

Flagship IP Flexible Value Fund

Minimum Disclosure Document - 29 February 2020



FLAGSHIP
ASSET MANAGEMENT

FUND MANAGER Niall Brown

NAV 3,187.8c

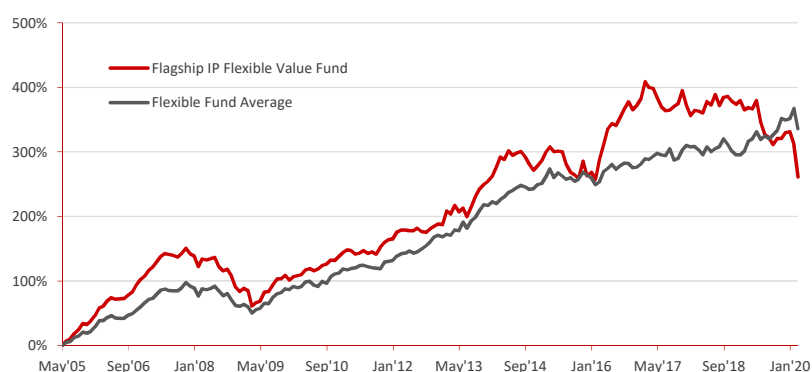
Launch date 04 May 2005
Fund size R211m
NAV - A Class 3,187.8c
Sector South African - Multi Asset - Flexible
Benchmark Multi-Asset Flexible Sector Average

No. of participatory interests 6 579 396
Minimum investment R 100 000
Base currency ZAR
Income declaration - Mar '19 98.16cpu
Dealing Daily

FUND OBJECTIVE

The Flagship IP Flexible Value Fund aims to outperform both the JSE All Share Index and competing funds over the medium to long term. We rely on fundamental research to identify investments which are trading at a discount to their intrinsic value and to determine which asset classes are the most attractive. The fund will typically have a very different equity profile from that of the All Share Index. Risk is reduced through the fund's value oriented approach.

PERFORMANCE CHART



FUND EXPOSURES

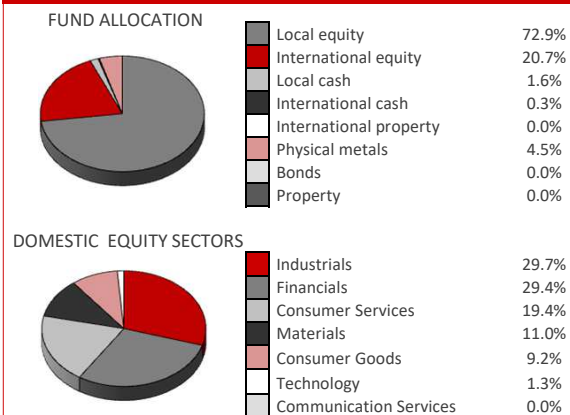
Domestic Equity	72.9%
Quantum Foods	6.7%
Stellar Capital	6.5%
Lewis Group	5.8%
Workforce	4.7%
York Timbers	4.7%
Reinet Investments	4.6%
HCI	4.5%
EPE Capital	4.5%
Zeder	3.1%
Brait	2.5%
Other domestic holdings	25.4%
Offshore Equity	20.7%
Contrarius Global Equity Fund	20.7%
Bonds	0.0%
Domestic	0.0%
Offshore	0.0%
Property	0.0%
Domestic	0.0%
Offshore	0.0%
Cash and Strategic Income	1.9%
Domestic	1.6%
Offshore	0.3%
Commodities	4.5%
Platinum	4.5%
TOTAL	100.0%

PERFORMANCE AND RISK

Performance (net of fees)	Fund	Benchmark	Inflation
Since inception	260.9%	336.0%	125.1%
Since inception (annualised)	9.1%	10.4%	5.6%
10 Years (annualised)	5.6%	8.4%	5.0%
7 Years (annualised)	2.5%	6.2%	5.0%
5 Years (annualised)	-2.4%	2.2%	5.0%
3 Years (annualised)	-10.3%	2.0%	3.9%
1 Year	-23.0%	-0.6%	3.6%
Year-to-date	-16.3%	-4.6%	0.3%

Risk Measures (since inception)	Fund	Benchmark
Annualised monthly volatility	11.9	9.0
Sharpe ratio	0.09	0.13
Maximum drawdown	-36.7%	-22.1%
Lowest actual annual return	-28.0%	4 May 2008 to 3 May 2009
Highest actual annual return	75.4%	4 May 2005 to 3 May 2006

