

The fund was up 7.2% in the third quarter, ahead of the benchmark (up 6.4%). It has returned 25.7% pa over the last year (benchmark was up 18.3% pa) and delivered 11.9% pa since its inception in 2013, ahead of the benchmark (up 10.5%).

### **Economic backdrop**

Global economic activity is slowing due to increased US tariffs and uncertainty surrounding generally chaotic and aggressive US foreign policy. Financial conditions, which tightened meaningfully in the immediate aftermath of the April US tariff announcements, have moderated due to a sharp rise in asset prices.

Erratic US government policy continues to result in subdued consumer and business sentiment in the US and reduced investment, although the decline in business investment has been less severe than expected due to resilient AI-driven spending. The US labour market is softening as companies delay hiring amid tariff uncertainty and AI-driven change, which is creating lower confidence, skill mismatches, and more cautious workforce planning. Consequently, US economic growth is beginning to weaken from a previously robust rate.

China's nominal economic growth has been weak due to ongoing deflation and the consequences of a weak property market. The economy is now being further undermined by the escalating trade war with the US, which is expected to negatively impact Chinese exports and manufacturing. Positively, however, Chinese consumer confidence and spending may be improving from historically low levels, buoyed by more aggressive monetary and fiscal stimulus, and targeted structural state interventions that have had some success in improving local consumption.

The Japanese and European economies are being negatively affected by both the sharp increase in US tariffs and the continued uncertainty surrounding future tariff actions. There has been some front-loading of export activity ahead of tariff implementation, with underlying weakness now becoming more evident. Europe's economy, which has been stagnating due in part to its export link to a weak manufacturing sector in China, will start to benefit from higher domestic fiscal stimulus. German business confidence, while having retreated recently, remains structurally higher due to the lifting of the debt ceiling and the associated increase in fiscal spending on infrastructure and defence.

South African activity has been supported by higher precious-metal export receipts and a mild recovery in real consumption as falling inflation and interest rates ease household pressure. Yet, a significant increase in online betting has diverted spending from other goods and services. A more enduring lift to economic growth is, however, structurally constrained by the acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and low business confidence. Disappointingly, the recent moderate increase in investment off very low levels has not yet been accompanied by any notable job creation.

In recent years, there has been progress made in moving to reform the economy through Operation Vulindlela and the partnership between government and business leaders that is targeting key priority areas needing reform. Additionally, the Government of National Unity has brought about positive leadership changes in key ministries and a renewed commitment by government to accelerate initiatives that address the country's structural problems.

### **Markets review**

Global markets were strongly positive in the third quarter (up 7.4% in US dollars), with top contributors being Hong Kong (up 13.5%), Japan (up 9.1%) and the US (up 8.1%). Emerging markets were also very strong, (up 10.9% for the quarter), with outperformance from China (up 20.8%) and South Africa (up 20.6%).

In rand terms, the local equity market was up 12.9% in the quarter. Resources outperformed (up 50.9%), boosted by robust performances from Pan African Resources (up 83.1%) and Goldfields (up 77%). Other standout positive

performers include Valterra Platinum (up 56.6%), AngloGold (up 53.3%), Sibanye (up 52.8%) and Northam Platinum (up 47.6%).

Industrials were up 4.2% for the quarter, with the most notable performances from Prosus (up 22.1%), Naspers (up 13.4%) and British American Tobacco (up 8.5%). Weak performances were delivered by Bytes (down 23.5%), Truworths (down 21.0%), Aspen (down 18.9%) and Mondi (down 17.4%).

Financials lagged the rest of the market (up only 0.9%), with listed property up 6.7%, banks up 2.1%, life insurance down 4.2% and non-life insurance down 8.9%. Strong movers included: Old Mutual (up 10.6%), Growthpoint (up 10.0%) and Ninety One (up 8.8%). Weak performances were delivered by Santam (down 10.3%), Outsurance (down 8.5%) and Discovery (down 8.3%).

South African bonds increased by 6.9% in the quarter, outperforming cash (up 1.8%). Global bonds were largely weaker over the quarter. South African bonds outperformed emerging markets with long-dated fixed-rate instruments outperforming.

At their last meeting in July, the SARB reduced the repo rate by 0.25% to 7%. This was the first meeting at which the SARB considered its adjusted inflation target of 3% and it forecasts inflation to stabilise at this level in the medium term. The SARB has taken a cautious stance in its policy approach due to high levels of uncertainty in both global and local markets. South African government long bond yields remain high in the context of well-contained inflation, amid a weak but somewhat improving fiscus.

### **Fund performance and positioning**

Local and foreign equities and SA Bonds contributed positively to fund performance for the quarter. Key positive contributors included the PGM stocks, Exxaro and Glencore, while Famous Brands, Truworths, Datatec and Brait detracted.

Global equity also contributed positively to performance, with Johnson Matthey, Applied Materials, Philips, Mitsubishi UFJ and Prudential as key contributors. Corpay, Fiserv, Walt Disney and Dollar General detracted slightly from performance.

We now see a moderate level of expected return within our portfolio of equities after extremely large moves, with higher returns now expected from the fund's global stocks. Consequently, we have made material changes within the portfolio.

- We have continued to reduce the fund's total equity position in favour of fixed income and global equities.
- We have also significantly reduced the platinum ETF holdings during the quarter.
- Within local equities, we have reduced the PGM miners and Prosus and increased our holdings in local retail stocks, MTN, Glencore and Exxaro.
- We have also increased the fund's equity hedge during the quarter.
- We have materially shortened the fund's duration position and now also hold long-duration US government bonds.

### **Stock snapshot**

**Datatec**, a key fund holding, operates mainly through two businesses: Logicalis - a leader in IT and cloud managed services, and Westcon - a distributor of IT hardware and software. Datatec is growing strongly, driven by the structural shift toward cybersecurity, software and cloud services. Historically focused on hardware distribution, the company is increasingly moving toward more recurring revenue streams that require less working capital, generate higher returns and improve cash flow.

Today, software and services account for more than 55% of sales, yet, in our assessment, the current share price does not reflect the improving quality of earnings and stronger business economics. Datatec continues to strategically review potential actions that could unlock value, including the possible sale of one or more divisions. The holding company currently carries high central costs and winding down this structure could create significant further upside for shareholders. With executive management owning over 18% of the business and subsidiary managers holding equity directly in their businesses, management interests are strongly aligned with shareholders in pursuing actions that maximise value.