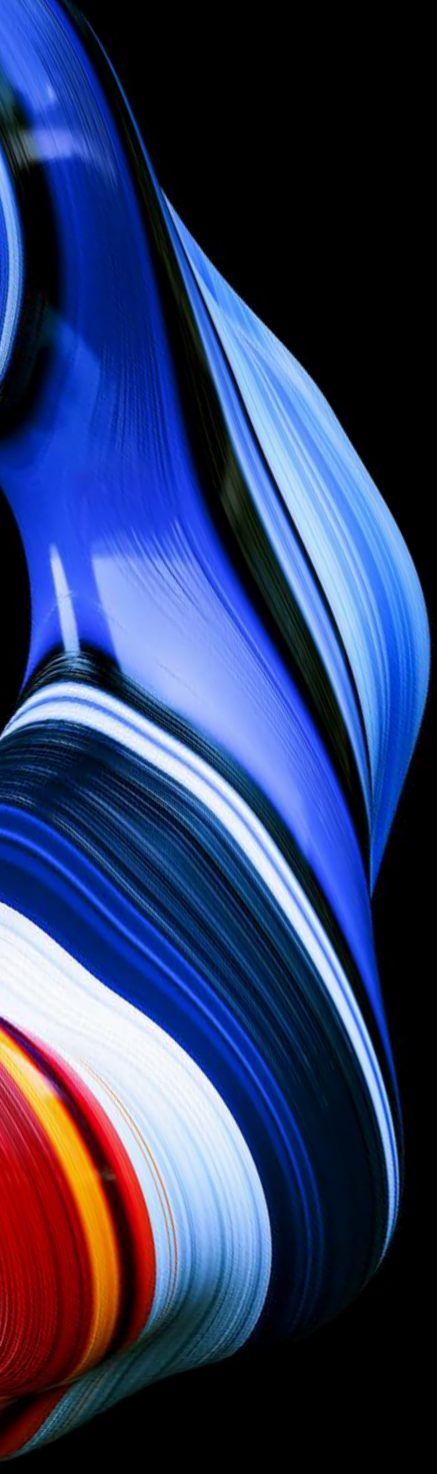

QUARTER 3, 2021 MARKET REPORT

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Closer to the truth

Sustainability - a key component of our fundamental investment framework

Rory Spangenberg
CIO and Director Global Equities

The significantly increased focus on socially responsible investing (SRI) or environmental, social and governance (ESG) factors in investing over the past few years is often dismissed as "greenwashing" or a simple marketing exercise. As determined long-term investors, Northstar has always considered sustainability in its broadest sense as an integral component of our fundamental analysis of any potential investment, affording us the ability to develop a deeper understanding of both risk and return.

Effective approaches to ESG investing

ESG investing has evolved considerably since the days when investors followed their consciences by excluding investments in certain industries on moral grounds, often in so-called "sin stocks" such as alcohol, tobacco, gambling, or defense companies.

Exclusion or screening the investment universe to identify and avoid exposure to controversial products or practices is arguably the bluntest form of SRI and is often confronted with a relative morality test.

The extent to which exclusion places values over value also has the potential to compromise investment returns, as it foregoes participation in the growth of companies with strong economics (at least in the short term) but questionable products or practices.

There is also the strong likelihood that, through an exclusionary approach, investors overlook changes in company practices, such as an improvement in governance, that result in a rerating, often the most powerful driver in share price returns.

Many investors have therefore chosen to approach SRI from a "best-in-class" point of view, adopting a systematic approach to scoring companies on ESG-related factors to derive some sort of ranking. A bit like buying the best house in a bad neighborhood, placing you at the mercy of time.

From exclusion to engagement and everything in between

With the ever-broadening definition of SRI and given a deeper appreciation of the importance of sustainability to long-term business performance, the inadequacies of a checklist approach become apparent. More so when one considers the need for a more holistic or nuanced approach arising from a shift in focus from narrow shareholder to broader stakeholder interests.

The increased popularity of SRI has coincided with a rise in related forms of investing, such as impact and sustainable investing, which arguably fall under the SRI umbrella, along with responsible investing, active ownership, and stewardship.

With impact investing, the objectives are most clear – generally an intention to generate a measurable social or environmental benefit alongside a financial return. Sustainable and responsible investing, on the other hand, are slightly more nebulous and overlapping concepts.

As long-term investors and stewards of our clients' savings, we feel the area within the broader SRI group of activities where we can be most effective is active ownership. This is not to be confused with activism, often associated with aggressive tactics employed by hedge fund managers to achieve relatively short-term goals.

Rather, active ownership requires engagement between investors and the companies they are invested in to achieve sustainable, long-term outcomes in the best interest of both shareholders and wider stakeholders.

Active ownership and the role of the asset manager

The recent rise in SRI is not a function of a newfound sense of collective altruism by the asset management industry, but rather at the insistence of clients and asset owners or in response to competitive pressures. In a survey published by the CFA Institute in ESG Issues in Investing: A Guide for Investment Professionals, 44% of respondents said they considered ESG issues in their investment decision making because clients demanded it.

Nevertheless, one measure of the commitment asset managers are making to integrating ESG considerations into their investment processes is the growth in the number of signatories to the United Nations Principles for Responsible Investing (UNPRI)[1], which passed 4,000 signatories in July, accounting for over $121 trillion in assets under management.

Northstar has been a signatory for several years now and has adopted the PRI's six principles:

Principle 1: Incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: Promote acceptance and implementation of the Principles within the industry.
Principle 5: Work together to enhance our effectiveness in implementing the Principles.
Principle 6: Report on our activities and progress towards implementing the Principles.

Despite this obvious commitment, meaningful differences exist in approach, notably between passive or index tracking managers, which have seen a significant increase in demand for rules-based ESG products[2], and truly active managers with a long-term disposition and an ownership mindset.

Northstar's approach to sustainability

In addition to adopting and incorporating the PRI Principles outlined above, Northstar has fully integrated Sustainability into our investment analysis by establishing it as a fourth pillar in our fundamental investment framework, alongside Industry Landscape, Competitive Advantage and Management. Previously, consideration was given to ESG issues as part of our analysis of the other three pillars.

As such, any company promoted to our Equity Buy List is given a score reflecting our assessment of its Sustainability practices, including Social and Human Capital, Environment and Governance factors. Taken with the scores for the other three pillars, we derive a Fundamental Risk Rating that directly informs Maximum Position Size. In this way, Sustainability, directly impacts whether we consider a company investable or not, as well as governing how much exposure portfolio managers are able to take when constructing portfolios, neatly linking fundamental risk with expected return.

