THE *art* OF SENSIBLE INVESTING

FIRSTGLOBAL GROUP

GLOBAL BRIEF

Quarter 4 | 2018

EDITORIAL COMMENT

John Swart
CEO | FIRSTGLOBAL Asset Management

Looking back at 2018, we feel a sense of relief that it is finally behind us.

2018 was a year of many challenges, politically and economically

After narrowly escaping anarchy at the ANC leadership elections in December 2017, a wave of optimism swept the country as business confidence improved and markets reacted positively. However, this optimism was short-lived. South Africans soon realised there was no quick fix to the damage caused by the previous leadership and new challenges emerged.

A struggling economy (which actually went in and out of recession during 2018), the unwinding of state capture, more state-owned enterprise (SOE) shocks, and the threat of expropriation of land without compensation all plagued markets. These local challenges unfolded against the background of global negative emerging market sentiment, trade war talks, Brexit discourse, and tightening monetary policies.

With all the doom and gloom, it was easy to overlook the good news. Mr Pravin Ghordan's appointment as Minister of Public Enterprises and Mr Tito Mboweni's appointment as Minister of Finance were indeed very significant steps in the right direction – to name just two.

All asset classes except cash and bonds returned negative figures for the year, with the Property Index down a whopping 25.3% and the JSE All Share Index down 8.5% for the year. The JSE All Share Index has now corrected sharply.

Looking at 2019, most of the bad news is already priced in

A full-scale tariff war and its impact on global markets is priced in, as well as South Africa's woes.

Globally, there is much to be resolved

A resolution to the US-China tariff war and stabilising monetary policies are expected to change investor sentiment for the better. The implementation of Britain leaving the EU is still being debated and various outcomes prevail. Suffice to say that some agreement will be reached and clarity obtained early this year. Irrespective of whether a second referendum is called (unlikely) or the UK and EU agree to maintain the status quo for the time being, it will pass, and the world will adapt.

Closer to home, we patiently wait for some positive political outcomes

This year's South African elections are key to a turning point for the better. A convincing victory for the ANC will give President Ramaphosa a stronger mandate to continue with the Cabinet sanitisation process, and getting rid of more of the dubious people still occupying leadership positions. Once this election is over, Ramaphosa should also be in a position to clarify land policy, which has weighed heavily on business confidence.

Although SOEs will not be fixed overnight, this year should bring about sensibility, with clear strategies towards the path to recovery being set out.

EDITORIAL COMMENT

John Swart
CEO | FIRSTGLOBAL Asset Management

Staying informed and remaining objective is key to sensible investing

Equities are currently attractively priced. Now is not the time to sell but rather to buy into the weakness. The most difficult part of sensible investing is not getting emotionally involved. Fear or greed should never drive investment decisions.

In this issue we have selected topical articles written by associates sharing their views on both global and local markets – we trust that you will find these interesting and valuable. We also include another interesting contribution by our own analyst, Edrich Jansen.

We recommend staying invested in well-managed, diversified portfolios

In conclusion, expect a lot more noise, particularly on the political front. Expect extended periods of volatility. But look beyond this. Stay invested in well-managed, diversified portfolios and you will be rewarded. Calmer seas are ahead.

We look forward to staying by your side every step of the way.

A GLOBAL PERSPECTIVE ON INVESTMENT MARKETS – A LOOK BACK ON 2018 AND REASONS TO BE CHEERFUL FOR 2019

Adapted from an article by Michel Perera
Chief Investment Officer at Canaccord Genuity Wealth Management

Trade wars and interest rate hikes were major concerns in 2018

When Donald Trump was elected in November 2016, markets soon applauded him as a tax-cutting, regulation-slashing, business-focused president. The welcome mat was withdrawn during 2018, however, as trade wars started to unnerve investors and stall business spending.

The trade spat was seen as symptomatic of an unpredictable Trump presidency and this uncertainty rattled markets. The shutdown of the US government over Christmas seemed to reaffirm market fears that there may be something ideological, not purely business-friendly, about the US administration.

The other major concern in 2018 was interest rates – how far the US Federal Reserve (Fed) would raise short-term rates and how high long-term bond yields would climb. Although in December Fed Chair Jerome Powell announced a softening of rate hikes for 2019 and beyond, markets wanted more reassurance – and perhaps underestimated the impact of unwinding quantitative easing (when the Fed is selling assets rather than buying them).

Together, these issues delivered a poor equity return in 2018. And despite being the most resilient during the year, the US market finally succumbed and had the worst fourth quarter return since the 2008 global financial crisis (as opposed to the usual Santa rally). It was the worst December since 1931 (in the depths of the Great Depression). Oddly, neither government bonds nor gold provided a positive return, making 2018 a year where nothing really protected capital.

Should investment markets have reacted so badly in 2018?

Algorithmic programmes, high-frequency trading, and other forms of computer-driven investment were pinpointed as causes for the relentless asset falls, and there was definitely a technical aspect to the glum mood. However, there was also something else happening in the valuation of shares.

Since the value of a company's share is linked to the company's estimated future earnings growth, anything that may weaken potential future earnings – be that rising interest rates or trade wars – can lead to lower share valuations.

However, the extent of this lower valuation has been massively exaggerated by market fears. This can be seen by the fact that corporate profits have continued to rise. For corporate profits to rise 25% and markets to fall 6% means a sharp derating has taken place, rather than a more rational recalculation. And that's just for the US; other markets fell 10% to 25% against positive earnings growth. We therefore believe that the doom and gloom has been overdone considering the fundamentals.

So, what now for investment markets in 2019?

It's not all doom and gloom for economic growth and corporate earnings

It's true that US economic growth is poised to moderate in 2019, but the slowdown is likely to be mild, from 3% in quarters two and three of 2018 to perhaps low-to-mid 2% in 2019. At the same time, those economies that softened in 2018, like Europe, China and Japan, may recover somewhat as their policy makers provide fiscal and monetary stimulus. China's activities are always difficult to gauge, but housing support, tax cuts and interest rate reductions are on the cards. Likewise, the depressed eurozone may provide some cheer, with budget deficits widening in France and Italy. Even the UK could espouse expansionary policies, as austerity is phased out against an uncertain Brexit backdrop.

