CORONATION GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER FUND

Quarterly Portfolio Manager Commentary

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Please note that the commentary is for the US dollar retail class of the fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.

The fund rose 2.8% against the benchmark advance of 0.5%, bringing the rolling 12-month performance to 13.9% against the 10.7% returned by the MSCI All Country World Index.

The slight advance in the index somewhat masks the significant decline in emerging markets which fell 8.0% (in US dollar terms), significantly underperforming developed markets by 9.7%. The decline was most likely due to a combination of fears of a global trade war and US dollar strength as the Federal Reserve raised interest rates by a further 0.25% in June. The US President is stoking the flames of a trade war, not only with China but also with his allies in Europe and Japan, all of which have vowed to retaliate. This unsettled the market at times.

North America was the best performing region this quarter, rising 3.6%. The weakest return was from Japan which declined 2.8% (in US dollar terms). Europe also declined 0.9% (in US dollar terms) and the Pacific ex-Japan rose 1.8% (in US dollar terms). On a look through basis, the fund is overweight North America, equal weight to Europe and underweight Japan.

Among the global sectors, the best returns were generated by energy (+11.9%), information technology (+5.6%) and consumer discretionary (+3.5%). The worst performing sectors were telecommunications (-4.2%), financials (-5.2%) and industrials (-2.8%). On a look-through basis, the fund benefited from its overweight positions in information technology and consumer discretionary and underweight position in financials. Its underweight position in energy and overweight position in consumer staples would have detracted from performance.

The strong returns this quarter were dominated by three of the underlying funds, Contrarius Global Equity, Maverick Capital and Egerton Capital.

Contrarius Global generated alpha of 13.5% over the quarter, benefitting from its exposures to energy and consumer discretionary stocks. An example of the latter was Fossil which more than doubled over the quarter after strong sales in smart watches and a 5% y/y increase in sales. Twitter, a long-held position, also performed strongly, rising more than 50% over the period.

Maverick Capital benefitted from its positions in technology and healthcare. Shire, a pharmaceutical company that had been a drag on performance in quarters past, finally came through and rose 19% after a takeover by Takeda Pharmaceutical. Facebook, up 29% over the quarter also added alpha as it recovered from its recent Cambridge Analytica woes.

Egerton Capital also benefitted from holding Facebook but 21st Century Fox and Safran also contributed strongly to the positive performance. 21st Century Fox was subject to a bidding war by Disney and Comcast which drove the price higher, while aircraft engine manufacturer, Safran, rose 24% after Airbus announced a strong order book and delivery schedule.

During the quarter, the fund redeemed from Vulcan Value Partners. We have been long-term investors with Vulcan and have enjoyed a successful investment with them over the years. However, we are increasingly looking to invest in global funds and Vulcan is more US-orientated and we decided to allocate the funds to our global managers.

Outlook

The US economy is strong but there are concerns about overheating in developed economies and the impact of consequent inflation. In addition, the potential for a global trade war and other geopolitical issues will continue to weigh on global markets and investors' minds. However, we believe the key risk is the normalising of the interest rate cycle which is now underway in the US and will be followed in due course by the UK, Europe and Japan. After a decade of near zero interest rates, the potential for missteps is great and the fall out could be severe. But, perhaps in recognition of this, central banks are proceeding cautiously and gradually. As such, although we are cognisant of stretched valuations, we believe the US and global economy will be resilient for the remainder of the year and remain supportive of the markets. But the risks will only increase into next year.

Portfolio manager
Tony Gibson
as at 30 June 2018