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

Performance and fund positioning

Although markets were volatile, the news headlines frequently grim, and the general economic mood quite wary, the first quarter of 2023 was a good one for most asset classes. The global equity index (MSCI All Country World Index) advanced 7.3%, continuing last quarter's gains. The Fund outpaced its benchmark, increasing 9.0% over the three-month period.

Meta was a top contributor for the quarter, gaining 76%. This performance was driven by two important factors. Firstly, the Family of Apps, which include Facebook and Instagram, reported strong engagement metrics which are important indicators of Meta's ability to surface ads and generate revenue. Instagram continued to narrow the gap with TikTok, and the core Facebook Blue app proved similarly resilient.

Secondly, management's focus has pivoted towards efficiency across the business, culminating in a near 25% reduction in the workforce. Like many of its peers, Meta recruited heavily during the pandemic years in response to a buoyant external environment for digitally enabled technology businesses, resulting in a bloated cost base and creeping inefficiencies. The reduction in cost and layers of bureaucracy should lead to improved profitability and faster decision making.

One remaining source of debate is the heavy ongoing investment in Reality Labs. With much of the investment targeted at foundational technology innovation in, as yet, commercially unproven AR/VR (augmented reality/virtual reality), the payoff profile remains uncertain.

Despite the sharp rerating, we believe the valuation remains compelling. With little in the Meta share price for Reality Labs, the division provides an element of optionality to the investment case. Excluding the losses from Reality Labs, the core business trades on roughly 12 times 2024 earnings, which should grow at a double-digit rate for the next few years, while cash generation should improve due to a normalising capex cycle (after heavy investment in data centres).

Our position in Charles Schwab was a detractor over the quarter, with US banking stocks declining 20% during the three-month period as a flight of deposits culminated in the failure of Silicon Valley Bank (SVB), prompting fears of a systemic crisis.

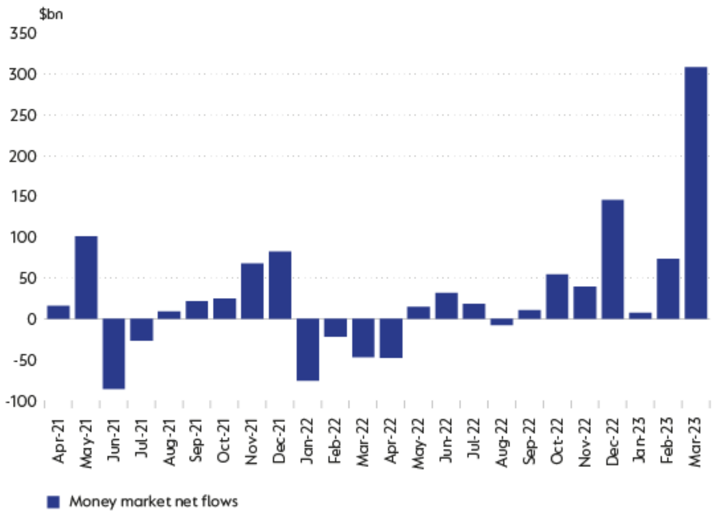
While not a traditional bank, Schwab has grown from its roots as a low-cost brokerage into a broad financial platform, offering a wide range of investment and related financial services. However, nearly half of Schwab's revenue is derived from the net interest spread it earns on customers' uninvested cash balances. Ordinarily these cash balances are relatively stable, as customers typically keep some cash on deposit as a function of their broader investment activities. We believed that as interest rates rose, Schwab would be able to realise higher net interest margins, which in turn would drive revenue and earnings growth. For a while this was true.

However, given the unprecedented speed at which the US Federal Reserve has raised rates, customers have increasingly shifted these lazy cash balances to money market accounts (and elsewhere) offering higher returns. This trend accelerated in the wake of the very public failure of SVB and Signature Bank in March.

Consequently, where Schwab was initially a beneficiary of rising rates, it is now a victim. The asset base on which to earn a spread has shrunk and may continue to do so. Similarly, Schwab's cost of funding is likely to rise faster than its assets reprice, as rates paid on deposits will need to be higher in order to remain competitive, and more expensive longer-term funding may be required to better match the duration of its investment portfolio.

We have therefore re-assessed our estimate of Schwab's normalised earnings power, and no longer believe the stock to be sufficiently undervalued given the heightened degree of uncertainty; we exited the position during the quarter.

FLOWS INTO MONEY MARKETS HAVE ACCELERATED SIGNIFICANTLY DURING THE PAST FEW MONTHS



Sources: ICI; Bloomberg

During the quarter we sold our holding in VINCI, the French concessionaire and construction company. VINCI operates toll roads and airports on behalf of various governments and has benefited from the post-pandemic recovery in travel. We have owned VINCI since 2020 and it has been a contributor to our performance over the period. While we still like VINCI for its highly visible, inflation-linked cash flows, the expected return has reduced as the stock has appreciated. We exited the position close to our estimate of fair value and redeployed proceeds into more attractive relative opportunities.

We also exited Oak Street Health after CVS agreed to acquire the company for $39 a share, a 45% premium to where it had been trading and approximately in line with our fair value. Oak Street is the second holding from our basket of higher growth stocks (some of which are yet to make profits) to be acquired in the last six months.

Outlook

We remain disciplined in our approach, conducting deep fundamental bottom-up research, and responding to opportunities as and when they arise. In equity markets, despite aggregate market levels not looking particularly attractive, we are still finding certain stocks that offer attractive returns for investors with a long-term time horizon.

Thank you for your support and interest in the Fund.

Portfolio managers
Neil Padoa and Humaira Survé
as at 31 March 2023