

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

### Performance and fund positioning

The first quarter of 2025 (Q1) saw a reversal of recent trends: global equity markets declined 1%, and the US underperformed most other regions, with the S&P 500 declining 4%. In contrast, global bond markets posted solid gains, up 3%. Against the benchmark return of 1.1%, the Fund continued to perform well, gaining 1.4%. For the last 12 months, the Fund posted a return of 7.0% compared to the benchmark return of 5.1%. More importantly, the Fund has performed well over all meaningful periods.

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

- 11% in short-dated US T-bills
- 24% in developed market government bonds
- 27% in investment-grade corporate bonds
- 7.5% in US inflation-linked bonds
- 4% in high yield fixed income
- 5.5% in real assets (listed infrastructure and property)
- 21% effective equity

In fixed income markets, we continue to maintain our conservative positioning. The Fund's duration of one year remains very short, with a yield to maturity (YTM) of 5%. This compares to the Global Aggregate Bond Index, with a duration of 6-7 years and a YTM of 3.6%. With credit spreads in both the investment grade and high yield markets at very low levels, we believe now is not the time to be reaching for yield. Notably, this conservative positioning has not come at the expense of returns, with the fixed income portion of the portfolio returning over 6% for the last year. This is well ahead of inflation and the global fixed income index, which returned 3%. Furthermore, it leaves the Fund well positioned, with plenty of liquidity to take advantage of stresses in both equity and credit markets that have started to emerge in April.

Much has been written over the last two years about the narrowness of equity market returns. Returns in 2023 and 2024 were dominated by the US and, more specifically, by a narrow cohort of US-listed large capitalisation technology shares. Indeed, over 60% of US returns over these two years were generated by the Magnificent 7 group of companies consisting of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

While we owned and continue to own some of these names, the market's seeming obsession with a small group of technology companies created significant opportunities for stock pickers in large parts of the market, both in the US and elsewhere, that were totally ignored by investors. As a result, our analysts uncovered many good ideas across geography and sector. These are high-quality companies with strong growth prospects trading on depressed valuation metrics.

Many of these names performed strongly for the portfolio in the second half of 2024 and continued to do so in the first quarter of 2025. The first quarter of this year has also ushered in a very welcome and healthy broadening out of market returns. It is our strong belief, as long-term focused and patient stock pickers, that strong company fundamentals will be rewarded in time. It is thus pleasing to see the share prices of many of the abovementioned names responding strongly, with the gap between fundamentals and share prices starting to close. This comes against the backdrop of weaker US equity market performance, with market participants beginning to cast their nets wider than a small group of large capitalisation US technology shares. We believe this remains a very attractive environment for bottom-up stock pickers willing to take the long view.

Shares of Rolls-Royce, the British aerospace and defence company, performed strongly in the quarter. Rolls-Royce is a high-quality company with its key product - aircraft engines for longer haul widebody planes - holding a 55% market share and operating in a stable duopoly with GE Aerospace. The company has significant pricing power, generates the majority of revenue in its key civil aerospace division from long-term services contracts, which ensures excellent earnings visibility, and has a strong multi-year growth runway underpinned by growth in global air travel.

But the business has also been historically under-managed, generating operating margins well below peers such as Safran and GE Aerospace. This changed in early 2023 with the appointment of Tufan Erginbilgic as CEO. He has wasted no time since joining, implementing a headcount reduction, renegotiating onerous contracts with airlines, refining servicing contracts and, most importantly, making significant improvements to engine efficiency. His appointment has been nothing short of revolutionary, improving customer satisfaction whilst also growing earnings strongly. Operating margins in the civil aerospace segment have increased from break-even levels in 2021 to 17% today, but there is still scope to increase this further, with peers earning margins in the mid-

20s range. After its strong run, Rolls-Royce trades on 23x forward earnings, a level we continue to find attractive considering its strong growth outlook and potential for further margin gains, driving robust earnings growth for many years to come.

Flutter detracted from returns in the quarter. Flutter is the leading online gambling and sports betting operator in the world, and it has the leading position in the large and fast-growing US market. Gambling stocks underperformed in the quarter after customer-friendly sports results, concerns of potential competition from prediction markets, and rising fears of a US recession. We believe these concerns to be temporary. In our view, Flutter's scale and superior product offering is a formidable moat, and ongoing efforts to legalise online betting in multiple markets will provide a structural tailwind for the entire industry for years to come. The US is now Flutter's largest market - here, margins are still well below normal, and growth is likely to be supported by additional states legalising online betting, underpinning our expectation of more than 20% annual earnings growth for Flutter over the next few years. The stock trades on 26x forward P/E, which we consider attractive given the growth outlook.

### Developments post quarter end

In early April, markets sold off heavily following the announcement of the Trump administration's tariff plan. A negative reaction is understandable, considering the opening gambit is far worse than initial expectations. The sell-off has, in our view, been indiscriminate, reflecting widespread fear and de-risking, as opposed to a rational reassessment of specific company fundamentals. We have spoken before about increasing volatility in markets - the chart below illustrates this neatly.

Figure 1

EARNINGS DAY MOVES WERE 4.1 TIMES AN AVERAGE DAILY MOVE LAST QUARTER, ABOVE LONG-TERM AVERAGE

Average earnings day move/Average daily move 1 month before and after earnings; S&P 500 stocks



Source: Bloomberg, Goldman Sachs Global Investment Research

For investors who allocate capital with a long-term horizon and who have a robust assessment of what a stock is worth, this volatility is an opportunity to be exploited. The volatility in recent days has been even more extreme, with the intraday range on a single day (9 April) matching that of entire years.

Re-examining the investment cases for every company we cover, our team has found that the earnings power of certain businesses is unscathed, others are likely to suffer only a temporary hit, for some, it is too hard to figure out, and, finally, there are those businesses with a high probability of impairment. We have followed our valuation discipline and responded to the changed opportunity set. This has caused portfolio turnover to be higher than usual, but the end result is a portfolio with a higher concentration of what we consider to be long-term winners at more attractive valuations (and therefore higher expected future returns). We have also sold some short-dated US T-bills to fund a higher allocation to equities and selected bonds where credit spreads have increased to more attractive levels. We would not be surprised to see continued market volatility and are prepared to take advantage of additional opportunities as they arise.

Thank you for your support and interest in the Fund.

### Portfolio manager

Neil Padoa  
as at 31 March 2025