US corporate earnings may have a high hurdle to beat in 2019 given the tax cut impact on 2018 income, but the estimated profit growth is still positive, a far cry from the sharp drops normally seen during a recession. It simply means the growth curve is less steep, not that it is going into reverse.

Although a trade deal seems like the right action in light of the 2020 election, uncertainty remains

The relationship between the US and China is fraught with many more conflicts than just trade, with questions about intellectual property transfers, market access and cyber activity. The recent warm statement by President Trump, echoed by the Chinese authorities, has not quite dispelled the worries about trade tariffs in the context of these other issues. We wonder, though, whether the Trump administration's unpredictability in foreign policy will remain as the 2020 election deadline draws closer. Which course of action is more likely to get President Trump re-elected: signing a trade deal with China or raising tariffs to ever higher levels? To us, the answer is clearly the former and yet markets are incorporating a large US-China risk premium. We don't believe the US is willing to scupper its own economy to bring China down. At some point, 'realpolitik' must kick in and we see it happening early in 2019. But until things are signed, sealed and delivered, markets will stick to their disbelief.

At this stage inflation is in tact and does not require further interest rate hikes

The Fed wants to be ahead of potentially higher inflation by raising interest rates to a 'normalised' level from the 0% emergency rate after the 2008 crisis. But inflation is remarkably well behaved in the US and literally all over the world, so there is no need to cause a slump to stop prices soaring. The Fed will, of course, keep the option open to continue hiking interest rates but it is unlikely to generate a recession in doing so. Even a 3% Fed funds rate (short-term US policy rate) is unlikely to trigger a slump, but markets are more worried about it than economists.

A GLOBAL PERSPECTIVE ON INVESTMENT MARKETS – A LOOK BACK ON 2018 AND REASONS TO BE CHEERFUL FOR 2019

Adapted from an article by Michel Perera
Chief Investment Officer at Canaccord Genuity Wealth Management

Despite market fears, a recession is improbable

Not everything will be resolved in 2019, but even if some of the issues currently dogging the markets are less virulent in the year ahead, we should see a favourable environment for risk assets.

There are many relevant historical comparisons: in 2011 and 2015, for example, nasty market falls were prompted by fears about various economies. However, these were eventually softened by policy action (government or central bank) with risk markets enjoying two good years afterwards.

The ubiquitous concern about a 2020 recession and the upcoming end of this cycle highlights the lack of understanding about what this cycle has been: one of the longest, yes, but also one of the weakest, hence not yet earmarked for the rubbish heap. If there is any silver lining to 2018's market turmoil, it is that its mere existence may have helped to prolong this economic cycle by delaying the time when central banks bring on a recession.

How should investors navigate 2019 markets?

Equities

We prefer equities to bonds and cash. Within equities, our preference goes to the US, Japan and emerging markets over Europe and the UK. However, we need to be flexible as we may change our strategy during the coming year, particularly if some Brexit outcome makes the UK market more exciting. (It looks increasingly likely that Brexit issues will extend beyond the expected March deadline.)

If this economic cycle is not dead yet, then emerging markets, which have suffered the most, should recover. The US is still attractive based on growth in some sectors like technology and healthcare. Japan is a stock picker's paradise where the index does not fully reflect the creativity of the new wave of 'Japan Inc.' but also where bloated corporate cash balances are finally being put to profitable use.

We are still sceptical that commodities will deliver a real return given the oversupply in some metals and energy sectors. Nevertheless, we would not be surprised to see a short-term rally in oversold commodities, like Brent and West Texas Intermediate (WTI) oil.

Bonds

We have not quite crossed the threshold where government bond yields should make up a significant part of an investor's asset allocation. If 2.65% for a US 10-year treasury bond is not attractive, then 1.20% for a 10-year UK gilt most certainly isn't either, not to mention 0.20% for a 10-year German bund or 0.00% for a Japanese government bond. Corporate bonds should benefit from improved risk appetite and we would still select them over government bonds.

Choose active stock picking for 2019

Ultimately, what will make a difference in 2019 – in addition to getting the overall direction of markets right – will be stock selection. Once headlines no longer drive markets, the stark differences between sectors and shares should enable stock pickers to eke out better returns than investing passively, especially in some markets still beset by challenges like the UK, Europe and Japan.

However, we would caution that our crystal ball may remain cloudy until some of the policy moves mentioned above (the Fed and the US-China trade deal) actually happen, or at least are sufficiently clear for markets to discount them. This indicates that some degree of patience may be needed during 2019 and that the market will not be as smooth or uncomplicated as 2017.

DECIDE TO DRIVE YOURSELF TO FINANCIAL INDEPENDENCE – NOT FINANCIAL RUIN

Edrich Jansen
Analyst at FIRSTGLOBAL Asset Management

“A full understanding of human limitations will ultimately benefit the decision maker more than will naive faith in the infallibility of his intellect.” (Slovic, 1972:780)

Driving over the festive season is an excellent study in human decision making

Many of us spend thousands of kilometres on the road over the festive season, driving to and from our holiday destinations each year. During this journey we have to consider a vast amount of information before making a decision. Most of us are unaware of the complexities associated with making decisions on the road and the amount of information we need to process just to pass another vehicle safely. Included in this myriad of decisions is the unavoidable task of taking the actions of other drivers into account.

As one of the busiest times on our roads, the festive season therefore presents us with great opportunities to gauge not only fellow drivers' but people in general's decision-making abilities – the feedback loop is instantaneous. Almost everyone, at some stage during their journeys, witnesses driver behaviour that displays impatience, unnecessary risk taking, and a total disregard for the rule of law. Studies that attempt to understand why people make such risky and sometimes irrational decisions when faced with increased uncertainty and complexity are plentiful.