However, as committed long-term investors, the real work generally begins once we have established an ownership position. While our Responsible Investing Policy sets out our general approach to Sustainability, along the lines of the PRI's six Principles, our Active Ownership and Proxy Voting Policies outline our approach to engaging company management teams on behalf of our investors.

We have committed to submitting a proxy vote on every resolution at the AGMs of each company we hold. In addition, our investment team routinely meets with company management, engaging on all aspects of their businesses and industries, including sustainability-related topics. Contentious issues, often related to Governance

and Remuneration, receive particular attention and our Engagement Logs are made available to clients and prospective clients upon request.

An active approach promotes effective outcomes

Approaches to SRI, ESG and sustainability have all evolved meaningfully over the past number of years. The growth in industry-wide assets under management in dedicated ESG or sustainability-related products over that period has been very strong, particularly in passive strategies.

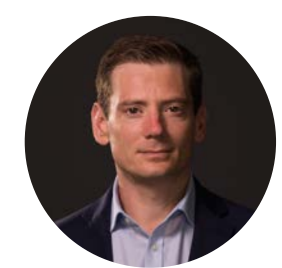
While we applaud any initiatives that drive better ESG-related outcomes, we remain skeptical of the effectiveness of a systematic or rules-based approach in achieving these outcomes. "Permanent ownership", which passive investing effectively represents, cannot trump an active, integrated, and holistic approach to complex and nuanced issues, particularly when this is combined with the willingness to engage companies to bring about improvements in the approach to ESG issues.

A final concern would be the unintended consequence of assessing ESG in isolation from the rest of a company's fundamentals and valuation, which could redirect the available savings pool and potentially lead to a significant misallocation of capital.

[1] Northstar has also endorsed the Code for Responsible Investing in South Africa (CRISA)

[2] "Passive Sustainable Funds: The Global Landscape 2020" by Morningstar:

As of June 30, 2020, there were 534 sustainable index mutual funds and exchange-traded funds globally, with collective assets under management of US$250 billion. Both the number of products and the money invested in them have more than doubled over the past three years.



Asset allocation views - Northstar SCI Managed Fund

Marco Barbieri, Director SA Equities

We unpack the thinking behind our asset allocation in the context of the strong run in equity markets since the collapse early in 2020. Despite these gains, the Northstar SCI Managed Fund has its highest exposure to equity in nearly ten years. While developed market valuations appear stretched and the local market is distorted by super-profits in resources, there remains value in SA-Inc stocks and room for further growth in certain sectors globally as corporate earnings rebound.*

Macro environment supportive of the risk trade

Despite extreme turbulence caused by Covid-19 mobility restrictions and their impact on global growth over the past eighteen months, global equities have run hard, reaching record highs. Following the collapse in markets in early 2020, the MSCI World Index delivered five consecutive quarters of positive returns and closed June 2021 14% above pre-Covid levels. To some extent, equity market performance has been correlated to the progress of vaccination campaigns with developed markets broadly performing ahead of emerging markets.

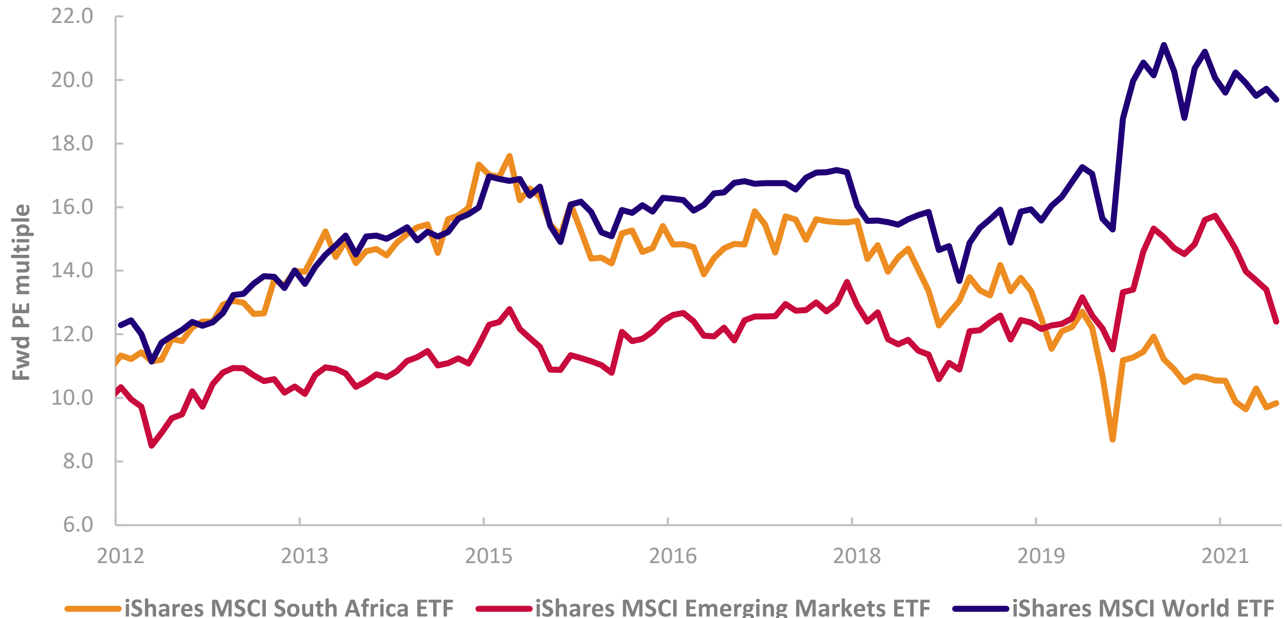
Higher risk assets, and in particular developed market equities, benefitted from highly supportive fiscal and monetary policies as well as a strong rebound in GDP growth as lockdowns were relaxed. US 2021 GDP growth is now expected to exceed 6.1% (Eurozone: 5.1%), while US corporate earnings, following various cycles of positive revisions, are expected to come in 38% higher than 2020 (Eurozone: +48%).

Emerging market equities played catch-up to some extent as vaccine rollout programs started to gain traction. The strong rebound in commodity prices has been the single most important driver of returns for South African equities and the rand. But South Africa has also seen better than expected revenue collection this year, a lower than anticipated budget deficit and improved economic activity, with 2021 GDP expected at 4.0%. This despite significant challenges such as the difficult public sector wage negotiations and the riots following the incarceration of Jacob Zuma. Year to date, the All Share Index is the tenth best performing equity market out of 34 emerging markets.

Local valuations appear attractive but may be distorted

From a valuation perspective, while developed market ratings appear stretched, strong corporate earnings recovery and extremely low bond yields are likely to support high multiples for longer. The S&P 500 and Eurozone 12-month forward PE multiples are trading at a significant premium to their history and to emerging market valuations (Chart 1). In contrast, South African multiples look relatively attractive, having not recovered from their extreme de-rating over the last five years. The local market has benefitted from global growth dynamics over the past year, the strongest beneficiary being the resource index. SA sensitive sectors such as financials, retailers and general industrials have not yet fully repriced, in our opinion, and offer the best opportunity in the market at present.

