Please note that the commentary is for the retail class of the fund.

The fund returned +1.0% for the fourth quarter of 2019 (Q4-19) and finished the calendar year up 10.2%. Since inception, it has averaged an annualised return of 16.2% relative to its benchmark's return of 13.6% but remains slightly behind the benchmark over five- and 10-year periods.

In last quarter's commentary, we made mention of the positive Q2-19 GDP growth surprise of around 3% in what was a very challenging economic environment, coupled with very low business and consumer confidence. As it happens, this strong growth proved short-lived, and was followed by another quarter of contraction in Q3-19 of 0.6% (Q1-19 saw a contraction of 3.1%). It was, and still is our belief that the South African Reserve Bank is in a reasonable position to hopefully stimulate the economy via the cutting of interest rates, and that this latest GDP number is further evidence of the economy needing some help. Where we did see some relief is in the currency, where the rand strengthened by 7.5% (effectively recouping all of the Q3-19 losses) on the back of a more conciliatory tone being struck between the US and China on the trade-war front. This spurred some risk-on asset buying to the benefit of a number of emerging market currencies.

In terms of the three-year performance attribution, Cartrack, Spar and Netcare headline the list of positive contributors at the end of this quarter. Not owning EOH and Vodacom also contributed positively. A big detractor over this period has been our overweight position in Curro Holdings. This is largely due to earnings delivery not coming through as expected due to affordability issues on the school fee front, compounded by emigration ticking up, which has seen the share de-rate alongside the other education companies. While disappointing, we have kept the holding in the fund, as we still like the business model, anchored in the mid- to low-fee segment of the private schooling space, and remain optimistic about its prospects of delivering good earnings growth as it fills up its capacity.

Remgro is one of our top overweight positions, and is a business that we discussed in the previous commentary. We like the assets and saw a good value unlock opportunity, given that it was trading at a decade-high discount to the stated value of its underlying investments. Having built the position from scratch during Q3-19, we are pleased to have seen a return on our investment so quickly. In Q4-19, the share was the third-largest contributor to performance and was up 21.8% in the quarter.

Another stand-out performer of the quarter, and a stock we have spoken about on a number of occasions in the past, is Aspen. Having opportunistically increased the position further in Q3-19 – at levels 30% lower than the price we bought at in Q2-19 – the share is up more than 78% from those levels and returned 38.7% in the fourth quarter alone. Much of why the share was so depressed centred around balance sheet concerns and the need for shareholders to inject equity in order to reduce gearing levels. As it happened, a number of disposals were completed at good valuations, which not only fixed the balance sheet, but highlighted the inherent value sitting in Aspen's group of companies today. Despite the share being up, it trades on a high single-digit PE multiple, and has a fair value that we believe is still substantially higher than the current share price. We have marginally trimmed the position, but the fund continues to retain a meaningful overweight position in the stock.

Rounding out the top three positive contributors in the quarter is British American Tobacco (BAT). While it was up just shy of 10% in the quarter, it managed to return in excess of 40% from the lows hit at the end of January 2019. After living under a cloud of regulatory uncertainty for the better part of two years, some positive news emerged out of the US FDA (Food and Drug Administration) in the final month of 2019. The administration introduced a ban on all e-cigarette flavours, bar tobacco and menthol. Until this point, e-cigarettes had been the backbone of disrupter JUUL's fast-growing business, which many had seen as an existential threat to traditional tobacco companies. Because of this, a key competitive threat to BAT's business has been significantly curtailed. Even though it has been the best-performing share for the fund in 2019, we have not significantly reduced the position size, and it remains the fund's largest overweight position today, which is well-supported by valuation. It still trades on 9.4x forward earnings and offers a 7% dividend yield. We see this as too cheap for a business of this quality.

One of the fund's top five overweight positions that has not yet, in our opinion, realised its full value, is Altron, which we introduced to the fund in the third quarter, and added to in this quarter. It underperformed the benchmark by 7% in the quarter. Altron previously operated in the electronics and power infrastructure spaces, but today is a focused ICT player with operations in South Africa and the UK. It is positioning itself in future IT growth areas of cloud, data analytics and security services, working closely with a leading vendor in these areas in Microsoft. In our view, the share price decline has more to do with the broad-based selling of SA shares and less to do with any inherent concerns around the company. The streamlining of the company has resulted in a much better business, concentrating its efforts in the right areas. While the SA economy might be tough at the moment, the need for companies to continue to invest in IT will endure, and we believe that, at current levels, the market underappreciates just how much runway the business has over our investment horizon of 5+ years.

We also took the opportunity to buy ABI on share price weakness, and added to the Advtech position, which has suffered a similar fate to Curro in 2019.

When looking at the portfolio today, we are comfortable that it is well-positioned to weather a number of potential economic outcomes, both locally and abroad, and that the companies invested in are well-placed in their markets and currently priced to yield attractive future returns.

Portfolio managers
Adrian Zetler and Tumisho Motlanthe
as at 31 December 2019