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

The Fund had a good quarter, with a return of 8.9%, benefiting from both value-adding asset allocation decisions and alpha generated within the domestic and global equity building blocks. The Fund has performed well against its peer group over all meaningful time periods.

The Covid-19 pandemic continued to impact markets. Despite severe second and third waves in many parts of the world, markets delivered a strong first-quarter performance. Investors are anticipating a return to more normal economic activity as vaccine rollout strategies gained momentum. Virus mutations, vaccine efficacy and the duration of immunity remain risks to markets that have already priced in a recovery. The MSCI All Country World Index returned 4.6% for the first quarter (Q1-21) after returning 16.3% during 2020. The S&P 500 Index returned 6.2% in US dollars for Q1-21. In Europe, the Eurostoxx 50 rose +6.3%, despite stringent lockdowns across large parts of Europe. Given the considerable strength in global markets, the Fund reduced its holding in global equities to a neutral level.

Emerging markets (MSCI Emerging Markets [EM] +2.3%) underperformed their developed market counterparts (+4.9% as measured by the MSCI World Index). Within EM, Turkey was a notable underperformer (-20.4% in US dollars) as President Erdogan replaced the country's Central Bank governor (again). This affront to central bank independence resulted in a weakening of the currency and rising bond yields. Herd immunity for EM will generally come later than developed market peers, taking place in 2022 or 2023. Affordability, access to vaccines and effective procurement and distribution strategies are all headwinds. South Africa (SA), similarly, has had a slow start to vaccine distribution, with vaccine timelines being extended. Effectively leveraging all available resources across the private and public sector will be critical to achieve the herd immunity required for economic normalisation.

Global bond yields rose as confidence in an economic recovery gained steam. Pent-up demand from consumers sitting on high levels of savings, buoyed by economic stimulus and lockdown restrictions, brings inflation risk. The Barclays Global Aggregate Bond Index declined -4.5% in US dollars in Q1-21. We remain cautious on global bonds given the low yields at which they continue to trade, high levels of government indebtedness and the risk of inflation. In SA, the All Bond Index declined -1.7% in Q1-21. The rand remained steady against the US dollar (-0.6% in Q1-21).

After a marked deterioration in SA's fiscal metrics during 2020, Q1-21 brought improved news flow. The current account delivered a healthy surplus backed by mining cashflows and a robust agricultural sector. Tax collection efforts exceeded expectations. The February Budget was encouraging, with a commitment to rein in expenditure, specifically the public sector wage bill that has compounded at a rate above inflation for many years. Implementation of the Budget plans will require a sustained commitment to austerity. Much needed economic growth is frustrated by load shedding, policy uncertainty and a lack of investor confidence. While the projected debt-to-GDP ratio has come in lower than expected, it remains high. The risk of a debt trap is not immaterial. This tenuous situation is reflected in SA government bonds yielding returns well above cash. We see better value at the long end of the curve, where lower bond prices offer more protection against restructuring. The Fund is slightly underweight fixed rate government bonds, striking a balance between the attractive returns and risk.

Having increased exposure to SA equities during the third quarter of 2020, we took profits in Q1-21, given the strong run. The JSE All Share Index was up strongly (+13.1%) for the quarter and 55.6% since its March lows a year ago. Despite the selling, the Fund remains overweight SA equities, given the breadth and attraction of the value on offer. Resource shares delivered 18.7% for Q1-21, followed by industrials (+13.0%) and then financials (+3.8%). The portfolio benefited from its large holding in resources. The Fund continues to have considerable exposure to rand-hedge names that remain attractive for various stock-specific reasons. Major holdings include Naspers (+17%), British American Tobacco (+4.9%), Quilter (+5.5%), Bidcorp (+8.7%), Textainer (+45.1%) and Aspen (+15.1%).

Within the SA equity building block, the Fund reduced the extent of the domestic underweight during 2020, given the move in valuations. Despite reduced medium-term prospects, domestic shares offer attractive upside to fair value. In keeping with the second half of 2020, earnings results from domestic shares have exceeded our expectations in Q1-21. We believe exciting stock picking opportunities exist as strong players use the crisis to become even stronger. This was evident in the results of a business such as Shoprite (+12. 2% for Q1-21), which delivered strong topline growth and resilient gross profit margins despite economic headwinds.

SA's banks have navigated the crisis well. Books appear well provided as borrowers resume debt repayments and low interest rates improve affordability. Capital ratios remain healthy, and future earnings should be well supported given the level of provisioning. Despite sector earnings roughly halving over 2020, Standard Bank and FirstRand returned to paying dividends. The outlook for advances growth is muted given constrained economic growth. Slow vaccine rollout and possible retrenchments pose additional risks to economic recovery. Life insurers were forced to take additional Covid-19 provisions as a second wave drove a spike in mortality. As with the banks, life insurer balance sheets remain well capitalised. Sanlam, Momentum Metropolitan Holdings and Old Mutual declared dividends. Momentum Metropolitan (+12.1%) remains an attractive investment, trading at a meaningful discount to embedded value. While additional Covid-19 provisions detracted from results, we believe management's actions are delivering underlying operational improvements. Despite the selloff in property shares, we have not built up the position, given concerns over the long-term outlook for rentals and weak balance sheets.

Within the resources sector, the Fund benefited from its overweight position in the diversified miners and underweight holdings in gold. Anglo American and Glencore rose 22% and 24%, respectively. Resource shares remain a meaningful part of equity exposure despite their outperformance. Our investment thesis is unchanged, namely undemanding valuations, solid free cash flow (FCF) and tight markets.

Commodity demand is expected to remain robust given Asian resilience and a recovery in the rest of the world. Joe Biden's presidency should strengthen the US's commitment to transitioning away from fossil fuels. Battery metals have an important role to play in decarbonising the world's energy mix. We expect copper and cobalt to be particularly tight as this shift accelerates. Glencore (+24%) should be a key beneficiary.

The platinum group metals holdings in the portfolio (Northam +22.8% for Q1-21, Impala Platinum +40.7% for Q1-21) performed well. Metal prices remain high given growing demand, supply disruptions and a decade of underinvestment. We have trimmed the positions but remain invested, given anticipated high levels of cash return.

Equity markets have rebounded strongly off the lows of a year ago. While we have trimmed equity exposure, we remain overweight and continue to see exciting investment opportunities for stock pickers. We believe that these positions will deliver compelling returns for clients in the coming years.

Portfolio managers

Karl Leinberger and Sarah-Jane Alexander

as at 31 March 2021