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

The end of June 2021 marks the 20th anniversary of the launch of the Fund. The Fund was conceived as a balanced fund constructed unconstrained by Regulation 28, allowing it greater freedom around equity holdings and more flexibility on offshore allocation. The idea being that this would allow the Fund to outperform a traditional balanced fund and achieve meaningful real growth over time.

It is therefore pleasing to report that over the past 20 years, the Fund did achieve these objectives through what has been a tumultuous time. Over the past 20 years, the Fund has returned an annualised return of 14.9% compared to the quantitative benchmark return of 13.2% and the median balanced fund return of 11.3%. What is particularly pleasing is that over this period, despite never being fully invested in equities, the Fund has also managed to outperform the JSE All Share Index performance of 13.8%. It is important to recognise this quoted return number is net of Coronations fees. The objective was also for the Fund to grow real capital over time, and it also achieved this, having delivered an annualised real return of 9.4% per annum.

Through the past 20 years, investors have suffered some tumultuous moves. Shortly after launching the Fund, South Africa experienced a massive selloff post the 9/11 attacks, where the rand and local markets were punished. It's unbelievable to think of it now, but the rand moved from just over R8 to the dollar to peak at R13.50 (which is where it was recently trading 20 years later), only to retrace all those losses and more over the following years.

Shortly thereafter, the Dot.com bubble burst, with the S&P 500 Index collapsing 37% from its highs (the losses for South African investors were much higher given the rand strengthened significantly over this period, with peak to trough losses of 58% for those that rushed offshore at the height of the 2001 panic).

Then after a few years of relative stability and a strong upward trend in resource prices, the local market and the world was impacted by the near-collapse of the US banking system, which quickly became called the Global Financial Crisis as the linkages from the US housing market permeated into global developed financial institutions. The S&P 500 fell by 57% peak to trough, the rand-dollar once again blew out from levels around R6.50 to R11.40, and the resource-dominant JSE All Share Index fell 47% from peak to trough.

The recovery that followed was quick and fast as global central banks introduced a term we would all come to know called QE (Quantitative easing). And equity and bond markets around the world responded well to this. But in SA, it wasn't plain sailing as the Zuma decade started, and we experienced bouts of volatility, none more so than the firing of the finance minister in 2015, where the rand moved from R13 levels to R17, exacerbating a market already struggling under the weight of a commodity bear market. Global markets also had periods of volatility with the first 'taper tantrum', various forecasts of the European Union collapsing, Brexit and Donald Trump.

And then finally, the recent Covid disaster, where once again, volatility records were broken, with the S&P 500 Index falling 37% and recovering it all within six months! The rand, again a casualty of global risk appetite, moving from R14 to over R19 to the dollar, and the JSE All Share Index falling by over 23%. As global central banks worldwide printed money and cut interest rates on a scale not seen outside of world wars, markets have recovered strongly, and the rand is back at around the R14 level.

What can one learn from this journey? It has certainly highlighted that investing should always be done with a long-term time horizon! Short-term reactions to market moves can often end up damaging the long-term returns. That as much as we bemoan the fluctuations of the rand, the fact that it floats freely often protects us from the extremes of market moves and changes in risk appetite, and typically, over time, we never see the extreme moves continue but generally retrace as terms of trade adjust to the changed rand levels. And that despite all the volatility and complete left-field events, black swans, 100-year events (which happen every seven years), a well-managed multi-asset fund can deliver solid consistent market and inflation-beating returns.

What do the next 20 years hold? After experiencing these past 20 years, it would be foolish to hazard a guess, given the surprises and shocks that we have experienced. But undoubtedly, the defining factor for the period ahead is the vast amount of debt issued by (mainly) the developed world and the record level of monetary easing implemented by central banks to deal with the impacts of the Covid-19 lockdowns. It is impossible to believe that there will not be serious repercussions; from inflation, already very evident in asset prices, higher taxes, and ultimately higher interest rates. The Covid-19 crisis has also given massive impetus to the push towards a more sustainable world, and this has very big meaningful effects on the demand for 'green' commodities that will be required for this transition.

The Fund is positioned to deal with these two megatrends. Firstly, regarding inflation, the best asset class remains equity, in particular those equities with pricing power. The Fund is still sitting with a relatively high weighting to equities despite the market moves because they should still deliver real growth in an era of rising inflation. We have avoided owning global bonds. The interest rates are all still trading at artificially low levels, impacted by global central bank buying. And with inflation spiking, in most regions above the top end of their inflation ranges, these bonds are all yielding negative real returns. The only exception to this is South Africa (SA).

In SA, our yields are still stubbornly high, with real yields of over 6% in the longer-dated bonds. This is because the SARB is one of the few independent central banks left and has refused to manipulate the yield curve. While concerns around our debt position remain relevant, this is more than reflected in the price. Renewed fiscal discipline from the National Treasury, as evidenced through their approach to wage negotiations, as well as some unexpected windfall tax gains from the commodity sector, should be able to move us back to a sustainable debt reduction path. It remains relevant to consider South Africa's total outstanding debt is lower than most developed nations; it is the cost of funding that debt that is the biggest problem. Should that cost come down, the recovery path becomes much more obvious, and the bonds will continue to re-rate. Buying the R214, which matures in 2041, you are locking in a return of 10.5% per annum for the next 20 years. A compelling investment opportunity

On the trend towards a greener future, the Fund has a significant exposure to global miners with meaningful copper production. Anglo American is the only diversified to have initiated the development of a new copper mine in the past few years. This production should be coming to the market in 2023, well-timed for a huge increase in demand for this metal. Glencore is the diversified miner with the largest percentage of its revenue coming from copper; it also has exposure to battery metals such as Cobalt and nickel. To drive renewable electricity production, as well as roll out electric vehicles, copper demand will increase dramatically. With a combined allocation of 20% of our equity to these two companies, the Fund is well-positioned to benefit from this trend.

An asset class with a very uncertain future is property. The slow shift from physical retail to online was given a huge boost during the lockdowns, resulting in certain retail properties no longer generating rentals. Over and above this, working from home became a reality through lockdown as technologies enabled this. Certain industries are now contemplating this being the future, even in a more normal environment. This has impacted rental tension on these two major property segments, making it difficult to forecast what yields and values these assets will trade at in future. It's too soon to tell. As society reverts to normal, we see a desire to socialise is as strong as ever, meaning certain venues will continue to attract footfall. The challenges of maintaining corporate culture and teamwork in a distributed environment will also become more evident as time goes on. As a result, the Fund has not invested heavily into the property sector, locally or globally, but maintained a small exposure to high-quality, low geared names

One of Coronation's core tenets is that without clients, we have no business. Indeed, without the loyal support of the investors in our Fund, none of our achievements would have been possible. We never take our responsibility to grow our clients capital lightly. It is a privilege we are conscious of and strive to maintain and improve our performance every day.

Portfolio managers
Neville Chester, Nicholas Stein and Nicholas Hops
as at 30 June 2021