Octagon ASSET MANAGERS a graviton partner

30 June 2020 — Octagon Global Cautious

Fund Details

Currency	USD($)
Risk profile	Cautious
Investment period	5 years
Launch date	01-Aug-13

Fund Objectives

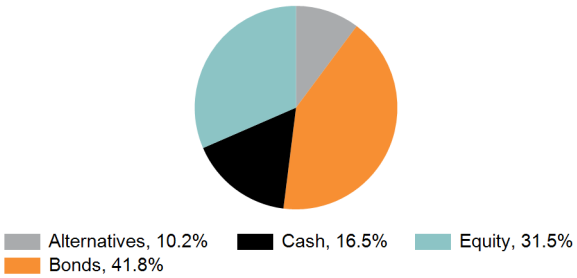
The investment objective of the Fund is to provide capital growth through low levels of exposure to equity markets over a market cycle. This Fund is suitable for investors who require low capital growth over a 5-year or longer timeframe. Equity exposure limited to 50%.

Holdings as at Month End	%
Govt Bond Funds	
Vanguard US Government Bond Index	20.00
Cash	
Ninety One GSF US Dollar Money	16.50
Developed Asia ex Japan Funds	
BlackRock Global Funds - Asian Growth Leaders	0.50
Schroders ISF Asian Total Return	0.90
Japanese Funds	
BlackRock Global Funds - Japan Small & MidCap Opportunities	1.20
Man GLG Japan CoreAlpha Equity	1.30
Global Emerging Markets Funds	
Coronation Global Emerging Markets	1.10
Fidelity Funds - Emerging Markets	3.00
North American Funds	
Fidelity Funds - America	3.30
Loomis Sayles U.S. Growth Equity	3.80
M&G (LUX) North American Dividend	2.00
Merian North American Equity	1.30
Polen Capital Focus US Growth	3.30
Sanlam US Dividend Income	3.90
Corporate Bond Funds	
Hermes Global High Yield Credit	3.20
Janus Henderson Global Investment Grade Bond	6.20
Man GLG Strategic Bond	6.20
Pimco Global Bond	6.20
Alternative Funds	
Janus Henderson United Kingdom Absolute Return Fund	3.00
Legg Mason Western Asset Macro Opportunities Bond	2.80
Sanlam Multi Strategy Fund	3.20
Sanlam Real Assets	1.20
European Funds	
Man GLG Pan European Equity Growth	1.20
Schroders ISF European Opportunities	1.80
Threadneedle European Select Fund	1.30
UK Equity Funds	
Ninety One GSF UK Alpha	0.80
Schroder ISF UK Opportunities	0.80

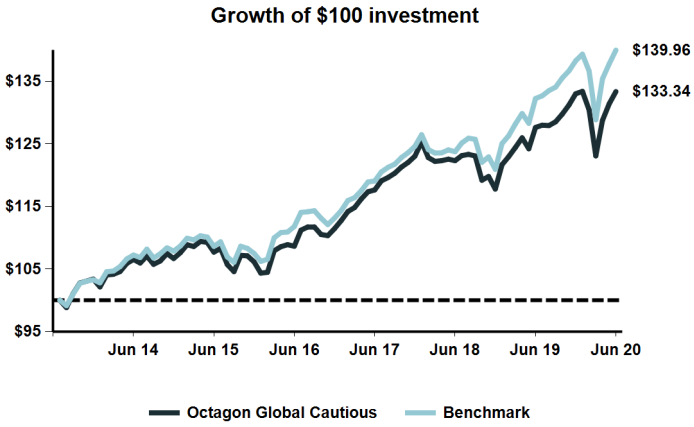
Key Information	%
Benchmark	
MSCI AC World	35.00
Barclays Global Aggregate US Government Bond Index	25.00
Barclays Global Aggregate Corporate Bond Index USD Hedged	25.00
USD Cash	15.00

Fees (incl. VAT)	
Annual Wrap fee	0.46
Underlying Manager TER's	0.78

Global Asset Allocation



Cumulative performance since launch*



Performance (%)	Fund*	Benchmark
1 Month	1.49	1.59
3 Months	8.35	8.63
6 Months	0.26	1.23
YTD	0.26	1.23
1 Year	4.49	5.85
2 Years (annualised)	4.42	6.36
3 Years (annualised)	4.27	5.54
5 Years (annualised)	4.37	5.21
Since Launch (annualised)	4.25	4.98

Risk statistics (since launch)	Fund*	Benchmark
Returns (annualised)	4.25%	4.98%
Standard deviation (annualised)	5.08%	4.96%
% Positive months	67.47%	71.08%
Maximum drawdown	-7.73%	-7.52%
Sharpe ratio	0.56	0.72

* The investor is liable for CGT on any transactions in the units of the underlying unit trusts within the wrap funds. Compulsory investments are not subject to CGT. Performance is calculated using net returns (after fees) of the underlying unit trusts, and quoted excluding wrap fund fees. Performance quoted is pre-tax. Fund performance numbers shown are for a notional portfolio and does not reflect the actual performance of the client invested in the wrap fund due to timing differences of investments or disinvestments of the client. The information contained in this document has been recorded and arrived at by Octagon Asset Managers (Pty) Ltd (FSP) Licence No. 45236 in good faith and from sources believed to be reliable, but no representation or warranty, expressed or implied, is made as to the accuracy, completeness or correctness. Performance figures are calculated using net returns (after-fee) of underlying managers but are quoted gross of wrap fund fee. Performance figures for periods greater than 12 months are annualised. All data shown is at the month end. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may go down as well as up and are not guaranteed. You may not get back the amount you invest.

