CORONATION
TRUST IS EARNED™

Please note that the commentary is for the US dollar retail class of the Fund. The feeder Fund is 100% invested in the underlying US dollar Fund. However, given small valuation, trading and translation differences for the two Funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both Funds.

The Fund declined 5.3% against a benchmark return of -1.1%, bringing the rolling 12-month performance to 35.3% against the 27.4% returned by the MSCI All Country World Index (ACWI).

The third quarter (Q3-21) was one of uncertainty, as markets struggled with inflation numbers that are looking less transitory, the potential bankruptcy of Evergrande (a large developer in China), the continued corporate crackdown in China and the looming debt ceiling in the US. The global economy is rebounding strongly, causing significant supply chain disruptions in many industries and rising energy prices, which, in turn, may hamper a full recovery in the short term. All eyes were also on the US Federal Reserve (Fed), which recently indicated that it would start tapering its bond purchase programme by the end of the year and sees rates rising three times in 2023.

Japan was the best performing region in Q3-21, advancing 5% (in US dollar terms). The weakest return was from the Pacific ex-Japan, which declined 4% (in US dollar terms). Europe fell almost 2% and North America advanced marginally (both in US dollar terms). Emerging markets returned -9% compared to developed markets, which rose minimally (both in US dollar terms).

Amongst the global sectors, IT (+1%), financials (+2%) and healthcare (+1%) were the best performing sectors for the quarter. The worst performing sectors were materials (-6%), consumer staples (-2%) and industrials (-2%). The Fund's largest exposures are to consumer discretionary, IT, and communication services on a look-through basis.

The underperformance for the quarter was largely driven by the Fund's exposure to emerging markets, with Coronation Global Emerging Markets underperforming its benchmark, while emerging markets as a whole lagged well behind developed markets. Although this fund's underperformance had the biggest impact, all of the underlying funds underperformed the ACWI for the quarter.

Coronation Global Emerging Markets' strong run of performance saw a setback in Q3-21. Its exposure to Chinese companies detracted strongly as the country continued to crack down on education and social media stocks. New Oriental Education (-74%) was greatly affected by the new policy preventing private companies from providing tutoring on the national curriculum while Tencent Music (-53.2%) was forced to give exclusivity on certain music. Naspers (-21.1%) and Prosus (-18.2%), were both down because of the crackdown on online gaming and the consequent impact on Tencent.

Coronation Global Equity Select was also affected by the Chinese government's actions that impacted Naspers, Prosus and Tencent Music but also Alibaba (-34.7%) and Melco Resorts (-38.2%).

Alphabet (+9.5%), Salesforce (+11.0%) and Microsoft (+4.3%) did mitigate some of these declines.

Contrarius Global Equity retreated after a very strong year. Bed Bath & Beyond (-48.1%) was a significant driver of the underperformance. The company is undergoing a transformation and has performed well over the last year, but earnings missed expectations because of the Covid-19 surge in its key markets and supply chain issues. AMC Networks (-30.3%) and Lions Gate Entertainment (-29.0%) were also significant contributors to quarterly underperformance. Positive contributions came from the energy exposure - Valaris (+20.8%), Arch Resources (+41.5%) and Macy's (+20.1%) - which continues to recover from the lows of the pandemic.

Tremblant Capital was another fund that lagged quite a bit this month. Farfetch (-25.6%), Nordstrom (-27.7%) and Spotify (-18.2%) were amongst the biggest detractors. Spotify trended down over the quarter but recovered somewhat after it announced a stock buy-back and benefited from the Apple app sharing ruling. Nordstrom is recovering from the pandemic lockdown but it ultimately disappointed the market and sold off strongly on its recent earnings announcement.

SEG Crosby Street and Egerton were slightly behind the index for the quarter. Crosby Street was held back by Clarivate (-20.5%), Fidelity National Information Services (-13.9%) and Alibaba (-35.5%) but benefited from Brookfield Asset Management (+12.8%), Alcon (+16.3%) and Danaher Corp (+13.5%). Egerton's laggards included Canadian Pacific Railway (-15.0%), Meituan (-32.6%) and Tencent (-17.7%), while its winners were Alphabet (+6.3%), Microsoft (+4.3%) and Netflix (+15.6%).

Outlook

The start of the Fed's taper this quarter means that maximum monetary accommodation has passed but conditions should remain relatively supportive of risk assets for some time still. There will undoubtably be more short-term volatility through this long period of transition and this should create investment opportunities.

Portfolio managers
Tony Gibson and Karl Leinberger
as at 30 September 2020