CORONATION
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Please note that the commentary is for the retail class of the Fund.

The Fund finished the year on a strong note, with a return of 7.5% for the quarter, which takes the full-year return to just over 22%. After a number of years of anaemic returns from multi-asset class funds, it is pleasing to report this level of growth, well ahead of inflation. This was driven by the alpha generated in the building blocks and the tactical asset allocation decisions enabling a strong return at a reduced level of risk compared to that of a pure equity fund. The 20-year compound annual return of 14.6% is testament to the strength of the Fund's flexible investment mandate with which it aims to achieve the delivery of significant real returns over the long term.

Our strategy of maintaining high equity levels continued to pay off, especially our increased exposure to SA-listed equity as the local markets delivered strong returns in the final quarter of 2021 (Q4-21). Global developed markets have continued to rally, despite the prospect of rising interest rates in these regions to curtail the runaway inflation, and we have continued to lighten our exposure to developed market equities. While equity will provide some protection to inflation in these regions, we remain concerned by the high valuation levels and how higher interest rates and less monetary accommodation will affect this. In contrast, emerging markets and especially China have underperformed, mainly due to uncertainty around China's regulatory interventions, and geopolitical uncertainty in large regions like eastern Europe and Latin America. We think valuations in these regions account for a lot of the risk and have maintained a higher exposure in our offshore allocation to emerging markets.

Our local equity building block has done well from its exposure to resources, which finished the year off on a strong note as continued strong demand for most commodities was met with restrained supply from the major producers. With significant demand still to come from 'greening' the environment, and an increasingly difficult landscape to develop new mines, we expect commodity prices to remain higher than normal for the foreseeable future. The Fund is still overweight commodities, mainly through its exposure to the diversified miners.

Our exposure to Naspers/Prosus did not help in Q4-21 as concerns remained around the impact of Chinese regulatory intervention in the internet space, impacting their largest investment, Tencent. Tencent has now derated to the point that it is on an exceptionally low rating, and when one excludes the value of its significant investment portfolio, the core business of Tencent is trading on close to a single digit PE multiple. Over and above Tencent, the group is exposed to fast growing businesses in the food delivery, education and classifieds sectors. We think it remains one of the most compelling investment opportunities in the local market and it continues to be the largest position in the Fund.

Our domestic exposure also struggled in Q4-21 as the financial sector came under pressure, in particular from concerns around the discovery of the Omicron variant in South Africa. Fears of a harsh lockdown and another wave of high excess mortality saw the banks and insurers sell off. However, as it has become apparent this wave is far more benign, and government has taken a far more pragmatic approach to handling it, we expect the impact to be marginal at best. In this case, the cheap ratings and high dividend yields on these shares look very attractive.

There has been some mixed success from the property allocation which, while not large overall in the Fund, has still offered some decent returns. Our allocation to Growthpoint and, to a lesser extent, Redefine delivered better than cash returns. The impact of Omicron and concerns around how it would affect tourism and trade in December did take some shine of their returns towards the end of the quarter.

We have remained out of the global bond market and pleasingly we are finally starting to see the impact of rampant inflation in global markets start to reflect in rising global bond yields, although there is still a lot more price weakness to come. Domestically, we have kept our relatively high exposure to SA government bonds, given the very attractive real yields on offer. There is still little interest from foreign investors, given the difficult financial position in which the country remains, but we expect to see continued fiscal prudence from the new finance minister in the Budget in February and this should see some flows return to the SA bond market.

2021 was a successful year for the Fund, but that does not take away from how difficult the period was, with markets being extremely volatile, and seemingly random mood shifts by global investors causing outsized moves in asset prices. Throughout this, it again emphasised the importance of having a long-term horizon when investing.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 31 December 2021