

After a strong rebound in the second quarter of the year (Q2-20), equity markets continued their gains, returning 8.1% in the third quarter (Q3-20). Returns were broad-based, with developed markets, as a whole, returning just under 8%, and emerging markets continuing a recent run of outperformance, returning 9.6%. The US continues to outperform other developed regions, with a return of 9.4% – handily ahead of Europe’s 4.5%. Most other asset classes also delivered a positive result.

The Fund returned 1.8% for Q3-20, well ahead of the benchmark, which was essentially flat.

Once again contributions to return were broad-based:

- The Fund’s equity holdings delivered 6.2%;
- Property returns continue to be strong, at 11%;
- Fixed interest continued a solid rebound, returning 3.1% compared to the bond benchmark of 2.7%;
- Gold and other commodity holdings returned 6.4% and 7.2% respectively.

Portfolio hedges were the most significant detractor, which is not surprising, as these positions will clearly be a headwind in strong markets. However, it is not unusual for some form of protection to be in place in our multi-asset funds. If purchased when the cost is low, and scaled appropriately, we feel this can be an important tool to manage risk and volatility.

Individual contributors spanned a wide range of sectors and geographies and reflect the fundamental diversification both across and within asset classes, which we strive for when building the portfolio: Charter Communications (driven by the demand for US broadband), Alibaba (a leading Chinese internet platform), Unilever (a global consumer staple) and Sundrug (low-cost operator of Japanese drugstores), were all meaningful contributors.

Bayer was a detractor over the quarter. We think the stock is materially undervalued at a 7x price-to-earnings ratio. This is due to continued uncertainty regarding the resolution of the RoundUp litigation and regulatory uncertainty for its Xtend platform at a time when end-markets (principally corn, due to lower bioethanol demand), are temporarily depressed. Longer-term, Bayer remains the leading crop science franchise, with significant opportunity to improve profitability from merger synergies, new products in the pipeline (e.g. short-stature corn) and scaling its digital agriculture initiative. While recent results have been disappointing, the range of potential outcomes remain tilted to the upside.

At quarter-end, the Fund was positioned with 43% in growth or risk assets, comprised of the following:

- 25% effective equity;
- 3% property;
- 3% infrastructure;
- 5% in convertible bonds;
- 7% in high-yield bonds.

The remaining 57% of the Fund is invested in more stable, diversifying assets, with limited correlation to equities:

- 6% inflation-linked bonds;
- 8% in commodities;
- 8% in hedged equity;
- 35% in fixed income (with 12% in Treasury bills, and 19% in investment-grade corporate bonds).

We continue to feel the fundamental diversification evident in this portfolio construction, with an intentional tilt towards inflation protection, is both more appropriate and more robust than the cash benchmark or a large holding in government bonds. As a reminder, the bond index as a whole offers an expected return (if held to maturity) of less than 1% and a duration of approximately seven years. Setting this meagre return against the risks, which we feel are significant, including huge budget deficits and elevated debt levels, suggests to us that these assets, which have historically been core holdings of low-risk funds, offer a poor risk-reward trade-off and that investors will be better served over the long-term in diversifying assets, as outlined above.

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

**Portfolio managers**

**Louis Stassen and Neil Padoa**  
as at 30 September 2020