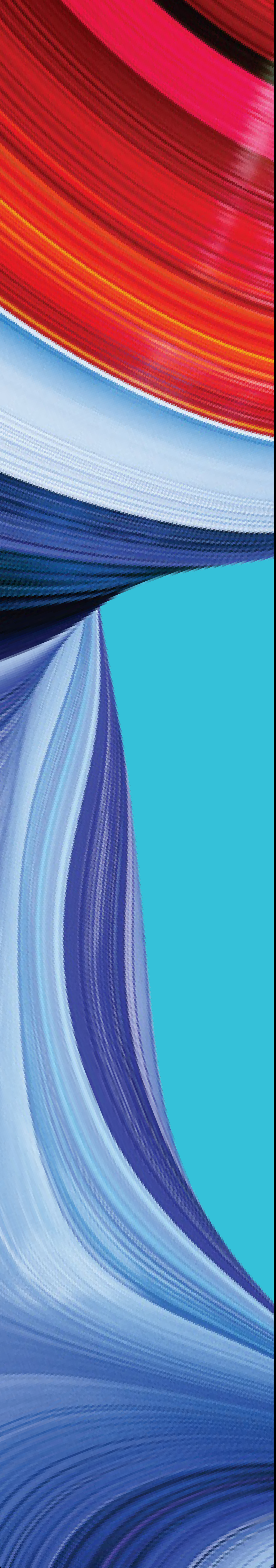

NORTHSTAR
ASSET MANAGEMENT

QUARTER 3, 2020 MARKET REPORT

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Closer to the truth

Is South Africa approaching a fiscal cliff?



Adrian Clayton, Managing Director and CIO
Mark Seymour, Director Fixed Income
Rachel Finlayson, Analyst

In this article, we unpack what a debt default is, what it looks like, whether or not it can be alleviated and then provide our view of the South African Government's willingness to change the current trajectory.

Sovereign debt default?

Occurs when a government no longer makes good on its debt obligations to its creditors and originates either due to over indebtedness or a purposeful strategy of not paying debts back.

Are debt defaults common?

- Yes, Venezuela and Ecuador have both defaulted 10 times
- Brazil 9 times
- Spain has defaulted 13 times (over the last 300 odd years) - 7 times (19th century) & 6 times (18th century)
- Italy defaulted during World War 2 and China in 1921

The latest newsworthy default occurred in May 2020, when Argentina failed to pay a US$500 million foreign loan and is negotiating to restructure US$66 billion of external debt. South Africa (SA) imposed a 'debt standstill' in 1985 after PW Botha's infamous Rubicon Speech – we are thus not total newcomers to debt delinquency.

The framework applied by BlackRock to predict credit defaults captures the clear warning signs. The BlackRock Sovereign Risk Index assesses the credit risk of 60 countries, based on 30 measures and these effectively monitor four broad parameters:

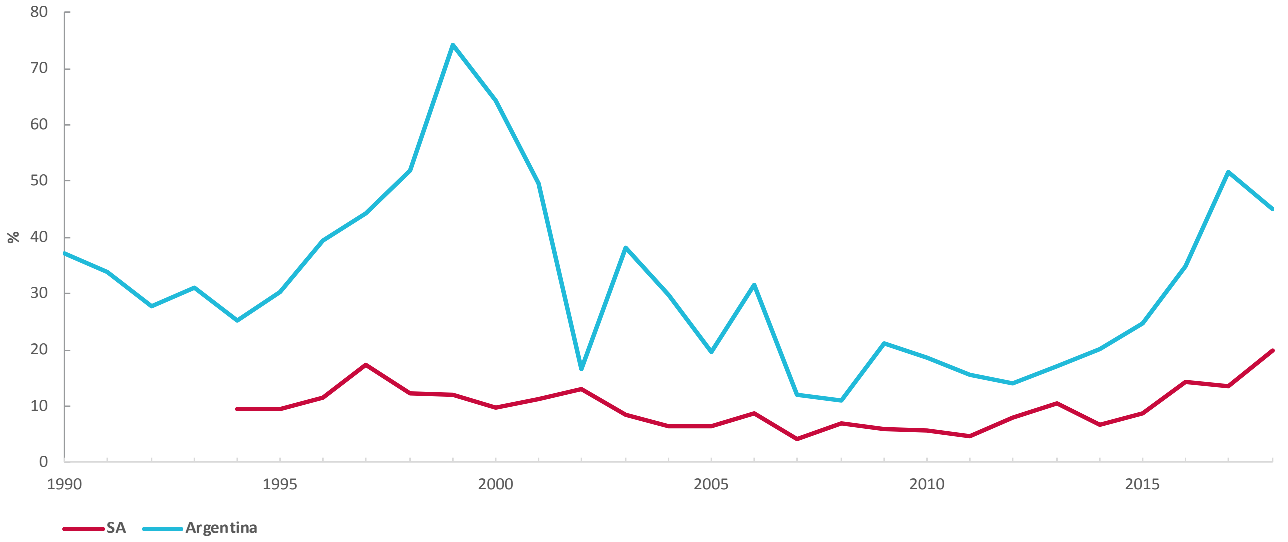
1. Fiscal space – a country's ability to budget avoiding excessive debt. *SA scores poorly.*
2. Willingness to pay – the cultural attitude to paying debts as well the ability to do so. *SA scores poorly.*
3. External financial position – how much the country is exposed to external macro factors. *SA is slightly better here, but still poor.*
4. Financial sector health – financial sector poses a threat to its credit worthiness. *Unsurprisingly, SA scores positively here.*

SA ranks 47th of the 60 countries, a significant weakening from 33rd in 2013. The top three are Norway, Switzerland and Singapore, whilst Lebanon, Venezuela, Argentina and Egypt are most at risk. With the exception of the cushion of parameter four, which is well known and understood, we assess SA against each point and conclude.

1. Fiscal space

After assessing most developed and developing countries by calculating their revenue* versus debt servicing costs, it becomes apparent that once this ratio exceeds 20%, countries enter a period of fiscal strain. Chart 1 below shows how SA has started to track Argentina's profile, well before Covid-19.

Chart 1: Total debt service (% of exports of goods, services and primary income)



Source: World Bank, International Debt Statistics. SA data available from 1994 (August 2018)

SA debt servicing costs are escalating for two reasons:

1. SA forecasts for 2020 include R1.1 trillion revenue and R1.8 trillion expenditure. The huge deficit of R0.7 trillion can only be financed with debt. Gross debt will grow 21% from R3.3 trillion at the start of 2020 to approximately R4.0 trillion by the end of the year, comprising 82% of annual GDP.
2. With global interest rates at record lows and financial markets passively allowing most fiscal deficits to be funded, the market's requirement for increased SA rates reflects the resultant risks from unfettered spending and ensuing uncontrolled increases in debt.