Chart 1: 12 Month forward PE multiples



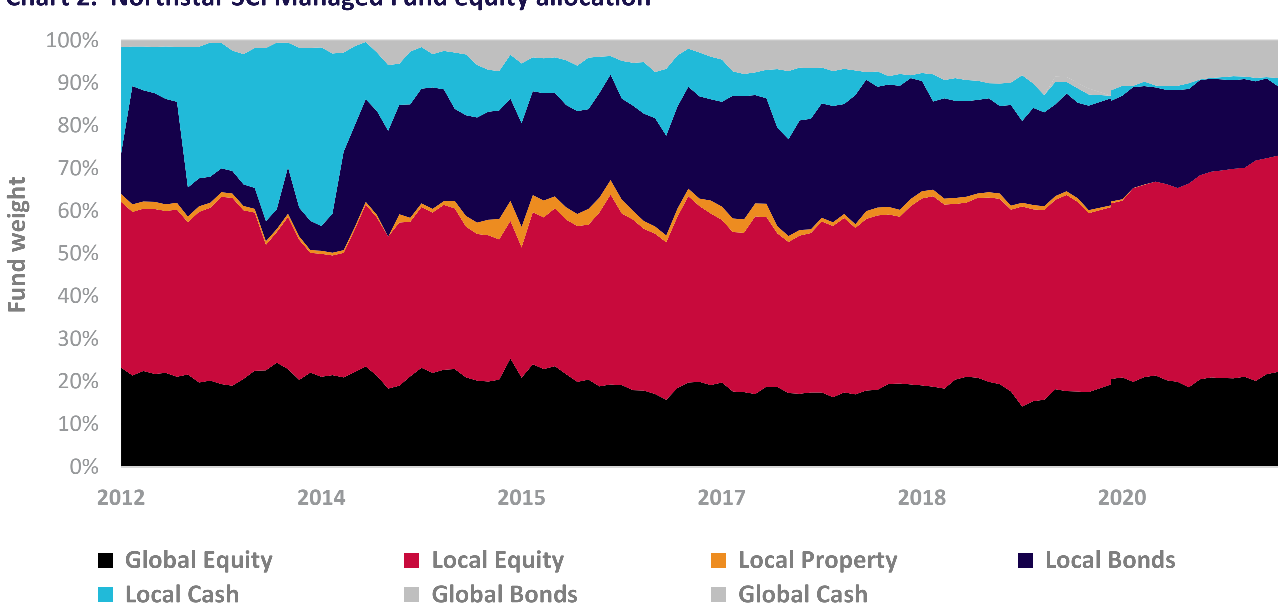
Source: S&P Capital IQ, Northstar AM (Aug 2021)

Opportunities in global cyclicals and quality local assets

Northstar's approach to asset allocation is primarily guided by bottom-up fundamental work which informs a risk-return framework. Over the past five years our cautious stance towards local equities has been broadly justified as structural growth impediments dominated despite increasingly attractive valuations. Offshore, an appreciation of global growth dynamics, accounting changes and the value of intangible assets played crucial roles in our decision to maintain a healthy allocation to global higher risk assets, despite these looking increasingly expensive on traditional valuation metrics such as PE multiples.

More recently, the dislocation in markets caused by Covid-19 in 2020 allowed us to increase exposure to quality local assets that usually trade at premium valuations. Over the past year, we increased exposure to both local and offshore equities guided by attractive valuations. At the end of June 2021, the Northstar SCI Managed Fund had its highest exposure to equity (73%) in almost 10 years (Chart 2).

Chart 2: Northstar SCI Managed Fund equity allocation

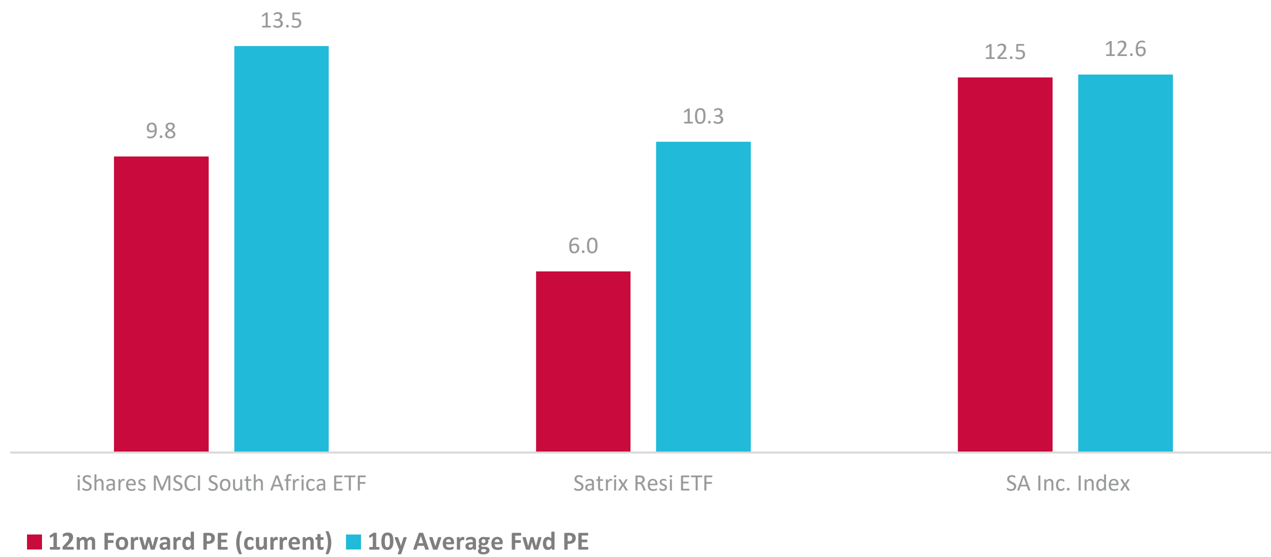


Source: S&P Capital IQ, Northstar AM (Aug 2021)

Offshore Assets – Based on our fundamental work and strategic asset allocation model, we are broadly neutral towards offshore equities. While the absolute level of offshore equity in the Fund has not changed significantly since the market correction in early 2020, its composition has, with a healthy component of cyclical stocks introduced that have ultimately benefitted from the recovery in growth. On a forward-looking basis, given significant positive revisions to our corporate growth assumptions and a view of continued supportive global fiscal and monetary policies, we remain constructive on global equities and broadly negative on global bonds.

