Merchant West Sanlam Collective Investments Dividend Equity Fund

Quarterly Report
Quarter ending 30 September 2024

Fund Details

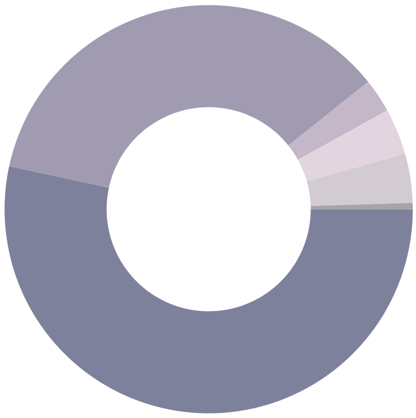
Benchmark	ASISA Category	Portfolio Managers	Suitable Investor
Peer Group Average of the General Equity Sector	SA Equity General	Raymond Shapiro Andrew Dowse	The Merchant West Sanlam Collective Investments Dividend Equity Fund is suitable for investors with a high-risk tolerance, seeking income plus capital growth. The Fund focuses on investing in high dividend-paying companies and can invest locally as well as up to 30% offshore. The recommended investment horizon is seven years or more.

Top 10 Holdings

Top 10 Holdings	%
FirstRand Limited	6.9
British American Tobacco Plc	5.3
Bid Corporation Ltd	3.8
Standard Bank Group Ltd	3.8
Bidvest Group Ltd	3.5
Mr Price Group Ltd	3.1
Hudaco Industries Ltd	2.8
RSA Govt Bond R2037 8.5% 31012037	2.7
JSE Limited	2.6
Stor-Age Property REIT Ltd	2.6

Asset Allocation

Portfolio Date: 30/09/2024



Asset Allocation	%
SA Equity	53.70
Global Equity	36.1
SA Fixed Income	2.70
SA Property	3.70
Global Cash	3.9
Global Property	0.50
Total	**100**

Annualised Performance

Annualised Performance	Fund %	Benchmark %
3 months	8.9	8.8
1 year	23.3	21.8
3 years	12.7	11.6
5 years	8.2	11.3
10 years	6.9	6.8
Since Inception (December 2012)	7.9	8.3
Launch Date (December 2012)		

Highest and Lowest Annual Returns

Highest and Lowest Annual Returns	%
Highest annual return	26.0
Lowest annual return	-11.8

Performance Review

The Fund gained 8.9% over the quarter, while the Fund's benchmark, the South African General Equity peer group average, rose 8.8% over the period. The JSE All Share Index and JSE Capped SWIX Index both gained 9.6% over the quarter.

The Fund's return was again strongly driven by its exposure to domestically focused 'SA Inc.' equities (45% of fund), which rose 14% during the quarter. This performance was driven by a broad re-rating thanks to a fall in the South African Government 10-year bond yield over the quarter (from 11.4% to 10%) and increased economic optimism, following the formation of a Government of National Unity (GNU) after the national election. The Fund's direct offshore equity holdings (37% of fund) also added to returns, but to a lesser extent, gaining 3% in rands and 9.5% in US dollars. Significant stock specific contributors over the period included British American Tobacco, Mr Price, FirstRand and Standard Bank. Detractors included Novo-Nordisk and Nestlé. Our 5.3% position in SA long-dated government bonds gained over 20% over the quarter as long yields fell.

Management Actions

Notable actions during the quarter included initiating new positions in Anglo American (to 1.8% of fund) and Paychex (to 1.5% of fund). We see value in Anglo American following a fall in price after rebuffing a take-out offer from BHP Group and the opportunity and resultant pressure to unlock value expediently. Paychex is a US-listed payroll and integrated human resource and employee benefits outsourcing company, serving small to medium sized businesses. Is it a very high quality business, exhibiting very strong returns on capital, predictable cash flows and high single-digit earnings growth prospects.

The Fund also sold out of Anheuser-Busch (poor risk/return trade-off), Procter & Gamble (overvaluation concern) and Novartis (meagre growth prospects). We also sold out of a 2.5% position in the South African 2040 bond, following strong returns, as we find more attractive prospective returns elsewhere. We increased our positions in BidCorp (attractive valuation features with robust returns and growth prospects) and Exxon Mobil (pricing in an overly conservative long-term oil price) during the quarter.