Chart 2: SA 10 year real yield vs Debt-to-GDP

Source: Iress & Northstar (31 August 2020)

*What the Government collects through taxes.

Debt used to fund productive activities including for example infrastructure, is understandable. Unfortunately, in SA, it is being used to sustain an unproductive and bloated public work-force, finance uneconomic SOE's and is exposed to graft. Our concern is shared by foreign investors who, on a net basis, sold down R88bn bonds and R53bn equities in the first half of 2020.

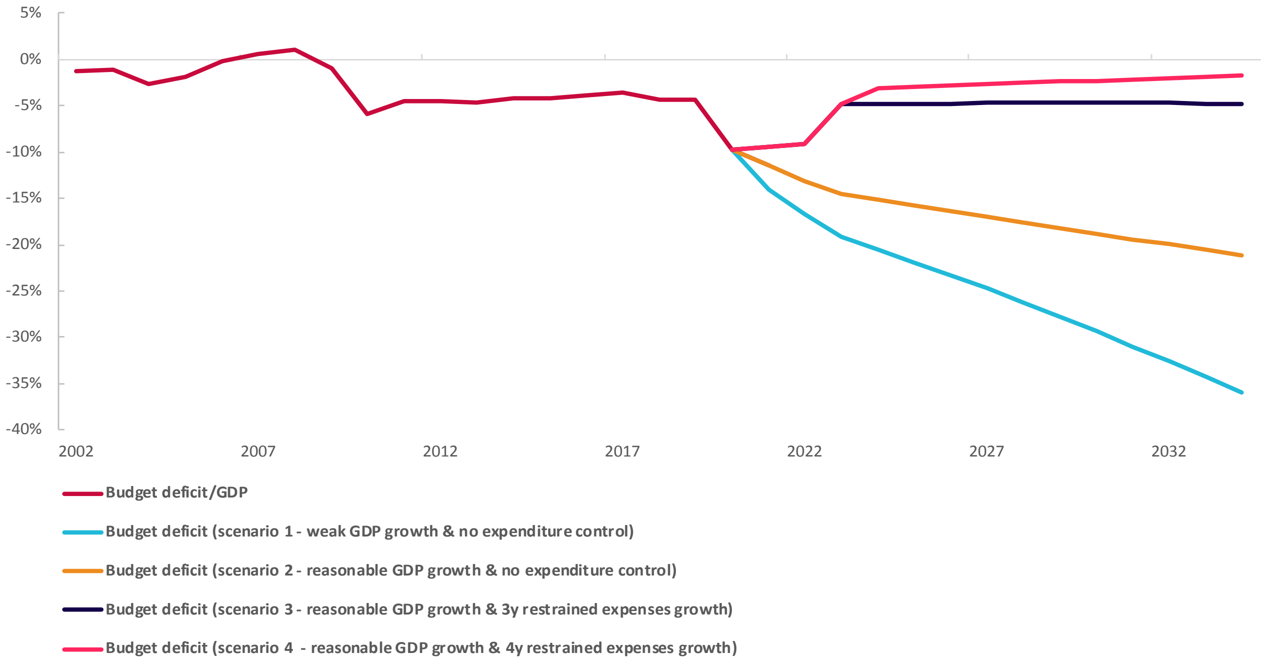
What will SA's fiscal discomfort lead to?

We model three scenarios in Chart 3 below:

1. Spending continues unabated and the economy remains weak (blue line), resulting in a staggering 35% budget deficit.
2. Ongoing spending spree but the economy starts to grow. Here, the deficit rises, reaching almost 25% (orange line).
3. Expenses reigned in, whilst GDP increases. Normality ultimately returns to domestic public finances.

Historically, cost control has only been given lip service and the consequence is that SA's debt position has only worsened and the orange line reflects this trajectory. Hopefully government understands what is at stake and the necessary reforms are put in place.

Chart 3: Budget deficit/GDP



Source: National Treasury, Northstar (31 August 2020)

2. Willingness to pay

Argentina has defaulted 9 times, since independence from Spain in 1816. SA has only done so once to date. Looking forward, SA does not lend itself to austerity economics, possessing bloated public services and rigid unions, not dissimilar to Argentina. Our guess is that populist politics will win out against conservatism in debt management.

3. External financial position (offshore debt as a percentage of total public debt)

An important distinction between SA's public finances and Argentina's, is that the proportion of foreign or hard currency debt relative to total debt in SA is small, about 10%, whereas the majority of the US$285 billion owed by Argentina is denominated in hard currency.

As evidenced on the previous page, higher levels of indebtedness force higher interest payments for governments. In foreign currency, this challenge is only compounded by currency depreciation multiplying the interest payment burden. This ultimately breaks the back of indebted countries, the story of Argentina.

SA does not face this exact issue, yes our escalating indebtedness is causing interest rates to rise and so too resulting in Rand weakness, but foreign debt repayments will not be our undoing.

Where to from here, the transmission mechanism in SA

Our view on SA's glide scope:

- Debt will rise, and creditors will increasingly be unwilling to fund SA’s bulging deficits.
- Interest rates will continue to rise compensating for default risk.
- The Rand will weaken precipitously, resulting in inflation ballooning with short-term interest rates skyrocketing.
- The economy will experience a severe contraction, greater than anything we have witnessed before.
- How the fiscus then honours debt obligations is a thought piece deserving its own article, but what is clear is that few options are economically friendly in the short to medium-term.

The South African economy is in poor shape and we face numerous complex economic headwinds which include an elevated Gini coefficient, substandard education levels and rising unemployment. Consequently, our citizens are vulnerable and the current misdirected economics are compounding this sorry state.

In conclusion, our article has not sort to answer or for that matter solve the, “unanswerable”, moral and symbolic arguments of the SA government’s populist tendencies; this we leave in the hands of political analysts and politicians. What we base our conclusion on is empirical data together with the historical trend we are observing being played out in SA. Our view is that the SA government has little choice but to actively reduce public expenditure, redirect the remaining budget to productive assets and cultivate a business friendly environment.

