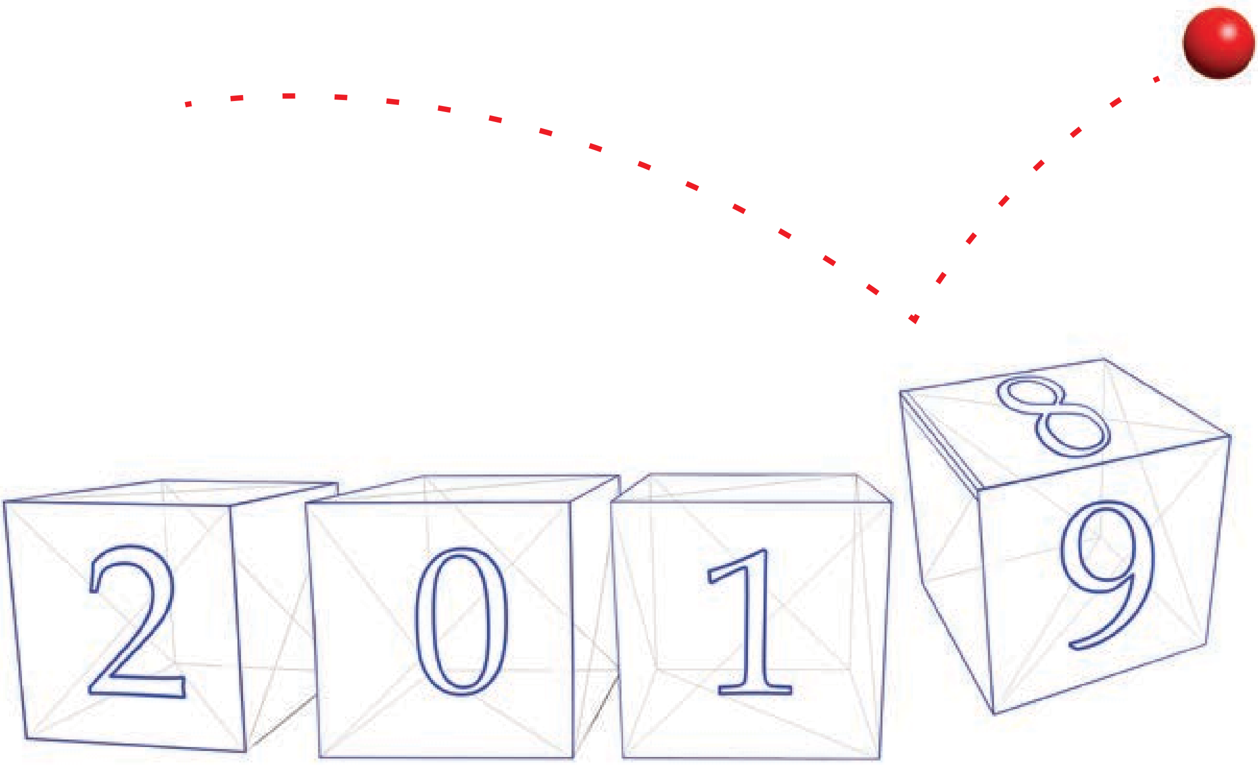
Expectations for 2019



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INCOME SPECIALISTS

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Introduction

Despite a backdrop of robust economic growth in 2018, returns from stock markets across the globe were disappointing with the FTSE All World Index finishing the year down 9.1% in US dollars. The decline in equity markets has been driven by a slowdown in global economic activity late in 2018 and fears that higher US interest rates might push the world into recession. Escalating geopolitical tensions, ranging from the intensifying trade war between the US and China to Brexit, have also rattled investors and weighed heavily on sentiment. Looking ahead to 2019, volatility seems set to continue as markets adjust to a world of higher interest rates. As well as providing a synopsis of 2018, this report examines the recent performance of our flagship portfolios and discusses why our Income Focused Investment Style offers resilience and predictability in all market conditions.