Market Overview

Global developed market equities continued their strong run in the third quarter of 2024 with the MSCI World Index rising 6.4% in US dollars. The global equity benchmark has now risen 18.9% year-to-date and is up by just over 32% year-on-year, with only two negative months in the past twelve. The US Federal Reserve (Fed) was a key catalyst driving investor optimism as Fed members agreed to cut rates by 0.5% at their September meeting, a larger cut than many investors anticipated. It was also the first rate cut from the Fed since the easing at the start of the Covid-19 pandemic in March 2020 and dropped the Fed's overnight rate to 5%, off the 20-plus year high it has been at since mid-2023. The Fed cited some early signs of weakness in the US labour market as the motivation for easing monetary conditions. US inflation slowed for a fifth consecutive month to 2.5% year-on-year in August from 2.7% in July, and slightly below market forecasts of 2.6%.

The rate cut helped to nudge the US 10-year bond yield from 4.37% at the end of June to 3.80% at the end of September. This borrowing rate has remained below the 4% level for two months after spending most of the year above 4%. At the end of September, Fed Chair Jerome Powell signalled that more interest rate cuts are in the pipeline but suggested they would occur at a measured pace intended to support a still-healthy economy.

US politics remained in the spotlight during the quarter, with a second assassination attempt on Donald Trump in September. In their first televised presidential debate, Kamala Harris appeared to outperform Trump and appears to be slightly ahead of him in voting polls ahead of the US elections in November.

Emerging market stocks comfortably outperformed their developed market peers over the September quarter with the MSCI Emerging Markets Index posting a return of 8.7% in US dollars. The strong outperformance was driven by risk-on action towards the end of the quarter, with Chinese stocks as the primary source of outperformance. The Chinese government announced slightly larger than anticipated monetary easing measures in September, accompanied by a raft of other unexpected stimulus measures aimed at helping China's economy overcome a multi-year period of lacklustre growth. Amongst the stimulus measures announced were some targeted specifically at boosting Chinese stock prices, including at least US$110 billion of lending facilities for Chinese corporates to purchase equities.

The Bank of England kept the Bank Rate unchanged at 5% during its September 2024 meeting, following a 25 basis points cut in August, the first reduction in over four years. The European Central Bank (ECB) cut rates by 25 basis points in September (after a similar cut in June) and remains committed to bringing inflation back to its 2% target, adjusting rates based on data and economic conditions without committing to a specific rate path. While the turnaround in the fortunes of the economies of the Eurozone and the UK remain modest, and challenges persist, it is expected that growth will continue to improve on the back of further easing of the central banks' tight monetary policy.

Brent crude oil futures declined by almost 17% over the September quarter (-9% for the month of September), as concerns about the Chinese economy persisted and expectations for tapering OPEC+ production cuts later this year brought the prospect of an imminent increase in oil supply. The price of Brent crude oil fell briefly below US$70 per barrel during September, breaching that level for the first time in almost four years, ending the quarter at just over US$71 per barrel. Industrial metals also declined over the quarter but rallied strongly in September (Bloomberg Industrial Metals Index +6%) after China's announcement of stimulus measures increased hopes that Chinese economic activity would improve demand for industrial metals.

The US dollar struggled under the weight of falling US interest rates, with the US Dollar Index declining by almost 5% over the quarter as the greenback struggled against most major currencies. The gold price gained over 13% on the back of increased tensions in the Middle East and the weaker dollar.

The positive sentiment following the formation of South Africa's business-friendly Government of National Unity (GNU) has triggered a wave of investment announcements and positive sentiment not seen in years, spurring hope that the local economy may finally be finding its footing after a lost decade-and-a-half.

