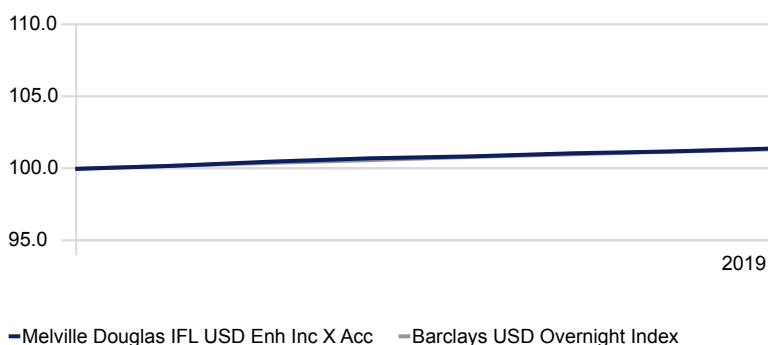


# Melville Douglas Income Fund Ltd Enhanced Income US Dollar Class (the "Fund")

Minimum Disclosure Document as at 31 October 2019



## Investment Growth\*\*\*



## Trailing Returns\*\*\*

|                                        | 1 Month | 3 Months | 6 Months | 1 Year |
|----------------------------------------|---------|----------|----------|--------|
| Melville Douglas IFL USD Enh Inc X Acc | 0.19    | 0.53     | 1.19     |        |
| Barclays USD Overnight Index           | 0.16    | 0.51     | 1.13     |        |

## Risk Matrix \*

|                           | Class X | Benchmark |
|---------------------------|---------|-----------|
| Information Ratio (arith) |         |           |
| Std Dev                   |         |           |
| Sharpe Ratio **           |         |           |

## Highest & Lowest 12 Month Rolling Return

Highest 12 Month Rolling Return

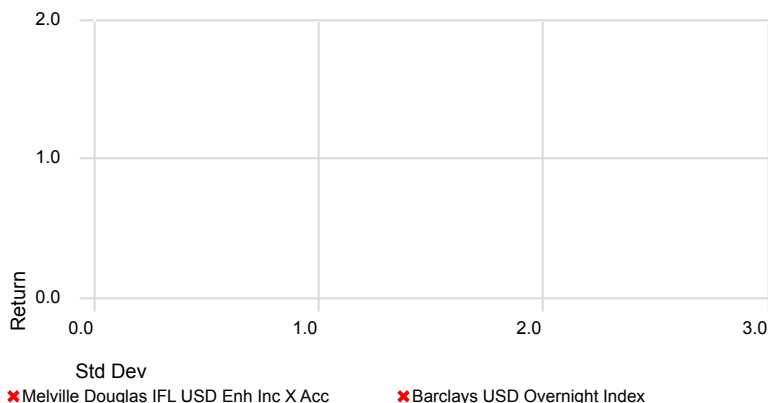
Lowest 12 Month Rolling Return

## Monthly Returns\*\*\*

|  | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|

2019 0.2 0.3 0.2 0.1 0.2 0.1 0.2

## Risk-Reward \*

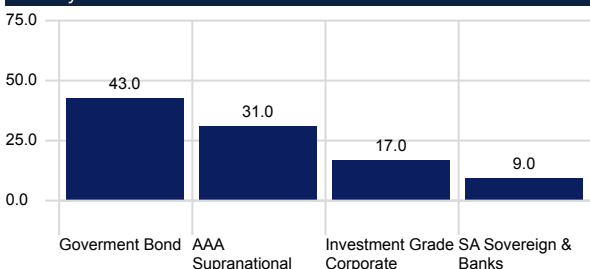


Not to be distributed outside of Jersey

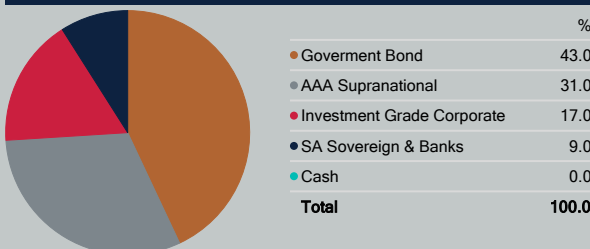
## Investment Objective

The objective of the fund is to provide a return in excess of the Barclays Benchmark Overnight USD Cash index, whilst maintaining a high degree of capital preservation, by investing primarily in quality fixed, floating and inflation linked securities.

