

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

Performance and fund positioning

The Fund returned 9.9% for the quarter and 24.6% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and the benchmark.

Our overweight bank holdings contributed to relative quarterly performance, while overweight positions in the mid cap miners detracted.

The quarter was characterised by strong performances from risk assets as central banks around the world kicked off their respective rate cutting cycles. This, despite heightened geopolitical tensions in the Middle East and elsewhere. A package of Chinese economic stimulus measures lit a fire under Chinese-focused equities and commodity prices towards the end of the quarter.

On the domestic front, optimism around the GNU and prospects for improved governance and growth rates sent prices for domestic assets meaningfully higher. Consumer-focused names were particular beneficiaries as they also benefited from expectations around the new “two pot” retirement system flows (giving a short-term boost to consumers), an extended period without any loadshedding and expectations around an interest rate cutting cycle.

Of course, key questions are around how enduring the GNU will prove to be, as well as how much additional growth is expected. This needs to be weighed against the share price moves we have seen.

Our overall exposure to the South African economy remained broadly flat over the quarter in absolute terms, which implies net selling and relative down weighting given the strength of the share price moves. We reduced our big four bank holdings and Motus in favour of Investec and Shoprite. Shoprite is a “new” holding in the Fund, although it has been owned before in the Fund’s history. We think the Shoprite Checkers group is exceptionally well placed to grow earnings strongly for an extended period. Shorter-term tailwinds, such as “two pot” money and reduced spending on diesel for generators combine with longer-term tailwinds from superb management and execution that have seen the group take market share from peers like Pick n Pay, a trend we expect to continue.

On the commodity front, the diversified miners were weak for most of the quarter as Chinese demand data remained extremely soft. Policy measures to support the Chinese housing market were announced towards the end of the quarter, which provided a source for optimism that demand in that key subsector will likely bottom.

After having been bearish on the PGM sector for more than a year, we are turning constructive again. Governments and vehicle manufacturers around the world are toning down their EV incentives and production targets, respectively. Hybrids (which contain PGMs) are the fastest growing EV subset. Moribund PGM prices, which trade deep into the cost curve, will curtail medium-term PGM production. This setup sows the seeds for the next upcycle. As a result, we have been buyers of PGM shares.

Chinese internet shares have been trading at extremely depressed levels, as many investors have been spooked by soft Chinese economic data of late. This, despite years of strong earnings growth, strong cash generation

and greatly increased returns to shareholders via share buybacks and special dividends. Many of these shares also sit with cash levels at a very high proportion of their market capitalisations. Despite these attributes, shares prices and PEs remained depressed. In another example of the perils of trying to time markets, the announcement of a package of economic support for the Chinese economy by the Chinese government sent all of these share prices higher in almost a straight line. At the time of writing, Tencent was up almost 30% in a month, while JD.com was up almost 80%. This saw the Naspers/Prosus complex rise c. 17% for the quarter. We still regard its growth prospects as materially undervalued and it represents the Fund’s largest holding.

Outlook

As always, earnings growth and starting valuations drive returns. The Fund’s upside remains attractive, albeit reduced from the extremely attractive levels seen a year ago.

Portfolio managers

Neville Chester and Nicholas Stein

as at 30 September 2024