

## PORTFOLIO MANAGER COMMENTARY

The first quarter of 2012 started with a strong rally in risk assets around the world. Too much negativity around a European debt crisis abated as the Greek debt forgiveness was passed. Emerging markets in particular have had a strong start to the year. The fund was up 6.2% for the quarter, well ahead of the benchmark return of 4.5% and ahead of the JSE All Share Index return of 6%.

The first quarter returns for our equity allocation were good as some of our key stock positions came through. Our long held position in banks paid off handsomely as they all showed very strong sets of results, with potential for earnings to continue growing in the year ahead. With strong capital bases and stable asset growth, the prospects for a continuation of their good dividends also remain intact. During this period we have also increased our exposure to Investec. The company has not seen the benefits of the benign interest rate environment as they have still been cleaning up a number of the mistakes made in their offshore businesses during the past five years. Once these are out of the way we think it will highlight the good value in the business, which remains a significant player in the high-end banking environment, and more importantly, a major player in fund management in SA and the UK. The fund management business, unlike banking is capital light and generates significant free cash.

Generally the industrial shares also had a good quarter, with our holdings in Woolworths, Tiger Brands and Famous Brands all delivering sterling returns. Mondi, one of our biggest holdings, produced an excellent set of results surprising the market with the strength of its operating assets and cash flows which support its high dividend yield. Unfortunately our largest holding, MTN, had a tough quarter on the back of negative newsflow out of Nigeria, Iran and the possibility of a lawsuit surrounding the manner in which it secured its Iranian mobile licence. While we can't go into detail into all of these issues, we have modelled MTN very conservatively, factoring in the political and macroeconomic risks it face in the various regions where it operates. Considering all these issues we still find a lot of value in the MTN investment case. Operationally the business continues to perform well and this is evidenced in its high dividend yield, which is in excess of 6%.

The commodity shares had a mixed quarter with the precious metals miners, platinum and gold, coming under heavy selling pressure. These industries continue to face labour unrest, unrelenting cost pressure and declining grades. Against this, base and bulk metal producers continue to deliver massive earnings growth at huge margins. We have studiously avoided the gold sector to date which has been a wise choice. Instead we prefer platinum, where the metal price is not inflated by speculative demand and the mines are still generating profits. As the commodity sector has sold off on the back of concerns over slowing growth in China we have selectively added to the portfolio where value has appeared.

Outside of domestic equities our global equity exposure has performed well, especially our exposure to emerging markets as we see renewed investor confidence in these regions. Our portfolio of high yielding global bonds also delivered pleasing returns as spreads compressed on a number of these instruments. Our domestic portfolio of inflation-linked bonds also had a good run as investors kept paying up for inflation protection in this environment of loose monetary policy.

Late last year we added exposure to selected global property stocks, the majority of which were trading at yields in excess of domestic property stocks. A number of these have also rerated in the recent risk rally, adding to the fund's overall return.

It would be foolish to extrapolate the run of the last quarter over the full year. The world remains a conflicted and uncertain place, with many sovereign states grappling with excessive debt levels and low or no economic growth. The mix of different assets in the fund allows one exposure to growth, but with a measured level of risk. This is not an environment in which one should be swinging for the fences, but rather methodically and steadily adding return based on our long-term fundamental investment approach.

**Portfolio manager**  
Neville Chester