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

The Fund returned 5.4% during the fourth quarter of 2021 (Q4-21), bringing the full-year return to 20.2%. Since its inception, the Fund has delivered an annualised return of 16.1%, 2% ahead of the benchmark.

The Fund's three biggest contributors to relative performance in Q4-21 were our underweight positions in Mondi, Vodacom and Bidvest, while our largest detractor was our underweight position in Richemont.

Again, the quarter was characterised by volatility due to the ongoing pandemic. The Omicron variant was detected in South Africa (SA), causing knee jerk travel bans to SA combined with the grounding of international flights. Luckily, a limited response was announced in SA as hospitalisations and deaths remained far below previous waves. Most SA sectors will have had a 'normal' holiday trading period, with only those relying on international tourists seeing an outsized negative impact. Many local travellers who had planned on going overseas were forced to stay at home, which would have offset some of this pain for the local economy. The Fund has exposure to the hospitality sector through Famous Brands (FBR), HCI and Tsogo Hotels, and we are confident in the longer-term outlook of all these businesses, despite the short-term trading volatility.

FBR is a stock that contributed well to performance during Q4-21 as the share price rose 35% on the back of solid operating results. Home to several of SA's top food brands such as Wimpy, Debonairs and Steers, until 2016, FBR had a nearly unblemished operating record and delivered consistent growth in headline earnings per share from 35c a share in 2004 to R5.41 a share in 2016. An ill-timed and debt-funded expansion into the United Kingdom saw the group spend ~R2.1bn to acquire Gourmet Burger Kitchen (GBK). This purchase coincided with a downturn in British restaurant sales and gourmet burger sales, particularly on the back of several strong years of growth in the category. Saddled with nearly 100 high-overhead corporate stores, the downturn in sales, combined with an increased interest charge, pushed group earnings down more than 40% between 2016 and 2019.

With the onset of Covid-19, the restaurant category came under immense pressure globally as stores were shuttered during the various phases. SA, the group's primary profit engine, saw revenues go down to zero as the bulk of the business was forced to close its doors temporarily. Due to the high debt load at the group level and limited revenues across the group, FBR decided to walk away from GBK and place it into insolvency, thus divorcing its losses from the group balance sheet. FBR has been through a near-death experience in the last two years, but we believe the group is now well positioned going forward. GBK is out of the group, the SA business is seeing earnings recover strongly, and material de-gearing over the next few years will contribute to earnings growth. In nominal terms, we expect FBR to reach its 2016 earnings level in 2023 and for earnings to continue growing thereafter.

Richemont was again the largest detractor in the quarter as it rose 55% on the back of very good operating results. Goods consumption has outperformed services in the post-pandemic recovery, which has been felt particularly acutely in the luxury sector. Hard luxury goods have been resilient in the recovery from the pandemic as wealthy buyers, unable to spend on international holidays, have repurposed their spending towards the category. While the runway for Richemont to keep growing the jewellery business is clear, as branded jewellery grows from low levels, we believe this is more than discounted in the current share price and that there is no room for error in the Richemont valuation.

We increased our positions in attractive domestic shares in the quarter, such as Altron, Dis-Chem and Motus. We sold Distell down to zero upon finalisation of the Heineken takeout offer, and similarly sold Long4Life after an offer from private equity was announced. We view the takeout of listed companies in this manner as a clear sign of the value in SA equities.

Portfolio managers
Tumisho Motlanthe and Nicholas Hops
as at 31 December 2021