2018 – Economies up, markets down

The global economy grew by a healthy 4% in 2018. Growth in the world's largest economy, the US, was particularly strong, underpinned by tax cuts, a robust labour market and increased business investment. Typically, a strong economy is synonymous with a strong market. Not on this occasion however, as buoyant US GDP growth paved the way for the Fed to increase interest rates four times during the year. At 2.5%, interest rates in the US remain low by historic standards, however, given the amount of debt in the financial system there are widespread concerns that interest rates are already high enough to push the globe into recession.

Global Debt	2008	2017
Total Debt	$105 (tn)	$169 (tn)
Total Debt to GDP	213%	236%

Source: McKinsey & Company

Worldwide, borrowing is now more than double the value of goods and services produced every year, and at 236% of GDP (as at end 2017) is 23% higher than at the peak of the financial crisis. Hence, it is understandable that as interest rates have risen, so too has investor anxiety and market volatility.

Unlike global markets which were down despite good economic growth, South Africa's poor equity market performance (down 8.5% in Rands) mirrored a subdued economy; an economy which continues to be held back by weak consumer and business confidence. Given the deterioration in the global backdrop, lower commodity prices, and policy uncertainty, South Africa's low growth is set to continue in 2019 with real GDP expected to increase by only 1.3% according to the World Bank – a third of the level of emerging market peers and amongst the worst growth in sub-Saharan Africa.

Marriott Equity Based Portfolios

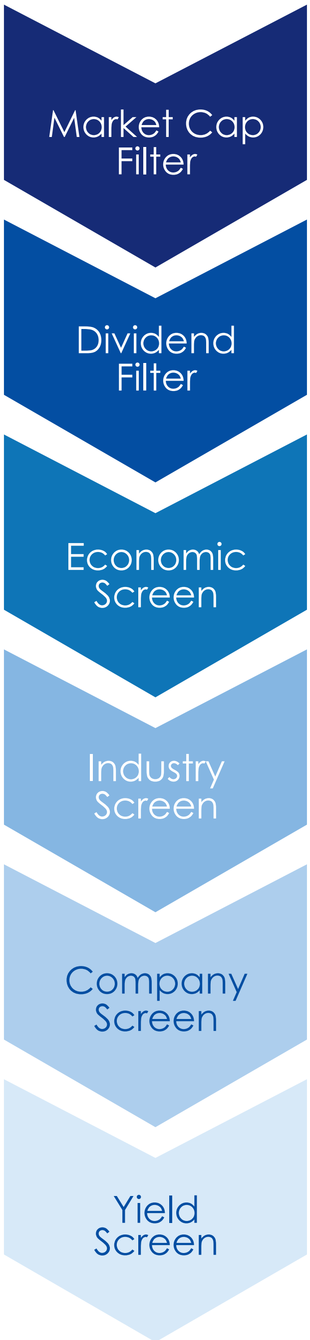
Robust portfolios, resilient in tough times

When times are tough investment styles and strategies are put to the test. Marriott's Income Focused Investment Style results in portfolios that tend to offer resilience during these periods, as is evidenced by the performance of our portfolios in 2018.

	2018 Returns		
	Total Return	Sector Average	Difference
Dividend Growth Fund	-5.7%	-9.0%	**+3.3%**
Balanced Fund	0.0%	-3.7%	**+3.7%**
Worldwide Fund	4.2%	-1.2%	**+5.0%**
First World Equity Feeder Fund	5.7%	1.2%	**+4.5%**

Source: Profile Data

At **Marriott we only invest in companies which can reliably grow their dividends** through all stages of interest rate, business and economic cycles. To help us identify these companies we use a security filtering process (outlined below) which ensures specific risks to future dividends are considered, these being economic, industry and company specific. Highlighted below are key considerations of these three critical screens:



Economic screen:

1. Geographic risk
2. Geopolitical risk

Industry screen:

1. Cyclicality
2. Competitive environment
3. Pricing power
4. Disruption risk
5. Growth potential

Company screen:

