

# Flagship IP Flexible Value Fund

Minimum Disclosure Document - 31 May 2021



Navigate Safely Forward

**FUND MANAGER** Niall Brown

NAV 4,347.5c

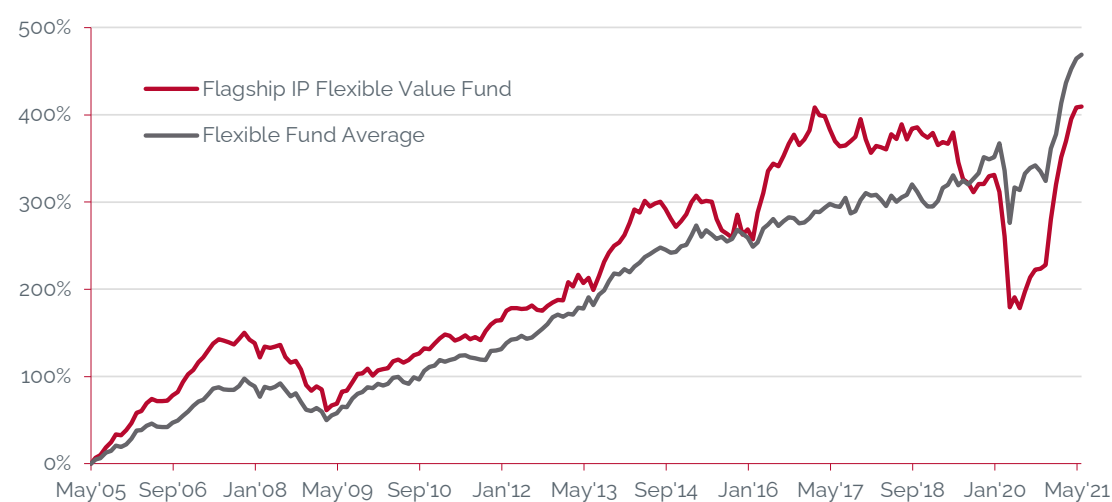
|               |  |
|---------------|--|
| Launch date   | 04 May 2005                            |
| Fund size     | R290m                                  |
| NAV - A Class | 4 347.5c                               |
| Sector        | South African - Multi Asset - Flexible |
| Benchmark     | Multi-Asset Flexible Sector Average    |

|                                |           |
|--------------------------------|-----------|
| No. of participatory interests | 6 666 711 |
| Minimum lump sum investment    | R 10 000  |
| Base currency                  | ZAR       |
| Income declaration - Mar '21   | 46.21cpu  |
| 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

|                                  |               |
|----------------------------------|---------------|
| <b>Domestic Equity</b>           | <b>66.4%</b>  |
| Lewis Group                      | 7.0%          |
| Nampak                           | 4.9%          |
| Caxton                           | 4.7%          |
| York Timbers                     | 4.4%          |
| Stellar Capital                  | 4.1%          |
| African Rainbow Capital          | 3.9%          |
| Novus Holdings                   | 3.7%          |
| EPE Capital                      | 3.7%          |
| Workforce                        | 3.2%          |
| Hosken Passenger Logistics       | 2.9%          |
| Other domestic holdings          | 24.0%         |
| <b>Offshore Equity</b>           | <b>22.5%</b>  |
| Contrarius Global Equity Fund    | 22.5%         |
| <b>Bonds</b>                     | <b>0.0%</b>   |
| Domestic                         | 0.0%          |
| Offshore                         | 0.0%          |
| <b>Property</b>                  | <b>0.0%</b>   |
| Domestic                         | 0.0%          |
| <b>Cash and Strategic Income</b> | <b>4.4%</b>   |
| Domestic                         | 0.4%          |
| Offshore                         | 4.0%          |
| <b>Commodities</b>               | <b>6.7%</b>   |
| Platinum                         | 3.9%          |
| Gold                             | 2.8%          |
| <b>TOTAL</b>                     | <b>100.0%</b> |

