

## Fairtree Fixed Income SNN QI Hedge Fund

Minimum Disclosure Document - Class A1

30 November 2017

### Fund Profile

The fund invests in South African fixed income instruments to take advantage of relative value opportunities across the short and long end of the FRA, bond and swap yield curve. Idea generation flows from jointly formulating a macro view of global and local South African macro parameters. These views are analysed against existing market expectations and tested against the portfolio. The long term return target of the fund is Cash plus 10%.

### Risk Profile

**Risk Level:** Low Low-Medium Medium Med-High High

The risk category shown is not guaranteed and may change over time. The lowest category does not mean the investment is risk free. There may be other special areas of risk relating to the investment including liquidity risk, credit risk, market risk, and settlement risk. Sanne Management Company (RF) (Pty) Ltd, ("the manager"), and the investment manager do not render financial advice. Our risk indicator does not imply that the portfolio is suitable for all types of investors. You are advised to consult your financial adviser.

### Fund Details

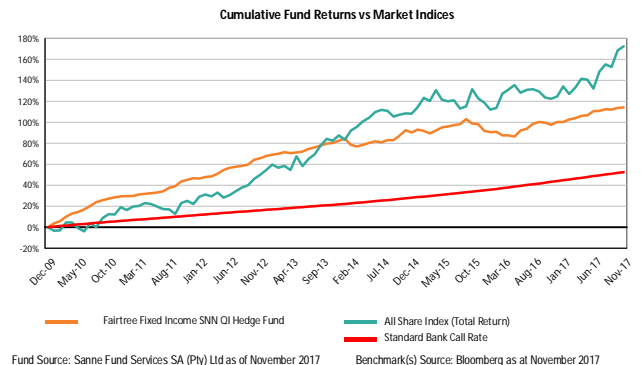
<b>Investment Manager:</b>	Fairtree Capital (Pty) Limited	<b>Fund size (in Millions):</b>	R 35.6
<b>Portfolio Manager:</b>	Ian Millard and Jacobus Lacock	<b>Benchmark:</b>	The portfolio does not follow a benchmark
<b>Inception Date:</b>	January 2010	<b>Analysis Currency:</b>	ZAR
<b>CISCA Inception Date:</b>	1 December 2016	<b>Minimum Investment:</b>	ZAR 1,000,000.00
<b>Cost Ratios (incl. VAT):</b>		<b>Income Distribution:</b>	
<b>Total Expense Ratio (TER%):</b>	2.57%	<b>Declaration:</b>	Last day of February & December
<b>Transactions Costs Ratio (TC%):</b>	N/A (Trading costs are not reported separately for Fixed Income portfolios.)	<b>Payment:</b>	11.9225 cpu for February 2017
<b>Total Investment Charges (TIC%):</b>	4.08%	<b>Distribution Total for the past 12 months:</b>	11.9225 cpu as at February 2017
<b>Performance Fee (PF) Included in TER:</b>	1.51%	<b>Domicile:</b>	South Africa
<b>Fees:</b>	Management Fee: 1% (excl. VAT) Performance fee: 20% of the total performance (after deductions of the annual base fee) above the high water mark, subject to a hurdle rate of 3 month JIBAR (excl. VAT) The Performance Fee is uncapped.	<b>Fund Structure:</b>	CIS Trust
		<b>Fund Category:</b>	Fixed Income
		<b>Auditor:</b>	Deloitte

### Increase in NAV Attributable to Investors

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009													0.00%
2010	3.62%	2.18%	3.96%	2.70%	1.38%	2.04%	2.75%	3.23%	1.40%	1.19%	0.95%	0.81%	29.52%
2011	0.05%	0.13%	1.14%	0.38%	0.61%	0.46%	0.72%	2.56%	1.14%	3.30%	1.02%	0.96%	13.14%
2012	-0.09%	1.04%	0.47%	1.54%	2.32%	1.47%	0.57%	0.64%	0.79%	2.73%	0.90%	1.25%	14.48%
2013	0.82%	0.59%	0.88%	-0.60%	0.44%	0.42%	1.45%	0.80%	1.06%	1.13%	0.28%	1.13%	8.72%
2014	1.17%	-3.28%	-0.82%	0.82%	1.03%	0.83%	-0.43%	1.17%	-0.06%	2.41%	2.63%	-1.08%	4.33%
2015	1.42%	-0.53%	-1.30%	1.34%	1.61%	0.53%	0.54%	2.38%	-2.03%	-0.27%	-3.28%		0.77%
2016	-0.57%	0.14%	-1.81%	-0.01%	-0.61%	3.12%	0.96%	2.26%	1.05%	-0.44%	-1.06%	1.50%	4.52%
2017	0.01%	1.15%	0.66%	1.02%	0.27%	1.91%	0.16%	0.66%	-0.17%	0.77%	0.23%		6.85%