Local Equity – Although we deem the local market to be fairly cheap, we note that extremely elevated spot commodity prices are causing SA resources to arguably earn super-profits and trade on artificially low PEs thus distorting overall index multiples (Chart 3). An analysis of local equities excluding rand hedges (such as Naspers and Richemont) and resources – the "SA Inc Index" – highlights that while local industrials and financials have re-rated over the past year, normalisation in earnings from current levels is still likely to drive returns higher. We maintain an overall overweight position to SA industrials and financials (excluding SA REITs) and an underweight position in resources in the Fund.

Chart 3: 12 Month forward PE multiples



Source: S&P Capital IQ, Northstar AM (Aug 2021)

Fixed Income – The market correction caused by the Covid-19 pandemic provided us with a rare opportunity to extend duration and increase our exposure to global corporate bonds as credit spreads blew out in early 2020. Having subsequently taken profit and reduced this position earlier this year, our modelling of developed market bonds (including corporate bonds) does not indicate compelling value at present.

On the local fixed income side, we remain constructive on government bonds, which are trading at real yields that are, in our opinion, attractive enough to compensate investors for the inherent vulnerability of the rand and fiscal risks of the South African sovereign. Our base case valuation reveals upside for both short- to mid-duration fixed bonds as well as short-term inflation-linked bonds.

Good returns and a high margin of safety

We believe that the current asset allocation is well-positioned to deliver strong returns. Our bottom-up valuation work indicates that the local stocks in our portfolios have double-digit expected returns, offshore stocks high single-digit potential US dollar returns and the fixed income component should meaningfully outperform inflation, all with a high margin of safety.

*SCI: Sanlam Collective Investments

Hiding in plain sight

Donovan Stefan, Analyst
Simphiwe Msibi, Analyst

Northstar's bottom-up research process focuses on identifying investments that are underappreciated and therefore undervalued by the market. Such investments create an opportunity to benefit from being re-rated once their true value becomes more broadly accepted.

Sometimes, valuable assets reside in some of the most well known and widely followed companies and are disregarded due to a lack of disclosure, inadequate guidance or poor investor perception.

Two notable examples include Amazon and Apple, which have seen parts of their businesses meaningfully undervalued by investors.

Revealing value in global tech

Amazon Web Services (AWS) was founded in 2006 and provides cloud computing infrastructure. Its results were only separately disclosed in the first quarter of 2015, revealing a business generating $5 billion in annual revenue at an operating margin of 20% and growing 50% year-on-year. No surprise that this catalysed a rally in Amazon shares, which had traded in a range of between $300 and $400 over the prior two-year period. Today, AWS generates annual revenues in excess of $50 billion at an operating margin of 28%, growing only modestly below the run rate in 2015. Shares in Amazon have seen a 10-fold rise in their price since then.

Apple's decision to stop disclosing quarterly handset sales in November 2018 was poorly received by the market and resulted in a 7% decline in the company's share price on the day of the announcement. On the face of it, the market reaction to the decision to provide less disclosure was entirely understandable, but the subsequent rerating vindicated this decision. Apple's intention was to shift investor perception from focusing on hardware sales to appreciate its service offering. In the next three years, while handset volumes and revenue declined, services, which feed the ecosystem Apple created by populating the market with handsets, continued to grow meaningfully. Shares in Apple, which had previously traded on a price earnings ratio closer to 10 times, in line with IT hardware peers, now trade on a price earnings multiple of 30 times. As a result, while total revenues only grew at a modest 2% per annum between 2018 and 2020, Apple's share price more than doubled as investors afforded the higher value and more durable services revenue streams a premium rating.

Closer to home, **Multichoice** was spun out from Naspers and started trading on the JSE in March 2019. Naspers historically traded at a discount to the intrinsic value of its portfolio of cash-generative internet and media assets due to the disparate nature of the businesses, Naspers' large size on the JSE and the relative earnings underperformance of their non-Tencent assets. The market underappreciated Multichoice's ability to deliver on their projected subscriber growth objective to leverage a portfolio of best-in-class local and sports content to appeal to a mass-market African audience. Multichoice listed at a modest implied 12-month forward EV/EBITDA of 3.5 times, largely because most institutional Naspers shareholders are American and European, with a fleeting interest in owning African Pay-TV businesses. Multichoice subsequently rerated 31% to a 4.6 times multiple, before dubious tax claims raised by the Nigerian tax authority caused a subsequent de-rating.

One we missed was **Bytes Technology Group**, the largest reseller of Microsoft's Azure cloud computing software in the UK. Bytes spun out of tech conglomerate Altron and listed on the London Stock Exchange in December 2020. Its value was underappreciated by the market due to the complexity of the Altron group structure, the relatively small size of the JSE and the inability to invest in this high-quality developed market asset on its own. Bytes benefitted from a secular shift to cloud computing and digitalisation in an industry we expect to grow at 30% a year into 2030. On listing, it traded at an estimated 12-month forward EV/EBITDA multiple of 23.3 times. Less than a year later, the consensus has it trading at a 12-month forward EV/EBITDA of 35 times, in line with European peers, representing a re-rating return of 50%.

Possible opportunities in streaming media and fintech

Disney's media networks business is undergoing significant change creating scope for investor misperceptions and opportunities for those investors that are prepared to dig deeper. The Disney+ streaming platform launched in November 2019 and notched up 116 million users in under two years, but the Disney share has not seen a material re-rating. Disney anticipates growth to between 230 and 260 million subscribers by the end of 2024 (five years after launch). To put this in context, Netflix took more than ten years to reach their current 209 million subscriber base. This is a function of Netflix having to establish content franchises while Disney already has a strong portfolio of enduring characters and content that attract a strong user base. If Disney is successful in reaching their target, relatively conservative assumptions of the relative valuation to Netflix, implies that the rest of Walt Disney's portfolio of Theme Parks and Media assets trades on as little as 5 times EV/EBITDA, roughly half the rating afforded similar businesses.

MTN Group is the largest mobile network operator in Sub-Saharan Africa, boasting #1 and #2 market share positions across several fast-growing underpenetrated mobile telecommunications markets with young data-hungry consumers. Mobile telecommunications operators have struggled to maintain their historically robust returns due to adverse pricing and anti-competitive regulations as well as increased capital investment required to maintain network quality and support consumer demand for data at the expense of higher margin voice revenue. An exception to this dynamic has been Safaricom (partly owned by Vodacom), which leveraged their dominant market position and innovative mobile payments platform (M-Pesa) to generate industry-leading returns. Safaricom essentially used M-Pesa to benefit from the increased traffic on their network without having to deploy incremental capital, resulting in marginal returns on equity in-line with tech darlings like Google and Facebook.

