Matrix NCIS Fixed Income Retail Hedge Fund

Minimum Disclosure Document and Quarterly Investor Report - 30 June 2020

Investment Objective

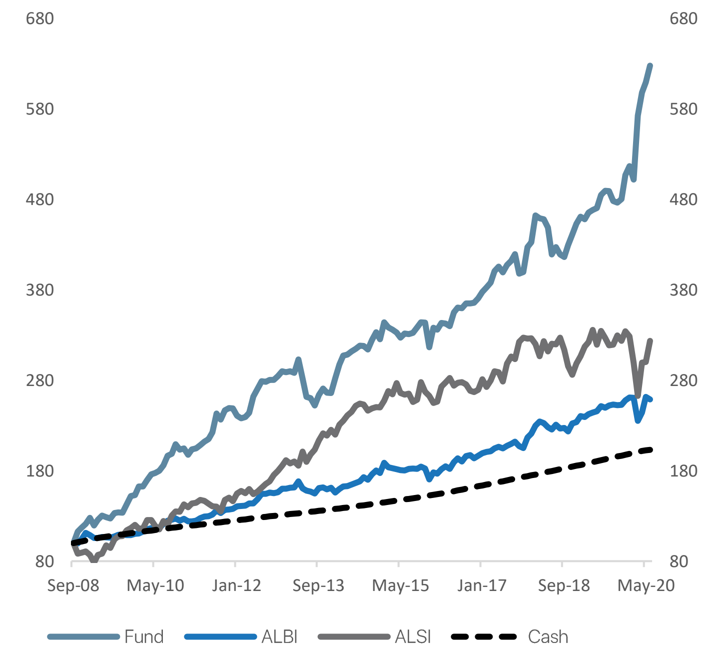
The Fund's investment objective is to achieve net annualised returns of Cash + 8% over rolling three year periods. The investment objective is pursued irrespective of the performance of the financial markets or any particular asset class.

Investment Process

The Investment Manager identifies investment opportunities through macro-economic forecasting and rigorous analysis of the term structure of interest rates. The Fund's investment strategies invest independently, with no house view approach adopted.

Net Fund Performance – Class B1[1]

Cumulative Growth of R100 invested at inception.



Returns(%)[1]	Fund	ALBI[2]	ALSI[2]	Cash[2]
3 Months	9.6	9.9	23.2	1.1
Year to Date	23.9	0.4	-3.2	2.7
Latest 1 Year Rolling	29.5	2.9	-3.3	6.0
Latest 3 Year Rolling	16.3	8.1	5.1	6.5
Latest 5 Year Rolling	13.6	7.5	4.2	6.5
Latest 10 Year Rolling	13.3	8.3	10.9	5.8
Since Inception	16.9	8.4	10.5	6.2
Highest Annual Return[4]	33.7	16.0	32.1	8.4
Lowest Annual Return[4]	-8.2	-3.9	-8.5	4.7

Risk Measures (since inception)	Fund	ALBI	ALSI
Month End 99 VaR[3] (%)	-13.3	NA	NA
Standard Deviation (%)	11.6	7.9	14.7
Largest Draw Down (%)	-16.8	-9.8	-21.7
Correlation	1.0	0.4	0.0

Fund Characteristics

The Fund is a collective investment scheme in hedge funds, specifically a Retail Hedge Fund. The Fund pursues opportunistic, directional, relative value and correlation strategies in South African fixed income and related derivative markets.

Risk Profile

The risk classification of the Fund is "High", due to the return objective and potential associated volatility of returns. The Fund is appropriate for long term investors who understand the risks and exposure associated to investing in a hedge fund.

