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

Financial markets recovered strongly during the second quarter of the year (Q2-20) as $11 trillion of central bank fiscal lifelines underpinned valuations, dampened volatility and emboldened animal spirits. Cases of Covid-19 continue to rise in the US and Latin America, but the experiences of Europe have given investors the confidence to look through the disruption and become more confident about the prospects for economic recovery. Economic necessity is beginning to outweigh health concerns and lockdowns are easing. While a vaccine remains some way off and production would further delay any implementation, scientific advances and improved treatment protocols are seemingly reducing the severity of symptoms and fatalities. The path to a recovery will be slow, with advanced economies only likely to surpass previous levels of output in 2022. The International Monetary Fund's (IMF's) updated projection is for global growth to shrink by 4.9% in 2020 compared to its previous projection in April of 3%, with a bounce back in 2021 of 5.4% versus a previous estimate of 5.8%. This is a reminder that markets' growth expectations reflect an outturn at the more optimistic end of the spectrum. The A-class of the Fund returned 3.9% during Q2-20 and 1.0% over the previous 12 months, against a benchmark return of 0.2% and 1.8%.

After the first quarter's large downward shift in yields, US Treasuries traded in a tight range, anchored by the US Federal Reserve's (Fed's) zero-bound Fed Funds rate. At the June Federal Open Market Committee (FOMC) meeting, the updated 'dot plot' shows the Fed does not expect to raise rates until 2022, in line with market pricing. In a post-meeting question-and-answer session, FOMC Chairperson Jerome Powell said the Fed is "not even thinking about thinking about raising rates". The more pertinent discussion surrounded yield curve control and more guidance on the topic is expected in the months ahead. Several members of the FOMC were doubtful it was necessary if the Fed's forward guidance remained credible. Inflation certainly isn't a concern for the Fed right now. with headline year-on-year US Consumer Price Index (CPI) falling to 0.1% in May, driven by weaker energy prices. This should represent a low print in the annualised headline rate, which is expected to rise closer to 1% by the year end. Core CPI, meanwhile, has fallen three months in a row for the first time in history due to weakness within the apparel, lodging and transportation sectors and will likely fall further from its current 1.2% due to base effects. Although current estimates are likely to be a poor estimate of the inflation experienced by consumers, as purchasing patterns have changed, food prices, for instance, have risen in recent months.

While 10-year yields were unchanged on the quarter (0.6%), the curve pivoted slightly, with two- to five- year yields lower by around 10 basis points (bps) (to 0.2% to 0.3%), and the longer end of the curve slightly weaker (30-year up around 10bps to 1.4%). More noteworthy was the decomposition of the moves, with real yields falling across the curve as break-evens regained some poise. The Fed's balance sheet now stands at $7.1 trillion compared to $4.1 trillion at the end of March. Treasury and Mortgage-Backed asset purchases (quantitative easing [QE]) accounted for $2.3 trillion (and will continue at $80 billion and $40 billion a month) while the remainder is accounted for by Fed swap and repo lines alongside eleven other support facilities. From the Fund's perspective, there is very little value in US fixed-rate government securities aside from liquidity. US Treasury bills will yield around 0.1% for the next year and extending out the curve adds little, with 5-year yields of 0.28%. High-quality AAA-rated institutions such as supranationals have compressed along with swaps and now offer a very marginal pickup with very little break-even spread protection. As a result, the Fund's interest rate duration continues to be low, at around half a year. While inflation is low currently, the level of stimulus makes an upturn more likely after the economy heals and the Fund holds close to 7% in US inflation-linked bonds, mostly in 2022–2027 maturities where break-evens range from 1% to 1.3%.

