



AUTUS

wealth care specialists

QUARTERLY
ECONOMIC
COMMENTARY

Q3 | 2017

AUTUS BCI BALANCED FUND

Quarterly Commentary - Autus BCI Balanced Fund

ECONOMIC AND POLITICAL ENVIRONMENT

The third quarter of the year displayed early signs of policy convergence between the world's major central banks, which follow from subtle indications of ongoing growth in global economic activity and a sustained return to the expected inflation targets. Although the United States Federal Reserve did not commit to another rate hike during the quarter, it did step up its narrative of forthcoming normalisation of its balance sheet. Together with expectations for expansionary fiscal policy in the form of tax cuts over the coming year, the US Dollar strengthened against its peers to the end of the quarter. The European Central Bank and Bank of England provided further guidance on their intention to taper the respective quantitative easing programmes.

On the back of a generally positive second-quarter earnings season, stock markets managed to clock steady gains, and new records, even as tensions between the U.S and North Korea threatened to spill over in warfare. Germany re-elected Angela Merkel as chancellor in September, which bodes well for its alliance with the French and its position as political and economic leader of Europe.

The South African Reserve Bank cut its repo rate by 25bps in July, after which it surprisingly left the rate unchanged at its September meeting. President Jacob Zuma survived another attempt at a motion of no confidence in August. Further political uncertainty is to be expected to year end as the ANC leadership race is gaining momentum, with the upcoming elective conference in December.

PORTFOLIO COMMENTARY

At the start of July, the domestic equity exposure was increased from 42.2% to 46.0% by buying direct exposure in diversified miners Anglo American, Billiton and Glencore. It is the only significant asset allocation change for the quarter. The resource index returned 13.32% for the month of July and 17.82% for the quarter, supported by higher precious metal prices. The fund was well rewarded as the three miners returned 38.11%, 19.52% and 26.46% for the quarter respectively.

Contrary to some of its peers, the fund has always been quite heavily invested in listed property through units held in the Autus BCI Property Fund. Aided by an interest rate cut and strong stock picks, the fund significantly outperformed its benchmark for the quarter.

Strong returns in global markets over the quarter and Rand weakness on the back of comments from Central Banks, translated in to healthy returns from the offshore components.

Underpinned by the following factors, the fund enjoyed a stellar quarter of outperformance. The Autus BCI Balanced Fund recorded a return of 6.53%, compared to the 4.95% and 5.75% of the respective category average and benchmark.

The total equity exposure increased to 66.7% from 62.1% and the fund remains fully invested offshore.

SHORT TERM OUTLOOK

We believe global valuations, especially US related stocks, are becoming stretched and approaching fair value. Already, expectations for the third quarter US growth have been tempered after hurricanes battered the southern

U.S. and U.S. territory of Puerto Rico. Furthermore, the pending monetary policy tightening by Central Banks, should in theory be negative for stock market returns, but ultimately will boost the currencies relative to the ZAR.

Locally, the Medium-Term Budget Policy Statement announced in the October, the ratings agencies' November reviews, local inflation trends and the political outcome of the ANC elective conference in December 2017 are just some of the events that could potentially influence further expected rate cuts and stock market strength.

Buying opportunities may arise from short term market and price movements which will result in a tactical increase of the equity exposure.

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