NEWSLETTER OF QUANTUM ASSET MANAGEMENT
DECEMBER 2014

QUANTUM
asset management
multi-management | private clients | bespoke portfolios

Quantum Communiqué

THE YEAR IN REVIEW

Another year is coming to an end. The festive season is fast approaching and once again we can reflect upon a busy and satisfying year.

On the one hand, 2014 had some great highlights: Brazil hosted a successful FIFA Soccer World Cup, Palestine and Israel agreed on a peace deal, the American economy experienced an astounding recovery and the European Space Agency completed a ten-year mission by landing a robot on a comet.

On the other hand, 2014 was a challenging year with most of the world economies characterised by low growth as well as some specific obstacles (which you can read about below).

Overall, both local and offshore equity markets, except for a few exceptions, delivered lacklustre performance, especially during the second half of the year as a result of economic weakness. Despite the current environment, we are grateful that we could still succeed in adding value to our clients' portfolios in this time.

Looking at next year, we believe the decoupling of the developed world's central bank policies will once again bring volatility to the market, but as we have learned through the years – volatility is not necessarily something to be scared of. Movements in the market always create opportunities although it might be in unusual places. You just have to know what to look for.

Clients can rest assured and be comfortable in knowing that we will continue to manage their portfolios in exactly the same, scientific and highly disciplined manner.

Then lastly, we would just like to thank our clients who have remained loyal through the years and then also welcome the numerous new clients who have joined the Quantum family. We wish everyone a blessed and joyous festive season and we look forward to walking the road to successful investing with you in 2015!

We would like to take this opportunity to cordially thank our clients for their continued and loyal support. Rest assured that we will continue to take care of your financial wellbeing with great passion and discipline. May you and your family have a blessed festive season.

The Quantum team

Crisis, after crisis, after crisis

SOUTH AFRICA

A strike for the history books

On 23 January 2014, 70000 mine workers went on strike at South Africa's major platinum producers, namely Anglo American Platinum, Impala Platinum and Lonmin. The Association of Mineworkers and Construction Union (AMCU) demanded that the minimum monthly wage be more than doubled immediately from R5 000 to R12 500. About 40% of the world's platinum production was shut down as a result of the strike, but the platinum companies insisted that the demand was unrealistic and offered only a 10% increase. It was estimated that the price of platinum would have to escalate to $2405 an ounce for the industry to break even, if the workers' demands were met; platinum sold for roughly $1430 an ounce when the strike started. By June, AMCU was arguing for steady wage increases over four years to meet the R12500 goal by 2017 instead of immediately.

On 12 June, a preliminary agreement was reached when the mining companies offered a R1 000 a month pay increase and AMCU leader Joseph Mathunjwa publicly stated a deal was expected the following day. Nevertheless, some workers raised concerns about the length of the agreement,back pay and living allowances,and these once again lead to the union making additional demands and stalling talks.

AMCU then demanded a one-off R3000 payment for every worker to compensate them for the strike and also that workers who had been fired during the strike should be rehired. In a joint statement, the platinum companies saidt hat the new demands would cost an additional one billion rand and were impossible to meet.

Finally on 23 June, a deal was reached between AMCU and the platinum companies. Under the three-year agreement, workers who currently made less than R12 500 would receive a R1 000 raise this year and in 2015. In 2016, they would receive a R950 raise. After the wage increases, the minimum salary would be R8000 a month. The mining companies did not promise that they would not cut jobs in the future, as they are seeking to restructure and operate more efficiently.

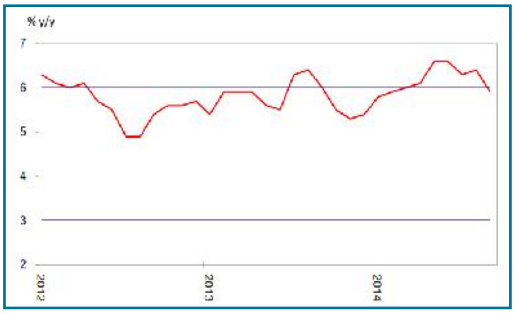
The five-month-long strike cost the platinum industry around 1,2 million ounces of production, worth about R24 billion, resulting in the longest and most expensive strike in South African history. It is nowdebatable if the miners really gained anything. They were demanding more than double their then current wage, yet only gained a 20% year-on-year increase (over the next three years) for unskilled and semi-skilled labourers after losing 42% of one year's earnings. Skilled workers will only receive a 7,5%-8% increase.