In complex situations, we tend to make less than optimal decisions

Humans resort to the use of heuristics (cognitive shortcuts) when the information available to make a decision becomes complex (Shefrin, 2002:13). The reliance on heuristics to solve problems or to cope with uncertainty ultimately leads to a less than optimal decision, regardless of the individual's intelligence level.

The investment landscape is, at the best of times, very complex. Investors entrust advisers and money managers with their hard-earned money with the expectation that over time they will be compensated for the risk they are taking; and in theory they should be. However, we cannot dismiss the behavioural factors that are at play.

Our decisions tend to be controlled by the same factors, producing similar outcomes

Human decision making transcends into all spheres of life. If we assume that people will continue to make the same decision or behave in the same manner given a set of circumstances, it becomes irrelevant what the decision is about. Put differently, if someone is characterised as being impatient, the impatience will reveal itself in all aspects of their lives, whether it is standing in a queue or waiting for the stock market to rebound.

People who are risk-takers in general, may expose their money to unnecessary risk

Would it be absurd to expect the driver who acts irrationally on the road to act irrationally when they are faced with an investment decision? Drivers who decide to overtake another vehicle over a solid white line are taking an unnecessary risk and failing to understand the potential consequences of their actions. If they are prepared to gamble with their lives, the likelihood of them gambling with their money and investing it all in Bitcoin cannot be dismissed. A driver who displays impatient behaviour is also more likely to disinvest when they should rather stay invested during prolonged periods of low returns. Such a scenario can be compared to someone who made an investment in the local equity market five years ago and, upon subsequently discovering that a low-risk investment such as cash yielded higher returns – even if only for a short period of time – decides to disinvest from equities completely.

The important thing is to be informed and be aware of your limitations and behaviour

This article most certainly does not aim to claim prescience, nor to advocate that all drivers who make poor decisions on the road will make the same mistakes when it comes to investing. None of us are perfect and no one is without fault. Nevertheless, some people are more informed than others, have a better understanding of their limitations, and are more aware of behavioural factors that could have a devastating effect on investment returns when ignored.

Make it your goal for 2019 to make good investment decisions

With a new year comes new goals and new resolutions. Why not make one of them an attempt to understand your own limitations when it comes to investment decisions? Research shows that one does not have to be the smartest person in the room to make good decisions. A better understanding of human decision making and how behavioural factors influence this can limit and ideally prevent the use of cognitive shortcuts, resulting in better decisions and outcomes.

Partnering with the right people to grow your money is an important starting point. There are many competent professional money managers out there, and at FIRSTGLOBAL we continuously work at identifying these managers on behalf of our clients. In addition, a financial adviser can help you make appropriate decisions for your specific circumstances and goals. When you find an adviser who you feel you can trust and you're confident that his or her decision making and choice of strategy is aligned with your best interests, get in the passenger seat and drive towards a better financial destiny.

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STICK AROUND: SA TURNAROUND IS COMING

Written by Peter Bruce
Former Editor at Large at Tiso Blackstar Group

It's doom and gloom in South Africa at the moment amid political uncertainty and an economy in recession. But hope and revival are in sight, writes Peter Bruce.

There's no getting away from the fact that South Africa is in trouble. Or, if not actually in trouble then extremely close to it. Our politics are nerve-wracking and our economy seldom makes for a good headline. That we're in recession is almost incidental.

The political stage is being set for a general election around April this year. Last year, some people said that President Cyril Ramaphosa should call for a general election then to catch his internal ANC critics off guard. But there were two problems with that: The party didn't yet have the money to run a campaign and the Independent Electoral Commission (IEC) still had work to do on the voters roll.

An early poll at the time, commissioned by the South African Institute of Race Relations had the ANC winning 52% of the vote, the Democratic Alliance (DA) 24% and the Economic Freedom Fighters (EFF) 13%.

That poll may be misleading, though, because it assumes an 83% voter turnout, which is unnaturally high. Dawie Scholtz, who analyses voting patterns and is generally reliable, says this more likely than not understates support for the ANC and overstates that for the EFF. So, for now, and before any campaigning, we're probably looking at around 57% for the ANC and 11% for the EFF, with the DA more or less stable at 23%.

Without any doubt, the ANC will lose its majority in Gauteng and the province will have to go into coalition or a minority government. The DA's role where it can keep the ANC in power will be fascinating, not only in Gauteng, but also in other target provinces for the DA, such as the Northern Cape. The DA should easily hold the Western Cape.

Under pressure

All of that said, the debate about the expropriation of land without compensation (although Ramaphosa will do his best to limit severely the conditions under which that can happen), rising unemployment and rising oil prices are putting severe pressure on the economy and business confidence.

Ramaphosa has launched a stimulus package that contains some good ideas – on tourism and easier visa regulations, for instance – but the government has no new money itself and will have to get the private sector on board. If properly done and with enthusiastic private sector participation, many job-creating projects could actually get off the ground.

Crime and corruption

Yet a growing number of South Africans feel it's already too late. Skilled people are leaving the country in significant numbers. You hear it all the time. The future is just too uncertain and the levels of crime and corruption are unimaginable. In the absence of even one significant political arrest or at least a trial where the public is able to cheer a capable state doing its job, why stay?

One can understand the gloom.

And yet, for as long as I can remember, South Africa has always been on the edge, one way or another. My dad bought a gun when I was 10 after a family was murdered in a caravan near the Mbashe Bridge in Transkei. We were going to go to Australia.

Then my sister and her family had to leave the country because her husband had been banned by the apartheid government and had escaped to Botswana. My parents subsequently left to look after her children before I departed too – and stayed away for 20 years.

I came back in 1996 and I'm not moving again. This is home. Of course I get nervous. Whenever I have money to spare, I invest it offshore like anyone with some savings should. But I don't underestimate the power of the South African economy. It may be skewed in all sorts of disgraceful ways but it is rich and our markets are deep.

Embracing land reform

We're well regulated financially and fiscally – and that means a lot in the world. We're not Argentina or Turkey – and certainly not Zimbabwe. In Johannesburg or Cape Town we're appalled when the rand falls and delighted when it strengthens again. In Buenos Aires, Argentines don't give a hoot about the value of their currency, the peso. All they want are US dollars.

