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

The Fund returned 1.5% for the quarter, resulting in a return of 23.8% over the last year. Performance benefited from recovering markets, asset allocation decisions, and alpha in the domestic and global equity building blocks. The Fund has performed well against its peer group over all meaningful time periods.

Good returns from global markets continued, with the MSCI All Country World Index returning 7.4% in US dollars for the quarter, resulting in a return over 12 months of 39.3%. Given this considerable strength, the Fund has reduced its holding in global equities to a neutral level, although we see opportunities for stock picking.

Developed market equities (MSCI World Index +7.7%) continued their rise during the quarter as the benefits of rapid vaccine rollouts allowed for a re-opening of economic activity. Emerging markets (MSCI Emerging Markets [EM] +5.0%) underperformed their developed market counterparts. Notable EM underperformers included Chile and Peru, where markets reacted to an expected shift to the left in economic policy. Vaccine rollout in EM has generally lagged developed market peers. The emergence of the Delta variant in India highlighted the vaccine gap. Widespread vaccination is critical in slowing the spread of the virus and reducing the threat of further mutations. In South Africa (SA), too, vaccination has been off to a slow start. To date, c.4 million South Africans have been vaccinated, insufficient to avoid the current third wave and another round of restrictions being placed on the economy.

High levels of sovereign indebtedness and low yields keep us cautious on global bonds. There is a rising risk of inflation as economic restrictions ease amidst tight labour markets. For the quarter, the Barclays Global Aggregate Bond Index rose 1.3% in US dollars.

In SA, a more resilient domestic economy continued to exceed expectations. Reported Q1-21 GDP was up 4.6% quarter on quarter, seasonally adjusted and annualised. Constrained power and the poor state of SOEs are major headwinds to growth and fiscal sustainability. We note the positive announcements in this regard made during the quarter enabling greater private power generation and the sale of the government's majority stake in SAA. These factors are driving increased confidence in the domestic outlook. Local interest rates are expected to remain lower for longer as inflation remains relatively contained. The Fund added to its position in SA government bonds, given this improving backdrop and the attractive real yields on offer. The buying was funded from cash, taking the Fund to a neutral position. The All Bond Index increased 6.9% for the quarter, with the rand strengthening 3.5% against the US dollar.

Having increased exposure to SA equities during 2020, we remain overweight in the asset class, given the breadth of value on offer in resources, global stocks domestically listed and domestic shares. For the quarter, the JSE All Share Index was flat (0.0%) in rand. The domestically-focused financial sector delivered strong returns (8.2%) relative to a flat return from industrials (0.8%) and weaker performance from resources (-5.0%). Within SA equities, selective buying of domestic shares further narrowed the domestic underweight. Domestic companies continued to report results ahead of our expectations due to more resilient economic activity and stringent cost-cutting. This has resulted in strong free cash flow generation.

The portfolio remains overweight resource shares given their attractive valuations. Our investment case is not premised on higher commodity prices (we expect most to trend downwards) but rather on the undemanding multiples and generous free cash flow yields even after adjusting commodity prices lower. In addition, decarbonisation should support sustained demand for metals. Major diversified holdings continue to include Anglo American, Glencore and Exxaro.

We have built a position in the gold equities, which offer upside and reasonably priced protection. Given the increased risk from stretched sovereign balance sheets and high global market levels, the local gold counters offer a well-priced, diversified investment opportunity. Coronation has not owned gold equities for nearly two decades as they traded at extended valuations, suffered from rapidly rising costs and declining production profiles, and offered poor returns to shareholders. For the two former "SA" gold producers, AngloGold and Goldfields, the risks have meaningfully changed. Today these businesses have more geographical diversification, reduced exposure to SA's deep complex gold mines, better cost control, healthier production profiles and restored balance sheets. At spot gold prices, we see a margin of safety in valuations and expect better returns to shareholders going forward. You can read our latest *Corospondent* for a more detailed analysis. These positions were funded from selling down platinum group metals (PGM) shares (currently underweight), which have performed strongly.

The portfolio continues to have considerable exposure to several of the global businesses listed domestically. These are attractive for a variety of stock-specific reasons. Major holdings include Naspers (-15.1%), British American Tobacco (-1.3%), Quilter (-7.0%), Bidcorp (+8.3%), Textainer (+14.8%) and Aspen (+12.3%). The Naspers share price decline reflected underlying price pressure on Tencent as the regulatory environment for technology companies in China intensified. This is consistent with global trends, where regulators have increased their scrutiny of technology businesses. Current areas of Chinese regulatory focus include anti-competitive practices and data security. The Tencent ecosystem is extensive, but we believe this powerful platform is leveraged to the economic benefit of both Tencent and its partners. As a Chinese company, Tencent's data is retained within China. While we acknowledge the increased regulatory scrutiny, Naspers and Prosus continue to offer exposure to an exciting growth asset in Tencent, which is meaningfully underpriced. Naspers/Prosus management are focused on this discount and aligned with shareholders through their remuneration. The announced share swap deal between Prosus and Naspers is unlikely to be sufficient to unwind the discount but is the first step.

Distell rose strongly during the quarter (+43.1%) on the news of a potential offer from Heineken. We have long been admirers of Distell's quality portfolio of branded beverages and its long runway for growth as it expands on the African continent. As such, we believe a sizeable premium for the business can be justified.

Within the financial sector, banks (9.6%) and property (12.1%) outperformed the life sector (5.8%). The banks raised significant provisions related to Covid-19 during 2020. Actual defaults are proving to be lower than expected, supporting a faster recovery in earnings for the sector. Further, a resumption in dividend payments by the banks improves returns to shareholders. We increased the domestic banks' exposure during the quarter. Life companies continue to face headwinds, both from lower new business volumes and higher mortality risks related to Covid-19 infections. The Fund's major exposure is through Momentum Metropolitan, where the balance sheet is sufficiently strong to withstand these shorter-term headwinds, and the company has highlighted the potential for additional shareholder returns.

Transaction Capital is a new holding in the Fund. This entrepreneurially run business recently acquired a controlling stake in We Buy Cars at what we believe to be a very attractive price. Transaction Capital has demonstrated a strong track record of delivery in its traditional businesses. The addition of We Buy Cars adds an exciting growth vector going forward. We Buy Cars brings convenience, trust, competitive vehicle pricing (backed by proprietary market transactional data) and scale to a fragmented second-hand car market. This superior offer has enabled We Buy Cars to grow its share of the second-hand vehicle market to 10%. We are excited about the prospects of the business over the long term and expect it to make a meaningful contribution to Transaction Capital.

The domestic property sector remains challenged as reduced demand for space in both retail and office threatens future rental tension. This, combined with escalating costs (rates, electricity and water), provides ongoing headwinds. However, a more resilient domestic economy should aid faster deleveraging than our initial expectations, reducing the size of the capital raises required. Exposure in the Fund remains small and is predominantly through the more defensive 'A' shares.

While the past 18 months have seen a huge amount of volatility and fluctuating outlooks, our focus remains on seeking out opportunities where the longer-term prospects of assets are mispriced by the market. We continue to believe that this patience will be rewarded.

Portfolio managers
Karl Leinberger and Sarah-Jane Alexander
as at 30 June 2021