CORONATION GLOBAL EQUITY SELECT [ZAR] FEEDER FUND

Quarterly Portfolio Manager Commentary

CORONATION
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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.

After a strong rebound in the second quarter of the year (Q2-20), equity markets continued their gains, returning 8.1% in the third quarter of 2020 (Q3-30). Returns were broad-based, with developed markets as a whole returning just under 8% and emerging markets continuing a recent run of outperformance, returning 9.6%. The US continues to outperform other developed regions, with a return of 9.4%, handily ahead of Europe's 4.5%. Most other asset classes also delivered a positive result.

The Fund returned 6.6% for Q3-20, approximately 1.5% behind the benchmark return of 8.1%. Over one year, the Fund has underperformed by 0.3%, and by 0.5% over five years.

Salesforce was a top-three contributor to Fund returns over the quarter, with the share price climbing 26% in one day following the release of better-than-expected results. Organic revenue growth of 19% on a year-over-year basis in a quarter heavily impacted by Covid-19 is an excellent result and highlights the strong positioning of the company and demand for its software solutions.
Salesforce is the global leader in customer relationship management software and has moved into adjacent areas, including the broader digitisation of customer-facing activities such as marketing, ecommerce, data management and business intelligence. While these trends were strong before Covid-19, the virus consequences have reinforced the need for businesses to invest behind revenue-generating activities, to better know their customers and to be able to reach them online, and Salesforce offers the tools to do this. The company sees a large opportunity ahead and continues to invest aggressively in adding staff at a time when many companies are laying people off. Salesforce is a well-managed, high-quality and fast-growing compounder with strong ESG credentials and we remain bullish on its outlook.

Bayer was a detractor over the quarter. We think the stock is materially undervalued at a 7x price-to-earnings ratio. This is due to continued uncertainty regarding the resolution of the RoundUp litigation and regulatory uncertainty for its Xtend platform at a time when end-markets (principally corn, due to lower bioethanol demand) are temporarily depressed. Longer-term, Bayer remains the leading crop science franchise, with significant opportunity to improve profitability from merger synergies, new products in the pipeline (e.g. short-stature corn) and scaling its digital agriculture initiative. While recent results have been disappointing, the range of potential outcomes remain tilted to the upside.

Earlier this year, 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 solid long-term prospects that are reasonably priced.

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

Portfolio managers
Neil Padoa and Humaira Surve
as at 30 September 2020