CORONATION GLOBAL MANAGED [ZAR] FEEDER FUND

Quarterly Portfolio Manager Commentary

CORONATION

TRUST IS EARNED™

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 (Q3-20). 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 4.7% for the quarter, approximately more than 100 basis points (bps) behind the benchmark return of 6.0%.

Once again contributions to return were broad-based:

- The Fund's equity holdings delivered 7.9% (marginally behind the ACWI of 8.1%);
- Property returns continue to be strong, at 10%;
- Fixed interest continued a solid rebound, returning 3.7% compared to the bond benchmark of 2.7%;
- Gold and other commodity holdings returned 6.4% and 6.9% respectively.

Portfolio hedges were the most significant detractor, which is not surprising, as these positions will clearly be a headwind in strong markets. However, it is not unusual for some form of protection to be in place in our multi-asset funds. If purchased when the cost is low, and scaled appropriately, we feel this can be an important tool to manage risk and volatility.

Salesforce was a strong contributor to the Fund's performance, 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 consequences of the virus 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 during a time where 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.

At quarter-end, the Fund was positioned with 68% in growth, or risk assets, comprised of the following:

- 54% effective equity;
- 3% property;
- 3% infrastructure;
- 4% in convertible bonds;
- 4% in high-yield bonds.

The remaining 32% of the Fund is invested in more stable, diversifying assets with limited correlation to equities:

- 6% inflation-linked bonds;
- 7% in commodities;
- 6% in hedged equity;
- 13% in fixed income (with 8% in Treasury bills, and 3% in investment-grade corporate bonds).

We continue to feel the fundamental diversification evident in this portfolio construction, with an intentional tilt towards inflation protection at the expense of nominal government bonds, is both more appropriate and more robust than that of the Fund's benchmark, which includes a 40% weighting to global government bonds. As a reminder, the bond index as a whole offers an expected return (if held to maturity) of less than 1% and a duration of approximately seven years. Setting this meagre return against the risks, which we feel are significant, including huge budget deficits and elevated debt levels, suggests to us that this part of the Fund's benchmark offers a poor risk-reward trade-off and that investors will be better served over the long-term in diversifying assets, as outlined above.

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

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