

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

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 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 Q1-19 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, with financials 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.

The fund had a strong quarter, generating alpha of 5.2% and an absolute return of 17.4%, the best performance in absolute terms since inception and close to the best performance on a relative basis. Over the last 12 months, the fund is now marginally behind its benchmark, but still 3.5% p.a. behind benchmark since inception.

It was pleasing that some of our detractors in previous quarters turned around strongly in Q1-19 to contribute to performance. British American Tobacco was the biggest contributor (arguably from a very oversold position), followed by Altice USA which has rerated 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 outperformance.

Aspen stands out amongst our detractors, given the sharp sell-off in its share post the release of its latest set of results. The market focused on the risk of an unsuccessful proposed infant milk formula transaction, which will lead to a breach of bank covenants. Subsequent to quarter end, more positive news about this transaction has been released, and we remain positive that, post this transaction, the leverage will be much more manageable. CVS and Walgreens also detracted from performance on poorer results announcements and continued unease about Amazon's intentions to enter the pharmaceutical space.

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 that is 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.

**Portfolio managers**  
**Louis Stassen and Neil Padoa**  
as at 31 March 2019