Nautilus Fairtree Proton Retail Hedge Fund

Investment Performance Summary

30 June 2018

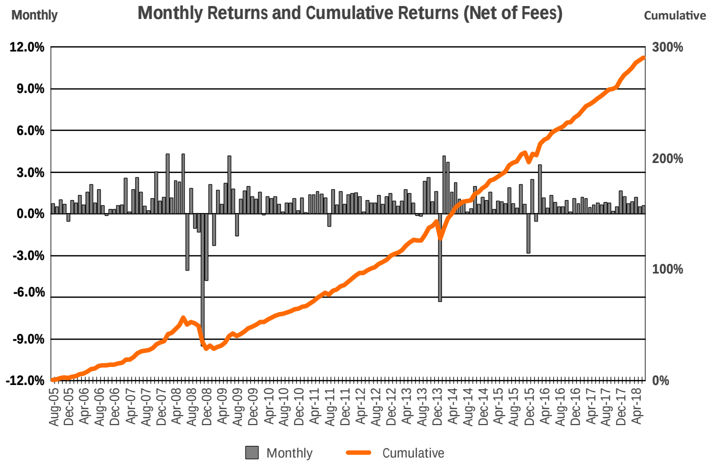
Portfolio Objective

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.

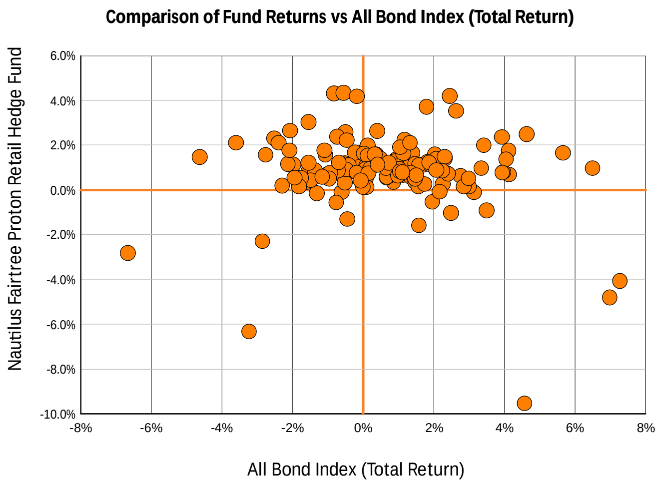
Fund Details

Fund size (in Millions):	R 352.5
Inception Date:	31 August 2005
Fund Structure:	CISCA (Retails Hedge Fund Portfolio)
Benchmark:	N/A
Minimum Investment:	R 50 000 Lump sum
Total Expense Ratio (TER%):	2.27%
Transactions Costs Ratio (TC%):	0.05%
* Total Investment Charges (TIC%):	2.32%
Performance Fee (PF) Included in TER:	0.76%
Investment Manager contact details	Fairtree Capital (Pty) Limited
Telephone Number:	+27 86 176 0760
Website:	www.fairtree.com

Cumulative Performance Since Inception



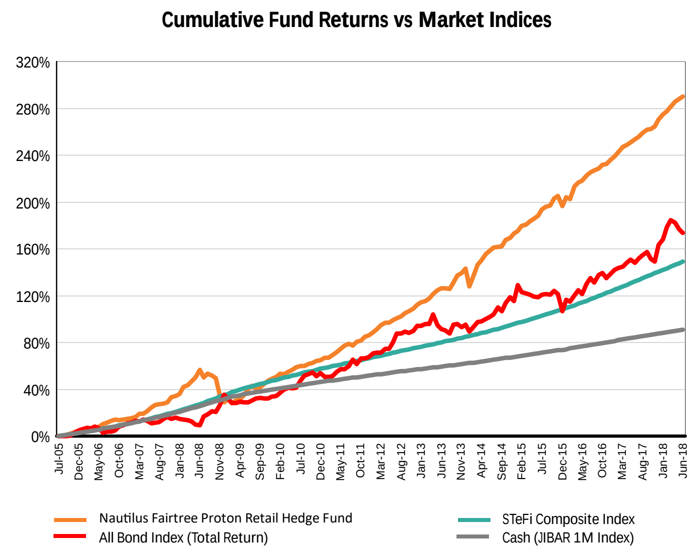
Comparison of Fund returns



Return Analysis

	Fund	All Bond Index	STeFi
1 Month	0.60%	-1.17%	0.57%
3 Months	2.39%	-3.78%	1.76%
6 Months	5.39%	3.97%	3.54%
1 Year	10.38%	10.19%	7.35%
3 Years	35.49%	25.16%	23.49%
5 Years	72.40%	42.85%	38.38%
Since Inception	290.51%	173.74%	149.30%

Cumulative Fund returns



Risk Analysis

	Fund	All Bond Index	STeFi
Sharpe Ratio	0.63	0.12	n/a
Sortino Ratio	0.82	0.21	n/a
Standard Deviation	5.46%	7.08%	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)	89.68%	67.10%	100.00%
Correlation (ALBI Index) Monthly	-0.13		
Value at Risk (VaR) 99%	0.78%		

The above benchmark(s) are for comparison purposes with the fund's performance. The fund does not follow the benchmark(s).

