

# SEED FLEXIBLE FUND

## 1. Executive Summary

At the beginning of June 2010, Seed Investment Consultants (Pty) Ltd launched the Seed Flexible Fund. This is a unit trust, managed by Seed, and administered by Metropolitan Collective Investments. The Seed Flexible Fund abides by the Prudential Investment Guidelines (PIGs), as determined by the FSB, which govern the asset allocation allowed for retirement investments.

Seed manages the Fund on a multi-managed basis. The security selection across the different asset classes is outsourced to third party managers, selected by Seed. These managers, who have built up competitive advantages and impressive track records in their respective asset classes, have been assigned asset class specific benchmarks (i.e. All Share Total Return Index) with the objective of outperforming them.

Seed adjusts the asset allocation between the underlying managers using proprietary investment models that indicate when the various asset classes are under- or over-valued. The weightings to the various asset classes are adjusted within the mandate limits as shown later in this document.

## 2. Third Party Managers

The third party managers each manage a portion of the Fund (as decided by Seed) against an agreed benchmark.

### 2.1. Local Equity

Deep value equity investor, Dr Adrian Saville, has been managing equity investments for over 15 years, and has built up an impressive track record. He is a part owner of the asset management company, Cannon Asset Managers, which he set up. His portfolio will identify and invest into local equity investments that display good value. He typically has a low turnover in his portfolio (i.e. he doesn't trade often) but instead buys investments with a longer term perspective, and waits for value to unlock. By following this process we expect that he will outperform the ALSI over the long term.

### 2.2. Local Fixed Income

Arno Lawrenz, CIO at Atlantic Asset Management, manages the local fixed income allocation. Arno has an impressive long track record in the fixed income sector, and set up his own fixed income boutique in 2007. This portfolio has the discretion to make allocations to local cash, local bonds (government, corporate, inflation linked), and local property within certain limits. This portfolio will attempt to outperform the performance of the ALBI 1 – 3 year index.

### 2.3. Global

The global allocation is outsourced to Allan Gray who invests offshore via its sister company, Orbis. Orbis has an excellent track record of over 20 years, with its equity fund outperforming the FTSE World Index by over 6.5% per annum since the beginning of 1990. Orbis Optimal has also performed well, returning more than double global equity markets with just more than half the volatility since 1990.

Seed currently uses the Allan Gray Orbis Global Fund of Funds as its offshore entry point. This fund allocates its investments between the Orbis Equity and Optimal funds, and targets a return of 60% World Equity + 40% World Bond.

\*\*\* See the short manager biographies at the end of this document \*\*\*

### 3. Fund Objective

The benchmark of the Fund is a composite of the following:

- 55% All Share Total Return Index (Local Equity)
- 7.5% All Bond Total Return Index (Local Bond)
- 15% STEFI Call (Local Cash)
- 7.5% SAPY Total Return Index (Local Property)
- 11% MSCI World Total Return Index (Global Equity)
- 2.5% JP Morgan Global Bond Total Return Index (Global Fixed Income)
- 1.5% MSCI World Real Estate Total Return Index (Global Property)

The Seed Flexible Fund targets the following:

- To beat inflation + 5% (after all costs) over rolling 5 year periods
- To protect capital over rolling 4 year periods

