Fairtree Equity Prescient Fund
Q4 2024 Commentary

Market Overview

The FTSE/JSE All Share (ALSI) Index, Capped Shareholder Weighted (Capped SWIX) Index, and Shareholder Weighted (SWIX) Index each decreased by 2.1% during the quarter. Industrials increased by 0.2%, while Resources and Financials decreased by 5.6% and 1.2% respectively. The rand depreciated by 9.1%, ending the quarter at R18.8 against the US dollar.

During Q4, Bonds increased by 0.4% and Cash returned 2.1%. The MSCI Emerging Market Index decreased by 8.0% (in USD), underperforming the MSCI World Index, which decreased slightly by 0.2% (in USD). The MSCI South Africa Index decreased by 12.1% (in USD).

During Q4, Iron ore decreased by 9.5% to US$93.2/t and Brent crude oil increased by 4.9%, ending at US$74.6/bbl. Copper decreased by 10.7% to US$8652.7/t. Gold decreased by 0.4% to US$2624.5/oz, Platinum decreased by 7.6% to US$907.6/oz and Palladium decreased by 9.0% to US$912.6 /oz.

The VIX Index (Volatility or “Fear” Index) increased by 3.7% to 17.4 during Q4

Economic Overview

The final quarter of 2024 was dominated by the most debated US election in memory, the outcome of which was a Red clean sweep. Majorities in both the House and the Senate have opened the possibility of far-reaching US policy changes with a protectionist view that could have global ramifications, including increased tariffs and reduced taxes, coupled with upside risks to inflation. Post-election, the dollar strengthened sharply, exerting pressure on emerging market assets and commodities. Gold retreated from its highs as the promise of ending wars reduced safe-haven demand. Oil remained volatile, influenced by Trump’s pro-shale stance and escalating tensions between Israel and Iran. US discussions of a G7 Palladium sanction on Russia sparked a rally in Palladium, which benefitted the PGM counters, albeit briefly.

Other parts of the developed market have diverged considerably from the US, with European markets underperforming due to market concerns regarding the region's economic and political outlook. The Eurozone finds itself in a difficult position, with economic indicators continuing to point to a loss of momentum. Manufacturing remains weak, and political problems in France and Germany look to cloud the outlook for 2025 further. Economic data released during December extended these trends, reflecting a softening global economy with resilient US growth and an ailing global manufacturing sector.

Despite constructive market expectations, Beijing's stimulus announcements have been underwhelming in timing, magnitude, and effectiveness during the year. Given that the economy is experiencing debt deflation and balance sheet recession coupled with a soft eurozone trade partner, we believe a much larger stimulus will be required to offset the potential tariff headwinds in 2025.

On the local front, domestic counters held up relatively well compared to their emerging market peers over the quarter. South Africa's medium-term budget, released at the end of October, underscored modest fiscal slippage, with revenue projections softened by underperformance in VAT and fuel levies. The market welcomed a conservative fiscal policy with the Treasury remaining committed to debt stabilisation, although increasing non-interest spending will likely continue to weigh on the budget deficit, which is expected to peak at 75.5% of GDP by fiscal year 2025/2026. SA discretionary retailers' guidance for November and December sales exceeded expectations, largely underpinned by the absence of loadshedding, lower interest rates, and a two-pot system that seems more supportive than the Treasury guided for in the medium-term budget. This supported our positions across interest rate-sensitive counters throughout the quarter.

Portfolio performance

The Fund's retail asset class returned -3.63% during the quarter, underperforming the FTSE/JSE Capped Shareholder Weighted (Capped SWIX) Index by 149 bps. The Consumer Discretionary sector was the key performance contributor during Q4. The Fund's performance was positively impacted by positions in Pepkor (+20.17%), Mr Price (+10.39%), Absa (+8.16%), Super Group (25.21%) and British American Tobacco (+9.60%), while positions in Sasol (-28.25%), Glencore (-15.47%), FirstRand (-6.06%), Gold Fields (-8.08%) and Standard Bank (-8.50%) detracted from the performance.

Portfolio positioning and outlook

The year ended with caution and volatility as the market tried to anticipate what Trump's new administration would introduce regarding policy, taxes and trade tariffs as he takes the helm on 20 January 2025. The Fed's December rate cut meeting was hawkish and signalled a slower pace of easing ahead due to sticky inflation and slower global growth, which supported the dollar and created a headwind for commodities. Our positions across precious metals and bulk metals detracted from performance for the quarter. However, we remain bullish on gold, driven by continued central bank purchases and geopolitical tensions.

Although Trump's exact tariff plans remain murky and ultimately could be more moderate than anticipated, possibly avoiding severe trade wars, the market remains concerned about the impact on China, with even Xi Jinping acknowledging economic challenges from "uncertainties" in his New Year's address. The overarching macro theme for China in 2025 will be rising external hostilities amidst prolonged domestic economic hardship. It remains unclear if we have reached the true bottom of the property market slump, which in turn keeps domestic confidence subdued. Chinese policymakers will face significant challenges as they navigate this perfect storm.

The positive SA election in May and the resultant government of national unity have lifted sentiment both domestically and offshore, but concerns remain about whether the new government coalition can remain intact long enough to drive meaningful reform. Foreign relations will be a key theme for the year ahead and will be closely scrutinised, with South Africa being no exception. Comments from the recent BRICS summit on strengthening ties among member countries have added to this pressure, underscoring foreign policy tensions within South Africa's coalition government.

The outlook for 2025 is challenging to forecast and uncertain. Thus, we have ensured that the portfolio has liquidity and diversification to position it for many possible outcomes. While uncertainty and volatility are concerning, they often create compelling opportunities, which we will continue to pursue.

Disclaimer

Fairtree Asset Management (Pty) Ltd is an authorised financial services provider (FSP 25917). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CISs are traded at the ruling price and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from the Manager. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. There is no guarantee in respect of capital or returns in a portfolio. Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms please go to www.fairtree.com.

Highest rolling one-year return 101.47% (Benchmark: 54.24%) and lowest rolling one-year return -23.82% (Benchmark: -24.53%) (information to 31 December 2024). The fund has returned an annualised return of 14.31% since inception (November 2011) (benchmark annualised return of 10.08% since inception). The fund's annualised performance over 1-year is 15.70% (Benchmark: 13.41%). The fund's annualised performance over 3-years is 11.01% (Benchmark: 8.50%). The fund's annualised performance over 10-years is 11.73% (Benchmark: 6.93%). Fund returns disclosed are annualised returns net of investment management fees and performance fees. Annualised return is weighted average compound growth rate over the period measured. Fund investment risk indicator level: Aggressive. Full performance calculations are available from the manager on request. Annualised performance: Annualised performance shows longer term performance rescaled to a 1-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request. Highest & Lowest return: The highest and lowest returns for any 1 year over the period since inception have been shown. NAV: The net asset value represents the assets of a Fund less its liabilities.