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INVESTMENT MANAGEMENT  
AFRICAN ROOTS | GLOBAL PERSPECTIVE

## The Friday Filter

13 January 2017

### Strategy update and outlook

After a very solid 2016 for client portfolios, both domestically and globally, the beginning of the year is always a good time for reflection and reviewing strategy and expectations. While we are not going to attempt to make any forecasts for 2017, the aim of this note is to provide insight into the investment landscape and opportunity set as we currently see it.

Looking back at 2016, our success can largely be attributed to the following simple factors that are a result of a disciplined investment process:

- We bought well amidst bouts of fear and uncertainty
- We resisted the temptation to pay up for quality, growth and perceived certainty
- We didn't invest based on macro forecasts such as the weak rand, but on fundamental value

While we do not set out to be different, our investment approach does have a contrarian bias, unlike most private portfolio offerings that are heavily weighted towards the index. This active approach won't work every year, but it worked very well during 2016 and should provide the right risk-adjusted returns over the long-term. The key is to apply it consistently.

Heading into 2017, the major change from a year ago has been in the pricing of many assets. This time last year the opportunity set was particularly fertile as there was extreme pessimism in many areas. Domestic fears created exceptional buying opportunities in local banking shares and companies like Imperial Holdings. After the strong price movements since, these areas no longer offer the low-risk buying opportunity that they did. The same applies to the resource area. Macro and momentum investors have become much more comfortable with the outlook for commodity shares, in our view, making them much less attractive.

Global financial markets have a much more optimistic view of the world today, partly as a result of the perceived positive impact Donald Trump might have on the US economy. This has led to a very sharp increase in long-term interest rates and a very strong rally in most other risk assets. I do not have a particularly strong view on the implications of a Trump presidency, but remain of the view that the range of economic outcomes remains fairly wide. With many investors once again herding into various assets based on an expected outcome, it is leaving few areas of pessimism for contrarian investors to seek opportunity.

As a result, our stance heading into 2017 is similar to that of a year ago. We are skeptical about the outlook for most markets, but remain optimistic about the long-term potential of the companies we own. While we are currently finding it difficult to invest new money, we would be surprised if there were not further bouts of opportunity in the year ahead.

As per our stated commitment to our clients, we cannot guarantee success this year or the next, but we can promise to treat our clients' money as if it were our own. In 2017 we will continue to co-invest with our clients in our best investment ideas in an effort to meet our aligned long-term goals.

As your investment manager, I am excited about the challenges that lie ahead, and look forward to continuing to build investment portfolios and partnerships that will endure for many years to come.

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