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

The fund had a weaker quarter, delivering a return of 4.2% which is behind the benchmark return of 6.5%. Pleasingly, the fund still returned 18.1% for the calendar year, just ahead of the benchmark return of 18%. The since inception numbers remain compelling, with alpha in excess of 4% per annum, net of fees.

The domestic market had a roller-coaster ride in the final quarter of 2017 as the rand volatility caused a large amount of market movement given the high weighting to dual-listed shares in the All Share index. The rand sold off to R14.50 mid-November and then retraced to end the year at R12.40 after the results of the ANC elective conference were received positively by the market.

In addition to the positive currency response, domestic shares rallied strongly as short positions were closed and investors tried to hurriedly gain exposure. This was very positive for our holdings in financial stocks such as Nedbank and Standard Bank, and the retail exposures held via Woolworths and Spar. We took this opportunity to lighten some of our pure domestic exposure as while we agree the outcome of the elective conference was net positive for South Africa, structurally the economy faces some major challenges ahead which are likely to keep a dampener on growth. As a result, we believe that many domestic shares now look quite expensive relative to their growth prospects.

In contrast, some of the dual-listed shares on the JSE do look quite attractive once again and we have added to two positions in particular. Firstly, British American Tobacco has pulled back quite substantially and is now rated well below its peers in its category. We think the outcome of the recent deal to buy out Reynolds will deliver plenty of opportunity to deliver strong results in the years ahead as cost synergies are extracted and the revenue synergies from rolling out British American Tobacco's full product suite in the US is achieved. The potential reduction in US tax rates is a further fillip to the group which now has a significant portion of its earnings derived from the US.

Secondly, we have added again to our position in Mondi, having sold down substantially earlier in the year. Mondi has now underperformed the All Share index after advising the market that while their results would be solid it would be a couple of percent behind market expectations. Strangely the market took this very negatively and the stock sold off almost 20% from peak to trough. We think the fundamentals for the company remain very favourable and all evidence is of further price increases to come for their key product ranges. In addition, Mondi has announced a transaction in the consumer packaging space which should be earnings accretive, and we still expect a special dividend to be announced with their results. All of this adds up to an attractive investment case and we have increased our exposure to Mondi significantly.

During the month of December one of the fund's holdings, Steinhoff (the Frankfurt and JSE-listed general merchandise retailer), announced that its CEO would be stepping down and that its financial statements could not be released due to what appears to have been a number of years of misstatement of its audited accounts. This resulted in the price of Steinhoff collapsing during the month of December which had a negative impact on the fund's performance for the quarter. As things stand today, we have not received any further information to be able to assess the scale and magnitude of the accounting irregularities and the impact it will have on the value of the company. Steinhoff owns many retail assets around the world, including the iconic locally-based Pep group and businesses such as Poundland (in the UK), Conforama (in France) and Mattress Firm (in the US) which are, on their own, valuable companies.

This was to some extent offset during December by our holding in Intu. We have held a big position in the company for some time now as we felt it was a uniquely positioned asset given its core holdings of dominant, tier 1 retail centres in the UK. The share price was very attractive as many hedge funds were shorting Intu over fears of Brexit and the threat of on-line retail without considering the merits of its centres and the continued requirement, even for on-line shops, of a presence in high footfall centres. The value in Intu was recognised by Hammerson, another UK-listed Reit, which in December proposed a merger at a significant premium to where the company was trading. Going forward the combined group will have an excellent strategic position in UK retail as well as the benefits of scale in management costs and lower funding costs over time. As a result, we remain shareholders in Intu as this value is still to feed through to its share price.

2017 was a good year for the fund and we enter 2018 with a number of compelling holdings in the portfolio that we believe will continue to deliver strong results in the years ahead and support investor returns over the medium to long term.

Portfolio managers
Neville Chester and Pallavi Ambekar
as at 31 December 2017