Nautilus Fairtree Proton Retail Hedge Fund

Investment Performance Summary

30 April 2018

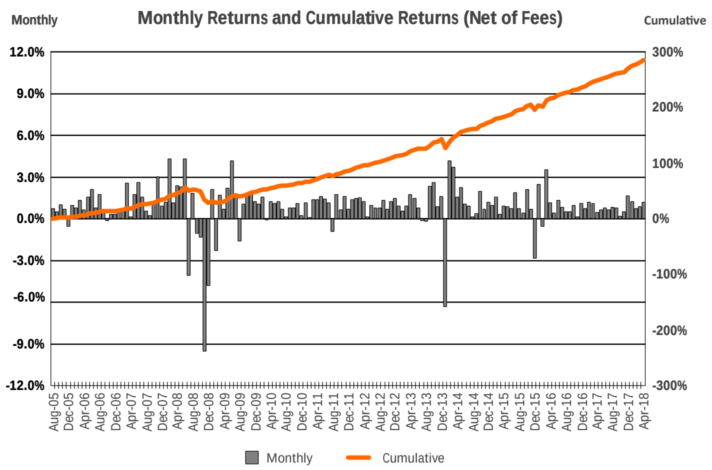
Portfolio Objective

The Nautilus Fairtree Proton Retail Hedge Fund aims to provide superior risk-adjusted returns over and above cash, irrespective of market conditions. The portfolio is managed by balancing fixed income relative value exposures with credit exposures, in a way that minimises market risk and allows the portfolio to achieve its targeted return over the medium term. We believe that the markets are not always efficient and therefore present mispriced assets which can be taken advantage of to generate excess returns. A disciplined approach to fundamental and quantitative analysis helps to identify these mispriced assets. We believe that a team-based fundamental approach to the valuation of assets, combined with cutting-edge quantitative techniques in portfolio construction and risk management help build a fund to achieve the objectives of superior risk -adjusted returns. The fund has a targeted return of cash plus 6% over a rolling 3-year period.

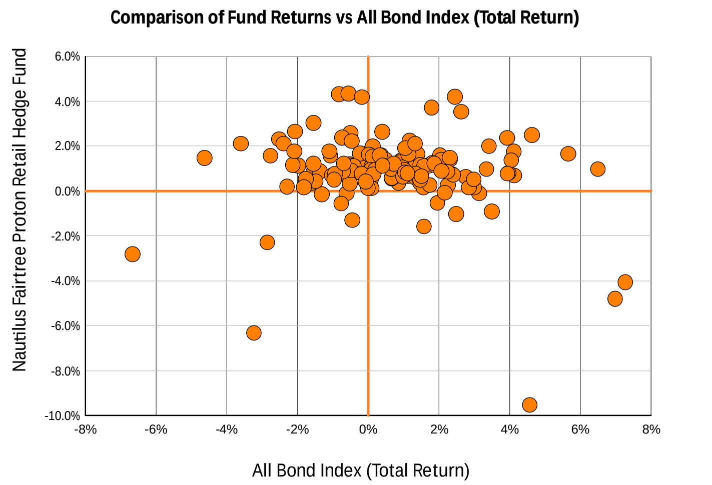
Fund Details

Fund size (in Millions):	R 348.5
Inception Date:	31 August 2005
Fund Structure:	CISCA (Retails Hedge Fund Portfolio)
Benchmark:	This portfolio does not follow a benchmark
Minimum Investment:	R50 000 Lump sum
Investment Manager contact details	Fairtree Capital (Pty) Limited
Telephone Number:	+27 86 176 0760
Website:	www.fairtree.com