The local equity market continued its strong upward momentum in the third quarter, posting its best third quarter performance since 2013 as the FTSE/JSE All Share Index gained 9.6% (on top of the second quarter's 8.2%) in rand terms. Much of the positive action was focussed on the SA Inc segment of the market, with the JSE Banks Index gaining 13.4 %, the JSE Retailers Index returning 23.4%, and the SA Listed Property Index advancing 18.7% over the quarter. The strong performance from SA Inc stocks was also evident in the gains shown by the Small and Mid-caps, which returned 15.6% and 10.9% respectively, while the rand-hedge skewed Large Cap Index lagged with a return of 8.3%. Naspers (+17.6%) and Prosus (+16.2%) also boosted market returns during the quarter, rallying on the aforementioned China stimulus measures, seen as benefitting their major investment in Tencent. While the JSE Resources Index declined 1.1% during the quarter, it rallied strongly post the China stimulus announcements.

South Africa's inflation rate declined from 5.1% in June 2024 to the latest reading of 4.4% in August. As was widely expected, the SA Reserve Bank (SARB) reduced the repo rate from 8.25% to 8.0% in September 2024, the first cut since the heightening cycle commenced November 2021. Lower interest rates should benefit consumers and businesses alike.

The South African bond market cheered the commencement of the new easing interest rate environment and positive sentiment which drove the rand from a level of R18.19 at the end of the June quarter to R17.27 at the end September, representing a gain of more than 5% against the US dollar. The BEASSA All Bond Index gained 10.6% over the September quarter. In other positive news, following a five-point increase in the second quarter, the RMB/BER Business Confidence Index (BCI) rose by another three points to reach 38 in the third quarter of 2024. This is the first business sentiment survey in South Africa following the formation of the GNU and reflects cautious optimism about improving business conditions. Although respondents still noted constraints, especially weak demand, they were less negative about current conditions and encouragingly, were more upbeat about business conditions going forward. For the first time since early 2022, a slight net majority of respondents across the different sectors expect business conditions to improve in the next quarter.

Despite the optimism and market rally, challenges like high unemployment, poor service delivery, crime, and unsustainable government debt remain, necessitating concrete actions to sustain the positive momentum. The successful implementation of Operation Vulindlela, a joint initiative of the Presidency and National Treasury to accelerate the implementation of structural reforms and support economic recovery, will go a long way in boosting the economic growth rate.

Portfolio Strategy

The South African political landscape has changed significantly with the introduction of a Government of National Unity and a material reshaping of the cabinet. These events we believe will lead to positive changes in how government operates, strengthening of checks and balances, a reduction in corruption, and greater capability and accountability with respect to service delivery, policy formulation and implementation. Any resultant improvements in economic confidence and thus growth, will directly benefit SA Inc. equities, which we believe still offer lucrative long-term returns despite the rally in these stocks post elections. Reductions in both short- and long-term interest rates in South Africa (and globally) should help improve conditions for both consumers and businesses, as well as being supportive of asset prices. The introduction of the two-pot retirement reform, which allows retirement fund members to make partial withdrawals before retirement, is likely to boost consumer spending, at least in the short term, aiding the retail sector specifically. Its long-term effect remains to be seen.

Due to the positive factors outlined we continue to hold a significant allocation to SA centric securities in the Fund, circa a 50% weight at quarter end. We began increasing our allocation to SA Inc. stocks at various opportunistic times post the election. Notwithstanding, many risks lie in wait in South Africa's future and diversification is key. For this reason, we maintain a significant allocation to a selection of high quality, defensive, dividend paying offshore equities, as a well as maintaining exposure to various globally competitive JSE Rand Hedge equities, such as BidCorp. Quality defensive stocks that are able weather tougher economic conditions should serve investors well in 2024 and 2025. Despite the recently announced stimulus measures we are sanguine on China's growth prospects and thus do not favour a significant weight to Resource counters. Although we have marginally increased our weight to such stocks and continue to monitor trends in China closely.

Our view is that stock picking robust, dividend paying businesses is wise, as economic conditions are especially uncertain, with recession indicators such as the yield curve flashing red, yet markets appear to be pricing in a soft economic landing. Geopolitics, ongoing wars in Ukraine and the Middle East, and a divisive US election further complicate the global growth outlook. As such we remain diversified across sectors and are alert to opportunities to optimise the risk/return balance of the Fund (the addition of oil company Exxon Mobil this year being an example of such an action). Intelligent diversification, in addition to maintaining valuation discipline, further strengthens the Fund's ability to weather current unpredictable economic times.

Raymond Shapiro
Portfolio Manager

Andrew Dowse
Portfolio Manager