Fairtree Equity Prescient Fund Quarterly Update Q2 2023

Market Overview

The FTSE/JSE All Share (ALSI) index increased by 0.7%, the Capped Shareholder Weighted (Capped SWIX) index increased by 1.2% and the Shareholder Weighted (SWIX) Index increased by 1.2% during the quarter. Industrials and Financials rose 3.4% and 5.3% respectively, while Resources declined 6.0%. The Rand strengthened by 5.9% to R18.8 against the US$ during the quarter.

During Q2, Bonds decreased by 1.5% and Cash returned 1.9%. The MSCI Emerging Market Index increased by 0.9% (USD) underperforming the MSCI World Index which increased by 6.8% (USD). The MSCI South Africa Index decreased by 4.9% (USD).

During Q2 Iron Ore decreased by 10.2% to $108.9/t and Brent Crude oil decreased by 5.6%, ending on $75.4/bbl. Copper decreased 7.6% to $8322.1/t. Gold decreased by 2.5% to $1919.4/oz, Platinum was down by 8.9% to $906.3/oz and Palladium decreased by 15.9% to $ 1230.4 /oz.

The VIX Index (Volatility or 'Fear' Index) decreased by 27.3% to 13.6 during Q2.

Economic Overview

Inflationary fears continue to be a focal point across Developed Markets, albeit abating somewhat. Despite this, the overall sentiment in the US is that the policy rate and inflation risks remain skewed to the upside and the Fed continues to pencil in further rate hikes for the remainder of the year. The US has fared better over the second quarter of the year compared to the first, starting with the resolution of the debt ceiling, leading to improvement of the economic outlook and consumer confidence. This optimism flowed over into US equities, accentuated by the AI narrative driving the strong rally we have seen across the sector.

In the Eurozone, although headline inflation has peaked and is declining, core inflation remains sticky, with lower energy costs driving down the former. The ECB has reiterated its commitment to curb inflation back to the 2% level with further hikes likely to occur towards the end of the year.

In the absence of much-needed broad-based stimulus, the anticipated China reopening continues to disappoint. Q2 has been difficult for commodities in general driven by weak China demand. This malaise is overlayed with several idiosyncratic factors across various commodities.

•Over the quarter, iron ore weakness has been driven by subdued steel production impacted by disappointing demand in the construction and automotive sectors - key sectors that account for more than half of steel demand in China.

•Despite Saudi Arabia announcing a further voluntary production cut of one million barrels per day, oil has been weaker off the back of recessionary fears across the US and Europe. This has been exacerbated by the sanctions on Russian crude oil with refined oil products finding their way back to Europe via North Africa and the Middle East.

•The PGM basket weakness has been driven by the highly illiquid Rhodium metal. The low demand in China has been exacerbated by vehicle and glass manufacturers destocking the metal's supplies.

Portfolio Performance

The fund's retail asset class returned -1.13% during the quarter, 228 bps below the FTSE/JSE Capped Shareholder Weighted (Capped SWIX) index*. The Consumer Discretionary sector was the key performance contributor during Q2, and the fund's performance was positively impacted by positions in Gold Fields (+10.40), Harmony (+8.29%), Naspers (3.22%), FirstRand (+13.45%) and Glencore (+8.91%) while positions in Impala (-23.51%), Anheuser (-9.28%), Anglo (-8.32%), ARM (-13.72%) and Sibanye (-20.83%) detracted from the performance.

Portfolio positioning and outlook

Gold has been a key performance attributor over the quarter, and we took the opportunity to trim the sector position and fund other opportunities. We cannot completely rule out the risk of recession in the developed world, although most US print remains strong. Geopolitical risk remains front of mind especially with the recent attempted coup on Putin. Given these dangers, we have maintained an overweight in Gold to add defence and anti-fragility to the portfolio. China continues to disappoint, and the market anticipates a sizable stimulus announcement in the next few weeks; we are cautious and have rotated some iron ore exposure into energy and base metals, with a preference for the larger global miners which offer better commodity diversification and liquidity.

The PGM basket continues to fall and we keep revisiting our investment thesis for the sector, scrutinising supply and demand dynamics which seem to be creating headwinds for the sector, most pronounced by China's continued destocking of the metals.

We anticipate a volatile second half of the year and continue pursuing the alpha opportunities which the market offers.

*Highest rolling one-year return 101.47% and lowest rolling one-year return -23.82% (information to 30 June 2023). The fund has returned an annualised return of 14.55% since inception[1] (benchmark annualised return of 9.88% since inception). The fund's annualised performance over 1-year is 14.91% (Benchmark: 13.48%). The fund's annualised performance over 3-years is 19.40% (Benchmark: 15.69%). The fund's annualised performance over 10-years is 13.75% (Benchmark: 8.47%).

Fund returns disclosed are annualised returns net of investment management fees and performance fees.

[1] November 2011