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

The Fund was flat for the quarter, against a benchmark return of +6.7%, bringing the rolling 12-month performance to 9% against the 18.5% returned by the MSCI All Country World Index.

Global equity markets had a strong quarter, rising 6.7% to close out another year of positive gains. Markets had a good start in October, but the new highs were short-lived on the discovery of a further Covid-19 variant, later named Omicron, that caused some governments to bring in restrictions, limit travel, and bring forward booster vaccination programs to prevent its spread. Markets sold off on this news but did recover later in December as it became clearer that while Omicron was much more infectious, it was generally a milder illness for those infected. In parallel to this was the ongoing rise in inflation, which is proving more persistent than the US Federal Reserve and others originally anticipated. The Bank of England raised rates during the quarter on inflation worries, while the Fed turned far more hawkish. It accelerated its tapering process and cleared the way for a potential increase in rates in mid-2022, with the dot plot suggesting as many as three rate hikes before the end of the year.

North America was the best performing region in the fourth quarter of 2021 (Q4-21), advancing 10.0% (in US dollar terms). The weakest return was from Japan, which declined 3.9% (in US dollar terms). Europe rose 5.7% and the Pacific ex-Japan was flat (both in US dollar terms). Developed markets rose 7.9% strongly outperforming emerging markets, which declined 1.3% (both in US dollar terms).

Amongst the global sectors, IT (+13.1%), utilities (+10.7%), and real estate (+10.2%) were the best performing sectors for the quarter. The worst performing sectors were telecoms (-1.9%), financials (+3.3%), and energy (+3.6%). On a look-through basis, the Fund's largest exposures are to consumer discretionary, IT and communication services, and it has very little exposure to utilities and real estate.

Performance was weak from all the underlying managers, but Tremblant Capital and our emerging markets exposure through Coronation Global Emerging Markets Fund had the biggest impact.

Tremblant Capital returned -4.5%, some distance behind the index and closing out a difficult year for them. This quarter their consumer discretionary stocks detracted significantly from performance, while stocks in IT and communication services also held back returns. Doordash (-27.7%), Twitter (-28.4%), Nordstrom (-14.5%) and Carlotz (-40.4%) were some examples of this. Their consumer staples and real estate positions did well but the exposure to these is small and therefore did not impact performance as much.

Coronation Global Emerging Markets Fund lagged the index by 4.2% over the quarter, bringing alpha to -11% for the year. The fund's top three sectors all detracted over the quarter, with positive contributions only from two of its smallest sector exposures, materials and energy. Sendas Distribuidora (-31.8%), Yandex (-24.1%), Sberbank (-14.7%) and Mercadolibre (-19.7%) were amongst some of the biggest detractors for the quarter. AngloGold (+31.2%), LVMH (+15.5%) and MediaTek (+18.0%) and Petroleo Brasileiro (+14.1%) provided positive returns for the quarter.

Contrarius Global Equity had a negative return of -1.0% for the 3-month period but did deliver a very good 12-month return of 42.4%, twice that of the index. A large exposure to communication service stocks (AMC Networks (-26.1%), Sinclair Broadcast (-15.9%) and Iheartmedia (-21.6%)) did the most damage over the quarter, while financials such as Coinbase -21.0% also detracted. Most other sectors made very little impact but consumer discretionary stocks such as Macy's (+16.5%), Signet Jewellers (+10.4), and Marks & Spencer (+26.7%) provided a large positive contribution.

Egerton returned 4.7%, slightly lagging the index over the quarter, while for the full year they were also behind by 5%. Good returns from their industrials and consumer discretionary exposure provided solid contributions to performance but these were offset by weaker returns from their IT and financials exposure.

Crosby Street also lagged the index, returning 4.9% to finish the year with a disappointing 9.5%. On the negative side, Worldline (-27.1%), Fidelity National (-10.0%), Shiseido (-17.1%) and Prudential (-12.0%) were amongst the largest detractors. There were several positive returns as well but only Qualcomm (+42.3%) and Interactive Brokers (+27.6%) were big enough to make a difference.

Outlook

While the future of the pandemic is difficult to predict, the feeling is that people are learning to live with the virus and the new normal is emerging. The global economy should be much better than the prior two years although with much diminished fiscal support as governments seek to repair the damage to their finances. Monetary policy will also be less supportive, although central banks will move carefully to moderate inflation while limiting any damage to the economic recovery. US equity market valuations look high but this is tempered by wide valuation dispersion which look attractive for active managers. In addition, valuations in Europe and Asia are very attractive and offer long-term opportunities.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 31 December 2021