

# Melville Douglas Balanced Fund Ltd USD Balanced Class

Minimum Disclosure Document as at 30 September 2018



## Investment Growth\*\*\*



## Trailing Returns\*\*\*

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years
Melville Douglas BFL USD Balanced A	0.4	3.6	7.5	6.9	4.4	3.9
50% MSCI & 50% US CASH	0.4	3.7	6.8	7.5	5.3	5.1
EAA Fund USD Flexible Allocation	0.0	-0.8	1.9	4.8	2.3	2.7

## Risk Matrix \*

	Class A	Benchmark	Cat Avg
Information Ratio (arith)	-0.7		-2.0
Std Dev	5.8	5.6	5.5
Sharpe Ratio **	0.0	0.1	-0.2

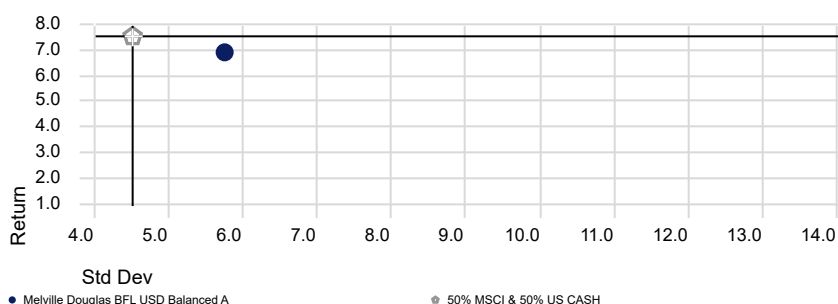
## Highest and lowest 12 month rolling returns since inception

Highest 12 month rolling return	24.9
Lowest 12 month rolling return	-25.4

## Monthly Returns\*\*\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	3.9	-2.2	-1.2	0.5	0.0	-0.3	2.0	0.6	0.4				
2017	1.4	1.7	0.4	1.9	1.6	0.2	1.4	0.4	0.7	2.1	1.2	0.4	14.1
2016	-3.7	-1.0	3.2	0.1	0.4	-1.0	2.3	-0.1	0.1	-1.6	0.7	0.7	0.1
2015	-1.1	3.1	-0.8	1.6	0.1	-1.8	0.9	-4.2	-2.5	5.0	-0.6	-1.2	-1.7
2014	-3.2	3.1	-0.1	0.2	1.7	1.2	-1.0	0.9	-1.8	0.3	1.7	-1.0	2.0
2013	1.8	-0.2	1.3	1.3	-0.3	-3.3	2.4	-1.7	3.6	2.1	1.1	1.2	9.4

## Risk-Reward \*



Not to be distributed within the European Union

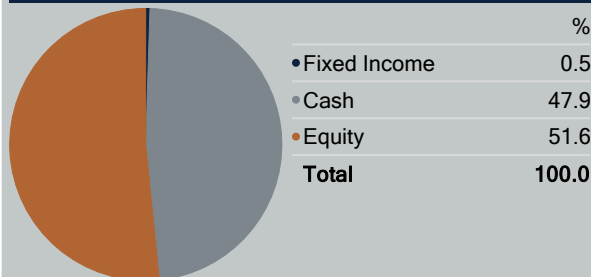
## Investment Objective

The objective is to provide long term capital growth in US Dollar terms by investing in a balanced portfolio of globally diversified equity and fixed income.

## Top Holdings

	Portfolio Weighting %
Melville Douglas SFL Global Equity A \$	51.60
JPM US Dollar Liquidity C (acc.)	47.90
Melville Douglas IFL USD Income Acc A	0.50

## Asset Allocation



## Operations

Name	Melville Douglas BFL USD Balanced A
Month end price (USD)	\$ 181.6
Fund AUM (m)	\$ 10.8

## Fund Managers

### Bernard Drotschie

Bernard is the Deputy Chief Investment Officer and is head of the SA fixed income strategy. He holds a B.Com (Hons) degree in Econometrics, is a CFA® Charterholder, and is a Certified Financial Planner™ professional.

## Portfolio Risk

### Risk Profile



\* Data is displayed over a 3 year rolling period  
\*\* Risk free rate = US Treasury T-Bill 3 Months  
\*\*\* Class A since inception. Information compiled using Morningstar based on the most recent published information available to Morningstar at the end of the relevant period. This information is for illustrative purposes only.

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### Additional Risk Information

Where foreign securities are included in the portfolio there may be additional risks, such as potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, tax risks, settlement risks, interest rate and potential limitations on the availability of market information.

The risk rating seen on page 1 is designed to give an indication of the level of risk, measured by volatility, associated with this specific portfolio. In order to arrive at the specific risk rating of the portfolio in question, Melville Douglas measures the volatility of the fund, in the form of standard deviation, over a three year rolling period, and compares the result to internal risk parameters. Please note that these risk ratings are designed as a guide only.

