

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

## Performance

Following a negative first quarter, Q2 was strongly positive for financials with the Fund delivering 9.5%, ahead of the benchmark return at 8.5%. Since inception, the Fund has compounded returns at 11.4% p.a., outperforming the benchmark by approximately 1% p.a.

The quarter started off with a sharp global market sell-off in April due to escalating trade tensions following President Trump's "Liberation Day" tariffs. However, by the end of the quarter, the losses had been recouped and the S&P 500 delivered 11%, marking its strongest quarterly return since late 2023. The market's recovery was driven by renewed investor optimism, easing economic uncertainty and reduced trade tensions following negotiations between the US and its trade partners, particularly with China, to moderate the proposed tariffs. Tension between Israel and Iran escalated, causing a temporary spike in oil prices. Geopolitical risks continue to be a key uncertainty for global markets going forward.

In the domestic market, the FTSE/JSE All Share delivered 10% for the quarter, driven by strong returns from industrials (+12%) followed by resources (9%) and financials (8%). Within financials, banks (7%) underperformed the life insurance sector (10%) while we saw strong returns out of the short-term insurance sector (14%).

Contributors to Fund performance relative to benchmark included overweight positions in We Buy Cars, St James' Place, PSG Konsult, and Capitec as well as an underweight in Remgro. Detractors included underweight positions in Reinet Investments, Ninety One, and Momentum Metropolitan Holdings as well as overweight holdings in Standard Bank and Nedbank.

## Portfolio actions and fund positioning

During the quarter, we sold out of the Fund's position in Santam and reduced the holdings in We Buy Cars and Absa. We applied these proceeds to increase the Fund's holding in Capitec, Brait, Standard Bank and FirstRand. We continue to see value in the banks, which are trading at mid to high single-digit forward PE multiples and high single-digit dividend yields.

Santam is a great business which has been a long-term holding in the Fund. Over the last year, the short-term insurance industry delivered record-high underwriting margins in their personal lines businesses. This came on the back of strong premium increases coinciding with a period of lower-than-anticipated claims, a function of benign weather, lower car accident frequency, reduced car theft and less load shedding. While we continue to see a strong premium growth cycle, some of the factors supporting the claims environment (e.g., benign weather) will normalise and put some pressure on industry margins. If the current high underwriting margins persist, new capital will be attracted to the sector, ultimately diluting returns. After delivering very strong returns, the current valuation now offers a small margin of safety, and we took the opportunity to reduce the fund holding in Santam. We remain invested in OUTsurance, where we see multi-year growth potential beyond this near-term underwriting margin normalisation as the business takes share in South Africa and grows in markets outside of our borders.

Capitec is a company we admire for its simplicity, innovation, and ability to deliver long-term superior growth by leveraging its large and growing customer base to pivot into new profit pools. The retail bank continues to grow customers and take share from the incumbents with products like credit cards, which are helping to drive these gains. Capitec continues to launch new Value-Added Services (VAS) into its retail base to drive non-interest revenue. Examples include Capitec Connect, their mobile offering, currently used by 1.6m of their customers but with ambitions to get to 10m customers. Capitec has moved into business banking and insurance markets, significant profit pools where they are well positioned to take meaningful share over the long term on the back of its lower cost offering and scale. While the share trades on high near-term multiples, the strong earnings growth we expect to materialise from these initiatives means that the multiples quickly moderate and are attractive for a business of this quality. During the sharp sell-off early in the quarter, we took the opportunity to increase the Fund's holding in this long-term earnings compounder.

## Outlook

The Fund remains focused on generating compelling long-term risk-adjusted returns. As such, when markets provide an opportunity to add to assets at attractive prices, the Fund will take advantage of this, as was the case with Capitec in this quarter. While the economic outlook in SA remains uncertain, opportunities to invest in great businesses at reasonable valuations are available, and we continue to pursue them for the Fund.

## Portfolio managers

**Neill Young and Godwill Chahwahwa**

as at 30 June 2025