Amplify SCI* Balanced Fund

Fund Commentary | June 2024

Brian Thomas
Portfolio Manager
Laurium Capital

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Global overview

AI boom continued to contribute significantly to the S&P 500 rally

Global markets were more mixed in the second quarter, with the MSCI World Index up 3%, the S&P 500 up 4.5%, whilst the Euro Stoxx 50 was down 1.3% in US dollars and the Nikkei 225 down by 6.3% in US dollar terms. The AI boom continued to contribute significantly to the S&P 500 rally, with the Magnificent 7 Index up 17.3% for the quarter while the equally weighted S&P was down 1.1% (earnings revisions have been more muted during the second quarter and continue to be largely driven by upgrades to earnings of those companies in the AI space). US inflation surprised to the upside during the quarter, which in turn supported a stronger US dollar and pushed out expectations of rate cuts to the fourth quarter of 2024.

Local overview

Euphoria and anxiety created in the equity and bond

On the local front, after a precipitous fall in ANC support at the May national elections (with the ANC falling to 40%, well below the 43-47% base case expected), a government of national unity (GNU) path between the ANC and other parties began to be forged. This culminated in two material events during the month of June: firstly, a statement of intent drafted primarily between the ANC, IFP and DA allowed for the election of the President and the National Assembly Speaker (and Deputy Speaker) within the Constitutionally prescribed 14-day period - the first key hurdle passed. The second milestone was the (eventual) announcement of President Ramaphosa's Cabinet at the end of June, but only after a fortnight of intense negotiations between the ANC and DA and a public spat over positions to be held in the new administration. These events created both euphoria and anxiety in the equity and bond markets, but both ended the month strongly.

SA bond markets outperformed materially in June, with the reduction in political risk premiums and more optimistic growth outlook spurring a meaningful rally in yields. Yields fell across the curve, with the R2035 bond yield rallying 83 bps over the month of June, which accounted for a substantial portion of the rally over the quarter. The rand strengthened 3.6% against the US dollar and the FTSE/JSE Capped Shareholder Weighted All Share Index rallied 8.2%, with the more domestic exposed equities driving the rally. Some of the key drivers of the domestic rally included the following: Banking Index (+20%), Insurance Index (+17.5%) and General Retail Index (+12.5%). Anglo American plc rallied 24% during the quarter on the back of BHP's proposed acquisition thereof. PGM equities also performed strongly, despite the stronger rand, with Impala and Northam up 15.9% and 12.7% respectively.

Performance and positioning

Performance

During the quarter, the Amplify SCI Balanced Fund, delivered a return of 4.5% over the quarter. FirstRand (+24.6% over the quarter), Prosus (+8.8%) and Anglo American (+24%) were the largest equity drivers of performance; however, the Fund's exposure to the belly of the South African rate curve also added to performance. Given the strength of the rand over the quarter, the fund's exposure to dollar assets, both equity and fixed income, were small detractors from what was generally a strong quarter for the fund.

Positioning

The fund is at weight South African equities relative to strategic asset allocation, and continues to hold large positions in global consumer stocks, including Prosus, British American Tobacco, and AB InBev, as we believe the valuations of these stocks look attractive in conjunction with their growing earnings profiles. The fund has a large exposure to South African banks through Absa and FirstRand, which trade at low valuations with attractive dividend yields and healthy balance sheets that are well provided to buffer higher credit losses. The banks are also well positioned to capitalise on

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growing domestic infrastructure investment, along with ongoing structural reforms. The fund has selective positions in other SA companies that should benefit from less loadshedding and a recovery in the local consumer as we enter a phase of interest rate declines, including The Foschini Group, Pepkor and Motus.

The fund has select resource exposure, mostly through the diversified miner Anglo American where we believe the management should be able to unlock value via a sale/unbundling of non-core assets (sale of Australian coking coal assets, unbundling of Anglo American Platinum and either sale or demerger of De Beers). The potential for further mergers and acquisitions should also provide an underpin to Anglo's valuation. The fund has some platinum equity exposure as we feel the supply-demand balance should be supportive of the metal prices. The fund is underweight offshore equity exposure with valuations stretched particularly in the US, driven by a highly concentrated market. The fund is diversified into a wide range of offshore equity assets in a combination of cost-effective exchange-traded funds (ETFs) and actively managed positions in its investment in the Laurium Global Active Equity Fund. The fund is overweight South African government bonds relative to its strategic asset allocation. This is an asset class with a strong real yield, which has, as a result, a reasonable margin of safety.

Outlook

As previously indicated, we remain positive on the outlook for SA equities, given our view that they remain undervalued both on an absolute basis and relative to emerging and developed markets. Should the genesis of the GNU prove to be successful and enduring, this could lead to an environment that is more conducive to further structural reforms, which in turn should be supportive of upward revisions to economic growth. The extreme woes of loadshedding appear to be behind us (there has been no loadshedding in the quarter under review), SA's inflation remains within the South African Reserve Bank's target range and rate cuts are still expected to materialise in the second half of 2024. This should be supportive of economic growth, the South African bond market, corporate earnings and a possible rerating of South Africa Inc over the medium term. The outcome of the approaching US elections will continue to be a focus for global equity markets and the impact of such outcome will have to be closely monitored and assessed.

We continue to believe that the fund is sufficiently diversified and is well positioned to benefit from any upside that should arise as mentioned above.

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