While there has been a meaningful improvement in US data since April as the economy reopens, very significant uncertainty persists. After registering 14.7% in April (the highest post-WWII figure), the decline in the unemployment rate to 11.1% in June is welcome news, but the Bureau of Labor Statistics acknowledges that misclassifications mean the headline rate understates reality, which is closer to 15%, down from over 20%. The latest continuing jobless claims rose marginally to 19.3 million and more temporary layoffs are now becoming permanent, with the Institute of Supply Management services employment release of 43.1 in June, signalling continued job cuts. These figures will no doubt suffer further as the latest upturn in Covid-19 cases impacts on activity. From a demand perspective, the initial Paycheck Protection Program is close to being exhausted, and enhanced jobless benefits ($600 a week) will conclude at the end of July. This means a further government stimulus package of around $1 trillion is likely to soon supplement the initial $2.2 trillion in fiscal year 2020 and $0.6 trillion in 2021. While large companies have been able to re-engage with financial markets, smaller companies, which are significant employers, face more significant hurdles in managing cashflow and will be a drag on overall growth.

Within Europe, the European Central Bank (ECB) expanded its €750 billion Pandemic Emergency Purchase Program (PEPP), which has so far deployed €355 billion, to €1.35 trillion in June, as it would have otherwise extinguished its resourced by October. It will now run until at least June 2021, equivalent to €19 billion of purchases a month. The PEPP comes on top of the original Asset Purchase Program (APP), which continues to purchase €20 billion of bonds per month. The overall net issuance within the Eurozone will be negative by around €250 billion during the second half of 2020, providing significant support to markets. Although the fund's purchases are supposed to reflect a country's economic weight, so far Italy has seen disproportional support, helping to boost sentiment and narrow peripheral spreads. This may be contentious among some member states, but investors are encouraged by greater burden-sharing and solidarity among nations. After years of austerity, Germany is rising to the challenge, announcing a new €130 billion fiscal package, the latest in a raft of national programs. In addition, Germany's central bank resistance to the ECB bond-buying programmes has been set aside by the constitutional court's decision to cede scrutiny of the ECB's policies to the German government. Despite fiscal measures across the European Union (EU), such as wage subsidies that amount to around 3.5% for GDP,

the ECB's latest forecasts project a contraction of 8.7% for GDP in 2020 (with a much larger figure in a worst-case scenario), before a recovery of 5.2% in 2021. Inflation is expected to remain far below the targeted 2%, averaging 1.3% by 2022. The EU also plans a €750 billion recovery fund, which will champion green and digital initiatives. EU leaders meet in mid-July to thrash out the details, with Germany open to the idea of fiscal transfers.

With some of the worst outcomes globally, the UK government's management of the Covid-19 crisis doesn't inspire confidence that Brexit will be anything more than a further blow to the economy. The pandemic fallout has consumed a lot of political bandwidth in recent months, making a no-deal outcome more likely unless the tight timetable can bring forth a grand compromise. Striking trade deals has no doubt become more challenging, including continuity deals with current EU trading partners. Looming US elections probably delays a deal there and China seems unlikely to be that welcoming, given the UK's stance on Hong Kong and Huawei. For large multinationals, downscaling operations post Covid-19, one must ask: Why not just close UK operations? The UK deficit expanded by £100 billion in April and May alone as tax payments fell 43% and government spending increased 48%. This means debt-to-GDP is projected to rise above 100% for the first time since the early 1960s. The announcement that the UK's Asset Purchase Facility would increase by a further £100 billion to £745 billion means around 70% of government issuance will be absorbed by the Bank of England (BOE). The BOE will also purchase around £10 billion of corporate bonds in the next few months, taking the stock of purchased corporate bonds to around £20 billion.

Japan matched April's 117-trillion-yen package with another in May, bringing total support to around 40% of GDP among the highest globally. Japan's debt-to-GDP will continue to deteriorate, with the Bank of Japan (BOJ) pledging to increase QE further (the BOJ's balance sheet is approaching 120% of GDP) if the yield curve needed to be lowered. GDP is currently expected to contract around 6% in 2020 before recovering by between 2% and 3% in 2021 - a relatively shallower profile than other developed markets.