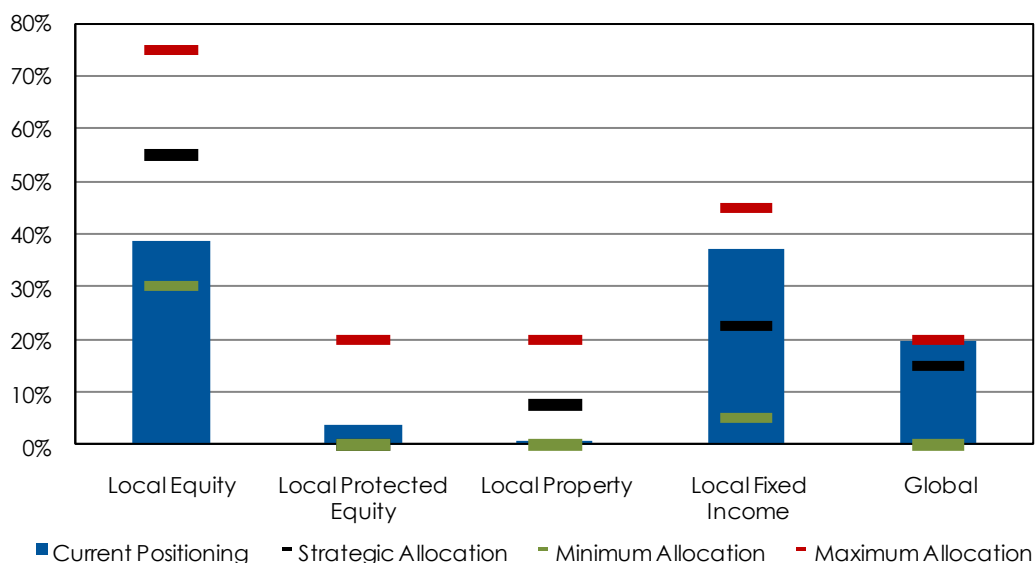
### 4. Fund Positioning

Two of Seed's current investment views that are most noticeable in the fund are:

- Local equities are overvalued
  - Local equity exposure is therefore close to its lower limit and an element of protected equity, accessed through the New Gold ETF, is included in the fund.
- Offshore assets are undervalued (both from a currency and asset pricing perspective)
  - The fund therefore sits as close to the mandate maximum as possible.

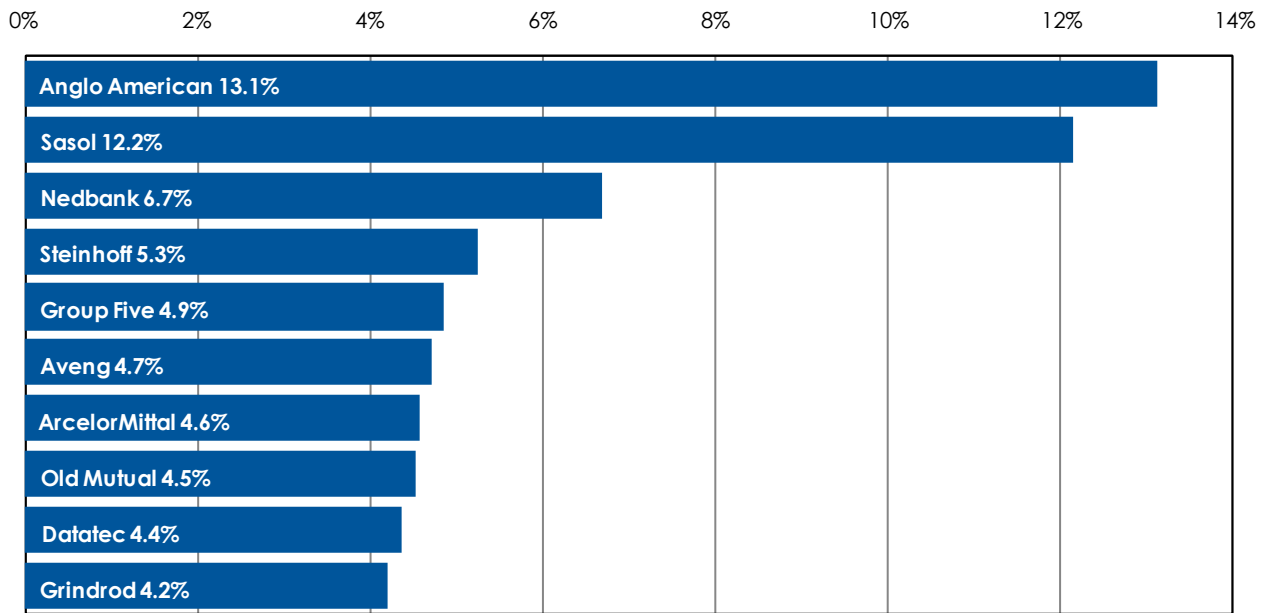
As a result of these views the allocation to local fixed income is above the strategic weighting. We are currently in the process of identifying undervalued listed property companies to purchase and will target an allocation of around 6 – 7% of the fund to this asset class.

