CORONATION GLOBAL CAPITAL PLUS [ZAR] FEEDER FUND

Quarterly Portfolio Manager Commentary

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Please note that the commentary is for the US dollar retail class of the Fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.

Following a rapid sell-off earlier this year, markets rebounded strongly in the second quarter of the year (Q2-20). The stock market recovery has been very much V-shaped, with a gain of 19.2% this quarter following the first quarter's -21.4%, despite continued economic uncertainty and an unclear path to recovery. Nevertheless, this leaves global markets (as measured by the MSCI All Country World Index) still down 6.3% for the year.

The Fund returned 6.5% for the quarter, well ahead of 3-month USD Libor 0.2% return.

Contributions to performance were broad-based as most risk assets rallied:

- The Fund's equity holdings returned 16%
- Property returns were also strong, at 19.5%
- Fixed interest rebounded, returning 4.8% (approximately 1.5% ahead of the benchmark)
- Gold delivered a 10.5% return, bringing the gain over the last year to over 26%

Individual contributors to returns were also broad-based, with most of our long held equity positions in Alphabet, Charter Communications, Naspers, UnitedHealth, Bayer and Spotify being in the top 10. The diversity of these contributors should highlight the approach to risk management, where we aim to own as many uncorrelated assets as is feasible (both within and across asset classes) subject to the constraint that each individual security should offer an attractive expected return.

Philip Morris was the largest detractor from performance, although with a return of -2.6% the effect was only marginally negative. Philip Morris International (PMI) is a global tobacco company and the global leader in potentially reduced-risk next generation products (NGPs) through its IQOS heated tobacco franchise. IQOS is already contributing c.20% to company revenues. PMI has invested significantly into the IQOS franchise over a sustained period of time and has built a significant first-mover advantage in the heated tobacco category. IQOS has been a phenomenal success in our view, ranging from truly extraordinary results in Japan to solid steady progress across many European markets. To date c.11 million smokers have completely quit smoking combustible cigarettes and moved to IQOS. At the time of writing, the US Food and Drug Administration (FDA), probably the preeminent tobacco regulator globally renowned for its science-led approach to regulation, had just authorised IQOS to be sold in the US with a reduced exposure claim to the effect that completely switching to IQOS significantly reduces a smokers exposure to harmful chemicals. Importantly, as IQOS grows, it is accretive to PMI's revenues and profits. We believe there is still a long runway of growth for IQOS globally. Despite the resilience of tobacco as a consumer category, PMI has not been immune to Covid-19 lockdowns. PMI has been severely impacted by lost duty-free sales, the impact of lockdowns in emerging markets such as the Philippines and Indonesia and temporarily slower IQOS user conversion. Second quarter (Q2-20) results will be significantly negatively impacted by these factors, but we expect that, over the medium term, these lost sales should be recovered and that IQOS should fairly quickly resume its growth trajectory. PMI remains a top 10 holding.

At quarter-end, the Fund was positioned with 40% in growth, or risk assets, comprised of the following:

- 22% effective equity
- 4% property
- 1% in infrastructure
- 6% in convertible bonds
- 7% in high yield corporate bonds

The remaining 60% of the fund is invested in more stable, diversifying assets with limited correlation to equities:

- 11% in hedged equity
- 7% in commodities
- 42% in fixed income, the bulk of which is invested in Treasury Bills (13%), inflation protected securities (7%) and investment grade corporate bonds (20%)

Last quarter, we felt that there were attractive opportunities for those investors with a long time horizon and the ability to filter companies whose prices had been dislocated with little impact to their sustainable earnings power. After a sharp rally, these opportunities are now harder to find. In addition, the need to reassess the prospects of many businesses continues as investors parse fundamental virus-induced behavioural changes from short term noise. Fundamental changes, however, play to the strengths of fundamental investors, and we continue to find a select number of stocks with attractive long-term prospects that are reasonably priced, while appropriately managing exposures across a range of asset classes.

Thank you for your continued support and interest in the Fund.

Portfolio managers
Louis Stassen and Neil Padoa
as at 30 June 2020