The fund appreciated 1.7% in the fourth quarter of 2019 (Q4-19), taking its year-to-date return to 26.9%, compared with a 14.2% return from the benchmark.

From a stock-specific point of view, the largest contribution during the quarter was from 58.com (+24%, 0.7% positive impact), followed by Spotify (+22%, 0.4% positive impact), and then Alibaba (+17%, 0.3% positive impact) and JD.com (+17%, 0.3% positive impact). There were not any material detractors. Over the past five years, the fund has generated a positive return of 10.5% p.a., over 10 years 14.5% p.a., and since inception just over 20 years ago, 14.2% p.a. (2.9% annualised outperformance)

The fund ended Q4-19 with a 72% net equity exposure, equivalent to where it was at the end of September 2019. Of this, approximately 61.2% of the equity exposure was invested in developed market equities, 33.1% in emerging market equities and 5.7% in South African equities

Our negative view on global bonds remained unchanged, as a large portion of developed market sovereign bonds offer negative yields to maturity, with the follow-on effect that most corporate bonds also offer yields which do not compensate you for the accompanying risk. Only 4.8% of the fund is invested in bonds, which is largely made up of a 1.6% position in L Brands (owner of Victoria's Secret) corporate bonds and exposure to short-dated US Treasuries (used as an alternative to USD cash)

The fund also has c. 4.3% invested in global property, mostly in Unibail (European and US retail property) and Vonovia (German residential). Lastly, the fund has a physical gold position of 2.7% The balance is invested in cash, largely offshore. As has been the case for many years, the bulk of the fund (over 90%) is invested offshore with very little exposure to South Africa.

Notable new buys during the quarter were World Wrestling Entertainment (WWE) and Capri Holdings.

WWE is the owner of the entertainment-focused wrestling franchise, which has benefited from the unique nature of live entertainment, which has grown its value (along with most live sporting content) in the shift from linear to on-demand broadcasting of television. WWE has benefited from the increasing prices of both live sport and entertainment, but its content is still priced at a 40%-50% discount to comparable sports franchises from a viewership standpoint. The WWE franchise is currently experiencing a lull in storyline, which has provided an opportunity to buy a business that is experiencing what we view as cyclical issues at a reasonable price. It is down 35% from its peak and trades on c.17 times enterprise value to to normalised earnings before interest and tax (EBIT) to the end of 2020. There is also the potential for a significant uptick in revenue due to the renewal of US broadcast rights due in 2024, along with improved monetisation of markets outside of the US providing meaningful optionality (c.70% of current revenue comes from the US, with only c.30% of viewership share). With the expected increases in revenue that comes at high incremental margins owing to the fixed-cost operating structure of the business, healthy margin expansion should follow, leading to strong earnings and cash flow growth.

Capri holdings is the owner of Michael Kors, Jimmy Choo and Versace, with the latter two being recent acquisitions with significant potential. Michael Kors generates c.70% of group revenue and close on 100% of EBIT as investments are made in the newly acquired brands. Michael Kors was a brand that grew rapidly as they aggressively opened stores, along with significantly expanding their wholesale presence, mainly via department stores in the US. This aggressive expansion came back to bite as the brand lost some of its 'heat' and the business was overexposed to brick and mortar retail outlets. Management has begun to rationalise its store footprint and early signs of success are being seen (they have recently reported positive comparable sales for their own stores). Founded in 1978, Versace is a brand with an incredible heritage and excellent recognition, but the previous owners failed to properly commercialise the business. As a result, the brand currently generates only $900 million in revenue versus that of Gucci at $9 billion. The combined entity trades on c.7 times forward earnings, which we view as attractive notwithstanding the headwinds facing Michael Kors as it undergoes a turnaround. However, both Versace and Jimmy Choo contribute only marginally to earnings, which we believe is significantly below their potential.

Portfolio managers
Gavin Joubert, Marc Talpert & Suhail Suleman
as at 31 December 2019