The implications of the overnight political events on our funds

The country awoke this morning to news that evoked a feeling of déjà vu. We had experienced a similar extreme political event mid-December 2015 when our President appointed Mr Des van Rooyen as replacement to the then incumbent Finance Minister, Nhlanhla Nene. The market's reaction was predictable with the local currency, interest rate sensitive shares and long duration assets such as property shares and bonds acting as shock-absorbers. The rand immediately weakened by 9% against the US dollar, 10-year bonds weakened by 180bps from 8.5% to 10.3% and the banks index collapsed by 21%. Rand hedge shares provided some respite. Whilst there was a relief bounce when Minister Pravin Gordhan replaced Mr van Rooyen after three days in office, the experience negatively impacted investor confidence for some time to come. By our estimation, the share market lost nearly R200 billion and government-issued bonds lost R135 billion in-between job appointments.

Whilst one would have hoped that lessons had been learnt by the events of 2015, last night's cabinet reshuffle implies that the stakes have become elevated. To some extent, the announcement had been discounted by the market: the rand had already turned from its most recent high of R12.3/US$ to breach R13/US$ before the announcement (hit a high of R13.60/US$ this morning),; the banks index had fallen by 5% (down another 5% at the time of writing), and; 10-year bonds weakened from 8.36% to 8.76% (briefly touched 9.0% this morning).

Our portfolios are well-positioned to weather the storm. In sum:

- Within our local equity exposures, we have a substantial weighting to rand hedge beneficiaries such as British American Tobacco, Richemont, Naspers, AngloGold, Impala and Sasol;
- We recently trimmed our overweight exposures to the banks;
- Whilst we do have exposure to property shares, the bulk of the exposure is in Capco and Hammerson, which we bought post the Brexit-induced sell-off;
- Our multi-asset offerings are short duration in the bonds and we recently trimmed our overall allocation to this asset class. We have generally maintained above average cash levels;
- The recent strength in the rand also enabled us to rebuild our foreign exposure back to the maximum 25% by taking more investor cash offshore for deployment into attractively valued equities.

There can be little doubt that the events of last night have raised investment risk. This is true not only in South Africa, but is a global reality. We are paid to manage that risk; our investment approach is designed to capitalise on the opportunities presented by increased volatility and irrationality. Our funds are well-positioned for such opportunities.

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