

## PORTFOLIO MANAGER COMMENTARY

The fund returned 4.4% for the quarter, against 7.7% from the benchmark MSCI World Index (dividends reinvested). For a rolling 12-month period, the fund's return of -7.7% is lagging that of the benchmark return of -5.0%.

The quarter was again dominated by the ongoing European sovereign debt crisis. The new governments in Greece, Spain and Italy provided impetus to fiscal austerity in those countries, but an attempt to create greater fiscal unity within Europe was struck down by a British veto, and an agreement between the other 26 nations appears increasingly uncertain. Globally the crisis weighed heavily on sentiment and markets, however economic data from the US is moving in the right direction and is expected to improve in 2012, an election year.

In terms of regional equity performance, North America was the best performing region, rising a strong 11.1% over the quarter. Japan performed the worst, falling 3.9% (in US dollar terms), while Asia ex-Japan and Europe rose by 6.0% and 5.5% respectively (in US dollar terms). The fund's regional positioning had a significant negative impact on overall performance over this period.

Overall, our managers had a significant negative impact on performance. This was largely a result of volatile markets and increased uncertainty which led to increased exposure to cash and less exposure to what was ultimately a strong equity market performance.

All of the global managers underperformed over the quarter, especially Cantillon Global which sacrificed some of its exceptional performance achieved in the third quarter of 2011.

Polar Japan and Morant Wright also marginally underperformed as did Indus Select in Asia.

IVI Europe had a very good quarter, generating strong performance and Memnon Europe also had a positive impact on performance over the period. In the US, Harris Concentrated Fund also finished ahead of the index.

During the quarter, we redeemed from Edinburgh Partners Europe and replaced it with Sands Capital Growth Fund and Vontobel Emerging Market Fund.

Sands is a concentrated, valuation-driven growth fund run by Sunil Thakor and David Levanson. The firm manages approximately \$18 billion across all strategies and the portfolio managers are supported by a team of 25 analysts and research associates. Since inception, they have generated an annualised alpha of 6.3%.

Vontobel has a large team of analysts looking at stocks for their regional and global strategies. The Emerging Market Fund is run by Rajiv Jain, the firm's head of Portfolio Management who has run the fund for more than 10 years. Although also growth orientated, the firm has a strong valuation process coupled with a long-term investment horizon and low turnover. The fund has generated 4.2% annual alpha over a 10-year period.

### Outlook

2011 was a tough year for active, valuation-driven managers such as those with whom we place capital. With market volatility at extreme levels and short-term momentum dominating stock prices, our managers were unable to generate their historical levels of return. However, equity markets remain attractively priced and we are confident that our managers will provide good returns once some semblance of normality returns. This may not happen in the short to medium term as Europe continues to resolve its crisis, but there are some signs that conditions are improving, particularly in the US.

### Portfolio manager

Tony Gibson