NAM CORONATION BALANCED PLUS FUND

QUARTERLY COMMENTARY Q4-24

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

Performance

The Fund had a good year, returning 16.3% (3.6% in Q4). It benefited from its high allocation to equities (both global and SA), which have delivered strong returns over the past 12 months. The Fund has performed well over meaningful periods in absolute terms and relative to the peer group.

Fund Positioning

Global markets delivered a second year of strong returns, with the MSCI All Country World Index returning 17% for the year in USD (-1% in Q4) after rising 22% in 2023. The S&P 500 Index rose 25% for the year (2% in Q4), backed by a resilient US economy which defied expectations. Emerging markets lagged behind their developed peers as the MSCI Emerging Markets Index rose 8% for the year in USD (-8% in Q4), with particular weakness in Brazil, Mexico, Egypt, and Korea. Broad-based US dollar strength was an additional headwind. Chinese economic growth remained lacklustre, but stimulus measures announced in September boosted market returns. The MSCI China Index ended the year up 20% in USD after recording double-digit declines in each of the two years prior. Strong S&P Index returns have been driven by a narrow basket of stocks, with the Magnificent Seven returning 246% over the last two years.

This has increased concentration, with the Top 10 S&P 500 stocks comprising 40% of the Index – the highest level in more than 30 years. Whilst we don't advocate owning the indices at this level, we see rich stock-picking opportunities in neglected shares, both within the US market and across regional markets. It was pleasing to see support for this thesis in the latter part of 2024, as the Fund's global equity holdings delivered strong alpha. Notable contributions came from wide-ranging sources and included both US stocks (a compounder like Interactive Brokers) and regional stocks (long-duration growth stocks like Auto 1, Spotify, or SEA). The attractive value in our global basket of stocks continues to support a meaningful allocation to global equities. Portfolio holdings are diversified, both geographically and by sector. The basket includes compounders, long-duration growth stocks and value stocks. The diversification it brings to a South African portfolio is an additional benefit.

Many countries went to the polls in 2024. It was a challenging year for incumbent leadership as voters rejected the status quo. In the US, Donald Trump unseated the Democrats and returned to power. Governing parties across our own SADC region lost votes, too, as seen in the national election outcomes for South Africa, Mozambique, Botswana, and Namibia. The global geopolitical situation remained fraught. Israel broadened its field of military operations with targeted operations across the region, including Lebanon and Syria. These actions contributed to the fall of the Assad regime in Syria. Despite the turbulence in the Middle East, the oil price declined slightly in the year (Brent crude -3%) as demand remained weak and supply is expected to grow in 2025. The Russia-Ukraine war drags on almost three years after the initial invasion. Trump, who assumes the US presidency in late January, has promised a swift end to the conflict. His return to power in the US is expected to see a rise in protectionism and trade tariffs (most notably against China) as envisioned in his "America First" policy. The gold price rose 27% for the year (in USD) in response to the heightened geopolitical risk as central banks bought the yellow metal. The Fund has very little exposure to gold, trading above our assessment of its long-term fair value.

Global inflation broadly trended downwards, enabling the US Federal Reserve Board to surprise the market with a larger-than-expected 50 basis points (bps) cut in September and a total of 100bps of rate cuts by year-end. We expect a shallow rate-cutting cycle on the back of a resilient economy and sticky inflation.

The Bloomberg Barclays Global Aggregate Bond Index (USD) declined -2% for the year (-5% for Q4). The Fund continues to have no exposure to developed market sovereign bonds, which we believe offer insufficient return to compensate for the risks stemming from heavily indebted sovereign balance sheets. Sovereign indebtedness has ratcheted up in most major economies, with Covid causing a marked deterioration. The austerity required to reign in deficits is a challenge to democracies where voters tend to think short-term. The Fund has a reasonable holding in offshore credit bonds that offer attractive, high single-digit US dollar yields. These instruments bring exposure to a range of geographies and sectors. This presents a compelling alternative to the concentrated sovereign and economic risks inherent in South African government bonds and the narrower credit spreads in our domestic market. Given the rich opportunities in global equity and global fixed income, we continue to use the Fund's offshore capacity in full.

It has been a good year for South Africa. Calendar year 2024 brought relief from the load shedding that was crippling the economy, saw a positive election outcome (with a centrist coalition committed to reform) and the prospect of better economic growth. This progress is reflected in buoyant returns from domestic assets, with the FTSE/JSE Capped Shareholder Weighted Index (CSWIX) returning 13% for the year (-2% for the quarter), FTSE/JSE All Bond Index returning 17% for the year (flat for the quarter) and the FTSE/JSE All Property Index (ALPY) up 30% for the year (also flat for the quarter).