ASSET ALLOCATION



ANNUAL FUND PERFORMANCE

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund	9.7%	17.9%	8.6%	8.5%	26.0%	6.7%	-4.6%	30.9%	-5.4%	5.1%	-10.0%
Sector	17.1%	14.9%	5.9%	18.6%	19.5%	10.5%	7.7%	2.0%	9.2%	-3.7%	8.5%

FEES

	1 Year	3 Year
Total Expense Ratio (incl. VAT)	1.67%	1.66%
Fund management fee (excl. VAT)	1.25%	1.25%
VAT on fund management fee	0.19%	0.19%
Fund expenses (incl. VAT)	0.24%	0.22%
Transaction Costs (incl. VAT)	0.22%	0.30%
Total Investment Charge (incl. VAT)	1.89%	1.96%

FUND COMMENTARY - FEBRUARY 2020

January was a poor month and regrettably February was worse as the fund price declined 12% against a 9% decline in the JSE AllShare index. This is starkly reflected in the chart above. Value stocks have provided no protection in this weak market. On the contrary, highly rated growth stocks such as Amazon and Naspers are actually higher for the year to date, notwithstanding a pull back from recent highs as world markets swooned in February. Our offshore equity exposure via Contrarius with its deep value style has continued to suffer due to the manager's heavy bias towards energy and traditional clothing retail – both sectors which are suffering disproportionately from fears and reduced economic activity related to the Coronavirus epidemic.

Within the fund we reduced the Comair holding on the back of government's determination to keep throwing money at SAA as well as the likelihood of reduced air travel within SA while coronavirus concerns persist and holidays are cancelled. Our largest purchase during the month was that of Brait, trading now at a price 95% below its five year high, and with a far stronger balance sheet post its recent R5bn recapitalization. We believe that new managers Ethos will work rapidly towards unlocking the inherent value in the Brait portfolio. As required by legislation, we confirm that the fund has adhered to its policy objective and strategy.

MARKET COMMENTARY

International

March has been the most eventful month for equities in a long time. The cause has been the global fallout from the Coronavirus. To date the number of those infected is over ninety thousand and the number of confirmed deaths over three thousand. While the virus was originally confined to Asia, we are beginning to see outbreaks in Europe, North America, and closer to home in Nigeria and Algeria. After its muted initial response, markets have started to price in a far more serious fall-out. In fact, during the last week of February, the decline in equity prices was the largest fall on the S&P since the global financial crisis of 2008 (-12%).

While, to paraphrase the words of Rudyard Kipling, we as investors “should keep our heads when all those about us are losing theirs”, we also need to be alert to potential tail risk scenarios and the probability that those materialize. As such, we are monitoring developments closely.

The first order impacts of the Coronavirus were felt by companies who are in the travel industry or outdoor entertainment industries (Walt Disney, Informa).

Next affected have been those companies who have large direct supply chain exposure to China (Apple, Samsung) or companies that rely on the region for a large proportion of their sales (the luxury goods companies). We are now beginning to see the effects spread more broadly as the revenues of all companies are a derivative of economic growth, to a lesser or greater extent.

South Africa

News in South Africa was dominated by the budget speech. While the markets initial response was favourable, this optimism was supplanted with scepticism as the budget relies on large cuts in the government’s wage bill which have been very hard to implement in the past. Cosatu and other trade unions, on cue, were quick to express their opposition and have now lodged a formal dispute.

While many market participants have factored in an investment downgrade to junk status by Moody’s, passive investors can only react after the fact – and so further rand weakness is likely.

