

Dear SuperDogs Investor,

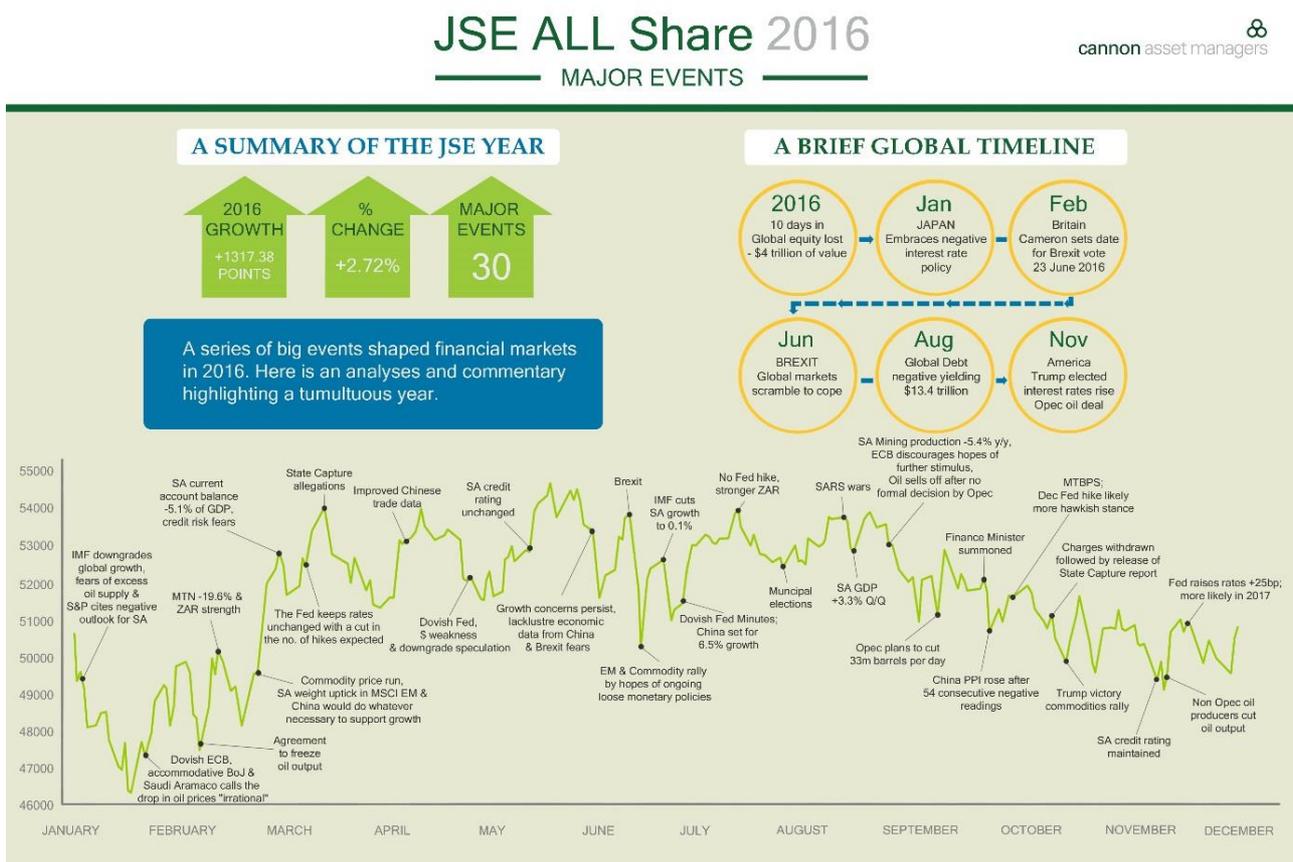
“As far as the laws of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality.”

– Albert Einstein (1879-1955)

By replacing the word “mathematics” from Albert Einstein’s famous quote with “economics”, we have the perfect summary of our current circumstance: nothing is certain and whatever may seem certain, could possibly not refer to reality. However, this should not be seen as negative, but rather as an amazing time to be on this planet, a time filled with opportunities to navigate through new situations and conditions and the birthplace of unique environments.

In this vein, 2016 was a year that can be best described as being filled with high volatility, local political disorder, Brexit, Trump and a year where macroeconomic headwinds finally caught up with countless companies. To this end, it was a disappointing year for local equities (Figure 1). The JSE was whiplashed back and forth by a lot of noise, with the equity market ending the year on a muted return of 2.6%.

