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

The Fund delivered returns ahead of the benchmark for 2020 with the Fund returning 8.8% relative to the benchmark return of 6.5%. For the fourth quarter (Q4-20), the Fund delivered 13.6% relative to the benchmark return of 10.6%. The Fund recently gained a five-year track record and has pleasingly performed well since its inception.

The Covid-19 pandemic had a dramatic effect on markets during 2020 and resulted in high levels of uncertainty. Although Covid-19-related economic shutdowns and fiscal stimulus resulted in deteriorating fiscal metrics around the world, the South African (SA) situation was compounded by a much weaker position to start with. 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.

The rand ended the year 5% weaker versus the USD, 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 USD, before strengthening on globally recovering sentiment as well as supportive news out of South Africa. 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 Q4-20. 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 3 and 5 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 the fourth quarter to end the year up 12.0%. This was driven by a handful of large shares like Naspers (+32.0%), 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 Fund was well positioned for this environment with a high exposure to the rand hedge names as well as resources.

The global stocks well represented in our portfolio remain attractive for a variety of stock-specific reasons. Major holdings include Naspers (+32%), British American Tobacco (-1.5%), Quilter (9.1%), Bidcorp (-19.0%), Textainer (104.9%) and Aspen (+5.2%). Despite slashing our expectations for domestic shares, their meaningful underperformance during the year means 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 spending and confidence levels. 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 bought given our 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. 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 ESG penalties.

The PGM holdings in the portfolio (Northam +69.5% for the year and +23.1% for Q4-20, Impala +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 free cash flow generation enable high levels of cash return.

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