

The fund was up 0.6% during the fourth quarter outperforming the All Bond Index (up 0.5%). The fund returned 21.9% during 2024, compared to do 17.7% for the benchmark. Over the last three years, the fund achieved 11.3%, outperforming the benchmark, and 10.0% pa since inception in 2015, ahead of its benchmark (9.4%).

### **Economic backdrop**

Global economic activity remains firm, but somewhat uneven. Financial conditions have gradually eased and developed market real household income continues to grow due to falling inflation, resilient employment and firm wages, whilst manufacturing activity has been weak and faces the risk of increased protectionism. The US economy is outperforming, with strong labour market, meaningful increases in aggregate household wealth and increasing business confidence and investment.

China's economic growth has been weak in nominal terms given ongoing deflation. The very weak property market has meaningfully dampened consumer confidence, contributing to disappointing consumption growth. Policymakers are responding with more aggressive monetary and fiscal stimulus and structural interventions that may improve near-term economic activity.

Europe's economy has been stagnating given its export link to China's weak economy, scarring from the energy crisis and the eroding competitiveness of its automotive and chemical sectors. It should benefit from any rebound in global manufacturing activity from low levels. Japan is maintaining solid economic activity, driven by rising private consumption, strong wage growth and enhanced business profitability and investment. Additionally, a healthy increase in long-term inflation expectations is supporting the normalisation of monetary policy.

Current South African economic activity is being somewhat boosted by a mild cyclical recovery in real consumption as consumers benefit from declining inflation and interest rates, together with recent once-off cash withdrawals from the two-pot retirement dispensation. Nevertheless, economic activity is constrained by acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and low business confidence.

Following the election and the formation of the Government of National Unity, there have been positive leadership changes in key ministries and a commitment to attempting to address the country's structural problems. Consequently, following the dramatic economic decline of the last 15 years, there is room for optimism that the economy may stabilise and the country may potentially be setting on a more constructive path. Yet, given the deep structural issues in the economy - most notably the sizable government debt burden and a large, unskilled population with high unemployment levels - we believe that a modestly higher growth trajectory will take an extended period of time to engineer and this path is beset with risks.

### **Markets review**

Global markets were slightly negative in the fourth quarter (down 0.1% in US dollars), with France (down 10.1%), the UK (down 6.8%), Hong Kong (down 4.9%) and Japan (down 4.1%) underperforming. Emerging markets were also negative, down 7.8% for the period, with underperformance from Brazil (down 19.7%), South Korea (down 17.7%), India (down 10.6%) and China (down 7.7%). Overall, however, 2024 was a very positive year for global equity markets, that were up 19.2%.

In rand terms, the local equity market was down 2.1% for the fourth quarter. Resources were down 10.1%, underperforming the other sectors. Sasol (down 28.2%), Kumba (down 18.6%) and Sibanye (down 16.1%) all underperformed, while Thungela outperformed (up 21.8%).

Financials were down 1.8% in the quarter, with banks down 3%, listed property down 0.8% and life insurers up 2.8%. Outsurance (up 17.2%), Quilter (up 15.8%) and Discovery (up 14.3%) outperformed, while Ninety One (down 12.3%), Hammerson (down 9.2%) and Standard Bank (down 8.5%) underperformed in the sector.

Industrials were only slightly negative (down 0.5%), with particularly robust performances from Tiger Brands (up 24%), Pepkor (up 20.2%) and Mr Price (up 10.4%). Conversely, AB InBev (down 17.8%), Bytes (16.6%) and Aspen (down 15.5%) underperformed.

The local market was positive for the year (up 13.4%). Financials were up 21.6%, industrials were up 17.3% and Resources were down 7.2%

South African bonds increased by 0.4% in the quarter, underperforming cash (up 2.0%). Globally, bonds weakened amid concerns over a higher inflation trajectory. South African bonds outperformed emerging markets with marginal underperformance in long-dated fixed-rate instruments.

At their last meeting in November, the SARB reduced the repo rate by 0.25% to 7.75%. Members of the monetary policy committee unanimously voted for this cut. The SARB is vigilant of upside risks to inflation but sees the current pace of rate cuts to be consistent with its view that inflation is comfortably within the lower part of its target range. South African government long bond yields are still high in the context of well-contained inflation.

### **Fund performance and positioning**

The fund outperformed the benchmark during the quarter and benefited from being largely invested in long-dated fixed-rate Government issued bonds.

The fund is still long duration vs the benchmark although this has been reduced over the recent period. Real yields on offer in nominal RSA long bonds are still high in the context of a benign inflation outlook. The yield curve remains high in our view and the fund is positioned to take advantage of high carry yields and potential capital gains on offer.