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.

Equity markets posted solid gains in the first quarter, returning 4.6%, and now sit well above pre-Covid levels. While we don't spend any time trying to predict short-term market moves, recent volatility (both up and down) and violent "factor rotations" have whipsawed many investors, and provided a real-life stress test of equity portfolios. The bond market fared less well, declining approximately 4.5% in the quarter, as interest rates increased from very low levels.

Against this backdrop, the Fund continued to make progress, returning 1.2% for the quarter compared to 0% for the benchmark. Over one year (benefiting from a low Covid base), the Fund has returned 16%, and over three, five and 10 years, the Fund has returned between 4-5% per annum (p.a.).

For the quarter, the primary contributors to return were:

- Equity holdings, which returned 4.9%
- Fixed interest, which returned 1% (thanks to our conservative positioning and compared to the global bond index's -4.5% loss)
- Commodities, which returned 11%
- Inflation protection, with the Fund's inflation break-even positions appreciating meaningfully as the market re-priced inflation risk. Ten-year break-evens increased from 1.5% to 2.2%.

The Fund has held a position in Porsche for many years, during which time it has performed broadly in line with the market. In January, we re-visited the investment case for Porsche, whose primary asset is a 53% holding in VW common stock. The key conclusions were:

a) VW is not as bad a business as the market would have you think. It was trading on seven times earnings, which is one-third of the market multiple despite growing its market cap four times in 20 years, earnings by 8% p.a. for over 10 years, and delivering an expected ROCE (return on capital employed) of 10-13%.
b) Porsche did not deserve to be trading at a further 35% discount to the value of its stake in VW.
c) Earnings are reasonable quality with the business converting 70-90% of earnings into FCF (free cash flow), implying that Porsche was trading north of a 20% FCF yield on a look-through basis.
d) The transition to EVs (electric vehicles) is more of an opportunity than a threat to VW. (It ended 2020 with a BEV [battery electric vehicle] market share of 11% already, which is rapidly growing and on track to exceed its 13-14% share of traditional ICE [internal combustion engine] vehicles.)
e) Any form of sum of the parts analysis, which more accurately valued VW's luxury brands (which include Lamborghini, Bugatti, Bentley and Porsche itself), showed that VW (and therefore Porsche) were massively undervalued.
f) The balance sheet is again solid with year-end net cash coming in at €28 billion.

Our financial forecasts implied the stock was worth double where it was trading and could generate an IRR (internal rate of return) above 20% p.a. Very unusually, we didn't have long to wait for some of this discount to narrow, as Porsche appreciated by circa 60% over the rest of the quarter. It was a top contributor to Fund returns.

We have written about our cable holdings, Charter Communications (Charter) and Altice USA, in previous commentaries. Charter was a detractor in the first quarter. However, it is a top contributor over more meaningful time periods (three to five years). This is often how it goes for long-term investors: we believe it is highly unusual for stocks to go up in a straight line, periods of underperformance are almost inevitable in the hunt for long-term outperformance, and an investment thesis is likely to be tested many times over a multi-year holding period.

Cable's primary product, the provision of high-speed broadband internet in the United States, took centre stage in 2020 as large parts of the population were forced to work, learn and entertain themselves at home and online virtually overnight. Both companies performed strongly, with Charter growing its internet subscriber base by 9% and Altice by 4% on a year-over-year basis.

Both stocks have since taken a breather due to several factors, none of which we are particularly concerned about. Firstly, we acknowledge that there was likely some pull forward of subscriber growth into 2020 and that these results are unlikely to be repeated in 2021. Secondly, there has been increased noise from mobile operators launching 5G home broadband plans. And lastly, the Biden administration has made announcements relevant to cable. Addressing the first point, we have strong conviction that demand for high-speed internet will continue to increase as data consumption grows rapidly each year. This structural tailwind is supplemented in the nearer term by various stimulus measures that will directly assist lower-income households with their monthly broadband bills. And cable continues to be the internet provider of choice. Charter's average broadband subscriber now consumes 700GB of data per month (on a per home basis) and this continues to grow. Capacity-constrained mobile networks, where the average unlimited user consumes 10-15GB per month are unable to compete in our view. Lastly, Biden's infrastructure plan should provide growth opportunities for cable in previously unserved rural areas, while we view the risk of price regulation as low. Higher corporate US tax rates are factored into our forecasts.

We find the valuations of both our cable holdings extremely attractive in both relative and absolute terms and we continue to expect strong growth in FCF over the coming years based on healthy revenue growth, steadily expanding margins and capex declining to normalised levels. Both also have excellent, shareholder-friendly management teams as evidenced by Altice repurchasing a massive 25% of shares outstanding over the course of 2020.

At quarter-end the Fund was positioned with 46% in growth, or risk, assets comprised of the following:

- 27% effective equity
- 5% in property
- 4% in infrastructure
- 2.5% in convertible instruments
- 7.5% in high yield credit

The remaining 54% of the Fund is invested in either more stable assets, or diversifying assets, which we think have lower correlation to equities:

- 7% in commodities
- 2% in inflation linked bonds
- 7.5% in absolute return / hedged equity positions
- 37.5% in investment grade fixed income (primarily 16% in short-dated Treasury bills, and 19% in investment grade corporate credit)

As highlighted in prior commentaries, we continue to feel that the fundamental diversification evident in this portfolio construction, with an intentional tilt towards inflation protection at the expense of nominal government bonds, 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 a low nominal expected return and a negative real return. Setting this meagre return against the risks, which we feel are significant, including huge budget deficits and elevated debt levels, suggests to us that this offers a poor risk-reward trade-off and that investors will do well to avoid these instruments entirely. In our view, they 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 31 March 2021