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

The fund declined -1.2% for the third quarter of 2019 (Q3-19), outperforming its benchmark, which declined 5.1%. This is a relatively new fund without a meaningful long-term track record.

Recent economic data reinforced how dire the underlying economic situation really is. This has flowed through to corporate earnings and we have been bombarded with company profit warnings over Q3-19. 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.

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 Q3-19. The industrial sector was down only 2.5%, with the large rand-hedge stocks such as Naspers (flat), British American Tobacco (+14%), ABI (+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 we have used the weakness during Q3-19 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 Q3-19. 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 times 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 Q3-19 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 Q3-19. 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 we 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.

Our underweight position in listed property has contributed to performance. 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.

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 to us 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