*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%	0.54%	0.60%							**5.39%**

- The NAV of the fund gained 0.60%, bringing the total return to investors to 290.51% and the average annualised return to 11.12%.
- The annualised standard deviation is 5.46% and compares favorably with that of the All Bond Index (Total Return) at 7.08%.
- The downside deviation of the fund is 1.25% compared to 1.17% for the All Bond Index (Total Return).
- The excess return per unit risk, as measured by the Sharpe Ratio, decreased to 0.63, whilst that of the All Bond Index (Total Return) decreased to 0.12.

Market Commentary

Market Dynamics:

One of the interesting things about living in London is the historic atmosphere. Everywhere you walk, there's a blue circular plaque announcing that some famous person lived in a particular house between certain dates. The country revels in its history, it's inherently proud of what makes it what it is today. The country particularly has an affinity to its fallen heroes - "At the going down of the sun, we will remember them" - I really like that. They also seem to harbour an intense dislike for some of their neighbours - difficult to let bygones be bygones when you like to commemorate fallen heroes. The Duke of Wellington seems to be held in particularly high esteem. Wellington led the British forces and defeated the French at Waterloo in June 1815 didn't he? A real British hero. Interestingly the French were defeated by a coalition of British, Belgian, Dutch and Prussians (we'd hear a lot more about those pesky Prussians during the next century) who teamed up to stall the futile attempts at world domination by Napoleon - who apparently was suffering from "Short-Man-Syndrome" (SMS). It turns out Napoleon was 1.69m tall - not short at all, but appeared short because his bodyguards were particularly large in stature. That's a logical thing to do isn't it? Pick bigger guys than you to protect you. It'd be rather silly to employ a hamster to protect you against lions. But let's not let the facts get in the way of a good story - the history books want Napoleon to be short - so he was short QED. Wellington himself (as he is known as) was an Irishman, born in Dublin, by the name of Arthur Wellesley (not he of Harry Potter fame by the way). It seems that history, at least popular history, decides what's important to remember - the British, led by a proper English gent, defeated a Frenchman suffering from SMS at Waterloo (and please, Waterloo the place not, as my colleague likes to remind me, the old ABBA classic.) "What the heck has this got to do with financial markets?" I hear you ask. Well readers of last month's commentary will remember the "Sell in May and go away" adage - and how that strategy sometimes works and sometimes doesn't. It's popular belief that this works just like the popular misconceptions about The Duke of Wellington and that vertically challenged tyrant at Waterloo. The bottom line if you did follow that popular misconception to "go away" I hope you came back rather swiftly in time for June, because local stocks had a pretty decent time of it. The TOP40 delivered some 3.62% - more than making up the losses that were experienced the previous month. 6.19% for the second quarter and up some 16.75% over the past 12 months - not bad even for the most bullish of bulls. I hope those that warned investors of impending doom have been banished to contemplate life with the other foul smelling, flea infested and unpopular bears.

But let's throw the bears a bone, South African bonds didn't shine at all. They followed the local currency weaker and lost another 1.17% during the month. That leaves the All Bond Index (ALBI) down 3.78% over the second quarter but still up 3.97% on a year to date basis. Over the last 12 months the index has delivered a rather impressive 10.89% which is a rather good showing relative to STeFI which returned 7.33%.

Bonds did sell off rather aggressively but at closing levels certainly offered good value relative to global risk free - obviously things can get much, much, much cheaper so some caution is warranted. Betting the farm, even if it's not your farm, is never a great idea. Stay at the table and try to ensure that any losses can be constrained. Investing is a long journey, an ultra-marathon rather than a sprint.

Performance:

June ended up being a mirror image of May. During May we lost 5bps to STeFi, during June we gained 5 basis points to STeFI. And with a whopping 0.60% on an after all fees basis, we do feel a little sheepish at the moment. Yes, we are far from having to explain our actions to our client base in a sort of "We are correct and the market has it soooooo wrong" or "These short sellers all need to be criminally investigated", but at the end of the day we need to start producing the targeted 50 basis points excess performance to STeFI per month. We are a bit away from that at the moment. Although we have produced positive alpha across every measurement period, which is rather pleasing to note. Drilling into the details of the performance shows that interest rate risk again lost money - some 4 basis points meaning that all excess returns came from credit. Attribution shows that our swap positions were flat, or FRAs made 3 bps, vol strategies made 34 bps, and bond strategies lost 40 bps. Forever the optimist, I would argue that we use our portfolios to build new risk positions when the opportunities arise and that the reward for our endeavours is approaching. Remember, the vulture is a very patient bird.

Looking to July, we think global asset volatility should dissipate leaving some room for a long bond yield rally over the month. We do remain cautious however and feel that if the Rand does not recover in the short run, the SARB might need to start hinting about hiking cycles during their Q&A session post the meeting of the Monetary Policy Committee on the 19th of July. We are certainly not suggesting a hike, or cut, at the meeting but we do believe the hawkish hiking rhetoric should be well communicated. How the overall market responds to interest hikes into a sluggish economy should result in quite a few shape opportunities over the second half of the month.

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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