In the 12 months to 30/03/2017 (the day on which President Jacob Zuma announced a major cabinet reshuffle that included the axing of both the Finance Minister and his Deputy), the Bridge Payers & Growers® portfolios had delivered strong relative performance, as evidenced by the table below.

Table 1: One year returns to 30/03/2017

Bridge High Income Fund	12.7%
Bridge Stable Growth Fund	11.2%
Bridge Managed Growth Fund	9.8%
Bridge Equity Income Growth Fund	6.0%

FTSE/JSE All Share Index (TR)	2.9%
FTSE/JSE SA Listed Property Index (TR)	2.9%

Source: Bridge Fund Managers & IRESS

Since the cabinet reshuffle, our Payers & Growers® portfolios have lagged both the market (see table below) and our peer group for several reasons, all of which will be addressed in this update.

Table 2: Returns from 30/03/2017 to 21/11/2017

Bridge High Income Fund	3.0%
Bridge Stable Growth Fund	1.6%
Bridge Managed Growth Fund	0.8%
Bridge Equity Income Growth Fund	1.2%

FTSE/JSE All Share Index (TR)	19.2%
FTSE/JSE SA Listed Property Index (TR)	7.8%

Source: Bridge Fund Managers & IRESS

The past eight months have been characterised by heightened levels of uncertainty regarding South Africa's political future, a deterioration of the country's fiscus and historically low levels of consumer, business and investor confidence. As a result, economic growth in South Africa has stalled, the rand has weakened, particularly against the British pound and the euro and credit rating agencies have been downgrading the country's sovereign debt rating to the point where a further downgrade from Standard & Poor's and Moody's would see South African government bonds removed from global investment grade bond indices. This would force foreign investors who track these bond indices to sell approximately US$6 billion worth of our bonds in a relatively short period of time.

Against this backdrop, corporate South Africa has struggled to grow profits and in several cases, share prices have declined by more than 10%. Particularly hard-hit have been the retailers (Truworths is down 16.2%, including dividends, since 30/03/2017, while Woolworths is down 22.9%), hospital groups (Life Healthcare is down 11.9% and Netcare is down 17.8%) and insurers (MMI is down 15.0%). Some domestically-focussed listed property companies have also experienced large share price drops as vacancies have increased and market rental levels have stagnated, particularly in the office sector. Accelerate (-18.3%), Arrowhead (-13.6%), Delta (-15.2%) and Dipula B (-10.7%) have recorded negative total returns of over 10% since 30/03/2017.

Within the listed property sector, a few company-specific issues have further compounded the share price declines. Most of these issues relate to development-related activities, with new developments taking longer to fill and cost overruns and delays that have meant initial income yields are lower than originally envisaged. Although short-term distribution growth rates have declined, there is now significant value in most of these companies as forecast forward yields have ballooned over the past 3 months. The table below highlights some of the attractive one-year forward yields and expected three-year distribution growth rates as per the latest FactSet, Bloomberg, IRESS and Bridge Fund Managers forecasts.

