CORONATION GLOBAL CAPITAL PLUS FUND [EUR HEDGED CLASS]

Quarterly Portfolio Manager Commentary

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

The last quarter of 2018 brought misery to most investors as the market's focus shifted to growing concerns around global growth prospects. On the one hand, clouds started gathering over the prospects for the US economy as the combination of practically full employment, further interest rate normalisation and the growing risk of significantly higher trade tariffs worldwide resulted in a dramatic shift out of risk assets. These fears were confirmed and further emphasised by the briefly inverted US yield curve, which historically has been a good predictor of recessions in the US. At the same time, and even ahead of the increased antagonism between the US and China, China's growth momentum started to slow visibly. This contributed to investor anxiety about global growth, as fears over the increasing debt build-up in China once again made the headlines. US President Donald Trump's increasingly aggressive stance towards trade tariffs added fuel to this fear-driven fire. In Europe, the rise of populism in some of the larger Western European countries affected confidence in their banking system, while the mass protests in France and ongoing Brexit negotiations further spooked investors.

All these factors and events led to a sharp and dramatic re-appraisal of economic growth and risky assets, with global equities suffering significant price declines in both the months of October and December 2018. December's sell-off was the worst end to a year in the last 45 years. The fourth quarter of 2018 ended up returning negative 12.8% for the MSCI All Country World Index (ACWI), and many markets officially entered bear market territory, with declines of more than 20% from previous highs. Long bond rates declined, given the poorer outlook for global growth, resulting in a marginally positive return quarter for the asset class. Within equities, utilities and real estate (both beneficiaries of lower long-term interest rates) did the best in relative terms. For once, consumer staples lived up to their defensive reputation and outperformed the overall ACWI by about 6%. On the other side of the spectrum, energy was the laggard, given the spectacular drop in the price of oil. The indiscriminate selling of longer duration (higher growth) assets resulted in information technology shares being punished, while other cyclical sectors such as consumer discretionary, industrials and materials also performed poorly. The US equity market slightly underperformed the rest of the world, and surprisingly, emerging markets marginally outperformed the developed world over the quarter.

As mentioned above, long rates in the US declined against this backdrop, with global bonds producing a marginally positive performance. Credit spreads, however, widened given the concerns around global growth, resulting in a negative quarter for credit. Global listed property yielded a negative return of 5.5% over the three-month period, which was better than equities, but still disappointing given the drop in long rates. Within listed property, the US market performed marginally better than the global index. Japan delivered a very strong performance given improving fundamentals for the country's listed property sector. Europe was particularly hard hit, and the UK had a disastrous period given the increased uncertainty around Brexit and a significantly poorer outlook for the sector. Commodities, as expected, had a very tough time given global growth concerns, and gold - for once - lived up to its safe-haven status in a world of increasing uncertainty. The gold price rose by 7.5% over the quarter.

The poor quarter for equities meant that the ACWI returned negative 9.4% for calendar year 2018 - a poor showing after the very strong 2017. For the full year, the US outperformed Europe by almost 10%, with Japan doing slightly better than Europe. Developed markets outperformed emerging markets by about 5% - the first time in the last three years that this has happened. Over the longer term, the developed market outperformance is still marked. Among the emerging markets grouping, Brazil and Russia were the standout performers. Healthcare was the surprising sectoral outperformer in 2018, with financials, industrials, materials, and communication services lagging. The range of sectoral returns was relatively narrow.

Bonds yielded a negative return of just over 1% for the 2018 calendar year, as did property with a negative 4.7% return. Gold was also marginally negative, highlighting the fact that investors really had no place to hide but in US dollar cash.

There were no major moves in the currency markets over the quarter, but over the last 12 months the US dollar strengthened by about 14% against the euro, and by about 4% against the yen.

During these turbulent times, the fund did not perform well. It was down 5.8% over the quarter, with the bulk of this negative return taking place in the month of December. Our defensive asset allocation position (we had less than 26% equity over most of 2018) was unfortunately negated by poor instrument selection, both within equities and listed property. The disappointing fourth quarter resulted in a poor 2018, with the fund returning negative 8.6%. The fund has returned positive 0.4% p.a. over the last three years, and 3.0% p.a. since its inception almost 9 years ago. These longer-term numbers are satisfactory, but we are determined to fix the shorter-term performance issues.

The bulk of the disappointing performance in 2018 was due to poor equity stock selection, which we discuss in more detail below. Our property holdings (particularly those in the UK also performed very poorly, led by Intu where the second bid for the company in 18 months failed given Brexit jitters. Our fixed interest portion within the portfolio performed reasonably well, but the allocation was not large enough to offset the other detractors. Our equity hedges also helped to reduce the impact of the poor equity market on the overall portfolio. The cost of protection has now risen materially, and hence going forward these hedges will be structured on a more opportunistic basis.

In the previous quarterly report, we highlighted Advance Auto Parts - the fund's biggest positive contributor over 2018. We have subsequently exited this position in favour of shares where we anticipate greater upside from current levels, on a risk-adjusted basis. Other notable positive contributors over the last year included long-time holdings such as Amazon, Alphabet and Blackstone. However, as mentioned above, these positive positions were more than cancelled out by the underperformers. We spoke before about our position in the tobacco stocks. These holdings were the biggest detractors. British American Tobacco was by far the biggest culprit. Limited Brands also detracted materially during the year. The business's profits continued to disappoint as the group had to focus on discounting their products to entice customers to spend.

When assessing the prospects of our holdings in the fund, we are excited about their potential. The equity holdings are managed by capable executive management teams, and most of them have strong value propositions for their customers. While it is difficult to assess where we are in the equity market cycle, we see more opportunities following the recent sell-off. We have thus increased the equity allocation somewhat to the highest level in more than six months (just below 30% at the time of writing this report). We continue to be positive about the prospects for our property holdings, and we are starting to find selective value in the credit market. We are clearly not satisfied with the fund's more recent performance, but have not changed our process or philosophy, and remain confident that those factors that have yielded success over the longer term, will continue to serve us and our clients well in future.

Portfolio managers
Tony Gibson, Louis Stassen and Neil Padoa
as at 31 December 2018