MTN is focused on building their fintech business using their industry-leading network, scale, exposure to underbanked African consumers and history of improving their customer base ARPU through bundled voice and data offerings. If they can achieve their stated objective of deriving more than 20% of service revenues from fintech by FY2025, that would result in around R40 billion of revenue at a 50% EBITDA margin growing at 35% a year. An illustrative enterprise valuation for MTN's Fintech business, achieved by applying M-Pesa's implied EV/Sales multiple to MTN's future fintech revenue, yields an enterprise value of R73 billion, essentially adding R30 to MTN's prevailing share price.

Crystalising value over time

Unearthing these opportunities requires lateral thought and assumptions that are reasonable. Execution risk remains high and it can take time for perceptions to shift leading to the crystalisation of value. At Northstar, this is the kind of challenge we relish and we continue to investigate a number of ideas that present good opportunities for outperformance on a risk-adjusted basis.

Focus on the goal

Mark Seymour
Director, Fixed Income

Fund investors are often guilty of putting too fine a focus on relative returns, without considering the embedded and disparate risks between funds. Investing is a long-term pursuit that requires perspective and a broader grasp of all of the factors that contribute to growth in value over time. Returns are only one part of the equation – risk is an equally important aspect and one that many investors think about less, particularly when markets are rising. But a single big loss from misunderstanding the true risk in an investment can easily wipe out years of steady growth.

Financial planners play an important role in finding the appropriate balance between the client's required return and their risk appetite over a given time-frame. Discretionary fund managers (DFMs) then face the unenviable task of analysing and understanding the asset managers' modus operandi and their vast array of funds, to identify which ones are most likely to deliver the best risk-adjusted returns.

A focus on returns tells you very little about the quality of investment performance

Experienced investors understand that absolute performance is just a small piece of the puzzle. Ignoring risk-adjusted returns misses two important points:

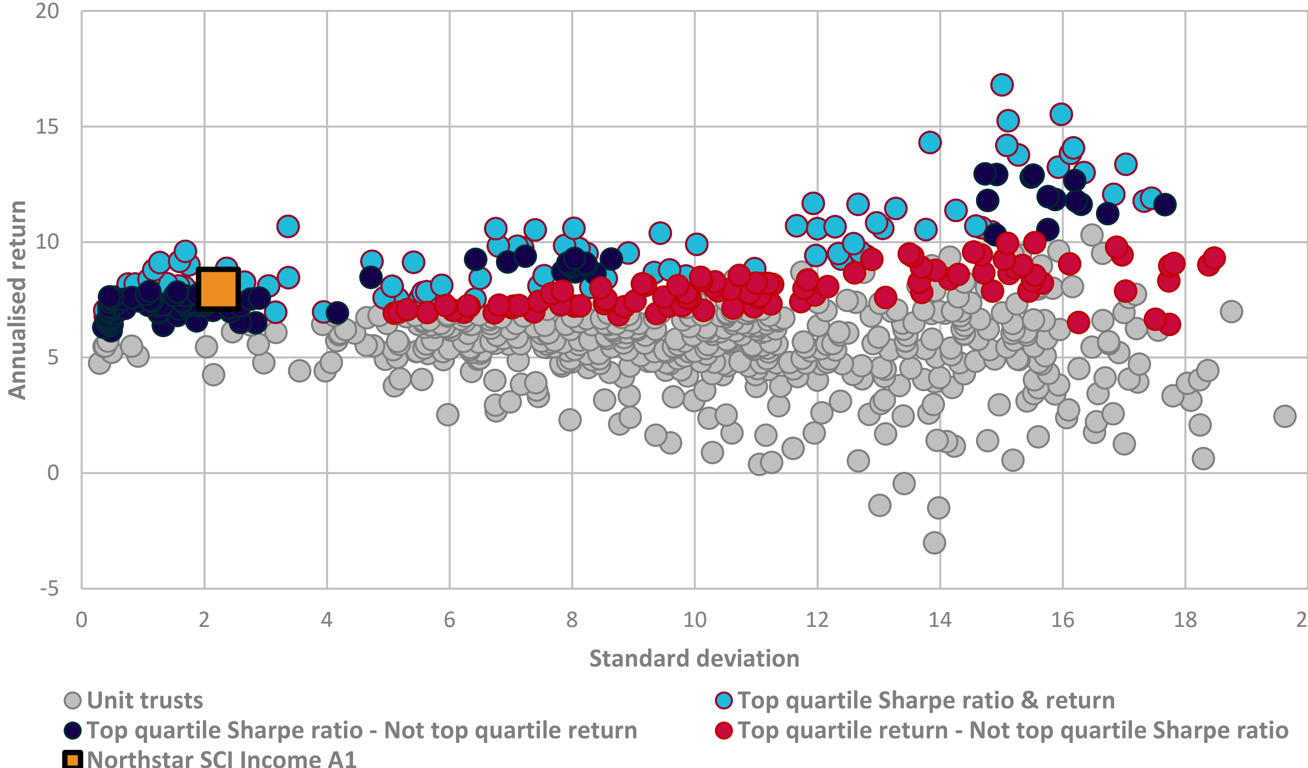
1. Top quartile returns are not necessarily the best on a risk-adjusted basis.
2. Performance below the top quartile does not equate to poor risk-adjusted returns.

Analysing the Sharpe ratio[1] for the five-year returns of unit trusts across all sectors (excluding sectors with less than ten funds) yields the following results. 108 out of 809 funds (the red dots in Chart 4 that follows) performed in the top quartile in their sector, yet failed to rank in the top quartile in terms of risk-adjusted returns. 105 funds (the dark blue dots) delivered top quartile risk-adjusted returns, but did not make the top quartile on an absolute basis in their sector. Failing to take risk into account can therefore lead to false assumptions on the quality of returns for more than 25% (213 out of 809) of the market. It is pleasing to note that the Northstar SCI* Income Fund delivered top quartile risk-adjusted returns despite reduced exposure to low volatility credit rich floating rate notes.

[1] Calculated as (Fund return – Risk free rate)/Standard deviation of returns

* SCI: Sanlam Collective Investments

Chart 4: Unit trust returns vs standard deviation (primary classes)



Source: Morningstar & Northstar AM (5 years to 31 Aug 2021)

It is true that standard deviation is only one measure of risk (i.e. volatility of returns). Ideally this exercise should therefore be carried out for other types of risk affecting funds, such as credit risk, sovereign risk and liquidity risk, as well as for softer issues like investment style, portfolio manager succession planning, incentive structures etc. For example, there is a large concentration of "low risk" income funds that have concentrated positions in low quality credit, which for the most part has delivered very high returns at a very low standard deviation. Since the high level of potential capital losses embedded in these funds is not captured in price volatility, they currently rank extremely well in terms of Sharpe ratio.