Of course we should be doing much better. But I'm always comforted by the certain knowledge that we're a fundamentally conservative people. South Africans aren't revolutionaries. We want peace and security for our families. Despite what politicians try to pretend, black and white people are finding each other. The land reform process will make that happen even faster – on the farms and in towns. It's something to embrace, not to fear. People aren't going to be hauled out of their homes.

The outgoing Premier of the Western Cape and former DA leader, Helen Zille, once told me our politics was like a pyramid. At the top was the ANC, with the DA and EFF at the bottom corners. Slowly the latter two would eat away at the ANC, she said. That is indeed happening and it doesn't have to result in a horrible ending.

STICK AROUND: SA TURNAROUND IS COMING

Written by Peter Bruce
Former Editor at Large at Tiso Blackstar Group

No place like home

For the middle classes worldwide, life is tougher than ever. Not only here. Yes, if you can afford it, send your children to the best school you can find, not forgetting that many of these are fee-paying government schools. Yes, encourage them to go overseas and get jobs and learn skills they can one day bring back home.

I promise you, even at R15 to the dollar there's no place like South Africa. We're still turning out doctors and engineers. We still have fantastic weather and a beautiful country. We beat the All Blacks! We have some of the finest infrastructure in the world. There's a lot to fix but once you get the thieves out of the way, the fixing is easy.

And they are out of the way, although, sadly, not yet in jail. But stick around. There are going to be some great criminal trials coming up. It's been a miserable political decade but the friends and colleagues who are leaving now are going to miss the best part. The revival.

THE *art* OF SENSIBLE INVESTING

FIRSTGLOBAL ASSET MANAGEMENT QUARTERLY REPORT

Quarter 4 | 2018

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FIRSTGLOBAL
ASSET MANAGEMENT

MARKET COMMENTARY

Edrich Jansen
MCom Finance (UP) | PG Dip Financial Planning (UFS)

Christmas for the US market was as disappointing as Trump's chat with a seven-year-old

Trump's tweets have become commonplace in our daily lives, but he sometimes still manages to surprise, disappointingly so. During a telephone conversation with a seven-year-old just before Christmas, he annihilated any hopes the child had that Santa is real by asking, 'Are you still a believer in Santa, because at seven it's marginal right?'. For investors who were hoping for a Santa Clause market rally, the reality turned out to be less than 'marginal' after the US market experienced its worst-ever Christmas Eve sell-off.

The fourth quarter was record-breaking – for all the wrong reasons

December was a bad month for global equity markets, but it was especially bad for the US, which came under extreme pressure. The three main US indices (Dow Jones Industrial Average, S&P 500 and NASDAQ) reached -15% intra-month as investors continued to confront rising interest rates, slowing US growth, and the ramifications of a government shutdown extending into January. Despite breaking a three-week losing streak towards the end of December, all three indices recorded their steepest annual losses since 2008. Stocks suffered a bruising stretch of investor selling during the fourth quarter (as shown in Table 1) as investors grew increasingly pessimistic about the global economy and grappled with anxiety about the unwinding of central banks' loose monetary policies.

Table 1: US market fourth quarter returns in dollars

	Oct	Nov	Dec	Total
S&P 500	-6.84%	2.04%	-9.03%	-13.83%
Dow Jones Industrial Average	-5.07%	1.68%	-8.66%	-12.05%
NASDAQ	-9.20%	0.34%	-9.48%	-18.34%

Sources: FGAM, Morningstar

Another characteristic of the past quarter, consistent with the entire year, was increased volatility

To illustrate, the worst-ever Christmas Eve sell-off was followed by the biggest one-day point gain on record by the Dow Jones Industrial Average. Furthermore, the barometer for investors' expectations for stock swings, also known as the CBOE (Chicago Board of Exchange) Volatility Index, headed for its steepest one-year advance last month. The market turmoil already started in October, when longstanding records started to fall one by one. These included the following:

- The S&P 500 had its longest losing streak since November 2016 and since Trump became the US President. The S&P 500 was also down for 16 out of 22 trading days.
- It was the worst month for the Nasdaq since November 2008. The Nasdaq also experienced its worst daily performance since August 2011 on 22 October 2018.
- Volatility in US technology stocks was at its highest since February 2018.

When the US sneezes, global markets catch a cold

The usual suspects such as the continuous trade skirmishes between the US and China, rate normalisation, and increased volatility were responsible for the initial downturn in markets. But highly leveraged companies, lower growth prospects and lower forward-earnings expectations then pushed global markets down further. At the time of writing, some progress has been made regarding the trade wars, but the trade talks are almost as volatile as the market. Unfortunately, when the US sneezes, global markets still catch a cold, which also therefore affected South Africa.

MARKET COMMENTARY

Edrich Jansen
MCom Finance (UP) | PG Dip Financial Planning (UFS)

The Brexit saga and Italy's battle with the EU about its budget weighed on European markets

The never-ending Brexit saga and Italy's battle with the EU about its budget weighed on European markets in October. After months of frenzied negotiations, the British cabinet finally accepted a proposed Brexit deal in November. The irony however is that, to put it simply, Brexit comes down to Mrs May getting votes from members of Parliament who don't support her and never wanted to leave the EU in the first place. Growth in the eurozone slowed to its lowest level in more than four years after data revealed that the eurozone's GDP only advanced by 0.2% in the third quarter versus the advance of 0.4% in the second quarter.

