Please note that the commentary is for the retail class of the fund.

The final quarter and especially the month of December provided a climactic finish to an already eventful year. The election of Cyril Ramaphosa as ANC president was positively received by the markets, with the rand surging by 10% against all major currencies in the final month of the year. Domestically-focused stocks and bonds also gained sharply as was evidenced by the bank and retail sectors delivering returns of around 15% in December. Bond yields also dropped sharply, turning a poor year for bond investors into a good one. The All Bond Index ended up delivering a total return of 10.2% for the year of which 5.7% accrued in December alone.

The business world provided its share of drama towards year end with the collapse in the Steinhoff share price. This after the sudden resignation of CEO Markus Jooste and the company's announcement that it was unable to produce audited figures for the year as well as the potential restating of prior years' earnings. As a result, we find it impossible to value the company at present. Since the dramatic events of early December we have therefore not traded in the share as we await more information. At the start of the quarter, before the share price collapsed, the portfolio held only 1.2% of fund in Steinhoff shares. While the price collapse did detract from performance, the impact was not crippling.

The strength in the rand towards year end had a greater negative impact on performance as it impacted the value of the fund's offshore holdings, totalling 25% of portfolio, as well as many of the large equity holdings such as British American Tobacco, Richemont, ABI, Mondi and other rand hedge stocks.

Over the course of the year the biggest contributors to performance were Naspers (adding 2.1%), Standard Bank, Anglo American, global equities and Mondi. Major detractors include Steinhoff (it cost the fund 1.4%), US dollar cash, short positions in SWIX bought as protection, Aveng and RECM & Calibre.

Listed property company Intu is a stock we have held for many years in the belief that the value of its underlying portfolio of high-quality shopping centres far exceeded its market capitalisation. Our view was supported by rival property company Hammerson's offer to buy Intu at a large premium to its then current price. The combined portfolio of Hammerson and Intu will make it the largest holder of prime retail shopping centres in the UK. We further believe the Hammerson management team can unlock significantly more value for shareholders over time. As such, we support the buy-out enthusiastically.

In the bond component of the portfolio we had an extremely short modified duration leading up to the Medium Term Budget Policy Statement. The very disappointing budget then drove yields to attractive levels, allowing us to buy some longer-dated government bonds at an average yield of 9.8%. The portfolio was therefore better positioned to benefit from the sharp improvement in yields subsequent to the ANC's elective conference. Domestic bonds as an asset class ended up contributing 2.8% to the portfolio's total performance for the year on a gross basis (before fees and tax). Domestic equities contributed 4.0% and foreign assets 1.0% (both gross of fees) to the total return as the strong rand countered the positive returns delivered by global equities.

On an after fees basis, the portfolio's total return was 6.9% for the year, which is ahead of inflation but behind the target of inflation plus 4%. Over the past five and ten years, the fund returns were 8.0% and 9.2% respectively, also ahead of inflation but behind the target. It is only the since inception return of 12.6% per annum that exceeds the inflation plus 4% target easily.

Looking forward to 2018, the market will be focused on how Mr Ramaphosa will lead the ANC and, in particular, for how long Jacob Zuma will remain President of the country and therefore in control of key cabinet appointments and government policy. The deeply divided top six officials of the ruling party and its national executive committee will make it difficult for the new president to act decisively in our view. We think the markets have been too euphoric in its assessment of recent events and expect some retreat in those market sectors that were so buoyant in December.

Portfolio managers
Charles de Kock and Duane Cable
as at 31 December 2017