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 declined 0.6% against the benchmark decline of 1.0%, bringing its rolling 12-month performance to 15.9% versus the 14.8% returned by the MSCI All Country World Index.

After an unprecedented 16 months of consecutive gains, it was not surprising that global equities experienced a sharp rise in volatility at the end of the first quarter of 2018. Initially, there was a sharp sell-off in February. While the monthly decline in US equities was 4.2% in February, the fall approached 10% at one point during the month. The MSCI Emerging Markets Index fared even worse, with a decline of 4.6%. These falls were essentially due to an equity bull market that has risen for a very long time without any material correction. The trigger for the sell-off was most likely concern about rising inflation and bond yields, with the 10-year US Treasury yield having risen from 2.41% at the end of last year to a high of 2.95% by mid-February. Commodity prices fell along with other risk assets, with Brent Crude and natural gas down by 6% and 7% respectively during February. However, the heightened volatility during late March and early April was due to a more specific event – the escalation in retaliatory exchanges between Washington and Beijing regarding terms of trade. This elevated concerns of a nascent 'trade war'.

Japan was the best performing region this quarter, rising 1.0% (in US dollar terms). Pacific ex-Japan delivered the weakest return, declining by 3.7% (in US dollar terms). Europe lost 1.9% (in US dollar terms) and North America weakened by 1.0%. Emerging markets advanced 1.1% (in US dollar terms), outperforming developed markets. On a look-through basis, the fund is overweight North America and emerging markets, and underweight Europe and Japan.

Amongst the global sectors, information technology (+3.2%) and consumer discretionary (+1.5%) generated the best returns. The worst performing sectors were telecommunications (-6.4%), energy (-6.1%) and consumer staples (-5.7%). On a look-through basis, the fund benefited from its overweight positions in information technology and consumer discretionary as well as it underweight positions in utilities and telecommunications. Its overweight positions in consumer staples and materials detracted from performance.

The fund's relative outperformance this quarter was largely a result of good performance across the portfolio. Three stand out performers were Egerton Capital, Vulcan Value Partners and Tremblant Capital.

Egerton Capital returned positive 2.9% over the quarter, with strong performances from Airbus (+13%), as its order book rose strongly; Adobe (+23%), after its ongoing move to the cloud gave rise to a strong earnings announcement; and Adidas (+18%), having announced a good set of results and a large share buyback. An overweight position in information technology also boosted returns.

Vulcan Value Partners returned 2.9% for the quarter, also benefiting from its position in Airbus and a large exposure to the information technology sector. It also benefited from a rise in its insurance-related positions after Axa bought XL Limited. Another top position, GKN, was also subject to an offer, from Melrose, and rose sharply during the period.

Tremblant returned 2.2%. Its large exposure to consumer discretionary stocks boosted returns even though CBS, one of its top holdings, declined by 13% over the period. Palo Alto Networks (+25%) benefited from the recent US tax cuts as well as improved earnings, while Fineco Bank (+14%) had strong deposit inflows and margin improvement.

Maverick Capital, which has had a tough time in the recent quarters, returned positive alpha this past quarter. Its large exposure to healthcare has been the most significant driver of underperformance over the past 12 months, especially their holding in Shire Pharmaceutical. After large losses in Shire, Maverick re-examined their investment thesis, decided it remained intact and maintained the position. This was rewarded in March when Takeda announced its intention to bid for Shire and Shire's share price rose strongly. Maverick also benefited from Envision (+11%) and Adobe (+23%).

Contrarius Global Equity also had a good quarter. Like Tremblant, it has benefited from its large exposure to the consumer discretionary sector, especially the bricks and mortar stores such as Macy's (+20%), Dine Brands (+30%) and Abercrombie & Fitch (+40%), which rebounded sharply. Twitter, a long held position which has disappointed since its listing, also rose strongly after it released a robust set of financial results.

Outlook

Notwithstanding recent concerns and increased volatility, we believe that the bull case for equities will endure for a while yet. The synchronized global expansion seems set to continue for several years, inflation remains moderate on a global basis, central banks are still providing ample liquidity, and equities continue to look attractively priced relative to government bonds. We believe that the fundamental outlook for global growth and interest rates is little changed from where it stood at the start of 2018. Global economic data continue to reflect an impressive, broad-based global economic expansion. However, there is sufficient momentum in the global economy that labour and product market constraints in developed markets should push both wage and core CPI inflation higher in coming quarters, along with expectations about central bank policy rates.

Portfolio manager
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as at 31 March 2018