1. Balance sheet strength
2. Cash conversion
3. Corporate governance
4. Market position
5. Track record

Companies that make it through the filter tend to be market leaders with strong brands and pricing power, boast robust balance sheets and cash flows, and produce goods or services that are integral to the lives of their customers. These are qualities that are often under-appreciated when times are good but become increasingly valued in adverse market conditions. It is exposure to companies of this nature that explains the resilience of Marriott's equity based portfolios in 2018 and their solid longer-term returns:

Equity Based Portfolios	5 year*		10 year*	
	Total Return	Income Produced#	Total Return	Income Produced#
Dividend Growth Fund	6.1%	R16 600	13.1%	R58 500
Balanced Fund	5.8%	R20 600	9.1%	R55 200
Worldwide Fund	6.9%	R13 500	10.0%	R38 600
First World Equity Feeder Fund	7.4%	R16 100	10.3%	R36 800

*Annualised #Assuming R100,000 invested Source: Profile Data

Offshore stocks offer good value

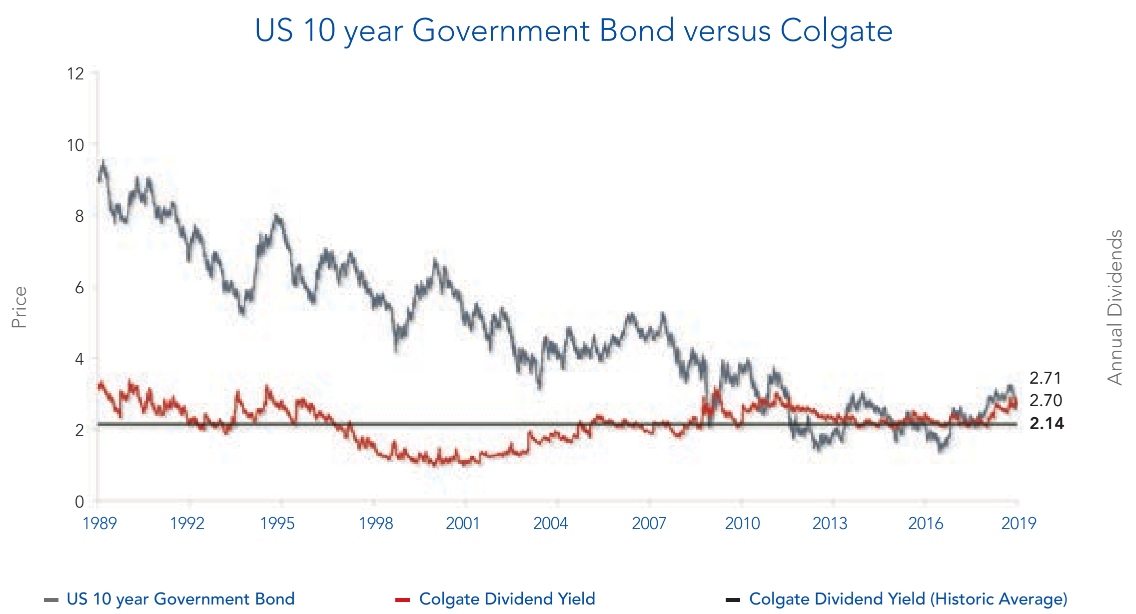
Despite a slowing global economy the dividend growth outlook for the multinationals we invest in remains robust due to their non-cyclical business models and their exposure to important long-term trends such as consumerism, automation and ageing demographics. This, however, did not prevent their prices from declining in 2018, with negative market sentiment weighing heavily across all sectors as evident in the performance of our offshore direct share portfolios.

Offshore Share Portfolios	£			$			€		
	1 year	3 year*	5 year*	1 year	3 year*	5 year*	1 year	3 year*	5 year*
Income Growth Portfolio	-1.6%	2.0%	8.2%	-7.2%	3.8%	2.7%	-2.6%	2.0%	6.6%
Balanced Portfolio	-2.8%	8.4%	9.4%	-8.3%	3.4%	3.9%	-3.8%	1.7%	7.8%

*Annualised

Source: Bloomberg

The negative returns in 2018 have resulted in the dividend yields of our offshore companies increasing to attractive levels, especially relative to the US 10 year bond which ended the year yielding approximately 2.7%. Consequently, we continue to maximise investors' exposure to these companies across our equity based portfolios. The chart below highlights the current dividend yield of Colgate-Palmolive versus its 30 year historic average and the US 10 year bond yield.

