

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

Performance

The Fund returned 10.8% for the quarter (Q2) and 11.4% year-to-date (YTD). Both asset allocation and security selection contributed to performance, with decisive asset allocation decisions made early in the quarter having a significant impact. The Fund has performed well over meaningful periods, both in absolute terms and relative to its peer group.

Fund positioning

It was a tumultuous second quarter. Global equity markets fell early in April on President Trump's threat of dramatically higher tariffs. The S&P 500 Index declined by 15% in the first week (Nasdaq -21% over the same 7-day period) but ended the quarter +11%. The MSCI World Index also fell ~10% during that first week of April before rising to end the quarter up 11%. Whilst tariff negotiations continue, the magnitude of the increases appears to be less severe than initially feared. Heightened uncertainty and volatility provided an (other) attractive opportunity to buy into global equities at lower prices. Early market declines were fairly indiscriminate. The window period during which to take advantage of this lower pricing was brief and required a rapid response from the Fund. The office was a hive of activity in April, with the investment team running scenarios to identify the most mispriced of the global and local opportunities being presented. We were able to selectively add to our basket of winning businesses across global and emerging markets at very attractive levels.

Regional markets performed well for a second consecutive quarter (MSCI EMEA +8% and MSCI Europe +12%, both in USD). A weaker US dollar provided further support to these returns (with the US Dollar Index down ~-7%). The MSCI China Index returned 2% in USD for Q2. Activity levels in China remain subdued, with insufficient Chinese consumer demand to offset weakness in key areas, such as property. China continues its battle for technological leadership, delivering impressive innovation across a range of industries. This is compounded by the country's ability to manufacture effectively at scale. The brutally competitive domestic market tempers these businesses to succeed abroad. Chinese companies trade at attractive valuations. The Fund has bought selective exposure to leading businesses, with a new addition to our largely consumer holdings being a battery manufacturer.

The US dollar's status as global reserve currency is under debate, given less predictable US policy, a highly indebted US sovereign, and the weaponisation of the US dollar (in response to Russia's invasion of Ukraine). These factors threaten the US dollar's role as a store of value and medium of exchange, contributing to a search for viable alternatives. This, and ongoing geopolitical uncertainty, supported a strong gold price. Gold rose a further ~4% in the quarter (compounding a 19% rise in Q1 and 27% in 2024), supported by central bank buying. The Fund has very little exposure to gold shares, which are trading above our assessment of long-term fair value. We remain concerned about the capital losses that shareholders in gold shares would incur if some of the froth in the sector dissipates.

Geopolitical upheaval persists as the Russian-Ukrainian war drags on. Ukraine's vast, coordinated drone strike on Russian airbases in June resulted in another wave of retaliation. The Middle East remains fragile, with Israel (and the US) moving against Iranian nuclear targets in June. The oil price (which has been weak given OPEC's guidance for increased supply) spiked briefly on the back of the regional unrest.

We continue to debate the profound impact AI will have on the way we work and on the companies we invest in. Use cases and adoption continue to grow daily. Winning businesses are investing in AI at scale, and this is expected to deliver an outsized reward in the years to come, further widening the gap between winners and losers.

The Bloomberg Barclays Global Aggregate Bond Index (USD) posted a gain of 5% during the quarter, though concerns about high levels of sovereign indebtedness and a lack of imminent resolution persisted in global debt markets. Tax cuts from Trump's One Big Beautiful Bill (OBBBB) will further undermine the US fiscal outlook. The Department of Government Efficiency savings appear to be a pipe dream. The Fund continues to have no exposure to developed market sovereign bonds, which we believe offer insufficient return given the risks. In Europe and the UK, fiscal pressures are compounded by rising defence spending as reliance on the US reduces. The Fund has maintained a sizeable holding in offshore credit bonds, which offer attractive, high single-digit US dollar yields. These bonds offer exposure to a range of geographies and sectors. This is a compelling alternative to the concentrated sovereign and economic risks inherent in South African (SA) government bonds, as well as the narrower credit spreads in our domestic market. Given the opportunities in global equity and global credit, we continue to make full use of the Fund's offshore capacity.

