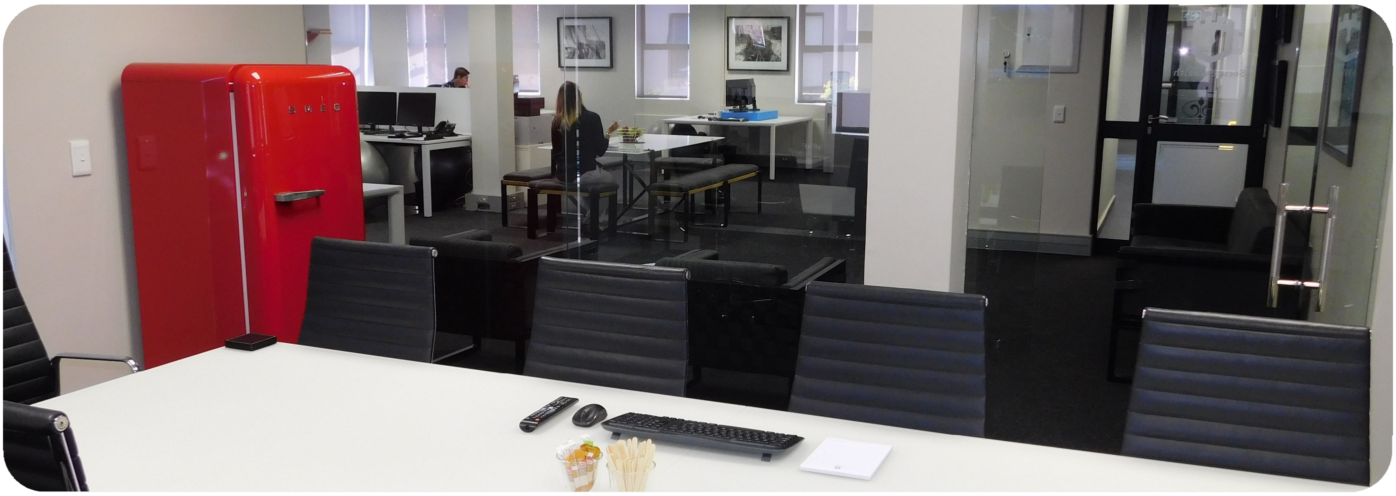

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Quarterly Commentary September 2016

"One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute." – William Feather

At a glance:

- South African Rand: The Rand was 6.99% higher this last quarter and is now up 11.32% year to date against the USD. A very interesting quarter lies ahead!
- JSE/FTSE: The JSE was down 0.51% this last quarter and is up 2.48% year to date.
- Allan Gray: We had a tough quarter. Fortunately, Allan Gray/Orbis are realising some decent USD returns overseas, offsetting – but not completely eliminating – the stronger Rand.
- Coronation Fund Managers: Our top long-term pick, Global Emerging Markets, had an excellent quarter. The more conservative strategy, which has a large weighting in USD cash, was negatively affected by the stronger Rand.
- Franklin Templeton: We desperately need our largest holding – the Templeton Global Bond Fund – to start performing. For our more aggressive clients, our overweight exposure to China and Asian emerging markets did well this last quarter.
- Investec: Our Investec portfolios are overweight USD cash and thus were negative for the quarter – once again a result of the stronger Rand. Within our Investec portfolios, we remain confident in our high conviction share picks, in particular Sasol.
- ABSA Stockbrokers: Due to our USD exposure in the USD Exchange Traded Note, our Absa accounts were also negatively impacted by a strong Rand.

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South Africa

We have a slightly different approach to many other advisors. We believe in a high conviction methodology where we choose only the most reputable and largest managers to deal with, and within those managers, we target just 6 or 7 funds which cover different asset classes and a myriad of investment strategies. We then apply our own house view and implement it. Where possible, we meet with the fund managers to garner their latest opinions and note if their views are changing. At any given moment we therefore have a clear understanding of what is happening within these funds/strategies. This approach differs from other advisors who may manage 20-80 different funds with many different managers. In our opinion, it is impossible to successfully monitor the asset allocation, strategies and the performance of so many different funds and managers.

Our house view remains extremely simple – we believe that if you are looking for value or bargains, it is best to look globally. By investing in different nations, sectors and their currencies, you not only enhance your chances of a return, but you also reduce the risk of something going wrong if you invest in just one country and that country's currency.

In this quarterly commentary we focus on each of the top 6 funds that we invest in on our client's behalf:

1. **Allan Gray/Orbis Global Optimal Fund of Funds,** our largest holding and arguably one of the best performing funds in South Africa in 2015. This fund is a low risk offshore option (which is thus vulnerable to a stronger Rand) and has only 5% net equity exposure to global stock markets. Its maximum drawdown (the most it has lost before recovering) is 15%. Orbis are allowed to vary the share exposure from 5% to 20% – but they, like us are concerned about global equity markets at the moment. We will be reassessing this position after the US elections.

