Quarterly Commentary

Another year draws to a close and with it your platform finds additional support in its logic by posting double digit returns despite challenging market conditions. Although December presented challenges, which can be attributed to the biggest rally in gold over the past two years that hurt our short performance, we still managed to close the quarter slightly positively. Our gross return for the year comes in at +16.62%, maintaining our positive annual performance record since inception – all five years positive after fees.

In terms of benchmarks for the year, we beat the JSE Top 40 by more than +20% after fees. Importantly, we also beat cash returns as measured by the JSE All Bond Index (ALBI). This is significant since our true benchmark is cash – cash is our default portfolio when we hold no market views. It's worth reiterating here that our objective is to remain positive ahead of cash irrespective of market returns. Employing cash as yardstick then, it's pleasing to note that your platform has beaten cash twofold after fees since inception. Another highlight for the year is our strong relative performance against professionals – we outperformed more than 99% of professional unit trusts in SA during 2018.

Quarterly Outlook

It's not news that the JSE is in trouble and has been for some time. However, what has recently changed is the environment in the USA and globally. We saw the worst December in the USA since the great depression. Europe likewise experienced steep losses. Basically, there was no place to hide with the entire globe negative in December and for the year. Locally, the JSE Top 40 lost -11.4%, is up only +14% over 5 years giving a CAGR of just +2.66%.

Current conditions are important to understand since your platform reacts to different conditions in different ways and understanding these reactions assists with discipline. As alluded to above, the market is full of risk presently. Major indices around the world, including the JSE, are trading below their medium-term moving averages (one year). I've quantified the five-day returns associated with these types of conditions extensively through the years and two factors are very apparent: 1) five-day day returns turn negative and 2) volatility more than doubles. In short, this is a dangerous environment that demands special attention to risk control.

QL is manging the risky conditions by systematically and dynamically removing equities from our tradeable universe that present unacceptable risk-return payoffs I.e. equites trending strongly lower. As of today, roughly 70% of our tradeable universe is too risky to trade and as such has been removed. We therefore continue to hold elevated allocations to cash, which recall from above is our default portfolio. We should therefore expect 1) reduced trade activity and possibly returns due to reduced opportunity sets and 2) higher volatility in our return streams. I've discussed this in prior commentaries but have repeated it here to ensure expectations are aligned with current conditions. In an extreme market event, we can ultimately move 100% to cash, which occurred briefly in the past during the 2008 financial crisis.

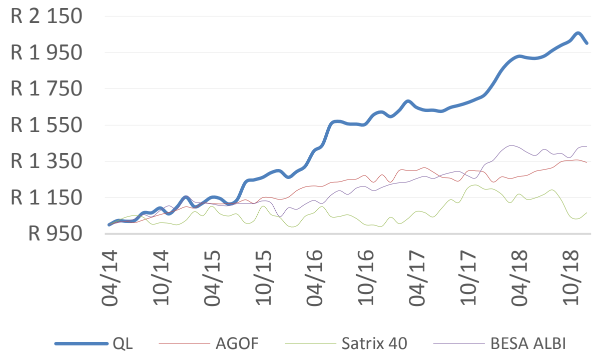
Allocating to cash is prudent during market downturns because as I've demonstrated mathematically in prior newsletters, the secret to building wealth in the market is to avoid large negative hits to performance, not chasing big annual returns as most believe. To reiterate, in the table below, after three straight years of +10% returns, <u>a drawdown of just -10% cuts the average annual compound growth rate by 50%</u>. More severe losses, as in the JSE's -50% during 2008, will essentially destroy growth rates to levels that are not easily recovered from due to the immense psychological fortitude required.

Annual Return	Growth Rate	
10%	-	
10%	10%	
10%	10%	
-10%	5%	One-year loss destroys effective compound rate by 50%!
30%	**10%**	**<u>Requires a return of 30% to recover from a -10% loss.</u>**

During these conditions, preserving capital, and therefore our hard-earned compounded growth rate, is our number one priority since we do not need to recoup prior lost ground when the market recovers positioning us strongly to outperform.

All the best for 2019,
PJ Sutherland

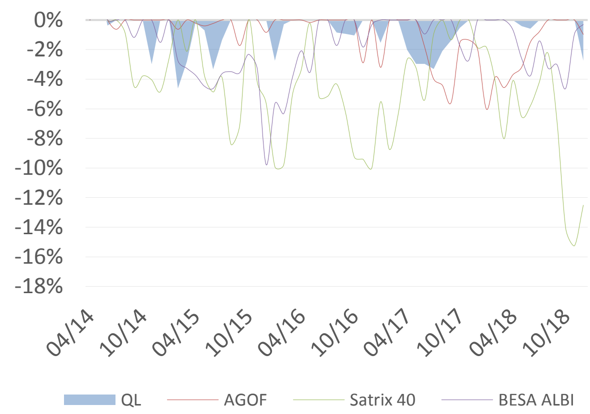
Growth 1000 (ZAR)