“Widespread intellectual and moral docility may be convenient for leaders in the short term, but it is suicidal for nations in the long term.”
— Carl Sagan

Themes that have shaped fund manager returns over the past three years

Marco Barbieri
Director, SA Equities

SA balanced funds have seen considerable divergence in performance as asset class returns have been unusually disparate and volatile. Three main themes stand out and explain these market dynamics. Northstar's participation in two of the three themes helped the Northstar SCI Managed Fund to deliver returns ahead of its benchmark, at well managed risk levels.*

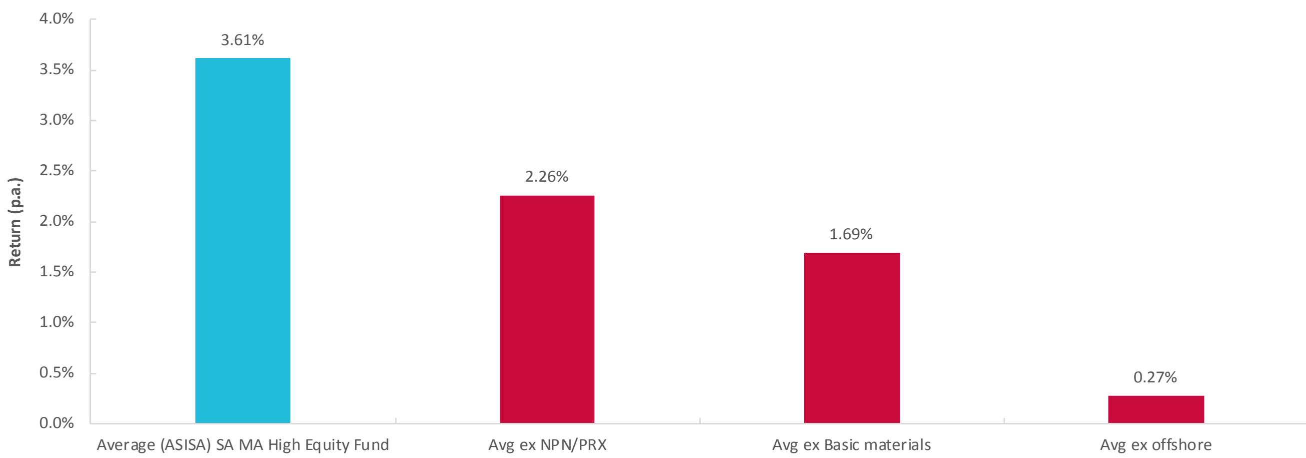
Performance was driven by strong returns from offshore, mining and technology

Fund managers needed to get three things right to maximise returns over the past three years. Firstly, offshore exposure was critical, not only due to the strong Rand returns delivered by offshore equities (up 18%), but also because of the relative poor performance of SA equities, especially those with businesses geared to the local economy.

Secondly, SA resources stocks returned 25%, benefitting from a weaker Rand and secular global themes supporting gold, platinum group metals (PGMs) and basic materials prices. Local non-mining stocks did poorly, with industrials returning 2.5% over three years and financials falling by 8.5%.

Finally, tech stocks: Naspers/Prosus, listed locally with a strong offshore tech focus, accounted for a large part of the return from industrials and stripping it out of the industrial index leaves the sector down 9%. The MSCI World Index total return of 18% comprised 10% from Rand depreciation and 8% from global equity returns, more than half of which (4%) is attributable to global tech stocks. In particular, there were extremely strong performances from the FAANGs+M – Facebook (+50%), Amazon (+185%), Apple (+164%), Netflix (+205%), Alphabet/Google (+53%) and Microsoft (+210%).

Chart 4: Scenario analysis - 3 year annual returns



Source: Morningstar & Northstar (30 June 2020)

In Chart 4 above, our analysis indicates that the 3.6% returned by the average SA Multi Asset High Equity Fund over the last three years would have been reduced to 2.3% had the average fund not invested in Naspers/Prosus, 1.7% had it not held resources and 0.3% if only exposed to SA assets.

Increased risk doesn't automatically mean increased returns

SA fund managers have not necessarily been rewarded for taking increased risk over the last three years, especially those that backed high risk SA equities, which have meaningfully underperformed local fixed income and global assets.

Chart 5 below shows that the Northstar SCI* Managed Fund (the Fund) was able to navigate these markets well and delivered above-average returns at lower volatility than most of its peers, outperforming its benchmark over one, three and five years. This was achieved by refusing to bet on binary events while taking a measured probabilistic approach to asset class allocation.

Chart 5: Alexander Forbes Manager Watch ™ Series of Surveys – risk versus return (3 years ended 30 June 2020)

Source: Alexander Forbes Global Manager Watch survey - Best Investment View (30 June 2020)

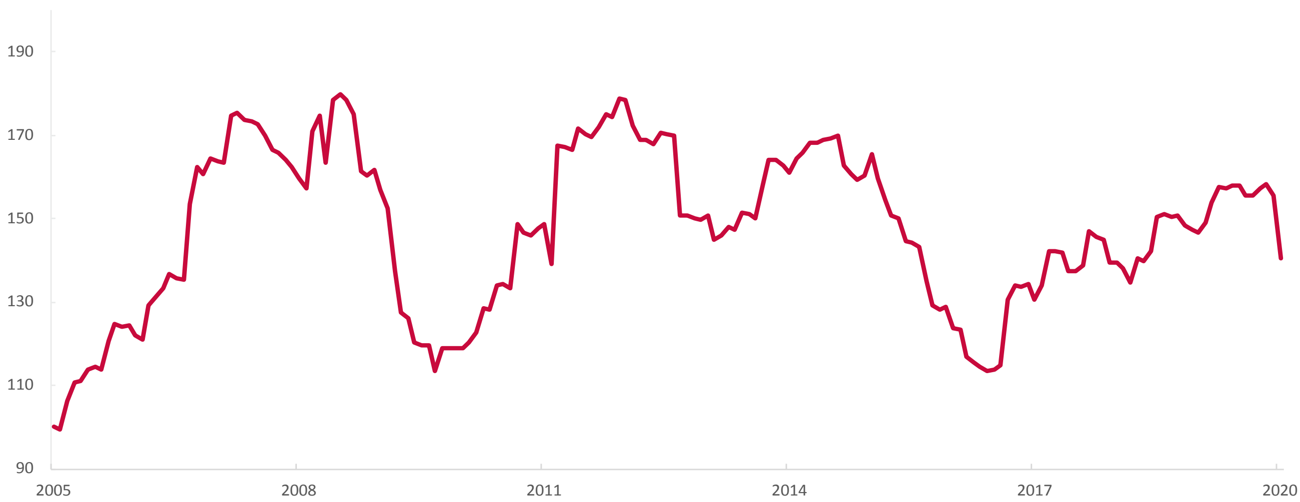
*SCI refers to Sanlam Collective Investments. Refer to returns on the fund information page.

The Fund maintained full exposure (30%) to offshore assets, stayed overweight global equities and underweight local equities. We achieved high hit-rate and win/loss ratios in global equities, although good stock selection in local equities was offset to some degree by our underweight position in mining stocks. Returns benefited from exposure to global tech, mainly through Naspers/Prosus, Alphabet/Google, Microsoft, Apple, Alibaba and Amazon. We avoided the local property sector and held an overweight position in SA fixed income.

