

The fund was down 2.7% in the third quarter, underperforming its (CPI + 4%) benchmark of 3.0%. Over the last five years it has returned 7.9% pa, and since its inception in 2002, it has returned 9.3% pa.

Economic backdrop

Global economic activity has decelerated but is proving reasonably resilient in the face of very rapid monetary tightening. The US economy is demonstrating surprising strength, with a relatively resilient consumer underpinned by a strong labour market with very low unemployment.

Europe's economy, which has been slow given China's weak economic recovery, should benefit from improving consumer real disposable income due to firm wages and sharply falling inflation. Notwithstanding an extremely loose monetary policy, a very weak yen and weak exports to China, Japanese economic activity has been solid. Japan has improving private consumption and business investment, as well as continued export growth.

The Chinese economy's recovery has fallen well short of expectations after the lifting of prolonged pandemic lockdowns. Although contact-intensive service industries are experiencing a rebound, the property market, manufacturing sector and export industries remain very weak. Near term growth prospects are strong however and should be boosted by government stimulus measures.

Economic activity in South Africa is severely constrained by an inadequate and acutely unstable electricity supply, the underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities and chronically low business confidence. Additionally, the economic contribution from the mining sector that has benefitted from high commodity prices, is now far weaker. For these reasons, coupled with the sizable government debt burden and a large, unskilled population with high unemployment, we remain pessimistic regarding the structural growth rate for the local economy. Gradual steps taken by government toward economic reforms (now involving more productive private sector partnerships) are vital to stabilise the economy and prevent further decline.

Markets review

Global markets were negative in the third quarter (down 3.4% in US dollars), with Germany (down 7.7%) and Japan (down 6.6%) underperforming. Emerging markets were also weak in the period (down 2.8%), albeit stronger than developed markets, with outperformance from Turkey (up 32.8%) and India (up 2.9%). South Korea (down 6.2%), Brazil (down 5.0%) and South Africa (down 4.4%), however, underperformed.

In rand terms, the local equity market was down 3.5% in the period. Financials outperformed (up 2.0%) with life insurers up 3.9%, banks up 1.6% and listed property down 1.0%. OUTsurance (up 25.8%), Sanlam (up 12.5%) and Capitec (up 9.5%) were particularly positive. Growthpoint (down 9.5%), Nedbank (down 7.7%), FirstRand (down 6.8%) and Discovery (down 6.0%) underperformed.

Resources were negative (down 5.2%), with AngloGold (down 23.2%), Gold Fields (down 20.4%), Implats (down 19.8%) and Anglo Platinum (down 15.6%) underperforming. Thungela (up 24.8%), Sasol (up 16.7%) and Exxaro (up 12.0%) outperformed.

Industrials underperformed the other sectors (down 6.7%) driven by weak performances delivered by Richemont (down 25.5%), MultiChoice (down 22.5%) and MTN (down 18.3%). Truworths (up 39.6%), Sappi (up 12.9%), Mondi (up 11.4%) and Spar (up 10.7%) outperformed.

South African bonds decreased by 0.3% in the quarter, underperforming cash (up 2.1%). Foreigners were sellers of South African government bonds in the period. Globally, bonds weakened amid increasing medium-term interest rate expectations. South African bonds outperformed comparative emerging market bonds in the quarter.

At their last meeting in September, the SARB kept the repo rate unchanged at 8.25%. Despite a relatively benign expected inflation trajectory, the SARB rhetoric remained hawkish and focused on upside risks to inflation from a weaker currency and higher energy prices. South African government long bond yields remain very high in the context of well-contained inflation.

Fund performance and positioning

Negative performance from equities (foreign and local) and bonds, and a positive performance from property were the main contributors to fund performance during the quarter. Within local equities, key negative contributors included MTN, Prosus, Anglo Platinum and Brait. Notable positive contributors in the third quarter were Sanlam, Spur, Curro, Oceana and Standard Bank.

Global equity contributed negatively to performance, with Prudential, Bayer and Siemens Energy as key detractors. Aroundtown, the Japanese banks and Sekisui contributed positively.

- We see a high level of upside in a diversified set of opportunities within local and global equities.
- We have high exposure to long-duration South African government bonds due to the very high real yields on offer.
- Our property exposure is concentrated in specialist warehousing and convenience retail (through Fortress, Equites and Dipula Income Fund).

We continue to maintain a high weighting in Prosus, which remains undervalued. Its key asset, Hong Kong-listed Tencent, has a very bright, long-term future through its exposure to online Chinese economic activity. Tencent's prospects are excellent, even as it navigates the current period of high and abnormally front-loaded regulatory interventions - many of which are sensible and will lead to healthier and more sustainable future growth.

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