NORTHSTAR

ASSET MANAGEMENT

Market Report : Q4 2018

QUALITY INVESTING

THE BIG PICTURE

CAN SOUTH AFRICAN FUND MANAGERS COMPETE ON THE GLOBAL STAGE?

By Rory Spangenberg (Director—Global Equities)

The Northstar team have a long track record of managing global assets. Since 2012 a significant amount of analyst time has been devoted to global equity analysis, while the acquisition of SignalHill Investment Management at the start of 2017 brought specialist skills and even greater focus to this area of our business.

In marketing our global offering, we frequently encounter the view that South African based fund managers are somehow at a disadvantage to global managers, notably those based in the large financial centres such as London or New York.

In our experience, any practical disadvantages of not having a US or UK base can be fairly easily overcome, while fairly overwhelming evidence exists to suggest that being based outside one of the global financial centres is no longer a deterrent to establishing a superior long-term performance record and may well offer an advantage. Our view is vindicated by Buffett when asked why he has consistently used Omaha as his preferred investment address: "It's very easy to think clearly here. You're undisturbed by irrelevant factors and the noise generally of business investments."

Informational advantage

The first point to address in the debate is whether or not one believes any informational advantage exists and whether more information (over and above an adequate level of disclosure) leads to better investment decisions?

In the age of the internet, 24-hour global business news channels and the availability of commercial databases, it can hardly be argued that fund managers suffer a lack of information, regardless of where they may be based.

The adoption of common global reporting standards, improvements in the level of disclosure of company information, along with the fact that public comments by company management teams are increasingly heavily scripted, implies that little to no informational advantage exists. Certainly, the largely desk-based analysis of the available information, a vital component of any research process, can be conducted as thoroughly, whether one is based in Tokyo or Timbuktu.

Access to talent

Drawing investment insights from the available information is of course a function of the human resources available. We continue to invest very deliberately in our Trainee Analyst Program in order to attract and retain the best young graduates and have found the ability to offer global investment experience to be a key differentiating feature of our Program.

Each of our team of 5 research analysts has, or is in the process of, completing the globally recognised Chartered Financial Analyst Program (CFA). We routinely receive approaches from South Africans looking to return from working overseas, having gained valuable experience with global institutions.

Philosophical and process discipline outweigh coverage

Successful investing, in our view, is the synthesis of information through an overriding philosophy and the application of a disciplined and repeatable process.

Our insistence on only investing in the relatively small group of companies we believe capable of sustaining an identifiable strategic competitive advantage and where that advantage is evident (and measurable) in superior Return on Invested Capital (ROIC) and Free Cash Flow (FCF), is hugely beneficial in reducing the investment universe to a manageable group of companies.

A defined "circle of competence" implies greater focus and with time, a deepening of our understanding of the investment universe and portfolio companies, which translates into greater conviction.

This approach runs counter to that taken by the majority of large global investment companies where coverage is paramount, given the need to satisfy a broad range of products and investment styles. As a consequence, portfolio managers are most often quite removed from the research process, likely operating off a Buy List, with little to no detailed understanding of the companies being included in their portfolios.

The Northstar approach is quite the opposite, with portfolio managers contributing to the research process and at the same time working in collaboration with our team of analysts to offer the benefit of their experience and to ensure the best insights and assumptions are driving the research.

Performance

We are fortunate to operate in an industry where results are

imminently measurable and over time help make the argument.

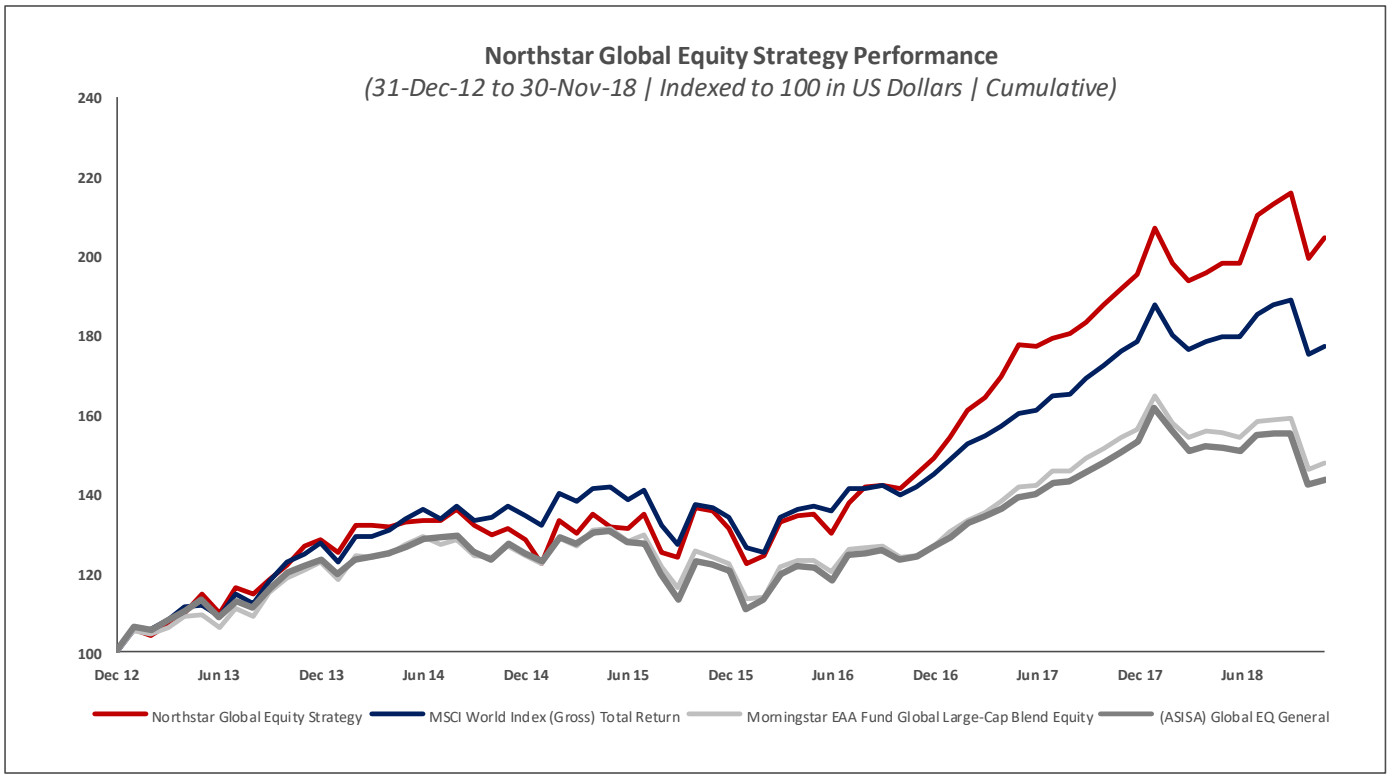
Figure 1 shows the performance of the Northstar Global Equity Strategy (gross of fees in US dollars) versus the MSCI World Index as well as the average Global Large Cap (Morningstar) and South African based Global General Equity manager (ASISA). From this we can see that there is not a great deal to choose between the average South African and Global manager, suggesting no particular disadvantage from being based in South Africa.