Interest Rates

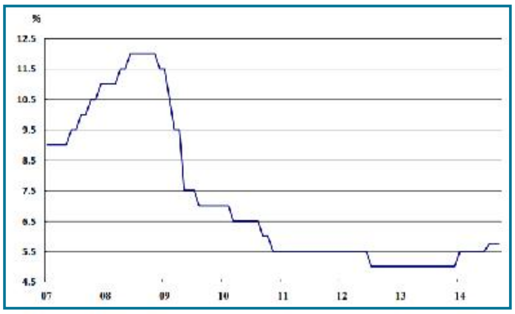
For the first time since June 2008, the South African Reserve Bank tightened its monetary policy and increased the repo rate by 50 basis points to 5,5% at the end of January 2014. This strategic move highlighted the depth of concern over the emerging market sell-off witnessed in response to the US Federal Reserve's decision to taper quantitative easing, and the subsequent inflation risks posed by the severe depreciation in the rand.

As a result oftheFed's decision, the rand plunged to R11,38 against the dollar, its weakest in more than five years, while the yield on the shorter-dated 2015 bond soared to 7,01% from 6,82%.

SOUTH AFRICAN CONSUMER INFLATION
Source: Stanlib



SOUTH AFRICAN REPO RATE
Source: Stanlib

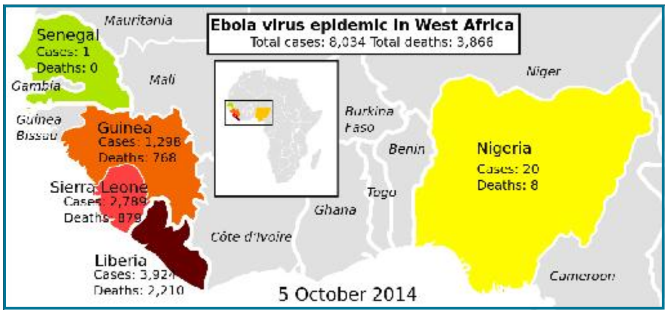


The deteriorating domestic economic growth outlook, rising unemployment and overall weakness in the economy resulted in the repo rate remaining unchanged at 5,75% in September. Following this announcement, the Reserve Bank stressed that interest rates would still have to normalise over time, but clearly the pace of normalisation would be relatively gradual compared with previous rate hiking cycles.

WEST AFRICA

In December 2013 an epidemic of Ebola virus disease began in Guinea and then spread to Liberia and Sierra Leone. Smaller subsidiary outbreaks have also occurred in Senegal, Nigeria, the United States and Spain. As of the beginning of October 2014 the World Health Organisation (WHO) and local governments reported a total of 8 033 suspected cases and 3 866 deaths, though the WHO believes that these figures substantially underestimate the magnitude of the outbreak. The disease has a mortality rate of about 70% percent.

EBOLA VIRUS EPIDEMIC
Source: Who



According to WHO projections, released on 14 October 2014, there could be about 10 000 new cases of Ebola a week in early December 2014. This implies that 7 000 beds would be needed for treatment, but under current planning only 4300 beds would be available by then and many of those would not have staff to service them.

The World Bank has now warned that the Ebola outbreak could cost the West African economy $32,6 billion by the end of 2015 unless the epidemic is quickly contained. Jim Yong Kim, the president of the World Bank, said the virus posed a global threat and urged the international community to respond decisively.

Weak public health infrastructure, meaning not enoughtrained medical staff orhospital beds,isnot only threatening the fragile West African countries, but also their trading partners and the world at large.

EUROPE

For a while it was thought that 2014 would be the year the global economy would finally recover from the financial crisis, but this is no longer the case.In June 2014, the European Central Bank (ECB) unexpectedly reduced the deposit rate from zero to minus 0,10%, making the institution the world's first major central bank to use a negative rate. A deterioration in the euro area's economic outlook and a prolonged period of slow inflation prompted the ECB to act to preserve the fragile recovery in the world's second-largest economy. ECB president, Mario Draghi also announced a new liquidity programme designed to encourage lending. Financial institutions are allowed to borrow money from the ECB equivalent to as much as 7% of their outstanding loans to non-financial corporations and households, excluding mortgage loans.

