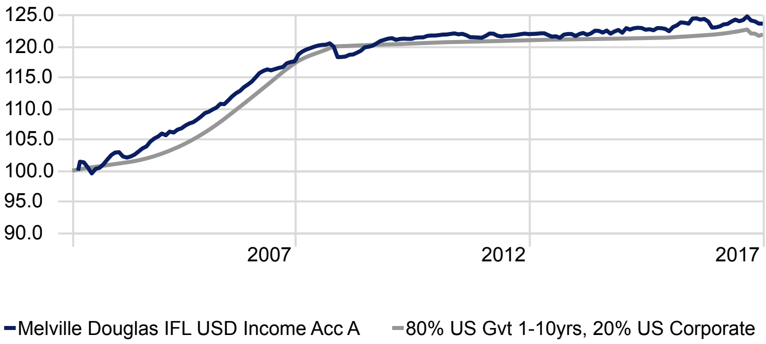
Melville Douglas Income Fund Ltd
US Dollar Class

Minimum Disclosure Document as at 31 December 2017

MelvilleDouglas
A Member of Standard Bank Group

Investment Growth***



Trailing Returns***

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years
Melville Douglas IFL USD Income Acc A	0.0	0.5	0.5	0.4	0.3	0.5
80% US Gvt 1-10yrs, 20% US Corporate	0.2	0.0	0.0	0.2	0.2	0.4

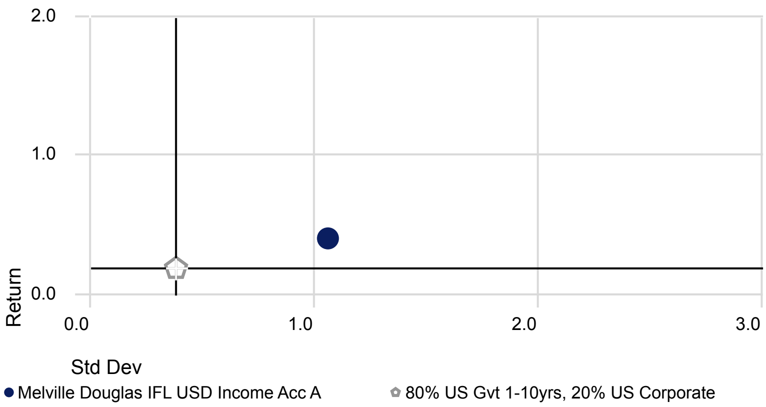
Risk Matrix *

	Class A	Benchmark
Information Ratio (arith)	0.2	
Std Dev	1.1	0.4
Sharpe Ratio **	-0.3	-0.3
Best Month (In Last 3 Years)	0.7	0.2
Worst Month (In Last 3 Years)	-0.8	-0.5

Monthly Returns***

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	0.1	0.3	0.1	0.3	0.3	-0.2	0.2	0.5	-0.5	-0.1	-0.3	0.0	0.5
2016	0.6	0.2	0.4	0.0	-0.1	0.7	0.0	-0.2	0.1	-0.3	-0.8	0.0	0.5
2015	0.6	-0.2	0.2	0.1	0.0	-0.2	0.1	-0.1	0.3	0.0	-0.1	-0.3	0.2
2014	0.3	0.1	-0.2	0.2	0.4	0.0	-0.2	0.3	-0.4	0.3	0.2	-0.4	0.4
2013	0.0	0.0	0.1	0.0	-0.2	-0.2	0.0	-0.2	0.4	0.1	0.0	-0.3	-0.3

Risk-Reward *

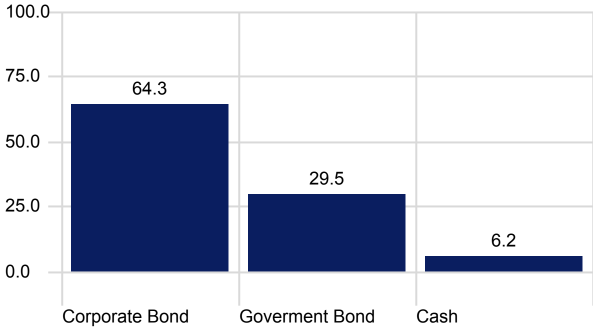


Not to be distributed within the European Union

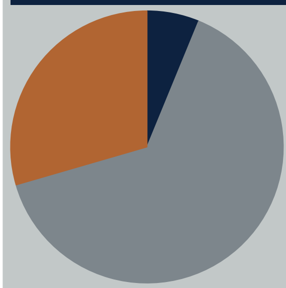
Investment Objective

To provide a return in excess of the benchmark in US Dollars, whilst maintaining a high degree of capital preservation by investing in quality fixed interest securities, selected collective investment vehicles, money market instruments and cash in order to maximise investment returns in US Dollars.