## Security Sector



## Asset Allocation



## Operations

|                                 |                                        |
|---------------------------------|----------------------------------------|
| Name                            | Melville Douglas IFL USD Enh Inc X Acc |
| Month End Price (Current Class) | \$10.2                                 |
| Total Fund Value                | \$36.2 Million                         |

## Fund Managers

### Karl Holden

Karl specialises in global fixed income and currency markets. He is also a co-manager of the Melville Douglas Balanced Fund. Karl is a Chartered Wealth Manager, Fellow of the Chartered Institute for Securities and Investment and holds the Private Client Investment Advice and Management Certificate.

### Simon Bradbury

Simon has built up extensive knowledge of global wealth management solutions, specialising in international fixed income and currency markets, and is the co-manager of the Melville Douglas Income and Enhanced Income funds. Simon is a Chartered Fellow of the Chartered Institute For Securities and Investment, and has been awarded Chartered Wealth Manager status.

### Bernard Drotschie

Bernard is the 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



\* Data is displayed over a 3 year rolling period

\*\* Risk free rate = US Treasury T-Bill 3 Months

\*\*\* Class X 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.

# Melville Douglas Income Fund Ltd

## Enhanced Income US Dollar Class



Minimum Disclosure Document as at 31 October 2019

### 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> | Melville Douglas Investment Management (Pty) Ltd |
| <b>Custodian</b>          | Apex Financial Services (Corporate) Limited.     |
| <b>Auditors</b>           | PwC, Ireland                                     |
| <b>Fund Directors</b>     | GS.Baillie, M.Farrow, and O.Sonnichler           |
| <b>Registered Office</b>  | 47-49 La Motte Street, St Helier, Jersey         |
| <b>Publication Date</b>   | 12 November 2019                                 |

### Share Class ISIN

|         |              |
|---------|--------------|
| Class X | JE00BFM13T58 |
|---------|--------------|

### Minimum Investment

|         |               |
|---------|---------------|
| Class X | USD 1 000 000 |
|---------|---------------|

### Launch Date

|         |               |
|---------|---------------|
| Class X | 21 March 2019 |
|---------|---------------|

### Fund Costs- 12 months

| Fee Class      | Current Management Fee* | TER   | TC    | TIC   |
|----------------|-------------------------|-------|-------|-------|
| <b>Class X</b> | 0.15%                   | 0.26% | 0.00% | 0.26% |

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. TER reflected is 1 month in arrears. Estimated transaction costs may include Bond, Money Market and FX Costs (where applicable). Where a Share Class has been in existence for less than 12 months, no TER is reflected.

\*Management fee includes fee payable to Manco

### Fund Costs- 36 months

| Fee Class      | Current Management Fee* | TER   | TC    | TIC   |
|----------------|-------------------------|-------|-------|-------|
| <b>Class X</b> | 0.15%                   | 0.26% | 0.00% | 0.26% |

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. TER reflected is 1 month in arrears. Estimated transaction costs may include Bond, Money Market and FX Costs (where applicable). Where a Share Class has been in issue for less than 36 months, no TER is reflected.

\*Management fee includes fee payable to Manco

### Contact Details

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

8th Floor West Wing, 30 Baker Street, Rosebank, 2196. PO Box 411184, Craighall 2024, South Africa

Telephone: +27 (11) 721 7964 Fax: +27(0)86202 7235

www.melvilledouglas.co.za

### 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) will receive the following valuation point share price. This is an accumulation portfolio and does not distribute income. Telephone calls may be recorded. Apex Financial Services (Corporate) Limited, STANLIB Fund Managers Jersey Limited and Melville Douglas Income Fund Limited are regulated by the Jersey Financial Services Commission.

Prices are calculated and published daily and are available from the manager on request.

Performance figures are calculated for the relevant class on a NAV basis.

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 Melville Douglas Investment Management (Pty) Ltd appointing Melville Douglas Investment Management (Pty) Ltd as the sole representative for the investment management functions performed in South Africa. Melville Douglas Investment Management (Pty) Ltd is a company registered in South Africa with company number 1987/05041/07, and a subsidiary of Standard Bank Group Limited. Melville Douglas Investment Management (Pty) Ltd is licensed as a financial services provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002). 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.

