CORONATION
TRUST IS EARNED™

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

Despite setbacks associated with the spread of the Covid-19 virus's new Delta variant, the global economic recovery remains on track. Vaccinations in developed nations have progressed well in most countries and the route to a more normal world is looking increasingly likely. The rollout of vaccines in the emerging world, including South Africa (SA), has been far slower, and the normalisation of these societies and economies will consequently take longer.

The strong performance of commodities and the positive impact on SA's terms of trade have kept the current account in a substantial surplus and has supported the rand. Measured against the US dollar or the euro, the rand is now back to levels last seen in 2016 - five years ago. The firmer rand has also had a beneficial effect on expected inflation, giving the SA Reserve Bank enough room to keep interest rates at the current low levels for longer.

The past quarter was also marked by a number of positive political developments. The sale of the majority stake in SAA, the commitment to give independent private producers the right to generate power of up to 100 megawatts and the cancellation of the Turkish power ships on environmental grounds are signs that practical measures rather than ideology is winning these battles. The fight against corruption has also moved forward with several bold steps, including the suspension of ANC secretary general Ace Magashule, the placement on special leave of Health Minister Zweli Mkhize and, finally, the jail sentence handed down to former President Jacob Zuma by the country's highest court. These significant steps bode well for the future of a cleaner government.

The JSE took a breather over the past quarter following the strong recovery seen since the end of March last year. The Capped SWIX returned only 0.6% over the last three months, but the one-year return is still a very healthy 27.6%, coming off the low base of a year ago.

The stronger-than-expected domestic economy and, especially, the profitability of the mining sector will boost tax revenues for government, bringing some welcome relief to the precarious fiscal situation. This improved outlook was reflected in declining yields on government bonds, leading to a strong 6.9% performance for the All Bond Index over the quarter and 13.7% over the past year. Developed market equities continued their upward run and, although we believe that valuations are no longer cheap, continued very low interest rates have kept the positive momentum going. The MSCI All Country World Index posted a total return of 7.4% in US dollars over the quarter, but this reduces to only 3.7% when measured in rand terms due to the appreciation of the local currency.

The Fund posted a return of 2.1% over the quarter and 17.7% over the past year; well ahead of its inflation plus 4% target. Real returns over longer periods are ahead of inflation over most periods, but not necessarily ahead of the Fund's targeted return. Since inception, the Fund has achieved a very pleasing real return of 5.8%, but lags its targeted return over 5, 7 and 10 years.

We often write about the importance of long-term investing and measuring success or failure over long periods of time. In July, the Fund celebrates its 20-year anniversary, a period during which its investors have seen bull and bear markets, crashes and booms, currency collapses, the Global Financial Crisis and, more recently, the Covid-19 pandemic. Throughout it all, the investment team at Coronation has tried to navigate these turbulent times by investing in such a way as to grow the portfolio at a rate in excess of its targeted return of inflation plus 4% while preserving capital as well. It is indeed pleasing to look back at the 20-year history and to be able to report that it has delivered a real return of 5.8% per annum.

From an asset allocation point of view, we added exposure to equities after the big pandemic-induced selloff in early 2020. The higher equity exposure and consequent strong price recovery contributed the most to the Fund's one-year performance. Within equities, Anglo American, Altron, Northam Platinum, Impala Platinum and FirstRand were the biggest contributors to Fund returns, while British American Tobacco, gold shares and Naspers detracted marginally.

Over the past year, we were very active in Richemont, the luxury goods company and owner of jewellery brands such as Cartier and Van Cleef and Arpels. The Fund sold its entire holding in early 2020 on the view that the pandemic-induced travel restrictions affecting China in particular would be very negative for the sales of luxury goods. However, towards the end of the third quarter, we took the view that the pandemic will most likely be controlled through global vaccinations, leading to a strong rebound in the sale of luxury goods. We therefore reestablished a sizable position in Richemont. The share price has since recovered well. Although quite highly rated now, its prospects for when global travel resumes, and its exceptionally strong balance sheet are valid reasons to maintain it as one of the Fund's top 10 holdings.

At the time of writing, SA is in the midst of the third wave of the Covid-19 pandemic and the vaccine rollout has been far too slow. One can easily succumb to emotions of despair or anger when confronted by this pandemic, but when making investment decisions one should try to put these emotions aside in order to remain measured, analytical and objective. Our analysis continues to show very good value in many JSE-listed stocks. Our investment approach of looking through the cycle and focusing on normal earnings leads us to remain fully invested in equities at this time. Subsequent to the selloff of early 2020, we added to our equity exposure and, whereas we have trimmed our global equities somewhat on valuation concerns, we maintain our higher SA listed stock exposure where we see good value across many sectors and companies.

It is in the global investment universe where we have more concerns. Global government bonds offer very poor value in our view and the valuation of equities does not leave much room for disappointment either. The Fund is consequently not at its full offshore weighting.

We do believe returns in excess of our inflation plus 4% target is achievable with the combination of assets currently held within the Fund.

Portfolio managers
Charles de Kock, Pallavi Ambekar and Neill Young
as at 30 June 2021