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

The fund had a good quarter, delivering a return of 3.8% for the period, as a number of its strategies paid off. Global capital markets remain volatile as the looming trade war with the US, potential 'hot' war in the Middle East and the ramifications of Brexit remain significant risks that are not quantifiable yet. The fund continues to take advantage of this volatility to invest where meaningful return opportunities exist.

As the US-inspired global trade war looms we have seen a significant retreat in the currencies and bond markets of emerging markets around the world. The strength of the dollar added to the fund's returns for the period given our overweight position. We have used this period of dollar strength to reduce this overweight position in favour of high yielding government bonds from some emerging markets, including South Africa. We have also reduced the global equity position as developed equity markets have remained resilient in the face of what can be a very detrimental trade war.

Our allocation to global equity has performed extremely well this quarter adding additional return from this alpha. As we have started reducing global equity we have added to our position in global property via the listed Real Estate investment Trust (REIT) sector buying high quality European and US retail focused REITs trading on very attractive yields, between 7% and 9%. These are some of the few assets we think are correctly priced for rising interest rates and world instability, and hence offer value.

On the domestic equity front we have increased our exposure to domestic equity as 'Ramaphoria' fades and the realism of what our local economy faces starts to set in. We have seen domestic shares retrace significantly, many of them to levels below those prior to the outcome of the ANC's elective conference in December. This has provided an opportunity to add to better quality domestic shares that are no longer priced for an optimistic outcome. While the local economy will no doubt improve under new president Cyril Ramaphosa, this recovery will be longer and slower than most people expected, and further put under strain by the general 'risk off' sentiment referred to above.

Within our equity exposure we have added to more domestic names and reduced some of the global companies that have performed extremely well. Mondi, which has been a stalwart of our portfolios, has performed exceptionally, and while we still like the business and it remains in our portfolios, it now holds a much smaller position. In its place, we have added to our banking exposure, especially Investec which remains on a single digit multiple, and our life insurance exposure where MMI continues to languish at a massive discount to its embedded value. Pleasingly, the board of MMI approved a share buyback as opposed to a dividend, so far enabling the company to buy back R1bn of its shares at a significant discount to its underlying value, creating permanent value per share for its remaining shareholders.

With the weakening of the rand and the selloff in the bond market, precipitated by a flood of foreign-based selling, we once again see value in the local bond market. We have taken advantage of the selloff to reduce our underweight position significantly, moving from virtually no fixed rate exposure to over 10% of the fund now exposed to fixed rates. With inflation remaining comfortably below the 6% upper range off the inflation target, real yields of 3% to 4% look attractive.

We have retained our high weighting in locally listed property, but took advantage, earlier in the period, of some strength in some of the mid-tier names to take some profits. Our UK exposed property names have continued to languish as the British pound has weakened and concerns remain around what Brexit will mean for these operations. These stocks continue to trade on vast discounts to their underlying value and on attractive dividend yields and remain a high conviction position in our funds.

In the foreseeable future, we are likely to see the continued rise in US interest rates to more normalised levels, continued friction between the two economic giants of the US and China and the ultimate realisation of a Brexit voted on over two years ago by a gullible British public. They will all undoubtedly have a very real economic impact. In the short term, they will also impact equity, currency and bond markets. Key to delivering successful long-term returns will be to consider carefully how short-term news flows and price movements will play out in the long term and then act accordingly. On the local front, an increasingly bad tempered debate about land policy and a frustratingly slow change of industrial policy by a parliament of compromised individuals is likely to keep uncertainty high and business and consumer confidence under pressure. In this environment, remaining exposed to high quality businesses with well capitalised balance sheets will be key.

Looking forward we remain confident with how the fund is structured for delivering on its mandate.

Portfolio managers
Neville Chester and Pallavi Ambekar
as at 30 June 2018