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

The fund had a soft start to the year, delivering a return of -5.8% for the quarter which was behind the benchmark return of -4.7%. The fund's aggressive nature does mean that shorter term performance will be lumpy when compared to the benchmark, marked by periods of significant out or underperformance. Our aim is to deliver outperformance over longer term time periods. To this end, the fund's returns since inception is compelling, with alpha in excess of 4% per annum, net of fees.

The rally in domestic South African-focused stocks following the positive outcome of the ANC elective conference in December 2017 has been exceptional, mainly driven by foreign portfolio flows that are trying to benefit from a renewed South African growth story. We are very cautious to jump onto the bandwagon at this stage. The extent of the recovery priced into a number of domestic shares has created an expectation that many companies will fail to meet. The economy remains very tough, with consumers still under enormous financial pressure. While the sentiment has changed drastically, consumers still lack the means to increase spending that is necessary to drive private sector investment.

Government, which could step in to drive growth via fiscal support, is fiscally even more constrained. A decade of misspending has resulted in its coffers being depleted and the very constrained Budget that was presented in February is representative of the new capable team doing the best it could out of a very poor situation. This will not be enough, however, to get much economic growth going. What is required is sound sensible policy in a number of key areas of the economy such as mining, agriculture and tourism, which is yet to be formulated. Given the challenging outlook, we are looking to invest in South African-focused businesses which, for a variety of their own specific reasons, have not re-rated to the same extent as the more popular South African names.

Following on from the above, we have built a decent size position in Investec. While the share prices of most South Africa-specific banks are up 30% to 35 % since December 2017, Investec is flat despite a significant portion of its earnings deriving from South African financial services. Investec also announced a significant change in management, with the founder managers stepping down later this year. We think this change is positive in that the new executives will be able to review the group's low returning parts with new eyes and potentially drive a significant unlock of the value present in the business. On our assessment Investec trades on a single digit forward PE multiple which is very attractive within our investment universe.

The fund's position in Netcare re-rated significantly towards the end of the quarter as the business announced its intention to exit its UK hospital business. With this exit, Netcare will be a pure South African-focused hospital operator. Demand for healthcare services remains strong and we expect that organic growth in volumes and good cost control will deliver solid earnings growth going forward. The business trades on a reasonable multiple and we continue to hold the share.

The turmoil and volatility in global markets have created opportunities for us to capitalise on compelling investment opportunities related to some of our global diversified holdings. The significant de-rating of shares like British American Tobacco and Mondi allowed us to add to these positions at very attractive prices. The combination of cheap multiples and cash generative business models will deliver substantial shareholder value in future. International Paper's unsolicited and unanticipated offer for Smurfit Kappa, a European-based packaging and paper company, highlights the attractiveness of Mondi's assets in particular.

We expect the uncertainty in global markets to continue to influence moves in the local market. Our focus on underlying business fundamentals and long-term normalised valuation levels, allows us to take advantage of unwarranted panic or euphoria. This approach has served us well historically, and should continue to help the fund with its objective of delivering meaningful long-term alpha.

Portfolio managers
Neville Chester and Pallavi Ambekar
as at 31 March 2018