PORTFOLIO MANAGER COMMENTARY

The fund had a good start to the year, appreciating by 5.1% in ZAR and by 10.6% in USD. In doing so, the fund kept pace with the appreciation in global equity markets, even though the equity exposure was only in the 65% - 70% range. The fund is 3.7% ahead of its benchmark (60% MSCI World Index & 40% Citigroup World Government Bond Index) year-to-date. This is in part due to good stock selection and in part due to the fact that the fund owns no government bonds, which declined marginally in USD. Since inception 2.5 years ago, the fund has generated an annualised return of 8.5% in ZAR and 9.4% in USD, outperforming its benchmark by 1.5% per annum, also making it one of the best performing global asset allocation funds available in South Africa.

Given the strong share price appreciation of a number of the fund's holdings, we have reduced equity exposure somewhat from the low 70% level late last year to the mid 60% level at the end of March. We do however continue to hold the view that equities are by far the most attractive asset class globally and this is reflected in the fact that equity exposure remains in the mid 60% level. As reference points, the maximum equity exposure in the fund would be 75% and we expect the average equity exposure to be around 60% over a 5-year cycle.

In addition to equities, we also continue to find a number of very attractive listed property companies, particularly in Asia. The fund's property holdings are almost without exception trading below tangible NAV and offering yields in the 6% - 8% range. Some 7% of the fund is invested in property. We also continue to hold the view that global government bonds are significantly overvalued and as a result we have no exposure whatsoever to this asset class. We do have 3% of the fund invested in corporate bonds, where we feel the yields (high single-digits) are compensating one for the possibility of a de-rating of government bonds.

Over the past few months we increased the fund's position in Blackstone substantially, to the point where it is now the third largest position at 3.5% of fund. Blackstone is effectively an asset manager that generates a reasonably large percentage of its revenue from performance fees. As such, it is a business that has parallels with Coronation and is also one that we understand. Although perhaps best known as a private equity house, Blackstone has a number of significant other businesses (credit, property and hedge fund solutions) which not only provide a diversified earnings stream, but also place Blackstone in a strong position to attract new funds as pension funds/endowments look to consolidate the number of service providers they use. In addition, pension funds are increasingly allocating to alternatives and these flows continue to be invested with the big names, like Blackstone, who have strong brands and long histories of generating above average investment returns. Employees own 60% of the business and are significant investors in the Blackstone funds, resulting in an alignment of interests with minority shareholders. We believe that Blackstone can earn over $2 per share a year in the medium term, driven by continued flows and more normal performance fees, which are currently low. In addition to this, the company currently has around $3.50 per share in net cash/investments/unrealised carry. The current share price is around $14.50 (or $11.00 stripping out the effective net cash), which means that Blackstone is currently trading on 6x more normal earnings and the dividend yield on this year's earnings is around 5%. Given the long-term prospects for the business and the current valuation, we think Blackstone is a very attractive investment at the current share price.

Portfolio manager team

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