In South Africa, the emotional rollercoaster continues

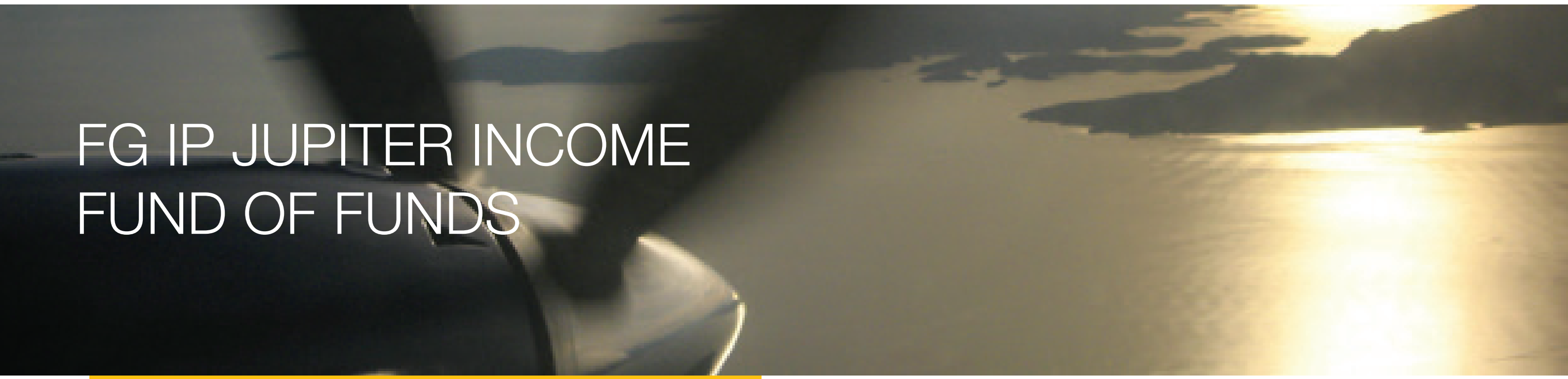
Politically, 2018 was reminiscent of the 1999 Cricket World Cup semi-final between South Africa and Australia from an emotional perspective. In the beginning it looked like Zuma would be president forever and all hope was lost, then suddenly hope was restored and a renewed optimism, referred to as 'Ramaphoria', reigned supreme. But then this fizzled out, leaving us with the same unresolved issues and accompanying pessimism about the future. However, we can't deny the progress that has been made. There are concerted efforts underway to try and curb corruption, and more competent ministers have been appointed in some of the most important departments. Hopefully there will be more policy certainty after the national elections this year.

Our market held up well (+4.3%) compared to US markets in December, but the quarter ended negative

Mining and rand-hedge shares helped prop the market up over December, but the market ended the quarter in negative territory (-4.88%). The rand depreciated 4% against the US dollar in December but strengthened slightly over the quarter. An unusual occurrence last year was the numerous sharp declines of big companies, with the likes of Aspen Pharmacare, British American Tobacco and MTN declining 50%, 41% and 31% respectively in 2018. The Resilient group of property companies was the first to retrace sharply last year, leaving the property sector as the biggest declining asset class in 2018. Naspers, with its big weighting on the local bourse, also ended the year in the red (-16%).

Our FG Funds of Funds emphasise the importance of a diversified portfolio

Despite the local market's near double-digit decline last year, along with the sharp company specific share price declines mentioned above, the FG Funds of Funds (FoF) reiterated the importance and benefits of a diversified portfolio. Notwithstanding the fact that it was inevitable to have exposure to Naspers, Aspen Pharmacare, British American Tobacco and MTN due to their size and prominence in portfolios, investors in the FG FoF were far less affected by the downturn because the portfolios are diversified.



FG IP JUPITER INCOME FUND OF FUNDS

FOR PERIODS UNTIL 31 DECEMBER 2018

Performance and Quartile Ranking in Sector | Launch date 15 August 2005

	6 MONTHS	YTD	1 YEAR	3 YEARS*	5 YEARS*	SINCE INCEP.*
FG IP Jupiter Income FoF	3.98%	7.99%	7.99%	8.45%	7.60%	8.05%
STeFI Composite Index	3.60%	7.25%	7.25%	7.39%	6.91%	7.32%
SA Multi Asset Income Category Average	3.77%	7.48%	7.48%	7.82%	7.13%	7.96%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares I Annualised returns are period returns re-scaled to a period of 1 year

Underlying Funds

Nedgroup Investments Flexible Income Fund	Prescient Income Provider Fund
Cadiz Absolute Yield ABIL Retention Fund	SIM Active Income Fund
Coronation Strategic Income Fund	

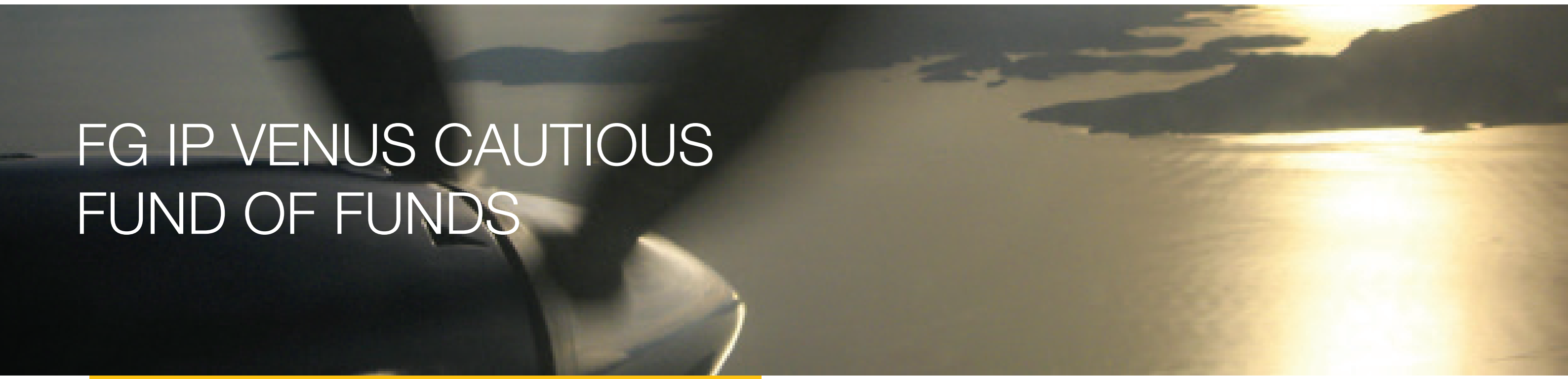
Performance Statistics

	FUND	BENCHMARK
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	4.78%	5.17%
% positive months	93.13%	100.00%

The FG IP Jupiter Income Fund of Funds returned +2.01% in the fourth quarter of 2018 and +7.99% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.78% and 12-month return of +7.25%. The Nedgroup Investments Flexible Income and the Prescient Income Provider Funds made the most positive contributions to performance over the quarter, returning +2.34 and +2.38% respectively. No changes were made to the fund over the quarter.

