

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

Performance

The Fund returned -1% for the quarter, underperforming the benchmark return of 0.3%. Since its inception, the Fund has returned an annualised return of 11.3%, 1% ahead of the benchmark.

The third quarter saw an acceleration in the upward march of global asset markets. This, despite ongoing tensions in Ukraine and the Middle East, the implementation of Liberation Day tariffs and an increasingly unpredictable US administration, as well as growing unease with sovereign debt levels in a number of developed nations, the UK and France in particular. The MSCI All Country World Index added 8% for the quarter, lifting the year-to-date (YTD) return to 18%, while the MSCI Emerging Markets Index was up 11% for the quarter and 28% YTD. Global bonds rallied as the US Fed cut rates for the first time this year and inflation appears to remain under control, with the FTSE World Government Bond Index returning 7% YTD. These returns are all measured in USD terms and are aided somewhat by a c. 8% weaker dollar this year.

One indicator suggesting that there is more risk in the global financial system than what first meets the eye is the gold price, which rose 17% in the quarter and is now up 47% so far this year. This marks the strongest annual gold price increase in 46 years (and we are only three quarters in). At around US\$4 000 per ounce, gold has surpassed its previous peak in real terms, which was last reached amid the geopolitical and economic turmoil of 1980.

Domestically, our equity market has benefited from the rise in precious metals prices, driving up the shares of both the gold and PGM miners. These two sectors combined now account for 25% of our market and, along with telecommunications shares and Naspers/Prosus, have been the main contributors to this year's returns. The FTSE/JSE Capped SWIX Index was up 13% in the quarter and 31% YTD. South African fixed income assets also performed strongly during the quarter, with the yield on the 10-year government bond continuing to tighten by a further 80 basis points due to increased foreign buying, constrained inflation, and expectations of further rate cuts. The FTSE/JSE All Bond Index was up 7% in the quarter, taking the YTD return to 14%.

The muted returns delivered by the financial sector are consistent with those from most domestic-facing sectors and likely reflect their use both as a funding source, as investors scramble for precious metals exposure in portfolios, as well as ongoing concerns over a constrained South African growth environment. Banks were up 2%, life insurers were down 4% and non-life insurers delivered -9%, despite producing exceptionally strong results.

Contributors to performance relative to the benchmark included underweight positions in Reinet and Momentum Metropolitan Holdings, and the Fund's overweight position in Standard Bank. The principal detractors were underweight positions in Old Mutual, Absa, and Remgro.

Portfolio actions and fund positioning

Banks and insurers reported results to end-June during the quarter. Bank advances growth continues to be driven by corporate lending rather than retail portfolios. Despite the pressure of contracting net interest margins in a lower rate environment, banks have been able to deliver decent earnings growth due to gains in non-interest income (partly driven by strong trading income), good cost control, and declining credit loss ratios. Capital positions remain strong. Both Standard Bank and Nedbank bought back shares during the period, and we expect excess capital returns to continue to be a feature of the sector.

Insurers reported strong results, driven by good mortality results, positive market returns, and a very buoyant short-term insurance underwriting cycle. New business margins continue to be under pressure. This is in part due to a decline in the sale of high-margin guaranteed annuity products. Still, cash generation remains strong, and capital positions are robust.

During the quarter, we increased the Fund's holdings in Absa, Reinet, and Discovery, and bought back a position in Santam, while reducing the holdings of Nedbank, OUTsurance, and Investec.

Discovery is a business that we have held in the Fund for many years. It reported annual results to June during the quarter, growing earnings per share by 30%, supporting its ambition to compound earnings at 15-20% between 2024 and 2029. Strong performances from a number of businesses in the group drove the outcome, but most encouraging was the result from Discovery Bank, which has achieved breakeven during the period. Discovery often refers to the bank as the "composite maker" – a term we think has merit. Currently, they are signing up over 1 300 clients per day, more than 60% of whom are new to the group and who over-index in younger and higher income cohorts. Having a banking offering allows for regular (in many cases, daily) digital interaction with clients, providing the ability to gather valuable data insights. This, in turn, allows for cross-selling of lending products (of which very little has yet been done), additional banking products, and, most importantly, other financial products within the group. The fact that other South African life insurers are building banks or cementing banking partnerships indicates the importance of having a digital banking relationship with the client. The bank is starting to scale strongly: while revenue per client was roughly flat in the period (and we would expect this to grow as the client base matures), the cost per client declined 20%. We think that management's earnings growth targets for the group are stretchy, but attainable, and view Discovery as attractively priced at a forward multiple of less than 12x with improving free cash generation.

At quarter end, the Fund is overweight asset and wealth managers and short-term insurers, on-weight banks, and underweight life insurers.

Conclusion

The financial sector in general remains challenged by its exposure to the structurally low growth domestic economy. As a consequence, many businesses trade on very low ratings. Some of the banks, for example, now trade on forward dividend yields in line with the 10-year government bond yield, but are likely to grow earnings over the next 10 years (even if not in real terms) in contrast to a bond where one would simply receive a level coupon and initial capital back at the end of the period (if all goes well). These banks are represented in the Fund, but we maintain a bias towards higher quality businesses with strong management teams that are able to grow earnings through superior execution and market share gains.

Portfolio managers

Neill Young and Godwill Chahwahwa
as at 30 September 2025