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

Equity markets continued their recovery from the March lows and delivered a strong 14.7% return in the fourth quarter (Q4-20). 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 16.8% in Q4-20 (2.1% ahead of the benchmark). For the year as a whole, markets returned 16.3%, which many will think remarkable, considering the economic disruption wreaked by the pandemic. A reminder, if needed, that investors should be spending their time (as we do) on business fundamentals and not market forecasting. The Fund returned 14.1% for the year, which trailed the benchmark by 2.1%, although this should be seen in the context of 2019's strong 10.9% alpha. Over five years, the Fund has returned 11.8% per annum (p.a), approximately 0.4% behind the benchmark.

Spotify was a top contributor for the year, and a meaningful contributor for the quarter, with the shares up over 100% in 2020 as the market started to appreciate its multi-year growth potential as outlined in previous commentaries. Spotify is the leading player (ex-China) in the fast-growing audio streaming market and will benefit from two powerful tailwinds, both of which are in the very early stages. Firstly, music remains extremely under-monetised compared to other forms of media and in absolute terms with US spending per capita halving in real terms since 1999. Secondly, traditional radio is a large global ($30 billion-plus) revenue pool that is in the very early stages of the inevitable shift online and Spotify is aggressively trying to accelerate this move by investing in leading podcast content and creation tools.

Since 2015, Spotify has grown its revenue by 37% p.a and we expect this strong growth to continue, forecasting growth of over 20% p.a and steadily expanding margins going forward. With its excellent and innovative management team led by visionary founder Daniel Ek, we believe that Spotify is well positioned for future growth. The stock has tripled from the lows, and with less upside to our estimated fair value, the Fund's holding has been reduced.

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.

The departure point for markets at the start of 2021 is provocative: many indices start the year at record highs, driven by a few mega caps, with speculative froth evident in some hyper growth sectors, in capital markets activity (especially some Initial Public Offerings and Special Purpose Acquisition Companies) and in the behaviour of frenetic retail traders. However, interest rates are low, savings rates have exploded, monetary stimulus is set to be followed by fiscal stimulus, and economies will grow well above trend once the world emerges from the Covid-19 pandemic.

We continue to hold a balanced portfolio of competitively advantaged businesses. This includes some of the mega-caps that have performed for a long period of time – these still have strong growth prospects and are phenomenal businesses. Also, some of the stocks left behind in the 2020 rally that had unjustifiably low starting valuations will be beneficiaries of world economies normalising. There would seem to be ample opportunities for stock pickers.

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

Portfolio managers
Neil Padoa and Humaira Surve
as at 31 December 2020