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

The Fund delivered a return of 8.9% for 2020, benefitting from both value-adding asset allocation decisions and strong alpha in the domestic equity building block. For the fourth quarter (Q4-20), the Fund returned 9.0%. The Fund has performed well against its peer group over all meaningful time periods.

The Covid-19 pandemic had a dramatic effect on markets during 2020 and resulted in high levels of uncertainty. Markets initially fell rapidly as the virus spread, with the S&P losing a third of its value during the first quarter of 2020, before recovering sharply through the rest of the year. Sentiment recovered strongly as the market benefitted from record amounts of stimulus and economic activity levels rebounded. The S&P returned 18.4% in US dollars (12.1% for the quarter) to end the year at a record high. Notwithstanding a second wave across most of the world, a fast-tracked vaccine roll-out is now in place across most developed nations. Anticipation of a return to more normal levels of economic activity in the second half of 2021 has further supported market sentiment.

The MSCI All Country World index returned 16.3% for 2020, also ending the year at a record high. European markets were weaker (+5.3% for the year, +15.6% for Q4-20), with the UK market (FTSE 100 -9.0% for the year, albeit +17.2% for Q4-20) again dominated by politics as the UK negotiated its exit from the single European market. Biden's victory in the US election should ease political tensions with trading partners. Gold (+25.1% in US dollars) had its strongest year in a decade, reflecting concern at the ongoing expansion of central bank balance sheets as countries print unprecedented amounts of money. The Fund benefitted from exposure to gold in the year.

Emerging markets (EMs) also performed strongly, up 18.7% for the year in US dollars and 19.8% in Q4-20. Asian markets outperformed as they were better able to control the spread of the virus and their economies recovered faster (China +29.7%, South Korea +41.8%, both in US dollars for the year). The portfolio benefitted from its exposure to EM equities with strong market returns and good stock picking.

The Barclays Global Aggregate Bond Index was up 9.2% in US dollars for the year and 3.3% for Q4-20. We remain cautious on global bonds, given the very low yields at which they currently trade, high (and rising) levels of government indebtedness and the risk of inflation. In South Africa (SA), the All Bond index returned 6.7% for the quarter, bringing annual performance to 8.7% (in rand). This compares favourably to other domestic asset classes.

Although Covid-19-related economic shutdowns and fiscal stimulus resulted in deteriorating fiscal metrics around the world, the SA situation was compounded by a weak balance sheet at the onset. The October Medium-Term Budget Policy Statement proposed a plan to cut levels of government expenditure by reducing the wage bill, but this will require union support and a willingness to endure sustained austerity. Without these cuts, SA's debt-to-GDP levels will continue deteriorating and debt restructuring will be required. This tenuous situation is reflected in bonds yielding well above cash returns. We see better value at the long end of the curve, where lower bond prices offer more protection. Despite the attractive yields, we continue to reassess the Fund's exposure to bonds given the risk.

The rand ended the year 5% weaker versus the US dollar, but this number belies the volatility seen during the year. At its weakest, the rand lost almost a third of its value relative to the US dollar before strengthening on globally recovering sentiment as well as supportive news out of SA. Third-quarter GDP exceeded expectations, with the rebound in export activity resulting in a sizeable trade surplus. However, weak import demand reflects poor investment confidence.

The JSE All Share Index returned 7.0% for the year and 9.8% for the quarter. This performance is inflated by the performance of a few mega caps. The market has been extremely narrow, with only 20% of stocks outperforming the ALSI over the last three and five years.

PERCENTAGE OF STOCKS OUTPERFORMING THE ALSI OVER A 3 & 5 YEAR PERIOD

The average domestic share has collapsed and trades at roughly half its peak. This is reflected in the performance of domestically-concentrated sectors with a decline in the financials and property indices for the year (Financials -19.7%, SA-listed Property -34.5%), even after a Q4-20 bounce (Financials 19.5%, Property 22.2%). The industrial sector performed better, returning 7.4% for Q4-20 to end the year up 12.0%. This was driven by a handful of large shares such as Naspers (+32%), Prosus (+52.6) and Richemont (+21.5%), which benefitted from exposure to more resilient sectors and offshore economies. Resources, with their significant exposure to a resurgent Chinese economy and tight commodity markets, did well (+21.2% for the year). The portfolio was well positioned for this environment with a high exposure to the rand hedge names as well as resources.

In our Fund, we meaningfully increased our exposure to SA equities after the sell-off, given the breadth and attractiveness of the value on offer. The rand hedge stocks remain attractive for a variety of stock-specific reasons. Major holdings include Naspers (+32%), British American Tobacco (-1.5%), Quilter (9.1%), Bidcorp (-19%), Textainer (104.9%) and Aspen (+5.2%). Despite slashing our expectations for domestic shares, their meaningful underperformance during the year means that many of these names now look undervalued, with investor concerns reflected in single-digit PEs. Over the last few quarters, we increased our weighting in the banks (predominantly FirstRand), life insurers (Momentum Metropolitan Holdings and Sanlam) and several others. Results from domestic businesses have exceeded our expectations thus far, with more top line resilience and better cost control than we had anticipated. We remain concerned about headwinds into 2021 as a weak macroeconomic environment persists and cost-cutting efforts result in another round of retrenchments, which will further erode consumer confidence and spending power. Banks have also exceeded our expectations as borrowers resume debt repayments and low interest rates improve affordability. Sizeable provisions offer near-term protection to bank earnings in a weaker economic environment. The Fund remains underweight domestic businesses. Despite the selloff in property shares, we have not built up the position, given concerns over the long-term outlook for rentals and weak balance sheets.

Notwithstanding the outperformance by the resource shares, they remain a meaningful part of equity exposure, given undemanding valuations and solid free cash flow (FCF). The diversified miners are benefitting from tight markets, given the resilience of Chinese demand and a limited supply response due to disciplined capital expenditure over the last few years. The Fund continues to hold a sizeable position in Anglo American, which, despite its performance (+25.9% for the year, +19.1% for Q4-20), still trades on an attractive PE rating at less than 10x one year forward. The Fund also holds a position in Glencore (+8.0% for the year, +33.3% for Q4-20) with its attractive commodity basket that should benefit meaningfully from decarbonisation. We see material upside even after applying environmental, social and governance penalties.

The platinum group metals holdings in the portfolio (Northam +69.5% for the year and +23.1% for Q4-20, Impala Platinum +47.7% for the year and +38.8% for Q4-20) performed very well. They are expected to deliver material returns to shareholders as earnings growth is underpinned by tight markets on the back of mounting emissions regulations and a decade of underinvestment by the sector. Strong balance sheets and bounteous FCF generation enable high levels of cash return.

With the strong movement in the gold price, our underweight position in the gold equities hurt performance, given the leveraged nature of earnings for their high-cost, short-life assets. We used the sell-off in Q4-20 to start buying AngloGold Ashanti.

Throughout the volatility experienced during 2020, we retained our commitment to investing for the long term. We have used the uncertainty created by the pandemic to build a robust portfolio of assets where we believe the market is mispricing the long-term fundamentals. We believe that this will continue to deliver compelling returns for clients in the coming years.

Portfolio managers
Karl Leinberger, Sarah-Jane Alexander and Adrian Zetler
as at 31 December 2020