Security Sector



Asset Allocation



	%
Cash	6.2
Corporate Bond	64.3
Government Bond	29.5
Total	**100.0**

Operations

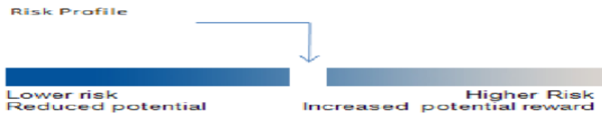
Price Date	2017/12/31
Month end price (USD)	$ 161.7
ISIN - Class A	JE00B54RMC79
Fund AUM (m)	$ 53.0

Fund Managers

Karl Holden
Karl specialises in global fixed income and currency markets. He is also a co-manager of the Melville Douglas Balanced Fund. Karl is a Chartered Wealth Manager, Fellow of the Chartered Institute for Securities and Investment and holds the Private Client Investment Advice and Management Certificate.

Bernard Drotschie
Bernard is the Deputy Chief Investment Officer and is head of the SA fixed income strategy. He holds a B.Com (Hons) degree in Econometrics, is a CFA® Charterholder, and is a Certified Financial Planner™ professional.

Portfolio Risk



* Data is displayed over a 3 year rolling period
** Risk free rate = US Treasury T-Bill 3 Months
*** Class A since inception. Information compiled using Morningstar based on the most recent published information available to Morningstar at the end of the relevant period. This information is for illustrative purposes only. The benchmark of the fund at launch was 100% USD Libor Overnight. This was changed on 31 August 2017 to 80% US Govt 1-10 years/ 20% US Corporate Bond

Source: Morningstar Direct, Melville Douglas Investment Management

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Additional Information

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.

The risk rating seen on page 1 is designed to give an indication of the level of risk, measured by volatility, associated with this specific portfolio. In order to arrive at the specific risk rating of the portfolio in question, Melville Douglas measures the volatility of the fund, in the form of standard deviation, over a three year rolling period, and compares the result to internal risk parameters. Please note that these risk ratings are designed as a guide only

Other Fund Facts

Manager	STANLIB Fund Managers Jersey Limited
Investment Manager	Melville Douglas Investment Management (Pty) Ltd
Custodian	Link Corporate Services (Jersey) Limited
Auditors	PwC, Ireland
Fund Directors	H.Holmes, GS.Baillie, M.Farrow, and O.Sonnbichler
Registered Office	47-49 La Motte Street, St Helier, Jersey
Publication Date	25 January 2017
Compliance No.	HX2798

Share Class ISIN

Class A	JE00B54RMC79
Class B	JE00BF1CWN63

Minimum Investment

Class A	USD 15 000
Class B	USD 2 500

Launch Date

Class A	March 2003
Class B	01 September 2017

Fund Costs- 12 months

Fee Class	Management Fee	TER	TC	TIC
Class A	0.80%	0.86%	0.01%	0.87%

TER = (Total Expense Ratio), TC = (Transaction Costs) ,TIC = (Total Investment Cost ; 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). Where a Share Class has been in existance for less than 12 months, no TER is reflected.

Fund Costs- 36 months

Fee Class	Management Fee	TER	TC	TIC
Class A	0.80%	0.76%	0.01%	0.77%

TER = (Total Expense Ratio), TC = (Transaction Costs) ,TIC = (Total Investment Cost ; 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). Where a Share Class has been in issue for less than 36 months, not TER is reflected.

Contact Details

Melville Douglas Investment Management (Pty) Ltd

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

Telephone:+27 (11) 721 7964 Fax: +27(0)86202 7235

www.melvilledouglas.co.za

Statutory Disclosure and General terms and Conditions

This document does not constitute an offer to buy or a solicitation of an offer to buy or sell shares of the Fund in any jurisdiction in which an offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer of solicitation and is for information purposes only. Subscriptions will only be received and shares issued on the basis of the current prospectus and prospective investors should carefully consider the risk warnings and disclosures for the Fund set out therein. The value of shares may go down as well as up and investors may get back less cash than originally invested. 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. Past performance is not necessarily a guide to future performance. An investment in the shares of the Fund is not the same as a deposit with a banking institution. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Please refer to the prospectus for more details on the charges and expenses that may be recovered from the Fund. Shares are valued on a daily basis using 23:59 (UK Time) prices. Transaction requests received before 14h30 (UK Time) will receive the following day unit price. This is an accumulation portfolio and does not distribute income. Transaction requests received before 14h30 (UK Time) will receive the following valuation point unit price. This is an accumulation portfolio and does not distribute income. Telephone calls may be recorded. Capita Trust Company (Jersey) Limited, STANLIB Fund Managers Jersey Limited, Standard Bank International Investments Limited are regulated by the Jersey Financial Services Commission. The fund is also regulated by the Jersey Financial Services Commission

Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending.

