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

Performance

The second quarter of the year saw a continuation of the heightened geopolitical risk that dominated the first, with several key elections happening globally and inflation levels still under the microscope. In this volatile environment, the Fund returned 3.3% for the quarter, which brings the year-to-date return to 6.1%. Encouragingly, the one-year return of 13.1% is strong in absolute and relative terms and is above the five-year return of 11.4%, a welcome continuation of double-digit returns.

The strengthening of the rand was a key driver of negative alpha across the asset classes and securities that are in the Fund. The Fund's overweight position in SA equity, aided by security selection, was the primary positive contributor to performance.

Fund positioning

The quarter was dominated by the SA election, which saw the ANC lose its majority and partner with the DA instead of the more populist-leaning EFF or MK parties. Markets reacted strongly to this outcome, with SA economically exposed shares, government bonds and the rand all rallying at the tail end of the quarter. Global equity markets continue to be strong as the tech/semis sector drives a further narrowing of the US market. We have seen several developed world economies begin to cut interest rates and, while expectations around the US cutting cycle have been pushed out, the expectations remain for a first cut towards the tail end of 2024.

SA equities had a strong quarter, returning 8% for the FTSE/JSE Capped Swix Index. Despite being underweight the SA economy within the equity component of the Fund, we still added alpha through security selection in the period. Key contributors were Anglo American, Spar, African Rainbow Minerals, and our underweight exposure to the PGM sector. Anglo American rallied very strongly on the back of a takeover bid from BHP. While Anglo rejected the bid, we used the strong share price appreciation to rotate our exposure into BHP after it underperformed in relation to its Anglo bid. Outside of BHP, we bought OUTsurance and Sanlam earlier in the quarter, the latter after a 15% sell-off which left it very attractively priced.

SA government bonds were a key detractor for the Fund in the quarter. For some time, we have been cautious about the valuation of these instruments and over the last five years, our light positioning in the asset class has contributed to outperformance. Yield compression on the back of the favourable election result drove the FTSE/JSE All Bond Index up 7% in the quarter, marginally behind SA equities. The key question going forward is whether the new political environment can lead to fiscal discipline and economic growth, which would help to improve the government's debt position from its currently unsustainable path. We believe that positive change is possible but that many of SA's growth impediments can only be overcome over several years and with a huge amount of investment. The direction of travel, however, is clearly more positive than it was three months ago.

The Fund remains modestly overweight SA property, with most of its exposure in Attacq, NEPI and Redefine. Redefine's weakness over the first half of the year allowed us to build a position when the forward dividend yield was in the low double digits, a very attractive entry point. Our selective exposure to the sector is earning a high single-digit dividend yield, which stands to grow in the mid-single digits, offering an attractive prospective return despite strong performance over the last year.

Performance from global equities was disappointing in the quarter. While index returns were relatively modest versus SA assets at 3.0% in USD (as measured by the MSCI ACWI), rand strength brought the ZAR return closer to zero, and security selection within the global equity bucket negatively affected relative performance. Global markets continue to be narrow with US tech stocks driving a large amount of the indexes. We are cautious about global equity valuations and believe there is better value in SA and Emerging Market equity relative to developed markets.

The Fund continues to hold a healthy allocation to global credit assets and the attractive absolute yields on offer here remain compelling on a risk versus reward basis. Our diversified portfolio of credit securities is yielding 8.2% in US dollars, which we believe is very attractive over the long term. Taking advantage of these credit opportunities has been a key advantage of our integrated global investment team's decision-making capability, enabled by the increased Regulation 28 offshore limits.

Outlook

Despite strong absolute performance from most asset classes, we still see the potential for strong prospective returns as evidenced by divided yields, IRRs and upside to fair value. The Fund has an immaterial exposure to cash.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 30 June 2024