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

After a torrid 2018, in which global and local capital markets collapsed, we saw a complete reversal in the first quarter of 2019 (Q1-19), with very strong returns from all capital markets. The fund had a pleasing quarter, delivering a return of 8.7%, which was well ahead of the quantitative benchmark. The fund had been well positioned for this bounce back in equity markets, having added significantly to equities in the late 2018 sell-off.

Global equity markets, for no discernible reason, rallied very strongly through Q1-19, recovering most of the fall in the last quarter of 2018 (which was also for no discernible reason). Global markets (as measured by the MSCI World Index) delivered 12.5% in US dollars, but our global equity and global emerging markets funds delivered returns well ahead of benchmark, adding significant alpha in the quarter. The volatility in markets has been unsettling, but once again makes a strong argument for taking a measured long-term approach to investing. We have retained our overweight position in emerging markets. As the US has surprisingly changed its view on the direction of future rate hikes to a more dovish stance, this should continue to bode well for emerging market equity performance and currencies. While the start to the year has been strong, these markets remain very cheap with good underlying growth prospects.

South African equity markets also delivered a pleasing recovery in Q1-19, though not to the same extent as global markets. The impacts of Eskom's rolling blackouts and a poor consumer environment have continued to weigh on local businesses, resulting in a swathe of profit warnings in the quarter, reducing some of the potential market returns. Fortunately, we have avoided owning the majority of those companies that are struggling, and our portfolios, which are overweight resources companies and global businesses, performed well ahead of the market.

While valuations for local businesses have come down significantly over the past few years as growth has severely disappointed, we are cautious about adding too much exposure here. The growth outlook remains anaemic and the prospects of a pick-up in consumer spending is poor given a lack of job creation, renewed fiscal discipline at Government level, and above-inflationary increases in administered prices and fuel.

We have not made significant changes to our fixed-income positioning. While the fund's increased position in local government bonds has remained unchanged this quarter, our overall bond exposure did decline as we sold out of our Impala Platinum convertible debt position. As the price of the platinum group metals basket has soared this year, Impala's share price also increased, resulting in the convertible bond becoming equity-like in nature, and we sold out at a significant profit. Our domestic property exposure has declined at the margin as we have reduced some of our positions. While yields are still attractive, the environment for property remains challenged, especially in light of the Edcon restructure announcement this quarter, which saw landlords having to forego half their rent for two years. We have focused on improving the overall quality of the property portfolio and have added some Liberty Two Degrees, which operates the pre-eminent shopping centre in South Africa, has very little debt and no offshore property exposure.

On the international front, we have continued to avoid the fixed-income space, given no prospect of real returns, but kept up a reasonable exposure to European property that trades on attractive yields relative to bonds.

All in, the fund has made a pleasing recovery this quarter and is well positioned and exposed to a great portfolio of assets that will drive future returns in line with its mandate of delivering real capital growth over the medium- to long term.

Portfolio managers
Neville Chester and Nicholas Stein
as at 31 March 2019