Table 3 : Forward yields and 3 year distribution growth rates

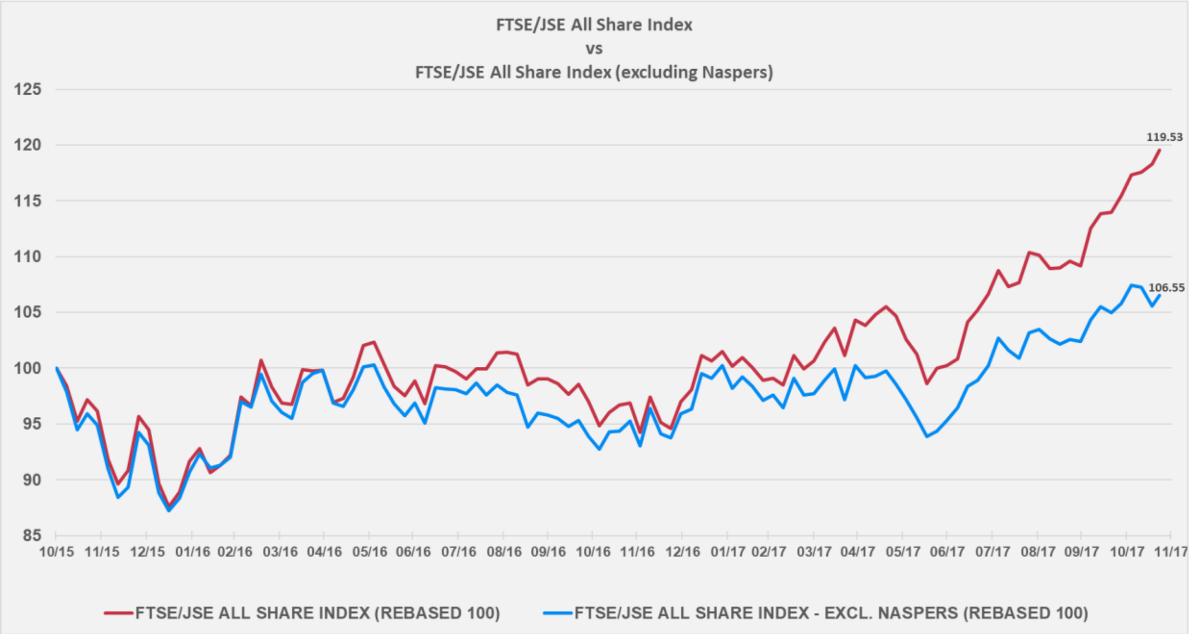
COMPANY	FORWARD YIELD	DISTRIBUTION GROWTH FORECAST (PER ANNUM)
Texton Property Fund	18.2%	3.4%
Delta Property Fund	14.8%	0.7%
Rebosis Property Fund	14.3%	4.4%
Arrowhead Properties	13.0%	1.7%
Tower Property Fund	12.1%	8.2%
Octodec Properties	11.9%	4.1%
Accelerate Properties	11.8%	3.0%
Indluplace Properties	11.8%	6.7%
Fairvest Property Holdings	11.3%	9.0%

Source: FactSet, Bloomberg, IRESS & Bridge Fund Managers

Given these large price declines, it seems almost unbelievable that all of the portfolios have produced positive (if small) returns since 30/03/2017. There have been businesses and listed property companies that have made a positive contribution to performance since Zuma's major cabinet reshuffle. The portfolios' rand-hedge exposure has served them well, with Richemont (+25.8%), British American Tobacco (+11.7%) and Bidcorp (+11.3%) all making meaningful contributions to performance. Not all retailers have suffered the same fate as Truworths and Woolworths, with Mr Price (+22.7%) and Clicks (+19.5%) being handsomely rewarded by investors for stellar results in tough conditions. Surprisingly, the big banks have also managed to post strong gains since the end of March with both Firstrand (+15.7) and Standard Bank (+11.3%) registering double-digit gains, while among the industrials, Bidvest (+19.0%) is the standout SA-focussed business in the portfolio. Even amongst the listed property companies, Equites (+27.4%) and Safari (+9.7%) have been able to make positive contributions to performance over the past eight months.

Relative performance is not just about the securities you own, equally important are the securities not in the portfolio. Our investment philosophy is designed to produce a specific set of client incomes which we believe mitigate some of the risks faced by investors, specifically those in retirement who are requiring a consistent monthly income, that grows by at least inflation through time. For that reason, our portfolios comprise good quality businesses, capable of growing earnings above inflation and who return a large portion of their profits to investors in the form of dividends. While this approach has many benefits, it does mean that high-growth companies with low or no dividends are specifically excluded from our portfolios. Over the past eight months, the share price of Naspers has appreciated by 77% and is responsible for most of the South African equity market's return over that period (see chart below). Given its extremely low dividend yield (less than 0.2%), Naspers is not included in our Payers & Growers® portfolios.