Low **Moderate** **High**

Fund Information:	Class B1
ASISA Fund Classification	RHF – SA – Fixed Income
Benchmark	Cash (STFCAD)
Fund Size	R2.9 billion
Inception Date (unregulated fund)	1 October 2008
Conversion to CIS Retail Hedge Fund	1 September 2016
Minimum Lump Sum Investment	R50 000
Minimum Debit Order investment	R1 000 per month
Participatory Interests in Issue (units)	243 696
Net Quarterly Units Subscriptions/ (Redemptions)	9 850
NAV per Participatory Interest (cents)	13 656.96
Dealing frequency	First business day of each month
Redemption notice period	30 calendar days
Income Declaration Dates	March, June, September, December
Previous Income Distributions (Cents per Unit)	Jun 2020: 0.00 Mar 2020: 0.00 Dec 2019: 0.00 Sep 2019: 0.00
Pricing Information	Priced monthly and published in the MDD[5] (available on website).
Annual Management Fee	1.20% per annum (excl. VAT)
Performance Fee[6]	20% sharing ratio subject to the performance hurdle (excl. VAT)
Total Expense Ratio (incl. VAT)	As at 31 March 2020
Management Fees	1.38%
Performance Fees	2.18%
Other Fees	0.01%
Total Expense Ratio (TER)	3.57%

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Net Monthly Performance Track Record (%)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2020	1.9	-2.9	14.1	4.4	1.9	3.0							23.9
2019	1.7	-0.6	1.6	0.6	0.5	3.1	1.0	-0.1	-2.2	-0.4	0.8	5.6	11.9
2018	1.2	6.9	-0.6	-0.3	-2.0	-6.6	1.9	-1.9	-0.7	3.1	2.8	2.7	6.0
2017	1.9	1.3	1.4	3.3	1.3	-1.6	2.0	1.1	1.8	-5.1	0.4	7.0	15.3
2016	6.9	-0.6	2.1	-0.1	-0.9	4.5	1.4	-0.2	1.5	0.0	0.2	1.4	17.1
2015	5.7	-1.6	-0.8	-0.9	-1.7	1.5	-0.2	0.4	1.8	1.8	-0.1	-7.9	-2.7
2014	6.0	5.4	3.3	0.4	1.2	0.9	1.2	-0.1	-1.2	3.4	2.6	-2.3	22.3
2013	-0.3	0.4	-0.7	5.2	-7.1	-7.1	-0.6	-3.1	4.6	2.7	-1.7	-0.1	-8.2
2012	-3.2	-1.2	0.5	2.0	7.4	3.2	3.2	-0.3	0.8	0.0	1.5	1.8	16.4
2011	-3.4	3.0	0.5	1.7	1.8	1.4	3.5	9.4	-2.7	4.3	0.9	-0.1	21.6
2010	6.1	0.0	4.4	3.7	1.0	1.4	3.4	5.6	1.1	5.4	-2.9	0.8	33.7
2009	5.5	-6.7	5.5	3.6	-1.3	-1.3	4.9	0.5	-0.2	6.8	6.3	0.9	26.2
2008										12.6	4.0	3.6	21.3

Performance from October 2008 to August 2016 is for the unregulated product, while performance from September 2016 is for the regulated product.

Manager Commentary: June 2020

Risk assets have been surfing the liquidity wave brought about by QE infinity from the Fed, ECB and many other central banks. However, countries may have to deal with the risk of a “second wave” of Covid-19 infections as politicians ease the stringency measures. Until now, the US has been the prime example of a “second wave” meeting up with the broadening “first wave” of infections.

The challenge for investors is to distinguish the temporary from the permanent effects associated with the Covid-19 pandemic and the attendant policy response. The rebound in macro data, such as US non-farm payrolls and retail activity, and the surge in economic surprise indices (again most notably for the US) indicate that much of the demand shock was temporary and due to the restrictions. However, the economic scarring could be longer lasting. Household incomes may be permanently lower, while job losses may lag the recession. In addition, behavioural change – whether due to the need for precautionary savings or reduced travel and activity as a health protection measure – could depress the pace of growth in the coming quarters.

