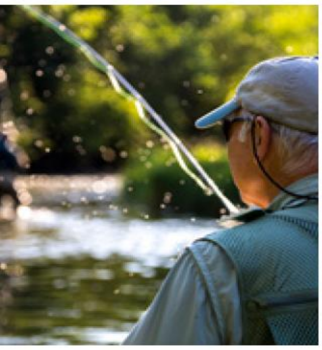
Report to
Wealth Associates Investors

1st Quarter 2018

WEALTH ASSOCIATES
ASSET MANAGEMENT

Independence. Continuity. Value.



"Bragging Rights"

Let us first "brag a little" over how well we are doing for you our investors relative to our peers and competitors in each of the sectors in which our 4 funds are categorised. We have 4 Collective Investment Schemes registered "Unit Trust" funds, each of which employs progressively greater levels of risk in pursuit of investor objectives. These funds, the ASISA categories in which they exist and their relative performance positioning over the 12-month period to 31 March 2018 are;

- The Wealth Associates BCI Cautious Fund of Funds
  - Operates in the South African Multi-asset Low Equity category
  - Ranked 7th out of 136 funds in this category.
- The Wealth Associates BCI Moderate Fund of Funds
  - Operates in the South African Multi-Asset Medium Equity category
  - Ranked 1st out of 79 funds in this category
- The Wealth Associates BCI Balanced Fund of Funds
  - Operates in the South African Multi-Asset High Equity category
  - Ranked 9th out of 175 funds in this category
- The Wealth Associates BCI Flexible Growth Fund of Funds
  - Operates in the World Wide Multi-Asset Flexible category.
  - Ranked 3rd out of 72 funds in this category.

This has not been a short term accomplishment. The tables at the end part of this article illustrate how consistently all 4 portfolios have performed relative to their peers over + 5 year period. We are very proud of these results and the positive impact they have on the financial outcomes for our investors.

THE ONLY "FREE LUNCH" IN INVESTING

Diversification has often been described as the only "free lunch" investors get. Seldom has this been truer than of late, with innumerable unpredictable events of the past few years both in South Africa and Internationally, all of which have had a material impact on the decision making process employed the spectrum of participants in the investment markets. Under such conditions, generally logical, smart and astute people form diverse views often clouded by the emotional content/re-actions created by such uncertain and unpredictable outcomes and form their considered future strategies based upon their assessment of the situation.

To emphasise the point, consider the following few points which had a material impact upon markets and the way in which investment managers positioned themselves over the past 30 odd months.

- In South Africa in December 2015, then President JZ conspired to remove Mr Nene as Finance Minister and replace him with "just for the weekend" van Rooyen. SA Bond yields spiked, the Rand collapsed, but only temporarily. South Africans went into panic mode and many strategies were formulated based upon that 1 significant event. Fund managers displayed diverse reactions which meant that having a combination of Fund managers with differing opinions and approaches, stabilised portfolios.
- In June 2016, the British population voted for "Brexit" and in the process brought the validity of opinion polls into serious question. This was the first of many totally unexpected outcomes and as a result, many SA portfolio managers positioned themselves for a status quo outcome. The Pound declined precipitously and suddenly, share prices of high quality British centred/listed business declined by over 20%.
- In December 2016, "The Donald" was elected US President to the utter horror and disbelief of most self- proclaimed Liberal thinkers, the World over. Again, the opinion polls got it completely wrong leading to continuing investigation into what nefarious methods Trump and his supporters used to pull one over Hillary. In World markets, the response to Trump's election has been completely opposite to the subjective narrative of the Press. Markets have powered ahead since December 2016 and have only recently pulled back on talk of trade tariff equalisation by "the Donald".
- Ratings agency downgrades on SA Bonds throughout 2017 with only Moody's retaining an invest grade rating (albeit the lowest level before Junk and with a bleak future outlook). At each pronouncement, Bond yields spiked and the financial sector of the JSE (and SA Banks in particular) was sold down. The Rand predictably weakened after each pronouncement of a downgrade, but persistently recovered over time. Many asset managers retained a strong Rand hedge bias and only a few held SA banks and other SA focussed Industrial shares. Again, having diverse views in the Wealth Associates portfolios created

stability and lowered the portfolio risk relative to peers.

- Gupta –Leaks, the demise of Bell Pottinger and the horrific expose of assertions of State Capture by the Gupta's, the Zuma family and Zuma's 5000 closest friends played out for much of 2017. Markets hate uncertainty as do Investment managers and diversity of opinions and approach provides stability and consistency.

