The fund appreciated by 1.6% in the second quarter of 2019 (Q2-19), taking its year-to-date return to +18.8%, compared with the +10.7% return of the benchmark. From a stock-specific point of view, Blackstone was the largest contributor (+27% in US dollar terms, 0.6% positive impact), followed by Adidas (+25%, 0.5% contribution) and Walt Disney (+22%, 0.4% contribution). The largest detractors were Yes Bank (-0.6% contribution) and British American Tobacco (-0.6% contribution). We sold the Yes Bank position during the quarter as a result of concerns over their book, but have maintained the British American Tobacco (BAT) position at 3.0% of fund as we continue to hold the view that on less than 10 times earnings and a 7% dividend, BAT is very attractive. Over the past five years, the fund has generated a return of 9.6% p.a., over 10 years a return of 15.7% p.a. and since inception over 20 years ago, it has generated a return of 14.2% p.a.

The fund ended the quarter with 75% net equity exposure, largely in line with where it was at the end of March. Of this, approximately 57% of the equity exposure was invested in developed market equities, 37% in emerging market equities and 5% in South African equities.

Our negative view on global bonds remains largely unchanged and only 4.5% of the fund is invested in bonds, largely made up of a 1.7% position in L Brands (owner of Victoria's Secret) corporate bonds and some exposure to short-dated US Treasuries (largely as an alternative to cash). The fund also has c. 5% invested in global property: largely in Unibail (European and US retail property) and Vonovia (German residential). Lastly, the fund has a physical gold position of 2.6%. The balance of the fund is invested in cash, largely offshore. As has been the case for a number of years, the bulk of the fund (over 90%) is invested offshore, with very little being invested in South Africa.

While global markets have done very well over the past decade, we continue to find interesting opportunities in both developed markets and emerging markets. In this regard, within developed markets, Unibail is one such opportunity, in our view, and we increased the position over the quarter (from 1.8% of fund to 3.2% of fund) as the share price declined. Unibail owns a number of the best retail properties in Europe and has been very good at managing these assets through, for example, changing the tenant mix regularly. The operational performance of Unibail's tenants is materially superior to that of average retail performance. Given the (indiscriminate) concerns over physical retail assets in markets today, one is able to buy Unibail at 40% below NAV and with an 8% EUR dividend yield, which, in our view, is extremely attractive. Within emerging markets, Ping An Insurance Group is a 2% position and top 20 holding. Ping An is the largest privately controlled (as opposed to State owned) life insurer in China (which makes up c. 75% of its business, by value) and who also has short-term insurance, banking and asset management businesses. The insurance market in China is very underpenetrated and Ping An has 1.4m agents tapping into this market, as well as cross-selling various Ping An products. Today Ping An trades on just 11x this year's earnings, with a 2.5% dividend yield – which we believe is very attractive for a company with such a large market opportunity.

Portfolio managers
Gavin Joubert and Marc Talpert
as at 30 June 2019