Equity markets continued their recovery from the March lows and delivered a strong 14.7% return in the fourth quarter (Q4-20). Global bonds followed suit and returned 3.3%. There were some notable macro events, including the US Presidential election and second and third waves of the Covid-19 pandemic, but the quarter was perhaps dominated by the news of successful vaccine developments from a host of pharmaceutical companies with seemingly high efficacy. This triggered a violent rotation in markets, out of the recent 'Covid-19 winners' into perceived 'opening up' beneficiaries.

The Fund performed well against this backdrop, returning 5.6% in the quarter (well ahead of the benchmark, which was virtually flat). For the year as a whole, the Fund delivered 3.4%, again meaningfully ahead of the benchmark (and inflation). The Fund has now returned 4.8% per annum (p.a) over five years and 3.7% p.a over ten years, delivering more than 3.5% ahead of the 3 month USD LIBOR over the last 10 years.

The primary contributors to return were:

- Equity holdings, which returned 11.4% for the year. Over ten years, the Fund's equity holdings have compounded at 10.7% p.a (which is ahead of the ACWI index);
- Gold, which increased 24.2% for the year;
- Fixed interest returned 5.2%, which is healthy in absolute terms, compared to inflation and considering the very low duration of the portfolio; although clearly lagging the global bond index's 9.2%.

Individual contributors spanned a wide range of sectors and geographies and reflect the fundamental diversification both across and within asset classes, which we strive for when building the portfolio. Charter Communications (driven by the demand for US broadband), Alphabet (a business we have owned since 2011), Adidas (a leading global sportswear brand, second only to Nike) and NetEase (the second-largest gaming company in China, with a number of smaller, more nascent businesses) were all meaningful contributors.

Airbus, reflecting the rotation within markets, was both a top-two contributor for the quarter, and a top-two detractor for the year. After a precipitous decline in the first quarter of the year, Airbus's share price basically flatlined until early November and the announcement of Pfizer/BioNTech's strong Covid-19 vaccine results.

Despite returning 50% (in US dollars for the quarter), Airbus is still trading more than a third lower than pre-Covid-19 levels. This compares to the market which, as we know, is c.15% higher (at all-time highs). We recognise the high levels of uncertainty in the near-term outlook but believe that Airbus shares are offering a high margin of safety on a long-term horizon, as they are pricing in air travel growth remaining at levels c.20% below its 50-year growth trend, in perpetuity. Thanks to its robust initial balance sheet, and to moves that further increased the company's liquidity during the year, we are comfortable that Airbus can withstand a challenging environment for several months or even years ahead. In fact, we think it is possible that Airbus could end the year in a net cash position, unthinkable a few months ago. We are also encouraged by the potential for a much-improved competitive position against its US peer Boeing, which is hamstrung by an over-leveraged balance sheet and has suffered a meaningful hit to brand equity through the 737MAX crisis.

Finally, a number of vaccines have been approved and immunisation programmes are being rapidly rolled out: it would seem that the path to some form of economic normalisation is growing clearer and closer. We remain cautiously optimistic.

At quarter-end, the Fund was positioned with c.47% in growth, or risk, assets comprised of the following:

- 28% effective equity;
- 5% in property;
- 4% in infrastructure;
- 2% in convertible instruments;
- 8% in high yield credit.

The remaining c.53% of the Fund is invested in either more stable assets, or diversifying assets, which we think have lower correlation to equities:

- 8% in commodities;
- 5% in inflation-linked bonds;
- 6% in hedged equity;
- 33.5% in investment-grade fixed income (with 9% in short-dated treasury bills, and 29% in corporate credit).

As highlighted in prior commentaries, we continue to feel the fundamental diversification evident in this portfolio construction, with an intentional tilt towards inflation protection at the expense of nominal government bonds, is both more appropriate and more robust than the cash benchmark or a large holding in government bonds. As a reminder, the bond index as a whole offers an expected return (if held to maturity) of less than 1% and a duration of approximately seven years. Setting this meagre return against the risks, which we feel are significant, including huge budget deficits and elevated debt levels, suggests to us that these assets, which have historically been core holdings for low risk funds, offer a poor risk-reward trade-off and that investors will do well to avoid these instruments entirely. In our view, they will be better served over the long term in diversifying assets, as outlined above.

Thank you for your continued support and interest in the Fund.

Portfolio managers
Louis Stassen and Neil Padoa
as at 31 December 2020