# Fairtree Balanced Prescient Fund

Minimum Disclosure Document - Class A1

May 2017

FAIRTREE CAPITAL

## FUND OBJECTIVE

The Fairtree Balanced Prescient Fund aims to generate long term wealth for investors by producing inflation beating returns while minimising the risk of capital loss and maximising its ability to achieve the return objective. The fund is managed within the statutory limits that govern retirement funds (Regulation 28).

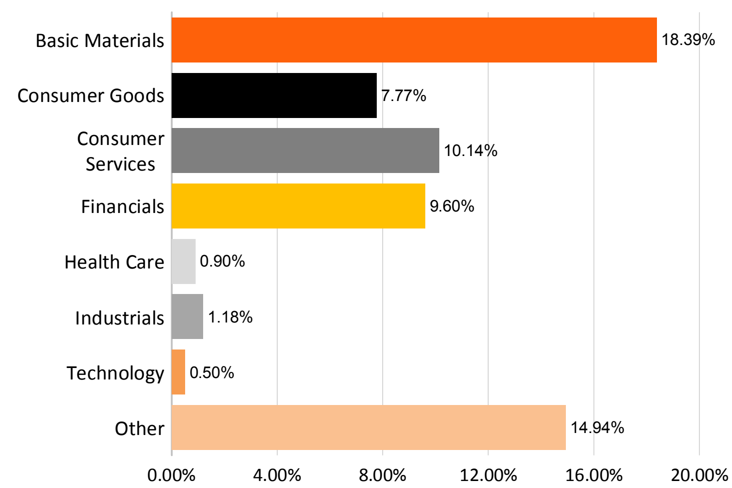
## INVESTMENT POLICY

The fund invests in a diverse combination of equities, property, bonds and money market instruments. Up to 25% of the fund may be invested in foreign securities. Derivatives may be used for risk and efficient portfolio management purposes. The fund is managed against a custom benchmark that also forms the strategic asset allocation for the fund. The fund is actively managed, both at security and asset class level to create capital growth while preserving capital on a real (above inflation) and absolute basis.

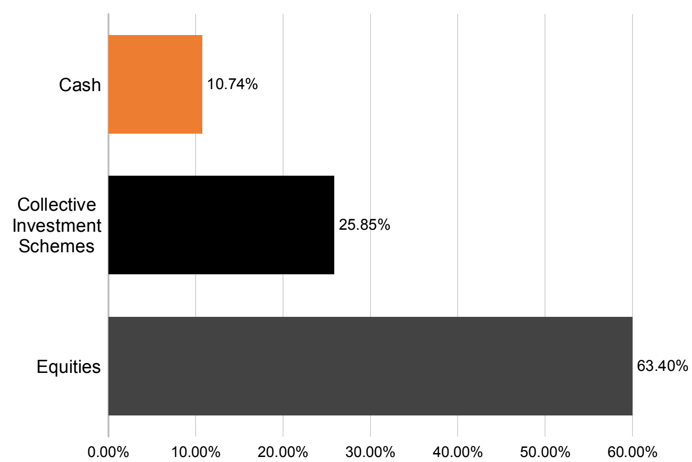
## HISTORICAL PERFORMANCE SINCE INCEPTION

**Performance data currently not available**

## SECTOR ALLOCATION (SA EQUITY)




## ASSET ALLOCATION




## FUND INFORMATION

**Portfolio Manager(s):**

**Jacobus Lacock (Asset Allocation)**
B Comm(Financial Economics), CFA
Joined Fairtree in 2011

**Stephen Brown (SA Equity)**
B Comm, MBA, CFA
Joined Fairtree in 2011

**Rademeyer Vermaak (Global Equity)**
M Eng (Electronic), CFA
Joined Fairtree in 2012

**Paul Crawford (Fixed Income)**
BSc Eng(Elec), MBA, CFA
Joined Fairtree in 2013

| | |
|---|---|
| **Inception date:** | 18 April 2017 |
| **Fund size (in Millions):** | R 1.01 |
| **JSE code:** | FBPA1 |
| **Unit Price:** | 100.01 |
| **ISIN Number:** | ZAE000236360 |
| **Domicile:** | South Africa |
| **Fund Structure:** | CISCA (Unit Trust) |
| **Fund Category:** | SA Multi-Asset High Equity |
| **Regulation 28 Complaint:** | Yes |

