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

The final quarter of 2024 saw capital markets continue to experience the volatility that has been ever-present, given the great number of macro and geopolitical events that played out in 2024. On the macro front, we continued to see the markets react monthly to economic data from the US as market players tried to assess the pace and extent of interest rate cuts. On top of this, the sweeping win by Donald Trump and the Republican Party in the US elections saw the US dollar strengthen and most other currencies weaken on fears/expectations of massive tariff hikes (even though economically, these are likely to be detrimental to the US in the long run). The local market was buffeted by these major macro moves, resulting in the rand, bond markets, and equities all finishing weaker in the quarter but not taking too much shine off what was a great overall year for most markets in South Africa.

We took advantage of the market moves to do some repositioning within the Fund. At a sectoral level, we cut the resource position in favour of industrials and, to a lesser extent, financials. Within resources, we have sold out of our holding in Exxaro, a long-held position in the Fund. It has been a good investment for many years, mainly due to the strong cash generation by Exxaro's underlying businesses. However, the prospect of the company misallocating capital under pressure to buy assets outside of its existing businesses has become a significant risk. We also reduced our exposure to Sasol in this period despite the very cheap valuation, as we are no longer particularly bullish on the oil price which is necessary to drive earnings at Sasol given the company's poor production performance and outlook.

In the industrial holdings, we have added two new positions: Woolworths and Vodacom. Both companies' share prices have been weak, and we now believe there to be significant return potential. Vodacom operates the no.1 network in South Africa, but also owns a stake in the very successful Safaricom business in Kenya, which operates M-Pesa, the pre-eminent African mobile money business. It has also recently purchased a controlling stake in Vodafone Egypt. While South Africa is a mature market, it does generate very strong cash flows, and the growth opportunities in markets like Kenya and Egypt offer potential growth vectors for the company. Egypt, in particular now that its currency has been allowed to float, is an attractive market for Vodacom to generate decent returns.

Woolworths has seen its food and groceries business continue to do well in South Africa, defending its market share in a very competitive market and continuing to innovate, which makes its offerings so desirable. Its clothing business has, however, been the main drag on performance, both in Australia and South Africa. Significant investment is being channelled into the South African business to deliver better product and availability, which should then result in the business stabilising its market share and returning to growth. The market has derated the business substantially, especially when you look at the rating of the other FMCG businesses as well as against the more successful fashion retailers in the local market. With management progressing a turnaround in the fashion business and the potential benefits from an easing interest rate cycle, we see the group as well positioned to outperform from here.

Within financials, we have added to our positions in the banking sector as we continue to expect this industry to be the first beneficiary of an improved South African economic performance. Commercial lending, driven by improved business sentiment, has risen faster than retail lending, and the SARB's recalcitrance to cut interest rates has seen our bank holdings' endowment earnings (the return on group capital) maintain current high levels. The banks are well capitalised, still paying out good dividends to shareholders, and should all be able to deliver at least mid-single-digit earnings growth in the year ahead.

We also added to our holding in Investec, which is part South African bank, but also part UK specialist bank, with a stake in a UK wealth management business. The same drivers as above are relevant for their investment case, as well as the benefit to be derived from synergies after having merged its UK wealth business with Rathbones. Investec is now one of the largest wealth managers in the UK, with good runway for growth and cost-saving synergies.

The calendar year 2024 was a period of politicians making promises and voters making their choices. In 2025, returns are going to be driven by the actual policy decisions being implemented around the world and how these decisions will drive economic outcomes. We remain active in identifying those businesses best able to handle volatility, and those that can take advantage of the potential opportunities.

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