The fund returned 1.56% for the quarter. Its long-term track record remains compelling, with the fund performing well against both its peer group and the quantitative benchmarks over most meaningful periods. Since inception, the fund has delivered an annualised return of 18.78% relative to its benchmark return of 15.73%. Over 10 and five years the fund has averaged 16.35% and 16.94%, outperforming the benchmark by 0.22% and 1.17% respectively.

The fund's benchmark is concentrated and Naspers's current contribution at 37% creates meaningful single-stock risk. If one excludes the impact of Naspers, index returns for 2017 would be 17% lower than the reported 22.5%. Our absolute position in Naspers remains large, reflecting our continued assessment of the company as an attractive share as it is streamlining its investment portfolio and Tencent is expanding its portfolio of services in large and growing markets. Despite this large holding, the fund is significantly underweight relative to the benchmark. Hence we would expect an appreciation in the Naspers share price to deliver meaningful absolute growth in the fund value, but detract from performance when assessed relative to benchmark.

2017 was a year in which domestic political events had a major impact on the market, with sentiment swinging wildly. Following the firing of finance minister Pravin Gordhan in the first quarter of the year, the rand recovered more than 10% towards the year end as sentiment swung dramatically. The picture was exaggerated for South African-focused domestic businesses, with banks up 28% in the fourth quarter and general retailers adding 23%.

While the market reacted extremely positively to Cyril Ramaphosa's appointment as president of the ANC at the December elective conference, the party remains ideologically split. The internal party conflict is likely to frustrate efforts to reform policy and strengthen fiscal discipline, and we expect slow economic growth to prevail. The fund continues to hold large positions in many of the rand hedge names that offer better valuation, including Naspers, Mediclinic, MTN and British American Tobacco. As an example, British American Tobacco trades on a 15.4x one-year forward PE, which is in line with domestic South African-focused shares despite the company's stable earnings generation, diversified international footprint, growing earnings from next generation tobacco products and margin uplift subsequent to the Reynolds take out.

The fund experienced a challenging fourth quarter as performance was hurt by Steinhoff and the rally in domestic shares. Steinhoff is the largest detractor from performance as the share price collapsed on the announcement that the company would delay the release of its 2017 audited financial results, launch an investigation into accounting irregularities and that the CEO had resigned. The fund held Steinhoff for the expanding, cash generative value retailer Pepkor as well as the opportunity to consolidate a rapidly growing but fragmented European furniture market through its vertically integrated value furniture retailer. Despite concerns about its acquisitive nature and aggressive tax structuring, Steinhoff's valuation looked compelling on a single-digit PE multiple. We did extensive reference checks including meeting many of the high calibre board members and well respected regional managers. To date, limited information has been released to further our understanding of where the investment case went wrong. We continue to monitor events closely and will take action as considered appropriate. Other detractors include the historical positions in Grindrod and Grand Parade. Despite representing small sizes in the fund, their stark underperformance had a negative impact on performance.

Mondi, Pick n Pay, Pioneer Food Group and MTN remain major contributors to performance over three and five years. MTN's contribution comes from the underweight position in the earlier years. Cartrack has also contributed significantly over three and five years despite its relatively small size. Cartrack's focus on innovation and process improvement, supported by high levels of service, has sustained meaningful subscriber growth across an expanding international footprint.

A weaker rand, earnings misses and resultant underperformance by domestic stocks provided opportunities to build positions in high-quality businesses during the year. Amongst others, we bought Spar, Curro, Netcare and Pick n Pay. These positions all contributed to performance during the fourth quarter domestic rally, but we believe valuation remains attractive.

Market movements during the quarter meant that we made small changes to the fund where relative valuations became more attractive, but the overall portfolio remains largely unchanged, which is consistent with our commitment to invest where we see long-term opportunity.

Portfolio managers
Sarah-Jane Alexander and Adrian Zetler
as at 31 December 2017