Following the release of the second-quarter gross domestic product (GDP) figures, it was revealed that the European economywas no longer growing. France was stagnant; Italy was back in a recession and the German economy also shrank during the second quarter. As a result the ECB cut interest rates again in September 2014 resulting in a minus 0,20% deposit rate, but both analysts and economists believed that the cut would have little impact on the European economy.

Coupled with the low growth, concerns about deflation increased. The consumer inflation rate in the euroarea dropped to a mere 0,3% year on year in September while the producer inflation was already negative.

Only a month later, on 2 October, the ECB announced the details of its asset-backed securities and covered-bond purchase programmes. The bank would beginits asset purchases in the fourth quarter of 2014, starting with covered bonds in the secondhalf of October, and the programme wouldlast at least two years. A euro-system collateral framework would be the guiding principle for the eligibility of assets for purchase.

How effective such a policy measure will be at a time when sovereign-bond yields are already at record lows, when the banking sector already has access to a trillion euros inexcess reserves and current credit expansion is negative, remains a highly debatable issue. Only time will tell whether the programme will succeed in preventing a recession and increasing the area's inflation to the target rate of 2%.

UNITED STATES OF AMERICA AND THE UNITED KINGDOM

The United States of America (US) and the United Kingdom (UK) are the only two regions where matters seem to be improving.

The United States Federal Reserve (Fed) took the first step towards unwinding its unprecedented stimulus programme in December 2013, by decreasing its monthly bond purchases from $85 billion to $75 billion. Then chairman, Ben S. Bernanke said that the Fed'sdecision to start tapering reflected "cumulative progress and an improved outlook for the job market." The announcement was accompanied by a strong commitment that benchmark interest rates would remain low well past the time that the unemployment rate declined below 6,5 percent, especially if projected inflation continued to run below the Fed's 2% goal.

Since December the Fed has continued to decrease the amount of bond purchases by $10 billion amonth, at each of itsFederal Open Market Committee meetings, putting iton course to end itsmulti-billion dollar bond buying programme in October 2014.

Britain is expected to be the fastest-growing economy among the G7 nations this year, with the International Monetary Fund (IMF) predicting a GDP increase of 3,2%, compared with the US at 2,2% in second place. Analysts expect the UK to be the first central bank to raise interest rates early in 2015, following itsaccommodative policy after the 2008 financial crisis. Mark Carney, Governor of the Bank of England, warned households in September to prepare for higher borrowing costs in the coming months since the point at which interest rates would start to rise was "getting closer." He repeated a pledge that any increases would be "limited and gradual" as the headwinds facing the UK economy were "likely to take some time

MARKET OVERVIEW

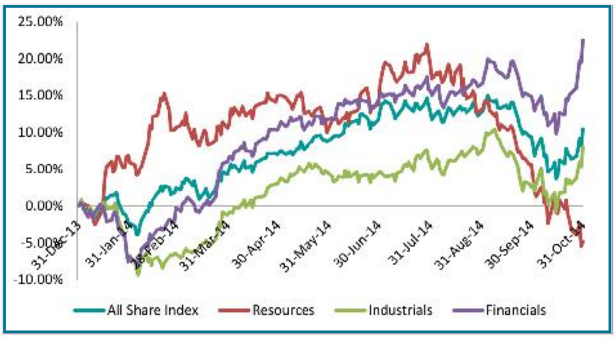
SOVEREIGN CREDIT RATINGS OF SOUTH AFRICA
Source: Stanlib

	Moody's		Standard & Poor		Fitch	
	Rating	Date	Rating	Date	Rating	Date
Investment Grade	Aaa		AAA		AAA	
	Aa1		AA+		AA+	
	Aa2		AA		AA	
	Aa3		AA-		AA-	
	A1		A+		A+	
	A2		A		A	
	A3	16 Jul 2009	A-		A-	
	Baa1	11 Jan 2005 /27 Sep 2014	BBB+	1 Aug 2005	BBB+	25 Aug 2005
	Baa2	29 Nov 2001/ 6 Nov 2014	BBB	7 May 2003/ 12 Oct 2012	BBB	2 May 2003/ 10 Jan 2013
	Baa3	30 May 1995	BBB-	25 Feb 2000/ 13 June 2014	BBB-	27 June 2000
Speculative Grade	Ba1		BB+		BB+	19 May 2000
	Ba2		BB		BB	22 Sept 1994
	Ba3		BB-		BB-	

