ANCHOR CAPITAL

GROWING YIELD | June 2018
SEGREGATED MANDATE

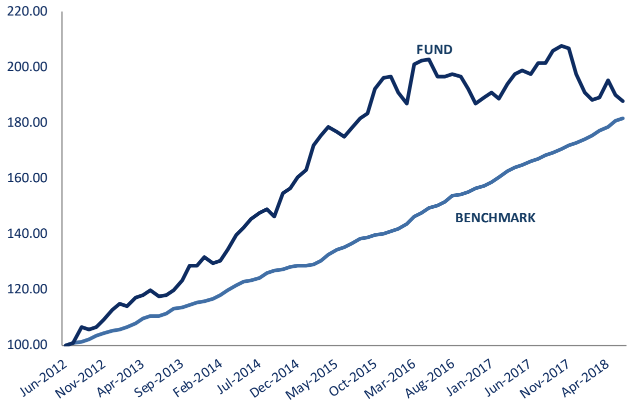
PROFILE AND OBJECTIVE

The portfolio seeks to offer investors an attractive mix of yield and growth. The objective of the fund is to deliver a yield in the region of 7%, growing at 7% p.a. Achieving this would enable the portfolio to reach its objective of CPI +5% on a compound basis over a 3-year rolling period. There will be volatility within the period. The asset mix includes property shares, high-dividend equities and preference shares.

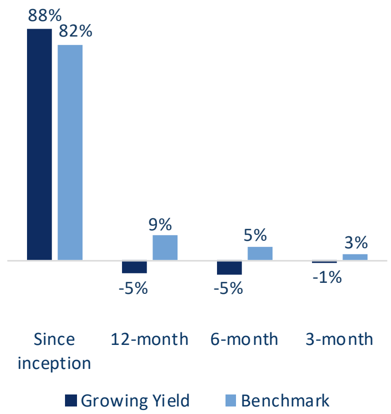
SUITABLE FOR

The portfolio is suitable for investors who wish to earn a higher return than cash, but do not wish to take full equity exposure. This is a long-term investment and volatility should be expected on the way to reaching the long-term goal. The high yield provides some protection against this volatility.

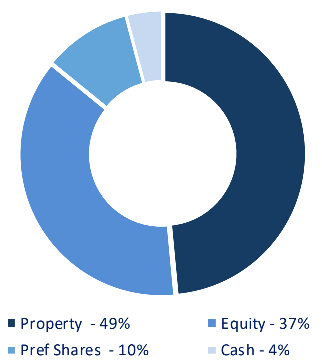
FUND PERFORMANCE VS. BENCHMARK SINCE INCEPTION



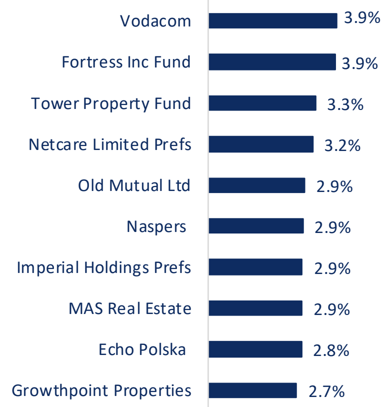
PERFORMANCE AT 30 JUN 2018



ASSET ALLOCATION AT 30 JUN 2018



TOP EQUITY HOLDINGS AT 30 JUN 2018



FUND MANAGER COMMENTARY AT 30 JUN 2018

Trade-war rhetoric and concerns over global growth has led to a severe bout of "risk off", and emerging markets (EMs) across the globe have been negatively impacted. Yield has proven to be an unreliable sector to shelter in and, more importantly, EM currencies have weakened substantially, with the rand down 8% vs the US dollar in June. The poor performance in the property sector continued into June and in this market commentary we go into some of the details around this.

However, the bottom line is that the 6-month period which incorporates 2018 YTD has been the worst that the sector has had to endure, bar none. A positive stance always seems most difficult in times of duress but, once again, we reiterate that property is a long-term investment and yields look very attractive at the moment.

Looking at the sector objectively, there are some discernable reasons why pressure is being applied. These include:

- Land expropriation and the possible impact on asset prices. Currently, this concern is pervading the entire SA market. However, it seems logical to us that the most direct impact of a policy that is not well thought through would be on property.
- Fundamentals are under pressure, governance is now in the spotlight and above-inflation distribution growth, which has consistently been delivered over the last 10–15 years, is likely to disappoint in 2018 and 2019.
- There are still ongoing investigations involving the Resilient stable of companies.

The above factors have caused uncertainty and anxiety in the sector and, it is entirely possible, that redemptions are being impacted as investors "head for the hills". This meant that the SA Property Index was down 3.5% MoM (-21.4% YTD) and, although the equity benchmarks were up for the month, this was largely driven by Naspers which rose by 15%! The fund returned -1.3% for the month and -4.9 for the year in sideways-trending equity markets and the current difficult yield environment.

A positive stance always seems most difficult in times of duress, but once again we would reiterate the fact that extraction of yield is a long-term strategy. Property sector yields, as well as select yields in the equity market, look very attractive at the moment, both relative to bond yields, and where transactions are taking place in the physical property market. We believe this spells an opportunity for investors.

FUND MANAGERS

PETER ARMITAGE

Peter is a CA(SA) and has worked in the local investment industry for 20 years. He ran the investment teams at Merrill Lynch and Nedcor Securities and prior to Anchor Capital was CIO of Investec Wealth & Investment.

GLEN BAKER

Glen has a B Com Honours degree and has completed the JSE and Safex exams. He has 25 years' experience in financial markets. In that time, he has headed up equity derivatives divisions at major local and international institutions. He has both equity and fixed income experience. He was most recently at RMB before joining Anchor Capital in Feb 2013.

INCEPTION DATE
June 2012

BENCHMARK
CPI +5%

MINIMUM INVESTMENTS
R1,000,000

FEE
1.25% p.a. (excl. VAT)

PORTFOLIO VALUE
R69.23mn

The fund may use gearing from time to time.

This portfolio can be structured in a segregated portfolio or housed in a structured-equity note. The latter negates dividend withholding tax and a capital guarantee can be provided.