It might not make sense to base our investment decisions on one election, but if the American populace follows Britain and surprises the markets by electing a divisive character like Donald Trump, we believe the markets will react badly – just like they did after Brexit. This would present an excellent opportunity to transfer some capital from this low risk option and take advantage of lower prices. The fund was down 3.38% for the quarter, and is up 11.54% for the past year.

2. Allan Gray Stable Fund, another low risk option and our largest holding for cautious clients needing an income to live upon in South Africa. We also use it as a holding strategy if we are concerned about the markets – its maximum drawdown is only 4.1%. Locally, it was one of the best performing funds in 2015, and it is also one of the largest funds in the country holding approximately R40 billion. British American Tobacco, Sasol and Standard Bank make up the largest share holdings, however the account only has about 18% exposure to South African equity markets – once again Allan Gray chooses to keep the exposure lower than the maximum of 40%. Cash/money market instruments make up almost 30% of the fund. We are itching to move from the Stable Fund to the more aggressive Allan Gray Balanced Fund, but again we are cautiously waiting in light of the US election as well as a possible credit downgrade to South Africa come early December. The fund was up 1.44% for the quarter and is up 12.4% for the past year.

3. Allan Gray/Orbis Global Fund of Funds, a medium to high risk offshore balanced fund with considerably more risk than its sister fund above, the Global Optimal Fund of Funds. This fund now has approximately 60% of its assets in global shares and is a diversified option actively managed by Orbis – its maximum drawdown is 24%. Notwithstanding our market concerns noted elsewhere in this report, we feel this fund will be our best opportunity in producing acceptable returns with the least volatility for the bulk of our clients in the future. Ultimately, we would like this fund to become our largest holding – the fund was up 1.38% for the quarter and up 18.56% for the past year.

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4. **Coronation Global Capital Plus Fund,** a low risk, USD denominated offshore account managed by Coronation Fund Managers. We gravitated towards this strategy when Allan Gray/Orbis closed their offshore funds to new investments. Its maximum drawdown is 14.4% and it has only 30% share exposure to global equities and 34% in USD cash. The fund was down 2.11% for the quarter and is up 9.21% for the past year.

5. **Coronation Global Emerging Markets Fund,** a high risk fund and our most aggressive recommendation and one of the best performing options over the past year. This strategy invests in the more volatile Emerging Markets such as China, India, Russia, Brazil and South Africa. Its maximum drawdown is approximately 39%. Its largest holding is Naspers – a South African share that owns a chunk of China's largest technology company, Tencent. It is a volatile fund, but if investors can stay the course and ignore the short-term volatility, we believe it will be one of the best performers in the years ahead. We increased our exposure to this fund in March and will add more exposure later this year. The fund was up 5.15% for the quarter and up 32.34% for the past year.

6. **Allan Gray/Orbis Global Equity Fund**, a high risk fund and Allan Gray/Orbis' flagship global equity fund. The fund is overweight Emerging Markets (which is line with our own thoughts) and its maximum drawdown is 34%. We added limited exposure earlier in the year for selected clients that had the capacity and will add further exposure at the end of the year. The fund was up 5.19% for the quarter and up 25.73% for the past year.

It is important to note that the high risk funds above are coming off a low base after a huge sell-off 12 months ago – this is why the returns look so good over a 1-year period.

You will also note above that we refer to maximum drawdowns. This is industry language for the maximum percentage amount that a fund has declined in Rand terms before going onto recover. Clients constantly ask us why they are not fully invested in the best performing funds. The two funds that have performed the best over the past year both have a maximum drawdown of approximately 35% – we believe that few clients would accept losing one third of the money in their portfolios!

European Markets

We do not wish to sound alarmist, but concerns are rising in global financial markets about the European banking system. European banking stocks have been crushed this year – Deutsche Bank is down more than 50% this year alone. UBS has fallen 30%, Credit Suisse more than 40%, Royal Bank of Scotland is off 48% and banking stocks in Spain and Italy have also sold off significantly.

Deutsche Bank is of particular concern to us. Despite being the largest bank in the world's 4th largest economy (Germany), Deutsche Bank shares have gone through a protracted decline in the past couple of years and are now worth less than Standard Bank/First Rand in South Africa.

Below is a chart of the Deutsche Bank share price.

Courtesy INET Bridge

Furthermore, in its 2015 annual report Deutsche Bank stated that its total exposure to derivatives was 41 *trillion* Euros. While that figure can be misleading and ambiguous, it is still a huge concern for investors – Warren Buffet once famously declared that derivatives were "financial weapons of mass destruction". The German authorities have obviously played down fears of a possible crisis, but it is not likely that they would be the first to admit it. Investors, on the other hand, remember only too well that American authorities also played down the chances of a crisis in 2008.

Our only exposure to Deutsche Bank is in our Exchange Traded Funds through Investec. We would like to reassure clients that the Exchange Traded Funds we recommend are not on the Deutsche Bank's balance sheet – thus even if Deutsche Bank does go to the wall, the only risk is that the price of the Exchange Traded Funds would fall in sympathy with all other assets in the event of a bona fide European banking crisis.

