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

The fund experienced a challenging quarter, delivering a return of 0.7% compared to its benchmark return of -1.0%, mainly due to weak domestic equity markets. The fund has performed well since inception and against its peer group over all meaningful time periods.

Against the backdrop of a slowing global economy, an escalating trade war and a revival of central bank stimulus measures, the MSCI All Country World Index ended the quarter flat in US dollar terms. Geopolitical risk in the Middle East, with escalating US-Iran tensions and a missile strike on a Saudi oil refinery - which is responsible for almost 5% of world oil supply - added to equity market volatility during the quarter. Emerging markets (EMs) continued their recent underperformance, declining 4.3% for the quarter (with returns now negative 2.0% over a rolling 12 months) relative to developed markets which were marginally positive for the quarter (+1.8% over a rolling 12 months). Notwithstanding this, the fund's exposure to EM equities performed exceptionally well on the back of some excellent stock picking and our overweight exposure has in fact contributed meaningfully to performance over the past year. We continue to maintain a relatively large exposure to global equities and believe that our EM equity exposure - in particular - still offers compelling value.

The FTSE World Government Bond Index appreciated by just under 1% in US dollars for the quarter. In September, the European Central Bank announced its biggest package of rate cuts and economic stimulus in three years as President Mario Draghi warned governments that they needed to act quickly to revive flagging eurozone growth. The stimulus included cutting interest rates further into negative territory, reviving its contentious €2.6 trillion programme of buying bonds for an unlimited period and easing lending terms for eurozone banks. Soon thereafter the US Federal Reserve Board also cut rates by a further 25 basis points (bps), although the accompanying commentary was more hawkish than the market was expecting. Negative interest rates have led to significant distortions in asset markets. Currently roughly $13 trillion of global debt trade at negative yields – meaning you are likely to lose money if you hold these instruments to maturity. Furthermore, in Denmark - where banks have been grappling with negative interest rates longer than in any other country – banks are now offering home mortgages at negative interest rates, i.e. the bank is effectively paying the borrower to take money off their hands, so they pay back less than they have been loaned. The extent to which central banks continue to distort debt markets is concerning and we remain cautious on the outlook for global bonds.

Recent economic data served to reinforce how dire the domestic underlying economic situation really is. This has flowed through to corporate earnings and we have been bombarded with company profit warnings over the past quarter. Investor and consumer sentiment continue to remain very weak and government urgently needs to deliver on much-needed structural reform in order to restore consumer and corporate confidence and kickstart the economy. During September, the South African Reserve Bank (SARB) held the policy rate unchanged at 6.5%, but the SARB's statement was more dovish than in July when it did cut rates. Although the SARB's view is that monetary policy is not the solution to South Africa's poor growth outlook, we believe that given the weak domestic economy, contained inflation and favourable global rate expectations, the SARB has room to further cut rates. Against this challenging economic backdrop, the rand weakened by almost 7% against the US dollar. The fund was well positioned for this move.

With local bond yields ticking up, the All Bond Index returned only 0.7% for the quarter. However, over the past year bonds have performed strongly (up 11.4% over the rolling 12 months). Given the attractive real yields, local bonds continue to offer reasonable value and our current bond weighting is the highest it has been for a number of years. The property stocks have been battered by the weak economy which is playing itself out through increasing vacancy levels, large rental reversions and reduced rental escalations. Much of the sector will struggle to show any distribution growth over the medium term. Our property holdings are concentrated in the A property shares, which we believe offer very attractive risk-adjusted returns and we have a small position in some of the higher-quality property stocks, whose earnings should prove to be more defensive than their peers.