Risk Considerations and Important Information

- Collective Investment Schemes in Securities (unit trusts) are generally medium to long term investments.
- The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. The manager does not provide any guarantee either with respect to the capital or the return of a portfolio.
- Unit trusts are traded at ruling prices and can engage in scrip lending subject to the limits and conditions imposed by the Act.
- The manager may borrow up to 10% of the market value of the collective investment scheme portfolio to ensure liquidity.
- Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accruals and less any permissible deductions (brokerage, Uncertificated Securities Tax, VAT, auditor’s fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio, divided by the number of units in issue.
- A schedule of fees, charges and maximum commissions is available on request. Commission and incentives may be paid, and if so, are included in the overall costs.
- The unit trust portfolios are priced daily at 15h00 (quarter end 17h00), using forward pricing. Dealing cut-off time is 14h30 daily.
- Units will be repurchased by the manager at the ruling price calculated in accordance with the requirements of the Act and the relevant deeds and paid to the investor only. Subject to occurrences beyond the control of Flagship Asset Management (FAM), transaction requests received by FAM before 14h30 will be actioned at that day’s price. Monies from the repurchase of units will not be paid to third party bank accounts.
- FAM reserves the right to repurchase unit balances with a market value less than the minimum monthly investment amount and close the investment account. Investors will be notified beforehand should this be contemplated.
- Portfolio performance is calculated on a NAV to NAV basis and does not take any initial fees into account. Figures quoted are from Reuters and Moneymate for a lump sum using NAV-NAV prices with income distributions reinvested. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Investment performance calculations are available for verification upon request.
- Income distributions for the fund occur bi-annually on 31 March and 30 September.
- Annualised returns are period returns re-scaled to a period of 1 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 investors upon request.
- SARS requires us to pay over Dividend Withholding Tax (DWT) on your behalf where applicable. We will deduct this tax before we pay any dividends to you or reinvest into your account. Unless we receive information from you indicating otherwise, we will be obliged to withhold the default DWT of 20%.
- The EAC is a standard industry measure which has been introduced to allow you to compare the charges you incur and their impact on the investment returns over specific periods. Please visit <http://www.ipmc.co.za/effectiveannual-cost> to address the EAC illustrator. You can request an EAC calculation from clientservices@ipmc.co.za or call us on 021 673-1340
- Fund prices are published daily and available in newspapers countrywide, as well as on our website, www.flagshipsa.com. Also available on our website is additional information on the unit trust portfolio, including our **Application Form**. FAM reserves the right to only process instructions that are submitted on FAM standard transaction forms.
- Flagship Asset Management (Pty) Ltd is an authorised financial services provider (FSP 577). Trustees / custodians for the scheme are Standard Bank of South Africa Ltd – contact compliance-IP@standardbank.co.za. IP Management Company Reg. No. 2007/01760/07 is the authorised manager of the scheme – contact 021 673 1340 or clientservice@ipmc.co.za. IP Management Company (RF) (Pty) Ltd is a member of the Association for Savings & Investment SA (ASISA).
- The Manager retains full legal responsibility of the Fund, regardless of co-naming arrangements.
- Additional information including the annual report of the Manager and detailed holdings of the portfolio as at the last quarter end are available, free of charge, from info@flagshipsa.com.
- A statement of changes in the composition of the portfolio during the reporting period is available on request.
- Complaints should be in writing and clearly marked for the attention of the Compliance Officer and should be mailed to Private Bag X21, Constantia, 7848.

Investment Policy

The Flagship IP Flexible Value Fund is an asset allocation portfolio. The manager, in selecting securities for the portfolio, will seek to follow an investment policy which will secure for investors an optimum overall return, that is to say the steady growth of income and the preservation of capital in real terms. In order to achieve these main objectives the investments to be acquired for the Flagship IP Flexible Value Fund, shall comprise a mix of securities, which may include ordinary shares, preference shares, debentures, fixed interest instruments, gilts and money market instruments as defined in the Act and the Deed, all to be acquired at a fair market value. The portfolio may also include participatory interests or any other form of participation in portfolios of collective investment schemes or other similar schemes. Where the aforementioned schemes are operated in territories other than in South Africa, participatory interests or any other form of participation in these schemes will be included in the portfolio only where the regulatory environment is to the satisfaction of the manager and trustee and is of sufficient standard to provide investor protection at least equivalent to that in South Africa. The portfolio is permitted to invest in financial instruments in line with the conditions by the Registrar from time to time.

Performance Fees

Performance Fee benchmark: Median of the Domestic Asset Allocation Flexible Unit Trust Sector
Base Fees: 1.25% per annum **Fee at Benchmark:** 1.25% per annum **Fee Hurdle:** Median of the Domestic Asset Allocation Flexible Unit Trust Sector
Sharing Ratio: 10% **Minimum Fee:** 1.25% per annum **Maximum Fee:** No maximum
Fee Example: 0.1% for each 1% outperformance of portfolio benchmark on a high water mark basis
Method of Calculating: If the fund underperforms the Fee Hurdle, then only the base fee is accrued until the high water mark is again reached.
The Performance Fee Frequently Asked Questions (FAQ) document may be found on www.ipmc.co.za

TER and Transaction Costs

From 1 January 2017 to 31 December 2019, 1.66% of the value of the fund was incurred as expenses relating to the administration of the fund. 0.30% of the value of the fund was incurred as costs relating to the buying and selling of the assets underlying the fund. Therefore 1.96% of the value of the fund was incurred as costs relating to the investment of the fund. Inclusive in the TER of 1.66%, a performance fee of 0% of the Net Asset Value of the class of Financial Product was recovered. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER’s. Transaction Costs are a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

Fund Risk Profile

- The fund is likely to have a very different equity profile to that of the All Share Index. Risk is reduced through the fund’s value-orientated approach and a larger-than-average number of holdings.



- Shares are potentially volatile investments and there is a risk of capital loss over the short term.
- Foreign securities 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.

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