- The precipitous fall from grace of Messrs Jooste, Weise and a number of highly regarded and experienced Steinhoff International Board members in early December 2017.A few years back, the demise of African Bank and commentary on the inclusion of African Bank shares and Corporate Bonds by large investment houses, Coronation and Stanlib brought on strong debate. More recently, the convoluted structuring between Resilient Property Group companies has come under scrutiny. Much has been written and spoken on these issues and the integrity of leadership within SA Corporates is being brought into question. Sadly, the action of a few rogue outliers tends to flavour opinion on the entire group of leadership. What we focus on, is not so much the fact that many highly competent Asset managers included these companies in their portfolios, but rather the proportionate exposure to such companies within the portfolio. Having a diverse selection of Fund managers in each sector significantly dilutes the impact of such events.

- The build-up to the ANC elections in the pre-Christmas 2017 period created much speculation around the outcomes of an NDZ or a CR1 victory. Fund managers positioned their portfolios for anticipated outcomes and much of the narrative in early December indicated expectation of a JZ manipulated outcome. As a result, SA Banks and locally based Industrials and retail counters were significantly under-weight in most managers' portfolios. The diversity in the Wealth Associates portfolios created by the inclusion of Smart Beta strategies (Coreshares Dividend Aristocrats in particular) ensured the inclusion of those sectors avoided by many active managers and again brought stability to the portfolios.

- All the while, with all of this uncertainty (particularly in the negative context of SA, it's politics and it's economic and industrial outlook, the good old ZAR (Rand) appreciated from 17.99:1 to the USD on 10th January 2016(post Nene-gate) to 11.64: 1 at today's rate. This is a 35% appreciation in the Rand. Even if we look at the rate on 10th December 2017 (pre-ANC Presidential election) it had improved to 13.69: 1 to the USD .(a 24% appreciation). SA Bonds which would have been expected to yield poor returns based on the uncertainty have provided pockets of opportunity which have been capitalised on by diverse Fund manager views in the Bond and SA Income Fund sectors.

Let me emphasise my point about the importance of diversification.

With the Cocktail of ingredients such as the mentioned raft of uncertain events, a dismal business confidence level only surpassed post- PW Botha's infamous Rubicon speech in 1985 and a group of highly competent, intelligent and skilled asset managers in the SA market, the difference of opinions on reasonable value for investments and asset types in the SA and Global markets was wide and diverse. Investment opinions are formed upon the highest likely outcomes determined by each team of Investment managers. Under-pinning their strategies is the management of risk (or, the need to preserve capital). For many of the asset managers, high quality SA companies with significant offshore revenue streams seemed to be the answer. A few had faith in quality SA Resources, Financials and Industrial shares but these were definitely in the minority. In the Bond market, the abnormal event driven spikes in Bond Yields, presented an opportunity to purchase quality SA Bonds at a substantial discount. These decisions do however infer higher levels of risk but when proper processes of evaluation and proportional inclusion are used, the advantage to the performance client portfolios is evident.

Within the 4 Wealth Associates Fund of Funds, the following principles of diversification are used pro-actively in constructing the portfolios in such a way as to ensure progressive optimised risk/reward pay-off profiles .

- Fund manager diversity. We utilise the multi-manager approach across the 4 portfolios and select managers based upon a number of diverse criteria.
    - In the SA Equity space we employ 6 managers all of whom have the same mandate but who approach the building of Equity portfolios in different ways.
    - In the Global Equity space, PortfolioMetrix utilise 14 different managers, again, all of whom bring a different methodology to the building of Global Equity portfolios
    - In the SA Bond area, we use Coronation and Stanlib, again both with diverse strategies

- In the SA Income/Fixed interest space, we utilise 4 diverse asset managers with complimentary styles and skill sets.

- Asset allocation is the process of strategically combining different asset classes to match the risk tolerance of investors in each portfolio as well as tactically varying weights in each asset class based upon the forward looking prognosis for each asset class. Asset classes behave very differently under certain conditions and so a perpetual representation of all asset classes creates defensive qualities without negatively impacting upon targeted investment returns through cycles. We take a consistently conservative approach to Asset Allocation positioning as the majority of our clients are averse to high levels of volatility. The few examples of the uncertain events mentioned earlier in this piece all had material shorter term impact upon asset class levels and so we avoid making dramatic asset allocation calls, rather focussing on a reasonable representation of obvious assets classes.

- Style, sector and "factor" diversity. As has been touched upon, having a combination of a number of managers within each asset class creates diversity through the different approaches taken to the management of assets classes.

  - Style diversity occurs when we consciously employ managers who display consistent methodology in their selection and management processes. We take the approach of employing mostly style agnostic active managers in our Equity component but we interpose passive managers which use formulaic rules based management techniques to ensure consistent presence of desired styles.

  - Sector diversity is also ensured through the employment of multiple managers in each discipline.

