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

Performance

Globally, equity markets carried on with their strong run from 2023, with most markets showing positive returns. Unfortunately, for various reasons, South African (SA) equity markets continued to decline. Incessant selling by locals and foreigners, lack of appetite given low growth due to poor policy and failing infrastructure, and the looming election of which the potential outcomes have never been as uncertain all contributed to a weak period for SA equities, despite global risk appetite and very compelling valuations. In this weak market, the Fund marginally outperformed the benchmark, and over five years, it remained very comfortably ahead of its benchmark.

Fund positioning

The big positive contributors for the period were our bank holdings, where, unusually for the sector, our overweight position in Nedbank contributed at the same time as our underweight in FirstRand did. Nedbank performed well, delivering strong earnings on the back of good interest margin growth and better-than-expected credit losses. FirstRand underperformed as the market was concerned about its potential exposure to reparations in its UK vehicle finance business, where the regulator is examining the industry lending practices.

After these two contributors, the performance came from our offshore-listed shares, Naspers, Richemont, Quilter, and British American Tobacco, aided by company-specific results and a slightly weaker currency.

The key detractor for the period was our underweight position in gold shares. While we do own AngloGold, the other listed gold shares outperformed on the back of a much higher gold price. We remain of the view that AngloGold is a better exposure, offering a more attractive valuation and a good operational turnaround story. MTN was the next detractor, with the blowout in the Nigerian currency adversely affecting its Nigerian business. While the move in the naira to free-floating is ultimately going to be good for the country and its economic growth in the long term, in the short term, these extreme moves will hurt certain businesses. MTN, as the leading mobile player in the country, will stand to benefit from the improving economic outlook in the long term but faces a period of volatility in the interim.

During the quarter, the key moves within the portfolio were reducing some of its overweight positions in the bank sector into the strong results. We also took some profits from our Richemont position, which provided a strong trading update, counter to some of the other luxury goods stocks. We invested the majority of these funds into SPAR. SPAR experienced a tough 2023 as poor implementation of SAP at its key KwaZulu-Natal warehouse resulted in significant lost sales. This is slowly turning around, and recent trading updates indicate that SPAR is maintaining its market share in a tough retail environment. We also expect a resolution to their Polish operation sale in the next few months, which will give investors further certainty. The share price declined significantly in the quarter, allowing us to build our position at very attractive levels.

We also added to our holding in Dis-Chem through a large placement of shares in the market. Dis-Chem remains one of the few South African businesses with a compelling growth story regardless of the economic outlook. Dis-Chem has a long runway of store openings and format expansions, which should enable it to keep growing in the foreseeable future.

We have also added to our holding in African Rainbow Minerals. ARM is a diversified miner with exposure to iron ore, PGMs, manganese, and gold. Despite the very strong run-up in Harmony, which now makes up in excess of 33% of ARM's market cap, the share has underperformed the market. The company has been a strong dividend payer and trades at a significant discount to the intrinsic value of its underlying operations.

Outlook

The SA equity market remains cheap on almost any metric that one uses to value them. This is also reflected in the very high dividend yields on which many of the shares are trading. No one can call when sentiment will change, but in the interim, if one can get exposure to good quality businesses which will grow their earnings and return cash to shareholders, one can still make a case for compelling investment returns to be had without any re-rating.

Portfolio managers
Neville Chester and Nicholas Stein
as at 31 March 2024