Please note that the commentary is for the US dollar retail class of the fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.

The fund advanced 5.6% for the quarter against the benchmark return of 5.7%. This brings the fund's one-year performance to 25.2% compared to the 24.0% returned by the MSCI All Country World Index.

Global equity markets finished 2017 on a strong note, with the MSCI World Index delivering a return of 5.7% for the quarter. Strong economic growth underpinned the market with estimates that the global economy expanded at a rate of 3.3% over the past six quarters, which is the best period of sustained growth recorded since the 2008 credit crisis. The US economy is strong and the gradual tightening in monetary policy will now be offset by tax cuts which are expected to boost investment and growth in the medium term. Europe and Japan have both accelerated recently and all signs are that the global economy is carrying strong momentum into 2018.

Japan was the best performing region this quarter, rising 8.5% (in US dollar terms). The weakest return came from Europe, which rose 2.3% (in US dollar terms). The Pacific ex-Japan region returned 7.1% (in US dollar terms) and North America rose 6.4%. Emerging markets advanced 7.1% (in US dollar terms). The fund continues to be overweight North America, underweight Europe and Japan and overweight emerging markets

Amongst the global sectors, information technology (+8.1%), materials (+7.6%) and energy (+5.9%) generated the best returns. The worst performing sectors were utilities (-1.0%), healthcare (+0.6%) and telecommunications (+0.9%). On a look-through basis, the fund benefited from its overweight position in information technology and consumer discretionary and its underweight position in utilities and telecommunications. Its underweight positions in energy and materials detracted from performance.

In general, the underlying managers had a weak quarter although two of our holdings (Lansdowne Developed Market Strategy and Contrarius Global Equity) delivered very strong returns over the period.

Egerton lagged the index this past quarter, but has otherwise had a very good year. Detractors include Ryanair, which declined 8% due to issues relating to cancellations and pilot strikes, and Charter Communications, which also declined 8% after losing more customers than expected. Low exposure to resources also held the fund back.

Coronation Global Emerging Markets Fund also had a difficult quarter. Magnit, the Russian retailer, declined 33% after an equity raise, while X5, a competitor to Magnit, declined 16%. Ctrip (Priceline/Expedia) fell 16%. The fund did have some good performers including Porsche, which rose 29% after the dismissal of long outstanding lawsuits against the company, and Chinese insurers PingAn (+36%) and AIA Group (+16%) which benefited from a relaxation in regulations. These were not sufficient to offset the detractors though.

Maverick Capital and Tremblant Capital also closed the quarter behind the index. Maverick was again held back by its healthcare exposure after the industry recorded another poor earnings quarter. Tremblant held Unicredit (-14%), Tile Shop (-24%) and Telefonica Deutschland (-11%).

Contrarius and Lansdowne both generated strong alpha for the quarter. Contrarius benefited from its large weighting to energy and materials companies, while Lansdowne benefited from exposure to airlines and banking stocks.

Outlook

Global growth is strong and a key consideration for 2018 will be whether inflationary pressures that could arise from such growth will curb the pace of expansion. A recent Bloomberg survey indicated that consensus was for little or no acceleration in global inflation. Monetary policy is expected to remain benign with markets anticipating two to three rate hikes by the US Federal Reserve in the medium term. The ECB has already guided that its quantitative easing programme will last until at least September 2019 and that rates will be on hold until well past this date. The Bank of Japan, in turn, is not looking to change its relaxed monetary policy any time soon. It would be prudent to watch closely for any surprises on the upside that may modify these positions.

Portfolio manager
Tony Gibson

as at 31 December 2017