### Cost Ratios (incl. VAT):

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|---|---|
| **Total Expense Ratio (TER%):**<br>**Performance fee incl. in TER (%)(PF%):**<br>**Transactions Costs Ratio (TC%):**<br>**Total Investment Charges (TIC%):** | The TER and Transaction Costs cannot be determined accurately because of the short life span of the Financial Product. Calculations are based on actual data where possible and best estimates where actual data is not available. The best estimate of the TER,TC and TIC will be shown as at 31 July 2017. |
| **Fees:** | **Initial Fee - Adviser (incl. VAT):** 0%<br>**Annual management fee:** 1.425% (incl. VAT)<br>**Performance fee:** N/A |
| **Benchmark:** | 60% FTSE/JSE Shareholder Weighted Total Return Index + 40% JSE/All Bond Total Return Index. |
| **Analysis Currency:** | ZAR |
| **Minimum Investment:** | R50,000 Lump sum or R1,000 p/m debit order |

**Please see Disclosures and Glossary section for further information on Cost Ratios**

### Income Distribution:

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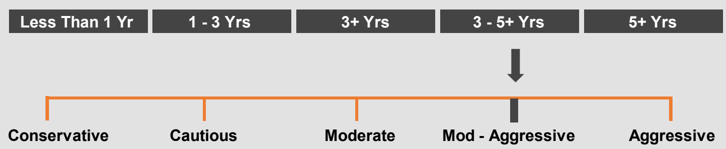
|---|---|
| **Declaration:** | March (Annually) |
| **Payment:** | N/A |
| **Distribution Total for the past 12 months:** | N/A |
| **Management and administration:** | Prescient Management Company (RF) (Pty) Ltd |
| **Valuation time of fund:** | 15:00 |
| **Transaction cut-off time:** | 15:00 |

## RISK PROFILE




### Risk Level: Moderate - Aggressive

These portfolios generally hold more equity exposure than low risk portfolios but less than high risk portfolios. In turn the expected volatility is higher than the low risk portfolios but less than high risk portfolios. The probability of losses are higher than that of the low risk portfolios, but less than high risk portfolios. Expected potential long term investment returns could therefore be lower than high risk portfolios due to lower equity exposure, but higher than low risk portfolios.

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## GLOSSARY

| | |
|---|---|
| **Annualised performance** | Annualised performance show longer term performance rescaled to a 1 year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request. |
| **Highest & Lowest return** | The highest and lowest returns for any 1 year over the period since inception have been shown. |
| **NAV** | The net asset value represents the assets of a Fund less its liabilities. |
| **Alpha** | Denoted the outperformance of the fund over the benchmark. |
| **Sharpe Ratio** | The Sharpe ratio is used to indicate the excess return the portfolio delivers over the risk free rate per unit of risk adopted by the fund. |
| **Sortino Ratio** | The Sortino Ratio is used to measure the risk-adjusted return of the fund. |
| **Standard Deviation** | The deviation of the return stream relative to its own average. |
| **Max Drawdown** | The maximum peak to trough loss suffered by the Fund since inception. |
| **Max Gain** | Largest increase in any single month. |
| **% Positive Month** | The percentage of months since inception where the Fund has delivered positive return. |
| **Average Duration** | The weighted average duration of all the underlying interest bearing instruments in the Fund. |
| **Average Credit quality** | The weighted average credit quality of all the underlying interest bearing instruments in the Fund (internally calculated). |
| **Dividend Yield** | The weighted average dividend yield of all the underlying equity in the Fund. The dividend yield of each company is the dividends per share divided by the price. |
| **PE Ratio** | The weighted average price earnings ratio of all the underlying equity in the Fund. The price earnings ratio of each company is the price divided by the earnings per share. |
| **High Water Mark** | The highest level of performance achieved over a specified period. |
| **Total Expense Ratio (TER%)** | The Total Expense Ratio (TER) is the percentage of the net asset value of the class of the Financial Product incurred as expenses relating to the administration of the Financial Product. |
| **Performance fee incl. in TER (%)(PF%)** | The Performance Fee is a payment made to the Fund Manager for generating positive returns, and is generally calculated as a percentage of investment profits, often both realized and unrealized. |
| **Transactions Costs (TC%)** | The Transaction Costs (TC) is the percentage of the net asset value of the Financial Product incurred as costs relating to the buying and selling of the assets underlying the Financial Product. |
| **Total Investment Charges (TIC%) = (TER (%) + TC** | The Total Investment Charges (TIC), the TER + the TC, is the percentage of the net asset value of the class of the Financial Product incurred as costs relating to the investment of the Financial Product. It should be noted that a TIC is the sum of two calculated ratios (TER+TC). |