More striking is the extent of the underperformance of both averages relative to the most widely followed benchmark, the MSCI World. Even the most generous adjustment for fees would leave the average manager trailing the index by some margin.

Northstar's return would rank amongst the top 1% of global equity managers over every period from 6 months to 6 years.

Northstar Global Flexible Strategy reaches a 3-year track record

Next month the Northstar Global Flexible strategy reaches a 3-year track record. This strategy draws on our equity process but has the flexibility to invest across all asset classes in order to diversify risk and enhance yield. The fund has achieved a top decile ranking since inception (Figure 2).



Inception date 1 January 2013 *Northstar returns are gross of fees, with income reinvested in USD*

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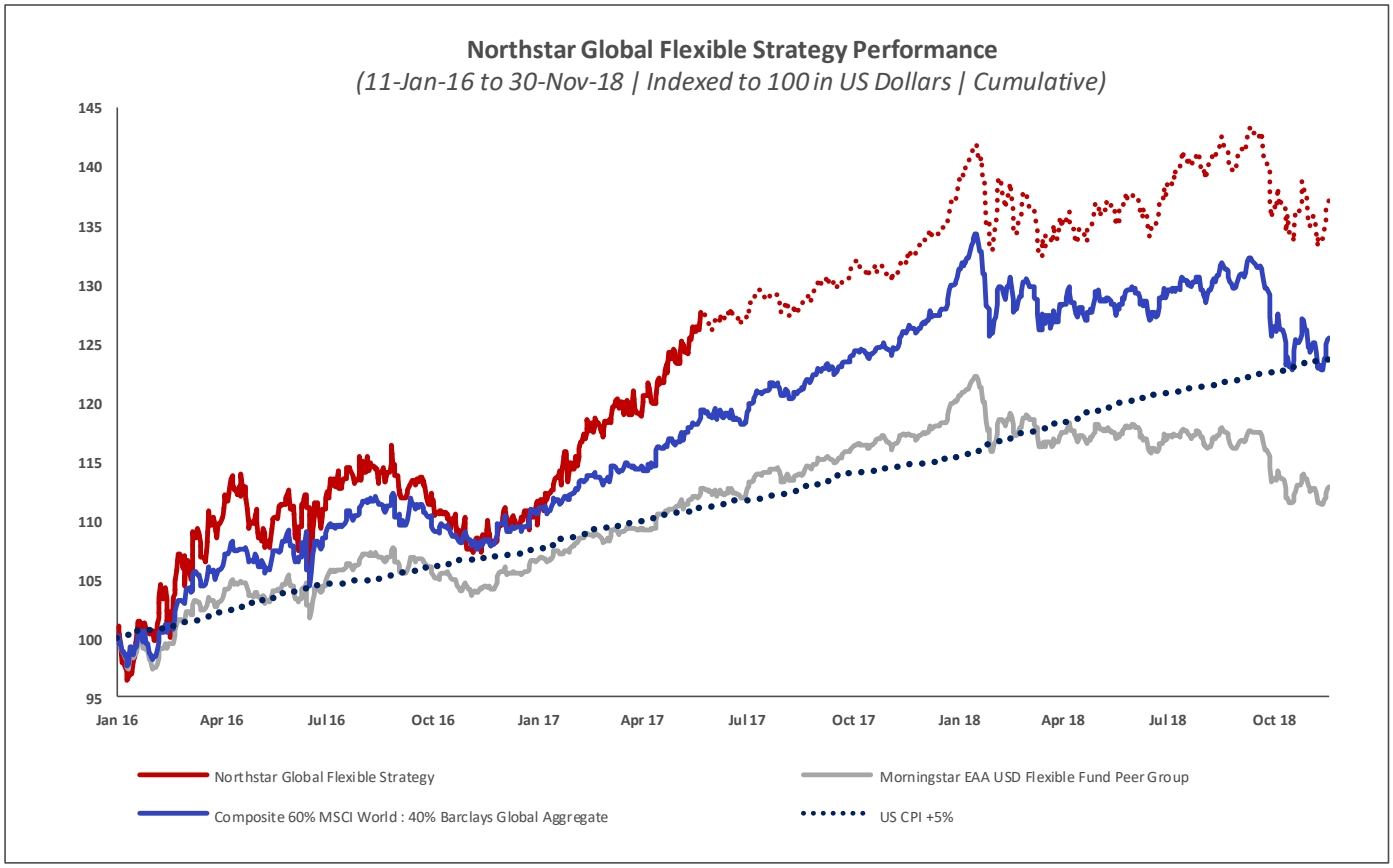
Figure 1. Northstar Global Equity Performance. Source: Northstar Asset Management. Bloomberg and Morningstar (12 December 2018).

Conclusion

A sound philosophy, disciplined process and most importantly, the ability to focus on a defined investment universe is what sets fund managers apart. Behaviour and insight and not information are key differentiators and location appears to offer no advantage in this regard.

We are proud of the fact that we have been able to put together a global track record which stands up against the best in the world and which Northstar clients continue to benefit from.



Inception date 11 January 2016

Northstar returns are net of fees, with income reinvested in USD

This performance presentation is for information purposes only and does not comply with the ASISA Code of Advertising. Returns shown prior to the launch date for the Northstar Global Flexible Fund of 1st June 2017 are for the Instit BCI Worldwide Flexible Growth Fund, an institutional segregated account following the same strategy.

Figure 2. Northstar Global Flexible Performance. Source: Northstar Asset Management. Bloomberg and Morningstar (12 December 2018).

FROM THE ANALYSTS: EQUITIES

THE MARKET TAKETH AWAY AND THE MARKET GIVETH BACK.

By Adrian Clayton (Managing Director & CIO) and

Rachel Finlayson (Analyst)

In this thought piece, we provide three bits of evidence that returns from the JSE in the years ahead should improve relative the past 5 year period.

Our attached client letter addresses just how savage the market has been this year. What it does not detail is that returns have been dismal for the past five years on the JSE (just over 5% annualised nominal returns). Figure 3 shows the 5 year rolling annualised real return (returns above inflation) from the JSE over time. The following being important points:

1. Since 1965, the market's average annualised outperformance of inflation over a 5 year rolling period is 3.5%.
2. For the past 5 year period, the real annualised return has been -2.4%.
3. This level of 5 year negative real returns occurs less than 20% of the time.