Have these trends now run their course?

The SA macroeconomic environment remains very challenging, with business confidence at all-time lows. Corporate earnings growth is extremely weak and trending down, in line with nominal gross domestic product (GDP). Per Chart 6, inflation-adjusted earnings are at 2006 levels despite the positive impact of the strong performances of basic materials and Naspers/Prosus. The market is cheap, trading on a low price to earnings (PE) ratio on depressed earnings. Yet a few relatively simple developments could more than double the potential GDP growth rate from 1.5% to 3.7%. These include reforms to the telecoms and transport industries, removing barriers to entry to the economy, prioritising tourism and agriculture and improving confidence levels. There is definite risk in backing a SA recovery, but the payoff could be significant. Even though valuations are starting to look attractive, we think a local recovery will take time and have adjusted our bet size accordingly.

Chart 6 : FTSE/JSE inflation adjusted earnings (indexed to 100)



Source: Iress & Northstar (30 June 2020)

We believe that the easy money has been made in commodity stocks and it is hard to justify further investment as this point. The valuations of mining companies are rational at current spot commodity prices but spot prices are very high, both in comparison to their own histories and to their respective cost curves.

Global tech companies have run strongly, with returns over the past decade justified by robust free cash flows. Current valuations are baking in strong growth, but if consensus expectations are right, valuations are not unreasonable, although at bull case levels in our opinion. While we think global tech stocks still have some potential, we have reduced our exposure.

Exposure to offshore assets and high quality global franchises maintained

The Fund has kept its maximum exposure to offshore assets and remains underweight local equity. Both the offshore equities component and the core local holdings comprise high quality global franchises, such as New York Stock Exchange-listed VISA and Oracle, and JSE-listed Naspers, BAT and Richemont. The Fund has a smaller exposure to high-quality cyclical SA stocks to retain optionality should the SA economy recover sooner and more strongly than expected. We are overweight local fixed income of low duration, with high exposure to short-dated RSA inflation-linked bonds, which offer strong real yields. We do not expect the fundamentals of the local property sector to improve meaningfully over the short to medium term and have no exposure in that sector.

Northstar will continue to take a measured approach that prioritises strong returns with effective risk management by focusing on quality at a reasonable price and diversifying exposure across asset classes.

Brand decay in Tiger Brands

Andrew Randles
Analyst

In this article we explore the trajectory of brand decay at Tiger Brands, how other companies have managed to buck this global trend and lastly, whether there is any hope now for the once-mighty Tiger Brands.

Tiger Brands

is one of SA's largest packaged goods companies and owns some of the country's favourite brands, including Oros, Purity, Koo, Jungle Oats, Black Cat, Albany Bread and Fattis & Monis pasta. The performance of the share however, does not reflect the popularity of these brands. As of 6 August 2020, Tiger Brands was trading at R173.88, little changed from the R178.05 it traded at exactly ten years ago. In 2010, the company delivered headline earnings per share (HEPS) of R13.93. In September 2019, it reported HEPS for the year of R13.49.

The power of brands

Brands have value if they have an inherent differentiator that provides pricing power. This could be in the form of superior quality, taste, status, reliability, durability or after-sale services. These brands become intangible assets backed by future cash flows that (hopefully) cover their costs by a significant margin.

At their best, brands represent a competitive advantage for a company that competitors cannot replicate, like the taste of Coca-Cola, or the quality and after-sale service of Hansgrohe taps and mixers. Sustaining the cash-generating power of a brand requires ongoing investment in whatever gives the brand its strength. Coca-Cola needs to continually invest in marketing to remain front of mind and Hansgrohe will constantly have to invest in their after-sale service capability and quality of design.

The strength of a brand changes over time and the price premium consumers are willing to pay for branded goods can evaporate. Price premium and brand value might erode for a number of reasons, including market penetration, changes in consumer tastes and mismanagement of the brand.

So what happened at Tiger Brands?

Tiger Brands was heavily affected by the Listeria outbreak in 2017/2018, which saw many South Africans tragically losing their lives. One of Tiger Brands' operating segments (Value Added Meat Products) saw operating profit fall from R104 million in 2018 to an operating loss of R547 million in 2019.

But there is something else eating Tiger Brands' profitability

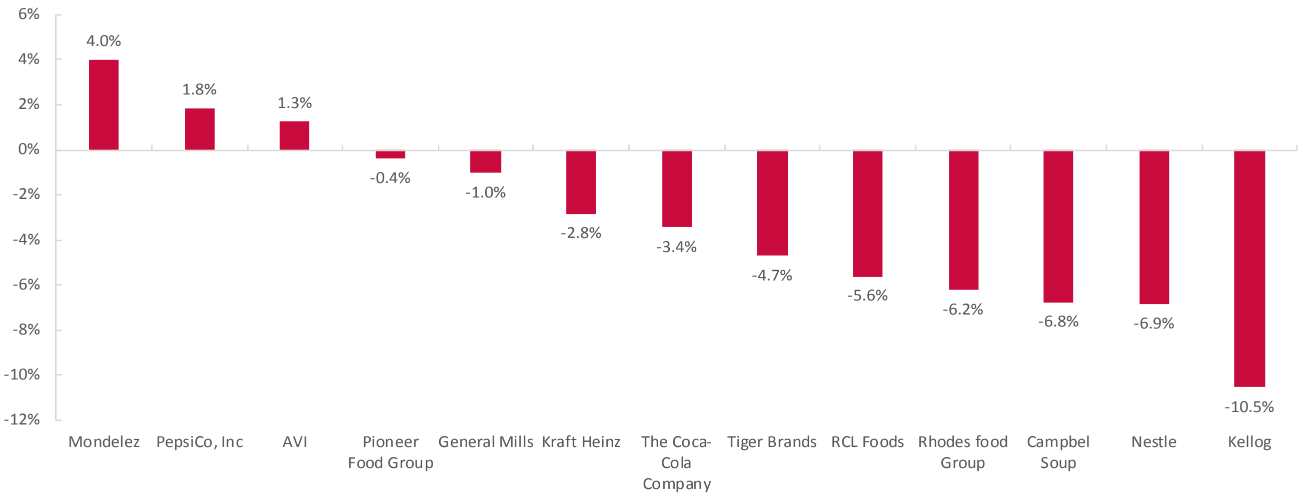
The price premium on Albany bread, the main driver of earnings in the grains segment (which contributed 50% of EBIT in the first half of the 2020 financial year), fell from just over 20% in 2012 to under 5% in 2019, and all but evaporated so far in 2020. This dragged operating profit margins in the grains segment down from 19.6% to 7.8% over the same time period.

In the case of Albany, competitors and private label producers closed the technology gap in many key products, making it difficult to differentiate from peers and commoditising the category.