The chart below shows how these investment views are manifested in the fund:

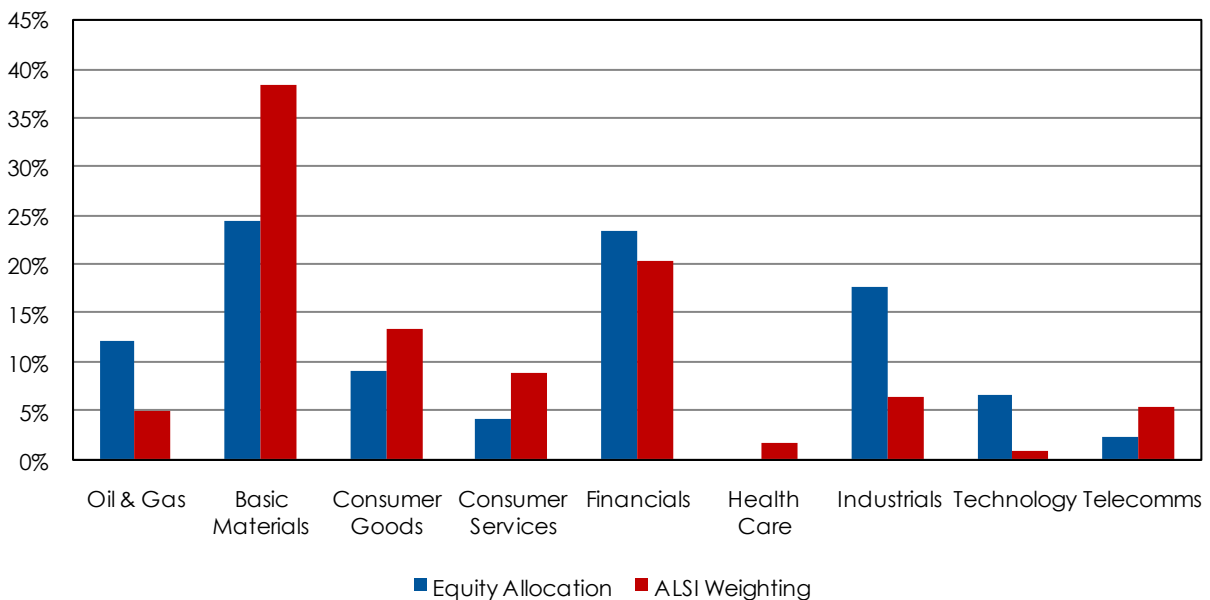


## 5. Local Equity Allocation

The top 10 holdings in the fund are shown in the chart below. Cannon builds their portfolios from the bottom up and their holdings typically vary dramatically from the ALSI. The weighting of each share in the portfolio will be larger than the share's weighting on the ALSI.

