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

The Fund returned -0.4% for the quarter, resulting in a return of 30.2% over the last year. 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 of 39.3% over 12 months.

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. The JSE All Share returned 3.6% in US dollars. Vaccine rollout in EMs 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, vaccinations 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.

The Fund's allocation to global equities has benefited the portfolio over time; bolstering returns and improving risk management. The Fund has built a position in Auto 1 Group, which owns the largest C2B car buying platform in Europe (the equivalent of SA's We Buy Cars). The European used car markets are ripe for disruption given the vast but fragmented market and generally poor customer experiences. Auto1's competitive advantage lies in its cost-efficient sourcing of vehicles direct from the consumer, superior transactional data and pricing, as well as growing retail business. The business has a long growth runway ahead. The Fund's exposure to Chinese technology businesses including Tencent Music Entertainment and JD.com detracted from performance during the quarter as these businesses sold off on fears of increasing regulation. Actions by the regulators have focused on anticompetitive practices and data security. As covered under the discussion on Naspers, we believe these actions are consistent with regulators in many parts of the world, where technology companies are having an increased social and economic impact on everyday life, and in many parts are largely unregulated. Having run through a range of regulatory outcomes, we believe share prices are discounting extreme outcomes and believe there is upside at these valuation levels.

In SA, a more resilient domestic economy continued to exceed expectations. Reported Q1-21 GDP was up 4.6% (p/p). 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.

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 rands. The domestic-focused financial sector delivered strong returns (8.2%) relative to a flat return from industrials (0.8%) and a 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 their 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 is 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 being 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