

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

Performance

In a difficult quarter for risk assets, the Fund delivered a negative return of 1.8% in the third quarter (Q3-22), coming in slightly behind the benchmark by 0.5%. The year-to-date outperformance remains strongly positive, which is pleasing.

The twin challenges of a global growth slowdown (possibly leading to recession) as well as persistently high inflation (possibly leading to stagflation) dominated sentiment during the period. The latter problem resulting in the US Federal Reserve adopting an even more hawkish stance than earlier in the year, and it putting through large interest rate increases during Q3-22. As investor sentiment turned bearish, equities and other risk assets sold off in September, with the safe-haven US dollar being strongly bid.

During the quarter, the biggest positive stock contributions came from a collection of midcap stocks the Fund has meaningful position sizes in. Taken together, these five stocks make up more than 10% of the Fund, while they represent a small part of the benchmark.

Local information and communications technology company Altron, and its recently unbundled software reselling business Bytes (which operates in the UK) together returned 7%. Given their large, combined overweight, the position managed to add 0.34% to outperformance.

The Fund's next two largest contributors came from the automotive space. Dealerships and distributorships business Motus and battery and auto component parts business Metair, each contributed c. 0.25%. Both businesses delivered better than expected results – with Motus continuing to take share in South Africa, while Metair's earnings proved resilient despite a meaningful depreciation in the Turkish lira (impacting earnings translated from those operations back into rands, the reporting currency). All of these stocks – including number five contributor Textainer – remain sizeable positions in the Fund today.

While midcaps contributed nicely to performance, it was some of the Fund's large cap positioning that detracted from performance. After contributing nicely in the second quarter (Q2-22), the meaningful overweight position in Naspers/Prosus was a top four detractor in Q3-22. General risk-off trading impacted technology stocks, while China's zero-Covid policy (which would affect Tencent's prospects) added a specific headwind to the share price.

Luxury goods company Richemont which, despite being a very large position (and the second largest absolute position), detracted a similar amount, due to the Fund being underweight the stock, while it managed to outperform the benchmark by c.2%.

Other notable detractors were Woolworths and Shoprite, both underweight positions in the Fund, and which delivered good results in an uncertain environment.

Fund positioning

The biggest buy was telecommunications company MTN. The share has continued to be weak off the highs reached in February, post FY21 results. Much of this is tied into the general cautious mood in financial markets (which the high group exposure to Nigeria plays into), as well as specific concerns around African currency depreciation (Nigeria, Ghana) and the potential impact of earnings and cashflow. From an operational standpoint, the group has continued to improve throughout the year and continues to repatriate cash. Other material buys include business hotelier City Lodge (new position) and capital equipment distributor Barloworld.

Notable sells during the quarter were in paper and packaging business Mondi and profit taking in Motus as well as British American Tobacco.

After material outperformance by Naspers over Prosus, we switched some of the former into the latter.

Outlook

Heading into the fourth quarter (Q4-22), we continue to believe in the absolute and relative attractiveness of the Fund's holdings. We are encouraged by their prospects and look forward to what they will contribute to the Fund's returns going forward.

Portfolio managers

Tumisho Motlanthe and Nicholas Hops
 as at 30 September 2022