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

The Fund declined 19.3% for the quarter (Q2-22) against a benchmark return of -15.7%, bringing the rolling 12-month performance to -28.7% against the -15.8% returned by the MSCI All Country World Index (ACWI).

Q2-22 was another difficult quarter for global equity markets and this is now the worst first half of a year for developed market equities in more than 50 years. This was largely due to the shift to a far more hawkish stance by the US Federal Reserve and other central banks to combat persistent inflation which is at multi-year highs in many countries. The economic outlook of increased rates and its potential to cause a recession put pressure on growth expectations and equity valuations, causing sharp declines in equity markets. Long duration growth stocks bore the brunt of this, with the Nasdaq 100 falling 22.5% over the quarter.

The Pacific ex-Japan was the best performing region in Q2-22, despite declining 14.1% (in US dollar terms). The weakest return was from North America, which declined 16.7% (in US dollar terms). Europe fell 14.2% and Japan fell 14.6% (both in US dollar terms). Developed markets performed worse than emerging markets, declining 16.2% compared to -11.4% (both in US dollar terms).

Amongst the global sectors, energy (-5.9%), consumer staples (-7.0%) and healthcare (-7.5%) were the best performing sectors for the quarter. The worst performing sectors were consumer discretionary (-24.1%), IT (-21.9%) and materials (-20.2%). On a look-through basis, the Fund's largest exposures are to consumer discretionary, IT and communication services. The Fund has very little exposure to consumer staples, utilities and real estate.

The underlying funds generally struggled over the quarter and most underperformed the index. Only the Coronation Global Emerging Markets Fund performed better than the ACWI, albeit underperforming the MSCI Emerging Markets Index. Recent performance has been disappointing, but the managers of the various funds have mostly retained conviction in their positions, believing many to be oversold in the market panic over the direction of interest rates. On a three- to five-year view, there are a number of stocks that offer very attractive valuations even if interest rates do increase from here.

Tremblant Global Growth was the worst performing fund, losing 28.3% over the quarter. This was driven largely by its consumer discretionary and IT stocks, which together were -21%. Uber Technologies (-42.7%), Smartsheet (-42.6%), Shift 4 Payments (-46.6%) and DoorDash (-45.2%) were the worst amongst the IT stocks, while Amazon (-34.8%), Spotify (-37.9%) and Walt Disney (-31.2%) from consumer discretionary.

Contrarius Global Equity Fund declined -23.0%. It was more affected by the energy and materials sectors where some of its largest holdings reside, with some additional impact from communications stocks. Cleveland Cliffs (-52.3%), EW Scripps (-40.0%), Transocean (-27.1%) and Paramount Global (-34.1%) were amongst the worst performers.

Egerton Capital and SEG Crosby Street fell 18.2% and 16.7% respectively and were similarly impacted by IT, communications and consumer discretionary stocks.

The Fund is in the process of redeeming from Lansdowne Developed Markets, which is being replaced by Eminence Capital's Classic Long Strategy. The first investment with Eminence was initiated mid-quarter, and it had a negative impact on performance. Eminence's biggest drivers of negative performance were IT and consumer discretionary sectors (albeit to a much lower degree than other funds discussed above) but also from the healthcare and industrial sectors. Stocks from the last two sectors include Exact Sciences (-43.7%), Cresco Labs (-58.1%), Verano (-42.3%) and Vertiv Holdings (-41.3%).

The outlook is clouded with uncertainty and investors are seeking clarity as inflation, increasing interest rates and moderating economies converge. The war in Ukraine rages on, creating uncertainty in the energy markets, particularly in Europe. Inflation is expected to moderate over coming months, but energy market disruptions could derail this somewhat. Central banks are now committed to reining in inflation, maybe even to the detriment of their economies, which are generally slowing, and some could potentially tip into recession. Equity markets have fallen substantially and are now pricing in a lot of bad news but slowing demand and rising rates could still put further pressure on earnings, which could lead to further declines. However, moderating inflation, leading to a more gradual tightening in rates over the remainder of the year, would be more positive for markets.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 30 June 2022