

*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.*

No sooner had the dust settled on 2018 than global investors changed their focus from recessionary fears to the more dovish commentary from both the US and European central banks in response to the weaker global economic outlook amidst heightened trade war fears. Expectations around future interest rate moves repriced significantly, with investors now expecting the next move to be a decline in short rates in the US. While this outlook continues to discount a significantly more dovish scenario than suggested by the US Federal Reserve's dot plot, this divergent interest rate view has been a feature of the market for quite some time. We continue to hold a slightly more hawkish view with regards to interest rates, and believe the market has become too complacent about inflationary pressures as well as interest rates. Long bonds also repriced, with 10-year Treasuries now trading at around 2.5% after touching 3.2% in the fourth quarter of 2018 (Q4-18).

Global equities performed well, almost fully erasing the declines of Q4-18, with the MSCI All Country World Index returning 12.2% over the quarter

(Q1-19) on a net basis. As a result, the lagging 12-month performance has turned positive again, achieving 2.6% (net). The US outperformed Europe by about 3% over Q1-19 and by 12.5% over the last year. Japan was a notable laggard over these periods, returning 6.6% over Q1-19, and negative 7.6% over the last year. Emerging markets (as measured by the MSCI Emerging Markets Index) also underperformed their developed market peers by generating 9.9% (net) over the quarter and negative 7.4% (net) over the year. China bounced back strongly, as would have been expected given the slightly improved macroeconomic backdrop, but still performed poorly over the last 12 months. Information technology was the best performing sector given the reduced long-term discount rate, while interest rate sensitive sectors such as real estate and consumer discretionary also did well. Energy rebounded on the back of the stronger oil price. Healthcare and financials were the laggards, the latter suffering from the flattening of, and drop in, the yield curve.

Surprisingly, the US dollar also strengthened by 2.2% against the euro and by 1.1% against the yen, contributing to the underperformance of the other regions. Gold was marginally positive over Q1-19.

As alluded to above, global bonds (as measured by the Bloomberg Barclays Global Aggregated Bond Index) had a good quarter with a positive return of 2.2% despite the stronger US dollar suppressing non-US asset returns. Over the last 12 months, the total return for global bonds was still marginally negative though. Global listed property performed well against the more benign outlook for interest rates, returning almost 15% over Q1-19. All regions were strong, led by the US, although Japan again lagged the rest of the world. Retail property stocks rebounded from their oversold levels.

The fund had a strong quarter, generating a return of 6.6% –one of its best quarters in a long time. Over the three years to end-March 2019, the fund returned 3.6% p.a., while its annualised return since inception was 3.9%.

While we increased the fund's equity exposure over Q1-19, we continued to position it relatively conservatively, by buying put options from time to time and by reducing the risk asset exposure following the period of strong equity market performance. Currently the fund has 29.1% effective equity exposure and 10% exposure to listed property. Our property exposure, while lagging the overall property index return, still contributed strongly to the fund's good performance. Our fixed interest component was very conservatively positioned, thus not participating much in the downward move in long bonds. Over the last 12 months, the major detractors were our UK property holdings.

Within equities, we are pleased some of our detractors in previous quarters turned around strongly in Q1-19 to contribute to our good performance. British American Tobacco was the biggest contributor (arguably from a very oversold position), followed by Altiace USA which has related on slightly

better than expected results and rumours of an asset sale that will help the company delever quicker than expected. Airbus continued to perform well, aided of late by the misfortunes of its biggest competitor Boeing. Philip Morris, Charter Communications and Pershing Square Holdings (Pershing) also materially added to the fund's outperformance.

As indicated earlier, we have reduced both our equity and listed property exposure somewhat into the rally. While equity valuations are not high, we remain circumspect regarding the future direction and absolute level of US interest rates while also keeping an eye on geopolitical developments.

Pershing is a stock we have held in the portfolio for a long time. We received some questions about this holding, as it represents an investment into a fund actively managed by Bill Ackman, an activist investment manager with a great track record until a few years ago. The fund is a permanent capital vehicle with a relatively high fee structure. This means that unless Ackman performs very well, the fund will tend to perform worse than the market after fees. At the time of investing, Ackman's fortunes have turned for the worse, following some high-profile disasters such as investing in Valeant Pharmaceuticals and shorting Herbalife. We bought into the fund at a discount to net asset value (NAV) of about 15% - 20%, which consists of only listed equities.

Interventions by Ackman since we established our holding included buying back 10% of the fund at a 15% discount to NAV and investing another 10% into the fund in his personal capacity. Over the last 12 - 18 months, his fortunes started changing materially, to the extent that the fund has outperformed the S&P 500 Index by more than 20% over this time. Investors have continued to remain on the sidelines though, as is evidenced by the current discount to NAV of 27%. We believe that this level of discount is unsustainable, and that a number of alternative actions could help realise some or all of this value. In all of these outcomes investors will benefit substantially. At the same time though, we have reduced exposure to the stock somewhat, as we are worried that the asset values are now at challengingly high levels. This experience has again highlighted the benefit of taking a longer-term investment view. While these high-conviction ideas do not always work out as well as Pershing, we will continue to look for ideas across the investment spectrum, in both conventional and unconventional sectors and circumstances.

We thank our investors for their continued support. We remain focused on balancing the dual objectives of delivering both a reasonable return while being cognisant of our investors' low risk tolerance by investing in a range of asset classes.

#### Portfolio managers

**Louis Stassen, Tony Gibson and Neil Padoa**  
as at 31 March 2019