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

**Performance**

The Fund returned -0.27% for the fourth quarter of 2024, taking the return for the year to 18.15% relative to the benchmark return of 18.48%. Since inception the Fund has returned 15.56% annualised return, 1.98% ahead of the benchmark.

Key contributors to performance in the quarter include underweight positions in Bidvest, Aspen Pharmacare and Clicks as well as positive contributions from holdings in Brait and Pepkor. Significant detractors to returns for the quarter include overweight positions in Grindrod and Anheuser-Busch Inbev (ABI) as well as underweight positions in Mr Price, Tiger Brands and British American Tobacco.

**Trades**

In the quarter, we added to positions in Shoprite, Vodacom, Aspen Pharmacare, Bid Corporation Limited and Pick n Pay and funded these from trimming existing positions in British American Tobacco, MTN, Spar, Pepkor and ABI. Trades for the quarter further reduced our domestic economic underweight position.

**Fund positioning**

In South Africa, the positive election outcome, in which the Government of National Unity (GNU) was formed, drove a material rally in domestic shares. Since the formation of the coalition, we have seen good progress being made in addressing some of the challenges facing the country in areas like power, logistics and infrastructure. This reform journey will be bumpy, and years of underinvestment will take time to address. The valuations of domestic shares now reflect much of the good news from this economic turnaround, and, as a result, we retain a small domestic underweight in the Fund. We are also selective in terms of the local companies we are invested in, focusing on companies that still offer margin of safety without building in a high-road scenario for the domestic economy. This would include companies that have a long-term structural growth story such as Dis-Chem (taking pharmacy share from independents), Advtech (growing private education against the backdrop of a failing public system) and Shoprite (a market share winner in the food retail space).

During the quarter, the Fund participated in the initial public offering and listing of Boxer as part of the restructuring and recapitalisation of the Pick n Pay group. Boxer is a multi-format retailer (Superstores, Liquors and Build), operating in the discount grocery retail market segment and targeting the middle to lower end of the South African consumer market. The business has shown exceptional growth in revenue and profit (15.2% and 11.5% 5-year CAGR, respectively) over the long term, with opportunities to continue this on the back of a large addressable market in South Africa. Following the listing of Boxer, the Fund also acquired a stake in Pick n Pay, whose share price implied a significant negative value for the Pick n Pay business after stripping out their remaining stake in Boxer at market value. We believe that while Pick n Pay remains challenged, enough is being done to ensure long-term viability and justify a positive valuation for the business.

The Fund continues to have meaningful exposure to attractive, global businesses that happen to be listed in the local market. Many of these stocks lagged the domestic rally we saw following the local elections, and we were able to add to these holdings at more attractive relative valuations. Some examples include Bid Corporation, which is a global food services business with exposure to the structural growth trends associated with out-of-home dining across many markets including the UK, Europe, Australasia, and emerging markets including South Africa. This is a business that can deliver double-digit hard currency earnings growth and is available on an undemanding 16x one-year price-to-earnings (P/E) multiple. Another example would be Mondi, which is a European packaging business, benefiting from the structural shift away from plastics into sustainable packaging as well as the shift from physical to online retail. The share has come under significant pressure in the year on the back of cyclically weak packaging demand across Europe and near-term excess capacity concerns. The long-term picture for the business remains attractive and they continue to invest in low-cost manufacturing capacity in important packaging grades. The earnings base for Mondi is significantly depressed given the current soft demand conditions and new capacity that is not yet contributing to earnings. We can buy this business on an attractive 11.5x forward P/E multiple.

The ABI share price declined significantly (26% in US$) in the quarter despite delivering a good set of interim results to June 2024. ABI has opportunities to drive strong earnings growth via the normalisation of its operating margin as input costs normalise lower and as they rationalise operating costs. The business generates strong cashflows and has been paying down debt and buying back shares. The resultant lower interest charge and reduced share count will drive leverage at the earnings per share (EPS) level. We believe ABI should be able to deliver double-digit hard currency earnings growth going forward – an attractive proposition for a business of this quality. The share weakness was driven mainly by the weakening of the Mexican peso (-18.5% vs USD), Brazilian real (21.4% vs USD) and Colombian peso (-12.0% vs USD) over the year. ABI generates approximately 40% of its earnings from Mexico, Brazil and Colombia, and the currency weakness will no doubt impact the earnings growth over the near term. Still, the long-term growth outlook remains good. We believe the de-rating is excessive and presents an opportunity to add to the holding in the Fund.

**Outlook**

The Fund retains exposure to attractively valued global businesses with strong hard currency earnings growth prospects. In addition to this, the outcome of the 2024 elections in South Africa was a significant milestone for the country and we remain cognisant of the potential for a high-road, better economic outlook for South Africa if the GNU endures and can deliver on structural reforms. Therefore, with respect to the domestic stocks, we balance this optimistic outlook with underlying stock valuations to ensure that the risk-return trade-off remains positive for the Fund under various scenarios.

**Portfolio managers**
**Nicholas Hops and Godwill Chahwahwa**
as at 31 December 2024