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

Performance

The Fund returned 7.4% for the quarter, resulting in a return of -2.0% over the last year. The Fund has taken advantage of falling global markets to build its holding in global equities at what we believe are attractive prices. The Fund has performed well against its peer group over all meaningful time periods.

Fund positioning

2022 was a year of broad weakness across asset classes. Markets retreated off their January highs in the face of high inflation, rising interest rates, and slowing growth. The MSCI All Country World Index (ACWI) ended the year -18% (after strengthening +10% in the fourth quarter [Q4-22]). Europe has been particularly hard hit by rocketing energy prices. A recession is widely forecast across Europe and for the US in 2023. The Fund started the year with very low exposure to global equities given valuation concerns. We have added steadily to the Fund's holdings in response to market weakness, with easing Regulation 28 restrictions enabling a larger allocation than previously. The Fund now has a healthy exposure to global equity where we believe the asset class presents significant stock picking opportunities.

Geopolitical tensions remained high throughout 2022. Almost a year after Russia's surprising invasion of Ukraine, the outcome remains uncertain. Escalation by a desperate Russia continues to be a risk. NATO and the European Union have emerged more united in the face of an increasingly polarised world order. China stuck doggedly to its zero-Covid policy for most of 2022, constraining mobility and economic growth. A sudden easing of Covid restrictions in the final weeks of 2022 should support economic growth in the year ahead, albeit raging infections in a population with limited immunity are a threat. The risks of investing in China remain heightened. President Xi Jinping tightened his control further in 2022: centralising power and decision making, enhancing state overview of everyday life, and increasing interference in the economy. However, notwithstanding the Q4-22 rebound (MSCI China +14% in USD), assets remain cheap (FY decline -22%). Many good businesses with strong growth prospects and healthy balance sheets trade on low multiples. Fund holdings include names like Naspers/Prosus and JD.com.

Bond yields rose rapidly through most of the year (Bloomberg Barclays Global Aggregate Bond Index [BBGAB] -16% for 2022). This was in response to high inflation and aggressive interest rate hiking cycles. Fourth quarter BBGAB Index performance was better (+5%), as inflation appeared to have peaked. Bond yields now sit closer to normal levels, but still offer inadequate compensation given highly indebted sovereign balance sheets. The UK's aggressive third quarter plan to cut taxes and increase energy subsidies showed how quickly the market can lose confidence in fiscal sustainability. The Fund continues to have no exposure to developed market sovereign bonds. Unlike the narrow credit spreads in South Africa (SA), global credit bonds offer more attractive pricing. We have been building up a basket of credit names trading on high single-digit and low double-digit yields.

Having rebounded off its Covid lows, the SA economy continues to struggle with low growth. Aging, underinvested infrastructure and poorly run state entities hamstring the economy. High levels of power outages render Eskom unable to increase planned maintenance sufficiently to bring down the high levels of loadshedding experienced during the second half of 2022. The resignations of Eskom's CEO and COO during Q4-22 add further uncertainty. The Phala Phala fiasco was a reminder of just how fragile the political situation is. The rand weakened on the back of this but then recovered on the more positive outcomes of December's ANC elective conference to end the year -6.4% versus the USD. President Cyril Ramaphosa's re-election, alongside several of his allies should enable ongoing, albeit slow, reform. We believe the attractive real yields at which SA bonds trade (relative to emerging market peers and cash alternatives) offer a sufficient margin of safety to merit their inclusion in the portfolio. The JSE All Bond Index delivered a return of +4% for the year (+6% for the quarter).

In US dollar terms, the FTSE/JSE Capped Shareholder Weighted Index (SWIX) outperformed the global benchmark to end the year -4% versus -18% for the MSCI ACWI. When measured in local currency terms, the Capped SWIX returns were up +4% for the year and +12% for the quarter. We believe SA equities are cheap and continue to deserve a place in our portfolios alongside global equities. They offer broad value across resources, global stocks listed on the JSE, and domestics.

