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

The Fund returned 1.8% for the quarter, resulting in a return of 28.7% over the last year. The Fund has performed well against its peer group over all meaningful time periods.

The global recovery continued, supported by high vaccination rates in developed markets and easing economic restrictions. Markets were weaker, reflecting fears that growth would not live up to the high expectations priced in. The MSCI All Country World Index declined -1% in US dollars for the quarter (27% over 12 months).

Developed markets (MSCI World index 0%) were broadly flat, although they fell in September (-4%) as concerns about growth increased. Emerging markets underperformed their developed market counterparts (MSCI Emerging Markets [EM] -8%). Brazil (Bovespa -20%) and China (MSCI China -18%) both had a particularly weak quarter.

Investor confidence in China was shaken by a raft of new regulations across multiple sectors that were invoked swiftly and largely without consultation. While China's authoritarian political system has always posed a risk, recent actions have heightened this. The remit of government interventions widened to include a drive for common prosperity and wealth redistribution, as well as social engineering. These policies are in direct conflict with the economic opening that has taken place over the past few decades. The role that foreign capital will be permitted to play is less certain. Evidence of slower Chinese growth also emerged after a very rapid recovery earlier in the pandemic.

While the Fund's allocation to global equities has bolstered long-term returns and risk management, it detracted during the quarter, given a slower than anticipated recovery in some markets and exposure to China. The Fund continues to hold several global names where we believe recovery prospects are mispriced. Covid-19 shutdowns have created near-term headwinds but are expected to recede as global vaccination levels increase. Travel has already picked up markedly in many markets and should support investments in Airbus, Trip.com, MakeMyTrip, Ryanair and Samsonite.

Wide-ranging Chinese regulatory interventions weighed heavily on China stocks. Portfolio risk has been managed both through careful consideration of the overall China exposure and stock picks. The largest Chinese investment among the global holdings is JD.com, which we believe to be relatively well-positioned. JD.com has responsible social practices, treating their staff well and employing their drivers directly. They have consistently invested in distribution infrastructure to widen services into Tier 2 and 3 cities rather than harvest profits. JD.com may benefit from the additional scrutiny being placed on some of Alibaba's less competitive practices, such as retailer exclusivity, as merchants can move to JD.com's platform. We continue to expect strong growth from this business.

South African (SA) investor confidence was dealt a blow early in the quarter with the rioting and looting in KwaZulu-Natal. Social inequality and high unemployment (worsened by the pandemic and associated economic restrictions) remain a major concern. An additional Basic Income Grant has been extended to those most in need. The additional grant, ongoing SOE support and a higher-than-anticipated public sector wage agreement further strained the fiscus. SA needs sustained economic growth to heal its fiscal woes. The decline in prices of some of SA's key export commodities (iron ore -28% in Q3-21 in US dollars and PGMs) is a threat to the current account surpluses that have supported the rand. The local currency declined -5% against the US dollar for the quarter. While the quarter heralded a disappointing number of setbacks to the fiscal outlook, the government remains committed to fiscal discipline. The new Minister of Finance is not expected to make any major changes.

SA's vaccine rollout has been slow to ramp up, with 20% of the adult population now fully vaccinated. Easing Covid-19 infection numbers have supported a lowering of restrictions, with the country moving to level 1 at the end of the quarter. The risk of further waves remains given low levels of vaccination.

The Fund's exposure to SA equities is sitting at a decade high given the breadth of value across many sectors, including resources, locally-listed global stocks and domestic shares. For the quarter, the JSE Capped SWIX Index delivered 3% in rands. The financials index returned 12% as the improvement in banking earnings continued, fuelled by a faster-than-expected recovery in bad debts. Industrials declined -4% as major constituent Naspers (-17%) dragged down index return. The resource index declined too (-4%) as global growth concerns and commodity price pressures weighed on several stocks.

The Fund has long had considerable exposure to a number of global businesses listed in SA. Major holdings include Naspers (-17%)/Prosus (-15%), Aspen (69%), Bidcorp (4%), British American Tobacco (-1%), Quilter (-0%) and Textainer (13%). All are attractive for stock-specific reasons.

Naspers came under considerable pressure during the quarter as regulatory intervention in China intensified. Within the technology sector, much of the regulation is consistent with what is seen elsewhere, including governance of fintech, antitrust, competition law, data security, protection of personal information and gig employee labour protection. More specifically for Tencent, government attempts to protect minors means increasing restrictions on time spent gaming. Thus far, none of the restrictions are expected to change Tencent's prospects meaningfully. However, the breadth and depth of Chinese regulatory intervention and the amplified threat to foreign capital have increased the risk of any Chinese investment. Valuations now look extremely attractive, with Chinese technology businesses trading at considerable discounts to their developed market peers. Tencent is a formidable company that generates good free cash flows, has a very engaged user base and is growing businesses across multiple verticals. At the Naspers/ Prosus level, investors benefit from an undervalued rump where management has been achieving good returns on recent portfolio actions.

Aspen delivered strong returns for the quarter (+69%), bringing 12-month returns to 130%. While organic delivery has been pleasing, the more recent share price performance stems from two specific opportunities. Aspen is under cautionary related to the potential disposal of its API business, which is expected to be accretive. More materially, Aspen could potentially benefit from a vaccine licensing deal from J&J, which would materially increase its revenues.

Domestic companies continued to report results ahead of our expectations due to more resilient economic activity and stringent cost-cutting. We are concerned about the secondary effects of this cost-cutting and the ongoing weak employment numbers.

Like many holding companies, RMI (+20%) has seen the discount (at which it trades to the value of its underlying parts) widen over the last few years. We believe this undervalues some of the attractive assets it owns, including OUTsurance, an unlisted short-term insurer with a strong history of delivering earnings growth while achieving high levels of cash flow conversion. We have had many engagements with RMI management over the years about how this value could be unlocked and were pleased to note the restructuring announced in September. RMI intends to unbundle its holdings in Metropolitan Momentum and Discovery to shareholders leaving a smaller, more focused company with its major holdings in short-term insurance (OUTsurance and Hastings). RMI has also committed to paying out 50% free cash flow to shareholders. Although a capital raise in the form of a rights issue will be required to achieve this, the restructuring and higher pay-out are undoubtedly positive. We hope that these are the first steps on a journey to further improve shareholder returns by passing through more of the underlying dividends.

The portfolio has a small overweight in resource shares, which comes from the holdings in the diversified miners. Holdings in Glencore and Anglo American have contributed strongly to performance over the past few years, but we believe they continue to offer good value. They trade on low multiples, with solid free cash flow generation and attractive upside. We are not bullish on all commodities but expect an accelerating global drive to decarbonise to create increasing demand and tight markets in commodities like copper, cobalt and nickel. Glencore is particularly well exposed.

The portfolio has continued to increase its holding in gold equities, which offer upside and reasonably priced protection against stretched sovereign balance sheets and high global market levels. Both AngloGold and Goldfields have improved their production profiles and geographic diversification. We anticipate a period of increased returns to shareholders under their new leadership teams. These positions have been funded by taking profits in the PGM shares.

Markets are ever-changing. The significant disturbance wrought on the world by Covid-19 has accelerated disruption in many industries while placing significant pressure on sovereign balance sheets. The sweeping changes effected by the pandemic has created opportunities where longer-term consequences are being mispriced. We constantly challenge our beliefs to enable us to take advantage of these opportunities.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 30 September 2021