# LYNX PRIME GLOBAL DIVERSIFIED FUND OF FUNDS (Class B1)

PRIME INVESTMENTS

LYNX FUND MANAGERS

May 2019

## Lynx Investment Philosophy & Investment Strategy

The Lynx Prime Collective Investments are managed on a multi-manager, multi-asset class basis. Using this approach allows us to select the best of breed managers and achieve better diversification across investment styles and asset classes. The additional diversification allows the funds to achieve their return objectives at lower risk than their peers. With the funds exhibiting lower volatility and drawdowns than their peers over time.

Our manager selection process aims to find high quality managers that use different approaches and investment styles, that when combined are able to consistently rank amongst the top performers within that assets class. i.e. this approach should ensure that our equity "box" should rank amongst the top equity funds. Managers are accessed on an ongoing basis with any which fail to meet our expectation being replaced.

The asset allocation is undertaken with both the mandate and the peers in mind. With significant deviation from the average being avoided in order to reduce the volatility of our peer group ranking and enhancing our long-term returns. We are peer group aware and strive to produce returns which place the funds in the top 2 quartiles vs their peer group on a consistent basis. This is monitored on an ongoing basis, with proactive steps taken the funds start to lag their peers. Ultimately if we can produce better than average returns at lower risk on a continent basis, investors will improve the likelihood of achieving their investment goals.

## Fund Objective

The objective of the Lynx Prime Global Diversified Fund of Funds is to provide investors access to a diversified portfolio of collective investments invested predominantly in the equities asset class. The fund aims to provide investors with above average capital growth over the long term.

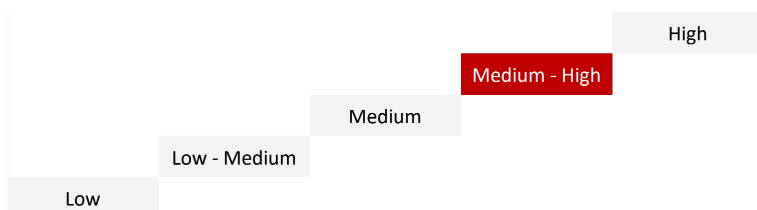
## Fund Universe

The Lynx Prime Global diversified Fund of Funds is a multi-managed fund that will consist of a mix of collective investment portfolios investing predominantly in equities locally and abroad.

## Who should be investing?

The fund's asset allocation is suited to investor with a moderately aggressive approach to risk. The fund **does not** conform to Regulation 28 of the Pension Fund Act.

## Investor Risk Profile




## Income Distribution

| Date | Dividend | Interest | Other | Total |
|---|---|---|---|---|
| Feb 2019 | 0.00 | 0.00 | 0.00 | 0.0000 |
| Aug 2018 | 0.00 | 0.00 | 0.00 | 0.0000 |

## Fund Net Asset Value

| | Mar 19 | Apr 19 | May 19 |
|---|---|---|---|
| Fund Units | 135 869 601 | 133 435 523 | 132 555 956 |
| Fund NAV | R 389 800 313 | R 388 273 328 | R 379 472 789 |
| Class NAV | R 3 550 895 | R 3 580 316 | R 3 510 454 |

## Fund Information

| | | |
|---|---|---|
| Classification | Global - Multi Asset - Flexible | |
| Benchmark | US Libor + 2% (ZAR) | |
| Inception Date of Fund | 28 February 2002 | |
| Inception Date of Class | 03 January 2011 | |
| Total Portfolio Size | R 379 472 789 | |
| NAV Price | Launch | 100.00 (cpu) |
| | Month End | 285.04 (cpu) |
| JSE Code | LPGB1 | |
| ISIN Number | ZAE000221297 | |
| Income Declaration | February, August | |
| Valuation | Valuation Time : 17h00 (daily) | |
| | Dealing cut-off : 14h00 (daily) | |
| Payment | 3rd working day of Mar / Sept | |
| Min. Initial Investment | R 10 000 lump sum | |
| | R 1000 debit order | |
| Regulation 28 Compliant | No | |
| Issue Date | 18 June 2019 | |

## Total Investment Charges

**Period (Annualised): March 2018 to February 2019**

### Total Expense Ratio (TER) — 2.07 %

Expenses related to the administration of the financial product. 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 (TC) — 0.05 %

Costs relating to the buying and selling of the assets underlying the financial product.

