

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

Performance

The Fund returned 1.2% for the quarter, ahead of the benchmark return of 0.6%. Since inception, the Fund has generated an annualised return of 15.4%, some 2.1% per annum ahead of the benchmark.

Economic backdrop

Stock markets in the developed world continued to march higher in the first quarter of the year, with the S&P 500 posting several new all-time highs. The positive sentiment is being driven by the resilience of the US economy, especially despite the sharp up cycle in interest rates. Growth has been strong, and unemployment has been extremely low. Company earnings have, as a consequence, been healthy, which has translated to the strong performance of the US stock market. The one small negative is that inflation has not moved back to the 2% target area but has fallen from the highs to the pretty acceptable 3% area. A gradual slide lower is still expected, which will enable the Fed to start the cutting cycle later in the year.

Fund Positioning

The South African economy, hampered by ageing infrastructure and poor maintenance, has continued to struggle. Without enough power, efficient rail transport and harbours struggling to move exports, the outlook for growth remains constrained. Shares linked to the local economy therefore had to contend with the extremely disadvantageous environment of low growth and rising costs. No wonder the performance of what is known as “SA Inc.” stocks has been poor over the long term. Many of these stocks are trading at very low multiples and appear cheap, but we are wary of falling into value traps. The portfolio consequently remains heavily tilted in favour of the global businesses listed on the JSE, with a meaningful SA underweight.

Some domestic stocks are gaining market share from competitors and a few others have found niche growth, but one has to be very selective in the local market. Examples of these include ADvTECH in the education space, Dis-Chem in the pharmacy space, and Grindrod in the infrastructure space. ADvTECH is a private education provider in the primary and tertiary markets in South Africa competing against a weakening public education system with limited capacity for the growth in demand and whose facilities are under-invested. Dis-Chem is growing by consolidating the highly fragmented pharmacy space, leveraging on their scale and brand to bring greater efficiencies that standalone pharmacies cannot achieve. Grindrod is a beneficiary of the ageing and decay in public port and rail infrastructure facilities discussed earlier by offering a working alternative for companies seeking to import or export products efficiently in South Africa. Both ADvTECH and Dis-Chem have compounded earnings growth just under 20% p.a. for the last three years compared to their pre-Covid earnings base, while Grindrod moved from loss-making to R1.51 per share over the same period, representing a 8.3 times multiple to its current share price. All three companies are meaningful holdings in the Fund.

For the quarter, the top contributors to performance include underweights in Shoprite, Clicks, and Vodacom, as well as overweight positions in ADvTECH and Naspers. Shoprite is one of the domestic companies that is growing strongly and taking share from what is a much weaker competitor in Pick n Pay. The business has invested well over the long term in its capabilities and was very successful in executing its delivery offering Sixty60, particularly

during the Covid period when home deliveries were a critical competitive advantage. The share has re-rated meaningfully and now trades at a valuation that more than fully discounts the strong growth and market share gains, leaving very little margin for error. Shoprite is a good company but due to a demanding valuation, the Fund is underweight.

Detractors to fund performance for the quarter included underweight positions in MultiChoice Group, MTN, and Mr Price as well as overweight positions in Metair and SPAR. During the quarter, Vivendi’s Canal+ made a bid to take out the balance of the MultiChoice shares they did not already own. After a rejected initial R105 per share bid, Canal+ increased its offer to R125 per share and secured support from the MultiChoice board. The deal price came well ahead of our assessment of the intrinsic value for MultiChoice, a business with a mature premium subscriber base in SA which faces competitive threats from cheaper alternative offerings like Netflix and Amazon Prime over the long term. The Africa business is loss-making and facing rising dollar content costs against weak local currency revenues. We believe MultiChoice is a challenged business over the long term and, as such, are not invested in the Fund.

Notable trades in the quarter included purchases in Spur, Mondi, Foschini, Anheuser-Busch InBev and British American Tobacco, funded from sales in MTN, KAP, Famous Brands, Shoprite, and Woolworths.

The world today is awash with uncertainty. Geopolitical tensions remain high in Ukraine and the Middle East – perhaps reflected in gold trading at an all-time high of around \$2 300/oz at the time of writing. Domestically, the national elections in May are likely to attract much attention. With all this uncertainty in mind, we aim to construct a portfolio that is resilient under a variety of scenarios rather than to any single outcome or event. As part of this strategy, we aim to position the Fund in favour of strong and enduring franchises where there is ample margin of safety relative to our assessment of intrinsic value. While there remains many stocks within SA at low multiples, the risks of buying weak businesses that only get weaker in the current challenging environment is very high. The opportunity offered by global businesses such as Mondi, Anheuser-Busch InBev, Bidcorp, Richemont, Naspers/Prosus and British American Tobacco, which happen to be listed in our market and trade at attractive valuations, remains attractive in our view.

Portfolio managers

Nicholas Hops and Godwill Chahwahwa

as at 31 March 2024