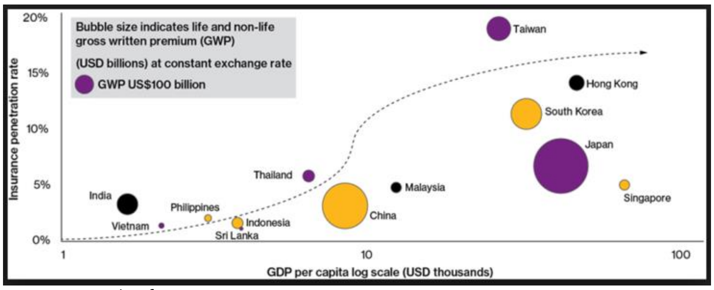
Please note that the commentary is for the retail class of the fund.

The fund appreciated by 13.7% in ZAR (+25.8% in USD) in 2017. This was around 2% ahead of its benchmark. The fund's equity exposure over the year averaged around 75% and in an environment of rising global equity markets, this positioning was a key part of the return. Emerging markets continued to outperform developed markets and the fund's emerging market exposure (around 35% of total equity exposure on average during the year) was also therefore a positive contributor. In terms of specific stocks, the significant contributors were Naspers (+72%, 1.8% contribution), the leading Chinese online classified site 58.com (+127%, 1.7% contribution), the 2nd largest Chinese ecommerce company JD.com (+46%, 1.5% contribution), Facebook (+38%, 1.2% contribution), Porsche (+40%, 1.1% contribution) and the 2nd largest Brazilian education company Estácio (+84%, 1.0% contribution). In terms of detractors for the year, 2 stocks had more than a 1% impact: Steinhoff (-2.5% contribution) and Magnit (-1.1% contribution). Over the past 5 years, the fund has generated a return of 16.6% per annum and since inception 18 years ago, it has produced a return of 14.4% per annum.

The fund ended the quarter with 71.4% of its capital invested in equities, with 73% of the equity exposure being invested in developed market equities, 22% in emerging market equities and 5% in South African equities, largely Naspers. The equity exposure has come down gradually over the year: global equities are clearly not as attractive as they were a few years ago, but we are still able to find good selected value in a number of global stocks. The fund's equity exposure remains reasonably concentrated, with the largest positions being in technology (both global and Chinese internet businesses), the private equity investment managers, selected global car companies, selected global consumer companies, Brazil education and Russian food retail.

Our negative view on global bonds remains unchanged and we continue to have no exposure to the asset class. The fund has 6.4% invested in global property: we are still finding selected value in the UK retail/commercial, US retail and German residential property stocks. Lastly, the fund has a physical gold position of 2.3%. The balance of the fund is invested in cash, largely offshore. As has been the case for a number of years now, the bulk of the fund (over 90%) is invested offshore, with very little being invested in South Africa.

The fund bought a new position in Ping An Insurance Group (Ping An) over the past few months. Ping An is the largest private insurance company in China. The company has 153m customers in China and besides insurance products (life and non-life) also offers asset management and banking services. The company is very entrepreneurial with a founder chairman who is still very involved in the business and who owns a significant stake. Ping An's VNB (value of new business) has grown by 33.7% per annum over the past 5 years, net profit by 32.8% per annum and dividends per share by 35.1% per annum over this same period. The insurance market in China is one of the lowest penetrated insurance markets globally and Ping An have a number of competitive advantages – a high quality brand, large and productive salesforce (1.4m agents with industry leading productivity), significant investment in technology and resultant leadership in fintech, privately run compared to most competitors who are state owned - that makes them well placed to take a high share of the growing Chinese insurance market over time.



Source: Bank of America

Whilst we have not owned Ping An before, we have followed it for many years and have owned AIA (the pan-Asian insurer and a key Ping An competitor in China) for the past few years, as well as owning Discovery (a JV partner to Ping An in China) until recently. Over time, these holdings have given us additional (positive) insight into Ping An. We have always held the view that the insurance assets of Ping An are very good assets and that the company is entrepreneurial and well run. Ping An Bank (part of the Ping An Group) in contrast has historically been a concern of ours but over time as the insurance business has grown at a high rate the contribution from the bank has declined and is now only 17% of profits (from 35% of profits a few years ago) and a far smaller part of our fair value.

Besides an underpenetrated insurance market, Ping An has the opportunity to continue to drive cross-selling through their large customer base of 153m customers in our view. As per the graph below, over the past 5 years the cross-selling ratio (% of customers who have more than 1 contract with the Ping An Group) has increased from 20.7% to 27.1%. The use of technology together with a productive, well paid and incentivised agency force should lead to further gains in this regard.

Source: Ping An

Ping An generates a return on embedded value north of 20% and today trades on around 14x earnings (9x embedded value earnings) with a 2% dividend yield. Given the long-term prospects for Ping An we believe this is a very attractive valuation.

The largest new developed market purchase over the quarter was Altice, a global telecommunications company whose main assets are a 70% stake in a US cable business (Altice USA) and a French cable and mobile business (SFR). The fund had a small position in Altice at the end of September but increased the position substantially after a sharp decline in the share price following poorer than expected results and resultant concern over the company's debt levels. In our view, Altice is a well-run group that has been successful over time in enhancing the customer offering, and profitability, of its main units (US and France) through investment in network quality and speed, and through generating synergies. The gearing levels of the company are high, but the group is very cash generative and trades on a 11% free cash flow yield in 2018 and which on our forecasts increases to a 15%+ free cash flow yield within a few years after that. The valuation of Altice is very attractive in our view, with the current market value of just the Altice US stake making up the entire current market capitalisation of Altice.

Global markets are clearly far less attractive than they were one, two or three years ago and the fund's equity exposure will likely continue to decline if equity markets continue to rise. We are however still able to find good selected value in both developed markets (e.g. Altice) and emerging markets (e.g. Ping An), and we remain optimistic about the potential returns that can be generated by the fund.

Portfolio managers
Neville Chester, Gavin Joubert, Karl Leinberger, Mark le Roux and Louis Stassen
as at 31 December 2017