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

Performance

The Fund returned 11.8% for the quarter (Q4-23), ahead of the benchmark return of 11.0%, bringing the rolling 12-month performance to 21.4% against the 22.2% returned by the MSCI All Country World Index (ACWI).

Fund positioning

Global equity markets ended the year on a high note, with the ACWI advancing 11.0% over the quarter and returning a very strong 22% for the full year. This year-end rally was primarily driven by anticipation of an end to the "higher for longer" rates environment and the expectation that central banks will start to cut rates in 2024, sooner than previously expected. This may be true in Europe, where economic growth is very low (including in the UK), but the US economy remains resilient, and the US Federal Reserve Board, despite signalling rate cuts, will continue to proceed with caution on lowering rates. China's much anticipated post-Covid boom has failed to materialise, and it continues to grapple with turmoil in its real estate sector and the potential for deflation. Inflation has continued to moderate, even faster than forecast in some regions, but escalating tensions in the Middle East and attacks on ships in the Red Sea may lead to pressure on energy prices and supply chains and, consequently, to a spike in inflation again.

North America was the best-performing region in Q4-23, advancing 11.9% (in US dollar terms). The weakest return was from Japan, with 8.2% (in US dollar terms). Europe rose 11.1%, and the Pacific ex-Japan advanced 11.4% (both in US dollar terms). Developed markets outperformed emerging markets, advancing 11.4% compared to 7.9% (both in US dollar terms).

Amongst the global sectors, IT (17.4%), industrials (13.5%) and financials (12.7%) were the best-performing sectors for the quarter. The worst-performing sectors were energy (-4.8%), real estate (-3.6%), and consumer staples (4.7%).

In general, the underlying funds enjoyed a good quarter, but the positive alpha over the period was driven by very strong returns from Eminence Capital, Lone Pine Monterey, and Tremblant.

Eminence Long Fund delivered 15.3% for the quarter and 29.5% for the year, benefiting from consumer discretionary and IT stocks. Examples of quarterly contributors are SentinelOne (+62.8%), GoDaddy (+42.5%), Uber Technologies (+33.9%), Dave & Buster's Entertainment (+45.3%), and Pinterest (+37.0%).

Consumer discretionary and IT also drove Tremblant's performance, helping it deliver 3.1% alpha over the quarter and a total return of 35.2% for the year. Varonis Systems (+48.3%), Five Below (+32.5%), Uber Technologies (+33.9%), Spotify (+21.5%), and Palo Alto Networks (+25.8%) all made a large impact on performance.

Select Equity Group's Crosby Street advanced 11.5%, as did Coronation Global Equity Select, both slightly ahead of the benchmark. Crosby Street's financial and IT exposure delivered the bulk of the returns, while its real estate, consumer staples and healthcare stocks detracted slightly.

Contrarius detracted slightly for the quarter, lagging the benchmark with a return of 10.5%. Although the fund also benefited from consumer discretionary and IT/communications exposure, it was held back by its energy exposure, which had a significant negative impact on overall performance. Examples are Diamond Offshore Drilling (-11.5%), Sea Drill (+5.6%), and Transocean (-22.7%).

Egerton Capital had a slow quarter, returning 9.4%. Unlike the previous funds, Egerton did very well from its industrial exposure, with solid contributions from Canadian Pacific Railway (+16.7), Airbus (+14.9%), General Electric (+15.5%), and Rolls Royce (+41.7%). However, as with Contrarius, exposure to energy stocks caused it to lag the index over the period, specifically Cenovus Energy (-19.4%), Schlumberger (-10.3%), and Shell (+3.3%).

Although it outperformed the MSCI Global Emerging Markets Index, Coronation Global Emerging Markets Equity also detracted from relative performance over the quarter as emerging markets underperformed developed markets over the period.

Outlook

A further moderation of inflation and the beginning of a rate-cutting cycle should be the theme for 2024. Although the US economy is expected to moderate, an uptick in activity in Asia and Europe will be positive, which, together with an easing of rates, should be generally positive for equities. The high returns in 2023 were largely led by high-growth tech stocks that overshadowed other sectors, which now show favourable valuations. The calendar year 2023 was a good year for stock selection, and we expect this to continue in 2024.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 31 December 2023