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

The fund had a tough quarter as markets around the world sold off and the rand continued to strengthen, impacting negatively on the performance of our offshore holdings. The fund delivered a return of –3.7% for the quarter. The JSE All Share fell 6% for the quarter, and in dollar terms, global markets fell by 1%, with the Dow Jones index down 2% and the FTSE 100 down 3.8%. These moves were further exacerbated by a 4.7% strengthening of the rand over the quarter.

A lot of the nervousness globally is being driven by concerns surrounding the potential for either a trade war (between the US and China) and the prospects of a real war (between the US and North Korea or Iran). The key factor in all these fears is the US and its ever controversial president. Mr Trump has managed to replace virtually his entire cabinet over conflicting views as to what his policies should be. The new, more conservative and more hawkish ministers are clearly more aligned with the president, and the world is starting to price this higher risk into markets. Added to this, we have seen interest rates move sharply higher this quarter in the US as the Federal Reserve has signalled that it will keep to its path of tightening monetary conditions in light of the strength of the underlying economy and presence of inflation for the first time in many years.

While the fund has various puts in place to protect some of its global equity exposure, this has not been enough to prevent the fund from suffering from some of the recent declines in equity markets. Given our concerns in general over the levels of US interest rates, we have avoided any impact from the US Treasury sell-off thus far.

The local equity position has impacted the performance negatively, even though we had reduced our overall risk exposure meaningfully here as well. Our portfolio still has a bias towards companies which have growth profiles outside of South Africa. The strengthening of the rand has impacted these negatively in the quarter. In addition, certain of our larger holdings have performed poorly this quarter, despite showing decent underlying results. Naspers, the largest holding in the fund, declined by 16% this quarter, despite pleasing results from Tencent, its main investment, as well as signs of improved profitability from its other operating assets. British American Tobacco, our second largest holding, also performed poorly, declining by a similar 16% despite delivering strong earnings for the 2017 financial year and indicating that the tax changes in the US should make its recent purchase of Reynolds Tobacco even more earnings accretive. Finally, our holding in MTN, which also delivered results showing a significant improvement in performance, also declined by around 9% after factoring in the dividend received this quarter. While high oil prices should be positive for a lot of the regions in which MTN operates, the risks around Iran being targeted by the US has impacted on sentiment towards the group.

Offsetting some of these moves has been our holdings in SA banks and insurers, all of which continued to perform very well this quarter, mainly on the back of improved sentiment, although they did also deliver decent results across the board.

While the 'Ramaphoria' has continued to push local shares to recent all-time highs, we remain circumspect over getting caught up in this euphoric rally. Conditions on the ground remain very tough and channel checks that we perform regularly show that trading has not improved significantly from last year. The recent austere Budget with its VAT increase will only contribute to conditions remaining tougher for longer. While there was some respite with the recently announced rate cut, this was too small to make a meaningful difference and importantly, the South African Reserve Bank's tone remains hawkish around providing much more monetary accommodation. With many domestic retailers on record-high ratings, we are avoiding stocks in this sector.

We continue to find value in the financial sector, where multiples and dividend yields remain attractive, as well as in specific defensive domestic stocks. We have been adding recently to FMCG retailers and manufacturers, which have been left behind in the recent rally. Another stock which has done well for the fund is our holding in Netcare. The stock was the lowest rated of the SA hospital groups, with little attention being paid to the turnaround in its South African operation, overshadowed by ongoing problems in the UK. They have recently announced a strategy to dispose of its UK operation which is ring-fenced from SA, and the market has rerated the stock strongly on the back of improved visibility of earnings.

Much the same as our view on expensive domestic equity, we have avoided buying SA government bonds at these levels, finding little value given the very tough fiscal situation that remains in place. This has been offset by our overweight position in property. While we have not had any exposure to the Resilient group of properties, the sector performance has been weighed down by the general sell-off, meaning we have not seen the rerating we would have expected in the property sector given the moves in interest rates. We expect that this will come through over time and as the companies deliver respectable distribution growth. The UK-domiciled property stocks that we own have had mixed performance, with Intu remaining weak, despite showing an improved operating result, and Hammerson performing very strongly on the back of a takeover offer from a European suitor.

We are disappointed with the fund's performance over shorter time periods, as we do not believe it reflects the fundamentals of the portfolio. We have not made major changes to the structure of the portfolio as we remain convinced that the asset allocation, and individual stock selection is appropriate for the fund. Over the medium to long term, these fundamentals will assert themselves, either through a market re-rating or simply through the delivery of strong earnings and distribution growth.

Portfolio managers
Neville Chester and Pallavi Ambekar
as at 31 March 2018