Return Statistics

	QL	SATRIX 40	ALBI	AGOF
YEAR TO DATE	16.62	-10.85	7.74	4.27
12 MONTH ROR	23.06	-2.29	12.44	6.43
CAGR	16.00	1.40	7.99	6.53
WIN MONTHS (%)	70.18	50.88	59.65	68.42
AV WIN MONTH (%)	2.38	2.77	2.04	1.36
TOTAL RETURN	100.11	6.70	43.25	34.40

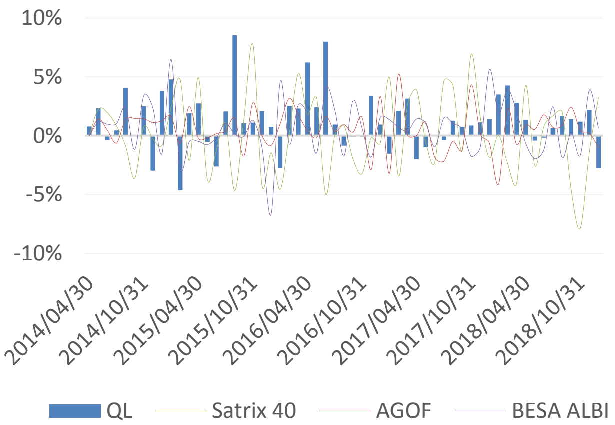
Drawdown (%)



Risk Statistics

	QL	SATRIX 40	ALBI	AGOF
SHARPE RATIO	1.18	-0.40	0.26	0.09
SORTINO RATIO	2.12	-0.73	0.43	0.13
MAR RATIO	3.46	0.09	0.82	1.08
MAX DRAWDOWN (%)	-4.62	-15.25	-9.77	-6.02
RECOVERY DD (MONTHS)	6	6	10	14
AV LOSING MONTH (%)	-1.36	-2.62	-1.45	-1.33
STD DEVIATION (MONTHLY)	2.45	3.30	2.23	1.70

Monthly Returns (%)



Correlations

CORRELATION VS SATRIX 40	-0.19
CORRELATION VS BESA ALBI	0.22
CORRELATION VS ALAN GRAY OPTIMAL FUND	0.18

Monthly Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Sat 40
2014	-	-	-	0.77	2.33	-0.37	0.44	4.07	0.06	2.48	-2.98	3.79	**10.89**	**0.15**
2015	4.79	-4.62	1.89	2.73	-0.53	-2.63	2.05	8.52	1.06	1.09	2.09	0.75	**17.90**	**4.06**
2016	-2.74	2.53	2.31	6.22	2.42	8.00	0.95	-0.85	-0.08	-0.10	3.40	0.94	**24.99**	**-4.62**
2017	-1.54	2.12	3.15	-2.00	-0.98	-0.01	-0.36	1.27	0.74	0.86	1.14	1.40	**5.82**	**20.56**
2018	3.50	4.26	2.78	1.36	-0.41	-0.17	0.66	1.66	1.40	1.18	2.19	-2.74	**16.62**	**-10.85**

Trade Statistics

COMPLETED TRADES	26548
NUM LONG TRADES	12932
NUM SHORT TRADES	13618
VALUE COMPLETED TRADES	R1.74 Billion
TRADE WINNING (%)	62.26
AV TRADE DURATION	6.79 days
AV TRADE ROE	0.02%
BEST ROE	3.91%
WORST ROE	-5.82%

QuantLab Statistics

TOTAL CLIENT EQUITY	R22.5 million
NUMBER OF CLIENTS	18
AV CLIENT CAGR	17.05
BEST CLIENT CAGR	32.56
WORST CLIENT CAGR	12.05
CLIENT PROFITABLE (%)	100
TOTAL STRATEGIES TRADED	127
LONG STRATEGIES	65
SHORT STRATEGIES	62

Past performance is not necessarily a guide to future performance.

Notes:

1) Source of data from Saxo live client accounts; Survivorship bias free; Calculations by Sutherland Research.
2) Performance presented before Sutherland Research fees, which range between 0% (in the event the client does not exceed our fees), 2.5% and 5% annually, but net of all other costs/fees.
3) Benchmarks include the Satrix 40 ETF, BESA All Bond Index and the Alan Gray Optimal Fund.
4) Index benchmark performance numbers are gross and do not allow for broker fees and other costs giving a slight positive bias.
5) Drawdown, equity curve and correlations are simplified and based on month end values.
6) QuantLab statistics based on performance of clients that have completed 100 trades or more.
7) The risk-free rate used in the Sharpe Ratio is a simple arithmetic average since inception.

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