We are extremely conservatively positioned at the moment and in the unlikely event that we are on the cusp of another full blown crisis, we have plenty of ammunition to invest at much lower prices.

The British Pound

We believe there is an opportunity unfolding in the British Pound, for those clients who have the capacity to diversify their offshore currency exposure. The bulk of our client's assets reside in US Dollars, and we feel that buying an established currency like the British Pound, which is trading at a 35 year low, is starting to look very attractive. The chart below says it all. The red circle clearly illustrates the latest drop.

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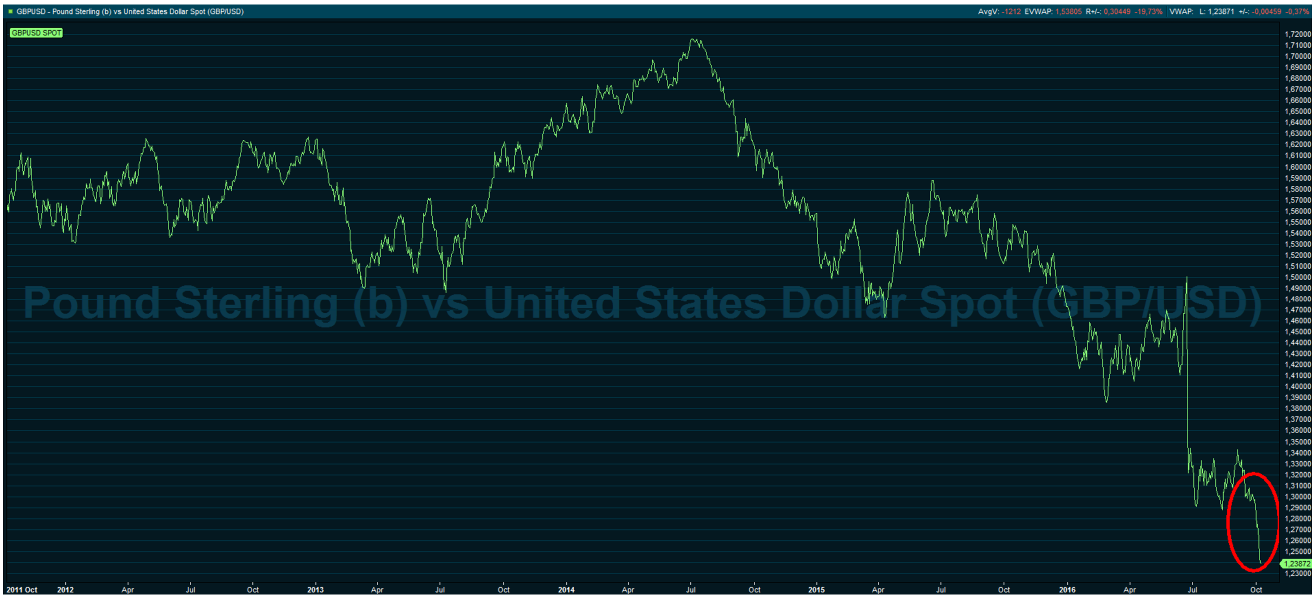

Courtesy INET Bridge

On June 23rd this year the British public voted in favour of leaving the European Union. Consequently, the Pound fell hard against almost all currencies and in the first week of October, the Pound has resumed its decline. It now trades at a 15% percent discount to the USD prior to Brexit.

The Pound made a high against the South African Rand on 11 January 2016 at R/GBP 24.51. It now trades at R/GBP 17.10 at time of writing. That is a serious discount.

Unlike many other investors, we do not share the concerns that Brexit is going to be *permanently* damaging to the British economy – and the currency by extension. Thus, whilst most investors only see doom and gloom, we see an extremely attractive opportunity developing here. If the Pound falls to silly levels, i.e. a further 8-10% against the USD, we will buy the Pound aggressively for clients who are presently holding USD cash. Additionally, if a South African client wants to take money out of the country, we will also recommend buying the Pound with their Rands.

Some of our best investments ever were made by buying an asset or a currency that was highly unpopular and historically cheap – it may have gotten even cheaper after we bought it, but we always made a handsome profit if we were patient.

Lastly, irrespective of the outcome in the American election in November, we will be reviewing all clients' portfolios with a view to increasing risk on almost every portfolio.

If Hillary Clinton wins the election as we suspect, we do not see the markets reacting at all.

If Donald Trump wins the election however, we expect a knee-jerk reaction. We are very well placed to take advantage of the surprise or shock to the markets and will readjust our asset allocation accordingly – hopefully at a very decent discount.

Thank you once again for your support and specifically for your patience as we wait for our positions to materialise. It is genuinely appreciated.

Please do not hesitate to contact us if you have any questions or queries.

Kind Regards

Mike Carruthers