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

Despite more clouds gathering on the horizon of global growth prospects during the third quarter of 2018, global equity market participants preferred to focus on continued strong profit growth numbers - especially out of the US - to register very strong returns over the period. The MSCI All Country World Index returned 4.3% over the quarter, almost matching the year-to-date number of 3.8%. At the same time, investors have had to adjust their interest rate expectations for the US upwards, as was discussed in a few of our earlier quarterly reports. This was in response to US economy continuing to surprise on the upside in terms of growth and the sustainability of this growth.

Going forward, we will continue to monitor escalations in the trade war dialogue, primarily between the US and China. Up to now, the market has chosen when it becomes concerned about developments, and hence one should exercise judgement when headline-grabbing pronouncements are made. As we argued in the prior quarter, we think the bigger issue that investors need to focus on is the process of interest rate normalisation playing out in the US. Ten-year yields in the US have moved from 2.9% at the end of June 2018 to 3.1% at the end of September 2018 and have subsequently moved to over 3.2%. The global bond index, in fact, generated negative returns over the last three months, resulting in a negative 1.3% returns over the last year. We continue to exercise caution with regards to the bond market, despite the weakness over the last few years. Investors should be reminded that in Europe the process of interest rate normalisation has barely started, hence we continue to advise exercising caution when calibrating expectations for equity market returns over the next few years.

Another notable development over the last three months has been the increased cost of capital in emerging market equities. This subset underperformed their developed market complex by 6% over the quarter, on top of an underperformance of almost 10% in the prior three month-period. This has meant that, over most periods, emerging markets have now underperformed developed markets, with the US equity market continuing to be the stand-out performer over the last decade. Emerging market currencies shared in this adjustment, with the Russian ruble, South African rand and Indian rupee all depreciating by around 12% during 2018.

The Turkish lira is down almost 37%, but we view this as mostly self-inflicted as the political regime continued to alienate foreign investors with illogical and, at times, contradictory actions. Developed economies' currencies generally depreciated only slightly against the US dollar over the quarter (around 2%).

Healthcare was the best performing sector this past quarter, with information technology (IT) again registering a strong performance. Laggards were energy (after a very strong second quarter), utilities and real estate. Since the start of the year, consumer staples (in line with higher long bond rates), financials (slightly more perplexing given the higher interest rate expectations), materials (concerns over emerging market growth prospects) and telecommunications (also higher interest rates) have been laggards, with IT by far the best performer and healthcare a clear second.

Listed property had a tough quarter, with essentially a flat performance. UK property continued to suffer from a weaker fundamental outlook, with further uncertainty regarding the Brexit outcome muddying the waters. Our property holdings, which have a disproportionate exposure to the UK, suffered as a result, although the potential bid for UK Real Estate Investment Trust Intu after quarter-end, has lifted the prices of some of these counters. We are awaiting further news on that front.

Portfolio managers
Louis Stassen and Neil Padoa
as at 30 September 2018