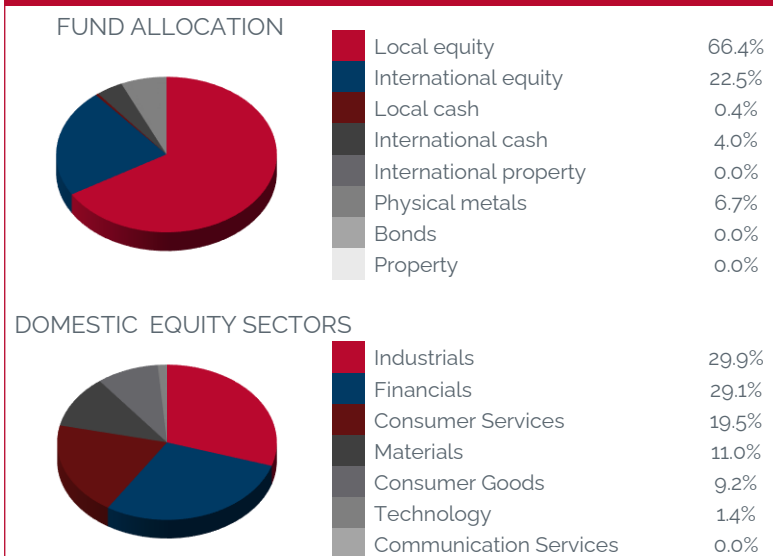
## PERFORMANCE AND RISK

| Performance (net of fees)    | Fund   | Benchmark | Inflation |
|------------------------------|--------|-----------|-----------|
| Since inception              | 409.5% | 469.3%    | 135.3%    |
| Since inception (annualised) | 10.7%  | 11.4%     | 5.5%      |
| 10 Years (annualised)        | 7.5%   | 9.2%      | 5.0%      |
| 7 Years (annualised)         | 3.7%   | 6.2%      | 4.6%      |
| 5 Years (annualised)         | 2.8%   | 4.8%      | 4.3%      |
| 3 Years (annualised)         | 2.5%   | 6.8%      | 3.9%      |
| 1 Year                       | 82.9%  | 23.9%     | 4.4%      |
| Year-to-date                 | 21.3%  | 9.8%      | 2.6%      |

| Risk Measures (since inception) | Fund   | Benchmark                |
|---------------------------------|--------|--------------------------|
| Annualised monthly volatility   | 13.4   | 9.8                      |
| Sharpe ratio                    | 0.09   | 0.13                     |
| Maximum drawdown                | -47.5% | -24.2%                   |
| 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

|               | 2010  | 2011 | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019   | 2020  |
|---------------|-------|------|-------|-------|-------|-------|-------|-------|-------|--------|-------|
| <b>Fund</b>   | 17.9% | 8.6% | 8.5%  | 26.0% | 6.7%  | -4.6% | 30.9% | -5.4% | 5.1%  | -10.0% | -2.6% |
| <b>Sector</b> | 14.9% | 5.9% | 18.6% | 19.5% | 10.5% | 7.7%  | 2.0%  | 9.2%  | -3.7% | 8.5%   | 3.9%  |

## FEEES

|  | 1 Year       | 3 Year       |
|--|--------------|--------------|
| <b>Total Expense Ratio (incl. VAT)</b>     | 1.73%        | 1.70%        |
| <b>Fund management fee (excl. VAT)</b>     | 1.25%        | 1.25%        |
| <b>VAT on fund management fee</b>          | 0.19%        | 0.19%        |
| <b>Fund expenses (incl. VAT)</b>           | 0.29%        | 0.26%        |
| <b>Transaction Costs (incl. VAT)</b>       | 0.32%        | 0.28%        |
| <b>Total Investment Charge (incl. VAT)</b> | <b>2.05%</b> | <b>1.98%</b> |

## FUND COMMENTARY - MAY 2021

News flow during the month from the fund's larger holdings was generally good. Lewis gained on excellent results and a generous dividend pay-out, while Hosken Passenger Logistics (HPL) moves into the top 10 holdings on the back of an admirable second half result and subsequent positive share price reaction. HPL is a very well managed business, trades on a 12% dividend yield and has a cash flush balance sheet with zero debt. Nampak's interims reflect a return to profit, although results were slightly behind forecast, partly due to excess so called "ratchet interest rates" being imposed by the banks. The shares have drifted down post results, largely on investor concerns over a possible equity capital raise. We believe it is quite within management's ability to avoid a rights issue, but they seem strangely relaxed about the possibility. We trust that management will follow the example of companies such as Sasol, HCI and PPC which were all vulnerable to capital raises, but had the determination to avoid them. Hopefully the Nampak board will show the same fortitude! As required by legislation, we confirm that the fund has adhered to its policy objective and strategy.