### Other Fund Facts

<b>Manager</b>	STANLIB Fund Managers Jersey Limited
<b>Investment Manager</b>	Standard Bank International Investment Limited
<b>Sub Investment Manager</b>	Melville Douglas Investment Management (Pty) Ltd
<b>Custodian</b>	Link Corporate Services (Jersey) Limited
<b>Auditors</b>	PwC, Ireland
<b>Fund Directors</b>	H.Holmes, G.S.Baillie, M.Farrow, and O.Sonnbichler
<b>Registered Office</b>	47-49 La Motte Street, St Helier, Jersey
<b>Publication Date</b>	23 October 2018

**Share Class ISIN** JE00B504TG57

**Minimum Investment** \$10 000

**Launch Date** 16 February 1999

### Fund Costs- 12 months

Fee Class	TER	TC	TIC
<b>Class A</b>	2.08%	0.00%	2.08%

TER = (Total Expense Ratio), TC = (Transaction Costs), TIC = (Total Investment Cost ; TER + TC = TIC)

Where a transaction cost is not readily available, a reasonable best estimate has been used. Estimated transaction costs may include Bond, Money Market and FX Costs (where applicable)

### Fund Costs- 36 months

Fee Class	TER	TC	TIC
<b>Class A</b>	1.79%	0.00%	1.79%

TER = (Total Expense Ratio), TC = (Transaction Costs), TIC = (Total Investment Cost ; TER + TC = TIC)

Where a transaction cost is not readily available, a reasonable best estimate has been used. Estimated transaction costs may include Bond, Money Market and FX Costs (where applicable). Share classes in issue for less than 36 months is not disclosed.

### Contact Details

#### Melville Douglas Investment Management (Pty) Ltd

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### Statutory Disclosure and General terms and Conditions

This document does not constitute an offer to buy or a solicitation of an offer to buy or sell shares of the Fund in any jurisdiction in which an offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer of solicitation and is for information purposes only. Subscriptions will only be received and shares issued on the basis of the current prospectus and prospective investors should carefully consider the risk warnings and disclosures for the Fund set out therein. The value of shares may go down as well as up and investors may get back less cash than originally invested. 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. Past performance is not necessarily a guide to future performance. An investment in the shares of the Fund is not the same as a deposit with a banking institution. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Please refer to the prospectus for more details on the charges and expenses that may be recovered from the Fund. Shares are valued on a daily basis using 23:59 (UK Time) prices. Transaction requests received before 14h30 (UK Time) on a Thursday will receive the following valuation point unit price. This is an accumulation portfolio and does not distribute income. Telephone calls may be recorded. Link Corporate Services (Jersey) Limited, STANLIB Fund Managers Jersey Limited, Standard Bank International Investments Limited are regulated by the Jersey Financial Services Commission. The fund is also regulated by the Jersey Financial Services Commission

Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. Collective Investment Schemes are generally medium to long-term investments.

An investment management agreement exists between the Fund, the Manager and Standard Bank International Investments Limited appointing Standard Bank International Investments Limited as the sole representative for the investment management functions performed in Jersey. The appointed representative for the fund in South Africa is STANLIB Collective Investments (RF) Pty Ltd.

The manager does not provide any guarantee either with respect to the capital or the return of the portfolio.

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### Quarterly Commentary

#### Fund Review

Over the quarter, the fund returned 3.0% compared to a benchmark return of 2.8%. The outperformance was attributable to a positive contribution from the underlying asset classes, with global equity delivering strong positive returns.

#### Overview

Asset classes have largely performed in line with changing but positive economic fundamentals this year. Global equities have outperformed fixed interest assets and the US dollar has benefited from increasing interest rate and growth differentials. The divergence in growth between the US and the rest of the world was not expected, and Donald Trump's strategy of "America first" has had a dampening effect on global trade and the value of emerging market assets. Outside the US, the world is struggling with the higher cost of US capital, and the higher costs of doing business imposed by tariffs. The outlook is not expected to change much, but the path will become rougher as global liquidity becomes less supportive, US-China trade tensions escalate and the political backdrop in Europe stays uncertain.

#### Trade Wars

Global trade continues to make headlines. The US imposed tariffs on another \$200 billion of imports from China on 24 September. Up to now, investment markets have largely shrugged off the news as the initial tariff of 10% was less than expected. If no progress is made, tariffs on Chinese imports will rise from 10% to 25% on 1 January 2019. Furthermore, the Trump administration has threatened to follow up with a third round of tariffs on remaining imports from China. The Chinese immediately retaliated with tariffs on \$60 billion of US imports and showed no sign of backing off. The response from China is not surprising, but the end result of these escalations will certainly be much more damaging for the Chinese economy should some form of compromise not be achieved, which at this point looks unlikely. But it is not just China's economy which will be affected. The whole supply chain, including many emerging Asian economies will also be influenced. Investors have been voting with their feet, as illustrated by the significant outperformance of US equities over China and emerging markets equity indices.