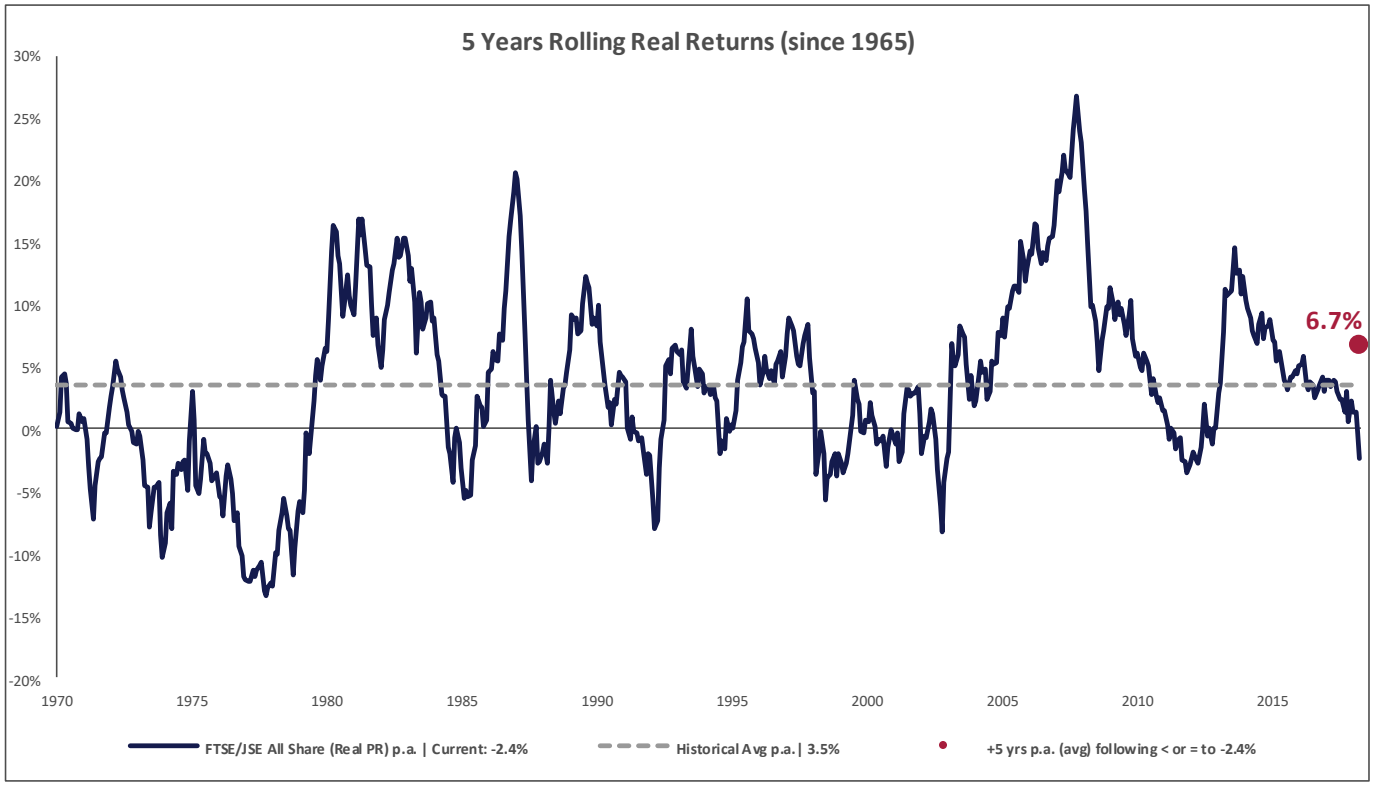


Figure 3. 5 years Rolling Real Returns. Source: Company Financial Statements. Northstar Asset Management. iNet, Morningstar and Bloomberg.

Using this inflation framework, our first piece of compelling evidence for improving prospective returns is as follows:

1. Historically, the prospective (forward looking) 5 year annualised real return that follows a -2.4% annualised real return period, is 16.7%. So future returns tend to be very good after bouts of poor returns.
2. Less than 20% of the time does a negative real return period follow a previous negative real return period. In other words, if returns have been below inflation over a 5 year period, it seldom repeats itself for the next 5 years.

Another approach to assessing prospective returns is to address the rating of the market, its simplest form being its current and prospect P/E against its own history. Please see Figure 4. In this case, the following applies:

1. The long-term average P/E of the JSE is 12.7 times.
2. Over this past 5 year cycle, the peak JSE P/E was 23.5 times – 31 July 2017.
3. The current P/E of the market is 16.8 times but if we adjust for different company year-ends, the actual P/E on the market is 13.7 times including Naspers and Quilter and 12.1 times excluding these stocks. This is closer to the long-term average.

