

# Melville Douglas STANLIB Dynamic Strategy Fund

Minimum Disclosure Document as at 30 June 2016

## Investment Objectives

The Dynamic Strategy Fund is an actively managed multi-asset class mandate designed to reflect Melville Douglas's optimal long-term capital growth strategy. The fund focuses on delivering balance – a balance between investment returns and the risk associated with those returns, between capital growth and cash generation and a balance between compound and cyclical price performers. The objective of the fund is to deliver high growth of capital and income at a reasonable level of current income and relative stability.

## Investment Philosophy

At the heart of the Melville Douglas's investment philosophy is the preservation of the capital entrusted to us while delivering superior risk adjusted investment returns. We achieve this by focusing on our proprietary investment philosophy and process, which hinge on achieving balance, focusing on the long term, and basing our investment decisions primarily on fundamental research. In all our investments we strive to achieve balance between investment returns and the risk associated with those returns, between capital growth and cash generation, and a balance between compound and cyclical price performers.

## Portfolio Facts

Portfolio Size	R124.54 million
Sector Classification	South African - Multi Asset - Flexible
Income Distribution	Net revenue is declared on a daily basis and distributed bi-annually
Income Declaration	30 June & 31 December
Benchmark	FTSE/JSE All Share Index 55%; BEASSA All Bond Index 15%; MSCI World Index (USD) 15%; STeFI Call Deposit Rate Index 15%

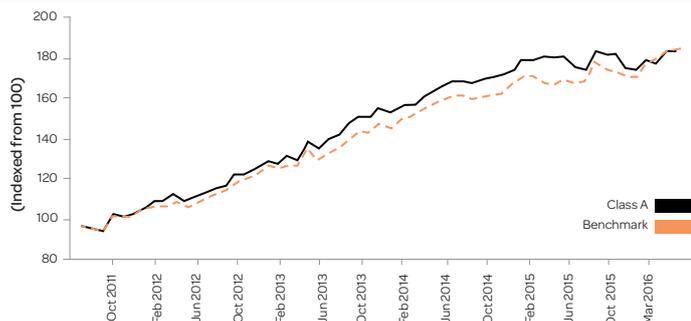
	Class A	Class B1
Launch Date	15 May 2002	31 December 2007

Minimum Investment		
Lump Sum	R 100 000	R 100 000
Debit Order Per Month	R 1000	R 1000

\* Please refer to page 2 under "Statutory Disclosure and General Terms & Conditions"

\*\* Additional Information can be obtained from Portfolio Charges Brochure on www.stanlib.com

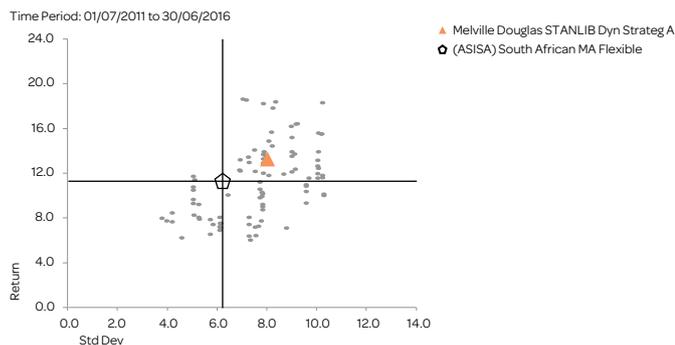
## Cumulative Performance - Last 5 Years



## Performance (%)

	1 year	3 years	5 years	10 years	Since Inception
Class A	0.66	10.46	13.28	11.43	14.97
Class B1	1.26	10.47	N/A	N/A	N/A
Sector	2.51	10.00	11.70	10.31	12.74
Benchmark	6.79	12.41	13.45	11.48	12.68
Rank (Class A)	51/68	23/55	17/47	10/30	2/11
Lowest Return Over 12 rolling months					-22.57
Highest Return Over 12 rolling months					49.17

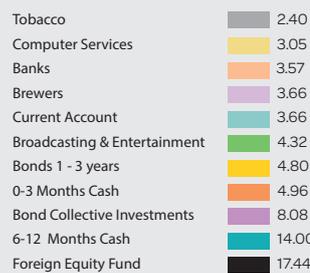
## Risk Reward



Source: Morningstar Direct

	Class A	Class B1
ISIN NO.	ZAE000039459	ZAE000112678
JSE Code	MDDS	MDDB1
Total Expense Ratio	1.52%	1.27%
Maximum Portfolio Charges		
Upfront Charge: Manager	0.00%	0.00%
Upfront Charge: Intermediary	0.00 - 3.00%	0.00 - 3.00%
Total Service Charge	1.50%	1.00%
Service Charge Intermediary Portion	0.50%	0.00%

## Sector (%)



## Top Holdings (%)

Melville Douglas Select Fund Limited	17.44
Melville Douglas Stanlib Bond Fund	8.08
Naspers Ltd-N-	4.32
Melville Douglas Income Fund Limited - USD Income	3.66
British American Tobacco Plc	2.40
Mediclinic International Plc	2.38
First Rand Limited	2.34
Billiton Plc	2.33
Aspen Pharmacare Holdings Limited	2.33
Anheuser-Busch Inbev Nv	2.29

## Portfolio Risk and Term

Conservative	Moderate	Aggressive
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## Income Distribution

	Paid in the last 12 months	Paid during 2015	2015 payments as a % of year end price
Class A	14.62 cpu	7.21 cpu	1.49%
Class B1	14.88 cpu	10.16 cpu	2.09%

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## Franchise

The fund is prudently managed, with a flexible approach to asset allocation to reflect the balance of risks in investment markets and the economic environment at any given time. The core of the portfolio is its equity holdings, and careful selection of the companies the fund holds offers another significant opportunity to control the risk in the portfolio. Melville Douglas's approach to equity investment is rigorously based on an assessment of the industry growth prospects for each holding, and for the ability of the individual company to improve its industry position by skilful management and strategic positioning. The key characteristics of companies we prefer are the ability to convert revenue into cash on a reliable and sustainable basis; the ability of management to deploy that cash either in expansion or new projects that will achieve a return above the cost of capital; and a track record that demonstrates a willingness to return surplus cash and capital to shareholders. The investment process for non-equity asset classes is similar, with the understanding that the more non-equity assets the portfolio retains the less the likelihood of achieving a reasonable real return over time. We are also strongly focused on the price we pay; we believe strongly that the cost of purchase determines the return that can be achieved. Our focus is always long term and turnover in the portfolio is typically low.

