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

The Fund returned 3.0% for the quarter and 30.7% for the last 12 months. The long-term performance of the Fund remains pleasing, with alpha since inception of 3.5%.

The commodity space experienced very divergent fortunes over the last quarter. Energy prices (particularly coal) rose sharply, while iron ore and PGMs came under pressure.

While we have been bullish on thermal coal, the price spike from $80/t at the start of the year to over $200/t at the time of writing took us by surprise. We have written before about the underinvestment in thermal coal supply and the potential this creates for robust prices. Added to this, we have seen a warm Northern Hemisphere summer, Chinese bans on Australian coal imports, lower Russian gas supply into Europe, lower EU renewable power production and SA coal export issues all contributing to the current price. Our holdings in Glencore and Exxaro were beneficiaries of this price increase over the quarter.

Iron ore prices came under pressure as Chinese authorities sought to cap domestic steel production. Prices fell from over $200/t towards the $100/t level. This coincided with a slowing Chinese economy, particularly in property demand in the wake of property developer Evergrande's debt issues.

The continued global semi-conductor shortage has dramatically impacted automotive production and, with it, PGM demand. An estimated 11 million cars have not been produced this year because of these shutdowns, 13% of production estimates at the beginning of the year. Spot PGM demand has declined materially, and, combined with Amplats releasing their refined inventory, we have seen the industry revenue basket decline by 38% since the peak in April. We expect PGM markets to reenter into deficits next year as the chip shortage is resolved and automotive production ramps back up.

We assumed prices would be materially lower than the spot prices in our forecasts and thus get attractive upside in the equities in all three commodities. In the earlier part of the quarter, we rotated some of our PGM holdings into the diversified miners. We also added to our gold position in AngloGold.

On the global front, the news was dominated by multiple regulatory announcements from the Chinese authorities. Chinese authorities are seeking to introduce or tighten regulations spanning anti-trust, data privacy, online platforms, gig work protections, among others. Authorities are also focusing on practices in the housing, education and healthcare sectors. In most cases, mooted regulations are reasonable and in line with what developed markets want to implement. The uncertainty caused by the various regulations and some regulations that lack clarity (for example, Chinese authorities want Chinese enterprises to embrace "common prosperity") saw investors sell many Chinese stocks lower. This includes Naspers/Prosus, which closed the quarter down 17%/15% respectively. Our view is that the Chinese government still embraces local tech champions like Tencent. The regulations will also result in winners and losers. We would expect Tencent to emerge as a winner, given its more open platform versus peers, its conservative approach to monetising its various verticals, and its conservative regulatory/government approach. While it is likely that Tencent's growth rate will be lower than we expected at the start of the year, we still expect above-average rates of growth to persist for many years to come.

Furthermore, Tencent's investment portfolio accounts for approximately 40% of its market cap, reducing the core business PE multiple. In addition, Naspers/Prosus also have underappreciated assets outside China, spanning classifieds, food delivery and online education. We added marginally to our Naspers/Prosus position during the quarter.

Aspen performed very strongly over the quarter. With its elevated debt now firmly under control, the focus shifted to its vaccine manufacturing capability. Aspen stands to benefit from the increased production of Covid vaccines. Should it successfully negotiate an agreement with Johnson & Johnson to produce its vaccine on a first party basis, rather than as a contract manufacturer, this will add material upside to its manufacturing profitability. Aspen is also in talks to sell its Heparin API business, which should improve its working capital position going forward.

Anheuser Busch is a new position. The share has been weak, and the valuation now offers attractive upside. Anheuser Busch has a new CEO in Michel Doukeris. Doukeris previously held the role of CEO of North America at the group. He is credited with improving the region's fortunes, in part by investing in new brands and driving premiumisation. This is something the broader group has been accused of lacking and, we believe, will be a focal point for him. We believe the market is placing undue focus on short-term headwinds, such as input cost pressures from higher soft commodity and can prices. We believe Anheuser is a group with pricing power and will be able to claw back any lost margin over time. We sold our Woolworths holding for Anheuser, as the Woolworths share price has performed well and offers a lower margin of safety now.

On the domestic front, the news was mixed. As is often the case in South Africa, what the one hand gives, the other takes away. We saw very favourable policy announcements early in the quarter. Firstly, the announced sale of SAA to a credible player. This should see it no longer being a continued drain on the fiscus. Telkom provides a shining example of the potential success of an SOE being well run, in private hands. Secondly, the President's announcement lifting the limit for companies to generate electricity without a license from 1MW to 100MW has the potential to generate meaningful investment into the energy sector, help with South Africa's carbon transition and help stave off load shedding, which has been a massive headwind to sustained growth. In both cases, execution will be key, but it is pleasing to see government shift its stance on so-called "red lines".

Sadly, the above two announcements were overshadowed by the looting that took place in KZN and Gauteng in the wake of our former President's imprisonment. The cost has been massive, and the impact will be felt for a long time to come. Aside from the direct cost to business and employment, the longer-term impact is likely to be felt by lower investment into South Africa. It also increases pressure on the Treasury for higher wages and a Basic Income Grant. This comes at a time when Treasury was making headway in reining in government spending and debt quantum.

This, coupled with the slow pace of reform (spectrum; challenging the court ruling on Once Empowered) and the decline in key commodity prices (PGMs, iron ore), poses headwinds to SA growth and SA consumer spend.

The Fund remains relatively defensively positioned in South African economically-exposed counters. Our holdings span the banks, life insurers and food retailers. During the quarter, we sold out of FirstRand as its margin of safety reduced and initiated a new position in DisChem.

A large number of independent pharmacies dominates the pharmacy market. Over time, this has been shifting towards the formal pharmacy players, led by Clicks and DisChem. We expect this trend to continue, providing the formal pharmacy players with many years of strong store rollout opportunities. This is expected to drive continued strong topline growth. In addition, we believe DisChem's operating margin is currently at a depressed level owing to meaningful investment into the business, which should pay off in years to come. The combination of strong topline growth and margin improvement should drive earnings growth in the teens for years to come.

We continue to find attractive opportunities across the breadth of the market – mining stocks, global businesses that happened to be listed here, and pure SA-exposed stocks. We believe this sets the Fund up well for prospective returns in the coming years.

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