

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

The fund returned 2.3% for the quarter and has performed well against both its peer group and the quantitative benchmarks over longer periods

A large weighting in global equities has boosted fund performance in the recent past. During the quarter, we added to Vivendi, which owns Universal Music Group (the largest of the three big global music labels). We believe the music industry is undergoing significant disruption. Over time, consumers of music will get used to paying for music, as they do for other forms of entertainment. The driver for this transition is paid for streaming services that give the industry the monetisation model it has lacked for the last two decades.

The JSE All Share Capped Index returned 2.9% for the second quarter with a strong contribution from the resources sector (+20%). The industrial sector, with its large rand hedge counters also rose during the period, ending up 4%. Domestic-heavy sectors such as financials and property ended the quarter down 6.0% and 2.2% respectively. The pressure on domestic stocks came about as the exuberance, which had been priced into most domestic shares following the ANC's December elective conference, was not supported by near-term results.

The fund continues to hold large positions in several of the JSE-listed offshore stocks. These positions are held for stock-specific, as opposed to thematic reasons. The post-elective conference rally in domestic stocks provided an opportunity to take profits in certain domestic stocks and add to names including Naspers, British American Tobacco and AB Inbev (ABI). One of the largest positions in the fund is British American Tobacco - a high quality, globally diversified stock trading at the very attractive valuation of 12x forward PE. The share has de-rated along with global staples, although the sell-off was amplified by regulatory fears and concerns around the industry transition from combustibles to new generation products. We believe the company to be well positioned for this move. ABI is the world's largest brewer, but growth wobbles (as emerging market currencies crashed), coupled with the recessionary environment in which its Brazilian business had to operate, have led to a de-rating. ABI is an extraordinary company and it is evolving. We believe it has learnt important lessons from SAB and we expect the business to succeed in delivering organic top-line growth in the years ahead.

As the domestic rally reversed and the rand weakened, we took the opportunity to add to our positions in domestic, high quality defensive names. Our preferred names remain the hospital stocks (Netcare and Life Healthcare) as well as food producers and retailers. We still have limited exposure to economically sensitive domestic companies because valuations do not yet offer a sufficient margin of safety, in our view.

The strong performance in resource stocks has been driven by robust pricing across most commodities. The Chinese government has demonstrated a real commitment to improving environmental conditions in the country, with increased ministerial powers and stringent enforcement of winter production cuts in sectors like steel. The environmental clampdown is creating short-term supply disruption and premiums for higher quality metals spiked over the winter season as producers focused on efficiency. Restrictions on permitting are likely to encourage cleaner, more efficient production over time. The proposed South African mining charter was also released in mid-June, bringing some clarity to the domestic sector. The charter confirmed the recognition of "once empowered, always empowered", reducing the risk of ongoing dilution of ownership for equity holders. Requirements for new mining rights as well as for the renewal of existing mining rights are relatively onerous and will increase investment hurdles for new projects. Anglo American and Northam remain our largest holdings, while Mondi and Sasol (a beneficiary of strong oil prices) were reduced on the back of strong performance.

Domestic financial stocks came under broad-based pressure, giving up most of their post-elective conference gains. The weakness provided an opportunity for us to build a holding in FirstRand, a well-run domestic bank which has built a leading retail franchise despite competitive markets. The bank continues to execute impeccably and should benefit from a pickup in domestic growth. It trades on <12x PE.

Markets have had a tumultuous start to the year as the first-quarter domestic rally rapidly reversed in the second quarter. As always, valuation remains our beacon in these turbulent times and we have used the volatile price environment to build positions in some attractively priced shares.

Portfolio managers

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as at 30 June 2018