### Total Investment Charges (TIC) — 2.12 %

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.

## Portfolio Fees (Incl. in TIC)

| | |
|---|---|
| Management Fee | 0.15% p.a. (Excluding VAT) |
| Performance Fee | Not Applicable |
| Advisory Fee | 0.30% p.a. (Excluding VAT) |
| Investment Management Fee | 0.55% p.a. (Excluding VAT) |

**Mandate Compliance**

The Fund remains within the reporting regime as at the date of this report.

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## Top Equities Holdings

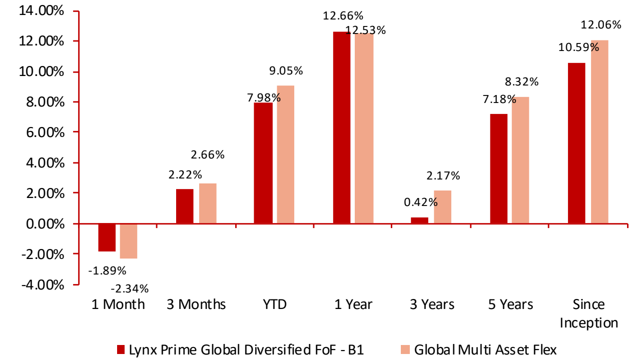
Alphabet Inc
American Express Co
Anglo American Plc
Charter Communications Inc.
Comcast Corp
Facebook Inc
Microsoft Corp.
Standard Chartered Plc
Thermo Fisher Scientific Inc
Unilever NV

*Source : Morningstar*

## Top 5 Manager Holdings

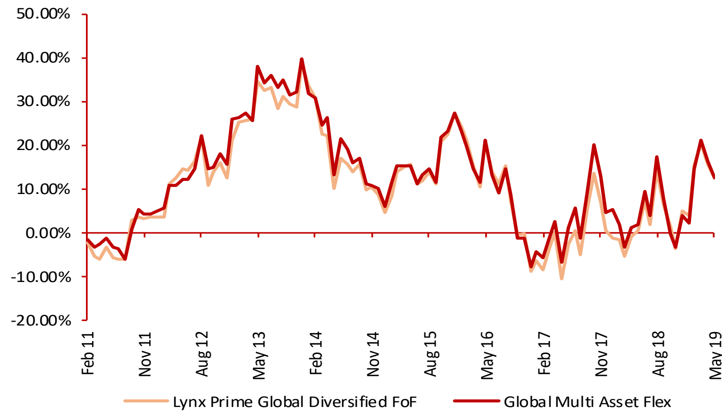
| Manager | Weight |
|---|---|
| Nedgroup Inv Global Equity Fund | 17.15% |
| Schroders Global Recovery Fund | 15.33% |
| Ranmore Global Equity Fund Plc | 15.17% |
| Sygnia ITRIX MSCI World Index | 14.91% |
| Rubrics Global FI UCITS Fund | 10.66% |