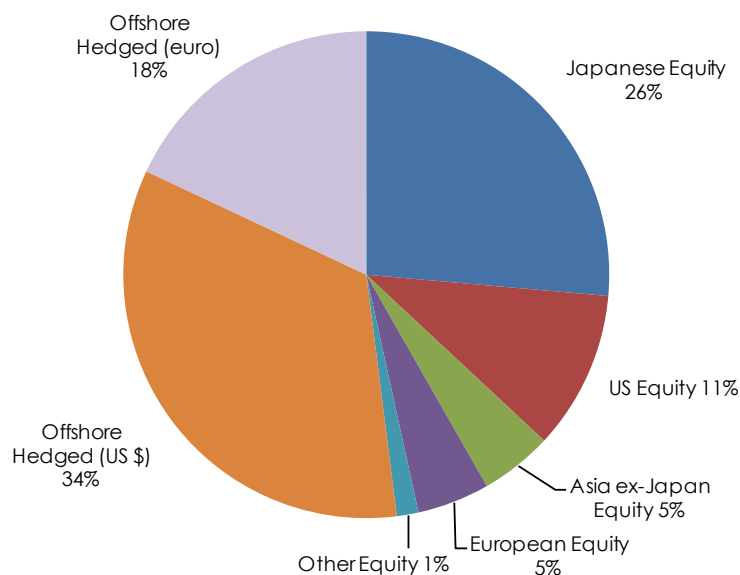


Despite the top two holdings being resource shares, the chart below shows that the Fund is underweight resources (Oil & Gas and Basic Materials) relative to the ALSI. It is clear that on a sector basis the portfolio clearly differs from the ALSI. On a share by share basis this difference is more apparent.



## 6. Global Allocation

The global portion of the fund is currently invested in the Allan Gray Orbis Global FoF. The allocation of the fund, on a see through basis, is shown in the chart below. The offshore hedged elements are the Orbis Optimal funds. Most of this allocation has been hedged back into US \$, but there is a portion hedged back into euros.



## 7. Costs Involved

The total cost for the Seed Flexible Fund is 1.75% p.a (1.99% p.a. including VAT). This fee pays for the following services:

- Seed's asset allocation and fund manager selection capabilities
- The third party fund managers' skills in identifying prudent investments
- Administration of the investments for the investors

There are **no initial fees** payable.

There are **no advisor fees payable if you invest directly** into the Fund.

## 8. Application Process

The application process is very straight forward. The Application Form can be downloaded from our website by clicking [here](#). Alternatively you can simply open an account on our website by clicking [here](#).

After receiving the application form and FICA documents you will then be able to make once-off, or regular contributions.

If you have an existing account with Equinox then you can simply instruct Equinox online to invest in the Seed Flexible Fund.

## 9. Questions

If you have any questions on the above, or want further information on the Seed Flexible Fund, please don't hesitate to contact us:

- Tel: 0860 33 SEED (0860 33 7333) or 021 9144 966
- Ian: [ian@seedinvestments.co.za](mailto:ian@seedinvestments.co.za)
- Vincent: [vincent@seedinvestments.co.za](mailto:vincent@seedinvestments.co.za)
- Mike: [mike@seedinvestments.co.za](mailto:mike@seedinvestments.co.za)
- Web: [www.seedinvestments.co.za](http://www.seedinvestments.co.za)

## Manager Biographies

### Seed Managers



#### **Ian de Lange**

- Chartered Accountant – B.Compt (Hons), CA (SA)
- Ian is Seed's co-founder and has over 16 years of experience in financial services and investments. Ian is the CIO at Seed and sits on the investment committee.



#### **Mike Browne**

- CFA Charterholder – B.Bus.Sc (Finance), CFA
- Mike has over 5 years of experience in the investment industry, having started out with Seed's forerunner, Exsequor, in 2005. Mike sits on Seed's

investment committee and is a portfolio manager for selected investment portfolios.



#### **Vincent Heys**

- Actuary – B.Com (Hons), F.I.A., F.A.S.S.A.
- Vincent is Seed's co-founder and has over 14 years of experience in financial services and investments. As a qualified Actuary, Vincent is in charge of Seed's product development and sits on the investment

committee.

### Third Party Managers



#### **Adrian Saville**

- Doctor of Economics – B.A (Hons) and M.Com (cum laude), Ph.D (Economics)
- On top of his notable academic achievements, Adrian Saville has been in the investment industry for 16 years and has built up an impressive track record over that time. Adrian founded Cannon, which

is a deep value equity boutique asset management company.



#### **Arno Lawrenz**

- CFA Charterholder – B.Sc (Hons), CFA
- Arno is a co-founder of the first fixed income boutique asset management company in South Africa, Atlantic. Arno was previously head of fixed interest at Coronation and head of fixed income at Old Mutual before he

started his own company.



#### **Orbis**

- Global asset management company set up by Allan WB Gray
- Orbis is a global asset management company, based in Bermuda, which has successfully managed global

portfolios for over 20 years. They are described as focused, contrarian, value-orientated managers investing for the long term.