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

Despite a very volatile period, the Fund added to its overall gains in the quarter, ending up 25% for the year ended September. This was a pleasing outcome given the volatile markets we have experienced the past year. What is even more exciting is that we think the Fund is particularly well-positioned to deliver strong returns in the medium term, given some of the asset-specific opportunities that we currently see in the market.

The most significant change over the last year has been reducing our exposure to global equity in the Fund and increasing exposure to JSE-listed stocks. Having been overweight global equities, we have steadily reduced this exposure into the very strong run that global developed markets have experienced over the past 12 months. We have also skewed what global exposure we have towards emerging markets, which have generally underperformed the developed markets, particularly with China stocks underperforming on the back of concerns around their recent structural changes implemented in the pursuit of 'common prosperity'.

Countering this, we have increased our exposure to JSE-listed equity. We think the JSE screens as offering exceptional value at the moment. We are overweight resources, which have been and should continue to be significant cash generators, with most of that cash being returned to shareholders via dividends and share buybacks. We are also overweight the global shares listed on the JSE: Naspers/Prosus, ABI, British American Tobacco, Aspen and Quilter. The balance is exposed to pure SA stocks, and although we are underweight these, we do think there is great value in this sector as well, and with our increased exposure to domestic bonds, we pick up a lot more SA-specific exposure at the overall portfolio level.

The last quarter was all about China's multiple announcements, expressing the desire for a more equitable split of wealth, and more responsible behaviour by the large, listed corporates, especially when it comes to data security and treatment of new economy or so-called 'Gig economy' workers. This is not significantly different to the desires of most Western democracies. What has made the Chinese impact so much greater on equity prices has been the suddenness of the announcements and, of course, the immediate and comprehensive execution of these policies. Our biggest exposure to these is through our holding in Prosus and Naspers via their holding in Tencent. These kinds of announcements are to be expected and have occurred before in China. The most recent being in 2018, when they clamped down aggressively on the amount of time minors were spending gaming online. We have found that Tencent has always managed itself impeccably through these times, complying with new regulations, yet still maintaining the high levels of innovation and development that keep consumers interested in their products and active within their 'ecosystem'. That has helped the company maintain its dominant position in providing digital services in the Chinese market. We expect this to be the case during the current regulatory cycle.

What is also important to bear in mind is that Tencent has been a significant investor in many other technology businesses both inside and outside China. Today, the core business of Tencent makes up a much smaller part of the overall value of the business. The investment portfolio at spot market prices makes up approximately 40% of the market capitalisation of Tencent today. As such, we think there is a lot of value in Tencent at today's market prices. Over and above this, as investors in Prosus, we are increasingly exposed to a basket of high growth internet businesses outside of China. Prosus has stepped up its investment, with large portfolio investments in classifieds, food delivery and payments. The market continues to give no recognition to the value of these businesses in the share price of Prosus. They recently concluded a share swap transaction to partly deal with the multiple discounts to NAV in the structure. We expect further steps to be taken over time to deal with this.

Despite some short-term concerns about the softness in metal prices, we have maintained our overweight in resources. Importantly, we were underweight platinum group metals, which is the sector that bore the brunt of the recent sell-off and we were underweight iron ore as we hold no BHP Billiton or direct exposure to Kumba Iron Ore. The iron ore price was completely unsustainable at over $200, especially given widely available resources and China's many directives to the steel industry to reduce production.

We have been overweight coal through our position in Exxaro Resources and Glencore, which has benefited handsomely from the recent price surge. We believe Glencore is being a responsible miner by maintaining ownership of its coal assets and running them down in a sustainable manner, rather than merely disposing of them into less transparent hands. This also benefits shareholders, as they are receiving significant cash flows from these assets as coal prices rise, which also benefits a green transition as it makes renewable energy sources more cost-competitive.

As alluded to earlier, the Fund has continued to invest in longer-dated South African government bonds. While we expect global bonds to sell off, given their exceptionally low yields, we still believe the SA bonds offer value. With real yields in excess of 5%, they are already pricing in significant risk of default, which we believe is unlikely in the medium term. The rand should remain supported by very positive terms of trade conditions, which we expect to persist, and this will also support these real yields. The new Finance Minister remains committed to the fiscal prudence undertaken by his predecessor, but we will need to wait for the Medium Term Budget Policy Statement (MTBPS) in November to see any specific changes to the outlook.

With the combination of a portfolio of bonds yielding in excess of 10% and domestic equities offering meaningful dividend yields and capital return potential, we remain optimistic on the Fund's ability to generate double-digit returns over the medium return, subject, as always, to the risks of short-term volatility brought about by global and local market conditions.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 30 September 2021