



SOUTHERNCROSS
CAPITAL

BI-ANNUAL REPORT 2024

2024 OVERVIEW

As this will be the first time we provide a review of our performance and positioning outside of formal reporting channels, we decided to do a short analysis for the full calendar year 2024. Going forward, we will continue these reviews on a biannual basis.

GLOBAL FIXED INCOME: A TALE OF TWO HALVES

Inflation's contraction slowed and reversed, still well short of the Fed's 2% target, and with the economy running hotter than expected the Board of Governors turned hawkish once more.

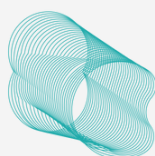
The Trump-led Republican election victory in November was the final nail in the coffin for bonds, as the incoming party campaigned on an inflationary protectionist platform, further shifting rates expectations higher. The picture was similar in the rest of the developed world, with investment grade government bonds returning -3% (USD) in 2024.

The year started with a slow but steady moderation in inflation, underscored by an oil price that remained lukewarm despite several supply disruptions, as well as a weaker Chinese economy. Bonds surged as the Federal Reserve turned dovish and forward rate expectation slumped.

However, the US labor market proved particularly resilient, as a strong economy continued to add jobs at such a rate that unemployment could not materially weaken.

GLOBAL EQUITY: "YOU GOTTA BE IN AI"

AI, and the potential efficiencies that the technology could bring, dominated the market in 2024. The leaders in Large Language Model development, as well as the chipmakers supplying the processing power, surged through most of the year. Financials performed well on the back of better-than-expected results and consumer resilience. Industrial miners lost value, as a slowing Chinese economy soured the outlook for commodities. The MSCI World returned 19% (USD) in 2024.



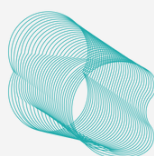
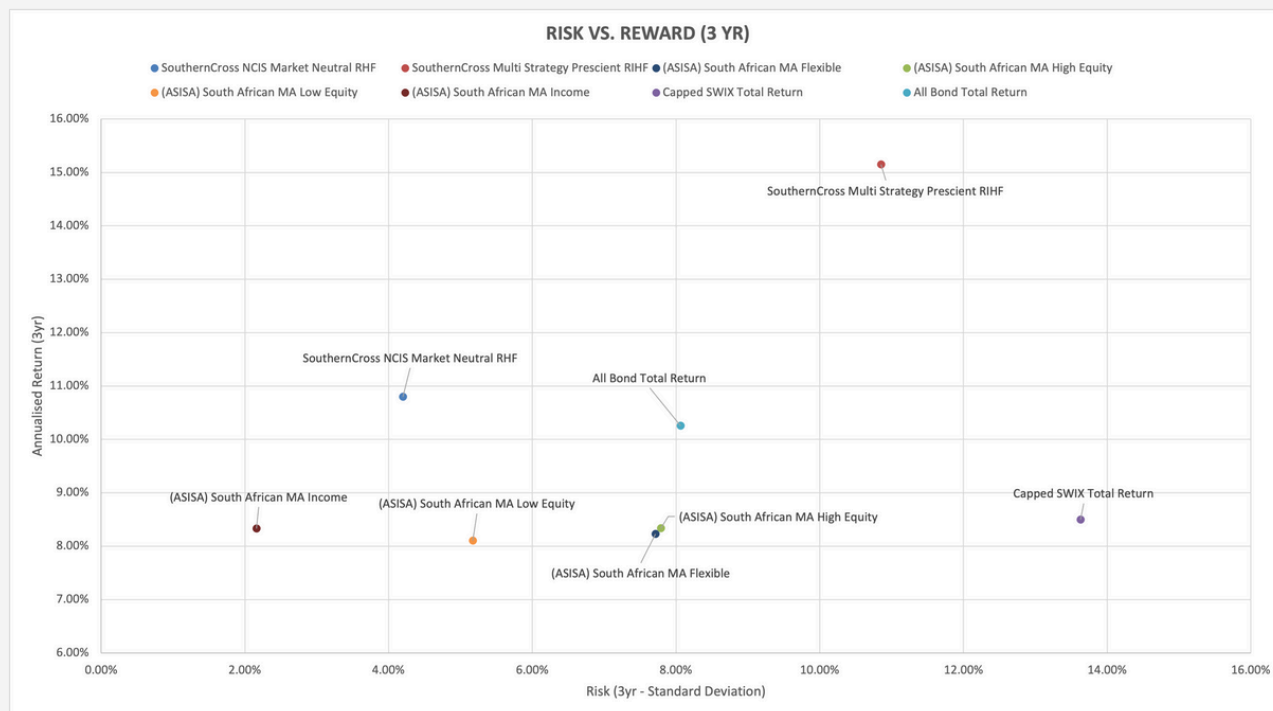
SOUTH AFRICA: GNU VS EM SENTIMENT