China does however have other options to consider other than trade tariffs. Certain US companies with operations in China such as GM and Apple sell more of their products in China than the US, and Chinese authorities could institute certain measures or regulations which could be damaging for US subsidiaries operating in China in the long run.

Although the overall impact is somewhat uncertain – much supply will be derived from markets where tariffs don't apply – tariffs are nevertheless an additional cost to businesses. The effect is negative in the short run as companies will defer investment spending, but certain economies could benefit as importers in the US and China would switch to alternative suppliers.

US companies in the meantime will have to decide whether to pass on the higher import prices or absorb the higher costs. The first option will result in higher inflation for the Federal Reserve to contend with and the latter option in lower profit margins and a slowdown in earnings growth. Both options will act as a headwind for US equity investors and perhaps the US dollar.

The threat of escalating trade tensions alongside a more restrictive US monetary policy and fading fiscal stimulus will act as additional risks to the global economy, which is already showing signs of a slowdown in growth momentum.

#### Italy

Italy's debt at 132% of GDP has for some time been a headache for the European Commission, as the sheer size of outstanding government debt makes Italy too big to bail out and makes the economy very vulnerable to any cyclical or external shocks. Past governments have been able to keep a tight rein on finances, but it has been exactly these restrictive measures and structural reforms that have opened the door to a populist coalition government.

The new government has made many promises leading up to the elections earlier this year, which include lower taxes and increased government spending in an effort to stimulate economic growth. Although this may deliver some short term relief, structural reforms such as improved labour productivity are required to get the economy on a more sustainable long-term growth path.

The budget deficit target of 2.4% of GDP was higher than previously promised by the government and much higher than the European Commission would have wanted (although still below the 3% Maastricht requirement) and higher than the recommendation made by the Minister of Economy and Finance, of 1.6% of GDP. Investment markets reacted negatively: Italian equity prices fell sharply and bond yields jumped again.

Italy's government debt position, without growth, is unsustainable. Borrowing more without simultaneously doing anything to correct the growth problem is guaranteed to make the situation worse. The backstop that is the EU will not prevent that, and markets will be doubtful of the EU's willingness to do anything different than it did in the case of Greece – which is a much smaller problem. Italy cannot have a currency devaluation to help it through, so it is caught between the shambles that is Brexit, which has been an object lesson for potential leavers, and the necessary domestic price adjustment that Greece continues to endure. As Italy's cost of financing rises, and the government continues to ignore the needed reforms, a disruptive outcome becomes a rising risk. The European Commission is very likely to push back in October and the risk of a sovereign rating downgrade has just increased.

That said, the absolute level of interest rate is still low by historic measures, given the European Central Bank's quantitative easing program. Italy is now the ECB's point of vulnerability, capping its ability to allow interest rates to rise, given the exposure of the Eurozone's banking system to Italian government debt.

#### Brexit

It is now more than two years since the United Kingdom European Union membership referendum was held in June 2016. There are only six months remaining before the UK officially leaves the European Union in March 2019. The outcome of the eventual "divorce" between the UK and the rest of the EU remains uncertain and will continue to weigh on business confidence and economic activity until the terms have been agreed. Like most divorce settlements, there will be a cost and no one party really wins. In time, both the UK and the EU will establish relationships and access with new trading partners, but in the short term it will be complicated if free movement of goods and people between the UK and EU is restricted. There is no certainty as yet that a deal will be done. It has been suggested by the EU that November is the latest that a deal could be finalised. This will be a month after the EU summit in October, which is expected to outline the terms of the UK-EU "divorce" or withdrawal agreement. If a deal has been approved, MPs will be asked to vote in favour of a withdrawal agreement or "no deal". In other words, the next few months will be critical for the process of establishing and approving a Brexit deal. Various sticking points are significant, such as keeping the Irish border open between Northern Ireland and the Republic of Ireland. At present, it is hard to read the final outcome. Whether markets fully reflect the impact and probability of a "no deal" outcome is impossible to say, but the risk remains material and significant price adjustments (currency, interest rates) may be needed to cushion the shock and rebalance capital and goods flows. Time is short.

#### Outlook

The US economy has been the leader of a strong global economy this year, but also the cause of volatility and unpleasant adjustments elsewhere as the impacts of tariffs, trade renegotiations and sanctions start to bite. For the US, the growth outlook for next year is less certain. The benefits from lower taxes will begin to fade as we enter 2019, and the Federal Reserve will continue to increase the policy interest rate. For now, this process remains one of deceleration - foot off the accelerator; whether an inflationary surge will force it into full braking mode is a rising but still remote risk. US companies will also have to deal with the implications of a trade war with China as well as a higher oil price. Earnings growth will certainly slow. Other risks are also material; Brexit looms and Italy will have to find a solution to its debt problems. Prices have adjusted, but not so much as to discount extreme outcomes. We have learned over time that it doesn't pay to bet on political and macro events as the eventual outcomes are at best difficult to predict. Our preferred strategy is to ensure that the portfolio is well diversified, while at the same time keeping a close eye on the opportunities arising from valuation adjustments.