***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 and fund positioning**

In the first quarter of 2024, equities continued their upward march, advancing 8%, despite a reversal in bond yields, which pushed the global bond index (Bloomberg Barclays Global Aggregate Bond Index) down by 2%. The Fund returned 4.0% for the quarter, in line with the benchmark.

Fund returns were driven by appreciation of the equity holdings and strong relative performance of the fixed income holdings, which increased in value by 1.6% despite the 2% drawdown in the global bond index (mentioned above). Strong security selection and conservative positioning on the curve, where we have concentrated our fixed income holdings in short-dated maturities, have contributed to a substantial 6% outperformance over the last year. We think the fixed income portion of the Fund continues to be well positioned, with a short duration of 2.8 years (compared to the index at 6.7 years) and a yield to maturity approaching 6% (compared to 3.8% of the index).

On the equity side, we think the opportunity to add value from differentiated stock picking remains elevated. The market's appreciation and inflated trading multiple (relative to history) obscures opportunities at the single stock level, which our analysts believe to be compelling.

One such example is Interactive Brokers (IB), the online broker, which turned from a detractor in the previous quarter to a significant contributor. Compared to the multi-trillion dollar market capitalisations of the mega-cap stocks, which have been driving overall index returns, IB is a relative minnow, with a $48bn market cap and an even smaller free float of only $12bn. The company released strong annual results in January, showing good growth in client accounts (23% growth) and the benefit of higher interest rates boosting net earnings by 42%. Its monthly releases showed that this strong growth has continued post year-end, with accounts up another 25% on the previous year and client balances and trading activity up significantly. The market has (correctly, in our view) shifted focus from the headwind of lower future interest rates to the strong growth in underlying earnings power this implies. IB's moat is its highly automated, low-cost platform, which allows it to offer the lowest prices while earning a pre-tax margin of over 70%. IB's offering to clients cannot be matched by any of its peers, and we believe this will allow the business to keep growing its underlying earnings power in double digits for a number of years. This is not fully reflected in the current market price, in our view.

TransUnion is a high-quality business, though not a household name, and it contributed positively to returns in the first quarter. TransUnion is one of the three major US credit bureaus, with a broader information services business anchored in its core competency of identity resolution. The stock suffered a precipitous decline in the latter half of 2023, as a spike in bond yields led to a rapid deceleration in credit activity. We believed the setback to be cyclical rather than indicative of any fundamental impairment of the quality of the business. In our view, the market had overlooked the very strong performance from rapidly growing markets like India, where TransUnion holds a leading position; the opportunity for growth in non-credit related verticals, such as insurance underwriting, marketing and fraud protection; and the ability to expand margins, thanks to a newly announced efficiency program and ongoing synergy realisation from recent acquisitions. We used the opportunity to buy shares at a discount late in Q4-23. As the stock has recovered by more than 80% from its October lows, and now more closely reflects our assessment of fair value, we have subsequently exited the position.

Sticking to the smaller businesses, $5bn market cap Smartsheet detracted from returns in the quarter, despite surpassing both our internal forecasts and market expectations in its latest earnings release. Smartsheet provides work collaboration software that facilitates more efficient project planning, management, and tracking. The software's supremacy is evidenced by Smartsheet's industry-leading retention rates and its presence in over 80% of Fortune 500 companies, with these enterprise clients appreciating the scalability of its tech stack. The core product is sticky, and Smartsheet continues to benefit from its land and expand strategy. Since its listing in 2018, Smartsheet has consistently achieved annual revenue growth exceeding 20%, accompanied by robust gross profit margins surpassing 75% and notable progress towards high cash flow generation. However, its recent revenue guidance disappointed the market. While there has been an industry-wide slowdown in mid-market customer IT spend, we believe this is cyclical and will recover. With the retirement of its long-standing Chief Revenue Officer, Mike Arntz, announced in March, we think guidance is deliberately conservative to allow for a smooth transition of the new Head of Sales, Max Long (ex-Adobe and ex-Microsoft). In summary, expectations now seem low and much pessimism is reflected in Smartsheet's price. It trades at a 40% discount to mid-cap software peers and a meaningful discount to our estimate of fair value. We have, therefore, used the post-earnings sell-off to add to our holding.

At quarter-end, the portfolio was positioned as follows:

- 63% effective equity
- 7% in real assets (listed infrastructure and property)
- 7% in high yield fixed income
- 6% in inflation-linked assets
- 13% in investment-grade fixed income instruments
- 2% in short-dated US T-bills

The remaining 2% was invested in various other assets.

**Outlook**

As stated in last quarter's commentary, we would not be surprised if 2024 is another eventful year. As always, we can't predict the direction of markets or interest rates in the near term, and so we aim to focus on what we can control, which is finding and researching good investment ideas across the capital structure. On that note, our team continues to find attractive opportunities below the index surface level in areas of the market that remain discounted. We believe it is a productive environment for investors with a long-term time horizon, and we remain excited about the portfolio that we are invested in.

Thank you for your support and interest in the Fund.

**Portfolio manager**
**Neil Padoa**
as at 31 March 2024