



AUTUS

*wealth care specialists*

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QUARTERLY  
ECONOMIC  
COMMENTARY

Q2 | 2016

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# AUTUS OPPORTUNITY FUND

## Quarterly Commentary - Autus BCI Opportunity Fund

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 index declining 4.15% and our own JSE All Share Index falling 5.3% in the two days after the vote.

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

South Africa managed to retain its investment-grade credit rating on its sovereign debt. This was undoubtedly helped by some effective persuasion on the part of National Treasury. Government is expected to keep the fiscal deficit in check and all eyes will again be cast on ratings agency announcements closer to the end of the year.

The Fund returned -2.59% during the quarter, compared to the 0.92% gain in the benchmark. The short-term underperformance is the result of our exposure to specific “Brexit-sensitive” shares, as well as the strength of the rand relative to the US Dollar and British Pound. Shares that have been knocked particularly hard after the vote are Brait, Steinhoff and Mondi on speculation that the British exit from Europe could force the economy into recession. These remain quality companies and the management teams still have our votes of confidence, which is why we believe the price declines are driven more by the fear of the prevailing uncertainty than by reason. These shares, along with others that we did not own before Brexit, are now trading at better valuations and we do not hesitate to take advantage of selected buying opportunities. Two of these post-Brexit additions to the portfolio are Capital & Counties and Investec. These were bought at attractive valuations and should present significant upside over the long run. Shares sold during the quarter include Mr Price and Novus Holdings.

Given the tough conditions in both the local and global economies, we expect limited profit growth for the world’s listed companies in the next 18 months. Despite these headwinds, the valuations of most equity markets continue to remain high and could re-rate to a more realistic level. As a result of this view, the fund has slowly been bringing down its overall equity exposure in favour of the safety provided by cash. At the end of the quarter the exposure to equities stood at 75.1%, of which 13.3% was held in offshore equities and 0.5% in listed property. The exposures to bonds and cash were 12% in each of the two asset classes. We remain focused on the fundamentals that drive equity market returns, and we continue to identify selected opportunities in individual shares.

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