

In for the long haul

CONSISTENCY IS WHAT counts in unit trust performance. Investors want a fund that offers good returns on a regular basis. That's why investors are warned about chasing the top-performing fund over a short period. The fund that shoots the lights out this month could well be at the bottom of the pile next month.

Coronation Fund Managers has built up a solid track record for long-term consistent performance. Three of its unit trusts – Coronation Top 20, Coronation World Equity and Coronation Balanced Plus – head the Morningstar rankings in the fund's respective category over five years (to end-August 2009). Five years is a reasonable timeframe to start assessing the true value of a unit trust fund. To have three funds at the top of their respective classes over that time period is quite an achievement.

How does Coronation achieve that? "It starts primarily with a common investment philosophy and DNA across all the funds," says Pieter Koekemoer, head of personal investments at Coronation. "For us it's about two things. First, valuation of a business: we look at it through the cycles over a period such as five years, as the owner of the business would. Second, the time horizon. We focus on the long term, not the short-term events that happen in the reporting period."

That's clearly reflected in Neville Chester's comments on his top-placed Coronation Top 20 unit trust. Discussing how the fund bought Anglo American when the outlook for the mining company seemed quite dim and it had passed its dividend – and then benefited from the subsequent run-up in its share price – Chester says it's an example of using a valuation-based approach in stock selection. "While you can never time the market, you do manage to ignore the short-term noise to make sound, long-term investments."

He adds the only way to ensure the fund generates sustainable long-term returns is to invest where valuation offers the investor a large margin of safety.

Koekemoer says the Coronation funds in general benefited last year by not being invested in resources shares. "But industrial and financial shares were also not performing. The argument at the time was decoupling of emerging markets and developed markets, and that the demand for commodities would remain unabated. There was massive divergence in perform-



Pieter Koekemoer

The equity class will produce the best returns

ance. We didn't believe the outperformance of resources was justified and got out of the cycle. Maybe a bit early, but we got out."

The second factor that made a significant contribution to Coronation's funds' performance was investing in financial and industrial shares, with a strong bias towards

defensive counters. Says Koekemoer: "For example, we had holdings in the telecommunications counters, media companies, consumer shares, such as food retailers and cash retailers, like Mr Price. Then into 2009 we started investing more heavily in cyclical shares, such as resources, and we increased the equity exposure in the balanced funds before the market correction."

He admits the funds missed some of the strong share price gains in resources in first half 2008, but puts it down to "the courage of not holding assets when we think they're overvalued".

Looking at foreign shares, Koekemoer says Coronation believes it's the equity class that will produce the best returns over the next three to five years. "On average, we're looking at 15% from developed market assets compared to 11% from local assets."

That view is echoed by Karl Leinberger, who runs the Coronation Balanced Plus. He says: "Offshore equities provide a compelling opportunity for the long-term investor" – with some companies trading at four times normal earnings.

What sectors is Coronation looking at going forward? "Our view is it's certainly a stock pickers market. There's no sector now you can hang your hat on." But Koekemoer remains confident Coronation will continue with its consistently good performance, pointing to the benefits of being able to debate stock selection in an integrated investment team and pulling on the resources of its good research facility. ■