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

Performance

The Fund returned 11.7% for the quarter, relative to a benchmark return of 11.8% and bringing the year-to-date return for the Fund to 17.3%. Since its inception, the Fund has generated an annualised return of 10.8%, which is 1% ahead of the benchmark.

After rapid interest rate rises in the first few quarters of 2023, inflation in developed markets receded swiftly in the fourth quarter. Prospects of rate cuts in 2024 fuelled global markets in the final quarter of the year, with the MSCI All Country World Index up 11%, taking the return for the year to 22% in US dollars. Fears of a US recession were averted, with resilient labour markets and demand supported by strong household balance sheets. The high-profile bank casualties recorded in the first quarter of 2023 remained isolated cases, and a broader banking crisis has not emerged.

In the domestic market, the FTSE/JSE Capped Shareholder Weighted Index delivered 8% for the quarter and 8% for the year. Within that, financials fared the best for both the quarter (+12%) and the year (+21%), followed by industrials (+6% q/q and +17% y/y), with resources the laggard (+3% q/q and -12% y/y). The strong quarterly performance for the financial sector was driven by the banking sector, which delivered 13% relative to the life insurance sector at 10%. However, for the year, the life sector re-rated meaningfully off depressed valuations and outperformed the banks, delivering 39% relative to the 18% from the banks. The life sector benefited from an improvement in investment returns as well as a normalisation of mortality claims off the Covid highs. While the sector has weathered the Covid storm with strong balance sheets, it continues to face a challenging economic and competitive environment, resulting in limited growth prospects over the long term. The Fund is underweight the life sector as a result.

Contributors to the Fund's quarterly performance relative to the benchmark include an underweight position in Absa and overweight positions in Investec, FirstRand, Transaction Capital, and PSG Konsult. Detractors from relative returns include overweight positions in St James's Place, OUTsurance, Santam and Coronation Fund Managers, as well as an underweight in Capitec Bank.

Fund positioning and actions

St James's Place is a wealth management business with an enviable long-term track record of delivering growth in what we see as an attractive UK wealth market. The share has come under significant pressure this year after they opted to simplify their fee structure in consultation with UK regulators. The changes adopted included unbundling fees into the components being advice, fund and product fees for greater transparency, removing initial product charges and adjusting their ongoing fees. We believe the franchise remains strong in the market and the underlying earnings power of the business has only marginally been impacted by the fee changes over the long term. The sharp fall in the share price, therefore, presents an attractive opportunity for the long-term investor.

During the quarter, we added to holdings in Standard Bank, Discovery, and Capitec Bank. These were funded from Ninety One, Nedbank and Investec. As banks lagged the life sector, we took the opportunity to add to our holdings selectively. Within the life sector, we added to Discovery after it had lagged the life sector peers. Discovery has strong positions in the health administration market in SA, an area under potential threat if National Health Insurance (NHI) is implemented in a way that does not leave room for private medical schemes such as Discovery Health to meaningfully participate. The share price has come under some pressure, and news of the adoption of the NHI Bill in parliament probably only serves to limit investor appetite for the share. NHI, as currently envisaged, is unaffordable and likely to take significant time to implement. We believe that at the current valuation, Discovery's share price discounts many of these concerns and offers an attractive investment opportunity.

Outlook

In a low growth, challenging SA economy, we believe only the strongest, well-managed businesses can take market share and grow. The weak will get weaker while the strong will get even stronger. These strong businesses still trade at relatively undemanding valuations, in our view, and continue to feature strongly in the portfolio.

Portfolio managers
Neill Young and Godwill Chahwahwa
as at 31 December 2023