

## Quarterly Commentary

We enjoyed a stellar third quarter, posting three consecutive positive monthly returns totalling +3.7% versus the Top 40's -2.85%. Our net gross return for the year comes in at +16% versus the Top 40's -5% and we saw a strong uptick in our trade and monthly winning percentages. Over the past 12 months, QuantLab is higher by over 20% and 2018 is setting up to exceed +20%. All round, performance is pleasing and we continue to beat all three of our benchmarks after fees.

The same sadly can't be said for SA. Not a day goes by without a headline drawing attention to the poor state of the country. Officially in a technical recession, coupled with a developed world in the tail end of a growth cycle, economic conditions are expected to remain challenging into the foreseeable future. Although much opportunity can arise in these environments, they are generally not good for business nor the plain folk on the street. I personally prefer growth environments where optimism and positive sentiment abound, as I'm sure you do too. That said, we could not have engineered a better set of conditions to test the bold and challenging mandate I set for QuantLab more than four years back, which is to generate positive and non-correlated returns with equity markets, every single year.

What better way to test the effectiveness of QL than to share the performance of my first five signed clients, most of whom started over 4 years ago, alongside those achieved by the JSE Top 40.

Years	Total Return	JSE Top 40
4.37	72.33%	7.40%
4.35	70.38%	6.82%
4.14	53.40%	8.26%
4.12	100.46%	3.36%
3.53	65.67%	3.78%

Returns shown in the table are net of QuantLab fees. On average, this group of clients have outperformed the JSE Top 40 by a factor of ten. The best performing client doubled their account in 4.12 years versus a meagre +3.36% had they invested in the JSE Top 40 (and most of the professional asset management space). Furthermore, all these return streams were strongly negatively correlated with the market, exactly what we're hoping to see! However, it's worth pointing out that they all experienced periods of underperformance; it's a combination of their discipline to the process and time in the market that saw each of them materially beat the JSE.

It's satisfying and pleasing to see QuantLab stand up to the test of time and deliver on its promise in the face of extremely trying conditions. I look forward to more of the same going into the final quarter of the year. Well done to all.

## Quarterly Outlook

I'm certain you are all aware of the difficulties facing the country and the economy currently. My feeling is we're going to see a more pain before things improve. When the developed nations, mostly the USA, enter recession, which with each passing day appears more likely, emerging markets will be hard hit. We have already seen how vulnerable they are, especially SA, during the recent Turkey crisis, so the greatest threat to the JSE in my mind is a severe global contraction.

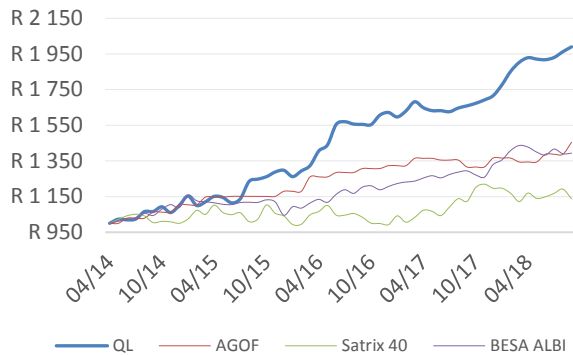
Fortunately, the markets are discounting machines, constantly pricing future conditions into current prices, which means that most economic slowdowns are known well-ahead of time by the astute analysts. Your platform is one such analyst, carefully filtering counters based on their current prices and trends to mitigate downside risks that may arise due to deteriorating global and local conditions. As of writing, only 16 securities are tradeable from a possible 60. In other words, QuantLab has removed 44 securities, deeming them too risky to trade. Which is comforting to know given that more than 90 of the Top 150 according to liquidity have lost greater than -10% YTD, while 40 of those have lost more than -20%.

QuantLab's response to the current state of the market means that you should expect 1) reduced trade activity 2) more time spent in cash 3) increased volatility in monthly return streams and 4) possibly lower returns but typically not since the increased volatility tied to uncertain conditions make up for the smaller opportunity set. Most importantly, bear in mind that there is no shame in cash, especially when the market is losing value.

As always, good luck and don't hesitate to contact me with questions.

PJ Sutherland

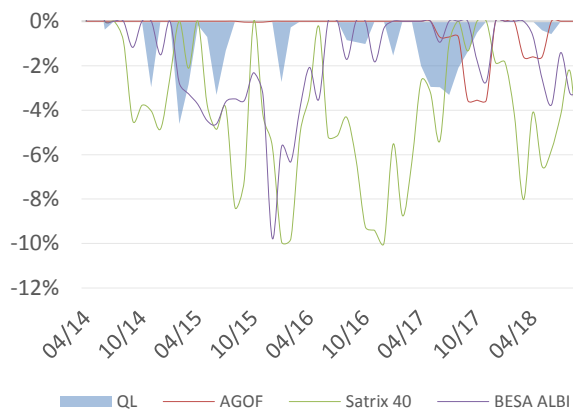
### Growth 1000 (ZAR)



### Return Statistics

	QL	SATRIX 40	ALBI	AGOF
<b>YEAR TO DATE</b>	15.97	-5.17	4.81	6.49
<b>12 MONTH ROR</b>	21.94	8.99	11.02	7.38
<b>CAGR</b>	16.84	2.95	7.79	8.85
<b>WIN MONTHS (%)</b>	70.37	51.85	59.26	73.68
<b>AV WIN MONTH (%)</b>	2.42	2.75	2.03	3.11
<b>TOTAL RETURN</b>	98.99	13.71	39.36	45.47

