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.

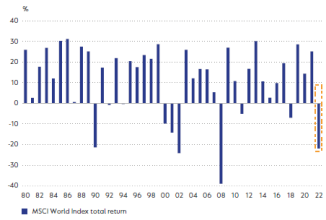
Performance

After an initial rally, the rest of the third quarter (Q3-22) continued in a similar vein to the prior quarter with both equities (MSCI All Country World Index -6.8%) and bonds producing negative returns. Again, there were precious few places to hide: even oil prices, which had been strong so far this year, declined by 23% in Q3-22. The US dollar outperformed most currencies, with the dollar index strengthening a further 7%.

This year has certainly been brutal to investors. To put it into historical context, the following grim facts are worth noting:

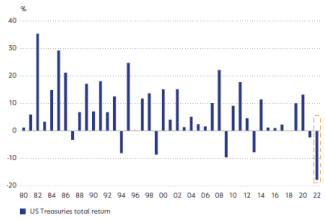
- To the end of September, the S&P 500 Index had experienced only three worse first three quarters of a year – in 1974 (recession); 2002 (9/11); and 1931 (the Great Depression)
- The rolling 10-year return for global government bonds is now 0% – a decade of returns has been wiped out. This is the worst return since the 1950s.
- If the year were to end at current levels, with both US stocks and bonds in negative territory, it would be only the fourth year ever for this to have occurred simultaneously.

Figure 1
EQUITIES DOWN YTD...



Sources: Datastream, Barclays Research

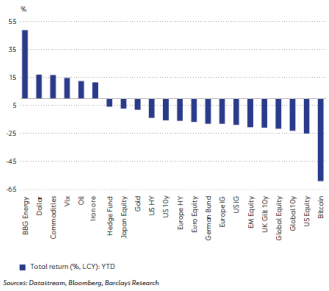
Figure 2
...ALONG WITH BONDS (DOWN THE MOST IN 40 YEARS)



Sources: Datastream, Barclays Research

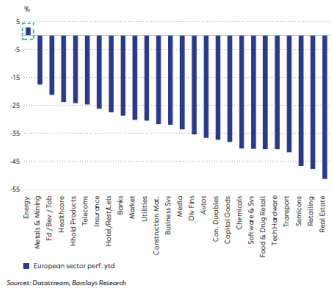
Diversification amongst the traditional asset classes of equity and bonds hasn't shielded investors, neither has other forms of diversification. Amongst equity sectors, the only positive sector year-to-date is energy. Geographically, not a single developed market has remained positive for the year.

Figure 3
YTD X-ASSET PERFORMANCE RISK OFF ACROSS THE BOARD



Sources: Datastream, Bloomberg, Barclays Research

Figure 4
YTD SECTOR PERFORMANCE – ONLY ENERGY IS UP



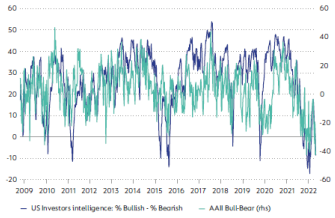
Sources: Datastream, Barclays Research

The Fund was not spared, producing a quarterly return of -6.6%, marginally above the benchmark (-6.8%).

Fund positioning

While the severity and somewhat indiscriminate nature of the sell-off has been painful to endure, it has also resulted in widespread price dislocation. Good businesses have been jettisoned alongside weak business, with little regard for differences between their long-term prospects. Across multiple industries and investment themes, our analysts are finding a range of opportunities that we consider to be very attractive today. Unsurprisingly, market and consumer sentiment are extremely negative. Historically, this has often been followed by a period of strong returns.

Figure 5
AAII BULL-BEAR INDEX AND II SENTIMENT SURVEY DEEPLY NEGATIVE...



Sources: Investor Intelligence, Datastream, Barclays Research

Figure 6
...AT LEVELS ALWAYS FOLLOWED BY STRONG 6-12 MONTHS EQUITY GAINS...EXCEPT IN 2008

	AAII Bull-Bear	+1w	+1m	+3m	+6m	+12m
16/08/1990	-41.0	-2%	-4%	-6%	7%	15%
30/08/1990	-38.0	4%	0%	1%	17%	27%
20/09/1990	-43.0	-2%	-5%	3%	18%	21%
04/10/1990	-44.0	2%	0%	7%	23%	26%
18/10/1990	-54.0	4%	5%	5%	27%	27%
15/11/1990	-43.0	1%	4%	15%	20%	25%
15/10/1992	-36.0	2%	4%	7%	10%	14%
20/02/2003	-36.8	2%	0%	13%	19%	37%
10/01/2008	-39.3	-1%	-1%	-3%	-11%	-34%
13/03/2008	-38.7	0%	6%	5%	-4%	-47%
19/02/2009	-35.1	-7%	-9%	7%	21%	30%
05/03/2009	-51.4	-7%	11%	25%	40%	50%
08/07/2010	-36.1	5%	8%	12%	23%	31%
11/04/2013	-35.2	2%	4%	5%	9%	20%
28/04/2022	-43.0	-3%	-9%	-7%		
23/06/2022	-41.1	6%	5%	-2%		
22/09/2022	-45.2					
Median		1%	2%	5%	18%	26%
Average		0%	1%	5%	16%	17%
% time positive		56%	50%	75%	75%	75%

Sources: Bloomberg, Barclays Research.

Long-time readers will know that we follow a valuation-driven investment research process. By assessing multiple factors (including the underlying earnings power of a business, the quality of management and key risks), we aim to determine a fair value (FV) – our estimate of what the business is worth. When the market price of a stock is well below our FV estimate, it often signals opportunity. Historically we have found that the more upside our analysts find, the stronger prospective returns are. Today, the upside in the portfolio is over 80%, which is well above historical levels and is one of the reasons supporting our optimism about the portfolio's prospects.

To highlight the broad range of opportunities our analysts see today, we have selected a few examples from different corners of the market – spanning different industries and style factors – where we believe the long-term fundamentals of the businesses are not reflected in the valuation. These examples are discussed in more detail in an unabridged version of this commentary, available **here**.

Outlook

Just as we said in the June 2022 commentary, you can have good news and you can have good prices, just usually not at the same time. Many headlines continue to be grim, but it is worth remembering the wise words of arguably the most experienced (and successful) investor - Warren Buffett - who in his 2008 Berkshire Hathaway letter said "the market value of the bonds and stocks that we continue to hold suffered a significant decline along with the general market. This does not bother Charlie and me. Indeed, we enjoy such price declines if we have funds available to increase our positions. Long ago, Ben Graham taught me that 'Price is what you pay; value is what you get.' Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

As mentioned above, we are finding business values that are much higher than stock market prices, resulting in a portfolio that we think offers significantly more upside than normal. This leaves us optimistic about the Fund's positioning and the potential for more attractive returns in the future.

Portfolio managers
Neil Padoa and Humaira Survé
as at 30 September 2022