CORONATION GLOBAL CAPITAL PLUS 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.

Despite more clouds gathering on the horizon of global growth prospects during the quarter, global equity market participants preferred to focus on continued strong profit growth numbers - especially out of the US - to register very strong returns over the period. The MSCI All Country World Index returned 4.3% over the quarter, almost matching the year-to-date number of 3.8%. At the same time, investors have had to adjust their interest rate expectations for the US upwards, as was discussed in a few of our earlier quarterly reports. This was in response to a US economy continuing to surprise on the upside in terms of growth and the sustainability thereof.

We continue to monitor escalations in the trade war dialogue primarily between the US and China. However, we believe investors should exercise judgement when headline-grabbing pronouncements are made. As we argued in the prior quarter, we think the bigger issue that investors need to focus on is the process of interest rate normalisation in the US. Ten-year yields in the US have moved from 2.9% at the end of June to 3.1% at the end of September and have subsequently moved to over 3.2%. The global bond index, in fact, generated negative returns over the last three months, resulting in a negative 1.3% return over the last year. We continue to exercise caution with regards to the bond market, despite the weakness over the last few years. Investors should be reminded that in Europe the process of interest rate normalisation has barely started, hence we continue to advise exercising caution when calibrating expectations for equity market returns over the next few years.

Another notable development over the last three months has been the increased cost of capital in emerging market equities. This subset underperformed their developed market complex by 6% over the quarter, on top of an underperformance of almost 10% in the prior three month-period. This has meant that over most periods emerging markets have now underperformed developed markets, with the US equity market continuing to be the stand-out performer over the last decade. Emerging market currencies shared in this adjustment, with the Russian ruble, South African rand and Indian rupee all depreciating by around 12% during 2018. The Turkish lira is down almost 37%, but we view this as mostly self-inflicted, as the political regime continued to alienate foreign investors with illogical and, at times, contradictory actions. Developed economies' currencies generally depreciated only slightly against the US dollar over the quarter (around 2%).

Healthcare was the best performing equity sector this past quarter, with information technology (IT) again registering a strong performance. Laggards were energy (after a very strong second quarter), utilities and real estate. Since the start of the year, the laggards have included consumer staples (in line with higher long bond rates), financials (slightly more perplexing given the higher interest rate expectations), materials (concerns over emerging market growth prospects) and telecommunications (also higher interest rates), with IT by far the best performer and healthcare a clear second.

Listed property had a tough quarter, with essentially a flat performance. UK property continued to suffer from a weaker fundamental outlook, with further uncertainty regarding the Brexit outcome muddying the waters. Our property holdings, which have a disproportionate exposure to the UK, suffered as a result, although the potential bid for UK Real Estate Investment Trust Intu after quarter end, has lifted the prices of some of these counters. We await further news on that front.

Against the backdrop of rising interest rates, it was perhaps not surprising that the gold price came under more pressure. We have added marginally to our position in physical gold and continue to view it as a hedge against a world ruled by uncertainty.

The fund returned 0.6% over the quarter, resulting in a disappointing 12-month return of 0.8%. Given the reasonably buoyant equity market, we believe we could have done better. We are however pleased with the fund's three-year return of 4.8% p.a. Since inception, the fund has returned 4.0% p.a. - again a credible performance, given the portfolio's low risk appetite.

The disappointing return over the last twelve months is primarily a result of poor stock picking, although the relatively low exposure to equities didn't help overall returns. We continue to exercise caution in the portfolio positioning, as explained in the opening paragraphs. The fund's low tolerance for risk will be our main focus when we consider portfolio actions.

We often reflect on positions in the fund that detracted from performance, which should highlight the learning process with which we approach investments. In this commentary, we thought it appropriate to discuss Advance Auto Parts in more detail. Advance is the second largest retailer in the auto parts sector in the US and sells both to the do-it-yourself customer as well as the professional mechanical workshop. We initially invested in this stock in August 2017 after we met the new management team at a conference in the US. This team was brought in to fix a business that was cobbled together through acquisitions, and which had failed to deliver on the promised cost-savings and integration benefits. At the time, their operating margin was about half that of the industry leader, and the new team had concrete plans to partially close the gap. At the same time, unusual weather had also adversely impacted industry sales, and there was a lot of speculation about Amazon making a stronger push into the category. We thought the weather issue was temporary and believed that the category was less attractive to an online retailer than generally believed. While the management team has yet to deliver on their promise to increase margins, a more normal winter has seen industry volumes pick up again. The Amazon threat has also subsided, with the result that the stock has been our biggest contributor to alpha over the last year. Given that the margin improvement still needs to be delivered (arguing for a degree of implementation risk), we have reduced our position to less than half of what it was at its peak. We continue to see some value in the stock and are watching the execution of the turnaround fund closely.

Portfolio managers
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as at 30 September 2018