

**12 December 2024**

Dear Investor,

As we reflect on the year that is past, one of Buffett's great quotes could not be more fitting.  
"For 240 years, it's been a terrible mistake to bet against America, and now is no time to start."

But equally appropriate is his other sage advice.

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

2024 has not been a slam dunk for investors, many markets have performed awfully, contrary to common knowledge. Winning in 2024 needed 3 bets – the USA (+28.3% in \$) amongst developed markets, China (+16.5% in \$) and South Africa (+13.8% in \$) in emerging markets. "Losing" or missing out, involved bets on Latin America (-21.3% in \$), in fact most emerging markets, excluding China, did +5.4% in \$ and Europe (+5% in \$).

Fortunately, the gods shone brightly upon how we positioned your money this year. South Africa was too cheap to ignore as extreme investor pessimism created a cycle where fiction began to dominate fact. The USA is always our primary hunting ground, the breadth and depth of its financial system allows us to identify quality undervalued businesses, even when the overall market might be expensive. Then China offered pockets of opportunity albeit wrought with complexity, but where some respectable businesses exist that are shunned due to geopolitical groupthink.

All the Northstar funds had a solid 2024. To the end of November, our local fund range performed as follows: The Northstar BCI Income Fund gained 9.54%, the Northstar BCI Managed Fund 11.54% and the Northstar BCI Equity Fund 15.71%. It's a similar story over the past 3 years, annualised returns being 9.06% (Income Fund), 9.5% (Managed Fund) and 10.56% (Equity Fund).

Northstar also manages global funds. Year to date, the Northstar Global (\$) Flexible Fund gained 12.41% (\$) and the Northstar Global (\$) Income Fund, 4.75% (\$). Whereas the Northstar Global Income Fund has yet to turn 3 years of age, the Northstar Global \$ Flexible Fund is soon to turn 8. It has returned 4.02% (\$) annualised over the past 3 years, versus peers at 1.89% (\$) and since its inception in 2017, has made investors an annualised return of 7.04% (\$) versus peers at 3.7% (\$).

Despite our endless pursuit for improvement, we believe that our clients and staff, who are co-invested in Northstar's range of funds, have been well served again this past year.

Getting back to Warren Buffett's second quote above, the Northstar investment team is concerned about the heightened levels of exuberance around certain US sectors and stocks. Much of this is concentrated on a narrow grouping of companies that are perceived to be artificial intelligence beneficiaries - the global technology index rallied 32% this year.

As these hyperscalers (as the large tech companies are now referred to) spend inordinate amounts of money investing in artificial intelligence, a cursory glance at history tells us that we have seen this story unfold before. Between 1996 and 2001, telecom companies spent furiously on internet infrastructure – a land grab to capture clients. In 2001, the market began to understand that these investments were unlikely to generate a return on the capital spent, this resulted in telecom stock prices plunging 70% and big names such as WorldCom, Global Crossing and Enron becoming business failures.

The market giveth and the market taketh away, and there were of course winners from the late 1990's telecom investment splurge, but these were not the telecom companies that built that infrastructure, instead, it was the ones that used it – Google and Amazon being the best examples. Our guess is that this cycle might be no different!

So, as the technology index rocketed in 2024, other sectors such as Materials and Healthcare languished with paltry returns of a mere 3% and 7.5% respectively. The bifurcation of the market should be obvious to all. Whilst not as extreme as the differences in performance between sectors, different investing styles also had varying levels of success this year. Momentum investing proved the winner (+33.7%) versus more traditional value (+18.2%) and quality (+22.2%).

As the steam and heat rise in this momentum market, active managers have unsurprisingly struggled to outperform the US' main indices; their natural desire to own undervalued companies does not sit well in an environment of excess.

However, the current asymmetrical nature of the market offers a defining opportunity for the active management industry – Northstar believes that in the years ahead, great stock pickers will generate significantly higher returns than leading US indices such as the S&P 500. But to achieve this, will depend on gallantry, avoiding current racy winners and an acceptance that this could result in near-term underperformance.

Such bravery is being demonstrated by Buffett! In the third quarter of 2024, Berkshire's total cash exposure represented 28% of the assets held by the company, the cash position has doubled in less than one year. This is the highest percentage weighting to cash in 34 years at Berkshire.

Northstar's investment infrastructure is guiding us to caution offshore, and our Global Flexible Fund has built-up a sizable weighting to cash and other defensive assets. Our South African based funds are however more heavily invested in equities as the JSE is not expensive and corporate profitability is rebounding in SA off very depressed levels. We accept that the JSE will have its starts and stops, but that the market continues to be undervalued.

In conclusion, we hope you enjoy our final Northstar Quarterly Report for 2024, it contains an article on our investment process offshore, written by Joshua Reed and then Marco Barbieri gives more insight into the local market and where it might be heading.

# NORTHSTAR

ASSET MANAGEMENT

As the year draws to its end, Northstar will give our staff a well-earned break over Christmas and the New Year. Our office will run a skeleton staff, available for emergencies, from the 20<sup>th</sup> of December 2024 to the 6<sup>th</sup> of January 2025.

We wish you and your family a safe and blessed festive season and we look forward to returning in 2025 as markets and the world focus attention on a Trump presidency and his bag of tricks.

All the best,



Adrian Clayton and the entire Northstar Team