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

Performance and fund positioning

The Fund bounced back strongly in the fourth quarter of 2022 (Q4-22), managing to bring the full-year return positive – a very pleasing result in a year where global markets have sold off dramatically and local markets have been extremely volatile. The Fund's quarterly return of 8.9% was ahead of the quantitative benchmark, mainly driven by having kept a higher weighting to SA equities, which significantly outperformed global equities in the quarter.

As a flexible fund, Market Plus has the ability to hold a higher weighting to equity than those funds that have to adhere to Regulation 28 (Reg 28) limits. For most of Q4-22, the Fund kept its weighting over the Reg 28 limit of 75%, given what we saw as compelling value in the local equity market, and, increasingly, value appearing in global equity markets as the inflation and interest rate led sell-off continued in those markets. It has been a difficult call to make, as SA bonds are also trading at very attractive levels for long-term investors, but we felt that the upside from equity was likely to be significantly better.

Within our SA equity selection, our overweight position in commodities added to performance as markets once again started to price in commodity prices remaining higher for longer. In the year-end trading updates, all the major mining companies indicated lower volumes than expected. This indicates that prices are likely to remain higher for longer as supply has continuously disappointed. The strong cash flows these companies will generate from these above normal commodity prices will predominantly be returned to shareholders, making resources shares very attractive from a total return perspective.

The Fund also benefited from our investment in Naspers/Prosus and Richemont, both of whom have significant China exposure. While the market panicked initially when Xi Jinping was, unsurprisingly, re-elected for a third term as Chinese president and general secretary of the Communist Party, it quickly responded to his announcements of reopening for business, and later, the end of China’s zero-Covid policy.

Our exposure to the SA banking sector was performing well initially on the back of strong pre-close updates but increasing concerns locally about continued power shortages and then the potential resignation of the president, saw their share prices come under pressure. They have not recovered, despite President Cyril Ramaphosa comfortably being re-elected as head of the ANC. The next big driver towards which the market will likely shift its focus is the upcoming announcement from the Financial Action Task Force on the potential ‘grey listing’ of SA. Given the narrative around this event, there is likely more upside than downside, as most participants are expecting the grey listing to occur. Should it be deferred, we should see the banks outperform.

Within the Fund's global exposure, our emerging markets (EM) position (which detracted earlier in the year) came through strongly as the market has started to recognise the relative cheapness of many EMs versus developed markets. It also benefited from the Chinese exposure in the last month, as referenced above. As the developed equity markets have continued to underperform, we have started adding exposure here, adding around 3% to global equity in the quarter.

We have maintained a high exposure to SA government bonds but have also been adding to global credits as they are now offering decent returns as the yield curve has pushed out. We are still avoiding most foreign sovereigns, where yields still do not compensate for the risk.

In our property exposure, our focus has shifted towards a few specific names, adding to Attacq, which delivered very strong results, and whose Waterfall node remains the most promising in the Gauteng region. Our exposure to RMH reduced as the company paid out the proceeds from its portfolio sale to shareholders as a special dividend. Given the relative attractiveness of SA bonds, we still do not have much exposure to SA property.

Outlook

Despite the extremely wild ride we have experienced in the last few years with Covid, which was followed by a major European war, the Fund has managed to deliver solid returns. Our three-year numbers (from the start of 2020) are just in double-digit territory at 10.2%, delivering comfortable inflation-beating returns for this period. Given the yields available on our equity and fixed income holdings, we are confident that the Fund should be able to keep up this level of return over the medium term.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 31 December 2022