For South Africa, the recovery will also be constrained by an uncompetitive economy. Importantly, the pandemic has brought forward the long-feared fiscal cliff, which will force the government into austerity at time when the economy can least afford it. Structural reform is long overdue, but these reforms often entail short-term pain for long-term gain, which then reduces the political appetite to implement reforms. In the short term, a resumption of capital inflows may partially mask South Africa’s ills. A steady rand, anchored inflation expectations, and a wide output gap should allow for further monetary policy easing. Timing has become less certain, but as we have learnt from macro and markets, there are leads and lags.

Market developments

Following the market rout in 1Q20, equities (23.2%) rebounded sharply in Q2, followed by listed property (20.4%), where the performance was off a very low base. Fixed-rate bonds posted a respectable 9.9%, double the return from inflation-linked bonds (4.7%), as all the asset classes managed to outperform cash (1.5%).

FX markets were range bound in June, as initial dollar weakness proved temporary. The risk-on associated with the reopening of the US economy gave way to concerns about a renewed escalation of Covid-19 infections in the US. The dollar ended the month down 1.1%, while the EM FX performance was wide-ranging. USD/ZAR fell to 16.60, but ended the month close to 17.40, leaving the rand 18% weaker year-on-year. Based on our estimates the rand is moderately undervalued, but sustained gains will depend on the dollar weakening further and the global growth recovery gaining more traction.

US breakeven inflation widened alongside the rebound in oil prices as TIPS yield fell but nominal yields remained stable. EM yields compressed moderately further, but SA did not benefit from falling global yields as the 10-year yield rose by 30bp. The local bond market has built in renewed risk premium associated with the fiscal deterioration and funding requirement.

Portfolio performance and positioning

The fund gained 9.6% in 2Q20, outperforming its alpha objective.

The outperformance was driven by the continued fall in forward rates, which reflected our view as well as seemingly the market consensus that the risk of a sharper growth contraction (by as much as 10%) and softer inflation (possibly averaging at or below the bottom end of the target range) leave sufficient scope for further monetary policy easing.

Following aggressive monetary easing in March and April, the SARB turned more cautious at the May MPC meeting. While the 50bp cut was in line with the consensus expectation, the fact that two of the five MPC members voted for a 25bp reduction gave the outcome a hawkish tint. The faster re-opening of the economy may result in a less dovish MPC in the short term, particularly in relation to earlier aggressive easing. Yet forecast risk remains elevated and a delayed easing response should not be ruled out. The FRA curve has declined further post the initial reversal after the perceived hawkish May MPC and is fully pricing in a further 25bp rate cut at the July MPC and pricing cumulative easing over the next 3 MPC meetings of 50 bps amidst the stronger rand and sharp decline in inflation in April (from 4.1% to 3.0%). The SARB’s reluctance to guide markets towards further aggressive easing may reflect rising fiscal risks resulting from the deep recession. The Supplementary Budget broadly met expectations on the headline numbers, but set out an ambitious consolidation path – both in extent and in the timing. It remains unclear whether the negative fiscal impulse will adequately lower the fiscal risk premium or whether it will prove counterproductive and prevent a stabilisation in the debt ratio because of continued slow growth. Given the increase in issuance and tepid EM capital inflows the SARB will continue to be a soft backstop for the bond market.

Disclosures and definitions

The permitted exposure limit as per the founding document and mandate

The portfolio's exposure limit is measured by Value at Risk (VaR) as defined by BN52, with the 1 Month 99% VaR being limited to 20% of the portfolio's net asset value.

