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

Performance and fund positioning

The Fund had an excellent quarter, rounding off an exceptionally strong year. The Fund has returned 23.1% for the year ended 30 September 2024, against the peer group return of 18.6% and inflation of 4.0%.

What has been very pleasing is the wide variety of asset classes that helped deliver this outcome – something that is not always obvious on ranking tables. The fact that the performance was delivered by all the asset classes, indicates the robustness of returns that were not overly reliant on any single call.

By far the biggest return component has been our domestic listed equity exposure, where we have held an overweight position for some time. It is really pleasing to see this asset class, which has lagged for many years, come back very strongly. Our returns were boosted by the formation of a government of national unity (GNU) and renewed hope in this coalition charting a new path to growth in the economy. Given the very depressed levels that local stocks have been trading on, it did not take much to see significant gains being made. There are also several global businesses listed on the JSE, and they too have had a very strong period. In particular, our holding in Naspers/Prosus has performed exceptionally well as the company has focused on growing its profitability. Towards the end of this quarter, the announcement of a raft of new measures to support the Chinese economy and stock and property markets saw all Chinese assets perform strongly. This has also boosted interest, once again, in all emerging markets.

The pure-play SA economy stocks where we have held the biggest positions were the banks, with close to 20% of our equity in the large banks. Our holdings in Standard Bank and Nedbank both delivered exceptional results for the half year, and as big beneficiaries of economic growth, are well placed to continue showing good results in the period ahead. It was also pleasing to see some great results from small- and mid-cap shares making a meaningful difference to our portfolio. Altron and Lewis are both decent holdings that have rerated strongly, and our holding in Momentum has doubled off its lows. Importantly, for all these companies, it was not simply a rerating based on more optimism around SA, but actually a recognition of the good results they delivered.

Global equity continued to perform well, although a large part of these returns were driven by very narrow markets, with only a few specific AI and tech-related shares driving these gains. We have for some time preferred exposure to emerging markets over the developed markets. The US dollar has been exceptionally strong for many years, resulting in liquidity draining from most emerging markets (EMs) and their equity markets performing poorly. This has resulted in the position where most EMs trade at huge discounts to the level of the US markets. With interest rates in the US starting to decline, led by a surprise jumbo rate cut of 50 basis points, we expect the US dollar to weaken from hereon. As a result, you have seen more money flowing back into the EM asset class. The steps taken by China to stabilise their equity markets have also added to reigniting interest in EMs, resulting in robust performance from these markets in the last quarter. We remain overweight EMs as we think they still have further to go.

In the fixed income allocation, we shifted our SA exposure from inflation-linked bonds into longer-dated nominal government bonds. These bonds then benefited the most from the renewed optimism about the future of SA. With an expectation of more fiscal prudence and better growth, the general market view on the solvency of the SA government improved, and simultaneously the rand strengthened. This has reduced inflation expectations, resulting in a rally at the back end of the curve which delivered equity-like returns for bondholders. In our global bond allocation, we remain exposed to good quality corporate debt where yields have narrowed further. This has also resulted in strong price appreciation, and we have started reducing some of our exposure here.

The property exposure, both in SA and globally, has also had a strong performance (as alluded to earlier, it's been a bonanza for most asset classes!). The SA property stocks we own delivered robust results and were also big beneficiaries of improved optimism towards SA risk assets, as well as the prospect of lower interest rates. The global property stocks we own, mainly in Europe, have also rallied strongly on the outlook for interest rates to decline further, and exposing the attractive yields that they trade on. We have been reducing some exposure here as markets are running a bit ahead of themselves.

Outlook

It has been a remarkable period where, in the presence of major geo-political risks, risk assets have been remarkably well behaved. The prospect of lower interest rates in the US seems to have trumped all concerns (pun intended) and we sit today with many assets at or near all-time high levels despite the prevalence of risks. In this environment, a well-diversified portfolio remains the best defence against an uncertain world.

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