



FG ASSET MANAGEMENT

# QUARTERLY REPORT

Quarter 3 | 2020

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

# MARKET COMMENTARY



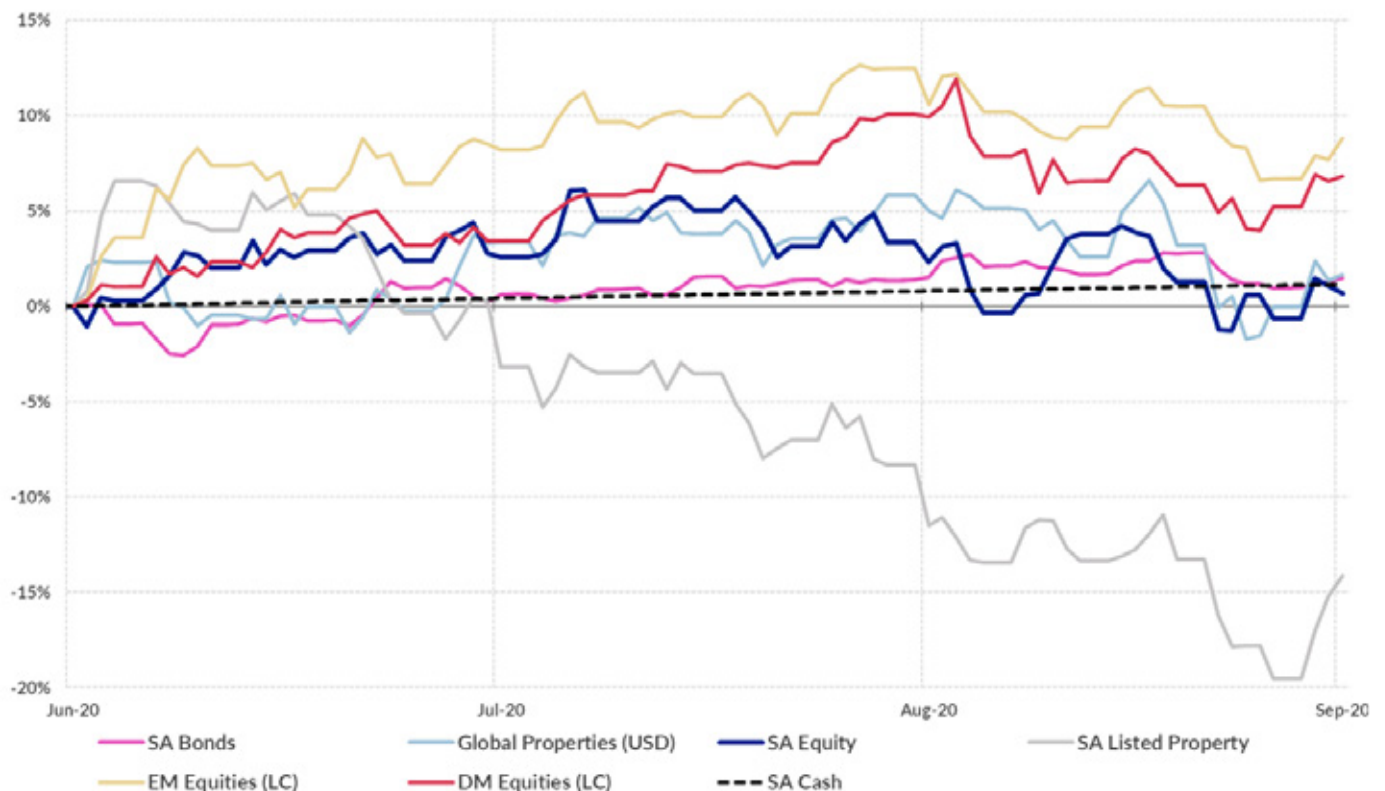
**Jacy Harington**  
Portfolio Manager  
FG Asset Management

## While the quarter got off to a positive start, sentiment faded towards quarter-end

The promise of additional fiscal support by the US government supported the positive risk-on sentiment over the first two months of the quarter. In September, however, risk appetite faded as the Democrats and Republicans failed to reach an agreement over the extension of the US fiscal stimulus package. It is now looking less likely that an additional economic relief package will be finalised ahead of the US election in November. The resurgence of COVID-19 cases in Europe and increasing concerns over the upcoming US election further weighed on sentiment into quarter-end.