## MARKET COMMENTARY

Heightened global political uncertainty and a mixed bag of economic data have set the outlook for global nominal growth on a lacklustre path. With Trump fighting political scandals in the US and Italy facing elections later this year, the outlook for global fiscal and monetary policies has become less certain. A market expectation of US tax cuts has faded and in Europe the ECB continues to deal with political risk despite an improving economic backdrop. Globally, the strong economic data we have seen over the first quarter of the year has moderated and inflation measures have rolled over on the back of lower energy prices and absent wage pressures. Despite the political noise, market measures of volatility have remained very low and combined with low yields and a low growth outlook, it has boosted investors' search for higher yields. Emerging market assets have done well in this environment.

In the US, first quarter growth was revised up from 0.7% to 1.2%. Forward looking data suggests that the US industrial economy remains strong while the services and consumer side of the economy has moderated slightly. We continue to believe that the gradual recovery will continue while the labour market remains strong. With the unemployment rate falling further to 4.3% and consumer confidence high, we expect second quarter growth to be strong. Wage pressures have remained low despite the strong growth in jobs and inflation has eased further due to base effects from energy prices. We expect the Fed to hike rates by 0.25% at its upcoming meeting in June.

In China the economy continues to grow at a steady pace supported by a robust services sector and stable outlook for consumption. However, the industrial side of the economy has experienced a slowdown in economic activity and looking ahead we expect this moderation to continue as monetary conditions tighten further to curb the rapid increase in leverage and house prices.

In Europe French elections are out of the way and the focus shifts to Italy which may have elections later this year. In Italy the anti-European sentiment has increased significantly and may be a source of risk. At the same time economic data out of Europe has been strong and the European Central Bank may be tempted to start talking about reducing asset purchases as growth in Europe continue to run above trend as Q1 GDP came in at 1.9%. However, with inflation falling further, the ECB will remain very accommodative over the short term.

With growth on a gradual growth path and the outlook for monetary policy accommodative, the backdrop for emerging markets remains healthy. Commodity prices remain supported by stronger global growth and weaker US dollar. Emerging market fundamentals have improved markedly over the last two years and continue to offer attractive yields. We favour those emerging markets that will benefit from an improving external environment and are able to implement easy monetary policy.

In South Africa economic activity has stalled due to political infighting and concerns about corruption. The latest growth numbers showed that South Africa has entered a recession as the quarterly annualised GDP number for Q1 came in at -0.7% after -0.3%, for Q4 last year. Manufacturing, retail & trading and the financial services sector contracted sharply. The unemployment rate has also deteriorated further to 27.7% from 26.5%. In the absence of jobs, business investment and easier financial conditions, the outlook for growth remains bleak and estimates of more than 1% GDP growth in 2017 by the SARB and National Treasury may have to be revised lower. This will have obvious consequences to the country's credit rating outlook.

The only bright spot in the economy is that inflation continues to point to a lower trajectory than what the SARB or market consensus expects. Although the SARB acknowledged the recent inflation improvement, it remains concerned about political risk and deteriorating credit ratings. The SARB chose to keep rates on hold at 7% during it latest meeting. With only one of six members voting for a cut, we don't expect the SARB to cut rates at its next meeting in July. However, the low growth and inflation outlook will continue to add pressure on the SARB to consider rate cuts later in the year. The market currently prices in one rate cut by year-end.

The Rand continued to recovery supported by a healthy backdrop for emerging markets and improving external balances. However in the absence of stronger commodity prices or political resolve further upside may be limited.