\*The inception date for the portfolio is 01 January 2010. The historical performance figures until the end of 30 November 2016 reflect performance achieved prior to CISCA regulation. The portfolio has been transitioned under CISCA regulations on 01 December 2016 and has since been managed as a regulated product. The annualized total return is the average return earned by an investment each year over a given time period, since date of the launch of the fund. Actual annual figures are available from the manager on request. The highest and lowest 1 year returns represent the highest and lowest actual returns achieved during a 12 month rolling period year since the original launch date of the portfolio. The performance figures given show the yield on a Net Asset Value ("NAV") basis. The yield figure is not a forecast. Performance is not guaranteed and investors should not accept it as representing expected future performance. Individual investor performance may differ as a result of initial fees, time of entry/actual investment date, date of reinvestment, and dividends withholding tax. Performance is calculated for a lump sum investment on a Net Asset Value basis. The performance figures are reported net of fees with income reinvested.

### Cumulative Performance Since Inception



### Investment Performance Summary

	Fairtree Fixed Income SNN QI Hedge Fund	Standard Bank Call Rate	FTSE/JSE All Share Index	Fairtree Fixed Income SNN QI Hedge Fund	Standard Bank Call Rate	FTSE/JSE All Share Index
<b>Performance comparison</b>						
Inception date	Jan-10	Jan-10	Jan-10			
Current month	Nov-17	Nov-17	Nov-17			
Total period (No. months)	95	95	95			
Analysis currency	ZAR	ZAR	ZAR			
<b>Return analysis</b>						
Return for current month	0.23%	0.52%	1.46%			
Total return (since inception)	114.13%	52.57%	172.57%			
Average annualised return (since inception)	10.10%	5.48%	13.50%			
Current 12 month rolling return	8.44%	6.55%	22.54%			
Best 12 month rolling return	29.52%	6.64%	32.74%			
Worst 12 month rolling return	-4.49%	4.49%	-4.37%			
<b>Consistency analysis</b>						
% Up months (since inception)	80.00%	100.00%	60.00%			
% Up months (last 12 months)	91.67%	100.00%	66.67%			
Standard deviation (since inception - annualised for periods > 12 mths)	4.42%	0.21%	11.78%			
<b>Risk analysis</b>						
Downside deviation (since inception - annualised Risk free)	2.46%	0.03%	5.56%			
Largest monthly drawdown	-3.28%	n/a	-5.70%			
Average monthly drawdown	-0.97%	n/a	-2.21%			
Largest cumulative drawdown	-8.18%	n/a	-8.46%			
<b>Risk/ return analysis</b>						
Total gain / Total loss	5.19	n/a	2.26			
Average gain / Largest loss	0.38	n/a	0.59			
Average gain / Average loss	1.30	n/a	1.51			
Sharpe ratio (since inception - annualised for periods > 12 mths)	1.00	-26.07	0.62			
Sortino ratio (since inception - annualised for periods > 12 mths)	1.79	-26.07	1.31			
<b>Market correlation</b>						
Index correlation (ALSI)	0.04	(Monthly)				

Please note: All fund returns quoted net of fees.

### Objective/Investment Policy and Mandate

#### Portfolio Objective

The long-term objective of the portfolio is to achieve consistent absolute returns through investment in risk controlled strategies.

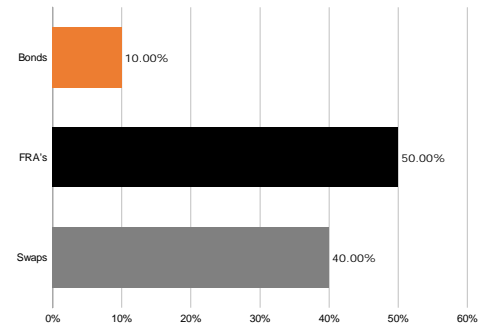
#### The Investment Strategy

The portfolio is a long/short fixed income hedge fund. It is focused on extracting pure alpha returns from South African capital markets. These returns are accessed through fundamental knowledge of South African instruments vis-à-vis economic growth and broad economic themes as well as medium and long-term relative valuation opportunities.

### Sector Class Allocation

The Fairtree Fixed Income SNN QI Hedge Fund Is 100% Government Bonds.