SOUTH AFRICAN FIXED INCOME

During the past year all the fixed-income asset classes managed to outperform local cash. What makes this performance profile interesting and possibly worrying is that it was in complete defiance of the ratings downgrade of South Africa's debt. From an economy's underlying-fundamentals perspective, these downgrades suggest that investors should demand higher yields to invest in South African debt in order to compensate for the higher underlying risks. Such demand typically results in capital losses for fixed-income asset classes.

SOUTH AFRICAN FIXED INCOME



With regard to the rating of debt, the highest rating achievable from agencies such as Moody's, Standard & Poor and Fitch, is a prime rating classified as AAA. The lowest acceptable rating, which is still regarded as "investment grade", is BBB. Any lower rating is considered junk debt or speculative debt. On 13 June 2014, Standard and Poor downgraded the country's foreign credit rating to BBB-, which is only one notch above speculative status. More recently, Moody's Investors Service also downgraded the government of South Africa's debt rating to Baa2 in November 2014. They cited the following key drivers of the rating downgrade:

- *The country currently exhibits poor medium-term growth prospects due to structural weakness. This includes ongoing energy shortages, as well as rising interest rates, further weakening in the investor climate and a less accommodating capital market.*

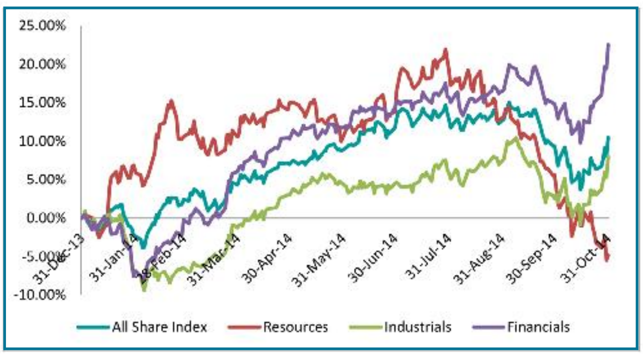
- *The current low-growth environment implies a potential rise in the government's debt-to-GDP ratio.*

On a forward-looking basis, continued dollar strength, as well as the probability of further sovereign debt downgrades, does not bode well for local bonds.

SOUTH AFRICAN EQUITIES

The local equity market enjoyed a steady climb during the first half of the year and reached its record high on 29 July this year, butin August volatility picked up and this high-growth asset class started shedding some of the gains it had accumulated during the year.

SOUTH AFRICAN EQUITIES



Even though the resource sector had the most attractive relative valuations, it was the worst performing sector during 2014 and experienced the weakest performance during the sell-off in the third quarter. This is because the US dollar has historically been the most important explanatory variable for commodity prices.

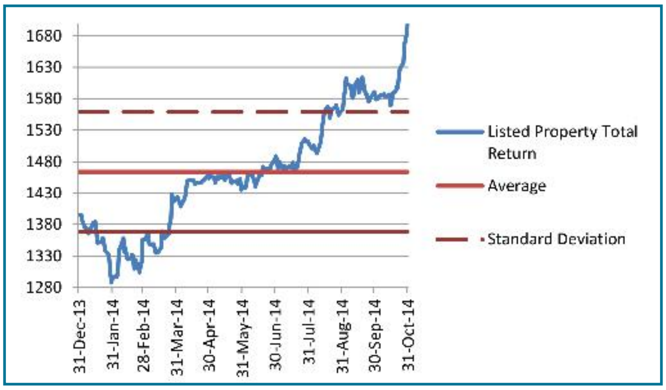
A strong US dollar is generally negative for commodity prices, while a weak US dollar has been positive for commodity prices over the past decade. During the third quarter of 2014 the South African rand lost 6,11% against the dollar and subsequently the market saw price weakness across a broad basket of commodity prices; creating headwinds for resource shares. On the other hand, the Industrial sector, being the most expensive sector, held up surprisingly well during the third quarter and only declined by -1,05%. Financial shares were the best-performing sector during 2014, delivering a year-to-date return of 22,53% up to 31 October.