The resource sector rose 9% for the year, helped by a strong Q4-22 (+16%). Energy prices spiked earlier in 2022 in the face of Russia's invasion of Ukraine, with a broader surge in commodities in Q4-22 as markets anticipated strong demand into 2023 on the back of China's reopening. We expect energy markets to be tight over the medium term as demand remains robust during the transition to lower carbon energy sources and due to the lack of investment in new capacity over the last few years constraining supply. We have diversified our energy holdings across a broader basket of local (Sasol and Exxaro) and global names to reduce company-specific risk. All are expected to benefit from elevated cash flows that will support high levels of dividends and buybacks. Despite slowing global growth into 2023, we expect broader commodity prices to remain resilient as constrained capital expenditure from major diversified miners since 2015 keeps markets tight. We hold positions in diversified miners such as Glencore and Anglo American. Both offer attractive free cash flow streams, even at more normal commodity prices. The Fund started the year with a sizeable holding in gold equities which was sold down in Q1-22 as gold stocks outperformed. The Fund is underweight both gold and PGMs today, preferring diversified miners and the energy plays.

The Financials Index returned +7% for 2022 and +13% for Q4-22. The banks (+18% for the year, +15% for the quarter) continued their strong earnings recovery and are all expected to have surpassed their pre-Covid earnings during 2022. While costs and credit losses are normalising off low bases, good revenue growth (advances and rising rates) enabled the banks to deliver healthy profit growth. The portfolio has reasonable exposure to the banks via FirstRand, Standard Bank, and more recently Absa. Absa has shown strong growth off its pre-Covid earnings base, driven by market share gains and good operating leverage. While the share price has risen, multiples remain low in absolute terms and versus the other banks. With board and management succession issues resolved, and the Barclays separation complete, we expect Absa to continue delivering against its long-term targets. Life insurers underperformed their bank counterparts (-13% for 2022, +4% for Q4-22) as they faced Covid-inflated mortality claims, weak equity markets, low growth, and competitive pricing in risk insurance. The Fund does not own the life insurers, preferring positions in the banks and other financials. OUTsurance (+9%), Transaction Capital (+9%) and PSG Konsult (+14%) are sizeable holdings in the portfolio. All are expected to continue growing robustly.

The Industrials Index returned -4% for the year but was up strongly in Q4-22 (+16%) as major constituents Naspers and Prosus delivered a whopping +25% and +24% respectively in the final quarter of 2022.

China stocks have experienced a volatile year – declining as political risk was perceived to be increasing and then rebounding as the economic outlook improved due to the easing of Covid restrictions. The large Tencent holding in Naspers/Prosus was similarly impacted. In addition, Naspers/Prosus have created value at the holding company level through an accretive buyback programme. The discount narrowed by a third in recognition of both the value this transaction creates and the positive message it sends about management's commitment to narrow the discount through optimal capital allocation.

Domestic stocks continue to offer attractive stock picking opportunities. Many trade on high dividend yields too. The JSE has seen several buyouts by international bidders in the last few years, underpinning the value on offer. 2022 was no exception, with Mediclinic and Massmart receiving buy-out offers. Our emphasis within the portfolio has been on finding businesses that can prosper even in a low-growth economy. Managers in these businesses are investing behind their expanding franchises, taking market share, and strengthening their moats. Examples include ADvTECH, Dis-Chem and Motus.

The portfolio continues to hold several global businesses listed in SA, all of which are attractive versus global peers. Examples include Richemont, British American Tobacco, Bidcorp, and an increased holding in Anheuser-Busch InBev (ANH) built up in Q4-22. Near-term inflationary pressures have weighed on ANH's share price, but its long-term prospects remain solid. ANH has leading market positions, strong brands, scale benefits, healthy margins, and strong free cash flow conversion.

Outlook

Having entered 2022 with limited exposure to global assets, we used the sell-off to increase our global holdings. A diversified portfolio of global equity, supplemented with some global credit should provide attractive risk-return benefits. While headwinds exist in both global and domestic markets, we believe growth assets are well priced for the risks and offer attractive returns off these low starting prices.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 31 December 2022