### Asset Class Allocation



### Portfolio Valuation & Transaction Cut-Off

Portfolios are valued monthly. The cut off time for processing investment subscription is 10:00am on the last day of the month prior to enable processing for investment on the first day of the next month.

### Total Expense Ratio

A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. Transaction Costs are a necessary cost in administering the financial product and impacts financial product 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 financial product, the investment decisions of the investment manager and the TER. The TER is reported excluding performance fees for the first 6 months of the portfolio. The Manager has applied its mind hereto and is of the view that any reporting of TER with performance fee at this stage may be inaccurate and potentially misleading to investors.

### Market Commentary

South Africa government bonds sold off for a second month in a row as concerns about the country's credit quality and political stability continued to rise. The return on the All Bond Index dropped -1% as the 10 year government bond yield closed 23bps higher at 9.32%. Short end rates also rose as the market moved to price in at least two 0.25% hikes over the next 12 months.

The local bond market remains under pressure as the fiscal outlook continued to deteriorate under liquidity concerns at ESKOM and the government's eagerness to provide free tertiary education and to continue with their controversial nuclear program despite the recent mid-term budget revelation that the country faces a R50bn shortfall. As a result S&P downgraded South Africa's local currency debt to sub-investment grade while Moody's decided to put the country on review for downgrade which will give them time to assess the outcome of ANC leadership conference and main budget which is due in February. Foreigners sold around R4bn government bonds over the month, with the bulk of the selling happening post the downgrade.

The South African Reserve Bank decided to keep the repo rate on hold at 6.75% as expected. However, the policy statement was fairly hawkish pointing to the political instability as a risk for further Rand depreciation and higher inflation. The SARB also noted that the rising oil price, potential electricity tariff increase and higher wage growth pose a risk to the inflation outlook. They also downgraded their growth outlook for 2018 to just above 1% as domestic demand remains weak. Although the current inflation forecast does not show a breach above 6%, the SARB noted that their model assumes around 3 rate hikes over the next two years to keep inflation within the target range with an aim to achieve the midpoint, 4.5% further out.

Inflation numbers continue to print on the soft side, as core inflation dropped to 4.5%, from 4.6% and headline inflation dropped to 4.8%, from 5.1%. Weak demand and falling food prices more than offset rising transport cost. We expect inflation to continue to fall over the next few months and for it to remain low on the back of weak economic growth. This should give the SARB some room to continue to hold rates at current levels or even reduce rates should a positive political outcome be achieved at the December conference.

Regardless of the political outcome in December, the country remains at risk of being downgraded to sub investment grade in March 2018 which raises the risk that South Africa will be kicked out of the Citi WIGB Index. This scenario remains a key risk for the currency and has added to the SARB's hawkish rhetoric.

The global backdrop remains constructive for risk assets and the continuation of the current economic up cycle. The absence of inflationary pressures, low asset market volatility and stable growth outlook for the US, Europe and China will allow global central banks to remain accommodative. US financial conditions have eased further despite the unemployment rate dropping to 4.1%, well below the natural rate. Forward looking survey indicators suggest further improvement in the global economy over the next few quarters while the scope for potential US tax cuts to be signed off by year end may also add to some upside risk for growth and inflation. In this context the US should continue to gradually hike rates over the next 12 months. We see scope for the US Federal Reserve to hike rates at least 3 times during 2018 and don't expect Jerome Powell, new Fed chair, to deviate from the current policy trajectory. Should inflation start to come through during H1-2018 as we expect the healthy backdrop for emerging markets may come under pressure.

**Please Note:** The above commentary is based on reasonable assumptions and is not guaranteed to occur.

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### Glossary

**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 (%):** The Performance Fee is a payment made to the Investment Manager for generating positive returns, and is generally calculated as a percentage of investment profits, often both realized and unrealized.

**Transaction Costs Ratio (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).

### Mandatory Disclosure

**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 (No.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](http://www.fairtree.com)

**Management Company:** Sanne Management Company (RF) (Pty) Ltd (the "Manager"). **Directors:** J Louw, S Greeff, I Burke, L Fourie, G Rate. **Registration Number:** 2013/096377/07, is authorised in terms of the Collective Investment Schemes Control Act (CISCA) to administer Collective Investment Schemes (CIS). **Physical Address:** 5th Floor, 8 St. Georges Mall, Cape Town, 8001. **Telephone Number:** +27 21 202 8282. **Website:** [www.sannegroup.co.za](http://www.sannegroup.co.za)

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