Looking forward, the current monetary policy settings may persist and support a strong dollar for an extended period of time, which will hurt our market dominated by commodities. The fact that expensive sectors have held up well during the recent correction contributes to the alarming outlook for the local equity market.

SOUTH AFRICAN PROPERTY

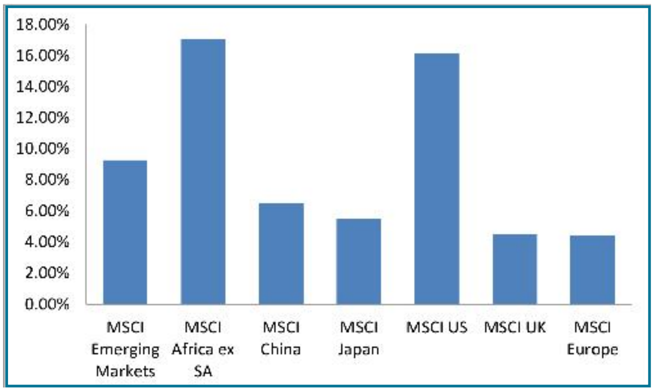
Listed property was the best-performing local asset class for the year, delivering a total return of 20,53% for the year ending 31 October.Following the surprise interest rate hike of 50 basis points in January, the South African Listed Property Index (SAPY) declined by 7% but by May the sector had already rerated and recovered those losses.

We were gradually approaching times where we needed to be prepared to give up on some of the upside gains in order to protect against downside risk in our portfolios. The end of quantitative easing in the United States would likely result in
upward pressure on local bond yields and adversely impact on an overweight local property allocation.



A simple implied-distribution growth model revealed that unattainable long-term growth rates of 14,74% are needed to sustain the current property market, when actual property dividend yields are only 6,26%. Although the call to de-risk might have been a bit premature, the concerns regarding valuations and the risk of capital loss due to rising bond yields remain and we continue to prefer our prudent approach of managing our portfolios on the conservative side in the current financial environment.

OFFSHORE MARKETS



At a broad level, based on the performance of MSCI indicesin rand terms, Africa Equities were the best-performing sector for the year ending 30September. The MSCI Africa (excluding South Africa) index delivered 17,02%, followed by US Equities at 16,12%.

On a forward-looking basis, we believe that despite US equity markets currently having the least attractive valuations, relative to other equity markets, they also have the most attractive economic growth momentum and earnings growth momentum which could continue to support these high markets. Even though emerging equity markets are currently offering very attractive valuations, these markets are highly commodity dominated and could thus continue to be negatively affected by the continued dollar strength.

FUNDS FEEDBACK

PERFORMANCE

The current weakness experienced across both local equity markets and offshore equity markets, coupled with the high local inflation rate, has resulted in South African funds struggling to outperform an absolute "Consumer Price Index – Plus" benchmark. Despite the difficulty in procuring above-inflation growth, the majority of our funds remain ahead of their peer groups.

Quantum BCI Core Income Fund

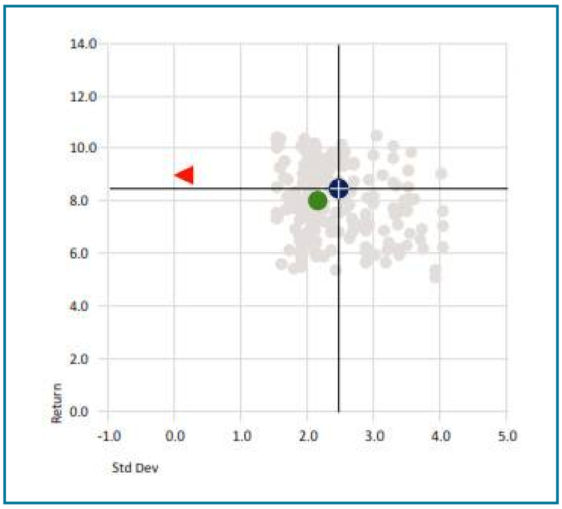
The underlying funds in our Quantum BCI Core Income Fund areAtlantic Asset Management, the BCI Best Blend Flexible Income Fund, Cadiz Absolute Yield Fund, Saffron MET Opportunity Income, and the BCI Income Plus Fund.

