



ENHANCED EQUITY FUND

As at 30 June 2018

FUND OBJECTIVES

The Fund targets returns in excess of the CAPPED TSE/JSE SWIX minus SAPY index over the medium to long term (measured as 12 months to 3 years); at a reduced market risk.

INVESTMENT PROFILE

The Fund is suitable for institutional Investors seeking medium to long term exposure to South African equities to satisfy a moderate risk profile.

FUND DETAILS

Fund Manager: Mark Lamohr
Thembeka Sobekwa
Mohamed Shafee Loonat

Classification: Domestic

Launch Date: February 2013

Benchmark: CAPPED FTSE/JSE Share holder Weighted minus SAPY Index

Profile: Medium Risk

Min Investment: ZAR 50 million

Management Fees: 0.45%

Performance Fees: Negotiable

SA GDP over the past quarter has been the worst since 2009. Global trade tensions that start-ed in the middle of the second quarter escalated causing instability in the financial markets and increased volatility within financial instruments. Our local currency did not remain unscathed by the global risk-off sentiment having depreciated by approximately 12% YTD against the dollar. Emerging market currencies in general, knee-jerked weaker against the dollar due to global trade tensions. One aspect in analysts' views that would warrant further deterioration of the local currency is the continuation of the geopolitical tensions that would maintain a strong dollar, as the dollar is seen as a safe-haven asset during volatile times.

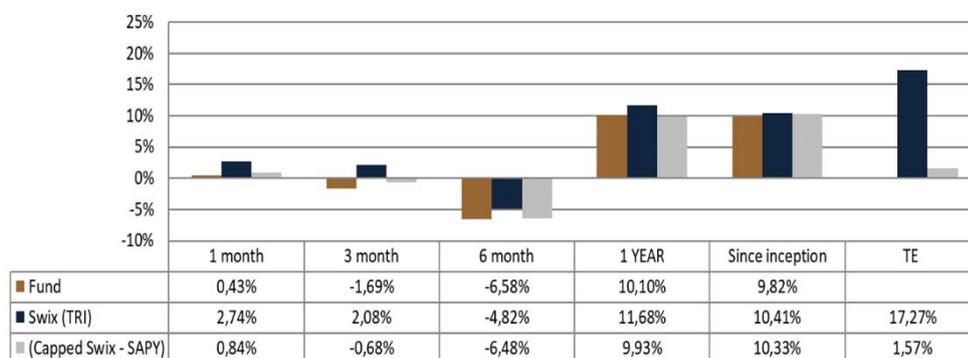
Recently, we have observed that the Chinese and US officials have raised the prospect of resuming talks over trade between the two nations after the US ratcheted up pressure by announcing a new round of potential tariffs. Taking a cue, local equity markets took some relief out of these developments towards the end of the quarter. That being said, economic traction remains benign with concerns over how the ANC's plans on land appropriation without compensation will affect foreign investment, and the SARB will be forgiven for taking a more hawkish stance given the weaker currency and the global trade and geopolitical uncertainty. Putting all this in perspective, we are at a loss as to why this is causing such market nervousness considering that US imports from China as % of GDP both countries is approximately 2 – 4%. This is a very small portion of GDP affected by the US imports.

Looking ahead, the market will be looking for signs of any resolution to the current global rout caused by the trade dispute. The continued tensions may influence the reserve bank's decisions especially the FED for an unaccelerated rate hiking regime. Locally, the FRA curve is currently pricing an unlikely event of further rate cuts this year and in fact pointing for possible rate hikes mid-year next year given the subdued growth and capital flight experienced in recent times.

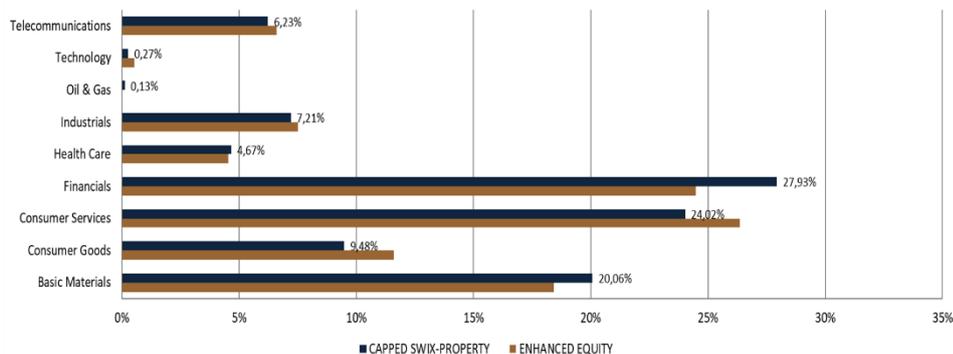
Accordingly, we have seen the market realizing, i.e., the market is getting riskier as realised volatility is moving towards implied volatility across major geographies in line with market decline. Looking at where the implied volatility is marked compared to its long-term average, it is probably still relatively cheaper to buy protection. In June 2018 the fund returned 0.43% versus 0.84% for the Capped SWIX-SAPY.

Luvo Tyandela. BSc (Statistics), MBA.
Mark Lamohr. BSc (Maths & Applied Maths).

Performance



Sector Allocation



Asset Allocation

