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.

The Fund declined 6.9% for the quarter against a benchmark return of -5.4%, bringing the rolling 12-month performance to -6.3% against the 7.3% returned by the MSCI All Country World Index.

The first quarter of 2022 (Q1-22) has been difficult for markets. The period was dominated by the build-up to, and eventual invasion of, Ukraine by Russia in late February. The crisis caused a sharp increase in the price of many commodities, most notably oil and gas, of which Russia is a major producer. Europe is a major importer of these, making it especially vulnerable to the conflict. The view that inflation was transitory was already under review at the beginning of the year, and central banks have become more hawkish since then, with the US Federal Reserve raising rates by 0.25% while making clear that further increases will be needed. The Bank of England raised rates twice in the quarter, while some emerging market central banks also raised rates.

The Pacific ex-Japan was the best performing region in Q1-22, advancing 3.0% (in US dollar terms). The weakest return was from Europe, which declined 7.2% (in US dollar terms). North America declined 4.8%, and Japan fell 3.0% (in US dollar terms). Developed markets fell 5.0%, strongly outperforming emerging markets which declined 7.3% (in US dollar terms).

Amongst the global sectors, energy (+30.0%), utilities (+0.8%) and materials (+1.5%) were the best performing sectors for the quarter. The worst performing sectors were telecoms (-10.7%), consumer discretionary (-10.8%) and IT (-10.3%). On a look-through basis, the Fund's largest exposures are to consumer discretionary, IT and communication services, and it has very little exposure to utilities and real estate.

It was a difficult quarter for the underlying funds, with most of them lagging the index for the period. Coronation Global Emerging Markets was the biggest faller, while Lansdowne, Tremblant, Egerton, Coronation Global Equity Select and SEG Crosby Street lagged the index by around 5%. Contrarius Global Equity had a very strong quarter, rising 24%, and was the only fund to outperform the index over the quarter.

Coronation Emerging Markets declined 21.6% as its exposure to Russian assets was valued at almost zero off the back of the severe sanctions and illiquidity arising from the invasion of Ukraine. The Fund has investments in solid businesses, many of which are expected to continue to do well in their local market despite the extensive sanctions now in place, but which are now subject to the war's outcome to establish their value for foreign investors. The Fund's Chinese tech exposure also continued to be volatile and negatively affected performance for the quarter. Commodity related stocks such as Anglo American (+33.8%), Petrobas (+34.8%) and AngloGold (+13.6%) did have a small positive impact.

Egerton underperformed for the period, falling 9%, with most of the damage coming from its consumer discretionary exposure such as Shopify (-50.9%), Bath & Body Works (-31.3%) and Netflix (-29.1%). Their financials - including KKR (-21.3%) and Intessa Sanpaolo (-21.1%) and tech stocks Microsoft (-8.1%) and Snap (-23.5%) also detracted. Canadian National Railway (+9.7%) and Canadian Pacific Railway (+15.0%) provided a little uplift in an otherwise bleak quarter.

Select Equity's Crosby Street suffered falls across most sectors, with only its utility exposure having any positive performance. Significant detractors included CRH (-21.7%), Interactive Brokers (-16.9%), First Republic Bank (-21.4%), Paypal (-40.7%) and Morningstar (-20.0%)

Coronation Global Equity Select trailed the index for similar reasons mentioned above – consumer discretionary and tech stocks. Prosus (-35.4%), Meta Platforms (-33.9%), Netflix (-37.8%) Just Eat (-29.8%) and JD.com (-17.4%) are some examples of the bigger detractors. As with Coronation Global Emerging Markets, the commodity exposures provided a small uplift this time through Gold Fields (+44.7%), Northam Platinum (+22.3%) and Anglo American (+32.5%).

Tremblant and Lansdowne followed a similar pattern whereby consumer discretionary and tech stocks caused them to lag the index for the quarter.

Ending on a positive note, Contrarius Global Equity had a very strong quarter, benefiting greatly from significant exposure to resources and related stocks and the sharp rise in gas and oil prices. Teck Resources (+42%), Range Resources (+70.4%), Alpha Metallurgical Resources (+116.1%), Transocean (+65.6%) and Valaris (+44.4%) are the best examples of the contributors to this.

The Ukraine invasion has clouded the recovery from the pandemic and the return to normal that everyone was expecting. Growth forecasts have been amended down and inflation expectations are up on higher commodity prices. Central banks are already in tightening mode, and all face a delicate balance of taming inflation without wrecking the recovery that is now under pressure from sanctions and supply chain constraints. Equity valuations are reasonable, although the US is trading at a premium. The markets will have to navigate significant changes over the next few quarters, and we expect our managers will take advantage of any opportunities that arise within the volatility.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 31 March 2022