October 2014	3 months	6 months	1 year	2 years (A)	3 years (A)
Quantum BCI Core Income	-0.53	1.29	4.57	6.40	6.85
SA - Multi - Asset - Income	0.67	2.71	6.00	5.98	6.70

Quantum BCI Capital Plus FoF

October 2014	3 months	6 months	YTD	1 years	3 years (A)
Quantum BCI Capital Plus FoF	0.77	4.03	6.48	8.49	12.56
CPI + 3%	2.25	4.60	7.54	9.00	8.87
SA - Multi - Asset - Low Equity	0.65	3.57	6.27	8.01	10.74
Excess return above peer group	0.12	0.46	0.21	0.48	1.83

The Quantum Capital Plus FoF's performance profile compares favourably withthe category average and it outperformed its peer group over all of the periods considered above. The fund ranked 54th out of 104 funds in the ASISA category over the last 12 months. As seen in the graph below, the fund also delivered top-decile performance at a marginally higher risk than the category average over the past year.



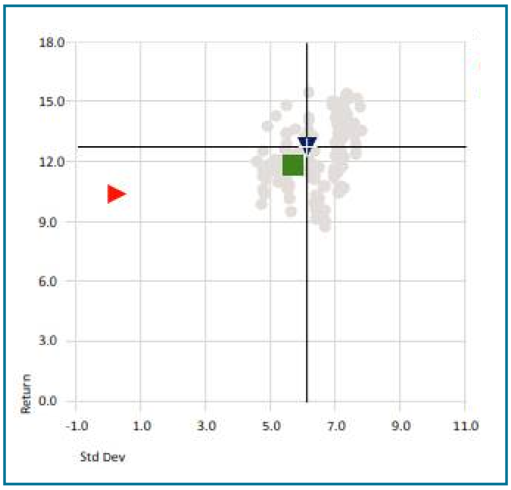
● Quantum BCI Capital Plus FoF ◄ CPI +3%
● (ASISA) South African MA Low Equity

Quantum BCI Balanced FoF

The lacklustre performance of local and offshore markets has resulted in the Quantum BCI Balanced FoF lagging its CPI+5% benchmark. However, over the longer term, the fund has, managed to outperform the benchmark by meaningful margins.

October 2014	6 months	YTD	1 year	3 years (A)	5 years (A)
Quantum BCI Balanced FoF	3.87	7.70	10.16	15.79	12.72
CPI + 5%	5.56	9.18	11.00	10.87	10.37
SA - Multi - Asset - High Equity	3.04	7.02	9.11	13.82	11.83
Excess return above peer group	0.83	0.68	1.05	1.97	0.89

The fund's performance profile has also been above average over all the periods considered above.

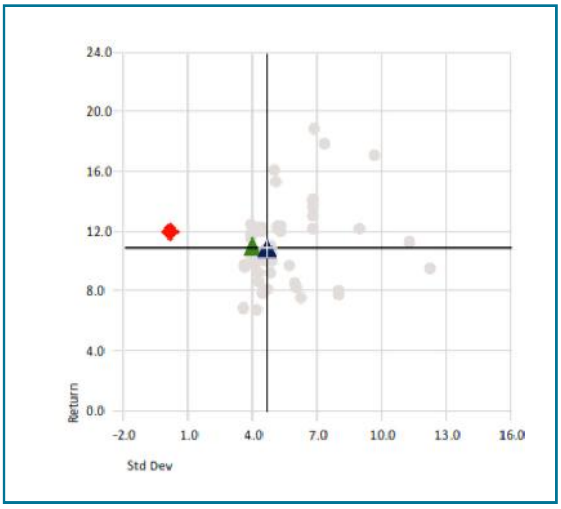


▼ Quantum BCI Balanced FoF ► CPI +5%
■ (ASISA) South African MA High Equity

Quantum BCI Worldwide Flexible FoF

October 2014	3 months	6 months	YTD	1 years	3 years (A)
Quantum Worldwide Flexible FoF	0.18	5.23	7.02	10.92	16.61
CPI + 6%	2.95	6.04	10.00	12.00	11.87
(ASISA) Wwide MA Flexible	0.03	4.03	6.03	10.95	17.80

The Quantum BCI Worldwide Flexible FoF ranked 14th out of 24 funds in the ASISA category over the last 12 months. The following graph shows that over the past year the fund has performed in line with the category average.