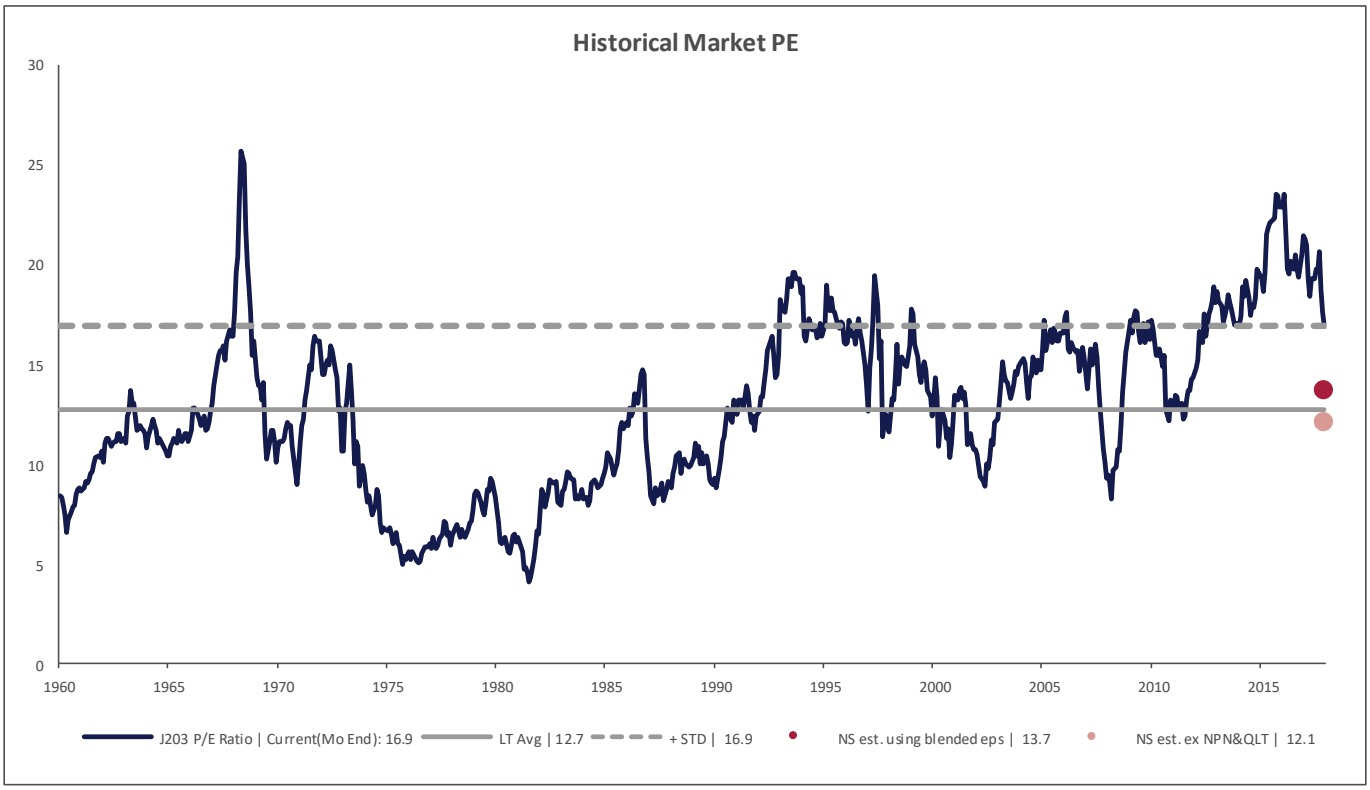


Figure 4. Historical Market PE. Source: Northstar Asset Management. iNet, Morningstar and Bloomberg.

Using this P/E framework together with other factors, we can say the following:

1. The JSE is no longer expensive – in fact, it is closer to fair value.
2. Earnings/profits are expected to be robust for the following twelve months.
3. Cash flows from companies are rising.
4. Debt levels are relatively low.

We view the current rating on the market as increasingly conducive to improving returns.

Our final piece of evidence which we regard as the most credible in terms of forecasting outcomes for our clients is our own Northstar Buy List. Considering we analyse and value each company ourselves, we can compare our value to the market's share price. The larger this difference, the greater the potential returns for our clients. If we take our entire buy list of stocks, we can calculate the potential upside on our entire portfolio. Currently, potential returns exceed 20% - this is higher than we have seen in the past two years.

In conclusion, we expect returns to improve on the JSE in forthcoming years. Poor real returns over the past 5 years and statistical evidence that this is usually not repeated, the current lower P/E on the JSE with improving financial metrics around earnings, cash flow and debt levels as well as higher prospective returns from our Northstar Buy List, all point us to happier times ahead.


FROM THE ANALYSTS: EQUITIES

BRITISH AMERICAN TOBACCO

By Marco Barbieri (Director - SA Equities) and Jessica Blake (Analyst)

Over the past two years, the JSE All Share Index has been plagued by the collapse of several stocks which have been adversely impacted by poor corporate governance, industry disruption and an overall weak economic environment. Pleasingly, our research process has led us to avoid most of these companies including the likes of Steinhoff, Aspen, Blue Label, Resilient, Fortress and Ascendis Health as well as prevented us from holding others such as MTN in large weights.

In a particularly difficult domestic environment, British American Tobacco (BAT) has been the exception of a dominant business that we own which has performed particularly poorly. In this article we contextualise our reasoning for investing in BAT and our outlook for the company.

Background

BAT is one of the largest tobacco manufacturers in the world with a market-leading position in over 50 countries and significant presence in over 180 markets. Over the past hundred years the company has tightened its grip on global cigarette markets via a combination of acquisitions and organic growth. While global combustible cigarette volume growth has been slowing, BAT's ability to consistently raise cigarette prices and operate with increasing efficiency has allowed it to generate and grow free cash flow over time. The investment case for BAT has traditionally relied on the company's ability to defend market share and exert significant pricing power over its customers.

The stock's recent under-performance is the result of both company-specific issues as well as changing industry dynamics. In particular, we find that BAT's acquisition of US tobacco manufacturer RJ Reynolds, the advent of Next Generation Products (NGP) and a more pronounced regulatory environment in the US as being the perfect storm. Whilst we acknowledge these risks, we believe the market has been overly punitive and we see upside for the stock.

NGPs – industry disruption

NGPs include vaping products (liquid with nicotine) and heated tobacco products (tobacco stick that is heated electronically). Heated tobacco products have been particularly successful in a number of European countries as well as Japan, with Philip Morris' iQOS leading the charge since its launch in 2014. Vaping products, often referred to as e-cigarettes, were developed in 2003 but only gained traction after 2010 as manufacturers engineered improved nicotine delivery mechanisms. In the US, vaping product manufacturer JUUL controls over 70% of the NGP market and has created a USD15bn franchise in only three years at the expense of incumbent tobacco groups. While it is not yet clear what level of cigarette cannibalisation is caused by NGPs, concerns over potential loss of business has led global tobacco groups to invest significantly in NGP R&D.

Reynolds acquisition – a game changer

In 2017 BAT completed the acquisition of RJ Reynolds, thus ensuring the US would become the group's largest contributor to operating profits (42%). Whilst the acquisition was expensive, BAT argued at the time that the US represented one of the most profitable markets for combustibles in the world and was confident in further consolidating its position in that market. At face value, while this strategy was intended to diversify group earnings and lock-in a stable source of profits, it effectively achieved the reverse for four main reasons:

- US cigarette trends have materially worsened since 2016, arguably as a result of significant gains by competing next generation products such as JUUL.
- While the US tobacco industry is no stranger to regulatory threats, significant inroads made by JUUL among US teenagers, has galvanised the FDA's (US Food and Drug Administration) resolve to curb cigarette consumption more broadly via nicotine reduction strategies (Nicotine Product Standard Proposal) and the proposed ban of menthol cigarettes (more later).
- BAT's debt levels increased significantly to fund the Reynolds acquisition, forcing group gearing (Net debt to EBITDA) above 4x (1H2018) and thus reducing its financial flexibility. While we believe BAT retains the ability to service its debt, higher interest rates in the US and a weaker than expected performance from Reynolds over the medium term will likely impact the pace of de-gearing.
- Finally, the impact on group returns (ROIC) following this acquisition has been particularly negative and the deteriorating prospects may potentially result in impairments of BAT's US business.

Regulatory environment – the FDA's response to JUUL and menthol cigarettes

After months of speculation, in November 2018 the FDA announced that it will be pressing ahead with a menthol cigarette ban as part of a wider series of measures targeted at reducing youth e-cigarette use (caused by JUUL). While the ban is expected to be fiercely contested by tobacco companies and potentially take 3-5 years before its

introduction, the loss of revenue that could stem from this ban is significant for BAT. With approximately 25% of BAT's profitability derived from US menthol cigarettes, a total menthol cigarette ban would have a significant impact on BAT's profits.

Outlook – where to from here?