Overall, emerging equity markets outperformed developed markets over the quarter. However, the local equity market's performance lagged as the FTSE/JSE All Share Index (ALSI) was only marginally positive at 0.67% in rand terms. While resources had another strong quarter, South African-focused financials continue to struggle. Local listed property's performance also remained under pressure given the sector's uncertain outlook for future distributions.

**Figure 1: Asset class returns for the third quarter**



Source: Morningstar



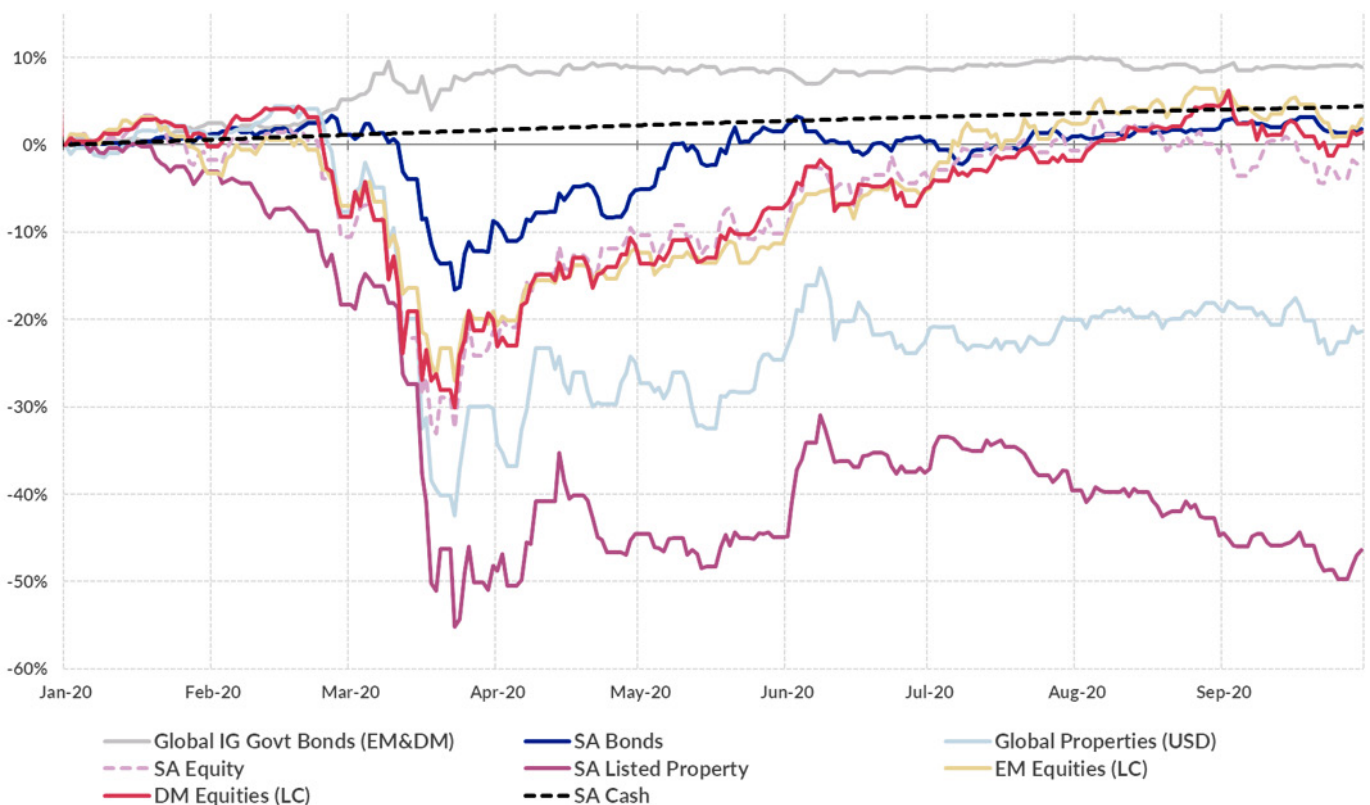
### The past quarter's returns were subdued compared to the first two quarters

Looking at returns for the year so far, the third quarter's returns were much more subdued relative to the first two quarters, as the market had time to digest the severe shock of shutting down economies and the subsequent unprecedented fiscal and monetary responses. Going forward, it is now key to see how well economic activity recovers as lockdown restrictions are eased and whether the initial recovery can be maintained.