▲ Quantum BCI Worldwide Flexible FoF ◆ CPI +6%
▲ (ASISA) Wwide MA Flexible

PRIVATE SHARE PORTFOLIOS

INVESTMENT PHILOSOPHY

Our Bespoke Portfolio Service concentrates on long-term investments in blue chip shares. Blue chip referring to high quality shares that offer high value.

Our investment style is a fundamental bottom-up analysis with a top-down macro-economic overlay. All our portfolios are actively managed to take advantage of investment opportunities in the market and economic environment. We continuously evaluate economic trends on a macro-economic basis to determine how it impacts on companies, different economic sectors, stock markets and exchange rates.

Portfolios are monitored on a daily basis in order to make sure that they are structured for changing market conditions or changes in the personal circumstances of the client.
In managing Bespoke Portfolios, we integrate our bottom up fundamental analysis with our top-down macro economic views to determine whether shares still have upside potential. To control risk in our Bespoke Portfolios we also do active asset allocation.

This entails investing in other asset classes like bonds, inflation linked bonds, property, gold, platinum and cash. Currently gold continues to produce good returns over medium to long term periods (in rand terms).

With new incoming funds we only buy when good opportunities arise as we do not like to pay too much, even for very good quality shares. Where possible, we have added gold and platinum bullion in the form of the gold and platinum ETF to diversify portfolios and hedge against current and future uncertainty. Dual listed shares like, SAB and Sasol have also been added to control currency risk.

We have increased the cash position during the past 6 months by taking profit on expensive shares like Billiton. We prefer high dividend shares like Sasol and MTN that provide high after tax income. This strategy aims to lower the risk and stabilise the portfolios in case of market uncertainty similar to what we are experiencing at the moment *(see graph below)*.

MODEL PORTOLIO VS JSE - RETURN VS RISK

INTEREST RATE EXPECTATIONS

Changing interest rates and changing interest rate expectations impact the performance of portfolios. It is thus important to understand what our interest rate expectations are when looking at the positioning of our model portfolio.

South African Reserve Bank (SARB) governor Gill Marcus announced on 29 January 2014 that the repo rate would be raised for the first time since 2008. The repo rate is the rate at which the private banks borrow rands from the SARB. The repo is used as the benchmark interest rate from which other local interest rates and yields on interest bearing securities are derived. The SARB justified the unexpected decision by citing concerns surrounding local currency weakness as well the upside risk of inflation.

With one more Monetary Policy Committee meetings scheduled for the year, our manager expectations relating to interest rate decisions by the SARB will play a significant role in how we position our portfolios over the coming months.

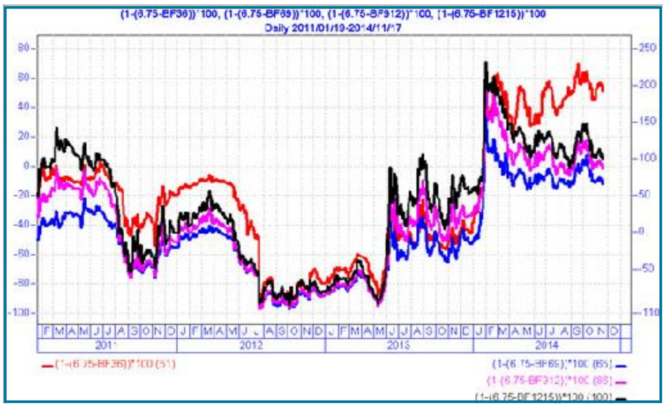
SOUTH AFRICAN FORWARD RATE AGREEMENT (FRA) CURVE

The Forward Rate Agreement (FRA) curve depicts the market expectations of short-term interest rates in the future. One could interpret the curve as depicting investor expectations of SARB monetary policy. It indicates the 3 month rate an investor could "lock in" at a specific point in the future by utilising derivative contracts. BF69 indicates what investor expectations are for the annualised 3 month return (starting 6 months from today and ending 9 months from today).

