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

The fund appreciated by 2.3% in the third quarter of 2018, which was marginally behind the 2.8% return of its benchmark. The fund has now appreciated by 6.8% year-to-date, with rand depreciation playing a large role in the return as c. 90% of the fund is invested offshore. In terms of individual contributors year to date (YTD), Airbus (+30% in euros) is the largest contributor and has added 1.4% to the fund's return. Other notable contributors have been Alphabet (+15% YTD in US dollars, +1.2% positive impact) and Adidas (+25% YTD in euros, +1.1% impact). Over the past five years, the fund has generated a return of 11.0% per annum and over 10 years a return of 13.4%. Since inception almost 20 years ago it has produced a return of 14.2% per annum (2.6% p.a. ahead of the benchmark).

The fund ended the quarter with 65.6% net equity exposure: a reduction from the 70.9% equity exposure at the end of June. Of this, 60% of the equity exposure was invested in developed market equities, 36% in emerging market equities and 4% in South African equities. Given the large sell-off in emerging markets over the past few months we added additional emerging market equity exposure through adding to 58.com (no.1 online classified business in China) and Sberbank (no.1 bank in Russia) amongst others. At the same time, we reduced the fund's US technology exposure due to continued share price appreciation and resultant less attractive valuations. In this regard the Alphabet, Facebook and Microsoft positions were all reduced and collectively were 6% of fund at the end of September compared to 9% of fund at the end of June.

Our negative view on global bonds remains unchanged, although with US bond yields now rising we have started to build a small US government bond position (2.5% of fund), albeit largely in short-dated (2-year) treasuries. In addition to this we also bought a 1% position in L Brands (owner of Victoria's Secret) corporate bonds which were yielding 7.3% on purchase. The fund has 5.6% invested in global property: we are still finding selected value in the UK/European retail, US retail and German residential property stocks. Lastly, the fund has a physical gold position of 2.4%. The balance of the fund is invested in cash, largely offshore. As has been the case for a number of years now, the bulk of the fund (over 90%) is invested offshore, with very little being invested in South Africa.

Global markets are clearly far less attractive than they were three or five years ago, and the fund's equity exposure will likely continue to decline further if equity markets continue to rise. We are however still able to find good selected value in both developed markets and emerging markets and remain optimistic about the potential returns that can be generated by the fund.

Portfolio managers
Neville Chester, Gavin Joubert, Karl Leinberger, Mark le Roux and Louis Stassen
as at 30 September 2018