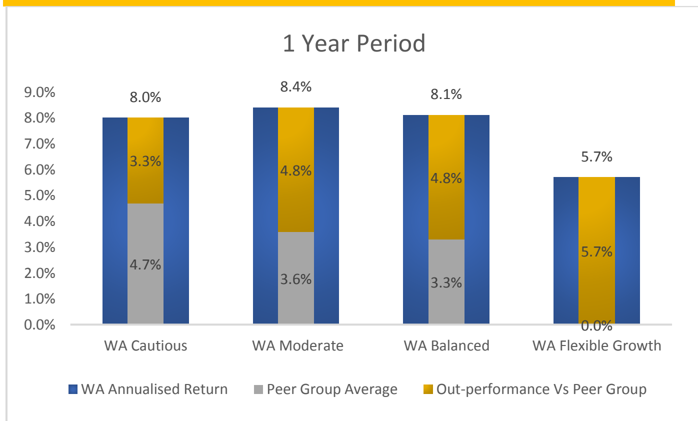
  - Factor inclusion is the domain of Smart-Beta passive solutions. We use 2 diametrically opposed Passive managers in the SA Equity space to ensure that desired factors such as Value, High Quality, Earnings Momentum and Price Momentum are always present in our portfolios and this allows our active managers to stick to their unique processes and styles of management.

The result of these carefully considered diversification strategies is consistent top quartile representation of our 4 portfolios in their peer groupings and equally importantly, outperformance of targeted Inflation Plus returns (after portfolio costs) in all appropriate time periods.

This means that our clients and their advisors can be confident that their planned for outcomes are being consistently attained as is illustrated in the graphic below.

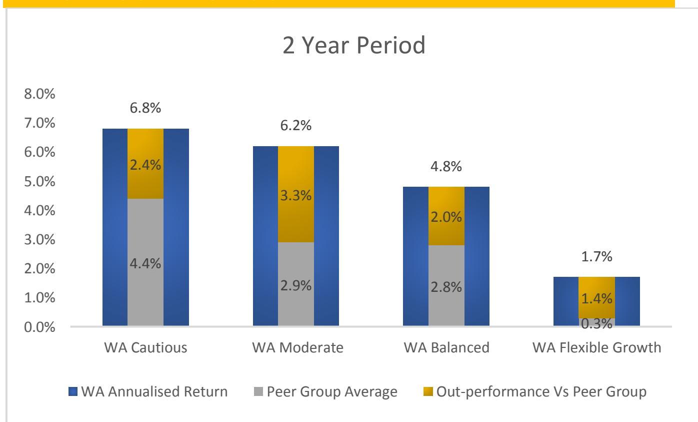
The 4 Wealth Associates portfolios were first invested in December 2012 as Wrap fund solutions and were seamlessly converted into CIS registered Fund of Fund solutions using the Boutique Collective Investments Manco platform in July 2012. The investment methodology and mandates of the 4 funds has remained consistent since inception and performance figures illustrated below since inception refer to the portfolios and not to the CIS structure.

One Year Period



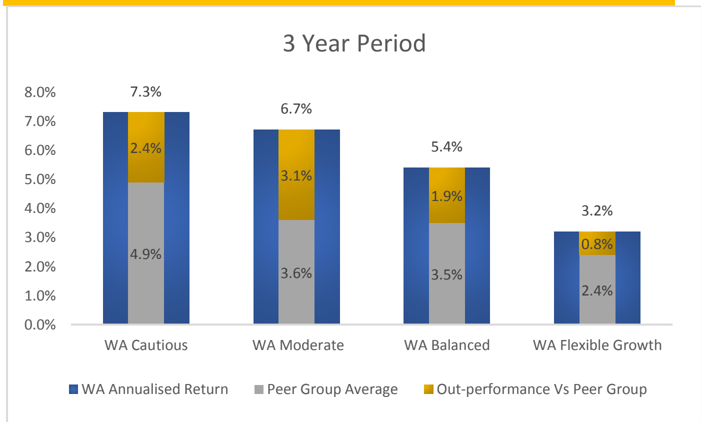
	WA Cautious	WA Moderate	WA Balanced	WA Flexible Growth
Rank / # Funds	7/137	1/79	9/175	3/72
Quartile	1	1	1	1