## Trailing Returns




*Fund vs the ASISA Global Multi Asset Flexible Average*

## 12 Months Rolling Returns

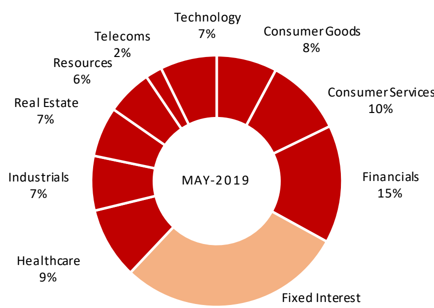



## Periodic Returns & Risk Measures

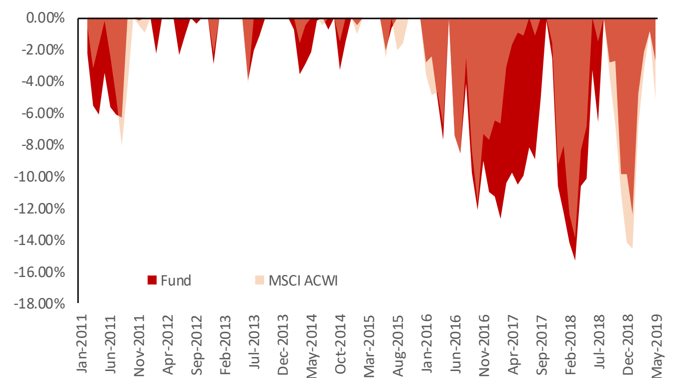
| | Fund | Benchmark | Category Avg. |
|---|---|---|---|
| 1 Month | -1.89% | 1.91% | -2.34% |
| 3 Months | 2.22% | 4.73% | 2.66% |
| YTD | 7.98% | 3.16% | 9.05% |
| 1 Year | 12.66% | 20.39% | 12.53% |
| 3 Years | 0.42% | 0.56% | 2.17% |
| 5 Years | 7.18% | 9.85% | 8.32% |
| Since Inception | 10.59% | 11.85% | 12.06% |
| Max (Rolling 12 Mths) | 38.65% | 39.68% | 39.70% |
| Min (Rolling 12 Mths) | -10.52% | -14.28% | -7.69% |
| Volatility | 12.91% | 15.33% | 12.85% |
| Sharpe Ratio | 0.36 | n/a | 0.47 |

* Returns above one year are annualised; ** Fund Returns are net of fees

## Asset Allocation as at 31 May 2019




## Drawdown Analysis over time




## Monthly Performance

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Fund YTD | Bmk YTD | Sector Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | -2.80% | 8.67% | 2.79% | 1.36% | -1.89% | | | | | | | | 7.98% | 3.16% | 9.05% |
| 2018 | -1.91% | -2.11% | -1.38% | 5.57% | 0.58% | 7.63% | -3.43% | 11.36% | -2.84% | 0.12% | -7.33% | 0.00% | 4.91% | 21.87% | 3.95% |
| 2017 | -0.33% | -1.57% | 2.61% | 0.73% | -0.85% | 0.61% | 1.97% | -0.81% | 4.32% | 5.09% | -2.39% | -8.26% | 0.44% | -9.24% | 4.75% |
| 2016 | -2.80% | 0.40% | -2.71% | -2.79% | 10.88% | -7.45% | -1.15% | 4.80% | -5.85% | -2.64% | 3.58% | -2.23% | -8.92% | -7.63% | -7.69% |
| 2015 | -0.40% | 3.06% | 2.17% | 1.48% | 1.50% | -2.03% | 1.42% | 1.12% | 0.91% | 5.13% | 3.18% | 7.19% | 27.35% | 36.84% | 27.23% |
| 2014 | 3.70% | -0.75% | -2.80% | 0.68% | 0.73% | 2.03% | 0.84% | -0.72% | 3.38% | -3.25% | 1.82% | 3.01% | 8.72% | 12.76% | 9.97% |
| 2013 | 7.79% | 1.12% | 3.99% | 0.95% | 11.65% | -3.90% | 1.93% | 0.95% | 1.77% | 1.84% | 1.26% | 4.58% | 38.65% | 26.66% | 39.70% |
| 2012 | 0.10% | -2.26% | 3.57% | 0.74% | 4.61% | -2.37% | 1.25% | 4.65% | -0.35% | 3.32% | 1.74% | -2.88% | 12.38% | 7.30% | 15.72% |
| 2011 | | -2.24% | -3.38% | -0.55% | 2.75% | -2.18% | -0.53% | -0.18% | 9.84% | 0.51% | -0.18% | 0.17% | 3.48% | 15.04% | 4.19% |

## Fund Commentary

Coming off its worst quarterly performance since 2011, the S&P 500 rebounded 13.1% in Q1 for its best quarterly performance in ten years. While the first two months of 2019 were a virtual straight line higher, a healthy dose of caution surfaced in March as inversion extended further out on the curve to the 3M - 10YR spread for the first time since 2007.

The S&P 500 was not alone with the new year bringing a new wave of optimism for global equities and credit. The sell-off in equities and credit in the final quarter of last year was caused predominantly by concerns about the potential for an escalation in the trade war between the US and China, fears that higher interest rates could hurt the US economy, and broader worries about a slowdown in global growth.

