

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

Performance and positioning

The first half of this year has been a very volatile period, punctuated most notably by a significant shift in US trade policy introduced on April 2nd (so-called “Liberation Day”) and bookended with a US attack on Iranian nuclear facilities dubbed “Operation Midnight Hammer”. The first almost 200 days of the Trump 2.0 presidency have been fraught with uncertainty and forecast risk. Navigating this turbulence has required stringent discipline in sticking to our proven investment process and philosophy. Despite the extreme policy uncertainty, equity markets recovered initial losses quickly after April 2nd. For the six months (in US dollars), the S&P 500 returned 6%, the MSCI Europe returned 24% and MSCI Emerging Markets delivered a 15% return. Our local equity market also proved to be a strong performer, with the MSCI SA Index delivering 30% year-to-date (YTD) in US dollars.

In the above-mentioned context, our Fund has delivered a pleasing performance for clients, with a one-year return of 19.9%, well ahead of its inflation plus 4% target. Longer-term returns over all meaningful time periods have also been ahead of the target return hurdle, with the exception of the 10-year time horizon, where we are marginally behind the target return.

The Fund has benefited from its exposure to risk assets, in particular global and local equity asset classes. Global equity markets were tricky to navigate, with elevated starting valuation levels in the US and a steep sell-off post “Liberation Day”. While we initially reduced our equity exposure post the April 2nd announcement, the subsequent sharp de-rating in global markets created an attractive buying opportunity, which we took advantage of in the Fund, resulting in a net increase in equity exposure. The Fund’s 42% gross offshore allocation is still largely skewed towards equities, where we continue to observe attractive return opportunities, notwithstanding elevated risks and uncertainties. We are mindful of the downside, but we believe this allocation provides the necessary diversification for our clients. We have covered 30% of this global equity allocation with put protection. During the second quarter, we also removed all remaining currency locks. Rand strength has mainly been driven by a weak dollar rather than any meaningful improvement in our local fundamentals. With the rand/dollar now closer to fair value, we have aligned gross and net offshore exposure.

The YTD rally in local equity markets has been driven by specific sectors, with outperformance from gold, platinum, telecommunication stocks and global counters. While market beta was supportive, our equity selection added to client returns. The Fund benefited from an allocation to rand-hedge stocks (Richemont, ABI, and Naspers) and PGM counters (Northam Platinum). In the early April equity market sell-off, we took the opportunity to add Capitec to our Fund. This is a stellar business that has delivered strong market share gains by increasing digital engagement with its transacting clients and offering broader value-added services. While the multiples look full in the near term, we think the bank will enjoy superior long-term earnings growth as it penetrates adjacent segments in business banking and life insurance.

South African (SA) fixed income instruments have also contributed positively to the Fund’s returns. The FTSE/JSE All Bond Index has delivered a 18.4% return over the last year, benefiting from yield compression and a lowered inflation outlook. We continue to think a healthy exposure to SA fixed income is appropriate for our Fund, given our real return mandate. Inflation remains well anchored, and will be helped by lower oil prices, a stronger rand and modest food inflation. While optimism is growing in the near term for a lowered inflation target, we remain cautious on the outlook for Government’s debt burden and are managing longer term risks in our allocation through a combination of containing duration and having a moderate exposure to inflation-linked bonds (ILBs) given their attractive valuation and offsetting risk attributes.

We have focused this commentary on the asset classes that contributed most to the Fund’s returns. It would be remiss of us to neglect mentioning that the smaller allocations in the Fund – namely SA property, SA cash, offshore cash and offshore fixed income – also contributed positively to returns. As a collective, these exposures provide beneficial diversification in the Fund and add to the robustness of portfolio returns.

Outlook

Considering the escalation in tension in global conflict zones, as well as the domestic problems between the two largest parties in the GNU, global and domestic financial markets performed remarkably well in the first half of the year. We are not complacent about the elevated risk profile as we look out into the second half of 2025. Our focus continues to be on our clear valuation approach, resulting in well-diversified portfolios across asset classes, geographies, and sectors. It is an approach in which we firmly believe. As the past quarter once again demonstrated, attempting to forecast macro events or their impact on markets is an exercise in futility. The unpredictability of macro events and policy decisions under President Trump makes top-down investing even more difficult than usual.

Our successful long-term track record demonstrates that we have the capability to manage funds responsibly in these turbulent times. Our success in delivering good client outcomes stems from our ability to work as an integrated team to identify the best investment opportunities and act quickly to take advantage of them. We continue to be responsible stewards of your capital with the primary focus being delivering on the targeted mandate return in a wide range of economic outcomes.

Portfolio managers

Pallavi Ambekar, Charles de Kock and Neill Young
as at 30 June 2025