Ground Floor, 31 West Street, Houghton, Johannesburg. Tel: +27 (11) 440-6750, Fax: +27 (11) 440-7333.
www.octagonfinacial.co.za
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Commentary

Market Review

Global equities continued to make progress in June with the MSCI World Index rising 2.7% for the month, in US dollar terms. As Covid-19 lockdown measures began to ease across many countries and with early signs of economic recovery, risk appetite returned across equity markets over the quarter.

After a strong rebound in April and May, North American equities took a pause following a subsequent rise in Covid-19 cases, returning 2.3% in June. Continental European equities rose 4.9% following a drop in new infection rates as economies gradually began to reopen. Another source of support for equities was news of EU plans for post-Covid-19 recovery with the European Commission. UK equities made gentle gains of 1.4% as new infection rates also continued to fall and economic indicators suggesting the downturn had passed its worst point. Emerging Market equities rose 7.4% despite an acceleration in the number of new daily cases of the virus in several markets, including India and Latin America. Developed Asian (excluding Japan) equities led the way, rising 8%, supported by fresh stimulus from major central banks and reopening of economies in the region. Japanese equities were unchanged over the month.

Global bonds, as measured by the Barclays Global Aggregate Index rose 0.9%. Corporate bonds outperformed government bonds with Global Investment Grade Credit seeing a positive return of 1.9% and Global Treasuries rising 0.5%. Global High Yield ended the month with a positive return of 2.3%.

Commodity returns were mixed for the month. Within precious metals, Platinum fell -1%, whilst Gold and Silver generated a positive return of 2.9% and 1.9%, respectively. Crude oil climbed sharply, delivering double digit returns of 10.7%, whilst Natural Gas fell -5.3%.

Tactical Asset Allocation and Fund Selection

The models delivered positive returns ranging between 2.9% on the equity heavy, higher risk end to 1% on the more defensive, bond heavy side. Within North America, most managers performed well on a relative basis. Both Loomis Sayles US Equity Leaders and Polen Focus US Growth outperformed by 1.4% and 1.1% respectively. Sanlam US Dividend also had a decent month, though Fidelity American continued to disappoint. We will be looking to exit the fund at the next rebalance.

In Europe, all three funds delivered solid absolute returns ranging between 3.5% and 4.7% but lagged on a relative basis. Further to the east BlackRock Japan Small & Mid Cap lagged the index by 1.6%, whilst Man GLG Japan Core Alpha yet again posted disappointing numbers as ‘value’ continued to struggle in the current environment.

In Asia, both BlackRock Asian Growth Leaders and Schroder ISF Asian Total Return posted high single digit absolute returns of10% and 9.5%, respectively, handsomely outperforming the broader market. Similarly, Fidelity Emerging Markets gained 9.6% whilst Coronation Global Emerging Markets rose 7.6%, in absolute terms.

Within bonds, all the underlying managers posted positive absolute returns between 0.2% and 1.9%, whilst in alternatives all four funds also posted modest absolute numbers, with Sanlam Real Assets the standout with a gain of 1.7%.

Positioning and Outlook

Given the continued uncertainty surrounding Covid-19, it would have been wrong to assume a sharp recovery in equity markets after such a deep shock back in March. Yet, here we are. With equity returns now higher than they were for most of 2019, the recovery has been extraordinary.

This is largely due to the vast amount of government stimulus being pumped into the economy – particularly in the US – and signs that the real economy is re-opening for business. However, as Beijing was forced back into lockdown in mid-June, markets wobbled, and this was a stark reminder that nothing can be taken for granted.

While the level of volatility has subsided over recent weeks, it remains elevated, and we should expect further jitters until there is more certainty over a vaccine. Forward looking economic indicators, such as the Purchasing Managers’ Index (PMI) are improving, but they are still predicting an economic contraction. Indeed, the global economy is unlikely to recover for two years or more, and there will be a significant impact on certain sectors of the job market.

So, while there is plenty to feel optimistic about, we must continue to remind ourselves that we are in the middle of one of the most significant economic events in recent history, and times are likely to be tough.

For that reason, we have returned to a largely neutral stance on equities, meaning we don’t see many buying opportunities for now. Back in March, the dramatic correction meant we were comfortable taking slightly more risk since prices were low. As valuations have continued to recover, we have sold some of those opportunistic stocks to realise their value and lessen some of the risk we were taking.