Whilst we acknowledge that the risks to BAT's investment case have increased over the past 2 years, we continue to believe that the group's core combustible business still has a strong competitive advantage and will remain profitable. Our investment case is based on the following considerations:

- BAT has a dominant position in high growth emerging markets, which currently represents more than half of group profits. Medium term profitability will, in our opinion, be underpinned by continued volume growth and pricing power in these geographies.
- NGPs – We see significant upside to global uptake in NGPs and believe BAT is well positioned to take advantage of market dynamics over time. We conservatively value this part of the business but think it may well exceed expectations as this market evolves.
- In the event of a full menthol ban, we believe it is unlikely that BAT would lose all of its US menthol related revenue as we would expect BAT's NGP and/or core tobacco channel to partially capture this business.

In conclusion, we believe that the market is being overly pessimistic on the impact of a menthol ban and the advent of NGPs on British American Tobacco's future levels of profitability. Based on our valuation work, we believe the market is currently valuing BAT's US business at 1/3rd of what we believe it is worth.

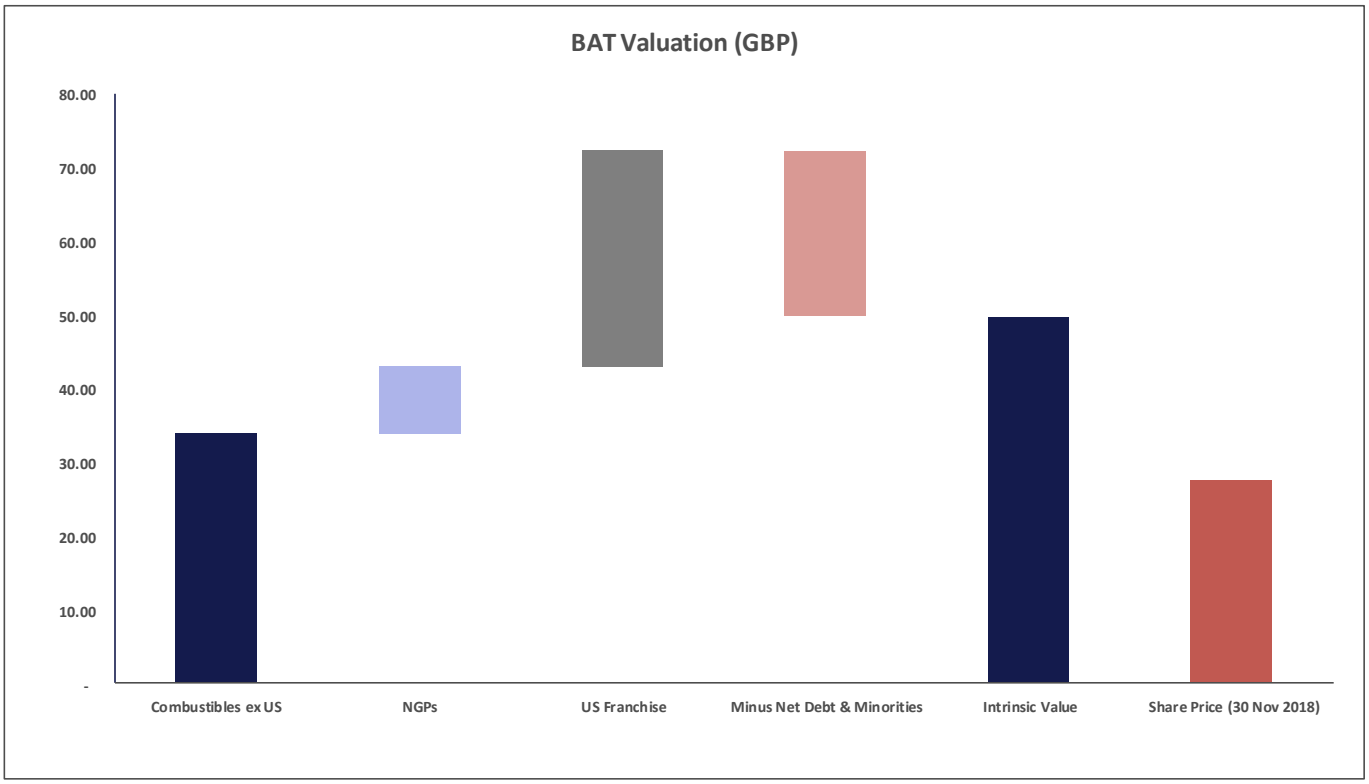


Figure 5. British American Tobacco Valuation. Source: Company Financials. Northstar Asset Management.

FROM THE ANALYSTS: EQUITIES

DISNEY—NAVIGATING A CHANGING MEDIA LANDSCAPE

By Rory Spangenberg (Director - Global Equities)

Disney's high quality content along with its established movie and character franchises affords it the unique ability to manage the disruption to traditional content and media delivery platforms. Through its licensing and theme park operations, the company is also uniquely positioned to monetise its creative content, often over decades, whilst relying on familiar character and franchise content to reduce the risk inherent in traditional creative output.

Not a Mickey Mouse Business

While Disney is most closely associated with its familiar and much-loved cartoon characters, the largest contributor to its success over the past few decades has arguably been ESPN, which enjoys exclusive television rights to the NFL and NBA as well as to college football and basketball.

Live sports content is key to any cable or satellite television provider, ensuring ESPN's ability to earn significantly higher share of the subscription fee than any other content provider. The channel's core 18 - 49 year old male audience is also a key advertising demographic, implying the benefit of a dual income stream.

Peak Cable

The pay TV market has, of course, seen significant disruption from the rise of cheaper digital alternatives, such as Netflix, resulting in subscriber losses owing to the so-called "chord cutting phenomenon". US Pay TV subscribers peaked at 103m households in 2012 and is estimated to have fallen to 97m in 2017. Disney has not been immune to this disruptive threat, albeit that affiliate fees are generally determined by multi-year contracts, with annual escalations, implying the revenue decline has not been as severe as the rate at which subscribers have declined.

The digital threat is further mitigated by the value consumers see in ESPN and the Disney Channel, which means that these are generally included in the so-called "skinny bundles" offered by cable companies to entice subscribers to spend less but retain some form of subscription.

To illustrate this point, consider that fourth quarter 2018 (Sep-18) revenue from Disney's Media Networks division rose 9% year-on-year, as affiliate fee revenue growth of 5% offset subscriber losses of 1%.

Going Over the Top

Disney's response to the "cord cutting" phenomenon has been to invest in its own direct to consumer services. ESPN+ launched in April 2018, surpassing the 1 million subscriber mark within 5 months. When its acquisition of 21st Century Fox closes, in mid-2019, Disney will control 60% of Hulu, a direct competitor to Netflix. While Disney+ will launch late in 2019, at which point the company's distribution deal with Netflix will terminate, forcing its major competitor to invest in original content.

