Please note that the commentary is for the US dollar retail class of the fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.

The Fund advanced 9.5% against a benchmark advance of 8.1% in the third quarter of 2020 (Q3-20), bringing the rolling 12-month performance to 4.8 % against the 10.4% returned by the MSCI All Country World Index.

The Covid-19 pandemic continued to impact the global economy. The initial strong rebounds turned more subdued toward the end of the third quarter as the second wave of the pandemic rolled through the US and Europe. Localised actions and restrictions rather than national lockdowns prevented a second full-scale economic retreat, but the effects were still a drag on the much-needed recovery. However, supported by monetary and fiscal policy, equity markets rose over the period. Emerging markets performed well, aided by a weakening US dollar and a stronger-than-expected recovery in China.

North America was the best-performing region in Q3-20, advancing 9.5% (in US dollar terms). The weakest return was from Pacific ex-Japan, which advanced 2.0% (in US dollar terms). Europe rose 4.6% and Japan rose 7.1% (both in US dollar terms). Emerging markets advanced 9.6% compared to developed markets, which rose 8.1% (both in US dollar terms).

Among the global sectors, information technology (IT) (+11.6%), industrial (+11.3%) and consumer discretionary (+15.7%) were the best-performing sectors for the quarter. The worst-performing sectors were energy (-16.9%), financials (+1.2%) and real estate (+1.4%). On a look-through basis, the Fund's largest exposures are to consumer discretionary, IT and consumer staples.

The two best-performing funds for the quarter, Contrarius Global Equity and Egerton, returned 14.1% and 13.6% respectively, while the Coronation Global Emerging Market Fund, Eminence, Lone Pine and Tremblant also had strong quarters. Lansdowne Developed Markets Fund continues to struggle and Maverick Capital trailed the index over the quarter.

Contrarius continues to rebound after a poor period of performance, rising 58.0% compared to the market advance of 28.9% over the past six months. Retaining faith in Bed Bath & Beyond has proved correct and it has risen some 250% since its low in March as it continues to broaden out, grow its online offering and reduce reliance on its 'bricks and mortar' storefronts. Scientific Games, Signet Jewelers, Overstock, Freeport-McMoran and Teck Resources also all contributed significantly to performance for the quarter.

Egerton is also enjoying a run of strong performance, mostly because its large exposures to consumer discretionary and IT stocks. Alibaba, Facebook and Amazon performed well, all still benefitting from the Covid-19 era. DR Horton, a US housebuilder, is benefitting from a demand for houses driven by low interest rates while Canadian Pacific Railway rose from its Covid-19 lows on an improving economy.

Coronation Global Emerging Market Fund enjoyed another strong quarter, generating alpha over 1%. Stocks such as JD.com, Alibaba, Wuliangye Yibin were significant contributors to the outperformance, while Taiwan Semiconducters, Infosys and Stoneco also performed well.

Lansdowne retained exposure to the airlines it held going into the lockdown. Unfortunately, the early recovery in flying stalled late in Q3-20 as the pandemic moved into its second wave, causing the airlines to decline again, with IAG being an acute example of this. This held back some strong performance from its materials stocks Arcelor Mittal and Freeport-McMoran, which rose on expectations of economic recovery.

Maverick underperformed for the quarter, despite holding many of the same IT and consumer discretionary stock held by the better-performing managers. However, as with Lansdowne, exposure to the airline industry through a holding in Rolls Royce hurt performance over the quarter.

Outlook

Equity markets have rallied strongly since the lows at the start of the pandemic, overshadowing its deep economic impact. Monetary and fiscal policy eased the initial shock, but, as the pandemic drags on, it is becoming more difficult to ignore its impact and, to many, equity valuations look stretched. In particular, the US, in an election year, is struggling to extend its Covid-19 related fiscal programmes and, at the time of writing, all negotiations on these had been terminated by President Donald Trump until after the election in November. This is not a good outcome. However, compared to other options, equities are also attractive, especially when one can run a select portfolio of stocks that offer long-term value, as our managers are able to do. We expect they will continue to generate alpha in these markets.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 30 September 2020