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

Performance

The fourth quarter of 2024 (Q4) saw most asset classes soften as risk assets were hurt by election results in the US and an adjustment of inflation and interest rate expectations. Returns remained strong, however, despite the softness in Q4, the Fund did particularly well compared to both peers and its benchmark over the last 12 months. The Fund returned 2.5% for the quarter and 17.2% for the full year. Over the last five years, the Fund has returned a compounded 12.6%, a welcome continuation of double-digit returns.

The combination of a stronger US dollar and a sell-off in bond yields was a key driver of returns in the quarter. The rand sold off alongside its emerging market peers and weakened 8% in the final three months of the year. The Fund's overweight position in SA equity contributed positively for the period, driven by security selection; the same can be said for SA property. A key contributor for the quarter was a strong performance from our global equity building block, driven by a particularly strong quarter from the Coronation Global Equity Select Fund (one of the funds we hold in this building block). Cash was amongst the worst-performing assets, delivering 8.21% for the year, vindicating the Fund's high weighting towards risk assets.

Fund positioning

News flow from the US drove markets in the final quarter, with Donald Trump being nominated as the 47th president and continued strong economic growth reducing the likelihood of further meaningful interest rate cuts. This strong growth combined with a shift in inflation expectations, with the latter due to likely upward pressure from Trump's tariff programme. The US dollar strengthened meaningfully compared to its counterparts, with particular pain being felt by emerging market currencies.

South African asset prices took a breather in the fourth quarter after the strong price action that had dominated over the previous nine months. Expectations adjusted quickly following the formation of the GNU earlier in the year, and market participants are all waiting with bated breath to see if any of the "feel good factor" and positive momentum on SA's challenges feeds through into job creation and economic growth. Despite the potential short-term boon from the two-pot withdrawals, the restrictively high interest rates in South Africa continue to keep a lid on consumer spending. The FTSE/JSE Capped SWIX returned -2% for the quarter and 13% for the year. The Fund's equity carveout outperformed the market over both these time frames and delivered just north of 20% for the full year. Alpha for the year was driven by overweight positions in Quilter, WeBuyCars and Lewis. Detractors were our overweight position in African Rainbow Minerals, Anheuser-Busch Inbev (ABI) as well as Mondi. In the quarter, we added to our Mondi and ABI position on continued share price weakness. We initiated a position in Woolworths as the stock's underperformance increased its margin of safety. The Woolworths food business continues to deliver excellent results, and whilst the turnaround in the clothing business is not yet complete, the market is placing a very penal valuation on the division.

Local bonds performed poorly in December, with the FTSE/JSE All Bond Index (ALBI) being flat for the quarter (-0.4%). This did little to reduce the eventual 17% return for the full year, and SA bonds outperformed SA equities over 2024. As we have been writing since the formation of the GNU in June 2024, the potential fiscal outlook for the South African economy has improved. A portion of this has been priced in already but with absolute yields on offer of up to 11% at the long end of the yield curve and a very muted inflation outlook, we see value in SA bonds and have been increasing our exposure. This has been funded by reducing our holdings of global credits.

Our select property exposure contributed positively to fund performance in the quarter and for the year as well. Top contributors were Attacq and Fairvest, with strong share price performance from both companies. We continue to hold a handful of counters where we believe asset quality is high, and the yields as well as earnings growth remain compelling. We added materially to our Hammerson position in the quarter as the share price fell 10%, and longer-term fundamentals did not change. Hammerson has made meaningful progress in the last year on de-gearing and asset disposals and is currently buying back shares in the market at prices that we deem to be below fair value. At the end of the quarter, the Fund held 7.84% in property stocks, which is considered a high weighting; we still believe the return outlook (for our selection of stocks) from here is favourable, with high single-digit dividend yields and the potential for mid-to-high single-digit earnings growth as well.

Performance from global equity was very encouraging in the quarter, with the Fund's equity building block delivering positive USD returns against a -0.2% return for the MSCI World Index. A number of individual stock picks delivered very strongly in the quarter which was boosted further by the 8% depreciation in the rand. Emerging market equities suffered a tougher quarter as currency depreciation in several key regions combined with a cooling in the Chinese equity market which saw a very strong rally up to the end of the previous quarter.

We have reduced our position in global credit assets over the quarter as alternative opportunities arose elsewhere, particularly in SA government debt. At just over 6% of the Fund, and consisting of a diversified basket of 18 instruments, our credit portfolio is yielding 8.1% in USD.

Outlook

After several periods of producing strong double-digit returns from the Fund, we remain optimistic about the portfolio's outlook to continue delivering robust returns over the long term. Prospective returns across risk assets are high and the Fund continues to hold an immaterial cash balance.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 31 December 2024