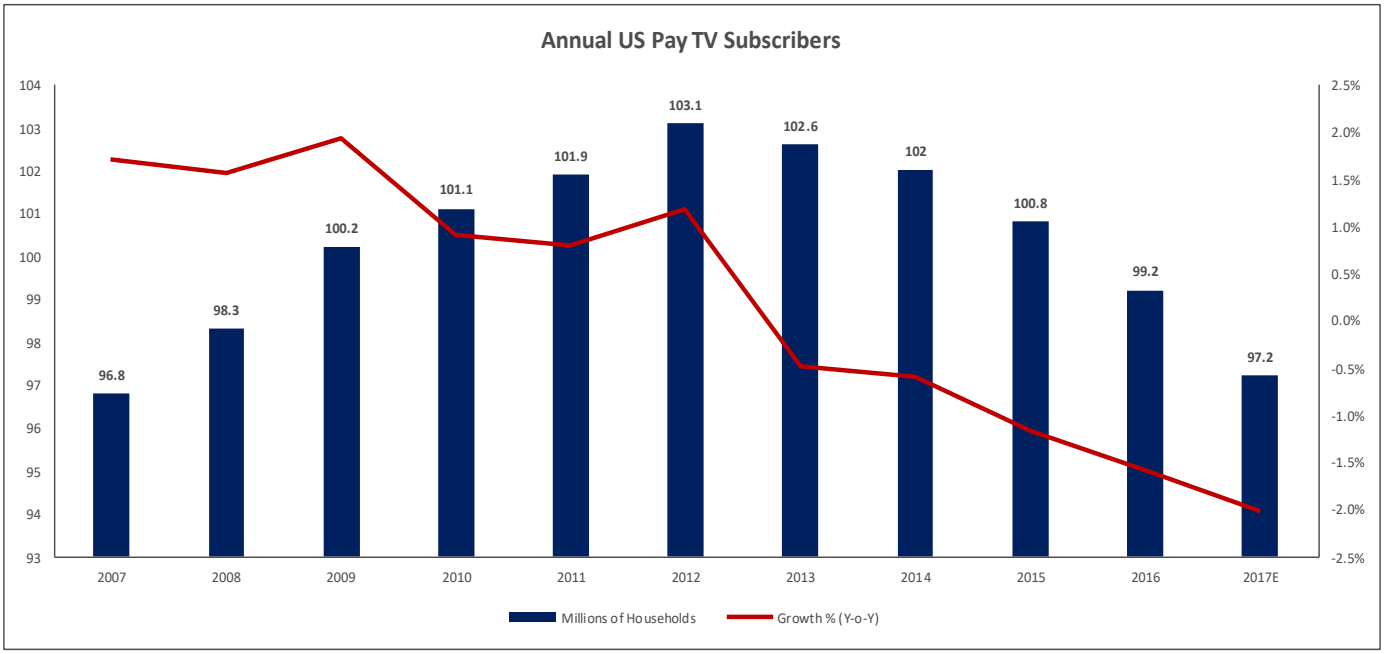


Figure 6. Annual US Pay TV Subscribers. Source: Northstar Asset Management.

Content is King

As television transfers from an aggregated-linear model to a direct-on demand one, we are confident that Disney's content library, its cast of characters and movie franchises along with its unrivalled ability to monetise these through its theme parks and consumer products business ensures it is well placed to navigate the changing media landscape.

While Disney's internally generated content affords it superior economics, we are mindful that disruption introduces greater uncertainty and therefore approach valuing the business on a "sum-of-the-parts" basis, recognising terminal decline in its traditional media and networks business as well as the significant value in its Studio and Parks, Resorts and Consumer Products businesses.

FROM THE ANALYSTS: FIXED INCOME

SOUTH AFRICAN FIXED BONDS—AN INVESTMENT OPPORTUNITY.

By Mark Seymour (Director - Fixed Income)

In this article we assess potential returns from South African fixed bonds. We account for the bear argument that hinges on risks in the system but we juxtapose these against sound inflation targeting by the South African Reserve Bank (SARB) and cheap asset valuations.

The SARB targets an inflation level in South Africa of between 3% and 6% - current inflation is at 5.1%. Historically, SA bonds with a duration around 10 years, have delivered inflation beating returns of approximately 2%. Consequently, with the SARB's inflation band of 3% to 6%, investors should expect returns of about 5% to 8% annually. Currently however, the proxy bond, the R186 (8y SA bond) is trading at a yield of 8.93% relative to inflation of 5.1% - a spread of almost 4%. Considering the SARB has been exceptional at their inflation targeting mandate, the obvious question is why do SA bonds offer such high yields? We believe this can be accounted for as follows:

1. High SA consumer debt levels combined with poor economic growth – South African consumers are indebted to the tune of 70% debt to their annual disposable income. Debt repayments substitute other areas of potential expenditure thus gnawing away at the country's economic growth. It should be no surprise that SA GDP is expected to only be 0.6% in 2018, rising to a mere 2% in 2020 – significantly lower growth than most other countries.
2. SA's twin deficits – the national budget deficit has remained very high since the global financial crisis in 2008, ranging between 3.9% and 6.3% - it is currently 4.17% - this implies that the country spends between 3.9% and 6.3% per year more than the revenue it generates from taxes. Other emerging markets have an average deficit of 1.4%. The result of the high budget deficit is that there is a growing burden of Government debt – our debt to GDP has risen from 30% to 55% in 10 years. In addition to the budget deficit, our current account is also in deficit – we effectively run twin deficits in South Africa.
3. Higher US interest rates – the US has made it clear that they intend to continue on a path of normalizing interest rates. Higher interest rates results in money exiting emerging markets and retreating back into the 'safe-haven' USA. This is negative for the rand and our inflation.

Those bear arguments against SA bonds should be interrogated against various bond-friendly views, which include:

