INVESTING IN A WORLD OF ACCELERATED CHANGE

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Dear Investor

Staying the course in a world of accelerated change

I write this in the very fluid aftermath of Zuma's decision to reshuffle his cabinet and get rid of those Ministers who were not supporting his agenda - including Finance Minister Pravin Gordhan, who had by all accounts, done a remarkable job of stabilising the ship (and uniting government, business and labour) after the Nene debacle of December 2015.

Each time I begin to put pen to paper there seems to be a new headline or development, so it feels there is a very real risk that by the time you read this things might well have moved on again. In the two weeks since the reshuffle, we have seen three of the top six speak publically against the president's decision, only to retract their comments and be forced back in their box. This was followed by mass action across the country, widespread condemnation of the Presidency and an approval for a vote of no-confidence in Parliament, which has now been postponed to seek a court ruling to request a secret ballot.

Who would have thought that it seemed easier for the EFF and DA to co-ordinate and co-operate than the internal and warring factions of the ruling party?

So what do we know for sure and what should investors do?

There is no doubt, in a very challenging global and local economic position (irrespective of any Zuma own goals), that this is bad for South Africa and potentially very bad. The only sliver of optimism is that this could usher in the change the country so desperately requires. The widespread civil action we have seen in the past weeks shows that society will no longer apathetically accept the status quo. It certainly seems that market participants (at time of writing) are factoring in a probability of this optimistic outlook, as markets have not re-acted nearly as severely as one might have anticipated.

However, despite various strange comments from the ANC such as "we do not require foreign money", "junk status is a good thing - they will come back to us on our terms", the facts remain. The actions taken by the leadership of our nation over the past months have created huge uncertainty. They will almost certainly decrease investment in the country (especially long-term fixed investments); increase the cost of debt, which allocates more of the budget away from investment in critical areas; accelerate the depreciation of the Rand; which in turn, is likely to result in higher inflation and interest rates.

"Brace for change, focus on what you can control"

All in all, we are facing slower potential economic growth and consequently, slower earnings growth of companies that are reliant on the South African economy.

The immediate asset classes that are likely to be negatively impacted are interest sensitive investments such as South African bonds, South African property, and South African interest-sensitive stocks, such as banks and retailers. Obvious beneficiaries are companies with a high percentage of offshore earnings.

Brace for change, focus on what you can control

Unfortunately, investors need to accept that this uncertainty and volatility is not going away. However, this does not mean that there is nothing we can do. Investors can focus instead on the things they can control:

- Make sure you have a clear goal with an appropriate time-frame linked to that goal. Then commit to your long-term objectives and accept the inevitable short-term volatility. Understanding this before you invest, decreases the chance of disinvesting or panicking at the wrong time and helps you stay the course.

- In times like this, the true benefit of diversification are evident. This includes diversification across asset classes, within asset classes, across geographies and across managers with different views. In particular, the current situation is a reminder that we are a small country (a couple of percent of world's GDP) and that it makes sense to have a portion of your investment in international investments.

- Identify managers who have a tried-and-tested track record, through various market cycles and through various market events such as the one we are experiencing now. We have found that many of the best managers focus on bottom-up research to identify good-value investments and protect capital. They are also flexible enough to identify opportunities in times of turmoil. In retrospect, many of our Best of Breed™ managers have added the most value in times of market dislocation, where they have been able to focus on the long-term and identify good opportunities.

We understand that investing in this environment is not easy. In this watershed moment of our country's history, we assure you that we and our Best of Breed™ managers remain committed to delivering excellent long-term returns.

Yours in investing

Nic Andrew