## MARKET COMMENTARY

### International

Economic news remained buoyant in May. The OECD believes the global economy is set to grow 5.8% this year and 4.4% next year, raising its estimates from 5.6% and 4.0% respectively in its last forecasts released in March. We note that 75% of countries included in the OECD report are predicted to recover to pre-pandemic levels by the end of 2022. South Africa is predicted to join this club some two years later.

Stock markets levels continue to rise. The MSCI All Country World index, a barometer of global stock markets, has risen +11.6% in USD (+4.4% in ZAR) year-to-date, and over +42.5% in USD (+12.8% in ZAR) over the past twelve months.

The Price Earnings (P/E) ratio of the S&P 500 sits at 21x forecast 12 month forward earnings. Positive earnings revisions accompanied by flat price levels over the past three months have steadily lowered the PE ratio. Despite this, it remains elevated in relation to its historical average of 17.3x.

Inflation expectations remain the most prevalent topic on investors'

minds. Gold (+7% for the month) as well as Silver (+6.6%) rallied as near-term inflation expectations rose. A sustained rise in inflation will – at some point – be accompanied by higher interest rates globally. Global central banks continue to speak dovishly on interest rates, hinting that inflation will be allowed to rise further in the near term.

### South Africa

The JSE ended May on a strong note due to so-called SA Inc shares driving the index higher. The MSCI SA Index has outperformed the MSCI World by 17% in USD terms over one year. The Rand is firmly below 14 to the USD, largely due to the strong current account.

Standard Bank stated in their earnings guidance "There are signs that an economic recovery is under way, and sentiment has improved" while Reserve Bank data showed that private sector credit extension in SA contracted 1.8% in April as growth in household credit extension failed to offset a drop in demand from corporates, which accounts for more than half of total credit. In other news, the South African unemployment rate was confirmed as the second highest of 82 countries tracked by Bloomberg in its Q1 data released this week, pipped only by Nigeria.

## 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](mailto: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](http://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](mailto: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](mailto: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](mailto: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

|                                   |   |  |   |
|-----------------------------------|---|--|---|
| <b>Performance Fee benchmark:</b> | <b>Median of the Domestic Asset Allocation Flexible Unit Trust Sector</b>   |  |   |
| <b>Base Fees:</b>                 | 1.25% per annum   | <b>Fee at Benchmark:</b> 1.25% per annum | <b>Fee Hurdle:</b> Median of the Domestic Asset Allocation Flexible Unit Trust Sector |
| <b>Sharing Ratio:</b>             | 10%   | <b>Minimum Fee:</b> 1.25% per annum      | <b>Maximum Fee:</b> No maximum  |
| <b>Fee Example:</b>               | 0.1% for each 1% outperformance of portfolio benchmark on a high water mark basis                                       |  |   |
| <b>Method of Calculating:</b>     | If the fund underperforms the Fee Hurdle, then only the base fee is accrued until the high water mark is again reached. |  |   |

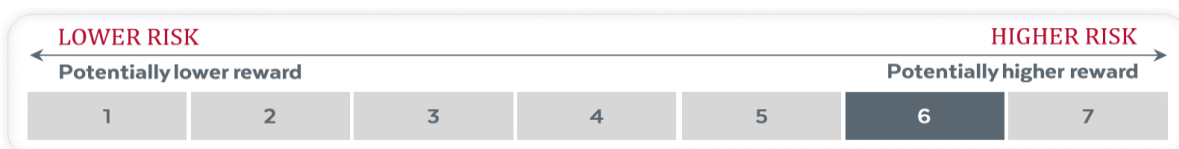
The Performance Fee Frequently Asked Questions (FAQ) document may be found on [www.ipmc.co.za](http://www.ipmc.co.za)

## TER and Transaction Costs

From 1 April 2018 to 31 March 2021, 1.70% of the value of the fund was incurred as expenses relating to the administration of the fund. 0.28% of the value of the fund was incurred as costs relating to the buying and selling of the assets underlying the fund. Therefore 1.98% of the value of the fund was incurred as costs relating to the investment of the fund. Inclusive in the TER of 1.70%, 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.

## Flagship Asset Management (Pty) Limited

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