1. Low SA inflation that is exceptionally well managed by the SARB.

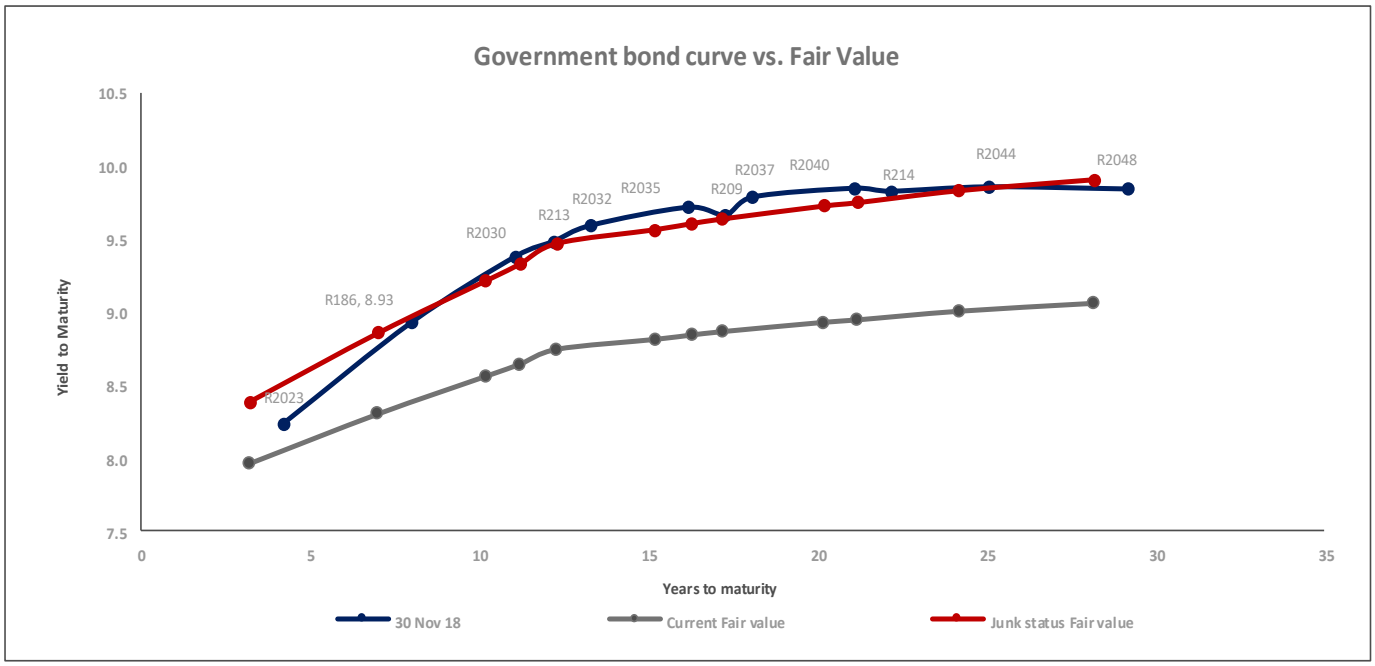


Figure 7. Government bond curve vs. Fair value. Source: Northstar Asset Management.

2. An undervalued ZAR – we calculate purchasing power parity to be R12.20 to the US$.
3. Undervalued SA bonds – our analysis reveals that the market has already priced in an investment downgrade of SA bonds. The following demonstrates our point:

- A fair value for the US 10 year bond in our opinion is 3.4% - this assumes 3 more rate hikes in the US and inflation of 2.25%.
- An inflation differential of 2.9% between SA and the US (we believe US inflation will reach 2.3% and SA inflation 5.2%).
- A fair value credit default spread of 220bps – assuming we remain just above junk status as per the Moody's rating (Baa3).

From these levels, we can calculate that the SA 10y government bond's fair value level is 8.5%. However, if we assume an investment downgrade, then the CDS spread would probably rise to 300bps – implying a fair value bond yield of 9.25% - exactly the level that bonds are currently trading at. We show this in the attached graph.

Our conclusion is that bonds are negatively priced and should Ramaphosa's efforts succeed in stabilizing SA's debt whilst stimulating GDP growth, investors will be rewarded with above average real returns.

CORRIDOR CHATTER

CAVEAT EMPTOR, BUYER BEWARE

By John Steenhuisen (Political Analyst)

There is an argument doing the rounds that goes something like this: if the ANC gets below 50% in the next election, it will force them to go into coalition with the EFF and then we will see radical policies being implemented. Despite the obvious fact that it's highly unlikely the ANC national share of the vote will fall below 50%, the proponents antidote is to make sure that everybody "votes for Cyril Ramaphosa" to ensure this ANC/EFF coalition doesn't happen. Of course the argument is simplistic in its foundation and fatally flawed.

The first flaw is the most obvious. South Africa's electoral system is a proportional representation system, you don't vote for individuals, you vote for political parties. Ramaphosa will therefore not be on the ballot in 2019, the ANC will. A cross next to the governing party on the ballot means you get Ramaphosa but you also get DD Mabuza, Ace Magashule, Jesse Duarte, Nomvula Mokanyane and Bathabile Dlamini. You get the same National Executive Committee that has spent the last eight years enabling, protecting and entrenching the state capture project. You also get the same governing party that has steered the economy onto the rocks and pushed nearly 10 million citizens into the unemployment line.

It's pure democratic folly to award a party that has conducted itself in such a manner with an increased electoral majority. If a governing party knows that no matter how spectacularly it fails, no matter how much damage its policies wreak on the economy and the people, it will still command a growing majority, you can be guaranteed that an arrogance of power will set in. We have seen this movie before. President of Turkey, Recep Erdogan, was widely viewed as a modernising reformer that turned his country into a model democracy on the verge of admission to the European Union. After receiving a significant majority in his June 2018 re-election however, he has regressed Turkey into an authoritarian dictatorship suppressing opponents, committing civil and human rights abuses and clamping down on freedoms.

The second flaw in the argument is that Ramaphosa's ANC currently already enjoys a wide majority of 63% in the national assembly. This has not stopped the party from pushing through some of the most radical and populist positions that have had dire effects on the economy and seen capital flight accelerate. Instead of dealing with the major structural reforms this country desperately needs in education, the economy and labour market, we have seen an acceleration of radical populist policies. From the un-costed and dangerously prescriptive proposals on National Health Insurance, which seeks to remove choice and create an Eskom style state monopoly of healthcare to the National Minimum Wage, destined to push (by governments own calculations) a further 1 million citizens into unemployment. Additionally, the proposal to amend section 25 of the constitution to enable property expropriation without compensation has wreaked havoc with local and international investor confidence, and a chilling effect on the property market. This shows that a large electoral majority is hardly a bulwark against radical populist tendencies.

Thirdly, and perhaps most dangerously is the trend that has emerged in the governing party. The last three Presidents have been pushed out of office before the expiry of their terms. Internal politics within the ANC could best be described as an absolute monarchy with the occasional bout of regicide. While some may be absolutely comfortable with giving Ramaphosa a majority, they should think twice before potentially giving their votes and a majority to DD Mabuza further down the line. The consequences of this for any freedom loving, constitutionally aligned person should frankly be too ghastly to contemplate.

Yes, we have seen a move of sentiment and we now have the Zondo commission at work. However we have yet to see a single senior politician arrested, charged or convicted for state capture. What the Zondo commission has also served to do is make a lie of the so called "good ANC" versus "bad ANC". There are no angels in the fold, those in cabinet and senior positions who themselves did not pillage, were prepared for too long to turn a blind eye to the worst excesses of a government swimming in greed, cronyism and corruption. The Bosasa cash-for-tenders revelations have also poisoned that wellspring. It's in these countless acts of omission and commission that a web of state capture was weaved and over R500 billion was looted from the fiscus. It has also been interesting to observe the sudden flip flopping of the red overall brigade. From being the most vocal supporters of Pravin Gordhan, he has suddenly transmogrified into the EFF's public enemy number one. His standing ovations from the EFF in the house have given way to insults and jeers. No doubt the result of the fact that a "joining of the dots" has started to take place, exposing the EFF's rent seeking tendencies. The VBS bank heist that robbed poor savings clubs and stokvels, and now disturbing allegations of similar operations in city tenders have exposed shady schemes and lavish lifestyles that are the very antithesis of what the red berets supposedly stand for.

