The fund appreciated 5.0% in the third quarter of 2019 (Q3-19), taking its year-to-date return to 24.8%, compared with a 12.9% return for the benchmark.

From a stock-specific point of view, the largest contributor over the quarter was Alphabet (share price +22%, 0.6% positive impact within the fund), followed by Blackstone (+18%, 0.5% positive impact) and then British American Tobacco (+14%, 0.4% positive impact). The only material detractor was 58.com (-15%, -0.5% contribution). Over the past five years, the fund has generated a positive return of 10.5% p.a., over 10 years, a return of 14.8% p.a. and since inception just over 20 years ago, 14.6% p.a. (which translates into 2.9% annualised outperformance).

The fund ended the quarter with 72% net equity exposure, slightly down from where it was at the end of June. Of this, approximately 61% of the equity exposure was invested in developed market equities, 34% in emerging market equities and 5% in South African equities.

Our negative view on global bonds remained unchanged as a large portion of developed market sovereign bonds offer negative yields to maturity, with the follow-on effect that most corporate bonds also offer yields which do not compensate you for the risk undertaken. Only 4.5% of the fund is invested in bonds, which is largely made up of a 1.7% position in L Brands (owner of Victoria Secret) corporate bonds and exposure to short-dated US Treasuries (used as an alternative to US dollar cash).

The fund also has circa 5% invested in global property: largely Unibail (European and US retail property) and Vonovia (German residential). Lastly, the fund has a physical gold position of 3.0%. The balance of the fund is invested in cash (largely offshore). As has been the case for many years, the bulk of the fund (over 90%) is invested offshore, with very little exposure to South Africa.

In a volatile and soundbite-driven world, we continue to focus on underlying company fundamentals when looking for investment opportunities whilst avoiding the noise. We continue to find compelling opportunities whilst taking advantage of this short-term volatility. During the quarter we added to 58.com, a dominant online classifieds player in China, (now trading on a 12% free cash flow yield to enterprise value) as macro fears related to China have driven negative short-term price moves, notwithstanding a robust business performance (for the first six months of 2019 revenue grew 21% and earnings before interest and tax [EBIT] by 24%).

Notable new buys during the quarter were Canadian Pacific Railway, Fiserv and Salesforce. Salesforce owns the leading CRM (customer relationship management) software franchise and has continued to gain market share in what is still a very underpenetrated market as many corporates are still at the beginning of their digital transformation journeys. As with most software companies, gross margins are high (>75%), but current EBIT margins are depressed as they aggressively grow revenue (up three times over the past five years and expected to double over the next four years) and acquire customers (which has an initial cost incurred upfront, but then results in a sticky recurring revenue stream over time with limited incremental costs). It is also a business which should prove resilient regardless of the macroeconomic environment as they run mission critical aspects of their customers' businesses and provide software solutions that often result in either cost savings for their clients or provide revenue optimisation opportunities. We estimate Salesforce's current lifetime value of customers to be just under $170 billion versus a market cap of $135 billion, which is attractive in our view.

Portfolio managers
Gavin Joubert, Marc Talpert & Suhail Suleman
as at 30 September 2019