Chart 1: FTSE/JSE All Share Index return (with and without Naspers)



Source: Bloomberg & Bridge Fund Managers

As we head towards the end of the year, the ANC's elective conference in December is potentially a watershed moment for South Africa. The battle to succeed Jacob Zuma as president of the ANC is hotly contested and the outcome difficult to predict. Given the potentially binary outcome for financial markets in South Africa, we have felt it prudent to hedge some of our domestically-focussed equity exposure, particularly those businesses that have enjoyed strong price gains since the cabinet reshuffle in March.

The hedges have been constructed so as not to reduce our exposure to equities, but to limit the potential short-term capital outcomes. They have been implemented on a security-by-security basis and we currently have hedged 80% of our exposure to Firstrand and Standard Bank. The hedges provide downside protection after the first 5% of capital loss, but are restricted to the next 10% of downside. That means that should the prices of Firstrand and Standard Bank fall 15%, the portfolios will only realise 5% price declines. If the prices decline by 20%, then the portfolios will realise 10% price declines. The price for this partial downside protection is a limit on the upside the portfolios will enjoy should the outcome of the ANC's elective conference be positive for financial markets. The portfolios will still enjoy approximately 15% upside in the prices of Firstrand and Standard Bank, but any further upside will be paid away.

We are currently pricing similar hedges for Clicks, Mr Price, Liberty Holdings, MMI Holdings and Truworths, all of which will experience share price declines should the outcome of the conference be negative for financial markets.

While we believe that most of these stocks are already priced for a negative outcome, should it materialise, there will be further short-term price weakness, particularly in December when liquidity levels in our markets are low. In that instance, the hedges will reduce short-term price volatility. All hedges will be withdrawn by the middle of March next year.

We don't know what the future holds, but we see significant value in the domestically-focussed companies we own in our Payers & Growers® portfolios. Current prices fully reflect the uncertain political and economic climate and the lack of confidence among local and foreign investors. While prices have been volatile this year, the portfolios have delivered a high level of income, which has mitigated the impact of short-term price volatility on our clients' financial plans. While distribution growth has been muted this year, we expect growth rates to normalise in 2018 and 2019. The table below highlights our longer-term distribution growth expectations across our Payers & Growers portfolio range.

Table 4: Long-term distribution growth assumptions

Bridge High Income Fund	0 - 2% p.a.
Bridge Stable Growth Fund	6 - 8% p.a.
Bridge Managed Growth Fund	8 - 10% p.a.
Bridge Equity Income Growth Fund	10 -12% p.a.
Consumer inflation	4 – 6% p.a.

Source: Bridge Fund Managers

In conclusion, while the last eight months have proved difficult, the combination of a high initial income yield (initial income yields across all our portfolios are now the highest since the Funds were launched in March 2012) and inflation-beating income growth are powerful investment outcomes, particularly for retired investors looking to draw an income that initially exceeds 4% of the capital and grows by at least consumer inflation each and every year, irrespective of the how long the investor lives in retirement.

IAN ANDERSON
CIO

27 November 2017

DISCLOSURES

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Such borrowings are permitted only to meet the portfolio's obligations in relation to (i) the administration of the Fund relating to purchase or sale transactions; and/or (ii) the redemption or cancellation of participatory interests in the portfolio. Borrowings in relation to (i) above are only permitted for a period of up to 8 calendar days, and 61 calendar days in respect of (ii). Past portfolio performance is measured on a rolling monthly basis. The annual report, brochures, application form is available on our website. The portfolio may be closed to new investments at any time in order to be managed in accordance with its mandate. Forward pricing is used. Information on this document shall not be construed as financial advice as defined and/or contemplated in terms of the Financial Advisory and Intermediary Services Act, Act 37 of 2002 ("the FAIS Act"). Bridge shall, wherever possible, avoid situations causing a conflict of interest. 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Total investment charges is a measure of the total value of portfolio incurred as costs relating to the investment of the portfolio or CIS. Clients can contact our Client Services centre on 0800 117 842 or email investments@bridgefm.co.za to request an EAC statement.