Overall, the JSE experienced a disappointing quarter, with the JSE Capped Swix All Share Index declining 5.1% (and with it dragging down rolling 12-month period returns to -2.4%). The weakness was broad-based but the financial and resource sectors fared the worst – both down over 6% for the quarter. The industrial sector was down only 2.5% with the large rand-hedge stocks such as Naspers (flat), British American Tobacco (+14%), Anheuser-Busch InBev (+16%) and Bidcorp (+6%) holding up well. Notwithstanding the challenging market returns, our equity holdings performed well on a relative basis. We believe that our equity holdings are currently offering compelling value and have used the weakness during the quarter to add to our position. It should however be noted that our domestic equity holdings continue to be skewed towards the global stocks that happen to be listed on the JSE. Although many domestic-facing businesses are starting to screen as extremely cheap, given the deteriorating macro environment, there is a high probability that many of them turn out to be value traps.

On the resources front, our large exposure to the platinum-group metals (PGM) sector contributed meaningfully to fund performance during the quarter. Northam Platinum and Impala Platinum (Implats) were up 40% and 37% respectively. Deficits in PGMs have seen the three elements' (platinum, palladium and rhodium) basket price continue to rise. Despite their strong run, we still view the PGM stocks as very attractive. Northam Platinum and Implats currently trade on between six and eight times our assessment of normal earnings and still offer material upside to our fair values.

The Sasol share price has collapsed over the past 12 months (down 54%) as further cost overruns relating to the Lake Charles Chemicals Project (LCCP) emerged and management also had to announce a delay in the reporting of their full-year results in order to further investigate a breach of internal controls. Our underweight position in Sasol over this time has added to performance. We believe that the results delay is as a result of control weaknesses identified around the LCCP budgeting process and not centred around the financial statements themselves. Although further cost overruns are unlikely, our biggest remaining concern is that the budgeted profitability for LCCP disappoints on the back of ramp-up issues or pressure on commodity prices. Nevertheless, we expect the company to now shift to a phase of debt reduction and improved free cash flow generation. Sasol trades on four times 2021 earnings, which is calculated using what we feel are relatively conservative currency and oil price assumptions. This is very attractive for a business of its quality. We have used the share price weakness to increase our exposure but remain cognisant of the risks surrounding recent announcements and are managing the position size carefully.

The quarter was also characterised by corporate actions in several fund holdings. Some of those worth mentioning include:

- Prosus, the newly established corporate entity that will house Naspers' global internet portfolio, including its stake in Tencent and its interests in online classifieds, food delivery and online payments. During the quarter Naspers listed and part unbundled 26% of Prosus to its underlying shareholders. This listing is another positive step by management in their efforts to try and narrow the discount at which Naspers trades relative to its underlying intrinsic value. A foreign listing of Prosus will assist Naspers in pursuing its ambitions to become a leading global consumer internet business by giving it access to a wider pool of investors and capital. Furthermore, going forward, the two-tier corporate structure provides Naspers with more financial flexibility and the ability to more efficiently manage the discount to its underlying intrinsic value by using capital allocation tools such as share buybacks. In this corporate action, we elected to take the full allotment of Prosus shares given the value unlock opportunity that we expected.
- In July, global food and beverage conglomerate – PepsiCo – announced a takeover bid for Pioneer Foods, at a more than 50% premium to the Pioneer share price at the time. The subsequent repricing of our holdings in both Pioneer and Zeder (whose largest asset is its stake in Pioneer) contributed meaningfully to performance during the quarter. We used the rerating in Pioneer to sell out of our position and redeploy the proceeds into other more attractive investment opportunities.
- Trencor recently announced that it will be unbundling its Textainer stake to its shareholders in the coming months. Coronation has been actively pushing for this unbundling over the last few years and are extremely pleased that it is finally proceeding. The share price reacted positively - up 37% for the quarter – and this also contributed meaningfully to quarterly performance.

In this volatile and uncertain world, our objective remains to build diversified portfolios that can absorb unanticipated shocks. We will remain focused on valuation and will seek to take advantage of attractive opportunities that the market may present and in so doing generate inflation-beating returns for our investors over the long term.

Portfolio managers
Karl Leinberger, Sarah-Jane Alexander and Adrian Zetler
as at 30 September 2019