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

The reality of 2022 is in stark contrast to the high expectations for the global economy at the start of the year. The outlook was for a promising recovery in global growth as the world exited pandemic restrictions. Expectations for a more normalised supply chain environment and a recovery in the service sector would help build on the strong post-Covid GDP rebound we saw in 2021. However, these prospects were rapidly re-set as we moved into the second quarter of 2022 (Q2-22), driven by a polycrisis marked by the spread of the Omicron variant in China, which triggered lockdowns and disruptions across the country; Russia's invasion of Ukraine and the ensuing sanctions; the war-induced surge in commodity prices, which impacted inflation expectations; and the resultant faster trajectory for normalising interest rates and policy tightening from central banks.

With the anchor of low, steady interest rates on asset class pricing removed, almost all major asset classes posted substantial losses in Q2-22. South African (SA) asset classes, although cheap to begin with, fared better than global asset classes, but did not manage to escape the carnage completely. The FTSE/JSE All Share Index delivered -11.7% for the quarter (its worst quarterly return in 20 years) and the All Bond Index delivered -3.7%. These sharp, negative moves in global and domestic asset classes, together with a rising inflation benchmark, has meant that the Fund's one-year return of -0.3% did not manage to meet its inflation plus 4% target return. However, the Fund has achieved real returns over three, five and 10 years, while it has exceeded target returns over the very long term.

The Fund's global exposure has been the largest detractor from performance over the year. We have been sitting below the maximum offshore allocation allowed in the portfolio (currently at 27% of Fund) for some time now as we felt that domestic assets were relatively more attractive. Despite this low offshore allocation, the performance of the Coronation Global Opportunities Equity Fund (17% of Fund, delivering -17.7% for the year) and the Coronation Global Emerging Markets Fund (3% of Fund, delivering -35.2% for the year) has contributed negatively to the Fund performance over the last year. This was partly offset by our exposure to the more defensive Coronation Global Capital Plus Fund (4.5% of Fund, delivering +6.7% for the year) and our global equity put protection. With global equity markets now offering better value, we have raised our offshore exposure. We have not tilted too aggressively as we still think SA assets are cheap and offer the highest potential of delivering the targeted inflation plus returns for investors in the Fund.

Domestic assets have contributed positively to the Fund's performance thanks to good equity and bond selection over the last year. Within SA equity, positive contributions have come from British American Tobacco, Anglo American, FirstRand, RMI and Shoprite. The last three shares in particular highlight the opportunity for quality, domestic businesses to deliver good returns for investors despite a tough domestic macro-economic outlook. The combination of Naspers and Prosus is the largest equity holding in the Fund and has been the main equity detractor. The de-rating in the underlying investment holdings has been compounded by a widening discount at both the Naspers and Prosus level. Encouragingly, management recently announced an open-ended buyback of Naspers and Prosus shares as they believe that the discount has moved to unacceptable levels. We view this as a positive capital allocation move that will be beneficial for shareholders.

From a fixed income perspective, SA government bonds still trade at historically high yields and are elevated compared to their emerging market counterparts. SA has benefited from a significant terms of trade boost that provides more breathing room for the fiscus. The SARB will be under pressure to normalise rates at a pace similar to that of major global central banks, but the current premium in bond yields remains excessive and yields have a significant risk buffer to absorb higher local inflation and higher US bond yields. Our local bond weighting has remained steady, with our selection providing healthy real yields for the Fund.

The events in the first half of the year have proven that the future is difficult to predict, and we expect that the uncertainty and volatility we have seen so far in 2022 will continue to be a feature for the rest of the year. The vicious de-rating of global equities and bonds are providing us with additional choice and opportunities to diversify at much more attractive valuations than we had a year ago. At the same time, we continue to see good value local investment prospects that can deliver the inflation plus returns the Fund is mandated to provide. With the recent changes in the Regulation 28 rules, the Fund will have the ability to make significantly higher offshore allocations than before (45% vs 35%). These regulatory changes will not be the primary driver of the Fund's asset allocation decisions. As always, we will have a considered mix of domestic and offshore exposure with the suitable selection of income and growth assets to deliver the Fund's return objectives at the appropriate level of risk. Based on our return expectations for the various asset classes at our disposal, we continue to believe that the Fund remains well positioned to deliver on the CPI + 4% mandate in the medium term.

Portfolio managers
Pallavi Ambekar, Charles de Kock and Neill Young
as at 30 June 2022