### Both in the US and locally GDP has declined significantly as a result of lockdown

Global growth data released in July confirmed the severity of the downturn as a result of COVID-19 containment measures being enforced during the second quarter. The final estimate for US GDP for the second quarter showed the largest quarterly contraction in growth in more than 70 years – in fact, since this data has been recorded. US GDP contracted 31.4% from the first quarter on an annualised basis.

Figure 2: South African asset class returns year-to-date



Source: Morningstar

Figure 3: Breakdown of South Africa's second quarter GDP growth rate



Source: BusinessTech. Stats SA

Locally, the second quarter's GDP figure was released in September, which showed the South African economy shrinking 51% on an annualised basis. Even though this significant decline was mostly expected, it highlights the extreme impact the lockdown has had on the South African economy. The breakdown of the second quarter's growth reflects broad-based weakness across the majority of sectors, with only Agriculture reflecting positive growth. Manufacturing and Trade were the largest detractors from growth, detracting -10.8% and -10.5% respectively. In the new growth forecasts released by the South African Reserve Bank (SARB) in September, the bank expects a contraction of -8.2% in 2020, followed by 3.9% expansion in 2021.





### **In September, for the first time this year, the SARB did not reduce the repo rate**

In July, the SARB reduced the repo rate by another 0.25% to leave it at a new low of 3.5%. The decision was not unanimous, as two of the five Monetary Policy Committee (MPC) members voted for no change in the policy rate. At the second meeting of the quarter, held in September, the MPC kept policy rates unchanged despite lowering their forecasts for both growth and inflation. The decision was again split, with two of the five members voting for a further 0.25% rate cut. It was the first meeting of the year where the SARB did not reduce the repo rate, following an aggressive rate-cutting cycle during which rates were lowered by 3% in total.

### **Inflation has reverted to pre-COVID-19 levels and remains subdued in most categories**

Over the quarter we saw inflation reverting to pre-COVID-19 levels; however, it remains close to the lower band of the SARB's 3%-6% target range. August's annual inflation came in at 3.1% – one percentage point higher than the 2.1% lows we saw in May. The rebound was driven mainly by the increase in fuel prices, while the majority of the other categories of inflation remain subdued.

### **Further accommodative monetary policy changes in the US failed to offset negative sentiment**

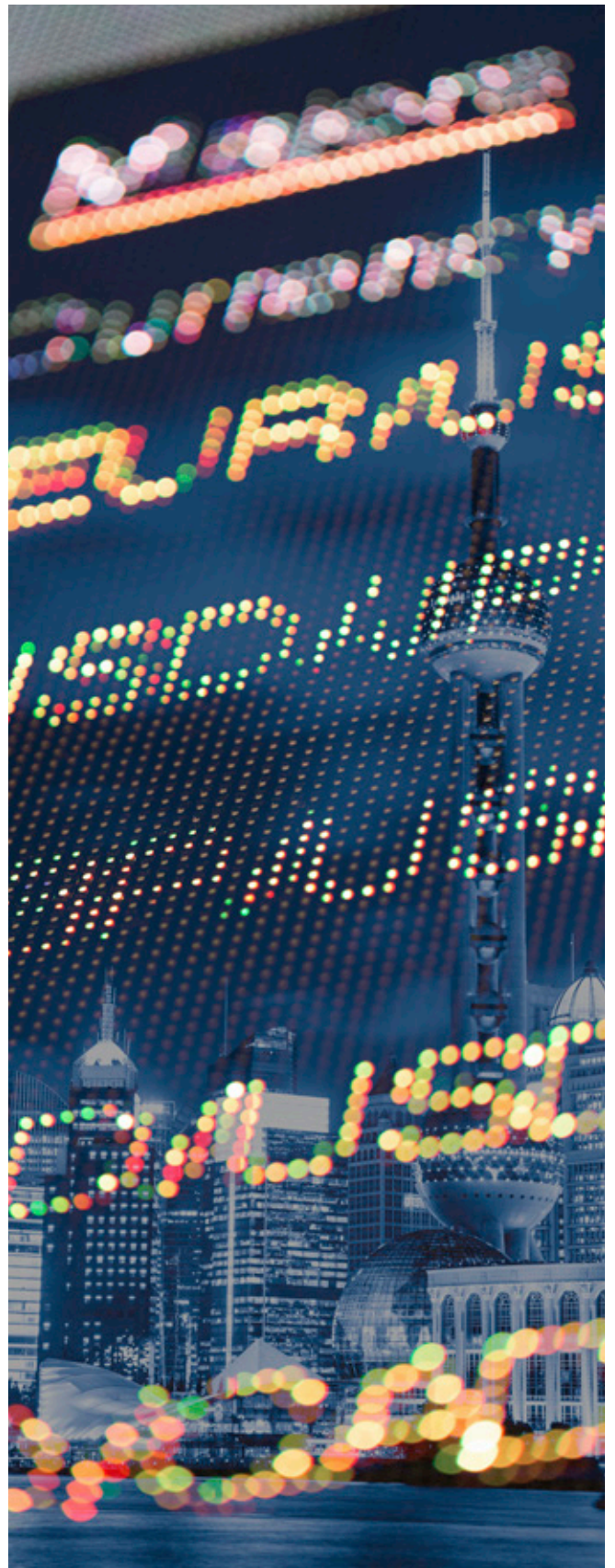
The annual global central banking conference, Jackson Hole, was held at the end of August. Jerome Powell, Head of the US Federal Reserve (the Fed), announced a significant shift in its monetary policy. There were two key changes. The first was the allowance for inflation to overshoot the Fed's 2% target following periods when inflation had run below target. (The aim is to achieve an average inflation rate of 2% over time.) The second change was that the Fed no longer sees a tight labour market necessarily resulting in higher inflation. The bank will therefore not tighten monetary policy if the labour market is at maximum capacity unless they see "unwanted increases in inflation". Even though these changes were seen as further extending the accommodative monetary policy, they failed to offset the negative sentiment that built up over September.