Margins have declined for many global food and beverage companies

A comparison of current gross margins against margins ten years ago across both domestic and global food and beverage companies, shows that Tiger Brands is not alone in finding it harder to pass prices on to consumers and defend historic price premiums and gross margins.

Chart 7: Gross profit margin change over 10 years

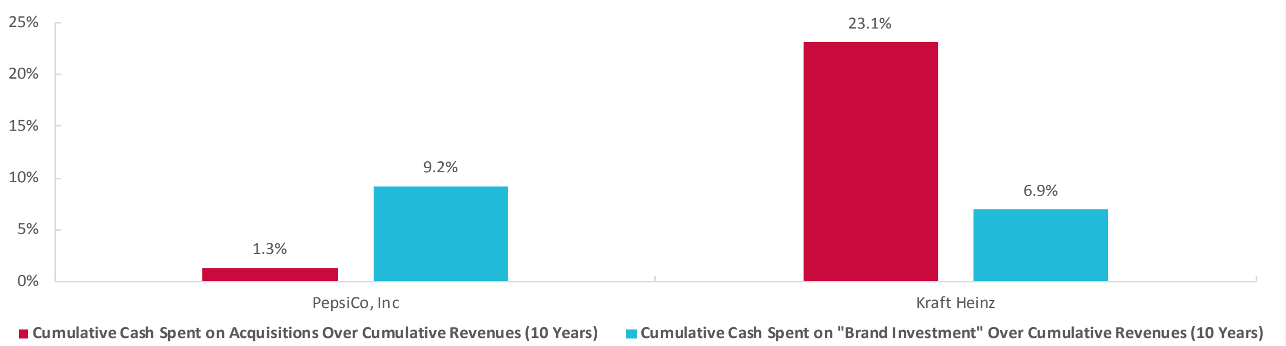


Source: Capital IQ, Company Reports, Northstar Analysis (1 July 2020)
Note: Rhodes Food Group Data only from 2013 (listed 2014)

Only three of the 13 companies in the comparison managed to buck the trend over the last decade – Mondelez, Pepsico and AVI. The strategies these companies used to improve margins included pruning their portfolios and streamlining their operations, or investing in their brands and avoiding the urge to make serial acquisitions.

Chart 8 compares investments in brands and acquisitions over ten years for Pepsico (owner of brands including Pepsi, Lays, Doritos and Gatorade), and the fallen titan of the packaged goods space, Kraft Heinz (Heinz tomato ketchup, Jell-O, Kool-Aid). While Pepsico focused on building brands, Kraft Heinz went on an acquisition and cost reduction drive. Pepsico was rewarded with a share price increase of 88% since the Kraft Heinz merger, while the latter fell 20% over the same time period.

Chart 8: Offshore packaged goods comparisons



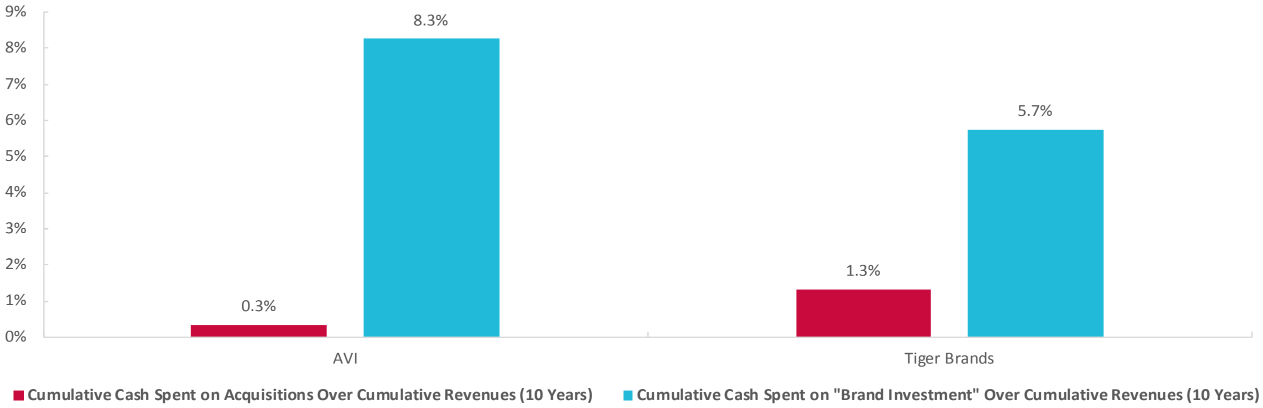
Source: Capital IQ, Company Reports, Northstar Analysis (1 July 2020)
Note: marketing /advetising expenditure and capital expenditure are used as a proxy for "Brand Investment"

Mondelez, which owns Cadbury, Nabisco and Oreo cookies, followed a portfolio-pruning approach. Their rationalisation spree saw them sell off 12.6% of their 2012 asset base that they deemed non-core, streamlining the business to core brands and boosting margins and returns.

A SA perspective

AVI (Five Roses, Frisco, Bakers, Lacoste, Yardley) invested approximately 44% more in its brands relative to Tiger Brands over the last decade. Tiger spent nearly four times more than AVI on ill-fated offshore acquisitions rather than focusing on brands at home. Over the 10 years, Tiger Brands returned -2.3% (R178.05 to R173.88) while AVI increased from R24.33 to R68.74, a return of 182.5%.

Chart 9: Domestic FMCG comparisons



Source: Capital IQ, Company Reports, Northstar Analysis (1 July 2020)
Note: marketing /advetising expenditure and capital expenditure are used as a proxy for "Brand Investment"

One could argue that Tiger Brands should have taken the Mondelez approach of exiting commoditised categories earlier and redistributing cash flows to stronger, more differentiated brands with profitable growth prospects. Or it could have simply placed more emphasis on growing and nurturing its own brands, like Pepsico did.

The good news is that all is not lost for Tiger Brands. It used to be known as the branded company that could deliver returns ahead of its cost of capital and ahead of the market. Poor management decisions and changing market structures have however, eroded those brands.

A new plan of attack could be fashioned by selling underperforming brands and deploying the healthy chunk of cash (R1.4 billion) on the balance sheet. The current cost restructuring, rejigging of formulations and smart private label penetration should lower operating costs relative to revenue. The company could embark on brand strategies in strong categories such as tiered branding, multi-brand offerings within categories, and unique innovation which could herald the return of brand premium and sustainably higher profitability. Group operating margins are at their lowest point since 1997 and the low price to earnings multiple harkens back to the time when Tiger Brands sold commodities such as chicken and fish.

Whilst we believe that Tiger Brands has the ability to restructure and reconfigure its portfolio, we note that the execution risk is high.