A further point is that not all fund sectors allow managers to diversify across asset classes to reduce risk or adjust their holdings when prospects dim. This means that if a financial advisor put their client into, for example, a unit trust in the SA Equity General sector, they would have seen very weak risk-adjusted returns purely on the basis of poor equity market returns over the last five years. Having a strong understanding of the underlying dynamics driving risk-adjusted returns is imperative to making the correct fund choice, as opposed to relying solely on relative ranking tables.

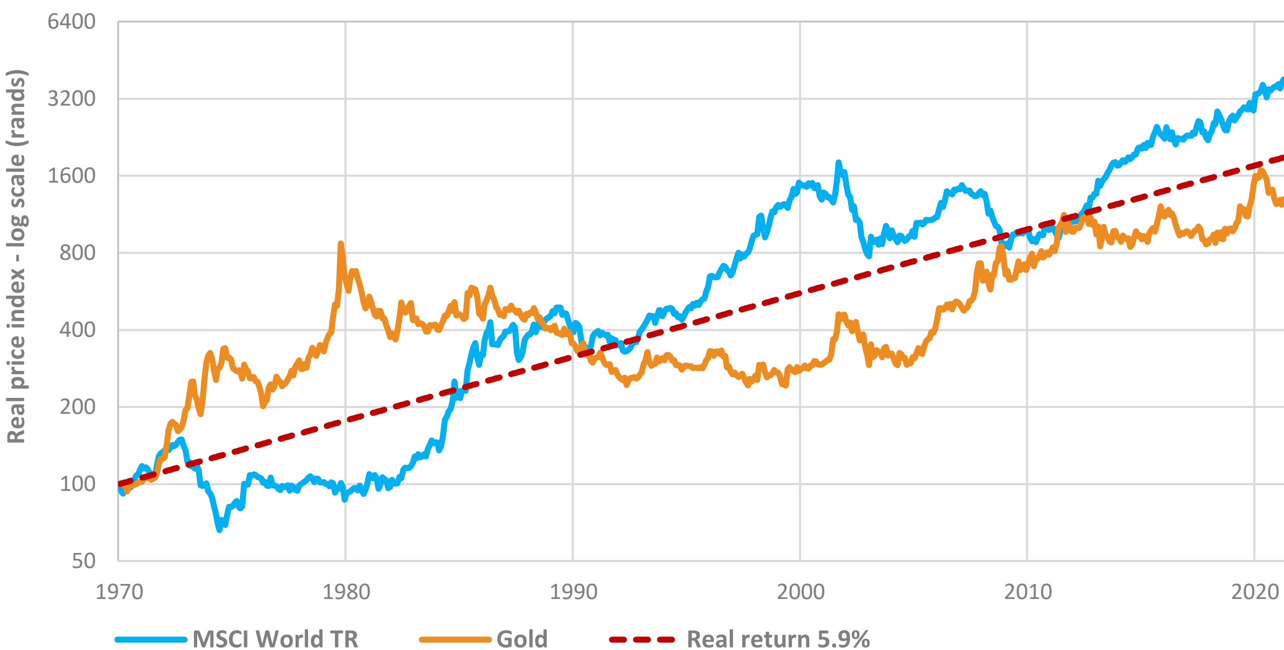
Northstar SCI Income Fund: enhancing returns and reducing risk

In managing the Northstar SCI Income Fund, we constantly strive to optimise portfolio holdings and asset allocations to ensure the best possible risk-adjusted returns over time. The Fund is currently meeting this objective with a three-year Sharpe ratio of 0.95 and a standard deviation of 2.82%, below our target of 3% . In addition the portfolio has a high liquidity profile and low credit risk given the 24% holding in government bonds, 57% senior bank paper, 4% foreign currency and 9% gold holdings, with the balance of 6% in lower liquidity subordinated second tier paper.

Why Gold?

Although the price of gold is relatively volatile, its attractive qualities of durability, divisibility and relatively limited supply have made it an excellent store of value over time, specifically in real terms. Chart 5 shows that the rand price of gold appreciated at a real rate of 5.9% a year over the 41 years from 1970 to 2011, in line with the global equity market (MSCI World index), despite gold not paying any dividends or generating earnings.

Chart 5: Real gold price vs MSCI World total return index (real return indexed to 100 in rands)

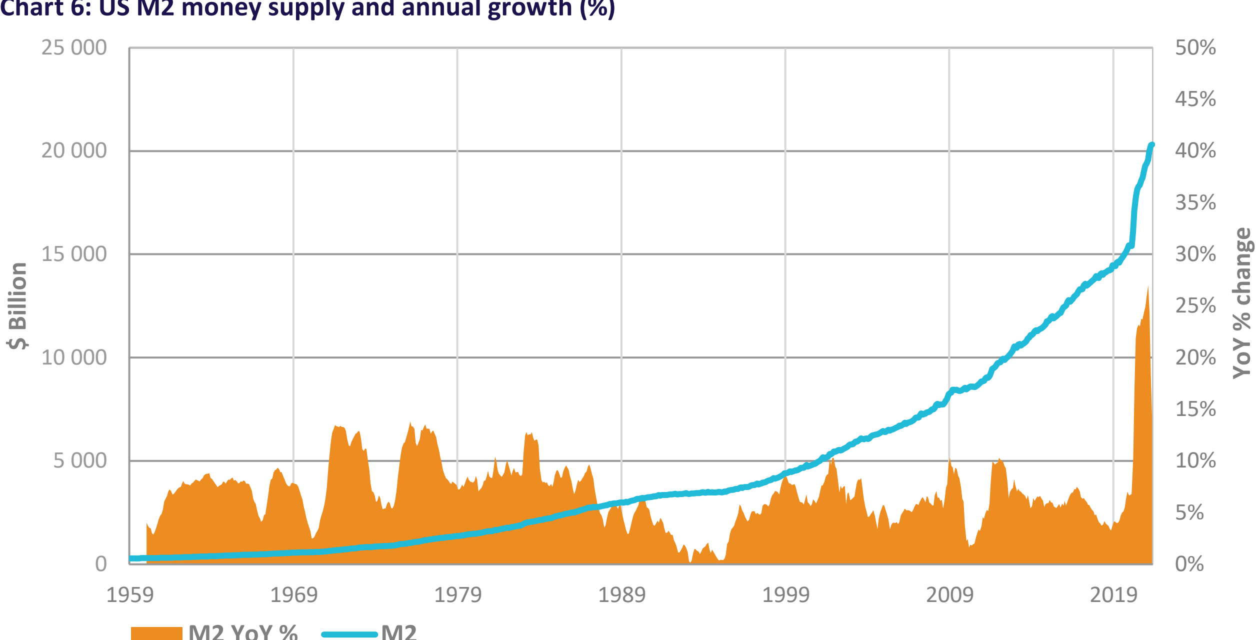


Source: INet Bridge (as at 31 Jul 2021)

As global money supply has increased, fixed assets such as land and gold have grown in value as more money becomes available to buy a relatively fixed supply of these durable assets.