Election uncertainty and poor economic metrics weighed heavily on South African equities and bonds in the first half of the year. While the rest of the world was experiencing a tailwind in tech and lower borrowing costs, South African assets lagged and the ZAR was one of the poorest-performing currencies globally.

As if South Africa’s future was poised on a knife’s edge, the ANC lost its majority in parliament and the Government of Nation Unity was formed. Icy indifference turned to optimism, and Q3 2024 saw a significant shift in all asset class valuations locally.

Despite occurring against the backdrop of emerging market asset price pressure globally, “SA Inc” shares and South African Government Bonds rallied significantly. The ZAR finished as the 4th strongest currency globally for 2024.

The Trump election victory lead to a significant retracement towards the end of the year, but despite this the SWIX returned 13.5%, the (SA Inc heavy) Midcap returned 15.4%, and the ALBI returned 17.3%.



2024 SOUTHERNCROSS CAPITAL REVIEW

The SouthernCross Multi-Strategy and Market Neutral Retail Hedge Funds delivered +19.7% and +14.1% respectively for 2024. We are pleased with these returns in a challenging year with multiple inflection points.

Both SouthernCross funds came into 2024 positioned relatively defensively, though equity exposure was slowly increasing towards the end of the previous year and this continued through to Q2 2024.

We maintained our core defensive stock picks, adding some US and EU defence industry stocks as both a play on long term NATO rearmament, a reaction to Russian aggression and increasingly assertive Chinese territorial claims in Asia, as well as a hedge against further geopolitical shocks.

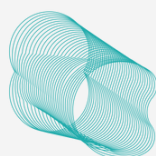
Given that inflation globally and locally was cooling, we took the view that emerging market assets were set to benefit as a consequence of the easing monetary cycle, with South Africa looking particularly cheap. We positioned to be overweight financials, particularly the banks. We also took on select local retailers and industrials.

We're always looking to utilise fund capital efficiently, and to this end we enhance fund yield by taking selective short term fixed income and preference share exposure.

Directly before the South African election, as well as directly afterwards, it became apparent that South African government bonds were extremely attractive – given the dual tailwinds for lower rates globally as well as positive sentiment growing around the new GNU. We tactically added some medium duration SA Govi exposure to both funds.

Not all our calls added value. An initially profitable Pick n Pay short ended up as a loss as we underestimated the willingness of the founders to relinquish control, and the subsequent rally in the share detracted from our performance.

We did not trim our medium duration bonds in Q3 and suffered losses as rate expectations shifted higher and bonds fell. We missed a portion of the SA Inc rally as we remained somewhat cautious on the bulk of local industrials.



LOOKING AHEAD TO 2025

Looking forward to 2025, we expect local inflation to remain benign and the rates regime to slowly ease lower. As such, we remain positive on South African banks as the consumer credit cycle turns. For the same reason, as well as their overall quality, we also have a preference for South African consumer stocks.

Our bullishness on South African equity does not quite extend to South African bonds, as we believe this class is closer to fair price. We have significantly reduced our duration fixed income positions.

We have added a new analyst to the investment team. Pieter Slabbert joins SouthernCross from his postgrad studies in Actuarial Science. Among other projects, we intend to utilise the additional resources Pieter brings to the team to further add to our equity arbitrage opportunity set.

