CORONATION GLOBAL OPPORTUNITIES EQUITY FUND

Quarterly Portfolio Manager Commentary

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This commentary is for the retail class of the fund.

The Fund declined 30.6% in the first quarter of 2020 (Q1-20) against a benchmark decline of 21.4%, bringing the rolling 12-month performance to -24.0% against the -11.3% returned by the MSCI All Country World Index.

Covid-19, a new coronavirus originating in Wuhan, China dominated the first quarter of 2020 as it swept around the globe, becoming a pandemic, the response to which has caused economic hardship and damage not seen since the Great Depression. Social distancing measures to flatten the infection curve and enable healthcare systems to cope with the peak have devastated many industries and created unemployment overnight. Global equity markets plummeted, and stress in the credit markets necessitated unprecedented monetary and fiscal responses from governments around the world. This market turmoil was further exacerbated by a dispute between Russia and Saudi Arabia, when Russia refused to cut its oil production. In response, Saudi Arabia flooded the market with oil, causing a sharp drop in the oil price to levels that are unsustainable for many oil-producing countries. This only added to the general market volatility.

Japan was the best-performing region in Q1-20, declining 16.6% (in US dollar terms). The weakest return was from Asia ex-Japan, which declined 27.6% (in US dollar terms). Europe fell 24.2% and North America fell 20.0% (both in US dollar terms). Emerging markets declined 23.8% compared to developed markets, which fell 20.9% (in US dollar terms).

Among the global sectors, healthcare (-11.9%), information technology (-13.3%) and consumer staples (-13.7%) were the lowest detractors for the quarter. The worst-performing sectors were energy (-45.4%), financials (-32.3%) and materials (-27.0%).

While the Fund's underlying managers all underperformed over the quarter, Contrarius and Lansdowne were largely responsible for the majority of the underperformance during this time.

Contrarius has struggled in recent quarters, primarily as a result of its large exposure to oil drillers. The large decline in the oil price over this last quarter was catastrophic for the share prices of these stocks. The drillers operate on long-term contracts and the breakeven for offshore oil is lower than that of the shale oil producers, which are at far greater risk at present. The industry was going through a period of consolidation and capacity reduction and, while it could still make a good recovery, the current oil price does represent an unwelcome setback. In addition, the Fund also had significant exposure to the US 'bricks-and-mortar' retailers (Macys and Bed, Bath & Beyond), which have been greatly affected by the social distancing measures and accelerated use of online retailers. At this time, Contrarius remains invested in these positions and expects some recovery from these levels. For now, both themes represent much smaller exposures in the portfolio.

Lansdowne has also had a difficult period of underperformance, primarily due to a large exposure to the UK, which was suffering from the uncertainty over Brexit. However, just as the Brexit debate was settled, a large exposure to the airline industry in the face of a virtual overnight shutdown of the industry has significantly impacted short-term returns. IAG (British Airways/Iberia), Delta and United have declined by over 50%. Other investments in materials (Arcelor Mittal) and banks (Lloyds and RBS) also added to the underperformance for the quarter.

Maverick's performance was hurt by Indian Banks (IndusInd Bank and Axis Bank) after Yes Bank had to be bailed out by the government and gave rise to fears about the rest of the industry. Rolls Royce also contributed to the decline, given that it is a major engine supplier to the airline industry. Some positives came from Netflix, Amazon and Microsoft, which are all benefiting from the stay-home social distancing measures.

Tremblant-held Royal Caribbean, a large player in the cruise industry, is another industry completely decimated overnight by the Covid-19 virus. Negative news headlines and ships confined to port are not good for servicing debt repayments. A position in Restaurant Brands (Burger King) declined for similar reasons. Holdings in Amazon and Five9, a call centre software developer, helped offset some of the losses, meaning that Tremblant only marginally underperformed for the quarter.

Egerton was also only slightly behind the index, despite heavy losses in Airbus and Safran, an aircraft engine manufacturer. As with Tremblant, Egerton also held some of the beneficiaries of this current situation, namely Netflix and Amazon. An increase in cash also benefited during the market falls.

The Coronation Global Equity Select and Coronation Global Emerging Markets (GEM) funds performed well over the quarter, both slightly underperforming the MSCI All Country World Index. The GEM Fund did outperform the MSCI Emerging Market Index. Names such JD.com and Netflix contributed to the performance.

It is a time of huge uncertainty and stress, and markets have sold off indiscriminately. The world is largely under lockdown and everyone is waiting to hear the way forward. A vaccine is not expected within the next 12 months, but huge resources are being directed not only to develop one as quickly as possible but also to increase hospital capacity and testing of existing therapeutics to see if any can work to alleviate the effect of this virus. China is slowly exiting its lockdown and some European countries are looking to exit in mid- to late-April. Lower levels of social distancing will most likely remain in place for some time but at least more economically active people will be able to carry on with their activities and allow for some recovery. Once the virus is under control, a recovery is likely to be strong, benefiting from low oil prices, mostly zero interest rates and massive fiscal and monetary stimulus. It is at these times that it is possible to identify value and those with a long-term outlook can benefit.

Portfolio managers
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as at 31 March 2020