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

Performance

The Fund returned 7.3% for the quarter, which brought the total return for 2023 to 15.9%, slightly behind the benchmark return of 16.6%. Since its inception, the Fund has generated an annualised return of 15.5%, which is 2.1% per annum ahead of the benchmark.

Fund positioning

Notable trades in the quarter were the selling to zero of our Textainer position on the back of a private equity takeout and the commensurate purchase of Richemont, which hit 2023 lows in the quarter. The top contributors in the quarter were Textainer and Dis-Chem Pharmacies. Leading detractors were a collection of SA Inc. focused shares, to which the Fund is underweight. Given the large rally in many SA Inc. shares over the last six months and the Fund's large underweight here, we take confidence from having been able to outperform the benchmark during this period.

The number one contributor to the Fund's relative performance over the last five years has been Textainer Group. Textainer is one of the largest shipping container lessors in the world and has long been available to South African investors through its holding company Trencor. Textainer was the primary asset in this vehicle, and it was unbundled to shareholders in 2020, allowing for direct exposure to the asset. Across many of our client portfolios, we have been long-term shareholders of Textainer, and walked a long road as the business was successfully turned around. The last few years of logistical bottlenecks were a boon to Textainer, as they were able to meaningfully extend the duration of their lease book while locking in high lease rates. As the leasing market cooled, they deployed excellent capital allocation and allowed the lease book to shrink while buying back shares and paying dividends. It was this textbook capital allocation and improved earnings stream that made the business attractive to a private equity buyer, with Stonepeak Partners paying $50 per share in cash, a ~46% premium over the spot price and 7.7 times higher than its Covid lows. While the buyout price represented a small discount to our estimate of fair value, we felt the discounts available on alternative single-stock opportunities in our universe were high enough to warrant selling out of our stake.

In the previous quarter, we wrote about having reduced our relative underweight in Richemont. Conveniently, the Textainer buyout discussed above happened around the time when Richemont was trading at its lows for the year, down 35% from its peak in May. Richemont sold off along with the rest of the luxury sector as concerns around a cyclical slowdown gathered pace. We view Richemont as an exceptionally high-quality business with great brands, strong cash conversion and a fortress balance sheet. Short-term cyclical slowdowns often provide excellent opportunities for long-term investors willing to stomach near-term pain. Richemont was trading on a PE of less than 14 times when we went overweight (or ~12 times when excluding the cash on its balance sheet). The long-term opportunity for luxury goods to continue growing remains as the number of aspirational consumers increase and the brands invest heavily in marketing and distribution. Richemont's primary value driver is jewellery, where the opportunity for 8%-10% organic revenue growth exists going forward. Their premier brand, Cartier, is the leader in branded luxury jewellery, growing its share within the total luxury jewellery market. Jewellery remains the luxury market with the lowest branded share, and while this has been changing, we believe the long-term potential for increased branded share is great. Richemont owns the winning brand in a winning sector, and we believe this is not reflected in the current spot price.

At the end of 2023, the Chinese government released draft regulations on the Chinese gaming sector to which the market responded very negatively. The bulk of the document contained little new information, but there was vague language discussing potential spending caps on a per-user base that spooked the market. Given the massive current pessimism towards Chinese assets and the last few years of volatile regulations, we saw an outsize share price move, with Prosus dropping 17% on the day. The share price has since recovered about half of these losses. Importantly, the regulations are in draft form only, and after the initial release, there have been several supportive communications from the government highlighting this fact as well as support for the sector. Tencent believes there will be minimal impact on their business, and as the share sold off the business increased the pace of its buyback programme materially. Prosus/Naspers remains the fund's largest absolute position, and we continue to believe it is very attractively priced.

Outlook

Despite a strong year from an absolute return perspective, we continue to believe the shares held in the Fund are attractively valued. We remain underweight domestic stocks given the challenging economic conditions, which are reflected in the earnings outlook for these businesses. The exposure we have to the South African economy is in select businesses where we believe they can deliver value for shareholders despite the tepid outlook. Valuations are not extreme enough given the risks, and there are ample stock-picking opportunities in the global stocks that are listed on the JSE.

Portfolio managers
Nicholas Hops and Godwill Chahwahwa
as at 31 December 2023