In many ways, the weakness in Q4 set the stage for the recovery in equity markets this quarter. The Federal Reserve (Fed) reacted to the market weakness and weaker global growth by becoming more patient. Much of the rally this year has been built on market expectations that the Fed now won't raise interest rates again at any point in the next few years—in fact, the next move expected from the Fed by the bond market is now a cut, with 10-year Treasury yields down to 2.4%. The sharp fall in the US stock market late last year was probably also a factor in deterring the US administration from further increasing tariffs on China over the quarter. So the stock market decline last year helped to reduce two of the major risks that had caused it in the first place.

Time will tell whether the Fed will act pre-emptively to support activity in the coming months. In the meantime, a more dovish Fed, combined with the news that quantitative tightening will end in September, has supported fixed income markets this year, from government bonds to credit. On trade, while some progress seems to have been made this quarter between the US and China, there is still uncertainty as to how the negotiations will evolve. Some of the underlying tension is unlikely to be resolved easily given that the US and China are ultimately competing with each other in several key industries, such as technology. In addition, even if an ongoing truce can be agreed between the US and China, there is no guarantee that the US administration won't turn towards a more confrontational trade policy with Europe.

So, on monetary policy and trade there are reasons for optimism, but also some risks given a fairly optimistic outcome on both fronts is now already priced in. For the recovery in markets to continue, the weakness in global growth will also have to recede, extending what has already been a very long economic expansion by historical standards. On this front, the data in the first quarter was more mixed.

The weakness in the global economy has been most stark in the manufacturing and export sectors. Eurozone industrial production is down 2.5% since its peak in December 2017. Korean and Taiwanese exports both declined about 8% year on year (y/y) in March. While it is tempting to blame this global manufacturing and export slowdown on the trade war, softer Chinese domestic demand has also been a contributor. Again, on this front there are reasons for optimism, but also some caution. China's non-manufacturing purchasing managers' index (PMI) increased to 54.8 in March, while its manufacturing PMI rebounded to slightly over 50, indicating a return to expansion. On the other hand, China's imports declined 5.2% y/y in US dollar terms in February having grown by 27% y/y in July last year.

The Chinese authorities are now stimulating domestic demand with a package of tax cuts, infrastructure investment and measures designed to support bank credit growth. This should lead to a stabilisation in Chinese growth. On the other hand, the magnitude of credit expansion is likely to be less significant than the last time global manufacturing went through a weak patch, in 2015-16. Chinese stimulus may therefore be less effective at boosting exports across the rest of Asia and Europe than in the past. The manufacturing business surveys for March so far show little sign of an improvement in the outlook, with the eurozone manufacturing PMI declining to 47.5 and the new export orders component declining to 44.8.

Despite a weaker growth and profit outlook, labour markets have held up well so far, with unemployment continuing to decline, to 7.8% in the eurozone and to 3.8% in the US in February, and wage growth picking up. The key for investors will be whether a still relatively healthy global consumer can lift the manufacturing sector and business investment intentions out of their current soft patch, or whether the weakness in manufacturing and business confidence will infect consumer confidence and labour markets. The Conference Board's US consumer confidence index is worth monitoring with this in mind, given its decline in March. The US payrolls report will also be important to monitor given that job growth slowed to only 20k in February. Emerging markets equities lost value in what was a volatile third quarter, with US dollar strength and the US-China trade dispute weighing on risk appetite. The MSCI Emerging Markets index decreased in value and underperformed the MSCI World.

The UK economy, too, is being supported by a strong labour market, with unemployment at 3.9% and wages rising by 3.4% y/y for January. Inventories have also contributed positively to growth over the last few quarters. This combination has kept growth in positive territory despite weak consumer confidence and a contraction in business investment, both caused by Brexit-related uncertainty. Due to both this Brexit uncertainty and the mixed economic data, the Bank of England remained on hold throughout the quarter, despite rising wage pressures.

The European Central Bank (ECB) also kept the deposit rate steady at -0.4% and said it would not raise rates until at least next year, having previously said it wouldn't hike until at least the summer. The ECB also announced a new round of cheap financing for the banking sector and discussed measures to reduce the drag that negative rates have had on bank profits.