Actual Exposure

	Quarter Ending: 31 March 2020	Quarter Ending: 30 June 2020	1 Month 99% VaR Limit
Highest 99% VaR	-14.5%	-13.6%	-20%
Period ending 99% VaR	-9.0%	-13.3%	-20%

Portfolio Counterparty Exposure per BN52 Table 3 Item 2

	Quarter Ending: 31 March 2020	Quarter Ending: 30 June 2020
ABSA Bank	3.6%	12.3%
FirstRand Bank	56.7%	56.6%
Nedbank	0.6%	7.7%
Standard Bank	19.5%	9.5%

Methodology for conducting stress testing

Daily stress testing is conducted by varying input parameters for pricing purposes. These calculations are performed on latest portfolio holdings by a third party risk services provider. The risk services provider creates hypothetical market environments where asset prices exhibit extreme moves. The results are monitored by our risk management team independently of the investment team and communicated to investment team, executive management and compliance.

In addition we simulate interest rate movement in increments of 50 basis points, both up and down, to see the effect of parallel moves in the yield curve, and shock the curve through twists or butterfly moves where the long end could move up and the short end down. From the results we analyze changes in VaR, PV01 (rand per point) as well as potential profit or losses resulting from such moves.

Leverage

The portfolio's sources of leverage are financial derivatives and security short selling. The providers of leverage are the portfolio's counterparties through the prime brokers and the JSE via its listed derivative markets.

Encumbered Assets

The portfolio's prime broking arrangements permit the prime brokers to encumber assets of the portfolio as security collateral against the portfolio's obligations to the prime broker and for the prime brokers to re-hypothecate (on-lend) encumbered assets to other parties. In practice re-hypothecation does not happen.

Liquidity Risk Profile

The portfolio provides its investors with monthly redemption liquidity. The liquidity of assets in the portfolio aligns to the redemption period. Since most assets in the portfolio are OTC securities, the price of liquidity is dependent on supply and demand in the market.

Footnotes

1. All returns for periods of greater than 12 months are annualized.
2. JSE Composite All Bond Index (ALBI) & FTSE/JSE All Share Total Return Index (ALSI /J203) and STEFI Call Deposit Index (STFCAD) (Source: JSE).
3. VaR (Value-at-Risk) is a measure of the possible loss that could arise in the current portfolio over one month, based on 500 days of historical data.
4. These are the highest or lowest full calendar year returns since inception of the Fund.
5. The MDD stands for minimum disclosure document.
6. Performance fees are levied on all performance subject to the investor receiving the benchmark return over a rolling 12 month period.

Important additional information:

Management Company

Novare CIS (RF) Proprietary Limited (Novare CIS) (the 'management company') (Registration No.2013/191159/07) is an authorized Management Company registered according to the Collective Investment Schemes Control Act (CISCA) and regulated by the Financial Sector Conduct Authority (FSCA). Directors: Mr. DA Roper, Mr. JS du Preez, Mr. GL Carter, Mr. A du Toit, Ms. N Smith Contact details: P.O. Box 4742, Tyger Valley, 7736, South Africa. Call Centre: 0800 668 273 (0800 Novare). Email: clientservice@novare.co.za. Website: www.novare.com.

Investment Manager

Matrix Fund Managers Proprietary Limited (the 'investment manager') (Registration No: 2007/028504/07) is an authorised financial services provider under the Financial Advisory and Intermediary Services Act - FSP No: 44663. Directors: Mr. R Briesies, Mr. RA Coombe, Ms. R Dean, Mr. NR Naidoo, Mr. LW Pretorius. Contact details: Postnet Suite 80, Private Bag X1005, Claremont, 7735, South Africa. Telephone: +27 21 673 7800, Email: info@matrixfm.co.za and Website: www.matrixfundmanagers.co.za Matrix Fund Managers is supervised by the FSCA and is a member of the Association for Savings and Investment South Africa (ASISA).

Complaints and Conflicts of Interest

The complaints policy and procedure, as well as the conflicts of interest management policy, are available on the management company's website. Associates of the management company may be invested within certain portfolios, and the details thereof are available from the management company.