### **Uncertainty looms ahead of the November US elections**

Looking ahead to the last quarter of this unusual year, the US election is due to be held on 3 November. It is expected that this event will also be plagued by unfamiliar circumstances, one being the much larger proportion of mail-in voting and the time it will take to get these votes counted, which could be weeks. The current US President has also refused to commit to a peaceful transfer of power and stated that he would challenge a result in the Supreme Court, should he fail to obtain victory.

### **Here at home we await the Finance Minister's announcement on expenditure cuts**

Locally, South Africans are anticipating the Medium Term Budget Policy Statement (MTBPS) where the Finance Minister is expected to announce the promised expenditure cuts. The credibility and acceptance of this plan will be crucial to reducing the fiscal deficit and stabilising debt.





# FG IP JUPITER INCOME FUND OF FUNDS

For periods until 30 September 2020

## Performance and quartile ranking in sector | Launch date 15 August 2005

	6 months	Year to date	1 year	3 years*	5 years*	Since inception*
FG IP Jupiter Income FoF	5.55%	3.04%	4.69%	6.80%	7.43%	7.83%
STeFI Composite Index	2.64%	4.38%	6.20%	6.93%	7.11%	7.25%
ASISA SA Multi Asset Income Category Average	4.90%	3.43%	5.17%	6.90%	7.23%	7.69%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> Quartile

\*Data for longer than 12 months is annualised  
Source: Morningstar, performance for A class shares  
Annualised returns are period returns re-scaled to a period of 1 year

## Underlying funds

- Coronation Strategic Income Fund
- Nedgroup Investments Flexible Income Fund
- Prescient Income Provider Fund
- Terebinth SCI Strategic Income Fund

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	3.25%	5.17%
% positive months	93.37%	100.00%

The FG IP Jupiter Income Fund of Funds returned +1.15% in the third quarter of 2020 and +4.69% over the past 12 months, underperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +1.16% and 12-month return of +6.20%. The Prescient Income Provider Fund was the worst-performing underlying fund over the quarter, returning +0.89%. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Jupiter Income FoF	0%	2%	41%	50%	7%



# FG IP VENUS CAUTIOUS FUND OF FUNDS

For periods until 30 September 2020

## Performance and quartile ranking in sector | Launch date 2 July 2007

	6 months	Year to date	1 year	3 years*	5 years*	Since inception*
FG IP Venus Cautious FoF	9.34%	2.87%	4.68%	4.92%	6.56%	8.36%
ASISA SA Multi Asset Low Equity Category Average	9.38%	1.53%	3.04%	4.26%	5.20%	7.16%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> Quartile

\*Data for longer than 12 months is annualised  
Source: Morningstar, performance for A class shares  
Annualised returns are period returns re-scaled to a period of 1 year