Two Year Period



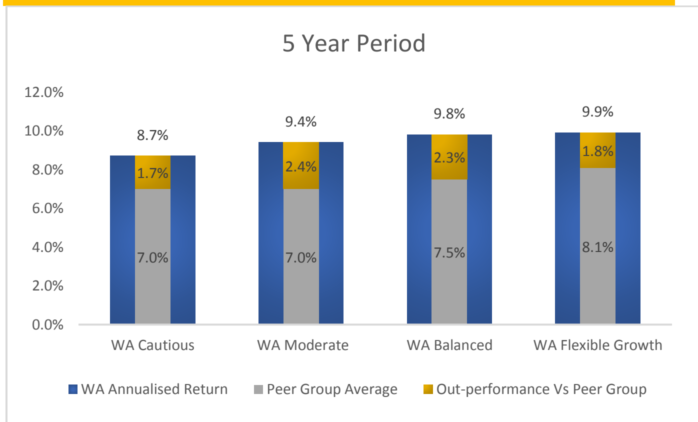
	WA Cautious	WA Moderate	WA Balanced	WA Flexible Growth
Rank / # Funds	12/125	2/76	20/157	16/58
Quartile	1	1	1	2

Three Year Period



	WA Cautious	WA Moderate	WA Balanced	WA Flexible Growth
Rank / # Funds	4/106	1/63	16/129	16/42
Quartile	1	1	1	2

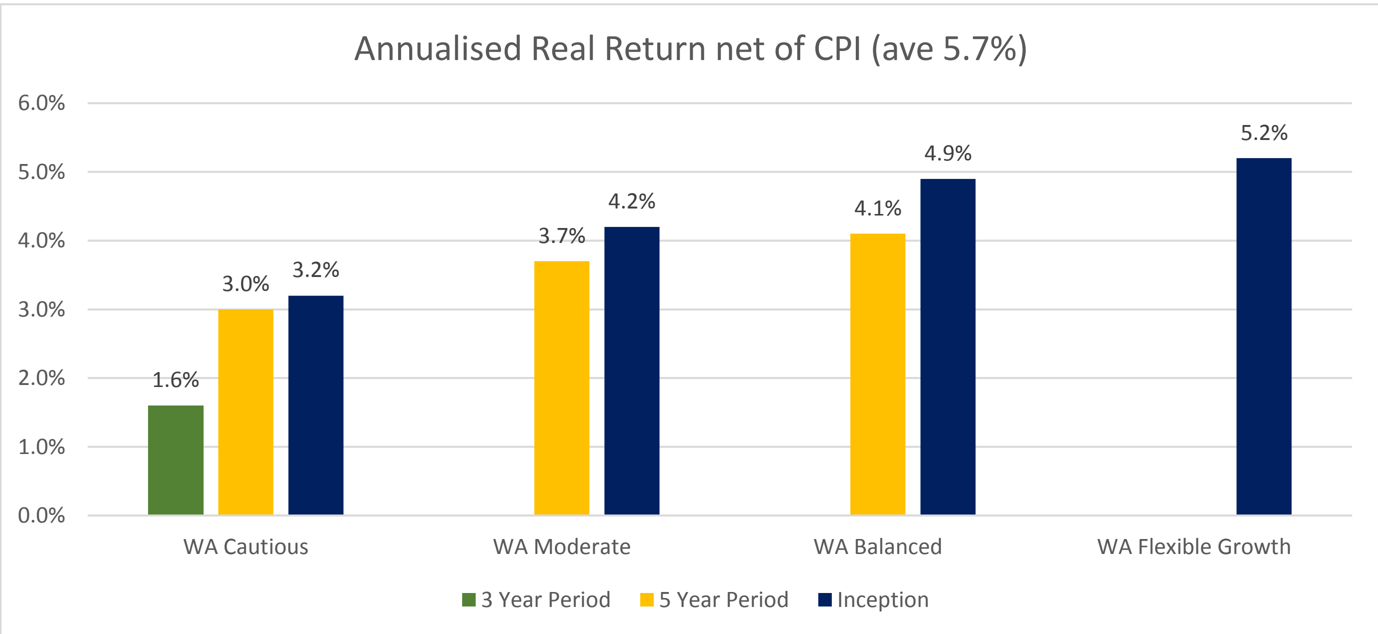
Five Year Period



	WA Cautious	WA Moderate	WA Balanced	WA Flexible Growth
Rank / # Funds	4/77	1/48	6/86	6/23
Quartile	1	1	1	2

Annualised Real Return net of CPI

Whilst consistent performance in the sectors relative to peers is important, what is the most important is the performance of the 4 funds relative to their CPI + targets. Investors and their financial advisors do projections of capital adequacy based upon inflation assumptions (CPI) and each of the Wealth Associates funds has a targeted CPI + return over appropriate investment periods. The table below illustrates that each of the funds has significantly outperformed its targeted CPI+ objective and this will give both you as the investor and your financial advisor comfort in the knowledge that the theory and predictive assumptions used in compiling your financial plans are being accommodated in practice through the returns attained



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