

# IP Diversified Income Fund of Funds

## (A & B2 Class) Minimum Disclosure Document

November 2021



### Fund Objectives, Investment Process & Policy

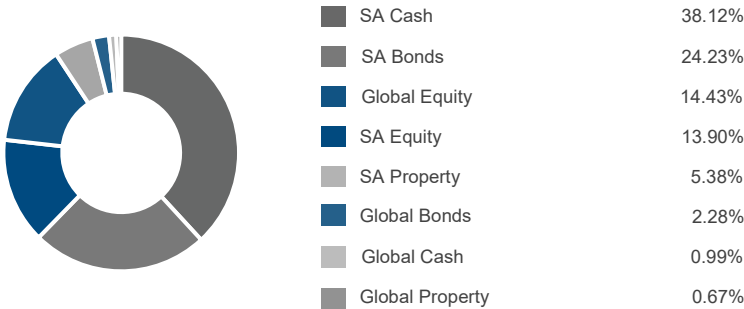
The IP Diversified Income Fund of Funds is an income generating South Africa based Fund of Funds. The investment objective of the Fund is to achieve a high level of sustainable income and stability of capital invested. It will invest in a broad range of participatory interests and other forms of participation in collective investment schemes (CISs) or similar schemes. The Fund aims to provide investors with a high level of income and low risk capital growth to outperform CPI + 2% p.a. over a rolling 2-year period. The Fund is diversified between asset classes with a high allocation to assets that generate income. It is managed according to the Prudential Regulation 28 guidelines of the Pension Fund Act. This Fund is suitable for conservative investors with the priority to safeguard assets in a tax efficient manner, whilst satisfying a need for income. The Fund has a predetermined risk budget per asset class to allow the manager to vary exposure between asset classes, whilst respecting the Fund's strategic asset allocation benchmarks. The managers consider tactical asset allocations between asset classes and sectors after a team process has determined a risk score by considering the global and local leading economic indicators, asset class valuations, fundamental research, independent liquidity analysis and technical analysis.

### Investor Profile

Low Risk      Low to Moderate Risk      Moderate Risk      Moderate to High Risk      High Risk



### Asset Allocation



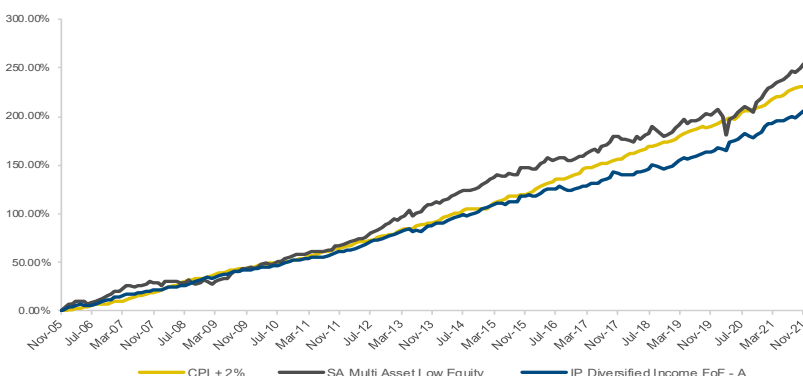
### Top Portfolio Holdings

MitonOptimal IP Interest Plus Fund	38.48%
IP Active Beta Fund A	29.79%
MitonOptimal International Managed Flexible Fund	7.28%
Visio BCI Unconstrained Fixed Int C	5.46%
Marriott Core Income Fund	3.71%
IP Foreign Flexible FF A1	3.11%
Northstar MET Income Fund (D)	3.08%
Ashburton Inflation ETF	2.94%
Excelsia Equity 27Four Fund A4	2.08%
Satrix Property Index Fund A2	2.02%

### Top Securities

Standard Bank Of South Africa Ltd	14.27%
South Africa, Republic Of (Government)	10.83%
Nedbank Ltd	10.13%
Absa Bank Ltd	7.07%
RMB Holdings Ltd	4.47%
Investec Bank Ltd	2.36%
UBS Abspa 110624 ETN	2.11%
Bank Of New York Mellon	2.05%
Firststrand Bank Ltd	1.89%
IB Top 40 Tr2 ETN Oct22	1.72%

### Fund Performance



Source: IRESS

ASISA Member of the Association for Savings & Investment SA

### Fund Information

#### Fund managers



Roeloff Horne  
Director & Head of SA  
Portfolio Management

#### Latest price

A 162.43 cents  
B2 162.55 cents

#### Fund size<sup>1</sup>

R 262 m

#### Number of units

A 9 186 158.96  
B2 152 003 168.06

#### ASISA category

SA Multi Asset - Low Equity

#### Regulation 28 compliant

Yes

#### Benchmark

CPI + 2%

#### Inception

A 21 November 2005  
B2 03 October 2011

#### Min lump sum investment

R10,000

#### Min monthly investment

A R1,000

#### Dates of income declarations

31 Mar / 30 Jun / 30 Sept / 31 Dec

#### Date of income payment

15th day of the following month or next business day if the 15th does not fall on a business day

