

# Seed Absolute Return Fund

30 April 2012

## Fund Information

**Managers:** Ian de Lange CA (SA), Mike Browne CFA, Vincent Heys (Actuary)

**Launch Date:** 9 January 2012

**Launch Unit Price:** 100.00c

**Max Upfront Fee:** 0.00%

**Performance Fee:** None

**Min Debit Order:** R 500

**Classification:** Domestic Asset Allocation Targeted Absolute and Real Return

**Distributions Declaration Dates:**

30 June and 31 December

**Current Fund Size:** R 60m

**Current Unit Price:** 102.17c

**Annual Fee:** 1.99% (incl. VAT)

**TER:** n/a

**Min Lump Sum:** R 10 000

**Distributions Declared:**

N/A

## Investment Objective

The Seed Absolute Return Fund is a specialist portfolio with the objective to secure consistent real returns in excess of CPI + 4% per annum over any rolling 24 month period.

This objective will be achieved through superior manager and strategy selection. Tactical asset allocation within mandated limits will be used for a portion of the Fund.

## Investment Process

The Seed Absolute Return Fund is a multi managed fund, with 3<sup>rd</sup> party specialists managing segregated mandates. Seed is responsible for the selection of the 3<sup>rd</sup> party managers (favouring owner managed asset management companies with a value biased investment process).

Seed employs various absolute return strategies in this Fund to achieve the return objective (CPI + 4%) as consistently as possible. The Fund aims to protect capital with the highest level of confidence over any 12 – 18 month period. Returns are enhanced through superior manager selection and tactical adjustments.

Strategies and asset classes currently used to achieve these goals include: hedged equities, commodities, property, inflation linked bonds, and valuation based tactical asset allocation.

Seed alters the weightings of each asset class based on proprietary valuation models developed in-house. The Fund is managed as a Regulation 28 compliant Fund and is therefore suitable for investments in retirement funds.

## 3<sup>rd</sup> Party Managers

Prescient Investment Management is an independent investment management company launched in 1998 by Herman Steyn and Guy Toms. Prescient management and staff are the majority shareholders (over 75%) and the house has over R85bn in assets under management. Prescient are leading specialists in capital protection strategies.

Foord Asset Management is one of the longest standing independent investment firms in South Africa. Founder, Dave Foord, started the business in October 1981 and as such has been in operation for over 30 years. We access Foord's skills via their listed debenture i.e. Foord Compass.

## Asset Allocation

|                        |       |
|------------------------|-------|
| Local Equity           | 29.9% |
| Local Protected Equity | 35.7% |
| Local Property         | 2.0%  |
| Local Bond             | 1.8%  |
| Local Cash             | 25.6% |
| Global Equity          | 0.0%  |
| Global Property        | 0.0%  |
| Global Fixed Income    | 3.4%  |
| Global Alternative     | 1.7%  |

## \* Total Expense (TER) Disclosure

Please note: The TER will only be displayed once the Fund has a 12 month track record.

The TER is calculated as a percentage of the average NAV of the portfolio incurred as charges, levies, and fees related to the management of the portfolio and underlying portfolios.

A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER can not be regarded as an indication of future TER's.

## Manager's Commentary

It is important for Funds with inflation linked benchmarks to avoid large capital losses if they are to consistently beat their benchmark. In South Africa, inflation is consistently positive and one would expect a Fund with a CPI + 4% pa benchmark (like the Seed Absolute Return Fund) to return approximately 10% pa.

Funds that are structured to avoid deep capital losses should also be positioned to capture upside gains when market conditions are favourable – as capital preservation isn't the only consideration when attempting to generate returns in excess of inflation. The Seed Absolute Return Fund is able to avoid large losses and capture upside gains by using multiple uncorrelated strategies that attempt to independently generate returns in excess of CPI + 4% pa.

Each strategy will experience periods of underperformance, but blending a range of strategies into the Fund should ensure that the Fund beats its benchmark as consistently as possible. Seed's process ensures that the Fund has the right strategies and the right weighting to each strategy based on prevailing market conditions.

Prescient manages a portion of the Fund using an options strategy that is specifically designed to avoid losing capital. Buying this protection does minimise down periods, but it also limits the strategy's participation when the market moves up. This is just one of the strategies used in the Seed Absolute Return Fund.

## Top Holdings

|                         |                                |       |
|-------------------------|--------------------------------|-------|
| Local Protected Equity  | Hedged Equity - Options        | 17.4% |
| Local Protected Equity  | Hedged Equity - Futures        | 15.3% |
| Local Fixed Income Fund | Prescient Yield Quantplus Fund | 6.8%  |
| Local Equity            | BHP Billiton Plc               | 5.0%  |
| Local Equity            | SAB Miller Plc                 | 3.8%  |
| Local Equity            | Anglo American Plc             | 3.8%  |
| Global Fixed Income     | US Dollar Cash                 | 3.4%  |
| Global Alternative FoF  | Allan Gray Orbis Optimal FoF   | 1.7%  |
| Local Debenture         | Foord Compass Ltd              | 1.6%  |
| Commodity               | New Gold Issuer Ltd            | 1.4%  |

## Fund Metrics

|                                 | Seed Absolute Return | CPI + 4% |
|---------------------------------|----------------------|----------|
| <b>Performance – Annualised</b> |                      |          |
| Since Launch                    | N/A *                | N/A *    |
| Latest 1 Year                   | N/A *                | N/A *    |
| <b>Risk – Month End Data</b>    |                      |          |
| Maximum Drawdown                | N/A *                | N/A *    |
| Positive Months                 | N/A *                | N/A *    |
| Annualised Volatility           | N/A *                | N/A *    |

\* Fund metrics will only be shown once the Fund has a 12 month track record.

## Cumulative Performance

The cumulative performance of the Fund will only be shown once the Fund has a 12 month track record.

## FAIS Conflict of Interest Disclosure

Please note that in most cases where the FSP is a related party to Seed Investment Consultants (Pty) Ltd and/or MET, Seed Investment Consultants (Pty) Ltd and/or the distributor earns additional fees apart from the FSP's client advisory fees. It is the FSP's responsibility to disclose additional fees to you as the client. Such fees are paid out of the portfolio's service charge and are (excl VAT):

|   |              |
|---|--------------|
| CIS: MET  | 0.35%        |
| Management: Seed and 3 <sup>rd</sup> Party Managers | up to 1.40%  |
| Distributor   | 0.00%        |
| LISP Trail Commission                               | up to 0.25%  |
| <b>Total Service Fee</b>                            | <b>1.75%</b> |

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