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

In stark contrast to the last quarter of 2018, the final quarter of 2019 finished on a strong note, with general support for risk assets globally as sentiment improved on the expectation of the relaxation of the trade war between the US and China. The fund delivered a return of 7.6% for the quarter, taking the full year return to 15.8%, which is pleasingly 5.3% ahead of its benchmark over this period. Since inception, the fund has delivered an annualised return of 17.1%, and annualised alpha of 3.7%, which, when compounded, results in the value of the fund being close to double an equivalent investment in the benchmark.

The relevance of the growth being driven by global factors is important in explaining the fund's strong outperformance of the benchmark in this period. We have consistently held an overweight position in global companies listed on the JSE and, in particular, resource shares. It is these shares that have delivered the strong returns in 2019, whereas those companies focused mainly on the South African (SA) market have continued to have a torrid time. Big positions in the fund, such as British American Tobacco (BAT), Naspers and Anglo American, all had a very strong year, the first two in particular recovering from a very poor 2018, where stock-specific issues had weighed on their performance. BAT delivered a total return of 36% for the year and Naspers 22%, both well ahead of the overall market. While Anglo American delivered a very commendable 29% return for the period, this was dwarfed by the phenomenal return from Northam Platinum of 186%. The strong returns were driven by the huge increase in the price of the platinum group metals, platinum, palladium and rhodium, which finally reacted to the increasing deficits and continued strong demand from auto manufacturers.

The other global share in the portfolio which did well in this period was Quilter, the UK fund management business. It benefited from further restructuring and sales of non-core businesses within the group and, as the year came to a close, improved sentiment towards UK assets as the conservative party won a significant majority in the UK election.

In contrast to these big winners, the majority of the SA-focused companies we owned performed poorly. Despite a number of these companies being on very low ratings, this did not save them from the continued sell-off of everything exposed to SA. The banks, where we are exposed to Standard Bank and Nedbank, are now trading on multiples that we have not seen since 2002. On our numbers, the dividend yield on Nedbank is now greater than the earnings multiple. Concerns over the economy and the highly probable downgrade of our sovereign debt notwithstanding, we think these valuations are very compelling and we have continued to add to these holdings.

Similarly, the fast-moving consumer goods (FMCG) retailers we have owned continue to struggle to show any share price appreciation, despite delivering commendable results in a tough environment. This has allowed us to build meaningful positions in what are very high-quality cash-generative businesses at attractive valuations. Unlike discretionary retailers, the FMCG retailers are far less sensitive to the performance of the economy and should also benefit from the pickup we have seen in food inflation recently. In addition, in the case of a retailer such as Shoprite, stock-specific issues, which should not recur, will see earnings improve without much help from top line revenue growth.

The standout in the basket of South African stocks this year has been Distell, the manufacturer of a range of spirits, wines and ciders. Despite increased pressure from multinational competitors, it has defended and grown market share without having to resort to sacrificing margins, resulting in a pleasing growth in profitability. Looking to the year ahead, we should see further growth in profitability as its African operations return to more normal operating margins after a couple of tough years. Distell remains a solidly defensive and strongly cash-generative investment.

2020 has started with renewed global uncertainty and South Africans were greeted by an early bout of load shedding, all indicating that 2020 is unlikely to be any less of a roller coaster ride than the last few years. In this light, we continue to manage the fund in a cautious manner, cognisant of the myriad of risks, but still looking to take advantage of the significant mispricing of assets in the local market. All our internal models indicate significant value for the patient investor in the SA market. As a result, we are confident of being able to continue to sustain the long-term outperformance trend of the fund.

Portfolio managers
Neville Chester and Nicholas Stein
as at 31 December 2019