Trustee/Custodian/Depository

FirstRand Bank Limited. Registration number: 1929/001225/06. Physical address: 1st Floor, Nr.3 Jeppe Place, Bank City, Corner of Jeppe and Simmonds Streets, Johannesburg, 2000.Postal address: 1st Floor, Nr.3 Jeppe Place, Bank City, Corner of Jeppe and Simmonds Streets, Johannesburg, 2000.Telephone number: 011 282 8000. E-Mail address: Trusteeservices@rmb.co.za. Website: www.rmb.co.za. The trustee/custodian is registered as a trustee of collective investment schemes, in terms of the Collective Investment Schemes Control Act.

Fund Administration

Maitland Group South Africa Limited. Registration number: 1981/009543/06. Physical address: Maitland House 1, River Park, Gloucester Road, Mowbray, 7700. Tel. number: 021 681 8000

Auditor

PKF Cape Town, a member of PKF South Africa Inc. Registration Number: 2013/188449/07. Physical Address: Tyger Forum A, 2nd Floor, 53 Willie van Schoor Avenue, Tyger Valley, Cape Town, South Africa. Postal Address: P.O. Box 5700, Tyger Valley, 7536. Contact details: +27 21 914 8880.

Co-Naming Agreement

The Management Company and the Investment Manager have entered into a co-naming agreement regarding the administration of the co-named Fund. The Management Company retains full legal responsibility for the co-named Fund and performs risk management over the portfolio.

Performance

Collective Investment Schemes in Hedge Funds (CIS Hedge Funds) are generally medium to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. The Management Company does not provide any guarantee in respect of the capital or the performance of the Fund. Performance figures for the period prior to the Fund being converted to a regulated CIS Hedge Fund are included and are thus from an unregulated environment. The investment performance is for illustrative purposes only. The investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown. Income is reinvested on the reinvestment date. Actual investor performance may differ as a result of the investment dates, reinvestment dates, dividend withholding tax and other factors.

Fund Mandate and Investment Policy

The Fund may invest in South African bonds, equities, derivatives (interest rate, equity and currency) and the money market. Securities may be traded either Over the Counter (OTC) or On Exchange. CIS Hedge Funds may engage in scrip lending and borrowing, leverage and short selling. The Fund may not invest in participatory interests or any other form of participation in portfolios of collective investment schemes. The Fund may be closed to new investors at any time in order for it to be managed more efficiently in accordance with its mandate.

The portfolio will not change its investment policy without prior approval from the FSCA and investors. The ballot procedure as indicated in CISCA will be followed. Counterparty exposure is restricted to the prime broker(s) of the portfolio and other approved bank counterparties. The liquidity risk management policy is available on request.

Unit Prices

Unit prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund divided by the number of participatory interests (units) in issue. Forward pricing is used and fund valuations take place at the end of the last business day of each month. Subscriptions requests must be received by the Management Company by 14h00 two business day prior to the month ends, with proof of payment submitted before 14h00 on the last business day of the month, in order to receive that month's price. Redemption notices must be received by the Management Company by 14h00 on the last business day of the prior month (30 days' notice).

Fees

Permissible deductions include manager fees, brokerage and other market costs, securities transfer tax (STT), auditor fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from the Management Company.

Total Expense Ratio (TER) and Total Investment Charge (TIC)

The TER is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past 3 years (or shorter periods, where applicable). The TER includes the annual management fees that have been charged (both the base fee and any performance related fee), VAT and other expenses. The TER does not include transaction costs. As expenses vary, the current TER cannot be used as an indication of future TER's. A high TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be consistent with the investor's objective and compared against the performance of the Fund. The TER should then be used to compare whether the Fund's performance offers value for money.

Transaction Costs (including brokerage, STT, STRATE and FSCA Investor Protection Levies and VAT thereon) are shown separately. Transaction Costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. The sum of the TER and Transaction Costs is shown as the Total Investment Charge.

Additional Information

Additional information about the Fund may be obtained free of charge from the investment managers website, www.matrixfundmanagers.com or by contacting the investment manager. This information includes brochures, application forms and any annual reporting.