

## PORTFOLIO MANAGER COMMENTARY

"People are habitually guided by the rear-view mirror and, for the most part by the vistas immediately behind them."

*Warren Buffett*

"You can't see the future through a rear-view mirror."

*Peter Lynch*

The fund returned -0.7% for the quarter against the benchmark return of -3.3%. For the year to end-March, the fund returned -9.1% against the benchmark return of -12.0%. Those who have followed the fund for some time will be aware of the fact that we encourage investors to evaluate us over the long term, whether short-term performance is good or bad. We remain ahead of the benchmark over 3, 5 and 10 years.

The greatest contributor to quarterly performance was our underweight position in gold equities. Our overweight positions in Mondi, Sappi, Northam Platinum, Metmar and AECI also contributed to performance. Our underweight position in BHP Billiton detracted from performance, as did our overweight positions in ArcelorMittal and Diamond Corp. The performance of our offshore holdings has been disappointing, with the US Natural Gas ETF and Zimplats being the key detractors of performance.

During the quarter we took some profit in Sasol and Gazprom to add to our holdings in Sappi and the US Natural Gas ETF. If one was to take a look at the rear-view mirror, the longer-term performance of both Sappi and the US Natural Gas ETF has been disappointing. Despite short-term challenges, we believe the long-term investment cases for both remain extremely attractive and have used lower price levels to add to our existing holdings. The remaining holdings of the fund were mostly unchanged from the previous quarter.

On the macro front, the economic outlook remains uncertain. Although the US economic statistics have positively surprised in the first quarter, risks around Europe and China continue to increase. China remains the most important economy for resource demand and recent data confirms the economy is slowing. Although market participants seem to be spending a significant amount of time trying to figure out whether it will be a hard or soft landing for the Chinese economy, we remain of the view that we do not have a special crystal ball. Instead of wasting our time on questions that cannot be answered, we focus our efforts on finding attractive investment opportunities in an environment where equity prices, to a large extent, already reflect the uncertain macroeconomic outlook.

Code	Index	2 years	3 years	5 years	10 years
J203	All Share	11.3	21.3	7.2	15.1
J258	Resources	-0.3	10.6	2.0	10.0
J580	Financials	13.3	24.8	5.1	16.3
J257	Industrials	21.3	30.3	13.1	20.0
J255	Property Unit Trusts	16.6	21.6	11.0	23.7
JAPI05	All Bond	10.7	10.2	8.7	11.6
GMC1	Cash	6.1	6.7	8.6	9.1
ECPI	Headline CPI (using last available figures)	4.5	4.7	6.8	5.7

Source: i-Net Bridge; Deutsche Bank calculations

When one takes a look at the rear-view mirror, returns for the resources sector has been poor, underperforming the industrial, financial and property sectors handsomely over both the shorter and longer-term periods (see table). It is human behavior to extrapolate past performance when making future investment decisions. It is therefore no surprise that the industrial sector has become the darling of the market, whereas the resource sector is largely unloved. We would however caution that it is very difficult to see the future by looking through your rear-view mirror. At present, we are reasonably upbeat about the prospects for the resources sector, despite the macro uncertainty, whereas in general equity mandates we are finding it harder to identify value in the industrial and property sectors. Based on our assessment of long-term valuations we are excited about the position of the fund and specific opportunities that have presented themselves within the resources sector.

#### Portfolio managers

Henk Groenewald and Duane Cable