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

**Performance**

The Fund returned 1.5% for the quarter and 5.2% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and its benchmark.

**Fund positioning**

The Fund reduced exposure to Anglo American and Momentum Metropolitan during the quarter on the back of strong share price performances and reduced margin of safety. Capital was redeployed into Sanlam, Sasol, and a new position in BHP Billiton.

Contributors to relative performance for the three-month period were our large positions in Anheuser-Busch InBev (ABI) and Naspers/Prosus. The pullback in the Impala Platinum share price was the largest detractor for the quarter although, on a net basis, the Fund's low exposure to the PGM sector contributed positively. Not having exposure to the gold sector hurt performance as the gold price rallied strongly on the back of the Silicon Valley Bank (SVB) failure and ensuing uncertainty.

We also reduced our exposure to commodities in general during the quarter as we took profits after a strong run. Share prices got ahead of themselves as the market became excited about the potential for strong demand in response to China's re-opening post their Covid isolation. We expect the re-opening to be positive for commodity demand, but the market priced in too much too soon. The gold sector in particular has gotten ahead of itself as we feel that the market has overreacted on the back of the SVB failure in the US and ensuing monetary policy uncertainty.

Rapid rate rises triggered an asset-liability mismatch at SVB (America's 16th largest bank) which resulted in its failure. Regulatory rescues in the US seem to have subsequently calmed markets, but not in time, for the contagion wrought by the failure of SVB (and Signature Bank) contributed to the demise of Credit Suisse. As a result, expectations of future central bank interest rate hikes have eased, and coupled with uncertainty, proved supportive of the gold price (up 8% over the quarter and close to nominal all-time highs). Even if one were to assume that today's elevated gold prices hold (in real terms) into perpetuity, we do not see value in the gold sector. Capital and cost discipline have been poor and are likely to remain so in a high gold price environment. We are also seeing a big step-up in M&A activity which tends to be value destructive at this point in the cycle.

We added BHP Billiton to the Fund as a pullback in the share price combined with an improved outlook on our assessment of the company's fundamentals. BHP Billiton has recently gone to great lengths to demonstrate the value of its internal growth options over the coming decade. A previous concern of ours was that a lack of internal opportunity led to volume decline and the potential for large scale M&A to offset this. The business is in the process of completing a sensible acquisition of Oz Minerals which is complimentary to their existing Olympic Dam asset and will increase its copper optionality in the long term. While the risk of larger and less sensible M&A remains, we do feel it has been reduced by the internal focus and purchase of Oz Minerals. BHP's iron ore business is a world-class asset, and it can deliver iron ore to China at around $30/ton, which is 75% below today's spot price. Iron ore makes up 70% of BHP's value and despite normalising prices 25% below spot and in line with marginal cost, there is sufficient margin of safety in BHP to build a position.

The Fund has a large position in ABI, which contributed strongly over the quarter with the share price up 17% but a more impressive +46% from the lows in September last year. ABI is the largest beer producer in the world by volume in a business where scale begets profitability and returns. The company has a few tough years behind it with Covid lockdowns impacting beer sales and rapidly increasing input costs in the last 18 months which has hurt profitability. These events came on the back of a few years of disappointing volume performances from some of the key regions, the US in particular. ABI has since refocused their efforts on brand building and category expansion which was starting to bear fruit before the recent Covid and input cost crises. As sales normalise and input costs abate, we expect ABI's pricing power and volume growth strategy to lead to a normalisation of margins at the operating profit level. Given their relatively elevated gearing levels, the de-gearing from this point leads to a 12% CAGR in USD earnings per share over the next five years. Despite the recent strong share price performance, we still see value in the ABI share price; currently trading at 17 times one-year multiple on depressed earnings.

**Outlook**

While the macroeconomic environment remains uncertain at a global level and tough in South Africa, we believe that low starting valuations should be indicative of attractive prospective return from the Fund. The Fund is defensively positioned in South African equities with a skew towards companies that should be able to grow their earnings bases despite the tough economic outlook.

**Portfolio managers**
**Neville Chester and Nicholas Stein**
as at 31 March 2023