



AUTUS

wealth care specialists

QUARTERLY
ECONOMIC
COMMENTARY

Q1 | 2017

AUTUS EQUITY FUND

Quarterly Commentary - Autus BCI Equity Fund

The first quarter of 2017 exhibited signs that the global economy is strengthening. Year-on-year inflation in the US hit a five-year high of 2.7% in Feb, while UK inflation was up to 2.3% and Eurozone inflation at 2%. This is positive news for policy makers who were recently still warding off threats of deflation in their economies. Economic indicators in developed nations (especially PMI and labour statistics) further suggest that the global economy is expanding at a steady rate.

The US Federal Reserve's rate hike in December 2016 was followed by another hike in March 2017. Minutes from the Fed's March meeting revealed that the Fed is ready to start reducing the size of its substantial post-crisis-era balance sheet, effectively putting "reverse QE" on the table. The European Central Bank has announced that it is slowly beginning to scale back its asset-purchasing programme.

President Trump was inaugurated on 20 January 2017. The so-called "Trump rally" in stock prices that commenced shortly after the election was sustained throughout the first quarter, with the S&P 500 TR Index rising 4% in USD during the quarter. At the end of March, British Prime Minister Theresa May triggered Article 50 of the Lisbon Treaty, which allows the potentially long and drawn-out Brexit negotiations to proceed. In continental Europe, the Dutch population maintained the status quo by electing Mark Rutte, in lieu of the more radical Geert Wilders. All eyes are now on France and Germany, as they prepare for their own presidential election in the coming months.

President Zuma carried out a controversial cabinet reshuffle at the end of the quarter. The move prompted reactions from the opposition, the public and eventually from the ratings agencies. There were instances of public criticism toward the president from within the ANC, but this quickly dissipated as the party sought to convey a demeanour of coherence among its leaders. Political risk and currency volatility remain daily realities for investors in South African assets.

The Fund returned 1.49% for the quarter against the benchmark return of 3.78%. Over the last month of the quarter the Fund returned 2.0% against the benchmark return of 1.34% and over a two year return the Fund outperformed the benchmark by 0.72%. The underperformance at the start of the quarter is mostly attributable to rand strength of nearly 10% against the US dollar calculated to the third week of March, but this trend was offset by around 8% weakness in the currency during the final week of the quarter. This reversal in the currency favoured shares in the Fund's top ten holdings. Naspers gained 13.7% over the quarter on the back of the currency and a strong performance in Tencent. Steinhoff detracted from performance by shedding 10.1% over the period.

The portfolio has also become more diversified as the total counters were increased from 18 to 32 shares and is managed more in line with its benchmark. The relatively high level of cash in the portfolio allows the Fund to capture opportunities as they arise, and management will continue to diligently seek those investments that duly reward our clients for the risks they take. Given our philosophy of focusing on rand hedge counters the following counters were added to the Fund: Anheuser Bush, Richemont and Discovery (new developments in China).

Contact us:

TEL: 086 1077789 / 021 9139301 // **FAX:** 086 6100121 // **EMAIL:** info@autus.co.za // www.autus.co.za

PHYSICAL ADDRESS: Autus Manor House, Farm 3, The Vineyards Office Estate, 99 Jip de Jager Drive, Bellville, 7530

POSTAL ADDRESS: PO Box 7025, Welgemoed, 7538

DISCLAIMER: Investors should take cognisance of the fact that there are risks involved in buying or selling any financial product. Past performance of a financial product is not necessarily indicative of future performance. The value of financial products can increase as well as decrease over time, depending on the value of the underlying securities and market conditions. Illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only. This document does not constitute a solicitation, invitation or investment recommendation. Prior to selecting a financial product or fund it is recommended that investors seek specialised financial, legal and tax advice. Autus Private Clients (Pty) Ltd and Autus Fund Managers (Pty) Ltd are authorised financial services providers in terms of the Financial Advisory and Intermediary Services Act (Act No. 37 of 2002). The laws of the Republic of South Africa shall govern any claim relating to or arising from the contents of this document.