CORONATION GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER FUND

CORONATION
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Quarterly Portfolio Manager Commentary

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 rose 0.2% against the benchmark advance of 3.6%, bringing the rolling 12-month performance to -1.9% against the 5.7% returned by the MSCI AC World Index.

Global equity markets continued their upward trajectory in April, but fell sharply in May on the back of global growth concerns amid the ongoing US-China trade standoff and another round of tariff increases by both countries. However, this was offset in June when the US Federal Reserve (Fed) indicated that it was softening on interest rates and a cut was more likely later this year. This change in view was precipitated by weakening economic data, but also vocal public criticism from President Trump, who is strongly supportive of lower interest rates. This gave rise to a strong market rebound in June and meant that markets returned 3.6% for the quarter. The European Central Bank also hinted at future monetary policy easing should the inflation outlook not begin to improve. The Brexit lull, while the governing Conservative Party elects a new leader, supported UK stocks despite the increasing risk of a no-deal Brexit come 31 October.

The Pacific ex-Japan was the best-performing region in Q2, advancing 5.2% (in US dollar terms). The weakest return was from Japan, which rose only 1.1% (in US dollar terms). Europe rose 4.9% and North America advanced 4.3% (both in US dollar terms). Emerging markets had a poor quarter, declining 0.3% and lagging developed markets, which advanced 4.2% (both in US dollar terms). On a look-through basis, the fund is in line for North America, overweight to Europe, underweight Japan and has a marginal overweight to emerging markets.

Among the global sectors, information technology (+5.6%), financials (+5.0%) and consumer discretionary (+4.8%) were the biggest climbers over the quarter. The worst-performing sectors were energy (-2.4%), real estate (-0.3%) and healthcare (1.1%).

The fund's underperformance over the quarter was largely down to two underlying funds, Contrarius and Lansdowne, which both recorded strongly negative returns for the quarter.

Contrarius has a good, but volatile, track record and this last quarter was a particularly difficult one, with the fund declining 11.7%. The fund has large exposures to both oil services and "traditional" consumer retail brands, both of which sold off heavily during the period and contributed to negative alpha of 15.3%. The thesis for the oil drillers is that the oil majors have to replace declining reserves and these can only be found offshore, meaning that both demand and pricing for offshore drilling rigs will increase. This has been slow to happen and a declining oil price doesn't help, but there are signs that the thesis will eventually work out. On the retailers, Abercrombie & Fitch gave a disappointing outlook, which shocked investors, causing it to fall 41%, while Bed, Bath & Beyond fell 31% during a boardroom battle with an activist investor.

Lansdowne declined 2.3% over the quarter. Performance on a rolling 12-month basis has been weak due to a poor showing from its European airlines. The airline thesis is that there will be consolidation and, consequently, pricing power will re-emerge. However, while this has largely played out in the US airline industry, it is taking much longer in Europe. Lufthansa fell 20% after reducing its revenue forecast and margins. Another negative position was residential real estate company Vonovia, which declined after the German government announced plans to freeze rentals in Berlin for five years.

There were some positive results for the quarter, but these could not offset the strongly negative returns from Contrarius.

Egerton returned 5.5%, benefiting from Blackstone (+28%), which is converting from a partnership structure to a company and thus creating more demand for its shares, and from Charter Communications (+14%) after its good earnings.

The Coronation Global Emerging Markets Fund continues its strong recovery with 4.9%, ahead of the MSCI EM Index and the MSCI World index. The fund benefited from a recovery in X5 (+44%) after it improved gross margin and cut shrinkage; Adidas (+29%), with good e-commerce growth; and Wuliangye Yibin (+23%), which increased net profit by 38%.

Coronation Global Equity Select Fund also enjoyed a positive quarter. It benefited from Facebook (+16%), which reported good Q1 earnings and indicated that it was close to the end of a US data privacy investigation which overshadowed the company of late. The fund also held Charter Communications and Blackstone. On a negative note, the fund's holdings in Intu and British American Tobacco continued to detract from performance.

A G20 bilateral between Presidents Trump and Xi at the end of June led to a temporary truce in the US-China trade dispute and, while no further tariffs were introduced, there was no unwinding of the current ones pending further rounds of negotiations by the respective teams. This was well received by the markets and they have continued with positive performance into July. However, markets are seemingly ignoring the inverted US-yield curve, which is a strong signal for a future recession. The effects of the trade dispute are also beginning to ripple through the global economy and this will exacerbate any weaknesses. Central Banks are cognisant of this and are increasingly tending to remain accommodative or considering cutting interest rates, in the case of the Fed. Other concerns are the potential for a no-deal Brexit (as both candidates for UK Prime Minister are committing to a 31 October exit while making assurances on issues which the EU strongly refutes) and tensions with Iran are threatening to hamper oil supplies from the Middle East. In summary, conditions are conducive to positive markets, but there are risks that could cause sharp pull backs.

Portfolio managers
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as at 30 June 2019