CORONATION
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The Fund appreciated 13.4% in the second quarter of 2020 (Q2-20), compared with a 15.3% return of the benchmark. This resulted in negative 1.9% alpha for the period. While it is always disappointing to underperform the benchmark, this comes after a period of significant outperformance over the past year (14.7% alpha) and it was pleasing to realise a healthy absolute return in the period, notwithstanding this small underperformance. The Fund has delivered a year-to-date return of 18.7%, a 10.1% outperformance of the benchmark

The quarter can be described as one of recovery for many markets, with the DOW experiencing its best quarter since 1987 and the S&P500 enjoying its best quarter since 1998. Against this backdrop, some of the Fund's holding appreciated meaningfully. The largest positive contributors in the quarter were Spotify (+104%, 1.5% positive impact), Mercardo Libre (+96%, 1.1% positive impact) and JD.com (+44%, 0.8% positive impact). Unfortunately, the Fund incurred unrealised losses on a collection of put option positions which provided valuable protection in the prior quarter but detracted from performance this quarter. This happened notwithstanding the level of protection being somewhat reduced early in the quarter and then marginally added to towards the end. Collectively, these put options had a 1.82% negative impact during the quarter but continue to provide the Fund with protection should there be a market selloff. Outside of these put options, no individual stock positions were material detractors in what can be summarised as a very strong quarter for global markets.

Over the last five years, the Fund has generated a positive return of 13.3% per annum (p.a) and 16.9% p.a over ten years. Since inception over 20 years ago, it has returned 14.8% p.a (3.3% annualised outperformance).

The Fund ended the quarter with 70% net equity exposure, similar to its position at the end of March, but with a higher weighting towards emerging markets (EM), which has lagged the developed market (DM) equity rally. Of this, approximately 51% of the equity exposure was invested in DM equities (54% in the prior quarter), and 49% in EM equities (46% in the prior quarter).

Our negative view on global bonds remained unchanged, as a large portion of DM sovereign bonds offer negative yields to maturity, with the follow-on effect that most corporate bonds also offer yields which do not compensate for the risk undertaken. Only 1.2% of the fund is invested in bonds, which is largely made up of a 0.6% position in L Brands (owner of Victoria Secret) corporate bonds.

The Fund also has c.3.5% invested in global property: largely Vonovia (German residential) and Unibail (European and US retail property). Lastly, the Fund has a physical gold position of 2.6%, along with a 0.8% holding in Barrick Gold Corp, the largest gold miner globally, both of which have been sold down marginally during the quarter. The balance of the Fund is invested in cash, largely offshore. As has been the case for many years, the bulk of the Fund (over 90%) is invested offshore with very little exposure to South Africa.

The rally in equity markets during the quarter is a good illustration of the difficulty of trying to time a rebound as it happened quite unexpectedly, and against a backdrop of what could be considered poor news flow. This reinforces our belief that our time is best spent on seeking out the best opportunities globally to build a portfolio which we believe has a collection of diverse exposure to assets that will provide the best risk-adjusted return for our clients. We believe that trying to time the market is inherently difficult and adds little value to long-term client outcomes.

Notable buys during the quarter were Linde PLC, Roche and Mercari.

Linde PLC is the largest industrial gas business in the world (20% market share) with both extensive geographic and industry diversification. Fundamentally, the business is made up of assets which are hard to replicate due to their geographic location, which is key when selling a commodity that can often have prohibitively expensive transportation costs. Their revenue is generated via sales to large customers, often with a long-term contract; medium-size captive customers with associated offtake agreements; and smaller customers that have cylinders associated to the sale which are rented, providing an incentive for repeat usage and refill. Ultimately, this creates a business with a large portion of annuity revenue which we believe can steadily grow and compound overtime. The business is a function of the merger of Linde and Praxair in 2017/2018, with expected post-merger synergies resulting in free cash flow (FCF) increasing by a third. The CEO of the combined entity has an exceptional track record of running Praxair for 12 years prior to the merger and thus this provides further credibility to the synergy numbers.

Roche is a global innovative pharmaceutical company with a dominant position in a strongly growing oncology market. They have a promising pipeline of drugs in addition to their current offering, which should protect them from generic price erosion, a natural part of being an innovative drug company post drug patent expiry. Roche has an extreme focus on research and development (R&D), and they consistently outspend their peers in terms of R&D (both in absolute dollars and a percentage of revenue), which has supported consistent innovative drug discovery. The business trades on 16 times forward earnings, which should be resilient in the current environment, a starting dividend yield of just under 3% and an expected mid-single-digit earnings growth profile that should result in a low-double-digit total shareholder return.

Mercari is a Japanese business, founded in 2013, which has a dominant online used goods consumer-to-consumer (C2C) marketplace and a growing payment business which leverages the marketplace to both acquire customers and enhance the utility of the payment platform. They also have a fast-growing US online C2C marketplace business. Their Japanese C2C business has nearly 17 million monthly active users, up from 13 million a year ago, and is still rapidly growing as used goods commerce continues to gain traction in Japan. The payment business operates in a highly competitive, but lucrative market, as Japan currently significantly lags the developed world in cashless penetration (currently just over 20% vs DM peers well north of 50%, depending on the market). Management have laid important strategic blocks via alliances to improve the competitive positioning of the payment business. Its most notable alliance here is with NTT DoCoMo - the biggest mobile operator in Japan, with a 40% market share. As it stands the used goods C2C business is well understood, but very little credit is being given to the potential success of the payment business. We think the Japanese C2C business can continue to grow its revenue in excess of 20% over the next few years with margins continually increasing due to the high incremental margins associated with a marketplace business. This should lead to both earnings and FCF growth in excess of this revenue growth rate. Outside of this, we believe that both the Japanese payment business and US used

goods marketplace should reduce losses significantly as they move from investment phase into monetisation phase.

We are now just over six months into the Covid-19 pandemic, yet there still remain many unknowns as to the ultimate length, how governments will respond and what permanent consumer behaviors will manifest post the pandemic. However, against this backdrop we feel the portfolio has been built bottom-up, while ensuring adequate diversification without taking a strong thematic portfolio view on hard to predict future trends

Portfolio managers
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