Cumulative Performance Since Inception



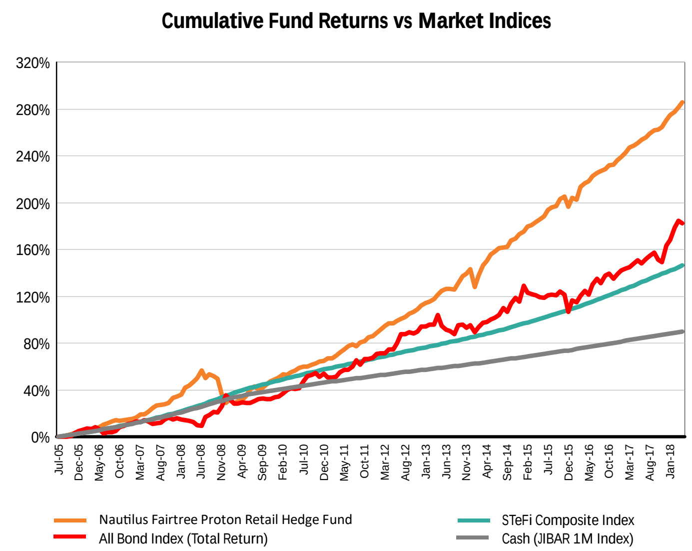
Comparison of Fund returns



Return Analysis

	Fund	All Bond Index	STeFi
1 Month	1.23%	-0.70%	0.58%
3 Months	2.93%	5.34%	1.74%
6 Months	6.46%	12.26%	3.56%
1 Year	10.70%	13.75%	7.43%
3 Years	36.18%	27.98%	23.34%
5 Years	74.37%	38.39%	37.90%
Since Inception	286.09%	182.50%	146.42%

Cumulative Fund returns



Risk Analysis

	Fund	All Bond Index	STeFi
Sharpe Ratio	0.64	0.17	n/a
Sortino Ratio	0.82	0.30	n/a
Standard Deviation	5.50%	7.06%	0.50%
Best Month	4.34%	7.27%	1.04%
Worst Month	-9.53%	-6.67%	0.39%
Best Rolling 12 Months	25.70%	21.23%	11.79%
Worst Rolling 12 Months	-10.50%	-5.61%	5.16%
Largest Cumulative Drawdown	-17.96%	-9.78%	n/a
% Positive Months (Since Inception)	89.54%	67.97%	100.00%
Correlation (ALBI Index) Monthly	-0.13		
Value at Risk - 95%	1.00%		

*Please note that performance figures include returns earned during the relevant periods prior to the portfolio being regulated under CISCA. The investment performance is for illustrative purposes only and is calculated by taking actual initial fees and all ongoing fees into account for the amount shown; and income is reinvested on the reinvestment date. The annualised total return is the average return earned by an investment each year over a given time period. Annual figures are available from the manager on request. The highest and lowest 1 year returns represent the highest and lowest returns achieved during any single calendar year since the original launch date of the portfolio.

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Increase in NAV Attributable to Investors

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2005								0.77%	0.53%	1.02%	0.73%	-0.53%	**2.54%**
2006	0.99%	0.80%	1.35%	0.66%	1.57%	2.11%	0.82%	1.77%	0.60%	-0.10%	0.36%	0.35%	**11.86%**
2007	0.63%	0.64%	2.60%	0.16%	1.77%	2.65%	1.59%	0.57%	0.27%	1.13%	3.03%	0.92%	**17.12%**
2008	1.19%	4.31%	1.15%	2.38%	2.31%	4.34%	-4.06%	1.87%	-1.03%	-1.30%	-9.53%	-4.80%	**-4.06%**
2009	2.11%	-2.29%	1.73%	0.70%	2.22%	4.18%	1.82%	-1.58%	1.08%	1.67%	1.98%	1.24%	**15.73%**
2010	1.09%	1.60%	-0.07%	1.26%	1.12%	1.28%	0.70%	0.16%	0.81%	0.79%	1.14%	0.27%	**10.62%**
2011	1.16%	0.12%	1.39%	1.41%	1.64%	1.46%	1.17%	-0.91%	1.77%	0.64%	1.63%	0.70%	**12.85%**
2012	1.39%	1.50%	1.53%	1.24%	0.14%	0.98%	0.80%	0.79%	1.37%	0.70%	1.28%	1.49%	**14.03%**
2013	0.94%	0.59%	0.93%	1.76%	1.47%	0.82%	-0.10%	-0.14%	2.36%	2.64%	0.87%	1.63%	**14.64%**
2014	-6.31%	4.20%	3.72%	1.58%	2.25%	1.06%	0.96%	0.15%	0.37%	1.99%	0.72%	1.22%	**12.16%**
2015	0.97%	1.57%	0.34%	0.93%	0.88%	0.77%	1.91%	0.74%	0.42%	2.12%	0.69%	-2.82%	**8.77%**
2016	2.50%	-0.55%	3.53%	1.15%	0.44%	1.37%	0.86%	0.53%	0.52%	0.98%	0.17%	1.11%	**13.32%**
2017	0.76%	1.22%	1.14%	0.49%	0.65%	0.79%	0.66%	0.84%	0.79%	0.19%	0.51%	1.65%	**10.12%**
2018	1.24%	0.77%	0.90%	1.23%									**4.20%**

- The NAV of the fund gained 1.23%, bringing the total return to investors to 286.09% and the average annualised return to 11.18%.
- The annualised standard deviation is 5.50% and compares favorably with that of the All Bond Index (Total Return) at 7.06%.
- The downside deviation of the fund is 1.26% compared to 1.16% for the All Bond Index (Total Return).
- The excess return per unit risk, as measured by the Sharpe Ratio, increased to 0.64, whilst that of the All Bond Index (Total Return) decreased to 0.17.