Looking at the graph of the FRA Curve below it is evident that the market is pricing in expectations of significant tightening in

monetary policy over the next 18 months. We believe that the rate hiking decisions priced into the FRA curve are too aggressive, but we realise that South Africa is now moving into a rising interest rate environment, even if the exact times of rate hikes is uncertain. The diagram indicates that there is a 100% probability that the repo rate will be 1% higher at 6.75% in a years time.

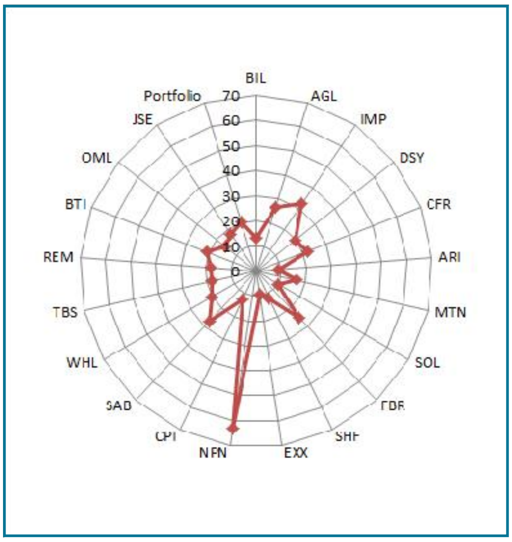
SOUTH AFRICAN FORWARD RATE AGREEMENT (FRA) CURVE

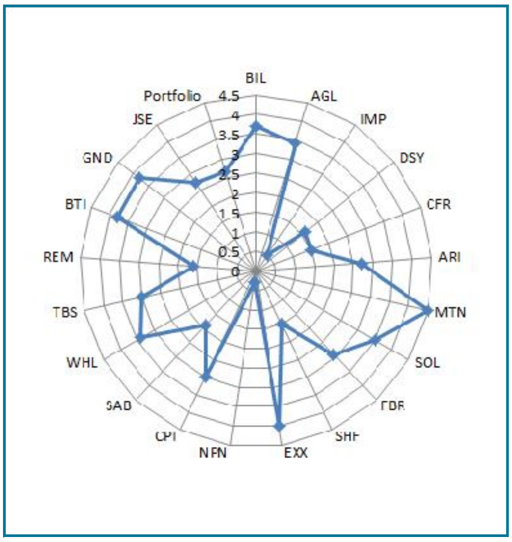


Year to date, the rand has weakened (by 7%, 0% and -4%) against the US dollar, UK sterling and the euro respectively.

PERFORMANCE OF THE RAND AGAINST THE US DOLLAR
Source: I-Net Bridge

The diagrams below show the Price/Earnings ratio (P/E-red) and the Dividend Yield (DY-blue) of each share in the model portfolio as well as the average P/E and DY of the JSE All Share Index and the model portfolio:





Below are the 5 best and 5 worst share performers in our portfolios from the high in July and for the past twelve months up to 17 November 2014.

Best - past year

Naspers LTD - N	51.64%
Capitec Bank Holdings LTD	39.58%
Steinhoff International H/d LTD	36.94%
Remgro LTD	32.78%
Tiger Brands LTD ORD	28.16%

Best - since July

Tiger Brands LTD ORD	22.41%
Capitec Bank Holdings LTD	15.50%
Remgro LTD	10.83%
Property Index Tracker Coll Inv	10.08%
Discovery Limited	9.57%

Worst - past year

Bhp Billiton PLC	-7.05%
Newwave Platinum ETN	-10.64%
Exxaro Resources LTD	-22.85%
African Rainbow Minerals LTD	-24.04%
Impala Platinum Holdings LTD	-38.10%

Worst - since July

Anglo American PLC	-17.17%
Bhp Billiton PLC	-20.17%
Exxaro Resources LTD	-22.08%
Impala Platinum Holdings LTD	-23.79%
African Rainbow Minerals LTD	-30.31%

At the time of writing, we are buyers of Sasol, Platinum and Gold. As can be seen from the graph on the previous page, the rand has tumbled by almost 10% during 2014 but we have not seen much of this advantage reflecting in the prices of rand-hedge shares during the past 12 months.

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