Representative Agreement exists between Standard Bank International Investments Limited and Melville Douglas Investment Management (Pty) Ltd appointing Melville Douglas Investment Management (Pty) Ltd as the sole representative for the investment management functions performed in South Africa. Melville Douglas Investment Management (Pty) Ltd is a company registered in South Africa with company number 1987/05041/07, and a subsidiary of Standard Bank Group Limited. Melville Douglas Investment Management (Pty) Ltd is licensed as a financial services provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002). The representative for the fund in South Africa is STANLIB Collective Investments (RF) Pty Ltd.

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

Fund Prospectus, application forms as well as annual and interim financial statements, are available at www.melvilledouglas.com

Source: Morningstar Direct, Melville Douglas Investment Management

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Quarterly Commentary

Duration positioning within the Fund remains defensive as we continue to expect higher government bond yields in the months ahead. Ten-year US treasury yields ended the year almost exactly where they started which is somewhat at odds with the solid economic backdrop and ongoing tighter monetary response from the Federal Reserve. The major theme of 2017 has been the significant flattening of the yield curve which historically has heralded the onset of an economic slowdown, and on the last seven occasions, a recession.

However, this time, we think it remains too early to jump to these conclusions. Rising short-term yields are merely a response to the hikes in interest rates and the fact that longer-dated yields have not responded in a similar fashion can be explained by a number of factors. Most important amongst these is the current low level of inflation, which when combined with ongoing global demand for yield and low volatility has been more than sufficient to eradicate the term premium investors usually demand for holding more volatile longer-dated debt. The lack of inflation remains a conundrum, not least for the Federal Reserve whose best explanation remains to describe it as ‘transitory’ given its defiance of tested economic models such as the Phillips Curve (i.e. the relationship between falling unemployment and price growth). Without doubt, debt deleveraging, demographics, globalisation, technology ‘et al’ have played their part in subduing inflation but the ongoing strength of the economy and employment market continue to indicate higher inflation ahead – it will just take a while longer this time around. In anticipation of this outcome, the Fund remains overweight the index-linked market via a short-dated US Treasury issue.

Whilst virtually unchanged this year, ten-year yields remain some 1% higher than their recent lows seen in the third quarter of 2016. For the year ahead we expect this normalisation (higher yields) to continue, albeit in an ongoing sporadic fashion. The Federal Reserve appear committed to their tightening cycle and expectations are for three more 0.25% hikes in the year ahead. If the Fed sticks to its ‘dot plot’ then ten-year yields should move towards 3% in the coming quarters, hence our reticence to abandon our defensive strategy. The now agreed tax cuts should provide a short term boon for the economy and importantly, this will also translate into the need for much higher US Treasury sales in the year ahead at the same time as the Fed’s balance sheet unwind gathers pace, both of which should lift yields. Taking a global perspective, economies around the world are finally experiencing synchronised growth and central banks are responding by moving away from the ultra-easy monetary policies that have supported bond markets since the global financial crisis that started a decade ago.

The Fund remains overweight investment grade credit relative to US government debt. At current levels, credit spreads have limited upside, yet with yields still low by historical standards, the additional yield over and above government bond yields remains attractive.

Favourable interest rate and growth differentials failed to stem the decline in the US Dollar in 2017, particularly against the Euro which proved to be the stand-out currency of the year. Bull runs in the US Dollar, based on historical metrics, typically last around six years and given its ascent since 2011 it appears the market did not wish to test this trend. The US economy remains on a firm footing and further rate hikes in 2018 will add to the already wide and positive interest rate and yield differentials versus the Euro, Yen and Sterling. Under normal market conditions this should lend support to the US Dollar but given the extent of gains in the rear view mirror it is hard to argue against the fact that much has already been priced in. This leaves something of a dilemma for currency investing, namely, is it wise to abandon US Dollar bond yields of circa 2% plus to allocate to Euros or Yen where yields and cash rates are more than often negative. Put simply, lack of, or indeed negative ‘carry’ in these currencies dictates that conviction levels, if allocating, need to be extremely high. We cannot argue that over the long haul, the prospects for the Euro are looking healthier but markets have a habit of front-loading good news and 2017’s rapid appreciation may have just taken the Euro far enough for now. We may take advantage of any short term retracement in the Euro to begin building an allocation but for now, the Fund remains 100% invested in the US Dollar.

Overall, the strategy remains one of limiting downside risk in an environment where we continue to forecast higher yields in the coming quarters. Global synchronised growth patterns and less accommodative central bank policies should ensure that global government bond yields continue to normalise. We aim to continue to gradually increase the duration of the fund at more attractive yield levels as this process unfolds

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