### Portfolio Fees

Max initial manager fee	0.00%
Max initial adviser fee	2.00% (excl. VAT)
Annual management fee	A 1.00% (excl. VAT) B2 0.75% (excl. VAT)

### Total Expense Ratio (TER)<sup>2</sup>, Transaction Costs (TC) and Total Investment Cost (TIC) (01 Oct 2018 to 30 Sept 2021)

	A	B2
TER*	1.96%	1.67%
TC	0.11%	0.11%
TIC (incl. VAT)	2.07%	1.78%

\*Includes the annual management fee of 1.00% for class A and 0.75 for class B2 (VAT inclusive).

### Annualised<sup>3</sup> Performance (A Class)

Highest % (31 July 2007)	12.38%
Lowest % (30 November 2018)	1.75%

### Fund References

	A	B2
ISIN	ZAE000140919	ZAE000159166
Bloomberg	SENDIVE: SJ	MITDB2: SJ
JSE	SEDIF	SEDB2

Annualised Returns <sup>3</sup>	YTD	1-Year	3-Year	5-Year	Since inception 21-11-2005
IP Diversified Income FoF	7.92%	8.95%	7.57%	6.43%	7.25%
Sector	10.92%	12.55%	8.25%	6.80%	8.22%
Benchmark	6.83%	7.22%	6.60%	8.17%	7.78%
Cumulative Returns	YTD	1-Year	3-Year	5-Year	Since inception 21-11-2005
IP Diversified Income FoF	7.92%	8.95%	24.48%	36.54%	206.66%
Sector	10.92%	12.55%	26.84%	38.92%	254.14%
Benchmark	6.83%	7.22%	21.14%	38.72%	231.66%

Fund returns shown are based on NAV-NAV unit pricings calculated from IRESS for a lump-sum investment with income distribution reinvested (after fees and cost).



**Quarterly Market Commentary** (as at 30 September 2021)

Capital markets experienced a sell-off in September due to factors including inflation fears, China corporate bond payment defaults, higher US bond yields and a developed market energy crisis.

Global inflation remains elevated with signs of a slowdown in the US, China and Japan. The marginal easing is due to lower food, medical care, used-car, tobacco and services inflation in August. As a result of lowering inflationary pressures and a continued focus on economic stimulation, we expect most developed markets to keep rates low and postpone hikes further into the future. This seems less likely for emerging markets as some countries have already started hiking rates, and South Africa is looking at a hike as early as November 2021. We do, however, think that the inflation debate is not as straight forward as “transitory vs structural”. We’ve got so many moving parts here, it’s oversimplistic to suggest that it’s fully structural or fully transitory. The fact of the matter is that a lot of the things that are pushing inflation numbers around are a mixture of both. So, the conclusion from all of this is that, yes, you are going to see higher inflation with a structural element to that. But that doesn’t mean that you are going to have a run-away inflation rate, the truth is probably somewhere in between.

The combination of worries about China corporate bond payments, higher energy prices, potential tapering of bond buying in the US have all led to higher US bond yields. This, combined with more foreign selling of SA Bonds impacted the direction of the R186 and R2030 yield curves negatively. We are keeping a close eye on these yields to see if they break through March 2021 highs, which could signal immense pressure in our bond market.

We are aware of the potential negative consequences of ‘higher for longer’ energy/gas prices but believe these are part of the imbalances created by the events of the past 20 months. We are of the opinion that OPEC and shale gas operators will get production going again.

The risk-off forex environment (i.e US Dollar strength) is playing through into Rand weakness versus all other currencies. We feel that the Rand is probably close to fair value now but could range between 14.30 and 15.40 to the Dollar in the medium term. We are, however, cognizant that a breakthrough the 15.40 resistance level could cause increased weakness for the Rand.

Investors must be mindful of the facts that will support global economic growth and will support equities as an asset class. Developed market interest rates remain low and are negative after fees and inflation. US equity valuations are now less demanding – S&P 500 trading below 20 X 2022 forward estimate earnings. Vaccination success in developed economies is making it possible for economic activity to normalize despite supply imbalances caused by Covid-19 disruptions (e.g. the global semiconductor shortage). Earnings growth (8-10% p.a in developed markets) is being supported by pent-up consumer demand. Another positive is the need to rebuild inventories and supply chain stretching out the demand cycle from here. There is \$2.5 trillion of excess savings in US household balance sheets. A lot of pent-up demand!

From a JSE perspective, these factors continue to bode well for selected Resource counters. The cyclical nature of these resource counters does increase volatility in our portfolios. We also find value in SA Banks as better than expected earnings growth and improved balance sheet risks make the sector more attractive as we can expect small interest rate hikes in November and into 2022.

