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PORTFOLIO MANAGER MONTHLY - 1 APRIL 2014

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Chief Investment Officer

This one-pager describes our thinking behind selected recent management actions in **Global Balanced Mandates** and provides context to their current positioning against the backdrop of their investment opportunity set. **Our funds always consist of a diversified portfolio of opportunities and risks; please bear that in mind when evaluating my commentary about individual positions.**

In an unusually busy month by our standards, our portfolio managers allocated fund capital to new ideas **Barclays Africa**, **Spar**, **Glencore Xstrata**, the JSE listed **Platinum** ETF and London listed **Morrison Supermarkets**, while adding to existing exposures in **Lewis**, **Anglo American** and **Aveng**.

We reduced fund exposures to **Sasol**, **Standard Bank**, **Transhex**, **Grand Parade**, **Amplats**, **Omnia** and US listed **Bank of America**.

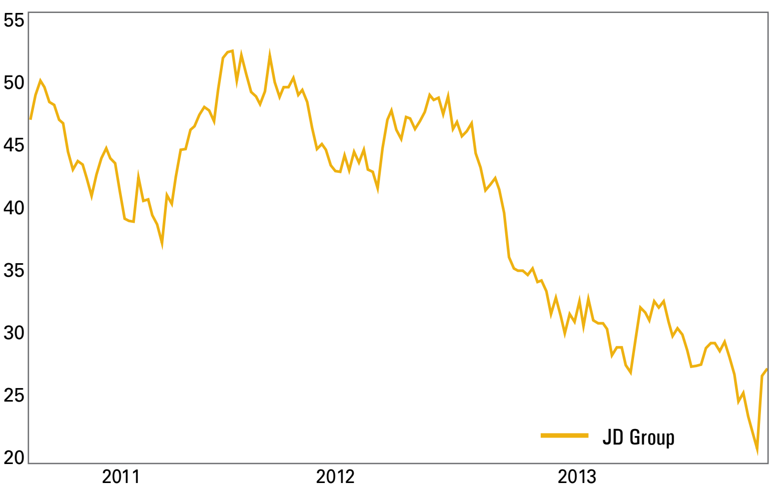
London listed food retail business **Morrison** entered our radar screens during the course of 2013 along with the rest of the UK retail sector, where a price war appears to be playing out. The share price is so distressed at the moment that the investment thesis basically distils down to the fact that the unencumbered property value per share works out to around GBP2.50 by our calculations, which is quite a bit more than the latest share price of GBP2.10. So you are getting a food retail business (usually an excellent business model with the benefit, if you have purchasing scale, of a negative working capital cycle i.e. cash from sales coming in before suppliers on credit need to be paid), with an established 10% market share, a sensible business strategy and sensible executives, for free. That's a pretty spectacular deal to be honest and this investment idea represents one of the most favourable risk/return profiles that we've ever seen.

JD Group featured as one of our top SA equity holdings over the past year. The price kept declining, thereby significantly increasing the margin of safety and prospective investment returns on offer. We obliged by increasing our targeted percentage closer to the maximum that we would place into a business of this nature. It appears that we were not the only people who figured out that there may be good value on offer. The parent company, Steinhoff, stepped in to launch an offer to minorities to acquire up to 98% of JD Group.

We have long been admirers of the Steinhoff group of businesses and its people and were not surprised that they stepped up to the plate in the manner that they did. An important aspect of our thinking regarding investing in business turnarounds is that we readily acknowledge that most business turnarounds don't turn around. We have to figure out and understand a) whether our investee company has a plan, and b) whether or not that plan makes sense, and c) places the odds on its side to realize a successful turnaround. To this end, our thinking was that with Steinhoff owning and managing JD Group they would be the best placed party to drive a successful business turnaround and that they have the pockets to recapitalize the business as may be needed, depending on the severity of the current cyclical consumer consumption downturn.

At the time of writing, JD Group announced that Steinhoff had successfully increased their stake from 56% to 82.8%, and that JD Group may require as much as R2.5bn in an equity capital injection by way of a rights offer, fully underwritten by Steinhoff. If we get the opportunity to allocate more fund capital into this investment idea at the proposed rights offer price, we look forward to partaking.

Chart 1: JD Group Share Price



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