CORONATION GLOBAL OPPORTUNITIES EQUITY FUND

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Quarterly Portfolio Manager Commentary

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

The fund rose 1.3% against the benchmark advance of 4.3% for the quarter, bringing the rolling 12-month performance to 9.3% against the 9.8% returned by the MSCI All Country World Index.

Developed market equities rose strongly over the quarter, shrugging off a further US Federal Reserve rate hike in September and increasing trade war tensions between the US and China after US President Trump introduced tariffs on an additional $200-billion of US imports from China, with the introduction rate of 10% set to increase to 25% in 2019. This was primarily owing to robust global growth, which the US economy continues to drive, with strong growth supported by Japan, Korea and Taiwan. Emerging markets declined by 2.0% for the quarter and briefly went into a bear market by falling more than 20% since their peak level in January, before recovering somewhat towards the end of the quarter. A strong US dollar has put pressure on those countries with current account deficits to raise rates, most notably Argentina and Turkey, and caused some volatility in other emerging markets.

North America was again the best-performing region in Q3, rising 7.2%. The weakest return was from the Pacific ex-Japan, which declined 0.5% (in US dollar terms). Japan rose 3.8% (in US dollar terms) and Europe advanced 0.8% (in US dollar terms). Emerging markets were again very weak, declining 2.0% (in US dollar terms), significantly underperforming developed markets, which rose by 4.3%. On a look-through basis, the fund is overweight North America, equal weight to Europe and underweight Japan.

Among the global sectors, healthcare (+11.2%), information technology (+7.9%) and industrials (+5.7%) generated the best returns. The worst-performing sectors were real estate (-1.6%), materials (-1.2%) and energy +0.1%). On a look-through basis, the fund underperformed due to an underweight in healthcare and an overweight to consumer discretionary stock. An overweight to technology stocks was beneficial to the fund.

The fund's biggest detractor for the quarter was Contrarius Global Equity, which underperformed the benchmark by 9.3%. However, despite this quarterly setback, Contrarius' return has been so strong over the year that it has still generated 5.3% alpha on a year-to-date basis. This quarter's performance was largely driven by Twitter (-34.8%), which closed a large number of fake accounts that distorted their user numbers, the consumer discretionary stocks JC Penny (-29.1%), Bed Bath & Beyond (-24.1%) and JD.Com (-33.0%).

The fund's emerging market exposure, through the Coronation Global Emerging Markets Fund, was also a significant detractor, given that emerging markets underperformed developed markets by a wide margin over the quarter. However, the manager also underperformed the emerging market index, with detractors including Yes Bank (-46.0%), JD.com (-33.0%) and Ctrip (-22.0%). Despite the turmoil in emerging markets, there were also some positive returns, including Pin An Insurance (+11.2%), Kroton (23.7%) and Visa (+13.5%).

Tremblant, Egerton, Eminence and Coronation Global Equity Select all detracted over the quarter with relative underperformance against the index.

Maverick enjoyed a good quarter, posting modest alpha of 1% with good contributions from many of their top holdings including Shire (+8.5%), Walt Disney (+12.5%), DXC Technology (+16.3%) and Microsoft (+16.4%).

Outlook

Global monetary policy remains on a steady footing, with the US Federal Reserve on a slow and steady increase trajectory and Europe, UK and Japan still in an accommodative phase for the next 12 months or longer. This should be generally supportive of developed market equities, although they do look expensive on some metrics. Emerging markets have experienced some pain in recent quarters, but are now on attractive valuations, offering good growth at a reasonable price. The risk at this time remains the unknown outcome of the US-China trade talks, which have reached somewhat of an impasse with US President Trump's imposition of additional tariffs. The tension will ratchet up another level come the new year, when the rate increases to 25%. A further risk is the Brexit negotiations, which need to be finalised by November in order for any agreement to be ratified by the exit date of 29 March 2019. Although the potential for no deal has increased in recent months, such an outcome would be very disruptive to European markets. There is potential for some volatility in coming months.

Portfolio manager
Tony Gibson
as at 30 September 2018