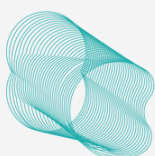
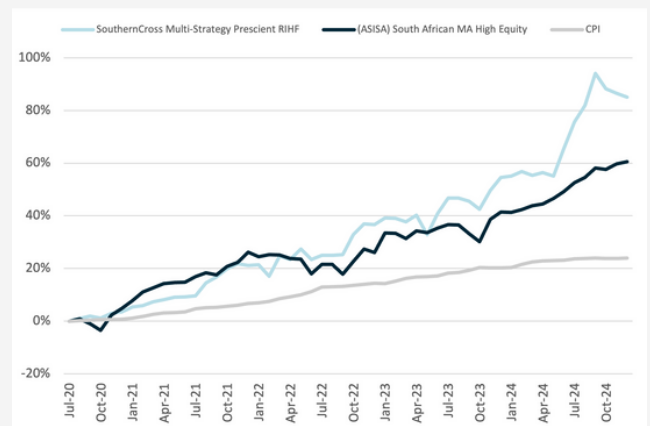
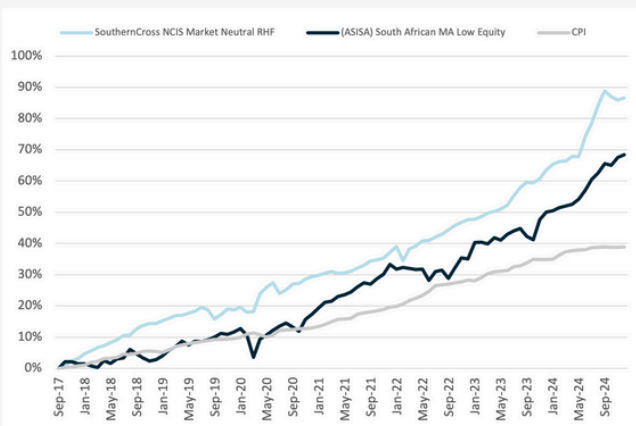
On balance, we are happy to take lessons from both our winners and losers, and we remain delighted with the full year outcome, as well as the rolling three-year annualised returns of 15.1% for the Multi-Strategy and 10.8% for the Market Neutral Funds. Further underscoring the good performance, we are pleased that the Multi Strategy Fund was nominated for the HedgeNews Africa Awards and the Edify Awards.

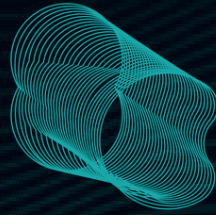
	12M	3yr Ann	5yr Ann	Since Inception
SouthernCross Market Neutral	14.1%	10.8%	9.4%	9.0%
(ASISA) South African MA Low Equity	12.3%	8.1%	8.6%	7.5%
Capped SWIX Total Return	13.4%	8.5%	10.3%	7.4%
All Bond Total Return	17.2%	10.3%	9.6%	9.4%
Cash	8.2%	7.0%	5.8%	6.0%

	Sharpe	Sortino	St Dev	% + months
SouthernCross Market Neutral	0.76	1.31	3.9%	87%
(ASISA) South African MA Low Equity	0.26	0.42	5.5%	68%
Capped SWIX Total Return	0.09	0.15	15.3%	57%
All Bond Total Return	0.40	0.65	8.4%	67%

	YTD	12M	3yr Ann	Since Inception
SouthernCross Multi Strategy	19.8%	19.8%	15.2%	15.0%
(ASISA) South African MA High Equity	13.5%	13.5%	8.3%	11.3%
Capped SWIX Total Return	13.4%	13.4%	8.5%	13.9%
All Bond Total Return	17.2%	17.2%	10.3%	10.6%
Cash	8.2%	8.2%	7.0%	5.8%

	Sharpe	Sortino	St Dev	% + months
SouthernCross Multi Strategy	0.98	2.15	9.3%	66%
(ASISA) South African MA High Equity	0.72	1.45	7.6%	66%
Capped SWIX Total Return	0.60	1.19	13.3%	60%
All Bond Total Return	0.65	1.16	7.4%	70%





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