China's decisive action has largely contained Covid-19 and allowed its economy to reopen. While initial activity has bounced back strongly, there will be a considerable drag from weaker exports as global trade shrink by around 12% in 2020. Policy stimulus (around 6% of GDP) has been more measured than in the wake of the Global Financial Crisis (GFC) and reflects more recent concerns around a buildup of debt. First-quarter GDP fell 6.8%, and the IMF projects growth of 1% for 2020 and 8.2% in 2021 - considerably ahead of other regions. The stronger relative growth backdrop meant China's bond market posted the weakest performance of major bond markets during Q2-20.

Despite the impact of Covid-19 being more keenly felt during the Q2-20, especially in regions such as Latin America, emerging market (EM) bond and currency markets outperformed as risk aversion dissipated. Perhaps more surprising was that this occurred against a backdrop of elevated rating downgrades, high levels of sovereign issuance and consistent fund outflows. Moody's warned in May that corporate defaults (including state-owned entities) would pick up materially in the next year and may be worse than those in the GFC. Argentina defaulted for the ninth time in history in May and is currently trying to restructure $65 billion of foreign bonds, with proposals to restructure local debt imminent. Ecuador, Lebanon, Venezuela and Zambia look set to follow. As funding challenges mount, EM governments are beginning to engage in similar policies to those in the developed world, such as QE. So far, it has been middle-income Eastern European countries, but Chile and Indonesia's central banks have more recently bought government debt. Central banks must be careful to maintain investors' confidence and demonstrate they aren't merely trying to inflate debt away or accommodating poor governmental decision making. The Fund continues to hold better-quality EM hard currency debt and added to Qatar during the quarter as gulf states became big issues due to the lower oil price. The Fund switched some of its SA dollar debt slightly longer, added some Mexican dollar bonds and switched some Indonesian dollar exposure into euros.

After the weakest monthly performance on record in March, corporate bonds bounced back strongly, posting the best quarterly return since 2009 (total return for US Investment Grade was up 9%, 8.7% above government bonds). This came after the Fed unveiled its Primary (expectation is for limited usage of the facility in healthy markets) and Secondary (with a leverage-dependent maximum capacity of up to $250 billion) Corporate Credit Facilities. Despite the fanfare, the Fed only began buying exchange-traded funds (ETFs) in mid-May (and has since invested $6.8 billion in 16 different ETFs), and began buying underlying bonds in mid-June (to date, buying $428 million of bonds in 86 different names). Companies have responded to improved conditions by issuing records amounts of bonds to bolster their liquidity positions. Since mid-March, $920 billion (compared to $320 billion last year), has been issued in the US market (now over $1 trillion year-to-date [YTD]) in the US and $2 trillion worldwide), with March to June representing four out the six highest months on record. Within Europe, we have seen a noticeable pickup in the number of Green bonds. While in the US, the amount of distressed debt (trading above 1 000bps spread or below 80 cents) issuers has fallen considerably from 892 at the peak in mid-March to 356 at the end of June, Q2-20 saw the most bankruptcy filings (75 above $50 million) since 2009. Those rated CCC+ (deemed highly speculative) jumped to 256 from 132 at the end of February. The retail sector accounts for the highest concentration of bankruptcies, with household names such as JC Penney among them. The energy sector was the second most impacted sector, with a third of US shale producers technically insolvent. With crude at $35 a barrel, Chesapeake Energy, a pioneer of the sector, entered Chapter 11 at the end of June. In the travel sector, airlines and cruise operators have been issuing debt secured against their assets as they battle for survival, while the pandemic was a challenge too far for car rental firm Hertz, which collapsed with $19 billion of debts. The recent pickup in Covid-19 cases in the US has led high-yield issues to begin to underperform the wider market.

