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

The Fund had a satisfactory quarter, with a return of 2.7%. The Fund has performed well against its peer group over all meaningful periods, which aligns to our long-term investment horizon.

Notwithstanding the lingering Covid-19 uncertainty and distressed macro conditions around the world, equity markets continued to grind higher on the back of the post Covid-19 anticipated economic recovery, aided by unprecedented fiscal stimulus and record low interest rates. During the quarter, the MSCI All Countries World Index (+8% in US dollars for the quarter) rallied to recover all of its losses for the year and US equity markets, in particular, were incredibly strong, with the S&P 500 (+8.9%) and Nasdaq (+12.6%) indices both reaching new all-time highs. Our large global equity weighting added to performance during the quarter. Although global equity markets have recovered strongly off their lows, we continue to believe that valuations look reasonable – especially relative to other asset classes.

The World Global Bond Index declined marginally (-0.6% in US dollars) during the quarter. Low yields, record levels of government indebtedness and continued monetary policy expansion by central banks around the world leave us very negative on the return prospects for global bonds. However, these factors are the exact reason we have owned a large gold position and the metal benefitted, rising almost 7% (in US dollars) during the quarter. Although we took some profits during the quarter, we believe that in a world of ongoing pressure for policymakers across the globe to print and spend, zero interest rates and heightened geopolitical risks, gold has a unique role to play in protecting the portfolio.

The ALBI (All Bond Index) ended the quarter up 1.5%. Although we are cognisant of the risks around South Africa's worsening fiscal position and the risk of a debt trap, we believe that SA government bonds remain a reasonably attractive investment opportunity given their high yields and the absence of near-term inflation pressures in the SA economy.

The rand remained volatile, but ended the quarter over 3% stronger against the US dollar on broad-based dollar weakness and improving local sentiment on the back of a relaxation in lockdown restrictions and some long-anticipated arrests by our law enforcement authorities. More arrests, and successful prosecutions, are crucial to restoring investor confidence in our governance structures and our economy.

The JSE Capped Swix All Share index appreciated 1% for the quarter, thereby pulling the rolling 12-month return back into positive territory. Positively, some good stock selection in the Fund added to these returns. The resources sector had another very strong quarter and was up 6%. Platinum stocks, in particular, were up strongly on the back of a rising PGM basket price and reporting good annual results. The industrial and the financial sectors (both down 2%) continued their recent underperformance, while the property sector had another challenging quarter and ended down 15%.

Given the compelling value on offer, we increased our domestic equity exposure during the quarter. While the portfolio remains skewed to rand hedge stocks which are attractive for stock-specific reasons, we have also been increasing our exposure to domestic-facing stocks, many of which we believe are very attractively priced.

One of the areas where we have been active in is the life insurance sector. The life companies have several appealing investment attributes:

- A 'sticky'/desirable product in retirement savings and life insurance. Covid-19 has heightened consumer awareness of the need for life cover;
- Extensive distribution networks, which are costly and time-consuming to replicate;
- c30-40% earnings exposure to equity markets, which we think offer good value;
- Large in-force books generate fees, despite lockdowns
- Diversified earnings streams (life insurance, short-term insurance, investments); and
- Strong regulatory capital positions.

Embedded value is a reasonable proxy for life insurance valuations. Life company share prices have derated meaningfully relative to embedded value over the last few years. Momentum Metropolitan has gone from a premium to embedded value back in 2015 to a 40% discount today. New management is impressive and has placed the business on a firmer footing, improving underlying operational performance and exiting underperforming operations. This was well demonstrated in Metropolitan Life, which outperformed peers as adviser productivity and digital initiatives bore fruit. We don't think the market gives the company sufficient credit for the turnaround that is underway. Meaningful earnings pain has been taken in the form of Covid-19 provisions, which we believe will support earnings in future periods.

Sanlam is another recent addition to the fund. We have long admired the business for its strong growth profile, high calibre management team and high levels of accounting prudence. Historically, we haven't owned Sanlam, given a stretched valuation and the lack of a margin of safety. The recent selloff has allowed us to buy this quality compounder at an attractive valuation.

The Shoprite share price appreciated 30% during the quarter and contributed meaningfully to performance. After a difficult two-year period in which much work was done internally, it was particularly pleasing to see the company deliver an excellent set of full-year results in which it started regaining market share, expanded operating margins, delivered a very good cashflow performance and announced decisive action to deal with its underperforming African portfolio. Although we trimmed the position into strength, we remain positive on the prospects for this high-quality business and have maintained a sizable position in the fund.

We continue to maintain a large exposure to resources in our equity and balanced funds based on our assessment of their long-term value. Our preference for Anglo American over BHP Billiton – based on a more attractive commodity mix and valuation – continued to contribute to performance for the quarter. Our platinum exposure – mainly through Northam and Impala – also had a very strong quarter and contributed to performance. Given the positive outlook for medium-term PGM prices, above-normal free cash generation and very strong balance sheets, we expect cash returns to shareholders to increase materially going forward.

We have also been adding to our Glencore position on share price weakness. Glencore is a globally-diversified mining company. It produces copper, cobalt, nickel, coal and several other commodities. We like this commodity basket, which will benefit disproportionately from a shift to electric drivetrains. Glencore's assets are generally low cost and long life. The company's share price has been under pressure after various law enforcement agencies (including the US Department of Justice) announced that they were investigating the company's activities in the Democratic Republic of the Congo (DRC), Venezuela and Nigeria. We apply a material haircut to our fair value for the possibility of a fine and penalise the overall valuation multiple applied to the group to cater for governance risks. Despite this, we still find meaningful upside to our estimate of fair value in Glencore. Finally, we are encouraged by recent announcements from the company, all of which indicate that the company is steadily addressing our governance concerns.

Other material Fund activity for the quarter included the switching of our remaining Prosus holding into Naspers because we believe that the additional discount to intrinsic value is incredibly attractive. We also trimmed our Anheuser-Busch InBev position on share price strength and opportunistically added to our FirstRand position, along with some other domestic stocks.

In this uncertain world, our objective remains on building diversified portfolios that can absorb unanticipated shocks. We will remain focused on valuation and will seek to take advantage of attractive opportunities that the market may present to us. We are excited by the current portfolio and, given compelling valuations, we are excited about future return prospects.

Portfolio managers
Karl Leinberger, Sarah-Jane Alexander and Adrian Zetler
as at 30 September 2020