## Total Expense Ratio, Transaction Costs & Total Investment Charge

**Total Expense Ratio (TER):** This shows the charges, levies and fees relating to the management of the portfolio and is expressed as a percentage of the average net asset value of the portfolio, calculated over a rolling three years (where applicable) and annualised to the most recently completed quarter. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

**Transaction Costs (TC):** The percentage of the value of the fund as costs relating to the buying and selling of the Fund's underlying assets. Transaction costs are a necessary cost in administering the Fund and impacts fund 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 Fund, investment decisions of the investment manager and the TER.

**Total Investment Charges (TIC):** The percentage of the value of the Fund incurred as costs, relating to the investment of the Fund. As fund returns are reported after deducting all fees and expenses, these costs (the TER & TC) should not be deducted from the fund returns. It is the sum of the TC & TER.

## TER and Transaction Costs Breakdown

FUND CLASS	TER	TC	TIC
Class A	1.52%	0.09%	1.61%
Class B1	1.27%	0.09%	1.36%

### 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)

## Portfolio Manager

### Jerome O'Regan

Jerome is Melville Douglas's Chief Investment Officer and has been involved in investment markets since 1984. Among other positions he has held are head of research at Fleming Martin and STANLIB, and Chief Investment Officer at SCMB Asset Management. He holds an MBA from UCT and is a Chartered Financial Analyst.

### Susan Gawith

Susan is an executive Portfolio manager at Melville Douglas. She worked in retail before moving to financial markets in 1999 and was a rated retail analyst at Cazenove. She has a BSc TRP and an MBA from UCT.

## Fund Features

A well-managed balanced portfolio, with the objective of delivering strong risk adjusted returns over time.

## Risk

General market risks:

- A decline in property values
- Share price volatility
- Change in interest rates and economic conditions.

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, and potential limitations on the availability of market information.

## Statutory Disclosure and General terms & Conditions

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS 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 STANLIB Collective Investments Ltd (the Manager).

Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies. The Manager carries full responsibility for this third party portfolio. This portfolio is valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30.

The Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as operating costs expressed as a percentage of the daily average value of the portfolio calculated over a period of usually a financial year. Typical expenses which are deducted from a portfolio include service charges, taxes, trustee fees and audit fees.

Additional information about this product, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge, and from the website: [www.stanlib.com](http://www.stanlib.com). The prices of unit trust funds are calculated and published on each working day. These prices are available on the Manager's website and in the South African printed news media.

## Contact Details

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## Monthly Comment

A dramatic end closed a volatile quarter: the UK's referendum vote on the UK's continued membership of the European union went completely contrary to all market expectations, and the "Leave" outcome produced some very extreme market moves. The net result for the quarter was a near-flat JSE and a very thin 1% return in US dollars from global equity. The main victim of the UK referendum was sterling: it fell 11% against the US dollar in a day, an almost unprecedented change. Sovereign bond markets benefited as investors interpreted the economic impact as requiring stepped-up monetary stimulus in Europe and elsewhere: bond yields fell even further, or in many cases became even more deeply negative. Many governments are therefore now being paid to borrow money! The UK will have to deal with its very large current account deficit (7% of GDP), the funding of which is very dependent on foreign portfolio flows. The impact on South Africa will be a marginal reduction in demand, making adjustment of its own current account a bit harder – but the rand had already depreciated to account for this, and the rand appreciated an astonishing 16% against sterling in June. The reason was strong capital inflows as global investors searched for yield and concluded that the already-adjusted rand and high nominal interest rates were an attractive combination. So far, the country has successfully managed the aftermath of the finance ministry debacle last December, and thanks to very sensible policy implementation from the Reserve Bank and Treasury, the country is at least on a more even keel. More generally, on a relative basis, emerging markets look more attractive than they did. Growth is certainly lower than historically, but still better than developed markets. Interest rates and currencies have adjusted substantially over the past three years or so, and so notwithstanding substantial risks and uncertain dependencies (such as commodity producers dependent on dollar-priced resources and manufacturing hubs such as China dependent on very sluggish developed world demand), investors are beginning to shift their focus onto markets that have been out of favour for some time. This doesn't make them attractive in an absolute sense necessarily, and we remain very cautious that global financial market prices are now (and have been for some time) dependent more on developed market monetary stimulus and capital flows than on fundamentals. This is pulling currencies into very volatile territory and making cross-border investment decisions much harder. There are also a number of secular trends adding to the pressures (demographics, technology, global warming). This means markets will very likely continue to be volatile overall, and from the fund's point of view we will continue to focus on fundamental valuation and be very wary of overpaying for assets. The portfolio positioning remains very defensive, and we continue to be cautious into the second half of 2016 given the domestic risks involved in municipal elections and another credit rating review late in the year. More work needs to be done. If volatility creates opportunities, we will take prudent advantage, putting cash-generative and sustainable business models to the fore, so that fundamentals rather than speculative flows drive the longer-term returns we seek.