The South African consumer is experiencing relief in the form of fewer power outages, lower fuel prices, falling food inflation and 50bps in rate cuts. The release of pension savings (previously unavailable without resignation) via the "two-pot" retirement system is an additional, lower quality tailwind. These factors are driving real growth in consumer spending of which we are seeing early evidence.

Unfortunately, South Africa is not yet benefiting from a step change in investment (neither foreign nor domestic) as investors wait to see whether the GNU coalition government endures and if it can deliver much-needed structural reform. This reform is essential to support better medium-term economic growth. Thus far, we have seen good progress in power and positive early-stage developments in rail reform. Without sufficient reform, the consumer tailwind will fade, and domestic assets will look expensive (given their higher rating and the lack of subsequent growth).

Despite the optimism, South Africa faces many headwinds. The country's assets and infrastructure remain profoundly damaged by a decade of mismanagement. Municipal service delivery is poor. The state of water quality and availability is deeply worrying and a significant threat to economic activity. The long-term fiscal outlook remains concerning with a high starting level of sovereign debt. Without a meaningful pick-up in economic growth, South Africa faces ongoing deterioration in its debt-to-GDP ratio. Given these headwinds, the Fund is underweight government bonds.

Long-term we remain bullish on the Namibian macro picture. Sovereign cost of capital has come in meaningfully and as corporate and individual balance sheets begin to recover, we should see continued re-investment into the economy.

The rand/Namibian dollar weakened -8% against the USD in the fourth quarter (-3% for the year) in solidarity with most major currencies as markets priced in stronger US growth and fewer rate cuts. Encouraging developments within South Africa support the prospect of a stronger rand. The Fund has taken additional ZAR currency exposure.

The Fund's preferred SA asset remains equities, which have delivered pleasing returns over the past year (CSWIX +13% over one year). Holdings include global stocks listed on the JSE and selected resources as well as domestic stocks. Performance at a sector level reflects the strong performance of domestic shares, with the heavily domestic Financials Index up 22% for the year (-1% for the quarter) and the Industrial Index up 18% for the year (flat for the quarter). The Fund benefited from a significant underweight in resources. The Resources Index lagged meaningfully, declining -9% for the year (-9% in Q4).

The improved SA outlook drove an expansion in market multiples for domestic shares. These businesses will need to demonstrate faster earnings growth to justify the multiple expansion from which they benefited in 2024. Whilst the basket of SA stocks held by the Fund will not be isolated from changes to the economic growth outlook or sentiment, stock picking has remained focused on businesses where we believe the fundamentals are solid. These businesses should grow their medium-term earnings even if tough economic conditions prevail. In previous commentaries for the 2024 calendar year, we highlighted OUTsurance, Capitec, Advtech, and WeBuyCars; all of which delivered good results during the year despite challenging economic conditions. Pepkor, too, deserves mention where the intensified efforts of management over the last few years were evident in recent results with improved retail sales, a meaningful pick up in fintech performance and the launch of innovative new products like FoneYam.

The Fund holds an underweight position in the resources sector, given reasonably full valuations. China's shift to less infrastructure-heavy growth remains a headwind to demand, contributing to a weaker outlook for many commodities. The Fund has built a small position in the PGM miners where a slower transition to electric vehicles will sustain demand for longer whilst underinvestment in mines contributes to declining supply. This should result in a tight market for several years, bringing considerable cash flows to those miners who are sufficiently well positioned to benefit. The Fund's overweight position in property has contributed to performance over the year. We are not constructive on the sector in aggregate, given the challenges it faces. These include shifting nodal patterns, poor local government delivery, and above-inflationary cost pressures. A key portfolio holding like Attacq has benefited from these trends as its flagship Waterfall Estate property provides high-quality and reliable infrastructure and services to its tenants.

Outlook

The Fund continues to have a meaningful allocation offshore. This broad basket of global equities and credits offers compelling risk-adjusted returns. These offshore holdings are supplemented by domestic assets, predominantly SA equities which remain our favoured SA asset class. The attractive upside to fair value evident in our basket of equities reflects the exciting stock-picking opportunities we see across the SA market and globally. We believe the high offshore exposure, combined with a high equity allocation, serve the Fund well to deliver its medium-term return expectations.

Portfolio Managers

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as at 31 December 2024