

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

In a down market, the fund declined -10.6% versus the benchmark decline of -8.4% in the first quarter of 2020 (Q1-20). Since inception, it has averaged an annualised return of 15.4% relative to its benchmark's return of 13%, but remains slightly behind the benchmark over five- and 10-year 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 a bear market. The level of volatility experienced during this market sell-off has also been unprecedented.

While we did not escape the brutal realities of a declining South African (SA) equity market, our bias for rand hedge stocks and the high-quality SA domestic stocks, added to performance during the quarter.

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, and we believe that Tencent is very well positioned to build a dominant global gaming franchise. However, the most exciting area in Tencent at present is undoubtedly digital payments and financial services. We think this business will contribute significantly to group profits over the next 3-5 years. 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 like 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.

Unfortunately, while Naspers has been our highest conviction idea for almost a decade now, it has perversely detracted from relative performance in recent years. This was a function of its oversized weighting in the benchmark (together with Prosus, it currently comprises 45% of the fund's benchmark) and its incredible level of outperformance in comparison to the rest of our investable universe. When constructing portfolios, we try and manage overall portfolio risk, and, when such a large index constituent in such a concentrated benchmark generates such outperformance, it will be incredibly difficult for the fund to outperform.

The BAT share price (+2%) held up very 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) 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%.

One of the 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) and 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 Bidcorp, MTN and Shoprite on share price weakness. As funding, we sold down our Richemont, Remgro and Zeder positions.

Notwithstanding the uncertainties that abound, our objective remains on building diversified portfolios. We will remain focused on the long-term and 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 attractive 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

**Adrian Zetler and Tumisho Motlanthe**  
as at 31 March 2020