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 declined by 16.7% against the benchmark decline of 12.8% in quarter 4, bringing the rolling 12-month performance to -13.8% against the -9.4% returned by the MSCI All Country World Index (ACWI).

Global markets declined dramatically over the fourth quarter of 2018 on the back of trade war and global growth concerns, thereby giving rise to the worst annual performance for the ACWI since the financial crisis of 2008. Despite this, positive news in corporate profits and the labour market would point to continued global economic growth and, consequently, the US Federal Reserve (Fed) raised rates another 0.25%. That said, there is clearly some concern that US growth will slow over the next year or two as the Fed futures market has begun pricing in some easing over this period, while the Fed's dot plot would indicate further rate hikes. The oil price fall of 35% might also be an indication of an expected slowdown and has greatly moderated inflation expectations. China continues to feel the impact of its "trade war" with the US and the Bank of China recently relaxed reserve requirement ratios as a form of monetary easing. A positive outcome in the trade dispute with the US is important and both parties appear willing to work toward resolving their differences. In Europe, Brexit dominates the news flow and, with three months to go until the official exit date, it appears that many outcomes are still possible. Hopefully, a positive result will be achieved by the 29 March deadline.

The Pacific ex-Japan was the best performing region in the third quarter of 2018 (Q318), declining 7.9% (in US dollar terms). The weakest return was from Japan which declined 14.2%. North America declined 13.75% and Europe fell 12.7% (in US dollar terms). Emerging markets performed better than developed markets, declining 7.9% (in US Dollar terms) against the developed markets decline of 12.8%. On a look-through basis, the fund is overweight North America, equal weight to Europe and underweight Japan and has a marginal overweight to emerging markets.

Amongst the global sectors, utilities (-0.1%), telecommunications (-7.5%) and consumer staples (-7.3%) declined the least. The worst-performing sectors were energy (-22.2%), information technology (-17.9%) and industrials (-16.5%).

Contrarius Global Equity had a significant negative impact on the fund this quarter, declining 25.8% after its exposure to energy was affected by the sharp decline in the oil price. The fund had previously benefitted from this exposure, but Contrarius believes that the companies offer strong upside, even with a depressed oil price, as the oil majors need to replenish reserves through offshore drilling.

Tremblant underperformed the index during the quarter, producing negative alpha of 4.3%. Positions in Realogy (-28%) and Spotify (-37%) contributed to this. Realogy was impacted by rising interest rates and margin pressure while Spotify delivered disappointing earnings and indicated that increased R&D would pressure short term profits.

Coronation Global Equity Select had similar numbers to Tremblant, as it held British American Tobacco (-28%) which declined further on a potential ban in the US on the use of menthol in some its products. Alphabet (-13.4%) fell after Google announced that it was closing its Google+ division.

Maverick Capital declined 16.0%. It too held British American Tobacco. DXC Technology also negatively contributed to performance after it fell 43% after missing its quarterly earnings guidance on poor sales.

Outlook

The sharp fall in equities, the widening of credit spreads and the increase of volatility indicates that investors are positioning themselves for less favourable market conditions in the coming months. While there are reasons for concern, there are also some potential positives that may come to fruition during the quarter. A positive outcome from the US-China trade talks and a positive resolution on the way forward for Brexit would certainly please the market. Of course, both may be sources of market downside, but with equity markets now at reasonable valuations, they still offer better value than other investments.

Portfolio manager
Tony Gibson and Karl Leinberger
as at 31 December 2018