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

Against the backdrop of another tumultuous quarter, the fund delivered a decent performance of 1.7%. We have delivered returns ahead of Consumer Price Inflation (CPI) over all time periods; however, the benchmark of CPI + 3% has been a tougher hurdle to beat. We have managed to do this over a 10-year time horizon and, pleasingly, we have been ahead of this benchmark in our year-to-date performance.

This quarter, we have seen the continuation of a very volatile and unpredictable global environment. The escalation of the US-China trade war and the unfolding Brexit soap opera has been further compounded by rising tensions in the Middle East and ongoing protests in Hong Kong. While these events have played out, the outlook for global growth continues to slow. Policymakers are trying to support the global economy, with more central banks around the world cutting interest rates, led by the US Federal Reserve Board and the European Central Bank. As a consequence, sovereign debt yields are trading at zero to negative real rates and we have even seen some corporates issue bonds with a zero coupon. This is an unusual state of affairs, and, as such, we think the global bond space is not attractive from a risk-return perspective.

Investors are doubtful that monetary easing can prevent a further economic slowdown, especially given that trade-related uncertainty is dragging down investment and exports. These doubts are reflected in global equity markets, with their strong performance at the start of the year petering out in the third quarter. Emerging markets (EMs) also continued to underperform developed markets. South Africa's economic outlook continues to be muted, despite many self-help options. The lack of political will to implement urgently needed reform at state-owned enterprises (Eskom in particular) has been disappointing. It is difficult to see how business and consumer confidence will return with continued inactivity on this front. Our base case is that the South African economy will continue to show lacklustre growth until these structural issues are addressed.

Given this context, the fund's positioning is weighted towards local fixed income assets which make up 48% of the portfolio. The yield on these assets at just over 9% comfortably meets the fund's required hurdle rate of CPI + 3%. This exposure has been a positive contributor to the fund's performance for the quarter. Other local asset class weightings include South African equity, at 21%, and South African property, at 5%. Both of these asset classes produced negative returns in the quarter. While our equity and property selection has been good, it has still not contributed to the fund's performance.

During the quarter, we took the opportunity to increase our local equity exposure marginally by adding selectively to some domestic equity counters where valuations have become too cheap to ignore. An example of this would be Dischem. We think Dischem is well positioned to show organic growth as well as take market share from independent pharmacies. Concerns over the lack of earnings growth in the short term (due to their heavy investment in their distribution business), has meant that multiples have come back to palatable levels. The combination of robust earnings growth and a strong balance sheet means that this share presents attractive long-term upside. Dischem is one of the few shares that can show growth in a stagnant South African economy.

We remain very choosy in our domestic equity holdings and our local allocation is thus weighted towards rand hedge shares. The South African property counters face an even more strained outlook, and we have thus not added to our positions here, despite the de-rating in the sector and seemingly appealing yields.

Given the attractiveness of the returns we see in the South African fixed income space, we have largely maintained our offshore exposure at 23% of the fund. This has been a positive contributor to the fund's performance this year and we have trimmed some of our holdings on the back of strong returns generated.

We think the fund is correctly positioned to navigate this uncertain environment. As we have already seen this year, it is not easy to predict the most accurate political or economic outcome, but with the balanced mix of risk assets and yielding assets, our fund can deliver the required return.

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