CORONATION
TRUST IS EARNED™

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

Performance and Fund positioning

Calendar year 2023 was another year of surprises. The much-anticipated US recession failed to materialise, the strength of the Chinese recovery disappointed investors, and geopolitical tensions continued in the Ukraine, with a new conflict arising in the Middle East. The robustness of the US economy caused a material shift in interest rate expectations. This, in turn, drove a vigorous recovery in global equity markets, with the MSCI All Country World Index delivering a 31% return (in rands) for the year. After negative return performances in the preceding two years, the World Government Bond Index delivered 13% (in rands) in 2023.

South African (SA) asset classes delivered credible performances despite the increasing headwinds to our economic growth from deteriorating infrastructure. The FTSE/All Bond Index was up 10%, followed closely by the FTSE/JSE Capped SWIX Index, which was up 8%. Listed property was the strongest performer, delivering 11% for the year, but with performance concentrated in a few names only.

Against this backdrop, the Fund delivered a particularly pleasing top-quartile performance, with a 16.5% return for the year. This return is materially above the Fund's mandated return target of inflation + 4%. The Fund has also exceeded its return mandate over three and five years, and since inception.

The Fund's allocation to global assets was the largest contributor to performance over the past year. The global equity allocation, coupled with a steady increase in our allocation to global bonds, and the 7% depreciation in the rand relative to the US dollar, were the main drivers of this contribution.

In a rather tricky SA economic environment, our domestic assets contributed positively to Fund performance over the past 12 months, with the exposure taken primarily through equities and bonds. Good equity and bond selection enhanced the returns ahead of their respective indices. Within domestic equities, Standard Bank, FirstRand, Richemont, Textainer, and OUTsurance were the largest contributors to returns, while holdings in Anglo American and British American Tobacco detracted.

In domestic fixed income, the biggest contribution came from holdings in nominal bonds. We continue to see real yields on offer from SA government bonds as attractive but are increasingly mindful of the structural challenges faced by the domestic economy. Risk is managed by keeping the duration of the Fund's bond carve-out lower than that of the ALBI but at a real yield that remains compelling.

Key portfolio actions taken in the last year

We increased our exposure to global credit opportunities and initiated a position in US Treasuries. In 2022, a more generous Regulation 28 offshore allowance allowed us to take advantage of the compelling opportunities we saw in global equity markets. With the rally in global equity markets in 2023, we broadened our offshore exposure into select global credit opportunities. At year-end, the Fund had c. 40% effective exposure to offshore assets. Global bonds have increased from 4% of Fund at the beginning of the year to 9% at year-end.

Initially, the offshore bond exposures were mainly taken in corporates we knew well and where we felt the balance sheet risk was very manageable. The combination of a de-rating in global bond markets and widening spreads allowed us to take advantage of a good yielding investment opportunity in this space. As an example, in the initial part of the 2023 calendar year we added to our holdings in listed British American Tobacco global bonds at a US dollar yield just below 10% with four-year term to maturity.

The controversial write-off in Credit Suisse AT1 bonds and the Silicon Valley Bank collapse provided another opportunity in the global credit space, specifically in a basket of well-capitalised UK and US banks, which, at the time, were yielding equity-like returns.

Finally, we also found reasonable yielding opportunity in US Treasuries in both the short and long end of the curve. Global government bond exposure has been the least preferred exposure for the Fund for a long time. However, with the sell-off in global government bonds, we found a decent entry point in the relative haven of US Treasuries.

The Fund continues to have a healthy exposure to risk assets (61% of Fund at year-end), but we have also used the richer yield environment to build up our cash position. Together with put protection on our global equities, we believe this adds to the Fund's ability to protect capital.

Outlook

Looking forward into 2024, consensus expectations are for lower rates and a soft landing in the US. While the global outlook seems less fraught than at the beginning of 2023, we are not complacent. Stretched valuations at headline index levels, combined with simmering geopolitical tensions and an election-packed year, could bring some negative surprises on the global front. Domestically, we continue to see challenged economic growth as rapid deterioration in rail and power infrastructure present real headwinds to our industrial, retail and export businesses. Lack of adequate fixed investment spend and proper policy reform, mean that these problems will be difficult to address quickly. Low economic growth will impact the earnings power of domestic-facing businesses but also has implications for the government's ability to manage its debt burden. Our own domestic elections will be closely watched and is also likely to cause short-term volatility.

The Fund will continue to stick to its approach of making active asset allocation and instrument selection decisions based off valuations while being mindful of managing downside risks through diversification and purchasing protection. We continue to have a relatively full equity allocation, as we see significant value in our selection. A portion of our global and local equity exposure remains under put protection. We have also balanced the risk asset exposure with a healthy fixed income and cash allocation where we can achieve attractive real yields.

We think the portfolio is well set up to deliver on its targeted returns for clients, while remaining resilient and able to navigate future uncertainties.

Portfolio managers
Pallavi Ambekar, Charles de Kock and Neill Young
as at 31 December 2023