

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

Performance

As the 2023 calendar year drew to a close, the extreme volatility we have become used to in markets remained in place. October saw a sharp sell-off, followed by a strong recovery in November, and then mixed fortunes across markets in December. Pleasingly, 2023 was a good year for the Fund, delivering a return of 15.3% for the period, ahead of the quantitative benchmark and well ahead of inflation, creating real growth for clients invested in the Fund.

Fund positioning

The last quarter started with a sharp sell-off across most asset classes over fears of interest rates remaining higher for longer, which then made a full 180-degree turn on a slightly better inflation print from the US, which triggered an 'everything' rally as all asset classes appreciated on a view that the US interest rate cycle had not only peaked but would soon be entering a cutting cycle.

We will only find out how true this is as 2024 rolls through, but the change in sentiment was particularly bullish for yielding asset classes (such as property and bonds) and the longer duration growth stocks. Fortunately, the Fund had good exposure to risk and yielding assets and captured much of this bullish turn of events. Our global equity exposure, both to developed and emerging markets, contributed positively over the period. As markets start to think about lower interest rates in the US, there will potentially be a resurgence in interest in assets outside of the US, a welcome change after years of US dollar dominance over all other markets. Given that the S&P 500 Index was at, or close to, peak levels once again, we took the opportunity to reduce some of the global developed market exposure through a combination of physical selling and put protection.

Funds released from the selling of global equity positions have been deployed mainly into the corporate bond sector, where we still see opportunities to make attractive investments, even though there has been some tightening of credit spreads through this period. We remain favourably disposed to the global corporate bond sector over sovereign exposure, given that many sovereigns are over-indebted, and we still think sovereign yields are not particularly attractive at current levels.

Our exposure to the local equity market remained constant; while there was a strong rally towards the end of the year in domestic names, a couple of shares were hit by some idiosyncratic events. Anglo American, the diversified global miner, released a disappointing capital market update, indicating a significant decline in its medium-term production of copper. The market took this news very negatively given that copper is the commodity with the most bullish medium-term outlook (it is cold comfort that the Anglo announcement will add to upward pressure on the copper price!). Naspers was impacted just before Christmas by the release (in China) of onerous draft regulations on the gaming industry, which were hastily retracted, and the relevant official removed, resulting in some

recovery in the share price, but it still impacted the portfolio performance.

Despite these specific shares, the SA equity portfolio still delivered a decent positive contribution, as other key stock picks such as the banks, telcos and other diversified miners recovered strongly in the 'risk on' environment engendered by the positive sentiment towards US interest rates.

Our property holdings had another good quarter as their high yields started to attract interest and investors started to contemplate the cost of debt funding declining as we move into a rate-cutting cycle, which will be positive for these leveraged businesses. The global property names that we own had a particularly strong run, notably NEPI Rockcastle (listed on the JSE) and some of our European property exposure (held offshore). The L2D buyout closed out successfully, reducing our exposure to the sector.

On the local bond front, we have been adding to our inflation-linked bonds (ILBs). With real yields close to 5%, we think this is a very good hedge against inflation to have in a portfolio of this nature. While global inflation appears to be coming under control, we remain concerned about above-inflation wage increases locally and the potential risk of further rand weakness (which is always inflationary). The ILBs give investors solid protection against these risks.

Outlook

In a multi-asset fund it is always pleasing to see many potential asset classes offering the prospect of decent returns, and this remains the case. Despite a better 2023, most markets still have the potential to offer SA-based investors attractive returns. As we have seen recently, short-term volatility will remain high, but the solid double-digit returns delivered by the Fund (13.6% annualised over 20 years) are a testament to the benefits of a flexible actively-managed multi-asset fund.

Portfolio managers

Neville Chester, Nicholas Stein and Nicholas Hops
as at 31 December 2023