In SA, economic growth remains lacklustre with Q1 GDP growing <1%. Ten-year GDP growth has compounded at a similarly weak sub-1% level. Low growth, combined with a benign inflation outlook, supported the SA Reserve Bank's decision to cut interest rates by 25 basis points (bps) in May (bringing YTD cuts to 50bps). Whilst the consumer environment is by no means buoyant, a combination of interest rate cuts, lower inflation, and the release of pension savings via the two-pot retirement system means real disposable income is growing (for now).

A combination of global and local factors rattled SA consumer and business confidence. Critical US trade talks are ongoing and remain unresolved. Locally, the precarious state of the GNU became clear as part of the budget impasse in April. The unpopular VAT hike was avoided, but the consumer still faces a higher tax burden (through fuel levy hikes and bracket creep). The pace of reform remains glacial. Prospects of a step change in SA's economic growth are dimming. Without growth, it is difficult to change the trajectory of a deteriorating debt-to-GDP ratio. This is despite a rising tax burden and some austerity. Given these longer-term concerns, the Fund remains underweight SA government bonds. The FTSE/JSE All Bond Index was up 6% for the quarter.

The Fund's preferred domestic asset remains SA equities, which offer decent medium-return prospects as well as good risk protection. After a brief dip in April, the FTSE/JSE Capped Shareholder Weighted Index (CSWIX) continued its strong Q1 performance (+6%), rising 10% in Q2 (in ZAR). Market returns broadened from the narrow precious metal-driven performance in Q1. The Resources Index rose 9% for the quarter (and is now up a meaningful 40% for the YTD). The Industrials Index rose 12% for the quarter (+15% YTD). Indices with higher domestic exposure have lagged YTD, with the Financials Index up 8% for the quarter (+7% YTD) and the FTSE/JSE All Property Index up 11% for the quarter (+6% YTD).

Within SA equities, the Fund has sizeable exposure to the global stocks listed locally. These holdings are both independently attractive and provide diversification away from a challenged domestic economy. Large holdings include Quilter, Naspers, Richemont, Mondi, and Bidcorp.

The Fund's domestic stock selection is focused on picking winning franchises that can thrive despite a tough economy. We remain committed to this strategy as the low-growth economy drives a widening gap between local winners and losers. As anaemic revenue growth and rising costs have eroded profitability, weaker businesses have thrived on investment spending. Businesses that consistently invest in their operations should gain market share, leading to faster revenue growth. This enhances the virtuous flywheel (and their ability to invest further). Examples include businesses such as WeBuyCars, PSG Konsult, ADVTECH, Shoprite, and Capitec. We expect these businesses to improve as they grow larger, as scale reduces the cost of customer acquisition and the cost to serve. If these businesses continue to reinvest in pricing, their competitive moat should widen.

The Fund has held an underweight position in the resources sector for some time. A meaningful part of this is in the gold shares, which have benefited from a rapid rise in the metal price over the past 12 months. The gold price trades above our assessment of its long-term value. The locally listed gold miners have been poor at returning capital to shareholders over time; reinvesting to extend short-life assets often at poor points in the cycle. Already, deal-making activity (at these high prices) has picked up. We have retained a material underweight position. The Fund built a position in the PGM miners in the second half of 2024. The investment was premised on tighter supply-demand fundamentals. It was pleasing to see metal prices rising during the first and second quarters of the year. We have made a minor adjustment to the Fund's PGM miner holding, selling the shares in Valterra Platinum that were bundled out of Anglo American. The significant weakness in diversified miners over the past year has provided an opportunity to buy into these names, with a preference for Glencore.

The Fund has retained its holding in certain SA property stock picks despite their decent returns. At these levels, the counters still offer attractive total return prospects (aided by the high dividend yields) and diversification (away from domestic sovereign bonds).

Outlook

The Fund remains focused on generating compelling long-term risk-adjusted returns. The heightened uncertainty and volatility in the current quarter created the opportunity to add global and local equities at attractive prices. The Fund continues to have a meaningful allocation offshore, which provides good protection against a weak domestic economy and fractious political situation. We believe that the high offshore exposure, combined with a high equity allocation, will serve the Fund well in delivering on its long-term return expectations.

Portfolio managers

Karl Leinberger and Sarah-Jane Alexander
as at 30 June 2025