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

The Covid-19 pandemic remains the dominant feature on the global and domestic news front. There are now more than 10 million cases of infection reported worldwide and over half a million deaths globally. The numbers will continue to rise, although in some regions, such as China, most of Europe, Japan, Australasia and the rest of Asia, the rate of new infections seem to have been brought well under control. Those economies are reopening and life is getting back to normal. In most of the emerging world and in the US, the situation is worse. Poor adherence to lockdown regulations or lack of strict rules on social distancing seems to be to blame. The result is that these economies are going to take far longer to return to normality.

The monetary and fiscal response to this crisis has been massive in just about all regions of the world. Financial markets have consequently shown a remarkable rebound from the devastation of the first quarter. The MSCI rebounded 19.2% in the quarter, measured in US dollars and the emerging markets (EM) followed with a 18.1% surge. The JSE was also very strong and the Capped Swix showed a return of 21.6%, measured in rand. Our bonds also staged a robust recovery after the South African Reserve Bank (SARB) stepped in to provide liquidity to the market in addition to its aggressive rate cuts.

The Fund therefore showed a strong rebound with a return of 11.8% over the quarter, wiping out most of the losses of the first quarter. The 1-year return is a positive 0.4%, reversing the negative 12-month return reported at the end of March 2020. The 3-year and 5-year returns of 3.0% and 3.4% per annum respectively (p.a.) did not beat inflation. The returns over longer periods are ahead of inflation, although not by the targeted 4% over all periods. The annualised return of 11.1% since the Fund's inception remains well in excess of the targeted number.

The increased volatility in the markets presented opportunities to add value through active asset allocation decisions. After adding to bonds during the crisis in March we reduced our position during Q2-20 as long-term bond yields recovered. The South African fiscal situation has deteriorated alarmingly and a budget deficit of near 15% of GDP is now expected this financial year. The additional bond issuance will keep pressure on the market and we are concerned about the possibility of entering a debt trap. Although real yields appear very attractive, the risk has also increased and we will not add more duration risk at this point.

Within domestic equities, we added to Bidcorp and Anheuser-Busch InBev, two companies that operate in the global space and should reap some benefits of the recovering global economy. We switched some Northam Platinum into Impala Platinum but retain a sizeable position in Northam. We also added to FirstRand and Mr Price in the domestic space at very attractive prices. These two are, in our view, well-managed, high-quality companies that will survive the crisis and gain market share.

In the global portion of the Fund we were also active, adding to global equities and then, later in the quarter, buying put protection on the view that the markets had raced up too fast and a second wave of the pandemic was not priced in.

These actions, plus the effect of the rising market, took our exposure to risk assets from 50% at the end of the previous quarter to 53%. Our global effective exposure* went from 22% to 25%.

The outlook in the midst of this unfolding pandemic remains murky. However, the unprecedented stimulus and massive liquidity provided is positive for the markets. In addition, inflation is far lower than expected over the near term and the SARB has acted aggressively to cut interest rates to the lowest level we have seen in many years. This is supportive of risk assets. Returns on cash will likely be below 4% for the next few years, a rate unlikely to exceed inflation. In order to reach our targeted return, a reasonable exposure to risk assets will therefore be required.

Over the longer term, we are watchful of a resurgence in inflation globally as well as locally, as there will eventually have to be a cost of the massive monetary and fiscal stimulus provided in attempts to limit the devastating impacts of the lockdown on economies around the world.

**Due to currency futures, effective international exposure might differ to asset domicile exposure as used in the formal asset allocation on the fact sheet.*

Portfolio managers
Charles de Kock and Pallavi Ambekar
as at 30 June 2020