Asset Allocation | as at 30 November 2018

	LOCAL EQUITY	LOCAL PROPERTY	LOCAL BONDS	LOCAL CASH	FOREIGN
FG IP Jupiter Income FoF	0%	3%	31%	60%	6%



FG IP VENUS CAUTIOUS FUND OF FUNDS

FOR PERIODS UNTIL 31 DECEMBER 2018

Performance and Quartile Ranking in Sector | Launch date 2 July 2007

	6 MONTHS	YTD	1 YEAR	3 YEARS*	5 YEARS*	SINCE INCEP.*
FG IP Venus Cautious FoF	-0.04%	0.92%	0.92%	5.22%	6.73%	8.47%
SA Multi Asset Low Equity Category Average	-0.25%	1.24%	1.24%	4.37%	5.77%	7.36%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares I Annualised returns are period returns re-scaled to a period of 1 year

Underlying Funds

36ONE BCI Equity Fund
ABSA Property Equity Fund
Coronation Optimum Growth Fund
Coronation Strategic Income Fund
Investec Diversified Income Fund
Nedgroup Investments Entrepreneur Fund
Nedgroup Investments Opportunity Fund
Old Mutual Global Equity Fund
Prescient Income Provider Fund
Saffron SCI Opportunity Income Fund
Sesfikile SCI Property Fund
SIM Active Income Fund
Cadiz Absolute Yield ABIL Retention Fund

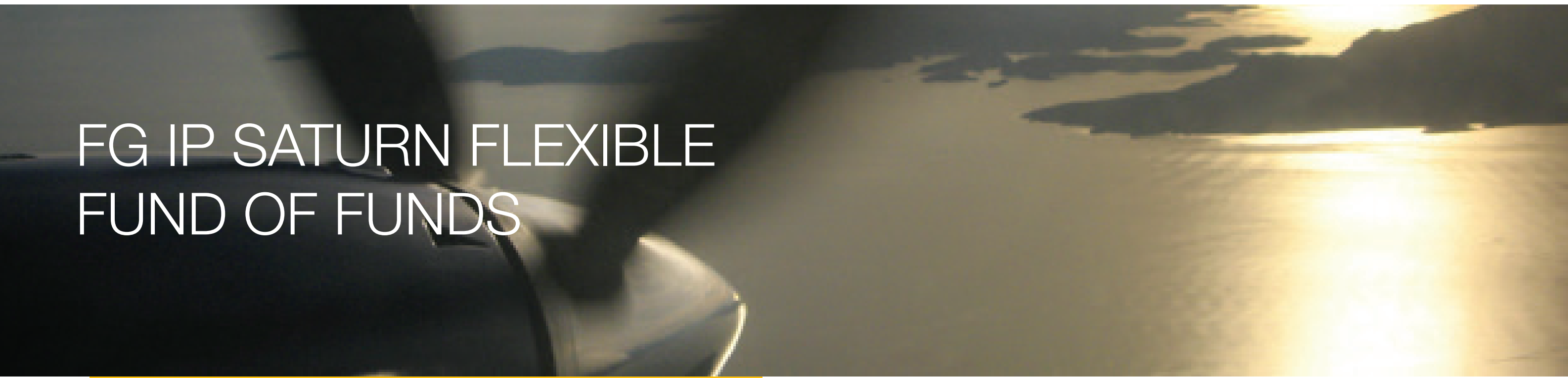
Performance Statistics

	FUND	BENCHMARK
Highest 12-month performance	15.12%	16.56%
Lowest 12-month performance	-1.41%	-2.82%
% positive months	69.57%	71.01%

The FG IP Venus Cautious Fund of Funds returned -1.70% in the fourth quarter of 2018 and +0.92% over the past 12 months, outperforming the benchmark peer group average quarterly return of -1.83%, but underperforming the 12-month return of +1.24%. The fixed income funds made the biggest contribution to performance over the quarter as global equity markets came under pressure. The Old Mutual Global Equity Fund, which made the biggest positive contribution to performance over the two previous quarters, made the biggest negative contribution, returning -15.11% overall during the quarter. The property allocation through the ABSA Property Equity Fund weighed on the 12-month return as the South African property sector came under significant pressure at the start of last year. No changes were made to the fund over the past quarter.

Asset Allocation | as at 30 November 2018

	LOCAL EQUITY	LOCAL PROPERTY	LOCAL BONDS	LOCAL CASH	FOREIGN
FG IP Venus Cautious FoF	15%	7%	15%	43%	20%



FG IP SATURN FLEXIBLE FUND OF FUNDS

FOR PERIODS UNTIL 31 DECEMBER 2018

Performance and Quartile Ranking in Sector | Launch date 15 August 2005

	6 MONTHS	YTD	1 YEAR	3 YEARS*	5 YEARS*	SINCE INCEP.*
FG IP Saturn Flexible FoF	-3.43%	-1.91%	-1.91%	2.54%	5.48%	10.09%
SA Multi Asset Medium Equity Category Average	-2.26%	-1.77%	-1.77%	2.91%	5.03%	8.85%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares I Annualised returns are period returns re-scaled to a period of 1 year

Underlying Funds

36ONE BCI Flexible Opportunity Fund	PSG Flexible Fund
Coronation Market Plus Fund	Rezco Value Trend Fund
Investec Opportunity Fund	SIM Inflation Plus Fund
Nedgroup Investments Opportunity Fund	Truffle SCI Flexible Fund
Matrix Defensive Balanced Fund	

Performance Statistics

	FUND	BENCHMARK
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	68.13%	65.63%

The FG IP Saturn Flexible Fund of Funds returned -4.49% in the fourth quarter of 2018 and -1.91% over the past 12 months, underperforming the benchmark peer group average quarterly return of -3.72% and the 12-month return of -1.77%. The Investec Opportunity Fund made the biggest negative contribution over the quarter contributing -1.20% to overall performance. The 12-month return was weighed down by the fund's global equity exposure through the Coronation Market Plus Fund and 36ONE BCI Flexible Opportunity Fund, which contributed -1.13% and -0.49% respectively. No changes were made to the fund over the past quarter.