Earnings estimates have been falling since the beginning of the year. Fortunately for the stock market, interest rate expectations have also fallen sharply, supporting equities. When January began the aggregate estimate for S&P 500 earnings growth was 2.9%. However, analysts have been cutting 1Q estimates every week during the quarter and the expectation is now for an earnings decline of 3.9%, which would be the first decline in quarterly earnings since Q2 2016

Part of the reason the market is not reacting more negatively to the low earnings growth number is the fact that revenue growth is still looking positive with estimates ranging between 4.3% and 4.8% for all four quarters in 2019. Wall Street can be more patient with a margin problem than a broader macro revenue problem. For the first quarter, the Fed's dramatic change in posture towards rate hikes has allowed equity holders to be patient. One-year forward P/E's have recovered from their December lows below 15 and sit at about 17X expected 2019 earnings. Still, P/E's remain below September 2018 levels despite the lowered earnings expectations.

Overall, markets end the first quarter with equities, credit and government bonds up for the year to date, buoyed by more dovish central banks and hopes for a truce on trade between the US and China. Easier monetary policy and less disruptive trade policies could continue to support markets. However, given the age of this economic expansion and the uncertainty over whether manufacturing, exports and business investment intentions will recover, or whether a squeeze on profits will lead to corporate cost cutting, a more balanced portfolio probably makes more sense than has been the case for most of the last decade.

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## (Class B1)

LYNX FUND MANAGERS

May 2019

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## Glossary of Terms

**Fund of Funds** is an investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities. This type of investing is often referred to as multi-manager investment. Investing in a fund of funds may achieve greater diversification. The benefit of diversification is that it can reduce volatility and the overall risk in the portfolio, while maintaining returns.

**Total Expense Ratio** is the total costs associated with managing and operating an investment (excluding administration, financial planning and servicing fees). These costs consist primarily of management fees and additional expenses such as trading fees, legal fees, auditor fees and other operational expenses. The total cost of the fund is divided by the fund's total assets under management to arrive at a percentage amount, which represents the TER.

**Risk Profile (Medium to High)**: The investors' primary aim is to achieve the required capital growth necessary to realise his/her long-term goals and objectives. The investor is prepared to tolerate fluctuations in your returns because you know that the longer-term picture is worth the short term pain, even if that means you lose money sometimes. While diversified across all the major asset classes, your portfolio will be tilted more towards equities because you know they offer the best long-term returns of all the asset classes and thus your wealth will grow over time.

**Volatility** is a statistical measure of the dispersion of returns for a given security or market index.

**Sharpe Ratio** is a measure for calculating risk-adjusted return. It is the average return earned in excess of the risk-free rate per unit of total risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been (i.e. a higher return with a contained risk profile, where the portfolio manager is not taking excessive risk to achieve those returns).

## Disclaimer

This is a minimum disclosure document and a general investor report. Collective Investment Schemes are generally medium to long term investments. The value of participatory interests may go down as well as up. The manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Past performance is not necessarily an indication of future performance. CIS's are traded at ruling prices and can engage in borrowing and scrip lending. Different classes of units apply to these portfolios and are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the manager. The manager has a right to close portfolios to new investors in order to manage them more efficiently in accordance with their mandates. Forward pricing is used. The manager may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Dealing prices are calculated on a net asset value and auditor's fees, bank charges and trustee fees are levied against the portfolios. 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. Lump sum investment performances are quoted. Income distributions are in the calculations. Performance numbers and graphs are sourced from Collective Endeavours Consulting (Pty) Ltd. NAV to NAV figures have been used. The investment performance is for illustrative purposes only. The investment performance is calculated after taking the actual initial fees and all ongoing fees into account. The reinvestment of income is calculated on the actual amount distributed per participatory interest by using the ex-dividend date NAV price of the applicable class of the portfolio, irrespective of the actual reinvestment date. Risk profile of the fund ranges from low risk to high risk with a low risk potentially associated with lower rewards and a high risk with potentially higher rewards. Foreign securities may be included in the portfolio from time to time and as such may result in the following: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks and potential limitations on the availability of market information. One can also obtain additional information on Prime products on the Prime CIS website and all price related queries or information is readily available on request. Fund of funds are portfolios that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of funds. The daily cut off time is 14:00 for trades and the valuation point is 17:00. Prices are published on Finswitch by 10:00 daily. Prime Collective Investment Schemes Management Company (RF) (Pty) Ltd is a registered Collective Investment Scheme Manager in terms of Section 5 of the Collective Investment Schemes Control Act and is a wholly owned subsidiary of Prime Financial Services (Pty) Ltd, a member of ASISA.