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

Fund positioning

Whatever happened in the last quarter, it pretty much pales into insignificance given the extreme moves that have followed into the new quarter. It had been a good quarter for SA equity performance in general, and the Fund had done well, with its long-term performance remaining well ahead of the relevant benchmarks.

We had been managing the Fund on a cautious basis for some time, having not gotten caught up in the Government of National Unity (GNU) rally last year, which saw SA-specific stocks rally hard on the back of hope that the GNU would deliver the long-awaited growth in the local economy. We were sceptical that such growth would filter through, and that what would come through would take much longer, given the frictions inherent in the system. On top of this, a central bank which persists in running very tight monetary policy with some of the highest real rates in the world meant that we were always unlikely to see the 2% GDP growth that many market participants were forecasting.

This proved to be fortuitous positioning as the domestic budget impasse has now shaken the foundations of the GNU, resulting in a severe sell-off of SA assets with equities, bonds and the currency all weakening. The fact that this happened in the midst of a global risk-off period due to the imposition of tariffs on the rest of the world by the US just added to the selling pressure.

Inherent in constructing a portfolio, we are always wary of building a portfolio around one specific view. Famously, Harry Markowitz, the founder of modern portfolio theory, stated that diversification is the 'one free lunch' that one gets in investment management, and to forego this to 'punt' a particular view in a portfolio is not professional management of clients' savings. We like to construct robust portfolios that typically perform better through periods of volatility, allowing us to take advantage of price dislocations such as we are experiencing currently.

The application of global tariffs by the US in reality should not be that significant an impingement on the SA economy. On its own, tariffs do not result in inflation in SA, despite what certain pundits say. The fact that the currency has weakened will certainly bring an element of inflation, but this was not due to tariffs but rather the domestic issues related to the GNU. The US dollar has actually weakened significantly against most currencies this year, given the negative view market participants have taken on what tariffs mean for the US. SA has largely de-industrialised under our restrictive policies and the collapse of SOE's over the last few decades, and as such the country is mainly an exporter of mineral commodities which are not impacted by tariffs. It largely leaves the auto industry (already facing challenges from the transition from the internal combustion engine to electrified drive chains) as the main one impacted by tariffs.

Given all these moving parts, the Fund's structure has remained largely unchanged. Our very large holdings in defensively positioned companies like ABI and AngloGold have provided stability and good returns through the past quarter and remain key holdings in the portfolio.

We have added Aspen to the portfolio as the share price has sold off this year, despite recently delivering better-than-expected results. An entrepreneurial owner-run business, Aspen has had mixed fortunes over the years as its aggressive expansion into a multi-national pharmaceutical business has been impacted by emerging market currency weakness and restrictive legislation in varying regions. Despite these travails, it has de-geared its balance sheet, appropriately structured its debt and now has an enviable manufacturing base, presenting the business with opportunities to grow revenues off a relatively fixed cost base.

The past quarter saw the banks and insurers all report year-end results. By and large, these were all slightly better than expected. Our holdings of Standard Bank, Nedbank and Sanlam, all saw positive performance in the quarter because of this. They have all declared excellent dividends, which is the ultimate return for shareholders. While share price appreciation is nice, over the longer term, all price movement is anchored by the reality of the cash flows a business can deliver. Prices are now falling due to global and local risk sentiment, yet long-term investors can take comfort from the strong cash flows these investments are delivering to their shareholders.

Dislocations as we are currently experiencing always provide opportunities for the long-term stock picker. We are therefore excited by the opportunities we see in this market.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 31 March 2025