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

Performance

The Fund returned 3.9% for the quarter relative to the benchmark return of 5.2%. Since inception, the Fund generated an annualised return of 15.4%, some 2% ahead of the benchmark.

Economic backdrop

After lagging in the first quarter of 2024, emerging markets fared better than developed markets over the three months to June with the MSCI Emerging Markets Index delivering 5% for the period. Within that grouping South Africa was strong, with the MSCI South Africa Index delivering a 13% US dollar return for the quarter (10% in ZAR). On the 29th of May, South Africans went to the polls to elect a new National Assembly and Provincial legislature, and for the first time, the ANC failed to achieve a majority and elected to form a Government of National Unity (GNU), which included the largest opposition party, the Democratic Alliance (DA), as well as the Inkatha Freedom Party (IFP), GOOD and the Patriotic Alliance (PA). Combined, these political parties control 273 seats, accounting for 68% of the seats in the National Assembly. This outcome was well received by the markets, and domestic assets rallied while the rand strengthened. Going forward, the GNU will still need to do a lot of work to deliver positive outcomes for the country and the ailing economy. Given the inherent instability around national unity governments and coalitions in general, the road ahead will likely be rocky, and it remains to be seen whether the GNU results in decision-making paralysis or the parties involved are able to work together constructively for the benefit of the country.

Fund positioning and portfolio actions

Within the SA market, financials (+18%) rallied the strongest in the quarter, followed by industrials (+5%) and resources (+4%). The post-election rally was a key driver of negative relative returns for the quarter, with the Fund positioned in favour of global businesses listed in the SA market and a meaningful SA underweight. This is a position we continue to believe appropriate for the long term given the structural challenges facing an SA economy that is plagued by ageing infrastructure and under-investment. Poor municipal service delivery as well as ailing power, rail and water supply infrastructure, continue to increase the cost of doing business in SA. This is a major headwind to business profitability. We believe the rally we have seen in domestic stock prices in a more optimistic outlook for the SA economy relative to the past, something that will require significant turnaround in terms of delivery by the GNU, means that the margin of safety in domestic stocks is now low should this positive outlook fail to materialise.

While domestic SA stocks rallied, some of the global businesses listed in our markets declined to even more attractive valuation levels. One of these stocks is Bidcorp, a key holding in the Fund and a stock which declined 8% in the last quarter. Bidcorp is a food services business operating in 35 countries on five continents and has grown to become the largest global food services provider outside the US. They offer a one-stop supply solution for restaurants, food chains and hotel chains. The business benefits from scale and continues to grow both organically by capturing the secular shift to out-of-home consumption as well as by consolidating a fragmented industry. Bidcorp enjoys diversification across geography and product lines which helps cushion against weakness in a particular region. We believe Bidcorp's current valuation does not adequately capture its long-term strong growth potential and the business, therefore, remains a very attractive long-term investment in our view.

Contributors to Fund performance relative to the benchmark included underweight positions in MTN and MultiChoice Group, as well as overweight positions in Lewis, SPAR and Grindrod. Significant detractors for the quarter included underweights in Bidvest, Clicks and Mr Price, as well as overweight holdings in BidCorp and Metair.

During the quarter, we added to holdings in Shoprite, Bytes Technology, Raubex, The Foschini Group and Nampak. These were funded from reductions in holdings of Prosus, Mondi, Anheuser-Busch InBev, British American Tobacco and Metair. The Bytes share price came under pressure in the quarter after an announcement that the CEO had made undisclosed trades in the company's shares. The investigation that followed resulted in the CEO leaving the group and being replaced, but importantly nothing emerged that impacted the underlying operations of Bytes or their outlook. We therefore used the opportunity to acquire a fast-growing business (as reinforced by their recently released full-year results) at a more attractive valuation. We picked up some construction exposure via Raubex, a well-managed construction company in a segment where many of their larger competitors fell away over the years when construction volumes declined. The amount of construction work available has returned to healthy levels, and Raubex is able to choose profitable projects at the right margins given that fewer competitors can compete for this work. Trading on a 7.6x forward multiple and a strong order book, we believe Raubex presents an attractive opportunity.

Outlook

The elections in South Africa have come and gone, and it is now time for the GNU to knuckle down and get to the business of resolving the structural challenges that beset the SA economy. There are challenges in important areas such as power, ports, railways, logistics and water. These challenges will no doubt take time to address. The stability of the GNU will also be tested in the process. For this reason, we continue to favour global businesses listed in the SA market and combining these with high-quality South African businesses, which can deliver in what is likely to remain a low-growth SA economy.

Portfolio managers

Nicholas Hops and Godwill Chahwahwa

as at 30 June 2024