**Actions in the IP Diversified Income FOF**

The following actions were implemented within the fund:

- We introduced Northstar SCI Income as an additional fixed interest manager in the fund. The main conviction to add the fund is two-fold:

- The fund process is backed by a long-term mathematical process which leads the manager to hold a diversified asset spread that can add potential value in a higher global and local inflationary environment.
- The fund performance remains above average and is in first quartile over the past 3 years while it is much less correlated relative to its peer group (0.55 correlation).

The IP Diversified Income FOF managed to generate a positive return over the past quarter despite a negative JSE and poor SA Bond performance over the period.

**Fund Distributions (cents per unit)**

	A	B2
30 Sep 2020	1.04	1.15
31 Dec 2020	1.03	1.15
31 Mar 2021	0.41	0.52
30 Jun 2021	1.03	1.15
30 Sep 2021	0.59	0.70

**FAIS Conflict of Interest Disclosure**

With multi-asset portfolios the investment manager, MitonOptimal South Africa (Pty) Ltd employs an investment strategy where specific collective investment schemes across a range of asset classes are selected and grouped together. This enable the management of the units in those portfolios in a cost and tax efficient manner. The investment manager re-invests 100% of all rebates received from the underlying managers. No other FSP receives a distribution fee from the investment manager. If another intermediary FSP is used, it is their responsibility to disclose any additional fees to you as the investor. The following fees are paid out of the portfolio’s service charge and range as follows (excl VAT): IP Management Company (RF) (Pty) Ltd: Up to 0.15% p.a.; MitonOptimal South Africa: between 0.55% and 0.60%; LISP Fee: 0.25%; Total Service Fee: 1.00% p.a. Excluding VAT.

**Foreign Disclosure**

The portfolio may include foreign investments and the following additional risks may apply: liquidity constraints when selling foreign investments and risk of non-settlement of trades; macroeconomic and political risks associated with the country in which the investment is made; risk of loss on foreign exchange transactions and investment valuation due to fluctuating exchange rates; risk of foreign tax being applicable; potential limitations on availability of market information which could affect the valuation and liquidity of an investment. All of these risks could affect the valuation of an investment in the fund.

**Contact Information**

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<sup>1</sup>Fund size is of the A Class launched on 21/11/2005 and the B2 Class launched on 03/10/2011 combined. <sup>2</sup>Please note: The Total Expense Ratio (TER) of the value of the financial product was incurred as expenses relating to the administration of the financial product. The Transaction Costs (TC) relate to the buying and selling of assets underlying the financial product. Total Investment Charge (TIC) is the value of the financial product incurred as costs relating to the investment of the financial product. 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 TERs. Transaction costs are a necessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. 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/effective-annual-cost> to access the EAC illustration. You can request an EAC calculation from [clientservices@ipmc.co.za](mailto:clientservices@ipmc.co.za) or call us on 021 673-1340. <sup>3</sup>The average return on an investment each year over a given time period. Collective Investment Schemes are generally medium to long term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the manager. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The Fund is invested in portfolios of other Collective Investment Schemes that levy their own charges, which could result in a higher fee structure for the Fund of Funds. The Manager retains full legal responsibility for the Fund, regardless of Co-Naming arrangements. Each portfolio may be closed for new investments. Transaction cut-off time is 14:30 daily. Valuation time is 20h00 for Fund of Funds. Prices are published and calculated daily, they are available in newspapers countrywide, as well as on request from the Manager. IP Management Company (RF) Pty Ltd is the authorised Manager of the Scheme – contact 021 673 1340 or [clientservices@ipmc.co.za](mailto:clientservices@ipmc.co.za). Standard Bank is the trustee / custodian – contact [compliance-IP@standardbank.co.za](mailto:compliance-IP@standardbank.co.za). Additional information including application forms, the annual report of the Manager and detailed holdings of the portfolio as at the last quarter end are available, free of charge, from [clientservices@ipmc.co.za](mailto:clientservices@ipmc.co.za). IP Management Company is a member of ASISA. MitonOptimal South Africa (Pty) Limited is the Fund Manager and is regulated by the Financial Sector Conduct Authority, FSP 28160. We advise that you consult a Qualified Independent Financial Advisor to ensure that the Fund is appropriate in terms of the investor’s risk tolerance and appetite. Collective Investment Schemes prices are calculate on a net asset value basis and auditor’s fees, bank charges and trustee fees are levied against the portfolio. Graphs and performance figures are sourced from IRESS for lump sum investments including income distribution, at NAV to NAV basis and do not take any initial fees into account. Income is reinvested on the ex-dividend date. Performance shown is for the portfolio. Individual investor performance may differ due to initial fees, actual investment date, re-investment date and withholding taxes. MitonOptimal South Africa (Pty) Limited is authorised to act as a Fund Manager in terms of FAIS. Fund of Funds invest in portfolios of other Collective Investment Schemes that levy their own charges, which could result in a higher fee structure for the fund of funds.