Chart 6 shows the growth in US M2 money supply and annualised growth over time, which has averaged above 5% a year and recently hit 25% as a result of the additional stimulus since the start of Covid-19.

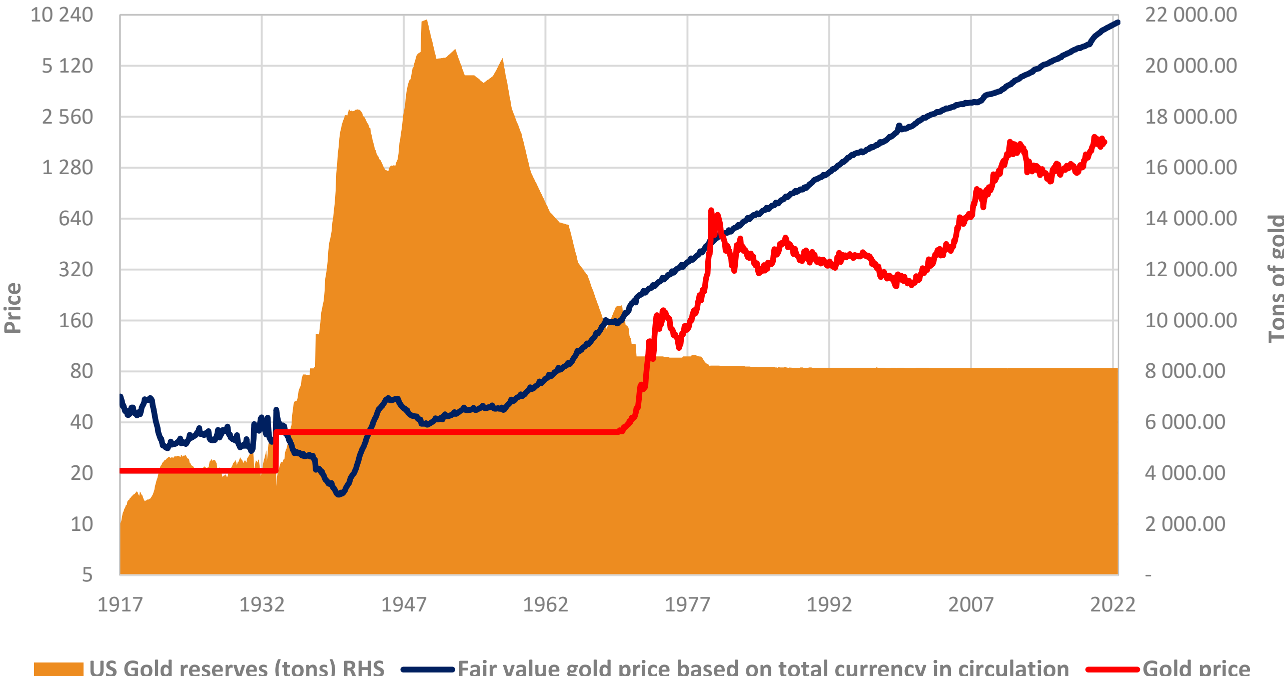
Chart 6: US M2 money supply and annual growth (%)



Source: Federal reserve & Northstar AM (as at 30 April 2021)

Chart 7 shows the gold price against the theoretical price for gold if US gold reserves were priced to match the amount of US currency in circulation. At present, the US holds 8,133 tons of gold in reserves. With just over $2.1 billion of US currency in circulation, this implies that the 262 million ounces (8,133 tons x 32,151 ounces per ton) of US gold reserves would need to be priced at $8,100/ounce to reach fair value, compared to the current price of $1 729.

Chart 7: US Gold reserves, gold price and fair value gold price



Source: Federal Reserve, INet Bridge & Northstar AM (as at 31 Aug 2021)

Historically, gold has traded below this theoretical fair value and is currently trading at the 10th percentile of its range. In the context of the ongoing expansion in money supply, gold appears to be attractively priced and increasingly undervalued.

Increased diversity in undervalued assets supports continued strong risk-adjust returns

The recent addition of gold to the Fund's holdings therefore aligns with our focus on risk-adjusted returns by providing further diversification in an asset at a historically attractive valuation. We believe that this positions the Fund well to continue outperforming its benchmark and generating real returns for investors at very low risk.

Meet the team

Sebastian Holzbach
Analyst

When did your interest in financial markets start?
My interest in financial markets started in grade 8, when my Economics class partook in the JSE Challenge. Each student created a demo portfolio and received a fictional amount of capital with which to trade with over the course of the year. The Global Financial Crisis was still fresh in the minds of market participants with adverse impacts lingering. Therefore, it was an intriguing time to get sucked into the investing world.

What did you study and why?
I studied a Bachelor of Business Science: Economics Honours and Law at the University of Cape Town. The degree has many streams, but with my high school studies instilling and nurturing a curiosity for Economics, it was an area I was enthusiastic to further explore. At registration I discovered a B.BusSci stream that included Law. It provided me with the opportunity of covering both the first- and second-year Law curriculum. After my graduation I decided that it would be highly beneficial to complete my Law studies. In the following two years I completed the third year and fourth year Law courses, therefore rounding off my tertiary studies at the University of Cape Town with a Bachelor of Laws (LLB).

What do you think equips you to do this job properly?
I am a diligent and well-organized individual, with the ability to remain calm and calculated under pressure. Being able to execute ideas or responses in a consistent manner, within a defined and robust structural framework, is crucial to unlock value over time. My willingness to learn and grow ensures that I will look to confront new or developing areas within the field, with the aim of better understanding any risks and opportunities at play.

What do you love about investing?
I thoroughly enjoy engaging in the detail and trying to best understand the underlying drivers or factors of an outcome. In the fixed income space, it is important to keep a finger on the pulse. Remaining well informed of the macroeconomic, monetary, fiscal and political events, both locally and globally, is essential. As a result, I end up feeling better connected and in tune with the daily evolving's of the world.

What do you find the most challenging part of your role to be?
You can't accurately predict the future, but you can plan for it. Planning is a task filled with the toughest challenges. Add to that your accountability to clients and the pressure can stack up. There are no two ways about it, the groundwork must be put in to best understand the current environment in which we are operating and further ensure adequate preparation for what may lie ahead.

