

### New Unit Trust Fund: Cannon Flexible Fund

Cannon Asset Managers is delighted to announce the launch of a new unit trust fund, the Cannon Flexible Fund. The fund will make investment allocations between equities and cash, and we are confident that the fund is unique in the industry with regard to both the investment strategy, as well as the high conviction with which these allocations will be made. Although the fund has a benchmark that is 50% equity and 50% cash (detailed below), it will not comply with Regulation 28 of the Pension Funds Act, as at times, it will be fully invested in equities (the fund can be very effectively used as a building block in Regulation 28 portfolios).

#### Where to use the Cannon Flexible Fund

As a standalone Unit Trust, the fund is ideally suited for investors that want high equity exposure when markets are attractively priced and no equity exposure when markets are expensive.

The **Cannon Flexible Fund** is also an ideal building block for investors that invest in other Unit Trusts and require tactical asset allocation (to or from equities) within their overall portfolio.

For example, although the fund itself moves between 0% and 100% in equities, where the fund is used for a portion of the investor's portfolio, its asset allocation changes can tilt the client's overall portfolio equity exposure up and down, thereby acting as the tactical asset allocator in the portfolio. As the investor is not switching between funds for tactical asset allocation, costs are also kept down.

This works well whether the other unit trusts held by the investor are asset class building blocks (i.e. Equity, Bond or Cash Unit Trusts) or whether they are Asset Allocation unit trusts.

#### Platforms

The fund will be available for investment directly, and is also immediately available on the Momentum Wealth and Investec IMS Linked Investment Service Platforms (LISPs). The unit trust is administered (in a white-label partnership) by Metropolitan Collective Investments (MCI). It is intended that the fund will be available on other major LISPs in the future.

#### Investment Policy

The **Cannon Flexible Fund** is a flexible unit trust portfolio that aims to provide investors with capital growth over time. The portfolio is built using rules that guide when the fund holds cash, and when investments are made into equities. As the investment policy is flexible, the portfolio can move freely between asset classes. In other words, when equity markets are at their lowest or most attractive levels, we will hold 100 percent in a selection of deep value shares, and when the market has performed well, and shares are no longer attractive we will hold no shares, or 0 percent of the portfolio in equities, with the balance

being invested in cash. The portfolio will move in 25 percent increments from 0 percent in equities up to 100 percent in equities, and vice versa.

To explain the portfolio mechanics simply, Cannon has developed a market valuation tool that considers the earnings of both the market and the underlying companies over a seven year period, using Cyclically Adjusted Price Earnings (CAPE) ratios (sometimes referred to as Graham and Dodd Price Earnings (G&D P:E) ratios, that were developed in the 1930s) and applying them in South Africa. Earnings are cyclical, and by looking over a longer term one is able to get a good sense of "normalised" or "sustainable" earnings of the market as opposed to near-term earnings that are impacted by short term economic cycles. By applying this normalised earnings number and the current price, we create a Price Earnings (P:E) ratio that is far more effective in indicating the attractiveness or expensiveness of the market, as the earnings component is more stable, making the ratio more price sensitive. This enables our clients to avoid investments based on sentiment and the most recent experience, which often can be misleading. We make no use of derivatives to either hedge or change our allocation to equities. This portfolio is run on our best house view in terms of asset allocation.

#### Portfolio Benchmark

The benchmark will be a composite benchmark consisting of 50% FTSE-JSE ALSI J203T (equities) and 50% STEFI indices (cash).

#### ASISA Category

The fund will be located in the Domestic Flexible category.

#### Effective Date of Launch

The unit trust fund was launched on 1<sup>st</sup> April 2011. The Cannon Flexible Fund mirrors our "Allocator" portfolio, an institutional portfolio offering we have been managing since September 2009. Over this time, the Allocator portfolio has generated a return of 23.3 percent, which compares with the benchmark performance of 20.2 percent. The asset allocation moves in 25 percent increments and has varied from being fully invested in equities at inception, to 75 percent invested in shares, back to fully invested and is equally invested in cash and equities at present. We are also pleased that the portfolio has almost kept pace with the equity market, despite the market's strong showing over this period. This is testament to the strong tactical asset allocation toolkit that Cannon has developed.

For more information please do not hesitate to call me on 011-4633140.

Yours sincerely,



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