

## PORTFOLIO MANAGER COMMENTARY

The fund had a good start to the year, appreciating by 7.2% in ZAR and by 12.9% in USD. In doing so, the fund outperformed global equity markets, even though the equity exposure was in the 80% - 85% range. The fund is also 3.7% ahead of its benchmark (inflation plus 5%) year-to-date, in large part due to good stock selection. Since inception 13 years ago, the fund has generated an annualised return of 13.3% in ZAR and 11.5% in USD, outperforming its benchmark by 1.8% per annum.

Given the strong share price appreciation of a number of the fund's holdings, we have reduced equity exposure somewhat from the mid 80% level late last year to the high 70% 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 high 70% level. As reference points, the maximum equity exposure in the fund would be around 90% and we expect the average equity exposure to be around 75% over a 5-year cycle.

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. The fund has had 20% - 30% invested in global bonds in the past and will do so again should the valuation of this asset class become attractive again. The other big decision in terms of asset allocation is the mix of South Africa versus Global, and in this regard we continue to hold the view that global assets (equities in particular) are far more attractive than South African equities. This is reflected in the fact that only 10% of the fund is invested in South African equities and 69% in global equities. A total of 15% of fund is invested in South Africa.

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 to this, pension funds are increasingly allocation 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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