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

Performance

The Fund returned 0.5% for the quarter (Q1-25) and 12.4% over the past 12 months. The high allocation to global and local equities (that delivered strong returns over the past 12 months) detracted in the quarter. The Fund has performed well over meaningful periods, both in absolute terms and relative to the peer group.

Fund positioning

What a start to the year it has been. Trump ascended to the White House and began rapidly implementing a series of radical policy reforms. US markets responded to the threat of higher tariffs, with the S&P 500 (-4% in USD) and MSCI World (-2%) ending the quarter in negative territory. In the early days of April, a punitive tariff regime was indeed implemented, threatening to disrupt and undermine free trade. This policy poses a risk to confidence levels, consumption, investment inflation and, ultimately, to growth. Markets corrected dramatically in the early days of April, with the S&P 500 falling 15% in the first week (Nasdaq -21%). Promises of tax cuts and more efficient delivery of government services (via the Department of Government Efficiency) have been insufficient to soften the blow.

During the quarter, regional markets outperformed the US, as the flow of funds was rediverted (EMEA +8% in USD, Europe +11% in USD). A weaker US dollar provided further support to these returns. The MSCI China continued to rise during Q1 (+15%), adding to the c. 20% gain in the prior year. In addition to the stabilisation of the Chinese economy, markets were reminded of China's growing role as a technological powerhouse with the release of DeepSeek's extremely cost-effective and efficient AI model. China continues to battle for technological leadership and re-embraced the role of the private sector in achieving this outcome.

Market performance broadened during the quarter, with both regional market outperformance (vs the US) and the decline of the Magnificent Seven within the S&P 500 (Magnificent Seven, -16% for Q1). Whilst US equities were under pressure, regional and sector diversification did provide support to the Fund's holdings and delivered alpha. Dramatic market movements post quarter-end have provided an opportunity to again reassess our exposure. We have bought into global equities as prices have declined and the margin of safety in our basket of stocks has increased. Early market declines were fairly indiscriminate, creating attractive buying opportunities. As long-term investors, we continue to buy assets where we feel impaired short-term prospects create an opportunity to buy winning businesses at undemanding valuations. We hope that the current uncertainty and volatility will provide further compelling opportunities.

The gold price increased by a spectacular 19% in the quarter (after rising 27% in 2024). Demand for gold remains strong. The metal was supported by heightened uncertainty, high sovereign indebtedness and the potential of a diminished role for the USD in the global payment system. The Fund has very little exposure to gold shares, which are trading above our assessment of long-term fair value. This has detracted meaningfully from recent Fund performance, which has actually been quite strong outside of the gold call. We remain concerned about the capital losses that shareholders in gold shares would incur should some of the froth come out of the gold sector.

The Bloomberg Barclays Global Aggregate Bond Index (USD) rose 3% during the quarter. The Fund continues to have no exposure to developed market sovereign bonds, which we believe offer insufficient return to compensate for the risks stemming from heavily indebted sovereign balance sheets. Lower economic growth would pose an additional headwind to the fiscal arithmetic. The issue is compounded in Europe, which needs to fund higher defence spend, given its reduced ability to rely on the US. The Fund has maintained a sizeable holding in offshore credit bonds with their attractive, high single-digit US dollar yields. These instruments bring exposure to a range of geographies and sectors. This presents a compelling alternative to the concentrated sovereign and economic risks inherent in SA government bonds, as well as the narrower credit spreads in our domestic market. Given the opportunities in global equity and global fixed income, we continue to make full use of the Fund's offshore capacity.

The FTSE/JSE Capped Shareholder Weighted Index (CSWIX) continued its strong performance in Q1 rising 6% (in ZAR). Whilst the 'GNUphoria' of the post-election 2024 period faded, the index was buoyed by the rampant performance of precious metal stocks on the back of higher gold and PGM prices. The Resources Index rose a meaningful 28% for the quarter. Indices with higher domestic exposure fared considerably worse with the Financials Index (-2%) and the SA Listed Property Index (SAPY, -4%) both declining. The Industrials Index rose 3%.

Trading reported by South African retailers during the first quarter was mixed. This despite growth in real disposable income as a result of lower inflation, interest rate cuts (during 2024), massively reduced loadshedding and the release of pension savings via the "two-pot" retirement system. The economy remains lacklustre. The South African Reserve Bank remained conservative, despite low inflation, thus offering no further support for economic growth.

Global headwinds to a domestic economic recovery have been building (tariffs, risks of weaker economic growth). This, combined with a floundering coalition-led government, is rattling consumer and business confidence. Prospects of a pickup in domestic growth are diminished. The pace of reform remains slow (with pockets of progress, Transnet being a good example). The budget impasse reflects the differing opinions between the major coalition partners on the importance of stimulating economic growth to resolve the country's fiscal challenges. Without a meaningful step change in economic growth, we believe the fiscal outlook is poor. The Fund is meaningfully underweight South African government bonds as a result. The FTSE/JSE All Bond Index was broadly flat for the quarter (up less than 1%).

The Fund's preferred domestic asset remains South African equities, which offer both attractive medium-return prospects as well as good risk protection. Given the large number of global stocks listed on our market, South African equities provide diversification away from a challenged domestic economy and good protection in a low road scenario (which could include higher inflation and a weaker currency). The Fund has meaningful exposure to locally listed global stocks.

Domestic stock selection is focused on picking winning franchises that can thrive despite a tough economy. In the previous quarter, we spoke of the significant expansion in market multiples for many domestic shares and the need to demonstrate faster earnings growth to justify this expansion. The diminished growth prospects for South Africa have seen a rapid contraction in market multiples. The basket of domestic stocks held by the Fund has broadly performed pleasingly – delivering good results despite these headwinds. The strength of their franchises has been evident in market updates from businesses including Shoprite, OUTsurance, Capitec and ADvTECH.

The Fund has held an underweight position in the resources sector for some time. The underweight in the gold miners came at a high opportunity cost during the quarter, given their share price moves. The gold price has risen rapidly to a level above our assessment of its long-term value. Margins for the gold miners have spiked. We believe these margins will be difficult to sustain as input cost pressures rise accordingly. The locally listed gold miners have been poor at returning capital to shareholders over time. Even in periods of excellent free cash flow, their short mine lives require constant reinvestment. We have retained a material underweight position. During the second half of 2024, the Fund built a position in the PGM miners premised on tighter supply-demand fundamentals, rising prices and growing free cash flows. Slower electric vehicle adoption is sustaining PGM demand for longer, whilst underinvestment in mines will contribute to rising production costs and declining supply. It was pleasing to see metal prices rise during the first quarter. The significant weakness in diversified miners over the past year has provided an opportunity to buy into these names, with a preference for Glencore.

Outlook

The Fund remains focused on generating compelling long-term risk-adjusted returns. As such, when markets provide an opportunity to add to assets at attractive pricing, the Fund will take advantage of this. We believe current markets provide such an opportunity and have added to both global and local equities. The Fund continues to have a meaningful allocation offshore which provides good protection against a weak domestic economy and fractious political situation. We believe the high offshore exposure combined with a high equity allocation will serve the Fund well to deliver its long-term return expectations.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 31 March 2025