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

The year 2020 was one that investors will never forget. The Covid-19 pandemic, the economic lockdowns and the immense fiscal and monetary stimulus thrown at the problem created an exceptionally volatile investment environment. Many businesses and some industries, such as those linked to hospitality, tourism and travel, suffered immense damage. The lockdowns also accelerated the already fast-growing e-commerce sector, while work from home became the norm for many who had never thought it likely. The knock-on effects of these trends affected the normally safe property sector disproportionately.

During the final quarter (Q4-20), encouraging news around the development of vaccines against the virus, as well as the Biden election victory in the US, was welcomed by financial markets, especially in the emerging economies, where the new US administration is expected to move away from the trade war stance of the Trump era and pursue more trade-friendly policies. South Africa (SA) was no exception and experienced a strong rand and soaring stock market. The rand gained 12.3% against the US dollar, the JSE capped SWIX rose by a whopping 11.5%, the beleaguered quoted property sector recovered some of its losses and declining yields also assisted the bond market to post a 6.7% return for the All Bond index over the quarter.

The Fund was well positioned to benefit from these developments and posted a 7.0% return for quarter, which lifted the one-year return to a respectable 6.8%. It is a result that seemed unlikely at the end of the first quarter of 2020 (Q1-20). From the end of Q1-20, the Fund staged a very strong recovery, posting a 21.6% return over the last nine months. The annualised two-year return of 8.0% is also ahead of the targeted inflation-plus-4% return. The longer-term returns are 4.4% over the past three years, 4.9% over the past 5 years and 7.7% over the 10-year period. All numbers are annualised. The inflation-plus-4% target has proven to be a tough hurdle to meet for funds in the sector over the medium term. We are, however, confident that the target outperformance trend of the past two years can continue.

When the huge downturn came in March last year, the Fund was light in cash, especially in hard currency cash, which was the only real safe haven in that tumultuous month. We, however, stuck to our strategy and, in fact, added to equities over the rest of the year based on the very attractive valuations we found in many listed stocks. The Fund's exposure to listed equities, domestic and global, is the highest it has been for many years - a sure sign of the absolute and relative value we see in equities. Money market interest rates are currently at the lowest level since the 1960s and we think it is likely to remain at these low levels for at least another year. Inflation has also surprised on the downside and, although we expect it to accelerate somewhat, it should remain comfortably below the midpoint of the South African Reserve Bank’s targeted range for the next year or two.

The global trend towards cleaner energy is a long-term one. This trend is favourable for many metals, including copper, cobalt, nickel and the platinum group metals. In our view, Anglo American is well positioned to benefit from this trend. In addition, its balance sheet is very strong and is expected to reward shareholders with a very strong dividend flow. Anglo American is the second largest holding in our portfolio, as we believe it still offers very good value even after its strong performance over the last year.

The top contributors to performance during 2020 were Naspers/Prosus, Anglo American, Platinum stocks Impala Platinum and Northam, as well as Altron. Detractors were the bank shares Nedbank, Standard Bank and FirstRand, Sasol and MTN. The listed property sector also detracted from performance.

In the interest-bearing category, the government yield curve is exceptionally steep, reflecting the concerns that bond investors have over the fiscal state of affairs. SA finds itself in a debt trap that has arisen due to a decade of far too high government expenditure followed by a massive loss of revenue due to the self-imposed economic lockdown. Government debt-to-GDP is rising ever higher and will approach the 100% level if not addressed drastically. The only good way out of the fiscal mess government finds itself in is for the economy to grow enough so that tax receipts rise. The low confidence levels and power supply issues of Eskom makes us cynical about our growth prospects. That leaves strict controls on government spending as the obvious route to follow in order to avert the debt trap. This is no easy task and calls for some unpopular measures around the payment of civil servants and the culling of lossmaking State-Owned Enterprises. Bond investors are clearly concerned that the bold steps needed will not be taken. We share those concerns and are consequently not taking on excessive long duration in this low-risk portfolio. We continue to hold a diverse spread of bonds, including corporate bonds and inflation linkers.

Portfolio managers
Charles de Kock and Pallavi Ambekar
as at 31 December 2020