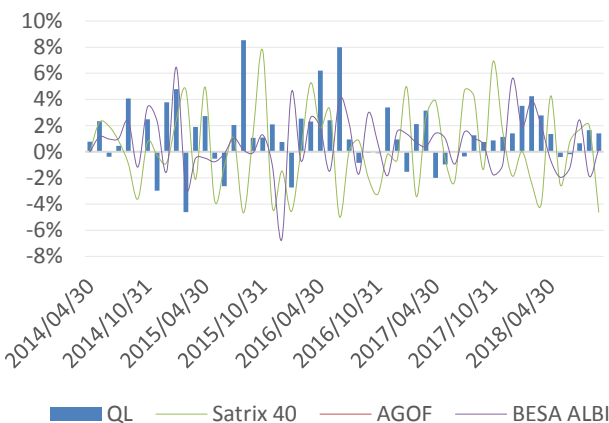
### Drawdown (%)



### Risk Statistics

	QL	SATRIX 40	ALBI	AGOF
<b>SHARPE RATIO</b>	1.28	-0.28	0.23	0.34
<b>SORTINO RATIO</b>	2.31	-0.57	0.38	0.67
<b>MAR RATIO</b>	3.64	0.30	0.80	2.49
<b>MAX DRAWDOWN (%)</b>	-4.62	-9.99	-9.77	-3.55
<b>RECOVERY DD (MONTHS)</b>	6	6	10	14
<b>AV LOSING MONTH (%)</b>	-1.27	-2.46	-1.44	-1.30
<b>STD DEVIATION (MONTHLY)</b>	2.45	3.18	2.23	2.39

### Monthly Returns (%)



### Correlations

<b>CORRELATION VS SATRIX 40</b>	-0.18
<b>CORRELATION VS BESA ALBI</b>	0.22
<b>CORRELATION VS ALAN GRAY OPTIMAL FUND</b>	0.18

### Monthly Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Sat 40
<b>2014</b>	-	-	-	0.77	2.33	-0.37	0.44	4.07	0.06	2.48	-2.98	3.79	<b>10.89</b>	<b>0.15</b>
<b>2015</b>	4.79	-4.62	1.89	2.73	-0.53	-2.63	2.05	8.52	1.06	1.09	2.09	0.75	<b>17.90</b>	<b>4.06</b>
<b>2016</b>	-2.74	2.53	2.31	6.22	2.42	8.00	0.95	-0.85	-0.08	-0.10	3.40	0.94	<b>24.99</b>	<b>-4.62</b>
<b>2017</b>	-1.54	2.12	3.15	-2.00	-0.98	-0.01	-0.36	1.27	0.74	0.86	1.14	1.40	<b>5.82</b>	<b>20.56</b>
<b>2018</b>	3.50	4.26	2.78	1.36	-0.41	-0.17	0.66	1.66	1.40	-	-	-	<b>15.97</b>	<b>-4.99</b>

### Trade Statistics

COMPLETED TRADES	24225
NUM LONG TRADES	12059
NUM SHORT TRADES	12166
VALUE COMPLETED TRADES	R1.6 Billion
TRADE WINNING (%)	62.38
AV TRADE DURATION	6.8 days
AV TRADE ROE	0.02%
BEST ROE	3.91%
WORST ROE	-5.82%

### QuantLab Statistics

TOTAL CLIENT EQUITY	R20.2 million
NUMBER OF CLIENTS	16
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.

## Disclaimer

Sutherland Research is neither a registered investment advisor nor an investment advisory service and does not purport to tell or suggest which securities clients should buy or sell for themselves. All trading involves risk. Leveraged trading has large potential rewards, but also large potential risk. Be aware and accept this risk before trading. Never trade with money you cannot afford to lose. All forecasting is based on past performance and past performance of any trading methodology is no guarantee of future results. No "safe" trading system has ever been devised and no one can guarantee profits or freedom from loss. No representation is being made that any account will achieve profits or losses similar to those discussed. There is no guarantee that, even with the best advice available, you will become a successful trader because not everyone has what it takes to be a successful trader. The trading strategies discussed may be unsuitable for you depending upon your specific investment objectives and financial position. You must make your own investment decisions in light of your own investment objectives, risk profile, and circumstances. Use independent advisors as you believe necessary. Therefore, the information provided herein is not intended to be specific advice as to whether you should engage in a particular trading strategy or buy, sell, or hold any financial product. Margin requirements, tax considerations, commissions, and other transaction costs may significantly affect the economic consequences of the trading strategies or transactions discussed and you should review such requirements with your own legal, tax and financial advisors. Before engaging in such trading activities, you should understand the nature and extent of your rights and obligations and be aware of the risks involved. Your actions and the results of your actions in regard to anything you receive from Sutherland Research, [www.sutherlandresearch.com](http://www.sutherlandresearch.com), its managers, members, or affiliates are entirely your own responsibility. Sutherland Research cannot and will not assume liability for any losses that may be incurred by the use of any information received from this site, its managers, partners, and affiliates. Any such liability is hereby expressly disclaimed.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

**This document is intended for existing subscribers and is not an invitation to subscribe or otherwise participate in any strategy mentioned herein.**