Asset Allocation | as at 30 November 2018

	LOCAL EQUITY	LOCAL PROPERTY	LOCAL BONDS	LOCAL CASH	FOREIGN
FG IP Saturn Flexible FoF	37%	4%	14%	20%	25%

FG IP NEPTUNE GROWTH FUND OF FUNDS

FOR PERIODS UNTIL 31 DECEMBER 2018

Performance and Quartile Ranking in Sector | Launch date 1 September 2014

	6 MONTHS	YTD	1 YEAR	3 YEARS*	5 YEARS*	SINCE INCEP.*
FG IP Neptune Growth FoF	-3.04%	-2.28%	-2.28%	3.28%	N/A	4.82%
SA Multi Asset High Equity Category Average	-3.43%	-3.60%	-3.60%	2.41%	N/A	3.74%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares I Annualised returns are period returns re-scaled to a period of 1 year

Underlying Funds

ABSA Property Equity Fund	Old Mutual Global Equity Fund
Catalyst Global Real Estate Prescient Feeder Fund	Prudential Balanced Fund
Coronation Strategic Income Fund	PSG Flexible Fund
Fairtree Equity Prescient Fund	Rezco Value Trend Fund
Investec Equity Fund	Truffle SCI General Equity Fund
Laurium Flexible Prescient Fund	

Performance Statistics

	FUND	BENCHMARK
Highest 12-month performance	14.27%	12.31%
Lowest 12-month performance	-4.84%	-5.61%
% positive months	59.62%	59.62%

The FG IP Neptune Growth Fund of Funds returned -4.90% over the fourth quarter of 2018 and -2.28% over the past 12 months, underperforming the benchmark peer group average quarterly return of -4.49%, but outperforming the 12-month return of -3.60%. The Coronation Strategic Income Fund was the best-performing fund over the quarter, contributing +0.22%. In contrast to the third quarter, the Old Mutual Global Equity Fund made the biggest negative contribution (-0.74%) after global equities had one of their worst quarters since 2008. No changes were made to the fund over the past quarter.

Asset Allocation | as at 30 November 2018

	LOCAL EQUITY	LOCAL PROPERTY	LOCAL BONDS	LOCAL CASH	FOREIGN
FG IP Neptune Growth FoF	45%	5%	8%	16%	26%

FG IP MERCURY EQUITY FUND OF FUNDS

FOR PERIODS UNTIL 31 DECEMBER 2018

Performance and Quartile Ranking in Sector | Launch date 15 August 2005

	6 MONTHS	YTD	1 YEAR	3 YEARS*	5 YEARS*	SINCE INCEP.*
FG IP Mercury Equity FoF	-5.79%	-7.36%	-7.36%	1.28%	3.87%	10.08%
FTSE/JSE Africa All Share (Total Return)	-6.94%	-8.53%	-8.53%	4.33%	5.77%	12.79%
SA Equity General Category Average	-5.62%	-9.08%	-9.08%	1.88%	3.33%	10.41%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares I Annualised returns are period returns re-scaled to a period of 1 year

Underlying Funds

36ONE BCI Equity Fund	Nedgroup Private Wealth Core Equity Fund
Coronation Optimum Growth Fund	Nedgroup Investments Entrepreneur Fund
Fairtree Equity Prescient Fund	Old Mutual Global Equity Fund
Gryphon All Share Tracker Fund	Prudential Equity Fund
Investec Equity Fund	Sesfikile BCI Property Fund
PSG Equity Fund	Truffle SCI General Equity Fund

Performance Statistics

	FUND	BENCHMARK
Highest 12-month performance	41.30%	48.30%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	61.88%	61.88%

The FG IP Mercury Equity Fund of Funds returned -5.69% in the fourth quarter of 2018 and -7.36% over the past 12 months, underperforming the quarterly return of the benchmark FTSE/JSE All Share Total Return Index, which returned -4.88%, but outperforming the 12-month return of -8.52%. The Old Mutual Global Equity Fund was the worst-performing fund over the quarter (-15.11%) but the PSG Equity Fund made the biggest negative contribution (-0.78%). The best-performing local general equity fund was the Fairtree Equity Prescient Fund, which returned -2.99% over the quarter. No changes were made to the fund over the quarter.

Asset Allocation | as at 30 November 2018

	LOCAL EQUITY	LOCAL PROPERTY	LOCAL BONDS	LOCAL CASH	FOREIGN
FG IP Mercury Equity FoF	73%	7%	0%	7%	13%

FG IP INTERNATIONAL FLEXIBLE FUND OF FUNDS

FOR PERIODS UNTIL 31 DECEMBER 2018

Performance and Quartile Ranking in Sector | Launch date 17 October 2007

	6 MONTHS	YTD	1 YEAR	3 YEARS*	5 YEARS*	SINCE INCEP.*
FG IP International Flexible FoF	-6.31%	4.23%	4.23%	0.67%	7.75%	8.24%
Benchmark	-4.18%	3.93%	3.93%	0.02%	7.80%	9.26%
Global - Multi Asset - Flexible Average	-4.18%	3.93%	3.93%	0.02%	7.04%	7.89%
			1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

*Data for longer than 12 months is annualised
Source: Morningstar, performance for A class shares I Annualised returns are period returns re-scaled to a period of 1 year

Underlying Funds

FGAM Global Cautious Fund	FGAM Global Growth Fund
Investec Global Strategic Managed Fund	Nedgroup Global Flexible Fund
Merian World Equity Fund	