Tiger Brands still owns some of SA's most loved brands and we believe that a strategy which can leverage such product lines would go a long way to improve company margins and returns over time.

TransDigm - a diamond in the rough

Donovan Stefan
Analyst

At Northstar, we look for quality businesses and invest in their shares when they are trading at levels that show good value. One of the characteristics we look for in these businesses is a strong and durable competitive advantage that can be defended. In this article, we unpack why, despite its position in a cyclical industry, TransDigm is able to generate consistent and robust returns on capital, one of the key indicators of a quality business.

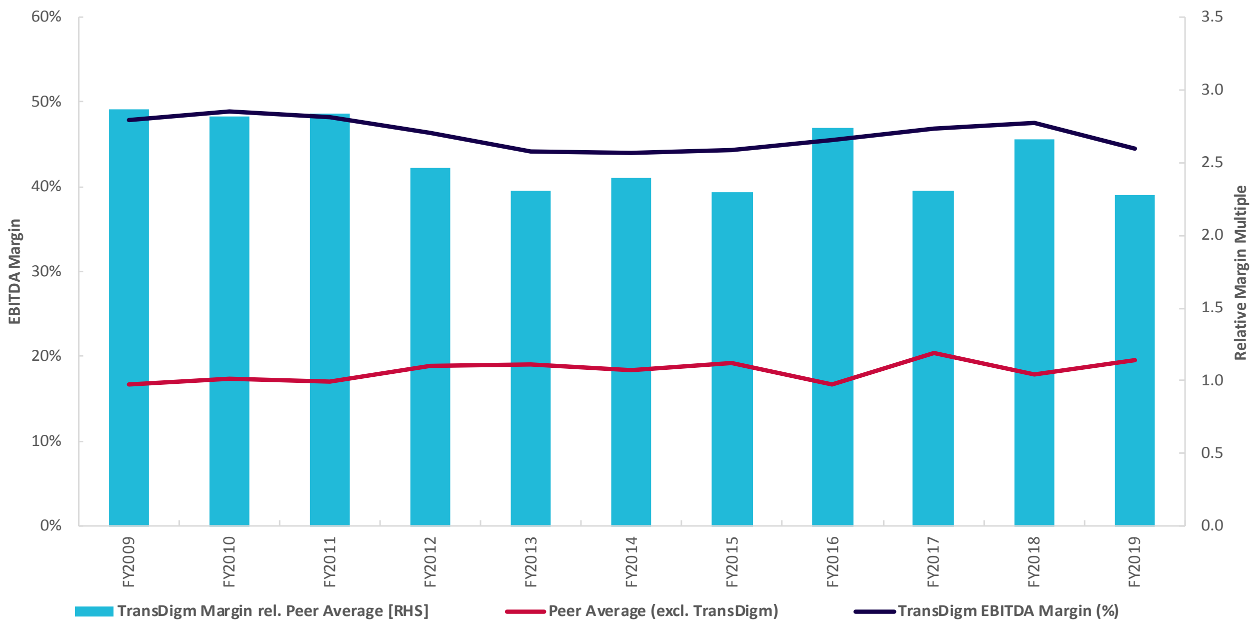
TransDigm

designs, produces, and supplies proprietary and sole-source parts to the global aerospace and defence markets. The company is listed on the New York Stock Exchange and has operations in North America, Europe and Asia.

The intellectual property in TransDigm's products creates a competitive advantage

The majority of aerospace products that TransDigm designs and manufactures are either the only part that can be used in an application (sole-source) or their own design of a solution for which there are competitor parts (proprietary). The large share of revenue from sole-source (80%) and propriety products (90%) gives TransDigm pricing power. As a consequence, their margins are more than double the industry average as evidenced in Chart 10 below.

Chart 10: TransDigm EBITDA margin vs peer group average



Source: Capital IQ; Peer Group: HEI, HON, MGGT, TGI & SAF (FY2019)

Several barriers to entry deter potential competitors

The highly regulated nature of the aerospace industry results in stringent regulatory and certification requirements. Each part requires a Parts Manufacturer Approval (PMA) from the US Federal Aviation Administration. This certification takes up to 18 months and costs anywhere from US$20 000 to US$1 000 000 per part, with an average cost between US$75 000 and US$100 000. TransDigm has more than 300 000 active PMAs and conservative estimates suggest that it would cost at least to US$22.5 billion to replicate its current portfolio. On top of that, the company introduces thousands of additional PMAs each year. Competitors would have to make a significant investment over many years before they could start to earn a return on investment. As a result, PMAs introduced by competitors represent less than 2% of TransDigm's annual sales.

In addition, their portfolio is extremely diverse, with no single part individually making up a large portion of their revenue. Approximately 90% of aftermarket revenue is generated from PMAs selling less than US$2 million a year. TransDigm's products are also relatively inexpensive, with average selling prices of US$1 000. At that price level the most critical considerations for customers are reliability, quality and timeous delivery. The low price and critical nature of the products reinforces the high cost of switching, creating another significant hurdle for competitors.

Aftermarket revenues strengthen the business model

TransDigm products are used by aerospace original equipment manufacturers (OEMs) when building new aircraft and the company also designs and manufactures aftermarket parts that are used to service and support the global fleet of aircraft to meet regulatory requirements and maintain aircraft warranties. The typical lifespan of an aircraft is around 25 to 30 years and a single aircraft platform can last 20 to 30 years, resulting in more than 50 years of potential stable and recurring aftermarket revenues from parts used in each platform. Aftermarket parts generate 52% of TransDigm's revenue and are very profitable, comprising the majority of the company's EBITDA. This helps to smooth out the volatility in revenue from OEM customers and mitigates the company's leveraged balance sheet and acquisitive mergers and acquisitions (M&A) strategy.