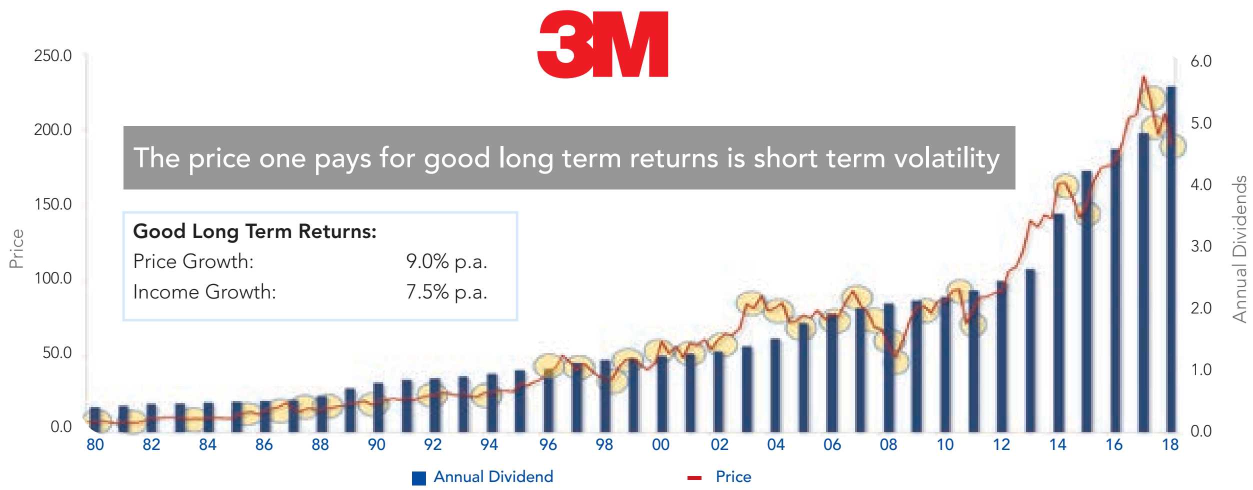


Source: Bloomberg

Looking ahead to 2019, notwithstanding the challenges in the macro-environment we expect annual dividend growth of 7% in Rands and 5% in hard currency from our local and offshore equities respectively. As capital growth is ultimately a function of dividend growth, we are confident returns from our equity-based portfolios will pick up in the years ahead as prices catch up with dividends.

The price one pays for good long term returns is short term volatility

As markets are often driven by investor emotions, even high quality businesses with impeccable track records are subject to share price volatility. The chart below shows the dividend and price history of 3M, one of the world's premier industrial companies. Despite many bouts of short term volatility, the average annual total return that 3M investors have enjoyed since 1980 has been 12.6% as capital growth ultimately tracked dividend growth over time. As such, volatility in the share prices of companies with the ability to consistently and reliably grow their dividends typically represents good buying opportunities.



Short Term Volatility																	
	Q2'81	Q2'81	Q1'84	Q3'86	Q4'87	Q1'88	Q4'88	Q3'90	Q1'92	Q1'94	Q3'97	Q4'97	Q3'98	Q4'98	Q1'00	Q2'01	Q3'02
	-8,9%	-13,1%	-11,8%	-11.50%	-21,3%	-10,7%	-3,7%	-10.30%	-6,8%	-9,0%	-9,6%	-11,2%	-10,3%	-3,5%	-9,5%	-13,8%	-10,6%
	Q1'04	Q3'04	Q2'05	Q3'06	Q4'07	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09	Q2'10	Q3'11	Q1'14	Q3'15	Q1'18	Q2'18	Q4'18
	-3,7%	-11,2%	-15,6%	-7,9%	-9,9%	-6,1%	-12,1%	-15,8%	-13,6%	-13,6%	-5,5%	-24,3%	-3,3%	-8,1%	-6,7%	-10,4%	-9,6%

