*Please note that the commentary is for the US dollar retail class of the Fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.*

Following a rapid sell-off earlier this year, markets rebounded strongly in the second quarter of 2020 (Q2-20). The stock market recovery has been very much V-shaped, with a gain of 19.2% this quarter following the first quarter's (Q1-20) -21.4%, despite continued economic uncertainty and an unclear path to recovery. Nevertheless, this leaves global markets, as measured by the MSCI All Country World Index (ACWI), still down 6% for the year to date.

The Fund returned 12.3% for the quarter, in line with the benchmark return of 12.8%.

Contributions to performance were broad-based as most risk assets rallied:

- The Fund's equity holdings returned 19.2% (in line with the ACWI index)
- Property returns were also strong, at 19.4%
- Fixed interest rebounded, returning 4.5% (more than 1% ahead of the benchmark)
- Gold delivered a 10.6% return, bringing the gain over the last year to over 26%

Spotify, which more than doubled over the quarter, was the largest single contributor to returns. We have previously written that the global recorded music industry returned to growth in 2015 after almost two decades of decline. This growth was driven by streaming, which today accounts for the majority of industry revenue. In our view, music remains extremely under-monetised and we are still in the very early stages of streaming industry growth. There are now over 300 million paying music streamers globally, but this is a small portion of the 3.5 billion smartphones in the world today, while headline subscription prices have not changed in years and average revenues per user have in fact declined due to family and student discount plans. In the US, Spotify's headline price of $9.99 per month is unchanged since its 2011 launch, while music spending per capita has halved in real terms since 1999. As the largest audio platform outside of China, with 130 million paying subscribers and an additional 163 million ad-supported users, we believe Spotify is well placed for long-term growth. Spotify is significantly larger than their primary competitor (Apple Music has between 60 million and 70 million subscribers, with no free, ad-supported tier), and continues to add more subscribers each year due a better product and ongoing innovation.

We are also bullish on Spotify's podcast strategy. Terrestrial radio remains a large advertising revenue pool globally and Spotify is trying to disrupt this, acting decisively and investing in leading podcast creation tools, studios and exclusive content from top podcasters such as Joe Rogan. We believe this strategy is a win-win for all involved, as it increases utility for users, allows podcasters to connect to the largest global audience and monetise their content, and brings significant benefits to Spotify itself, including higher user engagement and additional revenue streams.

Since 2015, Spotify has grown its revenue by 37% per annum (p.a.) and we expect strong growth to continue, forecasting growth of over 20% p.a. and steadily expanding margins going forward. In the words of co-founder and CEO Daniel Ek, "Everything linear dies". As the leading player and innovator in the fast-growing audio streaming market, led by an exceptional management team, we believe Spotify is well positioned to capitalise on this trend.

Philip Morris was the largest detractor from performance, although with a return of -2.6% the effect was only marginally negative. Philip Morris International (PMI) is a global tobacco company and the global leader in potentially reduced-risk next generation products (NGPs) through its IQOS heated tobacco franchise. IQOS is already contributing about 20% to company revenues. PMI has invested significantly into the IQOS franchise over a sustained period of time and has built a significant first-mover advantage in the heated tobacco category. IQOS has been a phenomenal success in our view, ranging from truly extraordinary results in Japan to solid steady progress across many European markets. To date, some 11 million smokers have completely quit smoking combustible cigarettes and moved to IQOS. At the time of writing, the US Food and Drug Administration (FDA), probably the preeminent tobacco regulator globally and renowned for its science-led approach to regulation, has just authorised IQOS to be sold in the US with a reduced exposure claim to the effect that completely switching to IQOS significantly reduces a smokers exposure to harmful chemicals. Importantly, as IQOS grows it is accretive to PMI's revenues and profits. We believe there is still a long runway of growth for IQOS globally. Despite the resilience of tobacco as a consumer category, PMI has not been immune to Covid-19 lockdowns. PMI has been severely impacted by lost duty-free sales, the impact of lockdowns in emerging markets such as the Philippines and Indonesia and temporarily slower IQOS user conversion. Second-quarter results will be significantly negatively impacted by these factors, but we expect that, over the medium term, these lost sales should be recovered and that IQOS should fairly quickly resume its growth trajectory. PMI remains a top 10 holding.

At quarter-end, the Fund was positioned with 68% in growth, or risk assets, comprised of the following:

- 53% effective equity
- 3% property
- 6% in convertible bonds
- 3% in high-yield corporate bonds
- 2% in infrastructure

The remaining 32% of the Fund is invested in more stable, diversifying assets with limited correlation to equities:

- 7% in hedged equity
- 5% in commodities
- 20% in fixed income, the bulk of which is invested in Treasury Bills (9%), inflation-protected securities (6%) and investment-grade corporate bonds (3%)

Last quarter, we felt there were attractive opportunities for those investors with a long time horizon and the ability to filter companies whose prices had been dislocated with little impact to their sustainable earnings power. After a sharp rally, these opportunities are now harder to find. In addition, the need to reassess the prospects of many businesses continues as investors parse fundamental virus-induced behavioural changes from short-term noise. Fundamental changes, however, play to the strengths of fundamental investors, and we continue to find a select number of stocks with attractive long-term prospects that are reasonably priced, while appropriately managing exposures across a range of asset classes.

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

Portfolio managers
Louis Stassen, Neil Padoa and Humaira Survé
as at 30 June 2020