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

The Fund had a challenging start to the year, delivering a negative return of 9.8% in the first quarter (Q1-22). Positively, this was 3.3% ahead of the benchmark, which talks to the difficult environment for industrial shares during the period.

Making headlines globally was Russia's invasion of Ukraine on the 24th of February – a move which has had a meaningful impact from both a humanitarian perspective, as well as for the real economy and its financial markets. The long-term consequences of this action are still being worked through, but the net result is certainly negative in relation to the world and the way it was before.

What also moved markets was the decidedly more hawkish position taken by the US Federal Reserve (and other central banks) on inflation. Given the speed of its rise, and its expected persistence over the medium -term, a more aggressive interest rate hiking cycle is now underway. This has implications for company valuations, especially those whose earnings and cashflows are quite far into the future.

Against this backdrop, the Fund's good relative performance was driven largely by a higher exposure to well-priced stocks which held their rating, or whose share prices rose for company-specific reasons.

Being underweight in highly-rated stocks that pulled back on the above concerns also helped. Most noteworthy here was the circa 20% fall in the Richemont share price.

The second biggest contributor – adding 1.1% to outperformance – was Hosken Consolidated Investments (HCI), a holding company. Our main reason for investing here was to gain exposure to deeply discounted (Tsogo) hotel and (Tsogo) gaming assets that were hit hard during South Africa's hard lockdown in the early part of Covid, and which account for roughly 70% of the HCI fair value today. What has transpired is that the remaining 30% of the valuation has caused the share price to increase by nearly 60% year to date. Within HCI is a business called Impact Oil and Gas, that is involved in exploration off of Africa's coastline. Towards the end of February they confirmed an oil find off the coast of Namibia, which implies a significant value uplift from the market's prior estimation of this asset's worth. We currently carry it at the cost of HCI's investment in the business, equal to a bit more than 10% of HCI's fair value. The value is potentially multiples of this, and implies meaningful upside to the overall HCI fair value. Despite the big run in the share price, we remain happy holders of the company.

Other notable contributors were: British American Tobacco (+0.7%); auto components manufacturer and battery maker Metair (+0.5%); and our underweight position in packaging company Mondi (+0.6%).

On the negative side, our overweight position in Naspers/Prosus was the biggest detractor by some margin, giving up 1.3%. The shares lost more than a third of their already marked down value in the quarter, as regulatory uncertainty in China spilled over from 2021. Compounding this already entrenched dynamic, has been the effects of regulation becoming more visible in the actual revenue and earnings numbers that Tencent deliver, as well as the aforementioned impact of rising rates (which directly impacts Prosus, where many of its investments are still in their early stages). As we do the work of trying to understand where things ultimately settle for the Chinese tech sector, and for Naspers/Prosus specifically, we draw some comfort from the larger margin of safety that has emerged from this big share price move. We remain overweight.

The biggest buy during the quarter was Richemont. The big correction in the share price brought it below our assessment of the company's fair value, and offered us a unique opportunity to pick up a high-quality business on an attractive valuation. Other material buys were: software license reseller Bytes Technology Group; pharmaceutical manufacturer Aspen; and telecommunications company MTN.

To fund these purchases we sold some of our rand hedge exposure that has held up relatively well, namely Bidcorp (food service business) and British American Tobacco. We also took profits in some of the local names that had performed strongly of late, these being: Dis-Chem, HCI and food manufacturer Libstar.

As we start the second quarter (Q2-22), we remain excited by the prospects of the Fund holdings and are hopeful of them delivering good performance in the period ahead.

Portfolio managers

Tumisho Motlanthe and Nicholas Hops

as at 31 March 2022