Our full range of rand-denominated offshore funds is temporarily closed to new investments via the South African Unit Trust product. Read more here.

Please note that the commentary is for the US dollar retail class of the Fund. The feeder Fund is 100% invested in the underlying US dollar Fund. However, given small valuation, trading and translation differences for the two Funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both Funds.

Performance

The Fund returned -3.4% for the quarter (Q3-23), in line with the benchmark return of -3.4%, bringing the rolling 12-month performance to 19.9% against the 20.8% returned by the MSCI All Country World Index (ACWI).

After the equity rally in the first half of the year, Q3-23 offered a reality check. Developed market equities fell during the quarter, taking year-to-date returns down to a still strong 11.6%. A sell-off in global bond markets worsened matters and increased pressure on equities in general. In emerging markets, ongoing concerns about the state of the property sector in China weighed on investors despite several new stimulus measures announced over the quarter aimed at stabilising the industry.

Japan was the best-performing region in Q3-23, declining -1.5% (in US dollar terms). The weakest return was from Europe, which declined -4.9% (in US dollar terms). North America declined -3.1%, and the Pacific ex-Japan fell -4.7% (both in US dollar terms). Emerging markets marginally outperformed emerging markets, falling -2.9% compared to a fall of -3.4% (both in US dollar terms).

Amongst the global sectors, energy (10.5%), telecommunications (1.2%) and financials (-1.3%) were the best-performing sectors for the quarter. The worst-performing sectors were utilities (-9.9%), consumer staples. (-6.9%), and IT (-6.2%).

Contrarius Global Equity Fund had a strong quarter, returning -1.7%. A significant contribution came from Weight Watchers International, which rose 64% after a turnaround and acceleration in its core business allowed a strong reversal in its share price. The deep-sea drillers, Transocean (+17.1%), Valaris (+19.2%), and SeaDrill (+8.5%) also contributed strongly to the fund's outperformance.

Eminence Capital generated alpha of 2.0% over the period. New Relic (+30.8%), Green Thumb Industries (+46.2%), Verano Holdings (+54.3%), and Adevinta (+51.4%) were amongst the most significant contributors to performance. Performance would have been even stronger, were it not for the significant negative impact from Entain plc (-29.1%), which warned about a fall in revenues due to increased regulatory reform.

Egerton Capital also outperformed the ACWI with a return of -1.7%. Energy and communication services exposure were the main drivers. Schlumberger (+19.2%) and Cenovus Energy (+23.6%) did well in response to the oil price rise. Alphabet (+9.0%) and Meta (+4.6%) were the key communications stocks that contributed. Detractors included Richemont (-25.6%), Canadian Pacific Railway (-7.5%), and Ryanair (-10.3%).

SEG Crosby Street had a tough quarter, returning -5.6% as a number of their larger holdings underperformed the overall market. Some examples of this include AiA Group (-18.2%), Illumina (-26.8%), Brookfield Renewable Partners (-25.3%), and JD.com (-13.0%). Strong positive returns from smaller positions such as Apollo Global Management (+17.5%), Alphabet (+9.0%) and Intuit (+11.77%) could not limit the downside.

Tremblant Capital also lagged the index with Farfetch (-65.4%), Five Below (-18.1%), and Five9 (-22.0%), causing most of the damage to performance over the quarter. Charter Communications (+19.7%), Varonis Systems (+14.6%), and Uber Technologies (+6.5%) were some of the better-performing positions.

The two Coronation funds were also behind the index for the quarter. Delivery Hero (-34.8%), Prosus (-12.0%), JD.com (-14.7%) and Heineken (-12.2%) were amongst the common drivers of the underperformance.

Outlook

As we head into the fourth quarter, a rising oil price is becoming ominous for the markets, especially since Saudi Arabia and Russia have stated that they will extend their output cuts to the end of the year. Higher oil prices add pressure to consumer spending and could also cause inflation to reaccelerate, which will require further central bank action on interest rates. This will warrant careful monitoring over the coming months. The upside for global markets is looking difficult in the face of a slowing global economy. Although economic activity has been resilient so far this year, recession risks remain, and not all parts of the market appear appropriately priced for such an outcome.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 30 September 2023