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

In a challenging environment where most asset classes experienced sharp declines, the Fund declined 15.4% for the first quarter of 2020 (Q1-20). The Fund has performed well against its peer group over longer periods.

Q1-20 provided investors with very few places to hide. Equity markets around the world experienced record declines during the quarter. Since January, the Covid-19 outbreak has overtaken our lives and transformed our world, presenting a medical, economic and human challenge that is unprecedented in our lifetime. The outbreak of this pandemic has impacted financial markets with a swiftness and ferocity normally only seen in a classic financial crisis. In a matter of weeks, global equity benchmarks fell from record highs into bear market territory. The level of volatility experienced during this market sell-off has also been unprecedented; from 19 February to 23 March, the US stock market saw the quickest meltdown in history, for a cumulative loss of 33.9% on the S&P 500. The following three trading days saw gains of 17.5%, marking the best three-day stretch since the 1930s.

With investors fleeing risk assets, the MSCI All Country World Index ended the quarter down 21.4% in US dollars, and the MSCI Emerging Markets Index was down 23.6% in US dollars. Developed market bond yields fell to record lows, with investors buying up debt as a safe haven amid fears of a Covid-19-induced recession. The FTSE World Government Bond Index appreciated by 2.0% in US dollars for the quarter. These record low yields come at a time of record levels of government indebtedness and significant monetary policy expansion by central banks around the world, which carries the risk of stoking inflation in years to come. At this point, we are very negative on the outlook for global bonds, given their unattractive risk-versus-return payoff profile.

Given the sharp sell-off and their more attractive valuation levels, we were more constructive on global equities during the quarter. While short-term news flow remains poor, once Covid-19 is behind us, corporates will be operating in an environment of unprecedented fiscal stimulus, record low interest rates and the tailwind of low energy prices. Combined with pent-up consumer demand when lockdown measures are over, we believe that corporate profitability could look very different in 12 months' time. During the quarter, we moved from an underweight to an overweight equity position as we closed out puts that protected us from the worst of the early declines before buying some equity exposure at lower levels.

The All Bond Index (ALBI) ended the quarter down 8.7%. We are cognisant of the risks around South Africa's (SA) worsening fiscal position but believe that SA government bonds remain a reasonably attractive investment opportunity, given their high yields and absence of near-term inflation pressures in the SA economy. The rand (-22% versus the US dollar) has been one of the worst-performing currencies this year as the global demand shock compounded SA's existing structural headwinds. Adding to the negative news, Moody's finally joined Fitch and S&P in downgrading SA debt to subinvestment grade, with all three ratings agencies also retaining us on a negative outlook.

Overall, the JSE experienced a very tough quarter, with the JSE Capped Shareholder Weighted Index declining 26.6%, thereby dragging five-year rolling returns for the overall market into negative territory. No asset class was left unscathed, but the economically-sensitive sectors, such as property (-47.6%) and banks (-42.7%) bore the brunt of the pain as they were sold off aggressively. Industrials (-8.5%) and resources (-25.2%) performed relatively better.

While we did not escape the brutal realities of a declining SA equity market, our large weighting in global equities, together with our bias to rand hedge stocks and low exposure to SA domestic stocks, meaningfully added to performance during the quarter. Furthermore, in an environment with such extreme price moves, individual stock selection proved critical. Our two highest conviction ideas in the Fund – Naspers/Prosus and British American Tobacco (BAT)– both came through strongly during the quarter.

Naspers (+11%) and Prosus (+17%) benefited from their exposure to Tencent, whose business proved incredibly resilient during the economic disruption caused by Covid-19. Demand for digital services, such as communication tools, social networking, mobile games, online video and food and grocery delivery, exploded during the lockdown period. Outside of China, we are very encouraged by Tencent's growing international gaming business, which now makes up 23% of its total gaming revenues. Tencent has stakes in four of the top game developers in the world (TiMi Studios, Quantum, Riot Games and Supercell) and currently have five of the top 10 daily active user games in the world in their portfolio. We believe Tencent is very well positioned to build a dominant global gaming franchise. However, the most exciting area within Tencent at present is undoubtedly digital payments and financial services. We think this business will contribute significantly to group profits over the next three to five years. Similarly, Tencent is rolling out other financial services products such as banking, wealth management and insurance. Given Tencent's distribution capabilities, together with their treasure trove of user data, we think they are very well positioned to build substantial and very profitable businesses. Outside of Tencent, Prosus is primarily investing in three key areas (online classifieds, food delivery, and payments/fintech), all of which are growing very rapidly. Prosus is currently trading at a c.35% discount to its underlying intrinsic net asset value, while Naspers in turn is trading at a c.25% discount to the market value of its Prosus stake. Encouragingly, Naspers announced a share buyback during the quarter after it raised cash from the sale of a small part of its Prosus stake. We believe steps such as this can create meaningful value for Naspers shareholders and help narrow the discount to intrinsic value over time. We continue to believe both Naspers and Prosus are being grossly mispriced by the market at current levels.

The BAT share price (+2%) held up well during the quarter. As expected, consumer demand for cigarettes has remained remarkably defensive during this unanticipated economic shock. BAT's steady growth algorithm of high single-digit revenue growth, driven by strong pricing power, continued cost savings and deleveraging, remains intact and is once again being appreciated by investors. BAT is still trading on only 7.5 times one-year forward earnings and an 8% dividend yield. We still believe this to be very attractive for a stock of this quality and it remains the second biggest position in the Fund.

Stocks exposed to the domestic economy came under significant pressure during the quarter, as the announcement of SA's lockdown was another body blow for businesses already struggling in a "no-growth" economic environment. Our preference for holding the high-quality defensive food retailers (Shoprite, Spar and Pick n Pay) together with Dis-Chem, versus the more economically-sensitive clothing retailers, was well rewarded. The food and drug retail

sector was down only 13.3% for the quarter while the general retailer sector was down a whopping 43.9%. Our underweight position in the banks also contributed to performance during the quarter. Although there is no doubt that their earnings will come under pressure as they struggle to grow advances and their net interest margins will contract on the back of lower interest rates, their real pain will come in the form of higher credit losses as consumers and businesses buckle under the strain of being leveraged in a very weak economy. However, we have full confidence in the stability of our banking system and, given their conservative past lending practices together with their healthy capital adequacy levels, we believe the banks are well placed to handle the economic shock we are currently experiencing. Our preferred bank holding is FirstRand, which trades on 9 times our assessment of normal earnings.

One of the big buys for the Fund during the quarter was Anheuser-Busch Inbev. Its share price collapsed on the back of poor results which were then compounded by the impact of Covid-19 (i.e. reduced beer consumption and weaker emerging market currencies), coupled with concerns around its high debt levels, which we think are easily manageable. We bought our position at a price of less than 10 times our assessment of normal earnings. This is an incredible price for one of the world's best businesses, which is engaged in a stable and long-lived industry that has fantastic economics. Other buying for the quarter was focused on adding to our existing high-conviction ideas such as Quilter, Anglo American and Shoprite on share price weakness. As funding, we sold down our Pick n Pay position and exited our Richemont position during the quarter.

Notwithstanding the uncertainties that abound, we remain focused on building diversified portfolios for the long term. We will seek to take advantage of this extreme market volatility to invest in attractive opportunities that the market may present to us and, in so doing, generate inflation-beating returns for our investors over the long term. We are satisfied with the current portfolio positioning and, given compelling valuations, we are optimistic about future return prospects.

Portfolio managers
Karl Leinberger, Sarah-Jane Alexander and Adrian Zetler
as at 31 March 2020