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

The Fund has had a successful start to 2021, delivering a one-year return of 23% net of fees, far exceeding its benchmark return of inflation (CPI) + 3%. The strong showing over the last 12 months to end-March has lifted the Fund's medium-term performance, resulting in a return of 6.5% over the five-year period. While still slightly behind the benchmark return, this is a respectable return and comfortably ahead of CPI.

Risk assets have had a significant rebound, off a very low base this time last year, and have been the main contributor to the Fund's performance. We used the Covid-19 sell-off to judiciously step up our risk asset exposure within the Fund, starting with global and emerging market equities and followed by South African (SA) equities. For the quarter, both global and local equity asset classes delivered good alpha over and above robust underlying market performances.

In our local equity markets, we saw compelling long-term valuations across many counters even after incorporating severe near-term earnings cuts due to Covid-19 and a slow path to earnings normalisation. While this gave us the confidence to increase our SA equity exposure, we were very selective in the counters we bought. Our focus was on building positions in businesses that not only offered a large margin of safety but also had robust balance sheets and the ability to generate good cash flows. Given these criteria, we did not add to our domestic property exposure as we found better risk-adjusted return potential in equities.

Consider Quilter, one of the largest integrated wealth managers in the UK and a share we have been buying. The UK is an attractive wealth management market due to increasing regulatory compliance burdens on advisers and a growing defined contribution market. Quilter is well placed within this market, with an integrated value chain from a large, owned adviser force and a well-invested platform offering its own, as well as third-party asset management solutions. The business is shareholder-friendly and trades on 13 times our assessment of normal earnings.

There are still many uncertainties and risks as to how the world will emerge from this Covid-19 crisis. However, large amounts of stimulus, relatively low interest rates and lifting of lockdowns will all lead to a positive backdrop of increased economic activity. With this in mind, we still see attractive investment opportunities in equity markets, with our bottom-up valuations indicating healthy inflation-beating potential returns over the next three years. Given the strength of market performance, we have trimmed some equity exposure in the first quarter of this year but still maintain an allocation of 40% to local and global equities. There are tail risks to this expected economic recovery, and as the Fund also has a capital protection mandate, we have increased our protection on our equity exposure by buying local and global equity puts.

Our overall risk asset exposure is prudently balanced, with a 44% exposure to SA fixed income instruments. The Budget presented by National Treasury in February was broadly better than expected, with higher tax receipts and conservative expenditure allocation. Government still has a high and increasing debt burden, and a combination of growth initiatives and continued fiscal constraint will be necessary to keep this in check.

Many investors are sceptical that this can be delivered, and hence our far-dated domestic bond yields continue to trade at a premium to other emerging markets. We have exposure to these attractive yielding SA government bonds but are also managing risk by spreading exposure across corporate and inflation-linked bonds. Our fixed income carve-out delivered a small positive return for the quarter, outperforming the All Bond Index.

While the overall Fund returns over the past 12 months have been pleasing, we would not expect a repeat of this strong performance. The past year has demonstrated the value that can be added by employing active asset and instrument selection to take advantage of investment opportunities. We think our current asset selection can still deliver on the CPI + 3% mandate over the medium term, with a sensible mix of growth and income assets to meet both the return and capital protection mandate of the Fund.

Portfolio managers
Charles de Kock and Pallavi Ambekar
as at 31 March 2021