Market Commentary

Market Dynamics:

Global credit spreads essentially marked time during the month of April with our benchmark for credit risk appetite, the iTraxx 5 year Crossover Spread, trading a rather tight range 21 basis point (bps) range during the period. The index began the month at a spread of 285 bps, sold off to 289bps then rallied to end the month at 271bps. So a gain of 14 spread point plus theta over the period - what a pleasure. "But that is too risky, those instruments are not even investment grade" I can almost hear them shriek from the side-lines. But the irony of such an argument is lost on me. South Africa incorporated flirted desperately close to being a fully-fledged sub investment grade, and falling, credit this year. Would they have stopped investing in South African government bonds? And given that there is a thing called "Sovereign Ceiling" i.e. that all credits can only approach the credit worthiness of the government in which they are domiciled, would those same shriekers have sold out all their investments in South Africa? I think not. "But I'm investing in Rand, and the South African government will never default on its local currency obligations". This might, and I'll repeat might, be the case but it would be a fool that would think that local currency bonds would not be materially affected by a default on USD denominated South African Government issued bonds. But then again, the market is made up of some pretty strange individuals. Current readers excluded of course.

But back to the numbers. The iTraxx Crossover 5 year total return index delivered some 0.91% in Euros, whilst our more fancied 2 times levered index delivered a whopping 1.86% during the month. When translating these numbers to ZAR by hedging currency risk, excluding transactions costs, these indices would have delivered around 1.51% and 2.46% respectively. Not a bad result I would say. Again the concept of "Picking up dollars in front of a steamroller" as I often hear people describing an analogy to credit investing, has certainly proved profitable. "Fish where the fish are" as one of my friends used to say.

Moving to local equities, the TOP40 certainly delivered. 5.75% in total return over then month or some 5.11% outperformance to cash. Unfortunately this fantastic outcome does not even cover the losses sustained on a year to date basis, in fact it merely undoes the damage that was sustained during March. Equity investing is certainly for the longer run, and definitely not for the investor that measures his wealth frequently. Looking to the underlying counters, the top performers was the Fortress REIT which provided investors a whopping 46% in total return. Second up was British American Tobacco showing 20% whilst third place was taken by Mediclinic with 15.5% during the month. At the bottom of the list was Steinhoff which lost another 42% of shareholder value over the month. But enough has been said about that particular stock.

So the euphoria experienced in the SA bond market over the past few months came to an end in April with the benchmark R186 selling off in yield terms for the first time since November last year. Yes It has been a fantastic run for bond investors with the total return experienced since the heady yield highs at the end of November amounting to some 13.38%. But unfortunately even the most bullish of bulls will admit that at current levels, 10 year bonds are at best 20 basis points on the cheap side of fair value. The index lost some 0.70% of value during the month but has still delivered around 7.30% in total return during 2018. A boon time for bond investors.

Performance:

It was a better month for Proton with the fund delivering a net performance number of 1.23% on an after fees basis. Considering STeFi produced 0.62%, investors should be happy with the result. The year to date numbers are also looking good with the fund up some 4.20% against STeFi at 2.39%. The fund has just delivered its 26th straight month of positive performance which highlights the low volatility that is associated with this alpha production. Arguably the fund has proven itself over the years to provide consistent alpha production irrespective of either the interest rate cycles or the associated volatility produced by South African, or global, politics. The fund is now approaching its 13th birthday at the end of July 2018 so we will give a full rundown of the performance metrics then.

The rates attribution showed interest rate risk adding around 0.63% of value with the resultant 0.26% alpha coming from credit risk. Obviously credit is a funded position so the number is purely the excess return to STeFi.
Looking to May, there's lot of moving parts out there (as usual), lots of external and internal risk to be assessed and then acted upon. We hope to continue to produce the alpha that our clients have trusted us to deliver over the years.

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

Mandatory Disclosures

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Management Company: Nautilus Managed Account Platform RF (Pty) Ltd (the "Manager"), authorised in terms of the Collective Investment Schemes Control Act (CISCA) to administer Collective Investment Schemes (CIS) in Securities. **Physical Address:** One Exchange Square, Gwen Lane, Sandown, 2196, **Telephone Number:** +27 11 520 7956. **Website:** www.nautilusmap.co.za

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