## Underlying funds

- 36ONE BCI Equity Fund
- ABSA Property Equity Fund
- Coronation Optimum Growth Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Matrix SCI Defensive Balanced Fund
- Nedgroup Investments Opportunity Fund
- Ninety One Diversified Income Fund
- Ninety One Global Multi-Asset Income Feeder Fund
- Ninety One Global Franchise Feeder Fund
- Prescient Income Provider Fund
- Saffron SCI Opportunity Income Fund
- Satrux Bond Index Fund
- Sanlam Multi Manged Inflation Linked Bond Fund
- Sesfikile SCI Property Fund
- Terebinth SCI Strategic Income Fund

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	15.12%	16.56%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	71.07%	71.07%

The FG IP Venus Cautious Fund of Funds returned +0.80% in the third quarter of 2020 and +4.68% over the past 12 months, underperforming the benchmark peer group average quarterly return of +0.96%, but outperforming the 12-month return of +3.04%. The ABSA Property Equity Fund was the worst-performing underlying fund, returning -19.98% over the quarter. An initial position was made into the Sanlam Multi Managed Inflation Linked Bond Fund, which tracks the Barclays ILB Index. The position will provide protection to the portfolio in an inflationary environment over the longer term.

## Asset allocation as at 31 August 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Venus Cautious FoF	13%	5%	26%	33%	23%



# FG IP SATURN FLEXIBLE FUND OF FUNDS

For periods until 30 September 2020

## Performance and quartile ranking in sector | Launch date 15 August 2005

	6 months	Year to date	1 year	3 years*	5 years*	Since inception*
FG IP Saturn Flexible FoF	13.81%	1.64%	4.35%	3.87%	5.03%	9.71%
ASISA SA Multi Asset Medium Equity Category Average	12.57%	0.80%	2.81%	3.33%	4.44%	8.43%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> Quartile

\*Data for longer than 12 months is annualised  
Source: Morningstar, performance for A class shares  
Annualised returns are period returns re-scaled to a period of 1 year

## Underlying funds

- 36ONE BCI Flexible Opportunity Fund
- Coronation Market Plus Fund
- Matrix SCI Defensive Balanced Fund
- Ninety One Opportunity Fund
- Nedgroup Investments Opportunity Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- SIM Inflation Plus Fund
- Truffle SCI Flexible Fund

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	68.51%	66.30%

The FG IP Saturn Flexible Fund of Funds returned +1.80% in the third quarter of 2020 and +4.35% over the past 12 months, outperforming the benchmark peer group average quarterly return of +1.12% and the 12-month return of +2.81%. The PSG Flexible Fund was the best-performing underlying fund, returning +4.08% over the quarter. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Saturn Flexible FoF	34%	2%	20%	18%	26%





# FG IP NEPTUNE GROWTH FUND OF FUNDS

For periods until 30 September 2020

## Performance and quartile ranking in sector | Launch date 1 September 2014

	6 months	Year to date	1 year	3 years*	5 years*	Since inception*
FG IP Neptune Growth FoF	18.79%	0.77%	4.09%	4.25%	5.39%	5.44%
ASISA SA Multi Asset High Equity Category Average	14.89%	-0.64%	1.84%	2.35%	3.94%	4.18%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> Quartile

\*Data for longer than 12 months is annualised  
Source: Morningstar, performance for A class shares  
Annualised returns are period returns re-scaled to a period of 1 year

## Underlying funds

- ABSA Property Equity Fund
- Catalyst Global Real Estate Prescient Feeder Fund
- Coronation Optimum Growth Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Laurium Flexible Prescient Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Balanced Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Truffle SCI Flexible Fund

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	14.27%	12.31%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	63.01%	61.64%

The FG IP Neptune Growth Fund of Funds returned +2.19% over the third quarter of 2020 and +4.09% over the past 12 months, outperforming the benchmark peer group average quarterly return of +1.29% and the 12-month return of +1.84%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +8.69% over the quarter as the fund's resources and industrials exposure contributed positively to performance. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Neptune Growth FoF	44%	3%	11%	13%	29%





