



AUTUS

*wealth care specialists*

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QUARTERLY  
ECONOMIC  
COMMENTARY

Q2 | 2016

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# AUTUS GLOBAL EQUITY

## Quarterly Commentary - Autus BCI Global Equity Fund

Launched towards the end of March last year, the Autus BCI Global Equity Fund makes it possible for South African investors to achieve complete geographical, industry and currency diversification in their equity portfolio. While direct currency exposure is dominated by holdings of US dollar and Euros, the investee companies operate globally and effectively makes investors in the fund co-owners of some of the most prominent businesses in the world.

The second quarter of the year will be remembered for being overwhelmingly dominated by one word: Brexit. The UK population has expressed its desire to end its membership of the EU in a referendum that was held on the 23<sup>rd</sup> of June. This outcome seems to have taken the general market by surprise, as the British Pound declined by more than 11% against the US dollar in the aftermath of the announcement. Global equity markets were also victims of negative sentiment with the S&P 500, FTSE100 and DAX indices declining by 4.15%, 5.62% and 10.01% respectively in the two trading days immediately after the vote.

The theme in the rest of the world remains one of slow growth and easy monetary policy by central banks. The US Federal Reserve has voiced a more dovish tone in the quarter and refrained from hiking interest rates at either of its April or June meetings.

In ZAR terms, the Fund returned -3.99% during the second quarter, compared to the ASISA category average of -1.77%. Companies which had a particularly poor quarter from a share price perspective include Apple who reported results which were good but not in line with analysts' expectations, as well as motor manufacturers BMW and Daimler whose share prices were under pressure for most of the quarter but particularly so immediately post the surprise Brexit outcome 6 days prior to the quarter-end. The share prices of pharmaceutical giants Allergan and Gilead also lagged. This weakness was used to add to the fund's existing positions. Toward the end of the quarter, the fund's entire holding in internet TV vendor Netflix was switched for Verisign on the basis that it offered a better risk-return profile. The companies currently held in the Autus BCI Global Equity Fund remain a selection of dominant business models led by proven management teams. They represent an excellent way of obtaining exposure to the global economy. The purpose of the Fund is not to speculate in globally listed shares, but to offer a stable portfolio of quality international companies. The emphasis is on safety and certainty. We contend that for this portfolio to experience a significant and prolonged meltdown, the same will have to happen to the world in general.

Given stretched consumers and tough trading conditions globally, we expect limited profit growth for the world's listed companies in the coming months. In addition, central banks seem to be running short of tools with which to stimulate growth in the event of negative confidence. Despite this fundamental challenge the valuations of many equity markets continue to remain at a relatively high level, posing the risk of correcting to more realistic levels in the absence of positive earnings surprises. The mid-year positioning of the Global Equity Fund continues to reflect this risk aware approach.

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