Why do you think clients will do well at Northstar?
The team at Northstar is highly talented yet down to earth. We take great pride in our client relationships and fully understand our responsibility that stems from these relationships. As a boutique asset manager, client communications can be fluid. This allows clients to get better insights into the financial environment they are investing within and ultimately be able to understand the risks and performances of their investments more fully. Furthermore, Northstar employees invest alongside their clients, and I believe this provides a greater connectedness going forward.

Northstar South African funds

Returns are to the period ended August 2021

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 05 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 (June 2021)	87% / 9% / 4% Maximum of 10% equities.			20% / 6% / 73% Maximum of 75% equities.			4% / 96% Minimum of 80% equities.			4% / 96% 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.	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC
	0.98%	1.02%	1.06%	1.27%	1.78%	2.04%	0.98%	1.02%	1.65%	0.97%	1.81%	2.08%

ANNUALISED INVESTMENT RETURNS (Period ended August 2021)								
	Fund	Bmk	Fund	Bmk	Fund	Bmk	Fund	Bmk
1 Year	6.77%	3.86%	13.83%	17.34%	25.15%	26.66%	20.74%	26.66%
3 Years	8.19%	5.75%	5.75%	6.51%	-0.67%	5.73%	4.33%	5.73%
5 Years	7.95%	6.45%	5.58%	6.04%	NA	NA	4.77%	5.12%
Since Launch	7.26%	6.52%	7.97%	8.68%	1.43%	6.49%	10.44%	9.50%

Highest annual return over a 12 month rolling period.
SCI Income: 10.57% (Oct 2018 - Oct 2019); SCI Managed: 22.05% (Mar 2020 – Mar 2021); SCI Equity: 38.60% (Mar 2020 – Mar 2021); Prime General Equity: 31.21% (Mar 2020 – Mar 2021).

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.

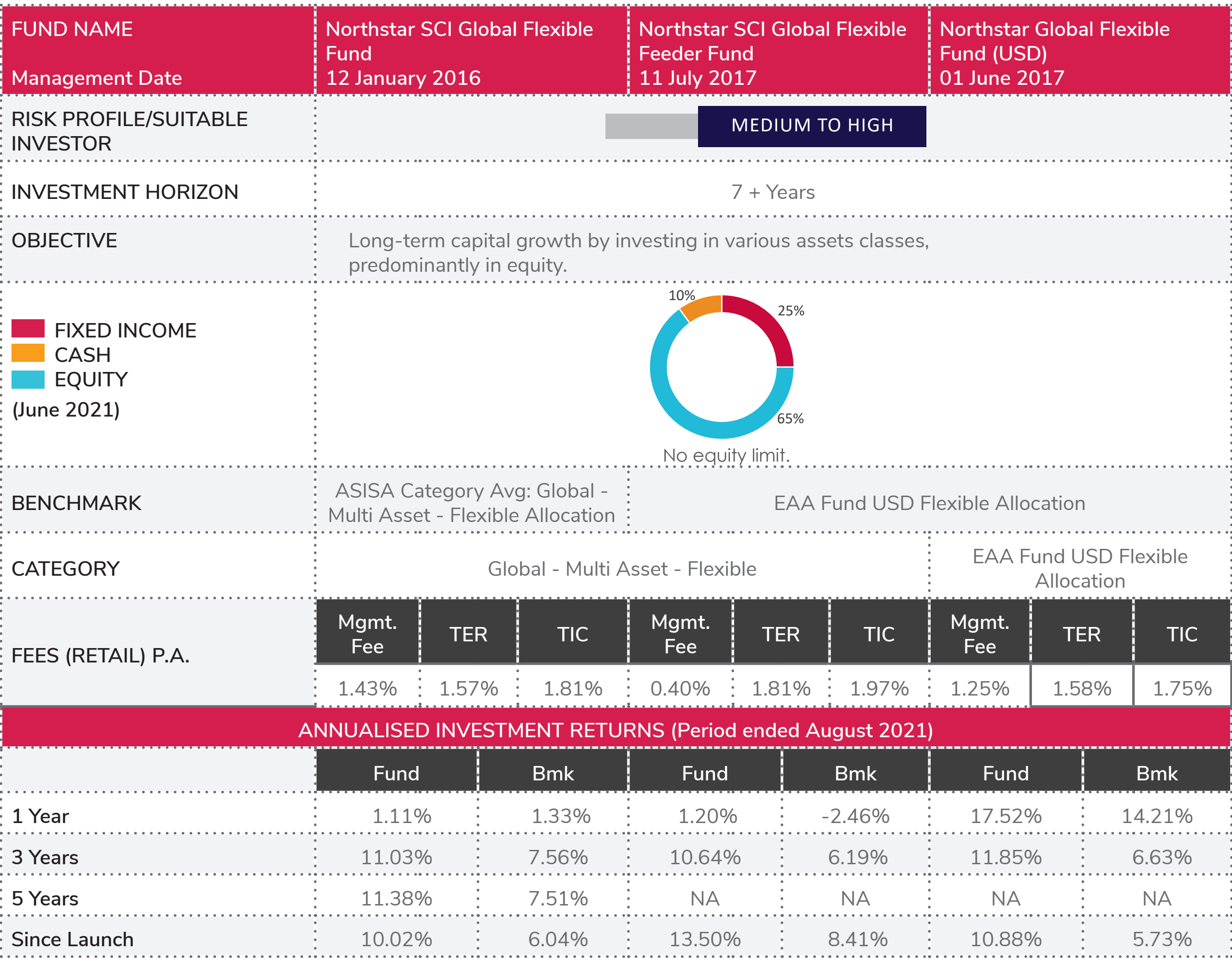
NORTHSTAR

Northstar global funds

Returns are to the period ended August 2021

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 11 July 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 (June 2021)	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.	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC	Mgmt. Fee	TER	TIC
	1.43%	1.57%	1.81%	0.40%	1.81%	1.97%	1.25%	1.58%	1.75%

ANNUALISED INVESTMENT RETURNS (Period ended August 2021)

	Fund	Bmk	Fund	Bmk	Fund	Bmk
1 Year	1.11%	1.33%	1.20%	-2.46%	17.52%	14.21%
3 Years	11.03%	7.56%	10.64%	6.19%	11.85%	6.63%
5 Years	11.38%	7.51%	NA	NA	NA	NA
Since Launch	10.02%	6.04%	13.50%	8.41%	10.88%	5.73%

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): 29.82% (Mar 2020 – Mar 2021).

Lowest annual return over a 12 month rolling period.
SCI Global Flexible: -5.99% (Feb 2016 - Feb 2017) ; SCI Global Flexible Feeder: : -1.89% (May 2020 – May 2021); 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 SCI Global Flexible Feeder Fund is a rand denominated fund that feeds directly into the Northstar Global Flexible Fund.

NORTHSTAR

CIS DISCLOSURES

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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