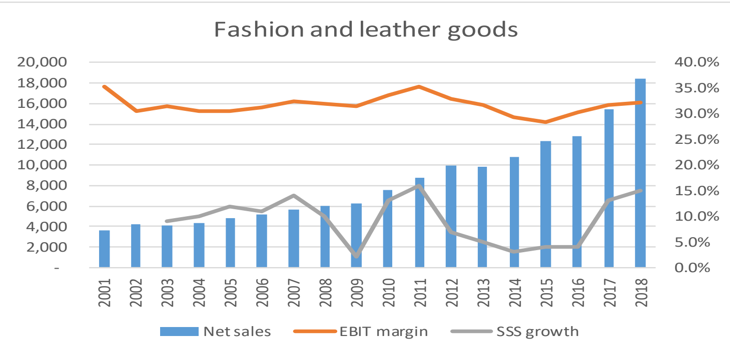
The fund appreciated by 16.9% in the first quarter of 2019 (Q1-19) compared to the 8.1% return of the benchmark. In what were strong global equity markets generally, the fund's average net equity exposure of circa 70% during the period played a large role in the fund's returns. From a stock specific point of view, British American Tobacco was the largest contributor (+32% in ZAR, 1.1% positive impact) followed by Airbus (+38%, 0.9% contribution), JD.com (+36%, 0.9% contribution), Philip Morris (+34%, 0.8% contribution) and New Oriental Education (+62%, 0.8% contribution). There were no detractors of more than 0.5%. Over the past five years, the fund has generated a return of 10.7% p.a., over 10 years a return of 16.0% p.a. and since inception almost 20 years ago it has generated a return of 14.3% p.a.

The fund ended the quarter with 74.6% net equity exposure, which was up from the 66.1% at the start of the year, largely due to market moves. Of this, approximately 55% of the equity exposure was invested in developed market equities, 40% in emerging market equities and 5% in South African equities.

The largest new equity buy during the quarter was a 2.0% position in Louis Vuitton Moet Hennessy (LVMH), the largest global luxury goods company and the owner of the Louis Vuitton brand (circa 50% of group profits) and many other global brands including Moët & Chandon, Hennessy, Christian Dior, Fendi, Bulgari and Tag Heuer. Over 40% of sales come from emerging markets and the Chinese consumer alone (purchasing at home as well as while travelling) is responsible for well over 50% of incremental growth.

LMVH Fashion and Leather Goods Division
Historic sales, same-store sales growth and earnings before interest and taxes (EBIT) margin



Source: Coronation, LVMH annual reports

LVMH has an enviable track record (over the past 20 years earnings per share (EPS) has compounded at circa 12% p.a.) and today is well-placed to be a key beneficiary of the growing emerging market middle and upper class, and the wealth effect. The barriers to entry possessed by the true global luxury brands (Hermes, Louis Vuitton and Gucci) are amongst the highest in any industry in our view: in the case of Louis Vuitton, a 150-year history and investment in the brand for a start. The resilience (of both the topline and profitability) of the Louis Vuitton brand in particular during tough economic periods is also unparalleled: in 2009 (post the GFC) sales of the Fashion and Leather Division (with Louis Vuitton making up the lion's share of this division) of LVMH grew by 2% and earnings before interest and taxes (EBIT) grew by 3%. In 2002 (post September 11th) the Fashion and Leather Goods Division experienced 16% sales growth (and this after double-digit sales growth in 2001 as well) and 5% EBIT growth. The fund bought LVMH on circa 20 times forward earnings and a 2% dividend yield, which we think is attractive for what we would consider to be one of the best businesses in the world.

Our negative view on global bonds remains largely unchanged, although we did buy short-dated US Treasuries (c. 3% of fund) late last year when US government 10-year bond yields were north of 3%. The fund's position in L Brands (owner of Victoria's Secret) corporate bonds remains (1.7% of fund) and is now yielding 6.8% compared to our initial purchase yield of 7.3%. In total, bonds make up 4.7% of the fund. The fund also has circa 4% invested in global property: largely in Unibail (European and US Retail property) and Vonovia (German residential). Lastly, the fund has a physical gold position of 2.5%. The balance of the fund is invested in cash, largely offshore. As has been the case for a number of years, the bulk of the fund (over 90%) is invested offshore, with very little being invested in South Africa.

Portfolio managers
Gavin Joubert & Marc Talpert
as at 31 March 2019