Source: Bloomberg

Marriott Income Portfolios

Given the volatility in equity markets it is unsurprising that cash and fixed interest portfolios performed best in 2018. All Marriott's income funds produced yields and returns in line with our guidance of 8% per annum. Looking ahead to 2019, we expect similar returns from these funds due to their exposure to high quality floating corporate debt, and attractively priced 3 - 5 year fixed deposits with the big 5 banks. The table below highlights the good performance of our income funds over the past 5 years.

Income Portfolios	1 year		3 year*		5 year*	
	Total Return	Income Produced#	Total Return	Income Produced#	Total Return	Income Produced#
Core Income Fund	8.3%**	R8 900	8.7%**	R26 000	7.5%**	R41 100
High Income Fund	8.1%**	R8 200	8.3%**	R25 100	6.8%	R38 800
Income Fund	8.3%	R7 600	8.0%	R22 500	7.1%	R33 900
Sector Average	7.3%	R6 800	7.6%	R21 000	7.0%	R32 400

*Annualised **C Class #Assuming R100,000 invested (Source: Profile Data)

For investors who cannot withstand equity market volatility, or who are looking for a high monthly income stream, these funds provide excellent options due to their attractive yields and conservative positioning.

Marriott Property Portfolios

One of the asset classes which suffered the most in 2018 was undoubtedly SA listed property. Although an unfavourable global and domestic backdrop contributed to the disappointing returns, poor corporate governance and the distribution of once-off earnings played an even bigger role. Once again, our emphasis on quality and our security filtering process spared Marriott investors significant losses in 2018.

	2018 Returns		
	Total Return	Sector Average	Difference
Property Income Fund	-3.7%	-22.8	**+19.1%**

Source: Profile Data

Looking forward, we continue to only invest in what we consider to be the highest quality, most liquid property companies available in the market. These companies have strong management teams, clear disclosure, comparatively good corporate governance, and in our opinion the most secure dividend outlook. Therefore, they are likely to serve investors best in the years ahead.

First World Hybrid Real Estate Plc

Another Marriott fund that held up relatively well was the Marriott First World Hybrid Real Estate Plc (FWHRE) with a 3.3% return, compared to the NAREIT UK Property Index which was down by over 12% in Sterling for 2018. The Fund delivered a reliable level of income with an annualised income return of approximately 5%.

FWHRE Performance (pa) as at 31/12/2018	1 year	3 years*	Since Inception* (31/01/2014)
Income Return	5.10%	5.29%	5.11%
Price Return	-1.80%	1.05%	3.18%
Total Return	**3.30%**	**6.34%**	**8.29%**

*Annualised

Source: Marriott

The price of the Fund came under pressure due to REITs having a particularly poor year. Illustrated below is the performance of the UK listed REITs, which make up approximately 20% of FWHRE.

Total Return (for the year ending 31 December 2018)

FWHRE REIT Portfolio (weighted average)	-6.10%
NAREIT	-12.8%

Source: Bloomberg

The direct property portfolio however continues to deliver positive returns with the underlying properties showing good price growth in the region of above 2% in line with rental growth. Our longer term return expectation for FWHRE is between 4.5% and 6.5% p.a. This return is made up of a yield of 4.5% and annual property rental growth of 1 to 2% over time. Given the current high levels of market volatility FWHRE remains an attractive proposition for investors.

Conclusion

Although 2018 proved to be a disappointing year for equity markets generally, the majority of our portfolios held up well. Looking ahead to 2019, we are confident that returns will improve as the companies we invest in continue to grow their dividends. This confidence is underpinned by a time-tested investment style and a thorough investment process. By only investing in the highest quality companies that can reliably grow dividends, our portfolios offer resilience and predictability no matter the market conditions.

INCOME SPECIALISTS

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