Figure 1:

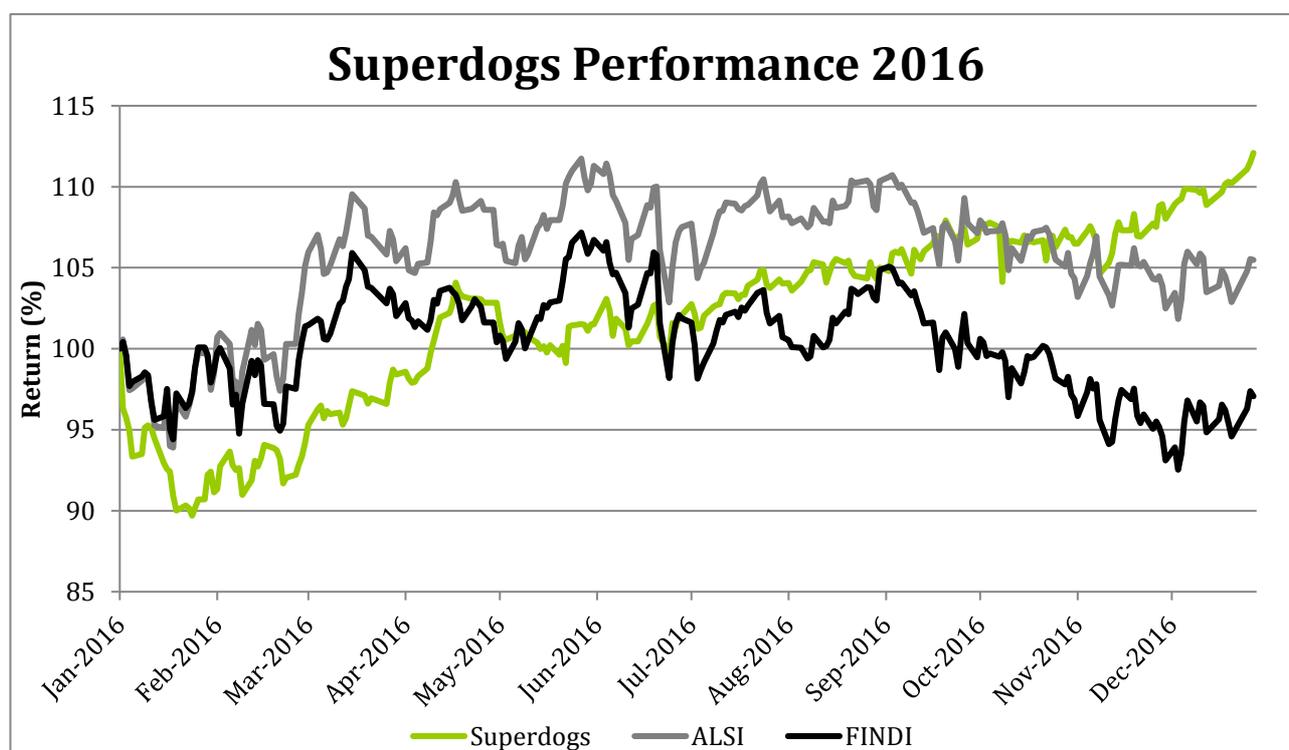


In this setting, our SuperDog’s Fund started 2016 on the back foot, as the market fell heavily in January, following Nenegate and the tumbling of the local currency. Consequently, SuperDogs was down 9.7 percent in the month of January. Whilst it is never comfortable experiencing capital loss, there is a yawning difference between short-term price movement, which is out of our control, and permanent capital destruction. Our philosophy and process managed the first and obsesses about the second, with investment backed by fundamentals, which are the key driver for prices over the long term.



To exaggerate the January sell off and political uncertainty, the market was ramped up by resource stocks which performed an impressive turnaround in the first quarter of 2016. With zero exposure to this sector, SuperDogs was truly lagging the market (Chart 2).

Chart 2



However, confident in the quality and intrinsic value of the businesses in the fund, we trusted that SuperDogs would pull through in fine form. And it did! We are pleased to report that the SuperDogs fund ended 2016, returning 11.3 percent, ahead of the JSE All share Index and the benchmark, the FTSE-JSE Financial & Industrial 30 Index, which returned 2.63 and -5.76 percent respectively. Performance of the fund over different periods is set out in Table 1 below.

Table 1

	SuperDogs	ALSI	FINDI
One month	3.01	0.97	2.00
Three months	5.32	-2.09	-3.26
Six months	9.99	-1.63	-4.92
One year	11.27	2.63	-5.76
Three years	34.14	19.63	29.42
Three-Year annualised	10.29	6.16	8.98

The fund remains attractively priced on a PE of 10.2 times, a 50 percent discount to the market, and offers a dividend yield in line with the market of 3.2%.

2017 is likely going to be filled with more noise, more uncertainty and more volatility, but we remain grounded to our process which continues to deliver for investors.

We look forward to sharing the news, noise and investment results of 2017 with you, and thank you for entrusting us with your assets,