# Melville Douglas Income Fund Ltd US Dollar Class



Minimum Disclosure Document as at 30 September 2019

## Quarterly Commentary

### Fund Review

The objective of the Class Fund is to provide a return in excess of the Barclays Benchmark Overnight USD Cash Index, whilst seeking to maintain a high degree of capital preservation. Investment will primarily be in quality fixed, floating and inflation linked interest bearing securities, and, where in the opinion of the Investment Manager, direct investment in direct securities will not achieve sufficient diversification to achieve the Class Fund's objective, the fund may also invest in other collective investment schemes.

The Fund's performance for 21 March (inception) to 30 September was 1.27% versus the Fund's benchmark return of 1.24%.

### Market Overview

Since the fund was launched on 21st March 2019, the decline in global government bond yields has been dramatic with approximately 25% of the global bond market now offers investors a yield of less than zero, and that's before inflation. Multiple events have unfolded to get us to this bizarre state of play but in the main, a healthy mix of global protectionism (trade wars and subsequent manufacturing slump), quantitative easing (printed money buying bonds) and search for yield have driven bond market yields to what will either be dubbed crazy or the new norm in years to come – for now we are inclined towards the former. A consequence of this dramatic decline in yields is a sharp rise in the embedded risk of global bond markets. Given the current heightened levels of uncertainty thanks to issues such as trade wars, BREXIT, sustainability of the long US economic expansion etc. it is not that difficult to understand why bond markets have performed well. But, we think they have performed too well, in fact by some margin given the economic backdrop.

In US fixed income, short to medium dated bonds are currently offering investors a negative real return, while the latest Q2 GDP growth rate is running at 2% and headline inflation at 1.7%. A great time to be a borrower, not a long-term investor but how long can it last? To complicate matters, it is clear that risk assets are becoming increasingly wedded to the prospect of low rates and ever more accommodative central banks. The US Federal Reserve completely turned around their interest rate outlook from hawkish (igniting an equity sell off in late 2018) to dovish (subsequent equity market rally in early 2019), which has led to an inversion at the short end of the yield curve in recent months as the market discounts further monetary easing. Clearly the pressure is on to keep global money cheap and this has had a profound effect on both the bond and equity markets. So, any pick up in global activity is going to prove challenging for the central banks as turning off the monetary tap may potentially provoke a rapid repricing of global bond yields, triggering significant bond losses in medium to longer dated bonds.

On this note, it has become clear that more and more central banks are calling upon the governments to dial up fiscal easing given the diminishing positive effects of lower and lower (or more negative) risk free rates. This we believe will mark the next stage in this lengthy hangover from the credit crisis and one that may have more widespread benefits to global growth conditions, and in some areas, it may just be financed by a bit more of that 'free' printed money. In summary, global bond markets remain very expensive on most measures and whilst we cannot dismiss the probability that this continues for some time to come, as long-term investors focused on the preservation of capital, we are reluctant to join the party when it may be approaching midnight.

### Looking Ahead

The US Federal Reserve sanctioned two interest rate cuts in Q3 in response to an ongoing slowdown in 'global' economic conditions. Importantly, we view these policy moves as pre-emptive in nature and a safeguard against a further deterioration in trade war talks and therefore, global growth. To put this into context, the domestic US economy remains buoyant with consumption holding up, supported by a strong employment market, muted inflationary pressures and now, easier monetary conditions. Understandably, manufacturing indicators have slowed but we are minded that this accounts for a relatively small portion of the economy's output and the mainstay of GDP growth, namely the services industry, remains firm. Despite this positive economic backdrop, US government bond yields have frustratingly fallen in the quarter, with the money market curve inverting further as the market prices in further interest rate cuts over the coming months/quarters.

Since launch we have maintained a relatively low duration, investing in a spread of short duration US Treasuries and AAA rated Supranational bonds together with a blend of investment grade corporate, South African Bank / Sovereign bonds to provide a yield enhancement to the Fund. As bonds have matured, re-investment has been into short dated issues, and at times ultra-short 1-month paper as this area of the money market curve has offered the most favourable returns in recent months. In the short term it is difficult to see the shape of the yield curve reverting to a more normal upward sloping curve which would present opportunities to moderately extend duration within the guidelines of the Fund. However, we have found some opportunities in Supranational bonds where we have managed to invest at more attractive yield levels. We will continue to explore opportunities in both credit and curve positioning as they present themselves, whilst maintaining a focus on capital preservation.