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

Over the quarter ended June 2019 (Q2-19), the global economy showed more signs of slowing and the market consensus clearly shifted to pricing in a future material relaxation of monetary policy. It is this prospect of lower interest rates that propelled stock and bond markets to deliver very strong returns for the quarter and year to date.

Expectations of lower interest rates also spilled over to South Africa, where the stronger rand and contained inflation is very likely to allow the South African Reserve Bank the room to start cutting interest rates during the next quarter. Bonds and equities responded favourably to this improved outlook as well as to the successful conclusion of the elections and the subsequent announcement of the new cabinet. Over the quarter, the FTSE/JSE All Share Index gained 3.9%, the All Bond Index 3.7% and listed property 4.5%. Although listed property had a good quarter, the returns over the past year are barely positive and remain negative over the past three years. The rand, which strengthened by 3% over the quarter, had the effect of lowering the impact of the strong US dollar returns of global markets.

The fund delivered a return of 1.0% for Q2-19, taking the return for the first half of the year to a satisfactory 6.8% (not annualised). However, the negative markets in the second half of last year reduced the one-year return to only 2.6%. In trying to reach the targeted return of inflation plus 4%, the fund has a higher weighting to risk assets than its lower-risk sister fund, Coronation Balanced Defensive. Taking on higher risk has, however, not been rewarded over the past five years, with bonds outperforming equities over this period. The fund has consequently only managed to beat the inflation plus 4% target over the longer term (10 years).

The stocks that contributed the most to performance over the past year are Anglo American, Altron, platinum stocks Northam Platinum and Anglo American Platinum and our bank holdings of FirstRand and Standard Bank. Detractors from performance include British American Tobacco, Aspen, Sasol and Shoprite.

British American Tobacco is a stock that we have held in the portfolio for many years. We acknowledge that tobacco companies face structural volume declines. This would be a material headwind to most businesses, but tobacco companies have the pricing power to offset these declines. In addition, the shift to new generation products and demonstrated ability to cuts costs will enable this company to protect and grow its earnings over time. The stock is, however, out of favour with investors and trades on a dividend yield of almost 8%. At this valuation, we find it very attractive.

The past quarter was one of limited trades. We sold more Hammerson property and bought a currency future to hedge against a potential weaker UK pound in the event of either a no-deal Brexit or a new election and the prospect of Jeremy Corbyn as prime minister. Either event could result in a far weaker pound with a negative impact on the prices of some of the London-listed stocks we own, such as Hammerson, Capco and Intu. The fund's total exposure to the London-listed property market has been trimmed to 1% of portfolio and that is now fully hedged. We also added to our existing platinum exchange traded fund, as we feel the gap between platinum and palladium has become too large.

The portfolio continues to hold a substantial weighting in South African bonds, both fixed rate and inflation linkers. The high real yield is very attractive and provides a solid risk-adjusted building block towards achieving the targeted inflation plus 4% return.

Portfolio managers
Charles de Kock and Pallavi Ambekar
as at 30 June 2019