

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

### Performance and fund positioning

The Fund had a very strong quarter, returning 10%, which was especially pleasing given the significant volatility in local markets driven initially by fear and then by positive surprises running up to and after the election. With very different shares outperforming in these two phases, delivering positive alpha in this period is pleasing. Notably, it was done measuredly, without taking undue risks, given the inherently unforecastable outcome of the election and the formation of a Government of National Unity (GNU), which was by no means a certainty before and immediately after the election. Our investment process of identifying value, based on long-term modelling, remains the key underpin of our investment approach, aided by active portfolio activity to identify what we believe to be the 20 best shares to own. This long-term focus is best assessed over a minimum of five years, which is why we are also very happy to report that the five-year numbers remain significantly ahead of the benchmark, with an annualised return for the Fund of 12.3% versus 9.9% for the benchmark.

While we sit today with arguably the most positive potential outcome from our national elections (an ANC with less than 50% majority and a GNU with centrist parties like the DA and IFP), this was certainly not the base case running up to the voting day. The decline in the ANC support was not inevitable, and it was not certain which way a divided ANC would move - towards the populist left or right or towards the more centrist parties. Given this uncertainty, we could not make wild investments based on one view or the other. Instead, we maintained our long-held investment policy of focusing on valuation-led opportunities in the Fund. As we have been highlighting for several years now, there is compelling value to be had on the JSE in the form of dual-listed global companies that trade cheaply relative to their markets, as well as domestic businesses that are either able to continue growing market share in a low-growth economy or have a particular business focus which will allow them to continue growing earnings.

During the quarter, our Fund benefited from its resource exposure, particularly its overweight position in Anglo American as BHP Billiton came with a surprise bid for the company, focusing on its copper assets. Despite several increased offers, the Anglo board ultimately rebuffed the offer in favour of its own value unlock strategy. Given the relative unattractiveness and risk inherent in this own strategy we had significantly reduced our Anglo holding and, as a result, were not as negatively impacted when the price fell on the company's decision not to present the offer to shareholders.

We added further to our AngloGold holding, where the stock still does not reflect, in our view, the outlook for normal gold prices. We do not own Gold Fields, which came out with another disappointing operational update, further validating our choice of holding in the gold sector. Finally, our African Rainbow Mineral (ARM) investment had a particularly good quarter. We have felt that the market has not appreciated its decent mix of producing assets and has largely ignored its holding in Harmony, which is up 45% year to date. However, the trigger for the big jump this quarter seems to have been the impact of an industrial accident in Australia which saw the large manganese mine, Groote Eylandt, out of operation for many months. Spot manganese prices have doubled, which will benefit ARM's manganese operations. Fortunately, the manganese export line has not experienced the same volume decline as the coal and iron ore lines in South Africa.

In our domestic exposures, we have seen a sharp turnaround in the performance of SPAR after the business announced the formal sale of its Polish operations and managed to assure the market of the strength of its balance sheet. While SPAR's local troubles, due to a failed SAP implementation in their largest distribution centre, are still evident in the results, we are cautiously optimistic that this is mainly behind them. Generally, all the domestic exposures we own in the portfolio have performed really well this quarter on the back of steady earnings and a re-rating on optimism around the positive election outcome. The banking sector, in particular, should see positive optimism actually translate into earnings growth as both retail and corporate clients start borrowing to invest now that much of the political uncertainty has been put to rest.

A new position in the portfolio in the banking sector is Investec. The business has seen a very successful run over the past few years as its balance sheet has been slimmed down, non-yielding assets have been sold off, and capital has been returned to shareholders. The deal to merge its wealth management business into Rathbones has resulted in a scale player in an industry with significant growth prospects ahead of it. Despite the improved track record and reduced risk in its overall lending business, the company has remained very lowly rated. We believe this creates an opportunity to buy a bank that still has decent runway for growth on a very attractive multiple.

Remaining on the UK wealth opportunity, our holding in Quilter, the UK wealth management platform, also delivered a strong return this quarter as the market has started to recognise its very strong position in the space and the benefits that accrue to it from its upgraded platform. The business is capital-light and converts most of its earnings into cash, which is then returned to shareholders through a generous dividend policy. The UK wealth management space remains a growth area, and this has increasingly been recognised through a lot of M&A in the sector, which has seen the market positively re-rate all the players in this industry.

A share we hold which has not performed this quarter is ABI. We saw a strong run-up in the price after it presented favourable quarterly results, but subsequently, it has given up most of these gains. We think this still presents a significant opportunity. The global brewers' margins are continuing to open as they recoup input inflation from the past few years, as well as benefiting from the lowering of input costs now that inflation is coming down. They will also start lapping the poor results from their US operations last year, which resulted from a marketing fiasco in that market. This should make de-gearing a simple task that will also boost their bottom line as finance costs reduce.

### Outlook

After a period of much uncertainty, it will be pleasing to enter a phase of relative stability, which would be positive for SA economic growth, but one needs to be aware that there is still plenty of global political uncertainty which would easily have an impact on the local market. Ultimately, we build robust and resilient portfolios of undervalued companies that we believe will outperform over the long term.

### Portfolio managers

**Neville Chester and Nicholas Stein**  
 as at 30 June 2024