The coming election is filled with pitfalls and potholes, before casting a vote, the thinking voter would be well advised to recall the old Latin phrase: *Caveat Emptor*, let the buyer beware. This is especially so because you will have to wait a full five years before you qualify for any refund.

FUN FACTS ABOUT OUR FUNDS

THE NORTHSTAR SANLAM COLLECTIVE INVESTMENTS MANAGED FUND

By Matthew Bertram

In this quarterly, we look at two key reasons for why it is worth considering investing in the Northstar SCI Managed Fund.

Northstar as a business

In the South African asset management industry, Adrian Clayton has one of the longest track records of managing balanced funds and he is supported by a team with an average of 18 years investment experience. Northstar has a very clear and consistent investment philosophy, being quality at a reasonable price. Over the long-term we believe that this approach results in higher investment returns and our track record is testament to this. Structurally, Northstar is highly focused as a research-driven manager without offering other services that attempt to compete with our advisor clients.

Opportunities for specialist managers

As a specialist manager, Northstar is unconstrained by the size and idiosyncrasies of the JSE All Share Index (ALSI) and the fund is able to access the market in a more selective and agile manner compared to larger managers. Small to mid-cap companies make up 41% of the combined weighting of our top 10 shares. The equivalent weighting in one of the 3 largest managed funds in SA, that we used as a comparator, is 26%.

The infographic below illustrates further comparisons.

The objective of the Fund, which is regulation 28 compliant, is to provide investors with a moderate to high, long-term total return, in so doing beating the SA Multi Asset High Equity peer group benchmark. To view more information on the Northstar SCI Managed Fund please go to the Northstar website www.northstar.co.za.

Should you require any further information on Northstar Asset Management please make contact with Peter Steele on +27 21 810 8400, **psteele@northstar.co.za** or visit our ***Website*** .

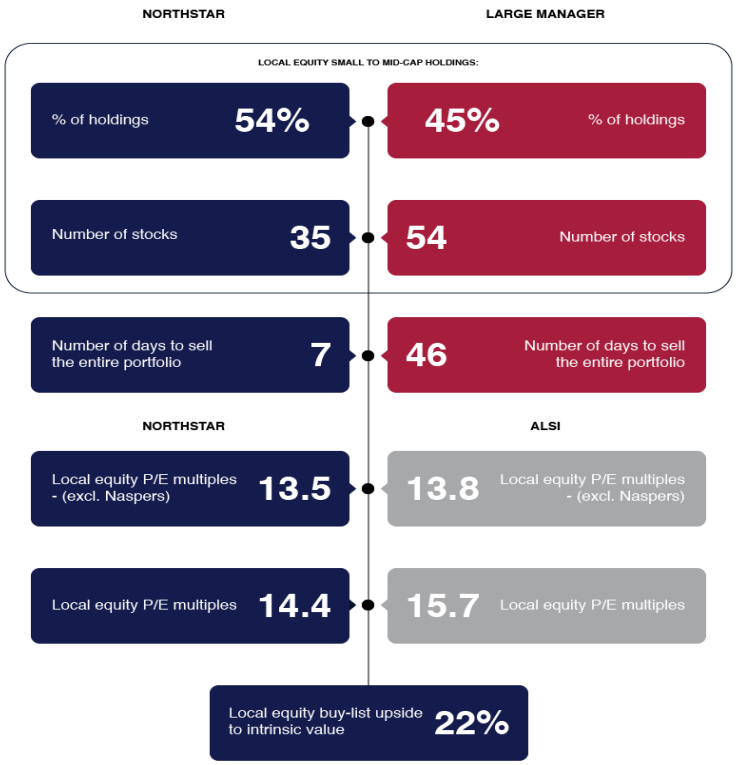


Figure 8. Fund comparisons. Source: Northstar Asset Management, Morningstar (at 30 September 2018).

STAFF MEMBER PROFILE

RACHEL FINLAYSON

By Adrian Clayton (Managing Director & CIO)

I read Rachel's responses on her interview questions feeling a deep sense of satisfaction - we are on the right track at Northstar – we are passionate investors, we are always learning, we are humble and most importantly, we place our clients at the centre of our efforts. My final word on Rachel is that you will ascertain from the interview that her passion is numbers, she is our quantitative analyst in our firm and consequently, I have left her answers in bullet point as it talks to the structure of her mind.

When did your interest in financial markets start?

- I was a late bloomer with regards to investing – this developed while I was at varsity.
- I am driven by learning. Listening to friends that were studying financial degrees made me realise that there was a lot I didn't know – this peaked my interest.

What did you study and why?

- BSc Chemical Engineering at UCT.
- My strengths at school were Mathematics and Science.
- I enjoy problem solving and puzzles – chemical engineering is known to enhance these skills.
- I knew that my degree was not limiting and would allow me to follow different career paths – after completing my degree I realised that I did not want to be an engineer.
- While at Northstar I have completed all three levels of the CFA program and am currently completing the required work experience.

What do you think equips you to do this job properly?

- My eagerness to learn and develop.
- My problem solving skills.
- My affinity for numbers.
- My academic qualifications gives me a different perspective to most of the other team members – its added diversity to our thinking processes.

What do you love about investing?

- The fact the industry and markets are dynamic – no day is the same.
- The breadth of my role in quantitative analysis for Northstar is literally infinite.
- Boredom is never an option – learning is perpetual.

What do you find the most challenging part of your role?

- I am the only quants analyst at Northstar, the rest of the team are fundamental research analysts – this means I'm busy and in demand from the portfolio managers. Time management is critical to be highly effective.
- I must add, being in demand exposes me to all our portfolio managers – I consider this a real advantage as I learn from each of them.

Why do you think clients will do well at Northstar?

- Northstar has family values, which encourages everyone to work as a team for the benefit of the company rather than for individual wealth. This is important – we have seen in the market this year what greed does to various other listed companies and asset managers.
- Our clients come first, again embedding the values for a successful company without greed.
- We all share a real passion for investing.

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***BCI Worldwide Flexible Global Fund annual performance**

Performance as at 30 Nov 2018	1 month	3 months	Year to Date	6 months	1 Year	Since 1 June 2017 p.a.	2 Years p.a.	Since 11 Jan 2016 p.a.
Instit BCI Worldwide Flexible Growh Fund	0.6%	-5.0%	0.3%	0.3%	2.5%	4.0%	11.5%	11.0%

Inception date 11 January 2016

Source: Morningstar, Bloomberg and Northstar Asset Management (12 December 2018). The fund is not a co-named fund, but Northstar Asset Management is the investment manager of the fund.