



The fund was up 10.8% in the second quarter, ahead of the benchmark (up 7.2%). It has returned 18.0% pa over the last three years (benchmark was up 14.9% pa) and delivered 11.5% pa since its inception in 2013 - 1.3% pa ahead of the benchmark.

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 has negatively impacted consumer sentiment, consumption, business confidence and investment (though the decline in business investment has been less severe than expected due to resilient AI-driven spending). 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 elevated uncertainty regarding US tariff threats. 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 fiscal stimulus. Business confidence in Germany has started to improve following the decision to lift the debt ceiling and meaningfully increase fiscal spending on infrastructure and defence.

South African economic activity has been supported by higher export receipts (due to higher precious metal prices) and a mild cyclical recovery in real consumption as consumers benefit from falling inflation and interest rates. A more enduring lift to the growth of economic activity 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 material progress made in moving to reform the economy through Operation Vulindlela (acting within the Ministry of the President) and the partnership between government and business leaders (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.

Consequently, following the dramatic economic decline of the last 15 years, there is room for optimism that the economy may stabilise and that the country may now follow a more constructive path. Yet, given the deep structural issues in the economy – most notably the sizable government debt burden and 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 that this path is beset with risks.

South African bonds increased by 5.9% in the quarter, outperforming cash (1.9%) and emerging markets, with yields in long-dated fixed-rate instruments moving relatively lower.

At their last meeting in May, the SARB reduced the repo rate by 0.25% to 7.25%. It has taken a cautious stance in its policy approach due to the high levels of uncertainty regarding the global economy. The SARB forecasts inflation to remain within its target band over the near term.

Notably, it has introduced a 3% targeted inflation scenario into its data release. Discussions between National Treasury and the SARB are ongoing regarding the possibility of a change to the SARB inflation target. South African government long bond yields, although now lower than in the recent past, remain high in the context of well-contained inflation.

Markets review

Global markets were strongly positive in the second quarter (up 11.6% in US dollars), mainly due to the outperformance of Japan (up 18.3%), the US (up 17.9%) and Germany (up 17.4%). Emerging markets were also strongly positive, up 12.2% for the quarter, with outperformance from South Korea (up 36.1%), South Africa (up 13.9%) and Brazil (up 12.2%).

In rand terms, the local equity market was up 10.2% in the quarter. Industrials outperformed (up 12.1%), with most notable performances from Naspers (up 22.1%), Prosus (up 17.8%) and MTN (up 17.1%). Aspen (down 27%), Sappi (down 17.8%) and Spar (down 8.8%) all underperformed.

Resources were up 9.7%, boosted by robust performances by Sibanye (up 54.9%) and Northam (up 46.4%). Other standout positive performers included Implats (up 26.2%), African Rainbow Minerals (up 21%) and Valterra (up 17.5%). Weak performances were delivered by Kumba (down 8.7%), South32 (down 7.9%) and Harmony (down 7.3%).

Financials underperformed slightly (up 7.9%), with non-life insurance up 14%, life insurance up 10.4%, listed property up 9.1% and banks up 6.8%. Shaftesbury (up 32.7%), Hammerson (up 30.3%) and Reinet (up 29.4%) all outperformed, while Standard Bank (down 1.8%), Nedbank (down 1.2%) and Nepi Rockcastle (up 1.8%) underperformed.

Fund performance and positioning

Strong contributors for the fund included Northam Platinum, Prosus/Naspers, Valterra Platinum, MTN and Datatec, while KAP and Bowler Metcalf detracted.

Global stocks also contributed positively to performance, with JD Sports, Johnson Matthey, Aroundtown and Dollar General being key contributors. JD.Com, Shell and Corpay detracted from performance.

- We see a moderate level of upside in a diversified set of opportunities within our portfolio of local and global equities.
- Currently, the fund has high exposure to companies with a high percentage of their earnings from offshore, for example Datatec, Quilter, the platinum group metal (PGM) miners, Prosus and MTN.
- The fund is also invested in a diverse range of mid-cap stocks including Datatec, Omnia, Famous Brands and Quilter, while maintaining a low exposure to financials and property.

Stock snapshot

Valterra Platinum

Valterra is the world's lowest-cost producer of PGMs, endowed with an extensive, high-grade reserve base. It is the world's largest PGM producer, with significant optionality for production growth when market conditions (particularly PGM prices) are favourable.

Valterra's operations are predominantly mechanised, resulting in consistently low-cost, low-risk mining. Its flagship Mogalakwena mine, is a large open-pit operation that benefits from structurally low costs. Notably, Mogalakwena's revenue basket is uniquely weighted towards nickel and copper, both of which have strong long-term demand outlooks, encouraged by their critical roles in decarbonisation technologies. The mine's extensive reserve base supports current production levels exceeding 80 years.

In addition, Valterra owns strategically important PGM processing facilities. The company beneficiates its own ore and monetises surplus capacity by processing material from third-party miners. This provides a unique, capital-efficient opportunity to benefit from industry-wide production growth. Given the high capital costs associated with building new processing infrastructure, Valterra's existing capacity represents a significant competitive advantage and a barrier to entry for new market participants.

Valterra's portfolio of low-cost, high-quality mining operations and value-accretive processing infrastructure remains significantly undervalued. This is especially notable in a market where PGM demand continues to be robust, yet supply is constrained due to over a decade of underinvestment in mining and limited processing capacity.