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

Performance

The Fund had a good year, returning 8.6% in the final quarter of 2024 (Q4-24) and 20.6% for the 12 months. This outcome was thanks to strong equity markets (both global and local) and good stock picking. The Fund has performed well against its peer group over all meaningful time periods.

Fund positioning

Global markets delivered a second year of strong returns, with the MSCI All Country World Index returning 17% for the year in USD (-1% in Q4) after rising 22% in 2023. The S&P 500 Index rose 25% for the year (2% in Q4) backed by a resilient US economy, which defied expectations. Emerging markets lagged behind their developed market peers as the MSCI Emerging Markets Index rose 8% for the year in USD (-8% Q4) with particular weakness in Brazil, Mexico, Egypt, and Korea. Broad-based dollar strength was an additional headwind. Chinese economic growth remained lacklustre, but stimulus measures announced in September boosted market returns. The MSCI China Index ended the year up 20% in USD after recording double-digit declines in each of the two years prior.

Strong S&P 500 Index returns have been driven by a narrow basket of stocks, with the Magnificent Seven returning 246% over the last two years. This has increased concentration, with the Top 10 S&P 500 stocks comprising 40% of the Index – the highest level in more than 30 years. Whilst we don't advocate owning the indices at this level, we see rich stock-picking opportunities in neglected shares both within the US market and across regional markets. It was pleasing to see support for this thesis in the latter part of 2024 as the Fund's global equity holdings delivered strong alpha. Notable contributions came from wide-ranging sources and included both US stocks (a compounder like Interactive Brokers) and regional stocks (long-duration growth stocks like Auto 1, Spotify, or SEA). The attractive value in our global basket of stocks continues to support meaningful allocation to global equities. Portfolio holdings are diversified, both geographically and by sector. The basket includes compounders, long-duration stocks, and value stocks. The diversification it brings to a South African portfolio is an additional benefit.

Many countries went to the polls in 2024. It was a challenging year for incumbent leadership as voters rejected the status quo. In the US, Donald Trump unseated the Democrats and returned to power. Governing parties across our own SADC region lost votes, too, as seen in the national election outcomes in South Africa, Mozambique, Botswana, and Namibia. The global geopolitical situation remained fraught. Israel broadened its field of military operations with targeted operations across the region, including Lebanon and Syria. These actions contributed to the fall of the Assad regime in Syria. Despite the turbulence in the Middle East, the oil price declined slightly in the year (Brent crude -3%) as demand remained weak, and supply is expected to grow in 2025. The Russia-Ukraine war drags on almost three years after the initial invasion. Trump, who assumes the US presidency in late January, has promised a swift end to the conflict. Trump's return to power in the US is expected to see a rise in protectionism and trade tariffs (most notably against China) as envisioned in his "America First" policy. The gold price rose 27% for the year (in USD) in response to the heightened geopolitical risk as central banks bought the yellow metal. The Fund has limited exposure to gold equities, given a gold price trading above our assessment of its long-term fair value.

Global inflation broadly trended downwards, enabling the US Federal Reserve Board to surprise the market with a larger-than-expected 50 basis points (bps) cut in September, and a total of 100bps of cuts by year-end. We expect a shallow rate-cutting cycle on the back of a resilient economy and sticky inflation.

It has been a good year for South Africa. Calendar year 2024 brought relief from the load shedding that was crippling the economy, saw a positive election outcome (with a centrist coalition committed to reform) and the prospect of better economic growth. This progress is reflected in buoyant returns from domestic assets, with the FTSE/JSE Capped Shareholder Weighted Index (CSWIX) returning 13% for the year. The consumer is experiencing relief in the form of fewer power outages, lower fuel prices, falling food inflation and 50bps in rate cuts. The release of pension savings (previously unavailable without resignation) via the "two-pot" retirement system is an additional, lower-quality tailwind. These factors are driving real growth in consumer spending, of which we are seeing early evidence.

Unfortunately, South Africa is not yet benefiting from a step change in investment (neither foreign nor domestic) as investors wait to see whether the GNU coalition government endures and if it can deliver much-needed structural reform. This reform is essential to support better medium-term economic growth. Thus far, we have seen good progress in power and positive early-stage developments in rail reform. Without sufficient further reform, the consumer tailwind will fade, and South African assets will look expensive (given their higher rating and the lack of subsequent growth). The rand weakened -8% against the USD in the fourth quarter (-3% for the year) in solidarity with most major currencies as markets priced in stronger US growth and fewer rate cuts.

Despite the optimism, South Africa faces many headwinds. The country's assets and infrastructure remain profoundly damaged by a decade of mismanagement. Municipal service delivery is poor. The state of water quality and availability is deeply worrying and a significant threat to economic activity. The long-term fiscal outlook remains concerning with a high starting level of sovereign debt. Without a meaningful pick-up in economic growth, South Africa faces ongoing deterioration in its debt-to-GDP ratio.

Within South Africa, holdings include global stocks listed on the JSE as well as selected resources and domestic stocks. Performance at a sector level reflects the strong performance of domestic shares, with the heavily domestic Financials Index up 22% for the year (-1% for the quarter) and the Industrial Index up 18% for the year (flat for the quarter). The Fund benefited from a significant underweight in resources. The Resources Index lagged meaningfully, declining -9% for the year (-9% in Q4).

The improved domestic outlook drove an expansion in market multiples for domestic shares. These businesses will need to demonstrate faster earnings growth to justify the multiple expansion from which they benefited in 2024. Whilst the basket of domestic stocks held by the Fund will not be isolated from changes to the economic growth outlook nor sentiment, stock picking has remained focused on businesses where we believe the fundamentals are solid. These businesses should grow their medium-term earnings even if tough economic conditions prevail. In previous commentaries for the 2024 calendar year, we highlighted OUTsurance, Capitec, Advantech, and WeBuyCars, all of which delivered good results during the year despite challenging economic conditions. Pepkor, too, deserves mention. The intensified efforts of its management over the last few years were evident in recent results, with improved retail sales, a meaningful pick-up in fintech performance, and the launch of innovative new products like FoneYam.

The Fund holds an underweight position in the resources sector, given reasonably full valuations. China's shift to less infrastructure-heavy growth remains a headwind to demand, contributing to a weaker outlook for many commodities. The Fund has built a small position in the PGM miners where a slower transition to electric vehicles will sustain demand for longer whilst underinvestment in mines contributes to declining supply. This should result in a tight market for several years, bringing considerable cash flows to those miners who are sufficiently well-positioned to benefit.

Outlook

We remain excited about the medium-term returns for the Fund. Our assessment of the portfolio shows attractive upside to fair value, reflecting the exciting stock-picking opportunities we see across the domestic market and globally. The Fund continues to have a meaningful allocation offshore which plays an important role both in achieving diversification and delivering compelling risk-adjusted long-term returns. Careful stock picking within South Africa should ensure these holdings are able to deliver even if economic growth does not accelerate. This diversified, global basket positions the Fund well to deliver its medium-term return expectations.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 31 December 2024