



Adviser Choice

# Investec Opportunity Fund

As at 31 December 2010

## Market review

After a volatile first three quarters of 2010, risky assets responded to prospects of an improved economic outlook and ended the year firmly in positive territory. During the fourth quarter, investors switched out of bonds into equities. Global equities added 8.8% over the period, while global bonds lost 1.8% in US dollars.

Local bonds could not shrug off the global bond sell-off, ending up only 0.7% over the quarter. Cash, as measured by the STeFI, returned 1.6% for the three months to the end of December. The best performing asset class over the past year was the listed property sector. The sector continued to show strong returns, despite weak property fundamentals. Listed property gained 3.1% in the fourth quarter to rise by 29.6% for the year.

Local equities participated in the global equity rally. The FTSE/JSE All Share Index rose 9.5% in the fourth quarter on top of the 13.3% gain over the prior three months, ending the year 19% higher. Resources (16.5%) proved to be the top performing sector, with financials flat and industrials up 7.8% for the period. Amongst the resource counters, diversified and platinum miners (both up 19.2%) did best, while short-term insurers (15.4%) and some smaller industrial sectors (media and support services) beat the overall market. Stocks predominantly focused on the South African economy fared worse. Construction ended the quarter 3% higher, banks closed flat, while food and general retailers added 2.9% and 6.2% respectively.

## Portfolio review

In the end, 2010 proved to be a good year for equities. The shares we selected for the Investec Opportunity portfolio generally outperformed the market, but we sacrificed some returns due to our conservative positioning. A lower exposure to equities proved to be a little early. We are not inclined to chase momentum. Unfortunately, this investment style has been the key driving force behind the local market's performance.

Our two key winning positions were the allocations to Richemont and Assore. Richemont has successfully positioned the business to sell its quality watches and jewellery to an ever-increasing Asian population, where there are many new buyers emerging. In general, though, the world's wealthy continue to raise their spending levels. Despite the fact that operating margins are at normal levels, we still see superior sales growth as the driver of investment returns going forward.

Assore continues to have the most attractive growth profile in the resource complex and has been spurred by strong prices for iron ore and manganese. The long-term commodity prices discounted by the share continue to be well below the current spot prices. The long life, low cost asset base remains attractive to us and we prefer exposure here, despite continued outperformance of both Anglo American and BHP Billiton.

The rand has been one of the strongest currencies in the world, only underperforming the Australian dollar and the Japanese yen. The local currency has been buoyed by very high export prices for gold, platinum and coal. Despite solid US dollar returns from the offshore portfolio, the gains were erased in rand terms. The only part of our offshore equity portfolio which lagged, was the holding in global pharmaceuticals. Our stocks in this sector languished, despite extremely attractive share price fundamentals.

## Portfolio positioning

The decision to allocate more funds to the South African bond market late in 2009 was well timed. The additional purchase during the sell-off in November 2010 has provided a useful underpin to the overall portfolio performance. Bonds serve as insurance against a strong rand. The local currency has continued its upward trajectory, ending the year on a three-year high. Unless the rand weakens by more than 20% from current levels, there is unlikely to be any upward pressure on inflation in South Africa. Domestic bonds remain a reasonable hedge with an attractive pick-up over cash.

The surplus cash weighting in the portfolio allows us swift access to attractive opportunities that might arise. At present, many local shares do not have forward-looking return projections that exceed the returns on risk-free assets. Hence, we see no reason to add risk without a reasonable probability of a commensurate reward. The ability to increase the foreign weighting to 25% for institutional funds will allow us to allocate more funds to attractive offshore assets, which we believe offer the best forward-looking returns.

Collective investment schemes in securities (unit trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Forward pricing is used. Quantifiable deductions are the initial fee whilst non-quantifiable deductions included in the net asset value price may comprise brokerage, MST, auditor's fees, bank charges, trustee and custodian fees. Commissions and incentives may be paid and if so, would be included in the overall costs. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. If required, the portfolio manager may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrued and less any permissible deductions from the portfolio. Different classes of units apply to the fund and are subject to different fees and charges. Fund valuations take place at approximately 16h00 SA time each day. Purchase and repurchase requests must be received by the Manager by 16h00 SA time each business day. Performance figures are based on lump sum investment (if applicable). This portfolio may be closed in order to be managed in accordance with the mandate (if applicable). \* Inward-listings are shares that are listed on the JSE but regarded by the SA Reserve Bank as foreign investments. A notable example is British American Tobacco (BAT) which used to be held via Remgro and Richemont, both being domestic. BAT was unbundled at the end of October 2008 and inward-listed on the JSE. The presence of inward-listings in the Fund does not therefore mean that the Fund's investment strategy has changed in any way. Please note that with effect from 1 February 2009 the annual management fee on B class units increased by 0.285% (incl. VAT). The risk profile is a measure of volatility, i.e. how the absolute return of the fund varies. Note that there are other risks in the fund, which are not reflected in this rating. \*\* The TER shows the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees relating to the management of the portfolio. A higher TER ratio does not necessarily imply poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of the future TERs. A copy of our performance fees FAQ is available at [www.investecfunds.co.za](http://www.investecfunds.co.za). Investec Fund Managers SA Ltd is a member of the Association for Savings & Investment SA.

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