# FG IP MERCURY EQUITY FUND OF FUNDS

For periods until 30 September 2020

## Performance and quartile ranking in sector | Launch date 15 August 2005

	6 months	Year to date	1 year	3 years*	5 years*	Since inception*
FG IP Mercury Equity FoF	25.16%	-1.79%	2.18%	0.71%	2.39%	9.24%
FTSE/JSE Africa All Share (Total Return)	24.01%	-2.51%	2.01%	2.39%	4.75%	11.76%
ASISA SA Equity General Category Average	20.74%	-7.04%	-2.93%	-1.16%	1.38%	9.07%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> Quartile

\*Data for longer than 12 months is annualised  
Source: Morningstar, performance for A class shares  
Annualised returns are period returns re-scaled to a period of 1 year

## Underlying funds

- 36ONE BCI Equity Fund
- Coronation Optimum Growth Fund
- Fairtree Equity Prescient Fund
- Gryphon All Share Tracker Fund
- Laurium Prescient Equity Fund
- Nedgroup Private Wealth Core Equity Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Equity Fund
- PSG Equity Fund
- Sesfikile BCI Property Fund
- Truffle SCI General Equity

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	41.30%	48.30%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	61.33%	61.33%

The FG IP Mercury Equity Fund of Funds returned +2.10% in the third quarter of 2020 and +2.18% over the past 12 months, outperforming the +0.67% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +2.01%. The Fairtree Equity Prescient Fund was the best-performing underlying fund, returning +8.69% over the quarter as the fund's resources and industrials exposure contributed positively to performance. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2020

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Mercury Equity FoF	74%	4%	0%	5%	17%



# FG IP INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 30 September 2020

## Performance and quartile ranking in sector | Launch date 17 October 2007

	6 months	Year to date	1 year	3 years*	5 years*	Since inception*
FG IP International Flexible FoF	11.60%	14.04%	12.04%	8.83%	9.35%	9.28%
Benchmark	10.77%	16.22%	14.84%	9.90%	9.60%	9.86%
ASISA Global - Multi Asset - Flexible Average	10.77%	16.22%	14.84%	9.90%	9.41%	9.26%
			1 <sup>st</sup> Quartile	2 <sup>nd</sup> Quartile	3 <sup>rd</sup> Quartile	4 <sup>th</sup> Quartile

\*Data for longer than 12 months is annualised  
Source: Morningstar, performance for A class shares  
Annualised returns are period returns re-scaled to a period of 1 year

## Underlying funds

- FGAM Global Cautious Fund
- FGAM Global Growth Fund
- Nedgroup Investments Global Flexible Fund
- Ninety One Global Strategic Managed Fund
- Ninety One Global Franchise Fund

## Performance statistics

	Fund	Benchmark
Highest 12-month performance	40.26%	34.52%
Lowest 12-month performance	-16.99%	-15.05%
% positive months	56.77%	59.62%

The FG International Flexible Fund of Funds returned +1.86% in the third quarter of 2020 and +12.04% over the past 12 months, outperforming the benchmark peer group average quarterly return of +1.85% while underperforming the 12-month return of +14.84%. The Ninety One Global Strategic Managed Fund was the best-performing underlying fund over the quarter, returning +7.14%. No changes were made to the fund over the quarter.

## Asset allocation as at 31 August 2020

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG IP International Flexible FoF	65%	7%	21%	5%	2%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	66%	3%	12%	5%	12%	2%

# MARKET PERFORMANCE

Index	Asset Class	4Q 2019	1Q 2020	2Q 2020	3Q 2020	Last 12 months*	Year to Date 2020*
STeFI Composite Index	Local Cash	1.74%	1.69%	1.46%	1.16%	6.20%	4.38%
BEASSA ALBI Total Return Index	Local Bonds	1.73%	-8.72%	9.94%	1.46%	3.58%	1.82%
FTSE/JSE SA Listed Property Index (Total Return)	Local Property	0.58%	-48.15%	20.43%	-14.14%	-46.07%	-46.39%
FTSE/JSE Africa All Share Index (Total Return)	Local Shares	4.63%	-21.38%	23.18%	0.67%	2.01%	-2.51%
JP Morgan World Govt Bond Index (USD)	Global Bonds	-0.52%	3.10%	1.46%	2.54%	6.69%	7.26%
FTSE EPRA NAREIT Global REITs TR Index (USD)	Global Property	1.06%	-30.16%	10.78%	1.66%	-20.51%	-21.34%
MSCI World GR Index (USD)	Global Shares	8.68%	-20.93%	19.54%	8.05%	10.99%	2.12%
USD/ZAR: Index: MSCI ACWI GR Index (USD)	Global Shares	9.07%	-21.26%	19.39%	8.25%	11.00%	1.77%
USD/ZAR (+ weaker ZAR, - stronger ZAR)	Exchange Rate	-7.65%	27.45%	-2.74%	-3.90%	10.01%	19.12%

