

## PORTFOLIO MANAGER COMMENTARY

The investment climate during the past year was extremely challenging. The unfolding sovereign debt crisis in Europe continued to dominate the economic news. Elsewhere faltering growth and rising inflation in most regions of the world added to investors' woes. Sentiment swung wildly from taking on to avoiding risk which resulted in extreme levels of volatility in equities and currencies.

The new president of the European Central Bank, Mario Draghi, reversed the rate hikes of his predecessor during the final quarter of 2011 to bring European interest rates in line with the zero rate policy already followed by the US and Japan.

South Africa also faced a challenging environment, with the severe slowdown in the construction sector and rising inflation probably the biggest concerns. In light of the weak domestic economic activity and serious concerns about the health of our major trading partners, the Reserve Bank kept local interest rates at historic lows despite inflation breaching the upper end of the target range in the final quarter of the year.

Notwithstanding an environment of low interest rates, high volatility in equities and a weak rand we are pleased to report that the fund returned 4.0% for the quarter, 10.3% for the calendar year and 12.0% per annum for the past three years. The returns are ahead of cash and inflation over all periods and it was achieved with very low volatility.

Our asset allocation decisions contributed positively as did our selection within asset classes. The decision to take our offshore exposure meaningfully higher early in the year paid off as the rand weakness added to performance. In the interest bearing area our high exposure to inflation-linked bonds and corporate credit also contributed positively. Domestic equity exposure was reduced to 9.6% by buying downside protection in the form of put options. Global equity exposure was 17% at year end, displaying our belief that it offers better value than the domestic equities.

Looking forward to 2012 we are of the view that the investment environment will remain tough. Returns from cash will again be very low and almost certainly below inflation in most countries. Economic growth will continue to be lacklustre, with Europe in all probability slipping back into recession. Growth in the emerging world and especially in China will be very important to the overall global financial environment. We remain positive on China, but cautiously so.

Notwithstanding the very challenging macro environment we continue to find many excellent businesses at reasonable multiples and with strong balance sheets. We believe exposure to the equity of these businesses will help the fund achieve its objectives in the years ahead. Conversely we still find conventional bonds unattractive at prevailing yields.

**Portfolio managers**

Charles de Kock, Mark le Roux and Neill Young