AUTUS

wealth care specialists

QUARTERLY ECONOMIC COMMENTARY

Q3 | 2016

AUTUS BCI INCOME PLUS FUND

<u>Quarterly Commentary - Autus BCI Income Plus Fund</u>

In contrast with a news laden and eventful second quarter, the third quarter of 2016 was less so. Local markets were influenced by news in August that the Finance Minister was required to report to the Hawks as a precursor to being charged and speculation followed that he may be replaced. This sent the rand plummeting to above 14.70 to the US dollar and bond yields spike above 9% as foreign investors took flight. With support openly expressed for Minister Gordhan from leading business and political figures, calm appeared to be restored and the rand staged a strong recovery to close the quarter at 13.85 to the dollar. Bond yields reduced moderately from 8.78% to 8.67% over the period. Concerns about the lack of economic growth were ameliorated when the second quarter GDP of 3.3% was announced. This was higher than the expected 2.3% increase, boosted mainly by contributions from manufacturing, mining and real estate activities. Of concern though is the low rate of growth expected for 2016 of 0.6%, marginally increasing to 1% in 2017. Given the expenditure demands and unemployment challenges, slower revenue collection facing the country this growth is totally insufficient. As a consequence, the rating agencies will consider these factors in their decision-making process before making an announcement in December.

Internationally the highly contested and closely watched US Presidential campaign gathered momentum during the quarter under review. Who the next President of the world's largest economy is likely to be could have important implications for global investment markets. Focus was kept on the US Federal Reserve and their likely move to raise interest rates. It appears that this may only happen in December. Developments in the UK and the possible impact of Brexit when it is eventually triggered next year continued to create uncertainty in that country and reflected in the British Pound which continued to weaken during the quarter. Low interest rates in developed markets meant that investors poured money into high-yielding emerging markets like SA.

It is during periods of high uncertainty and "risk-off" sentiment that a fund such as the Income Plus Fund comes into its own. The Fund delivered a return of 1.52% for the quarter compared to its benchmark of 1.96%. Year-to-date the fund returned 5.89% compared to the JSE-All-Share-Index of 4.82%. The portfolio strategy remains one of caution and capital preservation hence a duration of 0.06 years is being maintained. Should interest rates spike, the duration will be pushed out slightly. Careful attention is paid to the quality of the instruments held in the Fund, therefore given the ratings uncertainty, no government bonds are currently held and only high quality corporate paper is invested in. The Fund holds high dividend-yielding counters that offer diversification and prospects for longer-term growth. During the quarter its holdings in Old Mutual and Firstrand were sold while its holding in the JSE Limited was increased.

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