\*(Return until 30 September 2020)





# ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG IP Jupiter Income FoF A	107 172 785.80	R11.94	1.07
FG IP Jupiter Income FoF B	13 295 474.00	R11.84	2.79
FG IP Jupiter Income FoF B1	20 067 320.93	R11.85	2.51
FG IP Jupiter Income FoF A1	48.84	R11.90	1.66
FG IP Venus Cautious FoF A	59 563 197.00	R16.28	1.38
FG IP Venus Cautious FoF B	6 355 742.21	R16.09	3.10
FG IP Venus Cautious FoF B1	12 427 445.58	R16.10	2.81
FG IP Venus Cautious FoF A1	35.16	R16.24	1.93
FG IP Saturn Flexible FoF A	46 144 827.54	R27.26	1.46
FG IP Saturn Flexible FoF B	12 371 749.30	R27.01	3.18
FG IP Saturn Flexible FoF B1	6 744 280.83	R27.04	2.90
FG IP Saturn Flexible FoF A1	20.19	R27.18	2.03
FG IP Neptune Growth FoF A	16 547 887.50	R11.79	1.57
FG IP Neptune Growth FoF B	1 973 203.16	R11.70	3.29
FG IP Neptune Growth FoF B1	718 444.58	R11.71	3.01
FG IP Neptune Growth FoF A1	46.53	R11.76	2.13
FG IP Mercury Equity FoF A	4 505 806.33	R29.52	1.63
FG IP Mercury Equity FoF B	808 025.78	R28.20	3.35
FG IP Mercury Equity FoF B1	72 461.22	R28.75	3.06
FG IP Mercury Equity FoF A1	16.32	R29.46	2.20
FG IP International Flexible FoF A	12 846 244.95	R30.44	1.66
FG IP International Flexible FoF B	1 880 307.99	R25.41	3.32
FG IP International Flexible FoF B1	8 802 178.42	R26.14	3.09
FG IP International Flexible FoF A1	388.56	R30.08	2.23

\*Fund size and no. of participatory interests as at 30 September 2020

\*\*TER as at 30 June 2020



# ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

## CONTACT US

### CAPE TOWN:

Borland Financial Services Group (Pty) Ltd  
Sarah Crone: sarah@fgip.co.za  
Tel: 082 321 4550

### DURBAN:

Borland Financial Services Group (Pty) Ltd  
Mike Borland: mikeb@fgip.co.za  
Sarah Crone: sarah@fgip.co.za  
Tammy Loots: tammy@fgip.co.za  
Dee Sunny: dee@fgip.co.za  
Tel: 031 202 9113

Harcourt Martens & Associates (Pty) Ltd  
Sandy Aitken-Rose: sandy@fgip.co.za  
Tel: 082 576 2371

### JOHANNESBURG:

Bear Vision Investment Services (Pty) Ltd  
Klaas Venter: klaas@fgip.co.za  
Tel: 011 431 1201

FG Family Office (Pty) Ltd  
Hendrik Fourie: hennie@fgic.co.za  
Riaan Kemp: riaan@fgic.co.za  
Tel: 011 782 1200

Finleks (Pty) Ltd  
Jacques du Plessis: jacques@fgip.co.za  
Tel: 011 552 7345

FIRSTGLOBAL Capital (Pty) Ltd  
Ernst Beukes: ernst@fgip.co.za  
Tel: 011 476 0676

### PRETORIA:

FIRSTGLOBAL Capital (Pty) Ltd  
John Swart: john@fgip.co.za  
Jan Labuschagne: jan@fgip.co.za  
Karen Kruys: karen@fgip.co.za  
Tel: 012 460 5007

Global Wealth Advisory  
Kobus Venter: kobus@fgip.co.za  
Adri Viljoen: adri@fgip.co.za  
Tel: 012 460 5007

### RICHARDS BAY:

Harcourt Martens & Associates (Pty) Ltd  
Mike Harcourt: mikeh@fgip.co.za  
Louwrens Badenhorst: louwrens@fgip.co.za  
Tel: 035 789 8525

[www.fgam.co.za](http://www.fgam.co.za)

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