Performance Statistics

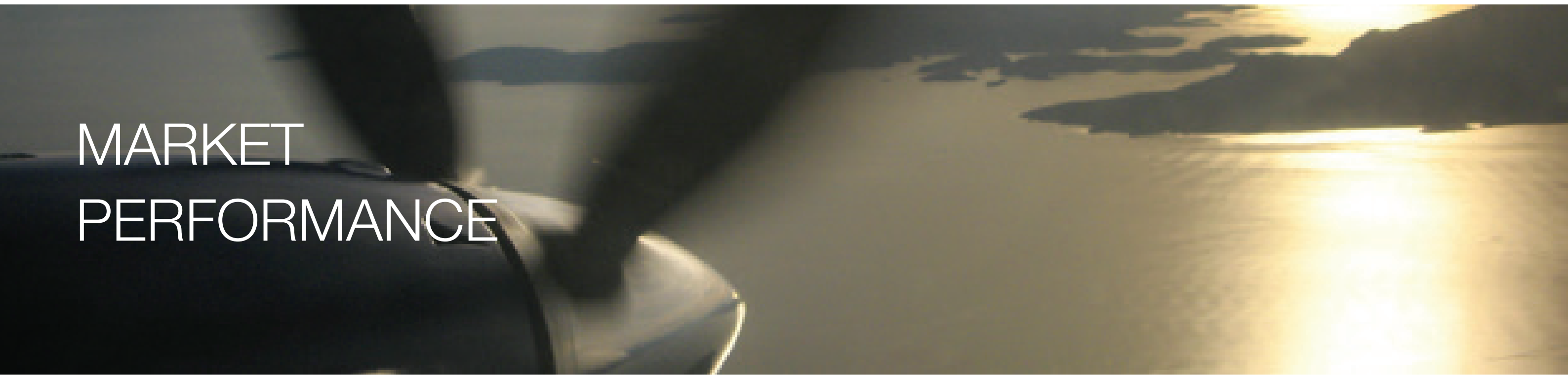
	FUND	BENCHMARK
Highest 12-month performance	40.26%	34.52%
Lowest 12-month performance	-16.99%	-15.05%
% positive months	55.97%	57.78%

The FG International Flexible Fund of Funds returned -10.20% in the fourth quarter of 2018 and +4.23% over the past 12 months, underperforming the benchmark peer group average quarterly return of -8.39%, but outperforming the 12-month return of +3.93%. The fund's allocation to global bonds supported the performance overall, as the asset class ended the quarter in positive territory. The rand didn't change much relative to the US dollar over the quarter but global equities sold off -13%. The Old Mutual World Equity Fund went from being the best-performing underlying fund over the third quarter to the worst, returning -15.79% in rand terms for the last quarter. No changes were made to the fund over the quarter.

Asset Allocation | as at 30 November 2018

	GLOBAL EQUITY	GLOBAL FIXED INCOME	GLOBAL CASH	GLOBAL PROPERTY	LOCAL CASH
FG IP International Flexible FoF	61%	10%	19%	7%	3%

	USD	GBP	EUR	JPY	OTHER	ZAR
Currency Breakdown	56%	5%	15%	8%	13%	3%



MARKET PERFORMANCE

INDEX	ASSET CLASS	1Q 2018	2Q 2018	3Q 2018	4Q 2018	YTD 2018*
STeFI Composite Index	Local Cash	1.76%	1.74%	1.78%	1.78%	7.25%
BEASSA ALBI Total Return Index	Local Bonds	8.06%	-3.78%	0.81%	2.74%	7.69%
FTSE/JSE SA Listed Property Index (Total Return)	Local Property	-19.61%	-2.19%	-1.01%	-3.99%	-25.26%
FTSE/JSE Africa All Share Index (Total Return)	Local Shares	-5.97%	4.54%	-2.17%	-4.88%	-8.53%
JP Morgan World Govt Bond Index (USD)	Global Bonds	2.17%	-3.04%	-1.70%	2.01%	-0.66%
EPRA/NAREIT Global Index (USD)	Global Property	-4.21%	2.03%	-1.47%	-5.69%	-9.18%
MSCI AC World Index (USD)	Global Shares	-1.41%	-0.12%	3.77%	-13.08%	-11.18%
USD/ZAR (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-3.81%	15.70%	3.21%	1.55%	16.64%

***(Return until 31 December 2018)**

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DISCLOSURE: Collective Investment Schemes are generally medium to long term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the manager. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Fund of funds and feeder funds invest in portfolios of other Collective Investment Schemes that levy their own charges, which could result in a higher fee structure for the fund of funds. The Manager retains full legal responsibility for the Fund, regardless of Co-Naming arrangements. Transaction cutoff time is 14:30 daily. Each portfolio may be closed for new investments. Valuation time is 15:00 (17h00 at quarter end) and 20:00 for fund of funds and certain funds with significant investments in CIS. Prices are published daily and available newspapers countrywide, as well as on request from the Manager. IP Management Company (RF) Pty Ltd is the authorised Manager of the Scheme – contact 021 673 1340 or clientservices@ipmc.co.za. Standard Bank is the trustee / custodian – contact compliance-IP@standardbank.co.za. Additional information including application forms, the annual report of the Manager and detailed holdings of the portfolio as at the last quarter end are available, free of charge, from clientservices@ipmc.co.za. IP Management Company is a member of ASISA. Financial Advisor fees as agreed between the Investor and the Advisor may apply and payment to the Advisor will be facilitated on behalf of the Investor. A statement of changes in the composition of the portfolio during the reporting period is available on request. The portfolio may include foreign investments and the following additional risks may apply: liquidity constraints when selling foreign investments and risk of non-settlement of trades; macroeconomic and political risks associated with the country in which the investment is made; risk of loss on foreign exchange transactions and investment valuation due to fluctuating exchange rates; risk of foreign tax being applicable; potential limitations on availability of market information which could affect the valuation and liquidity of an investment. All of these risks could affect the valuation of an investment in the fund.

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