With large spread movements, the Fund was very active during the quarter. Many of the short-dated dollar-denominated bonds that

were purchased in the depths of the crisis were sold as the shorter-dated maturities recovered most. In some cases, 80% to 90% of the spread widening reversed in a period of six weeks, such names included IBM, Sanofi, Verizon, Berkshire Hathaway, GlaxoSmithKline and Apple. In some cases, we were able to find more attractive bonds in different currencies from the same issue, an example being Berkshire Hathaway's yen-denominated bond or IBM short-dated issues in euros. In fact, despite movements in cross-currency have been relatively small. Courtesy of the Fed's swap lines, there have been more non-denominated opportunities for the Fund recently, particularly in shorter-dated euros. In the high-yield market, the fund sold its holdings in Sasol and reduced its exposure to subordinate Société Générale bonds. The fund also reduced its holdings of ETFs, many of which enjoyed the extra boost from narrowing discounts to net asset value. Other issuers the fund has purchased include JD.com, the Italian government dollar bonds, Siemens, Grupo Bimboa and several US banks.

After a strong start to the year, the US dollar was weaker against most currencies during Q2-20, with the Fed's broad trade-weighted index around 1.6% weaker. Commodity- orientated currencies performed best, with the Australian dollar up 12.5%, followed by the New Zealand dollar, up 8.3%, the Norwegian krone, up 8%, and the Swedish krona, up 3.6%. Among EMs, the Indonesian rupiah rose 14.3%, the Russian ruble 10.1% and the Columbia peso 7.9%. With interest rates in most developed markets now close to zero and bond yields low, interest rate differentials have been less of a driver recently, with improved liquidity conditions and better global conditions taken as a negative for the US dollar. With very sizable levels of government stimulus and central bank asset purchases, monetary debasement is arguably occurring but is a relative game, with the jury out as to whose policies will ultimately be most successful. One example of this is the Eurozone's more integrated approach to policymaking, which seems to have improved sentiment towards the euro. It is perhaps not surprising that gold enjoyed its biggest quarterly advance since 2016 amid a surge in demand for haven assets, advancing above $1 800 for the first time since 2011. Bitcoin, meanwhile, has recovered strongly ($9 150) since its sharp fall in March, but has been relatively stable during May and June and remains below February's YTD high. To protect the Fund against a meaningful move weaker in the US dollar, it added currency options struck approximately 5% out of the money that will pay off if the US dollar weakens against the euro (equivalent to 6.8% of the Fund), the Swedish krona (1.8% of the Fund), the Swiss franc (2.7% of the Fund) and the Japanese yen (2% of the Fund).

Property performed better during Q2-20, but still lagged the rise in broader stock markets, with the EPRA/NAREIT index returned 10.3%. The disruption to cashflow from withheld rental payments has put further scrutiny on financial leverage and has raised question about dividend sustainability, especially for Real Estate Investment Trusts. Not surprisingly, the retail sector remains under huge pressure, with many tenants going into administration or withholding rental payments. The UK has been one of the hardest-hit regions with the administration of INTU at the end of June no doubt brought forward by the dubious use of company voluntary arrangements (CVAs) and the UK's high operating costs. Lockdowns have also given extra impetus to online businesses, further underpinning demand for logistic assets. Within the office sector, Covid-19 has the potential to bring about profound changes. Given we are in the eye of the storm, some market views may prove to be too radical, but the trend of working from home will no doubt accelerate, especially in light of how technology has been embraced. The move towards flexible office space and hot desking may also be in retreat and it remains to be seen how office density will develop with greater social distancing. The Fund exposure to property increased from around 1% at the end of March to the around 1.1% at the end of June with the addition of a holding in TR Investment Trust, a fund that trades at an attractive discount to net asset value and has exposure to many of the companies on which we have a favorable outlook.

With developed market bond yields now very low and investment-grade spreads having recovered around 70% of their losses, absolute yields are once again relatively low, making future returns more challenging. We do continue to believe that higher-quality corporate bonds remain one of the better risk-versus-reward asset classes, as they are critical to central banks efforts to breathe life back into economies. While some high-yield names will perform well, in aggregate, the economy needs to heal relatively quickly (something that continues to face huge challenges) to prevent current bankruptcies gathering pace and impairing returns. For now, no one want to talk about how all the stimulus gets repaid. Financial repression is encouraging investors to expand their investment parameters, and they should also be mindful of the risk involved in doing so.

Portfolio managers
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