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

The Fund performed well during the three months, returning 1.0% in the third quarter (Q3-21), which came in 5.3% ahead of the benchmark (down 4.3%). Over meaningful times periods, and since inception, the Fund has performed well.

The continued spread of the delta variant of Covid-19 and its negative impact on global growth expectations was a key feature during the quarter. Another key development was further announcements from the Chinese authorities around new regulatory interventions in the technology (and other) sectors, which weighed on share prices there and fed through to the bellwether stocks, Naspers and Prosus, in our market.

Fortunately, the Fund's overweight positioning to attractively priced shares facing the domestic economy continued to work well, as a number of the key holdings came out with good results, to which the market reacted very positively. More good news on the local front came right at the end of the quarter, as the South African President announced a relaxation of lockdown restrictions to level 1 (adjusted) – this bodes well for a continued return to normal activity in the economy and eases how business gets done for our companies.

The biggest contributor during the period was the pharmaceutical business, Aspen. The share price was up 69% in the quarter (and has more than doubled year to date), adding 1.4% to outperformance. This is a business that we have written about on a number of occasions over the years and has been one of our high conviction holdings, so it is pleasing to see it finally come through. A year ago, the company released a reasonable set of results that we felt weren't properly appreciated by the market, which was still worrying about insufficient progress being made on the debt reduction front, despite improvements in its operations. Fast forward 12 months and the good work done then has only entrenched itself further. Debt is significantly reduced, earnings growth is ahead of expectations, cash flow generation was materially stronger, and the European Thrombotics business, which has been a drag on the business, has been sold. This leaves a stronger business with better growth prospects. While the share price has had a good run, the valuation is reasonably well-supported, trading on a PE multiple of 12.1 times three years out. The potential sale of its API (active pharmaceutical ingredient) manufacturing business, where two offers have been received, along with the possibility of vaccine manufacture for the African continent, offers balance sheet and earnings upside, which we have not factored into our assessment of fair value.

Having been the largest detractor in the second quarter (Q2-21), luxury goods maker Richemont was the second biggest contributor in Q3-21, adding 0.9% to outperformance. Although we admire the qualities of the business, our underweight position was premised on a stretched valuation in absolute terms, which looked even more so when compared to the cheaper alternatives in our universe. While Chinese technology shares largely bore the brunt of the regulatory crackdown in Q2-21, other businesses heavily exposed to China, including the luxury sector, were subsequently impacted, as the ramifications for the wider-reaching announcements began to be priced in.

Rounding out the top five contributors were: auto components manufacturer and battery maker, Metair (+0.9%); local ICT player, Altron (+0.8%); and private education firm, Advtech (+0.6%).

Given the strong run in many domestic stocks, most of the detractors happen to be stocks where we are underweight. However, the one detractor worth noting, in which we have a sizeable overweight position, is Anheuser Busch Inbev (ABI), which took 0.24% off performance. Despite being the biggest brewer in the world, Covid-19 has rendered several of the benefits that come from scale much less valuable and turned what would be virtues in a normal environment into constraints. The extended duration of lockdowns across the globe (severe in many countries) has meaningfully hurt on-premise consumption and held back volume growth; the weak economy has dented pricing; raw material prices have increased sharply, raising input costs; and elevated uncertainty has weakened emerging market currencies (where ABI does a lot of its business). This brutal cocktail has hampered ABI's ability to address (possibly) the market's biggest concern: its debt load. Some estimates put the delay in progress as a result at 12 to 24 months. The positive here is that the business remains robust, and the worst of these issues are likely behind it. As global progress is made towards some sort of immunity, economies continue to open up, and supply chains and trade routes normalise, ABI should be able to return to a position of strength. With more than 50% upside to our assessment of the share's fair value, we see a significant margin of safety in the stock.

Buys during the quarter were focused on attractive global shares like Naspers/Prosus, ABI and Textainer in the dips. Among the domestic businesses, vehicle dealer Motus was the big buy in the period, alongside pharmaceutical retailer Dis-Chem.

Sells were mainly in stocks that had done well in the quarter or year to date, including Aspen, British American Tobacco, Richemont and Advtech.

With the fourth quarter (Q4-21) just beginning, we are encouraged by the prospects of the key Fund holdings. We think their valuations are attractive and hope to see good performance out of them.

Portfolio managers
Tumisho Motlanthe and Nicholas Hops
as at 30 September 2021