**Equities:** The outlook for global earnings growth remains strong supported by the gradual economic recovery. We expect global inflation to pick up over the medium term supported by pro-growth fiscal policies. The global reflationary outlook created positive sentiment around cyclical and value orientated stocks, while the outlook for higher global bond yields will put pressure on high valuation defensive names. We believe South Africa will follow global equity markets higher as domestic economic activity improves over the next 18 months. However, the uncertain local political environment and a risk of policy error by the US Federal Reserve or Presidency remain key risks. We favour global cyclical companies with global earnings growth potential and companies with the ability to generate cash sustainably.

**Fixed Income:** South Africa's inflation will improve over the next 12 months as food prices fall, the currency remains on strong footing and growth remains weak. However, political risks and risks of further credit downgrades over the medium term should keep the SARB relatively neutral and on hold for the next few months. The focus on the search for yield by global investors and potential reduction in political risk premium over 2017 will support lower bond yields, however in the short term valuations are stretched given the potential political outcomes. Further bond curve steepening may occur.

**Currency:** We believe the US dollar will trade stronger from current levels, until the ECB become more serious about reducing asset purchases. We see the Rand at close to fair value, but see risks for some depreciation. Softer commodities and stronger US dollar will be balanced by an improving trade balance which should continue to support the Rand. Domestic political risk and a global policy mistake remain the key risks for the currency.

**Alternatives:** The global driver of growth is slowly shifting from easy monetary policy to easier fiscal policies, and combined with the outlook for higher interest rates has resulted in lower correlations amongst key macro variables. Market rotation and increased dispersion amongst asset classes and sectors has led to a favourable environment for alternative assets to perform.

## DISCLAIMER

**Management Company:** Prescient Management Company (RF) (Pty) Ltd., **Registration number:** 2002/022560/07, **Physical address:** Prescient House, Westlake Business Park, Otto Close, Westlake, 7945 **Postal address:** PO Box 31142, Tokai, 7966. **Telephone number:** 0800 111 899 **E-mail:** info@prescient.co.za **Website:** www.prescient.co.za

**Trustees:** Nedbank Trustees, Nedbank Investor Services, **Physical address:** 2nd Floor, 16 Constantia Boulevard, Constantia Kloof, Roodepoort, 1709. **Telephone number:** +27 11 534 6557 **Website:** www.nedbank.co.za

**Investment Manager:** Fairtree Capital (Pty) Ltd, **Registration number:** 2004/033269/07 is an authorised Financial Services Provider (FSP25917) under the Financial Advisory and Intermediary Services Act (No.37 of 2002), to act in the capacity as investment manager. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (N0.37 of 2002). Please be advised that there may be representatives acting under supervision. **Physical address:** Willowbridge Place, Cnr. Carl Cronje and Old Oak Road, Bellville, 7530. **Postal address:** PO Box 4124, Tygervalley, 7536. **Telephone number:** +27 21 943 3760 **Website:** www.fairtree.com.

Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. The collective investment scheme may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees, charges and maximum commissions is available on request from the Manager. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate.

CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value (NAV) of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. 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 TER's. During the phase in period TER's do not include information gathered over a full year. Transaction Costs (TC) is the percentage of the value of the Fund incurred 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

The Manager retains full legal responsibility for any third-party-named portfolio. Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macro-economic risks, political risks, foreign exchange risks, tax risks, settlement risks; and potential limitations on the availability of market information. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees. Please note that all documents, notifications of deposit, investment, redemption and switch applications must be received by Prescient by or before 13:00 (SA), to be transacted at the net asset value price for that day. Where all required documentation is not received before the stated cut off time Prescient shall not be obliged to transact at the net asset value price as agreed to. Money market Funds are priced at 1pm all other Funds are priced at either 3pm or 5pm depending on the nature of the Fund. Prices are published daily and are available on the Prescient website.

Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request.

For any additional information such as fund prices, brochures and application forms please go to www.fairtree.com

## Contact details

**Melanie Louw**
+27 21 943 3760
e-mail: clients@fairtree.com

PRESCIENT MANAGEMENT COMPANY