Capital allocation expertise and private equity-like structure

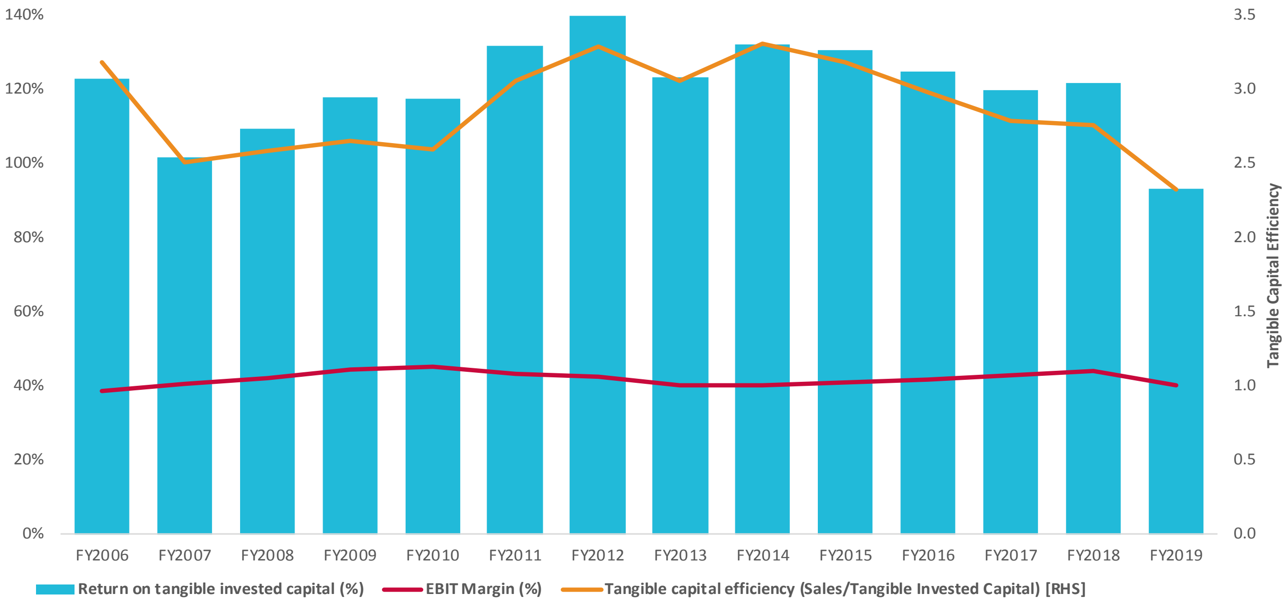
The aerospace industry is fragmented, with many small private businesses and non-core operations of larger businesses. TransDigm maintains a highly-geared balance sheet to acquire profitable proprietary businesses with significant aftermarket content where they believe they can unlock value. The company has a unique private equity-like structure and the stated objective of delivering "private equity-like growth in value with the liquidity of a public market".

A geared balance sheet and frequent M&A are commonly a cause for concern, particularly in an inherently cyclical industry such as aerospace and defence. But the company's management team has significant experience in managing earnings variability, executing acquisitions and integrating acquired businesses into their company and culture. Since their IPO in 2006 they have acquired more than 49 businesses without a single impairment or asset write down, demonstrating just how robust their M&A process is.

Good management and a stellar business model

TransDigm's proprietary and sole-source revenue base and significant aftermarket content affords them strong market positions, pricing power and a stable, recurring revenue stream that is protected by effective barriers to entry. Management has an excellent track record of capital allocation and the business model has proven durable through the economic cycle, resulting in consistently good returns on invested capital as evidenced in Chart 11 on the following page.

Chart 11: Returns on tangible invested capital



Source: Capital IQ , Northstar Calculations (FY2019)

Northstar has followed Transdigm for a number of years, but the company's stock traded at levels that did not include a sufficient margin of safety for us to be comfortable buying the share. With the selloff in late March, the margin of safety opened up and we were able to make a meaningful investment at a very attractive valuation level. The share price has recovered significantly since then and currently trades at our base case intrinsic value estimate. We see significant upside to a bull case and remain a long-term holder of TransDigm.

Meet the team

Gugulethu Mgutshini
Client Service Administration

When did your interest in financial markets start?
I have always been slightly intimidated by the complexity and unpredictable nature of financial markets, which is exactly what makes them so intriguing. There are so many factors to consider and very few things can occur without consequence.

What did you study and why?
I studied a bachelor of commerce at the University of Cape Town, specialising in management studies. I have an interest in the operational and managerial aspects of businesses.

What do you think equips you to do this job properly?
I strive to make meaningful interactions with my environment and seek to leave an environment in a better condition than before my arrival. I am both people and process centered. This, guided by my enquiring mind and commitment to process improvement make for a useful combination in the client servicing and operations team.

What do you love about investing?
It is a delicate and complex process that takes more research than one would intuitively expect. It is less of a 'guessing' game and requires the analysis of many moving parts. This as a whole makes me respect the processes that result in good investment decisions.

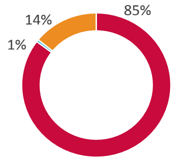
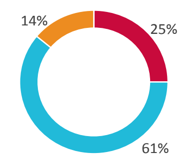
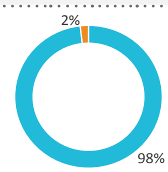
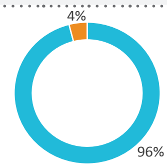
What do you find the most challenging part of your role?
Working in client servicing means that most of the things I do directly impacts our clients. This is essentially what I love about my role, however it can be challenging to manage the expectations of our clients while keeping them informed.

Why do you think clients will do well at Northstar?
In addition to the strong principles guiding our investment process, is a dedicated operations and client servicing department which thrives on outstanding service. The combination of the two departments is what I think makes Northstar special. Clients can rely on the expertise and research of the investment team as well as a sincere commitment to client servicing.

Northstar South African funds

Returns are to the period ended August 2020

We offer four domestic funds that cover the full risk-return spectrum which financial advisors normally utilise as building blocks for their clients. The Northstar SCI Income Fund and the Northstar SCI Managed Fund have Regulation 28 compliant asset allocations, making them suitable for both lump sum and ongoing retirement contributions. The Northstar SCI Equity Fund only invests in companies listed on the JSE and consequently, is suitable for investors seeking exposure to the South African market. Northstar is also the investment manager of the top performing Prime General Equity Fund, an equity fund which invests in both South African and global equities.

FUND NAME Management Date	Northstar SCI Income Fund 22 July 2014	Northstar SCI Managed Fund 01 March 1998	Northstar SCI Equity Fund 01 July 2017	Prime General Equity Fund 01 June 2016
RISK PROFILE/ SUITABLE INVESTOR	LOW	MEDIUM	HIGH	HIGH
INVESTMENT HORIZON	1 - 3 Years	5 + Years	7 + Years	7 + Years
OBJECTIVE	Regular and stable income return. The fund is Regulation 28 compliant.	Moderate to high long-term total return. The fund is Regulation 28 compliant.	Maximum capital growth over the long-term through investments in predominantly the equity market.	Capital appreciation through investments primarily in equity and listed and unlisted financial instruments.
FIXED INCOME CASH EQUITY	 Maximum of 10% equities.	 Maximum of 75% equities.	 Minimum of 80% equities.	 Minimum of 80% equities.
BENCHMARK	110% STeFI Call Deposit	ASISA Category Avg: SA - Multi Asset - High Equity	ASISA Category Avg: SA - Equity - General	ASISA Category Avg: SA - Equity - General
CATEGORY	South African - Multi Asset - Income	South African - Multi Asset - High Equity	South African - Equity - General	South African - Equity - General

