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Please note that the commentary is for the retail class of the fund.

The past quarter was marked by a major reversal in investor sentiment towards emerging markets. Emerging currencies, bonds and equities all succumbed to immense pressure as global investors de-risked their portfolios. It is not easy, even in hindsight, to say exactly what triggered the exodus. But it is likely the stronger US dollar, higher US bond yields, an expectation of further rate hikes in the US, as well as in Europe, and all the talk of trade wars started by the Trump government combined to generate enough bad news flow to spook investors.

South Africa did not escape this global trend. The rand lost 14% of its value relative to the dollar and bond yields surged as foreigners offloaded a massive R65bn of government bonds over the quarter. The JSE saw a major shift in sentiment too with domestic orientated shares under selling pressure while the rand hedges were protected as expected in turbulent times.

In managing this low-risk balanced portfolio, we position the fund as though some bad news may always occur. The offshore holdings of 25% at the start of the quarter, a healthy exposure to rand-hedged shares and a low modified duration in the bond portion of the portfolio all helped to protect the fund against the selloff. The result is a credible return of 4.2% over this eventful quarter. The one-year performance is 7.8%, the three-year return is 6.4%, over five years it is 8.1% and the 10-year number is 10.3% per annum. Inflation ranged between 4.8% over the past year to 5.5% over the last 10 years. Our aim to beat inflation by 3% per annum was therefore attained over the long term but not over the three- and five-year periods.

The wild gyrations in the market gave us the opportunity to make some meaningful changes to the composition of the fund. The rise in yields of government bonds to levels between 9% and 10%, depending on its duration, is particularly attractive to funds such as this with a target of beating inflation by 3%. Inflation is expected to average between 5% and 6% over the long term. Buying bonds at these attractive real yields was therefore an opportunity that we did not want to miss out on. We added aggressively to our South African bond holdings taking exposure from 33% to 41% of the fund (excluding inflation-linked bond exposure of 7.3%). In order to buy the bonds we used the rand weakness to lighten our global holdings from 26% to an effective exposure of 20% as we sold units in the Global Capital Plus Fund. We also reduced the fund's cash holding to facilitate the bond buying.

Within the domestic equity portion of the fund, we trimmed our position in Mondi as this high quality company's share now offers limited upside following its stellar performance. We added to Standard Bank, Naspers, Bidcorp and added newly listed share Quilter ahead of its unbundling from Old Mutual. Quilter is a UK-focused integrated wealth manager. The UK savings market is attractive due to recent pension reforms which gives individuals more control over their retirement savings. This has increased the need for financial advice. Quilter is well placed with the second largest advice force and platform in the UK.

Over the short term the negative attitude to emerging markets may well persist for a while. However, the high real yields available in the bond market as well as the derating of many domestic shares to attractive levels make us more optimistic of reaching our goal of beating inflation by at least 3% over rolling three-year periods.

Portfolio managers
Charles de Kock and Duane Cable
as at 30 June 2018