FEES (RETAIL) P.A. (Jun 2020)	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC
	0.97%	1.03%	1.08%	1.26%	1.78%	2.08%	0.97%	1.09%	1.65%	0.67%	1.83%	2.03%

ANNUALISED INVESTMENT RETURNS (Period ended August 2020)

	Fund	Bmk	Fund	Bmk	Fund	Bmk	Fund*	Bmk*
1 Year	7.42%	6.09%	4.36%	4.68%	-11.37%	-0.60%	-0.79%	-2.73%
3 Years	8.20%	6.91%	4.58%	3.24%	-6.26%	-0.96%	1.24%	-0.28%
5 Years	7.80%	7.12%	4.66%	4.21%	n/a	n/a	1.42%	0.92%
Since Launch	7.34%	6.96%	7.33%	7.74%	-5.10%	0.79%	9.44%	8.01%

Highest annual return over a 12 month rolling period.
SCI Income: 10.57% (Oct 2018 - Oct 2019); SCI Managed: 21.84% (Sep 2012 - Sep - 2013); SCI Equity: 5.41% (Jun 2017 - Jun 2018); Prime General Equity: 12.61% (Oct 2016 - Oct 2017).

Lowest annual return over a 12 month rolling period.
SCI Income: 3.94% (Dec 2014 - Dec 2015); SCI Managed: -6.19% (Mar 2019 - Mar 2020); SCI Equity: -28.71% (Mar 2019 - Mar 2020); Prime General Equity: -14.71% (Mar 2019 - Mar 2020).

SCI refers to Sanlam Collective Investments. All our onshore funds are on the SCI Manco.

*Prime General Equity annualised investment returns are for period ended July 2020.

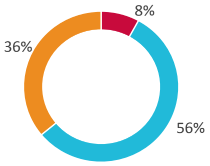
NORTHSTAR

Northstar Global funds

Returns are to the period ended August 2020

Northstar's global fund offering is suitable for investors seeking long-term capital growth, through exposure to a broad range of asset classes, without having to assess the relative attractiveness or risk of each asset class themselves. By utilising their foreign investment allowance, South African investors are able to access the US dollar denominated Northstar Global Flexible Fund directly. Alternatively, Northstar offers two Rand denominated offshore funds – the Northstar SCI Global Flexible Fund, available for investors with capital commitments exceeding R5m and the Northstar SCI Global Flexible Feeder Fund.

The Northstar SCI Global Flexible Fund received a nomination for the best (SA-Domiciled) Global Multi-Asset Flexible Fund over three years in the 2019 Raging Bull awards.

FUND NAME Management Date	Northstar SCI Global Flexible Fund 12 January 2016	Northstar SCI Global Flexible Feeder Fund 01 June 2017	Northstar Global Flexible Fund (USD) 01 June 2017
RISK PROFILE/SUITABLE INVESTOR	MEDIUM TO HIGH		
INVESTMENT HORIZON	7 + Years		
OBJECTIVE	Long-term capital growth by investing in various assets classes, predominantly in equity.		
FIXED INCOME CASH EQUITY	 No equity limit.		
BENCHMARK	ASISA Category Avg: Global - Multi Asset - Flexible Allocation	EAA Fund USD Flexible Allocation	
CATEGORY	Global - Multi Asset - Flexible		EAA Fund USD Flexible Allocation

FEES (RETAIL) P.A. (Jun 2020)	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC
	1.43%	1.58%	1.84%	0.40%	1.91%	2.21%	1.25%	1.61%	1.92%

ANNUALISED INVESTMENT RETURNS (Period ended August 2020)

	Fund	Bmk	Fund	Bmk	Fund	Bmk
1 Year	22.74%	20.35%	23.19%	17.69%	11.81%	4.98%
3 Years	19.15%	12.88%	18.45%	12.47%	9.30%	2.85%
5 Years	n/a	n/a	n/a	n/a	n/a	n/a
Since Launch	12.04%	7.09%	17.72%	12.12%	8.91%	3.20%

Highest annual return over a 12 month rolling period.
SCI Global Flexible: 33.24% (Jan 2019 - Jan 2020); SCI Global Flexible Feeder: 32.63% (Jan 2019 - Jan 2020); Global Flexible (USD): 21.35% (Dec 2018 - Dec 2019).

Lowest annual return over a 12 month rolling period.
SCI Global Flexible: -5.99% (Feb 2016 - Feb 2017) ; SCI Global Flexible Feeder: 3.58% (Nov 2017 - Nov 2018); Global Flexible (USD): -3.60% (Dec 2017 - Dec 2018).

SCI refers to Sanlam Collective Investments. The SCI Global Flexible Fund and SCI Global Flexible Feeder Fund are on the SCI Manco. The Global Flexible Fund (USD) is on the Sanlam Ireland platform.

The Northstar Global Flexible Fund (USD) is a Section 65 approved fund.
The Northstar Global Flexible Feeder Fund is a rand denominated fund that feeds directly into the Northstar Global Flexible Fund.

NORTHSTAR

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Sanlam Collective Investments (RF) (Pty) Ltd is an approved Manager in terms of the Collective Investment Schemes Control Act, 2002. Collective investment schemes in securities are generally medium- to long-term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Sanlam Collective Investments (RF) (Pty) Ltd (the manager) does not provide any guarantee, either with respect to the capital or the return of a portfolio. The manager has the right to close certain portfolios to new investors, in order to manage it more efficiently, in accordance with its mandate. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. The collective investment scheme may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Annualised returns are period returns re-scaled to a period of one year. This allows investors to compare returns of different assets that they have owned for different lengths of time. Actual annual figures are available to the investor on request. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Performance is calculated for the portfolio and the individual investor performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. Investment performance calculations are available for verification upon request by any person. Different classes of participatory interests apply to these portfolios and are subject to different fees and charges. Forward pricing is used. The portfolio valuation time is 08h00 for fund of funds and 15h00 for all other portfolios and the transaction cut-off time is 14h00. The transaction cut-off time should be 14h00, for portfolios except fund of funds, but execution is not always guaranteed. If execution could not take place on the same day, it will take place the next business day, or at the earliest possible opportunity. For fund of funds, the cut-off time for the execution of trades is 14h00 on the day preceding the pricing date. Foreign securities within portfolios may have additional material risks, depending on the specific risks affecting that country, such as: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Investors are reminded that an investment in a currency other than their own may expose them to a foreign exchange risk. The terms and conditions, a schedule of fees, charges and maximum commissions, performance fee frequently asked questions as well as the minimum disclosure document (MDD) and quarterly investor report (QIR) for each portfolio are available on Sanlam Collective Investments' website at www.sanlaminvestments.com. Associates of the manager may be invested within certain portfolios and the details thereof are available from the manager.

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